investment and contractual borrowing. It is determined by comparing Canada's outstanding claims against other countries with the outstanding obligations of Canadians to other countries. The totals of international claims and obligations which have been acquired over the years, arising from capital transactions and other factors, constitute the international assets and liabilities determining a country's international investment position.

21.5.1 Canadian assets abroad

There has been considerable growth in foreign investment in Canada and in the balance of Canadian indebtedness to non-residents, but Canadian assets abroad have risen at a faster rate than Canada's external liabilities and now represent 47% of liabilities abroad compared with 26% in 1939. This development was accompanied by a change in the structure of Canada's assets abroad (Table 21.35). The share of private long-term investment (including direct, portfolio, and miscellaneous investment) in Canada's foreign assets fell from almost 75% of the total in 1939 to about 41% in 1971. Canadian long-term investment abroad rose almost 8% to $12,619 million during 1971. The bulk of Canadian long-term investment abroad is in the form of private capital, especially in the direct investment sector. The remainder consists mostly of government loans and advances and subscriptions to international investment agencies.

At the end of 1971 the total book value of Canadian long-term direct investment abroad in subsidiaries, controlled companies, affiliates and branches totalled $6,534 million, an increase of $346 million over 1970. At almost 6% the pace of increase in direct investment abroad was much slower than the advances of 13% for 1969 and 19% for 1970. The sharp rise in 1970 was influenced, however, by the reclassification of the foreign assets of a large enterprise from portfolio investment abroad to direct investment. Direct investment in United States firms rose $137 million, the smallest increase in the last four years, to $3,388 million, to account for 52% of Canada's direct investment at the end of 1971. Direct investment in the United Kingdom remained relatively static at $590 million.

In the 1960s the share of direct investment in Canada's assets in the United Kingdom increased and now accounts for one third of the total. In other Commonwealth countries, direct investment has always been the predominant form of Canada's assets. Although at the end of 1971 direct investment accounted for over two thirds of Canada's long-term investments in these countries, its share was somewhat lower than in most of the previous years due to the expansion of Government of Canada credits made under the new international development or "soft" loan program. Direct investment, rising by 10% to $1,713 million, continued to represent the largest part, at 48%, of Canada's assets in all other countries. However, export credits made directly or indirectly at the risk of the Government of Canada have grown significantly to represent an important element in Canada's assets in this group of countries. Miscellaneous investment, of which export credits is the largest component, rose by 52% to $1,007 million.

Net official monetary assets, other Canadian short-term holdings of exchange and short-term receivables taken together have expanded to $13.2 billion, to represent over one half of total assets at the end of 1971 (Table 21.34).

21.5.2 External liabilities

At the end of 1971 Canadian gross external liabilities amounted to $54.9 billion. Non-resident owned long-term investment comprised 90% or $49.4 billion of this total. Direct investment (investment in Canadian enterprises from the foreign country of control) grew by $1.5 billion to $27.9 billion from $26.4 billion in 1970, accounting for 60% of all non-resident owned long-term investment in Canada. Non-resident holdings of government bonds increased marginally to $8.0 billion while portfolio holdings of other Canadian securities rose by $0.3 billion to $7.2 billion.

Canada has typically been dependent on external sources of capital for its economic development. During the exceptional growth period that occurred before World War I, non-resident investment was very high and the main source of that investment was the United Kingdom. However, during the first part of the interwar period, the United States became the principal source of external capital and by 1926 the international debt owned in the United States exceeded that in the United Kingdom. After this date United States investment in Canada continued to increase, particularly during the boom in the petroleum industry after