

Passing the torch

Bridging mindset gaps
between high-net-worth
generations in Hong Kong,
mainland China and
Singapore

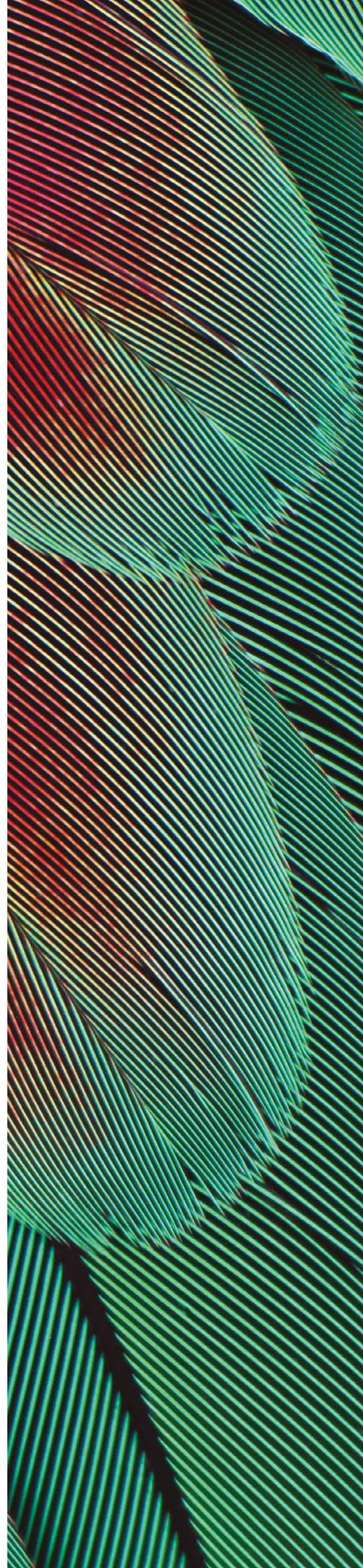
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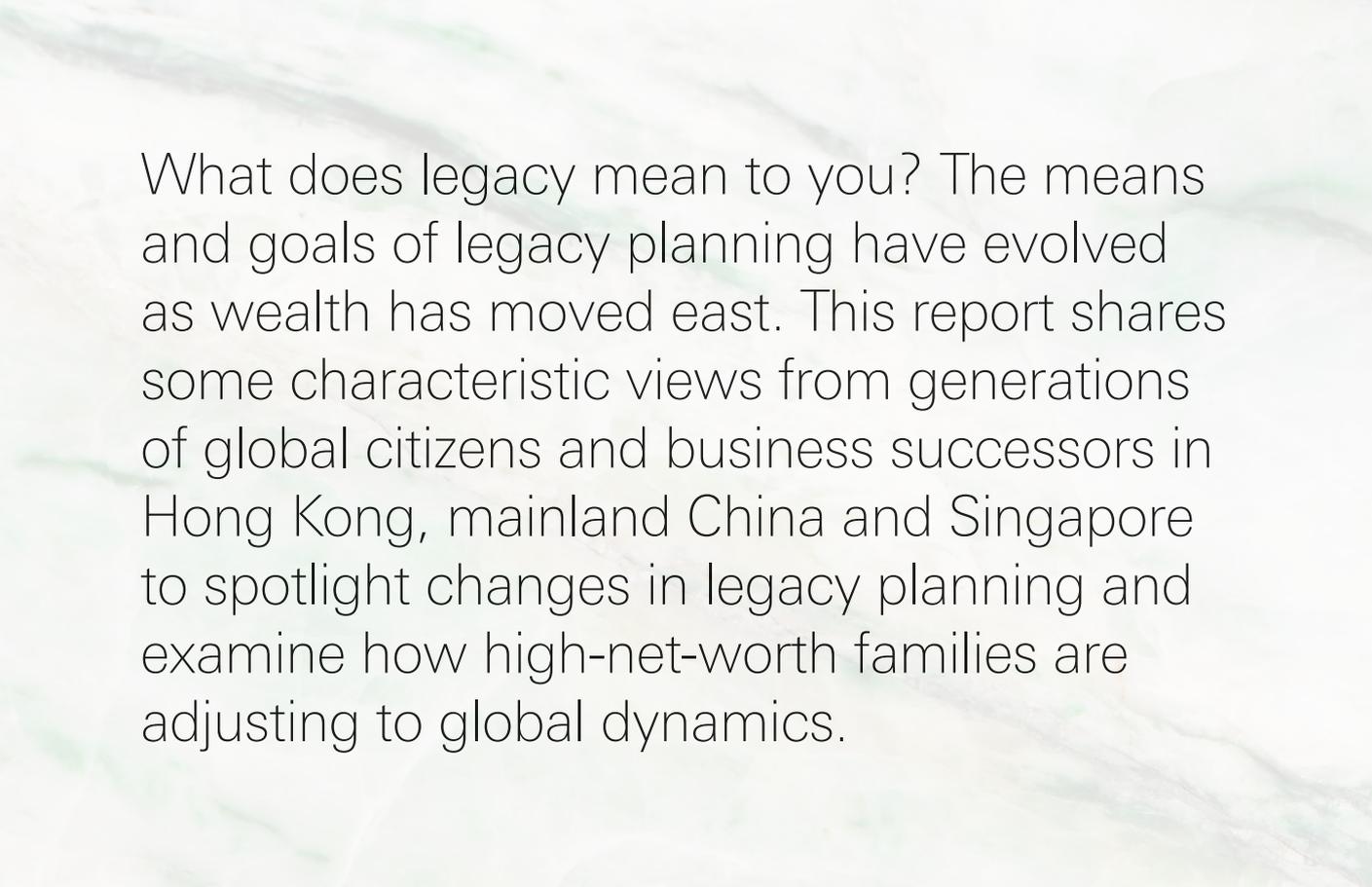
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What does legacy mean to you? The means and goals of legacy planning have evolved as wealth has moved east. This report shares some characteristic views from generations of global citizens and business successors in Hong Kong, mainland China and Singapore to spotlight changes in legacy planning and examine how high-net-worth families are adjusting to global dynamics.

Foreword

The transfer of wealth from one generation to the next is part and parcel of the wealth management journey. The process of inter-generational wealth transfer, as it is sometimes known, can materially impact outcomes depending on the route taken.

In Asia, the rapid growth in wealth and increasingly blurred lines between business and personal affairs for entrepreneurs can make this process more daunting. To add to the complexity, we are witnessing high-net-worth individuals holding more and more assets in different jurisdictions.

This means that legacy planning is more important than ever and is no longer the domain of just the ultra-rich. Everyone's circumstances and needs are different and there is no standardised solution that works for everyone. Professional advice is critical to designing a plan to achieve the best possible outcome for a given situation.

We are pleased to have commissioned the Economist Intelligence Unit to bring to life some of the challenges and opportunities faced by the affluent and high-net-worth population, as they prepare to pass the torch onto future generations.

At HSBC, it is our mission to help our clients and their families on this inter-generational journey. We hope you find this publication worthwhile and enjoyable.



Anurag Mathur

Head of Retail Banking and Wealth Management
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Contents

About the research	6
--------------------	---

Executive summary	8
-------------------	---

Global citizens	10
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- Assets in multiple jurisdictions
 - Investing for the future
 - Legacy can be more than personal and family
 - Seek global advice
-

Business successors	12
---------------------	----

- Generational planning differences
 - Three generations under one firm
 - A will may not be enough
 - Preservation or growth?
-

Conclusion	14
------------	----

How to start with legacy planning	15
-----------------------------------	----



About the research:

Passing the torch: Bridging mindset gaps between high-net-worth generations in Hong Kong, mainland China and Singapore is an Economist Intelligence Unit report, commissioned by HSBC. It is based on extensive desk research and in-depth interviews conducted with legal expertise and prominent business people in each of the concerned markets. Because high-net-worth individuals and families face unique challenges with regard to legacy planning, the personal experiences herein offer a view into a complicated set of circumstances that will differ for families depending on portfolios, nationality or country of residence and legacy goals.

Our thanks are due to the following individuals (listed alphabetically by surname) for providing their time and insight:



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Michelle Chow

Consultant, wealth planning and tax,
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Lin Gao

Author, CEO of Message Coach Ltd
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Mark Lee

CEO, Sing Lun Holdings
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Douglas Young

Co-founder, Goods of Desire
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Introduction

Wealth has shifted east, with mainland China as the most visible example. The country's GDP, on a purchasing power parity basis, grew from near US\$4trn in 2000 to over US\$23trn in 2017, according to World Bank numbers.¹

That macroeconomic story is only surpassed by a personal one. In 2017 high-net-worth individuals (HNWIs) in Asia held assets of US\$21.6trn,² which now accounts for the single largest share of worldwide wealth and the greatest accumulation of private wealth in modern history. That means how Asia's HNWIs—particularly those in mainland China or in places with close ties to its culture—manage estates and legacy plans has implications beyond their own families. Therefore, this report focuses on those in Hong Kong, mainland China and Singapore as exemplary cases.

In 2017, China had about 1.3m HNWIs,³ while Hong Kong was home to 170,440 and Singapore hosted 122,440.⁴

HNWIs of the 21st century grew up in a fast-changing environment—politically, economically and socially. That grants them modern experiences and greater opportunities that influence future plans and how people consider their legacies. To explore differences in mindset, and how legacy planning may be changing, this report examines two groups: the “global citizens” and the “business successors”.

For this report, our global citizens are those close to middle age and have taken advantage of new opportunities to live abroad. Many studied overseas, had expat career postings or simply have the financial means to live wherever they choose. Today, technology allows work to be done from anywhere, and e-visa and second-citizenship programmes make living in secondary countries a compelling option.

Business successors are those nearing retirement, have built businesses themselves or successfully managed a family firm and are now planning their own succession. Those running a long-standing family business often find themselves as a generational bridge—trying to maintain an earlier generation's legacy in rapidly shifting environments, while also appealing to the next generation, who may have less interest in joining the family business.

With pressures of both responsibility and opportunity, how are these HNWI groups planning for the future and figuring out their legacy?

HNWIs definitions

Holdings of US\$1m in liquid financial assets or above:	HNWI
Holdings of US\$5m or above:	very HNWI
Holdings of US\$30m or above:	ultra HNWI

¹World Bank, International Comparison Program database, <https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD?locations=CN>

²Capgemini World Wealth Report, <https://www.worldwealthreport.com>

³Capgemini Financial Services Analysis, 2018, <https://asiapacificwealthreport.com/reports/population/asia-pacific/china/>

⁴Capgemini Financial Services Analysis, 2018, <https://worldwealthreport.com/reports/population/asia-pacific/singapore/>

Executive summary

The population of high-net-worth individuals (HNWIs) in Asia is growing, in terms of numbers and wealth held; it is also evolving as generations today have different needs and interests. To gauge how legacy planning may also be evolving, The Economist Intelligence Unit studied two groups in particular across Hong Kong, mainland China and Singapore—“global citizens” and “business successors”. Research highlighted the following key findings:

- ◆ Younger HNWIs are increasingly global, living outside home countries for educational, professional or lifestyle reasons, but how much time they spend in different countries, and whether they hold residency and investments in different jurisdictions, has implications that add complexity to legacy planning.
- ◆ Younger generations often wish to take family businesses in new directions, starting new divisions or building philanthropic arms.
- ◆ Family businesses do not need a family member running them in order to survive but they do need a succession plan.
- ◆ How, or even if, extended family are involved in a family business becomes more complicated with each generation, especially as marriages and divorces alter family structures.
- ◆ HNWIs typically look to diversify assets; younger generations tend to seek growth in their legacy planning rather than wealth preservation alone.



Combined total of HNWIs in Hong Kong, mainland China and Singapore surpassed 1.5m people in 2017



In 2017, HNWIs' asset holdings reached US\$21.6trn in Asia



40% of family businesses globally will need to hand over management in the next five years[†]



But less than 9% of successors express intention to join the family business

[†] PwC, Family, legacy and you Perspectives on succession planning and business continuity <https://www.pwc.in/assets/pdfs/publications/2018/family-legacy-and-you.pdf>



Global citizens

What it means to provide for the next generation is an evolving concept in Asia

- ◆ Develop a global mindset
- ◆ Nomadic lifestyles and having investments in different jurisdictions can have an impact on legacy planning
- ◆ Experts advise seeking personalised advice to navigate multiple tax regimes

In Chinese communities in particular, including Hong Kong and Singapore, the concept of legacy has been rooted in a Confucian philosophy, which puts great stock in providing for future generations; planning centres on preserving estates for children and looking after family. Interviews with HNWI's show this way of thinking still influences how people save, invest and make plans for the future. But there is an international twist.

Assets in multiple jurisdictions

Lin Gao, an author and CEO of Message Coach Ltd, a corporate training firm in mainland China, is such an example. Originally from Beijing, she developed ties abroad when she went to the US for her MBA and worked for Motorola; the company then sent her to the UK, where she gained her PhD. Today she has returned to Beijing to be near her parents—with an American husband and a child she describes as a “truly global citizen”. She maintains investments in both countries.

This is a condition she sees repeated with many of her executive-coaching clients as well. People have a base in mainland China but also financial interests overseas. And they “float” between, in order to take advantage of benefits from the mainland’s rapid growth while maintaining ties (often from graduate or post-graduate studies) with other countries. She explains that this kind of travel gives people new perspectives. “It changed how I look at the world.”

Ms Gao’s international exposure in her 20s, along with the opening of China’s economy, is not an unusual experience for HNWI's of her generation and it results in a worldview and lifestyle that differ from previous generations. “My parents look for stability, safety, whereas I see opportunities,” she says. “For example, I worked for a big multi-national company for years, then decided I wanted to do something new and started a business with my husband. My parents didn’t understand why I would give up the security of a good job.”

“When I got my MBA at 26, I made a goal to retire at 45. I was actually able to retire by 42 but decided to start my own business instead,” Ms Gao says, exemplifying the trade-off of security for opportunity. “Now that I’ve achieved that financial security, my financial planning is less aggressive and focused on the business. But, even though my parents haven’t asked for help, it’s in my plan. So I’m thinking about that, as well as my career and my child.”

Investing for the future

Cindy Yan Chan, partner and chief strategy officer at Focus Media, is also considering both parents and children when planning for the future and sees a difference between the generations in how they think about financial planning. She says that while her parents’ generation typically did not have large estates and may have only been able to leave money to their children through frugal living and saving, her generation usually has more comprehensive financial plans. “As I am a career woman, and need to support both my kids and my parents, I am a prudent investor. I have a comprehensive plan for my financial future. I have invested in a pension to maintain my lifestyle in retirement, and invested in order to support my kids in the future—money that can be used as seed capital if they want to start their own business or to start their own retirement savings.”

Many global citizens want to provide for the next generation, but their concepts of legacy are evolving, as Ms Chan’s sentiments above illustrate. Legacy is about more than passing wealth, it is investing for the future.

“When I think about what kind of mark I want to leave on the world, I want to reshape my industry, to do my work with love, and I won’t have any regrets if I feel I have used my full potential.”

Lin Gao, CEO, Message Coach Ltd

“My mother was a school principal and would say her legacy is her service to her country through her career in education. It’s about duty,” Ms Gao explains. “But when I think about what kind of mark I want to leave on the world, I want to reshape my industry, to do my work with love, and I won’t have any regrets if I feel I have used my full potential.” Ms Chan’s planning is also influenced by a wider worldview. “I see legacy planning as more than leaving a large sum of money to my kids; I prefer to invest in their education to help them gain the skills they will need to succeed on their own,” she says. “I also encourage my kids to embrace the outside world, while keeping their roots in China. China has developed so rapidly; we hardly had time to think, but I’m glad to see my kids’ generation forming their own independent view of the world. I believe they will do better than my generation and they will help build a better China when they grow up.”

“I see legacy planning as more than leaving a large sum of money to my kids; I prefer to invest in their education.”

Cindy Yan Chan, partner and chief strategy officer, Focus Media

Nomadic lifestyles and connections with different cultures may influence modern views on legacy as much as tradition and family do. Just as wealth has shifted east, so too have some mindsets. “It is kind of a shift from the Eastern culture, which is more collective, to the Western,” Ms Gao adds, “which is more about the individual.”

Legacy can be more than personal and family

For one global citizen, his idea of legacy has led him to renew connections with his culture. Douglas Young left Hong Kong to study in the UK and began his career as an architect there. When the UK economy went into recession in the early 1990s—and Hong Kong, in contrast, was booming—a string of architecture projects drew him home. But in 1996 it was his desire to celebrate Hong Kong culture that led him to found Goods of Desire (commonly known as G.O.D.), a lifestyle design and retail brand.

“My business is about preserving Hong Kong culture and traditions—that is my legacy,” says Mr Young. “I would like to motivate future generations of designers to seek inspiration from Hong Kong and foster pride in our community.” Despite being settled back home, he still views his time abroad as instrumental in shaping the way he plans for the future. “I’m half Hong Kong, half Western, so I’m able to have this dual way of looking at things...it wasn’t until I went overseas and returned to Hong Kong, feeling as much a foreigner as a local, that I noticed all of the little things that made the city unique.”

That dual vision and investment sentiment seem to play an influential role among HNWI in the region, as does maintaining cross-cultural and cross-border ties. Technically, citizens of China and Singapore are not allowed to hold dual citizenship, but in practice, many HNWI may choose to obtain foreign residency as a further form of diversification.

Seek global advice

Of course, multiple passports are not necessary to be a global citizen. HNWI can move between countries, never staying in one long enough to need a visa. But how much time is spent in different locations, and whether residency is involved, has an impact on their tax situations. Without a geographic anchor, it can be difficult for citizens to know where saving and investing should centre, which complicates legacy planning. Professional, personalised advice is needed to navigate multiple tax regimes and the multitude of financial services offerings in different locations, particularly when high-tax jurisdictions are involved.

“My business is about preserving Hong Kong culture and traditions—that is my legacy.”

Douglas Young, co-founder, Goods of Desire

Business successors

Understanding generational preferences can clarify legacy planning

- ◆ Interest in taking over family businesses has waned; finding successors becomes a challenge
- ◆ Younger generations are more open to taking different opportunities for business succession
- ◆ Experts say having a will may not be enough for specific circumstances

A global survey of more than 34,000 university students who are potential successors of family businesses found less than 9% had intention of one day taking over the family firm.⁵

In mainland China, a big transition from first- to second-generation family management is underway. However, a 2012 survey of family-owned businesses found that close to 80% of the next generation did not want to join.⁶ A family business does not need a family member running it to survive but it does need a succession plan, which relies on clear communication between generations. Although a recent Economist Intelligence Unit survey found that 95% of family-business heads in South and South-east Asia said their businesses have clear plans for succession, experts warn that these are often only notional.⁷ Another survey found just 10% of family businesses in Hong Kong and mainland China have documented succession plans.⁸

“Succession is not just about the business surviving; it is finding someone to continue that work.”

Douglas Young, co-founder, Goods of Desire

When family businesses dominate—as they do in Hong Kong, where they accounted for 60-66% of the private sector, with the city’s top 15 families controlling assets worth 84% of GDP⁹—what happens with succession matters beyond the family.

Generational planning differences

Michelle Chow, a wealth planning and tax consultant at Withers’ Hong Kong office, sees differences in how families in Hong Kong and mainland China plan successions. As business founders in mainland China tend to be younger (in their 40s-50s) and likely

due to the country’s former one-child policy, succession focus is less on family members. Instead, as retirement nears, business owners tend to sell and shift into philanthropy. They also seem more interested in helping their children stick with the family’s philanthropy rather than business. As the wealth in China grows, she has seen demand for advice on setting up family offices, wealth planning, drafting wills and setting up trusts also increase.

Conversely, Hong Kong’s business founders are often older (in their 80s-90s) and second generations have already taken over. It is the third generation that is breaking tradition—many wish to launch their own start-up or focus on philanthropy. Ms Chow explains that while older generations would prefer that businesses stay in the family, they are finding compromises. Younger generations may start a new division of the company (effectively a start-up within the family business), or set up a charitable foundation or corporate social responsibility practice. All of these options draw on that deeper sense of legacy that Mr Young exemplifies.

In his experience, family businesses can contract-out management to professionals, such as the company his grandfather founded in 1933, Kowloon Motor Bus, one of the world’s biggest public transport firms. “For that type of business, legacy is about the business surviving,” Mr Young says.

Of his own firm, G.O.D., Mr Young explains: “Succession is not just about the business surviving, it is finding someone to continue that work. I’m not aggressively looking for a successor or planning to retire soon but it would be nice to have a younger collaborator who might slowly take over [to help preserve Hong Kong culture]. Or perhaps selling it to a larger company who would take over management but retain me as creative director, so I can let go of the business side. It is one thing to plan but you have to stay open to opportunities.”

⁵EY, Coming home or breaking free?, 2015, [https://www.ey.com/Publication/vwLUAssets/ey-coming-home-or-breaking-free/\\$FILE/ey-coming-home-or-breaking-free.pdf](https://www.ey.com/Publication/vwLUAssets/ey-coming-home-or-breaking-free/$FILE/ey-coming-home-or-breaking-free.pdf)

⁶Shanghai Jiao Tong University, <https://www.fticonsulting-asia.com/~media/Files/apac-files/insights/articles/china-second-generation.pdf>

⁷EIU, Planning for Prosperity: Assessing family business future-readiness in South and South-east Asia

⁸PwC, 2016 Global Family Business Survey; Evolving with the times while navigating a competitive environment. Family businesses in China and Hong Kong

⁹PwC, Evolving with the times while navigating a competitive environment, <https://www.pwchk.com/en/migration/pdf/gfbs-cnkh-nov2016-hk.pdf>

Three generations under one firm

In Singapore, Mark Lee, the third-generation CEO of Sing Lun Holdings, has also seen the focus of his family business shift since his grandfather started the firm in 1951. “Previous generations were focused on chasing opportunities but my generation is about stewardship. I need to think about what the best structure of corporate governance is and what kind of talent is needed. How can the family business evolve with the times?”

Mr Lee took over from his father in 1999 after working stints elsewhere. “I wanted to get that outside experience, then come back so that I would be able to lead on my own merit.” He has used that knowledge to not only take the business in new directions but also to open it to the outside. Shifting from a textile wholesaler under his grandfather to an apparel manufacturer under his father, Mr Lee has further diversified to invest in property development and private equity. The company has gone public (and private again) and also worked with private equity and family offices in order to get the right corporate governance. “I would rather the family held 55% of a larger business than 100% of something smaller,” he says.

The possible splintering of the company, as the family shareholding is split further and further, is a concern. “We don’t have all of the answers yet to what extent we keep the business in the family but there is a consensus that we keep it to family, not spouses,” he says. However, the next generation—millennials—may change that. “I already see that the next generation is much more open to collaboration and less ego-centric,” he says. “They look at the big picture and will collaborate—even between families—if that creates a sustainable advantage.”

A will may not be enough

While it is still too soon to make succession plans—Mr Lee is 45—he is thinking about how to build a framework to encourage the next generation to get involved. Mr Lee’s eldest son is just 12 years old but the family includes cousins in their 20s, and he wants to help them find a role. “I see my legacy as creating more opportunities for future generations,” he says. “The company is like a tree; the next generation will create new branches, taking the company in new directions. I just need to make sure the branches don’t turn into splinters.”

“The company is like a tree; the next generation will create new branches, taking the company in new directions. I just need to make sure the branches don’t turn into splinters.”

Mark Lee, CEO, Sing Lun Holdings

How, or even if, extended family are involved in a family business becomes more complicated with each generation, especially as marriages and divorces change family structures. “The most common pitfall with succession or passing on wealth is thinking that a will is enough and not setting up a trust,” Ms Chow says. “Sometimes family changes can be a prompt to set up a trust—but better to do it at the marriage of a child than at a divorce.” She cautions that family breakups can also lead to company breakups to satisfy court settlement requirements.

“The most common pitfall with succession or passing on wealth is thinking that a will is enough and not setting up a trust.”

Michelle Chow, consultant, wealth planning and tax, Withers

Preservation or growth?

Other planning shifts Ms Chow sees are in objectives; older generations of HNWI’s tend to focus more on wealth preservation while younger ones want to grow wealth and take an income to enjoy their lifestyle. Younger generations also seem more open to seeking professional advice to manage money.

Mr Lee cites three key elements for future planning: ensuring a business provides family income, investing in new industries and philanthropy. He says new investments are key to keeping a business thriving. He notes how technology can disrupt industries but also have a positive impact. “We try not to invest in areas we don’t believe in,” he says. “We want our investments to generate an income but also benefit society.”

Conclusion

HNWIs benefit from global awareness in legacy planning

- ◆ HNWIs typically look to diversify assets; younger generations tend to seek growth in their legacy planning rather than wealth preservation alone
- ◆ More HNWIs now see legacy as investing for the future and including societal benefits
- ◆ Understanding generational mindsets plays a role in modern legacy planning

HNWIs in Asia now account for the largest share of worldwide wealth. Generations of global citizens and business successors in Hong Kong, mainland China and Singapore are redefining their lifestyles, which has implications for legacy planning. Interviewees in this report emphasised providing for past and future generations, but their concept of legacy is widening to include extended family, education and larger cultural concerns like heritage.

Business founders in mainland China tend to be younger, exhibit less resolve to keep succession within the family and may value opportunity over stability. HNWIs in all three focus regions valued diversifying assets and interests, including where they live, study or work, as well as the industries that family businesses invest in. Growth and opportunity seem to play increasing roles in financial planning, which supports ideas of diversification.

While mainland China and Hong Kong are closely related cultures, differences in outlook were found in terms of legacy planning. This is largely generational and consistent with the fact that private industry in the mainland is still a comparatively new economic feature. But in all three jurisdictions, younger generations seemed more willing to contract-out management, take outside advice and make other departures from traditional planning.

The main shift in sentiment is to move away from merely preserving wealth to generating income for future generations and, if possible, benefit society as well. HNWIs in Hong Kong, mainland China and Singapore all seem to recognise planning with a global awareness is needed to support these aspirations.

Top five tips for estate planning:

- ◆ Recognise that generational differences may translate into different legacy or estate planning goals. Open family discussions are important.
- ◆ Making a will is a good start but only a first step. Experts advise a will may not be enough to suit some specific circumstances.
- ◆ Do not forget to include foreign assets in estate planning, especially if they are situated in high-tax jurisdictions.
- ◆ Ensure family changes, such as marriage or divorce, are quickly reflected in estate plans.
- ◆ Professional, personal advice is needed to navigate multiple tax regimes and the breadth of financial services in different locations.



HSBC's perspective

How to start with legacy planning

It's never too early to start planning for the legacy you want to leave behind. This could be the moment when you enter a new stage in life, such as establishing your own family, having children, setting up your business, or when you have accumulated some wealth or stand to benefit from an inheritance. A few basic, but important questions will help you kick-start the process.

Who inherits?

Begin planning by identifying your objectives and your total assets (eg savings and investments, insurance and retirement plans, property, other personal assets such as cars, jewelry and collections, business ownership/family business) and liabilities (eg mortgage repayment, tax, other personal loans or debt repayment). It's important to understand the tax implications of any assets being held abroad.

The inheritors can include your immediate or extended family members and friends who may have overseas nationalities, or charitable organisations. You may wish to distribute your assets equally or to make further provisions for someone with special needs.

When to transfer assets?

Traditionally, transfers of assets happen at the time of your passing but you can also choose to do this during your lifetime, either in one go or in stages. Giving while living allows you to exert control over and witness how your assets are used to some extent.

How will they receive it?

While a will may be the first thing that comes to mind, this is not the only option. There are five common estate planning tools worth your consideration:

A will is a legal document that controls the disposition of assets upon death.

A trust is an arrangement whereby the legal ownership of the assets is transferred from the settlor (as owner of the assets) to a trustee who will hold the assets on behalf of the beneficiaries and manage and make investments with such assets following conditions set out in the trust deed. A trust deed is executed between the settlor and the trustee to establish the trust.

You can take out a life insurance policy for an agreed coverage amount and nominate the beneficiaries according to your wishes. Your beneficiaries will receive the agreed amount after you pass away.

An enduring power of attorney ('EPA') or lasting power of attorney ('LPA') allows you to appoint an attorney(s) to take care of your financial matters in the event that you become mentally incapacitated.

A gift refers to actions by estate owners to give, while living, his/her property rights and interests unconditionally to specific family member(s) or person(s).

Financial advisors or specialists can help determine which solutions will best suit your specific goals for legacy planning. Your plan should be reviewed on an ongoing basis as your personal or financial situation changes.

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