

**THESIS**  
**CO-INTEGRATION AND CAUSALITY ANALYSIS AMONG ASIA PACIFIC**  
**STOCKMARKETS**

1Jan 2000 — 30 Oct2012



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2013



UNIVERSITY ATMA JAYA YOGYAKARTA  
**PROGRAM PASCA SARJANA**  
PROGRAM STUDI MAGISTER MANAJEMEN

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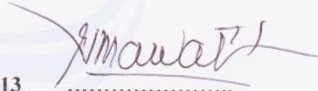
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## **AUTHENTICITY ACKNOWLEDGEMENT**

**I, Haiyan Huang, hereby declare that I compiled the thesis with the following title:**

### **CO-INTEGRATION AND CAUSALITY ANALYSIS AMONG ASIA PACIFIC STOCK MARKETS**

**Is really my own thinking and writing. I fully knowledge that my writings does not contain others' or part (s) of others' writing, except for those that have been cited and mentioned in the reference.**

**Yogyakarta, 23 June 2013**

A handwritten signature in black ink, appearing to read 'Haiyan Huang', with a long horizontal stroke extending to the right from the top of the first letter.

**Haiyan Huang**

## ACKNOWLEDGEMENTS

I would like to express my sincerest gratitude and appreciation to the Developing Countries Partnership Program on Scholarship (KNP) for supporting me financially to study and research at Atma Jaya University Yogyakarta. Without this program I would not have been able to study in Indonesia, and this research also would also have not been able to be conducted. I am aslo very grateful to Atma Jaya University Yogyakarta and the Faculty of Master, they gave me the knowledge and encouragement to succeed.

Given this oppotunity I would like to express my sincere gratitude to a multitude of people without whom this research would not have been possible.

My financial Professor Dr. J.Sukmawati, Sukamulja for her supervision, guidance and encouragement throughout my study. Her profound knowledge and experience provided me with the opportunity to broaden my knowledge and to make a significant contribution.

All of the lecturers in the Faculty of Master of Management for providing me with valuable knowledge and advice during my two years of study in Indonesia. The lectures of Language department (KBPP), they taught me the Indonesian language and give me chance practice there. Moreover, it is pleasure to thank all program officers for their responsibility in processing all documents related to my thesis and helping me always.

All the staffs of international department, Mr. Agus, Mrs. Nanningand other administration staff, for their kindness and administrative support related to matters of my study.

All my dear friends especially MM classmates and everybody who directly or indirectly give me the support, encouragement, constructive criticism and advise I received during my study. All of their kindness and willingness to help me will be forever appreciated.

My beloved family members especially, my parents Yunpin Huang and Xianshu Xiao, for their or their blessing, encouragement and support throughout my studies. Not forgotten to my dearest sister Jianghua Huang and dearest brother Peng Huang for their encouragement and support.

Mr. Maryatmo, the rector of Atma Jaya Yogyakarta, Mrs. Maria, the lecturer of Law, and Mr. Edy the head of statistic's center in UKDW. Mr. Albert, Mr. David. All of them give me very useful help during my research.

Thank you so much.

With love  
Haiyan Huang

## **Abstract**

This paper examines the level of integration amongst a selection of fifteen Asia-Pacific stock markets between 1 Jan 2000 and 30 October 2012. In doing so, it uses the Augmented Dicky Fuller (ADF), Johansen Multivariate and Bivariate Co-integration models to check for long-term integration; and the Vector Error Correction Model and Engle Granger Causality tests to check short-term relationships amongst the fifteen selected stock markets. With the help of Johansen Multivariate test, this analysis reveals there exist long-term relationship among the major stock markets of the Asia Pacific. Through the use of Bivariate Co-integration analysis it is revealed that the markets of CSE (Sri Lanka), KLSE (Malaysia), KSE (Pakistan), SET (Thailand) and TWII (Taiwan), have no long run integration with the selected stock markets, which means investors can still benefit from long-term investment in these stock markets for their portfolios. The Vector Error Correction and Engle Granger Causality tests uncover that all the selected Asia-Pacific stock markets have strong short-term linkage, with the exceptions of SET (Thailand) and SSE (Shanghai). However, from return and risk, we can deduce that both SET and SSE have high risk, but not high returns, and as a result this paper does not recommend short-term portfolio investments in these markets. The findings of this paper serve as a useful source for investors interested in diversifying their portfolios across various Asia-Pacific stock markets.

**Key words: Co-integration, Vector Error Correction Model, Causality, Asian Pacific stock markets**

## Table of Contents

Chapter I .....	1
Introduction.....	1
A. Background.....	1
B. Research Problem Statement.....	6
C. Research Scope .....	7
D. Research Objectives.....	8
E. Significances of research.....	8
F. Organization of the Research Study.....	9
Chapter II.....	11
Literature Review.....	11
A. Introduction.....	11
1. The Economy of Asia Countries Recently.....	11
B. Theoretical Background.....	17
1. Stock Market.....	17
2. The Concepts of Co-integration Analysis.....	19
3. Stock Market Linkage.....	22
C. Literature Review Highlight.....	24
1. Mutual Relationship of Asian and Global Stock Markets.....	24
2. Asian Stock Markets Research.....	27
2.1 Relationship between Some Asian Stock Markets and Either the U.S. or UK .....	27



2.2 Relationship between One Asian Stock Market and Another or the U.S .....	28
2.3 Relationship between Select Asian Stock Markets .....	30
D. Hypotheses Development .....	32
Chapter III.....	34
Research Methodology .....	34
A. Type of the Research.....	34
B. Sample.....	34
C. Research Variable.....	36
D. Brief Explanations of Each Index .....	37
E. Data Analysis Method .....	40
1. Time Series Stationary .....	40
1.1. Unit Root Tests.....	42
1.2 The Augmented Dickey-Fuller (ADF) Test.....	43
1.3 Phillip Perron (pp) test .....	45
2. Co-integration Method.....	46
2.1 The Engle-Granger Two-Step Method.....	47
2.2. The Johansen Multivariate Co-integration Test .....	49
3. Vector Error Correction Model (VECM).....	52
4. Granger Causality Test.....	54
5. Summary.....	56
Chapter IV.....	57
Research Finding and Discussion .....	57

A.	Introduction.....	57
B.	Summary Statistics.....	57
	1. Descriptive Statistics.....	57
	2. Correlation Analysis.....	59
	3. Movement of all the indices.....	61
C.	Unit Root Test.....	64
E.	Co-integration Test.....	65
	1. Multivariate Co-integration: Johansen's Approach.....	65
	2. Bivariate Co-integration.....	68
F.	Vector Error Correction Model.....	69
G.	Granger Causality.....	73
H.	General explanation.....	76
	1. The Economy of Asian Countries 2008-2012.....	76
	2. Global Financial Crisis 2008 – What caused it.....	78
	3. Global Financial Crisis 2008 –how the selected ASIAN PACIFIC countries responded	
	.....	79
	4. Focus on Japan.....	81
	Chapter V.....	84
	Conclusion, Limitation and recommendation.....	84
A.	Conclusion.....	84
B.	Limitation.....	90

C. Recommendation .....	90
REFERENCE.....	91
APPENDICES .....	100



## LIST OF FIGURES

Figure 2.1 Asia: 2013 GDP Growth Forecasts (Percent).....	12
Figure 2.2 Asia: Stabilization, Recovery, and Accommodative Policies.....	14
Figure 2.3 Trend of Co-integration.....	19
Figure 4.1 Movements of Indices in the Observed Period.....	61
Figure 4.2 Asian Pacific Stock Market Return Index.....	63
Figure 4.3: The Economy of Asian Countries Recently.....	77
Figure 4.4 Asian Current Account Balances are Mostly Healthy.....	80
Figure 4.5 Japanese Residential Land Prices Crashed in the Early 1990s.....	82
Figure 4.6 Trends Economic Growth Has Slowed Markedly Since 1990.....	82
Figure 4.7 Japan Was Hit by a Sharp Decline in Net Exports.....	83
Figure 4.8 Exports of Motor Vehicles.....	84
Figure 4.9 Japan Has Been Running Chronic Fiscal Deficits since the Mid-1990s.....	84

## LIST OF TABLES

Table 2.1 Selected Asian Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment.....	16
Table 2.2 List of Selected Stock Exchanges from Asia Pacific Stock Exchanges.....	35
Table4.1 Summary Statistics of Stock Markets Returns during 2000-2012.....	58
Table4.2 Correlation Matrix of Stock Returns from the selected group of Asia Pacific stock markets.....	60
Table4.3 ADF and Phillips –Perron Unit Root Test.....	65
Table4.4 Johansen’s Multivariate Co-integration of Asian pacific (Trace Statistics)...	66
Table4.5 Johansen’s Multivariate Co-integration of Asian pacific (Max-Eigen Statistics) .....	66
Table4.6 Residual ADF test.....	67
Table4.7Bivariate Co-integration Analysis trace statistics for Asian Pacific Stock Markets.....	68
Table 4.8 Vector Error Correction Model Estimated Results.....	70
Table4.9 Granger Causality results A.....	73