TESTING NONLINEAR CONVERGENCE IN MALAYSIA, 1965-2003

by

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ABSTRACT

The purpose of the present paper is to examine income convergence in Malaysia by using the nonlinear unit root test due to Kapetanios et al. (KSS, 2003) and extended by Chong et al. (CHLL, 2008) to permit the test of long-run convergence and catching-up hypotheses. We apply the KSS-CHLL nonlinear unit root for the test of nonlinear convergence between thirteen states with respect to Wilayah Persekutuan (the riches state) of Malaysia for the period 1965 to 2003. Generally, our results suggest that out of the thirteen states, only Kedah, Negeri Sembilan, Perak, Perlis and Selangor support the long-run convergence hypothesis while Johor, Kelantan, Melaka, Pahang and Penang suggest catching-up. Lastly, Sabah, Sarawak and Terengganu indicate income divergence from Wilayah Persekutuan.

1. INTRODUCTION

During the last forty years, the government of Malaysia, through a series of five-year development plans has implemented various policies and programmes aimed at alleviating regional disparities and underdevelopment. The purpose of the regional development plans was to mainly focus on reducing the large imbalances in social and economic development among states in the country. To correct these imbalances is important because according to Hill (2002), regional economic disparities hamper economic growth and that countries with a relatively even spatial distribution of income are likely to grow faster. However, it was only during the Second Malaysia Plan 1971-1975 (Government of Malaysia, 1971), that the government established the State Planning Units to enable the individual states to identify and formulate projects and to coordinate development activities at their State level (Tengku-Hadi, 1996).

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