

The future of Asia

The trailblazing consumers in
Asia propelling growth

Research preview

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The trailblazing consumers in Asia propelling growth

Asia is already the world's consumption growth engine and is likely to reinforce that position over the next decade. Disregarding Asia's consumer markets would mean missing half the global consumption story. Asia's consumer markets are not only a story of scale, but also one of diversity and shifting preferences and behavior caused by powerful demographic, social, and economic forces. To thrive in these markets, businesses and investors will need to get to know and learn how to serve distinct types of consumers, including Japanese Instagrammers, Indonesian Generation Z gamers, Indian small shop owners, and Chinese lifestyle-indulging millennials, to name just a few.

A forthcoming McKinsey Global Institute (MGI) discussion paper will explore the forces reshaping Asia's consumption markets, the discontinuities in consumer behavior that are leading to new and sometimes surprising choices and spending patterns, and the likely implications for how businesses and investors position themselves.

Asia's consumers will spearhead global consumption growth, but challenges exist

Asian consumers are expected to account for half of global consumption growth in the next decade, offering a \$10 trillion opportunity (Exhibit).¹ Globally, one of every two upper-middle-income and above households is expected to be in Asia, and one of every two transactions to be made by consumers in the region. Strong prospects for consumption in the region reflect falling rates of poverty and rising incomes and spending power. The number of households below the middle class with limited discretionary consumption power is expected to fall by 60 percent.²

¹ McKinsey's Global Growth Model simulations show a range of 45 to 50 percent of global consumption growth coming from Asia over the next decade, but growth outcomes will depend on the shape of the recovery from the pandemic and other macroeconomic factors in different geographies. We largely used McKinsey's baseline scenario, which assumes that Asia's long-term growth trajectory is not materially affected by the pandemic; this is consistent with a ten-year consensus of views formed before the pandemic by multiple institutions, including the Economist Intelligence Unit, the International Monetary Fund, Oxford Economics, and IHS Markit.

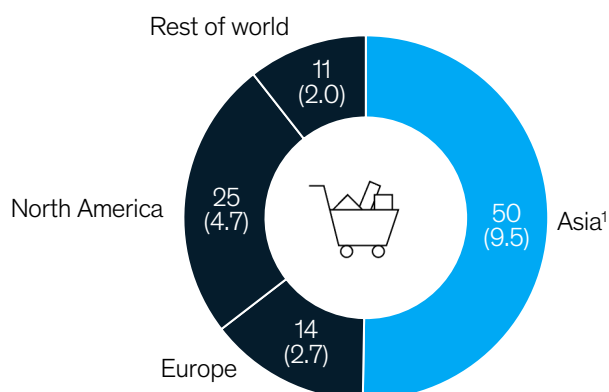
² Upper-middle income is defined as having annual household income of more than \$22,000 in 2005 international dollars (purchasing power parity). A household with limited discretionary consumption power is defined as having household income of less than \$8,000, roughly equivalent to a single person with disposable income of \$10 a day at 2005 purchasing power parity. This threshold is broadly consistent with the work of others, including Surjit S. Bhalla, *Second among equals: The middle class kingdoms of India and China*, Peterson Institute for International Economics, Washington, DC, 2007; and Homi Kharas, *The unprecedented expansion of the global middle class: An update*, Global Economy & Development working paper 100, The Brookings Institution, February 2017, [brookings.edu](https://www.brookings.edu/).

Asia's consumers will be at the forefront of global consumption growth in the next decade.

Share of global

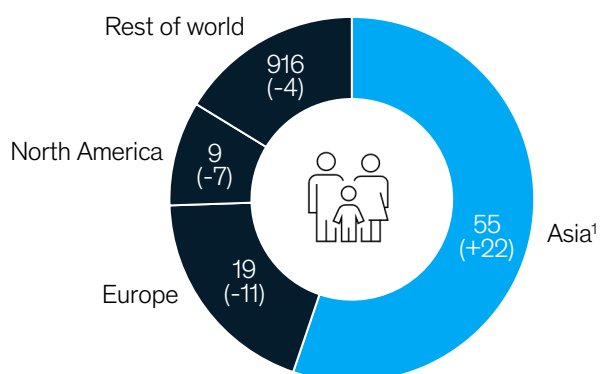
Consumption growth, 2020–30

% share of consumption growth
(\$ trillion)



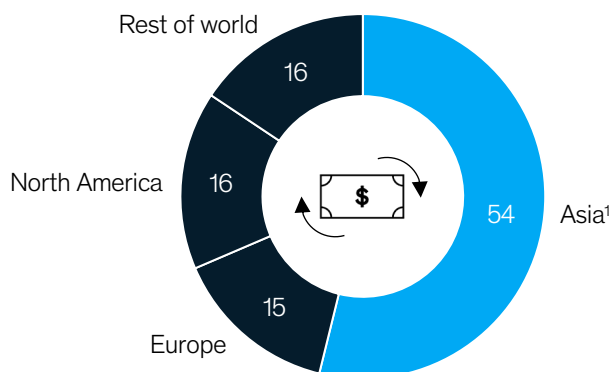
Households in upper-middle income and above

% share of households with annual
income >\$22,000 2005 PPP²
(change 2010–30, percentage points)



Transactions

% share of number of B2C and C2C
transactions, offline and online, 2025



¹ Includes Australia and New Zealand.

² Purchasing power parity in 2005 international dollars.

Source: McKinsey CityScope v4.0; McKinsey Global Payments Map; McKinsey Global Institute analysis

However, this positive outlook is subject to broad challenges. Two sources of stress accompanying rapid growth could affect consumption patterns:

- **Inequality.** Patterns of Asian consumption are likely to be influenced by income inequality. In most of the region, consumers in the bottom 50 percent of the income distribution have controlled a decreasing share of income over the past 30 years.³ The COVID-19 pandemic was regressive, hitting low-income households the hardest, and may increase inequality further even as economies recover.⁴
- **Climate disruption.** Asia is on the front line of climate risk, accounting for two-thirds of the global risk of economic disruption emanating from changes in the natural world, according to MGI research.⁵ In India, for instance, the cities of Bangalore, Chennai, Delhi, and Kolkata could lose an additional five to ten percentage points of outdoor working hours due to extreme heat and humidity.⁶ As another example, Australia could experience increasing incidence of wildfires and water shortages. Moreover, climate risk disproportionately falls on those on lower incomes, potentially reenforcing rising inequality. Many Asians will be affected and may change the way they consume as a result—for instance, becoming more aware of whether a brand is sustainable or spending more time indoors to avoid air pollution or extreme heat.

Shifts in demographics and consumer behavior are laying new paths of consumption growth

Powerful demographic forces are reshaping consumer behavior and causing large shifts in consumption patterns in Asia. Four demographic trends stand out.

Single-person households are growing quickly and already make up 15 to 35 percent in Advanced Asia and China.

Across Asia, the average size of households is shrinking. One-third of households in Advanced Asia and more than 15 percent of households in China are already single-person ones. In India and Frontier Asia, average households size has declined by about 15 percent over the past 20 years.

The smaller household size has implications for businesses serving Asian consumer markets. For instance, there could be an expanding opportunity in catering to the “lonely economy” and the need for new forms of companionship. One trend that has already resulted from individuals living alone is that ownership of pets is soaring across Asia—by 60 percent in South Korea over the past ten years.⁷ The type of products and services experiencing rising demand could include smaller portions in packaged food, food delivery at home, and may even lead to shifts in urbanization patterns as demand for more single-unit housing increases. This demographic shift is propelling growth in certain leisure categories, with demand rising for digital entertainment, solo dining, and solo travel. The “self-care” market is growing strongly as consumers increasingly focus on mental health and healthy lifestyle choices.

³ World Inequality Database. Patterns vary in the region. Previous MGI research on the future of Asia defined four “Asias”: (1) Advanced Asia, including Japan, South Korea, Australia, New Zealand, and Singapore; (2) Emerging Asia, including Indonesia, Vietnam, Malaysia, Thailand, Philippines, and Thailand; (3) India and Frontier Asia, including Bangladesh, and Pakistan; and (4) China. For more detail, see *The future of Asia: Asian flows and networks are defining the next phase of globalization*, McKinsey Global Institute, September 2019. Based on a simple average of representative countries in each of the four Asias, in Advanced Asia, and India and Frontier Asia, the share of the bottom 50 percent has declined since 1990. In China, there was an overall decline in 1990 to 2019, partly counterbalanced by some increase in the past nine years (7.7 percentage point decline from 1990 to 2010, 0.6 percentage point increase from 2010 to 2019). In Emerging Asia, the share of the bottom 50 percent has increased since 1990.

⁴ *Reversals of fortune*, Poverty and Shared Prosperity Series, World Bank, October 2020, worldbank.org.

⁵ *Climate risk and response in Asia*, McKinsey Global Institute, November 2020.

⁶ By 2050, based on an RCP 8.5 scenario. See Dickon Pinner, Hamid Samandari, Rajat Gupta, Hauke Engel, Mekala Krishnan, and Carter Powis, “Will India get too hot to work?” McKinsey Global Institute, November 25, 2020.

⁷ *2019 National Consciousness Survey on Animal Protection*, Ministry of Agriculture, Food and Rural, and Korea Agency of Education, Promotion and Information Service in Food, Agriculture, Forestry and Fisheries, November 2019.

Seniors are expected to account for one-third of consumption growth in Asia, are increasingly comfortable online, but have very different income profiles.

Seniors, defined as individuals over age 60, are expected to drive two-thirds of growth in Advanced Asia and one-third of consumption growth for the entire region. Companies recognize and understand the aging of the region, but the nature of senior consumption is changing. Most notably, the older generation is increasingly happy to consume online, a new phenomenon. In Japan and South Korea, more than 90 percent of seniors are expected to be online by 2030, while the share in China is expected to exceed two-thirds.

This shift calls for businesses to reassess how they serve these consumers. Companies likely will need to adjust their online presence and reconsider the size of their current physical footprint. Another important nuance that companies need to assess is the enormous variation in the purchasing power of Asian seniors. Around 70 million seniors, mostly in Advanced Asia and parts of China, display relatively high incomes and will drive consumption growth in categories such as health, housing (including specialized assisted-living facilities) and leisure. However, around 165 million seniors, mostly in India, Frontier and Emerging Asia and in parts of China, may live on less than \$11 a day.⁸ They may require government and society's assistance to fulfil their basic needs.

A new generation of “digital natives” will drive Asia's consumption.

Digital natives—those born between 1980 and 2012, including members of Generation Z and millennials—are expected to drive Asia's consumption over the coming decade.⁹ They account for over one-third of Asia's population consumption. McKinsey research on Generation Z in Asia found that 20 to 30 percent of this generation spends more than six hours a day on their mobile phones, voraciously consuming video content. They are eager for new experiences and twice as likely to buy brands that set them apart than Generation X. More than 70 percent of them are very confident of meeting their financial goals.¹⁰

Driven by such optimism, many digital natives are expanding their consumption, enabled by easy access to digital platforms—and borrowing. In China, digital natives already take out more consumer loans than any other generation, leading to one of every two indebted consumers being younger than 30. This debt is driving additional online consumption in categories such as apparel and durable goods.¹¹ Some signs of financial stress are emerging in economies such as China where 30 percent of new debt taken out by digital natives is being used to “recycle” previous debt, and in Thailand and Singapore. A continuation of increased spending by digital natives will depend on whether they can pay for debt with rising incomes, and whether credit remains available.

Women economic empowerment is changing consumption patterns and could deliver as much as one-fifth of additional consumption growth in Asia.

Three types of economic empowerment of women can unlock significant new consumption power. The first is new opportunities for women to generate income through higher labor participation, which has increased by two to six percentage points in Advanced and Emerging Asia over the past decade.¹² Second is a shift by women into higher-income occupations. Third is increased digital and financial inclusion. In India and Frontier Asia, for instance, the gender gap in access to the mobile internet has narrowed by 16 percentage points since 2017 as 78 million more women have come online.¹³ Despite some progress, substantive gender gaps remain that may have been widened by the COVID-19 pandemic that affected women disproportionately in many countries.¹⁴

⁸ 2011 international dollars.

⁹ Digital natives are defined as individuals born between 1980 and 2012. Millennials include individuals born between 1980 and 1995, and members of Generation Z between 1995 and 2012.

¹⁰ The only country where this generation is distinctly less optimistic is in Japan. See Aimee Kim, Paul McInerney, Thomas Rüdiger Smith, and Naomi Yamakawa, “What makes Asia-Pacific's Generation Z different?,” June 2020, McKinsey.com.

¹¹ *China's youth debt report*, Nielsen, 2019, dx2025.com; Research report on *Chinese residents' leverage ratio and household consumer credit issues*, Southwestern University of Finance and Economics and Ant Financial, 199IT, March 2020, 199it.com; and *Credit consumption survey: Half of the post-90s generation*, nearly 30% of the population uses loans to support loans, Rong360, August 2018, rong360.com.

¹² Measured as the female-to-male labor-force participation rate; based on International Labour Organisation data.

¹³ *The mobile gender gap report 2020*, GSM Association, 2020.

¹⁴ Anu Madgavkar, *The impact of COVID-19 on women in the workplace in Asia*, July 1, 2020, McKinsey.com.

If women's economic empowerment were to play out to its full potential, this could deliver as much as one-fifth additional consumption growth in Asia. In 2018, MGI research found that advancing women's equality in Asia-Pacific could add \$4.5 trillion a year to collective GDP.¹⁵ This could equate to as much as \$2.2 trillion in additional consumption over the next decade.¹⁶ Women would have more to spend on categories, including having fun (entertainment, eating out, travel), caring for the family, catering to health, and even image.

Large shifts in Asia's consumption patterns are in prospect

As these major forces coincide with accelerating technological change in Asia, new forms of consumer behavior may emerge. Several shifts or discontinuities that are already emerging could become more prominent factors in the region's consumption:

- **A more responsible consumer.** There is evidence that Asian consumers are increasingly concerned about sustainability and the risk of climate change. Consumers across the region express increased willingness to pay for more sustainable alternative products; in some cases, in this regard they are matching or even ahead of their counterparts in the United States and Europe.¹⁷ However, the level of willingness to pay is often below effective price premiums, and growth in sustainable alternatives will depend on this gap narrowing—through either an increase in willingness to pay or a fall in price premiums.
- **Asian brands on the rise.** Asian consumers' preferred brands are changing in some categories. In consumer packaged goods, local players still account for more than 60 percent of sales of the market.¹⁸ However, Asian regional players have grown three percentage points faster than the market over the past five years. Similarly, local and regional brands account for the majority of sales in automotive and consumer electronics. Given this, businesses serving Asian consumer markets need to hone their understanding of local tastes and tailor their offerings accordingly.
- **Digital leapfrogging and a new Asian channel mix.** Two shifts in the pattern of digitization are breaking down the traditional narrative of fragmented traditional trade being replaced by modern store-based trade. First, e-commerce is increasingly replacing store-based trade. In China, Emerging Asia, and India and Frontier Asia, retail markets are leapfrogging straight from traditional formats to e-commerce, which is expected to reach 30 percent of retail sales in China and 20 percent in Emerging Asia by 2025.¹⁹ Second, the digital transformation is incubating a new evolution of traditional trade while boosting retail productivity by addressing the inefficiencies of physical stores. We may be seeing the emergence of a distinctly Asian channel mix.
- **A "big convergence".** Asia has been the breeding ground of the phenomenon of super apps, which have thrived as a model because the region's consumers take a particularly mobile-first approach to the internet, and because offline sectors still have many inefficiencies.²⁰ Super apps, which initially appeared and came to prominence in China, have increasingly provided the means to deliver improved outcomes for consumers across Asia, from South Korea to Indonesia. Some players have successfully expanded their user bases with more than 80 percent in South Korea and China, and the aspects of consumers' lives covered, from social media to healthcare and mobility.²¹ Super apps have cemented and expanded their market share by adding to their functionality, moving from high-frequency core categories such as social media and mobility to offering increased convenience as

¹⁵ *The power of parity: Advancing women's equality in Asia Pacific*, McKinsey Global Institute, April 2018.

¹⁶ Specifically, an additional 23 percent of consumption growth on top of \$9.5 trillion anticipated.

¹⁷ Evidence comes from World Values Survey Wave 7 (2017-20), worldvaluessurvey.org; *Climate change and consumer behavior: Global changes in consumer behavior in response to climate change*, IPSOS for the World Economic Forum, December 2019, ipsos.com; and "Sustainability in packaging: Inside the minds of global consumers," December 16, 2020, McKinsey.com.

¹⁸ For each Asian country, sales of local players are those for companies whose headquarters is in the country where sales take place. Regional sales are those where the company's headquarters is in Asia but not in the country where the headquarters is located.

¹⁹ Euromonitor International.

²⁰ *The future of Asia: How Asia can boost growth through technological leapfrogging*, McKinsey Global Institute, December 2020.

²¹ Penetration defined as monthly active users divided by country population.

“demand aggregators.” Furthermore, some of these apps are now crossing borders and achieving a significant foothold in multiple countries, prompting incumbents in many sectors to respond by attempting to protect their customer relationships and, crucially, their data. Whichever playbook emerges out of this competition, we expect many domains of consumers’ lives that were served independently to become increasingly integrated.

- **Changing forms of ownership.** Economic pressures, changing consumer attitudes, and technology have combined to prompt many Asian consumers to consider alternatives to traditional ownership of goods in order to fulfill their needs. The rental and subscription economies are gaining traction in, for instance, mobility, where ridesharing is growing quickly across Asia; housing, reflecting the fact that some of the most expensive property cities on a price-to-income basis are in Asia; and electronics. Consumers are also embracing secondhand ownership. China’s secondhand market has doubled since 2016 to \$145 billion.²² Another increasingly pervasive shift is toward ownership of digital, rather than physical, goods and services. For all these shifts, however, consumers in Asia are still largely on the upward part of the ownership S-curve: they remain likely to own more, rather than less, in the future.
- **The segment of one.** Asian consumers are some of the most demanding in terms of personalization, and display relatively high willingness to share their data to achieve it. As companies seek to tap into this demand, they will need to consider both the digital and physical worlds. In the first, personalization is already gaining traction; consumers increasingly expect every aspect of their digital journey to be personalized, including interactions, communications, and offers. In the second, personalization is less prevalent, and coexists with other trends in consumer preferences such as limited editions of some goods. However, some innovative companies are creating unique customer journeys, from personalized experiences in stores to goods such as customized handbags and shampoos tailored to an individual’s hair. Companies that find the right approach to personalization are likely to reap significant rewards, including improved engagement, sales, and profitability.²³

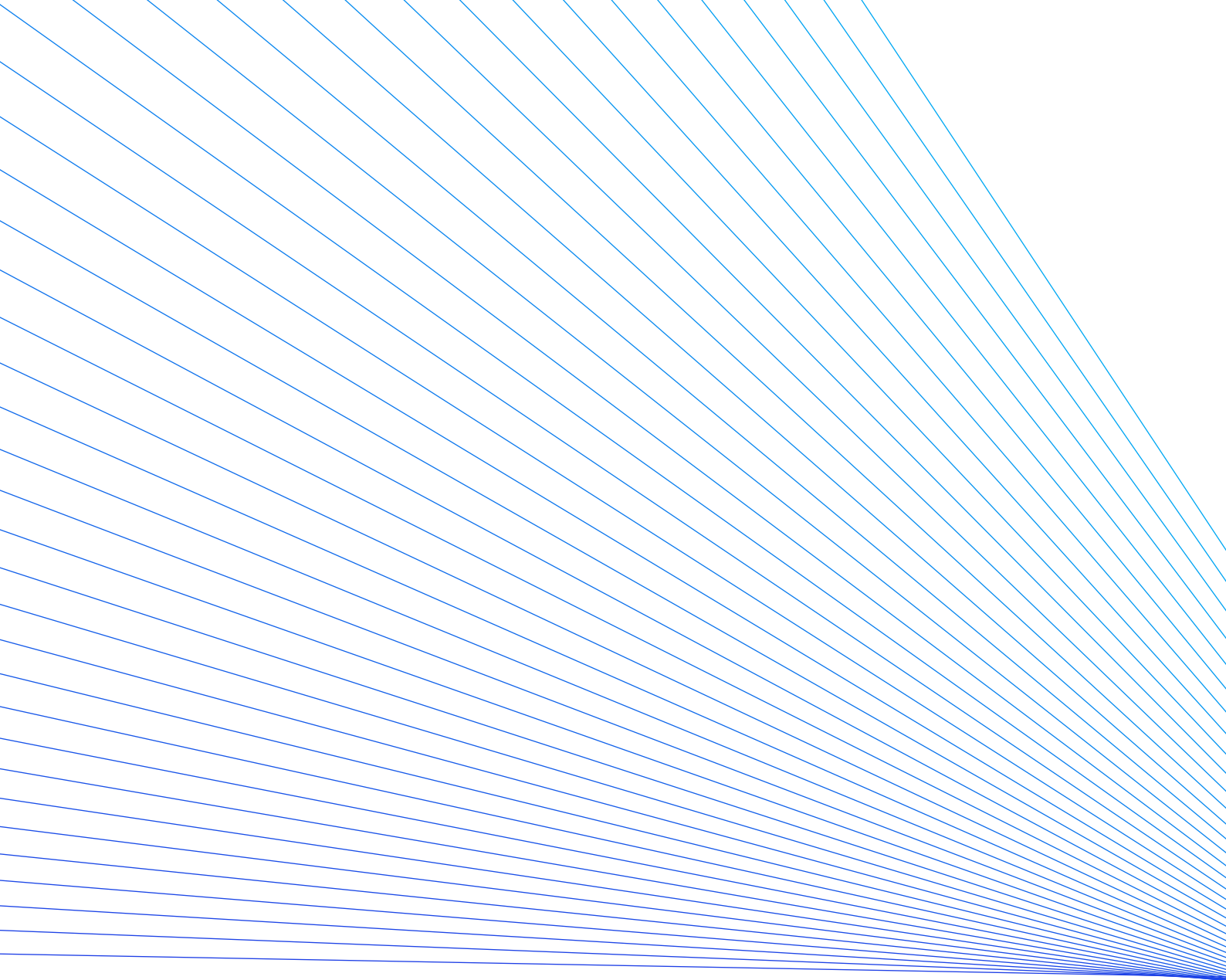
Consumers across Asia are changing the way they shop, nest, and move—in fact, most parts of their lives. Companies serving these markets will need to understand these consumers and adjust their business models. But which companies will be the rising stars of the next decade, and what new strategies and capabilities will best enable them to adapt to the changing Asian consumer landscape and capture the next decade of growth opportunities? The forthcoming MGI research paper will discuss these questions.

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This paper was edited by Janet Bush, a senior editor at the McKinsey Global Institute.

²² Tom Hancock and Wang Xueqiao, “Second-hand market comes in from the cold in China,” *Financial Times*, July 30, 2019.

²³ Erik Lindecrantz, Madeleine Tjon Pian Gi and Stefano Zerbi “Personalizing the customer experience: Driving differentiation in retail,” April 2020, McKinsey.com.



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