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## Plastic PERIL

ZHAO RENFENG

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Young, energetic and ambitious. That would be a typical description of urban Chinese in their mid-20s.

But Zhao Li wants to add another characteristic: spendthrift.

The head of the risk-control department of the country's largest bank believes people around 25 belong to the riskiest age group. Her bank is cautious when issuing credit cards to them.

"According to our research, 20-somethings are high credit risks," says Zhao, who works at the Peony Card Centre of Industrial and Commercial Bank of China.

A typical 25-year-old in urban China is likely to be a college graduate who has worked for two to three years. Many of them have high expectations in university and believe the world is there for the taking.

However, the reality is different. Amid intense competition, many fail to land jobs that meet their aspirations.

"Career uncertainties could make them insolvent," says Zhao.

"Their ambitions are understandable but the high risk associated with

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their ambitious outlook is not something we can overlook."

According to media reports, many young people in China's big cities borrow more than they can afford to repay. This includes housing mortgages, auto loans and credit cards.

Typical behaviour

"The behaviour is typical - although it is more visible given the size of the Chinese youth market, and more accelerated since the Internet and mobile media allow consumers to spend 'tomorrow's money' more quickly than ever before," says Josef Blumenfeld, an expert at Tradewind Strategies, a US-based management and strategy consultancy.

"Once a country moves away from a centrally-planned economy to a market-based system, opportunities for increased spending rise," says Peter Koveos, professor at Martin J. Whitman School of Management at Syracuse University in the United States.

"The older generation gets caught in the worst of all possible worlds. The social safety net is gone, and there is very little hope of finding good jobs. The younger people, on the other hand, start looking for ways to make money. So to some extent, what is being observed in China is not unique."

But Koveos says it is difficult to compare China with other countries, primarily because of the nature of China's transition.

He said the fundamentals are very different from those in other new market economies, and in much better shape.

What is striking about China is that millions of typical one-child families have nurtured their kids in an affluent environment. And many of them are in their 20s, according to Esmond Quek, managing director of leading communications firm Hill & Knowlton in China.

As their daily necessities are paid for by parents, they lack a sense of responsibility, says Quek.

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mengjun@chinadaily.com.cn

Older Chinese are concerned about retirement and health insurance. The younger generation, on the other hand, feels that the present, as well as the future, is theirs. They have found willing lenders in various banks, although they have no assets to speak of, says Koveos.

Card organizations and industry experts agree that the trend will likely continue.

Good for the economy

Experts agree that increased consumption can be beneficial to the economy - it stimulates elasticity for high-ticket items and provides an opportunity for local industry to develop.

Yuwa Hedrick-Wong, an economic advisor for MasterCard in Asia, sees two lessons to be learned from the current credit-card market.

The primary message is that the youth market segment is ready for consumer credit. They have the appetite for it.

The secondary message, however, is that the banks must also be technically ready for younger customers because banks have to be able to conduct careful and accurate risk assessments in their lending. So China's new youth market is both a wonderful business opportunity as well as a potential risk.

Chinese banks must learn fast to become customer-focused, Hedrick-Wong adds. Historically, domestic banks have focused on investment banking rather than consumer banking. And even then, the focus in the investment sector was limited largely to State-owned enterprises.

"The youth consumer market is made up of better educated and technologically-savvy consumers - they know how things are done globally - and thus they expect to be treated well by banks, just as customers are treated well by banks elsewhere," says Hedrick-Wong.

"Many of these young people are professionals that are also able to

access foreign banking services," the advisor adds. "Chinese banks will have to work hard to compete for in the coming years."

Spending by the young is generally also a positive development for the country as a whole, as the foundations of a new Chinese middle class are being established, according to experts.

"An economy that makes ready use of credit can be one that generates tremendous economic strength and resilient growth," says George Haley, professor of marketing at the University of New Haven's Executive Education programme and co-author of *The Chinese Tao of Business: The Logic of Successful Business Strategy*.

Consumers can buy goods more easily than they could if they had to save money to make their purchases. Production and jobs are therefore created more rapidly when purchases are not merely savings based, he says.

But the danger occurs when people over-extend themselves, "especially young people who have yet to reach the most productive period of their lives."

Experts say a personal bankruptcy law would ease the concerns of banks when dishing out credit cards.

So what constitutes an effective bankruptcy law?

"Recent changes in our bankruptcy law that make it harder for consumers to file have been bitterly debated in the US Congress and in the press," says Haley.

"A good bankruptcy law must strike a balance between making it too easy for consumers to file for bankruptcy and making it too hard."

If it is too easy to file for bankruptcy, it becomes an excessive risk to business and banks, he adds. They will become too conservative in offering credit to consumers. Economic growth will therefore be reduced because banks will worry that loans will not be repaid. They will start to hesitate when lending to companies. If it is too difficult

to file for bankruptcy, then businesses will be too generous in offering credit, and consumers will find it hard to repay debts when the economy slows or interest rates rise. They won't be able to obtain debt relief through bankruptcy, Haley says.

"In the latter situation, growth is reduced because consumers cannot afford to purchase goods while they are being forced to repay old debts," he adds. "Many in the United States feel that we have now made it too hard for consumers to file for bankruptcy."

Personal bankruptcy, of course, will be a new experience for the Chinese.

China's Enterprise Bankruptcy Law of 1986 applies only to State-owned enterprises and other limitations and regulations (judicial interpretations, regulations concerning the liquidation of foreign invested enterprises, administrative regulations of the State Council, and local provincial and municipal regulations.)

No personal bankruptcy legislation appears to be on the horizon.

Zhu Hong, an official with the legal department of the People's Bank of China, the central bank, said that a personal bankruptcy law is not on the agenda.

So people like Zhao Li at ICBC have their work cut out for them if they want to improve risk controls.

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