

UNIVERSITI TEKNOLOGI MARA

**EFFECTS OF AGEING
POPULATION AND REGULATORY
PERFORMANCE IN MODERATING
THE DEBT-GROWTH
RELATIONSHIP IN THE UPPER-
MIDDLE-INCOME ECONOMIES**

NUR HAYATI BINTI ABD RAHMAN

PhD

December 2020

AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.


Name of Student : Nur Hayati Binti Abd Rahman

Student I.D. No. : 2019590281

Programme : Doctor of Philosophy (Business Management) –
BA950

Faculty : Business Management

Thesis Title : Effects of ageing population and regulatory
performance in moderating the debt-growth
relationship in the upper-middle-income economies

Signature of Student : 

Date : December 2020

ABSTRACT

The upper-middle-income economies (UMIE) must strategize and boost their economic growth if they want to move away from the middle-income trap position. It is possible if the economies inject a massive amount of funds for their economic growth and development. However, previous statistics show that the UMIE were experiencing an economic slowdown due to a decline in the level of investments, a rise in the number of ageing population as well as a weak regulatory performance. Due to these challenges, it is getting harder for the UMIE to grow further if they do not have additional sources of funds. Raising or introducing new taxes is not a solution since it creates a distortionary effect to the economy. Instead, the government might opt for external borrowings even though it is highly vulnerable to the economic growth. Therefore, this thesis aims to examine how the UMIE can grow further even when they are facing these four issues. The scope of this research covers 32 countries in the UMIE from the year 1990 to 2018 as these countries had the possibility to get stuck in the middle-income trap position. In removing the elements of the business cycle, all data were divided into six periods, based on the non-overlapping five-year averages. The system Generalized Method of Moments (henceforth, GMM) was employed as an estimation method since it is suitable for data with a small time but large cross-sections. Besides, it has the capabilities to solve the endogeneity problem in the debt-growth model. The findings show that the UMIE can drive their economies by utilizing their gross savings and attracting more domestic and foreign investments. Even when the investment level is declining, the growth is still possible if the savings are channelled to the human capital development. Apart from the three, public debt is also essential to achieve a higher economic growth, but with a condition that the ratio of debt to GDP is not exceeding 70 per cent. The growth will start to diminish when the debt to GDP ratio exceeds 70 per cent. In addition, it is a surprise to find that the debt helps the economy to grow even when the countries are having large number of ageing population, probably due to the shift of the economic structure towards capital and technology intensive. Similarly, a high public debt is expected to enhance the economic growth of the UMIE when the regulatory performance is improved. These findings lead to few policy implications, which are explained in the last chapter of this thesis.

ACKNOWLEDGEMENT

First and foremost, all praises be to Allah SWT, for I would never be able to complete this study without His blessings. He gives me strength, inspiration and ideas throughout my study. He is also the One who install me with perseverance, patience, and determination in completing this journey successfully. May His name be exalted and glorified.

My deepest gratitude and appreciation go to my supervisor, Professor Dr. Shafinar Ismail, who has provided me with guidance, assistance and support throughout my study period with exemplary compassion, empathy and resourcefulness. Many thanks also to the co-supervisor, Dr. Abdul Rahim Ridzuan, who has been very helpful in giving thoughtful ideas to improve this thesis.

My sincere appreciation also goes to the experts that I have met throughout the study, among others were Professor Dr. Mansor Ibrahim (INCEIF), Associate Professor Dr. Kazi Sohag (Ural Federal University), Professor Dr. Abu Hassan Shaari Md Nor (UKM) and Dr. Mahyudin Ahmad (UiTM). They have provided me with great inspiration, criticisms and support.

Besides, I owe my deepest gratitude to my parents, Abd Rahman Salleh and Anishah Yeop Mohd Kassim, who have provided me with endless support, encouragement, unending love and continuous prayers throughout my study. Without their prayers and blessings, I may not be able to complete the thesis successfully. To them, I dedicate this thesis.

Finally, I would like to express my appreciation to all my colleagues and friends, who have contributed directly or indirectly, to the completion of this thesis. Thank you for the kindness, thoughts, comments, and prayers.

TABLE OF CONTENTS

	Page
CONFIRMATION BY PANEL OF EXAMINERS	ii
AUTHOR'S DECLARATION	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	xi
LIST OF FIGURES	xiii
LIST OF SYMBOLS	xv
LIST OF ABBREVIATIONS	xvi
CHAPTER ONE INTRODUCTION	1
1.1 Introduction	1
1.2 Background of Study	2
1.3 Problem Statement	6
1.4 Research Questions	8
1.5 Research Objectives	8
1.6 Motivation and Significance of the Study	8
1.7 Scope and Limitation of the Study	10
1.8 Definition of Terms	11
1.8.1 Upper-middle-income economies	11
1.8.2 Capital	11
1.8.3 Public debt	12
1.8.4 Ageing population	12
1.8.5 Regulatory performance	12
1.9 Organization of the Study	12
CHAPTER TWO DEVELOPMENT OF THE UMIE	14
2.1 Introduction	14
2.2 Economic Growth in the UMIE	18