

### Section 3.—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 most of the period since the 1940'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 amounted to \$26,400,000,000 at the end of 1960; non-resident-owned long-term investments in Canada had reached a book value of \$22,300,000,000, having tripled since the end of World War II. The part of these investments in establishments controlled outside Canada totalled \$12,900,000,000. These foreign direct investments have been growing more rapidly than the total. Advances in other Canadian equities, although smaller, have also been substantial and there have been sharp increases in recent years 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 and to the heavy demands placed on capital markets by this factor and by the financial needs of governments and municipalities. 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 totalled \$9,400,000,000 at the end of 1960 and government-owned assets made up a substantial part of that total. Canada's net balance of international indebtedness at the same date was estimated at \$17,000,000,000, well over half of which was incurred in the five years since 1955 and more than two-thirds in the eight years since 1952.

**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.

During the first part of the inter-war period the United States became the principal source of external capital, and by 1926 the United States-owned portion of Canada's international debt exceeded that owned in the United Kingdom which had not increased

\* 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* (Catalogue No. 67-503) and more recent statistics in the annual report *The Canadian Balance of International Payments and International Investment Position* (Catalogue No. 67-201).