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The Product Space and its Consequences for Economic Growth¹

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University — In this paper, we test the assumption underlying the foundational
models of trade that there always exist products through which countries can express
their endowments and technology. We map the ‘space’ of products in the world, and
find it to be quite heterogeneous, with a central core and outer periphery. Moreover,
we show that the way countries develop comparative advantage is far from random,
and that the empirical rules observed herein predict, together with the structure of
the product space, explain the lack of convergence in international income levels.
Some developing countries produce in the periphery of the product space with few
opportunities for diversification, whereas others have developed capabilities easily
deployable in a wide range of products creating a path to convergence.

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