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**ECONOMIC GROWTH AND NEW MIDDLE-CLASS CONSUMERS
IN DEVELOPING NATIONS**

CHINA'S MIDDLE CLASS

Kevin G. Nealer
Principal
The Scrowcroft Group

China's Middle Class

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Kevin G. Nealer

- The extraordinary growth of the 1980s has slowed in the last ten years.
- Nevertheless, for the 1990s as a whole, China's nominal GDP grew by a phenomenal 340 percent.
- *The leadership's challenge: Collect the rents derived from this growth to finance SOE reform/commercialization and a new social safety net, while supporting consumption.*

The Scowcroft Group

Kevin G. Nealer

Who is the Middle Class?

- Earn 100,000-150,000 RMB after taxes
(above \$12,500 USD)
 - have ownership of an apartment
 - secure assets of 1 million RMB
- . . . Far fewer than 1% of the population.
(cf. the super rich)

("Mr. and Mrs. Middle Class Move
In": Clara Li, china.scmp.com)

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- In 2001, it was predicted that two-fifths of the Chinese population would be in the middle class in the next ten years.
- Geographically, 490M people in ten cities along the coastline are well positioned to achieve middle class status by 2010.

("The Third Growth Anchor": Andy Xie, Morgan Stanley Dean Witter)

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What are the constraints on middle class growth?

Failure to provide adequate consumer credit represents a major bottleneck.

- Virtual absence of credit cards and non secured lending.
- Lack of property and chattel mortgages (cf. Shanghai experiment) restricts access to capital. Car loans?
- Absence of national credit reporting systems.

("The Different Faces of the Chinese Consumer": Geng Cui)

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- Transformational effect of WTO on Middle Class? – A two-edged sword.
- Government need to foster inflation may support broadening of consumer credit to unlock 40% savings rate. (NB: Generational gap in attitudes toward debt.)
- Fourth Generation leadership attitudes?