The impact of foreign ownership on return volatility, volume, and stock risks: Evidence from ASEAN countries

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ABSTRACT

This paper aims to delve into the effect of foreign ownership on return volatility, volume, and risk of buying/holding stocks. It uses panel data from six ASEAN countries from 2007 to 2017. There are three primary findings. First, foreign ownership diminishes return volatility, particularly during and after a crisis. Second, it has a positive influence on the trading volume of a stock in the post-crisis, nonetheless negative during a crisis. Third, it reduces the asset and equity risks. However, these beneficial findings could be uniquely different in other ASEAN member economies. In conclusion, the benefits of foreign ownership outweigh the downside to it.

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1. Introduction

The opening of domestic markets to foreign shareholders is a very pivotal issue in economic studies, which attracts enormous interest from regulators, investors, and researchers worldwide. It could impact either positively or negatively on economic growth. However, the past financial crisis in the emerging economies has also led to serious concerns about the potentially destabilizing impact of opening domestic capital markets to cross-border capital flows (Li et al., 2011). In the emerging markets, long-term stability and efficiency are linked to these markets’ development and liberalization (Arshad et al., 2019). Even though this issue is quite important, there is very little available literature in this field, particularly for the cross-country level analysis in ASEAN.

ASEAN countries have different conditions and regulations compared to other countries. They also have both developed and developing markets. Nevertheless, the existing literature mostly discusses this matter as it applies to one country only, and it is typically focused on one key variable and one period. This study attempts to delve into the impact of foreign ownership on some financial indicators by integrating some past studies. Then, it should be possible to explore the different implications more thoroughly, compared to the previous studies, due to using different variables, countries, and periods.

This paper aims to investigate the effects of foreign ownership on return volatility, trading volume, and the risk to the stocks held in the ASEAN capital markets. The prior studies implied there were various differing conclusions among

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