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THE LAUDER GLOBAL BUSINESS INSIGHT REPORT | 2023

Shaping Lives and Driving Impact Around the World

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Shaping Lives and Driving Impact Around the World

During his reign in the second century, Roman Emperor Marcus Aurelius wrote, “Look back over the past, with its changing empires that rose and fell, and you can foresee the future.” Nearly 2,000 years later, it’s hard to imagine how he would react to so much monumental change that has taken place across the world. Cryptocurrency, climate change, electric cars — all inconceivable in his day. Yet some struggles remain eternal. War, economic inequality, access to health care. These intractable problems need innovative solutions, and the modern world has no shortage of innovators.

In this special report, graduate students from the Joseph H. Lauder Institute for Management & International Studies take readers on a trip around the globe to gain a deeper understanding about the ties that bind us, and the bonds that break us. Learn how China’s unrelenting work ethic is changing workplace culture. Find out why governments across the Middle East and India feel threatened by the emergence of streaming platforms. And explore how Russia’s war in Ukraine is affecting the agriculture industry as far away as Argentina.

The mission of the Lauder Institute is to develop outstanding business leaders who look globally, engage locally, and act responsibly to have a powerful impact in the world. This mission is embodied in each member of the Class of 2024, who present the following articles based on their own site visits, interviews, observations, and research. We hope this report adds to your intellectual curiosity and sparks your imagination about the problems and solutions facing us over the next decade and far into the future.

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In Asia, Cryptocurrency is Here to Stay

Cryptocurrency isn't just a passing fad in many South Asian nations, where investing in digital coins is a popular way for the middle class to increase wealth. This article explores the reasons why cryptocurrency is soaring in South Korea, Singapore, and Indonesia.

Hyun Mu is a 53-year-old South Korean navy veteran who operates a textile business in Dongdaemun, the heart of Korea's fashion district. He is a classic Korean *ahjusshi* (a term used to describe male old-timers) who uses his credit card for most transactions, struggles to navigate his smartphone, and whose pockets still jangle quietly from the coins he carries out of habit. But every month, Hyun Mu sets aside a portion of his compensation to invest in bitcoin, ethereum, and several other altcoins. The next hot crypto investment is a frequent lunch debate with his colleagues, despite not fully understanding what blockchain is. Hyun Mu's embrace of Web 3 and cryptocurrency stands at odds with the resistance to fast-moving change expected from the older generations of South Korea's patriarchal, conservative, and traditional society. How did a paradox like Hyun Mu come to be?

Cryptocurrency is a digital currency designed to work as a medium of exchange through a computer network that is not reliant on any central authority. Computers engaged in a cryptocurrency network solve encryption algorithms that produce supply, verify transactions, and provide security. The adoption of cryptocurrency has been particularly remarkable in Asia in comparison to the rest of the world. In Asia, cryptocurrency adoption is defined as retail and institutional exposure to cryptocurrencies in investment portfolios. The region's long history as a digitally mature environment helps explain how Asian countries became exceptionally receptive and well-positioned to adopt cryptocurrencies as investment opportunities. This article explores how the combination and interplay of unique cultural, technical, and regulatory factors enabled Singapore, Indonesia, and South Korea to become early leaders in cryptocurrency adoption in Asia.

How Asia's Past Explains its Future

South Korea

The societal impact of South Korea's deep Confucian roots is pervasive, and the present rate of cryptocurrency adoption in the country cannot be understood outside of this context. Confucianism entered South Korea in 1392 and substantially shaped the country's moral systems, social hierarchy, and way of life. Impacted by Confucianism, "Korean culture [is] determined either by high-born, highbrow ruling elites or social riff raff…Korea was never a meritocracy, and social equality, as we understand it, was prescribed by law, habit, and inherited custom," according to Tomasz Sleziak, a postdoctoral researcher of Korean Studies at Ruhr-University Bochum. Present-day ruling elites — the *chaebol* families who own and operate the largest Korean conglomerates — disproportionately control Korea's economy and politics, and they fiercely gatekeep the upper echelons of society. The difficulty of upward socioeconomic mobility has pushed the middle and lower classes to seek nontraditional paths — including cryptocurrency — as a means to improve their financial prospects and social status.

With the boom-and-bust cycles in the cryptocurrency markets, South Koreans see an opportunity to advance socially and economically. "The design of Korean society is a big reason why cryptocurrency became so popular. People here are generally unhappy with their current status in society," says Yogan Yun, a 25-year-old assistant reporter in Seoul. Confucianism established an intense emphasis on education, which resulted in a highly educated present-day population. Almost 70% of all South Koreans between ages 25 and 34 have a post-secondary degree — the highest of all OECD countries. The youth struggle to differentiate themselves from their peers, resulting in intense competition in the job markets and high unemployment. In a survey conducted in April 2021, 49.8% of 1,885 office workers in their 30s had invested in crypto assets and 34.5% of those in their 40 — all hoping to hit the jackpot with the incredible returns only cryptocurrencies can provide in a short period of time. In 2018, the Korean won was the third most traded currency for bitcoin, and in 2017, South Koreans accounted for 17% of the world's ethereum trading. These are astonishing figures that are representative of South Korea's acceptance of cryptocurrencies as a way to move up the hierarchical ladder.

Singapore

In comparison, Singapore has relatively greater social mobility but was one of the earliest cryptocurrency hubs. In the World Economic Forum's Social Mobility Index, Singapore outranked South Korea and outscored it on almost every metric. Singapore's economic prosperity has led to a high level of trust among Singaporeans in their government. According to the Edelman Trust Barometer (2021), Singapore ranked fifth in the world in their trust of key institutions, of which the Singaporean government was deemed the most trustworthy. The Singaporean government's early endorsement contributed to the high level of trust Singaporeans have in cryptocurrency today.

"With the boom-and-bust cycles in the cryptocurrency markets, South Koreans see an opportunity to advance socially and economically."

Government signaling — layered on top of the international and technologically mature environment that is Singapore — led to high adoption and widespread awareness of bitcoin. According to the Independent Reserve Cryptocurrency Index (IRCI), 90% of Singaporeans have heard of bitcoin, and 40% own bitcoin. The State of Crypto in Singapore Report 2021 finds that 67% of those with financial investments have cryptocurrency exposure in their portfolios. And 34% of non-crypto holders reported planning to purchase cryptocurrency in the next 12 months. While the desire to progress up a seemingly impossible socioeconomic ladder drove cryptocurrency adoption in Korea, investors in Singapore view cryptocurrency with a longer-term perspective. The IRCI reports that most bitcoin holders view it as an investment, and The State of Crypto report data confirms that there is an increasing trend towards mature investment in crypto as a viable long-term asset.

Indonesia

Unlike Korea and Singapore, Indonesia's unique demographics and barriers to traditional financial institutions drove cryptocurrency adoption. Indonesia's dynamic economy is propelled by its young, tech-savvy, risk-taking population with increasing disposable income. In "Fulfilling Its Promise — The Future of Southeast Asia's Digital Financial Services," Bain &

Company, Google, and Temasek reported that 51% of the adult Indonesian population was unbanked and 26% underbanked in 2019. Indonesia's gap in access to financial services opens the opportunity for cryptocurrency. Gemini's Global State of Crypto Report found "41% of Indonesians, aged between 18 and 75 years old with an income of more than $14,000 per year, own crypto assets." Indonesia's young population is willing to explore cryptocurrency assets as a solution to their banking needs. According to Chainanalysis, without access to traditional banking, the unbanked population is incentivized to adopt crypto as a vehicle to send remittances and preserve their savings as a hedge against rising inflation.

> "Singapore adopted technology early on and continues to be one of the most technologically mature nations in the world today."

The Indonesian government recognizes this gap. The report from Bain & Company, Google, and Temasek states, "The government has an explicit financial inclusion mandate that has led to initiatives by established players to launch branchless banking initiatives." In the meantime, retail investors are using cryptocurrency to fill the gap themselves. According to BAPPEPTI, the Commodity Futures Trading Regulatory Agency, the number of cryptocurrency investors in Indonesia has doubled in the past year alone to more than 12 million people. In comparison, Indonesia's number of stock market investors was just north of 7 million. This highlights the relatively lower barrier to entry and wider levels of access cryptocurrency has in Indonesia when compared to traditional financial institutions, as well as the willingness of Indonesians to explore new financial assets.

How Early Tech Adoption Primed Asia for Crypto

Over the past few decades, technology and innovation have been at the center of South Korea's economy, setting the underlying foundation that has helped propel the adoption of cryptocurrency. Though a historically conservative and closed-off nation, South Korea was heavily influenced by Western powers after the Korean War. Massive amounts of foreign aid and new ways of economic development helped push Korea from being an impoverished country in the 1950s to now the 13th-largest economy in the world by GDP, according to the International Monetary Fund. Since the 1950s, Korea has seen massive change in economic models through technology and innovation. Although rooted in Confucian and conservative social philosophy, the country has consistently opened its doors to new technologies including cryptocurrencies.

Today, South Korea is one of the leading nations in technology, paving the way for cryptocurrency adoption. In a recent survey, 92.7% of surveyed South Koreans stated they owned a smartphone, up from 21.6% in 2011. In addition, South Korea enjoys the second-highest average internet speed in the world, and teens and young adults spend an average of 4 hours a day on their mobile phones. This hyperconnectivity lowers the barrier of entry for cryptocurrency adoption and enables any South Korean citizen to learn about the latest cryptocurrency trend and make instantaneous trades. The bustling gaming industry in South Korea has also set a related precedent for cryptocurrency adoption. Digital micropayments are commonplace in Korea, dating all the way back to 2001 when Hangame, a Korean gaming company, earned daily revenues of $80,000 on micropayments of 50 cents even when gaming was free. Similarly, cryptocurrency trading results in billions of small transactions, which South Koreans have been accustomed to making for the past two decades. A technologically innovative culture and comfort with digital systems have resulted in the rise of cryptocurrency adoption in South Korea.

Singapore adopted technology early on and continues to be one of the most technologically mature nations in the world today. In 2011, Nielson reported that 59% of Singaporeans aged 35-39 and 51% of those 25-34 owned a smartphone, both notably higher than South Korea in 2011. Early adoption has driven mobile-first behavior. According to Google's Consumer Barometer (2014), Asia was the first region to go mobile-first or mobile-preferred. The early adoption of technology — even when compared to its Asian neighbors — helps explain the lack of resistance to cryptocurrency and demonstrates the overall willingness of Singapore to embrace new and developing technology and innovation.

After China all but banned cryptocurrency within its borders, entrepreneurs flocked to Singapore and the small nation soon became the cryptocurrency hub of Asia. Takamasa Minami, an executive at Bybit, a cryptocurrency trading platform, cites China's ban and the heavy taxation of cryptocurrency in Japan as the main cause of cryptocurrency's migration to Singapore. In 2017, the Monetary Authority of Singapore (MAS), Singapore's leading financial regulatory body, took a hands-off approach and even issued a warning stating there were no regulations to safeguard investors, in part to encourage wider international cryptocurrency investment in Singapore and to warn individuals of the potential negative consequences of the lack of regulation. Since 2017, Singapore has been vocal about the potential of cryptocurrency, with MAS regularly issuing guidance or introducing related regulations.

Similarly, Indonesia is a mobile-first country with an internet penetration rate of 73.7% in 2021. Indonesia's largely young middle class promotes a receptive and adaptable market. This was showcased through the successful rise of tech giants such as Gojek and Tokopedia and the growing interest in crypto technology. According to Coin Telegraph, in 2022 there were 17 companies permitted by BAPPEBTI, the governing body, to exchange cryptocurrencies in Indonesia. "Indodax, a market leader, reached 5 million members in 2022, a 104% increase compared to 2021," the report stated.

The success of these platforms is driven by their mobile-first strategy. Jeth Soetoyo, founder of Pintu, said his company "was launched in April 2020 as Indonesia's first mobile-native crypto exchange. In a year's time, we have 300,000 users. Fast forward to 2022, we have over a million monthly active users." The company offers Pintu Academy to educate retail investors about cryptocurrency and improve financial literacy. In addition, according to Jakarta Globe, 51% of crypto owners in Indonesia are women. Indonesia's focus on mobile first encourages crypto to be accessible to everyone.

The Rulebooks of the Future

The South Korean government's support has created an environment conducive to the adoption of cryptocurrency. "The South Korean government is generally pro-crypto and has been passing regulations that make crypto trading more legitimate. And of course, more thriving crypto businesses means more taxes," said Michael Jee, co-founder, and chief operating officer of Cardio, a move-to-earn crypto company based in South Korea. While cryptocurrency is rooted in decentralization, with a philosophy that fiercely opposes centralized entities like governments, some investors generally interpret the regulation of cryptocurrency trading as a necessary step for widespread adoption.

To that end, South Korea is currently rolling out regulations to manage cryptocurrency, including amending "The Act on Reporting and Use of Certain Financial Transaction Information" in September 2021 to require that cryptocurrency trading platforms acquire an information security certificate. The Digital Asset Basic Act, which includes comprehensive regulation for cryptocurrencies, is expected to pass by the first half of 2023. South Korea's new president, Yoon Suk Yeol, has also taken a publicly pro-crypto stance, suggesting strong government support from the top down during his term for the next five years. Lastly, the Yoon administration recently delayed a planned 20% tax levy on cryptocurrency earnings that was scheduled to start in 2023 by two years, creating a strong economic incentive for cryptocurrency trading. The South Korean government is actively working to legitimize the cryptocurrency space, further driving widespread, mainstream adoption.

Like South Korea, Singapore has been balancing increasingly stringent regulations to monitor cryptocurrency trading while simultaneously posturing Singapore to become a digital hub. MAS, which has consistently expressed caution about retail cryptocurrency investment, has recently taken stronger action to regulate the space through restrictive licensing and expanding its regulatory jurisdiction. During an August 2022 seminar titled "Yes to digital asset innovation, No to cryptocurrency speculation," Ravi Menon, managing director of MAS, shared intentions to "add friction" to discourage retail investors to curtail ignorant investments. The Singaporean government's recent actions have had dampening effects, giving approval to only 15 crypto platforms to date and successfully limiting access to unverified platforms.

The Indonesian government recognized cryptocurrency as a legal commodity in 2019, allowing oversight and regulation by BAPPEBTI in an effort to protect its retail cryptocurrency consumers. According to Coin Telegraph, BAPPEBTI in 2021 whitelisted 229 crypto tokens, including bitcoin (BTC), ether (ETH), polkadot (DOT), and cardano (ADA). "With the new rules that we had published, it is hoped that we and crypto exchanges in Indonesia could work together to help ensure that every crypto transaction is legally regulated and safe for investors in Indonesia," the agency stated in a release. The government's open response to progressive and experimental financial services sends a positive signal about the long-term value of cryptocurrency to fill an institutional void and meet the needs of the underbanked. The lack of access to traditional banking makes room for crypto-related finance and fintech companies to grow.

The unique characteristics of each of these countries primed them to be ideal environments for early adoption. Deeply rooted social norms, institutional legitimacy (or the lack thereof), and the pursuit of greater financial opportunity — with technological maturity as a universal catalyst — help explain why cryptocurrency found early success in South Korea, Singapore, and Indonesia. These three countries also pose an interesting question to the world about the future of cryptocurrency as their governments attempt to balance regulation as an inherently decentralized asset without curbing adoption at the cost of national economic growth. Takamasa Minami sees Singapore's regulations as the greatest challenge that limits cryptocurrency expansion. When asked the same question, Michael Jee thinks that South Korean regulation is a necessary step to create safeguards and an established sandbox for trading. Time will tell whether government action interferes with the potential radical transformation cryptocurrency can bring or provides the needed structure. Either way, crypto is here to stay.

This article was written by Ben Chon, Eunice Ko, and Kelly Arifin, members of the Lauder Class of 2024.

Rushing Not to be Called Russian: Investigating Vodka Branding and Consumption

Russia's invasion of Ukraine sparked a different kind of conflict with consumers who wanted to show solidarity with the European nation by boycotting vodka. As this article explains, the war isn't the first time that companies have been forced to distance themselves from all things Russian in an effort to protect sales.

It is February 24, 2022, and for months now, Russia has been slowly building armed forces on the border with Ukraine. The troop number now sits at around 190,000, and tensions seem to escalate each day, with the international community threatening sanctions if Russia does not cease, and Russia writing off Western countries' warnings as sensationalist.

In recent days, fighting has increased in the Donbas area of Ukraine, continuing a conflict that began in 2014. What makes this day, February 24, different is that Russian President Vladimir Putin has addressed his country in the wee hours of the morning, informing the world that Russia will be invading Ukraine. Tanks and troops stream across the border by the thousands, and by nightfall, missiles have descended on the Ukrainian capital of Kiev. Streets clog with traffic as civilians seek refuge from conflict.

Months later, the war is still ongoing, and the world continues to distance itself from Russia and all things associated with it, including its national drink, vodka. For producers of the beverage, this is nothing new; they have been wary of associations with Russia for years now. In fact, connecting a product to Russia has offered very little benefit for companies marketing to Western audiences ever since the rise of vodka's popularity in the U.S. during the height of McCarthyism and The Red Scare in the early 1950s. Consider the case of the Russian-founded brand Stolichnaya, which in the early 1980s held an enviable position as the most imported vodka in America. In 1983, however, the Soviet Union shot down Korean Air Lines Flight 007 after it drifted into Soviet airspace, killing all 269 passengers, including 62 Americans. A boycott ensued in the U.S., and Stolichnaya quickly ceded U.S. sales to brands from other countries, most notably Absolut from Sweden.

Fortunately for these two brands, vodka has murky origins, with Poland and Ukraine (among others) also having compelling claims of ownership. As a result, the beverage does not have a protected designation of origin, in contrast to the protected designation for libations such as Champagne, which can only be branded as such if it comes from that region of France. This lack of protection allows vodka brands historically produced in Russia to shift production elsewhere.

It comes as no surprise that several vodka companies with a more Russian-sounding name have suffered from an association with Russia amid the invasion of Ukraine. Although vodka brands have been taking steps for years to distinguish its origins from Russia, the invasion certainly accelerated this process and led to more extreme measures.

> "It comes as no surprise that several vodka companies with a more Russian-sounding name have suffered from an association with Russia amid the invasion of Ukraine."

Capital City No More: Rebranding Stolichnaya

Perhaps the most drastic change from a branding perspective came from Stoli Group. The company used to market its vodka under the name Stolichnaya, which translates to the word "capital." After Russia's invasion of Ukraine, the company rebranded the name to disassociate with the Russian word and instead now labels its bottles under the name Stoli.

The brand has a complicated history with Russia. In the USSR, the brand was owned by a state-owned organization called VVO Soyzplodoimport; however, the company became private in 1992 when Russia was embracing capitalism after the breakup of the Soviet Union. In 1997, it sold its trademarks for $300,000 to what is now SPI Group, owned by businessman Yuri Shefler. Shefler and the Russian government have been in a trademark war since 2000. The government has argued that the privatization was illegal and has battled over ownership around the world. SPI Group controls the trademark in 150 countries, while the Russian government retains control in Russia and the Netherlands.

> "Vodka has been the top-selling spirit in the U.S. for decades, generating over $7 billion in revenue in 2021 alone."

Despite having historic ties to Russia, Stoli vodka production facilities have been located in Latvia since 2000, where the blending, packaging, and distribution is handled. Stoli Group is hoping that the rebranding will more accurately represent these roots in Latvia. In fact, as Shefler stated after the start of the war, this change is meant to more accurately represent what the company stands for.

"While I have been exiled from Russia since 2002 due to my opposition to Putin, I have remained proud of the Stolichnaya brand," he said in a company release. "Today, we have made the decision to rebrand entirely as the name no longer represents our organization. More than anything, I wish for 'Stoli' to represent peace in Europe and solidarity with Ukraine."

This wouldn't be the first time that Stoli had to undergo a rebranding as a response to Russian politics. Stoli vodka bottles were once labeled as "Russian vodka" given that 90% of its ethanol used to be sourced from Russia. This label was removed after 2013 when Russia passed a bill banning the promotion of what they referred to as "gay propaganda" and a #dumpstoli hashtag began trending on social media. Stoli leadership hope that the rebranding will help further distance the brand from Russia and boost sales.

Vodka Consumption in the U.S.

Boycotts of vodka in the U.S. began in February 2022 as supporters of Ukraine confused vodka brands as originating in Russia. What was meant to be a show of solidarity with Ukraine resulted in an insignificant gesture to remove vodka products from stores, especially because American businesses sell minimal Russian-produced vodka.

However, consumers have become keen to understand the roots of the alcohol they consume. A vodka industry expert who asked for anonymity said that shares of consumption have not changed since the start of the war, but "there is a rising interest among consumers towards the origins of vodka." Vodka has been the top-selling spirit in the U.S. for decades, generating over $7 billion in revenue in 2021 alone — $2 billion more than the second-highest selling spirit, tequila and mezcal, according to the Distilled Spirits Council of the United States. But much of the vodka sold in the U.S. and globally is not actually produced in Russia. Vodka imports from Russia accounted for $18.5 million or 1.3% of all U.S. sales in 2021. In comparison, France exported $660 million worth of vodka to the U.S. last year.

In fact, Russian vodka has never dominated the U.S. spirit market. According to 2020 statistics, volume sales for vodka were led by Texas-based Tito's, culminating in a total of 10.35 million nine-liter cases (over 93 million liters of vodka). Most vodka sales in the United States consisted of Smirnoff, New Amsterdam, Svedka, Absolut, Ketel One, Pinnacle, Burnett, Skyy, and Grey Goose — all of which are produced in either the U.S., the U.K., France, Netherlands, and Sweden.

An industry insider with over 10 years of experience working with various alcoholic beverages shared that vodka consumption has been bleak, with a significant decline since 2005. "[Vodka] did not take off until the 1970s, and many brands tried to distance themselves from Russia," the expert explained. Although Russia's invasion has not changed American consumption of vodka directly, the war has increasingly prompted questions about where the spirit is produced. As such, much of the sanction on vodka has largely been symbolic rather than financial in nature. Despite the Russian imagery associated with vodka, much of what is bought globally outside of Russia comes from other countries.

It is not just Russian-made vodka that is seeing a slump, but rather the entire category. Brandy Rand, chief operating officer of the Americas at IWSR Drinks Market Analysis, said that between 2000 and 2020, vodka had a compound annual growth rate of 4.2% compared to whiskey's 3%. However, in the last five years, whiskey has significantly outgrown vodka, 5.1% to 1.7%, respectively. Vodka growth has slowed due to factors outside of the war and continues to do so in America and globally. Tequila and whiskey are becoming popular as more celebrities (such as George Clooney) release their own versions of those spirits, which further causes vodka growth to cool.

Russians Drink Their Own Vodka

Public outrage since the start of the war quickly manifested in a boycott of all Russian symbols. However, the consumption of Russian vodka, and the spirit in general, had long been on the decline. Brands, already weary of previous anti-Russian sentiment, had been moving away from any operational ties to Russia, going so far as to distill grain within the European Union. True Russian vodka, defined in terms of raw materials, ownership, and manufacturing, has not been targeted towards the Western market for a while.

So where is the almost 850 million liters of vodka produced annually in Russia going? Most of it is consumed domestically. Russia accounts for 30% of the global production of vodka, with 90% of the vodka produced in Russia consumed internally. Ironically though, Russia has long tried to reduce its alcohol consumption, most successfully reducing per capita consumption from 2003 to 2016 by 43%. Despite sales time restrictions and value-added tax (VAT) increases, Russian per capita alcohol consumption remains higher than the global average. Coupled with increased consumption recorded during the pandemic, the main hope remains that internal demand could compensate for the loss of international imports. Given the limited ability to export their product, Russian vodka producers will need to get creative if this recent increase in sales reverses after the pandemic.

Vodka imported into Russia from Western markets has historically been limited, with around 40% vodka imports coming from Belarus alone. Most European brands targeted higher-end consumers seeking premiumization. Already a small portion of the market, consumers of premium foreign vodka will likely substitute within the domestic market or have the means to locate alternative, unofficial supply channels.

While Western sanctions have had a limited financial impact on Russia's domestic market, the increased desire to show support for Ukraine has more than doubled the demand for vodka of Ukrainian origin. So, the next time you're ordering a Kiev Mule, know that you can request a Ukrainian brand such as Khor or Nemiroff.

This article was written by Charles Belina, Kat Dyakova, Fidan Karimova, Rose Katz, and Phillip Weinstein, members of the Lauder Class of 2024.

Saturation and Maturation: India's Shifting Luxury Landscape

With a sense of national pride, Indian consumers are buying homegrown luxury and premium items with a vigor once reserved for European labels. This article explores how domestic firms are shaping and responding to a changing consumer aesthetic.

In late summer 2022, a group of Wharton students gathered at Veda, a Philadelphia restaurant that bills itself as a modern Indian bistro. Bistro is an interesting choice. Perhaps the Parisian reference was intended to signal an elevated dining experience or a sense of sophistication, sentiments that aren't often associated with Indian restaurants, or Indian culture in general.

The menu featured classics including samosas, tandoori chicken, and paneer makhani. The food that arrived was brimming with spices. However, there was little nuance, almost as if each dish was designed to be the most obvious version of itself. The paneer makhani was creamy, the naan was buttery, and the tandoori was spicy, encapsulating every trope that has come to define Indian dining in America. It was almost as if the chef could not tell, or could not care to tell, the difference between flavor and saturation. One is a celebration of culture, the other is pure tokenization.

> "Our own culture is no longer looked down upon as a tokenization of how the Western world perceived us, but rather as a symbol of pride."

Similarly, Western perceptions of Indian culture haven't traditionally had a lot of nuance. It is unsurprising then that the representation of Indian textiles in popular culture (for example, the lehenga-inspired outfits in season 2 of "Bridgerton," or saris in "The Office's" Diwali episode) has resorted to the same easy tokenization — a saturation of colors and an ostentatious amount of gold, with little regard for the detail that comes out of the country's generational craftsmanship.

However, India's luxury textiles segment today is far from this. One may have expected that the late '90s and early 2000s would have seen an influx of Western luxury brands with a similarly patronizing approach to creating for the Indian populace. Instead, India saw the emergence of homegrown luxury textile brands such as Good Earth, D'Decor, and Sabyasachi. These brands are able to combine their Indian aesthetic with premium quality and highly effective marketing to cater to India's growing middle and upper class.

What is behind this sudden emergence of local luxury brands over the past decade? We must turn our attention towards both demand side and supply side forces.

One critical factor is the rise in spending power of the Indian middle and upper class. As McKinsey & Company aptly pointed out in their 2007 article "Next Big Spenders: India's Middle Class," the liberalization of the Indian economy in the 1990s generated a wave of "upwardly mobile middle class households, consuming goods ranging from high-end cars to designer clothing." To paint the picture, consider high-earning professionals, business managers, rich farmers, and senior government officials. At the time, McKinsey was already predicting the middle class to increase from 50 million to 583 million by 2025, with an 11-fold increase in earning power predicted to go up to $1.1 billion. The discretionary spending power had already translated into consumers becoming brand conscious.

But are there other psychological forces impacting consumer behavior? And are these factors promoting the growth of homegrown brands, rather than pushing the new middle/upper middle class to shop from Western brands? We think so. Given the fact that this new middle class was a generation removed from British rule and colonialism, there is a possibility that a modern Indian consumer emerged who appreciates the sophistication, taste, and craftsmanship delivered by high-end, homegrown brands. The memory of a saturated Indian craft under the British Raj (such as the Veda food example) has faded against a newfound appreciation of a culture that can be maximal, without being brash, that can be Indian and still clean-cut. Our own culture is no longer looked down upon as a tokenization of how the Western world perceived us, but rather as a symbol of pride. To evidence this, consider how brand names have changed over the last few decades. In the '90s and 2000s, luxury Indian brands had to call themselves Hidesign and Louis Phillipe — names that decisively denote Europeans. Today, it is possible to call yourself Kama Ayurveda or FabIndia and, arguably, position yourself as an even more premium brand.

Not just the names, but a lot of design styles of these domestic brands are also clearly Indian. For example, Anita Lal, founder of Good Earth, explained in an interview with Architectural Digest that her company's work draws significantly from the Silk Route. She said, "It represents the evolution of our entire global civilization." Good Earth's Farah Baksh collection was inspired by Kashmiri craft, their lamps and silks picked from Samarkand, Uzbekistan, and their recent collection with chilies paid homage to India's rich spice heritage. When Lal started Good Earth's first store in 1996 in Mumbai's quaint Kemps Corner neighborhood, we doubt that she would have foreseen her designs as what is now synonymous with modern India. Brands like FabIndia and Forest Essentials have had similar design positioning strategies.

Defining Indian Luxury

We see that the modern Indian consumer's behavioral needs and wants have shifted, but what about the supply side? There are cases of Indian companies that have tapped largely unorganized and unbranded markets to generate sales in the mass-premium segment. Take D'décor, a producer of premium curtains, upholstery, and bedding, as an example. Prior to 2008, the company had a lot of success in export markets. Experience serving Europe grounded their understanding of quality and design standards, and they brought this expertise to create with high aesthetic to the Indian consumer. Arvind Mills, a textile manufacturer turned denim apparel producer, is another great example of a local firm recognizing the nascent power of brands and the need to move up the value chain (i.e., control the final product) to exercise this power. Sanjay Lalbhai, who is chairman and managing director of Arvind Mills, reinforced this during his interview with Wharton professor Sudev Sheth. He said, "I started realizing in the '90s that the most rewarding thing would be to make the final apparel and brand it because branding gives you that pricing power. Branding differentiates. And once you build a brand, you can command a pricing vis-à-vis the commodity."

> "There are cases of Indian companies that have tapped largely unorganized and unbranded markets to generate sales in the mass-premium segment."

We also see cases of companies that are working to capture market share from Indians who have traditionally spent their money abroad for something branded. For example, Forest Essentials' founder Mira Kulkarni said in an interview with Vogue India: "The brand's success stems from the idea for a single soap—or, more accurately, from the observation that, in the early 2000s, most Indians who could afford it were importing luxury soaps from abroad. The basic ingredients were cold-pressed oil and ghee. I always wondered why we weren't making that quality of soap in India." Similar models are at play in the strategy of companies like Good Earth and FabIndia.

Recognizing the power of a brand is just one step. Marketing and building it in a way to prime the modern Indian consumer is where the rubber hits the road. This is one area that successful Indian luxury/premium brands have nailed using different strategies. Premium brands D' Decor and Manyawar have relied heavily on mass marketing. According to Armaan Arora, a manager at D' Decor and son of founder Ajay Arora, "Cricket and Bollywood are what works in India." The use of brand ambassadors who are either celebrated cricketers or famous actors instantly boosts brand awareness. And he's right. Many advertising campaigns have gone viral due to the celebrity endorsement. One of D' Decor's most successful campaigns featured Bollywood superstar Shahrukh Khan and his wife, Gauri Khan. And Manyawar brought cricket and Bollywood together when it signed famed actress Anushka Sharma and her husband, Virat Kohli, who was captain of India's cricket team. Over time, marketing spend has conveyed the message of great design, high durability, and great hand-feel for certain brands into the consumer's mind. "A lot of D' Decor's sales now come from word-of-mouth marketing, because our customer base is loyal," Arora said.

On the other hand, brands such as Good Earth have relied more on a niche marketing approach. Deepshika Khanna, Good Earth's creative director, recently launched the new FLOW line and dressed up artists, architects and historians in this range, creating branding that was aspirational yet authentic. Although luxury brands like Good Earth and Sabyasachi have also used celebrity endorsements, this has been more via working with celebrity stylists to have them dress their clients in Good Earth on a casual airport morning or in Sabyasachi at their wedding. Anushka Sharma is a classic example. She dressed in a lot of Manyavar wedding apparel for endorsement, but when it came to her own wedding she donned an exquisite baby-pink Sabyasachi lehenga. This approach creates a significantly stronger premium positioning than a TV advertisement in which the celebrity is overtly compensated.

Building a Luxury Indian Brand

From a business perspective, another question comes to mind. What is the capital expenditure required to build such a brand in India? More easily said, how much money does it take to make your brand nationally recognizable? Although a single figure is hard to provide, it is worth noting that most brands did not start in the retail luxury/mass premium space in India. D'Decor and Arvind Mills had strong export businesses and Forest Essentials ran a B2B business creating cosmetics for luxury hotels. Good Earth ventured straight into retail, but was backed by the Lal family, owners of the multibillion-dollar Eicher group. Not only were they financially strong, but they knew how to do experiential marketing. Eicher's signature product — the Royal Enfield Bullet — has been a long-time favorite of biking connoisseurs not just for its quality but also because it pulls the consumer into a community of biking enthusiasts. This expertise was obvious in how much time Good Earth spent on providing a strong retail experience, creating stores that looked, felt, and even smelled uniquely Indian; however, unlike the paneer makhani at Veda, the stores were far from simplistic. Thus, all of these companies had the financial backing and expertise to support marketing, branding and product creation, while drawing Indian consumers.

How did these brands manage distribution? This can be particularly messy for brands competing with unorganized players whose local presence gives them low last-mile delivery costs. D' Decor completely innovated this process in the home textiles industry. Earlier, retailers used to maintain inventory of different rolls of curtain/upholstery fabric. When a customer placed an order, the retailer would send a local tailor to take measurements and create the product. D'Decor created detailed sampling books for retail stores, maintained all inventory at central warehouses, and used data to optimize inventory costs. When a retailer sourced an order, D'Decor sent one of their trained tailors to take measurements. This system lured in retailers because their inventory holding costs dropped significantly and working capital expanded, and it kept customers happy with a standardized experience.

A final question that must be asked: How has this rise in Indian brands penetrated down to craftspeople who are the creators of the designs that these brands have built their identities on? Good Earth is known to do a great job of this. Founder Anita Lal has long advocated for better treatment and wages for craftspeople. A Mint article stated that a famous quirk of Good Earth's 78,000 square-feet factory is music that is a constant companion for all workers. Tunes from Indian veterans such as Asha Bhosale to Lal's personal favorite, Elvis Presley, are played and workers often sing along. In addition, 85% of Good Earth's 180-person team is women. Lal and her daughter, Simran, who is Good Earth's CEO, said they are committed to creating a work space where women can thrive, and the result is negligible attrition.

However, this commitment to workers and craftspeople rights is not the case everywhere. Sabyasachi's 2021 collaboration with H&M came under severe criticism for appropriating designs owned by Indian craftspeople without any financial remuneration or even explicit credit. A letter signed by over 14 major crafts organizations and published by Dastakaari Haath stated, "The publicity material implies that the range is connected with Indian craft. However, the range is not made by Indian artisans and with no visible benefit to them…imagine the sheer potential of this story had it only said, 'Handmade in India', supporting millions of jobs, equity and sustainable growth in communities that need it the most." As Indian brands expand both domestically and globally, there remains an important question of whether the wealth generated from sales will uplift communities, or whether the companies will continue the British-era patronization practices, effectively making them modern colonists.

The Future of India's Luxury Market

The rise in the Indian consumers' purchasing power coupled with the marketing/category creation efforts undertaken by these companies have created a luxury textiles sector in India. Smaller brands are now able to launch with lower capital expenditures in part due to social media, but more importantly, due to the market being primed for them. Good Earth is tapping into this opportunity by becoming a platform for smaller brands, such as popular linen sari company Anavila. The brand's founder, Anavila Misra, said they picked Good Earth as a distribution partner because the firm shared their "vision for slow and mindful design." Even in the home textiles industry, brands like Ito and Sarita Handa are catering to niche markets that may be smaller in size to D'Decor's national market but certainly ready to pay the premium. In addition, global brands are starting to see the demand for the Indian aesthetic — an obvious example is the previously mentioned H&M and Sabyasachi collaboration. One recent collaboration that was handled more skillfully was an invitation by French fashion-house Chloe to Indian artist Rithika Merchant, who was asked to adapt her art for the spring-summer collection. What emerged was, as Merchant said, "a collection with incredible statement pieces, where I was offered artistic freedom."

We do believe that the next stage of growth for already established Indian brands will come from establishing themselves overseas. And the time seems right for this. Anita Lal was just named Christie's first Indian tastemaker, bringing Good Earth products to collectors and influencers globally. Estee Lauder picked up a stake in Forest Essentials, posing the brand to be available in Sephora stores globally. And Arvind Mills has decided to move up the value chain from a manufacturer to a brand. There is a long way to go before the consumers of Veda and "Bridgerton" will regard Indian goods as luxuries on par with their European counterparts, but these are certainly steps in the right direction.

This article was written by Maithili Appalwar, Aana Bansal, and Rukun Goel, members of the Lauder Class of 2024.

Bay vs. Berlin: A Tale of Two Startup Ecosystems

Silicon Valley is synonymous with the startup revolution, but Europe also stakes a claim to startup success. This article examines the similarities and differences between the two regions and why American investors tend to crowd out their European counterparts.

Silicon Valley is frequently touted as the cradle of disruption, home to technology startups such as Uber and AirBnB that disrupted industries with novel products and new business models. A brief look at the list of the most highly valued tech unicorns leaves no doubt that more product and business model innovations emerge in the United States than in Europe. The U.S.-based companies (e.g., Stripe, SpaceX, Instacart) dominate the list and record much higher valuations than their European counterparts (e.g., Klarna, Revolut).

> "Few in the industry would disagree with the fact that Silicon Valley remains the world's biggest startup hub."

Although it might not be reflected in these leaderboards, Europe is also home to thriving entrepreneurial ecosystems that share an ambition to be fertile soil for innovation. Through our research and conversations with over 10 executives and founders in the Bay area and Berlin, we observed that key ecosystem players in both regions evaluate startups based on largely the same set of criteria, yet the startups in these regions have strikingly different characteristics. We therefore wondered why European startups are not rivaling U.S. ones in product and business model innovations if, on the surface, investors across the two ecosystems are prioritizing such similar things. In this article, we attempt to provide possible answers by comparing the startup ecosystems in Silicon Valley, the cradle of tech startups in North America, and Berlin, its European equivalent.

"If you're going to take bold bets, they're going to be experiments." This quote from Jeff Bezos, executive chairman of Amazon, exemplifies the culture of Silicon Valley. Since the 1950s, the Bay has been incessantly innovating. Silicon Valley is also the place where pioneers proved the concept of venture capital (VC), as leading firms Sequoia and Kleiner Perkins originated there. These VC firms invested in startups that are now valued at billions of dollars. Sequoia made early-stage investments in Apple, YouTube, and Whatsapp; Kleiner Perkins made early-stage investments in Google, Beyond Meat, and Figma, which was sold for $20 billion to Adobe last year.

Few in the industry would disagree with the fact that Silicon Valley remains the world's biggest startup hub. When we spoke with James Chen, CEO of Zoltar Labs and member of Y Combinator's Class of 2022, he shared that the Bay has an unmatched culture of innovation. According to the Startup Genome's Global Startup Ecosystem Report 2022, Silicon Valley's share of early-stage investment by dollar amount was 13% of the global total in 2021, significantly larger than any other startup ecosystem. Furthermore, the total VC funding in Silicon Valley from 2017-2021 was $247 billion, 55 times larger than the global average of $4.5 billion for other ecosystems around the world.

However, Berlin's startup scene has also been rising through the past decade and is one of the hottest startup ecosystems in Europe. Delivery giants like Delivery Hero and FoodPanda were both founded in Berlin. "I want to make Germany a founding republic," Finance Minister Christian Lindner said in a statement this year. In July 2022, Germany pledged €30 billion of funding to bolster its startup ecosystem. Rocket Internet, one of

Germany's most notable incubators and venture capital firms founded in 2007, has exited the online retailer Zalando and the largest meal-kit provider, HelloFresh, which currently have a market capitalization of €6 billion and €4 billion, respectively. Some sub-segments such as health tech are also flourishing in Germany. During our interview with Mattia Caruson, co-founder and CEO of Mama Health, a Berlin-based digital health platform for chronic diseases, he shared his respect for Silicon Valley's scale and history, but he noted that Berlin is the preferred base for his startup due to proximity to the target customer group and health tech expertise.

Startup Genome, an annual report on global startup activity, shared that, as of the end of 2021, Berlin's total early-stage funding was $3.5 billion, seven times less than Silicon Valley's funding of $25 billion, but was five times larger than the global average funding of $687 million. Startup Genome also ranked Berlin at No. 16 compared with Silicon Valley at No. 1 in 2022. The rankings for both hubs had been relatively stable through the years, with Berlin ranked No. 15 and Silicon Valley No. 1 in 2012.

Who Gets the Money: Investment Criteria

Not all aspiring entrepreneurs will gain access to funding from VCs. Indeed, the chances of securing funding are low. Research conducted by Paul Gompers et al., who surveyed about 900 venture capitalists, revealed that a VC firm on average considers more than 100 opportunities for each deal that the firm closes. As there are many more potential opportunities than VCs eventually fund, what factors do VCs in each ecosystem consider when selecting a startup?

Given the differences in startups coming from Berlin and Silicon Valley, the authors hypothesized that the selection criteria used to invest in startups would vary between the two regions. However, research and conversations with members of both ecosystems tell the opposite story.

The same research found that 95% of VC firms cited founders as the most important factor in making decisions to pursue an opportunity. "We live and die by our founders," successful American VC investor Peter Thiel said in an interview. Masayoshi Son, founder of the groundbreaking $100 billion Softbank Vision fund, struck a similar tone when saying, "I don't look for companies. I look for founders." Other important factors include the business model, which was cited by 74% of firms, and the market, which was cited by 68%.

Interviews conducted by the authors confirmed that investors from both regions consider the founding team the most important investment criteria. "Early-stage companies don't need to find the best ideas to start with. You just need to have a good enough product idea and business model and pivot on that basis. However, the pivot needs a good team to figure it out," said Charles Bai, co-founder and chief technology officer of Paces, which was selected to join Silicon Valley's leading startup accelerator Y Combinator's Class of 2022.

Similarly, German VC investor Rocket Internet also ranked the founding team as the top consideration. "It is mostly about the founder. We can't easily swap the top person," said Lukasz Pajak, a founder of stealth startup and entrepreneur-in-residence at Flash Ventures, a Rocket Internet venture capital subsidiary.

What Drives the Different Outcomes?

Most participants of these two startup ecosystems would agree that the investment criteria among early-stage VC firms or leading tech incubators/accelerators do not vary materially between the U.S. and Europe — founding team, product, business model, and ability to execute/pivot were the usual suspects. However, we uncovered four main drivers behind the divergence in ecosystem outcomes when it comes to size, growth, and attractiveness to additional founders: (1) profile of limited partners (LPs) of VC funds; (2) professional background of VC investors; (3) size of the domestic market; (4) maturity of startup ecosystem and PE & VC industry.

1. Profile of LPs

Pension funds are the foundations of the American financial system. They are large asset managers with long investment horizons and portfolios diversified across multiple asset classes (e.g., treasury/corporate bonds, currencies, stocks, private equity, venture capital). As "patient capital" providers, they are willing to accept higher risk on a fraction of their portfolio (8.9% in 2021) allocated to private equity funds, making bets on risky privately held companies. In 2021, pension funds constituted the main LP category accounting for about 20% of the capital raised by the U.S. VC funds, according to data from Preqin.

In contrast, European pension funds accounted for about 3% of the European funds in 2021, according to InvestEurope. The other LPs included European Investment Bank, insurance companies, and government agencies — more traditional and conservative asset managers without a track record of investments in technology ventures. In Germany, some of the traditional, family-run *Mittelstand* companies act as LPs or launch their corporate VC arms. Nonetheless, they often subscribe to a "spend it like it's yours" mantra, preferring startups working on incremental product improvements rather than more risky breakthrough inventions. Conservative LPs make conservative GPs (general partners). As Pajak from Flash Ventures said, "European VCs are risk averse, partially because of the pressure from their LPs —insurance companies or government agencies which would rather not invest in moonshots".

> "The sheer size and maturity of the U.S. startup ecosystem and alternative investment industry fuels the difference in outcomes."

2. Professional background of VC investors

A non-trivial source of differences between U.S. and Germany is the typical professional background of the investors backing early-stage projects. GPs at American VC firms are famously accomplished serial entrepreneurs who "went bankrupt two times and sold their third startup to Cisco for $500 million," according to one Y Combinator founder. Having experienced the ups and downs of the entrepreneurial journey, they "walk the talk," can relate to challenges that founders face, and are taken more seriously by people who receive their money.

In contrast, one Berlin-based entrepreneur highlighted that "an average European VC did five years of investment banking at Morgan Stanley and was a CFO at an ecommerce platform for two years just before their IPO." Only 10% of European GPs have, in fact, received STEM education, according to Crunchbase. Their finance background may explain why venture capitalists in Berlin require considerably higher profitability visibility in their investments.

The authors believe that the "serial-entrepreneur type" seen more frequently in the U.S. is usually much more risk-seeking and open to testing an unproven product or business model than the European prototypical "banker type" that expects a five-year EBITDA model just after a company's inception.

3. Domestic market size

With a population of 330 million people, 32 million registered enterprises, and $21 trillion in GDP in 2020, the United States constitutes a market that is roughly the same size as the whole of the European Union, according to figures from the Worldbank. However, the U.S. is far more homogenous in terms of language, administration, and legal systems when compared to the EU. As such, American entrepreneurs have the privilege of staying laser focused on product development, postponing efforts around international expansion, localized products, and distribution channel adjustments or trivial but time-consuming product website and manual translations for later stages.

By comparison, startups originating in Europe, especially smaller markets such as the Nordics, must be "global from day one," which increases the complexity of go-to-market strategy and detracts founders' attention from the product itself. As a result, "New product ideas in the tech world usually originate in the U.S or China. Europe follows and the rest of the world is most often the late adopter," said Victor Huerbe, an investment professional at Flash Ventures.

4. Maturity of ecosystem and VC & PE industry

Finally, the sheer size and maturity of the U.S. startup ecosystem and alternative investment industry fuels the difference in outcomes. Even though the European startup ecosystem grew rapidly over the last decade, it remains a fraction of the American one, measured by the number of financing rounds, the number of exits, and VC capital raised. Average VC fund size amounts to about $200 million in the U.S., compared with about $80 million in Europe, according to Pitchbook.

The size difference between funds creates a vicious cycle that negatively affects the European ecosystem — American funds are larger and sit on more "dry powder" (committed but unallocated capital, unspent cash for investments), hence have higher pressure to deploy capital. This enables American investors to agree to higher startup valuations and more entrepreneur-friendly term sheets. European entrepreneurs seeking funding therefore prefer American investors over the local ones given that the American investors can offer them higher valuations, access to more lucrative potential business partners, and higher investor prestige.

All in all, crowding out by the American investors strips European investors from the opportunity to be part of unicorn success stories (e.g., Sweden-based Klarna was backed by predominantly U.S. and Chinese investors since its Series B) and further decreases their competitive edge. Since the U.S. VC funds sit on a lion's share of $560 billion in the global dry powder, according to Pitchbook, this "crowding out" scheme has gained momentum in recent years.

Implications: What's an Entrepreneur to Do?

Summing up, the differences in size, growth and innovation profile of the leading U.S. and European startup ecosystems, Silicon Valley and Berlin, are both unquestionable and significant. The selection criteria employed by most of the leading startup funding providers — incubators, accelerators, and VC firms — on both sides of the Atlantic are quite similar (founding team, product, business model, ability to execute/pivot), thus don't explain that difference. The differentiating factors appear to be predominantly institutional, i.e., characteristics of LPs and GPs as well as underlying financial systems, risk appetite, and legal framework for investments in private companies.

The mandates of pension funds, geographical preferences of global asset managers, or corporate appetite for new technology applications are the underlying drivers of this divergence. All of them are relatively sticky and subject to slow evolution rather than radical change. For these reasons, the U.S. ecosystems will likely maintain their appeal and competitive advantage over European ones in attracting innovative early-stage companies seeking capital to develop and scale up.

Despite these clear benefits of the U.S. ecosystems, the authors found out that 30% of the interviewed young entrepreneurs, having the option between U.S. and Europe, still chose the latter. Remote work has become prevalent, especially in the tech world, so startups no longer must crowd the Bay area to gain access to VCs and talent. Additionally, in some specific tech segments, such as B2C health tech, network effects may make European hubs preferable.

All things considered, starting out in Silicon Valley or at least maintaining a foothold in the U.S. for fundraising and expanding operations in North America is often a preferred mode for aspiring tech unicorns. The gap between the American and European startup ecosystems is driven by differences in legal and financial systems, which are unlikely to radically change in the foreseeable future. Nonetheless, a critical mass of tech innovators originating in the Old Continent could encourage the policy makers to take a step in the right direction and support the young entrepreneurs beyond providing capital.

This article was written by Tom Ng, Wenjia You, Masaki Goto, Anna Breu, and Piotr Dziadosz, members of the Lauder Class of 2024.

Private Investment in Latin American Football: Game Changer or Goal?

Investors and investor groups are buying up football clubs across Europe, fueling a frenzy of private ownership. This article explains why the trend has been slower to catch on in Latin America, where money, politics, and culture influence one of the region's biggest pastimes.

Football is the most popular sport in Latin America. For Latin Americans, football is a critical social bond that unites nations and people under one banner. In historian Joshua Nadel's "Fútbol! Why soccer matters in Latin America," he argues that football is embedded both in the regional identity of the population and the continent's history. Football is a foundation of popular culture and helps explain Latin America's social development and civic pride.

> "Just as the British brought the beautiful game to the South American continent, they too have spurred the spread of a new ownership model."

In recent years, football has developed into one of the world's most prominent industries. It has transcended sport to become an economic activity that attracts the masses and creates adjacent activities, including tourism, that impact national economic growth. One of the main changes that football has been experiencing in the past 30 years is in regard to trends around types of ownership. All over the world, starting in England, football clubs have been changing ownership structures, preferring the private ownership of wealthy individuals, corporations, or professional investors over associate ownership, where elected members of the fan base drive club decision-making. Recently, this change also appeared in Latin America, and more private investors are interested in entering the football industry. This dramatic shift in ownership structure has led many experts to ask: What in the history of Latin American football has led to these ownership changes? How successful have they been in driving excellence both on and off the pitch? And finally, how do experts expect Latin American football to respond? Will the region welcome the change, push back against it, or some combination of the two?

Virginia Tech language professor Patrick Ridge outlines in his article titled "Football in Latin America" (2022) that football was introduced to Latin America in the second half of the 19th century by expatriates who had settled in different port cities for work. The game flourished first in Argentina and Brazil then quickly spread to major urban centers across the region. Initially, the game was played primarily in social clubs, which led to the ownership of many major Latin American football clubs being in the hands of the members of these clubs. This is prevalent today across the region, with famous examples being River Plate and Boca Juniors in Argentina and Santos in Brazil. Members of the club vote for the president, who in turn hires staff to administer not only the football clubs but also the other activities of the social clubs. After speaking with several experts, including club administrators, former league officials, and current club employees, it is clear that some feel that this is not the best way to run football clubs, and there are some who consider this ownership model core to their view of the sport.

Greenfield Opportunities: Growing Investment in LatAm Football

Since the widespread popularization of football, many football clubs have grown to have global fan bases, billion-dollar valuations, and even immense political power. Latin American football clubs are no exception, with Brazilian club Flamengo being worth as much as $164 million, according to Statista data published by Ana M. López. This success has led to interest from professional investors in the world of football. Just as the British brought the beautiful game to the South

American continent, they too have spurred the spread of a new ownership model. The new ownership model gaining traction primarily consists of the buyout of a football club by a private and professional investor. Private money has been a significant factor in the development of football for the entirety of its history, with wealthy individuals spending heavily to have their favorite teams buy the best players and win the most prestigious trophies. Prominent examples of this in Europe are Silvio Berlusconi buying A.C. Milan, and the Agnelli family buying Juventus in Italy, helping both to decades of success, and Roman Abrahmovic with Chelsea FC in London, helping The Blues create a brand worth almost a billion dollars, according to Statista. The new factor in private money in global football is the entrance of professional management. Whereas private owners used to see football clubs as a passion project or a new toy, these new investors are looking for an economic return in some shape or form. Whether the investors are sovereign wealth funds, private equity funds, or creditors administering a club in default, Latin American fans have genuine fears about whether hard capitalism is good for the game.

According to Juan Matute, ex-CEO of the Peruvian Football Federation from 2015 to 2019, this ownership model affects the industry itself, the football system, and the sociopolitical and economic development of a country. The football industry has a competitive advantage over the owners in that numerous national leagues have autonomy and a monopoly in terms of administration and media rights. This means that, according to Matute, “Every country is the only owner of football in their country, so there is an entry barrier in the market that cannot be avoided.” This special characteristic in the football industry attracts private investors who see a defensible moat that promises a stream of television rights income.

Furthermore, investing in a football club gives the investor three main benefits. First, it gives them a better reputation. Matute said football clubs have big fan bases, which gives owners the arena to make themselves known and gain a good reputation from games and good football performance. Second, investors gain influence by allowing socialization during football and have the advantage of being able to invite people to social football events and games, where they can talk about business. Third, owning a football club leads consumers to the brands of the investors, as fans want to be closer to their favorite players and thus acquire the brands of the club’s owner.

An interesting example of a football club purchased by private investors is Manchester City, based in the United Kingdom. This club was partially bought by the Abu Dhabi United Group with the idea of creating a positive image of the United Arab Emirates, according to Matute. Additionally, the UAE’s national airline, Etihad, sponsors the team. Consequently, more fans now think more highly of Abu Dhabi and buy plane tickets with Etihad to feel closer to the team they support to indicate their gratitude toward the ownership. The cultural, sporting, and economic success of clubs like Manchester City has turned the eyes of investors to other accessible but high-profile acquisition targets beyond Europe.

In the case of Latin America, the Mexican League also has many football clubs owned by private investors. For example, the Mexican club Necaxa accepted 50% of investments from a foreign group in 2021. The strategic objective of this group is to improve the performance of the players and launch Necaxa to the first division, making them more recognizable, expanding their fanbase, and creating a business out of football, according to Matute.

However, it has been difficult in other countries of Latin America to promote private investment in football clubs. According to Kaleon Lau, executive director at BTG Pactual, there is not much initiative in the private equity industry to invest in football because the fan base is relatively small compared to Europe, so the main revenue from football clubs (merchandising, stadium tickets, sponsorships) is smaller. It is also difficult to retain professional players, as other clubs in Europe or Asia pay better. Additionally, Juan Cascio, head of partnerships and innovation at River Plate, explained how Argentine football clubs are usually part of social clubs, and by law, they cannot be owned by private investors. This imposes an entry barrier in the football industry in Argentina that is hard to change. Besides, even though economically it is more beneficial to change ownership to a private investor, cultural differences in Argentina promote the ownership of football clubs by many associates, as they believe that social clubs are a way to support the low-income population and that private ownership goes against Peronism, an Argentinian political movement that blends nationalism and populism. Even in markets where purchases are difficult, other national brands like Turkish Airlines (an Etihad competitor) have entered the market through sponsorship deals with top clubs like Argentina's River Plate, affirming the attractiveness of affiliation with Latin America's best football brands.

> "Despite the apparent rewards, private investment has yet to take off in Latin America as it has in Europe."

Rough Waters: Enduring Barriers to Investment

Despite the growing interest in investing in Latin American football, key macro barriers remain. Chief among them is the *riesgo pais* or systemic national risk in the form of corruption, political instability, and criminal danger that characterizes several regional countries. According to Matute, the interventionist nature of governments means "increases the risk of private equity investing in Latin America, especially in football." Fernando Farah, a member of the Fondo Blanquiazul fund, also takes this perspective, pointing to the tendency of football to be politicized in LatAm countries, which "does not make performance efficient" on the business side. This is a trend across the globe in developing economies, as highlighted by studies done in Iran where investors and industry experts were asked to rank the barriers preventing them from privately investing in sports clubs. The highest ranked issues were "lack of economic safety" and "proper financial systems" on the club or region's end. Along with that, the strong attachment of fan bases to the clubs means that they are willing to go to greater lengths to preserve ownership or, in the case of private ownership, critique the owners if anything goes awry.

From a different lens, private football club ownership is not always beneficial to either party. In Latin America, many clubs simply do not have large enough fan bases, and thus the clubs' income flows are not significantly incremental for investors. To exemplify this, we can compare the following of Brazil and Argentina's most popular teams to Europe's most popular teams, which capture broader international audiences. Flamengo and Boca Jrs., according to CONMEBOL, have approximately 35 and 16.5 million followers, while Europe's 10th most popular team, Arsenal, has 76 million followers. Given that large indicator of positive financial outcomes for owners is fan engagement, starting with a small foundation is bound to limit the output a club can have. Furthermore, if the team underperforms, this could generate a negative association for investors, even if the reasoning behind the underperformance is only partially related to their involvement.

Notwithstanding the risks that private equity and professional ownership bring to the football business, there are some examples where professional administrators have dragged clubs and fan bases from the brink of despair. One example of that is with Alianza Lima, one of Peru's "big three" football clubs. In May of 2019, the Fondo Blanquiazul, a vehicle created by a collection of Peruvian investors, bought about $8.8 million of Alianza Lima's outstanding and delinquent debt, according to an article written in Depor.com in June 2019. This allowed the fund to become the official administrator of the football team until at least 2032. Though the fund got off to a rocky start with Alianza nearly being relegated to the second division in the first year of administration, the ownership turned it around, leading Alianza to their first title in four years. When we asked Fernando Farah if the recent success warranted a complete purchase of the club, he reminded us of the strength and value that the *socios* (fee-paying superfans) and members of the club bring to the table. Alianza Lima is routinely voted one of the most popular clubs in Latin America, and with that comes a significant amount of responsibility toward the fans. Though the fund has been granted the privilege of administering and bringing financial stability to what to many is a sacred club, Farah made it clear that a large part of the social stability of the club comes from the membership model.

Despite the apparent rewards, private investment has yet to take off in Latin America as it has in Europe. Matute opines that there is a first-mover issue at foot: The root cause of lack of investment is a lack of trust in the political systems in Latin America, even though the potential financial and reputational upside is significant for investors. To catalyze Latin America's very own wave of investment, Matute reckons, the region needs to solicit additional credible investors to create a chain reaction of investment. This is especially salient in countries like Brazil, which have vibrant economies, large clubs, and regulatory environments that support private investment. Latin America poses unique risks as well as special opportunities for the prudent sports investor. Time will tell if this fast break trend will be caught offside or buried in the back of the net.

This article was written by Graham Anderson, Alexander Brewster, Maesoumeh Mohammadkhani, and Rafaela Tord, members of the Lauder Class of 2024.

World War Wheat: The Effect of the Russia-Ukraine War on Argentinian Agriculture

The war between Russia and Ukraine is a more than an ocean away from Argentina, yet the conflict is deeply impacting the Latin American nation's economy. This article maps the winding road that leads from Argentina's prosperous economic past to its troubling present, and why the war matters.

Often analogized to the American cowboy, the gaucho is the archetypal symbol of Argentina's vast interior. Combining elements of the cultures of both European colonizers and Argentinian indigenous groups, the gaucho has featured prominently in debates about Argentina's national identity. But regardless of whether one views the gaucho as a heroic redeemer or a violent brute, the figure's combination of European and indigenous features is a reminder that the Argentinian countryside is fundamentally linked to Europe.

Of course, Argentina looks far different today than it did during the gaucho's peak. At the turn of the 20th century, Argentina's expertise in cattle rearing and crop production made the country one of the wealthiest in the world. Today, however, it is soybean and corn products that lead Argentina's agricultural sector, and producers must contend with a macroeconomic landscape that Reuters has described as an "economic crisis whack-a-mole."

"Argentina is no stranger to inflation consuming the wages of its citizenry."

One thing, however, has not changed: the persistent linkages between Argentinian agriculture and Europe. To view the veracity of this statement, one must look no further than the ongoing Russia-Ukraine War. While thousands of miles lie between Argentina and the fighting in Ukraine, the war has had a substantial effect on Argentinian agriculture, and some of these changes may be partially responsible for Argentina's ongoing inflation crisis.

Bolstered by the COVID-19 pandemic, surging demand, and the Russia-Ukraine War's effects on supply chains, 2022 saw inflation emerge as a worldwide problem. But almost nowhere have the effects been as profound as in Argentina. In the first half of 2022, only Turkey saw its currency decline in value against the U.S. dollar more than Argentina did. Over a three-day period in July alone, the unofficial exchange rate skyrocketed from 291 Argentinian pesos to the dollar to a staggering 337.

A History of Crisis

Argentina is no stranger to inflation consuming the wages of its citizenry. The country, with a GDP of roughly $490 billion, has one of the largest economies in South America, but it has become all too accustomed to crippling economic crises. Most famously, an economic depression lasting from 1998 to 2002 saw the country's economy shrink by an astounding 28%, and Argentina has experienced nine state bankruptcies in recent memory. These persistent economic crises have contributed to Argentina's various currencies experiencing 215.4% annual average inflation from 1980 to 2019. Indeed, inflation has been the one constant throughout frequent changes in Argentinian leadership, steadily increasing under both liberal and conservative governments.

While Argentina is the site of a longstanding debate over who is to blame for its grim economic circumstances, many have cast the blame elsewhere, pointing the finger at the International Monetary Fund. The Argentinian government takes out substantial loans from the IMF, a practice that began as early as 1956. When the national economic situation reached its nadir in 2001, the IMF imposed repayment conditions that many Argentinians believe solidified the sense of crisis plaguing the economy. Others, however, have blamed the Argentinian government itself, which maintains one of the largest welfare systems outside of the developed world. The Argentinian government provides massive subsidies in areas ranging from public transportation to consumer utilities, and from 2009 to 2017, the state even funded free transmission of soccer games through its "*Fútbol para todos*" ("Soccer for everyone") program. Research from Carlos Gervasoni, political science professor at the Universidad Torcuato Di Tella in Buenos Aires underscores that Argentinians typically spend less than $5 per month on electricity due to government subsidies, whereas Germans, for instance, usually spend over $270. These generous subsidy programs are quite costly, and the Argentinian government uses export taxes to finance them.

Given the important role of soybean, wheat, and corn in Argentina's economy, as well as the fact that the country has a 37% poverty rate, Argentina is uniquely vulnerable to agricultural price shocks. When the Russia-Ukraine War began in February of 2022, this vulnerability revealed itself almost instantly.

A War with Immediate Consequences

Although the United States warned of the imminent Russian invasion of Ukraine in the weeks preceding the war, the attack still took much of the world by surprise. According to Nicolas Merener, associate professor at the School of Business of the Universidad Torcuato di Tella in Buenos Aires, Argentina's agricultural sector was no exception, and it was only when the war began that the industry witnessed the first major effect of the conflict: a rapid movement in commodity prices. Before the war, Ukraine was the world's third-largest exporter of corn and fifth-largest exporter of wheat, leading to a reputation as the "breadbasket of Europe," and Russia was likewise a crucial player in the grain industry. As Merener notes, however, the war brought with it a sense of widespread uncertainty, leading not only to a surge in corn and wheat prices—which he observed rose some 20% and 40%, respectively—but also to a surge in the prices of agricultural products that are less typical of Eastern Europe. Soy prices, for instance, rose approximately 10%, according to Merener.

While it is perhaps counterintuitive that the most significant price hike would be that of soy, the soy industry has proven itself to be somewhat of a lifeline for the Argentinian economy. In 2021, soybean products comprised 30% of Argentinian exports, providing the national government with some $9 billion in revenue. And in 2020, Argentina was the world's leading exporter of both soybean meal and soybean oil. Thus, when the war caused soy prices to rise, Argentina responded within weeks by briefly suspending soybean oil and flour exports, causing an estimated $10.4 million in losses.

"As a direct consequence of a conflict an ocean away, Argentina reverted to a trade policy that many assumed it had left behind years earlier."

Though short-lived, the export freeze arguably marks the most substantial interplay between the Russia-Ukraine War and Argentinian agricultural politics to date. Earlier protectionist policies have proven controversial in Argentina—particularly as applied to soy exports—with export tariffs and import restrictions meant to increase consumption of domestic goods ultimately having a deleterious economic effect. In fact, in an opinion piece for The New York Times, financial expert Michael Hasenstab wrote that these policies contributed to Argentina seeing its trade surplus replaced with a deficit between 2002 and 2015. With this historical background in mind, the government required a compelling justification to once again impose protectionist policies such as export freezes. And in the Russia-Ukraine War, the government found the impetus it needed. Therefore, as a direct consequence of a conflict an ocean away, Argentina reverted to a trade policy that many assumed it had left behind years earlier. And although Argentina is far from the only country to embrace protectionism in response to the war, it is plausible the political ramifications of these controversial export freezes will outlast the rise in prices, which Merener indicates have already stabilized, saying, "Prices for wheat and soy remain high, but are similar to the prices we saw prior to the conflict."

It is worth noting that part of the reason these negative externalities proved relatively short-lived is that, even though economic warfare has been a key feature of the war and Russia has been accused of manipulating the global food supply to its advantage, Argentina benefits from its geopolitical positioning. In light of fraying relations with the West, Russia views building alliances with Latin American countries as a strategic imperative for its foreign policy goals. According to Ecaterina Locoman, senior lecturer of International Studies at the University of Pennsylvania's Lauder Institute, maintaining strong ties with Latin American countries is a strategic imperative for Russia, providing the country with an incentive to avoid penalizing Argentina. "It is important for Russia to show that it still has strong allies around the world, which will lead to increasing cooperation with Latin America, particularly in its agricultural and energy support for countries such as Argentina," she said.

The Energy Market: A Parallel Crisis

Of course, there is more to the story than the shifts that occurred in the agricultural sector, and it is particularly notable that global oil and gas prices rose dramatically during the early months of the Russia-Ukraine War. In fact, according to Mitchell A. Orenstein, professor of Russian and East European Studies at the University of Pennsylvania, the war's effects on the agricultural sector have been relatively muted in comparison to the price shifts in the energy sector. These price hikes, which in part stemmed from the supply gaps caused by new sanctions on Russian oil exports, were sustained in the months since the initial attack on Ukraine. In the case of Argentina, which is home to the second-largest shale gas reserve in the world but is still working to raise its production levels, this crisis resulted in new political will not only to reach energy self-sufficiency, but also to become an energy exporter. Energy dependency has long been a topic of interest for Argentina, which imports energy seasonally to support high consumption levels throughout the frigid winter. These imports, which reach Argentinian citizens in the form of heavily subsidized energy, have become increasingly precarious due to the weakness of the Argentinian economy and the augmentation of prices in the wake of Russia's invasion of Ukraine. In September 2022, YPF, Argentina's state-owned energy company, reached a deal with Petronas, its Malaysian counterpart, to accelerate Argentina's participation in global energy production, leading to Argentinian President Alberto Fernández commenting that the energy crisis sparked by the Russia-Ukraine War "ironically, is a big opportunity for Argentina."

These innovations are particularly important in light of the headaches that energy price shocks have created for Argentinian agriculture. As Merener observes, increases in energy prices have caused corresponding rises in the costs of fertilizer, plastics, and transportation, all of which are essential to agricultural production. The rise in transportation costs is especially alarming, as delivery trucks represent Argentina's fifth-largest export. In addition, high fuel prices sparked several protests and blockages among the roads to Rosario, which is the central hub for 80% of the country's agricultural exports. However, if Argentina hopes to prove that a country with non-conventional carbon deposits can become a leading energy producer, it has strong precedent in the United States, whose "shale revolution" has transformed the country into the world's top producer of oil and gas.

A Conflict Unlike Any Before

In terms of its response to the Russia-Ukraine War, Argentina lacks a close contemporary parallel. Andres Borenstein, professor of economics at the Universidad Torcuato Di Tella, for instance, notes that the war has proven unique in both the scale of its effects and the complexity of those effects. And, as Merener points out, other major conflicts of the 21st century have largely occurred outside of the territory of leading players in the agricultural sector.

Indeed, to find a historical moment that is even somewhat comparable to the present one, one must look to World War I. In 1914—the heyday of the country's economic golden age—Argentina was the United Kingdom's largest supplier of beef. However, according to a 2005 article by Richard Perren in The Agricultural History Review, when World War I began that same year, British companies found themselves unable to make foreign payments at a time when South American shipping companies were raising their prices, resulting in patchwork solutions that caused the price of Argentinian beef to rise. And with demand remaining high, Argentinian farmers benefited from the price surge, though they grew angry when the war caused meat producers to temporarily lower their prices in 1917.

Argentina is no longer the economic powerhouse it once was, and the country also must contend with the effects of climate change. Drought-related conditions have amplified the effects of the Russia-Ukraine War, leading to delays in wheat and soy production. Still, the country's experience in World War I demonstrates that the unpredictable nature of war can cause a nation's fortunes to change rapidly. So, whatever the short-term effects of the war may be — not to mention the inherent uncertainty as to how the conflict will continue to interact with other domestic and global crises — the key question for Argentina will be how it plans to use this critical moment to create long-term change.

A Way Forward

No matter what happens on the battlefield, other macro trends suggest that global agricultural demand will continue to increase alongside rises in both population and income levels. As such, it is in Argentina's best interest to pursue economic reforms that will make its agricultural sector more productive.

While there is widespread disagreement within Argentina as to the legitimacy of protectionism, the value of IMF loans, and the sustainability of the welfare state, a majority of Argentinians view inflation as the country's most significant problem. Within the agricultural sector, inflation-related fears caused soy farmers to hoard their crops despite high international prices, a problem that only abated when the Argentinian government granted them an exchange rate more favorable than the artificially low one used to protect the Argentinian peso.

With the country's 2023 election approaching quickly, politicians must use their platform to encourage an open discussion of viable economic reforms and their likely consequences. In particular, Argentina should consider the possibility of extending the soy industry's favorable exchange rate to other producers, which could bolster the agricultural sector's productivity and increase the volume of Argentinian exports.

"For all the change that has occurred within Argentina's agricultural sector, the industry's centrality to Argentina has held true."

For all the change that has occurred within Argentina's agricultural sector, the industry's centrality to Argentina has held true. Granted, the country has come a long way from the days in which gauchos ruled the plains and beef exports offered robust economic security, but even during a time when nearly every facet of the Argentinian economy appears in flux, the connections between Argentinian agriculture and Europe have remained substantial. With Argentinians across the political spectrum demanding change, the question is whether these linkages can provide the economic transformation Argentina has been awaiting.

This article was written by Daniel Abraham, Lina Bauer, Colin Frederick, Ana Lopez, and Adam Stein, members of the Lauder Class of 2024.

Youth Unemployment in Sub-Saharan Africa: Necessary Changes for the Century Ahead

Unemployment is a chronic problem for young people across sub-Saharan Africa, and no country typifies that more than Senegal. This article outlines the scope of the problem and offers solutions that help give hope to future generations.

Africa is the world's youngest continent with nearly 200 million people between the ages of 15 and 24. In Dakar, the bustling capital of Senegal on the westernmost point of the continent, droves of young people roam the streets with hardly any senior citizens in sight. Compared to a global average of 30 years old, Senegal's median age is 18 years old, with more than 60% of its population under 25. With a fertility rate of 4.5 children per woman, more than double the global average, Senegal is expected to continue to have a bulging youth population for some time to come. While the bountiful youth represent a hopeful new generation of economic vitalization, they also lay bare structural problems that urgently need to be addressed to unlock economic prosperity. These problems are wide-reaching, extending from job creation to education access. As such, there is a pressing need to make structural changes in both the public and private sectors to curb the unemployment rate and ultimately usher in long-awaited strong and sustained economic growth.

> "Clandestine migration has become normalized in the Senegalese society and is ultimately an indictment of a system that has failed to untap a burgeoning demographic."

Senegal's economy, like that of many other African countries, is expanding. According to the World Bank, the country's GDP increased by 6.1% in 2021. However, economic growth has not resulted in more job opportunities for the younger generation. Despite the considerable progress over the past decade, Senegal's youth unemployment rate remains stubbornly high at 50.4% in 2021. This large unemployed population indicates a loss in the potential economic growth that the youth could contribute to, not only for their generation but also for future ones. Most importantly, it signals the country's difficulty in keeping pace with the labor supply, mostly through its limited job-creation capacity. With the Senegalese economy not creating nearly enough jobs to support the growing youth population, the country has not been poised to benefit economically from its youth.

The Informal Economy

Based on research by Ahmadou Aly Mbaye, professor of economics and public policies and rector of the Cheikh Anta Diop University of Dakar, only 6% of the working population is currently employed in the formal private sector and contributes tax revenue that funds public spending for the entire population of 17 million. At the same time, 79% of the working population is estimated to be in the informal economy. There are diverse roles within the informal economy: some are self-employed, some are employers, but the vast majority are precarious employees. Conditions that plague this demographic of informal workers include low pay, dangerous working conditions, limited access to financial services, and exclusion from social protections. Furthermore, of the population of informal workers, 50% earn less than the minimum wage of US$70 per month and functionally live in similar conditions as the unemployed. This ambiguity partly arises from a definitional challenge: Labor surveys classify individuals who have worked for at least an hour in the past week as employed workers, whereas in practice, these individuals are often still looking for work. This means that the true unemployment rate is over 50% of the labor force, well higher than the official rate of 24% and indicative of the true scale of the structural economic issues, a key finding of professor Mbaye's research.

In 10 years' time, more than 500,000 people are expected to reach working age and enter the labor force each year. That is roughly the same number as the current count of formal private sector jobs across Senegal. With limited tailwinds that would enable further job growth and the economy thus unable to accommodate the sheer number of young people who will be ready to work, youth will have little choice but to turn to other generally more precarious means to survive.

In Senegal, the Wolof phrase "Barca wala Barsakh," which translates to "Barcelona or die," is a common refrain that encapsulates the desperation of the country's youth. Barcelona is one of the many European destinations that thousands of Senegalese youth attempt to emigrate to, often by braving the Atlantic Ocean on motorized fishing vessels called pirogues. The dangers of this clandestine migration are not unknown to Senegalese people. In 2006, 1,000 of the 7,000 migrants who died trying to get to the Canary Islands were Senegalese. In October 2020, 140 Senegalese migrants drowned in an attempt to get to Europe, according to The New York Times. A mother who lost two of her sons at sea told journalists that "things would have really changed for them" had the trip been successful. These poignant stories reiterate the extent to which many Senegalese youth are willing to accept the risks in return for greater economic opportunities abroad.

In recent years, policy decisions have directly contributed to an increase in clandestine migration. In 2020, the Senegalese government renewed an agreement with the European Union that allows EU vessels to fish in Senegalese waters. This agreement has exacerbated the overfishing issues that have devastated Senegalese fishing communities for years. As fish stocks decrease, many fishermen, desperate to make ends meet, resort to clandestine migration. This desperation is often magnified by societal pressures to fulfill traditional familial roles and romanticized ideas of life in Europe, as documented in a report by Peace Research Institute Oslo researchers María Hernández-Carretero and Jørgen Carling. In the report, a fisherman bemoans not having the funds to get married. Describing Europe, another worker adds that "it's not like in Africa… because what you work, that's what they pay you." Clandestine migration has become normalized in the Senegalese society and is ultimately an indictment of a system that has failed to untap a burgeoning demographic. It is imperative that measures — in the form of public policy reform and private sector intervention — are taken to stem this alarming trend.

"Just as the gig economy has taken hold in more developed countries, there is a growing opportunity to formalize the informal economy."

Hope for the Future

Across Africa, Senegal is not an exception. Based on International Labor Organization reports, over 80% of sub-Saharan African youth work in the informal economy. The sole exception is South Africa, where that proportion is 17%. Nevertheless, according to a 2017 Pew Research study, one in five people in Senegal, Nigeria, Ghana, and South Africa planned to emigrate in the next five years.

Yet the story may have an opportunity to turn hopeful. First, it is essential to consider what exactly the distinction is between formal and informal jobs. According to the International Labor Organization (ILO), a formal job requires contributions to social security and paid annual and sick leave. But is this truly what needs to be in place for a job to be considered a job? Lynsey Farrell, director of Research and Thought Leadership at the Legatum Center of Massachusetts Institute of Technology (MIT), considers ILO's statistics a somewhat misleading indicator that most of the sub-Saharan youth are informally employed. Based on her research, "the youth are economically productive, they are working, and maybe we have to redefine what work exactly is." In this sense, creating formal jobs may not necessarily be the only objective. Just as the gig economy has taken hold in more developed countries, there is a growing opportunity to formalize the informal economy. Ultimately, the pressing need is to provide revenue opportunities for young people, and there are critical industrial opportunities that should be prioritized to further that goal. As Mbaye Diene from the Center for Social and Economic Research of Dakar highlights, the Accelerated Growth Strategy of Senegal outlines that some sectors with high potential for youth employment are agriculture, tourism, and information technology.

To start, agriculture has the potential to enhance revenue opportunities for all of Africa, thus creating possibilities for the young. Although 23% of sub-Saharan Africa's GDP already comes from agriculture, a study by consulting firm McKinsey & Company shows that agriculture in the region can produce two to three times more cereal and grains, adding 20% to the global output. To reach that production level, productivity needs to be boosted through yield improvement, land expansion, and post-harvest loss reduction. This potential for productivity gains exists globally, with a significant part concentrated in Ethiopia, Nigeria, and Tanzania. As smallholder productivity would be the primary driver of growth, achieving the full productive capacity of the region would provide an increase in annual revenues for smallholder farmers, who represent 60% of the population. On top of that, it would indirectly create additional opportunities in related industries that are part of the agri-business value chain.

Another industry that could play a relevant role in the continent's rise is tourism. Accounting for only 7% of Africa's GDP in 2019, boosting this industry could create many revenue opportunities for young people. While the COVID-19 pandemic and the travel restrictions severely damaged both domestic and international tourism, recovery plans are already set in place. Though pre-pandemic predictions of increasing travelers from 120 million to 280 million by 2035 (Africa's Tourism Potential, report by the Africa Growth Initiative) will probably need to be reviewed, there is immense opportunity to draw global awareness to Africa's cultural, historical, and natural attractions. However, one of the biggest challenges is connectivity. Air travel in Africa is limited, mainly because the liberalization of the aviation market has not been effectively implemented. Different protectionist regulations designed to protect national air carriers make it difficult for airlines to open new routes. This results in expensive tickets and long travel times, which deter both foreigners and domestic travelers. Visa policies further exacerbate connectivity. Especially restrictive in West Africa, they add yet another obstacle to attracting international tourists. Regional initiatives such as allowing free movement and 90-day stays of citizens across the 15 countries that comprise the Economic Community of West African States (ECOWAS) are steps in the right direction. To take this further, adding work permits to the equation would improve the ease of doing business across the region. By taking these steps, tourism would create new jobs for all, including youngsters.

Better Education, Greater Opportunity

Lastly, there is also work to be done to enhance young people's skills and employability. Low and inadequate access to education remains a problem across sub-Saharan Africa, making it difficult for the youth to develop skills that match the needs of a dynamically changing job market. In this regard, Moses Oketch recommends in a working paper to focus on developing key general competencies that can be transferable and that enhance analytical skills. These will be useful for retraining and building new capabilities. Additionally, internship opportunities in the formal sector are not widely available, which further impedes the youth from developing the soft and technical skills needed for professional positions. A potential solution to this issue would be increasing the number and practicality of internships while integrating more technical, soft, and vocational skills into school curricula in general. Senegal has progressed with this approach through vocational training programs and apprenticeships coordinated by the Ministry of Employment, Vocational Training, and Crafts, with the goal to allow 300,000 young people in the informal sector to validate their competencies. With entrepreneurship and agriculture presently representing the most significant opportunities for youth employment, there is a critical need to lessen the gap between young people's aspirations and the realities of the job market. Youth who are interested in the agricultural industry at times lack the skills in the advanced farming methods required by the industry. At the same time, those who choose to launch their businesses struggle to acquire the knowledge and abilities critical to entrepreneurship. Although tech talent in Africa is at an all-time high, with nearly

700,000 developers across the continent (including North Africa), there is still a gap in the current education channels to be filled with more updated curricula and opportunities to apply the acquired skillset. Providing financial assistance, training, coaching, and resources for aspiring young farmers and entrepreneurs will pave the way for broader employment opportunities. Initiatives pursuing these objectives such as Senegal's National Fund for Youth Employment and the National Agency for Youth Employment are effective in getting young people involved in the labor market and promoting their business projects. As Sobel Aziz Ngom, executive director of the youth organization Consortium Jeunesse Senegal affirms, "The territories will develop with young people as vehicles."

As the number of young people continues to rise, the gap between the increasing demand for jobs and the underwhelming supply of employment opportunities will only be exacerbated. Nonetheless, the potential solutions to the youth unemployment and underemployment challenges in Senegal strongly indicate that this gap can be bridged with increased collaboration between the public, corporate, and civil society sectors. Private initiatives supported by governments, such as Boost Africa, a joint initiative of the African Development Bank and the European Investment Bank, and organizations such as Consortium Jeunesse Senegal, supported by UNICEF and the European Union, push forward the correct agenda through educating, investing, and collaborating with young people to create new jobs and businesses.

Although many sub-Saharan countries continue to see improvements in their GDP growth, the high youth unemployment rate remains a pressing issue in Africa. There is no quick remedy for generating job opportunities and creating an environment promoting economic growth across the continent. However, through targeted efforts such as the development of non-manufacturing industries with high productivity and employment potential similar to traditional industries and the implementation of a more comprehensive education-to-employment approach, sub-Saharan Africa will be able to make the most of this opportunity for greater creativity and innovation. By reducing poverty and dissuading youth from attempting clandestine migration to other countries, these strategies paint a hopeful vision for the future.

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Energy Storage in Asia: New Opportunities for Supply Chain Resiliency

The focus on combating climate change has accelerated the transition to renewable energy sources. However, this shift requires substantial investment in energy storage solutions. This article highlights how East and Southeast Asia factor into this transition.

Climate change is arguably the most important challenge facing humanity today. Sustainability is no longer just a slogan; it is an urgent requirement for businesses, governments, and communities.

> "Chinese domination of the battery supply chain poses a risk in uncertain geopolitical times."

To tackle climate change and meet 2050 CO_2 emissions targets, the energy industry must transform extensively, as energy consumption is the largest source of CO_2 emissions worldwide. The world is already transitioning to renewable energy, but the variable nature of many renewable energy sources presents challenges for relatively constant demand for electricity. To truly harness the power of renewable energy, substantial innovation and investment is needed in energy storage solutions.

Energy storage solutions can address the discrepancies between renewable energy supply and demand. University of Pennsylvania's Kleinman Center for Energy Policy identifies four large-scale trends in electricity storage. First, governments are setting targets for renewable energy as a percentage of overall generation. Second, the cost of renewable energy generation is decreasing. Third, carbon emissions are receiving increased international focus, as exemplified by the Paris and Katowice climate accords. Fourth, energy storage costs have been decreasing over the past several years: lithium-ion costs have decreased 88% between 2010 to 2020, from $1,183 per kWh to $137 per kWh.

We see these trends playing out globally, but particularly in East and Southeast Asia. The governments of China, Japan, Korea, and Indonesia have all targeted upwards of 20% of their total energy consumption to come from renewables within the next 10 years. In its 14th Five Year-Plan, China announced intentions to peak carbon emissions by 2030. Governments and the private sector in the region have benefited from falling costs. According to Bloomberg

NEF, the APAC region accounted for over half of global investment in stationary storage projects in 2020.

The transition to more renewable energy requires a commensurate investment in energy storage technologies. This, in turn, will increase demand for raw materials and empower nations and firms in control of the supply chain. This article introduces the two main energy storage solutions and highlights the role of East and Southeast Asia in energy storage supply chains moving forward.

Current Energy Storage Solutions

In a report, the International Energy Agency (IEA) estimated that annual global energy investment reached $820 billion in 2021. Of the $530 billion spent on new generation capacity, 70% went to renewables. The remaining $290 billion went to networks and battery storage.

Conventional grid systems based on fossil fuels do not require energy storage capabilities; plants adjust their generation in accordance with demand. However, solar and wind sources generate energy intermittently, especially in the case of solar during non-peak demand hours. Increased reliance on sustainable energy sources could strain the current state of grid systems. If too much power is generated, excess power must be dissipated or else cause a system failure. Alternatively, if an insufficient amount of power is generated, people may experience drops in voltage, known as brownouts, or even blackouts where grids cease to provide power. Upgrading grid systems by investing in energy storage is essential for sustaining growth of renewable energy sources. Moving forward, the two main forms of energy storage appear to be pumped hydropower storage (PSH) and lithium-ion batteries.

Pumped hydropower storage (PSH) has been used for over 100 years and currently accounts for over 90% of electricity storage globally. PSH utilizes potential energy as opposed to chemical energy. Water is pumped to an elevated reservoir for storage and only released downward through generator turbines when needed. The process is relatively simple, the technology has been refined over the decades, and facilities last for a while.

PSH faces a unique set of challenges. Building new facilities requires billions of dollars in upfront investment. Additionally, these facilities have geographical restrictions: They need to be located near a reliable reservoir of water that is near elevated terrain. Finding suitable locations and allocating such significant volumes of water for non-consumptive purposes is increasingly difficult as many parts of the world suffer from water shortages. Given that these locations may be far from residential and commercial areas, long-distance energy transmission comes with energy loss. Breakthroughs in the long-distance energy transfers, such as High Volt Direct Current (HVDC), and proposed plans for super grids (grid systems shared across regions) provide potential solutions to the latter issue.

> "With the right investments and collaboration, battery storage technology can support the global transition to renewable energy."

Lithium-ion batteries, on the other hand, utilize chemical energy to store and dispel an electric charge. The vast majority of large-scale battery storage systems use lithium-ion batteries. Batteries are also more responsive than PSH facilities, and production costs have come down substantially over the years.

Despite the reliability and the economic advantages of lithium-ion batteries, there are still challenges. First, substantial demand for the necessary raw materials drives costs higher. Second, the relatively short lifecycle poses additional challenges. According to the National Renewable Energy Laboratory, batteries connected to a solar power last from seven to 10 years. Factors such as intolerance to extreme temperatures, overcharge, discharge, and inflammability require additional maintenance and higher replacement costs. Fortunately, the battery recycling industry is growing. Fortune Business Insights, a market research firm, estimated that the global lithium-ion battery recycling market was $1.7 billion in 2020 and forecasts 18.5% annual growth from 2021 to 2028.

While PHS will continue to play a pivotal role in energy storage, lithium-ion batteries appear to have a brighter future. Oliver Schmidt, a researcher at Imperial College London, in comparing lifetime costs for nine different technologies across 12 applications from 2015 to 2050, concludes that lithium-ion batteries will be the most competitive form of storage starting in 2030. The IEA forecasts that investment into lithium-ion batteries will overtake that into PSH starting in 2023. This trend has serious implications for the supply chains, particularly in Asia where China holds a dominant position.

China's Dominance of the Battery Supply Chain

The battery supply chain is separated into three stages: upstream, midstream, and downstream, each of which has a somewhat varying competitive landscape. However, the consistent factor is China's dominance across all three stages.

The upstream stage consists of raw materials extraction (nickel, cobalt, lithium, manganese, and graphite) and materials processing. Lithium is the most abundant rare earth metal necessary for batteries. China, Australia, and Chile together account for 85% of the world's supply, although there are emerging sources in South America and Africa. China accounts for about 89% of the actual processing. Most of the world's cobalt is mined in the Democratic Republic of Congo, but three of the top five refiners are Chinese (Zhejiang Huayou Cobalt, Jinchuan Group, and Shenzhen GEM High Tech). China also produces more than 60% of the world's graphite. Manganese and nickel are less dominated by China.

Lithium batteries can be divided into three main chemical compositions: nickel cobalt manganese (NCM), nickel cobalt aluminum (NCA), and iron phosphate (LFP). They all require lithium but differ in the other resources, as their names suggest.

LFP is set to become standard for EV battery manufacturing. In 2021, the cost of LFP batteries was consistently lower, but volatility of rare earth metal prices remains a factor. LFPs are also the safer option for batteries. Their main downside is that they do not have the same energy density as NCM and NCA. However, firms such as CATL, a Chinese battery manufacturer, are improving LFP's energy density. Recent adopters of LFPs for their electric vehicles are Volkswagen, Hyundai, and Mercedes-Benz. Luckily for China, LFPs do not rely as heavily on nickel and manganese, the only two materials they do not have a large stake in. As LFP technology usage increases, so will China's influence over global supply chains.

The midstream stage is cell component production (cathodes, electrolytes, anodes, and separators) and subsequent cell manufacturing. The "Battery Triangle" of China, Japan, and South Korea are the main players in this stage, although the United States is looking to replace Japan in the top three. LEK Consulting reports that China controls 60% of the world's component manufacturing. While estimates vary, MacroPolo, the Paulson Institute's think tank, reports that China dominates 93% of the LFP-specific battery output while Japan and South Korea have been focusing on NCM/NCA chemistries. Almost all of the Chinese LFP battery output is from the companies Build Your Dreams (BYD), Contemporary Amperex Technology (CATL), and Great Power.

Downstream, the final step is the assemblage of battery packs and energy management systems as well as integration into end user assemblies. Recycling of batteries is also expected to be a growing segment of downstream production. The downstream consists of three main markets: EVs (~45%), energy storage (~40%), and industrials (~15%). LEK Consulting forecasts a ~50% CAGR for energy storage (separate from EVs) between 2020 and 2030. There exists significant market opportunity in the energy storage sector. While historically very consolidated, new market entrants such as Bloom Energy, Form Energy, and Eos Energy are creating room for increased competition.

Chinese domination of the battery supply chain poses a risk in uncertain geopolitical times. Of the 136 lithium-ion battery plants in the pipeline to 2029, 101 are based in China. New entrants and those looking to expand their supply sources may want to look toward emerging markets in Southeast Asia.

Emerging Players in Southeast Asia

Given the current sensitivity to overreliance on China, companies see the need to develop more resilient supply chains by expanding elsewhere, such as Southeast Asia. This section discusses Indonesia, Thailand, and Malaysia.

Indonesia

Indonesia is likely to serve the upstream and midstream segments with significant investment from China and

South Korea. The Center for Strategic and International Studies (CSIS) reports that Indonesia is the world's largest source of nickel, forecasted to account for 60% of the world's supply by 2030. Indonesia banned the export of raw nickel to build its indigenous processing capabilities. This nickel supply has attracted a $9 billion investment from a consortium formed by South Korean company LG. Hyundai and LG also have a plant being built in Karawang that is set to begin production in 2024. According to media reports, Indonesian President Joko Widodo has worked with billionaire Elon Musk under the intention to build up the lithium mining and battery production industry in Indonesia.

China's CATL has pursued a similar project in Indonesia also focused on nickel extraction and processing, though they are also pursuing midstream and downstream production including battery recycling. The deal was for $6 billion and was signed with Indonesian companies including Antam.

Both deals are intended to address the risk from the fluctuating prices of nickel, which is especially important to South Korean manufacturers. However, both deals also include component manufacturing and battery assembly as well as battery recycling to be done in-country. This will improve domestic capabilities. Indonesia has the potential to become a global hub for battery production.

Thailand

Thailand is looking to operate across the supply chain in order to fuel a domestic market for large grid storage solutions and EVs.

Unlike Indonesia, Thailand has an abundant natural supply of zinc, so it is likely to focus on manufacturing zinc-ion batteries as an alternative to lithium-ion batteries. Janekrishna Kanatharana, vice president of the National Science and Technology Development Agency, said Thailand is investing $5.5 million in 2022 to support a pilot plant focusing on both EV production and grid storage solutions.

Thailand is also set to be home to Southeast Asia's single-largest grid storage solution, to be built by Chinese company Sungrow. This purchase is intended to help Thailand reach its renewable energy goals.

Malaysia

Malaysian company Hong Seng and US EoCell are also looking to build a hub in Malaysia for lithium battery production. They intend to focus early on EV batteries then expand to grid storage solutions. South Korea's Samsung SDI (Samsung's battery arm) is also intending to build a second $1.3 billion factory in Malaysia to start production on EV batteries in 2024. Samsung SDI's CEO Yoonho Choi has stated that Malaysia is key to the firm's expansion strategy.

Ultimately, there is significant movement in the Malaysian market toward building midstream and downstream domestic capabilities, indicating that this market may be worthy of investing in. This is largely due to the growing, but still reasonably cheap, tech ecosystem for production in conjunction with the government's increasing interest in supporting clean energy.

Conclusion

Overall, lithium-ion batteries look to be the most promising energy storage solution moving forward. Oliver Schmidt at Imperial College London, told us the following: "On the back of giga-scale manufacturing for EV batteries, lithium-ion is set to become the most cost-competitive energy storage technology. However, supply and demand mismatches as a result of the exponential growth, and the need for longer duration storage, will also yield opportunity to other storage technologies for stationary applications."

Within that, energy storage in East and Southeast Asia is likely to become more competitive, with China continuing to play a dominant role in the battery supply chain. As public and private sector actors work on a transition to renewables, they will need to keep an eye on developments in East and Southeast Asia. In an effort to strengthen supply chain resiliency, energy storage companies may look to emerging markets in Southeast Asia, specifically in Indonesia for upstream resources and Malaysia for midstream and downstream capabilities. With the right investments and collaboration, battery storage technology can support the global transition to renewable energy.

This article was written by Ha Hyung (Harry) Lee, Emma Robinson, Fred (Crawford) Taylor, and Bonnie Zhang, members of the Lauder Class of 2024.

European EV Market Faces Headwinds Ahead of Aggressive Adoption Goals

The European Union wants to take the lead in the global race to convert from gas-powered to electric vehicles, but there are a number of factors slowing momentum. This article explains the obstacles in the way of crossing the finish line.

The European Union has long sought to accelerate the adoption of electric vehicles (EV), seeing the industry as a critical component of the region's energy transition away from fossil fuels. In 2020, the European Commission released a target of 30 million EVs on the road by 2030. The region has made significant progress towards this target. However, according to EV Volumes, the source of record for EV sales data, European market penetration, as measured by the percentage of new private vehicle sales, has only reached 20% in 2021 with roughly 5.5 million EVs on the road.

"The rise in energy prices represents the clearest and most significant hurdle to EV adoption in the short term."

The European EV journey has been marked by incredible success stories like Norway, which, thanks to a series of aggressive regulation and tax credits, achieved 90% EV market penetration in 2021. However, to meet its goal of 30 million EVs on the road by 2030, the EU must increase adoption in member countries with larger private vehicle markets, namely France and Germany, which only just reached 20% and 25% EV market penetration, respectively.

New geopolitical, regulatory, and market forces have produced a question as to whether governments and industry can achieve this target. The spike in energy costs driven by the war in Ukraine has made the decision to purchase an EV more difficult for European consumers looking to save on gas bills. Moreover, European policymakers, faced with increasing pressure on the electric grid, have begun to roll back EV incentive programs. While electric automakers are selling more vehicles compared to 2021, new constraints on both supply and demand have slowed the growth rate of EV market share year-to-date.

Energy: Crisis Increases Economic and Environmental Costs of EVs

The rise in energy prices represents the clearest and most significant hurdle to EV adoption in the short term. Driven by the conflict in Ukraine and global supply constraints, household electricity prices have soared across Europe, doubling in Italy and Germany as of August 2022 and reaching as high as €0.6 per kwh in the United Kingdom.

The increase in electricity prices translates into higher residential charging costs for EV owners, making potential EV purchasers question whether recharging costs will indeed be significantly cheaper than refueling a highly fuel-efficient gas or diesel-powered vehicle. The extent to which the energy crisis will affect EV purchase decisions will depend heavily on government decisions to intervene both in the domestic electricity markets and petrol markets. France, for example, has implemented a price cap on household electricity costs, but may end the ban in early 2023 due to fiscal policy considerations.

In addition to its economic impact, the energy crisis has also increased EV's carbon footprint. In order to combat rises in natural gas prices, European economies have begun to rely more on coal, a more carbon-intensive energy source, for electricity generation. Germany, for example, increased its use of coal by 17% in the first six months of 2022, reaching a third of its energy portfolio. An increasingly dirty electricity sector on the continent has called into question the environmental benefit of owning and subsidizing EVs in such a power mix, particularly in the short term. Nicolas Meilhan, an EV strategist for the French government and senior researcher at EV Volumes, highlights that EVs also have a carbon-intensive production process requiring double the carbon to manufacture. They only become carbon-negative, relative to petrol cars, after being driven 30,000 to 40,000 km.

Infrastructure: To Charge or Not to Charge, That Is the Question

Infrastructure is another pressing issue facing the industry. According to the European Automobile Manufacturers' Association (ACEA), as of the end of 2021, half of all chargers in the EU were concentrated in just two countries — The Netherlands and Germany — which cover less than 10% of the total EU's area. Although the total number of stations has increased in the past five years, the current number is far from what is required, given production growth.

Even in Germany, an early EV adopter, infrastructure is a constant pain point. In a recent Deloitte study, Germans mentioned the lack of public charging infrastructure as their second greatest concern regarding all battery-powered cars. Considering the government's goal to have 15 million EVs and 1 million charging points by 2030, adequate infrastructure must be a priority.

However, implementation is going slowly. As of August 2022, Germany had only installed 80,000 public charging stations. According to Kaline Brückner Saab, head of product compliance at Volkswagen, during the industry's takeoff, it was unclear who should be responsible for deploying the charging stations, as energy providers, government, and auto manufacturers did not have a joint deployment strategy.

Now, the industry has reacted, and energy players such as Eon, auto manufacturers such as VW and Tesla, and joint ventures between companies like Shell and ABB are accelerating the expansion of charging coverage.

Nonetheless, challenges lie ahead. Space will become less available, and non-traditional players such as malls or restaurants will need to redesign parking spaces to install stations. Municipalities and local governments will play an important role when incentivizing installation of stations in their communities, as this will attract visitors and dynamize future business. Advances in residential charging technology, typically slower and less efficient than commercialized public units, can also help fill the gap.

Amid the uncertainty, disruptive startups offer potential solutions. The Danish company Monta, for example, offers private station-sharing through a mobile app, increasing the availability of charging points. German startup HSC claims to be commercializing 5-minute EV charging technology, which would constitute a significant leap in efficiency. Despite the efforts, Germany has a long road ahead to catch up with the infrastructure requirements.

France, the country with the third-most charging stations installed, faces similar challenges. Despite the government's goal to have 100,000 stations deployed by 2021, implementation only reached 60,000 by mid-2022, with COVID-19 and a shortage of electronic components driving the delays. According to the latest adoption projections, France will require at least four times more public terminals by 2025. In response to this shortage, France has taken steps to accelerate implementation and expects to reach more than 100,000 stations in early 2023. Timely deployment will be vital to hitting ambitious adoption targets.

> "Even in Germany, an early EV adopter, infrastructure is a constant pain point."

Government: Incentives See a Wind Down

Regulation has played a key role in the adoption of EVs in Europe in recent years. The EU has issued a set of tax incentives, clean energy initiatives, and other directives to incentivize consumers and firms to migrate towards the market. In June 2022, after 16 hours of negotiations, the European Parliament agreed to ban the sale of new gasoline and diesel cars from 2035, an ambitious step towards achieving clean mobility. However, not all EU members are on board. Germany recently announced that it will not back the law, which will likely lead to renegotiation.

The sector has also seen a drop in government support at the national level. Germany has previously supported the growth of the EV industry through various incentives and subsidies. However, amid the international energy crisis, the newest government coalition has recently agreed to eliminate a significant portion of subsidies for acquiring new EVs in 2023. According to Finance Minister Christian Lindner, Germany can no longer afford misoriented subsidies, which cost the government billions of euros annually. Robert Habeck, Germany's minister of economics, has justified the removal of subsidies by claiming that EVs are becoming popular enough to no longer need government subsidies. Germany's previous subsidies to its EV market included grants up to €6,000 per EV. Since the subsidy scheme was introduced in 2016, the German government has provided almost €4.6 billion in support to EV buyers. However, the government now plans gradual reductions in state support starting in 2023. It will reduce subsidies to €4,500 for cars costing less than €40,000, with this falling to €3,000 between 2024 and 2025. Grants for cars over €60,000 will fall from €5,000 to €3,000. In addition, subsidies for hybrid vehicles, which make up a significant share of the EV market in Germany, will be cut altogether in 2023.

"The push towards EVs has also increased EU car manufacturers' dependence on China, which currently claims 80% of the world's total cell-manufacturing capacity."

This mirrors the approach France has taken. It currently subsidizes new EV purchases with an ecological grant worth up to €6,000. This was set to expire on July 1, 2022, but was extended until the end of the 2022. The total amount of the subsidy varies depending on the type of vehicle and the price of the car. For example, the full amount is reserved for individuals buying an EV costing under €45,000, while smaller subsidies may be received for hybrids. However, further support for such subsidies past the end of 2022 remains in doubt.

It is unclear what impact this will have on the adoption of EVs in Europe. However, a recent study conducted by Deloitte shows that government incentives rank third out of the seven most important factors that impact the decision to buy an EV. Moreover, according to Don Dahlmann, electromobility journalist at Business Insider, removing incentives will not only hurt large producers by shrinking demand, but startups and small emerging competitors will no longer be profitable, directly hurting innovation and technology development in the industry.

Supply and Demand: Ambitions Meet Reality

Germany remains as one of the strongest automobile markets after the U.S., and despite the country's well-developed public transportation network, 67% of German mobility needs are expected to be met by personal vehicles. Germany saw plug-in electric vehicles constitute over 25% of total automobile market share in July 2022, up from 22% the previous year. However, the overall auto market was down 34% from seasonal norms, the worst July performance in many years – a trend seen across the continent. Despite a shrinking auto market, the slow but steady rise in the popularity of EVs signals a slight upward trend in consumer preferences across the continent.

Recent surveys have shown that 45% of German car buyers prefer their next vehicle purchase to be an electric or a hybrid vehicle, making it among the top few markets worldwide from a demand perspective. However, 49% of respondents would still prefer a gasoline or diesel vehicle, illustrating the still high demand for conventional automobiles. A large fraction of the German automobile consumer market still prefers the conventional combustion engine due to their familiarity and sentimental value.

On the supply side, corporate ambitions still lag actual targets. Volkswagen is one of several large manufacturers that committed to the Paris Agreement. In early 2022, it announced a spending plan of almost $180 million to launch new EVs and to ramp up production lines. Volkswagen expects that by 2026, 25% of all vehicles it sells globally will be electric, an ambitious goal given this was a meager 6% in 2021.

The push towards EVs has also increased EU car manufacturers' dependence on China, which currently claims 80% of the world's total cell-manufacturing capacity. Despite forecasts for this to decline to about 70% by the end of the decade, the continued volatility in relations between Brussels and Beijing makes this dependency an increasingly large risk to the sector. European manufacturers are the most exposed, lagging in terms of resource mobilization and gigafactory construction. One of Europe's few successful, large-scale factories, Tesla's gigafactory in Berlin, has been met with increasing opposition, and its planned expansion has been placed on indefinite hold by the council in Grünheide, according to reports from local broadcaster RBB.

These threats in the supply chain jeopardize the sector's attempt at gaining market share and lowering costs at scale. Europe's second-largest EV supplier, Stellantis, warned in June 2022 that unless EVs become cheaper, the car market would collapse; experts worry that without cheap, entry-level EVs, a huge chunk of the European car market will either disappear, disrupting the economics of the car giants, or will be taken over by lower-cost Chinese manufacturers.

Headwinds to Be Met

This is certainly not the first time the EV sector has faced significant challenges. Famously, numerous commentators predicted the collapse of Tesla and the nascent EV industry back in the early 2000s. It would be foolish to be overly bearish on the industry given its penchant for innovation and the overwhelming consensus regarding the critical role electrification plays in resolving the global climate crisis. That being said, faced with rising costs and supply-chain issues, an uncertain outlook on the war in Ukraine, and lagging industry targets, industry and European governments must increasingly find ways to cooperate, stimulate technological breakthroughs, and capitalize on economies of scale if they wish to achieve ambitious EU adoption targets.

This article was written by Matthew Cullom, Luke Delaine Iott, Alonso Torres-Llosa, and Arunav Kanoria, members of the Lauder Class of 2024.

Changemakers: How European Startups Are Tackling the Global Climate Crisis

As Europeans bear witness to the devastating effects of climate change, scrappy startups are emerging across the continent to meet the challenge with innovative solutions. This article looks at how these small businesses are fueling a culture of change and hope for a better planet.

On July 31, 2022, the congested metro line 1 in Paris came to a sudden halt. Amid the record-shattering heatwave that struck the French capital last summer, what would have been a minor inconvenience any other evening quickly became an emergency. Videos of overheated passengers flooded social media as many attempted to break open the train doors for lack of air conditioning inside. The RATP, France's state-owned public transport administrator, mobilized over 200 workers to help evacuate and hydrate the heat-stricken travelers. For them, the far-fetched tale of a climate emergency was no longer a distant prospect but an immediate problem.

"A challenge as monumental as the climate crisis has typically been thought of as a problem for governments and big business to address."

That month, the very same heatwave incited forest fires that blazed from Portugal to the Balkans, and extreme temperatures damaged a runway in London's Luton Airport. All across Europe, climate change — and the urgent need to address its visibly worsening consequences — took a stronger hold of public attention.

A challenge as monumental as the climate crisis has typically been thought of as a problem for governments and big business to address. And while leaders in those sectors across Europe are advancing climate-related goals, smaller climate tech startups are also rising up to meet this daunting task. The continent's startup atmosphere is challenging but competitive, growing, and uniquely reflective of its myriad of countries and identities.

French Climate Tech: Uniquely French but Global in Reach

France's many climate tech startups are emerging with a clear link to traditional facets of French identity — food, wine, and fashion, to name a few.

In food production, French tech startups are leading global initiatives such as those focused on sustainable protein sourcing. According to the United Nations, animal agriculture causes about 15% of annual anthropogenic greenhouse gas emissions (GHG). Ynsect takes inspiration from aquaculture for its "coleoculture" process, breeding beetles to create a more sustainable protein alternative for a rising world population. *Ynsect* relies on *fermilière* or vertical insect farms, much like Innovafeed, which opened the world's largest insect farm in Nesle in 2020. For its part, Umiami boasts its technology as the first process to create "thick, fibrous whole cuts of meat" from plants.

Other food-related ventures have centered their innovations on autonomy and efficiency. AgreenCulture's CEOL robot replaces eight hours of tractor work with just one hour and no need for human engagement. Similarly, ViTiBot's driverless Bakus robot aims to modernize viticulture as a sustainable environmental solution that also improves workers' safety conditions.

Apart from food and wine, the country's tech startup scene includes a slew of fashion-based innovations. Ever Dye aims to replace textile production and its considerable GHG emissions with a dyeing process free of heat and petroleum. "Processes today [to dye a fabric] are quite inefficient," said Ilan Palacci, Ever Dye's CEO. "We have created two chemical solutions to make it possible to dye at room temperature, decreasing the energy needed and, as a consequence, GHG emissions."

Circle creates recyclable athletic wear from reused materials, the inspiration for its name as a leading circular economy label. To the notion of circular fashion, Lablaco adds transparency through blockchain technology; QR codes on each garment reveal its eco footprint and ownership history.

On a broader scale, French tech has fueled innovations in the country's significant manufacturing sector. Papkot's paper coating allows for entirely recyclable and biodegradable packaging to perform like plastic packaging and ultimately take its place.

Software startups are also enabling eco-friendly manufacturing processes. iNex Circular has been called "the tinder of waste" for its platform that matches companies to exchange their waste under the notion that "one company's waste becomes another company's resource." It is the first European platform to create a circular economy across industries. Marseille-based GrenCityzen specializes in Internet of Things (IoT) software solutions for cleaner waste management and other system monitoring. And beyond the manufacturing sector, Sweep's software helps companies track and reduce their carbon emissions. The company caters to a range of FTSE 500 companies and in December 2021 raised $22 million in series A funding, one of the largest rounds among its competitors globally.

Beyond France: Startup Scenes Across Europe

As France makes headway in the startup space, it is still far behind other European hubs, namely Germany and the United Kingdom. In these two countries, culture and political climate are also evident across their startup scenes.

Germany remains the frontrunner in European climate tech startups overall, and many German startups seem to embody German strengths and culture in their focus on efficiency in energy and mobility. More than 25% of German startups founded after 2014 and that have raised funding are in mobility and transportation, with energy close behind at 20%, according to Marine Digital, a tech firm that helps decarbonize the marine industry.

Unsurprisingly, given the strength of the German auto industry, the nation's impressive engineering innovation leans strongly toward electric and alternative fuel vehicles. From long-range highway charging solutions to innovative electric trucks, there are over 30 startups focused solely on improving the electric auto industry, according to sifted data.

But Germany doesn't stop on the road. A "unicorn" startup with a valuation of $1.87 billion, Volocopter has created completely electric-fueled VTOL vehicles (vertical takeoff and landing). Joining the yellow cabs and Ubers of the world, these helicopter-like vehicles will be launched as an urban taxi service as soon as 2024.

Volocopter is not the only German startup electrifying the air. Another unicorn, Lilium, which became public in 2021, has built an all-electric, high-speed sustainable jet, while Vaeridion, founded in 2021, re-engineered airplane wing design to develop an energy-efficient electric microliner.

> "European climate tech startups' track record will continue to grow, propelled by innovative thinking rooted in unique cultural and political identities."

Outside Germany, the U.K. is another formidable hub: In 2021, London was home to more climate tech companies than any other European city. Yet while the U.K. may not have Germany's engineering reputation, it sees most climate tech investments filtering into transportation and energy companies as well. In fact, the nation's two climate tech unicorns are both energy focused: Octopusenergy, one of the largest renewable energy startup providers, and Ovo Energy, a 100% renewable electric energy supplier.

Increasing Demand for ESG Data Quality

Beyond cultural identity, Europe's unique legislative environment and data standards have shaped the region's business landscape, including its startups. For example, the European Union's 2018 General

Data Protection Regulation (GDPR) imposed the world's strictest data security and privacy rules to date. By compelling all organizations interacting with EU consumer data to completely revamp traditional practices for collecting personal information, GDPR transformed the European market.

Similarly, on the sustainability front, increasingly stringent environmental, social, and governance (ESG) disclosure requirements — a response to rising mainstream support for environmental and social responsibility in the corporate world — may once again upend the scene. In fact, on March 10, 2021, the EU rolled out the Sustainable Finance Disclosure Regulation (SFDR), the most substantial mandatory reporting burden ever imposed on Europe's green investment ecosystem.

In a nutshell, SFDR mandates a pre-determined set of ESG disclosure metrics on any investment fund, pension fund, or insurer marketing sustainable investment products. The practice of deceptive marketing around sustainability initiatives, or "greenwashing," risks misdirecting well-intentioned ESG investments — one of the market disruptions that SFDR intends to resolve.

Establishing this more transparent investment market won't come without its challenges, as ESG-related disclosures are expected to increase compliance costs. The impact is borne not only by the financial firms subject to SFDR, but also by the businesses interested in attracting capital in an environment where transparent sustainability metrics are a must. For climate- and sustainability-focused startups in the region, on the other hand, the accentuated data-reporting pain points may instead represent an opportunity to innovate.

ESG data measurement European startups – a segment within climate and sustainability tech – are showing further interest in helping the region's businesses surmount the green metric transparency hurdle, above and beyond SFDR guidelines. "Assessing and understanding what's happening in your carbon footprint is a data problem," Rachel Delacour, CEO and co-founder of Sweep, said in a podcast interview with The French Tech Journal.

Other firms have expanded their services portfolio from emissions-mapping to broader ESG measurement and strategic planning tools. In 2020, Berlin-based Plan A originally first launched with the Carbon Manager, a data technology-enabled tool that helps businesses measure and track their emissions over time. More recently, "because there is no Plan B for our planet," Plan A has broadened its solution suite to include SFDR-compliant reporting and an ESG metrics management module. "We automatically tell how and where a company can reduce its emissions. In addition, we help issue reports," Lubomila Jordanova, CEO and founder of Plan A, said in a podcast interview with Unicorn Bakery.

A Hopeful Tomorrow

The EU's mission to transform the region's regulatory mosaic into a single and comprehensive set of ESG rules and disclosure requirements is a tall order. Already, SFDR and other sweeping sustainability regulations have been criticized by financial industry insiders for their vague guidance and narrow applicability across different business models. But the unavoidable truth remains that greenwashing and poor sustainability data are significant problems for a region that wants to fight climate change meaningfully.

Regulators will have to fine-tune the rules, but in the meantime, there is ample room for climate and sustainability tech startups to fill gaps in data transparency and beyond. European climate tech startups' track record will continue to grow, propelled by innovative thinking rooted in unique cultural and political identities.

By funding initiatives such as La French Tech Green20, leaders such as French President Emmanuel Macron clearly view climate tech startups as key allies in the ecological transition process. As demand for ESG data quality and sustainable solutions increases from both governments and key constituencies including millennial and Gen-Z consumers, the market for climate tech startups will only grow larger.

This article was written by Megan Burton, Nathan Gee, and Cristian Navarro, members of the Lauder Class of 2024.

Unstoppable China: Zooming into the Electric Future

Electric vehicles will become a standard mode of transportation around the world, and China is setting the pace with rapid adoption. This article examines the factors behind the success of EVs in China compared with Japan and Korea, which are also considered early adopters.

Even though China, Japan, and Korea are considered mature markets for electric vehicles, each country has radically different adoption rates, according to global consultants McKinsey & Company. China is on the forefront of adoption, with EVs accounting for 16.1% of new vehicles sold in 2021, while Japan and South Korea are seriously lagging behind with 1.2% and 6.5%, respectively. China's success raises questions about the qualitative and quantitative differences in policies, supply chain, and consumption patterns that have resulted in such discrepancies.

For example, why are the majority of EV batteries developed in Japan, yet Japan's adoption rate is slower? Or why doesn't China, the mass adopter of EVs, develop hardware components domestically, instead relying on outsourcing from Taiwan, the U.S., Japan, and Korea? Looking at the future and evaluating China's ability to keep up with the pace it set, is there a component that can become a bottleneck to further adoption? Will Japan and Korea be able to make a leap towards the stated 2035 ban on internal combustion engines?

In this article, we will tap into reasons for successful adoption and show that producing all components is less important than having a solid policy framework and flexible component sourcing strategy.

China's Unquestionable Success

Despite not producing most of the critical EV components, China is a global leader in EV adoption. This is explained by flexible sourcing, robust government backing, and regulatory support. Discussions with industry experts Joongsun Ko, vice president of product strategy at Hyundai, and Kaline Brückner Saab, head of product compliance-management system at Volkswagen, made clear that China is widely recognized as a frontrunner in the EV market and is expected to continue as an industry leader, not just in Asia. As Saab noted, even Europe emulates many of the big ideas conceptualized in China. According to Saab, this is driven by the ease of adoption in large markets such as Beijing, Shanghai, and China as a whole. Another contributing factor is China's emphasis on mobility as a service, whereby a single platform enables consumers to do everything. Lastly, Saab pointed to Chinese regulations as a driving force. Compared to Germany, where the government prohibits people from driving without their hands on the steering wheel, China's more relaxed regulations allow for easier testing, innovation, and adoption.

> "Government backing de-risks research and development, incentivizes sales, and simply makes EV adoption possible."

Joongsun Ko said he believes "the will of the government in enforcing policy determines the success" of EV adoption. In China's case, capital provided with government backing has been a major factor in its success so far. Government backing de-risks research and development, incentivizes sales, and simply makes EV adoption possible. Per Ko, battery technology is one of the most expensive parts of building EVs. The electricity portion is currently the industry's focus, as producers seek to make batteries more efficient. With COVID-19 pandemic-related shortages and inflation, budget-constrained EV development is becoming increasingly difficult. For countries to be successful, they require investable capital both for vehicle development and EV infrastructure, including charging stations.

Lastly, the government's approach to supporting EV development has played a large role in the success of China's EV industry. During the industry's crucial developmental years, the Chinese government focused on subsidies and government protections, according to a report published in Macropolo. These protections helped Chinese companies develop their technology and gain a foothold in the market. Macropolo also reported that the Chinese Ministry of Industry and Information Technology announced in December 2019 that by 2025, plug-in electric vehicles would represent 25% of sales. Ko noted that, "China has the government backing to mandate stricter adoption rules. In the case of China, many predict 20% EV penetration in 2025, 40% in 2030, and 50% in 2035."

"China's focus on the holistic development of EV infrastructure established it as a leader."

Another way the government has supported EV adoption is by focusing on building out its domestic EV market prior to turning towards exports. However, the government's protectionism has had unintended consequences. In some cases, it has led to the development of strong local brands, as opposed to national ones. For this and other reasons (including the vast amount the Chinese government was spending on subsidies and other such programs), the government in 2016 announced a shift towards a market-based approach. Subsidies were scheduled to be phased out in 2020, although this was delayed by the pandemic, and replaced by a "dual credit" policy that operates like a carbon market, Macropolo reported. The government also removed some of the protections for domestic EV companies and began allowing wholly foreign-owned enterprises (WFOEs) to enter the market, thereby incentivizing foreign competition. However, this came at a stage when the Chinese EV market had already undergone substantial development and Chinese brands had established themselves in domestic and international markets. Most recently, in a joint statement by the Ministry of Industry and Information Technology, the State Taxation Administration, and the Ministry of Finance issued in late September 2022, the government committed to exempt 2023 purchases of certain new energy vehicles from vehicle purchase tax.

Japan's Disinterest

In Japan, total cost of ownership (TCO) of EVs is currently 15% lower than owning an internal combustion engine vehicle, but it is supposed to decrease to nearly 0% in 2025, according to McKinsey projections. Such development is mostly driven by policy support (or lack of thereof), and the decrease of government subsidy in Japan is hindering EV adoption.

Another reason is the structure of the personal vehicle fleet in Japan, where micro-cars or *kei-jidousha* represent nearly one-third of vehicles (22.85 million out of 61.87 million), according to the Ministry of Land, Infrastructure and Tourism). These small cars have engines capped at 600 cubic capacity, a size that usually shows good fuel efficiency. Overall, according to the International Energy Agency, average fuel efficiency of new passenger cars sold in Japan in 2021 was 52 mpg. With such fuel-efficient vehicles and dominance of soft hybrids — or vehicles where battery is used during start-up and slow-speed driving, and charged during braking or from the engine itself — Japanese consumers simply do not feel the need or monetary reason to switch to EVs. Reinforcing this is a Japanese government that is planning to slash previously introduced subsidies for EV purchase, additionally pushing potential buyers away from EVs. Most importantly, Japanese policy allows the sale of new hybrid cars even after 2035, so there is no hard deadline for the EV switch. Actually, sales of EVs, including various types of hybrids, peaked in 2017 with 58,946 vehicles and declined steadily towards 2021 with 34,479 vehicles, as stated by the Japan EV Association.

Overall, the discrepancy between emission targets and modest EV introduction is explained by protectionism of the domestic auto industry along with very specific vehicle usage pattern and an extremely well-developed public transportation system. Most importantly, there are growing concerns that rapid introduction of EVs may further strain the electricity generation system, which was severely harmed by the Tohoku earthquake. The IEA estimates that EVs will represent up to 16% of total China's electricity demand by 2050. In such circumstances, government officials feel it is unreasonable to introduce additional electricity consumers and are encouraging car manufacturers to improve hybrids step by step, *kaizen* style.

Korea as a Second-tier Competitor

Similar to Japan, South Korea's EV adoption is lagging compared to China. The reason for the lag can be attributed to urbanization, manufacturing, and consumer price sensitivity.

First, according to the Korean Ministry of Trade, Industry and Energy, approximately 92% of the South Korean population is living in urban areas, meaning the infrastructure to support widespread EV adoption is concentrated in a fraction of the land area. Even though the Korean government announced that it will build more than 70 units of 350kW-class ultra-fast chargers in major highway rest areas in 2022, there is a need for an even faster catch-up as the current number of charging stations is only 0.8% of China's, according to Korea Resources Corp. Moreover, as part of its "rural revitalization" effort, China is working towards having EV infrastructure expand beyond its majority presence (70%) in urban areas to rural areas, as stated by the National Development and Reform Commission of the PRC. China's focus on the holistic development of EV infrastructure established it as a leader.

Second, South Korea relies on Chinese raw materials to build its EV batteries, which was the main cause of a trade deficit with China through July 2022. In order for Korea to catch up, it needs to push for self-reliance by fostering overseas resource development to secure a steady supply of cobalt and lithium that forms the basis of EV batteries. Chinese backing of the EV agenda allowed for its successes, which were not replicated in Korea. The Chinese government mandated that car manufacturers needed to use batteries from white-listed companies to qualify for government subsidies, which led to the massive growth of industry leaders like CATL and BYD.

Third, aside from the infrastructure and manufacturing, South Korean consumers are price sensitive. Tesla's Model Y was priced very particularly in South Korea at ₩59.99 million, so consumers could have access to EV incentives that only can be accessed for vehicles priced at ₩60 million or less, according to EV expert and journalist Fred Lambert. In August 2022, the South Korean government announced that it will lower this ceiling to ₩55 million, which deters consumers from purchasing EVs that are traditionally more expensive than those with internal combustion engines. On the flip side, the Chinese government is considering expanding its EV rebates until 2023 to encourage more customer adoption.

In conclusion, the common factor that contributed to China's success that was different in Korea was the government buy-in and investment. While the South Korean government seemingly continues to be involved in the adoption and expansion of EVs through investment in infrastructure and resource centralization, the burden of the investment is shared evenly with the private sector, which is not seen in China. The invested capital amount and government incentives and subsidies are far less than China, making Korea a second-tier player in a competitive EV market.

The Complex Road to Catch Up

All in all, the East Asian auto giants have different EV journeys. In comparing the main factors for the discrepancy in EV adoption, it is clear that the difference is two-fold: government backing and capital investment. Ko agreed with our analysis, emphasizing that the main driver of Chinese success is governmental support and competitive awareness that other developed nations will have a tough time catching up. Ko said he feels confident that China will remain the leader in the EV space for years to come.

For Japan, which has a disinterested consumer base and declining subsidies, and for Korea, which has scattered infrastructure and dependent battery technology, the road to catching up is longer and more complex. China's strong government and unified vision have proven its leadership in the next global technology trend in the automobile industry.

This article was written by Ilia Beloly, Eun Soo Jackie Kim, and Marisa Salatino, members of the Lauder Class of 2024.

An Alternative Path for Conservation in Latin America

Nature conversation has always been caught in the crosshairs of politics and money, but there's a financing mechanism designed to make it easier for all stakeholders to hit a common target. This article explains the benefits of Project Finance for Permanence or PFP.

Over the past hundred years, nature conservation has gained wide recognition as an essential part of prudent industrial policy. Although typically met with strong resistance from business interests, most developed countries have established ecological preservation policies within their borders. From the creation of the first national parks in the 1870s to the groundbreaking limitation of emissions agreements from the Paris Accords, environmental activists have been able to make significant strides by influencing governments to preserve natural assets and, in doing so, achieve several objectives such as the conservation of biodiversity, the protection of native populations and the slowing of climate change.

> "Conservation efforts require significant and consistent capital injections for the protected areas to be continually preserved and adequately managed."

Besides influencing governmental policy, private donors have taken measures of their own. By creating trusts and nongovernmental organizations (NGOs) like the World Wildlife Fund (WWF) and the Sierra Club, civil society has organized to gather donations from private individuals and institutions and use these funds to sponsor the protection of specific ecosystems from further deterioration worldwide.

Thanks to these joint government and nongovernmental efforts, more than 15% of the world's land is now designated as "protected," according to 2018's Protected Planet Report. Yet, these preservation actions are often unsustainable and unenforceable. Conservation efforts require significant and consistent capital injections for the protected areas to be continually preserved and adequately managed. Still, the reality is that most conservation-related NGOs struggle to meet their financial needs every year. This has led many protected sites to suffer from underfunding once the initial grants expire, especially in large-scale and long-term conservation programs.

PFPs as an Alternative Path

To remedy this shortfall, a new structure for funding these conservation efforts was designed in the 1990s under the term Project Finance for Permanence (PFP). While certain parts of the PFP methodology have been used in conservation projects around the world, the structured system known as PFP today was started by Western environmental consulting firms. PFPs seek to leverage private funding sources to secure long-standing government commitments through extensive financial planning, disciplined administration of conservation efforts, and, most importantly, a large lump-sum injection to fund all activities in the short and medium term of the project. Through PFPs, NGOs can create a multiparty agreement that brings together many stakeholders, including private donors, governments, and local communities, to build a long-term development and conservation master plan for a particular area. This year, the Amazon Region Protected Areas (ARPA) initiative celebrates its 20th anniversary. Thanks to the funding and rigorous implementation achieved through a PFP in 2014, the program has successfully expanded to protect an even more extensive territory than initially planned.

Notably, a PFP's master plan underlines concrete actions related to staffing, phased rollouts of conservation efforts, financial projections including future funding sources, and much more. Many compare this level of due diligence to the level of care undertaken for large expansions within the for-profit sector when significantly expanding a company's business operations. Consequently, PFPs usually undergo extensive planning and coordination processes, anticipating and preparing for possible implementation hurdles — such as non-cooperative governments or political swings — before any funding is spent. By planning for these common pitfalls, the hope is that PFPs will have a higher likelihood of achieving long-term impact.

The term "project finance" is not new. It is commonly used in the financial world to fund projects with long-gestation periods in areas such as energy, infrastructure, and transportation. In these cases, a Special Purpose Vehicle (SPV) is created to arrange funds and hold the assets that generate cash flow. Under this scheme, creditors have limited resources, so assets under the SPV are used as collateral for credit. This approach was integrated with conservation initiatives to create the PFP model.

According to [The Valuing Nature Conservation]() report published in 2020 by the consulting firm McKinsey & Company, in parallel to their financial counterpart, ecosystem PFPs aim to preserve valuable services such as rainfall generation, soil formation, pollination, and water filtration. PFPs emerge from the understanding that this natural capital is an enabler for life on earth, essential for the sustainability of all major industries. However, the lack of agreement regarding how to measure conservation impact is a potential obstacle. The benefits of the abovementioned services are often not directly translated into dollars. Therefore, on the surface, it would seem like nature conservation does not generate the cash flow necessary to treat PFPs as a typical Project Finance deal. This is one of the potential obstacles to be aware of as we assess these initiatives and their potential long-term impact on conservation.

The Potential for PFPs in Latin America

Still, this methodology has promising advantages in Latin America, mainly because of its systematic approach to conservation. When outside investors are looking to invest in Latin American projects, a big concern is the potential lack of corporate responsibility and governmental transparency. In this context, PFPs surge as a means for local NGOs to convince outside conservation investors and donors that the project is carefully built, well scoped, and designed to maximize its intended impact.

> "Fundamentally, it would seem like no conservation initiative can be successful without the hard commitment from all involved stakeholders."

An excellent example of this is the colossal challenge to preserve the Amazon rainforest, a massive region encompassing about eight South American countries. Because of its size and richness of natural resources, any initiative seeking to safeguard the area must necessarily cooperate with local governments to succeed long term. In this context, PFPs create an extensive framework that clarifies all stakeholders' duties and obligations, including the government, ensuring that every party accepts the collective action plan before moving forward with fund allocation. This structure and contract-driven approach prevents subsequent friction between the involved parties and ensures that the long-term conservation plan takes priority over differences of opinion or priorities.

This insight led to the creation of one of the largest PFPs to date: the ARPA for Life Fund Commitment. In partnership with the Brazilian government, conservationists, financial and business leaders, and public and private donors, ARPA for Life was established in 2014. At the time, it was the largest tropical rainforest conservation initiative ever undertaken in the world. The project was designed to provide permanent funding for the protection of around 60 million hectares of the Brazilian Amazon through long-term financing of $215 million.

FUNBIO, the Brazilian Fund for Biodiversity, acts as ARPA for Life's financial and asset manager. It conducts procurement activities and deals with donors from organizations like the WWF, Anglo American Mineiro de Ferro, the German Ministry of Economic Cooperation and Development, the German Development Bank, and the World Bank.

According to an article by Nina Foster published by the WWF, ARPA's most notable achievements have been creating new protected areas, reducing deforestation, preserving biodiversity, reinforcing the balance of protection and sustainable use of resources, contributing to the reduction of carbon emissions, and becoming an innovative leader in the management and governance of conservation initiatives. ARPA is also credited for having a significant impact on the local communities, whether indigenous or not.

The success of the ARPA for Life project has been used as an example to establish other PFPs in countries including Colombia, Peru, Costa Rica, and Bhutan. Moreover, after the success of ARPA, the WWF decided to create Earth for Life, an ARPA-inspired initiative that seeks to protect forest and ocean ecosystems worldwide.

> "The conservation ecosystem is still struggling to attract funds from private investors who want to generate a positive impact but still expect a return on their investments."

When Conservation Fails: The Case of Yasuni

While PFPs and other altruistic endeavors are, in theory, robust and objective mechanisms through which capital could transparently flow towards ecological conservation, in practice, these initiatives don't always unfold as planned. This gap between theory and practice is primarily explained by the inherent mismatch between the long-term benefits of ecological conservation and the short-term vision of the main stakeholders involved.

An archetypal case of a failed conservation project is the Yasuni-ITT Initiative in Ecuador's Amazon, which started in 2007. This initiative aimed to keep over 920 million proved barrels of oil reserves underground (accounting for over 20% of Ecuador's oil deposits) and preserve 200,000 hectares of biodiverse land from being exploited. The Yasuni national park, with over 1,300 species of trees, 610 species of birds, and 200 species of mammals, is one of the richest ecological areas in the world. According to The Guardian, one Yasuni hectare — the area of two football fields — has a wider variety of trees and animals than the United States and Canada combined. Furthermore, the Yasuni is home to the Tagaeri and the Taromenane, two of the world's last uncontacted tribes.

This placed Ecuador in a profound dilemma: Should it keep the fossil fuels underground to preserve this unique piece of land and prevent 400 tons of CO2 from entering the atmosphere? Or should it exploit Yasuni's resources to reap financial benefits — valued at $3.6 billion at the time — to keep developing the country's economy?

When faced with this conundrum, Ecuador devised an innovative plan that would allow it to preserve the Yasuni while being compensated for doing so. It intended to involve some of the wealthiest nations — the most prominent historical polluters — so that they would redistribute their wealth to Ecuador. In exchange, Ecuador would keep Yasuni's oil untapped. Specifically, the Ecuadorian government agreed to forego the oil revenues of Yasuni if it managed to raise half of those revenues through international donations. These donations would be governed by the United Nations Development Programme (UNDP). Following the announcement, a commission of thought leaders, scientists, and politicians was created to lead the socialization of the plan and the eventual fundraising.

"We started gaining much traction among developed nations. While they didn't give us hard commitments, I'm sure we would've reached our $1.5 billion goal," said Yolanda Kakabadse, leader of the Yasuni commission, former climate minister of Ecuador, and former president of the WWF. She explained how countries like Spain might have been willing to condone Ecuador's debt as part of this initiative, and others like Germany were ready to get on board, too.

However, due to external pressures and overall skepticism, the Ecuadorian government halted the program and, in subsequent years, started developing the extraction of certain areas neighboring those that were intended to be protected.

"Ultimately, for these initiatives to get executed, you need the full buy-in of the highest government authorities, robust socialization plans in place that would guarantee that the information reaches the public, and dialogue with all key stakeholders, such as oil companies," said Kakabadse, reflecting on what could have helped this initiative to carry through. While the official Yasuni-ITT Initiative and its commission have been liquidated, key members, such Kakabadse, keep aspiring for a plan to help preserve the Amazonian region with an economic and developmental outlook.

The Yasuni experience provides perspective on what conservation programs need to succeed in the region, whether PFPs or others. Fundamentally, it would seem like no conservation initiative can be successful without the hard commitment from all involved stakeholders.

Conservation as a Private-public Effort

According to data by the NGO Enduring Earth, as of 2022 there are six PFPs in the world that cover some 120 million hectares and account for over $1.3 billion. This number is expected to more than triple over the next few years. According to figures from McKinsey, PFPs will be present in more than 20 nations by 2030, covering some 600 million hectares.

The successful growth of PFPs is in line with the emergence of sustainable financing schemes as one of the main trends in climate change action and conservation efforts. Several efforts are in place to push these schemes forward, and both the public and private sectors are responsible for driving them and engaging in continuous improvement to adapt to changing realities and continue improving their overall impact. Without this public-private collaboration, investors, donors, and the financial markets will find it hard to continue investing in conservation. This was reinforced in the G20 Environmental Ministers' Communique of 2021, in which the group stated that financial markets have a role in conservation and highlighted the urgency of aligning financial and sustainability incentives.

The World Bank, in a paper published in 2020, also underlined the need for joint efforts between the public (governments and regulators) and the private sector, highlighting that not only the financial industry but also the real sector has a vital role to play. The government can create policy frameworks to include biodiversity in the real sector, composed mainly of firms operating in productive activities. Taxation and subsidies are also avenues that can influence behavioral changes in the economy.

There is also a growing need to increase the co-benefits of sustainable finance and encourage nature-related financial disclosures. The formation of the Taskforce on Nature-Related Financial Disclosures (TNFD) is a good example of these pressures turning into real-world actions. The TNFD is an organization of different financial institutions, corporations, and market service providers including Bank of America, PWC, HSBC and many others with a common mission to shift global financial flows from nature negative outcomes and support conservation. These efforts can push the industry to conduct more biodiversity risk analyses in investment decisions, and they are more likely to do so when incorporated early.

Looking Forward

"PFPs are practically the only mechanism available that is capable of generation change at a large scale at this moment," said María Luisa Hernandez, an environmentalist tightly linked with the development of PFPs in Latin America. She agrees that private-public allyships are paramount for the implementation of successful conservation efforts in the region, which is one aspect in which PFPs have proven to be particularly good. She also reinforces that the private sector is a "natural ally" for conservation efforts because of its role in raising funds and expertise. According to Hernandez, all initiatives struggle with managing their funds effectively, which is why partnering with asset management firms and other financial institutions is critical so that the funds can generate returns that can finance operations.

Still, despite all their potential to generate good, there are opportunities untapped. The main one is that almost all conservation initiatives still depend on philanthropic efforts from private donors and institutions. The conservation ecosystem is still struggling to attract funds from private investors who want to generate a positive impact but still expect a return on their investments. The rise of impact investing initiatives promises to be one of the mechanisms through which the market can carry on its pursuit of profit while also encouraging social good. Still, environmentalists and governments alike will benefit from promoting environmental projects like PFPs and other innovative mechanisms that can attract private investors to the region — potentially for profit.

This article was written by Manuel Diaz Corrada, Rodolfo Fumero, Diego Martinez, Ignacio Osorio, and Pablo Teran, members of the Lauder Class of 2024.

More than Old Flavors: The Revival of Forgotten Foods in Rediscovering Cultural Identity

There's a growing global movement to reject mass-produced fast food and embrace a slower, healthier way of meal preparation steeped in the unique flavors of individual cultures. This article explores how business and culture come together through food.

Picture yourself in the bustling Kadıköy Market on the Asian side of Istanbul. You are stuck on a narrow street surrounded by honey and spice markets, with crowds sitting and eating along the sidewalks. One restaurant serving uniquely presented dishes grabs your attention, and its scents and flavors transport you to a different time.

On the other side of the world, wandering around the streets of Itaim in São Paulo, Brazil, you now stumble upon a tiny Japanese restaurant with a hidden entrance. As you walk in, you notice the quiet and intimate atmosphere. The setting, exotic interior, and the sushi take you to the Far East.

Imagine el Cangrejo, a vibrant Panama City neighborhood where you would find a restaurant that looks like a family house. As you enter, the homey feeling grows when you realize everything is local, from their delicious churros made with root crops to their modest and homey décor.

Arriving in Toledo, a stunning medieval town close to Madrid, you visit a high-end restaurant that stands out from its neighbors. You are surprised to see they cook their food using the most ancient cooking technique: fire. Everything is prepared following the original processes and with ingredients endemic to the Iberian Peninsula.

> "A rise in health-conscious consumers has boosted this fast-food rejection phenomenon."

What do these four locations have in common? How does a local and busy Turkish restaurant connect with an intimate Japanese venue in Brazil? Or how does a high-end destination in Spain link with a family-home venue in Panama? The connection rests in their mission: to celebrate the past. In their own way, each chef behind these restaurants aspires to reconnect people with their culture, using processes, ingredients, or recipes that celebrate old and sometimes forgotten food. They all want to ensure that their culture survives, not only on their restaurant tables but in their respective societies.

These four restaurants are examples of a movement that has grown significantly in the past years and opposes another prominent trend since the 20th century: the commoditization and Westernization of food. This trend can be exemplified by the accelerated growth in the global fast food restaurant market, reaching a market size of $800 billion per year in 2021. In fact, iconic American chain McDonald's, which is the symbol of "food globalization," controls the largest share of this market at 12.7%, according to the IBIS World 2021 Report.

> "Ancestral's mission is to evaluate what ingredients and processes are worth recovering."

On the other hand, food anthropologist Kyri Claflin's research has shown that fast-food chain growth has "led to distrust, alienation, and more uncertainty about who we are because we no longer know where our food comes from." In her book "Writing Food History: A Global Perspective," she suggests that consumers are now more frequently rejecting the proliferation of junk food globally. In addition, the U.S. Department of Health and Human Services has linked fast-food intake to negative health impacts such as high blood pressure, obesity, binge eating disorders, increased inflammation, and a spike in blood sugar levels. A rise in health-conscious consumers has boosted this fast-food rejection phenomenon.

So, a countermovement has surfaced. We have observed the emergence of restaurants, local producers, and even cooking shows that reject the idea of highly industrialized, Western food. This movement is the answer to a growing demand for local, healthy, and traditional cuisine and is driving growth in important segments across the globe.

For example, reports have shown that customers are more and more "interested in trying ethnic cuisines at full-service restaurants." Search interest over time on "food heritage," measured by Google Trends, reached its peak in 2022 with a rating of over 85 out of 100. Further, a survey conducted by Next Insurance in April 2022 demonstrated that "64% of diners actively chose to eat at local restaurants versus chain restaurants." The search for healthy foods has also boomed in the past years, and Data Bridge estimates that the health and wellness food market size "will grow at a CAGR of 9.3% during the forecast period of 2022 to 2029." Local food is also growing expressively, according to industry research firm Package Facts, which noted "local food sales in the U.S. grew from $5 billion to $12 billion between 2008 and 2014."

In this article, we will explore how this movement unfolds in the gastronomic scene by showcasing the work of four passionate chefs. In their stories, they use local ingredients, cook ancient recipes, apply traditional processes, and develop new talents, all towards a common goal: to celebrate the past, cultivate traditions, and, most importantly, save cultural identity.

Preserving Endangered Cuisines through Culinary Anthropology

Çiya Restaurant / Chef Musa Dağdeviren / İstanbul, Turkey

The Anatolian Peninsula, where modern Turkey is situated, has famously been known as where Europe meets Asia. Over centuries, this region became a meeting point of the occident and the orient. More than 70 civilizations of Turkic and non-Turkic ethnic groups have lived and interacted with each other here. However, as in many other societies, due to the rapid rise of fast-food culture, the dominance of Western-style recipes, and a lack of collective identity across regions, the traditional culinary heritage has almost been forgotten by the people.

Çiya Sofrasi was built to bring people's identity back to them. The restaurant features the original richness and diversity of the Anatolian food cultures, combats the limited perception of Turkish food, and preserves the unique and multi-ethnic culinary heritage through an immersive and innovative approach.

Çiya's concept was envisioned by Musa Dagdeviren, a world-renowned chef and culinary anthropologist.

According to Sophie Marie Cappelen's research in "New Anatolian Cuisine: Legitimizing a Culinary Movement," he founded Çiya in 1998 and has since focused on researching and applying regional home cooking recipes in his restaurants. Chef Musa's vision is to preserve an authentic home eating experience while offering a diverse culinary profile that can travel across ethnic groups and geographic locations.

To ensure the authenticity of these dishes, Dagdeviren conducted fieldwork in villages all over Turkey to learn from the mothers and grandmothers who still cook those home dishes. He documented all the detailed recipes and now rigorously prepares them in his restaurant, following the original techniques and traditions. Additionally, Dagdeviren directly sources products from local farmers in different regions to sustain the ecology life cycle, enhance traceability, and reduce the distance between the farmers and consumers.

Beyond his restaurant, Dagdeviren preserves Anatolian cuisine by enhancing publicity and participating in educational initiatives across borders. He has published his book, "The Turkish Cookbook," and used the internet to disseminate recipes with insightful historical stories. Most recently, he was featured in Netflix's award-winning program "Chef's Table" to tell his story and inspire the next generation. "They are now the carriers of this culture," he says in season 5 episode 3 of the show aired in 2018.

Dagdeviren's bigger vision is to use food as a means of a shared identity that can go beyond the borders of religious, cultural, or political differences in Turkish society. With the rise of the "New Anatolian movement" and the traction amongst young generations to incorporate original recipes and innovative concepts, the Anatolian food culture will survive and thrive in the new era.

Ensuring the Continuity of Ancient Japan in Brazil

Ryo Restaurant / Chef Edson Yamashita / São Paulo, Brazil

Like Dagdeviren, Edson Yamashita looks to the next generation to preserve culture. Like many Brazilians, he is the son of immigrants. Throughout his life, he has lived close to two distinct cultures in all possible aspects. Yamashita was raised in a traditional Japanese home in the middle of a chaotic and cosmopolitan Brazilian city. At the age of 15, he decided to return to his parents' country to learn more about his origins and the culture and food of his ancestors.

> "Globalization has standardized what we eat, regardless of where we are or where we came from."

He stayed in Japan for eight years, learning the most traditional Japanese sushi cuisine processes. There, he was taught the culture of excellence, the ancient recipes and cooking methods, and most importantly, the importance of celebrating tradition and ensuring it lives on. Yamashita returned to Brazil, where he joined two other friends and opened a new restaurant to transport that Japanese experience to São Paulo.

Ryo opened in 2016 in a tiny venue in Itaim Bibi in São Paulo. The restaurant's goal from the start was to deliver excellence in every single aspect: high-quality ingredients that are carefully selected from local vendors, a spotless service that is offered to only eight guests per night, and a careful and detailed execution that follows ancient Japanese processes and recipes. Even though Yamashita admires innovation and creativity, he said that his restaurant has a different goal. "Innovation is important, but before one does that, it's critical to learn, respect, and celebrate the ancient, the old. Japanese food is about tradition and excellence, which is what Ryo is also about."

The high-quality standards were recognized locally and internationally. In 2018, Ryo was awarded a Michelin star. In 2020, it was awarded the second star, a feature that only four restaurants in Brazil have achieved. Looking ahead, Yamashita said he will work towards the desired third Michelin star, but more importantly, he will continue to work on his personal goal of ensuring that traditional Japanese cuisine lives on by cultivating new talents and giving back to the community.

Yamashita wants to grow talents in his restaurant. As he was taught for years in Japan, he also wants to introduce the new generation. Giving back is at the core of his work on Ryo, and he actively mentors and empowers his employees to become more outstanding professionals. By doing so, he said he aims to "strengthen an important chain, a chain that will ensure his employees have a better future and that will also ensure that his work and that the traditional Japanese cuisine lives on, even far from Japan."

A piece of Japan in the middle of the concrete jungle, Ryo, is a perfect example of a more significant movement: going back to the past and reconnecting with cultural identity.

The Importance of Eating Locally to Support Sustainability

Riesen Restaurant / Chef Hernan Risen / Panama City, Panama

Far from the large, cosmopolitan city of Sao Paulo, in a small residential neighborhood in Panama City, we can find Riesen. It was founded in 2013 by Chef Hernan Riesen, who dreamed about creating a solid traditional cuisine foundation. To achieve this, Riesen started a journey around Panama, visiting local markets and traveling around the country every month to become familiar with the ingredients and ancestral cooking techniques from different provinces. Through his process, he learned how to cook with firewood, how to use alcoholic fermentation to create beverages, and what ingredients to use for the traditional dishes he cooked in the restaurant, such as sweet chili and culantro (an herb similar to coriander).

Riesen's primary goal is to bring back traditional cuisine while promoting a circular economy and sustainability. As he said, "We source our products locally. This is the only way to ensure that we help our micro-producers and farmers. This also helps us be more sustainable since we avoid the carbon footprint of international sourcing."

But it is not the only venue in Panama that aims to bring traditional cuisine back to the country's restaurant scene, which Western trends have largely dominated. As Riesen said, "Panama had a big influence from France and the United States until the early 2000s. This impacted our dishes and even our culinary schools, which taught mostly French cuisine and techniques." At that moment, renowned chefs like Cuquita Arias, Patricia de Miranda, and Charlie Collins opted to take a chance on traditional Panamanian cuisine, fostering a movement that continues to rise. "Over the past couple of years, people have become more aware of what they eat. They want traceability of the ingredients and to eat healthy food. In Panama, food has become an important part of the culture lately. People want to eat out, and we had to take this opportunity to bring back our local cuisine," said Riesen.

Hernan Riesen and 20 chefs in Panama created the Brigada Colectiva, an organization dedicated to sharing the values and recipes of traditional Panamanian cuisine through activities open to the entire population. "But our work doesn't stop there," Riesen said. "Our goal is to give back. It's not just about ancient recipes and processes. We have created an NGO called 'Rescate de Alimentos' to use products that are not sold to consumers to prepare food for people in need. I currently teach a Panamanian cuisine course in the cuisine school I studied. We take young chefs to the farms to meet the micro-producers and the ancestral cooks. We try to compost as much as possible."

Riesen and other chefs in Panama have become agents of change. They have created an ecosystem that boosts circular economy and sustainability while bringing back ancient recipes and traditions that have helped Panamanians reconnect with their roots and enjoy their ancestors' foods once again.

Remembering and Recreating Traditions through Fire

Ancestral Restaurant / Chef Victor Infantes / Toledo, Spain

In addition to rediscovering heritage through recipes, the evolution of food culture has taught us that using fire is the most direct and honest way to cook. A mere 30 minutes away from Madrid, Ancestral Restaurant in Toledo, Spain, is focused on bringing back the ancient process of making food through flames and offers that authentic taste to all its customers. While creating haute cuisine and gourmet plates, Chef Victor Infantes discovered that using fire was not just a fad but an *ancestral* way to honor traditional recipes. The venue's focus is not on remembering grandma's recipe, as explained by Saúl González, the restaurateur behind Ancestral, but on recreating the process of elaboration and sourcing the right ingredients.

Many of these ingredients may not be profitable for the rest of the industry, so the restaurant leaders spend considerable time finding suppliers who support their vision. For example, González argued that the supply of frog legs has declined, but certain artisanal producers sell Ancestral the native Iberian breed of legs that makes a difference in the taste and the quality of the dish they create.

When there are ingredients Ancestral cannot find, they grow them. Nearly 10,000 people follow Ancestral's Instagram page (@ancestral_res), where their dedication to their garden is palpable. Within their vegetable patch, Infantes grows multiple varieties of high-quality Castilian ingredients. "Our tomatoes may not be the prettiest, but they are the most exquisite tomatoes with rich and intense flavors," González told us. Don't judge a tomato by its cover!

Ancestral's mission is to evaluate what ingredients and processes are worth recovering. For instance, they have perfected the art of clay cooking on an open fire, "which is much more complex than clay cooking on gas," González explained. Currently, the industry focuses on speed and practicality, not authenticity, and Ancestral is breaking that mold.

In addition, the education of their staff is paramount. "The small towns are the most rooted in their traditions and therefore the best place to learn culinary wisdom," said González. "Schools don't teach that." So, before traditional processes are forgotten, the employees will search for this knowledge. They also try looking for old books in which antique utensils like the trivet were used when there were no kitchens.

Looking ahead, Ancestral plans to continue evolving in how they work to earn a Michelin Star. A cutting-edge take is to recover drink recipes as well. Ancestral would like to focus on a traditional drink, such as Sangria, which can be experimented with through the versatility in making wine. "We want the experience to be well-rounded and as traditional as possible. This is what we are betting our long-term success on," González said.

Conclusion

Globalization has standardized what we eat, regardless of where we are or where we came from. Geography and culture have been neglected when determining our food habits. Consequently, commoditized food and fast-food chains have flourished, but at the expense of our cultural identity and even our health. This, however, is starting to change.

People now care more about the source of their food, its process, and its history. Aligned to the growing demand, chefs across the world are trying to showcase traditional foods and revive lost recipes, processes, and ingredients. Their goal: bring us back to our roots and reconnect us with our culture.

By bringing back traditions to the dining table, those chefs are also strengthening their business. They are supplying unique products in a fast-growing market and building resilient supply chains, which were critical for their survival during the pandemic and will be a competitive advantage considering the challenges ahead of us. Finally, they are also growing local economies, which increases the community's purchasing power and therefore attracts new clients to their own restaurants.

Dagdeviren, Yamashita, Riesen, and Infantes exemplify how this traditional food movement has unfolded and how traditional food is not only about eating old flavors but also about giving back, developing new professionals, strengthening the local food system and economy, and helping us in search of our identity.

This article was written by Mercedes Beras-Goico, Xinyun Dong, Gabriela Marques, and Mariana Traipe, members of the Lauder Class of 2024.

OTT Tug-of-War: How Streaming Disrupted Entertainment in India and The Middle East

The wild success of socially liberal shows on streaming platforms across India and the Middle East proves that audiences are clamoring for something different. But government regulators and outspoken conservatives are pushing back. Who will win this tug-of-war?

To infinity and beyond! Or rather, to infinity and a few steps back. In 2022, the United Arab Emirates and Disney announced that the new Pixar feature film, "Lightyear," would be banned on the Disney+ Middle East streaming platform. Supposedly, the inauguration of OTT - or over-the-top media, the term for media delivered directly to consumers over the internet — marked the latest revitalization of media content in the region. Barriers to liberalized content may have been bypassed, yet the disapproving hums linger. These mixed reactions beg us to understand the tug-of-war between stakeholders within OTT's spheres of influence.

> "While recent content has been hailed as more liberal in both Egypt and India, we might have already bypassed the regions' cinematic heyday."

Despite geographical differences, India and the Middle East have overlapping similarities in culture, history, and even in the media industry. In recent years, enabled by diversification of financing sources and production methods, the rise of OTT platforms in both regions has led to content exploration previously considered taboo in these historically conservative societies. As such, OTT represents a seismic disruption to the entertainment industry in these regions - one not seen since the satellite transformation that brought risqué Western content to conservative audiences and permanently transformed pop culture.

To better understand how OTT has disrupted entertainment in the Middle East, it is important to recognize the historical status quo of the industry. "A foundational element of the TV-show model in the Middle East are drama shows known as *musalsalat,* a product of the Islamic holy month of Ramadan, in which producers churn out 29-30 episodes in a daily sequence," said Heather Jaber, assistant professor in residence at Northwestern University in Qatar. This unique model had multiple implications for the industry. First, economic activity in the industry was largely centered around this month, leaving fewer employment opportunities in the remaining months. Second, as Farah Desouky wrote for Cairo Scene, many episodes are scripted and filmed within a day before airing, and they center around one industry "star" who controls the narrative. While vastly popular across the Middle East and its diaspora, this content led to repetitive and oftentimes rushed storylines.

Indian TV shows have historically suffered from a similar lack of creativity, not least because content in the early days was sponsored by the state and focused on the Indian family unit. Indian Gen-Xers today fondly recall the days of "*Mahabharata*," a famous show based on a Hindu epic that aired in 1988, when audiences would crowd around the one TV set in the entire neighborhood every Sunday to feed their voracious appetite for new content. This led to an era of household soap-opera style content depicting the daily lives of the average Indian family in which the dramatic dynamic between the mother-in-law (*saas*) and the daughter-in-law (*bahu*) assured constant viewership for years and sometimes decades.

While recent content has been hailed as more liberal in both Egypt and India, we might have already bypassed the regions' cinematic heyday. "Egypt was much more liberal in the '60s and '70s than it is now. There were even films such as '*Fawk Al Shagara*' that advertised the number of kisses in the movie," Egyptian director Amr Koura said, referring to a 1969 film featuring superstar Abdel Halim Hafez. Similarly, while the momentary lack of regulation in India's OTT industry gave rise to a slew of controversial content, we see signs of the same "massification" that suppressed creative liberties when it came to TV shows in the late '80s. There is no doubt that the advent of OTT streaming services has challenged the status quo in both regions, fundamentally restructuring, and in some cases displacing, traditionally powerful stakeholders and their piece of the pie in the industry.

Regulators and Financers

Regulators in the Middle East range in their involvement in controlling public media content. For example, Saudi Arabia has stricter regulations than Lebanon around the depiction of social taboos in the public eye. As a pioneer of media in the Middle East, Egypt is an illustrative case of how powerful regulators can be in influencing public opinion. "The end of Gamal Abdel Nasser's presidency in 1970 signaled a shift in developed public content in the country," Koura said. "No longer would Egyptian billboards advertise the number kisses in a movie to attract audiences." President Anwar Sadat, although assassinated by the conservative Muslim Brotherhood for forging a peace agreement with Israel, voiced his perspective on social conservative values (albeit mainly for political appeasement), driving the proliferation of conservative political, social, and cultural thinking. Until recently, media in Egypt has remained conservative in comparison to when most creatives in the field believe it was in its prime. Egypt's case is not an isolated example; regulators in other Arab countries also mirrored this behavior. It appeared content would forever remain under the watchful eye of governments.

Come the advent of OTT in the Middle East. These privatized platforms ostensibly allow both creatives and consumers to engage with media content without government interference. Although it is true that governments technically cannot censor content made available on OTT platforms, they hold the power to indirectly influence both creatives and consumers. Take the case of Disney+ Middle East. "Lightyear" was not only banned in public theaters for featuring an LGBTQIA+ storyline, but also, unexpectedly, on the Disney+ Middle East streaming platform. Other titles such as "Baymax" have suffered the same fate, symbolic of the business and power struggle between regulators and creatives. In an official statement to Esquire Middle East, a Disney representative commented, "Content offerings differ across our many Disney+ markets, based upon a number of factors. Content available should align with local regulatory requirements." There are, indeed, certain regulatory boundaries creatives need to adhere to if they desire success in Middle Eastern markets.

Comparatively, the traditional film industry in India has long operated under the watchful eye of the Central Board of Film Certification (CBFC), which censors content deemed "provocative, vulgar, or offensive." The Board's purview, however, does not extend to OTT streaming services.

In the early days of OTT in 2018, Indian content producers were able to take advantage of this regulatory ambiguity, giving voice to a slew of controversial content that was lapped up by urban Indian audiences bored of consuming predictable, *masala* Bollywood content. In the more politically conservative climate of 2022 India, that can no longer fly. Amazon Prime's show "*Tandav*" caused a stir among audiences in late 2021 for "offending religious beliefs" and "containing objectionable content." The result? Multiple police cases, an official apology statement issued by director Ali Abbas Zafar, and the omission of disputed scenes from the show. In line with this trend, in 2021 India adopted the Intermediary Guidelines and Digital Media Ethics Code that aims to promote self-censorship and increase government insight over digital content. The rules prescribe a classification of content similar to theatrical films (equivalent to MPAA ratings in the U.S.), adding restrictions on age and depiction of what is deemed to be vulgar or offensive content.

What does this mean for creative liberty going forward? Chandrima Mitra, media and entertainment legal expert at DSK Legal in Mumbai, paints a grim picture: "With the new intermediary guidelines and the imminent Digital Act, platforms can no longer get away with the same level of vulgarity as '*Mirzapur*' or anti-establishment sentiments like '*Piku*.' You can only push the envelope if the story justifies it, but even then you run the risk of moral policing."

With this additional layer of scrutiny, OTT platforms in India are left with no choice but to examine every creative decision with a legal microscope. The free reign for liberal content exploration may never return.

Creatives

Closely tied to regulation is the topic of financing for creatives. Koura explained that the source and quantity of financing is directly correlated with the quality of content produced. After successfully producing the Arabic “Sesame Street,” he gained the buy-in of the U.S. secretary of state to fund the first Arab teen drama series named “*Al Jamaa”* (The University). His team’s aim was to tackle teenage problems, such as drug abuse and sex, to promote diversity and tolerance. With their wealth of resources, they were able to onboard psychologists and subject-matter experts to inform the screenwriting.

> “Today, the business strategy is all about the quantity game.”

The end product was of significantly higher quality content than it would have been without external financing. However, there is a limit to avoiding regulatory influence. “By nature, creatives are always seeking to push social, political, and cultural boundaries,” Koura said. “The rise of OTT has allowed them to experiment and release more thought-provoking content. However, they must be aware of how far they can push on their progressive interests without losing support from regulators and viewership from consumers.”

For example, the 2022 Arabic adaption of “Perfect Strangers,” which was the first Arabic-language Netflix original film, ranked at the top of the most-viewed chart across the Middle East. Amid the cacophony of hype were piercing comments about perceived lewd scenes and the film’s focus on LGBTQIA+ topics. “When a movie like this comes along, an exact copy of an Italian film without any deference to Egyptian and Arab moral and values…when it defends homosexuality, when more than 20 obscene words are used…when I see this I realize that the Egyptian and the Arab family is being targeted,” said Mostafa Bakry, a pro-regime member of the Egyptian parliament. Ghada Shahbender, an Egyptian screenwriter and human rights activists, reasoned that since the arrival of OTT in the region, criticism about media content had been driven primarily by popular opinion via social media as opposed to professional media critics and analysts.

The OTT revolution in India has similarly transformed the traditional business case for film production. The budget constraints of hiring A-list actors, shooting in exotic destinations, and spending months or years on marketing campaigns no longer apply. “Creatives now have the liberty to write a show that is unique and can sell it directly to a streaming platform without having to worry about getting approved by production houses. Budget constraints also imply a necessary hiring of more diverse, local talent — one that attracts a consistent consumer base,” said Manvi Jalota, a former content strategist at Star, one of India’s leading channels. The power of real-time data and analytics also gives streaming services an edge over traditional TV and film.

“If we’re advertising a car on our OTT platform, we have the data to show the company how many people Google the car after viewing the commercial,” Jalota added. “We can track impressions, viewer demographics, you name it. Advertisers now find it more lucrative to invest in, say, three different shows through a bulk deal, which enables them to tap into three sets of audiences.”

This ushers in new funding that enables a riskier appetite for experimenting with previously unexplored genres of content, giving Indian creatives the platform to address topics like sexual harassment and LGBTQIA+ issues through shows like “*Mirzapur”* and “Made in Heaven” without fear of investor pusback. It is, however, important to understand how the third main stakeholder, consumers, fits within this tug-of-war.

Consumers

From a consumer perspective, there is still a large market for *musalsalat* in the Middle East, but foreign industry titans like Netflix are disrupting traditional methods of content output. From early days in the region, “Netflix noticed how quickly Arab consumers took to Western media on their platforms, with U.S. chart breakers such as ‘Stranger Things’ and ‘Fuller House’ rocketing to the top of the Egyptian charts,” MENA Netflix spokesperson Leyla Guilany-Lyard said. After just two years in Egypt in 2017, Netflix announced an $8 billion investment in developing localized content. Yet movies that try to push boundaries, particularly those produced by foreign entities, have received significant pushback.

"Since the rise of internet, Arab opinion, largely led by social media discourse, has led to an emergence of 'clean' cinema, especially from older consumers," Heba Saleh wrote in a Financial Times piece. She pointed to the backlash to "Perfect Strangers," a Netflix original that addressed homosexuality acceptance.

This wasn't Netflix's first time. Consumers also allergically reacted to "*Jinn,"* Netflix's first produced TV show in the region, which depicted teenagers oftentimes getting rowdy in the ancient city of Petra, per Ian Akerman in the Arab News. Criticism ranged from calling out the discussions surrounding drugs and sex to pointing out the hyper-Westernization of the show, written by two American writers who many felt did not incorporate enough locality. The show's backlash was so harsh that it caused Netflix to postpone the next scheduled Jordanian-produced exclusive, "El Rawabi School for Girls," disrupting economic activity and suspending many production jobs needed for the next special. Amr Koura points out that this perceived deviation from social norms "has been driving Arabs to turn to Korean shows, which they consider *mohtaram* (respectful)."

Ultimately, consumers of entertainment in the region are facing a new divide. As foreign companies push boundaries of local production, they are able to succeed by winning over a youth already exposed to mostly Western media, but simultaneously isolate an older generation used to the consistency of their Ramadan *musalsalat.* This is no better depicted than by an opinion piece in Cosmopolitan by Arab teen Sarah Alhumiri, who professes her hope that the industry will continue to see transformation in favor of good Arab content.

In India, the rise of OTT platforms in the early days of 2017 may have been predicated on the success of edgy content — such as "*Mirzapur"* on Amazon Prime and "Sacred Games" on Netflix — that received thunderous audience responses for displaying a liberal cocktail of violence and vulgarity never before been seen on the smaller screen. But in today's political climate, the target consumer has changed. "Filmmakers have now assumed that they're seeing a bigger transformation, in which the average member of audience likes everything the BJP party likes, and abhors everything it abhors," opines Samanth Subramanian in his piece in The New Yorker. "The darker question is: is there even an audience out there for [liberal] movies [anymore]?"

Growing internet and smartphone penetration in India has been a catalyst for subscriber growth, making the online video market the mainstream destination for Indian masses. According to a recent report by Media Partners Asia, OTT subscribers in India reached 97 million by March 2022, a pace of growth exacerbated by the nationwide COVID-19 lockdown. As the consumer base expands beyond Tier-1 cities, OTT platforms must revamp their content strategy to acclimate to this "massification." Kartik Kalla opined in a piece on the state of the Indian OTT industry: "Quality content was initially a big component of OTT success, but there are now much higher expectations from the broader audience the content has reached. The expanding consumer base, reaching Tier-3 and Tier-4 cities in India, demands regional content in local languages that is more conservative in nature."

Today, the business strategy is all about the quantity game. The purchasing power lies with the masses, and those who can build out the biggest libraries of regional content for the values-based Indian consumer will emerge frontrunners in the field.

Overall, the disruption caused by the emergence of OTT platforms in India and the Middle East has sent shock waves through the ecosystem of creatives, financers, regulators, and consumers. This tug-of-war is continuing in real time, so the final consequences are yet to be seen. But surely industry titans and new entrants alike are watching closely for economic opportunities. As tensions continue between traditionalists and creatives continuing to push boundaries, Indian and Middle Eastern regulators are a step ahead in clamping down on anti-establishment content. In September 2022, Gulf Arab states launched a coordinated campaign calling on Netflix to remove "immoral" content. Only time will tell who emerges victorious, and what Arab and Indian consumers see on the big screen and mobile phones alike.

This article was written by Jyotika Chandhoke, Sabrina Jain, Radwan Munkarah, and Karim Stinner, members of the Lauder Class of 2024.

The Battle for Africa’s Sporting Heart: Can Basketball Overtake Football’s Popularity?

Basketball is a $1 billion proposition across Africa, where promoters are growing the sport that is so beloved in the United States. But whether basketball can surpass football in creating fan frenzy, a sense of national pride, and lucrative deals, remains to be seen.

Basketball is the new kid on the block that has been growing so much that it has been touted as the sport to finally unseat football (soccer) as Africa’s favorite sport. In order to understand the battle for both cultural and financial supremacy between football and basketball in modern day Africa, one must ask what makes a sport so popular in the first place? Why do people adopt one sport and reject another? How did football get to its perched position? The easy answer would be that European colonialists introduced the sports that are most popular today around the world. However, what explains cricket’s popularity in India but not in Kenya if colonialism is the cause? Even more perplexing is why cricket was more popular in North America until the end of the 19th century before it fell out of favor.

> “The main reason football clubs became fertile grounds for protest is that it enabled healthy men to come together over an organized idea.”

How Does a Sport Become Popular?

As a caveat, it needs to be established that Africa is not a monolith, as different countries have different priorities, policies, and success rates as it relates to sports promotion. For example, out of the 54 countries on the continent, only 13 have qualified for the FIFA World Cup since 1934. Similarly, the push for basketball is not universal across the continent as only a few countries even have competitive leagues, but the analysis herein has proven to be interesting and applicable in many countries.

In a paper from 2005, Harvard University sociologists Jason Kaufman and Orlando Patterson contend that the simplistic, accepted anecdotal explanations of sport diffusion do not suffice. By analyzing the early adoption and eventual rejection of cricket in the United States and Canada, their claim is that it is not about values, climate, or other rules of thumb that explains why one sport becomes more popular than another. In their opinion, popularity depends on whether elites decide to appropriate a sport as exclusive or promote it as popular, and secondly, whether entrepreneurs promote the game to get people interested. Kaufman’s and Patterson’s theory seems plausible in some cases, but less so in others. Football was incorporated as an elitist activity during colonial times, being taught in schools and introduced to students by missionaries. However, historians have observed a clear correlation between colonial regimes and football adoption.

Under French colonialism, the emphasis was on the importation of French culture into colonies, believing that this helped Africans gain enlightenment. In North African French colonial nations, it was quite evident that local elites adopted football with French support. A similar process occurred in Cameroon, though it took longer for the game to trickle down to the people. It took longer because the indigenous elite actually discouraged its popularity among the masses because they saw it as an elites’ game that put them on par with the Europeans. Despite this, the game eventually enjoyed massive popularity, contrary to Kaufman’s and Patterson’s theory. In Congo, Belgian troops also led the popularization of football, first among the indigenous elites. Despite its colonial roots, the game quickly became an organizational part of protest against colonialism as a local league formed in the ‘20s and ‘30s played a key role in the region’s independence uprising.

The British also used sport to control and navigate the indigenous population in their colonial territories. In order to ease the hardships of urbanization they forced on the locals in Zimbabwe (then Rhodesia), the Brits thought sport would serve as a distraction from their atrocities and create the appearance that they were ruling in the interests of the indigenous people. After initially being adopted by the local elite, the game quickly became a means of mass protest. The main reason football clubs became fertile grounds for protest is that it enabled healthy men to come together over an organized idea. Just like trade unions played a pivotal role in the ability of locals to organize themselves against colonial powers, in many cases, so did football club.

In both France and England, rugby was also a popular sport. Cricket was even more popular in England. Local elites in colonial Africa also participated in all of these sports, but football still rose as the darling of the continent. For a sport to be adopted, it must switch from being a symbol of oppression enjoyed by the elites to a symbol of freedom, and that is what "the beautiful game" represents. In Algeria, the FLN (*Front De Liberation Nationale*) used football clubs as a means of organizing its resistance. The same is also true for the ANC in South Africa and freedom rebels in Kenya. Kwame Nkrumah, the first president of Ghana and a champion of the pan-African cause, saw football as a means of creating pride and self-esteem. Nkurumah was so adamant that football was a source of African pride that he founded a club called the "Real Republicans" whose members were to serve as ambassadors for Pan-Africanism.

Today, football is still without a doubt the most popular sport on the continent, and media coverage and fan engagement from the most recent Africa Cup of Nations (AFCON) held in 2021 prove as much. According to the Confederation of African Football (CAF), the event opened the doors to more than 16 million followers on social media channels, 1 million subscribers on YouTube and generated 3 million hours of watch time during the tournament. This popularity is not bounded by borders, as African fans also follow tournaments and leagues around the world. According to GeoPoll, the UEFA Champions League final in May 2015 had 20 million African viewers, and the most viewed game during the 2014 FIFA World Cup had 25 million viewers watching across Kenya, Ghana, Nigeria, Tanzania, and Uganda. From a financial perspective, football is expected to have the richest competition in Africa in 2023, with CAF recently announcing a $100 million prize for a new continental super league.

> "The NBA's recognition of Africa as the next market for basketball is both aspirational and validating."

As we observe basketball's attempt to dominate the continent today, it seems the sociologists from Harvard touched on two important factors in sports infusion: the role of elites and benevolent social movements/entrepreneurs in driving the game forward. A sport must also provide pride and dignity for a people in order to become popular with them.

The Academy Model

Attention around basketball has been growing on the continent. African superstars like Joel Embiid, Pascal Siakam, and Dikembe Mutombo, who have made their marks in the NBA, have generated more and more interest for the sport in Africa in recent years. Continent-based play has also been growing as countries have been forming leagues since the late 1970s. Nigeria's Premier League, for example, is one of the most popular with 16 local teams and over a million viewers on Kwese TV. Most recently, the newly formed $1 billion Basketball African League (BAL), a joint venture between the NBA and the International Basketball Federation, provides a platform for the highest level of basketball performance in Africa. The league, which is two seasons old, was broadcast in more than 200 countries and in 14 languages, and 20,000 fans came out to watch the tip-off in Dakar for the 2022 season. According to Louis Gilbert, director of Deal Strategy and Content Partnerships at the NBA, the BAL has a twofold strategy in Africa: to create more basketball infrastructure in Africa, and for the BAL to potentially serve as an NBA alternative league for consumers, many of whom will be based in Africa.

Despite large international stakeholders' investment in the sport, the pride and dignity associated with a sport are critical when it comes to boosting its popularity. Without the required enablers that help diffuse this pride and dignity to the masses, basketball is unlikely to close the popularity gap with football, evident from the sevenfold difference in the official Instagram page followers of the Pan-African competitions CAF Champions League and Basketball Africa League. Therefore, benevolent social entrepreneurs will play an important role in the development of basketball, in accordance with the arguments by Kaufman and Patterson.

> "Outside of tackling contemporary issues, basketball is also trying to be an accessible sport to the consumer in Africa."

Football's longer history has resulted in the sport having a higher number of professional clubs, and most of these clubs have their own youth academies. Naturally, this results in a higher number of athletes going through youth development systems. In fact, these academies are the backbone of $45.7 million worth of annual transfer income for African clubs and continue to be the grassroots outlet for connecting the masses with the game. Most of these academies discover talent in popular school tournaments and welcome them into their development funnel. Since most of the football development programs belong to professional clubs, the academies are commercial entities aiming to raise elite athletes who can bring transfer revenue to the clubs.

However, the landscape is different in basketball, which mainly uses short-term development camps and programs. A review of the most prominent programs and academies revealed that the vast majority of these entities are social enterprises aiming to utilize the sport for its transformative impacts on society without having any financial motives. These social enterprises will play a critical role in creating the professional youth development landscape on the continent. The NBA itself became one of the first such entrepreneurs through the NBA Academy it set up in Senegal. The proliferation of such organizations across the continent is the key to the development of a steady flow of young professionals. But Masai Ujiri, president of the NBA's Toronto Raptors and Giants of Africa Program (a youth basketball development initiative), has stated publicly that programs and camps are not enough to create long-term opportunities for the growth of basketball.

To create more opportunities for this flow of talent, the BAL is therefore a unique model no other elite team or league has adopted to grow their sport by supporting a professional league on the continent. Many elite sports teams and leagues have grassroots outreach programs in Africa; however, having a well-funded professional league engages fans and culture in ways that grassroots programs simply cannot. The NBA's recognition of Africa as the next market for basketball is both aspirational and validating. The aspiration is, of course, that basketball eventually becomes Africa's No. 1 sport culturally and financially, making the sport a profitable venture. The validation is from the fact that Africa, with all its challenges and limited infrastructure for the development of the sport, has still managed to become an important feeder to the NBA, the highest point an athlete can achieve in the world of basketball. According to NBA Commissioner Adam Silver, there are 55 currently active players with at least one African parent in the NBA. This high number, despite the relatively lower investment in the sport compared to many other regions, is a striking phenomenon. On top of the 55 players mentioned above, it should be noted that some of the iconic players of NBA history, including Hakeem Olajuwon, Dikembe Mutombo, and Serge Ibaka, are products of Africa. According to Viktor Williams, CEO of NBA Africa, these success stories are the underlying factors behind the envisioned $1 billion potential of basketball in Africa.

On Bended Knee: Basketball's Proposition to Africa

African society has evolved, with football playing an important role in the resistance of colonialism and the liberation struggle on the continent. Football was also one of the avenues that made Africa visible to the world after centuries of African people being sidelined as participants in international affairs. These two powerful contributions of football to Africa's history gave football its position in the hearts of many on the continent and has been a consistent source of pride and dignity for African people. The struggle for dignity did not end at independence, and the adversaries to Africa's progress are no longer the external colonialists of yesteryear.

Basketball has been quick out of the blocks in giving people a livelihood, and although data for the past two seasons is limited, the BAL is expected to strengthen the sport's ability to improve players' salaries. Earning world-class wages has been the privilege of Europe-bound sports stars, and through the model of the BAL and local leagues, those privileges have come to the African continent. According to EuroProBasket, average salaries for first division players are $216,000 per year in the Egyptian league and $144,000 in the Tunisian league — both far above average salaries in Africa. By creating prospects of a viable, Africa-based, high-earning venture, the BAL also enables players to be closer to their families and potentially elevate their communities. The BAL has also been at the forefront of including women in the sport, and talk within basketball circles in Africa include a hope that there will be a women's version of the BAL in the near future. According to Dorothy Okatch, one of the top female referees in Africa who also officiates the BAL playoffs, the league has been very intentional in including women into the fray of the game. Okatch points to the numerous training sessions they have been through and the league's deliberate strategy of including female officials in BAL games. The BAL also has its sights on developing more up-and-coming female officials and players to be the next generation of basketball stars, rivaling the prominence of men as the torch bearers of the game.

Basketball's Biggest Challenges to Overtake Football

Outside of tackling contemporary issues, basketball is also trying to be an accessible sport to the consumer in Africa. Viewing audiences in Africa already have a time zone difference to the American professional leagues, and even more of a barrier is the need to have a subscription to cable television networks in order to watch games. These barriers position the BAL and continent-based basketball as the accessible alternative. In that regard, the BAL and NBA have also employed a content strategy that makes highlights and some portions of games accessible on social media. The BAL's social media presence is also meeting new audiences in their preferred location instead of forcing young, digitally native audiences to buy televisions when they prefer smartphones. All these efforts may be basketball's proposition to Africa and attempts to uplift the pride and dignity of modern Africans as football did in years passed. However, football is not static and, in many ways, continues to be even more accessible than basketball. Football players do not need a court and an inflated ball to play as any round object and clear (or unclear) ground are good enough for a game. Football is not as height selective as basketball is. Football also has 11 players per team, compared to basketball's five, which creates more playing opportunities for more individuals. Football has also continued to lift many Africans out of poverty, and local leagues and the CAF Champions League have been the source of decent salaries for many players who would otherwise be excluded by the formal economy. Football has also recently just created Africa's first president in Liberia's George Weah, who was democratically elected in his country after an accomplished football career that saw him once crowned as FIFA World Player of the Year.

With that in mind, is basketball too late to the party and will basketball ever win African hearts? Is basketball filling a void by including more youth and women? Have football's efforts since independence sufficiently met Africa's evolving needs to be the continent's undisputed darling of a sport? Basketball has been winning a lot of market share from a sport economics point of view and making all the right moves to increase the dignity and pride of Africans. Basketball may well be Africa's highest value sport in the next 20 years, but the indication is that "the beautiful game" of football will always be Africa's first and real true love.

This article was written by Sidar Cem Alagoz, Gedalia Gillis, Edward Johnson, and Frank Ouattara, members of the Lauder Class of 2024.

China's 996 Work Culture

China is the second-largest economy in the world with a GDP of nearly $18 trillion and rising. Much of that productivity is attributed to a relentless work demand that keeps employees at their desks far beyond the Western standard of 40 hours a week. This article looks at the cultural policy of "996" and its fallout.

The meteoric rise of the Chinese economy has been a marvel admired by countries around the world. With its growth trajectory, many people have sought to understand some of the factors that led to this leap. Xin Bao, a scholar at Duke University, finds in her research that Chinese internet companies have contributed more to China's GDP growth than other forms of economic development. Accordingly, due to their better salaries, prestige, and locations in major cities, top tech firms have attracted many talented workers.

"In a hyper-competitive country, being willing to work longer hours is a quality that makes candidates more attractive to employers."

While there is no way to simplify the unique conditions in which China has risen to economic prominence on the world stage, the diligent work ethic of the Chinese people in internet and technology companies is a considerable factor. Within this, one unique phenomenon that has been of particular interest to many is the country's "996" work culture.

996 work culture represents working from 9 a.m. to 9 p.m., six days per week. The 72-hour workweek focuses on efficiency, aiming to increase productivity per employee. Initially practiced by internet companies in China as their official work schedule, it was said to allow more time in the week for productivity. As Bao traces in her research, 996 work culture was first implemented by Shenzhen-based Huawei in 2010, specifically for software engineers so that they could achieve innovations more efficiently.

Employees and employers have expressed a range of responses to 996 work culture. Some have argued that this culture has led to the success of Chinese internet companies, but in recent years, there has also been growing criticism of extensive work hours from health and equity perspectives.

Are There Merits to 996?

Many companies grapple with balancing the push from employees to shorten working hours with the pressure from stakeholders to meet ambitious growth targets. In an increasingly shrinking and competitive world, corporate leaders are increasingly scrutinized over the merits of their demands of their employees. The perception that working harder than your competition leads to success has several staunch supporters. At Alibaba's 2019 internal exchange event, Jack Ma asked the crowd, "How can you achieve the success you want without putting in more effort and time than others?" Looking across the aisle at Alibaba's key competitor, JD.com, sentiments from senior leadership are similar. Richard Liu, who runs the e-commerce behemoth, remarked in a reflection on 996 that "anyone who squanders away their days are no brothers of mine." In a hyper-competitive country, being willing to work longer hours is a quality that makes candidates more attractive to employers. In a leaked internal email on Mai Mai, a Chinese career and social networking platform, JD.com stated that one of three types of employees that would be resolutely dismissed are "those who cannot work hard."

According to The Global Talent Competitiveness Index, China ranked 37th in the world in 2021 at 57.2, which means that there are on average 57 people competing for each vacant role. This statistic explains how adopting the 996 work culture can be a marketable trait for job seekers. In a marketplace that requires candidates to list their ethnicity and exhaustive lists of relevant qualifications in addition to a headshot, which is scrutinized through personal biases, any opportunity to differentiate oneself from others is invaluable. Yet advertising a willingness to burn the candle at both ends has become an occupational requirement as opposed to being a differentiator. The expectation of working more than 40 hours per week is not unique to China. In November 2018, billionaire entrepreneur Elon Musk took to Twitter to share that "nobody ever changed the world on 40 hours a week."

Beyond landing a job, many Chinese accept 996 because it offers them upward social mobility. Robert Half, a global human capital consulting firm, reports that employees working 996 generally benefit from overtime pay equal to time-and-a-half and, in some cases, even more if they work weekends. At TikTok, for example, employees could earn about three times their regular salary by working overtime over the weekend on the "sixth day" of the week, according to a former TikToker. A former Director at CITIC Securities shared that for many of the company's new hires, working overtime was customary to acquire their "第一桶金" (di yi tong jin) or first pot of gold. In 2001, the tech giant Huawei underwent a shareholding reform that linked employee stock ownership to their level of performance and contribution. Performance and contribution were determined by managers, thereby promoting an incentivization framework for work cultures such as 996. In theory, companies explain their affinity for 996 by drawing a dotted line between firm success and employee compensation. However, because the evaluation of individual contribution to collective success is often subjective, individual compensatory outcomes vary greatly.

"Young people working 996 find it difficult, if not impossible, to think about starting a family."

The Dark Side of 996

996 work culture has profound negative effects on employees' physical and mental health. The long work hours cause employees to feel fatigued and endanger their long-term health. A movement called 996.ICU was started in 2019 by an anonymous post on Github, with the name of the movement referring to the fact that those who work 996 will likely end up in the intensive care unit. This led to hundreds of anonymous tech workers voicing their grievances online, and the 996. ICU Github Repository was "starred" over 230,000 times. The dangers of 996 were further brought to public attention in 2020 when it was reported that a 23-year old Pinduoduo employee, Runfei, died from being overworked. Late one night, Runfei collapsed while walking home from work and died several hours later in the hospital. Her death sparked a new wave of criticism of the large tech companies' unethical work practices.

996 tends to be most prevalent among software engineering workers. The reason for this is that most software feature launches occur on the weekends, when the highest volume of users are online. This means that engineers are regularly required to work weekends. In addition, feature launches usually occur every two weeks, so engineers must sprint to complete features by this tight deadline. However, the operations, marketing, and finance departments are not off the hook either. These employees' schedules are so packed with meetings Monday through Friday that often weekends are the only time to complete real work.

Finally, 996 work culture also poses a broader societal challenge. With young workers having little to no leisure time by working 72 hours a week, they are unable to balance their personal and family lives. Young people working 996 find it difficult, if not impossible, to think about starting a family. This will exacerbate China's problem of an aging population and a declining birth rate, as social media users complained on Chinese social media in 2019.

996: Canceled or Not?

After many incidents shed light on the dark side of 996, many tech companies canceled 996, at least publicly, in 2021. The 996.ICU campaign helped to bring the difficult working conditions to the spotlight, which the People's Daily reported on in order to encourage legal working practices. According to Bao, Chinese labor laws state that before overtime, a standard work day is eight hours long with a maximum of 44 hours per week, and overtime is a maximum of 36 hours per week. In the case of Huawei and other larger companies, employees at the time were paid extra salaries as overtime wages, so they were not at odds with Chinese labor laws. However, when the work culture spread to other firms including startups, which had less ability to manage 996 in a proper way, this led to a stricter need for enforcement of the law. This has led to Chinese authorities re-emphasizing that 996 work culture is illegal.

Nevertheless, in an anonymous poll by Bytedance, nearly 50% of employees rejected canceling 996, as Bao discussed in her research. This was due to the fact that despite the cancellation, there was still an expectation that employees would work almost the same number of hours as they did before. The only difference now is that employees are paid less in total. After the policy change, employees are now not automatically eligible to collect overtime pay. At many companies, all overtime now has to be approved by two levels of managers. This makes it such that most employees are apprehensive to request overtime because they do not want to seek so many levels of approval. The employees fear managers will scrutinize why the employee cannot finish their work in a timely fashion.

For this reason, the cancellation of 996 actually ended up hurting employees in a different way – their pay. Overnight, total salary decreased such that it interrupted many employees' lifestyles. For example, a former TikTok employee shared in an interview with our team that just before the 996 cancellation, one of their coworkers bought a house. The coworker had taken out a mortgage, which his salary at the time could pay for. However, after 996 was abolished, this employee struggled to pay his mortgage because his salary had decreased by a significant amount.

Is the cancellation of 996 a win for tech companies if they get employees to work the same number of hours while paying them much less?

What Comes Next?

The changing viewpoints and growing negative response to 996 has culminated with the emergence of new concepts such as 1075 and 007. ByteDance announced in November 2021 that it was moving its 100,000 employees to the 1075 schedule, in which employees work from 10 a.m. to 7 p.m., five days per week. The formal policy announced that if an employee wanted to stay beyond that time or work a weekend, they should apply for overtime compensation. Immediately following, however, according to The Washington Post, internet users on Chinese microblogging website Weibo worried that this would simply just result in people working voluntary overtime without payment — essentially, they would be told to go home and continue working from there. While a formal policy is a step in the right direction, the unspoken, unwritten rules and the way in which the policy is actually executed will be paramount to ByteDance's employee morale.

A second concept that has emerged is 007, which describes a system of working or being online for 24 hours a day, seven days a week. An employee at an internet company even joked in an interview with McKinsey & Company that remote working in COVID-19 turned his work day from 996 to 007, from six days a week to all the time. With the development of the internet and technology, and the exponential growth of working from home in the wake of the COVID-19 pandemic, it has consequently become easier for work cultures such as 007 to germinate. While this is of course not a written, formal policy at any Chinese tech firm, and at times may almost come across as a quip, the existence of the term highlights a developing consciousness among a new generation of Chinese tech workers around work culture, and what might be considered fair (or not, as the case may be).

To counter 996 work culture, new activities have arisen including “touching fish” (moyu 摸鱼) and “lying flat” (tangping 躺平), as described in Bao’s research. Moyu refers to strategies and tips for well-being during work, such as taking many breaks to the pantry or restroom. However, many have criticized this work ethic as laziness and slacking off, but others have found it as a way to balance self-care with China’s various strict work cultures. Tangping, in contrast, focuses on “dropping out of the rat race and doing the bare minimum to get by,” according to a recent Bloomberg article. The BBC claims that the Chinese state media has called it “shameful,” given that China continues to prioritize economic development in the context of an aging population.

As the COVID-19 pandemic continues to have a massive impact on the world at large, companies and workers alike continue to struggle and grapple with what the new ways of working can and should look like. Chinese tech companies are at an inflection point, one where they can consider what type of work culture they wish to cultivate for their employees — whether it is 996, 1075, 007, or something different altogether. To this end, companies will have to explore and find a balance between often competing forces — the legal regulations of the government, the changing demands of an ever-changing tech workforce, and the financial and economic priorities of their company — in order to find a work culture that can be sustained in the long-term.

This article was written by Jason Mah and Mei-Li Thompson, members of the Lauder Class of 2024.

Mental Health in LATAM: An Industry Ripe for Growth

The Covid-19 pandemic made urgent the need for better mental health services in Brazil and Argentina, two countries with a legacy of low access to such care. Two startups capitalized on the pandemic as a catalyst for change, and their efforts are helping to destigmatize mental health.

"Imagine what it's like to set out to tackle a process the federal government outlawed in recent memory?" These were the initial thoughts of Bruno Tupinambá, an investor who oversees operations at Zenklub, a Brazilian startup that has been innovating in the telehealth space for mental health since 2017. Tupinambá was referring to the 1989 proposal known as Law 10.216/01, which banned mental health treatment from being offered in a clinical setting. At the time, Brazil, like many countries of the region, was drafting a new constitution as it emerged from a military regime. The country was in the process of redefining its identity. Amid the clamors for freedom, a fear that it was liberalizing too quickly took center stage. Politicians capitalized on the moment and passed a bill that absolved the state of any responsibility to offer psychiatry care. The sentiment at the time was that mental health patients were another enemy of the state. Paulo Amarante, a researcher and founder of the Brazil Psychiatric Reform movement, wrote in his 1998 book "Crazies for Life" that, "The struggle for the insane is part of society's overall strategy of struggle for the woman, the Indian, the negro, the homosexual and other minorities." During this time, mental health was equated with a curse instead of an illness, stigmatizing mental health patients and rendering the field of psychiatric care worthless. For 12 years, Brazilians lived under a ban of mental health services, which reinforced a lack of acknowledgement and support to mental health patients.

> "The pandemic served as a major catalyst for Brazilian and Argentine entrepreneurs to solve an issue that was plaguing both countries and the world for centuries."

Nearby Argentina, on the other hand, has had a very different history. The World Health Organization (WHO) has consistently ranked Argentina among the nations with the most psychologists per capita, with the most recent 2017 study putting Argentina at 222 therapists per 100,000 people. This is well above more developed countries including the United States and Australia, which have 30 and 103, respectively. According to Reuters, the comparison with Brazil is more stark, with only 13 therapists per 100,000 people. While many cultural explanations exist and have much merit, perhaps the strongest explanation has to do with the European immigration trends of the early 20th century. Per CNN, psychoanalysis was quite popular in the 1940s, '50s and '60s in Europe, and Argentina received one of the largest per capita waves of immigration from Western Europe. There exists a robust amount of scholarly research around the rise of psychoanalysis across European nations during these decades, with some accredited British sociologists, including Shaul Bar-Haim, contending that the creation of the British welfare system leaned heavily on psychoanalytic principles. The capital city of Buenos Aires has one of the largest Jewish communities in Latin America, and some have contended that this played a major role in the popularity of psychoanalysis, as many of the leading thinkers in psychoanalysis in the early 20th century identified as Jewish. In short, therapy and mental health were largely supported in Argentina relative to its northern neighbor, Brazil. Despite the relatively large number of providers, there remain many problems in Argentina – and around the world– that hamper universal access to quality mental health care.

The Pandemic as a Catalyst

Although the study of mental health has been around for centuries, it has received greater attention in the last several decades. In 2008, the WHO created its Mental Health Gap Action Plan to seriously address lack of access to high-quality mental health services for people in low- and middle-income nations. According to the Family Process Institute, among lower- and middle-income nations, an estimated 10% of those living with mental illness could reasonably access treatment, as opposed to 50% in high-income nations. In the past decade, there has been progress, albeit moderate. When the WHO published its "Mental Health Atlas" in 2017 with data on psychosis coverage rates in over 170 countries, lower-middle income and middle-income countries had seen access rates increase 21% and coverage rates go up 29%. For both Brazil and Argentina, however, the onset of the coronavirus pandemic fundamentally shifted key market dynamics, which helped many people overcome traditional barriers preventing their access to care. Suddenly, mental health issues were pushed to the forefront, and people couldn't leverage their typical outlets of socializing to help cope. The pandemic served as a major catalyst for Brazilian and Argentine entrepreneurs to solve an issue that was plaguing both countries and the world for centuries.

Along with physical health, mental health became a critical issue for business during the pandemic, and providing or enabling employees access to mental health services was key to continuing operations. In March 2022, the WHO reported that "the pandemic has led to a 27.6% increase in cases of major depressive disorder and a 25.6% increase in cases of anxiety disorder worldwide in 2020." In 2021, consumer surveys in Brazil and Argentina reported physical and mental health concerns as being the biggest sources of anxiety, and overall health-related anxiety was up about 60% compared with 2019.

Mandatory lockdowns disrupted in-person mental health services, and many people were suddenly without care at a time when they perhaps needed it the most. Employers began to feel the effects when their team members began to struggle with motivation and quit rates increased. Already trying to navigate a challenging macroeconomic environment, many firms in Argentina and Brazil became more keenly interested in the mental health of their employees, perhaps for the first time. The pandemic brought forth many dormant issues that were being solved with patchwork policies.

Startups Seize the Moment

These factors served as a catalyst to expand access via telemedicine. Go Doctor in Argentina and ZenKlub in Brazil, two nascent telemedicine firms, stepped up to fill this gap and addressed key pain points that existed in their respective markets long before the onset of the pandemic. Go Doctor's founder Matias Massotti noticed that a high level of bureaucracy was one of the greatest barriers to quality medical care in Argentina, as patients often had to go to providers in person just to make appointments, wait for days for the providers to call back and confirm the time, and pay unexpected extra costs or co-pays. Massotti began expanding Go Doctor with the belief that the mental health crisis in Argentina needed to be addressed with technological innovation and be made convenient in order to destigmatize the treatment.

> "In a recessionary context, there will once again be the temptation to view mental health services as a luxury and not a necessity…"

"The future is marked by services that deliver excellence and speed," Massotti said, noting that Netflix's and Uber's business models inspired his innovation. Go Doctor "is a service that operates every day of the year and 24 hours a day, with a wait time of 1 to 3 minutes from the time you log into the app to the time that you are seen by the provider. You simply can't beat that."

In Brazil, ZenKlub founder Rui Brandão hurdled the biggest barrier to mental health services, which was price. "The average therapy session in Sao Paulo is 250 BRL, but on ZenKlub it's 70 BRL," he said, noting that the virtual aspect also offers greater selection to patients who can chose providers from all over Brazil. The flexibility and low fixed cost basis of ZenKlub allowed the company to offer premium services at a discount from traditional methods. Furthermore, the focus on online therapy is helping ZenKlub reduce the social stigma and geographic barriers associated with receiving mental health care.

The success of both firms can be attributed in part to timing; they seized on the interest and proactivity of employers to scale up their digital services. ZenKlub attracted top employers such as Ambev and Nubank, and in the span of a few short months, the firm's total attainable market grew exponentially to include all the employees and family members of major employers of the country, some 1.56 million people. The need to scale so rapidly to meet this new demand led the company to enter discussions with key private equity players in the region and accept three investments totalling $12 million. With employers having the incentive to provide mental health services to keep their employees in the office and motivated, the businesses shifted from B2C to B2B.

Go Doctor also created significant alliances, including with Trenes Argentinos, the state-owned train servicing company with more than 23,000 employees. The push from businesses helped to fuel the growth and adoption of mental health services in Brazil and Argentina.

Fintech Played a Supporting Role

Both of these businesses required existing digital payments infrastructure and, fortunately for both firms, the pandemic advanced the adoption of digital payments and financial infrastructure. Argentina has an unbanked rate of over 50%, and its currency has devalued sharply multiple times over the past decade. Despite these challenges, Go Doctor has been able to take advantage of digital payments innovations from local market leaders like MercadoLibre. This e-commerce giant has pioneered its own payment system, MercadoPago, to address the high unbanked rate. Go Doctor's international aspirations should also be helped by MercadoPago's recent expansion to neighboring countries, many of which have similarly high unbanked rates of around 40%. Argentina also has nascent and cheaper MercadoPago alternatives, perhaps most notably Kushki and D-Local.

ZenKlub, on the other hand, has benefited from the Brazilian Central Bank's major investments in digital payments infrastructure, which have caused many to dub Brazil as the leader of financial inclusion in Latin America. In 2020, Brazil's Central Bank launched Pix, which is similar to Zelle, PayPal, or Venmo and allows users to make real-time payments. In the 18 months between November 2020 and March 2022, Pix saw a massive wave of user adoption of nearly 80 million new users, which is equivalent to about 40% of the population of Brazil. Today 85%, of Brazilians now have access to financial services, and the government is able to leverage the Pix infrastructure to improve its delivery of social welfare payments. The Pix infrastructure allows Brazilians to be more fluid with their payments and serves as a bedrock for many tech-enabled companies in Brazil.

What's the Future of B2B Mental Health Services?

The recent progress in mental health services in Brazil and Argentina is laudable, but questions remain about what will happen if employer interest fades as the pandemic subsides. Luis Gonzalez, CEO of Vidalink, a competitor of ZenKlub, said that the movement is already losing steam. "As the urgency of the pandemic has begun to wane, employers are finding that conversion rates of employees taking advantage of counseling services is diminishing dramatically. This reality worries me that employers will begin to question the return on their investment in mental health services."

With the world hitting indicators that increasingly point towards a global recession, it can be assumed that companies will look for ways to keep costs to a minimum, prioritizing internal initiatives that have a quantifiable return. In a recessionary context, there will once again be the temptation to view mental health services as a luxury and not a necessity, which could create an existential threat for companies like ZenKlub and Go Doctor. The pandemic offered a unique opportunity where companies and employees alike were forced to wrestle with the importance of mental health, and the private sector was there to meet the moment.

The changing times will now call for telehealth companies to be effective in making a strong case for the tangible value added by mental health services for their teams. Additionally, users of these platforms must also do their part to speak up for the impact that emotional care has brought to their quality of life. Unless the whole ecosystem steps up to defend the corporate use case for mental health services, it is possible that the uptick in care was only a passing fad that was used by employers to bring back their teams to the office. It would be a great shame if the infrastructure challenges were bridged to make counseling more logistically and financially accessible, only to see them return to pre-pandemic levels. Entrepreneurs have done their part to increase supply and will continue to innovate to ensure that the people are taken care of in the good and bad times.

This article was written by Franco Nilo, Ashimedua (Joshua) Okonneh, Gabriel Reizin, Mateo Guerrero, and Pavan Patel, members of the Lauder Class of 2024.

Spiritual Opium: East Asia's War on Youth Video Game Addiction

Concerns over the influence that video games have on young people are as old as the games themselves, but nowhere is that worry great than in East Asia. This article explores the policies and politics of anti-gaming efforts in Japan, South Korea, and China.

From the moment video games went mainstream, they captured the attention of children around the world. According to Riad Chikhani, founder and CEO of GAMURS Group, games were initially designed to test the efficacy and quality of the first computers and networks as they were being built in the 1940s. However, Chikhani said that 1951 saw a turning point in the gaming industry when the first computer game meant for consumption, NIMROD, was created. As home consoles and arcades proliferated in the United States through the late '70s and '80s, concerns about the social impact of these massively popular games followed suit.

> "What used to be an exclusively American suburban fear is now animating governments around the world."

This new adolescent preoccupation initially caused local concerns. A letter to the editor printed in The New York Times on Jan. 28, 1982, bemoaned the idea that video games were "cultivating a generation of mindless, ill-tempered adolescents." A suburb of Dallas around that time famously banned anyone under the age of 17 from entering local arcades without an accompanying adult, categorizing arcades as dens of addiction and vice. Even the U.S. Supreme Court weighed in on a lawsuit based around controlling teenage access to video games in arcades.

What used to be an exclusively American suburban fear is now animating governments around the world. As a majority of developed nations face new demographic challenges and technological disruption of institutions, concerns abound that video games have finally gone too far in corrupting the youth. An Ernst & Young report on the gaming industry found that in 2021, a remarkable 2.9 billion people – more than one out of three people on the planet – played a video game. PwC's Global Entertainment and Media Outlook predicts that global revenue in the industry will exceed $321 billion by 2026. Though there has been lively government discussion in the West on this topic for decades, nowhere has the government been so proactive as in East Asia.

Although the online gaming sector has been one of the most vibrant and profitable industries in Asia, Asian governments have long been formulating and implementing policies that restrict access to gaming. These restrictions, while legal in nature, may reflect a larger cultural or political zeitgeist that views gaming as poisonous in some way to youth development and reflect the various governments' intensifying push for companies to jettison what they say are unhealthy cultural influences on the youth. This article aims to compare and analyze these trends in Japan, South Korea, and China. All three countries have, to some degree, a mix of both cultural and legal restrictions on video gaming.

Many of the restrictions to be discussed center around smartphone gaming. Business Wire reports that the mobile gaming market has surged in recent years, with Asia Pacific expected to hold the largest market share, driving the creation of thousands of games. With the combination of the modern smartphone and ubiquitous internet infrastructure, society seems to have reached critical mass with concerns around gaming. Smartphones afford the opportunity for gaming companies to harvest big data to analyze customer behavior and create maximally addictive games. They often hook players with "loot boxes," packs of random in-game items that players purchase in pursuit of items advertised to be within that specific loot box. Highly sought-after items, such as in-game weapons or cosmetic upgrades, are often assigned extremely low probabilities (as little as one in a million) of being in a box, leading some players to spend thousands of dollars on these loot boxes to get their desired item. Loot boxes skirt around gambling laws in large part because of smartphones' capacity to quickly and easily process small payments, or microtransactions. Widespread internet connectivity and the ubiquity of smartphones make everyone a potential customer. It is in the midst of this new gaming revolution that countries around the world are becoming worried and beginning to take action.

South Korea's Shutdown Approach

In 2010, the South Korean government introduced a bill that was passed in 2011 as the Shutdown Law, part of the bigger Youth Protection Act in South Korea, which aims in part to "regulate the distribution of young people and their access to harmful workplaces, and to protect and rescue them from harmful environments so that they can grow into healthy individuals."

This law restricted gaming companies from providing online gaming services to juveniles under age 16 from midnight to 6 a.m. Gaming companies, unhappy with the law, challenged its constitutionality in 2014, but it was upheld by Korea's Constitutional Court by a vote of 7-2. The ruling reaffirmed that games are meant to teach, not to taint, so the threat of addiction justified the law. As a result of heavy government regulation, Shin Chul Kang, president of the Korea Association of Game Industry, has said that the "Korean game market is in a period of crisis . . . caused by [the] heavy regulation of government."

In a turn from previous policy, the Shutdown Law was abolished effective January 1, 2022, in the name of respecting children's rights and at-home education, and the government came up with a joint plan to protect the youth moving forward. Per Kyeong Hyang newspaper, the Ministry of Gender Equality announced that, "In cooperation with the Ministry of Education and the Ministry of Culture, Sports and Tourism, we plan to strengthen support for daily recovery from overindulgence by expanding education on the use of healthy games . . . and [take] other measures to prevent overindulgence."

Japan's Social Pressure

Japan, by contrast, has little legal regulation but a high degree of cultural regulation against video gaming. Davor Jakelic, an investor with a well-established Japanese asset management firm who previously served as an executive director at Merrill Lynch Japan Securities and Morgan Stanley in Tokyo, explained that whereas South Korea is top-down and legally regulatory, Japan is much more bottom-up and culturally regulatory. The only major instance of Japanese government intervention in gaming came with a mobile fishing game made by the company GREE. This game had a loot box mechanic related to fishing that routinely cost users hundreds of dollars to complete. When it was publicized, it was deeply embarrassing to GREE and caused great public backlash, not only because it was abusive to users who did not understand that their odds of winning were so low, perhaps even one in 100,000, but also because it violated the Japanese notion of fairness in business.

> "China's crackdown on video games spans beyond just gaming and indicates that China may be concerned about the overall direction of its youth."

In general, when businesses in Japan are punished by the government, they receive a "business improvement order" that publicly shames them into compliance. Japanese gaming companies have long had a vexed relationship with the government and with society at large. Despite the international success of Nintendo and franchises such as Pokémon, Jakelic remarked that within Japan, gaming is largely seen as a "shameful entertainment industry." It is also less of a concern for children in a large part because of the predominance of other types of entertainment and because of general consumer protection regulations, which place social pressure on companies to comply to official requests rather than leverage punitive regulations. One example of such a general consumer protection regulation is the largely symbolic child-protection legislation passed by the Japanese Prefecture of Kagawa in early 2020. As

Yuichiro Tsuji said in the Columbia Journal of Asian Law, "In Japan, video games are generally regulated by self-imposed control and voluntary ratings by third parties, rather than by law. There is no special statute tailored to regulate video game software."

"The prospect of establishing a virtual world with safety measures against youth corruption is wrought with challenges."

China's Restrictive Approach

On the other hand, China has been the strictest with youth gaming. An interview with Yong Wang, an investor in the China internet space who was formerly at J.P. Morgan and Dymon Asia, an Asia-focused investment management firm based in Singapore, said that measures to regulate the entire Chinese internet industry, including gaming companies, with the express intent of changing youth behavior first began in 2018. The Chinese government began by restricting the issuance of *banhao*, which are gaming licenses required to market new games. In 2018, Chinese gaming giant Tencent went into a *banhao* shortage and had to "rent" them from another gaming company, according to an entrepreneur in the gaming space in China who spoke on condition of anonymity. And when another company secured the coveted *banhao* approval, Tencent invited it to release the game within the WeChat platform. This led to an industry scramble to vie for game licenses. In response, regulatory bodies, including the Ministry of Culture and Tourism of the People's Republic of China, the Propaganda Department of the Chinese Communist Party, and the National Radio and Television Administration, loosened the *banhao* restrictions. But they pivoted oversight to policing users by controlling the amount of time minors can spend playing games.

Permissible gaming time was curtailed by black letter law. In late 2019, the Chinese government released a set of rules severely restricting children's access to video games. Citing worsening eyesight and violent content, users under 18 were forbidden from playing games between 10 p.m. and 8 a.m., and also from playing more than 90 minutes on weekdays and three hours on weekends. Video game companies were ultimately responsible for enforcing these rules and faced steep penalties if they failed to do so. In late 2021, these restrictions were tightened even further, as rules were expanded to limit how much young people were able to spend on in-app purchases such as virtual weapons, clothes, and pets, depending on age and ranging from $28 to $57 per month.

Because of the government's more forceful approach to curb youth gaming, the Chinese gaming industry started seeing a downturn, and growth has slowed despite the worldwide gaming boom. According to a Tencent employee who spoke on condition of anonymity, Tencent experienced a slight negative growth of around -2%. To reassure the government and the public that Tencent is complying with the government's mandates, a spokeswoman for Tencent reaffirmed that Tencent's initiatives were designed for youth protection: "Since 2017, Tencent has explored and applied various new technologies and functions for the protection of minors…That will continue, as Tencent strictly abides by and actively implements the latest requirements from the Chinese authorities."

China's crackdown on video games spans beyond just gaming and indicates that China may be concerned about the overall direction of its youth. In August 2021, "the Chinese government initiated a crackdown on teen celebrity worship and fan clubs, warning that celebrities' pursuit of online followers was warping youths' value. [As a result], China's Cyberspace Administration banned ranking celebrities by popularity." This may indicate that China is concerned about shaping the behavior and habits of the youth, with video games being one manifestation of this concern and one way for the Chinese government to exert control.

Questioning the Outcome

Across the three East Asian countries in question, the primary difference seems to be in the perceived severity of the problem and the mechanism for regulation. China leads the pack in the degree of its mechanisms for regulation. Requiring users of online games to log in with their real name and state ID number and requiring gaming companies to program their games to accommodate specific time restrictions on every device is further than any other country has gone in trying to manage youth behavior. But there does not seem to be much evidence of China imposing the same sort of cultural regulation observed in Japan. Japanese companies face very little regulation but seem to generally respect the line drawn in the sand as it pertains to consumer protection and notions of fairness. Korea, the newest player in the gaming scene, seems to fall somewhere between these two extremes.

In the face of gaming crackdowns, the question must be asked: Are the effects of playing video games so deleterious that it is worth hampering the business prospects of the gaming industry? Video games are often dubbed as "spiritual opium" by regulators and concerned parents who are displeased with the amount of time children invest in gaming. Furthermore, child welfare advocates continue to call on policymakers to regulate the content and marketing of video games. Yet, how much are these negative externalities of playing video games real, and how much are they merely exaggerated? A study by Michael R. Ward from the University of Texas at Arlington found that while positive correlations between playing video games and violent or antisocial attitudes in children do exist, the overall link is modest and not statistically significant. In fact, Ward concluded that "it is possible to reject the hypothesis of video game effect…" because the positive association of gaming and violence seems to only appear for individuals who play intensively, at least for more than four hours per day.

These findings on their own may not justify lifting interventionist policies toward violence in video games accessible to underage youth, and it remains to be seen how large, if any, a pacifying effect China's restrictions will have on youth violence. Critics posit that regulations harm gaming companies by reducing user engagement and driving down revenue, and they point out that some studies show that playing video games may help users develop critical reasoning skills essential to carrying out day-to-day tasks.

Regardless of their ultimate efficacy, measures to curb gaming in China have been well received by many. Lily Feng, a company worker from Shenzhen, told The New York Times that, "Some teenage kids just won't listen to their parents' discipline, and this policy can control them." She applauded the government's intervention on gaming and likened it to the "state taking care of our kids for us." Some parents still worry about the emotional and mental consequences that excessive gaming will have on their children, especially those children who do not abide by the government's restrictions. "Chinese parents complained that children constantly found new ways to sneak past the limits on gaming hours," according to a report issued in August 2022 by the government-funded Beijing Children's Legal Aid and Research Center. Many parents "reported that their children had big changes in their temper and personality after becoming addicted to games, even as if they had become another person." In 2021, the Chinese government reported that "recently many parents have reported that game addiction among some youths and children is seriously harming their normal study, life and mental and physical health." The increasing connectivity of the web as well as the digitalization of essential services will almost certainly take these concerns even further.

The prospect of establishing a virtual world with safety measures against youth corruption is wrought with challenges. Although the gaming industry's momentum is slowed by data privacy and management issues, difficulties with gaming access points, consumer pricing opacity exacerbated by digital currencies, and gaming interruptions due to overload or coding bugs, these issues are only temporary. As the industry continues to innovate and technical limitations are all but removed, it is beholden upon society to consider the extent to which children's access to games should be restricted. China, Japan, and South Korea have all taken decisive measures to do so and have borne substantial short-term economic cost as a result. Time will tell if the investment was worth it, and if the rest of the world should follow suit.

This article was written by Rebecca Liu, Samuel South, Natasia Nabila, Chadwick Clayton, and Melody Xie, members of the Lauder Class of 2024.

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