The Relationship between Internet Usage and Gross National Income of an Emerging Economy

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Abstract: - This study examines both the long-run and short-run relationships between the internet usage rate and the gross national income per capita of an emerging economy – Malaysia. Empirical findings from the econometrics analysis of a thirteen years time series found that there is a significant long-run and short-run relationship between these two variables. Therefore, enhancing internet usage among the public and private sectors is a relevant strategy towards achieving a higher national income status for the people in this country.

Key-Words: - **Gross national income per capita, internet usage rate.**

1 Introduction

Emerging economy such as Malaysia has strived hard to do well on the world economy platform. Among others, the New Economy Model has been introduced in 2011 aiming to transform the nation into a high income, inclusive and sustainable economy in the near future. Nevertheless, it is important to recognize that the future prosperity cannot be achieved without linkages to the world economy. One of the key enablers for moving up the global value chain is via the innovation eco-system which emphasis on R&D and ICT enhancement. With that in mind, internet usage is a viable ICT infrastructure which allows Malaysia's transition into a high income nation.

As at 2010, the gross nation income for Malaysia stands at USD 7760. There is a high gap if compared to the envisaged target of USD 15,000 per capita by 2020. According to economic theory, higher income can only be achieved via greater productivity which in turn required higher level of innovations, technologies and highly skilled workforce (Aghion and Howitt (1992) [1]. With that in mind, Malaysia needs to adopt the knowledge economy model. Since ICT is the major technology that brings innovations to greater heights coupled with the arises of a globalized economy, therefore, advances into "information economy" is also inevitable within the knowledge economy model.

2 Problem Formulation

From the literature, microeconomic factors such as interest rates, foreign exchange rates, money supply and oil prices are endogenous factors affecting a nation's wealth (Flannery and Protopapadakis, 2002 [4] and Liow et. al., 2005 [6]). On the other hand, the impact of information economy components such as internet usage on the gross national income is rarely examined for developing country such as Malaysia. Apart from the reason that this topic is relatively new, most of the studies on internet usage