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The Wealth of Asians

Opportunity counts more than equality.

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Wander into any luxury-goods store and there they are: Asia's new rich. The phenomenal rise of personal wealth in the fast-growing region may be an old story, but a new report from brokerage CLSA suggests we ain't seen nothing yet. In Asia ex-Japan, there are currently "only" 1.2 million high-net-worth individuals, defined as those with investable assets excluding homes of \$1 million or more. This accounts for about 0.06% of the region's population, but within five years there may be 2.8 million, or 0.13% of the population.

Retailers already salivate over these soon-to-be-rich Asians. Social-justiceniks at development banks and the like will fret about growing inequality. But the most consequential question of all is not whether more and more Asians will join the ranks of the world's super-rich, but rather how they'll do it.

Rising net worth ought to be a sign that a growing number of individuals are spotting productive economic opportunities and profiting handsomely in return for the big entrepreneurial risks they've taken. That's certainly how the likes of Steve Jobs or Richard Branson made their billions in the West. There's also a fair share of that in Asia.

But it's also true—and troubling—that so much wealth-creation in the region is related to various forms of government patronage. There are the Hong Kong tycoons who benefit from favorable government land-sale rules, or the Korean chaebol executives who gain from lenient treatment "for the national economic interest" when corporate fraud allegations pop up. China is especially notable for being an environment where friendly connections with government officials can pave the way through a bureaucratic labyrinth, even easing access to capital that's scarce for purely private-sector enterprises.

In a modern free economy it's false to suggest that the wealth of one entrepreneur impoverishes others—the pie can grow for everyone even if it grows faster for some. But wealth amassed through collecting government favors often does impoverish others: those who don't enjoy similar benefits. This fact, and the cynicism it breeds, is a greater threat to social stability than unequal wealth distribution.

Beijing in particular should be concerned about the ramifications of all this. CLSA estimates 900,000 Chinese will join the high-net-worth set in the next five years. Whether they get there through entrepreneurial gumption or government connections will determine how sustainable China's rise is, and how stable its society will be.

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