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The Rising Middle Class in India

Throughout India's history, the vast majority of its people have lived in desperate poverty. As recently as 1985, more than 90% of Indians lived on less than a dollar a day. Yet India is poised to undergo a remarkable transformation. This article is sourced from Business Week – *Next Big Spenders: India's Middle Class*. It shows the findings of research from McKinsey Global Institute (MGI), which is about the rising middle class in India.

One of the most striking findings is how dramatically recent growth has reduced the numbers of the poorest Indians, a group we call the deprived. They earn less than 90,000 Indian rupees a year (about HKD15,800 per household), and include subsistence farmers and unskilled laborers who often struggle to find work. They can be found across India, from its isolated villages to its sprawling urban slums. Many depend on government-subsidized food to get enough calories each day. Since 1985, the ranks of the deprived have fallen from 93% to 54% of the population, as more than 100million people moved out of desperate poverty and many millions more were born into less grim circumstances. If growth continues at its recent pace, we expect a further 291 million people to move out of poverty over the next two decades. Most of these former poor will move into the class we call the aspirers, household earning between 90,000 and 200,000 rupees (around HKD15,800 to 35,100) per year.

Aspirers are typically small shopkeepers, farmers with their own modest landholdings or semiskilled industrial and service workers. Their lives are not easy, but aspirers generally have enough food and might own items such as a small television, a propane stove and an electric rod for heating water. They spend about half of their income on basic necessities, and many of their other purchases are bought secondhand or in what Indians call the "informal economy". Over the next 20 years this group will shrink from 41% of the population to 36%, as many of them move up into the middle class.

The next two groups – seekers, earning between 200,000 and 500,000 rupees (about HKD 35,100 to 87,700), and strivers, with incomes of between 500,000 and 1 million rupees (HKD 87,700 to 175,400) – will become India's huge new middle class. While their income would place them below the poverty line in the United States, things are much cheaper in India. When the local cost of living is taken into account, the income of the seekers and strivers look more like HKD 178,700 to 908,600, which is middle class by most developed-country standards. Seekers range from young colleague graduates to mid-level government officials, traders and business people. They enjoy a lifestyle that most of the world would recognize as middle class and typically own a television, a refrigerator, a mobile phone and perhaps even a scooter or a car. Although their budgets are stretched, they scrimp and save for their children's education and their own retirement.

Strivers, the upper end of the middle class, tend to be senior government officials, managers of large business, professionals and rich farmers. They are highly brand conscious, buying the latest foreign-made cars and electronic gadgets. The middle class currently numbers some 50 million people, but by 2025 will have expanded dramatically to 583 million people – some 41% of the population. These households will see their incomes balloon to 51.5 trillion rupees (\$1.1 billion) – 11 times the level of today and 58% of total Indian income.

As the seismic wave of income growth rolls across Indian society, the character of consumption will change dramatically over the next 20 years. A huge shift is underway from spending on necessities such as food and clothing to choice based spending on categories such as household appliances and restaurants. Households that can afford discretionary consumption will grow from 8 million today to 94 million by 2025.

Long-established spending attitudes are already changing rapidly. Branded clothes are becoming de rigueur for the wealthiest Indians. For generations, Indians did their daily shopping at fresh-food markets and regarded packaged foods as "stale". However, just like their Western counterparts, a new generation of busy urban Indians is starting to appreciate the convenience and choice offered by packaged foods. Likewise, many Indians have

traditionally viewed gold jewelry as a safer way to save than banks, but young Indians today are likely to see jewelry as a fashion statement, not a savings plan. They are also increasingly comfortable using credit cards – the share of Indians who carry plastic has quadrupled since 2001.

India's shift to a consumer society will only accelerate as more people become "connected" via mobile phones, the internet and TVs, and as advertising becomes a more prominent part of people's lives. Before India embarked on its program of economic reforms, the country had only 0.8% fixed telephones per 100 people, and virtually no mobile phones. While fixed-line penetration has almost tripled to 2.2 per 100 people, the real growth story has been in mobile, which has exploded and is expected to reach 211 million subscribers by the year-end. India's mobile market is currently growing even faster than China's, and we expect overall communications spending to continue to grow at a very rapid 13.4% per year over the next two decades. Other fast-growing categories will include transport, education and health care. It is testament to the determination of Indians to work for a more prosperous future that the highest priorities will be these "economically enabling" areas of spending that boost productivity and economic growth. Indeed, Indians will spend more of their disposable income on these categories than consumers in just about any other country. But the boost in private health-care spending, which we expect to double from 7% of all consumer spending today to 13% in 2025 (second only to the United States in percentage terms), also shows the weak underbelly of the nation's growth story. Despite the immense progress that India has made, the public sector – in particular, health, education and infrastructure such as roads and power – is in a desperate condition. Thus many Indians will spend their rising incomes to opt out of public services and go private unless those services improve.

While India's rising wealth will provide more resources to tackle these issues, its fast-growing population will stress its public services even further. India's success to date has been built on its human capital – a hardworking and increasingly educated population. If the country's growth is to continue, the reforms that have revolutionized its private sector will need to reach its notorious government bureaucracy as well. If this does occur, the dynamism of India's people will do the rest.

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