

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 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 \$13,400,000,000 at the end of 1965 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 \$22,000,000,000, more than three quarters of which was incurred since 1950.

**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 1930s, 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 of the United States investment in Canada at the end of 1965 was accumulated since 1956. At \$23,276,000,000, United States investments in the later year continued to represent more than three quarters of all non-resident investments in Canada and made up over 80 p.c. of the increase since 1956. The main rise occurred in direct investments in companies controlled in the United States, which almost doubled in the 1956-65 period. In the same period, portfolio investments in Canada owned in the United States more than doubled, due mainly to large sales of new issues of securities made in that country.

British investments in Canada totalled \$3,481,000,000 at the end of 1965 and accounted for only about 12 p.c. of the total non-resident investments in Canada compared with 36 p.c. at the end of 1939 before most of the wartime repatriations. After reaching a low point in 1948, the value of British investments in Canada increased each year to 1962, declined slightly in 1963, partly as a result of Canadian repatriation of investments in railways and other utilities, and increased again in 1964 and 1965.

Investments of countries other than the United States and Britain reached a record total of \$2,690,000,000 at the end of 1965. Exceeding three times the 1955 figure, this represented a much higher rate of increase than had occurred in either United States or British investments, and large increases had taken place in portfolio holdings of securities as well as in direct investments. At about 9 p.c. of the total, compared with 6 p.c. in 1954, this group of countries, mostly in Western Europe, accounted for a slightly larger proportion of total foreign investments than in 1964. Over 90 p.c. of the direct investments, which totalled \$1,260,000,000 in 1965, came from Western Europe; about one quarter was of Netherlands origin, with Belgian, French, Swiss and German investments making up the next largest groups.

The degree of dependence upon non-resident capital for financing Canadian investment has been relatively much less in the postwar period than in the earlier periods of exceptional expansion, even though the rise in non-resident investments has been so great. Thus, from 1950 to 1953 the net use of foreign resources amounted to about one seventh and direct foreign financing to almost 30 p.c. of net capital formation in Canada. But from 1958 to 1961 when these ratios had increased considerably to 34 p.c. and 47 p.c., respectively, they were still less than the corresponding ratios in the 1929 to 1930 period when inter-war