Trump vetoes takeover of Qualcomm

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The technology firm Broadcom has withdrawn its proposed $142 billion hostile takeover bid for the US technology giant Qualcomm after an extraordinary intervention by President Donald Trump, who vetoed the deal on "national security" grounds.

Broadcom launched the takeover last November and major banks, including Bank of America and JP Morgan, had lined up $106 billion in finance. Broadcom also had won support on the Qualcomm board after a series of manoeuvres that, according to Bloomberg, made the deal likely to go through.

But the takeover was effectively spiked on Monday when Trump issued an executive order banning it. According to the order, there was "credible evidence" to suggest that after the purchase of Qualcomm, Broadcom could "take action that threatens to impair the national security of the United States." He ordered that the companies "immediately and permanently abandon the proposed takeover."

The intervention, following the imposition of tariffs on steel and aluminium, was a further expression of how "America First" nationalism and the invocation of "national security," tied to military considerations, are coming to dominate all the administration's economic decisions.

The objection to Broadcom was not that it was a foreign company at the time the takeover began. Broadcom was launched in the US, then transferred to Singapore. However, it had agreed to re-domicile to the US last November, just days before the takeover move, at an event Trump hosted at the White House.

The national security objection was based on a Committee for Foreign Investment in the United States (CFIUS) investigation, which claimed that Broadcom's record showed that in order to finance the deal it would cut back expenditure on 5G phone technology vital for US security.

The CFIUS investigation was the outcome of a move by Qualcomm to block the takeover. Normally any such investigation begins after a deal has been announced. But Qualcomm asked the CFIUS to intervene on January 29, claiming that the Broadcom takeover would weaken the company and therefore the US.

This pitch formed the basis for the CFIUS findings, issued in a March 5 letter, that any potential merger between Broadcom and Qualcomm could "pose a risk to the national security of the United States."

The letter noted that articulation of potential national security risks was "in significant part" classified. But, insofar as they could be revealed, the supposed risks related to "Broadcom's relationships with third party entities" and the effects of Broadcom's business intentions with regard to Qualcomm.

The third party entities were not identified, but clearly the reference was to China.

The CFIUS letter said Qualcomm ranked second after Intel in research and development. Its previous role in setting standards for 3G and 4G had positioned it as the leading company in 5G development and standard-setting. It was well known and trusted by the US government and any reduction in its long-term technological competitiveness and role in standard-setting "would significantly impact" on US national security.

"This is in large part because a weakening of Qualcomm's position would leave an opening for China to expand its influence on the 5G standard-setting process," the letter said. The Chinese company Huawei had increased its research and development spending, and owned about 10 percent of essential 5G patents.

"While the United States remains dominant in the standards-setting space currently, China would likely compete robustly to fill any void left by Qualcomm as a result of this hostile takeover," the letter stated.

The CFIUS claim that Qualcomm's research and development capacities would be weakened was based on the "private equity" style of Broadcom's financial operations, which involved reduced long-term investment and a focus on short-term profitability. The letter noted that the $106 billion lined up to support the takeover would be "the largest corporate acquisition loan on record" and such a debt load would increase the pressure for short-term profitability.

The letter cited press reports that Broadcom had spent six times as much on acquisitions, as compared to research and development, and former employees who "allege that it underinvests in long-term product development."

If Broadcom had taken that road, it would have been acting no differently from many other major firms. Such takeovers that have formed an integral component of corporate profit accumulation in the US, starting in the 1980s.

Trump's unprecedented action delivered a shock to the US corporate world. The *Financial Times* noted: "Never before has a sitting US president barred a deal over national security concerns ahead of two companies agreeing to a merger, highlighting Mr Trump's readiness to test the limits of his constitutional powers to secure America's primacy in the world."

Previous presidents have taken action to prevent takeovers by foreign companies, but never on such a scale and never in such a manner.

"The fact that the president took such pre-emptive action before a deal was even signed is extremely disturbing and inconsistent with all our notions of due process," according to Frank Aquila, a top mergers and acquisitions lawyer cited by the *Financial Times*.

Aquila warned that the action would make it difficult for US companies to object when they are blocked in other countries for political reasons and did "not bode well" for cross-border merger and acquisitions in a number of sectors.

The action was taken in opposition to market sentiment. According to the *Wall Street Journal*, Broadcom's market value is about 16 percent higher than Qualcomm's, despite having a 20 percent smaller annual revenue base.

"That's thanks to a relentless pace of successful acquisitions that has boosted sales, earnings and cash flow while also endearing the company to Wall Street, the *Journal* noted. "About 96 percent of analysts covering Broadcom rate the stock as a buy."

Trump's action, based on the CFIUS report that China would be a major beneficiary of any Broadcom takeover, is highly significant. Such "national security" considerations were invoked with regard to steel and aluminium tariffs.

In particular, the move indicates the kind of measures likely when a report, being conducted under Section 301 of the 1974 Trade Act, is brought down within a few months on Chinese practices on innovation, intellectual property rights and technology transfers.

This can be described only as the increasing militarisation of administration decisions on the US economy. It is a clear sign that the guiding philosophy is not the "free market"—the basis of official ideology for decades—but the unrelenting drive to maintain American pre-eminence, including by war if that is considered necessary.

This shift is not merely a product of Trump. Rather it is expression of the long-term economic decline of the US relative to its rivals, both old and new.