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THE LAUDER GLOBAL BUSINESS INSIGHT REPORT | 2020

Pushing for Progress Around the World

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Pushing for Progress Around the World

The great Romantic poet and author Kahlil Gibran, who lived in the early part of the 20th century, wrote, "Progress lies not in enhancing what is, but in advancing toward what will be." Those words still resonate strongly for the billions of people around the world who are working to improve conditions for themselves and others. Individuals, organizations, businesses and governments understand that the status quo cannot be sustained. Small changes can lead to larger ones that transform politics, bolster economies and shift cultures.

In this special report, students from the Joseph H. Lauder Institute for Management & International Studies offer insights gleaned from interviews, personal observations and research into both longstanding struggles and the latest trends in economies around the world. Take an engaging look at the current cryptocurrency craze in South Korea, the latte-loving turn of China's coffee-drinking millennials, and a movement in Mexico to revive an ancient method of tortilla-making. Learn how property owners in Zimbabwe and Ghana are still dealing with the vestiges of European colonialism in clarifying their land development rights, and why affirmative action policies to address historical inequality in Malaysia and South Africa have fallen short. And dive deeply into the challenge to transform the working environments in France, which has a long history of labor-class uprisings, and Japan, where corporations are trying to modernize themselves.

Progress is incremental and fraught with failure. It requires refinement, innovation and compromise. It must be inclusive and leave no one behind. Indeed, progress is pain. But the rewards are there for those who are willing to embrace the unknown and push through to the other side.

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A Fractured France: Understanding the Yellow Vest Movement

France has a long history of protest, but the recent yellow vest movement is a departure from tradition. This article explains what sparked the movement and why it has revealed some deeply rooted divisions in French society.

Marred by a marathon of protests that have only recently abated, France is reeling from an explosion of grievances diverse yet united behind the iconic yellow vest — the *gilets jaunes*.

> "The prevailing impression of outsiders is that the yellow vest movement is yet another French-style manifestation, when in fact this movement bears little resemblance to its predecessors."

Just as many rushed to the streets, so did the public intellectuals rush to prognosticate and the president of the republic rush to reconcile. Now, France is undergoing some soul searching. It is into this fold where the following questions are essential: What is the historical precedent to the gilets jaunes; what are the dividing lines of this fractured France; what are the short- and long-term economic, political and societal impacts of this dynamic; and what are the takeaways and way forward?

Although France has begun to emerge from this identity crisis, it certainly has not done so unscathed. It is imperative that proper meditation and analysis be provided so that France can either deflate any future manifestation of grievance by solving root problems or at least be better poised for a possible future iteration. This piece works towards both these ends.

Are the Gilets Jaunes Just an Old Figure in New Clothing?

The *gilets jaunes* movement emerged out of public outrage against a planned diesel and gas tax hike announced by President Emmanuel Macron in November 2018 to curb pollution. Underserved by public transportation and ridesharing schemes, portions of the French rural population believed they would be unfairly penalized

relative to their well-off bourgeoisie counterparts. Leveraging social media platforms, protesters organized to meet each Saturday in roundabouts across the country to demonstrate. The movement quickly gathered momentum and escalated into a violent revolt fueled by the perception that Macron and his administration were out of touch with ordinary people struggling to make ends meet. The most arresting feature of the movement is the symbolic, highly visible yellow vest that French motorists are obligated to wear in case of road emergencies. Protesters wore the vests to draw worldwide public attention to the French working class. By pitting *petites gens* in the peripheral France against the Paris-based elites, this unprecedented social movement exposed some deep-seated fault lines in French society and stirred citizens' pent-up desire for representation.

In context, the yellow vest movement in contemporary French history warrants an inevitable reference to the long-standing tradition of revolt in France, which can be traced back to 1789. Within a short span of half a century, the collective French memory has been littered with precedents of civil unrest and mass mobilization. In 1968, mass protests from students and blue-collar workers against capitalism and conservative values paralyzed the economy for several weeks. In 1986, millions of people rushed to the streets to demonstrate against higher education reform. In 1995, nationwide strikes launched by transportation workers against austerity measures wreaked havoc on the public transport system. These are just a few examples that epitomize the frequency and scale of mass demonstrations that took various forms — from peaceful to violent, from spontaneous to organized, from grassroots to union-led, from targeting specific policy initiatives to targeting the incumbent administration.

The quintessential culture of street protests is indelibly ingrained in French national psyche and identity, a second nature described as a "national sport" by politician and scholar Alain Peyrefitte in his book *The Trouble with France*. To an outsider, it almost seems that there is a tacit understanding between contentious citizens and embattled politicians to perform such "ritual theatrics," as succinctly pointed out by political scientist Frank Wilson in his article, "Political Demonstrations in France: Protest Politics Or Politics of Ritual," which argued that "French politicians expect citizens to protest, and French citizens in turn do not hesitate to express their disappointment or anger in the streets." Indeed, street riots have played an integral role in shaping French government's policy (suspending fuel taxes and potential income tax cuts) and cultivating trust in the ruling elites.

The prevailing impression of outsiders is that the yellow vest movement is yet another French-style manifestation, when in fact this movement bears little resemblance to its predecessors on several grounds. It is a unique grassroots movement that has capitalized on the power of the internet and social media. Unlike other student-led or union-led protests, it has no association with any of the social groups. It is neither right nor left. Protesters are not among the most impoverished or the unemployed but those with precarious work and low income coming from all walks of life and rallying around a wide spectrum of social grievances, from raising minimum wage to access to public services to indexing pension to inflation. Its lack of institutional framework or political leaning lends independence to the movement, thereby garnering broad public sympathy and appeal. Nevertheless, without formal intellectual leadership to build structure and organization, it struggles to make concrete negotiations and engage in direct exchange with the government. For good measure, it is born in a more turbulent time than ever before as Europe is embroiled in rising populist movements.

> "Economic inequality precipitated yellow vest, from which further economic woe is hatching."

A Landscape Replete with Gullies and Gulfs

Many have scoured the disciplines of economics, business, sociology and politics for explanation and possible remedy. Among the most well-received and acclaimed conceptualization is one developed by French geographer Christophe Guilluy. Rather than describing the progression of the *gilets jaunes* movement, Guilluy's approach is to examine the climatic conditions around which the movement was allowed to germinate, cultivate and ultimately spill out onto French streets.

Guilluy places the movement as a fixture in a larger landscape of tug-of-war within French society, a tension between what he calls Metropolitan France (*France Métropole*) and Peripheral France (*France Périphérique*). The former is made up of citizens who find themselves in either Paris or Lyon. By this, the Metropolitan French live in areas considered to be the hubs of commerce in the country, the centers that have been blessed by the trappings of globalization.

The latter is marked roughly as the area and inhabitants of France proper who are not located within Paris-Lyon. The French of the periphery are often workers far from the concentration of riches, the amenities of public services and the benefits of globalization. In fact, they are to be considered the losers of globalization due to the disappearance of industrial jobs through France without suitable replacement. They also hold a mighty weight in French society: According to Guilluy's own calculation, this Peripheral France represents 60% of the total population of France and nearly 80% of the working class.

> "With divided political loyalties and an inability to influence the shape of French democracy, the yellow vest movement has failed to focalize their power into lasting political change."

This is not an urban, rural divide. Although there are numerous derivatives and connotations with this binary division, it boils down to two sides of the same coin — globalization. One side represents those favored by its touch, and the other side is those disfavored by it. Therefore, within this landscape, the *gilets jaunes* movement saw its ranks populated with many of the Peripheral France who became incensed when the out-of-touch French urban elite slapped diesel taxes on the French worker and consumer. In a twist of irony, the gas tax inflamed simmering tensions rooted in Guilluy's Metropolitan/Peripheral divide.

Diverse Grievances, Diverse Impacts

Economic Impact

Amid the yellow vest turmoil, the French economy seemed to sail through relatively unscathed. According to the French Finance Ministry, the initial impact on a macroeconomic level was limited to a reduction of 0.1% GDP growth for the last quarter of 2018 or EUR €2 billion in total. However, the long-term impact, which is harder to quantify, offers a more somber reality. Political and social instability has introduced enormous uncertainty into the business environment. Companies are postponing investment decisions while they wait for the fog of endless protest to lift, leading to a knock-on effect on reducing the national output.

The movement also dealt a severe blow to the leisure and consumer industry, notably for retail, hotel and tourism sectors. The violent outbursts in the main district of central Paris, including the world-renowned Avenue des Champs-Élysées, deterred international tourists and local shoppers alike. Many canceled trips and avoided weekend shopping. Major hotel chains, restaurants and department stores reported on average a 30% accumulated loss on turnover over a six-month period. As consumption stagnated, households tended to put more money into savings, exacerbating future demand. Although the protests were more subdued in 2019, marked by a reduced level of violence and frequency, it will take a while for businesses to return to normal. Small businesses are the most affected due to delayed payments to suppliers, according to the report published by the lawmakers of the National Assembly opposition party. Some have since declared bankruptcies, according to feedback from local commercial courts. In short, economic inequality precipitated yellow vest, from which further economic woe is hatching.

Cultural and Political Impact

The *gilets jaunes* movement has had a dramatic socio-cultural effect on France, managing simultaneously to upend and challenge notions of French society while winning popular support from fellow citizens. The movement occupied a critical part of the French zeitgeist in 2018, with large amounts of public discourse and media coverage. As previously discussed, the signature yellow

vest itself represents the movement's primordial cultural demand: visibility within French culture. This visibility is only strengthened by popular French support — initial estimates of public opinion polling asserted that seven out of 10 French people approved of the gilets jaunes.

The reasons for this approval are myriad, but perhaps they can be summarized by underlying recognition of the social and cultural phenomena that have driven protesters to don the vest. According to actress Laetitia Dosch, it's the fracture between "two worlds" that has touched her - two worlds of French society created by social inequality and a lack of social diversity.

However, appreciation for the movement seemed to be flagging in 2019, with support down to about half of French poll respondents. Even more strikingly, polls also suggest that the majority of respondents want the movement to end. Participation, too, has dwindled, with attendance dropping off after the initial turbulent weeks of the movement. According to the French Interior Ministry, protests on the first weekend in June 2019 represented a record low of fewer than 10,000 participants across the country, down from highs of about 300,000 during the movement's peak in late 2018. The cultural star of the yellow vest movement has flashed and faded. Despite high attention and support, many of the cultural divisions that gave rise to the movement are still in place for the foreseeable future. As French pensioner Josiane (who was not identified by full name) said in an interview with state-owned news network France24, "We obtained nothing, only insults and beatings."

Yet on a political level, it is difficult to say that the *gilets jaunes* movement obtained nothing. Several political concessions have been linked to the initial force of the movement, including canceling the planned fuel tax increase and raising the minimum wage — concessions that will cost the French government billions of dollars. Macron found himself on the defensive in the wake of popular support for the movement. Furthermore, the government organized several so-called Grand Debates meant to bring national discourse and conversation to the fore. It's unclear how the complaints and conversations of the Grand Debates will factor into policy decisions moving forward, but the ability to obtain public reaction and legal concessions underlines the political effects of the movement.

In many ways, the political fury directed at Macron and the initial diesel tax fuel hikes have failed to materialize into lasting political power. Much of the current political powerlessness of the *gilets jaunes* is linked to its paradoxical social existence. Many yellow vest participants are likely to vote for the anti-immigrant, far-right National Rally; many others have voiced support for far-left groups like France Unbowed. As a largely leaderless party, politicians no longer know what they should be reacting to. Various factions of the group have different priorities and no agreed upon set of demands, and thus continue to lose negotiation power. Like many other populist movements in Europe, the yellow vests have demanded greater participatory democracy, yet Macron has refused any concession that would allow direct citizen referenda on key policy questions. With divided political loyalties and an inability to influence the shape of French democracy, the yellow vest movement has failed to focalize their power into lasting political change. Especially as support wanes, the movement highlights continued political fracture in French society.

What Lessons Does Introspection Bring?

The *gilets jaunes* movement has created a unique legacy in France. With its grassroots, people-driven momentum, it captured the hearts and minds of the French public for several months. But with waning participation and support, scholars are now refocusing on the social, political and economic impacts to determine the ramifications of the movement. In a globalizing world, how will France prioritize its périphérique, and how will that affect the underlying French fractures at the root of the movement? Despite France's storied history of protests and social movement, the *gilets jaunes* represent a new type of demand in French society: to be seen and to be considered. As inequality grows within the world's developed countries, it will be critical for leaders and societies to develop comprehensive strategies to ensure their citizens are not being left behind and to promote a world where vests are pitted against suits only sartorially in store displays and not violently in the Parisian streets.

This article was written by Brandon Mayhew, Caitlin Veator and Clarisse Feng Chengyan, members of the Lauder Class of 2021.

Betting on Brexit: Europe's Battle for Top Talent

Neighboring countries are scrambling to lure Britain's best and brightest in business, which could profoundly change the economic structure of a post-Brexit Europe. (Editor's note: This article was written before Jan. 31, 2020, when Britain left the European Union.)

Following the United Kingdom's June 2016 decision to leave the European Union, German Chancellor Angela Merkel described the vote and ensuing divorce negotiations as Europe's "watershed moment." Yet more than three years later, the trajectory of the European project in a post-Brexit world remains unclear. Battling with exchange rate drops, pushed deadlines and a revolving door of three prime ministers, the U.K. has struggled to outline a concrete plan for Brexit. The unpredictability of Britain's future has been a considerable hindrance to business investment and planning, and it risks fundamentally reshaping Europe's economic landscape by redrawing the battle lines among nations competing for top talent.

"Companies rethinking their human capital and organizational strategies in the wake of Brexit now find a variety of new incentives intended to create business hubs within the EU."

While European Union leaders are unified in regretting the United Kingdom's decision to leave the bloc, that has not stopped their governments from pursuing strategies to take advantage of the British turmoil. Indeed, policymakers across the continent are competing to entice firms to relocate their top talent out of London. Companies rethinking their human capital and organizational strategies in the wake of Brexit now find a variety of new incentives intended to create business hubs within the EU. Focusing solely on Brexit's impact on trade of goods and the European macroeconomy misses the potential opportunity for growth in talent-driven industries, such as finance or technology, on the European continent. As companies consider restructuring strategies to diversify from London, cities across the English Channel are evaluating their ability to attract highly educated talent — a potential upside for frustrated Europe, but a continued headache for the beleaguered Brits.

France and Germany Make Overtures

France and Germany, Europe's political and economic center of gravity, have been among the most aggressive in courting Britain's fleeing firms. French President Emmanuel Macron has implemented aggressive pro-business policies, trying to make France the financial and innovation capital of Europe. During his tenure, he has reformed the labor market, invested in innovation and updated the tax code to capitalize on firms leaving London. These reforms have included a recent policy exempting white-collar workers immigrating to France from contributing to the country's pensions system for six years, as well as reductions in the income tax rate for top earners. Furthermore, France is doubling down on bilingual education programs and making international arbitration proceedings English-friendly in an effort to attract more Brits. These policy initiatives, coupled with the move of the European Banking Authority to Paris, are redefining France as an investment-friendly hub primed to welcome the United Kingdom's professionals and multinationals.

In Paris, development authorities are continuing to shape the City of Lights as an attractive destination that offers an elevated quality of life and superior job opportunities. Alexandre Dublanche, vice president of economic development for the Ile-de-France region, has focused on cultivating high-salary jobs in the financial sector. These efforts seem to be bearing fruit. Although the total relocation has been small, the impact is measurable in the finance sector — 66% of projects and 83% of job relocation due to Brexit is in this industry. According to Bloomberg, these 161 Brexit-related projects have created 7,000 high-paying jobs in Paris alone. Duncan Martin, a senior adviser at Boston Consulting Group London, believes that Paris and Amsterdam are the only European capitals capable of

truly competing with London for top talent thanks to their talent pools, cultural offerings and locations. With Paris' charms combined with Macron's pro-business reforms, that competition may be heating up.

In Germany, the private and public sectors are also focused on attracting top talent and companies. According to a study conducted by Frankfurt University's Center for Financial Studies, 86% of senior executives in the German financial sector now expect an eventual "no deal," meaning the U.K. would withdraw from the union without a finalized agreement. Although this outcome poses risk for Germany's financial stability, respondents believe that even this can lead to opportunities for the country as U.K. businesses and staff relocate to continental Europe. Local and regional officials in Frankfurt, in particular, have worked with marketing agencies to promote the city as a future financial center, playing on Germany's reliability and stability as key assets for business growth in the country. Contrary to what is viewed as an aggressive marketing approach by Paris, Frankfurt's focus on stability seems to be an antidote to the chaotic Brexit landscape. Companies and officials in Frankfurt and Hesse are using this reliable image to encourage businesses to make long-term bets on Germany, yet limits exist for using Brexit to encourage development of talent-driven industries. The city has struggled to articulate very specific policies to drive business investment and relocation to Germany, and the German federal government has remained largely uninvolved in the push to draw talent to the country.

France and Germany are not the only countries taking advantage of the Brexit turmoil. Poland, for example, is attempting to lure back highly educated millennials residing in London. As Prime Minister Mateusz Morawiecki said, "We are drawing jobs away from London towards [Poland], so that people can stay here, and our programs are helping emigration to fall to record lows." After Poland joined the EU, many Poles left the country to seek higher-paying jobs elsewhere. The impending implications of Brexit may soon reverse this trend. Poles studying at universities in the U.K. may not be able to stay in the case of a no-deal Brexit and will be looking for a new home. If Poland can continue cultivating an attractive tech scene, the country can incentivize expats and other EU citizens to relocate. In any case, the narrative is clear: Continental European nations are actively recruiting highly educated, highly compensated and highly valued employees in the finance and tech sectors.

Uncertainty Looms Large for the EU

Like much of contemporary British politics, whether the trickle of high-paying jobs migrating from the U.K. to the continent abates or accelerates is a matter of considerable uncertainty. Indeed, the lack of a clear resolution to the Brexit negotiations and continued deadline extensions have left British businesses and multinational firms stationed there at a strategic impasse, frozen between fear of a hard Brexit and hope of a last-minute deal. One could even posit that this uncertainty has slowed the exodus of human capital, with firms unwilling to make dramatic adjustments to their organizational structures until the severity of Brexit becomes clear. Given the likelihood of continued political upheaval, this mindset may persist even after a potential hard Brexit, with firms willing to wait for policy clarity. The long-run viability of the U.K. as Europe's preeminent center of intellectual capital, however, should be understood through two broad scenarios.

"Contrary to what is viewed as an aggressive marketing approach by Paris, Frankfurt's focus on stability seems to be an antidote to the chaotic Brexit landscape."

The first scenario — and the one cheered by a large majority of British business — is one of near-frictionless movement of labor, goods and capital between the European continent and the United Kingdom. Such a scenario is frequently likened to the current arrangement between the European Union and Norway, where Norway maintains access to the Single Market in exchange for accepting the European Union's "Four Freedoms," which are free movement of goods, capital, services and labor. The advantages for financial firms of this form of a deal are clear: the ability to retain and attract members of the EU labor force; minimized damage to the broader British

economy; and maintenance of regulatory harmony with the European Union. Maintaining regulatory harmony is particularly important for the British financial services sector as the EU gradually integrates through the creation of the European Banking Union. Importantly, this would require acceding to European regulations without a say in drafting them. Yet given the size of the EU market for financial services, a regulatory split between the U.K. and EU would be supremely challenging to British firms.

Any government willing to advocate for this type of relationship with the European Union would also be seen as championing stable governance. Predictable policymaking and level-headed leaders have been a hallmark of postwar Britain, giving multinational firms the confidence and certainty to establish operations there. This certainty is complemented by a cosmopolitan, meritocratic and progressive image that attracts highly educated workers from across the world. As Duncan Martin of BCG noted, "We speak the right language, we have a world-class legal system, and executives and their families want to live here. Those advantages don't go away overnight." Indeed, the attractiveness of London as a financial and technology hub stems largely from its Anglo-Saxon business culture, vibrant cultural offerings, openness and high quality of life, features that are long lasting.

"The narrative is clear: Continental European nations are actively recruiting highly educated, highly compensated and highly valued employees in the finance and tech sectors."

The second and perhaps most likely scenario envisions a Britain beset by a progressive loss of top talent due to economic disruptions in the wake of a no-deal Brexit. Many policymakers point to the agreement between Turkey and the European Union as a potential model, where the U.K. is a member of the European Customs Union but is excluded from frictionless trade in services and freedom of movement. To date, the government's focus has been on avoiding border checks on physical goods crossing borders, yet very little attention has been paid to the potential damage to the services sector. Slowly but surely, financial and technology firms will be forced to locate staff in continental capitals as regulatory frameworks between the United Kingdom and the EU diverge and firms seek access to the much larger European market. This is to say nothing of potential tariffs on cross-border service exchange. Rather than produce a sudden mass exodus to the continent, such a scenario would likely take place over many decades as the structural advantages of staffing top talent out of London offices becomes less essential.

More than economic disruption, the greatest long-term threat to the United Kingdom's position as Europe's talent hub may be the reputational hit it takes due to the Brexit bedlam. London's identity is inextricably linked to its outward-looking, trade-friendly and cosmopolitan policies. Moreover, Britain's enduring constitutional monarchy and political stability have been a source of confidence for businesses and workers alike, attracting significant investment and making London among the most attractive European cities for skilled workers. But the country's inability to navigate out of its Brexit impasse and increasing political polarization may diminish this competitive advantage. Duncan Martin of BCG worries that "the U.K.'s reputation as a well-governed country will be lost." Should that happen, continental European capitals will become increasingly competitive in the fight for human capital.

Turmoil in continental European governments and politics will be determinants of corporate relocations as well. For example, the proposed GAFA tax (referring to Google, Amazon, Facebook and Apple) on in-country profits of major technology companies demonstrates that European governments have significant power over the evolution of their business culture and environment regardless of the U.K.'s decision-making through the Brexit process. In a post-Brexit Europe, the slightly smaller European Union will need to determine if it wants to develop comprehensive joint policies to attract talent and companies to the continent, or if specific countries and cities will pursue these changes on their own. While the U.K. may struggle with loss of talent and a wave of

uncertainty, London will likely maintain its status as a global financial and economic capital. Europe's challenges to innovate in their economies, therefore, will continue regardless of Britain's trajectory

Of course, the success or failure to attract human capital to the continent depends on the nature of an eventual Brexit deal. The threat of a disruptive hard Brexit is increasing as time ticks down, and the potential chaos of such an exit limits options for strategic business discussions alongside reactionary policymaking. Simply stated, a no-deal Brexit will give everyone fewer options. It is likely that many companies will defer their strategic and human capital decision-making until after Brexit occurs in order to gain clarity and limit uncertainty, at which point they may be more constrained by the realities of how the U.K. economy responds to such a shock. France and Germany, as well as smaller nations such as Poland, will continue marketing themselves as strong alternatives to London for highly skilled workers and industries, but official decisions by companies and governments will likely be postponed until all parties can evaluate the realistic situation of Brexit and their own internal politics. The business scenarios of frictionless transition versus prolonged disruption will largely be determined by governments as opposed to businesses. Until a decision is reached, the EU and European industries and workers will remain in their holding pattern.

This article was written by Will Gallagher, Alison Wawrzynek and Samaria O'Brien, members of the Lauder Class of 2021.

Does Affirmative Action Work? Case Studies of Malaysia and South Africa

The governments of South Africa and Malaysia have implemented legislation designed to boost the socioeconomic standing of disadvantaged citizens, but those policies have produced little tangible results. This article argues for a different approach.

Diversity is a complicated notion that is hard to define. Divisions among traditional diversity lines of gender, ethnicity, religion and culture have shaped not only the social and political structures of countries around the world, but also the business environment. The effect of this fractionalization may impact business environments through political instability as well as human capital and resource flight. As polarization becomes more extreme, it is imperative to examine what has been done to address this issue, and what can be done in the future.

> "Although some of the policies implemented in Malaysia and South Africa have been popular, results have generally lagged behind expectations…."

Bumiputera is a Malay term meaning "son of the earth," used to describe those who perceive themselves to be native Malays as opposed to the ethnic Chinese and Indians who later settled in the country. So-called *Bumiputera* policies were historically implemented to protect these native Malays and address economic inequality after the country achieved independence from Britain in 1957. Article 153 of the Constitution was designed as a series of affirmative action policies to create opportunities for Malays and defuse inter-ethnic tensions after deadly race riots sparked by the 1969 general election, when the ruling party lost seats to the Chinese-majority opposition party.

Similarly, South Africa enacted the Black Economic Empowerment (BEE) legislation in 2003 — which was modified in 2007 to Broad-Based Black Economic Empowerment (BBBEE) — to disrupt the status quo and economically empower a historically oppressed ethnic group.

Proponents point to statistics and studies to show that these policies have succeeded in creating a strong Malay middle class and enriching South African minorities. But opponents see such policies as quotas that are patently unfair and discriminatory. Both countries are also experiencing a backlash from groups excluded from these policies. Citizens generally agree that the policies were initially well-intended; however, the interpretation of the results are mixed and often contentious. These complexities make formalizing the right path forward particularly challenging. This article examines the two case studies of Malaysia and South Africa to understand their contentious legislations addressing ethnic diversity, with the hope of illuminating relevant points that are applicable for other business environments around the world.

Historical Context

The modern reality of most countries is that different groups have to co-exist within one system. Combined with complex histories of colonialism in much of the non-Western world, these differences have often led to both economic and political inequality for at least one group within every state. Two countries working to manage their diverse ethnic populations are Malaysia and South Africa. They share many similarities. Both countries have been colonies of Great Britain, have large minority populations and possess abundant natural resources. Most critically and uniquely, Malaysia and South Africa govern majority populations that are poorer than the minority groups. Malays and black South Africans have historically been disadvantaged economically compared with their Chinese and white South African counterparts. Addressing this inequality has also been a priority for the governments of both countries.

Malaysia has long been a center of trade within Southeast Asia, harboring the Strait of Malacca in addition to containing substantial natural resources such as tin and rubber. This wealth, however, largely benefited the British colonialists and the Chinese who came to the country for commerce. The majority Malay population, or Bumiputera, was generally disadvantaged in comparison. For illustration, Malays accounted for approximately 65% of the country's population in 1969 but held only 2.4% of wealth. While affirmative action policies began when Malaysia achieved independence from Britain in 1957, it was the race riots of 1969 that spurred further action through the New Economic Policy (NEP). The government justified its affirmative action policies through Article 153, which established the special position of Malays. Despite political domination, Malays have only been able to make a small dent in the economic domination of Chinese.

South Africa's racial relations have been notoriously strained. Apartheid, the system of institutionalized racism that existed from 1948 until the early 1990s, created deep animosity and distrust between blacks and whites. Its legacies, including lack of education, labor townships and discrimination, have continued to affect black citizens who make up about 80% of the population. One particularly significant problem is that nearly all physical assets remain in the hands of the country's minority white population, which has stunted economic opportunity and mobility for black citizen. Consequently, South Africa's status as the wealthiest sub-Saharan nation is marred by its simultaneous position as the most unequal country in the world, with a Gini coefficient of 0.63. The government implemented the Black Economic Empowerment (BEE) program in 2003 to define privileges available only to black South Africans.

Current Policies

Government policies to address inequality within Malaysia and South Africa share many common characteristics. The main emphasis is on improving economic conditions through increased access to physical capital, financial capital and training. The hope is that disadvantaged populations can harness these tools to propel economic growth and achieve end goals of greater human capital development and wealth.

One common policy tool is the quota. In Malaysia, existing companies were encouraged over time to bring *Bumiputera* equity ownership up to 30%, while new businesses were required to meet that target. There was also an expansion of state-owned enterprises (SOEs) in order to grow Malay ownership. Similarly, universities have a quota of Malay student enrollment along with schools specifically for Malays that other ethnicities cannot access. However, empirical evidence suggests that these policies are not doing enough. In his 2017 research paper, "Seller Ethnicity and Property Characteristics: Foreclosure Sales in Malaysia," scholar W.C. Wong and his co-authors found that distressed Malay and Indian borrowers in the Kuala Lumpur real-estate auction market sold their properties at a substantial discount of 37% to 39% less than Chinese-owned auctioned properties. The finding indicates that Chinese-owned properties are more sellable and expensive than their Malaysian and Indian counterparts.

> "In Malaysia, instead of focusing on pulling up a perceived disadvantaged class at the expense of pushing others down, perhaps the focus should shift…."

Another strategy is to lower the cost of operation, whether that be the rate at which capital can be accessed or the cost of education. The *Bumiputera* can purchase housing with a discount as high as 15% and can access preferential loans in addition to other services through the People's Trust Council, an agency dedicated to promoting Malays in business. Similarly, companies in South Africa that employ black workers enjoy tax benefits, and black-owned business can borrow at lower rates.

South Africa is working to incentivize companies to move towards more inclusive practices. The BBBEE program employs a scoring system that evaluates whether companies are meeting government targets on issues like enterprise ownership, management control and skills development. This score affects the ability of a company to do business in the country, particularly if the work involves

government contracts. While it does not set a hard quota, the BBBEE rewards companies that are aligned with the government's affirmative action goals while punishing those that are not. Melanie O'Gorman, an associate economics professor at the University of Winnipeg, observed in her paper, "Racial Earnings Inequality in South Africa: An Assessment of Policy Options," that the enrollment subsidy or the provision of income support to the unemployed from these policies may bring long-run reductions in the black-white wage gap up to 22%.

Malaysia and South Africa are unique in that affirmative action is directed towards the majority population, unlike the United States, where such policies are designed to help ethnic minorities. A democratic system and the popularity of these policies with Malays and black South Africans have allowed such strategies to persist and strengthen. Consequently, affirmative action has become a cornerstone of political support for both the United Malays National Organisation and the African National Congress in Malaysia and South Africa, respectively.

> "South Africa is working to incentivize companies to move towards more inclusive practices."

Results and Impact

Although some of the policies implemented in Malaysia and South Africa have been popular, results have generally lagged behind expectations and have done little to create meaningful change. In fact, the divide between blacks and whites in South Africa seems only to be increasing. Initiatives such as land reclamation and greater economic empowerment for blacks have not produced visible results, as South Africa remains the most unequal country in the world. The unemployment rate has steadily climbed, nearing 30% in the second quarter of 2019.

The BBBEE is perhaps the most visible and hotly debated legislation concerning racial relations and ethnic diversity in South Africa. The legislation has both proponents and detractors, with proponents asserting that the BBBEE is helping to redirect capital from "those who have" to "those who don't." Believers in the regulation see it as a necessary act by the government to level the playing ground for more of the population.

Detractors point to the fact that only a select few have benefitted from its impact and that wealth is still concentrated in the hands of a few. A 2018 study by Angela Pike, Juliet Puchert and Willie T. Chinyamurindi, three business professors at the University of Fort Hare in South Africa, indicates that the majority of SMEs felt that the BBBEE was contributing towards economic strain and an increase in tender corruption. While discussions of reparation in terms of asset ownership and land reform may be political talking points, the actual numbers leave much to be desired. Since the implementation of this policy, black ownership of companies increased a paltry 4% — rising from 18% to 22% — over a 10-year period ending in 2018.

The main complaint against BBBEE is not necessarily about what the regulation is trying to accomplish, but rather about how it is being done. The BBBEE is currently not a requisite law to be followed by all companies that wish to operate in South Africa, for example. Only those that wish for larger government incentives or are aiming for government contracts are even incentivized to go through the hassle of complying with these policies. Additionally, a recent report released by the BBBEE Commission on the status of the policy found that adoption of the policy has not been increasing and that cases of fronting — in which a company appears to comply with the law but does not grant any actual control or power to black employees — are still very common.

In Malaysia, policies created to help the ethnic Malays at the expense of ethnic Chinese and Indians who have been in Malaysia for generations have created an economic and social vacuum. Ethnic quotas on aspects such as business ownership and civil service positions discourage Chinese and Indians from participating in entrepreneurship and civil society, while companies that are Chinese- or Indian-owned are discouraged from staying in Malaysia, and private investment in the country is curbed. Meanwhile, the equality these reforms were meant to achieve has not materialized. For example, the average per capita income for *Bumiputeras* in 2014 was 22% less than that of non-*Bumiputeras*, and *Bumiputeras* only owned 26% of homes in Malaysia.

Similar to BBBEE legislation in South Africa, *Bumiputera* policies have also been highly contentious. Proponents point to statistics such as the one above to justify the continued need of these policies and even a potential increase in protection for Malays. Detractors argue that quotas are pushing populations out and discouraging people from working together for economic and social development, so legislation is actually discouraging development and investment within the country. Recently, changes have occurred. The Malaysian government, controlled by a Malay majority, have seen historic placements of ethnic Indians and Chinese within posts such as attorney general and finance minister. Further, political parties have been promising a rollback of ethnic preferential policies for the past decade, but not much has changed in that time span.

A recent change in attitudes is evident in Malaysia. According to a 2017 public opinion analysis done by the Singapore-based ISEAS–Yusof Ishak Institute, Malaysians have been increasingly receptive to relating and forming friendships across ethnic lines, as well as expressing a desire to move away from ethnicity-based political parties and legislation across all ethnic lines.

The Path Forward

South Africa has been trying to overcome its legacy of apartheid since the democratic election of Nelson Mandela in 1992. Article 153 of the Malaysian Constitution and other policies put into place by the New Economic Policies of the 1970s have existed for decades. The results of these legislations have not objectively created much change or lasting positive impact. Is it time to reconsider these policies?

In some cases, stricter government enforcement may be necessary. For South Africa, compliance with the BBBEE rules have been voluntary and based on incentives. What if the government cracked down made it necessary for all companies operating within the country to comply? What if the government started enforcing these rules and created penalties for noncompliance? While this may seem extreme, compliance policies such as the ones described are sure to increase numbers and impact. The recent appointment of a BBBEE Commission is a step in the right direction, but more needs to be done.

In Malaysia, instead of focusing on pulling up a perceived disadvantaged class at the expense of pushing others down, perhaps the focus should shift to helping the lower class through training and educational reform. Recent news from the Malaysian government suggests that training and development is, indeed, what the government aims to focus on. In a speech to parliament in 2018, Prime Minister Mahathir Mohamad criticized the government assistance program known as BR1M. He said, "Cash aids like BR1M will only weaken us, we shouldn't wait for help to arrive. Rather, we should put in our own effort to overcome our weakness and change things." The shift in emphasis from direct aid such as cash handouts to a focus on training and development would benefit the workforce as well as economic productivity and development of the country.

Malaysia should also recalibrate its national narrative in order to win the confidence and faith of its Chinese and Indian citizens. Controversial statements from politicians such as Hasnoor Sidang Husin, who made headlines in 2006 for saying that his party would be willing to "risk lives and bathe in blood" in defense of the majority race and religion, only further fractures a frail political unity. A shift in narrative and framing will be key in changing public perceptions and further unifying the country.

Through the two case studies of Malaysia and South Africa, one can hope to anticipate potentially effective legislations addressing ethnic diversity and inequality in situations applicable for various similar global economic climates.

This article was written by Vivian Guo, Jay Moon, Matthew Lee and Charlene You, members of the Lauder Class of 2021.

Zimbabwe and Ghana: A Confusing Legacy of Post-colonial Land Rights

One of the most deleterious effects of European colonialism on Africa is a legacy of murky land rights. In Zimbabwe and Ghana, issues with land ownership and development continue to hamper economic growth.

Following the independence of many African nations in the 1960s, African politicians attempted to erase the national boundaries imposed by the former colonial powers at the continental level. The effort to redraw boundaries was rooted in deep understanding of the cultural context and a desire to increase the economic viability of individual countries. The undertaking was unsuccessful, however, and was never implemented due to the magnitude of the structures and institutions developed under colonial rule and fear of the unknown consequences that might result from redrawing borders. Post-independence African countries continue to grapple with these legacies, most notably with regard to land ownership. How should an independent nation designate post-independence land ownership amid the legacy of historical subjugation of the indigenous majority by a small minority of foreign settlers, administrators and local cooperators?

> "In addition to the resulting social unrest, the insecurity of land rights continues to have a significant negative effect on Zimbabwe's industries and economic development."

Post-independence solutions have differed significantly by country, being heavily influenced by the form of foreign dependency — protectorate or colony — and the style of governance — self-governing or direct/indirect rule — that existed. On the one hand, Ghana, the first African nation to achieve independence in 1957, was under the control of the British crown through indirect rule since the formation of the Gold Coast colony in 1867 and did not host many European settlers. Zimbabwe, on the other hand, only reached independence in 1980 and had previously been governed by a minority of European settlers since 1923. These historical differences have resulted in varying challenges to land rights and provide a window into the controversies around land ownership in Africa to this day.

In addition to the inevitable social issues that conflicting land claims brought forth, different degrees of land rights enforcement have had, and continue to have, a direct impact on businesses small and large, hampering economic growth and stifling development. The International Development Law Organization, an intergovernmental organization devoted to promoting the rule of law, views the enforceability of land rights as crucial for economic development, calling for stronger legal frameworks. Customary land tenure, whereby land ownership lies with clan chiefs, priests, or other "customary" authorities, is prevalent across many African countries including Ghana. It is also an especially vulnerable form of ownership as it rarely enjoys adequate protection under national laws.

Land rights challenges have played out differently in the Ghana and Zimbabwe due to their divergent histories, resulting in land issues arising primarily in urban Ghana and rural Zimbabwe. Applying both a historical and an economic lens to the importance of land rights in these two countries makes clear the shared economic significance of land ownership in post-independence Africa despite stark contrasts in context and geography.

Land Ownership Rights in Zimbabwe

Conflict over arable land has dominated political discourse in Zimbabwe since the arrival of Cecil Rhodes and the British South Africa Company in the 1880s. The first uprising of indigenous farmers against European settlers, also known as the First Chimurenga, occurred in 1896 and was followed by continuous clashes in the first half of the 20th century. This struggle eventually led to the Second Chimurenga

from 1966 to1979, resulting in the end of white minority rule in Zimbabwe. But the transfer of power to Robert Mugabe, who became prime minister and later president, did not directly address the vast disparity in land ownership as half of all land, mostly in the arable regions, was still in possession of a tiny minority of European farmers.

Mugabe sought to rectify this inequality and cement his rural political support by buying back land from white farmers under the terms of "willing buyer, willing seller," and he granted the government the power to expropriate land for resettlement through the Land Acquisition Act of 1992. In 2000, Mugabe`s government surprisingly lost a constitutional referendum that would have allowed for expropriation without compensation. The government's response was to fast-track an amendment that required compensation only for "improvements on or to the land" and not for the land itself. This resulted in many white farmers being driven off their lands or killed by the War Veteran's Association, whose aging members had been instrumental in the Second Chimurenga. Following domestic criticism of the process with which the reclaimed land was being redistributed to the indigenous population, Mugabe nationalized all land acquired through the fast-track reforms in 2005 and began leasing it back to the indigenous population through an application and lottery system.

Land rights remain contentious and feeble, however, as many indigenous families have either yet to receive land or received land inadequate for providing a livelihood. In addition, commercial farmers are in some instances still subject to land claims by the government. Although Mugabe did eventually grant five-year leases to white farmers, it took a coup and the subsequent questionable election of former ally Emmerson Mnangagwa in 2018 for white farmers to obtain access to the same 99-year leases the government was extending to the indigenous population. The reforms intended to restore agency and ownership to the people of Zimbabwe have largely failed to provide the freedoms and prosperity that were promised and remain contentious today.

Impact on Economic Development in Zimbabwe

Through the Ministry of Lands and Rural Resettlement, the government distributed 10,485,435 hectares to 237,858 Zimbabwean families in an effort to correct imbalances resulting from the colonial era. But those who benefited from land reform depend on political goodwill to keep their property due to the common lack of documented ownership of their properties. Political activists throughout the country fear this might be a strategy of ZANU-PF, the ruling party, to keep control over the rural constituents that form the base of the party`s electorate. In addition to the resulting social unrest, the insecurity of land rights continues to have a significant negative effect on the country's industries and economic development. Although some people claim that extended droughts were the primary reason for Zimbabwe's economic slowdown in the early 2000s, academics including economist Craig Richardson have demonstrated this to be false by identifying a break in the correlation between annual rainfall and GDP growth in Zimbabwe starting in 2000.

> "One of the biggest challenges caused by the parallel land ownership system is that of land acquisition, an issue that has become endemic within Ghana."

The first impact of fragile land rights on economic development in Zimbabwe is the low land usage rate following years of repossession and redistribution. One key part of the productivity problem is that not all of the reclaimed land has been allocated back to the Zimbabwean population. Another part of the problem, however, is that the land that has been redistributed was often divided up into parcels too small to provide a livelihood for an entire family. In combination, these two drivers have resulted in more than half of all vacated land being left unclaimed or unused.

In addition, unenforceable property rights have led to low agricultural productivity and output for three primary reasons. First, guarding property when land titles are not honored occupies significant amounts of resources. Second, farmers do not engage in long-term land use such as growing perennial crops, thereby lowering yields and

efficiency. Third, satellite images show that land erosion is considerably higher in areas with poorly defined property rights, potentially due to slash-and-burn agricultural practices and a lack of investment in irrigation. These three factors significantly inhibit economic growth and have led to widespread food scarcity and insecurity.

Lastly, insecure land titles have eliminated access to capital and scared off foreign investors. If land cannot be leveraged to acquire loans due to the instability of deed titles, it is nearly impossible to make large investments. To illustrate, in 2003 the International Monetary Fund reported that 1,600 tractors a year were sold in Zimbabwe shortly before the first repossessions, compared with only eight tractors a year immediately following the start of repossessions. Foreign direct investment dropped by 99%, leading to heightened shortages in capital and eventually contributing to the rise of hyperinflation to 80 billion percent in 2008. In addition, outstanding debt to multilateral institutions and economic sanctions such as the Zimbabwe Democracy and Economic Recovery Act of 2001 (ZIDERA) from the United States, which was a response to human rights violations in Zimbabwe, cut off the country from international financial markets, further impeding economic development.

"Ironically, the quest by some African leaders to create economic advancement for their citizens has resulted in sizable negative consequences."

Overview of Land Ownership Rights in Ghana

The collective inheritance of centuries of familial customs and imperialistic British practices have left modern-day Ghana with a complicated and contentious land ownership system. Rife with diversity, Ghana is a melting pot of over 100 ethnic groups, most of which share a traditional form of land ownership, sometimes referred to as "customary tenure." Customary lands are owned and, in certain regions such as the Ashanti-ruled city of Kumasi, governed by clan chiefs or individual families. While customary ownership accounts for about 80% of Ghanaian land, the other 20% is referred to as "public lands" that are owned and administered by the government. This latter type of land ownership was born in the late 1800s, when British colonizers imposed the Crown Lands Bill on Ghanaians, allowing for both the state ownership of lands as well as leasing of mineral rights to foreign entities. The confluence of these two ownership structures has created a parallel land ownership system within Ghana that poses competing regulations that cause issues with land ordinance, purchasing and natural resource rights.

After 114 years of colonization, Ghana became an independent state in 1957, later going through the stages of joining the Commonwealth of Nations under the British Monarch's rule and finally gaining independence in 1960. The country's new leader, charismatic Kwame Nkrumah, led the nation in a series of land reform programs, all of which failed due to their piecemeal, ad-hoc nature. Eventually, in the late 1990s, the National Land Policy Document (NLP) was put into place, allowing for utilization of national land for works that aid socioeconomic growth, which encapsulated forms of both land leasing for natural resource extraction and land conservation initiatives. However, the unanswered questions of how to craft consistent land ownership regulations for the nation have created an environment ripe for litigation and exploitation.

Impact on Economic Development in Ghana

The 1962 Administration of Land Act defined public land as any land allocated to the government for the benefit of public service or acquired in the interest of the Ghanaian public. Additionally, it established a mineral rights framework that gave the state ownership of all minerals, such as gold, diamond and other precious minerals, in order to serve the greater good. This act has had some negative implications for Ghanaians, leading to public sentiments and frustrations. Events of the compulsory acquisition of land have played a role in the shortage of land for both residential and agricultural use, especially in the capital city: About 60% of Accra residents are unable to access and afford land. Allegations of government misuse of public lands, unpublicized sale of public lands to foreign developers, and the destruction of lands and

forests occupied by mining companies are common and top of mind for many Ghanaians. In addition, the open-pit method, which is a surface mining technique for mineral extraction used by large-scale mining companies, has severe implications for human health and environmental sustainability due to pollutant inhalation and ecological disruption, respectively.

Although the government has put in place policies to mitigate the negative outcomes arising from the acquisition of public lands, such as allocating a portion of the revenue generated from mining activities to local communities, much remains to be done. From the citizens' perspective, the reservation of public land and minerals for government control and use has resulted in limited, if any, economic, financial or efficiency gains. Given the complexities surrounding land ownership in the country, questions remain on the impact of such laws on the rights of citizens and on what government interventions exist to properly manage the stewardship of public lands. The challenges to land acquisition and ownership in the state play an enormous role in limiting the economic development of the country. Negative implications from the complexities surrounding land imposes constraints on the federal budget because funds that could be delegated to other critical areas, such as education and support for businesses, are assigned to rectify events that are closely related to the flawed land system, such as urbanization, land conservation in areas experiencing illegal mining and conflict mitigation. In partnership with the World Bank, the Ghanaian government is scaling up the country's land administration services with the aim of improving services and efficiency in the Ministry of Lands.

One of the biggest challenges caused by the parallel land ownership system is that of land acquisition, an issue that has become endemic within Ghana. Customary land inheritance flows from the owner of the land to multiple heirs within the family, and generation by generation, the quagmire of who truly owns a piece of land becomes increasingly pronounced. In real estate transactions, extensive research must be done to verify that a seller has the authority to sell the piece of land in question. This is a difficult undertaking as the government does not maintain an immutable record of land ownership. The Ghana Land Policy of 1999 did establish a Land Administration Project (LAP), which, according to the legislation, was pointed at developing "a sustainable and well-functioning land administration system that is fair, efficient, cost effective, decentralized and that enhances land tenure security." However, almost 16 years after the launch of the LAP, producing and maintaining deeds is nothing short of a bureaucratic nightmare rife with inefficiencies, and little progress has been made to mitigate the complex bureaucracies associated with acquiring or registering land in the country. Factors such as poor record keeping, a complex land management process and limited government initiatives play a role in curbing the transformation of land governance in the country.

The downstream effects of poor land ownership management equate to low buyer confidence and a poor means of purchasing security. Many land deals end up in court because distant relatives lay claim to the land in question, causing buyers to pay multiple times for the same piece of land. Additionally, though land litigation is supported by a court system that generally provides appropriate rulings, the system is inundated. The World Bank estimates that 35,000 active cases clog the system annually. The sale or purchase of land can, therefore, take up to 15 years. The economic implications for this prolonged litigation include decreased infrastructure development, decreased available housing for employable Ghanaians, limited investor confidence and an uptick in financial corruption. Recently, the state has been introducing measures to tackle the complexities of land acquisition and ownership. An example includes a joint venture between the Ghanaian government and the World Bank that Henry Kerali, World Bank director for Ghana, said will enable Ghanaians to "receive better and faster services from both the Lands Commission and the Customary Land Secretariats, and have more access to property and land information." This initiative to digitize land records is ultimately pointed at increasing efficiency and decreasing corruption.

In tandem with land ownership challenges, the country's rapidly growing urbanization rate has garnered significant cause for concern. When juxtaposed against population growth, which is currently 2.7%, the urban population

growth rate of 4.3% offers a stark comparison of the infrastructure challenges that lay in Ghana's future. The rising issue of socioeconomic disparity in urban land ownership has created poignant issues of gentrification as economic and land development proceed while urban land remains a scarce resource. This can be visualized by the Nima neighborhood of Accra, an area where largely Muslim migratory families come to live when first arriving in Accra. According to research from Radboud University Nijmegen, the average number of occupants within a home in Nima has grown threefold from 1954 to 1989, and on average, in 2001, these homes accommodated 48 individuals. This issue largely stems from gentrification as office complexes and luxury apartment developments have started encroaching on the outer boundaries of the settlement, slowly absorbing land and displacing families. In light of the growing urban migration that is predicted, the already weakly supported land ownership system will likely be unable to cope with this influx of people. The inaccessibility of this land will undoubtedly hamper sustainable urban development plans, making Ghanaian infrastructure steadily incapable of supporting such a large urban population. Finally, the conglomeration of these ill effects will significantly increase the prices of urban land, causing greater challenges in the way of rising income inequality. These socioeconomic issues carry with them the threat of rising poverty, which may enact rising welfare schemes and an increase of the fiscal deficit.

Better Solutions Are Required

The enforceability of land rights has a significant impact on economic development in both Zimbabwe and Ghana. The lingering challenges of land ownership have caused economic strife in some African countries and demonstrate the continuous impact of imperialism on post-colonial Africa and the role of poor policies implemented by African leaders. Ironically, the quest by some African leaders to create economic advancement for their citizens has resulted in sizable negative consequences. Examples of these include the introduction of novel land reform programs that collapsed the Zimbabwean economy and parallel land ownership systems in Ghana that slowed economic and infrastructure growth.

Land rights enforceability is, however, not a uniquely African problem. In March 2019, U.N. Secretary-General Antonio Guterres issued a guidance note recognizing the relevance of land conflict across the globe in achieving the 2030 Agenda for Sustainable Development. In particular, Guterres expressed the need for minority groups, such as women, smallholders, indigenous peoples, pastoralists and local communities, to attain land rights in order to provide for sustainable and inclusive economic growth. The promise of Africa is vast, but how African governments rise to meet the demands of land ownership in the context of urbanization and climate change is yet to be seen. Ultimately, access to land rights and all of the economic opportunities it provides will play a pivotal role in pushing forward Africa's economic development.

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How China's Next Generation Is Learning: The Rise of Online Education

The online education industry in China has been experiencing explosive growth as families search out tools to give their kids a competitive boost. This article explains the cultural foundation of online education and highlights several companies flourishing in the space.

Since the early 2000s, the online education industry in China has displayed significant growth, with more recent development focused on the areas of English language education and extracurricular activities. The online education market also shows signs of consolidation and integration with traditional offline education methods. Growth in China's online education industry is attributed to both increased demand, which stems from traditional Chinese cultural norms around the importance of education and the growing middle-class population in China, and a greater supply of online education, which is spurred by significant internet infrastructure development and increased venture capital funding. This report explores these reasons and highlights companies that initially operated on online platforms only, including VIP Kids, New Oriental, and TAL Education.

Demand for Online Education

Since ancient times, Chinese culture has stressed the importance of education. Following the teachings of Confucius, the Chinese national exam system traces its roots back to the Han Dynasty (B.C. 206 to A.D. 202) and flourished during the Song Dynasty (960 to 1279), all the way into the late Qing Dynasty (1636 to 1912). While in practice this system favored the wealthy, who possessed the time and money to educate their children, it was in theory open to all society and provided an opportunity for social mobility in China. Historically, this led parents to seek out the best educational opportunities possible for their children. Ever since Deng Xiaoping's 1978 Reform and Opening Up Policy emphasized reforming China's education system, families have increasingly viewed education as a means to improve their children's livelihood. In addition, the one-child policy, which peaked in the 1980s and '90s, pushed families to view their child as the sole economic support of the entire family.

As a result of culture and the increasing pressure from governmental policy, Chinese parents have steadily increased both spending and effort on their children's education. According to the academic publication *East Asia Forum*, "parents in most cities spent at least one third of their household income on their children's education, and, in some cities, the proportion can account for half of household income." Journalist Jane Cai of the *South China Morning Post* highlights that Chinese parents are sacrificing consumption expenditures as they prioritize spending on their children's education. Chinese parents' commitment to education can be seen in areas other than spending as well. In their study comparing Chinese and American parents, professors Chuangsheng Chen and David H. Uttal showed that Chinese parents set higher expectations for their children's performance in school, spend more time working with their children on homework, and are able to elicit more effort on schoolwork than their American counterparts. Chinese parents, therefore, continue to look for creative and efficient ways to supplement their children's education, attempting to fill every possible second of their children's time with cram courses or extracurricular activities.

> "Increased wealth in China provides the online education industry with more opportunities to grow."

In addition to the importance of education in Chinese culture, demand growth in online education is also driven by the significant increase in China's middle-class population. According to a McKinsey & Co. article by Dominic Barton, as a result of China's rapid economic growth, the country's urban middle-class population has

increased from 4% of the population in 2002 to 68% in 2012. Furthermore, McKinsey predicts that 75% of China's urban population will fall into the middle-class category. Given the importance of education in China's culture, the growth in China's middle class also resulted in greater spending on both education and in extracurricular activities. Recently, journalist Laurie Chen from the *South China Morning Post* found that "Chinese parents spend an average of 120,000 yuan (US$17,400) a year on extracurricular tutoring for their children — and some shell out as much as 300,000 yuan (US$43,500)."

Increased wealth in China provides the online education industry with more opportunities to grow. Based on a L.E.K. Consulting report on China's education technology industry, more and more parents are looking to spend additional income on online education to supplement their children's traditional offline education. Chinese households' willingness to spend on education, coupled with the growth of China's middle class, has generated consistent growth in demand for online education.

Using their growing wealth while remaining faithful to traditional Chinese values of placing importance on education, Chinese families are buying online education services to enhance their children's learning experience. Use of online education is differentiated based on where the family lives. For families in third- and fourth-tier cities, high-quality teaching resources are often either inaccessible or come at a very high time and financial cost. Children from affluent families in these lower-tiered cities traditionally spend as much time commuting to the offline tutoring sessions as the spend in the actual lesson. More often, most families in lower-tiered cities simply cannot access high-quality private educators in and around the city they live in.

> "The Chinese market is just beginning to realize the demand for non-traditional methods and subjects for online instruction."

On the other hand, wealthy families in China's first- and second-tier cities are often trying to maximize their children's schedule. Particularly in junior and senior high school, where the competition to attend the top schools is high, students' schedules outside of class are typically filled with extracurriculars and supplementary education. Based on ethnographic qualitative research conducted by the authors in Beijing and Shanghai, the primary reason why parents in higher-tiered cities sign up their children for online classes is to fit more into their children's schedules, which they believe will make their children more competitive in China's exam-focused educational system.

Supply in Online Education

From the supply side, China's development in internet infrastructure enables the online education industry to access a large customer base. According to the China Internet Network Information Center (CNNIC), there were 802.2 million people in 2018 actively using the internet in China, translating to 57.7% of the country's population. Deloitte Insights predicted that China "will have the world's largest fiber-to-the premise (FTTP) deployment" in 2019, enabling "gigabit-speed links to premises" and will "become one of 5G's leading markets, enabled in large part by the volume and density of the 4G network that the country has already built out."

China's internet infrastructure has enabled rapid development across China's technology space, most notably in the mobile space, where the country now boasts pervasive use of mobile payment technology. Online education also benefits from China's strong internet infrastructure, as its service is wholly dependent on users having access to the internet. With higher online speeds and widespread 4G connectivity, most of China's population has access to internet wherever they go. In online education, high connectivity speeds ensure quality during instruction and the ability to increase the size of virtual classrooms.

A second important factor impacting the supply of online education companies in China is the large influx of funding provided by domestic and international venture capital firms. Over the last five years, venture capital investments in China have grown over 850% from $60 million in 2013

to $5.2 billion in 2018. In 2017, China surpassed the United States in receiving education technology venture capital investments, making up over 50% of the global total. Furthermore, the country saw the establishment of 97 new "unicorn" education technology companies in 2018. The excitement over Chinese education technology industry is reflected in the online education space, with half of the large-scale funds in Quarter 1 of 2019 going towards online education platforms.

Current Industry Trends

English Language

Within the category of English language training, online education provides platforms that connect junior students to virtual teachers. Because English is one of the three core subjects for China's National Collegiate Entrance Exams (GaoKao), English language training is one of the fastest-growing categories within online education. According to L.E.K.'s China Investment Outlook 2019, companies such as VIPKid, DaDa and ABC360 dominate the field, making up 70% of total category revenue. These platforms utilize standardized sets of teaching materials and curriculums to maintain consistent quality levels across its instructors, and they rely on national and international exam results as metrics of success. L.E.K.'s 2019 China Investment Outlook also highlights that junior English language training has grown by 25% year over year since 2014.

However, according to Beleza Chan, formerly the head of Teacher Acquisition at VIPKid in Beijing, the question of true English proficiency remains. In her experience, students above the third grade are singularly focused on and motivated by the attainment of target exam scores. As such, despite months of instruction, many are still uncomfortable using the language outside the classroom. The existence of such a stark discrepancy between ephemeral, test-based proficiency and enduring, everyday proficiency is the reason Chan seeks to develop a solution to close this gap. Her solution, Chatterize, an English conversation mobile application driven by intelligent dialogue and immersive learning, works to engage students through regular, low-pressure conversation practice. It is set to launch in 2020.

Extracurricular Activities

The marketplace for online education in China is now extending beyond the academic sphere to areas such as extracurricular instruction — most notably with music instruction. For families that are middle-class, music proficiency provides their children a method to round out their education, providing them with means to access potential education opportunities abroad. As such, there is growing interest in online music education in the expanding middle class populations of second-tier and third-tier cities where access to adequate music teachers is limited.

Online music education platforms are similarly in demand among the upper-class populations of first-tier cities, but for different reasons. Pursuit and mastery of a musical instrument, particularly of the piano, is a symbol of wealth and intellect many affluent families seek to attain. Many upper-class families view music instruction as a method of nurturing their children's all-around development and believe exposure to more creative outlets will boost their children's overall abilities, regardless of the level of proficiency that is attained.

In light of this demand, there remains a significant challenge in making the learning process more supportive and enjoyable, an area of focus for many online music education providers. Solutions such as VIP Peilian and Kuaipeilian address the need for more frequent student supervision during practice time by connecting students to piano teachers and tutors through live streaming. Other solutions, such as Finger, an application aimed at increasing the accessibility and flexibility of music education, offer full-fledged online curriculums for more than 10 instruments. The Chinese market is just beginning to realize the demand for non-traditional methods and subjects for online instruction; the coming years will indicate the extent to which this demand will be addressed and the impact it may have on the fabric of Chinese education at large.

Market Consolidation

Over the last several years, the Chinese central government made a series of regulatory changes that

increased pressure on education providers, both online and offline. As enforcement increases, smaller companies are unable to become compliant. A Jefferies equity research report predicts that 13%, or $6.66 billion, of the K-12 after-school tutoring market share in China will be vacated, and "it should be relatively easy for the large players to grab this market share vacated by the small players upon consolidation."

It is not only the changing regulatory landscape that is causing consolidation in the online education space. Because of their sheer size, companies TAL and New Oriental are able to make bets in almost all corners of online education, leading to a scenario resembling the BAT (Baidu, Alibaba, Tencent) participation in the pure tech markets. In fact, according to journalist Yujing Liu of the *South China Morning Post*, as of September 2017, the two companies had "invested in more than 100 companies spanning online tutoring platforms, social apps and education technologies."

An Education Revolution?

As the online education industry continues to grow in China, uncertainties remain about the actual value offered by online education. Will online education replace traditional education methods? How will virtual or augmented reality impact online education? How will country regulation inhibit or support online education?

Even though questions remain, based on the current observable trends, online education is definitely disrupting the education space in China. From English language training to playing piano, online education, supported by the growing use of the internet and increasing venture capital investment, has and will continue to transform the education space in China.

This article was written by Alex Cohen, Sharon Guan and Jerry Xu, members of the Lauder Class of 2021.

Public Service or Private Profits? The Commercialization of Religion

Religious tourism has become a lucrative market for both countries and companies, making up a significant portion of the economy in some places. While the potential for profits is deep, questions abound about whether faith — and the faithful — should be exploited for money.

Jesus entered the temple courts and drove out all who were buying and selling there. He overturned the tables of the money changers and the benches of those selling doves. "It is written," he said to them, "'My house will be called a house of prayer,' but you are making it 'a den of robbers.'" — Matthew 21:12-13

By definition, religion is an organized system of faith, spirituality and worship. However, through the annals of history, vibrant economies have formed around religion's various dimensions, whether it be pilgrimage to religious sites, trade in religious merchandise or insuring valuable religious items. With the advent of technology, these trends have become even more pronounced. Logistical innovations, mobile applications and new ways of doing business have further enabled these activities. As with any profit-maximizing industry, this involves various actors and spans across regions. This article identifies some of the key stakeholders — public institutions, private companies and religious establishments — that profit from religion. It provides insights into how each of these groups profits from religion, the extent to which they profit from religion and the impact their profits have on society. It is important to note that this article does not concern the politicization of religion, although it is an alternative topic that intersects with the commercialization of religion across stakeholders.

Governments & Public Institutions: Religious Tourism

Countries that have important religious sites have a commercial advantage because many devout worshippers — both local and foreign — visit the sites every year. One such example is the Hajj pilgrimage to Mecca in Saudi Arabia, considered to be one of the world's largest gatherings of people with approximately 2.4 million pilgrims visiting in 2018.

Hajj is one of the five pillars of Islam, a pilgrimage that every able-bodied Muslim must undertake during his or her lifetime. Statista, a market research and analysis company, estimates the number of pilgrims to Mecca has grown by about 29% since 1999, and that figure is expected to rise. It should come as no surprise that Mecca becomes one of the most densely populated areas in the world during Hajj, which happens each year during a specific time on the lunar calendar (Umrah is a pilgrimage done any time during the year). Managing over 2 million people requires infrastructure around travel and transport, accommodation, security, logistics and telecommunications. That is where commercialization comes in.

> "India's rich history of religious dynamism and diversity presents a substantial opportunity for religious tourism."

The government's Ministry of Hajj and Umrah manages the Hajj's operations at an astounding scale. A 2018 article in the *Times of India* noted that 14,000 international and domestic flights flew pilgrims to Mecca, 21,000 buses drove them to Mecca and 18,000 civil defence employees ensured their safety. The ministry is also leveraging technology to streamline the Hajj experience. For instance, it launched the Smart Hajj initiative, an app that assists pilgrims from the moment they sign up to the moment they depart. The app provides access to emergency, translation, transcription and prayer services.

The newspaper article noted that the pilgrimage industry is the second-most important industry for Saudi Arabia's gross domestic product, contributing $12 billion a year — 7% of total GDP and 20% of non-oil GDP. While oil and gas are the largest contributors to the kingdom's GDP,

with declining oil prices and the commodity's uncertain future, investing in the pilgrimage economy is one of Saudi Arabia's priorities as indicated in their Vision 2030 plan. The plan states that "[Saudi Arabia] will enrich pilgrims' spiritual journeys and cultural experiences while in the Kingdom. [Saudi Arabia] will establish more museums, prepare new tourist and historical sites and cultural venues, and improve the pilgrimage experience within the Kingdom."

"Even if one were to hide under the premise of ignorance, one would think that a toilet seat featuring a deity would be universally inappropriate."

Other countries have also realized the commercial opportunity of religion. As the birthplace of four major religions — Hinduism, Sikhism, Buddhism and Jainism — India's rich history of religious dynamism and diversity presents a substantial opportunity for religious tourism. Accordingly, the government is investing heavily in developing this sector; however, compared to Saudi Arabia, the numbers are dismal. For instance, Suman Billa, the joint secretary for India's Ministry of Tourism, told journalists in 2018 that only 0.005% of the world's Buddhists travel to India on pilgrimages even though India is the birthplace of Buddhism and the custodian of many important Buddhist sites, including Sarnath in Uttar Pradesh and Bodhgaya in Bihar. To this end, the Ministry of Tourism has launched infrastructure development plans, such as the Pilgrimage Rejuvenation and Spiritual, Heritage Augmentation Drive (PRASHAD) and the Integrated Development of Theme-Based Tourist Circuits (Swadesh Darshan), with funding of $100 million and $835 million, respectively.

As the above examples highlight, countries commercialize religion by creating an economy around the religious sites with which they are endowed. In Saudi Arabia, a mature market exists surrounding the Hajj and Umrah pilgrimages. On the other hand, India's significant investment in tourism infrastructure projects demonstrates how other countries are emerging into a similar model.

Private Companies: Religious Merchandise & Practices

While public initiatives provide a glimpse into one aspect of how religion is applied in society, looking at how private companies use religion as a revenue stream is truly where the darker side of commercialization comes to life. Typically driven by the marketing arm of large corporations, symbols, terms and practices are monetized in a way that maximizes economic profits and minimizes cultural value. The degree to which this phenomenon has become pervasive is particularly concerning, and the connection between religious merchandise and yoga in the United States offers some compelling evidence.

Over the last six years, the Hindu god Ganesh has become particularly popular, appearing on Urban Outfitters socks, Etsy toilet seats, Amazon leggings, Wayfair bath mats and Adidas shoes — the list goes on, as captured by News India Times. The recognizability of these brand names and variety of product types demonstrate the extent of the issue. As the Wall Street Journal eloquently articulated, "Cultural borrowing is great; the problem is disrespect." Hindus take exceeding care never to trample a sacred symbol beneath their feet, so much so that they ask for forgiveness after accidentally stepping on books or paper, which represent knowledge. With that basic information, it makes sense that Ganesh-adorned socks, footwear and bath mats would be sacrilegious for any Hindu, Global News points out. Nonetheless, even if one were to hide under the premise of ignorance, one would think that a toilet seat featuring a deity would be universally inappropriate. Consider another example highlighted in the Los Angeles Times: A Burger King advertisement in Spain depicted the Hindu goddess Lakshmi sitting on a hamburger with the slogan "the snack is sacred," although it is widely known that many Hindus are vegetarians and many more do not consume beef.

Perhaps this a consequence of Abrahamic religious centricity. After all, one would never imagine seeing Christ or Islamic verses from the Quran on a toilet cover, argues University of Florida religion professor Vasudha Narayanan. However, having arrived in the United States only in the latter part of the 20th century, Indians are relatively new immigrant group that makes up a scant 1% of the population. Findings from the Pew Research Center show

that only 22% of Americans know someone who is Hindu, whereas 62% to 63% of respondents know someone who is Catholic or Jewish. Susan Scafidi, author of Who Owns Culture?, offered this view: "It doesn't typically come from a place of racism or hatred. It's more thoughtlessness, but after a group has made it known that a particular use of an image or cultural artifact is offensive, companies that continue to use it are choosing to place profits above respect."

These dynamics are not just limited to products but can also be seen among services. According to IBISWorld reports, over the last five years, the yoga industry has grown at an annual rate of approximately 9%. But the ancient practice from India has evolved differently in the U.S. For starters, the practice has been cherry-picked and detached from its origins. Most instructors do not acknowledge its history and, at times, completely reinvent certain elements of the practice, said New York-based yogi and writer Rina Desphande. For example, a CNN.com article discussed how Scientific American recently described pranayam, a Sanskrit word meaning "breath control," as "cardiac coherence breathing." In fact, the version of yoga that is reproduced in the U.S. is often so far removed from its origins that it includes pop music, goats and even beer. A whole industry has developed around this business. From tank tops to yoga mats, an entire line of supporting products takes this beyond cultural appropriation into exploitative commercial activity.

Religious Establishments & Figures: Monetization at the Nucleus of Religion

Religious institutions themselves have engaged in the commercialization of religion by insuring idols, amassing endowments and utilizing financial advisers. In India, it is now commonplace for temples to take out insurance on idols displayed in Hindu festivals. For example, during the Ganesh Chaturthi Festival, in which millions of people gather to celebrate the birth of Ganesh, many of the 300,000 Ganesh idols used in the festivities are insured. Some of the idols are plated in gold and silver and decorated in precious stones, leading temples to insure them for values ranging from $500,000 to $3.5 million to as much as $37 million, according to Quartz India.

In addition, because many temples encourage donations and charity, they have accumulated massive endowments — as much as $1 trillion worth of gold, according to the World Gold Council. Devotees are encouraged to give cash, gold and other items of value to the temples in return for goodwill from God. Certain state governments, like Tamil Nadu, have even launched online donation sites to make it easier for devotees to give to some of the state's well-known temples. Many of India's richest temples have come under scrutiny for amassing and maintaining large endowments instead of using the money to help improve human development indicators or jumpstart the economy. As a result, the central government has launched an initiative to monetize temples' wealth whereby temples can deposit their gold into interest-earning bank accounts. Some temples have even hired financial advisers to manage their endowments and help them navigate the advantages and disadvantages of the new government initiative. By insuring idols, collecting endowments and utilizing financial advisers, religious institutions have tapped into a broader trend of monetizing religion.

"By insuring idols, collecting endowments and utilizing financial advisers, religious institutions have tapped into a broader trend of monetizing religion."

Not only are religious institutions themselves engaging in the commercialization of religion, but so are agents of the religious institutions. Some Hindu gurus, who are typically thought of as ascetics, have embraced the commercialization of religion with particular zeal. Guru Baba Ramdev and his Ayurveda fast-moving consumer goods company Patanjali, which caters to middle-class consumers who embrace the traditional Hindu system of medicine, is the best-known example. Patanjali markets itself as home-grown, natural and herbal, selling goods ranging from shampoo to eye drops to body lotion infused with ingredients considered holy, including cow urine, dung and milk. The brand has become so popular in India that

some contend Patanjali is competing against multinationals like Nestle, Unilever and Nivea. In the fiscal year ending March 2018, Patanjali reported $1.2 billion in revenue compared with Hindustan Unilever's $5.2 billion, according to BloombergQuint and Unilever's annual report. Despite Patanjali's economic success, not everyone supports the commercialization trend. In an editorial in the Indian Express, another guru, Swami Agnivesh, criticized Baba Ramdev's commercial activity, asserting, "Ramdev has been in the business of converting spirituality into material profit…Religion became, in the process, the means for indulging in covetousness." If organizations — public, private, and religious — are commercializing religion, the guru trend highlights exploitation at a directly individual level.

A Trend as Old as Time

The commercialization of religion dates back to the days of Christ and has simply intensified in the digital age. While it happens in many different ways, the impact of these activities is arguably more relevant today. Governments and public institutions benefit from religious tourism but simultaneously provide costly public services, such as minimizing operational inefficiencies, improving safety for travelers and building technological infrastructure to enhance connectivity during the pilgrimages. This stands in stark contrast to corporations that employ traditional marketing tactics by merchandising religious symbols and inappropriately popularizing scared practices. Yet it becomes challenging to criticize their actions when religious establishments themselves start opening up their places of worship to the marketplace by leveraging financial instruments for commercial gains, all in the name of devotion. As these stakeholders illustrate, the commercialization of religion spans institutions, religions and regions. When evaluating the effects of these commercial activities, perhaps one can turn to the legal doctrine of Mens Rea (guilty mind) and Actus Reus (guilty act), which considers not only intent, but also impact.

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State-led Development: Choosing the Right Model

State-led development evokes images of colossal government enterprises and strong legacy agencies, but the reality is more complex. This article identifies three archetypes of state-led development and their implications.

Imagine a country's economic development as a powerful, chugging train. Evidence suggests there are forces that can be employed by governments to fuel this train's progress — or three archetypes of state-led development. In the most typical example of state-led policy, the government both owns and operates the train; this is the first archetype called Build and Operate. In the second archetype, the government owns the train but invites private-sector operators to hop aboard as conductors; this is Build and Attract. Finally, in the third archetype, the private sector fully owns and operates the train, but the government provides guidance on how to lay the tracks and where to go; this is Influence and Guide. This article does not advocate for one model versus the other, but the goal is to show how each of these archetypes offers unique pros and cons for both states and companies, as seen in case studies drawn from Asia and Africa.

Archetype I: Build and Operate

Build and Operate is the most traditional form of state-led development in which economic growth rests almost exclusively on the shoulders of the state. The government partakes in and influences economic activities through state-owned enterprises (SOEs). This archetype is commonly seen in industries that are strategically significant and the state needs to directly control and influence the development trajectory, such as in industries that engage in the provision of public goods. Despite increasing privatization and market reforms in historically planned economies, SOEs remain an important driver of economic output for many countries. Two examples illustrate this archetype: Ethiopian Airlines and the Singaporean Housing & Development Board.

Founded in 1945, Ethiopian Airlines is Africa's largest airline and has seen consistent double-digit growth throughout the past decade. One contributor to its success is its status as an SOE and the support it receives from the federal government. *The Financial Times* reported in 2016 that "Ethiopian Airlines as a wholly owned government entity has cheaper financing costs, does not have to pay dividends, and enjoys lower labor costs." Yet on the other hand, Ethiopian Airlines has maintained relatively high degrees of independence in its commercial operations. During the socialist era of the Derg regime, the airline resisted purchasing Soviet-made aircraft, continuing to purchase American-made Boeing planes despite government pressure. Ethiopian Airlines has historically focused on building long-term capabilities to compete effectively with the private sector instead of relying on public resources as a permanent source of advantage. It has invested in modern fleets, robust training academies, intercontinental expansion and strategic partnerships with other airlines. Clearly, while SOEs greatly benefit from government support, the most successful enterprises strike the right balance of intervention and independence.

> "Firms must assess the stability of state proposals prior to hopping aboard the government's Build and Attract plan."

Another example of Build and Operate is the Housing & Development Board (HDB) of Singapore, a statutory board that effectively operates as an SOE, allowing the government to directly engage in commercial real estate activities. The HDB was founded in 1960 to regulate the city-state's housing market and promote the government's agenda of home ownership. Today, 80% of Singaporeans live in HDB-developed units, with 90% of residents owning their apartments. HDB has enabled the Singaporean state to achieve its societal goals, and it has done so in a financially sustainable manner through private ownership,

with less than 3% of annual government tax revenue involved. The success of HDB illustrates how the state can directly improve quality of life by managing the provision of public goods like housing while maintaining commercial viability through societal partnership.

Ethiopian Airlines and Singapore's HDB depict how the Build and Operate archetype of state-led development can empower SOEs to both "do good" financially and "do well" socially. However, these cases also highlight the importance of remaining operationally independent and incorporating private-sector methods of management into the core SOE business model. This is the only mechanism by which Build and Operate organizations can achieve long-term financial sustainability.

"The Influence and Guide model is frequently used by governments to recruit the best private players to solve public challenges."

Archetype II: Build and Attract

The second archetype — Build and Attract — showcases a different type of relationship between the state and the private sector, where the government defines strategic goals, builds the infrastructure, establishes incentives and then attracts the private sector to step in to operate. This archetype is commonly seen in environments where desired industries do not emerge organically, perhaps due to poor infrastructure or untrained human capital. To meet these basic conditions, governments take direct action and take on the responsibility of laying the groundwork for companies to settle in. In addition, governments will also grant incentives such as tax exemptions and subsidized land leases and utilities prices. But the government also achieves clear benefits for its citizens. Incoming companies generate jobs and drive development, with increased wages igniting local economies and pushing both consumption and education. Ethiopia and Ghana are heavy employers of the Build and Attract archetype.

The industrial park is the state's newest vehicle behind Ethiopian economic development. In an effort to pursue economic diversification and make Ethiopia Africa's next "hub of light manufacturing" (industries such textiles and shoemaking), the government has built five operational industrial parks with plans to invest more than $1 billion in the development of up to 10 more. Simultaneously, Ethiopia has facilitated duty-free import agreements and multilateral trade agreements to the United States and Europe. The Ethiopian Investment Commission has restructured itself recently with a view to becoming more effective at attracting foreign direct investment and improving the services provided to investors. On a recent visit to Bole Lemi Industrial Park, a park with 342 hectares rented by more than 12 corporations, facilitated by the Addis Ababa Chamber of Commerce, the sheer scale of the operation became evident. Clean and bright production lines housed hundreds of workers. Boxes of finished goods — coats, shoes, sportwear for major brands — were stacked for export. The Build and Attract archetype is at work in Ethiopia's industrial park strategy.

Ghana has adopted the same archetype via its "One District, One Factory" policy. As one of President Nana Akufo-Addo's primary election promises, the policy focuses on pushing the development of local businesses throughout the whole country with the goal of having "one factory" established in every district to drive job creation. The proposed role of the government is to provide a set of key incentives for companies to flourish, from strategic credit lines to tax exemptions. However, critics such as Verner Ayukegba, principal analyst for sub-Saharan Africa at IHS Markit in London, questions the policy's practical implications, such as the likelihood that there will be a significant industrial venture worthy of capital investment in every district. Ahomka-Lindsay cites that there are 181 projects in the pipeline, of which 57 are already operational. More time is needed to determine whether Ghana's application of Build and Attract will successfully achieve the state's goals.

The main challenge for companies doing business under this archetype is their vulnerability to changes in government policies and resources. Because the ventures are sometimes only viable through subsidization and incentives, a shift in government strategy can mean an immediate loss in competitiveness. Firms must assess the stability of state proposals prior to hopping aboard the government's Build and Attract plan.

Archetype III: Influence and Guide

In the final archetype, though the state provides guardrails, development is primarily driven by the private sector. The Influence and Guide model is frequently used by governments to recruit the best private players to solve public challenges. In lieu of direct investment, states apply hard and soft pressure to involve private-sector players in order to leverage the success and know-how of established companies in the industry. The scope of work tends to be narrower, focused on addressing one specific social need rather than pursuing large-scale economic development. Though financial incentives may be available, companies primarily benefit from the Influence and Guide model through increased access to government contracts and government-controlled consumer data as inputs for their future growth. Chinese giants BYD and DiDi Chuxing provide two examples of this type of public-private interaction.

The city of Shenzhen in southern China has developed extraordinarily quickly, more than doubling its population in the last 20 years to a whopping 12 million in 2019. Much of its growth is due to Shenzhen's emergence as the tech hub of China; major corporate headquarters for companies like Tencent and Huawei make Shenzhen an attractive destination for highly skilled migrants. The increase in population, however, has presented challenges to urban mobility as more cars occupy the streets. This has prompted the government to reach out to BYD, the world's largest electric car manufacturer, in search of a solution. With state encouragement, BYD developed SkyRail, a low-cost urban rail system designed to operate on top of the city's existing infrastructure to decrease road congestion and provide an efficient alternative form of transportation for urban dwellers. SkyRail is in operation in Shenzhen, and BYD has signed a contract with Brazil to bring its solution to the city of Salvador by 2021. BYD and the Chinese state have reached a win-win partnership through the Influence and Guide archetype.

DiDi Chuxing, the largest ride-sharing platform in China, has been focused on solving transportation challenges by offering services such as app-based transit options, bike sharing, and car rental and sharing. Last year, DiDi partnered with government authorities to launch DiDi Smart Transportation Brain, an integrated digital platform that applies real-time data, artificial intelligence and "smart" traffic lights to solve traffic congestion. The Brain has been deployed in more than 20 cities in China with positive results, in some cases reducing average traffic delays by as much as 20%, according to Business Wire. This project would be an impossible undertaking for either DiDi or the Chinese government alone. The state provided DiDi with control over local traffic lights and large-scale transportation data, and in exchange, DiDi developed a cutting-edge solution. This illustrates how the Influence and Guide model brings together public and private players to solve specific public challenges – in this case, reducing traffic congestion.

Clearly, for governments, the Influence and Guide archetype allows states to push strategic priorities without diverting government focus and public funds. For private-sector players, this model works when businesses find win-win opportunities for state partnership, with each side bringing unique value to the table. But companies recruited into this partnership must balance state guidance alongside customer-centric goals that actually drive core business, being careful to stay true to their inherent corporate strategy and competitive advantage.

"For governments deciding which archetype works best, there is no one right answer."

Final Takeaways

What can be learned from the case studies above? Each of the three archetypes of state-led development comes with its own distinctive benefits, drawbacks and winning strategies. In the Build and Operate model, governments directly enter the market through SOEs, but these firms must prioritize operational independence in order to mitigate reliance on state resources and achieve commercial viability. In the Build and Attract archetype, companies receive attractive opportunities for growth backed by upfront government investment, but these companies must learn to evaluate new government policies for long-term sustainability. And in Influence and Guide, successful companies partner with the state to

address social challenges while benefiting from this unique access. But these same players may find themselves deviating from core strategy in pursuit of a win-win relationship.

For governments deciding which archetype works best, there is no one right answer. Instead, the question must be reframed to understand what success looks like and what is being pursued. Minimizing government expenditure? Attracting high-skill jobs? Building national players? Solving specific social challenges? The appropriate archetype depends on the objectives at hand. One thing is certain: In nearly all countries, state-led development has been and will continue to be around in one shape or form. There is no stopping this train.

This article was written by Bernardo Garcia, Guilherme Dos Santos Honorio, Conrado Reyna Kurtz, Peixin Mo and Yi Heng (Alan) Wang, members of the Lauder Class of 2021.

Fake News and Falling Trust in Mainstream Media

Professional news organizations worldwide are fighting a rising tide of public distrust along with a flood of misinformation from social media. Is there a better way forward for traditional news platforms, which are essential to a functioning democracy?

Fake news! Politicians have used tweets, speeches and policy proposals to levy this accusation against countless media organizations over the past few years. During this time, rising anti-media sentiment has thrown into doubt the information that citizens receive from television, newspapers and the journalism community. In the United States, President Donald Trump has frequently criticized what he calls the "liberal media" as being untrue and biased against him. Across the pond, Italy's ruling political party, Five Star Movement, has also been demonstrably hostile to independent media. Co-founder Beppe Grillo has refused to speak to the media, relying instead on direct communication channels with the public, such as blogs. Meanwhile in Turkey, according to the Reuters Institute Digital News Report 2018, half of all Turkish citizens in a survey reported hearing "completely made-up news last week." Turkey is also "the world's largest jailer of journalists," according to a Nov. 15, 2018, article by BBC News.

Without a trusted and well-functioning media industry, citizens of these countries lose faith in journalistic institutions, preferring information from social media or friends. According to Freedom House's "Freedom and the Media 2019" report, the independence of the media is one of the lynchpins of a functioning democracy. Populist, authoritarian and anti-democratic political leaders threaten media independence in order to consolidate their power and shut out dissenting voices. And where the media is weak, the democratic process is weak as well. Without access to objective information, citizens in media-deprived countries such as Hungary and Serbia have limited means to hold the government accountable.

A 2018 report from international press freedom group Reporters Without Borders starts with a worrying statement that, "More and more democratically elected leaders no longer see the media as part of democracy's essential underpinning, but as an adversary to which they openly display their aversion." This trend of evaporating trust in media puts the current democratic institutional framework in jeopardy and poses the question: Does the commercialization and digitalization of media impair the spread of unbiased information? Are there better models promoting variety, pluralism and high-quality journalism?

"Where the media is weak, the democratic process is weak as well."

The Emergence of Public Broadcasters

About a century ago, nascent forms of mass media (TV and radio) transformed the way millions of people across the world receive news. Concerns over the objectivity of media soon led to the creation of the world's first public broadcaster, the British Broadcasting Corporation. The BBC came into existence not only as a more efficient way of transmitting information, but also as a public institution aiming to uphold democratic values by providing information free from political influence or other pressures. "The Beveridge Report on Broadcasting" in 1951 stated that broadcasting "carries with it such great propaganda power that it cannot be trusted to any person or bodies other than a public corporation." The dangers of political control over the media were seen firsthand during World War II, when the German National Socialists took control of journalistic institutions to systematically spread propaganda and misinform the populace. When the Allies took control of German zones of occupation in 1945, they founded Germany's first public broadcasting system, Öffentlich-rechtlicher Rundfunk, using the BBC as a model. At the same time, other Western European countries also

founded their own national public broadcasters to foster high-quality programming.

While all newly founded public broadcasters were based on the ideals of independence and objectivity, the institutional settings across countries differed. Among these, Germany exhibits one of the strongest institutional frameworks, where educational, cultural and/or informative content is delivered by a network of independent regional public broadcasters, each of which is funded directly by German households. Another important factor is advertising: In Germany and the Scandinavian countries, advertising is either fully forbidden or only minimally allowed on rare occasions. Hence, public broadcasting is financed almost entirely through fees collected from households, and there is no dependence on external financing. This allows for unbiased journalism with less incentives to report solely what the readers and listeners want to hear. Similarly, independence from the government and the existence of independent press councils that scrutinize whether journalists uphold the code of ethics are imperative in these countries.

> "Strong public broadcasting and the availability of objective news in a country does not by itself ensure that pluralism and liberal democracy values will be upheld."

However, not all countries established strong public broadcasting systems. For example, the Italian public broadcaster RAI (Radiotelevisione Italiana) collects half of its revenues from licensing fees and the other half from advertising, leaving RAI subject to commercial pressures. Furthermore, RAI lacks the needed political independence and "has seen its public service mission undermined by political interference and commercial battles," according to a study by scholar Matthew Hibberd published March 1, 2001, in *SAGE Journals*. Another example is Poland. The country's national public broadcaster, Telewizja Polska, receives about two-thirds of its revenue from sponsorships and advertisements, and the country's National Broadcasting Council (KRRiT), which is intended to safeguard the freedom of speech, has long been highly politicized.

The Benefits of Public Broadcasting

There is reason to support the notion that a strong public broadcasting system is beneficial for upholding liberal democracy values. A *SAGE* article by Claes H. de Vreese and other researchers on the 2004 European parliamentary election campaigns in 25 countries suggests that public television increases political campaign visibility and, in the case of elections in the European Union, is expected to lead to higher voter turnout. Moreover, an analysis published in the *European Journal of Communication* on Sept. 27, 2016, by Laura Jacobs, Cecil Meeusen and Leen d'Haenens found that "individuals who prefer commercial news are more negative towards immigrants." Further studies, such as "Media Systems, Public Knowledge and Democracy: A Comparative Study," published March 1, 2009, in the *European Journal of Communication* by James Curran and other authors, also conclude that a public service model of broadcasting sheds more light on public affairs and international news, and the authors claim this broadcasting model minimizes the knowledge gap between different societal groups and therefore "contributes to a more egalitarian pattern of citizenship."

In Germany, the influence of a strong and independent public broadcasting system on the country's overall media landscape is recognized by a variety of sources. German journalist Christina Bergmann argues that the public broadcasters' mandate to produce content that has educational, cultural and/or informational value leads to higher quality reporting compared with private broadcasters, who are incentivized to report the news that will sell the best. ARD and ZDF, the two main public broadcasters in Germany, broadcast primarily geopolitical news, literary and cultural analyses, documentaries, and educational drama series.

As a result, public broadcasters are the primary and most-trusted source of objective news for German citizens. According to 2019 data about TV usage from the Commission for the Determination of the Concentration of the Media Industry, public broadcasters in Germany (primarily ARD and ZDF) have almost a 50% share of all

television viewers. This puts ZRD and ARD at positions 1 and 2, respectively, above any other private television channels. Lars Pilz, deputy dean of the economics and business school at the Goethe University in Frankfurt, said, “People think that they get very objective information [from the public media]. The “Tagesschau” [“Daily Television News,” run by ARD], the news channel every night at 8:00, is widely respected. This is the best source to get information from.” What is the result of these strong public media institutions? In 2018, Reporters Without Borders ranked Germany as the 13th best country for press freedom in the world (out of 180 countries ranked), putting Germany in the category of “Good Situation,” which is the best possible category.

Outside of Germany, the data from the Reuters Institute Digital News Report 2019 suggests that citizens in countries with weak public broadcasting media, such as the U.S., tend to trust their news sources less in comparison to citizens from countries with strong public broadcasting, such as Germany, the U.K. and Scandinavian countries. Reporters Without Borders also ranks most of the Western and Northern European countries with established independent public broadcasters as the leaders in terms of press freedom. This is not particularly surprising, since the index ranks countries based not only on the independence of the media, but also on the pluralism and quality of the legislative framework. Germany and Scandinavian countries also often top rankings in participatory democracy and trust in media. According a July 2, 2012, article by Lauren Kirchner in the *Columbia Journalism Review*, the “Scandinavian population has among the highest news readership in the world, and can choose among the world’s greatest number, per capita, of local and national newspapers.”

New Challenges to Public Broadcasting and Mainstream Media

Despite evidence in support of a strong public broadcasting media system, there are limitations to this model. Strong public broadcasting and the availability of objective news in a country does not by itself ensure that pluralism and liberal democracy values will be upheld. The Austrian national public broadcaster ORF remains the dominant player online and in TV, radio and print media. ORF is the most trusted source of news in the country. Nevertheless, in 2017 parliament elections, the far-right, anti-immigration populist party FPÖ secured a substantial 26% of votes and built a ruling coalition with the center-right Austrian People’s Party (ÖVP). Similarly, the far-right Danish People’s Party (DPP) secured 21% of the vote in Denmark’s 2015 parliament elections. In Sweden, high-quality journalism didn’t prevent the Sweden Democrats, a far-right party with roots in the neo-Nazi movement, from becoming one of the leading parties in the country, with 17.5% of votes in the 2018 parliamentary elections. These election results suggest that public broadcasting and independent media are only influencing factors that alone cannot bulwark a country against populist movements.

> “The recent rise of digital media through internet and mobile platforms is bringing fundamental changes to the way individuals select and approach information.”

A new challenge for existing mainstream media and public broadcasters is the digitalization of media. For the most of the 20th century, mass media was limited to print, radio and television. However, the recent rise of digital media through internet and mobile platforms is bringing fundamental changes to the way individuals select and approach information. According to the Reporters Without Borders 2019 Germany Press Freedom Report, one of the more complicated challenges facing Germany — as well as Europe and most of the world — is the shift towards social media as a medium for the exchange of news and political information. The EU is currently grappling with how to regulate a social media landscape that is increasingly prominent, easily manipulated and ever evolving. Getting that right — managing trolls, hackers and clickbait journalism without infringing upon the freedom to exchange information online — will be a significant challenge for the EU moving forward.

This evolution is also highly leveraged by populist movements across Europe. In Germany, the populist

party Alternative for Germany (AfD), has also eschewed traditional media outlets — going as far as to exclude certain journalists from many party events and press conferences — in favor of getting their message to the populace directly and unfiltered through social media. According to a study published April 24, 2019, in German news magazine *Der Spiegel*, in partnership with researchers from the George Washington University, AfD is the source of around 85% of all shared and forwarded posts that originally came from a German political party. AfD's dominance in the social media landscape is a significant contributing factor to its electoral successes. Meanwhile, according to Goethe University's Lars Pilz, the other parties "are a little bit old-fashioned, [and] they did not understand that this is a very important basis for political discussions… this is a very good way to influence the official debate. I think we will have to change in political parties that we are not only thinking about being present in television and newspapers but, as well, being more present in social media. And we have to think, as well, how to regulate what is said and presented in social media."

Public broadcasters have long retained their privileged institutional positions in most Western European countries. But as informational content and discussions move increasingly more onto social media, public broadcasters must compete with platforms such as Twitter, YouTube and Facebook. None of these platforms favor the multi-channel educational programming of public broadcasters. Instead, they provide an equal playing field for independent content, which is especially popular among the younger population. Moreover, according to a March 21, 2014, *SAGE* article by José van Dijck and Thomas Poell, public broadcasters may be legally constrained: "In the case of Netherlands, public broadcasters' abilities to expand their public services online are also in part limited by legal constraints: the law prohibits unfair (subsidized) competition with corporate occupants of this space to secure a level playing field." Despite social media platforms' increase in popularity, European public broadcasters have remained cautious when it comes to integrating social media with their content. In the case of Norway, early integration of social media platforms to promote NRK's (Norwegian Broadcasting Corporation) content was met critically, with the broadcaster arguing that "Facebook is a commercial website. Our activity on Facebook should support the NRK services — not the other way around."

What's the Future of Journalism?

The positive influence of public broadcasting on Western European democracies in the postwar era is hard to deny. Countries with public broadcasting systems that are financially and politically independent offer their citizens high-quality and more trusted news with higher rates of consumption. Furthermore, this increase in quality journalism often translates into more stable democratic institutions and a stronger sense of collective citizenship. This analysis suggests that countries with strong and independent public broadcasting systems should safeguard these institutions.

That said, the current operating model of public broadcasters in Western and Northern Europe is poorly designed to address the challenges from digitalization of mass media — namely fake news and the spread of polarizing content. The growing use of social media as a news source is changing the way information is consumed. Commercial platforms such as YouTube, Facebook and Twitter provide an equal playing field for independent and alternative content, which is often more partisan and polarizing. Public broadcasters struggle to compete against these independent and alternative content sources on social media because of the innate commercial setting of these social media platforms or because the broadcasters are legally constrained. If governments, public broadcasters and other democracy-supporting organizations want to continue championing objective and independent news for the generations to come, they must work together to understand how public broadcasting can survive and thrive in the new digital age.

This article was written by Kevin Bock and Julius Sukarevicius, members of the Lauder Class of 2021.

Argentina's Leftward Swing

After four years of conservative leadership under President Mauricio Macri, Argentines have voted for a more liberal candidate to run the country. But will the swing to the left be enough to help the ailing economy?

Five years ago, center-right businessman Mauricio Macri was hailed as Argentina's *empresario salvador*, or businessman savior, but he likely will go down in the history books as nothing more than a failed reformer. Macri arrived at the *Casa Rosada* in 2015 by a margin of just under 700,000 votes in a country with an electorate of 32 million. His administration undertook an ambitious reform agenda centered on drastically changing Argentina's economic course. During his four years in office, he successfully decreased the country's public debt, reduced public subsidies for transportation and energy, and developed a plan to rein in the country's historic inflation — but all at a massive cost to his popular support.

In October 2019, Argentines overwhelmingly denied Macri a second term in office by a margin of 8% and more than 2 million votes, favoring instead a ticket featuring Justicialist Party member Alberto Fernandez as president and former President Cristina Fernandez de Kirchner as vice president. The two ran a campaign centered on ending austerity measures and increasing government expenditures on social welfare, reorienting the country towards weakened or failed regional institutions, such as the Southern Common Market (Mercosur) and the Union of South American Nations (UNASUR), and rejecting the neoliberal philosophy of governing. The platform was reminiscent of Kirchner's 2003 presidential campaign.

This article examines the economic, political and social issues at play that led to Macri's downfall, including his mismanagement of economic reforms, incitement of widespread social backlash, confrontation with a unified leftist opposition and failure to deliver on campaign promises. It concludes with a few things to watch for as Argentina swings back to the left.

Mismanagement of Economic Reforms

When Macri arrived in office in 2015, Argentina was in a precarious economic situation. The country had experienced multiple years of weak economic growth, a significant deficit after years of unsustainable spending to avoid greater nationwide poverty, and the inevitable inflation that weakened the currency. After campaigning on a pro-business, more open market platform, Macri pledged to make significant reforms to free the economy of government control and allow private enterprise to leverage the natural and human capital resources in the country, starting with enforcing an independent central bank and re-legitimizing the national statistics bureau after scandals of underreported inflation.

"Macri lost intangible goodwill from his voters by not fulfilling his campaign promises to control inflation and reduce poverty."

Macri began his reforms by removing capital controls on currency and lowering the tax burden on businesses, especially in the agricultural sector, which is an important source of revenue for the country. Macri's plan was to begin liberating the economy from the perceived restraints imposed by the left-leaning Kirchnerist governments since 2001. This included decreasing popular government subsidies to electricity and gasoline while gradually reducing other federal spending to avoid an immediate recession and limit the policy's social burden. The plan originally acknowledged a short-term increase in the country's debt burden during the transition, but the original theory was that the reforms would ignite economic growth that would offset the debt. Electoral victories in the 2017 midterms further highlighted the plan's popular support and reaffirmed its viability to the international financial community.

But shortly after Macri's midterm victory, cracks began to show. Argentina experienced a mini-crisis in the summer of 2018, caused by capital flight from emerging markets with

increasing rates in the U.S. and signs of domestic strife as inflation spiked from about 25% to over 50%. This resulted in a dramatic devaluation of the peso by 50% against the dollar over a six-month period. The central bank responded by increasing domestic interest rates in an attempt to stabilize the currency, a move that further stifled economic growth. To help shore up domestic stability, the International Monetary Fund announced a $50 billion bailout package, the largest in the fund's history. The terms of the bailout included an immediate balanced budget, forcing the government to enact significant austerity measures that included reduced spending on social welfare and limited infrastructure investment. To balance the budget, the federal government reinstituted a 12% tax rate on agricultural export revenue, undoing certain reforms achieved in 2016, and abandoned its original goals of achieving "zero poverty" and creating "quality jobs" as unemployment grew and the economy entered a recession in the first quarter of 2019.

> "Shortly after Macri's midterm victory, cracks began to show."

Macri received permission from the IMF to use funds from the bailout to support the currency if it fell below 44 pesos per dollar, which critics said was a tactic to improve the administration's reelection prospects. After the October 2019 elections, which gave the opposition ticket led by Alberto Fernandez 47% of the vote compared with 32% for the incumbent Macri-led party, the peso immediately fell 18% against the dollar before continuing to fall for a total of a 33% drop. The Argentinian equity market fell 48% when it reopened the next day, the second-largest single-day drop since 1950.

Widespread Social Backlash

Macri's austerity measures hit the wallets of many low- and middle-class Argentines hard. One of his first austerity measures was the removal of subsidies for utilities and transportation. Although this measure might have been necessary from a budgetary standpoint, it backfired socially as it was highly unpopular with the Argentine middle class that had supported Macri in previous elections.

These policies have had a large impact on the cost of living for those in lower income brackets. For Argentines living on minimum wage, utilities and transportation now represent about 20% of income on average, according to Numbeo, an aggregator of crowdsourced cost-of-living data. Since Macri's measures were implemented at the end of 2016, utility prices have increased by almost 200% and transportation costs by almost 150%, according to consumer price index data gathered by Trading Economics.

Moira Alvarez, Hispanic and Portuguese studies lecturer at the University of Pennsylvania and coordinator of the Spanish Language and Culture Program at Penn's Lauder Institute, emphasized the impact of these policies on the middle class that was a critical source of support for Macri's 2015 win. "Independent of whether those policies were needed or not, the average citizen does not care about macroeconomics. He cares about whether he can pay his bills or not," she said. After the elimination of the subsidies, it has been increasingly difficult for the average Argentinian household or small business to pay their bills.

A More United Leftist Front

The Peronist and Kirchnerist opposition spent its years outside of the *Casa Rosada* uniting its support. Comparing the second-round election results from the 2015 elections with the final results for the 2019 elections, Macri's overall share of the vote fell more than 10 percentage points, from 51.34% to 40.37%. However, whereas the opposition vote was split in 2015, it was largely united in 2019. In 2015, the two Peronist candidates received 58% of the vote in the first-round elections, but this total was split into 37% and 21%. Because no candidate reached the 45% threshold for an outright win, Macri was able to win in the second-round, runoff election. Last year, the landscape was different. Although the two Peronist candidates took a smaller overall share (54%) of the votes in the general election, the vote was much less divided. Fernandez won 48% of the vote, while the other Peronist candidate, Roberto Lavagna, won just 6%.

The opposition has presented a forward-looking, united view of Peronism that was lacking in 2015. Part of this involves centering party alignment across offices. According to Camila Perochena, a historian at the Universidad Torcuato Di Tella in Buenos Aires, Cristina

Fernandez de Kirchner established a relationship of submission on behalf of provincial governors towards the federal government. However, Alberto Fernandez's campaign rhetoric has focused on elevating the role of the governors in his administration. More broadly, the opposition is more focused on the future, rather than hearkening back to the successes of former President Néstor Kirchner, who is the late husband of Cristina Fernandez de Kirchner.

Macri lost intangible goodwill from his voters by not fulfilling his campaign promises to control inflation and reduce poverty. The Macri administration's poverty-reduction goals failed due to growing inflation, the removal of utility and transportation subsidies, and cuts on general government spending. "Macri's 2015 campaign generated hope for the middle class; he was seen as the economic savior of the country," Alvarez said. However, this faith was lost as soon as he was unable to keep his most fundamental campaign promise regarding inflation control. As the middle class searched for an alternative, the opposition gained success in the elections by capitalizing on this opening.

Three days after the results of the primaries in Argentina, in an effort to recover from a major loss, Macri announced a series of measures including freezing fuel prices for 90 days, reducing income tax, increasing subsidies, and so forth. Although it did not help Macri win reelection, the measures showed that Macri was willing to give up on his foundational economic principles to increase his chances of victory.

What Lies Ahead for Argentina?

It is still unclear what kind of president Alberto Fernandez, who took office in December 2019, will turn out to be. Fernandez served under Cristina Fernandez de Kirchner's administration and selected the former president as running mate, instituting fears within non-Peronists and the international markets of a return to forceful state intervention in the economy, significant state borrowing and unsustainable welfare policies. Yet Fernandez was a strong critic of the Kirchner governments and was seen as a moderate politician who limited the implementation of the most polarizing policies proposed by the former president. During the campaign, he made appeals across the political spectrum by moderating his rhetoric, as highlighted by his position to respect the terms of the $57 billion loan from IMF. This rhetoric has helped to calm the financial markets to the prospects of a return to power by the Peronists in Argentina. Fernandez's ability to listen and negotiate has allowed him to establish a good relationship with different sectors of the leftist Peronist party in Argentina, granting him support not only from the electorate but also from the legislative branch. A likely higher governability should help Fernandez implement his policies and deliver on his campaign promises.

> "Macri's austerity measures hit the wallets of many low- and middle-class Argentines hard."

On the other hand, the economic crisis in Argentina might be the greatest barrier for the newly elected president. Fernandez's campaign promises rely on improving conditions for workers and the middle class, and his vice president is known for her populist measures during her two terms. An interventionist state needs capital to fund its welfare measures, yet Argentina currently does not have sufficient reserves, goodwill in the international credit markets, nor the budgetary surplus required to support subsidies on utilities or other policies that were in place before Macri's administration. Furthermore, the cost to employ a worker in Argentina is much higher than in other Latin American countries, so additional benefits for workers would further reduce labor competitiveness for the nation.

Alternatively, many believe that the relationships that Fernandez has developed with labor unions and the proximity with the Peronist extremist wing place him in a superior position to negotiate labor reforms that could reduce labor costs and promote a steep recovery of the Argentine economy. But a last-ditch attempt to turn his back on workers and his main political promise to save the economy might backfire and distance him from the various left-wing politicians that currently support him, reducing his governability for the duration of his mandate. Additionally, if approved, the labor reform could generate a

social cost in the short-term, worsening the already fragile situation for those who elected Fernandez as president.

Fernandez has to deal with a complex scenario: an economic crisis, a social crisis, and an unstable political support system. Action is needed in order to reform Argentina so that it can leverage its vast natural resources, but the new president will surely need to weigh the risks to avoid making the same mistakes as his predecessor.

This article was written by Thomas von Buettner, Braeden Mayer, Mark Nichols and Iacopo Santini, members of the Lauder Class of 2021.

The Challenges of Private Equity Investment in Mexico

This article explores the geopolitical threats to the private equity market in Mexico, which needs more investment to spur the nation's economic development.

Private equity investment is taking off in Mexico owing to several regulatory changes, but challenges remain. As Mexico heads towards developed country status, greater private equity investment will be crucial to its success. Examples of regulatory changes in the market include: (1) a 2009 law facilitating the entry of institutional investors into the market for the first time through structured vehicles called *Certificados de Capital de Desarollo* or CKDs, and (2) the 2006 creation of the CMIC (*Corporación Mexicana de Inversiones de Capital*), which manages a specialized fund called the Fondo de Fondos. This fund invests in private and venture capital funds across Mexico and Latin America. CMIC has catalyzed the development of small and medium-sized enterprises (SMEs) as well as energy and infrastructure. CMIC manages commitments of nearly $1billion and advocates more regulatory change to further open up the market to private investment.

Despite these positive developments, the market continues to face key obstacles. According to the World Bank's "Technical Note on Capital Market Development in Mexico," published in 2013, the private equity market in Mexico represents only .04% of GDP, and it is estimated that the country would need $12.5 billion in private equity investments to be at the same level as Brazil. There are still several macroeconomic and political challenges that have historically hindered the development of the financial sector. Inconsistent continuity between government administrations weighs on the local business climate, and weak local governance and institutions combined with failing infrastructure have deterred private investment in the country. Moreover, the country's capital markets lack sufficient capacity and sophistication to support increased levels of private equity investment.

> "Mexico, like many other developing countries, suffers from unstable institutions and weak infrastructure."

The PRI party's (*Partido Revolucionario Institucional*) longstanding and uninterrupted rule of Mexico, which lasted from 1929 to 2000, created an opportunity for

the government to implement measures to promote a long-term, pro-foreign private investment strategy. In his paper, "Public and Private Investment in Mexico, 1950-1990: An Empirical Analysis," Trinity College economics professor Miguel D. Ramirez said this pivot began in earnest after the 1982 debt crisis. The PRI was forced to deepen the liberalization of the financial sector in coordination with the International Monetary Fund and the World Bank as part of their joint economic recovery agreement. This neoliberal approach continued through recent PRI governments (2012-2018), culminating with the liberalization of a one-time state stronghold, the oil and gas sector.

"Inflation is another primary concern for foreign investors, who often measure their performance in their home currency."

But the PRI's neoliberal policy polarized citizens, most notably around economic inequality and political corruption. In their 2018 article "Mexico's Party System Under Stress," which was published in the *Journal of Democracy*, Kenneth F. Greene and Mario Sanchez-Talanquer explain that neoliberalism has not been a panacea in Mexico. The authors correlate the resulting backlash with the July 2018 electoral victory of far-left presidential candidate Andrés Manuel López Obrador (commonly referred to as ALMO). Foreign investors were quickly spooked, but perhaps overly premature in their reaction as the president continues to adhere to prior neoliberal norms. Indeed, Greene and Sanchez-Talanquer, both longtime Mexico watchers, reported that ALMO not only met with the head of investing management firm BlackRock, but he also pledged to adhere to core neoliberal practices, including ongoing efforts to reduce debt and support entrepreneurship, without raising taxes. These promises still seem empty to investors in Mexico, specifically, Xavier Gonzalez-Sanfeliu, partner/co-Founder of Alsis Funds, and Benjamin Spener, associate at Riverstone Capital, who both showed skepticism that AMLO would be neutral or beneficial to Mexico's prior strategies around private investment.

The Risk Apparent to Foreign Investors

Mexico, like many other developing countries, suffers from unstable institutions and weak infrastructure. For many companies and investors from the United States and Europe, Mexico's instability and corruption are dealbreakers when it comes to evaluating investment opportunities in Mexico. Others banish Mexico to the "emerging markets" category of high-risk investments, meaning that Mexican deals must compete for investor dollars against deals in emerging economies across the globe, from Africa to Asia to South America.

Mexico possesses a culture of bureaucracy marked by red tape and slow administration that make it challenging to operate in the country. The high level of bureaucracy is a mark against Mexico when rating its attractiveness to foreign private equity investors, as other countries that often compete for the same investment dollars require less bureaucratic hassle on the investors' or business owners' end. In 2018, Mexico ranked 54 out of 190 countries on the World Bank's "doing business" index, which compares regulations across economies. Mexico ranks significantly higher than the average for Latin America and the Caribbean. However, the country lags others in a few key categories. Perhaps the point that is most relevant to this article is Mexico's extremely low rank on the "enforcing contracts" metric. Investors sign contracts with local counterparts on a regular basis, so Mexico's inconsistency in enforcing its contracts may be a point of concern for investors.

Inflation is another primary concern for foreign investors, who often measure their performance in their home currency, most frequently dollars or euros. Mexico suffers from inflation rates that have hovered recently between 3% and 5% per year. These rates are below those of many peer countries, including Argentina and Nicaragua. For comparison, Argentina, one of Latin America's most unstable economies, saw inflation of more than 50% in the 12 months leading up to July 2019. But the most stable Latin American countries, like Chile and Costa Rica, have seen their stability reflected in inflation rates that were significantly below those of Mexico in recent years. Yet the economies of those countries pale in comparison to that of Mexico in terms of size. Mexico, with a population of nearly 130 million people and an annual GDP surpassing $1.2 trillion, is a more attractive market for foreign investors.

Given Mexico's large domestic economy and stability relative to other power players of Latin America, it should remain a target for direct investment by foreign firms.

A trustworthy and effective legal system is key to maintaining order and making a country attractive for foreign investors and for commerce in general. Mexico's legal system is more stable than those of some of its Latin American neighbors, but it is not without problems significant enough to deter foreign businesspeople from investing in the country. Notably, corruption and payoffs are prevalent in certain market segments in Mexico, making these segments untouchable by private institutional investors. According to the Latin America Private Equity & Venture Capital Association's 2017-18 Country Scorecard, the perception of corruption among investors is a barrier to the continued development of the foreign investment landscape in the country. The Scorecard also shows that, in terms of regulation, Mexico's strengths lie in its enforcement of business and transaction law, at least when compared to some other countries of Latin America. This relative strength of contract enforcement is most visible in the areas of corporate governance and bankruptcy procedures, but it does not apply to all areas of the market or legal system. Additionally, Mexico has recently loosened regulations governing several types of investments, including those financed by private equity and pension funds.

Problems with the Markets

Capital markets in Mexico are underdeveloped. This lack of development poses challenges for companies looking to raise capital, thus making private equity investment financing and exits difficult. According to Gonzalez-Sanfeliu, debt financing availability is much more limited than in the U.S. Senior loan financing is available from traditional lenders (i.e., banks and institutional investors), but these loans typically require asset-based security and are made at higher interest rates than in the U.S. The market for subordinated debt/leveraged loans is much sparser than in the U.S., as traditional lenders do not offer subordinated debt and there are few specialty lenders who provide this type of financing.

Equity financing is also challenging in Mexico because public and private equity markets are underdeveloped and concentrated. Mexico's principal stock exchange, the Mexican Stock Exchange or BMV, is one of two in the country. The other is BIVA, which is smaller and was only founded in 2018. BIVA is considered one of the "sleepiest" stock market exchanges among major developing nations, according to the RiskMathics Financial Institute. Despite being the second-largest in Latin America, the BMV lags behind stock exchanges of other developing nations in size and sophistication, with only 148 listed companies that have an aggregate market capitalization of about $400 billion, approximately 30% of the country's gross domestic product (compared with Brazil at 40%, Chile at 86% and the U.S. at 125%), and thin trading volume. Furthermore, the exchange is concentrated with its top 10 holdings representing approximately 40% of overall exchange value (compared with top 20% for the top 10 holdings of the S&P 500 in the U.S.). The lack of sophistication of Mexican stock exchanges make private equity exits/financing via initial public offerings difficult.

> "The private equity market in Mexico is nascent and underpenetrated relative to other emerging markets in terms of both funds raised and deal value."

The private equity market in Mexico is nascent and underpenetrated relative to other emerging markets in terms of both funds raised and deal value. In its "Private Equity in Mexico" report, Bain & Company noted that private equity funds raised from 2006 to 2010 represented only 0.06% of GDP (compared with 0.15% in Brazil, 0.2% in China and 0.49% in India), and deal value represented only 0.03% of GDP (compared with 0.13% in Brazil, 0.15% in China and 0.35% in India). The lack of private equity penetration results in fewer sponsor-to-sponsor exits (i.e., private equity exits via sale to other private equity firms) than in other regions. From 2001to 2012, sponsor-to-sponsor exits accounted for only 10% to15% of exits (compared with the U.S. at approximately 35%). Furthermore, strategic acquirers are notably less active in private equity acquisitions in Mexico than in other regions. Exits to strategic acquirers accounted for less

than 40% of exits (compared with U.S. at ~55% and Asia-Pacific at ~65%), limiting another typical key private equity exit mechanism. The lack of capital market development in Mexico across debt, public equity and private equity financing markets creates significant hurdles for private equity investment in Mexico.

Hope on the Private Equity Horizon

In essence, the volatility inherent in the immaturity of the Mexican regulatory and financial system is as much as a deterrent as it is an incentive to private equity investors seeking return and long-term principal growth. Domestic political stability has been upended in several matters over the past five years, with revelations of drastic and systemic corruption at a level not previously realized, causing the cancellation of certain national prestige projects such as a new international airport. Meanwhile, the country continues to be torn apart as a civil society due to narco-trafficking drug violence and a flood of asylum seekers seeing passage to the United States from all over southern and central American countries.

These instabilities have been further compounded by the continued threat of trade sanction and the upheaval of NAFTA due to pressures from the United States via the Trump Administration. Recent agreements on immigration between Mexico and the United States will put further budgetary pressure on Mexico as it is forced to spend more on preventing entry into the country and processing migrants that continue to enter at very high rates. The uncertainty surrounding AMLO's economic policies and trade agreements have decelerated economic growth in the country. The administration has canceled several programs aimed at stimulating foreign investment, including oil contract auctions and special economic zones (SEZ), which provides tax incentives, trade facilities, duty-free benefits, infrastructure development and deregulation. A June 2019 article from *Deloitte Insights*, "Mexico: Economic Growth to Remain Slow for Rest of the Year," noted that the investor confidence index in Q2 2019 dropped below 50 points. It was the first time that index dipped below 50 since May 2017.

A 2013 report by Bain & Company, "Private Equity in Mexico: Primed for Significant Growth," highlighted a ready pool of companies in real estate, technology, telecom and media, financial services, and wholesale and retail trade that would otherwise represent attractive targets for private investment. And the *OECD Economic Outlook*, Volume 2018, Issue 2 postulated that growth is forecasted to pick up in the next two years. The projection calls for increases in real wages, low unemployment and increases in domestic consumption. These positive factors would otherwise indicate that the market should open up to receive private investment in the future, yet serious geopolitical and socioeconomic factors cloud the immediate horizon.

Overall, the market should expect to see incremental growth in private equity. Administrative and regulatory improvements in permitted financial and tax structures in Mexico will only incentivize growth in private equity if the US-Mexico-Canada trade agreement is ratified by all nations. Mexican exports can gain ground on other U.S. trading partners such as China, which has yet to resolve ongoing trade disputes. Similarly, domestic instability will further reduce the pool of potential investors based on the willingness to operate in a higher risk environment. A few actors will continue to enter the capital markets in Mexico, and although incremental, these entries will be critical for pushing for greater regulatory improvements and paving the way for broader entry. In addition to an appetite for risk, it will be critical that investors entering the market have patient capital and flexibility with investment horizons. Given the present global trade environment and Mexico's enduring advantages, such as workforce quality and proximity to the United States, Mexico appears to have a promising likelihood of achieving long-term stability and should offer firms a compelling hedge to deploy capital in overseas markets.

This article was written by Joshua Carmenate, Julie Castelbaum, Paula Suzanne Lapciuc and Robert Shepherd, members of the Lauder Class of 2021.

Financial Innovation in Brazil

This article examines the disruption to Brazil's traditional financial sector, which is dominated by the state, from private startups intent on using technology to help reach new customers in a country where nearly a third of the population is unbanked.

Throughout the world, technology-enabled businesses are disrupting traditional industries from transportation to hospitality to real estate and beyond. While the regulations and bureaucratic policies of any country provide different degrees of temporary legal protection for traditional industry leaders, agile, resourceful and innovative newcomers continue to cut through the red tape and break into these markets, proving that disruption is only a matter of time. Today in Brazil, these newcomers are transforming the financial landscape for both consumers, who are gaining greater access to banking products, and traditional players, who are being pushed to change.

For years, Brazil's private banking sector seemed relatively unscathed and protected by its governmental ties. As explained in a 2018 article in *The Economist* titled "Brazil's Banks Profitable Whatever The Weather," the Central Bank of Brazil's tight grip on banking licenses limits the number of entities permitted to operate, resulting in an oligopoly in which the top six banks (three private: Itaú Unibanco, Bradesco, Santander Brasil; and three public: Banco do Brasil, Caixa Econômica Federal, and BNDES) control 82% of banking assets and 86% of loans issued. In comparison, reported by *The International Banker*, rates in India, Turkey and the United States are closer to 30%. In 2007, these same banks held only 71% of loans issued, which shows that, contrary to normal market patterns, the traditional bank's control actually grew during the economic downturn. While the country suffered a recession during which the economy contracted over 7% from 2014 through 2016, return on equity of its two largest banks, Itaú and Bradesco, never dropped below 15%.

In addition to the tight hold on banking licenses and resulting oligopolistic structure, Brazil's banking sector has other unique distortions. Because two of Brazil's biggest banks are majority state-owned, these banks offer highly subsidized rates to certain government-prioritized sectors instead of prioritizing access to credit for all, according to *Americas Quarterly*. Furthermore, in efforts to avert a financial crisis, the Central Bank of Brazil maintains a very conservative required reserve ratio, defined as the portion of reservable liabilities that commercial banks must hold rather than lend or invest. Brazil's rate is 45%, compared with 2% in the Eurozone. As such, far less money is available for lending, which ultimately raises interest rates.

"While Brazil's market particularities have a strong macroeconomic impact, their direct impact on everyday citizens is even more alarming."

While Brazil's market particularities have a strong macroeconomic impact, their direct impact on everyday citizens is even more alarming. Because of a historical supply and ever-increasing profits, large banks lacked incentive to improve and expand services. In its "Brazil Fintech Deep Dive 2018" report, consulting firm PwC reported that while about 30% of Brazil's population is unbanked, 58% of those unbanked people come from the 40% poorest population of the county. Brazil, with a Gini Coefficient of 53.3, is ranked one of the most inequitable countries by the 2018 World Inequality Database, which revealed that the poorest half of the country receives just 12% of income. From a purely logistical perspective, Brazil has only 11 bank branches per 100,000 people, compared with an average of 26 in the United States and 44 in the Eurozone. Given the low levels of competition, banks continue to charge high fees for accounts, cards and services, further limiting access. Ultimately, these factors yield a current consumer lending rate at over 49%, nearly double that of Argentina, and revolving credit rates of nearly 300%, according to data from Brazil's central bank.

Given these market imperfections, the reality of over 55 million unbanked people and the staggering lack of innovation by the traditional banks, Brazil's banking sector

is being challenged. Tech-enabled businesses are popping up throughout the country to take on the oligopolistic industry and the government's bureaucratic position in order to improve banking for all Brazilians. Different companies are attacking niche opportunities throughout the sector and pushing the traditional banks to improve services. They are discussed in the following section.

"Different companies are attacking niche opportunities throughout the sector and pushing the traditional banks to improve services."

Key Areas of Innovation and Company Profiles

Retail Investing Innovation

No company embodies Brazil's fintech revolution more than XP Investimentos. Guilherme Benchimol and Marcelo Maisonnave founded the company in Porto Alegre in 2001 as a small financial advisory firm giving stock market advice to retail investors. Over the years, the firm democratized access to investment products and captured share from the oligopoly of traditional banks. Today, the firm serves as the largest independent brokerage in Brazil.

The 2008 financial crisis forced XP to innovate, leading it to offer bonds, mutual funds and other products. This transformation, combined with the subsequent digital/mobile revolution and the expansion of Brazil's middle class, led to substantial growth. From 2012 to 2018, XP grew its client base from 67,000 to 850,000 and increased its assets under custody from R$6 billion to R$220 billion. This growth attracted outside interest from both private equity firms and competitors, as XP received major investments from New York-based General Atlantic and local competitor Itaú, Brazil's largest bank.

Despite XP's growth and leading market position, Karel Luketic, the company's chief strategist, said he still sees "massive runway given the immaturity and under-penetration of Brazil's retail brokerage market." Only 1% of Brazilians invest through brokerage accounts versus more than 30% of Americans, proof of the opportunity at stake. With Brazil's domestic interest rates at all-time lows, conditions are ripe to incentivize investment in riskier assets.

According to Luketic, consumer financial education remains the obstacle to market growth. "Even smart, wealthy Brazilians with millions in assets do not understand the benefits of a diversified portfolio," he said. To promote this effort, XP has invested heavily in its digital customer education program, "*XP Educação*." With over 40 courses offered online, the program has trained over 500,000 students since 2002. After capturing nearly $2 billion in proceeds from its December 2019 IPO on NASDAQ, XP plans to continue investing and innovating and to attract new customers across Latin America's largest market.

Cryptocurrencies

In 2015, Brazil appeared on the cryptocurrency world map when a Brazilian became one of the early Ethereum members. Today, after only five years present in the country, cryptocurrencies have not only become part of the national agenda discussion, but also part of the solution for Brazil's long-term financial system stability. In a letter to the Brazilian Senate in June 2019, Central Bank Governor Roberto Campo said that his team has been working on a design for a cryptocurrency tool that might become "the financial system of the future." Campo also added that he and his team are working on ensuring that the bank keeps pace with technological changes in the financial industry, allowing Brazil to remain competitive and relevant in the rapidly changing world economy.

Given Brazil's currency devaluation of more than 75% over the last five years, more Brazilians have increasingly seen cryptocurrencies as an alternative to the volatile Brazilian real. This shift in held currency has not only led to Brazil emerging as a regional leader in crypto in terms of market size and sophistication, but most importantly, it has opened a new market for crypto exchanges like XDEX. The company, a venture started by the founders of Grupo XP and backed by General Atlantic, hopes to become a leader in the cryptocurrency market while educating Brazilian consumers on the benefits of holding assets in blockchain. In an interview, Fernando Ulrich, XDEX's chief economist and an expert in crypto markets, discussed Brazil's potential to become one of the largest crypto markets in the world.

Consumer Lending

In his 2018 report, "A Disruptor's Paradise," financial expert Sergio Furio explained that inefficiencies in Brazil's banking market provided a clear opportunity for new entrants in financial services due to low competition, increasing internet and mobile penetration, and growing consumer interest in better financial services. In 2012, Furio created Creditas, a digital lending platform that drives down loan prices for consumers and businesses by using technology and data as efficiency drivers.

Creditas borrowers are able to obtain lower rates by offering their residences or vehicles as collateral for a first-lien lending product. Through technological innovations in the credit application process and advanced credit modeling techniques, Creditas said it has been able to offer cheaper loans to more clients. Their growth and impact have been impressive, multiplying revenue 35 times from 2016 to 2018 and saving clients over $150 million from better rates.

Due to the difficulty in obtaining banking licenses, Creditas created a unique lending structure by partnering with institutional investors and financial institutions to acquire funding. In 2019, a positive signal for lowering barriers to entry in the financial services sector occurred when the Central Bank authorized Creditas as a financial institution, which, as stated by Furio, allowed the company to have more freedom in offering and expanding credit products that guarantee clients' financial progress.

Other fintechs in the consumer lending space have also introduced innovations into the market to lower consumer costs and increase efficiency. GuiaBolso, a financial management tool, uses proprietary bank account connection technology to enable innovative cash flow modeling that helps mitigate risk and bring lower rates to consumers. Rebel, a digital lending business, uses machine learning to define clients' credit worthiness.

Responses by Traditional Banks

While new entrants to the market have reduced inefficiencies and challenged the domination of traditional banks, the main players have acted to remain competitive and keep up with the pace of innovation. These players have started to implement various technologies to improve efficiency and provide clients with a better experience. Itaú, Santander and Bradesco are beginning to use artificial intelligence tools. Further, Itaú and Santander have embraced lean and agile methodologies to foster creativity and have recently adopted contactless payment systems, such as Apple Pay and Samsung Pay, to improve interactions with their clients. Itaú has launched several innovative tools, including the Itaú Keyboard (*teclado Itaú*), where clients can complete money transfers without leaving their messaging apps like WhatsApp, and an app extension called My Finances (*Minhas Finanças*), which helps clients understand their expenditures. This extension, which aggregates the expenses into categories and allows a daily or monthly view, had more than half a million visits during its first month.

"With new entrants and incumbent banks competing to offer better and more innovative services, conditions for consumers are likely to improve."

Santander is also using technology to bring new services to its clients, with their most recent innovations including One Pay FX and Cockpit. One Pay FX is a blockchain-based platform that allows for international wire transfers to be completed in a fast, secure way. The platform has reduced the time to complete a transaction from days to just a few hours. Cockpit, the result of a joint venture with the online service Webmotors, is an artificial intelligence-based platform attempting to capture and grow the market for financing used cars.

Bradesco recently launched a proprietary tool, Bradesco Artificial Intelligence (BIA), to accelerate and channel interactions with customers. The virtual assistant offers 90% of the bank's services and integrates with messaging apps. InovaBra, the bank's innovation ecosystem, launched in 2015 and includes a startup accelerator and collaborative working space.

Future Challenges for the Industry

With new entrants and incumbent banks competing to offer better and more innovative services, conditions for consumers are likely to improve. However, despite the growing optimism for innovations in the financial sector,

the future outlook relies on the economic and political situation, which has recently shifted. A decade ago, Brazil was a fast-growing global economy fueled by commodities such as soybeans. By 2014, the nation was in its worst recession ever with politicians seeking to rein in the emerging market to its economic potential. The recent boom and bust of the country gave way to the rise of President Jair Bolsonaro, a far-right populist politician with free-market, neoliberalist aspirations for the nation.

Bolsonaro was elected in 2018 on the free-market platform of pension reforms and deregulation. His administration initially proposed ideas such as establishing partnerships between businesses and universities to stimulate entrepreneurship education and advocating for the importance of innovation in the agriculture and industry sectors, but the government dedicated most of 2019 to reforming the Social Security System. An article by BNamericas.com described Bolsonaro's failures as follows: "…the economy failed to gain traction…[and] a recent victory in the lower house for the government on the pension reform front failed to make a major impact on business confidence."

As a result of regulatory policies, Brazil's current lack of engagement among the public sector, academia and the private sector hinders the nation's ability to innovate and generate an ecosystem friendly to innovation investment and entrepreneurship. Luiz Ricardo Marinello, a Sao Paulo attorney who specializes in innovation law, said that "other critical barriers to driving innovation at a national level include a heavy tax burden, insufficient fiscal incentives that often don't reach all the players in the ecosystem, lack of skilled workforce and shrinking government budgets for science and technology."

In order to increase innovation, Bolsonaro's government will need to invest heavily in financial literary initiatives and educational opportunities, and change current laws to make it simpler for startups and investors to step into the economy. The entrance of more entrepreneurs will stimulate employment growth and create competition in the market, resulting in positive change. While innovation is growing in the nation, if Brazil desires to further expedite the process and revive its economy, it must implement better regulatory policies that will allow innovation to thrive.

This article was written by Kevin Ankerholz, Nico Baviano, Laura Lennon, José Maria Ocampo, Steven Peralta and Margaret Roberts, members of the Lauder Class of 2021.

For Here or To Go: Will Coffee Consumption Last in China?

Western coffee culture has spread to the urban centers of China, where young consumers view a pricey cup of joe as an attainable luxury. But a number of factors will determine whether the coffee trend will continue in a nation steeped in the tradition of tea.

Peppered throughout China's largest cities are universally recognized international symbols, from McDonald's golden arches to KFC's Colonel Sanders to Starbucks' green siren. Since Deng Xiaoping initiated market reforms in 1978, China has gradually stepped into the international arena and opened its doors to foreign investors and companies. The nation has developed at an unprecedented pace, with the World Bank calculating a GDP growth rate of 10% per annum. Today, China has a population of 1.3 billion people and is the world's second-largest economy, making it one of the most attractive markets for the consumer-facing food and beverage industry.

In pursuit of this high-potential opportunity, Starbucks and other international coffee chains have invested heavily in China. At the same time, the growing consumer market has facilitated the rise of local Chinese coffee companies such as Luckin Coffee. The introduction and proliferation of coffee in China, which is predominantly a tea-drinking culture, raises the interesting question of whether coffee consumption will be a short-term fad or long-term trend within the population. In the following analysis, we highlight and explore three factors that could influence the answer: coffee as a socioeconomic status symbol; adaptation of coffee to suit Chinese consumer tastes; and competition with other popular beverages, especially tea.

Enter the Dragon

Rising consumer discretionary income and widespread appreciation for international products in recent decades have created tailwinds for entrants into the coffee industry and drastically altered the landscape of some of China's major cities, including Beijing and Shanghai. In the central business district (CBD) areas of both cities, coffee shops can be seen on every corner, with long lines of white-collar workers grabbing a cup of joe before heading to the office, reminiscent of a typical Western metropolis like New York or London. In the shopping districts, no mall is complete without one or two (or 10) coffee chains spread throughout the sprawling, multi-level structures. Perhaps more surprising are the many boutique coffee shops juxtaposed with silk stores and restaurants selling traditional snacks throughout Beijing's hutong, the narrow alleyways characteristic of northern Chinese cities.

> "Young professionals in China may be drawn to the modern and global identities that coffee brands such as Starbucks represent."

According to market research firm IBISWorld, China's cafes, bars and other drinking establishments produced $2.6 billion in revenue in 2018. Compared with the United States, where the coffee and snack shop industry earned an annual revenue of $49.9 billion, China's figure may appear small. But the market has been growing at about 10.6% annually for the past five years while the U.S. industry has only grown at 4.6%. The potential of this market has attracted the attention and efforts of both foreign companies, such as Starbucks, as well as domestic enterprises, such as Luckin. Starbucks selected Shanghai as the location of one of five global Reserve Roasteries (with the other four in Milan, New York, Tokyo, and Chicago) and plans to operate 5,000 stores in China by 2021. This heavy infrastructure investment makes sense given Starbucks' same-store sales grew 17% in China, compared with 3% globally. Luckin, founded in 2017, grew its operations to over 2,300 stores across 28 cities within two years and is maintaining aggressive expansion plans for the near future. Continued supply-side investments into China's coffee market reflect the industry's strong confidence in the

massive scale of China's anticipated consumer demand for coffee.

The Beginnings of a Coffee Dynasty

The optimism for the coffee market in China is also tied to how the profile of the Chinese consumer has evolved over time. As a result of China's rapid economic rise, the consumer base is wealthier and the middle class is steadily growing. According to a 2014 BMI Research article, Chinese consumers are placing greater emphasis on quality, luxury and status. As a result, many Chinese consumers direct their increased discretionary income towards aspirational purchases that are often considered Western lifestyle luxuries. Coffee is one of the major beneficiaries of the trend because it is strongly associated with the Western culture and priced at a premium relative to other beverages on the market such as teas and sodas.

> "The adoption of coffee culture in China has been championed by its millennials and growing middle class."

As China's middle-class purchasing power grows, so does the Chinese market for luxury goods. Chinese consumer purchases of luxury products are largely driven by a desire to increase their social standing. This ties back to Chinese values around "face consciousness," as described by scholars Jie Li, Gong Sun and Xin-An Zhang in their study published in Sage Journals in 2015. The combination of face consciousness, a Chinese value reflecting "one's social self-esteem and desire to be respected," along with the perception of Western products as rarer and higher quality may be driving the popularity of coffee in China. Young professionals in China may be drawn to the modern and global identities that coffee brands such as Starbucks represent. By buying into Western coffee culture, Chinese consumers affiliate their social image with these values that they perceive to be prestigious and desirable.

Because Chinese consumers' desire for social image-enhancing products is unlikely to change in the short term, coffee will likely continue to be an accessible and highly demanded luxury product. However, its luxury level pricing may also prove to be a barrier for coffee companies looking to obtain market share. In response to premium-pricing concerns, Luckin has moved to make coffee more of a commodity in China. BMI Research notes that unlike Starbucks, which has positioned its coffee products as a luxury experience in China, Luckin has tried to attract customers by offering "heavy discounts and promotions" and pricing its products 25% less than Starbucks. While this may have helped attract initial customers, recent reports suggest that it has not enabled Luckin to retain customers. In fact, according to its latest 10-K filing, Luckin incurred $241 million in net losses in 2018 due to a combination of store expansion and customer churn. The latter likely reinforces the idea that Chinese consumers perceive coffee to be a unique experience worth paying premium prices for rather than a transactional bargain product.

A deep dive into the Chinese consumer mindset may reveal some of the forces underpinning the quick rise of coffee culture. In an interview with Lu Lu, a 28-year-old Ph.D. candidate at Beijing Foreign Studies University and coffee connoisseur living in Beijing, he explained how coffee consumption is undeniably tied to Western exposure and pointed to three strong data points as evidence. First, in both his hometown and areas outside China's more affluent eastern seaboard, most of the locals almost exclusively drink tea. Bed-and-breakfasts in these areas only brew coffee in the summer for tourists coming from tier-1 cities such as Beijing and Shanghai, meaning pots used for coffee at these inns often go unused for the remainder of the year. Second, drinking coffee has become a symbol of status and wealth. A Starbucks cup denotes not only a global mindset in being open to new beverages, but also a reflection of social class given its price point. A cup of Americano generally sells for ¥25, or $3.50, which is often equivalent to, if not more expensive than, the price of a complete lunch in many parts of China. For avid coffee drinkers such as Lu Lu, paying ¥40 to ¥60 for more exotic beans is also not uncommon. Given the relative price disparity between coffee and other foods in China, the high price point naturally conveys a symbol of class and luxury.

The adoption of coffee culture in China has been championed by its millennials and growing middle class. According to BMI Research, coffee's rise in popularity in China is aligned with "growing affluence and demand

among young adult consumers (20-39 years) who are adopting more Western consumption habits." Initial trends seem to indicate continued growth for coffee consumption in China, but it is unclear if coffee culture will become fully mainstream or remain a trendy, luxury product.

Adapting to Chinese Taste Buds

For coffee to become mainstream, coffee makers must think critically about their product vision and the necessary adaptations to Chinese consumers. At the moment, despite the high price point of certain beans, the Chinese market is oversaturated with cheaper forms of instant coffee. A walk down the coffee aisle of a Chinese grocery store reveals a plethora of colorfully packaged boxes of instant coffee sold in bulk. There are plenty of 3-in-1 powder packets containing an instant pre-mixed concoction with caffeine, cream and sugar; consumers need only add hot water to enjoy the final product. In his 2018 dissertation "Coffee Market in China," University of Kentucky scholar Ran Zhu found that, of the people who drink in China, 87% primarily consume instant coffee while only 13% consume drip or black coffee. This contrasts with the consumption ratio of 24% for instant and 76% for black coffee in the rest of the world. The flavor profile of instant coffee is sweeter and creamier, which may be more palatable to the average Chinese consumer making an initial foray into coffee. It also suggests that Chinese consumers may prefer the taste of instant coffee over brewed coffee sold in coffee shops, which tends to be more bitter.

That said, the Chinese coffee market may soon be reaching an inflection point. Vinny Wong, owner of a small, independent coffee shop in Shanghai, points to the recent boom of coffee growing in Yunnan, a southwest province that accounts for 90% of the beans grown in China, and how this has influenced consumer behavior. Not only are Yunnan beans cheaper relative to international beans thanks to lower labor and supply chain costs, the roasting techniques have been altered for Chinese consumers as well. They typically feature a darker roast, which results in a smokier taste with less acidity. In addition, darker roasts contain less caffeine than lighter roasts, which may better suit the needs of drinkers who are just easing their way into coffee. Chinese consumers have responded positively to Yunnan beans, thanks to the more localized flavor profile and an affinity toward domestic brands. Though consumption of instant coffee still heavily outweighs that of brewed coffee in China, the trends in Yunnan suggest there may be a tipping of the balance in the years to come if the taste of brewed coffee can be adjusted to match the average Chinese consumer.

"Though coffee is becoming increasingly commonplace, it still has a way to go to unseat tea as the dominant beverage in the hearts and wallets of Chinese consumers."

Reading the Tea Leaves on the Competition

Though coffee has certainly become increasingly prevalent in China's large urban centers, tea and other non-coffee beverages are still undeniably preferred across the country. According to a 2019 Barron's study, the average Chinese consumer only consumes six cups of coffee per year, compared with 317 cups of non-coffee beverages per year. Firsthand accounts from several Americans who lived in Beijing confirm a visible difference in the number of storefronts for coffee versus tea, particularly newer forms of tea such as bubble tea, fruit tea, etc. For every Starbucks, Luckin or Coffee Bean & Tea Leaf, there were still more non-coffee vendors such as CoCo, Yi Dian or Hey Tea. In fact, according to a report by Sara Senatore, senior analyst at Bernstein, an asset management and research institution, the number of tea shops grew by 50% in 2018, pushing tea from 53% to 70% market share of freshly made beverage storefronts in China. Though coffee is becoming increasingly commonplace, it still has a way to go to unseat tea as the dominant beverage in the hearts and wallets of Chinese consumers.

One significant and easily observable driver of the continued proliferation of tea drinking in China is the creativity and innovation that have gone into the evolution of tea products. Though tea in China is traditionally served with little augmentation (e.g., milk, cream or sugar) and is meant to be enjoyed leisurely over a longer period of time, new tea-based products that emphasize innovation and

convenience have allowed the beverage to remain relevant for younger and busier consumers. From the advent of bubble tea in Taiwan during the 1980s and 1990s and its viral popularity across the globe in the 2000s and 2010s to the now growing trend of fresh fruit teas and "cheese" teas (i.e., cream-capped teas that originated in Taiwanese night markets around 2010) with eye-catching aesthetics optimized for social media, tea drinks have surpassed the limitations of tradition and ceremony.

One of these trendy young tea chains is Hey Tea (喜茶), whose founder was driven by a desire to "make tea-drinking cool among Chinese millennials," according to a 2018 interview with the *South China Morning Post*. Hey Tea has somewhat followed the Starbucks model of premium pricing, hallmark storefronts and clean aesthetics to further popularize cheese tea and fruit tea with young Chinese consumers. The stores are especially known for fruit and cream teas with high-quality fresh ingredients, dazzling product aesthetics, and interior designs that inspire organic social media sharing. Given this strategic combination of branding and spending priorities, along with the proliferation of QR code technology in China during the entire Order2Pay process, Hey Tea has been able to charge premium prices for their teas as well as reduce their advertising and marketing spend to compensate for elevated product costs.

With Hey Tea as just one of many non-coffee competitors that have emerged in the Chinese beverage market, coffee sellers in China will likely have to work harder to win over consumers than they have in other new markets. However, given the sustained growth of Chinese consumers' spending power, it is certainly possible that the coffee market will continue to take off despite the continuing dominance of tea-based beverages by appealing to the aspirational and image-conscious nature of young Chinese consumers. They key for coffee may be understanding and accommodating the unique taste preferences of the market.

Will Coffee Have a Strong Finish?

For coffee to become the beverage of choice for Chinese consumers in the long term, it must preserve its image as a status-enhancing product while adapting to local tastes and finding a way to compete with or complement popular tea-based drinks. In addition, the coffee industry in China faces uncertainty amidst geopolitical developments and mounting cultural tensions between the East and West.

Coffee's long-term success in China may be impacted by changing perceptions towards Western products tied to the escalation of political and economic tensions. In 2007, the Starbucks that opened in the Forbidden City closed after protests that the café "trampled over Chinese culture." Although Starbucks as a whole continued to perform well in China after the incident, it demonstrates that there are customers who are concerned with the encroachment of Western influence in consumer culture and the potential for backlash as Starbucks expands.

More recently, U.S.-China trade tensions have created indirect negative impacts on coffee culture because it is so closely associated with Western culture. On one hand, this may be an opportunity for Chinese coffee chains to capture the attention and loyalty of domestic consumers. On the other hand, there may be a risk that coffee culture, which is still significantly smaller than China's tea culture, will buckle under negative sentiments towards the West. Much like a good cup of drip coffee, the success of coffee as an industry in China will depend on patience and a proper blending of ingredients as it steadily establishes itself as a cultural status symbol, adapts to local tastes and carves out a distinct value proposition for Chinese consumers.

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Nixtamalization Revolution: The Revival of Ancient Tortilla-making in Mexico

Tortillas are such a prominent part of the modern global palette that few consumers give thought to the ancient method of preparation called nixtamalization. As cheaper, mass-produced tortillas flood the market, there's a growing movement to bring it back.

María Guadalupe wipes the beads of sweat off her forehead. The smoke from the open fire clings to every inch of her. As a *tortillera* (tortilla maker) in the Purhépecha region in Michoacán, México, she's on her eighth hour of her daily routine — hand-making tortillas for her family and those who live in nearby villages. Making tortillas represents more than just a way for her to earn a living. It is a process deeply rooted in cultural significance and one that dates back to Mesoamerica with thousands of years of rich history. María represents a small minority of locals who still make tortillas using the traditional method, a process called nixtamalization.

A term not commonly known, nixtamalization is an intrinsic part of both Mexican heritage and the production of the tortilla. The process begins with soaking corn in lime to soften the kernels, then cooking it in water to produce softened corn called *nixtamal*. These softened kernels are then ground and the resulting dough is called *masa*, which is used to make tortillas, tlacoyos and other culinary staples. The nutritional benefits of nixtamalization are important, according to research from Ethos Public Policy Lab, a Mexico City-based think tank that promotes sustainable development and better food systems. Executive Director Jose Luis Chicoma said nixtamalization allows more than 40% of the calories to be derived from the plant. It also causes tortillas to have greater essential amino acid content and higher protein count (50% more than instant corn flour), while allowing for twice as much protein absorption than the industrialized version. Nixtamalized tortillas also have environmental implications because the process uses 33% less water and 40% less fuel than factory-made tortillas.

This method began over 4,000 years ago in what today is known as Central America. Different civilizations, including the Mayans and the Aztecs, used maize as their main source of nutrition. This essential crop was so important to the Mayans that they honored a maize god (*Hun Hunahpu*), connecting this nutritious staple to their symbol of fertility and the cycle of rebirth. From its origins, nixtamalization was developed as a way to ensure that those consuming maize received the highest nutritional value possible. Ironically, although this process remained alive in Central America, the spread of maize seeds to other parts of the world led to a loss in this tradition.

In the 16th century, maize was brought back to Europe by Christopher Columbus and rapidly adopted across the continent. The consumption of maize increased so quickly that a majority of it was imported from Turkey to keep up with demand. This production change caused confusion about the origin of maize, leading many to believe that the plant was originally from Eastern Europe. The consequences of not adopting the practice of nixtamalization as an integral part of maize production were drastic. Consuming large quantities of maize that had not been nixtamalized resulted in rampant malnutrition and a disorder called pellagra, which causes chronic dermatitis, dementia and, if untreated, death. As maize continued to spread across the region so did outbreaks of pellagra. In her paper, "The Hominy Foodway of the Historic Native Eastern Woodlands," researcher Rachel Briggs wrote that the disease eventually returned to North America, resulting in over 3 million cases and at least 100,000 deaths.

> "The continued decline of the quality of the tortilla can be attributed to new players that have entered the market with a focus on capitalizing on this staple with no regard to health implications."

Modern Maize for Mass Production

Fast-forward 400 years and nixtamalization, which had been a continued practice in Latin America, began dying out in the region where it was created. In the 1900s, developing countries were faced with pressure to increase crop yields for growing populations. This pressure birthed the Green Revolution, which used technology and science along with fertilizers, pesticides and water to raise the production of crops. By 1963, seeds created through this process were being grown in 95% of Mexico's fields, resulting in higher yields and harvests six times the size of those from 20 years prior. The revolution was considered a wild success and quickly spread to other developing markets such as India. The benefits extended beyond an increase in yield as prices and imports also decreased and malnutrition started to decline.

> "A leading factor in the growth of industrialized tortillas is the price point. Traditional tortillas sell for about three and a half times the price."

While Mexico realized enormous benefits of the Green Revolution and its maize production was increasing, it was unable to keep up with both its local consumption and the production levels of its soon-to-be trading partner, the United States. Mexican activist Gustavo Esteva described his country as "the birthplace and the burial ground of the Green Revolution." The North American Free Trade Agreement, implemented in 1994, in conjunction with changes that were made to the Mexican Constitution resulted in a few factors that altered the course of the production of the tortilla. First, these changes allowed the U.S. to flood the Mexican market with the lower quality maize, a product of the Green Revolution. Second, they led to the control of the food production shifting from smaller, local farmers to large commercialized enterprises. At the same time, a new product, *harina de maiz*, a flour derived from corn, started to gain significant share in the marketplace. This *harina* took the form of a monopoly called Maseca. Through marketing campaigns, government subsidies and support from multinationals, Maseca changed the tortilla landscape in Mexico. The impact to the tortilla was a shift from fresh *masa*, characterized by vivid native corn colors and a dough that is soft to the touch, to the industrialized, GMO-contaminated, mass-produced Maseca, characterized by a gritty powder stripped from color and flavor.

Today, the statistics speak for themselves. According to research by the Union of Scientists Committed to Society, 40% of tortillas are made with industrial flour, 90% have traces of genetically modified corn, and 30% contain traces of herbicides that have been linked to cancer. In an article in *The New York Times*, Cristina Barros, an author who investigates Mexican cuisine, said that "the perilous state of the tortilla is a red alert for Mexico's wider social ills, including obesity, poverty and emigration." The continued decline of the quality of the tortilla can be attributed to new players that have entered the market with a focus on capitalizing on this staple with no regard to health implications.

It's no surprise that *tortilleras* like Maria Guadalupe and thousands of others who use nixtamalization as a way to make a living face the daily challenges of competition from tortillas made from a very different, more popular process. Today, Maseca controls 75% of the corn flour market in Mexico, and the numbers are steadily growing. A leading factor in the growth of industrialized tortillas is the price point. Traditional tortillas sell for about three and a half times the price, making them a less attractive option compared to competitors. Francisco Musi, the founder of Tamoa, a startup that sources local corn for use in restaurants across Mexico, Europe and the U.S., said the biggest challenge of consumer access to nixtamalized corn is the distribution channels connecting corn producers to the broader marketplace. Tamoa works to bridge this gap by connecting native corn producers with *tortillerias* and restaurants in central cities. The access to nixtamalized corn in rural areas is not the issue. In many *pueblos*, many people visit the central *molino* or mill to buy nixtamalized corn to make tortillas at home. However, within the cities, products such as Maseca are growing in popularity.

Bringing Back Tradition

In spite of the dark clouds that threaten the production and consumption of healthy tortillas in Mexico, the current

rise of a Mexican middle class that is more conscious about the quality of the products it consumes may become the center of a possible Nixtamalization Revolution. In support of this cause are dozens of organizations working to ensure that good quality, nixtamalized tortillas are making their way into homes once more. Lobbyists and policymakers are focusing on the various elements of the tortilla production chain that impact all facets of society, such as cultural heritage and gastronomy, as essential to life in Mexico.

According to Blanca Estela Mejia Castillo, founder of *Tortilleria Blanquita Mejia* in Tlalpan, Mexico City, the consumption of nixtamalized corn is better for the general health of society. "As the owner of a *molino* and *tortilleria*, I have a social responsibility to give my customers and my fellow Mexicans a great quality and nutritious product. We as a republic are suffering too many preventable health-related diseases, and I believe that can be directly linked to what we eat." The Organic Consumers Association, based in the U.S., published a recent study that found the corn flour from Maseca contains quantities of glyphosate, a chemical linked to cancer. The Maseca brand of the company Gruma is the corn flour most consumed in Mexico. In addition to health benefits, distancing the country from the industrialized tortilla has socioeconomic benefits: There are over 300,000 employees in the nixtamal industry and only around 5,000 employees in Maseca. The more nixtamal that is produced results in more employment of small-scale farmers and indigenous women, like María, who would otherwise have limited access to jobs with a regular and dependable income.

Where does the future of nixtamalized corn lie? Rafael Mier, advocate for *the Fundación de Tortilla Maíz Mexicana*, an organization to preserve the cultural tradition of tortilla production, believes that education is key to promoting the consumption of tortilla made from nixtamalized corn and not corn flour. "We are working on passing a tortilla regulation so that the two types of tortillas are distinguished in the marketplace. At the same time, we are trying to educate the general population about the difference and to recuperate our cultural heritage." For Mier and other advocates in the market, education is the key to changing consumer habits, increasing an understanding of the health benefits of nixtamalized corn and, ultimately, the only way of saving the tortilla. "If we don't understand the effects of the change that has occurred in the tortilla landscape in Mexico, it will be too late by the time the tradition is lost."

"If we don't understand the effects of the change that has occurred in the tortilla landscape in Mexico, it will be too late by the time the tradition is lost."

Nixtamalization has been part of Mexican identity for more than 4,000 years. It is a process that has profound economic, political, gastronomic, societal, environmental and cultural ties. But practices of the past five decades shifted the importance of this process away from the Mexican identity. Farmers, activists and organizations in support of maintaining this cultural tradition understand how deeply complicated the corn economy is. Despite these complications, advocates are pushing forward with public education and awareness campaigns, and they are pressing policymakers for stronger laws and regulations to help ensure the Nixtamalization Revolution gains momentum in the years to come.

This article was written by Bianca Fernandes, Anthony Morano and Priyanka Juneja, members of the Lauder Class of 2021.

Redefining Who Belongs in Corporate Japan

Japan has the third-largest economy in the world. But if the country wants to remain competitive, Japanese firms need to embrace diversity by rethinking traditional hiring strategies and office culture.

The growth of GAFA – Google, Apple, Facebook, Amazon – has reshaped the business landscape in the United States and beyond. In Japan, the reach of these powerful firms and other multinational giants has pushed the need for reforms in corporate practices to the forefront. For instance, Japanese companies such as Sony are raising their salaries for new hires and offering merit-based promotions to match Google's and Apple's policies. They also are adjusting their language policies, even providing candidates the option to interview in English. Additional pressure on the Japanese economy comes from China, a close neighbor and competitor with many companies that seem to be adapting more quickly to this new environment. Pushed by the need to remain competitive for talent in this increasingly globalized and tight labor market, Japanese companies are not only reevaluating and adjusting their hiring practices but also corporate culture. Practices that were historically common in Japan — such as lifetime employment, denial of maternity leave and seniority-based promotion — no longer make sense today. In order to foster innovation and maintain competitiveness in the context of an aging and globalizing society, Japanese companies need to widen the aperture for whom they hire to include women and foreigners, and change their working styles and cultures to accommodate this diversity. While there has been some progress on this front at the national policy level, individual companies are exploring these options with varying degrees of success.

"Practices that were historically common in Japan — such as lifetime employment, denial of maternity leave and seniority-based promotion — no longer make sense today."

Women and Foreigners Excluded

Historically, Japanese companies focused on mass recruitment of young, mostly male university graduates. Many large companies, especially in the postwar period, offered lifetime employment guarantees. Once hired, employees would remain with the same company for their entire working lives. As business reporter Hiroko Tabuchi of *The New York Times* wrote, this system "bound dutiful workers and paternalistic employers together, producing a mutual loyalty (and labor harmony) rarely seen in the West." Together, these two factors have contributed to a system in which new talent mostly comes through a pipeline of top Japanese universities. This also raises high barriers for foreigners coming from non-Japanese educational backgrounds who wish to join a Japanese company adhering to this cycle.

Traditional Japanese corporate culture and practices exacerbate the in-group vs. out-of-group working atmosphere. For example, many companies still use Japanese as their primary and official language. Additionally, highly publicized issues in Japan such as long working hours and cases of *karoshi* (death by overwork), as well as the seniority rather than merit or performance-based promotion system, make a Japanese work environment less attractive for foreigners.

In an article for *The New York Times*, journalist Brook Larmer reported that even among the native Japanese population, the male-dominated culture and long working hours have kept or driven women out of the workforce. If they want to advance their careers, women often must abandon ideas of having a family. Otherwise, they are driven to leave the company altogether, being harassed until they do. This masculine and insular corporate culture effectively excludes both foreigners and women from the workforce and creates a toxic, self-perpetuating cycle for the Japanese men who remain.

These hiring practices and corporate culture may have worked for Japanese companies in the postwar period. However, in recent decades, a stagnating economy, demographic challenges and the growing impact of globalization are bringing the issues posed by these practices into sharper focus. Today, an increasing number of women must work to supplement their household incomes. Japan's aging population adds dire implications for the economic productivity of the country. James McBride, deputy editor with the Council of Foreign Relations, wrote, "the working-age Japanese population has contracted by 6% over the past decade, and Japan could lose more than a third of its population over the next 50 years."

Demographics and Foreign Competition

In an era of rapid globalization, an insular working environment without any circulation of foreign ideas or talent is unsustainable. Multinational companies and Silicon Valley giants operating in Japan, including Google and Facebook, are paving the way for new working styles and corporate cultures, and many Japanese university graduates are now flocking towards those foreign companies instead.

Additionally, China's faster adjustment to foreign-educated talent is adding pressure for Japan to reform. In many ways, China is like Japan, taking pride in its distinct culture and maintaining relatively traditional attitudes. However, Tiffany Yu, a team lead at a Gaw Capital, a leading real estate-focused Chinese investment firm, provides her experience to illustrate that market demand, rather than tradition, serves as the primary driver of foreign labor. Because this firm's lending partners are predominantly foreign, "foreign-education is a must and foreign-work experience is preferred for client-facing roles," she said. Gaw also has many foreign offices, so workers must be at least bilingual to be able to collaborate with each other. China's growth, enabled in part by foreign-educated talent, poses a risk to the Japanese economy. In fact, China recently overtook Japan to become the world's second-largest economy, behind the United States. To remain competitive against these economic and social challenges, Japanese companies must adjust their hiring practices and corporate cultures to be more flexible and inclusive.

One solution is to improve both the hiring and retention of women, and the national government seems to be embracing this change. Prime Minister Shinzo Abe has framed the issue of increasing gender diversity in the workplace as part of his economic growth strategy, according to a *New York Times* article by Larmer. More specifically, Abe's Womenomics plan to improve gender equality includes targets for both hiring and promoting women to management and leadership positions (15% in private sector management positions by 2020, which is lower than the original target of 30%), and policies that allow women to stay in the workforce longer, such as improving the availability of childcare. For example, the government bestows the *nadeshiko meigara* recognition upon companies that hire a target number of women. According to a Ministry of Economy, Trade and Industry (METI) representative, companies with this recognition tend to see their share price increase since shareholders appreciate their investment in future talent and productivity. Furthermore, *The Japan Times* reports that the government recently raised subsidies for companies whose male employees take paternity leave, which can help mothers return to their careers.

> "In an era of rapid globalization, an insular working environment without any circulation of foreign ideas or talent is unsustainable."

These government policies have trickled down to the company level, and while some firms are making significant efforts to hire women, impediments remain. An employee of a global technology company in Japan said, "In our sales and marketing organization, we have lots of female leaders who are encouraging building (a pipeline of) more female talent and female leadership." However, in some sectors, the true potential of government initiatives is unrealized because of an underdeveloped pipeline. For instance, female hires for software engineering or data scientist roles are difficult find. Jerry Chi, a former data science manager at SmartNews, a news aggregator app and machine-learning company with a Silicon-Valley work style, said, "The biggest barrier is the lack of supply in terms of talent. The gender ratio (can be) as bad as 40 men for every one woman existing on the job market." In terms of culture,

some companies are successfully adjusting practices to better retain women. At SmartNews, Chi said, retention of female talent is generally high and many mothers return to work after having a baby. "The company provides benefits related to daycare, and the flexible working hours are helpful as well."

> "Japanese language ability is a primary hiring discriminator."

At other companies, significant gaps remain between policies and actual practice, thus continuing to force women out of the workplace. This is the case for Tokyo-based Mitsubishi United Financial of Japan (MUFJ) Morgan Stanley, which made headlines recently for its transgressions against parental leave policies. Glen Wood, a Canadian former executive who is fluent in Japanese, sued Mitsubishi United Financial of Japan (MUFJ) for paternity harassment after a series of demotions, bullying, and finally outright firing after he took a two-month paternity leave to which he was legally entitled. His case highlights the stark gap between policy and reality. While parental leave laws guarantee parents of a newborn child up to two years of leave with adjusted pay and the right to get their job back upon return, "what actually happens is very different," Wood said. "As a gross generalization, women are typically demoted or harassed until they quit. Men are generally not allowed to take paternity leave." Wood said miniscule steps have been taken to correct the leave policies, but the extent to which the government and major Japanese companies are willing to adhere to the strategy of improving workplace culture and gender equality remains to be seen. "Core cases like mine, and the results of court cases like mine, will give us a hint," he said.

Innovation Needs Global Talent

In November 2018, the Japanese cabinet gave the go-ahead to a bill that would leverage foreign workers to address labor shortages caused by Japan's aging society. However, this bill was not the opening of a new immigration policy. "The new system we are creating is based on the premise that workers will work in sectors suffering labor shortages, for a limited time, in certain cases without bringing their families," Prime Minister Abe said, as reported by *The Japan Times*. This bill introduced two new visa categories: one for workers in 14 blue-collar industries who could stay in Japan without their families for up to five years; and a second for five higher-skilled industries that could be renewed indefinitely, with the potential for a worker to bring his or her family to Japan. A visible example of this law's effect is the increasing number of foreign workers that staff Japan's ubiquitous convenience stores. Hirotaka Tamaoka, staff writer with the *Nikkei Asian Review*, reported that at Lawson, one of Japan's top chains, the number of foreign staff in May 2019 was 12,000, double the number from two years earlier. Although the first visa category's effects are easy to see and measure, the efficacy of the second visa category is harder to assess.

In newer sectors such as technology, foreign workers have also started to fill the gaps. At SmartNews, the data science team is composed mostly of foreigners. Chi said there are relatively few Japanese candidates who possess the requisite skills, such as statistics, programming and English, to communicate data insights. Though he senses that the Japanese government also understands this deficiency, the changes are not coming quickly enough. To compensate, SmartNews has hired from countries such as China, India and the U.S., where it can find a higher quantity of qualified workers. In order to remain attractive to this new generation of workers, this firm does not use the traditional Japanese age-based promotion system, which it thinks would negatively affect retention. Rather, it emulates Silicon Valley culture by promoting based on merit, offering less structured work requirements (e.g. attire and working hours), and fostering open expression of opinions and ideas. Additionally, the firm uses a translation team and offers to pay for English lessons to bridge the gap between Japanese- and English-speaking employees. However, looking at only smaller firms does not provide a complete picture. Examining a larger tech firm provides additional important insights.

At one of Japan's oldest and largest tech firms, one may expect a healthy mix of skilled foreigners given the changes in labor regulations. But a company representative admitted that it was a small percentage, although the exact number was not disclosed. According to the representative (herself a foreign national), the primary hurdle for foreign workers is still language and culture, with support for

foreign nationals to adapt to the language and culture still lacking. Japanese language ability is a primary hiring discriminator. Even in highly technical positions, such as engineering or programming, grasp of Japanese ultimately carries the largest weight. In fact, all workers must have some degree of Japanese competency. She went on to say that, because efforts to provide English classes to employees tend to be ineffective, it is up to the foreign hires to cross the language gap. Though this firm seems less agile in its hiring practices, the representative did note that compared to 2011, during her first period working in Japan, there was "noticeable progress."

There are also examples of large firms outside of the technology sector that have room to grow in hiring and retaining foreign talent. According to Wood: "Even at the expense of share prices and overall efficiency, [traditional Japanese companies] seem willing to sacrifice diversity, willingness to change and adapt in order to maintain extraordinarily old-fashioned, conservative ways of thinking." Wood added that even with the labor shortage, these companies are not seeing the benefit of the new laws because language is a high barrier to entry. In his experience working at his traditional firm, "If you don't speak Japanese, then they don't let you in. There's a huge gap in what they are saying versus what they are doing."

Implications for the Future

While there are examples of newer, smaller and more agile Japanese firms reacting to pressures from an aging society and multinational companies like GAFA, many large Japanese companies have been reluctant to change their attitudes towards female and foreign professionals. Although the Japanese government recognizes the need for change and has introduced legislation to encourage and incentivize Japanese companies to do so, these more established Japanese firms appear reluctant to leverage the previously untapped potential of labor domestic. They are equally reluctant to welcome highly skilled foreign workers, preferring to adopt lower-skilled workers less likely to change the established culture and norms. Meanwhile, across the sea, Chinese companies have adapted to this new environment, welcoming both foreign education and experience. The time is now critical, and Japanese firms that are unable to adjust to the new reality and adopt a more flexible attitude to support the government's efforts risk being overtaken by their more agile competitors.

This article was written by Scott Yang and Shia Li Lum, members of the Lauder Class of 2021.

Are Return Emigrants a Solution for African Development?

In sub-Saharan Africa, emigrant entrepreneurs who return home and set up new businesses bring a wealth of knowledge from abroad. With greater governmental support, these returnees can help unlock economic growth for their native countries.

Entrepreneurship is increasingly touted by policymakers and citizens alike as a silver-bullet solution to Africa's economic growth and development challenges. However, homegrown entrepreneurs continue to face major barriers in launching and bringing their businesses to scale. According to the Global Entrepreneurship Monitor, a research consortium, 14% of sub-Saharan Africans reported having shut down a business in 2018 — a discontinuation rate that far outstrips that of other emerging market regions.

> "The time emigrants spend abroad is correlated to their degree of entrepreneurial and economic success upon their return."

Despite these disheartening trends, there is one group of entrepreneurs that may hold the key to sustainable business growth on the continent: return emigrants. This population has increasingly become a demographic of focus for African and international governments due to its entrepreneurial potential. Return emigrants are more likely than those who have not lived abroad to start businesses in their countries of origin. They are also more likely to scale and sustain these businesses due to their improved access to capital, transnational networks, and technical and soft skills relative to those who have not lived internationally. However, returnees also face challenges in navigating the business landscape in their countries of origin and may be at a disadvantage in some contexts due to their lack of local networks and experience. In order to unlock the catalytic potential of this population, it is critical that policymakers understand its unique strengths and craft policies that support the re-integration and entrepreneurship of those who come back.

A Senegalese Entrepreneur Returns Home

Amadou Diouf is a Senegalese national who moved to Germany in the 1990s and took a job at Adidas. Today,

he runs a mango exportation business in Senegal that sells primarily to German distributors. Diouf launched his business in 2010 with capital he accumulated while living abroad, and he relied on his international contacts to secure consistent contracts for exportation. While Diouf now lives full time in Senegal, he continues to travel to Germany multiple times per year to cultivate relationships with his suppliers.

Diouf runs his business differently from his competitors. He imposes strict punctuality and discipline on his employees, sending home anyone who shows up to work even one minute late, and maintains strict operational and quality control standards — practices he learned during his time in Germany. While these management techniques have enabled him to professionalize and scale his business operations, they have also resulted in high employee turnover. Last year, Diouf had to shut down a portion of his export business because he was struggling to retain employees, signaling the challenges that return entrepreneurs often face when introducing management practices learned abroad. Further, he has faced a range of challenges navigating the Senegalese government's registration and tax systems, which he said has increased his operational costs.

Diouf's story is symbolic of a larger shift in the role of returning migrants on the continent. During the 1960s, emigrants often returned from abroad to serve in politics and post-colonial nation-building, as the prominent examples of Léopold Senghor, the first president of Senegal, or Félix Houphouët-Boigny, the first president of Ivory Coast, aptly illustrate. From the 1980s to today, returning emigrants are more willing to place their bets on the private sector. The focus of private contributions is also shifting from purely economic remittances to intellectual remittances.

This phenomenon is not only motivated by the will of isolated individuals. According to Mamadou Dimé, a sociologist and researcher at Gaston Berger University in Saint-Louis, Senegal, governments across West Africa, including those of Senegal and Côte d'Ivoire, are increasingly developing policies to attract return emigrants and support their reintegration and entrepreneurial initiatives. Some of these policies have been drawn in partnership with foreign governments. For example, the French government has launched a co-development platform to provide financial support for emigrants who wish to return to and invest in their home countries.

What Makes a Returnee Successful?

Research from the Global Knowledge Partnership on Migration and Development shows that the most successful returnee entrepreneurs are educated and lived for at least five years in countries with developed markets. Understanding the profile of successful returnee entrepreneurs is critical because of the role that entrepreneurship can play in driving economic growth and employment. The time emigrants spend abroad is correlated to their degree of entrepreneurial and economic success upon their return. According to research by scholars Cora Leonia Mezger Kveder and Marie-Laurence Flahaux, returnees who spend more time living abroad tend to achieve better economic outcomes than their counterparts who stay for shorter durations. This is in part because of the increased amount of capital that entrepreneurs are able to accrue while living internationally.

> "Management styles and best practices learned in foreign countries may not be the most effective in an emigrant's home country."

Return emigrants not only import needed funds to their countries of origin, but they also leverage international networks to gain competitive advantages. Many returnees retain ties to their former host countries and build transnational collaborations that can provide sustained access to international capital, distribution channels and technologies.

To illustrate this point, Giulia Sinatti, an ethnographer from the Vrije University of Amsterdam, uses the example of Modike, a Senegalese entrepreneur who lived in Italy and now runs a growing business in the poultry sector. In partnership with Italian associates, Modike has used his knowledge of the local context and market to set up a successful business, and his partners have contributed new technologies and access to institutional funding. According to Sinatti's research, while there are many entrepreneurs

in the poultry industry in Senegal, Modike and his colleagues have been able to differentiate themselves through advanced machinery and extensive employee training, which have significantly boosted the business's productivity and competitiveness in domestic markets.

Researchers are increasingly focusing on the role that returnees play in imparting new skills and attitudes to employees — a skills transfer that often pays dividends in terms of business outputs and productivity. In a study of Ghanaian and Ivorian return emigrants, Savina Amassarri with the Sussex Centre for Migration Research, highlighted some of the key competencies that returnees reported acquiring abroad, including communication, managerial expertise and a sense of professional responsibility. To that end, many reported developing a new capacity for intercultural collaboration and adaptability, organizational

> "Return emigrants have massive potential to unlock economic growth and create employment."

management and leadership, as well as increased self-confidence, responsibility and personal accountability. Others noted an increased attention to work ethic or professionalism, including punctuality, discipline, rigor and attention to detail.

This research suggests that returnee entrepreneurs may stake out a competitive advantage through improved management and skills transfer that boosts the human capital of their employees and drives gains to their bottom lines.

Challenges Lie Ahead

Despite the many advantages that returnees have as entrepreneurs in their home countries, they also encounter a range of challenges as they seek to launch new businesses and re-integrate into their societies. Diouf, the mango exporter, candidly shared that a fellow return emigrant lost millions of CFAs (West African francs) trying to establish businesses in Senegal and eventually had to return abroad. Some of the key reasons for this failure are the gaps in emigrants' understanding of the local market. They often lack up-to-date information regarding market trends and administrative and legal requirements. While emigrants have had the opportunity to gain human and social capital abroad to transfer back home, non-emigrants have accumulated more location-specific human and social capital. Their knowledge and understanding of the local context are more thorough, whereas emigrants have a broader frame of reference that is helpful in identifying innovative solutions. This can be problematic for returnees because without a solid understanding of the local market, their ideas and products may be ill-suited, noncompetitive and eventually fail in the local environment.

In addition, the lack of up-to-date local context can also challenge returnees when building and managing organizations locally. Management styles and best practices learned in foreign countries may not be the most effective in an emigrant's home country. In the case of Diouf, his imposition of foreign-learned management practices led to high employee turnover that forced him to shut down a segment of his business.

This misalignment of management practices and strategy can lead to organizational dysfunction and ineffectiveness. Serge Amissah, a Wharton graduate and Ivorian entrepreneur, experienced this problem firsthand while launching an agribusiness in Côte d'Ivoire. He said he had to adjust his leadership style to retain his team and be more effective when he initially returned from the United States. He also invested in education and training for his staff to improve communication and workplace norms.

A recent study from the Sussex Centre for Migration Research confirmed that the workplace relationship between returnees and non-emigrants is often characterized by tension, with the former being associated with modernity and innovation, and the latter with tradition and preservation of the status quo. Navigating cultural norms between returnees and non-emigrants in the workplace and beyond can be challenging. Returnees are often used to certain habits of working and communicating that are seen as foreign and are therefore resisted and not easily adopted locally.

The bureaucratic business environment in many countries also poses a threat. It can take months to incorporate a new business due to inefficient processes and slow-

moving agencies. Once established, entrepreneurs have to maintain proper legal status and compliance with institutions that are often laden with corrupt practices. The high taxes levied on businesses are another deterrent. As a result, a harsh regulatory environment can make it very difficult to establish and run a business, despite the vast resources and experience returnees may have.

According to Mamadou Dimé's paper on Senegalese return emigrants, this regulatory climate also leads to mistrust of the public sector and its governance institutions. Consequently, entrepreneurs are driven to cut corners when dealing with these institutions instead of working alongside them for a more favorable outcome. Aspiring returnees should be aware of all potential difficulties and thoroughly research their markets before making the entrepreneurial leap of faith.

Rewards Are Worth the Risks

Return emigration has enormous potential to contribute to economic growth and employment on the African continent. As entrepreneurs, return migrants have a unique set of advantages that they can deploy to generate economic and social returns on the continent, including access to capital, transnational networks, and valuable technical and soft skills. However, returnees also face a range of challenges in their entrepreneurial endeavors, including difficulties with re-integration, cultural differences, and bureaucratic, corruption-laden business environments.

While much of the dialogue on migration has historically focused on brain drain, return migration in the African context demands a reconceptualization of this phenomenon from brain drain to brain circulation. As governments seek to drive economic growth nationally, they should be investing further in policies that support return emigration and maintain ties between the diaspora community and the continent. To reduce the barriers to entry and ongoing challenges faced by return emigrants, governments should prioritize eliminating bureaucratic red tape, reducing corruption, improving the transparency of registration and taxation processes, and continuing to develop investment funds to support returnees' entrepreneurial activities.

Further, return emigrants themselves can deploy a variety of strategies to mitigate some of the challenges they face upon return. These include partnering with local businesspeople who understand the domestic market and can serve as a bridge back to their countries of origin, which may feel foreign after years away; investing in training and professional development for their employees; and cultivating company cultures that emphasize transparency, open communication and feedback. Return emigrants have massive potential to unlock economic growth and create employment. If governments and returnees can work together to align policies to needs and improve the entrepreneurial climate, then they can have a significant impact on economic growth and human capital development in West Africa and across the continent.

This article was written by Jordan Anoma, Hayley Doner and Martin Harari, members of the Lauder Class of 2021.

Cryptocurrency: The Perfect Pitch to the South Korean Market

Cryptocurrency seems to be perfectly matched to South Korea, where digital money is surging in popularity. This article explores some of the reasons why and offers a brief analysis into the future of the crypto market.

It's been more than a decade since the 2008 release of "Bitcoin: A Peer-to-Peer Electronic Cash System," a white paper written by Satoshi Nakamoto, the anonymous creator, or group of creators, of Bitcoin. The paper explained a theoretical framework for an electronic payment system based on cryptographic proof and proposed the replacement of central banks and financial institutions on a global scale. With this, Nakamoto set off a digital currency revolution. The cryptocurrency market capitalization is now estimated at around USD$280 billion and projected to grow at a compounded annual rate of 6.18% until 2024.

> "Evidence suggests the reasons for cryptocurrency's growth in South Korea are the current economic slowdown and political uncertainty in the country."

After some time filled with hesitation and speculation, along with daring investments made by risk-tolerant early investors, Bitcoin saw its fastest takeoff in 2017. It was during this time that South Korea quickly became one of the largest markets for cryptocurrency such as Bitcoin and Ethereum. Historically an early adopter of emerging and transforming technologies, the country now stands as the third-largest digital asset exchange market in the world, just behind the United States and Japan. In fact, most of the world's top 100 crypto exchanges by trading volume are from South Korea. At the peak of the cryptocurrency boom, its popularity in South Korea led to the term "Kimchi premium," which describes the extra amounts, up to 50%, that local South Koreans paid for cryptocurrencies when compared with global price benchmarks. According to Sam Chun, CEO of blockchain platform development company DoubleChain, "High return opportunities were limited and as crypto investment opportunities arose, realization of high returns began to appear within the society." By the end of 2018, according to a Korea Financial Investors Protection Foundation survey, 7.4% of surveyed adults in the country had bought cryptocurrency, while the average investment per person increased by 64% year-over-year to $6,000. Individuals in their 50s were the most common cryptocurrency buyers, followed by those in their 30s.

Evidence suggests that the current economic slowdown and political uncertainty in South Korea have fueled the popularity and continued growth of cryptocurrency. Cryptocurrency has also become popular in more politically and economically stable areas such as the U.S. and the European Union, although both have also seen their fair share of uncertainty in recent years. The distinct climate of each has led to differences in the types of investors entering the crypto market. In South Korea, there is a focus on individual participation, whereas the U.S. and EU tend to focus more on institutional investors.

Since the Asian Financial Crisis of 1997, South Korea has exhibited strong economic growth in a relatively short period of time. Achieving this growth, however, created a new set of socioeconomic challenges. Cryptocurrency serves as the perfect investment in this landscape. A slowing GDP combined with a growing disparity of wealth has increased the appetite for risk that trends towards individual speculation-investing based on the investments of the country's elite class. Additionally, South Korea's technology sector, specifically its gaming industry, has been able to capitalize on the country's highly internet-connected culture to offer cryptocurrency as a safer and more effective form of online currency.

A high level of distrust in the government and corruption among the elite class also make cryptocurrency attractive to individual investors both to protect themselves from

government oversight, and because they trust that the investments made by conglomerates and influential chaebols, meaning the wealthiest families who run these companies, will be safe.

What Makes Cryptocurrency So Attractive?

One of the most attractive aspects of cryptocurrencies is its stateless status, which enables market-driven dynamics over government-led processes. Most experts agree that South Korea was not a true democracy until the establishment of the Sixth Republic in 1987, and it remains one of the most politically unstable developed economies in the world. The majority of South Korean presidents have either been assassinated, impeached or imprisoned — the most recent being Park Geun Hye, who was impeached and is currently serving a 25-year sentence for corruption charges. South Korea's international politics have not fared better. The ramifications of hosting the American THAAD (Terminal High Altitude Area Defense) missile system has continued to strain ties with its largest export market, China, and the country is in the midst of a trade war with Japan over reparations during the imperialist period. In addition, South Korea is still in a state of war with North Korea, which continues to test nuclear weapons. The political uncertainty and lack of trust in the government has further fueled the popularity of cryptocurrencies among South Koreans. The hope is that, even if politics does not work in the individual's favor, cryptocurrency will be beyond the reach of the government to control.

Adding context for the momentum toward use of a stateless currency, the Korean investment landscape has historically practiced protectionism in favor of individual investors risking their personal savings rather than utilizing private, institutional investors. In order to recover from the Asian Financial Crisis of 1997, the Korean government received a bailout of $57 billion from the International Monetary Fund. As part of the bailout process, the IMF enforced several conditions that sought to liberalize the market and put the nation on a path towards recovery. While some of these conditions have undergone dramatic revisions, such as deregulation of foreign investments, conditions that relate to protecting individual investors have not. Although initially drafted to limit the power of non-majority controlling shareholders — owner families of conglomerates that own non-majority shares but exercise control over management through indirect vested interest or direct board involvement — clauses protecting individual investors who risk their personal savings have gained traction since revision during the crisis. As collective individual shareholder actions against conglomerates grew more commonplace over the years, public sentiment turned against the large conglomerates that were behind the Miracle of the Han River (the post-Korean War period of rapid economic growth), giving rise to individual investor activism.

> "One of the most attractive aspects of cryptocurrencies is its stateless status, which enables market-driven dynamics over government-led processes."

Interestingly, the same distrust in government and belief that the political and economic elite collude with each other also increase trust that what chaebols invest in will succeed. This causes a lot of speculative investing by individuals witnessing large investments by conglomerates into the cryptocurrency space. In terms of volume and market affecting moves, it is the conglomerates and multibillion-dollar companies in South Korea that have been more heavily involved in the cryptocurrency sector since the end of 2017. For example, Samsung entered the cryptocurrency mining market in January 2018 with the goal of maintaining its cryptocurrency ASIC miner manufacturing industry. LG, the second-largest electronics manufacturer after Samsung, began developing its own unique blockchain system and network. KaKao, the most prevalent internet and mobile app conglomerate, assisted in the launch of Upbit, South Korea's largest cryptocurrency exchange. Hyundai operates a blockchain platform called HDAC, and like LG has been exploring ways to utilize HDAC for smart homes, buildings and various industries in which Hyundai plays a significant role. Overall, with the exception of Bithumb, conglomerates in South Korea have some relation to all major cryptocurrency exchanges in South Korea, whether it is in financing or development. This trend towards cryptocurrency by conglomerates has had a positive

impact on the confidence of local investors despite the market's recent crash. By August 2018, the value of all outstanding digital tokens worldwide had fallen by about $600 billion, or 75%, since their peak in January, according to *The New York Times*.

Further adding to the investment frenzy, the sudden growth in the economy has created several socioeconomic challenges, including leaving low-middle income individuals without options to climb the social ladder without taking substantial risks and speculating. As it stands today, Korea faces several challenges intertwined with one another — sharp and sudden growth in income inequality in major cities, youth talent attrition abroad, high youth unemployment and unaffordable urban housing. In metropolitan areas, housing prices average seven figures while the average yearly income of young residents hovers below $35,000. With the backdrop of the real estate speculation boom and stories of overnight wealth accumulation, the income inequality has bred dissatisfaction within the low-middle income class. Hongil Kim, head of D.Camp, a nonprofit that helps young entrepreneurs, explained that the "younger generation has the ability to invest with a relatively small amount of capital rather than real estate, which requires a much more substantial amount." This has led to high levels of speculation across other public markets, including public equities and cryptocurrency, as individuals aggressively have sought to "catch up" to others who have escaped the social ceiling.

"While the fervor for crypto in South Korea remains at an all-time high, it is uncertain what the future holds for this currency."

Lastly, Korea's booming gaming industry, predicted to hit $12.4 billion in market share by 2020, has played a massive role in familiarizing cryptocurrencies to its public. South Korea has one of the highest internet-linked populations and smartphone penetration percentages in the world, with more than 50% of citizens playing games on their smartphones on a regular basis. Over the past 10 to 15 years, video game developers have transitioned from a pay-to-play model, which simply charges users for the full price of the game, to a model that charges for supplements and tools within a game through digital transactions of some form of virtual currency that predates cryptocurrency. According to Hongil Kim, "the younger generation have grown up in an environment where they feel similarities between trading items in electronic games and trading cryptocurrency… particularly, the convenience of trading makes a big difference." This familiarity with micropayments allows gamers to understand and easily adopt cryptocurrencies, which makes investing in the medium seem safer. In fact, there is a strong case that using cryptocurrencies as a payment to facilitate in-game transactions is safer and more effective than any other form for Korea's gaming industry. Other than in-game transactions, users often trade and sell items to each other and across games. Owning cryptocurrencies is attractive for developers because it can be scaled down easily and using it dramatically reduces the cost of processing even the tiniest of transactions. Additionally, cryptocurrency has an immutable ledger, where data cannot be changed so that trust is created between players and developers. Lastly, the medium is far safer than traditional credit card payment systems when it comes to privacy and security. Gaming companies are making huge investments in cryptocurrency, including posting ICOs (initial coin offerings) to raise capital, and the continued normalization of micropayments in the country will likely further drive the appetite for crypto in the future.

What's Next for the Cryptocurrency Market

As cryptocurrency's promise of quick riches caught the imagination of South Koreans, both experienced and inexperienced investors entered the market. What allowed cryptocurrency to flourish in South Korea can be partly attributed to an early absence of regulations. However, as concerns rose, South Korea's government began implementing policies to establish a set of standards that could provide an initial framework of rules for this nascent industry. For example, in a Dec. 28, 2017, article on the technology blog Engadget, writer Mallory Locklear noted that "a hefty amount of volatility in the crypto market, which is a risk that the South Korean government is trying to cull with regulation," resulted in the prohibition of "anonymous cryptocurrency." Sharing this sentiment for

increased oversight, South Korean Prime Minister Lee Nak-yeon expressed his concerns about the cryptocurrency market by stating, "There are cases in which young Koreans including students are jumping in to make quick money, and virtual currencies are used in illegal activities like drug dealing or multi-level marketing for frauds," according to a Nov. 28, 2017, report by CNBC. Such views by high-ranking officials have built momentum towards greater intervention for cryptocurrency trades.

Moreover, fintech news website Cointelegraph reported on Aug. 7, 2019, that "the Financial Intelligence Unit (FIU) of South Korea's Financial Services Commission has revealed plans to bring cryptocurrency exchanges under its direct regulation." The article by writer Marie Huillet explained this action would "enhance the transparency of cryptocurrency transactions." Lee Tae-hoon, head of administration and planning at the FIU, voiced support for such measures set by the Financial Action Task Force (FATF) by commenting, "If an amendment…which reflects the FATF's international standards for cryptocurrencies, passes the National Assembly, it will be possible to prevent money laundering through cryptocurrencies." According to Huillet, critics wanted to give teeth to the policy, so "regulatory amendments would need to integrate existing stipulations, which hold that banks must issue real-name accounts to crypto exchanges." As regulators contemplate the next set of policies, cryptocurrency in Korea will face more scrutiny.

The South Korean government's efforts to build a regulatory landscape indicates a need to control a growing market for cryptocurrency; this also suggests government recognition of cryptocurrency's staying power in mainstream society. To provide international context, the U.S. presents a market where cryptocurrency regulatory policy has yet to fully encompass all aspects of trade and investment. Bloomberg reported on July 24, 2019, that U.S. Secretary of State Steve Mnuchin indicated "U.S. regulators are likely to issue new rules on cryptocurrencies to ensure that they don't negatively impact the financial system." Impending regulations seem to view cryptocurrency as both separate from and a subset of the larger financial landscape. Whether strong regulations of the crypto market are prevalent or not, all regulatory agencies continue to grapple with implementing appropriate measures.

However, other Asian countries have provided examples of where the central government has taken an early and active role in implementing successful regulations around the cryptocurrency market. Japan and Singapore are the gold standards for this trend. In Japan, all cryptocurrency trading platforms are required to be registered with the country's Financial Services Agency. Singapore, already known for its business-friendly environment, has maintained the same attitude to allow crypto businesses to flourish. The nation has taken action to finalize a new regulatory framework for payment services that now includes cryptocurrency, and its digital infrastructure has plenty of crypto and fintech firms that will help attract more investors. These two advanced Asian economies that have expressed and solidified their views on cryptocurrencies as legal tender. While the fervor for crypto in South Korea remains at an all-time high, it is uncertain what the future holds for this currency. International bodies and institutional investors are assuming that South Korea will soon follow the regulatory standard of Singapore and Japan. However, the unique circumstances of the country's economic and political environment make that hard to predict.

The combination of political and economic uncertainty with a highly tech-savvy consumer base makes cryptocurrency the perfect pitch to the South Korean exchange. Additionally, as South Korea's gaming industry continues to grow at a rapid pace, coupled with the country's highly developed mobile payment telecommunication system, the prevalence and understanding of micropayments will increase, making cryptocurrency that much more attractive to consumers. Although past volatility has created the need for a robust regulatory system, this fact is also increasing confidence that another crash in cryptocurrency will not occur and will be able to support the growing size of the market. South Korea is well positioned to be a leader in cryptocurrency investment and technologies, and according to Rakesh Sharma of Investopedia, will most likely "lead the way once again by incorporating cryptocurrencies into mainstream trading."

This article was written by Christina Nam, Sook Young Park, Brian Sung and Wutae Lee, members of the Lauder Class of 2021.

Commercial Applications of Facial Recognition Technology in China

Facial recognition technology is increasingly used in China by both governmental and non-state actors. As it develops, the technology has myriad applications for banking, social media, ridesharing and other businesses.

Facial recognition technology used to be the domain of science fiction movies and far-fetched tales, evoking impossible and fantastic capabilities that seemed out of the range of human reach. Today, facial recognition technology has very much arrived and landed in the real world, perhaps nowhere more so than in China. Sans keys and phone, individuals in China can gain access to high-security buildings, pay for items at the grocery store or find a person in a crowd of thousands. The companies ushering in the facial recognition revolution are growing rapidly, with several players exceeding billion-dollar valuations.

"Despite China having an investment climate where government contracts make up the majority of company revenues, investors remain interested and excited by the potential of commercial applications throughout China."

In May 2019, Megvii, an artificial intelligence company based in Beijing that specializes in facial scanning technology, announced the completion of a $750 million Series D funding round at a valuation of over $4 billion. The company, founded in 2011, operates the popular Face++ facial recognition platform, which uses 106 data points on a person's face to confirm that individual's identity. The program is integrated directly into China's national surveillance system, but is also interestingly open source. Over 300,000 developers across 150 countries are currently using its algorithm to develop applications. With their latest round, Megvii now counts Alibaba Group, Bank of China Group, the Abu Dhabi Investment Authority and Macquarie Group among its set of diverse investors.

Megvii is hardly the only mover in this space. Its round came together a year after its largest competitor, SenseTime Group Ltd., completed a $620 million round of funding that raised the company's valuation to almost $5 billion. In January 2019, Bloomberg News reported that SenseTime, both the current market leader by valuation and the world's largest artificial intelligence company, was looking to raise an additional $2 billion of fresh capital, with SoftBank's Vision Fund among the interested investors.

Other competitors, including Yitu and Deep Glint, have also recently raised significant rounds at high valuations. In 2017, a CB Insights report indicated that China had overtaken the United States in total investment into artificial intelligence, capturing over 48% of the $15 billion invested in the space. This trend has continued through today.

Investor interest in facial recognition and face scanning in China, and subsequent valuation growth, has been driven largely by the use of this technology in a government context. According to venture capitalists at some of China's largest firms, China has invested heavily in becoming the world's largest surveillance state, with a focus on facial recognition technology to keep track of its immense population. Publicly, China's government has acknowledged the use of facial recognition technology by municipal police forces and for national surveillance efforts. Despite China having an investment climate where government contracts make up the majority of company revenues, investors remain interested and excited by the potential of commercial applications throughout China. China-focused funds have transitioned away from copycat companies that replicate Western technologies and are instead actively searching for frontier technologies native

to China. Artificial intelligence and facial recognition in payments and hospitality are two of the areas with the most potential. Accordingly, SenseTime, Megvii and others have started to partner with businesses to build out their suite of commercial products. SenseTime, in particular, has been forward-thinking in its approach to applying facial recognition across a wide variety of industries, broadening its exposure to increase the chances of unearthing interesting opportunities. The question is whether the commercial market is large enough to sustain more than two or three major players without continued government support.

Current Applications and Consumer Experiences

Given that implementation of facial recognition technology is still in its early phases, it has mostly been used as a replacement for existing security and identity verification procedures. Whether entering a tourist site or confirming their identity for a mobile account, users face a camera that scans the structure of their face to confirm identity.

For the most part, Chinese consumers have expressed limited issues with the technology, finding it a greater convenience to use face scanning than previous alternatives, such as identity cards, tickets and even smartphones. Especially when discussing their personal security, consumers were heavily in favor of the technology, taking comfort that thieves would be caught immediately based on their facial features. Those who had doubts about face scanning were generally concerned with data sharing; the presence of a camera seemed to reinforce concerns about being tracked to a specific location and making specific purchases. Based on these largely receptive attitudes toward facial recognition technology, there are expectations of greater implementation on a national scale. What remains uncertain is when new applications will be introduced and how the public will receive them.

Security and Identity Verification

Recent applications of face scanning technology have largely been incremental improvements over previous security methods. When entering a modern office building in China, employees have the option to scan their face to activate the turnstile or open a locked door. This technology is in use at forward-leaning companies such as Alibaba and DiDi, but it remains an expensive alternative to keycards and ID badges. The advantage of face scanning is near certainty of the identity of the individual. While keycards and badges can be stolen, forgotten or cloned, it is extremely difficult to bypass a facial recognition system. One employee at DiDi, who did not want to be identified, said face scanning security relieves the minor hassle of remembering a keycard, but it generally does not represent a significant improvement from more rudimentary methods. This is understandable; keycards and badges were already a proxy for the employee's identity. The only difference is the method of collection.

> "As the adoption of facial recognition technology continues to spread across sectors, its applications are becoming more nuanced and innovative."

While basic security measures exist at most tourist sites in China, many of the top destinations have started to implement face scanning technology to log visitors or track their movement throughout a large territory. In this case, the tourist's face acts as a proxy for their ticket, facilitating entry into sites like Tiananmen Square in Beijing and Yuntai Mountain in Henan. By using facial recognition, the security team has a record of each person visiting the site and the tourist does not need to carry a ticket. However, the purpose of facial scanning appears to be different between these two types of tourist sites. At national sites such as Tiananmen Square, tourists place their government-issued ID in the turnstile scanner and stand in front of a camera, which captures the tourist's face and confirms it against the government registry. Once confirmed, the tourist can enter the grounds.

At Yuntai Mountain, on the other hand, there is no direct confirmation between the tourist's government-issued ID and facial structure. Instead, tourists use their ID to purchase a ticket, insert their ticket into the turnstile, and then have their picture taken. In this case, the tourist's

face is used solely as a proxy for the ticket, acting as a key to the rest of the park. While a site like Tiananmen Square might be interested in knowing the identity of the guest, Yuntai Mountain's implementation of face scanning appears to be more similar to the office security example, where the face acts as a key to unlock areas of the park. One Chinese tourist who identified herself as Ms. Li did not express a strong reaction to this technology at either site. If anything, there was general support for using facial scanning to ensure the safety of important cultural attractions.

"Across security, payments and social media, Chinese companies continue to expand applications for facial recognition."

On China's most popular ridesharing platform, DiDi, facial scanning technology has been used to increase security and assuage customer concerns. Two high-profile murders of DiDi passengers in 2018 sparked a growing movement to implement facial recognition as a way to confirm the user's identity. When the driver starts their shift, they must first scan their face before they can pick up a passenger. In an interview with a Beijing DiDi driver, the driver explained that the additional verification step was no hassle at all, especially if it instilled confidence in the passenger. Interviews with regular DiDi users revealed that the national news stories about DiDi helped to greatly undermine passenger trust in DiDi drivers, but the face scanning measures were a key step in rebuilding that trust. DiDi's additional steps, like obscuring the passenger and driver names and removing pictures from profiles, seem to have calmed users for the time being.

China's banks and telecom companies have also adopted facial recognition in their account opening processes. When applying for a bank account or signing up for a SIM card, customers must scan their faces to confirm their identities. For bank account holders, this has a tangible benefit. When customers want to withdraw cash from an ATM, they can choose to scan their face instead of entering a PIN. This facilitates faster transactions and avoids the hassle and cost of resetting PINs. On the telecom side, the benefit to the consumer is a little less clear. Upon asking Chinese consumer Mr. Meng about this, he assumed that the technology was being used for security purposes, to ensure that the telecom companies could know who was registered to each phone number. As the adoption of facial recognition technology continues to spread across sectors, its applications are becoming more nuanced and innovative.

Payment

Face-based payment is likely the most attractive growth area for face scanning technology in China right now, as it would increase security, significantly reduce fraud and speed up the entire payment process. However, it is likely that AliPay and WeChat will continue to dominate this space because they essentially own the market for consumer payments in China.

Mobile payment giants Alibaba's Alipay and Tencent's WeChat Pay have launched facial recognition systems for use at retail points-of-sale all over the country and are racing to establish market dominance. Alipay's facial recognition system costs as little as ¥1,999 (roughly $290), and incorporates three-dimensional cameras that can capture enough data points from users' faces to accurately verify their identity. In Hangzhou, home to Alibaba group, a KFC restaurant debuted Alipay's facial recognition system where users can first link the payment system to their Alipay accounts using their phone numbers, then proceed to pay by scanning their faces. In the WeChat or Alipay native app, many users also have the option to pay by enabling facial recognition technology on their own smartphones, thus bypassing the need for any dedicated point-of-sale system.

An important testing ground for these companies has been at grocery stores across the country; major grocery chains have partnered with AliPay and WeChat to facilitate face-based payment. Shoppers have largely welcomed the convenience of using self-checkout kiosks enabled by facial recognition technology, as they do not need their wallet, cash or even phone. Given its relatively new presence in the market, however, some consumers like Ms. Sun have yet to acclimate to this new way of payment. Sun expressed initial concerns about providing her purchase information to AliPay and WeChat, but this discomfort is more likely

due to the change in routine behavior. When pressed on this, Ms. Sun acknowledged that she is already providing purchase information to Alibaba and Tencent through other channels, so this phenomenon is nothing new.

Tencent is also using facial recognition technology to limit gameplay for minors, in response to criticism from the government regarding children spending too much time on gaming. In its highly popular Honor of Kings game, it has implemented a “health system” where children below 12 years old are restricted to one hour per day, and children above the age of 12 get two hours a day.

Facial recognition company SenseTime plans to create an autonomous driving solution with elements of driver monitoring, utilizing facial recognition technology to detect when drivers may be fatigued or distracted and providing alerts to ensure driver awareness. Having strong roots in China, SenseTime has been able to train its algorithms using the large database of faces available in the country and has achieved very high levels of accuracy. In the realm of social media, Meitu, a highly successful Chinese selfie app, uses SenseTime’s technology to allow users to modify their appearances for cosmetic or comedic purposes, such as aging them significantly, producing funny pictures that they can then share with their friends.

Ultimately, these features are just the tip of the iceberg for what facial scanning could become. Across security, payments and social media, Chinese companies continue to expand applications for facial recognition. But these applications are still fairly limited, focusing on identity verification or consumer convenience with as-yet-undefined business models. Investors who have put significant capital into SenseTime, Megvii and others are banking on the eventual monetization of this technology, expanding outside of government use to widespread commercial adoption.

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How Uber Drove Itself into Latin America

It seems that wherever ride-sharing innovator Uber goes, controversy is sure to follow as the firm disrupts traditional public transportation. This article looks at Uber's entry into Argentina, Brazil and Mexico.

Latin America is sometimes viewed as a homogenous region based on cultural and historical similarities; however, its many countries have diverse internal factors. When looking to do business in Latin America, a company must consider the specific business terrain within each country, avoiding a one-size-fits-all approach. One example of a company using varying business strategies is Uber, the ride-sharing giant. This article examines Uber's experience expanding into the three largest economies in the region: Argentina, Brazil, and Mexico.

Even with the same product, the business plans needed to be tailored to meet the unique political, economic and social ecosystems of each country. Uber's success or failure in disrupting the transportation landscape of each country has been a function of three prevailing factors: the existing transportation landscape and competition, the internal economic stability, and the political environment.

"The lack of regulation and quality assurance in Argentina has meant that the customer experience has declined, and there are concerns about passenger safety."

Argentina

In 2016, Uber arrived in Argentina, which remains the company's fastest-growing market in the world, according to a Reuters report from September 2018. Its primary competitors are Spain-based ride-sharing company Cabify and the existing, entrenched taxi unions. Uber's website claims there are currently 35,000 associate-drivers working in the capital of Buenos Aires alone, with more than 2 million users (in a city with a population of almost 16 million). According to Reuters, between 300 and 400 new drivers and some 7,000 new users join the service every day. Many of Uber's drivers are Venezuelans who fled dire economic straits at home to find ready employment and steady income with the company. Uber pays better wages per hour than taxis, further incentivizing Argentines to join the ranks as a way to augment their incomes. In fact, many taxi drivers are abandoning their unions in favor of Uber. Argentine news outlet *El Sol* found that while taxi drivers make close to AR$150 per hour, Uber drivers make around AR$200.

The most vocal opponents to Uber are the city's taxi unions, which wield significant political influence. Official statistics published by the City of Buenos Aires in 2015 place the number of taxi permits at 37,674. Given that taxis work in shifts, the number of taxi drivers is likely much larger than the number of licenses issued. Taxi unions are right to be fearful of the entrance of Uber and other ride-sharing services into their market. Ride-sharing services have driven down the demand for taxis by as much as 30%, according to 2016 article by Gonzalo Chicote in the Buenos Aires digital newspaper *iProfesional*. In addition to the decrease in utilization, there has been a concomitant decrease in the price of an annual taxi license, dropping from US$25,000 to US$14,000.

Given the acute economic conditions in Argentina — including the 240+% drop in purchasing power of the peso against the U.S. dollar over a recent 18-month period — making Uber explicitly illegal could put more than 35,000 Uber drivers out of work. The political ramifications of the move would be significant because those earning a living wage with Uber would vocally oppose such measures. However, the status quo is unlikely to change until the greater, more pressing macroeconomic concerns are abated.

The only city in which Uber operates with explicit legality in Argentina is Mendoza, a mountainous city with approximately 1 million inhabitants. Uber's operations

in Buenos Aires occur in a legally gray area. Opponents of Uber in Buenos Aires have claimed that the company operates illegally as a means of public transportation. Uber's lawyers insist that the company is a technology platform and not a transportation company, therefore exempting it from transportation regulations (it's an argument the company has used in other locations, including the U.S.). Juan Labaqui, Uber's head of communications for the Southern Cone, has stated that the company is not operating illegally, only that it is operating in an area without regulations and that it expects greater clarity in local regulations.

The Argentine equivalent of the United States' Internal Revenue Service sued Uber in Buenos Aires City Court, claiming that the company owed more than AR$359 million in taxes. In May 2019, the court ruled that while it was not illegal for individual drivers to use the city streets to transport paying passengers, those drivers should have the required permits to carry passengers. Although this ruling nullified the government's claim to back taxes, it did not specify the legality (or illegality) of ride-sharing services, perpetuating the legal battle.

Until these battles are settled, Argentines cannot pay for Uber services using their local credit cards (foreign credit cards are authorized) and must pay for rides with cash. As a result, the drivers incur a debt with Uber over the commission paid to the company, which is a debt that can only be paid down when the driver accepts a ride paid for by foreign credit cards. Despite the mounting debt that Uber's drivers owe the company and the subsequent loss of income in this market, the firm is prioritizing the imperative to retain market share over the losses. The question is whether Uber will demand repayment of its drivers' debts in full, which will not likely occur given the precariousness of individual solvency in the face of rocketing inflation, or whether the firm will write off these losses and move on.

The firm currently struggles with maintaining the level of service compared to that in other countries where it is legalized. The lack of regulation and quality assurance in Argentina has meant that the customer experience has declined, and there are concerns about passenger safety. For example, the license plates of the cars being hailed seldom match the plate listed on the application, making the rides riskier because the customer cannot easily authenticate the provider. Argentina's Uber vehicles tend to be in poor condition and are usually older models, casting doubt on the operational safety of the vehicle. Perhaps most problematic is that a single account can have multiple drivers working in shifts, which means that the driver named on the application might not be present, making complaints against a specific driver problematic.

"To dominate the Brazilian ride-sharing market was an obvious strategic imperative."

Brazil

Uber moved into Brazil in 2014, two years before entering Argentina. Brazil was clearly a market of first necessity for Uber and has remained as such. According to World Bank, the country has the second-largest economy in the Western Hemisphere, a growing population of more than 200 million people and a relatively stable democracy. To dominate the Brazilian ride-sharing market was an obvious strategic imperative. Reuters reported in 2017 that Brazil had become Uber's second-largest market after the United States, with an 80% market share, 17 million users and over 500,000 drivers. Taxi unions immediately clashed with the firm, taking to the streets in mass protest and lobbying, in many cases successfully, for legislation to curb ride-sharing operations. As in Argentina, taxi unions in Brazil argued that Uber was engaged in unfair competition because it was not abiding by the same extensive requirements for public transportation as the unions themselves. According to Brazilian entrepreneur Ryan Marques, half of the nation's taxis are in Sao Paolo and Rio de Janiero, with 38,000 and 33,000 vehicles, respectively.

In 2015, then-President Dilma Rousseff, of the leftist Workers' Party, sided with Brazil's taxi unions, saying that Uber was depriving taxi drivers of work. But she insisted that the issue be resolved at the state level, not at the federal level. Even Brazilian government agencies came out in support of ride-sharing services. A study of

data from 2014 to 2016 conducted by Brazil's antitrust agency CADE found that Uber's entry lowered prices for consumers for rides as well as deeply cut into the profitability of established ride-sharing apps where Uber was later in arriving (north and northeast Brazil). *The Wall Street Journal* reported that CADE, "concluded that ride-sharing services boost competition and are good for consumers." Furthermore, the company was paying taxes, unlike in Argentina. Industry news and analytics company BNamericas reported that Uber had paid US$300 million in taxes to the Brazilian government at the start of 2018. The Committee on Macroeconomic and Financial Issues of Latin America, a notable think tank, has found that while Brazil's economy is having its issues, it does not have the same crushing external debt crisis that fuels Argentina's ever-rising inflation and chronic distrust of the central bank.

After Rousseff's impeachment in late 2015 and her subsequent replacement with interim President Michel Temer, Uber remained embroiled in numerous lawsuits, many of which it lost and appealed to higher courts. Uber scored a major victory in March 2018 after Temer signed into law regulations for ride-sharing applications that, as a result of extensive lobbying and protests orchestrated by Uber, Cabify and others, did not include the most onerous of the regulations that Uber said would have, "[left] 500,000 drivers out of work by making it too expensive to operate." Uber now operates under legal mandate, with each municipality crafting its own laws to further refine Uber's role, but without the ability to eliminate Uber's operations.

> "Uber's diverse experiences when expanding into different large, Latin American economies are a sign to be judicious when working in the region."

Mexico

Uber has had a different experience expanding into Mexico. The firm entered Mexico City in 2013, its first Latin American expansion, and has grown its market share substantially since then. In November 2017, Uber drivers represented an estimated 60% of legal ride-hailing drivers in Mexico City, per a case study by the Pathways for Prosperity Commission on Technology and Inclusive Development. Despite the large market share, Uber faces a myriad of competitors, representing a landscape that is not overly cost-prohibitive for residents. Most of the major ride-hailing players operate in Mexico, with Didi, Beat and Cabify all investing in gaining market share.

The current transport landscape has helped create the market that Uber has expanded into. There are many public transport options for citizens, including metros, buses and taxis; however, there are many Mexicans who view the public transportation system as unsafe. A November 2018 Reuters poll found that three of every four women were not comfortable using the Mexico City public transit system. The lack of safety coupled with the need for precaution when using taxis in Mexico provided Uber the right opportunity for entering the market.

Another differentiating factor in Mexico is the use of cash payments. Approximately 9.5% of Mexicans own a credit card, according to research firm Statista, and roughly 42 million people don't have bank accounts, according to Reuters. These factors could have been another reason for fully legalizing Uber in Mexico City as a way of persuading riders to move away from cash. The push away from cash is a priority of President Andrés Manuel López Obrador's administration and has led to recent issues for ride-hailing companies. In 2019, the government banned cash transactions in ride-hailing applications, a move that has been jointly denounced by Uber, Didi, Cabify and Beat, as reported by *Business Insider*, since it significantly reduced the number of riders who could use the services. Since the legislation, Uber has worked with BBVA and Mastercard to offer debit cards in Mexico to reduce the number of citizens who just use cash.

Uber's diverse experiences when expanding into different large, Latin American economies are a sign to be judicious when working in the region. The countries have their own subtleties, varying in everything from economics to politics to culture. The region's diversity is a unique and powerful strength but should be carefully understood. Only upon embracing the non-homogeneity of Latin America can a business operate successfully across borders.

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Entrepreneurs vs. the State: An Overview of Russia's Entrepreneurial Ecosystem

Entrepreneurs have a rough road in Russia, where bureaucracy, cronyism and a lack of capital can make it difficult for them to achieve growth. The authors offer insights from their visit to a startup incubator outside Moscow.

In the expansive, rolling plains of a village on the outskirts of Moscow, one might be surprised to come upon Russia's budding version of Silicon Valley — Skolkovo. With its impressively modern buildings and connected campus, Skolkovo Fund is home to nearly 2,000 startups, mostly deep tech, funded by the Russian government to boost entrepreneurship in the country. Anisoprint, an innovative 3D printer designer and manufacturer, is one of Skolkovo's exemplary companies. Mikhail Golubev, founder and chief technical officer of Anisoprint, explained that their printer's ability to produce composite filament makes it a world leader in robotic printing. A technology capable of disrupting the 3D printing landscape and potentially grow the company to become a globally competitive startup sounds great. However, Anisoprint, despite its potential, embodies the limitations that so many Russian entrepreneurs encounter in today's complex political and economic climate.

Following the Soviet Union's collapse in 1991, Russia has been navigating a tumultuous transition to democracy and to a market economy. While economists, politicians and business leaders projected that Russia, with its vast natural resources and educated labor force, had the potential to achieve constant growth, it has faced stagnant growth and unstable inflation for the majority of the last 30 years. Additionally, privatization of previously state-owned enterprises and assets ushered in an era of corruption, crippling the economy further by both discouraging foreign investment and by encouraging capital flight. Most notably, though, in its post-communist transition, the Russian economy has become increasingly dependent on its oil and natural gas exports, which *The Moscow Times* recently reported account for approximately 60% of the country's gross domestic product ($845 billion of $1.6 trillion). Rising oil, gas and mineral prices in the early 2000s strengthened the ruble during this period. In fact, when crude prices were at an all-time high in 2008, Moscow was the most expensive city in the world, according to *Forbes*. Vladimir Putin's presidency, which began in 2000, coincided with this seemingly optimistic era of growth, a trend that secured his popularity and role as the driver of the country's relatively higher standards of living during the mid-2000s. But Putin's presidency has also been marked by a return to what some critics claim is an authoritarian, or even Soviet, level of state oversight and ownership of the economy and by a reduction of the liberal political and economic policies that were introduced in the years immediately following Russian independence. The International Monetary Fund (IMF) estimates that the Russian state accounts for a significant portion of the country's economic activity, with revenues greater than 70% of total GDP.

> "The foreign direct investment climate in Russia has been challenged over the last five years by both geopolitical events and a perceived deterioration of the rule of law."

Since the relative boom of the mid-2000s, and specifically since 2008, the following regional and global events have precluded potential growth of the Russian economy: the 2008 invasion of Georgia; the 2008 global financial crisis; and the 2014 invasion of Ukraine and annexation of Crimea. Though the Russo-Georgian War did polarize relations with the United States and NATO, the Russian economy bounced back fairly quickly after the invasion. Only a few months later, the financial crisis that took the global markets by storm in 2008 caused a 7.9% drop in output in 2009. The tanking oil and gas prices that resulted from the crisis further underlined Russia's dependence on

its energy sector. But with Russia's relatively low private debt and the eventual increases in energy prices, by 2012 the ruble started to stabilize and the economy again grew. However, the latter of the events proved to be the most impactful. In the spring of 2014, Russian authorities held a referendum on the Crimean Peninsula in which local residents voted a resounding "yes" to the proposition of seceding from Ukraine to become part of the Russian Federation. In addition to accusations of Russian proxy forces fighting in what has been called eastern Ukraine's civil war in the Donbas region, Russia's support of Ukraine former President Viktor Yanukovych and the refusal to concede on Crimea created a hostile climate for relations with both the United States and the European Union, eventually resulting in sanctions.

> "Traditional channels of seed and early stage fundraising are significantly more challenging for Russian entrepreneurs than for their peers in other markets."

At present, with a nominal GDP of $1.6 trillion, the Russian economy is the 12th-largest in the world. The economy remains dependent on oil and gas exports, and experts argue that the continued sanctions, which limit foreign investment, will consistently impede growth. Despite these unfavorable conditions, Russian entrepreneurs continue to innovate. Our visits to startups in Moscow, St. Petersburg and Yaroslavl offered insight into the ideas, decisions and obstacles that some of Russia's most promising entrepreneurs encounter in today's climate.

In addition to its incubator, Skolkovo Fund, Skolkovo is comprised of a world-class medical center, a K-12 school and a graduate business school, the Skolkovo Institute of Science and Technology, which is partnered with the Massachusetts Institute of Technology and equips both Russian and international students (10%) for careers in technology and science. But despite its trendy architecture and globally renowned experts and faculty, Skolkovo embodies much of the arduous ecosystem that all Russian entrepreneurs must learn to navigate. During our visit in June 2019, Ben Wilkening, Skolkovo Foundation vice president for international investor relations and a Wharton-Lauder alumnus, and Dmitry Kulish, who is also a Wharton alumnus and professor of pharmaceutical practice and director of the Innovation Workshop at Skoltech, shared key insights about how the district started and continues to grow, most notably because of the Russian government's commitment to the project. Resident companies are allowed to stay at Skolkovo for up to 10 years, paying only a minimum rental fee, and they have access to more than RUB300 million in grants. Compared with companies outside the organization that pay a 30% corporate tax, Skolkovo's startups pay only 14%.

But many of Skolkovo's companies do not take advantage of these attractive benefits because of the bureaucracy. Funding, for instance, can take up to nine months to process and requires such meticulous, administrative reporting that it is simply not worth the endeavor. In fact, the impression that Skolkovo is overly bureaucratic prevents many entrepreneurs from even applying to the incubator. Perhaps the most complex processes for companies such as Anisoprint are incorporating and fundraising. As facilitated by Wilkening, Anisoprint recently incorporated in Luxembourg in order to increase appeal to prospective investors. Both local and international investors are hesitant to invest in corporations formed in the Russian Federation, and this represents yet another barrier to entry for entrepreneurs looking to grow their companies.

Through our interviews with Anisoprint and other startups, we identified the following three areas of weakness that inhibit entrepreneurship in Russia: foreign direct investment, rule of law, and access to capital.

Foreign Direct Investment

The foreign direct investment climate in Russia has been challenged over the last five years by both geopolitical events and a perceived deterioration of the rule of law. Although the international investment community never saw Russia as a stable and risk-free market, the Organisation for Economic Cooperation and Development estimates Russia attracted over $76 billion in FDI at its peak in 2008 and around $53 billion in 2013. After the Ukrainian Maidan Revolution of 2014 and the subsequent

events of Crimea, global capital markets' appetite for Russian exposure began to dwindle, and FDI dropped in 2018 to a mere $13 billion (roughly the same amount as Poland, a country four times smaller in population and GDP). These days, it can be difficult to find an international investor without existing ties to the country who is willing to invest in the Russian market, let alone in early stage companies. In addition, the effects of a growing list of sanctions have prevented even some of the most bullish foreign supporters of the Russian market from investing in the country.

Rule of Law

From the poisonings of former Ukrainian President Viktor Yuschenko and former intelligence officer Sergei Skripal, to the controversial imprisonment of prominent business men including Mikhail Khodorkovsky, Russia continues to confront an international community, particularly an international investor community, which casts serious doubts on the country's ability to preserve the rule of law. One of the most alarming instances occurred in February 2019, when Michael Calvey, the U.S.-born founder and CEO of Russian's largest private equity and venture capital fund, Baring Vostok, was jailed for what appeared to be a commercial dispute typically resolved in arbitration or in the courts. Calvey's arrest further tarnished Russia's appeal in the eyes of the global investment community; this notorious case was a recurring topic throughout our corporate meetings in Russia. Even the most loyal Putin supporters admitted that Calvey's arrest was a "Russian tragedy."

According to several business owners, Calvey's arrest illustrates why the lack of an impartial, reliable legal system necessitates maintaining a low profile to limit unwanted attention. The majority of our hosts shared that Russian small and medium-sized business owners adhere to the concept of *pod radarom*, or flying under the radar, which means managing their businesses in a way that attracts the least attention from anyone who might conceive their enterprise as a threat. Unless a business owner has powerful allies close to the authorities, and ideally as high-ranking as the Kremlin, any attractive and profitable business is exposed to the whims of a more powerful player. And the higher up the ladder, the more susceptible. A successful logistics company in St. Petersburg exemplified the need for these close government connections. The well-established company operates two large storage facilities with a total capacity of 430,000 square feet and transports and stores goods for some of Russia's largest corporations. However, the owner explained that because his brother works for the Federal Security Service, successor to the KGB, his business is protected from hostile takeovers. Interestingly, the fact that logistics is a business that requires significant technical know-how is only a secondary deterrent for "crooks," as he called them, who might want to take over his company.

Access to Capital

Startups need funding. Traditional channels of seed and early stage fundraising are significantly more challenging for Russian entrepreneurs than for their peers in other markets. Loans are prohibitively expensive, with an average interest rate of 20% to 25% for corporate unsecured loans, so raising debt is simply not an option for the majority of entrepreneurs. Additionally, several prominent angel investors and venture capitalists highlighted a cultural nuance that further complicates fundraising for Russian entrepreneurs: a low appetite for risk among local investors. Most qualified investors cut their teeth in traditional industries, such as banking or natural resources, and are subsequently less comfortable with riskier investments with a long-term return profile. Moreover, as investors and business owners alike regularly reminded us, because those with the capacity to invest grew up in periods of economic instability, their onerous equity requirements are significantly disadvantageous for founders.

Private capital availability is one of the reasons that hubs like Silicon Valley or Tel Aviv continue to produce innumerous successful companies year after year. The reality for entrepreneurs in Russia could not be more different. Beyond the challenges of seed investment, it remains even harder for mid-size growing startups to secure larger rounds of financing. Russian venture capital funds are in short supply, and international VCs have virtually stopped investing in the Russian market. This trend is in no small part due to the lack of exit

opportunities. For instance, the first Russian tech IPO since 2013 took place in 2019, when the online job recruitment company, HeadHunter.com, was successfully listed on the Nasdaq. That six-year gap between tech IPOs represents an unfortunate paradox, given that Russia consistently ranks high for science, math and technology education and is one of the world's leaders in scientific research and development.

The Road Ahead

As Russian firms continue to navigate a tumultuous global economic picture and an equally complicated domestic reality, and as entrepreneurs are forced to innovate in less-than-ideal circumstances, achieving real economic growth becomes more and more unrealistic for Russia. Most of the success stories are limited to SMEs, but the relatively unpredictable business environment encourages these hidden champions to remain hidden. Positive alteration of the status quo will only be possible with the state's commitment to reassessing its current policies. Based on feedback gathered from startups and investors, we put forth the following recommendations.

Firstly, given the present geopolitical atmosphere, it is unlikely that sanctions will soon taper off, so the government will likely remain the key player in promoting startup incubation and growth. In that case, models like Skolkovo should be pioneered across Russia, in smaller and mid-tier cities, to expand access of such opportunities to entrepreneurs outside of the capital. Secondly, incentives, such as the 14% corporate tax rate applied only to companies housed at Skolkovo, should be extended to all early stage businesses, or at least to those in strategic areas of growth. Thirdly, access to state funding should be streamlined to encourage entrepreneurs to pursue such avenues of equity-free capital. Finally, the government should consider providing tax incentives for Russian equity investors to drive additional funds to early stage investing. Without a concerted government effort to promote innovation and encourage investment, myriad Russian companies full of talent and potential, like Anisoprint, will find it almost impossible to reach growth on a global scale.

This article was written by Miguel Armaza and Erin Murphy, members of the Lauder Class of 2021.

Networks of Trust: How Female Entrepreneurs Are Rising in West Africa

In the sub-Saharan African nation of Senegal, female entrepreneurs rely on nontraditional methods of financing to raise capital and grow their businesses. This article shows how women in West Africa help each other through communal savings and credit practices.

Dressed in silk robes that shine under the bright sun, Senegalese women entrepreneurs in the fashion industry stand out in lime greens, royal blues and other vibrant colors that abruptly break away from Dakar's arid and sandy surroundings. In the same way that their daring chromatic individuality paints a picture of colorful blooms in a challenging desert, their entrepreneurial success takes place in a restrictive, patriarchal environment with limited access to capital and investment mechanisms. Here, female entrepreneurs confront these challenges by employing traditional investment mechanisms like rotating savings communities, known in Senegal as tontines.

According to the World Bank, informal financial and labor ecosystems pervade sub-Saharan Africa, where 66% of the total workforce is employed in the informal sector. When examining the informal working population by gender, the reality is even harsher for women. As published by the International Labor Organization in a 2015 report, 61% of men's employment is informal, compared with 74% of women's employment. While broken chains of production, prohibitive energy costs and low levels of adequate governance are all to blame for the prevalence of the informal sector in sub-Saharan economies, women's higher propensity of falling into informality is primarily explained by rigid social norms. According to Senegalese sociologist Rosalie Diop, women have traditionally been expected to stay within the realms of the productive and nurturing roles in the private arena, away from production roles in the male-dominated public arena.

Social practices have limited women's roles for centuries, relegating them to the private household chores. Patriarchal social systems and lack of access to credit are serious challenges for women entrepreneurs in West Africa. Yet female entrepreneurs find economic success in the informal sector by employing creative solutions, such as traditional communal financing systems like the tontine. While the challenging landscape for women entrepreneurship is shared by different countries across Africa, this analysis will study female entrepreneurship mechanisms in Senegal. This analysis will first establish the problem at large and the consequences faced by Senegalese women entrepreneurs. In the second section, it will explore Senegalese *tontines* and how they facilitate the empowerment and financial independence of female entrepreneurs.

"Patriarchal social systems and lack of access to credit are serious challenges for women entrepreneurs in West Africa."

Social and Infrastructure Restrictions

Despite their importance to the growth of West African economies, female entrepreneurs encounter significant challenges in launching and operating their vibrant businesses. They face hurdles due to the male-dominated nature of society and a lack of entrepreneurial infrastructure for training and resources. Even when women cross the traditional lines of occupation and responsibility in these patriarchal societies, they tend to lack the proper training and mentorship that allows them to establish their own enterprises.

Fortunately, private and public organizations, such as UNACOIS Jappo, a Dakarian association that provides training to entrepreneurs in Senegal, and the Senegalese Chamber of Commerce, are working to establish formal training grounds and support networks for female entrepreneurs and small-to-medium enterprises. While female business owners are making progress to overcome social and infrastructure business hurdles through communal change and formalization programs, advancements are still necessary to improve the

entrepreneurial environment. One of the most significant obstacles preventing female-owned businesses from launching or achieving scale is the lack of adequate and affordable access to capital.

According to a World Bank study of neighboring countries in West Africa, male-owned enterprises on average have "six times more capital than female-owned enterprises." With lower levels of equipment, inventory and property, female entrepreneurs struggle at a disproportionate rate to grow their enterprises. In the face of these capital constraints, traditional banking and microfinancing fail to meet the financing needs of the female entrepreneurial ecosystem. For example, in Senegal only 7% of the population has a full-service bank account, according to an InterMedia study, and anecdotal evidence suggests that high interest rates from traditional banks are pricing small business owners out of the equation. Coupled with lacking or nonexistent means of establishing creditworthiness, traditional institutions fail to provide credit solutions for the general population. This is even more pronounced for female business owners who face discrimination due to their perceived lack of expertise and skills. Despite the growth of microfinancing institutions over the last few decades, similar challenges exist for business owners. Microcredit has limited effects on business outcomes for women, as high interest rates and a lack of trust in these institutions dissuade business owners.

> "One of the most significant obstacles preventing female-owned businesses from launching or achieving scale is the lack of adequate and affordable access to capital."

These entrepreneurial challenges are consistent with those of Senegalese women being supported by UNACOIS Jappo. According to these women, access to financing is a top-of-mind issue as they seek to grow their trade businesses of clothing, produce and common goods. Despite the evident need for capital, these female entrepreneurs are hesitant to seek investment from traditional banks or microfinancing institutions. Consistent with current research, many Senegalese women entrepreneurs turn away from traditional outlets due to high interest rates, a general lack of trust, and a lack of understanding on how to engage with these institutions or navigate their contractual agreements. As one female business owner said in an interview, she avoids microfinancing institutions because they are set up to "take your business away from you" if you miss a payment or fail to comply with their confusing contractual terms. And she is right: Traditional forms of collateral for microfinance loans in Senegal include the forfeit of a company's patents, brand name and physical goods. For most entrepreneurs, these traditional lending stakes are simply too high. Overcoming this challenge is of great importance because providing female entrepreneurs with access to secure mechanisms for savings and lending can lead to accelerated growth and prosperity in West Africa's developing markets.

Mechanisms of Credit and Savings in Action

In light of the challenges related to obtaining capital by official means, many of these women have sought alternative means of financing. One of the most popular is a means of communal savings called the tontine. The word tontine comes from the name of Lorenzo di Tonti, a 17th century Neapolitan banker. He developed a system in which individuals of a group paid contributions into a fund and received annuities until they died. Upon the death of a member, their portion of the fund was reallocated to the surviving members until the death of the last member.

The African practices, called tontines in Francophone Africa and by other names in other parts of the continent and developing world, are significantly less morbid. Here, tontines typically refer either to rotating credit and savings associations (ROSCA) or accumulated savings and credit associations (ASCA). In its simplest and most easily executable form, the tontine is a ROSCA. On some regular cadence, often monthly, each member of the group contributes a fixed amount into the communal pot. The entire pool of money is then distributed to one member of the association. This happens every month until each member of the association has received a large payout. There is no interest, meaning that most members of the group gain access to cheap credit they otherwise could not. The person who is paid out first gets the greatest

amount of credit, whereas the person who is paid out last largely receives their savings. In these rotational associations, there is often the opportunity to request to "jump the line" in the event of an immediate need. In this way, these tontines provide members with access to immediate emergency credit on an interest-free basis.

This is different from tontines that are implemented as ASCAs. In accumulated savings and credit associations, members contribute on a regular basis and money is lent out at a small interest rate. At the end of the life of the tontine, when all loans have been repaid, members receive their savings as well as their share of the interest. ASCAs are more challenging to implement because they require more rigorous bookkeeping, as all the money is not disbursed every interval.

A key aspect of all tontines is that they require trust. These savings and credit associations can be successful thanks to shared community norms that hold altruism and trust as paramount, thereby encouraging cooperation. In some cases, this trust can come from shared professional backgrounds that allow for an enforcement mechanism.

This is the case for the women of UNACOIS JAPPO. As members of a community of entrepreneurs, much of their trust in each other is facilitated by their participation in a tight-knit informal marketplace. Soda Diop, a couturier based in Dakar, is a member of one such tontine. Her association is comprised of about 20 women who all operate in some form of informal commerce and is structured as an ASCA. Every month, each member can buy up to 10 shares in the tontine for XOF1,000 per share (about USD1.68), according to their means. Once all of the money is collected, requests for loans are solicited. Those who would like to access credit are awarded twice the number of shares they purchased for the given month. When they repay the loan, typically in the next month, they add 2% interest. Diop's tontine started with about XOF50,000 and now has many multiples of that. At the end of 12 months, each woman's share of the total pot is calculated and disbursed based on the proportion of shares she purchased across the year. "This has helped us to pay for children's education and improve our quality of life," Diop said.

Other members of UNACOIS shared that involvement in their own tontines has helped them successfully do things ranging from financing their businesses to sending each member of their group to Mecca for Hajj. Tontines represent a powerful alternative to banks where many like Diop encounter "rates that are too high." They provide many of the same interest accumulation benefits without any of the predatory practices. They also align well with the values of the communities in which they operate.

A Common Thread of Trust

From a sociological perspective, society's lack of trust in women as leaders of production in public spaces is a factor that contributes to the challenge of female participation in business. However, it is precisely trust among women that enables their entrepreneurial ambitions to come true. The tontine comes to life as a savings and credit mechanism that is established thanks to the bonds of trust that are developed among female entrepreneurs coming together under a set of guidelines to commit, lend and receive cash flows. These ecosystems of entrepreneurial support run in parallel to the legal financial structures that are in place in the formal realm of business. Meanwhile, tontines also remind everyone that despite challenges in local business environments, communities can prevail by coming together to promote survival and growth.

"A key aspect of all tontines is that they require trust."

When wandering around Dakar's sun-bathed boulevards, it is not unusual to run into women fashion entrepreneurs wearing eye-catching, rainbowlike dresses. Their unique attire speaks of a story of individual success and independence. However, soon after processing those thoughts, it is not unusual to see that a woman entrepreneur is surrounded by a few more like her — all of them exhibiting vibrant colors and a strong sense of self-confidence. These other women could be family members, business partners, neighbors or maybe tontine colleagues. No matter the specific story behind their friendship bonds, it is clear to see that that these female entrepreneurs are not alone. They operate with the whole of the community behind them, backing and enabling their flourishing businesses.

*This article was written by **Ryan MacDonald, Joaquín Ormeño and Issa Saunders, members of the Lauder Class of 2021.***

THE LAUDER GLOBAL BUSINESS INSIGHT REPORT | 2020

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