

For immediate release

## **MEDIA STATEMENT**

### **IDEAS shares concerns and calls for greater transparency in government's planned 5G infrastructure rollout**

**Kuala Lumpur, 18 February 2022** - The Institute for Democracy and Economic Affairs (IDEAS) is concerned over potential risks of a government-owned single wholesale network (SWN) for 5G rollout and calls on the government to be more transparent over the long-term costs of this model to the public, compared to enabling an interconnected, competitive market. IDEAS appreciates that to ensure regulatory predictability, the government cannot afford to abandon the SWN model it has already invested heavily in. However, moving forward, the priority is to urgently put into place risk mitigation measures.

Under the current SWN proposal, the licence for 5G is given only to government-owned Digital Nasional Berhad (DNB), which will be responsible for the infrastructure rollout, whereas existing Mobile Network Operators (MNOs) will be relegated to only offering variations of retail service. Thus, the existing competitive wholesale market structure has been replaced by a nationalised upstream monopoly regulated by the Malaysian Communications and Multimedia Commission (MCMC).

"We are grateful that DNB offered detailed explanations in a meeting with IDEAS on 10 February 2021. Nevertheless, several major concerns remain, which this statement elaborates upon", said IDEAS CEO Tricia Yeoh.

"IDEAS is concerned by the way in which justifications for the SWN came after its announcement in 2021, with no independent economic or regulatory study published beforehand," said Yeoh. "Publishing the feasibility study and deliberations are important to provide evidence on the government's position in reversing the Ministry of Communications and Multimedia's long-held policy to enable market competition at both the infrastructure and retail levels. This is especially so given that other SWN models from around the world have not been successful to date. It is important that international best practice is referenced".

The involvement of the Malaysian government as a licensee is an unusual departure from the market-enabling framework provided for in the Communications and Multimedia Act 1998 (CMA).

In fact, the CMA provides regulatory tools where MCMC is able to determine the minimum criteria for access and pricing, so that service providers competing at the infrastructure level are required to open up access to each other. While MNOs should be expected to provide the best possible service in the form of access and pricing, MCMC has the sole regulatory mandate and shared responsibility to ensure that the MNOs do so.

However, under the SWN arrangement, the MCMC would determine only DNB's wholesale rates offered to MNOs. DNB claims a full cost recovery model and low prices, but the potential value of billions in procurement from private suppliers could add up to higher wholesale prices and lower overall quality if costs balloon with a non-competitive government-owned enterprise,

rendering its economies of scale ineffective. DNB being wholly owned by the government indicates that the risks of this project are socialised, due to implied government support for ensuring cost recovery. This would be either by regulating the wholesale price upwards, or footing the bill for governance failures or failures to control cost.

The opacity of DNB's appointment and government involvement in the market works against the notion of competitive neutrality, which in turn may affect the market attractiveness of the sector, impacting upon Malaysia's attractiveness as an investment destination and trade partner in the area of telecommunications and data services. There must be transparency as to the process through which the government-owned SWN model was decided upon.

As such, IDEAS calls for the publication of a feasibility study that justifies the selection of this model, which should be made available to the public and given to a relevant Parliamentary Select Committee to scrutinise and report its findings to the public.

The establishment of the DNB has been justified primarily by the SWN model's projected capacity to increase network coverage for a reduced network deployment cost. However, IDEAS believes that there are potential risks of a monopolised 5G infrastructure, which DNB and the government of Malaysia must seriously consider and take mitigation measures over.

The lack of competition and rollout based on supply rather than demand may eventually result in increased costs for consumers and a lack of options for quality, pricing, and innovation based on actual demand. Studies such as Gruber (2001), Wallsten (2001) and Houpis et al. (2016) indicate that there is a positive link between competition, service diffusion and investment. Specifically, network competition is likely to drive network coverage across the country, and realise demand for mobile services and innovation, where outcomes are more favourable under an open market model. In short, competition at the infrastructure level would provide more advantages than a monopoly, the latter of which may ultimately disincentivise innovation and investments by MNOs in the long run.

Yeoh added, "Without competitive pressures in the form of alternative infrastructure, DNB has reduced incentives to ensure quality of service (QoS) for MNOs and consumers."

IDEAS calls for the justification of the claims that the SWN model will result in cheaper prices and quicker deployment, as a single government-owned entity would require a high level of resources to roll out the infrastructure simultaneously compared to market competitors. The government should provide clear evidence of how DNB, a company formed within the space of a year without any previous infrastructure, would roll out a cost-efficient 5G infrastructure across the country. For example, would DNB need to lease and upgrade towers from existing service providers in order to lease back to these same providers the 5G network that it is exclusively licensed to operate? Would such costs be passed on to the consumer? This questions the value-add offered by DNB, apart from the permission to charge for sub-leasing as the sole licensee for 5G.

To reiterate, IDEAS appreciates that to ensure regulatory predictability, the government cannot afford to abandon the SWN model it has already invested heavily in. However, moving forward, the priority for DNB and MCMC is to urgently put into place risk mitigation measures, given the important points raised above. In addition, to ensure transparency in the government's 5G infrastructure rollout, several questions require clarification, including:

1. Has there been an independently conducted feasibility study that compares the costs and benefits of various models, including competition regulation already provided for in the Multimedia and Communications Act, and the consortium-led model developed in the 5G Taskforce Report published by the Ministry of Communications and Multimedia in December 2019? What are the parameters of the modelling exercise?
2. Pricing for wholesale access to 5G will be regulated by MCMC via the Reference Access Offer (RAO) document. Can the RAO be made available immediately for public consumption, in the spirit of transparency?
3. What are DNB's current and future liabilities (both explicit and implicit), sources of financing, and how are they guaranteed or backed? What implications does MOF ownership of DNB have in terms of the risk to public funds?
4. Apart from MCMC regulatory oversight, what additional external oversight mechanisms exist over DNB, such as a Parliamentary Select Committee?
5. What are the mechanisms that DNB and the government have put in place to ensure the absence of leakages and political interference in contract procurement, suppliers contracts and in leasing of land and space for 5G towers and antennae? Would DNB, for example, adopt open procurement practises where information about procurement notices and awards are made publicly available?

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#### About IDEAS

The Institute for Democracy and Economic Affairs (IDEAS) is a nonprofit research institute, dedicated to promoting solutions to public policy challenges, focussing on three overarching missions – advancing a competitive economy, ensuring trust in institutions and promoting an inclusive Malaysia. IDEAS is Malaysia's first independent think tank, free of personal interests and partisan influences. For more information, visit [www.ideas.org.my](http://www.ideas.org.my).

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