

Section 7

THE MIDDLE CLASS IN THE ASIA-PACIFIC

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1. The Asian century

The 21st century has famously been dubbed the Asian Century. This refers to the rising dominance of Asia in the world economy, which parallels that of the British Empire in the 19th century and that of the United States in the 20th. Asia's share of global GDP was less than 20% in the 1980s, but it is projected to reach 52% in 2050 in nominal terms. In purchasing parity terms, the share is ever higher. One of the most notable consequences of this unprecedented growth has been the rise of the Asian middle class, which is expected to drive economic growth and shape the future of consumption and politics in the region.

An increasing number of influential institutions have been publishing reports about Asia's emerging middle class. For instance, the Brookings Institution, a major think tank, estimates that two billion Asians were already members of the middle class in 2020. This represents 54% of the global middle class, and the share is projected to reach 65% by 2030 (Kharas, 2017). According to Credit Suisse (2015), a major bank, China has already overtaken the United States as the country with the largest middle class. The Asian Development Bank (2012) estimates that by 2050 three billion Asians are likely to enjoy living standards similar to those in Europe today (56.6% of the estimated 5.3 billion total inhabitants of Asia in 2050). McKinsey & Co., a major consulting firm, predicts that the consumer spending in Shanghai or Beijing will soon exceed that in economic hubs like New York, Tokyo, or London (Tonby, 2021).

The middle class is often dubbed the backbone of the economy. Numerous studies have empirically shown that a large middle class contributes to economic growth through several channels, including increased consumption, political and social stability, and human capital accumulation. For that reason, the rise of the Asian middle class spells great opportunities for businesses eager to expand into Asian markets. In consideration of this, the purpose of this article is to elucidate how large the Asian middle class is in reality, and to assess how far countries in the Asia-Pacific have moved toward becoming middle-class societies as seen from the perspective of developed countries. Below, the status quo of the Asian middle class is analyzed from three perspectives: (1) income and wealth, (2) education and occupational status, and (3) societal values and

cultural capital.

2. The income perspective

Scholars working in different disciplines use different definitions of middle class. Economists largely rely on definitions related to wealth or income, sociologists typically emphasize occupational status and education, and philosophers and anthropologists tend to focus on culture and values. Below, we summarize these three major ways of defining the middle class and we use various data to estimate its size in the countries of the Asia-Pacific.

First, we estimate the size of the middle class using the method favored by economists. Economists rely on income measures partly for convenience, since data on income are widely available, and partly because income tends to be highly correlated with the other trappings of social class, such as economic security, education levels, and consumer preferences. Income-based definitions tend to rely on three basic approaches. Here we refer to them as the absolute income approach, the relative income approach, and the mixed approach.

(1) The absolute income approach

The absolute income approach is based on a fixed range of purchasing power. Many economists have defined the global middle class as households with incomes between \$11 and \$110 in 2011 purchasing power parity (PPP) dollars. The report by the Brookings Institution quoted above, which estimates that two billion Asians are members of the middle class as of 2020, relies on this approach.

Combining data on income distribution from the World Income Inequality Database (WIID) with the latest available GDP per person data by the IMF, we calculated the income of each percentile of the population in countries in the Asia-Pacific in the years 2000 and 2020. We then calculated what percentage of the population lived on less than \$11, on an income between \$11 and \$110, and on more than \$110 in 2011 PPP terms. The results are presented in [Figure 1-7-1](#).

This approach paints a very optimistic picture of the status quo of middle classes in Asia. The results imply that the middle class represents around 90% of Thailand's and Mongolia's population, over 80% of China's, Indonesia's and Vietnam's population, and close to half of India's. Using this approach, one would conclude that over half of Asia's 4.5 billion strong population belongs to the middle class as of 2020, in line with the estimates published by the Brookings Institution.

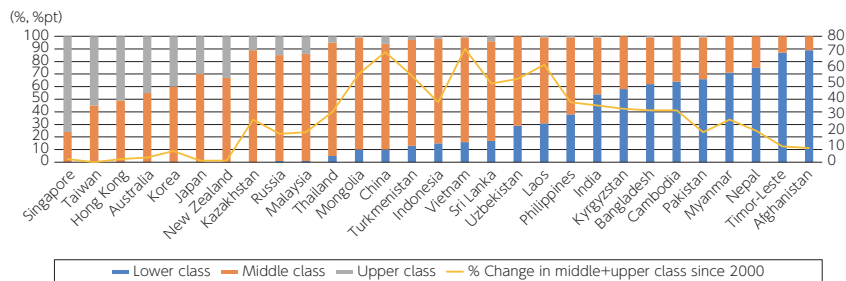


Figure 1-7-1

The size of the middle class in 2020 defined as people living on \$11-110 per day in 2011 PPP dollars

Note: Author's calculation based on data by the IMF and World Income Inequality Database.

Curiously, even in fragile and conflict-ridden low-income countries, such as Myanmar, the middle class represents about 30% of the population. Many scholars would agree such a figure is unrealistically high. The likely reason for such inflated figures is that the \$11 per person per day threshold is too low to be considered a lower limit of middle-class income. In fact, \$11 a day is not far above the extreme poverty line used by the World Bank.¹⁾ It is very similar to the ethical extreme poverty line of \$7.40 per day proposed by Prof. Peter Edwards of the University of Newcastle, and it is less than the average poverty line of high-income countries. The practice of placing a person who is barely above the extreme poverty line into the global middle class category is a questionable technique.

Comparing 2000 and 2020, the largest increase in the share of non-poor people (middle class and rich) since 2000 is seen in Vietnam (72 percentage points) and China (70 percentage points). Unsurprisingly, middle-income countries boast the largest increases in middle-class populations, as high-income countries like Japan and Korea already have large middle classes and further growth is unlikely, whereas average incomes in low-income countries are still too far away from the middle-class lower income threshold. Although the income growth in those two countries is both undeniable and unprecedented, a growth of over 70 percentage points in 20 years seems a tad exaggerated. It is hard to imagine that a poor country could become a fully established middle-class society in less than a generation, let alone two decades. Indeed, the relative income

1) \$1.90 in 2011 PPP dollars, or \$2.15 per day in 2017 PPP dollars, which is derived as the median of the national poverty lines of 28 of the world's poorest countries. This poverty line, however, has been widely criticized as being too low, being closer to reflecting biological starvation rather than any reasonable level of poverty.

approach, discussed next, suggests that the size of the Asian middle class might in reality be much smaller.

(2) The relative income approach

In contrast to the absolute income approach, the relative income approach tries to estimate the income range of middle classes as a certain distance from a country's median income. In one of the most widely cited definitions, the Pew Research Center defines the middle class as all households with incomes between 75% and 200% of the national median.

It is noteworthy that under the median income approach, even if the total national income does not change, the size of the middle class can change if the income distribution within the country changes. For example, if the pace at which income inequality increases in a country exceeds the pace of economic growth in that country, the size of the middle class will shrink.

Although this approach is useful for tracking how the size of a country's middle class changes over time, it does not allow for country-to-country comparisons because median national income and poverty lines vary widely from country to country. In order to solve this problem, we calculate the size of the middle class in Asian countries based on the median national income in the U.S.

The median annual household income in the U.S. in 2020 was \$67,521. Divided by the average household size (2.53 persons), we obtain an amount of \$26,688 per person. The lower limit of middle-class income is 75% of this amount, or \$20,016. In terms of 2011 PPP dollars, the amount is \$16,737 or \$45 per day, which is four times as much as the absolute income approach threshold of \$11 and is intuitively more realistic. On the other hand, the upper limit of middle-class income per person per day is \$122, which is higher but similar to the figure used by the Brookings Institution (\$110). Based on the \$45 and \$122 thresholds, we calculated the size of the rich, middle class and poor in Asian countries. The results are shown in [Figure 1-7-2](#).

A comparison of [Figure 1-7-1](#) and [Figure 1-7-2](#) reveals that the results of the relative approach are significantly different from those obtained by the absolute approach. For example, the absolute approach suggests that the size of the middle class is 84% of China's population, while the figure is only 30% under the relative approach by U.S. standards. In the case of India, the difference is even larger: the middle class is only 5% of the population by U.S. standards, while it is nearly 50% if the absolute income approach is used.

Based on the relative approach, the largest increase in the share of the non-poor over the past 20 years is not in China, as suggested by the absolute income approach, but rather in Russia and Kazakhstan (about 40 percentage

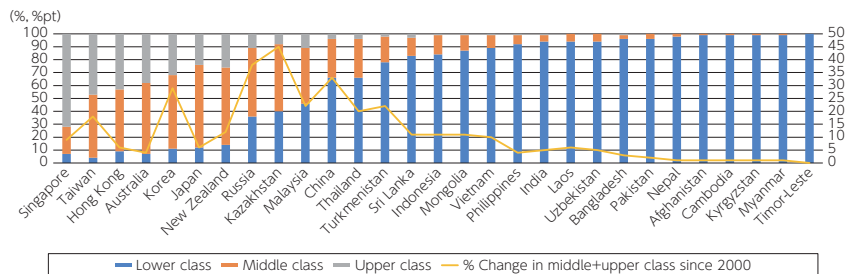


Figure 1-7-2

The size of the middle class defined as people living on 75%-200% of the U.S. median income in purchasing power parity

Note: Author's calculation based on data by the IMF and World Income Inequality Database.

points). Forty percentage points is a more realistic increase than the 70 percentage-point increase in China suggested by the absolute income approach. These considerations imply that the relative income approach might be a more realistic measure.

(3) The mixed approach

The absolute and relative income approaches can also be combined. For example, the U.S. federal poverty line is set as an absolute amount. Middle class income could then be defined in a relative way as a multiple of that amount. For instance, Haskins and Sawhill (2009) set the lower limit of middle-class income at 300% of the U.S. federal poverty line and the upper limit at 1000% of the poverty line.

According to the U.S. Department of Health and Human Services, the U.S. federal poverty line for an average family (2.53 persons) in 2020 was \$19,614, or \$7,753 per person. Three hundred percent of this amount is \$23,258, or \$19,445 in 2011 PPP dollars. This is equivalent to \$53 per day, which is higher than the amount obtained using the relative approach (\$45). The upper income limit for the middle class is \$64,826 in 2011 PPP dollars. This is equivalent to \$178 per person per day, which is considerably higher than the upper limit of the other two approaches. The lower and upper limits of middle class income based on the three approaches are summarized in [Table 1-7-1](#).

Using the \$53 and \$178 thresholds, we calculated the size of the middle class in countries in the Asia-Pacific, as shown in [Figure 1-7-3](#).

The results are very similar to the ones obtained using the relative income approach ([Figure 1-7-2](#)). Both approaches imply that more than half of the population in Taiwan, Australia, Singapore, Japan, Hong Kong, New Zealand, Korea, Russia, Kazakhstan and Malaysia are middle class or higher. Since the majority

Table 1-7-1 Lower and upper limits of middle-class income according to each approach

	Lower threshold of middle-class income	Upper threshold of middle-class income
Absolute income approach (Brookings Institution)	\$11	\$110
Relative income approach (U.S. median income)	\$45	\$122
Mixed approach (U.S. federal poverty line)	\$53	\$178

Note: Amounts are per person per day in 2011 PPP dollars

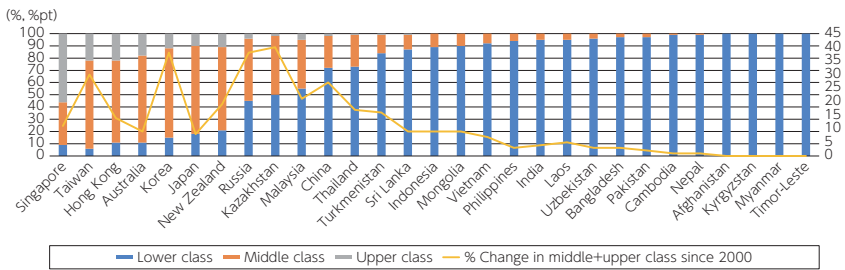


Figure 1-7-3 The size of the middle class defined as people living on 300-1000% of the U.S. federal poverty line in purchasing power parity

Note: Author's calculation based on data by the IMF and World Income Inequality Database.

of the people in those countries fall into the middle class even by U.S. standards, they can effectively be considered middle-class societies.

The rest of the countries, however, cannot yet be considered middle class societies by U.S. standards, including China and Thailand, which do have sizeable middle classes. Using the absolute income approach, middle-income countries like China, Thailand, Indonesia, Sri Lanka, Mongolia, Vietnam, the Philippines, and Laos would be categorized as middle-class societies, but the other two approaches largely refute that categorization.

In terms of the size of the middle class in the Asia-Pacific region as a whole, the absolute approach suggests a middle class of 2.8 billion people (2.6 billion if the former Soviet Union is excluded). In contrast, the relative approach based on the U.S. median national income suggests the figure is 850 million (750 million excluding the former Soviet Union), and the mixed approach based on the U.S. poverty line yields an even lower 800 million.

This result suggests that many existing reports may have overestimated both the size and the purchasing power of the Asian middle class. The findings of a recent study by Bonnet and Kolev (2021), who comprehensively analyzed

the status quo of middle classes in Cambodia, China, Indonesia, Thailand, Pakistan, and Vietnam, confirm this finding. Bonnet and Kolev found that by measures such as number of children, level of education and incidence of informal employment, middle classes in all six countries are considerably closer to poor and near-poor households than to affluent ones.

(4) Other approaches

Some economists use wealth (assets) rather than income to define the middle class. For example, according to Credit Suisse, a major bank, a definition based on assets is more stable and less affected by sudden economic fluctuations than a definition based on income. Credit Suisse defines the middle class as adults with a net worth between \$50,000 and \$500,000 (in purchasing power parity). Based on this definition, Credit Suisse reported that in 2015 China surpassed the U.S. as the country with the largest middle class. China's middle class was estimated at 109 million people, and the U.S. middle class at 92 million. Although it is not clear whether this is the number of adults or the total population (i.e., adults and children), it is unrealistic that such a low percentage of the population of both countries are middle class (less than 15% of Chinese people and 30% of Americans). The relative income approach described above yields intuitively more realistic results—according to that approach the middle class represents more than 50% of the U.S. population (21% rich, 29% poor), and about 30% in China (5% rich, 65% poor).

It is possible that Credit Suisse's lower limit of net worth for the middle class is too high. However, even if that is not the case, a definition based on net worth is problematic for several reasons. First of all, data on assets are not readily available. Second, real estate is a large (if not the largest) portion of most people's assets, and its value is easily distorted by housing bubbles. For example, in cities like London and Hong Kong, where demand for housing is high and supply is short, many people are classified as wealthy simply by virtue of owning real estate that would be considered sub-middle-class by U.S. standards.

Another issue is the difference between total (gross) assets and net worth. Credit Suisse uses the latter. For example, a person with a relatively high income and a mortgage might not be considered middle-class under the asset-based approach because of their low net worth (assets minus liabilities). Such misclassification may also reflect cultural differences. Some studies have shown that U.S. citizens are much more likely to use credit and mortgages and significantly less likely to save than their Asian counterparts. Thus, a person with the same standard of living may be classified as middle class in Asia, but as poor in the

U.S. under the asset-based approach. In addition to real estate bubbles, cryptocurrency bubbles cause similar distortions. For these reasons, this article uses an income-based approach rather than an asset-based approach.

3. The occupation-education perspective

Many sociologists see class as being about more than money. From a sociological perspective, status is defined not just by cash, but by particular credentials, especially in terms of occupation and education. Occupational definitions of middle class are especially popular among European scholars.

The intuition behind this kind of definition is that occupations and education are much more socially visible than income. Arguably, most people tend to assign a higher social rank to a museum curator with a PhD in fine art than a plumber with a certificate from a vocational school, even if the latter has a higher income. Whereas it is commonplace to open a conversation with “What do you do for a living?”, asking “What is your salary?” is usually considered taboo. Similarly, nowadays, many résumés can be viewed online but few paychecks can be.

The problem with occupation-based definitions, however, is that occupation covers individuals, while social class generally covers families and households. For example, what if a husband and wife have occupations with different statuses? In sociology, it is often assumed that the “economically dominant” occupation determines the social class of the entire household. For example, if one spouse is a professor (i.e., middle-class) and the other is a firefighter (i.e., working-class), the household as a whole is defined as middle-class rather than working-class.

Since this might be problematic with regard to overestimating the size of the middle class, we prefer to look at education on an individual level as a proxy for occupation, since occupational and educational credentials tend to go hand in hand. Entry into occupations of a middle-class status depends on acquiring certain skills or qualifications. Most often, possession of a four-year college degree is used as a threshold for inclusion in the middle class.

Given the strong correlation between income and education, the size of the middle class defined on the basis of education should be similar to the size of the middle class as defined on the basis of income. [Figure 1-7-4](#) shows the relationship between the ranking of the percentage of the population in the non-poor group (middle class and higher based on the mixed income approach) and the ranking of the percentage of the population who have attended an institution of higher education (the gross tertiary enrollment rate based on UNESCO data).

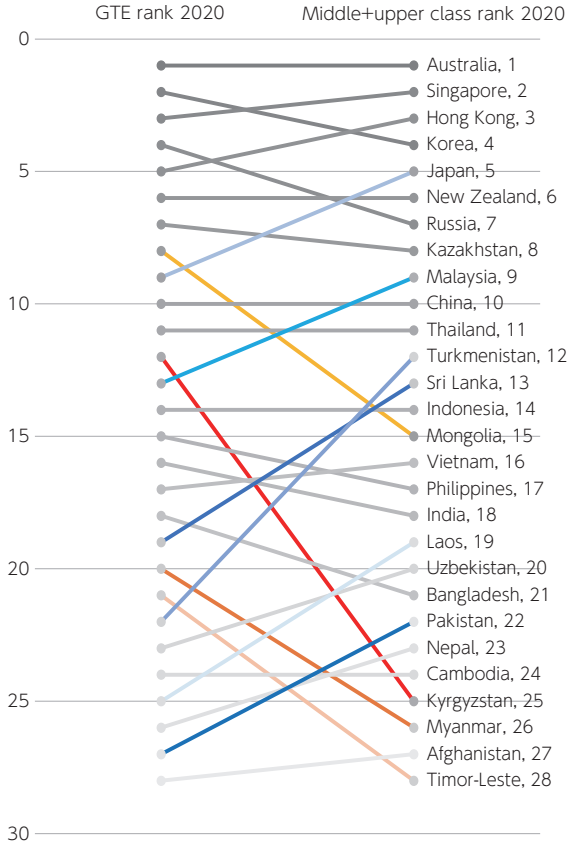


Figure 1-7-4

Countries ranked by the Gross Tertiary Enrollment Rate (left) and by the size of the middle+upper class based on the mixed approach (right)

Note: Author’s calculation based on data by the IMF, WIID and UNESCO.

Juxtaposing the two rankings, it can be confirmed that they are quite similar—the difference between most countries’ ranks in the two rankings is within three ranks. Some countries do show a difference of four or more ranks. In Japan, Malaysia, Turkmenistan, Sri Lanka, Laos, and Pakistan (blue-nuanced lines in Figure 1-7-4), the percentage of people who go on to university is low relative to the estimated size of the middle class using the income approach. In other words, in these countries, the size of the middle class as defined by education may be somewhat smaller than the size of the middle class as defined by income. On the other hand, in Mongolia, Kyrgyzstan, Myanmar, and Timor-Leste (red-nuanced lines in Figure 1-7-4), it is the opposite. In other words, in these countries, the size of the middle class as defined by education may be

somewhat larger than the size of the middle class as defined by income.

4. The culture-values perspective

Finally, in philosophy and anthropology the middle class is seen as a cultural phenomenon. The middle class is defined through its values, cultural capital, lifestyle and aspirations. This opinion is also shared by many politicians. For example, according to a 2010 Commerce Department report prepared for then Vice President Biden's Middle Class Task Force, "middle class families are defined by their aspirations more than their income".

People's aspirations and lifestyles are often rooted in the values and culture of a society. Values and culture are very abstract and difficult to assess, but a large-scale project called "the World Values Survey" aims to do this. The World Values Survey is a comprehensive survey of attitudes toward democracy, tolerance of foreigners and minorities, gender equality, the role of religion and changing levels of religiosity, globalization, environment, work, family, politics and national identity. The first survey was conducted in 1981, and since then it has been conducted every few years in more than 100 countries. The survey data are frequently used not only by international organizations such as the World Bank and the United Nations, but also by politicians and scholars around the world.

Based on the responses to the World Values Survey items, the project leaders, Prof. Inglehart and Prof. Welzel, have created a so-called "World Cultural Map" using factor analysis. This cultural map has two dimensions (horizontal and vertical axes) and it shows the prevalent values in each country. [Figure 1-7-5](#) shows the location of Asian countries on the World Cultural Map.

Moving upward along the vertical axis indicates a shift from values emphasizing tradition and religion to values emphasizing secularity and rationality. Moving rightward along the horizontal axis shows a shift from survival and group-oriented values to self-expression and individual-oriented values. A somewhat simplified analysis is that following an increase in standards of living, and a transit via industrialization towards a middle-class post-industrial society, a country tends to move diagonally in the direction from the lower-left corner to the upper-right corner, indicating a transit in both dimensions.

Since the position of each country represents the average set of values of the whole nation, it can be thought to reflect the proportion of the middle class within that nation. However, middle classes in all countries do not necessarily have the same values. Middle-class values tend to be highly correlated with the philosophical, political, and religious ideas that are dominant in the country.

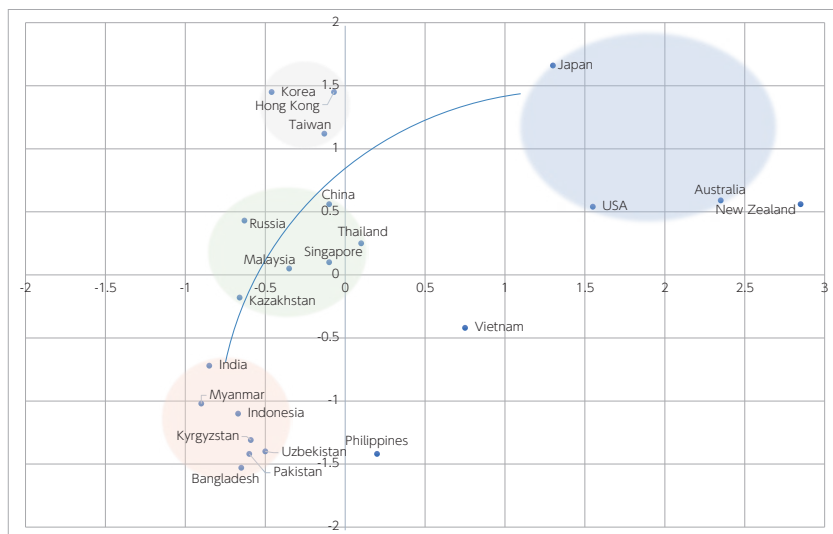


Figure 1-7-5 The location of countries in the Asia-Pacific on the Inglehart-Welzel World Cultural Map

Note: Based on the World Values Survey (2022).

For example, materialism, which represents values emphasizing secularity and rationality (upper part of the vertical axis), was formulated by philosophers and leftists of the French Revolution, and is often observed in countries with a long history of social democracy and socialist policies, as well as in countries with high rates of university attendance. On the other hand, survival and group-oriented values (left side of the horizontal axis) are characteristic of Asian countries, especially ones where Confucianism was prevalent, while self-expression and individual-oriented values (right side of the horizontal axis) are often observed in Western countries. This might mean that when the countries that were under the influence of Confucianism mature into middle-class societies, they move upward only, rather than diagonally from the bottom left to the top right.

Figure 1-7-5 shows that Asian countries are clearly concentrated in four clusters. Although interpretation is subjective, the upper right cluster consists of Japan, Australia, and New Zealand, which can be considered as established middle-class societies with values similar to those of Western developed countries. As symbolized by the expression “100 million middle class” that became popular in Japan in the 1960s, these countries are considered to be mature middle-class societies with the majority of the population having been middle-class for more than half a century. The lower left cluster consists of countries where the size

of the middle class is small and middle-class values have not yet become an important socio-cultural factor.

In between these two clusters are two other clusters located relatively close to each other. They can be described as a middle-income cluster (China, Thailand, Malaysia, Kazakhstan, and Russia) and a high-income cluster (Korea, Taiwan, and Hong Kong). The former cluster consists of countries with sizable middle classes (one-fourth to one-half of the population using the strictest definition), and are transitioning toward becoming majority middle-class societies. On the other hand, the latter cluster (Korea, Taiwan, and Hong Kong) can be considered full-fledged middle-class societies as seen from the lens of education and income. However, since they have only recently become middle-class societies, the values typical of Western middle-class societies appear to have not yet taken deep roots there. These countries have experienced remarkable economic development since the late 1980s, and it seems that the general public does not yet take for granted the security of survival and the freedom of expression typical of Western democracies. Nevertheless, all three countries have been under the influence of Confucianism, which suggests that the process of these countries' maturing into middle-class societies may be reflected in moving upward only, rather than diagonally from the bottom left to the top right. Finally, the Philippines and Vietnam present an interesting case, as they seem to be strongly influenced by Western culture and have more self-expressive and individual-oriented values than other Asian countries in the same income bracket.

5. Conclusion

This article examined the size of middle classes in Asian countries from three perspectives: income, education-occupation, and culture and values. The analysis suggests that the size of the Asian middle class has increased significantly over the past two decades. Even by the strictest definition based on U.S. standards, its size is estimated to be at least 800 million people, which corresponds to one-fifth of the population of the Asia-Pacific region. Nevertheless, as a share of the entire population, Asia's middle class is still quite small and not as large as widely reported in the media. In particular, China, India, and other large emerging economies in Asia cannot be considered middle-class societies by developed country standards, and the emerging middle class has yet to become a major driver of socioeconomic trends in those countries. What the "Asian Century" will look like remains to be seen.

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