

Lead-Lag Relationship: Did the Financial Crisis Affect the Interdependence of ASEAN-5 and the Global Stock Market?

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ABSTRACT

In the stock market, the lead-lag effect is based on theories suggesting that information can sometimes be transmitted slowly (quickly) to the investor. The lag-lag effect is the result of time-varying expected returns (Lo & MacKinlay, 1990). The global financial crisis in 2008 that shocked the US capital market changed the Association of Southeast Asian Nations (ASEAN)-5 stock market lead-lag long-term relationship with other global stock markets. Because of differing time zones and trading hours, investors experience differences in information transmission. This study focuses on the stock market lead-lag relationship and changes in long-term interdependencies before, during, and after the financial crisis to explore information transmission globally. We used the vector error correction model (VECM) to analyze the interdependence between ASEAN-5 and other global stock markets. The lead-lag relationship and interdependence among the stock markets of ASEAN-5, Korea, Japan, Hong Kong, United States (US), and United Kingdom (UK) have changed. Stock market interdependence increased during the financial crisis and the US stock market led the decrease in other countries' stock markets. However, after the financial crisis, ASEAN-5 stock market interdependence was stronger with the US and UK stock markets than other Asian countries' markets, even those of other ASEAN-5 members. This shows that no lead-lag relationships or interdependence exists within the ASEAN-5 stock markets; thus, the implementation of ASEAN financial market integration will face great challenges in the ASEAN capital market.

Keywords: ASEAN integration, financial crisis, lead-lag relationship, interdependence, VECM

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