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A Mutual Benefit from China's Private Link to Treasury Auctions

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WASHINGTON — The revelation that China is the sole country that can bid on and buy debt directly from the United States Treasury, rather than through a financial intermediary, has raised concerns that the Obama administration is giving a secret, sweetheart deal to its biggest creditor.

But experts said that the arrangement was probably beneficial to both parties, and was a product of changing trends in the market for Treasury debt as much as the deep economic ties between the two countries.

Recently, more and more big buyers of Treasury debt — large pension funds, mutual funds, broker-dealers and money managers — have chosen to bypass the primary dealers on Wall Street and bid for themselves. Indeed, at a Treasury auction on Tuesday, direct bidders bought about 9 percent of the $35 billion in two-year notes for sale.

"There's just no secret about direct bidding," said a former Treasury official, who spoke on the condition of anonymity because his current employer has not authorized him to speak to the press. "It has, very publicly, become more and more popular over the years. And there is no discrimination against central banks. If any other country wanted to do this, they could."

No other central bank has done so, but experts said that countries that make major bond purchases, like Japan, Singapore and Brazil, might choose to bid directly in the future.

Matt Anderson, a Treasury spokesman, declined to discuss whether China has direct bidder status, in keeping with department policy.

China, which holds more than $1.1 trillion of American debt, has been able to bid on Treasury bonds directly since last June, as first reported by Reuters. It is the only country that can do so. The Chinese Embassy in Washington declined to comment.

Such direct bidding would allow China to obscure potentially valuable information on its appetite for bonds from Wall Street. Foreign central banks customarily buy debt through primary dealers, specially designated major financial institutions, including Barclays and Goldman Sachs, that bid for their clients at Treasury auctions.

The primary dealers do not charge commissions to make bids for foreign central banks, like the People's Bank of China. But they do gain access to information foreign governments may prefer that they do not have.

The news about the arrangement raised questions about whether the Treasury had given China special status among the dozens of countries that routinely buy American bonds.

"That Treasury wouldn't want to put one purchaser over position of other purchasers — that seems obvious," said Nicholas R. Lardy of the Peterson Institute for International Economics in Washington.

He also said that China had in the past used a number of techniques to make its positions less obvious. "China has plenty of ability to obscure its purchases when going through primary dealers," he said. "That's why we never know on a month-to-month basis whether its purchases are going up or down."

But the Treasury Department has no restrictions on what entities are permitted to bid directly. "Any entity or individual may bid directly as long as the entity or individual has made all the necessary arrangements" for access to the auction system and for payment and delivery of the debt, a department guideline reads.

Experts also said that China's move spoke to the close economic relationship with the United States: China is the biggest offshore holder of American government debt, and the United States the single biggest national market for Chinese exports.

"If they made a special deal for China which they didn't offer to other governments, then I think they have a problem," said Edwin M. Truman, former international affairs chief at the Treasury.

But, he said: "If you're a debt manager, it helps you in trying to manage your auctions to deal directly with a large player rather than indirectly. That is the case for treating China specially."

Eswar S. Prasad, a former head of the China division of the International Monetary Fund, said, "The reality is that China's holdings of U.S. treasuries reflect the symbiotic relationship between the two countries, rather than leverage that either one has over the other.

"For the United States, the notion of being dependent on China to help finance its budget deficits creates justifiable anxiety," said Mr. Prasad, now a professor at Cornell. "On the flip side, the domestic political narrative in China that the fruits of its workers' labor are being used to finance U.S. profligacy is an uncomfortable one for China's leadership."