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Ride-hailing services: Promote competition or discourage usage?

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For The Straits Times

The proposed Grab-Uber merger has been widely discussed in Singapore, possibly because many commuters have become used to the promotion codes that have made using these ride-hailing services a low-cost part of their commuting routine.

Many fear that the merger would raise the costs of using Grab's services and deprive them of a transport option.

There are several strategies that the Singapore Government could adopt to make sure that consumers will continue to get competitive prices and drivers' earnings will not be adversely affected, even if the merger is approved.

Grab and Uber offer privately driven cars for hire to consumers via a smartphone platform app. But as they offer the same basic transport need, they function like substitutes to traditional taxi operators.

However, their prices can differ, especially if Grab or Uber offers discount or promotion codes for commuters. The merger of Grab's and Uber's operations in Singapore can potentially limit commuters' options and has attracted the attention of the Competition and Consumer Commission of Singapore (CCCS). This is complicated by Uber's plan to form an alliance with Singapore's biggest taxi operator ComfortDelGro.

How can the CCCS as regulator help ensure that commuters retain options for travel?

One option is for the Government to ask the merged entity Grab-Uber to cancel its alliance with ComfortDelGro. It could also forbid Grab-Uber from forming alliances with traditional taxi companies. This step would ensure that should Grab-Uber raise its prices significantly post-merger, consumers would continue to have alternatives in the form of traditional taxi companies.

Another option is to ensure that competing platforms can enter the Singapore market.

This can be done by preventing Grab-Uber from making it difficult for their drivers to sign up with new entrants like Go-Jek and Ryde that may want to enter the Singapore market. For example, Grab-Uber can be prohibited from specifying the number of rides per day or imposing other restrictions on their drivers.

In the current environment, the supply of capital to the ride-hailing companies is plentiful, enabling new entrants to offer drivers significant incentives and thus overcome one of the key advantages of Grab-Uber. If we reduce the barriers to new entrants (for example, the supply of drivers), new entrants will jump in with even more creative business models. After all, Singapore-based Grab turned out to be a creative, dynamic and worthy competitor to Uber, the global behemoth.

On the consumer side, the switching costs are low – beyond the discounts offered for multiple rides. New entrants may be able to overcome these by adopting a strategy of discounts, financed by either venture capitalists or deep-pocketed players such as Google. In fact, Indonesia-based Go-Jek, with a market capitalisation comparable to Grab and support from Google, is in a good position to make inroads into the market by offering deep discounts.

While ensuring an open playing field for potential new entrants, it is also important for the Government to look beyond the short term.

Promoting intense competition in the ride-hailing market may make consumers happy in the short term because they benefit from low-priced rides, but it imposes externalities in the form of additional congestion and pollution.

After all, the Government wants Singaporeans to switch from private vehicles to public transport. This objective is not served if prices in the ride-hailing market continue to be low. In this regard, by encouraging severe price competition, we are choosing a trade-off between high short-term consumer surplus (because of low prices) and low long-term consumer surplus (because of the externalities).

What is needed are improvements to public transport to make this an attractive option for commuters. By building new MRT lines, the Singapore Government is doing just this. It can improve reliability and maintain affordable fares to keep public transport viable.

Almost three decades ago, the Singapore Government implemented the vehicle licensing system. The thinking was that once consumers get used to cars, it may be difficult (and extremely unpopular) to stop them from buying cars.

Looking back, it's likely that many consumers would have been unhappy because they had to pay more for cars. But the policy prevented Singapore from experiencing the gridlocks that afflict other Asian cities such as Jakarta, Manila and Delhi. In other words, there was long-term benefit from implementing a policy that may have been unpopular in the short term.

The situation with the ride-hailing market today is similar. Do we choose an option that leads to low short-term prices and high usage for private transport (ride-hailing) and make people happy, or do we try to form a habit where usage of private transport is discouraged over time through pricing or other means?

There are few strategies or policies that are absolutely right or wrong – ultimately it boils down to one's goals. This demands a creative rethink of how the ride-hailing market can be regulated, beyond the obvious alternative of stopping the merger.

For a land-constrained country such as Singapore, encouraging the usage of ride-hailing services doesn't seem to be an appropriate strategy.

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