

## China may be hiding US Treasury bonds: experts



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WASHINGTON: China, a top owner of US government debt, appears to be secretly buying bonds via third locations to hide its importance as a major creditor to Washington, experts told a congressional forum Thursday.

They said China-linked entities may be scooping up US bonds in London, Hong Kong or other locations, pointing out that official data almost certainly understates Beijing's US government debt holdings.

Some say the massive holdings by China have implications for US national security, making it harder for Washington to carry out policies in conflict with Beijing.

The latest figures by the Treasury Department this month showed a drop in China's Treasury bond holdings by 34.2 billion dollars or 4.3 percent to 755.4 billion dollars in December, the biggest decline in about a decade.

Simon Johnson, a former IMF chief economist, suggested that China could be behind the big jump in Britain's holdings of US debt to 300 billion dollars in 2009 from 130.9 billion dollars a year earlier.

He said he was baffled by the figure as Britain had run a substantial current account deficit last year.

"A great deal of this increase may be due to China placing offshore dollars in London-based banks -- Chinese, UK, or even US -- which then buy US securities," Johnson told a hearing of the US-China Economic and Security Review Commission, which monitors for Congress the security implications of US-China trade and economic relations.

China may also be purchasing US securities through routes other than Britain, said Johnson, who is now a professor of economics at the Massachusetts Institute of Technology.

"The US Treasury data almost certainly understate Chinese holdings of our government debt because they do not reveal the ultimate country of ownership when instruments are held through an intermediary in another jurisdiction," he said.

Johnson said "a reasonable working assumption" showed that China owns close to one trillion dollars of US Treasury securities -- nearly half of the stock of treasuries in the hands of "foreign official" owners, which was 2.374 trillion dollars at the end of 2009.

"It is all but certain that some purchases made by agents in Britain and Hong Kong were on behalf of SAFE" or the State Administration of Foreign Exchange, the secretive Chinese state agency that buys foreign bonds, said Derek Scissors, an Asia economic policy expert at the Washington-based Heritage Foundation.

He said the more than doubling of Treasury bond purchases by Britain and Hong Kong "makes sense" for China as it had to park its huge chest of foreign exchange reserves.

"These cannot be spent at home and are too large to put anywhere other than the United States. No other country has financial markets capable of absorbing them," Scissors said.

"To hide the unavoidable extent of China's exposure to low-yield American bonds and try to avoid domestic flak, SAFE is routing money through third countries," he said.

China accumulated 453 billion dollars in additional foreign exchange reserves in 2009, bringing the total reserves to a record 2.399 trillion dollars at the end of December, latest Chinese government figures showed.

Many analysts argue that any threat by China to shift a large portion of its reserves out of US government paper is just bluster as such a move would impose huge costs on China itself.

But Eswar Prasad, who once headed the IMF's China division, said it was a "reasonably credible threat as the short-term costs to the Chinese of such an action are not likely to be large."

Any dumping of Treasury bonds could lead to a sharp fall in bond prices and the value of the greenback, incurring massive capital losses on the Asian giant owning the large bond holdings.

"But the US leaves itself vulnerable as China might well view these costs as worth bearing in order to preserve its

national sovereignty or if trade and other economic disputes with the US came to a head," said Prasad, a professor of trade policy at Cornell University.

Republican congressman Frank Wolf told the panel that the situation is bad for US security.

"China is among our biggest 'bankers,'" he said.

"The implications of US debt to China are many and wide-ranging, encompassing everything from our national security to our ability to advocate for repressed and persecuted people."

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