

Us deficit - international borrowing

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US Deficit - International Borrowing Introduction United States has been on the largest net liability position in the world for years due to massive current account deficits. Statistics show that by the end of 2005, US had more than 20% GDP and its overseas claim amounted to over \$2.5 trillion (Welch et al 503). The present US account deficit persists to go higher and higher, both in share of the US GDP and dollar terms. These tendencies have raised worries to the rest of the world on the sustainability of the US external position and where the state will borrow money from when it has massive debts from major countries. There is a risk of US facing a disruptive and sudden adjustment of current account which will have probable consequences of dealing with a weaker dollar and slimming down in US expenditure. When a government borrows money from other countries it issues debt unlike individuals who ask for loans from banks (Lader 330). This means that the government puts up for sale treasury profit-making securities like bonds, treasury bills, treasury inflation protected securities and notes to other individuals, local governments, federal governments, states, government from other countries and businesses. There are number of entities that hold debt for the government of the US, China being on the fore front of the same. Currently, the federal government owes 28 countries around the world debt with 10 of them being the major holders of the share. The amount of debt held by China has increased drastically over the course of the past decade with the current debt reading \$1 trillion. Experts say that China has recently decided to slow their pace of lending US money but the amount owed by the same to that nation will remain stable into the years to come. China holds a 25% of the overall US overseas debt and experts believe the

numbers are bound to increase (Welch et al 508). US also owe a great amount of money to Japan with a difference of approximately \$ 100 billion compared to that of china. Though media has been more interested with the amount of money US owe China there is a great deal of 20% of overall US debt owed to Japan (Welch et al 506). Other foreign creditors of the US include Singapore, India, Republic of Ireland, Israel, Turkey, France, Mexico, Norway and Thailand. Some of these countries decided to lend US money so as to be able to invest in their economic future and have good relations with the US. There are several countries that maintain small debt in its lending with the US such as, Philippines, Chile Colombia and Sweden. These four countries have contributed approximately \$11 billion and \$ 15 billion to the US (Welch et al 510). The debts the US owe other foreign countries are paid with interest over the years and the interest per dollar depends on various variables. Interest on the dollar depends on each country agreement with the US government (Dalling 476). There are countries which agree on lending US money in exchange for some privileges that can only be given by the US government. Some decide to make future investment with US and in exchange they lend money to the same. There is the matter of inflation with the dollar value and the amount a state or a business gave to the US government 5 years ago will have increased depending on the interest rate agreed on as well as the value of the dollar at that particular time. Interest per dollar can go up to a 100 % depending on the share a country gave the US. Example, US owes China \$1 trillion which means the interest rate of the dollar will not be same as that of Sweden or Chile it will obviously be much elevated for various reasons. Most of the countries get less than 50 %

interest per dollar when the US pays their debts depending on agreements (Welch et al 504). Conclusion In recent years, the United States government has shown relative stability in the external position which has also seemed to challenge uncertainties about the stability of the constant massive account deficits. There is also the least minimal revenue on its large calculated net debt situation, which would also give the impression of undermining those doubts. An increase in US net indebtedness owes resources advantage on US overseas assets. This situation occurs both from privileged equity prices overseas and the depreciation of the dollar value for few years now. Other valuation adjustments like increase in foreign recourse prices or having a weaker dollar can result to reducing a lot of pressure on the present account arrears to much smaller number. Works Cited Dalling, Robert. The Story of Us Humans, From Atoms to Today's Civilization. 2006. Chicago: iUniverse. Print Lader, Curt. Barron's Ap U. s. Government and Politics. 2010. New York : Barron's Educational Series. Print. Welch, Susan, Gruhl, John Rigdon, Susan M. & Thomas, Sue. Understanding American Government. 2011. New York: Cengage Learning. Print.