7. Conclusion

As rapid economic growth has reduced poverty across Asia, the middle class has grown rapidly in size and spending power. Depending upon the definition adopted, the middle class in Asia constitutes anywhere from 500 million to a billion or more people and accounts for more than $3 trillion in annual expenditures.

The rise of the Asian middle class has already hugely expanded markets for consumer goods in recent years. Sales of consumer durables such as refrigerators, televisions, mobile phones, and automobiles have expanded significantly in virtually all countries in the region. The PRC is now the world’s largest automobile market and India the fastest growing. The rise of the middle class has led to considerable frugal innovation among firms in Asia. Since the middle class in Asia is poorer—and so far spends much less—than the Western middle class, firms have had to develop affordable new products and services targeted to this group of consumers. This has spawned a great deal of innovation in such varied areas as consumer goods, personal care products, banking, insurance, health care products and services, and information technology among Asian firms. This innovation in turn boosted economic growth, setting off a virtuous cycle of growth, consumption, innovation, and more growth.

The bigger middle class has also generally translated into greater accountability and transparency in public services. The middle class is better educated, more aware of its rights and better organized than the poor, giving it a greater voice in demanding better government services. It is also the main source of social activists who typically found and operate non-governmental organizations that demand greater government accountability.

Yet much of the middle class remains extremely vulnerable to falling back into poverty. Thus, many of the same policies—fiscal discipline, sound monetary policies, and stable trade—that reduce poverty will also foster growth of the middle class. Reducing income inequality is potentially critical to the further development of the Asian middle class and unleashing its spending power. While there are a number of ways to reduce income inequality, such as through redistribution policies, Asia’s policymakers can focus on the expansion of economic opportunities for the vulnerable middle class. Our analysis of data from developing Asia and the historical experience of today’s developed countries has shown that one of the key factors driving the creation and sustenance of a middle class is the availability of stable, secure, well-paid jobs with good benefits.

By establishing extensive safety nets, policymakers can help to raise consumption spending of the middle-class in Asian countries, especially in countries such as the PRC, where there are historically high personal savings rates due to strong precautionary motives to save. Policies that contribute to and build upon education and entrepreneurship can leverage these characteristics of the middle class, stimulating the growth of good jobs, reinforcing the benefits of middle class expansion.

Even in the absence of specific policies to promote its growth, the Asian middle class is likely to expand significantly both in number and spending power over the next few decades just through population and economic growth. This will have profound economic and social implications—for global growth, innovation in emerging countries, accountability in public services, global climate change, and the spread of ‘diseases of affluence.’ While much of the existing literature has focused on measuring the size and characteristics of the Asian middle class, and expanding its size and spending power, it is also crucial to focus on the social and economic implications of its rise.

There are a number of unintended and potentially adverse consequences. Carbon dioxide emissions have been increasing, reflecting the emulation of resource-intensive Western lifestyles by the Asian middle class. Likewise, with the adoption of high-fat diets and less active lifestyles, obesity levels have risen sharply. This has led to a surge in non-communicable, chronic diseases, such as diabetes, heart disease, and cancer, which previously were confined to the rich countries. Indeed, rates of cardiovascular disease are projected to increase two- to four-fold in several Asian countries over the next 2–3 decades. All indications are that in the next 20–30 years, Asia will be faced with an increasing number of chronic diseases on a scale previously unseen.

What this means is that much greater policy attention is needed on these emerging challenges. To be sure, sound policies need to be in place to ensure that the Asian middle class continues to grow, but it is even more important to have policies in place that plan for the sustainable growth of this middle class.

This much is clear—the Asian middle class will play an increasingly important role in the shift in the balance of global demand and change over the next few decades. Its rise may present many challenges, but it will also open up new and unprecedented opportunities for the region and for the world.