Interdependence and Dynamic Linkages between Thailand and its trading partners

ABSTRACT

This study empirically examines the linkages between Thailand and its major trading partners during the U.S. subprime crisis. This study converges the literatures of Khalid and Kawai (2003), and Khalid and Rajaguru (2005) by identifying and examining the cross-market-cross-country relationship through the three major financial markets of each country, which are consisted of stock market, foreign exchange market and money market. Also, this study performs the Vector Autoregressive - Multivariate Generalized Autoregressive Conditional Heteroskedasticity (VAR-MGARCH) model, which emphasizes on the effects of both mean transmission and variance transmission. The data is based on daily basis and consisted of five countries including Thailand and its four trading partners i.e. the United States, Japan, China and Malaysia, which are considered from the most active transactions of import-export with Thailand in term of value. It is evidenced that there are mean spillovers among the stock market and money market of each country, while there is no support of the linkage in FX market. Moreover, there is an evidence of the cross-market-cross-country relationship between stock market and money market, and FX market and money market, while there are few evidences of interlinkages between stock market and FX market. Furthermore, this study examines the variance transmission among the three financial markets of each country. The findings support the linkages among the stock market, FX market and money market of each country. Also, it is evidenced that there is the cross-market-cross-country relationship between stock market and FX market. Finally, the results suggest that there is a little relationship between Thailand's money market and the other two markets, stock market and FX market, of other countries.