

**INVESTIGATION OF THE LINKAGES BETWEEN MALAYSIAN AND
THREE NEWLY INDUSTRIALIZED ASIAN COUNTRIES:
CO-INTEGRATION ANALYSIS**

A thesis submitted to the Faculty of Finance and Banking in partial fulfilment of the
requirements for the degree Master of Science (Finance),
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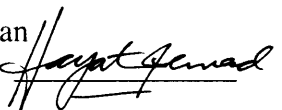
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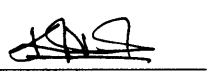
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ABSTRAK

Kajian ini mengkaji hubungan di antara pasaran ekuiti negara-negara industri baru (*NICs*) iaitu Malaysia, Singapura, Thailand, dan Hong Kong. Dengan menggunakan data harian bermula dari Januari 2000 sehingga Disember 2004, teknik kointegrasi bivarians dan variasi berganda mengikut prosedur Johansen (1988) dan ujian sebab musabab Granger dua-hala dijalankan untuk mengkaji hubungan-hubungan sebab musabab di antara pasaran-pasaran ini. Hasil mendapati hubungan adalah *stationary* dan kointegrasi yang signifikan di antara pasaran ekuiti *NICs* Asia. Walaupun terdapat bukti wujudnya integrasi di antara pasaran ekuiti bagi negara-negara ini, secara keseluruhannya Singapura memainkan peranan penting dalam mempengaruhi kawasan dan apa yang lebih menarik ialah, ia merupakan satu-satunya negara yang saling mempengaruhi dengan pasaran saham Malaysia. Maka, ini mencadangkan bahawa peluang-peluang untuk diversifikasi portfolio berdasarkan kedudukan kawasan dalam pasaran ekuiti negara-negara industri baru adalah menarik dengan strategi-strategi dan polisi-polisi pelaburan yang bersesuaian.

ABSTRACT

This study examines price linkages among the equity markets of Asian newly industrialised countries of Malaysia, Singapore, Thailand, and Hong Kong. Using daily data from January 2000 to December 2004, bivariate and multivariate cointegration technique following the Johansen (1988) procedures and bi-directional Granger causality test are conducted to examine causal relationships among these markets. The results indicate that there is a stationary relationship and significant cointegration between the Asian NICs equity markets. Although there is evidence of integration between the NICs equity markets, overall Singapore plays an influential role within the region and interestingly, is the only NIC to exert a bi-direction causal influence on the Malaysian stock market. Hence, this suggests that opportunities for regional portfolio diversification in Asian newly industrialised countries equity markets remain attractive with appropriate investment strategies and policies.

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TABLE OF CONTENTS

	Page
PERMISSION TO USE	i
ABSTRAK	ii
ABSTRACT	iii
ACKNOWLEDGEMENTS	iv
TABLE OF CONTENTS	v
LIST OF TABLES	vii
CHAPTER ONE: INTRODUCTION	
1.1 Introduction	1
1.2 Overview of Malaysian Securities Market	1
1.3 Statements of the Problem	3
1.4 Objectives of the Study	5
1.5 Significance of the Study	5
1.6 Limitations of the Study	6
CHAPTER TWO: REVIEW OF THE RELATED LITERATURE	
2.1 Definition of Diversification	7
2.2 Diversification Portfolio Theory	7
2.3 Review of Past Studies	8
CHAPTER THREE: DATA AND METHODOLOGY	
3.1 Data	36
3.2 Unit Root Tests	38
3.2.1 The Augmented Dickey-Fuller Test	38
3.2.2 The Phillips-Perron Test	40
3.3 Cointegration Test	41
3.4 Granger Causality Test	42

CHAPTER FOUR: HYPOTHESES TESTING RESULTS	
4.1 Unit Root Tests Results	45
4.2 Cointegration Test Results	46
4.2.1 Bivariate Cointegration Test	46
4.2.2 Multivariate Cointegration Test	47
4.3 Granger Causality Test Results	48
CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS	51
REFERENCES	55
APPENDIX	
APPENDIX A: Unit Root Test	57

LIST OF TABLES

	Page
TABLE 1: Studies on International Portfolio Diversification using Cointegrating Approach	15
TABLE 2: Summary Statistics	44
TABLE 3: Correlation Matrix Stock Market Returns	45
TABLE 4a: Unit Root Test Results (Whole Period)	45
TABLE 4b: Unit Root Test Results (Year 2000)	APPENDIX A
TABLE 4c: Unit Root Test Results (Year 2001)	APPENDIX A
TABLE 4d: Unit Root Test Results (Year 2002)	APPENDIX A
TABLE 4e: Unit Root Test Results (Year 2003)	APPENDIX A
TABLE 4f: Unit Root Test Results (Year 2004)	APPENDIX A
TABLE 5: Bivariate Johansen Cointegration Test Results	47
TABLE 6: Multivariate Johansen Cointegration Test Results	48
TABLE 7: Granger Causality Tests Results	50

CHAPTER ONE

INTRODUCTION

1.1 Introduction

It is clear from studies by Worthington et al. (2003) that security prices in different countries move differently from one another. This suggests that investors may be able to achieve their desired return on their investments at reduced risk when they diversify their investment internationally. However, the benefit of diversification across national boundaries will depend on the level of correlation coefficient between the countries' (Reilly and Brown 2000:70). If this is the case, will international investors be able to reduce their portfolio risk substantially by investing in the Malaysian stock market? In terms of integration, has the MSE (Malaysian Stock Exchange Berhad) been moving closely together with other Newly Industrialized Asian countries equity markets as found in many studies (Anuoro et al. 2003; Baharumshah et al. 2003; Kok and Goh 1995) Is this phenomenon persistent over time? These questions will be examined in this study by focusing on the Malaysian stock market and bourses of three Newly Industrialized Asian countries.

1.2 Overview of Malaysian Securities Market

The administration of the securities market is governed by Securities Industry Act 1983, the Companies Act 1965, Securities Industry (Central Depositories

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