

Breaking News from The Globe and Mail

Confessions of a save-aholic

As the economy sputters, Beijing is counting on the Chinese consumer to turn things around. That's a challenge in a country where saving is a deep-seated habit

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TANGSHAN, CHINA — *"Save grain for the time of hunger, raise children for the time of old age."*

When a visitor tells her that the government of China wants her to save less and spend more, a big smile splits Liu Shu Zhen's broad, ruddy face.

"Well, let me check my pockets first," she says, laughing, then spitting on the cold ground beside the fruit stand she runs.

Loose translation: You've got to be kidding me.

Like most Chinese, Ms. Liu is a dedicated saver at the best of times - and these are far from the best of times. With economic conditions worsening by the week, she is socking away even more of her money against the hard days ahead.

That spells trouble for Beijing, which has based its plan for economic recovery on turning penny-pinching Chinese into free-spending consumers. In that way, it hopes to become less reliant on consumers in the West, who have abruptly cut their purchases of Chinese goods as the world economy sickens.

It is bad news for the rest of us, too. Now that Western consumers have reined in spending, someone needs to take up the slack. Global recovery, experts say, depends as much on raising Chinese consumption as reducing Western profligacy.

But so far at least, Chinese are not buying. A recent survey showed that, far from rushing to the mall, about 60 per cent of urban consumers are cutting their spending or making plans to do so.

Ms. Liu says she didn't buy a new dress and shoes for Chinese New Year, as she usually does. This year she hopes to save about one-third of the income from her roadside stand, which brings in \$300 to \$375 a month.

She just plunked down \$37,000 of her savings to buy her newly married daughter an apartment in this steel-making region, which was struck by a devastating earthquake in 1983 and is two hours drive from Beijing. Now she is saving to do the same for her son, an electrician, when he marries.

Then there is her own future to worry about. At 45, she has no pension and no health insurance. "Who knows what will happen," she said. "What if I get old and there is some kind of crisis and I am all on my own?"

That kind of precautionary saving is a deep-seated habit among Chinese. An old saying advises: "Save grain for the time of hunger, raise children for the time of old age."

"The Chinese are chronic savers; they save for a rainy day," said Eswar Prasad, an expert on the Chinese economy at Cornell University in Ithaca, N.Y. "And now that they're in the midst of a storm, they're going to save even more."

Thousands of factories have shut their doors and millions of workers have been thrown out of work since the global crisis started hitting China. After years of growing by double digits, China's exports were down

25.7 per cent in February from a year earlier, the fourth successive month of decline.

To make up for the fall in overseas demand, Beijing is taking measures to encourage consumer spending at home, from increasing pensions to reducing real estate taxes and giving rural residents subsidies to buy appliances.

"Active consumption is patriotic and being patriotic involves loving oneself," said Liaowang, an official periodical, urging Chinese to splurge a little.

But even in a ritzy Shanghai shopping mall, most people said that, despite government incentives, they were spending carefully if at all. "If they want us to spend, they need to do more," said Ni Hua, 43, an oil company executive munching popcorn as she strolled with her teenaged son.

Chinese, she said, were not like free-spending North Americans. "We like to have money before we spend it." Though she already had savings of more than \$400,000, she said she was still putting aside half her monthly income "just in case."

A few aisles away, Tang Hui Ying, 57, uses the identical phrase. A factory accountant, she saves about half her income "just in case" something happens as her retirement approaches.

"People are conservative here," said Beijing economist Arthur Kroeber, managing director of Dragonomics, "and the reason is that there is no safety net."

He said the government's share of education spending is just 60 per cent, one of the lowest rates in the world, while its share of health care spending is only 20 per cent. So people have no choice but to save for their children's education and their own health care.

The consumption rate has actually fallen from about 55 per cent of gross domestic product in the 1980s to about 35 per cent last year, about half the level in many developed countries.

Meanwhile, the household savings rate has grown from about 15 per cent of household income in 1995 to more than 25 per cent today. In the United States, it had fallen to nearly zero when the crisis hit last year.

Experts say Chinese habits will change in time. Mr. Kroeber notes that Americans, too, were dyed-in-the-wool savers a century ago. A growing Chinese middle class with a hunger for the better life is emerging in the cities. Luxury goods companies such as Coach and Tiffany are opening stores in China. Nike already has 3,000 outlets in 300 cities. Retail sales topped 10 trillion yuan (\$1.87-trillion) for the first time last year.

But if the government is hoping for a quick boost from higher consumption, it may be out of luck.

At her Tangshan fruit stand, Ms. Liu says, "I respect the government but ...," and leaves the silence to speak for itself.

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