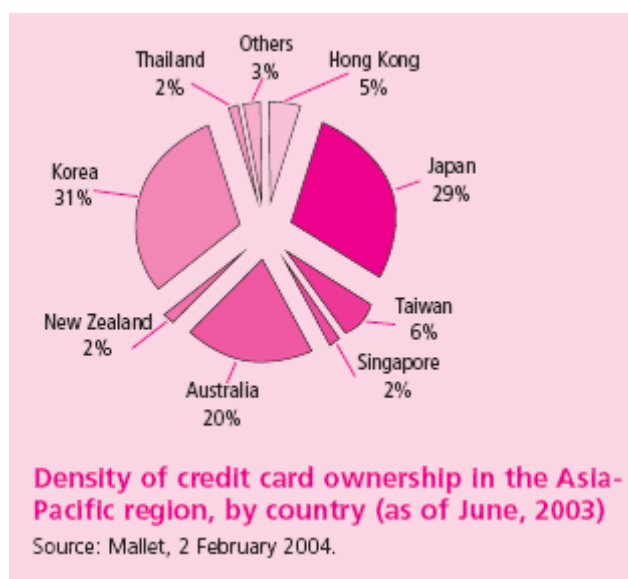


## New era of the flexible friend in Asia

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

International banks and credit card companies are eyeing opportunities for new customers in the growing economies of Asia with growing enthusiasm. People in the Asia Pacific region held 448 million credit cards in 2002, broken down by country as shown in the figure. In the region as a whole, credit cards account for only 7 per cent of discretionary spending, while the figure in developed markets is about 40 per cent. A major factor is that credit card use is still in its infancy in China, the region's largest potential market. Consumers' new wealth has led to changing lifestyles, mainly in rapidly growing urban environments, reflected in a boom in consumer spending. Sales of televisions, motorcycles and air conditioners were among the first to experience rapid growth, followed by apartments and cars. Now, the growth in credit cards may be heralding a new 'plastic revolution'. Along with the opportunities, however, come a number of risks, for both the businesses and their new customers.



The rise of a credit card culture represents a radical cultural shift in Asian societies, where the virtues of saving and thrift are deeply rooted. In Japan, which has the largest number of affluent consumers, the use of credit cards is still limited. South Korea, with a long tradition of saving, experienced a credit card boom following the financial crisis of 1997–98. Here, credit cards were encouraged in order to increase consumer spending, which was a vital element in the country's economic recovery. The result was an explosion in the number of cards, with little check on creditworthiness – the average Korean accumulated four cards. The boom proved to be unsustainable, as debts mounted for customers who had little experience of managing household debt. The boom ended in disaster, leading to a mountain of unpaid debts, a sharp fall in domestic consumption and financial problems for the banks and credit card companies.

The lesson of Korea highlights the risks of lending too freely without a structure in place for credit checks. China presents the greatest potential market. Here, there are some 544 million bank debit cards, whereby money is directly debited from a bank account, and 25 million credit cards. According to Visa, the number of debit cards has risen quickly, 50 per cent in 2003, whereas the number of credit cards in the same period grew only 6 per cent. Consumers are only gradually shifting to the idea of using a card for credit rather than simply for payment. Visa's target market is people with a monthly salary equivalent to \$300 or more, a category that already numbers about 60 million, but it could rise to 200 million by 2010. Expansion in credit card use will depend on putting in place systems which provide reliable credit information on individuals and on an increase in the number of outlets which accept cards. In addition, as in other Asian markets before they were opened, the Confucian cultural heritage of thrift has held back the spread of credit cards.

China's credit card companies have a fairly clear idea of their target market. The country manager for American Express says: 'Look at young, white-collar workers – there is clearly tremendous spending power in key cities. It's about balance. You don't want people to save too much, and you don't want people to spend too much' (McGregor, 2003). China Merchants, a bank based in Shenzhen, which launched its credit card in 2003, has few doubts about the market potential, sending salespeople into the commercial towers of Shanghai, cold calling on white-collar workers to sign them up as customers. This practice, by which salespeople receive bonuses for achieving targets, is associated with high-pressure tactics carrying negative connotations in markets where credit cards have long been established. The bank also operates incentive schemes for cardholders, giving gifts in return for a certain level of usage. The cautionary experience of South Korea, however, shows the risks in a credit card boom which got out of control.

Sources: Mallet, V. 'Asia's plastic revolution', Financial Times, 2 February 2004; McGregor, R. 'Credit comes cold calling in Shanghai', Financial Times, 29 December 2003; McGregor, R. 'Chinese set to make flexible friends', Financial Times, 19 October 2001.

### **Case questions**

Describe the culture shift taking place in the growth of credit cards in Asia. What are the opportunities and risks?

@ The website of American Express is at [www.americanexpress.com](http://www.americanexpress.com)

@ China Merchants Bank's English language website is at <http://english.cmbchina.com/>