The Rising Global Middle Class

The Hill recently convened policy makers, business leaders and economists to discuss the rising digitally savvy global middle class and the role leaders in the public and private sectors can play in meeting the needs of this economically powerful group.

Digitalization has provided round-the-clock access to businesses with e-commerce platforms. With a smartphone and an internet connection anyone can instantly make purchases and payments and access a myriad of financial services.

While the global middle class shrank last year due to the pandemic, its dominance is continuing to shape the e-commerce landscape for both small and large businesses around the globe. Over the next decade, more than half of the growth in global consumption is expected to come from the middle class and by 2030 close to two thirds of the world’s population is expected to join the ranks of the middle class.

With the global middle class coming of age and bringing with it enormous opportunities for U.S. businesses, we asked our panelists to weigh in on the issue and answer some of the following questions:

• As consumers adopt a predominantly digital lifestyle, how can innovations in technology power the global economy and support the needs of the rising global middle class?

• Who are the real heroes and villains in this shifting paradigm

• What role can leaders in the public and private sectors play in meeting the needs of this economically powerful group moving forward?

Executive Summary

The experts we convened for this panel agreed that now is the time to support U.S. businesses looking to grow their markets abroad. The opportunities provided by the global middle class are clear: a recent Euromonitor study found that the global e-commerce market is poised to expand by $1 trillion by 2025. And of the nearly 800 million annual active consumers who shop on Alibaba retail marketplaces, the majority are millennials and Gen Z.

• Many of the panelists recognize that technology has become a massive enabler, removing many traditional barriers to selling products globally, such as enabling access to markets and providing operational and logistical support that in the past was costly and often prevented U.S. businesses from selling globally.

• A majority of the experts cited U.S. small businesses as the heroes who transformed their businesses to sell digitally and globally in order to survive during the pandemic.

• While many panelists recognized COVID as the villain, several expressed concern that rising tensions and fraught discourse about global commerce are making it difficult for U.S. companies to make decisions to sell overseas.

• One respected thought leader summed it up best saying, “we need to align our domestic and global objectives because right now they’re working at cross purposes and we need to overcome this.”

• Most agreed that we’re in an exciting period of time right now and hopefully, we can change the dialogue and where we’re heading so that more small businesses have access to this growing middle class and the global marketplace in general.
Reaching the Global Middle Class

Across the globe, economies are growing and emerging from poverty, generating a new consuming global middle class. Most of the new members of the growing middle class are not in the United States or Europe. They are in Africa, Southeast Asia, and China. American and European businesses, in order to grow, will need to reach this rising global middle class.

Cheng Li, a Senior Fellow at the Brookings Institution and a prominent author and scholar on the Chinese middle class noted that “When he first started writing about China’s growing middle class in 1997, publishers rejected the notion. They said there is no such thing as the Chinese middle class.” James Fallows, a respected journalist and contributing writer to The Atlantic magazine, who has spent 15 years living outside the U.S., mainly in Japan, Malaysia and China, said he’s seen the growth of the middle class, and the transformation since he lived there in the 1980s until now is profound.

The numbers confirm this. By 2027, it’s estimated that 1.2 billion Chinese will be in the middle class, making up one quarter of the world total. In 2020, more than 44% of retail sales in China happened online, and it’s forecasted that 52.1% of the country’s retail sales will come from ecommerce in 2021.

Several global businesses are making this market accessible to U.S. companies, such as Alibaba and Ant Group (this discussion was underwritten by Ant Group). Last year, over $54 billion in products were sold by U.S. businesses to consumers in China on Alibaba’s e-commerce platforms using the Alipay app. And the story doesn’t end there. Chinese consumers also travel abroad. In the year prior to COVID-19, Chinese consumers spent over $230 million at American retail businesses in the U.S., accounting for over 800,000 retail transactions.

The Role of Technology

As consumers increasingly adopt a predominantly digital lifestyle, innovations in technology are powering the global economy and supporting the needs of the rising global middle class.

Scott Talbott, Senior Vice President of Government Affairs at the Electronic Transactions Association said, “I believe COVID actually helped accelerate a lot of the technologies that had been bubbling on the back burner – such as mobile and online payments – and moved them to the forefront. While we all recognize the damage done by COVID, at the very least, this may be a silver lining.” Over the past year, thousands of businesses became increasingly digital and global to survive the pandemic and are now positioned to succeed in 2021.

James Fallows, who has traveled substantially throughout China and Southeast Asia noted the enormous potential of the market. “I think it’s worth recognizing that the enhancing effects of these technologies are profoundly important in making it possible for small entrepreneurs wherever they might be, whether it is in rural Malaysia, China, or the U.S., to make connections with designers, suppliers, customers, and talent all around the world. That has become possible in a way that was not the case even 20 years ago, certainly not 50 years ago or 100 years ago.”

Adam Lee, Chief Product Officer at Boku, a leading mobile payments network, explained that “there’s great excitement and enthusiasm that global companies are now able to reach a wider audience and a broader set of customers because of the development of local payment services. Many local populations are best served by local payment service providers. The world isn’t built around Visa and MasterCard.”

China is a large player in promoting the growth of the global middle class through technology. Ant Group for example, plays an integral role in providing payment services in the Chinese market and opening the door for U.S. businesses. Ant owns one of China’s largest digital payment platforms, the Alipay app, which facilitates transactions worldwide through its diverse and integrated partnerships. Working with more than 250 financial institutions globally, Alipay has created online payment channels for buyers and sellers in more than 200 countries and regions.
Alipay helps connect U.S. businesses to the Chinese market which is crucial given the enormous demand for U.S. goods in China. David French, Senior Vice President of Government Relations for the National Retail Federation and Executive Director of the National Council of Chain Restaurants explained that “many of the U.S. brands that do business around the globe are world-class brands and their products are in demand in every community around the world.”

Heroes and Villains

Steve Clemons, Editor-at-Large for The Hill and the event moderator, asked the group to identify “the real heroes and villains” as we emerge from a global pandemic and an uncertain global economy. While many panelists acknowledged that the real villain was COVID-19, they also emphasized that the heroes were those who innovated and transformed their businesses to become even stronger through the pandemic.

Karen Kerrigan, President and CEO of the Small Business and Entrepreneurship Council explained that “the heroes are small businesses, including the small business owners and entrepreneurs who really had to grind it out during COVID-19 to use technology to transform their business and find opportunity in the global marketplace because of this amazing transformation that we’ve seen during COVID-19.”

A state regulator on the panel applauded local government agencies that are rapidly adapting to the changing technological environment. “I’m really proud of the work of state regulators who are trying to be more flexible given the vast technological advances that have occurred over the last decade.”

Cheng Li of the Brookings Institution warned that when it comes to the United States and China, “Demonization in this relationship, on both sides, is the villain. American businesses need Chinese consumers, and vice versa.” Other panelists echoed that argument, saying that the villains are the policymakers that are putting barriers into place for global commerce.

The Role of the Public and Private Sectors

Leaders in the public and private sectors will play a crucial role in meeting the needs of this economically powerful group moving forward.

Several panelists noted that rising tensions and fraught discourse on international commerce are making it more difficult for American companies to sell overseas. Anna Ashton, a respected voice on U.S.-China commerce and Vice President of Government Affairs for the U.S. China Business Council, noted that “because of the policy developments here and in China, there’s looming uncertainty for businesses that makes it really hard for companies to plan and make fundamental business decisions, and that’s an increasingly serious problem.”

Karen Kerrigan, a leading advocate for U.S. small businesses warned that “There is both a growing middle class and a growing entrepreneurial class across the world today. When U.S. small businesses and entrepreneurs don’t have access to those markets and aren’t able to provide those products and services, entrepreneurs from other countries will step in and provide them. So, this could be a missed opportunity for U.S. small businesses and entrepreneurs.”

Dan Ikenson, a respected economist and Director of Policy Research at NDP Analytics, added that “we need to be able to align our domestic and global objectives because right now they’re working at cross purposes, and we need to figure out how to overcome this. We’re in an exciting period of time right now and hopefully, we can change the dialogue and where we’re heading so that more small businesses have access to this growing middle class and the global marketplace in general.”

The silver lining may be that we can change the dialogue and approach to selling globally so that more small businesses have access to this growing middle class and the global marketplace in general.