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Analyst: Expand LSS projects, R&D to support energy-intensive data centre sector

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UNLOCKING OPPORTUNITIES

Analyst: Expand LSS projects, R&D to support energy-intensive data centre sector

KUALA LUMPUR: The government can implement a focused industrial strategy to support the energy-intensive data centre sector by expanding large-scale solar (LSS) projects and increasing investments in research and development (R&D) to enhance solar farm efficiency.

This approach would enable companies planning to establish data centres in Malaysia to significantly lower electricity costs by transitioning to renewable energy sources.

Institute for Democracy and Economic Affairs economist and assistant research manager Doris Liew said these efforts would help the nation meet the growing energy demand and unlock new opportunities for growth in the renewable energy sector.

She said to fully capitalise on this industry, Malaysia must reinforce its position by developing supporting infrastructure and fostering a conducive business environment.

"The country faces challenges in data centre design and construction due to a lack of domestic capacity to manufacture and assemble key components, such as data centre racks and equipment, forcing companies to rely on imports.

"By investing in domestic capabilities to design, build, and maintain data centres, Malaysia can reduce its reliance on foreign imports and create a new economic growth area," she told "Business Times".

Furthermore, Liew emphasised that ensuring a reliable and resilient power supply was critical for data centre operations.

She said this reliability could be enhanced through greater integration of renewable energy sources, improved grid management, and strategic investments in energy storage solutions.

According to Liew, investment incentives at the Johor-Singapore Special Economic Zone (JS-SEZ), combined with the rise of artificial intelligence (AI) and its increasing demand for computational power, had driven a data centre boom in Malaysia and across Southeast Asia.

She said this rapid expansion had led to an increase in electricity and water consumption, particularly for cooling systems, placing additional pressure on the utilities sector.

Moreover, she said the surge in data centre infrastructure presents a unique opportunity for Malaysia to accelerate renewable energy production.

Doris Liew

"As data centres drive up utility consumption, the increased demand could serve as a catalyst for scaling up renewable energy projects," she said, adding that access to affordable and sustainable energy reduced operational expenses and strengthens the corporate social responsibility credentials of data centre developers.

In a recent report, Knight Frank highlighted that data centres were critical to powering the growing digital economy.

However, their operations demand substantial energy and water to ensure the uninterrupted functionality of servers, cooling systems, and other information technology equipment.

The report stated that the sudden surge of data centre investments in Malaysia, especially in the state of Johor, over the past two years, has raised concerns about the nation and state's abilities to handle the increased demand for electricity and water resources.

"Stakeholders are questioning whether the existing infrastructure can sustainably support this rapid growth without compromising environmental commitments and local communities," it said.

From a national perspective, the report highlighted that the government was shaping the investment landscape for the data centre industry through comprehensive measures.

Last year, the sector achieved several key milestones, including the release of updated planning guidelines.

Additionally, sustainable development frameworks and a new incentive system based on a "scorecard" approach are under development, reflecting the government's commitment to fostering a balanced and responsible growth environment.

The Johor government has taken a strategic and decisive stance in addressing the resource challenges posed by this resource-intensive sector.

Recognising the potential strain on energy and water resources, the state has implemented stringent guidelines in approving data centre developments.

As a result, the state has rejected nearly 30 per cent of data centre applications (reported in November 2024) after considering factors, such as the adoption of renewable energy, water management, resource readiness and economic benefits.

Moving forward, the report noted that the domestic data centre industry would move into a stabilisation phase.

"With the private sector actively playing its role in utilising technology to reduce carbon footprints through innovation and bringing in best practices to the country, it is anticipated that the government will take an adaptive approach in its approach to the industry, fostering an investor-friendly environment through regulations, guidelines, and policies that balance sustainability and technological growth," it said.