

## **Will China Stop Buying U.S. Debt?**

**Many people are afraid that China will decrease their purchases or stop purchasing altogether U.S. Treasury Bonds or other U.S. Dollar denominated assets, especially after S&P downgraded the U.S. debt rating. Some can imagine the disgusted Chinese refusing to finance our decadence any longer.**

**Similar grumblings can be heard in the news from time to time from the Chinese Government, but they seem to be not much more than politically expedient remarks. In fact the purchase of U.S. Treasuries is a function of trade rather than our neighbors loaning us money out of the kindness of their hearts, which some people seem to think.**

**Indeed if they did purchase fewer U.S. Treasuries, this would only serve to reduce U.S. trade deficit and Chinese trade surplus. This would be welcomed by the U.S., but would not be desirable for the Chinese. So you see that things are not as they may seem and the opposite effect of what might have been expected is really the case.**

**The fact is that no financial market exists in the world with enough depth and liquidity for foreign debt to migrate to, although some argue that Europe may be able to fulfill this role. Let's say the Chinese did begin buying Euros and selling Dollars. This would cause the Euro to rise against the Dollar which would reduce U.S. trade deficit, reduce European trade surplus and make European exports more expensive on the world market. As you can see, this would create a scenario that the Europeans would not like and would eventually have to respond with some type of trade protection due to the negative impact on European economy.**

**Another approach the Chinese could take would be purchasing hard assets. Firstly, this would put the exporters of those commodities in the same undesirable position as the Europeans in the previous scenario. Secondly, stockpiling commodities is only a good strategy if the Chinese are experiencing rapid economic growth. Although they have been pursuing this approach to some degree recently, they are certainly aware of the pitfalls of this strategy so the degree to which they can pursue this approach is somewhat limited. Moreover the commodities market also lacks the depth and liquidity to take the place of the dollar.**

**In short it is silly for the U.S. to worry about the Chinese not purchasing U.S. Treasuries, in fact we would like them to buy fewer to help our trade deficit. At the end of the day the foundation of the current global economic system is the U.S. Dollar. The Chinese trying to remove the dollar from their economy would be about the same as trying to remove the foundation of a building while the building was still on it.**

**We are locked in an economic dance of death until the system finally collapses. It will be a very big bang when it does collapse because governments will have tried everything imaginable to stop it in a desperate effort to hold on to power. They will continue to squander appalling amounts of desperately needed resources on initiatives that have no chance of success.**

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