

Asia's New Middle Class Consumer

Are You Invested in Asia?

The Expansion of the Asian Middle Class

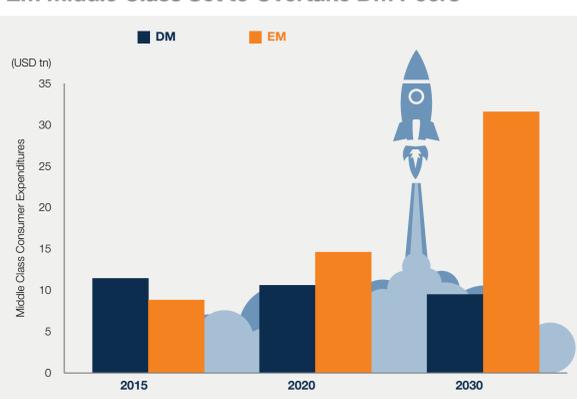
- China, along with India, is the muscle behind Asia's ongoing middle class upswing that is set to surge into 2030.
- Assuming prudent policymaking and structural reform, emerging markets (EMs) will overtake developed markets (DMs) on the back of Asia's high-charged advance.

Asian Middle Class is Only Growth Segment



Source: Brookings Institution (2017)

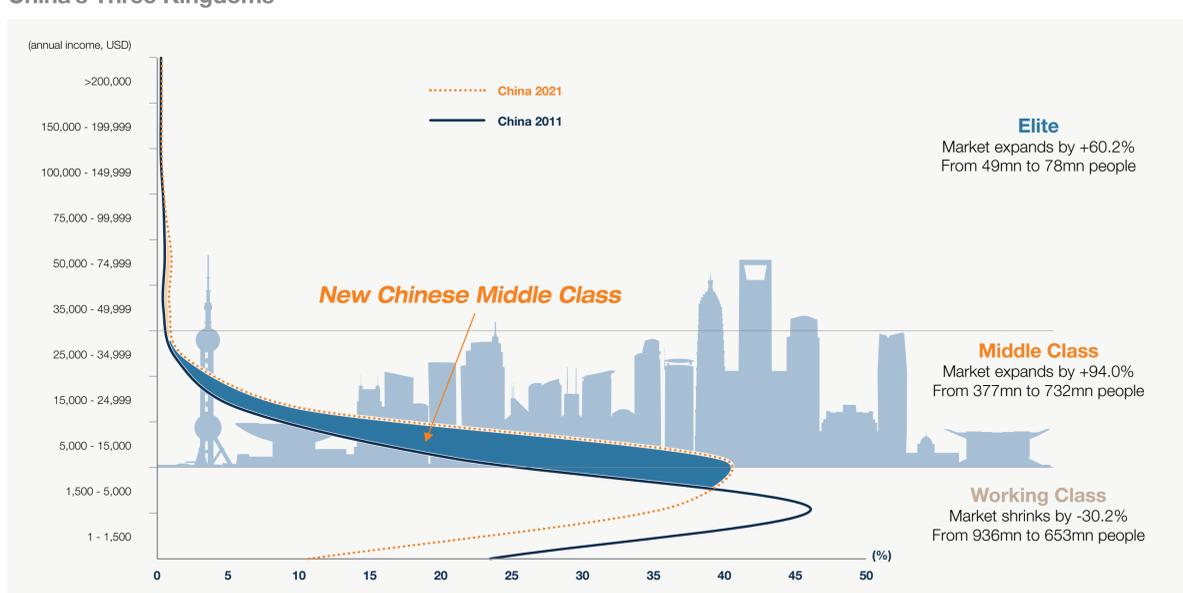
EM Middle Class Set to Overtake DM Peers



Source: Brookings Institution (2017)

- Zooming in on China, China's average gross domestic product (GDP) per capita of USD 8,000¹ may at first glance appear insufficient to support new consumer industries.
- However, categorizing China as one homogenous spending class fails to entirely capture the scale and differing stratifications of wealth within the country.
- In order to pinpoint key determinants and meaningful trends with a higher degree of accuracy, it is necessary to first divide Chinese households into three distinct classes, or "kingdoms" in past and future scenarios.

China's Three Kingdoms



Note: Mirae Asset Daewoo estimates
Source: United Nations
¹ World Bank (2017)

Elite

- Starting at the top, China is home to around 50 million people earning more than USD 35,000 annually, which will modestly grow by +60%. This is the income group that is conspicuously buying brand-name goods at luxury stores around the world.

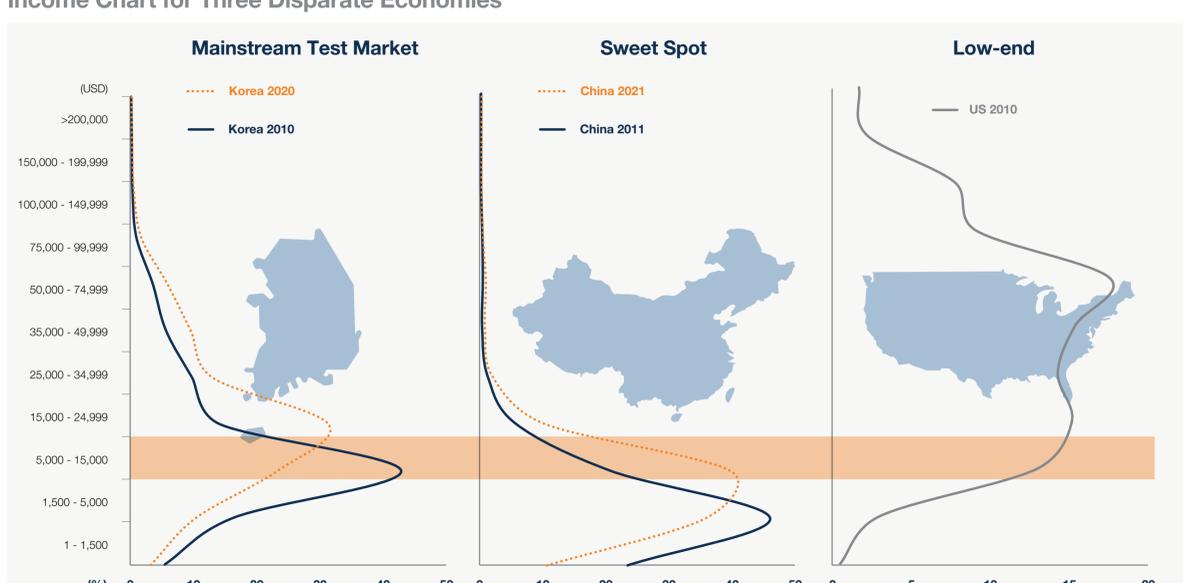
Working Class

- Situated at the bottom is the working class—the more than 900 million Chinese earning less than USD 5,000 annually—who is discontent although efforts to improve this segment are underway.
- The government is currently reforming its hukou (residency permit) system as a means of reducing inequality and labor discrimination against migrant workers while improving access to education, healthcare, and financial services. Moreover, the government is aiming to provide more affordable housing and raise the minimum wage, all while pushing through an aggressive anti-corruption campaign.

Middle Class: "Sweet Spot"

- We have concluded that Chinese leaders will focus policies for the next five years towards upgrading the working class population into the middle class with incomes from \$5,000 to \$35,000.
- As such, we project that China's middle class will grow from 377 million in 2011 to 732 million in 2021, an incremental increase easily surpassing the entire population of the US.
- This ballooning middle class is the sweet spot for any companies looking to target Chinese consumers and leverage this great upward social mobility.

Income Chart for Three Disparate Economies



Note: Based only on Mirae Asset Daewoo estimates
Source: United Nations (2017)

- Comparing three charts for the US, Korea, and China along that income stream offers insight into why developing market brands will find the Asian consumer class much more accessible relative to DM consumers.
- Not only does the middle class display the greatest propensity for development, but it is also the least competitive from a market entry perspective.
- In the upper-tier segment (over USD 35,000), market entrants run into a plethora of high-end global brands, while the low-end space is filled with mainland players unafraid of engaging in costly price wars.
- We believe that the ballooning middle class is the sweet spot for companies developing new business models and pursuing innovation. More specifically, we believe the USD 5,000-15,000 sub-category holds the key, as its occupants are starting to expand beyond staples to discretionary goods, such as basic cosmetics and portable electronics.

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