tariffs on imported capital and intermediate goods did lead to faster GDP growth. However, policymakers in most countries did not wait for research to confirm this particular insight; pressure from business had long since led governments to lower tariffs on capital goods and industrial inputs. In Canada, Budget 2010 went the final step and simply eliminated them all.

However, that may not be all there is to this issue. In recent years, understanding of the role of trade and investment in economic growth has been significantly improved by new theoretical and empirical analysis based on explicit recognition of the heterogeneous nature of firms.

The theoretical framework for this body of research is provided by "new new trade theory" (Melitz, 2003). In this literature, firms of widely varying size and level of productivity co-exist in the same industry. Products of varying quality co-exist in the same markets. Firms face sunk costs of introducing their products into foreign markets in terms of obtaining market intelligence, identifying foreign partners, dealing with foreign regulatory requirements, setting up distribution and after-sales service networks and so forth. Entrants also face uncertainty about success in foreign markets. They have less knowledge than established firms about these markets and the local partners or agents they must engage (information asymmetries). International macroeconomic conditions, including business cycles and real exchange rates feature both volatility and protracted disequilibrium conditions that can affect a firm's profitability in foreign markets. Accordingly, not all firms engage in trade and foreign investment and, of those that do, many enter fewer markets than they might optimally serve. Indeed only relatively highly productive firms can absorb the costs of entering export markets and only the most productive of these can absorb the still higher costs of investing abroad while remaining profitable in those markets. As well, the flux of entry into and exit out of various foreign markets—or change at the "extensive margin"—is high. This constitutes an important factor in determining a country's overall trade growth, alongside changes in sales by existing exporters of established