

ABSTRACT

Economic globalization that happening nowadays can encourage the integration of the stock markets. The integration movement can occur through a regional stock markets, such as ASEAN. It gives an indication that the Indonesian stock market has an opportunity to regionally integrated with other stock markets in ASEAN. In addition, the integration of the stock markets can be a consideration in making an investment decision for international diversification.

This study aimed to analyze the presence or absence of cointegration between Indonesian stock market with stock markets of Singapore, Malaysia, Thailand, Philippines, Vietnam, and Laos. Cointegration aims to determine the long-term equilibrium relationship between stock markets.

Cointegration approach used to analyze the integration of the stock markets. This study uses daily stock closing index data in period of January 2011-January 2016. The data analysis method performed by Engle-Granger cointegration test using Eviews.

The results of data analysis showed that there is cointegration between Indonesian stock market with stock markets of Thailand, the Philippines and Laos at a significance level of 1%, 5% and 10%. Indonesian stock market is cointegrated with the Malaysian stock market at a significance level of 5% and 10%. Meanwhile, Indonesian stock market is not cointegrated with the Singapore stock market at a significance level of 1%, 5% and 10%. In addition, the Indonesian stock market is not cointegrated with Vietnam stock market at a significance level of 1% and 5%.

The conclusion of this study is the Indonesian stock market is cointegrated with the stock markets of Malaysia, Thailand, Philippines, and Laos and not cointegrated with the stock markets of Singapore and Vietnam. Based on these results, investors can make international diversification in ASEAN stock markets by investing in countries that are not mutually cointegrated in order to make a profit and reduce investment risk.

Keywords: Cointegration, Engle-Granger, Stock Market, ASEAN, International Diversification