

Trade facts | CHINA'S OWNERSHIP OF US FEDERAL DEBT

Polks tell us that many Americans are concerned about the large amount of US government debt held by Beijing. Those Americans might assume that China's debt ownership gives it some sort of leverage over the US.

If so, Americans can rest easier. China doesn't own as much of our debt as you might think. To the extent that it does, the problem is China's, not ours. The challenge for America is the size of our fiscal deficit and its long term implications for our economy, not the size of China's debt holdings.

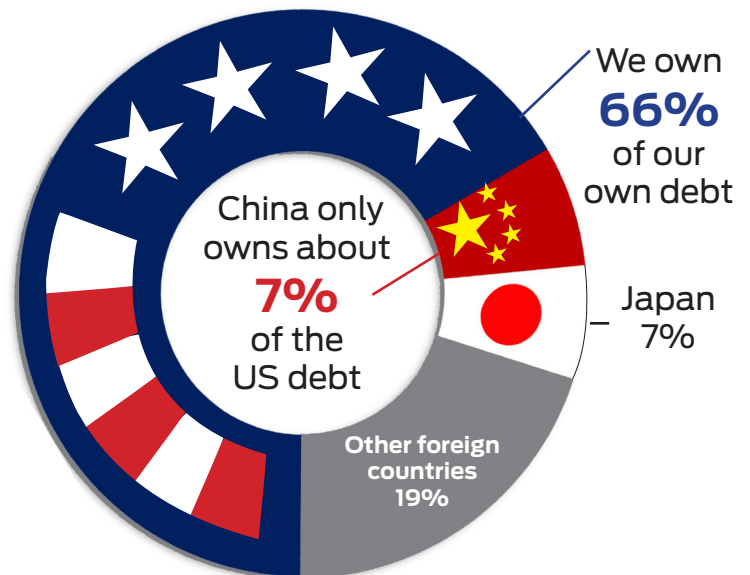
Consider the facts: as of March 2016, America owes almost \$19 trillion to creditors for overspending over the years.

The US government pays for its debts in several ways, including sales of Treasury bills, notes and bonds, savings bonds, and other government-backed securities. These are essentially promissory notes with pre-determined payment due dates.

Who buys these promissory notes? A wide range of people and entities. About two-thirds of US debt is owned by Americans – local and state governments, institutional investors like banks and mutual funds, and individual investors. The remaining debt is owned by foreign governments and investors. China is the largest foreign debt holder with \$1.2 trillion, but **this amounts to only about 7 percent of total US debt**. That amount is about the same amount of US debt owned by Japan.

What does all of this mean for Americans? Most importantly, we continue to spend more each year than we take in, adding to the overall debt we have as a nation. This is an issue that affects the US economy in a variety of ways, few of them positively, and it is something that we as a nation must address.

It also means that China has a significant interest in the economic success of the United States. Like any investor, China wants its assets to gain or hold value,



not lose it. A decision by China to sell off a significant share of US debt would do just the opposite: disrupt markets, create tensions with China's largest trade partner, and harm the value of China's investments.

The Pentagon evaluated China's ownership of US debt and came to the same conclusion: "Attempting to use US Treasury securities as a coercive tool would have limited effect and likely would do more harm to China than to the United States."

Ultimately, China's debt holdings have become proof of an old adage: When you owe your bank thousands of dollars, it's your problem, but when you owe your bank millions of dollars, it's your bank's problem. America owes China about \$1 trillion dollars. Until we balance the US budget and pay down our debt, China's ownership of 7 percent of the national debt will continue to give it a vested interest in America's prosperity, not leverage to do us harm.