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Overstated Power?
Rethinking the Developing Countries' Middle Class as a Driver of Global Growth

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Abstract

The middle class in the developing countries, once hailed as a driver of global growth, is facing economic decline. The paper identifies their weak consumption as a key symptom, attributed to the fragility of the middle class. Despite strong corporate growth in developing countries, household consumption remains stagnant, with income disparities widening due to technological progress, globalization, and market-oriented reforms. These forces disproportionately benefit capital and skilled labor, leaving the middle class behind. Historical comparisons show that advanced nations achieved inclusive growth during their manufacturing-driven phases, but developing countries now face fiercer global competition, shorter industrial cycles, and weaker job creation.

The implications are global: sluggish consumption among 6.8 billion people threatens economic stability and democratic institutions. Solutions require multilateral cooperation, such as the Digital Services Tax and Minimum Corporate Tax, to redistribute resources and support inclusive policies. Without coordinated action, the global economy risks a fallacy of composition, where efforts of individual nations fail to address systemic inequality.

The middle class is losing its economic footing in many countries. In advanced countries, their decline has been a social focus for many years, since it is said to shake the foundations of well-functioning democracy.

Pessimism is also spreading over the situation of middle class in the developing countries, too. A Malaysian paper reports in January 2025 that the Indonesia's middle class declined in number by 9.5 million in the past five years, China household wealth is eroded because of a collapse in real estate prices, and India's urban salaries are contracting. Just a decade ago, the world had an opposite view, praising the middle class in the developing countries as a driver of global economy. This paper focuses on the middle class in the developing countries because of its economic importance not only for the developing countries but for the whole world.

1. Optimistic views in early 2010s

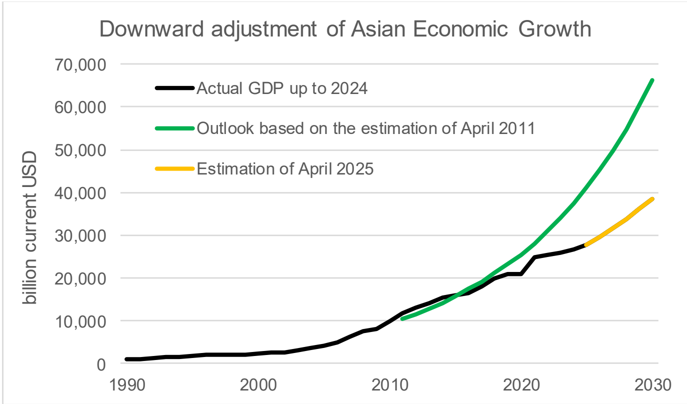
About ten years ago, a consulting firm reported "annual expenditure of middle class will amount to USD 32 trillion by 2030, or 43% of the global total" (KPMG, 2012). A multinational financial organization held a Forum for Middle Income Countries in 2013 and said "the rise of the global middle class is a key megatrend sweeping the planet" (World Bank, 2013). Encouraged by such perspectives, many companies targeted the so-called "volume zone", a marketing term for the mass middle-class segment. Their preference in goods and services is not luxurious appearance and extra functions but reasonable prices with a practical use.

A good example was "Tata Nano", an automobile model with extremely low prices around US$2,000 at the time by Tata Motors. It became a well-known success that met the demand of the middle-class consumers in the developing countries. "Volume zone" had become a key word of marketing for some years since then.

2. Recent data shows a weak growing power

While the early 2010s were marked by such optimism, recent data reveals a different reality. Take a look at the outlook of IMF in 2011 and compare what actually happened after that. The Asian GDP was estimated to be almost 70 trillion US dollars by 2030. Actual GDPs in the 2010s, however, underperformed relative to this estimation. According to the latest publication of IMF in 2025, the Asian GDP is estimated to be less than 40 trillion US dollars by 2030, only 60% of the former rosy picture.

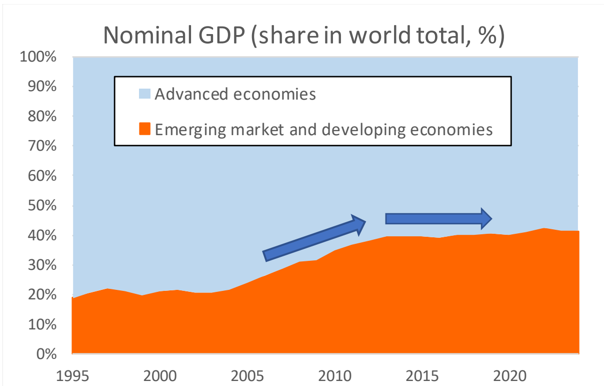
Figure 1:



(Source) IMF

This disappointment was mainly observed in the developing countries. Figure 2 shows the relative size of GDPs of both advanced and developing countries. Until the middle of 2000s, the advanced countries and developing countries were growing proportionally and a result is that the GDP shares of the developing countries in the world total were stable, where the share of the developing countries was at around 20%. Then an era of outstanding growth of the developing countries came between 2005 and 2015. Their GDP growth rate exceeded those of the advanced countries by 4.2% points and its share in the world total was expanded from 20% to 40%. After that, however, the growth gap was shrunk to 2.1% points and its GDP share in the world total stopped expanding.

Figure 2:



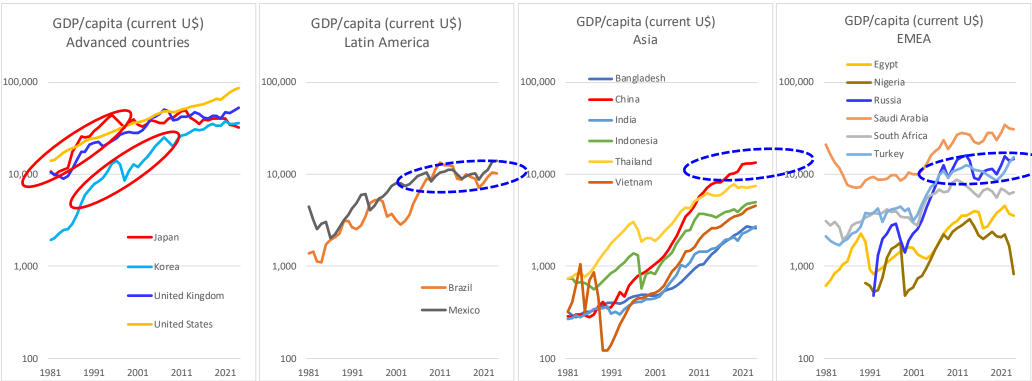
(Source) IMF

Given a common sense of economics that the growing speed of nation is high when it is young and become lower as it becomes matured, the current weakness in the growth of the developing countries should draw particular attention. When today's advanced countries were younger with their GDP per capita from 10,000 to 30,000 US dollars in 1980s (in 1990s for

Korea), the growth rates per capita were obviously higher than the case of the developing countries when their GDP per capita are around the same level.

Today's developing countries seem to lose growing powers even though they are still on a pre-mature stage, where the advanced countries had experienced higher economic growth. Obviously, something has been going wrong since 2010s in the developing countries. (Figure 3)

Figure 3:

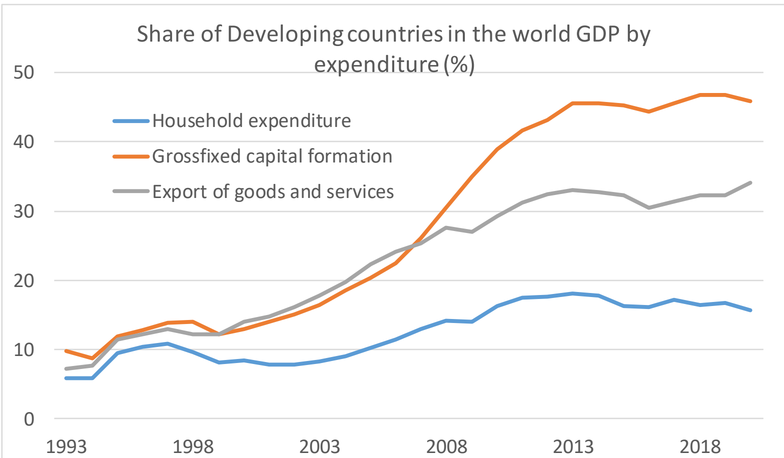


(Source) IMF

3. Weakness is in consumption

Where can be found the weakness? A simple macroeconomic data in Figure 4 explains that the weakness is very likely to be in the households' consumption rather than business activities. The share of developing countries in the world total GDP by expenditure shows relatively strong growth in corporate activities. Their shares were around 10% in the world total in 1990s but have grown to 30% for exports and 45% for business investments in 2020.

Figure 4:



Developing countries: China, India, Indonesia, Brazil, Turkey, Russia, Soudi Arabia, South Africa
Advanced countries: Australia, Canada, France, Germany, Italy, Japan, Korea, Spain, UK, US
(Source) OECD

Many globally recognized brands have emerged from developing countries such as Tata Motors(automobile in India), Huawei(electric and electronics apparatus in China), Embraer(aircraft manufacturer in Brazil), Indofood(food in Indonesia), Arcelik(home electric apparatus in Turkey). It explains that corporate in the developing countries have established solid positions in the competitive global market. In contrast to these globally active corporate sectors, the growth of private consumption remains modest, still below 20% in the world total.

4. Weak consumption attributes to weak middle class

Behind the weakness of consumption lies the weakness of the middle class who composes a large part of consumers. From here on, the focus of the discussion is on the middle class.

4-1. The weakness in statistics

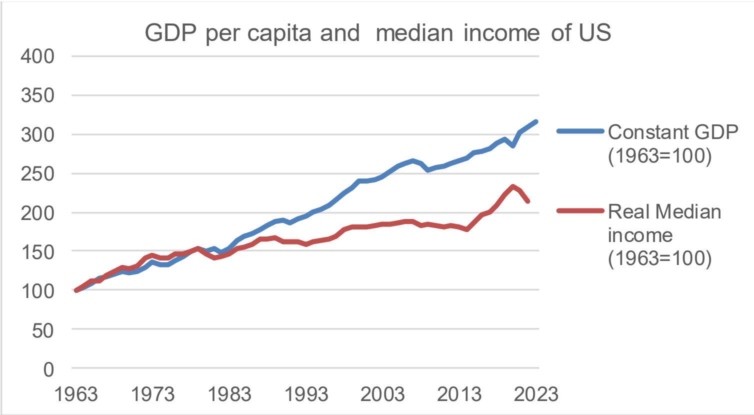
Statistical data shows the weakness in income development of the middle class. There are two relevant statistics: (i) median income and (ii) decile distribution of income.

4-1-(i) Median income and its analysis

Before analyzing data of developing countries, I would like to show the data of US to understand what to read from the data, with a focus why the discrepancy of GDP per capita and median income occurs.

Figure 5 shows the development of GDP per capita and the development of median income. Both figures are indexed at 100.00 in 1963 and show chronological changes in real terms. The blue line shows GDP per capita and the brown line shows the median income. Both seem to develop hand in hand until the beginning of 1980s and since then a discrepancy started. GDP per capita keeps rising consistently while the median income lost momentum to rise. GDP per capita indicates all domestic economic activities from farming, manufacturing, selling food and daily good in supermarkets to intensively professionalized job such as lawyers, bankers or entrepreneurs of IT businesses. It means the high-value economic activities by a limited number of best and brightest in the country are included in the calculation and raise the value of the index. On the other hand, the median income tends to represent the income development of the middle class. A big discrepancy between the two means that there is a larger income gap in the society. This conclusion from the chart can be confirmed by the GINI index in US which started to rise in almost the same timing when the discrepancy started.

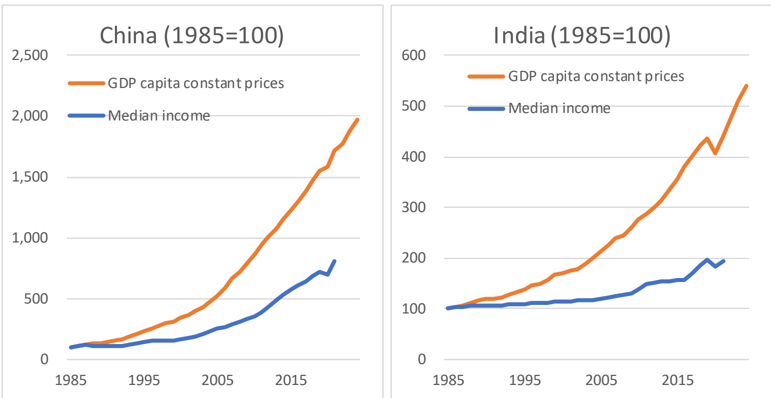
Figure 5:



(Source) FRB of St.Louis, Our world in data, United Nations

Due to inconsistency and other limitations of statistics, such a clear discrepancy is not visible in the developing countries except for China and India. As shown in Figure 6, there are big gaps between overall economic development and income development of the middle class for both countries. It may imply that under the globalization some companies yield huge earnings in the global market while the income is concentrated among a small number of individuals who are engaged in that business, leaving a large portion of population irrelevant to the prosperity.

Figure 6:



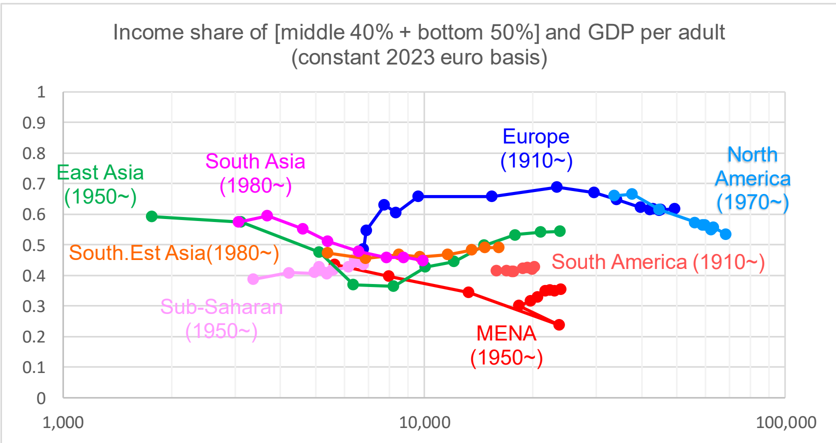
(Source) Ourworld in data

4-1-(ii). Decile distribution of income and its analysis

Decile distribution of income gives us information how much the national income is distributed to ten income groups from the richest 10 % to the poorest 10 % groups. According to the World Inequality Database, the income group is categorized in three groups: Top 10%, Middle 40%, and Bottom 50%. The advanced countries tend to be more equal, with the Middle 40% as the biggest group in income distribution. By contrast, the developing countries tend to have the Top 10% receiving the largest amount of income.

Figure 7 shows chronological changes of the income share of middle 40% and bottom 50% classes by region. Here is a clear difference between the advanced countries and developing countries. In case of the advanced countries, the middle and bottom, in total, 90% population increased its income share from 50% to 65-70% toward the period when the GDP per capita reached at 10,000 euro (constant 2023 euro basis). In other words, the advanced countries were succeeded in making an equal society during the process of economic development. Income gap is currently widening and the equality is collapsing today, but it is another story. They once built an equal society to a certain degree in the middle of 20th century. On the other hand, the income shares of the middle and bottom 90% of the developing countries remain below 50% in most of the regions. They have never experienced a period of affluent middle classes.

Figure 7:



(Source) World Inequality Database

4-2. Cause of the weak middle class

Where does the weakness of the middle class come from? The Asian Developing Bank released a masterpiece that explains the cause of weakness, "Inequality in Asia and the Pacific" (ADB, 2014). The report points out three causes of income inequality and weak middle class; (1) technological progress, (2) globalization, and (3) market-oriented reforms. These are the very forces that have driven growth in the developing countries. They have given chances to some local companies to access the huge global market by utilizing local resources. The states provided generous supports to national champions and a result was rapid growth of export-oriented companies. But the benefit of the growth has been unevenly distributed.

According to the ADB's report, the technological progress has increased income inequality by boosting the earnings of capital and skilled labor. Globalization has encouraged the movement of economic resources in global scale. As a result, the tendency in favor of capital and skilled labor is intensified. Market-oriented reform has taken the bargaining power away from labors. It has also made returns on assets more unequal across groups.

For example, automation in manufacturing (a result of technological progress) has reduced demand for low-skilled labor, while globalization has allowed capital to flow regions with cheaper wages, exacerbating income inequality.

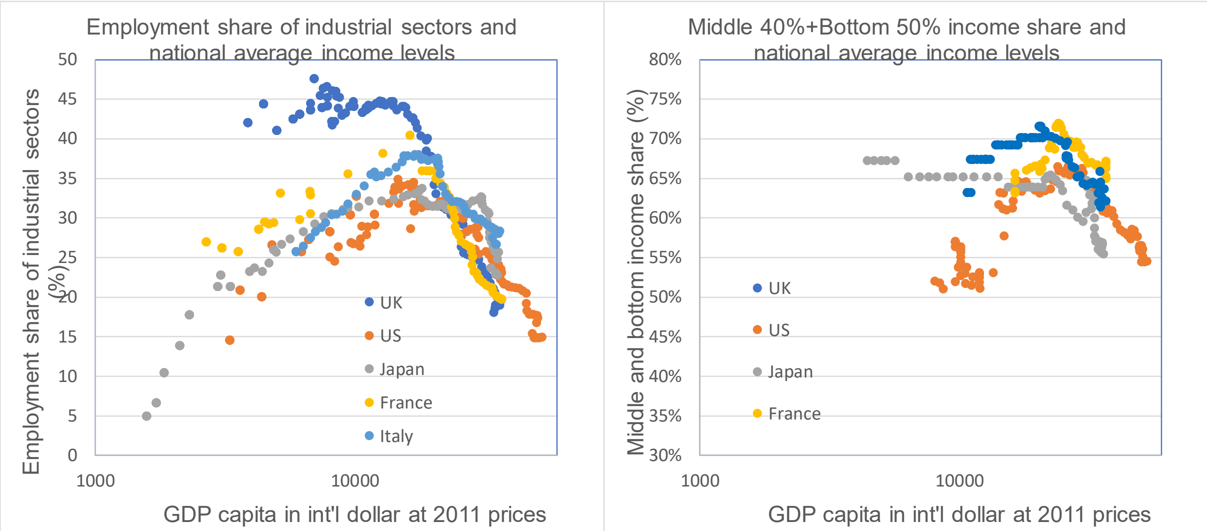
These three factors prevent the developing countries from ever having an experience of middle-class society. Or at least, it is safe in saying that the developing countries never have chance to have such an experience to the same degree as the advanced countries did.

4-3. The middle-class society of the advanced countries in 20th century

Looking back the history, many advanced countries went through a period where manufacturing sector was at the center of the economy. At that time, international economic liberalization was limited. Competition of talent was mild and product cycles were longer. There was no internet which gives consumers instantaneously a clear comparison who provide the product at the lowest price. Such a milder economic environment allowed the advanced countries to make more inclusive policies.

An industrial feature of the middle-class society was that manufacturing was dominant in the economy. The chart of the left-hand side of Figure 8 shows the employment share of industrial sectors in accordance with the rise of income level in the advanced countries. The employment share of manufacturing sector was at its peak (around 30 at lowest and 45 at highest country), when the income level was around 10,000 US dollars (international dollar at 2011 prices). The chart of the right-hand side shows that it was also the timing of the highest income share for the middle class.

Figure 8:



(Source) Our world in data

In their historical experiences, the middle-class society was a ground of making inclusive institutions in each nation. In the experience of the advanced countries, manufacturing-driven economy was the era of large enterprises and stable employment. In such a society, policies for long term stability of life naturally became the priority of policy discussion. Institutions became more inclusive as a result.

For example, Japan established a universal health system and pension system (both 1961). In US, Medicare and Medicaid were founded in 1965. In UK, NHS and National Insurance were started in 1945 and 1946 respectively. These institutions have been changed overtime, but a solid ground of inclusive society is still there in the advanced countries.

On the contrary, developing countries are involved in the global competition in much earlier stage of national development. Even worse is that manufacturing sector needs fewer workers. Also, the product model and business model change quickly. If the model stays the same, capital moves in and out quickly, searching for better location. The result of such disadvantages is that the employment share of the manufacturing sector is lower at its peak and duration of the peak is shorter compared to the advanced countries.

This historical contrast underscores why developing nations, facing fiercer global competition and shorter industrial cycles, struggle to replicate the same inclusive growth.

5. Conclusion

Advanced countries had a time of middle-class society. It was “good old days” of less liberalized and milder competition. Industrial-wise, it was a manufacturing driven economy where large enterprises and its workers were the key players on the stage. It created conditions conducive to inclusive policy-making.

By contrast, developing countries today face global competition for capital and talent. The result is a fragile middle class which lead to weak consumption and sluggish growth in the developing countries.

Their household consumption represents that of 6.8 billion people. It is far bigger than any other component of global GDP. Whether the household sector has a solid foundation of confidence is of great economic importance for the entire world. Moreover, the lack of economic affluence may hinder the development of healthy democracies, potentially leading these countries toward either authoritarianism or populism.

It is ultimately a matter of their own choice. But something is beyond their own efforts and wills, as the weakness of the middle class is deeply connected to the global economic and industrial development. No single country can find effective solutions by themselves. Global coordination may be necessary to provide a stable revenue base for the government of the developing countries to take inclusive policies. In this regard, the Digital Services Tax and the Minimum Corporate Tax may help redistribute resources in particular for the governments of developing countries. Their efficacy depends on multilateral cooperation, without which the global economy may face a fallacy of composition.

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