Reducing the Regional Gap

One of the key objectives of the Ninth Malaysia Plan (9MP) is to implement more development in less developed regions and states, with the aim of dispersing the benefits of growth while narrowing economic disparity among regions. The regional areas mentioned in the 9MP included the east coast and the southern Johor in Peninsular Malaysia, and Sabah and Sarawak in East Malaysia. These regions are being targeted to become the new growth centres or growth corridors, as the urban areas are already stretched to the limit after many years of expansion.

Regional development has always been part and parcel of the national economic strategy, but progress has been uneven and limited. As poverty level falls, programmes in poverty reduction are now being complemented with regional development, with more urgency being put into it. With greater stress on improving the delivery system and reducing corruption, the dual objectives of poverty reduction and regional upgrading can be achieved, if things proceed as planned.

A more balanced regional development is in line with the spirit of economic growth with equity, while concurrently reducing the income imbalances across the country. If the income per capita of a state or region increases, its residents will generally benefit as well, so long as the fruits of development are dispersed widely. To make sure that rising tide does lift all boats, and that growth will trickle down to all levels, jobs and business opportunities should be made widely available.

Bringing more development to states that are lagging will also reduce pressures on big cities, as they now have to cope with a large number of economic immigrants from less-developed areas. This would also help lower cases of urban poverty. Moreover, raising income levels of poor region will help them weather the rise in the cost of living due to higher oil and electricity prices. Their standard of living would improve if income can grow at a faster rate than inflation.

According to data from the 9MP, the three states with the lowest mean monthly household income in 2004 were Perlis (RM2,046), Terengganu (RM1,984), and Kelantan (RM1,829). Not surprisingly, the three states with the highest incidence of poverty are only slightly different, namely, Kelantan (10.6% incidence of poverty), Terengganu (15.4%), and Sabah (23.0%). Nonetheless, the income gap between the highest income state and the lowest one had narrowed from a ratio of 1:3.12 in 1999 to 1:2.83 in 2004. Sadly, the ratio between urban and rural households had worsened from 1:1.81 in 1999 to 1:2.11 in 2004. It appears that states endowed with natural resources are not necessarily better off. What they need is a more sustainable source of investment that could spearhead growth, while simultaneously containing environmental degradation. Laggard regions have more land, but they lack investment and human capital.

Getting investments that can generate better-paying jobs to go to these states will help raise income level and reduce poverty. However, private investors do not find these poorer states attractive because they have a serious shortage of skilled manpower and lack proper infrastructure. The data shows that the three states with the lowest amount of manufacturing investments received during the period 2001-05 were Perlis (RM0.083 bill.), Kelantan (RM0.48 bill.), and Pahang (RM4.74 bill.). The top three state recipients of investments are also the more advanced states, namely, Selangor (RM29.2 bill.), Johor (RM19.0 bill.), and Penang (RM15.0 bill.). States are now eagerly competing for investments, be it public or private, and many desire to have public universities as well.

Less developed regions will become more attractive to investments if they have better infrastructure. Getting proper basic infrastructure in place for education and health in rural areas will also improve the quality of life for people there. Building universities and community colleges in the east coast region will increase the supply of skilled manpower in the area. Once the infrastructure status is raised to a satisfactory level and skilled workers are in greater numbers, investments will more likely flow to these states. This would lead to a rise in job creation and would help empower poor households to take steps to improve their economic standings.

Under the 9MP, the east coast states will receive RM22.3 billion (11.2% of total RM200 bill.), which will be spent on industrial upgrading and scaling up of infrastructure, while southern Johor will get RM10.2 billion (5.1%) to fund its logistics programme. In East Malaysia, Sabah will receive RM15.7 billion (7.8%), while Sarawak will get RM12.8 billion (6.7%). Rationally, poorer states should receive a larger share of development funds, but this is not always the case presumably due to suitability of projects according to locations.

For the sake of efficiency, previous development had mostly concentrated around urban centres, while rural areas could only get secondary attention. It is time to step up overall regional development to close the economic gap between urban centres and laggard regions. It is crucial that projects are awarded to capable people. It is also critical to make sure that projects are beneficial to a large segment of society.

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