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## The Contribution of Various Sectors in West Malaysia to the Economic Growth: An Input-Output Analysis

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### ABSTRACT

By using the regional input-output approach, this paper attempts to analyse the contribution of the various sectors in West Malaysia to economic growth as well as the regional development planning. Our linkage effects strongly suggest that there is a strong argument to believe that a further developed West Malaysia with greater facilities and investment for the petroleum products; other manufacturing; and wholesale and retail trade sectors will make it an increasingly sources of growth in the West Malaysia. Moreover, the empirical results also reveal that petroleum products; electronics and non-electronics; motor vehicles and other transport; and other manufacturing; were among the sectors with high multiplier values in West Malaysia compared to other sectors.

**Keywords:** West Malaysia; Economic Growth; Input-Output Analysis; Multipliers; Linkages

## INTRODUCTION

Malaysia introduced regional economic growth corridors during the Ninth Malaysia Plan with five regional cities and economic corridors, namely Georgetown and the Northern Corridor Economic Region (NCER); Johor Bahru and Iskandar Malaysia (IM); Kuantan and East Coast Economic Region (ECER); Kuching and Sarawak Corridor of Renewable Energy (SCORE); and Kota Kinabalu and Sabah Development Corridor (SDC). The focus of regional development was on increasing the standard of living and achieving balanced socio-economic development across regions and states. One of the objectives of these initiatives was to transform Malaysia into a high-income nation by 2020. Expansion of economic growth contributes significantly to the development of the country, but it also contributes to a widening of the differences between the regions and states in terms of income, employment and GDP per capita. This situation happens because most of the industrial and commercial economic activities tend to concentrate in certain regions and are not evenly distributed across the regions and states. Thus, in planning economic growth for West Malaysia, policymakers should obtain detailed information on the potentials and opportunities in each economic sector that should be emphasized. In addition, to select the potentials of a sector, policymakers must also know the existing interindustry linkages so that any steps to develop the economy can be distributed to the whole industry. Since information at sectoral level is important in regional economic planning, every country should have regional input-output table. Moreover, West Malaysia non-resource-based (manufacturing) sectors to drive the Malaysian economy during the last decade. So, by developing the regional input-output table, this study could contribute to the economic planning for West Malaysia region. Thus, the purpose of the study is to construct regional IO table for West Malaysia region for the year 2005. This paper consists of five sections. Section 2 presents the literature review on theoretical and empirical studies. Section 3 discusses the data and methodology that is used in the empirical analysis. Section 4 presents a discussion of the results followed by the conclusion in Section 5.

## LITERATURE REVIEW

In the construction of regional input-output table, the accuracy of the coefficients estimated is very important via use of survey-based method, non-survey based method and hybrid model. It is because of the reliability of the regional input-output table needed to reflect the real situation in a particular region or economy. The concept of accuracy in regional input-output tables was first studied by Jensen (1980). He introduced a partitive holistic framework in the context of input-output tables and found that this framework is best for conceptualizing the accuracy problem. Based on his findings, the implication behind the accuracy concept of regional input-output table was the identification of the most significant social and economic elements. This, however is hard to justify in ignoring the insignificant elements. So, holistic accuracy is the best solution in solving this problem. Basically, regional input-output table is similar to national input-output table which is based on the input-output table developed by Wassily Leontief, who was inspired by François Quesnay's concept of the *Tableau Economique*. The concept of input-output framework consists of a number of different sectors in the economy, where each of the sectors requires resources from the other sectors to