

1994, the growth in real per capita incomes in Argentina has fallen considerably behind Australia and New Zealand's performance.

Let us turn to a description of the dependence on resource-based trade of these four countries. In 1929, primary exports accounted for 90% or more of the merchandise exports of Australia, Argentina and New Zealand, while 63% of Canada exports were primary exports. Interestingly, by 1993 the share of primary goods in Canadian exports had dropped by almost a half to 34% whereas for Argentina and Australia the shares dropped only by roughly a quarter and still less for New Zealand. In other words, all four resource-based economies exhibited a declining proportion of primary exports as they experienced economic growth from 1929 to 1994. Canada has been more successful in diversifying its exports than Argentina, Australia and New Zealand. Why?

Consider the openness to trade as proxied by per capita exports of a country. While real per capita exports from Canada grew over 25 fold from 1870 to 1992, the same growth was less than ten times for Australia and only three fold for Argentina. Thus, a resource-based economy with a freer trade orientation, such as Canada, can exhibit greater diversity in its export bundle and achieve more sustained growth in its real per capita income.

While tariff and related trade policies (such as exchange rates and controls) did protect domestic manufacturing, this protection did not choke-off the emergence of a competitive manufacturing sector. In the inter-war years, the growth of the mining sector in Canada generated substantial downstream industries such as smelting, refining, the fabrication of non-ferrous metals and machines. In the post-Second World War period, the refining of petroleum and natural gas was a source of industrial growth in Canada. As a result, the successful resource-based growth of the Canadian economy has also been accompanied by a shift to increased exports of manufactured goods. This is not to say that the resource sectors are no longer or will not continue to be an important part of the Canadian economy.

In sum, our evidence shows that the share of primary products in the exports of resource-based economies declines as economic growth takes hold. To some extent, the diversification of the export bundle can be attributed to a country's export orientation. What explains these observations?