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MARKET STRUCTURE

# SAY 'NO' TO MONOPOLIES

**A** MONOPOLY is a market structure where a single seller or producer assumes a dominant position in an industry or a sector.

Monopolies are discouraged in free-market economies as they stifle competition and limit substitutes for consumers. As such, dismantling monopolies is a step in the right direction. The benefits are varied and the disadvantages are but a few.

Recent announcements in relation to doing away with the current monopoly for vehicle inspection held by Puspakom Sdn Bhd are timely given that the monopoly has been in place since 1994.

Vehicle inspection is not rocket science and neither does it involve substantial infrastructure investments or specialised knowledge. There is no reason for it to enjoy monopoly status.

Another monopoly that will be done away with is Touch 'n Go Sdn Bhd being the sole payment agent for tolled highways, from September.

The general preference is for open payment systems where we can use debit and credit cards. This reduces the inconvenience of ensuring that there is always sufficient balance in Touch 'n Go (TNG) cards.

Users incur an extra fee for reloading their TNG cards. Some reload points charge 50 sen per transaction. And for auto reload

cards, the charges are RM1.50 or RM2 per transaction.

### Pros and cons of a monopoly

Investors love companies with monopoly status, provided they are run properly. Monopolies enjoy a "moat" — a high barrier to entry or, rather, no barrier to entry.

Competitors cannot encroach on the product or service space easily. It is the ultimate blue ocean. But it is a different story when it comes to consumers.

A company that dominates a sector or industry can use its advantage to create artificial scarcities. They merely need to hold back supplies, and the laws of demand and supply will kick in. Demand will outstrip supply with the resultant increase in prices.

Price-fixing can happen unless there is a public outcry to necessitate government intervention.

Also, quality can suffer. Customers of such monopolies have Hobson's choice, taking what is available or nothing at all. And often, customers take it as there is no suitable alternative. And they may end up with a low-quality product or service. This is not to say that all monopolies play around with the prices and offer dubious quality, but the risk and the temptation are there.

Complacency tends to set in. Consumers have no choice but to trust that a monopoly operates

ethically due to limited or unavailable substitutes in the market.

There are some advantages to a monopoly. Some monopolies operate ethically due to limited or unavailable substitutes in the market. And because there is no risk of undercutting due to competitors, monopolies get to set prices and keep pricing consistent for consumers. A responsible monopoly may be a contradiction without strong and intrusive oversight.

Monopolies enjoy economies of scale, often being able to produce mass quantities at lower costs per unit. Standing alone as a monopoly also allows a company to securely invest in innovation without fear of competition — they alone stand to reap the benefits of their investments.

Of course, there are exceptions where monopolies may be permitted, as with utility companies.

These companies are of national interest and highly regulated to ensure that public interest is not at stake and the service and product quality is acceptable. Such monopolies are acceptable, given the huge infrastructure costs that need to be incurred at the national level.

But as with most things in life, one must consider the pros and the cons. And in this case, the pros of doing away with monopolies outweigh the cons.

Monopolies have no place in free markets.

### An analogy

Competition brings out the best. The best analogy is sporting events which thrive on competition.

Eliud Kipchoge is a Kenyan widely regarded as one of the greatest marathon runners. He was the 2016 and 2020 Olympic marathon champion and world record holder with a time of 2:01:09 set at the 2022 Berlin marathon.

A bit of trivia here; Kipchoge has always harboured an ambition to run a sub-two-hour marathon. On Oct 12, 2019, Kipchoge ran at the Ineos 1:59 Challenge in Vienna, achieving a time of 1:59:40.2. Unfortunately, the run did not count as a new record, as standard competition rules for pacing and fluids were not followed. The other reason was that Kipchoge ran without competitors — he was a monopoly unto himself.

With competition, there could be a better, faster marathon runner. Why, with competition, even reigning champions will perform better.

Without competition, one cannot, and should not, be recognised as the best.

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