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GST And the Influencing Factors of Prices Hikes In Daily and Consumable Goods after the Implementation of GST

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Abstract

As an economic instrument, tax is very important for a country in collecting or earning revenue for national and economic development. The multiple weaknesses of Sales and Trade Taxes (SST) like a double tax on consumers, no tax relief on exported goods, price transfer issues, high flow of capital value out of Malaysia and inability of government to record every commercial transaction details in the national accounts have convinced the government to introduce a new taxation system namely Goods and Services Tax (GST). GST is also seen as a solution to the shortage of government funds. However, long before GST was introduced in April 2015 and till to date, the public has non-stop complaining about the possibility of price hikes in goods and services. Literature reviews on the experiences of countries in implementing GST together with pre-GST simulation in Malaysia highlight positively the effect of GST on Consumer Price Index and reduction of prices. Despite the assurance and various efforts of the government in keeping the prices of goods remain the same after GST the prices continue to increase. Report by the Department of Statistics, Malaysia showed that the price increases in Malaysia has occurred every year before and after the implementation of the GST. This paper is interested to know if GST is the sole and the real cause of price hikes or there are other causes and if so, what are those causes. The findings of this paper indicated that GST is one of the factors in price hikes but is not the only one responsible for and causing the rise in prices of goods in Malaysia. In fact, there are other elements that are equally responsible for increasing the price of goods and services in Malaysia.

Keywords: GST; Price hikes; Consumer Price Index

■ 1.0 INTRODUCTION

Tax is very important in national and economic administration. It is an economic instrument for a country to earn revenue. Malaysia has several important and large sources of income. One of them is tax, which contributes almost 70% towards the country's revenue (A. B. Abdul Aziz, 2013). However beginning in 2010, the ratio of tax revenue collection in Malaysia to GDP is the lowest among the 34 other developing countries (Hussin, Aeefi, & Normala, 2013). The matter raises further concerns since the number of individual tax payers in Malaysia is only 2 million as compared to 28 million of the total population (Idris, 2013). Both facts automatically deny the country from generating sufficient revenues. Petroleum and by-products it's are the second main, important and large source revenue for Malaysia but that natural resources is declining. The very fact that global oil prices is fluctuating is a worrying concern too (Kamal, 2015; Norain, Zulkefly, Md Zyadi, & Wook, 2013). The fluctuation of prices and thinning of scarce resources would to large extend affect the financial income and spending of the country (Laporan Tahunan Bank Negara, 2010). Such dependence might expose the country to certain level of risk to the country's long-term economic planning and performance. As shall explain in the later part of this writing, Malaysia as a matter of strategy is both an exporter and importer of petroleum. Thus the rises or drops of world oil prices would directly affect Malaysia. For example the rise in global oil prices, would automatically trigger the rise in prices of other commodities which leads to high or higher cost of business. Consumers are likely to be thriftier in those circumstances. The side effect of less spending trend would be a glaring reduction of business income for companies and traders and subsequently less amount of tax payable to the government. In all, if the profitability of the company decreases , the collection of business taxes also decreases and cumulatively shall affect the government's revenue too (Hussin et al., 2013).

It is only logical and normal for any governments to introduce fiscal and monetary policies in attempts to balance the economy of the nation especially for the purpose of bringing positive economic impacts to the country at large (Hamidah, 2013). The government of Malaysia has started deliberating about such move as early as in 1992 (Anwar, 1992) when the then Minister of Finance started to talk about the possibility of improving and overcoming the various weaknesses of the existing taxation system of Sales and Services Tax (SST). The SST inadvertently allows double tax on consumers thus unnecessarily makes things more expensive (Hanis & Shofian, 2015). The SST grants no tax relief on exported goods and price transfer issues (Najib, 2013). According to (Idris, 2013), 80% of the high capital value has flowed out of Malaysia and is not recorded in the national accounts. It is attributed to the price transfer activity. This phenomenon occurs when companies transfer their costs around the world to reduce tax payments. The above factors convinced the government to introduce a single tax system called Goods and Service Tax (GST) with 6 percent tax rate as replacement to SST which charged 16 percent tax rate. It is believed that GST would be able to raise the depleting national income so that the available revenue for public spending is sufficiently adequate. For example, the government is able to detect existing companies that have been avoiding tax before since every eligible GST registered company must keep records of their transactions. Through GST, the government shall be able to detect and increase the numbers of new tax payers and expand the numbers of existing tax payers (Najib, 2013). In Australia, Finland, Canada, New Zealand, Nigeria, India and Indonesia GST is also known as Value Added Tax (VAT). To date, 160 countries from 193 countries globally have GST in place (Sinar Harian, 2015) with a taxation rate between 5% to 27% (Jabatan Kastam Diraja Malaysia, 2013). Amongst ASEAN eight other countries… have started to have GST as early as in 1984 with Malaysia is the latest to implement GST. Only Brunei and Myanmar are yet to implement GST (Jabatan Kastam Diraja Malaysia, 2013).

The new GST tax system has successfully expanded the tax base and increased revenue. As reported by the Minister of Finance during his budget speech, the government manages to collect additional RM41 billion from GST alone for fiscal year between year 2015 to 2016 (Utusan Malaysia, 2017). Despite its great success, the public response towards GST is the opposite. There are a lot of public grievances on GST so much so they are rejecting the GST system and demanded the government to abolish it and re-introduce the SST system. One of their most common grievances is the raising prices of goods and the cost of living (Abu Sufian, Asan, Hussin, Fauzi, & Norfaiezah, 2016).

■ 2.0 POLICY IMPLICATION STUDY

According to Dzuhailmi, Haslinda, & Sulaiman (2015), the positive impacts of any government policy on the society at large could be assessed from two angles. Firstly society receives correct information on national policies and secondly a fair implementation of policies. Two years before the full implementation GST, the government has started various awareness programs informing the public about it. A pre-GST study by Ministry of Finance Tax Evaluation Panel on the impact of the GST implementation on prices of goods and services before its implementation was conducted in fulfilling the second criteria of above requirements (Utusan Malaysia, 2010). The study found that the implementation of the GST would positively affect the Consumer Price Index and reduce household expenditure. As a single tax system, the GST would reduce production costs because GST allows producers to reclaim input tax on raw materials at each stage of the supply chain (Asan, Mohd Yusof, Chakrin, Azman, & Mukaramah, 2016). Additionally, the introduction of zero rated prices for some basic necessities such as fish, vegetables, meat and chicken would lead to price drop (Mohd Yusof, 2016). According to the Deputy Finance Minister, the implementation of the GST would also lower the prices of goods such as furniture, cars and electrical goods. This is mainly due to 4% tax savings between the 10 % differential rate of SST and 6% of the current GST (Ahmad, 2015). To ensure that the implementation does not burden the people, especially the low-middle income group, and poor or hardcore poor, certain categories of food would be totally exempted from tax (Najib, 2009).

■ 3.0 PRICE HIKES

The government's various efforts in informing the public about the GST and in keeping the prices of goods and services to remain stable or cheaper before and after its implementation does not bear the expected fruits. The public still disfavor GST and the prices of goods and services continue to increase. According to the Secretary-General of the Ministry of Finance, the increase in the price of goods would be temporary, as it will fall within a year after the GST is implemented (Mohd Irwan, 2014). The statement is based on observations of patterns and experiences of other countries with earlier experiences of introducing GST or VAT system.

However, after more than a year after GST is implemented, the price in Malaysia is neither consistent with the findings or predictions by economists and policy makers nor the patterns as found abroad (Mohd Yusof, 2016). The prices of goods and services remains high, on the increase and do not show signs of decline or stabilization. All the government’s measures in attempts to keep the price of goods down in post GST seems less effective. This only worsens the public perceptions towards GST and aggravated their anger as they are burdened with rising prices of goods and thus high cost of living. Sinar Harian dated 20th September 2016 reported that most consumers questioned the price of goods that should have dropped after GST, but still remain expensive in the market. Often business communities conveniently use GST as an excuse for refusal to lower prices of goods and services. The same is reflected in the Consumer Price Index (CPI) when CPI keeps on increasing from year to year. In the end the public begins to form an assumption that GST is truly responsible in the price hikes.

However the assumption above could be challenged based on the report by Department of Statistics Malaysia (2017). The report shows the uptrend of rising prices for goods in Malaysia every year since the 1980s. To be precise, the uptrend of rising prices has started to take place 35 years ago long before GST is introduced. The CPI report further indicated that there are other contributing factors besides GST which cause price hikes in Malaysia. If GST is not solely responsible for price hikes, hence what are those contributing factors?

■ 4.0 PRICE THEORY AND PRICING

Theoretically price is defined as the total value exchanged by the user for benefits, products or services (Kotler & Armstrong, 2010). In simpler terms, price is what we pay for something (Basu Swastha, 2009). It is determined by what a buyer is willing to pay and in turn what a seller is willing to accept. Price actually shows a competition and balance between demands and supply of the market. Price directly affects and determines company's revenue. Pricing by companies affects costs, since each quantity of sold item influences the production cost efficiency. This means that any price paid by the buyer includes all the services provided by the seller (Basu Swastha, 2009). Therefore, the pricing strategy plays an important role in every company (Secapramana, 2000).

Kotler and Armstrong (2010) use the basic economic principles of supply and demand in developing their price theory for determining the corresponding price points. The goal is to achieve a balance where the quantity of goods or services provided is in line with the desire and ability to acquire goods or services in this same market. This concept allows prices to be adjusted in line with market changes. There are too many factors that influence the pricing of goods or services. These factors can be categorized into several major categories. According to Kotler & Armstrong (2010), three factors described as internal factor, external factors and other factors are very influential in setting or affecting pricing.

4.1 Internal Factors

There are four types of internal factors which could determine or affect prices of goods or services. They are (i) company marketing goals, (ii) company marketing strategy, (iii) affected costs and (iv) organizational structures.

Company Marketing Goals

Business entities use marketing strategies and activities to achieve their targeted goals. These goals include maximizing profits, visibility, viability, overcome competition, market expansion, business leadership in terms of quality and so on (Secapramana, 2000). For example, in increasing annual sales yearly through consumers’ satisfaction and loyalty, companies will give priority to the quality of their products by ensuring it is safe, effective and so on. These objectives are archived through series of research and development (R&D) marketing and sales programs (Mahsuri, 2014).

Company Marketing Strategy

Marketing strategy teaches companies to be competitive. Price is also part of marketing strategies so the companies will enjoy an extra advantages over other competitors vying for the same consumer market (Secapramana, 2000). For example companies must carefully issue the total number of items and sell them at certain exact price. They have to be very careful to avoid of being too cheap or expensive (Fess, 2008),. Both are equally damaging. A too cheap price tag creates a presumption of less quality products and tagging an outrageous price could affect demand, especially when the company's products is easily substituted with others in the market (Helmi, 2004).

Affected Costs

Incurring cost is the most important element that can affect the price. It is the determining factor which sets the minimum sale price to ensure the company could still profit. The profits of a product will be calculated based on the differences between cost, price and quantity sold (Hairul, 2011). Generally the price of a product should cover the cost of production and marketing of goods, at least for the long term (Secapramana, 2000). It is classified into two, namely Direct Cost and Indirect Cost. Indirect costs include cost of materials, labour and expenses that cannot be directly linked to a product or service (Hairul, 2011). Direct costs are costs that can be directly attributable to a work, product or service such as direct material costs, direct expenses and labour costs. Wage belongs under this category and most important (Tejvan Pettinger, 2016). High wage rate can become the main cause of inflation as it naturally pushes costs higher. Although higher wages means consumers are more empowered with purchasing power and ability to demand for more, the same thing could lead to higher cost and sale price. According to Bank Negara Malaysia Annual Report (2013), the increase in wage due to the minimum wage policy has resulted in the company being exposed to higher cost pressures, especially when companies heavily rely on low-wage workers. As a rule of thumb, business entities always want to maximize profits. To mitigate these increases, most companies have shifted the burden to consumers through price increases (Bank Negara Malaysia Annual Report, 2013). This phenomenon is more frequent when the economy is experiencing high growth. If care is not exercise the same could trigger cost push inflation.

Organisational Structure

Organizational structure represents the business entities' internal structure especially in terms of planning and operation. According to Kotler & Armstrong (2010), the company's management needs to determine which party is responsible for setting price. The parties will then deal with price issues in their own way. For example, a supermarket chain can manage each store as a separate business unit where each store manager has full power over prices and operating activities. In such structures, each shop manager is responsible for creating an effective control environment where they are allowed to negotiate with their customers to set price ranges (Fess, 2008; Secapramana, 2000).

4.2 External Factors

There are two external factors that could equally affect or determine prices of goods or services. They are discussed below.

Market Conditions and Demand

Every business entity needs to understand the nature of the market and their demands regardless whether it is a competitive market, monopolistic market, oligopoly market or monopoly market (Zaidah Aziz, 2010). The types of market would inform business entities what marketing strategy and pricing should they adopt. There are numerous numbers of sellers and buyers in competitive market, buying and selling the same quality of goods at different prices. In this market no buyer or seller can influence the price. Sellers cannot raise prices because buyers will buy from other sellers at low prices (Zaidah Aziz, 2010). There are many producers and sellers in monopolistic market, producing the same items but unique with small differences in some aspects, distinguishable from other products in terms of features such as aroma, color, design packaging and others. They are very competitive with each other in trying to capture the same consumer market. Here the pricing strategy is to lower or maintain prices never increase (Pietrajayaramadhan, 2017). The oligopoly market contains a handful of sellers where new sellers might find it hard to penetrate the existing market. Establish sellers are very sensitive to pricing and marketing strategies between them. Establish sellers can afford to hike prices knowingly consumer have less choices. New sellers have to offer a better product at the same or lower price if they want to break and penetrate the existing market (Zaidah Aziz, 2010). There is only one seller in monopoly market. The seller is usually governments or commercial arms of the government providing utility services such as water or electricity. Government monopolies may prescribe various pricing objectives. It will set prices below cost because the product is very important to consumers and consumers may not be able to afford the whole cost (Zaidah Aziz, 2010).

Competition

Competitions potentially bring prices of goods and services down. Consumers have the tendency to compare prices between available products before making a purchase. According to Zaidah Aziz (2010), high pricing would entice new competitors into existing market. It is therefore important for companies to shop around for competitive prices before setting their sale price (Basu Swastha, 2009) since product ratings by consumers are usually based on prices for the same type of goods (Zaidah Aziz, 2010).

4.3 Other Environmental Elements

Apart from internal and external factors, there is another third factor that could determine or affect the price of goods or services. These other external factors include (i) economic conditions, (ii) social environment, (iv) political and legal environment, (v) technological developments and (vi) changes in government policy (Secapramana, 2000).

Social environment

Every business entity needs to consciously learn about the differences and similarities of ethical values practiced by a community as it will help the entity to grow (Hairul, 2010). In a diverse and plural society like Malaysia business entities need to be extra vigilant about certain sensitivity of the races and at best show their mark of respect. For example, high preferences for products with *halal* mark or bio-labelling. A business entity with *halal* mark or bio-labelling can then charge slightly higher price than those without knowingly those consumers would still buy theirs over the other.

Political and legal environment

Concern and sensitive to the local politics and legal environment is very important for business communities. Business and political power are almost inseparable. Refusal to adhere to the rules set by the local authorities will only complicate business. For example, to protect and expand the new car industry, the Malaysian government can impose high import tax rates on cars and spare parts from abroad. Such decision will pressure importers of related goods to offer a more competitive price in order to stay afloat (Hairul, 2010)

Technological developments

Technology is applicable in almost everything, even in setting and determining pricing. The availability of ICT enables consumers to assess internet to seek information on certain items 24 hours a day every day everywhere. Business entities could use the same facilities to evaluate the competitors' products and pricing before properly setting the price of their new products. The use of technology enables business entities to produce products on industrial scale thus pushing down the production costs which in turn ability to sell their products at a more competitive or cheaper price (Hairul, 2010).

Changes in government policy

When a government wants to stimulate the local economic, the government would be making amongst other an interest rate decision by reducing the lending rates lower, an exercise known as transmission mechanism of monetary policy (Hairul, 2010). There are several ways in which changes in interest rates influence aggregate demand, output and prices. When the base interest rate goes down, then commercial banks will typically recalculate how much they charge on loans and the interest rates they offer on savings. Such financial stimulations would make the price of things cheaper.

Economic situation

A lagging economy can affect prices as it involves the cost of product production and consumer perceptions on the price and value of a product (Zaidah Aziz, 2010). The lagging could be due the depreciation of currency which in turn leads to in an increase in the prices of imported goods. When the cost of imported raw materials becomes more expensive, the prices of imported goods or local products using imported raw materials becomes more expensive (Mohd Yusof, 2016). The rise in raw material prices such as oil prices will have a great impact on most commodity prices in the economy (Tejvan , 2016). The same in larger context would lead to cost push inflation. Companies tend to raise prices due to higher production costs in maximizing their profit margins. This phenomenon is more frequent when the economy is experiencing high growth. Price could go up or down when company reduces or increases productivity (Zulkiply Omar, 2016). When the company becomes less productive, costs will increase and consequently lead to price increases. High tax rates will lead to higher prices, and therefore the Consumer Price Index will increase. The introduction of new taxes such as GST, will result in higher prices of goods especially when the payment of goods are still unpaid. However, tax increases usually involve a one-time price increase and shall soon become stable and finally becomes cheaper.

Natural disasters

Natural and environmental disasters as well as act of God could be other contributing factors to the increase or reduction in the price of goods (Tuty, 2008; Ahmad Syah, 2008). This is acknowledged by the

Deputy Director-General of the United Nations Food and Agriculture Organization (FAO). According to him, global climate change threatens farm production. Many food producers or growers have to reduce food exports to firstly meet the local demands. For instance Vietnam has to reduce rice exports due to flood problems resulting a hike in rice price in importing countries. He also added that the organization's Food Price Indices had shown an increase around the world in prices for food and all major essential items for eight months in a row in 2011 (Utusan Malaysia, 2011).

■ 5.0 INFLUENCING FACTORS OF PRICE HIKES IN MALAYSIA

As a consumer country, Malaysia relies on the importation of various types of goods and services for everyday business. Malaysia imports almost everything from needles, medicines, jewelleries, onions, flour, cars, machinery, home-made materials, computer hardware and soft wares, utensils, labour and more. The importation of raw material and food processing sector cost 19% and 9% of the country’s economy respectively (Mohd Yusof, 2016).Within the last ten years, data from Ministry of Agriculture indicated that the number of Malaysian food imports increased by 85% to RM21.5 billion in 2007 from RM11.6 billion in 2003. The list of imported goods in the general category has reached to 35 types. The specific list includes hundreds of different food items from various countries. Importation of milk supply and other dairy products besides cheese and butter for 2003-2007 has increased by 100%, from RM1.1 billion to RM2.2 billion. Demand for fish supply increased from RM828 million to RM1.2 billion (45%), wheat by 99% from RM653 million to almost RM1.3 billion, while demand for beef supplies increased by 69% from RM439 million to RM740 million.

As an importing country, the prices of goods or services Malaysia is highly exposed and would be subjected to events taking place outside the national borders and territory. For example the natural disaster such as the protracted drought in India and Bangladesh reduces vegetable production. The impacts of those natural disasters are directly felt by consumers in terms of prices in Malaysia. In January 2011, the price of Indian red onion jumped to 50% from the regular price of RM 6 per kilogram. The price of shallots was originally RM 10 per kilogram before the disaster before shooting up to RM 12.50 after the disaster (Zukifli Mat, 2010). Because of the disaster, the annual production of onions was drastically reduced in the area of Andhara Paresh and Karnataka of India and consequently a reduction of supply to Malaysia and resulting in price hikes of onions for more than 6 months locally (Zukifli Mat, 2010).

Both tip of iceberg events only highlighted the vulnerability of Malaysia? Many of those factors are beyond the control of the government (Zukifli Mat, 2010). This statement is supported by Haim Hilman Abdullah, an economic analyst from Strategic Business Management College of Universiti Utara Malaysia (UUM). He regarded the rising of world prices as a global phenomenon and indeed inevitable (Utusan Malaysia, 2011). In other words the government could not do much in assisting or protecting the *rakyat* from the brunt of price hikes and high cost of livings except continue to provide subsidies or other forms of monetary assistance such as BRIM (Najib, 2016). The over dependence on import goods or services has thrown and left Malaysia right at the center of financial turmoil high tidal every month, exposing the country to further high risks. Outsiders can weaken and strike Malaysia simply by manipulating the prices at world market prices (Ismail & Hussin, 2009).

Haim Hilman Abdullah mentioned above also identified five environmental elements that could influent the ups or downs of pricing in Malaysia. They are demand exceeds supply, rising of oil prices due to the political crisis in West Asia, reduction of subsidies and traders' selfish attitudes.

Oil Price Instability

The fluctuation in oil prices is highly unpredictable and inevitable (Zalina, 2007). Despite the uncertainty in world prices for petroleum, Malaysia continues to use petroleum as main source of energy. The same is still regarded comparatively efficient than using or switching to other alternative sources, such as bio-degradable food-based source of energy like palm oil or natural energy source like solar (Ahmad Syah, 2008). Though ideal, both the natural and bio-degradable energy are practically still more expensive to develop and utilize. In fact, the cost of producing such alternative energy sources will further increase the prices of food items to an extremely high and unfordable rate for all (Ahmad Syah, 2008). In a worst case scenario, the same could trigger widespread inflation (Ahmad Syah, 2008). For developing countries such as Malaysia, the impact of the increase in oil prices is obvious and unavoidable. This is due to the low personal income and GDP where majority of the society has to bear the high cost of living (Khairil, 2010). Following the rise in global oil prices, the rise has also affected the rise in prices of other commodities to the detriment of *rakyat’s* consumable income (Khairil, 2010; Zeti, 2009). According to Mohd Firdaus (2013), when world oil prices are raising, Malaysia is forced to raise the price of the fuel in the market, reducing the subsidies to buffer the prices. This leads to high cost of business, as business communities have to pay far more expensive transportation costs and finally increase in the prices of products or goods. In the end consumers must to pay more for the product they offer. As oil prices rose, prices for almost all items rose between 15 percent and 30 percent. Operational costs also rose between 30 and 40 percent (Ahmad Syah, 2008).

Positively the fall in world oil prices will allow Malaysians to enjoy gasoline at cheaper prices (Zalina, 2007). However, as an exporting country of petroleum, the same would leave a huge impact on Malaysia. According to Amar (2015), the drop in world oil prices has caused the government to face the possibility of losing RM 25 billion in Petronas's contribution through selling oil output and buying other oils to re-import. The actions and strategies are economically necessary as they are more beneficial to the country. Due to the drop, oil exporting countries including Malaysia have difficulties in getting good returns from oil sales. To cope with the loss of this result, the government have to seek other initiatives such as reducing or eliminating subsidies, causing the rising prices of goods.

The Depreciation of Malaysian Currency

The openness of Malaysian economic policy has left the country in a vulnerable spot several times (Abdul Aziz, 2011). The East Asian financial crisis in 1997-1998 has resulted in the depreciation of Malaysian Ringgit. The stock market almost collapsed at that time (Sia, 2004). According to Abdul Aziz (2011), the depreciation of Malaysian Ringgit has stunned the country's economic growth. The Malaysian currency depreciates again in 2014. According to Mohd Zaidi (2015), the misfortune reduces the national incomes, weakens the purchasing power of the country and the *rakyat* abroad and locally, makes the prices of imported goods and services remain high or higher.

Subsidy Rationalization

Subsidy rationalization is also known as subsidy adjustment. A subsidy is a direct governmental interference as it intends to essentially keep the prices of goods below the market price (M. Yusof, Norhayati, & Ismail, 2013). A subsidy adjustment is also a direct governmental interference in prices but of opposite effects. When adjusted, the government is now letting the market to determine the price based on demands-supply at the world commodities market accordingly. The volatility in world commodity prices will be immediately transferred either directly or indirectly to local and domestic markets in the forms of prices of goods or services (Nurul, 2014). Indirect effects occur when prices of goods and services not related to the commodity are also increased due the increased operating costs such as raw materials, transportation, logistics and utilities (Bank Negara Malaysia Annual Report, 2011).

Over the years Malaysia has introduced several stages of subsidy rationalizations. The moves are to save government expenses, reduce the country's fiscal deficit and strengthen the country's economy in the world market (Department of Information Malaysia, 2014). Inadvertently the move also pushes the prices of goods up as explained above (Sofea, 2015; M. Yusof et al., 2013). According to M. Yusof et al. (2013), recent crude oil prices crisis have forced developing countries, including Malaysia to review the allocation of petroleum subsidies as part of ongoing economic and market reforms to offset the fiscal preference. As a result of subsidy adjustment, the average price of petrol increases. So too the tariff and prices of the electricity and other electricity based input commodities. Bank Negara Malaysia Annual Report (2011) showed a sharp rise in prices for basic subsidized commodities like rice, sugar, cooking oil and flour.

Attitude of Sellers, Middle Men and Consumers

Greed and selfishness have big roles and they also contributed to price hikes in Malaysia. Ahmad Bashah (2014), reported the bad attitudes of business entities in taking advantages of the current predicament in the name of profits. The scenario becomes obvious every time the government announces subsidy adjustments (Nurul, 2014). Their opinions are supported by Hasan (2016). When the prices of petrol and diesel rise, the business communities are very quick to follow the same footsteps. However when the price drops, too many business entities are still reluctant to lower the prices for goods and services at an equal speed (Hasan, 2016). It is also common for selfish business entities who act as importers, manufacturers, dealers, distributors, sellers and traders to form a business cartel as part of business strategy to monopolize and dominate the consumer market (Syafie, 2011; Ahmad Bashah, 2014). This arm-twisting act is intended to “force” the government to review market prices. Few handful unscrupulous business entities deliberately reduce production outputs in attempts to reduce supply and create higher demands, especially during festive seasons (Syafie, 2011; Ahmad Bashah, 2014). In 2016, Ministry of Domestic Trade, Cooperatives and Consumerism (KPDNKK) reported 5403 consumer-related complaints involving the seizure of hidden goods worth RM7.5 million (Bernama, 2017).

The role of middle man in price hikes cannot be denied (Hasan, 2016). As middle men, they tend to make profits from all quarters regardless. Most of them set and buy produce from farmers at low prices and sell the same goods at much higher prices to traders and consumers. They also form a cartel so they can block and prevent the entry of other competitors in the market and keep forcing the farmers to sell their produce to them solely. By so doing they can control and determine the sale price remains low (Hasan, 2016).

On top of that the attitudes of consumers are not fault-free either. It is easy for greedy and selfish business entities to take advantage of consumers due to their discontent and fear (Ahmad Syah, 2008). Instead of boycotting business entities that increase the prices of goods arbitrarily, the Malaysia consumers would start panic buying. Such incident is a common sight especially during festive seasons.

Imposition of GST

The imposition of any kind of tax whether sales tax, service tax, corporate tax or GST will contribute to the increase in the Consumer Price Index (Tejvan Pettinger, 2016). According to the Secretary-General of the Ministry of Finance Malaysia, in general, prices for goods and services will increase after the implementation of the GST. Most economists referred below too do not deny that the GST may cause a rise in the price of goods. However based on the experienced of other countries, the rise is a “one-off” in nature and it only happens once at the initial stage of implementation (Minh,2003; Zubaidi, 2014). The hike is forecasted to come down and subside within a year (Astro Awani, 2014). The price hike occurs due to natural shock reaction in the market when traders who are yet familiar with the GST raise the prices and secondly due to consumers’ panic buying in hope to buy goods in maximum numbers at minimum price before the prices go up (Zubaidi, 2014 ; Abu Sufian et al., 2016).).

■ 6.0 CONCLUSION

The discussion above shows there are three main major factors responsible or influential in pushing the prices of goods and services to up or down. Those three factors are applicable to Malaysia. However as far as this writing is concerned, GST which falls under the third factor-other external factors is only one of the many factors contributing towards prices hikes locally. There are indeed many other elements that are equally responsible in relation to prices.

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