Chapter XVI

Opportunities and Challenges of the New Economy for East Asia

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Abstract

The IT revolution has sharply reduced the cost of information and increased its availability. This revolution is also said to be creating a New Economy in which the old rules of economics no longer apply. The first part of my paper discusses the economic impact of the New Economy on East Asia. First, we discuss the potential economic benefits of the New Economy for the region. We argue that East Asian countries should focus on applying existing technology to local needs, since doing so promises large tangible returns, especially in terms of improving the efficiency of the manufacturing sector, the main engine of the region’s economies. In the long run, the IT revolution will also raise the quality of corporate governance in the region. Second, we point out that while the IT revolution may enable East Asian countries to leapfrog some technological barriers, it does not enable them to leapfrog sound economic policies. Such policies remain as relevant to good economic performance in the New Economy as they did in the Old Economy. Furthermore, the potential of IT to accelerate growth and reduce poverty will be largely unfulfilled in the absence of complementary investments such as a sound infrastructure for transportation and logistics. Third, East Asian countries must fulfill certain pre-conditions to make sure that the New Economy takes hold.
Above all, they must liberalize their telecommunication sectors so as to improve the quantity and quality of telecom services. They should also make the necessary investments in human resource development to maximize their returns from the IT revolution. In short, although the New Economy holds out tremendous economic potential for East Asia, realizing that promise will require a lot of determination and hard work. The second part of this chapter deals with the implications of the IT revolution for regional development. Most of the main points raised in the first part of this chapter apply to the second part and in this sense, the second part is essentially an application of the first part, which addressed the broader issue of economic development, to the narrower issue of regional development. East Asian countries suffer from significant inter-regional economic inequalities and these inequalities often extend into all other spheres of national life. Such inequalities inevitably interfere with well-balanced economic development and impose costs on both the magnet cities and the rest of the country. A more balanced pattern of development is therefore desirable, and IT can make significant contributions toward this objective. In particular, by reducing the concentration of information and knowledge in the main city and disseminating those valuable resources to the rest of the country, IT reduces the inequality of opportunity that lies at the root of the inter-regional economic inequality. However, we must be realistic about what IT can do and cannot do in terms of promoting greater inter-regional equality. IT by itself will not enable poorer regions and cities to catch up with the main cities, and will facilitate regional development only if the fundamental ingredients of regional development are in place. Finally, East Asian economies must fulfill certain pre-conditions, especially greater inter-regional equality in telecom and other IT infrastructure, to fully realize IT’s potential benefits for regional development. In the last section of this chapter, we summarize our main points and provide some concluding thoughts. In addition, we discuss the policy implications of our analysis for FDI in Asia, along with implications for potential foreign investors, especially in the telecommunications industry. FDI into IT sectors cannot only be profitable for the investors, but can also promote the host country’s economic growth.

Introduction

One of the most fashionable words these days among government officials, academics and the general public alike throughout Asia is the “New Economy,” which refers to the economy that is emerging in the midst of the ongoing IT revolution. The IT revolution refers to the sharp reduction in the cost of finding and communicating information that has been made possible by the convergence of information and communication technologies. For this reason, the IT revolution is also known as the ICT revolution. More convenient and more powerful computing equipment, especially personal computers (PCs), in combination with better and more affordable telecommunication services, are jointly driving the IT revolution. Perhaps the most familiar manifestation of this far-reaching revolution is the Internet, which can literally connect us to the rest of the world in the comfort of our homes and offices. The IT revolution is giving rise to a new economic paradigm – the New Economy.
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