



The Asian Consumer: Shaping the Future of Global Consumption



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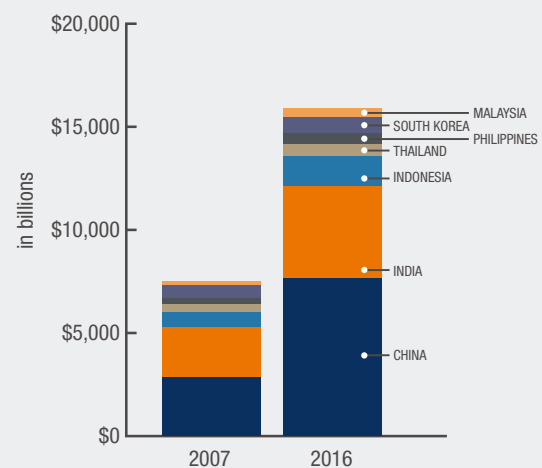
The rise of the Asian consumer, in our view, is an important long-term investment opportunity and represents a multi-decade growth story that is still in its early stages. External factors such as slowing global growth and escalating trade tensions may decelerate the pace of consumer spending in the short-term, but we remain optimistic in Asia's long-term consumption outlook (due to attractive demographics, increasing purchasing power and supportive government policy).

Over the past decade, the Asian consumer landscape has grown rapidly and evolved dramatically. Household spending in Asian countries, especially in China and India, has increased significantly, from \$7.5 trillion in 2007 to almost \$16 trillion in 2016 (see chart 1). This spending trend is forecast to continue and by 2023, Asia is expected to overtake North America as the region with the highest consumer spending.¹ Consumers in Asia are a key growth driver for the region and will help shape the future of global consumption for decades to come, creating new and attractive investment opportunities.

Domestic spending is an important economic engine of growth for many countries in Asia, but it is important to recognize that the region is not monolithic. Demographics, purchasing power, and spending behavior all vary from country to country. An understanding of the different consumer markets will be important for investors if they want to capture the growth of the Asian consumer.

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CHART 1: HOUSEHOLD SPENDING IN SELECT ASIAN COUNTRIES



SOURCE CHART 1: World Bank, Based on household consumption expenditure, PPP (current international \$).

¹Euromonitor International.

China

The Premium Digital Consumer



China, Asia's largest and the world's second-biggest economy,² has lifted millions of its citizens out of poverty and created a formidable middle class in the last several decades. The Chinese middle class became the world's largest in 2015 for the first time.³ This spectacular expansion of China's middle class is a result of rapid urbanization, strong wage growth and the government's commitment to move from an investment-driven economy to one that is consumption and services-driven. In the coming decade, middle-class consumption in China is forecast to grow by an average of 6% annually to reach \$8.2 trillion by 2027, up from \$4.3 trillion in 2016.⁴

With decades of income and economic growth behind them, China's middle class has shifted from spending only on traditional basics to spending on premium products and services that improve their quality of life and lifestyle experiences such as vacations, cars, cosmetics and entertainment. One obvious area benefitting from this shift to premium consumption is the global luxury market. The global luxury market has experienced high growth due to an increase in Chinese wealth. In 2008, Chinese consumers accounted for only 12% of the global luxury market, but this is forecast to increase almost four times to 44% by 2025 (see chart 2).

Across China, there is also a steadily growing trend amongst consumers to opt for local brands. Chinese consumers are becoming more confident in domestic companies and no longer view local brands as inferior in quality. Though this trend does not apply to all categories, there is now a preference for local brands over foreign brands in areas such as smartphones, home appliances, food & beverages, and sportswear. Unlike foreign companies who tend to take a generic approach across China, domestic companies, with a strong understanding

of the local consumer, have been able to innovate and adapt to their local market, making their brands more attractive to the Chinese consumer. In the fiercely competitive smartphone market, Chinese smartphone companies are rolling out features such as fast charging, AI-enhanced cameras, and integrated dual SIM support that appeal to the Chinese consumer. China's smartphone market is now dominated by four domestic companies: Huawei, Oppo, Vivo and Xiaomi while US technology giant, Apple, has seen its market share slowly decline (see chart 3).

When it comes to shopping, Chinese consumers prefer to use their mobile phones. As the country with the most internet users in the world (at 802 million, this is larger than the combined populations of Japan, Russia, Mexico and the US), and of which 98% are mobile users,⁵ Chinese consumers are digital savvy and avid online shoppers (see chart 4). Chinese companies, such as Alibaba, have revolutionized the retail market to capture the remarkable demand of these digital consumers. As a result, China now boasts having the world's largest and fastest-growing e-commerce market with more than a 50% global market share and over \$1 trillion in online retail sales (see chart 5). This is more than twice the amount of the world's second largest market, the US, where online retail sales reached approximately \$450 billion.⁶

Despite a slower pace of growth for the Chinese economy, the Chinese consumer "is and will continue to be the best consumer story in the world."⁷ As their spending power increases, the Chinese consumer will be a major force on domestic and global consumption. Investors who understand the shifting preferences and purchasing habits of the Chinese middle class will likely have an advantage in recognizing the investment opportunities created by this vast and dynamic group of consumers.

²IMF, based on GDP at current prices.

³Credit Suisse Global Wealth Report.

⁴World Economic Forum, Bain & Company.

⁵Bloomberg.

⁶U.S. Census Bureau, as of 2017.

⁷World Economic Forum 2018.

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CHART 2: CONTRIBUTION OF CHINESE CONSUMERS TO THE GLOBAL LUXURY MARKET

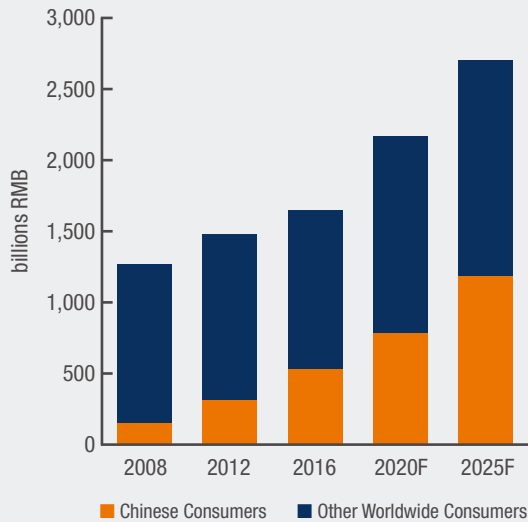


CHART 3: MARKET SHARE OF CHINA'S TOP 5 SMARTPHONE COMPANIES

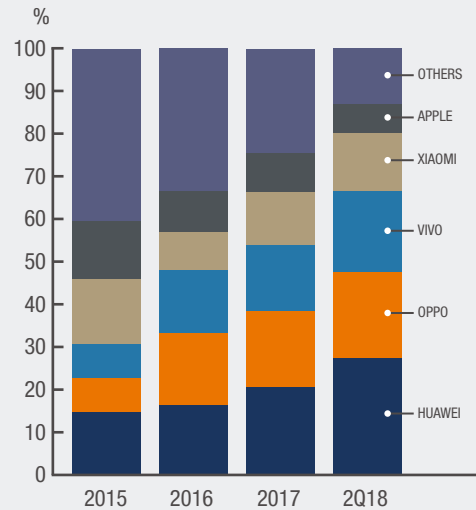


CHART 4: CHINESE INTERNET USERS

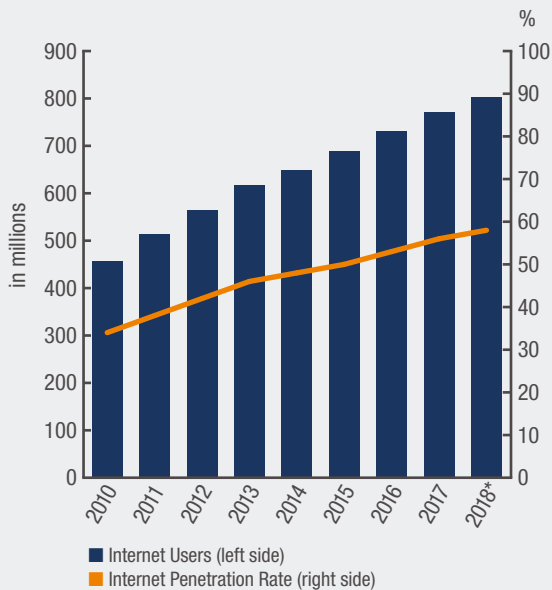
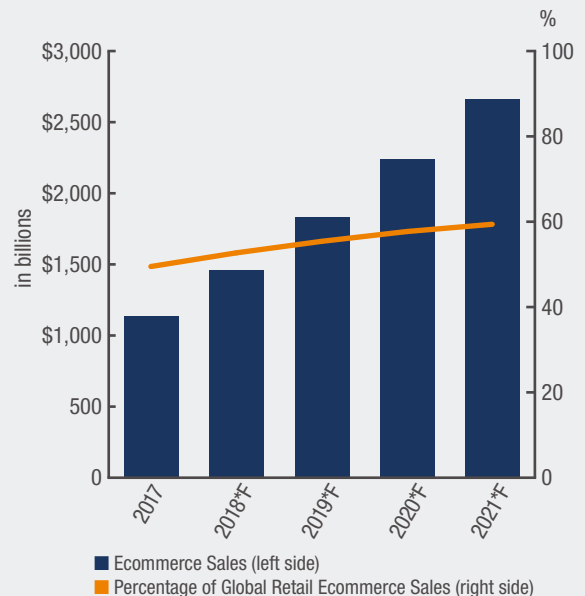


CHART 5: RETAIL E-COMMERCE SALES IN CHINA



SOURCES: CHART 2: McKinsey & Company 2017 Chinese Luxury Report. Forecasted numbers are projections and not guarantees. CHART 3: International Data Corporation (IDC). CHART 4: China Internet Network Information Center, Bloomberg. *As of June 2018. CHART 5: eMarketer, June 2017. F= forecast. Forecasted numbers are projections and not guarantees.



India

An Aspiring Middle Class

As it is with China, the sheer size of India's middle-class households, estimated at around 161 million in 2016 and expected to reach 201 million by 2025,⁸ makes it one of the world's most compelling consumer markets. However, while Chinese consumers are shifting their focus from quantity to quality, India's lower purchasing power means that their shopping habits and preferences will differ from China's. India's 2017 GNI per capita (a widely used measure of income per person for a country), adjusted for purchasing power parity, was at \$7,060, similar to where China was more than a decade ago (see chart 6). The relatively low income will help determine consumer behavior. As such, Indian consumers tend to focus their spending more on essential goods and services and affordability will likely be a deciding factor.

Urbanization is one of the most important drivers of long-term consumption growth. Though India has and continues to make progress towards urbanization, two-thirds of Indian households still live in rural areas (see chart 7). As expected, wealthier households are more saturated in cities, but it is important to note that a large percentage of the middle class (62%) is still based in rural India. Even among the higher middle-income group, more than 41% live in rural parts of India (see chart 8).

Rural consumers may have different spending patterns and make different purchasing decisions than their wealthier urban cohorts, but they too aspire for a better quality of life and expect to have many of the same products and services (e.g.: TVs, mobile phones, and internet connections). Rural consumers, boosted by increased government spending, greater prosperity and higher consumer confidence, account for a considerable share of overall consumption spending in India. TV ownership, for example, is growing faster in rural households than in urban households. As of 2017, there are 17% more TVs in rural homes (99 million) than in urban homes (84 million).⁹

In India, the most popular form of transportation is scooters and motorcycles (also known as two-wheelers) due to their affordability, convenience, low cost of maintenance and narrow roads. In the most recent fiscal year, India's two-wheeler sales surpassed the 20 million mark for the first time and sales are expected to continue its upward momentum as a result of strong consumer demand (see chart 9). Though two-wheelers currently dominate the auto segment in India, car ownership remains a long-term goal for many aspiring households who strive for a lifestyle enjoyed by the world's middle class. Rising incomes will naturally change consumption patterns and will help shift the trend towards greater car penetration. In the last five years, passenger cars sales grew at a compounded annual growth rate of 7%, reaching 3.3 million car sales in the 2017-2018 financial year.¹⁰

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⁸ BCG CCI proprietary income database, BCG Analysis. Middle class household is defined as having annual gross household income of \$2,300-\$15,400.

Income distribution is calculated in constant 2015 dollars.

⁹ Broadcast Audience Research Council (BARC) India 2017.

¹⁰ Society of Indian Automobile Manufacturers. The financial year is from April to March.

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CHART 6: GNI PER CAPITA: INDIA VS CHINA

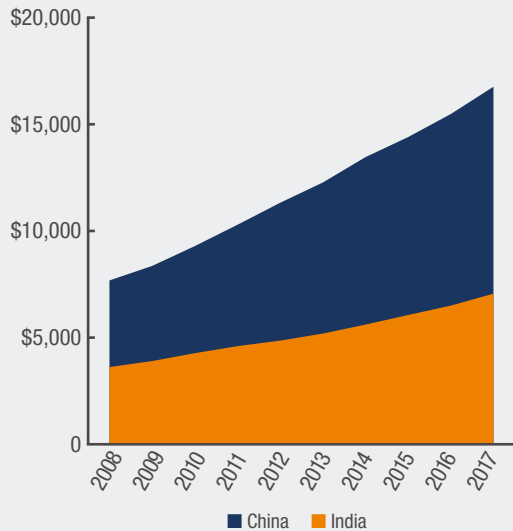


CHART 7: INDIA'S POPULATION IN URBAN AREAS

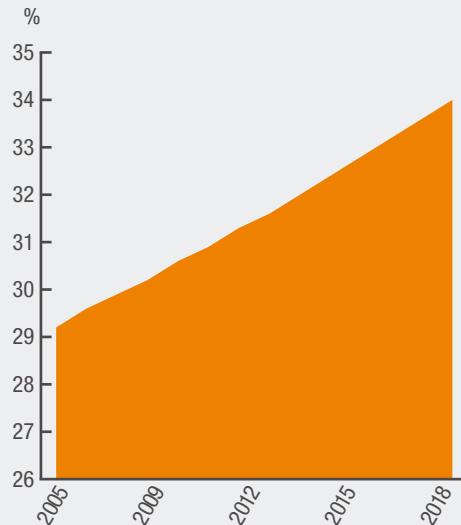


CHART 8: INDIA HOUSEHOLDS BY INCOME GROUPS: URBAN VS RURAL

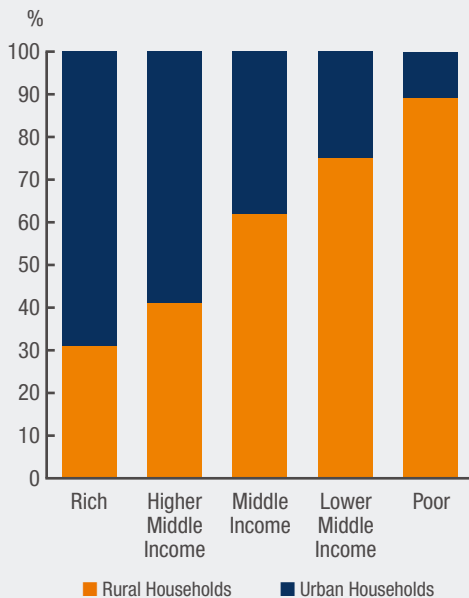
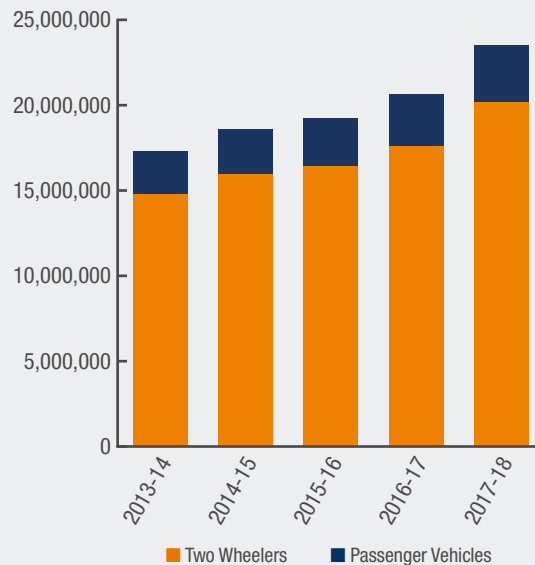


CHART 9: AUTO SALES IN INDIA



SOURCES: CHART 6: World Bank, based on GNI per capita, PPP (current international \$). Purchasing Power Parity (PPP) are the rates of currency conversion that equalize the purchasing power of different currencies by the difference in price levels between countries. CHART 7: UN, Department of economic and Social Affairs, Population Division (2018). World Urbanization Prospects: The 2018 Revision. CHART 8: Thomson Reuters, Morgan Stanley Research, Mirae Asset. As of 2017. Annual household income brackets: poor = \$1,044 to \$1,302; lower middle income = \$1,302 to \$1,644; middle class = \$1,644 to \$2,649; higher middle income = \$2,649 to \$5,312; rich = \$5,312+. CHART 9: Society of Indian Automobile Manufacturers. The financial year is from April to March.

The most influential group on consumption will likely come from India's young and increasingly educated population (see chart 10). Currently, the median age in India is 28 years old and around 45% of the population (or approximately 580 million people) is below 25 years of age.¹¹ No other country has more young people, the majority of which are millennials. These millennials (those born after 1982) make up around half of the country's workforce and contribute to 70% of total household income (see chart 11).¹² This generation is more optimistic about their future earning potential and tend to spend more than previous generations. They also have different consumption patterns, preferring to spend online, using mobile phones and cashless payments. India's young consumers will, therefore, have a significant role in determining the direction of the country's consumer market as they reach their peak consumption years (usually between the ages of 35 and 55). By 2020, spending by Indian millennials is expected to reach \$330 billion, up from \$180 billion in 2016.¹³ India's massive and young consumer base will likely shape the country's consumer market for decades to come.

Indian households have incomes that may be considered low by global standards but is considerably higher than previous generations. This will probably create a different growth trajectory in the Indian consumer market than in other emerging Asian markets such as China. The consumption opportunity, however, is still significant as a result of rapid economic growth, rising disposable incomes, and an aspiring young population seeking to move up the consumption ladder. According to research by the Boston Consulting Group, India will become the third-largest consumer market by 2025.¹⁴ Companies who want to capitalize on India's growing consumer story would need to pay attention to price points, market to rural consumers and meet the demands of their young customers.



CHART 10: EXPECTED YEARS OF SCHOOLING IN INDIA

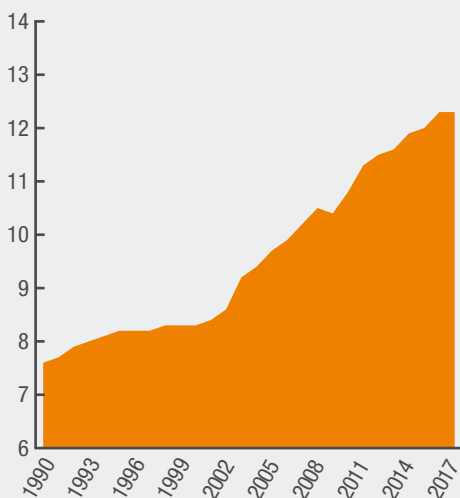
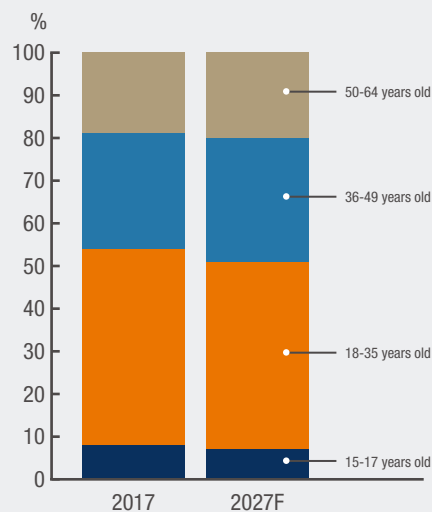


CHART 11: SHARE OF WORKING AGE POPULATION BY AGE GROUPS



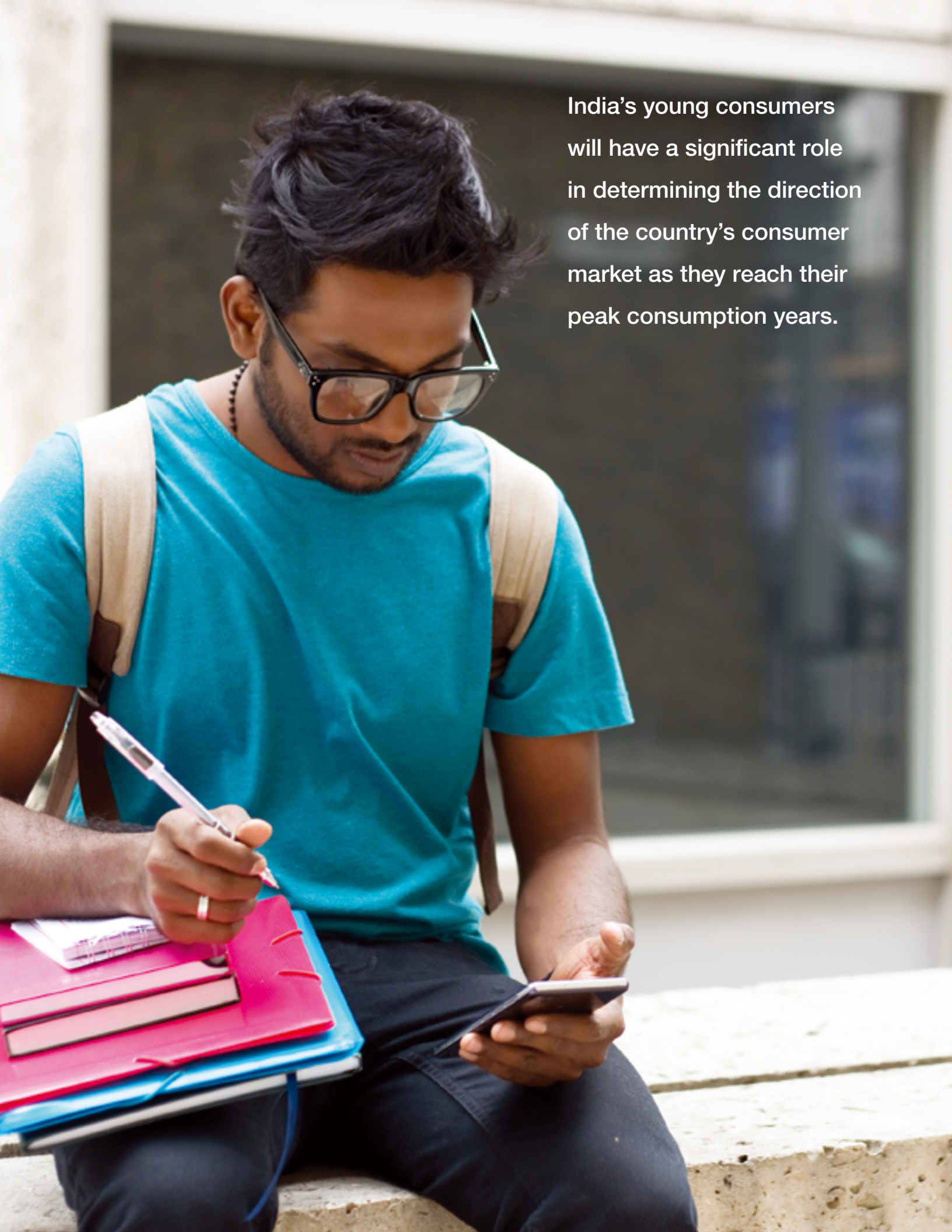
SOURCES: CHART 10: United Nations Development Programme, Human Development Reports. CHART 11: Morgan Stanley Research, UN. F = forecast. Forecasted numbers are projections and not guarantees.

¹¹ CIA World Factbook, based on estimated 2017 data.

¹² Morgan Stanley Research, Millennials to Anchor India's Growth Story.

¹³ Ibid.

¹⁴ The New Indian: The Many Facets of a Changing Consumer, 2017.



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ASEAN

Diverse Consumers

The ASEAN region is comprised of a diverse group of ten countries in Southeast Asia including Indonesia, Thailand and the Philippines. As a single entity, it is the 3rd biggest economy in Asia and the world's 5th largest.¹⁵ The region has a combined population of more than 630 million people and a fast-growing middle class. The bloc's middle class is expected to reach 334 million (more than half of the population) by 2030, up from 135 million in 2015.¹⁶

ASEAN consumers are made up of a multitude of ethnicities, languages and cultures which translates into substantial differences in spending attitudes and patterns. In Thailand, the consumer market is generally more mature than the rest of the region. Thailand has a large middle class (more than 70% of households) (see chart 12) and Thai consumers tend to be more sophisticated than other Southeast Asian consumers. They are also very brand-conscious and brand-loyal and are willing to pay more for their favorite brands.¹⁷ Thai consumers prefer their local brands for beverages and food items but gravitate towards foreign brands for electronics and appliances.¹⁸ Meanwhile, Indonesian consumers are more price-sensitive and tend to spend more on consumer staples such as beverages and packaged foods. They have a strong preference for local brands but are not very brand-loyal and are likely to switch brands for better discounts or promotions.¹⁹

One common trend across the ASEAN middle-class consumer (and all of Asia broadly) is the rapid adoption of digital technology, online shopping and mobile payments. Currently, the number of internet users in the six largest ASEAN economies is estimated to be 283 million and expected to grow at an annual rate of 17.7% until 2020.²⁰ Internet users in these countries are also extremely engaged — Thai users spend 4.2 hours per day on mobile internet, more than any other country in the world while Indonesian users came in second with 3.9 hours per day (Indonesia also has the highest number of Facebook users in Southeast Asia).²¹

The e-commerce market in the ASEAN region is relatively small at around \$11 billion as of 2017, but is expected to grow exponentially to around \$90 billion by 2025 (see chart 13). However, the market is very fragmented and consumers have multiple platforms and methods to choose from. For example, digital payment is most popular in Malaysia, while consumers in Indonesia and the Philippines prefer using cash on delivery.²²

The ASEAN region is potentially a huge consumer opportunity. Within ASEAN, there are different levels of consumerism based on the consumer's spending ability and preferences. Companies who want to succeed in this region will have to recognize the unique characteristics of each country.

¹⁵ US-ASEAN Business Council.

¹⁶ Ibid.

¹⁷ Boston Consumer Group, Five Consumer Trends to Watch in Thailand.

¹⁸ Deloitte, The Thailand Consumer Survey.


¹⁹ Deloitte Consumer Insights, Embracing bricks and clicks in Indonesia.

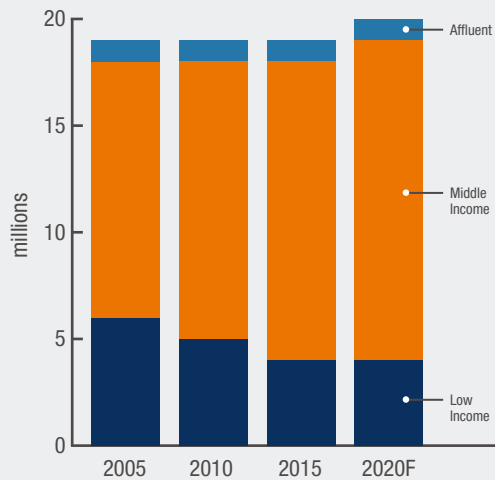
²⁰ Competition & Consumer Commission Singapore, Handbook on Competition & E-Commerce in ASEAN.


²¹ Temasek Research and Google, e-Economy SEA Spotlight 2017.

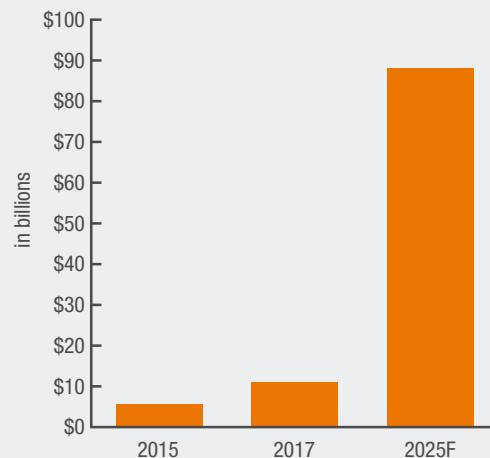
²² Bain & Company, So You Want to Win in Southeast Asia E-commerce?.

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 **CHART 12: THAI HOUSEHOLDS BY INCOME SEGMENT**



 **CHART 13: ASEAN E-COMMERCE MARKET**



SOURCES: CHART 12: Deloitte, The Economist Intelligence Unit, Mirae Asset. Low income = THB 35,000-175,000; Middle income = THB 175,001-875,000; Affluent= More than THB 875,000. F = forecast. Forecasted numbers are projections and not guarantees. CHART 13: e-Economy SEA Spotlight 2017, Temasek Research and Google. Based on the six largest markets in Southeast Asia: Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. F= forecast. Forecast numbers are projections and not guarantees.

A Local Perspective

As home to over 3 billion people, emerging Asia is a consumer powerhouse. We believe that the continued growth of the middle class in this region will shape the global consumer market for decades to come. The Asian consumer is continuously evolving, with spending habits and preferences still being formed. Young consumers in these countries will likely have an outsized impact on the future direction of consumption in terms of both products and channels, especially in digital services and e-commerce.

In our opinion, companies who want to capture the current and future potential of the Asian consumer will need to take a granular approach and recognize that the recipe for success in each country will vary. Companies that understand the regional differences and consumer profiles of each country will be able to better tap into the spending power of the Asian consumer.

Mirae Asset is a firm born in emerging Asia and has investment professionals based in and around Asia who speak multiple Asian languages. We recognize that consumer behavior is driven by different factors such as income, demographics, cultural attitudes and economic policy. As an active manager, we utilize a bottom-up investment approach to find companies that understand the local consumer and are best positioned to benefit from the Asian consumption trend.

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