

# Modi faces uphill task to put railways on track

REUTERS, New Delhi

DEPARTING Platform One at New Delhi station last week was India's fastest train: the test run of the Delhi-Agra express - dubbed "semi-high speed" by local media - topped a record-breaking 160 kilometres per hour on its way to the Taj Mahal.

But the velocity, though triple the 50 kilometres average clocked on trips across the country, is barely one-third of the top-speed of China's fastest train, showing the extent to which India's expansive but under-funded train network has failed to keep pace.

"The capacity of the track is almost saturated," Anurag Sachan, divisional railway manager for Delhi, said in his office next to New Delhi's giant station. "We could go as high as 200 km but we would need to have a completely new track for higher speeds."

Prime Minister Narendra Modi, who started out selling tea outside a train station, has promised to modernise India's railways and build high-speed engines befitting Asia's third-largest economy.

On Tuesday, his new government will unveil its maiden railways budget, with expectations high that he will offer bold plans to improve the service - a lifeline for 23 million Indians every day.

Among the goals is bringing much more private money into one of the country's largest state-controlled industries. At present, there's small private involvement in suburban services and locomotive manufacturing.

In a speech last week, Modi hinted at how much of a revamp he believed the railways needed, telling an audience in Kashmir that he wanted an upgrade of stations, many of which look much as they did under the British.

"Why do our railway stations need to be so old, why can't they be better than our airports?" he said, after waving a green flag to inaugurate services on a stretch of track in the mountain state.

Modi's government will announce plans for public-private partnerships in railway infrastructure, the Economic Times reported on Monday, citing government sources, and he is expected to update the country on plans for a high-speed rail between the financial capital Mumbai and Ahmedabad.

"If the railways are to fully benefit the climate, the economy, society, the government needs to bring in more money... including from private and foreign investment" said G. Raghuram, professor at the Indian Institute of



India's Prime Minister Narendra Modi waves upon his arrival at the parliament in New Delhi yesterday.

Management, Ahmedabad and co-author of a report about railway modernisation.

Raghuram said allowing private money into freight was a simple and relatively easy shift that would boost the economy. Railways' share of freight has fallen from 90 percent of the country's cargo in 1950 to one-third today, as congested tracks and slow speeds force shipments onto roads - in turn clogging them.

The tougher task for Modi will be finding a sustainable fix to the funding crunch facing the railways, including by allowing foreign direct investment into the network, a move resisted by the railways in the past.

By a conservative estimate, the railways need 20 trillion rupees (\$334 billion) of investment by 2020, according to economist Tirthankar Patnaik at Religare Capital Markets

said. That's far in excess of the 1.4 trillion rupees the sector is estimated to earn this year even after an unpopular fare-hike pushed through last month.

"Though there are some areas where the private sector can play a role, the bulk of the investment will have to come from the government," said Shri Prakash, a former member of the Railway Board.

Prakash said Modi needs to strike a balance between appealing to private profit-seeking investors and keeping fares affordable for the millions who depend on the network.

In New Delhi, railway manager Sachan said the job of the railways was to "cater to the masses".

"High speed is definitely important but it is much more important to give transport to our poor people," he said.

## China, Germany in auto, aircraft deals as Merkel visits

AFP, Beijing

CHINA and Germany signed a string of trade and investment deals on Monday during a visit by Chancellor Angela Merkel, including two new Volkswagen factories and the sale of 123 Airbus helicopters.

The two countries are both exporting giants -- with Germany the EU's biggest economy and China the world's second-largest -- and Merkel was looking to strengthen their economic relationship on her three-day visit, her seventh since coming into power in 2005.

She was accompanied by executives from Siemens, Airbus, Lufthansa and Deutsche Bank among other companies, according to German media.

Merkel and Chinese Premier Li Keqiang oversaw the signing of a series of agreements on Monday.

According to a statement by Volkswagen, the German carmaker will build two new vehicle plants in the northern port city of Tianjin and Qingdao in the east as it invests two billion euros (\$2.7 billion) along with Chinese auto manufacturer FAW.

The new plants' production capacity will be finalised "based on market demand and relevant industrial policies", the company said in an email to AFP.

Merkel toured a Volkswagen factory in the south-western city of Chengdu on Sunday.

China has become Volkswagen's largest and most important market, the company said, adding the group sold more than 1.5 million vehicles in the country in the first five months of this year, including sales by its joint ventures FAW Volkswagen and Shanghai-Volkswagen, up 17.7 percent on year.

European aerospace giant Airbus announced that its helicopter division has signed contracts to sell "a record" 123 aircraft over up to six years to three Chinese companies.

The helicopters -- mainly light single-engine aircraft from the Ecureuil family and the light twin-engine EC135 -- will be used for general aviation activities, it said in a statement.

No financial details were provided. "It is evident that China's relaxation of its low-altitude airspace regulations is enabling the country's burgeoning helicopter market to realise its potential," Airbus Helicopters CEO Guillaume Faury said in the statement.

# Samsung faces falling profits as succession looms

REUTERS, Seoul

SMARTPHONE leader Samsung Electronics Co Ltd faces a third straight quarter of profit decline that could become a fourth as cheaper models grab a bigger share of a slowing market and Apple Inc readies the launch of its iPhone 6.

Samsung Electronics' woes, exacerbated by a won that has risen to a six-year high against the dollar, come at an awkward time for the flagship of South Korea's largest conglomerate. The maker of the Galaxy smartphone is expected to say on Tuesday that earnings likely fell 12.6 percent for the quarter ended June, according to a Thomson Reuters poll.

The group's patriarch Lee Kun-hee has been hospitalized since May following a heart attack, and the succession map for his three children -- including heir-apparent Jay Y Lee -- remains unclear.

"Samsung's heyday has gone. Its profit growth was abnormally high for the past three to four years, and now that is normalizing," said Chang Sea-Jin, a business professor at Korea Advanced Institute of Science and Technology and author of the book "Sony vs Samsung".

Analysts say Samsung's top-end Galaxy S5 handset, released in late March, is selling well but not well enough to offset weaker shipments for low- and mid-tier devices. Its next big product launch, the Galaxy Note 4, is expected later this year but is not forecast by analysts to be a game-changer.

Its foray into wearable devices like the Gear smartwatch, meanwhile, remains at an early stage and faces tough competition from Apple and others. That leaves Samsung Electronics under margin pressure and without a clear new growth driver for the immediate future.

"Samsung's heir apparent has no magic wand. It's not something he can tackle in one or two years," said Chang.

Samsung has said it will boost



An employee of Samsung Electronics walks past the company main office in Seoul.

dividends, and those plans are expected to be detailed when full results for the three months ended June are released later this month.

That may placate investors who have sent its shares down about 5 percent this year, lagging the flat performance of the benchmark Korea Composite Stock Price Index.

Some analysts have also said it could buy back shares this year, part of a broader group restructuring tied to succession.

"Obviously, paying dividends is better than nothing, but I question how much merit there is to that given how tech companies are supposed to be growth stocks," said Um Joon-ho, fund manager at Kiwoom Asset Management.

Samsung's cash cow handsets business is suffering from slowing market growth and improving product quality from Chinese manufacturers such as Huawei Technologies Co Ltd and Lenovo Group Ltd.

Research firm IDC expects global smartphone shipment growth this year to slow to 19.3 percent from 39.2 percent last year, while average sales prices are also seen falling.

Samsung's first-quarter market share fell to 30.2 percent from 31.9 percent a year earlier, according to IDC. Huawei and Lenovo gained share.

Samsung's shipments were hurt by an apparent move by Chinese carriers to promote cheaper local brands, analysts said.

"If Samsung lowers the prices for its mid-to-low tier line-up, that will hurt their short-term profits, but their competitors will have to slash prices too and may not be able to turn profits," IBK Securities analyst Lee Seung-woo said.

"In the medium to long term, this is the way to pressure the competition."

Samsung's chief financial officer recently warned that results for the second quarter will be "not that good."

Analysts concur.

Twenty-two of 38 polled have cut their earnings forecasts since mid-June, according to Thomson Reuters data.

Some have pointed to slower-than-expected take-up of 4G mobile services in China as a problem for Samsung in the April-June quarter. China Mobile Ltd, the country's dominant carrier, reported 8.1 million 4G users at

end-May, far short of its plan for 50 million by the end of the year.

Compounding the problem is the strength of the South Korean currency, which was up about 9 percent on average against the dollar during the second quarter from a year earlier.

The average forecast from 38 analysts surveyed by Thomson Reuters tips 8.3 trillion won (\$8.22 billion) operating profit for the quarter, down from 9.5 trillion won a year earlier, and the weakest level since the third quarter of 2012.

Sales are expected to have slipped an annual 6 percent to 54 trillion won, which would be the first such decline since it adopted IFRS accounting standards in 2009.

For the full year, a poll of 49 analysts forecast Samsung's operating profit would fall around 7 percent to 34.2 trillion won, which would mark the first drop in three years.

While third-quarter results are expected to improve on the June quarter, handset sales may remain constrained as buyers wait for Apple's next-generation iPhone before making a decision. At least one version of the device may be unveiled around September.

## Broad consensus reached on new BRICS bank

REUTERS, Beijing

THE five BRICS nations have reached a broad consensus on their \$100 billion development bank though some differences remain, a senior Chinese diplomat said on Monday ahead of a summit in Brazil next week to be attended by President Xi Jinping.

The new bank will symbolise the growing influence of emerging economies in the global financial architecture long dominated by the United States and Europe through the International Monetary Fund and the World Bank.

Leaders of Brazil, Russia, India, China and South Africa are expected to sign a treaty to launch the bank officially when they meet at a BRICS summit in the northern Brazilian city of Fortaleza on July 15.

Negotiations to create the lender have dragged on for two years, with some members growing weary of China's desire to have a bigger stake in the bank by putting in more capital.

A senior Brazilian government official said in May the five BRICS nations were likely to agree to fund the bank equally, giving them the same rights.

Briefing reporters ahead of the summit, Chinese Vice Foreign Minister Li Baodong would not be drawn on the specifics of the

share structure, but was optimistic.

"On the BRICS development bank, all parties have extensive consensus on this issue. Of course there are a few differences and different viewpoints on technical issues," Li said.

"We are fully confident that we can reach consensus and establish the BRICS development bank at this meeting," he added.

"On this type of technical issue, BRICS members must establish consensus through friendly consultation," Li said, referring to the bank shares issue. "There are all kinds of different considerations, but the goal is to establish the BRICS bank as soon as possible."

The bank will have to be ratified by the countries' legislatures and could begin lending in two years, the Brazilian official told Reuters earlier.

The new development bank would help cover growing demand for project financing that has not been entirely met by global multilaterals, which, for years, have been heavily criticized for meddling in the domestic policies of sovereign borrowers.

The BRICS also need to decide if the bank will be based in New Delhi, Shanghai, Johannesburg or Moscow. Brazil will not offer headquarters because of upcoming presidential elections that could delay negotiations, the Brazilian official said.

## 100m more Indians defined as poor

AFP, New Delhi

An extra 100 million Indians have been classed as poor by an expert panel that has redefined the country's poverty benchmark after a storm of protest, reports said Monday.

The government-appointed panel estimated nearly 30 percent of India's mammoth population -- or 363 million people -- were living in poverty in 2011-2012, after raising the poverty line proposed by the Planning Commission, the top economic planning body.

The experts' report, which was handed to the government last week, is expected to spark fresh debate in India where hundreds of millions of people still face a lack of food and housing.

The panel's conclusions were leaked to Indian media on Monday ahead of this week's budget, the first for Prime Minister Narendra Modi's government which won a landslide victory in May on a pledge to revive the flagging economy and halt high inflation.

The previous government asked the panel, led by a former central bank governor, to review the figures following an

outcry over the Planning Commission's threshold for poverty.

The commission's proposed level, revealed in 2011, defined those living on 27 rupees (45 US cents) a day in villages and 33 rupees (55 cents) in cities as not being below the poverty level, sparking outrage from social activists who said it was not enough to survive on.

But the experts said those living on 32 rupees (53 cents) in villages and 47 rupees (78 cents) in cities should be considered as living on the poverty line, according to the Times of India and other newspapers.

The poverty line is used to help determine government welfare benefit entitlements. The planning minister's office told AFP it had received the panel's report but would not reveal its findings.

According to the Press Trust of India news agency, the report says poverty hit 38.2 per cent of the population in 2009-10 and fell to 29.5 percent or 363 million people in 2011-12.

The Planning Commission, however, estimated poverty at 29.8 per cent in 2009-10, saying it declined to 21.9 per cent in 2011-12 or 270 million people.