



Faculty of Economics and Business

The Impact of China's Population Ageing on Household Financial Asset Allocation

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The Impact of China's Population Ageing on Household Financial Asset
Allocation

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DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Malaysia Sarawak. Except where due acknowledgements have been made, the work is that of the author alone. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

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ABSTRACT

The acceleration of population ageing in China will inevitably increase the burden of social old-age care and have significant impacts on the development of financial markets. The rational allocation of financial assets can enable households to acquire more property income and facilitate the appropriate allocation of social capital. Meanwhile, population ageing is a critical factor influencing the financial asset allocation of households. This study investigates the impact of population ageing on household financial asset allocation using data from the China Household Finance Survey (CHFS) in 2015, 2017, and 2019. From previous research findings, empirical studies specifically focused on China, particularly those utilizing micro-level household data, are still in their nascent stage, with limited research outcomes. Furthermore, this study introduces financial literacy as a moderating variable and risk attitude as a mediating variable, aspects that have been relatively less explored in existing literature. The study finds that ageing has a significantly negative effect on the allocation and depth of household risky financial assets. After conducting a robustness check using a two-way fixed effects model, the conclusion remains robust. This study investigates the influencing mechanisms from two perspectives: risk aversion and financial literacy. From the perspective of the mediating variable, ageing enhances the risk aversion of household heads, which in turn inhibits household investment in risky financial assets. From the perspective of the moderating variable, the inhibitory effect of ageing on investment in risky financial assets gradually weakens with the improvement of financial literacy. In addition, household savings are the premise and foundation of investment. This study examines the impact of population ageing on household savings rates using micro-level household data in China. The regression results based on a two-way fixed-effects model show that ageing has a significant negative effect on household savings rates. This indicates the existence of

significant lifecycle effects in the changes of household savings rates in China. The robustness of the conclusion is confirmed after replacing the calculation method of the explained variable. The findings of this study provide empirical evidence for the financial asset allocation behaviour of micro households from the perspective of population ageing. This offers a basis for policymakers to make informed decisions and enhance decision-making effectiveness, as well as laying a solid foundation for future research.

Keywords: Ageing, financial asset allocation, savings rate, CHFS

Kesan Penuaan Penduduk China Terhadap Peruntukan Aset Kewangan Isi Rumah

ABSTRAK

Proses penuaan penduduk di China yang berlaku dengan lebih cepat pasti akan meningkatkan beban kewangan jagaan sosial dan memberi kesan penting terhadap perkembangan pasaran kewangan. Penyusunan aset kewangan yang wajar boleh membolehkan keluarga mendapatkan pendapatan harta lebih banyak dan memberi faedah kepada penyusunan kewangan masyarakat yang wajar. Penuaan penduduk adalah faktor penting yang mempengaruhi penyusunan aset kewangan keluarga. Kajian ini berdasarkan data Kajian Kewangan Keluarga China (CHFS) tahun 2015, 2017, dan 2019 mengenai kesan penuaan penduduk terhadap penyusunan aset kewangan keluarga. Dari pandangan hasil kajian terdahulu, kajian empirikal khususnya yang menggunakan data keluarga mikro dalam konteks China masih dalam peringkat permulaan dan hasil kajian yang terhad adalah sedikit. Selain itu, dalam artikel ini, literasi kewangan diperkenalkan sebagai pembolehubah penyesuaian, dan keutamaan risiko diperkenalkan sebagai pembolehubah perantara, yang kurang dikaji dalam literatur terdahulu. Kajian mendapati bahawa penuaan mempunyai kesan negatif yang signifikan terhadap penyusunan aset kewangan risiko keluarga dan kedalaman penyusunan. Walaupun ujian kestabilan yang dijalankan menggunakan model kesan tetap dua hala, kesimpulan ini tetap kukuh. Kajian ini mengkaji mekanisme pengaruh dari dua perspektif, iaitu tahap penjijikan risiko dan literasi kewangan. Dari perspektif pembolehubah perantara, penuaan akan meningkatkan tahap penjijikan risiko tuan rumah, dan peningkatan penjijikan risiko akan menekan pelaburan aset kewangan risiko keluarga. Dari perspektif pembolehubah penyesuaian, dengan peningkatan literasi kewangan, kesan pengekangan penuaan terhadap pelaburan aset kewangan risiko akan berkurangan. Selain itu, simpanan keluarga adalah prasyarat dan asas bagi pelaburan. Kajian ini berdasarkan

data keluarga mikro China untuk mengkaji kesan penuaan penduduk terhadap kadar simpanan keluarga. Hasil regresi berdasarkan model kesan tetap dua hala menunjukkan bahawa penuaan mempunyai kesan negatif yang signifikan terhadap kadar simpanan keluarga. Ini menunjukkan bahawa terdapat kesan yang ketara mengenai perubahan kadar simpanan keluarga dalam konteks China yang berkaitan dengan efek alam hayat. Walaupun kaedah pengiraan pembolehubah yang dijelaskan telah digunakan semula, kesimpulan tersebut masih kukuh. Hasil kajian ini memberikan bukti empirikal mengenai tingkah laku penyusunan aset kewangan mikro keluarga dari perspektif penuaan, memberikan landasan bagi pembuat keputusan untuk membuat keputusan yang munasabah dan meningkatkan keberkesanan keputusan, dan memberikan asas kukuh untuk penyelidikan masa depan.

Kata kunci: *Penuaan, peruntukan aset kewangan, kadar simpanan, CHFS*

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LIST OF ABBREVIATIONS

CAPM	Capital Asset Pricing Model
CHFS	China Household Finance Survey
FEM	Fixed Effects Model
OECD	Organisation for Economic Co-operation and Development
POLS	Pooled Ordinary Least Squares
REM	Random Effects Model
TFR	Total Fertility Rate
UEBPI	Urban Employee Basic Pension Insurance
URBPI	Urban Resident Basic Pension Insurance
VIF	Variance Inflation Factor

CHAPTER 1

INTRODUCTION

1.1 Introduction

Population ageing is expected to have a persistent impact on both global economic growth and the lives of individuals (Goldstone, 2015). Population ageing refers to a demographic structure within a given society where the proportion of elderly individuals is relatively high (Li, 2006). The proportion of older individuals (aged 60 or 65 and over) in a population is a key indicator of the stage of population ageing. According to the classification criteria established by the United Nations, a society or region is deemed to have transitioned into an ageing society when the percentage of individuals aged 60 years and older surpasses 10% of the overall population, or when the percentage of individuals aged 65 years and older exceeds 7% (Qu & Zhao, 2006).

With the shift from high to low birth and death rates worldwide, almost all countries are experiencing population ageing (Liu, 2015). Initially, developed countries experienced lower birth rates than population replacement rates, and later developing countries followed suit. The global ageing process is accelerating, and human society is beginning to shift from a youthful to an ageing society.

China has the largest elderly population in the world (Xiang & Wang, 2021). According to the National Bureau of Statistics of China, by the end of 2021, the total number of elderly people aged 65 and above in China has reached 200 million, accounting for 14.2% of the country's total population. The rate of ageing in China is also developing faster in the future. The "2020 Development Report of China: Development Trends and Policies of

China's population ageing" predicts that China's elderly population aged 65 and above is expected to reach 380 million by 2050, representing almost 30% of the country's total population. The population aged 60 and above is also projected to approach 500 million, accounting for over one-third of the total population. A society where the elderly comprise the primary demographic will exhibit notable distinctions from one where the majority of the population consists of young adults or children. This demographic transition will have far-reaching implications for social development and precipitate transformations in economic and financial behaviour.

1.1.1 Trends in Global Population Ageing

Since the 17th and 18th centuries, with the spread of high-yield crops and the development of the Industrial Revolution, life expectancy and fertility rates worldwide have gradually increased, leading to a steady expansion of the world population. In the late 19th century, some developed countries in Europe began to enter the ageing stage due to the sustained decline in birth rates (Lee, 2003). Table 1.1 illustrates the changing trends of the global total population and the proportion of the population aged 65 and above to the total population from 1950 to 2100.

From 1950 to 2020, the world's total population increased from 2.478 billion to 7.805 billion, with an average annual growth rate of 1.65%. According to the United Nations' projections, the world's total population will increase from 7.805 billion in 2020 to 10.355 billion in 2100, with an average annual growth rate of 0.35%. Therefore, the population's average annual growth rate is expected to significantly decline after 2020. Ageing has gradually become a global demographic trend, and the acceleration of this trend has become more pronounced in the 21st century. As of 1950, the proportion of the population aged 65

and above to the world's total population was 5.13%. By 2020, 70 years later, the proportion had increased to 9.43%, nearly doubling in size.

According to the United Nations' projections, the global proportion of the elderly population will reach 11.82%, 14.47%, 16.51%, and 24.03% in 2030, 2040, 2050, and 2100, respectively. This means that the proportion of the population aged 65 and above to the world's total population is expected to increase by 7.08% from 2020 to 2050, indicating a significant acceleration in the degree of ageing.

Table 1.1: Global Population Development Trend Forecast, 1950-2100

Year	Total Population (1,000)	Proportion of Population Aged 65 and Over (%)
1950	2,477,675	5.13
1960	2,995,589	4.02
1970	3,657,599	5.30
1980	4,404,269	5.86
1990	5,269,760	6.10
2000	6,107,942	6.88
2010	6,941,951	7.65
2020	7,804,974	9.43
2030	8,511,723	11.82
2040	9,158,747	14.47
2050	9,687,440	16.51
2100	10,355,002	24.03

Source: United Nations World Population Prospects.

Ageing has become a widespread phenomenon worldwide. Table 1.2 shows the changes in ageing trends for high-income, middle-income and low-income countries, as well as for the twenty countries in the world with relatively high ageing.

According to Table 1.2, there are significant differences in the degree and growth rate of ageing among countries with different income levels. In 1960, the highest degree of ageing was observed in high-income countries, with a rate of 8.6%. The degree of ageing in middle-income and low-income countries was relatively similar, at 3.76% and 3.02%,

respectively. As of 2021, the degree of population ageing in high-income and middle-income countries was 18.93% and 8.45%, respectively, while the degree of ageing in low-income countries was not significantly different from the data in 1960, at 3.13%. In terms of growth rate, high-income countries had the fastest increase in ageing, with the proportion of the population aged 65 and above increasing by 10.33% from 1960 to 2021, a period of 61 years. In contrast, the increase in the proportion of the population aged 65 and above in low-income countries was the slowest, with only a 0.11% increase from 1960 to 2021, a period of 61 years.

Table 1.2: The Changing Trends of Ageing in Different Countries, 1960-2021

Region	1960	1990	2021
High Income	8.60	12.16	18.93
Middle Income	3.76	4.83	8.45
Low Income	3.02	3.12	3.13
Japan	5.62	11.87	29.79
Italy	9.52	14.87	23.68
Portugal	8.03	13.67	22.56
Germany	11.47	14.91	22.17
Finland	7.33	13.43	22.89
Bulgaria	7.58	13.17	22.42
Greece	7.05	13.56	22.51
Sweden	11.76	17.82	20.10
Latvia	10.57	11.88	21.61
Croatia	6.93	11.58	21.97
France	11.65	14.04	21.32
Denmark	10.60	15.60	20.27
Estonia	10.55	11.66	20.37
Spain	8.21	13.39	19.90
Malta	7.95	10.49	18.87
Australia	8.61	11.06	16.57
Slovenia	7.78	10.64	20.50
Czech Republic	9.36	12.68	20.45
Lithuania	7.93	10.88	20.59
Netherlands	8.91	12.73	19.95

Source: The World Bank (2023).

1.1.2 Trends in Life Expectancy and Total Fertility Rates

Ageing is an inevitable outcome of global economic development and a common phenomenon in the development of societies worldwide, with far-reaching impacts on all

aspects of social development and irreversible characteristics. Population ageing originates from the prolongation of human life expectancy and the decline in fertility rates.

With the improvement of material conditions and medical standards, mortality rates have generally declined globally, accompanied by a gradual increase in life expectancy. Table 1.3 describes the changes in life expectancy of major regions and countries since 1960.

The world's average life expectancy has increased from 52.58 years in 1960 to 72.27 years in 2020. In comparing between sexes, women have consistently had a higher life expectancy than men. As of 2020, the average life expectancy for women worldwide was 5.06 years higher than that of men. Regionally, while life expectancy has significantly increased worldwide in recent decades, the region with the greatest gains is East Asia and the Pacific, where life expectancy has increased from 45.54 years in 1960 to 76.76 years in 2020, an increase of nearly 31.22 years. The North American region has seen the least improvement, with life expectancy increasing from 69.89 years in 1960 to 77.74 years in 2020, an increase of only 7.85 years.

Table 1.3: Population Life Expectancy in Major Regions and Countries, 1960-2020

Region	1960			1990			2020		
	Males	Females	Total	Males	Females	Total	Males	Females	Total
World	50.73	54.60	52.58	63.29	67.75	65.43	69.82	74.88	72.27
High Income	65.68	71.39	68.47	71.99	78.77	75.29	77.57	83.03	80.21
Middle Income	46.22	49.13	47.58	62.15	65.99	63.99	69.31	74.28	71.71
Low Income	38.28	41.19	39.72	49.13	52.48	50.84	60.54	65.27	62.87
Europe and Central Asia	64.09	70.13	67.03	68.27	76.06	72.05	73.92	80.33	77.03
East Asia and the Pacific	46.59	50.43	45.54	66.84	71.16	67.86	73.99	79.70	76.76
South Asia	42.80	41.40	42.12	57.76	58.58	58.14	68.04	71.61	69.75
North America	66.75	73.19	69.89	72.05	78.98	75.44	75.04	80.58	77.74
Sub-Saharan Africa	38.99	41.82	40.38	48.55	51.95	50.21	58.90	62.83	60.85
Middle East and North Africa	45.81	47.10	46.44	63.85	67.83	65.77	70.81	75.32	72.95
Japan	65.31	70.14	67.67	75.91	81.91	78.84	81.64	87.74	84.62
United States	66.60	73.10	69.77	71.80	78.80	75.21	74.50	80.20	77.28
United Kingdom	68.20	74.20	71.13	73.10	78.80	75.88	79	82.90	80.90
France	66.60	73.30	69.87	72.60	80.80	76.60	79.20	85.30	82.18
Germany	66.75	71.99	69.31	72.06	78.56	75.23	78.60	83.40	80.94

Source: The World Bank (2023).

The total fertility rate (TFR) refers to the average number of children born to women of reproductive age in a particular country or region. It is a widely used indicator for measuring fertility levels and reflects the number of children born to women. Typically, a TFR below 2.1 indicates a fertility rate that is below the replacement level, meaning that the number of new-borns is not sufficient to replace the number of women and their partners. With the increase in life expectancy, the TFR has gradually declined in almost all regions globally. Table 1.4 describes changes in TFR for major regions and countries since 1960.

The average number of children born to women globally has decreased from 4.98 in 1960 to 2.3 in 2020. As the elderly population increases and the number of children born decreases, this will eventually lead to population decline and a reduction in labour and consumers. By region, as of 2020, sub-Saharan Africa had the highest TFR at 4.67, while North America had the lowest at 1.61. In terms of economic development, high-income countries had an average TFR of 1.53, which is below the replacement level. Low-income countries had a higher TFR at 4.68.

Table 1.4: Changes in Total Fertility Rates in Major Regions and Countries, 1960-2020

Region	Average number of live births per woman						
	1960	1970	1980	1990	2000	2010	2020
World	4.98	4.78	3.71	3.25	2.70	2.52	2.30
High Income	3.02	2.55	1.98	1.85	1.70	1.70	1.53
Middle Income	5.63	5.44	4.05	3.40	2.68	2.44	2.17
Low Income	6.58	6.72	6.67	6.44	5.94	5.25	4.68
Europe and Central Asia	2.84	2.56	2.17	1.96	1.56	1.73	1.67
South Asia	6.04	5.79	5.12	4.30	3.51	2.75	2.27
North America	3.67	2.46	1.83	2.06	1.99	1.90	1.61
Sub-Saharan Africa	6.60	6.74	6.77	6.35	5.76	5.26	4.67
East Asia and the Pacific	5.40	5.26	2.98	2.47	1.85	1.82	1.56
Middle East and North Africa	6.91	6.73	6.23	4.88	3.19	2.90	2.66
Japan	2.00	2.14	1.75	1.54	1.36	1.39	1.34
United States	3.65	2.48	1.84	2.08	2.06	1.93	1.64
United Kingdom	2.69	2.44	1.90	1.83	1.64	1.92	1.56
France	2.85	2.55	1.85	1.77	1.89	2.03	1.83
Germany	2.37	2.03	1.44	1.45	1.38	1.39	1.53

Source: The World Bank (2023).