

The Rise of Asia's Middle Class

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Speaker: Mr. Douglas Brooks, Assistant Chief Economist, Asian Development Bank

What defines middle class in Asia? What has been the trend of growth of middle class in Asia? What has this resulted in? What has been some of the key issues revolving around this growth? What have been the challenges? What does the future look like?

These are questions that come to anybody's mind and when a session's discussions help in answering many of the questions, it could be one of the most engrossing and enlightening moments.

Acclaimed economist Douglas Brooks, who has been working in this area in the capacity of Assistant Chief Economist of the Asian Development Bank (ADB), provided an insight into the rise of Asia's middle class. The event conducted as part of Nepal Economic Forum's (NEF) regular neftalk provided perspective about which country has seen what sort of growth, the unique nature of the growth in India and China, the resultant impact, the caveats and the future trends. This talk was based on Brook's work in co-authoring a special chapter in the ADB report on The Rise of Asia's Middle Class (http://www.adb.org/Documents/Books/Key_Indicators/2010/pdf/Special-Chapter-03.pdf) or (<http://www.adb.org/Economics>)

A steady rise in the economic growth coupled with an increase in the rate of creation of stable jobs in the Asia, has led to a tremendous growth of the middle class in Asia. Douglas Brooks commenced the talk by defining the middle class in terms of purchasing power of parity; the range for Asia being set at consumption worth \$2 to \$20 per day. The poverty line for OECD countries serves as the higher end of the range, whereas the lower end has been arrived at by taking the average poverty line for Asian countries. Further classification reveals the lower middle class falls in the \$2 to \$4 per day category, where the concentration is most in Asia. He stressed on the fact that, not this classification, but its implications hold the key to the institutions who want to cater to this group.

Household surveys conducted by the ADB contrast the growth of the middle class in China and India between 1990 and 2005. During this time period, while a massive reduction in poverty and a simultaneous growth in the lower middle class was seen in China, this was not the case in India, where an increase in poverty coupled with an increase in the middle class was also seen. The difference in the two countries was due to the increase in population and less effective policies in India as compared to China, providing evidence that these factors also do play a huge role in poverty alleviation.

Further elaborating on the implications of such a rise, Brooks stated that studies have shown that the middle class was more likely to advocate market competition, mobility of resources, increased technology uses and be more politically active. They also invest more in education and health than the poor or upper middle class, giving rise to an improved task force, which will in turn facilitate increased growth. An obvious direct relation between increased income and consumption of consumer durable goods also helps boost frugal innovation leading to low cost competitive prices for the same. For instance, prices of cars have drastically reduced with the cheapest one being Tata Nano only costing approximately USD 3000.

Conversely, the downside pointed by Brooks to this rapid increase in the middle class was it being vulnerable to slipping back to poverty as a result of economic shocks. Other concerns are with regards to environment and health issues. Asia will have to deal with water and oil shortages as consumption of usage is directly linked with the size of the middle class. Moreover, higher intake of sugar and meat means an unhealthy lifestyle, coupled with the need to produce the necessary livestock, can also pose a problem for Asian countries.

Therefore, to enable more individuals to emerge out of poverty and reduce the vulnerability of those already in the middle class, it becomes immensely important for the government to formulate policies along these lines. Labour laws need to be liberalized, education, creation of stable jobs are among a few answers to building a strong middle class, which as earlier pointed out, will contribute to a higher economic growth.

Brooks concluded his presentation by bringing light to the current situation in Nepal, which is more or less similar to that of India. He further stressed on the fact that the rise of the middle class in Asia can play a vital role in the global rebalancing and thus arises the need to cater to them in order to even out such disparities.

The presentation was followed by a brief Q&A and experience sharing session, moderated by Sujeev Shakya, where Mr. Madhukar Rana, professor at the South Asian Institute of Management, pointed out the fact that Asian countries like China are more social sector driven, but in Nepal, the need of focusing on the manufacturing sector is more. To facilitate such growth, more stress can be given to vocational training in order to build job specific skills. He further stated economic integration between Asian countries can reduce susceptibility of the middle class to which Brooks replied saying that the ADB is focusing on regional integration between South Asian and Central Asian countries. However, barriers such as high tariffs etc. can provide hindrances but with more countries joining the WTO and with SAARC becoming more established, developmental policies will be easier to implement.

Deepak Rajbhandari questioned how the results and findings of surveys and studies can be implemented in each country. Brooks stated that the general policy prescriptions do feed into operations. Since the middle class thrives with stable jobs, labour policies are looked at. Infrastructure, development of human capital and education are other areas of focus based on the studies.

On the same issue Sujeev Shakya asked if Nepal could learn from other countries with regards to impediments of growth. Brooks stated that since the Indian labour laws are stringent, Nepal can also look

at liberalizing them. The low standard of education is another common ground, so improving it could be beneficial.

Finally, Mr Sujeev Shakya wrapped the session by briefly talking about the Nepali context by stating that due to the high dependence in the informal sector, the numbers do not reflect the existing scenario. If steps can be taken to superimpose findings of the informal sector into the survey to provide an all round perspective, a significant difference will be felt on the findings. He said that by merely observing the changes on the streets of Nepal, with everyone in shoes and carrying mobile phones speaks of the growth for Nepal as well.

Sujeev Shakya wrapped up the discussion with his take that was interestingly introduced from the Nepali context of middle class that was debated quite a bit last year after UCPN (Maoist) Chairman Pushpa Kamal Dahal made sarcastic remarks about the middle class in Kathmandu valley, referring to them as *sukila* and *mukila* (neat and clean) folks. His observations ranged from the difficulty of understanding Nepali middle class in context of a feudal society, the lack of entrepreneurship and the rent seeking mentality, the government completely ignoring the necessity of middle class to fuel economic growth to host of issues on job creation, education and the emergence of social and political activism.

This program partnered with Asian Development Bank, assured that a Nepal specific analysis post census and Nepal Living Standard Surveys to be conducted this year.

The event was sponsored by Summit Hotel.

Nepal Economic Forum is a non-profit organization dedicated to being the private sector interface to Nepal's economic development.