

Testing for Convergence and Catching-Up for Kedah with the Rest of the States in Malaysia: A Panel Unit Root Test Analysis

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In Malaysia, the issue of economic convergence is much debated. Despite various Malaysia Development Plans for the past three decades, regional disparity among states persists. Therefore, the objective of the present paper is to address the question whether the state of Kedah has been converging, catching up or falling behind other states in Malaysia. The panel unit root test results, obtained using the annual data for the period 1961-2003, suggest that the state of Kedah has been catching-up with other states. In this respect, the local government has an important role to play in enhancing the growth by continuously providing stable economic environment for investment and other productive economic activities.

Introduction

Malaysia's economic growth has surpassed that of the other ASEAN nations. Nevertheless, disparity in income across states in Malaysia continues 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. As a matter of fact, the eight volumes of the 5-Year Malaysia Plan reflects the sincerity of the Malaysian government in eradicating the problem of regional or state imbalances. Accordingly, in their quest to achieve both development and equity at the same time, policies and strategies are continuously being formulated and implemented across the states.

Tables 1 and 2 present some interesting observations on the performance of the 14 states in Malaysia for the period 1970-2000. In the year 1970, five states—Negeri Sembilan, Perak, Selangor, Sabah and Wilayah Persekutuan—registered real GDP per capita that is above the national average. However, in 2000, Melaka, Penang, Selangor, Terengganu and Wilayah Persekutuan acted as the engine of growth, contributing to real GDP per capita that is above the national average. In the same year, Sabah lagged behind the national average by 35% of real GDP per capita. In terms of ranking, in 1970, Sabah ranked 3rd after Wilayah Persekutuan

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