

# India's burgeoning middle class

*The Economist's analysis of the middle class is too one-dimensional for an economy as complex as India's*

AMITABH KANT, VAIBHAV KAPOOR AND RANVEER NAGAICH are, respectively, chief executive officer, public policy specialist and young professional at the NITI Aayog.

Recently, *The Economist* published a detailed briefing analysing the Indian middle class. As per our understanding, the author cites various data sources and studies to make one overarching point: any companies betting on India's consumer market are likely to be disappointed when they face the reality of a "meagre market" on the ground which has little growth prospects at best. The briefing ends with the line, "Businesses assuming the consumer pivot in India is the next unstoppable force in global economics need to ask themselves why it already looks to have run out of puff—and whether it is likely to get a second wind any time soon."

We do not disagree with some of the issues and challenges that have been pointed out by the author. However, we feel that the report presented suffers from partial and selective analysis and providing a full picture is necessary. Furthermore, it should be noted that the original piece, and thus by association this article, focuses only on the consumer economy in India. We are not going to touch upon the prospects that India presents in infrastructure development (roads, ports, airports, cities, etc.), tourism, logistics and many other sectors. The growth in these sectors will also create jobs, create wealth and support middle-class growth, but we are not going there.

To start with, *The Economist* employs the definition of middle class (i.e. \$10 a day) as provided by the National Council of Applied Economic Research (NCAER). However, it could be argued middle-class incomes should be considered relative to national poverty lines. According to economists Sandhya Krishnan and Neeraj Hatekar ("Rise Of The New Middle Class In India And Its Changing Structure", *Economic & Political Weekly*, 2017), the definitions used by NCAER and others imply that the middle class in India are not only well above defined poverty lines in India, but also those in the developed world.

Estimates on the size of the middle class prepared by Krishnan and Hatekar show a different story altogether. Their range for classifying a household as middle class is \$2-\$10 at 1993 purchasing power parity. Using National Sample Survey (NSS) Consumer Expenditure Survey (CES) data, they find that India's middle class expanded considerably between 2004-05 and 2011-12. According to their estimates, India's new middle class grew from 304.2 million in 2004-05 to 604.3 million in 2011-12 (see figure 1). As it could be argued that the lower middle class are unable to spend on goods and services attributed to the traditional definition of middle class, we still arrive at a figure of 158 million Indians in the middle-middle and upper middle-class category. This is double the 78 million cited by *The Economist*.

Going forward, even if half of the lower-middle class make the transition to upper-middle or middle income, we could be looking at a middle-class market of approximately 350 million Indians.

Second, we agree that inequality is a growing problem, but not to the extent as presented in *The*

*Economist*. These estimates have also been criticized by some for being exaggerated, principally on account of their methodology. We also need to recognize that inequality is not only specific to India and is a growing problem across the world. On the other hand, it should be recognized that per capita incomes in India have grown substantially, lifting millions out of poverty. A trend of upward mobility is highlighted in figure 1.

The author claims that there will be no evolution of consumer spending because of the lack of job creation comparable to that of China. This seems overly pessimistic. For example, *The Credit Suisse Emerging Market Consumer Survey 2017*, which measures consumer confidence, places India at the top of their scorecard. The survey finds a shift from non-branded to branded goods taking place as well, again indicative of a move towards more middle-class consumption patterns.

To drive home the point of the large economic gap between India and China, the article compares the number of Starbucks outlets or the number of cars owned. Whilst we do not deny that an economic gap exists between India and China, it would be prudent to compare where India is now to where China was 10-15 years ago, rather than comparing India with the China of today. To illustrate, let us look at the market for vehicles. It may be true that China owns more cars than India today; however, we need to consider the rate at which passenger vehicle markets have been growing in India and how the share in the global market is evolving. In 2017, India overtook Germany to become the fourth largest auto-market in the world and is expected to displace Japan by 2020.

Another aspect of the consumer economy that the feature highlights is that of mobile phones. A report released by Canalis, a market analysis company, paints a picture that is completely different from the claims of *The Economist's* author. According to the report, which was released in October 2017, India overtook the US in terms of smartphone sales to become the second largest smartphone market in the world. The author fixates on iPhone sales but fails to take other international brands like Samsung, Xiaomi, Vivo, Oppo and Lenovo, collectively responsible for 75% of mobile sales in India (as per the Canalis report), into account. Furthermore, the growth in India comes at a time when the growth in smartphone shipments is slowing and internet growth is flattening around the world (*Internet Trends 2017* report). Related to this, the briefing makes a quick comment about "cheap data" in India being a "boon for streaming services". Perhaps the scale of this boon should be articulated here. According to *Internet Trends 2017* report, total monthly wireless data consumed by Indians as of March 2017 was 1.3 billion gigabytes, a 9x growth year on year. Most of the web traffic in India originates from mobile phones.

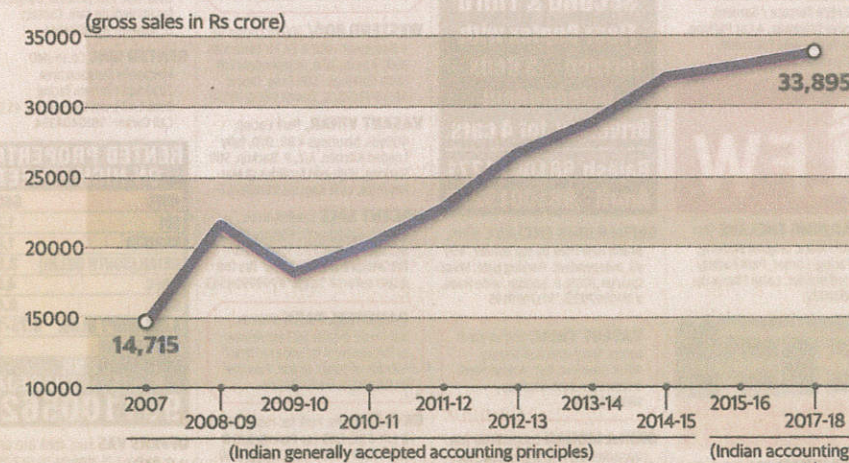
The briefing gives many examples of international conglomerates which have invested in India. In particular, it points out that Hindustan

Figure 1: Population estimates for different economic classifications in India

Category	Income threshold	Population (in millions)	
		2004-05	2011-12
Poor	< \$2	777.3	574.8
Lower-middle	\$2-4	237.8	446.3
Middle-middle	\$4-6	45.4	108.5
Upper-middle	\$6-10	21	49.5
Affluent	> \$10	7.5	22.9

Source: Krishnan & Hatekar (2017)

Figure 2: Hindustan Unilever sales growth



Graphic by Ajay Negi/Mint

Source: HUL Annual Report 2016-17

**Rather than basing conclusions on just definitions of middle class, one should look at the evolution of consumption patterns and their preferences**

Unilever (HUL), a subsidiary of the Dutch Parent Unilever, has virtually seen no sales growth in dollar terms since 2012. However, it will only be fair to look at the sales growth in the company's "functional currency" (or currency of the primary economic environment as per HUL's annual report 2016-17). From that perspective, the sales growth looks quite different, as figure 2 shows.

Since 2011-12, the annual rate of growth in revenue comes in at around 8.2%. The reason for "virtually no sales growth" in dollar terms could partly be attributed to the appreciation of the dollar since 2012. On 31 March 2012, the dollar was trading at Rs50.9 while on 31 March 2017 it appreciated to Rs64.8, representing a compound annual growth rate (CAGR) of 5.0%. It should also be noted that in these five years, the USD appreciated against most currencies around the world. Furthermore, the chief executive officer of the parent, Unilever, in the full year result announcement for 2016, regarded India and Brazil as two of the largest markets. Finally, another barometer suggesting strong growth in the middle class is the evolution of the

civil aviation industry. While *The Economist* points towards the strong growth of the industry in India, it discounts its relevance by comparing the size of the Indian civil aviation industry to a European carrier. Here, the author has again failed to recognize the difference in the stage of development between India and Europe.

With regard to deterrents for growth, a low rate of urbanization is cited as one of the factors. This argument seems faulty on two counts. First it discounts the significance of rural consumption in India (which is expected to grow at a CAGR of 14.6% till 2025, as per Assocham). Second, the author could probably clarify the methodology used to arrive at the conclusion of low rates of urbanization. The Annual Survey of India's City-Systems mentions that according to the National Sample Survey Office definition of urban settlements, the number of "Census towns" increased by 186% between 2001 and 2011. While the statutory definition of a city could indicate that India is 26% urbanized, the Census definition would indicate that India is 31% urbanized and following the Mexico definition (2500 plus population) could mean that India is 65% urbanized.

The piece also refers to the poor decisions taken from the policy perspective tempering prospects for growth. While the "sudden and brutal 'demonetization'" did have short-term disruptive effects, this is not the only policy decision made in the recent past. Various investment, administrative and social initiatives have been lauded by national and international independent agencies. While it might not be apt for a detailed review of policy measures at this point, it should be noted that the recent improvement in World Bank's Doing Business rank and Moody's credit rating upgrade stress that the positive effects from the implementation of recent reforms have played an important part in their decisions.

To conclude, the analysis of the Indian middle class is indeed very important for multinational corporations betting on the consumer economy in India. Challenges do exist in the areas pointed out above, but while analysing an economy as complex as India, a one-dimensional analysis runs the risk of presenting a lopsided story. For example, rather than basing conclusions on just definitions of middle class, one should look at the evolution of consumption patterns and their preferences in their analysis. While some aspects have been articulated well by the author, we feel that looking at the full picture is necessary and that the future growth potential cannot be ignored.

*Disclaimer: The views and analysis expressed in this article are personally those of the authors. They do not reflect the views of NITI Aayog. NITI Aayog does not guarantee the accuracy of data included in the publication nor does it accept any responsibility for the consequences of its use.*

Comments are welcome at [views@livemint.com](mailto:views@livemint.com)