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Stock market capitalization and financial integration in the Asia Pacific region

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Abstract

The Stock Market Capitalization (SMC) of a country, defined as the aggregated market value equity of companies in the respective equity market, is commonly used to measure the widening and deepening of stock market activity. SMC also influences economic growth predictions and public consensus concerning the value of the stock market. However, no previous work has examined the role this variable plays in the process of financial integration. This article provides an argument for the use of SMC as a means of deciding which countries are acting as leaders in creating a fully integrated equity market in the Asia Pacific region. A total of 12 countries in the Asia Pacific region were divided into 'Emerging Market' and 'Advanced Market' equity blocks. We examine the relative size of the speed of adjustments derived from the error correction models following the Engle-Granger two-step procedure framework and apply the Granger causality test. The results suggest that Hong Kong Special Administrative Region (SAR)

possesses the necessary credentials to act as market leader. In fact, Hong Kong SAR appears to be the only contender for market leader of both the ‘Emerging Market’ and ‘Advanced Market’ equity blocks.

Keywords:

- stock market capitalization
- financial integration
- cointegration
- Granger causality
- speed of adjustment

JEL Classification::

- N25
- G15
- F36
- C22

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Notes

¹ For a detailed discussion of the guidelines for determining the optimal lags for inclusion in the unit root tests, refer to Ng and Perron ([1995](#)).

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