

International

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TRADE TALKS WITH CHINA
Steven Mnuchin, US treasury secretary
Ambassador (Robert) Lighthizer, I and a large team are on our way to Beijing next week. We are committed to continuing these talks. We're putting in an enormous amount of effort to try to hit this deadline and get a deal. So that's our objective.

Quick View



'Emerging economies catching up in smartphone adoption'

SMARTPHONE USE has become the norm in most developed nations while many emerging economies are showing sharp gains, a global survey showed on Tuesday. The Pew Research Center report found strong majorities of adults using smartphones in the world's wealthier countries, led by 95% adoption in South Korea and 88% in Israel.

Trump to meet Kim Jong Un in Vietnam on Feb 27-28

US PRESIDENT Donald Trump said he'll meet with North Korean leader Kim Jong Un on February 27-28 in Vietnam, ending much of the months-long mystery over the details of their second summit on ending Pyongyang's atomic ambitions. "Much work remains to be done, but my relationship with Kim Jong Un is a good one. Chairman Kim and I will meet again on February 27 and 28 in Vietnam," Trump said on Tuesday in his SOTU speech.

NYT sets goal of 10 m subscribers by 2025

NEWYORKTIMES Co's online subscribers accelerated in the fourth quarter, prompting the newspaper firm to set an ambitious new goal: to hit 10 million subscriptions by 2025. The publisher of the eponymous newspaper added 265,000 new digital subscriptions in the period, the biggest increase since the months right after the 2016 election.

Siemens-Alstom deal derailed by EU on competition concerns

AOIFE WHITE & OLIVER SACHGAU
Brussels/Munich, February 6

SIEMENS AND ALSTOM suffered the final blow to their rail merger plans after European Union antitrust regulators refused to cave in to warnings about the looming threat of Chinese competition.

EU competition commissioner Margrethe Vestager formally vetoed the tie-up, saying the firms "were not willing to address our serious competition concerns" about the combined firm's control over rail signalling systems and very high-speed trains.

The decision is a victory for Vestager who came under intense pressure from French and German ministers demanding the creation of a European "champion" able to meet head-on competition from China. The tie-up — unveiled in September 2017 — would have merged Siemens's mobility unit and Alstom to create an entity with about €15 billion (\$17 billion) in revenue.

The deal "would have created the undisputed market leader" for some signalling and a dominant player in very high-speed trains, the EU said. Chinese suppliers for signalling "are not present" in Europe and it "will take a very long time before they can become credible suppliers." Chinese rivals for very high-speed trains are "highly unlikely" to rival the firms in the region in

AFTER PUBLIC OFFER

SoftBank Group unveils \$5.5-billion stock buyback

The buyback comes after the Japanese conglomerate raised 2.35 trn yen in Dec by listing about a third of shares in its domestic telco

SAM NUSSEY
Tokyo, February 6

JAPAN'S SOFTBANK GROUP announced a \$5.5-billion share buyback on Wednesday as it reported a 60% rise in quarterly operating profit buoyed by rising valuations for its technology investments.

SoftBank Group said it would repurchase 112 million shares worth 600 billion yen (\$5.5 billion) in the next 11 months, or about 10.3% of its total outstanding shares, excluding treasury stock.

The buyback comes after SoftBank raised 2.35 trillion yen in December by listing about a third of the shares in domestic telco SoftBank Telecom, which on Tuesday reported a 24% jump in quarterly operating profit.

SoftBank Groups said its operating profit in the October-December quarter was 438.3 billion yen (\$3.99 billion) versus 274 billion yen a year earlier. The year-earlier figure used previous accounting standards.



Profits at SoftBank Group are increasingly affected by the valuations of big technology bets through its own investing activities and its Saudi-backed Vision Fund, which launched last year with over \$90 billion in capital.

At the end of the October-December period, which saw weakness in technology stocks and fears of a China slowdown, the Vision Fund had invested \$45.5 billion in 49 firms, including ride-hailing assets transferred from SoftBank Group.

Those investments — including ride-hailing firm Uber Technologies, shared workspace provider WeWork Cos, semiconductor maker Nvidia and chip designer ARM — are valued at \$55.3 billion, SoftBank said. "The exact manner in which SoftBank determines the value of its investments remains murky," Sanford C. Bernstein analyst Chris Lane said in a note ahead of the earnings

announcement. "Without a 'down round' we doubt any of the unlisted investment will be revalued," Lane said, referring to when a company's valuation is reduced in a subsequent financing round.

Among SoftBank's stakes in listed companies, weak demand for gaming chips in China helped to push down the share price of US chipmaker Nvidia by 50% from its October peak. SoftBank Group said it had offset most of the fall in Nvidia's share price through derivatives contracts.

Valuations

China's slowing growth and its trade war with the US are affecting valuations of unlisted technology firms. Stakes in Chinese ride-hailing firm Didi Chuxing, which is backed by SoftBank Group, have traded at prices implying a valuation of \$40-44 billion. That compared to a valuation exceeding \$65 billion after its 2018 funding round.

WeWork's high valuation is based on a further investment by SoftBank, which has injected over \$10 billion into the loss-making office-sharing firm now valued at \$47 billion. As the valuations of the technology bets increase, investors are looking at SoftBank's exit strategy. Vision Fund's first public exit last year involved the sale of its stake in India's Flipkart to US retail giant Walmart for a \$1.5-billion profit. —REUTERS

Trump bats for merit-based immigration, hope for Indian IT workers

LALIT K JHA
Washington, February 6

PRESIDENT DONALD TRUMP on Wednesday made yet another strong pitch for merit-based immigration in his annual State of the Union (SOTU) address, saying legal immigrants enrich the US in countless ways, raising hopes of hundreds of thousands of Indian IT professionals who are the worst sufferers of the current per country quota system.

Indian-Americans, most of whom are highly skilled and came to the US mainly on H-1B work visas, are the worst sufferers of the current immigration system which imposes a 7% per country quota on allot-

ment of green cards or permanent legal residency. In his second SOTU address, Trump said: "We have a moral duty to create an immigration system that protects the lives and jobs of our citizens."

According to experts, the decades-old diversity lottery visa system gave green cards to people from countries from where people would normally not qualify to come to the US through a merit-based system.

Trump has also called for ending the chain migration, the fastest and easiest way to gain legal entry into America, through sponsorship by a family member who is already a legal resident or citizen of the US.

The current wait period for Indian skilled immigrants for green card can be as



Donald Trump delivers the address on Capitol Hill in Washington as vice-president Mike Pence and speaker Nancy Pelosi watch on

long as 70 years, according to official reports. Having a Green Card allows a person to live and work permanently in the US.

The SOTU address is a traditional annual speech of the US president to a joint session of Congress where he gives an account of the situation in the country.

The lawless state of the southern Mexico border is a threat to the safety, security and financial well-being of all Americans, Trump said. "This (moral duty) includes our obligation to the millions of immigrants living here today, who followed the rules and respected our laws. Legal immigrants enrich our nation and strengthen our society in countless ways. I want people to come into our country, but they have to

come in legally," Trump, maintaining his hard-line immigration policies, said.

He said his administration has sent to Congress a common sense proposal to end the crisis on the southern border. "It includes humanitarian assistance, more law enforcement, drug detection at our ports, closing loopholes that enable child smuggling, and plans for a new physical barrier, or wall, to secure the vast areas between our ports of entry.

"In the past, most of the people in this room voted for a wall — but the proper wall never got built. I'll get it built," Trump vowed. This is a smart, strategic, see-through steel barrier — not just a simple concrete wall, he said. —PTI

Tesla Model 3 price cut 2nd time this year

DANA HULL
San Francisco, February 6

TESLA IS CUTTING the price of its Model 3 sedan for the second time this year, citing the end of a customer-referral programme that was a more costly incentive than the company realised.

All versions of the Model 3 will cost \$1,100 less, lowering the starting price of the car to \$42,900. The move follows a \$2,000 price cut on all Teslas announced in early January to partially offset the reduction in the US federal tax credit its vehicles were eligible for.

Chief executive officer Elon Musk put an end to Tesla's referral programme at the beginning of this month. The company, which doesn't do traditional advertising, gave new customers months of free access to its supercharger network if they were referred by a friend. Top referrers have won prizes as valuable as a next-generation Roadster sports car.

Tesla shares fell 0.5% to \$319.89 in pre-market trading in New York. The stock has declined 3.4% since the year began.

Musk, 47, announced to employees last month that Tesla would reduce headcount by about 7%, citing the challenges the company faces making its vehicles affordable without compromising profitability. —BLOOMBERG

EU's Tusk rebuffs May, says no-plan Brexiteers deserve 'place in hell'

GABRIELA BACZYNSKA & ALASTAIR MACDONALD
Brussels, February 6

THE EUROPEAN UNION will make no new offer on Brexit and those who promoted Britain's exit without any understanding of how to deliver it deserve a "special place in hell", EU Council president Donald Tusk said on Wednesday.

The UK is on course to leave the European Union on March 29 without a deal unless Prime Minister Theresa May can convince the bloc to reopen the divorce deal she agreed in November and then sell it to sceptical British lawmakers.

As companies and governments across Europe step up preparations for the turmoil of a no-deal exit, diplomats and officials said the UK now faces three main options: a no-deal exit, a last-minute deal or a delay to Brexit.

Rebuffing May's bid to renegotiate just a day before she is due in Brussels, Tusk said he had abandoned hope that Brexit might be stopped and said his priority was now to avert a "fiasco" when the UK leaves. "I've been wondering what that special place in hell looks like, for those who promoted Brexit, without even a sketch of a plan how to carry it out safely," Tusk said at a joint news conference with Irish Prime Minister Leo Varadkar.

The remark angered Brexit supporters in Britain.



EU Council president Donald Tusk

Veteran Brexiteer Nigel Farage retorted: "After Brexit we will be free of uneducated, arrogant bullies like you — sounds like heaven to me."

Pro-Brexit Conservative lawmaker Peter Bone said Tusk's comments were an outrageous insult to the British people.

While Tusk was clear the EU would not reopen the divorce deal, he also said he still believed that a common Brexit solution was possible. Varadkar said the divorce deal, which was rejected by the UK parliament, was "the best possible". He said Britain's political instability further proved the need for a "backstop" insurance policy — the main obstacle to a deal — to keep the border between Ireland and UK-ruled Northern Ireland open after Brexit.

Irish unity

In a stark indication of the stakes for the UK

of a disorderly Brexit, Irish nationalists warned May to her face on Wednesday that if she allowed a no-deal Brexit then there would have to be a referendum on Irish unity.

"In the event of a crash... she must as a democrat return to the Good Friday Agreement and she must begin preparation for a referendum on Irish unity," Sinn Fein leader Mary Lou McDonald said, referring to the peace accord signed in 1998 that ended three decades of sectarian violence in Northern Ireland. "Ireland will not be the collateral damage of the Tory Brexit," she added. Tory is another name for May's Conservative Party.

The UK's decision to leave the EU has strained ties between its constituent parts: England and Wales voted to leave the EU in the 2016 referendum while Scotland and Northern Ireland voted to stay.

At her meetings in Belfast, May tried to tackle the 'backstop', the main hurdle to a Brexit deal. May said she would seek an alternative arrangement which avoids the need for a hard border, or legally binding changes to the border backstop to introduce a time limit or create an exit mechanism.

Brexit has snagged on the 310-mile (500-km) frontier because there is disagreement on how to monitor trade without physical checks on the border, which was marked by military checkpoints before the 1998 Good Friday peace agreement. —REUTERS

SELECTIONS FROM



WHEN YOU HAVE 60 banks in a country of just 9.5 million people, there is much to be said for merging three at a time. On January 29 Abu Dhabi Commercial Bank (ADCB), the third-biggest bank by assets in the United Arab Emirates (UAE), agreed to buy eighth-ranked Union National Bank in an all-share deal. The enlarged ADCB will then swallow Al Hilal Bank, a smaller, Islamic bank. All three are controlled by Abu Dhabi's government, which will own 60.2% of the new entity.

The deal is the latest of several tie-ups, actual or mooted, among banks in the

Gulf. On January 24 Kuwait Finance House, that country's second-biggest bank, announced "tentative" agreement on takeover terms with Ahli United Bank, of Bahrain. Saudi British Bank and Alawwal Bank are joining forces to form Saudi Arabia's third-largest lender. The kingdom's number one, National Commercial Bank, is talking to Riyadh Bank, the current number four. And in 2017 First Gulf Bank and National Bank of Abu Dhabi combined to create First Abu Dhabi Bank (FAB), the UAE's market leader.

Analysts at Moody's, a rating agency, argue that banks are being pushed into merging by slower economic growth and muted demand for credit, the product of lower oil prices in recent years, and tighter funding conditions. Higher American interest rates have forced banks in the Gulf, where most currencies are pegged to the dollar, to offer more. ADCB's cost of

FINANCE AND ECONOMICS
THREE'S COMPANY

An overbanked region sees some welcome consolidation

But how far will it go?

funds was 2.36% in the last quarter of 2018, up from 1.54% a year earlier, though it managed to maintain its net interest margin at just under 3%. And rising regulatory demands and the costs of digitisation — burdens for banks every-

where — are easier to bear if you are big. The Gulf's banking markets are overcrowded anyway. Oman, Moody's notes, has 20 banks for 4.6 million people. Bahrain has around 30 for a mere 1.5 million. In the UAE, although there are lots of



tiddlers, the top three lenders account for more than half of assets: FAB boasts 26% and post-merger ADCB 15%. The big fish have lower costs, relative to income, and the gap is widening.

However, Mohamed Damak of S&P Global Ratings, another agency, believes

that ownership structures could limit mergers. Many banks are controlled by governments or rich families. Both could be reluctant partners. Abu Dhabi's new deal has faced no such obstacle, because the government controls all three parties. The state was also on both sides in the merger that created FAB. The union of Saudi British Bank and Alawwal, says Damak, is made easier by the fact that the main shareholders of both — HSBC and Royal Bank of Scotland — are big Western banks.

In cramped markets mergers make sense. Abu Dhabi's three-way deal combines ADCB's relative strength in corporate banking and serving expatriates, Union National Bank's in retail banking for locals and Al Hilal's Islamic franchise. The trio expect to cut their combined costs by 13% in two to three years. Such arithmetic ought to convince more banks to join forces.

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