CHAPTER 1

INTRODUCTION

This chapter outline the entire framework of this research. It will follow this research chapter with background, problem formulation, research contribution, research limitation, research model, research methodology, purposes, advantages, scopes, and systematic writing process of the following chapter in the research.

1.1 Background

The influx of foreign investment funds and the integration of international financial markets were promoted by the full-scale opening of capital markets and deregulation of the stock market by emerging Asian market countries. Along with this, the development of information and communications such as the Internet and smartphones also contributed to the internationalization of the financial market. Also, before and after the Asian financial crisis in 1998 and the US financial crisis in 2008, countries' financial market opening was further accelerated. Due to the integration of international financial markets, the stock market of one country no longer moves independently, but is influenced by several countries simultaneously. In other words, the change in stock price in one country is transferred to the stock market of the other country, and this phenomenon is called the effect of transferring stock price information. This assumes that stock market investors use the changes in external macroeconomics as information to use when making investment decisions. This is because the investment behavior taken by responding to the stock price information of one country by investors in the stock market of the other country affects the stock price and stock price volatility. A recent example is the US financial crisis in 2008. In the wake of the US financial crisis, stock indices of other Asian countries also plummeted. In other words, it can be seen that the financial crisis in the US was affecting the stock markets of several countries, not just the home country. In other words, it can be seen that the US financial crisis was not only affecting the US, but directly affecting the stock markets of various countries. Among them, there are many studies that have been influenced by the Singapore market (Lau, 2017). In addition, as China's financial opening is accelerating in recent years, Indonesia, which has a lot of economic transactions with China, is gradually being influenced by the Chinese market.

Likewise, Indonesia's stock market is highly correlated with the global stock market, and it is expected to have an effect of transferring stock price information. Therefore, this study aims to analyze the impact of the stock market price and volatility transfers in the US, China, and Singapore, which are expected to have a significant impact on the Indonesia stock market, on the Indonesia stock market.

Indonesia, like other emerging Asian countries, has been promoting financial openness since the 1980s, especially after the Asian financial crisis of 1997. In other word, started entering in 1980, and Accelerated was 1997. Financial openness has accelerated due to the acceleration of foreign capital entering Indonesia. From then on, Indonesia's stock market began to be influenced by not only the domestic market but also the overseas market.

The global financial crisis, the trade war between China and the United States, and the unrest in the international financial market leading to the corona crisis have been pointed out as factors causing the unrest in the Indonesia financial market. Therefore, interest in international information transfer of financial insecurity is growing. In this study, the trends and major characteristics of coordination among countries were examined, focusing on the stock market. In particular, it analyzed major changes and characteristics, focusing on the recent global financial crisis, and investigated the international connection of Indonesia's stock market (Juan, 2005).

Since this study is interested in changes in global coordination around the relatively recent global financial crisis, the stock market is focused on the United States, the source of financial instability, China, the center of the corona crisis, and finally Singapore, which is close to Indonesia. Synchronization was analyzed. In addition, since this paper interested in understanding the international linkage of the Indonesia stock market as well as understanding the global coordination, the main characteristics of international linkage were analyzed, focusing on the Indonesia stock market. In the analysis, this paper tried to identify the characteristic changes in the synchronicity observed between the stock markets, centered on the recent COVID-19, and also analyzed the major factors that could explain the changes in synchronicity observed between the Asian and US stock markets. Based on this analysis, policy implications for mitigating the international transfer of financial insecurity were examined (Mundi & Nusaiba, 2020).

In the academic world, studies have already been conducted in various ways from the 1980s to investigate the interaction between advanced European stock markets, including the US and Asian stock markets, and advanced markets leading to the capital markets of Asian countries (Kim, 2008). In previous studies, various stock price prediction models such as VAR (Vector Auto Region) and GARCH models were used. The results identified stock information from advanced stock markets, including the United States, with stock information ripple effects that reflect the stock markets of Asian countries.

Due to the integration of international financial markets, it is judged that the stock market of a country no longer moves independently, but is affected by multiple countries simultaneously. In other words, the change in stock price that occurred in one country is transferred to the stock market of the other country, and this phenomenon is called the effect of transferring stock price information. Assuming that stock market investors use changes in external macroeconomics as information to determine their intention to invest, the investment behavior taken by stock market investors in response to the stock market information of a country is seen to affect the stock price yield and volatility of the target country.

For analysis, in this paper, S&P500, SSEC, COMPOSITE(IDX), and STRAITS TIMES, which represent the stock markets of the US, China, Indonesia and Singapore from July 1, 2010 to June 30, 2020. Data were collected and used. The analysis period was analyzed from July 1, 2010 to June 30, 2020 to examine the effect of stock price information transfer between US and Asian countries. These data were collected from S&P capital. Research was conducted using these data.

First of all, as far as we know, this study is the first attempt to explore a mechanism for conveying volatility from the US, China and Singapore stock markets to the Indonesia stock market. Stock markets in the United States, China and Singapore have been extensively studied in financial literature. However, it is not easy to find a single study in the literature that examines the effects of volatility leakage between stock markets with target Indonesia stock market recently. Second, we will add literature on the spillover of variability from developed markets to emerging markets. Third, since individual market impacts are observed in the multivariate model, individual market volatility spillover was applied to COMPOSITE(IDX) using the separation model. Fourth, this study looked at the long-term relationship between selected markets. The research provides investors with knowledge of the integration of advanced and emerging markets. This research will be important for advanced stock market investors. This is because adding emerging markets in Indonesia can provide insight into the outflow of volatility and have an effective portfolio. Many investors will benefit from diversifying their portfolios by investing in advanced stock markets.

1.2 Question of Research

Is there any information transfer effect from the U.S., China, and Singapore to Indonesia stock market?

1.3 Purposes of Research

To test information transfer effect from the U.S., China, Singapore to Indonesia stock market

1.4 Advantages of Research

After conducting the study this research may contribute to:.

Academic field :

Through this study, students hope to understand the concept of prior information and how it effects the Indonesia stock market, and to help them study or actually investors.

Investors and Indonesia Stock Market:

This study helps readers identify and understand risk or investment levels through information delivery. Hopefully, it will help investors see how shares fluctuate due to information transfers in Indonesia, China, the United States and Singapore. This information can also be used by investors to predict the ward caused by the transfer of information and to invest in advance to wait for benefits. It will also help investors by monitoring and comparing stock information from other countries and Indonesia stocks.

The stock market of your country will help you understand what to do and how to respond to the transfer of information from their markets. It is one of the considerations in the decision making process.

For investors and the stock market:

This study allows readers to understand the classifications that capture information transfer steps. Hopefully, it will help investors know about the changes in the stock market in Indonesia with information from other countries. It also helps investors know the state of the Indonesia stock market in relation to the market structure and information transfer effects, so it will be able to predict how the stock market's cash flows flow and how risky the stock market is. It will also help investors in terms of monitoring the impact of information transfer on the stock market by monitoring each country's stock market and comparing it with the Indonesia stock market.

The stock market itself will help investors know what to do and how to respond with respect to the stock flow structure at the specific cycle stage they belong to. It becomes one of the considerations in the decision making process.

1.5 Scope of Research

This paper will do a research based on the annual report of all firms of each sectors that are publicly listed in IDX (Indonesia Stock Exchange), S&P(Standard & Poor's, SGX(Singapore Exchange), SSEC(Shanghai Stock Exchange Composite Index). Representatively, the trade war between the US and China, the coronavirus, the Asian Games, etc. The period used in this paper is 10 years from 2010 to June 2020.

1.6 Systematic Writing

Chapter 1 – Introduction

In this chapter, it tells why the topic are chosen. What are the current issues that make this topic interesting and beneficial. It gives an overview about the background of the research, research questions, purposes, advantages, and the outline of this paper.

Chapter 2 – Literature Review

In this chapter, it tells about the basic theories, literatures and any relevant information that related and will support the research topic. It is taken from textbooks, journals, previous researches, and literatures provided. Also describes the framework used in formulating problems, and assist in the formulation of hypotheses.

Chapter 3 – Methodology

In this chapter, the data research will be explained, also about the research models, sample selection methods, data collection methods, and methods in analyzing the data. Moreover, it will also give the outline of the diagnostic tests used to test the data in this paper.

Chapter 4 – Results and Analysis

In this chapter, the data results and analysis from the empirical model will be explained. It also will be compared to the hypothesis to see whether it suitable or not.

Chapter 5 – Conclusion

In this chapter, the final statement of relationship between dependent and independent variable will be listed. Also the limitation of study as recommendations of future research.