The Daily Dish

Tit for Tat. Not.

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Eakinomics: Tit for Tat. Not.

As economic relations with China become increasingly strained, a concern arises regarding Chinese holdings of U.S. Treasury securities. As Forbes put it, "If the trade war escalates, then do not forget, that it won't be long before China might start to dump U.S. Treasury bonds" [sic]. China does hold a lot of Treasury bonds. Of the roughly $17 trillion in the hands of the public, $6.3 trillion are held by foreigners. China leads the pack with $1.2 trillion, followed closely by Japan with $1.0 trillion. Each in the next cluster (Ireland, Brazil, United Kingdom, Switzerland, and Luxembourg) holds between $200 and $300 billion.

There are good reasons to believe that China will not have a fire sale on its Treasury bonds, led by the fact that the global financial turbulence and a dramatic domestic wealth loss are not a winning combination for a Chinese economy already struggling with debt deleveraging and tariff wars. But put that aside for the moment. If China dumps Treasuries, why doesn't the United States just dump its Chinese bonds?

That, in turn, raises the question of just how much in Chinese (and other foreign countries') bonds the United States holds. This figure turns out to be remarkably difficult to pin down. The Treasury does have some monthly data on "Foreign Long-Term Securities Held by U.S. Residents." That, however, omits two categories: short-term securities and holdings by U.S. official entities (the Fed, the Treasury, etc.). As it turns out, these don't matter much. There are about $20 billion worth of foreign bonds held in the Exchange Stabilization Fund (a slush fund that has no purpose in the era of floating exchange rates) and by the New York Federal Reserve (for foreign exchange operations). And a look at the historical data suggests that holdings of short-term securities is trivial compared to the long-term holdings.

What do the data tell us? (Drumroll…) Tax shelters rule! Residents of the United States hold Cayman Island securities in greater magnitude ($425 billion) than any other country,

including long-standing and globally significant countries such as Canada, the United Kingdom, the Netherlands, France, and Japan. But most significantly, U.S. residents hold a mere $3.2 billion of Chinese bonds of any type. We don't know what fraction of that number is government bonds, but it does not amount to much in any event.

In short, forget tit-for-tat bond sales wars; it does not seem likely that China would initiate sales, and there simply is no capacity for a U.S. response.

U.S. Holdings of Foreign Securities

	Country	Bonds ($millions)
1	Cayman Islands	424,554
2	Canada	365,043
3	United Kingdom	357,070
4	Netherlands	180,561
5	France	137,209
6	Japan	130,960
7	Australia	115,503
8	Mexico	96,025
9	Germany	84,090
10	Ireland	70,887
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60	China	3,294
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Total		2,853,400