

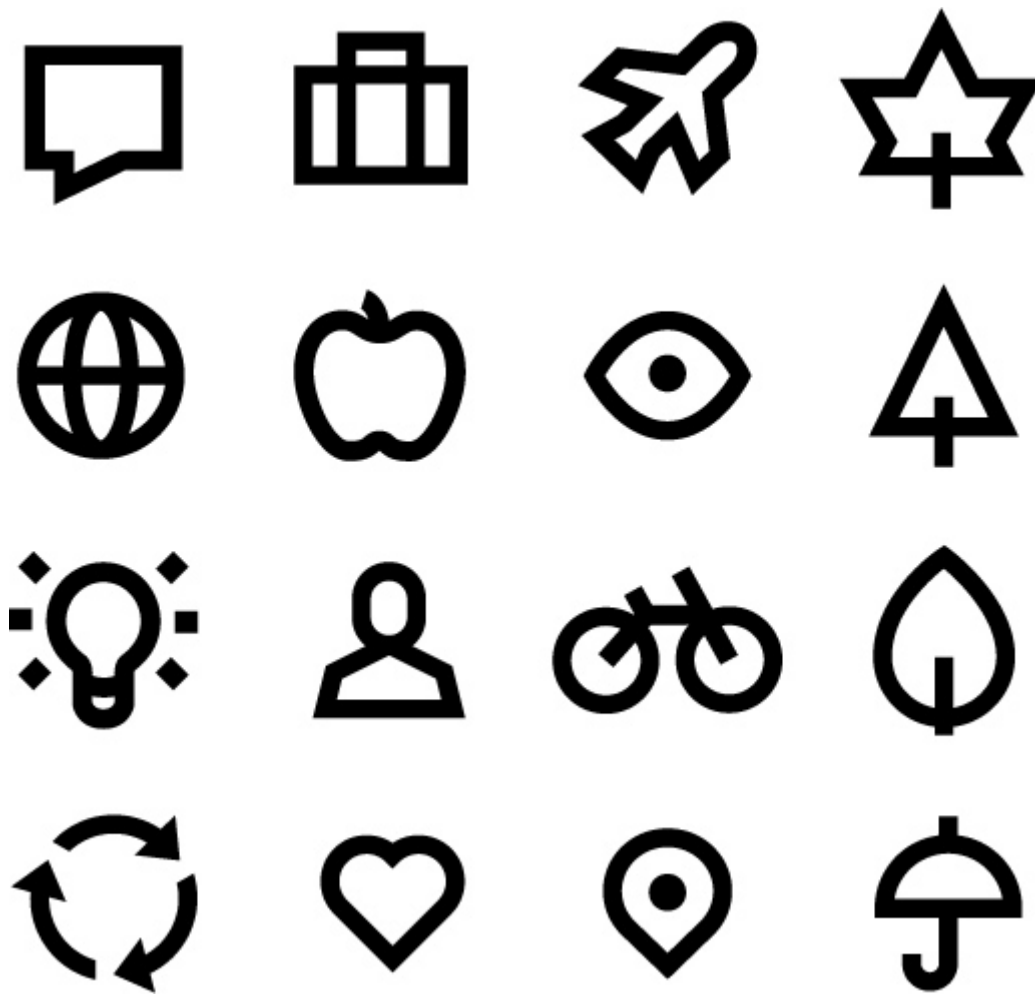


**BACHELOR OF COMMERCE**  
**BEST BUSINESS RESEARCH PAPERS**  
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**Gustavson**  
School of Business  
University of Victoria





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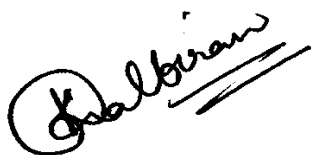
## Note from the Editor

At the Peter B. Gustavson School of Business, our goal is to provide our Bachelor of Commerce (BCom) students with critical thinking skills, a global mindset and a sophistication of scholarship to ensure that they can succeed in today's complex international business environment. We believe that international experience is the key to inculcating cross cultural awareness, therefore, it comes as no surprise that almost 90 percent of our BCom students decided to go an international exchange in the year 2018-19. During the semester abroad, many students register in COM 470 – The International Business Research Course – which allows them to not only engage with the business practices in their host country, it also enhances their research and writing skills. To showcase the efforts of our students, we present **Best Business Research Papers, Volume 12**.

This year, we asked our students to focus on challenges that business organizations face as a result of the local environment of their host countries. In the 12<sup>th</sup> edition, we present the **top nine of our most interesting research papers**. The topics cover a wide range – in this issue, you will find topics ranging from China's growing debt and social innovation in Morocco to mental health issues among employees in Japan and human trafficking and prostitution in Thailand. We are extremely proud of the strength and determination showcased by our students while researching and writing on such challenging issues. We hope these outstanding papers inspire other students to engage in international business research.

We would also like to congratulate Ryan Grills and Sadee O'Shea on receiving the **Jamie Cassel's Undergraduate Research Awards (JCURA)** this year. Ryan analyzed the global impact of China's growing debt and Sadee studied the different issues surrounding the tobacco industry in France and the impact of recent anti-smoking campaigns. In addition, the papers written by Hanna Chen and Catherine Musgrave are currently under review at the *Arbutus Review*.

The University of Victoria's Gustavson School of Business is proud to present these research papers from our 2018-2019 COM 470 students. We would like to thank the people who make this international exchange opportunity a success; it would not be possible without the hard work of these dedicated individuals. Thank you to International Programs team members Dr. A.R. Elangovan, Director; Brian Leacock, Associate Director; Jane Collins, Manager, International Exchange; Allen Sun, International Student Recruiter - China Specialist; Sherri Love, IP Development Officer; Elsa Yan, Exchange Student Advisor; and Christina Hernandez, International Student Coordinator; as well as Audrey Audebert, BCom Advising Officer and Shannon Perdigao, Academic Projects Officer. On behalf of everyone involved, we hope you enjoy Volume 12 of the BCOM Best Business Research Papers.

A handwritten signature in black ink, appearing to read 'K. Kalra', with a circular mark to the left and a horizontal line underneath.

### **Komal K. Kalra and the Editorial Team**

COM 470 International Business Research Instructor  
Editor, *Best Business Research Papers, Volume 12*

## International Business Research Experience

*My exchange term at Waseda University, Japan really gave me a wakeup call for my future career goals. I have always wanted to be part of an organization or corporation that serves great social purposes for the community. Nevertheless, it wasn't until my exchange term that I realized what topic I would like to focus on: the relationship between mental health and the workplace environment. It was striking to know that it is a norm to witness suicide incidences at the MRT platform and unfair labor treatment can happen to your close friend. The research ignited my passion for solving this issue and led me to my next step: studying at Waseda University's Graduate School for further research on this topic.*

**Hanna Chen**

*Throughout my exchange experience, Singapore continued to surprise me. The cultural melting pot of Singapore made for a great learning experience. The country is rich in diversity but united in vision which was an interesting set of circumstances. The military conscription in Singapore especially surprised me because of the positive attitude the citizens had toward it. This attitude was the motivator for me to write about military conscription and its effects in Singaporean culture. My overall exchange experience was one for the books.*

**Graeme Jackson**

*Having the opportunity to study abroad in Bangkok, Thailand while writing my COM 470 paper allowed me to explore the culture on a deeper level. One of my greatest takeaways from living and studying in Thailand and traveling to other countries was learning how to communicate with and adapt to different cultures in day to day life. These experiences were both emotionally powerful and intellectually stimulating. I am so thankful for the opportunity to travel and research my own interests. This research paper was the perfect opportunity for me to gain a deeper understanding of Thailand, while employing my past education at the University of Victoria.*

**Sloane Jeffrey**

*As soon as I got my form to request which exchange countries I was interested in, Thailand was immediately my number one spot. I knew it would be a huge cultural change, with uncomfortable situations - and that did not disappoint - in the best ways. Being in Bangkok was an eye-opener. The customs, food, personalities, and way of life is very different than Victoria and Canada, but these differences became my favourite part of being there. Although, it was difficult to see how massive the disparity is between rich and poor, with a barely-existent middle class. This was exasperating in every city, with many sex workers a part of this low-income group. Having witnessed the sex industry to be a huge part of Thai tourism, it was clear that many sex workers are unfairly treated and taken advantage of, especially because of its illegal nature. I thought it was an important topic to bring to light, even though it can be uncomfortable, which is why I chose to do my research based upon this. Researching a dark topic like this had its difficulties, but ultimately was an incredible learning experience.*

**Daniella Keene**

*Being provided the opportunity to write a research paper while on exchange was invaluable as it allowed for a more flexible academic term. In the beginning, the thought of doing fieldwork and writing about my results terrified me. However, as I pieced away at the paper, the lessons my research provided me regarding cultural differences far outweighed my struggles. Thailand's transportation system is far different from Canada's, and the negative stigma's regarding taxis in Thailand is what drove me to pursue the topic. Through my research, I was able to connect with many kind-hearted locals to get a better understanding of why such stigmas exist.*

**Tony Martin**

*From cozy Christmas markets and Danish Gløgg to weekend trips and late nights at the library, my exchange semester in Denmark was filled with amazing memories I will never forget. When I accepted my placement at Aarhus University, I knew that I wanted to write my research paper about social economics. In particular, I wanted to explore why Denmark is consistently ranked among the happiest countries in the world. I learned that happiness is strongly tied to trust, and studied why and how it is so deeply engrained in Denmark's social fabric. I really enjoyed researching happiness in Denmark, and feel the world has much to learn from this small Scandinavian country.*

**Catherine Musgrave**

*My international exchange in France was an amazing opportunity and I will cherish the experiences and memories from that time for many years to come. I was located in the South of France and I cannot express enough how beautiful and culturally rich this region is. My research was engaging, relevant, and a fantastic complement to my studies abroad. I chose the topic of smoking in France as it was something I noticed right away to be culturally quite different from Canada, and it is a topic I find very interesting.*

**Sadee O'Shea**

*I chose to go to Morocco because I wanted to truly understand and live within the socioeconomic complexities of a developing nation. I am fascinated by the overlapping factors that simultaneously progress and hinder a nation as they strive to lift their people into the 21<sup>st</sup> century. While attending ESCA Ecole de Management in Casablanca, I was lucky enough to meet and work alongside Professor Majid EL GHAIB. He was able to give me insight to the Social Innovation ecosystem developing within Morocco and introduce me to the Moroccan youth who are attempting to sustainably and ethically advance the country. I am grateful to have had the opportunity to meet and work with the young women whom these case studies highlight.*

**Madison Rudolph**

# Mental Health Illness' Negative Impact on the Japanese Youth Employment: Importance of Workplace Mental Health Support

Hanna Chen

## ABSTRACT

Mental health related issues and disorders have always been a sensitive and hindered topic that create tension in our society. During the past few years, the public has gradually shown concern and attention to how mental health illness could strongly affect our daily activities. Inherited from the Confucius mindset, in most Asian countries, including Japan, it is important to act collectively and avoid showing one's opinions to avoid standing out. This phenomenon, therefore, took away people's courage to seek help when it comes to their personal feelings. This paper discusses the correlation between workplace stress to mental health illness (especially from the young millennial perspective), the reason behind why culture and history aggravates and lengthens the process of resolving mental health issues in the Japanese workplace, and further suggests possible amendments companies, government, or third party could take. To gain an overview of the current work environment, survey is conducted with Canadian and Japanese new graduates and students to obtain qualitative information. Further discussion with Professor Robert Glenda from Waseda University, who has the research focus on the Japanese labour situation, was conducted to further elaborate the research outcome. By analyzing government regulations, company employee benefit policies, and appeal system, this research intends to reveal liabilities within each party. This paper recommends recovery, advocacy, and support actions that each party could take in the short-run and long-run to alleviate the issue.

**Keywords:** mental health, youth employment, Japan, workplace environment

## SURVEY: COMPARE JAPANESE AND CANADIAN WORKPLACES

To have an overall understanding of what the Japanese workplace as well as how it's different from the Canadian workplace, a survey was conducted based on 3 hypotheses on the issue of mental health = and how it relates to youth employment. Retrieved from the 62 valid responses from millennials living in Japan or Canada (29 of them are residing in Japan and the rest are residing in Canada). The target respondents are grouped into students who filled the questionnaire based on work or personal experiences. The outcomes of this survey are 1) the perceived current working environment by the millennials in Japan is more challenging than that of Canada 2) the mental awareness among the millennials is lower in Japan than in Canada.

**Support 1:** The result showed that in Japan out of those whom have work experiences and have been treated unfairly, 90% of them have only 1-2 years of working experience; while in Canada the age has less impact on whether they get unfair treatment at work.

**Support 2:** Considering an overall perception, both sample groups are asked, regardless of their position, what they think about the current working environment. Out of a scale of 1 to 5 (1 being the lowest and 5 the highest), Japanese working environment was rated 2.58 while Canadian working environment was rated 3.6.

**Support 3:** Respondents are asked if they are familiar with the company's mental health policy based on five degrees (0-20%, 20-40%,...,80%-100%) and if they have received any education on the mental health program. Statistics showed that only 14% of the Japanese employees received education related to mental health program and their total knowledge on the program is rated around 20%. On the other side, nearly half of the Canadian employees (48%) have been educated and the average rate of their familiarity is 28%.

#### FROM THE PERSPECTIVE OF YOUNG MILLENIALS: CURRENT WORKING ENVIRONMENT

As shown on the survey, Japanese working environment is relatively more challenging compared to the Canadian workplace. The Organisation for Economic Co-operation and Development (OECD) has recently conducted a research evaluating the job quality and labor market inclusiveness of 35-member countries, including Japan (Fig 1). Japanese workplace environment has been seen as a low performer (below OECD member average) in all six measures except job security. The research reflects Japan's relatively high share of job strain. ("OECD Employment Outlook 2018 (Summary in English)", 2018).

In the Japanese workplace, there are numerous barriers preventing young millennials to from utilizing employment rights, potentially leading to concurrent mental health issues. The Japanese traditional employment system constitutes two major characteristics: lifetime employment and seniority-based wages profile (OECD Employment Outlook 2018 (Summary in English), 2018). Both characteristics come hand-in-hand, the slope of age-wage profile in Japan is relatively steep compared to that of most developed countries. New hires are often underpaid in the beginning of their career and forced to hold onto the fact that they will be compensated throughout the years of experiences. This has given the new hires in Japan a strong incentive to stay with their first employer, therefore, creating an implicit rule that absolute obedience to the upper management is inevitable for career development.

One of the evidences of the intertwined senior and junior relationship is the work-related drinking culture; this scenario is often called 'nominication' (to drink and to communicate). There are specific business etiquettes a young employee should follow in order to maintain a good relationship with his/her superior such as keeping the senior members' cup full during the 'kanpai' (equivalent to cheers in the western culture), never hold your cup higher than the senior members, etc. There is also an implicit rule that, as a new hire, these kinds of gatherings require mandatory attendance to avoid alienation, creating an invisible pressure on the young workers. Various researchers have been debating employee problem drinking issue, both personally and socially deleterious, and how it could lead to employee stress (particularly for new hires). Even though it's hard to identify the direct influence of drinking to stress, research has shown a degree of significance that workplace stress level would increase as the employee drinking problem amplifies (Bacharach, Bamberger, & Sonnenstuhl, 2002). The sensitivity of the Japanese superior-inferior relationships is also well presented in the language. Japanese people pay a large amount of respect and obsequiousness to their superior by using the politest form of language at work. The language itself being indirect and agreement interjected also allows Japanese to systematically agree with their superiors (Lafayette & Botting, 2015). Both shows the importance of young workers having courtesy and lowering themselves in the working environment.

Japan has one of the longest working hours in the world. Discretionary labor system, allowing companies to pay employees at a fixed rate in advance as opposed to the actual hours they work, is identified as the main cause of the long work hours without overtime pay. Multiple downfalls and reasons of working long hours are discussed by Mr. Hiroshi. One of the reasons that he associates with the overworking young employees is the overly dominant and hierarchical relationship between the seniors and the young workers (Hiroshi, February-March 2018). The relationship is so rigid that young workers feel obligated to work until their superiors finish their work; young workers also believe in the over-working 'virtue' that demonstrates their loyalty to the company (which would lead to the approval of their superiors).

## WHY DO SENIORS PLAY SUCH A HUGE ROLE IN THE JAPANESE CULTURE?

The root cause of the above scenario can be traced back to the seniority system that exist in every corner of the Japanese society. Even though it is extremely difficult to find a true reason behind this complicated social phenomenon, one of the key origins discussed by the scholars is the Confucius influence among most East Asian societies. The core value of Confucius theory can be concluded as “relational hierarchy” that emphasizes the status-oriented relationship, loyalty to superiors, and obedience to the social hierarchy. (Zhang, Lin, Nonaka, & Beom, 2005). Another reason behind the strong seniority system is the historical trace to “clan”, which is latent in Japanese people’s daily life. “Clan” is defined as an intimate hierarchical (leaders and followers) relationship that appeared as early in the feudal period and remained until contemporary world. Researchers note that the “Japanese obligation and their reciprocals” mentality emerged from the hierarchical relationship (Kizaemon & Roberson, 1949).

Continued to remain in existence after the WW2, the hierarchical relationship mentality has been formed in every Japanese people’s minds under the education system. The relational hierarchy can be observed among junior high school students but is most salient among college students. Insufficient knowledge of other class standings would create challenges for a Japanese student to smoothly communicate with his/her peers (Enyo, 2013). Maintaining a good inferior-superior relationship is especially important for young graduates (kohai) because they have to rely on their seniors (senpai) for their future career. To further elaborate, it seems to be a mutual consent that the ‘Senpai’ would support the “Kohai’ with multiple tasks and, in return, ‘Kohai’ would have to return the favor with loyalty and respect (YOSHINAGA, 2017). It seems to be a perfect formula to maintain harmony in a society; however, this underlying phenomenon has caused various issues in the Japanese workplace.

### **The correlation of workplace environment and youth employees’ mental health**

According to the National Police Agency of Japan, 21,321 people suicided in Japan in 2017. 1991 people (9.3%) out of the 21,321 people (0.7% increase compared to the previous year), committed suicide due to “work-related issues”. In other words, over 5 people committed suicide every day because of work related reasons. (“平成29年中における自殺の状況 (2017 Japanese Suicidal Report)”, 2017, pp. 23-28). There are various reasons behind work-related mental illness that could potentially lead to the high suicidal rate: job related strain (i.e. long work hours with insufficient wage, poor-quality job, unclear job description) and poor psychosocial work environment (i.e. bad leadership) (OECD, 2018). Kuroda Sachiko and Yamamoto Isamu’s findings also backed up the statement that mental health has strong correlation with work environment, including long work hours with insufficient compensation, which is the most common situation for young workers. The qualitative survey proved that since the employee expectations are not met, there is a negative impact on the employees’ mental health (Kuroda & Yamamoto, 2015).

Recently, research proved that long working hours and heavy workloads related stress have increased among young millennials; evidence also showed that occupational mental disorders have been compensated more frequently among young workers in Japan (Yamauchi, et al., 2017). According to Mr. Ota Toshika, the Director-General for Policy Planning and Evaluation, Ministry of Health, Labor and Welfare of Japan, the dramatic increase of young millennials (30% for college students) leaving their position after 3 years of employment has been a major concern for the government. These phenomena exacerbate the situation of various social issues such as, NEET, young people who are neither working nor studying, and Hikikomori, young people who refuse to get out of the house. With insufficient support from the society, young workers are left stressed and lost leading the labor market ground to halt.

Both scientific and humanistic rationale support the fact that focusing on improving the working environment from the mental health perspective could eliminate the current issue of young millennials feeling unmotivated and stressed at work.

### 1) Government

From the government regulation perspective, Japanese government has been trying to improve the working environment by enforcing regulations on the pay system. The Japanese Abe government recently (2016) reformed the bill to prohibit long work hours, and to realize equal-pay (the cap of the working hours still remains 20 hours over the Ministry of Health, Labor and Welfare's guidelines of 80 hours of overtime a month). The goal of the act is to increase productivity and create a friendlier working environment. However, workers have been protesting due to the controversy of the bill: people are paid based on the hours they are "presumed" to work and some specialists can be exempt from the case (Adelstein, 2018). This could potentially let large corporations get away with paying their employees unfairly since there is still no clear guideline when it comes to working hours. Whether this bill is bringing a positive impact on the work environment is still unclear.

At the end of 2015, Japanese government made its first step to improve employee mental health by launching a Stress Check Programme. Instituted by an amendment of the Industrial Safety and Health Law in 2014, the Stress Check Programme has been implemented at least once a year at all workplaces by 50 or more employees (Tomoyuki, 2016). Unfortunately, no research has proven the effectiveness of the program.

### 2) Company

Slowly but steadily, the Ministry of Health, Labour and Welfare developed Guidelines for the Maintenance and Promotion of Workers' Mental Health (herein "Guideline") that promotes checkups and workplace improvements at a primary prevention level, mental health checkups and counseling for secondary prevention, and disease management and rehabilitation support at a tertiary prevention level. According to a survey among 11 major Japanese companies, the overall implementation of the program is 59%, even though the program implementation has a positive influence on lowering the employment cost (Iijima, Yokoyama, Kitamura, Fukuda, & Inaba, 2013). Statistics have shown the necessity of improving the implementation rate of the three level Guideline. Taking a closer look at the Guideline, in Article 71(1), companies are encouraged to examine the working environment by having specific measures, promote medical examination, and educate the workers on health-related topics by having sufficient instructors. In Article 19-3, the guideline emphasized on the importance to provide consultation and information in regards of health care. Covering the compensation of the state, Article 1 included the Work Accident Insurance Act. Other than the lack of implementation among Japanese companies, most articles focused on physical health; there is also no clear information on how companies should focus on mental health ("Industrial Safety and Health Act", 1972)

### 3) Third Party

According to the 2017 databook from The Japan Association of Charitable Organizations, labor organizations consist the smallest size of expense and employee's salary compared to 9 other legal entities. Furthermore, based on the portal site operated by Public Interest Commission, 2,213 public interest activities existed in December 2011 (total number of public interest activities in the figure 3 is 3,932 due to some organizations have dual/multiple interest). Out of the 3932 activities, activities that aim for enhancing welfare of workers only takes less than 2% (JACO, 2017). From the union's perspective, there is also a reduction of negotiation acts. It could mean that the relationship between the employers and employees has improved but it could also mean that the economy is static (Hiroyuki, 2012). Overall, there is a lack of active labor related organizations and activities in Japan.

There are also other challenges that the labor organizations are facing. After the harsh labor disputes that took place in the 1950-60s, the union had significantly increased its efficiency to become more impactful in companies. However, the union participation ratio has now descended due to the current company boundaries that prevent

union to gain its own right and power. Trust between the management and unions is weak since it took the management quite a bit of time to discover the benefits unions are bringing. An example of the weak relationship: when the management still pressures through the request of overwork, employees still comply, and unions do not take initiative to resolve, even if employees appeal for amendments. The rapid replacement and the insufficient union officials also created a decrease in the organizational strength of the labor unions. Union officials are usually selected among the senior employees in the company so that they have sufficient knowledge to handle labor related issues. After the economic crisis, companies no longer recruit as many official crew members; the turnover rate has inclined drastically. The lack of senior employees therefore creates the scarcity of the qualified union officials. The lack of motivation from the union members follows when the Japanese economy stance collapsed; union members are either reluctant or unable to devote their time to the union due to the large amount of workload (Hiroyuki, 2012). In sum, the effectiveness of the union became questionable and situation became a vicious cycle which led to the increase of disengagement of the labor unions.

Unfortunately, no evidence or sufficient data could prove that the mental health related labor issues are discussed in the non-profit organizations or labor unions.

#### **4) Individual**

The public awareness of one's own mental health as well as how they handle and how they perceive mental illness also impacts the effectiveness of mental health programs in workplaces. According to the World's Mental Health Japan survey, the major reason why Japanese people are reluctant to seek for or to drop out of mental health support is the lack of perceived need (63.9%); they often delay the treatment due to the belief that they can handle their own issues by themselves (Kanehara, et al., 2015). In a recent research related to the public perception of mental illness, statistics showed that there is a misconception among the general Japanese (over 80%) that depressive disorders can be treated and cured overtime. An example of the depressive disorder, Schizophrenia, is not well-addressed and understood among the public (Kasahara-Kiritani, et al., 2018). These two researches argue the fact that there is not enough education among individuals in regards of 1) the necessity to be aware of one's mental state and 2) the right to seek for professional advice.

It could be concluded that without improvement of the individual mental wellness awareness, the implementation process of the mental health program could encounter more barriers; therefore, be costlier and more time-consuming.

### **POSSIBLE SOLUTIONS THAT WOULD ALLEVIATE THE CURRENT SITUATION**

#### **1) Government**

As discussed, the government's stance on the issue is still ambiguous and hard to follow through from the company's stand point. Due to the complicated social norm and the rapid change of employment system, Japanese government is still at the stage of solving existing labor issues. It is understandable that since the Japanese employment system has become more diversified (companies are hiring full-time, part-time, contractors, etc.), it is hard to enact a bill that satisfies all parties (Mitsuru, 2005). Mentioned by Professor Taniuchi, another aspect that creates additional barriers to reform the policy is that the Japanese education, economic and legislative system are closely linked to each other (Taniuchi, 2014). The process of changing the current employment system would require the government to coordinate the three pillars (education, economic, and legislative) and generate short-term and long terms goals.

First, the lack of mental health literacy in the Japanese education has created a major concern to scholars. It is striking that current school health related curriculum textbooks contain nothing about mental illnesses (Ojio et al., 2013). Mr. Hiroshi also mentioned in his research about the importance of educating the college students related to mental health issues. However, mental health education should start as early as K-12. Even though the Canadian

mental health education curricula are yet to be perfect, reviews and analysis have been conducted to examine the proper ways to engage youth into the mental health topic since elementary (Rodger, et al., "Mental Health Education in Canada: Curricula Literature Review", 2014). By incorporating the definition of mental wellness and the information for support sources into the course content, students would obtain a basic knowledge on how to self-check his/her mental health state and further learn how to seek help. Second, the government would need to set up funding options to support companies and third-party organizations that strive for better workplace mental health benefits. For example, providing professional license and certificate scholarships, monetary incentives for companies to hire specialists and professionals, and sponsorship application for third party organizations to run campaigns. Last but not the least, the legislative system should be re-enforced. Programs including 'Stress Check Programs' and 'Guidelines' for companies to provide a safe workplace should be mandatory among all companies. Sanctions and recovery procedures should be in place when violation occurs. Furthermore, age restriction should be abolished so that mid-career workers are free to switch companies; then the obligation for employees to stick with one company could be lifted (Hiroshi, 2002).

## **2) Companies**

The 'Guidelines', created by the Ministry of Health, Labour and Welfare, includes three levels that gives companies a very basic foundation to strengthen their employee benefit plan by adding mental wellness aspects. There is no clear evidence that the Guideline is thoroughly carried out by the Japanese companies even though it has been proven to improve the company's financial performance. Other than the government enforcing the acts, there should be a third party that gives company's the guidance for implementing the three levels and educating the human resource department on the how to incorporate the 'Guidelines' into their company. Furthermore, the effectiveness of the 'Guidelines' should be regularly reviewed and adjusted to ensure employees are really benefiting from implementation.

According to the Gallup Research, inadequate benefit is one of the top five voluntary turnover reason. Even though Japanese employees still have the mindset of staying in the company, the production rate and overall performance becomes low when employees have a bad mental health state. Both Kanto and Kao's research and the Total Reward Scorecard by WorldatWork have detailed employee benefit packages that could give companies a clearer structure to form their employee benefit package; they equally stated the importance of 'Health and Wellness' when it comes to retaining talents. Action items and strategic plans should be reviewed by the third party and the human resource team to customize the company's working culture and need; employees should have an anonymous platform to be able provide constructive feedback on the created employee package.

A possible action item a Japanese company could take is to leverage the usage of the mental health benefit by adopting e-mental health toolkit created by Mental Health Commission of Canada. This gives the Japanese employees an option to seek mental health support in private through electronic communication technologies. Few non-profit organizations such as TELL Japan does provide hotline services to provide counselling advice; however, the overall experience could be improved by adding more features such as support groups and more information and forums in regards of mental wellness.

## **3) Third Party**

It is inevitable that issues created by the diversified workers would continue to exist as long as the union remains under the company (Mitsuru, 2005). As it is the most important part for the labor unions to gain authority and act the rights on behalf of the employees instead of being directed by the management, the most straight forward way is to become independent and form the union based on industry categories. By doing so, companies would also have the chance to clearly indicate the union representatives' tasks and need not worry about the lack of talent. Mentioned by Hiroyuki, having touch points with the management to better cater to the company situation is still important (Hiroyuki, 2012). Like how unions are pursuing their rights in Canada, regular conference is held, and

each parties' representatives are voicing out to create win-win situations. Most importantly, unions should align and guard the social interest by examining management behaviors.

The lack of participation and number of labor's rights' oriented non-profit organizations may reduce the social pressure applied on companies when they fail to meet expectations. The causes of these situations are the lack of trust from the public and insufficient support from the government. Raising public awareness could be the first step existing NPO could take; i.e. recruiting a strong public relations team that is responsible for hosting campaigns, educational seminars, etc. The final goal is having enough power to bring justice to the employees such as the sanction against Pacific Blue Cross in Canada. Potential partnership with companies with a more mature organizational structure could also be a choice for the Japanese NPOs to consider.

## CONCLUSION

The causal relationship between mental health and youth employment is multidirectional, therefore, to improve the situation would require the cooperation between government, companies, third parties and the general public. Due to the limited time and resource, the survey doesn't have enough validation since the sample size and qualitative data are insufficient. Mental health issue is also a sensitive discussion topic that often targets vulnerable group; it is hard to justify the accuracy of the research result as people may still choose to hide their true thoughts. At this current stage, scholars should focus on a very specific aspect of the issue since there are not enough research bases to link all the issues together. During the consultation process with Professor Robert Glenda, she suggested that in order to gain a wholesome few of the topic, qualitative data should be collected from conducting interviews. This will help inform us about the gap between social context and employee needs. Future research interest should try to understand the employees' mindset and barriers thoroughly, analyze company case by case, and break down each solution proposal then come up with a tangible plan that each party can put into practice.

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APPENDIX

Survey questionnaire:

[https://docs.google.com/forms/d/1CK9-PjAT11h-DSLvH6vMaFoy\\_jAZky2BsXwGMz\\_v-sY/edit](https://docs.google.com/forms/d/1CK9-PjAT11h-DSLvH6vMaFoy_jAZky2BsXwGMz_v-sY/edit)

Survey Result:

[https://docs.google.com/forms/d/1CK9-PjAT11h-DSLvH6vMaFoy\\_jAZky2BsXwGMz\\_v-sY/edit?usp=sharing](https://docs.google.com/forms/d/1CK9-PjAT11h-DSLvH6vMaFoy_jAZky2BsXwGMz_v-sY/edit?usp=sharing)

Figure 1. OECD Job quality and labour market inclusiveness: key indicators for Japan 2016-2017

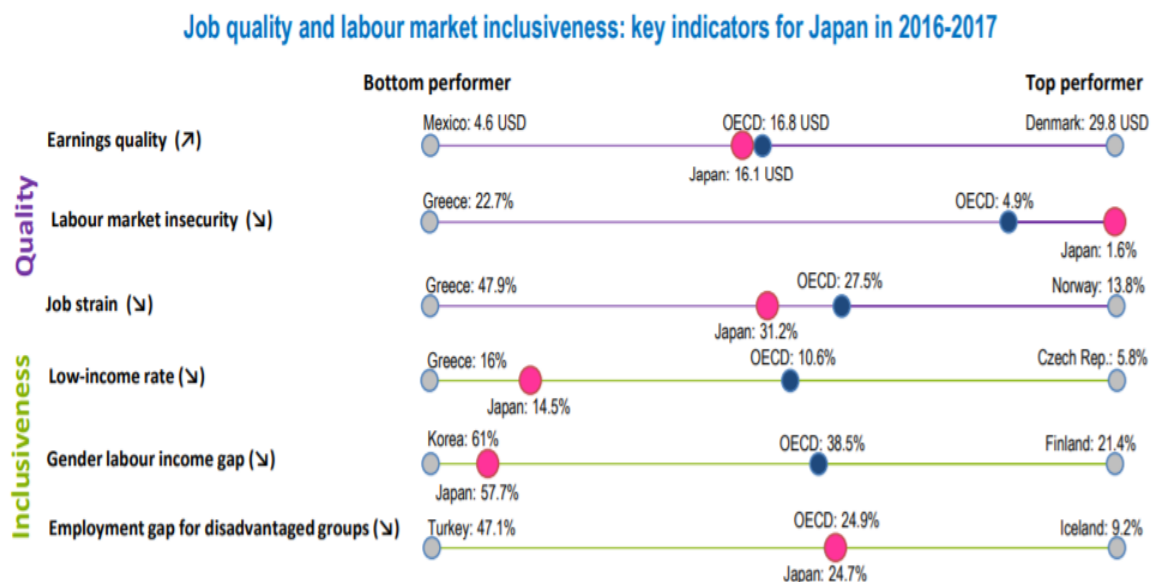


Figure 2. JACO The size of expense and employees salary: lack of labor organization expense and employee salary

### The size of expense and employees salary

(billion yen)

Status of legal entities	Expense	Employees Salary
Public Interest Corporation	20,338	3,679
Community based group	1,811	40
Specified Non-profit Corporation	738	112
Labor organizations	540	119
Medical Services Corporation	33,940	8,880
Private School Corporation	10,876	3,301
Religious Corporation	3,651	655
Social Welfare Corporation	18,300	3,597
Industry group	6,877	935

Source: Mitsubishi UFJ Research and Consulting (2008)

Figure 3. JACO Public Interest Commission by Area of Activities. Lack of activities that aims to enhance the welfare of workers

### Distribution of PICs by Area of Activities, 2011

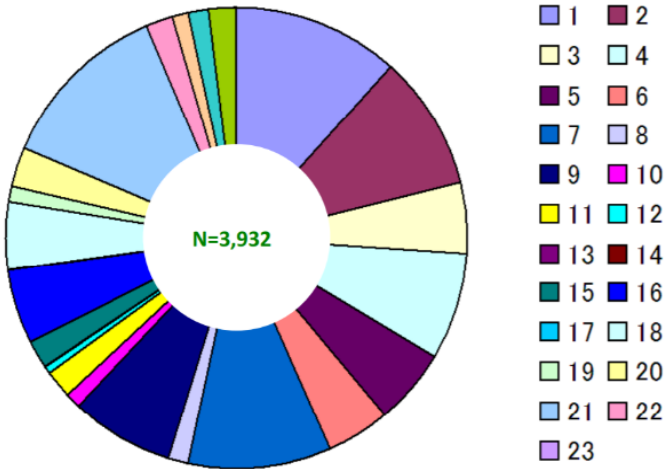


Figure 4. Reward Scorecard by Kantor, R and Kao. T – Retrieved from Professor Richard Cotton’s slide

Table 1.—Rewards Available Through Work and the Workplace

<p><b>Direct Financial</b>            Base salary            Bonus            Cash profit sharing            Stock programs            Employee referral program (cash rewards for successful hires)            Suggestion programs (cash for ideas)</p> <p><b>Indirect Financial</b>            Adoption assistance            College savings plan            College tuition and fees            Commuter reimbursement (pre-tax)            Company cafeteria            Company store            Dependent care            Dependent scholarships            Discount tickets            Educational assistance            Fitness facilities discounts            Health and welfare benefits            Incremental dependent care (travel)            Insurance via payroll deduction            Long-term care insurance            Matching gifts            Relocation program            Retirement plan(s)            Saving Bonds via payroll            Deductions            Scholarships            Stock purchase program            Student loans            Tuition reimbursement</p>	<p><b>Work</b>            Autonomy            Casual dress policy            Challenging work            Constructive feedback            Covered parking            Ergonomics/comfortable workstations            Flexible work schedules            Free parking            Interesting work            Job skills training            Modern, well-maintained workspace            Open communication            Performance management            Promotion opportunities            Safe work environment            Suggestion program (no cash reward)            Telecommuting opportunities            Uniforms/uniform allowance            Workshops</p> <p><b>Career</b>            360° skills assessment            Career advancement            Coaching            Lunch-and-learn series            Management development            Mentoring program            Open job posting            Pre-retirement counseling            Service awards            Training and development</p>	<p><b>Affiliation</b>            Athletic leagues            Community involvement            Diversity programs            Employee celebrations            Employee clubs            Professional associations            Seminars            Spring and holiday parties            Support groups            Volunteer connection</p> <p><b>Other/Convenience</b>            ATMs onsite            Car seat vouchers (for newborns)            Carpooling/van pooling/shuttles            Child care resources            Credit Union            Employee assistance program            Employee card and gift shop            Expectant parent program            Legal services            Medical center            Military deployment support            Online services            Onsite food services            Onsite flu shots            Onsite dry cleaning pickup            Onsite Post Office            Personal travel agency            Wellness program            Worldwide travel assistance</p>
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Source: Kantor, R. and Kao, T. (4).

Figure 5. Introduction to the E-Mental Health Toolkit

## What is e-mental health?

The term e-mental health refers to the use of the internet and other electronic communication technologies to deliver mental health information and care. E-mental health services are an effective and complementary option to traditional face-to-face mental health support. By providing accessible and convenient assistance, e-mental health can play an important role for patients seeking help [1].

Technology is evolving and new innovation comes into the market at a very fast pace. E-mental health can include but are not limited to:

- instant messaging and video-based counselling services (also known as telehealth or telepsychiatry)
- consumer information portals
- online support groups, forums and social networks
- mobile phone applications
- online assessment or diagnostic tools
- blogs and podcasts
- therapeutic gaming programs, robotic simulation and virtual reality systems.

# China's Debt is a Global Problem

Ryan Grills

## ABSTRACT

China's presence as the catalyst for global growth has caused credit levels to rise sharply, causing government officials and institutional investors to take notice. China has been able to sustain their current level of debt, because of their high savings rate, strong growth rate, account surplus and low external debt, but those features are now weakening. As their growth rate slows, the existence of high levels of moral hazard has become increasingly evident. Large surplus of capital and the mentality that the central government will always cover the debt of local governments and state-owned enterprises, has led to rushed due diligence and investment in assets with little to no potential for returns. This paper starts by providing a background on how China became a highly leveraged nation, an overview of China's credit developments and outlines their current credit size and structure. The research focuses on the debt taken on by the non-financial sector, and identifies key vulnerabilities in the economy and potential for systemic risk. This is followed by what the research findings means for the global market and recognizes key markets at risk. This paper concludes by making policy recommendations that will help increase China's credit sustainability and assist in their transition from a phase of rapid growth to a stage of high-quality development.

## PROBLEM

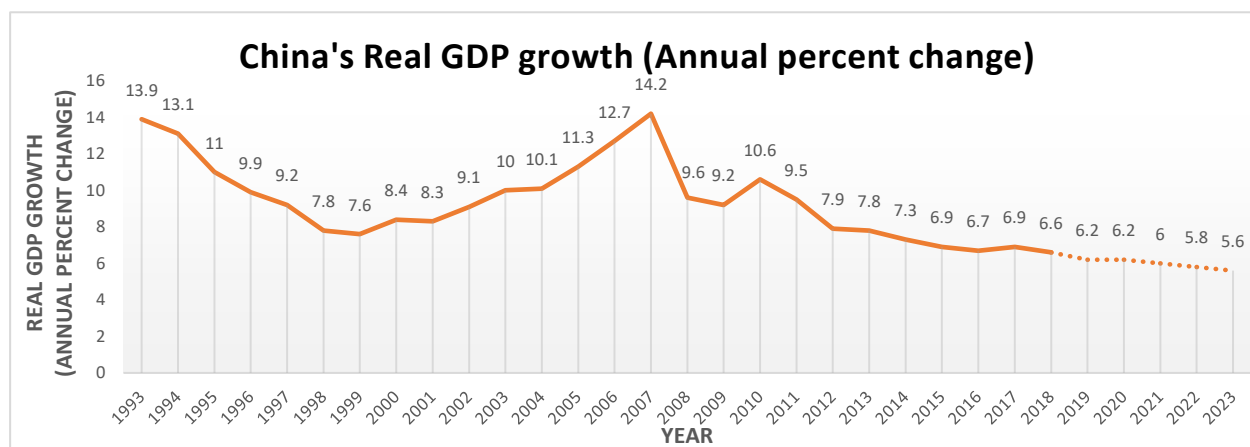
Over the last decade, China's emergence in the global market has been nothing short of impressive. They have had a continuous period of strong growth and are shifting their economy from one that is centrally planned, to one that is market based. According to the World Bank, China has been the largest contributor to global growth since the global financial crisis in 2008. ("World Bank in China" 2018). Among all of their successes over the past decade, there remains a great concern that has global leaders and institutional investors taking notice. In order to grow their economy and raise their population out of poverty they have had to take on a lot of debt in a very short period of time. There are considerable concerns about whether China's rising leverage is sustainable and the situation does not appear to be getting better. When a country undergoes rapid credit expansion, it is often associated with rushed investment decisions, cutting corners on their due diligence and an easing on their lending standards. This suggests that lending would be provided to less credit-worthy borrowers or towards assets with a poor return on investment, which adds significant stress to their financial system.

China is able to take on more debt than most other emerging markets, because of their size and established cushions to withstand higher credit. Those cushions included a strong growth rate, account surplus and low external debt. China's borrowing strategies have been offset by a growing economy, as the rise in GDP exceeds the interest payments. They are essentially betting on the growth rate of their economy to cover their leverages when they become due and it has been paying off. Concerns have been rising because the growth rate of their GDP is now slowing and we are seeing their strategy becoming obsolete, as lending grows faster than the economy. In 2007 China had a peak annual percentage change in real GDP growth of 14.2% and has steadily declined to a projected percent change of 6.6% in 2018. Looking at Figure 1, we can see that this percentage change in growth is expected to decrease to 5.6% by 2023. For the first time since China joined the World Trade Organisation in 2001, they had a current-account deficit in the first quarter of 2018. ("China's vanished account-surplus" 2018). China's once low

external debt is also on the rise, increasing by over 400% since 2008. (China Gross External Debt, 2018) The unique features of China’s economy are weakening but it is unclear just how vulnerable they are.

As China’s economic growth continues to slow, and an intense trade war with the US has no signs of going away anytime soon, it becomes very important for them to create a clear and direct plan to approach their debt situation. Their policy makers are aware of their current economic situation but it is important that they take the warning signs seriously. Their government has been dedicated to the optics of an economy that is invincible to economic shocks but continuing this approach would be very naïve on their part. The first step will be to get a better understanding on how large the debt implications are, before any predictions or recommendations can be made. China must impose the correct fiscal policies to unravel their debt load, without becoming a drag on the global economy or starting the next global financial crisis. This is not a problem that lies solely within their borders, governments around the world and international investors will watch closely to how this issue is addressed.

**Figure 1: China’s real GDP growth rate**



(IMF DataMapper: China real GDP growth, n.d.)

## BACKGROUND

### The Beginning of the Debt

High levels of debt is a relatively new phenomena for China. Prior to 1980, China’s policies were focused on self-reliance and they had virtually no external debt. They were very restrictive when it came to external borrowing. An era called the “golden development phase” began in the 80s and even during this time debt was never a great concern. This was because almost every year GDP growth was higher than the increase in debt. In 1997, they were faced with the Asian Financial Crisis, when approximately 40% of the loans held by the Chinese banks defaulted or were close to default. (Ma, Fung, 2002) Asset management companies were established to buy the bad debt in return for equity stakes. This crisis was relatively easy to handle because they were going through a period of fast economic growth. Up until 2008, debt and GDP growth grew together and when one fluctuated so did the other.

China’s buildup of debt began in 2008, with a large stimulus package of \$586 billion over two years or 13.4% of their GDP. The package was financed by three separate sources, \$173 billion came from central government spending, \$180 billion came from local governments and bank lending made up the remaining \$233 billion. (INFRA Update, 2010) This package was established in order to escape the financial hardships felt by the global economy in financial crisis of 2008. During a time when the advanced economies saw negative GDP growth, China was able to keep their growth rate at a strong 9.2%. (“Real GDP Growth” 2018). Over one third of the funds of the package was to be allocated to investment in infrastructure, in the form of mega projects. Beijing ordered local governments to build roads, bridges and other infrastructure to keep the economy pumping and workers in jobs, at a time when

many economies were grinding to a halt. In return for assuming the lead on road, railway and other infrastructure projects, they were granted lucrative credit and loose oversight. This created a large influx of capital for the local government and state owned enterprises but created a mentality of poor fiscal responsibility.

### **China's Credit Developments**

China's rapid outbound investment and rising indebtedness have created vulnerabilities in key sectors of their economy. To narrow the scope of the research, this paper will focus on the debt taken on by the non-financial sector. This is debt held by its real economy, which consists of households, government agencies, non-profit organisations, or any corporation that is not in the financial sector. Credit to the non-financial sector through banks, non-bank financial institutions and the debt securities market are considered. To fully understand China's public finance and fiscal policies, it is important to understand the role of local governments as an integral piece to China's large scale regional infrastructure projects and are tasked with the provision of social services. They account for half of general government revenue and over 80% of general government expenditure. (Lam & Wang, September 2018) This shows a lack of return on investment and structural revenue shortfalls relative to their spending needs.

China varies from western nations in the sense that they have what they call a "socialist market economy". They have approximately 150,000 state owned enterprises, with a third of them being owned by the central government and the remaining are owned by the local governments. These companies have a significant presence in the economy and account for approximately 30 to 40 percent of GDP and 20 percent of total Chinese employment. ("China - 7-State Owned Enterprises" 2017). They are considered to have an upper hand over private companies because they receive favoured access to China's assets and see policies created in favour of their long-term success. These companies limit foreign direct investment because of the belief that they would not be entering a market where all stakeholders are treated equal.

In December of 2016, the Chinese Government released their 2017 priorities for their economy and deleveraging was one of them. It had become clear to senior officials that the economy had structural problems and an effort needed to be made before things got even worse. Despite this public commitment to deleveraging their debt, in 2017 China's debt to the non-financial increased by approximately 19% (Total credit to the non-financial sector, n.d.). The priorities for 2018 were focused on resolving risks, and promoting high quality development. Resolving risks would be through supply side structural reform and other government reform to solve their structural problems. High quality development was deemed to be the "indispensable foundation for sustainable and healthy economic development". ("China's leaders" 2017) This is not just about becoming a more innovation driven economy but also reducing inequality, improving social services and education. It is unclear if these strategies will build off the 2017 strategy of deleveraging or lesson its importance as long as it leads to high quality development.

The debt that is known to exist is raising concern, but the unknown debt could pose an even larger issue. Before the correct policy changes can be established, it is necessary to check how much debt is currently being held off of the budget. Hidden debt held by Chinese local governments has rapidly increased in recent years and could now be worth as much as \$5.8 trillion USD, according to the S&P Global Ratings. (Lam, 2018) To better understand how much hidden debt is currently out there, an audit was commissioned by the central government and the results should be made known in 2019. The audit will cover hidden debt from state-owned enterprises, public and private investment schemes and local government. This is not the first audit to uncover hidden debt, in 2014, an audit was performed on the local government's finances and 15.7 trillion yuan worth of hidden debt was uncovered. (Watts, 2018)

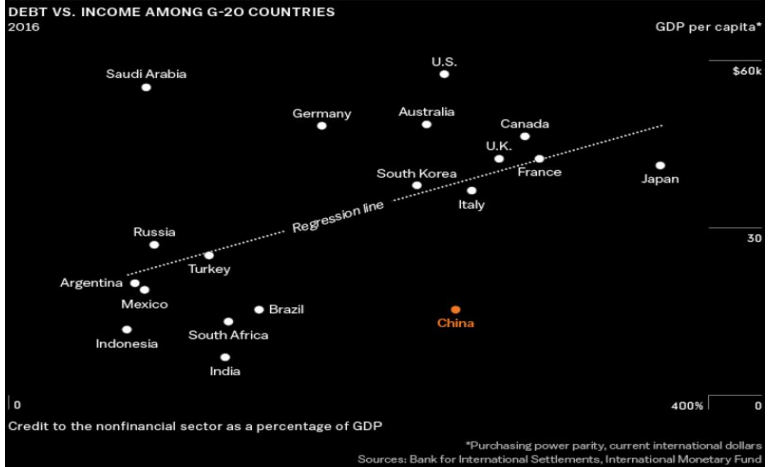
### **The Size and Composition of China's Debt**

China's credit to the nonfinancial sector as of the first quarter of 2018 was \$35.11 trillion USD. (Total credit to the non-financial sector, n.d.) As a percentage of GDP it has increased from 141% in 2008 to 256% in mid-2017. China's debt-to GDP is not vastly different then Canada's but the first factor that sets them apart is how fast the debt has

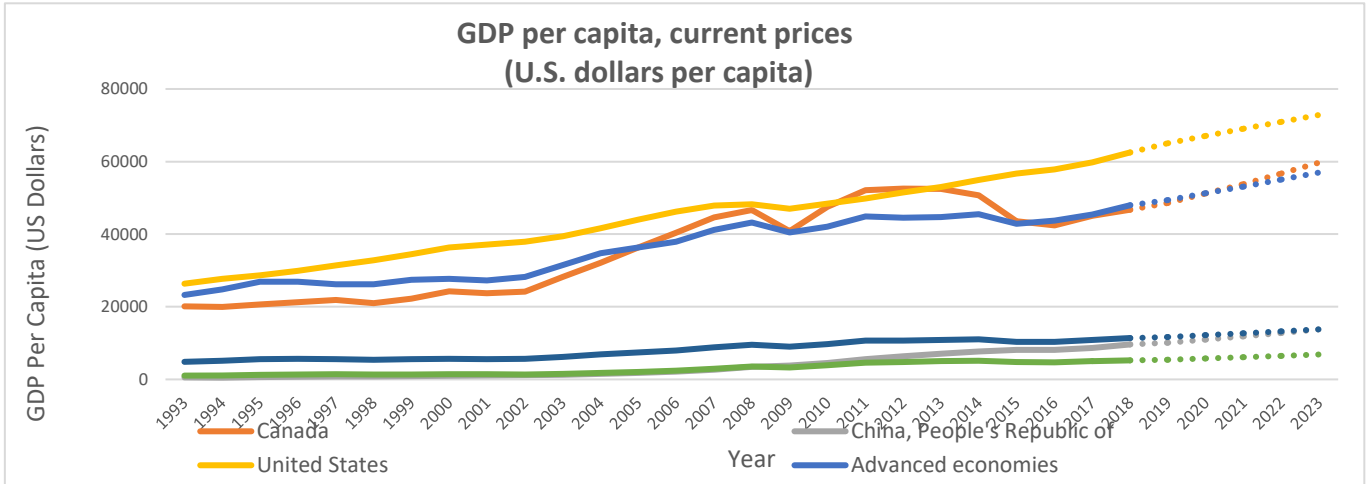
been accumulated. Over the past five years, China’s debt-to-GDP ratio has increased by 54% (Fielding, Jimenez, Orlik, & Wan, 2018), and over that same time Canada’s debt-to-GDP ratio has risen approximately 6%. (“Canada: National debt” 2018) In previous cases, countries who have taken on debt at a very fast rate it have rarely been able to sustain it. An IMF report on China’s credit boom identified 43 credit booms when debt-to-GDP increased by over 30% over a period of five years. Of those 43 cases, only five of them did not end with large decreases in economic growth or financial crisis. (Chen & Kang, 2018) Credit expansion the size and speed of China’s have surpassed what would be considered “safe” levels. In 2010, before China’s debt had reached the levels we see today, a journal article in the IMF Economic Review made the argument that “credit growth is a powerful predictor of financial crises”. (Orda, Schulkarick, Taylor, 2011) We have seen evidence of this in the past, the most relevant case being the 1991 Japanese financial crisis. The IMF supported this argument, “China’s credit boom is one of the largest and longest in history. Historical precedents of ‘safe’ credit booms of such magnitude and speed are few and far from comforting”. (Chen & Kang, 2018) When a governments borrowing is not accompanied by enough revenue generation and economic growth, then we see an increased pressure to restructure or reduce their debt.

The next factor that separates them from the world’s top economies is China’s GDP per capita, which is only a third of Canada’s and a quarter of the U.S’s. (Fielding, Jimenez, Orlik, & Wan, 2018) Looking at figure 2, representing the debt vs income of the G-20 countries, we can see that China is an outlier amongst the other nations. Their debt-to-GDP would be less of a concern if their GDP per capita was on par with those of the advanced economies. Figure 3 shows us that China is considerably below the GDP per capita of the advanced economies and has only just reached the world average. This gage on the wealth of a countries population is one of the key reasons why China is still considered a developing economy. High income economies are able to withstand higher leverage owing because of their stronger repayment capacity. It is clear that their population is not set up to withstand a financial downturn without significant help from the government in the form of social services. China’s low GDP per capita will make their current debt more challenging to pay off, when compared to the more developed nations they are trying to compete with on the global stage.

**Figure 2: Nonfinancial sector credit vs income of G-20 countries**  
(Fielding, Jimenez, Orlik, & Wan, 2018)



**Figure 3: GDP per capita comparisons for China**



(IMF DataMapper: GDP per capita, n.d.)

China's non-financial corporate debt is unique in that 60% of the total liability is held by state-owned enterprise, which accounted for 115% of GDP in 2016. (Li, 2017) When a state-owned enterprise issues a bond it is considered a corporate bond but since they are owned by the central and local governments this is just hidden government debt. This changes the label of the debt but does not reduce the contagion risk. They have encouraged these companies to borrow large amounts of funds and use them towards large investments, in an effort to continue the growth of the economy. The problem is during the borrowing binge these state-owned enterprises invested in inefficient assets, with minimal return on investment. There is a strong presence of moral hazard within these firms because of the mentality they will be a continued influx of capital from the government and they will not incur the burden of failed investments. They are incurring debt that will be later paid off by the government. This is will be discussed in greater detail later in the report.

The Belt and Road Initiative adopted in 2017 is a prime example of a debt intensive plan to increase the Chinese footprint on the global stage. The envisioned plan is to invest as much as \$8 trillion over 68 different countries in the form of infrastructure projects. (Hurley, Morris, Portelance, 2018) The transparency around reporting on BRI is limited but some of the most discussed projects include; rail connections from China to London, the largest port in Sri Lanka and the China-Pakistan Economic Corridor, The financing will come from China's policy banks, which are the China Development Bank, the Export-Import Bank of China and the Agricultural Development Bank of China. The idea is for these projects to assist with shared global growth, while at the same time aligning with China's key economic, foreign policy and security objectives.

## RESEARCH METHODS

This research found in this report consists of both primary and secondary data. The primary data came from discussions with Dr. Michael C S Wong, who is an Associate Professor of Finance at the City University of Hong Kong. This was an opportunity to find out key information from someone who has focused their research on the Asia-Pacific Market. The questions focused on China's the effects of changing monetary policy, key vulnerabilities in their economy and exposure to external shocks. The first question asked was if China's high debt levels will make it more difficult for them to recover from the next financial crisis as quickly as they were able to in 2008? Next we discussed how China's growth momentum will be effected by local governments being forced to implement financial consolidation to control their debt size, which will unavoidably trim their investment in infrastructure. These were the key talking points discussed in this report and the rest of the interview was to gain a better understanding on China's debt composition and history.

There is considerable research performed on this topic because the importance it has on the global economy. The research focused on complying that data into an informative report on the current status of this issue and to provide recommendations for the Chinese policy makers. The secondary data in this report came from a collection of agencies reports, financial articles and academic journal articles. The agencies reports came largely from the World Trade Organisation, International Monetary Federation and the World Bank. These three sources play a vital role in the global economy and have a large composition of relevant data on this topic. The research focused on news articles from the most respected and reliable financial from media outlets. Those outlets included Bloomberg, the Economist, the Financial Times, the Business Insider and the South China Morning Post. The library databases of the University of Victoria and the City University of Hong Kong were used as the sources for journal articles. This provided access to similar studies, to understand areas that have not been studied as thorough. Since this situation is continuously changing, the journal articles showed how things have changed year to year and what recommendations did not work as expected.

## RESEARCH FINDINGS

### Key Vulnerabilities

Reducing the debt size held by local government, while still maintaining China's growth momentum will take decisive policy action. It is important that they are able to balance the promotion of reasonable economic growth, with fiscal reform that may erode economic performance in the short-term. If the Chinese central government force the local governments to implement financial consolidation to control their debt, they will undoubtedly trim their investment in infrastructure which has been a key factor in China's growth. Dr. Wong discussed their reliance on state-owned enterprises to support the local economy. The companies have benefited through the infrastructure projects and their debt repayments rely on continued revenue. China will be challenged with keeping its people busy and employed, during slow growth or a decline in exports. In order to safely shrink the debt held by local governments, it is imperative that China reduces their reliance on fiscal injections in the form of infrastructure in order to ensure it is no longer the main catalyst for economic growth. How this is done will be very important in order to prevent companies from defaulting on their loans and citizens losing their jobs.

China must focus on shifting their economy away from domestic consumption, and become less reliant on debt-intensive heavy industry and exports. The central government is trying to shift the focus of the economy to high quality development. According to Dr. Wong, China has set up new private equity funds to develop technologies, in an effort to add new life in the economy. These funds are part of the "Made in China 2025" policy, which looks to shift their dependence on low cost manufacturing, to technology fueled growth and high end products. The policy outlines ten priority industries, which include aerospace and aviation equipment, new information technology, and energy savings and new energy vehicles. (Pham, 2018) According to the South Centre, companies that focus on the labour intensive textile industry tend to have higher debt and are more likely to have non-performing loans. Their report states that "firms in the traditional sectors like mining, textiles, construction, real estate, public administration etc. borrowed the most, accounting for 64% of total loans in recent years." (Li, 2017) China's debt instability is a result of their dependence on these industries.

Of the 68 countries who are part of the Belt and Road initiative 20 of them had no higher than a B rating by the three primary rating agencies, S&P, Moody and Fitch Ratings. The Center for Global Development found that eight of those countries are at a high risk of debt distress due to further BRI-related financing. (Hurley, Morris, Portelance, 2018) Among that list is Pakistan who has been at the center of the initiative, with an estimated \$62 billion in planned projects. These projects require a large amount of debt for relatively young and developing economies to take on. In July 2017, China agreed to a debt-for-equity swap and a 99 year management contract for the Hambantota Port in Sri Lanka, after they were unable to service their \$8 billion loan. (Fernholz, 2018) There are only so many projects China would be able to withstand doing these kind of swaps before the lack of repayment becomes a problem. If these countries or others were to default on their Chinese backed loans, then this will add further stress to the Chinese market.

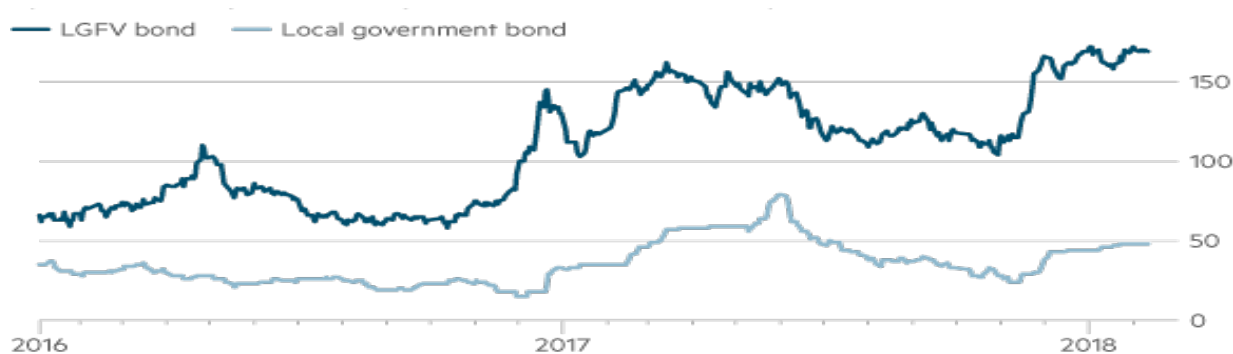
### Systemic Risks

China's economic system is one that critics argue is broken because of the outlooks held by policy makers and government officials. The Western world's overall sentiment towards the Chinese economy is pessimistic because of the rising debt-to-GDP and their vulnerability to strong adverse shocks. The IMF has stated that China's credit growth is on a dangerous trajectory, and if they are to continue on this path there is increasing risk of "a disruptive adjustment and/or a marked growth slowdown". (Chen & Kang, 2018) The systemic risks arise from unsustainable policies that have created a broken attitude amongst government officials. Yin Zhongqing, the deputy director of the financial and economic affairs committee at the National People's Congress has warned that, "local government officials never worry about repaying debts, they only worry that no one is lending them money". This shows a system with significant moral hazard and is based on limitless lending, with no repercussions for poor management of funds or minimal return on investment. He continued by saying "all local governments are part of a centralized

authority that will eventually be bailed out” (Tang 2017), which emphasises their lack of financial constraint. It is clear the system as a whole is broken and the mentality of the policy makers needs to change to a more economical outlook.

Another warning sign is the number of defaulted publicly issued bond repayments so far in 2018. Up until October, there has been 48.4 billion yuan worth of missed bond repayments. This is significantly higher than the 17.7 billion seen in all of 2017. (Lam E. , 2018) Although this is still a small percentage of the overall non-financial corporate bond market but this recent uptick is an area of concern. As state-owned enterprises see less access to funding through China’s commitment to tightening their local government spending, these companies will get squeezed. An economy with less emphasis on infrastructure projects will cause concern for companies in the construction, engineering and other related industries. Looking at figure 4, we can see that the distance between the bond yields of local government financial vehicles and local government bonds issued by the central government is growing. This shows that investors no longer believe they have the full backing of the local governments.

**Figure 4: Spread over China’s 5-year Ministry of Finance Bond**



([“As local Chinese governments come clean on debt” 2018](#))

In 2017 one of the largest rating agencies, S&P global ratings lowered China’s sovereign credit rating from an AA- to A+ and stated risks from soaring debt as the reason. An A rating still considers a strong potential to meet its current financial commitments but it differs from the higher-rated categories in that they are “somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions”. (Standard & Poor’s Ratings, 2011) At the same time the lowered the credit ratings of HSBC China, Hang Seng China and DBS China Ltd because of their considerable exposure in China and the unlikeliness that they would be able to avoid their own default if China was to enter a debt crisis. (“S&P Cuts China’s Credit Rating” 2017) Currently China’s sovereign credit rating ranks 50th amongst S&P’s global ratings, showing they have a long way to go before they are considered to be a stable economy among the top nations. (Cullinan, 2018) This shows that institutional investors have taken notice regarding the systemic risk that lies within the Chinese market.

### Implications of These Results

It is no longer feasible for China to grow out of their debt problem as they have done in the past. The debt has grown too large and the growth rate of the once roaring economy has slowed to more reasonable levels. The old model of fueling the economy through credit expansion needs to be developed into investment into assets and industries with greater returns on investment to promote a sustainable level of growth. The implications of drastically low economic growth would be felt throughout their population. China does not have a good social security system in place for economic downturns, which could be disastrous for a large portion of their population. Drastically low economic growth would also reduce the confidence in the economy and lead to outflow of capital, further weakening the financial stability of the country.

## WHY WORRY ABOUT CHINA'S DEBT PROBLEMS?

### Global Market Implications

A China Debt problem would have a significant affect on the global market because of the importance they have had on global growth over the past decade. As mentioned previously China is the largest single contributor to global growth over the past decade. They are the world's largest exporter and the second largest importer. The United States, Japan and Germany are other notable global market drivers and they are among China's top five trading partners. ("China exports, imports" n.d.) Countries dependent on commodity exports such as Canada, Australia, Brazil and Indonesia would see their own GDP's impacted as demand for their exports slows. If China's credit bubble were to burst then the renminbi (official currency of the People's Republic of China) would depreciated sharply in response, as the government issues more currency to keep the economy solvent. This will cause a deflationary impact on the world and lead to a decline in China's share of global GDP.

China has established themselves as one of the largest lenders to fuel global growth and that could be drastically reduced given any significant economic downturns. A debt crisis in China would be the end to the Belt and Road initiative, which would be a big loss for emerging markets looking for assistance in growing their economies. China's presence as one of the largest donors to the World Bank would no longer be possible, putting greater pressure on the advanced economies to cover the difference. Removing China as global financier could have contagion effects on the global market and lead to further economic crisis's in emerging markets.

### Key Markets at Risk

Those countries who rely on China for trade and financial support would be hardest hit by a financial crisis in China. As a nation they would look inward and reduce their demand for foreign commodities. The top five countries they import from are; Korea, Japan, United States, Germany and Australia. ("China exports, imports" n.d.) These nations are vulnerable to an economic slowdown in China, as well as the realignment of their economy. Exports to China accounted for 24.8% of South Korea's exports in 2017, with semiconductors being the main products. According to the Korean International Trade Association, full-blown trade war between China and the U.S would lead to a 6.4% drop in their exports, a loss of \$36.7 billion. (Lee, 2018) This shows their reliance on the China market, and exposure to a China financial crisis. China accounted for 27.9% of Australia's exports in 2016 and they focus in raw materials such as coal and ore. (Australia's trade in goods and services, 2017) Their economy is very vulnerable, as China looks to reduce their investment in large scale infrastructure projects and focuses on cleaner energy. The United States have to be conscious through their trade wars with China, that they don't go as far as pushing China into a debt crisis. Their claim that Chinese trade policies are unfair for their nation are not unjust, but their policies favoring big corporations are as much to blame as the Chinese subsidies. Corporate America is vulnerable to China shifting towards a consumer-driven economy in order to refocus their economy and reduce their credit reliance. As Chinese companies rise in the development of advanced goods, the top American companies will lose out on a market that accounts for a significant amount of sales and growth potential.

The countries that have been beneficiaries of China's economic support will also be affected by a debt crisis in China. Starting with the countries within the Belt and Road initiative, in the case of further cases of countries being unable to afford their debt repayments, China would show less leniency towards restructuring and debt-for-equity swaps. Pakistan is at the forefront of the program and is seen as the most vulnerable. Those countries looking for support who do not have projects started yet may see the opportunity for capital injections delayed or be taken away all together. China has come to the aid to emerging markets when the Western nations have said no, most recently helping Turkey through their financial crisis. Countries going through financial difficulties will have to rely solely on the IMF of assistance, if China is to enter an economic depression.

## POLICY RECOMMENDATIONS

### **Improve Liquidity**

China currently has the third largest bond market in the world but the presence of foreign investors is limited. Developing a robust local government bond market will improve local government financing and capital market developments. In order to improve the liquidity of the market, they must broaden the investor base to allow for a greater influx of capital from institutional investors. In order to accomplish this it will be necessary to increase investor confidence. As previously stated China's sovereign credit rating of A+ by S&P shows investors are cautious regarding their debt situation. Investors will demand higher return to compensate for their increased risk. Clear policy actions and increased transparency will help to build confidence within the rating agencies.

Another method for improving liquidity would be to promote the swap of debt for equity stakes to institutional investors. This would further allow for a heavily indebted corporate sector to lower their leverage ratios. This would also align with their move to allowing the economy to become more market driven and less government determined. In 2016, China started allowing the big four state-owned banks to set up asset management companies to exchange the debt of companies facing temporary difficulties or equity stakes. By 2017 the banks converted \$149.2 billion of debt held by over 70 state-owned enterprises into stock holdings. (Yeung 2017) The issue is this there is significant moral hazard to this system, because the banks know they are protected and it is the taxpayers who will see the costs. It defers contagion risks to a later date but the risks still remain within the Chinese economic system. The banks also forfeited the business opportunity to receive interest and principal payments. In order to improve this program, it is necessary to improve the interest of the private sector investors, especially those outside of China. Currently the banks are selling the bad debt at face value and swapping it for equity at the same value. (Yeung 2017) This signals that state owned enterprises are unwilling to accept losses from government assets. Private sector investors will want to see debt offered at a discounted rate in order to be enticed into the deal. If the prices for debt to equity swaps is allowed to be set by the market, then this will reduce the contagion risks in China and improve the liquidity of the state owned enterprises.

### **Consolidate Local Government Debt**

In an effort to clean up the balance sheets of local governments, China needs to ensure their financing quota is large enough to include all off-budget LGFV fiscal spending within the budget. An effort has been made to reduce the reliance on off-budget spending but tighter fiscal responsibility is still needed. This will improve the resiliency of the local government bond market and improve their transparency to all stake holders. Institutional investors are worry about the Chinese market because the ambiguity associated with their reporting of their economic statistics. Increased openness will go a long way in gaining investors trust and help transition their economy to one that is market driven.

### **Improve Government Efficiency and Increase Revenue**

Intergovernmental fiscal reform is needed in order to reduce the local government expense down from the current 80% of general government expenditure. In many areas the government from top to bottom is operating incredibly inefficiently. Since 2008, there has been inefficient resource allocation and it is imperative this changes in order to solve this situation. Further decentralization is needed in order to improve accountability and allow local governments to tailor their fiscal policy to greater represent the needs of their region. For example, tax rates are currently set on a national level and often do not match the needs of the individual regions. A national guideline could be established with federal benchmarks, which allow for local governments to tailor to the unique features of their region. The return on investment through capital injections has been low and it is important that they focus on assets with higher potential for revenue, such as the development of high quality commodities.

## Shift the Focus of the Economy

China rise as a developing economy has been largely thanks to their use of infrastructure as an engine for economic growth. Debt financing is the fuel for that engine, but its time for China to find more sustainable and efficient fuels for their economies. The “Made in China 2025” initiative is on the right track but more can be done. The policy outlines arguably the ten largest industries but does not go into specifics on how they plan to become a leader in each industry. In order to ensure their allocation of capital is done efficiently and to avoid being spread out to thin, China should narrow the list to five sectors. Further analyses is needed to understand which industries China can offer the most comparative advantage towards, but an example would be ocean engineering equipment and high-end vessels since China is home to seven of the top ten shipping ports by volume. (Top 50 World Container Ports, n.d.) The importance of the success of this shift in their economy was one stressed by Dr. Wong as a necessary step to reduce their reliance on debt-intensive heavy industry. Shenzhen has become a leader in digital technology developments and similar economic zones can be established for the other key industries.

## CONCLUSION

China is not on the brink of a debt crisis in the short term but there are serious concerns to the sustainability of their debt load and decisive policy actions are needed to correct their current course. Analyzing debt sustainability and debt vulnerabilities is a complicated task, especially when the economy is as large as China’s. There is no signal indicator that can determine when a financial crisis will take place or what level of debt a given country can withstand. What is known through the analysis of China’s current situation is there needs to be continued emphasis on changing the drivers of their economy to more sustainable and less debt intensive industries. Further investments by local governments and state-owned enterprises need to strong potential for a return on investment. It is clear that China’s debt sustainability and their economic growth rate are directly linked. If the growth rate is to further decrease then their debt becomes increasingly more difficult to pay off. If a debt crisis were to take place then their growth rate would sharply decline, and become a drag on global growth. Lastly, the entire Chinese system is riddled with moral hazard, which makes their system vulnerable to future economic downturns. The mentality of government officials needs to change away from believing they will always be bailed out, towards profitable investments that can lead their country towards being an advanced economy. There is great potential for this nation but a naive approach to their current situation could be very costly.

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# Arming Entrepreneurs: Effect of Singapore's National Service on the Entrepreneurial Ability of Young Singaporeans

Graeme Jackson

## ABSTRACT

Since 1967, Singapore has enforced conscription, a two-year compulsory military service that all Singaporean males must participate in. This long-standing practice, referred to as National Service (NS), has deep roots in the creation of Singapore's unique identity. National Service has near unanimous support from Singaporeans, who believe NS is crucial to Singapore's survival. The need for NS is connected to Singapore's desirable geographical placement on the junction of major shipping routes which drives economic success. In this aggressive, innovation driven economy, Singapore has continued to provide entrepreneurs with an abundance of opportunities. This report explores the effect of Singapore's National Service on the entrepreneurial activity of young Singaporeans. One would expect that as a result of the two years spent in NS, young Singaporean males are hindered in their ability to transition into such career, losing a time dependent advantage. Despite this challenge posed by the NS, Singapore maintains a strong climate for the development of entrepreneurs. Although it seems unlikely, research indicates NS does not compromise the entrepreneurial ability of Singaporean youth, but in actuality, it enables their ability. The participation in NS provides Singaporeans' training which develops important values and life experience. Additionally, participation provides many support systems to financially aid members of NS. The educational experience of NS maintains integral in Singapore's society, and its prominence continues to provide young Singaporeans skills transferable to the entrepreneurial practice.

## INTRODUCTION

### Singapore's Global Recognition

Singapore has caught the attention of the modern world. Under a global lens, Singapore is best known for its thriving economy, rich diversity, and harsh authority. For many, it is hard to remember the third world country, abundant in greenery, that the now global powerhouse used to be. It was Singapore's involvement in the global economy that made its rapid transition into a first world country possible ("Singapore," n.d.). To the western world, Singapore's harsh laws and punishment may seem alien, but everything plays a crucial role in building Singapore's unique national identity. Unknown by most, Singapore's strict society is the result of their historical wounds and the safety mechanisms installed to prevent a revival to the hard-fought history. Throughout many dynamic cycles of history, Singapore has prevailed in becoming the country it is today. In Singapore, values and history are deeply important to the country, its citizens, and its future.

### Origins of Singapore

The geography of Singapore was the major driver for its recognition. Its location on major shipping routes served as an optimal post for trading activities ("Singapore," n.d.). The first settlements in Singapore date back to the 13th century, however it only gained popularity in the 14th century, when it became known as "Singapura" or "The Lion City" ("Singapore," n.d.).

The 19th century marks the creation of modern Singapore. It was established as a trading post by Sir Thomas Stamford Raffles, a British official, who formed treaties with the area's local emperors ("About Singapore," n.d.). The official establishment in 1819 sparked a wave of immigration from China, India, and Maylaya ("About Singapore," n.d.). The unification of these three cultures did not last which forced the Raffles Town Plan, a plan to segregate ethnic groups, to be enacted in 1822 ("About Singapore," n.d.).

The flourishing of Singapore was halted during World War II when the Japanese invaded Singapore ("About Singapore," n.d.). The British were forced to surrender to Japanese forces in 1942, marking the largest surrender in the history of the British Empire ("About Singapore," n.d.). It wasn't until 1945 that Japan surrendered the island back to the British Military Administration and Singapore became a British Crown Colony ("About Singapore," n.d.). Later in 1959, the rise of Singaporean nationalism forced agreements that afford the region self-governance on a variety of issues ("About Singapore," n.d.). In 1963, the formation of Malaysia but two years later, following many race riots, "Singapore was asked to leave the Malayan federation" because of "intractable ideological differences between Singapore's state government and the Malayan federal government" (Chan, 2013, p.46). This event severely damaged Singapore's economy with the loss of an "economic hinterland in Malaysia" (Chan, 2013, p.46).

The separation left Singapore's small nation exposed to external threats and memories of the Japanese invasion became a source of fear (Chan, 2013, p.46). The fear was apparent in prioritization of issues, making defence Singapore's top priority. In 1967, Singapore established military conscription in which all able-bodied males must participate in National Service (NS) at the age of 18 (Chan, 2013, p.46). National Service became a critical component to the function of Singapore's Economy. Singaporeans understood the need to protect its small country and the price that needed to be paid was conscription.

Later in 1969, Singapore thrust its economy forward building its first container terminal, becoming the first in Southeast Asia to take this leap ("Connecting to the world," n.d.). This move not only pushed Singapore into the global economy, it also set the foundation for it becoming the busiest shipping port in the world. The global destination port shares ties with 600 other ports connecting 120 countries around the world ("Connecting to the world," n.d.). The geographical location of Singapore set the stage for it to become a shipping powerhouse. The country sits on the crossroads of an abundance of significant trade lines ("Connecting to the world," n.d.). Singapore continues to develop its port technology as international demand increases their reach further into the world.

## **About NS**

Currently, Singapore's NS is described as "an essential part of [their] nationhood and a rite of passage for every Singaporean and Permanent Resident (PR) male" ("Discover NS," n.d.). During NS, conscripts serve their time in the Singapore Armed Forces (SAF), Singapore Civil Defence Force (SCDF) or, Singapore Police Force (SPF) ("Discover NS," n.d.). Since 1967, over 900,000 male Singaporeans have served their two-year NS as full-time National Servicemen (NSF) ("Discover NS," n.d.). During NS, the NSFs live together on base and undergo their service obligations. After NS, the service members participate in Operationally Ready National Service (ORNS) ("Citizen Soldier," n.d.). The obligations of ORNS are active until members reach the age of 40 or 50, depending on skill set and ranking ("Citizen Soldier," n.d.). During ORNS, members complete a 10-year training cycle ("Citizen Soldier," n.d.). The training is comprised of three stages: Strengthening Stage, Sharpening Stage, and Sustain Stage ("Citizen Soldier," n.d.). First, the Strengthening Stage develops both individual and team proficiencies in order to maintain operational readiness ("Citizen Soldier," n.d.). Second, the Sharpening Stage develops unit proficiency in warfighting scenarios ("Citizen Soldier," n.d.). Finally, the Sustain Stage emphasizes integrated training and maintains operational readiness ("Citizen Soldier," n.d.).

Throughout the service training of all areas for NSF is emphasized. The following values of the Ministry of Defence are developed into core traits and behaviors: Loyalty to Country, Leadership, Discipline, Professionalism, Fighting Spirit, Ethics, Care for Soldiers, and Safety ("Core Values," n.d.) The development of competencies during NS is a foundational component that shapes Singapore's society and culture.

## Outlook on NS

In 2013, a study of Singaporeans' Attitudes to National Service was conducted by the Institute of Policy Studies (Leong, Yang, Ho, 2013). The study shows the public's perception of NS and the level of trust and support for NS. The study reports finding NS has the strong support of Singaporeans and participation is viewed as "fulfilling a social mission beyond its defence mandate" (Leong et al., 2013, p.2). Additionally, NS is perceived as a driving force for equality because it "embodies equity and universality, and levels the playing field" (Leong et al., 2013, p.5). It seems almost unanimous the opinion towards NS in Singapore, the country shares largely homogenous values, while still retaining its cultural "melting pot". The driving force for these values are the trouble past experience of the country, its geological exposure, and its non-proportional landmass to economy ratio. The first priority remains clear in Singapore; do not relive the past and retain a fortified country.

## RESEARCH QUESTION

The roots of Singapore's history has shaped the national culture that can be seen in Singapore today. The most significant component of the culture is the importance of defense and the process of National Service. With 98% of Singaporeans reporting the belief that NS is necessary for the country, the depth of its societal influence is obvious (Leong et al., 2013). One would expect, as a result of the two years spent in NS, that young Singaporeans males are hindered in their ability to transition into a career; losing an advantage on the global stage. However, upon further research, it is now clear Singapore maintains a strong climate for the development of entrepreneurs. Although it seems unlikely, research indicates NS does not compromise the development of entrepreneurs. In an attempt to understand the correlation between NS and entrepreneurial development, we must first understand what factors drive this entrepreneurial development, how the participation in NS influences these factors, and the implications of the effect NS has on these factors.

## DISCUSSION

### Entrepreneurial Climate of Singapore

The importance of entrepreneurship to a country as a driver for creating jobs and strong economic health is understood by the Global Entrepreneurship Monitor (GEM). The GEM collects data and provides insight into entrepreneurial activity, its implications, and its drivers. The 2014 GEM Singapore Report (Chernyshenko, Jiang, Lee, Chan, 2015) analyzes the environment of Singapore and compares it to other innovation-driven economies. As concluded by GEMs report Singapore's entrepreneurial climate maintains successful growth. It reports its main data findings in the form of 4 key drivers: Rate of Entrepreneurship, Intent to Start a Business and Attitudes towards Entrepreneurship, Nature of Start-ups, and Framework Conditions for Entrepreneurship (Chernyshenko et al., 2015). In this report, the influence of National Service will be assessed in the scope of Rate of Entrepreneurship, Developing Effective Leaders, and Framework of Support. Rate of Entrepreneurship looks at the growth of Singapore's entrepreneurial activity, while Developing Effective Leaders and Framework of Support analyzes the conditions needed to foster entrepreneurial growth in Singapore. These topics, considering GEMs research and The Big Five personality dimensions (Zhao, Seibert, 2006) that are important to entrepreneurs, show the main factors that shape the entrepreneurial scene in Singapore and allow it to flourish in the global economy.

### Rate of Entrepreneurship

The Rate of Entrepreneurship provides an analysis of Singapore's amount of total early-stage entrepreneurship (TEA) (Chernyshenko et al., 2015). The TEA rate is an indicator used by GEM to "estimate the number of residents in a country that are currently participating in burgeoning entrepreneurial activities" (Chernyshenko et al., 2015, p.7). Singapore's average TEA rate over the previous 4 years ranked 2<sup>nd</sup> overall on the GEM report (Chernyshenko

et al., 2015, p.30). One critical factor that influences the TEA rate is the confidence of entrepreneurs in the nation's economy (Chernyshenko et al., 2015). GEM describes the steady TEA as the possible effect of the strong economy providing citizens with more confidence. If confidence in the economy effects the TEA rate, we must analyze how National Service effects its participants view on the nation's economy.

In a survey, NS: Before and After, of 138 NS members distributed at Nanyang Technological University campus, respondents showed a strong correlation between NS and increased levels of confidence (See Table 1). The survey consisted of 4 statements that the responded evaluated on a linear scale. The following statements were asked: 1. *Due to my time in NS: I became a more patriotic individual*, 2. *Due to my time in NS: I became more confident in Singapore's future*, 3. *Due to my time in NS: I became confident my countries economy will continue to grow*, 4. *Due to my time in NS: I became a more confident my ability to succeed in Singapore*. The statements were evaluated on a linear scale between "Strongly Agree" and "Strongly Disagree". The results strongly favored the idea that NS improves participant's confidence in Singapore with 74.28% of responses being either "Strongly Agree" or "Agree" across all questions (See Table 2). When compared to the 10.69% of "Strongly Disagree" or "Disagree" responses across all questions, 74.28% is a significantly large proportion (See Table 2). As the results show, the participation in NS provides a higher level of confidence in Singapore; a factor that influences TEA rate (Chernyshenko et al., 2015). Thus, it is probable NS contributes to the high average TEA rate in Singapore. The responded clearly demonstrate increased patriotic view points from their time in Singapore. As something Singapore struggled to develop in the past, patriotism allows the country to maintain its cultural "melting pot" while not forgetting the past events that led them to fortify the country.

These results are consistent to the 2013 Institute of Policy Studies survey of Singaporeans' Attitudes to National Service which found Singaporeans' perceive a better future and survival of Singapore to be the top benefits and impacts of NS (Leong et al., 2013). Therefore, the attitudes to Singapore's NS appear to stay consistent across the five-year gap between the two surveys. The reason for the consistencies can be again contributed to the solid values and mission of Singapore.

### **Developing Effective Leaders**

Effective entrepreneurship relies on the fundamental activity of creating and maintain a business. This process only gains success if the entrepreneur retains high competency levels and emotional intelligence. A study of The Big Five Personality Dimensions and Entrepreneurial Status (Zhao, Seibert, 2006) found entrepreneurs score high on traits "openness to experience (curiosity, innovation) and conscientiousness (self-discipline, motivation) and considerably lower on neuroticism" (Robinson, 2014).

In the beginning of National Service, every recruit begins their transformation into a soldier with Basic Military Training (BMT) ("Our Training," n.d.). The training consists of three main phases: Orientation and Team Building, Learning and Development, and Transformation and Achievement ("Our Training," n.d.). The training requires each recruit to meet the physical, intellectual, and emotional training outcomes. A major outcome of this training is that all recruits learn how to foster strong motivation, become resilient in adversity, utilize adaptive thinking, and retain commitment to tasks ("Our Training," n.d.). These outcomes directly relate to Zhao's (2006) findings in The Big Five Personality Dimensions and Entrepreneurial Status. The ability to foster motivation and commit to tasks builds NS members conscientiousness. Additionally, the ability face adversity and use adaptive thinking lowers neuroticism. The development of these personality straits is all part of the process of becoming a better soldier, which in-turn, affords the learning important life lessons transferable into the entrepreneurial environment.

The NS: Before and After survey tested the NS effects on the personality traits outlined by Zhao (2006). In the survey, the respondents evaluated how their experience in NS effected their Innovative Thinking, Self-Discipline, Motivation, and EQ (Emotional Intelligence in regard to Neuroticism); choosing between "Worsened", "No Change", or "Improved". The "Improved" results for Innovative Thinking, Self-Discipline, Motivation, and EQ was 63.77%, 92.03%, 82.61%, and 78.99% respectively (See Table 3). Furthermore, the "Worsened" results were 7.24%,

1.45%, 3.62%, and 1.45% respectively (See Table 3). The survey displays the high value of NS in improvement of these traits with little response showing negative impact (See Table 4). Moreover, the report of no change in personality traits was also minimal in each category indicating the effectiveness of this training. These responses confirm the expected results of learning or improving personality traits throughout NS training. Additionally, the 2013 IPS survey of Singaporeans' Attitudes to National Service found when asked what National Service means to them, the top reported belief of Singaporeans' was that NS is meant to instill discipline and values amongst the youth of Singapore (Leong et al., 2013). This result shows that the nation does not view NS as strictly a defense mechanism, it also is viewed as an educational tool. In correlation to this view, the 2014 GEM Singapore reports education, particularly at the tertiary level, to be perceived as the 2<sup>nd</sup> largest area responsible for fostering entrepreneurial activity in Singapore (Chernyshenko et al., 2015, p.74). Although NS is not tertiary education, this report is based on the respondents' perception of their countries educational benefits. Thus, it is likely that NS is considered in the decision making, although there is no specific question regarding it. National Service mitigates factors in the Singapore culture that normally would be destructive to the entrepreneurial climate. The learning of Self-Discipline amongst the youth in Singapore is important because the rich society has created a pampering culture for the youth (Harris, 2002). The Los Angeles Times discussed a past survey by Straits Times of 104 teens. The survey found, "when asked how dependent they were on maids, most rated themselves about a 7 out of 10--with 10 being completely dependent" (Harris, 2002). This pampering culture results in a lack of self-discipline which, in the absence of a NS requirement, would prevent young Singaporeans ability to become entrepreneurs. The participation in NS allows Singapore to create a nationwide education system for young men to learn important values and life lessons. The successful mitigation of this effect can be observed by Singapore's 8<sup>th</sup> place entrepreneurship ranking in the recent 2017 U.S. News & World Report (2017).

## FRAMEWORK OF SUPPORT

Singapore's large framework of support for entrepreneurial activities earned the nation first place in the 2014 GEM Singapore Report (2015). The factors of framework that topped the list were Entrepreneurial Financial Support, Government Policies, and Government Entrepreneurship Programs. Furthermore, Singapore earned rankings within the top five for the Education and Training, Research and Development Transfer, and Market Openness factors (Chernyshenko et al., 2015). The reports additional factors include Commercial and Professional Infrastructure, Physical Infrastructure, and Cultural and Social Norms; all of which earned scores that made little contribution to its 1<sup>st</sup> place overall ranking (Chernyshenko et al., 2015). A major factor that needs to be considered, and was absent from the GEM report, is the access to business networks. This factor is a major determinant of entry barriers and ability to raise capital.

The first framework condition, Entrepreneurial Financial Support, is described as "the availability of financial resources-equity and debt-for new and growing firms (including grants and subsidies)" (Chernyshenko et al., 2015, p.53). It is no surprise that Singapore earned top place for this framework condition with the abundance of grants, subsidies, and access to investment. Consecutively, the Singapore Ministry of Defence also supplies an abundance of financial support for NS members. The main source of financial support from the Ministry of Defence is in the form of HOME (HOUsing, Medical, Education) awards, NS Pay, and IPPT (Individual Physical Proficiency Testing) ("Awards and Recognition," n.d.). In addition, the Ministry of Defense provides seed money for defence technology focused start-ups (Hua, 2015) which NS members have an upper hand in obtaining because they understand the defense needs and already are a member of the forces. The HOME awards function as financial relief installments for members reaching milestones of their NS and ORNS. The three installments are each a total of \$5,000-\$5,500, depending on military vocation, providing NS members up to \$16,500 in financial support ("Awards and Recognition," n.d.). NS members also receive NS pay for both their participation in military activities and time spent away from work; NS pay has special considerations for self-employed members (NS Pay, 2018). Additionally, IPPT awards maximum \$500 per year for up to 27 years which allows for NS members to gain \$13,500 total ("Awards and Recognition," n.d.). Although the financial reliefs are not direct forms of entrepreneurial financial support, each instrument allows for mitigation of living expenses which in turn increase financial abilities.

The second framework condition, Government Policy, describes the extent to which the government affords support through policy (Chernyshenko et al., 2015, p.53). A government policy which affords support to NS members is a tax relief benefit (“Awards and Recognition,” n.d.) The tax relief provides NS members the opportunity to claim up to \$5,000 in tax relief per year of NS and ORNS (“Awards and Recognition,” n.d.). This tax relief program is a small contribution, afforded specifically to NS members, in the scope of many other policies that increase the ease of starting a business.

The third framework condition, Government Entrepreneurship Programs, describes the “accessibility and quality of government programs” (Chernyshenko et al., 2015, p.53). The government has many programs that supply seed money for innovative defence focused start-ups such as the Defence Innovation Research Programme (Hua, 2015). These defence focused entrepreneurial programs produce research and development opportunities for skilled service members to capitalize on. This also incorporates the Research and Development Transfer framework condition because it provides funding for research and development (Hua, 2015). In addition, NS members participate in the Ministry of Defence’s PRIDE (PRoductivity and Innovation in Daily Efforts) movement which promotes more efficient alternatives to work processes by “building a culture of productivity, of innovation and organizational excellence” (Ben, 2018). This fosters the growth of research and development as well as encourages an entrepreneurial and innovative mindset.

The Education and Training framework condition describes the learning systems directly related to entrepreneurship (Chernyshenko et al., 2015, p.53). Although the NS does not have a direct correlation to any entrepreneurial education or training institutions, the participation in NS is filled with valuable learning experiences that can be transferred back to the entrepreneurial world and lead to successful entrepreneurial ventures. Mark Zhang and Jeffery Tan, co-founders of Lobang King, verifies the usefulness of NS training in entrepreneurship through personal experience (Tan, 2017). Zhang explains how the “NS turned out to be one of the most important business schools [he] had attended” (Zhang, 2017). Furthermore, “the pair drew upon their experiences in NS to remain motivated and focused, driven by the core values of perseverance, teamwork, and attention to detail” (Tan, 2017). The experience described by these prior NS members are no surprise, as it coincides with the results of both the 2013 IPS report and the 2014 GEM Singapore report.

The Market Openness framework condition is described as “how open the local markets are to new goods and services as well as the level to which new and growing firms can enter markets without being unfairly blocked by established businesses” (Chernyshenko et al., 2015, p.67). The market openness in Singapore has little correlation with any part of NS participation. The only possible correlation is the ability to build a network of connections, enabling ease of market entrance.

Building network connections can happen at any point in one’s life. The 2-year enlistment of NS allows Singaporeans to build strong relationships with their fellow NS members. The strong connections that can be established are a common occurrence in the close quarter living environments during the NS designation. The NS: Before and After survey, with a yes/no response option, asked NS members if they made valuable connections, if they would engage in future business activities with the connections, and if they believe the connections would aid them in starting a business venture (See Table 5). This survey found that 107 of 138 respondents reported building valuable connections. Out of these respondents, 94 would engage in future business activities with the connections and 89 believe that the connections would provide them aid in starting a venture. The aid was described by the survey as, but not limited to, business advice and/or financial support. The high proportion of respondents that reported to have made valuable connections during their time in NS is a great indicator that NS provides a large increase in network connections which could support entrepreneurial activity. Furthermore, the survey found a large portion of respondents who had made valuable connections would engage in future business activities with their connections. This indicates a trust-worthy bond between the individuals, entrepreneurial intention, and alertness to opportunities. The final question of the survey asked if respondents believed that the connections would aid them in starting a business venture which, again, yielded a high positive response. This response further indicates NS provides a larger access to opportunities or investment and a possible safety net for new entrepreneurs. These

opportunities NS provides for establishing long-term meaningful business connections is a major contributor to entrepreneurial activity.

The creation of a network abundant in valuable connection is a benefit of National Service which should create a safety net, however, GEM still reports that a lack of risk taking is the top suspected inhibitor of entrepreneurial activity in Singapore (Chernyshenko et al., 2015). The culture of playing it safe in Singapore could be attributed to the small local market in Singapore where, in the event of venture failure, the pitfall is publicly noticed. NS unfortunately does not seem to override this effect; however, the growing market may eventually become so large this fear may be reduced or the collective benefits in Singapore society will out way the downfalls of the fear.

The final three framework conditions Commercial and Professional Infrastructure, Physical Infrastructure, and Cultural and Social Norms had little effect on Singapore earning the first place in the GEM report for framework conditions (Chernyshenko et al., 2015). Singapore scored low on Commercial and Professional Infrastructure and Physical Infrastructure because of the countries limited size of its geographical region and the high cost of establishing a physical business location (Chernyshenko et al., 2015). This is expected in highly developed cities and there is little that can be done to mitigate this factor without geographic expansion.

The Cultural and Social Norms framework condition ranked 9<sup>th</sup> overall; however, only a small portion of the framework condition was rated at this average level (Chernyshenko et al., 2015). The GEM report still “rated Singapore’s culture as highly supportive of ‘individual success achieved through own personal efforts’, and emphasizing ‘self-sufficiency, autonomy and personal initiative’ and ‘the responsibility that the individual (rather than the collective) has in managing his or her own life’” (Chernyshenko et al., 2015). The findings indicate in culture of Singapore the individual bears the burden of responsibility for their own future and success. This culture or social norm is metaphorically representative of each NS member’s responsibility, in which personal efforts and individual sacrifice must be made by each Singaporean male in order to succeed in completing NS, Singapore’s cultural right of passage. Additionally, the disciplinary focus of NS allows Singaporeans to break the youth pampering cultural narrative seen in many economically successful nations. The process of NS instilling discipline as a value in the youth not only sets Singapore apart, but it establishes the knowledge that of ones’ self-initiative leads to success.

### **Conscription in the World**

The topic of conscription has been a force for controversy ever since being established in 1789, during the French revolution (Bergevin, 2018). The act of conscription has been adopted by many nations around the world, each with its unique purpose. The value based argument for conscription promotes its capability to “reinforces social equality among the people of the nation and works to break down class divisions” (Bergevin, 2018), a benefit Singaporeans believed their National Service affords. The argument also demonstrates the creation of “social consciousness, and uplifts the morals and national pride of the country. It is seen as not only a right, but also a privilege to be able to fight for one’s country” (Bergevin, 2018), again coinciding with Singaporeans NS value proposition. Furthermore, financially beneficial agreements are made in the case of conscription, especially in to scope of access to higher education (Bergevin, 2018). On the contrary, arguments are made against conscription such as “the patriarchic nature of the military leaves little room for the advancement of women” (Bergevin, 2018), its stigmatization of the disabled or sick, it’s able to create demographic shock when men are removed and, of course, the human right argument that conscription removes freedom (Bergevin, 2018).

Each argument in favour of conscription is embraced by Singaporeans almost unanimously, yet on the contrary, the Singapore values do not coincide with the opposing arguments. The service is seen as a force for equality, the conscription cycle is constant and without systematic shock, and the Singaporeans value the opportunity of National Service and its lesson for personal independence.

In 2018, the argument of conscription made its way into the spotlight when France’s President Emmanuel Macron proposed the return of conscription in France (Economist, 2018). In midst of reduced cohesion in European Union,

Macron views the implementation of conscription as a source for national pride, a positive effect shared with National Service in Singapore (Economist, 2018). The plan also aims to tackle unemployment issues amongst the youth in France (Mohdin, 2018). The act would require French citizens, at the age of 16, to complete one month of compulsory duty with an option to pursue a further vocation for three to twelve months (Mohdin, 2018). The support for the proposed plan has a positive response of 60% despite some demonstrations of refusal. The implementation of NS in France is a great indicator that the modern world still accepts conscription as a positive force for youth development. The shared goal of NS in both Singapore and France is to increase social cohesion and transfer important values to the youth.

Israel is another country famous for its defense forces, which include conscription requirement for both men and woman. The Israel Defense Forces recruit eligible men and woman from the age of 18 to carry out their national service requirement (IDF, 2013). The term of service is 3 years of men and two years for women, additionally, each recruit will service in the reserve units up to the age of 51 (IDF, 2013). The Israel Defense Forces are praised for their catering to the need of soldiers from both a cultural and social standpoint (IDF, 2013). The forces provide opportunities across the fields of recreation, educations, and personal support (IDF, 2013). If an Israeli recruit has had “incomplete educational backgrounds” they are afforded “opportunities to upgrade their level of education, and career officers are encouraged to study at the IDF's expense during their service” (IDF, 2013). This education focused conscription strategy ensures all members of Israeli society have receive adequate education. Additionally, “the IDF also provides remedial and supplementary education to civilian populations and contributes to the absorption of newcomers among the population at large” (IDF, 2013). The effect of an education intensive service is described, by Elisabeth Braw (2017) in a Foreign Affairs opinion piece, as the contributing factor to rapid expansion in the high-tech sector. The country saw an increase of 1,500 new start-ups in 2015, comprised of 60% service members (Braw, 2017). The conscripts acquire skills that provide them significant advantage when transferring back to the labour market (Braw, 2017). Ofer Familier, the Director of Business Development of a successful high-tech start-up, attributes his success to his time in the service (Braw, 2017). Familier explains in an interview by Braw that “[t]echnical intelligence units in the IDF are like Harvard” (Braw, 2017). Additionally, in this interview he touches on the learned responsibility of being an 18-year-old making life or death decisions (Braw, 2017).

Across many countries with completely different histories, political systems, cultural and societal norms, and geographical positioning, similarities in the intentions of national service are apparent. The countries who are using conscription appear to be using it as a tool for investment in human capital. They understand that as the population ages, the youth of today become the leaders of tomorrow. Investing in the youth grows the future human capital, which in-turn, creates resilient, disciplined, and autonomous citizens who hold the potential to become great entrepreneurs.

## LIMITATIONS

There are many limitations that put constraints on the data in the findings of this report. First, the Singapore Military has a very limited database of historical statistics published for public access. This is a result of limited transparency and privacy which is slowly being improved; however, the nature of statistics requires ‘lead-time’ to develop meaningful and useable data. As a result, a survey of 138 local students at Nanyang Technological University was conducted. This survey also has limitations due to the inability to verify the authenticity of the respondents, specifically, if they had participated in National Service. The methodology of collecting the survey data was a supervised public on-campus stand for filling out the forms. Each respondent gave verbal verification of their participation but to avoid breaching respondents’ privacy, military identification was not requested. Therefore, the results of the survey must not be considered representative of the values, beliefs or practices of the NS members. The small sample size of 138 people and its homogenous group of strictly university students must be considered as a limitation.

## CONCLUSION

The mandatory participation in Singapore's National Service has many correlating factors pertaining to the entrepreneurial ability of young Singaporean males. Under brief observation, one might conclude that National Servicemen in Singapore are stripped of a valued two-years at the prime of their youth; however, this is far from the truth. The relatively homogenous opinion towards National Service is reflective of Singaporeans' understanding that defence retains continued importance to maintain their future in the global economy. Singapore has a confidence driven economy that relies on the patriotism of its citizen to continue pursuing a collective mission. This is established through National Service and, in-turn, Singapore continues to expand entrepreneurially with increasing TEA rates. National Service provides training that is consistent with the needed personality traits from the Big 5 for becoming a successful entrepreneur. The Basic Military Training allows the development of National Service members across the entrepreneurial traits openness to experience, conscientiousness, and low neuroticism. Conscription in other countries also shows that Singapore is not the only place whose youth benefit from conscription. The participation in National Service exceeds the value of strictly being a rite of passage, it is an educational tool that provides important values, creates opportunities, develops a financial support network, and builds valuable connections. These experiences in National Service enable the entrepreneurial ability our young Singaporean males.

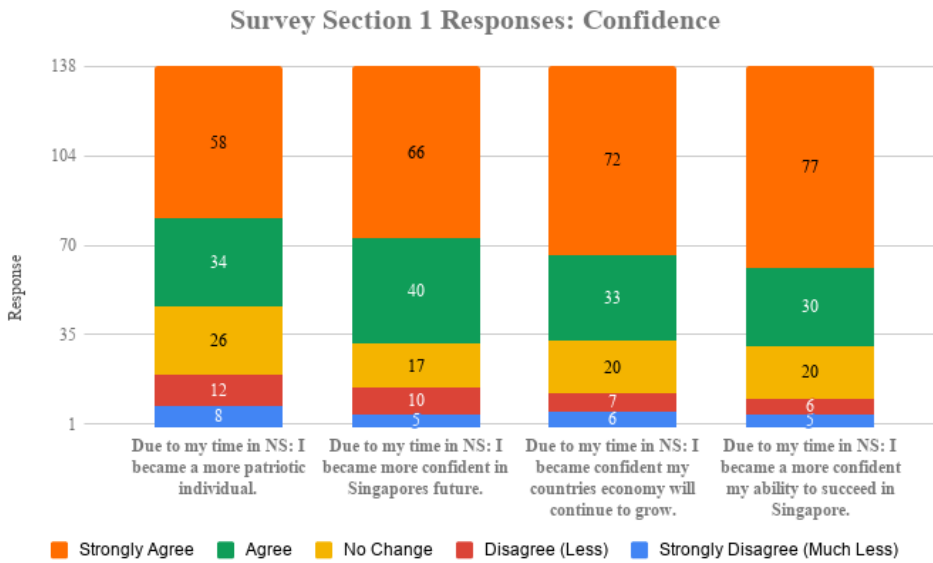
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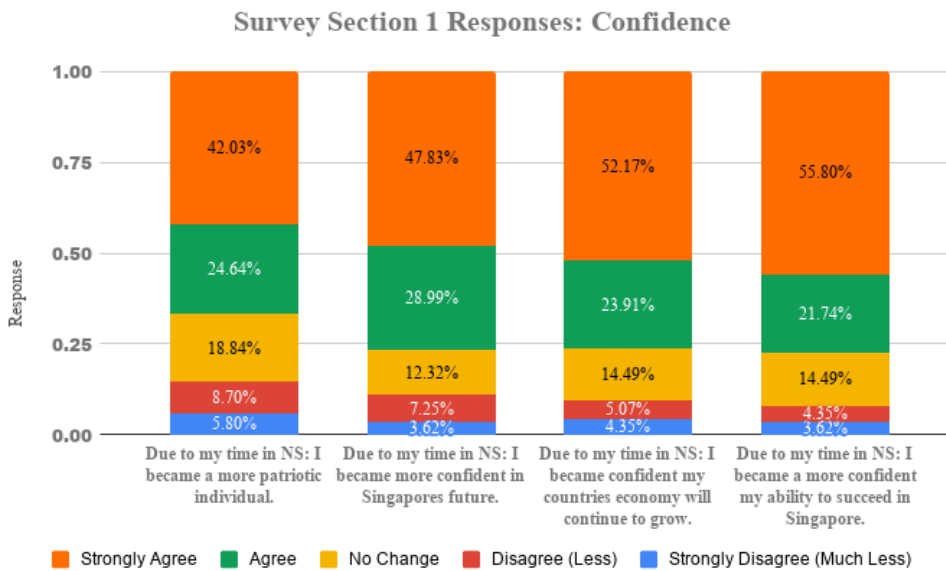
APPENDIX

**Table 1: Survey Section 1 Responses: Confidence (Count)**



Graeme Jackson (NS: Before and After Survey 2018)

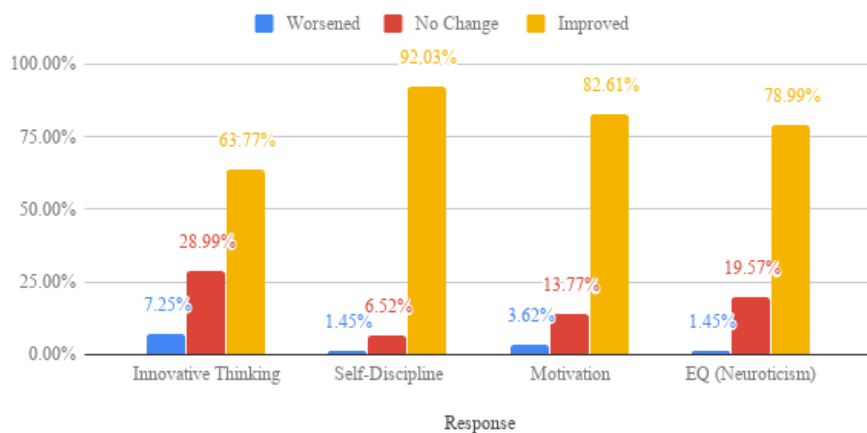
**Table 2: Survey Section 1 Responses: Confidence (Percentage)**



Graeme Jackson (NS: Before and After Survey 2018)

**Table 3: Personality Dimensions (Percentage)**

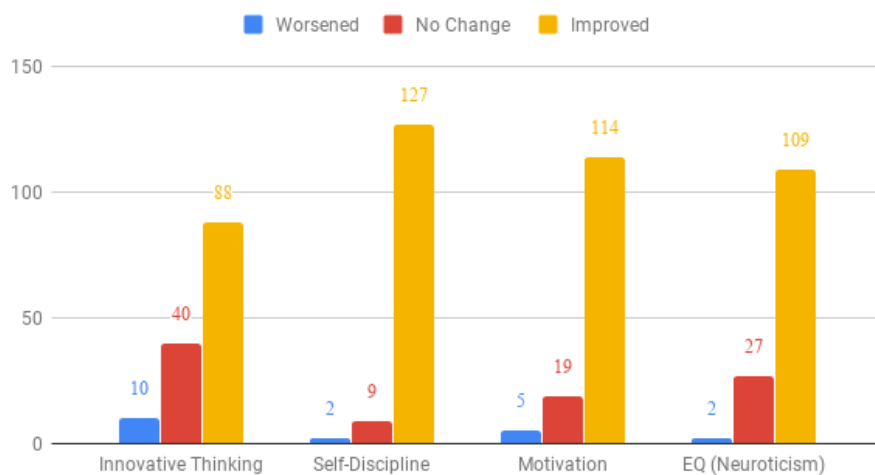
Innovative Thinking, Self-Discipline, Motivation and Low Neuroticism (High EQ)



Graeme Jackson (NS: Before and After Survey 2018)

**Table 4: Personality Dimensions (Count)**

NS Effect on Personality Traits



Graeme Jackson (NS: Before and After Survey 2018)

**Table 5: Valuable Network Connections**

Response	During NS, did you build valuable connections?	If so, would you engage in future business activities with any of the connections?	Do you believe the connections would aid you in starting a business venture?
Yes	107	94	89
No	31	13	18
Total	138	107	107

Graeme Jackson (NS: Before and After Survey 2018)

# Seafood Slavery: Canada's Investment in Human Trafficking in Thailand

Sloane Jeffrey

## ABSTRACT

Human trafficking and debt bondage continue to be an unfortunate reality for numerous individuals around the world. Thailand specifically, has been notorious for human trafficking and debt bondage for many years. Due to the publication of recent reports, awareness of the violence and corruption are beginning to spread, forcing the Royal Thai Government to take action. This paper investigates the factors which contribute to Thailand's human trafficking problem within their fishing industry, specifically through the analysis of their economic, legal and social environment, as well as the part developed countries play in this horrific phenomenon. This report contributes the same form of exploration of Canada through the same environments. In doing this, one is able to question Canada's overlap in both their nation's anti-trafficking laws and legislation and their role in Thailand's human trafficking practices. Many countries and organizations around the world attempt to prohibit such acts, yet Thailand is still a major exporter of seafood and fish products. The United States and the European Union have both made major threats to Thailand in order to attempt to combat these human rights violations. Through both global reports, and information provided by the Royal Thai Government, this paper will challenge how serious Thailand is about changing this industry, and the risks involved if it does not. Finally, recommendations on all organizational levels are considered including: the individual consumer, business retailers, and the Royal Thai Government.

## THE PROBLEM

### Overview of Human Trafficking and Debt Bondage

After its abolition, in the nineteenth and twentieth centuries, many developed countries recognize slavery as being practically extinct. Unfortunately for many people around the world, slavery is very much alive and well. In fact, currently there are approximately 20 to 30 million slaves in the world (DoSomething, n.d., Body Section, para. 1). The U.S. Department of Homeland Security defines human trafficking "as modern-day slavery and involves the use of force, fraud, or coercion to obtain some type of labor or commercial sex act." (2018, Introduction section, para.1). Human trafficking is the second most profitable transnational crime second only to drug trafficking (Department of Homeland Security, 2018). Unfortunately, human trafficking can be difficult to track as many victims do not come forward, due to language barriers and fear of both traffickers and law enforcement. Debt bondage is the most common form of slavery across the world, and yet it is the least identified. Debt bondage, also known as debt slavery and debt labor, is the pledge of a person's services as security for repayment for a debt or other obligations. Often times the terms of repayment are not reasonably stated, allowing for the person holding the debt to have power over the individual in debt (Anti-Slavery, 2018). One escaped victim of trafficking, Mao Thant Kyaw was quoted by the Environmental Justice Foundation (EJF) as stating: "Whenever I came back to port they told me I owed them 20,000 or 30,000 baht [\$558 or \$837]. I couldn't ask why, they would beat me – any one of them would've killed me, so I didn't ask. I've seen beatings and killings before so I didn't dare ask." (2015, p. 18). This victim's statement displays the violence and brutalities human trafficking sufferers face every day. Unfortunately, Thant Kyaw's experience is not unlike others. When it comes to human trafficking and debt bondage, these individuals live in fear as they know they have no power.

## **Labor: Supply and Demand**

Thailand's seafood industry is infamous for being one of the most violent and destructive economic regions in the world. Even without factors like debt bondage and human trafficking, the fishing industry in any country can be brutal. Jobs on fishing vessels consist of intense physical labor and long hours. Many Thai people are not interested in working in this industry due to the low level of pay and rough work conditions. However, the Thai seafood industry makes up a significant part of their large economy. The industry currently employs over 800,000 people with their exports valuing in at six billion USD (Environmental Justice Foundation, 2015, p. 4). Many of the positions within a fishing vessel are migrants who are willing to work in exchange for help leaving their home country. These migrants are unaware of their rights and will do anything to escape their poverty-stricken countries. Therefore, Thailand's fishing industry has the opportunity to exploit numerous individuals while turning a large profit. Throughout the years, numerous independent reports have been written, examining the abuses of individuals employed on Thai vessels, as well as years of overfishing in the Gulf of Thailand and the Andaman Sea. For decades, the industry's use of unsustainable practices to catch too many fish have led to this crisis in the fisheries. Since 1996, the overall catch per unit effort (CPUE), in both the Gulf of Thailand and the Andaman Sea, has dropped by 86%, making these regions some of the most over-fished waters in the world (Hucal, 2015, para. 9). The CPUE can be defined as the amount of fish caught per hour in kilos. This drastic decline can be contributed to unsustainable fishing practices such as poison fishing and blast fishing (Hucal, 2015). While these fishing practices are considered illegal, unregulated and unreported (IUU), many vessels still partake in such practices (DeRidder K. & Nindang S., 2018). As the competition for fish continues to rise and the CPUE continues to decline, ships are forced to stay out longer. These additional labor costs make the Thai waters the perfect environment for human rights violations. Operators are able to dramatically cut costs by participating in human trafficking and debt bondage systems.

## **Thai Law Enforcement**

The Royal Thai Government has been under a lot of pressure in the previous years for their lack of commitment to what is seen as a global human rights problem. Many reports accuse government officials of being directly involved with trafficking misconducts. Such reports actually declare that officials receive profit for complying with human trafficking networks. One report conducted by the International Labour Office (ILO) explicitly accuses the Thai Government officials of being corrupt. The report was brought to ILO's attention by the International Trade Union Confederation (ITUC) and the International Transport Workers' Federation (ITF). The two organizations reference the example of a human trafficking gang at the port of Kantang. It is believed, that this gang's practices, of torturing and killing migrant workers, who attempt to flee the system, are able to flourish because of the support from law enforcement (International Labour Office, 2017). While human trafficking and debt bondage have always been illegal, fishing boats are not strictly examined, so law enforcement are able to turn a blind eye (Gorge-Langton, 2017). In addition, over 80% of the individuals that fall victim to human trafficking and debt bondage are from neighboring countries such as Myanmar and Cambodia (Macan-Markar, 2017, para. 10). Ultimately, no Thai citizens are being harmed in this process and a very powerful, financially beneficial practice continues to flourish.

## **ECONOMIC ENVIRONMENT**

### **Thailand**

Thailand continues to progress in terms of economic development. Forty years ago, the country was considered a low-income country and in less than a generation they are viewed as an upper-income nation. In fact, the World Bank refers to it as "one of the widely cited development success stories, with sustained strong growth and impressive poverty reduction, particularly in the 1980s." (World Bank, 2018, Introduction Section, para. 1). Thailand is the 19<sup>th</sup> largest export economy in the world with a GDP of 15.45 trillion baht (\$455 billion USD) according to the International Monetary Fund (Simoes & Hidalgo, 2011, Body Section, para. 1). Two-thirds of their GDP can be contributed to exporting alone, making the exportation of any good extremely important to the success of Thailand

(International Monetary Fund, 2018). Annually, Thailand exports 1.8 million tons of seafood around the world (Macan-Markar, 2017, para. 2). However, in the recent years following the issuing of the EU yellow card, many seafood dependent Thai companies complain about the income drop. A serious threat like an EU yellow card can have drastic effects on an industry. In 2015 the EU imported 476 million euros worth of seafood, while in 2015 they only imported 426 million euros (Macan-Markar, 2017, para. 2). This is direct reflection of how damaging human rights violations can be to an industry. Thailand must solve this problem or face losing a major financially beneficial industry. Later in this paper, we will take a closer look into the EU yellow card and the other ways the rest of the world is combating seafood slavery.

## **Canada**

Canada is one of the wealthiest countries in the world and has the tenth largest economy (Frue, 2018, Economic Factors, para. 1). While it relies on most of its trade with the United States, Canada is looking to expand into other trade agreements with other countries (Frue, 2018). Currently, Canada has free trade agreements with various countries, and in 2017 signed the Comprehensive Economic and Trade Agreement (CETA) with the EU. This deal enables trades of goods and services between Canada and the EU to be made more efficiently. Worth mentioning are some of Canada's top exports; motor vehicles and parts, gold, telecommunications equipment, industrial machinery, and crude petroleum, and top imports; cars, vehicle parts, computers, and delivery trucks (David, 2018). While Canada is not entirely dependent on their fishing industry, it is a significant supplier to the success of their economy.

In 2016, \$6.9 billion in fish and seafood were exported around the globe. The industry as a whole employs approximately 72,000 people (Fisheries and Oceans Canada, 2018, para. 1). In addition, Canada plays a vital role in the aquaculture industry. Aquaculture is cultivation of any kind of aquatic organisms, such as fish, aquatic plants, or crustaceans. Today, aquaculture is considered one of the fastest emerging food production activity around the globe, and a developing economic sector in Canada. The Canadian economy is supported by the aquaculture industry, which generated over \$3 billion in economic activity in 2015 (Perspective, 2018, para. 2). The industry benefits far more than just the economy; aquaculture is an environmentally ran industry, which is restoring coastal and rural areas, and providing healthy and wholesome seafood regardless of the season (Canadian Aquaculture, n.d.).

Canada's geographic location allows the country to be extremely fortunate economically. The majority of Canada is surrounded by resource abundant waters such as the Atlantic, Pacific, and Arctic Ocean as well as the Great Lakes. With that being said, Canada has always encouraged sustainable practices. The Canadian Department of fisheries and oceans has established guidelines and practices to support both ecosystems for today and the future. On an international level, Canada has created fishing regulation to meet the standards of the European Union's IUU. Canada's Catch Certificate Program was implemented in order to supervise the distribution of catch certificates. The main goal with this program was to strengthen the traceability of each catch, which prohibits the illegitimate seafood products from entering the EU and other counties which have established the IUU framework. Ultimately, this programs guarantees other countries that Canada's fish and seafood have been grown and handled in sustainable fisheries, with proper paperwork ensuring all products are authentic and traceable (Seafood Source, 2009). As demonstrated by such certificates and programs, Canada takes the sustainability and health of their fishing industry very seriously, and yet they are still importing unethically and unsustainably caught fish from Thailand. Thailand is Canada's second largest trading partner in ASEAN (Government of Canada, 2018). Canada imported over \$3.15 billion CAD worth of products from Thailand in the year 2016, but with each seems to be importing less and less (See Appendix Table 1). In 2017, approximately 12% of all meat, fish, crustaceans, mollusks, and seafood imported into to Canada came from Thailand (Asia Pacific Foundation of Canada, 2018). On the contrary, Canada exported less than 5% of all fish, crustaceans and mollusks to Thailand in the same year (Asia Pacific Foundation of Canada, 2018). Ultimately, Canada is providing fish and seafood to the rest of the world

through sustainable and ethical practices, yet still purchasing from a country that does not follow the same standards.

## LEGAL ENVIRONMENT

### **Thailand's Efforts to Combat Human Trafficking**

The Royal Thai Government is appearing to take a stance against human trafficking. In 2018, the Royal Thai Government released a press release stating their progress on labor reforms specifically in Thai fisheries. They began the press release stating that between 2015 and 2018 a total of 87 cases of human trafficking and 503 labor rights violations had been prosecuted. The Royal Thai Government also emphasized their commitment to labor inspections and raising awareness on the issue. A labor inspection manual has been developed by the Ministry of Thailand and the ILO. This manual is to be used at every step of the labor inspections. In addition, the amount of inspectors has doubled at Port-In-Port-Out Centers. Throughout these inspections, interviews also take place with migrant workers, where a translator is present. Many migrant workers become trapped due to their inability to speak the native language. A difficulty main migrant workers face when faced with debt bondage and human trafficking is the lack of knowledge regarding their rights as workers (Royal Thai Embassy, 2018). These workers are fearful that they themselves might be in worse trouble when reporting crimes of human trafficking. With proper access to information, the Thai Government hopes to create a system where individuals feel safe reporting such wrongdoings. The U.S. Department of State also acknowledged Thailand's efforts to combat human trafficking, but still ranked them as Tier 2 in 2017. In the U.S. 2017 Human Trafficking in Persons Report, they noted the confiscating of more than \$21.91 million USD from traffickers, in addition to the other key efforts mentioned within the Thai Government's press release (U.S. Department of State: Office to Monitor and Combat Trafficking in Persons, 2018, para. 1). Unfortunately, the U.S. Department of State found that the efforts in this period had drastically decreased from the previous period. The report found less victims were identified, and the number of forced labor investigations were not representative of the severity of the problem. Later on in this paper, the effects of U.S. Department of State's TIP report will be explained, and the severity of not complying with anti-trafficking laws. On that same note, in the same report previously mentioned in this paper, the ITUC and the ITF presented information to the ILO accusing the Thai government of weak legislation in regard to the human trafficking on fishing vessels. The report suggests the "weak legislative framework, lack of effective complaint mechanisms, and the ineffectiveness of law enforcement practices," all result in forced labor and trafficking within the fishing industry (International Labour Office, 2017, p. 2). While the two organizations do acknowledge the steps taken by the Thai government to attempt to prohibit such activity; they do address such steps as failures. Furthermore, specific examples within their legal framework, such as labor inspections, penalties, recruitment agencies, working conditions, permission to change employer and access to complain mechanisms were all brought to attention. The Royal Thai Government responded to all accusations made in this report. Throughout their rebuttal they did agree that many laws and practices were problematic, and they are strengthening their legal framework with ongoing revisions (International Labour Office, 2017). In fact, the Government seems to have solutions to all of the organizations' accusations, yet there is no way to measure how impactful such solutions will be. While Thailand, does seem to be serious about fixing the violations within their fishing industry, their motives are questionable. Thailand has become increasingly worried about these violations due to global pressure from various organizations and economic consequences.

This leaves questions to arise: Does the rest of the world need to hold Thailand accountable for their human rights violations or do the government understand the severity of such acts? Without fully knowing the answer to this question, Thailand might fail in other human rights violations, if a profit is what is at stake.

### **Canada's Efforts to Combat Human Trafficking**

Unlike Thailand, Canada meets the minimum requirements to end human trafficking, and is listed as Tier 1 on the 2017 Trafficking in Persons Report (U.S. Department of State: Office to Monitor and Combat Trafficking in Persons,

2018). In many areas, Canada continues to make efforts to combat human trafficking. The government operated a nationwide anti-trafficking group which developed the ability to recognize trafficking tactics, with the goal to prevent forced labor. Although the report celebrated these efforts they also recognized that the Canadian government did not convict any labor traffickers for the third year in a row (U.S. Department of State: Office to Monitor and Combat Trafficking in Persons, 2018). With such strong support to end human trafficking around the world, the information provided seems to demonstrate Canada as passive when it comes to their own nation. They are an extremely developed country with numerous practices in place, yet they have not convicted one labor trafficker for the third year in a row. This could be due to the lack of labor traffickers in the country, or it could be contributed to Canada being complacent about these horrific practices. While other countries around the world's violations are greater and more pressing, Canada must continue to actively fight against these acts both within their nation and worldwide. As discussed early Canada, still imports millions of dollars' worth of products from Thailand, a country where human rights violations are not uncommon. Canada continues to verbally support the end of human trafficking yet they continue to directly invest in other countries illegal practices. As mentioned earlier 12% of all meat, fish, and seafood imported into Canada comes from Thailand, which demonstrates Canada's direct reinforcement of the use of forced labor for profit (Asia Pacific Foundation of Canada, 2018). Canada, which can ethically and sustainably provide the resources to its citizens, chooses to import from Thailand, which neither produces the products ethically or sustainably. Ultimately, Canada continuously vocalizes its support to end human trafficking around the world, but chooses to ignore how their import choices support modern slavery.

## THAILAND AND CANADA'S SOCIAL ENVIRONMENTS

Using the Hofstede Model to evaluate the social environments of both Canada and Thailand, gives us the opportunity to link socially contrasted frameworks to the country's current practices of human trafficking and slave labor. A few dimensions on the Hofstede Model worth mentioning are as follows; Long Term Orientation, Power Distance, Individualism, and Uncertainty Avoidance. Canada and Thailand have very little in common when viewing them through this framework. In fact, the only similarity they seem to share is a low, long term orientation score. This score demonstrates that both countries value the absolute truth and traditions. Connecting this dimension to the viewpoints of modern day slavery in both cultures, we can understand why both countries' practices differ greatly. On one hand we have Canada, which has an almost nonexistence past when it comes to slavery. Their history has always promoted equality, and they continuously played a role in combating slavery during the Civil Rights Movement within the United States. Canada's history has been adamantly against any forms of slavery, which could explain the mindset on human trafficking today. Canada continues to enforce laws against any forms of modern slavery, while promoting organizations to expose human rights violations in other countries. On the contrary, Thailand has always had a more accepting approach to servants and inequality. Thailand's social classes, one sees today, were built on the historical social hierarchy and a family's financial control of the past (Hays, 2014). Many Thais are adamantly against any form of forced labor or slavery, but slavery stems from the foundation of inequality. This mindset allows for a slavery to be viewed as inevitable and thus tolerable instead of a preposterous and disturbing.

Today, both Canada and Thailand handle human trafficking and slavery in their countries very differently. Each of their viewpoints can be contributed to their unique pasts and their low long-term orientation score. One interesting difference between both countries that can be contributed to the outlook of modern slavery is Power Distance. Thailand scores a 64 in this dimension which means the culture as a whole views inequalities as normal. The acceptance of inequalities could be a factor of why a culture like Thailand is less horrified by the idea of human trafficking. Most ideas promoting slavery are founded on the belief of human beings not being equal to one another. On the contrary, Canada has a score of 39 in this dimension, resulting in an egalitarian society. Equality is a very large part of Canadian culture, so the idea of slavery would be considered completely unacceptable in this nation. Another element worth noting is individualism. Thailand scores a very low 20, therefore classifying it as a highly collectivist country. Thai people are not confrontational, making them less likely to speak up if they do not agree. It is also extremely important in Thai communities to not feel ashamed in front of their peers. Evaluating forced

labor from a highly collectivist point of view, one can begin to understand how an individual might be afraid to speak up due to the consequences a shamed trafficker might inflict. On the contrary, Canada scores an 80 on the Hofstede Model characterizing it as an individualistic culture. In this type of culture, people are expected to be self-reliant. According to the model, Canadians are more likely to look out for themselves, leaving them potentially less vulnerable to manipulation. Thailand's scores of uncertainty avoidance indicates their lack of willingness to accept change. Their aim to control comes from their desire to avoid the unexpected. This could be why individuals forced into labor are less likely to report or flee a vessel due to the high level of uncertainty. There is a huge risk involved with attempting such actions, so naturally Thais will be less apt to do so. Canada culture can be defined as more "uncertainty accepting," based on their Hofstede Score. New ideas and opinions are more tolerated, and Canadians generally are not rule-oriented people (Hofstede & Minkov, 2010). The use of the Hofstede Model has allowed us to explore and compare the different impact social constructs have on the individuals within their nation.

## THE GLOBAL PERSPECTIVE

Labor abuse continues to be documented around the world in a variety of industries. However, when it comes to forced labor many nations have little tolerance for the human rights violation. Various organizations around the world continue to expose these human rights violations through investigations and reports. Associated Press (AP) held one of the most well-known investigations in 2015 that led to the freeing of more than 2,000 slaves in Southeast Asia (Htusan & Mason, 2015). Following this investigation, Obama banned US imports on all slaved-produced goods. Before this, the Tariff Act of 1930, gave Customs and Border Protection authority to accept shipments of goods, that were suspected of forced labor, due to "consumption demands" (Htusan & Mason, 2015, para. 3). Obama signed the Trade Facilitation and Trade Enforcement Act, which took away the ability to accept any forced labored goods for any reason (Htusan & Mason, 2015). With that being said, the United States continues to be ranked as one of the top three Thai fish and seafood importers in the world (Ngamprasertkit, 2018). These type of events question the motives behind this Act in the United States. While the Royal Thai Government has made significant changes in this industry, traceability and transparency is still unavailable. Therefore, the U.S. cannot be fully confident that all the fish and seafood product being imported from Thailand are not produced with the use of slave labor. Following the publication of AP's investigation many fishing vessels were staying out longer lessening their chances of being caught for illegal practices. Greenpeace, an environmental organization headquartered in the Netherlands, did a follow up study to see if the Thai vessels were complying with human rights laws. The organization found a variety of violations, from overstated recruitment dues and non-binding oral contracts, to exploitation and workers' abuse (Mendoza, 2016). The work of non-profit organizations, such as the ones previously mentioned, bring light to governments around the world to put an end to this brutal form of modern slavery. Due to publication of articles and reports like these, the European Union and United States attempt to hinder Thailand's illegal activities by threatening to ban the purchasing of all fish and seafood from Thailand. Earlier mentioned in this paper, was the issuing of the EU yellow card. Thailand has been formally issued a yellow card since 2015, and the EU believes it has no reason to be lifted yet. If the EU decides to issue a red card, all Thai seafood and fish will be banned from purchase in the EU. The poor fleet management and lack of law enforcement give EU reason to not lift the yellow card (Illegal Fishing, 2018). Also previously mentioned in this report, is the United States Department of State TIP report. It was stated earlier that Thailand remains a Tier 2 country for another year. The purpose of the TIP Report is to communicate with other foreign governments in the hopes of improving lines of communication regarding anti-human trafficking tactics and to focus on resources such as prevention, protections and prosecution. The report consists of three tiers. Tier 1 is the highest classification, demonstrating that the government in question is fully complying with the minimum standards, such as making strides towards tackling human trafficking. A nation on Tier 2, such as Thailand, acknowledges that a country is not in complete compliance with the minimum standards, but are attempting to do so. Finally, Tier 3 nations do not fully comply with the minimum standards and are making no attempt to do so. Tier 3 ranked countries face international shame as well as economic consequences, such as financial penalties, and restrictions on foreign assistance. Such effects as well as undesirable, global media attention has lead countries to implement anti-trafficking practices and visibly display their commitment to battling human trafficking (Feasley, 2015). Thailand was on Tier 3 both in 2014 and 2015, until

being promoted to Tier 2 in 2016. By 2016 they were able to demonstrate that they are attempting to combat these human rights violations. Thailand still must take enormous strides to in anti-human trafficking regulations to stay off the Tier 3 list. With pressures from global organization as well as from both the U.S. and the EU, Thailand will continue to work towards a human trafficking free agenda.

## LOOKING FORWARD

The Thai Government has begun to address the fishing industry's shortcomings, from unsustainable fishing practices to extreme violence and human rights violations. These past years in a Thai fishing industry is labeled as one of the most extreme cases of human rights and environmental exploitations of all time. The EJF has a variety of specific requirements at the government level, the business level and at the single consumer level. Below I have explained the EJF's basic, essential recommendations at all levels. These requirements will allow the fishing industry to begin to move in the direction of sustainability and freedom. The EJF published their recommendations in 2015, so the Royal Thai Government has begun to implement these recommendations over the past three years. With that being said, Thailand still has a long way to go to in order to meet the demands of the EJF, and they must continue to actively work towards their human rights goal. Like many reports and organizations, the EJF believes many problems lie with the Thai law enforcement (Environmental Justice Foundation, 2015). For any progress to be made, cooperation between law enforcement officers and government officials is a must. First, the EJF hopes to implement a national "program of intelligence-led enforcement," allowing for the transparency within the industry (Environmental Justice Foundation, 2015 p. 38). As previously stated in the press release, Thailand has begun to arrest and prosecute more human traffickers between 2015 and 2018 as ever before (Royal Thai Embassy, 2018). Elimination of corruption is extremely difficult; however, Thailand seems to be taking the necessary steps to do so. The EJF's second requirement, asks the Thai Government to narrow their focus to the main recipients of human trafficking labor specifically Thais. While many human traffickers have been caught, the major beneficiaries have remained untouched, thus allowing for slave labor to persist. The EJF's recommendation to focus on these individuals will be more impactful on the industry as a whole. The third piece of advice is in regards to the court system. Thai courts need to be efficient and transparent when sentencing human traffickers or labor enforcers. The law enforcement officers must be matched with an effective court system, which will carry out the prosecution effectively. Based on the number of the prosecutions the Thai Government mentioned in their press release, they seem to be making headway on this point as well. However, in an industry flooded with slave labor, Thailand has many more prosecutions to come. The fourth recommendation is to provide a victim-focused method. The majority of the time the victims are afraid of fleeing due to their lack of documentation and fear of being beaten, killed, or sent back to their neighboring country. In addition, many victims suffer long after being released. These individuals fear of burdening their family as they have suffered mentally and physically and are now sent home without money. The final step the Thai Government should take is to guarantee the entire nation has been implemented with new fishing laws and are effectively applying the new fishing management style (Environmental Justice Foundation, 2015). Thailand's laws must be uniform across the entire nation. Many small, fishing towns are being exploited due to national laws not being enforced at every level in every district. The Royal Thai Government must begin to implement all of these requirements or risk bans on seafood importation from socially conscious countries.

While the Thai Government seems to be entirely responsible, for these disgusting acts of human rights violations producers, retailers, and all business interests must realize and adapt their own actions. Many of these human rights violations are in response to turning a profit, and meeting the needs of global consumption. The business world needs to be held accountable for putting global consumption before both sustainability and basic human rights. The EJF has four basic recommendations for the business world. The first being, inspection of every level of the supply chains. Similar to Canada's Catch Certification, this ensures traceability from the moment the fish was caught all the way until the product is purchased by the consumer. By doing this, the risk of businesses receiving illegitimate fish and seafood is drastically decreased. The second recommendation is to "declare a zero-tolerance policy to IUU fishing and human rights abuses." (Environmental Justice Foundation, 2015 p. 38) The EJF stresses the importance of publicizing this and giving specific time inevitable goals for all providers. The third requirement for

businesses is to demand transparency and traceability. While the government can enforce this as well, corporations around the world are extremely powerful. Businesses must acknowledge that they too have played a role in these disgusting violations. The fourth and final requirement for the business world is to communally and publically communicate their requests to the Royal Thai Government. In doing this, the government can evaluate the risk of continuing to not enforce these acts. The seafood industry is a huge contributor to the economic success of Thailand; with corporations publicizing their concerns, Thailand can begin to feel the pressure for serious change.

Although some corporations around the world believe in socially responsible business practices, many do so because of the public relations encompassed with doing so. Consumers need to be aware of how damaging their choices at the grocery store can be to individuals around the world. The EJF recommends that consumers question their retailers about the origin of their seafood products. These consumers need to demand for products to be free from human rights violations, sustainable and legal. If these individuals discover the products they have been purchasing do not meet these demands, then the individuals must seek out retailers which can (Environmental Justice Foundation, 2015). For a business to be successful, it must prioritize the needs and wants of customers. When consumers start demanding ethical and sustainable business practices, businesses will be forced to adjust their own tactics.

## CONCLUSION

Modern slavery is many people's reality. All around the world people are being forced into slavery through debt bondage and human trafficking. Thailand's fishing industry is infamous for the horrors that individuals endure on the vessels, but the rest of the world is not entirely guilt free. Canada, along with other devolved nations, plays a vital part in contributing to one of Thailand's darkest industries. Throughout this paper we have compared and contrasted Canada and Thailand's economic, social, and legal environments and the potential contributors to two countries' opposing viewpoints on modern slavery. In addition, we evaluate the global perspective of Thailand's corrupt fishing industry and the economic effects of such perspectives. The evaluation of the EJF's recommendations and the progress the Thai Government has already made, gives reason to believe that the Thai Government is actively attempting to eradicate this horrific crime.

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APPENDIX

Table 1: Canada’s Trade with Thailand Over the Past Four Years

Canada's Trade with Thailand (C\$)				
	January - December		January - September	
	2015	2016	2017	2018
Exports	837,927,574	853,246,691	550,206,085	563,849,688
Imports	3,108,136,580	3,150,010,735	2,427,774,870	2,601,676,266
Trade Balance	-2,270,209,006	-2,296,764,044	-1,877,568,785	-2,037,826,578

(Asia Pacific

Foundation of Canada, 2018)

# The World of Thai Prostitution: Its Influences, Illegality, and How it Affects Stakeholders

Daniella Keene

## ABSTRACT

I will be diving into the sex industry of Thailand and how it affects business owners, workers, and officials, both socially and economically. This paper will work to uncover how influences from multiple sources, including Thailand's history, religion, cultural values, and legal system, impact how the sex industry is executed. Furthermore, I will be focusing on how they both benefit and suffer from the illegality of the industry.

## LIMITATIONS OF RESEARCH

Due to the nature of this topic, there were some research limitations. Sex work and topics revolving around it tend to be quite taboo in Thailand. This creates some tension, awkwardness, and a range of emotions when discussing. Individuals may feel shameful about their profession and would rather not discuss their experiences. This limits research, especially government-funded research, when even officials themselves do not want to talk about it or cause any conflicts.

*...governments have found it exceedingly difficult to tackle the problems, in large measure because of the sensitivity and complexity of the issues involved and the range of circumstances of those working in the sex sector. The sex sector is not recognized as an economic sector in official statistics, development plans or government budgets. It has only been in recent years that some aspects of the commercial sex sector, in particular child prostitution and sex-related tourism, have attracted large-scale attention and prompted public discussion and national and international action. (Lim, 1998, p. 1)*

Another barrier is the complexity of Thai language, and how sometimes meanings and words can be lost in translation. Translations of interviews and books may be slightly off, as well as native Thai speakers having trouble finding the correct English word or phrase to describe their feelings or thoughts.

There are also cultural differences between Canada and Thailand, so interpretation may vary. For example, Thailand has an indirect communication style, so a Westerner may misread their intentions or meaning. Furthermore, it may be difficult for many sex workers to talk about their experiences due to the directness of interviews and the topic, and may not want to share too much. "Keeping the harmony" and not causing conflict is a Thai value, so subjects may avoid confrontation about personal questions, avoid interviews, or may lie about answers in order to keep the conversation going, without having to say no to a question.

## INTRODUCTION

The sex industry in Thailand is one of the most famous in the world. This industry is interesting – it is simultaneously illegal and looked down upon, yet is condoned, celebrated, and utilized by millions of people every year. Under the "Prevention and Suppression Act B.E. 2539 (1996)", prostitution, prostitution establishments, and anyone who

owns or manages a venue or prostitute are illegal (“Prevention and Suppression,” n.d., section 4, 5, 11). Being an illegal industry, you would think it would not be a popular business venture. This is not the case in Thailand.

Prostitution is illegal, but it is easy to evade the law. Bribery and pay-offs put money into the pockets of police officials, while prostitution provides an income for workers and businesses, all while contributing greatly to Thailand’s GDP.

*In the last three to four decades, prostitution has undergone dramatic changes in some Southeast Asian countries. The scale of prostitution has been enlarged into the economic, social and political life of these countries. The sex business has assumed the dimensions of an industry and has directly or indirectly contributed in no small measure to employment, national income and economic growth. The organizational structures and relations within the sex sector have become very diversified and complex. They involve a growing number of vested and powerful interests and network of dependencies. (Lim, p. 1)*

No matter how many times Thai officials deny the power of the sex industry, it is without a doubt one of the top contributors to Thailand’s GDP, and has a massive presence in the country, for both locals and foreigners. It can be argued in a multitude of ways - whether the sex industry promotes sexual freedom for those involved, or if it is simply exploitation and traps vulnerable individuals. Furthermore, a question that can be asked is: how are stakeholders, meaning sex workers, business owners, and Thai police, impacted economically and mentally by prostitution, and how does the illegality of it impact them further?

## DEMOGRAPHICS

Today there is an estimated number of 250 000 prostitutes in Thailand (“Prostitution Statistics”, n.d.), although this number is solely an estimate that may be grossly off, due to prostitution’s undercover and illegal premise. Since the sex industry is illegal in Thailand, sex workers cannot register with the government, and many hide their profession, therefore it is impossible to know truly how many sex workers there are. Sex workers are made up of cis-gendered women and men and well as trans people. It proved difficult to find the percentage breakdown between male and female sex workers, as well as the number of transgender workers. To give a number, it is estimated that there is a 6:1000 ratio of transgender females (male-to-female transitioned) to cis-gendered males in Thailand (Yadegardfard, Meinhold-Bergmann, & Ho, 2014, p. 348). Many transgender females are referred to as “ladyboys” and make up the majority of Thai transgender sex workers. Although there is some demographic information available regarding Thai sex workers, it is limited due to the hidden nature and illegality of the sex industry.

Although prominent and important to be aware of, I will not be touching on the subject of child prostitution in Thailand, as almost 100% of the time the children are forced into the industry and have no choice. This paper discusses workers who both voluntarily and involuntarily join the sex industry, and since child exploitation is done, by nature, involuntarily, it will not be included in this discussion.

## HISTORY OF PROSTITUTION IN THAILAND

Prostitution in Thailand stems from hundred of years ago in the 14<sup>th</sup> century Ayutthaya period. Origins can be broken down with first the position of women in Thai society, and then the societal structures. In this period, many women were still slaves and did not have the same rights as men. The political system was broken down into two sections – high class and low class, i.e. the royals versus the commoners. The royals offered the commoners protection if they served them whenever asked, meaning men would often leave home in order to fulfill their duties. While gone, the idea of “temporary wives” began. Prostitution itself was not established yet, but these

temporary wives acted both as a servant for a man and also for what they would typically do with their wife, i.e. sexual acts, for the time they were stationed in different towns. When prostitution began, it was legal in the 1300s to 1700s, but women were still the property of men. Polygamy was legal all the way up to the 1930s, and before that men had multiple wives ranging from one for the purpose of child-bearing, to slave ones for the purpose of sexual relief. Having multiple wives became a social norm in Thailand. When polygamy became illegal, the Thai sex industry was a huge resource for men looking to fulfill the benefits polygamy allowed them (Reyes, 2015).

Relating, slavery was abolished in 1905, so prostitution was a job option for former slave women - many chose the path solely to survive. There was little choice for the uneducated, so selling their bodies was one of their only options. There were many influxes of prostitution use in Thailand, including huge increases during World War II. When Japanese military occupied Thailand, the Japanese utilized the sex industry massively (Reyes). Moreover, Americans participating in the Vietnam War would use their weeks of "Rest and Relaxation" in Thailand and use sex services repeatedly. Because of this influx, the sex industry grew massively, with more and more brothels, sex parlours, and bars popping up everywhere. The well-known sex-capital of Thailand, Pattaya, was originally a relaxed beautiful fishing village, which attracted many soldiers. Wherever the soldiers went, they wanted sex services, thus, bringing prostitutes and business owners to set up camp. There was rapid growth of resorts between 1968 and 1973, constructed from agreements between Thai businessmen and the U.S. military to secure their occupancy. Trade collapsed in 1975, and the occupancy of the resorts dropped rapidly. Trying not to be defeated, the businessmen hired workers to promote the resorts and paint the picture of Pattaya as a beautiful vacation town. Soon enough, their efforts worked out, and by 1981, Pattaya was booming once again (Montague, 1989, pp. 10-11). Naturally, the reputation of Pattaya being a sex-town spread like wildfire and brought in many male tourists, contributing to the sex tourism industry Thailand has today.

## PROSTITUTION AND BUDDHISM

In Thailand, Buddhism is practiced by almost 94% of the population (Hayes, 2008), although, there is a paradox between the massive popularity of prostitution and the role of Buddhism in Thai culture.

*...the crucial question is what role Buddhism played to define women's status and position and how sexual society and the very question of prostitution have been treated by Buddhist philosophy. The subordination of women comes through the epigraphic and documentary sources and Buddhism sanctioned this subordination too. Buddhism structured the world in such a way that karma the physical, verbal and cognitive actions of past lives – and the accrual or loss of merit in consequence of those actions conditioned the differences between any two individuals in social status, talent, wealth and power. Karma also considered gender. To be a woman and not a man meant that a woman had an inadequate store of merit, and the only way to remedy this situation was for a woman to make merit through acts of religious devotion (Ghosh, 1998, p. 876).*

Due to the inequality of women in Thai Buddhist culture, there is always a contradiction, one could call it a double-edged sword. Women are seen as subordinates and should do all to please their husbands and men, but at the same time, are punished for being sexual beings. Moreover, celibacy is considered a goal that many Buddhists should achieve, yet the sex trade industry in Thailand is arguably one of the largest in the world. 75% of Thai men have engaged in paid sexual services at least once (see Figure 1). Prostitution is seen as an acceptable part of Thai men's culture, so the topic can often be conflicting. Furthermore, women are expected to "pay off merits" according to Buddhism. It is considered that the women owe their family, and paying them off with money is one of the ways to repay them. Many earn the money through prostitution, as it is some women's only option, and then send the money back to their family.

## CULTURAL FACTORS – HOFSTEDE MODEL

Hofstede's cultural dimensions (see Figure 2) describe a country's cultural values and attitudes and how those can influence behaviour. Some of these dimensions have notable influence on Thai society's behaviour towards the sex industry.

### **Power Distance**

Power distance can be described as the distance between lower and higher classes and how prominent the gap is, specifically, "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally" ("Country Comparison," n.d.). It is engrained in Thai culture that there should be a power distance between members. This can mentally promote classism and sexism that often remains unquestioned. Power distance between clients and workers can sometimes be dangerous, as it promotes the message that the client has control over the situation, as they are the more powerful individual. This can be the same case for managers or owners of prostitution venues and their respected employees, as well as police and officials engaging with workers and business owners.

### **Individualism**

Thailand's low score for individualism pressures members of society to conform to social norms and to look out for the collective whole rather than the individual. For example, Prae, the Thai sex worker I interviewed, felt it was her duty to provide for her family and also felt immense pressure to do so (see Figure 3). Similarly, family loyalty and respect is high priority, so engaging in acts that bring shame to family members is highly offensive ("Country Comparison"). For many families, sex work is something that can disrupt the group, so workers will keep their profession a secret in order to "save face" and not draw attention to themselves or their family.

### **Long Term Orientation**

Thailand has a low score on long term orientation meaning they value tradition and norms and do not welcome societal change easily ("Country Comparisons"). This low score points to how traditionalist Thai people are often against family members working in the sex industry. Sex workers are profiled and discriminated against in many cultures, and the movement towards sexual freedom and liberation that often accompanies sex work is denied by normative Thai people. Although, after speaking with some young Thai students, the attitude may be slowly changing as younger generations become more liberal towards the topic.

## MENTAL EFFECTS OF PROSTITUTION IN SEX WORKERS

The range of mental effects on sex workers greatly depends on a variety of factors such as work conditions, health status, income, and how they got started in the sex industry. For example, if a sex worker was forced into the industry, or are working as part of a debt bondage, it is much more likely for them to suffer from mental health issues. Some prostitutes are forced to sleep with as many men as possible per night, which can wreak havoc on both physical and mental health. With awful working conditions, long hours, risk of sexual disease and infection, and looming anxiety over who they owe money to, it is easy to understand why many sex workers have an unhealthy mental state. Many women are brought over from neighboring countries and promised a job, but in reality, they arrive in Thailand and are told they must now pay off the debt of the travel through prostitution. Some migrants may be told a specific number, but even if they think they have earned enough for repayment, the end of their sex career is not in sight.

In order to cope with these dark times, women often begin to abuse drugs or alcohol, further worsening health conditions. Liza, a former sex worker, states she once was forced to strip on stage even though that night she

suffered massive bleeding from a miscarriage. Furthermore, she quotes, “that night there was a Chinese businessman at the club. He was a friend of the owner and told him that he wanted me to be his girlfriend – exclusive to him. I was brought to his apartment and handcuffed to a chair. He made me his sex slave” (Lewis, 2011, para. 7). To imagine this horror is terrible in itself. To be subjected to the level of inhumanness being a sex slave brings, it is something that can be irrecoverable from. Similarly, rape is common in the sex industry, as sex workers will often put limits on what they are willing to do with a customer, but there are cases where the customer denies the worker’s request and rape occurs. Even worse, because prostitution is illegal, there are few services to help a worker recover and heal from this.

*Sex workers who experienced violence find that if they report any crime, even very violent crimes like rape, they are threatened with arrest on prostitution charges and frequently turned away from the police station. They also find that they struggle to have complaints taken seriously as well. Unable to seek help from police and local authorities for fear of being prosecuted or unfairly judged due to stigmatization, sex workers have to tolerate these abuses which also make them vulnerable to STI/HIV (“Joint UPC Submission,” n.d., p. 2).*

This is the case for Thai-born workers, and those who are undocumented face an even tougher situation – if they face the police, they risk deportation or being arrested.

Psychological effects from the taboo of sex work are also prominent. It is a very controversial subject in Thailand and most of the world, so it can be a difficult topic to discuss. Many workers will keep their work a secret in fear of judgment from friends, family, and society. Keeping large secrets like this can cause major anxiety and interfere with daily life. On the other hand, allowing others to know of their profession can be judged extremely harshly and bring shame upon the individual. The individual may be ousted to the public, become an outcast in their social group, or made fun of by others. Physical abuse may happen in some cases, as family members “slut shame” them or believe they are bringing disgrace to their family. This kind of attitude towards sex work promotes the isolation of workers and diminishes their dignity. When one faces massive belittlement and degradation, negative feelings and thoughts can take over.

Relating, Thai “ladyboys” may experience worse mental health than cis-gendered workers. Even though transgender females may seem to be more accepted in Thailand than other countries, it is mostly the large cities that accept them. Having to hide their identities from their families or hometowns can be exhausting. It is also more likely for transgender women to face abuse, rape, violence, and hate speech than others (Togetherness For Equality & The Working Group for Gender Equality, Rights and Freedom Thailand, 2017, Substantive Violations of the Convention section). Moreover, it is less likely for them to report the abuse due to the untrustworthiness of police and government, who often take part in the abuse themselves.

Although negative experiences in prostitution is common, sex work can be liberating and positive for some. Asian Correspondent speaks with a transgender sex worker, Aris Sangkharom, on the topic of prostitution and her feelings about it.

*Sangkharom wasn’t always a sex worker, nor did she ever envision herself as one. But, her prior employment — competing in lady boy contests in Isaan, a region in Northeastern Thailand — wasn’t a stable source of income. In search of economic opportunity, Sangkharom moved from her home in Isaan to Bangkok. After briefly working at a bar in Nana Plaza — one of Bangkok’s notorious red light districts — she relocated to Pattaya after her friends invited her to work at Club 131, a go-go bar that recently opened in the area. Sangkharom, who has been working in the sex industry for about 10 years, speaks with pride when she talks about her occupation. Not only does sex work allow her to be economically self-sufficient, but, as someone with an exuberant personality, it also provides her with the freedom she desires. “I like sex work*

*because... it makes me feel good," she said. "I can choose [the man]. It's up to me. I can do my way. I can dance and have music, drinking [and] relax." (Boccagno, 2015, para. 6).*

Sex work is not just having sex with clients. It can include dancing, stripping, massages, or taking part in conversation. Some may find friendship with clients or romantic relationships. Some workers are able to choose their limits in how far they will go with a customer, and genuine fun can occur. As shown, sex work can be liberating, fun, and enjoyable for those who choose to take part in the industry. Many feel they have control over their sexuality, can express themselves freely, and get paid much better money than other job opportunities.

## ECONOMIC EFFECTS

"Tourists don't come to Thailand for such a thing. They come here for our beautiful culture" (Tanakasempipat, 2016, para. 6), says Kobkarn Wattanavrangkul, the former tourism minister of Thailand, on sex work. This is clearly untrue, considering the massive revenue sex work brings in for Thailand every year. Thailand receives over \$6.4 billion in revenue from sex work each year, and has over 26 million tourists each year, with around 70% suspected to come to the nation to engage in the sex trade, also known as "sex tourists" (Lines, 2015, p. 89).

Bars, restaurants, and clubs who integrate sex work into their business plan can make immensely more than their counterparts. Pretty girls lure tourists and locals into the venues, and then can make money through sexual services they offer.

Sex workers often start in the business because it is a way to make the most money, compared to the few other options they have. It is a way out of poverty for many women, especially those from northern Thailand. Many sex workers come from no education, so sex work gives them a chance to get their feet off the ground, provide for their family, and survive. Even if a worker is not from poverty, it is an appealing profession for many due to its often high pay-off, with the average encounter starting between 1000 – 2000 baht (\$40-\$80 CAD) (personal communications, November 22, 2018).

Sex work also stirs up economies near brothels, massage parlours, go-go bars, etc. as people flock to famous alleys such as Khao San Road, Soi Cowboy, and Pattaya Walking Street, to see the infamous bars and workers, and as a result, other businesses reap the benefits as well. To shut down the sex industry would put thousands out of a job, lower Thailand's GDP, and also decrease tourism. Unless the government was able to provide resources and alternative jobs for sex workers, it would put many of them back on the street or into poverty.

## ILLEGALITY OF SEX WORK

Prostitution is illegal in Thailand, but the stakeholders involved – sex workers, establishment owners and managers, and police – are impacted both positively and negatively from the illegality of it.

### **Benefits**

For sex workers, there are multiple benefits of working illegally that often outweigh the fear of consequence. First, anyone from any country can work in Thailand as a sex worker, even if they are an illegal immigrant. There are no background checks and as long as they make it into Thailand, they may start working. Sex workers are not required to register with the government, meaning they may keep their profession a secret if they want to. Many sex workers feel ashamed about their work, so maintaining secrecy is the number one priority for most. Needing to register would ruin many lives, bring shame to themselves, leading to leaving the industry and no longer having a reliable income. Relating, if someone is an illegal immigrant, not having to register allows them to work "under-the-table" without getting caught. There are no regulations for hours or working time either, so they can work as often they

like. Workers are also paid in cash, so they do not get tax cuts for their paychecks. Moreover, although not ethical, by not being bound by typical business laws and norms, they can easily scam tourists without risk of being fired, especially if they are self-employed and not working for a company. Legalization of prostitution can be seen as taking away the freedom it gives workers. Many see the work as liberating and having no boundaries, where legalization would set strict regulations and rules.

For businesses, there are also many benefits of sex work being illegal. For example, without workers' rights, businesses do not have to provide any benefits – insurance or vacation pay, to perks such as lunch breaks, staff rooms, and so-on. As immoral as it may be, this cuts down costs immensely. Owners and managers may hire and fire workers as often as they please, without any reasons needed. No matter how bad the working conditions are, workers cannot sue the business or take legal action. Many owners pressure girls to go far with their clients, and if they oblige, they may cut their pay. Also, without regulation, the profit from the business goes directly to their pockets, not the government's. Even if police come in to raid businesses, it is not common that businesses actually get shut down. Speaking about the raids, *Reuters* says, "...police raided dozens of brothels in major cities in what they said was a routine operation. Police said they were looking to prosecute venues employing underage and illegal migrant workers, but only one of the venues were shut down" (Tanakasempipat).

For police, the benefits may be reaped the easiest out of all the stakeholders. Bribes and pay-offs are guaranteed for them. If a business or worker refuses to pay them off in order to keep continuing their work, they can just have them arrested. It is a win-win for them. Monthly rounds to businesses and streets ensure a consistent profit for them. Officers make between 200 000 to 400 000 baht (\$8 000 – 16 000 CAD) per month, with most venues starting at 10 000 baht (\$800 CAD) each (Kornrawee, 2018, para. 6). As long as prostitution is illegal, police can always find a way to make workers or businesses pay up.

## **Consequences**

Although there are many benefits for stakeholders from prostitution being against the law, there are grave consequences that can sometimes be overlooked.

The illegality of the industry makes prostitution far more dangerous for sex workers than if it were legal. There is no protection for the workers. If rape, abuse, or dangerous work conditions occur, there is nothing that they can do about it. If they make their work known, they will be arrested, or have to pay officials off, still without any action taken for the worker. There can be instances where clients take things too far and become aggressive or injure the sex worker. Sexist or classist mindsets are very dangerous in the sex industry, because when clients look down upon the worker, they may believe they have complete authority over them as there are no regulation or rules protecting the worker. More so, if someone wants to leave the sex industry, there are few resources available for help, trapping them further into the industry.

Regarding societal views, making prostitution illegal states the consumption of sexual services is not right and shames people's natural sexual curiosity. If someone wants to engage in or provide sexual services by their own will, it should not be shamed. As long as both parties consent, it is a fair transaction, and all parties are treated the way they would like, why shouldn't sex work be allowed?

Since the industry is illegal, there is little health care provided from the government, so the risk of sexually transmitted diseases and infections are high. Thailand has an HIV and AIDS issue, contributed highly from both the sex industry and little sex education and resources ("HIV and AIDS," 2018). For example, Pla, a sex worker in the documentary "Bangkok Girl," passed away a week after her interviewer left Thailand, due to a heart condition that was never detected. She could not afford health care, and there were no resources for her to use (Clark, 2005). This is a reality countless sex workers have to face.

Businesses suffer from the illegality by constantly having the fear of legitimate officers coming in and shutting down their business. They also must pay off police and provide bribes whenever requested. If prosecuted, businesses can face up to 15 years in jail and pay up to 300 000 baht (\$12 000 CAD) in fines (Kornrawee).

For police, the consequences may be less obvious, but still make a large impact. For example, they have to spend time seeking out venues or workers in order to be paid off, when they could be contributing their time to much more important issues. When you are a Thai police officer, it is easy to become corrupted. They are not being paid enough, so taking bribes is an easy way to supplement your income. Thus, corruption and bribery become an ingrained motive for police and government workers that is extremely hard to break. Even if someone does not believe morally in bribery, their family may need the extra money desperately. Contrasting to many beliefs, those who benefit from corruption are not always evil people.

## ALTERNATIVES

“The crime control model we use is clearly not working” (Kornrawee, para. 2), says Mataluk Orungrot, an assistant professor from Thammasat University. She vows prostitution decriminalization is the next step, because the illegality of it makes it more dangerous for workers. A main issue in Thailand is under The Prevention and Prostitution Act 1996, the sex worker is fined rather than the customer. This is opposite to Canadian law currently, but both sides are controversial. Many believe the customer should be punished rather than the sex worker, as it can be seen as decreasing the amount of customers partaking in sex acts. “If we punish the customers or make buying sex illegal, we make them consider: ‘Is it worth it if I have to pay for the sex and offend the law?’ When the investment is risky, do they still want to invest?” says Orungrot (Kornrawee, para.12).

But, there are many ways to contradict her statement – “Ping Pong”, a Bangkok sex worker says, “If buying sex were illegal, only those who are not afraid of the law – like people with criminal records – would be our customers” (Kornrawee, para. 14). If criminals are the ones purchasing the sex, the lives of sex workers would likely become far more dangerous than previously. It also poses the risk that sex workers will try to take their work more underground and more secluded in order for their customers to come to them, furthering the risks.

Other than switching the punishment from sex workers to customers, decriminalization overall may be more beneficial. Comparing to legalization, it may have less strain on the workers. In a general definition, the legalization of sex work means it would be regulated by the government with strict requirements, and if sex workers went outside guidelines or laws, they would be punished. It may also include specific areas they are allowed to work in or not, with regular police visits (Mullin, 2015). Decriminalization means the laws of prostitution are removed, but those in the sex work industry must still abide by all regular country laws. Decriminalization would make it safer and easier for all of those in the sex industry in a few ways. For example, if it was legalized, those working undocumented would be in even more dangerous conditions, as legalization often requires registration. Furthermore, registration has negative effects for other reasons, including outing those who keep their profession hidden due to social stigma or other reasons. For example, in Germany, only a miniscule amount of workers registered with the government, overwhelmingly due to shame brought on by the stigma attached and fear of being outed (Oltermann, 2013). Overall, it seems decriminalization of prostitution would be the safest route, especially for sex workers.

## CONCLUSION

The sex industry in Thailand is a complex and controversial subject. It can be analyzed in a multitude of ways, with arguments from many viewpoints. After researching the effects imposed on workers, business owners, and police, it was demonstrated that there are prominent benefits and consequences of the industry, as well as how differently

the illegality of it affects the stakeholders. It can be concluded that the current situation of the industry is dangerous and the Thai government needs to decipher a plan of action that ensures every stakeholders' safety.

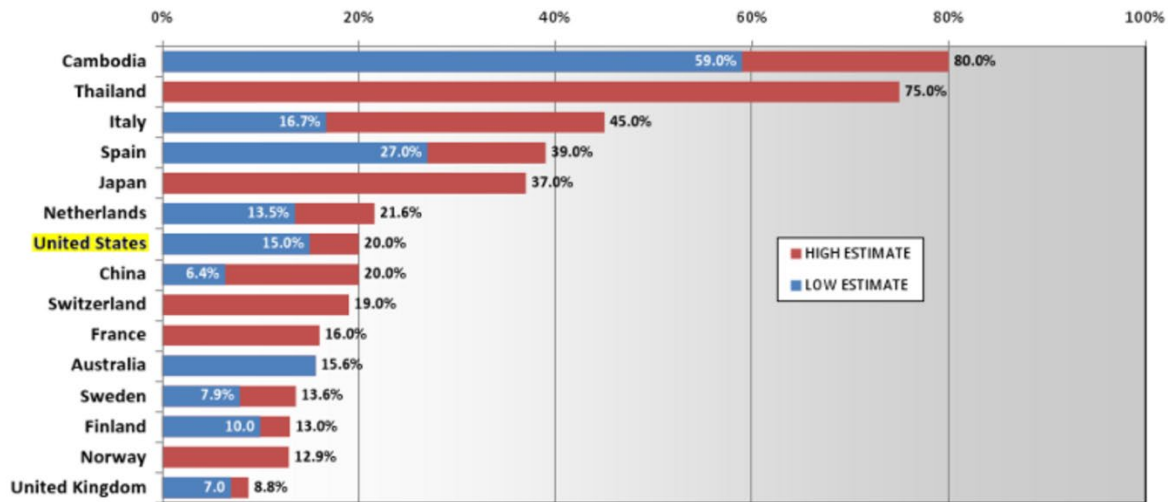
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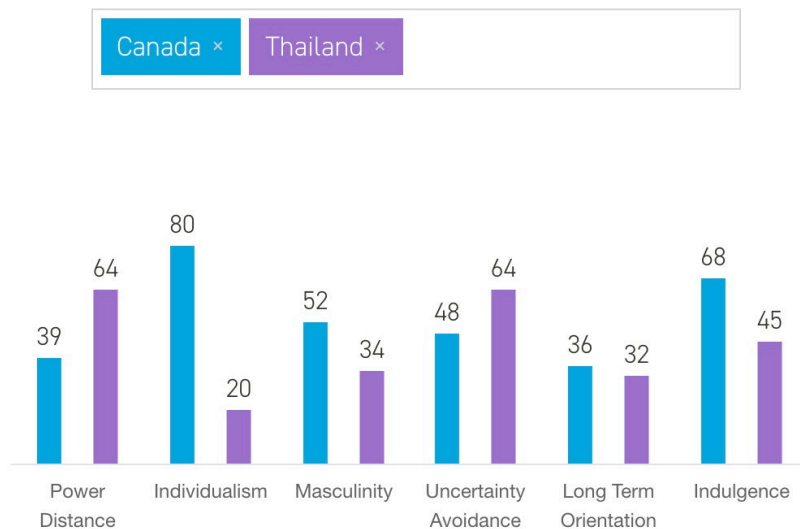
APPENDIX

Figure 1.



The percentage of men who have paid for sex at least once. (“Percentage of men”, n.d.).

Figure 2.



Hofstede’s cultural comparison on Canada versus Thailand values. (“Country Comparison”, n.d.)

### Figure 3. Interview

Through a set-up from a local Thai friend, I had an interview with a local sex worker, Prae. We met before she went to work at a go-go bar in Bangkok's red light district. For privacy reasons, the bar name is omitted. Prae spoke both English and Thai to us, so this interview is partly translated and corrected for proper English. Irrelevant conversation has been omitted, thus, the transcript includes only the questions used for research purposes. Transcript:

Daniella (D): How often do you work at the bar?

Prae (P): Every day. I start around 6 or 7pm and off usually around 4am. If I am lucky I make enough money to leave an hour or two early, but the owner does not like that when you leave early.

D: When did you start working there?

P: I was 14 when I felt pressure to start working. I was at home with my family after I stopped going to school when I was 10. My family needed help at home to take care of my brothers and sisters, but we were poor. I needed to help my family, it is my duty. So, I went out to look for a job. I had a friend working at the bar who told me she could get me a job. All I needed was to buy makeup and sexy clothing and could begin making much more money. I think she was paid by the owner to recruit, but I needed the money very bad.

D: Did you have to pay to start working?

P: No, not to start, but once I began making money, I pay a percentage to the owner for every baht I make.

D: Can I ask how much services start at for most workers?

P: Sure. It is around 1000 – 2000 baht depending on where you work and how much you need money.

D: How do the police treat you?

P: They are not nice. When the bar has to pay them off, much of it comes out of our pockets. They come in every month, and mess up everything. I think they do it because they do not like us. But, they benefit from us being here. They are corrupt. Police see our girls and then turn around and start abusing. They are hypocrites.

D: Do you like working there?

P: I like the other girls and have made good friends here, but I do not enjoy the work. But, I do like the money. Sometimes I meet a nice man and he comes to visit me many times. But, one day he does not come back after he says he will. Many of us have heartbreak here, even though you may not think. But no, I do not like the work, but it pays better than any other option.

D: What are the conditions like?

P: It depends – we have rooms in the back of the bar, or a man will take you to a hotel. I have seen some very bad ones, but farangs (Western men) can be rich. There are many beautiful hotels I have been to. I especially like sleeping in the comfortable beds or taking a nice bath after. But I often leave after sex unless I am paid more.

D: Are there rules of the bar?

P: Yes, but it depends if the owner enforces them or not. For example, we cannot say no to any farang. But, if they get violent in any way, they will be thrown out. Farangs are rich. They will spend money at the bar, so we must not turn them down. Sadly, we cannot say no to any of the owner's friends either, and some of them do get aggressive, but nothing is done about them. I have never been hurt bad, but some other workers have.

D: Do you have a plan for the future?

P: Not sure, not sure... I want to leave this work in the future, but I don't know what I would do. I have no proper schooling. Maybe I will marry a farang and live a nicer life. Not sure. But not this forever.

(Personal communications, November 22, 2018)

# The Implications of Grab in Bangkok

Tony Martin

## ABSTRACT

On March 26th, 2018 the largest merger in South-east Asia history occurred between global vehicle-hail company Uber, and South-east Asia's leading vehicle-hail company Grab. The merger between Uber and Grab has raised many tensions throughout Bangkok, Thailand. When walking through the streets of Bangkok, it seems that Grab drivers are now at war with traditional Meter Taxi drivers. The negative stigmas that surround Meter Taxi drivers in Bangkok has allowed Grab to become quite successful in a short amount of time. As a result of Grab's success, many of their drivers are faced with poor working conditions due to the actions of Meter Taxi drivers. Instances of threads, violence and an on-going mafia-style turf war has begun to affect the public of Bangkok and employees from both Grab and Meter Taxi.

Although Grab has been marginally successful in their first in Bangkok, they face an uphill battle when trying to establish a reputation with the business world. Cultural factors such as normative thinking and respect for tradition have possibly held businesses back from utilizing Grab in their day-to-day operations. The purpose of the paper is to explore the many implications regarding Grab and their journey to become Bangkok's most popular and safest means of transportation for locals, tourists, and businesses alike. By performing interviews on various sources, and applying secondary research to this paper, a fundamental understanding of this phenomenon from all angles can be concluded.

## METHODOLOGY

### Primary Research

The Grab phenomenon is somewhat new in Bangkok, and therefore, the amount of information regarding certain areas was limited. Due to the limited resources, I was required to go out into the city of Bangkok and uncover some info on my own. Throughout my journey, while living in Bangkok for five months, I utilized Grab's services, as I wanted to avoid any issues with Meter Taxis. During these experiences, I was able to interview Grab drivers informally and discover more profound insights about who they are.

In addition, after many rejections from various hotel chains located in my subdistrict of Bangkok, I was finally invited to speak with a woman named Puum, who has been working in the hotel industry for seven years now and was able to provide a fascinating perspective regarding Grab and the hotel industry.

My last primary source was Chira Indystar, who is a local English-speaking restaurant owner operating close my apartment. Chira provided me with a handful of educational conversations and was always willing to point me in the right direction whenever I was stuck on an idea during my research process. As a fifty-nine-year-old Bangkok Citizen, Chira has a lot of knowledge on the history of Bangkok and their Meter Taxi problem.

### Secondary Research

The secondary research that was utilized throughout this paper is a mix of other academic journals, news articles, travel blogs, and government websites. As a 2018 phenomenon, locating academic sources that focus on Grab was

a challenge. A vast majority of the research used is qualitative, as quantitative figures often did not the projected message intended for this paper.

## INTRODUCTION

As the growth of Internet usage in the world continues, more and more services are adapting to a less ‘traditional approach’ to business and are utilizing an online presence to capture their target audience. The vehicle-hail industry is following this trend closely; with companies like Uber becoming an everyday household name. In Bangkok, Thailand however, a fascinating phenomenon has occurred in recent months. The Grab vehicle-hailing company has entered the market, allowing individuals to find a ride to anywhere in the city with the press of a button on their smartphone. Since Grab’s penetration in the market, there have been many controversies between traditional Meter Taxis and Grab drivers. These controversies include turf wars, physical threats, and violence.

This research paper will examine the vehicle hire industry in Bangkok, Thailand in hopes of providing some insight as to what may be expected for the future of the Bangkok citizens and the industries such as hospitality and airports that rely on the ride-hailing services to ensure that their operations run smoothly. In addition, we will be providing Grab with a possible recommendation to increase popularity amongst Bangkok citizens and businesses. Many media outlets only focus on the positive aspects that come with companies such as Uber, Lyft and Grab entering the market, but the scope of this research paper is to shine a light on of the ugly truth behind introducing vehicle hire companies into a city near you.

## BACKGROUND – GRAB VS. THE METERED TAXI

### **An Overview of Grab**

The Grab company is a household name in Bangkok, and whether you love them or hate them, it appears that they are here to stay. Grab is a smartphone-based company that was established in Singapore and allows users to book trips from A to B with the click of a button. Grab has the vision “to revamp the Thai taxi industry, making [the taxi industry] a safer and more efficient mean of [transportation]” (Grab, 2018a). Their services ensure that you safely get to your desired location in vehicle type of your choice.

The Singaporean smartphone-based vehicle-hailing company entered the Bangkok market on March 26th, 2018, when they successfully acquired Uber’s Southeast Asia Operations (Grab, 2018a). Grab’s take-over for Uber is said to be the largest acquisition by any South-east Asian company. The exact value of the purchase has not been publicly announced, but sources have leaked that the deal gave Uber a respectable 27.5% ownership in the Grab company (Keeton-Olson, 2018). In a letter to his team, Uber CEO Dara Khosrowshadi expressed the merger was a strategic investment that “puts [Uber] in a position to compete with real focus [...] in the core markets where [Uber] operates” (Uber, 2018). Despite many skeptical opinions on the deal, both Grab and Uber seem to have benefitted from this deal in the long run.

### **Who are Driving Grabs in Bangkok?**

Grab offers an incredibly flexible schedule to its employees. Whether you are looking for full- time employment, or just wanting to earn some extra spending money on evenings and weekends, Grab will fit your schedule. Grab advocates that they offer their drivers “[the] freedom to pursue [their] passions [outside of work]” (Grab, 2018c). During personal experiences using Grab, I was able to informally interview Grab drivers to discover their motives behind operating a Grab car. My insights found that 82% of driver’s had other sources of income. The income came from lower paying jobs such as security guard positions to middle-class jobs such as a construction project analyst. Through these insights, we can see that Grab drivers can come from a variety of backgrounds. However, one

interesting discovering that was discovered through my research is that all of the drivers considered it as a part-time job. Although the sample size was relatively small due to English language limitations, we can see that Grab drivers are utilizing it as a way to get some extra spending money to their household, and do not see it as a full-time position.

### Grab Application’s Pricing Model

The Grab application uses a sophisticated algorithm to calculate prices for customers. The algorithm utilizes an array of factors to calculate the amount a user will pay before they order their service. Some of the elements that the algorithm uses to calculate a price include a base fare, cost per kilometer, cost per minute, toll charges, and airport premiums (Grab, 2018b). Figure 1 provides a more detailed breakdown of Grab’s pricing scheme.

Although Grab’s pricing model is complicated, the application provides users with a simple price estimation for each desired trip that they want to take. The prices that are quoted are fixed and will not change despite unfavourable traffic conditions. The non-changing price is a feature that sets Grab apart from the tradition taxi meter, as knowing the price before beginning a trip is something that some customers may prefer and do not have access to when using a Metered Taxi.

As you will see, the overall pricing of Grab is slightly more expensive than a Meter Taxi from the start of the journey, with Grab fares starting at 55 THB, which equals about \$2.25 (Grab, 2018b). The supply and demand multiplier that is used when Grab calculates its prices not listed publicly by Grab, but speaking from personal experience, I can say with confidence that the multiplier inflates the price beyond what you would pay from a Meter Taxi during almost every journey. When utilizing Grab to get to your desired location, you must understand that overall you will pay more than a Meter Taxi, but extra costs help to cover the booking fees for Grab (Grab, 2018b).

Moreover, Grab drivers are given a choice to drive each customer to their desired location before they commit to the ride, which eliminates any denial of service when the driver arrives. Each Grab driver also holds a rating for their service that allows customers to see that the driver acts respectfully and is a qualified driver, creating a positive atmosphere in the customers head while utilizing the service.

**Figure 1: Pricing Model of Grab Application Algorithm (Grab, 2018b).**

Note: 25TBH is equal to approximately \$1 Cad.

#### An Overview of the Metered Taxi

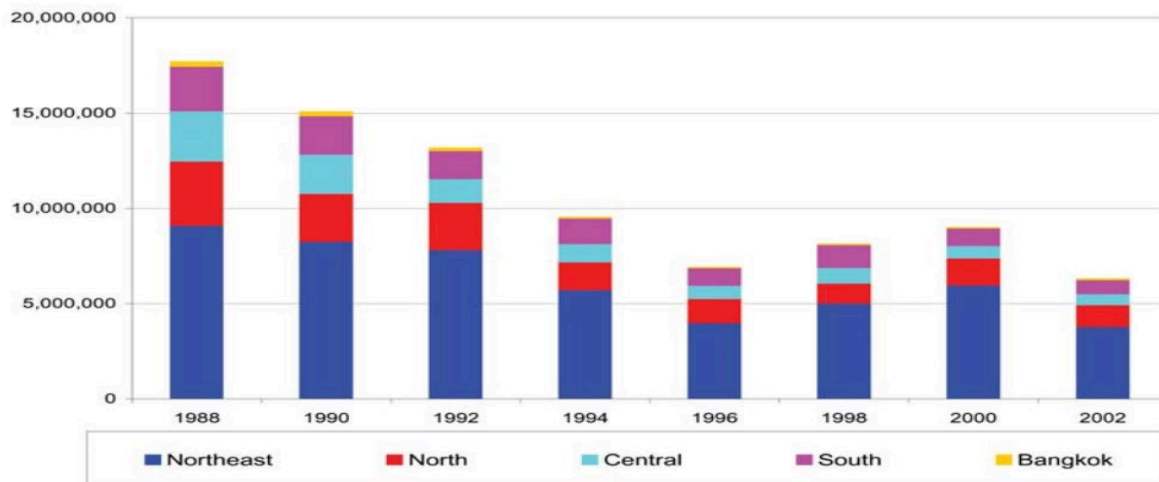
Much like every other major city in the world, Bangkok is filled with taxi cars and vans that are easily summoned by a simple hand gesture on the side of a road. The Land Transport Department claims to have approximately 140,000 Taxi cars registered in Bangkok area (Torjesen, 2015). The large number of taxi cars that are currently serving the Bangkok streets is a result of the 1992 taxi reform. The reform was a crucial stepping stone that shaped the way Bangkok taxis are run today by

Applicable / Displayed Fare	
Base Fare	55 THB
Fare per KM (For 0-5 KM)	+3 THB per KM
Fare per KM (For 5.1 KM onwards)	+6 THB per KM
Fare per minute	+2.3 THB per minute
Fare is set at the time of booking in the Grab app and is susceptible to demand-supply ratio of cars and taxis in the area, as well as any additional surcharges.	
Toll Charges	According to the tolls incurred during the course of the trip, from pick-up point to destination.
Airport Surcharges	Suvarnabhumi(BKK) + 100 THB (for travelling to-back airport)
	Don Muang(DMK) +100 THB (for travelling to-back airport)
Advance Booking Fee	Not available

implementing three policies regarding taxis in Bangkok (Hickey 2013, p. 6). The first, and arguably most significant change in policy was the elimination of the taxi license quota, which allowed an infinite number of taxis to operate in Bangkok; creating a free-market economy (Hickey, 2013, p. 6). Second, a policy was introduced that deemed taxi cars to be no more than twelve years, meaning that no taxi on Bangkok’s streets in 2018 is to be older than a 2006 model. (Hickey, 2013, p. 6). And finally, all taxi cars were required to install a visible meter to display the price as it increased in real-time (Hickey, 2013, p. 6). The history of the taxi is vital to understand, as we can see that the policies surrounding Meter Taxis are somewhat new. By introducing Grab into the market, the government planned business model for transportation has been shaken tremendously.

**Figure 2: Displaying the number of individuals labelled as “poor” in each region in Thailand** (Thailand’s National Economic and Social Development Board & the World Bank, 2005, p. 6)

**Who is Driving**



**Metered Taxis in Bangkok?**

Both research and my personal experience indicate that Bangkok taxi drivers are traditionally Thai citizens. Although some Bangkok taxi drivers are born and raised in the heart of the city, the majority of drivers have migrated from north-eastern Thailand (Torjesen, 2015). Migration to Bangkok occurs due to lack of opportunities in North-eastern Thailand (Torjesen, 2015). Majority of Thai citizens refer to the north-east region as “Isaan,” and in the interests of aligning with local terminology, the North-east region of Thailand will be referred to as Isaan throughout the rest of this paper (Prado, 2010).

The Isaan area is primarily known as the lower income area within Thailand, with a much higher concentration of individuals labeled as “poor” in comparison to the other regions of Thailand as seen in figure 2. Although statistics in figure 2 also show considerable improvements in the incomes of individuals in the Isaan area compared to previous years, “about one in two [Isaan] families rely on migration and remittances to boost income” (Thailand’s National Economic and Social Development Board & the World Bank, 2005, p. 8). Briefly exploring Isaan’s economic situation provides some context regarding why a majority of Bangkok’s taxi drivers come from Isaan and provides some perception on topics ahead.

**Meter Taxi’s Pricing Model**

Meter Taxi pricing is one of the more controversial topics on the internet when you are researching Bangkok. What you SHOULD pay versus what you ACTUALLY pay are often two different things. The non-ethical behaviors of some taxi drivers in the city have caused an uproar of negative blog posts, articles and overall stigmas that surround taking a taxi in general. These negative stigmas may be what has allowed Grab to become so popular with tourists and locals in such a short period. To truly understand meter taxi’s in Bangkok, we must first explore than

government regulated pricing scheme, followed by the sometimes-harsh reality that people experience when in Bangkok.

Before the 1992 reform, Meter Taxis worked through a negotiation system, where if you needed to take a taxi, you would agree on the price with the driver before departure (C. Indystar, personal communication, November 28th, 2018). Following the 1992 government reform that altered the taxi industry in Bangkok; all taxis were immediately required to install a meter in their car and follow the set rates that were introduced by the Land Transport Control Board (Hanaoka, 2007).

These rates were active from 1992 until December 13th, 2014, when the Ministry of Transport approved a fare hike that steadily increased prices by 13% throughout a six-month period (Webfact, 2014a). The costs of a metered taxi journey include factors such as a base rate of 35THB, varying per km rate, traffic jam fee when the car is moving less than 6km/h, applicable toll charges, and a 50 Baht airport fee if you are traveling to or from the airport. Figure 3 demonstrates the changes in price per km from the original 1992 policy to the 2014 policy that is used in the current day.

**Figure 3: Current government pricing model compared to the old government pricing model for Bangkok taxis (Rameriz, 2015).**

Note: 25THB is equal to rough \$1 Cad.

OLD Meter		NEW Meter	
0 – 2 km	35 THB	0-1 km	35 THB
2 – 12 km	5.0 THB	1 – 10 km	5.5 THB
12 – 20 km	5.5 THB	10 – 20 km	6.5 THB
20 – 40 km	6.0 THB	20 – 40 km	7.5 THB
40 – 60 km	6.5 THB	40 – 60 km	8.0 THB
60 – 80 km	7.5 THB	60 – 80 km	9.0 THB
80+ km	8.5 THB	80+ km	10.5 THB
Minute (slow traffic)	1.5 THB	Minute (slow traffic)	2.0 THB

### The Problem with Taxi Meters

Despite Meter Taxi drivers in Bangkok being bound by law to use the metered rate for each customer they encounter, this is seldom the case (Hanaoka, 2007). Taxis make up for 75.7% of complaints that are received regarding public transport (Department of Land Transport, 2015, as cited in Pueboobpaphan, Indra-Payoong & Pueboobpaphan, 2017, p. 78). In all of the complaints filed against taxis in Bangkok in the year 2015, 44.10% of them were to report a refusal of proper service from a Meter Taxi driver (Department of Land Transport, 2015, as cited in Pueboobpaphan et al., 2017, p.78).

Why would a taxi driver refer the meter you may ask? There is a variety of reason(s) that a taxi driver may refuse your ride. Some of the most common reasons that a Taxi Meter driver will refuse your journey include unfamiliarity with the route, the need to refuel, and traffic congestion (Panpakdeediskul & Tinanoi, 2018). In my personal experiences, one of the most influential factors in a Meter Taxi refusing your ride is a result of the “cost-reward structure” associated with driving a Metered Taxi (Panpakdeediskul & Tinanoi, 2018). Many times, the Meter price will not justify the ride length from the driver’s perspective, and therefore, he will refuse to take you to your desired

location. Due to the cost-reward structure that is currently assigned to Meter Taxi rates, “[t]he Thailand Development Research Institute’s (TDRI) on-the-ground research shows that the taxi business in Bangkok is on the verge of a crisis (Panpakdeediskul & Tinanoi, 2018).” With no meter rate increase in sight, the question to be raised is will Meter Taxis be able to sustain what is left their business?

Another reason there is such a high rate of complaints against taxi drivers is that they will often try to scam customers by offers an inflated fixed price as a substitute to the meter (Torjesen, 2015). The principle of offering a fixed-priced ride comes from the pre-1992 taxi reform, as taxis were once required to negotiate rates with each customer when no meter was available (C. Indystar, personal communication November 28th, 2018). Despite the use of a meter being required in all taxis throughout Bangkok, the principle of negotiated rates is still carried forward in 2018.

Many other factors can also influence a driver to refuse the meter and only offer a fixed rate. Some other reasons you may expect to pay a fixed price include an ongoing rainstorm, a trip to or from the airport, traffic jams in on route to your desired location, and the closing of a major sporting or entertainment event (Torjesen, 2015). Meter Taxis drivers in Bangkok have learned how to manipulate the system to get the most money each day. Although the practice of refusing the meter is more likely to occur in a tourist area such as the Grand Palace or Siam Centre, offering fixed prices instead of operating the meter is unfortunately still a common practice in Bangkok and should always be considered when analyzing the actual cost of using a taxi.

### **The Mafia-Style Turf War Between Grab and Metered Taxi**

With all of the negative stereotypes that surround taxi drivers in Bangkok, Grab was able to enter and capture the consumers that do not mind paying a bit more to avoid any confrontation or issues when using transportation. With its approximate seven bookings per second in South-east Asia, it is no surprise that Grab steals a considerable number of customers from the Meter Taxi drivers of Bangkok each day (Smith, 2018).

Chira Indystar, a lifetime Bangkok resident stated that ever since Grab has introduced its Bangkok fleet, a mafia-style turf war has developed throughout the streets of Bangkok (C. Indystar, Personal Communication, November 8th, 2018). Individuals that attempt to order a Grab to or from certain areas in the city may have a much harder time finding a driver to accept the ride due to the fear of confrontation of a taxi driver. If you are lucky enough to find a driver in a “claimed area,” you may receive a phone call from the driver asking you to walk around the corner, or into an alleyway. Common areas that these behaviours occur again include tourist areas such as The Grand Palace, Siam Centre, and Airports.

Understanding why these Grab drivers fear certain areas is not complicated to grasp, as there have been many incidences where taxi drivers demonstrated both verbal and physical assault when confronting other vehicle-hire services. One of the most documented examples in of confrontation between taxi drivers and other vehicle hire-services occurred in the city of Pattaya, which is located approximately two hours by car outside of Bangkok. On May 17, 2017, “Taxi drivers [...] surrounded an Uber [...] and forced a western passenger out of the vehicle” (Webfact, 2017b). Pattaya is an area well known for its mafia-style taxi drivers that try to claim a monopoly over the customer base, and although this incident was with Uber, there have been reported assaults on Grab drivers as well, including personal experiences of my own.

During my first month of studying abroad in Bangkok, I relied heavily on Grab’s services to get around, as I was not familiar with the names of certain places in the city to direct a Meter Taxi. During a routine trip to Tops Market, a local supermarket located within the Nanglinchee Mall, my Grab driver and I were confronted by two taxi drivers who began to yell at us in the Thai language. Following the innocent, my Grab driver informed me that this can be a common practice when entering certain areas of the city. The act also demonstrated how dangerous it can be when operating a Grab in Bangkok.

## BACKGROUND SUMMARY

### **The Grab**

Grab was recently introduced into the city of Bangkok, taking over from ride-hailing company Uber. Grab quickly became a popular way for tourists and locals to travel throughout the massive city. With their easy to use to app that continuously tracks your location, Grab has eliminated the need to stand on the side of the road to hail down a Metered Taxi. Drivers consider Grab to be a part-time job and do not face any pressures to pick up passengers from undesirable places, meaning each customer is their choice to serve. The pricing scheme of Grab utilizing an algorithm that is not fully known to the public but starts with a higher base price compared to Metered Taxis but offers a similar cost per Kilometer. Due to the supply and demand factor that is included in Grabs pricing scheme as seen in figure 1, Grab is almost always more expensive when compared to a Metered Taxi. However, the convenience of acquiring a ride without the struggles that come with hailing a taxi in Bangkok such as denial of service and only offering an inflated fixed rate has allowed Grab to succeed in Bangkok. A SWOT analysis for the Grab company is located in the appendix, labeled as figure 5 and summarizes the company's overall position in Bangkok. The analysis takes into account all of the topics discussed above and provides the reader with some deeper thinking on the Grab company.

### **Meter Taxi**

The meter taxi became a vastly popular occupation in 1992 when the Thai government implemented a policy allowing for a free market economy of taxis and a set required meter price. As a result of the free market economy, there are now approximately now 140,000 taxi drivers in the city of Bangkok (Torjesen, 2015). Many drivers are internal immigrants from Isaan that come to Bangkok with the hopes of sending their families back home remittances as a result of their taxi driving (Thailand's National Economic and Social Development Board & the World Bank, 2005, p. 8). The pricing scheme for the metered taxi has only risen by 13% since 1992, making taxi cabs very affordable, but have caused some issues throughout Bangkok (Webfact, 2014a). Due to the low pricing scheme of the metered taxi, many drivers are now refusing to take customers to areas if the ride is deemed to be not worth the low fair. Also, taxi drivers in Bangkok are also known for charging fixed rates to individuals to acquire more income in comparison to the metered price that was implemented by the government. A SWOT analysis for the Meter Taxi is located in the appendix, labeled as figure 6 and summarizes the company's overall position in Bangkok. The analysis takes into account all of the topics discussed above and provides the reader with some deeper thinking on the Meter Taxi.

## DISCUSSION - CURRENT TRENDS IN BANGKOK FOR BUSINESSES

Understanding the unique challenges that Bangkok's ride-hail industry faces is essential when moving forward into the business world. With many underlying issues that have been mentioned above, businesses that desire to utilize ride-hailing to operate efficiently need to evaluate the pros and cons for both Grab and Meter Taxi before choosing their service of choice. We will now look at the hospitality and airport industries to apply what we know about ride-hailing in Bangkok to the business world.

### **Suvarnabhumi Airport's – Grab's Struggle to Capture the Market**

The major international airport serving Bangkok is the Suvarnabhumi Airport, which is located approximately 40 minutes outside of the city during light traffic (Thuan, n.d.). Bangkok's newly designed airport is the busiest in Thailand, with 54,101,623 passengers passing through it in 2013 (Airports of Thailand Plc, 2014, p. 6). When you think of airport experiences, usually taking a taxi goes hand-in-hand with the experience. However, when Suvarnabhumi Airport was first designed, the plan was to eliminate taxis (Mike, 2016). When this plan became public, an uproar of complaints quickly changed the airport's taxi free design (Mike, 2016). Adhering to the feedback

from the general public, the Airport designers implemented Meter Taxi counters on the ground level, near entrances 3, 4, 7 and 8 (Bangkok Airport Taxi, 2018).

Although the airport has recently designed a system to utilize Meter Taxi's to serve customers, with Grab's popular name throughout Bangkok, one would think that there would be Grab cars nearby waiting to serve airport customers. Unfortunately for Grab enthusiasts, this is not the case. Taxi Meters still dominate the airport business in Bangkok and hailing a Grab driver that will pick you up from anywhere near the airport is difficult.

During its design, the Suvarnabhumi airport recognized the stereotypes that are associated with the Meter Taxi in Thailand and attempted to minimize adverse incidences between airport newcomers and Meter Taxi drivers by implementing extra steps of protection to ensure smooth operations. The taxi drivers that operate out of the arrivals gate at the airport must be registered and certified by Airports of Thailand, which requires an extensive background check of the driver (Bangkok Airport Taxi Service, 2018). In addition, the airport uses a queue machine that provides each customer with an assigned lane number and the registration details of their driver (Mike, 2016). By submitting this information to each customer, the driver is much less likely to refuse the meter, as doing so will result in a hefty fine and being stripped of their airport operation license (English, 2015). Figure 4 creates a visualization of the lane system that is implemented at the Suvarnabhumi Airport.

**Figure 4: A visualization of the Suvarnabhumi airport meter taxi lane (Bangkok Airport Taxi Service, 2018)**



A second reason that Grab may not be successful in the airport business is ongoing turf-war that was previously mentioned above. Many Grab drivers will not pick passengers up in front of the arrivals gate, as that it has traditionally been labeled as the taxi meter area. A Thai visa blogger shared his personal experience about waiting for his Grab at the airport. The blogger explains that “[he] was physically threatened by [...] a driver” while he waited for his Grab to arrive outside of the airport (Pow01, 2018). The blogger named Pow01 also commented that he feels Grab drivers are being undercut by these behaviours, as many Grab drivers may fear to go to the airport to pick up passengers as a result of instances like this (2018).

### **Looking at the Hotel Industry – A Positive Future Ahead for Grab**

Despite the lack of support by the Suvarnabhumi Airport, Grab is still being utilized by other businesses in Bangkok. The hotel industry in Bangkok “is [slowly] moving away from Taxis” according to Puum, a receptionist at a popular hotel chain (P. Jangsuk, personal communication, November 24th, 2018). Although Puum did not directly mention why she feels hotel industry is moving away from Meter Taxis, there is a strong chance that hotels do not want their reputations ruined by taxi drivers scamming their customers. By utilizing the Grab app, hotels can offer the

transportation service their customers need without the hassles of dealing with Meter Taxi drivers' tricks and scams.

Global hotel chain Marriott has teamed up with Grab in recent months, offering customers visiting the Marriott Marquis Queen's Park in Bangkok a discount on their Grab transportation (The Nation 2018). Marriott hotel general manager Bob Fabiano explained that the luxury hotel is:

*Absolutely delighted to form an alliance with Grab, Southeast Asia's leading ride-hailing app. The alliance is a special phenomenon involving two business giants in the hospitality and public transport sectors coming together in support of the Tourism Authority of Thailand's strategy to develop all types of tourism and to lift the quality and standards of travel for the convenience of tourists and their access to the highest benefits (Hotel Joins Grab, 2018).*

A company that is dedicated to providing the most positive service experience for their customers moving away from traditional taxis and utilizing Grab's convenient service get their customers around the city of Bangkok. With a big hotel chain such as Marriott endorsing the Grab app in Bangkok, it will be interesting to see which other companies follow along with the trend in the future and switch to Grab for their transportation needs.

There are many reasons apart from the negative personas that surround Meter Taxi's in Bangkok could make other businesses consider partnering with Grab instead taking traditional Meter Taxis in the future. As highlighted by *The Business Times*, "Grab is a more convenient transport solution" for businesses and their executives (2017). Say goodbye to your company taxi expense reports; Grab makes reporting easy by keeping your travel history accessible through your smartphone (Benefits from Grab, 2017). Additional, by utilizing Grab, businesses have access to their driving records, which can help keep track of how each expense was incurred, and by which employee (Benefits from Grab, 2017).

## ANALYSIS

### **Why has Grab Not Reached Its Potential with Businesses?**

Although Grab has been vastly successful in Bangkok amongst tourists and the general population, why is it that businesses such as Airports and Hotels are not utilizing Grab to simplify their operations and increase customer satisfaction? To explore some of the possible reasons that Grab has not become more popular amongst Bangkok business, we can turn to Hofstede's culture dimensions to provide some insights.

The people of Thailand are ranked moderately high on the uncertainty avoidance pillar of Hofstede's cultural dimension theory with a score of 64 (What About Thailand, 2018). Possessing a moderately high ranking in the uncertainty avoidance pillar implies that "the society does not readily accept changes and is very risk averse" (What About Thailand, 2018). With Grab being a relatively new company in the market, majority of the Thai business will not take the risks and switch from their traditional utilization of the of the Metered Taxi, despite the many negative personas that come with using the service.

The idea of people will stay with using a service despite all of the problems associated with it fascinated me, so I made an inquiry about this topic with my local Thai connections (C. Indystar, personal communication, December 2nd, 2018). During our informal interview, Chira mentioned that Thai's follow their upbringing and stick to what has been taught to them, or what has become routine. "It is like a restaurant, once [you find] one [you] like, [you] will keep going there even if sometimes it is bad" (C. Indystar, personal communication, December 2nd, 2018). Chira's insights also align with Thailand's low long-term orientation score of 32 (What About Thailand, 2018). With a low score in the long-term orientation pillar of Hofstede's cultural dimensions, the Thai people following a normative style of thinking, making it hard for new services to become popular in Thailand (What About Thailand,

2018). These insights again work against Grab's favor, given that a majority of businesses are using Meter Taxi's, it will be hard to change 'the norm' in the Thai business world.

### How Can Grab Improve Exposure and Their Relationships with Businesses?

Thailand is one of the most rapidly growing countries throughout the world, and many people are under the impression that social and economic sustainability are not considered throughout the country (Janofsky, 2012). However, in years, social and economic sustainability principles are starting to gain traction Thailand (Basset, 2018). Throughout the city of Bangkok, the importance of sustainability is being preached using various channels. The oldest and most prestigious university in Thailand, Chulalongkorn University has recently begun to teach the importance of social and economic sustainability through its various stakeholder engagement campaigns (Sustainable Community Project, n.d.). Grab's corporate social responsibility (CSR) presence in Bangkok has been non-existent and provides the company an opportunity to increase awareness of both its brand, and social responsibility. Grab announced CSR initiatives throughout Indonesia in early 2018 that provided public transit employees with temporary health insurance (Jakarta Globe, 2018). By assisting its competition's employees in their personal lives, Grab was able not only alleviate tensions between Grab drivers and public transportation employees but also captured the attention of many media outlets, allowing it to launch a viral marketing campaign to increase brand awareness and alter its brand personality. Implementing a similar strategy within the Bangkok community may be an effective strategy to strengthen the relationships with public transportation workers, and perhaps even combat the on-going turf war that has developed throughout the city. By tackling the negative tensions between public transportation workers and Grab taxi driver, the chances of businesses investing and utilizing Grab's may improve as a result of the companies' public perception increasing.

### CONCLUSION

The ongoing tensions between Meter Taxi Drivers and Grab are unlikely to end soon. As Grab continues to expand throughout Thailand and South-east Asia, the competition will continue to increase. The negative personas of Meter Taxi drivers in Bangkok that are being spread throughout the internet is making harder for Meter Taxi drivers to make ends meet. Grab's positive perception may be stealing a considerable amount of fares the Meter Taxi drivers. Although Grab appears to be becoming more successful each day, they are struggling to capture the attention of businesses in Bangkok. Companies may be neglecting Grab's services due to cultural beliefs that established traditions outweigh the positive aspects that Grab could bring to their companies. Grab should consider increasing CRS initiatives throughout Bangkok in the upcoming year, as it may help to increase businesses perception and willingness to use Grab in their operations.

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Figure 5: Swot analysis for Grab

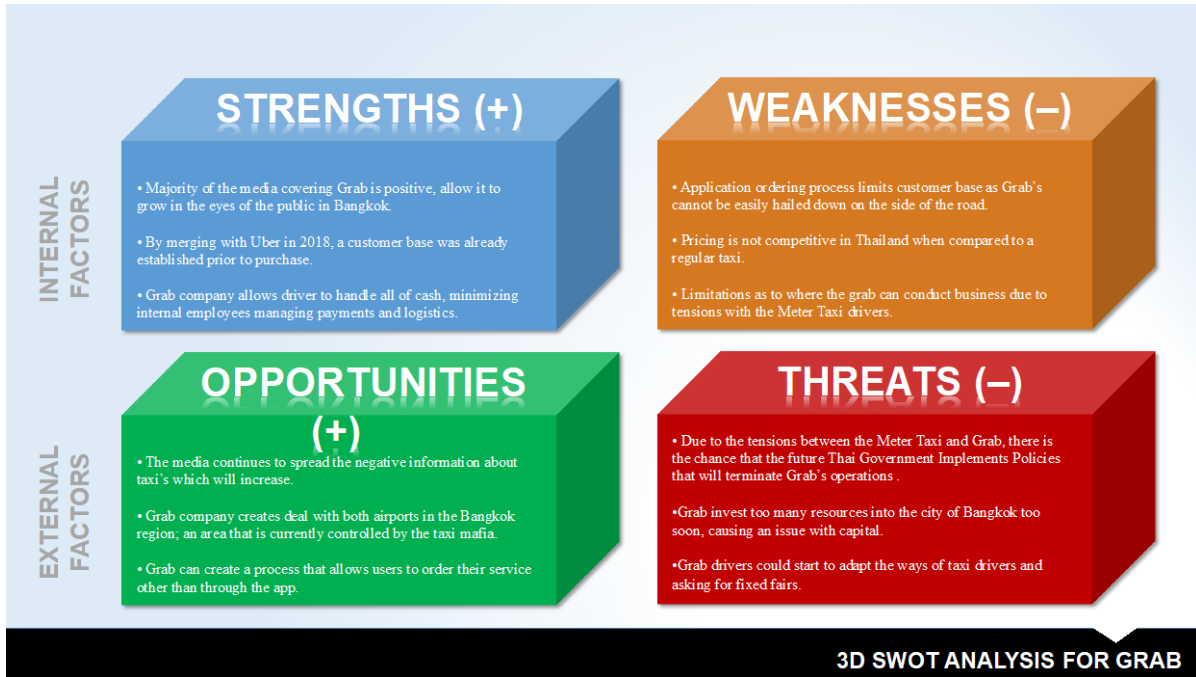
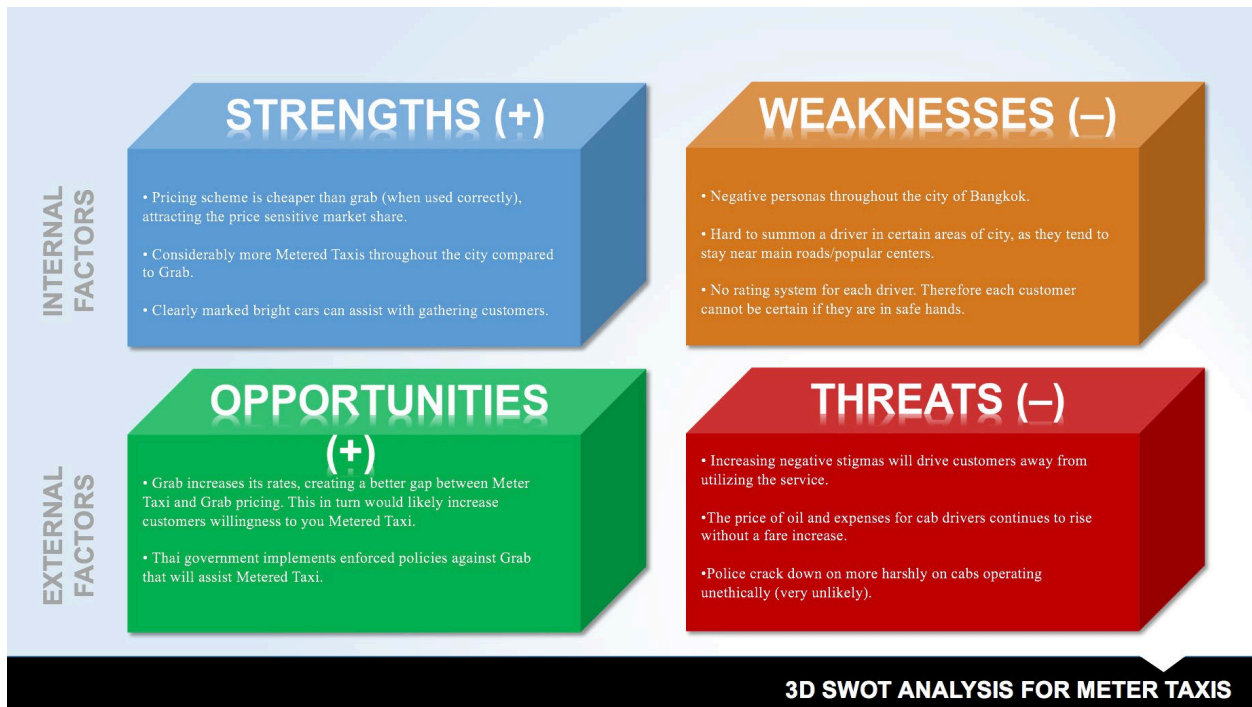


Figure 6: Swot analysis for Meter Taxis



## **Interview with Puum Jangsuk November 24th, 2018**

Tony – Can you tell me about yourself and your job here?

Puum – My name is Puum Jangsuk. I am receptionist at [hotel name screened for privacy] for about 7 years now.

Tony – Have you lived in Bangkok your whole life?

Puum – Most of my life has been in Bangkok, but originally I was from a smaller town in south of Thailand.

Tony – What do you think about the Taxi drivers in Bangkok?

Puum – They have a not good reputation. I think for a good reason, they cheat many customer in the city.

Tony – How does their actions effect the hotel industry?

Puum – Mostly it makes my job hard. A lot of complains from my guests about Taxis cheating them. Most hotels are moving away from taxi now that we have better options.

Tony – How long until your hotel will stop using taxis for your guests?

Puum – This is not my choice to make, so I do not know.

## **Personal Insights from Grab Drivers**

Names were not included because I did not ask drivers for their permission to use any of this information. Conversations have been slightly paraphrased due to English restrictions of some drivers.

### **Driver 1 – November 12th, 2018**

Tony – Do you have a different job besides Grab?

Driver – Yes. A full time job as store worker in a mall.

Tony – Do you consider this a full-time job?

Driver – Not really, I choose when to work. I am the boss.

### **Driver 2 – November 14th, 2018**

Tony – Do you have a different job besides Grab?

Driver – Not right now. Only Grab right now.

Tony – Do you consider this your full-time job?

Driver – No. I will find other work soon.

### **Driver 3 – November 14th, 2018**

Tony – Do you have a different job besides Grab?

Driver – Yes. I work as a babysitter for other mothers in Bangkok.

Tony – Do you consider this your full-time job?

Driver – This is not a full-time job.

### **Driver 4 – November 16th, 2018**

Tony – Do you work a different job besides this?

Driver – Of course, you need to if you want money.

Tony – What is your other job?

Driver – I am a nighttime security guard for a hotel in the city.

Tony – Do you consider this a full-time job?

Driver – No I do not. I guess it could be if I wanted.

### **Driver 5 – November 17th, 2018**

Tony – Do you consider Grab a full-time job?

Driver – No, I also have a job as construction project manager

**Driver 6 – November 18th, 2018**

Tony – Do you have other work besides Grab?

Driver – I deliver for DHL in the city

Tony – Would you consider Grab a full-time job?

Driver – No I make more money with my other job

Tony – Can you make a lot of money being a Grab driver?

Driver – I have only been a driver for a few weeks, so I do not know.

**Driver 7 – November 20th, 2018**

Tony – Do you work a different job?

Driver – No, just Grab

Tony – Would you consider this a full-time job?

Driver – This is only for the night. In the day it is too but on the roads.

Tony – So this is just a part time job?

Driver – Yes I think so

**Driver 8 – November 21st, 2018**

Tony – Do you think Grab is a full-time job?

Driver – Not a full-time job for me. I work at AIS (popular cell phone provider store)

**Driver 9 – November 21st, 2018**

Tony – Do you have a different job besides driving Grab?

Driver – Yes, I work in the day and driver during the night.

Tony – What is your other job?

Driver – Restaurant worker

Tony – Do you consider Grab a full-time job?

Driver – I don't think so.

**Driver 10 – November 23rd, 2018**

Tony – Do you have a different job?

Driver – Yes. I work at for my father.

Tony – Would you consider Grab as a full-time job?

Driver – No. Too much traffic to be full time.

**Driver 11 – November 26th, 2018**

Tony – Do you consider Grab a full-time job?

Driver – No. It is just for extra money

Tony – Do you have another job?

Driver – Yes, I as a maintenance worker

**Chira Interviews** (Conversations have been slightly paraphrased to eliminate clutter).

**Chira Indystar November 8, 2018**

Tony – Today I was called into an ally way by my Grab driver while standing outside of the gym, is there any reason for it, or was he just being lazy?

Chira Indystar – It was most likely the taxi driver area.

Tony – What do you mean taxi area?

Chira Indystar – It is like a turf war. You know, the taxi driver area. They do not like the Grab drivers because they steal all of the business.

Tony – Yeah, I get that, but why are they so scared?

Chira Indystar – The Taxi is like a mafia. They will fight to feed their family. Many times in the past the taxi drivers will fight the Grab to get them away from their area.

Tony – Grab is just a way better option though, I don't understand how Taxis can be mad. They are so rude to people and expect us to just be okay with it?

Chira Indystar – The taxi drivers are poor you know. Grab has made a big problem in Bangkok because they take the Taxi business and they start to fight. It was like this with Uber as well, but now Grab is more popular than Uber was.

### **Chira Indystar November 28, 2018**

Tony – Chira I found something about when meters were introduced in Bangkok in 1992. Do you know much about this subject? I need some clarification on information.

Chira Indystar – Of course. Bangkok was much smaller then you know. I was raising my family then.

Tony – I know about all about the 1992 reform, but how was the taxi industry before then? There were not many taxis on the road, right? Were people just not using them or were they very over-demanded?

Chira Indystar – The demand was high, but the government would not let more taxis on the road. Taxi drivers could pick and choose who they wanted to serve. They did not like short rides in traffic.

Tony – Was there a fixed price for each subdistrict just like the MRT now?

Chira Indystar – It was the same as it is now. The Taxi driver would say a price and negotiate with the customer on a fare. When the deal was made, that was the price.

Tony – So it was just like taking a cab outside of MBK?

Chira Indystar – Not as much money. Much cheaper. Gas was cheaper. The taxi driver just negotiates a price and that was it. They could make good money because traffic was not as bad, and gas was cheaper.

### **Chira Indystar December 2nd, 2018**

Tony – I am finishing up my paper and talking about businesses and Grab. Particularly how many businesses are still using Taxi to operate even though Grab seems like the better choice? Do you have any experience or ideas because I can't find much online except for some culture measurements that say Thai people stick with what they know.

Chira – Of course they do. Thai people are very conservative. Many of us have been poor and do not like to take any service risks that may cost us. The same goes for business.

Tony – I don't think most businesses are poor though. I found an article about the Marriot using Grab now and have been basing some topics off of that.

Chira – It does not matter if they are still poor. If they were raised poor, they will follow how they were raised, kind of like a routine.

Tony – So you are saying that businesses may not switch even if something is bad, just because they are in a routine of using that service?

Chira – Yes, very Thai is to stay with what you know. It is like a restaurant, once I find one like, I will keep going there even though sometimes it is bad. Does that make sense?

Tony – Yeah, I guess that kind of aligns which my ideas from the cultural information I have now.

# Exploring Trust as the Secret to Happiness in Denmark, and How It can be Harnessed to Maximize Team Performance

Catherine Musgrave

## ABSTRACT

For centuries, individuals spanning the world have been interested in the underlying factors influencing happiness.<sup>1</sup> While some research happiness to inspire themselves or others to re-evaluate their priorities or life outlook, others study happiness with the objective of enhancing organizational performance or creating framework conditions for happier societies. Denmark is internationally recognized as being among the world's happiest nations, and a great deal of its high ranking can be explained by the simple fact that Danes are extraordinarily trusting of each other (The Happy Danes, 2014). The high societal trust enjoyed in Denmark has positively impacted the entire nation's social fabric – on both a national level and a much smaller scale, as trust is tied to enhanced team performance (Gur & Bjørnskov, 2014). This report uses information drawn from academic papers and government reports along with insights taken from an interview in Western Denmark to suggest the linkage of trust and happiness and to explore how trust influences delegation and team performance.

Keywords: Happiness, trust, delegation, public policy

## INTRODUCTION

Denmark, a country of cultural, environmental, and social innovation, is internationally recognized for its liberal trade policies, generous welfare system, and reputation as being “the happiest country in the world” (BBC, 2016). Headlines praising happiness in Denmark have appeared in a wide range of international media sources over the past few decades. Plug the words “Well-being in Denmark” into Google to find millions of search results from those claiming to have the nation's secret to happiness. Though many are aware that Denmark and the other Scandinavian countries are some of the world's happiest nations, some struggle to explain *why* these nations perform so well in happiness surveys. Research in the past few years has begun to introduce trust as a leading contributor behind Denmark's high level of national happiness (Bjørnskov, 2003).

While trust is positively tied to national happiness, it also seems to have desirable implications on a much smaller scale. Economists are quick to mention trust and productivity as key drivers of economic growth, and a great deal of macro-level research has been conducted to explore ways that nations can increase those two factors (Ortiz-Ospina, 2016). Surprisingly, relatively minimal attention has been paid to the impact of trust on a micro-level. Specifically, on team performance and the relationship between trust and productivity. Research shows that this relationship can be largely explained by delegation – trust is positively tied to delegation, which is linked to productivity (Gur & Bjørnskov, 2014). Productive teams tend to be stronger, so if one considers the formation of high-performing teams to be desirable, it then follows that it might be well motivated to seek out ways to develop and maintain trust among team members.

Arrow (1972) believed that much of the world's backwardness could be explained by the simple lack of confidence and trust that people have for others. Though this comment was made long before much of the world's ground-

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<sup>1</sup> This report uses the term “happiness” solely to describe long-term happiness, which can be described as “a deeper, fundamental satisfaction with life” (The Happy Danes, 2014).

breaking research on trust was conducted, the weight of Arrow's statement holds true today. This paper will begin by studying trust as an underlying factor contributing to national happiness, then will go on to explore how trust can be used to influence delegation, and ultimately, team performance.

## THE VALUE OF STUDYING AND MEASURING HAPPINESS

It is important to begin by explaining the value of studying happiness, and how this seemingly subjective concept can be measured and quantified. It is simple to understand why society values happiness so highly. To name a few, happier people tend to be relatively more creative, productive, confident, and charismatic (Power, 2016). The question "How to be happy?" is even among the top 150 most-searched questions on Google (Mondovo, n.d.).

Many people mistakenly point to factors such as increased income or material items as being tied to happiness (Van Evra, 2009). Despite the sacrifices and massive efforts that individuals exert to climb the corporate ladder or receive a promotion, research shows that people tend to overestimate the amount of happiness that additional income will bring them, to a heartbreakingly large extent (Van Evra, 2009). In other words, if long-term happiness is the end goal, these individuals might consider refocusing their efforts towards factors that research shows to be linked to happiness, such as trusting and forgiving others, spending time with loved ones, and maintaining strong mental and physical health (Duffy, 2004; Waldinger, 2017).

In recent years, an increasing body of evidence has shown that happiness can be accurately measured via surveys (The Happy Danes, 2014). These surveys often use evaluative measurements by asking respondents to provide their answers on a predetermined scale. Surveyors may pose questions such as "How satisfied are you with your life in general?" or "How happy are you overall?" These sorts of questions provide respondents with the opportunity to provide a simplified but comprehensive evaluation of their lives. As such, when studies reveal that many Scandinavians are among the happiest people in the world, it is because they have registered the highest scores on these surveys (The Happy Danes, 2014).

## HAPPINESS AND THE ECONOMY

### **Happiness on the Global Agenda**

For the past few decades, there has been a strong paradigm shift away from relying narrowly on Gross Domestic Product (GDP) growth as a leading measurement of a country's progress. Increasingly so, nations in both the new world and the old are looking beyond quantitative measurements such as GDP and longevity to better account for changes in citizens' *quality* of life. Former US Attorney General Robert Kennedy rightly notes the importance of considering other factors aside from GDP when measuring economic progress.

*The gross national product does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages; the intelligence of our public debate or the integrity of our public officials... it measures everything, in short, except that which makes life worthwhile. (Kennedy, 1968, para.5)*

Many world leaders are increasingly interested in what generates cross-national differences, and what lessons can be learned from these countries to improve one's societal structure. Many countries are beginning, or have already begun, to supplement traditional economic progress measures by also surveying and reflecting on the quality of life of their citizens.

The most well-known of these cases is likely that of Bhutan, a small Himalayan country that has measured its national development in Gross National Happiness (GNH), as opposed to GDP, since the 1970s (Sithey, Thow, & Li, 2015). Bhutan measures its citizens' happiness using nine equally-weighted domains, including living standards, health, psychological well-being, cultural diversity and resilience, time use, education, ecological diversity and resilience, governance, and community vitality (Nine Domains, 2018). Many Bhutanese officials continue to promote the adoption of GNH internationally (CBS & GNH, n.d.).

Bhutan's unconventional GNH measurement has attracted a great deal of interest across the world, including from leaders in Victoria, a harbor city in Western Canada. When Dean Fortin served as Victoria's Mayor from 2008 until 2014, local leaders created the Greater Victoria Happiness Index Partnership (Chatterjee, 2011). They created a survey to measure happiness – similar to that used in Bhutan – by asking Victorians to rate their happiness on a scale from zero to ten. Leaders compiled the results and used the feedback to influence policy implementation with the hopes of improving the lives of locals (Chatterjee, 2011).

## HAPPINESS IN DENMARK

### A Foreword on “Happy” Danes

Though Danes perform well on happiness surveys, it would be grossly misguided to believe that *all* Danes are happy. The percentage of Danes seeking treatment for mental health issues has been on a strong upward trend for many years, and now, about 20 percent of Danes experience mental health problems during a single year (Folker, 2018). In the same period, 650 people living in Denmark attempt to commit suicide (Sommer, 2016). Though it is undoubtedly helpful to study the reasons behind Denmark's high level of national happiness, it is important to also recognize that many Danes are battling mental illnesses and do not identify with the average citizen discussed in this report.

### Patriotic and Happy Danes

One of the first things that many people notice when their plane touches down in Denmark is the flag. In particular, how the red-and-white national flag, or *Dannebrog*, is displayed everywhere. It covers the walls in the Copenhagen airport, drapes down from public buildings, and many Danes even have a flagpole in their yard. When the Danish Christmas markets begin in November, many vendors proudly sell Christmas ornaments or small toys decorated with the flag (see Figure 1). Danes cannot help but to smile and feel even more patriotic when they hear they are living in one of the world's happiest nations. There is an extremely strong sense of national pride, and taken cumulatively, this patriotism affects Denmark's culture and social fabric (The Happy Danes, 2014).

Figure 2 compares the happiness levels achieved in the world's happiest versus unhappiest nations. When asked to rate the quality of their lives on a scale from zero to ten (with zero being the worst possible life and ten being the best possible life), on average, Danes ranked themselves as a 7.555. They scored third highest out of the 156 surveyed nations, trailing only slightly below two other Scandinavian countries: Finland and Norway (Helliwell, Layard, & Sachs, 2018). In contrast, citizens in the world's unhappiest nation, Burundi, ranked their happiness as a mere 2.905 out of ten (Helliwell et al., 2018). The drastically different results between the world's happiest and unhappiest nations shed light on the pressing and severe problem of immense global inequality.

Denmark's consistently high rankings on happiness surveys have prompted questions from social welfare researchers. There are many misconceptions as to exactly why Danes perform so well on international happiness surveys. Though a great deal of literature points to factors such as the nation's high average income, excellent work-life balance, and strong social welfare state to explain the high levels of happiness, one of the few factors that research shows to be consistently linked to happiness is trust (Bjørnskov, 2003). After all, it is not a mere coincidence that all five of the happiest countries shown in Figure 2 also enjoy high levels of trust (see Figure 3).

### Defining Trust

Before studying the relationship between trust and happiness, it is important to first define what exactly is meant by the term “trust.” Many researchers provide different definitions of trust, and some studies even use the term somewhat interchangeably with phenomena such as empathy, tolerance, morality, or civility (Morrone, Tontoranelli, & Ranuzzi, 2009). In this paper, trust is simply defined as “the subjective perception that people have in the reliability of others.”

### The Link Between Trust and Happiness

Research discussing the potential of a causal link between trust and happiness is still in its infancy stages. Researchers are in the process of conducting studies, compiling data and trying to better understand the relationship between the two factors. The Harvard Study of Adult Development, one of the most comprehensive studies on human well-being of all time, has been in the works for the past 80 years (Waldinger, 2015). The study has been following a group of 724 individuals since their adolescent years to explore what has led them to lead happy, or unhappy lives. Robert Waldinger, the current director of the study, cited that amid all the uncertainties, one thing is beyond doubt: good relationships make humans happier (Waldinger, 2015). When asked how humans can cultivate better relationships, Waldinger stated that his research shows it all boils down to trust. To build trust with others, he believes that strong communication, authenticity, honesty, dependability, and empathy are highly important (Waldinger, 2015).

Another experiment that has attracted a great deal of attention from happiness researchers was first introduced by Reader’s Digest Europe in 1996 and was conducted in 20 cities across Europe and the United States (Helliwell & Wang, 2010). Ten wallets containing the equivalent of an average citizen’s daily wage were “lost” on the street, along with a family photo, and a piece of ID that made it possible to contact the owner. In Western Europe, only around two-thirds of the wallets were returned, on average (Helliwell & Wang, 2010). Out of all the cities where the experiment was conducted, in only two countries were all the wallets returned to their owner with all the remaining money: Denmark and Norway. These acts of kindness are perfectly normal in Denmark – Danes would not think to steal something at the expense of another person, especially not something as important as a wallet (SafeAround, 2018). In the end, the study found that those who believe their lost wallet would be returned if found are more than 7 percent happier, on average, than those who do not believe their wallet would be returned, emphasizing the connection between societal trust and happiness (Helliwell & Wang, 2010). The happiness is not necessarily derived from being reunited with the lost wallet and its contents; instead, it is likely tied to the contentment of being able to trust others.

### Trust in Denmark

In Denmark, some tourists are amused to see unmanned stalls scattered along the countryside with fresh produce placed next to a small payment box. Many parents even feel comfortable leaving their baby outside in a stroller while they dip into a café to grab a drink – an act that led to the arrest of a Danish mother who was visiting the United States, where many are not comfortable enough to even leave their pet tied up outside a store (Sullivan, 1997). Though these acts may seem strange or naïve to some foreigners, Danes have enjoyed this level of trust since a young age. From a social perspective, these high levels of trust are a great asset and likely contribute to economic strength along with overall societal coherence and happiness (Lassen, 2016).

Considering the importance of trust, a natural next step is to study the factors that support or hinder the growth of national trust. Protestantism and the presence of a monarchy are shown to increase national trust, while income inequality and post-communist societies are less trusting of others (Bjørnskov, 2006). It comes as no surprise that

Denmark fits these criteria almost perfectly. Out of the 78 nations that track Protestant Christians as a percentage of the population, Denmark tops the list at 87.3 percent of citizens – far higher than the average of 22.7 percent (Percent Protestant, 2013). Further, like many Western European countries, Denmark operates under a constitutional monarchy (The Royal House, 2018).

Denmark has maintained a remarkably low Gini coefficient of .249 – far below the OECD average of .315 (Causa, Hermansen, Ruiz, Klein, & Smidova, 2016).<sup>2</sup> Danes pay extraordinarily high personal income tax rates of around 55 percent, on average. In spite of this, about 90 percent of Danes are “very satisfied” with the country’s tax system, as it allows for generous subsidies that provide Danes with a strong welfare system and affordable education (Wiking, 2016).

### **Insights of a Danish Produce Stand Operator**

In an interview with Malthe Christofferson, a Dane who operates a fruit and vegetable stand in the countryside of Western Denmark, Christofferson discusses the important role that trust plays in his small business. The stand is usually unmanned, and he and his wife leave a small box for buyers to pay, along with extra coins for change. Christofferson and his wife feel content knowing they can trust that passersby will pay for the products they take. Their work experience highlights the important role that trust plays in Denmark, even for very small businesses. The full interview is shown in Figure 4.

## **TRUST AND DELEGATION IN TEAMS**

With an understanding of the relationship between national happiness and trust, it is helpful to further explore the idea of trust, and the importance it has on a much smaller scale: team environments. The following section will discuss the relationship between trust and delegation in team settings, along with the positive outcomes of increasing these two factors.

### **The Importance of Team Trust**

For those questioning the genuine value of having trust in a group setting, consider that those working in high-trust environments report 106 percent more energy, 74 percent less stress, 29 percent greater life satisfaction, and 50 percent higher productivity than people working in low-trust environments (Zak, 2017). So, along with committing to goals and roles, discussing how to address team conflict, and trying to minimize the say-do gap, trust is key to building high performing teams (Moussa, Newberry, & Boyer, 2016).

Trust is tied to decentralized decision-making and delegation, which have been shown to increase efficiency and lead to greater team performance (Gur & Bjørnskov, 2014). This link can be explained by the fact that decentralized decision-making increases job satisfaction, decreases the cost of information transfer and communication, and increases a company’s ability to quickly respond to market changes (Gur & Bjørnskov, 2014).

### **Danish Work Environment**

Denmark’s work environment reflects many of the nation’s values such as tolerance, respect, and equality (Workplace Culture, n.d.). It is characterized by having a flat hierarchy, informal communication methods, and high trust among team members. In team settings, there is a tradition for delegating responsibility, and all members are expected to contribute their own ideas, share their opinions, and complete their assigned tasks within the

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<sup>2</sup> The Gini coefficient measures the wealth distribution within a nation. A Gini coefficient of 0 indicates perfect income equality, whereas 1 expresses maximum income inequality (Gini Index, 2018)

predetermined time frame (Work-life balance, 2018). Danes tend to prefer to work independently – as long as they meet deadlines and follow through with their promises, other team members are generally not overly fussy about where or when their work is completed. Responsibility is shared relatively evenly among team members, and even if one individual agrees to take the lead on a task, other members feel obligated to contribute and support the team (Workplace Culture, n.d.).

### **Trust and Delegation Theories**

There are two notable recent findings in the field connecting trust and delegation in team settings, but while this paper is being written, the mechanisms connecting the two are not fully understood. Though ground-breaking research in the field is still undergoing, these experiments have produced interesting results that are likely to contribute to further theoretical advancements in the field.

The first theory states that trust ultimately increases team performance by facilitating delegation (Gur & Bjørnskov, 2014). The researchers hypothesized that in the event that a CEO was delivered with two choices to address production problems, his or her decision of whether to delegate the issue to a plant manager would be dependent on trust levels. If trust is weak and the CEO, therefore, chooses to complete the task him or herself, there will be less decentralization, meaning more direct interventions from the CEO. This will leave the CEO with more responsibilities, resulting in cost and time inefficiencies. The experimenters hypothesized that company size would be smaller in the case where the CEO did not trust the plant manager. Their two main prepositions were that trust increases decentralization, which in turn increases company size (Gur & Bjørnskov, 2014). This theory was tested in nearly 4,000 companies in the United States, Europe, and Asia, and was found to be correct – companies headquartered in high-trust locations are significantly more likely to decentralize and be larger (Bloom, Sadun, & Reenen, 2009).

The second study sought to estimate the impact of trust on industry composition. To have a well-functioning team, the presence of high confidence and trust between the boss (or principal) and subordinate (or agent) is essential (Arrow, 1968). The experimenters argue that if trust can resolve principal-agent problems, decentralization will increase and this will impact delegation-intensive industries (such as equipment manufacturing) proportionately more than non-delegation-intensive industries (such as footwear and clothing production) (Gur & Bjørnskov, 2014). The study found that trust is positively associated with more delegation, which increases company size proportionately more in delegation-intensive industries (Cingano & Pinotti, 2012).

### **Hygge-Like Work Experience**

*Hygge* (pronounced “hoo-gah”) is a popular Danish term that one can find written across the walls of dimly lit restaurants or quaint coffee shops in Denmark. There is no direct translation to English, but if asked to summarize *Hygge* in one sentence, a Dane will generally say something along the lines of “the feeling of warmth and joy experienced on Christmas morning.” The term describes a multitude of positive feelings such as coziness, safety, and happiness. Danes celebrate *Hygge* in many ways, whether that be by enjoying a hot drink with a close friend, lighting some candles and watching a movie, or cozying up next to the fireplace with a good book. Embedded in the idea of *Hygge* is the belief that good things will happen, and that one can trust others. It is difficult to achieve *Hygge* in the face of conflict or in the absence of trust (Brits, 2017). To truly embrace the Danish work culture and support team performance, teams can use the idea of *Hygge* by being positive, trusting others, and maintaining friendly and supportive relationships with team members (Scott, 2017).

### **Working Around the Faultline**

Faultlines are emerging as a concept to shed light on the phenomena of identity differences and conflict in team settings. Faultlines can be defined as “hypothetical dividing lines that may split a group into subgroups based on

one or more attributes” (Lau & Murnighan, 1998). In other words, different attributes such as age, gender, or education can lead members to identify more closely with some and form subgroups with them (Salas, Tannenbaum, Cohen, & Latham, 2013). Faultline research supports findings by sociologists on the concept of homophily: the theory that individuals tend to form relatively strong social connections with others with whom they share similar characteristics (Retica, 2006). These dividing lines can accentuate trust problems and conflict between subgroups and can have devastating effects on overall group performance (Lau & Murnighan, 2017). Since teams with faultlines are far more prone to problems and because faultlines are unintentionally triggered so easily, it is important to understand how to avoid their activation (Chrobot-Mason, Ruderman, Weber, & Ernst, 2009).

Actively manipulating team composition to minimize the chances of faultline activation is challenging. Though this can be achieved through recruitment strategies or by selecting and arranging teams with the objective of minimizing differences, this approach has many downsides. Working as part of a diverse group allows individuals to overcome their stale ways of thinking to enhance their performance and be more innovative and creative than they otherwise might be (Rock & Grant, 2016).

A more desirable option might be to design diverse teams, but to actively take measures to avoid faultline activation. This is much easier said than done – it is extraordinarily challenging to design high-performing, diverse teams, particularly as members struggle to build trust and goodwill among themselves (Gratton, Voigt, & Erickson, 2007; Hakanen & Soudunsaari, 2012). This issue is likely less severe in high-trust countries such as Denmark. It is helpful for groups to understand the concept of faultline activation, and actively work to avoid it. Some strategies might include discussing, setting, and regularly reflecting on team goals and values, understanding how to manage and mitigate conflict among members, encouraging open communication, and addressing any potential issues as soon as they arise.

### **Building and Sustaining Team Trust**

Though capital is frequently cited as the most important criterion for sustained growth, the importance of trust, both inside and outside the organization, is sometimes trivialized (Hakanen & Soudunsaari, 2012). Trust is highly complex and once it is lost it is very difficult to rebuild it. It is best to start off on the right foot and with the proper frameworks in place to encourage trust among members as opposed to trying to mend broken trust later on. To build trust, Reina, Reina, & Hudnut (2017) believe two components are absolutely vital. First, an understanding of trust and its importance for teams, and second, knowledge of the behaviors that build trust and how to practice these behaviors.

Without an understanding of the importance of trust, it is difficult to build it. And without trust, individuals struggle to put their best foot forward. Productivity and collaboration are hindered, communication is weakened, and completing a task takes longer and becomes more difficult than it otherwise should (Reina et al., 2017).

Second, knowing what behaviors build trust can help team members work in the right direction. There is no “one size fits all” when it comes to building trust – different people learn to trust others in different ways (Reina et al., 2017). As emphasized in the interview with Christofferson, trust seems to beget trust. Trusting others through words, and more importantly, through actions, is likely to lead others to reciprocate this trust. This can be achieved by giving up control, sharing information, and encouraging open team dialogue (Brower, Lester, & Korsgaard, 2017). Considering the multitude of benefits of increasing team productivity, if one hopes to build strong teams characterized by respect and commitment, it might be wise to begin by encouraging trust development among team members (Gur & Bjørnskov, 2014).

## CONCLUSION

This paper began by discussing evidence to suggest a strong linkage between trust and happiness, then further explored the concept of trust and how it is positively related to delegation and performance in team environments. These findings emphasize the importance that trust has in both economic and business settings, and encourage further study of how trust can be established and maintained, or restored where it has been damaged.

Now is the time to encourage further worldwide dialogue on what measures countries can take to raise national happiness levels. With the proper research and support systems in place, nations can find new and innovative ways to create an improved framework for happy citizens. Policymakers can, and I argue that they *should*, seek ways to look beyond traditional economic progress measures and incorporate happiness as a growth benchmark, whether that be a healthier population, or even a stronger, more socially, environmentally, or politically aware and sustainable economy.

Over the years, as trust continues to garner more attention in the economy and workplace, the Danish model may serve as inspiration for others hoping to learn more about the positive implications of trusting those around them. Though Denmark undoubtedly has its challenges, it remains a strong example of a nation that has succeeded to build itself on high levels of happiness, security, economic freedom, respect – and trust.

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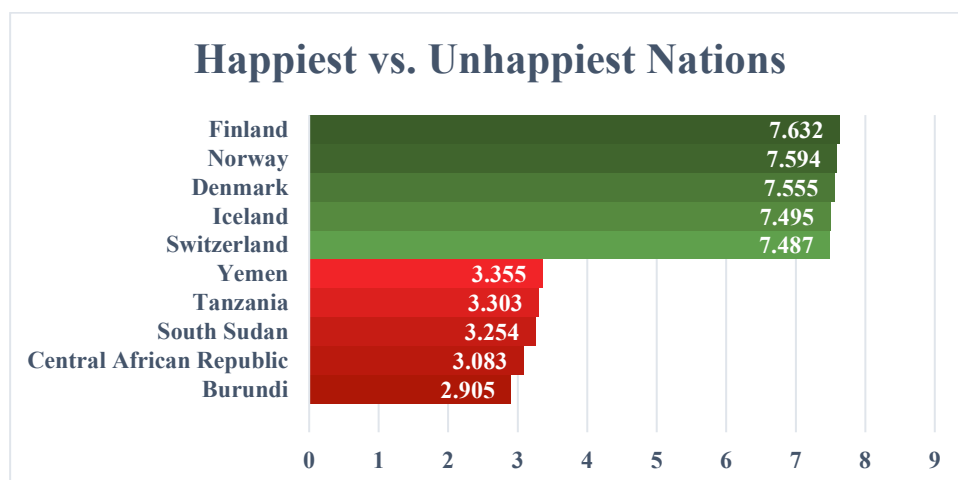
APPENDIX

**Figure 1: Danish Christmas fair**



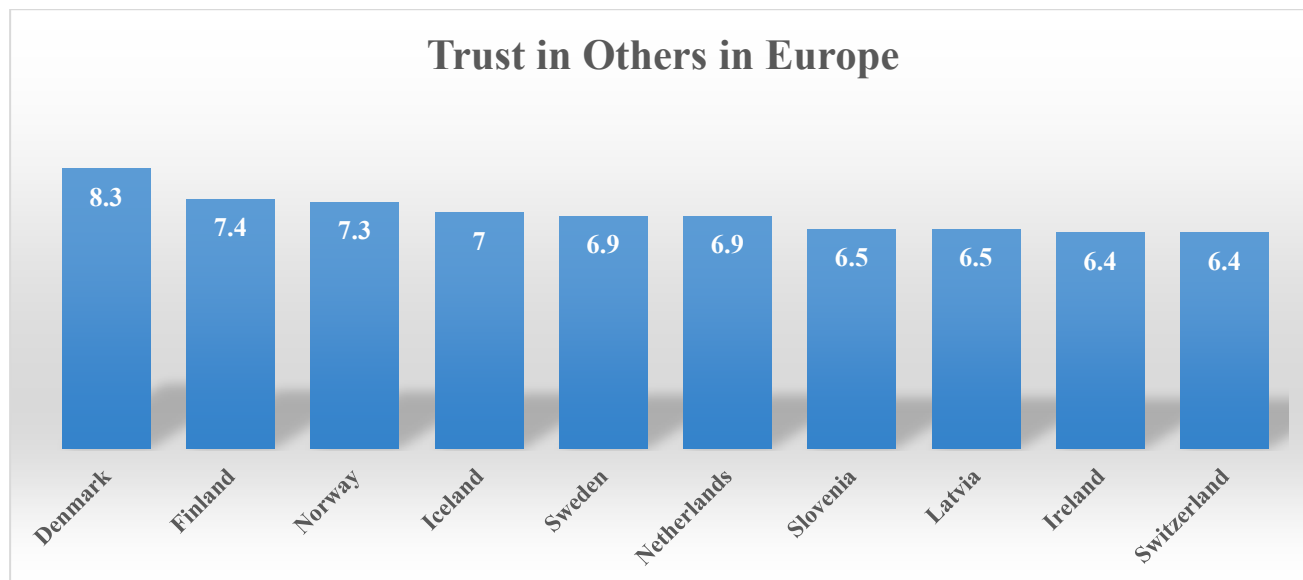
(Musgrave, 2018)

**Figure 2: Ranking of national happiness (2015 – 2017)**



(Adapted from Helliwell et al., 2018)

**Figure 3: Ranking of most trusting European countries (2015)<sup>3</sup>**



(Adapted from Ortiz-Ospina & Roser, 2018)

**Figure 4: Verbal interview with Malthe Christofferson, a fruit and vegetable stand operator.** (Please note that this interview has been paraphrased and condensed for clarity and brevity).

**Catherine: You mentioned that you leave your stand unmanned most of the time. How are you so comfortable trusting that others will pay for the food they take?**

*Malthe: I always want to think the best of others and trust that their intentions are good. We leave our stand open and unmanned all day, and we rely on others that they will pay for the food they take. There are definitely risks of leaving our food unattended, but in a country like Denmark, I am not overly worried about people being malicious. I like to think that people will reciprocate the trust that I place in them by being honest and respectful, and paying for the foods they take.*

**Catherine: Do you think this sort of business model based on trust could be adopted in other countries?**

*Malthe: I think it could work in some countries, but it is hard to say. As you can tell, this stand only works because the entire business model is based on trust. My guess is that individuals in some other countries might take advantage of this trust if they are not used to it like we are in Denmark.*

**Catherine: Has anyone ever taken your food without paying?**

*Malthe: There was only one incident several years ago when, in the morning, the spare change we had left in the jar was gone. It was only a few dozen Danish Kroner so it did not bother me. I just put a few more Kroner in the jar and went to work. More than anything, I just felt disappointed that someone would take advantage of my trust. Trust is so important, and it leaves a bad feeling in your stomach when someone does something like that. But, the fact that this has only happened to me once in the 11 years that we have had the stand is pretty amazing. I feel really lucky to live in a part of the world where I can do things like this and feel confident that others will be honest.* (Musgrave, 2018)

<sup>3</sup> This data was gathered by asking respondents “Would you say that most people can be trusted?” Answers are recorded using a scale ranging from zero to ten (with ten representing the highest possible trust) (Ortiz-Ospina & Roser, 2018).

# Lighting Up or Burning Out? A look at the tobacco industry in France

Sadee O'Shea

## ABSTRACT

Walking the old city streets of southern France is indeed as picturesque and romantic as it sounds, passing by small cafes filled with locals and tourists alike, all enjoying a coffee, a pastry, and almost always, a cigarette. Smoking cigarettes is an activity deeply rooted in the French culture, as it a social way to gather among friends to relax and enjoy one another's company. However, France is no exception to the global tobacco epidemic, and in recent years the country has seen many new regulations and campaigns to encourage French smokers to kick the habit. This study dives into different issues surrounding the tobacco industry in France including designated smoking areas, packaging regulations, taxation, and contraband sales. These will be contrasted to smoking regulations in Canada and will provide insight as to what degree big tobacco companies will feel the impact of recent waves of anti-smoking movements.

## TOBACCO IN FRANCE

### History

The history of tobacco use dates back many years, with its introduction to France believed to be as early as 1555 (Tobacco Timeline, n.d.). In its early years it was prescribed by doctors as medication, and by 1635 it was being produced and regulated in France, where it became very popular among the monarchs (Tobacco Timeline, n.d.). Throughout history the tobacco industry has experienced significant transformations including ever-changing regulations, means of production, prohibitions and monopolies. Following this trend, the most recent decades have proven no different for the industry with revolutionary changes in purchasing, packaging, and designated smoking area laws (Tobacco Timeline, n.d.).

"Big tobacco" is the nickname given to the world's 5 top tobacco companies: Phillip Morris International, British American Tobacco, Japan Tobacco, Imperial Brands and Altria (The Guardian, 2017). These companies are all major parent organizations to the majority of the regional companies in the world with the exception of tobacco in China, where it is under state control (The Guardian, 2017). According to recent statistics, the most popular cigarettes sold in France are Marlboro, Camel, Winston, and Gauloises - all of which are subsidiaries of big tobacco (Statista, 2017). Seita is a formerly French national tobacco company, now also owned by big tobacco company Imperial Brands (Seita, n.d.). These massive companies have dominated the market by acquiring smaller companies along the road and stomping out the competition.

### Culture

France is often known as "Europe's Chimney" because of its reputation for high smoking rates and the glamorous image of cigarettes depicted in media and movies set in France (The Local, 2017). Some critics claim that this country label is no longer accurate, however, France remains a strong customer to the tobacco industry, where despite an overall decrease in consumption, it still ranks as one of the EU's top consumers, at a rate of 27% (USA Today, 2018). For many, smoking is a social activity that is part of a daily routine, so the appeal of quitting can often be lost due to lack of desire to change (USA Today, 2018). Smoking in France remains very popular, where it is still

quite common to see people of all ages lighting up a cigarette with a coffee or alcoholic beverage on an outdoor terrace among friends. Furthermore, despite smoking indoors being banned, there are certain bars and clubs in the country that turn a blind eye to this regulation and it is not uncommon to walk into a late-night spot and find billowing clouds of cigarette smoke. These trends also differ between regions in France, where smoking is most prevalent in the south Cote d'Azur region, and surprisingly least common in Île de France, where Paris is located (See Figure 1). One could speculate that Paris and its surrounding area are more progressive whereas the smaller French communities in the South are more rooted in tradition and would be less inclined to change their daily routines, tobacco related and otherwise.

The smoking culture in Canada is quite different from France, as it is much less popular in general, and far less common among the younger generations. In comparison to France's 26.9% smoking population, Canada lands at 16.2% in the most recent year of 2017 (Statistics Canada, 2018). Furthermore, culture plays a big role in youth perception of cigarettes, where in France it is very social for teenagers, and tobacco sellers are often more relaxed about selling to minors (National Public Radio, 2016). In 2015, youth smokers aged 17 years and younger reached over 30% in France, contrasted to Canada's rate of 4.1%, making youth the least common age group for smokers in the country (Statistics Canada, 2016). In Canada this figure has recently dropped even further to 3.5% in 2017 for reported smokers under 18 (Statistics Canada, 2018). However, Canadian youth are certainly not immune to the temptations of tobacco, and it is still common to find young adults smoking outside bars and restaurants in Canada. On the surface, the main difference between each country's smoking tendencies seems to be attributable to the social aspect of smoking in France and the differing perceptions of cigarettes among citizens of each country.

In order to combat this, French government and anti-tobacconists have been proposing a variety of different ideas in recent years to change the image of smoking in France and hopefully dissuade individuals (particularly youth) from taking up the habit. The health minister of France suggested in 2017 that cigarette smoking be banned in all French films, as the cinema heavily romanticizes the activity (The Telegraph, 2017). This could be a difficult law to pass, and within France may have little effect as most cinemas still show many films made outside of France, which would not be subject to the law. However, if passed, the law has the potential to set an example for other countries and increase the push to eliminate smoking from film altogether. This would be a huge step for France as well as the world, as the film industry tends to glamorize cigarette smoking in general.

Additionally, France has recently been working through a multi-year plan, the National Tobacco Reduction Plan (PNRT), with the objective of reducing daily smokers in the country. The PNRT had a successful first year - from 2016 to 2017 there was reportedly close to one million fewer smokers in France, with the proportion of smokers dropping from 29% to just under 27% (DW, 2018). The PNRT is a public health initiative created by the Health Ministry of France with ambitious goals regarding the reduction of tobacco consumption across the French population. The plan has set objectives to drop the country's smoking rate to under 20% by 2024, and to further reduce consumption to have the first adult generation of non-smokers by 2032 (Santé Publique France, 2018). The plan lists three main areas of focus in order to achieve these goals: better protect children from tobacco exposure, help daily smokers quit, and influence the economics of the tobacco industry (Santé Publique France, 2018). Lastly, the PNRT have adopted a new campaign, "Mois sans tabac" (a tobacco-free month), with aims to encourage smokers to kick the habit for one month and see how they succeed (Santé Publique France, 2018). This operation was inspired by the success of the UK's "Stoptober" movement in the month of October, and preliminary results of "Mois sans tabac" are seeming to be effective, with around 15% of daily smokers reportedly attempting to quit smoking - with some individuals stating the reason behind their attempts were directly related to the tobacco-free month advertisements (Santé Publique France, 2018) (See Figure 2). The programs and plans in place demonstrate that France is taking great measures to decrease their rate of smoking, and with the successful reduction of 1 million smokers between 2016 and 2017, it can be assumed their efforts are not being wasted.

## REGULATIONS

### Designated Smoking Areas

The difference in progressions of increased regulation between France and Canada demonstrate that the drive to reduce tobacco consumption in Canada has been slightly ahead of those in France in terms of timeline, but the extent and reach of the laws is not entirely that different between countries. The year 1988 was significant for the industry in Canada as new laws were implemented regarding smoking in designated areas on airplanes, trains and ships, as well as removing tobacco vending machines from public places, with the exception of bars (CBC, 2012). Across Europe tobacco vending machines can be found in bars and clubs, but these machines are surprisingly still prevailing in France where they can be found out on public streets for anyone to purchase.

Public transport and aircraft regulations were some of the first laws put in place around the world to protect citizens from second-hand smoke. Nowadays, one would be hard pressed to find a flight that permits smoking onboard, and most of the population from the millennial generation would not even remember a time when smoking on an airplane was legal. In contrast, when banning cigarettes onboard was proposed in the late 1980's, the idea was found to be very unpopular with anyone in the airline industry as they stated they would lose huge amounts of sales due to the ban (CBC News, n.d.). Eventually, the government in Canada succeeded over the airline companies and proceeded in 1990 to ban cigarettes from international flights under six hours (CBC News, n.d.). A few years later in 1994 they announced that all flights regardless of duration would be smoke-free in Canada (CBC News, n.d.). These dates are slightly contrasted to Europe, where smoking onboard an aircraft was only fully banned on all Air France flights as of late 2000 (Aviation Weekly, 2000). This was also a big step for France, and the airline even provided nicotine substitutes and counselors for passengers to cope with the transition (Aviation Weekly, 2000). Aircraft regulations differ quite a bit from other public smoking bans, as it is a controlled environment and typically quite obvious if the rule is being broken. That could point to why historically not all smoke-free place initiatives have been as strictly adopted as the aircraft policies.

Currently, laws in Canada prohibit smoking almost anywhere indoors except one's home, and in recent years the laws have even extended to include non-smoking perimeters around buildings that individuals must maintain when lighting up a cigarette. This differs to current day France where whether or not it is legal, it is not uncommon to find night clubs filled with young adults smoking indoors throughout the night. Historically, between the years of 2000-2008, different provinces in Canada enacted varying degrees of public smoking bans. The result of this is that by the end of 2008 almost all public spaces indoors in Canada were smoke-free, including the elimination of designated smoking areas inside establishments, as well as most terraces and outdoor patios are smoke free with a few provincial exceptions (Statistics Canada, 2008). Conversely, in France similar laws were introduced over the years but it wasn't until 2007 that the government cracked down and set harsher public non-smoking bans including, but not limited to, universities, offices and railway stations (The Guardian, 2006). What differentiates the two countries' sets of laws is the level of severity - where in Canada one cannot even stand outside of their office for a smoke, but in France smoking on restaurant terraces and on the doorstep of any building is still permitted. When making the change to smoke-free public places, the French government gave cafes, restaurants and bars certain leniencies including more time to make the change, and this could provide insight as to why currently in France it is not unusual for the lines of public smoking to be slightly more blurred (The Guardian, 2006).

### Packaging

Packaging regulations have also been a huge development within the tobacco industry, with the aim to inform smokers and deter future cigarette purchases. Throughout the 1990's small regulations were put in place regarding warning messages on cigarette packs, but as of 2001, Canada was the first country to require by law that all packages display one of 16 different warning messages accompanied by a graphic image of the negative effects of tobacco on the human body (Ash, 2008). In comparison, packaging laws in France introduced mandatory picture

health warnings as of 2011, a full ten years after Canada (Tobacco Labelling Resource Centre, n.d.). However, France has recently taken a step further than Canada and banned all branded cigarette packages, meaning all packs look identical with the exception of the brand name written in plain letters, often accompanied by a somber message (for example, "Smoking Kills") and a health warning image. Since this packaging change in early 2017, France has not seen a rapid decline in smoking trends, however the health officials iterate that the goal of the plain packaging is primarily aimed at younger generations to deter them from picking up the habit, as packaging will likely not change the habits of those already addicted (The Local, 2017).

To further transform public opinion of cigarettes in France, a health minister has banned the actual brand names from labels that suggest smoking is chic, trendy, or essentially enticing in any way (RFI, 2017). The goal is yet again to protect the public from the temptation of cigarettes by eliminating names such as "Vogue" or "Allure" (RFI, 2017). This is quite controversial as companies can no longer use their original brands and were given only one year to find new names. With a strict deadline and somewhat short notice, the French government had to pay approximately 100 million euros to tobacco companies when this change was rolled out in early 2017 in order to reimburse companies for loss of sales on already branded packets (The Local, 2017). This furthers the debate of the implementation of plain packaging as some may claim that this money could be spent elsewhere on more effective anti-tobacco prevention projects. Both this law and the proposition of banning smoking in French films demonstrate that the government is aware that action needs to be taken in order to change the country's general attitude towards cigarettes in order to build long-term success in reducing tobacco consumption rates.

### **Price Hikes and Taxation**

Pricing can be a very effective way to initiate change among smokers, however tobacco companies prove to be formidable opponents with lawsuits, lobbyists, and trade deals against increases in price and/or taxation of products. Currently France is actually one of the most expensive countries in Europe to purchase cigarettes, at an average of 7.80 euros a pack (Numbeo, 2017). In comparison, the average price in Canada is 9.27 euros per pack, one of the highest prices worldwide (Numbeo, 2017). France has slowly been raising the price of cigarettes over the years, and health minister Agnès Buzyn states that she plans on raising the cost of cigarettes in France to 10 euros a pack by the year 2020 (CNN, 2018). Health officials are hoping this hike in price will make consumers think twice before purchasing another pack and are optimistic they will certainly see a decline among low-income smokers (CNN, 2018).

Taxation is another huge factor for tobacco in the fight to reduce consumption. The World Health Organization (WHO) framework presents many arguments around the effectiveness of reducing smoking rates through increases in taxation. Tobacco taxation is arguably the most economical strategy to reduce smoking rates, as one of the numerous benefits can be actual revenue generated for the government through taxes on goods (WHO, 2014). Excise tax is the most beneficial in order to generate revenues for government as it is a tax placed uniquely on the tobacco products, so that it stands out to consumers as more expensive than other products and goods (WHO, 2014). Excise tax is also strongly endorsed because countries can, and often do, use a certain portion of the funds generated by this tax to improve public health services and increase spending on anti-tobacco projects (WHO, 2014). Currently, France demands a total tax on cigarettes of approximately 80.3%, of which 63.6% is excise tax, and the remaining is VAT and sales tax (WHO, 2014). Despite this being a solid tax rate, and the WHO actually using France as an exemplary success story of the use of taxation to reduce smoking rates, the country still falls short of the WHO's recommended 70% minimum excise tax on tobacco products (Tobacco Atlas, n.d.). With benefits ranging from public health to the economy, taxation seems to be an effective way to reduce smoking rates for countries as a whole, however it does open up the door to illegal trade and has the possibility to tempt consumers into either purchasing tobacco illegally in France or smuggling products purchased over the border.

## **Contraband**

Tobacco smuggling and contraband is a problem worldwide and appears in many forms across a spectrum of severity. Trans-border and duty-free purchases are legal methods of purchasing at a lower price in another country, but they are limited in quantity, often set at a maximum of 200 cigarettes per person and intended for personal use only (OFDT, 2005). These methods are legal because taxes are paid in the country of purchase, and the amount permitted to bring back is often not high enough to warrant reselling. Tobacco smuggling is a big concern for many countries because local governments lose taxation revenues and smoking rates increase due to higher affordability (Euroeconomy, 2017). Contraband sales are particularly prevalent in countries with higher prices in general, and it is speculated that the tobacco industry often plays some sort of role behind the scenes, because even if the big companies are not making direct profit off contraband, the illicit sales can lead to higher revenues for the brand in the long run (Euroeconomy, 2017). Import and export laws between countries can make it difficult to trace the tobacco sales and it has been said that up to one third of tobacco products declared as exports never re-appear in the market as imports, meaning they are being illegally imported elsewhere and sold illicitly (OFDT, 2005). A study between 1999 and 2004 revealed that trans-border sales in France were highest in regions that border Belgium, Luxembourg and Spain, where cigarettes are cheaper than in France, and that these same types of sales were much less common near the Swiss and Italian borders, where cigarettes tend to be similar in price if not more expensive (OFDT, 2005). These numbers point to the willingness of populations to take time to seek out cheaper products in other countries and take advantage of neighbouring nation's lower taxes, whether legally (within the limit) or illegally. With an already alarmingly high rate of illegal sales combined with France's projected price increases, this will certainly be an issue in need of addressing.

Effectively, the government in France is very aware of this problem and has been looking for new solutions to this growing issue. The World Health Organization recognized the need for action after declaring the world tobacco epidemic, and in 2012 created the Framework Convention on Tobacco Control (FCTC). The convention is a public health treaty with 168 signatory countries, with the intention to reduce worldwide smoking rates through various avenues including advertising, sponsorship, foreign investment, and illegal trade (WHO FCTC, 2015). To combat the issue of illegal trade, the FCTC has been providing updated resources and guidelines to countries to combat tobacco smuggling and contraband sales and has issued its first protocol to all parties of the agreement, the Protocol to Eliminate Illicit Trade in Tobacco Products (WHO FCTC, 2015). The most recent development in the FCTC is the Track and Trace model which has been pushed to all member countries with the goal to remove tobacco companies' involvement in government regulation. A track and trace system requires tobacco companies to uniquely identify each packet of cigarettes produced, in order to trace its location and determine the end destination (Euroeconomy, 2017). The goal of this is to prevent companies from avoiding taxation by exporting cigarettes and then illegally re-importing the products for sale (Euroeconomy, 2017). This system seems like a great idea, however the way in which each member country of the FCTC eventually implements this system will differ and there is criticism that companies could still play too heavy a role within the industry (Euroeconomy, 2017). It is clear there is work being done and progress being made to combat contraband sales in the tobacco industry, but the inevitable pushback from big tobacco has the potential to reduce the effectiveness of proposals and will of course slow the speed of progression. In order to successfully tackle these issues, it will be necessary for the FCTC to remain strong and persistent with the convention's original intentions.

## **ISSUES BEYOND HEALTH**

### **Environmental Impact**

In addition to health-related issues, French government officials are expressing a growing concern regarding cigarette butt pollution and have recently proposed new measures to get the litter and pollution under control. Cigarette butts are the most common form of litter across the globe, and France is no exception to this phenomenon (Reuters, 2018). The main environmental issues regarding cigarette butts are that they decompose extremely slowly, contribute to large-scale water contamination, and the filters turn into toxic waste (The Local, 2018). Recent

studies have shown that cigarette filters were created as a marketing tool by companies to persuade consumers that the filter made cigarettes healthier and safer to inhale, however this idea has been disproved and research shows that filters are completely useless and unnecessary (Forbes, 2018). In addition to the plastic in filters that takes decades to decompose, they also contain chemicals that contaminate water sources (Forbes, 2018). There are companies trying to create biodegradable filters with materials such as hemp, as well as activists trying to ban filters from cigarettes altogether (Forbes, 2018). Cigarette butt litter has always been an issue worldwide but has become a noteworthy problem for France in recent years after the laws passed to ban smoking inside most public places. (The Telegraph, 2012). Many individuals began tossing butts on the ground before entering an establishment, and this has created a habit for many, regardless of location (The Telegraph, 2012). These habits led to a hike in litter fines, currently at 68 euros in Paris, for disposing a single cigarette butt on the ground. Unfortunately, the government does not think this law has proven effective enough in the prevention of cigarette butt litter and are proposing the idea of shifting the responsibility of butt cleanup back on the tobacco companies (Reuters, 2018). France warned in June of 2018 that if by September there were no suitable suggestions for improving the status of cigarette butt litter that the environment ministry would force the major companies to get involved (Reuters, 2018). Multiple tobacco companies responded stating they currently do enough to encourage customers to dispose of butts properly and that new taxes for the industry would be unacceptable (Reuters, 2018).

### **Economic Impact: Should Big Tobacco be Concerned?**

There are several economic impacts to consider when looking at the strong push to reduce tobacco consumption globally and within France, and the battle between government, health officials, policy makers, and big tobacco is ongoing and does not seem to be letting up anytime soon. Historically, tobacco companies have faced lawsuit after lawsuit regarding issues of health damages, deaths, fraudulent advertising and hidden additives to name a few (Tobacco Timeline, n.d.).

France has set an example that rapid change is possible and with the various proposed measures, it would seem the smoking population in France is likely to continue on a downward trend. However, despite the country's recent targeted efforts, France continues to see a large proportion of youth smokers, with numbers in 2014 essentially paralleled to their parents smoking habits stating that just under 30% of boys and girls aged 17 years were daily smokers (Independent, 2014). This is an alarming rate for those with long-term tobacco elimination goals for obvious reasons, however, for remaining tobacco companies in France this figure points towards steady business in coming years. Additionally, despite declining rates in countries across the world, trends in lower income countries are actually on the rise, with concerning future projections and the number of smokers increasing over the past year (The Telegraph, 2018).

Tobacco companies operating and selling in France need to be wary of many factors that could affect their bottom line including contraband sales interference, packaging regulations, drops in sales, price hikes due to taxation and e-cigarette competition. The jaw-dropping decline of 1 million French smokers in just one year leaves tobacco companies with reason to be concerned.

Contraband sales are debatably negative for big tobacco, as one would assume if one third of cigarettes globally are being sold illegally that the tobacco companies would be missing out on those revenues. Certain economists believe that most dips in sales for the tobacco industry are simply due to increased illegal sales (ESTA, n.d.). However, it is highly speculated that many companies are either directly or indirectly involved in the illegal trade game and actually benefit as the companies simply sell the cigarettes to distributors and are unaffected as to whether they end up in illegal trade or not (Euroeconomy, 2017). With new Track and Trace measures being put in place the tobacco companies could see a drop in sales due to less distributors being able to smuggle the products after purchase, however if the tobacco companies get their way they will still have a hand in the Track and Trace implementations and could potentially manipulate the systems in their favour (Euroeconomy, 2017). To the

average person, contraband sales seem like an economic threat, but given the power and influence of big tobacco, it may not be first on their list of priorities.

Furthermore, although packaging regulations have become very strict in recent years, in France as well as globally, many smokers deem it ineffective to their smoking habits. Health officials claim that the plain packaging is primarily to deter young people from picking up the habit, but many critics question the effectiveness of this new measure. Some students claim that it is not the packaging that draws consumers in and that it is more about being seen with the cigarette, and some even claim it to be a "rite of passage" in their teen years (NPR, 2016). Some teens have also expressed that although anti-smoking campaigns and new packaging might not discourage them from smoking, a hefty increase in price would make them think twice before buying another pack (NPR, 2016). This somewhat anecdotal evidence may not reflect the entire country's perspective, but it does give some insight into how embedded smoking is in the French culture and that even new plain packaging might not be as big of a threat to big tobacco as expected.

### **E-cigarettes**

Additionally, it seems as though the decreasing rate of smokers is attributable to price increases, but it is also speculated by many that traditional cigarette sales are down simply due to the increasing number of e-cigarette users. The e-cigarette business is booming with incredible growth rates and astounding projections - such as a predicted market worth of up to \$27 billion by 2022 (Innovation Enterprise, n.d.). The vaping industry is growing steadily and coming out with new innovative products that aim to simulate the effects of a cigarette such as the JUUL by PAX labs gaining popularity in North America and the IQOS device gaining traction in the Japanese market (Forbes, 2016) (See Figures 3 & 4). These products are proving to be quite popular and could quite possibly take over a large share of the tobacco market, particularly because these products are most popular among young consumers, meaning there is huge potential for growth in the next few decades. So, it would seem that vaping would be a big threat to the tobacco industry, however, many tobacco companies have seen this on the horizon and have recently been investing in and supporting e-cigarette companies (Innovation Enterprise, 2017). Many big tobacco companies have acquired smaller e-cigarette companies, and some have even gone so far as to fund a study that demonstrated the different effects of cigarettes vs e-cigarettes on human lungs, concluding that e-cigarettes are less harmful (Innovation Enterprise, 2017). This behaviour is surprising as it appears to be direct support of the tobacco industry's most dangerous competitor, but it is quite fascinating that unlike other industries, tobacco companies are embracing the competition in order to stay relevant (Innovation Enterprise, 2017). With so many contributing factors to the decline in smoking rates, it only makes sense that big tobacco has seen where its future could be headed and has accepted that they need to change things up in order to survive. An added benefit of investing heavily in the e-cigarette business is the increase in customer lifetime, as it is predicted that e-cigarette users typically live for 10 years longer than traditional smokers (Innovation Enterprise, 2017). This may be a somber way to look at the industry, as it really paints a picture of big tobacco squeezing profits out of its customers for as long as possible, but if it means an increased life expectancy in general, then perhaps it is a win-win situation.

### **CONCLUSION**

Anti-smoking action is gaining traction worldwide, and it appears that in France these measures are proving to be successful. The efforts of governments and external organizations vary greatly from packaging, designated smoking areas, protocols for illegal trade, prices, taxation, and steady growth in smoke-free alternatives. It cannot be determined which of these many measures is responsible for the recent drop in smoking rates in France, but it is likely that this trend will carry on, and rates will continue to decrease. The French government has known for quite some time that the tobacco epidemic is of increasing importance in the nation, with health minister Marisol Touraine claiming in 2015 that the deaths attributable to tobacco in France had mounted to "the equivalent of a plane crash every day with 200 people on board" (Financial Times, 2015). This was a shocking statement for many, and the recent efforts taken by the nation seem to have had an effect with the decrease of one million smokers

between 2016 and 2017. However, despite popular opinion, downward trends across many nations do not seem to be an imminent threat for big tobacco. With a growing world population in general and smoking on the rise in developing countries, big tobacco is not yet out of business. Additionally, strong youth smoking rates across France and other nations indicate loyal customers for the near future. Finally, the tobacco companies have seen the growth in the vaping industry and have smartly invested in the e-cigarette business instead of trying to compete with the new trend. These factors combined demonstrate that big tobacco is aware of shifting opinions and habits, and effective action is being taken to mitigate risks for business. It is clear that despite changing global trends, tobacco companies are in no immediate danger and will continue to be profitable for years to come.

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**Figure 1. Smoking rates among regions in France.**

Photo sourced from [www.santepubliquefrance.fr/Actualites/Tabagisme-en-France-1-million-de-fumeurs-quotidiens-en-moins](http://www.santepubliquefrance.fr/Actualites/Tabagisme-en-France-1-million-de-fumeurs-quotidiens-en-moins)



**Figure 2. Advertisements from the PNRT to encourage smokers to quit for one month.** Photo retrieved from <https://www.dw.com/en/france-shed-1-million-daily-smokers-in-2017-health-ministry/a-43968658>



**Figure 3. IQOS smokeless tobacco device by PMI**  
Photo retrieved from <https://www.pmi.com/smoke-free-products/igos-our-tobacco-heating-system>



**Figure 4. JUUL device by PAX labs**  
Photo retrieved from <https://www.juul.com/shop/devices/starter-kit>



# Social Innovation in Morocco

Madison Rudolph

## ABSTRACT

The current global atmosphere surrounding the link between economic development and environmental degradation has become increasingly negative and has incited a societal push towards creating more socially and environmentally conscious products and processes. Social innovation and social enterprises fill the gap left between inefficient governments and underfunded non-profit organizations and NGOs. The largest of these gaps can be felt in developing economies and countries such as Morocco, whose unique cultural, political, and economic history stunts equitable and sustainable development. After introducing the theoretical concepts that frame this discussion on social innovation in Morocco, a PESTEL analysis will outline the varying factors that influence the current business landscape and highlight the most prominent obstacles facing social innovators and entrepreneurs. These tools will be utilized to analyze and understand the ecosystem of incubators and financiers who support SI in Morocco followed by two case studies of Go Energyless Solutions and HydroBarley, Moroccan companies led by women social entrepreneurs. The goal of this report is to contextualize the challenges facing the two enterprises and examine the methods by which they are approaching overcoming them. These case studies highlight the major themes that negatively influence the ability for social innovation to gain momentum in Morocco: scalability, adaptability to regions, insufficient financial backing, and weak partnership opportunities.

## INTRODUCTION

In the current global socio-economic climate, there is a general understanding that many governments are unable to fully meet the needs of their people in an efficient and effective manner. In the gap left between governments, international organizations, and the non-profit and NGO sectors, there leaves an opening for businesses to fill the social and economic needs of the population. Where in the past businesses were centered on profit maximization and capital returns, there is now a push for more socially and sustainably centered corporations which benefit not only their core stakeholders but also the communities affected by the negative externalities of economic growth. Companies are emerging all over the world that are looking to tackle large social and environmental issues especially in developing countries and economies. Social Innovation (SI) is being utilized as a tool by many social enterprises to build sustainable solutions to social, environmental, and economic problems through revolutionizing means of production, creating human centered designed products and reimagining institutional systems.

As a developing economy, Morocco suffers from the negative effects of global climate change, political instability, and social inequalities which are inhibiting the economic progress of the country. There is space for social enterprises and SI to emerge as the primary drivers for social and economic progression, however the ecosystem necessary for them to thrive is still in its infancy. After introducing the theoretical concepts that will frame our discussion on social innovation in Morocco, a PESTEL analysis will outline the varying factors that influence the current business landscape and highlight the most prominent obstacles facing social innovators and entrepreneurs. These tools will be utilized to analyze and understand the ecosystem of incubators and financiers that support SI in Morocco followed by two case studies of Go Energyless Solutions and HydroBarley, Moroccan companies lead by women social entrepreneurs. This report aims to contextualize the challenges facing these two enterprises and analyze the methods which they are using to overcome their mutual challenges.

### **Social Innovation**

Social Innovation, although not a new concept, lacks substantial academic research and an agreed upon definitive definition. This is due in part to its practice-led nature, where it is identified by each organizations' application and contribution to the concept rather than analysis through typical academic streams ("Social Innovation Theory and Research" [SITR], 2014). The most all-encompassing definition given by "the Theoretical, Empirical, and Policy Foundations for Building Social Innovation in Europe" (TIPSIE) identifies five criteria which characterize SI: new within its context, created with the intention of meeting a social need, put into practice, engages and mobilizes its beneficiaries, and transforms social relations (SITR, 2014). Social Innovation is often used alongside and sometimes synonymously with social entrepreneurship and corporate social responsibility (CSR), but is distinct in that it can apply to governmental regulations and international organizations processes rather than just within business contexts (SITR, 2014).

Literature and theoretical thought on SI falls into two perspectives: Individualistic and Structural (Cajaiba-Santana, 2013). The individualistic approach highlights the pursuit of social change by ambitious and inspired individuals looking to create change in their own communities. This is juxtaposed by the structural analysis which looks at how institutions and the contextualization of social issues shape the boundaries and outcomes of SI. Although, these two perspectives have shaped the majority of academic research on SI over the last two decades, there is a necessity for a more holistic approach to SI analysis which can convey the full complexities and intersectionality of the two perspectives (Cajaiba-Santana, 2013).

### **Human Centered Design**

To create effective and truly revolutionary SI, social innovators must be able to design products that fully account for the needs and cultural context of their beneficiaries. Design thinking is an approach to human centered design perfected by IDEO, an international industrial design firm located in Palo Alto, CA, that aims to find solutions to product and process design by re-envisioning the problem-solving process to focus on people-based solutions (Brown & Wyatt, 2010). IDEO's method takes the typical analytical and rational approaches to problem-solving and incorporates human aspects of intuition and pattern recognition to develop solutions with functionality and simultaneously emotional meaning. These types of outcomes are social in nature and are achieved not through a sequential process but a cyclical system of overlapping 'spaces' rather than steps. IDEO defines three 'spaces' which are continuously influencing each other and are cycled through several times in the design thinking process: Inspiration, Ideation, and Implementation (Brown & Wyatt, 2010). These 'spaces' give room for the consideration of all possible causes and solutions that may have otherwise been overlooked. Social innovators utilize design thinking to build creative and visionary solutions to the most acute social, economic, and environmental problems which have been otherwise unresolved with common problem-solving techniques.

### **Shared Value Creation**

The current global business mentality is experiencing a shift in the way that value creation is conceptualized and undertaken. For too long, businesses have created value for their customers and shareholders in a vacuum not accounting for the negative environmental and social externalities of capital gains. As society is realizing the consequences of thoughtless capitalistic growth, businesses are becoming synonymous with heartless, money hungry machines and are distrusted in the public eye. Michael Porter and Mark Kramer in their article on Creating Shared Value (CSV) have examined the positive link between successful businesses and strong communities (2015). They define the concept of shared value as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates" (Porter & Kramer, 2015). This concept intertwines the economic and social ideas of value creation and

identify three ways in which companies can achieve this: “by reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at that company’s location” (Porter & Kramer, 2015). Shared Value creation goes beyond CSR as it shifts business models to be socially centered and recognizes that social costs can create higher economic and business costs when not addressed correctly. CSV is at the core of SI and social enterprises as they seek to develop business models which can maximize the profit and social impact of their innovations.

### **United Nation’s Sustainable Development Goals**

In 2015, the United Nations Development Programme (UNDP) once again gathered leaders from 193 countries around the world to determine another 15-year plan in pursuit of sustainable economic development (The Sustainable Development Agenda [SDA], 2018). The previous Millennium Development Goals implemented in 2000 managed to cut the global poverty rate by half and the UNDP has the ambitious goal of eradicating poverty, empowering and educating the population, and alleviate the most pressing threats from global climate change by 2030 (SDA, 2018). The Sustainable Development Goals (SDGs) are 17 goals meant to promote the overall wellbeing of all global citizens through:

1. No Poverty
2. Zero Hunger
3. Good Health and Well-Being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation, and Infrastructure
10. Reduced Inequalities
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace, Justice, and Strong Institutions
17. Partnerships for the Goal

These goals are being used as a framework for governments, NGOs, and many companies to measure their global impact and inspire better practices and innovation in the pursuit of sustainable development (SDA, 2018).

### **PESTEL ANALYSIS**

#### **Political**

Morocco is characterized as a constitutional monarchy with ultimate authority being given to the King. Recent constitutional reform came in the wake of the Arab Spring in 2011 which jolted the monarchy to grant more civil liberties to its citizens and redistribute governmental power as a way of maintaining relative stability within the country. Despite these reformations Morocco remains plagued by political corruption, a weak democratic process, and little to no actual change in the governmental power distribution. In Transparency International’s index for Corruption Perceptions 2017, they rank Morocco 81<sup>st</sup> out of 180 countries analyzed and scores Morocco 40/100 (0 being most corrupt and 100 being cleanest) for corruption in the public sector (Transparency International.org,

2018). The Bertelsmann Stiftung Index rates Morocco lowest on the stability of its democratic institutions and the separation of power in the government due to the lack of functioning checks and balances (Transformation Atlas, 2018). The strong hold that the monarchy has over the social and economic systems in Morocco are not favorable for innovation to prosper, however, King Mohammad VI has stated that entrepreneurship and innovation make up “the twin values that are both stepping stones towards freedom, social mobility and prosperity...” (El Ghaib & Chaker, 2018). Assuming the monarchy continues to value the importance of innovation as a driver for social change, there could be strong backing for SI to flourish in Morocco in the future.

### **Economic**

Morocco’s 2017 GDP was 109.1 Billion USD with a 4.1% annual GDP growth rate (World Bank, 2018). There is relative macro-economic stability and low inflation rate which make Morocco more favorable for business than the majority of other MENA countries. They, however, have a high unemployment rate at 10.3% of the population and an even higher rate in youth between 15-24 years of age at 26.5% (Santander, 2018). 62% of the population is under 29 years old making job creation a pressing issue for Moroccan youth (Teasley, 2012). Morocco also has the highest economic inequality ratio of the North African countries with a Gini Coefficient of 40.3%, meaning it has the largest gap between its richest and poorest citizens in comparison to its neighboring countries (Koundouno, 2018). SI has the potential to close these economic gaps and social entrepreneurship has the potential to fill the demand for job creation in Morocco.

### **Social**

The most significant social issues affecting the population of Morocco are ineffective education, poor health care quality, and rural poverty. Morocco’s Human Development Index is 0.667 which ranks 123<sup>rd</sup> out of 189 countries based on life expectancy, level of and access to education, and overall standard of living (Human Development Index, 2018). It also ranked 119th out of 160 countries in the Gender Inequality Index in 2017 which shows the loss in human development due to inequalities between men and women (Human Development Index, 2018). 44% of the youth population is illiterate and are being failed by the education system in Morocco which, even when completed, does not properly prepare them for the job market (Teasley, 2012). 41% of the population of Morocco live in rural areas without a consistent income stream and without proper access to adequate health care (Zemouri, 2018). These factors all feed into the cycle of poverty that makes economic and social development in Morocco difficult to attain and provokes the necessity for SI.

### **Technological**

According to the Africa Capacity Report Morocco ranked 1<sup>st</sup> in the science, technology, and innovation index. This index measured Morocco on the basis of policy, implementation, country level results, and capacity development outcomes in technology and innovation against the other countries in the African Union (AU) (El Masaiti, 2018). Morocco also benefits from one of the best infrastructures in Africa which gives it ample transportation options, communication channels, and logistical ease for companies (Oxford Business Group, 2017). Additionally, Morocco was the first country to set up a regulatory framework to nurture the expansion of the ICT sector in Africa. The most recent of these initiatives is Plan Maroc Numeric 2020 which aims to cut the digital divide by 50% while also educating and training 30,000 IT professionals. The Moroccan government has also established the Moroccan Digital Fund, which invests in start-up companies in a variety of technological fields including e-commerce, cybersecurity, and recently expanding to include green tech (Oxford Business Group, 2017). SI has a substantial technological structure to build upon and the opportunity to commercialize the expansion of technological innovation into underserved rural areas where its benefits have not yet reached.

## Environmental

Morocco has several key environmental issues that influence the development of its people and the quality of life in the country. Major issues pertain to pollution of air, land, and water due to outdated regulation on industry, inefficient energy use, and an inadequate waste management system (Legacy International, 2016). Moroccans, especially in rural areas, are dependent on the agricultural and fishery industries for economic stability, however global climate change puts these sectors at risk and is causing fluctuations in the nation's economic health (US Aid, 2016). The most pressing of these issues is reduced crop yields due to drought, shorter growing seasons, migration of fish populations to cooler waters, and dilapidation of water quality. The Moroccan government, however, has placed an importance on renewable energy production and has the goal of producing 42% of its energy with renewable sources by 2020 (Zafar, 2017). This leaves room for SI to create sustainable solutions aiming to resolve these crucial environmental problems which intrinsically affect the social and economic resolution of Morocco.

## Legal

Human Rights Watch identifies freedom of expression, assembly, and association as still having restrictions under Moroccan law which threaten civil liberties in the country (2018). Women were granted constitutional equality in 2011, however they can still experience prosecution when rape suits are not sustained and can face trial if they become pregnant outside of marriage (Human Rights Watch, 2018). Restricted human rights remain a hindrance for equal social development in Morocco and discourages foreign investment in the country. The 2011 constitutional reforms also granted the right to sustainable development to all citizens highlighting the current focus of the administration to enact policies designed to promote SI and social entrepreneurship (Legacy International, 2016). However, there presently lacks official legislation to boost innovation and high levels of bureaucratic obstacles hinder quickness and flexibility of social entrepreneurs to begin their businesses (El Ghaib & Chaker, 2018).

## MOROCCAN SI ECOSYSTEM

Before analyzing the two social enterprises case studies in Morocco, it is critical to understand the ecosystem which fosters their development. The social innovation ecosystem in Morocco is still in its infancy stages and is establishing its methodology around stimulating youth and launching social enterprises. There are three layers of organizations within this ecosystem that can be grouped as inspirers, accelerators/incubators, and financiers (El Ghaib & Chaker, 2018).

The inspirers are companies which seek out and encourage young adults to pursue social entrepreneurship. The main partners at this level are The Moroccan Center for Innovation and Social Entrepreneurship (Moroccan CISE) and Enactus Morocco (EM). Moroccan CISE aims to alleviate all social challenges in Morocco through SI and social entrepreneurship (MCISE, 2018). They have created several initiatives to foster awareness and education about SI specifically through their high school engagement program Tamkeen. At the university level, EM acts as a platform for students to collaborate and create social enterprises. EM has enabled the other two women entrepreneurs, whose case studies will be discussed, by educating them on SI and nurturing their business ideas and development. EM is a non-profit organization currently headed by Maha Chief Ech and founded in 2003 as a subsidiary of the international non-profit organization Enactus (Enactus, 2017). EM has assisted in the development of over 20,000 students since its inception. Enactus' platform connects student and influences their business and leadership development through inspirational conferences, empowerment programs, motivational speeches, and competitions. All companies founded through Enactus must adhere to the "Triple Bottom Line" which requires them to formulate their business models around building economic wealth creation, human development, and environmental protection. Since 2015, they also require businesses to follow the UN's SDGs. Enactus Morocco is currently connected to 120 universities in Morocco and in 2017 helped over 5,000 students form teams and create

sustainable businesses (El Ghaib & Chaker, 2018). Both organizations act as a foundation for SI educational development in youth and stimulus for SI solutions in Morocco.

Additionally, EM and Moroccan CISE also act as the key incubators/accelerators in Morocco by providing training, mentoring, and capacity building at the pre-seed and seed stages of business development (El Ghaib & Chaker, 2018). EM launched an incubator project called EMPACT in 2015 with the help of the OCP Foundation. This program assists the progress of high impact projects and start-ups through funding, mentoring, and networking events to further leverage their businesses (Enactus, 2017). Their incubator provides the opportunity for teams to attain \$2,000 USD in grant money and up to \$15,000 USD in zero-interest loans and has been able to launch over 50 start-ups in the last two years. Similarly, Moroccan CISE launched an incubator program called DARE Inc. supported by the DROSOS Foundation. DARE Inc. provides initial funding of 3,000 USD to companies accepted into their incubator, as well as access to their four-month boot camp to stimulate the launch of SI projects (DARE Inc., 2018). They have since created over 20 companies, incubated 45 more, and created over 80 jobs. EMPACT and DARE Inc. are accompanied by Espace Bidaya and Cluster Solaire which combine to create the accelerator structure in the Moroccan SI ecosystem (El Ghaib & Chaker, 2018). All four organizations bolster the development of social enterprises attempting to tackle Morocco's largest socio-economic problems.

The third and final level of the ecosystem is the financiers who fund these start-ups through various types of investment capital including debt, equity, subsidies and/or honor loans (El Ghaib & Chaker, 2018). OCP Group and Caisse Centrale de Garantie (CCG) are the main financiers facilitating development. The OCP Group is a Moroccan phosphate company which in 2013 launched the OCP Entrepreneurship Network as a part of their CSR to help finance Moroccan entrepreneurs and have since been supporting many SI and social entrepreneurial initiatives (OCP Group, 2018). CCG is a public financial institution which was developed to share the financial risk with start-ups in Morocco and invest in the future of the country (CCG, 2017). All of these aforementioned organizations are relatively new to the SI field and are in the process of creating the most effective approaches for strengthening SI development in Morocco. The success and widespread impact of SI in Morocco will be intrinsically dependent on the cohesion and strength of this ecosystem.

## CASE STUDIES

The information provided for the following case studies was gathered from surveys and phone interviews conducted with the two founders. All statistical data was provided by the founders as determined from their companies' personal research and calculations. The answers received in both surveys can be viewed in Appendix A and B of this report. The format of the surveys was adapted from the United Nation's Growing Inclusive Market's case study surveys and was provided by Professor Majid El Ghaib at ESCA Ecole de Management in Casablanca, Morocco.

## GO ENERGYLESS SOLUTIONS

Go Energyless Solutions is a social enterprise aiming to generalize the use of energy saving products globally, beginning in the North African region. Raowia Lamhar is the CEO and co-founder of Go Energyless Solutions and started the company with the intent of alleviating a few key social issues related to environmental sustainability, job creation, and waste reduction. Go Energyless Solutions designs, manufactures, and markets sustainable products with a human centric design process which also drives their business model. The first product they developed is an all-natural, energy-less refrigerator called "Fresh it". 45% of people in the rural areas of Morocco do not have access to electricity, which causes over 80% of food to spoil in these communities without access to proper refrigeration. Their innovative, hand-crafted clay refrigerator requires no electricity, holds up to 8 kgs of product, and can keep produce, drinks, and temperature sensitive products, such as medicine, cool for up to 15 days.

## **Business Model**

The core of Go Energyless Solution's business model is their value proposition to generalize the access of energy saving products globally. They achieve this by providing products like "Fresh it" in two versions to two key customer segments. A high-end version is marketed and sold to organic food and Lifestyle of Health and Sustainability (LOHAS) consumers for \$50. While a basic version is sold in rural communities to families with lower buying power and little to no access to electricity for \$22. The revenue model is that of "the rich compensate for the poor", which allows them to cover the costs of producing the products and provide "Fresh it" at a lower cost to rural consumers. To build trust and customer relationships with the people in the rural communities, Go Energyless Solutions employees local ambassadors to sell their products. For the LOHAS consumers they are currently selling online and are looking to sell in larger quantities in stores across the globe. To produce "Fresh it", they subcontract production to potters in Tameslouht, located in the Marrakech region, creating stable and high paying jobs for the local potters.

## **Impact**

Go Energyless Solutions is in the process of reenergizing the clay industry in Morocco, by creating a demand for clay products year-round and disrupting the current manufacturing process and supply chain. 62% of potters in Morocco typically make \$300/per month during the summer months which then drops by almost half during the winter. Go Energyless Solutions has been able to create jobs for more than 10 potters and increase their annual income by 30%. They have sold over 1,200 refrigerators avoiding more than 4,800 toxicity problems, saving 24,000 Kgs of food, and preventing a 25% income cut due to food waste and energy consumption for more than 500 families in rural Morocco. As a company, they have been able to fundraise \$55,000 through Enactus' incubator.

## **SDGs**

As a social enterprise, Go Energyless Solutions aims to tackle three main Sustainable Development Goals: Decent Work and Economic Growth, Sustainable Cities and Communities, and Responsible Consumption and Production. By creating sustainable products without energy waste and providing secure incomes to potters and local ambassadors, they are able to disassociate economic growth from environmental deterioration. The employment of local artisan potters also strengthens and protects the cultural and economic significance of pottery in Morocco ensuring the livelihood of the people and the progression of the craft. Their products sustainably increase the standard of living for families in rural communities, while radically changing the food preservation practices in developed economies.

## **Challenges**

In the pursuit of social innovation, there are several challenges Go Energyless Solutions is struggling to overcome in relation to cultural barriers, financing, and scalability. The inaccessibility of the regions in which rural communities are located, the scattering of the population in these regions, and the difficulty to convince them to buy their products or trust the local ambassadors influence Go Energyless Solutions' ability to access new regions. They are approaching these challenges by setting a new model to rural areas where they provide easy payment options to their customers and will hold off delivering orders in certain regions until the number of units ordered exceeds twenty. They also realized a commonality throughout the communities where the people who are most trusted are typically a well-educated young man, the imam of a mosque, or a person from the local authorities. This makes it easier for them to identify the best candidates to approach as local ambassadors and who will be most effective in selling their products in these rural communities. They are also realizing that they are receiving more orders from abroad, specifically in France, than from Morocco and are struggling to distribute their products cost effectively in these areas in small quantities. In tackling the LOHAS consumer demand, they are in the process of contacting stores that would be willing to order more than 50 units at a time to drive down the costs of delivery.

## HYDOBARLEY

HydroBarley is a limited liability company co-founded by Hanane Rifai, El Mahdi Caf, and Abdessamad Rifai. These three young entrepreneurs were concerned with the high price of fodder in the Moulay Driss Aghbal village, in the Rabat region of Morocco, that were forcing children to leave school and work in the pastures for their families. 80% of farmers in Morocco are experiencing the negative effects of global climate change affecting pasture scarcity and water availability which in turn leads to variation and increase in the price of fodder. The goal of HydroBarley at its inception was to create low cost green fodder for livestock farmers, so their children could return to school and continue pursuing an education. To do this, they decided to develop barley fodder using hydroponic technology which reduces the space and water needed to grow fodder thus cutting costs and allowing them to sell it at a cheaper price. The barley is produced on shelves that allow water to leak through the different levels.

When lack of funds was inhibiting their ability to expand into new regions, they decided to offer a variety of sheep feed by their green fodder allowing them to increase their profit margins. Morocco's diverse range of climates makes fodder production in each region drastically different depending on the season and rainfall variations, thus the demand for fodder is highly inconsistent. To provide a steadier revenue flow for themselves, HydroBarley intends to launch a line of hydroponic equipment units to farmers that allow them to grow their own green fodder cheaply. The farmers are then able to convert the small amount of land they have into vegetable plots and other higher value crops to increase their income and improve their quality of life.

### **Business Model**

Based on HydroBarley's value proposition of providing low cost green fodder to rural farmers, they have developed a business model that is innovative in their customer relationships and cost structure. They develop deep personal relationships with the farmers, starting with individual case studies on each new client to tailor fit solutions to their agricultural challenges. They provide teaching and personalized follow-up consultations to ensure all the needs of the clients are being met and then assist the farmers' children in returning to school. By offering the tools and hydroponic production units to the farmers, they are able to lower the costs of producing the product themselves. HydroBarley also offers support for farmers wishing to develop new techniques on their small plots or monitor the status of their livestock through HydroBarley's veterinary partners. Their revenue structure is flexible and dependent on the individualized sales they negotiate with the farmers. They are currently in the process of partnering with different cooperatives to help them distribute their product more easily and make their products more broadly available to potential customers.

### **Impact**

HydroBarley is currently able to produce 1 ton of barley fodder per day providing them with 199,000 Dirhams in revenue in 2017. Through their hydroponic growing techniques, they can reduce the amount of water used in fodder production by 1,500 times and protect biodiversity by reducing the superficies of lands typically used for fodder production by 4,000 times the traditional production techniques. HydroBarley has 10 permanent clients who use their hydroponic system and 170 clients purchasing barley fodder. As their client base has grown, they have been able to add two full time employees, one part-time employee, and five interns who are paid on their percent of contribution.

### **SDGs**

HydroBarley's unique business model and product offering allows them to address six of the UN' Sustainable Development Goals: No Poverty, Zero Hunger, Quality Education, Clean Water and Sanitation, Climate Action, and Life on Land. Their innovative technology is a more sustainable solution to other forms of green fodder and gives them the ability combat climate change and the economic externalities that result from it and affect rural farming

communities. They have also been able to successfully send children back to school and increase the income levels of their families and subsequently their standard of living.

## Challenges

Culturally there are a couple of barriers at play for HydroBarley to overcome as they progress. Farmers, especially those whose agricultural practices have been passed down over several generations, tend to be averse to change and are distrustful of new techniques. This is a barrier in each new market that HydroBarley attempts to enter and they must overcome this initial distrust in their products. To combat this, they started to feed sheep with their own fodder to showcase the value of their product and offering a week's worth of free fodder for the farmers to test with their livestock. They are also struggling to convince farmers that they can send their children back to school and the valuable investment it provides for the future of the family. They have decided to offer a 50% discount to farmers with children of school age on the condition they bring the children back to school. This cuts the opportunity costs of keeping the children in the pastures and incentivizes the farmers to continue their children's education.

As a business, HydroBarley is attempting to navigate the difficulties of creating products that respond to all the diverse needs of their clients and competing with the other existing products on the market. By creating in depth analyses on their customers and product development, they can provide custom offerings to a large range of livestock. However, to attain this level of analysis and product diversification quickly, they require more funding to allow them to scale their business and expand into new regions. Although they have been able to utilize the ecosystem of incubators and think tanks in Morocco, they are still struggling to attain the capital to increase production and thus cut the per unit costs of production which will allow them to increase profit margins and scale their business.

## ANALYSIS OF MAJOR THEMES

Both companies face similar overarching obstacles that can be applied to all social enterprises aiming to make headway and gain momentum in Morocco. Their ability to scale, adapt to diverse regions, gain financing, and develop beneficial partnerships will determine the success and impact of their SI in Morocco. These factors are all linked to one another and can be helped or hindered depending on the strength of Morocco's institutions and the synergies of the SI ecosystem.

Go Energyless Solutions and HydroBarley have utilized human centered design thinking to create innovative products while placing CSV at the center of their business models. This alone, however, will not create sustained impact and disperse the benefits of their SI to the whole of Morocco. To spread their innovations and simultaneously maximize on their profit margins, they will need to find ways to gain investment from large multinational corporations and institutions while the Moroccan SI ecosystem is still in its infancy. There is also a need for strong partnerships with government, the NGO and non-profit sector, and international organizations to ensure that social and environmental issues are being approached holistically and all aspects of sustainable development can be covered effectively from varying perspectives. These partnerships also bolster the ability of social enterprises to scale-up their businesses. Scaling requires these businesses to adapt to the differing cultural and environmental climates throughout the unique regions in Morocco. This ability to transition and adapt SI and CSV business models will allow for expansion into the rest of Africa and globally. These factors will determine the successfulness of SI and sustainable development in Morocco with the potential to drastically change the current socio-economic and environmental state of the country.

## CONCLUSION

Morocco, like many developing countries, has long felt the most difficult effects of irresponsible capitalistic growth causing vast social inequalities, high income disparities, and increased environmental degradation. These result in a cycle of poverty that is stunting Morocco's ability to create sustainable and equitable development. The complexities of interwoven cultural, political, and economic factors make approaching sustainable development difficult. However, through SI, an inspired generation of social entrepreneurs, and the UN's framework for sustainable development, there is hope that many of Morocco's social, environmental, and economic problems can be alleviated. Go Energyless Solutions, HydroBarley, and their founders mark the beginning of a wave of SI and social enterprises which will lead Morocco into a more sustainable and prosperous era contingent on their ability to overcome financing and scaling obstacles.

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## Case Survey Summary for Go Energyless Solutions:

Element	Outline	Input Data
<b>Title</b>	The name of the company or business initiative: the core achievement of the business model	Go Energyless Solutions impacted the lives of over 600 families.
	<ul style="list-style-type: none"> <li>Case Writer</li> <li>Country</li> <li>Sector</li> <li>Enterprise class</li> </ul>	Raowia Lamhar Morocco Energy & environment VSB
<b>Summary</b>	<p>Like an abstract, one page maximum. Should include information about:</p> <ul style="list-style-type: none"> <li>What is the business in focus here? (Name, country, region, industry)</li> <li>What are the main achievements of the business model (What is the business? How has it grown? How many people have benefited and in what way?)</li> </ul> <p>Optional. A quote from the case study that illustrates an important idea of the business model from the perspective of a stakeholder.</p>	<p>Go Energyless Solutions is a Moroccan-based company that aims to generalize access to energy saving products all over the world starting with Africa. Its first product is called “Fresh’it”, a cooler that can save food, medicine, and drinks for over 15 days and is designed to meet the needs of two specific segments:</p> <ul style="list-style-type: none"> <li>Rural inhabitants who lack access to electricity or can’t afford to pay the electricity bill</li> <li>Organic food consumers who prefer to save their food in a natural way.</li> </ul> <p>Go Energyless Solutions’ achievements:</p> <ul style="list-style-type: none"> <li>Creating a clay industry by conceiving its manufacturing process and chain</li> <li>Creating jobs for more than 10 potters and increasing their annual income by 30%</li> <li>Sold more than 1200 refrigerators and by that:               <ul style="list-style-type: none"> <li>Avoided more than 4800 intoxication situations (by either medicines or food)</li> <li>Avoided more than 24,000 kg of food waste</li> <li>Avoided 25% income cut due to food waste for more than 500 families in rural and non-electrified areas</li> <li>Reduced energy consumption in over 500 households</li> <li>Fundraised over \$55,000</li> </ul> </li> </ul>
<b>Business Model</b>	<ul style="list-style-type: none"> <li>What is the <b>value proposition</b> of the business?</li> <li>Who <b>sells</b> what to whom?</li> <li>What is the <b>financial</b> model?</li> <li>What <b>objectives</b> shall be achieved through the business (regarding the company, society and the environment)?</li> <li>How is value <b>created and distributed</b>?</li> </ul>	<p>Our value proposition is a 100% natural refrigerating system that needs no electricity to function. Fresh’it is sold in two versions:</p> <ul style="list-style-type: none"> <li>A well designed one that costs \$50 to organic food consumers</li> <li>A basic version that costs \$22 sold to the rural inhabitants via local ambassadors hired to distribute the product locally.</li> </ul> <p>Our gross margin is limited in the rural version but “rich people compensate what rural people should pay”.</p> <p>Our business model is based on customers’ needs, innovation and successful solutions.</p>
<b>Business Model: Constraints</b>	<ul style="list-style-type: none"> <li>What are <b>constraints</b> in the <b>market environment</b> the company had to overcome (using the Matrix and noting other constraints beyond the 5 domains)?</li> </ul>	<ul style="list-style-type: none"> <li>The main constraints that we’re trying to overcome in the rural market are:</li> <li>The inaccessibility of the regions where they live</li> <li>The population scattered in one region</li> </ul>

	<ul style="list-style-type: none"> <li>What <b>other constraints</b>, e.g. from within the organization or regarding the business capabilities, should be noted?</li> </ul>	<ul style="list-style-type: none"> <li>The difficulty to convince them to buy, or for them to trust the local ambassadors</li> </ul> <p>In the organic food market are:</p> <ul style="list-style-type: none"> <li>The difficulty of supplying distributors who can only order a small quantity</li> <li>Receiving more orders from abroad (France) than from Morocco even if we're not targeting them.</li> </ul>
<b>Business Model: Solutions</b>	<ul style="list-style-type: none"> <li>How have these constraints been <b>overcome</b> (using the Matrix and noting other solutions beyond the 5 strategies)?</li> </ul>	Setting a new rural model (test ongoing) where we provide clients easy payment options, and not delivering until the regional order exceeds 20. We also changed our model of hiring the local ambassador –there are three persons usually trusted by the majority of the community: a well-educated young man, the imam of a mosque, or a person from the local authorities. For the organic food consumers, we're contacting stores that may order more than 50 units, especially in France.
<b>Actors</b>	<ul style="list-style-type: none"> <li>Who are the <b>actors</b> that have shaped the business? (Include all, as well as 2-3 critical actors)</li> <li>What are the <b>motivations/interests</b> of these actors with regard to the business? (Why would they be interested in the business' success or failure? What do they want to get out of the business? What <b>negative outcomes</b> do they worry about?)</li> <li>Who are the actors who <b>hinder</b> the success of the business? What is their <b>motivation</b>? What is the <b>effect</b> on the business?</li> </ul>	Our business has always been a human centred one as we believe that only our beneficiaries, clients, employees, mentors, and founders could shape the way our business is seen and lived.

### Case Survey Summary for HydroBarley:

Element	Outline	Input Data
<b>Title</b>	The name of the company or business initiative: the core achievement of the business model	Hydrobarley: Innovative low-cost production of Green Fodder through Hydroponics Systems
<b>Key facts</b>	<ul style="list-style-type: none"> <li>Case Writer</li> <li>Country</li> <li>Sector</li> <li>Enterprise class</li> </ul>	<p>Morocco</p> <p>Agriculture</p> <p>SARL</p>
<b>Summary</b>	<p>Like an abstract, one page maximum. Should include information about:</p> <ul style="list-style-type: none"> <li>What is the business in focus here? (Name, country, region, industry)</li> <li>What are the main achievements of the business model (What is the business? How has it grown? How many people have benefited and in what way?)</li> </ul>	<p>Daily life of 80% of small farmers becomes harder because of the climate changes directly affecting the variation and increasing the prices of fodder. Pastures and vegetable production have disappeared. Children are forced to work to get more money to buy food for their livestock and their families, We produce a new fodder using hydroponic technology, cheaper and very nutritive for cattle and we coach our farmers to convert their small lands to produce vegetables to help increase their incomes.</p> <p>Through the 2015 initiative of three co-founders we have succeeded to develop our own model of units of productions with the funds we collected through competitions and programs. This year we have 2 recruits from the first region</p>

		<p>working in the production and the commercialization of the fodder, serving 10 families and 100 customers buying sheep. Also to accompany 6 children going back to school. We now have new offers, and a strategy to impact more farmers and develop agriculture to insure food security for Africa first, and then the world.</p>
<b>Guiding quote</b>	Optional. A quote from the case study that illustrates an important idea of the business model from the perspective of a stakeholder.	The future of agriculture, to a better life for small farmers and their families.
<b>Context: Regional and organizational setting</b>	<ul style="list-style-type: none"> <li>Where is the enterprise located (country, region, socio-economic characteristics, environment etc.)</li> <li>What is the organizational background of the business? (Parent company, founder etc.)</li> </ul>	<p>Hydrobarley is located in Moulay Driss Aghbal village, Rabat region Morocco</p> <p>Hydrobarley is a limited liability company with 3 co-founders.</p>
<b>Context: History/ Development</b>	How did the business model emerge and evolve over time? (include brief timeline)	<p>We started our business first to solve the issue we met in Moulay Driss Aghbal related to the high price of fodder that obliges children to leave schools and spend time in pasture. We started by selling fodder with low price to their parents with a convention to send their children to school and we accompany them to succeed in their studies.</p> <p>After 1 year we realized the issue of fodder is very big and very dependent on climate change. We tried to continue in new regions of Morocco with the same purpose but difficult because of the lack of funds.</p> <p>This year we decided to continue with our first model and launched a new offer to sell units of production for farmers, cooperatives and associations that want to produce their own fodder.</p>
<b>Business Model</b>	<ul style="list-style-type: none"> <li>What is the <b>value proposition</b> of the business?</li> <li>Who <b>sells</b> what to whom?</li> <li>What is the <b>financial</b> model?</li> <li>What <b>objectives</b> shall be achieved through the business (regarding the company, society and the environment)?</li> <li>How is value <b>created and distributed</b>?</li> </ul>	<ul style="list-style-type: none"> <li>We offer low cost green fodder and concrete solutions to farmer's daily issues.</li> <li>We sell green fodder to small farmers with a case study in advance to define the customer's need.</li> <li>Hydrobarley allows you to feed your livestock yourself, through the production unit setup with personalized support.</li> <li>Hydrobarley offers a varied range of sheep nourished by its green fodder and 100% natural for direct sourcing.</li> <li>We offer personalized support for farmers wishing to develop new techniques in their small plots or monitor the status of their livestock by our technicians or veterinary partners.</li> <li>Our financial model depends on sales and we adapt it to our clients and their needs.</li> <li>Our objectives are to reach 1000 clients all over Morocco, build about 10 units of production with a total capacity of 10 tonnes of fodder per day by the end of 2021 and impact 500 children by helping them going back to school and develop their futures.</li> <li>We want to build units of production and create jobs to have more impact in each village, and partnership with cooperatives to distribute our products and services easily.</li> </ul>

<b>Business Model: Constraints</b>	<ul style="list-style-type: none"> <li>• What are <b>constraints</b> in the <b>market environment</b> the company had to overcome (using the Matrix and noting other constraints beyond the 5 domains)?</li> <li>• What <b>other constraints</b>, e.g. from within the organization or regarding the business capabilities, should be noted?</li> </ul>	<ul style="list-style-type: none"> <li>• Convincing costumers to buy a new product they have never seen before.</li> <li>• Letting them accept that they let their children go back to school and no pasture.</li> <li>• Developing our product to respond to all their need and compete with existing products.</li> <li>• How to scale and be in new regions, and get funds to develop quickly.</li> </ul>
<b>Business Model: Solutions</b>	<p>How have these constraints been <b>overcome</b> (using the Matrix and noting other solutions beyond the 5 strategies)?</p>	<ul style="list-style-type: none"> <li>• We started feeding sheep in our unit of production to showcase</li> <li>• One week free quantities of fodder for test</li> <li>• Offered 50% discount for farmers with children with a condition to send them back to school.</li> <li>• Working on product analysis and develop combinations to serve a large type of livestock</li> <li>• Developed new transportable units that sell for cooperatives, or build directly in some regions.</li> </ul>
<b>Actors</b>	<ul style="list-style-type: none"> <li>• Who are the <b>actors</b> that have shaped the business? (Include all, as well as 2-3 critical actors)</li> <li>• What are the <b>motivations/interests</b> of these actors with regard to the business? (Why would they be interested in the business' success or failure? What do they want to get out of the business? What <b>negative outcomes</b> do they worry about?)</li> <li>• Who are the actors who <b>hinder</b> the success of the business? What is their <b>motivation</b>? What is the <b>effect</b> on the business?</li> <li>• What <b>role</b> do these actors play within the business models? What <b>resources and capabilities</b> do they contribute?</li> <li>• What do they <b>get</b> out of the business?</li> <li>• How does the business manage the <b>relationship</b> with these actors? Is the relationship <b>collaborative</b> or transactional? Are there areas of <b>disagreement and tension</b>?</li> <li>• What did it take to <b>get</b> their support? What are the <b>costs</b> and benefits of <b>coordination</b> and governance?</li> <li>• What <b>lessons</b> has the business learnt in coordinating these actors?</li> <li>• Have any of these actors <b>changed</b> over time? If so, how? How will they change, if at all?</li> </ul>	<p>Enactus Morocco and Moroccan Center for Innovation and Social Entrepreneurship (MCISE). Through the program I learned the process of turning problems into opportunities and also within Impact accelerator that they have launched in partnership with OCP foundation we grow the business from prototype to a first unit within the funds.</p> <p>Dare INC incubator with MCISE helped us transform the project to a social company with funds to continue developing our business and increase our capacity. Both organizations helped us with a huge network which allowed us to be seen at international and national events.</p> <p>Their motivation is to increase the impact of the program they are launching to promote social entrepreneurship in Morocco and create real success stories that started from scratch in our country. And they are all the time afraid that we lose our motivation because of the obstacles we are facing every day, especially the lack of funds to grow.</p> <p>There are no actors who hinder our success except some individuals who hinder all type of success in the country.</p> <p>The two organizations connect us with mentors and experts to develop our business model and grow our business.</p> <p>We manage our relationships with those actors with reports and emails to inform them about our news and our achievements and also we fixe some objectives in time to measure the impact of our collaboration.</p> <p>With Enactus Morocco it cost to talk about the organization and contribute on increasing its impact on youth, and with Dare INC we pay 2% of our turnover for a period of 5 years with lots of facilities depending on our achievements.</p> <p>The lessons we have learned from the collaboration is that the key to success is to be surrounded by the right people.</p> <p>These organizations changed over time to grow with us and our specific needs in each step of the journey.</p>
<b>Results</b>	<ul style="list-style-type: none"> <li>• What is the <b>size</b> of the business (measured, for example, by number of employees, annual revenues, number of customers, market share,</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity of production 1 tonne per day</li> <li>• Turnover in 2017: 198 740 Dirhams</li> <li>• 2 full time employers, 1 part time, 5 internship students paid on % of their contribution.</li> </ul>

	<p>number of suppliers or distributors, etc.)?</p> <ul style="list-style-type: none"> <li>• What are the economic results experienced by the <b>actors</b> involved? (e.g. income growth, wealth creation, tax revenues, etc.)</li> <li>• How is the business projected to <b>grow</b>? Where will it find the necessary capital? Does the model have the ability to scale up and replicate (and thus improve its results)? Has it been or can it be replicated by others?</li> <li>• What are the <b>economic returns</b> for the core enterprise and for other stakeholders?</li> <li>• What are the <b>social results</b> of the business? (e.g. health, education, poverty reduction, access to essential services, access to/control of key assets, empowerment, gender equality etc.)</li> <li>• What are the results of the business <b>for the environment</b> (e.g. reduced carbon emissions, biodiversity protection, sustainable use of natural resources, rehabilitation of degraded ecosystems, etc.)?</li> <li>• What are other <b>indirect impacts</b> that the business had (perhaps unintended), such as impact on public policy, how communities function, etc.?</li> </ul>	<ul style="list-style-type: none"> <li>• 10 permanent clients for green fodder, 170 clients for sheep</li> <li>• Our projection is to launch our new model of mobile units to be sold for individuals and cooperatives. Also we are going to build big units in new regions, especially the south of Morocco where the need is huge. For necessary capital we are looking for loan or investment. With 2 new offers we will be able to scale easily and increase our impact in the right funding resources.</li> <li>• The scale of our business model will help increase the number of employees and the capacity of production. The impact will help families in rural areas to increase income and develop the futures of their children.</li> <li>• Our business works to help children going back to school and accompany them on their studies instead of spending time in pasture. We offer training for farmers to help increase incomes and use their resources.</li> <li>• Our business is 100% eco-friendly because it helps reduce the amount of water used in fodder production by 1500 times, protect biodiversity by reducing the superficies of lands dedicated to fodder production by 4000 times and convert them to crop production. Using green feed for cows reduces their gas emission by 25%.</li> <li>• Our business is based on a balanced model to generate profit while creating a great social and environmental impact. We sell fodder to farmers with an appropriate price with some discount for the ounce who has children in age of solarisation without entering on our costs.</li> <li>• Our other indirect impacts is that we are reducing the risks related to health for meat consumers.</li> </ul>
<p><b>Conclusion</b></p>	<ul style="list-style-type: none"> <li>• What future opportunities and challenges is the enterprise likely to face?</li> <li>• How is the business expected to develop in the future?</li> <li>• What can be changed to <b>improve</b> the business' social and environmental <b>impact</b>?</li> <li>• What are the main <b>insights</b> from this case study?</li> </ul>	<ul style="list-style-type: none"> <li>• Scaling and entering new markets outside Morocco</li> <li>• Developing new products to answer the needs in each new market</li> <li>• Working to develop our offers and products to reach more farmers and adapted to the needs</li> <li>• Develop our network to be sure that our social impact will be more important in our customer's lives</li> <li>• Reduce the amount of water in irrigation and transform our production to automatic and independent units</li> </ul>





**Gustavson**  
School of Business  
University of Victoria

