



Consumerism hasn't caught on yet in China

By Paul Wiseman and Calum MacLeod, USA TODAY

BEIJING — Wang Zhibo runs a successful business, has plenty of money in the bank and would love to buy a house and trade in his humble second-hand car for a \$14,600 Volkswagen Santana 3000.

Just what the crumbling world economy needs — a guy with money to spare and an appetite for houses and cars.

But Wang, 33, won't be coming to the rescue, at least not anytime soon.

The Beijing entrepreneur is hoarding cash until he sees how the Chinese economy weathers the storm. "This year, I wanted to buy a house and a better car, but I won't do it soon because of the economic crisis," he says. "I still must save rather than spend."

Wang's cautious attitude is typical — and a key reason China's 1.3 billion consumers are unlikely to dip into their vast savings and go on a shopping spree that would recharge sputtering factories in their own country and around the world.

Shanghai-based research firm Data Driven Marketing Asia (DDMA) last month surveyed 602 consumers in five Chinese cities. The findings, released last week, were sobering for anyone holding out hope for a Chinese consumption boom: 45% were reducing their spending because of their concerns about the economy; 12% said they'd already lost their jobs.

No one can spend like Americans

The idea that Chinese can pick up the slack now that American shopaholics have gone on the wagon is "rubbish when you look at it," DDMA director Sam Mulligan says. "The Chinese have never been huge consumers of imported products. ... It's crazy to think they're going to switch and start consuming. We're living in La La Land" if we expect them to.

"We can't get them to replicate Americans," agrees Paul French, the British marketing director of research firm Access Asia. "Americans are just so good at consumerism, like obesity and greenhouse gas emissions. Although the rest of us try, it is very hard to compete."

While the USA binged on sport-utility vehicles and McMansions over the past decade, China cranked out exports and saved and saved and saved, accumulating a staggering \$2 trillion in foreign exchange reserves.

China's domestic savings — from households like Wang's, from companies banking profits and from other sources — are equal to 48.6% of the country's economic output in 2007, vs. just 13.6% in the United States. The contrast between households is even more stark: In 2006 (the most recent year with statistics available for comparison), Chinese household savings amounted to 24.7% of their disposable income, compared with the USA's squint-to-see-it 0.7%.

China served as the USA's economic enabler, buying hundreds of billions of dollars worth of U.S. debt, driving down U.S. interest rates and helping inflate the U.S. housing bubble that went pop more than two years ago. Economists have been arguing ever since whether the current crisis was caused by what Federal Reserve Chairman Ben Bernanke has called "a global savings glut" in China, other East Asian countries and oil-producing nations of the Middle East, pushing money into the USA; or by U.S. profligacy and the Fed's own easy-money policies.

Now that U.S. shoppers are on strike and Chinese exports are collapsing — down nearly 26% last month from a year earlier — policymakers in Beijing are eager to get their own thrifty people

to start spending. They have announced a \$590 billion stimulus package to boost China's economy. Last month, they even offered rural Chinese a 13% rebate on refrigerators, washing machines and other big-ticket items.

Why the Chinese have to save so much

But Chinese families pinch pennies for good reasons. The Chinese social safety net — pensions and health care coverage — is threadbare. So Chinese pile up savings to protect themselves from medical catastrophe, to fend off poverty in retirement and to take care of parents. "Until the social safety net is fixed," says Chi Lo, director of research at Ping An of China Asset Management, "savings will remain high."

Add China's 24% household savings rate to the country's 7% to 15% income tax rate, notes Access Asia's French, and you're about up to the percentage of income that Europeans pay their governments in taxes for social services. The Chinese are "self-taxing," he says. "But it's not as effective as having a welfare state. Theirs is not a bottomless pot." Even frugal Chinese households can be wiped out if a family member is diagnosed with a long-lasting illness such as diabetes.

The stimulus sets aside money for expanding health care and old-age assistance, but French notes that "you can't build a national health care service overnight."

Moreover, China's financial system is backward. Consumer credit, including mortgage lending, is in its infancy, so "consumers cannot leverage their consumption," Chi Lo says. Although that doesn't sound so bad after the U.S. mortgage meltdown, it does make it harder to rev up spending and jump-start economic growth.

Despite their high savings rates, Chinese aren't necessarily indisposed to consuming. As their economy boomed, families have steadily collected the gadgets required by modern life. For every 100 urban Chinese households in 2005 there were 96 washing machines, 137 cellphones (up from 18 in 2000), 135 color television sets and 68 DVD players, according to Chinese government statistics published in a report last year by the Cambridge, Mass.-based U.S. National Bureau of Economic Research.

"When people reach a certain income level," French says, "they're just as obsessed about upgrading their perfectly good television to a plasma screen and their perfectly good plasma screen to a Blu-ray. They're just as gullible as consumers anywhere."

Wang Zhibo is part of China's growing, but cautious, consumer class. Born in a village in eastern China's Shandong Province, he migrated to Beijing seven years ago to take a \$150-a-month job in a brewery. "Life was tougher then, and salaries were low," he says. "But then I made some money. We are doing better than before."

Three years ago, he opened a shop selling processed meat. Now he can afford to let his wife stay home with their 2-year-old son, Guanyu, and to save up to \$440 a month. He even bought a car for \$5,850 — a Chinese brand Geely, modestly describing it as "a tool to replace walking."

Now he'd like to trade up to a better car and a bigger house. But not just yet: "We have no insurance," he says during a window-shopping trip to the Beijing area's first suburban shopping mall, out on the expressway to the Great Wall. "If any of us went to the hospital we would have to pay all the bills ourselves. I must pay for my son's education in the future, and my parents are old and need looking after."

Wiseman reported from Hong Kong