

## The emergence of the middle class: an emerging-country phenomenon

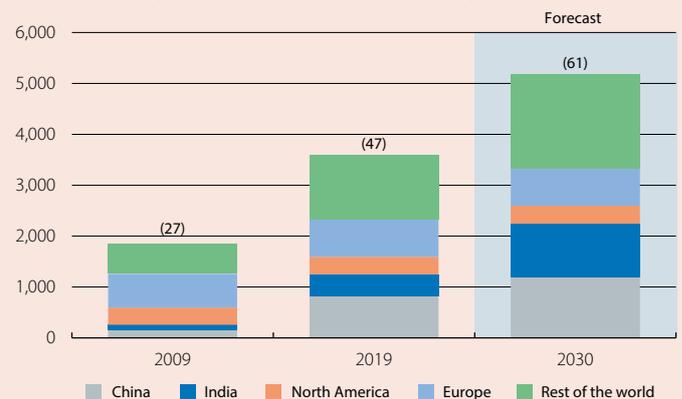
The middle class is experiencing significant growth in emerging countries – so much so that the strong economic growth and favourable demographic trends of the Asian continent (with China and India at the helm) will make the Asian middle income consumers the world's new pillar of consumption. In addition, not only will its strength more than offset the stagnation of the middle class in advanced countries, but it has the potential to become a key driver for global growth.<sup>1</sup>

### Past and future trends of the global middle class: from advanced to emerging countries

- Nearly half the world's population is already part of the middle class.** The end of 2018 marked a significant milestone: half the world's population now live in middle-class or wealthy households. Specifically, out of a total of 7.6 billion citizens in the world, 3.6 billion now belong to the middle class.<sup>2</sup> This is a significant figure, even more so if we look back and realise that only 10 years ago the number of people that made up the middle class was half that (around 1.8 billion).
- The speed of growth of the middle class has increased considerably.** After reaching the first 1.0 billion at the end of the 1980s, the middle class took more than 20 years to add another 1.0 billion, but around just 8 years to add the last 1.6 billion. Looking ahead, the growth of the middle class shows no signs of stopping (see first chart). Indeed, the latest estimates place the total population of the middle class at around 5.2 billion in 2030 (around 1.6 billion more than today), which will represent some two thirds of the world's population.
- China and India, generating the new middle class.** Since 2009, China has been responsible for the entry of around 700 million people into the ranks of the global middle class: 40% of all new entrants. Furthermore, the sum of China and India has contributed around 60% of the new middle class (some 1.0 billion people). The outlook for the next 10 years is not dissimilar, as both countries are expected to contribute a further 1.0 billion (again, representing around 60% of the estimated global increase). The only difference is that China's and India's roles as generators of middle-class population are expected to be inverted, with India anticipated to account for 40% of the total global increase. In more general terms, around 90% of new entrants into the middle class will be Asian.
- The middle class' centre of gravity is shifting towards Asia.** This emerging trend represents a change in the geographical distribution of the middle class. By way of illustration, if we were to mark the middle class' centre of gravity on a world map, in 1990 it would be in the middle of the Atlantic, halfway between the US and Western Europe. At that time, three-quarters of the world's middle class were concentrated in these two regions, which accounted for just one third of the world's population. Today, on the other hand, around two-thirds of the global middle class live in emerging countries, and its centre of gravity is located somewhere around Turkey. In 2030, this centre of gravity will move irrevocably closer towards the two great Asian giants, since that is where just over 40% of the world's middle class will live. Emerging countries as a whole, meanwhile, will account for three-quarters of the total middle-class population.

#### Global middle class

Millions of people (in brackets, % of the total population)



**Note:** A household forms part of the middle class when its spending capacity per day and per person lies between 11 and 110 dollars a day (measured in purchasing power parity terms). See notes 1 and 2 in the text for more details.

**Source:** CaixaBank Research, based on estimates by Homi Kharas and our own.

### The emerging middle class will boost global demand

- The consumption of the middle class is a key driver of global demand.** Let us remind ourselves that private consumption currently represents around half of all global demand. Of this private consumption, around two thirds comes from that of the

1. The definition of middle class that we use in this article is based on individuals' spending capacity in absolute terms, i.e. within specific thresholds, between 11 and 110 dollars a day, that are comparable between countries, in purchasing power parity terms. This type of measure is more appropriate when performing a more global analysis such as this one. Relative measures are used when analysing changes in a single country over time or when comparing different countries that are at similar stages of economic development. See the article «[Who is the middle class?](#)» in this same Dossier for more details about the different ways to measure the middle class.

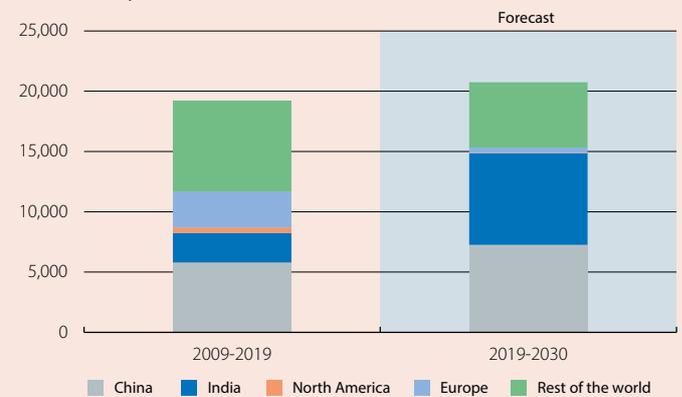
2. All numerical estimates are made using the methodology developed by emerging-country growth expert Homi Kharas, as well as by other experts who follow in his footsteps. See H. Kharas (2010), «The emerging middle class in developing countries», OECD Working Paper; H. Kharas (2017), «The unprecedented expansion of the global middle class: An update», Brookings, and data from the World Data Lab.

middle class. Therefore, we can say that the consumption of the middle class represents a third of global demand and is almost equally split between the consumption of the middle class in advanced and emerging economies. This portion has been increasing over time and for years was supported by the growing spending capacity of the middle class in advanced countries. However, the current stagnation of the middle class in advanced countries<sup>3</sup> has directed all eyes on consumers in emerging countries, with the expectation that they will be able to fill the gap being left by their advanced-country peers.

- **The newly emerging Asian middle class will boost global consumption.** In fact, over the past 10 years the new entrants into the middle class, mostly from China, have managed to maintain the same pace of growth in total middle-class consumer spending as the middle class of advanced countries had done in the past. Over the next 10 years, China and India, as well as other countries such as Indonesia, will continue to support the growth in global demand (see second chart). The rise in the number of people entering into the middle class from emerging countries, coupled with the growing spending capacity per person of this emerging middle class, will provide a boost to global demand comparable to that seen in recent decades.<sup>4</sup> As such, the middle class' consumption is expected to increase from representing today's 33% of global demand to 40% by 2030<sup>5</sup> (with emerging countries representing an increased share of 65%).

### Increasing expenditure of the global middle class

USD billions, in PPP terms



**Note:** A household forms part of the middle class when its spending capacity per day and per person lies between 11 and 110 dollars a day (measured in terms of purchasing power parity, or PPP). See notes 1 and 2 in the text for more details.

**Source:** CaixaBank Research, based on estimates by Homi Kharas and our own.

### The nature of the new middle class: more heterogeneous

- The rapid growth of the newly emerging middle class has not only led to the middle class finally becoming the biggest of the classes worldwide, but has also caused us to **stop speaking of «a middle class» in favour of «a variety of middle classes»**.<sup>6</sup> In this regard, companies and even public policies, whose main interest group is precisely the middle class, must be capable of adapting to the different middle classes that exist around the world.
- **Differences in the *per capita* spending capacity.** The middle class of emerging countries has a lower *per capita* spending capacity than that of advanced countries, and it varies widely from country to country. By way of illustration, the middle class of Bangladesh or Algeria is much poorer than the relatively wealthy middle class of Colombia or Mexico, and the *per capita* expenditure of China's middle class is 30% higher than that of India, on average. In the case of China, that greater spending capacity explains the growing propensity among its consumers to purchase imported products, ranging from food to cosmetics and cars.
- **Belonging to the middle class is not a guarantee of stable employment.** In most emerging countries, the middle class has a very high incidence of informal labour, a phenomenon that in advanced countries is concentrated among the poorest in the population. Several studies place this rate of informal labour above 50% in the middle class of emerging countries, reaching as high as 80% in some countries of Central America.<sup>7</sup> Among other effects, this situation leads to a less stable level of consumption than among the middle class in advanced countries.
- **Finally, there are significant differences in the age distribution of the middle class.** In advanced countries, the middle class is ageing,<sup>8</sup> a quite different trend to that observed in emerging countries. In fact, in India, for example, the bulk of the middle class in 2030 will be between the ages of 20 and 45, while in China a large portion of the country's middle class will be within the range of 45 to 65 years.<sup>9</sup> This will produce major differences in the type of consumption and public policy demands of these countries' middle classes.

Despite the increasing heterogeneity within the middle class, there is no doubt that Asia's demographic dominance, led by China and India, together with its strong economic growth, will convert its middle classes into the new global consumers.

Clàudia Canals

3. See the other three articles in this same Dossier.

4. It is worth noting that, according to the latest estimates by the World Data Lab, the upper class of the US will lead the world's great consumers in terms of their consumption. See «Who will drive consumer spending in the next decade» (publication of 7 November 2018 in OECD Development Matters).

5. From 40,500 million dollars in purchasing power parity terms today to 61,254 million in 2030.

6. See C. Brandi and M. Büge (2014). «A cartography of the new middle classes in developing and emerging countries». Deutsches Institut für Entwicklungspolitik.

7. See A. Melguizo (2015). «Pensions, informality, and the emerging middle class». IZA World of Labor.

8. See the article «The future of the middle classes: technology and demographics will bring change, but they will not disappear» in this same Dossier.

9. According to estimates by the World Data Lab.