

capital inflows occurred in the face of the continuation of a substantial deficit on current account, largely determined by the apparently intractable deficit on account of "invisibles" To a considerable extent these out-payments were a manifestation of the size and character of Canada's balance of international indebtedness, a phrase used in the broad sense generally accepted in balance of payments terminology to include equity investments as well as contractual borrowings. This was true not only through the servicing of capital involving interest, dividends and miscellaneous income payments, but also through the influences of foreign investment on the Canadian economy and on the shape and direction of its external demands.

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

Canada's gross external liabilities amounted to \$26,100,000,000 at the end of 1960; non-resident-owned long-term investments in Canada had reached a book value of \$22,200,000,000, having tripled since the end of World War II (by the end of 1961 they totalled well over \$23,000,000,000). The part of these investments in establishments controlled outside of Canada totalled \$12,900,000,000. These direct investments have been growing more rapidly than the total. Investments in other Canadian equities, although smaller, have also been substantial and there have been periods in recent years of sharp increase 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 \$9,200,000,000 at the end of 1960 and government-owned assets made up a substantial part of that total. Canada's net balance of international indebtedness, including equity investments, at the same date was estimated at \$16,900,000,000, well over half of which was incurred in the five years since 1955 and more than two-thirds in the eight years since 1952. By the end of 1961 Canada's net balance of international indebtedness had risen to around \$18,000,000,000.

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