

up growth” such as was witnessed in the East Asian “miracle”, it was and continues to be associated with rapid assimilation of existing technology, supported by high savings and investment rates—rates that are substantially higher than in the developed world, more or less as would be expected based on conventional economic theory.⁵

Trade and investment *should* work powerfully to drive such convergence. Very briefly, if factors of production (labour and capital) are mobile, workers and owners of capital shift to markets where their services are relatively scarce and hence their potential earnings are highest. The interaction between supply of and demand for the factors of production directly tends to equalize incomes—or at least to narrow inequality to a minimum level where costs of factor movement outweigh marginal benefits from such relocation. Even if factors of production are not mobile, trade in goods and services delivers the same result as is intuitively obvious when one considers that the goods and services embody the factor services—in other words, trade in goods and services is just an indirect way to trade the factor services. In short, a significant expansion of trade in goods and services should exert a powerful albeit indirect convergence pressures on incomes.

Implicit in the above story is an ability of countries or regions that do not produce new technology to acquire it, either directly by licensing, indirectly by attracting foreign direct investment (or intra-national investment) that employs technology, or most generally by trading for the capital equipment and/or end products that embody the technology. That after all is essentially the story of Canada, which for the

⁵ During the catch-up phase in East Asia, “Tigers” such as Korea and Taiwan were not prominent innovators in the sense of developing new technology, but they were able to absorb technology developed elsewhere and put it to good use through heavy investment to become industrial powers in a handful of decades. This in fact served as the basis for Paul Krugman’s often-cited and much-disputed critique of the Asian “miracle” as being due to no more than mobilization of latent capital and labour resources, a process that would peter out when convergence had been fully achieved. See Paul Krugman, “Myth of Asia’s Miracle”, *Foreign Affairs*, November 1994.