EDITORIAL

# Lower mobile data prices are here to stay, putting top lines under pressure

THE price war on mobile data plans that has broken out among telco service providers was expected once fibre broadband services provider MyRepublic announced its intention to become the fourth telco in Singapore, offering super cheap data plans.

What is surprising, however, is that this price war has started so early in the game. According to the timetable set out by the Infocomm Development Authority of Singapore (IDA), bidding for new spectrum will take place in the third quarter of this year. During this exercise, 60 MHz of spectrum will be set aside for a new telco operator at a reserve price. Assuming that MyRepublic is the only company to come forward for the spectrum, it will pay the pre-set price of S$35 million. If in the unlikely event that there are more companies that show interest, there will be an auction and the highest bidder will get the right to become Singapore's fourth telco.

Once this spectrum is allocated, MyRepublic, or any other company, will have to start operations by April 2017 and achieve islandwide coverage by September 2018. This means that the effective competition from a fourth telco operator would kick in only by the second quarter of next year, even if the new operator starts to take pre-bookings.

It is natural that MyRepublic, as the challenger, should be aggressive in its marketing. Its recently announced mobile data plans were, in some instances, as low as one-third the price of the incumbents' plans, prior to the new cuts announced by them. In response, the three telcos have lowered prices quite drastically. In some cases, they have lowered the effective monthly pricing by as much as 25-50 per cent, according to DBS Group Research. It is obvious that the incumbents want to send a message to MyRepublic that they would take strong measures to defend their market share and would participate enthusiastically in a price war.

However, a fourth telco is still not a foregone conclusion. There are quite a few hurdles that need to be cleared. For one thing, the new operator will have to raise anything between S$300 million and S$700 million in order to roll out an islandwide network that will meet the IDA's quality of service (QOS) requirements. Raising this kind of money in today's difficult market conditions will be a challenge. Then there is the need to find the right technology partners to build the network. Moreover, Singapore has tried to get new players into the industry before, in 2013, but was unsuccessful. South Korea has tried seven times since 2010 to get a fourth operator into the market but has failed due to various issues including QOS and financial ability.

MyRepublic will not face much of a problem if its bid is unsuccessful. It has announced that its new plans are conditional on it getting a mobile telco operator licence. The question is, would the incumbents be able to wean their customers away from the lower priced data plans by raising prices again if the threat of a fourth operator goes away?

It seems unlikely. The lower priced plans are here to stay, and these will add more pressure on revenues, especially in the case of M1 and StarHub. Singtel will be less affected as most of its revenue comes from abroad. However, one redeeming feature for telcos is that they seem to have recouped their investment on 4G infrastructure and so can now better afford to lower prices. But they must continue to be financially strong to be able to invest in future technologies and provide world-class services.

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A banner in a military barrack in the southern Russian city of Stavropol, Russia. The writer warns against a potential escalation in international tensions. The most blatant sign of this is the rising tension between Russia and Turkey, itself related to the differences in their respective strategic views regarding Syria. PHOTO: REUTERS

# Beware the wounded bear that is Russia

The country has been hit by the oil-price collapse, and with its impending legislative elections, nationalistic rhetoric and cross-border geo-political tensions will spike. BY THIERRY APOTEKER

THE collapse in oil prices since August 2014 has highlighted the extreme correlation between such prices and the exchange rate of the Russian rouble. In addition, there have been geopolitical tensions, with sanctions and counter-sanctions having all but closed the international financial and banking markets to Russian borrowers.

The strongest impact of the oil price collapse and the associated currency depreciation has been an acceleration of inflation, a decline in purchasing power and consumption, adding to a decline in investment spending where energy-related investment is substantial. Together with politically-related trade sanctions, this induced a 3.8 per cent contraction in Russia's 2015 gross domestic product (GDP).

So-called "pass-through effects" from the currency depreciation to inflation were reinforced by trade-related sanctions as well as economic tensions with Turkey (in the form of higher food prices). These factors will keep Russia's inflation durably high, at around 10 per cent this year. This in turn will continue to weigh on real incomes and purchasing power, reducing consumption spending further. With more cuts in investment spending and rising unemployment, Russia's economic activity is likely to continue contracting in the short-run. A positive reversal will have to wait for a pick-up in oil prices (which could happen by the end of the year) and policies to support demand.

Allowing the currency to adjust to falling oil prices has enabled the Russian Central Bank to use only a limited amount of its currency reserves in market interventions. Official reserves are still large, both in absolute numbers (US$320 billion at the end of 2015) and in import coverage (19 months).

Over the short-term, risks are still acute, as the continuing recession and increasing corporate difficulties will combine with a high volatility for the exchange rate. Over the longer term, Russia still shows many structural weaknesses, from weak and deteriorating governance to a declining and ageing population. These issues will continue to pose challenges for any Russian government.

As long as oil and gas prices were high, Russian President Vladimir Putin's grip on power did not seem at risk, as the combination of a perceived "strong leader" and high purchasing power of the people was enough to placate most of the tentative opposition. But the collapse in oil prices and its impact on growth, inflation and employment, the slowdown in China and Europe's attempts to draw Ukraine away from Russia's influence have been enough to destroy the previous status quo. They have presented Mr Putin with a new set of challenges.

In this environment, his natural reaction has been to adopt a more nationalistic stance at home, representing political opponents as being anti-Russian and suppressing freedom of expression.

As legislative elections are scheduled for September 2016, nationalistic rhetoric is likely to further gain traction over the next few months. Though the final results of the elections are hardly in doubt – the pro-Putin United Russia will win – the key metric that observers will focus on is the margin of victory. A score below 60 per cent of the popular vote would be seen as a sign of danger for the current leadership.

My reading is that such circumstances are likely to further push Russia into dangerous international forays, to challenge and weaken other key international players and to reinforce Russia's image.

We should not underestimate Russia's ability to influence world affairs. The best example is the unfolding of the Syrian drama. A year ago, most observers were busy analysing how Saudi Arabia would react to the upcoming international agreement with Iran, and we ourselves argued that it was a key factor behind oil market over-supply; very few were asking how Russia would react.

The forceful military intervention of Russian forces to support the Syrian regime (and also the underlying Iranian support for Syrian President Assad), coinciding with increasing (civilian) nuclear cooperation between Iran and Russia, made a mess of the west's strategy to fight Islamic State (IS) and support opponents of the Syrian regime. Russia's policy clearly reflects her historic aim to access "warm seas" in the Mediterranean and her strategic ambition to be a key player in the Middle East.

This, however, creates the conditions for a potential escalation of international tensions. The most blatant sign of such danger is the growing tension between Russia and Turkey, itself related to the differences in their respective strategic views regarding Syria. The shooting down of a Russian airplane when it briefly entered Turkey's airspace last November, the constant flow of tough rhetoric on both sides, the imposition of limited trade sanctions by Russia, and the unexpected push of Turkey towards an unlikely alliance with Saudi Arabia, point to an acceleration of tensions.

Turkey is a critical country for improving the management of Europe's migrant crisis. It is also a member of the North Atlantic Treaty Organisation (Nato), implying that any conflict with a third party should initiate a collective response from Nato. Russia is keenly aware of Turkey's highly sensitive position and could be tempted to create further instability.

The combination of deep economic woes and increasing social tensions in Russia with her growing international assertiveness is worrying. It creates larger geopolitical uncertainties, with substantial economic and financial consequences. I would pick three among them:

The first is that the likelihood of oil prices going up, even possibly shooting up sharply, is underestimated today. Put simply, oil prices may go up, either because there is an agreement between major Opec producers and Russia during the course of the year or because of a significant escalation of conflicts in the Middle East.

The second is there will be recurrent bouts of tensions and provocations involving western Europe, either in Ukraine and Crimea, or through Turkey, or Moldova or even possibly the Baltic states that are members of the European Union: this could dent the current trend towards an improvement in household and corporate confidence in the EU, which is critical for the sustainability of its economic recovery.

The third is that we should prepare for potential unexpected political moves, internationally as suggested above, but also on domestic policies and particularly those relating to foreign investors in Russia.

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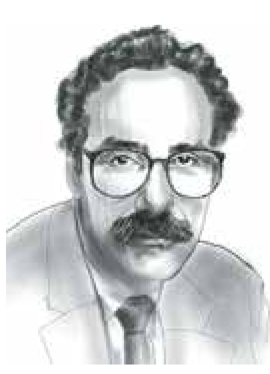
THE BOTTOM LINE

# The US Democrats' tax plan: soak the rich



By Robert Samuelson

Soaking the rich is not a painless way to avoid unpleasant political choices. If you want much bigger government, you have to pay for it with broadly based taxes, even if the rich and upper middle class bear the biggest burdens.

THERE'S no subtlety about Democrats' tax plans. Between Hillary Clinton and Bernie Sanders, details differ, but the central themes are identical: soak the rich. To hear Democrats tell it, the country's main budget problem is that the rich don't pay their "fair share". If they did, the fiscal outlook would brighten. We can now test this proposition, because the Clinton and Sanders tax proposals have been thoroughly analysed by the non-partisan Tax Policy Center (TPC).

To begin, it's worth noting that the rich, defined here as the "top one per cent", don't escape taxation. Some manipulate the system to minimise or eliminate taxes, but as a group, the top one per cent accounted for 14.6 per cent of pre-tax income in 2011 and paid 24 per cent of federal taxes, estimates the Congressional Budget Office (CBO). Whether that's a "fair share" is, of course, a matter of opinion.

Regardless, both Mrs Clinton and Mr Sanders would increase it sharply. Start with Mrs Clinton. The TPC reckons that her tax package would raise US$1.1 trillion over a decade. The top one per cent would pay about three-quarters of the increase, with other high-income households covering most of the rest. "The bottom 95 per cent would see little or no change in their taxes," says the TPC.

The top income tax rate on ordinary income – mainly wages and salaries – is now 39.6 per cent (plus there's a 3.8 per cent surcharge on investment income added under the Affordable Care Act). Mrs Clinton would require taxpayers with adjusted gross incomes (AGI) exceeding US$1 million to pay at least a 30 per cent tax (a plan named after investor Warren Buffett, who proposed it). There would also be a 4 per cent surcharge for taxpayers with AGIs exceeding US$5 million.

Likewise, Mrs Clinton would limit itemised deductions, raise the estate tax and increase taxes on capital gains (profits from the sale of stocks and other assets held at least a year); these are concentrated among the wealthy and upper middle class. The top capital gains rate is now 23.8 per cent. Mrs Clinton would raise that to 43.4 per cent and gradually reduce it the longer an asset is held. After six years, it would revert to 23.8 per cent. She would also end capital gains treatment for "carried interest", a provision that benefits some investment firms.

For all of this, the government's budget outlook wouldn't change dramatically. Even if all the new taxes went to deficit reduction, the impact would be modest. Over the next decade, the CBO projects US$9 trillion in deficits; Mrs Clinton's tax increase would absorb a ninth of this. To make a real dent, the super-rich would need to pay even higher taxes, as would the upper-middle and middle classes.

Mr Sanders proposes this. His tax package would raise a staggering US$15.3 trillion over a decade, says the TPC. Most taxpayers would be hit. There would be a 2.2 per cent surcharge on all taxable income. Further tax rate increases, starting at 9 per cent and peaking at 24 per cent, would kick in at US$250,000 for joint filers (and US$200,000 for singles). The TPC's Howard Gleckman notes that maximum rates would hit 54.2 per cent for ordinary income and 64.2 per cent for capital gains.

Like Mrs Clinton, Mr Sanders would raise the estate tax. He'd also impose new business taxes, including a carbon tax and a financial transactions tax (a levy on sales of stocks and other securities). At least, you might think, deficits and debt will decline. Not necessarily. Says the TPC: "Sanders has been quite explicit that the revenues are earmarked to finance an expansive set of new spending priorities (Medicare for all health insurance, "free" college). ... The plan is unlikely to do much, if anything, to reverse the currently unsustainable path for public debt."

Whether Mr Sanders' and Mrs Clinton's huge tax increases would weaken economic growth will surely be debated. Although the TPC did not explore that question, it did note that higher marginal tax rates reduce "incentives to work, save and invest". (Comparable questions are posed by Donald Trump's proposed tax cuts, which the TPC estimates would cut government revenues by US$9.5 trillion over a decade. Unless offset by spending cuts, government borrowing would roughly double.)

The lessons here are many. Soaking the rich is not a painless way to avoid unpleasant political choices. If you want much bigger government, you have to pay for it with broadly based taxes, even if the rich and upper middle class bear the biggest burdens.

At best, the changes proposed by Mrs Clinton and Mr Sanders would ease economic insecurity and advance social justice. At worst, they would harm the economy, centralise more power in Washington – inspiring more lobbying – and entrench a cynical view of politics. It becomes a vote-buying enterprise financed by transfers from the minority upper classes to the majority middle and lower classes. THE WASHINGTON POST WRITERS GROUP