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Article

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Exploring Emerging Markets' Demographic and Macroeconomic Dynamics and the Middle Class Growth: The Case of China and India

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Abstract

Emerging markets' political, economic, and social transition processes led to altered demographic trends and new macroeconomic dynamics in these economies. These changes triggered the growth of the middle class that became an essential factor of emerging markets' attractiveness for sales and production activities of foreign firms. The purpose of this article is to analyze the demographic and macroeconomic trends of China and India in the decades before the COVID-19 crisis, aimed at estimating their role in the growth of the middle class and the consequent attractiveness of these two important emerging markets for foreign firms. We formulate our research findings on the extensive theoretical foundations and empirical analysis of selected demographic and macroeconomic indicators related to the growth of the middle class. We established that India fell behind China considerably concerning demographic transition and macroeconomic dynamics in the observed periods. China enforced a radical demographic transition. The comparative analysis of macroeconomic dynamics showed a solid leadership of China in economic growth, international trade and investment openness, technological advancement, employment, the structure of the output, domestic investment, urbanization, and salaried workers. Consequently, we estimated the lower growth of the Indian middle class and its lower importance in foreign firms' decisions to enter the Indian market. The findings brought some implications for international managers at segmenting and selecting target foreign markets.

Keywords: emerging market, middle class, demographic transition, macroeconomic dynamics, international business, China, India

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Introduction

Firms that would like to internationalize their business must consider many factors before selecting foreign markets. By an in-depth analysis, they should systematically evaluate foreign markets' potentials. In the process of markets' evaluation, among others, the human resources and customers' aspects should be explored. Identified characteristics of human resources/customers enable firms to better respond in international business. If they successfully analyze and select foreign markets' segments, they can react quickly and appropriately to potential markets' changes and adjust/redistribute resources effectively.

Research on the middle class, economic growth, and development goes far back into history. Economic historians (e.g., Adelman & Morris, 1967; Landes, 1998) aligned the 19th-century industrial revolution with relatively large middle classes in European countries. Lately, empirical evidence exists on the middle class's impacts on economic growth (e.g., Brueckner et al., 2018; Easterly, 2001; Liu & Hu, 2013; Ozturk, 2016). It is assumed that the higher consumption potentials and higher education levels of the middle class and the high share of these people in the total population impact economies' growth.

While the research findings show decreasing middle class in developed countries (e.g., Cavusgil et al., 2018; Daugherty, 2021; Schettino & Khan, 2020; Pew Research Center, 2016), for emerging markets, the topic of "new middle class" has opened the floor for discussions. Recent studies (e.g., Fengler & Kharas, 2017; Kharas, 2010, 2017; Roy, 2018) indicate that the "new middle class" has become a significant source of possible human resources and consumption and herewith an essential driver of emerging economies' growth and development. In emerging market economies, a new middle class has grown in the period of their political, economic, technological, and social transition that started several decades ago. Members of the new middle class can invest in education, health care, and consumption of various expensive goods and services. Research (see Boussie & Kersley, 2018, 13) on the shares of middle classes' final consumption in the GDP of G6 countries and the GDP of selected emerging markets shows that for the former, this share has fallen from 66% to 50% since 2000, while for the latter it has more than doubled over the same period. Therefore, the sizes and characteristics of middle classes at emerging markets represented a substantial market opportunity for foreign firms. The internationalization of their operations into emerging markets brought cost savings and a large pool of consumers. However, it offered new jobs, new sources of taxes, and investment to the target host emerging markets. These were the basis for economies' development,

which increased the attractiveness of emerging markets for foreign firms.

A certain level of dynamics is a constant in emerging markets and reflects various changes in the socio-economic environment, including consumer thinking and habits (Kersley & Bhatti, 2018, 5). A new middle class, representing the driving force of consumption in emerging markets, is described as the young or middle-aged urban population with its own, steady middle-level income. They are educated, connected to the global media, and have the desire and the ability to choose various products, especially those originating from the Western world (Cavusgil et al., 2018, 103). They are also willing to exceed their budget to purchase non-essential goods and choose credit for the form of repayment. A significant trend in investing time and money in this segment is also in leisure and modern lifestyle (Klerk & Irwin, 2018, 32). However, middle classes at various markets have heterogeneous characteristics and contribute differently to the economy's dynamics (Brandi & Büge, 2014). Thus, the new middle class could be the starting point for a more advanced society if it could become a progressive driver of reforms that could benefit the majority.

At the beginning of the 21st century, some Asian countries have taken advantage of their demographic transition, export-oriented policies, and openness to foreign direct investment (FDI). As Eastern and Southern Asian largest emerging markets, China and India have shown favorable socio-economic development paths, pulling numerous people out of poverty, improving their health conditions, educational and working opportunities, and increasing their income and consumption (see Bloom et al., 2010; Choundry & Elhorst, 2010; Colmenares et al., 2021; Curtis, Lugauer, & Mark, 2017; Goley & Tyers, 2013; Gradin & Wu, 2020; Schettino, Gabriele, & Khan, 2021; Woetzel et al., 2017). We did not come across comparative analyses of China's and India's long-term demographic and macroeconomic trends and their possible connections with the middle class phenomenon in both markets. Our research question aims to estimate how demographic transitions and macroeconomic dynamics of both economies in the decades before COVID-19 were related to the growth of their middle classes as factors of attractiveness for foreign firms' sales and investment activities.

The rest of this paper is structured as follows. In the theoretical part of the research, we examine the existent findings on the importance of demographic trends for countries' development, critical factors of emerging markets' dynamics, market dynamics in China and India, middle class income levels differences and the emerging markets' new middle class as a factor of market attractiveness. In the third section, we present methodology and data and perform empirical analysis. Herein we first analyze the demographic trends

and second, the macroeconomic trends of China and India in the decades before the COVID-19 crisis. In the fourth section, we discuss the results and test the hypothesis. The fifth section concludes with implications for foreign firms and proposals for further research.

Theoretical Background

Demographic trends and countries' development

Demographic trends and countries' development enable each other. The population growth and characteristics influence economic conditions, particularly labor availability. In addition to the availability of labour, long-term economic growth also requires growth in the economy's structural efficiency, namely how efficiently the economy can balance the sources of labor and capital to reap the highest and best possible returns. The aging of the population can harm the economy's structural efficiency. Demographic trends also affect consumption, labor, savings, investment, and tax policy.

Along with the changed age structure, the financing of health care and pensions also changes (Mester, 2017, 4-7). Demographic indicators also influence decisions regarding infrastructure development and financing. A more critical factor in this is the number of population and households. The second factor is the age of the population, impacting the need for an education system, employment services, or services for the elderly, such as the health care system and homes for the elderly. Developed health and education infrastructure impact lower birth rates and the higher age of the population.

Critical factors of emerging markets' dynamics

Liberalization of international trade and investment and reforms of the business environment

With the liberalization of international trade and investment and the technological progress in the last decades, the importance and value of foreign direct investment (FDI) and the global value chains were growing (Baccini, 2018, 2-3; Casson & Wadeson, 2018, 1152; Chenaf Nicet & Rougier, 2016, 84–85). FDI brought an abundance of tangible and intangible resources to the target markets and thus contributed to the higher economic growth of the host economy (Ketteni & Kottaridi, 2019, 415). Reforms of the emerging markets' business environment had a stimulating effect on the growth of FDI in these markets. Particularly important for FDI flows

to these markets was changed labor market regulation. The less rigid and inflexible the labor market was, the more attractive it was to the activities of foreign firms and their FDI (Gross & Ryan, 2008, 590). The growing flow of FDI from developed to emerging markets was also highly affected by the recession in developed markets after the financial crisis in 2008 (Chenaf Nicet & Rougier, 2016, 67–70).

Transfer of knowledge and technology, low production costs, and modernization

Knowledge and technology have spread to emerging markets through various contract forms of international business (e. g. licensing), strategic non-capital alliances, FDI, and location of a particular link in the supply chain to these markets. In emerging markets, local companies were engaged in export activities, most often part of a global supply chain by producing semi-finished products and selling them to foreign companies in developed markets. In this way, local companies gained new knowledge and experience from the global markets' customers and competitors and thus improved their productivity (Nuruzzaman, Singh, & Pattnaik, 2019, 3). Local companies in emerging markets also acquired knowledge from the foreign, stronger competition through imitative innovation, as they usually did not have enough capacity to develop their innovative solutions. In this way, they followed leading companies, used similar technologies, production processes, marketing activities, produced similar products, and thus ensured their existence in the market (ibid., 2019, 2). Emerging markets had to fulfill several other conditions to adopt new technologies successfully: a particular share of domestic financial resources, knowledge, and skills of employees, compliance with rules and regulations, basic infrastructure, working conditions, and culture (Casson & Wadeson, 2018, 1152). If these factors did not work synchronously in the market, the effects of the new technologies were also significantly smaller (Carillo Hermosilla & Martinez Chafra, 2003, 2-3). An excellent combination of factors, such as low production costs in the market and high customs restrictions on imports, attracted contractors and foreign investors to emerging markets and gave these markets a considerable cost advantage over firms from developed markets (Casson & Wadeson, 2018, 1155). Based on this, the modernization of emerging markets intensified.

Urbanization

Emerging markets have industrialized quickly and become critical links in the global value chains. Urban areas became interesting for locating the activities of international firms due to the proximity of resources, access to capital, skilled labor, institutional support, shorter and cheaper distribution routes, and connection to FDI resources. Increasingly expanding and advancing markets have accelerated

urbanization (Estrin, Nielsen, & Nielsen, 2017, 328–329). People sought better education, employment, and living standards in cities. Urbanization with a combination of skills, talents, and resources in one place helped firms to achieve economies of scale, reduce operating costs, increase productivity and international competitiveness. To survive in the market, they must make the best use of their resources and competitive advantages. The struggle for survival and market share led to new ideas and innovations, new value-added, and higher productivity. Urbanization is also one of the most critical levers of consumption. However, it is not necessarily the best indicator of the level of development in the country (see Shome, 2013). A large proportion of the urban population could be like or even poorer than some rural areas. Thus, even residents of rural areas can reach the standard of the middle social class without having to move to the city (Mishra, 2018).

Favorable demographic environment

In emerging markets, the share of the working-age population has been increasing over time due to still growing but lower natural population increase, progress in education, and improved health care. A larger labor force pool was the basis for poverty reduction and economic growth (Cruz & Ahmed, 2018, 95). Investments in human and physical capital increased labor productivity. Parallely, the shares of middle-income social classes have increased, leading to higher consumption with its impacts on emerging markets' economic growth. Higher numbers of working-age population and consumers led to various international business opportunities for foreign firms at these markets.

Ownership of natural resources

Industries that have enabled the economic growth of emerging markets have required natural resources. Emerging markets' ownership of raw materials enabled rapid industrialization and attracted FDI inflows (Naglič, 2011, 39–40). Arable land in the regions of emerging markets has become increasingly valuable as they cultivated it to supply the whole world.

Market dynamics in China and India

China

In the late 1970s, China introduced a one-child policy to balance the demographic situation and revitalize the economy, discouraging a higher proportion of the young population. After 1990, when the government embarked on economic reforms, several factors allowed China's economic expansion. One of them was a transition to state capitalism,

where, apart from the state, the market regulates prices, and state-owned companies also compete. The second one was a labor market transition with the abolition of the life guaranteed job security with steady income and benefits (so-called Iron rice bowl (see Wang & Xi, 2015)). Agricultural reforms and investment in infrastructure were the subsequent reforms that also triggered higher urbanization. Investment in the population's education for more demanding and higher-paid jobs has also been crucial. The next factor was the openness for FDI and their promotion in the domestic economy (Silverstein et al., 2012, 5-6). Because of China's economic progress, a large proportion of the population moved into the middle class, and their standard of living and purchasing power rose. China became slowly uncompetitive for FDI in manufacturing as labor costs increased (Davies, 2013, 7). Therefore, the FDI in the Chinese service sector rose considerably.

The strengthening of China and the whole East Asian region in the global economy can also be related to more than 21 concluded free trade agreements (FTA) of China with countries in the region (Ministry of Commerce, People's Republic of China, 2021). The last concluded FTA is Regional Comprehensive Economic Partnership (RCEP) between China and 14 Asian Pacific countries. It comprised about 30% of the world's population (2.2 billion people) and 30% of global GDP (\$26.2 trillion) as of 2020 (Asian Development Bank, 2020). According to the forecasts, the RCEP will eliminate about 90% of the tariffs on imports between its signatories within 20 years of coming into force and establish standard rules for e-commerce, trade, and intellectual property, which will help facilitate international supply chains and reduce export costs throughout the bloc (European Parliament, 2021). So far, China's advantage was the network of regional free trade zones (FTZ) across the country, which eased and facilitated international trade and FDI with underdeveloped Chinese provinces. Eighteen FTZ (as per 2021 data, six new pilots FTZ were established in 2019 (see Wong, 2021)) offer preferential policies for the import, handling, manufacturing, and exporting of goods, as well as through tax incentives, free flow, and exchange of capital, and fast-tracked procedures for investment. The FTZ Network helped China face the challenge of too centralized FDI. These focused mainly on major urban Chinese cities and the high-tech sector (manufacturing electronic and medical devices and communication equipment) (Yu, 2018, 6). The decision to establish more FTZ was also a response to the consequences of the trade war between the USA and China that started in 2018 and postponed, halted, or caused relocations of investment in China to other Southeast Asian countries (Bray, 2018). To mitigate the adverse effects of this trade dispute, China also released its financial and fiscal policies by lowering the level of required reserves and taxes and increasing the export tax refund. Government

authorities further introduced lower tariffs on imports into China to promote the business environment. Domestic solid demand still contributed to positive economic figures despite the fall in economic growth due to reduced exports (The World Bank Group, 2019, 57 -58). Therefore, China kept the largest share in world GDP in 2017, the largest share in world exports of goods, and the second-largest share in world imports (Glawe & Wagner, 2020).

India

One of the significant reforms of the Indian economy was the abolition of "License Raj", a state-regulated system of licenses, regulations, and accompanying red tape that hindered the setup and running of businesses in India between 1947 and 1990. The following two reforms promoted international trade by reducing import costs and encouraging FDI. India has facilitated the economy's liberalization by privatizing state-owned enterprises (Silverstein et al., 2012, 6-7). Thus, after 1991, India began to pursue an open market policy and economic liberalization to achieve economic growth and development. Stimulating macroeconomic environment - attempts to lower inflation, energy reforms, tax reforms, and a stable balance of payments - has fuelled India's economic growth. Private consumption and investment increased (The World Bank Group, 2018). Over the last 50 years, the share of value-added in industry and services in India's GDP has gradually increased. However, the primary income of more than half of the population is still from agriculture (Mitra & Kadam, 2018, 60). Overall factor productivity and human resource productivity improved. With the demonetization of some banknotes and a new tax on goods and services, India intended to lower the grey economy (Mitra, Chen, & Klerk, 2018, 49-50; The World Bank Group, 2018). Despite efforts to reduce unregistered production, employment, and income in India, the World Bank two years ago still recorded 90% of the grey economy in this market (The World Bank Group, 2019a, 19). India was recording GDP growth, but the link between GDP growth and employment was weak. The higher productivity and value achieved at work was reflected more quickly in GDP growth than in the employment indicator. A substantial share of unemployed was among young, highly educated staff, as the market did not create enough jobs for this population (Centre for sustainable employment, 2018). Basole and co-authors (2018, 142-143) pointed out the challenge of the highly educated Indian population without practical skills and vice versa - the population with practical skills but without formal education. Previous studies (see DaVanzo, Dogo, & Grammich, 2011, 24-26) show that India invested less into the education system than China and achieved lower education participation and literacy levels.

Middle class income levels differences

The income levels of individuals to be classified as members of the middle class differ across the research community. Researchers define yearly/monthly/daily income boundaries (see Bhalla, 2007; Center for Strategic and International Studies, 2021; Fengler & Kharas, 2017; Ravallion, 2010; The World Bank, 2007) or divide middle class into income sub-groups (see Banerjee & Duflou, 2007; Pew Research Center, 2009). According to Wheary (2010) and Kharas (2010), the middle class comprises all those who have enough income to be able to afford essential goods and a few secondary, with a lower income limit of 10 \$ and upper of 100 \$ per person daily, considering the PPP in the observed period. Due to income dynamics, defined middle-income class can be only short-term and valid for a particular country.

The emerging markets' new middle class as a factor of market attractiveness

While the middle class stagnates in developed markets, it grows in emerging markets. The growth of the population with middle income in emerging markets is critical for selecting these markets for international business activities. There is a strong link between the size of the new middle class in emerging markets and the presence of foreign firms in these markets in the form of FDI (Guercini & Runfola, 2016, 693). The more middle class members in the market, the more actively the company is present. Emerging markets are attractive for firms' international business due to the growing purchasing power of a large pool of potential new middle social consumers (Cavusgil et al., 2018, 95) and a new number of better educated and skilled working-age people.

There are essential differences in the new middle classes across emerging countries, even at comparable levels of economic development (Brandi & Büge, 2014). It is possible to distinguish among countries with a larger middle class than predicted when looking at their GDP per capita and the countries with the opposite situation. The first has a more affluent middle social class. In their study, Brandi and Büge (2014) studied correlations among middle social class sizes (measured as a share of the total population with a certain level of daily consumption, following the definition of Kharas, 2010) and GDP per capita in PPP in 2012. According to selected criteria for defining middle class, almost 160 million people in China were middle-class in 2010. In India, however, 60 million. The Kharas (2010) projection has shown that both nations will be the middle-class superpowers by 2020, with more than an estimated 590 million (China) and 280 million (India) middle class consumers.

Brandi and Büge (2014) found that the level of economic development, measured only by GDP per capita, is not a good predictor of the middle class's share in the total population, measured by its consumption capacities. GDP per capita explained only 71% of the variability in the sizes of the middle-classes across countries. Countries at the same levels of economic development can show very different patterns of middle class consumption capacities. According to the data from 2012, China had a 19% lower size of the consumption capacity of its middle class (16%) than predicted by its average GDP per capita (35%). These findings imply that countries at the same level of development, measured by GDP per capita, can show very different middle class levels, measured by their consumption capacities. According to this finding, the authors formulated a new typology, classifying China's middle class size as small with its consumption level as poor (below 90% of what is predicted by GDP per capita levels). In contrast, India's middle social class was classified as small; however, its consumption level was higher than China's and characterized not as poor but as an average. The Indian middle class was found as more affluent than the Chinese in 2012.

The emerging markets' new middle class consumers

There are differences in the consumer habits of the middle class of emerging markets and the middle class of developed countries. The former can afford the first car, the first mobile phone, or the first computer for the extra money they save, while the latter have owned these goods for a long time and then always buy the latest versions of cars, mobile phones, and computers. (Cavusgil et al., 2018, 103). When an individual or the household crosses the income threshold of the middle social class, this person initially spends most of the money on better quality food, clothing, and household necessities. Later, however, such individual also begins to spend money on the first car, cosmetics, entertainment, travel, education (Silverstein et al., 2012, 37). Kardes (2016, 703-704) argues that in a large country, middle class consumers' habits and preferences for products differentiate across the country due to different ethnic groups, values, beliefs, language, shopping patterns, and infrastructure.

Silverstein and co-authors (2012, 31-32) described the average member of the middle class in China as an individual with one or two children, living in a second- or third-order city in a medium-sized apartment. This individual devoted his time and money to education in looking for the best job opportunities, further increasing his income. The average middle class member in India was described as a person born into a poor or lower middle class, who managed to move into the middle class with hard work and two parallel jobs, and was the only employee in the family. This individual sought

more opportunities to accomplish life goals and displayed entrepreneurial motivations (Javalgi & Grossman, 2016).

Empirical Research

Methodology and data

This paper is a descriptive macroeconomic dynamic research based on the broad theoretical background and analysis of selected demographic and macroeconomic indicators' dynamics for China and India in the decades before COVID-19. We also compared China and India with the USA and the EU to depict the divide between the largest emerging markets and developed economies. The World Bank's and the United Nation's statistical databases were data sources for our analysis. The periods of indicators' observation vary according to all selected countries' data availability.

Hypothesis development

Apart from developed countries, emerging markets evidenced the changes in their demographic environments in the decades of globalization. While the population in these markets was still increasing, mortality decreased, and the age structure changed. Part of the population moved from the poor to the middle-income social class. More working-age and middle-income individuals than the poor and rich social class represented emerging markets' prospective labor and consumers. Firms that searched for new international expansion opportunities could find Chinese and Indian middle classes as their target human resources and customers. These were younger, middle-aged, and middle-income individuals that could afford more than just the necessities needed to survive. The hypothesis is the following:

H: Demographic and macroeconomic dynamics in China and India established conditions for substantial growth of middle classes in both countries in the decades before the COVID-19 crisis.

The hypothesis was tested by comparing the relevant indicators' trends for both countries in the observed period and formulating our conclusions based on the synthesis of previous research and findings of our empirical analysis.

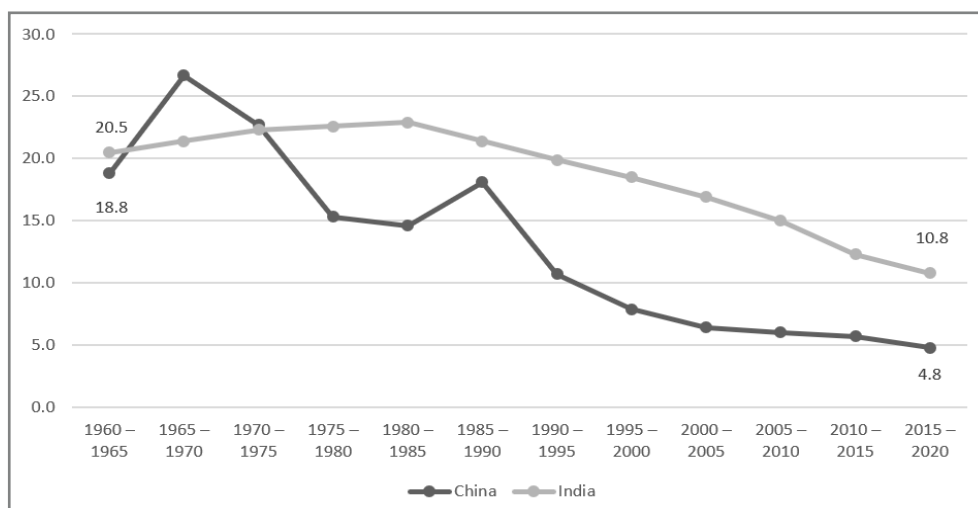
Demographic trends in China and India

Population growth affects many phenomena, such as the age structure of a country's population, the size of a country's

workforce, international migration, and economic inequality. These factors both affect and are affected by overall economic growth. High population growth in low-income countries may slow their development, while low population growth in high-income countries may create social and

economic problems (Peterson, 2017). Figure 1 shows that in the observed period, the natural population increase of China was significantly lower than in India, except for the period 1965-1970. We can ascribe such a trend to the effects of the Chinese one-child demographic policy.

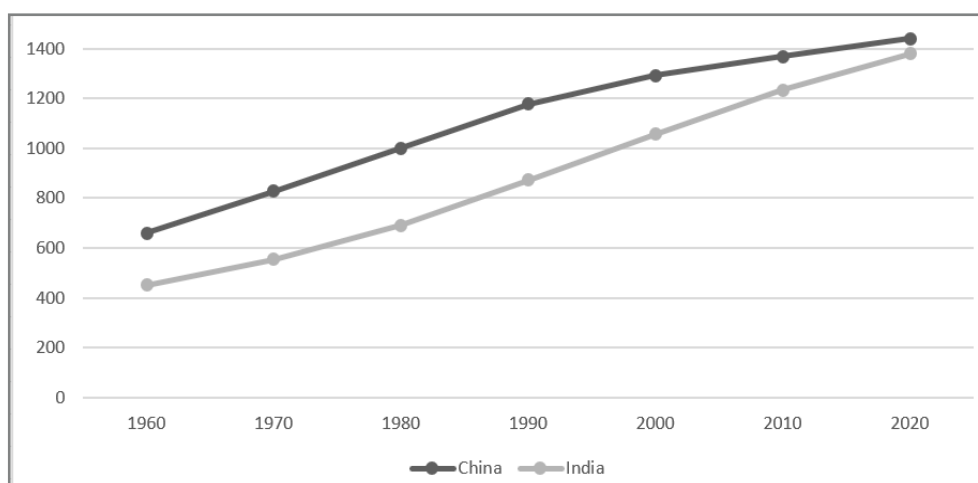
Figure 1. Rate of natural population increase in China and India between 1960 and 2020 (per 1000 population annually, estimates)



Source: United Nations, n.d.

Notes: Rate of natural population increase: Crude birth rate minus the crude death rate. The rate represents the portion of population growth (or decline) determined by births and deaths. It is expressed per 1000 population annually.

Figure 2. Total population of China and India between 1960 and 2020 (in millions)



Source: United Nations, n.d.

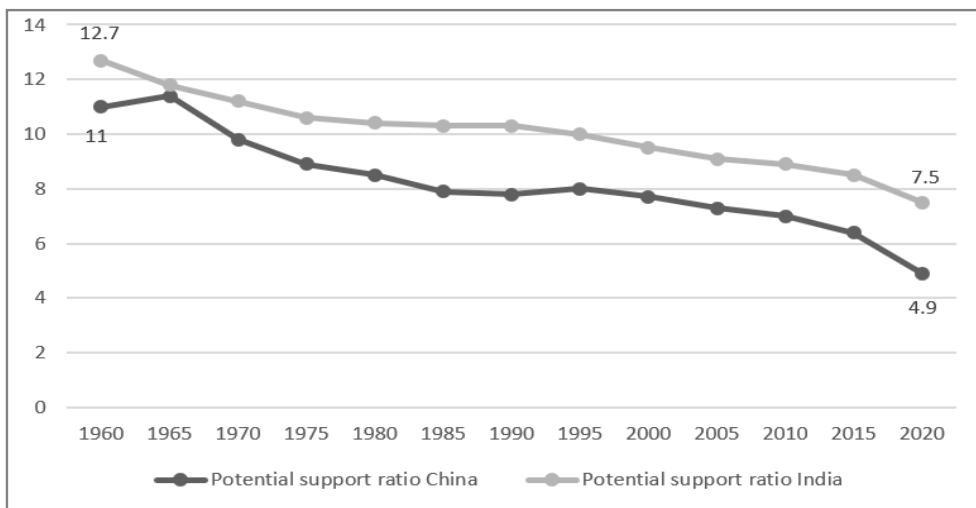
The significantly faster cut of the Chinese rate of natural population increase compared to India could indicate China's higher short- and medium-term development opportunities. However, when a country is approaching high-income levels in the long term, such a low population increase could decrease its economic and social prosperity.

The size of the country, measured by the population, can be an essential indicator of the possibility of achieving economy of scale and market potential and an indicator of the availability of production factors. However, both possibilities are influenced by several other macroeconomic and microeconomic factors and a given country's geographical,

historical, and political characteristics. Among others, we would have to be acquainted with the population's structure (e.g., the share of the working-age population, the share of the employed population, achieved levels of education, average levels of income, etc.) and its subsequent economic potentials. Figure 2 shows that the population of China was 2.2-times larger in 2020 than 60 years ago. For India, this number was 3-times. However, in 2020, the largest population still had China, but the size of the Indian population was much more like the size of the Chinese population in 2020 than 60 years ago.

From Figure 3, we can see that 60 years ago, the potential support ratio was almost the same in China and India. In 2020 this ratio was 2.3-times lower for China and 1.7-times lower for India. These discrepancies indicate the differences in the socio-economic development paths between the observed two countries and their future long-term economic perspective due to a more favourable potential support ratio in India than China. The large share of the younger, working-age, educated, and employed population might support the country's economic development and growth with consequent tax inflows that lower the pressure of the older population on public finance.

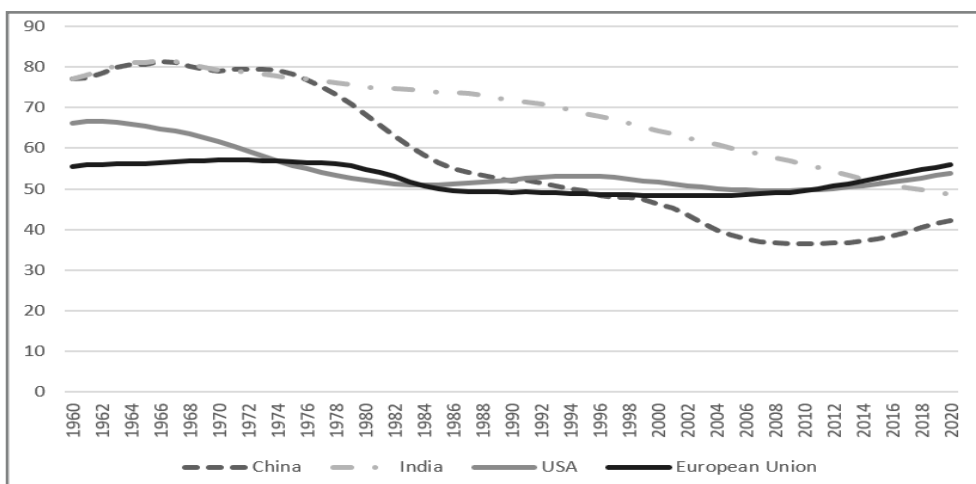
Figure 3. Potential support ratio in China and India between 1960 and 2020



Source: United Nations, n.d.

Notes: Potential support ratio: population 25-64 per population 65+.

Figure 4. Age dependency ratio in China, India, USA, and the EU between 1960 and 2020 (% of working-age population)



Source: The World Bank, 2021.

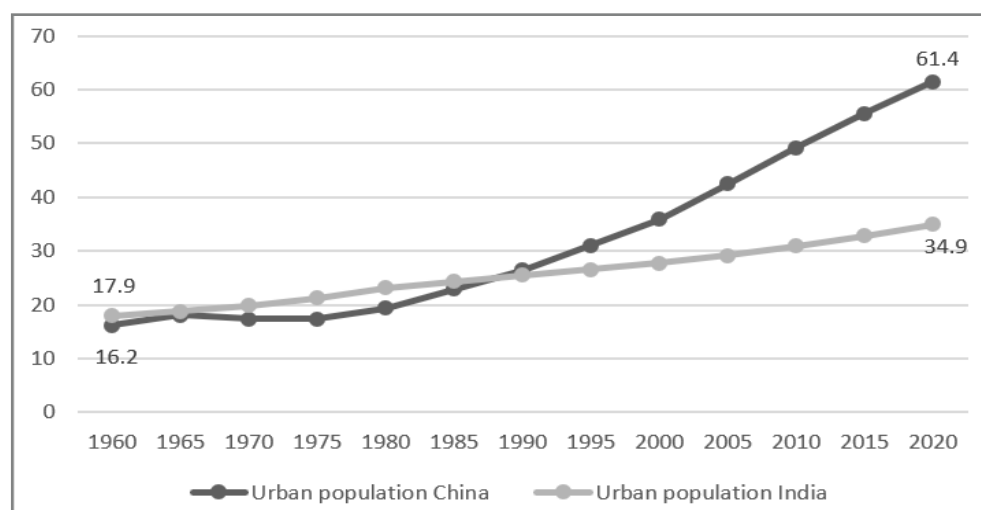
Note: The age dependency ratio is the ratio of dependents – people younger than 15 or older than 64 – to the working-age population – those ages 15-64. Data are shown as the proportion of dependents per 100 working-age population.

Figure 4 shows the considerable decrease of the Chinese age dependency ratio compared to India, the USA, and the EU, indicating the increase of the Chinese middle-aged working population, particularly from the late 1990s. This demographic characteristic gave China significant short- and medium-term socio-economic advantage and development potential over India, its largest emerging market competitor, and the USA and the EU, its largest developed markets competitors. However, we can see that the Indian age dependency ratio was also falling in the last decades due to decreased share of the population under 15 age, larger shares of young and middle- age population, and still low share of 70+ population in the total population. On the other hand, the Chinese age dependency ratio increased in the last decade due to the rising share of the older population in the total working-age population. In contrast, the Indian age dependency ratio decreased in the same period. These differences

between China and India indicate that China started to lose the positive economic impact of the former one-child policy in the long term.

Figure 5 shows that the size of the urban population, as an indirect indicator of society's transition to industrial and service economy, was almost the same in 1960 for China and India. However, in 2020 China recorded a 26.5 percentage points higher share than India. This data indicates that China has created employment opportunities in urban areas, bringing higher value-added. In India, on the other hand, these opportunities have grown very slowly, which could indicate a slower economy's restructuring and still existent reliance on the primary economic activities. However, to be sure about the benefits of rapid urbanization on Chinese development, it would be requisite to explore the income differences of the newly urbanized population. Based on these

Figure 5. Urban population in China and India between 1960 and 2020 (% of the total population)



Sources: United Nations, n.d.a.

Note: Urban population: percentage of the population at mid-year residing in urban areas.

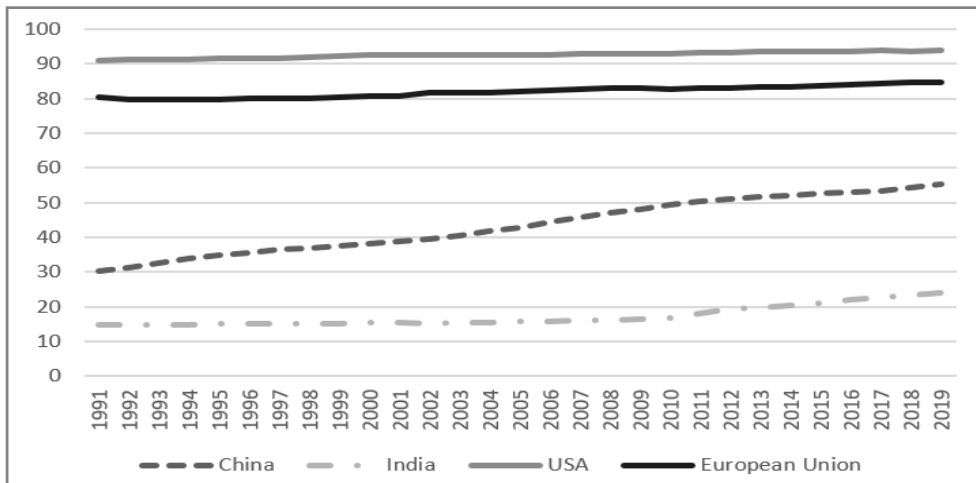
findings, we could establish potential impacts of urbanization on the share of the middle class population. Similarly, we could explore the development of rural regions in both countries and its impacts on rural population income.

We can see from Figure 6 that in China, approx. 57% of workers received salaries upon contracted employment in 2019. In India, this share was only approx. 24 % in the same period. In both countries, the share of salaried workers in total employment has increased in the observed period. However, the growth was much higher in China than in India. This data could indicate faster poverty reduction in China and a higher share of stable jobs, supporting the country's socio-economic development leading towards a larger middle class. However, low shares of salaried workers in

both countries could indicate high levels of grey economy and many casual jobs that do not bring a stable long-term standard of living and decrease development opportunities.

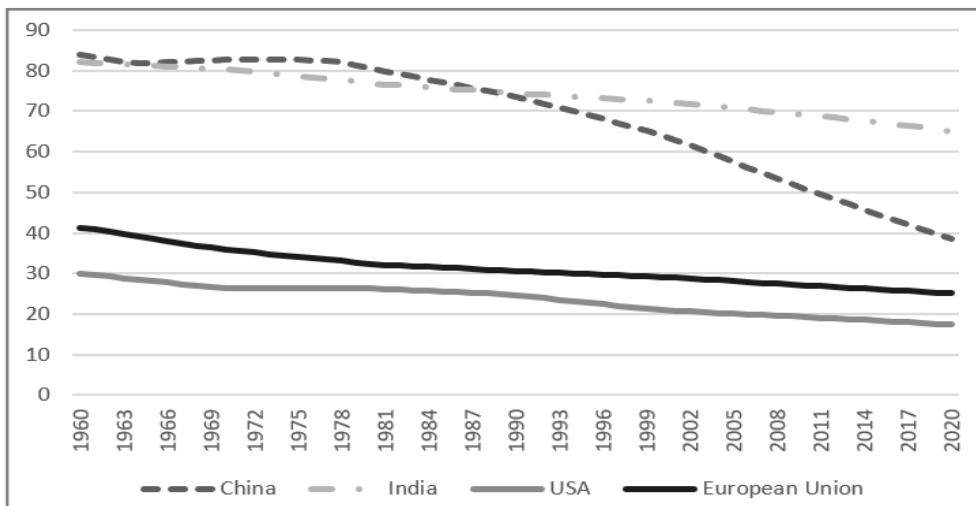
From Figure 7, it is evident that in China, the rural population has been significantly lowered, particularly from 1980 on, which could indicate the transition in the creation of GDP value-added. On the other hand, we can see that the Indian population was still predominantly rural in 2020 (approx. 65% of the total population). However, to establish the impact of urbanization on economies' development, it would be required to analyze the newly urbanized population's income levels. On the other hand, the investment into agricultural development could change the income levels of the rural population. The impacts on the middle class growth

Figure 6. Salaried workers in China, India, USA, and the EU between 1991 and 2019 (% of total employment)



Source: The World Bank, 2021.

Figure 7. Rural population in China, India, USA, and the EU between 1960 and 2020 (% of the total population)



Source: The World Bank, 2021.

could be established only after analyzing the income levels of both types of population.

Figure 8 shows the changed age structure and life expectancy in China and India between 1960 and 2020. China drastically lowered the share of children in the whole population and increased the share of the middle-aged population. The life expectancy also increased. The highest shares of the Chinese population in 2020 represented 30-34- and 45-54-years old individuals. The share of the Chinese working-age population (25-65 years old) in 2020 was much higher than in 1960 and higher than in India.

On the other hand, the share of the 65+ population in China was much higher than in India. India also lowered the share of children in the whole population, although much less than China. The shares of the Indian middle-aged and older

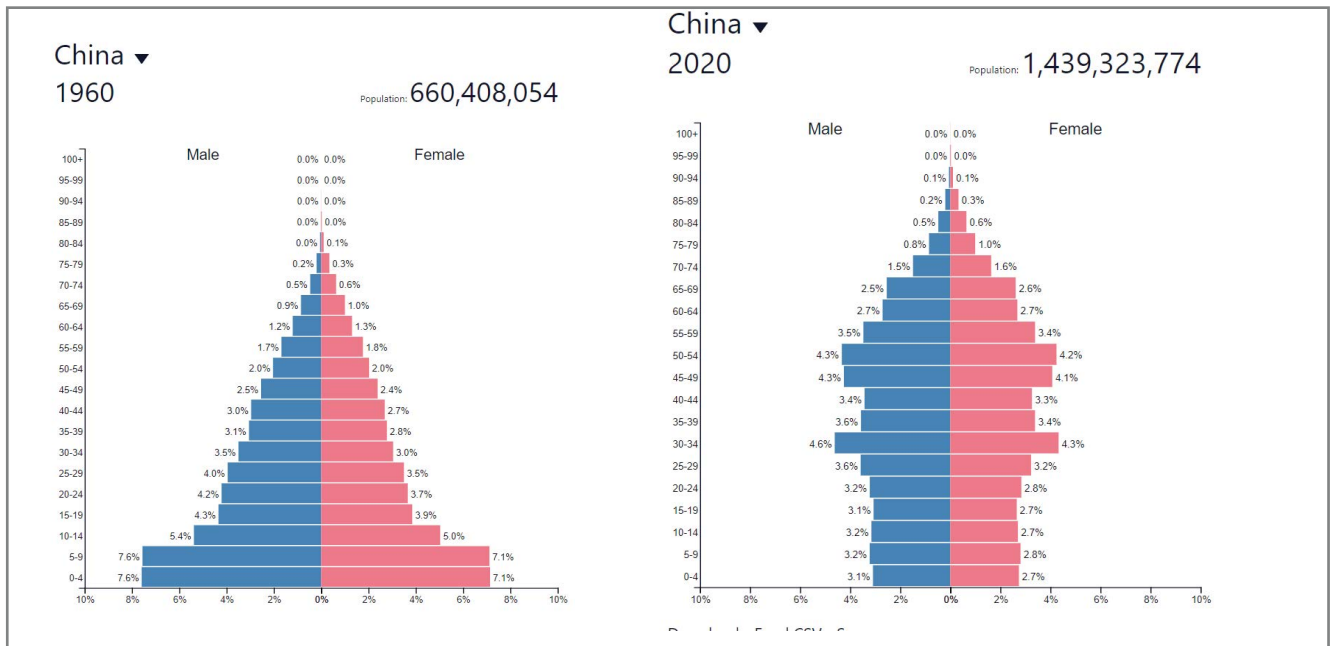
populations did not significantly increase and were lower than in China. Indian life expectancy slightly increased but was lower than in China. The highest shares of the Indian population represented 10-40 years old individuals.

Based on these findings, we can conclude that the demographic transition of China was extensive. In the case of India, however, it was modest.

From Figure 9, it is evident that in comparison to China and India, Europe and particularly the USA, have lower shares of the working-age population and at the same time a much lower number of the total population and higher shares of population 65+ with longer life expectancy.

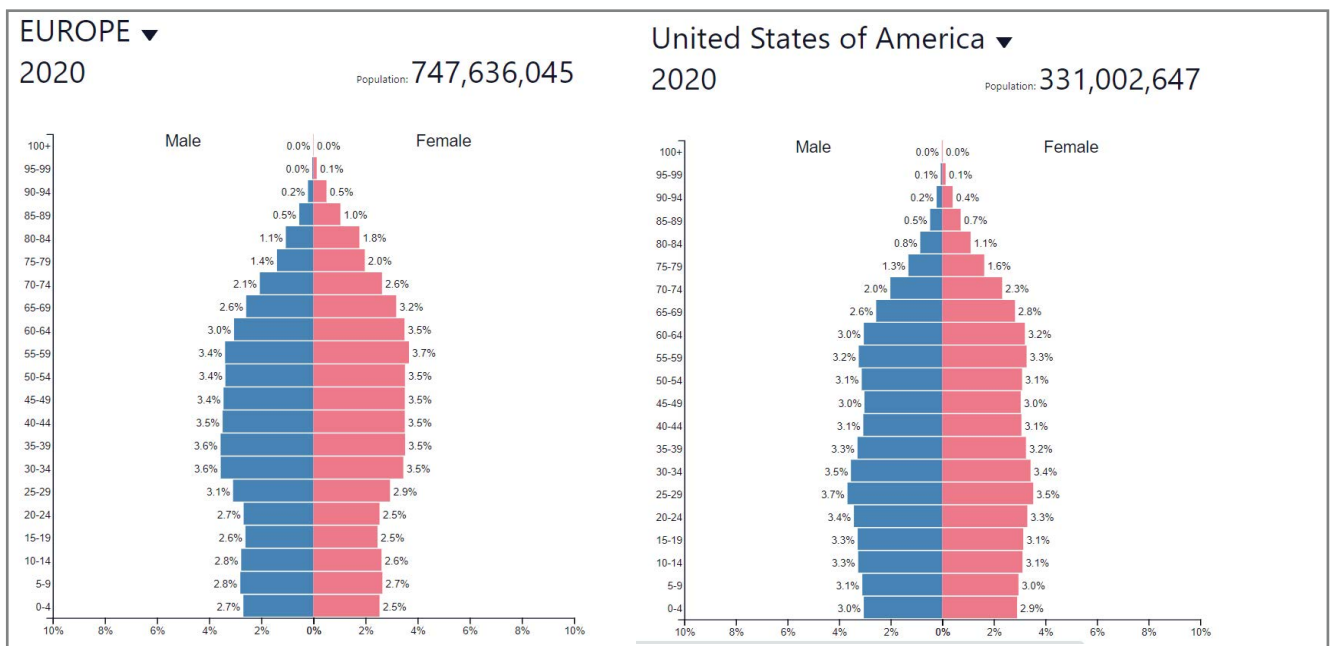
If we assume that the middle class could grow based on the share of the working-age population and if the age 65 is the

Figure 8. Population pyramids of Chinese and Indian population in 1960 and 2020



Source: PopulationPyramid.net, 2019.

Figure 9. Population pyramids in Europe and USA in 2020



Source: PopulationPyramid.net, 2019.

Note: There is no EU population pyramid in the same data source.

age of retirement, then the labor and consumption potentials of the Chinese middle class are much higher compared to Europe and the USA.

In further research, we explore the possible congruities between the Chinese and Indian demographic trends and the macroeconomic dynamics of their economies.

Key macroeconomic trends of China and India

Gross domestic product (GDP) per capita measures a country's economic output per person and analyzes prosperity and national wealth. As shown in Figure 10, in the observed period, there was a significant difference among GDPs per capita of highly developed markets, like the USA and EU,

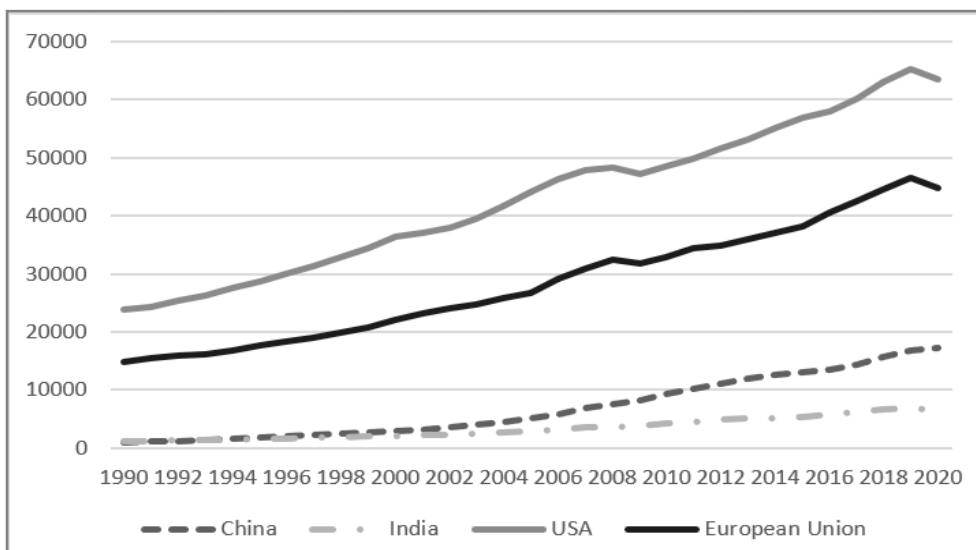
and China, as one of the most thriving emerging markets so far. Since the 1990s, the Chinese and Indian GDP per capita gap has risen. China's GDP per capita boosted in the last fifteen years, indicating the increasing income levels of the population and growth of the middle class. Compared to India, these expansions could be much higher.

Figure 11 shows that Chinese GDP per capita growth was much higher than the Indian in two periods: between the 1990s and 2000s and between 2000s and 2015 when it fell behind the Indian one. Chinese GDP per capita growth was much steadier than the Indian between the 1990s and 2015.

Although the Chinese GDP per capita growth started to decrease from the 2008 economic crisis on, it was much higher than the Indian one in the period of fifteen years (2000-2015).

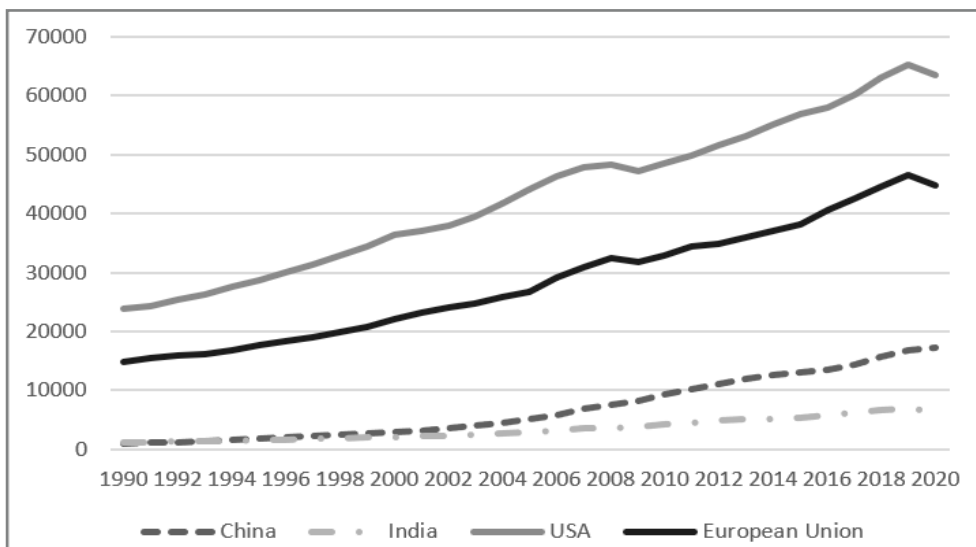
Figure 12 shows that China was quickly transitioning towards a service economy, and on this path, it overtook India in 2013. In 2019 China created almost 55% of services value-added, while India approx. 50%. To establish the impacts of this rapid Chinese economic restructuring on the population's income and possible growth of the middle class, we should explore the types of newly created services and the share of the population employed in these industries.

Figure 10. GDP per capita of China, India, USA, and the EU between 1990 and 2020 (PPP, current international \$)



Source: The World Bank, 2021.

Figure 11. GDP per capita growth of China, India, USA, and the EU between 1971 and 2019 (annual %)



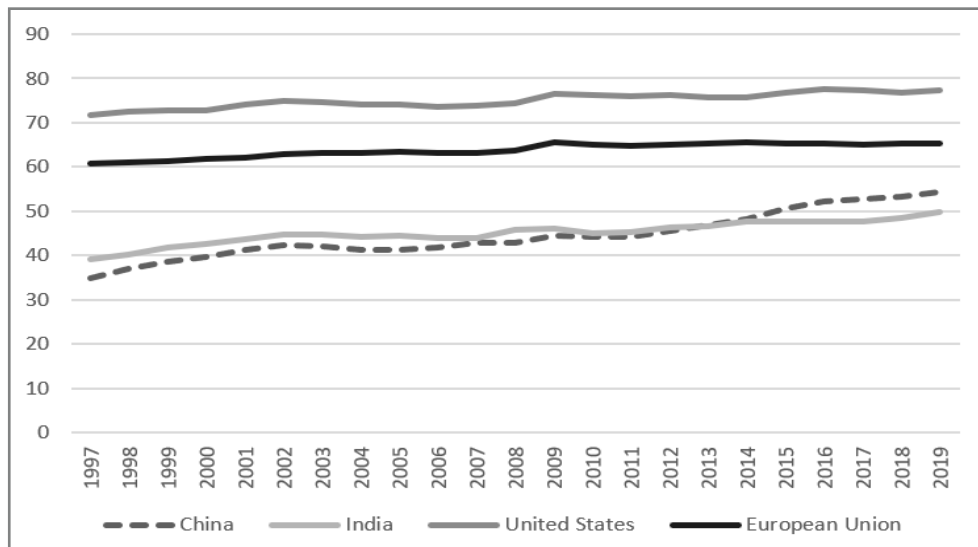
Source: The World Bank, 2021.

While China has decreased its value-added in agriculture to only approx. 7% of GDP in 2019, India, on the other hand, increased this value to approx. 17% of GDP in the same year (Figure 13). From Figure 13, we can also see the differences in the shares of primary activities between China and India, as emerging markets, and USA and EU, as developed markets. The share of primary activities indirectly indicates the value-added created in the economy and the country's

level of development. It shows the potentials for increasing the middle class share in the population.

The volume and structure of international trade and the terms of trade substantially impact the growth of GDP and the balance of payments of individual countries. They indicate the economic structure of the country and its opportunities for growth and development. From Figure 14, we can see

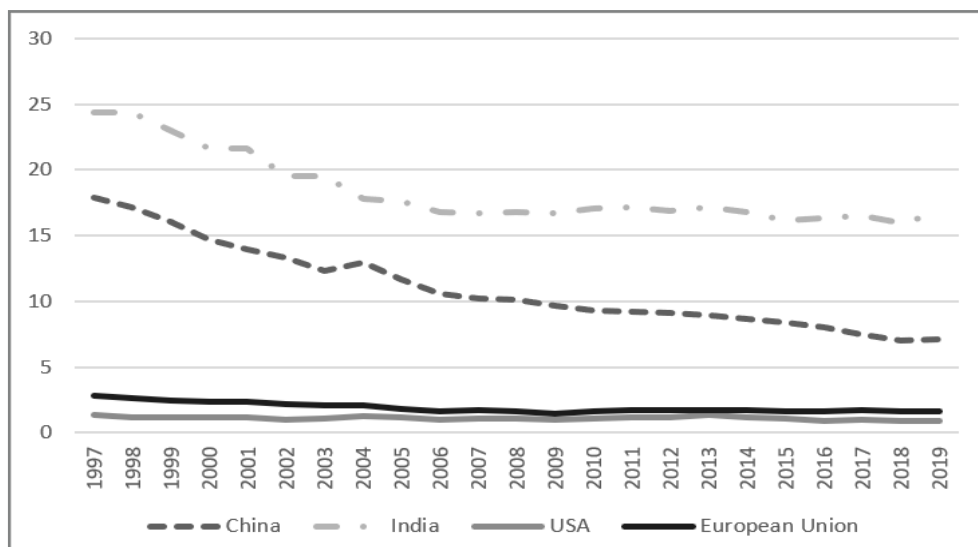
Figure 12. Services value added in China, India, USA, and the EU between 1997 and 2019 (% of GDP)



Source: The World Bank, 2021.

Note: Services value added in wholesale and retail trade (including hotels and restaurants), transport, and government, financial, professional, and personal) services such as education, health care, and real estate services. Imputed bank service charges and import duties are included.

Figure 13. Agriculture, forestry, and fishing value added in China, India, USA, and the EU between 1997 and 2019 (% of GDP)



Source: The World Bank, 2021.

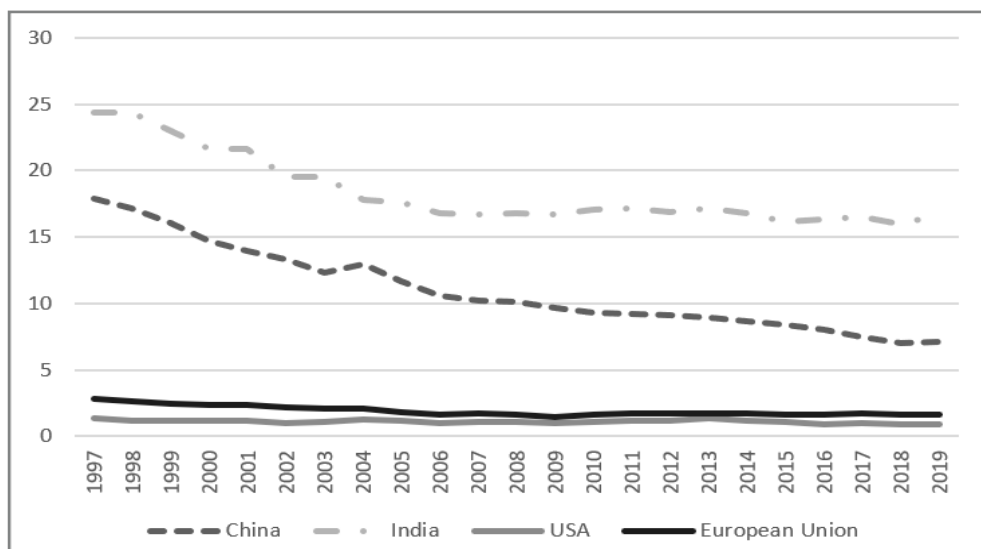
Note: Services value added in wholesale and retail trade (including hotels and restaurants), transport, and government, financial, professional, and personal) services such as education, health care, and real estate services. Imputed bank service charges and import duties are included.

the rapidly growing share of Chinese exports of goods and services in GDP that surpassed the shares of India and the USA at the beginning of the 1980s. China overtook second place after the EU in this indicator; however, it also recorded the highest share drop in the 2008 economic crisis period. In recent years the values of this indicator in India and China were similar, with slight precedence of China. China's growing trade openness in the observed period indicates

the country's new production and service capacities, new employment possibilities, and increased population income. Further analysis of exports structure would show its possible impacts on population income growth and the share of the middle-income population.

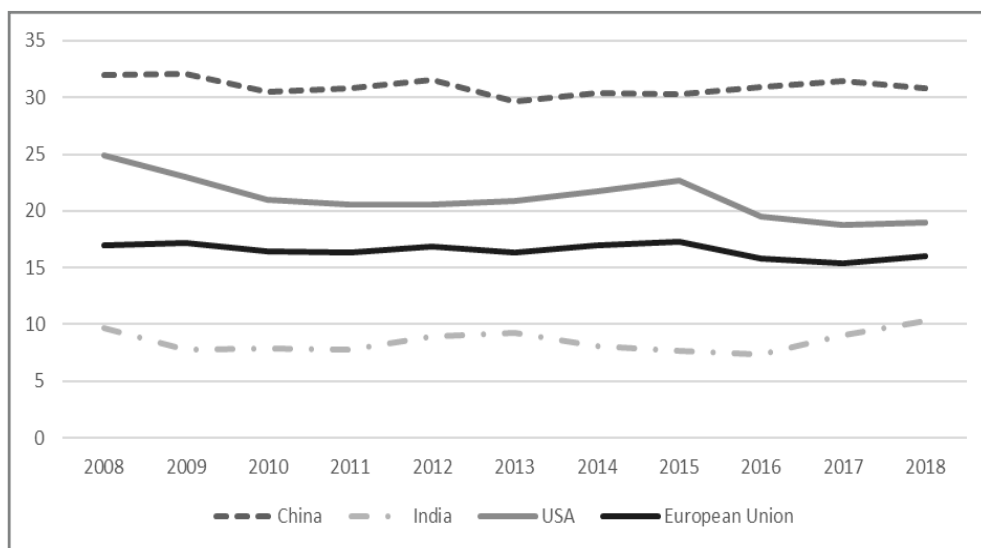
From Figure 15, it is evident that China significantly led in the share of high-technology exports between 2008

Figure 14. Exports of goods and services in China, India, USA, and the EU between 1970 and 2020 (% of GDP)



Source: The World Bank, 2021.

Figure 15. High-technology exports of China, India, USA, and the EU between 2007 and 2019 (% of manufactured exports)



Source: The World Bank, 2021.

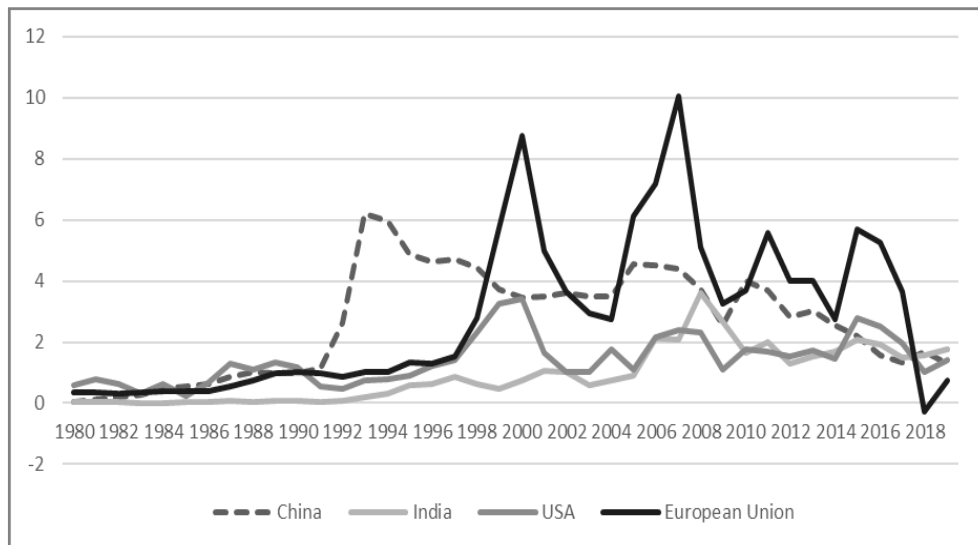
Note: High-technology exports are high R&D intensity, such as aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery.

and 2019 compared to India, the USA, and the EU. High-tech exports can bring additional value-added and create numerous positive spill-over effects in the economy. Among others, it can raise the employees' wages in the value chain and increase the share of the middle-income population.

The share of inward FDI in GDP indicates the entry and expansion of foreign capital in the domestic market. With

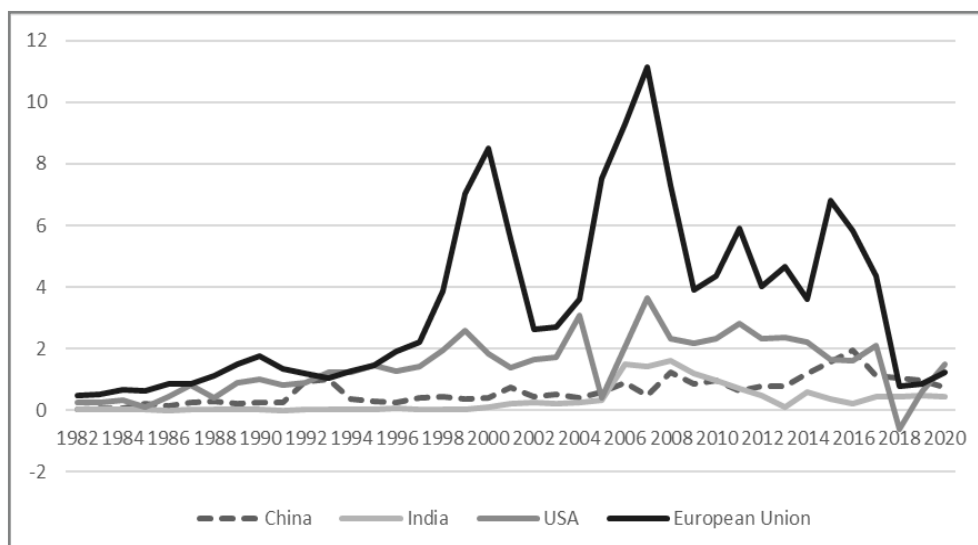
imports and international contractual entry modes, it indicates the country's inward internationalization level. Due to many potential positive effects of inward FDI (e.g., development of sectors and regions, jobs creation, development of entrepreneurship and competitiveness, transfer of modern technology and managerial knowledge, market expansion, favorable impact on the balance of payments), high values of this indicator indicate the favorable business

Figure 16. Foreign direct investment (FDI) in China, India, USA, and the EU between 1980 in 2018 (net inflows, % of GDP)



Source: The World Bank, 2021.

Figure 17. Foreign direct investment (FDI) of China, India, USA, and the EU between 1982 in 2020 (net outflows, % of GDP)

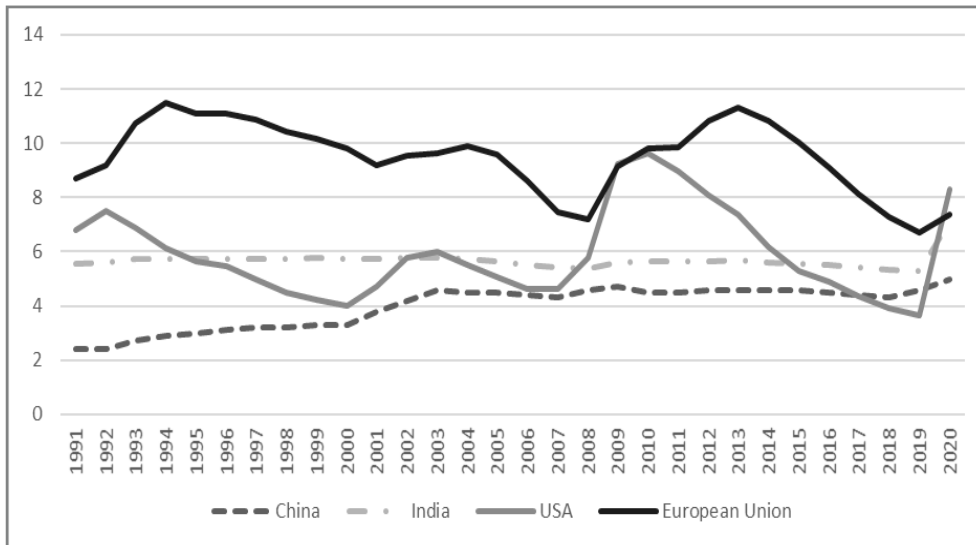


Source: The World Bank, 2021.

environment of the host country, its entrepreneurial specific knowledge, and capital, and thus opportunities for its development and growth. Figure 16 shows that Chinese GDP growth and exports of goods and services were supported by foreign capital. FDI started to flow into the economy at the beginning of the 1990s. In the whole period until 2019, their inflows were much more stable than FDI inflows into

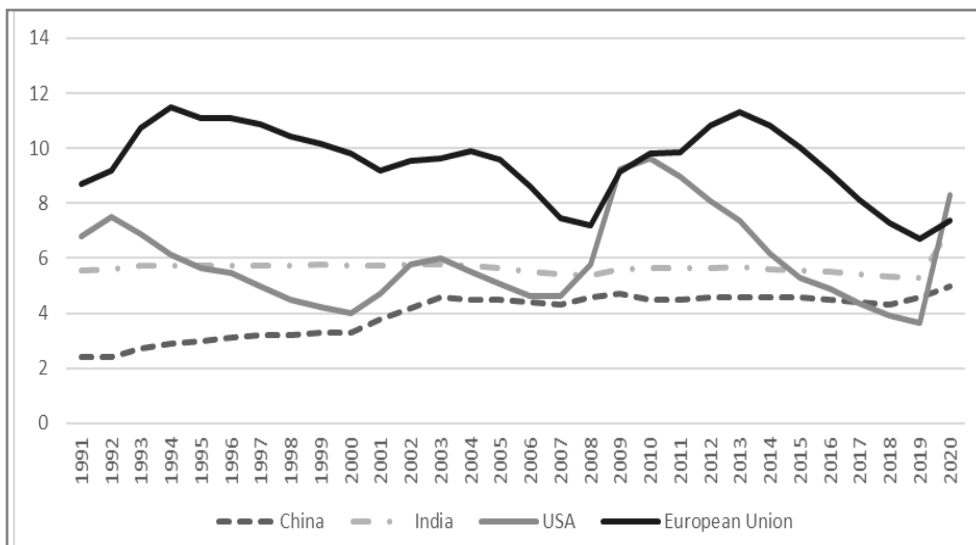
the EU. The share of Chinese inward FDI in GDP was also higher than the Indian share until 2015. China's rapid inward internationalization indicates the economy's expansion in the observed period with various possible socio-economic benefits, including rising income and increasing middle-income population share.

Figure 18. Unemployment in China, India, USA, and the EU between 1991 and 2020 (% of the total labor force)



Source: The World Bank, 2021.
Note: modeled ILO estimate.

Figure 19. Gross fixed capital formation in China, India, USA, and the EU between 1972 and 2018 (% of GDP)



Source: The World Bank, 2021.

Note: Gross fixed capital formation (formerly gross domestic fixed investment) includes land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchase; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings.

We can see from Figure 17 that with a small-time lag after the inflows of FDI into the economy, China started to invest abroad. Its level of FDI outflows was moderate between 1990 and 2005. However, after this period it started to increase. Almost in the entire observed period, the Chinese level of FDI outflows was higher than the Indian one, with the most considerable precedence recorded in the last years. The share of outward FDI in GDP indicates the growth and development of domestic firms' operations in international markets. Apart from exports and contractual entry modes, it represents a country's outward internationalization level. The share of outward FDI signifies an economy's capital expansion capacities, with potential impacts on global growth of its firms and consequent socio-economic benefits for a country, including rising income of its population.

It is evident from Figure 18 that China recorded lower unemployment than India and the EU between 1991 and 2020. Almost all that period its unemployment was also lower than the unemployment in the USA. China was able to align the needs of the employees with the labor market circumstances in the whole period. It is also evident that the 2008 crisis was less harmful to China and India since both economies could keep low unemployment levels. The share of unemployed people in China remained about the same (4 to 5%) between 2002 and 2019. Thus, China has shown resilience to economic shocks so far, indicating a more stable level of the population's income, including the middle-income population.

Figure 19 shows a significantly higher level of China's domestic capital investment in the whole period between 1972 and 2018 compared to India. After the 2008 crisis, the leading position of China in this indicator against India started to strengthen. An increasing share of domestic investment could indicate new economic activities, newly created jobs, and the rising population's income. However, sources and the structure of these investments are essential factors of their effects and sustainability.

Discussion and Hypothesis Testing

Demographic and macroeconomic market dynamics impact the middle class share in the entire country's population, bringing new opportunities for foreign companies to enter this market. Emerging markets' demography and economy are very dynamic. The size and growth of the middle class at a particular emerging market are essential factors of the market's attractiveness for foreign firms. It could represent a source of a large pool of labor and a broad base of target global consumers. Therefore, FDI decisions are, among others, based on demographic and macroeconomic trends

at foreign markets (see Drabble et al., 2015, 11–12). The global middle class, structured from numerous different middle classes at individual markets, is considered the main driver of the global economy in the last century (see Roy, 2018, 32). The efficiency and success of firms in their international business expansion can be related to their choice of middle class members as their target consumer segments or as human resources. Compared to an impoverished and very wealthy social class, the middle class group represents the largest share of the world's population that will continue to grow in the future and thus become the most prominent potential consumer base (Fengler & Kharas, 2017).

Cross-country estimations of middle-income class sizes are challenging because of different levels of the population's income. The middle class is also constantly changing due to countries' socio-economic dynamics. Concerning the existing data, despite the reference to the similar definition of the middle class, several studies estimate the size of the middle class differently. Compared to determining the size of the middle class in China (e.g., KPMG International, 2018; Barton, Chen, & Jin, 2013; Roy, 2018, 32), we even find more significant discrepancies between existent studies on the size of the middle class at the Indian market. According to Shashidhar (2019), one of the more fundamental reasons for this ambiguity is the lack of statistical data on the income of the Indian population (see also Research Unit for Political Economy, 2015), which has proven also in our empirical analysis. Notwithstanding discrepancies in defining middle class and consequently measuring its size, we can argue that parallel to the integration of China and India into the global economy, the middle classes in both countries were growing in the past six decades. Consequently, the countries' economic potentials were increasing and vice versa.

Our empirical analysis shows that China recorded extensive demographic transition (lowering of natural population increase and potential support ratio) and macroeconomic dynamics in the decades until the COVID-19 crisis. The macroeconomic dynamics reflected in higher domestic investment (gross fixed capital formation), exports of goods and services, the share of high-technology exports, FDI flows, and the share of services in the output. Urbanization, employment, and the share of salaried workers also increased. These findings implicate the decrease of the country's poverty and consumption growth, fueled by the increased income of numerous previously low-income individuals. Data shows that, on average, 0.5% of people in China lived below the international poverty line of 1.90\$ a day (in PPP) between 2009 and 2019 (World Bank, 2021a). On average, 22.5% of these people were in the total population in the same period in India. High numbers of working-age people with

higher salaries spurred additional consumption, raised economic growth, and increased market attractiveness. China gained economic and social benefits from its significantly lower natural population increase and consequently lower potential support ratio within the observed short- and medium-term period.

However, as we could see from our analysis, India's demographic transition was modest compared to China's. Indian natural rate of population increase and potential population support ratio was significantly higher than the Chinese ones. Also, Indian total exports and high-technology exports and FDI inflows, and domestic investment were substantially lower than the Chinese ones. The GDP growth remained moderate in comparison to China. The share of primary economic activities in GDP value-added was relatively high and the share of services low. The average share of salaried workers in the employed population in India was between 15 and 25% in the observed period. In China, however, this share was between 30 and 55% of all employees. The share of India's unemployed and rural populations was relatively high compared to China. The average rate of India's poverty was significantly higher compared to China. Therefore, our set hypothesis (H1: Demographic and macroeconomic dynamics in China and India established conditions for substantial growth of middle classes in both countries in the decades before the COVID-19 crisis) can be only partly confirmed. According to our research, it is valid for China but not for India.

Forecasts, however, suggest that by 2027, India's middle class will become more extensive than the middle class of China, the USA, and Europe (Roy, 2018, 35). This prospect can be related to three the most important enablers of Chinese long-time rapid economic growth: high indebtedness of government, corporations, and households (Lee, 2021; Lee 2021a), exhaustion of natural resources, and the former one-child policy. With the emergence of the COVID-19 pandemic, the first two enablers emerged as significant obstacles for further similar economic expansion of China and herewith for the growth of its middle class. Together with the zero-COVID-19 government's strategy (Wong, 2021a), they have started to slow-down Chinese production, investment and demand. A particularly hard hit has been construction, which supports millions of Chinese jobs. The Chinese one-child policy's short- and medium-term benefits will not be extended into the long-term economic and social advantages. It is estimated that society's aging will cause additional pressures on the Chinese public finances and limit opportunities for high economic growth (see Beckley & Brands, 2021).

Conclusion

Firms' decisions on target markets for their international business activities depend on several factors of foreign markets' local business environments. Apart from political, economic, and technological factors, the demographic environment is crucial for foreign market attractiveness. With favorable demographic trends, the middle-age and middle-income population increase, and large pools of potential human resources and consumers arise. In the last decades, some emerging markets of Asia became attractive not only for the relocation of production or certain links in the supply chain but also as potential markets to end consumers. International trade and investment liberalization, technology and knowledge transfer, industrialization, modernization, and demographic transition contributed to the economic growth of these countries. The latter stimulated new socio-demographic changes, with some countries falling behind the others in international competitiveness. Due to the liberalization and modernization of emerging economies and the technological progress in transport and information-telecommunication technology, the social conditions of emerging economies' populations have improved. Therefore, compared to developed countries, some of these economies recorded higher labor availability and structural efficiency due to larger pools of the younger, educated, working-age population and increased share of the people with higher income. The demographic transition of emerging markets offers additional labor and consumers, essential factors for economic growth and market attractiveness for foreign firms.

As the largest economy of Eastern Asia, China offered global firms a favorable demographic base of the middle class in the decades until the COVID-19 crisis. India lagged behind China in this regard. China used to be considered attractive for international firms because of the cheap labor. However, in the last years, it became attractive because of the vast pool of highly educated workforce and socially established consumers. The key enablers of higher labor availability and higher economy's structural efficiency were a better education system, higher education participation, higher gender equality regarding access to education, and a better health care system. To achieve economic growth, it was not enough to have a good labor supply. It was also necessary to have a labor demand. Since the demand of local employers was not high enough, the Chinese government stimulated foreign direct investment that created jobs. The improvement of demographic characteristics, including population's health conditions, educational attainment, and income, have made China more attractive for trade and FDI activities of foreign firms.

While China's population doubled between 1960 and 2020, the population in India nearly tripled. Due to considerable

differences in their reforms that led to demographic and macroeconomic changes, we estimated that the growth of new middle classes in both countries was different. Herewith, their roles in increasing markets' attractiveness were also not the same. The differences in education enrollment and investments in education in both countries indicate that people in both countries did not have similar local institutional initiatives to raise their income. According to the data of previous studies and the findings of our analysis, India fell behind China significantly in the observed periods. The share of exports in GDP, high-tech exports, and FDI inflows in India was relatively low compared to China. The same is valid for the share of fixed capital formation or domestic investment in GDP. Indian investment abroad was modest in comparison to China's FDI outflows. The socio-economic progress of India was far behind the Chinese one, which resulted in its lower attractiveness for international business activities of foreign firms and lowered the potentials for increasing the share of the middle class that would help raise the economy's dynamics. Due to the unavailability of reliable data on the population's income in both countries, we did not establish and compare the shares of middle classes in both countries in our research. However, as a driving force for FDI and consumption, we estimated that the middle class substantially increased in the Chinese market, but not in Indian. Recently, China has started to face the aging population challenge, although it is still significantly lower than in developed countries. The COVID-19 crisis has revealed some negative consequences of the rapid Chinese economic growth, based on high indebtedness and excessive exploitation of natural resources. Additionally, with a zero-COVID-19 strategy, China is significantly limiting its trade and investment openness. Altogether, after decades of remarkable economic prosperity, China's perspective and herewith its market attractiveness for foreign firms is becoming uncertain.

To estimate the consumption market potentials of China and India concerning the affluence of their middle classes, it would be reasonable for foreign firms to continuously assess trends in the average consumption levels and income

levels of the population. Consumers' behavior, which changes rapidly, is related to broader political, economic, social, technological, and natural environments. The effects of globalization allowed the possibility of achieving a global consumer who has similar desires and needs across numerous countries. International managers could perform in-depth market analyses that would show the inclination towards consumption and the typical consumption patterns of middle classes as the most significant population segments. Firms could assess the characteristics of consumption convergence or divergence in these segments. The first would allow standardization and would decrease firms' marketing costs. With glocalization marketing strategies, firms would balance divergent and convergent market characteristics.

Besides consumption and income, firms should also follow the other demographic characteristics of the middle classes and their dynamics in both countries. Due to intense international migration flows and different levels of countries' progress, it would be reasonable to regularly explore the average age, education level, ethnic structure, religious belonging, values, attitudes of the most significant part of the population. Such research is essential when estimating the middle classes as potential employees. It would also show the dynamics of middle class contribution to the social development concerning democratic and other progressive values.

Our research only estimates the middle classes' growth in China and India. The main reason for this was that the statistical data on the population's income in China and India is incomplete.

The valuable further research topic would be a predictive model of middle-class economic potentials according to economies' demographic and macroeconomic dynamics. It would represent a more solid foundation for analyzing markets' attractiveness from the perspective of the size and growth of the middle class. Besides, the current COVID-19 crisis calls upon further comparative research on the development paths of the discussed two largest emerging markets.

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Raziskovanje demografske in makroekonomske dinamike nastajajočih trgov in rasti srednjega družbenega razreda: primer Kitajske in Indije

Izvleček

Politični, gospodarski in družbeni tranzicijski procesi nastajajočih trgov so privedli do spremenjenih demografskih trendov in nove makroekonomske dinamike v teh gospodarstvih. Te spremembe so sprožile rast srednjega družbenega razreda, ki je postal bistven dejavnik privlačnosti nastajajočih trgov za prodajne in proizvodne aktivnosti tujih podjetij. Namen tega članka je analizirati demografske in makroekonomske trende Kitajske in Indije v desetletjih pred krizo COVID-19, da bi ocenili njihovo vlogo pri rasti srednjega družbenega razreda in posledični privlačnosti teh dveh pomembnih nastajajočih trgov za tuja podjetja. Izsledke naše raziskave oblikujemo na obsežnih teoretičnih osnovah in empirični analizi izbranih demografskih in makroekonomskih kazalnikov, povezanih z rastjo srednjega družbenega razreda. Ugotovili smo, da je Indija v opazovanih obdobjih glede demografske tranzicije in makroekonomske dinamike znatno zaostajala za Kitajsko. Kitajska je uveljavila radikalni demografski prehod. Primerjalna analiza makroekonomske dinamike je pokazala trdno vodstvo Kitajske na področjih gospodarske rasti, mednarodne trgovinske in investicijske odprtosti, tehnološkega napredka, zaposlenosti, strukture outputa, domačih investicij, urbanizacije in rednih zaposlitev. Posledično smo ocenili nižjo rast indijskega srednjega družbenega razreda in njegov manjši pomen pri odločitvah tujih podjetij za vstop na indijski trg. Ugotovitve so prinesle nekaj implikacij za mednarodne menedžerje pri segmentiranju in izbiranju ciljnih tujih trgov.

Ključne besede: nastajajoči trg, srednji družbeni razred, demografska tranzicija, makroekonomska dinamika, mednarodno poslovanje, Kitajska, Indija