

## **Why Would the Chinese Buy U.S. Bonds When They Can Buy the U.S.**

**By Michelle Mabry**

The Central Bank of the People's Republic of China recently reported foreign exchange reserves of \$3 trillion at the end of March 2011. This was up 5% from the 2.85 trillion reported at the end of 2010. It is interesting to try to gain an understanding of the sheer magnitude of this amount while the U.S. government wallows in debt that it is unable to find a way out of because politicians cannot agree on which items to reduce funding to.

Currently, China is mostly invested in securities issued by the U.S. government, but they may start becoming a little more comfortable with taking more risk as the U.S. government continues to borrow and print money to sustain the current levels of spending. So what could the Chinese buy if they were looking to invest their entire stockpile of cash in other investments?

\$3 trillion is enough to purchase the entire amount of outstanding debt of Portugal, Ireland, Greece, and Spain while still having half left over. Then, given China's love for the iPhone, intolerance of Google's uncensored search results, and desire pirated copies of Microsoft's Office Suite, China could buy Apple, Google, and Microsoft in their entirety. If we throw IBM in there too for good measure it would cost about \$916 billion. Then, China could decide to diversify and purchase the 50 most valuable sports franchises for another \$50 billion while simultaneously offering to pay cash for every piece of real estate in Manhattan for \$287 billion. Lastly, to make sure that it is seen as a force to be reckoned with by our politicians, China could purchase all of the property in Washington, D.C.

If these are not attractive destinations for China's liquid capital, then it could simply purchase all of the U.S. farmland for \$1.87 trillion or the entire global supply of gold for \$1.43 trillion.

This massive amount of wealth that has been transferred from the United States to China is due to extreme trade imbalances that have persisted since the mid 80s. Hopefully, the situation will reverse some in coming years if certain occurrences happen. When the United States decides to start spending money a little more responsibly and discontinues such prodigious amounts of borrowing, then this could put pressure on the trade balance to become more equalized. Another event that could benefit this effort is for China to continue to develop its growth internally as opposed to their export led growth that they have followed in the past. A revaluation of the Chinese renminbi would achieve a higher value of the Chinese currency, making foreign goods from the United States look cheaper and Chinese exports more expensive. This would also likely change the trade imbalance more in favor of the United States.

This is not a problem that will be fixed overnight, but prudent economic policies from both the United States and China will help to alleviate this colossal imbalance.

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