Chinese stock market participation low, long-term investment planning needed

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In the past two decades, the Chinese economy has undergone drastic reforms in an effort to compete more effectively on the international market. These reforms included the creation and proliferation of a Chinese stock market. Since China is largest creditor for the U.S., the two nations' economies are tightly intertwined, with positive or negative effects from either economy affecting the other. Now, a researcher from the University of Missouri has found that only 32 percent of Chinese households have any kind of stocks, bonds or mutual funds, and only about half have a long-term financial plan. Rui Yao, an associate professor of personal financial planning at MU, says this number is concerning for Chinese' long-term economic outlook because it shows the lack of long-term financial planning among Chinese citizens.

"The Chinese stock market is still relatively new and underdeveloped," Yao said. "Before the recent economic reforms, Chinese citizens did not have to worry about creating long-term financial plans because everything was provided by the government and employers, including pensions, housing, healthcare and education. Now, citizens must pay for those things themselves, as well as worry about retirement planning. This is a major shift in the financial outlook for many Chinese households who previously had no reason to invest or make long-term plans. It is worrisome that less than a third of Chinese households are participating in the stock market, because these households need to focus on viable long-term financial solutions—something they are not doing right now."

For her study, Yao examined the data from the 2008 Survey of Chinese

Consumer Finance and Investor Education, which is the first-ever data set at the national level on Chinese stock market participation, studying what factors affected Chinese people to invest or not. She found that Chinese people 40 years and older were more likely to invest in the stock market than younger Chinese. Also, Yao found that those with a higher net worth and higher levels of education were more likely to invest as well. She says it is important for China to provide increased financial education to improve investment participation rates.

"With newer economic reforms in place, China needs to improve their financial literacy through increased education in schools," Yao said. "Also, there is room to grow the personal financial planning industry in China, now that more people need to make wise investment decisions to ensure they are financially supported through retirement. Finally, a general culture shift needs to occur so that more people are willing to think about their financial futures and make long-term investment plans."

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