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Variations in economic growth across states in Malaysia: an exploratory analysis

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Abstract

Purpose: The study contributes to the aim of regional development policy in reducing regional disparities, by examining the spatial balance in socioeconomic development across the states of Malaysia based on composite development index (CDI). Besides, the study has attempted to understand the issues in the development gaps across Malaysian states by evaluating the factors that explain the variation in economic growth. **Design/methodology/approach:** This study uses three-stage least squares (3SLS) and bootstrap sampling and estimation techniques to examine the factors that explain the variations in the growth of development across the states in Malaysia. The analysis involves 13 states in Malaysia (Johor, Melaka, Negeri Sembilan, Pulau Pinang, Perak, Perlis, Selangor, Kedah, Kelantan, Pahang, Terengganu, Sabah and Sarawak) from 2005 to 2015. **Findings:** The pattern in the spatial socioeconomic imbalance demonstrates a decreasing trend. However, the development index reveals that the performance of less developed states remained behind that of the developed states. The significant factors in explaining the variation in growth across the Malaysian states are relating to agriculture, manufacturing, human capital, population growth, Chinese ethnicity, institutional factors and natural resources. **Research limitations/implications:** The authors focused on Malaysian states over the period between 2005 and 2015. The authors encountered some limitations in obtaining relevant data such as international factors and technological change that might also explain the variation in economic growth as the data on these variables are not reported at the state level. Moreover, the data on GSDP by sector was only available from the year 2005. Second, the study is based on secondary data. Future studies might examine the factors that contribute to the development gap across Malaysian states through interviews or questionnaires and compare the findings with the existing results. Despite its limitations, this study contributes to the existing literature that emphasizes on spatial balance of socioeconomic in a developing country, focusing on Malaysian states. **Practical implications:** These findings provide guidance for policymakers by understanding key potential areas to reduce the disparity in economic growth across Malaysian states by understanding their impact on the growth. **Originality/value:** This study employs different method of 3SLS and bootstrap sampling and estimation techniques in examining the factors that explain the variations in the growth of development across the states in Malaysia. © 2020, Emerald Publishing Limited.

Author Keywords

Developing country; Development; Economic growth; Socio-economic development; Spatial economics; Three-stage least square

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