Regional income disparities in Malaysia: A stochastic convergence analysis

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Abstract

For the last four decades, income disparities across states in Malaysia continue to be a matter of concern. The existence of regional inequalities and the prospect that these inequalities may widen were recognized by the Malaysian government. The eight volumes of the 5-Year Malaysia Plan reflect the determination of the Malaysian government in alleviating if not totally eradicating the problem of regional or state level imbalances. The recent Ninth Malaysia Plan has again emphasized regional development policies in bridging the gap of regional disparities for the next five years. Using annual data for the period 1965 to 2003, the stochastic convergence definition suggested by Bernard and Durlauf (1995), univariate unit root tests suggested by Oxley and Greasley (1995) and panel unit root testing procedures proposed by Levin et al. (2002), Im et al. (1997) and Maddala and Wu (1999), our findings strongly support the stochastic convergence of catching up hypothesis for six regions in Malaysia. An important implication of this study is that Malaysia's regional development policies, on average, have had a positive impact on the per capita income in all of the six regions.

Keywords: catching up hypothesis, income disparities, poverty eradication, stochastic convergence analysis, panel unit root testing procedures, univariate unit root tests

Introduction

On 4th November 2006, the Malaysian government launched the most ambitious development project in the region – the South Johor Economic Region (SJER) which boasts the creation of some 800,000 jobs by the year 2020, comprises an area nearly three times the size of Singapore with passport free zone for foreigners, and is projected to generate an average rate of growth of eight percent for Johor. This marked the serious effort of the Malaysian government regional development plan laid out in the Ninth Malaysia Plan to reduce regional imbalances and income disparity among states. In the Ninth Malaysia Plan 2006-2010 (Government of Malaysia, 2006: p. 363), there are five main thrusts for balanced regional development. These includes: (1) accelerating development in lesser developed states through improving infrastructure, social facilities amenities in the rural areas; (2) improving the quality of life in rural and urban areas; (3) establishing new regional development authorities (RDAs) in Sabah and Sarawak; (4) enhance higher economic growth through developing growth centres and growth corridors transcending state boundaries; and (5) enhancing development of border states through ASEAN sub-regional development cooperation in the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), and the Joint Development Strategy for Border Areas (JDS).
　　　　Nevertheless, the effort of the Malaysian government to reduce regional or states imbalances is not