arise, including learning the most effective catch-up techniques from each other.

It should also be emphasized that the sources and consequences of this growth merit attention: internal distributional issues are a problem, and many societies, from the United States to China, are becoming more unequal. In the end, growth must serve other societal goals: "human development is the end—economic growth a means."[9] But as we will see below, the integration of the world economy and the growth of global trade has allowed many countries to find the recipe to sustained growth, and has thus at least created the potential for the world to become not only a richer, but also a more equitable place in which to live.

Determinants of Growth and the Importance of Trade

While convergence theory predicts faster growth for poorer countries, the neoclassical exogenous growth models from which it arises do not explain the extent of the observed international income differences. Their main assumption, that the eventual steady income level is largely determined by the savings rate, is not consistent with the evidence that shows that savings rates and income levels are largely uncorrelated. As an example, the leading industrial powers—the United States and Japan—have vastly different savings rates, yet their recent economic history clearly shows them converging to a similar income level. To explain why some countries are rich and others are poor, additional issues must be considered.

The most important of these is **productivity**. The ability to produce more output from the same set of inputs characterizes firms, nations and eras as more productive. Ultimately, when all factors of production have been accounted for, a large residual remains: **total factor productivity (TFP)**. Interpreted as a combination of changes in technology and changes in efficiency in the use of inputs, it is believed to explain most of the current international income differences.

And this is to the advantage of the emerging and developing world. It has already been noted that knowledge and information—the basis of modern productivity—are now spreading at an unprecedented rate, and at much lower cost than ever before. To catch up with the developed world under these conditions, there is no need to engage in costly creation of new techniques—only to apply the existing ones to the economic activities. Innovation and new technology are also likely to produce large, instant dividends, increasing the likelihood of their adoption. Finally, only the latest technologies need to be adopted, bypassing the long process of iterative invention and improvement. Thus, an updated version of the convergence theory would now state that those countries that manage to adapt and use the existing stock of productive knowledge in producing goods and services more efficiently will grow faster, and those that are currently using less of that stock will be able to catch up with others by adopting more of it.

This catch-up game only became possible recently, due to the increasingly integrated world economy and the removal of many barriers, a process that was accelerated by the end of the Cold War. Globalization benefited the emerging high-growth countries both on the import and export sides. They "imported what the rest of the world knew, and exported what it wanted."[10] This, then, is the

9 *Human Development Report 1996*. It goes on to add that "policy-makers are often mesmerized by the quantity of growth. They need to be more concerned with its structure and quality".

10 This passage from the World Bank *2008 Growth Commission Report* is worth quoting in full: "[emerging markets] imported ideas, technology, and know-how from the rest of the world [and] exploited global demand, which provided a deep, elastic market for their goods. The inflow of knowledge dramatically increased the economy's productive potential; the global market provided the demand necessary to fulfill it. To put it very simply, they imported what the rest of the world knew, and exported what it wanted."