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## South Asian Diaspora: A Changing Landscape

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*“The idea of the future being different from the present is so repugnant to our conventional modes of thought and behaviour that we, most of us, offer a great deal of resistance to acting on it in practice.” - John Maynard Keynes, 1937.*

### **Abstract**

*This paper is an attempt to expand the debate on the impact that the South Asian Diaspora groups are having on the countries of their origin. It goes beyond the discussion of the quantum and structure of financial resources that flow from the expatriate communities to the countries of their origin. While those financial resources are large – they touched US\$100 billion for all South Asia – the story of the impact of the Diaspora groups on what were once their homelands should extend beyond matters of finance. We should look into how the size, structure and pattern of South Asia’s middle class, by now nearing one billion people and*

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*expanding at a rate three to four times the increase in population, are being influenced by the Diaspora groups. The upper end of the South Asian middle class is increasing because of the growth in national incomes in the region. As is now recognised, a significant increase in the incomes resulting from economic growth is being captured by the well-to-do segments of South Asian societies. At the lower end of the income distribution scale, the increasing size of the middle class is largely the consequence of the amount of remittances received by the households in the space between the poor and the not-so-poor.*

## **Defining the Diaspora Groups**

A discussion on the South Asian Diaspora groups should begin with a definition of the term, often used loosely to refer to all those who live outside the countries of their origin. The IMF, with an understandable interest in explaining the term in order to keep track of the flows of capital from various expatriate communities, provides a comprehensive definition. According to it, diaspora groups share the following five characteristics: (i) dispersion, whether voluntary or involuntary, across socio-cultural boundaries and at least one political border; (ii) a collective memory and myth about their homeland; (iii) a commitment to keeping the homeland alive through symbolic and direct action; (iv) the presence of the issue of return, although not necessarily a commitment to do so; and (v) a consciousness and associated identity through diaspora media, the creation of diaspora associations and organisations, and online participation.<sup>2</sup> This definition leads us to include in the diaspora communities those people who have moved out of their countries to escape turbulence and war. They generally seek refuge in the states just across the border. The movement of four million to five million Afghan refugees to Pakistan and Iran is an example of this kind of people-movement. However, for this discussion, we will adopt a narrower definition and include only those groups that were formed by the people who left their countries for economic reasons. In the language of economics, they, in leaving their countries, responded to both pull and push factors.

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<sup>2</sup> International Monetary Fund, 'Harnessing diasporas', *Finance and Development*, Vol. 48, No. 3, 2011.

## **Studying the South Asian Diaspora Groups**

By now the South Asian Diaspora groups, spread all over the globe, have been looked at in some detail by the academia as well as policy makers. Formed over several centuries, these communities have a total of between 35 million and 50 million people. The lower number is for those that have retained some formal links with their former homelands, while the larger number includes people who have lived outside South Asia for generations. In other words, between 2.2 per cent and 3.1 per cent of the people of South Asian extraction live outside the countries of their origin. The proportion is much higher for Bangladesh and Pakistan as compared with India. Some of these South Asian Diaspora groups are very old; they have seen several generations from the time they emerged as distinct communities. The largest number is in the Middle East but there are sizable communities in Europe, North America, East Africa, and Southeast Asia. Of late Australia has become the favoured destination for the South Asians with higher skill levels.

The socio-economic composition of these communities has changed significantly over the last couple of centuries. While most of the academic and policy work done on the subject of diaspora groups has been focused on the flow of remittances and how this has augmented domestic savings and increased the rate of economic expansion in the labour-exporting countries, this paper adds three dimensions to the unfolding story. These cover the enlargement of the middle class in the South Asian sub-continent; provision of various kinds of management skills by the members of the South Asian Diaspora groups who are returning home; and the impact on the evolution of the political orders in the countries of origin.

The capital flows associated with the people of South Asian origin living abroad is large, for instance averaging US\$ 73 billion a year over the last five years, or more than five per cent of the combined gross national incomes (GNIs) in the sub-continent. That said, what is of considerable significance is the impact of this flow of money on the socio-economic structures of the societies receiving these funds. Remittances sent by the workers living abroad have created a large middle class in the South Asian sub-continent. Now estimated at 950 million people in the three large countries of the sub-continent – India, Pakistan and Bangladesh – the money that has come in has added 350 million to the number of people considered to be in the middle class. The number of people graduating from poverty and entering the ranks of the middle class is about 10 million a year. At this time, the number is evenly balanced between the lower and the upper classes – 471 million in each case. By the

end of the decade – by the year 2020 – the lower middle class will have 550 million people while the number in the upper middle class will remain about the same. This skewed distribution within the middle class will have enormous economic and political consequences. Most of the new entrants into this class are those who have graduated from the ranks of the poor. The South Asian Diaspora groups have, by impacting significantly on the size of the middle class in the sub-continent, substantially reduced the incidence of poverty and changed the economic structures of these societies. This trend will continue in the future as remittances continue to flow into these countries from the members of these Diaspora groups.

The South Asian Diaspora groups have skills and experiences not readily available in their old home countries. These relate to several activities including economic planning and management. The sudden economic downturn in South Asia and loss of dynamism in the area demand some new thinking about the old development paradigm. The model that delivered high rates of economic growth in several South Asian countries, particularly in India, has to be re-examined. For instance, the role of the state has to be redefined in order to regenerate growth and move towards what economists call “inclusive” development. Several South Asian Diaspora economists and members with economic management skills have been brought back to the countries of their origin to help re-ignite growth and develop plans for delivering rewards more equitably. Some of the expertise the South Asians have acquired through their work abroad may help to create a new development paradigm in which the state will have a new role to play. This will be consequential for the future of the emerging world, as was the development experience of what were once called the miracle economies of East Asia. The sector of finance – in particular banking – is another area where the returning migrants are playing important roles in what were once their homelands.

What is of equal importance is the interaction between the middle class in the South Asian Diaspora groups with those in their countries of origin. Helped by the information revolution, this interaction has created bigger political space for the South Asian middle classes. They are now introducing new social values and political thinking in the sub-continent. As a result, new borders are being visualised beyond which the emerging middle classes will not allow the domestic political systems to go. The impact on the evolution of the political order will be more pronounced in the relatively newer and still-evolving domestic orders in Bangladesh and Pakistan; India, with a much-mature political system in the area, may also be affected. For the first two, the middle class activism is likely to foster resistance to any significant departure from democratic norms. The middle class may also use the street and the public

square to ensure that this does not happen. Also – and this has relevance for India as well – the middle class is not likely to allow religious extremism – in fact extremism of any kind – to take deep roots in the South Asian political soil. The growing economic power of the middle class and its increasing number will keep the South Asian political orders relatively open and liberal.

### **South Asian Diaspora Conventions 2011 and 2013**

South Asian Diasporas: Agents of Change in a Poorly Integrated Region, a study by this author, provided the conceptual background for the first South Asian Diaspora Convention (SADC), held under the auspices of the Institute of South Asian Studies (ISAS) in Singapore in July 2011.<sup>3</sup> Published as a Special Report, this study examined in some detail how the South Asian Diaspora groups were formed over several centuries, identified the geographic areas in which they settled, identified also the phases through which they went in developing economic relations with the countries of their origin, and made some suggestions about what the well-to-do segments of these groups of people could do for the economic development of their homelands. The report concluded with the thought that the members of the South Asian Diaspora groups could work together to facilitate the economic integration of the area from which they originally hailed. In this way they could help the countries in the South Asian region, which continue to carry heavy burdens of history, to cast them off in favour of promoting their collective development. It was the rough political terrain through which most South Asian nations have passed that has inhibited greater economic cooperation among them. The report recognised that, of all the world regions, South Asia was the least integrated. In fact, the countries in the region had better relations with those at some distance compared to those just across the border.

In another piece of work done by the author for ISAS, it was estimated that significant benefits could be realised from greater South Asian integration in terms of increases in the rates of economic growth.<sup>4</sup> The 2011 Special Report suggested that Singapore, with a relatively large presence of the South Asian community, could become the centre of gravity for such an effort. In the discussions that followed the 2011 Convention, there was some

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<sup>3</sup> Shahid Javed Burki, 'South Asian Diasporas: Agents of Change in a Poorly Integrated Region', ISAS Special Report, No. 03, 19 July 2011.

<sup>4</sup> Shahid Javed Burki, '*South Asia and New World Order*', London, Routledge, 2011.

expression of interest on the part of some members of the Diaspora groups working in Britain and the United States.

Sponsored by the ISAS, the 2011 Convention brought together dozens of scholars and business people to reflect on the opportunities that were created by the presence of an estimated 35 million to 50 million people of South Asian origin around the globe. The above-cited report written by the author covered a number of subjects – how the South Asian Diaspora groups were formed over time, what were precisely the push and pull factors that created them, what kind of life cycles they followed as they matured, and what kind of links they maintained with what were once their homelands. It was spelt out that there was the need to reverse the course of history and create conditions that could bring the countries in the region closer to one another. The South Asian nations are defying what economists call the ‘gravity model of trade’. According to this, most of the trade countries conduct should be either with those that are physically close or have large domestic markets. Had this model been followed, the countries of South Asia should have established strong trading ties among themselves. Political developments prevented that from happening.

As suggested in the earlier paper, one indicator of the economic presence of South Asian Diaspora groups is the creation of an economic base that exceeds US\$ 1.3 trillion. This has been created in the countries in which they have settled. The base continues to expand, giving the South Asian communities in many countries significant economic presence. This fixed source of income could be used to launch businesses and new initiatives by the Diaspora groups in their old homelands. Some of that has begun to happen. The non-resident Indians, the NRIs, have made substantial contributions to the development of the IT sector. By setting up venture capital firms, they have provided finance and know-how to scores of start-ups. In Pakistan also, the IT sector has benefitted from the presence of the Diaspora groups. Some of the high net-worth individuals have also made large investments in such traditional sectors as cement and banking. The large privatisation programme, which the new government headed by Prime Minister Nawaz Sharif plans to launch, is likely to draw in the members of the Diaspora groups as investors.

But economics and finance are not the only areas in which the South Asians have excelled. They are now active in academia, arts, communication, the media and literature. The main thrust of this paper is that, with these impressive endowments, the South Asian Diaspora groups can help the countries of their origin to press forward in a number of different ways.

For instance, people of South Asian origin have won Pulitzer Prizes in literature. Jhumpa Lahiri<sup>5</sup> of Indian origin and, in drama, Ayad Akhtar<sup>6</sup> of Pakistani extraction have made well-received contributions in their field. Writing about Akhtar's play, this is what a critic, Michael Feingold, of the magazine *The Village Voice*, had to say: The work "marks an increasing and welcome phenomenon: the arrival of South Asian and Middle Eastern Americans as presence in our theater's dramatis personae, matching their presence in our daily life. Like all such phenomena it carries a double significance. An achievement and sign of recognition for those it represents, for the rest of us it constitutes the theatrical equivalent of getting to know the new neighbors – something we had better do if we plan to survive as a civil society". The South Asian Diaspora groups, in other words, are making contributions that can go beyond economic matters.

### **Overview of the South Asian Economic Circumstances**

To place the discussion that follows in its proper context – in particular the discussion on the impact the South Asian Diaspora groups are having in expanding the size of the lower middle class – it would be appropriate to begin with a short description of some features of the South Asian economy, especially those concerning the incidence of poverty and distribution of incomes. These are the two aspects on which the Diaspora groups have a significant impact. As shown in Table 1, the combined size of the populations of South Asia's four large countries – India, Pakistan and Bangladesh Sri Lanka – is a bit less than 1.6 billion people. This is growing at an annual rate of 1.5 per cent which means that the sub-continent is adding 24 million people a year to its already large population. India, with 1.24 billion people, accounts for 77.5 per cent of South Asia's total population. The country's share in the total GNI of the area is even higher, at 81.1 per cent. Such a prominent space occupied in the regional economy means that the country will determine the future of the sub-continent in several different ways. This is the case even when South Asia is the least economically integrated region in the world. Once the economies in the region become more open to one another, the impact on the rest of the sub-continent will be profound.

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<sup>5</sup> Jhumpa Lahiri, *Interpreter of Maladies*, New York, Houghton Mifflin Harcourt, 2010.

<sup>6</sup> Ayad Akhtar, *Disgraced: A Play*, New York, Back Bay Books 2013.

**Table 1: South Asia: Basic Economic Indicators**

	<b>Bangladesh</b>	<b>India</b>	<b>Pakistan</b>	<b>Sri Lanka</b>	<b>Total</b>
Population (million)	155	1,237	179	20	1591
GNI (US\$ billion)	116	1,824	231	59	2230
GNI (per capita US\$)	748	1,489	1,291	2,950	-
Gini Coefficient	32	34	30	36	-
Poverty Incidence (% of population)	31.5	29.8	22.3	8.9	-

Source: The World Bank, World Development Indicators, 2013.

There is a fairly significant difference in the levels of incomes per head of the population in the region, with Sri Lanka having achieved a level that is almost four times that of Bangladesh. In spite of a fairly high rate of GNI growth in the last several years, Bangladesh remains the poorest economy among South Asia's large economies. The incidence of poverty in the country is high compared to that in other countries – three and a half times that of Sri Lanka. Income distribution, when measured in terms of Gini coefficient, is less than that of Sri Lanka as well as India. According to the World Bank's estimates – the source for the data in Table 1 – Pakistan has the best income distribution in the sub-continent.

These numbers provide a useful background against which to view the analysis that follows in the paper. One of the main points made in the paper is that the remittances sent by the workers – in particular those who have gone to the Middle East, since most of them are from low-income groups – are contributing to the alleviation of poverty in South Asia. These capital flows have made a sizeable contribution to increasing the size of the lower middle class by helping a large number of people to climb out of poverty. Since Bangladesh is a large contributor to the work force around the world, the contribution made by their remittances will make a great deal of difference to the level of poverty in the country. Trade



also helps to close the income gaps, both personal and locational. Greater trade among the South Asians should help the region's less-developed areas.

## **Rise of the South Asian Diaspora Groups**

The South Asian Diaspora groups were formed by several waves of migration. Initially the outward flow from the sub-continent was of the people from the countryside with low levels of skills. They were taken as plantation workers to several parts of the British Empire as indentured labour. Some historians have equated the export of this labour from India as slavery.<sup>7</sup> Over time, this group of South Asians became fully integrated into the cultures of the societies into which they were placed. In several islands in the Caribbean, the cultures developed by the South Asian migrant communities have become the dominant ones. There was some out-migration to Britain while India was a part of the British Empire; but in terms of numbers it was relatively insignificant.<sup>8</sup> That changed after the end of the colonial period when there was a sizeable movement of people from the various economic classes, mostly to Britain and North America.

Those migrating to Britain had low skill levels. They were brought in to revive the industries hurt by the Second World War. Putting them back into operation required some skills. According to the 2011 Census, there were 4.214 million Asians in England and Wales. Of these 2.33 million were South Asians. In this part of the United Kingdom, the Indians accounted for 2.5 per cent of the total population, Pakistanis two per cent and Bangladeshis 0.75 per cent.<sup>9</sup> Scotland has another 90,000 South Asian residents. Most of these are located in the city of Glasgow. Even after passing through several generations, the migrants to Britain are not fully integrated into the host-country culture. This has caused considerable

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<sup>7</sup> The historian Hugh Tinker chronicled the use of the indentured Indian labour on the sugar and other plantations in various parts of the British Empire in the 19<sup>th</sup> century. See his *A New System of Slavery: Export of Indian Labor Overseas*, New Delhi: Hansib Publications, 2<sup>nd</sup> edition, 1993 and *Banyan Tree: Overseas Emigrants from India, Pakistan and Bangladesh*, London, 1977.

<sup>8</sup> There is rich literature on the subject of migration from India to Britain during the colonial period. See Michael H. Fischer, *Counterflows to Colonialism: India Traveller and Settler in Britain 1600-1857*, London, Orient Blackswan, 2006. See the same author's 'Excluding and Including "Natives of India": Early Nineteenth Century Race Relations in Britain', *Comparative Studies of South Asia, Africa, and the Middle East*, Vol. 27, No. 127, 2007, pp. 303-314.

<sup>9</sup> Her Majesty's Government, *Ethnicity and National Identity in England and Wales*, 2011, London.

apprehension in Britain, especially after some of the South Asian youths opted for extremist politics and committed several acts of violence that took dozens of lives.

In the 1970s and 1980s, millions of low-skill workers from South Asia headed to the Middle East to work on hundreds of construction sites set up to build infrastructure, office parks and housing estates in the area during the first oil boom. This group was largely made up of temporary workers, recruited on fixed-term contracts. They were separated from host populations by the requirement that they live in isolated worker-camps.<sup>10</sup> The 1990s and 2000s brought another wave of professional migration, with new countries such as Australia added to the list of favoured nations. This group is in the process of getting well integrated into the host populations. Several of its members are now occupying important public positions in Britain, Canada and the United States.

The development of the South Asian communities in a number of countries outside the sub-continent's borders has been a subject of much interest for many years for both scholars and policy makers. Although, as indicated, migration from South Asia has gone on for centuries, interest in this subject increased following the movement of millions of construction workers to the oil-exporting countries of the Middle East. As shown in Tables 2 and 3 below, surges in terms of the number of people leaving South Asia every year for foreign lands continue even after the end of the first oil boom in the mid-1970s. While the large annual increases in the number of migrants from Bangladesh and Sri Lanka (14.3 per cent a year for the former and 20.1 per cent a year for the latter) suggest that the reason for this significant outflow may be domestic insecurity, the large rate for India (9.3 per cent a year), South Asia's most stable country, indicates that other factors must also be at play. It was mostly the 'push' factor in the case of the two former countries while the 'pull' – demand for Indian skills in a number of modern sectors – also contributed to the continuing outflow. Consequently remittances have continued to remain a significant source of foreign capital for these Asian states. In 2011, the total amount received by the four countries mentioned in Table 3 was estimated at US\$ 93 billion, a bit more than 3.5 per cent of their combined GDP. Putting it another way, about one per cent of the increase in the GDP of these countries can be attributed to the inflow of remittances. For Bangladesh, the contribution is almost three times as large. One half of the rate of economic growth in that country was the result of the remittances received from the citizens living and working outside the country.

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<sup>10</sup> See Global Voices: South Asia, 'Slaving in the Middle East', 17 August 2007.

While the subject of the contribution remittances has made to the South Asian economies has been studied, not receiving enough attention in the literature dealing with cross-border migration are the other forms of influence the Diaspora groups have had on the countries of their origin. This paper looks at one of them: The impact of the Diaspora groups on the size of one socio-economic class – the middle class. By remitting large amounts of money to the countries of their origin, the Diaspora groups have made a significant contribution to poverty alleviation. Millions of people have graduated from poverty to the status of lower middle class as a result of the support they have received from the members of their families who have left their homes to work abroad.

**Table 2: Number of people migrated in recent years, net (thousands)**

Country Name	2005	2010	Growth Rate
Bangladesh	1,493	2,908	14.3
India	1,923	3,000	9.3
Pakistan	1,750	2,000	2.7
Sri Lanka	100	250	20.1

Source: The World Bank, *World Development Indicators*, 2013

**Table 3: Worker Remittances, Received**

(Current US \$ Millions)

	2007	2008	2009	2010	2011	Growth Rate
Bangladesh	6,553	8,925	10,521	10,850	12,068	16.5
(% of GDP)	9.6	11.2	11.8	10.8	10.8	
India	37,217	49,977	49,204	53,480	63,818	14.4
(% of GDP)	3.0	4.1	3.6	3.1	3.4	
Pakistan	5,998	7,039	8,717	9,690	12,263	19.6
(% of GDP)	4.2	4.3	5.4	5.5	5.8	
Sri Lanka	2,507	2,925	3,337	4,123	5,153	19.7
(% of GDP)	7.8	7.2	7.9	8.3	8.7	

Source: The World Bank, *World Development Indicators*, 2013

## Rise of the South Asian Middle Class

There is one unifying theme that runs through this paper: the rise of the middle class as an important economic, political and social player in both places – where the Diaspora groups live and where they came from. The long bifurcated socio-politico-economic populations have now a middle ground – the middle class. This class is asserting itself in a number of different ways. Of equal importance – but a largely overlooked fact – is that while the middle class in several western societies – in particular in the United States – is shrinking, losing economic ground to the rich, in terms of their share in national income, the South Asians have improved their situation. Their circumstances have improved in terms of their position in the host populations as well as within the Diaspora community itself. From this improved perspective, the Diaspora groups can play an even greater role in their original homeland. They will also exert considerable influence on the global market place.

In its Global Trend, 2030 Report, the fifth in the series, the United States’ National Council regards the growth of the global middle class as a tectonic shift between now and 2030. “Middle classes everywhere in the developing world are poised to expand substantially in terms of both absolute numbers and the percentage of the population that can claim middle-class status during the next 15-20 years”, write the authors of the report.<sup>11</sup>

The middle class has increased in size in all South Asian countries. There is no consensus among scholars about how many people fall in this economic and social category. A number of different methodologies have been used by the scholars and the institutions that have researched in this area. Lopez-Calva et al. provide a comprehensive review of the recent literature on the middle class in Asia.<sup>12</sup> India’s National Council of Applied Economic Research (NCAER) has been at the forefront of shaping this debate. The NCAER’s current definition identifies the middle class as comprising two sub-groups: ‘seekers’ with annual household income of between Rs 200,000 and Rs 500,000, and ‘strivers’ with annual household income of between Rs 500,000 and Rs 1 million at 2001/2002 prices. Assuming an average household size of five people and converting into constant 2005 purchasing power parity (PPP) dollar, these numbers would be about US\$ 8 to US\$ 20 per capita per day for

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<sup>11</sup> United States National Intelligence Council, *Global Trends, 230*, Washington DC, p. v.

<sup>12</sup> L.F. Lopez-Calva, J. Rigolini and F. Torche, ‘Is there something such a thing as middle class values?’ Working Paper 286, Center for Global Development, Washington DC, 2012.

‘seekers’, and US\$ 20 to US\$ 40 per capita per day for ‘strivers’.<sup>13</sup> These income lines are much higher than those used by the World Bank in the extensive work that the institution has done in studying the impact on the economies of the countries as a consequence of the rise of the middle class. This approach had been followed by other researchers. The most-often employed measure is the definition of ‘income lines’, one to estimate the number of poor, the other to count the rich. All those that fall in between these two lines are counted as the middle class.

Several scholars have used the levels of consumption as the measure of the size of the middle class. In the extensive work done by the McKinsey Global Initiative, a considerable amount of which used India as the case study, the focus is on the levels of consumption. Some have used even more comprehensive criteria such as weighting the numbers by different attributes that distinguish the middle class from the poor.<sup>14</sup>

**Table 4: Worker remittances into four South Asian nations, 2007-2011**

	<b>Total (US\$ million)</b>	<b>Yearly Average (US\$ billion)</b>	<b>Per Head Poor (US\$)</b>	<b>Per Head of Poor and Lower Middle Class (US\$)</b>
Bangladesh	48897	9779	92	106
India	253696	50739	742	68
Pakistan	43707	8741	108	81
Sri Lanka	18045	3609	-	-
Total	364345	72868		

<sup>13</sup> National Council of Applied Economic Research (NCAER), ‘Rich Indian households outnumber low income families’, *Hindustan Times*, 1 August 2010, p. 9

<sup>14</sup> Natalie Chun, ‘Middle Class Size in the Past, Present and Future: A Descriptive Analysis of Distributional Trends, and Projections’, Asian Development Bank Working Paper, Manila, 2010. This methodology was used by Durr-e-Nayyab for Pakistan. See her ‘Estimating the middle class in Pakistan’, Working paper No. 2011-77, Pakistan Institute of Development Economics, Islamabad, 2011.

While most estimates of the size of the middle class range between 500 million to 950 million people in South Asia’s three largest countries – India, Pakistan and Bangladesh – some researchers such as Christian Meyer and Nancy Birdsall of the Center for Global Development have come up with much smaller numbers. They estimate the middle class at an implausibly low level of only 70 million for India or less than 100 million for all of South Asia.<sup>15</sup>

**Table 5: Class Distribution of South Asian Population: Share in Income (percentage)**

	<b>The Poor (Bottom 30%)</b>	<b>Lower Middle Class</b>	<b>Upper Middle Class</b>	<b>Rich (Top 10%)</b>
Bangladesh	15	25	33	27
India	15	24	32	29
Pakistan	17	23	34	26
Sri Lanka	16	28	26	30

\*Source: Author’s estimates based on the World Bank’s income distribution data

In this paper, we will work with the range of 500-950 million for the size of the middle class. The lower figure suggests that 25 per cent of the South Asian populations can be regarded as belonging to the middle class; the larger number is over twice that proportion, or 60 per cent of the total population. The larger figure includes what economists call the near-poor. While these people are no longer living in absolute poverty, they remain exceptionally vulnerable to the changes in their economic environment. A significant number of them have migrated from poverty to the lower middle class status because of the remittances they have received from the members of their families living and working abroad. How many people in South Asia have moved out of poverty and joined the lower middle class as a result of the remittances these countries have received should be an area of considerable academic and policy interest. However, relatively little work has been done in this policy field. This paper by making some estimates begins to fill the analytical gaps that exist. Since they are based on a series of assumptions they should be treated with some caution.

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<sup>15</sup> Christian Meyer and Nancy Birdsall, ‘New estimates of India’s middle class’, Technical Note, November 2012, of the Center for Global Development

**Table 6: Class Incomes in South Asia**

	<b>India</b>	<b>Pakistan</b>	<b>Bangladesh</b>	<b>Total</b>
<u>The Poor</u>				
Number (millions):	371	54	47	472
Total Income (US\$ billions):	276	39	17	332
Per Capita Income (US\$):	743	722	377	705
<u>Lower Middle Class</u>				
Number (millions)	371	54	46	471
Total Income (US\$ billions)	442	53	29	524
Per Capita Income (US\$)	1192	985	630	1113
<u>Upper Middle Class</u>				
Number (millions)	371	54	46	471
Total Income (US\$ billions)	589	79	33	701
Per Capita Income (US\$)	1589	1454	829	1516
<u>The Rich</u>				
Number (millions)	124	18	15	157
Total Income (US\$ billions) :	534	60	31	625
Per Capita Income (US\$)	4308	3333	2066	3981

Source: As in Table 5:

As shown in Table 4, remittances, when measured in terms of flows per capita of the population living in poverty, were the highest for Bangladesh – US\$ 106 per year in the five year period between 2007 and 2011. This was a significant amount when viewed in the context of the yearly income of this group. However, not all the poor received remittances. Carrying forward this line of thinking and using Pakistan as a case study, we can roughly gauge the impact on the poor of the remittances received by them. Pakistan has about three million people working in the Middle East. Most of them are in the construction sector or in basic services. If we assume that two-thirds of them are from lower income groups and they send money back to these people, there are some two million households – or 10 to 12 million people – receiving incomes from abroad. Since about two-fifths of the total flow (about US\$ 5 billion) Pakistan receives from abroad by way of remittances go to the poor, the amount received works out at about US\$ 500 a year per capita for poor households. This amount is enough to graduate four million people a year into the ranks of the lower middle class. Without remittances, the size of the Pakistani middle class would have been 40 per cent smaller than it is today. In other words, the migration to the Middle East of a sizeable number of low-income people has already profoundly affected the size of the middle class in the country. The same is true for other large South Asian countries – even more so for Bangladesh and somewhat less for India. These estimates throw new light on how the South Asian Diaspora groups in the Middle East are impacting on the countries of their origin.

Any large change in the levels of remittances can move this group up and down the income distribution scale. While the countries that receive large amounts of remittances can only marginally affect the quantum of flow, they must be prepared to intervene meaningfully to protect those who would be hurt if the flow suddenly declines. This can happen if the price of oil falls or if the labour-importing countries change their preferences about the places from which the workers would be allowed to come for work. The needed safety-net will be an entirely new area of state activity for the governments in South Asia. This should be one of the subjects of concern in public policy that arises out of the phenomenon of Diaspora creation.

The upper middle class – those with an estimated 471 million people – has also benefitted from having some family and friends working abroad but their help has been and will continue to be of a different nature. In the new age of rapid – almost instantaneous – flow of information, ideas are transmitted fast. One particular area where the upper middle class in the South Asian expatriate communities will profoundly influence those who live and work in



the home countries is the appropriate role of the state. This subject has acquired considerable importance because of the recent developments in the economies of South Asia.

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