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Convergence Behaviour of Growth Triangle: The Case of IMT-GT

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Abstract

Regional disparities and their evolution displayed a vital economic as well as political issue for most regions or countries (Blizkovsky, 2012). Due to realizing this shocking fact, it has drawn a lot of attention from all over the world to tackle this issue in order to avoid its adverse implication towards holistic economic development. The beauty of Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) is that it aims to increase the trade and investment among the three regions as it pursues private sector-led economic growth. However, evidence shows that the progress of development in this sub-region is either stagnant or slow. Hence, the aim of this study is to investigate the convergence hypothesis of the participating states and determine the reason behind each of the convergence behaviour portrayed. Non-linear time varying factor model namely Phillip and Sul has been employed in this study. The result implies that Negeri Sembilan is the only diverging group while the rest is converging. This phenomenon indicates that most of the states and provinces in this sub-region have positive performance towards the economic growth. Effective development planning can be done by policy makers after determining the performance of each of the states and provinces.

Keywords: Convergence; Income disparity; Regional inequalities

Introduction

Globalization generates massive interconnection between nation-states and societies through flows of resources such as products, money, people and information for the process of lessening territorial boundaries [1-3]. This creates the recent accelerating growth of economic regionalism or economic integration which has generated scholarly interest among the researchers. Economic convergence is a term originated from neoclassical era and has been studied broadly by the economists. In neoclassical growth theory, Solow [4] postulated that poor economies grow faster than rich ones if the economies are identical in terms of preferences and technology. Some researchers had done the study of convergence on different countries whereby some of them evolved a better model along the years. Barro and Sala-i-Martin [5] for instance, had documented the measure of the non-linear relation between initial output and growth. The setup is developed for neoclassical growth models which is used to measure club convergence as well. Upon realizing the fact that economic convergence among states can aid the performance of the economic growth, regionalism is created by state authorities. During this period, globalization tends to minimise the boundaries to invent a larger space out of smaller territorial spaces bounded in nation-states [6]. In the early 1990s, some regional economic institutions are born like European Union (EU), North America Free Trade Agreement (NAFTA), Mercusor and Asia-Pacific Economic Cooperation (APEC). All of these institutions are established with one main goal which is to enhance the economic growth by implementing policies such as free trade area for their region accordingly. Different country, language, politics or cultures are not the obstacles for them to create a single market as mutual agreement will be made among them.

A region is generally often defined as a group of countries located in the same geographically specified area. Although the group of regionalization is big and wide, some authorities suggested that a smaller regional cooperation would be better as it will be easier to be monitored by them. Due to this concept, smaller economic regionalism namely growth triangle was proposed under Association of Southeast Asian Nations (ASEAN). This term is a commonly-heard cross-border economic zone that is established for better and more specific development of the participating regions. Jitpiromsri et al. [7] and Waldron [8] declared that growth triangle is conceptually involves the attempt to create a superb sub-regional economic zone with geographical proximity, economically disparate regions which is separated by their common obstacles to become economically linked by intense cross-border investments and other economic development activities.

IMT-GT which stands for Indonesia, Malaysia and Thailand Growth Triangle is a sub-region cooperation initiative formerly proposed by Malaysian fourth Prime Minister Tun Dr Mahathir. This joint cooperation is established in 1993 with the motivation to pull the comparative advantage to the higher level as Asian Development Bank's (ADB) major conceptual framework is to identify the potential business opportunities as well as the principal constraints of the projects. As this cooperation is private sector-led economy, their dynamic aim of this project is to increase the trade and investment in the sub-region of the three participating countries by increasing their exports out. IMT-GT is one of the sub-regions formed under ASEAN has intense connection to ASEAN economically. ASEAN has 32.1% share of cumulative trade over the years of 2008 until 2011 (IMT-GT, 2013). This has shown that inter-region in ASEAN occurred, which greatly contributed in the trade share of this sub-region.

However, the major issue that is widely debated nowadays is the matter of regional disparity among the participating states and provinces in IMT-GT. East Asia Analytical Unit (1995) of Australia described IMT-GT would face a big challenge which is to endure a balance distribution of benefits among the participating states and provinces. Mid-term Review (MTR) of the IMT-GT Roadmap

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