

Asian emerging markets: different business opportunity for Canadian SMEs
Part I. A more granular view of Asian markets

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Expanding Canada's presence in Asia's growing markets is a perennial priority of all Canadian governments. So is emphasis on stimulating innovation, especially by small- and medium-scale enterprises (SMEs), representing over 99% of Canadian firms. Neither has been particularly successful to date. However, these two seemingly unrelated issues may be effectively linked.

Strengthening innovation in products, processes and business models for Asia's emerging markets can have significant benefits for Canadian firms. This requires a more granular understanding of these markets. It also entails a 'demand side' perspective on innovation, different from the usual focus on cutting edge technology. This, first of a series articles, looks differently at Asian emerging markets.

Asia in the global economy: the usual perspective

Global growth continues to be uncertain, reflecting [weaknesses](#) in international trade and slowing investment. The relative size and weight of the U.S. and European economies has been shrinking; and their growth rates are likely to continue to lag in the foreseeable future. In 25 advanced economies incomes have [stagnated or fallen](#) for a majority of households during the period 2005 - 2014. The U.S. and EU consumers are not likely to be the primary source of growth in global demand as in the past.

Asian emerging economies, in particular ASEAN, China and India (ACI), are poised to play an ever more important role. Asia's sustained high growth in gross domestic product (GDP) has led to a dramatic increase in its [share of world output](#). China is now the world's second-largest economy by nominal GDP, and largest by purchasing power parity, accounting for 19.24% of global GDP, greater than the U.S. share of around 15%. India is the sixth-largest by nominal GDP, and third-largest by purchasing power parity, accounting for around 8% of world GDP. ASEAN, as a region, is the sixth largest, and could be the third by 2030. By 2030 Asia is [projected](#) to account for more than half of global consumption growth, and reaching 40% of total world consumption by 2040.

Different perspective: Asian emerging economies as 2-tier fragmented markets

Income growth in Asian emerging markets will generate an increasing number of urbanized middle class consumers (i.e. those with US\$5,000 – 15,000 in annual disposable incomes) with substantial buying power. But there is more to these markets. Disposable incomes in the region will lag significantly behind consumers in the developed economies of the U.S., E.U., and Japan, for the foreseeable future. The vast majority of the ACI economies' populations have high aspirations, but will continue to be lower-income/lower-middle income, in secondary cities and rural areas.

China, India and ASEAN are all examples of the region's 2-tier, fragmented markets. China's average annual real per capita *disposable income* in 2018 was RMB 28,228 (US\$3,989). But this is greatly misleading. While household annual per capita disposable income in [Shanghai and Beijing](#) were RMB 64,183 (US\$9,070) and RMB 62,361 (US\$8,812) respectively, urban households in interior provinces, and especially rural households, earn far less than the national average. For example, average per capita disposable income in [Yunnan](#) province (in 2017) was RMB 18,348 (US\$2,593) and the national [average](#)

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[rural per capital disposable income](#) in 2018 was RMB 14,617 (\$2,065). In 2030 Chinese consumer purchasing power is likely to still only be about 22% of the U.S.

In [India](#), the urban middle class with average annual income over US\$5400 was estimated at around 11% of the total working population (2015), a very large number of people, but with lower-income urban and rural consumers with annual disposable incomes of less than US\$2500 making up the rest or almost 90% of the Indian market. Similarly, in 2015, of [ASEAN's](#) 162 million households, 10 million had annual disposable incomes over US\$25,000 and 104 million had well below US\$7,500. While incomes in the ACI economies are expected to increase in coming years, fragmented markets, income inequality, and high proportion of rural population, even with accelerating urbanization, will limit consumer spending in the region.

Yet the two-tier nature of Asian emerging markets presents considerable opportunities for Canadian firms. For example, in the first half of 2019 [per capita consumption expenditures in rural China](#) grew by 6.4% from a year ago, faster than the national average of 5.2%, and higher than the 4.1% growth of urban consumers. To take advantage of these opportunities, firms will need to flexibly tailor their products, production processes, and business models to the particular characteristics of these markets and their consumers. This requires a different perspective on innovation (Part 2).
