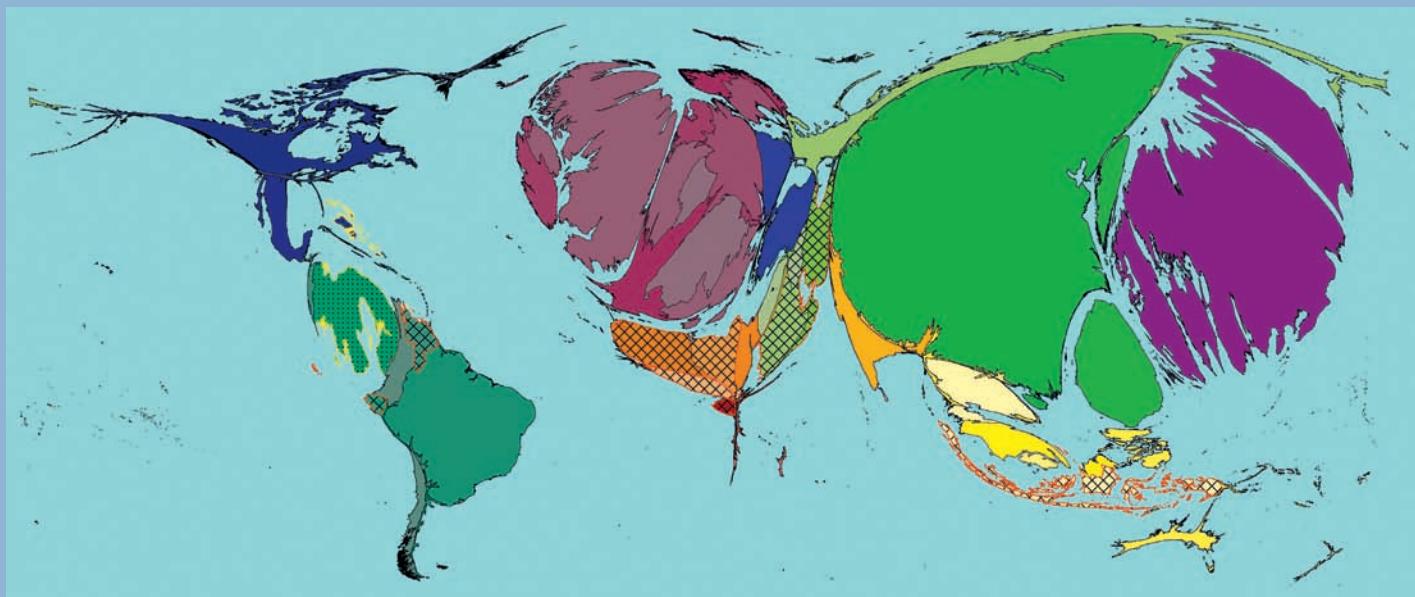


America's Debt to the World



Map of the world with countries resized according to the total amount of US treasury securities that are held in each country, July 2011.

Source: published by the US Treasury

The ongoing global financial crisis gained new momentum in early August. As Europe struggled to find a sustainable solution for its debt crisis, a downgrade in the US credit rating pre-empted a worldwide slump in stock markets.

But the current American debt level did not appear overnight. It started piling up long ago, as a look at the development of US amassed debt over the last decade reveals: today, the total national debt of the United States is \$14.3 trillion, up from \$5.8 trillion in 2001. Particularly interesting for global markets is the external debt that America owes to foreign holders outside the country: George W. Bush took over approximately \$1 trillion in foreign debt from the Clinton administration (Bill Clinton managed to reduce national debt levels in his second term). After a short period in which this downward trend continued, foreign US debt started to rise after September 2001. In 2009, George W. Bush handed over more than \$3 trillion of national debt to Barack Obama. There has been a considerable trend upwards since the financial crisis hit the nation in 2008. Only recently has this upward trend started to level off slightly, and US foreign debt is now just below \$4.5 trillion.

Looking at the distribution of US debt provides interesting insights into the complex interdependences that developed over almost a decade of increasing external liabilities. China is the largest single holder of foreign US debt, with \$1,159.8 billion, but the total liabilities are much larger and more spread around the globe. Despite itself being in great debt, Japan comes second in the ranks of US creditors with \$912.4 billion. A considerable amount of credit has been extended to the US by some of the other highly indebted economies such as the United Kingdom (the European country with the largest external debt) with \$346.5 billion.

Looking at this complex cobweb of debt emanating from the world's – still – largest economy, it is not hard to imagine that the other large economies have equally diverse interdependences of their own (very high) foreign liabilities, making one wonder how long this system can continue to work without considerable adjustments. The political world has already started to change because of this new and emerging picture: China is increasingly finding a political voice, its leaders' official publications give bold advice and view the debt crisis as possibly removing its last obstacle to becoming the world's new superpower. The changing economic

world may be slowly leading us towards a new political world order. Figure 1 shows the countries of the world resized according to the total amount of US treasury securities that are held in each country as of July 2011 published by the US Treasury.

All countries holding less than \$12.3 billion (which equals Australia's share as the smallest single country included in the data) are not included in Figure 1. Their securities are \$202.5 billion, less than 4.5% of the total foreign debt in total. Furthermore, foreign liabilities for some countries are only published as a merged single figure. These are the oil-exporting nations (Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya and Nigeria) and the Caribbean banking centres (Bahamas, Bermuda, Cayman Islands, Netherlands Antilles, Panama and the British Virgin Islands). For both categories the respective countries were merged and treated as one homogeneous region in the map transformation. The distribution of US debt within those countries may therefore differ slightly from the representation in the map. The regions are marked in the map with the red and yellow outlines and the criss-cross/dotted pattern.