paradigm for growth and the role of trade in the integrated global economy.

But have the emerging economies already tapped into productivity increases as a source of potential wealth? Is their growth due to increased productivity or is it largely input-based—in other words, are they simply building new factories or optimizing production processes in the old ones? Evidence on this issue is somewhat mixed, not least because of the pitfalls in aggregate TFP calculations. Bosworth and Collins (2003)[11] study the period spanning 1960 to 2000 and show that if China is excluded, TFP among East Asian countries grew no more rapidly than the world average. Rapid growth in that region is primarily explained by large increases in physical capital and contributions from increased human capital. On the other hand, China has exhibited tremendous productivity growth in the 1980-2000 period, reaching 5 percent per year in the last decade. Other studies contend that high growth rates in the emerging world (including China) are input-based, particularly due to increased urbanization and the consequent transfer of rural labour to a more productive urban economy. Overall, there is a broad consensus that China is considerably ahead of India in TFP growth, and that those two are ahead of Brazil and Russia. Yet in terms of overall productivity, evidence shows that emerging markets, BRIC countries in particular, remain far behind. For example, in ease of doing business (a proxy for institutional quality and productive efficiency), the only BRIC country in the top 100 is China and it ranks 83rd.[12]

By any measure then, the evidence indicates that the prospects for long-term growth of the emerging economies are very encouraging. Only a small part of the gap separating them from the developed world has been bridged so far (Figure 1) and therefore possibilities for both input-based and TFP growth have been barely tapped into.[13] Conditions for continuing progress include maintaining macroeconomic stability, high rates of saving and investment, good economic governance, and—perhaps most important—being able to rely on the integrated global economy with relatively few restrictions on trade and capital flows. While the current economic crisis may disrupt any or all of these in the short term, a truly seismic change would have to occur to upset the growth promise of the emerging world in the long term.

Trends and Projections for Emerging World Growth

This expected robust growth in the medium and long term will result in a tremendous opportunity for Canadian commercial performance, one that it is important to seize at an early stage. To illustrate the scope of these developments, consider some recent trends and projections in key emerging markets. In the five years from 2003 to 2008, emerging economies grew at an annual average rate of over 7 percent. Although the current global recession is affecting these countries significantly (recent forecasts suggest that their growth could be below 2 percent this year), economists expect that their share of world growth will continue to increase, as the conditions for long-term growth have been achieved in the last decade, namely structural reforms and better macroeconomic policies. In fact, both the global nature of the ongoing crisis and this spectacular growth are largely due to the same factor—the increasing integration of the world economy. While certainly painful, an economic crisis in these countries is a far cry from a traditional crisis involving famines or plagues, or a permanent crisis

11 Barry Bosworth and Susan M. Collins, "*The Empirics of Growth: An Update*," The Brookings Institution.

12 World Bank, *Doing Business 2009 Report*. Note that Singapore is number one in this ranking.

13 Of course, emerging economies differ widely among themselves and assessing limits to growth should be done with care. For example, Brazil's urbanization ratio is 85 percent, higher than most advanced countries, so little growth is to be expected from that source; but China at 42 percent and India at 29 percent have the most to gain from engaging their rural population in more productive processes.