SUMMARY

SABILIL HAKIMI AMIZUAR. The Integration of International Capital Market From Indonesian Investors’ Perspective: Analysis of Integration Degree and Volatility Transmission. Supervised by ANNY RATNAWATI dan TRIAS ANDATI.

The liberalization of world economy is marked by the amount of capital outflows in a state market, providing opportunities for investors and business actors in increasing profits and reduce the risk of investments to be invested. This opportunity is gained by establishing a diversified asset portfolio with a combination of multiple securities traded between countries. The existence of the phenomenon of economic community agreements recognized by some countries today created a new regulation that allows foreign investors to invest in capital markets between countries. Capital flows that occur between countries can integrate between capital markets.

The integration of inter-state capital markets results in an increase or decrease in the return and risk levels in the integrated state will move mutually with each other. This can have both positive and negative effects. The resulting positive impacts are making the capital market more efficient, encouraging the creation of mutually beneficial trade cooperation patterns, and the development of financial markets. The negative impact for investors with the increasing degree of capital market integration between countries is to minimize the opportunity to profit from the price of arbitration so that the portfolio is done to have no significant benefits. Then the contagion effect can not be avoided if there is a shock on the capital market in a country due to the same volatility trend among the capital markets.

Several studies on capital market integration have been done but have different results with the object used is also different depending on from which approach is taken. The present study will measure the level of integration of Indonesian capital markets with emerging market countries comprising China, Taiwan, Korea, Malaysia, Thailand and the Philippines and with the United States, Australia, Singapore, Japan and United Kingdom as developed market. Because of the measurment of level of integration will be identified that do still the diversification of capital into the international market by Indonesian investors can provide opportunities for profit in the abnormal return or can reduce portfolio risk.

This study uses monthly secondary data consisting of 12 stock market indices in the form of daily time series data from January 1, 2007 until December 30, 2016. Analytical tools that are used are VECM (Vector Error Correction Model) to know the integration contained between The stock market of 12 countries. Cointegration test using Johansen Cointegration test. If the test data or variable shows the result is not stationary but has cointegration with other variables, then the model form used is VECM. This VECM method is supported by IRF (Impulse Response Function) and FEVD (Forecast Error Variance Decomposition) which each has a specific role. In addition, the DCC Garch analysis tool is used to measure the level of integration of the Indonesian state
The results of research and data analysis can be concluded that based on Johansen Cointegration test there is long-term integration between the stock market of Indonesia with 11 other countries. In international diversification, the portfolio manager should consider the destination of diversification so that in accordance with this research, investors should diversify their capital to countries with developed market characteristics. This inter-state investment can reduce or avoid losses due to systematic risk caused by internal factors of the Indonesian state itself.

This research can be a consideration to provide policy on investment or trade activities between countries. The results of this study indicate that JKSE has a long-term relationship with the NYSE and STI, therefore the Indonesian government can determine future plans to make preventive efforts in case of shock coming from the NYSE or STI is by attracting many local investors to invest in the Indonesian capital market JCI so it is expected to have a fairly strong stability.

Keywords: diversification, integration, risk reduction, volatility