

## Accessory for a U.S. Border Fence: A Welcome Mat for Foreign Loans

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### **Body**

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Mexico has been a popular topic in the run-up to this year's Congressional elections, but not in any way the Mexicans have enjoyed.

Congressional Republicans, seeking a popular initiative to improve their position with voters, scheduled a series of hearings this summer on the threat of immigration, and then passed a bill authorizing, but not paying for, a 700-mile fence on the United States border with Mexico.

That bill left out provisions sought by President Bush that would have made it possible for some illegal aliens to obtain American citizenship eventually.

And while there are doubts about how much good a fence would do -- the border is 2,000 miles long and many illegal immigrants enter on visas and fail to leave -- there seems to be little doubt that many Americans are worried about Mexico, both as a source of illegal immigrants and as a destination for jobs. The North American Free Trade Agreement has been denounced in some campaigns.

But in a campaign appearance near New York this week, former President Bill Clinton pointed to another role Mexico now plays, as the 10th-largest international lender to the United States. Debtors, perhaps, should be nice to their creditors.

The chart accompanying this table shows the 10 countries now with the largest ownership of United States Treasury securities, including both private and public lenders. The figures also show how much the holdings have grown since the end of 2000, just before President Bush took office.

Over all, Mexico's holdings of U.S. Treasury securities have risen 175 percent since the end of 2000, faster than the overall foreign increase of 112 percent, but far below the 462 percent gain in Chinese holdings. All told, Japan, China and Hong Kong now hold \$1.03 trillion in U.S. Treasuries -- more than all foreign countries combined held at the end of 2000.

There are limitations to the figures, as they can obscure ultimate owners. A Treasury security held by a British money manager on behalf of a Japanese client will show up as being held in Britain, a fact that helps to explain why that country ranks third on the list.

The other chart shows the extent to which the soaring supply of Treasury securities has been soaked up overseas. Figures from the Federal Reserve indicate that at the end of 2000, there were \$2.8 trillion in Treasury securities outstanding, excluding those held by the Fed itself. Of those, \$1 trillion, or about 36 percent, were held overseas.

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By the end of June this year, the latest figures available, another \$1.1 trillion had been added to the supply of Treasuries, increasing the figure by 40 percent. But only \$140 million of the new supply was sold to Americans; the rest is overseas.

A result is that Americans now own less than half the outstanding Treasuries. American politicians may not be happy to see foreigners moving to their country, but they have been quite happy to take loans from them.

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## Graphic

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Chart: "Top 10 foreign holders of U.S. Treasuries"<sup>1</sup> Japan AS OF AUG. 2006, IN BILLIONS: \$644.2 CHANGE FROM DEC. 2000: +103%<sup>2</sup> China AS OF AUG. 2006, IN BILLIONS: 339.0 CHANGE FROM DEC. 2000: +462% Britain AS OF AUG. 2006, IN BILLIONS: 201.4 CHANGE FROM DEC. 2000: +301% South Korea AS OF AUG. 2006, IN BILLIONS: 66.7 CHANGE FROM DEC. 2000: +125% Taiwan AS OF AUG. 2006, IN BILLIONS: 65.6 CHANGE FROM DEC. 2000: +96% Germany AS OF AUG. 2006, IN BILLIONS: 51.1 CHANGE FROM DEC. 2000: +47% Hong Kong AS OF AUG. 2006, IN BILLIONS: 50.6 CHANGE FROM DEC. 2000: +31% Canada AS OF AUG. 2006, IN BILLIONS: 47.2 CHANGE FROM DEC. 2000: +20% Brazil AS OF AUG. 2006, IN BILLIONS: 43.2 CHANGE FROM DEC. 2000: N.A. Mexico AS OF AUG. 2006, IN BILLIONS: 42.0 CHANGE FROM DEC. 2000: +17% Total AS OF AUG. 2006, IN BILLIONS: \$2,150.9 CHANGE FROM DEC. 2000: +112% Graph tracks foreign vs. domestic holders of U.S. Treasuries (quarterly, through 2nd quarter of 2006) since 1980. (Sources by U.S. Treasury and Federal Reserve, via Haver Analytics)

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