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Monopolies - experts say they can be a boon or a bane for consumers



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KUALA LUMPUR: A monopoly in an industry can either be a boon or bane for consumers, with dominance by a single player will most likely lead to higher prices on end products.

On the flipside, a single player can emerge as a favourite due to the quality of services provided.

While 2023 saw certain possible monopolies that had stirred controversy, experts opined that some monopolies would benefit the country, and listed monopolies that should go or stay in 2024.

Malaysian University of Science and Technology professor of economics Geoffrey Williams outlined several monopolies that are prominent in Malaysia that came naturally.



According to industry insiders, a route connecting KL and Bangkok will make it possible to link it to other regional HSR lines to form larger networks that will reach Laos and China.

They include highways operators such as Plus Malaysia Bhd and train lines operated by Keretapi Tanah Melayu Bhd.

"It makes sense to only have one company running a certain business. In these examples, it will not make sense to have two highways or two train lines running between the same places.

"In these cases, the competition can be in management concessions given to the best management team regulated by the Malaysia Competition Commission. Or for highways by allowing multiple ways to pay instead of just Touch n Go," he said.

He said some monopolies also surfaced when the companies offered the best product or technology, making it the only contender that stood out in the industry.

An example of a prominent player that seemingly trumped its peers is Grab.

"Although there are other e-hailing, the customers prefer Grab and are more familiar with it. But if its prices rise too much or its service quality falls, it will lose customers easily. Therefore, this is a contestable market that does not need regulation," he said.

However, Williams stressed that most monopolies were created by the government through issuing licences and concessions.



"In most cases monopolies should be broken up or opened up for competition by removing barriers to entry. To curb monopolies, the simple policy is to create more licences and concessions to allow companies to enter the market on a commercially viable basis. There is no big deal in most cases," he added.

Essentially, a monopoly reduces supply and choice in the market while raising prices, thus putting customers at the losing end of the game.

Williams said these actions restrict innovation because incumbents do not have to change their products in face of competition.

Product quality and service also suffer as a consequence.

"Consumers get less choice, higher prices and lower quality and monopolies make supernormal profits at everyone's expense."

He said doing away with monopolies that are detrimental at a bigger scale could improve quality and attract better innovation for the industry as a whole.

"Abolishing monopolies will lower prices, increase choices for consumers, improve quality and service and open up markets for greater innovation. Breaking up monopolies will offer more business opportunities for other companies so there would be more investment, employment and growth," he said.

Although a monopoly comes with a negative connotation, Centre for Market Education chief executive officer Dr Carmelo Ferlito said its impacts depends on how they came about and how much influence it has down the line.

He also pointed out that in modern capitalism, many industries evolve towards the direction of oligopolies.

"Monopolies and oligopolies can be the result of the market process, the natural evolution of the competition process within a certain industry. As such, they are usually good: the important thing is that the dominant position remains open for challenge and not protected by favourable treatment at law level.

"In Malaysia, the poultry industry developed toward a high level of concentration (oligopoly) and this has benefited consumers in terms of receiving better products, higher technical progress and self-sufficiency, among others.

"Such a consolidation was not the result of government protection but of the competition process. And therefore it is good. And it can be challenged anytime by new players," he said.

Meanwhile, "bad" monopolies or oligopolies are results of government protections or where the government decides to be the lonely player.

In this case, the result is usually a backward industry, higher prices and lack of choice for consumers, said Ferlito, citing a monopoly by Padiberas Nasional Bhd (Bernas) as an example.

"In fact, it is really a striking contrast between the rice industry versus the poultry industry, where the first one remains backward and unable to give good results precisely because of the regulations surrounding it," he added.

Recap of monopolies

In March 2023, Prime Minister Datuk Seri Anwar Ibrahim stated that the government was reviewing all monopolies and called upon ministries to study the rationale in allowing those monopolies to take place.



Anwar's effort in pulling the plug in monopolies was to ensure the public enjoyed fair and better service.

Among the longstanding monopoly in the country is the control of rice imports by Bernas.

Anwar had stated that the government would review Bernas's stronghold on rice imports to stabilise the market price.

Touch 'n Go's dominance of payment systems, mainly at highways, also came under fire after the prime minister said its services lacked significant improvement despite being in operation for around two decades.

In August, the open toll system was introduced at selected highways where the use of credit cards and debit cards were allowed.

Malaysia's state-owned agency for 5G, Digital Nasional Bhd (DNB), also came under scrutiny when the government unveiled its plans in 2021 to allow DNB to own the full 5G spectrum.

The government then announced that it will allow a second entity after DNB reaches 80 per cent of populated areas, putting away concerns the public had on its possible monopoly.

Another probable monopoly that stirred controversy was the alleged plan by Grab Holdings Ltd to take over foodpanda which would lead to the former having a lion's share in the p-hailing service.

Monopoly: Go or Stay

Williams said monopolies on importing medicines for public and private healthcare should be removed, while the monopoly on medical testing for foreign workers should be broken up as well.

"In fact healthcare is a major area of monopoly and anti-competition abuse and this raises costs and encourages procurement abuses," he said.



In the food industry, he said monopolies on food imports such as Bernas should be abolished and duopoly such as those by Central Sugars Refinery Sdn Bhd and MSM Malaysia Holdings Bhd in sugar should go.

"There is no reason at all why grocery and food suppliers should not be able to source from wherever they can get low-cost produce," he added.

Meanwhile, Ferlito said a monopoly or an oligopoly should not be a cause for concern if it takes place in an open market, with no barriers to entry for competition.

"If the competition process is allowed to do its job, then we should not be worried if a monopoly or oligopoly arises, as it can be challenged.

"This is what happened over the past 40 years in the world of mobile phones, where we have seen the alternance of dominant positions between Motorola, Nokia, Blackberry, Samsung and iOS," he said.

He also cited examples in Malaysia where a monopoly by Malaysia Airlines Bhd in the aviation industry was broken with the entrance of new players such as AirAsia.



"In general, this has brought more service and better prices for consumers. What is harmful for consumers and the economy are direct government monopolies or private monopolies protected by government regulations," said Ferlito.

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