

# The Power of the Chinese Credit Card

By [The Mogambo Guru](#)

07/21/08 It's no secret that China is one of the newest hotbeds of consumer wealth. Of course, it's still a nation of savers. So why are so many Chinese consumers getting shiny new credit cards? The Mogambo investigates...

If you think that lack of financing is the only thing holding China back from consuming, consuming, consuming like we Westerners do, then prepare for a shock, as from atimes.com we get the report that "China's Shoppers Stock Up On Cards" by Catherine Jiang.

She writes, "Chinese consumers, until now recognized as among the world's most determined savers, are adding credit cards to their wallets in record numbers, with the number of such cards in circulation almost doubled in the first quarter from a year earlier."

I am looking at my calculator and wondering if I want to spend the rest of the afternoon trying to calculate the annual increase if the first quarter's increase was a doubling, and I decided against it. It's a lot, though!

She continues with the startling statistic that "The total number of bank cards, including debit cards, topped 1.58 billion by March 31, up 29.1% over the year"!!!

Note the clever way that I used three exclamation points to emphasize the fact that 1.58 billion cards in the hands of Chinese shoppers is a lot, and is equal to 5 cards for every man, woman and child in America! That's buying power!

One explanation offered is that "The expansion in credit-card use is also in line with government goals. Beijing, keen to encourage domestic spending and reduce the country's dependence on exports to generate growth, wants 30% of retail sales to be made through credit and debit cards in big cities by next year, from 10% at the end of 2005, according to Bloomberg."

There is part of me that suspects conspiracies and treachery at every turn, mostly in the form of a malignant government snooping around, looking for money or crooks, and then I end up on the list of "Guys who think that the Congress is a bunch of ignorant, corrupt, stupid losers, which is what you always get at the end of long economic booms", with a cross-reference to the list of "Guys who think that the Federal Reserve has perversely created so much money and credit in a long boom that staggering inflation in prices is not a surprise, but what we deservedly get when we do something as stupid as let a damned central bank create too much money and credit, especially as part of a preposterous debt-creates-money system, and especially especially as part of a fiat money system that uses computer memory banks to create money and credit, and especially especially especially as part of a monstrous fractional-reserve multiplication of the central bank excesses by the banks themselves as they loan out huge freaking multiples (HFM) of their suddenly increased reserves courtesy of the Fed, and especially especially especially when the whole thing is built on one huge, corrupt fraud after another, like when you don't clean

up the dog crap in the back yard for so long that one day the dog, adding more 'money' to the 'money supply', craps on top of old dog crap! Just like that! And just as savory, let me tell you!"

Well, okay, I just made up those lists, and the point is not that there is a health hazard in the back yard that you can smell from Park Boulevard, but that one immediately suspects government complicity when she says, "At the same time, encouraging the use of bank cards helps authorities to track merchants' business transactions and tax payments while reducing the openings for money laundering."

Well, whatever it is, it's working, as already "Bank card-based transactions accounted for 25.6% of the country's total retail sales in the first quarter," and "The value of bank card transactions increased even faster, rising 58% year on year to 824.6 billion yuan. (note: divide by 6.5 to convert yuan to dollars = \$130 billion)."

Suddenly, I am jolted awake by the note to "divide 6.5 to convert yuan to dollars = \$130 billion", because it doesn't seem that long ago that you divided by more than 8! Yow! A 19% drop in the dollar, vis-à-vis the Chinese money, in just a few years! No wonder imported things cost more!

Bloomberg reported that the Chinese consumer price index is up a blistering "more than 8% in the first five months this year", and that China's shoppers appear to understand the desirability of quickly spending a currency that is depreciating, as the report goes on that they are "spending more as inflation picks up."

And now the new availability of credit is coinciding with the fact that "they also have more to spend, with urban disposable incomes rising 11.5% in the first quarter from a year earlier." Wow!

At this rate, Chinese incomes will double in about 6 years, and prices will double in 9 years!

And there are already lots and lots of these Chinese people making money and who are accumulating buying power, as the People's Bank of China said "The number of individual bank accounts in China rose 9.6% in the first quarter from a year earlier to more than 2.2 billion", and which must contain assets growing at a healthy clip since "China's savings rate as a proportion of gross domestic product is about 51%, up from about 40% five years ago."

I gulp as I realize that 2.2 billion Chinese bank accounts is 7 times more than the 300 million men, women and children that are in the USA, and at this rate the number of account holders will double in about 7 years!

So how much debt have the Chinese accumulated on their credit cards? Not much, as this Chinese thing is just getting started, and "At the end of 2007, the outstanding balance of consumer credit on cards was about 75 billion yuan, against a credit line exceeding 630 billion yuan."

This thing has a long, long way to go, and it will not be easy for those paying high prices for oil, food and other commodities, as I gather from the editor of CommodityNewsCenter.com, who

noted that "if an individual travels to China, they will quickly realize that the bull market in commodities is far from over."

And that almost certainly means that the bull market in gold and silver is far from over, too, which is going to be sweet to those buying it for a long, long time! Whee!

Until next time,

The Mogambo Guru  
for *The Daily Reckoning*  
July 21, 2008

**The Mogambo sez:** So I say to the bartender, "If you are not buying gold, silver and oil to protect yourself against the fall in the purchasing power of the dollar caused by the Federal Reserve creating so much money and credit, then you are an idiot!"

And to let him know that I am a very discerning kind of guy who knows what he is talking about, I add, "And I can also see that you were probably not too bad-looking when you were younger, but now you are kind of old and repulsive, and can only get skanky, ugly chicks to go out with you."

Then, instead of thanking me for the information and rushing out to buy gold, silver and oil, he made me go home! This shows you the stupidity of your average American bartender. Don't make the same mistake!