

Section 5.—Canada's International Investment Position*

Canada's balance of payments is influenced to a considerable extent by the size and character of its 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 is 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.

Canada has been among the world's largest importers of private long-term capital. 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 \$30,500,000,000 at the end of 1963; non-resident-owned long-term investments in Canada had reached a book value of \$26,200,000,000 (in the two decades since World War II their value has quadrupled). The part of these investments in establishments controlled outside of Canada totalled \$15,400,000,000. 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, potash 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 \$11,200,000,000 at the end of 1963 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 \$19,300,000,000, more than three quarters of which was incurred since 1950. By the end of 1965, Canada's net balance of international indebtedness had risen to about \$21,500,000,000.

Foreign Investments in Canada.—Dependence upon external sources of capital for financing in periods of heavy investment activity has been characteristic of Canadian development. During the exceptional growth that occurred before World War I, non-resident investment was very high and the main source of that investment was London. However, during the first part of the inter-war period, the United States became the principal source of external capital and by 1926 the portion of Canada's international debt owned in that country exceeded that owned in Britain. With some interruption during the 1930's, United States investment in Canada continued to increase, particularly after 1947 when the period of intense activity in the petroleum industry got under way. Nearly half

* An extended historical review appears in DBS report *Canada's International Investment Position, 1926 to 1954* (Catalogue No. 67-508) and more recent statistics in the annual report *Canadian Balance of International Payments and International Investment Position* (Catalogue No. 67-201). Additional detailed material will be found in the annual report under the Corporations and Labour Unions Returns Act.