

Apple's dilemma: what to do with \$256b cash pile

AFP, Washington

IT is a sign of Apple's success but also a thorny problem: its cash stockpile has hit a staggering \$256.8 billion, sparking debate on what to do with such massive reserves.

Apple's quarterly report Tuesday showed its cash holdings -- the vast majority held overseas -- jumped to a sum that tops the entire economic output of Chile.

The tech giant has resisted the idea of bringing the cash home, because of disincentives in the US tax code -- it allows multinational firms to defer profits while they are held overseas but taxes income at up to 35 percent when repatriated.

Proposals by President Donald Trump and lawmakers could lower the tax rate for repatriated earnings, an incentive for Apple and others to put the money to work in the United States.

While any company would gladly be in Apple's shoes with its cash hoard, "there's something not quite healthy about it," said Roger Kay, analyst with Endpoint Technologies Associates.

"Normally, you would expect cash to fund investment opportunities, but obviously Apple doesn't have any use for that much cash."

Apple has become the most valuable and profitable company of the current era. But the unique challenges it faces because its earnings come mostly from the iPhone, which faces increasingly tough competition in a saturated smartphone market.

Apple faces periodic pressure to return more cash to shareholders with higher dividends

and more share buybacks, and has already spent some \$200 billion doing this.

Patrick Moorhead of Moor Insights & Strategy argued that returning all the cash to shareholders "doesn't help further anyone's strategic interests" and that Apple needs to find ways to diversify its business.

One way to do this would be "going vertical," or acquiring a chipmaker such as AMD to supply all Apple devices, Moorhead said.

Netflix, he said, could complement Apple's business by offering content for Apple's ecosystem of devices.

Moorhead said that if Apple -- which has a permit to test its self-driving car system -- is serious about autonomous vehicles "it would need to buy a car company" such as Tesla to ensure "the Apple experience."

Bob O'Donnell of Technalysis Research said Apple has a staggering amount of cash and "could make enormous entries and completely rewrite industries" with it.

"The challenge is culturally and organizationally, how do you integrate something that big," O'Donnell said.

He said Apple has always sought to minutely manage details of its operations, "so making an enormous purchase goes against their culture."

Apple's situation has highlighted the growing stockpiles of cash held overseas by US multinationals, now estimated to be between \$2.5 trillion and \$3 trillion.

Lisa De Simone, a Stanford University professor who specializes in international taxation, said the current code creates "incentives for companies to



REUTERS/FILE

Apple's new iPhone 7 smartphones sit on a shelf at an Apple store in Beijing.

shift as much of their profits as they can offshore."

But De Simone said a temporary tax "holiday" as Washington tried in 2004 would only increase the incentives.

"Companies like Apple have only increased their income shifting in expectation they could get another holiday later on," she said, arguing for a permanent tax change.

Georgetown University finance professor Lee Pinkowitz said companies with cash overseas are essentially holding the funds hostage to US policymakers.

"The government already revealed in 2004 they were willing to negotiate with the host takers," he said. "What you

would expect is that more hostages will be taken."

The Trump administration is seeking to encourage firms to bring those earnings home for investment and job creation in the United States.

But Pinkowitz said a major stimulus from repatriated assets is unlikely.

With Apple, much of the funds are held nominally by its Irish subsidiary but are invested in US assets.

"Apple has almost \$50 billion in US Treasury and agency securities, so technically that \$50 billion is already here. It just hasn't been taxed."

Could Apple use some of the cash to bring large-scale manufacturing back to the United

States?

Jan Dawson of Jackdaw Research said this is unlikely because of Apple's manufacturing and supply process.

"We simply don't have the work force to support this scale of manufacturing," he said. "No tax break is going to offset that entirely."

But Kay said he sees potential for Apple to bring factories home if the conditions are right.

"I could see a happy solution where contract manufacturers and Apple partner and train American workers to be as efficient as the Chinese," he said.

"It would take quite a bit to make it come true but it could bring down the myth that Chinese workers are more efficient."

Chinese yuan, Indian rupee forecast to fall over coming year: poll

REUTERS, Bengaluru

THE Chinese yuan and Indian rupee are expected to weaken against the dollar over the coming year, a Reuters poll found, with the greenback supported by US interest rate hikes, though analysts have trimmed their bearish bets on Asian currencies from the previous poll.

While markets do not expect the Federal Reserve to raise interest rates at its policy meeting later on Wednesday, the central bank is tipped to lift rates twice more this year, with one likely as early as next month, which would be supportive of the dollar.

China's yuan is up just around 0.7 percent so far this year, having lost nearly 7 percent in 2016. In November, the yuan hit an eight-year low following Donald Trump's shock election as US President.

In the latest poll of 60 foreign exchange strategists, taken over the past week, the yuan, also known as the renminbi, is forecast to weaken to 7.07 against the dollar in a year from around 6.89, where it was trading on Wednesday.

"There will be moderate strengthening in the US dollar, contributing to stability in the yuan and, by extension, other emerging market currencies," wrote Dirk Willer, EM strategist at Citi, in a note.

"This is assumed to take place against the backdrop of moderately higher US rates, consistent with our call for two more rate hikes from the Fed this year."

A separate Reuters poll showed investors reduced bullish bets on most Asian currencies. They fell to the lowest in a month for the Chinese yuan.

Still, the latest predictions show less conviction in the dollar strength story than was the case last month, with the latest poll medians for the yuan slightly higher than April's poll.

While concerns remain over President Trump's policies, especially on Beijing's large trade surplus with the US, the new administration has refrained from declaring China a currency manipulator despite campaign promises to do so.

Separately, the Indian rupee is forecast to weaken to 66.23 per dollar in the year, a more than 3 percent fall from where it was trading recently at 64.22.

The rupee has gained more than 5 percent against the dollar so far this year, reaching a 20-month high of 63.92 per dollar late last month.

The expected losses come despite the Reserve Bank of India having moved to a neutral stance earlier this year from an easing bias, although economists in a separate Reuters poll suggested the central bank's next move will likely be a cut towards the end of the year.

Preparing for G20 summit is like 'herding cats', says Merkel



REUTERS

German Chancellor Angela Merkel holds a final declaration of the Business 20 dialogue event in Berlin, Germany.

REUTERS, Berlin

PREPARING a meeting of the Group of 20 economic powers is like "herding cats", German Chancellor Angela Merkel said on Wednesday as her officials try to reach consensus among the group ahead of a leaders' summit she will host in July.

The G20 was a crucial forum for tackling the global financial crisis that took hold in 2008, but forging consensus has proven harder this year as the group must deal with a shift towards more protectionism under US President Donald Trump.

"We are 20 different countries, with 20 different political systems, with 20 different development levels. Everything must be unanimously approved," said Merkel, who will host world leaders at the July 7-8 G20 summit in Hamburg.

"This is no simple task," she told a G20-sponsored meeting of business leaders in Berlin. "The sherpa process, as you could

imagine, is quite a challenge. It is like herding cats." The Hamburg G20 summit is taking on increased significance as Trump and Russian President Vladimir Putin plan to hold their first face-to-face meeting on the sidelines of the meeting. Ministerial meetings in the build-up to the summit have proven tricky.

At a meeting in March, G20 finance ministers and central bank governors dropped a pledge to keep global trade free and open, acquiescing to a protectionist United States after a two-day meeting failed to yield a compromise.

Merkel rejected protectionism in her speech on Wednesday, arguing that an increasingly interconnected world meant countries must work more closely together. "The existence of the G20 means that isolation and protectionism are dead-ends and not ways forward," she said.

"Anyone who tries to withdraw from international competition, can perhaps deliver short-term advantages.

published on its website.

Growth in China's services trade deficit will gradually stabilise, and cross-border capital flows will become more balanced, the regulator said. Overseas investment yields will likely increase this year.

China will also push forward with its market-based yuan exchange rate reform and increase the yuan's flexibility in 2017, the regulator said, adding it would optimise diversification of forex reserves to serve China's strategic goals.

India's 'Diamond City' finds ways to keep its sparkle

REUTERS, Bangkok

WITH a booming trade in diamond cutting and textile manufacturing, the port city of Surat in India's western state of Gujarat is a melting pot for migrants from across the country seeking work and business opportunities.

Kamlesh Yagnik was one of them. In his early 30s, the Mumbai native moved to the "Diamond City", as Surat is known locally because it handles 90 percent of the world's rough diamond cutting and polishing.

In the two decades since, the engineer has set up a technology consultancy and a clean energy management firm, raised a family, and come to regard Surat as home.

Now he is the city's first chief resilience officer, tasked with making the industrial hub "cohesive, robust and sustainable".

It will not be an easy task. Surat, home to nearly 6 million people, is one of the world's fastest-growing cities. Up to the 1960s, it occupied 8.2 square kilometres (3.17 square miles) of land on the bank of the Tapi River. By 2009, it had expanded to 326.5 square km.

It has a limited public transport system and insufficient affordable housing for the throngs of people that continue to arrive, betting their future on the city. The Tapi River is the city's main water source but its quality is deteriorating. Surat also faces the threat of sea-level rise, while flooding and saltwater intrusion are already a problem.

Meanwhile the industries that made Surat's name could lead to its undoing, experts warn. "This city is thriving, and it's only because of the growth of diamonds and textiles", Yagnik told the Thomson Reuters Foundation in a phone interview.

But the raw materials are not produced in India - with much of Surat's diamond supply coming from Africa - and that makes the city highly vulnerable to outside shocks, he emphasised.

"Economic resilience is a prime pillar for us," said the former head of the Southern Gujarat Chamber of Commerce and Industry.

Two weeks ago, Surat unveiled a document outlining how to achieve its vision of "healthy, just, economically viable and environmentally sound" communities.

The strategy explores how the city can diversify its economy, to bolster it against any downturn in diamonds and textiles, by developing policies to support its IT industry, promoting smaller businesses, and providing skills training.

The strategy was developed under the Rockefeller Foundation's 100 Resilient Cities



REUTERS

Surat has become a place for business opportunities thanks to the growing trade in diamond cutting in the Indian port city.

(100RC) initiative, which helps cities around the world prepare for climate change and other pressures.

Surat is the first Indian city to publish its strategy, which Yagnik hopes will serve as a model for others, including three - Chennai, Pune and Jaipur - in the 100RC network.

The strategy, which took 18 months to complete, identifies seven key areas for action: connectivity and mobility, affordable housing, water availability and quality, employment, environment and ecosystems, social cohesion and public health.

These are broken down into 63 projects - more than half new - that last from one to eight years each, aimed at making Surat more resilient to environmental, economic and social stresses.

They range from developing an integrated transport system to adapting buildings for low energy consumption and providing housing insurance and soft loans to encourage home ownership.

There are also programmes to promote recycling, research groundwater, and design heritage walks for locals and tourists.

In the short term, Yagnik is hoping to make progress on monitoring the Tapi River's water quality and developing non-motorised transport in areas with particularly bad traffic.

The city is also looking to work with the private sector, think tanks and development groups. For example, it is partnering with

PricewaterhouseCoopers on housing, and aid agency Save the Children on public health.

"This city has grown on the principle of PPP (public-private partnership)," said Yagnik, who is confident local entrepreneurs and businesses will provide financing to overcome the gap in resources Indian governments have long struggled with.

Neither is pioneering Surat a stranger to climate action, as a core member of the Asian Cities Climate Change Resilience Network, another Rockefeller initiative which began in 2008. In 2012, the city authorities and chamber of commerce set up the Surat Climate Change Trust to help address climate risks.

Yagnik works for that trust rather than the Surat Municipal Corporation, making him "an outsider". If extended beyond the first two years funded by 100RC, ending in August, the role should be repositioned within local government, he said.

Getting everyone on the same page is another challenge, especially when - as in Thailand - there is no local vernacular for "resilience", he noted.

"I would have to use three sentences (in the local language) to describe the word," he said.

At the beginning, it was "very, very difficult" for junior and mid-level officials in the Surat Municipal Corporation to understand resilience, he recalled.

"It was the same for people in society," he added.

China will step up checks on trade, investment in 2017

REUTERS

China will boost authenticity and compliance checks on trade and investment this year, its forex regulator said on Wednesday, and increase checks and punishment on illegal forex activities.

It also expects a surplus in the country's current account and a deficit in capital and financial accounts for 2017, the State Administration of Foreign Exchange (SAFE) said in its annual report for 2016