THE ASCENDANCE OF INVESTMENT MIGRATION IN EMERGING MARKETS

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The first two decades of the 21st century saw emerging markets powering to the fore, and emerging global wealth experienced huge growth. According to New World Wealth's 2019 *Global Wealth Migration Review,* China's wealth growth rate in the decade between 2008 and 2018 was the highest globally at an astonishing 130%, India's was the fourth highest at 96%, and Kenya was in 8th place with a wealth growth rate of 68%. As emerging markets have advanced, economic power has increasingly shifted towards these regions, but while these markets abound with opportunities in the form of a rapidly rising middle class, higher consumption, and attractive returns, the downside is that there are as many (if not more) risks, such as political and economic instability, inferior infrastructure, and poor market access.

A growing interest in investment migration

As wealth has grown in emerging market countries, acquiring alternative residence or citizenship has become particularly appealing to their citizens, as it enables greater flexibility and participation in the world's leading economies. Having alternatives is an essential part of any family's insurance policy – the more jurisdictions one is subject to, the more diversified one's assets and the lower one's exposure to country-specific and global volatility. Many affluent individuals from emerging markets across the world have gained access to business, career, educational, and lifestyle opportunities on a global scale, for themselves and their families, by investing in residence or citizenship programmes, thereby expanding their horizons, enhancing their travel freedom, and transcending the constraints imposed on them by their countries of origin.

Covid-19 volatility is a new driver

The unprecedented and highly volatile global conditions triggered by the Covid-19 pandemic and the Great Lockdown have forced individuals across the globe to reassess their circumstances, and particularly those in emerging market countries. The disconcerting events of 2020 have also highlighted the unquantifiable value of freedom and having options in times of crisis.

During 2020, the world was abruptly and unbelievably grounded by lockdowns and border closures in efforts to curb the coronavirus, further emphasising the advantages and necessity of having a 'Plan B' to protect against future shocks. In addition to the organic growth of alternative residence and citizenship, the coronavirus pandemic appears to have evoked a sharp increase in interest in investment migration programmes by citizens of emerging wealth markets, and with Indian, Kenyan, and Nigerian nationals in particular. There has also been a sustained and extremely high level of interest shown by Pakistani nationals over the past two years, and demand is rapidly regaining traction in South Africa.

At *Henley & Partners* we saw an astonishing 81% increase in enquiries from Indian nationals in the first three quarters of 2020 compared to the same period in 2019. Enquiries from Nigerian nationals rose by 25% in the same timeframe. Both countries also elicited high levels of enquiries last year, so this growth in 2020 is doubly impressive. The number of enquiries from Kenyan nationals shot up by a remarkable 110% in the first three quarters of 2020 compared to the same period last year, and while Kenya's 2019 levels were not as high as India's and Nigeria's, this strong uptake in 2020 is certainly a significant change in a market that is still being established.

Growth set to resume in 2021

Looking to the future, Knight Frank's 2020 *Wealth Report* featured an inaugural Global Wealth Sizing model that predicted strong growth in the numbers of UHNWIs and HNWIs around the world over the next five years, with the biggest increases predicted in Asia. At 44%, Asia's forecast five-year UHNWI growth was double North America's projected rate, with India leading the charge by a long stretch with an impressive 73% projected growth. Africa's five-year UHNWI growth forecast was predicted to be the second highest globally, at 32%. In terms of projected HNWI growth, Asia came out on top again, with projected growth of 39%, while Africa's was predicted to be 32%.

Although these wealth growth forecasts will have to be revised in the wake of Covid-19, wealth creation recovered relatively quickly after the 2008 global financial crisis. The IMF's October World Economic Outlook predicted that the global economy would not suffer as severe a recession as previously forecast, and growth for emerging and developing economies is projected to drop from 3.7% in 2019 to -3.3% in 2020, then rise to 6% in 2021. The IMF also revised its forecast for global growth to fall to -4.4% in 2020, with the 2021 projection at 5.2%. After this, global growth is expected to gradually slow to 3.5% in the medium term, with limited progress in catching up to pre-pandemic projections for economic activity for 2020-25 for both advanced and emerging market and developing economies.

Emerging wealth distribution and wealth outflows

The latest *Global Wealth Migration Review* indicated that by June 2020 there were approximately 13 million HNWIs globally. The table indicates the distribution of wealth in various emerging economies in 2019.

> *"The volatile political environment is perceived to be a significant risk to wealth preservation in many key wealth markets"*

With 104 resident billionaires, India ranked 4th in the world after the USA (631 billionaires), China (316), and Germany (129). Despite its strong wealth growth, India lost 7,000 HNWIs in 2019 (2% of its HNWI population), and South Africa and Nigeria each lost over 100 HNWIs. While New World Wealth maintains that India's steady outflow of HNWIs over the past few years is not a concern as the country generates more HNWIs than it loses annually, the circumstances are different in Africa, as an exodus of wealth is not something that emerging economies can afford if it is not being regenerated at an equal rate.

The changing face of investment migration in India

Until recently, the investment migration industry in India was predominantly centered on Australia, Canada, the UAE, the UK, and the USA, and the primary reasons driving investment migration in India have been education, lifestyle, and affinity with the destination country. While these five countries are home to a significant Indian diaspora and their investment migration programmes are high in demand despite their complex investment requirements, there is a growing interest in residence programmes in Europe. The top three programmes Indian nationals were interested in during 2020 were Austria, Malta, and Portugal.

A significant driver of this trend is investors seeking alternative residence or citizenship as a means of hedging sovereign risk. While India is a dynamic place for business activities and commercial growth, with high-yielding investments, it is less attractive from a wealth preservation perspective. Onshore private banking has emerged in India in the last 18 years but has yet to prove its sustainability in tough market conditions. India is not alone in facing an unprecedented financial crisis owing to Covid-19, but its financial institutions – while doing an exceptional job – need to build more trust on the longevity of the solutions they offer for generational wealth preservation.

In the past, HNWIs have predominantly sought options that enabled their families to be prepared for unexpected events and that extended their travel freedom. Cash rich and time poor, they did not necessarily wish to move to the places where they acquired a second residence or citizenship – for most, these options were merely an insurance policy should the need arise. Now, however, investment migration is shifting from being a 'Plan B' on paper, or being about HNWIs living the life they desire purely in terms of holidays and business travel, to a more holistic vision that includes the possibility of relocating to a new country that promises access to world-class healthcare options and enhanced safety and security.

Africa on the rise

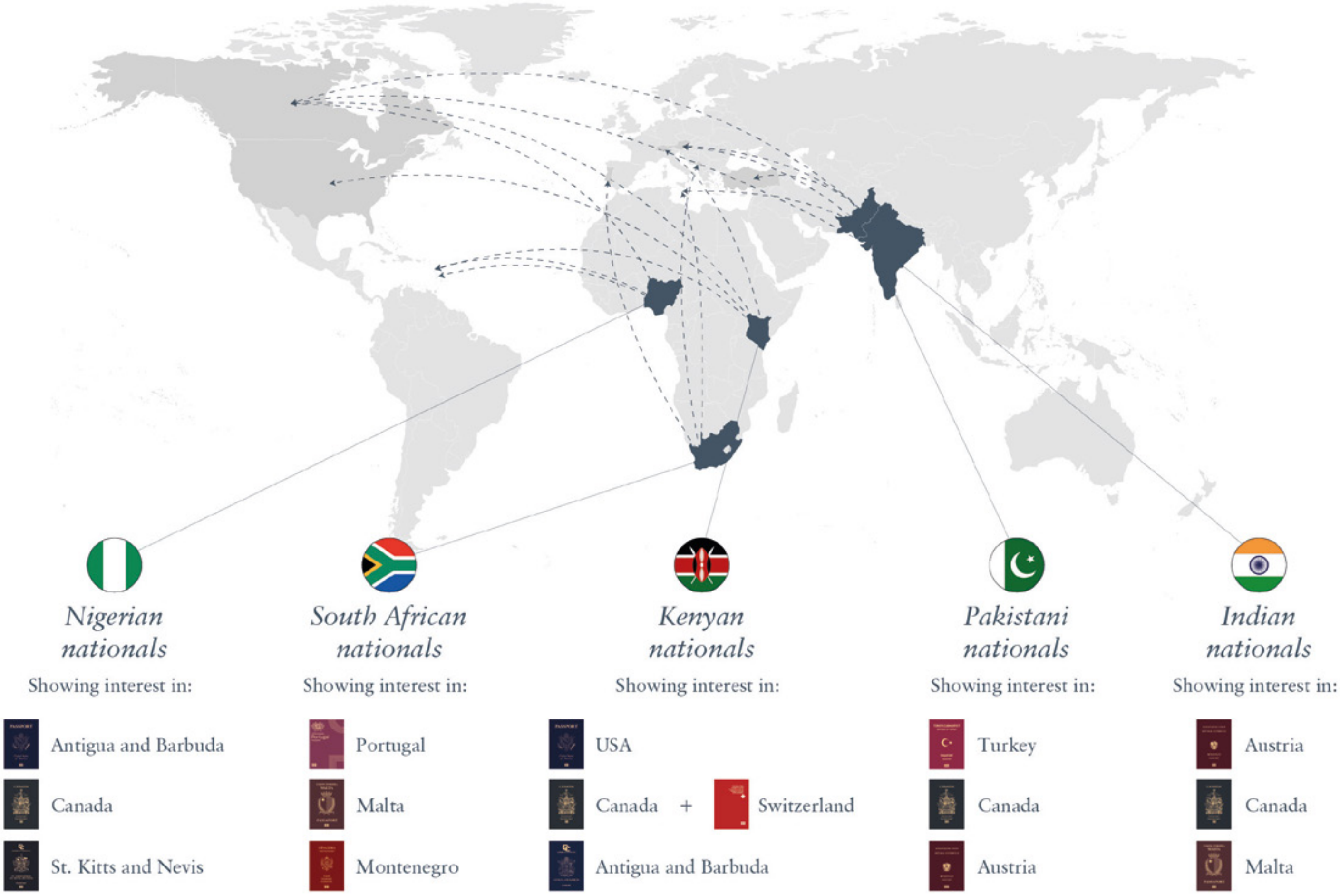
Despite being largely overlooked, African private wealth has been growing every year to the point where it is becoming increasingly globally significant. Despite this growth, the continent is troubled as countries grapple with democratisation and post-colonial recovery. According to *The African Wealth Report 2020* published by Standard Bank of South Africa, the volatile political environment is perceived to be a significant risk to wealth preservation in many key wealth markets, including South Africa and Kenya, while the biggest threat to wealth in Nigeria is cited as being personal safety and security.

African HNWIs are extremely family-centric, and many affluent investors are looking to establish themselves and their families in safer countries that offer more stability, reliable infrastructure, world-class educational institutions, and top-tier healthcare. South Africa remains the biggest wealth market on the African continent, yet over the past few years there has been significant continued engagement in investment migration options from South Africa, and Covid-19

Wealth distribution in 2019

	HNWIs	UHNWIs	Billionaires
India	291,274	5,986	104
Kenya	2,900	42	-
Nigeria	40,142	819	3
South Africa	84,421	1,033	6

Source: Knight Frank's 2020 Wealth Report



appears to have caused another surge in affluent individuals preparing to leave. The appeal of alternative residence and citizenship options is now extending to other countries across Africa in tandem with wealth growth.

In 2020 the programmes Kenyans enquired about most frequently were those offered by the USA, Canada, Switzerland, and Antigua and Barbuda, while South Africans favored Portugal, Malta, and Montenegro, and Nigerian nationals were most interested in Antigua and Barbuda, Canada, and St. Kitts and Nevis, with the St. Lucia Citizenship-by-Investment Programme also attracting an increasing level of attention in Nigeria.

A wealth-planning innovation that can reshape your future

The two years leading up to 2020 saw investment migration transform from being a luxury lifestyle product to become a sophisticated investment choice. More than simply being about ease of travel or acquiring a vacation home, alternative residence and citizenship encompass portfolio diversification, global investment and operations, and the creation of a new inheritance and identity for the family, particularly through providing access to exceptional education options. The unexpected events of 2020 have simultaneously exacerbated push factors such as political and economic instability, and reprioritised pull factors, with stability, safety, and access to healthcare becoming issues of greater concern than ever.

By extending their wealth planning and legacy management strategies to include investment migration, investors from countries that are politically and/or economically unstable are catalysing the transition to new lives in carefully selected countries that offer a better quality of life, where they and their families feel more comfortable and secure, and where they envisage a future that is better aligned with their aspirations, both now and for generations to come.

Dr. Juerg Steffen is the CEO of *Henley & Partners*. Juerg has over 30 years' experience in the financial services industry and is widely regarded as a leader of the investment migration industry. He has played a pivotal role in growing the firm and, indeed, the investment migration industry at large, improving *Henley & Partners*' operational standing and developing key structures and processes that enable the firm to keep the industry-leading position it enjoys today.

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