



Global Highlights

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Let's say you are a global firm, Do you know your future Asian customers?

➤ Everybody knows it. If the 19th century saw the rise of Germany and the United States as world powers, in the 21st China and India are the new candidates. In a previous [Global Highlights](#) we analyzed the rise of new global companies from developing countries and now it's time to analyze the appearance of a new middle-class that should generate a huge consumer market.

➤ What is the **middle class**? There is no standard definition of what it means. According to McKinsey & Co¹., the lower threshold to be labeled as 'middle class' is \$3,600 in China and \$4,800 in India, or around \$10-13 a day. At purchasing power parities² (PPP), it is equivalent to \$23 in China and \$40 in India. To have a comparator, \$28 a day is the poverty line for a 1-member U.S. family and \$66 for a 5 member one (\$13 per member)³. Others authors set the bar below; for example MIT professors A. Banerjee and E. Duflo loosely consider middle classes as households with incomes above \$6-10 a day at PPP⁴.

➤ An initial assessment by **BBVA Global Trends** estimates a surge in the middle classes in India and China. We consider a higher threshold (\$26 a day - \$9,600 a year- at market exchange rates) resulting in 300 million Chinese belonging to the Middle Class and 80 million in India by 2030. With its own definitions, McKinsey estimates that India will become the world's **5th largest consumer market**, by 2025. By this time, China will have become the world's **3rd largest market**, with 610 million people in its middle classes. This middle class will be mainly urban and will be accompanied by a smaller upper-class ('global') nevertheless significant.

➤ Middle Class expenditure patterns differ considerably from the ones of poorer groups. The weight of food and apparel goes down as income rises, meanwhile consumption increases in **transportation** (cars), **health care** (doctors and medicines), **education** (private teachers and schools) and **communications** (cell phones). Growth rates of aggregate consumption between 8%-14% will be plausible in these sectors in both countries.

➤ An interesting feature about current and future middle classes, as stressed by Banerjee and Duflo is their source of income. The figure of the middle-class entrepreneur seems to be kind of a myth as most middle-classers have **salaried jobs**. Actually, according to their research, nothing seems more middle class than the fact of having a steady well-paid job. Investment in human capital in the form of education for their children seems to be more important for them than creating new businesses. The bottom line for firms is that their average future customer is probably a blue or white-collar employee in some big city in Asia who wants to save for their children's education and a credit line to buy a new scooter (or a car) while he is talking through his trendy cell phone.

¹ McKinsey released in 2006 and 2007 two studies about middle classes in [India](#) and [China](#).

² According to the [World Bank 2005 International Comparison Program](#).

³ According to the [Department of Health and Human Services](#)

⁴ Banerjee, A. and E. Duflo (2008). "[What is Middle Class about the Middle Classes around the World?](#)" Journal of Economic Perspectives.