

Rebalancing the U.S.-China Relationship

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China has become the world's second largest economy, the main driver of global growth and an increasingly assertive economic power. The U.S. is by far the world's largest economy and one of the richest. Even as their GDP levels gradually converge, a huge gulf remains between China and the U.S. in terms of their per capita incomes and their levels of institutional and financial development.

Nevertheless, China has used its growing economic might to gain enormous strategic advantage in a number of areas. It successfully seized the high ground in the debate on global imbalances by accusing the U.S. of taking irresponsible monetary policy actions that hurt other countries; this argument has resonated with many emerging markets that are bearing the brunt of capital flows fueled by cheap money in the U.S. and other advanced economies. China has also used its economic leverage to build partnerships with a number of advanced and emerging market economies that back China's policies as they see its strong growth as important for their own success.

These developments have been aided by the defensive position that the U.S. has found itself in—as the epicenter of the global financial crisis and as a country with massive rising levels of public debt. The U.S. is also viewed as getting a free pass on its fiscal profligacy and excess consumption as it is the issuer of the main global reserve currency, a tenuous situation that persists perhaps only for want of alternative robust reserve currencies backed up by deep and liquid financial markets.

From the U.S. perspective, a number of irritants continue to plague its bilateral relationship with China. Chinese currency policy, which involves the central bank's heavy intervention in the foreign exchange market to prevent the renminbi from appreciating against the dollar and other currencies, has been blamed for making a major contribution to the U.S. trade deficit and to global current account imbalances. The U.S. has

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concerns that the Chinese government is blocking access of U.S. manufacturers and financial institutions to its fast-growing markets, unfairly subsidizing Chinese exporters, and hurting American manufacturers through its policy of indigenous innovation (which favors Chinese firms in government procurement of technology) and weak enforcement of intellectual property rights.

In recent months, the U.S. has sought to recalibrate its relationship with China by going on the offensive to regain control over the narrative on the sources of global imbalances and level the playing field with China. This approach culminated in a forceful speech by U.S. Treasury Secretary Timothy Geithner on January 12.

In his remarks, Secretary Geithner noted that China has become a major economic power and instituted many reforms. Nevertheless, he pointed out that China still has a large reform agenda with elements that the U.S. cares about but are ultimately in China's own interest. These elements include more open markets, fair trade practices, a more flexible exchange rate regime, and growth rebalancing to make the economy less dependent on exports and stoke private consumption.

Interestingly, Geithner has also laid out a clear quid pro quo, noting that in order to attain its objectives in the bilateral relationship, China must adequately satisfy U.S. interests. China's objectives include access to high technology products, investment opportunities and the same level of access to U.S. markets as "market economies", a classification that has not yet been granted to China.

On currency policy, Geithner acknowledges that the renminbi has appreciated by about 3 percent in nominal terms relative to the dollar since mid-June 2010, when the currency was freed up after being frozen in place against the dollar during the two preceding years. Moreover, given the higher inflation rate in China relative to the U.S., the renminbi has appreciated more in real terms.

Notwithstanding this modest appreciation, Geithner has stressed that the renminbi is far from being freely determined by market forces. He argues that this has adverse implications for China as it hampers effective and independent monetary policy, hurts the U.S. and other trading partners of China, and also has a negative impact on global financial stability by perpetuating global imbalances.

Two recent pieces of data portray a mixed picture on this issue. China posted a diminished trade surplus of \$185 billion in 2010, well below its peak of \$295 billion in 2008. On the other hand, accumulation of foreign

exchange reserves in 2010 amounted to \$448 billion, signaling massive intervention in foreign exchange markets to keep the renminbi from appreciating significantly.

The rhetoric from the Hill on this issue has recently eased up, as some key House Republicans do not currently view action against China on trade and currency policies as a legislative priority. There is likely to be continued pressure from Senate committees, where this is still a hot button issue. Much will depend on the jobs picture in the U.S., which is improving but still rather bleak.

Chances are the Chinese currency issue will continue to simmer but not come to a boil—unless the U.S. unemployment rate remains high, the U.S. bilateral trade deficit with China begins to widen again, and U.S. firms make scant progress in getting greater access to Chinese markets.

On trade, the Obama administration has taken an aggressive approach. It has instituted unilateral trade measures against a few Chinese imports and has also taken a number of challenges of China's trade policy to the World Trade Organization. More recently, the U.S. has taken direct actions to protect the competitive interests of its firms. For instance, to counter a Chinese company's bid, the U.S. Export-Import Bank provided cheap financing to Pakistan Railways to boost General Electric's bid to get a contract for supplying trains.

Such measures are intended to send a clear signal to China that the U.S. is willing to level the playing field by matching Chinese policies that run afoul of international norms and standards. With its actions and words, the Obama administration has signaled that it wants to deal with China on equal terms and will not back off from conflict where it feels that China is subverting the established rules of the game.

President Hu's remarks on the eve of his trip to Washington signal China's desire to develop a more productive relationship with the U.S. on equal terms. The remarks reveal a sense of growing confidence that, while China faces a number of domestic challenges in its own development, it is now in the driver's seat in global economic matters ranging from supporting world growth to pushing reforms of the international monetary system.

Hu's remarks show that China views itself as dealing with the U.S. from a position of relative strength. He makes it clear that China intends to move forward on opening its markets, freeing up its exchange rate and restructuring its political system, but at its own pace and will resist U.S. pressures for more rapid or broader reforms.

Hu acknowledges the potential flash points between the two countries but shows willingness to tackle these disagreements frontally in a spirit of broader cooperation rather than rancor. Whether the two countries can successfully manage the sources of bilateral tension remains to be seen but it is certainly a good omen that President Hu has chosen to take a conciliatory rather than confrontational tone before his meeting with President Obama.

The state of the China-U.S. bilateral relationship is important as it sets the tone for a number of global issues, including reforming the international monetary system, breaking the deadlock on trade talks and tackling climate change. Away from the limelight, cooperation between the two countries has actually been rather productive on a number of fronts. For instance, the G-20 agreement on coordinated fiscal stimulus during the worst of the financial crisis was strongly supported by both countries. The two countries have also played important roles in the governance reform and recapitalization of the International Monetary Fund. And of course both countries have a shared interest in keeping peripheral European economies from running aground and weakening the euro.

The leaders of the two countries clearly recognize the mutual benefits of a cooperative rather than conflicted relationship. Nevertheless, the relationship has to be tended carefully, by managing the sources of bilateral tensions and emphasizing the long-term benefits of cooperation, in order to ensure that domestic political exigencies don't trump rational collective policymaking on either side.

Main Elements of the Economic Relationship

In this section, we evaluate the relative sizes of the two economies in various dimensions. We then characterize the tightening embrace between the two countries—in terms of flows of goods, services and finance—and also discuss some of the macroeconomic challenges that China faces.

Figure 1 shows that China's nominal GDP measured at exchange rates is fast catching up to U.S. GDP, with even quicker convergence when GDP is measured using purchasing power parity exchange rates. During 2010, China contributed more to global GDP growth than the U.S. There is still a substantial difference in per capita income levels of the two countries—even at PPP exchange rates, U.S. per capita income is five times that of China's. This gap will take a lot longer to narrow even if the two economies were to converge in terms of economic size.

Gross national investment in China is much higher than in the U.S., which

is remarkable given their relative economic size, and the household and national saving rates are also higher in China. But the level of private consumption is far lower than in the U.S., even accounting for the smaller size of China's economy. Indeed, stoking private consumption growth remains a major challenge for Chinese policymakers as the low (and declining) level of private consumption to GDP suggests that the benefits of China's red-hot growth are not flowing proportionately to households.

China's rapid trade expansion and the fact that U.S. trade growth has not kept pace with world trade growth has resulted in a rapid convergence of the two countries' shares in world exports and slower convergence in import shares. China now accounts for about 8 percent of world trade while the U.S. accounts for 11 percent.

The level of U.S. public debt is nearly an order of magnitude higher than the level of Chinese public debt in absolute terms and also much larger relative to national GDP. Indeed, tackling the massive and rising level of public debt is one of the key macroeconomic policy challenges the U.S. government faces once the recovery becomes more firmly entrenched. China has rightly argued that the unsustainable trajectory of public debt in the world's largest economy, which also manages the dominant global reserve currency, has the potential to generate worldwide financial instability and is a key source of global macroeconomic imbalances.

Trade and the Current Account

China's trade surplus shrank in the aftermath of the global financial crisis, falling from its peak of \$295 billion in 2008 to \$185 billion in 2010 (Figure 2). Imports collapsed more sharply than exports in 2008 (Figure 3). The fiscal and bank-financed stimulus efforts led to a sharp surge in imports in 2009. Both exports and imports are now well above their pre-crisis levels. We anticipate that China's trade surplus will start rising again in 2011. The surplus was already rising strongly in the second half of 2010 and, as import demand cools off and growth in China's main export markets (the U.S. and European Union) picks up, this momentum is likely to continue.

The trade relationship between China and the U.S. has intensified over the past two decades (Figure 4). The U.S. remains the largest single-country market for China, accounting for about 18 percent of China's exports in 2009. While China now accounts for nearly 5 percent of U.S. exports, up from 2 percent a decade ago. Meanwhile, the U.S. has not quite participated in China's enormous import boom, with its share of China's total imports falling to just under 8 percent.

Since 2001, when China's accession to the WTO gave it greater access to the U.S. export market, the U.S. bilateral trade deficit with China has risen steadily, with only a small stutter in 2009. In 2010, the U.S. trade deficit with China rose to a record \$283 billion. This number should be interpreted with some caution as a large proportion of China's trade is processing trade, where China imports intermediate inputs and adds only a small amount of value to the finished products before exporting them to the U.S. and EU markets.

On the other hand, this number may understate China's dependence on the U.S. export market. In terms of sheer volume, U.S. imports still account for a large share of world final consumption demand. Moreover, a great deal of intra-Asian trade is the result of expansion of cross-country supply chains. IMF analysis suggests that about one-third of the value added component of exports from Asia is still accounted for by the U.S. Thus, a slowdown in U.S. demand could lead to slower growth in other economies that export large quantities to the U.S. and thereby have indirect knock-on effects on Chinese export growth to those economies as well.

The bilateral trade deficit largely reflects the imbalance in goods trade between the two countries, where China runs a huge surplus (Figure 5). By contrast, the U.S. has a slight surplus in its services trade with China, although the magnitude of services trade between the two countries is dwarfed by the amount of trade in goods. China's goods exports to the U.S. are dominated by manufactured products and by machinery and transportation equipment. U.S. exports to China are largely accounted for by machinery and transportation equipment; chemicals and related products; and crude materials (such as oil seeds, mineral ores). Manufactured goods account for less than 15 percent of U.S. exports to China.

For all the talk of direct investment in China and how that affects the perceptions of American business towards China, official data from China's balance of payments show only modest inflows of foreign direct investment (FDI) from the U.S. (Figure 6). This low number may partially be explained by American companies' use of offshore financial centers to channel their flows in order to gain some tax benefits.² Nevertheless, most FDI inflows now appear to be from other Asian countries that are integrating their supply chains with China. A more interesting feature of bilateral FDI is that, based on these BOP data, flows from China to the U.S. have increased rapidly and now exceed U.S. flows to China.

² On the Chinese side, tax benefits for FDI-financed investment relative to domestically financed investment have been eliminated recently.

A Matter of Balance: External and Internal

In tandem with the decline in the trade surplus, China's current account surplus shrank from about 11 percent of GDP in 2008 to an estimated 5 percent of GDP in 2010 (Table 1 and Figure 2). But it remains an open question whether this decline in the current account surplus will persist. All signs point to a resurgence of the surplus as the trade balance improves.

Moreover, even as the trade surplus was beginning to rise in the latter half of 2010, there was an even more dramatic surge in reserve accumulation in the last quarter of 2010 (Figure 7). In that quarter alone, China accumulated an additional \$199 billion, bringing its total accumulation to \$448 billion for the year.³ China now has a foreign exchange reserve stock of \$2.85 trillion, which is more than half of its annual GDP.

This pace of accumulation signals that China is experiencing large volumes of capital inflows notwithstanding its extensive regime of capital controls and that the central bank continues to intervene massively in foreign exchange markets to keep the renminbi from appreciating. These developments have kept the focus on China's currency regime.

The Chinese currency, which had been pegged to the U.S. dollar for many years, was permitted a modest degree of flexibility in July 2005 (Figure 8). Over a three-year period, it appreciated by 21 percent relative to the dollar. In July 2008, with the crisis looming, China once again opted for a stable currency versus the dollar, retaining the new peg until June 2010. Since then, the renminbi has appreciated by about 3 percent relative to the dollar. Over this period, China's inflation rate has been higher than that of the U.S., implying that the currency has appreciated even more in real inflation-adjusted terms. Indeed, the real appreciation against the dollar is currently running at an annual rate of nearly 10 percent.⁴

The trade-weighted real effective exchange rate index is shown in the lower panel of Figure 8 (in contrast to the nominal exchange rate data in the upper panel, an increase in this index indicates an appreciation of the currency). From mid-2008 to mid-2010, the renminbi rode up and down

³ Valuation effects cannot explain this surge. The U.S. dollar in fact appreciated against the euro from Dec. 31, 2009 to Dec. 31, 2010, which would have pushed down the dollar value of reserves held in euros. China does not report the currency composition of its reserves but it is widely believed that the bulk of the reserve holdings are in instruments denominated in these two currencies.

⁴ This assumes an inflation differential of 4 percent and an annualized rate of nominal appreciation of 6 percent.

with the dollar's index. Since then, the real effective exchange rates of the two countries have diverged, with China's index appreciating by 5 percent from January to November 2010.

China's international investment position has improved steadily as a result of rapid reserve accumulation (Table 2). At the end of 2009, China had a net asset position of \$1.8 trillion. In other words, the value of China's foreign assets now far exceeds that of its external liabilities. Foreign exchange reserves account for two-thirds of China's gross foreign assets.

No doubt a significant portion of China's reserve accumulation has gone into U.S. dollar-denominated bonds, especially U.S. treasury bills and bonds. Indeed, the major financial link between the two countries remains Chinese purchases of dollar-denominated financial assets. China does not make public the currency denomination or composition of its foreign exchange reserves. U.S. data from the government's Treasury International Capital System (TIC) database are widely used but potentially misleading as they capture the location rather than identity of a purchaser of U.S. instruments. For instance, China's purchases of Treasury bonds routed through a U.K. bank would be counted as a purchase by a U.K. resident or institution.

Keeping these caveats in mind, the TIC data suggest that China held about \$906 billion of treasury securities as of October 2010. Based on TIC and other U.S. data, it is possible to construct a profile of the owners of U.S. government debt held by the public, which stood at \$9.1 trillion at the end of October 2010 (plus an additional \$7.2 trillion of government-sponsored agency debt that also represents a liability of the U.S. government). China's share of outstanding U.S. government debt held by the public has risen steadily over the years and now stands at 10 percent, about one-fifth of all U.S. debt held by foreigners (Table 3). China's share of outstanding U.S. agency bonds has fallen to 5.3 percent from 6.4 percent in 2007.

In short, even based on official data that probably understate the true picture, China has contributed to a considerable proportion of U.S. debt financing. This pattern is likely to continue. So long as China continues to accumulate massive quantities of reserves, there are few other bond markets that have the liquidity and depth to absorb such quantities of inflows. China's concerns about the unsustainability of U.S. debt levels are no doubt leading them to try and diversify their holdings. However, the reality is that, so long as its central bank persists with extensive foreign

exchange market intervention, China is stuck with buying more U.S. treasuries and financing the U.S. deficit.

A bigger challenge for China is managing the remarkable balance of high growth and modest inflation, a feat it has successfully accomplished for much of this decade. Figure 9 shows that, after a mild dip in 2008-09, real GDP growth is likely to have hit 10 percent in 2010. The contraction in the trade balance in 2009 led to a sharp negative growth contribution from net exports in 2009. A key feature of China's growth in recent years is that it has been dominated by investment growth. In 2009, the fiscal stimulus and surge in bank lending fueled a massive investment binge. Investment continues to be strong in 2010. In sharp contrast to most other advanced and emerging market economies, the contribution of private consumption growth contributes amounts to only about one-third of total GDP growth. A key challenge for Chinese policymakers is not only to rebalance the economy towards domestic demand and less reliance on exports but, more importantly, to shift domestic demand growth towards consumption rather than investment.

The other challenge is to manage rising inflation, which has largely been fueled by food price increases in recent months (Figure 10). Non-food inflation seems to have leveled off at a moderate level but overall CPI inflation of about 5 percent is a serious concern for the government. To manage inflation, China has tried to clamp down on credit growth, which has indeed fallen from its stratospheric level in 2009 but still remains at a high level of about 17 percent (Figure 11).

The government has tried to control credit growth by raising banks' reserve requirements. This takes more money off the table by forcing banks to hold a larger proportion of their deposits as reserves at the central bank rather than lend them out. It would also be logical to make credit more expensive by raising interest rates. Here the central bank is constrained by its desire to limit appreciation of the currency against the dollar. Interest rate differentials between China and the U.S. (see Figure 12) pull in more capital and, as recent experience shows, higher differentials would simply bring in more inflows, necessitating more foreign exchange intervention and raising inflationary pressures.

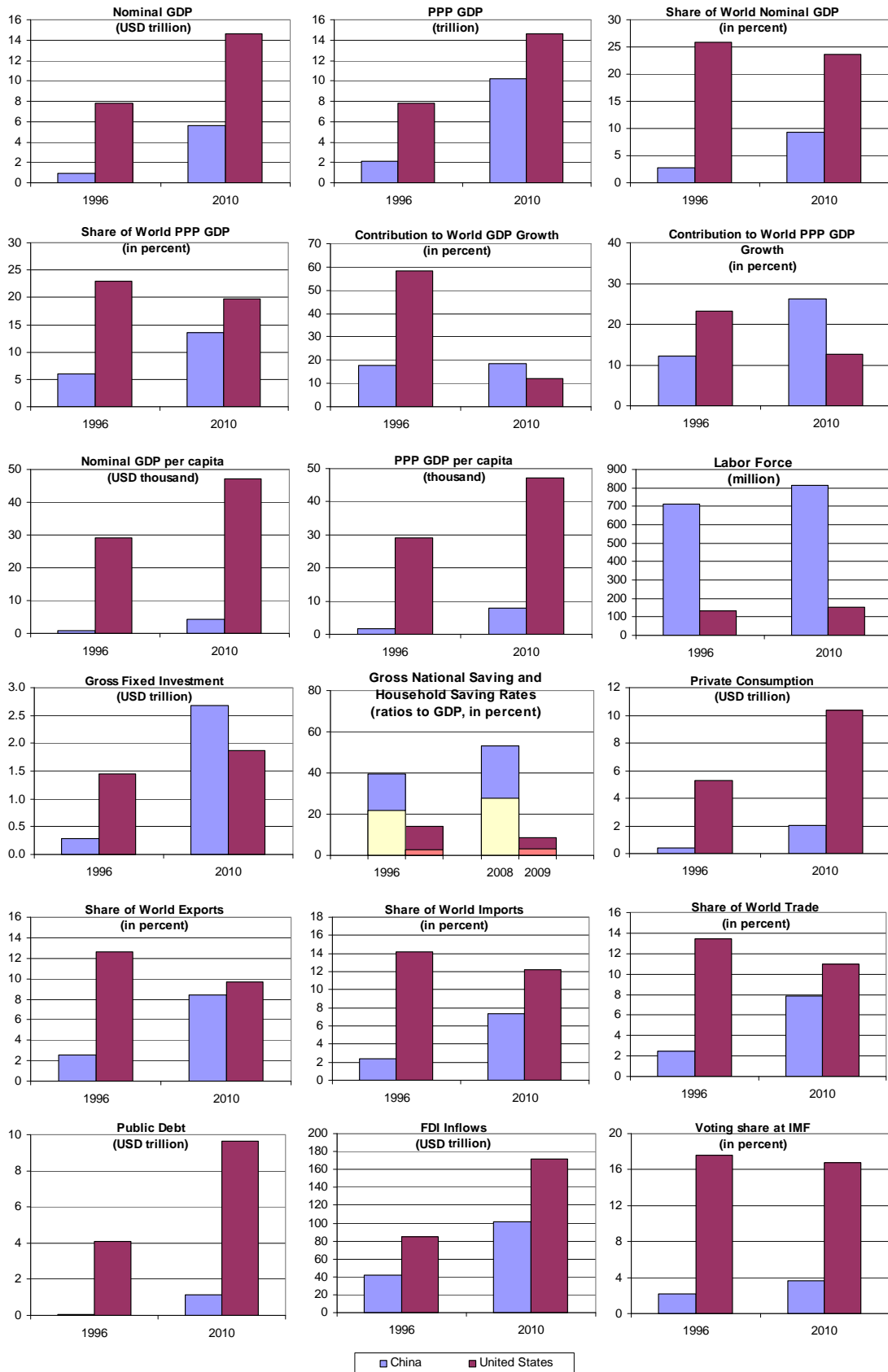
In short, China's exchange rate policy is complicating its domestic macroeconomic management. More rapid currency appreciation would help hold down inflation. More importantly, exchange rate flexibility would allow the central bank to better manage the balance between growth and inflation through changes in interest rates. This would also help make

better progress on financial sector reforms by using market signals rather than jawboning to manage credit expansion by banks. But that's a story for another day.

Conclusion

China and the U.S. are gradually adjusting to two major realities—their increasing mutual economic dependence and the rising heft of China on the global economic stage. The two countries are locked in an ever-tightening embrace. Whether this embrace turns out to be a warm one or turns into a mutual chokehold will have a big impact on the futures of these two economies and could also have ramifications for global financial and macroeconomic stability.

Figure 1. Comparing Two Global Giants



Sources: CEIC, WEO, EIU, and authors' calculations.

Note: Labor force, normally, consists of everyone of working age (typically above a certain age, around 14 to 16) and below retirement (around 65) who is actively employed or seeking employment. World trade includes both commodities and services. For public debt, data are based on WEO data from IMF; China uses gross public debt and U.S. uses net.

Figure 2. Trade and Current Account Balances

(USD billion)

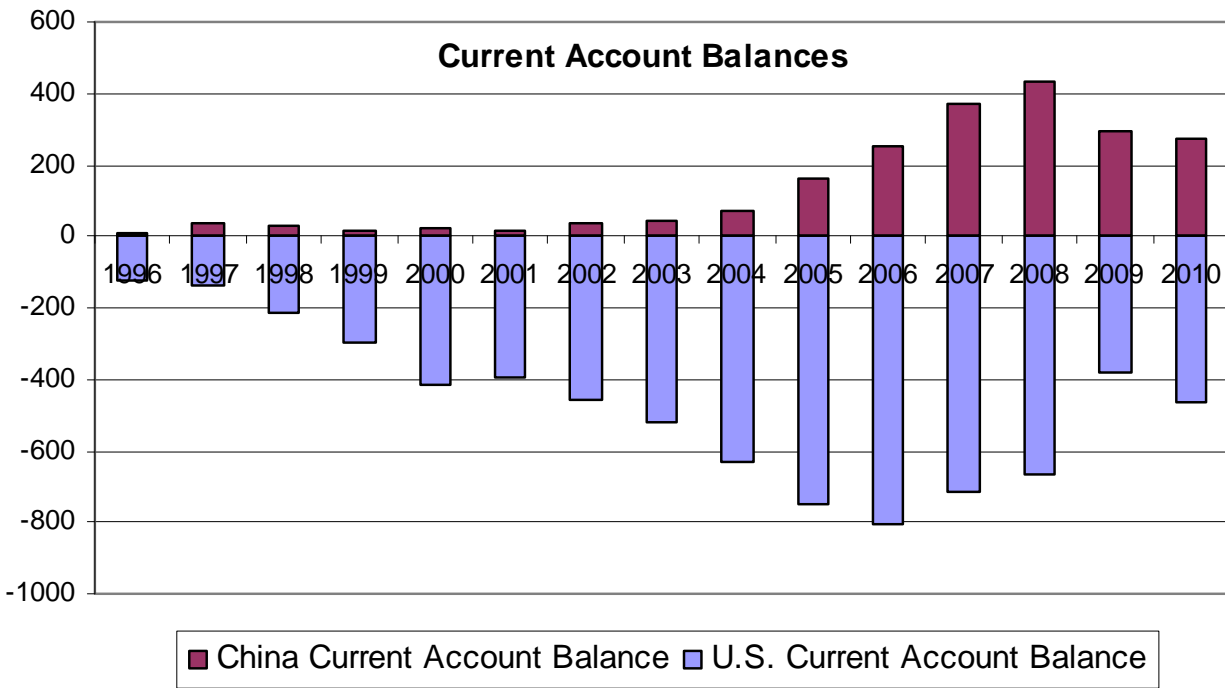
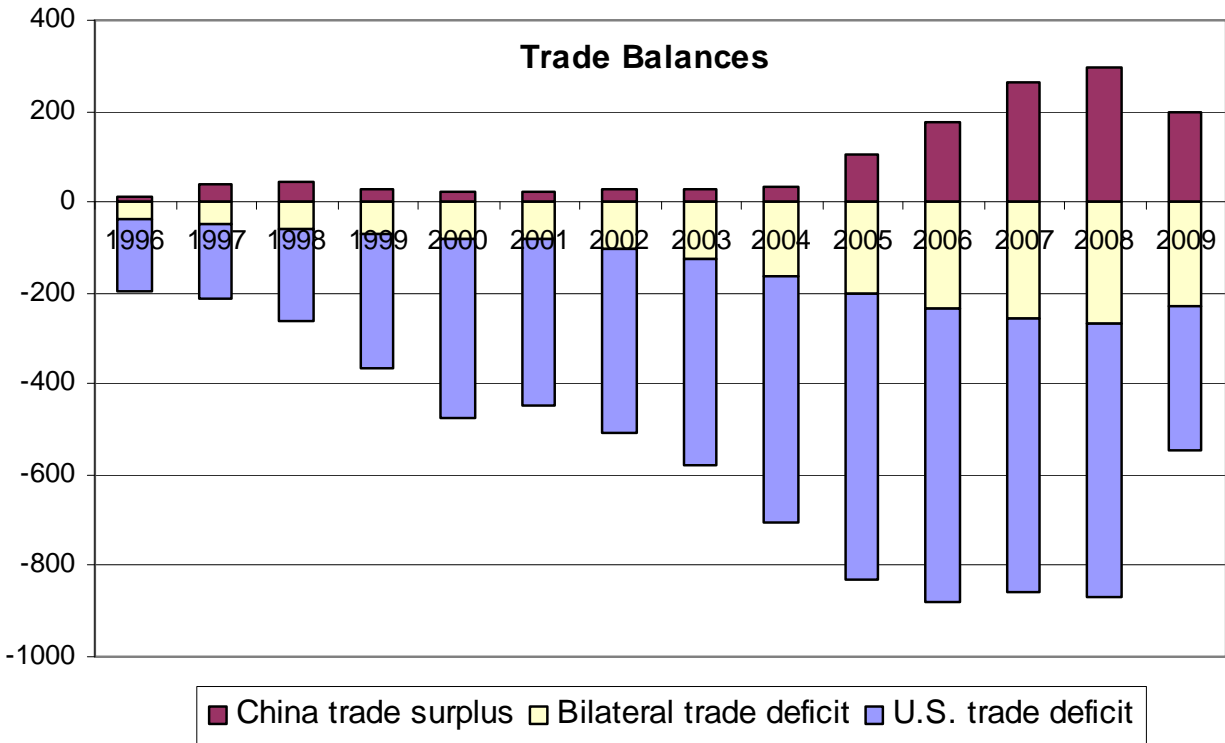
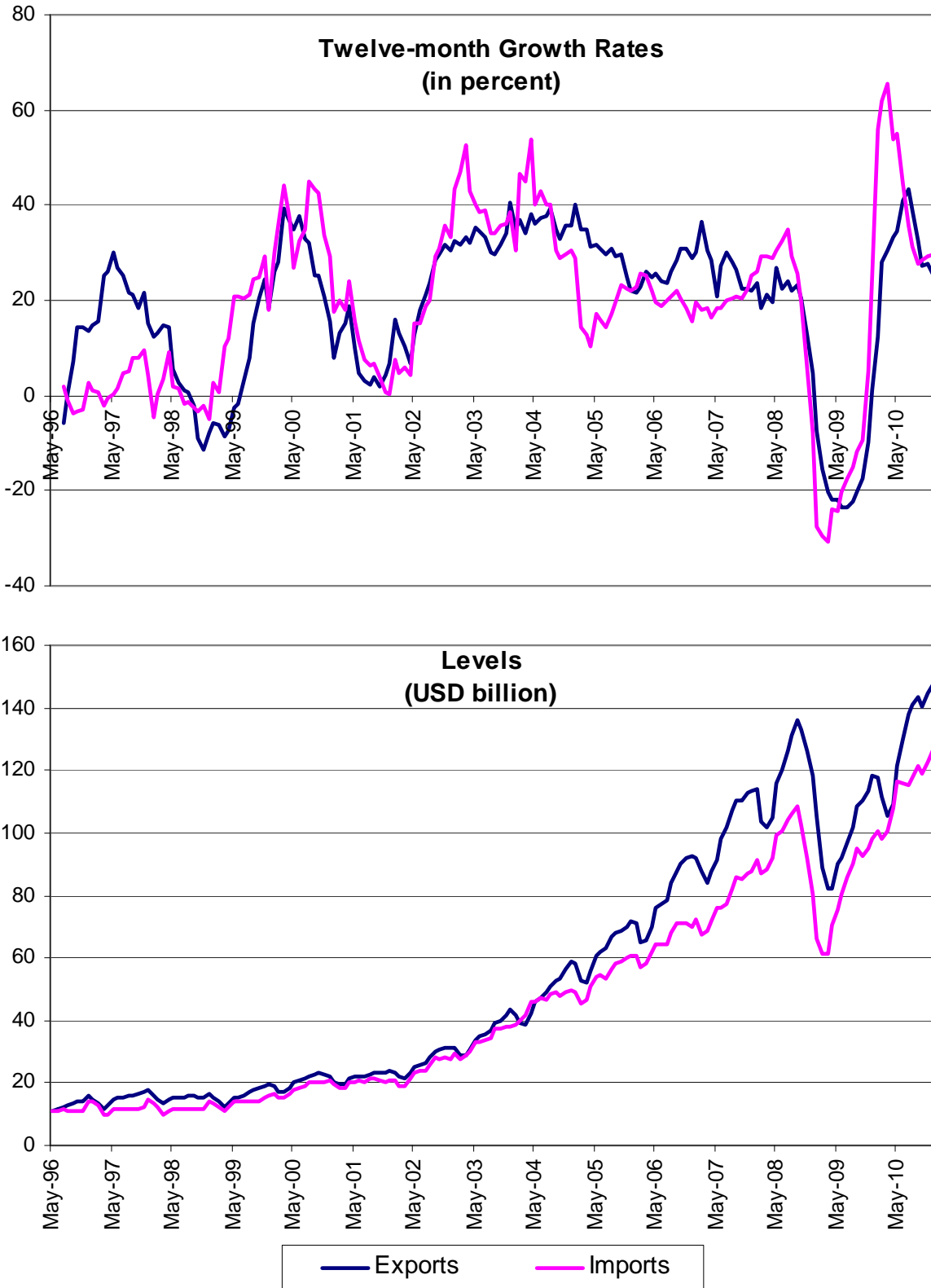
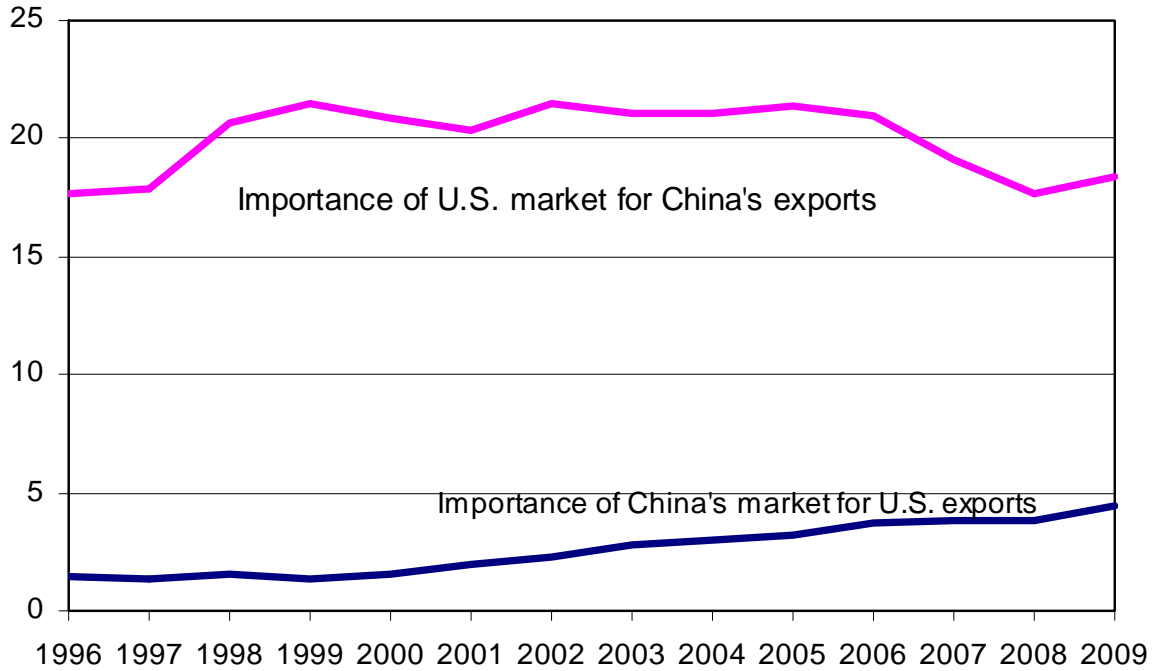


Figure 3. China Exports and Imports

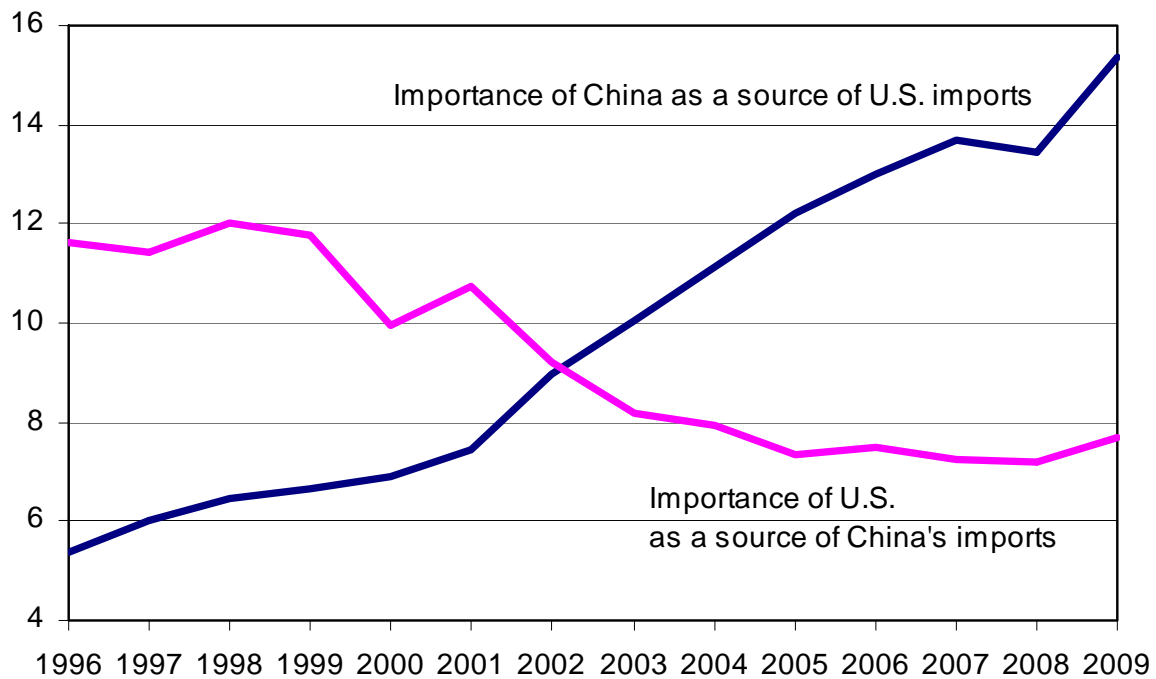


Note: The top panel shows 3-month moving averages of monthly year-on-year growth rates. The lower panel shows 3-month moving averages of monthly trade data.

Figure 4. Relative Importance of China and U.S. as Exports and Imports Markets



— U.S. Exports to China as a share of total U.S. Exports
— China's Exports to U.S. as a share of total China's Exports



— U.S. Imports to China as a share of total U.S. Imports
— China's Imports to U.S. as a share of total China's Imports

Sources: CEIC and author's calculations.

Figure 5. Bilateral Trade between China and the U.S.

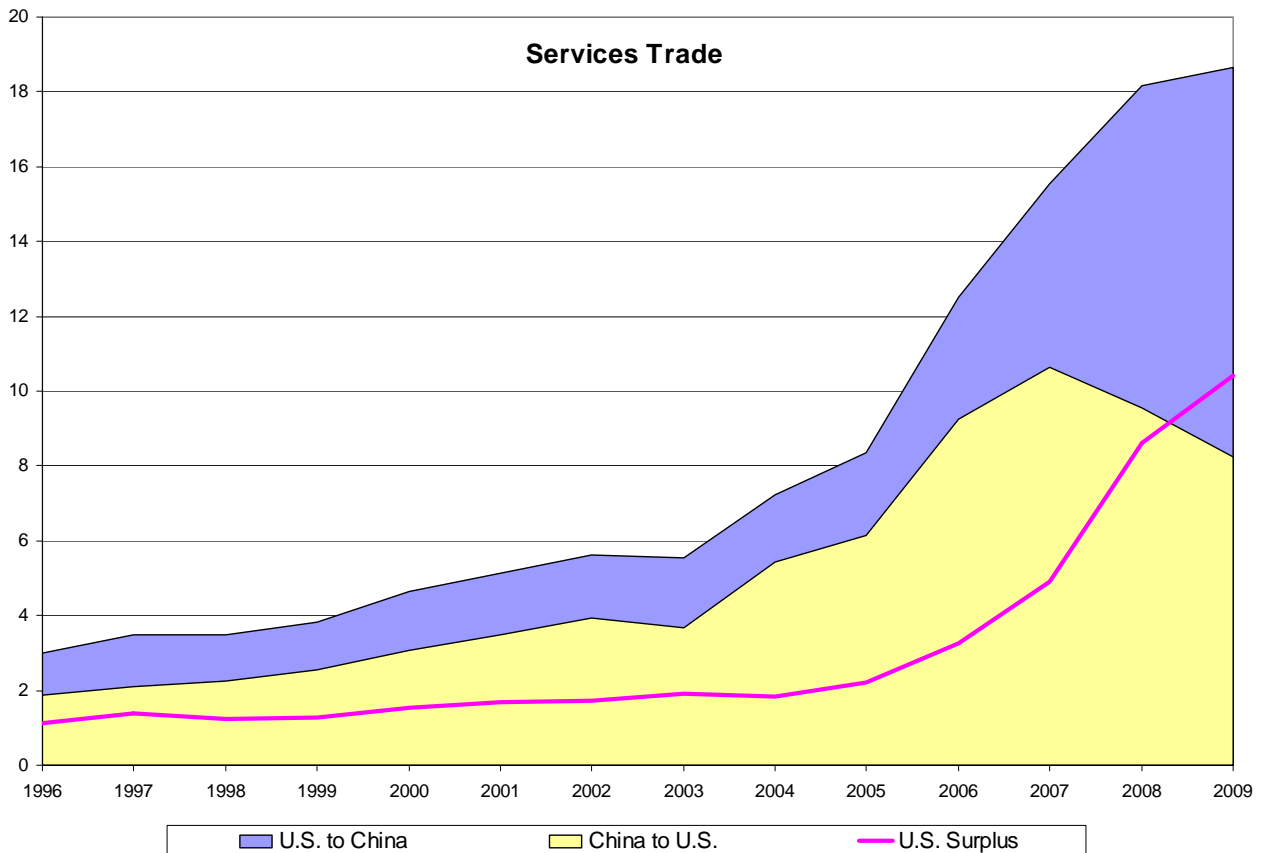
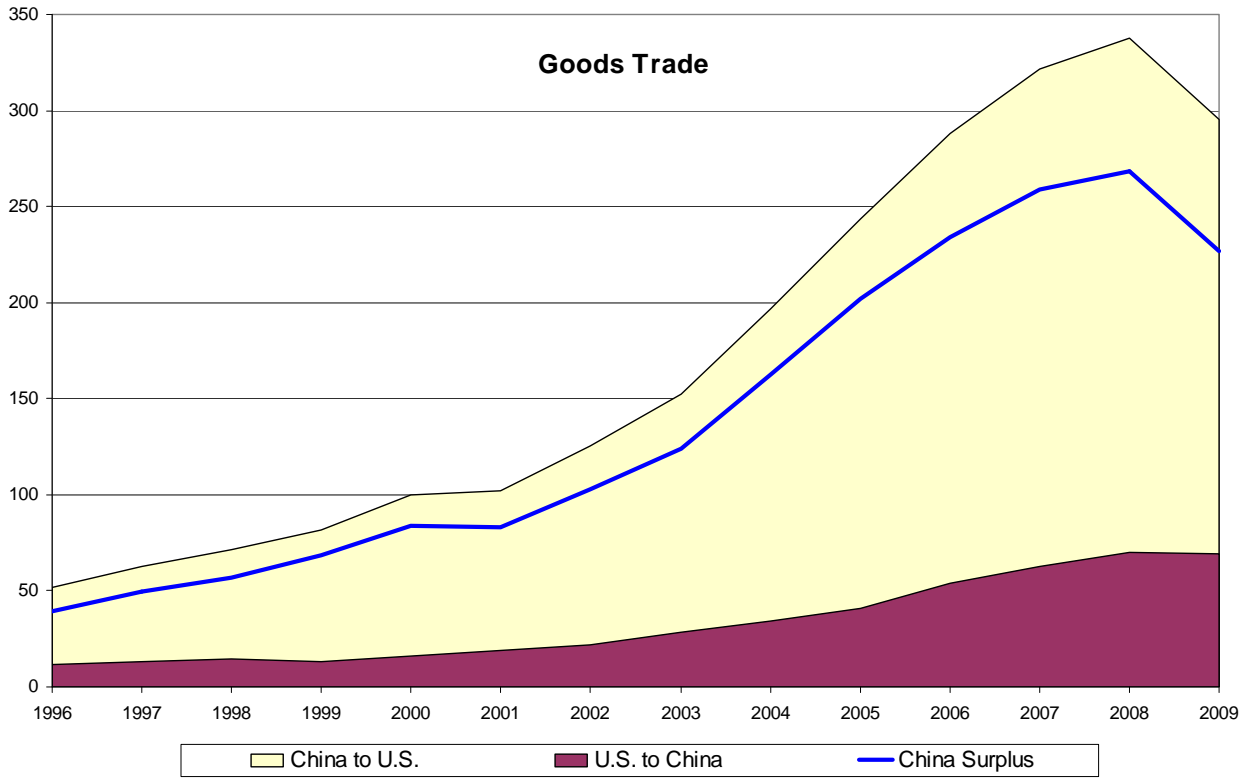
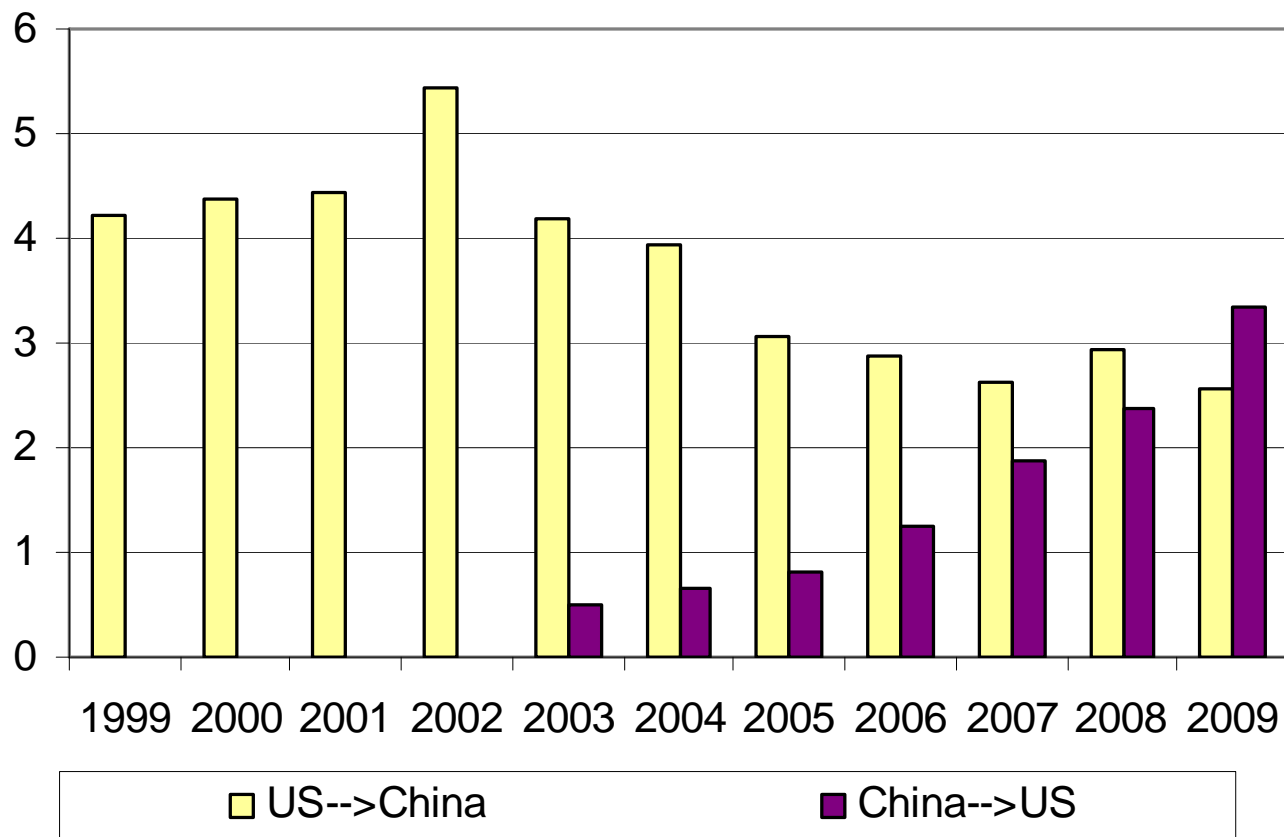


Figure 6. Bilateral Flows of Foreign Direct Investment

(USD billion)



Source: CEIC China database.

Figure 7. China's Foreign Exchange Reserves: Flows and Stocks

(USD billion)

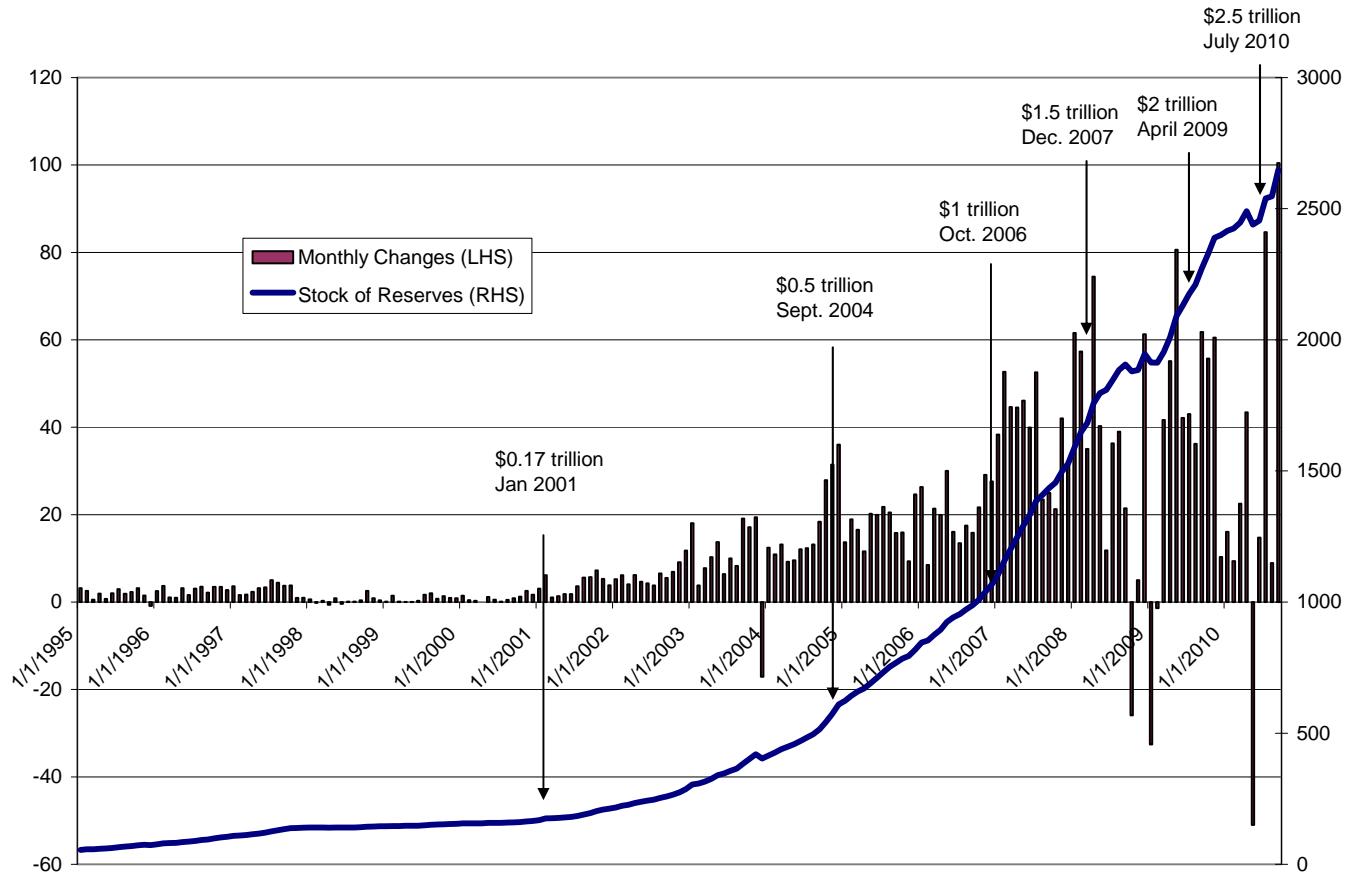
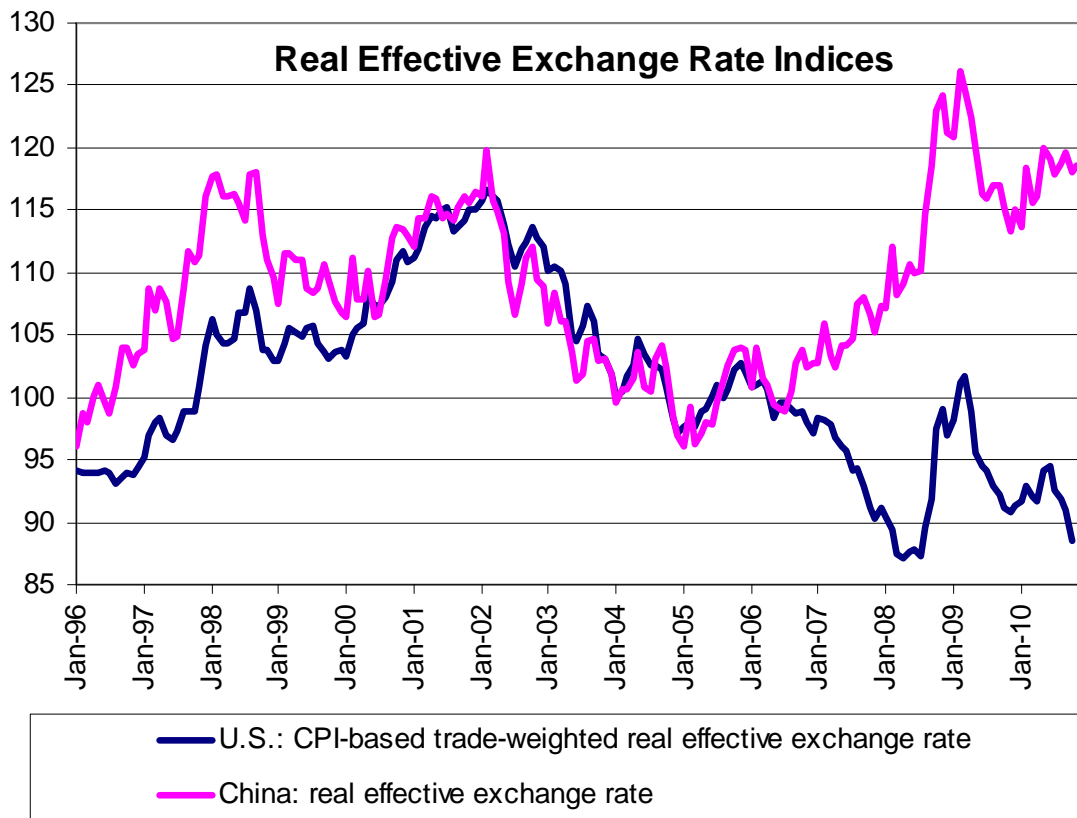
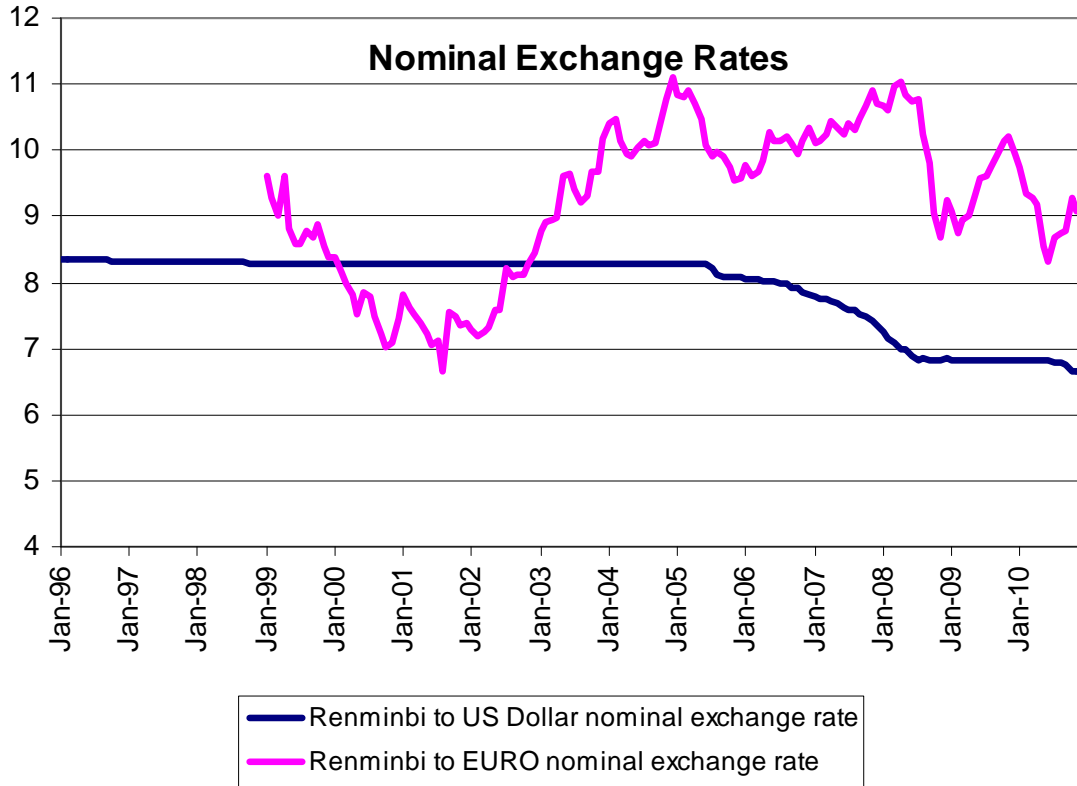
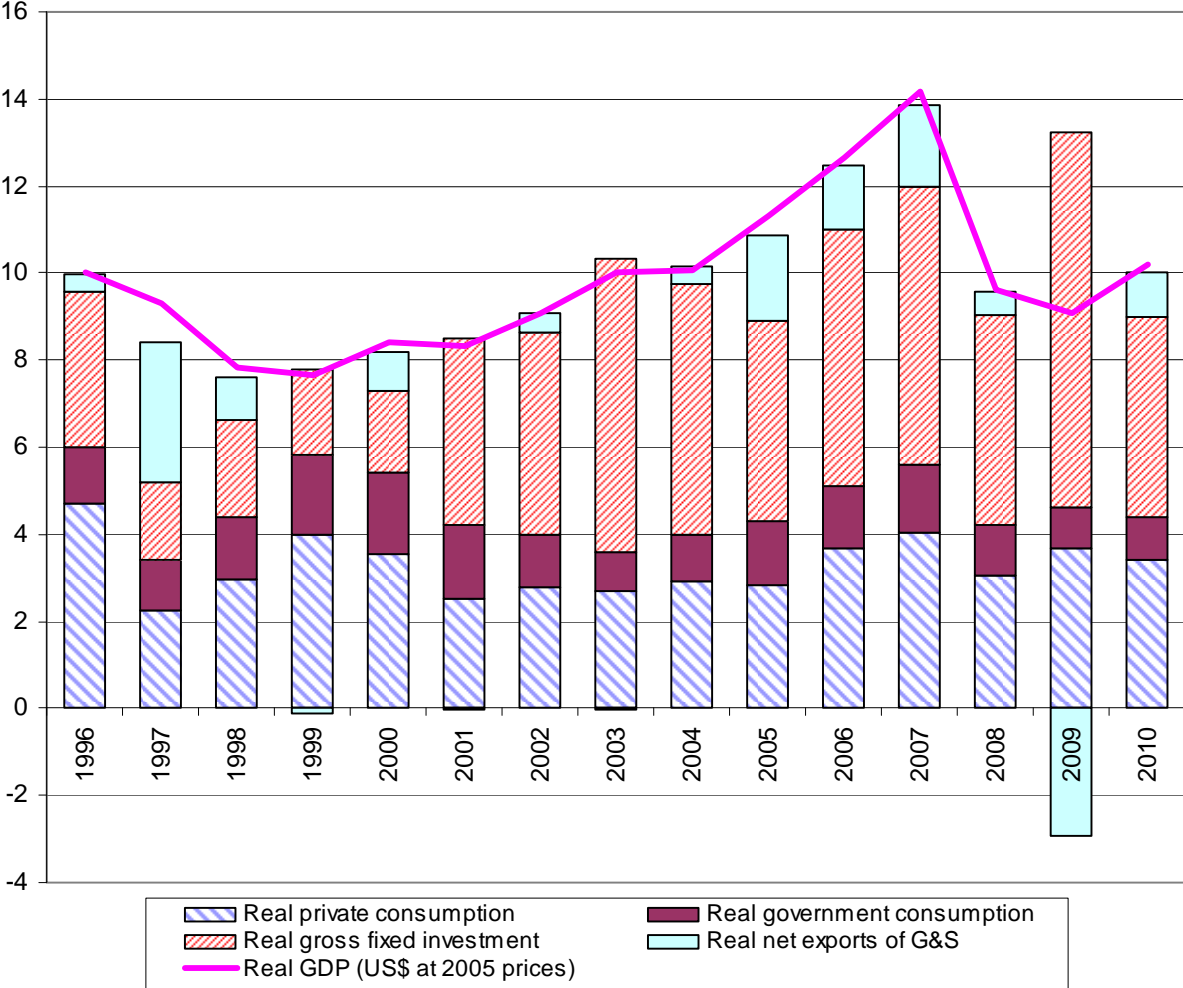


Figure 8. Exchange Rates



Source: CEIC.

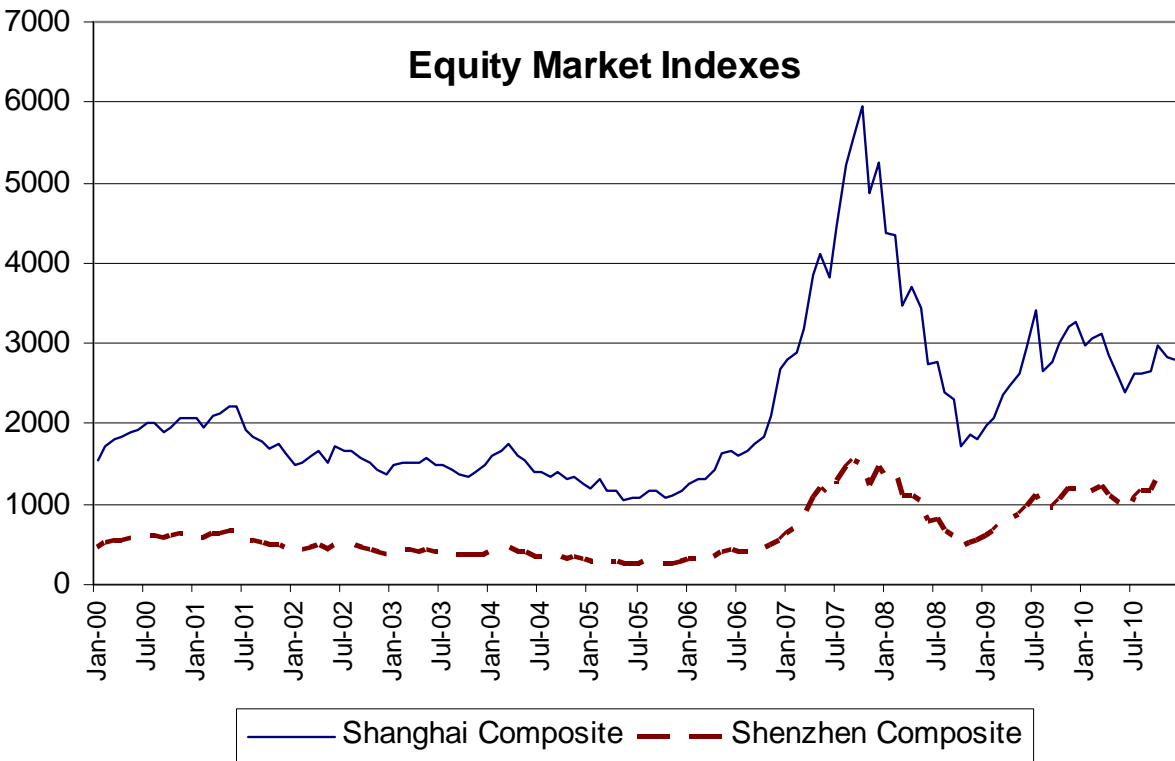
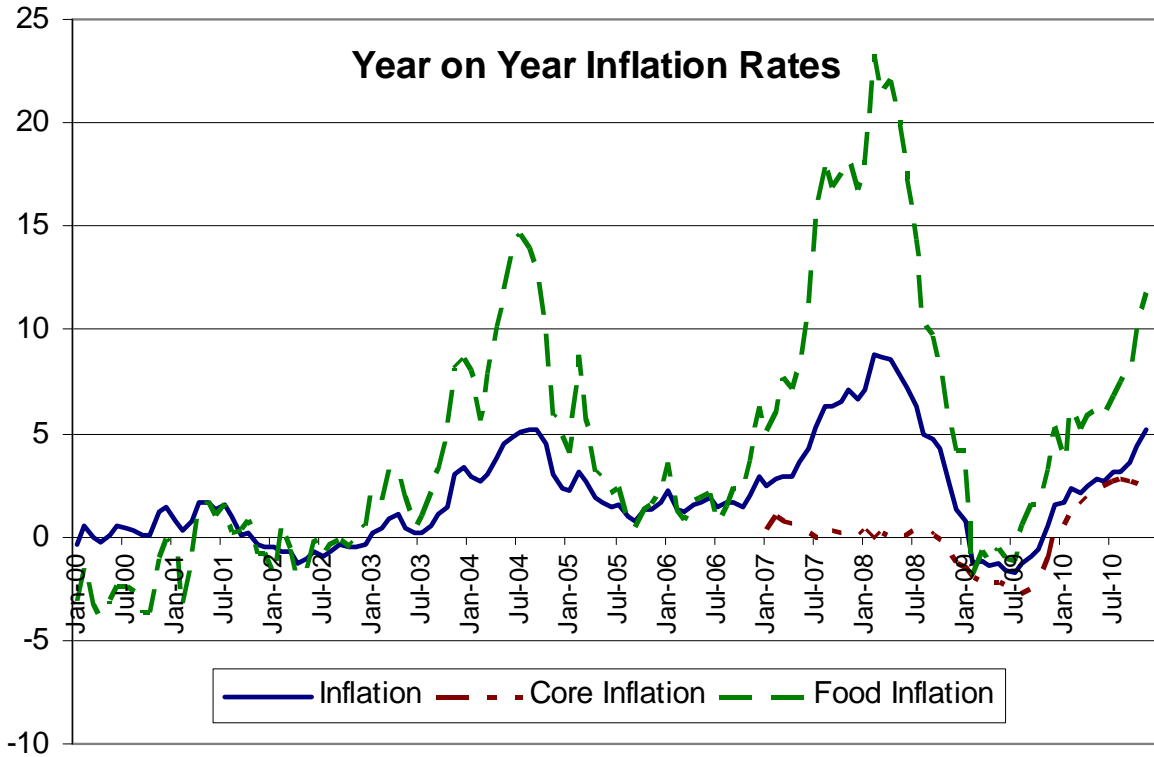
Figure 9. China's Composition of Growth



Source: EIU.

Note: Shaded regions in each bar show the contributions (in percentage points) of each component to total GDP growth. 2010 data are EIU estimates.

Figure 10. China: Inflation and Equity Market Indexes



Sources: Haver, CEIC, National Bureau of Statistics, and Shanghai and Shenzhen Stock Exchanges.

Figure 11. China's Domestic Credit and M2 Year-on-Year Growth
(in percent)

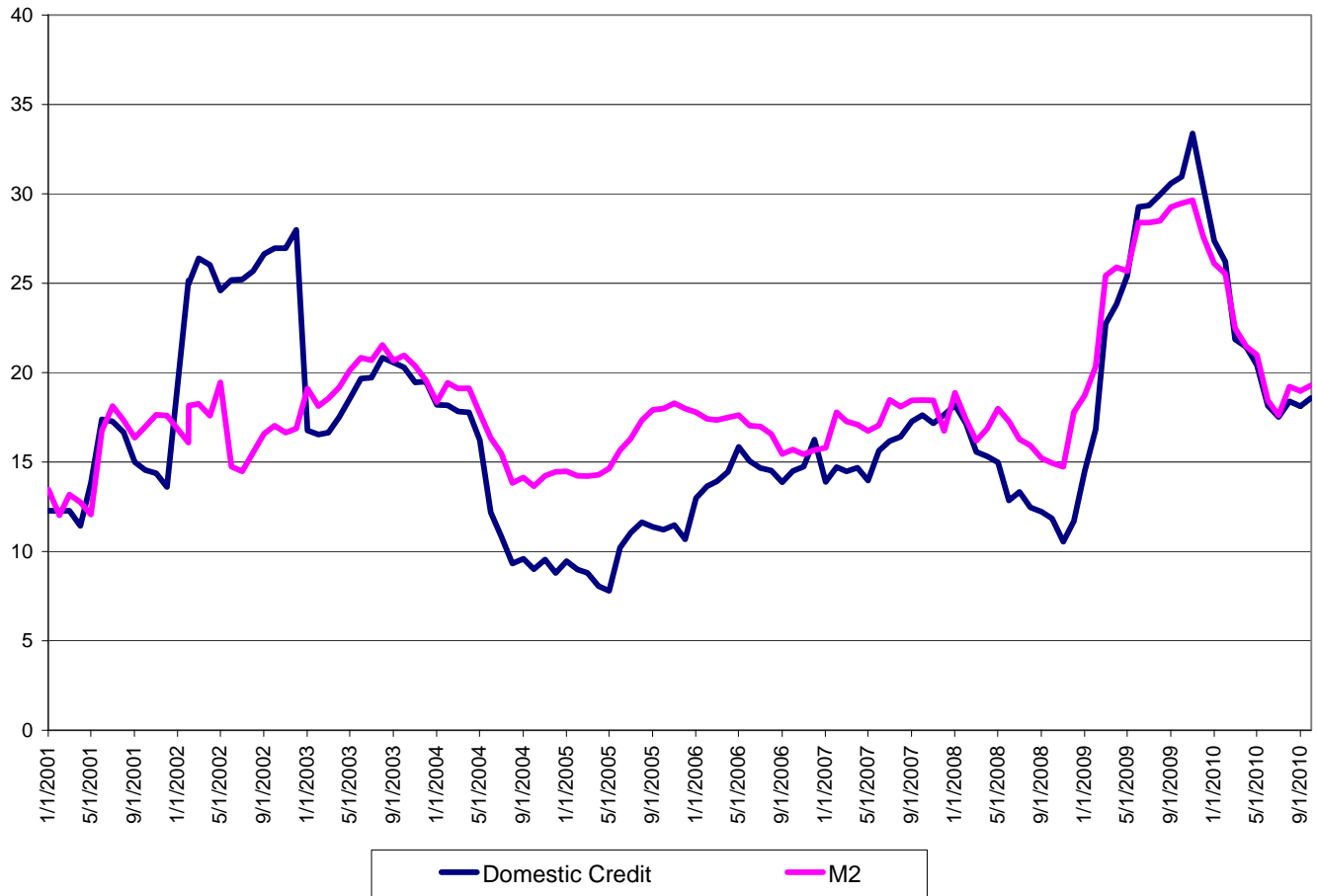


Figure 12. Interest Rates

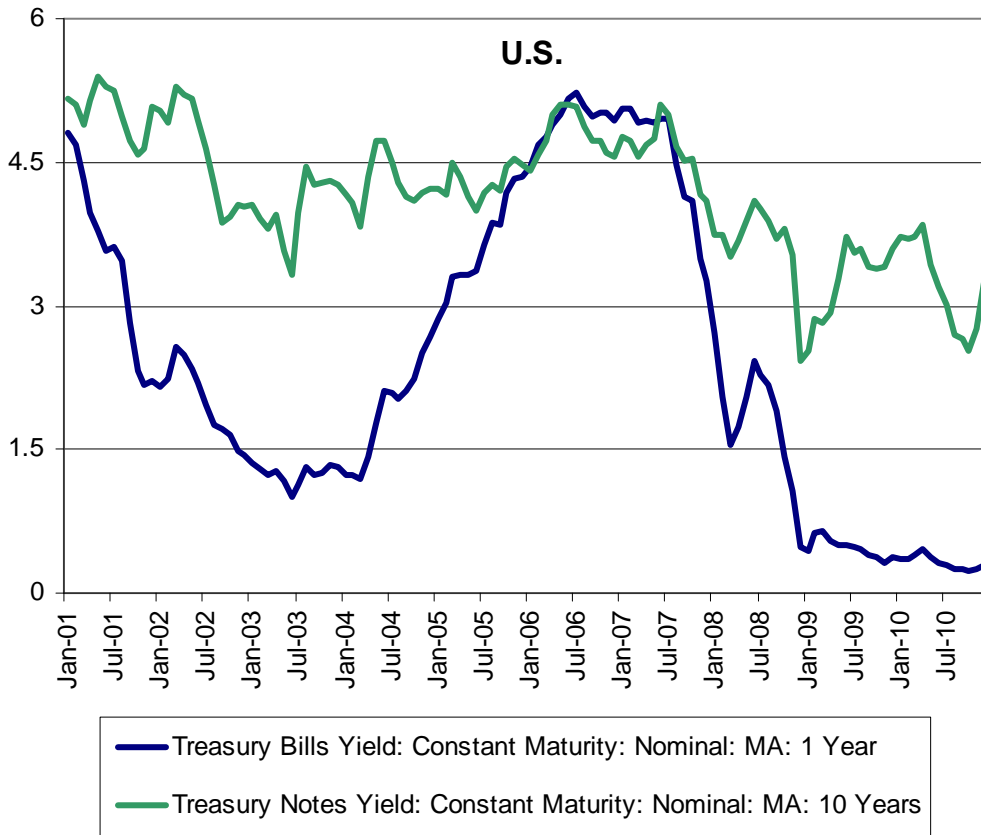
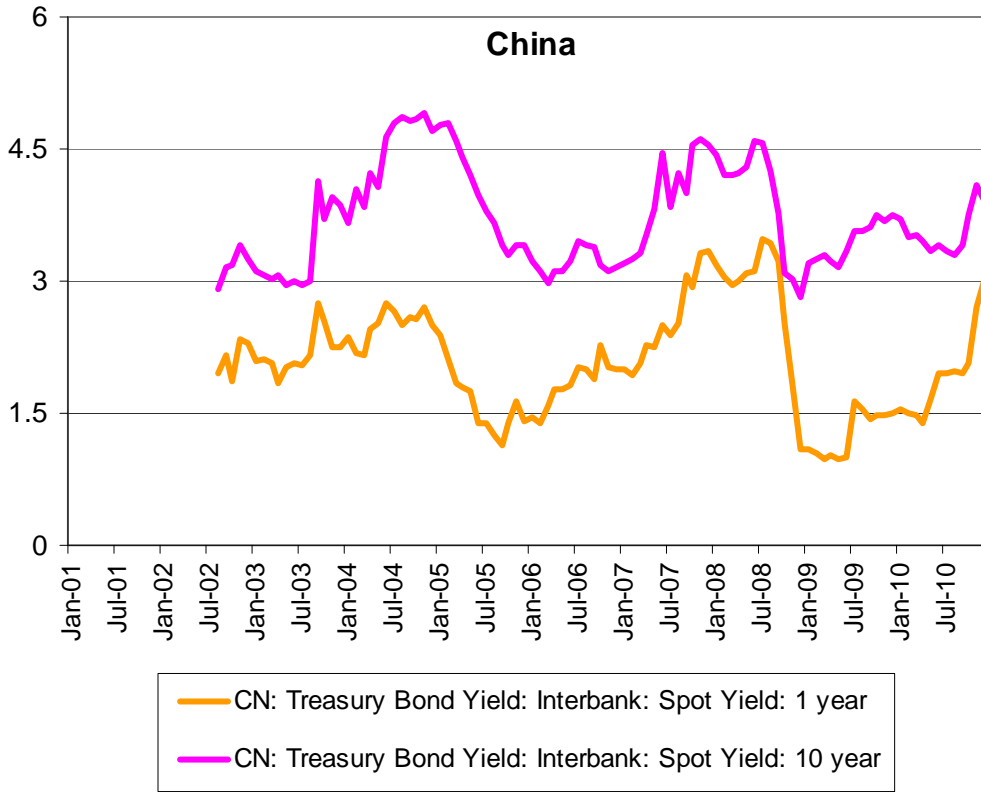


Table 1. The Balance of Payments

(in billions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross international reserves	168.9	218.7	295.2	412.2	618.6	825.6	1072.6	1547.3	1966.2	2453.2	-
<i>(in percent of GDP)</i>	<i>14.1</i>	<i>16.5</i>	<i>20.3</i>	<i>25.1</i>	<i>32.0</i>	<i>36.8</i>	<i>40.8</i>	<i>45.8</i>	<i>45.4</i>	<i>50.0</i>	-
Change in international reserves	10.5	49.8	76.5	117.0	206.3	207.0	247.0	474.7	418.9	487.0	-
A. Current account balance	20.5	17.4	35.4	45.9	68.7	160.8	249.9	371.8	426.1	297.1	-
<i>(in percent of GDP)</i>	<i>1.7</i>	<i>1.3</i>	<i>2.4</i>	<i>2.8</i>	<i>3.6</i>	<i>7.2</i>	<i>9.5</i>	<i>11.0</i>	<i>9.8</i>	<i>6.1</i>	-
Trade balance	24.1	22.5	30.4	25.5	32.1	92.7	168.8	253.9	285.5	168.0	-
<i>(in percent of GDP)</i>	<i>2.0</i>	<i>1.7</i>	<i>2.1</i>	<i>1.6</i>	<i>1.7</i>	<i>4.1</i>	<i>6.4</i>	<i>7.5</i>	<i>6.6</i>	<i>3.4</i>	-
Merchandise trade balance	24.1	22.5	30.4	25.5	32.1	102.0	177.7	261.5	297.0	197.6	185.0
<i>(in percent of GDP)</i>	<i>2.0</i>	<i>1.7</i>	<i>2.1</i>	<i>1.6</i>	<i>1.7</i>	<i>4.5</i>	<i>6.8</i>	<i>7.7</i>	<i>6.9</i>	<i>4.0</i>	<i>3.3</i>
B. Financial account balance	2.0	34.8	32.3	52.7	110.7	63.0	10.0	73.5	15.9	142.8	-
FDI, net	37.5	37.4	46.8	47.2	53.1	67.8	60.3	121.4	94.3	34.3	-
C. Errors and omissions, net	-11.9	-4.9	7.8	18.4	27.0	-16.8	-12.9	16.4	24.5	-43.3	-
<i>Memorandum Items:</i>											
Non-FDI capital account balance (including errors and omissions)	-47.4	-7.4	-6.7	23.9	84.6	-21.6	-63.2	-31.5	-53.9	65.1	-
Nominal GDP	1198	1325	1454	1641	1932	2244	2626	3382	4327	4909	5631

Sources: CEIC, IFS and author's calculations.

Note: The non-FDI capital account balance is the capital account balance minus net FDI plus net errors and omissions.

Table 2. International Investment Position

(in billions of U.S. dollars)

	2004	2005	2006	2007	2008	2009
Net Position	293	423	662	1188	1494	1822
A. Assets	930	1223	1627	2416	2957	3460
1. FDI	53	65	91	116	186	230
2. Portfolio	92	117	265	285	253	243
Equity	0	0	2	20	21	55
Debt	92	117	264	265	231	188
3. Other investment	167	216	252	468	552	535
4. Reserve assets	619	826	1081	1547	1966	2453
Foreign exchange reserves	610	819	1066	1528	1946	2399
B. Liabilities	637	800	965	1228	1463	1638
1. FDI	369	472	614	704	916	997
2. Portfolio	57	77	121	147	168	190
Equity	43	64	107	129	151	175
Debt	13	13	14	18	17	15
3. Other investment	212	252	300	378	380	451

Source: CEIC.

Table 3. China's Holdings of U.S. Government Debt
(in billions of U.S. dollars)

	March 30, 2000		June 30, 2007		October 31, 2010	
	Treasuries	Agencies	Treasuries	Agencies	Treasuries	Agencies
Total Outstanding Held by the Public	3,519	3,334	4,943	6,077	9,069	7,194
Total Held by Foreigners	884	261	2,194	1,413	4,310	1,554
China's Holdings	71	20	477	387	907	379
China's Share of Foreign Holdings	8.0%	7.5%	21.8%	27.4%	21.0%	24.4%
China's Share of Total Outstanding	2.0%	0.6%	9.7%	6.4%	10.0%	5.3%
Foreign Share of Total Outstanding	25.1%	7.8%	44.4%	23.3%	47.5%	21.6%

Sources: TIC System, Federal Reserve Flow of Funds, and Treasury's Bureau of Public Debt.

Note (1): For the purposes of this table, Treasury is defined as "debt held by public." Including "Intragovernmental holdings" Total Treasury Debt on March 30, 2000 was \$5.8 trillion and on October 31, 2010 it was \$13.7 trillion. The numbers of total agencies outstanding in the table is up to only September 30, 2010.

Note (2): The TIC System contains data on holding by Chinese, and not by the Chinese government. Some of the Treasury and Agency holdings reported in this table may not be held by the State Administration of Foreign Exchange.