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Data Shows Less Buying of U.S. Debt by China

By FLOYD NORRIS

FOR eight years after the United States resumed running large budget deficits in 2002, China was the largest lender, buying a fifth of the new [Treasury securities](#) sold during that span — an expenditure of more than \$900 billion. During 2006, China financed more than half the American deficit. When the financial crisis struck hardest, China spent more than \$100 billion on Treasuries over the two-month period of September and October 2008.

But over the last year, China has been a net seller of Treasury securities, according to figures released this week by the American government. If that is true, it would be extraordinary, considering the size of the bilateral trade deficit, and there has been speculation that China has been purchasing Treasuries through accounts in other countries.

The [Treasury Department](#) estimated that China reduced its holdings of Treasuries by nearly \$11 billion in November alone. For the 12 months through November, as the accompanying charts indicate, China reduced its holdings of Treasuries by more than \$36 billion.

The Treasury issues separate estimates for China and Hong Kong, but they are combined for purposes of the charts and this article.

The Treasury figures indicate that over the eight years from the beginning of 2002 through the end of 2009, the total amount of United States government debt outstanding — not counting securities owned by other agencies of the American government, like the [Federal Reserve](#) and the [Social Security Administration](#) — rose by \$4.4 trillion, to \$9.3 trillion.

Of that, China provided about a fifth and other foreign countries provided two-fifths. The remaining 40 percent was purchased by Americans, although for a time in the middle of the decade, Americans were selling Treasuries even though the government was stepping up its borrowing.

For the first 11 months of 2010, American banks, institutions and individuals bought about three-fifths of the \$1.5 trillion of additional Treasury debt, while China sold some and other foreign jurisdictions bought the rest.

The figures are estimates, and include both private and government transactions.

The charts show the cumulative 12-month changes in holdings of Treasuries for three classes of investors — China, the rest of the world and Americans. The American figures exclude purchases by the Fed and other government agencies.

It is not easy to see how the Chinese government managed to keep its currency from rising more rapidly against [the dollar](#) if it did not continue buying Treasuries in 2010, and there has been speculation that it shifted purchases to accounts managed by British money managers.

If so, such purchases would show up as British purchases. As it turns out, Britain is estimated to have been the largest purchaser of Treasuries over the 12-month period, adding \$356 billion to its holdings. That made it by far the largest buyer, followed by Japan. The only other major seller during the period was Russia, according to the government estimates.

If China has been buying through money managers, it may be easier at some point for it to begin selling Treasuries through the British channel without others understanding where the selling pressure is coming from.

Floyd Norris comments on finance and the economy on his blog at nytimes.com/norris.



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