

ABSTRACT

The degree of capital market integration is always changed as the times goes by, it is affected by many crises events such as financial crisis, political crisis, and natural disaster crisis. Sometimes those events make capital market become more integrated and sometimes it makes capital market more segmented; it depends on the influence of the event. This study will examines the change of capital market integration which caused by political crisis. Especially, the effects of government changed such as Suharto in Indonesia, Mahathir Muhammad in Malaysia and Thaksin Shinawatra in Thailand to the capital market integration in Asean-5 region.

This research will analyze the degree of capital market integration in Asean-5 region in the period 1997 to 2007. Use econometric methods such as VECM (Vector Error Correction Model) and Johansen co-integration test that are exempted from many rules from a relationship structure, those models can be used for analyze capital market integration in the short and long term periods.

By adopting four approaches such as speed of adjustment, temporal causality, integration vector and correlation coefficient, it found that all the political event cause the change of capital market integration in Asean-5 region. This result will useful for investor to make portfolio planning and will contribute to be justification for next research

Keywords: *capital market integration, VECM, Johansen co-integration test, short term integration and long term integration*