

ADB

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HIGHLIGHTS

SPECIAL CHAPTER
The Rise of Asia's Middle Class

Asian Development Bank

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Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444
www.adb.org/Statistics

Highlights of Key Indicators 2010

The *Key Indicators for Asia and the Pacific 2010* is the flagship annual statistical data book of the Asian Development Bank (ADB). It presents the latest available economic, financial, social, environmental, and Millennium Development Goals (MDG) indicators for regional members of ADB. Data are grouped under MDG and Regional Tables. Nontechnical explanations and brief analyses of the MDG achievements and economic, financial, social, and environmental developments are included. The regional tables are largely based on a comprehensive set of country tables. The country tables are not available in printed form but are available in CD-ROM and through ADB's website at www.adb.org/Documents/Books/Key_Indicators/2010/Country.asp. The special chapter in *Key Indicators for Asia and the Pacific 2010* "The Rise of Asia's Middle Class" looks at the growth and impacts of the region's rapidly expanding middle class, and resulting economic and policy implications.

PART I: Special Chapter

The Rise of Asia's Middle Class

Strong economic growth in Asia over the past two decades has been accompanied by the emergence of a sizable middle class and a significant reduction in poverty. Consumption expenditures in developing Asia, primarily by the middle class, have increased rapidly as a result, reaching about a third of those of the Organisation for Economic Co-operation and Development countries.

The special chapter addresses the implications of Asia's growing middle class for the global economy and for poverty reduction in the region. In particular, it argues that the middle class may hold the key to a rebalancing of economies toward consumption and away from a heavy reliance on external demand, as well as to greater and more efficient poverty reduction and inclusive growth.

It presents original evidence based on research and studies of selected Asian countries that show the value in focusing on the middle class and developing appropriate policies to foster its development. Policies that encourage the creation of, and access to, more well-paid jobs and more advanced education and health care to help prevent the more vulnerable members of the new middle class from falling back into poverty are highly important. At the same time, innovative policies are needed to mitigate the additional environmental constraints and health concerns that will accompany these trends.

Among the chapter's important messages:

- **Developing Asia's middle class has increased rapidly in size and purchasing power as strong economic growth in the past two decades has helped reduce poverty significantly and lift previously poor households into the middle class.** By 2008, it had risen to 56% of the population—or nearly 1.9 billion people—up from 21% in 1990, using an absolute definition of per capita consumption of \$2–\$20 per day (based on survey data in 2005 PPP \$); expenditures had increased almost three-fold, compared to more marginal increases in all other regional economies in the OECD.
- **Asia's emerging consumers are likely to assume the traditional role of the US and European middle classes as global consumers, and to play a key role in rebalancing the world's economy.** Consumer spending in developing Asia, primarily by the middle class, was surprisingly resilient during the recession. It reached an estimated \$4.3 trillion in annual expenditures in 2008 (based on per capita consumption >\$2)—nearly a third of private consumption in the OECD.

Assuming consumption expenditures in Asia continue to grow at roughly the same rate as the past 20 years, by 2030 developing Asia will likely reach \$32 trillion in annual expenditures and comprise about 43% of worldwide consumption.

Asia's Emerging Middle Class: Past, Present, and Future

- **While there are many definitions of middle class, this special chapter of *Key Indicators 2010* uses an absolute definition of per capita daily consumption of \$2–\$20.** This includes the lower-middle class (\$2–\$4), the “middle-middle” class (\$4–\$10) living above subsistence and able to save and consume nonessential goods, and the upper-middle class (\$10–\$20). By this definition, in 2008 much of developing Asia's middle class remained in the \$2–\$4 range. The PRC's middle class is larger than all others in absolute size, after adding 800 million people during 1990–2008. By population share, however, Azerbaijan, Malaysia, Thailand, Kazakhstan, and Georgia are ahead.
- **Even though the Asian middle class has significantly lower income and spending relative to the Western middle class, its growth in expenditures has been remarkable and its absolute levels are commanding.** The continued rise of Asia's middle class will require governments to introduce policies that bolster the incomes of those already in the middle class, and social policies to expand the middle class, such as through greater spending on education and health.
- **Over the next 20 years, with the appropriate middle-class friendly policies focused on human capital and better jobs, Asia can continue and even accelerate poverty reduction and livelihood advancement, although the process will be uneven across the region.** Projections suggest that by 2030 much of developing Asia will have attained middle and upper class majorities. The PRC and India are expected to provide the largest number of new middle class, and smaller countries will see faster or slower emergence depending on the absorption of their resource base and labor forces into higher value added supply chains.

The Middle Class and Their Values: A Profile

- **In profile, the middle class differs from the poor and the rich simply because many household characteristics are strongly correlated with living standards.** Compared to the poor, it is less connected to agriculture, less likely to own land and less likely to be wage laborers. It is much more likely to hold salaried jobs, has a greater propensity for migration, a higher propensity to seek more expensive medical care when ill, and has fewer children and invests more in health, nutrition, and schooling. The middle class is also better educated, and more geographically concentrated (in urban areas or along coasts).

- **The rise in class status is largely correlated with a rise in progressive values that are highly conducive to strong economic growth.** In particular, the middle class are more likely to have values aligned with greater market competition, greater gender equality, perceptions of upward mobility, and more investment in science and technology than those of the poor. In general, East Asia appears to be more progressive than other regional economies and this may in part explain its higher rates of growth.

Determinants of Middle Class Emergence

- **Economic growth is critical to both poverty reduction and the rise of the middle class, but reducing income inequality also plays a key role in the rise of a middle class.** Brazil and the Republic of Korea both grew rapidly at about 6% per year between 1965 and the 1980s. But because of Brazil's high income inequality, its middle class was just 29% of the population, compared to Republic of Korea's 53%, at the end of the respective time periods.
- **The PRC and India will emerge with bigger spending power because of their large middle classes.** But India has some advantage in this area: its consumer products companies have recognized the need to reach rural consumers to succeed, fuelling intense innovation in the development of low-cost products and services (frugal innovation). Indeed, Indian companies are now world leaders in designing and marketing low-priced products and services geared to low-income consumers. The PRC can accelerate its shift from export-oriented and investment-led growth to personal consumption-led growth, while supporting the development of its middle class by raising the share of household income in GDP directly through macroeconomic policy changes.
- **Ultimately, two factors drive the creation and sustenance of a middle class: (i) stable, secure, well-paid jobs with good benefits, and (ii) higher education.** Our examination shows a large portion of the middle class (in the Philippines, India, and the PRC) have jobs providing stable incomes in comparison to the largely self-employed poor. The experience of fostering the creation of large middle classes in other countries, such as the United States, also underscores the importance of education in the process.
- **A large number of middle-class individuals in the vulnerable \$2–\$4 income range may have slipped back into poverty during the global recession of 2008–09.** While it is still too early to tell, the experience in the 1997/98 Asian financial crisis lends weight to these concerns. Indonesian surveys in 1996 and 1999, just before and after the crisis, show that middle class individuals (\$2–\$20) fell by 4.8 million or roughly 10% of the middle class population. The evidence strongly indicates that the formation of stable jobs, increased education, and safety nets can reduce vulnerability to such shocks and increase the chances of remaining middle class.

Implications of Middle Class Growth

- **The appearance of a large Asian middle class has already raised the consumption of consumer durables, and is likely to continue to do so as policies shift in favor of domestic consumption.** Sales of refrigerators, television sets, mobile phones, and automobiles have surged in virtually every country in recent years. Car sales in the PRC and India have increased at a staggering 15%-30% a year during the past decade. From 1998 to 2009, Indian car sales went from about 0.3 million units to 1.5 million annually. The PRC and India are now the world's first and second largest markets for mobile phones.
- **The rise of the Asian middle class has led to “frugal innovation” as companies respond to its lower income levels and differing consumer demands.** Illustrating this point are such new products as India's \$2,200 ‘Nano car’ (by Tata Motors), or the \$12 lithium-ion battery (by the PRC's BYD Lithium Battery Co.). As a result, emerging market companies are fast becoming serious players on the global business stage, but also potentially adding value and growth to the middle class by creating new avenues for stable employment.
- **The middle class is helping to improve accountability in public services through more vocal demands for better services.** It is better positioned to do so through its better education and greater awareness of rights. Its demands are usually self-serving, but the poor benefit just as much. The middle class is the main source of the leaders and activists who create and operate many of the non-governmental organizations that work for greater accountability in government.
- **Many of the same policies that are good for growth, such as fiscal discipline, sound monetary policies, improved infrastructure, and reduced trade volatility, may also foster middle class growth.** While the analysis provides no evidence of a significant direct middle class effect on growth, it does suggest that policies bolstering the middle class may have benefits not only for economic growth, but also provide more cost-effective, long-term poverty reduction than policies that focus solely on the poor.

Possible Adverse Consequences of the Rise of Asia's Middle Class

- **The growth of Asia's middle class in the last two decades has been accompanied by effects such as new environmental and ecological problems, a rise in obesity, and an increase in chronic, non-communicable diseases.** None of these issues should be overstated; the expansion of the middle class will clearly and substantially improve the quality of life in Asia. Nonetheless, it is likely that policymakers will have to address both the health and environmental concerns so that these important facets of sustainable development do not become serious constraints to middle class growth.

The rise of Asia's middle class is playing an important role in the region's economic resurgence. It is contributing to the shift in the world's center of economic gravity toward Asia. It offers the potential for greater poverty reduction, more political stability, economic innovation, and improved living standards. Its growth, and the consequences of it, influence and are influenced by the policy environment in which they develop. Through its sheer size and dynamism, it will present some policy challenges, but also hold unimaginable potential opportunities for the region and for the world.

PART II: Millennium Development Goals

- **MDG 1: Eradicate Extreme Poverty and Hunger**

About two thirds of the Asia and Pacific economies are expected to reach the poverty reduction target by 2015, although the global economic crisis may hinder progress and increase the depth of poverty in some cases. Further, half of the economies are unlikely to meet the target of cutting the percentages of underweight children. Vulnerable employment continues to be high in most economies.

- **MDG 2: Achieve Universal Primary Education**

Primary school enrollment ratios are high and rising in most economies and more than half are expected to meet the target by 2015. Fewer, however, will reach the target for ensuring that the pupils who start grade one reach the last grade of primary education.

- **MDG 3: Promote Gender Equality and Empower Women**

Gender equality in primary and secondary school enrollments is on track in many economies of the region, but fewer will achieve gender parity for tertiary enrollment. Several countries have ratios more favorable to girls than boys in secondary and tertiary education. Compared with 2000, women are now better represented in national parliaments.

- **MDG 4: Reduce Child Mortality**

Both infant and child mortality rates have been declining since 1990 but the prospects of reducing these rates to the target of one-third of their 1990 value by 2015 are bleak in most economies. Programs to immunize infants against measles are achieving good coverage in most countries.

- **MDG 5: Improve Maternal Health**

Maternal mortality rates remain unacceptably high in many economies. About half of the economies are expected to meet the MDG target of providing at least one antenatal care visit, but less than half are likely to meet the MDG target of reducing by three-quarters the number of births that are not attended by a skilled health personnel.

- **MDG 6: Combat HIV/AIDS, Malaria, and other Diseases**

HIV is a serious problem for several economies in Southeast Asia, and in most economies less than 40% of HIV sufferers are receiving antiretroviral drugs. Most economies have made good progress in reducing death rates from tuberculosis despite continued high incidence rates.

- **MDG 7: Ensure Environmental Sustainability**

Between 1990 and 2009, the proportion of the land and territorial water that countries set aside for protection of biological diversity rose in almost all the Asia and Pacific economies. About half of the economies for which data are available are expected to reach the MDG target for improved drinking water, but achieving the target for improved sanitation facilities remains challenging for many.

- **MDG 8: Develop a Global Partnership for Development**

The burden of debt has been getting lighter since 1990 in most economies due both to international initiatives and strong economic growth. The spread of cellular phones has been dramatic throughout the region but the “digital divide” as measured by internet users per 100 population is still wide. In most economies, fewer than 20 persons in a hundred use the internet.

PART III: Region at a Glance

- **People**

The population growth rate of developing economies in the Asia and Pacific region slowed to less than 1.1% in 2009 compared with 1.7% two decades earlier. Urbanization is increasing throughout the region. In most economies, women who already had longer life expectancies than men in 1990, have also achieved the largest increases since then.

- **Economy and Output**

Of the top 5 global economies in terms of GDP at PPP, three economies – the People’s Republic of China, India, and Japan are in Asia. GDP growth rates in 2009 were lower than in 2008 in most economies and real GDP actually declined in nearly half of the economies. However, the five most populous economies in the region all registered positive growth, defying the global economic crisis. Export markets weakened and the shares of exports in GDP were lower in almost all economies.

- **Money, Finance, and Prices**

Inflation rates fell sharply throughout the region in 2009, and in some cases, consumer prices on average were lower than in 2008. Since 2000, Asian currencies had generally been strengthening against the US dollar but in 2009, dollar exchange rates of almost all Asian currencies were sharply down. Growth of the money supply accelerated in most economies as governments implemented stimulus packages to address the impact of global economic crisis.

- **Globalization**

Merchandise exports fell markedly in 2009 in the region after registering good growth in 2007 and 2008. International tourist arrivals and receipts were down in most popular destinations in 2009. Total migrant workers’ remittances were lower in US dollar terms in 2009 compared with 2008, but converted to local currencies, remittances were higher in most economies.

- **Transport, Electricity, and Communications**

Road networks are expanding and unpaved roads are being upgraded in most economies. Industrialization and household electrification have led to massive increases in electricity production, with most of it still generated by coal and other fossil fuels. In most economies of the region, personal computers per 100 persons are well below the levels of developed economies.

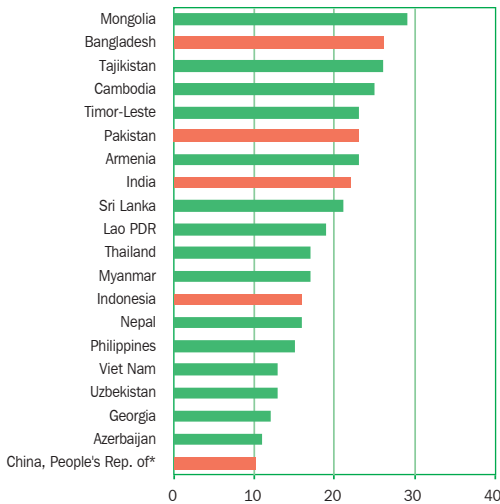
- **Energy and Environment**

Almost half the total energy in the region is now produced by the People's Republic of China, whose energy production has been growing at an annual rate of 8% since 2000. Measured by energy use per unit of GDP, most Asian economies are becoming more energy-efficient. Over half of the economies are now chlorofluorocarbon-free, but water pollution remains a problem.

- **Government and Governance**

The global economic crisis has increased fiscal deficits and reduced tax revenues as a percentage of GDP in 2009 in most economies, but not to the detriment of government expenditures on education and on social security and welfare. The Asia and Pacific region has some of the economies perceived to be least corrupt, and some perceived to be most corrupt in the world. Corruption is perceived to have decreased in 11 economies but got worse in 21 between 2005 and 2009.

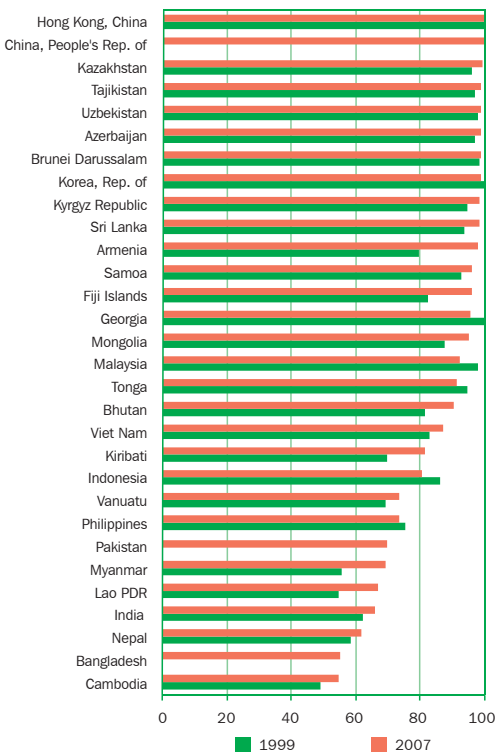
Figure H1 **Economies with More than 10% of Population Below the Minimal Level of Dietary Consumption, Latest Year**



* Includes Hong Kong, China; Macao, China; and Taipei, China.

In 20 economies in the Asia and Pacific region, including the five most populous, at least 10% of the population is undernourished. In Bangladesh, Mongolia, and Tajikistan, the food intake of more than a quarter of the population does not meet the minimum requirement for dietary energy.

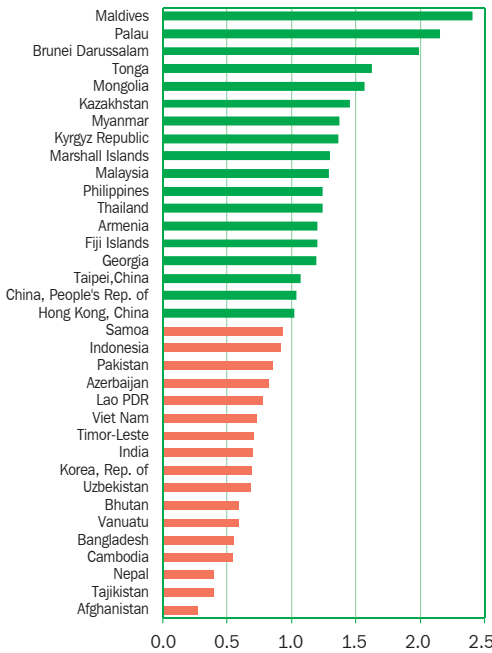
Figure H2 **Percentage of Children Starting Grade 1 and Reaching Last Grade of Primary, 1999 and 2007 or Nearest Year**



High rates of primary school enrollment have been achieved in many economies; however, too many children still leave before completing the last grade.

Between 1999 and 2007 the percentages of children reaching the final grade even fell in some economies. The global crisis could see more children dropping out.

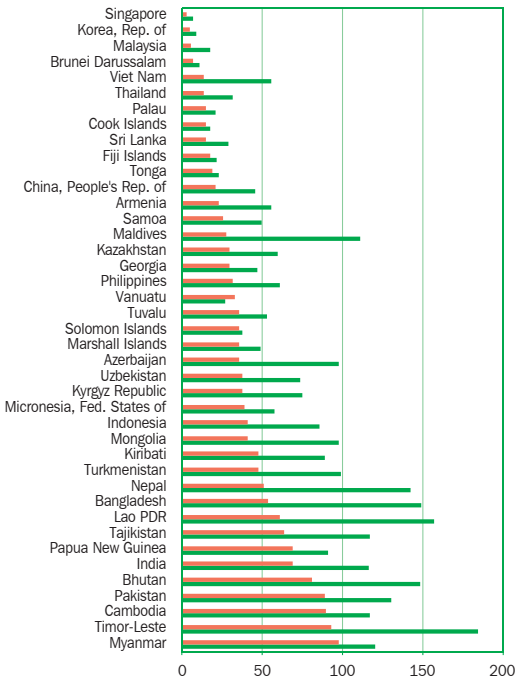
Figure H3 **Tertiary Education Female–Male Enrollment Ratios, 2008 or Nearest Year**



In half of the economies (green bars), more women are in tertiary education than men.

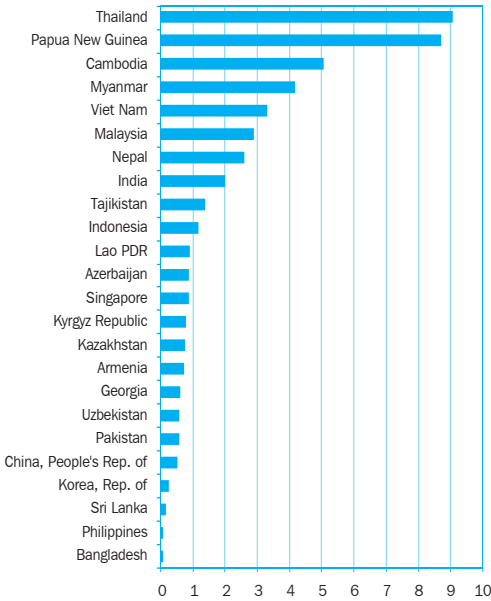
In the Maldives, five women are in tertiary education for every two men; in Afghanistan, there are nearly four men enrolled in tertiary education for every woman.

Figure H4 **Under-Five Mortality Rates, 1990 and 2008 (per 1,000 live births)**



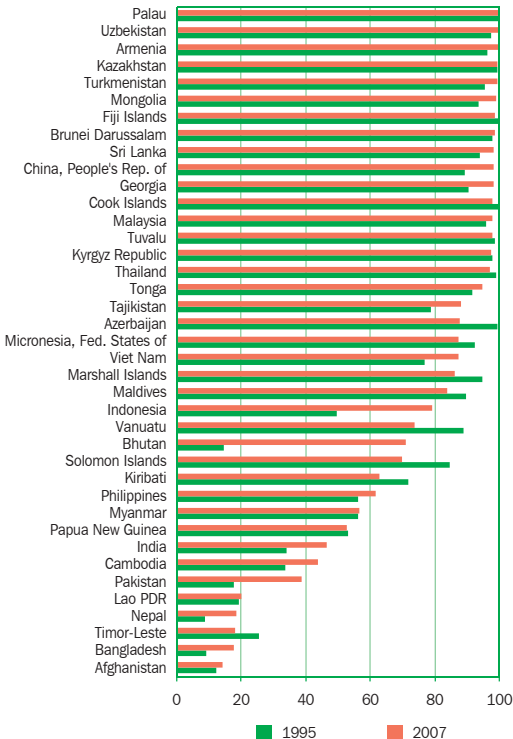
Between 1990 and 2008, all economies (except Vanuatu) had reduced their child mortality rates, with 15 cutting their rates by at least half. However, the reductions achieved are not enough and only a few economies are expected to meet the MDG target by 2015.

Figure H5 **Number of Adults Living with HIV, 2007 (per thousand population)**



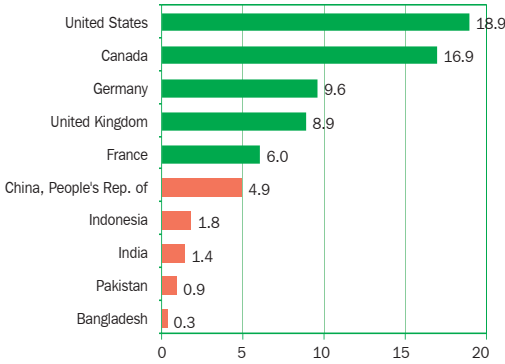
HIV/AIDS is a particularly serious problem for Papua New Guinea and Thailand and for other countries in Southeast Asia. In most economies, less than half of those who need them have access to anti-retroviral drugs.

Figure H6 **Percentage of Births Attended by a Skilled Health Personnel, 1995 and 2007 or Nearest Years**



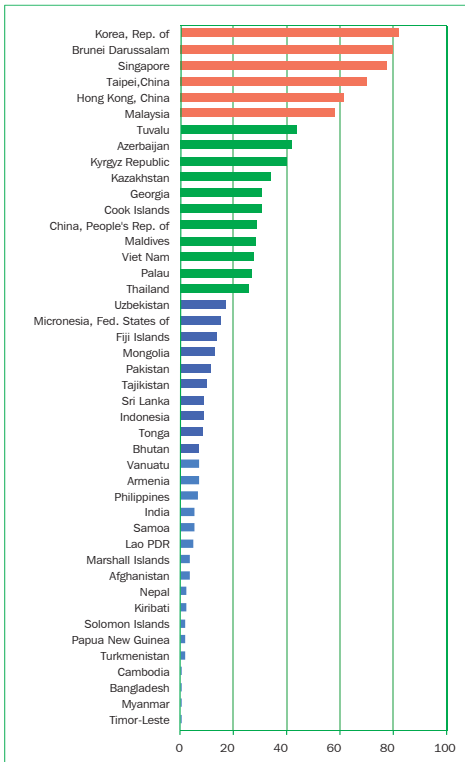
Attendance at birth by skilled health personnel is a key measure to prevent maternal deaths. In 2007, less than 50% of births were attended by a health professional in 8 economies including three of the five most populous—Bangladesh, India, and Pakistan.

Figure H7 **Per Capita Emissions of Carbon Dioxide in Five Industrialized Countries and in the Five Most Populous Countries of Asia, 2007 (metric tons)**

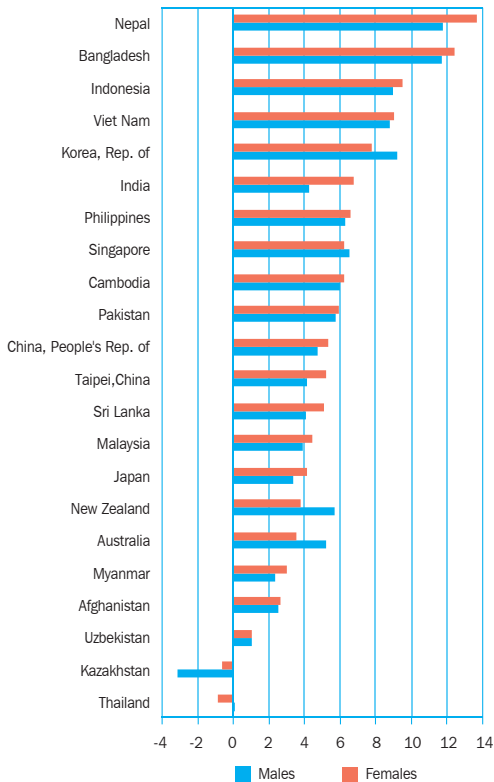


In 2007, each resident in the United States was emitting as much carbon dioxide as four people in the People's Republic of China, or 11 in Indonesia, 14 in India, 21 in Pakistan, or 63 in Bangladesh. If the huge populations of these five economies were to emit carbon dioxide at the per capita levels currently typical of the industrialized countries, the consequences for global climate change would be catastrophic.

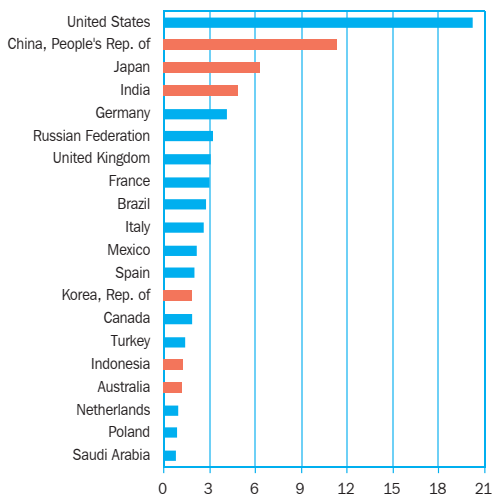
Figure H8 **Number of Internet Users, 2009 (per 100 population)**



The digital divide is a three-way split in developing economies. Six relatively rich economies have between 58 and 82 internet users; 11 economies in the middle group have between 26 and 43; and the remaining majority, 27 economies, below 17 per 100 population.

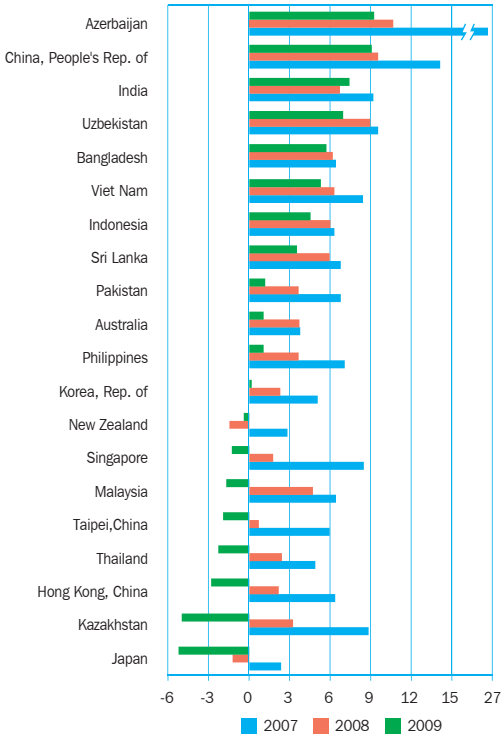
Figure H9 **Change in Life Expectancy at Birth (Years), 1990 to 2008 or Nearest Year**

In almost all economies, women live longer than men. Since 1990, the gap has been widening and in most economies, women have lengthened their lives even more compared to men.

Figure H10 **Top Twenty Economies in the World in Terms of GDP at PPP, 2008 (percent of global GDP)**

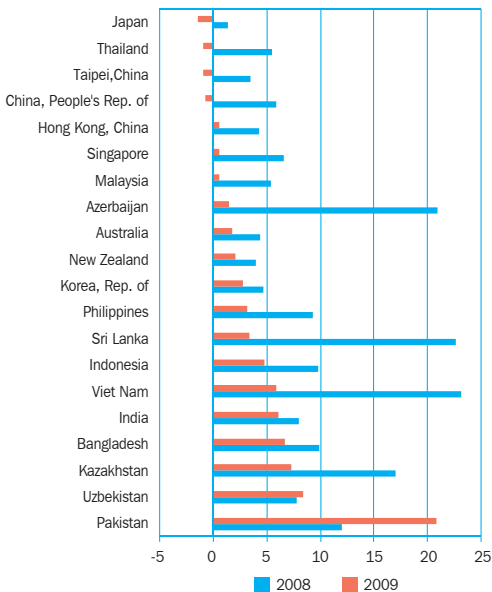
Of the Top 5 global economies in terms of GDP at PPP, three are in Asia. It is widely believed that Japan is the second largest economy in the world. When the comparison is made in real terms (using purchasing power parities), the People's Republic of China is clearly the second largest, and going by past growth rates, could overtake the United States by 2020.

Figure H11 **Growth of Real GDP, 2007–2009 (percent)**



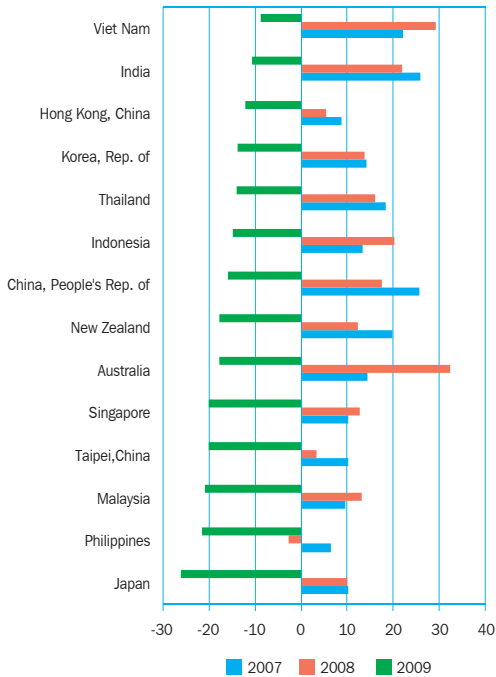
In 2009, the global economic crisis saw GDP growth rates contract across the region. GDP fell in several economies but rose in all five of the most populous economies, with impressive growth rates in the People's Republic of China and India.

Figure H12 **Consumer Price Indexes, 2008 and 2009 (annual percentage change)**



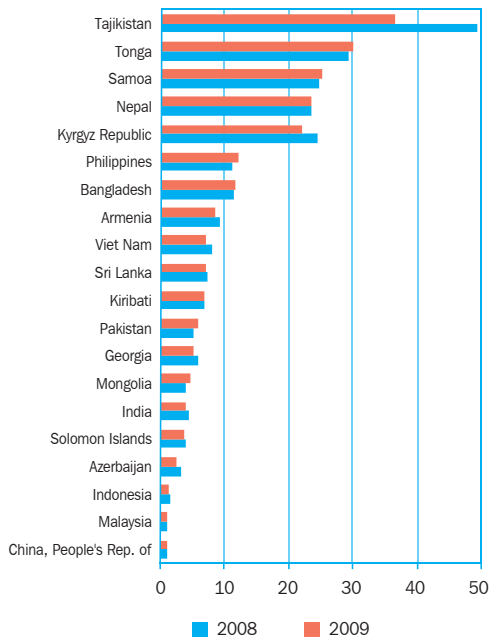
Inflation was sharply down in 2009 in most economies. Some economies experienced deflation as prices of consumer goods and services on average fell in 2009 compared to 2008.

Figure H13 **Annual Growth in Merchandise Exports in US Dollars, 2007, 2008, and 2009 (percent)**



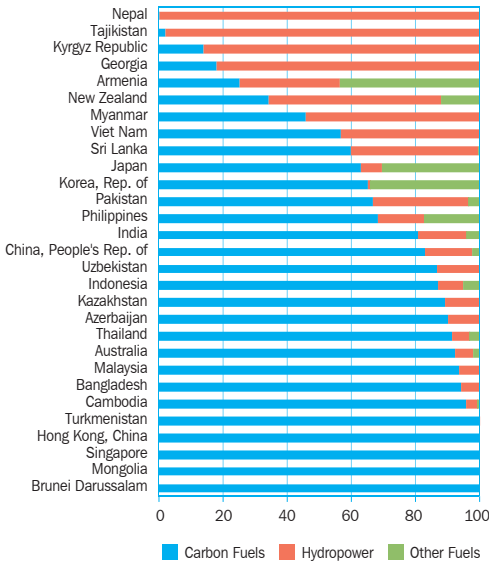
The global economic crisis severely cut demand for Asia's exports. Exports by the region's main exporters had been growing rapidly in 2007 and continued to do well even in 2008 when the crisis erupted. In 2009 merchandise exports were down by at least 9% and by more than 20% in some cases.

Figure H14 **Migrant Workers' Remittances as a Percentage of GDP, 2008 and 2009**



Several economies in the Asia and Pacific region are highly dependent on remittances from migrant workers. As shares of GDP, remittances remained steady or even increased in some countries in 2009. However, in Central and West Asia, falling remittances led to lower shares of remittances to GDP in 2009.

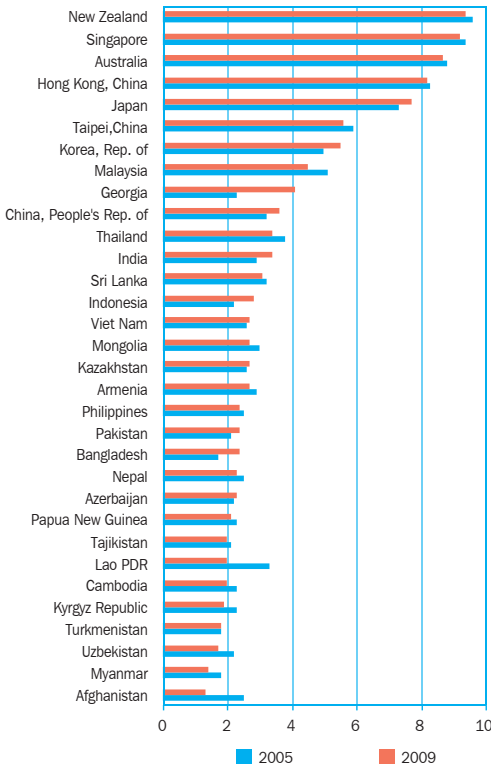
Figure H15 Sources of Electricity, 2007 (percentage distribution)



In Asia, carbon dioxide-emitting fossil fuels are a major source of electricity generation. Most of the fast-growing economies in the region depend on fossil fuels to generate most, or even all, of their electricity.

Mountainous countries at the top of the chart use hydropower to generate clean electricity.

Figure H16 Corruption Perceptions Index, 2005 and 2009 (longer bars = less corrupt)



The Asia and Pacific region has some very clean economies but also several that are seen as highly corrupt. Out of 180 economies in the world, New Zealand was ranked top while Afghanistan came at 179th. Between 2005 and 2009, 11 economies were perceived to be less corrupt but 21 were perceived to have worsened.