Impact of global recession on financial markets: introduction and overview

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Biographical notes: Geoffrey Loudon is an Associate Professor in Finance at Macquarie University. Prior to joining Macquarie University, he worked as a Chartered Accountant specialising in tax. He has extensive experience in teaching and research supervision at both undergraduate and postgraduate levels. His research focus is mainly in the area of financial risk management and security pricing. He has published in numerous academic journals including *Journal of Business Finance and Accounting*, *Pacific-Basin Finance Journal*, *The Journal of Fixed Income*, *Journal of Applied Econometrics, Accounting and Finance*, *Australian Journal of Management*, *Applied Financial Economics*, and *Review of Pacific Basin Financial Markets and Policies*. He has also provided consultancy advice on pricing executive options.

Edward Watts is a Senior Lecturer in Finance at Macquarie University. His research interests are primarily in the corporate finance area. He has been involved in a wide range of projects including takeovers, diversification premiums, convertible debt, and cross-listings. The majority of these use Australian data. A paper on contagion points to his interest in the way that crises move from country to country. Further, recently he has been investigating liquidity risk with a particular interest in the impact of financial crises on liquidity risk. He has papers published in a number of journals including *Australian Journal of Management*, *Journal of Multinational Financial Management*, and *Accounting Research Journal*.

This special issue addresses some impacts and implications of the global recession on financial markets in the Asia Pacific region. It aims to enrich our understanding of those complex inter-relationships that exist among financial markets within the context of global recession and financial market crisis.

In the first article, Salina H. Kassim, Shabri M. Abd. Majid and Zarinah Hamid assess the impact of the 2007 US sub-prime crisis on the Malaysian stock market, at both the aggregate and sectoral level. Their focus is on empirically measuring how the crisis changes the extent to which the Malaysian stock market is integrated with markets in the USA and Japan, using standard co-integration and vector-autoregression techniques. One intriguing aspect of their analysis is that they argue that the initial impact of the crisis differs from later impacts. Initially, global investors appear to benefit from diversifying into Malaysian stocks to lessen the impact of the US crisis. However, this initial advantage is short-lived since these diversification benefits dissipate as the crisis deepens and extends globally. By not distinguishing between the early and later stages of the crisis, many other papers have missed this important feature. Future research could investigate whether this pattern occurs in other markets in the Afro-Asian area. Another interesting finding from the analysis of Kassim, Majid and Hamid is that the relations are more complex at the sectoral level. In our view, it is worthwhile for future research to explore the degree to which economic fundamentals, financial contagion, or behavioural factors explain the disaggregated relations.

In the second article, Yves Rannou raises the important question as to whether alternative monetary arrangements may moderate the financial instability created by economic disasters such as the 1997 Asian crisis and the 2007 sub-prime crisis. His paper explores the theoretical rationale for introducing an optimum currency area in East Asia. Since the viability of regional monetary integration depends in part upon the costs of loss of national independence in monetary and exchange rate policy, it is important to consider whether external shocks impact affected member countries in similar ways. To this end, Rannou's paper also provides some empirical evidence on the degree of symmetry in demand and supply shocks and the speed of adjustment to these macro-economic disturbances. Using a vector-autoregression approach, he finds heterogeneity in the asymmetry patterns and adjustment speeds across sampled countries. Accordingly, he argues that a restricted set of countries are likely to benefit most from monetary integration. Of course, there are other significant advantages and disadvantages of an optimum currency area beyond the scope of Rannou's paper. Future research should carefully consider such before proceeding with the tentative policy implications drawn by him.

The global recession arising from the global financial crisis that began in 2007 has spawned numerous individual articles and several special issues in academic journals that address financial market consequences. The papers in this journal issue provide specific insights into some of the immediate and longer-term ramifications of the global recession on financial markets in East Asia. We anticipate that they will also stimulate further research in this interesting and important area.