

BUSINESS TRENDS

Week 10: The rise of the global middle class

GLOBAL TURNING POINTS
for Business and Society

The Rise of the Global
Middle Class

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Learning Outcome

At the end of the session, the students must be capable of answering the following questions:

- What's the middle class?
- How big is it?
- Is the middle class growing globally?
- Where is it located?
- How much purchasing power does it have?

What's the Middle Class?

- Historically defined as the segment between the peasantry and the working class, on the one hand, and the upper class, on the other:
 - It was assumed to have different values and to exhibit different political behavior.
 - Its rise had to do with the growth of cities, and the new occupations created in them.
- At the global level, it is defined today as the segment between the poor and the rich:
 - It has discretionary spending power.
 - It really did not exist until the early 20th century, starting in Europe and the U.S.

The Middle Class Is...

- A foundation of modern democracy.
- A key nexus in the chain of social mobility.
- A pillar of social stability.
- The largest consumer demographic.
- The largest beneficiary of the welfare state: education, healthcare, pensions, unemployment benefits.
 - (In many countries, the tax system subsidizes the middle class.)

The Global Middle Class

- It's an ambiguous term. The middle class can only be defined within each country.
- Nevertheless, the Organization for Economic Cooperation and Development (OECD) defines it as:
 - People with at least \$10 to spend per day, but no more than \$100 (adjusting for the cost of living in different countries).
 - This translates into between \$14,600 and \$146,000 annual income for a family of four.

RICH

INDIVIDUAL:

\$100
per day

FAMILY OF 4:

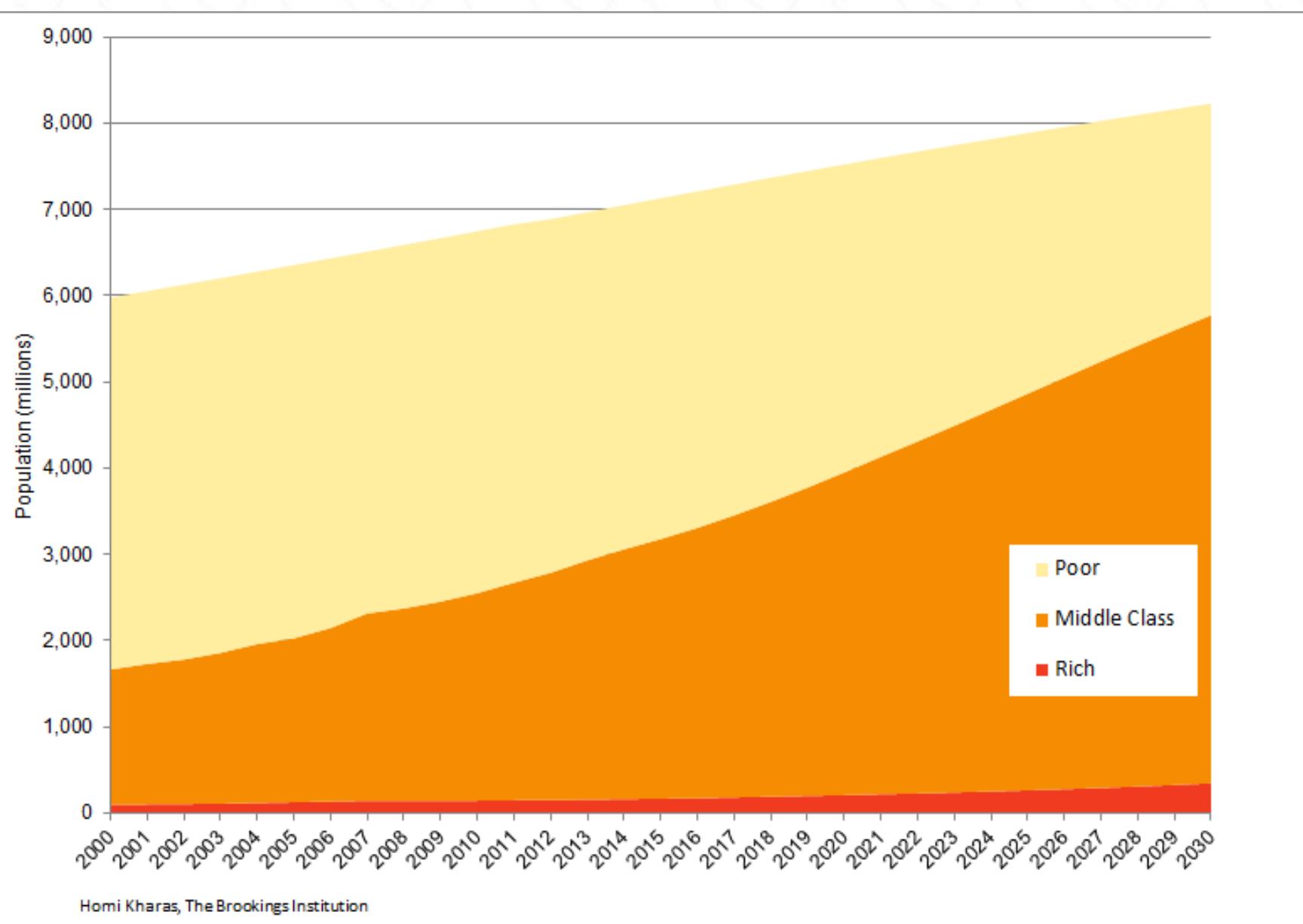
\$150,000
per year

MIDDLE CLASS

\$10
per day

\$15,000
per year

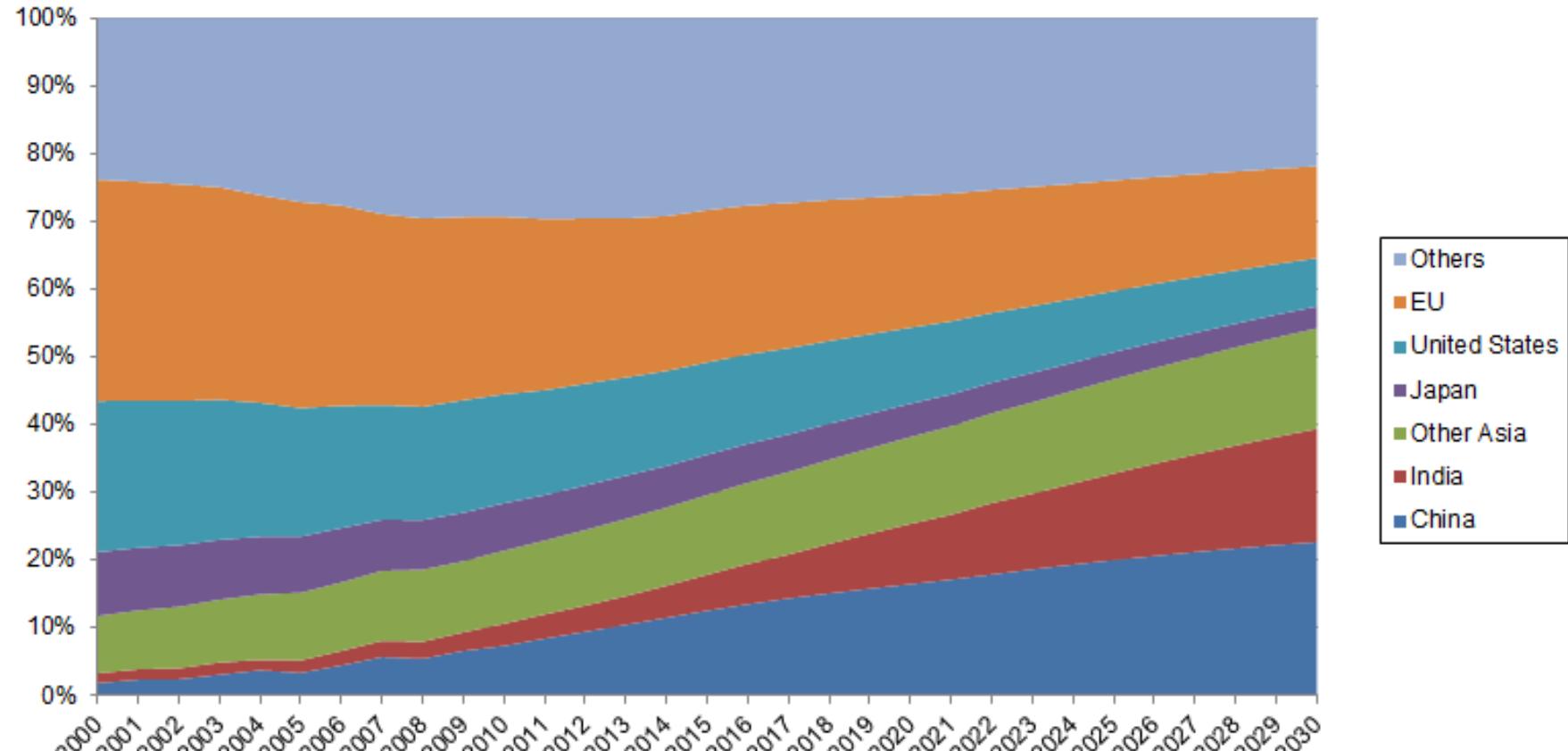
POOR



Middle class defined as people with more than \$10 per day to spend but less than \$100 (using purchasing power parities). Source: Homi Kharas. Reproduced by permission.

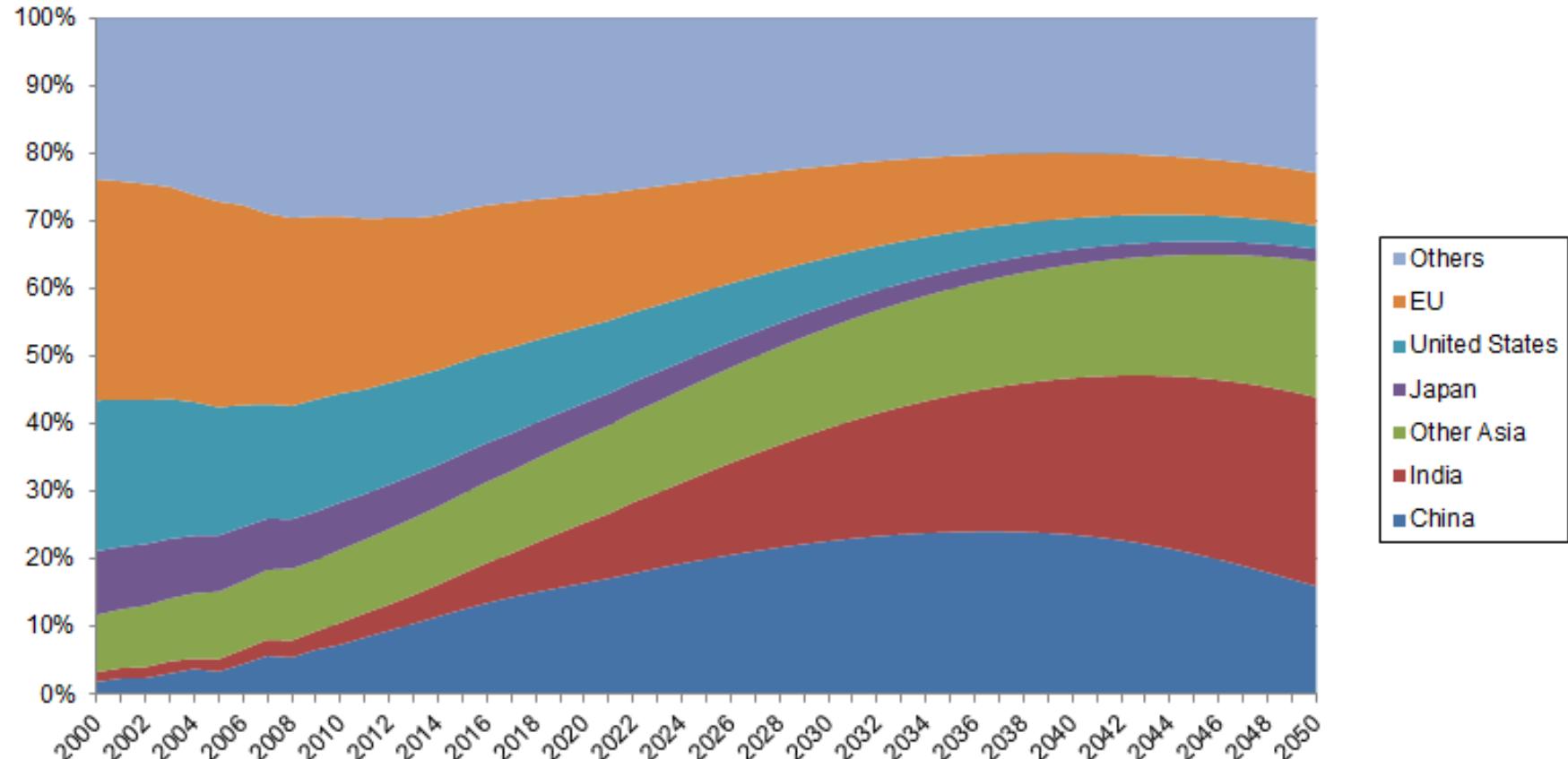
Shares of Middle Class Consumption, 2000-2030

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Homi Kharas, The Brookings Institution

Shares of Middle Class Consumption, 2000-2050



Homi Kharas, The Brookings Institution

Discussion Question

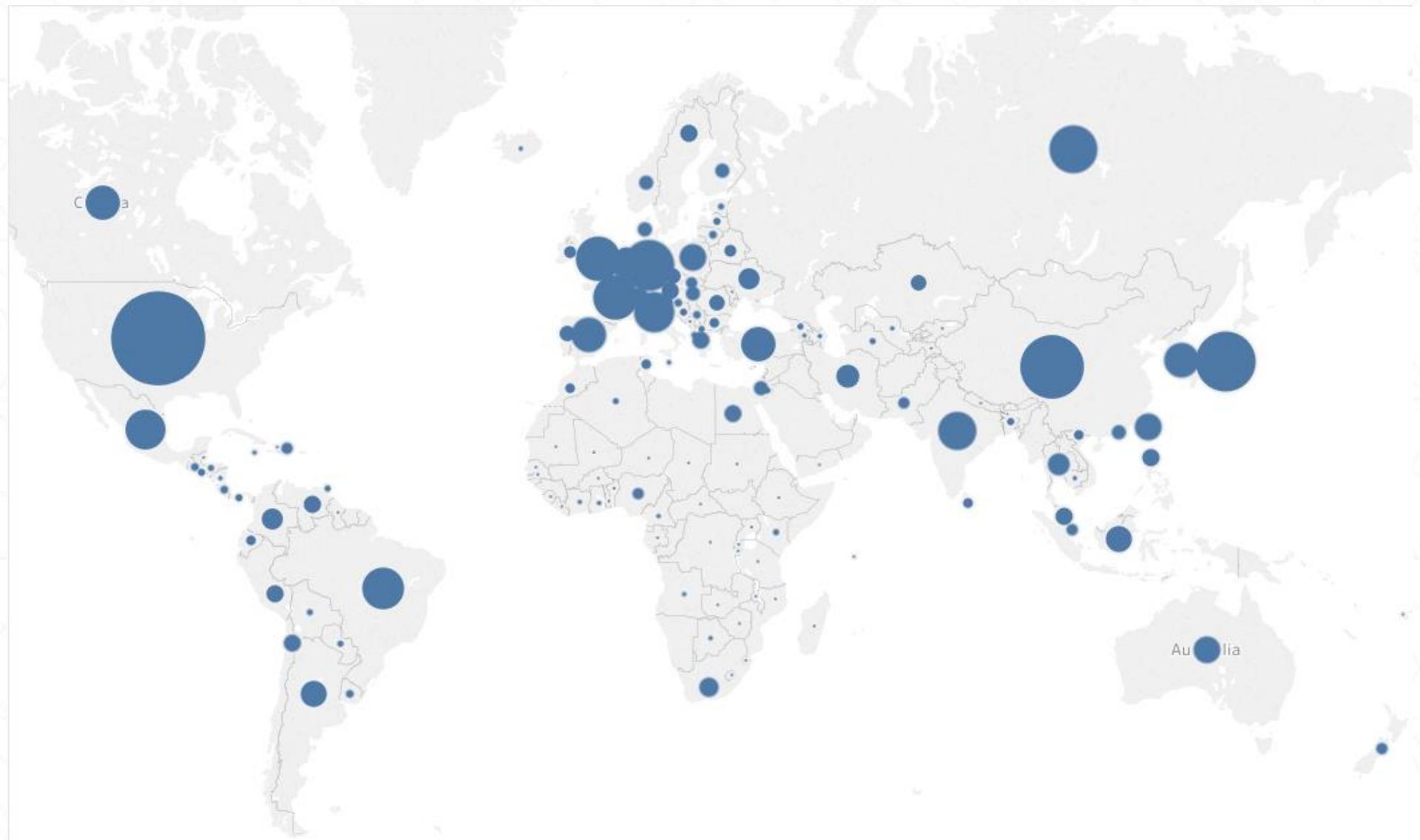
- Why does the OECD project that India will have more middle-class consumption than India within 20 years?

India > China

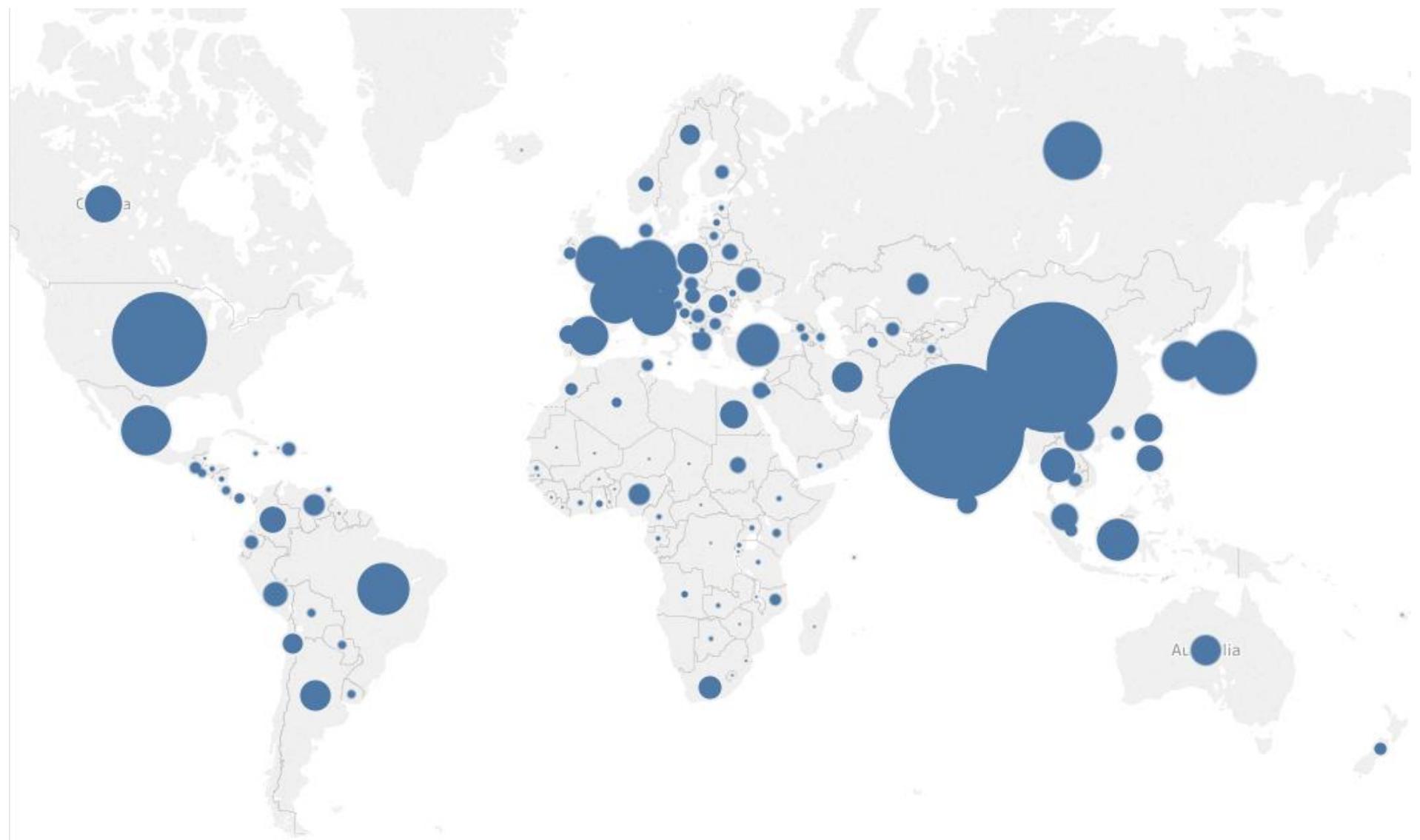


- There are three main reasons:
 - India will soon have the world's largest population.
 - India has a younger population than China.
 - Income inequality in India is not growing as much as in China.
 - Chinese economic growth is too reliant on exports and investment to the detriment of consumption.

Middle Class Consumption In 2015



Middle Class Consumption in 2030



Middle-class Consumption (Trillion 2005 Dollars)



	Today	2030
World	21.3	55.7
North America	5.6	5.8
Europe	8.1	11.3
Central & South America	1.5	3.1
Asia Pacific	4.9	32.6
Sub-Saharan Africa	0.3	0.8
MENA	0.8	2.0

Source of the data: Homi Kharas, *The Emerging Middle Class in Developing Countries* (OECD, 2010).

Case Study: India

- India's rising middle class.
- A business example.

India



- Since 1991 India has managed to grow in spite of the many bottlenecks facing the country in terms of politics, infrastructure, and access to education.
- Not only services, but also manufacturing has become more competitive.
- Although in 2013 and 2014 the economy is slowing down, the long-term growth prospects remain optimistic.

India's Middle Class

- In 2014 no more than 15% of the population was middle class (\$10-100 per day).
- By 2030, the proportion may rise to 50%.
- As a result, social, political, and consumer behavior is changing in India.
- Companies are taking good notice.

What's This Car?





The Tata Nano

- Launched in 2009 by Tata Motors, part of the Tata group, India's oldest.
- Family transportation for the new middle class of consumers:
 - Priced at \$2,500.
 - 634 cc engine.
 - Target: sell 1 million units annually.
- An alternative to two or three-wheelers.
- Billed as the world's cheapest car.

Tata Nano: An Abject Failure

- Sold just above 250,000 Nanos in the first four years combined.
- Lost market share in India overall, and profits have plummeted.
- Discussion question: what went wrong?

Reasons for The Failure

- A few Nanos caught on fire.
- The Nano lacked A/C.
- The middle class is aspirational in its tastes.
- Cars are a projection of the owner's self-image.
- Competitors like Suzuki, Hyundai and Ford offered better models at a slightly higher price.

A Typical Middle-class Consumer

Shushank Sharma, 22, a computer operator... said he had a choice between a Nano and a two-wheeler motorbike, which was around the same price. He bought the bike. "I don't like the way the Nano looks to people and it's all about the look," Sharma said. "I take the bike to work. But if I have to go hang out with my friends or go for a marriage, then I prefer a car. But I would prefer to sit at home if I have to go in a Nano."

Source: *Washington Post* January 3, 2011.