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Economic corridors and regional development: The Malaysian experience

Prema-chandra Athukorala [a,*], Suresh Narayanan [b]

[a] Crawford School of Public Policy, Australian National University, Canberra, Australia
[b] School of Social Sciences, Universiti Sains Malaysia, Penang, Malaysia

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ABSTRACT

This paper examines prerequisites for a successful inter-state economic corridor development program in a country with a federal system of government through an in-depth study of the design, implementation and the developmental impact of the Northern Corridor Economic Region (NCER) in Malaysia that encompasses the states of Penang, Kedah, Perak and Perlis. The analysis suggests that the NCER has the potential to leverage on the core strengths of the state of Penang—global connectivity, mature business eco-system with a strong presence of multinational enterprises, and sizeable talent pool—in order to redress the widening inter-regional and urban–rural development divide. However, so far, the achievements have not matched the expectations primarily because of an inherent institutional limitation of the program: failure to constitute the Northern Corridor Implementation Authority (NCIA) with adequate power and operational flexibility to achieve the overarching goal of shared growth while ensuring compliance from all stakeholders.

1. Introduction

Economic corridors have gained popularity over the past three decades as a vehicle for sub-regional economic development, although the use of 'corridor' as a concept of spatial and urban planning has a long history, dating at least as far back as the 1880s (Priemus & Zonneveld, 2003). This is on account of their potential for promoting equitable growth among regions across countries that share common borders, as well as among regions within countries with significant regional income disparities. The term 'economic corridor' has also been used by economic geographers to refer to economic connectivity between major metropolitan centres (Rimmer, 2014). However, the first appearance of this term in economics was in the Asian Development Bank (ADB)'s policy documents relating to the Greater Mekong Sub-Region (GMS) development program launched in 1992.

The GMS program involved development of three main cross-border economic corridors[1] among the GMS countries as part of a large infrastructure project designed to improve transport links to remote and landlocked locations in these countries (ADB, 2017; Brookings Institution, 2013). The ADB has taken initiatives to replicate the GMS example in a number of other ADB-member countries under the South Asia Sub-Regional Economic Cooperation (SASEC) Program and the Central Asia Regional Economic Cooperation (CAREC) Program. The ADB is also involved, together with Japan International Cooperation Agency (JICA) and the Department of International Development in UK, in a large economic corridor development project launched by the Indian Government in 2013 (Brookings Institution, 2013; Mitra et al., 2016). Economic corridor development in Asia gained added impetus from the China's initiative to set up the China–Pakistan Economic Corridor (CPEC) designed to link western China to the Arabian Sea though Pakistan as a cornerstone of its 'One Belt, One Road' initiative Under this project, China is set to invest more than $55 billion in energy projects and trade-related infrastructure development in Pakistan over a 5–10 year period through its Xinjian Production and Construction Corporation (Sender & Stacey, 2017; Sial, 2014).

Economic corridors (under the alternative title of 'Spatial Development Initiatives', SDIs) became a critical feature in the planning for reconstruction in post-apartheid of South Africa (Rogerson, 2001; Söberbaum and Taylor, 2001). The SDI program launched in 1998 aimed to redress the apartheid legacy of a racially dominated spatial economic structure.[2] More recently, the African Devel-

* Corresponding author.
E-mail addresses: prema-chandra.athukorala@anu.edu.au (P.-c. Athukorala), nsuresh@usm.my (S. Narayanan).

[1] These are the East–West Economic Corridor, running from Da Nang in Viet Nam through Lao PDR and Thailand to Myanmar; (ii) the North–South Economic Corridor running from Kunming in Yunnan province, in China, through the Lao PDR, Myanmar and to Bangkok; and from Nanning in Guanxi province of China, to Hanoi and Hai Phong, in Viet Nam, and (iii) the Southern Economic Corridor, which runs through the southern part of Thailand, Cambodia, and Viet Nam (ADB, 2017).

[2] Nelson Mandela, the then president of South Africa, viewed the planned SDIs as 'important stations for boarding the development train' (Rogerson, 2001, p. 325).

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opment Bank and other Africa-focused developmental organizations have been promoting economic corridors as a key pillar of their development programs (AfDB, 2016; Mulenga, 2013; Page, 2012). The Economic Commission for Africa (ECA) has formed an African Corridor Management Alliance with the aim of transforming regional transport corridors into economic corridors and the setting up of new economic corridors (ECA, 2017).

Notwithstanding this policy emphasis, a well-developed knowledge base relating to the development potential, and the preconditions for designing and implementing economic corridor programs, and assessing their impact is lacking. This paper contributes to the fledgling literature in the area. We outline an analytical framework for studying the development impact of economic corridors and then undertake an in-depth case study of the experience of Malaysia that has adopted economic corridor development as part of its national development strategy to redress regional economic disparities and the rural-urban divide. Of the five regional corridors that Malaysia has identified, we focus on the Northern Corridor Economic Region (NCER) which encompasses the four northern states of Peninsular Malaysia (Penang, Kedah, Perlis and Perak). It is at a more advanced stage of implementation and also fits within the general idea of an economic corridor development strategy. In addition to its contribution to the literature on the design and governance of economic corridors, this study of the experience of NCER is also relevant for informing the current policy debate on sub-regional development in Southeast Asia, since it is within the geographic confines of the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) (ADB, 2012; Napathorn & Kuruvilla, 2017).

The rest of the paper is organized as follows. Section 2 sets out an analytical framework dealing with the policy context and the key elements of an economic corridor. Section 3 provides an overview of the Malaysian economic corridor program followed by a justification for the choice of NCER for the purpose of this study. Section 4 examines the economic characteristics of the four states of NCER and the potential role of Penang as the gateway for the three hinterland states, Kedah, Perak and Perlis. The purpose, scope and the modalities of NCER development program are set out in Section 5. Section 6 deals with the implementation of the NCER program. Section 7 undertakes as assessment of the NCER programs, focussing on its achievements, prospects, and constraints to accomplishing its stated objective of redressing the development divide between Penang and the agricultural hinterland of NCER. The concluding section presents the key findings and policy inferences.

2. Analytical perspective

The mainstream policy advocacy for integrating developing countries within the global economy focussed mainly (if not solely) on trade liberalisation (Krueger, 1997). It was hypothesised that the opening up of an economy to trade and investment would automatically lead to increase in trade, and spur further growth and development. As trade barriers were significantly dismantled through unilateral and multilateral reforms, it became evident that trade liberalisation alone would not yield the anticipated outcome without complementary trade-related infrastructure, the technical capacity to produce and distribute goods while maintaining quality standards, and without removing various behind-the-border barriers to resource allocation and trade (Anderson & van Wincoop, 2004; Bougheas, Demetriades, & Morgenroth, 1991; Lim o & Venables, 2001; Martincus, Carballo, & Cusolito, 2017; Radelet & Sachs, 2008). This paradigm shift in policy thinking provided the impetus for the growing popularity of economic corridors as a vehicle for outward-oriented economic development.

Economics corridors have also attracted attention from the growing emphasis on 'aid for trade' initiatives. Donors have increasingly recognised that increased aid flows in the form of pure budgetary support and infrastructure development may have unintended negative effects on developing countries. The often-cited unintended consequence is the so-called Dutch disease: appreciation of the real exchange rate thwarting the growth of tradable production in the economy (Portugal-Perez & Wilson, 2012; Stiglitz & Chartton, 2008; Vijil & Wagner, 2012). In such cases, there is a need to imbed infrastructure funding within broader development programs, including trade facilitation, and measures that increase competitiveness in the economy. Economic corridor initiatives meet this requirement, as they combine the 'hardware' (infrastructure) and 'software' (legal and regulatory framework) needed for improving cross-border connectivity and the development potential.

The ongoing process of global production sharing—cross-border dispersion of production processes within vertically integrated global industries—makes a strong case for economic corridors as a vehicle for trade for aid initiatives. Parts and components, and final assembly within global production networks (GPNs)[3] have been the most dynamic components of world manufacturing trade over the past three decades (Athukorala, 2014a; Yeats, 2001). Successful participation of a country in GPNs will occur only if the costs of 'service links' associated with production sharing among countries/regions outweigh the gains from the lower costs of production in the country (Jones & Kierzkowski, 2004). The term service links refers to arrangements for connecting/coordinating activities into a smooth sequence for the production of the final good. Service links relate to transportation, communication, and other related tasks involved in coordinating the activity in a given country with what is done in other countries within the production network.

There is no standard definition of the 'economic corridor'. By distilling characteristics commonly accepted in various economic corridor programs and related policy documents, the following definition is used to guide the ensuing analysis in this study:

The economic corridor is an integrated framework of economic development within a designated geographical area, which places trade-related infrastructure at the core, but goes further to encompass interconnected issues of public policy, regulations and operational practices required for stimulating economic growth and development within the designated area.

The definition encompasses three key elements of a corridor development program: infrastructure development, trade facilitation (logistic) reforms, and improving the investment climate. Policy priorities can, of course, vary among economic corridors at a given time, or over time, depending on national development priorities and initial economic conditions of the constituent countries/regions.[4]

Infrastructure development involves revamping/developing transport routes that physically link the areas/regions, and establishing multimodal and intermodal transport facilities. In order to achieve the objective of integrating the designated region within the national economy and globally, it is important to give priority

[3] It is common in the recent literature to use the terms 'global value chain (GVC) and GPN synonymously. But it is important to distinguish between the two for analytical reasons. GVC is a broader concept (popularised by economic geographers and international political scientists) that refers to the governance structure relating to the vertical sequence of activities, from the production of a good to its final delivery to the consumer, over geographic space and across national boundaries. It is applied to both primary products and manufactured goods. GPN is specifically about interrelations among a set of firms specialising in different segments of the production process of a given product as a single economic group, within vertically integrated global industries.

[4] These three elements generally apply to both inter-country and within-country economic corridors, but logistic reforms are obviously more complicated in the case of the former because of national sovereignty issues.