Where are the middle classes going?

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In 2010, the middle classes[1] were more or less distributed between Europe (450 million), North America (338 million), mature Asia (268 million), emerging Asia (257 million), emerging Europe (214 million) and Latin America (181 million).

They accounted for 27% of a total population of 6,835 million. Emerging Asia accounted for 13% of this total (see table).

In 2020 (tomorrow!), the middle classes in emerging Asia will represent 1,470 million people, i.e. 45% of all worldwide middle classes. The middle classes in the other groups of countries will have stagnated or shrunk.[2]

By 2030, the middle classes in emerging Asia will have 2,960 million people. Ten times more than in 2010. They will represent *60% of the world's middle classes* with a constantly increasing purchasing power. The other groups of countries will represent more or less the same as today[2].

Today's reality already reflects this major change to come. Demography precedes economics. All these people are born. The major improvement trends of purchasing power in emerging countries are already initiated. They can only be marginally inflected. A partial "deglobalisation" of the economy is still possible. It will slow down this development, but it cannot stop it anymore. But for a pandemic, a world war, or cosmic accident, etc., the figures above will materialize.

The core of the market declines both in relative and absolute terms in North America and Europe under the effects of demographics, the lack of economic growth and the polarization of purchasing power. They explode in emerging Asia. For all consumer markets, as well as for industrial sectors upstream of these markets, the future is now in Asia.

The impact of this evolution is decisive. The center of the industrial, economic, cultural, financial, political world will have moved in 15 years.

The middle classes are indeed the cores of modern societies on which skills and know-how, industries, technologies, experience effects and productivity improvements, new iconic products, mass consumption, management styles, political systems, etc., are built. Most of them will be in emerging Asia and *growing strongly* for the next 15 to 20 years (13% per year).

The decision-making centers of the world's major companies can only follow or even precede this major development. It is indeed futile to think that the centers for marketing, R&D or management will be able to stay in New York, London or Paris while the main markets will be in China, India and ASEAN with their specific contexts, cultures and needs.

This is, of course, a major upheaval for all major Western groups that want to pursue a global leadership strategy in core markets: re-allocation of resources, differentiation of approaches and business models, relocation of teams, modification of organizations, creation of multicultural teams at the highest level.

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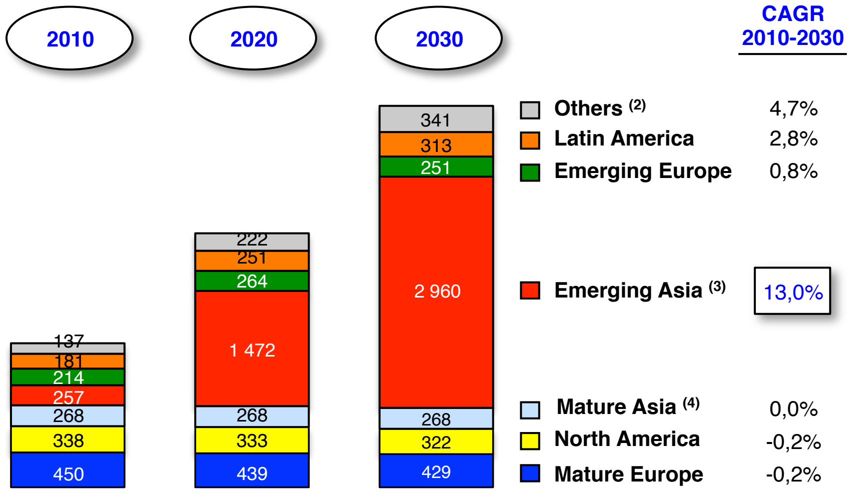
[1] OECD definition: person with a daily purchasing power (PPP) between 10 USD and 100 USD
[2] Except in Africa and the Middle East, which in 2030 will have as many middle-class individuals as in North America today

- Table -

The middle classes in emerging Asia will account for 60% of the world's middle classes in 2030



	2010	2020	2030		CAGR 2010-2030
World middle classes [1] (M)	**1 845**	**3 249**	**4 884**	**Total**	**5,0%**
Share of emerging Asia (%)	**13%**	**45%**	**60%**		
World population (M)	**6 835**	**7 717**	**8 425**		

Chinese and Indian Middle classes
(M of people)

	2010	2020	2030
China	150	650	1 000
India	50	200	475

(1) OECD definition: person with a daily purchasing power (PPP) between 10 USD and 100 USD; (2) Middle East and Africa; (3) (China, India, Indonesia, Pakistan, Bangladesh, Philippines, Vietnam, Myanmar, Malaysia, Cambodia, Laos, Brunei, Central Asia and other Asian countries (Iran, Afghanistan, Uzbekistan, Nepal, North Korea, Sri Lanka, Kazakhstan, Tajikistan, Azerbaijan, Kyrgyzstan, Turkmenistan, Georgia, Mongolia, Armenia, Timor Leste, Bhutan, Maldives); (4) Japan, Singapore, Australia, New Zealand, South Korea, Taiwan, Thailand
Sources : OCDE, Estin & Co analyses and estimates

It is an opportunity for anyone who wants to seize it. LVMH, AB Inbev, Caterpillar and Schneider Electric have developed more than 40% of their revenue in emerging countries over the past ten years. 80% of their overall growth is linked to these countries. They grow globally at around 10% per year, while the growth of their underlying markets in Europe and the United States does not exceed 2%. Similarly, a large number of German or Scandinavian leaders in capital goods have strong growth, driven by the one of emerging countries.

It is a threat to those who cannot adapt quickly enough. In the list of the top 50 most successful companies in terms of TSR[3] over the last ten years, 15 are already from China or India. Ten years from now, given their growth trajectories and their valuations, the top 50 Chinese or Indian groups will have the financial means to buy most major Western groups, bar maybe a few in the digital economy and some others which, regardless of their origins, will have a prominent share of their income in strong growth geographies.

Overall, this is good news for those who can and want to adapt. It is this major upheaval which continues to drive global growth at 5% per year[4], *at the same pace as over the last 30 years*, and irrigates all countries (including outside Asia) of multiple large or small sources of growth directly or indirectly linked to this growth of the Asian middle classes.

A momentous expansion of the world economy is unfolding right before our eyes; the scale of this tidal wave is vastly superior compared to previous expansions in the second half of the twentieth century in the United States (1940-1970), Europe (1945-1975) and Japan (1965-1995). With such orders of magnitude, it is an unprecedented event for the modern economy.

What company could possibly want to stay away from this tremendous *opportunity*?

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Estin & Co is an international strategy consulting firm based in Paris, London, Zurich, New York and Shanghai. The firm assists CEOs and senior executives of European, North American and Asian corporations in the formulation and implementation of growth strategies, as well as managers of private equity funds in the analysis and valuation of their investments.

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[3] TSR = Total Shareholder Return annuel : rentabilité pour l’actionnaire sur son investissement en termes de dividendes, distribution d’actions gratuites, valorisation de ses actions,

[4] Including inflation

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