

Ashutosh Sheshabalaya

EYE ON THE TIGERS

Business gurus and investors have long been enticed by visions of hundreds of millions of Chinese and Indians using mobile phones, watching TV, going on holiday, sipping soft drinks at shopping malls and buying iPods or washing machines.

And yet, few have seriously assessed the shape or size of the Indian or Chinese middle classes; instead, many have accepted an estimate of 200-300 million in each.

More confusingly, the litany about the Indian 'middle class' being the world's 'biggest' is accompanied by reports about Chinese consumers outnumbering those in India. The thorniest traps, however, confront those seeking to map the Chinese/Indian middle class against their Western counterparts.

I try to resolve such challenges by starting with India – an evidently more open country than China – and focusing on five sets of numbers and trends: airline travel, mobile phone/internet use, car and scooter/motorcycle buyers, the breadth and depth of stock market investment versus bank lending, and, above all, the role of rural demand.

Coupling this to some analysis results in an Indian middle class (according to Western perceptions) of roughly 50-60 million at the end of 2006. In line with official figures and its \$7,500 purchasing power per capita income (against \$3,750 for India), China's consumer class can be pegged at twice to three times this figure, or about 100-150 million strong.

Certain trends, however, remain key to understanding what is going on. First, both China and India's economies are growing at around double digits. Their middle classes, consequently, will continue to swell by tens of millions each year.

Second, and more crucially, India is catching up with China. The recent spurt in its economic growth has not only caught experts (including the country's erudite prime minister) by surprise. Its impact is reflected in key consumer markets, and will continue to be so. Indian mobile phone sales, for example, have outstripped those of its northern neighbour. Meanwhile, China's estimated five-year lead against India in personal computers and internet access is shrinking and now looks set to be bridged in a similar timeframe. Other market segments will no doubt follow.

Driving this gap closure with China is India's cohesive and organic political economy. This is about more than just 'democracy'. A little-noticed figure in the World Bank's 'World Development Indicators' shows that the richest 20 percent of the Indian population earn only 4.9 times more than the poorest 20 percent (incidentally, better than western Europe's 5.5). The corresponding figure for China is 10.5, and for Latin America 23.

India's poor are therefore more seamlessly interconnected with its middle class, and the latter with the rich, than in China. In other words, even if India's middle class is poorer (because theirs is a smaller economy), it is relatively larger in

numbers than China. It also offers a more stable opportunity in the longer term. Credit and mortgage exposure in India is a tenth that of China (\$186 against \$1,884 at the end of 2005), and this is so in spite of a much lower bad-debt load within the Indian banking system.

Much of this can be explained by India's villages – home to the bulk of its population, including the middle class.



They not only vote to throw out governments, but also force changes in policy. Thus, while China's rural markets remain enduringly enigmatic, their Indian counterparts have long turbo-charged sales for consumer-goods firms like Procter & Gamble and Unilever or their Indian rivals.

They are now also beginning to do so for cars, refrigerators and mobile phones; largely in response, India's Reliance Group is seeking to launch the world's largest wireless network, covering over 900 million Indians, by the middle of 2008.

Finally, the least well-off in rural India are not entirely neglected. The country's ICICI Bank, for one, has begun using

Driven by its cohesive and organic political economy, India is catching up with China

customised software and innovative business models to valorise transactions as low as 1 rupee (€0.02). Its aim is to sell poor farmers personal accident and rainfall insurance as well as inter-seasonal bridging loans. They will, after all, also comprise a 'middle class' some time in the future.

Ashutosh Sheshabalaya specialises in interpreting Indian opportunities, risks and trends