

rationale behind such findings is that imports of intermediate and capital goods are crucial for domestic investment and output growth.

Finally, participation in international trade generates various externalities which contribute to growth. Access to the world's commercial knowledge base is one of the most important benefits in this regard. Trade plays an important part in the international exchange of information, as trade in tangible commodities facilitates the exchange of intangible assets necessary for growth. A larger volume of international trade encourages international contacts leading to the exchange of technical information. Imported intermediate and capital goods enable local firms to inspect and use those goods, as well as to undertake reverse engineering, which eventually results in learning to produce some of those goods efficiently. The export of local goods may also induce improvements in domestic manufacturing processes if necessary to meet the higher standards in foreign markets. Similarly, competition in the domestic market from imports may act as an incentive for local industries to introduce technological improvements and to upgrade the quality of their products, while the implementation of such improvements is facilitated by technology imports.

While conceptually those effects are clear, empirical evidence on the impact of trade on growth promoting externalities is relatively scarce, in part because it is hard to measure such impact.

To summarize, the principal mechanisms through which trade promotes growth are as follows:

- The growth of exports permits economies of scale and a degree of specialization that allow levels of production that could not be sustained by a country's domestic demand, thus enabling higher growth in the economy as a whole.
- The growth of imports lessens potential supply shortages, especially of goods and services used in production, and leads to a slower rate of increase in the costs of goods, raw materials, capital equipment and services, thereby permitting an increase in locally-generated reinvested profits.
- Participation in international trade generates externalities that can raise the efficiency of production and stimulate aggregate economic growth.