

Section 2.—Canada's International Investment Position*

Canada is by far the world's largest importer of private long-term capital, and the tremendous capital formation which has been a feature of the 1950's has been associated with an unprecedented growth in the country's external liabilities. These investments have contributed to a rapid rate of growth in the Canadian economy, particularly in the exploitation of natural resources, and have added significantly to Canadian production, employment and income. At the same time they have added substantially to the burden of Canada's external debt and to the proportion of Canadian industry controlled by non-residents.

Canada's gross external liabilities other than short-term commercial indebtedness amounted to \$18,500,000,000 at the end of 1957. (Short-term commercial debts at that time were of the order of \$1,000,000,000.) By the end of 1958 the total of these liabilities had risen by at least \$1,000,000,000. Non-resident-owned long-term investments in Canada by the end of 1957 had reached a book value of \$17,100,000,000, having more than doubled in the eight years since 1949, and the part of these investments in establishments controlled outside Canada totalled \$9,800,000,000. These foreign direct investments have been growing even more rapidly than the total and have more than doubled in the six years since 1951. Increases in other Canadian equities, although smaller, have also been substantial and there have been more moderate increases in foreign holdings of Canadian bonds and debentures.

Investments of non-resident capital have been closely related to the high rate of growth in Canada. Large development projects have been initiated and financed by investors from other countries and the growth effects from this investment have, in turn, led to Canadian borrowing in capital markets outside of Canada. While capital inflows have been the principal source of the increased indebtedness abroad, another substantial contributor has been the earnings from non-resident-controlled branches and subsidiaries which were retained in Canada. New resource industries depending to a large extent on non-resident financing include all branches of the petroleum industry, iron ore and other mining, aluminum, nickel, pulp and paper, and chemical industries. In addition, secondary industry has also benefited from non-resident investment.

Canada's gross external assets (other than short-term commercial receivables) totalled about \$7,600,000,000 at the end of 1957 and have increased moderately since that time. (Short-term commercial receivables at the end of 1957 were around \$500,000,000.) Government-owned assets made up a substantial part of the total. Taking into account short-term commercial balances, Canada's net balance of international indebtedness at the end of 1957 is estimated to have been \$11,500,000,000, and to have grown by more than \$1,000,000,000 in 1958. At this level it is well over twice the figure for 1953 and three times the figure for 1949.

Foreign Investments in Canada.—Dependence upon external sources of capital for financing in earlier periods of heavy investment activity has been characteristic of Canadian development. During the exceptional growth period that occurred before World War I the rate of increase in non-resident investment was very high and dependency upon external sources of capital was greater than in later periods. Total non-resident investments in Canada increased from an estimated \$1,232,000,000 in 1900 to \$3,837,000,000 by 1914, mainly in the form of bonded debt for railway and other expansion guaranteed by the Canadian Government. This was the period when the principal external source of capital was London, and by 1914 British investments in Canada, estimated at \$2,778,000,000, were at about their highest level. By the same date, United States investments, although they had been increasing rapidly, had only about one-third of the value of British-owned investments.

* Prepared in the Balance of Payments Section, International Trade Division, Dominion Bureau of Statistics. A more extended review appears in DBS report *Canada's International Investment Position, 1926 to 1954* and more recent statistics in the annual report *The Canadian Balance of International Payments and International Investment Position* for each of the years 1955, 1956 and 1957.