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# The Emerging Middle Class in Developing Countries

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### Introduction

- As an economic driver, the "Middle Class" may be termed the "Consumer Class"
  - The middle class income elasticity for consumer durables and services is greater than one.
- This paper looks at the potential growth of the middle class in the developing world over the next 25 years
- This paper traces whether the emerging Asian middle class will be large enough to replace the US as a driver of Global Economy



## **Defining Middle Class**

- Global Middle Class defined as households with daily expenditures between US\$ 10 and US\$ 100 per person
- The lower bound is chosen with reference to the average poverty line in Portugal and Italy
- The upper bound is chosen as twice the median income of Luxemburg
- Thus, the global middle class excludes those who are considered poor in the poorest advanced countries and those who are considered rich in the richest advanced country

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## Measuring Global Middle Class

- Develop estimates for 145 countries, accounting for 98% of population and 99% of GDP
- Measure both the number of people in middle class and their consumption shares

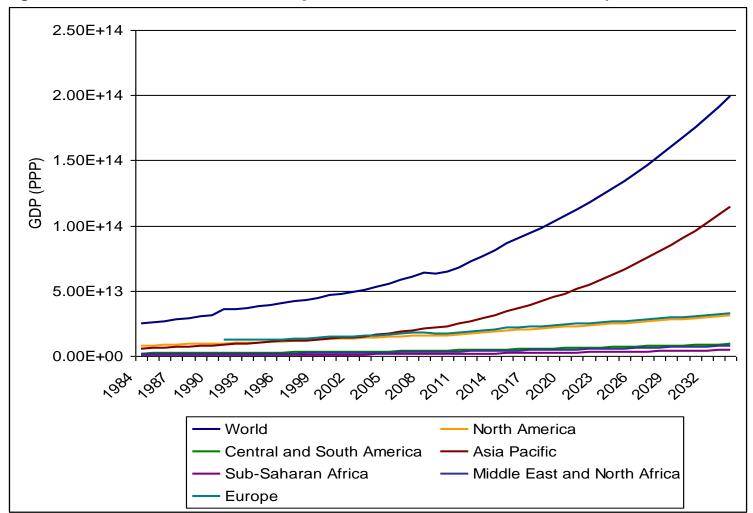
Table 1: The Global Middle Class, 2009: People and Spending

	Number of (millions an share	d global	Consumption (billions PPP\$ and global share)		
North America	338	18%	5,602	26%	
Europe	664	36%	8,138	38%	
Central and South America	181	10%	1,534	7%	
Asia Pacific	525	28%	4,952	23%	
Sub-Saharan Africa	32	2%	256	1%	
Middle East and North Africa	105	6%	796	4%	
World	1,845	100%	21,278	100%	

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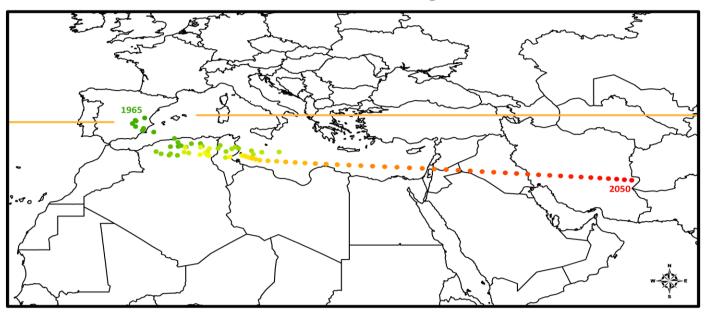
# Projection Result 1: Global output will accelerate and Asia will drive this output

Figure 3. World Economic Output Over 50 Years, 1984-2034 (2005 PPP dollars)



## Projection Result 2: The Economic Center of Gravity Shifts East

## Economic Center of Gravity: 1965 - 2050 GDP, Market Exchange Rates



\*Note: Green indicates earlier years, red indicates later years.

Orange lines highlight the latitudes of DC and Beijing (for reference).

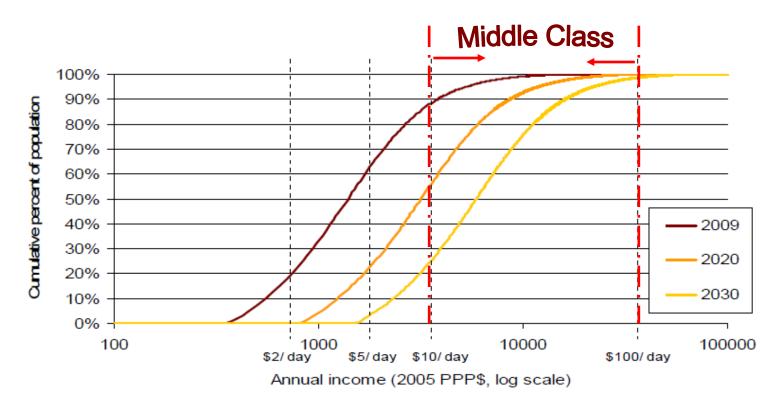
Homi Kharas, Brookings

Dan Hammer, Center for Global Development



#### Projection Result 3: Economic growth drives people into the middle class

Figure 6. China's Middle Class is Small, but Quickly Rises



Notice the number of people clustered under \$10/day threshold level in China who enter the middle class over time



# Projection Result 4: The middle class is projected to grow from 1.8 billion to 3.2 billion by 2020 to 4.9 billion by 2030

#### Table 2. Numbers (millions) and Share (percent) of the Global Middle Class

- Asia Pacific Middle Class increases from 28% to 66% of the world

	2009		2020		2030	
North America	338	18%	333	10%	322	7%
Europe	664	36%	703	22%	680	14%
Central and South America	181	10%	251	8%	313	6%
Asia Pacific	525	28%	1,740	54%	3,228	66%
Sub-Saharan Africa	32	2%	57	2%	107	2%
Middle East and North Africa	105	6%	165	5%	234	5%
World	1,845	100%	3,249	100%	4,884	100%

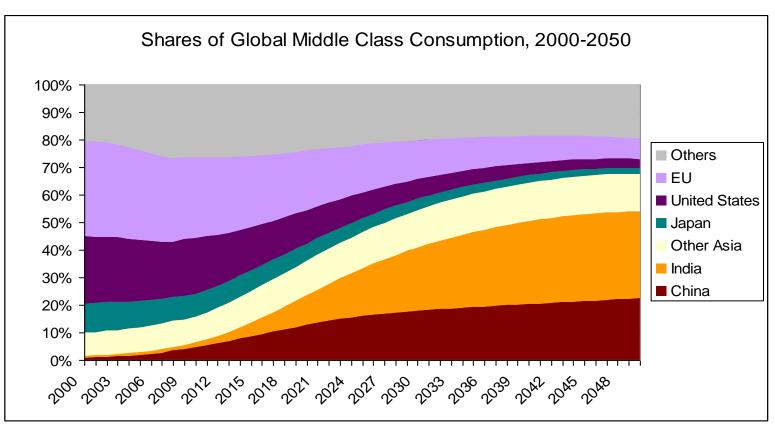
#### Table 3. Spending by the Global Middle Class, 2009 to 2030 (billions of 2005 PPP dollars)

- Asia Pacific share of world spending increases from 23% to 59%

	2009		2020		2030	
North America	5,602	26%	5,863	17%	5,837	10%
Europe	8,138	38%	10,301	29%	11,337	20%
Central and South America	1,534	7%	2,315	7%	3,117	6%
Asia Pacific	4,952	23%	14,798	42%	32,596	59%
Sub Saharan Africa	256	1%	448	1%	827	1%
Middle Eastern and North Africa	796	4%	1,321	4%	1,966	4%
World	21,278	100%	35,045	100%	55,680	100%

# Projection Result 6: China and India increase their shares of middle class consumption

Figure 7: India and China Make Waves in the Global Middle Class





#### Conclusions

- The middle class is an important consumption class as their income elasticity for durable goods and services is greater than one
- In the future the middle class growth is projected to come mainly from Asia
- India and China continue on their trajectory of high growth coupled with a growing middle class
- An economic realignment is projected with economic center of gravity will shift from Europe to Asia

