

Regional Focus:Asia Pacific Presents Sound Prospect To Businesses Thanks To Rising Disposable Income

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There are wide variations in disposable incomes and consumer expenditures across Asia Pacific, a region that encompasses industrialised states and emerging economies.

The global recession had negative impacts on almost all of these countries, but the projected rise in disposable incomes, particularly in China and India, offer tremendous opportunities for businesses looking to explore the Asia Pacific region.

- Asia Pacific is vast, spanning industrialised countries such as Japan, South Korea and Taiwan, as well as emerging economies such as China, India and the ASEAN nations. Variation in per capita disposable income is therefore large, ranging from US\$25,501 in Japan, to US\$2,056 in China and US\$839 in India in 2009;

- Between 2004 and 2008, real per capita disposable incomes of the region increased by 4.1% annually, while per capita consumer expenditure increased by 3.1% annually. Under the 2008-09 global recession, these growth rates have slowed down to 0.9% and 1.3% respectively in 2009 over a year earlier;

- In 2010, China's real per capita disposable income is forecast to grow at 8.8% annually, compared to 10.9% in pre-crisis 2007. In India, in 2010, real per capita income is set to rise by 4.6% annually, comparable to the 4.6% annual real growth in 2007;

- High levels of poverty and inequality could restrict income and spending growths in the region. In 2009, 15.9% of the population in China lived on less than US\$1.25 a day; the equivalent figure for India was 41.6%;

- In the medium term, Asia Pacific per capita consumer expenditure is expected to increase at an annual average rate of 3.8% during 2010-2015 in real terms. Real per capita disposable incomes are expected to rise at an annual average rate of 4.2% over the same period.

Regional patterns

- Asia Pacific is a diverse region. It contains industrialised countries such as Japan, South Korea and Taiwan, as well as emerging economies such as China, India, and the ASEAN nations. The region is therefore important because of the consumption power of mature markets and the significant potential of China, India, Indonesia and other emerging markets;

- Between 2004 and 2008, per capita disposable incomes of the region increased by 4.1% annually in real terms, while per capita consumer expenditure increased by 3.1% annually. Because of the impacts of the global recession, per capita disposable incomes increased by only 0.9% in real terms in 2009 over a year earlier, while per capita consumer expenditure increased by 1.3% in real terms in the same year;

- There are large variations within the region. The industrialised nations of Northeast Asia have the highest incomes and spending (US\$25,501 per capita disposable annual income in Japan in 2009, followed by US\$10,861 in Taiwan and US\$10,830 in South Korea). China and the Southeast Asian nations (with the exception of Singapore) are less wealthy but have low poverty levels (for example, the 2009 per capita disposable annual income for China, Indonesia and Malaysia are US\$2,056, US\$1,557 and US\$4,329 respectively), whilst South Asian countries are among the poorest in the region (countries such as India, with US\$839 per capita disposable income in 2009);

- The importance of consumer expenditure also varies from country to country. In China, where household savings are high due to lack of social protection, private consumption accounted for only 34.0% of GDP in 2009. It also tends to be less important in Malaysia, a significant exporter of oil, constituting 46.6% of GDP in 2009. For other major economies in the region, including India, Indonesia, Japan, South Korea and Taiwan, private consumption generally accounts for between 50% and 60% of GDP.

China, India and Southeast Asia offer growth potential

Countries with high growth of disposable income and consumer expenditure present attractive opportunities for businesses:

- China leads the region in terms of per capita consumer expenditure growth, expanding at an average annual rate of 7.9% during 2000-2009. Although China is affected by the global financial crisis, per capita consumer expenditure still

increased by 7.4% year-on-year in 2009. This is due to the RMB4.0 trillion stimulus package introduced in November 2008, which subsidises the rural population to buy white goods such as washing machines and refrigerators until 2012-13, by which time 480 million white goods will be sold to the rural population;

- However, households in China save more than a third of their disposable incomes, which means that consumer spending accounts for only 34.0% of the nation's GDP in 2009. The key reasons for Chinese to save so much are the lack of social protections such as healthcare. Whether disposable incomes could be translated into consumption depend on the government's ability to enact social safety nets. China is starting to move in this direction, with a massive plan announced in January 2009 to improve its healthcare system. According to this plan, the Chinese government will spend RMB850 billion to ensure basic health insurance for at least 90% of China's population by 2011;

Southeast Asian countries have also seen high growth in disposable income and consumer expenditure:

- Consumer expenditure in newly emerging countries such as Vietnam, Indonesia and Malaysia grew at average annual rates of over 4.0% during 2000-2009. These nations have proved resilient during the 2008-09 financial crisis, in sharp contrast to the Asian financial crisis of 1997-98. Trade surpluses have contributed to healthy foreign reserves. ASEAN's investor-friendly regime, educated workforce and good infrastructure have also helped it to attract nearly US\$50 billion in foreign direct investment in 2008, versus China's US\$92 billion;

- However, Southeast Asian nations face a number of problems which pose challenges to continued growth. For example, Vietnam has serious infrastructure bottlenecks; Thailand continues to be plagued by chronic political instability as anti-government demonstrations disrupts the economy, particularly tourism; Indonesia, ranked 111 out of 180 in the 2009 Transparency International Corruption Perceptions Index, is affected by rampant corruption and red tape.

South Asian countries such as India and Pakistan have experienced slower growth due to higher population growth and less vibrant economies, but India's long-term fundamentals are intact:

- A long-term rising trend in disposable income is taking place as a structural transformation is underway in India. One major factor is its favourable demographics, as over half of its 1.2 billion-population is below the age of 25, providing a massive potential workforce to drive its economy and consumption. India also has high levels of transparency and corporate governance, and a world class high-tech outsourcing services industry. Provided problems such as infrastructure and legislative reforms concerning FDI could be solved, a group of young, affluent middle class with strong consumption power could emerge.

The Northeast Asian industrialised nations of Japan, Taiwan and South Korea have the highest levels of disposable incomes and expenditures but low growth rates due to their mature and highly competitive markets:

- Because of declining population, domestic demand in Japan is not foreseen to grow further. Meanwhile, the long-term prospects of Taiwan and South Korea depend on their ability to decouple from developed countries, meaning a shift from reliance on exports to domestic demand and positioning themselves as leaders of global growth.

Poverty and inequality

High levels of poverty and inequality, however, continue to restrict incomes and spending in the region:

- The Asian Development Bank estimates that extreme poverty, defined as living on less than US\$1.25 a day, affects at least 10% of the population in 19 economies in the Asia and Pacific region (6 of which are from the former Soviet Union). In 2009, 15.9% of the population in China lived in extreme poverty; the equivalent figures for Vietnam, Pakistan and India were 21.5%, 22.6% and 41.6% respectively;

- Income distribution is generally unequal in the region. The Gini coefficient index (a measure of income equality, with 0 representing perfect equality and 100 representing absolute inequality), is over 30 in most Southeast Asian countries, implying high levels of inequality between the rich and the poor. In China and India, the Gini coefficient was 41.5 and 36.8 respectively in 2007 (the latest available year);

- The UN and the ADB estimate that the global economic crisis could result in an additional 21 million people in Asia Pacific in extreme poverty. As Asia Pacific has weaker social protection compared to other regions such as Latin America and Eastern Europe, people falling back into poverty cannot recover easily.

Opportunities for businesses

While there are factors in the region restricting income and spending growth, the long-term trend is the emergence of a wealthier consumer market, driven by the growth of China and India:

- The emergence of a sizable, affluent middle class in China, India and Southeast Asian nations for the first time creates

major opportunities for companies, as these economies move from consumption of basic household durables to more expensive items such as mobile phones, computers and white goods;

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- India's largely rural and agrarian countryside also provides more opportunities compared with China, as the 'bottom of the pyramid' segment aspires to an urban lifestyle. Business potential of poor communities are large in basic products and services such as telecoms, consumer goods, scooters and motorcycles;

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- Meanwhile, significant variations in incomes and expenditures due to inequality across the Asia Pacific region mean that products and services have to be tailored for different countries. In general, Japan, South Korea, Taiwan, the coastal regions of China, Singapore and Hong Kong offer mature markets for high-end products, while Southeast and South Asian nations will be more suitable for budget products and services.

Prospects

Major emerging economies in the Asia Pacific region are poised for a strong recovery following the global crisis:

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- In 2010, China's real per capita disposable income is forecast to grow at 8.8% annually, compared to 10.9% in pre-crisis 2007. In India, in 2010, real per capita income is set to rise by 4.6% annually, which is a return to the same level of annual real growth in 2007. This region will be an important growth driver for global consumer companies which are struggling to find growth in other parts of the world;

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- In the medium-term, Asia Pacific per capita consumer expenditure is expected to increase by 3.8% annually during 2010-2015 in real terms. Regional per capita annual disposable incomes are expected to rise at an average annual rate of 4.2% in real terms over the same period. The equivalent world average annual growth rates are 0.9% and 1.2% respectively. Asia Pacific therefore offers businesses a sound medium-term growth prospect.

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