

Chapter III

IT Promotion Policies for Economic Development: The Case of Malaysia

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ABSTRACT

The purpose of this chapter is to investigate IT promotion policies for economic development in Malaysia and to analyze results of those policies. In addition, the author attempts to draw policy suggestions for developing countries in order to encourage their economic development. This chapter reveals disparities in the sector and region that exist even though the government has a strong concern regarding ICT-supported ICT development. From this analysis, three policy implications for other developing countries are suggested. First, government commitment can contribute to ICT development. Second, the government needs to develop ICT through a strategic and gradual approach. Third, the government needs to pay careful attention to ICT disparities that may arise in the process of ICT development for stable economic development.

INTRODUCTION

Information technology is having a great impact on our society and economy. In the context of developing countries, because IT is expected to become an engine of growth, it thus becomes essential for economic development. It is also thought that IT will be important for economic

development by improving human resources and reducing transaction costs in business and public administration. Furthermore, IT may provide a shortcut for some countries to catch up with developed countries. Therefore, governments of developing countries are trying to promote IT-based economies.

There are two channels for IT to stimulate economic growth in developing countries: export and investment. Exports of manufactured IT products can be a contributing factor in promotion of economic growth. However, this is sometimes difficult for developing countries because it takes time to promote IT manufacturing industries. Through the second channel, investment in IT equipment in companies, it is possible for developing countries to make business and production procedures more effective and efficient and to increase their economic growth rate. This second method may be more feasible politically for developing countries, such as Malaysia; therefore, the latter issue is mainly addressed in this chapter.

Since the mid-1990s, the government of Malaysia has emphasized the importance of IT for the country's economic development and has implemented several policies for a more effective and efficient economy. In order for the country to become a developed country by 2020, the Malaysian government has taken a strong initiative and introduced a strategic policy package.

The purpose of this chapter is to investigate IT promotion policies for economic development in Malaysia and to analyze the results of those policies. In addition, this study finds some potentially useful lessons and draws policy implications for developing countries.

The structure of this chapter is as follows. The following section reviews past literature regarding impacts of IT on economic development and the role of the government in IT diffusion. The third section explains IT promotion policies after the late 1990s in Malaysia. The fourth section analyzes outcomes of the country's promotion policies at three levels: the country level, sector level, and state level. The final section consists of concluding remarks and policy implications.

PRODUCTIVITY, IT, AND THE ROLE OF THE GOVERNMENT: LITERATURE REVIEW

It has been considered that IT has great impact on an economy. IT does not necessarily affect all industries, but it is possible for IT to affect not only production processes, including R&D (research and development) and marketing, but also general administration. Freeman (1992) argued that communication technology, along with IT, has significant impacts on the economy and it is possible to improve the efficiency of every function within each company or industry. In addition to this, the development of IT has two different impacts on employment. If a company succeeds in making routine work efficient by introducing IT, the company can reduce the number of employees in order to reduce labor costs. On the other hand, labor demand in the IT sector increases as the IT sector develops (Fukuda, Sudo, & Hayami, 1997). As Mody and Dahlman (1992) indicate, these arguments imply that investments in IT by the private and public sectors lead to an improvement of productivity and make it possible to change social or economic structures in a country.

Since the IT revolution in the 1980s, many economists have paid attention to IT and productivity. One important trigger for economists in discussing IT and its impact on the economy was a remark by Solow (1987), who pointed out that, although people felt that productivity was increased by computers, in fact, the growth rate of labor productivity slowed down in industrialized countries, in particular the United States. This phenomenon, the so-called productivity paradox of computers, became a big debate in the United States and raised the question of how to explain the relationship between computers and productivity.

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