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US International Financial Flows and the US Net Investment Position

New Perspectives Arising from New International Standards

Christopher A. Gohrband and Kristy L. Howell

8.1 Introduction

The recent global financial crisis was precipitated in part by an inadequate understanding by regulators and policymakers of the size and scope of risks undertaken by financial market participants around the world. These events have drawn attention to gaps and limitations in aggregate statistics for financial flows and positions, particularly for the purpose of international comparisons. Although data gaps are, as the International Monetary Fund (IMF) points out, “an inevitable consequence of the ongoing development of markets and institutions,” they become more apparent when the “lack of timely, accurate information hinders the ability of policymakers and market participants to develop effective responses” (IMF 2009, 4). In addition, some economists believe that policy responses might have been better informed if macroeconomic aggregate statistics that were fully integrated with more detailed data on the composition of financial asset and liability flows had been available.¹ With this in mind, several inter-

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1. See, for example, Eichner, Kohn, and Palumbo (chapter 2, this volume), Bosworth (chapter 1, this volume), and Palumbo and Parker (2009).

national organizations, including the IMF and the Organisation for Economic Co-operation and Development (OECD), have undertaken efforts to address data gaps in financial information and to improve the comparability of external account statistics across countries.

One step that will help to close some of the information gaps is the timely implementation of recently updated international standards for the compilation of international economic accounts, in particular, the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6) released in 2009.² This revision of the BPM was undertaken partly in response to the product innovation and rapid growth in financial markets since the standards were last updated in 1993. Extensive recommendations for the presentation of financial transactions and the greater prominence placed on the international investment position in BPM6 will result in more informative international accounts that meet international recommendations made in the aftermath of the financial crisis.

The US Bureau of Economic Analysis (BEA) produces the US balance of payments (BOP) and the US international investment position (IIP), as well as related statistics on direct investment and the operations of multinational companies.³ The US BOP accounts summarize the economic transactions between the United States and the rest of the world during a specific time period, while the US IIP shows the value of US claims on nonresidents and US liabilities to nonresidents at a given point in time. The BOP consists of a current account, which reports flows of goods, services, and income; a capital account, which reports capital transfers and other nonfinancial transactions; and a financial account, which reports transactions in financial assets and liabilities. International accounts statistics are important for understanding the role of an economy in the international financial markets, for evaluating the impact of globalization on the domestic economy, and for examining the changing nature of international investment over time. However, the usefulness of the US international accounts is limited by the current presentation of the statistics.

In this chapter, we describe a planned restructuring of the financial account in the US BOP and the US IIP to align their presentation and underlying concepts more closely with the international standards recommended in BPM6.⁴ The BEA's new presentation will place greater emphasis on the composition of financial flows and positions in terms of functional cate-

2. IMF (2009).

3. The US balance of payments accounts are also known as the US international transactions accounts.

4. The BEA is also using the fourth edition of the OECD *Benchmark Definition of Foreign Direct Investment* (BD4) (OECD 2008) as a source of guidance for the international accounts. The BPM6 and BD4 are consistent in their approach to direct investment statistics. The BEA first introduced its plans and strategy for implementing BPM6 and BD4 and making other improvements to the international economic accounts in Howell and Yuskavage (2010). Updates were provided in Howell and Howenstine (2011), Howell (2012), and Howell and Westmoreland (2013).

gories such as direct investment and portfolio investment, on the types of instruments and maturities comprised by investment within these categories, and on the broad sectors of both US creditors and debtors. We also provide experimental statistics that are reorganized according to the new international guidelines.

We then explain some of the benefits of the transformed US BOP and IIP statistics in a section on cross-border rates of return on investment. We show that the restructured BOP and IIP statistics can also provide better information on analytical issues addressed in the international economics literature. Because only limited information on time series for capital gains and losses have been available in the IIP, researchers have found it challenging to estimate rates of return on detailed cross-border investment positions using BEA statistics. Differences in assumptions have led to different conclusions by researchers using these statistics. To fill this information gap, we present rates of return measures based on previously unpublished time series for capital gains for major types of investment including: direct investment, long-term portfolio debt, and portfolio equity. Results demonstrate that there are considerable benefits to data users from adopting the new presentation and providing more detailed data. The chapter concludes with a progress report on recent initiatives to make the international accounts more detailed and more timely.

8.2 A New Presentation of the Balance of Payments and International Investment Position

The reorganized presentation of the financial account of the BOP and of the IIP provides a uniform classification of international transactions and positions, with greater comparability between the US accounts and those of other countries that follow the international guidelines.

Tables 8.1 and 8.2 present experimental statistics for the new presentation of the U.S. BOP and the IIP based on a reorganization of currently published statistics according to the new international guidelines.⁵ Tables 8.3 and 8.4 present the new presentations for the financial account of the BOP and for the IIP alongside the existing presentations to give a preliminary indication of how the structure of the accounts will be changed in the new presentation.

8.2.1 Balance of Payments

The proposed new presentation of the financial account of the BOP is presented in table 8.3 (right panel), alongside the existing financial account presentation (left panel). In the new presentation, transactions are arranged

5. The BOP tables also reflect planned changes to the current and capital accounts. With the exception of changes to the primary income account (within the current account), which correspond to changes to the financial account, the changes to the current and capital accounts are outside the scope of this chapter and will not be discussed here.

Table 8.1 US international transactions (billions of dollars)^a

Line	2006	2007	2008	2009	2010	2011
	Current account					
	Credits:					
1	2,221.7	2,570.5	2,752.2	2,276.1	2,614.1	2,953.9
2	1,460.8	1,656.4	1,845.2	1,581.7	1,844.1	2,104.9
3	1,042.2	1,167.9	1,312.5	1,072.9	1,292.4	1,499.7
4	1,030.6	1,150.3	1,288.6	1,055.5	1,271.1	1,461.9
5	66.0	84.3	108.3	93.9	107.7	126.2
6	279.1	316.3	386.9	293.5	388.5	484.4
7	404.0	433.0	457.7	391.5	447.8	493.2
8	107.3	121.3	121.5	81.7	112.0	133.1
9	129.1	146.0	161.3	149.5	165.2	175.0
10	45.2	49.5	53.0	45.4	50.0	50.0
11	2.8	4.2	5.2	3.4	3.7	3.5
12	8.8	13.3	18.7	13.9	17.6	34.3
13	418.5	488.5	532.7	508.8	551.8	605.2
14	n/a	n/a	n/a	n/a	n/a	n/a
15	8.2	10.0	10.6	12.9	14.6	16.1
16	57.8	66.2	75.5	62.7	72.3	80.4
17	111.3	123.3	139.1	123.4	134.2	149.3
18	1.9	2.7	3.9	4.0	2.6	3.1
19	9.4	10.8	13.4	14.6	14.5	15.5
20	47.9	61.4	63.0	64.4	70.3	74.1
21	83.6	97.8	102.1	98.4	107.2	120.8
22	17.2	20.2	23.1	23.8	25.1	28.2
23	61.2	74.3	82.1	82.9	89.7	94.5
24	1.7	1.8	2.2	2.4	3.0	2.9
25	18.4	19.9	17.7	19.2	18.3	20.5
26	693.0	843.9	823.5	609.2	683.4	751.3
27	688.0	838.8	818.3	603.7	677.8	745.5
28	333.2	380.8	423.4	365.4	451.2	486.9
29	166.2	221.6	241.3	184.4	190.3	219.6

30	Other investment	187.5	235.0	152.1	53.2	35.6	38.1
31	Reserve assets	1.2	1.4	1.5	0.8	0.7	0.8
32	Compensation of employees	5.0	5.1	5.2	5.5	5.6	5.8
33	Other primary income	n/a	n/a	n/a	n/a	n/a	n/a
34	Secondary income (current transfer) receipts	67.9	70.3	83.5	85.3	86.5	97.7
	Debits:						
35	Imports of goods and services and income payments	3,023.6	3,282.5	3,431.2	2,660.4	3,058.5	3,422.2
36	Imports of goods and services	2,215.3	2,354.7	2,545.5	1,963.2	2,341.3	2,667.1
37	Goods, balance of payments basis	1,878.5	1,986.6	2,141.6	1,580.0	1,938.4	2,239.9
38	General merchandise	1,872.9	1,977.7	2,129.2	1,571.2	1,925.8	2,223.5
39	Foods, feeds, and beverages	76.1	83.0	90.4	82.9	92.5	108.2
40	Industrial supplies and materials	613.6	648.6	799.1	469.6	610.4	765.7
41	Capital goods	422.6	449.1	458.7	374.1	450.3	513.4
42	Automotive vehicles, parts, and engines	256.0	258.5	233.2	159.2	225.6	255.2
43	Consumer goods	447.9	480.0	486.7	431.4	486.5	517.4
44	Other goods	56.8	58.5	61.0	54.0	60.5	63.6
45	Nonmonetary gold	5.6	8.8	12.5	8.8	12.6	16.4
46	Services	336.8	368.2	403.8	383.2	402.9	427.2
47	Manufacturing services on physical inputs owned by others	n/a	n/a	n/a	n/a	n/a	n/a
48	Maintenance and repair services, n.i.e.	4.6	5.2	5.7	5.9	6.6	8.1
49	Transport	82.0	83.5	88.5	67.7	78.5	85.8
50	Travel	78.5	83.0	86.9	80.6	82.5	86.2
51	Construction	1.7	2.5	3.5	3.6	2.4	2.4
52	Insurance and pension services ^b	39.4	47.5	58.9	63.8	61.0	56.6
53	Financial services ^c	14.7	19.2	17.2	14.4	14.8	16.2
54	Charges for the use of intellectual property ^d	25.0	26.5	29.6	31.3	33.4	36.6
55	Telecommunications, computer, and information services	19.8	22.4	24.7	25.8	29.1	32.2
56	Other business services	41.6	47.9	57.6	56.0	59.7	68.8
57	Personal, cultural, and recreational services ^e	1.0	1.0	1.1	1.3	1.5	1.6
58	Government goods and services, n.i.e.	28.6	29.5	30.1	32.8	33.3	32.6
59	Primary income payments	648.9	742.4	676.4	489.5	499.5	524.3
60	Investment income	633.3	727.7	660.5	476.1	486.7	510.5
61	Direct investment	159.2	136.3	139.1	112.4	153.3	165.2
62	Portfolio investment	304.9	381.8	400.0	332.5	313.5	324.5

(continued)

Table 8.1 (continued)

Line	2006	2007	2008	2009	2010	2011
63	169.2	209.7	121.4	31.3	20.0	20.8
64	15.5	14.7	15.9	13.3	12.8	13.8
65	n/a	n/a	n/a	n/a	n/a	n/a
66	159.5	185.4	209.3	207.7	217.6	230.8
	Capital account					
67	0.0	0.5	6.2	0.0	0.0	0.0
68	0.0	0.5	0.0	0.0	0.0	0.0
69	0.0	0.0	6.2	0.0	0.0	0.0
70	1.8	0.1	0.2	0.1	0.2	1.2
71	0.1	0.0	0.0	0.0	0.0	0.1
72	1.7	0.1	0.2	0.1	0.2	1.2
	Financial account					
73	1,336.9	1,572.5	-309.5	108.7	1,004.6	507.2
74	296.1	532.9	351.7	278.6	393.0	442.9
75	266.3	431.4	360.1	247.5	356.4	401.0
76	49.0	200.9	127.0	18.2	41.1	52.4
77	217.3	230.5	233.1	229.3	315.3	348.6
78	29.7	101.6	-8.4	31.1	36.6	41.8
79	11.7	22.7	-29.0	32.0	28.2	51.9
80	18.0	78.9	20.6	-0.9	8.4	-10.1
81	493.7	379.7	-285.7	375.1	174.9	83.0
82	137.3	147.8	-38.5	63.7	79.1	89.0
83	356.4	231.9	-247.2	311.4	95.8	-6.1
84	116.1	14.6	-84.0	135.5	44.4	-60.4
85	240.3	217.3	-163.2	175.9	51.4	54.3
86	549.5	659.8	-380.3	-597.3	434.9	-34.5
87	n/a	n/a	n/a	n/a	n/a	n/a
88	298.6	358.9	265.8	-413.6	178.7	-80.7
89	247.3	290.2	-642.4	-184.2	250.1	43.6

90	Insurance, pension, and standardized guarantee schemes	n/a	n/a	n/a	n/a	n/a	n/a
91	Trade credits and advances	3.5	10.7	-3.7	0.5	6.0	2.6
92	Other accounts receivable	n/a	n/a	n/a	n/a	n/a	n/a
93	Reserve assets	-2.4	0.1	4.8	52.3	1.8	15.9
94	Monetary gold	0.0	0.0	0.0	0.0	0.0	0.0
95	Special drawing rights	0.2	0.2	0.1	48.2	0.0	-1.8
96	Reserve position in the International Monetary Fund	-3.3	-1.0	3.5	3.4	1.3	18.1
97	Other reserve assets	0.7	1.0	1.3	0.7	0.5	-0.5
98	Currency and deposits	0.3	0.5	0.6	0.1	0.1	-0.9
99	Securities	0.3	0.3	0.4	0.5	0.4	0.4
100	Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0
101	Other claims	0.1	0.2	0.2	0.1	0.0	0.0
102	Net incurrence of liabilities, excluding financial derivatives	2,116.3	2,183.5	454.0	303.5	1,373.4	1,024.5
103	Direct investment	294.3	340.1	332.7	139.6	271.0	257.5
104	Equity and investment fund shares	184.1	190.4	294.9	148.5	199.2	180.6
105	Equity other than reinvestment of earnings	115.0	142.3	255.7	126.8	131.6	93.2
106	Reinvestment of earnings	69.1	48.2	39.1	21.7	67.5	87.4
107	Debt instruments	110.1	149.6	37.9	-8.9	71.8	76.9
108	US affiliates' liabilities to their foreign parent groups	77.1	109.6	35.9	1.1	15.1	43.3
109	US parents' liabilities to their foreign affiliates	33.1	40.0	2.0	-10.0	56.7	33.6
110	Portfolio investment	1,126.7	1,156.6	523.7	357.4	808.9	336.6
111	Equity and investment fund shares	145.5	275.6	126.8	219.3	177.6	27.4
112	Debt securities	981.3	881.0	396.9	138.1	631.3	309.3
113	Short term ^f	25.4	166.6	297.3	-122.5	-60.3	-81.6
114	Long term ^f	955.9	714.4	99.6	260.5	691.6	390.9
115	Other investment	695.3	686.9	-402.4	-193.4	293.6	430.4
116	Other equity	n/a	n/a	n/a	n/a	n/a	n/a
117	Currency and deposits	301.3	240.7	111.8	-98.5	93.5	457.3
118	Loans	388.4	425.6	-520.9	-148.9	180.5	-43.6
119	Insurance, pension, and standardized guarantee schemes	n/a	n/a	n/a	n/a	n/a	n/a
120	Trade credits and advances	5.7	20.6	6.7	6.4	19.6	16.7
121	Other accounts payable	n/a	n/a	n/a	n/a	n/a	n/a
122	Special drawing rights	0.0	0.0	0.0	47.6	0.0	0.0

(continued)

Table 8.1 (continued)

Line		2006	2007	2008	2009	2010	2011
123	Financial derivatives and employee stock options, net transactions (credit [+] or debit [-])^a	-29.7	-6.2	32.9	-44.8	-14.1	-39.0
	Balances (surplus [+] or deficit [-])						
124	Current account (line 1 less line 35)	-801.9	-712.0	-679.1	-384.3	-444.4	-468.3
125	Goods and services (line 2 less line 36)	-754.5	-698.4	-700.3	-381.6	-497.2	-562.2
126	Goods (line 3 less line 37)	-836.3	-818.7	-829.1	-507.1	-646.0	-740.2
127	Services (line 13 less line 46)	81.8	120.3	128.9	125.6	148.8	178.0
128	Primary income (line 26 less line 59)	44.2	101.5	147.1	119.7	183.9	227.0
129	Secondary income (line 34 less line 66)	-91.5	-115.1	-125.9	-122.5	-131.1	-133.1
130	Capital account (line 67 less line 70)	-1.8	0.4	6.0	-0.1	-0.2	-1.2
	Net lending or net borrowing and statistical discrepancy						
	Net lending (+) or net borrowing (-) derived from:						
131	Current account and capital account (line 124 plus line 130)	-803.6	-711.6	-673.1	-384.5	-444.6	-469.5
132	Financial account (line 73 less line 102 plus line 123)	-809.1	-617.3	-730.6	-239.7	-382.9	-556.3
133	Statistical discrepancy (line 132 less line 131)	-5.5	94.4	-57.5	144.8	61.7	-86.8

Note: n/a = data are not currently available for these transactions; n.i.e. = not included elsewhere.

^aThis is a prototype of a new table that will replace "Table 1. US International Transactions" published regularly by BEA when BEA introduces the new presentation of the international accounts in June 2014. The prototype table is indicative of the categories that will be presented in the new table. This table may not be identical to the table that is ultimately published in June 2014 because the new presentation is still under review.

^bStatistics currently cover only insurance services.

^cStatistics currently cover only explicit charges for financial services.

^dStatistics currently include transactions for the outright sale, rights to use, and rights to distribute intellectual property.

^eStatistics currently cover only sports, performing arts, and training services.

^fShort-term debt securities are those with an original maturity of one year or less. Long-term debt securities are those with an original maturity of greater than one year.

^gStatistics currently cover only financial derivatives transactions.

Table 8.2 US International investment position at year end (billions of dollars)^a

Line	2006	2007	2008	2009	2010	2011
1 Net international investment position (lines 2 + 3)	-2,191.6	-1,796.0	-3,260.2	-2,321.8	-2,473.6	-4,030.2
2 Financial derivatives, net (line 5 less line 30)	59.8	71.5	159.6	126.3	110.4	126.3
3 Net international investment position, excluding financial derivatives (line 6 less line 31)	-2,251.5	-1,867.5	-3,419.8	-2,448.1	-2,584.0	-4,156.5
4 US-owned assets abroad (lines 5 + 6)	14,887.7	18,982.6	20,069.5	19,114.0	20,976.4	21,831.0
5 Financial derivatives (gross positive fair value)	1,239.0	2,559.3	6,127.5	3,489.8	3,652.3	4,704.7
6 US-owned assets abroad, excluding financial derivatives (lines 7 + 12 + 17 + 22)	13,648.7	16,423.3	13,942.1	15,624.2	17,324.1	17,126.3
7 Reserve assets	219.9	277.2	293.7	403.8	488.7	536.0
8 Gold	165.3	218.0	227.4	284.4	367.5	400.4
9 Special drawing rights	8.9	9.5	9.3	57.8	56.8	55.0
10 Reserve position in the International Monetary Fund	5.0	4.2	7.7	11.4	12.5	30.1
11 Other reserve assets	40.7	45.5	49.3	50.2	51.8	50.6
12 Direct investment at current cost	3,407.7	4,136.0	4,353.3	4,631.7	4,984.9	5,380.2
13 Equity and investment fund shares	2,772.1	3,369.1	3,574.2	3,818.5	4,118.9	4,468.3
14 Debt instruments	635.6	767.0	779.1	813.2	865.9	911.9
15 US parents' claims on foreign affiliates	463.0	510.1	504.2	537.1	586.6	649.0
16 US affiliates' claims on foreign parent groups	172.6	256.9	274.9	276.1	279.4	262.9
17 Portfolio investment	6,017.1	7,262.0	4,320.8	6,058.6	6,865.2	6,375.6
18 Equity and investment fund shares	4,329.0	5,248.0	2,748.4	3,995.3	4,646.9	4,158.2
19 Debt securities	1,688.1	2,014.1	1,572.4	2,063.3	2,218.3	2,217.3
20 Short term ^b	388.8	383.9	314.1	437.5	472.8	440.5
21 Long term ^b	1,299.3	1,630.2	1,258.3	1,625.8	1,745.5	1,776.9
22 Other investment	4,004.0	4,748.0	4,974.2	4,530.1	4,985.4	4,834.5
23 Other equity	n/a	n/a	n/a	n/a	n/a	n/a
24 Currency and deposits	1,960.7	2,316.9	2,813.1	2,539.6	2,771.3	2,590.4
25 Loans	2,010.5	2,389.3	2,126.4	1,958.0	2,175.8	2,201.2
26 Insurance, pension, and standardized guarantee schemes	n/a	n/a	n/a	n/a	n/a	n/a
27 Trade credits and advances	32.8	41.8	34.8	32.5	38.4	42.9
28 Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0

(continued)

Table 8.2 (continued)

Line	2006	2007	2008	2009	2010	2011
29 Foreign-owned assets in the United States (lines 30 + 31)	17,079.3	20,778.6	23,329.7	21,435.8	23,450.0	25,861.2
Financial derivatives (gross negative fair value)	1,179.2	2,487.9	5,967.8	3,363.4	3,541.9	4,578.4
Foreign-owned assets in the United States, excluding financial derivatives (lines 32 + 37 + 42)	15,900.2	18,290.8	17,361.9	18,072.3	19,908.1	21,282.8
31 Direct investment at current cost	2,613.6	2,928.9	3,002.2	3,000.5	3,275.7	3,607.4
32 Equity and investment fund shares	1,756.5	1,892.1	1,911.5	1,916.7	2,110.7	2,365.8
33 Debt instruments	857.1	1,036.7	1,090.7	1,083.8	1,165.0	1,241.6
34 US affiliates' liabilities to foreign parent groups	570.1	710.6	760.8	757.7	766.3	805.9
35 US parents' liabilities to foreign affiliates	287.0	326.1	329.9	326.2	398.7	435.7
36 Portfolio investment	8,843.5	10,327.0	9,475.9	10,463.2	11,876.1	12,505.1
37 Equity and investment fund shares	2,791.9	3,231.7	2,132.4	2,917.7	3,545.6	3,597.9
38 Debt securities	6,051.6	7,095.3	7,343.4	7,545.6	8,330.5	8,907.2
39 Short term ^a	621.1	789.8	1,099.6	976.1	919.3	837.5
40 Long term ^b	5,430.5	6,305.6	6,243.8	6,569.5	7,411.2	8,069.7
41 Other investment	4,443.0	5,034.9	4,883.8	4,608.6	4,756.3	5,170.3
42 Other equity	n/a	n/a	n/a	n/a	n/a	n/a
43 Currency and deposits	1,764.5	2,020.8	2,331.7	2,248.5	2,349.3	2,788.4
44 Loans	2,626.8	2,954.4	2,491.3	2,238.7	2,267.5	2,230.7
45 Insurance, pension, and standardized guarantee schemes	n/a	n/a	n/a	n/a	n/a	n/a
46 Trade credits and advances	44.4	52.0	53.3	66.1	85.1	97.0
47 Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0
48 Special drawing rights	7.4	7.7	7.5	55.4	54.4	54.2
Memoranda:						
50 Direct investment assets at market value	4,929.9	5,857.9	3,707.2	4,889.5	5,444.7	5,198.6
51 Equity and investment fund shares	4,294.3	5,091.0	2,928.1	4,076.3	4,578.8	4,286.7
52 Debt instruments	635.6	767.0	779.1	813.2	865.9	911.9
53 Direct investment liabilities at market value	3,752.6	4,134.2	3,091.2	3,597.7	4,075.4	4,208.0
54 Equity and investment fund shares	2,895.5	3,097.5	2,000.5	2,513.9	2,910.4	2,966.3
55 Debt instruments	857.1	1,036.7	1,090.7	1,083.8	1,165.0	1,241.6

Note: n/a = transactions are possible, but data are not available.

^aThis is a prototype of a new table that will replace "Table 2. International Investment Position of the United States at Year end" published annually by BEA with the US international investment position press release and in the July issue of the *Survey of Current Business* when BEA introduces the new presentation of the international accounts in June 2014. The prototype table is indicative of the categories that will be presented in the new table. This table may not be identical to the table that is ultimately published in June 2014 because the new presentation is still under review.

^bShort-term debt securities are those with an original maturity of one year or less. Long-term debt securities are those with an original maturity of greater than one year.

Table 8.3 Current and BPM6-based structures for the financial account, 2011

Current structure by US sector	Billions of dollars	Line ^a	BPM6-based structure by functional category	Billions of dollars
US-owned assets, excluding financial derivatives	483.7	73	Net acquisition of assets, excluding financial derivatives	507.2
US official reserve assets	15.9	93	Reserve assets	15.9
Gold	0.0	94	Monetary gold	0.0
Special drawing rights	-1.8	95	Special drawing rights	-1.8
Reserve position in the International Monetary Fund	18.1	96	Reserve position in the International Monetary Fund	18.1
Foreign currencies	-0.5	97	Other reserve assets	-0.5
		98	Currency and deposits	-0.9
		99	Securities	0.4
		100	Financial derivatives	0.0
		101	Other claims	0.0
US government assets, other than official reserve assets	103.7	74	Direct investment ^b	442.9
US credits and other long-term assets	7.3	75	Equity and investment fund shares	401.0
Repayments of US credits and other long-term assets	-3.3	76	Equity other than reinvestment of earnings	52.4
US foreign currency holdings and other short-term assets	99.7	77	Reinvestment of earnings	348.6
		78	Debt instruments	41.8
US private assets	364.1	79	US parents' claims on foreign affiliates	51.9
Direct investment (outward) ²	419.3	80	US affiliates' claims on foreign parent groups	-10.1
Foreign securities	146.8			
US claims on unaffiliated foreigners reported by US nonbanking concerns	11.6	81	Portfolio investment	83.0
US claims reported by US banks and securities brokers	-213.6	82	Equity and investment fund shares	89.0
		83	Debt securities	-6.1
		84	Short term	-60.4
		85	Long term	54.3
		86	Other investment	-34.5
		87	Other equity	n/a
		88	Currency and deposits	-80.7
		89	Loans	43.6
		90	Insurance, pension, and standardized guarantee schemes	n/a
		91	Trade credit and advances	2.6
		92	Other accounts receivable	n/a

(continued)

Table 8.3 (continued)

Current structure by foreign counterpart	Billions of dollars	Line ^a	BPM6-based structure by functional category	Billions of dollars
Foreign-owned assets in the United States, excluding financial derivatives	1,001.0	102	Net incurrence of liabilities, excluding financial derivatives	1,024.5
Foreign official assets in the United States	211.8	103	Direct investment ^b	257.5
US government securities	158.7	104	Equity and investment fund shares	180.6
US Treasury securities	171.2	105	Equity other than reinvestment of earnings	93.2
Other	-12.4	106	Reinvestment of earnings	87.4
Other US government liabilities	9.1	107	Debt instruments	76.9
US liabilities reported by banks and securities brokers	30.0	108	US affiliates' liabilities to foreign parent groups	43.3
Other foreign official assets	14.0	109	US parents' liabilities to foreign affiliates	33.6
Other foreign assets in the United States	789.2	110	Portfolio investment	336.6
Direct investment (inward) ^b	234.0	111	Equity and investment fund shares	27.4
US Treasury securities	240.9	112	Debt securities	309.3
US securities other than US Treasury securities	-56.4	113	Short term	-81.6
US currency	55.0	114	Long term	390.9
US liabilities to unaffiliated foreigners reported by US nonbanking concerns	6.6			
US liabilities reported by US banks and securities brokers	309.2	115	Other investment	430.4
		116	Other equity	n/a
		117	Currency and deposits	457.3
		118	Loans	-43.6
		119	Insurance, pension, and standardized guarantee schemes	n/a
		120	Trade credits and advances	16.7
		121	Other accounts payable	n/a
		122	Special drawing rights	0.0
Financial derivatives, net	-39.0	123	Financial derivatives, net	-39.0

Note: n/a = transactions are possible, but data are not available. BPM6 = International Monetary Fund (2009).

^aThe line numbers are from table 8.1.

^bDirect investment flows are on the asset/liability basis. The current basis flows are on the directional basis, where the changes in the US entity's liabilities are netted against the changes in its assets. The difference between the current basis and the BPM6 basis is due to the grossing up of these asset and liability transactions.

Table 8.4 Current and BPM6-based structures for the international investment position, 2011

Current structure	Billions of dollars	Line ^a	BPM6-based structure by functional category	Billions of dollars
Net international investment position of the United States	-4,030.2	1	Net international investment position (lines 2 + 3)	-4,030.2
Financial derivatives, net	126.3	2	Financial derivatives, net (line 5 less line 30)	126.3
Net international investment position, excluding financial derivatives	-4,156.5	3	Net international investment position, excluding financial derivatives (line 6 less line 31)	-4,156.5
US-owned assets abroad	21,132.4	4	US-owned assets abroad (lines 5 + 6)	21,831.0
Financial derivatives (gross positive fair value)	4,704.7	5	Financial derivatives (gross positive fair value)	4,704.7
US-owned assets abroad, excluding financial derivatives	16,427.7	6	US-owned assets abroad, excluding financial derivatives (lines 7 + 12 + 17 + 22)	17,126.3
US official reserve assets	536.0	7	Reserve assets	536.0
Gold	400.4	8	Gold	400.4
Special drawing rights	55.0	9	Special drawing rights	55.0
Reserve position in the International Monetary Fund	30.1	10	Reserve position in the International Monetary Fund	30.1
Foreign currencies	50.6	11	Other reserve assets	50.6
US government assets, other than official reserve assets	178.9	12	Direct investment at current cost ²	5,380.2
US credits and other long-term assets	78.4	13	Equity and investment fund shares	4,468.3
Repayable in dollars	78.1	14	Debt instruments	911.9
Other	0.3	15	US parents' claims on foreign affiliates	649.0
US foreign currency holdings and US short-term assets	100.5	16	US affiliates' claims on foreign parent groups	262.9
US private assets	15,712.8	17	Portfolio investment	6,375.6
Direct investment at current cost ²	4,681.6	18	Equity and investment fund shares	4,158.2
Foreign securities	5,922.0	19	Debt securities	2,217.3
Bonds	1,763.8	20	Short term	440.5
Corporate stocks	4,158.2	21	Long term	1,776.9
US claims on unaffiliated foreigners reported by US nonbanking concerns	796.8			

(continued)

Table 8.4 (continued)

Current structure	Billions of dollars	Line ^a	BPM6-based structure by functional category	Billions of dollars
US claims reported by US banks and securities brokers, n.i.e.	4,312.4	22	Other investment	4,834.5
		23	Other equity	n/a
		24	Currency and deposits	2,590.4
		25	Loans	2,201.2
		26	Insurance, pension, and standardized guarantee schemes	n/a
		27	Trade credits and advances	42.9
		28	Other accounts receivable	0.0
Foreign-owned assets in the United States	25,162.6	29	Foreign-owned assets in the United States (lines 30 + 31)	25,861.2
Financial derivatives (gross negative fair value)	4,578.4	30	Financial derivatives (gross negative fair value)	4,578.4
Foreign-owned assets in the United States, excluding financial derivatives	20,584.2	31	Foreign-owned assets in the United States, excluding financial derivatives (lines 32 + 37 + 42)	21,282.8
Foreign official assets in the United States	5,250.8	32	Direct investment at current cost ^b	3,607.4
US government securities	4,277.3	33	Equity and investment fund shares	2,365.8
US Treasury securities	3,653.1	34	Debt instruments	1,241.6
Other	624.3	35	US affiliates' liabilities to foreign parent groups	805.9
Other US government liabilities	119.4	36	US parents' liabilities to foreign affiliates	435.7
US liabilities reported by US banks and securities brokers, n.i.e.	209.6			
Other foreign official assets	644.5	37	Portfolio investment	12,505.1
		38	Equity and investment fund shares	3,597.9
Other foreign assets	15,333.4	39	Debt securities	8,907.2
Direct investment at current cost ²	2,908.8	40	Short term	837.5
US Treasury securities	1,418.1	41	Long term	8,069.7
US securities other than US Treasury securities	5,968.2			
Corporate and other bonds	2,910.0	42	Other investment	5,170.3
Corporate stocks	3,058.2	43	Other equity	n/a

US currency	397.1	44	Currency and deposits	2,788.4
US liabilities to unaffiliated foreigners reported by US nonbanking concerns	629.7	45	Loans	2,230.7
US liabilities reported by US banks and securities brokers, n.i.e.	4,011.6	46	Insurance, pension, and standardized guarantee schemes	n/a
		47	Trade credits and advances	97.0
		48	Other accounts payable	0.0
		49	Special drawing rights	54.2
			Memoranda:	
Direct investment abroad at market value ^b	4,500.0	50	Direct investment assets at market value ^b	5,198.6
		51	Equity and investment fund shares	4,286.7
		52	Debt instruments	911.9
Direct investment in the United States at market value ^b	3,509.4	53	Direct investment liabilities at market value ^b	4,208.0
		54	Equity and investment fund shares	2,966.3
		55	Debt instruments	1,241.6

Note: n/a = transactions are possible, but data are not available, n.i.e. = not included elsewhere. BPM6 = International Monetary Fund (2009).

^aThe line numbers are from table 8.2.

^bDirect investment positions on the BPM6 basis are on the asset/liability basis. The current basis positions are on the directional basis, where the US entity's liabilities are netted against its assets. The difference between the current basis and the BPM6 basis is due to the grossing up of these asset and liability positions.

first according to whether they represent a change in an asset or a liability position, and then according to four major functional categories: direct investment, portfolio investment, other investment, and reserve assets. Transactions in a fifth major functional category, financial derivatives, are shown on a net basis because the source data on the gross flows are not available.

These functional categories are intended to “facilitate analysis by distinguishing categories that exhibit different economic motivations and patterns of behavior” (IMF 2009, 99). They capture the diversity of situations, motivations, and behaviors at work in the financial world. Direct investment recognizes that enterprises seek profits through long-term influence or control of other enterprises. Portfolio investment captures the behavior of investors trading negotiable instruments and altering their portfolios to meet a variety of objectives ranging from capital preservation to aggressive growth. Other investment encompasses yet another distinct set of activities including the bank payments settlement system and financial intermediation through financial institutions that offer deposit and near-deposit investment instruments as well as credit via loans and similar instruments. Reserve assets are a unique category of assets controlled by monetary authorities and used to meet balance of payments financing needs and to implement exchange rate policies, and as such, are classified separately from assets held by other entities. Financial derivatives include a variety of instruments that are used to trade risk in financial markets.

Within each of the functional categories, transactions are further disaggregated according to instrument classification. For example, direct investment and portfolio investment transactions are separated into debt and equity components. Some information on transactions by sector and by original maturity is also provided within functional categories. This uniform presentation of changes in assets and liabilities is preferable to the existing structure of the US financial account because it allows users to more easily compare similar transactions for assets and for liabilities. For example, statistics on foreign investment in US portfolio securities can be easily compared with those on US investment in foreign portfolio securities to gain insight into the relative risk preferences of these investors. Under the existing structure of the financial account, which arranges transactions according to the US sector for assets, and the sector of the foreign counterparty for liabilities, and then by a mix of reporter types and instruments, these comparisons are much more difficult.

In the new presentation, more detail is presented in the primary BOP table. Additional breakdowns by instrument, sector, and maturity will be provided by BEA in underlying detail tables organized by the functional categories and standard components of BPM6. Users will be able to drill down into the greater detail and compare asset and liability transactions by functional category, by instrument, and other characteristics. Some detail in the current presentation that is not found in BPM6, such as a delineation of

liabilities according to the sector of the foreign counterparty (i.e., whether the counterparty is a foreign official agency or a private foreign resident) will continue to be published in supplemental tables because this information still has value to users.

In addition to the reorganization of financial account transactions, a new definition and presentation of direct investment is also introduced in the new BOP presentation. Historically, direct investment has been presented according to the “directional,” or net, basis—that is, according to the direction of the direct investment relationship; for example, US direct investment abroad and foreign direct investment in the United States—as recommended in previous international guidance. On a directional basis, transactions related to debt investments of foreign affiliates in their US parents (known as reverse investment because they represent financial obligations, or liabilities, of the parents) are subtracted from transactions related to debt investments of US parents in their foreign affiliates, which are financial claims, or assets, of the parents. The net transactions are included in the financial account as US direct investment abroad. A similar treatment is used to derive net transactions for foreign direct investment in the United States.

In contrast, in the new presentation direct investment is presented on an “asset/liability” basis, which is the basis recommended by the new standards.⁶ In the asset/liability basis, debt claims and liabilities of related entities are not netted. Instead, all debt claims of US parents and US affiliates on their foreign affiliated counterparties are reported as gross amounts under direct investment assets. Likewise, all debt liabilities of US parents and US affiliates to their foreign affiliated counterparties are reported as gross amounts under direct investment liabilities (table 8.3, right panel, lines 78–80 and 107–109). Although direct investment statistics on a directional basis are useful for understanding changes in foreign ownership and control, the presentation of direct investment on an asset/liability basis facilitates comparability between the international accounts and domestic financial and balance sheet statistics.⁷

6. The directional principle has not been entirely displaced by the asset/liability basis. For presentations of direct investment vis-à-vis a single partner country (bilateral statistics) the fourth edition of the OECD *Benchmark Definition of Foreign Direct Investment* recommends using the directional principle.

7. In the new presentation, direct investment statistics are presented on an asset/liability basis to the extent possible given the available data. To achieve this, reverse intercompany debt transactions have been reclassified from a directional basis to an asset/liability basis. However, BEA's direct investment data collection system is not designed to fully capture reverse equity investment or investments between certain related enterprises (“fellow enterprises”) that BPM6 defines as direct investment. Reverse equity investment transactions and some transactions among fellow enterprises are commingled in source data from the US Department of the Treasury and cannot be separately identified. Therefore, the asset/liability basis can only be approximated using currently available source data. For further discussion, see Howell and Yuskavage (2010) and Howell (2012).

8.2.2 International Investment Position

The proposed new presentation of the IIP, shown in table 8.4 (right panel) alongside the existing IIP presentation (left panel), uses the same functional categories introduced in the new BOP table and presents direct investment according to the asset/liability basis. The presentation of the IIP thus mirrors that of the financial account of the BOP.

Unlike the BOP the existing presentation of the US IIP does not include underlying detail tables, so much of the detail on instrument and maturity that is shown in the new table was not previously published. For example, details about short-term instruments, which are needed to construct portfolio investment according to international standards, are not currently published.⁸ The new IIP presentation also represents a significant improvement in the accessibility of these statistics because they are now provided in a consistent time series in one table.

In the IIP, direct investment is presented with equity valued at both current cost and market value. The current-cost and market-value methods are two methods used by BEA to revalue direct investment equity positions from historical cost to current period prices. The current-cost method revalues parent companies' shares of their affiliates' investments in tangible assets—plant and equipment, land, and inventory—using a perpetual inventory model, general price indexes, and current replacement cost, respectively. The market-value method revalues historical cost direct investment equity positions to current period prices using the relationship between the book value and the current stock market price for portfolio investment securities.⁹

Debt is valued at the reported book value for both measures in the IIP. Unlike the current presentation, the new IIP presentation reports the equity and debt components of direct investment separately. Previously this split was shown only in direct investment tables published annually (in the September issue of the *Survey of Current Business*) and only at historical cost. The introduction of separate equity and debt components of direct investment at both current cost and market value is in response to frequent requests from customers.

8.2.3 Underlying Detail Tables

Underlying detail tables that provide additional analytical information, including detail on sector and maturity, on components of the balance of payments—such as portfolio investment, direct investment, and income—will also form part of the new presentation of the international accounts. As examples of detail tables, table 8.5 provides information on portfolio investment

8. Short-term securities are those with an original maturity of one year or less.

9. For more information, see Landefeld and Lawson (1991)

Table 8.5 Portfolio investment (billions of dollars)

Line	2006	2007	2008	2009	2010	2011
Assets and liabilities by instrument						
A1	Net acquisition of portfolio investment assets (table 1, line 81)					
2	Equity and investment fund shares	493.7	379.7	-285.7	375.1	83.0
3	Of which: <i>Investment fund shares</i>	137.3	147.8	-38.5	63.7	89.0
4	Debt securities	n/a	n/a	n/a	n/a	10.7
5	Short term ^a	356.4	231.9	-247.2	311.4	-6.1
6	Negotiable certificates of deposit	116.1	14.6	-84.0	135.5	-60.4
7	Commercial paper	66.3	-3.1	-29.9	62.2	-32.0
8	Other short-term securities	18.9	-1.7	-12.9	64.8	-22.0
9	Long term ^a	30.9	19.4	-41.3	8.6	-6.4
10	Of which: <i>Negotiable certificates of deposit</i>	240.3	217.3	-163.2	175.9	54.3
11	Net incurrence of portfolio investment liabilities (table 1, line 110)	1,126.7	1,156.6	523.7	357.4	336.6
12	Equity and investment fund shares	145.5	275.6	126.8	219.3	27.4
13	Of which: <i>Investment fund shares</i>	n/a	n/a	n/a	n/a	5.5
14	Debt securities	981.3	881.0	396.9	138.1	309.3
15	Short term ^a	25.4	166.6	297.3	-122.5	-81.6
16	Treasury securities	-11.4	49.4	455.3	-7.6	-62.0
17	Federally sponsored agency securities	-22.9	87.4	-98.8	-49.2	-11.7
18	Negotiable certificates of deposit	10.3	28.7	3.5	-17.3	-7.6
19	Other securities, including commercial paper	49.3	1.1	-62.7	-48.4	-0.2
20	Long term ^a	955.9	714.4	99.6	260.5	390.9
21	Treasury securities	161.7	115.9	256.3	562.0	474.1
22	Federally sponsored agency securities	245.6	162.7	-129.9	-176.8	-12.4
23	Negotiable certificates of deposit	2.2	0.5	-10.9	-5.1	-1.0
24	Corporate securities	546.3	435.3	-16.0	-119.6	-68.4
25	State and local government securities	n/a	n/a	n/a	n/a	-1.4

(continued)

23	Other financial institutions	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	20.8
24	Equity and investment fund shares	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6.8
25	Debt securities	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	13.9
26	Federally sponsored agencies	222.7	250.1	-228.6	-226.0	-72.3	-24.2	-11.7	-12.4	38.1
27	Short term ^a	-22.9	87.4	-98.8	-49.2	-9.7	-62.6	n/a	n/a	60.0
28	Long term ^a	245.6	162.7	-129.9	-176.8	n/a	n/a	n/a	n/a	-21.9
29	Other	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-79.3
30	Short term ^a	37.6	-11.6	-27.8	-21.5	7.8	n/a	n/a	n/a	19.4
31	Long term ^a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-98.7
32	Nonfinancial institutions, except general government	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-61.1
33	Equity and investment fund shares	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-37.6
34	Debt securities	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	410.7
35	Short term ^a	-4.9	-2.8	-11.7	-27.7	3.0	n/a	n/a	n/a	-62.0
36	Long term ^a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	472.7
37	General government	150.3	165.3	711.6	554.4	739.8	410.7	410.7	410.7	
38	Debt securities	150.3	165.3	711.6	554.4	739.8	410.7	410.7	410.7	
39	Short term ^a	-11.4	49.4	455.3	-7.6	-40.2	-62.0	-62.0	-62.0	
40	Long term ^a	161.7	115.9	256.3	562.0	780.0	472.7	472.7	472.7	

Note: n/a = data are not available for these transactions prior to 2011.

^aShort-term debt securities are those with an original maturity of one year or less. Long-term debt securities are those with an original maturity of greater than one year.

transactions, and table 8.6 provides information on primary income transactions.

Table 8.5 provides a good illustration of the benefits of the new symmetrical presentation of assets and liabilities. Statistics on portfolio investment are presented by instrument in section A of the table, with total equity and short-term and long-term debt transactions and positions separately identified. The new presentation allows users to observe total foreign portfolio investment in US securities in a single table; transactions of foreign official and private foreign investors are combined. A comprehensive view of short-term debt, which was previously commingled with other banking instruments in the US international accounts, is important for understanding the investment activity leading up to and during the financial crisis.

Table 8.5 shows that foreign demand for long-term US securities, especially corporate debt, was very strong in 2006 and 2007, partly as a result of the sale of securitized US mortgages and other assets to foreigners. Residents of the United States also purchased significant amounts of long-term foreign debt and equity.

The intensification of the financial crisis in 2008 brought about significant changes in patterns of cross-border portfolio investment. Investors in the United States moved out of foreign securities as reflected in a shift from net purchases to net sales. Foreign investors moved out of most types of corporate and agency debt and purchased short- and long-term US Treasury debt in record amounts (table 8.5, lines A16 and A21).

In 2009 and 2010, US demand for foreign securities recovered, although it was tempered in 2010 by the rise of the debt crisis in Europe. The continuing concerns over European sovereign debt have kept foreign demand of US Treasury securities strong and net foreign sales of US corporate and agency debt have continued.

Table 8.6 provides additional information on primary income flows between US and foreign residents, including investment income and compensation of employees. Investment income is classified similarly to financial account transactions and positions; that is, according to the same functional categories (direct investment, portfolio investment, other investment, and reserve assets) and then by the type of income (income on equity and interest income). This parallel presentation of income in the BOP and positions in the IIP facilitates the calculation of rates of return by type of instrument.

8.3 Evaluating Rates of Return on Cross-Border Investment

To demonstrate the usefulness of the additional detail and the parallel presentations planned for income and positions in the BOP and IIP, we are introducing previously unpublished data in this chapter, providing a new perspective on the differentials in rates of return on US investment abroad and foreign investment in the United States from 1990 to 2005.

Table 8.6 Primary income (billions of dollars)

Line	2006	2007	2008	2009	2010	2011
Primary income receipts (table 1, line 26)	693.0	843.9	823.5	609.2	683.4	751.3
Investment income	688.0	838.8	818.3	603.7	677.8	745.5
Direct investment	333.2	380.8	423.4	365.4	451.2	486.9
Income on equity and investment fund shares	319.0	363.4	405.5	351.6	438.5	473.3
Dividends and withdrawals	101.7	132.8	172.4	122.3	123.2	124.6
Reinvested earnings	217.3	230.5	233.1	229.3	315.3	348.6
Interest	14.2	17.5	17.8	13.8	12.7	13.6
US parents' receipts from their foreign affiliates	9.6	11.3	12.2	9.3	8.4	9.3
US affiliates' receipts from their foreign parent groups	4.6	6.2	5.6	4.4	4.3	4.3
Portfolio investment	166.1	221.6	241.3	184.4	190.3	219.6
Income on equity and investment fund shares	84.3	116.1	143.9	108.6	111.8	137.3
Dividends on equity excluding investment fund shares	n/a	n/a	n/a	n/a	n/a	120.8
Income attributable to investment fund shareholders	n/a	n/a	n/a	n/a	n/a	16.5
Interest	81.8	105.5	97.4	75.8	78.4	82.3
Short term ^a	17.9	22.7	12.5	3.3	1.9	1.6
Long term ^a	63.9	82.8	85.0	72.6	76.5	80.7
Other investment	187.5	235.0	152.1	53.2	35.6	38.1
Interest ^b	180.5	226.7	141.8	42.8	27.0	29.5
Income attributable to policyholders in insurance, pension schemes, and standardized guarantee schemes ^c	6.9	8.3	10.4	10.3	8.6	8.6
Reserve assets	1.2	1.4	1.5	0.8	0.7	0.8
Income on equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0
Interest ^b	1.2	1.4	1.5	0.8	0.7	0.8
Compensation of employees	5.0	5.1	5.2	5.5	5.6	5.8
Other primary income	n/a	n/a	n/a	n/a	n/a	n/a

(continued)

Table 8.6
(continued)

Line	2006	2007	2008	2009	2010	2011
Primary income payments (table 1, line 59)	648.9	742.4	676.4	489.5	499.5	524.3
Investment income	633.3	727.7	660.5	476.1	486.7	510.5
Direct investment	159.2	136.3	139.1	112.4	153.3	165.2
Income on equity and investment fund shares	132.3	101.8	104.9	80.9	122.7	132.9
Dividends and withdrawals	63.2	53.6	65.7	59.3	55.1	45.5
Reinvested earnings	69.1	48.2	39.1	21.7	67.5	87.4
Interest	26.8	34.5	34.2	31.5	30.6	32.3
US affiliates' payments to their foreign parent groups	23.0	30.6	30.2	28.3	27.8	30.0
US parents' payments to their foreign affiliates	3.8	3.9	4.0	3.1	2.8	2.3
Portfolio investment	304.9	381.8	400.0	332.5	313.5	324.5
Income on equity and investment fund shares	44.9	54.9	70.1	59.7	60.0	73.3
Dividends on equity excluding investment funds shares	n/a	n/a	n/a	n/a	n/a	58.6
Income attributable to investment fund shareholders	n/a	n/a	n/a	n/a	n/a	14.7
Interest	260.1	326.9	329.9	272.8	253.5	251.2
Short term ^a	28.9	34.1	22.2	5.9	2.1	1.3
Long term ^a	231.2	292.7	307.7	266.9	251.3	249.9
Other investment	169.2	209.7	121.4	31.3	20.0	20.8
Interest ^b	167.1	207.7	119.2	29.1	18.0	18.6
Income attributable to policyholders in insurance, pension schemes, and standardized guarantee schemes ^c	2.1	2.0	2.2	2.2	2.0	2.2
Compensation of employees	15.5	14.7	15.9	13.3	12.8	13.8
Other primary income	n/a	n/a	n/a	n/a	n/a	n/a
Balance on primary income (surplus [+]/or deficit [-], table 1, line 128)	44.2	101.5	147.1	119.7	183.9	227.0
Memoranda:						
47 Other investment income receipts interest before FISIM	n/a	n/a	n/a	n/a	n/a	n/a
48 Other investment income payments interest before FISIM	n/a	n/a	n/a	n/a	n/a	n/a

Note: n/a = data are not currently available. FISIM = financial intermediation services indirectly measured.

^a Short-term debt securities are those with an original maturity of one year or less. Long-term debt securities are those with an original maturity of greater than one year.
^b Interest receipts and payments are not currently adjusted to exclude interest that represents charges for services. These charges are often referred to as implicit service fees or financial intermediation services indirectly measured. The BEA plans to develop estimates of the portion of interest that represents such charges and adjust the accounts to remove them from interest and include them in services.

^c Statistics currently reflect only income attributable to insurance policyholders.

Research into differentials in rates of return between US investment abroad and foreign investment in the United States has led to a range of conclusions. Some researchers have found that the United States enjoys a significant advantage in investment returns. Based on an average of three earlier studies, Curcuru, Dvorak, and Warnock (2008) report a differential of around 3 percent more per year on US investment abroad compared to foreigners' investments in the United States. Based on their own estimates, Curcuru, Dvorak, and Warnock find that the differential for 1990–2005 for all types of investment was about 1.0 percent, mainly attributable to the differential in income yields on direct investment.¹⁰ Curcuru and Thomas (chapter 7, this volume) find a slightly higher average differential of 1.4 percent for all types of investment over the period 1983–2010, which they attribute entirely to a 5.6 percentage point gap between returns on US direct investment abroad and foreign direct investment in the United States.

The calculation of rates of return for components of the US international investment position has been hindered by a lack of publicly available detail on revised valuation adjustments for the components. Although BEA publishes detailed time-series statistics of investment positions and related financial flows and investment income, BEA has not published detailed time-series statistics identifying changes in investment value (valuation changes) due to price changes, exchange rate changes, and other (statistical) changes for components of US-owned assets abroad or foreign-owned assets in the United States.¹¹ In this chapter, we draw on a previously unpublished series of revised valuation adjustments (table 8.7) to clarify the rates of return from capital gains implied by price and exchange rate changes for components of investment relative to annual investment positions.

Table 8.7 provides annual time series from 1989 to 2009 of investment positions, changes in investment positions due to price, exchange rate, and other changes, and income accrued on investment for inward and outward investment by four major components of investment. The major components are direct investment, portfolio investment in long-term debt securities, portfolio investment in equity securities, and all other investment in short-term securities, bank deposits, trade credits, and similar instruments.¹² Using these time series we compute estimates for the total rate of return, the rate of return from income accrued, and the rate of return from capital gains.

10. The BEA has addressed rates of return on direct investment in two articles in the *Survey of Current Business*: Landefeld, Lawson, and Weinberg (1992) and Mataloni (2000).

11. Since this chapter was first presented, the BEA has begun publishing revised time-series statistics disaggregating the year-over-year change in the IIP into financial flows, price changes, exchange-rate changes, and other changes beginning with the year 2003. Prior to the June 2012 release of the US IIP, this disaggregation was only published for the most recent year. See the link for “Changes in yearend positions” at <http://www.bea.gov/international/index.htm#IIP>.

12. In the new presentation, all income and IIP tables will be organized by common functional categories, providing a clearer and more precise relationship between income statistics and underlying position statistics.

Table 8.7 Cross-border investment and income, 1989–2009

A. US-owned assets abroad and total investment income receipts, positions exclude derivatives and include US direct investment abroad at market value (billions of dollars)

Year	Position beginning	Changes in position						Total (a + b + c + d)	Position ending	Total investment income receipts
		Attributable to			Other changes					
		Valuation adjustments			Exchange-rate changes (c)	Other changes (d)	Total (a + b + c + d)			
		Financial flows (a)	Price changes (b)	Exchange-rate changes (c)						
1988	—	—	—	—	—	—	—	2,008.4	160.3	
1989	2,008.4	175.4	144.6	-16.3	38.2	341.9	341.9	2,350.2	170.6	
1990	2,350.2	81.2	-221.1	67.3	16.4	-56.2	-56.2	2,294.1	147.9	
1991	2,294.1	64.4	82.9	2.1	27.1	176.5	176.5	2,470.6	132.0	
1992	2,470.6	74.4	-29.0	-82.8	33.2	-4.1	-4.1	2,466.5	134.2	
1993	2,466.5	200.6	355.3	-29.1	98.2	624.9	624.9	3,091.4	164.6	
1994	3,091.4	178.9	-86.5	85.5	45.8	223.7	223.7	3,315.1	208.1	
1995	3,315.1	352.3	229.5	50.9	16.7	649.4	649.4	3,964.6	223.9	
1996	3,964.6	413.4	315.8	-74.6	31.7	686.3	686.3	4,650.8	254.5	
1997	4,650.8	485.5	456.2	-233.7	20.4	728.3	728.3	5,379.1	259.4	
1998	5,379.1	353.8	368.9	79.2	-1.9	800.0	800.0	6,179.1	291.2	
1999	6,179.1	504.1	802.1	-130.1	44.5	1,220.6	1,220.6	7,399.7	348.1	
2000	7,399.7	560.5	-305.4	-298.3	44.6	1.5	1.5	7,401.2	287.9	
2001	7,401.2	382.6	-714.1	-168.7	29.4	-470.7	-470.7	6,930.5	278.1	
2002	6,930.5	294.6	-848.8	266.0	162.4	-125.9	-125.9	6,804.6	317.6	
2003	6,804.6	325.4	767.5	483.6	-68.4	1,508.1	1,508.1	8,312.7	410.9	
2004	8,312.7	1,000.9	468.7	309.0	113.6	1,892.2	1,892.2	10,204.9	532.4	
2005	10,204.9	546.6	1,079.2	-441.7	368.7	1,552.9	1,552.9	11,757.8	679.3	
2006	11,757.8	1,285.7	1,111.6	412.5	143.6	2,933.5	2,933.5	14,711.3	826.6	
2007	14,711.3	1,475.7	559.4	719.6	36.6	2,791.3	2,791.3	17,502.6	793.5	
2008	17,502.6	-156.1	-4,341.0	-788.6	261.4	-5,024.3	-5,024.3	12,478.3	585.3	
2009	12,478.3	140.5	1,815.4	473.1	211.5	2,640.4	2,640.4	15,118.7		

B. US direct investment abroad at market value and direct investment income receipts (billions of dollars)

Year	Changes in position							Direct investment income receipts
	Attributable to							
	Financial flows (a)	Valuation adjustments			Other changes (d)	Total (a + b + c + d)	Position ending	
		Price changes (b)	Exchange-rate changes (c)					
1988	—	—	—	—	—	692.5		
1989	43.4	113.9	-14.6	-2.7	140.0	832.5	62.0	
1990	37.2	-169.3	38.2	-6.7	-100.7	731.8	66.0	
1991	37.9	63.3	-2.8	-2.7	95.8	827.5	58.7	
1992	48.3	-26.3	-46.6	-4.3	-28.9	798.6	57.5	
1993	798.6	205.3	-18.8	-7.8	262.7	1,061.3	67.2	
1994	1,061.3	-46.6	40.4	-20.6	53.3	1,114.6	77.3	
1995	1,114.6	131.1	28.7	-9.3	249.2	1,363.8	95.3	
1996	1,363.8	186.6	-29.7	-4.2	244.5	1,608.3	102.5	
1997	1,608.3	265.4	-97.5	-1.7	270.9	1,879.3	115.3	
1998	1,879.3	225.8	39.1	-7.2	400.3	2,279.6	104.0	
1999	2,279.6	452.3	-110.7	-6.5	560.0	2,839.6	131.6	
2000	2,839.6	-203.9	-95.8	-5.1	-145.6	2,694.0	151.8	
2001	2,694.0	-441.7	-57.0	-22.7	-379.1	2,314.9	128.7	
2002	2,314.9	-525.6	107.9	-29.1	-292.3	2,022.6	145.6	
2003	2,022.6	362.7	200.1	-5.8	706.5	2,729.1	186.4	
2004	2,729.1	215.8	117.2	-15.6	633.7	3,362.8	250.6	
2005	3,362.8	435.6	-203.7	7.1	275.2	3,638.0	294.5	
2006	3,638.0	401.7	183.3	2.4	832.3	4,470.3	324.8	
2007	4,470.3	112.6	267.6	10.5	804.6	5,275.0	370.7	
2008	5,275.0	-2,265.1	-204.4	-53.0	-2,171.3	3,103.7	403.2	
2009	3,103.7	737.1	194.2	-0.8	1,199.1	4,302.9	346.1	

(continued)

Table 8.7 (continued)

C. US portfolio investment in foreign long-term debt and associated interest receipts (billions of dollars)

Year	Position beginning	Changes in position					Total (a + b + c + d)	Position ending	Interest receipts
		Attributable to							
		Valuation adjustments							
		Financial flows (a)	Price changes (b)	Exchange-rate changes (c)	Other changes (d)				
1988	—	—	—	—	—	—	104.2		
1989	4.9	2.9	(*)	5.1	—	12.8	116.9	10.3	
1990	21.4	-1.4	2.5	5.3	—	27.8	144.7	12.0	
1991	15.0	7.3	-0.6	10.4	—	32.1	176.8	15.1	
1992	16.8	4.2	-7.0	10.0	—	24.0	200.8	17.4	
1993	82.9	8.5	-1.8	19.2	—	108.8	309.7	20.6	
1994	14.9	-27.0	7.4	5.4	—	0.7	310.4	23.9	
1995	56.9	34.3	3.1	8.6	—	102.9	413.3	24.6	
1996	66.6	-3.0	-6.2	10.7	—	68.1	481.4	28.2	
1997	59.6	8.1	-19.5	13.9	—	62.0	543.4	31.1	
1998	543.4	17.3	4.3	0.6	—	51.0	594.4	35.5	
1999	594.4	-53.4	-1.1	0.3	—	-46.2	548.2	37.5	
2000	548.2	18.7	-15.8	0.4	—	24.5	572.7	37.9	
2001	572.7	11.6	-9.3	0.5	—	-15.6	557.1	34.5	
2002	557.1	28.4	13.2	72.4	—	145.7	702.7	40.9	
2003	702.7	5.4	35.8	96.3	—	166.2	868.9	46.5	
2004	868.9	-1.0	20.9	10.3	—	116.0	985.0	50.5	
2005	985.0	64.5	-19.4	4.0	—	26.6	1,011.6	55.4	
2006	1,011.6	227.8	-10.7	33.3	—	264.0	1,275.5	63.9	
2007	1,275.5	218.7	8.1	56.8	—	311.6	1,587.1	82.7	
2008	1,587.1	-158.9	-123.0	-16.9	—	-349.8	1,237.3	84.9	
2009	1,237.3	144.9	27.3	0.0	—	256.3	1,493.6	75.4	

D. U.S. portfolio investment in foreign equity and associated dividend receipts (billions of dollars)

Year	Changes in position							Dividend receipts
	Attributable to							
	Financial flows (a)	Price changes (b)	Exchange-rate changes (c)	Valuation adjustments			Total (a + b + c + d)	
				Other changes (d)	Position ending	Dividend receipts		
1988	—	—	—	—	—	—	128.7	—
1989	17.2	30.1	-2.5	23.9	197.3	68.7	197.3	4.5
1990	7.4	-47.6	16.8	23.6	197.6	0.3	197.6	6.9
1991	30.7	22.1	4.1	24.5	279.0	81.4	279.0	7.3
1992	32.4	-1.6	-24.7	29.2	314.3	35.3	314.3	10.1
1993	63.4	126.1	-8.7	48.9	543.9	229.6	543.9	10.5
1994	48.3	-10.5	25.0	20.1	626.8	82.9	626.8	15.5
1995	65.5	62.9	15.7	19.8	790.6	163.9	790.6	19.5
1996	82.7	136.7	-29.6	25.6	1,006.1	215.5	1,006.1	23.3
1997	57.3	203.4	-100.5	41.5	1,207.8	201.7	1,207.8	24.6
1998	101.4	126.4	23.7	15.8	1,475.0	267.2	1,475.0	26.5
1999	114.3	402.5	-8.0	19.9	2,003.7	528.7	2,003.7	30.1
2000	2,003.7	-116.0	-172.3	30.7	1,852.8	-150.9	1,852.8	33.5
2001	106.7	-284.5	-88.9	24.2	1,612.7	-240.2	1,612.7	34.2
2002	17.0	-370.1	114.5	0.0	1,374.0	-238.7	1,374.0	38.2
2003	118.0	381.3	206.1	0.0	2,079.4	705.4	2,079.4	41.6
2004	84.8	248.9	147.4	0.0	2,560.4	481.0	2,560.4	54.1
2005	186.7	645.8	-177.4	102.2	3,317.7	757.3	3,317.7	64.6
2006	137.3	689.5	184.5	0.0	4,329.0	1,011.3	4,329.0	84.3
2007	147.8	386.0	385.3	0.0	5,248.0	919.0	5,248.0	116.1
2008	-39.0	-1,962.4	-498.2	0.0	2,748.4	-2,499.6	2,748.4	143.9
2009	63.3	937.3	228.4	0.0	3,977.4	1,229.0	3,977.4	107.4

(continued)

Table 8.7 (continued)

E. All other US investment abroad and associated interest receipts^a (billions of dollars)

Year	Changes in position							Interest receipts
	Attributable to							
	Valuation adjustments							
	Financial flows (a)	Price changes (b)	Exchange-rate changes (c)	Other changes (d)	Total (a + b + c + d)	Position ending		
1988	—	—	—	—	—	1,083.1	83.5	
1989	109.9	-2.3	0.9	11.9	120.4	1,203.5	85.6	
1990	15.3	-2.8	9.8	-5.8	16.5	1,220.0	66.8	
1991	-19.2	-9.8	1.4	-5.0	-32.7	1,187.3	46.9	
1992	-23.0	-5.4	-4.6	-1.6	-34.6	1,152.8	35.9	
1993	-29.7	15.4	0.2	37.9	23.8	1,176.6	47.9	
1994	35.6	-2.4	12.7	40.9	86.8	1,263.4	68.7	
1995	131.1	1.2	3.5	-2.3	133.4	1,396.8	70.0	
1996	172.2	-4.6	-9.1	-0.5	158.1	1,555.0	83.5	
1997	263.8	-20.8	-16.1	-33.2	193.7	1,748.7	93.4	
1998	1,748.7	-0.6	12.1	-11.0	81.5	1,830.1	92.0	
1999	1,830.1	0.6	-10.3	30.8	177.9	2,008.1	124.8	
2000	2,008.1	-4.1	-14.3	18.6	273.6	2,281.6	90.5	
2001	2,281.6	0.5	-13.5	27.5	164.2	2,445.8	53.4	
2002	2,445.8	18.5	30.4	119.0	259.5	2,705.3	43.2	
2003	2,705.3	18.1	41.7	-158.9	-70.1	2,635.3	55.8	
2004	2,635.3	5.1	23.5	118.8	661.5	3,296.7	117.8	
2005	3,296.7	20.2	-41.1	255.5	493.8	3,790.5	206.3	
2006	675.7	31.1	31.2	107.9	846.0	4,636.5	257.1	
2007	4,636.5	52.8	38.7	-30.7	756.1	5,392.6	161.4	
2008	5,392.6	9.4	-35.0	331.3	-3.7	5,388.9	56.4	
2009	5,388.9	56.9	23.1	212.4	-44.0	5,344.9		

F. Foreign-owned assets in the United States and total investment income payments, positions exclude derivatives and include foreign direct investment in the United States at market value (billions of dollars)

Year	Changes in position							Total investment income payments
	Attributable to							
	Financial flows (a)	Price changes (b)	Exchange-rate changes (c)	Other changes (d)	Total (a + b + c + d)	Position ending		
1988	—	—	—	—	—	1,986.9	192.2	
1989	222.8	137.4	-1.0	37.9	397.1	2,383.9	139.7	
1990	139.4	-72.5	10.8	-18.0	59.7	2,443.6	121.1	
1991	108.2	178.7	-2.5	-14.1	270.3	2,713.9	104.8	
1992	168.3	46.6	-8.1	-22.2	184.7	2,898.6	143.4	
1993	279.8	62.6	-7.2	-20.6	314.6	3,213.2	183.1	
1994	303.2	-109.7	12.9	5.9	212.3	3,425.4	197.5	
1995	435.1	382.0	12.1	-12.5	816.7	4,242.1	237.5	
1996	547.9	231.6	-8.7	-33.7	737.0	4,979.1	250.6	
1997	704.5	548.2	-26.5	-37.9	1,188.2	6,167.4	272.1	
1998	420.8	656.7	11.3	-43.3	1,045.5	7,212.9	322.3	
1999	742.2	472.4	-4.3	-21.3	1,189.0	8,401.9	251.0	
2000	1,038.2	-439.1	-28.0	-35.0	536.1	8,938.0	245.2	
2001	782.9	-489.9	-17.2	11.8	287.5	9,225.5	266.6	
2002	795.2	-783.6	35.2	-56.8	-10.0	9,215.6	337.6	
2003	858.3	775.4	68.8	-312.3	1,390.2	10,605.8	453.6	
2004	1,533.2	278.5	39.5	111.4	1,962.6	12,568.3	624.6	
2005	1,247.3	-66.8	-50.6	-24.7	1,105.3	13,673.6	720.0	
2006	2,065.2	529.1	44.4	267.4	2,906.0	16,579.6	634.2	
2007	2,107.7	243.2	81.0	-57.4	2,374.4	18,954.1	456.0	
2008	454.7	-2,516.1	-91.8	1.3	-2,151.9	16,802.2		
2009	305.7	971.6	77.7	23.5	1,378.5	18,180.7		

(continued)

Table 8.7 (continued)

G. Foreign direct investment in the United States at market value and direct investment income payments (billions of dollars)

Year	Changes in position						Position ending	Direct investment income payments
	Attributable to							
	Valuation adjustments							
	Financial flows (a)	Price changes (b)	Exchange-rate changes (c)	Other changes (d)	Total (a + b + c + d)	Position ending		
1988	—	—	—	—	—	391.5		
1989	68.3	72.0	0.0	3.0	143.2	534.7	7.0	
1990	534.7	-40.6	0.0	-3.0	4.9	539.6	3.5	
1991	539.6	108.4	0.0	-2.0	129.5	669.1	-2.3	
1992	669.1	15.8	0.0	-8.6	27.0	696.2	2.2	
1993	696.2	28.6	0.0	-7.7	72.2	768.4	7.9	
1994	768.4	-28.7	0.0	-28.0	-10.5	757.9	22.2	
1995	757.9	187.8	0.0	2.3	247.9	1,005.7	30.3	
1996	1,005.7	86.5	0.0	-8.0	223.4	1,229.1	33.1	
1997	1,229.1	303.8	0.0	-1.1	408.3	1,637.4	43.0	
1998	1,637.4	368.3	0.0	-5.7	541.6	2,179.0	38.4	
1999	2,179.0	345.0	0.0	-15.3	619.2	2,798.2	53.4	
2000	2,798.2	-328.7	0.0	-7.6	-15.0	2,783.2	56.9	
2001	2,783.2	-338.7	0.0	-51.3	-222.9	2,560.3	12.8	
2002	2,560.3	-527.6	0.0	-95.3	-538.5	2,021.8	43.2	
2003	2,021.8	381.7	0.0	-12.4	433.1	2,454.9	73.8	
2004	2,454.9	117.6	0.0	-1.1	262.5	2,717.4	99.8	
2005	2,717.4	-22.8	0.0	10.7	100.6	2,818.0	121.3	
2006	2,818.0	227.1	0.0	4.9	475.1	3,293.1	150.8	
2007	3,293.1	271.2	0.0	10.0	303.8	3,596.9	129.1	
2008	3,596.9	-1,207.2	0.0	-165.4	-1,044.3	2,552.6	115.5	
2009	2,552.6	422.7	0.0	10.6	568.0	3,120.6	94.0	

H. Foreign portfolio investment in US Long-term debt and associated interest payments (billions of dollars)

Year	Changes in position							Position ending	Interest payments
	Attributable to								
	Financial flows (a)	Price changes (b)	Exchange-rate changes (c)	Other changes (d)	Total (a + b + c + d)	Position ending	Interest payments		
1988	—	—	—	—	—	439.6	54.8		
1989	86.7	9.3	-1.4	37.8	132.5	572.1	53.9		
1990	38.0	-15.5	9.0	-14.8	16.6	588.7	54.7		
1991	47.1	25.5	-2.3	-10.9	59.5	648.1	52.9		
1992	77.6	-4.9	-5.9	-12.9	53.9	702.0	40.6		
1993	90.1	10.4	-6.6	-10.7	83.2	785.3	59.7		
1994	138.5	-71.7	8.8	-8.0	67.6	852.9	66.9		
1995	852.9	58.9	11.9	-15.7	249.0	1,101.9	79.5		
1996	1,101.9	321.7	-25.1	-18.3	273.0	1,374.9	98.7		
1997	1,374.9	266.1	30.9	-33.4	246.5	1,621.4	105.6		
1998	1,621.4	145.6	32.9	-38.0	143.5	1,764.8	112.3		
1999	1,764.8	173.3	-121.4	-29.3	21.0	1,785.9	126.0		
2000	1,785.9	243.0	62.4	-28.8	255.7	2,041.6	125.7		
2001	2,041.6	306.9	54.7	1.4	353.5	2,395.0	126.1		
2002	2,395.0	373.5	79.3	-140.8	330.8	2,725.8	131.5		
2003	2,725.8	486.3	-13.0	-79.9	438.9	3,164.7	150.4		
2004	3,164.7	705.0	-21.7	-40.1	670.7	3,835.4	181.5		
2005	3,835.4	785.8	-112.0	-58.0	586.4	4,421.8	230.0		
2006	4,421.8	953.7	25.4	32.7	983.1	5,404.9	291.1		
2007	5,404.9	713.9	90.0	7.6	864.5	6,269.4	307.2		
2008	6,269.4	110.0	-46.1	-36.7	-40.0	6,229.4	266.3		
2009	6,229.4	325.0	11.8	-8.5	384.6	6,614.0			

(continued)

Table 8.7 (continued)

I. Foreign portfolio investment in US equity and associated dividend payments (billions of dollars)

Year	Position beginning	Changes in position					Total (a + b + c + d)	Position ending	Dividend payments
		Attributable to							
		Valuation adjustments							
		Financial flows (a)	Price changes (b)	Exchange-rate changes (c)	Other changes (d)				
1988	—	—	—	—	—	—	213.8		
1989	213.8	9.0	56.2	0.0	-2.9	62.3	276.1	8.3	
1990	276.1	-16.0	-16.4	0.0	0.0	-32.3	243.8	9.3	
1991	243.8	10.4	44.8	0.0	0.0	55.2	299.0	9.5	
1992	299.0	-5.6	35.6	0.0	0.0	30.0	329.0	9.6	
1993	329.0	20.9	23.6	0.0	0.0	44.5	373.5	10.0	
1994	373.5	0.9	-9.4	0.0	32.7	24.2	397.7	11.2	
1995	397.7	16.5	135.3	0.0	0.0	151.8	549.5	12.0	
1996	549.5	11.1	111.8	0.0	0.0	122.9	672.4	13.2	
1997	672.4	67.0	213.5	0.0	0.0	280.5	952.9	14.0	
1998	952.9	42.0	255.5	0.0	(*)	297.4	1,250.3	15.8	
1999	1,250.3	112.3	248.9	0.0	0.0	361.2	1,611.5	17.1	
2000	1,611.5	193.6	-172.8	0.0	10.9	31.7	1,643.2	19.6	
2001	1,643.2	121.5	-205.8	0.0	13.9	-70.5	1,572.7	21.1	
2002	1,572.7	54.1	-335.3	0.0	44.3	-236.9	1,335.8	23.6	
2003	1,335.8	34.0	406.7	0.0	63.0	503.7	1,839.5	25.7	
2004	1,839.5	61.8	182.6	0.0	39.4	283.7	2,123.3	37.0	
2005	2,123.3	89.3	68.0	0.0	23.5	180.8	2,304.0	38.1	
2006	2,304.0	145.5	330.7	0.0	11.7	487.9	2,791.9	44.9	
2007	2,791.9	275.6	130.5	0.0	33.6	439.8	3,231.7	54.9	
2008	3,231.7	126.4	-1,262.7	0.0	37.2	-1,099.1	2,132.6	70.1	
2009	2,132.6	160.5	537.1	0.0	0.0	697.6	2,830.2	59.3	

J. All other foreign investment in the United States and associated interest payments^a (billions of dollars)

Year	Changes in position							Interest payments
	Attributable to							
	Position beginning	Financial flows			Valuation adjustments			
		(a)	(b)	(c)	(d)	(a + b + c + d)	Position ending	
1988	—	—	—	—	—	—	941.9	69.0
1989	941.9	58.8	0.0	0.3	(*)	59.1	1,001.0	73.0
1990	1,001.0	68.8	0.0	1.8	-0.1	70.5	1,071.5	59.1
1991	1,071.5	27.5	0.0	-0.1	-1.2	26.2	1,097.7	40.1
1992	1,097.7	76.5	0.0	-2.2	-0.6	73.7	1,171.4	47.1
1993	1,171.4	117.4	0.0	-0.6	-2.3	114.6	1,286.0	50.4
1994	1,286.0	117.7	0.0	4.1	9.2	131.0	1,417.0	73.9
1995	1,417.0	167.0	0.0	0.1	0.9	168.0	1,585.0	71.7
1996	1,585.0	128.6	0.0	-3.5	-7.4	117.7	1,702.8	81.9
1997	1,702.8	265.7	0.0	-9.3	-3.5	253.0	1,955.7	90.8
1998	1,955.7	54.2	0.0	8.4	0.4	63.0	2,018.7	89.3
1999	2,018.7	167.2	0.0	-2.8	23.3	187.7	2,206.4	119.8
2000	2,206.4	280.4	0.0	-7.2	-9.5	263.6	2,470.0	91.3
2001	2,470.0	187.5	0.0	-7.8	47.8	227.5	2,697.5	52.3
2002	2,697.5	283.2	0.0	16.6	134.9	434.6	3,132.1	35.7
2003	3,132.1	274.2	0.0	23.2	-283.0	14.5	3,146.6	50.3
2004	3,146.6	620.4	0.0	12.1	113.1	745.6	3,892.3	112.7
2005	3,892.3	259.7	0.0	-21.2	-1.0	237.5	4,129.8	199.0
2006	4,129.8	722.8	0.0	19.0	218.2	960.0	5,089.8	244.8
2007	5,089.8	847.0	0.0	28.1	-108.6	766.4	5,856.2	141.4
2008	5,856.2	-110.0	0.0	-24.8	166.2	31.4	5,887.6	36.4
2009	5,887.6	-314.5	0.0	21.4	21.4	-271.7	5,615.9	

^aAll other investment includes short-term portfolio investment, other investment, and (for US assets) US reserve assets; derivatives are not included.

*Transactions are less than + or - \$500 million.

The calculation of capital gains explains much of the difference in results of different studies of rates of return. The computation methodology for computing rates of return (the total rate of return and its two components, income return and capital gains return) is summarized in the following equations:

$$(1) \quad RTOT_t = (INC_t + PRCHG_t + XRTCHG_t)/AVGPOS_t,$$

$$(2) \quad RINC_t = (INC_t)/AVGPOS_t,$$

$$(3) \quad RKG_t = (PRCHG_t + XRTCHG_t)/AVGPOS_t,$$

where $RTOT_t$ is the total rate of return for year t ; $RINC_t$ is the rate of return from income for year t ; RKG_t is the rate of return from capital gains or losses for year t ; INC_t is income for year t ; $PRCHG_t$ is the change in the investment position caused by a change in price for year t ; $XRTCHG_t$ is a change in the investment position caused by a change in exchange rates for year t ; and $AVGPOS_t$ is the average investment position for year t , computed by taking the average of the investment position for year t and the investment position for year $t - 1$.

Price changes and exchange rate changes from table 8.7 are included in our measure of capital gains because these changes affect the value of assets held by investors in a given year. "Other changes" from table 8.7 are excluded because these changes in value do not accrue to investors over the year. They instead indicate that assets in a particular account were found to be larger or smaller at the end of the year for statistical reasons that do not reflect return to investors.

"Other changes" are changes in position that cannot be attributed to price changes, exchange rate changes, or financial flows. Often, "other changes" reflect changes in IIP positions from series breaks in the underlying data. For example, the introduction of new derivatives data caused "other changes" for US assets abroad and foreign assets in the United States to be very large in 2005. That "other changes" are statistical in nature and do not belong in measures of investment returns does not make them unimportant. "Other changes" have had a significant impact on the international investment position over time. Because any revision to positions automatically generate price and exchange rate changes in the methodologies used to compile the IIP, it is unlikely that significant price or exchange rate changes have been erroneously included in "other changes." It is far more likely that financial flows have been commingled with statistical changes in the "other changes" category. This has happened when surveys of positions caused revisions to position estimates, but surveys of transactions did not detect the transactions that caused the revisions to positions. The unexplained changes in positions could not be attributed to financial flows, price changes, or exchange rate changes and were classified as other changes.

Rates of return based on the table 8.7 time series are presented in table 8.8. The difference between total returns on US assets and total returns on US

Table 8.8 Rates of return on investment (1990–2005)

	Claims (%)	Liabilities (%)	Difference (%)
<i>All asset classes</i>			
Total return	7.6	6.1	1.5
Yield	5.0	3.8	1.2
Capital gains	2.6	2.3	0.3
<i>Direct investment at market value</i>			
Total return	10.2	6.8	3.4
Yield	6.9	2.1	4.8
Capital gains	3.2	4.7	-1.4
<i>Long-term debt</i>			
Total return	7.7	6.4	1.3
Yield	7.0	6.3	0.6
Capital gains	0.7	0.0	0.6
<i>Equities</i>			
Total return	8.5	10.3	-1.9
Yield	2.5	2.1	0.3
Capital gains	6.0	8.2	-2.2
<i>Other assets</i>			
Total return	4.3	3.9	0.4
Yield	4.2	3.9	0.3
Capital gains	0.1	0.0	0.1

liabilities is 1.5 percent as compared to 1.0 percent from Curcuru, Dvorak, and Warnock for the same time period (1990–2005). Most of the difference between our results and those of Curcuru, Dvorak, and Warnock is attributable to capital gains. This study's difference in capital gains is 0.3 percent, whereas Curcuru, Dvorak, and Warnock found a difference of zero. The total return differences reported in this chapter lie between those found by Curcuru, Dvorak, and Warnock and by those studies reported by Curcuru, Dvorak, and Warnock averaging 3 percent.

The largest of the total returns differentials between claims and liabilities is for direct investment at 3.4 percent, where the differential for income yields is partly offset by a negative differential for capital gains.¹³ As noted also by

13. Direct investment at market value is used to derive the results in this chapter. The international standards for compiling the international investment position recommend the market value of direct investment as the preferred valuation. Positions for equity and debt securities are also presented at market value. The BEA publishes three valuations for direct investment (available at <http://www.bea.gov/international/index.htm#iip>). These three valuations are market value, current cost, and historic cost. Historic cost is also known as book value.

If the rates of return were recalculated using either current cost or historic cost, capital gains would be much lower because, unlike the market value, these valuations are not influenced much by equity prices, which tended to raise asset valuations from 1990 to 2005. Also, the differential for income yields on direct investment would still be large. A refinement of this study would utilize different measures of income from direct investment that would reflect different valuations of the direct investment positions when measuring income yields.

Curcuro and Thomas (chapter 7, this volume), total returns differentials for other investment categories show little evidence of a significant advantage for US investors. The differential for long-term debt is 1.3 percent, for equities it is -1.9 percent, and for other types of investment it is 0.4 percent.

8.4 Progress Report on Initiatives to Improve the International Accounts

Improved source data will be needed to make the new international accounts presentation as complete and accurate as possible. Some new source data have already become available and discussions are taking place to make changes to collection procedures for other source data. Several lines in the proposed tables discussed earlier are denoted “not available” (n/a) because the required source data are not currently available. In many cases, the transactions for those lines are included elsewhere in the accounts but we are not currently able to present the transactions separately. For instance, some financial flows related to insurance companies’ liabilities to their customers are included indistinguishably with other changes in liabilities and cannot be reported under the new instrument category “insurance, pension, and standardized guarantee schemes.” Howell and Westmoreland (2013) describe several of these improvements that are still under study.

The BEA has been working with the US Department of the Treasury to introduce revisions in monthly, quarterly, and annual data collected through the Treasury International Capital (TIC) reporting system, the primary source of data on financial transactions and positions for the US international accounts. These revisions will allow BEA to increase and improve sector and maturity breakdowns throughout the international accounts. Also, BEA has recently incorporated new data from the new TIC form SLT, “Report of US and Foreign Resident Aggregate Holdings of Long-term Securities,” that collects cross-border holdings of US and foreign long-term securities.¹⁴ As shown in table 8.5, these data allow BEA to provide sector breakdowns for US assets and US equity liabilities that were not previously available. In addition, the new data have improved the position estimates for long-term securities that BEA previously projected using transactions data and price changes. The new source data also provide new information that will allow BEA to improve its coverage of financial flows.

The financial crisis and subsequent events in global financial markets resulted in a call for more frequent and timely information on cross-border linkages and the exposure of economies to global market developments. As a result, in May 2010, the IMF executive board prescribed quarterly reporting of IIP statistics with a four-year transition period as a requirement of the Special Data Dissemination Standard, to which the United States is a

14. For more information on the TIC Form SLT, see <http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/forms-slt.aspx>.

subscriber.¹⁵ Consistent with this requirement, the BEA committed to introducing quarterly IIP statistics by 2014 and the BEA published quarterly IIP statistics for the first time on March 26, 2013.¹⁶ These statistics provide users with more frequent and more timely information on the US external position that can be compared with quarterly BOP statistics and other information on current market developments and trends. It will also improve the comparability of the US IIP statistics with those of partner countries, many of which now publish IIP statistics on a quarterly basis.

8.5 Conclusion

The restructuring of the US financial account and IIP to align them with the new international statistical standards will present cross-border transactions statistics in relevant functional categories by instrument, sector, and maturity. The new presentations will enable further analyses of rates of return, addressing important questions raised by users of the data that could not be fully addressed using the existing presentation. By moving to the internationally accepted standards, the financial account and the IIP will be more comparable to foreign statistics that follow BPM6 and to related national accounts statistics that follow the SNA.

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15. Quarterly reporting of IIP statistics is one of a number of recommendations provided by the IMF and the Financial Stability Board at the request of the Group of Twenty (G-20) finance ministers and central bank governors that are aimed at closing information gaps that came to light during the financial crisis. For more information, see International Monetary Fund and Financial Stability Board (2009).

16. See <http://www.bea.gov/newsreleases/international/intinv/intinvnewsrelease.htm> for the latest IIP release.

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