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Information Economics and Policy 14 (2002) 275–295

**INFORMATION
ECONOMICS
AND POLICY**

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New Economy and ICT development in China

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Abstract

This study provides empirical evidence on China's ICT industry development and diffusion in recent years. Although there is still a huge gap between China and the developed countries in the development of the ICT industry, the astonishing pace of its progress shows promise for the country's New Economy. The ICT industry is becoming the most dynamic sector in China's economy. There is, however, a clear digital divide among the nation's three economic regions. © 2002 Elsevier Science B.V. All rights reserved.

Keywords: Economic growth; ICT; Information and communications technology; IT; Information technology; New Economy; Economic inequality; Digital divide

JEL Classification: O1; O3; O57

1. Introduction

Information and communications technology (ICT) is the major driving force of the New Economy. While there is ample evidence that the information and communications industry has contributed a great deal to the overall economic growth of the developed countries (Kraemer and Dedrick, 2001; Jalava and Pohjola, 2002), the role of the ICT industry in developing countries is far from clear. Since developing countries are short of capital investment and knowledge know-how, they lag far behind the industrialized nations in their ICT-industry development and diffusion. Industrialization is deemed the most urgent issue of economic development in these countries, and it is difficult to reach a consensus on the priorities needed to speed up the ICT industry in the overall strategy for

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economic development. Developing countries are hesitant to leapfrog into the process of industrialization to keep abreast with the developed countries in capturing the opportunities generated by the explosive advancement of the information and communications technology. Governments are reluctant to take bold measures for fostering the necessary environment for the development of the ICT industry because of many concerns. Among these, the pressure of unemployment that may result from ICT's 'displacement effect' is a major factor. As we discuss in Section 2, the large-scale adoption of ICT can reduce the demand for low-skilled labour.

As the most populous country and the largest economy shifting towards market economy, the development of China's New Economy will have a great impact on the world. In this study, we first provide empirical evidence on China's ICT industry development and ICT diffusion in recent years. We then investigate the opportunities and challenges faced in China's development of the New Economy, especially those of the ICT industry.

The paper is organized as follows. In the next section, we address two major issues. Firstly, we explore the status of China's ICT industry development and ICT diffusion, and compare it with countries at similar stages of economic development. We refer to India in particular, as these two countries have key similarities—comparable stage of industrialization, a huge population base, and a relative low level of computer literacy. An analysis of the strengths and weaknesses of the two countries will help shed light on the future of ICT industries in the developing world. Secondly, China is a vast nation in terms of population and territory. The disparity in economic development among its different regions is a major barrier to establishing a nationwide common market. Whether the adoption of ICT will broaden or narrow this disparity is an important and urgent issue to be explored. This issue has important policy implications as well. Based on empirical evidence, we try to find links between ICT disparity and disparity in the overall economic development. In Section 3, we discuss the opportunities and challenges facing China in developing its New Economy with regard to financing the ICT industry, attracting talent, constructing high-tech parks, deregulating the ICT industry, and the challenges and opportunities introduced by its accession to the WTO. Finally we discuss the policy implications of developing China's New Economy in Section 4.

2. ICT industry development and ICT diffusion

2.1. ICT and economic development—dilemmas facing the developing countries

The late 1990s and the start of the year 2000 have witnessed a dramatic revolution in the information and communications technology. The convergence of the IT industry and the communications industry has been the driving force of the

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