Asian Affluence: The Emerging 21st Century Middle Class

SUMMARY

The emerging middle classes in China and India are poised to force a shift in global consumer spending.

Middle-class consumers, as prominent drivers of consumption and growth, are emerging so quickly in developing nations that a deeper understanding of where this growth lies and what type of consumption it will drive is imperative for investors.

In Asia, young populations—combined with rising productivity—are creating a voracious consumer force characterized by higher incomes and evolving appetites that will likely fuel spending growth. Now juxtapose this against the developed markets' relatively older populations, limited potential increases from already high productivity levels, tepid income gains and slow growth in consumer spending. The picture that emerges is one of global realignment, in which the middle-class center of gravity appears to be headed eastward. ▶

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Shift of Wealth

According to the Paris-based Organisation for Economic Co-operation and Development (OECD), we can expect the following realignments: Asian (ex Japan) middle-class spending will surpass that of the US, EU and Japan combined in 2022; China alone will exceed the US in 2020 and pass the 27-country EU in 2027; and India will move ahead of the US in 2021 and the EU in 2026. What's more, India will surpass China in 2023 (see Figure 1).

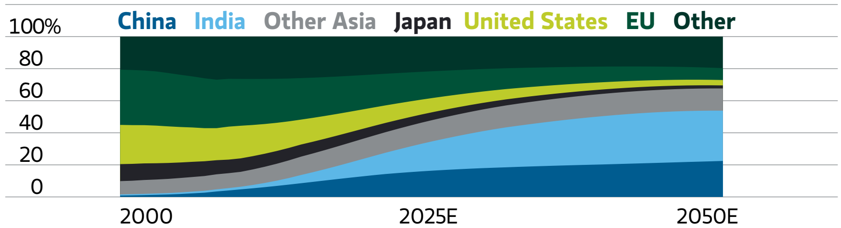
The OECD recently published a paper[1] exploring the emerging middle-class consumer, which is broadly defined as all those living in households with daily per capita incomes of between $10 and $100, adjusted for local purchasing power. The findings from OECD's projections are compelling: The size of the middle class may increase in number to 3.2 billion from 1.8 billion by 2020 and to 4.9 billion by 2030—with 85% of this growth coming from Asia. Equally impressive is the growth in purchasing power: Global spending by the middle class may grow to $56 trillion by 2030 from $21 trillion today—and, again, more than 80% of this growth in demand is expected to come from Asia. Perhaps most striking is that the bulk of this shift is from two countries: China and India. In 2009, those two nations comprised just over 5% of global middle-class consumer spending; in 20 years, they will comprise 41% of global middle-class consumer spending (see Figure 2 and Figure 3).

Since the rise of the popularized "BRIC" terminology, Brazil and Russia often have been grouped with India and China with reference to emerging market economies. However, we believe growth from Brazil and Russia is currently driven more by their commodity resources than by consumer spending. Those two countries, therefore, do not play a significant role in the analysis set forth in this paper. As mentioned, the drivers of middle-class

Figure 1. India and China Making Waves

Between 2000 and 2050, spending shifts in India and China may significantly alter the landscape of middle-class consumption.

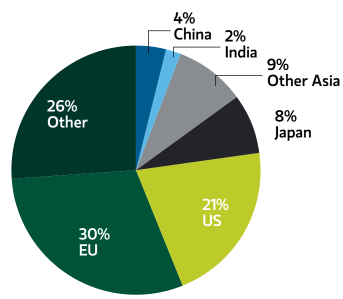
Shares of Global Middle-Class Consumption



Source: OECD as of January 2010

Figure 2. West Dominated Global Middle-Class Spending in 2009 …

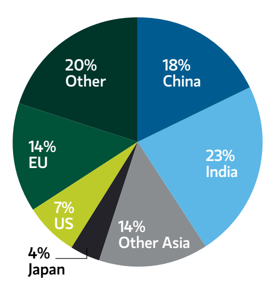
China and India comprised just over 5% of global middle-class consumer spending in 2009.



Source: OECD as of January 2010

Figure 3. … But China and India Are Poised to Claim a Larger Share

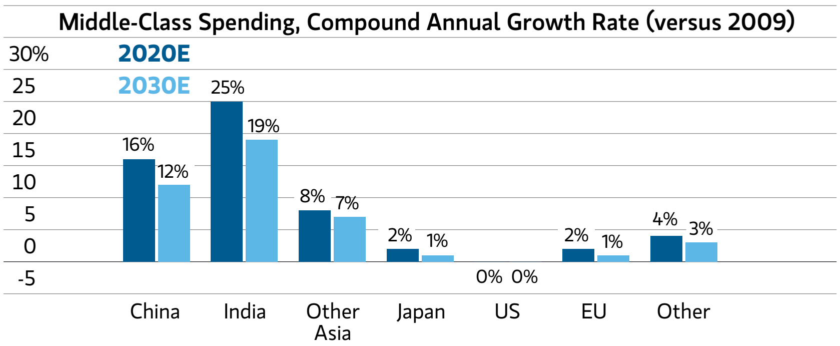
In 20 years, China and India are expected to account for more than 40% of the projected $55.7 trillion in global middle-class consumer spending.



Source: OECD estimates as of January 2010

Figure 4. Spending Growth Heading East

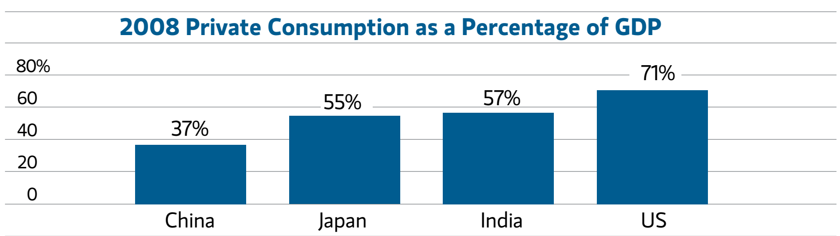
India's middle class is forecast to outpace growth in spending over both a 10-year and a 20-year horizon, with projected growth in the 10-year horizon at 25% per year. China's growth in spending also remains impressive.



Source: OECD, Morgan Stanley Smith Barney as of January 2010

Figure 5. Room to Grow

While India's private consumption is comparable to that of the US and Japan, China's level of private consumption remains remarkably low—a cornerstone topic addressed in China's recently released 12th Five-Year Plan.



Source: McKinsey as of August 2009. Comparison of China and India versus largest developed economies.

consumption will be centered in Asia (ex Japan), predominantly in China and India. Notable mentions go to Indonesia, Vietnam, Thailand and Malaysia, all of which contribute to the growth in Asian affluence—albeit to a much lesser degree than China and India (see Figure 4).

It is important to understand that this is not necessarily the same dynamic that will drive emerging financial markets. Indeed, the prospects of many emerging market companies have been more closely tied to their sales to developed markets than to their sales to domestic markets. As domestic consumer spending grows in emerging nations, not only local emerging market companies but also developed-market multinationals may find superior growth prospects if they can address this robust demand growth. Thus, it is the emerging market consumer, and that changing contour itself, that will likely be one of the preeminent growth opportunities over the next quarter century.

Demographic, Cultural and Structural Dissimilarities

There can be no "Chindia" strategy, as China and India are not identical stories. There are significant differences to be observed between the two nations—and even great disparities within their own borders—as each country exhibits its own demographic, cultural and structural trends. The principal factor driving the growth in China's middle class is the transition from an export- and investment-led economy to a consumer economy, supported by policy initiatives laid out in the 12th Five-Year Plan introduced in March. In contrast, India's middle class is benefiting from the combination of economic reform and favorable demographics.

PRIVATE CONSUMPTION. Unlike the case of other developing economies, private consumption has already been a significant driver of India's growth. India's consumption-to-GDP level, at 57% in 2008, is closer to that of developed nations; that compares with Japan and the US at 55% and 71%, respectively[2]. On the other hand, China's consumption level is rather weak, only amounting to 37% in 2008 (see Figure 5).

Indeed, China's historical consumption rates have been low, and growth has been driven primarily through investment and exports rather than domestic consumption. Morgan Stanley identifies China's future as that of a "megatransition"—one moving, over the next two decades, from a leading producer of globally distributed goods to the world's largest consumer market[3]. However, for the nation to fulfill its consumer potential, China will undoubtedly need structural reform along the way.

China's middle class is eager to become the world's leading consumer. Yet, the problem remains that China's middle class is still very small as a percentage of its total population, currently at 12%. That is one reason China has been dependent on external factors, such as exports, to drive its growth. If exports slow, the middle class may not yet be strong enough to make up the difference to continue China's rapid growth[4].

China's current situation is similar to that of Brazil and South Korea a quarter-century ago. However, though Brazil and South Korea started off in similar circumstances, they ultimately arrived at quite different outcomes. From 1965 to 1980, Brazil experienced relatively strong growth of approximately 5.6% per year. Yet, by 1980 its middle class still made up only 29% of its population, as the aforementioned report[5] from the OECD explains:

> This made it impossible for the country to rely on middle-class consumption to drive the transformation into an innovation-based economy. Since 1980 [Brazil] has remained primarily a commodity exporter, and has struggled to sustain growth. Per capita incomes today [in 2010] are only slightly higher than they were thirty years ago (0.7% annual growth), and the middle class never took off, currently accounting for just 38% of total population.

Compare this with South Korea's experience, which followed a similar path through the 1960s and 1970s, growing by 6.5% annually through 1986. By 1986 it, too, was a middle-income country:

> Unlike Brazil, however, Korea's evenly distributed growth had produced a sizeable middle class, which accounted for 53% of the population ... the country capitalized on the demand from this large middle class to grow its services industries and create the building blocks for a knowledge economy, and has continued its strong per capita growth at a 5.5% rate for another twenty years [and] in the process become one of the most advanced economies in the world. Today 94% of Korea's population is middle class.[6]

China, however, does not have the commodity resources of Brazil—suggesting a "South Korean" track is the more likely path.

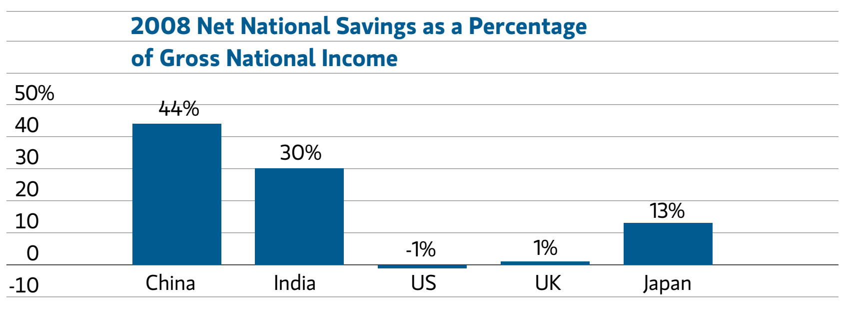
CHINA'S CONSUMPTION STORY. China released its 12th Five-Year Plan in early March 2011, with a cornerstone strategy around stimulating private consumption. Morgan Stanley economist Stephen Roach said of the plan:

> In essence, it will change the character of China's economic model—moving from the export- and investment-led structure of the past 30 years toward a pattern of growth that is driven increasingly by the Chinese consumers ... [This plan] is likely to spark the greatest consumption story in modern history. Today's post-crisis world could hardly ask for more.[7]

The plan noted by Roach focused on three major proconsumption initiatives, which include: 1) adopting a more labor-intensive services model, with the potential development of "large-scale, transactions-intensive industries such as wholesale and retail trade, domestic

Figure 6. Penny Saved, Penny Spent

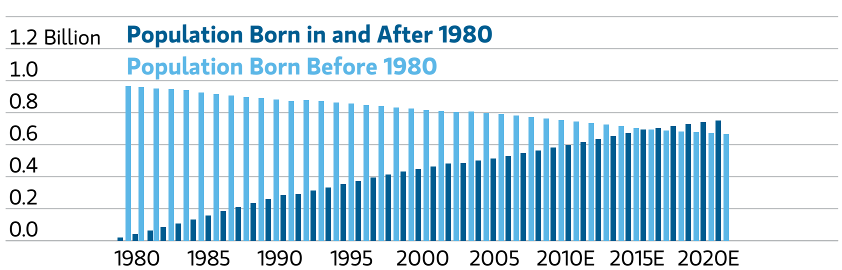
High savings rates in China and India should mean future consumption potential.



Source: World Bank as of 2010

Figure 7. China's Post-1980 Baby Boomers

Chinese baby boomers will likely represent more than 50% of China's population by 2015, signifying a demographic shift that has significant investment implications.



Source: Morgan Stanley Research as of Sept. 20, 2010 transport and supply-chain logistics, health care, and leisure and hospitality"; 2) boosting wages through reformed policies on items such as tax and land ownership; and 3) building out a social safety net through greater funding of programs such as social security, private pensions and medical and unemployment insurance. This last initiative should address the country's currently high savings rate (see Figure 6). Of the overall initiative, Stephen Roach notes: "[The plan] is sufficient, in my opinion, to boost private consumption as a share of Chinese GDP from its current rock-bottom reading of around 36% to somewhere in the 42% to 45% range by 2015."[8] The plan's emphasis on consumption should indeed catalyze the aforementioned trends of China's emerging middle-class population.

CHINA'S BABY BOOMERS. Morgan Stanley Research notes that those born after 1980—the "Chinese baby boomers"—will represent more than 50% of China's population by 2015 (see Figure 7). This demographic shift will have significant investment implications, as Morgan Stanley's *The China Files* report explains:

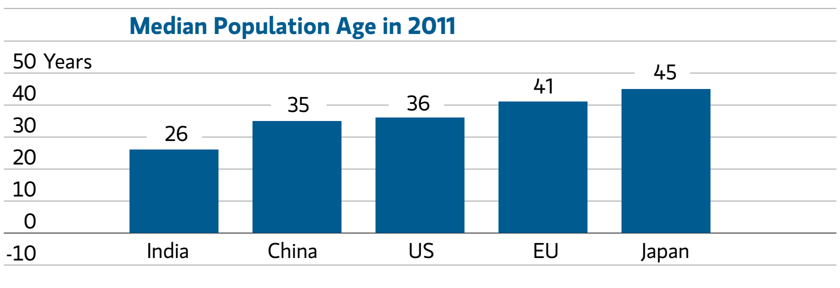
> First, Chinese baby boomers are globally aware and optimistic about their economic future. Unlike their forebears, who lived through civil war and a cultural revolution, this generation has enjoyed a stable political environment and enjoyed firsthand the success of China's open-door policy to other cultures and lifestyles.
>
> Second, China baby boomers are more financially secure than were past generations, having benefitted from better education and the prosperous job market that arose after China joined the World Trade Organization in early 2002. The baby boomer's per-capita income, already much higher than that of previous generations, continues to grow. They also have higher pensions and better medical coverage because of recent entitlement reforms.
>
> Finally, baby boomers are likely to double the country's birth rate. In Chinese families, most boomers are the only child of their generation, which means that under existing population control laws they are permitted two children. The anticipated rise in the birth rate will support greater household consumption in the years to come.[9]

INDIA'S FAVORABLE DEMOGRAPHICS. India's middle class is benefiting from the combination of economic reform and favorable demographics. It has one of the youngest, most rapidly growing populations, with a median age of 26 (compared with those of developed nations, which lie in the mid-30s and above) and a population forecast to grow at 1.3% in 2011 (see Figure 8 and Figure 9). Along with these favorable demographics, India has witnessed a string of economic reforms beginning in the early 1990s, which helped fuel its robust GDP growth over the past decade.

In a report describing the rise of the Indian consumer, consulting firm McKinsey estimates India will grow at a compound annual growth rate of 7.3% from 2005 to 2025, which is above the 6% growth that occurred over the last two decades. This higher growth rate

Figure 8. The Low Median Age in India

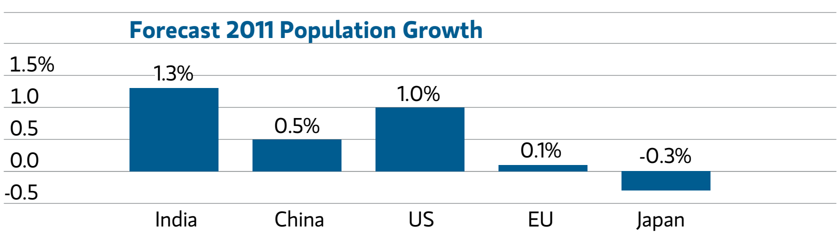
India has a very young population when compared with that of other major nations.



Source: CIA World Fact Book 2011, MSSB calculations as of March 2011

Figure 9. India's Population Boom

India has a higher rate of population growth than the US, China, EU or Japan.



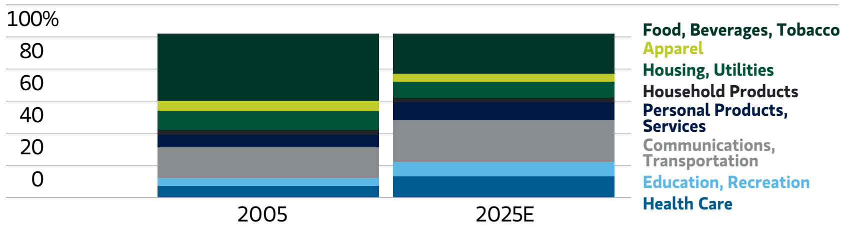
Source: CIA World Fact Book 2011 as of March 2011 is supported not only by the country's continually favorable demographics, but also by productivity increases from Indian businesses and growth in competition from the Indian economy. If India reaches the aforementioned growth rate over the next 20 years, the report notes that income levels will almost triple, with average real household growth at a CAGR of 5.3%. Economic reforms have contributed to greater growth and subsequent rises in income levels, which have resulted in what McKinsey calls the "most successful anti-poverty program in the nation's history," citing 20 years of significant poverty reduction, in which those defined as "deprived" went down to 54% of the population in 2005 from 93% in 1985. If this trend continues, the consumer-spending environment should benefit greatly. As McKinsey notes, rising incomes and growing populations should drive aggregate consumption in India to a fourfold increase, growing from 17 trillion Indian rupees in 2007, to 34 trillion in 2015 and 70 trillion by 2025[10].

URBANIZATION. Urbanization is a strong driver for wealth creation, bringing new consumers to the marketplace[11]. Urbanization in China and India differs significantly. Urban growth is spread across a large number of cities in China, while in India urban growth is concentrated in megacities—such as Delhi and Mumbai—allowing easier access to larger companies. Also, 40% of the population in China lives in cities, versus only 29% in India. India is the least urbanized among all emerging economies, but its urban population is forecast to grow to 37% by 2025[12].

Morgan Stanley analysts expect further urbanization to remain China's main growth driver over the next 10 years. According to the firm's recent report, *The China Files*[13], "Urbanization also is a strong engine for creating wealth. ... If, in the long run, urbanization reaches 63% of China's 1.4 billion people, 300 million additional consumers will see their spending power increase substantially."

Figure 10. Annual Household Consumption in India

As incomes rise, spending will shift away from basic necessities like food and apparel and into other areas such as health care, education, recreation, communications, transportation, personal-care products and services. Still, food remains the greatest area of spending.



Source: McKinsey as of August 2007

Although India's economy remains the least urbanized among other emerging economies, in absolute terms, the population growth over time is significant: India's urban population is expected to increase from 318 million to 523 million by 2025. Furthermore, 43% of India's private consumption is derived from cities, and that figure is expected to grow to 62% in 2025. This shift in spending power from the country's countryside to urban areas will allow companies easier access to consumers. By 2025 more than three-quarters of urbanites will be part of the middle class, compared with a little over one-tenth today[14].

Shifting Areas of Spending: Beyond the Basics

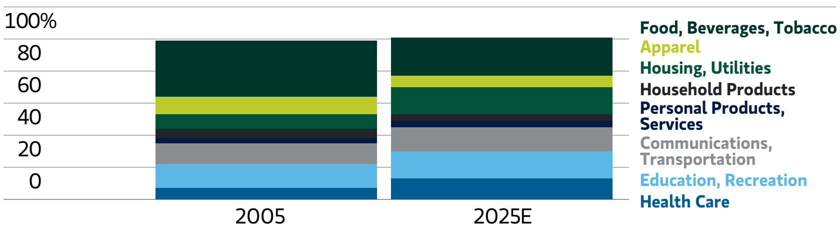
As wealth increases, spending tends to shift away from necessities and more toward discretionary items. As the absolute size of a household's budget increases, the relative share toward basic necessities, such as food and clothes, within that budget decreases, while spending on luxury items, such as leisure, travel and health care, increases. It is important to note, however, that though the share of the basic items declines, they should continue to grow in absolute terms as the economy grows.

Food remains the foremost example of this trend. McKinsey forecasts the Chinese consumer's spending on food will grow by 6.7% annually between 2005 and 2025, which allows the category, on an absolute basis, to remain the largest area of spending by the Chinese consumer and establishes China as one of the fastest-growing food markets in the world[15]. However, as spending in China on discretionary items grows faster, the relative share of spending on food actually declines.

The same trend holds true for India; food should witness the largest decline of any category on a relative basis, even though overall spending on food will rise on an absolute basis. In a separate report[16] on India, McKinsey notes that the fall in the share of food expenditures is "linked closely to the growth of the middle class," and as relative spending on necessities such as food declines (see Figure 10 and Figure 11), discretionary spending (mobile phones, personal-care products, etc.) is expected to rise in India from 52% of total private spending to 70% in 2025 (see Figure 12).

Figure 11. Annual Household Consumption in China

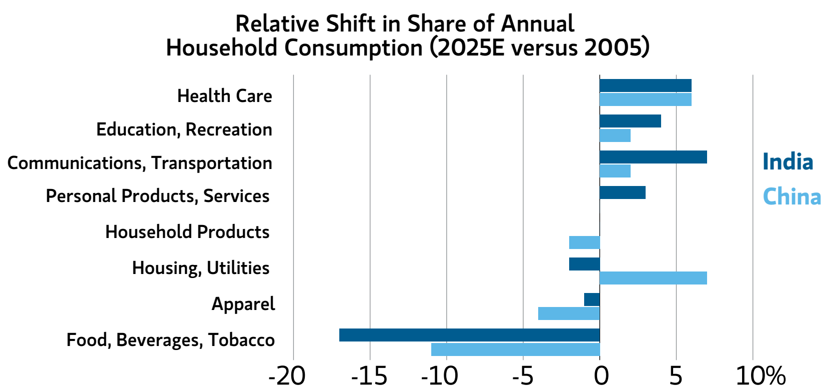
As spending shifts from necessities, other areas, such as education, health care, personal-care products and housing, will claim more of a share. Food will still be on top, but with shifts within the industry.



Source: McKinsey as of June 2006

Figure 12. Indian and Chinese Discretionary Spending

As spending on necessities such as food declines on a relative basis, discretionary spending—such as mobile phones, personal-care products, etc.—is expected to rise.



Note: India is as of August 2007; China: June 2009.
Source: McKinsey as of June 2009

In India specifically, McKinsey notes that spending on the means to improve quality of life (health, education, transportation, communications, etc.) will rise significantly and take on a greater share than they do in other countries; for example, spending on private health care should grow by almost 10% per year and account for 13% of Indian household consumption by 2025, which is a larger share than current levels in countries such as Brazil, China, Germany and South Korea[17].

In the following sections, we analyze the implications of these trends within China and India for a number of sectors as the middle-class consumer emerges over the next several years. Robust growth is projected in health care, education, recreation (e.g., travel, casinos), communications (e.g., Internet, mobile phones, PCs), transportation (e.g., autos), personal-care products (e.g., hair and skin care) and services (e.g., financial services). While food will likely see only modest growth, it should continue to represent the largest share of total spending, with changing contours benefiting areas such as packaged foods, supermarkets and fast-food restaurants.

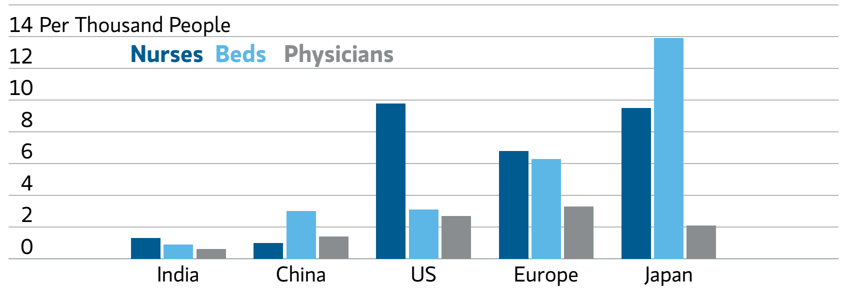
HEALTH CARE UNDERDEVELOPED. Middle-class consumers in emerging markets are likely to increase their spending on this category, in part reflecting inadequate public health care systems (see Figure 13, page 8). For example, consumer spending on health care in India is forecast to grow between 2005 and 2025 at a compound annual growth rate (CAGR) of 9.0%; China is forecast to grow at an even stronger 11.6% (see Figure 14, page 8).

As happens in many developing countries, China's standard of living has significantly improved over the past several years. Higher standards of living contribute to greater personal-health awareness. A 2010 study[18] by Deloitte Global Services, titled *Life Sciences and Health Care in China: Opportunities, Challenges and Implications,* notes that both demand and the ability to pay for more sophisticated health care services is improved by economic growth. As the report details, in 2009, China's total health care expenditures grew 10.9%; the breakdown of expenditures in 2008 was 24.7% by the government, 34.9% by broader society and 40.4% by individuals. Deloitte notes that China's health care expenditures are closely related to its level of urbanization. In 1996, 73% of spending on health care came from urban areas—almost three times the amount of rural expenditures. If China's rate of urbanization were to continue at 1.2% per year, by 2020 the urban population would surpass the rural population, which would greatly increase the size of China's health care market.

Health care is one of the highest projected areas of growth for China, which in part reflects the government's heightened spending on its rural health care structure, as well as other areas such as medical insurance and hospitals. It is important to note how different sectors related to health care will adjust to the transforming landscape. Opportunities exist for lower-cost medicines, including over-the-counter drugs (see Figure 15 and Figure 16). Additionally, the new landscape should boost the market for medical devices in China, including lower- and mid-end diagnostic equipment used in hospitals, which has substantial growth potential.

Figure 13. Beds, Nurses and Physicians

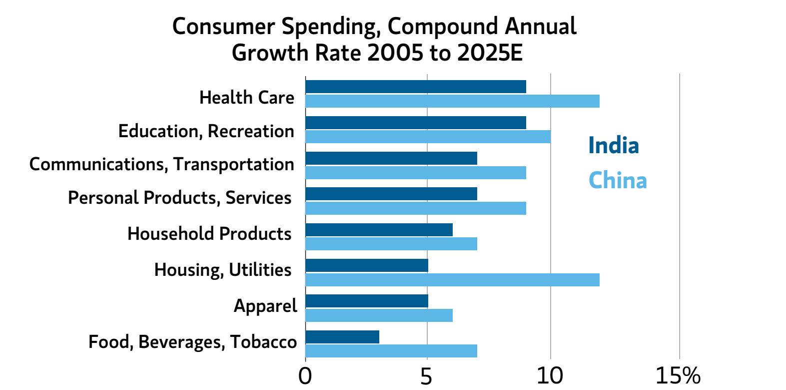
Health care infrastructure in many emerging countries is still relatively undeveloped.



Source: World Health Organization as of 2010. Comparison of China and India versus largest developed economies.

Figure 14. A Comparison of Spending by Category

As the middle-class consumer emerges in China and India over the next several years, robust growth is projected in many sectors.

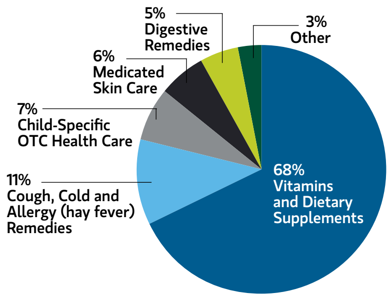


Note: India is as of August 2007; China: June 2009.
Source: McKinsey as of June 2009

As mentioned previously, India, too, should witness impressive growth in health care, with projected annual growth at 9.0% from 2005 to 2025. A study[19] by India Law Office finds that the Indian health care market is estimated at $34.2 billion, which has grown from $22.8 billion in 2005 and is expected to grow to $50.2 billion and $78.6 billion by 2011 and 2016, respectively. That is 14% and 12% annual growth, respectively, versus 2005, with almost 90% of that growth coming from the private sector. The study further reveals that India's private sector comprises 60% of all outpatient care, about 40% of inpatient care, almost 70% of hospitals

Figure 15. China's 2008 OTC Sales by Sector

The pharmaceutical sector in China is being reshaped by the ever-increasing demand for quality health care services. Opportunities exist for pharmaceutical companies in OTC, low-cost drugs.



Source: Deloitte Global Services as of September 2010

Figure 16. China's Pharmaceutical Industry Position

The government is investing heavily in the rural health care system, social medical-insurance coverage and community hospitals, which should help to increase drug sales in pharmacies and community health centers.

World Pharmaceutical Consumption Rankings

2001 Rank	Country	2005 Rank	Country	2009 Rank	Country	2020E Rank	Country
1	US	1	US	1	US	1	US
2	Japan	2	Japan	2	Japan	**2**	**China**
3	Germany	3	Germany	3	Germany	3	Japan
4	France	4	France	4	France	4	
5	Italy	5	Italy	5	UK	5	
6	UK	6	UK	6	Italy	6	
7	Spain	7	Spain	**7**	**China**	7	
8	Canada	8	Canada	8	Spain	8	
9	Mexico	**9**	**China**	9	Canada	9	
10	**China**	10	Mexico	10	Turkey	10	

Source: IMS, Deloitte Global Services as of September 2010

and 40% of hospital beds. Other statistics the study reveals further support this view: The Indian health-insurance business grew 50% over the past few years, there is potential for the medical-equipment business to grow by 15% to 10% and India, with expected growth of around 22%, has the fastest growing health care information-technology market in Asia (followed by China and Vietnam).

Finally, other metrics to note from the study include: The amount of money hospitals bring in will grow to $35.9 billion in 2012 compared with $15.5 billion in 2006, health care delivery and pharmaceuticals account for nearly 75% of the total health care market and India has only 0.7 beds per 1,000 people, far below the global average of 2.6.

Also noteworthy are external factors boosting India's health care industry. Medical tourism is a significant external growth driver for Indian health care. A 2007 report[20] from PricewaterhouseCoopers, titled *Healthcare in India: Emerging Market Report,* observes this phenomenon and notes that India's state-of-the art hospital facilities, well educated medical professionals that are fluent in English and relatively low costs are attractive when compared with health care costs in the developed world. The report also notes the high-quality treatment available in India (in areas such as cardiology, transplants opthamology and orthopedic surgery to name a few), which is likely provided at a fractional cost as compared with other nations (see Figure 17, page 10). This high-quality, low-cost treatment option will likely continue to fuel medical tourism for the nation in the future.

EDUCATION UNDERPINNINGS. Education seems to be providing business opportunities in China and India on several fronts. A recent article[21] on education in China from University of Pennsylvania's Wharton School of Business notes that, with its growing economic success, China has found its national school system struggling to keep up with the pace of economic growth. Private-education companies are therefore able to fill the resulting gap on many accounts, including primary and secondary schools, after-school tutorials on government-run programs, admission-exam tutoring sessions (for domestic or international exams) or courses in foreign languages (such as English). The report quotes private-education company TAL's chief financial officer Joseph Kauffman as stating, "It's a huge market. K-12 tutoring in 2010 was about a US$34 billion market and we expect it to be a US$66 billion market by 2014."

India's education climate is also noteworthy. A study[22] by Yale University, titled *Education Consumption in an Emerging Market,* compares and contrasts the private-school mentality in India versus developed markets, explaining that, in the latter, private schools may be associated with "elitism" where perhaps more privileged children in society may obtain "higher-quality" education. In India, however, this mentality is far from accurate, as the report notes that private schools capture more than 40% enrollment share of school-going children. Further, the study mentions that private schooling is "not confined to the rich, urban communities in India," as enrollment in rural India is approximately 27% of all school enrollment, versus 11% in the United States. This is quite a departure from Western mentality and helps contextualize the emphasis placed on education by Indian society.

Figure 17. Medical Tourism

Medical tourism is one of the major external drivers of Indian health care.

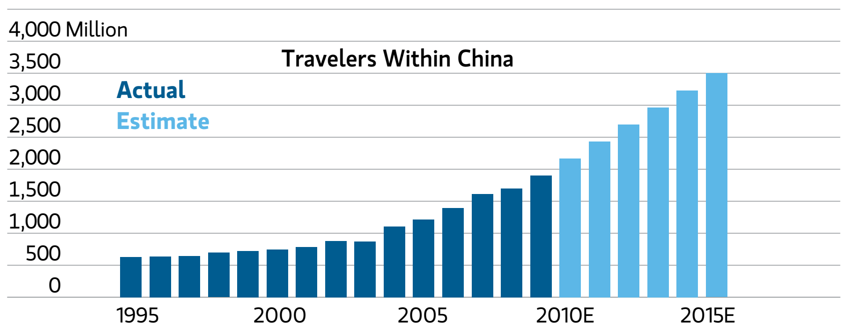
Cost of Key Health Care Procedures (in US$)

	US	Thailand	India
Cardiac Surgery	50,000	14,250	4,000
Bone Marrow Transplant	62,500	62,500	30,000
Liver Transplant	500,000	75,000	45,000
Orthopedic Surgery	16,000	6,900	4,500

Source: PricewaterhouseCoopers as of 2007

Figure 18. Domestic Tourism in China

Travel is rapidly growing as a new luxury for the emerging market middle class.



Source: China National Tourism Administration as of February 2011

The potential result of this emphasis on private education is a tremendous business opportunity in India. To put it into perspective, the aforementioned Yale study notes that, of the 361 million school-age children in India, 60% attend schools (219 million), of which 40% attend private schools. As such, on a broader note, private schools have a significant opportunity to not only gain market share but also broaden the market to penetrate the 40% of students that do not attend school at all. Yale also notes that, according to Credit Lyonnais Securities Asia (CLSA) estimates, the Indian education market is estimated at $40 billion, with future potential possibly at $60 billion.

MORE LUXURY IN LEISURE. Despite the global economic slowdown, China's National Tourism Administration reports that the number of trips made by domestic tourists grew 12% in 2009 and is expected to have grown 14% in 2010, although final figures are not yet tabulated, and 60% by 2015 (see Figure 18). A 2009 article[23] from *The Economist,* titled "A Special Report on the New Middle Class" mentions that, during that year, 3 million Chinese would take up skiing, a sport that was unavailable in the country 15 years prior, citing recent enhancements in reaction to the increased demand, such as manufactured snow for indoor skiing. The designer of China's first ski resort was quoted in the article as mentioning that, contrary to past trends, Chinese who are gaining more wealth would rather go skiing domestically than travel to neighboring countries for leisure.

In addition to traveling within their own country, China's middle class is also starting to travel globally, with that trend also forecast to continue (see Figure 19). International travel grew 15% in 2010.

A recent Morgan Stanley report[24] mentions that one of the most exciting consumption categories in India is travel and tourism. India's overall travel industry is forecast to grow at a 17% CAGR between 2010 and 2015, driven by 20% growth in outbound travel. Outbound group travel will likely be fueled by rising disposable incomes, favorable demographics, improving infrastructure and the growing aspirations of India's large middle class seeking international travel, combined with food, language and new cultural experiences.

Indian consumers are more intent on traveling to newer destinations abroad, as found in a 2011 article[25] from the Pacific Asia Travel Association, which mentions that destinations such as China, Maldives, Indonesia, Bangladesh and even the African continent have witnessed increased interest by Indian travelers. Countries that have experienced increases in business traffic from India include Japan, China and Sri Lanka, and Pacific Asia Travel Association notes that Asian countries account for 76% of leisure travel and 63% of business travel for Indians.

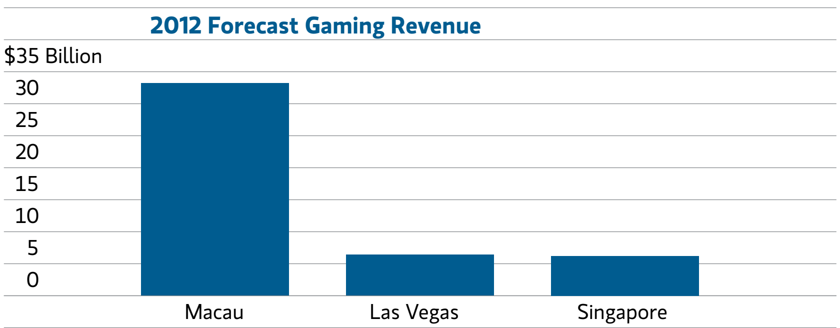
Figure 19. Outbound Travelers From China

China's middle class is increasingly traveling abroad.

Source: China National Tourism Administration as of February 2011

Figure 20. Singapore Entering the Gaming Fore

Although the gaming industry in Singapore has just recently been established, like Macau, it is estimated to become a significant contender to Las Vegas by next year, with help from neighboring Asian consumers.

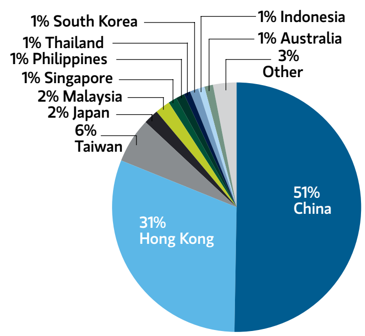


Source: Morgan Stanley Research as of January 2011

GAMING LOOMS LARGE. Casinos should also benefit from increased travel. Macau is one of the largest gaming locations in the world, and according to Morgan Stanley estimates is forecast to generate $33.2 billion in gaming revenues in 2012. Singapore is a relatively newer gaming destination, but it is forecast to generate $6.2 billion in 2012 and is becoming a significant contender to Las Vegas (see Figure 20). In 2009, more than half of the approximately 22 million visitors to Macau were from China, and about another one-third came from Hong Kong (see Figure 21). The more recently built casinos in Singapore are also attracting

Figure 21. Casino Visitation in Macau

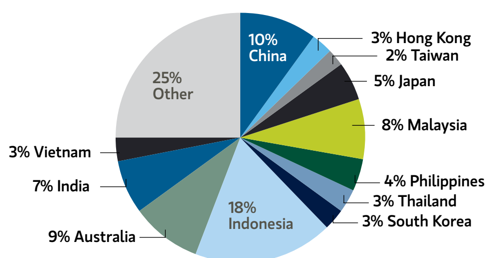
Combined, China and Hong Kong made up 82% of visitors to Macau in 2009, one of the world's largest gaming sites.



Source: Morgan Stanley Research as of January 2011

Figure 22. Casino Visitation in Singapore

Many Asian neighbors have contributed to casino visitation in Singapore. India is forecast to contribute significantly to the industry over the long term, with 2009 penetration from India measuring around 7%.



Source: Morgan Stanley Research as of January 2011

surrounding Asian consumers, with 18% of visitors in 2009 coming from Indonesia, 10% from China, 8% from Malaysia and 7% from India[26] (see Figure 22).

As described above, Chinese consumers are undoubtedly among the largest sources of visitors to Macau and Singapore, and that increased travel benefits the casinos. Although smaller, the initial penetration from the Indian market into Singapore has great room to expand. Longer term, Morgan Stanley analysts believe the Indian market could account for more than $1 billion of incremental gaming revenue in Singapore[27].

A 2010 article[28] in *The Wall Street Journal*, titled "Singapore Casinos Could Rival Las Vegas by 2012" revealed that Asian gamblers would likely opt for newer resorts closer to home, as provided by the Singapore site, giving bigger gamblers a reason to perhaps reduce their multiple trips to Las Vegas per year and increase trips to their regional alternative.

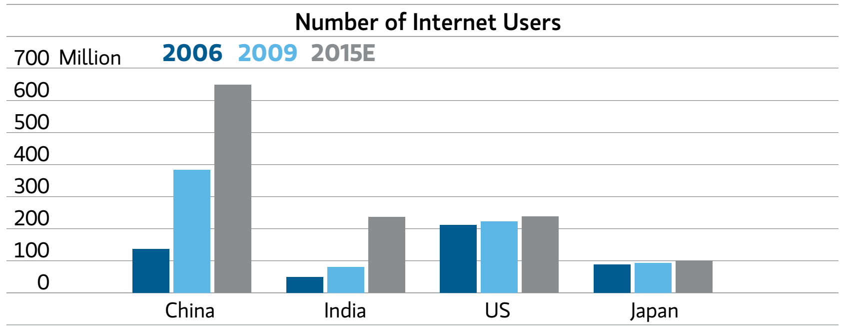
COUNTRYSIDE GOING DIGITAL. China and India represent approximately 37% of the world's population and about 10% of global GDP, with about 450 million Internet users. By 2015, the number of Internet users in those two countries combined is forecast to almost double to more than 850 million. That is almost three times the number of Internet users in the US and Japan combined[29] (see Figure 23, page 13). China is forecast to see a 9% CAGR between 2009 and 2015, and India should see 20%. Both are well in excess of the 1% forecast growth for the US and Japan (see Figure 24, page 13). The growth in Internet use over the next few years in these emerging economies is expected to be fueled largely by the currently Internet-underserved rural populations.

However, unlike the other developing countries referenced, China has already undergone a digital revolution over the past few years. The Internet has indeed sparked a fundamental shift in the way Chinese consumers live their lives—through, for example, trends in ecommerce, social networking and entertainment. In 2009 the number of China's Internet users surpassed that of the US and Japan combined, even though China's penetration rate is only around 20%. There is still plenty of room for growth in China's less-developed regions, as is true for India and the other emerging economies.

Another interesting aspect is that usage in China, India and Indonesia often varies more by user segment across those nations than within the individual countries themselves. A 2010 report[30] from Boston Consulting Group, titled *The Internet's New Billion: Digital Consumers in Brazil, Russia, India, China, and Indonesia,* explains that a typical teenager in India is more like a teenager in Brazil or Indonesia in his or her use of the internet and social media, versus a fellow Indian who is a thirty-something professional.

Figure 23. Signing On

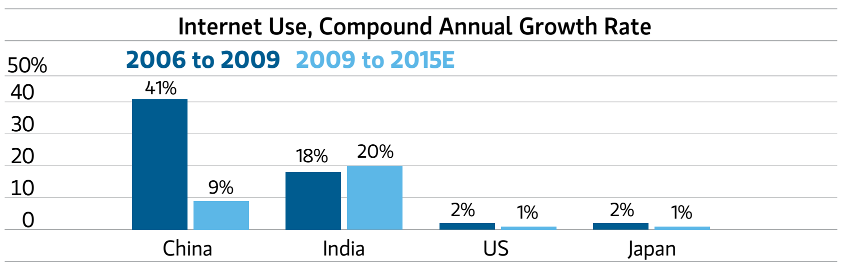
By 2015, the number of Internet users in China and India combined is forecast to double to approximately 850 million, about three times the number of Internet users in the US and Japan combined.



Source: Boston Consulting Group as of September 2010

Figure 24. Internet-User Growth

China and India are forecast to deliver strong Internet growth.

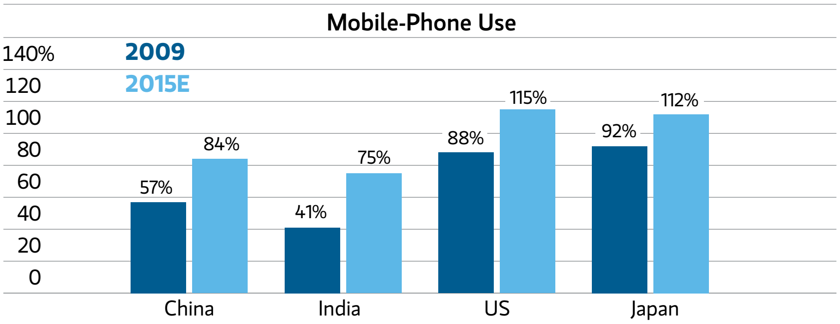


Source: Boston Consulting Group as of September 2010

Please refer to important information, disclosures and qualifications at the end of this material.

Figure 25. Mobile Penetration

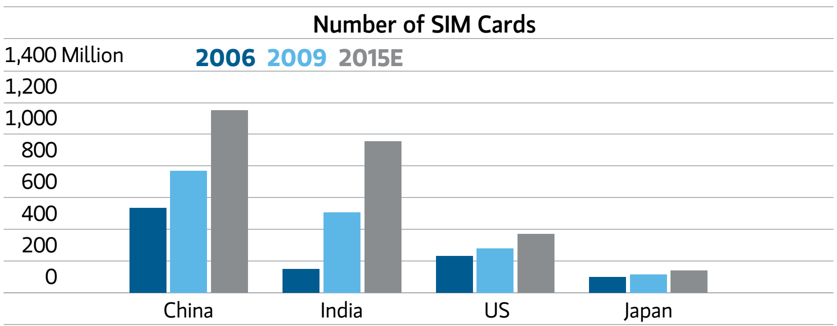
China is the world's largest market for mobile phones with approximately 700 million subscribers in 2009. Mobile penetration is still forecast to expand to 84% from its current 57% by 2015.



Source: Boston Consulting Group as of September 2010

Figure 26. China Leads Mobile-Phone Subscriptions

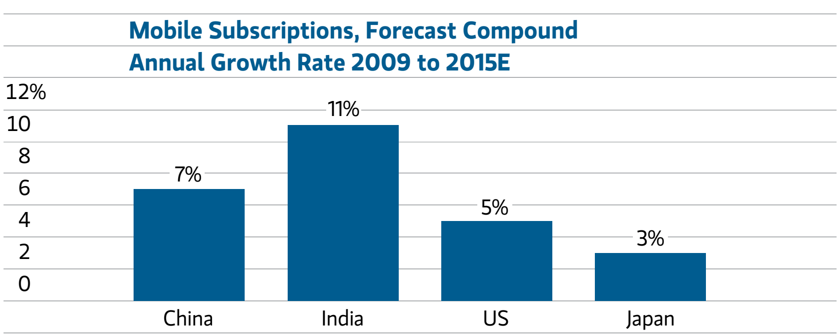
China is forecast to have the highest number of mobile phones in the world, followed by India.



Source: Boston Consulting Group as of September 2010

Figure 27. India's Subscription Growth

India will likely be one of the fastest-growing markets for mobile phones over the next five years.



Source: Boston Consulting Group as of September 2010

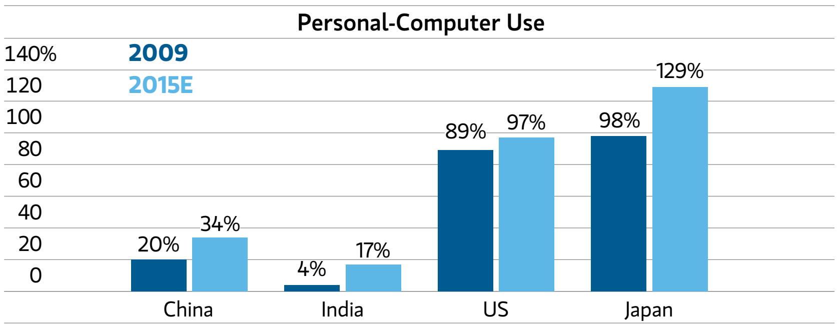
MOBILE PHONES LEAD THE WAY. Mobile devices and Internet cafes are the leading vehicles of Internet use within many developing countries, and mobile penetration rates are already quite high: China and India's mobile penetration rates, at 57% and 41%, respectively, are expected to increase to 84% and 75%, respectively, by 2015. China alone is the world's largest market for mobile phones, producing approximately 700 million subscribers in 2009[31] (see Figure 25, Figure 26 and Figure 27).

PCs STILL SEARCHING. Online usage within emerging economies is quite different from that of developed economies, as personal computers (PCs) play a much less defined role. There are approximately 325 million personal computers within China and India combined. The PC penetration rate for China is about 20% and only 4% in India. Both are well below that of the US (89%) and Japan (98%)[32] (see Figure 28, Figure 29 and Figure 30, page 15).

AUTOMOBILE SALES REV UP. By year-end 2010, China had surpassed the US in auto sales for the first time in history. Chinese consumers purchased a record 13.9 million automobiles, versus 11.6 million sold in the US[33] (see Figure 31, page 16). This would have seemed the remotest of possibilities only a few decades ago. Indeed, when foreign carmakers first entered China in the 1980s, auto sales were less than 10,000 units annually[34]. China has witnessed explosive growth and, over the coming years, it will likely continue to steer past other major economies. Thus, China should continue to hold the number-one market position for auto sales, with a 2009-to-2012 CAGR forecast of 18%. Sales are forecast to reach a record 17.1 million vehicles by 2012, accounting for 22% of global sales (compared with 10% just four years ago).

Figure 28. PC Penetration Low in China and India

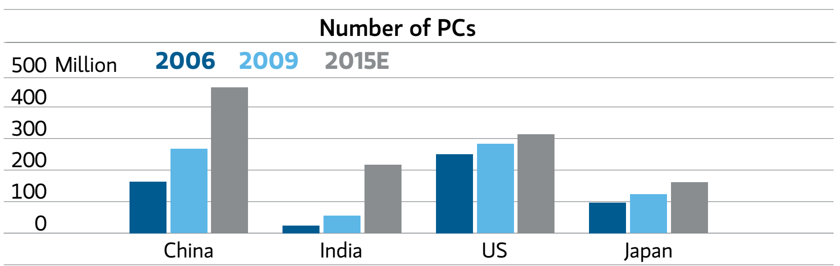
The personal-computer (PC) penetration rate for China is about 20% and only 4% in India—well below that of the US and Japan.



Source: Boston Consulting Group as of September 2010

Figure 29. Share Drive

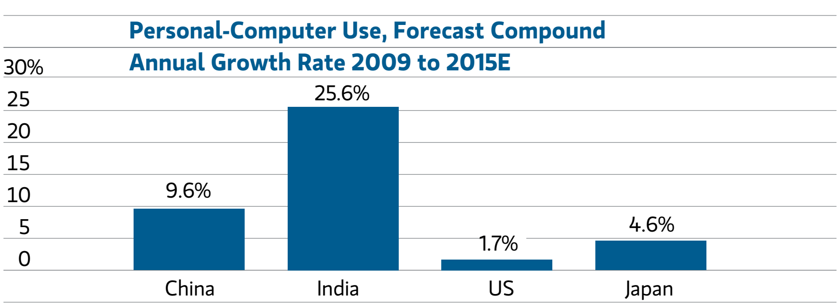
There are only approximately 325 million personal computers within China and India combined. This number is expected to more than double between now and 2015.



Source: Boston Consulting Group as of September 2010

Figure 30. Growth in Personal-Computer Ownership

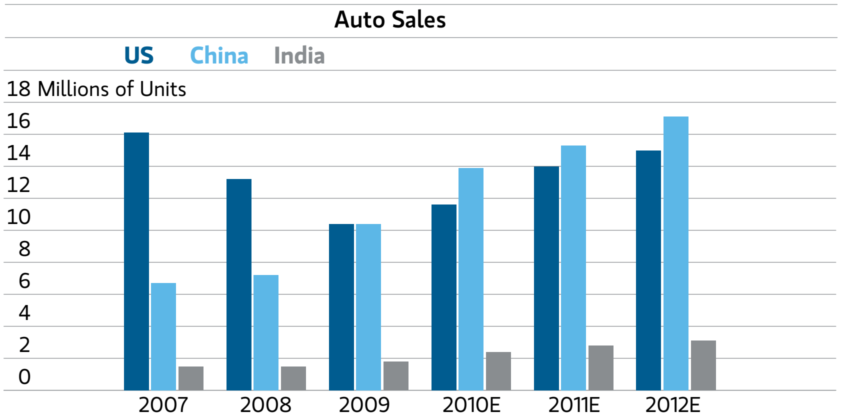
India is forecast to experience one of the highest annual growth rates in PCs over the next five years.



Source: Boston Consulting Group as of September 2010

Figure 31. China Top Buyer of Autos

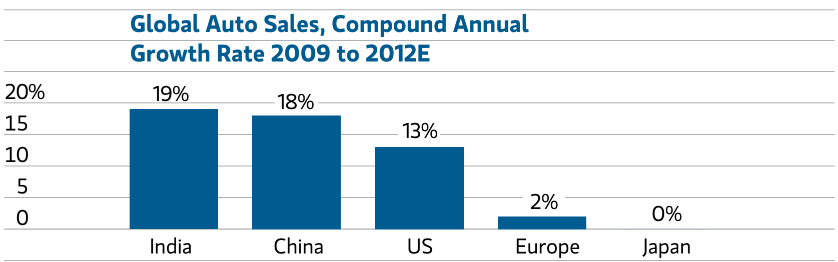
As of year-end 2010, China had surpassed the US in auto sales for the first time in history and is now the world's largest auto market.



Source: Morgan Stanley Research as of January 2011

Figure 32. Auto Sales Driven Upward

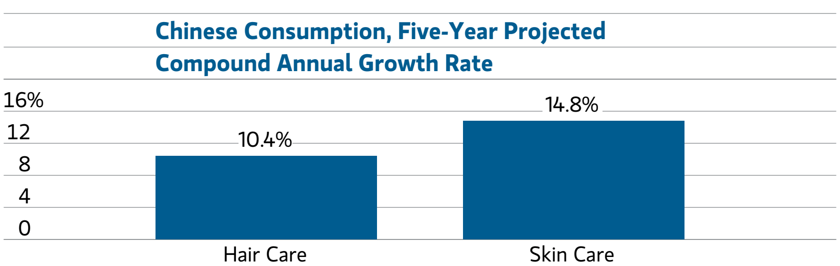
Projected growth in auto sales from both India and China remains impressive.



Source: Morgan Stanley Research as of January 2011

Figure 33. China's Personal-Care Products

Hair and skin care are two notable areas of Chinese growth in personal-care products.



Note: Hair care is percent CAGR from 2009 to 2014; skin care is percent CAGR from 2008 to 2013.
Source: Morgan Stanley Research as of September 2010

India's growth is just as compelling, with its 2009-to-2012 CAGR forecast at 19% (see Figure 32). However, India comprises a much smaller segment of the global auto market, with 2010 sales at 2.4 million units. The forecast is for India to reach 3.1 million units sold annually by 2012.

Car preferences among countries differ widely. As a BCG report[35], titled *Winning the BRIC Auto Markets,* states, "Companies must understand that there is no standard [emerging market] car. ... Indians seek ultra-low-cost minicars, and the Chinese enjoy affordable luxury-style sedans with flair."

While India's auto market is still relatively small, its growth could drive it to become the second-largest BRIC market—perhaps by 2018, as noted in a report[36] from Boston Consulting Group. Original equipment manufacturers (OEMs) must keep in mind India's high sensitivity to price and its previously mentioned Delhi-and-Mumbai-style megacity tendencies. With these points in mind, OEMs should position themselves to capture the potential of India's burgeoning middle class; as the report explains, "Some foreign OEMs, including Ford, GM, Hyundai, and Maruti, have expanded their sales networks to tier 3, tier 4, and tier 5 cities, reflecting the distribution of market potential."

PERSONAL-CARE PRODUCTS. As consumers have greater discretionary income, spending on personal-care products should increase. From 2005 to 2025, China's forecast annual growth is 9.3% and India's is 7.4%.

Within China, over the past 10 years the household and personal-care industry has enjoyed solid growth: Between 1998 and 2008, CAGRs ranged between 5% and 10%, depending on the category. Within the next 10 years, Morgan Stanley estimates annual growth rates between 10% and 15% for leading players in the market. Hair and skin care are two notable areas for growth.

Hair care is forecast to grow at a CAGR of 10.4% between 2009 and 2014, and skin care is forecast to grow at 14.8% between 2008 and 2013[37] (see Figure 33, page 16).

Interestingly, the market share of the largest personal-care company in the US and China is half that of the largest Indian company. A few nascent categories (such as premium skin care) have the potential to grow exponentially, and their historical growth trends may not be reflective of how they develop. We observe that the dominance of incumbent market leaders in the skin-care category was challenged in all Asian emerging markets [see Figure 34]. In India, the bulk of the category is restricted to fairness creams; however, it is quite likely that the market will expand rapidly with the introduction of new products, increased competition and rising disposable incomes.[38]

SCANT FINANCIAL SERVICES. A recent report[39] from Citi Investment Research & Analysis points out that, when compared globally, both Chinese and Indian consumers have relatively high savings rates, which has led to low current consumption and borrowing levels. Furthermore, both India and China have some of the lowest household debt as a percentage of GDP when compared globally.

As detailed in the report, there are key structural differences between the banking sectors in China versus India:

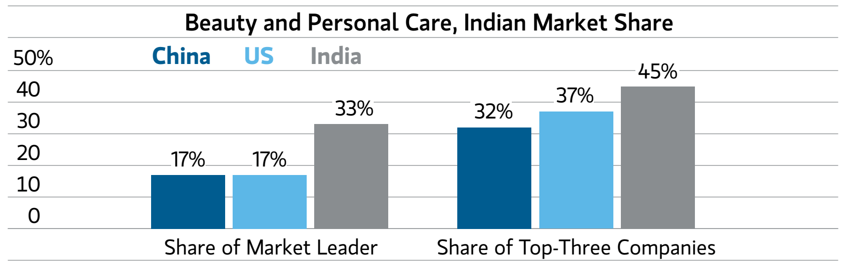
Size: The banking sector is much bigger in China than in India. [In fact,] the loan book size of Chinese banks is over eight times that of banks in India.

Competition: There are more large-scale banks in India (80) than in China (18). Privately owned banks in India have a greater portion of the banking sectors' assets than is the case in China, where many of the big banks are state-owned.

Household credit penetration: Reflecting rising income levels, credit penetration in India has increased meaningfully over the last decade, but [it] is still well below that in China. In China, household credit penetration has remained relatively stable despite a five-fold increase in GDP per capita, in large part reflecting a focus on corporate lending.

Figure 34. India's Leading Beauty

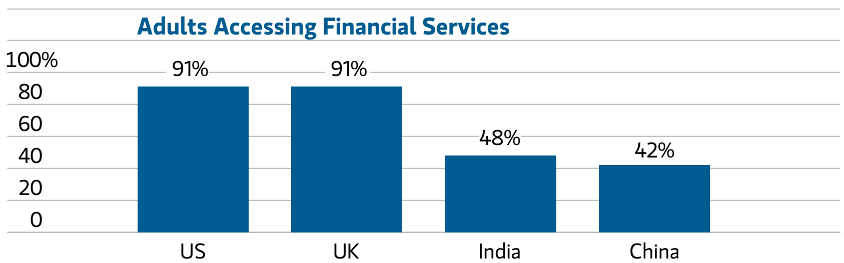
India's personal-care industry is dominated by the market leaders.



Source: Morgan Stanley Research as of January 2011

Figure 35. China's Low Financial-Service Usage

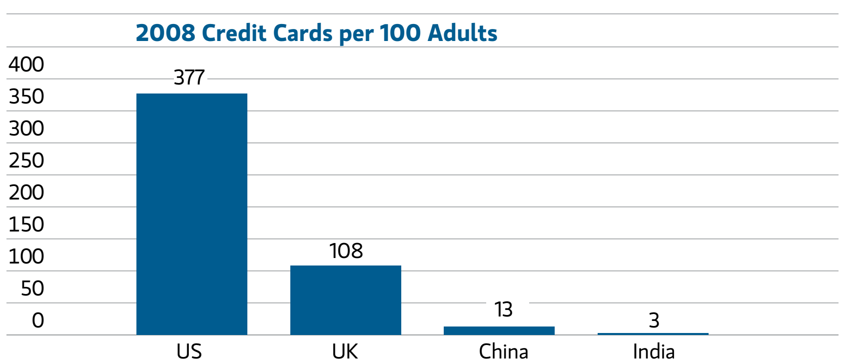
In 2005, fewer than half of the adults in China and India used financial services.



Source: Citi Investment Research & Analysis, *Journal of Banking and Finance* as of August 2010

Figure 36. Giving China and India Credit

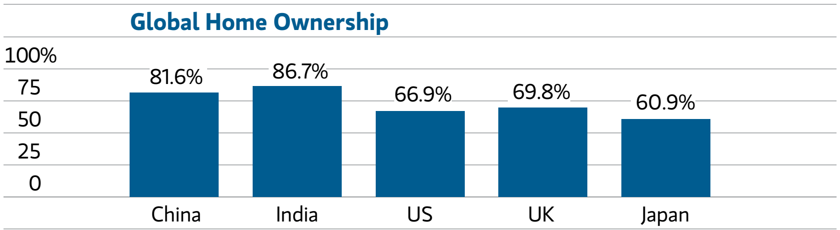
Credit-card penetration remains extraordinarily low in China and India.



Source: Citi Investment Research & Analysis, Bank for International Settlements, Bank of China, Reserve Bank of India as of August 2010

Figure 37. China's and India's Home Owners

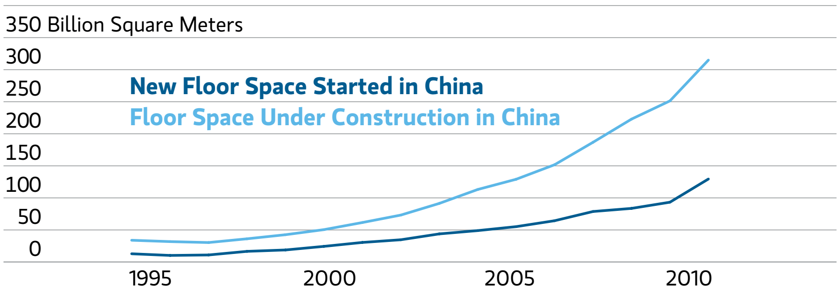
Home-ownership rates for China and India are among the highest in the world.



Note: China data as of 2005; India:2001; US: 2010; UK: 2007; Japan: 2008.
Source: China Ministry of Urban-Rural Housing Development, Census of India, US Census Bureau, UK Government Statistics, Japan Statistics Bureau & Statistics Center as of February 2011

Figure 38. Residential Floor Space in China

Residential floor space under construction and new starts have both accelerated significantly over the past decade in China.



Source: Morgan Stanley Research as of January 2011

Loan composition: Loan composition in China is heavily skewed towards corporate lending (60% of loans), and is concentrated in relatively few sectors (such as infrastructure). That said, mortgages account for a greater portion of loan books in China (16%) than in India (10%).

Financial services remain underpenetrated in both China and India, with less than half the adults in both countries making use of these services compared with 91% in the US and UK, including the use of credit cards (see Figure 35 and Figure 36).

HOME OWNERSHIP. The home-ownership ratio for the urban population in China is quite high, at 81.6% in 2005. India's census study in 2001 revealed an even larger figure, at 86.7%. These ratios are among the highest in the world. Compare similar statistics for the US, UK and Japan (see Figure 37), which all are in the 60%-to-70% range. That notwithstanding, housing should continue to see robust growth in China as millions of Chinese move to new urban areas, concomitant with rising middle-class incomes supporting trading up to new, modern housing (see Figure 38).

The relative shift in spending on housing in 2025 versus 2005 is projected to be up 7% in China, whereas the number is -2% in India. In other words, spending on housing on a relative basis, compared with all other areas of household spending, actually should decline in India over the forecast period. This may be due to the fact that India is set to come out of a deeper poverty level than China over those two decades. As mentioned before, 29% of residents live in cities in India versus 40% in China. India's urbanization rate will grow to 37% by 2025, which is still lower than China's current rate[40]. Into 2025, the average middle-class person in China will probably be wealthier, relatively speaking, than the average middle-class Indian. Then, the wealthier the Chinese get, the more money they will spend on bigger houses; whereas, during the same time period, Indians will be rising out of poverty and still migrating to cities. Also, India's urban growth will be dominated by megacities, whereas China's will be spread across a large number of mid-sized cities. This means much of India's land mass will remain rural—with cheaper housing costs.

As a *New York Times* article[41] on China's middle class pointed out, owning a home is a manifestation of once-unthinkable goals of prosperity and independence. While the housing bubbles in the US and Europe have raised concerns about the potential for a similar bubble in China, China's mortgage standards seem to mitigate that risk. The standard down payment required, as a percent of total property value, has generally been 20% in the US—although lower down payments, even zero, were widely available in the early 2000s. In China, however, the standard down payment required by the State Council is 30% for first-home buyers and 60% for second-home buyers; further, no mortgages can be provided to third-home buyers. This follows efforts by the government to quell rising home prices. In India, down payments range from 10% to 20%, with 20% possibly being more common[42].

TRENDY SOCIAL TRENDS. As in any country, cultural tendencies, social aspirations and spending power all influence the way consumers shop, the styles they prefer and the prices they are willing to pay.

A McKinsey study[43] observed notable differences between the Chinese and Indian consumer when it comes to shopping for apparel. China was the world's third-largest retail apparel market at $84 billion in 2007. It came behind only the US, at $232 billion, and Japan, at $100 billion. China was also the fastest-growing market among the emerging economies, with an average growth rate of 12% per year. Yet, China's mass-market consumers have relatively small, undifferentiated wardrobes. Indeed, 40% of respondents surveyed revealed that they wore similar clothes to work, to formal or social occasions (e.g., weddings) and for dates with friends or family. This compared with only 13% saying the same in India. Furthermore, the Chinese consumer places a lower premium on foreign brands versus the Indian consumer. Just 25% of Chinese respondents said international brands were superior in value or quality. They placed equal, if not greater, value on their local brands, with only 11% responding as having even tried foreign-made clothes. This contrasted sharply with the 50% of Indian consumers who stated that international brands were of premium value. However, young urban Chinese consumers—totaling approximately 15 million between 18 and 25 years old—represent an exception to the above general tendencies, favoring international brands[44].

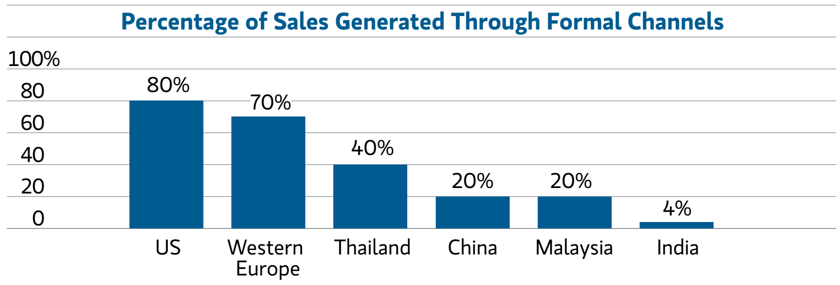
For the apparel market in India, nearly 40% of mass-market shoppers said their most important shopping occasions revolve around special events, which is drastically higher than other emerging economies. Further, shopping is much more of a family activity in India than it is elsewhere, with nearly 70% of its shoppers saying they always go shopping with their family[45].

GOOD BYE MOM AND POP. A key factor that facilitates the purchase of packaged consumer products offering convenience is a modern retail format. In that regard, a report[46] by the consultants A.T. Kearney points out that, in emerging economies, the retail grocery segment has, until recently, been largely unorganized. The report mentions that organized retail accounts for close to 80% in developed countries, while developing markets remain highly fragmented among many private owners and mom-and-pop shops. As such, the report explains that large retailers have potential to increase consolidation across the industry by driving efficiencies of scale.

About 20% of retail is organized in China and, although this is well below

Figure 39. Differing Retail Trends

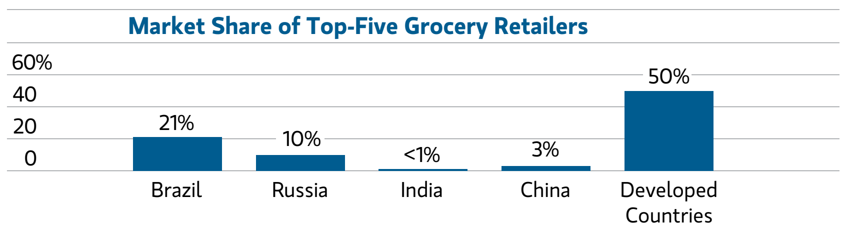
About 20% of retail is organized in China and, although this is well below developed nations (80% in the US), India's rate is much lower and barely developed, with only 4% of their retail market being organized in 2008.



Source: Citi Investment Research & Analysis, Accenture as of 2009

Figure 40. Grocery Retailers Yet to Take Hold

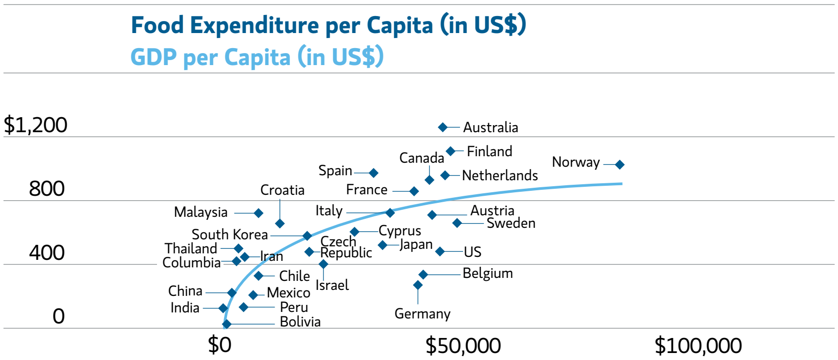
As of 2008, retail grocers remained significantly fragmented in both India and China.



Note: Grocery retailers are defined as nontraditional, organized retail formats and chains including hypermarkets, supermarkets, cash and carry, department stores, specialty chains and shopping malls.
Source: A.T. Kearney as of 2008

Figure 41. Food Expenditures Level Off

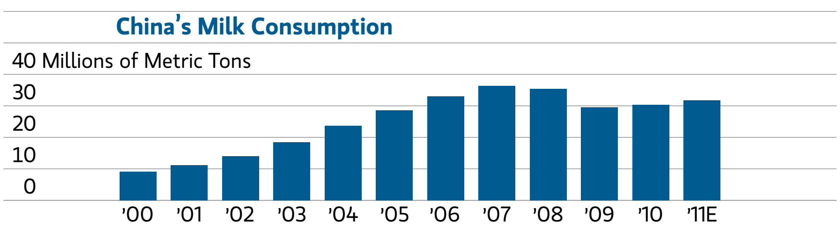
Initially, as incomes rise, spending on food goes up sharply. Then, it tends to plateau.



Source: United Nations Statistics Division as of 2007

Figure 42. Dairy Trending Upward in China

In China, dairy products are regarded as nutritious, as they provide rich protein and calcium. The emerging middle class demands a wide range of high-quality food products—from milk beverages and yogurt to ice cream.



Source: US Department of Agriculture as of March 2011

developed nations—for example, 80% in the US—India's rate is even lower and barely developed, with only 4% of the retail market being organized[47] (see Figure 39).

Modern retail is a likely catalyst for packaged foods. As Morgan Stanley analysts note:

> Increased proliferation of modern trade is likely to catalyze acceleration and growth, in our view. Pantaloon, the largest modern format retailer in India, expects food to contribute over 50% to overall sales in the next three to four years, up from the current ~35%.[48]

An article[49] from PR Newswire notes that retail-investor interest was spurred by India's decision in 2006 to allow foreign direct investment (FDI) of up to 51% in single-brand retailers, which ultimately triggered market-entry interests from global retailers such as Zara, Wal-Mart and Tesco, to name a few.

Both China and India remain unsaturated in the modern retail space when compared with their developed-market counterparts, and India particularly has much room to grow as foreign companies continue to penetrate (see Figure 40). According to a report[50] from Accenture, titled *Outlook 2009: A Passage to India,* though the megacities of India's south boast modern supermarkets, in most other areas Indian grocery stores are the mom-and-pop type. This is also true of shopping malls, where smaller, more personal outlets are still pervasive, allowing ample room for growth.

FOOD STILL NUMBER ONE. As incomes rise, the growth of spending on food slows (see Figure 41). Although spending on food will decline on a relative basis over the next two decades for the middle-class consumer, the category still is the largest area of spending on an absolute basis. It is forecast to comprise 25% of total spending in India and 24% of total spending in China in 2025.

A report[51] by the US Department of Agriculture states that:

> The Chinese have significantly changed their dietary habits from starch based to more protein based eating, [concomitant] with increasing disposable incomes. … In China, dairy products are regarded as nutritious as they provide rich protein and calcium [see Figure 42]. Food products that contain dairy ingredients have also become popular. … On the consumer side, the emerging middle class demands a wide range of high quality food products, from milk beverages, yogurt, ice cream to chocolates and baked products.

With current baby boomers likely to double the country's birth rate, as discussed previously, the baby-food industry within China is of particular note. A recent Morgan Stanley report[52] says:

> The China baby food industry has experienced double-digit growth year over year since 2001, accelerating at a CAGR of 24% from 2004-2009. Growth potential for the baby food segment is still huge in China. Per-capita consumption remains low compared with that of other more developed countries. Milk formula accounts for about 87% of the total baby food market (by value).

THE CONVENIENCE FACTOR. When it comes to meal preparation, convenience is one issue that motivates many middle-class consumers to trade up to more expensive products. Consumers in many developing economies are working increasingly long hours—especially in urban areas—thereby leaving less time for other activities, such as cooking. It's likely for this reason that sales of ready-made meals have grown relatively rapidly in China (see Figure 43).

As a recent Morgan Stanley report[53] shows, packaged foods are expected to grow significantly in India over the coming years (Figure 44 and Figure 45). The sector as a whole could grow at a CAGR of 24% between 2009 and 2014. The report explains:

> [Packaged foods have] the potential to grow 970 basis points ahead of disposable income growth in India (i.e., 24.2% through 2014). The biggest reason for the underdevelopment of packaged foods is reluctance of the Indian consumer to pay a premium for convenience and hygiene, which … is likely to change … with rising disposable incomes. … Categories that may witness the fastest growth are the ones where penetration and consumption are at low levels and the Indian consumer aspires to consume these products. In our view, categories such as ice cream, cooking aids, noodles, baby foods, dairy, and confectionary are likely to register fastest growth.

FAST-GROWING FAST FOOD. As disposable incomes rise, restaurants will tend to benefit as leisure activities, such as dining out, gain more traction and greater wallet share (see Figure 46). For example, a Morgan Stanley report[54] highlights that from 2000 to 2008, the amount of money spent on restaurant food as a total percentage of food purchases among urban Chinese residents increased to 20.6% from 14.7%. Compare this with 47% spending on restaurant food as a percentage of total food spending in the US in 2008.

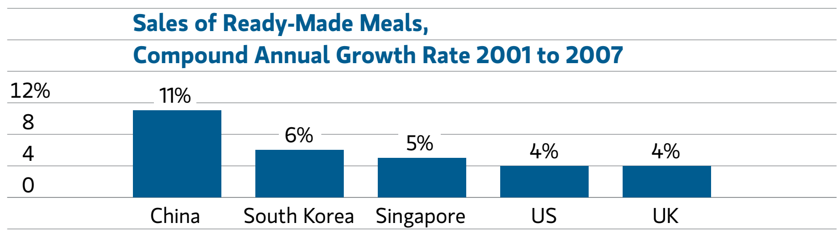
The restaurant industry in China experienced rapid growth in the last two decades, with more than 20% CAGR, and the long-term outlook is forecast to remain solid; in the near term, the Ministry of Commerce forecasts a 16.5% CAGR for the 2009-to-2013 time frame. Says Morgan Stanley of the recent growth:

> We attribute this to rising per-capita income, a faster-paced lifestyle, and a demographic shift to smaller families. … Although independent outlets still dominate China's restaurant industry, chain brands will grow much more quickly than will non-chained restaurants [see Figure 47, page 23]. We believe that foreign brands will continue to lead in the fast food segment because of their existing presence in the sector, economies of scale, and strong logistical capabilities.[55]

The growth of the restaurant business in China can be embodied by the city of Beijing, which had its first private restaurant opening in 1980 and boasts more than 20,000 dining establishments in the city today[56]. It is noted that, while American fast food has been pervasive globally, China in particular has demonstrated a strong demand for typically "American" foods like fried chicken sandwiches and

Figure 43. Developing Workers Short on Time

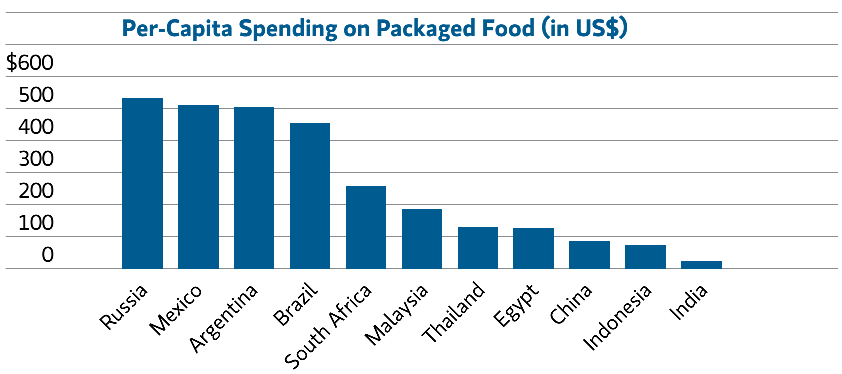
Consumers in many developing economies are working increasingly long hours (especially in urban areas), thereby leaving less time for other activities, such as cooking.



Source: Euromonitor, Datamonitor as of 2007

Figure 44. Convenience in Store

Convenience and hygiene factors will drive nonlinear growth in packaged foods in India.



Source: Morgan Stanley Research as of January 2011 pepperoni pizza, as mentioned in a 2010 *CNN Money* article[57], titled "China, the New Fast Food Nation."

Interestingly, a 2011 article[58] from *Bloomberg Markets Magazine,* titled "McDonald's No Match for KFC in China as Colonel Rules Fast Food," compares leading multinational fast-food operators in China and comments on the success of localization strategies. For international consumer penetration, retention, and success, localization strategies are one of the key themes to note.

KFC's use of local ingredients, the article notes, is hugely successful; customers can order a bowl of congee (local rice porridge that may include pork, pickles, mushrooms and egg) along with normal fried chicken. McDonald's plans to add items that include pork burgers, spicy beef wrapped in dough, the China Mac and red-bean-paste ice cream sundaes.

Localization strategies are not the only areas fast-food multinationals need to embrace. Physical presence and expansion in areas where the growth lies are also important. These chains have been expanding at record levels in order to keep up with demand, as well as capture underpenetrated areas. The article[59] above notes that 200 to 300 McDonald's restaurants open in China every year, with 600 units opened in 2004, 1,100 in 2010 and 2,000 more planned by 2014.

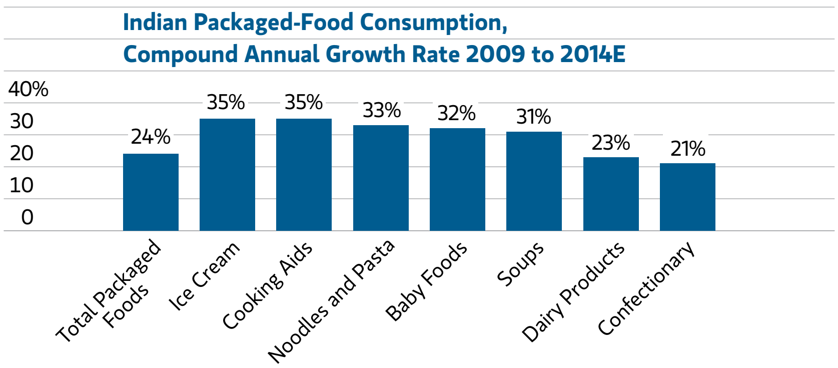
With regard to multinational fast-food companies versus domestic players, local Chinese fast-food companies make up nearly 70% of the overall fast-food industry in China. However, although there are many local Chinese fast-food establishments, they are largely fragmented and do not exhibit the strength of their multinational counterparts.

Like China, India has one of the fastest-growing fast-food markets in the world (see Figure 48, page 23). A 2011 *Trans World News* article[60] notes that the fast-food market in India is growing at an annual rate between 25% and 30%, with perhaps almost all global brands establishing a presence and experiencing growth.

As mentioned above, localization strategies are important and, as in China, are becoming visible in India. For example, companies have adapted existing product ranges to take account of India's local culture by using lamb as opposed to beef in its products. As a 2010 article[61] from *Investors Chronicle,* titled "Chips With Everything—The Rise of Western Fast Food in Asia," explains, multinational fast-food chains are regular sites within major cities in India. The article's observation that this "is odd given that India has traditionally offered a strong vernacular form of street cuisine" highlights that, especially in India, this tendency toward fast food embodies more and more consumers entering the middle class.

Figure 45. India's Packaged Foods

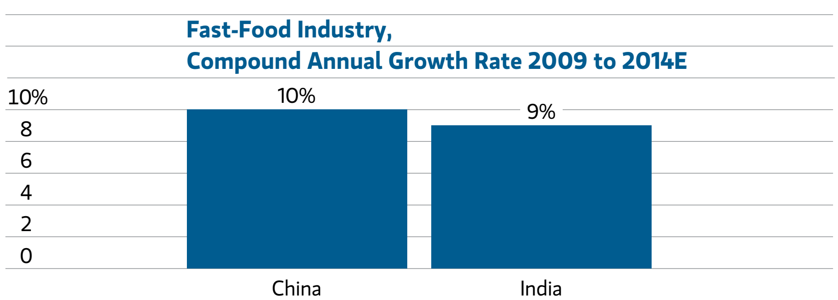
Consumption of packaged foods in India is forecast to grow 24% per year over the next few years.



Source: Morgan Stanley Research as of January 2011

Figure 46. Snappy Meals in Demand

The fast-food industry as a whole is forecast to grow in both China and India.

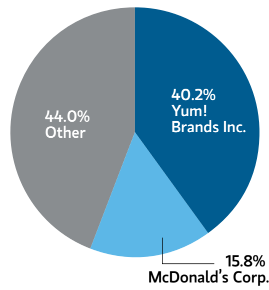


Note: China is as of July 2010, India: August 2010.
Source: Euromonitor as of August 2010

A DEVELOPING STORY. In the decades ahead, as the developing-market landscape shifts, finding opportunities in the emerging middle class in China and India will involve more than just looking at individual sectors or companies. The key to riding the growth in these giants will be in continuing to analyze how emerging middle-class consumers evolve in terms of their needs and interests and how local and international governments and industries respond to these changes. The winners will be those who can foresee the larger trends, find opportunity among them and adapt in kind. ■

Figure 47. Chained Fast-Food Sector in China

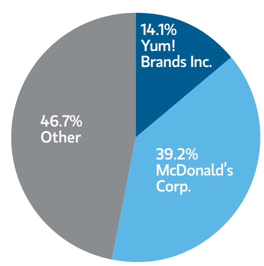
Localization strategy is one of the main drivers for successful performance in the Chinese market. In 2009, more than half of the market belonged to just two companies.



Source: Euromonitor as of July 2010

Figure 48. Chained Fast-Food Sector in India

US fast-food companies in India have adapted existing product ranges to take account of local culture, for example, by using lamb as opposed to beef in their products.



Source: Euromonitor as of August 2010

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