Center for American Progress

AGENCY/PHOTOGRAPHER

Should We Be Grateful to China for Buying U.S. Treasuries?

Scott Lilly April 2009

Center for American Progress

Should We Be Grateful to China for Buying U.S. Treasuries?

Scott Lilly April 2009

Contents

Executive summary

The current economic relationship between the United States and China is perilous for both countries. The nature of that peril is quite different than is commonly perceived.

China's large and rapidly growing stash of U.S. treasuries is only part of a much larger debt issue that is driven by trade deficits rather than the size or direction of U.S. fiscal policy. In fact, there is little evidence to support a significant connection between budget deficits and trade deficits given U.S. experience over the past 18 years.

U.S. trade deficits have grown from $80 billion in 1990 to $680 billion in 2008. Yet most of this growth took place during years in which the budget deficit or surplus was improving. The United States' fiscal condition improved steadily between 1995 and 2006, swinging from a $164 billion deficit to a $236 billion surplus. There was not a commensurate improvement in the trade deficit during this period as many economists might have predicted; instead, the United States' trade deficit quadrupled going from $96 billion in 1995 to $380 billion in 2000. Again between 2004 and 2006 when the budget deficit shrank from $412 billion to $248 billion, the trade deficit continued upward from $607 billion to $753 billion.

China has played a central role in the growth of U.S. trade deficits, and that role has grown steadily more important with the passage of time. China has accounted for 60 percent of the growth in the trade deficit since 2000.

Unlike most nations around the globe and throughout history, China's interest in exporting has extended well beyond earning the foreign currency needed to purchase goods and services from overseas. China has dedicated 40 percent of its output to export production, severely limited the purchases of goods and services from outside its own borders, and built gigantic foreign reserves at the same time. Chinese leaders have furthermore made several key policy decisions that severely limit how the country can spend those reserves. Their desire to keep their own currency weak against other leading currencies—the dollar in particular—means that China cannot trade the dollars they collect on world currency markets. It can only invest in dollar denominated assets, namely U.S. real estate, equities, and debt.

The U.S. Treasury has identified a significant portion of the dollars that have been reinvested into the United States by the Chinese since 2000. Of the $1.4 trillion in trade surpluses during that period, $96 billion went to buying stock in U.S. companies, $16 billion was invested in corporate bonds, $474 billion was used to buy the debt of government chartered organizations such as Fannie Mae, and $439 billion was put into U.S. treasuries. The remaining $400 billion remained in Chinese banks, was invested in American real estate, or entered the United States through foreign intermediaries and credited to the holdings of the countries in which the purchases occurred rather than the ultimate owner of the holdings.

China's use of its export earnings has remained relatively constant over the past eight years. The portion allocated to ownership of corporate stocks and bonds has fluctuated between 5 and 11 percent. The portion allocated to treasuries and debt from government-chartered organizations has fluctuated between 89 and 94 percent.

Examining the pattern of Chinese investments over the past year provides significant insight into how China is likely to invest the $300 billion or so it is likely to make from the United States in export and investment earnings during the coming year. China is struggling to learn more about investing in U.S. equity markets, but neither Chinese leaders nor the Chinese people are likely to develop sufficient tolerance for risk that ventures very far from the current pattern of dividing 90 percent of the nation's growing horde of dollars between U.S. government chartered debt and treasuries.

If China were to substantially reduce the amount of treasuries it purchases and instead invest in real estate, stock, or corporate debt, it could be helpful for the U.S. economy. It would reduce the record high spread between what businesses must pay to borrow money and what the U.S. government must pay. Furthermore, the current reservoir of global savings, which is more than $15 trillion per year), is likely to grow due to savings from business and consumer caution. The economic downturn and investors' desire for safety in turbulent markets points to continued high demand for treasuries even in the face of lower Chinese participation.

But China's accumulation of U.S. debt is unsustainable. It will ultimately force a devaluation of the dollar against other world currencies and a diminution of the value of Chinese holdings. Beyond that, China's current growth strategies are absurd at their foundation. China has a per capita gross domestic product that is lower than Congo, Namibia, Albania, or the Dominican Republic. It redirects half of that per capita GDP back into savings, which denies impoverished Chinese citizens much of the quality of life that their labors have earned them. Ordinary workers in China, who consider themselves lucky to be able to get a $40 a week job in an export-oriented factory, are loaning nearly $1 billion a day to a country where median family income approaches $1,000 a week.

China's policies appear to have a lot more to do with politics than economics. The ruling elite are the revolutionaries' grandchildren and great grandchildren. They know that the whims of the masses can be fickle and that the occupants of the Forbidden City can be driven from its gates. They know that the nation is severely divided by region, dialect, and ethnicity. They know that more fully sharing in the fruits of China's success would make the economy more difficult to control, and while freer economies offer many benefits, they tend to involve cycles that can entail serious political risk.

A realignment of this relationship will eventually be forced by the fundamental unsustainability of the status quo. Yet a precipitous realignment will be extremely painful to the economic wellbeing of both countries and the world economy, as well. If steps are taken now to rebalance the relationship the course forward can be much smoother and living standards in both countries will be placed at substantially less risk.

Introduction

Chinese Premier Wen Jiabao rattled global markets in the weeks leading up to the Group of 20 economic summit by commenting on China's large portfolio of U.S. treasuries. He told a Beijing press conference, "We have lent a huge amount of money to the U.S., so of course we are concerned about the safety of our assets. Frankly speaking, I do have some worries."[1]

Wen Jiabao should have concerns. The very strange economic relationship between the United States and China poses grave dangers to both countries, as well as to the future prosperity of the entire world. But the risk we face is not that China will stop buying U.S. treasuries; the risk is the very strong probability that they will continue.

The U.S.-China trade imbalance

China now holds 7 percent of the U.S. federal government's gross debt. According to Treasury Department data, China has increased its ownership of U.S. Treasury securities over the past eight years from about $80 billion to more than $700 billion—nearly a 900 percent increase in a period of eight years.[2] Yet this is not a function of American budget deficits, contrary to widely held perception. The United States' indebtedness to China has every thing to do its trade deficit with China and the rest of the world and little to do with government finances or the size of U.S. federal budget deficits.

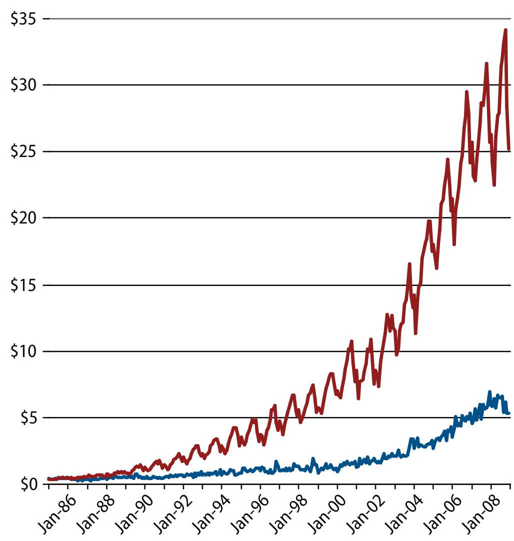
Some economists argue that budget deficits and trade deficits are closely linked and that growing budget deficits push trade deficits higher. There is, however, very little evidence in recent trade and budget data to support that contention.

The U.S. trade deficit has grown from $80 billion a year in 1990 to more than $680 billion by 2008.[3] During that period the federal budget fluctuated between deficits of more than $400 billion and surpluses of more than $200 billion.[4] But periods in which there was dramatic improvement in the fiscal balance of the federal budget did not show improvement in the trade deficit. In fact, the trade deficit continued to grow rapidly during those periods. More than half of the growth in the trade deficit between 1991 and 2008 occurred during two periods in which the federal fiscal balance was rapidly improving.

The most dramatic example is the period between 1995 and 2000 when the budget went from a deficit of $164 billion to a surplus of $236 billion. Instead of improving during this period, our trade balance went from a deficit of $96 billion to a deficit of $380 billion. The budget deficit again declined between 2004 and 2006 from $412 billion to $248 billion while the trade deficit continued upward from $607 billion to $753 billion. During the entire 18-year period between 1991 and 2008, the budget deficit declined in 11 years and grew in seven. The trade deficit increased in 9 of the 11 years in which the budget deficit shrank, and the trade deficit shrank in three of the 7 years that the budget deficit increased.

Monthly U.S. exports and imports with China, 1985 to 2008

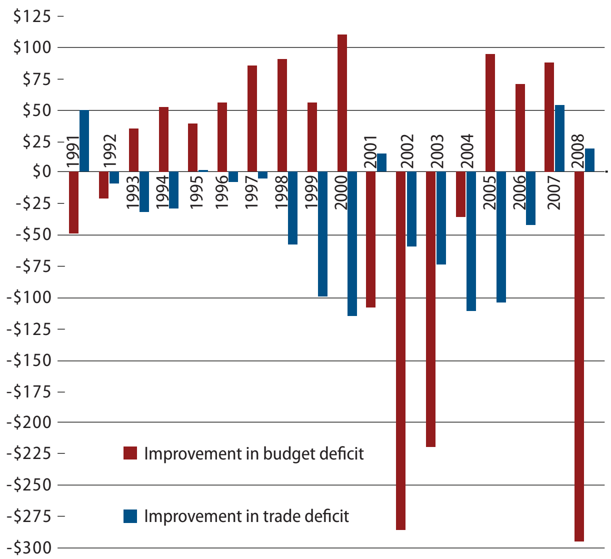
(in billions of dollars)



Source: U.S. Census Bureau, *Trade in Goods (Imports, Exports and Trade Balance) with China*, available at http://www.census.gov/foreign-trade/balance/c5700.html#2009.

Change in budget surplus/deficit for fiscal years compared to change in trade deficit for calendar years, 1991 to 2008

(in billions of dollars)



Source: U.S. Census Bureau, *U.S. Trade in Goods and Services*, March 13, 2009, available at http://www.census.gov/foreign-trade/statistics/historical/gands.txt; Office of Management and Budget, *Budget of the United States Government Fiscal Year 2008, Historical Tables,* available at http://www.gpoaccess.gov/usbudget/fy08/pdf/hist.pdf.

China played a rapidly increasing role during this period in the United States' deteriorating trade balance. China accounted for than less than a quarter of the growth in the U.S. trade deficit between 1990 and 2000. But since 2000 China has accounted for more than 60 percent. China's bilateral trade surplus with the United States jumped from $83 billion in 2000 to $266 billion in 2008.[5] And China now earns significant return from a broad portfolio of investments in the United States, which makes its overall current account surplus with the U.S. even larger than its trade surplus.

What is China doing with its U.S. currency?

It is difficult to predict the implications of this trading relationship on the economies of the two nations or on the world economy because no imbalance of this magnitude has previously occurred in world economic history. Most nations seek to expand exports so they can attain foreign currencies, which allow them to purchase goods and services that cannot be produced at home—or a least cannot be produced as cheaply. China has now amassed more than $1.5 trillion in earnings from accumulated trade surpluses with the United States and shows no sign of reducing the flow of exports or using the mountain of previous export earned dollars to make purchases.

There are three things China, or any country experiencing large trade surpluses, can do with the foreign currency that is accumulated:

1. Pile the currency into its domestic banking system. A limited amount of foreign currency is very useful to banks in helping customers facilitate the normal flow of trade, and China is obviously buying enough goods and services from around the world that a certain level of dollars could be used very productively. But China has dollar holdings far in excess of the amounts needed to facilitate trade, and holding an excessive stash of dollars in Chinese banks would have two very undesirable implications.

First, since the banks have little productive use for most of the dollars that would be placed in their coffers, those dollars would earn little or no return. Earning no interest they would depreciate over time as their worth is eroded by inflation.

The second implication is that money taken out of circulation and not reinvested is a drag on the economic system, slowing the growth of the world economy in general and the economy of the country that printed the currency in particular. Since in this instance the country is the United States—and since the U.S. market is central to the growth of China—such a policy would be highly self destructive.

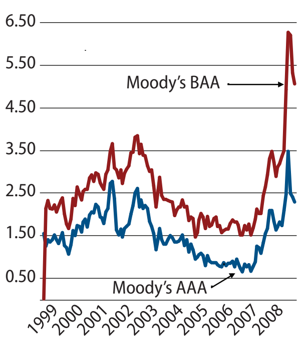
2. Attempt to redeem the foreign currency for domestic currency or another currently that could be used in making purchases from other countries. Trading large amounts of dollars on global currency markets for Chinese yuan or other currency has even more severe implications than allowing it to languish in banks. If the Chinese sold any significant portion of their dollar holdings, the dollar would rapidly sink in value and the Chinese yuan would appreciate. Americans would be less able to buy Chinese goods and China's currency would likely against the dollar as well as other world currencies.

These monetary shifts would make it nearly impossible for China to achieve the high growth targets that China has set for itself since 40 percent of the country's GDP is generated by exports. China's biggest customer would suddenly become less able to buy and Chinese products would simultaneously become less price-competitive on markets around the world. As a consequence, China has not only refused to sell its dollars, but intervenes in currency markets in a wide variety of ways to keep the yuan weak and the dollar strong.

3. Invest in financial assets of the country whose currency you hold. If the first two options do not provide sufficient opportunity to dispose of a currency accumulated through trade surpluses, there is only one alternative: investing in real estate and financial assets in the nation with which you enjoy the trade surplus.

There are five broad categories of assets available to the Chinese for recycling their dollars: American real estate, U.S. corporate debt, dollar denominated equities (stocks traded in the United States or direct investments in Chinese owned and operated businesses), governmentally chartered agency securities (such as Fannie Mae, Sallie Mae), and U.S. treasuries. China has bought all five, although there is little more than anecdotal information on real estate purchases and such holdings are believed to be a very small share of China's total U.S. assets. The U.S. Treasury has tracked the other four categories and issues periodic reports on the foreign holdings of U.S. Securities by all countries, including China.

Yield spread between ten-year-old treasury notes and corporate bonds



Federal Reserve, *10-Year Treasury Constant Maturity Rate; Series ID: WGS10YR*, available at http://research.stlouisfed.org/fred2/data/WGS10YR.txt; Federal Reserve, *Moody's Yield on Seasoned Corporate Bonds, AAA*, available at http://www.federalreserve.gov/releases/h15/data/Monthly/H15_AAA_NA.txt; Federal Reserve, ***Moody's Yield on Seasoned Corporate Bonds, BAA***, available at http://www.federalreserve.gov/releases/h15/data/Monthly/H15_BAA_NA.txt

China has run a $1.4 trillion trade surpluses with the United States since 2000, and according to the Treasury, Chinese holdings of U.S. securities have increased slightly more than $1 trillion during that period. It should be noted that the Treasury statistics are certain to undercount Chinese holdings since securities bought by Chinese entities through their affiliates outside of China are attributed to the holding of the country in which the purchase occurred rather than the ultimate owner of the security. This includes purchases through Hong Kong and Macau—which are counted separately by Treasury—as well as purchases through banks in places such as Singapore, London, and Abu Dhabi.

There has been some fluctuation between categories, but China has been quite consistent and very conservative in the manner in which it allocates its U.S. asset purchases. Corporate bonds and equities have consistently remained between 5 percent and 11 percent of China's U.S. securities, leaving treasuries and the debt obligations of government chartered organizations with the overwhelming share, which has fluctuated between 89 percent and 95 percent of known holdings.[6]

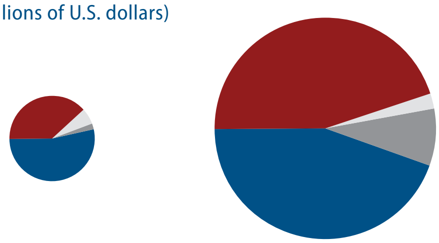
China has been particularly reluctant over the years to invest significant amounts in corporate bonds. The most recent U.S. Treasury report indicated that, in June of 2008, China had about $27 billion in corporate bonds equal to only 2 percent of its total U.S. portfolio. That is down from a more than an 8-percent share only two years earlier.

Surprisingly, China has been more interested in directly holding stock in U.S. companies than merely lending them money. That is despite the fact that a number of forays into the U.S. stock market have ended badly. China's 2005 effort to buy the U.S. oil company Unocal for $18.5 billion ended with a withdrawal of the bid after it was apparent that the U.S. Congress was ready to legislate against the takeover.[7]

There was relatively less controversy in the United States when China paid $3 billion for a 10-percent stake in the Blackstone Group, a Wall Street hedge fund. But the value of the Chinese investment fell by $500 million in the first six weeks after purchase and has fallen by at least that much since then, creating a huge controversy within China.[8] Nonetheless, the Treasury reported that China held almost $100 billion in U.S. equities as of June 2008, which is equal to more than 8 percent of China's total U.S. assets at that time.

Trade surpluses between 2000 and 2008 caused China's holdings of U.S. Assets to grow by more than $1 trillion

(in billions of U.S. dollars)



Agency	$69,882	Agency	$543,752
Corporate bonds	$11,105	Corporate bonds	$26,739
Stock	$4,034	Stock	$99,548
Treasury	$96,457	Treasury	$535,042
2000 Total	**$181,478**	**2008 Total**	**$1,205,081**

Source: U.S. Department of the Treasury, *Foreign Portfolio Holdings of U.S. Securities, Historical Data*, available at http://www.treas.gov/tic/shlhistdat.html.

Chinese equity holdings continue to be a relatively small share of their overall portfolio, but that share is growing, and the overall size of the portfolio is expanding rapidly. The amount that must be purchased annually poses significant challenges for Chinese investment advisors who are seeking to avoid political landmines in the United States with purchases that roil American public opinion, while at the same time avoiding financially risky purchases such as Blackstone that have the potential to create severe backlash at home. Chinese-held U.S. equities are still only 8 percent of total U.S. holdings, but the value of Chinese-held U.S. equities has increased 20-fold between 2000 and 2008.

China moved much more heavily into the debt offerings of U.S. government-chartered organizations between 2007 and 2008, presumably because it wished to increase its return on investment from the low yields offered by U.S. treasuries. The evidence is that China has moved heavily back to treasuries since June 2008. Issues from Fannie Mae, Freddy Mac, and other government-chartered organizations have held up reasonably well due to U.S. government intervention. It is not clear what specific issues the Chinese government held or how those issues performed, but China had $544 billion of these securities totaling 45 percent of its holdings as of last June.[9]

The only other place that China can stash its dollars is in U.S. treasuries. These have accounted for between 44 percent and 58 percent of China's U.S. assets since 2000. Last June they totaled $535 billion, but recent reporting indicates that China purchased on average more than $20 billion a month in U.S. treasuries during the last six months of 2008, with total treasury holdings now exceeding $700 billion.[10]

Where is China likely to direct its U.S. currency over the next year?

Approximately $300 billion in new dollars are likely to pour into the People's Bank of China over the course of the next 12 months. James Fallows reported in a fascinating *Atlantic Monthly* article last year that the government has set up a new China Investment Corporation, or CIC, to attempt to learn more about Western equity markets and how China can obtain higher returns from buying Western businesses. Unfortunately, this entity's first major investment was the disastrous $3 billion stake taken in the Blackstone Group. CIC has since then proceeded with an abundance of caution. But the CIC will have to identify more than $30 billion in new purchases each year if equities are going to even remain a consistent share of the Chinese portfolio.[11]

The one thing that seems quite clear is that China is not going to start selling dollars anytime soon. Despite worldwide demand that China appreciate its currency, the research institute within the Chinese Ministry of Finance published a report in February arguing that the People's Bank of China "actively guide" the exchange rate between the yuan and the dollar, *devaluing* the yuan to 6.93 yuan to one dollar, or by about 1.5 percent. The report argued that such a move would increase employment and help sustain China's economic growth.[12]

The Ministry of Finance still looks to the United States consumer as the principal absorber of Chinese output despite all of the difficulty China now faces in reinvesting its dollar earnings and all of the arguments that could be summoned for why China should shift from export-led growth to relying on domestic markets for sustaining economic expansion.

As a consequence, the most likely forecast for how China will distribute its new dollars over the coming months is more of the same. There seems to be little other choice, not because it makes sense, but because given the broader policy decisions to which the ruling elites in Beijing have committed themselves. The only way China can keep the dollar strong and the yuan weak is to buy American securities, and there are significant limits to how much China can shift its mix of securities.

It is also important to note, given the current expressions of concern about the possible shift of China's investment strategy away from treasuries, that such a decision could actually be helpful to the U.S. and world economy.

If China were to buy fewer treasury issues, it would have to buy more real estate, equities, or corporate debt—or most likely a combination of the three. Such a move would put some pressure on treasuries, but it would be highly supportive of the other three markets.

If China were to somewhat scale back its purchases of U.S. treasuries it would allow for significant purchases of U.S. corporate bonds, which would substantially reduce the cost of borrowing for American business. Investor risk aversion is the central reason that the spread between Treasury debt issues and corporate debt remains at record levels. American corporations have difficulty finding affordable financing even though the yield on the 10-year T-Note hovers near 2.6 percent. China's aversion to risk makes a move to corporate issues unlikely, but it would certainly relieve the U.S. government of finding ways of pumping liquidity into corporate coffers if it chose to do so.[13]

It should also be noted that current data suggest that China's reduced presence at U.S. Treasury auctions would not necessarily precipitate a crisis of treasury sales. Even at current low interest rates, demand for U.S. federal debt has been robust, and it appears that it will remain strong for at least as long as the world economy struggles. There are three reasons:

1. As chairman Bernanke pointed out three years ago, the amount of savings now being generated worldwide is enormous. The International Monetary Fund estimates global gross domestic product at $70 trillion and has measured average savings worldwide at about 22 percent, which works out to more than $15 trillion per year.[14]

2. Economic downturns cause a significant uptick in savings. Goldman Sachs has estimated that U.S. household and business spending will decline by about 9 percent of GDP in the coming year, adding more than a trillion dollars to U.S. savings during that period. If savings rates rise in other countries, as well, there will be a substantial increase in liquidity and investment opportunities.

3. Investors seek safety in periods of economic decline, and the continued demand for U.S. treasuries indicates that the markets still regard U.S. government debt as far safer than virtually any alternative. Yields might rise and the amount of interest that the U.S. government might have to pay on new debt would rise with decreased Chinese participation, but the increase in interest payments would draw more participants to treasury auctions.

Participation at this point continues to be strong. Just one recent example of that strength was a March 27 auction for $24 billion worth of seven-year notes yielding only 2.31 percent. The auction produced more than $60 billion in competitive bids for a 2.52 bid to cover ratio. That was $14 billion more in bids than were offered at a similar auction for the same note a month earlier.[15]

The Chinese are important customers for U.S. treasuries, but there is a great deal of savings in the world, and there are many other potential customers.

Putting the Chinese trade and investment strategy in perspective

The Chinese economy's future course and thus the pattern in which it disposes of its export earnings is reasonably certain, but it also patently absurd. China is a country with a very poor population that has dedicated 40 percent of its entire economic output to produce products for other countries—most of which are the richest countries in the world. China has a per capita gross domestic product lower than Congo, Namibia, Albania, and the Dominican Republic, and redirects half of that per capita GDP back into savings, which denies impoverished Chinese citizens much of the quality of life that their labors have earned them.

The most significant feature of today's global economy is that the Chinese people, who consider themselves lucky to have a $40-a-week job in an export-oriented factory, are loaning nearly a billion dollars a day to a country where median family income approaches a thousand dollars a week. That may sound crazy, but that is exactly what is taking place in China.

Why does China perpetuate its current economic policies?

It is difficult to survey the possible explanations for China's policies without concluding that they have a lot more to do with politics than economics.

China's ruling elites are the grandchildren and great grandchildren of revolutionaries. They know that the whims of the masses can be fickle and that the occupants of the Forbidden City can be driven from its gates. They know that the nation is severely divided by region, dialect, and ethnicity. They know that more fully sharing in the fruits of China's success would make the economy more difficult to control, and while freer economies offer many benefits, they tend to involve cycles that can entail serious political risk. To the extent China's ruling elite are adverse to financial risk, they are far more adverse to political risk.

China's peculiar system of recapturing all of the foreign export earnings and controlling them through the central bank accomplishes two objectives. It maintains absolute control over the value of its currency, holding it at levels that some estimate may be half of its true value. This makes Chinese products cheap to the rest of the world and insures robust demand for those products. It also creates a mandatory savings directed by the government and insures that there will be little prospect of too much money chasing too few products.

That means that China can expand output at rates that would risk of inflation in a freer or more market-based economy. Workers can't place upward pressure on prices if they receive only a fraction of the value their labors produce. Huge levels of forced savings have kept prices in China neatly in check while output has increased by 10 percent a year. As China's agriculture becomes more productive, its farms support fewer and fewer workers. Growing exports provide a portion of those displaced with a place to relocate.

Another political factor is the clout created for China's rulers by building such gigantic reserves. This clout gives them both real political muscle on the world stage and a massive reserve fund to rely on in the event of internal political unrest. China's emphasis on building huge foreign currency reserves has allowed it to escape the indignities faced by most developing countries that live hand-to-mouth, hoping to get small loans from the international financial institutions based on whether they conform to those institutions' policy directives. China's reserves now dwarf the assets of the World Bank, International Monetary Fund, and regional banks combined.

There may be little real prospect that China could significantly alter its pattern of investing export earnings, but its lack of flexibility in that regard is not well understood, and even the prospect of small shifts in the use of those funds gives China a status in world affairs that it has not enjoyed in 500 years. That means a much greater degree of independence, and it also means that, in a pinch, China could open the gates for foreign imports and instantly improve the quality of life for ordinary citizens and quell any unrest or political dissatisfaction.

In short, China's leaders believe that the people will not be unhappy if they never know what they are missing, so its strategy it to give them no inkling of how much better life could be if the nation's resources were directed toward them rather than building a massive portfolio of foreign assets. Political risk can be held in check if you provide modest increases in employment opportunities and quality of life on a regular basis, but maintain huge reserves and take no risk of even short-term downturns.

Conclusion

There are serious political and financial risks to China's political and economic strategy, and these appear to be increasingly coming to the surface. The first risk is that the Chinese people are becoming aware of the huge stash of cash being held by their government. Knowing the privations they face, the existence of such reserves is hard to explain even though few in China can fully appreciate their magnitude. Equally explosive—particularly given the nation's experience with market economies—is the prospect that some significant portion of their hard-earned savings could be lost.

China's portfolio is at serious risk despite the generally cautious manner in which it has distributed its earnings among U.S. asset classes. This fact seems to have dawned on China's Central bank Governor Zhou Xiaochuan only days before the G20 meeting when he called for the International Monetary Fund to establish a new world reserve currency. Economists have warned for a decade that the trading relationship between the United States and China countries was unsustainable. *The Economist* observed in 2005 that the U.S. trade deficit "is unsustainable: sooner or later it will need to shrink, and that will involve a cheaper dollar."[16]

The magnitude of the reserve imbalance that now exists and is growing rapidly larger means that the decline in the dollar is likely to be large. That means that the value of China's U.S. portfolio will decline proportionately. A declining dollar will further mean that U.S. consumers will have to pay more for oil and all other imported goods. That will leave much less to buy Chinese and other imports, which will have serious implications for the Chinese and world economies.

The disruption that this realignment is likely to cause could make the current economic calamity look like child's play. The magnitude of that disruption can be minimized, but only if China's leaders begin to recognize the full dimension of the dangers that their policies have wrought and not only bring them to a halt, but begin efforts to cope with the necessary transition to a more sustainable model for global economic growth through cooperation, rather than confrontation.

Endnotes

1 Andrew Batson and Andrew Browne, "Wen Voices Concern Over China's U.S. Treasurys," *The Wall Street Journal*, March 13, 2009, available at http://online.wsj.com/article/SB123692233477317069.html.

2 U.S. Department of the Treasury, *Report on Foreign Portfolio Holdings of U.S. Securities* (June 30, 2007), available at http://www.treas.gov/tic/shl2007r.pdf; U.S. Department of the Treasury, *Major Foreign Holders of Treasury Securities* (January 2009), available at http://www.treas.gov/tic/mfh.txt.

3 U.S. Census Bureau, *U.S. Trade in Goods and Services* (March 13, 2009), available at http://www.census.gov/foreign-trade/statistics/historical/gands.txt.

4 Office of Management and Budget, *Budget of the United States Government Fiscal Year 2008, Historical Tables*, available at http://www.gpoaccess.gov/usbudget/fy08/pdf/hist.pdf.

5 U.S. Census Bureau, *Trade in Goods (Imports, Exports and Trade Balance) with China*, available at http://www.census.gov/foreign-trade/balance/c5700.html#2009.

6 U.S. Department of the Treasury, *Foreign Portfolio Holdings of U.S. Securities, Historical Data*, available at http://www.treas.gov/tic/shlhistdat.html.

7 David Barboza and Andrew Ross Sorkin, "Chinese Company Drops Bid to Buy U.S. Oil Concern," *The New York Times*, August 3, 2005, available at http://www.nytimes.com/2005/08/03/business/worldbusiness/03unocal.html.

8 James Fallows, "The $1.4 Trillion Question," *The Atlantic*, January/February 2008, available at http://www.theatlantic.com/doc/200801/fallows-chinese-dollars.

9 Ibid.

10 U.S. Department of the Treasury, *Major Foreign Holders of Treasury Securities*.

11 Fallows, "The $1.4 Trillion Question."

12 Zhang Dingmin, "China Institute Proposes Weaker Yuan to Boost Growth," *Bloomberg*, available at http://www.bloomberg.com/apps/news?pid=20601089&sid=auaww4Fa6ESg&refer=china.

13 Federal Reserve, *10-Year Treasury Constant Maturity Rate; Series ID: WGS10YR*, available at http://research.stlouisfed.org/fred2/data/WGS10YR.txt.

14 Governor Ben S. Bernanke, "The Global Savings Glut and the U.S. Current Account Deficit," Remarks at the Sandridge Lecture, Virginia Association of Economics, Richmond, VA, March 10, 2005, available at http://www.federalreserve.gov/boarddocs/speeches/2005/200503102/default.htm.

15 "Tsys Up After Successful 7-Yr Sale, Before Fed Buying," *Wall Street Journal*, March 26, 2009, available at http://online.wsj.com/article/BT-CO-20090326-716903.html.

16 *The Economist,* "The Deficit and the Dollar," November 11, 2004.

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is "of the people, by the people, and for the people."

Center for American Progress

1333 H STREET, NW, 10TH FLOOR, WASHINGTON, DC 20005 • TEL: 202-682-1611 • FAX: 202-682-1867 • WWW.AMERICANPROGRESS.ORG