MASA POLICY
DEVELOPMENT PROGRAMME

POLICY BRIEF
10

The Role of the Share Energy from Renewable Sources on FDI Inflows

GOH LIM THYE

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PREFACE

Institut Masa Depan Malaysia (MASA) is an independent think tank that brings together experts in government and academia to provide quality research, policy recommendations, and analysis on the full range of public policy issues guided by the shared prosperity values.

Since its inception, MASA has been actively involved in shaping national policies and frameworks. MASA Policy Development Programme (MPDP) was introduced as a pioneering initiative aimed at promoting policy research among researchers from public and private universities across the country, in alignment with the Shared Prosperity Vision 2030 and the Sustainable Development Goals, which are integrated with the 12th Malaysia Plan.

Through the MPDP 1.0 initiative, 30 Policy Briefs have been successfully produced, encompassing policy input and recommendations across sectors such as economics, social issues, education, and sustainable development.

MASA expresses its gratitude to Dr. Goh Lim Thye for the production of this policy brief. The commitment of the MPDP grant recipients, along with close cooperation with relevant stakeholders, is highly appreciated and is hoped to continue making a positive impact on national policy development.

Azril Mohd Amin
Chief Executive Officer
Institut Masa Depan Malaysia

ABOUT MASA

Institut Masa Depan Malaysia (MASA) is an independent think tank that brings together experts in government and academia to provide quality research, policy recommendations, and analysis on the full range of public policy issues guided by the shared prosperity values.

MASA was established in January 2019. The formation of the organisation was inspired and mandated by the Seventh Prime Minister, YABhg. Tun Dr Mahathir Mohamad and the Eighth Prime Minister, YB Tan Sri Dato' Haji Muhyiddin Bin Haji Md Yassin. It was founded out of a passion to forward the philosophy of shared prosperity in Malaysia and this region.

MASA also was commissioned by the government of Malaysia to author and develop the Shared Prosperity Vision 2030 plan as the new socioeconomic plan for Malaysia.

Our Vision

To be a thought leader on policy ideas and analysis guided by shared prosperity values.

Our Mission

To create a world where no one is left behind by influencing policymakers to develop data-driven policies that ensure equitable wealth distribution and continuous improvement of people's well-being.

ABOUT MPDP

MASA Policy Development Programme (MPDP) is a pioneering effort in promoting policy research that has become part of MASA's flagship project, in line with the 12th Malaysia Plan which is aligned with the Shared Prosperity Vision and the Sustainable Development Goals.

The research grant, introduced for the first time in 2021, received an encouraging response public and private institutions of higher learning as well as non-governmental organizations.

MPDP researchers have produced studies across various strategic areas, including multidimensional poverty, education for the B40 group, sustainable urban planning for low-income communities, regional inclusivity in Sabah and Sarawak, social enterprise models for Micro, Small and Medium Enterprises (MSMEs), green economy potential and food security.

Other strategic areas of studies include empowerment of the ecotourism sector, climate change, health preparedness and crisis resilience, addressing learning loss, business acceleration, affordable housing and social protection.

All these are reflections of the initiatives and aspirations, inspired by the 8th Prime Minister and Chairman of MASA, Tan Sri Dato' Haji Muhyiddin bin Hj. Md. Yassin.

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BIOGRAPHY

GOH LIM THYE

Goh Lim Thye is a Senior Lecturer at the Department of Economics, Faculty of Business and Economics, Universiti Malaya and is currently the Head of the Department of Economics. He obtained his PhD (Economics), Master of Science (International Economics) and Bachelor of Economics (Finance and Investment Analysis) from Universiti Putra Malaysia. His research interest includes Development Economics, International Economics, macroeconomics and Applied Econometrics. He has received several research grants focusing on development economics and sustainable growth issues. Additionally, he is also an Associate Editor of the Journal of Institutions and Economics

Executive Summary

This study conducted a regression analysis using data from UNCTAD and the International Renewable Energy Agency (IRENA) to examine the relationship between renewable electricity generation and FDI inflows into ASEAN countries. The findings from the analysis are 1) renewable electricity generation had a positive impact on FDI inflows to Malaysia. 2). 1% increase in renewable electricity generation resulted in a 0.5641% increase in FDI inflows to Malaysia.

On the other hand, as part of new measures to reduce carbon dioxide (CO2) emissions, the Carbon Border Adjustment Mechanism (CBAM) will tax carbon-based fuel imports such as oil, coal, and gas (UN, 2021). On the other hand, 70% from the Group 1 corporation (science-aligned net-zero commitment) have embedded emission targets in their corporate strategies and 37% of 4,446 top CEOs admitted reducing greenhouse gas emissions as part of their corporate strategy.

As a result, multinational enterprises (MNEs) motivated by cost reductions and zero-carbon agendas will seek to invest in countries with higher shares of renewable energy. Thus, with Malaysia only came fourth in the ASEAN region for electricity generated from renewable resources (behind Vietnam, Indonesia and Thailand). This study suggests that Malaysian policymakers should; increase renewable energy generation, implement a firm regulatory framework for carbon neutrality and Environmental, social, and corporate governance (ESG) compliance, and improve business efficiency to attract a greater volume of foreign direct investment (FDI) into Malaysia.

Key Messages and Recommendations

Recommendation 1

- To increase renewable energy generation and the allocation of the NOVA programme to new investors.

Recommendation 2

- To improve Global Competitiveness by Improving Business Efficiency.

Recommendation 3

- To rethink Malaysia's approach to attracting new investors.

Introduction

Renewable energy can play an important role in attracting foreign direct investment (FDI) to Malaysia. As a country that is heavily reliant on fossil fuels, Malaysia has recognized the need to diversify its energy sources and transition to a low-carbon economy. This has led to a growing interest in renewable energy, which presents opportunities for foreign investors to participate in the development of the sector.

In recent years, Malaysia has seen an increase in FDI inflows in the renewable energy sector. For example, in 2019, Malaysian Investment Development Authority (MIDA) reported that the country attracted RM 2.9 billion (USD 700 million) in renewable energy investments, primarily in solar and biomass projects.

These investments were made by both domestic and foreign investors, including companies from China, Singapore, and Japan. Investing in renewable energy projects can offer several benefits to foreign investors in Malaysia.

First, the country has abundant renewable energy resources, such as solar, wind, biomass, and hydropower, which can provide a reliable and sustainable source of energy.

Second, Malaysia has a supportive policy environment, with government incentives and initiatives to encourage investment in renewable energy.

Third, the growing demand for renewable energy in the country and the region presents a large market opportunity for investors.

Critique of Current Policy Option

(1) Energy Generated by Renewable Sources of Malaysia

Renewable energy has become the cheapest energy source (IRENA. 2021). Malaysia has set its carbon-neutral goal for 2050, ahead of other Southeast Asian countries in carbon commitments (Indonesia aims for net zero emissions by 2060, while Thailand by 2070).

However, according to International Energy Agency (IEA) data, in 2019, modern renewable energy sources (i.e., biomass, geothermal, solar, hydro, wind, and biofuels) only supplied about 16.51% of Malaysia's energy generation.

Malaysia's renewable energy sector has been growing steadily since the early 2000s, with a focus on diversifying its energy mix and reducing its reliance on fossil fuels. Here are some of the key developments and milestones in Malaysia's renewable energy sector from 2000 to 2022:

- In 2001, Malaysia launched the Five-Fuel Diversification Policy, which aimed to reduce its dependence on oil and gas and promote the use of renewable energy sources such as biomass, hydro, solar, and wind.

- In 2006, the National Renewable Energy Policy and Action Plan was introduced, which set a target of achieving 5.5% renewable energy in the national electricity mix by 2005, and 11% by 2020.

- In 2011, Malaysia launched its first feed-in tariff scheme, which offered incentives to renewable energy producers to sell excess electricity back to the grid. This helped to boost the uptake of solar and biomass energy in particular.

- In 2014, Malaysia established the Sustainable Energy Development Authority (SEDA) to oversee the development and implementation of renewable energy policies and programs.

- In 2018, Malaysia set a new target of achieving 20% renewable energy in the national electricity mix by 2025, under its National Renewable Energy Policy and Action Plan.

- As of 2022, Malaysia's renewable energy mix consists mainly of biomass (55%), hydro (24%), solar (17%), and wind (4%). The country has a total installed capacity of 9,808 MW of renewable energy, which represents 10.7% of its total installed capacity.

Malaysia's Ministry of Energy and Natural Resources (KeTSA), on the other hand, launched the Net Energy Metering (NEM) Scheme in 2016 with a 500MW quota allocation to encourage the use of solar energy.

The scheme's overwhelming response has subsequently resulted in NEM2.0 and NEM3.0, the latter with an allocation increase to 800MW, with 600MW, allocated for commercial and industrial sectors (NOVA (Net Offset Virtual Aggregation) Program). While industry participants welcomed NEM 3.0, the new allocation was considered insufficient.

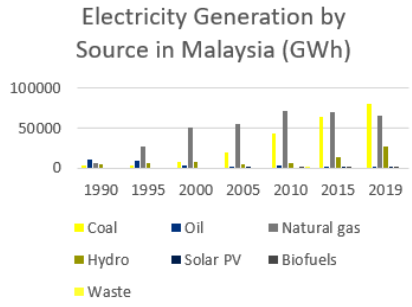
For example, the CEO of Solarvest Holdings Bhd urged the government to allocate 3,000 MW for the NOVA programme rather than the 600MW allocated if the government wanted to promote a green energy agenda in the commercial sector (The Edge, 2021).

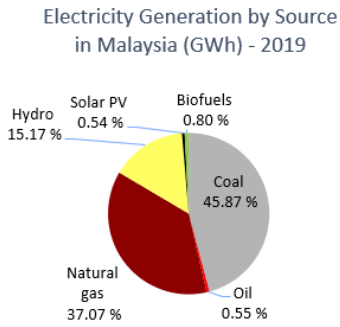
As shown in Figure 3, non-renewable sources have dominated electricity/power generation in Malaysia, accounting for 83.49% (146,758 GWh) of the total electricity generated in 2019.

Although Malaysia exported US$ 5.03 billion in photosensitive/photovoltaic/LED semiconductor devices in 2020, making it the world's second-largest exporter after China (US$ 23.7 billion), the country's total electricity generated by solar panels at 0.54% remains notably low (trailed behind Hydro and Biofuels).

As illustrated in Figure 1, solar PV contributed only 0.54% of total electricity generated in 2019, while hydro accounted for 15.17%.

Figure 1
Electricity Generation by Source in Malaysia





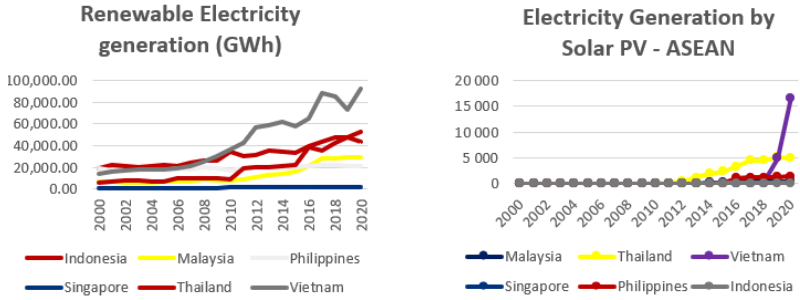
(2) Energy Generated by Renewable Sources in ASEAN region

In 2020, Vietnam generated the ASEAN region's most electricity from renewable sources, with 92,280.61 GWh, followed by Indonesia (52,556.20 GWh) and Thailand (43,693.41 GWh). On the other hand, Malaysia came fourth in the ASEAN region for electricity generated from renewable resources, with 28,919.02 GWh.

Figure 2 depicts the ASEAN region's electricity generation from renewable resources on the left, with the right-hand panel emphasising that Solar PV in Vietnam generated the most electricity in the ASEAN region in 2020, with 16,660.49 GWh, followed by Thailand with 4,938.61 GWh.

Figure 2

Renewable Electricity Generation in the ASEAN Region



Nine out of the top ten investors investing in developing countries are multinational enterprises (MNEs) based in developed countries (Japan, Hong Kong, United States, Netherlands, Singapore, United Kingdom, Germany, Luxembourg and South Korea), UNCTAD (2021).

Hence, potential host countries with similar sustainable development values as MNEs would have a comparative advantage (Pinkse and Kolk, 2012; Shinkle and Spencer, 2012). Furthermore, the ASEAN region recorded a growth of US$ 70 billion in greenfield investments in 2020, the highest amount of FDI inflows compared to other regions globally (UNCTAD, 2021).

Given that renewable energy was the cheapest power source in 2022 (IRENA), it is reasonable to believe that countries with a higher share of renewable energy may encourage efficiency-seeking MNEs to invest in them, thereby increasing FDI inflows. As a result, Malaysia policymakers still have much work to do to meet their power generation plan's goals of increasing the share of renewable energy (RE) in installed capacity to 31% in 2025 and 40% in 2035.

(3) FDI Inflows (Malaysia vs ASEAN countries)

Before the COVID-19 pandemic, the ASEAN region saw a 5% increase in FDI inflows to US$ 156 billion in 2019. This expansion was driven by strong investment in Singapore, Indonesia, and Vietnam, which received more than 80% of the region's FDI inflows.

Malaysia has been a popular FDI destination for investors since the 1990s, according to data from the United Nations Conference on Trade and Development (UNCTAD) (2022), with the highest FDI inflows of US$ 12.19 billion in 2011.

However, as a result of the COVID-19 pandemic's lockdown measures, supply chain disruptions, and economic uncertainties, the ASEAN region saw a 31% decrease in FDI inflows to US$ 107 billion in 2020, while FDI inflows to Malaysia decreased by 54.8% to US$ 3.48 billion (UNCTAD, 2021).

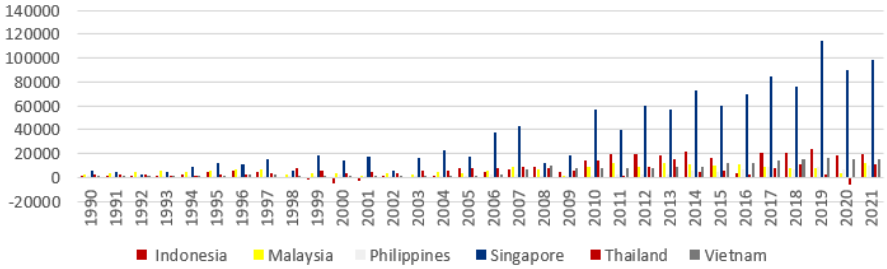
Despite the COVID-19 pandemic, Asia's developing countries were the only region worldwide to see FDI growth in 2020 (US$ 518 billion compared to US$ 511 billion in 2019), accounting for more than half of global inward FDI flows (amounting to approximately US$ 963 billion). This situation demonstrated that FDI inflows to Asian developing countries were resilient despite the COVID-19 pandemic (UNCTAD, 2021).

While Malaysia's FDI inflows have consistently ranged between US$ 5 and US$ 12 billion per year, other countries in the region appear to be gaining momentum in attracting foreign investment.

Malaysia attracted a total of US$ 5.138 billion and US$ 5.741 billion in 1992 and 1993, respectively, as shown in Figure 3. During the same time period, Singapore was the second most popular country for foreign investors, attracting total investments of US$ 2.204 billion and US$ 4.686 billion, respectively.

Figure 3

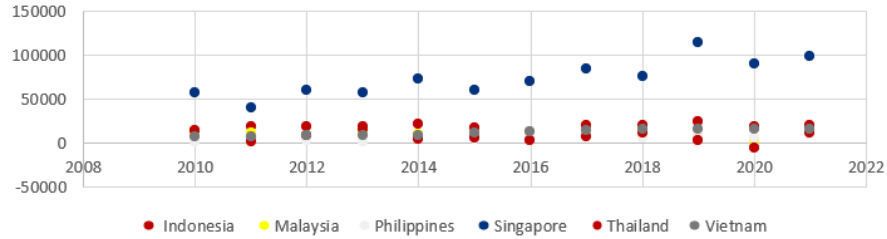
FDI Inflows to ASEAN Countries (US$ Millions) (1990-2021)



In 2020, for example, while countries worldwide struggled to deal with the effects of the COVID-19 pandemic, as illustrated in Figure 4, Singapore managed to attract US$ 90.561 billion in total foreign investment, while Malaysia only secured US$ 3.482 billion.

Figure 4

FDI Inflows to ASEAN Countries (US$ Millions) (2010-2021)



More concerning has been that, aside from Singapore, Malaysia has consistently trailed Indonesia and Vietnam in the race to attract foreign direct investment since 2010.

Malaysia, for example, received US$ 11.620 billion in foreign direct investment in 2021, a 261.65% increase over the previous year; however, this amount was still far less than that received by Singapore (US$ 99.099 billion), Indonesia (US$ 20.081 billion), and Vietnam (US$ 15.66 billion).

Falling behind its peers may force Malaysia's policymakers to continue applying special direct and indirect tax breaks to attract FDI inflows. As a result, Malaysia's ability to increase tax revenue collection would be hampered in the long run. Given that Malaysia ranked fourth in the ASEAN region for renewable energy generation, we argued that this could explain why Malaysia lags behind its peers in attracting foreign direct investment.

(4) Empirical Analysis on The Role of Renewable Energy on FDI Inflows

This study conducted a regression analysis using data from UNCTAD and the International Renewable Energy Agency (IRENA) to examine the relationship between renewable electricity generation and FDI inflows into ASEAN countries. The findings from the analysis are as follows:

- As illustrated in Figure 5, Renewable electricity generation had a positive impact on FDI inflows to Indonesia, Malaysia, The Philippines, Singapore and Vietnam but did not have an impact on Thailand's FDI inflows;

- Based on the coefficient obtained for renewable electricity generation in Table 1, a 1% increase in renewable electricity generation resulted in a 0.5641% increase in FDI inflows to Malaysia; and

- The result of the variance composition in Figure 6 suggested that renewable electricity generation was a significant driver of FDI inflows to Malaysia and had increased with time.

Table 1

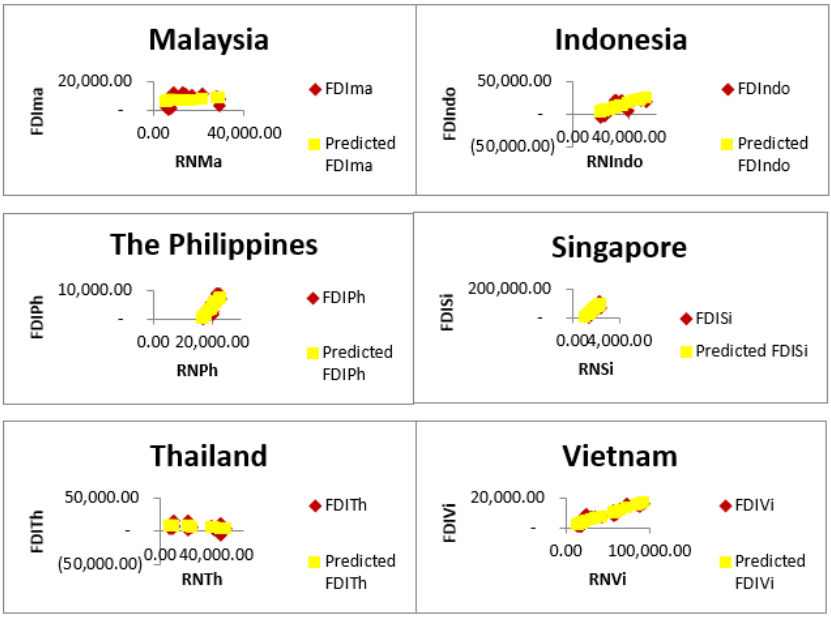
The Role of Renewable Energy on FDI Inflows (Malaysia)

	Coeffi-cients	*t-Statistic*
Intercept	1.4672	1.3087
Renewable Electricity Generation	0.5641	2.0382

Note: Data obtained from UNCTAD and IRENA (Data Range 2000 to 2020)

Figure 5

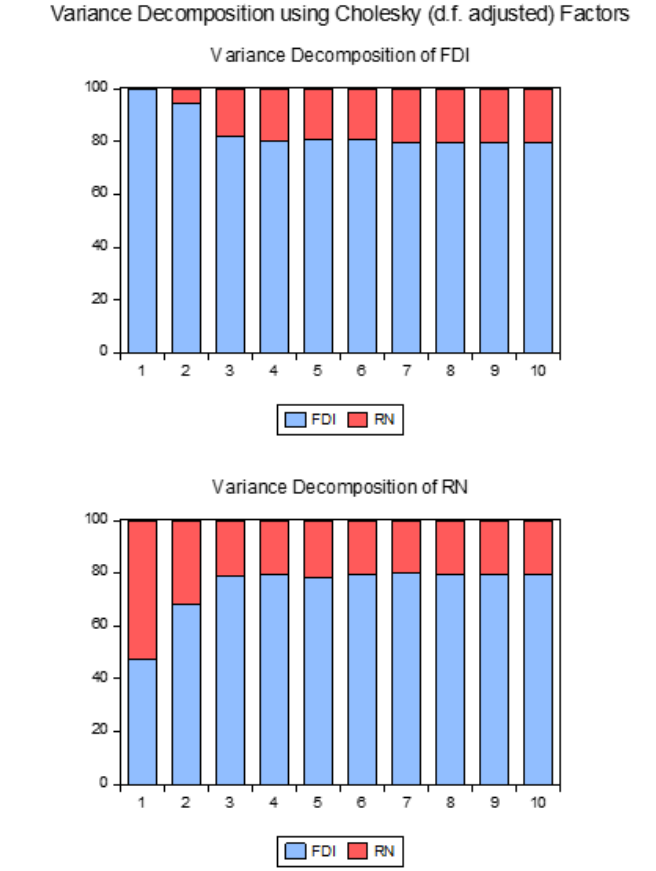
Regression Analysis on the Impact of Renewable Energy on FDI Inflows - ASEAN



Note: RN= Renewable Electricity Generation; FDI= Foreign Direct Investment Inflows

Figure 6

Variance Decomposition of FDI Inflows and Renewable Energy Generation in Malaysia



Note: RN= Renewable Electricity Generation; FDI= Foreign Direct Investment Inflows

Discussion

The following may shed insight into factors that could drive FDI inflows to Malaysia.

(1) Global Competitiveness Index – ASEAN Countries

According to the Ricardian model (Ricardo, 1817), a country with a comparative advantage in producing one good would benefit more from producing that good.

As a result, it is not surprising that many studies have concluded that countries with higher competitiveness indices have attracted higher FDI inflows (Castro and Buckley (2001), Popovici and Calin (2012), Paul et al. (2014)).

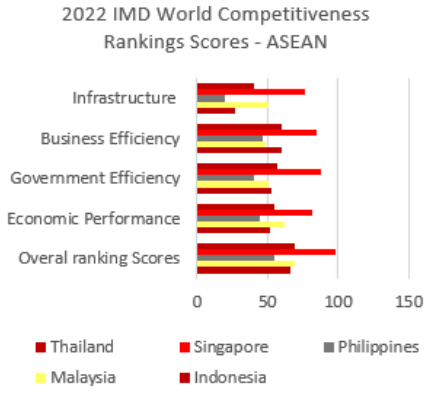
With fierce international competition to attract FDI to countries, policymakers must determine how competitive Malaysia is compared to its neighbouring countries. In the most recent data from the IMD World Competitiveness Yearbook, Malaysia was ranked 32 out of 63 countries in 2022, with an average overall score of 68.79.

Although Malaysia's ranking had dropped seven places from the previous year, Malaysia was still ranked second in the ASEAN region.

What is concerning is that, as shown in Figure 7, Malaysia was not only ranked lower than Singapore in every category included by the index, but Malaysia also lagged behind Indonesia and Thailand in the categories of Business Efficiency and Government Efficiency.

In addition, another important finding was that Malaysia's Macroeconomic Stability dropped from first place in 2018 to 35th place in 2019, according to the World Bank's Global Competitiveness Index 4.0.

Figure 7
2022 Global Competitiveness Ranking Scores - ASEAN



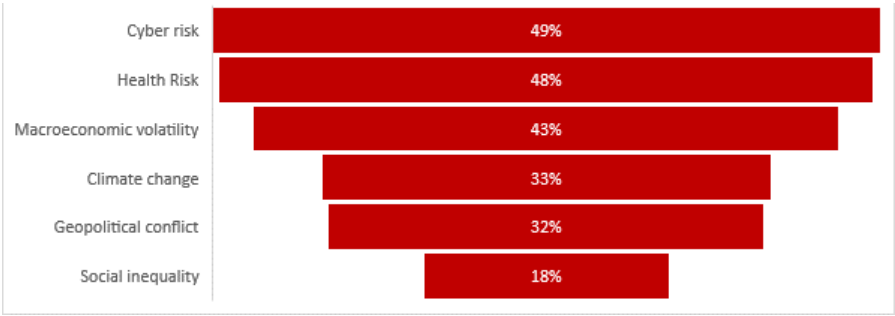
(2) What worried the Top CEOs?

Policymakers may find the following data from PricewaterhouseCoopers' (PwC) 25th Annual Global CEO Survey, which surveyed 4,446 CEOs from 89 countries, helpful in determining how to enhance Malaysia's position as a premier investment location.

From the survey (highlighted in Figure 8), the surveyed CEOs were most concerned about cyber risks (49%), followed by; the global health situation (48%), macroeconomic volatility (43%) (such as fluctuations in GDP, unemployment and inflation), climate change (33%), geopolitical conflicts (32%) and social inequality (18%).

Figure 8

Top Threats to Growth

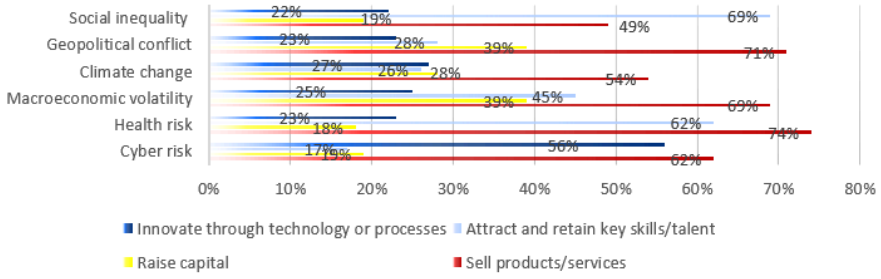


On the other hand, the potential effects of the threads shown in Figure 6 that the top CEOs were most concerned about have been summarized in Figure 9. In general, the surveyed CEOs were most concerned about the effect of each thread on their company's sales revenue and their ability to attract and retain talent.

In contrast, 74% of the CEOs felt that health risks, such as the COVID-19 pandemic, would affect their company's sales revenue, whereas 69% of the CEOs were more concerned about their ability to attract and retain key talent when facing social inequality.

Additionally, 56% of the surveyed CEOs were worried about how cyber risks would affect their ability to Innovate through technology or processes, and 39% of the CEOs were worried about how macroeconomic volatility and geopolitical conflict would affect their ability to raise working capital.

Figure 9
The Impact of the Threads



The non-financial outcomes of the company's long-term corporate strategies are also an important finding that is worth investigating. According to the poll (Figure 10), 71% of the top CEOs stated that customer satisfaction remained the corporate strategy's top priority, followed by assessing employee engagement at 62%.

Intriguingly, only 54% and 37% of the sampled CEOs stated that digitalisation and ESG were a part of their long-term corporate strategies, despite growing interest in these topics.

The survey also noted that, compared to 10% of enterprises with revenues of less than US$ 100 million, two-thirds of big corporations (with revenues of US$ 25 billion or more) had announced net-zero commitments (zero emission).

Big businesses are more likely to branch out internationally (65% of Fortune 500 corporations have international operations, according to CapRelo (2021)). Thus, policymakers of FDI host nations should consider how to support such companies' net-zero commitments to draw in their investment.

Figure 10
Company's Long-term Corporate Strategies

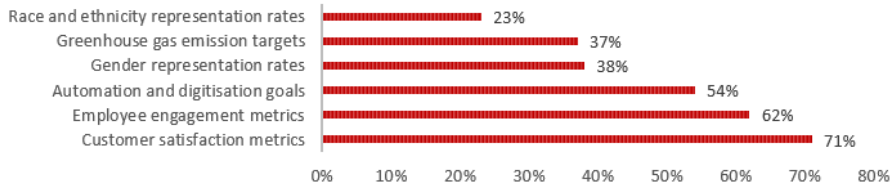
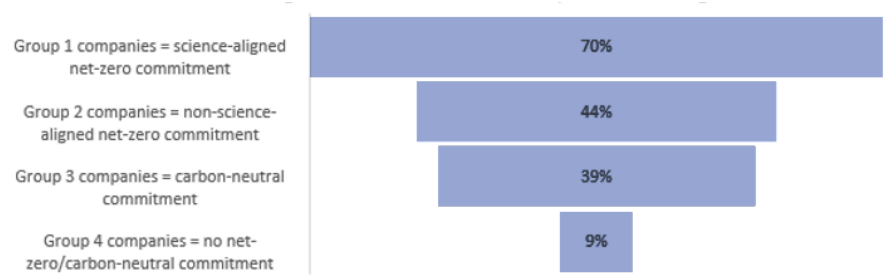


Figure 11 divides the sampled companies into four groups based on their commitments to decarbonisation. According to the study, 44% of Group 2 corporations (non-science-aligned net-zero commitment) have embedded emission targets in their corporate strategies, compared to 70% of Group 1 corporations (science-aligned net-zero commitment).

On the other hand, only 39% of Group 3 (carbon-neutral commitment) and 9% of Group 4 (no net-zero/carbon-neutal commitment) enterprises incorporated emission targets into their respective business strategies. Thus, this information would be useful for policymakers to match their investment policies with the corporate strategies of potential investors.

Figure 11
Emission Targets Embedded in Corporate Strategies



Policy Recommendations

Despite the COVID-19 pandemic, Asia's developing countries were the only region worldwide to record FDI growth in 2020. In addition, renewable energy has been a key driver of FDI inflows to Malaysia. This study has outlined six recommendations for stakeholders to consider to attract more FDI into Malaysia.

(1) Policy to increase renewable energy generation and the allocation of the NOVA programme to new investors

According to this study's empirical findings, renewable energy generation has positively influenced FDI inflows to Malaysia (Figure 10 and Table 1). Policymakers should incentivise users to switch to renewable energy in order to increase demand for renewable energy generation, such as by offering lower installation fees or a discount scheme.

In addition, MIDA should negotiate with Sustainable Energy Development Authority (SEDA) to establish a special NOVA quota for new investors to attract new investors. Such an allocation will align with companies with race-to-zero agendas, making it appealing to those companies.

(2) Policy to achieve CO2 neutrality

Today, over 130 countries, including Malaysia, have pledged to achieve net zero emissions by 2050. (Carbon Neutrality Coalition, 2022). Hence, to show the world that Malaysia is serious about its commitment to carbon neutrality by 2050, policymakers should gradually; impose carbon taxes, phase out fossil fuel subsidies, and increase incentives for electric vehicles and renewable energy consumption.

These policy measures can be effective in reducing greenhouse gas emissions and mitigating climate change. Carbon taxes, for example, can provide an economic incentive for companies to reduce their carbon footprint and invest in clean energy technologies.

Similarly, phasing out fossil fuel subsidies can help create a level playing field for renewable energy sources and ensure that polluting activities are not artificially cheap. Finally, incentives for electric vehicles and renewable energy consumption can help to accelerate the transition to low-carbon technologies.

Furthermore, research grants focusing on carbon neutrality should be increased to generate ideas and develop effective CO2 emission reduction methods. Furthermore, with ESG assets expected to reach US$ 53 trillion (RM 225.13 trillion) by 2025, policymakers must establish a clear and firm regulatory framework for sustainable investments and low-carbon compliance.

(3) Policy to Improve Global Competitiveness by Business Efficiency

According to the IMF's most recent World Competitiveness Yearbook 2022, Malaysia's business efficiency ranking has fallen from 24th place in 2021 to 38th place in 2022. Furthermore, Malaysia's ranking was shown to lag behind Singapore (ranked 9th worldwide), Indonesia (ranked 31st worldwide), and Thailand (ranked 30th worldwide), respectively. Thus, to improve Malaysia's business efficiency, policymakers could consider the following initiatives:

(a) Reducing reliance on foreign labour through innovation, automation and digitalisation

Despite official data showing 1.1 million foreign workers in the country in 2021, according to the World Bank (2020), Malaysia had between 2.96 and 3.26 million foreign workers. Malaysia's employers continue to request more foreign workers to address human resource shortages, and most foreign workers hired by the manufacturing sector are focused on low-skilled tasks.

Thus, policymakers should implement an incentive programme to encourage the manufacturing sector to automate production processes. The program could include tax credits or grants for businesses that invest in new machinery, robotics, or other automation technologies. This can help reduce the initial cost of investment and make automation more financially viable for businesses.

Policymakers could also emulate Indonesia's Sustaining Competitive and Responsible Enterprise (SCORE) programme, which has aimed to improve small and medium-sized enterprises' productivity and working conditions (SMEs). According to the International Labour Organization (ILO, 2021), the SCORE training programme has benefited 2,300 companies and 34,900 workers in Indonesia.

Furthermore, the best practices implemented by micro, small, and medium-sized enterprises (MSMEs) to increase productivity include; employee suggestion schemes, quality information shared with employees, information sharing, daily meetings, and 5S (Sort, Straighten, Shine, Standardize, and Sustain) and simple manufacturing systems.

(B) Hasten the rate of digital adoption

According to the World Bank (2022), digitalisation has created new trade opportunities for firms to sell more products to larger markets, allowing local SMEs to improve their global competitiveness.

Although Malaysia is the world's 35th largest eCommerce market, with revenues of US$ 6.3 billion in 2021, the overall rate of digital adoption by Malaysian businesses continues to lag behind its ASEAN peers. Whereas 77% of Malaysian SMEs are still in the early stages of digitalisation, only 15% use online platforms to export their products.

As a result, policymakers should provide targeted technology and financial assistance to industries lagging in digitalisation. Targeted technology assistance can help these industries overcome these barriers by providing them with the necessary tools and expertise to implement digital solutions.

For example, policymakers could offer training programs to help workers acquire new digital skills, provide access to digital infrastructure, or offer incentives for adopting digital technologies.

Similarly, targeted financial assistance can help to overcome financial barriers to digital adoption. Policymakers could provide grants, loans, or tax incentives to support investments in digital infrastructure or technology. Such measures could also help to reduce the risks associated with digital investments, particularly for small and medium-sized enterprises.

Furthermore, authorities, such as; MDEC and SME Corp. Malaysia, should provide; free training, workshops, and coaching programmes to encourage digital transformation among SMEs.

(4) Rethink Malaysia's approach to attracting new investors

According to Lewin (1935), approach-avoidance conflicts can cause people to conceal or avoid discussing sensitive issues or criticisms. Approach-avoidance conflicts occur when a person is simultaneously attracted to and repelled by a certain situation or decision.

In the context of discussing sensitive issues or criticisms, this can occur when a person wants to share their honest opinion or feedback but is afraid of the potential negative consequences, such as causing conflict or damaging relationships. Such sensitive issues at a country level may include; government efficiency, macroeconomic volatility, geopolitical conflicts, and social inequality.

This can lead to people concealing or avoiding discussing sensitive issues or criticisms, which can hinder communication and productivity in a team or organization. To attract new investors and to improve efficiency levels, it is important to address and overcome these conflicts.

One way to do this is to create a safe and supportive environment where people feel comfortable sharing their thoughts and opinions without fear of retribution or judgment.

This can involve establishing clear communication channels and protocols for providing feedback, as well as fostering a culture of openness and transparency. It can also be helpful to provide training and support for effective communication and conflict resolution skills.

This can include training in active listening, empathy, and constructive feedback, as well as providing access to resources for resolving conflicts in a constructive and respectful manner.

As a result, policymakers must be honest, courageous, and self-assured enough to challenge or discuss Malaysia's weaknesses and take proactive steps to address them. With potential investors pledging millions, if not billions, of dollars in a host country, a clear, honest, and informative approach will prevent potential investors from failing to honor their commitment.

Furthermore, policymakers should adopt strategies, such as Singapore's "The Million Hours Challenge", to rally public officers to review and improve processes to save time and create better experiences for citizens and businesses. It was reported that approximately 900 projects subjected to the challenge saved more than 10 million hours (Low, 2021).

Conclusion

Over 130 countries, including Malaysia, have pledged to achieve net zero emissions by 2050 (Carbon Neutrality Coalition, 2022), and renewable energy has become the world's cheapest power source.

Our empirical analysis and discussion found out that 1). 1% increase in renewable electricity generation resulted in a 0.5641% increase in FDI inflows to Malaysia. 2). 70% from the Group 1 corporation (science-aligned net-zero commitment)have embedded emission targets in their corporate strategies. 3). 37% of 4,446 top CEOs admitted reducing greenhouse gas emissions as part of their corporate strategy.

As a result, electricity generation from renewable energy sources is a significant determinant of FDI inflows into Malaysia. To attract more FDI into Malaysia, policymakers should increase renewable energy generation, implement a firm regulatory framework for carbon neutrality and ESG compliance, and improve business efficiency.

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