

DOMESTIC FUEL PRICE AND ECONOMIC SECTORS IN MALAYSIA: A FUTURE OF RENEWABLE ENERGY?

Hui-Siang JEE Brenda, Evan LAU*, Chin-Hong PUAH and Shazali ABU MANSOR

Department of Economics, Faculty of Economics and Business,
Universiti Malaysia Sarawak, 94300 Kota Samarahan,
Sarawak, Malaysia.

Abstract: This study empirically examines the relation between the domestic fuel prices with the ten disaggregated economic sectors in Malaysia with the spanning of data from 1990:Q1 to 2007:Q4. We found that only three sectors (agriculture, trade and other services sectors) are cointegrated with the fuel price and fuel price does Granger cause these sectors. Despite the evidence of non-cointegrated in most of the economic sectors, fuel price able to influence these sectors over a longer period. Policy recommendation from this study includes the utilization of the renewable energy (RE) as a strategic plan is the long-term solution due to the high dependency and increasing demand of energy. While energy prices have experienced some correction in response to signs of slower global growth, sufficient government enforcement and support need to be established to facilitate successful renewable energy implementation in Malaysia.

Keyword: Fuel price, Economic sector, Granger causality, Renewable Energy, Growth.
JEL Classification: C32, E31, O53

1. Introduction

Since the discovery of crude oil, it has been plays an important role in the development of the world economy. The transformation of the crude oil to the variety of energy products such as diesel, gasoline, kerosene, butane prove it is a vital source of energy, an irreplaceable transport fuel and an essential raw material in many manufacturing processes (Chang and Wong, 2003). Hamilton (1983) in his seminal work found that that oil prices have strongly correlated with real economic activity in the United States since World War II¹. As the movement of crude oil prices fluctuates and volatile, it creates uncertainty, leading to

* Correspondence Author: Tel: +6082-582430, Fax: +6082-671794, E-mail: lphevan@feb.unimas.my or/and ygwiex@yahoo.com

¹ The episodes of oil price shocks since 1973 give rise to a plethora of studies devoted to this branch of literature (see for example, Hamilton, 1983, 1996; Gisser and Goodwin, 1986; Mork, 1989; Kim and Loungani, 1992; Ferderer, 1996; Papapetrou, 2001; Brown and Yucel, 2002; Cunado and de Gracia, 2003, 2005; Jiménez-Rodríguez and Sánchez, 2005; Raguindin and Reyes, 2005 and Farzanegan and Markwardt, 2009).