

EXTREME WEALTH, EXTREME POVERTY: FILLING THE GAP

KEON CHEE ON PHILANTHROPY IN ASIA



Asia's fast-growing wealth presents interesting opportunities for trust and wealth planning. It is growing so rapidly – and so unevenly – that the wealth gap has dramatically increased.

The World Bank estimates that around 900 million people will be living in extreme poverty, defined as average daily consumption of USD1.25 or less, by 2015. An additional 1.1 billion people will live on less than USD2 per day. Branko Milanovic, in his recently published book *The Haves and the Have-Nots: A Brief and Idiosyncratic History of Global Inequality*, claims that the inequality today is at its historic peak.

This inequality is certainly not good. We know it is bad when an entrenched elite is able to wield generations of financial dominance to the detriment of the majority. Scores of research show an inverse link between income inequality and social cohesion; the more unequal the income, the less likely people will trust each other,

the higher the homicide rate and the more unhappy the population is. But freedom and ability to generate a lot of wealth mean there are incentives for people to innovate and invent, improving the lot of humankind, as happened with the Industrial Revolution.

How do we balance the two? This is a question that plagues governments and decision makers. It's a multifaceted issue and I'd like to propose an angle for discussion – Asian philanthropy.

THE 'HAVES'

First, let us look at the Haves. Table 1 lists the ten top-ranked countries in the world with the highest number of USD billionaires. Not only does the USA have the highest number, every one out of three billionaires in the world is American.

Rising steel and oil prices, booming economies and substantial consumer demand have fuelled a spike in billionaires in the BRIC countries. They produced half the world's 214 new billionaires.

China nearly doubled its number of billionaires to 115. India has half that, but the average net worth is huge – USD4.5 billion for an Indian billionaire, versus USD2.5 billion for a Chinese billionaire.

As a rough indication of future billionaire growth, China and India seem destined to be champions. They have the lowest density of billionaires among the top ten (suggesting high potential growth from a low base), coupled with the highest GDP growth trend of the top ten.

TABLE 1

Rank	Country	Number of Billionaires	World total	Population (million)	2011 GDP growth	Density
1	USA	412	34%	311	2.8%	1.32
2	China	115	10.6	1,340	9.6%	0.09
3	Russia	101	8.3	143	4.7%	0.71
4	India	55	4.5	1,210	8.0%	0.05
5	Germany	52	4.3	82	2.3%	0.63
6	Turkey	38	3.1	74	4.5%	0.51
7	Hong Kong	36	3	7	4.8%	5.14
8	UK	33	2.7	62	2.0%	0.53
9	Brazil	30	2.5	191	4.3%	0.16
10	Japan	26	2.1	128	1.7%	0.20
...	Singapore	4	...	5	4.8%	0.80



SPREADING THE WEALTH

Warren Buffett and Bill Gates were in New Delhi in March to meet with India's billionaires to encourage them to join their 'Giving Pledge'. In 2010, both the American billionaires had secured pledges from at least 40 of America's wealthiest individuals and families to give away at least half their fortunes to charity. Buffett and Gates, who have a combined wealth of USD90 billion, launched the 'Giving Pledge' to urge wealthy individuals to give the majority of their money to charities of their choice either during their lifetime or after their death.

I was in India that very same week and thought what a great idea this was. With India at number four on the billionaire list, it seemed a no-brainer. I followed the media circus surrounding their visit (though India's cricket exploits understandably drew more attention), and later learned that barely a dozen of the invitees attended the charity dinner that Buffett and Gates hosted.

While the lukewarm response was somewhat surprising to me, it may not have been to the two American billionaires and their entourage, who might have been better prepared about what to expect.

Asians such as Indians and Chinese are not big givers from a statistical point of view. According to a March 2010 study conducted by Bain & Co, Indians collectively donate 0.6 per cent of their country's GDP to charity. It's higher than that of other emerging markets like Brazil (0.3 per cent) and China (0.1 per cent), but well below Western nations like Canada (1.3 per cent) and the USA (2.2 per cent).

To understand this apparent Indian and Chinese frugality in giving, you must understand the psychology of giving in Asia.

NEW WEALTH v OLD WEALTH

A large proportion of Asian wealth is first-generation 'new money' (as opposed to what is often called third-generation 'old money', which is common in Europe and the US). New money is typically created by entrepreneurs, used to having control and dominion over their family businesses. A study of family businesses in Hong Kong, Singapore, Taiwan and Japan revealed that the average age at retirement of the family business chief was 80 years (Chinese University of Hong Kong et al).

Forbes estimates that the average age of India's billionaires is 60 years of age. India's wealthiest, Mukesh Ambani, who is seventh on the *Forbes* list of wealthiest people in the world, is only 54 years of age. He was asked on NDTV about philanthropy and he explained that, like many other Asian entrepreneur billionaires, he is still building his company. There is a philanthropic cycle

and it might take a few more decades or generations before any family is ready to give in any sort of big, organised way.

This makes sense. Buffett is 80 and he became a billionaire in the 1990s. Bill Gates was already a billionaire at age 31 and has been for over 20 years. The great American philanthropists John D Rockefeller and Andrew Carnegie did not give away their riches until near the end of their lives.

FEAR OF PUBLICITY

Back in September 2010, The Bill and Melinda Gates Foundation 'accused' Chinese billionaires of refusing an invitation to a gala event because the Chinese wealthy did not want to be cornered for donations to charity. The dinner, held in Beijing, had aimed to gather together dozens of China's richest people to support the Gates Foundation, which funds Aids charities in China, among other projects. Only a handful of the 50 invitees showed up.

Were they stingy or publicity-shy? Living in a communist country, Chinese billionaires

'THE FUTURE OF ASIAN PHILANTHROPY IS BRIGHT INDEED, BUT IT DOES REQUIRE UNDERSTANDING THE UNIQUE ISSUES FACING ASIA'

are fearful of the publicity of such open events, where being seen invariably means having their wealth exposed, inviting potential tax investigations and being forced to donate when they may not be ready to do so. A local newspaper compared the event to 'The Feast at Hong Gate', a 205BC banquet staged by a general of the Qin Dynasty that was aimed at entrapping and eventually killing his detractors.

Rahul Bajaj, chairman of the Bajaj Group, explained that India has a very old culture of giving, and the nature of giving in India and in the West is very different. It is not about writing big cheques to build football stadiums or to favour specific charities. It is more about providing education and employability through the family business.

Supporting this point, of the top 40 business groups in India, nearly 70 per cent are family-owned or family-controlled enterprises. It is likely that some families and individuals view corporate responsibility initiatives as extensions of their own giving, and that may curb their interest in making personal donations (Bain).

INCENTIVES FOR GIVING

Individual taxation plays a large role in driving the amount of giving. When 16-year-

old John Paul Getty III (grandson of J Paul Getty) was kidnapped in Rome in July 1973, the kidnappers demanded a ransom of USD17 million. J Paul Getty refused to give in. When an envelope containing a lock of hair and a human ear (presumably Getty III's) was delivered to a daily newspaper, the amount of USD3 million was finally agreed on. Getty Senior decided to pay no more than USD2.2 million – the maximum that would be tax deductible. He loaned his son (Getty II) the remaining USD800,000 at 4 per cent interest.

Americans are used to facing large inheritance tax bills. The rates do change rather frequently and they are generally high. Ten years ago in 2001, the maximum bracket was 55 per cent, with an exemption of just USD675,000. For the years 2011 and 2012, the exemption is USD5 million; anything over USD5 million is taxed at 35 per cent.

As a result, wealthy individuals have a large incentive to create private foundations before death. In comparison, there is no such inheritance tax in India or in many other nations, including China, Singapore, Hong Kong and Australia. (In his NDTV interview Mukesh Ambani was quick to mention to the Finance Minister, with whom he shared the stage, not to follow America in this. India abolished its estate duty on deaths occurring on or after 16 March 1985.)

In terms of giving, the incentive in India is not significant. Under s80G of the *Income Tax Act*, individuals can claim tax benefits of between 50 per cent and 100 per cent only on specific donations made to prescribed funds and institutions, and in some cases there is a cap on the eligible amount of donation.

ASIANS DO WANT TO GIVE

Although not yet a groundswell, Asian philanthropic causes and donations have been on the rise and in the news. The future of Asian philanthropy is bright indeed, but it does require an understanding of the unique issues facing Asia.

Singapore's Senior Minister Goh Chok Tong put it aptly at the Credit Suisse Philanthropists Forum held in Singapore in April: he shared that Asian philanthropy has deep roots, both in tradition and religion. Donors planning to give in Asia (and those seeking donations from Asia) have to first understand the needs of the region.

Keon Chee is Assistant General Manager of Heritage Trust Group

