

## Forget Asia's middle class, aim for the millionaires

Tejpavan Gandhok

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Australia's corporate strategists and national economic planners are mesmerised by what they believe will be rich pickings from the growth of Asia's middle class. But while the population estimates of Asia's emerging middle class are impressively large, their disposable incomes are not.

When Australians think of "middle class", we generally think of a mainstream with disposable incomes that – even at the lowest end – will provide food, a regular holiday and at least one flat-screen TV. In reality, the lives of most of Asia's so-called middle classes are very different. Across emerging Asia most households classified as "middle-class" have an annual income of only \$US2000 to \$US10,000 (\$2130 to \$10,670). Even after adjusting for purchasing power parity, their standard of living is severely constrained by their limited budgets and is well below that of most Australians.

A business strategy that targets this very large "middle-class" group in Asia involves a very difficult and complex set of interrelated factors and networks, characterised by high-volume, low-cost structures and narrow margins. Such a strategy requires well-researched local market insights, adaptation of familiar business models, development of local supply chains, and patient management of endemic organisational challenges and institutional voids.

Instead of trying to fit square pegs into round holes, Australia should be more pro-active in enticing the significant and growing pool of Asia's nouveau riche US-dollar millionaires to manage a portion of their personal wealth portfolios in Australia. We should leverage our relatively pristine environment and stable governance to promote Australia as a secure location for Asia's rich to park some of their wealth.

Asia's USD millionaires – defined here as those in Asia-Pacific, China and India – are a sizeable and rapidly growing subset of global wealth: there are around 6.5 million of them today and forecast to be more than 11 million by 2018. If Australia can attract a fair share of this wealth it could infuse more than \$US4 trillion to \$US5 trillion into the economy. This estimate assumes each of Asia's 11 million millionaires has a wealth portfolio of \$US1.5 million – \$US2.5 million and that Australia can attract, say, 15 per cent – 25 per cent of this as assets under management, in competition with Asia's other leading money-management centres of Hong Kong, Singapore and Dubai. This \$US4 trillion – \$US5 trillion infusion would more than triple the current largely domestic assets of around \$US2 trillion in the Australian wealth-management industry.

Imagine what this investment inflow could do to boost our financial services sector, and what it would imply for the strength and stability of our economy and currency. At estimated annual management fees of about 2 per cent of assets under management, it would

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translate to a direct boost to Australia's gross domestic product of \$US80 billion to \$US100 billion per year.

It would be a significant counterbalance to the mining sector and a major source of economic activity for the financial centres of Australia's eastern seaboard.

So what would it take to make this happen? The most significant stumbling block is that our tax rates are three to five-times too high relative to Dubai, Singapore and Hong Kong. It is fair to say that Australia is not even in the race. Australian economic planners should recognise that it is worth gaining a significantly higher volume of assets under management in exchange for a lower tax rate. This need not imply any reduction in the overall tax collection amount – given Australia's small population of taxpayers and the lower median incomes of Australian taxpayers, relative to the number of Asian millionaires and the quantum of their potential wealth inflows to our economy.

To an extent this inflow of wealth is already happening by default in our property markets but we can manage it better. And note: this strategy of encouraging an inflow of Asian wealth is different from the business migration schemes.

Most wealthy Asians want a safe haven for part of their wealth, not a permanent migration.

*Tejpavan (Pavan) Gandhok is a Visiting Fellow at Asialink and the Australia India Institute, and an Affiliate Faculty member at Singapore Management University.*