Intercollegiate Finance Journal

Fall 2023
Brown University

page 15

To Kill a Seagull

The Valiancy of Emerging Ride-Hailing Services Against the Taxi Cartel that Navigates the Streets and Politics in Istanbul

BY DURU HUSEYNI

COVER & JOURNAL DESIGN BY KELLY JEONG

IFJ Team

Meet the team behind the Fall 2023 Issue:

Executive Board

President
Ethan Davis

Vice President
Jennifer Ha

Head of Business Development
Jaclyn Christina

Co-Head of Operations
Kylash Ganesh
Jake Kelly

Editor-In-Chief
Henry Egan

Head of Marketing & Design
Kelly Jeong

Head of Web Development
William Yu

Design

Ciaran Henry
Amanda Sun
Dylann Tjahaja

Web Development

David Lauerman

Business Development

Justin Chan
Finnur (Thor) Christianson
Bryan Cleary
Kaelen Hunter
Esha Patel

Operations

Events
Advaith Rege
Razanne Shoukfeh

Alumni
Max Chapa Ponce

Intercollegiate
Evani Dalal
Christopher Lee

Treasury
Swaraj Agarwa
Mikael Oberlin

Writing

Managing Editors
Preetish Juneja
Maggie Seidel
Will Tolmie
Hans Xu

Senior Staff Writers
Andrew Morehead

Staff Writers & Editors
Aleena Ahmed
Copeland Block
Connor Chen
Sean Chitty
Duru Huseyni
Brian Huynh
Eric Kim
Ryan Kim
Batisse Manhardt
Will Pirie
Avni Rajpal
Juan Sanchez
Krish Shah
Ginu Yang
Andrew Zhong

Our Sponsors

EXPERIENCE

COMBAT ARCHERY

ARCHERY GAMES

Get your adrenaline pumping in the game where archery meets dodgeball!

Join any game as a solo player, or grab your friends and host your own private game!

Find out more at ARCHERYGAMESPVD.COM

40 SONOMA CT, PROVIDENCE RI, 02909

The IFJ would like to thank Archery Games Providence for partnering with us

Our Sponsors

4 Unique Indoor Games

2 Thrilling Outdoor Adventures

ESCAPE RHODE ISLAND

Solve Puzzles

Beat The Clock

Make Memories

Perfect For Any Occasion!

Reserve Your Game Today!

Escape Rhode Island

385 S. Main St Floor 2
Providence, RI 02903
401.326.2222

The IFJ would like to thank Escape Rhode Island for partnering with us

Table of Contents

6 Business & Finance

7 The Get Rich Slow Scheme: How Smart Leverage Decreases Risk
Andrew Morehead

10 An Alternative to ESG Investing
Ginu Yang

14 International Affairs

15 To Kill a Seagull
Duru Huseyni

18 The Economy of Vietnam: A Rising Star or a Red Flag?
Brian Huynh

21 How the Real Estate Industry Lost Credibility in China
Eric Kim

24 An Embargo of Bygone Times
Juan Sanchez

26 The Art of (an Information) War
Connor Chen

28 Markets

29 Investment in Fertility Services Bears Considerable Economic and Societal Benefits
Avni Rajpal

32 College Atheletes Are Finally Getting Paid: How Should We Regulate It?
Will Pirie

34 Fashion Forward: Navigating the Shift from Luxury Dominance to Sustainable Strategies in the Evolving Fashion Landscape
Allena Ahmed

36 Subscribing to Change: Navigating the Evolving Challenges and Future of the Subscription Economy
Ryan Kim

38 The War on Seller: Amazon's Private Brands
Andrew Zhong

Business & Finance

7 The Get Rich Slow Scheme: How Smart Leverage Decreases Risk
Andrew Morehead

10 An Alternative to ESG Investing
Ginu Yang

The Get Rich Slow Scheme:

How Smart Leverage Decreases Risk

ANDREW MOREHEAD
Brown University

For many, borrowing money to invest in stocks is more evocative of Wall Street speculation than conservative retirement advice. Leverage, or using borrowed money to invest, offers investors the tradeoff of multiplied returns in exchange for significantly increased risk during market downturns. Therefore, some view leverage in long-term financial planning as tantamount to betting your life savings on the roulette wheel. Yet lifecycle investing, a straightforward investment philosophy pioneered by Ian Ayers and Barry Nalebuff, asserts that some investors should do just that. Despite its reliance on leverage, both theory and evidence suggest that this lifecycle investing strategy lowers an investor's long-term risk. In pursuing enduring financial success, young investors should consider a leveraged stock position a prudent step toward economic prosperity.

The most basic investment advice

The book Lifecycle Investing by Yale professors Ian Ayres and Barry Nalebuff inspires this article. The Intercollegiate Finance Journal and the Editorial Team would like to thank Professor Ayres for the interview, which contributed to this piece.

recommends investors allocate their savings in a fixed ratio of stocks and bonds according to their risk tolerance. For example, an investor may be encouraged to invest 75 percent of each paycheck's savings in stocks throughout their life. An example illustrates the issue with this advice. Imagine being given $100 you must bet on the outcome of five coin tosses. How should you distribute your bets to ensure the lowest risk, measured by the uncertainty of your final savings? Should you bet all of your money on the first coin or adjust your bet for each toss? The best approach is the simplest one: you should bet the same amount ($20) on each of the five flips. Long-term investing parallels this coin-flipping analogy. If faced with five decades where you had to bet on the stock market's performance, the optimal strategy is to make an equal investment in each.

But this is different from how people invest today. Instead, the average retirement savings of a 30-year-old American is under $30,000 (USD), while their 60-year-old counterpart will have around $400,000 invested. In essence, investors are betting upwards of ten times as much on success in markets during the later years of their lives. Eventual retirement savings heavily depend on the final two "coin flips," with most investors gambling their retirement fund on just 10 to 20 years. While this imbalance can be partially mitigated by decreasing risk later in life (i.e., selling stocks and buying bonds), investors rarely get close to the mathematically optimal stock position. That investors are willing to deviate from theory is illogical yet seemingly necessary, as humans have far less cash to invest when young.

Here, lifecycle investing comes to the rescue. This investment philosophy stems from a simple principle: investors should attempt to maintain a constant portion of their lifetime savings in stocks. For example, a young investor could project they will save $400,000 in inflation-adjusted dollars by retirement. Being relatively risk averse, they may want only 50 percent ($200,000) allocated to stocks (online calculators can derive this percentage from risk tolerance). However, they may currently have only $100,000 in savings. This investor should borrow the extra $100,000 to bridge this gap and invest it in the stock market. In other words, leveraging when young and playing it safe when old balances out exposure to stocks over time, thereby reducing risk via temporal diversification. This leverage can be acquired inexpensively through various means, including in-the-money calls, futures, and margin loans. Going beyond 2x leverage is possible, but venturing too far into the deep end incurs higher borrowing costs and increases the risk of portfolio wipeout. While lifecycle investing initially seems radical, millions of Americans already practice its advice under different circumstances. People are often encouraged to leverage up to 20x in the form of a home mortgage. This leveraged investment position has built the wealth of America's middle class despite stocks beating real estate as an asset class in the long run. Lifecycle investing asks investors to mirror this strategy at a much more cautious leverage ratio for long-term savings.

Those unconvinced by theory should be convinced by evidence. Retirement savers balance two goals: increasing their expected returns (so they have enough to retire) and lowering the volatility of their returns (so their ability to retire does not ride on chance). Ideally, a new strategy should improve upon the old in both. How does the lifecycle strategy stack up to traditional retirement advice? Backtesting with historical data shows lifecycle investing comes out on top. Using past market performance, it is possible to test how individuals retiring in different years would have fared using the competing strategies. The evidence, using the 96 retirement years between 1912 and 2008, is clear. Implementing the lifecycle strategy by transitioning from a leveraged to a conservative portfolio outperforms the traditional strategy in expected value and volatility. No retiree in these historical simulations underperformed their conventional counterparts with the same risk tolerance.

Relying on historical models may only be somewhat satisfying. "Past performance does not guarantee future returns" should come to mind for experienced investors. Here, Monte Carlo simulations can strengthen the case for leverage. This computer modeling method uses stock market data to simulate thousands of potential future outcomes. The portfolios are subjected to average and unprecedented markets to see which often outperforms. These simulations are similarly favorable to lifecycle investing. As depicted in Figure 2, for any expected savings target, investors can lower the volatility of their eventual savings. The remarkable implication of both tests is that employing leverage wisely is the optimal strategy for both the passionately aggressive investor and their ardently conservative counterpart. The yields of temporal diversification can be reaped as either boosted expected returns or lower long-term savings risk. The choice is left to the individual.

The prevalence of meme stock and crypto investing among younger investors has highlighted an appetite for returns and a tolerance for short-term risk. In this light,

"The lifecycle investing philosophy stems from a simple principle: investors should attempt to maintain a constant portion of their lifetime savings in stocks."

Ayres, Ian, and Barry Nalebuff. 2010. Lifecycle Investing: A New, Safe, and Audacious Way to Improve the Performance of Your Retirement Portfolio. New York: Basic Books.

http://dx.doi.org/10.2139/ssrn.1687272.

https://doi.org/10.1093/rfs/hhab028.

https://www.federalreserve.gov/econres/scfindex.htm.

lifecycle investing is not an unprecedented leap for a populace with a demonstrated interest in novel investment strategies. To be clear, investing with leverage is not for everyone. Possession of high-interest debt, financial illiteracy, or a strong emotional aversion to large portfolio fluctuations are all disqualifiers. However, the evidence shows that significantly increasing stock exposure is prudent for the educated young investor. The twentieth-century development of Modern Portfolio Theory established "diversification" as the one actual exception to the typical investment maxim "There is no such thing as a free lunch." Millions of investors have grown rich from this advice with the enduring success of diversified portfolios like the S&P 500. However, the everyday investor has failed to eat the "free lunch" that is temporal diversification. The strategic utilization of leverage should mark the next transformative step forward in the wealth-building journey for a new generation of investors. ■

The Lifecycle Investment Strategy

1. Estimate your total inflation-adjusted lifetime savings.

2. Use an online calculator to find the percentage share in stocks given your risk tolerance.

3. Invest your savings x percentage in a diverse portfolio of stocks. Borrow up to your current savings (2x leverage) if needed.

Figure 1: Comparison of final retirement distributions of a traditional portfolio (constant 75 percent invested in stocks) to an equivalent lifecycle portfolio (transitioning from 200 percent to 50 percent exposure to stocks). Data was calculated using historical returns over 96 years such that there is a 98 percent chance an investor would be within the region. The graph shows that lifecycle investors can use the strategy to reduce variance, increase expected return, or increase the likelihood of exceeding savings goals.

Figure 1. Percentage of Microchip Foundry Shares

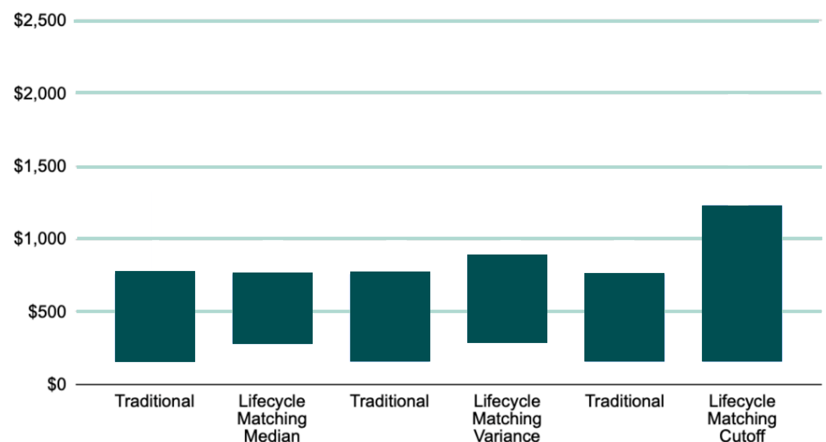


Figure 2. Results from 10,000 Monte Carlo simulations of a very conservative investor

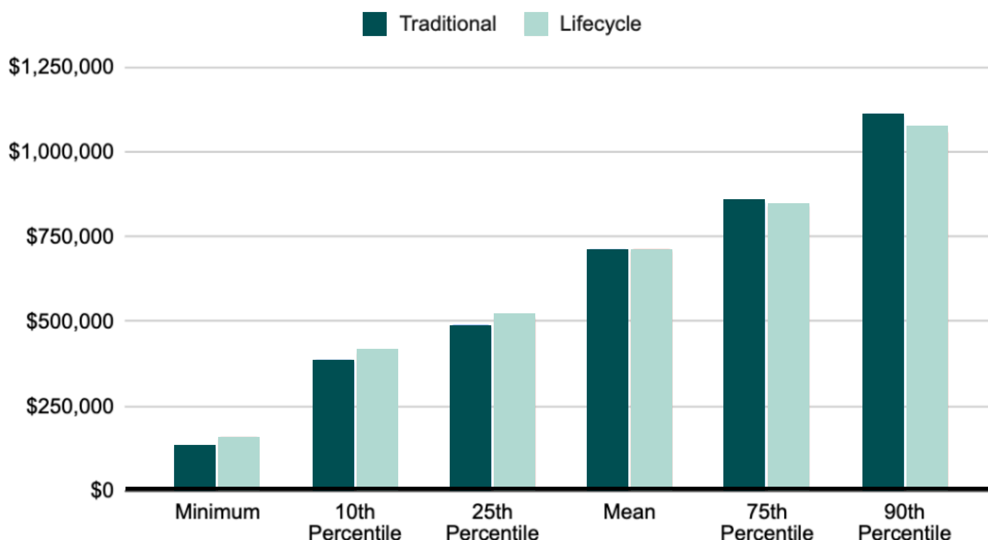


Figure 2: Results from 10,000 Monte Carlo simulations of a very conservative investor, matching the expected value of both strategies. The traditional portfolio maintained a constant 50 percent stock allocation while the lifecycle portfolio transitioned from 200 percent (leveraged) to 32 percent. Even very conservative investors can benefit from leverage–the lifecycle portfolio has a 13.7 percent lower standard deviation from the mean.

An Alternative to ESG Investing

GINU YANG
Brown University

Amidst the wave of anti-ESG (environmental, social, governance) legislation and sentiment in the past year, socially conscious investors in the United States have been searching for an alternative. The public-benefit corporation (PBC) or B corp is one possibility.

Unlike ESG companies, which have been criticized for adopting 'woke' policies that they neither support nor follow, PBCs are required by law to provide a social benefit (in addition to providing financial returns to shareholders) in their incorporation documents. This social benefit could include running charitable programs, allocating paid time for employees to volunteer in local communities, or investing in sustainable practices—like free-range farming or using recycled materials. For example, the New York-based retail company Warby Parker gives out a pair of glasses to someone in need for every pair of glasses purchased.

In August of this year, a Wall Street Journal article responded to the ongoing negative press on ESG investing; it proposed a niche investing replacement for disenfranchised ESG investors in the PBC. But is this new kind of investment choice really viable as an alternative to ESG investing?

According to the Urban Sustainability Directors Network, a peer-to-peer network of local government sustainability professionals from cities and counties in the U.S. and Canada, there are over 3,000 PBCs in the U.S. today, but only a fraction of them are publicly traded corporations. Deal Point Data, an independent research firm, asserts that only 20 publicly traded companies have been classified as PBCs since they began tracking this activity in 2017. All corporations but one, Colorado-based Charlotte's Web Holdings, are based in Delaware, where PBCs were first introduced.

While remaining a niche investment choice, the PBC model aligns well with socially conscious ESG investors. Since it commits companies to pursue clearly defined goals to create social benefit and must report their progress in reaching these goals, the PBC can apply the same non-financial environmental, social, and governance considerations as part of their investment process. For instance, a PBC focused on creating environmental benefits would be required by law to invest in environmental safeguards, such as donating to climate change initiatives or helping restore deforested tropical regions.

The metrics of these social benefit investments, unlike ESG investing, are part of the PBCs' mandatory financial reporting process. Every two years, the PBC must make disclosures in a report on their ability to provide a social benefit. With this level

https://www.reuters.com/business/sustainable-business/desantis-signs-sweeping-anti-esg-legislation-florida-2023-05-02/

https://www.dealpointdata.com/res/dpd_ipo_breaks_drought_for_pbcs_20230831.pdf

https://www.cnn.com/2023/10/23/investing/premarket-stocks-trading/index.html

https://news.bloomberglaw.com/esg/ramaswamy-pivots-from-anti-esg-base-at-expanding-investment-firm

https://www.wsj.com/finance/investing/esg-public-benefit-corporation-invest-8fc67117

https://www.youtube.com/watch?v=W7Q-RM-8kVw&ab_channel=GBNews

https://www.forbes.com/sites/joanmichelson2/2023/08/29/wave-of-anti-esg-investing-legislation-new-study-found/?sh=a686b7e72868

https://capitalmonitor.ai/asset-class/alternative-assets/esg-defies-critics-as-private-markets-funds-size-surge/

https://www.wsj.com/articles/only-republicans-can-stop-the-esg-madness-woke-musk-consumer-demand-free-speech-corporate-america-11653574189

https://www.forbes.com/sites/shivaramrajgopal/2023/07/03/a-closer-look-at-ensuring-sound-guidance-act-esg-act/?sh=4b3b06151871

https://news.bloomberglaw.com/esg/sec-drops-esg-investing-from-annual-report-of-exam-priorities

https://www.reuters.com/sustainability/anti-esg-funds-face-slowing-deposits-morningstar-says-2023-06-08/

https://corpgov.law.harvard.edu/2020/08/31/delaware-public-benefit-corporations-recent-developments/

of transparency in reporting on socially conscious investments, the PBC may appeal more to investors at a time when ESG is facing considerable pushback in the U.S. for enabling companies to make exaggerated claims and achievements.

Since the beginning of this year, there have been efforts to address the criticisms of ESG investing. In May 2022, the U.S. Securities and Exchange Commission (SEC) proposed new disclosure and naming requirements for ESG and ESG-leaning investment funds. On September 20 of this year, the SEC finally adopted these proposals, amending Rule 35d-1 (the 'Names Rule') under the Investment Company Act of 1940, the rule that regulates the names of registered investment companies. Under the amended Names Rule, which expanded the types of names that could be deemed materially deceptive, a fund that only indicates that it incorporates ESG factors without amble proof (i.e., disclosures in annual reports) would not be allowed to use ESG or related terms like 'growth' or 'value' in the fund's name.

The SEC took further action on September 25, when they charged investment advisor DWS Investment Management Americas (DWS or DIMA), a subsidiary of Deutsche Bank, for "its failure to develop a mutual fund Anti-Money Laundering (AML) program," but more crucially for, "misstatements regarding its Environmental, Social, and Governance (ESG) investment process." A settlement of $25 million (USD) was reached with DWS.

"When the U.S. Securities and Exchange Commission released its 2024 Divisions of Examinations Priorities on October 16, there was no direct reference to ESG."

Andrew Ramonas, a senior reporter at Bloomberg Law, notes that this exemption of ESG is a departure from previous SEC examinations: "The SEC [had previously] listed ESG as an examination focus in its reports for 2023, 2022, and 2021."

"This could be a warning sign of a priority shift away from ESG investments or a temporary pause in anticipation of future ESG regulations. "

While regulatory action on ESG investing in the U.S. has been sparse, legislation on ESG investing has grown exponentially on the state and federal levels. Since the beginning of this year, ESG investing has become more entangled with the so-called "culture wars" as prominent GOP politicians claim that it is a mechanism for investors to force a "woke" attitude on companies. In a Wall Street Journal op-ed, former Vice-President Mike Pence rallied Republicans "to end the use of ESG principles nationwide," warning that ESG was a strategy by the woke left "to enforce their radical environmental and social agenda on publicly traded corporations."

By the end of the 2023 legislative session, 14 states had adopted new 'anti-ESG' legislation, and only one state had adopted 'pro-ESG' legislation.

While these anti-ESG bills differ in form and key details between states, they tend to share three core features. First, despite its title and surrounding political rhetoric, the anti-ESG bills adopted so far do not ban using ESG factors in making investments. Instead, they restrict companies' use of ESG factors (environmental, social, governance) in the investment process. The most popular state approach to limiting the use of ESG factors was The Pecuniary Factor Legislation, which required fiduciaries to make investments based solely on pecuniary factors.

Governor of Florida, Ron DeSantis, who passed The Pecuniary Factor Legislation among other sweeping anti-ESG legislation on May 2nd, said in a webcast event before the signing, "We want them to act as fiduciaries. We do not want them engaged on these ideological joyrides."

Simultaneously, there has been a rise in so-called anti-ESG funds. According to an analysis by Morningstar, anti-ESG funds, which still remain a broad definition at best for the predominantly conservative rallying of funds against a leftist 'woke' agenda, are seen in general to use "environmental, social, and

https://www.sec.gov/news/press-release/2023-188

https://www.sec.gov/news/press-release/2023-194

https://www.sec.gov/news/press-release/2023-222

https://www.sec.gov/news/press-release/2022-92

https://sustainableconsumption.usdn.org/initiatives-list/b-corps-and-benefit-corporations

https://www.warbyparker.com/assets/img/impact-report/Impact-Report-2022.pdf

https://www.law.cornell.edu/wex/public_benefit_corporation

governance [ESG] data to build portfolios by tilting toward companies that management believes are unduly penalized by ESG rating providers."

One example is the founding of the anti-activism investment fund Strive Asset Management in 2022 by biotech entrepreneur and GOP presidential hopeful Vivek Ramaswamy to counter the woke investment practices of large funds like BlackRock, which have pushed for strategies involving ESG investing. In September of this year, Strive Asset Management reached $1 billion in assets. Calling ESG practices a "cancer" in its spreading of "woke capitalism," Ramaswamy, during the inaugural conference of the newly-formed Alliance for Responsible Citizenship on October 31st, argued that "the sole purpose of a corporation should be to maximize value for its shareholders."

Despite the regulatory and political concerns for ESG investing, investors are still very much interested in ESG. The latest report on alternative investments from data provider Preqin showed that "sampled investors do not agree on whether private markets ESG funds perform better." Only 22 percent of investors agreed that ESG funds are underperforming, while 55 percent agreed that ESG funds are performing around the same, and 23 percent agreed that ESG funds were overperforming.

However, the flow of investments into U.S. ESG funds has slowed in the last few months since the first quarter of 2022. According to a CNN article, which reported exclusive data provided by financial data provider Lipper, "assets under management in ESG funds declined from $339 billion in the second quarter to $315 billion by the end of September."

If political drama surrounding the efficacy of ESG practices continues to rise, there could be significant implications for the future of socially responsible or inclined investors and businesses. These anti-ESG sentiments and actions are mostly confined to the U.S., but similar movements may start to gain momentum in Europe, where ESG funds have the largest assets and inflows. If ESG funds face significant political backlash outside the U.S. or if further regulatory action is taken against ESG investing, socially conscious investors will likely turn to PBCs as a viable replacement for the future. ■

"If ESG funds face significant political backlash outside the U.S. or if further regulatory action is taking against ESG investing, socially conscious investors will likely turn to PBCs as a viable replacement for the future. This could be a warning sign of a priority shift away from ESG investments or a temporary pause in anticipation

Facts & Figures:

$24 million

How much in assets under management in ESG funds declined from the second quarter of 2022 to the end of September

Number of states that adopted new "anti-ESG" legislation

14 states

International Affairs

15 To Kill a Seagull
Duru Huseyni

18 The Economy of Vietnam: A Rising Star or a Red Flag?
Brian Huynh

21 How the Real Estate Industry Lost Credibility in China
Eric Kim

24 An Embargo of Bygone Times
Juan Sanchez

26 The Art of (an Information) War
Connor Chen

To Kill a Seagull:

The Valiancy of Emerging Ride-hailing Services Against the Taxi Cartel that Navigates the Streets and Politics in Istanbul

DURU HUSEYNI
Brown University

The straddling two continents have been the backdrop of a fierce battle between monopolistic taxi owners' associations, emerging privately owned ride-hailing services, and city authorities.

Being a taxi driver in Turkey's most populated city presents unique challenges. In contrast to drivers in most other international cities, not one of Istanbul's 50,000 taxi drivers owns their vehicle. Instead, they lease one of the 17,395 authorized vehicles from rental firms, working in shifts.

When Recep Tayyip Erdoğan, the current Turkish president, served as Istanbul's mayor in the 1990s, the city's population was approximately 8 million. Since then, Istanbul's population has soared to 16 million while the number of available taxi licenses has remained static. The disparity between the supply and demand of taxi licenses in Istanbul has led affluent license owners to form a cartel, and the price of a taxi license currently stands at

2.6 million Turkish lira, which is equivalent to $92,000.

"The intricate dance of power, politics, and public transportation in Turkey's largest city is a testament to the rapidly evolving mobility landscape. It portrays the intricate war between traditional and new—the political left and right, respectively—within the developing country."

Consequently, the Istanbul taxi sector has become known for its harsh and unforgiving nature. Many license holders prefer to keep their identities hidden, leasing their vehicles through intermediaries. Furthermore, the taxi union wields substantial power in Istanbul's politically fragmented transport coordination center and the national ministry of transport, primarily supporting Erdoğan's extreme-right Justice and Development Party (AKP).

Altercations between traditional taxi drivers and unauthorized transportation providers occur frequently; on occasion, confrontations escalate to violence, involving weapons in some instances and, in extreme cases, resulting in fatalities. Taxi drivers also often subject their passengers to sexual harassment, discriminatory behavior, exorbitant fares, impoliteness, and reckless driving.

In 2014, Uber attempted to break into the Istanbul taxi market but was met with resistance due to intense lobbying from the taxi union, which labeled the ride-sharing service as a "terrorist entity." While Uber attempted to navigate these challenges by adjusting its business model and engaging in negotiations, the pressure from the taxi lobby and local authorities eventually led to Uber's exit from the Istanbul market in 2019. In 2021, legal action escalated with prosecutors filing charges against Uber Turkey, accusing the company of engaging in "unfair competition practices" and seeking a potential jail sentence of up to two years for its chief executive.

Another attempt to dismantle the taxi cartel came from the newly elected municipality in 2019, Ekrem İmamoğlu, a representative of Turkey's left-leaning opposition party. His 2019 Istanbul mayoral race election was a big surprise in Turkey, where the rightist party AKP had won all of the significant regional and

national elections with great distinction for over 20 years. İmamoğlu recently emerged as one of the most prominent adversaries to the ruling AKP, ultimately breaking the Islamist Party's 25-year-old rule over Turkey's cultural and financial center.

"We are working on expanding the rail network, and we've moved bus lines to be publicly owned; we want a climate where

https://www.theguardian.com/world/2021/oct/10/istanbul-tax-is-form-the-battleground-between-turkeys-erdogan-government-and-its-rivals-turkey-taxi

https://www.t-vine.com/two-brothers-shot-dead-after-man-opens-fire-at-a-taxi-rank-in-istanbul/

https://www.reuters.com/article/idUSKCN1IY0FG/#:~:text=ISTANBUL%20(Reuters)%20%2D%20Turkey's%20President,for%20it%20to%20be%20banned.

https://www.dailysabah.com/turkey/istanbul/istanbuls-taxi-is-to-get-cameras-amid-rising-complaints

https://www.wamda.com/2023/07/turkey-marti-lists-nyse-spac-merger-galata#:~:text=Turkey%2D-based%20mobility%20startup%20Marti,stands%20at%20over%20%24190%20million.

people can rely more on public transport and taxis. But it's just a fact that we don't have enough cabs. We have commissioned reports which show we need to add 6,000 [licensed taxi] plates, but the union is refusing," explained Utku Cihan, the head of Istanbul municipality's transport management after the election of İmamoğlu.

Still, over the past year, the majority-AKP-affiliated Istanbul Transport Coordination Center has consistently dismissed nine proposals from the municipality to expand the number of taxi licenses available. These conciliatory efforts were declined, even when İmamoğlu's administration adjusted its recommendations, lowering the proposed increase from 6,000 additional permits to 1,000.

In the wake of Uber's departure from Turkey, a new player entered the scene in 2020: Marti TAG, a local ride-hailing service aiming to provide a legal and homegrown alternative to Uber. The private company's name, which means seagull in Turkish, symbolizes the birds of Istanbul that decorate the strait of the city, Bosphorus. With a strong emphasis on compliance with local regulations and a cooperative approach with taxi drivers, Marti TAG presents its solutions as a "sovereign capability of Turkey" and has managed to carve out a space for itself in the competitive Istanbul transportation market.

Marti TAG's entrance to the taxi market has nuanced impact on the taxi lobby and local politics in Istanbul. While Marti TAG has assuaged some of the taxi lobby's concerns over foreign competition and unregulated services, it has also challenged the taxi lobby to adapt and compete in a changing market.

Nevertheless, due to a lawsuit filed by the Istanbul Automobile Chamber of Tradesmen last March, general access to the Marti TAG and Marti Motorcycle applications and websites was blocked. Spinning this drawback as a heroic success story, Marti completed an SPAC merger with Galata Acquisition Corp. (Galata) and began trading Class A Ordinary Shares and warrants on the NYSE American Stock Exchange last July. With this, Marti became the first Turkish company to debut on the NYSE exclusively.

This step captures how disruptive Marti is to the taxi cartel in Istanbul. The firm unites the polarized people of Istanbul, neither representing a foreign company with conspiratorial "natural threats" nor a "new and novice" left-leaning mayor that more than half of the voting population does not support politically.

"Like the Marti in the sky, the startup unifies Turkey, representing what Turks call a yerli ve milli (national and domestic) innovation."

The taxi lobby in Istanbul has demonstrated its power and resilience in the face of disruption from global players like Uber. However, the debut of Marti TAG signifies a shift in the mobility landscape, introducing a local solution that balances innovation with compliance and cooperation. As municipal elections near with Imamoglu rerunning once again, many people believe that the gateway to re-election lies in the reconciliation of the taxi cartel and citizens. Imamoglu would have a much stronger chance if he directly supported and talked for homegrown solutions like Marti.

As Istanbul's streets continue to evolve, the interplay between traditional taxi services, emerging local players, and the entrenched taxi cartel will be a crucial factor in shaping the future of transportation in this vibrant city, as well as the political state of the whole country. ■

Facts & Figures:

50 thousand

Number of taxi drivers in Istanbul

16 million

Istanbul's population since the 1990s

The Economy of Vietnam:

A Rising Star or a Red Flag?

BRIAN HUYNH
Brown University

The aftermath of the Vietnam War left the Southeast Asian nation in tatters, however, today, Vietnam has one of the fastest-growing global economies. This rapid growth has captured the attention of Asia and the rest of the world. Despite its current economic success and bright prospects, Vietnam is experiencing a widening wealth inequality gap that must be addressed if it wishes to remain an attractive option for sustained foreign investment.

Vietnam's postwar economic recovery was not a miracle. In the 1980s, the Southeast Asian country had tense political relations with China, and the United States imposed sanctions due to a heavy military presence in Cambodia. Most of Vietnam's support came from the Soviet Union and its Eastern European allies, which were in decline then. Eventually, the country's leaders adopted "Doi Moi" economic and political reforms to save Vietnam's future. Directly translating to "renovation" or "innovation," the set of Doi Moi policies were enacted to create a socialist-oriented market economy. As intended, Doi Moi shifted Vietnam's then-command economy to a more socialist one: the liberalization of the domestic market, the reduction of state-owned enterprises (SOEs), and the encouragement of foreign direct investment (FDI) all brought about positive change. The high economic growth rate since the introduction of Doi Moi has reduced Vietnam's poverty rate from 70 percent in the mid-1980s to 37 percent in 1998 to 19 percent in 2007.

"As of 2022, the poverty rate in Vietnam was below 5 percent."

This economic recovery has captivated the attention of many economists and businesses globally.

Since implementing Doi Moi in 1986, Vietnam has been a critical player in international trade. The country's trade balance recorded its first surplus in 2012 at an estimated value of 750 million USD. Today, Vietnam's top exports include mobile phones and phone parts, electronics and electronic components, machinery, garments, textiles, and footwear to the United States, the European Union, China, Japan, and South Korea. Experts consider Vietnam to be the production powerhouse of Southeast Asia. According to Kwak Seong-il, director of economic security strategy at the Korea Institute for International Economic Policy (KIEP), "Cambodia and Laos have too little working-age population, Myanmar is politically unstable, Indonesia is an island nation with insufficient infrastructure, and Thailand has relatively high per capita income, so labor costs are expensive compared to Vietnam." Historically, companies began outsourcing to China in the late 1970s and early 1980s for four primary reasons: low labor costs, government support, infrastructure, and technology. But today, businesses have faced quality control issues, intellectual property theft, rising labor costs, the ongoing trade war between the United States and China, and concerns about China's political and economic stability. This has resulted in companies looking to outsource to new countries. Vietnam bears many of the same traits that attracted foreign investment to China in the 1970s and 1980s: low labor costs, political stability, and proximity to major markets. However, who is to say that another country will not replace Vietnam in the future?

"A key aspect of Vietnam that appeals to foreign investors is the low labor cost."

In Vietnam, there are two types of minimum wages: the standard minimum wage, which is for employees of state-owned enterprises (SOEs), and the regional minimum wages, which is for employees of non-state enterprises and varies by region defined by the government. SOE employees have a monthly minimum wage of 76.60 USD. The four regional zones the government defines create higher minimum wages for more urban areas.

As these figures grow over time and indicate an increase in living standards for the

https://www.forbes.com/sites/betsyatkins/2023/08/07/manufacturing-moving-out-of-china-for-friendlier-shores/?sh=262d05663541

https://www.businesskorea.co.kr/news/articleView.html?idxno=116685

https://www.mckinsey.com/featured-insights/asia-pacific/boosting-vietnams-manufacturing-sector-from-low-cost-to-high-productivity

https://www.statista.com/statistics/1240081/vietnam-poverty-rate/

https://www.statista.com/statistics/985814/vietnam-major-export-commodity-turnover/

https://www.trade.gov/country-commercial-guides/vietnam-education-and-training

https://www.vietnam-briefing.com/news/introduction-vietnams-export-import-industries.html

https://www.globalasia.org/v4no3/cover/doi-moi-and-the-remaking-of-vietnam_hong-anh-tuan

https://www.vietnam-briefing.com/doing-business-guide/vietnam/human-resources-and-payroll/minimum-wage

Vietnamese people, foreign investment could shift their focus elsewhere if they grow too high.

Labor costs are relatively low today because most of the work is unskilled labor and manufacturing. However, it should be noted that with the rise of per capita income in Vietnam, many affluent Vietnamese families are increasingly sending their children overseas for education. The Vietnamese Ministry of Education and Training (MoET) reported that in the 2019-2020 academic year, approximately 190,000 students were studying abroad, with a majority focused on postsecondary education and opportunities. It is further explained that the most common areas of study for the majority of these Vietnamese students, primarily in four-year undergraduate programs at U.S. universities, are in Science, Technology, Engineering, and Mathematics (STEM) and Business and Management fields. When these students graduate from U.S. institutions, they remain in the United States and work for American companies instead of returning to Vietnam. Despite Vietnam's rapidly growing economy over the past few decades, career opportunities and salaries in the United States still outclass those of Vietnam.

"In other words, there is a brain drain occurring in which the United States retains the best Vietnamese graduates by offering lucrative opportunities."

Figure 1. Poverty Rate in Vetnam

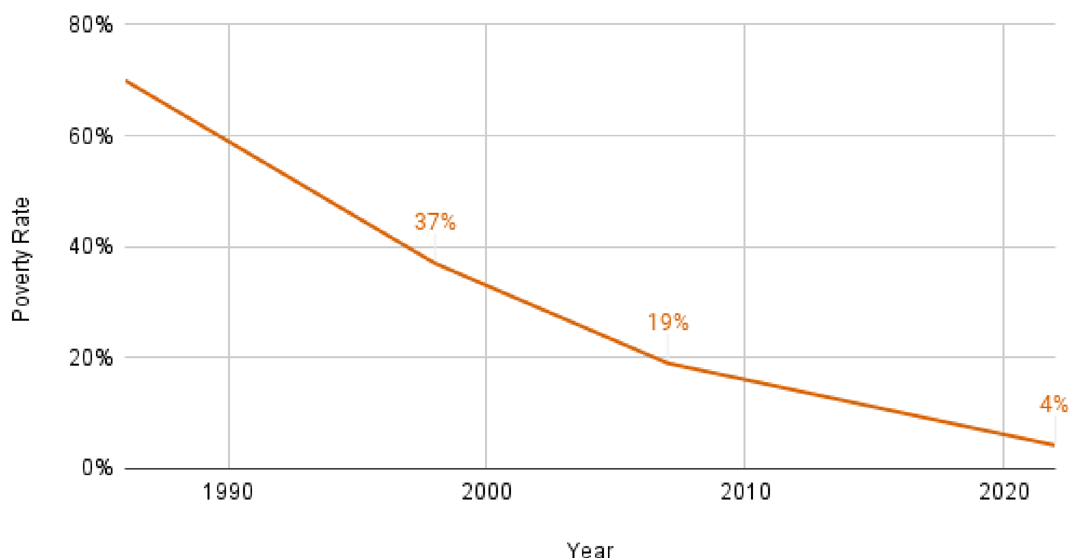


Figure 1: Since Vietnam implemented Doi Moi economic reforms in 1986, the poverty rate has drastically fallen. This data comes from the General Statistics Office of Vietnam.

5 percent

Poverty rate in Vietnam as of 2022

Vietnam's trade balance recorded its first surplus in 2012 at an estimated value of 750 million USD

$750 million

Meanwhile, foreign companies expanding to Vietnam hire from the low and middle classes. These practices will exacerbate the wealth inequality gap between rich and poor in Vietnam, especially as foreign investors will want to keep labor costs cheap.

The Vietnamese economy has boomed in the past few decades, surpassing many global expectations. This rapid growth can be attributed to the implementation of the set of Doi Moi policies, which shifted Vietnam from a command economy to a socialist-oriented market economy. As a result, Vietnam has dramatically decreased its poverty rate, become a key player in international trade, and attracted many foreign companies that are leaving China. However, despite Vietnam's promising economic future, the widening wealth inequality gap between rich and poor is a major concern. As the standard of living in Vietnam rises, upper-class families send their children to study at foreign universities, only to graduate and remain in these countries while the lower class will continue to be hired by foreign companies in Vietnam as laborers and manufacturing workers to keep costs relatively low. ■

Figure 2. Minimum Wage Growth in Vietnam

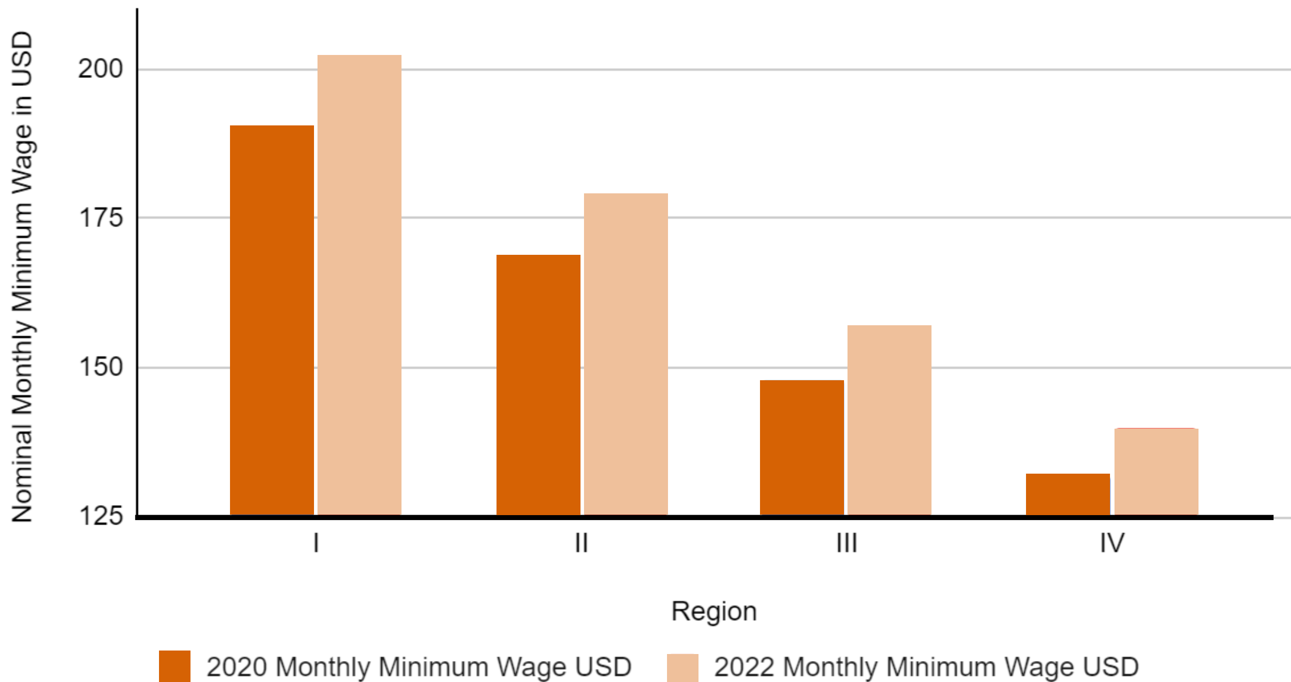


Figure 2: Urban areas are subject to higher minimum wages. (Region I covers urban Hanoi and urban Ho Chi Minh City. Region II covers rural Hanoi, rural Ho Chi Minh City, and Da Nang. Region III covers provincial cities and districts of Bac Ninh, Bac Giang, Hai Duong, Phu Tho, Binh Phuc, and other provinces not listed in Regions I and II. Region IV covers all other remaining localities.) As of November 2023, 1 USD converts to approximately 24,500 VND.

How the Real Estate Industry Lost Credibility in China

ERIC KIM
Brown University

For the average Chinese citizen, home ownership is the most significant measure of success. A familiar aphorism spread throughout Chinese culture is "cheng jia li ye," roughly translating to "form a family, start a career." This is often said with the belief that the foundation of a stable family begins with the establishment of a home, which has driven an obsession with home ownership among young Chinese couples, with most purchasing their first homes between the ages of 22-30. In fact, in 2021, an unprecedented 90 percent of Chinese citizens owned homes. But while Chinese families revel in their newly secured properties, the Titanic-sized Chinese real estate market has seemingly hit its iceberg trying to serve Chinese demand. Balancing affordability and market stability remains a complex task in China's real estate landscape.

Due to the Communist revolution in the 1950s, China's housing market did not initially share the rapid growth of the United States's housing market throughout the second half of the 20th century. Instead, China relied on socialist welfare-oriented housing until 1978, when China introduced its first housing market in 1978, which only became open to fully private ownership in 1998. Since then, the market has seen a meteoric rise, primarily driven by exceptional demand due to speculation and population growth.

At its peak, the Chinese housing market was said to contribute to 25 to 30 percent of China's economy, with property accounting for 65 percent of total housing assets. In the past, in addition to serving a significant demand for homes, the industry created jobs and assets for the growing Chinese middle class. The housing market is crucial to China, yet the same industrial growth drivers have recently shown cracks in their sustainability.

Though once seen as an infallible, stable industry, excessive speculation has driven up prices and created a housing bubble while also accumulating uncontrollable levels of debt and, in recent years, defaults on those debt payments. The first default came in 2021 when China's second-largest property developer, the Evergrande Group, declared bankruptcy.

After establishing a reputation as a reliable company, Evergrande found itself drowning in a debt crisis instigated by risky practices aggravated by the decline in demand for homes. Central to securing funding, Evergrande relied on so-called "shadow banks," a term coined during the 2008 subprime mortgage crisis to describe financial services operating outside of the heavily regulated formal banking system. These shadow banks could provide loans

> "But while Chinese families revel in their newly secured properties, the Titanic-sized Chinese real estate market has seemingly hit its iceberg trying to serve Chinese demand. Balancing affordability and market stability remains a complex task in China's real estate landscape."

Facts & Figures:

90 percent — Amount of Chinese citizens who own homes in 2021

25 percent — How much Evergrande dragged down the Hang Seng index by over six months.

2021 — Year that China's second-largest property developer, the Evergrande Group, declared bankruptcy

with greater ease than traditional banks since these loans were not insured with backstops, meaning that a sudden increase in demand for payments could create a dangerous domino effect. Still, Evergrande generously borrowed from these shadow banks, bypassing legal limits on borrowing for land purchases under the assumption that defaulting was impossible. When demand for homes began to decline, Evergrande's debt accumulated, and rather than moderating their conservative position, Evergrande maintained their aggressive home-building campaign, driving themselves deeper into debt. Evergrande gambled on the hopes that Chinese demand for homes would rebound and close the deficit.

However, the demand for homes never rebounded, and the market worsened. In addition to the Chinese government's restrictions to combat COVID-19 at the beginning of 2020 – in light of the real estate market's significant risk – the Chinese government began a campaign of cracking down on risky real estate market practices. In August 2020, the Chinese government instituted restrictions on the amount of new borrowing that companies could raise in a year through metric caps on debt ratios and enforced higher transparency on debt levels within companies. Designated "The Three Red Lines policy," these restrictions limited Evergrande's primary source of capital, and, as a result, Evergrande began struggling to meet debt obligations. In early 2021, Evergrande announced plans to restructure to sort out its debt, but the company could not create a feasible solution. In December, Evergrande declared bankruptcy. It was later revealed that Evergrande's debt load had reached 2.437 trillion yuan ($340 billion), roughly 2 percent of China's entire gross domestic product.

https://medium.com/@Chloechenchen/today-i-read-an-interesting-article-about-why-do-chinese-people-love-buying-properties-346969b50af3#:~:text=In%20the%20Chinese%20culture%2C%20it,home%20between%2022%20to%2030

https://www.cnbc.com/2023/09/14/what-is-shadow-banking-unpacking-the-risks-for-china.html

https://www.reuters.com/world/china/china-may-ease-three-red-lines-property-rules-bloomberg-news-2023-01-06/#:~:text=The%20%22three%20red%20lines%22%20metric,more%20details%20about%20their%20debts

https://www.cnn.com/2023/08/17/business/evergrande-files-for-bankruptcy/index.html

https://www.theguardian.com/world/2021/sep/20/shares-in-chinas-evergrande-plunge-again-as-fears-of-contagion-grow

https://www.wsj.com/finance/chinas-country-garden-succumbs-to-debt-crisis-after-sales-drop-84c85a79?mod=hp_lead_pos1

https://www.wsj.com/articles/how-evergrandes-chief-tried-to-turn-things-aroundand-failed-eb28769?st=jrvp0sdb6qzql15&reflink=article_copyURL_share

https://doi.org/10.1016/j.cities.2020.102967

https://www.scmp.com/economy/china-economy/article/3236773/will-chinas-property-headaches-have-broader-economic-effects

https://www.nytimes.com/2023/08/21/business/china-economy-real-estate-crisis.html

https://www.acuitykp.com/market-guide/chinas-property-sector/#:~:text=The%20%E2%80%9Cthree%20arrows%E2%80%9D%20framework%20was,financing%20under%20the%20government's%20tightened

The downfall of Evergrande has had significant impacts on the rest of the Chinese real estate market and the economy as a whole. As a large Chinese real estate market player, Evergrande single-handedly dragged down the Hang Seng index nearly 25 percent over six months. The Hang Seng index then operated at its lowest point for nearly a year during 2021, creating turmoil in the financial sector for its members and their investors.

Soon after Evergrande's bankruptcy, other prominent real estate companies such as Kasia, Fantasia, and Shimao Group all declared bankruptcy, revealing an industry-wide issue and nationwide crisis. In China, a significant portion of home sales occur before construction even begins, meaning that Evergrande's bankruptcy jeopardized the promise of receiving a home for the many Chinese consumers.

As of 2022, Evergrande reportedly resumed construction for most of their planned apartments, but Chinese consumers remain furious. On social media, Chinese users protested and called for the litigation of Evergrande leaders and executives, and their outrage extended into early 2023 when Country Garden, a Chinese real estate developer of comparable size, declared bankruptcy. Both Evergrande and Country Garden attempted to borrow far more than they could repay, causing additional harm to the economy and consumer expectations of the real estate market. On a larger scale, Evergrande's bankruptcy seemingly precipitated a chain effect of bankruptcies across the real estate industry, one that seems unlikely to stop any time soon, given the high levels of debt remaining across the industry.

The Chinese real estate market was once seen as an industry that was "too big to fail." Now, recent developments indicate the real estate industry's fall from grace. The Chinese government has attempted to ease liquidity in the property market through newer policies such as the Three Arrows Policy, which aimed to unblock some financing channels to real estate companies following sharp declines in the overall industry. Unfortunately, these policies have yet to spur significant improvement in their economy. Therefore, it becomes clear that the economic damage of Evergrande's bankruptcy dealt to the real estate industry – and its damage to the reputation of the industry – is likely irreversible.

"Evergrande's decline is more than an isolated corporate failure; it has become emblematic of broader systemic risks in China's financial sector and economy, along with creating significant global risks that plague the nation today."

Without a proper plan for restabilizing the real estate market, China can only hope for a revolutionary restructuring of the real estate industry to save its economy. ■

An Embargo of Bygone Times

JUAN SANCHEZ
Brown University

In February of 1962, President John F. Kennedy, backed by the support of the U.S. Congress, formally enacted a series of economic restrictions on the Republic of Cuba. The Cuban embargo, commonly known as the United States embargo against Cuba, originated in response to Fidel Castro's Cuban Revolution and the subsequent nationalization of American-owned businesses on the island. Although more than six decades have passed, the embargo remains steadfast to this day and has not deviated much from its original provisions. It initially prohibited American financial institutions from conducting transactions with Cuban banks, limited US citizens' travel to Cuba, severed diplomatic relations with Cuba, and included restrictions on importing and exporting goods and services between the two countries. However, it is evident that the embargo has outlived its purpose - it is high time for the U.S. to redirect its efforts toward building a more positive and mutually beneficial relationship with Cuba, both politically and economically.

The embargo and its constraints on Cuban economic activity have fluctuated over recent history in line with shifts in American presidential administrations and their stance on Cuban policy. In 2009, Barack Obama lifted a set of restrictions that facilitated the inward flow of remittances and travel into the island. This policy change undoubtedly alleviated some of the island's economic stressors by bolstering the growing tourism sector and contributing to an overall increase in consumer spending, a key driver of economic growth. However, many argue that the most significant change came in 2015 when Obama and Raúl Castro, then the head of state of Cuba, jointly announced that the countries would enjoy a complete restoration of diplomatic ties. In accordance with their words, the United States removed Cuba from the list of state sponsors of terrorism, which had previously restricted the island's ability to access the international finance market, leaving it unable to derive benefits from financial globalization. Cooperation ceased less than two years later when the Trump administration announced that it would reinstate restrictions on travel and business and withdraw most staff from the American Embassy in Havana. During the final days of the Trump Administration, Cuba was once again reinstated on the list of state sponsors of terrorism for harboring American fugitives and refusing to abide by extradition requests imposed by a non-American entity. Since then, the Biden administration has sought to reimplement policy positions consistent with the actions of the Obama administration.

Limited access to American goods, services, and markets would put any economy, even the most effective and robust, at a significant disadvantage, let alone an island nation with just over 11 million people and a restrictive government. For several decades, however, the Cuban economy enjoyed generous funding from the Soviet Union through sustained aid packages. Aid came to an end following the dissolution of the Soviet Union in 1991, leaving the country to fend for itself against its neighbor just 90 miles away. Subsequently, an economic crisis ensued, compelling the Cuban government to readjust and adopt a more liberal economic position by permitting limited forms of private businesses and encouraging foreign investment through a series of amendments that have since granted foreign investors tax exemption on gross income, personal income, and real estate or business transfers. These shifts in economic policy alone have not been sufficient, and Cuba's economic isolation has cost the island state over $130 billion over the past 60 years. In relative terms, Cuba's 2020 gross domestic product was $107 billion, meaning that over the past 60 years, the cost of the embargo has exceeded 120 percent of the island's current annual production.

Beyond harming Cuba's economy, strained relations also impact its potential as a market for American agribusiness, given the island's proximity to the United States. This can be best examined through the Trade Sanctions Reform and Export Enhancement Act of 2000, which approved a slight expansion of trade by allowing cash-only sales of U.S. farm products and medical supplies to Cuba. As reported by the Cato Institute, "Since 2000, total sales of farm products to Cuba have increased from virtually zero to $380 million last year. Last year, Cuba ranked 25th out of 228 countries in total purchases of

https://www.macrotrends.net/countries/CUB/cuba/gdp-gross-domestic-product

https://ofac.treasury.gov/sanctions-programs-and-country-information/cuba-sanctions

https://www.state.gov/cuba-sanctions/

https://www.cato.org/speeches/four-decades-failure-us-embargo-against-cuba

https://www.scielo.org.mx/scielo.php?script=sci_arttex

https://www.investopedia.com/articles/investing/022415/impact-ending-us-embargo-cuba.asp

https://www.washingtonpost.com/archive/politics/1998/05/07/cuba-poses-negligible-threat-report-says/9416a668-1497-43f9-b6d5-4e456620743c/

https://cuba-embargo.procon.org/

https://www.state.gov/state-sponsors-of-terrorism/

https://www.cfr.org/timeline/us-cuba-relations

https://www.reuters.com/article/us-cuba-economy-un/u-s-trade-embargo-has-cost-cuba-130-billion-u-n-says-idUSKBN1IA00T/

U.S. farm products," highlighting the significant growth in trade despite the challenges posed by weary ties. Similar findings were reported by the American Farm Bureau, which suggests that Cuba could evolve into a $1 billion agricultural export market for U.S. farmers. Regardless, the embargo is projected to obstruct approximately $250 million in exports, resulting in annual losses of up to $1.2 billion for American firms. Some estimates claim that the impact could be even more significant, with projections indicating that the U.S. economy could face an annual loss of up to $4.84 billion due to this blockade. Evidently, financial losses have not been unilateral. Regardless of that fact, due to the difference in magnitude and market power of the two countries' economies, Cuba's losses heavily outweigh those of the United States.

During the Cuban Missile Crisis, the embargo imposed its strictest restrictions, using the blockade as a tangible penalty to preserve American safety. However, after the collapse of the Soviet Union, Cuba lost its primary source of assistance and experienced a decline in its status as a significant American military threat. This has led many to question the blockade's relevance today. Contemporary academics would argue that the embargo serves a greater purpose: it allows the United States to exert pressure on the Cuban government to address its shortcomings in preserving its citizens' freedom of speech. While the U.S. maintains the position that the embargo is intended to accelerate the island's political liberation, one could argue that this choice inadvertently strengthens the Cuban government's image by offering a convenient explanation for the shortcomings of some of its inflexible economic policies. The CATO Institute has echoed this sentiment and elaborated that this series of restrictions has failed to achieve its stated goal of improving the lives of the everyday Cuban person. Instead, it has worsened their situation by limiting access to what would otherwise be relatively affordable American goods and eroding their economic independence. Meanwhile, Cuban government officials continue to utilize the opportunity to push further the idea that Cuba's problems are unilaterally the result of American foreign policy.

From an economic and political standpoint, the United States embargo against Cuba carries no significant benefit in the modern context.

The embargo exacerbates the worsening standard of living for the average Cuban by restricting their access to the world's largest and undoubtedly most robust market. It is imperative to reevaluate and reformulate U.S. policies towards Cuba, fostering more positive change and nurturing diplomatic relations between the two nations. ■

> **"Though it might have been logical in a bygone era to apply such pressure on the Cuban government to safeguard American interests, the island state no longer poses any significant threat today."**

Facts & Figures:

120 percent

How much the cost of embargo has exceeded by relative to Cuba's current annual production

$130 billion

How much economic isolation has costed Cuba

The Art of (an Information) War

CONNOR CHEN
Brown University

Charismatic politicians and fervent leaders have long sought the best medium to convey their cause to a large audience. Passionate speeches always seem to do the trick, and large-scale protests result in rallying toward a common cause. But these methods are not always effective; no matter how charismatic a speaker is, what if people don't speak the language? Thus, one method of persuasion stands out amongst the rest, impartial to cultural or geographic barriers - visual media.

From ancient cave paintings by our prehistoric ancestors to Renaissance works by the masters, art and visual media have always played a pivotal role in shaping societies and influencing public opinion. Art allows its creators to express themselves and their own perspective of the world, but propaganda occurs if this aspect of harmless visual media is taken to the extreme.

In the 14th century, Chinese artist Huang Gongwang painted a beautiful mountainous landscape onto a scroll titled "Dwelling in the Fuchun Mountains." The scroll was split into two after a fire in the mid-17th century, with each half on display in two different museums across the world from each other. One piece is stored at the National Palace Museum in Taipei, Taiwan, while the other is kept at the Zhejiang Provincial Museum in Hangzhou, China.

China views "Dwelling in the Fuchun Mountains" as a physical manifestation of cross-strait tensions between China and Taiwan: both sides have a valuable work of art, which can only be made more significant through the reunification of both parts. This year, China's military released an animation on National Day (October 1), the anniversary of the founding of the People's Republic of China. The video features two cartoon elves – one in Taiwan and the other in Hangzhou – and the Taiwanese elf's journey to visit her friend in China. She remembers a time 12 years ago when her Chinese counterpart came to visit her; now, she passes by numerous Chinese aircraft and warships on her way to Hangzhou, in awe of China's military might.

The two elves are obviously a personification of the two halves of the artwork (their reunion 12 years ago refers to the time the complete artwork was on display in the National Palace Museum after China lent its piece to Taiwan in 2011). The animation serves as just another piece of propaganda regarding cross-strait relations as China hardens its stance on the division between the ROC and the PRC. As the animation closes, we see the two elves finally joining their respective pieces of artwork, establishing China's firm belief that Taiwan will be reunified with the mainland in the near future, with or without the use of force.

Art also has the ability to evolve as society

https://www.whitehouse.gov/briefing-room/statements-releases/2023/10/30/fact-sheet-president-biden-issues-executive-order-on-safe-secure-and-trustworthy-artificial-intelligence/

https://www.youtube.com/watch?v=QdugfT-MUACk

https://www.pbs.org/newshour/politics/fec-moves-toward-potentially-regulating-ai-deepfakes-in-campaign-ads

https://www.cnn.com/style/article/china-pla-taiwan-national-day-intl-hnk/index.html

continues to progress forward. Starting with Huang's "Dwelling in the Fuchun Mountains" and leading to China's Two Elves animation, the next logical evolution for art comes with the advent of artificial intelligence.

China's ramping campaign of propaganda and military demonstrations of power revolving around relations with Taiwan also align with Taiwan's upcoming 2024 presidential election, with the China problem as a critical issue. The incumbent political party (Democratic Progressive Party) technically supports Taiwanese "independence," while the historically dominant Kuomintang pushes for easing tensions and considering compromises with China. With such a contentious election that could permanently determine Taiwan's fate for the coming years, voters find themselves with an unprecedented issue: AI misinformation.

Art and other visual media have already seen their applications with AI technology, with most generative media being harmless AI images and humorous deep fakes. But as technology keeps on improving, the possibility for this innovation to be used for malicious intent has grown. Taiwan's investigation bureau has already conducted measures to warn the public about deepfaked images/videos and has provided advice on how to detect potential misinformation.

The US's 2024 presidential election election is fast approaching, and the threat of AI deep fakes in political campaigns is a cause for concern. This manipulated and fabricated visual media can be realistic videos of politicians making false statements or engaging in inappropriate behavior. These manipulations can then be disseminated widely through social media and news networks, potentially swaying public opinion and undermining the integrity of the electoral process.

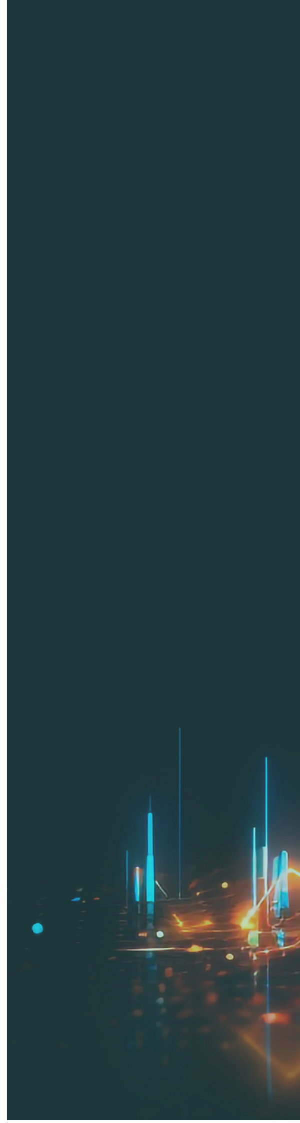
A July 2023 report by NPR highlights the increasing sophistication of deepfake technology, making it even more challenging to detect these fabrications as the US gets closer to Election Day. The potential for these fake videos to go viral and shape public perception has become a pressing issue, with our only hope for a transparent election cycle is increased awareness of the potential for misinformation and government regulation.

The Federal Election Commission (FEC) is taking steps to regulate AI deep fakes in campaign ads potentially. In her August PBS article, Ali Swenson details the FEC's movement toward addressing this issue. With multiple campaigns already pushing out doctored ads and other media with the help of AI, some government officials have suggested increased regulation, whether in regards to the length of an advertisement or the need for a disclaimer. Recently, President Biden signed the first executive order in history relating to AI regulation, which is particularly relevant regarding one of the order's goals of "protect[ing] Americans from AI-enabled fraud and deception" and "detecting AI-generated content and authenticating official content." While this news is reassuring, are these regulations enough?

It's hard to say. With the rapid pace of advancement and development in AI technology, there's always the possibility that potential bad actors will find a way to skirt government regulations and find loopholes to disseminate false and harmful information among the masses. This, coupled with the American public's tendency to be skeptical while also being almost contradictorily ravenous for any conspiracy theory, could lead to a potential perfect storm that could result in consequences more permanent than the January 6 riots. ■

"But for now, we can keep laughing at videos of politicians belting out Taylor Swift songs, generate mind-blowing AI wallpapers, and simply hope that AI doesn't improve too much."

Markets



29 Investment in Fertility Services Bears Considerable Economic and Societal Benefits
Avni Rajpal

32 College Atheletes Are Finally Getting Paid: How Should We Regulate It?
Will Pirie

34 Fashion Forward: Navigating the Shift from Luxury Dominance to Sustainable Strategies in the Evolving Fashion Landscape
Allena Ahmed

36 Subscribing to Change: Navigating the Evolving Challenges and Future of the Subscription Economy
Ryan Kim

38 The War on Seller: Amazon's Private Brands
Andrew Zhong

Investment in Fertility Services

Bears Considerable Economic and Societal Benefits

AVNI RAJPAL
Brown University

The latter half of 2022 has seen a slowdown in healthcare private equity deal flow. Yet, firms still continue to create healthcare-focused funds and raise near-record levels of capital. After several years of acquiring and expanding fertility service providers through acquisitions, private equity firms now possess some of the largest fertility service companies in the U.S.. As health insurance plans increasingly include coverage for fertility treatments and more individuals decide to start families later in life, the demand for fertility services skyrockets. Unfortunately today, society's need for fertility services greatly surpasses the current supply of this specialized expertise.

In 2020, only 42 percent of large U.S. employers (companies with 20,000+ staff members) offered coverage for in vitro fertilization (IVF) treatment, and only 19 percent offered coverage for egg freezing. Furthermore, only 27 percent of companies

"In 2020, only 42 percent of large U.S. employers (companies with 20,000+ staff members) offered coverage for in vitro fertilization (IVF) treatment, and only 19 percent offered coverage for egg freezing. Furthermore, only 27 percent of companies with 500+ employees also had IVF treatment coverage."

with 500+ employees also had IVF treatment coverage.

Luckily, we see positive momentum in the IVF healthcare space, specifically from private investments and funding. Globally, the industry is estimated to be worth $25 billion and is predicted to grow to $41 billion by 2026.

To ameliorate the cost burden associated with training fertility treatment specialists, private investors support 12 percent of medical school clinical rotation sites, and around 20 percent of Reproductive Endocrinologist (REI) fellowship programs. These fellowships are three-year programs that provide fellows with knowledge and training to work on medical and surgical treatments relating to the reproductive tract. Additionally, the American Medical Association recently implemented a policy to ensure that graduate medical education programs, backed by private equity investors, have academic missions that come before corporate profits.

Capital contributions to the fertility market not only yields considerable growth and financial promise for private equity firms, but it also advances women's empowerment, at-home health services, and value-based care. Funding for fertility support startups more than doubled since 2019, where the market raised $133 million, and analysts predict the industry will reach $41 billion by 2026. These three particular components of recent private equity deals are captured in transactions with Ovation Fertility, Carrot Fertility, and Wildflower.

Amulet Capital has been building up its U.S. fertility platform throughout the past few years with several acquisitions, introducing capabilities like clinical site platforms and healthcare digital marketing. Recently, Ovation Fertility was sold to US fertility, which is an Amulet-backed company. US fertility is the nation's largest partnership of physician-owned and led fertility practices, and Ovation Fertility is a national network of laboratories that provides leading IVF treatment for successful pregnancies. This transaction is strategically beneficial, as Ovation can bring its leading lab services to US Fertility's strong physician network. Combined, the two companies will be able to more effectively execute on their new shared purpose to deliver innovative solutions through every stage of fertility care. This combination is particularly compelling as it integrates science and medical delivery, while also empowering women to build their families on their own terms and timing, with fewer necessary trials.

Carrot Fertility provides comprehensive fertility treatment benefits to employees at certain companies, such as IVF, surrogacy, and sperm and egg freezing. After its launch in 2016, the company has raised $115 million in venture capital funding, backed by private investors including Tiger Global Management, U.S. Venture Partners, and Silicon Valley Bank. Carrot was relatively unaffected by the SVB failure, which also left a minimal impact on the fertility sector.

In addition to making access to healthcare more inclusive and holistic, Carrot's services improve employee retention at the companies with which it partners. The pandemic had placed a strain on flexible services, which made commitment to cost savings increasingly vital. Therefore, Carrot Fertility launched a telehealth program, Carrot at Home, which globalizes its services, allowing members to connect with fertility professionals in several languages. This subprogram has allowed more employees to gain access to important healthcare services while at home.

Wildflower, a women's health solutions company with a holistic approach to value-based maternity care, provides patients with high-tech support. In early March 2022,

https://www.wsj.com/articles/private-equitys-bet-on-fertility-focuses-on-sectors-staffing-shortages-e6bfae2

https://www.fiercehealthcare.com/payer/carrot-fertility-raises-75-million-series-c-round

https://www.fiercehealthcare.com/health-tech/fertility-support-startups-banked-345m-funding-2021-heres-why-workplace-perk-becoming

https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8769942/#:~:text=According%20to%20Technavio's%20latest%20report,billion%20by%202026%20%5B19%5D

https://griffin-jones.squarespace.com/news-articles/digest03232023

Wildflower closed a new financing round of $26 million led by TT Capital Partners. This investment has helped to fill the solution gaps in the market that have thwarted national adoption of value-based and digital-first care in women's health. Wildflower has leveraged the financing round to prepare for an expansion to a proprietary maternity bundle that mobilizes value-based care for obstetrician providers. The company has started to implement digital health and point-of-care decision support tools, as well as change workflows to new value-based requirements. Providence Ventures, a strategic venture capital firm focused on transforming healthcare, has also begun engaging with Wildflower to promote health plans and propel sustainable value-based care in obstetric and newborn care. Providence has begun leveraging Wildflower's health advocacy and digital services to bring stakeholders together and deliver high-quality care to the patients and providers involved.

Leah Sparks, founder and CEO of Wildflower Health, commented on the company's next steps to committing to improving outcomes in women's health: "The next phase of delivering on that mission requires accelerating the transition from fee-for-service to a model that rewards providers based on quality outcomes. We are excited to embark on this next chapter in partnership with our payer and provider clients."

Infertility is a global issue. Individuals and couples struggle to have successful pregnancies. As demand for this service heightens, fertility-service providers have begun to grow in numbers and develop more expansive practices. Private investors can help accelerate the process, adding capital to practices and funding fellowship programs.

The growth of the fertility market reflects the growth of three cornerstones of healthcare today: women's health, at-home health, and value-based care. This market has tremendous future profitability as people continue to have children later in life, and, as such, investors and physician groups alike hope to establish large national chains of fertility clinics in the coming years. ■

Facts & Figures:

Amount of large U.S. employers (companies with 20,000+ staff members) that offered coverage for in vitro fertilization (IVF) treatment in 2020

42 percent

$25 billion

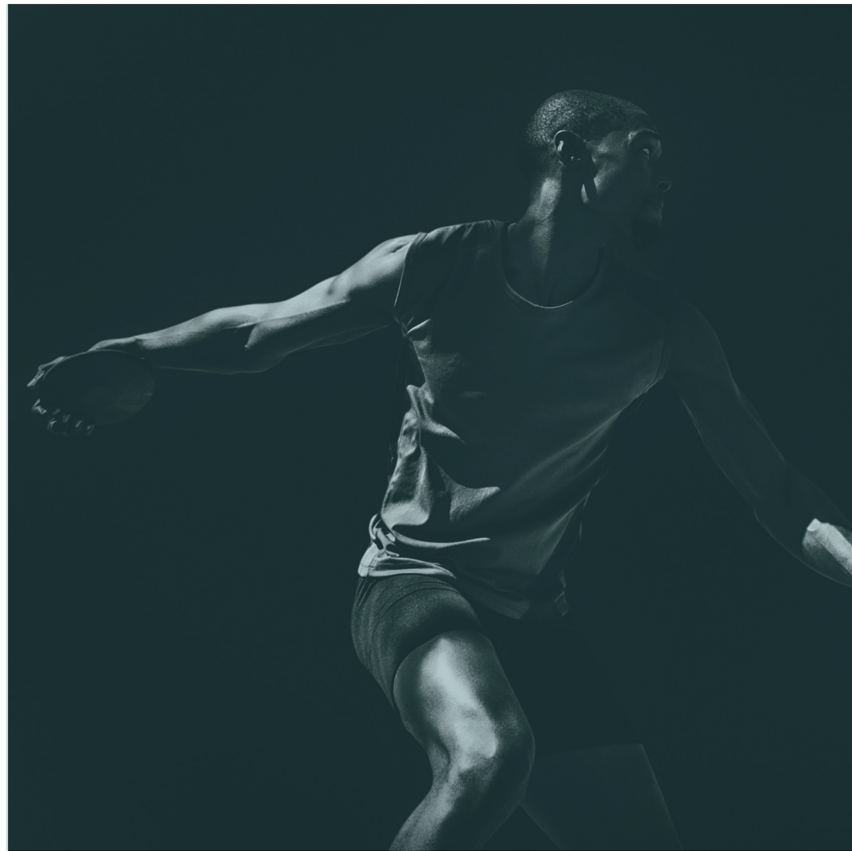
How much the industry is worth globally

How much the industry is prediscted to grow by 2026

$41 billion

College Athletes Are Finally Getting Paid:

How Should We Regulate It?



WILL PIRIE
Brown University

The debate over whether college athletes should be paid has raged for decades. Despite numerous challenges, the National Collegiate Athletics Association (NCAA) has consistently fought against efforts to allow its athletes to earn financial compensation. As a result, the billion-dollar organization found itself in a complicated position: coaches and administrators earned millions annually while NCAA athletes – who were driving these earnings – received none of this profit. This contradiction has become more prevalent as the NCAA's revenue continues to grow, with conflicts over athlete pay reaching a boiling point on June 21, 2021, when the United States Supreme Court, in the case NCAA v. Alston, unanimously ruled that the NCAA's restriction of athlete compensation violated antitrust laws. Just over a week later, the NCAA officially repealed its previous rules, allowing collegiate athletes to profit off their Name, Image, and Likeness, commonly referred to as N.I.L. Although this decision ended a long and tumultuous period of conflict and finally allowed collegiate athletes to profit off of the industry they were primarily responsible for, it brought about a new and chaotic era unfolding in front of us.

It has been just over two years since N.I.L. deals were introduced, and it is fair to say that the world of college sports has been turned upside down. The N.I.L. market is presently projected to be worth nearly $1 billion. Most deals are coming in between $1,000 and $10,000, with the largest share of deals taking place in NCAA's most popular sports: football and basketball.

At the high end of the scale are athletes like University of Southern California basketball player Bronny James, son of LeBron James, who has a current N.I.L. valuation of $5.9 million even though he, as a freshman, is yet to step foot on an NCAA basketball court at the time of writing.

As the fallout from the June 2021 ruling continues, it is clear that N.I.L. has commodified college athletes in a brand new way. This new market can most clearly be seen through how the recruitment of athletes has changed. The NCAA has a long history of schools providing under-the-counter payments to potential recruits, often involving payments to players or their families separate from scholarships, which is illegal. For example, in July, the University of Tennessee football program was found to have violated recruiting policies over 200 times during a three-year span, with most of these infractions involving direct payments to athletes and their families. This practice is far from uncommon and has long been utilized by schools to encourage athletes to join their programs, but with the introduction of N.I.L., this illicit aspect of recruiting is essentially erased and is replaced by the legal and financial opportunities provided by N.I.L.

While N.I.L. has certainly helped clean up some aspects of the recruiting process, the lack of regulation currently in place has led to what some view as unintended consequences,

https://frontofficesports.com/led-by-collectives-year-3-of-nil-to-reach-1-17b-market

https://www.cbssports.com/college-football/news/ncaas-state-by-state-war-over-nil-benefits-continues-with-missouri-law-bumping-right-up-to-pay-for-play/

https://businessofcollegesports.com/name-image-likeness/all-the-stats-for-year-1-of-nil/

https://www.ncaa.org/news/2023/7/14/media-center-hundreds-of-violations-occurred-in-tennessee-football-program-over-3-seasons.aspx

https://rossier.usc.edu/news-insights/news/nil-era-creates-opportunity-challenges-athletes

https://www.nytimes.com/2023/10/21/us/college-athletes-donor-collectives.html

https://biz.opendorse.com/blog/comparing-state-nil-laws-proposed-legislation/

https://www.on3.com/nil/news/bronny-james-tops-nil-valuation-projections-from-on3/

https://www.on3.com/nil/news/ncaa-aggressively-pushes-for-federal-nil-bill-corey-booker-lindsey-graham-tommy-tuberville-joe-manchin/

https://en.as.com/ncaa/how-much-money-can-college-athletes-make-with-nil-marketing-endorsement-deals-n-2/

https://law.emory.edu/news-and-events/releases/2021/08/scotus-yoo-ncaa-v-alston.html

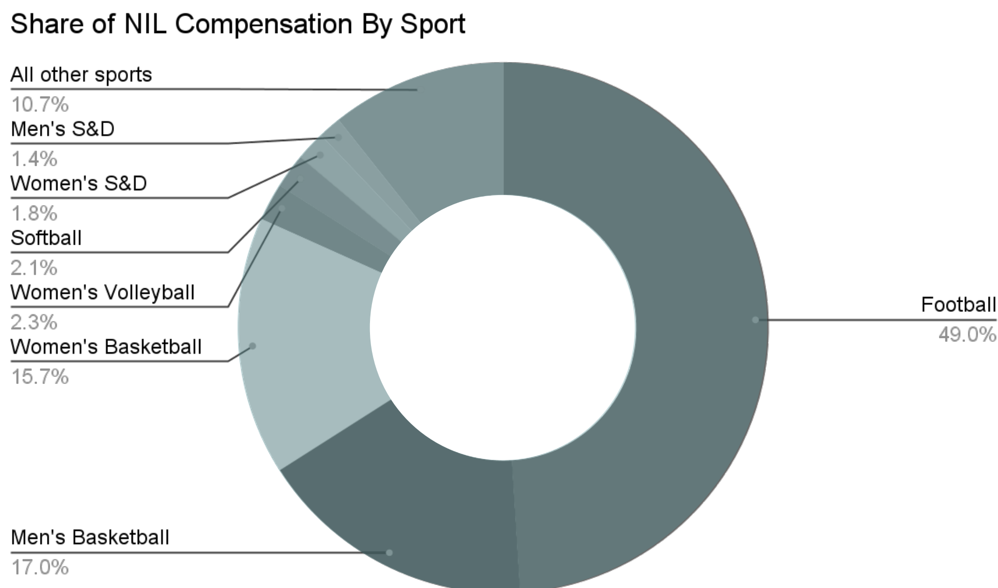
primarily with the emergence of donor collectives. These collectives are school-specific organizations, typically run by alums, that pool together money and provide athletes with various sponsorship opportunities. Because these organizations are affiliated with universities, recruits can directly link a prospective school or program to the financial opportunities that would be available to them if they chose that school. The emergence of these collectives has been rapid and widespread, with almost every member school of the five major college football conferences school either already being backed by a collective or in the process of forming one. The proliferation of these groups has massively expanded financial opportunities for athletes, with these organizations having taken over the majority of N.I.L. activity. However, there are significant concerns about this process.

"Prominent NCAA administrator Tony Petitti has described these collectives as "a-pay-for-play scheme disguised as N.I.L.," suggesting that these large schools treat their athletes like employees, indirectly paying them through these school-backed collectives."

Universities are rushing to strike deals with donor collectives and lobby local governments to pass legislation attracting more athletes. In May, the Missouri government amended a law allowing athletes to sign N.I.L. deals as soon as they commit to an in-state school, even if they are still in high school. The motivation to do so is obvious: attracting the country's best athletes to the state's most popular athletic programs. As states and schools across the country continue this process at breakneck speed, the NCAA struggles to keep up as it lobbies the federal government to take action. At this point, the primary desire of the NCAA is for national N.I.L. regulations to be outlined by the federal government, which would prevent governments at the state level from circumnavigating NCAA rules.

It is unclear when and how this conflict will be resolved, highlighting the disharmony between state and federal levels of government and how they interact with large associations like the NCAA. N.I.L. has given college athletes new levels of freedom, not to mention the financial opportunities now available to them, but the NCAA needs to find a way to stabilize the market. This can only happen with the help of the federal government. That raises the question: what would federal N.I.L. legislation look like? An important consideration is that this legislation should not focus on just protecting the NCAA; it should also protect the athletes. This means the federal government needs to even the playing field between states by ensuring that individual states cannot cut across federal legislation. This protects the NCAA and athletes because it ensures that they are all subject to the same guidelines and opportunities, creating a transparent recruiting system that individual states or schools cannot weaponize. Although these guidelines seem productive in theory, it is crucial to recognize the unlikelihood of Congress passing a comprehensive bill that will sufficiently address the grievances of the NCAA while simultaneously protecting athletes. It could be too late: this unregulated market may continue to explode without restriction. Regardless of what happens, college sports are must-see TV right now, and not just because of what's happening on the field. ■

Figure 1. Share of NIL Compensation By Sport



Fashion Forward:

Navigating the Shift from Luxury Dominance to Sustainable Strategies in the Evolving Fashion Landscape

ALEENA AHMED
Brown University

The ever-evolving world of fashion is in the midst of yet another transformative period, with luxury brands facing a sharp decline from their once unassailable dominance in what is known as the "Rolex Recession." These big brands, once monopolizing the market and swimming in profits, are seeing a consistent decline in sales as the industry experiences a seismic shift. Two recent mergers, Capri Holdings with Tapestry and Shein with Forever 21, exemplify this shift in consumer spending habits from high-end luxury brands to fast fashion.

Earlier this year, Tapestry, the parent company of Coach and Kate Spade, acquired Capri, the owner of Versace and Michael Kors, to push growth and combat a post-pandemic downturn in demand, where recent economic conditions have forced consumers to both limit their spending and prefer online shopping as opposed to physical retail. Tapestry and many other luxury brands, such as Burberry, Prada, and Cartier, have been forced to consolidate resources and generate synergies to save on operating and supply costs in response to this downturn in demand. One of the most significant falls in sales was reported by Kering, the French multinational that operates companies such as Gucci and Balenciaga, which reported an astonishing 23 percent fall in sales in Q2 of this year. The confluence of evolving market dynamics and shifting consumer preferences requires these brands to develop new strategies to rebuild a loyal customer following.

Conversely, Shein and Forever 21, two of the biggest names in fast fashion, announced in August that they were entering a symbiotic partnership, providing both firms with the opportunity to expand their customer base. Shein, now one of the most dominant fast-fashion global retailers with a 59 percent increase in sales in 2022, is primarily a digital retailer selling apparel, beauty, and lifestyle products catering to a wide range of demographics. Conversely, Forever 21, while both an online and physical retailer, has historically prioritized in-store sales of apparel for clientele in Generation Z. Shein hoped to gain from the merger by selling its merchandise in Forever 21 retail outlets while Forever 21 sought to begin selling on Shein's webpage, taking advantage of their large e-commerce presence and international audience.

Individually, both firms revolutionized the fashion industry and reached record revenue levels by capitalizing on small-batch manufacturing, production speed, and disposable consumer products. These shared business models have enabled Shein and Forever 21 to maintain consumer interest by releasing new products daily with smaller inventory levels. However, their rapid production cycles have also been heavily criticized for coming at the cost of the environment. Last year, Shein generated 6.3 million tons of carbon emissions and contributed to deforestation and excessive waste in areas such as Kantamanto, Ghana, where 15 million units of waste textile are dumped weekly, 40 percent of which is subsequently burnt, leading to substantial air pollution and microplastic pollution in water bodies. Simultaneously, these firms engage in unethical production practices, including underpaying labor, fostering poor working conditions, and administering work shifts up to 17 hours. While affordable prices may attract consumers, a recent trend of a more conscientious consumer base is emerging. Recent reports have shown that Shein's net favorability has fallen by almost 20 points in the last year, with a 10-point fall in purchasing consideration from Gen Z specifically.

Luxury fashion companies looking to capture more significant market share once more and build brand loyalty should take advantage of this changing landscape and rapidly

https://www.forbes.com/sites/forbestechcouncil/2023/04/21/how-e-commerce-brands-can-use-ai-to-deliver-a-more-personalized-shopping-experience/?sh=698bca89547c

https://www.reuters.com/sustainability/sustainable-finance-reporting/analysis-shein-vows-cut-clothing-waste-can-ultra-fast-fashion-brand-really-2023-09-18/

https://robbreport.com/lifestyle/news/luxury-sales-decline-1234873789/

https://www.wsj.com/articles/shein-takes-on-amazon-in-the-business-of-selling-everything-47494efe

https://time.com/6247732/shein-climate-change-labor-fashion/#:~:text=Many%20also%20worked%20without%20contracts,hundreds%20of%20garments%20a%20day

https://www.marketingbrew.com/stories/2023/07/11/as-shein-s-controversies-grow-its-gen-z-consumer-base-shrinks-report

https://www.euronews.com/culture/2023/04/25/lvmh-becomes-europes-most-valuable-company-at-455-billion

adopt sustainable practices. Innovation within their manufacturing process, such as utilizing eco-friendly materials and waste and supporting ethical production, can help firms like Tapestry and Capri reverse their downturn in sales. An alternate approach to promote sustainability is by integrating artificial intelligence into their marketing and distribution strategies to minimize supply-chain costs and predict consumer demand while better positioning inventory in stores and providing consumers with personalized shopping experiences. As reported by Forbes, AI can also help cut supply-chain costs by around $8 billion through the incorporation of chatbots, a software application that stimulates conversations with customers.

> **"A commitment to ethical practices helps cultivate a strong brand image that resonates with increasingly socially conscious consumers."**

In the case of Tapestry and Capri, it also provides them with grounds to compete with European fashion retailers that are currently dominating international markets. Specifically, the introduction of the European Union Strategy for Sustainable and Circular Textiles in 2022 requires that within the next 10 years, companies selling textiles will have to meet specific standards in terms of durability and recyclability. Therefore, while American consumers are looking to cut back on spending, if Tapestry and Capri can pass the regulations set by the European Union, they have an opportunity to offset the losses in the domestic market with gains in the international market, where luxury brands such as Hermes are witnessing a 23 percent increase in net sales. To gain a competitive edge while integrating international markets, Tapestry should specifically focus its advertising towards its "Coachtopia" collection, a subbrand focused on reducing waste and limiting the use of new materials, while also highlighting its recent partnership with the Ellen McArthur Foundation, a charity that supports the idea of a circular economy.

The future of these luxury fashion brands depends on their ability to adapt to changes in consumer preferences and values. Focusing on sustainable and ethical practices while simultaneously building a digital presence will prove highly beneficial to companies like Tapestry and Capri to maintain relevance and competitiveness in the market and help shift demand away from fast fashion. As consumers become increasingly ethically conscious, the fashion industry's success will be very closely tied to its ability to strike a balance between style and sustainability. ■

Subscribing to Change:

Navigating the Evolving Challenges and Future of the Subscription Economy

RYAN KIM
Brown University

From binge-watching Stranger Things on Netflix to streaming the newest songs on Spotify, subscription-based models have undeniably transformed how consumers interact with goods and services. Instead of buying all at once, consumers can have regular access to goods through subscriptions. Over the past decade, companies have increasingly adopted some form of the subscription-based business model. The subscription economy, from 2012 to 2021, expanded by 446% and is projected to grow to $66 billion by 2027. Yet, amidst its remarkable success, a pressing question has arisen: Will the subscription stand the test of time?

To comprehend the potential challenges ahead, we must first grasp the essence of the subscription-based model. It is a payment structure that enables consumers to access goods regularly, transcending the conventional one-time purchase approach. With seamless, automatically renewed subscriptions often facilitated through online payment methods, subscription businesses primarily employ three models: curation, replenishment, and access. The curation model, prevalent in e-commerce, involves regularly assembling and delivering products to subscribers. Replenishment, best suited for frequently used items, offers discounts on recurring deliveries. Meanwhile, the access model, commonly observed in memberships, grants subscribers exclusive perks like discounts and early access to goods.

A key driver of subscription models' remarkable success lies in their capacity to generate dependable, recurring revenue. Predictable cash flow forms the very bedrock of these models, offering companies financial stability and a consistent income stream. This financial predictability is pivotal in easing expense management, facilitating investment in growth, and fostering long-term planning. The profound significance of this predictability cannot be overstated, as it stands as an anchor for the survival of businesses. To put into scale the effectiveness of a simple membership fee to a business's revenue is analyzing Costco. Despite offering products at lower prices than many grocery stores, Costco reported a staggering $6.3 billion in annual profits in FY2022. Remarkably, 72% of these revenues come from their $60 membership fees. This underscores how Costco successfully harnessed consistent revenue through membership fees that complement their affordable goods.

Furthermore, subscription services foster customer loyalty, forming the bedrock of any thriving business. By cultivating enduring customer relationships, these services mitigate the perpetual need to acquire new patrons continuously. The advantages are twofold. Firstly, this approach diminishes customer acquisition costs, thereby enhancing overall savings. Secondly, it nurtures a robust community within the subscriber base, creating a sense of belonging. In this environment, subscription models thrive in retaining customers, leading to heightened customer engagement. Such services actively prompt consumer involvement, striving to provide positive experiences. Through word-of-mouth marketing, these experiences retain existing customers and attract new ones. This is complemented by subscription companies' exceptional ability to manage inventory efficiently and forecast their financial trajectories. The stability and predictability inherent to this model facilitate simplified long-term planning and investment for companies, offering an advantageous edge in a dynamic business landscape.

Nevertheless, despite the enticing advantages, the subscription model faces its own set of challenges. While individual companies may experience rapid growth, the subscription market as a whole has become saturated, resulting in intense competition. This, in turn, has led to a phenomenon known as "subscription fatigue" among consumers who are overwhelmed by managing subscriptions. Consumers are increasingly scrutinizing their budgets in today's economic landscape, marked by rising inflation and escalating living costs. What was once perceived as affordable luxuries have turned into potentially expendable expenses. A McKinsey

> "The subscription economy, from 2012 to 2021, expanded by 446% and is projected to grow to $66 billion by 2027."

Facts & Figures:

446 percent

How much the subscription economy has expanded by from 2012 to 2021

$66 billion

How much the subscription economy is projected to grow by 2027

study from 2018 revealed that "more than one-third of consumers [...] cancel in less than three months and over half cancel within six." This very model that aimed to retain customers now faces a high churn rate, with users being more selective about the subscriptions they will commit to. The churn rate is the percentage of customers who stop using a company's product or service within a certain period of time.

Adding to the complexity of the subscription landscape, the perceived value of the content or services provided by companies within the same industry has mainly become homogenized. This stems from the implicit belief that every company offers the best content, a perception that is increasingly hard to maintain as more businesses adopt subscription-based models. This shift in consumer psychology is exemplified by a 2021 survey by Comparitech, which found that millennials and Gen Zers are more likely to share streaming passwords with non-paying friends/families to bypass subscription fees. The consequence is a plateau in the growth trajectory of the subscription model. The reality is that not every consumer is willing to subscribe to every service on offer.

To complicate matters further, the current landscape of inflation and supply chain struggles amplifies the challenges faced by subscription businesses. Inflation poses a particular threat to companies with a large base of long-term subscribers, as it eats into their purchasing power, potentially causing budget constraints. Consumers, faced with soaring prices, are compelled to reassess the necessity and value of maintaining multiple subscriptions, making financial prudence a top priority. Supply chain disruptions, involving delayed shipments, labor shortages, and difficulties in fulfilling promises to subscribers, are sources of dissatisfaction that exacerbate the inherent risk in the subscription model - the ease of cancellation. Presently, inflation hovers at 3.7%, a significant improvement from last year's 8.2%, but it still surpasses the Federal Reserve's target rate of 2%. As supply chain disruption and inflation converge, they act as catalysis for reduced customer satisfaction, driving consumers to explore alternative options. Consequently, companies reliant on subscription revenue must diligently assess the risks they face.

The cumulative effect of these factors points towards uncertainty over the future of the subscription business model. While subscriptions have flourished due to their convenience, rising inflation, evolving consumer behaviors, and ongoing supply chain disruptions introduce formidable challenges. Striking the delicate balance between profitability and subscriber retention becomes increasingly arduous. As subscription fatigue gains prominence and consumers become more discerning in their choices, heightened competition among subscription providers ensues. To compound the dilemma, companies may respond to inflation by raising subscription prices, further intensifying the risk of cancellations. In such a climate, the subscription model faces an uphill battle, jeopardizing its long-term viability. ■

"As these pressures converge, the subscription model's resilience will depend on adaptability and innovation, necessitating strategies prioritizing value, flexibility, and customer-centricity to weather the evolving landscape and retain relevance in an increasingly competitive market."

www.mckinsey.com/~/media/McKinsey/Industries/Technology%20Media%20and%20Telecommunications/High%20Tech/Our%20Insights/Thinking%20inside%20the%20subscription%20box%20New%20research%20on%20ecommerce%20consumers/Thinking-inside-the-subscription-box-New-research-on-ecommerce-consumers.pdf

https://www.usinflationcalculator.com/inflation/current-inflation-rates/

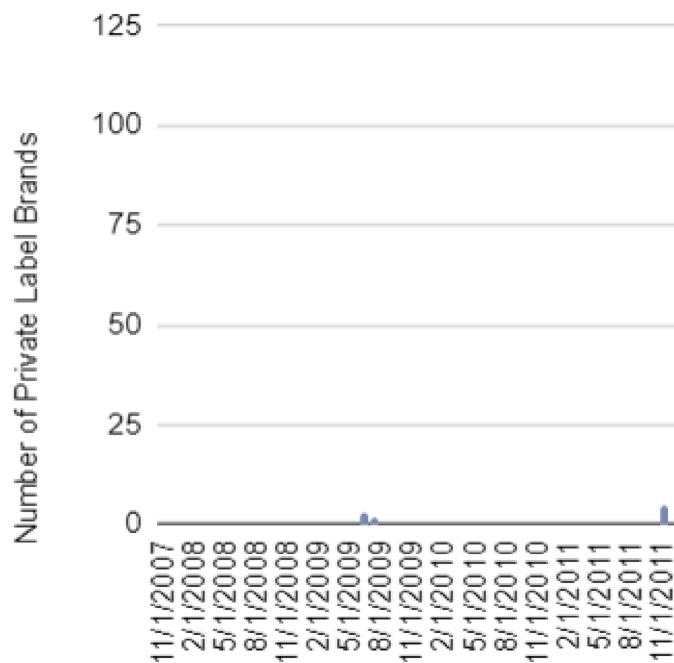
https://www.usinflationcalculator.com/inflation/current-inflation-rates/

https://www.businessinsider.com/costco-still-not-raising-its-membership-fees-2023-9

https://www.vezadigital.com/post/the-rise-of-the-subscription-based-business-model

The War on Sellers: Amazon's Private Brands

ANDREW ZHONG
Brown University



Antitrust policy in the United States has brought public and litigious scrutiny to firms attempting to expand market power at the expense of healthy competition. One of the most concerning examples of unequal market power distribution is Amazon and the e-commerce market. With a market capitalization of $1,337.5 billion, five times greater than its largest competitor, Amazon controls 37.8 percent of the American e-commerce industry., While many of Amazon's practices– notably how it fosters seller-dependency through its large market size or exorbitant seller fees– have come under regulatory and social condemnation, Amazon has covertly enhanced its monopoly power through its "private brands."

A private brand is developed when a retailer finds a manufacturer to make a "white label" version of an already branded product. The manufacturer then puts the retailer's name on the development and sells it for 25 to 40 percent less than the national brand-name product. For example, the company PeakDesign produces and sells camera bags and accessories on Amazon. However, in 2021, Amazon launched its own Everyday Sling Bag that strikingly resembled PeakDesign's product, albeit at the price of two-thirds. Although Amazon first introduced private brands AmazonBasics and Pinzon in 2009, in the past few years, the e-commerce company has ramped up label creation, with 118 private brands brought to the market in 2022 alone. Many of Amazon's most popular products, such as Amazon Echo, are private brands.

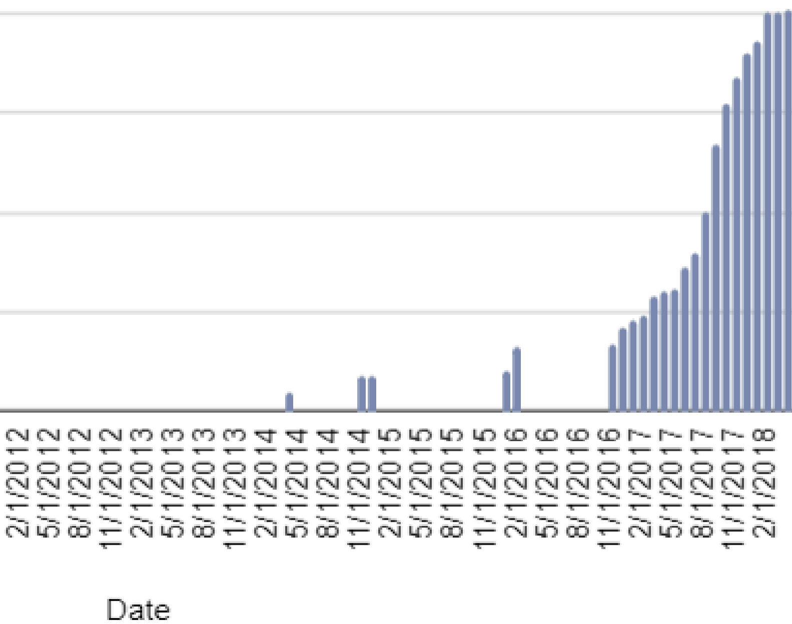
Inherently, private brands compete for external sellers using the Amazon platform. While Amazon touts sellers as "partners" in public, within the company, it refers to them as "internal competitors," and private brands are the means of waging economic warfare against these competitors.

"Through these "private brands," the e-commerce behemoth further stifles online competition– not with other platforms– but with Amazon's sellers through the illegal collection of sellers' data, unethical product placement, prevention of sellers from fighting back price-wise, and predatory

In 2020, the Wall Street Journal reported that Amazon employees collected data on independent sellers on the company's platform to develop competing private brand products, specifically how to price the private brands, which features to copy, and which segments to enter based on earning potential. Amazon is "essentially spying" on the sellers that rely on the platform. While it is common practice for a retailer to use data to inform product decisions, Amazon's position is uniquely concerning, given its enormous share of the e-commerce market and sellers' dependence on Amazon because of this market share. Given that nearly 40 percent of online shopping occurs on Amazon, with 1 in 3 Americans holding an Amazon Prime membership and 9 in 10 shoppers cross-referencing prices with Amazon, many sellers feel they can not afford not to sell on Amazon. Sellers' dependence on Amazon means that any algorithmic change, especially concerning search results, can drastically affect their sales and profitability figures.

After collecting data to determine which products Amazon should make private labels of, it needs to position them strategically. External sellers using the platform can bid on search terms to

Figure 1. Number of Private Label Brands Over Time



www.wsj.com/articles/amazon-cuts-dozens-of-house-brands-as-it-battles-costs-regulators-3f6ad56d

www.wsj.com/articles/amazon-scooped-up-data-from-its-own-sellers-to-launch-competing-products-11587650015

www.barrons.com/articles/amazon-a-25-billion-private-label-business-1528131628

www.nytimes.com/2023/08/07/technology/amazon-ftc-antitrust.html

www.ftc.gov/news-events/news/press-releases/2023/09/ftc-sues-amazon-illegally-maintaining-monopoly-power

www.cnbc.com/2022/10/12/amazons-growing-private-label-business-is-challenge-for-small-brands.html

www.propublica.org/article/amazons-new-competitive-advantage-putting-its-own-products-first

www.repricerexpress.com/amazon-statistics/#:~:text=1.,-expands%20to%20about%20350%20million

ilsr.org/fact-sheet-how-breaking-up-amazon-can-empower-small-business/#:~:text=Amazon%20has%20consistently%20engaged%20in,many%20bookstores%20out%20of%20business

www.statista.com/statistics/245340/leading-large-cap-e-commerce-companies-market-cap/

secure the most valuable spot in e-commerce: the top-left, where each individual's sight is drawn first. During the pandemic, Amazon began placing its private brand products in the top-left position: searching "Almonds" would yield Amazon's Happy Belly brand whole raw almonds; searching "bra" would show Amazon's Iris & Lilly brand. While placing its brands in preferred spots would mean sacrificing ad revenue from external sellers, Amazon counters this "lost" revenue by augmenting the sales of its private brands over time. By placing its products in the most salient positions on its website, Amazon attempts to ensure its brands' success, thereby letting the platform "win in the long term." Additionally, Amazon exploits an advantage for the top spot: while sellers must bid up to 30 percent of their sales for top spot placement, Amazon pays nothing.

In a world without seller-platform contracts, sellers would move to a different platform with fairer marketing practices. So, to secure its private brands' power, Amazon prevents sellers from leaving, thereby forcing sellers to remain in an inferior marketing position. Amazon enforces a "Fair Pricing Policy," where if pricing bots detect that a seller has lower prices on other platforms, then Amazon can demote the seller's item in search results, significantly affecting their sales. Amazon's policy thus forces sellers to keep prices at or above their Amazon prices (which are higher than prices for Amazon's private brands): it "insulates Amazon from the competition and preserves its dominance." In April 2021, Amazon began blocking sellers from seeing the names and addresses of the people buying their products. By limiting contact between sellers and customers, Amazon prevents sellers from building direct relationships with customers, furthering sellers' dependence on the platform and eliminating any possibility of sellers moving off Amazon for e-commerce.

The last stage of the war on sellers is predatory pricing, that is, selling products and services, allowing Amazon to drive demand for its products and reign in competitors. Private brands sell up to 40 percent less than standard brands, diverting consumer interest in categories ranging from clothing to home goods all towards Amazon's products. Amazon's ability to control consumer interest, and ultimately sales, for its sellers gives it leverage to exploit. For example, Amazon only removed its private branded phone accessory products until seller Pop-sockets agreed to purchase $2 million in advertising. The e-commerce giant has a history of predatory pricing to debilitate competition. Amazon lost $150 million selling shoes and diapers at below-market cost to force competitors Zappos and Diapers.com to agree to mergers. Concerningly, Amazon has demonstrated a willingness to sacrifice short-term profits. Recently, Amazon has begun to cross-subsidize losses by using earnings from the platform's cloud-computing service, AWS, which makes up 59% of Amazon's operating income.

Fortunately, the United States federal government believes that Amazon's private brands are a tool used to wage an anti-competition war with digital sellers, bringing a new edge in the fight against Amazon. In September 2023, the FTC– in one of the "most significant challenges to… in the company's nearly 30-year history"– sued Amazon for the use of anticompetitive practices, explicitly highlighting how Amazon punishes online sellers for offering lower prices than Amazon and how Amazon biases search results to favor private brands., In response to regulatory scrutiny, Amazon began a retreat: cutting down on private brands. While the exact number of private brands set to be eliminated is not known, the Wall Street Journal estimates that Amazon now has less than 20.

While the use of private brands has subsided, Amazon continues to enforce monopoly power over digital sellers, mainly through the fees it charges sellers. On average, Amazon keeps 30 percent of all sales that independent sellers make through the platform, with total revenue from such fees reaching $60 billion in 2019. These fees make it "nearly impossible to sustain a business." From 2007 to 2017, small retailers decreased by 60,000 as Amazon expanded. Beyond private brands, a significant component of the FTC case targets the exorbitant fees (totaling up to 50 percent of sales) that independent sellers– already dependent on Amazon due to its 40 percent market share of e-commerce– are forced to pay to Amazon. ■

learn more

Facebook & LinkedIn:
The Intercollegiate Finance Journal

Instagram:
@the.ifj

Twitter:
@the_ifjbrown

Check out our website:
www.theifj.com