



# MARKETS IN MOTION

developments that matter in financial markets

## Middle Class in Asia

*“Upper classes are a nation’s past; the middle class is its future.”*  
**Ayn Rand, author of *Fountain Head* and *Atlas Shrugged***



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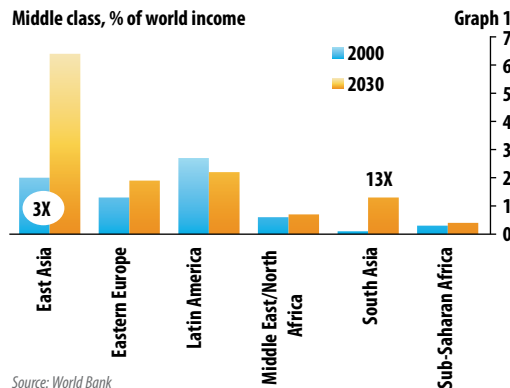
#### Introduction

Strong economic growth in Asia, particularly in China and India, over the past few years has been accompanied by the emergence of a sizable middle class. Consumption expenditures in developing Asia, primarily by the middle class, have increased rapidly as a result, reaching about one-third of those of the Organization for Economic Co-operation and Development (OECD) countries, according to a recent ADB report released on August 20, 2010.

#### Impact of Burgeoning Asian Middle Class

The middle class in Asia is one of the fastest growing population groups in the world. According to the World Bank, the middle class of South Asia and East Asia account for 1.4% of the global population and 2.1% of global income. The World Bank forecasts that this same group will account for 8.9% of the population and 7.7% of global income by 2030, much higher than the middle class growth in other developing regions.

Middle class, % of world income



Source: World Bank

Consumer spending in developing Asia, primarily by the middle class, reached an estimated \$4.3 trillion in annual expenditures in 2008 (based on per capita consumption >\$2). Asia’s emerging consumers are likely to assume the role of global consumers and will play a key role in rebalancing the world’s economy.

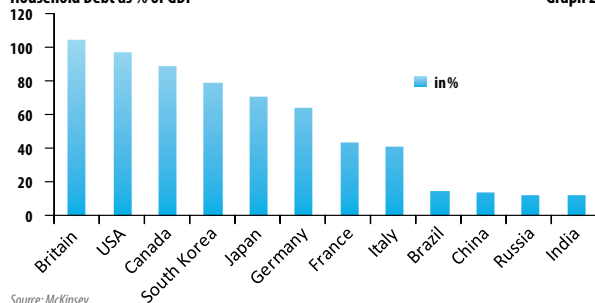
#### Household Debt in Asia

Another notable feature of the middle class in Asia is that the household debt as a percentage of GDP is lower, implying more spending power and increased access to finance. Graph 2 shows the household debt to percentage of GDP of select countries.

#### Increasing High Networth Individuals

There is a perceptible increase in the number of high networth individuals (HNWIs) in Asia. Cag Gemini and Merrill Lynch’s World Wealth Report 2008 defines a high networth individual as an individual who holds at least \$1

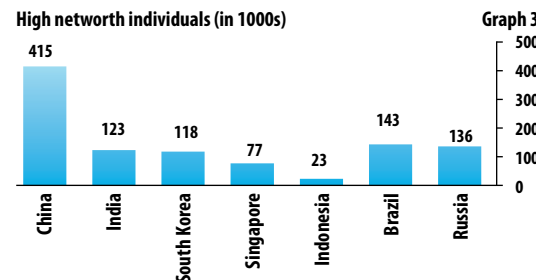
Household Debt as % of GDP



Source: McKinsey

million in financial assets or more. Graph 3 shows that China has the highest number of HNWIs in Asia at 415,000, followed by India with 123,000.

High networth individuals (in 1000s)



Source: Cag Gemini-Merrill Lynch World Wealth Report 2008

#### Increasing Investment by Indian Middle Class

There is no official definition of the middle class. A study by the World Bank in 70 countries estimated that the middle class population in India at 264 million in 2005 as lower bound to the median poverty line and the US middle class as upper bound. The middle class in India is also increasing its share of financial investments and thus providing new sources of capital for companies. This provides opportunities for brokers and personal financial advisors to target the middle class as an investment group.

The rise of Asian middle class is playing an important role in the region’s economic resurgence. It is contributing to the shift in the world’s centre of economic gravity toward Asia. It offers the potential for greater poverty reduction, more political stability, economic innovation, and improved living standards. Through its sheer size and dynamism, the rising middle class will hold unimaginable potential opportunities for the region and for the world.

Contributed by M Ravindran

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