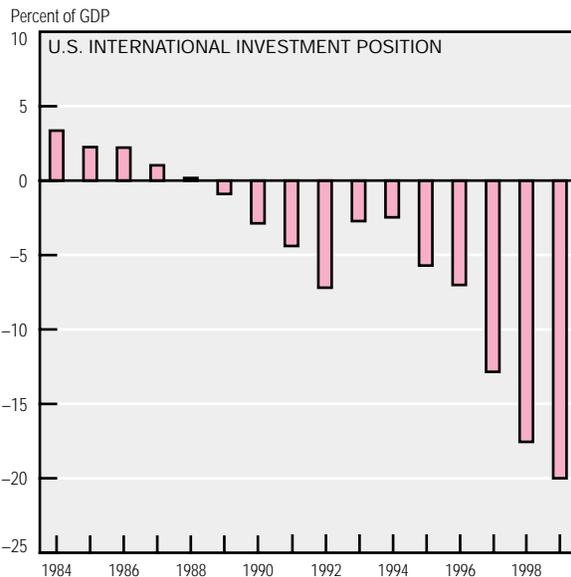
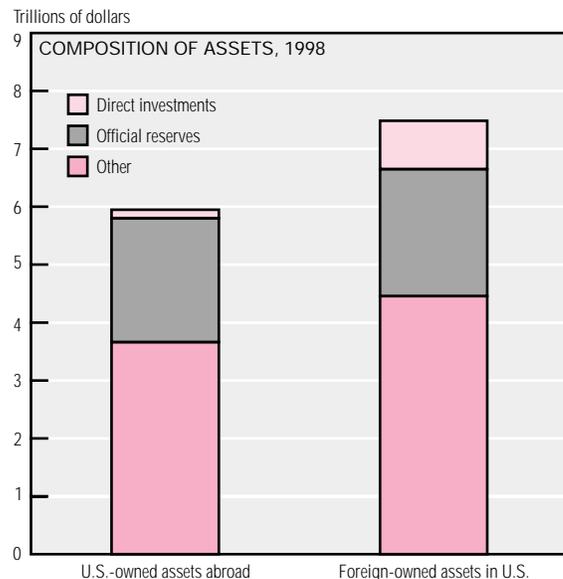
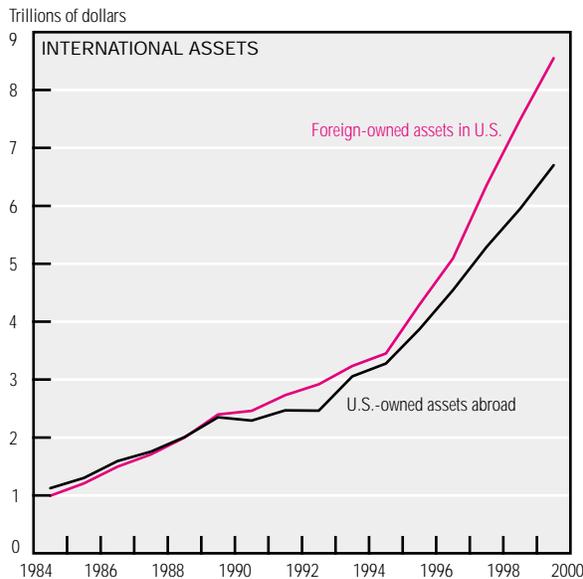


The U.S. International Investment Position



Factors Affecting the U.S. International Investment Position (Percent of GDP)

	1985-99	1985-96	1997-99
Total change ^a	-23.3	-10.4	-13.0
Change attributable to:			
Trade and transfers	-33.9	-26.4	-7.5
Statistical discrepancy	-3.0	-1.0	-2.0
Net return	13.6	17.0	-3.4
Return on U.S.-owned assets	40.9	30.6	10.3
Payments on foreign-owned assets	-27.3	-13.6	-13.7

a. Total change is the sum of trade and transfers, statistical discrepancy, and net return on assets.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

The U.S. is the world's largest debtor country, with net obligations exceeding \$1.8 billion. Since 1989, the market value of foreign-owned assets in this country has exceeded the market value of U.S.-owned assets abroad. Not all foreign-owned assets in the U.S. are debt instruments. Almost 30% represent foreign direct investments in this country. These are equity shares in U.S. enterprises that confer decision-making authority on foreigners. Another 11% of our liabilities are the

official dollar reserves of foreign governments.

Nevertheless, all foreign investors, private or governmental, require a return on their investments. Economists often assess the burden of a country's net international investment position by comparing it to GDP. U.S. international indebtedness currently stands at approximately 20% of GDP, a high but not unprecedented rate.

Persistently large trade deficits account for the expanded U.S. debt burden. Traditionally, a rate of

return that is higher on U.S.-owned assets abroad than on foreign-owned assets in the U.S. has mitigated the trade deficit's impact on our debt burden. Since 1993, however, this situation has reversed, and the net cost of servicing foreign-owned assets in this country is now adding more than 3 percentage points annually to the debt burden. All else equal, the U.S. needs a trade surplus equivalent to 2% of GDP to prevent a further increase in its debt-to-GDP ratio.