

TOWARDS A CIRCULAR ECONOMY IN MALAYSIA: DO ENERGY SUBSIDIES MATTER?

DZUL HADZWAN HUSAINI ^{*,†,‡} and HOOI HOOI LEAN ^{†,§}

**Faculty of Economics and Business,
Universiti Malaysia Sarawak,
Kota Samarahan, Malaysia*

*†Economics Program, School of Social Sciences,
Universiti Sains Malaysia,
Gelugor 11800, Malaysia*

‡dzulhadzwan85@gmail.com; hdhadzwan@unimas.my

§hooilean@usm.my; learnmy@gmail.com

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Energy subsidy reform is crucial for nations aiming to transition towards a circular economy. This study examines the relationship between energy subsidies and economic growth in Malaysia from 1978 to 2019, using Autoregressive Distributed Lag, Non-linear Autoregressive Distributed Lag and Multi Threshold Non-linear Autoregressive Distributed Lag models. The study addresses three key objectives: understanding the influence of energy subsidies on economic growth, assessing their asymmetric impact and investigating how they interact with oil prices and energy usage to affect economic growth. The findings reveal several significant relationships. First, energy subsidies exhibit a negative association with economic growth. Second, while energy consumption positively contributes to economic growth, this relationship weakens in the presence of energy subsidies. Third, oil prices have a greater positive impact on economic growth when interacting with energy subsidies. Fourth, reducing energy subsidies leads to a more substantial positive impact on economic growth compared to increasing them. Overall, the presence of energy subsidies in the economy impedes economic growth. We recommend implementing energy subsidy rationalization measures. Malaysia should also prioritize the development of a comprehensive renewable energy master plan to bolster domestic production and consumption, redirecting subsidy funds towards sustainable energy sources and fostering a circular economy.

Keywords: Energy subsidies; economic growth; circular economy; Malaysia; non-linear.

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1. Introduction

After years of adapting into linear economy, the world is now shifting towards a circular economy, in which more renewable resources are used to produce output while the sources

[§] Corresponding author.