



Introduction

Interdisciplinary perspectives on the middle class phenomenon in emerging markets



1. Introduction

The rise of the middle class (MC) in rapidly transforming economies of East Asia, Latin America, Africa and the Middle East is one of the most remarkable megatrends of recent decades. Given the magnitude of the changes felt by vast numbers of households across the globe, as well as the importance the issue holds in the realms of society, politics, business, economics and culture, examining the middle classes in emerging markets (EMs) has become a topic of investigation, and in multiple areas of academic inquiry.

While a consensus definition does not exist, the middle class generally refers to a growing number of households in EMs who now have access to a substantial disposable income that they can direct toward discretionary purchases – e.g. cars, home appliance, better housing, private education for children, leisure, and so forth. One practical benchmark for delineating this group is having at least 30 percent of total household income available for discretionary consumption.

Yet, the rise of the middle class households in EMs is a multifaceted phenomenon signifying changes beyond discretionary consumption. Other factors by which middle class status can be defined include educational and professional achievement, political attitudes and participation, lifestyles, cultural values, or simply self-identification. The evolution of middle class is also correlated with rapid urbanization – along with its consequences (e.g., housing and real estate pressures, unequal access to infrastructure between Tier 1 and Tier 2 cities, etc.). Finally, the rise of middle class in EMs heralds profound changes in societal values. Examples are: savings versus spending proclivity, attitudes toward borrowing, work-life balance, definition of success, religious practices, and individualism orientation.

Thus, business and economics scholars are not alone in studying the MC phenomenon. Scholars from such disciplines as media, communication, sociology, anthropology, political science, education, history, urban studies, and geography are also actively examining this topic. A special interest of some scholars is to contrast the contemporary developments in EMs with those already experienced by mature, post-industrial economies. Some also approach the middle class as a social phenomenon that derives meaning from social and cultural practices, while others treat it as political power with the capacity to shape a country's social, political, economic and cultural landscape.

The rise of the middle class has many important implications for international business and the processes of globalization. These arise not only because of the consumption requirements of the middle class, but also in issues such as gender equality, income equality and the environmental implications of the new patterns of consumption. There are also important fiscal consequences in terms of taxation and its role in funding the “developmental state” and macroeconomic effects arising from debt. The relationship between the rise of middle class consumption and the “middle income trap” remains to be fully examined. All these issues represent new opportunities for international business researchers.

We contend that the middle class phenomenon is one of the most profound aspects of contemporary growth markets, whether it is Brazil, China, Indonesia, Poland, South Africa, or Turkey. While business and economics scholars have begun to pay special attention to this topic, and are now producing empirical findings, we can benefit from the observations and conceptualizations of fellow researchers in related disciplines as well. Clearly, a multi-disciplinary, holistic understanding the middle class phenomenon, is needed.

In addition, we need to examine country variations, recognizing that each EM has exhibited a different trajectory in forming its middle class. Middle class households in different EMs may face different issues and embody a wide range of paradoxes regarding hope and anxiety, optimism and discontent, stability and change, and so forth. Therefore, a comparative perspective can lead to some common understanding of this remarkable megatrend of our times.

2. The extant literature

Perhaps not unexpectedly, much of the early work on middle class in EMs has been carried out by leading-edge management consulting firms, including McKinsey, Accenture, Ernst & Young, and the Boston Consulting Group. Yet the scholarly community, in business and economics, and related fields, is following their lead. Researchers at the World Bank, the Asian Development Bank, and various think-tanks have also produced insightful empirical research and policy guidelines. In addition, two interdisciplinary conferences have been held under the auspices of Georgia State University (Atlanta, 2013), and Pontifícia Universidade Católica do Rio de Janeiro NUPIN (Rio de Janeiro, 2014).

3. Why this special issue

Through this issue, we first wished to encourage scholars from business, economics, and other social science disciplines to submit their relevant work. Thus, one aim is to present alternative viewpoints on the middle class phenomenon, and work toward a more holistic understanding of middle class. Second, we wanted to disseminate alternative metrics and methodologies scholars have advanced for quantifying middle class households in EMs. Third, we wished to call attention to the varying experiences by different countries in building their middle classes, thus offering comparative perspectives. Finally, we hoped to publish empirical evidence on such presumed consequences of the rise of middle class as: entrepreneurial activity; income equality; political activism; transparency and democratic tendencies; and innovation.

We hope the readers will find the articles selected for this issue to be insightful and a source of inspiration for future work.

4. In this issue

We are most pleased with the articles featured in this issue of *International Business Review*. The call for papers produced over 50 submissions. After multiple rounds of revision, eleven papers made the final selection. These represent a happy balance of conceptual vs. empirical, multi-disciplinary papers, addressing the experience of several emerging markets in building their respective middle class households.

Examining the ‘new’ middle class in Brazil via consumption of cruises, Ana Raquel C Rocha; Angela da Rocha; and Everardo Rocha follow an interpretive approach. They find that, in addition to consumers classifying themselves in relation to others, they classify the time spent, space, artifacts, and the very experience of the cruise itself. The cruise simulates, for a short period of time, the life of the “leisure class,” with its attendant conspicuous consumption and waste.

Focusing also on Brazil, Carla Caires Abdalla and Felipe Zambaldi present on an interesting facet of the middle class phenomenon – consumption of Funk Ostentação or ostentation funk music. This movement is formed by young singers whose lyrics and promotional videos feature the consumption of designer’s clothes, cars, and other aspirational products. These idols extend themselves through brands, artifacts, and places in live performances and music videos. The young fans who hold them as role models then emulate such consumption behaviors.

In an empirical examination of Chinese middle class households Jing Song, Erin Cavusgil, Jianping Li, and Ronghua Luo find that social stratification and mobility are of importance for China’s MC consumers in shaping and maintaining their lifestyles and consumption patterns.

Of the three widely recognized stratifying dimensions (income, education, and occupation), educational attainment is the strongest indicator explaining the variance in the consumption of cultural products, while occupation plays a relatively weak role. Merely achieving wealth does not necessarily imply higher consumption of cultural products.

Turning to the experience of India, Rajshekhkar Javalgi and David Grossman study life goals, attitudes, and behaviors middle class consumers. They find that the middle class consumers express their confidence in attaining life aspirations such as financial success and personal growth. They seek more opportunities for accomplishing life goals, and display interest in entrepreneurial activities.

Mehmet Mithat Uner and Aybegum Gungordu, in their study of Turkish middle class consumers, draw attention to two divergent groups – ‘secular’ and ‘conservative’ consumers. In contrast to the secular consumers, the conservative middle class consumers tend

to display more devout values. They refrain from the consumption of alcoholic beverages, and prefer to eat at home. They are more loyal to a certain retailers. Conservatives appear to be catching up with seculars in terms of trying new products, going out for movies, shopping, and taking holidays. Finally, they hold more optimistic views of the future.

In another interesting manifestation of middle class consumption behavior, Vassiliki Bamiatzi, Konstantinos Bozos and Neofytos Lambertides examine the stock market trading behavior of Turkish consumers. Employing data from the Istanbul Stock Exchange, these authors find that middle class traders exhibit discernible differences from professional traders. In particular, they prefer lower-risk, smaller-size and ‘value’ stocks. In addition, while they typically hold small portfolios, they trade more frequently and tend to realize lower gains than professionals.

In their examination of panel data, Simone Guercini and Andrea Runfola study the middle class phenomenon from the perspective of western marketers. In particular, they reveal empirical evidence on the Italian fashion merchandisers’ international expansion by new store openings. They find that, first, these merchandizers are driven by the search for new customers, specifically the middle class in emerging markets. They find that the Italian origin of their brands renders considerable brand equity. Importantly, the authors argue that individual cities – as opposed to the potential implied by the nation as a whole – figure prominently in the choice of new store destinations. Cities represent a more appropriate unit of analysis in the selection of location for new store openings.

Reinforcing the same view, is the text paper in this issue. In her study, Ilke Kardes argues that, since the middle class is concentrated largely in urban areas in emerging markets, western marketers ought to pursue city- or urban based market potential analysis. Such an approach is superior to an aggregate, country-level market potential analysis. The proposed method highlights specific market potential indicators, especially suitable for middle class analysis. She then proposes methodological guidelines for carrying out an urban-based market potential analysis in the context of emerging market middle class.

The remaining selections in the special issue exhibit the economics perspectives. Yener Kandogan and Scott D. Johnson explore the empirical link between the middle class phenomenon and political and economic freedom. Their analysis suggests that some dimensions of freedom are more critical than others in making these markets attractive locations for international business. They also draw attention to the existence of a feedback loop, whereby the growing middle class becomes a driving force for further expansion of international business activity and economic growth.

Ayse Ozturk investigates the phenomenon of the ‘middle income trap.’ The empirical evidence presents an interesting puzzle: while some countries have been growing consistently, others were not able to keep high growth rates and got stuck in the “middle-income trap.” She finds that the key factors for economic growth include innovation, productivity, and foreign direct investment. Yet these factors have a diminishing marginal effect on economic growth. She contends that the middle class plays an important role in avoiding the middle-income trap. Specifically, a one-percent increase in the middle class should increase the odds of moving up by a factor of five.

In the final paper of this issue, Jingting Liu explores the gold consumption behavior and middle class. She argues that emerging markets country variances in gold consumption can be explained by such factors as the perceived value of gold by consumers. A complex set of psychological motivators drives gold consumption – utilitarian, hedonic and symbolic benefits. Liu offers some propositions, including the contention that there is an inverted

U-shaped relationship between disposable income and gold consumption.

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