

The Growth of the Middle Class: Impacts on Developing Nations & the Fashion Industry

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Section I.
Global Trend:
The Growth of the Middle Class
In Developing Countries

Introduction

The world population is continuing to rise steadily every year and poverty levels mirror its growth. Millions of people can not afford to provide themselves, or their families with basic necessities such as clean drinking water and proper shelter. However, as a result of globalization, many people are rising out of poverty. This is causing the development of a middle class in developing nations. The countries of the world are coming closer together as transnational brands from both the west, McDonalds, Coca-Cola and Disney, and the east, Sony, Mitsubishi and Toyota, become symbols of a global culture. The increase of popular culture influences around the world has created a desire for consumerism. The global trend of a growing middle class in developing countries is significantly affecting globalization. Whether or not this trend is positively or negatively affecting the developing nations can be argued. The increase in spending is attracting foreign investment and is causing GNPs and GDPs to increase. However, modernization is also causing the loss of culture and a considerable wealth gap. The growth of a middle class in developing nations is a significant global trend because it is causing an increase in consumer spending due to the expansion of economies and opening up the global market.

“In the literature on democratization, the rise of a large middle class is often seen as a precursor for the development of civil society and a well-functioning democracy.” (Unger)

History of the Trend

The history of the trend of a rising middle class in developing countries can be traced to “the 1989 demise of Communism in Eastern Europe and the former Soviet Union and the de facto rise of capitalism in China that began a decade earlier” (Ger and Belk). 1989 was also the year of Tiananmen Square protests in China. Governments in the east were not following western ideas of democracy. Since the collapse of communism and the Chinese protests, governments have allowed for capitalism to creep in. Governments have also begun to allow for the growth of a middle class. In China, the government has set up subsidies which allow state-sector employees to purchase luxury apartments for about 20 percent of construction costs (Unger). This is allowing middle class Chinese to live among the extremely wealthy. Governments with controversial leaders are also leading the growth of consumerism. In Russia, the 7% growth of gross domestic product and 8% rise in incomes is being attributed to President Vladimir Putin (Bush 50). The growing middle class is also a result of the increase in the service sector. For example, in India, call centers and organized entertainment have contributed to the growth of GNP (Balakrishnan M6). The ultimate driving force of the trend is globalization coming from the west causing changes, such as the expansion of economies. Globalization “has opened up markets, [resulting in] greater efficiency in manufacturing, and advancing technologies” (Knickerbocker 16). These newly opened markets have created a middle class in many developing nations. As western companies outsource to countries such as China and India, new jobs are created. New jobs produce additional income that can be spent on consumer products.

Size and Direction of the Trend

It is no secret that foreign investors look to developing nations for cheap business processes. Many technical jobs are being outsourced to India and many manufacturing jobs are being sent to Asia as well as Central and South America. The increase in jobs is offering job opportunities, which is creating a middle class. The middle class of these developing nations is increasing, causing a boom in the economy. Worldwide, the “consuming class includes more than 1.7 billion people” (Knickerbocker 16). Many of the people supporting the middle class come from North America and Western Europe. However, countries from Easter Europe, Asia and Central/South America are beginning to share some of the wealth. Foreign investment in Russia has risen to \$17 billion with a middle class comprising of 35% of the population, an increase of 47 million people since 2000 (Bush 50). This is a very impressive output from a former communist nation. 362 million consumers come from Chinese and Indian middle classes (Knickerbocker 16). Many people are still suffering below poverty in the Asian nations, but the growth of the middle class is evident in their consumerism. In Brazil, one third of the population is among the middle class (“Keen”). Developing countries around the world are beginning to prosper and are anxious to spend their new earnings. Another indicator that the trend is growing is the movement of credit card companies into these countries. It is much easier to buy expensive goods on credit. For example, Kunal Kapur, a call-center supervisor in India, purchased a Tommy Hilfiger sweater which cost a quarter of his monthly salary, by credit card (Upadhyay 18). Another example is in Brazil, 8% on annual income goes to paying off credit card debt (“Keen”). The trend of a growing middle class is strong as it continues to move into developing countries. As more markets open to foreign investment, it will continue to become a prominent global trend.

Perspectives on the Trend

As developing countries become apart of a global society and modernize, positive and negative views emerge. The positive views are taken from capitalism. As foreign companies expand into new markets, the knowledge of the transnational brands begins to increase. This will cause a demand for consumer goods and provides opportunities for people to possess products they never had access to. Consumers from the newly globalized economies now demand fast food, music, video and computer games, movies and television from western culture (Ger and Belk). However, this brings about concerns regarding the rise of consumerism. The first is a loss of culture among individual countries. In India, there has been a shift to individualism from a group dynamic. Before the rise of a middle class, time outside of work in India was spent with friends and family. With the introduction of many television channels, time is spent on the couch, alone, channel surfing (Balakrishman M6). The importance of family, which is a significant aspect of Indian culture, has been put on the backburner for MTV.

Another growing concern about the rise of the middle class is the significant wealth gap that is occurring. In the large urban cities, people are flourishing. However, in rural communities, there is still immense poverty. For example, the Chinese middle class is the fastest growing segment in the country, yet 75 percent of the country is living below the poverty level (Muddyman). There are critics to this concern. The rise of wealth improves the quality of life. It also takes time to progress. Ezra Finkle of the Competitive Enterprise Institute argues, “Rather than contributing to the global destruction and third world poverty, consumerism actually promotes technologies that serve to better environmental and human well-being” (qtd. in Knickerbocker 16). The trend is still growing. The outlook seems positive, but time will tell if the rise will positively or negatively affect developing countries.

Conclusion

Developing nations around the world are beginning to prosper due to the globalization. Globalization is forcing new markets to open up which is causing world economies to expand. Countries around the world, such as China, India, Russia and Brazil, are experiencing the global trend of a growing middle class. These nations are making shifts away from communism towards capitalism. The trend is allowing global participation in the market place and allowing for transnational branding. Globalization has assisted in driving the trend, which has allowed developing countries to modernize and advance their technologies. This makes them appealing to foreign investment. New job opportunities are opening up, which is creating new wealth that supports a middle class. The new wealth has provided individuals and families with disposable incomes. This money, which goes beyond covering basic necessities, allows people to become consumers in the market. Purchasing goods on credit is a new idea in these countries. As consumerism rises, there is more of a need for credit cards. However, there are critics who see the shift towards capitalism in a negative light. Many are getting caught up in the new products they are able to afford and are losing focus on important aspects of culture. There are also considerable wealth gaps in these developing nations. Although there are still many suffering from poverty, many have risen out as a result of globalization. The trend of a growing middle class in developing countries is continuing to become prominent all around the world. The global trend of a growing middle class in developing nations shows no evidence of slowing down. It will continue to be a significant global trend and it is likely that more developing nations will join the trend in up coming years.

Section II:
Impact of the Trend
China & the Fashion Industry

Introduction

The fashion industry is always the first to recognize a growing trend. Over the past few years, there has been an immense focus on the development of Asian countries, as they have become an important player in the industry. Although it is still a Communist nation and many people within the country suffer from poverty, China is still considered to be one of the world's most powerful countries. China continues to grow and strengthen as a nation, and it is gradually making the shift to become a more modernized culture. As China makes this shift, more job opportunities have become available, which is causing an increase in wealth. China is one of the many developing countries that is a part of the global trend of a growing middle class. There are about 100 million people considered to be middle class and the number is expected to triple in the next decade (Wong 36). The fashion industry has always seen China as a key player because of manufacturing capabilities. However, the growing middle class is providing the retail sector of the fashion industry with promised opportunities for expansion. China now has a significant number of people with newly found disposable incomes. They are ready to spend. In 2006, retail sales rose 13.7 percent (Wong 36). The trend of a growing middle class is significantly impacting the fashion industry in China because of the rise of consumerism, the increase of foreign retail presence and demand for luxury.

From Communism to Consumerism

China has made much progress since the introduction of communism under the ruling of Mao Zedong. As the Mao generation gradually ages, a new generation of capitalists emerge. These Chinese are taking on a bourgeois lifestyle which extends beyond the limits of what the former communist nation would have allowed. This is a result of a newly formed middle class in China. China's economic reforms began in 1978 under the influence of Deng Xiaoping and the lifestyle shift from communism to consumerism has been even more prevalent in the past decade (O'Leary). The new Chinese consumers have shunned the Mao suits of the past and embraced more western influenced fashion. These consumers are smart and they understand value. Retailers in China are beginning to grasp a better understanding for the newly blossomed market.

Chinese are known to be frugal and save their earnings. However, the growing middle class is shattering this view as they are more willing to spend their disposable incomes. A recent survey conducted by HSBC found that "47% [of the Chinese surveyed] said they saved only what was left at the end of the month [and] almost one out of three said they did not save at all" (Wong 36). Although they are willing to spend more, they are also willing to spend the time to look around and find the best deal. In retail, getting consumers to buy is about the right product at the right price at the right place and time. In order to get the Chinese consumer to spend money on certain products, it is up to the manufacturers to do in-store promotions. This strategy has formulated its own buzzword "retailtainment" ("Special" 60). Retailtainment includes a hair dresser to color a person's hair with the hair dye just purchased and chair set up among big screen televisions to watch sporting events ("Special" 60). This is changing the ideology of retail. Retailers now have to step it up to compete and get consumers to spend their disposable incomes.

Large retailers within China are responding to the westernization and modernization that is beginning to emerge in the marketplace. Because of new flashy foreign retail outlets that are popping up all over China, the national retailers now have steep competition. This is especially evident in the hypermarket industry. Hypermarkets are super-stores such as the U.S. based retailer Wal-Mart and the European retailer Carrefour. They offer a wide variety of goods including groceries, electronics, clothing and household products. For example, the Hong Kong based hypermarket Vanguard is opening up an upscale version of their store, Ole, which will offer Chinese middle class consumers a luxury shopping experience that includes a juice bar and wine room (“Special” 60). In the smaller cities and suburbs, retailers can not afford to invest in such extreme measures. Therefore, to answer the demand for modernization, they are purchasing franchises of western brands such as KFC and Tupperware (“Special” 60). The emerging middle class in China has high demands. It is crucial for the success of Chinese retailers to keep up with foreign investors in order to be successful in the future.

Foreign Retailers Move into China and the Demand for Luxury

As China begins to see a rise in a middle class, a new image emerges. Foreign investment of western retailers is going to turn China’s image into one of H&M, Levi’s and Liz Claiborne. According to Kurt Salmon Associates, a retail apparel consulting group, “The market for casual clothes in China is projected to grow by an estimated 10% annually to reach \$58 billion in sales by 2010” (Fong and Dodes B1). Foreign retailers from around the world have realized this promised growth of the Chinese middle class and have begun to make their move. Many companies have their goods produced in China because of inexpensive labor. If the goods are already manufactured there, why not make China a customer? H&M, a Swedish retail chain,

has made plans to open its first retail outlets in China in early 2007. The Spanish corporation Inditex has already begun to open their Zara and Mango stores in China. In addition, American companies such as Kellwood Co, maker of Phat Farm and Baby Phat, Jones Apparel Group Inc., owner of Nine West, Anne Klein and Jones New York, and Liz Claiborne, owner of Juicy Couture and Lucky Brand Jeans, have all made plans or have already opened retail outlets in China (Fong and Dodes B1). Before long, all young middle-class Chinese girls will have *Juicy* stamped across back of their terry cloth jackets and pants, just like their trendy, modern counterparts in the west.

In addition to the growing middle class in China, there has become an abundance of wealthy people known as the nouveaux riche. In China, the importance of “face” is an important in society. The wealthy feel, “brands give consumers a certain status, indicating economic standing, power and social influence” (O’Leary). These individuals are demanding the image of wealth through designer fashion brands. According to Joyce Ma, owner of the Chinese Joyce Boutiques, “there are some 300,000 mainland Chinese with a net worth of more than \$1 million in cash, excluding property, and that group controls \$530 billion in assets” (Edleson 15B). Luxury retailers that many westerners can’t even afford, Gucci, Louis Vuitton and Burberry to name a few, have already made their grand entrance and are ready to provide these nouveaux rich with the goods they demand. In addition, the Chinese consumers don’t mind paying a higher price for designer labels. China is known in the fashion industry to illegally produce fake designer goods. Therefore, Chinese consumers understand the value of a real designer good and will even pay 30 to 40 percent more than what is charged in other major cities around the world (O’Leary). The growing middle class of China are embracing foreign retailers and don’t mind paying the price for the image of luxury.

Conclusion

China has come along way since the rule of communism under Mao Zedong. China has begun to embrace the ideology of consumerism as it is one of the leading countries driving the global trend of a growing middle class. The fashion industry, especially the retail sector, has been significantly impacted by this trend. The Chinese are beginning to enjoy their disposable incomes rather than saving like in the past. Consumers in China do appreciate value and a good deal. Retailers are improving the retail experience by providing shoppers with “retailtainment” and more luxury products. The increase in wealth is also causing a demand for foreign retailers and luxury brands. Famous fashion retailers such as H&M, Zara and Liz Claiborne have already made their move into the Chinese market. The price range of these retailers is very appropriate for the middle class market. More expensive designers like Gucci, Louis Vuitton and Burberry are also becoming more important to the wealthy nouveaux riche. Consumers also appreciate the value of real designer goods, rather than fakes, as they are a status symbol. The fashion industry has been deeply impacted by the global trend of growing middle class. As the trend continues to grow, there will be even more demand for foreign retailers. The opportunities for retail in China are very promising and the future of fashion in China is one the industry will be watching very closely.

Section III: Global Implications in Industry

Introduction

The global trend of a growing middle class in developing countries is having a significant impact on many countries around the world. The fashion industry is reaping the benefits of the newly established incomes. People in the middle class of developing countries are demanding foreign luxury goods in order to flaunt their wealth. Foreign retailers are eager to enter these new markets, but until recently, there was a lack of shopping centers that could support designer labels. Many of the countries retail sectors were made up of small, family businesses that were located in a downtown market. This was forcing consumer to travel abroad to places like New York City, London, Paris and Dubai to shop for luxury goods. The boost in economies has allowed for further development in the major cities in developing countries. The retail industry is growing, causing an increase in foreign retail presence and luxury shopping malls around the world in developing nations with rising middle classes including Russia, Brazil and India.

Russia

Since the days of the Soviet Union and the rule of communism, Russia has risen up and overcome the economic hardships and demise of consumer power. During Soviet times, there was a lack of focus on marketing and retailing, and “consumer goods and services were heavily subsidized, [leading] to frequent short supply, and lack of competition [which] kept quality low” (“Russia”). Russia is one of the many developing nations with a growing middle class that has a demand for consumer goods. The fashion industry is beginning to move in as foreign retailers see future potential. As of 2002, the Russian retail sector consisted of 50% foreign imports (“Russia”). Although that number appears high, retailers themselves still had a difficult time opening up retail outlets of their own. In 2001, the Moscow city administration began to

severely regulate unlicensed retailing that was occurring in city markets because there was a shift in the demand towards shopping malls (“Russia”). This allowed for foreign retailers to finally seize opportunity in Russia.

Today, Moscow finally has a luxury shopping center to house foreign retailers. The European Trade and Entertainment Center is a five story shopping mall with 160 retailers, restaurants and a movie theater (Bush 50). This is an incredible improvement from the time of communism when everything was state owned and consumers were limited. Now the Russian middle class has easier access to the fashion brands they desire.

Brazil

When people think Brazil, they most likely think exotic beaches. Another thought that could come to mind would be soccer; the men’s Brazilian team won the World Cup just a few years ago. Brazil is not a place most people in the fashion world think of as a place to go for luxury shopping. The only item affiliated with Brazil is the sarong. However, since the rise of the middle class, shopping has become increasingly more important in the South American country. Brazil is the world’s tenth largest economy and makes up 50% of the GDP in South America (Picó). Shopping malls are contributing to the vast growth of the Brazilian economy. The 315 malls in Brazil had sales of \$21 billion in 2006 (Picó). Brazil’s retailing market has opened up thanks to foreign investment. Paulo Malzoni Filho, president of Abrasce, Brazil’s mall trade group, stated, “Investing in Brazil is a good opportunity because of high returns. We also have a mature and high-quality mall industry that stands out from that of emerging countries” (qtd. in Picó). Competitive advantage in the retailing industry is important with all the emerging markets. Brazil boasts many advantages over the competition which includes

China, Russia and India. All of these countries have had issues with proper retail real estate, especially China and Russia who are just emerging from being communist states. A Canadian based development agency, Ivanhoe Cambridge, recently formed a joint venture with Ancar Empreendimentos of Brazil. Vice President of acquisitions at Ivanhoe Cambridge, Claude Sirois, points out Brazil's retailing success:

“Brazil's shopping center industry shows more sophistication, is better organized and has more in-depth expertise. We are very pleased to see what they have been able to build over the years, despite their ups and downs, and how they have been able to grow a very interesting and strong retail industry. There are stores we would love to have in our malls in Canada” (qtd. in Picó).

Brazil's retailing sector has been very successful and is supported not only by foreign investment, but by the growing middle class. The middle class is making its purchases at these shopping malls using credit cards. Consumers in Brazil own more than 73 million credit cards, a number that is expected to increase (Picó). The ups and downs Sirois is referring to is the struggles Brazil has faced in its economy in the past. Brazil still suffers from a wide wealth gap. The wealthy in Brazil account for 20% of households and 62.1% of total consumption (Picó). However, the retail industry isn't concerned with wealth gaps, only wealth. Brazil has a very promising retail sector. Foreign investments have already taken advantage of the demand of the middle class. The future for Brazil seems to be as promising as the larger growing world economies.

India

Along with China, India is one of the largest drivers of the global trend of a growing middle class in developing nations. The rise of the Indian middle class has brought a demand for luxury goods from around the world. However, there were barriers to entry. The fashion

industry has realized the opportunities in India and is slowly moving into the market. However, until recently, foreign retailers had great difficulty entering the Indian market. Companies were unable to have majority ownership of their Indian outlet unless they had wholesale operations located within the country (Upadhyay 18). This is a practice of Indian leftist social parties who “strongly oppose allowing foreign companies to flood the marketplace” (Upadhyay 18). This caused apprehension among the retailing industry. However, the recent economic boom has caused the government to begin “a gradual shift toward liberalizing the markets” (Upadhyay 18). This shift has allowed laws to allow foreign companies to have majority ownership, up to 51 percent, of the Indian outlet (Upadhyay 18). This is not only a step towards modernization in India, but makes international retailing in India possible. The next step is creating outlets to house the foreign retailers. It is next to impossible to picture a Gucci or Chanel store being located in one of the buzzing bazaars among the independent vendors in India. It is safe to assume that these luxury brands will not allow themselves to be among these lower priced vendors. Therefore, there is a demand for lavish shopping centers to house these famous foreign retail outlets. According to the vice president of Lakme’s Lever Division, Anil Chopra, there are now 354 malls housing the 6.9 million stores in India compared to the 3 malls that existed only 3 years ago (Lowther 1). There are two glamorous shopping centers currently being developed which the foreign retailers are looking to rent space. The first, which will be located in New Delhi, New Dilli Dome, will be 50,000 square-feet and will have the capacity to hold about 25 retailer outlets (Lowther 1). The second is Emporio, also located in New Delhi, is expected to be 300,000 square-feet (Lowther 1). These giant luxury shopping centers will give the ever-growing Indian middle class a place to window shop, and purchase all of the world’s most

famous brands. Kalyani Chawla, the Dior brand ambassador in India, expresses the effect of opening the luxury retail outlets and its influence on the Indian middle class:

“By opening in India, we’re getting fresh clientele – a person who is just starting to make money, but hasn’t traveled a lot abroad and is just discovering the Dior brand. There is a huge aspirational element. The middle class is probably the largest consumer group right now, and they’re looking for bigger and better products. Today, a woman who wants to buy a bag would rather save her money and buy one expensive bag instead of buying four or five not-so-nice bags. It takes more time, but they’ll wait to buy one coveted piece” (qtd. in Lowther 1).

When these middle class woman are ready to purchase that expensive fashion accessory, the retail outlets will be there waiting for them in the new, modern shopping centers. It is evident that luxury brands are already beginning to have a better cultural understanding of their new target market. As Chawla explains, the new Indian middle class is not going to purchase luxury brands regularly, but they will save their money and invest in one designer piece. A significant factor of the overall shopping experience is ambiance. It is important for luxury retailers to have a place to give shoppers the experience they desire when spending a large sum of money. The presence and continued building of shopping malls will have an overall positive affect on foreign retail companies as they continue to move into the Indian market.

Conclusion

Fashion brands from around the world are starting to become transnational brands. They will soon be mentioned among globalized names like McDonalds and Sony. The global trend of a growing middle class in developing nations can be seen in each part of the world. The fashion industry has already begun to move into these newly opened markets. In order for the brands in these countries to be successful, they must have special retail centers. The newly established middle class is not going to purchase their Chanel handbag from a downtown market. Russia,

Brazil and India have all begun to make the necessary adjustments to welcome these foreign retailers. All of these countries have begun to build luxury shopping malls in the major cities. These malls boast fabulous amenities. It is possible that in the future, consumers from around the world will take their luxury shopping trips out of New York, Paris, London and Dubai and travel to China, India, Brazil and Russia. The global trend of a growing middle class in developing nations has already significantly affected the retail sectors within the countries. The fashion industry within each country will continue to prosper as the trend grows. The idea of transnational fashion brands could become reality in the future.

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