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Global Mobility of the Wealthy and their Assets: An Overview

Andrés Solimano

IMC-RP 2018/2

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Global Mobility of the Wealthy and their Assets: An Overview

Andrés Solimano*

ABSTRACT: This paper provides an analytical and empirical overview of the mobility of wealthy individuals and mobility of financial assets (offshore wealth) in a context of economic and geopolitical volatility, increased income inequality and high wealth concentration at the top. Main pulling and pushing factors and patterns of offshore wealth deposits are examined using information from investment banks, wealth management offices, international real estate companies and BIS data. The analysis shows a more direct relationship between inequality in the country of origin and offshore wealth than between inequality and HNWI physical mobility although the data for the latter remains scant. Our results also show that in some group of countries with high taxation (e.g. Scandinavian nations) the wealthy hold relatively low percentages of their wealth abroad, a finding which runs against the claim that high taxes always prompt individuals to send their wealth abroad. The data also shows that the direction of mobility of the wealthy and their assets is not only from the periphery of the world economy (low to middle-income nations) to the core (advanced economies) but also within advanced economies.

KEYWORDS: international mobility of the wealthy; offshore wealth; inequality; taxation; investment migration regimes; globalization; crises.

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1. Introduction

We are witnessing increasing mobility of wealthy people and financial assets between countries, preferred cities and jurisdictions in search for economic security, personal safety and financial diversification. In some cases, a reason for doing this can be tax avoidance in sophisticated financial centers. This trend in mobility of the wealthy is occurring against a background of the increased mobility of talented and skilled individuals which has flourished under current globalization and the spread of new technologies and opportunities.¹ The forces of economic globalization, the rise of wealth inequality, and the existence of investment migration regimes and special tax jurisdictions have all created a milieu favourable to the mobility of the very rich and their financial assets across national boundaries.

‘High-Net Worth Individuals’ (HNWIs), are often defined as people with net assets in excess of one million dollars, although the pyramid of HNWIs also includes ultra-HNWIs and billionaires (see section 2 for operational definitions). This is a small but economically powerful and politically influential group: they represent less than one percent of the total world population but control near 45 percent of total household wealth in the world (Credit Suisse, 2017a).

The wealthy face at least three critical decisions in a volatile world facing varying national conditions: (a) in which countries/cities they wish to reside, (b) in what nations and jurisdictions they wish to place their assets, and (c) how to allocate their wealth among different assets such as company shares, residential and commercial property, bonds, works of art, gold and other valuable commodities. The geography of wealth creation and circulation also matters. In recent decades, large fortunes have been accumulated in Russia, China, India, and Latin American and Africa nations, although the bulk of wealth is concentrated in advanced capitalist countries, chiefly in the United States (see section 2).

¹ The *international mobility of talent*, refers to the mobility of people with special skills and advanced human capital such outstanding professionals, executives, entrepreneurs, academics, artists, writers and people in the entertainment sector and sports, see Solimano, 2008, 2010.

Given the history of instability and the potential for confiscation in emerging economies and developing countries (real or imaginary), the wealthy from these countries seek to establish their residence (potentially more than one) in high income nations and special jurisdictions,² helped by the proliferation of investment migration schemes. These regimes permit the acquisition of permanent residence and citizenship in the host country in exchange for capital contributions to special government funds, the acquisition of real estate and the opening of bank accounts.

In the case of international mobility of financial assets, special tax jurisdictions (known more colloquially as ‘tax havens’) ensure a low level of taxation and easy legal incorporation procedures for foreign business entities and other privileges.

This paper provides an overview of main themes regarding the relationship between the mobility of wealthy individuals and the mobility of financial assets in a context of economic and geopolitical volatility, increased income inequality and high wealth concentration at the top. It examines the main pulling and pushing factors behind the mobility of wealthy individuals and provides information about the size of the HNWI pool on the basis of existing statistical data – mainly from investment banks, wealth management offices, and international real estate companies. The paper also provides data on offshore wealth by country of precedence and overall averages and their dispersion. The analysis shows a more direct relationship between inequality in the country of origin and offshore wealth than between inequality and HNWI mobility although the data for the latter remains scant. Our results also show that in some countries with high taxation (e.g. Scandinavian nations) the wealthy hold relatively low percentages of their wealth abroad, a finding which runs against the claim that high taxes always prompt individuals to send their wealth abroad. The data also shows that the direction of mobility of the wealthy is not only from the periphery (low to middle income nations) to the core (advanced economies), but also away from the centre as the rich leave cities such as London and Paris to escape inheritance taxes and the terrorist activity which has affected these cities. Finally, the paper draws attention to the impact of inflows of the wealthy

² Small islands and independent jurisdictions enable the wealthy to acquire the nationality of countries (after a certain capital contribution and other formalities) with low or no income taxes. Very importantly, citizens from these nations have visa-free access to a large number of countries. In fact, a citizen of, say, the Caribbean island of Saint Kitts and Nevis is entitled to free-visa entry to 152 countries. In turn, a citizen of Cyprus, an EU member state, has access to 172 nations without visa.

on the price of real estate (making preferred city locations more expensive for locals) and the potential for corruption of local political and policy elites.³

2. The Global Wealthy and the Rise of Inequality

Personal wealth⁴ can be accumulated from savings, inherited from parents, acquired through privatization processes or grabbed through opaque or openly illegal means (Solimano, 2017). Wealth increases when it earns a positive return (flow of income) from investments in the capital market, real estate, art work or productive enterprise; in addition, the effective return from these investments tends to be higher for those with very high wealth levels due to economies of scope, superior financial advice and other traits (Piketty, 2014). Capital gains may also drive up the real value of wealth in terms of consumption goods following an increase in the real price of assets (e.g. a variation in the nominal value of wealth deflated by the consumer price index). From a distributive perspective, wealth tends to be much more concentrated at the top than income (Milanovic, 2016 and Solimano, 2017).

2.1 How many wealthy people are around the world?

An important item of information when analysing the mobility of the wealthy is to determine the number and location of high net worth individuals around the world.

The Global Wealth Report prepared annually by Credit Suisse (see Credit Suisse, 2017a and 2017b) under established methodologies⁵ estimates that in 2017 there were around 36 million HNWI worldwide, with 31.3 million having net assets between one and five million dollars

³ See IMC–Transparency International Report (2017).

⁴ Some operational definitions are used to define the wealthy: HNWI are those with net wealth above one million dollars, multi-millionaires (net worth over USD 10 million), billionaires (net worth over one billion, NWW Research and Markets, 2018). Other definitions are Ultra-High Net Worth Individuals (net worth over USD 50 million) and Demi-billionaires (net worth over USD 500 million) (Knight-Frank, 2018 and Credit Suisse, 2018).

⁵ From a statistical perspective, wealth data are drawn generally from six main sources: (a) household balance sheets; (b) national wealth surveys prepared by central banks; (c) tax-based wealth data including estate tax records at death from national tax agencies in countries where wealth taxes exist; (d) indirect income tax capitalization method using data from revenues from capital incomes provided by tax agencies; (e) data provided by wealth-management companies and commercial banks; and (f) billionaire lists. Consensus has developed that tax-based information on income and wealth is deemed superior in accuracy compared with self-reporting household or individual surveys due to problems of under-reporting of income and/or wealth. However, tax-based information suffers from tax avoidance and elusion, particularly related to undeclared offshore wealth (Solimano, 2017, ch.3).

and near 150,000 ‘ultra-HNWIs’; 5,749 Demi-billionaires and 2,232 billionaires. This information is summarised in Table 1, which shows a rapidly shrinking pyramid of HNWIs in which a small group of millionaires –representing only 0.7 percent of the adult world population – controls around 46 percent of global household wealth.

Table 1. Global Indicators of wealthy individuals (number, 2017)	
Millionaires (HNWIs)	36,050,680
HNWI with net worth between USD 1 and USD5 million)	31,365,072
Ultra-HNWI (net worth over USD 50 million) of which:	148,243
UHNWI with net worth over 100 million	54,837
UHNWI with net worth over 500 million	5,749
Number of billionaires (net worth over USD 1 billion)	2,232
Share of HNWIs in:	
World adult population	0.7%
Total household wealth	45.9%

Source: Author’s elaboration from Credit Suisse (2017a) and (2017b)

Most millionaires (HNWIs) are concentrated in the United States, which holds 43 percent of the world’s millionaires (Table 1a), followed by Japan with 7 percent of the total, the United Kingdom (6 percent) and France, Germany and China, each with 5 percent. In addition, looking higher up the wealth levels, the four countries which concentrate the largest number of *ultra-HNWIs* (as indicated, those with net wealth above USD 50 million) are the United States (72,000), China (18,100), Germany (7,200) and the United Kingdom (4,200).⁶ Except China, these are all mature capitalist economies.

⁶ Other countries with significant concentrations of Ultra-HWNIs are France, Australia, Canada, (each with 3,000 HNWIs), Switzerland (2,800), Italy (2,600) and Korea (2,300); see Credit Suisse (2017). Countries with very high levels of wealth per capita are small jurisdictions in Europe such as Monaco, Liechtenstein, Luxembourg, Cyprus, Malta and others. In Monaco, for example, it is estimated that one-third of its total population (of around 35,000 people) is composed of HNWIs (residents do not pay income taxes in Monaco).

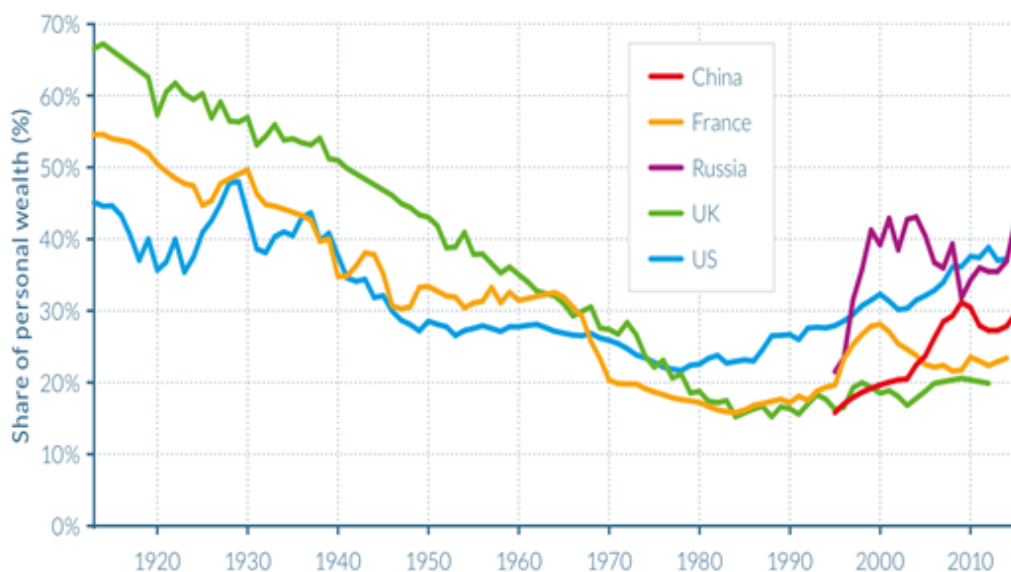
Table 1 a) HNWI's by country, 2017		
Country	Adults (thousand) with wealth above USD 1 m	Percentage
United States	15,356	43%
Japan	2,693	7%
UK	2,189	6%
Germany	1,959	5%
China	1,953	5%
France	1,949	5%
Italy	1,288	4%
Australia	1,160	3%
Canada	1,078	3%
Spain	428	1%
Taiwan	381	1%
Sweden	335	1%
Others	5,281	15%
World	36,050	100%

Source: Credit Suisse (2017)

During the twentieth century personal/household wealth inequality in advanced capitalist countries followed a sort of U-shaped pattern (see Figure 1): initially, the share of wealth of the top 1 percent declined from 45-65 percent in 1913 to 20-30 percent in the 1970s in the US, UK and France; thereafter, this share started to rise. The period of declining wealth concentration, which included the two World Wars, the interwar years and the period after the Second World War to the early 1970s, often called the phase of golden age of capitalism and combined rapid growth, declining inequality and reasonable levels of social cohesion. Capitalism became more stable and socially inclusive to contain the threat of communism and avert the risks of internal destabilisation stemming from financial crises, common in the interwar period, and from inequality. However, in the last thirty years of the twentieth century, coinciding with the onset of globalisation and free-market economics, the share of wealth started to increase sharply in the United States and other nations (see Milanovic, 2016; and

Solimano, 2017).⁷ Since the Conservative Thatcher government in the United Kingdom, the share of wealth of the top 1 percent also increased (stabilising at around 20 percent in the period from 1980 to 2015), reversing the previous downward trend it had followed from the First World War until the 1970s. In France the top share of wealth experienced a rapid surge in the mid-1990s, later declining then stabilising at a higher level than its historical records of the 1970s and 1980s (see Figure 1).

Figure 1. Share of wealth of the top 1% across the world, 1913–2015: the fall and rise of personal wealth inequality (selected countries)



Source: www.WID.world (2018).

From the 1990s, the trends towards greater concentration of wealth has also affected the former communist countries such as Russia and China. In Russia, the share of wealth of the top 1 percent rose since the mid-1990s from nearly 20 percent to nearly 45 percent in 2015 (similar to the increase in the United States). In addition, in China there has been a substantial increase in the share of wealth of the top 1 percent (Figure 1) since the 1990s. The egalitarian wealth distribution of their classic socialist periods (when there was virtually no private ownership of the means of production) was reversed in the last two decades with the advent of oligarchic capitalism in Russia and the turn to state capitalism in China.

⁷ The share of wealth of the top 1 percent roughly doubled from nearly 20 percent in the late 1970s to nearly 40 percent in 2013.

3. International Mobility of the Wealthy and the Market for Passports

As already mentioned, investment regimes allow high wealth individuals to obtain visas and residence permits by making investments in real estate, government bonds and bank deposits. The use of money to obtain residence rights was explored by the free market economist Gary Becker (Becker 1987), who argued that letting immigrants to pay for the right to reside in another country was more efficient than subjecting them to lengthy waiting periods. His main policy recommendation was a payment system for visas and citizenship rights. Recent literature on the subject (Surak, 2016; Sumption, K. and H. Hooper, 2014 and Prats, 2017) examine the various dilemmas of a market for visas and citizenship rights driven by financial contributions. This new literature proposes that immigration rights should not be treated as a commodity to be traded in a market in exchange for money. The market mechanism may be more efficient than bureaucratic allocation but at the same time it provides a substantial advantage to rich immigrants compared with other migrants, as the latter cannot generally afford to make hefty payments to get the residence permits and citizenship which open the doors for better jobs and superior living standards of rich nations. It is clear that existing inequalities of income and wealth can be amplified if migration policies in the receiving countries are driven by the prospective immigrants' ability to pay.

3.1 Why the Wealthy emigrate? Pull factors

Attitude surveys conducted by wealth management companies highlight the following list of factors that HNWIs consider when choosing a country to establish a residence in for themselves and their families:

- (A) Personal safety.
- (B) Availability of high-quality health services.
- (C) Favourable tax treatment.
- (D) Protection of wealth and property rights.
- (E) Good education opportunities for the children.
- (F) Visa-free mobility to third countries.
- (G) Cosmopolitan settings and good transport connections.

Historically, wealthy individuals, including entrepreneurs, successful professionals, exceptionally talented people and *rentiers*, have migrated or moved country temporarily for at least four reasons: (a) in response to new opportunities for profit abroad; (b) to enlarge the scope of their work and attain international recognition; (c) to escape from political, religious or ethnic persecution; and (d) to seek to shield their assets from taxation, financial uncertainty and confiscation policies.

The financial empire built by the Rothschild family in the nineteenth century required an important degree of international mobility for those at the helm of the family business.⁸ In turn, successful entrepreneurs such as Mellon, Vanderbilt, Carnegie, Rockefeller and Soros migrated to the United States where their careers and fortunes (including philanthropic activities) received a huge boost.⁹ On the other hand, during the twentieth century the wealthy classes fled from anti-capitalist revolutions such as the Russian revolution of 1917, the Chinese revolution of 1949 and the Cuban revolution of 1959. The ‘white Russians’ moved mainly to Europe, the Chinese to south Asian countries, and the Cuban bourgeoisie, chiefly to the United States, particularly to the state of Florida.

The threat of communism has now disappeared and capitalism has consolidated at a global level (albeit with a high incidence of financial crises and rising inequality), boosting the global circulation of the rich. The main sources of risk for the wealthy did not disappear but change in nature. Terrorism, financial uncertainty and economic volatility have become more important threats in today’s capitalism.

A modernist view of this emerging status quo (see H&P and Kochenov, 2016) has developed the concept of a ‘global market of nationalities’ (using empirical indices of quality of nationality) in which governments compete by offering favourable migration rules and attractive characteristics such as higher living standards, social peace, the rule of law, and attractive financial and cultural facilities to attract wealthy and exceptionally talented people.¹⁰ Investment regimes which are tailored to attract the wealthy are in sharp contrast with the bureaucratic procedures applied to unskilled migrants and refugees coming from developing

⁸ For an interesting biography of the Rothschild family and their times, see Ferguson (1999).

⁹ Solimano (2010).

¹⁰ Solimano (2014) discusses the formation and various impacts of economic and talent elites in the global age.

countries and conflict-ridden areas.¹¹ The quality of nationality index accords considerable weight to the fact that holding the citizenship of certain countries (e.g. member States of the European Union such as Cyprus and Malta) enhances the ability to travel to other nations without restrictions – a attribute highly valued by prospective immigrants.¹² Wealthy migrants also value countries with well-developed banking systems, full currency and capital convertibility, a supply of good-quality legal services, predictable policies and ‘capital-friendly’ tax structures.

3.2 Why the Wealthy Leave their Home Nations? Push Factors

Push factors which induce the rich (and to some extent, the upper middle class) to leave their home countries either on a permanent or temporary basis include factors such as economic insecurity, cumbersome taxation systems, lack of adequate protection of property rights, political uncertainty, austerity policies, depressed asset prices, violence and terrorism. The explosive rise in the number of wealthy people and the amount of wealth accumulated by the new rich elites in countries outside the capitalist core of the global economy (US, Western Europe, Japan and Australia) has occurred in a relatively brief period.¹³ Examples include the formation of a class of oligarchs in post-Soviet Russia; the rise of the very wealthy in China since the adoption of post-Mao state-capitalism policies and opening up to multinational corporations from the West; the rise of the rich in the Latin American countries which adopted free-market policies of privatization of state assets in the 1990s following the recommendations of the ‘Washington Consensus’ (Solimano, 2016). These developments have led to a worsening in income and wealth distribution indicators in most of these countries.¹⁴

¹¹ The ‘Quality of Nationality Index, QNI’ (Kochenov, 2016) ranks countries in terms of their levels of economic and human development, internal peace and stability, visa-free access to third countries (freedom to travel), ability to work without permits and special visas (freedom of settlement) and the quality of their legal system.

¹² This may be particularly valued by international investors who are nationals from certain countries who seek to travel to nations for which entry visas may be hard to obtain.

¹³ For empirical data on the rise of the very wealthy around the world see the World Inequality Report, 2018.

¹⁴ A measure of worsening inequality in Russian is the income Gini coefficient, which rose from nearly 25 percent in the mid-1980s (still in the socialist period) to over 45 percent, and the wealth Gini, which climbed over 75 percent in 2013–2014. See Novokmet, Piketty and Zucman (2017) and Popov (2015). In Chile, one of the most unequal countries in Latin America, the Gini coefficients for net personal wealth are in the range of 70–80 percent. Even more concentrated is financial wealth, with the Gini coefficient climbing to 90 percent. The world average Gini coefficient for income is around 40 percent and for wealth it is nearly 70 percent, Solimano (2017).

High inequality, though benefitting the wealthy, can also move them in certain circumstances to leave their home countries (or at least place part of their assets abroad) as unequal societies are more prone to experience macroeconomic and financial crises, and cycles of populism and authoritarianism. In contrast, these cycles are less commonly observed in more socially cohesive and egalitarian societies (e.g. Scandinavian and Central European nations)¹⁵ in which stability and good social services seem to encourage the rich to remain at home (see below).¹⁶

Another set of factors which can trigger the flight of people and capital are violence, terrorist activity, taxes and more recently, Brexit in the United Kingdom.¹⁷ Statistics collected by wealth management companies show outflows of HNWIs from France/Paris in recent years. The exact reasons for these trends deserve more research but the factors listed above seem, in principle, plausible explanations. A similar situation can be observed in Turkey (also experiencing outflows of HNWIs, see Table 3 below) affected by terrorism and rising Islamic fundamentalist activity. In Latin America, some countries are more exposed to the flight of the wealthy. The economic collapse in Venezuela – featuring hyperinflation, scarcity and massive output contraction, along with internal political violence – has prompted the wealthy and large numbers from other groups such as professionals, the middle class and working people to leave the country.

The relationship between taxation levels and compliance costs and outflows of high wealth individuals is complex. The country which is probably the largest magnet for immigrants, the United States, has also shown a growing tendency (albeit of no great extent) among its citizens to renounce their nationality, apparently for tax reasons. A number of wealthy and middle-class Americans, mostly living outside the US and holding other nationalities, have relinquished their American citizenship in recent years (estimates indicate nearly 2,000 people per year in the 2010s, up from fewer than 100 in the 1960s). Interviews highlight that a main motivation for doing so is not so much a very high *level* of taxation but the *complexity* of the US tax system, including the high cost of filing taxes every year outside the US when tax experts conversant on that tax system are in short supply. Concern at the invasion of privacy of asset holdings by

¹⁵ See Easterly, 2001 for cross-country econometric evidence on this.

¹⁶ When destabilization entails a financial crisis and bouts macroeconomic instability the very wealthy may either gain or lose. The gains may accrue for those with liquidity that can buy assets at fire-sale prices during a crisis to sell them at higher prices in the economic rebound. On the other hand, losses for owners of productive assets and entrepreneurs whose activities can be affected by recessions, falling sales and credit crises.

¹⁷ Examples include the Paris terrorist attacks of late 2015 and the Nice attack of 14 July 2016.

US tax authorities is also reported as another cause for relinquishing US citizenship.¹⁸ On the other hand, countries with a high level of personal taxation such as Scandinavian countries do not figure prominently among the nations in which rich nationals depart from their home countries (see below). Therefore, the relationship between the level of taxation and the departure of the very rich is not that straightforward. The rich may not like paying high taxes but if they receive – like any other citizen where provision is universal – good quality education, health services and pensions from the state and funded with income and wealth taxation, as is the case in Scandinavian countries, the rich may decide to stay at home.

4. Inflows and Outflows of HNWIs

In 2017 there were near 95,000 HNWIs who moved to reside abroad, compared to 82,000 HNWIs in 2016 and 65,000 in 2015 (WWN, Research and Markets, 2018).¹⁹ As the total stock of migrants is near 250 million, we are speaking of a very small group of individuals worldwide, but with command over great financial resources (see section 2).

The mobility of the wealthy benefits from second nationalities: it is estimated that 34 percent of HNWIs, globally, have a second passport or dual nationality. This percentage is the highest for wealthy Russians/CIS, (58 percent), followed by wealthy Latin Americans, (41 percent), and wealthy individuals from the Middle-East, (39 percent). Asian and Australasians have the lowest percentage of second passports/dual nationality.²⁰

4.1 Inflows and Outflows

The three most preferred country *destinations* for HNWIs in 2017 (countries with *net inflows* of HNWIs above 1,000 individuals) were Australia, the United States and Canada, followed by

¹⁸ Durden (2014).

¹⁹ The numbers are rounded to the nearest thousand. There are at least three sources of information on the wealth holdings by country and mobility of the wealthy: *The Wealth Report* prepared by the London-based global property company Knight-Frank, (Knight-Frank, 2018) , *The Global Wealth Report* (Credit Suisse, 2017) and the *Global Wealth Migration Review* (New World Wealth, NWW, Research and Markets, 2018) based in Johannesburg. In turn, the Bank of International Settlements (BIS) is a public repository of offshore wealth registers held in its member countries. Some of this data is presented in detail, as in the case for Switzerland, but for other countries, which include tax havens and cater to international depositors, the information tends to be rather high level and murky. See Alstadsaeter, Johannesen and Zucman (2017a).

²⁰ Knight-Frank (2018). See also Fernandez (2017).

the United Arab Emirates and small countries in the Caribbean such as Bermuda, the Cayman Islands, the Virgin Islands, St. Kitts and Nevis and others (Table 2).²¹

In turn, the eleven countries with the largest *net outflows* of HNWI in 2017 (Table 3) are headed by China and India (the scale factor has to be considered here) followed by Turkey, France the United Kingdom and Russia. It is quite remarkable that two advanced countries such as the UK and France are countries with significant net outflows.

In Latin America, Brazil and Venezuela – both affected by economic crises and political turbulence – are among the top ten countries with the largest outflows of HNWI in recent years.

Table 2. Countries ranked by HNWI net inflows, 2017	
Country	Net inflows of HNWI in 2017 <i>(Note: figures rounded to nearest 1000)</i>
Australia	10000
United States	9000
Canada	5000
United Arab Emirates	5000
Caribbean²²	3000
Israel	2000
Switzerland	2000
New Zealand	1000
Singapore	1000

Source: New World Wealth, NWW, Research and Markets (2018).

²¹ The exact meaning of ‘effective residence’ in some of these countries – particularly small islands – is unclear. Some of these nations offer residence permits and citizenship that require minimal staying periods besides financial contributions to national development funds and purchase of real estate and government bonds.

²² The Caribbean includes Bermuda, the Cayman Islands, the Virgin Islands, St Bart’s, Antigua, St Kitts & Nevis, etc.

Table 3. Countries ranked by HNWI net outflows, 2017	
Country	Net outflows of HNWI net outflows in 2017 <i>(Note: figures rounded to nearest 1000)</i>
China	10000
India	7000
Turkey	6000
United Kingdom	4000
France	4000
Russian Federation	3000
Brazil	2000
Indonesia	2000
Saudi Arabia	1000
Nigeria	1000
Venezuela, RB	1000

Source: New World Wealth, NWW, Research and Markets (2018).

The main *cities* which received *inflows* of HNWIs above 1000 in 2017 were Auckland, Sydney, Melbourne and Perth, Tel Aviv, Dubai, San Francisco, Vancouver and others (Table 4). It is worth noting that Canada and Australia have received large inflows of HNWIs in recent years. In contrast, cities which experienced *outflows* of HNWIs above 1,000 in 2017 were Istanbul, Jakarta, Lagos, London, Moscow, Paris and Sao Paulo (Table 4). Some of these cities have been affected, to various extents, by factors which may encourage the exit of people from their home countries/cities, such as violence and terrorist attacks, high taxes, pollution and traffic congestion; nonetheless, cities such as Paris and London which have traditionally been preferred destinations for the wealthy show now positive *net outflows* of wealthy individuals. As already mentioned, the reasons for these reversals may be related with Brexit in the case of London and with the levels of inheritance and other taxes affecting the UK and France (NWW, Research and Markets, 2018).

Table 4. Cities with large (1000+) inflows of HNWI's in 2017	
City (alphabetical)	Location
Auckland	New Zealand
Dubai	UAE
Gold Coast	Australia
Los Angeles	USA
Melbourne	Australia
Montreal	Canada
Miami	USA
New York City	USA
San Francisco Bay area	USA
Seattle	USA
Sydney	Australia
Tel Aviv	Israel
Toronto	Canada
Vancouver	Canada

Source: New World Wealth, NWW, Research and Markets (2018).

Table 5. Cities with large (1,000+) outflows of HNWI's in 2017	
City (alphabetical)	Location
Istanbul	Turkey
Jakarta	Indonesia
Lagos	Nigeria
London	UK
Moscow	Russia
Paris	France
Sao Paulo	Brazil

Source: New World Wealth, NWW, Research and Markets (2018).

Bilateral corridors include wealthy Chinese going to the US, UK and Canada; wealthy Indians going to the US, UAE, Canada, Australia and New Zealand; rich Britons moving to Australia and the US, wealthy Russians to the US, Cyprus, Switzerland and the UK; wealthy French

going to Canada, Switzerland and the US; wealthy Brazilians going to Portugal, Spain and the US, wealthy Venezuelans going to the US and so on. The diversity of countries of origin is wide and includes emerging economies and post-socialist, post-statist countries as well as some advanced economies. Destination nations include mature advanced capitalist countries (US, UK, Switzerland and Australia) as well as southern European nations as Cyprus, Portugal, Spain and small islands in the Caribbean.

5. Evidence on offshore wealth

A main motivation for placing money offshore in tax havens is the desire to reduce tax payments and maintain discretion or secrecy of wealth holdings in the home country. In quantitative terms, it is estimated that on average around 10 percent of global GDP was maintained offshore as personal wealth in special tax jurisdictions in the period 2001–2015 (although there are some higher estimates, see Figure 2, Table 6 and footnote 23).²³ There is a wide network of special tax jurisdictions which include the Cayman Islands, the British Virgin Islands, US Virgin Islands, Switzerland, Panama, Jersey Island, Hong Kong, Singapore and Macau. These locations offer discretion/secrecy for owners of bank accounts and property and establish low taxes (or no taxation at all) on assets yields and other sources of income for foreign depositors (see Solimano, 2018).²⁴ In total monetary value, the total amount of offshore wealth was estimated to range between USD 8.6 trillion (AJZ, 2017a) and 10 trillion (BCG) in 2015. Other estimates by the OECD and financial institutions come up with somewhat higher numbers.

²³ This is an average for 2005–2015, Alstadsaeter, Johannesen and Zucman (AJZ, 2017a). Other estimates are higher, for example the Boston Consulting Group estimates that this ratio is closer to 13 percent of global GDP. Zucman (2013) provided an earlier estimate of ‘hidden wealth’ in tax havens around the world updated in AJZ (2017a).

²⁴ The proliferation of shell companies (trust funds, foundations and personal holding companies) which makes it more difficult to track the true national origin of offshore wealth. This is documented in the ‘Panama Papers’.

Figure 2. The Global Amount of Wealth in tax-havens

Source: AHZ ('Our Estimate') 2017a, Boston Consulting Group (BCG) and the Swiss National Bank.

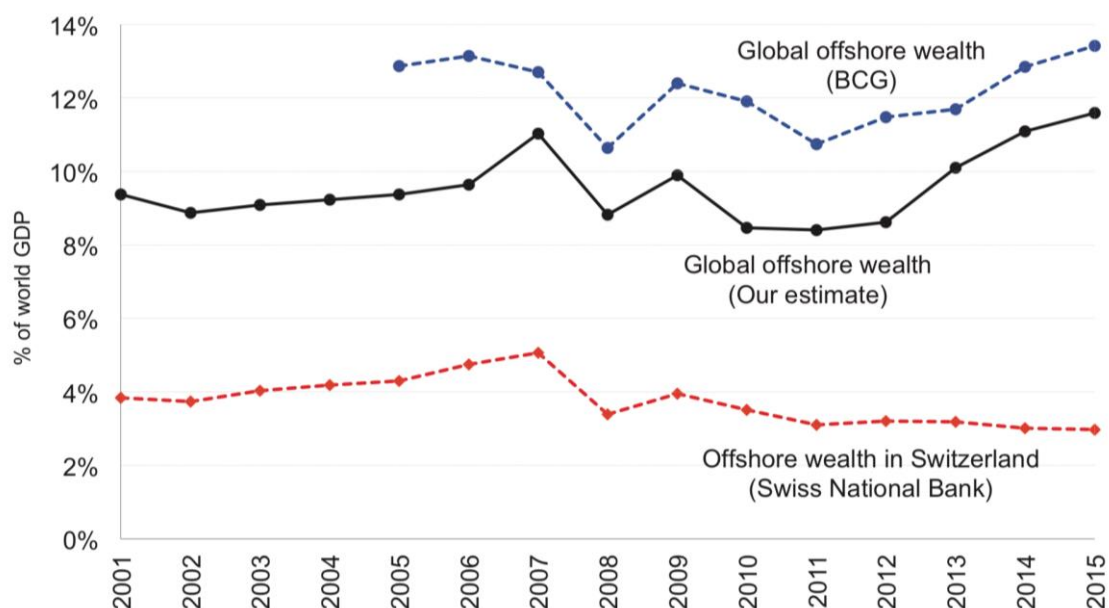


Table 6. World Offshore Household Wealth

	Billions of current USD.		% of world GDP	
	AJZ (2017a)	BCG.	AJZ (2017a)	BCG.
2005	4,410	6,052	9.4	12.9
2010	5,547	7,800	8.5	11.9
2015	8,635	10,000	11.6	13.4

Source: author's elaboration based on Statistical Appendix, AJZ 2017a (online).

BCG=Boston Consulting Group.

This money largely escapes taxation in the origin countries as a large proportion of it is undisclosed; on the other hand, these flows include deposits received by commercial banks in tax havens, providing additional financial resources to recipient countries. Alstadsaeter, Johannsen and Zucman (2017b), studied the degree of non-disclosure to the national tax authorities of funds held offshore for Norway, Sweden and Denmark.²⁵ The authors show that

²⁵ These three countries have an offshore wealth to GDP ratio between 2-4 percent, a low ratio compared with the world average.

the average rate of tax evasion rises sharply with wealth: while average personal tax evasion, for the three countries is 3 percent, this percentage rises to 25–30 percent for the top 0.01 percent of the wealth distribution.

5.1. Locations of Offshore Wealth

Historically, Switzerland has been a leading supplier of cross-border wealth management services, starting in the 1920s. In the 1930s and 1940s the Swiss took advantage of their neutrality in Second World War to receive large deposits from wealthy Europeans in belligerent countries. In 2005 (before the financial crisis of 2007–2008), Switzerland held 46 percent of global offshore wealth but this share declined to around 26 percent in 2015 (Table 7). The decline in the importance of Switzerland (and other European tax havens) has been matched by an increase in the relative share of American and Asian special tax jurisdictions between 2005 and 2015. In 2015 the Cayman islands were the most important recipients of offshore wealth of the American havens (accounting for 7.9 percent of world offshore wealth), followed by the US (7.5 percent) and Panama (1.6 percent). The main recipient of world offshore wealth is Hong Kong, representing 16.5 percent of the world total (mostly coming from mainland China) followed by Singapore (10 percent). Of the European special tax jurisdictions, the most important centre is the UK (8.9 percent) followed closely by Luxembourg (8.3 percent).²⁶

Table 7. The Changing Importance of Regional Tax Havens (TH) between 2005 and 2015 (share of offshore wealth, percent)²⁷

	Total	Switzerland	AmericanTH	AsianTH	EuropeanTH
2005	100	46	10.7	13.9	29.6
2010	100	41	15.9	19.7	22.9
2015	100	26	17.0	33.5	23.8

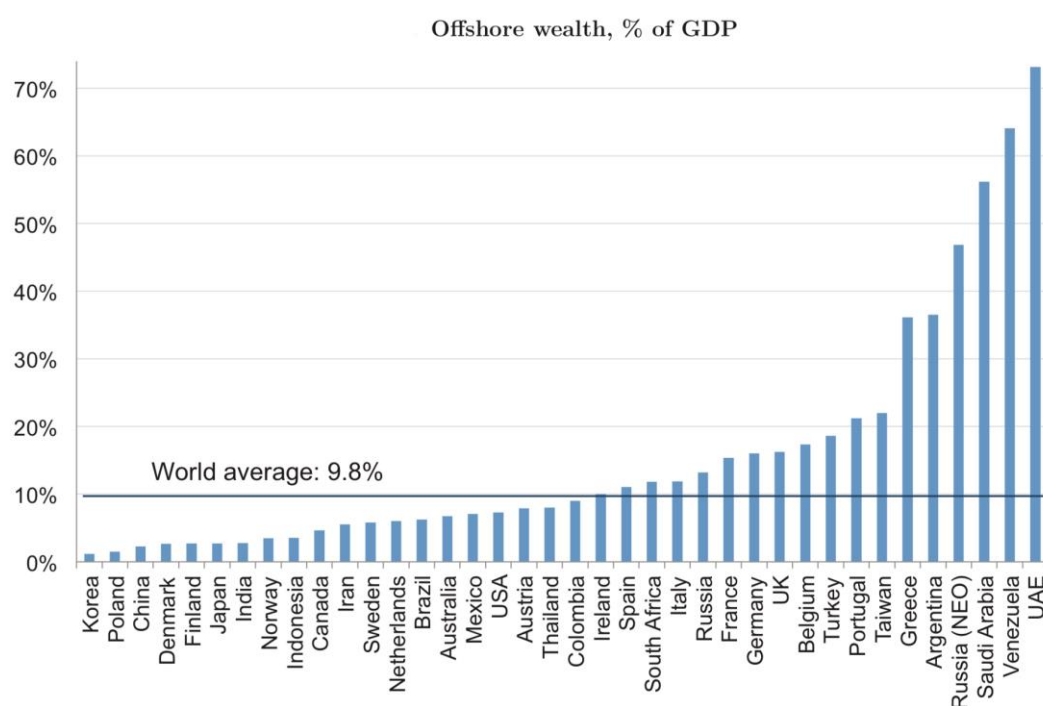
Source: author’s elaboration based on Alstadsaeter, Johannesen and Zucman (2017a), Statistical Appendix (online).

²⁶ Alstadsaeter, Johannesen and Zucman (2017a), Statistical Appendix.

²⁷ Notes: American havens: Cayman Islands, Panama and the US. Asian havens: Hong Kong, Singapore, Bahrain, Bermuda, the Netherlands Antilles and Macao. European havens: Luxembourg, Cyprus, UK, Guernsey, Jersey, the Isle of Man, Austria and Belgium.

Figure 3 shows a significant dispersion in the ratios of offshore wealth across countries. The ratio ranges from 2-4 percentage points of GDP in Korea, Sweden, Norway, Denmark, Japan and China, to around 35 percent in Greece and Argentina and up to 40–70 percent in Russia,²⁸ Saudi Arabia, Venezuela and United Arab Emirates (Figure 3). In line with our previous discussion of factors driving the departure of the rich and their assets – the ‘push factors’ – we find countries with a long history of financial crises such as Argentina, Venezuela, Greece and Russia have high percentages of offshore wealth relative to their GDP, suggesting that macro-financial volatility tends to be associated with capital flight to more secure locations for the wealthy.

Figure 3. Offshore Wealth for Selected Countries (percent of GDP)



Source: AJZ, 2017a.

There also seems to be considerable regional trends in the choice of tax havens for individuals seeking to place their wealth abroad. American special tax jurisdictions such as the US Virgin Islands, certain states in the US (such as Delaware) and Panama, receive an important

²⁸ Russia is in this range when offshore wealth is estimated through the Net Errors and Omission (NEO) methodology, see Novokmet, Piketty and Zucman, (2017).

proportion of wealth from residents in the Americas. In turn the French, Belgians and Portuguese hold part of their offshore wealth mainly in Switzerland and Luxembourg and wealthy Russians prefer Switzerland and Cyprus. Asians tend to prefer Singapore, Hong Kong, Macao and Jersey Island (a British territory).

6. Wealth Mobility and Inequality

Global inequality has been on the rise in recent decades. The global story of the period 1980–2016 is that of a sharp increase in the share of the top 1 percent, whose incomes have increased twice as much as the bottom 50 percent and more than the middle 40 percent during a period of near forty years of sustained aggregate economic growth (see Figure 4 drawn from the World Inequality Report, WIR, 2018). The rise of inequality in Russia has been particularly sharp since the mid-1990s. As of 2016, there were around 2,500 people with investable assets above USD 30 million²⁹ and 100 billionaires in Russia.³⁰ Using recent tax-based data on income and wealth, Novokment, Piketty and Zucman, (2017) have recently shown record inequality (in historical terms) and strong income and wealth concentration at the top, a feature which was exacerbated in the 2000s. The share of income of the top 1 percent rose from 5 percent in 1985 during Soviet times to around 20–25 percent around 2015. It is interesting to note that the current level of share of income of the top 1 percent in Russia is very similar to the United States.

Inequality has also increased substantially but more gradually in China and India as they have transitioned from egalitarian communism (China in the era of Mao Tse Tung) or from a highly regulated economy (India) to some form of market economy/state capitalism. In mature capitalist countries the increase in income and wealth inequality has been most severe in the United States and to a lesser extent in the United Kingdom, compared with continental Europe. In turn, a high inequality region such as Latin America has maintained significant inequality levels and this reaches very high plateaus in oil exporting countries (WIR, 2018).

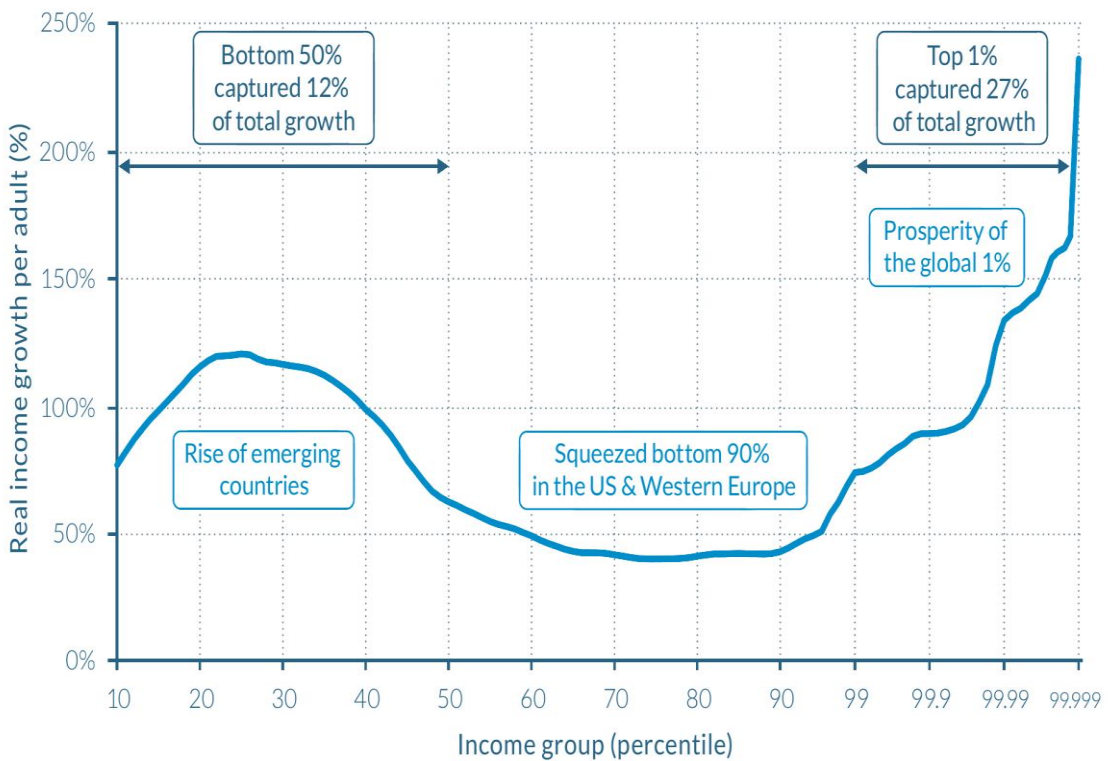
²⁹ This figure is however below the 14,000 in China and 69,000 in the United States (*The Wealth Report*, 2017).

³⁰ In Russia, the income Gini coefficient (measuring inequality of income flows) rose (an increase in inequality) from near 25 percent in the mid-1980s (still the socialist period) to over 45 percent in 2012-14. In China, three decades of very rapid economic growth in the range of 8 to 10 percent per year within a state capitalism regime headed by the communist party created great wealth for the individuals who could capture investment and profit opportunities. For example, the jump in the income Gini in China in the last twenty to thirty years has been comparable with that of Russia. See Solimano (2017).

It is interesting to note that there appears to be a high correlation between source countries which have high inequality of income and wealth such as Russia, United Arab Emirates, Argentina and Venezuela, and their levels of offshore wealth as a proportion of GDP (see Figure 3 above). Most of this wealth is in the hands of the top 0.1 and 0.01 percent, thus is extremely concentrated at the top of the wealth distribution.

Figure 4. Patterns of Global Inequality during Growth Spells

The elephant curve of global inequality and growth, 1980-2016



Source: WID.world (2017). See wir2018.wid.world for more details.

Table 8. Top 0.1 % Share of wealth (decade averages, percent, OW=offshore wealth)

	France		Russia		United States	
	Excl. OW	Incl. OW	Excl. OW	Incl. OW	Excl. OW	Incl. OW
1970s	6.3	7.4			7.4	7.9
1980s	5.4	6.9			8.8	9.2
1990s	9.2	11.0	11.8	16.4	12.0	12.5
2000s	9.8	12.0	12.4	22.8	15.5	16.5
2010s	8.2	10.7	6.1	20.8	19.4	21.1

Source: author's elaboration based on Alstadsaeter, Johannesen and Zucman (2017a), Statistical Appendix (online).

Russia stands as a country in which a very high proportion of the personal wealth of the top 0.1 percent is held abroad in special tax jurisdictions. As Table 8 shows, in the 2010s the wealth to GDP ratio of the top 0.1 percent in Russia was 6.1 percent *excluding* offshore wealth in the calculation; however, when offshore wealth is included the share climbs to 20.1 percent (a very large, 14 percentage-point of GDP difference). In contrast, the difference between total share of wealth (excluding and including offshore wealth) is about two percentage points of GDP in France and the United States. This shows that the actual extent of wealth inequality in certain countries can be severely distorted (underestimated) when offshore wealth is *not* considered in wealth calculations.

A conclusion of the analysis is that special tax jurisdictions often tend to erode the national tax base for the states where wealth was created, as an important part of this wealth is undeclared to the national tax authorities. In addition, undeclared offshore wealth leads to underestimating the degree of wealth concentration and wealth inequality in the source countries, providing a distorted empirical base for formulating tax policies and business regulation.

7. Concluding Remarks

This paper underscores three main trends: (i) the high concentration of personal wealth in the world economy today, (ii) the increasing global mobility of high net worth individuals and (iii) the growing importance of personal wealth maintained offshore, i.e. outside the countries where that wealth was generated. Today there are around 36 million millionaires, representing 0.7 percent of the total world population but controlling 45 percent of global personal wealth. This wealthy elite has incentives to circulate internationally and reside in locations where their assets are better protected and their families can obtain a high quality of life. The international mobility of wealthy individuals is facilitated by investment migration regimes which offer visas and citizenship rights in exchange for capital contributions to the host country's government funds and investments in real estate and the local banking system. This contrasts with bureaucratic migration systems which handle less wealthy migrants coming from the periphery of the world economy. Mass migration can be politically contentious due to effects on local wages, pressures on publicly provided education, housing and health services and cultural practices in traditional societies. In the case of the migration of the wealthy, most of these considerations may not be that relevant, although the inflows of funds brought by the rich places upward pressure on the price of real estate (making housing less affordable to nationals)

and can corrupt the local political system. The determinants of international wealth mobility bear some similarity to the determinants of the migration of the rich, but they are not exactly the same.

The empirical evidence of the relationship between development levels, inequality and physical mobility of the wealthy is nuanced and subject to outliers. France (a relatively low inequality country) and the UK, are experiencing considerable outflows of HNWI which seem more related to inheritance taxes and perceived insecurity. In turn, the citizens of high inequality countries such as Russia, the United Arab Emirates and Venezuela hold a significant proportion of their wealth offshore, suggesting a more direct relationship between inequality and *offshore wealth* than between inequality and *HNWI outflows*. Our results show that the link between tax levels at home and offshore wealth may be somewhat tenuous judging by the low proportion of offshore wealth held by Scandinavian countries which are high-tax nations, although more research is needed in this area. Finally, from a policy perspective, an important distinction lies between attraction policies for the wealthy in receiving countries and retention policies in the sending nations. Investment migration regimes are oriented to attract the wealthy, although criteria for development contributions – such as employment creation, technology transfer, poverty alleviation – are not found in many countries' regimes. In turn, retention policies in the home countries are related to institutional and macro-financial policies for ensuring stability, predictability and respect for property rights.

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