



US ECONOMY ► FISCAL POLICY

THE NATIONAL DEBT ▼

# U.S. Debt to China: How Much Is It, and Why?

What would happen if China stopped investing in US Treasurys?



BY [KIMBERLY AMADEO](#) | Updated February 15, 2022

REVIEWED BY [ERIKA RASURE](#)

FACT CHECKED BY [EMILY ERNSBERGER](#)

China holds more than \$1 trillion of the U.S. national debt. That's a large portion of the \$7.6 trillion in Treasury bills, notes, and bonds held by foreign countries. The rest of the \$29 trillion national debt is owned by either people in the U.S. or by the U.S. government itself. <sup>[1]</sup>

China has the second-greatest amount of U.S. debt held by a foreign country. Japan consistently tops the list, owning about \$1.3 trillion as of October 2021. <sup>[2]</sup>

Japan	\$1.3T
China	\$1.07T
United Kingdom	\$647.4B
Ireland	\$334.3B
Luxembourg	\$323.5B
Cayman Islands	\$261.9B
Taiwan	\$251B
Brazil	\$244.5B
Hong Kong	\$225.7B
France	\$224.4B

Source: [U.S. Department of the Treasury](#)

Chart: The Balance • [Get the data](#) • [Add this chart to your site](#)



## Why Does China Hold So Much of the Debt?

China is the second-largest holder of the debt, even after it reduced its holdings, which it has been doing since 2011. It has held up to \$1.3 trillion of U.S. debt. <sup>[3]</sup>

Every year since 2010, China has held more than \$1 trillion in U.S. debt. That's when the U.S. Department of the Treasury changed how it measures the debt. Before June 2010, Treasury reports showed that China held about \$843 billion in debt. <sup>[4]</sup> This Treasury-led change makes it difficult to make long-term comparisons.



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China is taking steps to make its currency, the [yuan](#), transition to a global currency. To do that, China had to loosen its [peg to the dollar](#). That made

is less able to invest in U.S. Treasurys.

China also is liberalizing its control of the yuan, also called the "renminbi." It has opened yuan trading centers in London and Frankfurt. It's allowed the yuan to trade in a wider trading range around a basket of currencies that include the dollar.

China is also responding to accusations of manipulation. Most countries want their currency values to fall so they can win global [currency wars](#). Countries with lower currency values export more, since their products cost less when sold in foreign countries.

## How Does China Buy U.S. Treasurys?

The Chinese government uses U.S. dollars it has on hand to buy Treasurys. It receives these dollars from Chinese companies that receive them as payments for their exports.

**Important:** China's demand for Treasurys helps keep U.S. interest rates low. It allows the U.S. Treasury to borrow more at low rates. Congress can then increase the federal spending that spurs U.S. economic growth.

Owning U.S. Treasury notes helps [China's economy grow](#). Demand for dollar-denominated bonds raises the dollar value compared to that of the yuan. That makes Chinese exports cheaper than American-made goods, increasing sales. U.S. consumers benefit from low consumer prices.

## What Would Happen if China Were to Call In Its Debt?

China's position as the largest foreign holder of U.S. debt gives it some political leverage. It is responsible for lower interest rates and cheap consumer goods. If it were to call in its debt, U.S. interest rates and prices could rise, slowing U.S. economic growth.

more than the 2008 financial crisis. China's economy would suffer along with everyone else's.

If China ever did call in its debt, it slowly would begin selling off its Treasury holdings. Even at a slow pace, dollar demand would drop. That would hurt China's competitiveness by raising the yuan's value relative to the dollar. At some price point, U.S. consumers would buy American products instead. China could start this process only after it further expanded its exports to other Asian countries and increased domestic demand.

## Is China's Strategy Working?

China's low-cost [competitive strategy](#) seems to be working. Its economy grew more than 10% for the three decades before the 2008 recession. In 2019, it grew at 6.1%, an even more sustainable rate.<sup>[6]</sup>

China has become one of the largest economies in the world. And if you measure it by gross domestic product (GDP) and consider [purchasing power parity](#) (PPP), China is seen as the world's largest economy.

China also became the world's biggest exporter in 2009.<sup>[7]</sup> China needs this growth to raise its low standard of living. For these reasons, we'll likely see China remain one of the world's largest holders of U.S. national debt.

## Frequently Asked Questions (FAQs)

### How much money does the U.S. owe to China?

China owns roughly \$1.08 trillion worth of U.S. debt.<sup>[2]</sup> This amount is subject to market fluctuations. The value will change whenever China trades Treasury securities or when the [prices of those bonds](#) change.

### Why does the U.S. owe China money?

Anyone can buy U.S. debt. [Treasury securities](#) are freely traded around the world. Each bill, bond, and note represents ownership in U.S. debt.

UPDATED BY [HILAREY GOULD](#)

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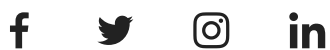
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