

GCLE NEWS BULLETIN

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OPINION | MAKE IN INDIA WON'T FIX THE REAL PROBLEMS

The Narendra Modi government's flagship "Make in India" programme is not the first attempt to goose Indian manufacturing. A new working paper by Rajesh Raj S.N., Kunal Sen and Sabyasachi Kar, *Unmaking "Make in India": Weak governance, good deals and their economic impact*, provides interesting insights into that last point. Raj, Sen and Kar find that firms in states with weaker capacity and poorer governance, as defined by a handful of proxy measures, are able to secure better deals—and that in most states, good deals go to the least productive firms.

The implications for Indian industry and development are obvious and troubling. For firms, India's administratively weakest states are the most tempting targets for regulatory capture that is likely to skew the inclusive, broad-based growth they need. The natural advantage large companies have over upstart competitors in securing sweetheart deals also means that competition—and the innovation and productivity growth that comes with it—are undercut. There is thus efficiency loss when it comes to business growth pushing broader economic growth and development.

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INTERNET SEARCH ENGINES AND TWO-SIDED MARKETS: IMPLICATIONS FOR ANTITRUST ANALYSIS

Internet search engines provide a vital platform for various groups to interact and create value. On the one hand, they help users find answers to their search queries, and on the other, search engines monetise their free search services by selling advertisements to connect potential buyers with sellers. An exploration of the economics of search markets is presented along with a discussion about the economic literature on two (multi)-sided markets. There is also a discussion of issues with the developments in the antitrust case pertaining to Google in India.

Google is alleged to have a dominant position in the search engine market because it is the most used search engine in India. Further, it is also alleged that Google has abused that dominant position by promoting its other products (built-in services) through its search engine such as maps, shopping, etc. Such promotion has supposedly denied competitors in these built-in services markets a chance to compete because Google's products appear when a searcher searches for those services. In order to comprehend these allegations from an antitrust perspective, it is important to understand how firms compete in markets like these that are characterised by fast and ever-changing technology.

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FREE EXCHANGE: A RADICAL IDEA FOR REDUCING INEQUALITY DESERVES MORE ATTENTION

Taxing the rich in order to fund spending on the poor is a straightforward solution to inequality. But the well-heeled are adept at squeezing through tax loopholes, and at marshalling the political clout needed to chip away at high tax rates. Those frustrated by enduring levels of inequality are contemplating ever bolder ways to redress the lopsided balance between owners and workers.

In a recent paper Matt Bruenig, a left-leaning writer, argues for the creation of an American "social wealth fund". The fund, he says, should accumulate stakes in equity, bond and property markets, and then disburse a share of its investment income each year as a "universal basic dividend". A social wealth fund that turns workers into owners of, rather than antagonists to, capital might appeal to workers without alienating powerful business interests. And if such a fund were to cultivate a sense of economic solidarity, it might well encourage other steps towards a more equitable society.

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WHOSE WATER IS IT ANYWAY? CSU SHARES \$4.9 MILLION GRANT FOR EVALUATING WATER

RIGHTS

The five-year project will aim to predict which entities in the West will be most impacted by changing water quantities and availabilities under current water laws. In addition, the researchers will evaluate the impact of potential adjustments to existing water laws, and evaluate the possibilities for new laws and regulations.

Over the next five years, the interdisciplinary team that includes hydrologists, resource economists and sociologists will evaluate the following: How changes in mountain snowpack affect available water; Which basins in the arid West are most at risk; The effectiveness of existing water allocation

laws and regulation in managing these changes, in comparison with proposed modifications; And how changes in available water, and laws and regulations, affect the economic well-being of various groups in society - including the sustainability of agricultural production in the arid West. [To read more, click here.](#)

A \$3BN DEBT DISPUTE BETWEEN RUSSIA AND UKRAINE MAY GO TO TRIAL

UKRAINE and Russia have not just been military foes in recent years, but legal ones too. In 2015 Ukraine reneged on a \$3bn bond repayment to Russia. In response the Law Debenture Trust Corporation, which represents Russian creditors, sued Ukraine in London.

Ukraine has financial and political reasons to repudiate the debt. “Financially, we are not ready,” says Olena Zerkal, the deputy foreign minister of Ukraine. An estimated \$3.2bn in foreign debt falls due by the end of the year. Moreover, if Ukraine loses the case, investors could start to doubt the country’s creditworthiness only a year after its return to capital markets. Politics plays a role, too. Orysia Lutsevych of Chatham House, a think-tank, reckons it would be “political suicide to pay back an internally recognised aggressor”, particularly with parliamentary and presidential elections due next year.

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WORK KICKS-OFF TO EXAMINE DIGITAL COMPETITION IN UK

The inaugural meeting of a new independent expert panel looking at competition in the digital economy was held in Downing Street. Experts join Professor Jason Furman, former economic adviser to Barack Obama, who is leading this important work that will help ensure the UK remains at the centre of the digital revolution.

The review will investigate the UK’s competition regime in the context of the digital economy. It will look at how this affects consumers, and the impact of competition policy on the UK’s growth, productivity, wages and labour markets.

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BIG PHARMA FIRMS MAY HAVE 'UNDERPAID' RS 530 CRORE IN INDIAN TAXES: NEW REPORT

A new report from Oxfam says that just four of the big pharmaceutical companies in the world may have “underpaid” an estimated \$3.8 billion in tax per year across 16 countries. What this means is that these 16 countries could have collected at least \$3.8 billion more in taxes, between 2013 and 2015 from these four companies. In India, these companies may have ‘underpaid’ taxes of at least Rs 530 crore (\$74 million), between 2013 and 2015.

Had the Indian government received the estimated \$74 million the four US drug companies may have underpaid in taxes annually, it could have allocated these funds to fighting encephalitis and still have had enough money left to buy Japanese encephalitis vaccines and bed nets for every child born each year in the whole of India.

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NINE MEMBERS OF EUROPEAN PARLIAMENT CALL FOR ALL DEALS WITH INDIA TO BE NIXED UNTIL ARRESTED ACTIVISTS ARE RELEASED

Nine Members of the European Parliament (MEPs) have written to the European Union's (EU) highest official on foreign affairs and security policy, Federica Mogherini, to cancel all agreements with India till all the activists arrested in connection with the violence at Bhima Koregaon have been released.

This incident raises several important questions: Some about the right of countries to 'interfere' in the sovereign rights of elected governments to conduct their affairs; some about the international image of the current regime in the global community; and still others about the character of a government prepared to use all the resources at its command to stifle dissent and repress marginal sections of the population.

You don't need to have a degree in law and economics to figure out that broken machinery for the enforcement of the rule of law and sharpening social cleavages that lead to violent outbursts are not exactly what encourages investors, domestic or foreign, to put their money into 'making' in India. And, of course, that the world is always watching.

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THE GREAT DEBATE OVER PASSIVE INVESTING AND ITS ECONOMIC IMPACT

The growth of passive investing has left a few large fund managers in a dominant position over the US stock market. A handful of funds own large stakes in companies that compete against

each other; do they collude to change how those companies behave? If so, it might justify government intervention, just as cartels provoked antitrust policy.

Logically, common ownership of competing companies in a sector should lead them to collude more, so as to do their owners' bidding. Mergers are often about reducing capacity and competition. On the other hand, companies use algorithms to set their prices, not instructions from their shareholders; may not own the shares they manage, and often allow their clients to vote the shares they hold on their behalf; and they have an incentive to see the entire market rise in value. Anti-competitive behaviour would hurt them.

The occasion left more questions than answers. The case for action is still not made; but these arguments will be heard again, in Washington and Brussels.

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TRUMP'S TRADE WAR : WHY THE ECONOMY MAY SOON FEEL THE PAIN

Mr. Trump's latest round of tariffs on \$200 billion of Chinese goods may be passed onto consumers. That's because buyers like retailers and manufacturers are on the hook for paying tariffs, not the country of origin for the imports. Walmart is warning the newest tariffs could prompt it to raise prices on products from shampoo to bicycles to food.

At the same time, the Federal Reserve is expected to raise interest rates twice more this year as it puts the brakes on lending and a booming housing market. That will make consumer loans and mortgages more expensive, while the stimulus from the GOP's 2017 tax cuts could start to wane. Because consumer spending accounts for about 70 percent of U.S. economic activity, higher prices at the checkout counter are expected to hurt growth. And slower growth may temper stock markets that hit new highs in recent weeks, economists said.

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INDIA MAY LOOK TO LOCK IN OIL FUTURES TO STEM RUPEE SLIDE

India's government is planning to ask state oil firms to lock in their crude futures purchase prices, a government source said on Thursday, anticipating a spike when US sanctions on Iran snap back again in November.

The move would be another step to tackle a slide in the rupee, as oil prices are putting pressure on India, which imports some 80% of its crude demand. Its currency has fallen sharply this year against the US dollar, amid a wider sell-off in emerging markets.

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