CHAPTER 6: CONCLUSION

Telecommunications markets are bound to be varied and complex. Any government that adopts a privatization policy will need to carry out regulatory reform as well. The key issues in regulatory reforms in the telecommunications sector include tariff rebalancing, standardization, competition policy etc.

6.1 Regulatory Reforms in the Malaysian Telecommunications Sector

The main criticism of the privatization of the Malaysian telecommunications sector is that the government used a first-come-first-served rule. In other words, licenses and contracts have been awarded without transparency in the selection process. This was contrary to the promotion of competition.

The Malaysian government maintained direct regulatory supervision of the incumbent through ownership of the *golden share* – a mechanism that gives the government the right, especially on matters relating to social obligation, to ensure that the policies of privatized firm conform to government policies and national objectives. The scope of the Malaysian regulatory framework was fairly primitive at first. There was tariff supervision but no provision was made for the creation of incentives for suppliers to achieve efficiency. This brought about the possibility of regulatory capture.

In 1998 the government created and implemented a transparent regulatory mechanism to reduce discretionary regulatory actions. The Malaysian Communications and Multimedia Commission (MCMC) was formed to perform supervisory functions. This commission is not only serves as a buffer between supplier and users, but it advises the government on telecommunications policies. It is a multi-member commission – a structure that renders it harder for special interest to capture or corrupt.

Malaysia's progress in the implementation of pro-competitive policies in telecommunications include privatizing the incumbent operator TMB, licensing operators for fixed and mobile networks, and moving towards cost-base access. Competition is not necessarily a win-win situation among the competitors. Those who lack of capital or knowledge are overwhelmed by those who have. The role of regulator is to observe that there is a fair and free competition environment. There is no doubt duplication of investment takes place resulting in too much infrastructure. If the existing players care unable to compete, then the other players can still utilized the network. It is a question of allowing the market to rationally determine which provider will remain. All other operators including TMB have to function in an increasingly competitive and evolving market place. However, the incumbent may possess first-mover advantages.

There is a link between macroeconomic strategy and telecommunications policy. It is important to convince investors about a country's political and economic situation. Investors should be given full information about a company's network infrastructure and the regulatory environment such as pricing guidelines and potential return on long term investment. Participation by foreign investors in privatization is essential both to ensure an adequate amount of capital and to inject modern management and production technique. This in turn will improve efficiency in the sector.

The key issue is how to screen the firm's type through its contractual choice. The higher the fraction of costs, the less efficient the firm is. The government should design menus of contract for regulated firms to select when signing the contract with the regulator.

Alternatively, when direct competition is not working, *yardstick competition* (benchmark approach) might be adopted to compare the carriers' performances. This reduces the asymmetry of information and enables the use of higher powered incentive schemes.

6.2 Policy Recommendations

The success of regulatory reforms depend upon having a defined policy mechanism which is separated from the ministry for telecommunications sector In addition, it is closely correlated with the regulator's ability to hire qualified staff to deal with competitive environment. Below are some of the recommendations that have been suggested.

- Due to the financial constraint and limited resources, foreign equity in Malaysian telecommunications companies should be allowed but up to a certain limit.
- The government should provide adequate incentives for manpower development training.
- Country needs a stable and independent Commission in order not to under-invest in this sector. A country which lacks independent legislatures will fail to grow. However, we have to realize that the regulatory cost is also very high as shown by the UK's experience and hindrance factors such as nepotism, political influence as well as corruption will definitely disrupt the regulatory body.
- Transparency and accountability in the structural transformation process are crucial. Due to information asymmetry, government screens information through the choice of different contracts that the regulated firms opt.

- The country should improve its people's access to information, especially those staying in remote areas. Implementation of such projects are feasible as wireless service are cheaper to implement than fixed lines infrastructure. As such, we could establish a telecentres, which allow villagers to use telephones, facsimile machines and access internet on a shared basis.
- The MCMC should also publish some information and report about the quality of service statistic in a fixed timeframe (for example every six months).
- MCMC should also encourage telecommunications companies to operate a customer compensation scheme – i.e. rebates to ensure quality of service. A mixture of fixed penalties and contractual liability for poor performance such as repair and installation delays will compensate business users and residential users. Alternatively, regulator might incorporated the quality components into price-control formula. Using consumer feedback in an innovative regulatory process should be an important priority for regulators.
- We might consider a special telecommunication Free Trade Zones (TFTZ) where there is no telecommunications entry barrier; with its satellite or microwaves in local distribution network and links to the national network. Only a light-handed regulation will be applied as the price structure would be left to the market rather than regulator. Within a TFTZ, any company that meets minimum qualifications would be permitted to offer both local exchange and value-added services. This could attract foreign partners as this area typically is an investment concession which can avoid custom duties.
- In addition, Malaysia has not yet resorted to international bidding to award concessions. The country could open its bidding, not only to local companies but

internationally to increase capital inflow, improve productivity and efficiency. There is no anti-trust commission in the country to safeguard the interests of consumer. As such, TMB, which has control over the fixed line network in the country, could have unfair advantages in interconnection agreement with new players in the market.

- Similarly, it is argued that bypass is harmful to the sector as a whole - cream-skimming might occur. For instance, Uniphone was granted a 15 years (expiring in 1988) monopoly license to supply and maintain public payphones in urban services, leaving TMB with non-economical rural areas. Thus, this unfair condition pushed towards the support of privatization in TMB.
- Sequence is another factor to be considered[42]. Privatization may result in higher prices, whereas charges are used to set low for social subsidy purposes. Privatization not only introduces competition, it has distributive effects. Therefore, there is a need for the government to explain to the citizen in advance the reasons for any restructuring process of the sector.
- In practice, all forms of regulation create distortion and create incentive for anti-competitive behavior. Even though price cap regulation appears ideal in the theoretical literature it cannot be implemented in certain circumstances. Nevertheless, whichever system is used, a regulator needs to periodically check the price structure in relation to costs. The Malaysian government might take a step to divide its country into two regions, for example east coast and west coast, to better reveal information to promote competition.

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[42] See Appendix 6 for the sequence of reform to liberalize market in selected countries.

.3 Lessons from Other Countries

There is no formula to design and implement transformation policies. Each eveloping country should analyze the given information and take economic, social and olitical factors into consideration. We should learn from other countries' experience in mplementing the processes of transformation and should avoid making the same nistakes. Below are some of the lessons that could be learned from other countries. In ny structural reform program, there is uncertainty that jeopardizes success. All the seven ountries that are examined in this study shifted to private ownership to reduce the xploitation of consumers. They have also allowed other beneficial changes to occur such s an increase in investment, rise in prices that reflect scarcity values, and the shedding of xcess labour.

In New Zealand the objective was very explicitly pro-competition. The lesson that an be learned from them is the need to ensure that regulatory environment and ompetition policies are established right before the incumbent operator is sold or rivatized. Another point is the success of the structural changes becomes possible only if he government informs the public regularly about the costs and benefits. I think this might e the tactic which is used by the government to convince the people that the government's pproach is better than anyone else. This could be done by a consist and credible policy.

In the United Kingdom, employee share ownership was implemented in the case of 3T. There were large gains to buyers - workers bought shares of their company at low rices. Thus, the welfare consequences were positive. The government encouraged wider share of ownership, partly to make it difficult for any future government to renationalize it.

Chile experienced some pitfalls in their first divestiture in 1970s which led to bankruptcy of some enterprises. The first divestiture is said to have failed because no attention was paid on how the financing of privatization took place. Some buyers used one company as collateral to buy another. The second wave of divestiture in 1986 was more successful. Another lesson is that regulation is critical in the sense that if government did not regulate, monopoly can exploit consumers - the transfer from consumers to producers can be a big one. Next, divestiture brought in a significant flow of capital (the government did not have enough resources). This is a great benefit to the society.

This is no consensus on market structure. In the US, there is competition amongst the common carriers. An alternative model is a duopoly structure, which was implemented in UK in the early 1980s with BT and Mercury. In 1990, British government eliminated duopoly and opened the market to competition. Australia also changed its duopoly structure with the privatization of Aussat. In contrast, Chile and New Zealand selected fully competitive markets from the start.