

Key Success Factors of Petrol Subsidy in Malaysia

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ABSTRACT

The purpose of this study is to examine key success factors of petrol subsidy in Malaysia. Five dependent variables tested in this study are welfare, cost of production, government budget, petrol consumption and equality. A total of 200 questionnaires were collected from central regions in Malaysia via purposive sampling. Existing petrol users are targeted as respondents of this study. This study is one of the pioneer study in Malaysia on petrol subsidy success post COVID-19 pandemic. The finding of this study will be beneficial to citizens, business owners and government in Malaysia as well as Southeast Asia. The findings can also propose new knowledge and insights to researchers.

Keywords— Petrol subsidy, post COV9D-19, Success, Government

I. INTRODUCTION

Petrol subsidy is important to protect low income (B40) and middle income (M40) consumers by keeping petrol prices low. Petrol subsidy comes with sizable fiscal costs. It may lead to higher taxes and borrowing as well as lower national spending (Belfiori, 2021). Most of the current petrol subsidy program in Asian countries fail to promote inefficient allocation of economy's resources, encourage pollution, and are not well targeted at the poor households (Kotchen, 2021). Therefore, it is particularly important for consumer, producer, and government to understand the key success factors of petrol subsidy post COVID-19 pandemic because inefficient petrol subsidy program will slow down the economic recovery and growth (Mahdavi et al., 2021). From consumer perspective, Globally, petrol subsidy were \$5.9 trillion or 6.8 percent of GDP in 2020 and are expected to increase to 7.4 percent of GDP in 2025 as the share of petrol consumption in emerging markets continues to climb (Coady et al., 2019). In Malaysia, the government may have to spend RM28 billion on petrol subsidy in Year 2022 if the price of crude oil continues to remain above US\$100 per barrel, the petrol subsidy was increased by 254% compared to RM11 billion was spent on petrol subsidies last year (Sulaiman et al., 2022).

To prevent the petrol subsidy from bringing a huge financial burden to the government, it is imperative to conduct this study to examine the key success factor of petrol subsidy program post COVID-19 pandemic. This research is the pioneer research conducted in Malaysia post COVID-19 pandemic to have a comprehensive understanding on the critical success factor of petrol subsidy in stimulating the economy recovery. As the pioneer study in Malaysia that proposes a comprehensive and integrative framework to examine critical success factor of the petrol subsidy post COVID-19, this study contributes significantly to the petrol subsidy program in the country.

II. LITERATURE REVIEW

According to the Erickson et al. (2020), subsidy lowers the cost of petrol production, increases the fee obtained through petrol producers and lowers the fee paid through customers. Consumer subsidy are tax breaks that lower the price of petrol below their market value, making them more affordable to end consumers. Firm subsidy includes direct payments or implicit credit subsidy for petrol exploration and extraction companies, as well as other petrol-intensive companies (Martins et al., 2019).

Malaysia has the highest petrol subsidy-to-total government spending ratio in ASEAN, at roughly 32.9 percent, significantly higher than the world average of 8.1 percent (Sulaiman et al., 2022).

Welfare

Petrol subsidy can bring welfare to the lower income group or disadvantaged group. According to Qadir et al. (2020), subsidy is used to ensure that all users, especially those with low incomes, have access to a specific quantity of petrol. Higher petrol subsidy of a country implies that the government is creating a better welfare as a form of direct payment to the consumers and the firms (Skovgaard & Harro, 2019). Therefore, the following hypothesis is formed and tested in this study:

H1: Welfare is a critical success factor of petrol subsidy in Malaysia**Government Budget**

In order to make petrol subsidy effective and achieve the goal of helping low income people in the society (Coady et al., 2019), the government has to allocate a big amount of budget into running this policy which Sulaiman et al. (2022) revealed petrol subsidy became an unsustainable burden to the government in developing countries. Therefore, the following hypothesis is formed and tested in this study:

H2: Government budget is a critical success factor of petrol subsidy in Malaysia**Cost of Production**

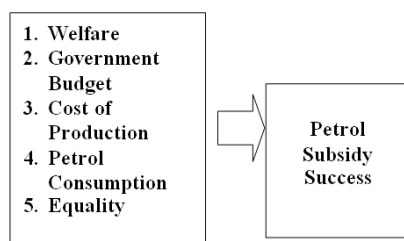
Petrol subsidies can benefit firms in terms of cost of production. According to Martins et al. (2019), petrol subsidies can boost industrial growth by lowering the cost of production for firms. Mahdavi et al. (2021) discovered that subsidies boost output, decrease unemployment, enhance the industry's pay rate, and boost demand among rural residents. Without petrol subsidies, higher costs of doing business will impact the cost of intermediate and end goods (Belfiori, 2021). Petrol subsidies can have huge impact to the production sector especially industries that heavily rely on petrol consuming products (Kotchen, 2021). Therefore, the following hypothesis is formed and tested in this study:

H3: Cost of production is a critical success factor of petrol subsidy in Malaysia**Petrol Consumption**

Petrol subsidies may result in superfluous petrol consumption which can lead to environmental problems. Erickson et al. (2020) found out that petrol subsidies are linked to superfluous petrol consumption and severe environmental externalities, which can have a long-term negative impact on human and economic growth. By decreasing the price of petrol-consuming goods, governments indirectly encourage superfluous petrol use (Coady et al., 2019). Petrol subsidies lower the price of petrol consumed, making it easy and cheap to use thus making low-carbon technologies less favourable to compete in the market (Kotchen, 2021). Therefore, the following hypothesis is formed and tested in this study:

H4: Petrol consumption is a critical success factor of petrol subsidy in Malaysia**Equality**

As mentioned in the study by Martins et al. (2019), beneficiary of petrol subsidy will be determined the frequency of consuming petrol goods and services. Coady et al. (2019) found out that upper income groups in Malaysia received more than 70% of the petrol subsidies. Only 30% of the petrol subsidies go to the lower income group to reduce poverty (Coady et al., 2019). As a result, petrol subsidies become an ineffective tool for protecting socially disadvantage group (Mahdavi et al., 2021). Therefore, the following hypothesis is formed and tested in this study:

H5: Equality is a critical success factor of petrol subsidy in Malaysia**Figure 1. Research Framework****III. METHODOLOGY**

This research will use questionnaires to collect data from 200 respondents, who are executive staff from 20 firms in central regions of Malaysia. Purposive sampling was used to select 200 executive staff from 20 petrol-intensive firms with at least 5 years of working experience to understand their views on the impact of Malaysian subsidies on firm performance post COVID-19 pandemic. The questionnaire for this study will be divided into two parts, which is Part A and Part B. Part A include questions that inquiring the respondent's age, gender and education level. Part B include 30 questions soliciting the respondent's response on welfare, cost of production, government budget, petrol consumption, equality and petrol subsidy

IV. RESULT

The result of this study show that there are five critical success factors for petrol subsidy post COVID-19 pandemic, namely, welfare, cost of production, government budget, petrol consumption and equality. Sufficient government budget ($r = 0.647$, $p < 0.05$) is the most important factor that affects the success of petrol subsidy in Malaysia post COVID-19 pandemic. Equality in the distribution of subsidy is the second most important critical success factor ($r = 0.603$, $p < 0.05$) while adequate welfare to B40 families in the society ($r = 0.594$, $p < 0.05$) is the third important factor that leads to the success of petrol subsidy. On top of that, meticulous petrol consumption is another factor ($r = 0.593$, $p < 0.05$) that leads to the success of petrol subsidy while affordable cost of production to firms also crucial to the success of petrol subsidy ($r = 0.410$, $p < 0.05$) in Malaysia post COVID-19 pandemic.

Table 1. Hypotheses Testing Result

Hypothesis	Correlation r	p-value	Result
H1: Welfare-> Petrol Subsidy Success	0.594	0.000	Supported
H2: Government Budget-> Petrol Subsidy Success	0.647	0.000	Supported
H3: Cost of Production-> Petrol Subsidy Success	0.410	0.000	Supported
H4: Petrol Consumption-> Petrol Subsidy Success	0.593	0.000	Supported
H5: Equality-> Petrol Subsidy Success	0.603	0.000	Supported

The results of this study have practical implication for government, business owner and citizen. As the pioneer study on petrol subsidy post COVID-19 pandemic, the result of study is extremely important for Malaysian government because they play the most important role in allocating sufficient national budget for the petrol subsidy program. This study reveal that Malaysians are particularly concerned about the equality of petrol subsidy distribution to the high income (T20), middle income (M40) and low income groups (B40). Government should therefore revise on the petrol subsidy policy to provide a more equal benefit to T20, M40 and B40 residents. This study provides better knowledge to the government that a good petrol subsidy policy target at improving the social welfare of disadvantaged group and helping more disadvantaged group to gain access to petrol product. Respondents think that government spending should be more focus on the how petrol subsidy can improve the welfare of the society. Government can take this insight into consideration when revising the petrol subsidy policy for the country.

Respondents of this study hope that petrol subsidy can assist the firm to reduce cost of production and boost industrial growth. Government should then form a special task force to look into ways how to help industrial practitioners to cut down the cost of production through adequate petrol subsidy. The special task force from by the government should also design measures to regulate the petrol consumption among rural and urban residents to avoid wastage due to the low selling price of subsidized petrol.

V. CONCLUSION

As the pioneer study in Malaysia that proposes a comprehensive and integrative framework to examine critical success factor of the petrol subsidy post COVID-19, this study contributes significantly to the petrol subsidy program in the country. It highlights to the government and future researchers that Malaysians are looking forward for a petrol subsidy policy that can effectively targeted at the petrol consumption welfare of the disadvantaged B40 groups in the society.

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