Order Code RL32964

CRS Report for Congress

The United States as a Net Debtor Nation: Overview of the International Investment Position

Updated September 4, 2007

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Prepared for Members and Committees of Congress

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The United States as a Net Debtor Nation: Overview of the International Investment Position

Summary

The international investment position of the United States is an annual measure of the assets Americans own abroad and the assets foreigners own in the United States. The net position, or the difference between the two, sometimes is referred to as a measure of U.S. international indebtedness. Although this designation is not strictly correct, the net international investment position does reveal the difference between the total assets Americans own abroad and total amount of assets foreigners own in the United States. These assets generate flows of capital into and out of the economy that have important implications for the value of the dollar in international exchange markets. Some Members of Congress and some in the public have expressed concerns about the U.S. net international investment position because of the role foreign investors are playing in U.S. capital markets and the potential for large outflows of income and services payments. Some observers also argue that the U.S. reliance on foreign capital inflows leaves the economy vulnerable to financial crises. This report will be updated as events warrant.

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The United States as a Net Debtor Nation: Overview of the International Investment Position

Background

The U.S. international investment position represents the accumulated value of U.S.-owned assets abroad and foreign-owned assets in the United States measured on an annual basis at the end of the calendar year. Some observers refer to the net of this investment position (or the difference between the value of U.S.-owned assets abroad and the value of foreign-owned assets in the United States) as a debt, or indicate that the United States is in a net debtor position, because the value of foreign-owned assets in the United States is greater than the value of U.S.-owned assets abroad. In fact, the nation's international investment position is not a measure of the nation's indebtedness similar to the debt borrowed by some developing countries, but it is an accounting of assets. By year-end 2006, the latest year for which data are available, the overseas assets of U.S. residents totaled approximately $12 trillion, while foreigners had acquired about $14.8 trillion in assets in the United States, with direct investment measured at historical cost. As a result, the U.S. net international investment position was about $2.8 trillion in the negative with direct investment measured at historical cost, as indicated in **Table 1**.

Foreign investors who acquire U.S. assets do so at their own risk and accept the returns accordingly, unlike the debt owed by developing countries where debt service payments are guaranteed in advance. The returns on the assets in the investment position, except for bonds, are not guaranteed and foreign investors gain or lose on them in the same way as U.S. domestic investors. As Table 1 indicates, these investments include such financial assets as corporate stocks and bonds, government securities, and direct investment[1] in businesses and real estate. The value of these assets, measured on an annual basis, can change as a result of purchases and sales of new or existing assets; changes in the financial value of the assets that arise through appreciation, depreciation, or inflation; changes in the market values of stocks and bonds; or changes in the value of currencies. The Department of

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[1] The United States defines foreign direct investment as the ownership or control, directly or indirectly, by one foreign person (individual, branch, partnership, association, government, etc.) of 10% or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise. 15 CFR § 806.15 (a)(1). Similarly, the United States defines direct investment abroad as the ownership or control, directly or indirectly, by one person (individual, branch, partnership, association, government, etc.) of 10% or more of the voting securities of an incorporated business enterprise or an equivalent interest in an unincorporated business enterprise. 15 CFR § 806.15 (a)(1).

Commerce also uses three different methods for valuing direct investments that yield roughly comparable estimates for the net position, although the three methods do provide estimates on U.S. direct investment abroad and foreign direct investment that can be considerably different at times.

Table 1. U.S. International Investment Position

(in billions of dollars)

Type of Investment	2003	2004	2005	2006
Net international investment position of the United States:				
With direct investment at current cost	-2,140.4	-2,294.4	-2,296.3	-2,598.6
With direct investment at market value	-2,339.6	-2,396.7	-2,199.0	-2,199.4
With direct investment at historical cost	-2,232.6	-2,485.3	-2,422.2	-2,759.8
U.S.-owned assets abroad:				
With direct investment at current cost	7,643.5	9,257.1	10,386.3	12,517.4
With direct investment at market value	8,318.2	10,130.0	11,421.4	14,039.6
With direct investment at historical cost	7,380.9	8,844.7	9,986.6	12,045.8
U.S. official reserve assets	183.6	189.6	188.0	219.9
U.S. Government assets, other	84.8	83.1	77.5	72.2
U.S. private assets:				
With direct investment at current cost	7,375.1	8,984.4	10,120.7	12,225.4
With direct investment at market value	8,049.8	9,857.3	11,155.8	13,747.6
With direct investment at historical cost	7,112.6	8,572.0	9,721.0	11,753.8
Direct investment abroad:				
— At current cost	2,054.5	2,463.6	2,535.2	2,855.6
— At market value	2,729.1	3,336.4	3,570.3	4,377.8
— At historical cost	1,791.9	2,051.2	2,135.5	2,384.0
Foreign securities	2,953.8	3,553.4	4,345.9	5,432.3
Bonds	874.4	993.0	1,028.2	1,180.8
Corporate stocks	2,079.4	2,560.4	3,317.7	4,251.5
U.S. claims by US nonbanking concerns	594.0	737.6	734.0	848.5
U.S. claims reported by US banks	1,772.9	2,229.8	2,505.6	3,089.0
Foreign-owned assets in the United States:				
With direct investment at current cost	9,783.9	11,551.5	12,682.6	15,116.0
With direct investment at market value	10,657.7	12,526.6	13,620.4	16,239.0
With direct investment at historical cost	9,613.5	11,330.0	12,408.8	14,805.7
Foreign official assets in the United States	1,562.6	2,011.9	2,306.3	2,770.2
Foreign private assets:				
With direct investment at current cost	8,221.3	9,539.6	10,376.3	12,345.8
With direct investment at market value	9,095.2	10,514.7	11,314.1	13,468.9
With direct investment at historical cost	8,051.0	9,318.1	10,102.5	12,035.5
Direct investment in the United States:				
— At current cost	1,581.0	1,742.2	1,868.2	2,099.4
— At market value	2,454.9	2,717.4	2,806.0	3,222.5
— At historical cost	1,410.7	1,520.7	1,594.5	1,789.1
U.S. Treasury securities	527.2	561.6	643.8	594.2
U.S. other securities	3,422.9	3,995.5	4,353.0	5,228.5
— Corporate and other bonds	1,710.8	2,035.1	2,243.1	2,689.8
— Corporate stocks	1,712.1	1,960.3	2,109.9	2,538.7
U.S. currency	317.9	332.7	351.7	364.3
U.S. liabilities by U.S. nonbanking concerns	450.9	508.3	557.8	740.4
U.S. liabilities reported by U.S. banks	1,921.4	2,399.2	2,601.7	3,319.0

Source: Nguyen, Elena L., The International Investment Position of the United States at Yearend 2006, *Survey of Current Business*, July 2007. p. 17.

Valuing Investments

The Department of Commerce provides updated estimates on the nation's international investment position each year, typically in July, based on data for the previous year through the end of the calendar year. Except for direct investment, all of the accounts in the international investment position are estimated directly by the Department of Commerce's Bureau of Economic Analysis (BEA) relative to readily observable market prices. For example, the value of positions in portfolio investments (securities), gold, loans, currencies, and bank deposits can be directly estimated by the BEA based on the face values or market prices of recent transactions.

Estimating the value of direct investments, however, presents a number of challenges. According to the Department of Commerce, these challenges arise because foreign direct investments, "typically represent illiquid ownership interests in companies that may possess many unique attributes — such as customer base, management, and ownership of intangible assets — whose values in the current period are difficult to determine, because there is no widely accepted standard for revaluing company financial statements at historical cost into prices of the current period."[2]

As a result, the Department of Commerce estimates the U.S. international investment position in three ways, reflecting three different accounting methods for estimating the value of direct investments: historical cost; current cost; and market value. Initially, direct investments are valued at historical cost, or the cost at the time of the investment. This historical cost value can become outdated because it is not updated to account for changes in the value of an investment through appreciation, or through internal growth and expansion, or through changes in various intangible assets. The current cost approach estimates the value of capital equipment and land at their current replacement cost using general cost indexes, and inventories, using estimates of their replacement cost, rather than at their historical cost. The third measure, market value, uses indexes of stock market prices to revalue the owners' equity share of direct investment.

For the most part, the current cost and historical cost estimates have tracked closely together for U.S. direct investment abroad and for foreign direct investment in the United States, as indicated in **Figures 1 and 2**, respectively. These two measures of direct investment demonstrate a steady increase in the value of the investments over the 25-year period from 1982 to 2006. The market value estimate of direct investment, however, displays a markedly different pattern. These estimates spiked during the rapid runup in stock market values in the 1990s and then dropped sharply when market values declined at the end of the 1990s. The market value estimates rose sharply again in 2003 through 2006, as the rebound in stock market values pushed up the estimated market value of firms. As a result, the market value of U.S. direct investment abroad was estimated at $4.4 trillion in 2006, pushing the overall U.S. position to $14 trillion, compared with an estimate of the historical cost

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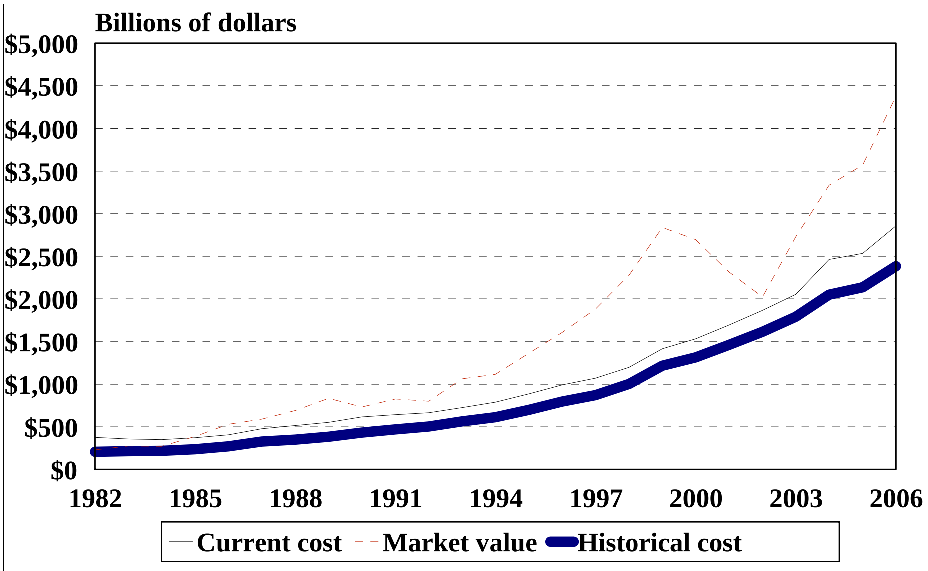
[2] Nguyen, Elena L., "The International Investment Position of the United States at Yearend 2005," *Survey of Current Business*, July 2007. p. 14.

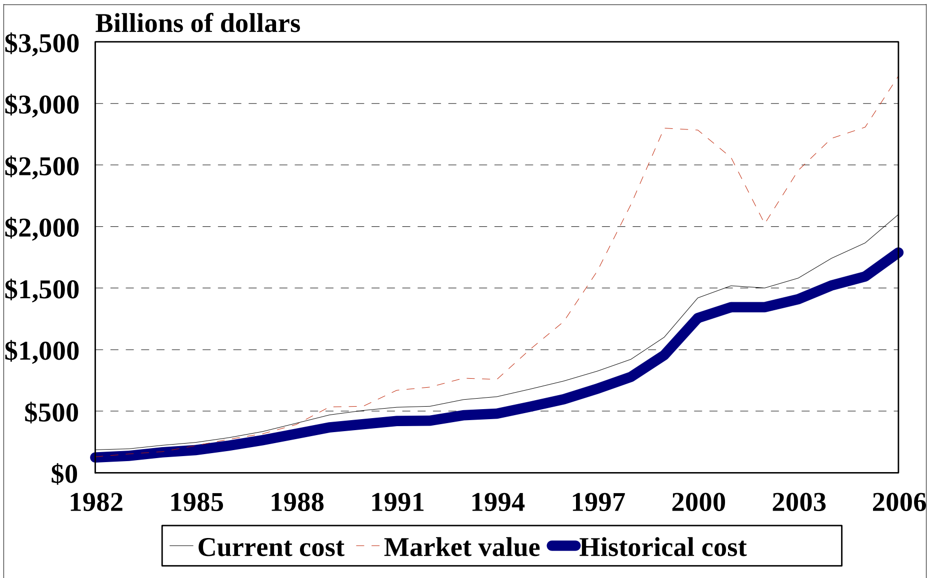
of $2.4 trillion for foreign direct investment in the United States and an overall position of $12 trillion and $2.9 trillion for direct investment position and $12.5 trillion position for current cost estimate. Since the early 1980s, the annual value of foreign direct investment in the United States has been greater at times than the annual value of U.S. direct investment abroad, but the accumulated value of U.S. direct investment abroad, or the position, has continuously been valued higher.

Figure 1. U.S. Direct Investment Abroad: Estimated Value of Accumulated Position, 1982-2006



Source: Department of Commerce

Figure 2. Foreign Direct Investment in the United States: Estimated Value of Accumulated Position, 1982-2006



Source: Department of Commerce

Investment Patterns

Foreign direct investment in U.S. businesses surged in the mid-1980s and has at times outpaced the annual amount of U.S. direct investment abroad. For various reasons, U.S. direct investment abroad and foreign direct investment in the United States have tended to track together so that the annual flows increase or decrease somewhat in tandem,[3] except in 2005, when U.S. direct investment abroad dropped sharply as U.S. parent firms reduced the amount of reinvested earnings going to their foreign affiliates for distribution to the U.S. parent firms in order to take advantage of one-time tax provisions in the American Jobs Creation Act of 2004 (P.L. 108-357). Between 2001 and 2006, U.S. direct investment outflows have been greater than similar inflows. As a whole, however, foreign investment among all U.S. assets has been greater than U. S. investment abroad, which has tended to push the net U.S. international investment position further into a negative position. This is not the first time in the nation's history that the U.S. net international investment position has been negative.

Early in the nation's history as the United States made the transition from being a developing economy to being a major economic superpower, foreign investment flowed into capital development projects such as railroad and canal construction which aided the westward expansion and the development of heavy industries. By 1920, foreigners had withdrawn many of their assets from the United States to finance World War I, which turned the United States into a net creditor. This net creditor position grew unabated after World War II and into the 1980s, when large inflows of foreign investment once again turned the nation into a net international investment debtor.

The U.S. net debtor status continued to grow through the 1990s and into the 2000s, as indicated by **Figure 3**. By year-end 2006, U.S. assets abroad are estimated to have reached $12 trillion, while foreign owned assets in the United States reached $14.8 trillion. As a result, the U.S. net international investment position was estimated at a negative $2.8 trillion, or equivalent to about 21% of U.S. Gross Domestic Product, marking a substantial increase in the relative size of the net investment debt position over the previous decade, as indicated in **Table 2.** The net investment position worsened by nearly $340 billion during 2006, with direct investment measured at historical cost. According to the two other measures for direct investment — current cost and market value — the net investment position was valued at about negative $2.6 trillion and $2.2 trillion, respectively.

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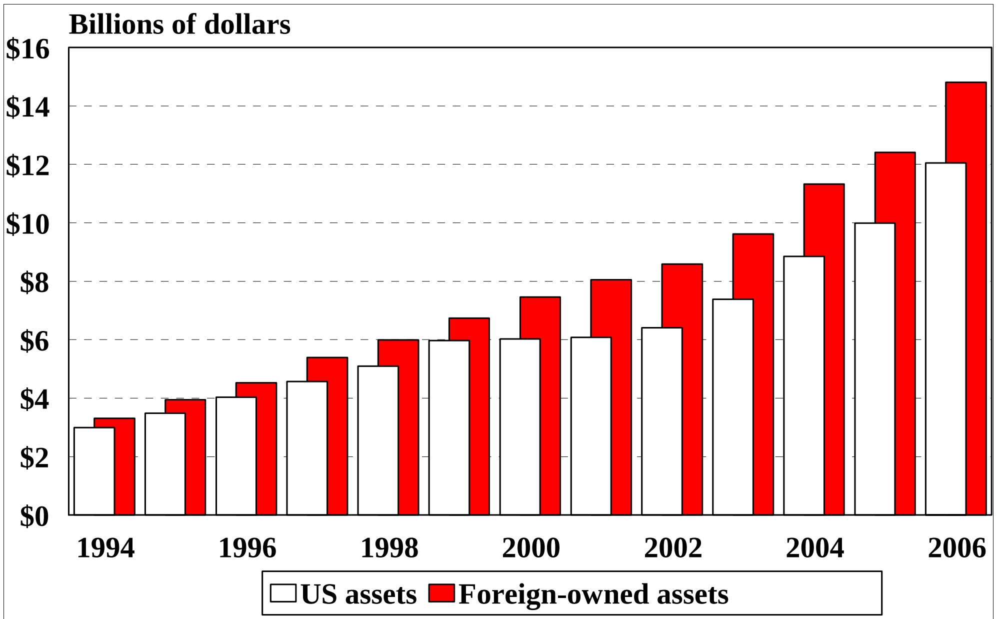
[3] See CRS Report RL32461, *Outsourcing and Insourcing Jobs in the U.S. Economy: Evidence Based on Foreign Investment Data*, by James K. Jackson.

Figure 3. U.S. Investment Position Abroad and Foreign Investment Position in the United States, 1994-2006



Source: Department of Commerce

Table 2. U.S. International Investment Status

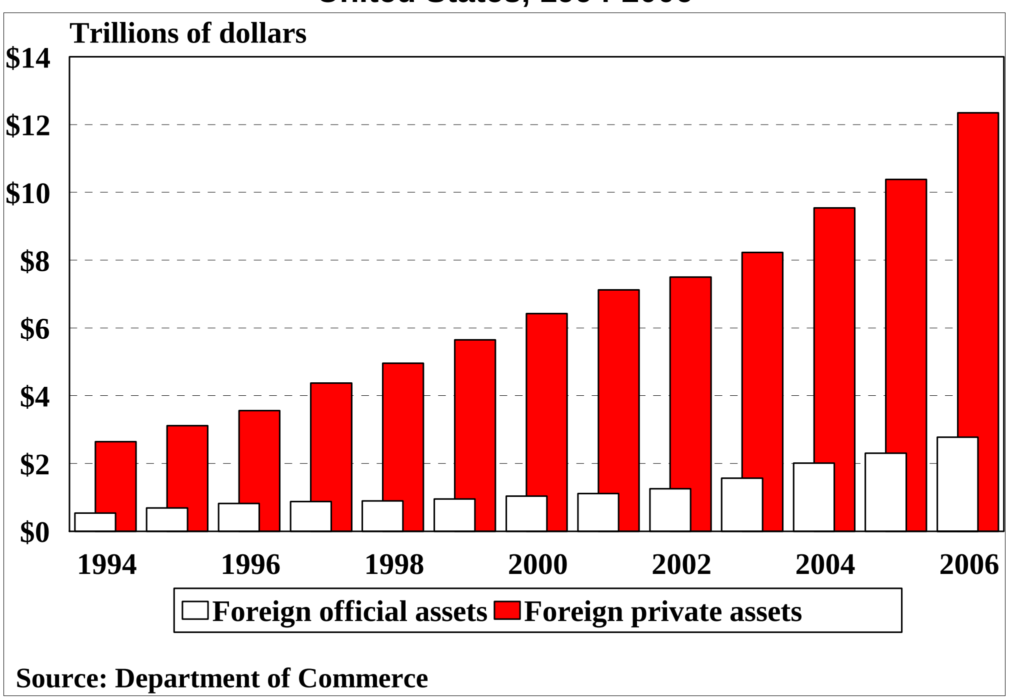
(billions of dollars)

	U.S.-Owned Assets Abroad	Foreign-Owned Assets in the United States	U.S. Net International Investment Position	U.S. Gross Domestic Product	Relative Share of U.S. Gross Domestic Product
1980	929.8	569.0	360.8	5,161.7	7%
1985	1,287.4	1,233.1	54.3	6,053.7	1%
1990	2,179.0	2,424.3	-245.3	7,112.5	-3%
1991	2,286.5	2,595.7	-309.3	7,100.5	-4%
1992	2,331.7	2,762.9	-431.2	7,336.6	-6%
1993	2,753.6	3,060.6	-307.0	7,532.7	-4%
1994	2,987.1	3,310.5	-323.4	7,835.5	-4%
1995	3,486.3	3,944.7	-458.5	8,031.7	-6%
1996	4,032.3	4,527.4	-495.1	8,328.9	-6%
1997	4,567.9	5,388.6	-820.7	8,703.5	-9%
1998	5,090.9	5,990.9	-900.0	9,066.9	-10%
1999	5,965.1	6,740.6	-775.5	9,470.3	-8%
2000	6,023.4	7,455.8	-1,432.4	9,817.0	-15%
2001	6,075.9	8,053.6	-1,977.7	9,890.7	-20%
2002	6,401.8	8,585.0	-2,183.2	10,074.8	-22%
2003	7,380.9	9,613.7	-2,132.8	10,960.8	-20%
2004	8,844.7	11,330.0	-2,485.3	11,712.5	-21%
2005	9,986.6	12,408.8	-2,422.2	12,455.8	-19%
2006	12,045.8	14,805.7	-2,759.9	13,246.6	-21%

Source: Department of Commerce

The foreign investment position in the United States continues to increase as foreigners acquire additional U.S. assets and as the value of existing assets appreciates. These assets are broadly divided into official and private investments reflecting transactions by governments among themselves and transactions among the public. At times, some observers have been concerned about the amount of foreign official investment in the U.S. economy, particularly in U.S. Treasury securities and, more recently, purchases of U.S. businesses by foreign governments. As **Figure 4** indicates, official asset holdings were valued at about $2.8 trillion in 2006, or about 16% of the total foreign investment position, a share that has remained relatively stable over the 14-year period of 1993 through 2006. Official assets include such monetary reserve assets as gold, the reserve position with the International Monetary Fund (IMF), and holdings of foreign currency. An important component of foreign official holdings in the United States is the acquisitions of U.S. Treasury securities by foreign governments. At times, such acquisitions are used by foreign governments, either through coordinated actions or by themselves, to affect the foreign exchange price of the dollar. Foreign currency holdings account for a relatively small share of the total foreign investment position.

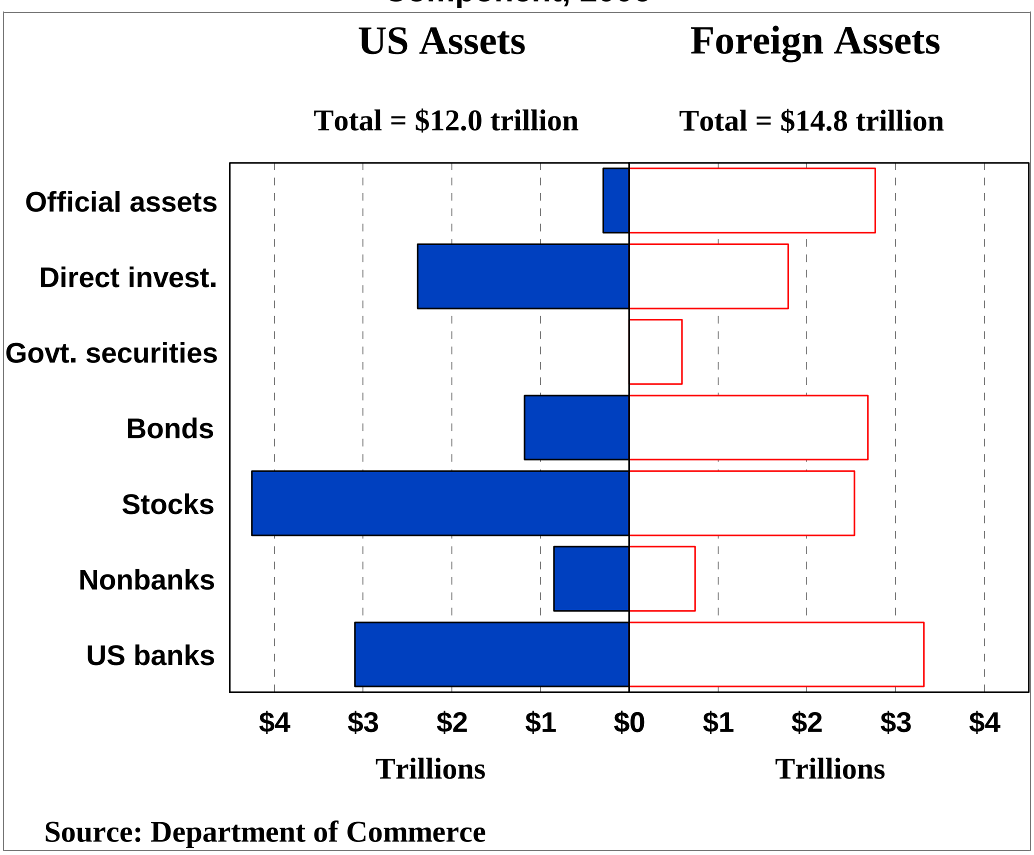
Figure 4. Foreign Official and Private Investment Positions in the United States, 1994-2006



Private asset holdings are comprised primarily of direct investment in businesses and real estate, purchases of publicly traded government securities, and corporate stocks and bonds. As indicated in **Figure 5**, the composition of U.S. assets abroad and foreign-owned assets in the United States is different in a number of ways. The strength and uniqueness of the U.S. Treasury securities markets make these assets sought after by both official and private foreign investors, whereas U.S. investors hold few foreign government securities. As a result, foreign official assets in the United States far outweigh U.S. official assets abroad. Both foreign private and official investors have been drawn at times to U.S. government securities as a safe haven investment during troubled or unsettled economic conditions.

Of all the accounts, inward and outward direct investments are the most closely matched, demonstrating the appeal of such investments to both U.S. and foreign investors. In fact, the United States is unique in that it not only is the largest foreign direct investor in the world, but it is also the largest recipient of direct investment in the world. Foreign investors have also been attracted to U.S. corporate stocks and bonds for the same reasons domestic U.S. investors have invested in them.[4] The decline in the overall value of U.S. corporate stocks after 2000, however, curbed the rate of growth of foreign purchases of these assets. A similar decline in the value of foreign stocks and the depreciation in the value of the U.S. dollar relative to a broad range of currencies reduced the dollar value of American-owned stock holdings abroad. Claims by private banks are also included in the international investment accounts and represent a broad range of international financial transactions, including financing for short-term trade credits associated with exports and imports of merchandise goods.

Figure 5. U.S. and Foreign Investment Position, by Major Component, 2006



[4] For additional information, see CRS Report RL32462, *Foreign Investment in U.S. Securities*, by James K. Jackson.

International Investment: Sources and Economic Impact

International investment not only has an impact on the U.S. economy, but it is affected by the economy. For U.S. investors, foreign markets provide them with opportunities to seek out the greatest returns for their investments, returns which are repatriated back to the United States. In addition, U.S. direct investment abroad, for the most part, tends to stimulate U.S. exports, which in turn stimulates the most productive sectors of the economy.[5] U.S. direct investment abroad is highly sought after by developing countries which want the capital not only to supplement their own limited domestic sources, but they also want American technology and expertise.

Foreign capital inflows augment domestic U.S. sources of capital, which, in turn, keep U.S. interest rates lower than they would be without the foreign capital. Indeed economists generally argue that it is this interplay between the demand for and the supply of credit in the economy that drives the broad inflows and outflows of capital. As U.S. demands for capital outstrip domestic sources of funds, domestic interest rates rise relative to those abroad, which tends to draw capital away from other countries to the United States.

The United States has also benefitted from a surplus of saving over investment in many areas of the world that has provided a supply of funds. This surplus of saving has been available to the United States because foreigners have remained willing to loan that saving to the United States in the form of acquiring U.S. assets, which have accommodated the growing current account deficits. Over the past decade, the United States experienced a decline in its rate of savings and an increase in the rate of domestic investment, as indicated in **Table 3**. The large increase in the Nation's current account deficit would not have been possible without the accommodating inflows of foreign capital.

As **Table 3** indicates, compared with the 1990-1996 period, U.S. saving in 2004 declined by 2% of gross domestic product (GDP), while investment increased by 1.5% of GDP. This shift toward greater investment relative to saving was accommodated by an increase worldwide in saving relative to investment. Among other advanced economies and the newly industrialized economies in Asia, both saving and investment declined in 2004 relative to the 1990-1996 period, but investment declined more as a share of GDP than did saving, so in relative terms saving increased as a share of GDP. In the emerging developing economies and in the developing economies of Asia, saving as a share of GDP increased faster than did investment, which also increased in these areas. The large inflows of foreign capital to the United States likely arise from the relatively more robust economic growth that occurred in the United States compared with almost any other area, the well-developed U.S. financial system, and the overall stability of the U.S. economy.

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[5] For additional information, see CRS Report RL32461, *Outsourcing and Insourcing Jobs in the U.S. Economy: Evidence Based on Foreign Investment Data*, by James K. Jackson

Table 3. Saving and Investment in Selected Countries and Areas; 1990-1996 and 2004

(Percentage of Gross Domestic Product)

Area/Country	Average, 1990-1996	2004	Change
World			
Saving	22.9	24.9	2.0
Investment	24.0	24.6	0.6
United States			
Saving	15.6	13.6	-2.0
Investment	18.1	19.6	1.5
Other Advanced Economies			
Saving	23.7	22.7	-1.0
Investment	23.6	21.3	-2.3
Eurozone			
Saving	21.4	20.9	-0.5
Investment	21.3	20.2	-1.1
Japan			
Saving	32.4	27.6	-4.8
Investment	30.2	23.9	-6.3
Newly Industrialized Asian Economies			
Saving	34.1	30.3	-2.8
Investment	32.6	24.9	-7.7
Emerging Developing Economies			
Saving	25.2	31.5	6.3
Investment	27.5	29.2	1.7
Developing Asia			
Saving	30.7	38.2	7.3
Investment	32.8	35.5	2.7
China			
Saving	40.6	46.4	5.8
Investment	38.8	43.9	5.1

Source: *The Economic Outlook*, the Congressional Budget Office, August 2005. p. 39.

Capital inflows also allow the United States to finance its trade deficit because foreigners are willing to lend to the United States in the form of exchanging the sale of goods, represented by U.S. imports, for such U.S. assets as stocks, bonds, and U.S. Treasury securities. Such inflows, however, put upward pressure on the dollar, which tends to push up the price of U.S. exports relative to its imports and reduce the overall level of exports. Furthermore, foreign investment in the U.S. economy drains off some of the income earned on the foreign-owned assets that otherwise would accrue to the U.S. economy as foreign investors repatriate their earnings back home.

Some observers are particularly concerned about the long-term impact of the U.S. position as a net international investment debtor on the pattern of U.S. international income receipts and payments. In 2006, the United States received $710 billion in income receipts (including receipts on royalties) on its investments abroad and paid out $631 billion in income payments (including payments on royalties) on foreign-owned assets in the United States for a net surplus of $79 billion in income receipts.[6] This surplus has varied over time as rising interest rates increases payments to foreign investors on such assets as Treasury securities and corporate bonds.[7] As the annual amount of foreign investment in the U.S. economy continues to exceed the amount of U.S. investment abroad, it seems inevitable that U.S. payments on foreign-owned assets will continue to exceed U.S. receipts. A net outflow of income payments acts as a drag on the national economy as U.S. national income is reduced by the net amount of funds that are channeled abroad to foreign investors.

One of the positive areas of the income accounts is the income receipts the United States receives on U.S. direct investments abroad. Although the historical cost value of U.S. direct investment abroad and foreign direct investment in the U.S. are roughly equal, the United States earned $55 billion more on its direct investment assets abroad in 2006 than foreigners earned on their direct investments in this country, as indicated in **Figure 6**. As indicated previously, in 2005 U.S. parent firms reduced the amount of reinvested earnings going to their foreign affiliates for distribution to the U.S. parent firms in order to take advantage of one-time tax provisions in the American Jobs Creation Act of 2004 (P.L. 108-357). The Department of Commerce has analyzed data on direct investment to determine the source of the low rate of return of foreign direct investment relative to U.S. direct investment abroad.[8] This analysis concluded that the gap in the rate of return between U.S.-owned enterprises abroad and foreign-owned enterprises in the United States is narrowing over time and seems to be related to the age of the investment, or that as foreigners' investments mature the rate of return of the assets approaches that of U.S. direct investment abroad.

The U.S. net surplus of income receipts arising from direct investments was offset to a large extent by large net income payments to foreign holders of U.S. government securities, which grew by 30% to $131 billion in 2006, up from the $101 billion it received in 2005. The overall U.S. income surplus was further reduced by the income payments made to foreign holders of U.S. corporate stocks and bonds. The United States received $335 billion in income from the corporate stocks and bonds Americans owned abroad, but paid out over $334 billion to foreign holders of U.S. corporate securities, for a net inflow of $300 million in income receipts on such assets. In addition, the United States received $62 billion in royalties in 2006 on various products and on U.S.-licensed production technology, patents, and copyrighted material. This was more than double the $26 billion the United States paid foreigners in royalties on their investments in the United States.

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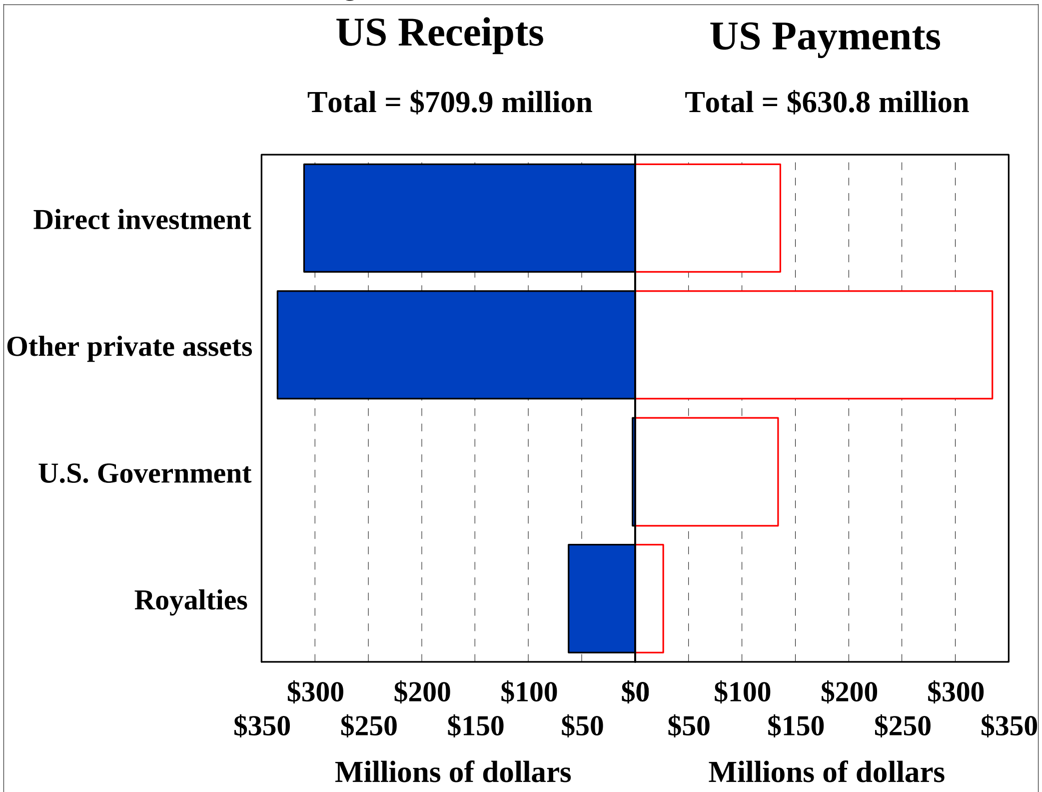
[6] Sauers, Renee M., U.S. International Transactions: First Quarter 2007. *Survey of Current Business*, July 2007. P. 66.

[7] Whitehouse, Mark, U.S. Foreign Debt Shows Its Teeth AS Rates Climb. *The Wall Street Journal*, September 25, 2006. P. A1.

[8] Mataloni, Raymond, Jr., "An Examination of the Low Rates of Return of Foreign-Owned U.S. Companies," *Survey of Current Business*, March 2000, p. 55-73; and Landefeld, J. Steven, Ann M. Lawson, and Douglas B. Weinberg, "Rates of Return on Direct Investment," *Survey of Current Business*, August 1992, p. 79-86.

Figure 6. U.S. Income Receipts and Payments on U.S.-Owned Assets and on Foreign-Owned Assets in the United States, 2006



Source: Department of Commerce

Some observers also are concerned about the extensive amount of foreign investment overall in the U.S. economy and in U.S. financial assets. According to the estimates provided in **Table 4**, foreigners own approximately 16% of total U.S. wealth. Although foreign investors own a little more than 6% of total U.S. fixed private capital stock, they own substantially larger shares of U.S. financial assets. For instance, foreign investors now own nearly 43% of total U.S. Federal debt and more than half of the outstanding publicly traded U.S. Treasury securities.[9] Some observers argue that such investments could spur an economic crisis in this country should foreign investors decide to pull their money out of the investments, whether for economic or political reasons. This possibility seems remote, however, given the negative impact such an action might have on the foreign investors themselves, but the concerns remain.

[9] For additional information, see CRS Report RL32462, *Foreign Investment in U.S. Securities*, by James K. Jackson.

Table 4. Estimates of Wealth in the United States, 2005
Current-Cost, Gross Stock Values
(billions of dollars, percent)

Item	Total	Foreign Owned	Foreign Share
Fixed Private Capital	$29,343.8	$1,635.3	5.6%
Nonresidential	$13,543.8	$1,653.3	12.1%
— Agriculture, Forestry, and Fisheries	$516.7	$2.2	0.4%
— Mining	$1,007.2	$48.2	4.8%
— Construction	$222.2	$7.7	3.5%
— Manufacturing	$1,953.4	$538.1	27.5%
— Transportation	$937.7	$23.4	2.5%
— Wholesale Trade	$420.0	$230.1	54.8%
— Retail Trade	$876.5	$29.7	3.4%
— Finance, Insurance, Real Estate	$1,364.9	$207.6	15.2%
— Services	$4,001.1	$189.9	4.7%
Residential	$15,800.1		
— Farms	$95.6		
— Real Estate	$13,039.8		
Fixed Government Capital	$7,585.0		
— Equipment	$814.6		
— Structures	$6,770.4		
Consumer Durable Goods	$3,738.0		
Financial Assets	$31,089.8	$9,901.2	31.8%
— Federal Debt, Publicly Held	$4,601.4	$1,994.0	43.3%
— Corporate Stocks	$18,177.7	$2,115.5	11.6%
— Corporate Bonds	$8,310.7	$2,275.2	27.4%
— Other		$3,516.5	
Total	$71,756.6	$11,536.5	16.1%

Source: Nguyen, Elena L., The International Investment Position of the United States at Yearend 2005, *Survey of Current Business*, July 2006. p. 18-19; Wasshausen, David B., Fixed Assets and Consumer Durable Goods for 1995-2005, *Survey of Current Business*, September 2006. p. 22-33; Foreign Direct Investment in the United States, Detail for Historical-Cost Position and Related Capital and Income Flows, 2002-2005. *Survey of Current Business*, September 2006. p. 82-84; *Flow of Funds Accounts of the United States*, June 8, 2006. Tables L212 and L213; *Treasury Bulletin*, September 2006. Table FD-1. p. 24.

Congressional Response

Despite expressing concerns at times about the U.S. net international investment position, Members of Congress generally have been reluctant to intervene in the investment process, whether inward or outward. Indeed, successive Congresses and Administrations have led international efforts to eliminate or reduce restraints on the international flow of capital. If the U.S. net investment position continues to turn more negative, prospects increase that the positive U.S. net income receipts will turn negative as U.S. income payments overwhelm U.S. income receipts. In such a case, the U.S. economy will experience a net economic drain as income that could be used to finance new U.S. businesses and investments will be sent abroad to satisfy foreign creditors. Such a drain likely will be small at first relative to the overall size of the economy, but it could grow rapidly if the economy continues to import large amounts of foreign capital.

Some observers are also concerned about the growing role foreign investment is playing in the economy by bridging the gap between domestic sources and demands for credit. One chief consideration is how the capital is being used. Investment funds that are flowing into direct investment and into corporate stocks and bonds presumably are being used to bolster investments in plant and equipment and other investments that aid in corporate productivity over the long run. As such, those investments may well provide a boost to U.S. economic growth well into the future. Foreign investment in U.S. Treasury securities directly aid in financing the Federal government's budget deficits and indirectly ease the Federal government's demands on domestic credit markets, which assists U.S. firms and consumer consumption by freeing up capital in the economy and by relieving some of the pressure on domestic interest rates.

One growing concern among some policymakers is the rising amount of investment by foreign governments in U.S. businesses, real estate, and portfolio assets (corporate stocks and bonds, and U.S. Government securities). Such foreign investments are bolstered by the rising amount of U.S. dollars held by foreign governments, known as sovereign wealth funds, which are estimated to be more than $2.5 trillion.[10] U.S. policy toward foreign investment generally has been one of acceptance and openness, but such investments are viewed by some as a new and different kind of investment, because it contrasts with longstanding U.S. policies that encourage foreign governments to shift from officially owned enterprises to private ownership and it raises the prospects of interference in a broad range of free markets by foreign governments. While there is no evidence that ownership of assets by foreign governments is markedly different from ownership by private foreign entities, such concerns likely helped motivate Congress to pass the Foreign Investment and National Security Act of 2007. President Bush signed the bill into law on July 26, 2007 (P.L. 110-49). P.L. 110-49 increases congressional oversight over acquisitions of U.S. businesses by foreign governments.

Some observers contend that a sharp decline in capital inflows or a sudden withdrawal of foreign capital from the economy could spark a financial crisis. Congress likely would find itself embroiled in any such financial crisis through its direct role in conducting fiscal policy and in its indirect role in the conduct of monetary policy through its supervisory responsibility over the Federal Reserve. Such a coordinated withdrawal seems highly unlikely, particularly since the vast majority of the investors are private entities that presumably would find it difficult to coordinate a withdrawal. Short of a financial crisis, events that cause foreign investors to curtail or limit their purchases of U.S. securities likely would complicate efforts to finance budget deficits in the current environment without such foreign actions having an impact on U.S. interest rates, domestic investment, and long-term rate of growth.

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[10] Weisman, Steven R., A Fear of Foreign Investments. *The New York Times*, August 21, 2007.