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Inter-industry Linkage Study of the Johor Regional Economy: A District-Level Analysis

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INTRODUCTION

The growth centre strategy is one of the more popular strategies implemented for regional development in many developing countries. In Malaysia, intertwined with the strategies of rural urbanisation and industrial dispersal it aims towards a more equitable distribution of incomes among regions. The notion of a growth centre implies deliberately concentrated investments at chosen points (growth centres) that would reap scale and agglomeration economies (Hansen 1972). In the long run, these centres consisting of industrial activities capable of rapid and self-sustaining growth are also envisaged to generate spread effects, thereby promoting the growth of outlying hinterlands. While Hirschman (1958) and Rostow (1963) stressed the whole of industries with strong backward (purchasing) linkages, others like Yotopoulos and Negent (1973), and Weiss (1991) identified manufacturing industries to be important in regional development as they would induce growth of other linked industries through increased demand for inputs. Where these industries have strong forward (selling) linkages too they will be twice as important in regional development because of their role as supporting industries.

In many developing countries, industrialisation has become an increasingly valuable tool towards achieving not only rapid and sustainable economic growth but also a more balanced regional development. This is due to the higher potential which manufacturing activities have in generating externalities that would have a widespread effect across sectors of the economy through production linkages. It is interesting to see, however, if the promotion of manufacturing industries would have the same growth effect in the different regions/districts. The present paper attempts to compare the importance of different industries in terms of linkage effects in smaller planning regions, that is, the district level. This will go a long way to help planners identify sectoral priorities for regional economic development.

INTER-INDUSTRY LINKAGES CONCEPTS, MEASUREMENTS AND SIGNIFICANCE.

Concepts and measurements

In the context of the industrial sector, “linkage” refers to the flow of supplies, be they raw materials, semi-finished goods and components, or finished products, between two commercial concerns (Keeble 1969). Hirschman (1958) identifies two types of production linkages in an industry. These are the backward (purchasing) linkages from a particular industry to its suppliers, and forward (selling) linkages from an industry to its users. These linkages reflect are production interdependence, and are mechanisms through which some of the external effects are transmitted (Weiss 1991). Hirschman (1958) further suggest that the ratio of the total value of purchases from other industries to the value of total production serves as a measure of backward linkage in an industry and the ratio of the value of sales to other industries to the value of final demand