

Asia's Rising Middle Class Holds the Key to New Potential - Thailand Business News (June 2011)

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The Organization of Economic Cooperation and Development has just celebrated its 50th anniversary. Among the many achievements of this group of advanced economies is the unprecedented improvement in the material lives of millions of their citizens.

Between 1960 and 2010, the number of people who had middle class or better living standards in OECD member countries more than doubled from around 400 million to over 900 million. Poverty, by global standards, was essentially eradicated.



Many countries in Asia are very interested in the urban middle class, which is key in driving the economy.

Asia today faces the same potential. Economies in south and east Asia have grown fast for two decades now, and in some Asian countries, growth has been sustained for much longer periods. Most south and east Asian economies have passed the World Bank's threshold of a per capita GDP of \$1000 to become classified as middle income countries.

But that still does not mean that they have a large middle class, at least not by global standards. A global middle class is best defined by the spending of households, not the income available to the economy. When households can afford small luxury items, when they can purchase consumer durables like cell-phones, cars, motorcycles, refrigerators, maybe own their house, enjoy vacations and leisure and afford to educate their children and to provide them with good health care, then they can be classified as members of a global middle class.

One rough definition of when this happens is when households spend at least \$10/person/day in purchasing power parity terms. Of course, to be classified as middle class, one would also want to exclude the rich, or the group of households that does not worry about how much they spend, or the price of goods and services, but can afford whatever they choose.

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That group can be considered those who spend more than \$100/person/day. It is using this definition that the extraordinary growth in the OECD middle class has been computed.

By the same definition, Asia today has a middle class of around 560 million people, of which 230 million are in the rich economies of Australia, Hong Kong, Japan, Korea, New Zealand, and Taiwan (China). The rest live in emerging economies.

This latter group is growing very fast as these economies grow. In China, because of the low share of labour in GDP and very low rates of household expenditure, the middle class is small — perhaps only 12 percent of the population — compared to what one would expect from an economy at its level of development. India also has a small middle class by global standards, only about 5 percent of its population, because it is still a rather poor country. But the middle class in both China and India is growing at extraordinary rates.

If China is successful in its policy ambition to foster wage growth at least as fast as GDP growth, and if it continues to grow at its potential, its middle class could swell to 50 percent of its population in just 12 years. India's middle class could rise even more rapidly because Indian households benefit more from Indian growth than do Chinese households, given the prevailing distribution of income