

TESTING REGIONAL CONVERGENCE HYPOTHESIS USING TIME-SERIES DATA: SECTORAL EVIDENCE

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Almost five decades, disparity in income across states in Malaysia continues to be a matter of concern. The existence of regional inequalities and the prospects that these inequalities may widen were recognized by the Malaysian government. The nine volumes of the 5-Year Malaysia Plans reflects the sincerity of the Malaysian government in eradicating if not elevating the problem of regional or states imbalances. The objective of the present study is to investigate stochastic convergence among three regions (Peninsular Malaysia, Sabah and Sarawak) in Malaysia using sectoral data. Using annual data for the period 1968 to 2003 we found that Malaysia's sectoral data exhibit strong and weak convergence between regions.

1. INTRODUCTION

Whether poor economies tend to converge towards rich ones or else to diverge over time is an issue that has attracted the attention of policy-makers and academics alike for some decades. Economic convergence or divergence is a topic of considerable interest and debate, not only for validating or otherwise the two leading and competing growth models (the neoclassical and the endogenous growth approaches) but also for its policy-oriented implications. In Malaysia, the issue of economic convergence is also much debated. Despite the various Malaysia Plans for the past three decades, regional disparity between states remains.

In the 5-Year Malaysia's National Plans, government has discussed regional development objectives, strategies and policies. This National Plans covers all the