

## **Striking a balance between the health sector producers and consumers**

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Health Minister Dr Dzulkefly Ahmad announced the Health Ministry (MOH) will end Pharmaniaga's concession to distribute drugs and medical supplies to all the ministry's institutions and facilities nationwide.

"Promise 23: Ensuring the government procurement system generates maximum benefit for the people's money" was included in the Pakatan Harapan manifesto for last year's general election.

Pharmaniaga's concession as the sole medical supply distributor in Malaysia was a result of the privatisation initiative introduced in 1994 by Dr Mahathir Mohamad during his first tenure as prime minister.

Previously, the supply chain role for medical supplies was handled by MOH. The ministry then awarded the concession to distribute medical supplies to facilities nationwide to Pharmaniaga, with the main KPI being the delivery period to all facilities, including those located in the remote areas.

Reviewing the concession after such a long time is essential and may save the government millions of ringgit.

According to Finance Minister Lim Guan Eng, Pharmaniaga is the concession holder for distribution of approved products purchase list (APPL) drugs valued at RM1.2 billion in 2018.

Of that amount, Pharmaniaga's in-house products made up 30 percent of sales with the rest outsourced from other firms.

By theory, the elimination of monopoly and opening up the market for other distributors will lead to competitive and lower prices.

Hence, applying an open tender system for the medical supply distribution to the government's medical facilities would lead to better services and lower costs.

Quoting former economic adviser of Saudi Arabia Dr Umer Chapra from his book 'Towards a Just Monetary System', all business practices that lead to the exploitation of the buyer or the seller, or to a restriction of fair competition must be effectively prohibited.

A monopoly creates a class of idle market-players who do not compete except politically in obtaining licenses and concessions. Thus, the profits are earned without the element of risk-taking.

Furthermore, monopolistic practices, if not managed properly, could possibly lead to oligopoly.

Oligopolistic practices should be removed or at least substantially reduced to prevent the pharmaceutical industry from being filled with cartels.

The process of eliminating a monopoly needs to be done gradually, particularly in a sector which is considered important and sensitive to the rakyat.

Pharmaniaga has been in the Malaysian market for years and is highly experienced with the value chain of pharmaceutical and medical products in Malaysia.

On the other hand, the Competition Act has been enforced since 2012 in Malaysia, clearly stating that any agreement which prevents, restricts or distorts competition is a violation of the Act.

Based on the consumer price index data published by the Department of Statistics Malaysia, prices of health products and services do not vary much and contribute little to the overall inflationary pressure in Malaysia.

Inflation rates of pharmaceutical and medical products remain at good levels. For instance, the overall average inflation rate for 2011-2018 is 2.4 percent, with 2.6 percent for pharmaceutical and 2.2 percent for medical products.

With a proper process and open tender system in place, the prices of health products and services could be much lower in the future.

The transition process should take some time, perhaps several years, to avoid supply disruption in the market, especially to public hospitals and health clinics.

Supply disruptions can lead to other issues like sudden price hike and affecting the quality of the medicine.

Hopefully, the changes being adopted by MOH will not affect a big company like Pharmaniaga much. The pharmaceutical giant is expected to remain stable due to its long experience and involvement in the Malaysian health sector.

Let us not forget last year's motion tabled in the Dewan Rakyat to reallocate RM20 billion to the Health Ministry from the Prime Minister's Office and the Defence Ministry.

It was exposed in the Parliament that a reduction in government subsidies in the health sector in the last few years has resulted in rising costs being passed onto patients.

Careful steps need to be considered so as to not harm both the rakyat's health and financial situation, for both short and long terms.

Therefore, the government has made a responsible move by agreeing to continue Pharmaniaga's services until the open tender system is ready. This is to ensure no disruption to the supply chain of medical supplies.

A clean process and transparent government procurement are among promises made by the Harapan government to ensure good governance, better fiscal management and market efficiency.

Looking ahead, an open tender system can provide opportunities for new medical-related companies, especially local small and medium industries, to participate in the healthcare sector.

The health minister's move is most welcomed by Malaysians, and should mark a new era in which a transparent and clean government procurement process is conducted.

In the end, it is about the balance between the consumer and the producer. For the rakyat, lower charges for medical services and cheaper medicines are the priorities.

For pharmaceutical companies, the government has to ensure fair opportunities to compete without compromising the quality of the medical services and products delivered.

Malaysia's public health expenditure in relation to the country's GDP is two percent in 2018. It is a low figure when compared to other developed economies.

For comparison, Singapore spends 4.9 percent of GDP on health, Australia 9.4 percent, Japan 10.2 percent and South Korea 7.2 percent.

Dzulkefly (above) said in May last year that the health sector spending is targeted to reach 6-7 percent for Malaysia.

An increase in healthcare spending is important. Greater focus is highly required for the sector.

The quality of health services provided, enough medical supplies in the rural areas, research and development, and a glut of medical graduates are among the key issues which need critical solutions.

Finally, the recent wake-up call from the Tanjung Piai by-election should motivate the Harapan government to react faster and more efficiently.

For the health sector, liberalising the market and ensuring a better quality of medicine and services provided are the long-term strategies which the government is focusing on.