

## China ups US debt to \$1.16 trillion

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By Zhang Yuwei in New York (China Daily)

China, the largest foreign creditor to the United States, increased its US Treasury holdings by \$8 billion to \$1.16 trillion in January after cutting its purchase for five months, according to data released by the US Treasury Department on Thursday.

Overall, foreigners were net buyers of long-term US financial assets in January, according to the monthly Treasury International Capital, or the TIC. As the second-largest holder of US Treasury, Japan is closing in on China after it boosted its holdings by \$21 billion to \$1.08 trillion in January.

Some experts say China's increase is not surprising because many still believe the US, even with a weak economy, is still a safe haven for foreign investors, especially in the midst of the ongoing Euro zone crisis. Others believe that the fact of China being the largest creditor has given it an upper hand in case if there were a trade war between the two.

"We got to know who has all the cards in this relationship. It is not the US, because China is the biggest creditor and we are the debtor," Peter Schiff, CEO and chief global strategist of Euro Pacific Capital Inc, said after a televised debate on China and the US economy hosted by Intelligence Squared in New York.

"People still think everything is fine in America because they don't know just how terrible it's going to be when the rug is pulled out from under us. China has got its hands on that rug and eventually they are going to pull it because it's in their interest to do so. What's not in their interest is to continue to throw good money after bad," Schiff said.

On March 13, US President Barack Obama signed into law a controversial bill that allows the government to impose countervailing duties on imports from China, Vietnam and other so-called "non-market economy countries."

On the same day, he joined Japan and EU in bringing a case to the World Trade Organization against China's limits on the export of rare earth minerals.

A recent Gallup's annual World Affairs survey shows that about three in four Americans are "very concerned" about how the amount of US debt held by foreign countries, like China, will affect the US economy. China as the US' creditor and trade relations between China and US

interest Americans most among the four issues surveyed that also included the situation in Iran and the financial crisis in Europe.

Analysts say that if China starts to cut back its purchases of US bonds, US interest rates could go up, which obviously will damage the US economy and ratchet up the government's borrowing costs.

TIC's December data showed that China cut its holdings by \$3.19 billion to a 19-month-low of \$1.10 trillion a drop for the fifth consecutive month. Many see it as a trend and believe it's time China cut back or even stopped investing in US Treasuries.

Among limited options for investment, experts have been speculating about China's investment in the European debt.

At the EU-China summit in February, Chinese Premier Wen Jiabao said: "Europe is a main investment destination for China to diversify its foreign-exchange reserves."

Recently, on the sidelines of China's annual session of the National People's Congress, Chinese Foreign Minister Yang Jiechi told reporters that China has confidence in Europe and is willing to continue investing in European countries and the eurozone.

Experts, however, read these signals differently.

Schiff says the Chinese government has realized the US is a poor investment.

"I think they (the Chinese government) understand they eventually have to get out of this mess. They've got to stop. But the minute they do, then we will have to deal with the consequences of all the mistakes we've made," he said.

"I am confident that China continues to see US government bonds as good investments. ... Weak as it is, and has been, the US economy is growing again, and America remains the best investment by far for foreign investors, including China," said James Bacchus, chair of the Global Practice Group of the Greenberg Traurig, a law firm in Washington.

"China is in no position to bail out Europe, nor should China be expected to do so. But Europe is China's leading trading partner, China depends on European markets, and China is acting responsibly in trying to play a positive role in support of the economic recovery of Europe, which is important to overall global prosperity," Bacchus said.

In May, the US hit its \$14.3 trillion debt ceiling limit and the debate in Washington about raising the limit was a chaotic process, even though it reached a last-minute deal. This, experts say, has efficiently hurt foreign investors' confidence, although it may not have reflected in the US government bonds purchases data immediately.

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