Regional income disparities in Malaysia: A stochastic convergence analysis

Muzafar Shah Habibullah¹, AM Dayang-Affizzah², Chin-Hong Puah²

¹Department of Economics, Faculty of Economics and Management, Universiti Putra Malaysia, 43400 UPM Serdang, Selangor, Malaysia, ²Department of Economics, Faculty of Economics and Business, Universiti Malaysia Sarawak, 94300 Kota Samarahan, Sarawak, Malaysia

Correspondence: Muzafar Shah Habibullah (email: muzafar@econ.upm.edu.my)

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