

# The Debt Leverage Debate

## Assessing U.S. Financial Dependence on Europe and Asia

- Foreign holdings of U.S. Treasuries may look like geopolitical leverage, but once distinguishing between private investors and foreign official institutions, the debt weapon narrative largely dissolves.
- U.S. financial dependence on Europe and Asia is real in scale, yet it is systemic, reciprocal, and too costly to weaponize to serve as an effective tool of coercion.

### Introduction

Foreign holdings of U.S. Treasuries are often portrayed as a source of geopolitical leverage by their European and Asian creditors. While foreign investors hold one-third of marketable U.S. Treasuries, the coercive debt leverage narrative weakens once one distinguishes between private investors and official institutions.<sup>1</sup> U.S. financial dependence is real in scale, but it is systemic, reciprocal, and costly to weaponize.

### Exposure does not equal coercion

Public and private foreign investors hold substantial shares in U.S. Treasuries, corporate bonds, equities, and dollar-denominated financial instruments. Total foreign holdings of U.S. securities exceed \$35 trillion as of mid-2025.<sup>2</sup>

Yet exposure is mutual. Large-scale liquidation of Treasuries would depress bond prices and weaken the dollar, but it would simultaneously impose capital losses on the seller and disrupt its own financial system.<sup>3</sup> Interdependence, therefore, creates shared vulnerability rather than unilateral power.

Interdependence creates shared vulnerability rather than unilateral power

### Private vs. official holders

The most critical mistake in the debt-leverage argument is the failure to distinguish between the types of owners. Headline figures often lump all foreign holders together, but the motivations and constraints of a private pension fund are different from those of a central bank.

Private investors, whether based in Madrid, Tokyo, or New York, behave the same way regardless of nationality. They respond to incentives like relative returns, safety, and liquidity. And governments cannot easily compel these private actors to sell their U.S. assets. Doing so would violate fiduciary mandates and cause massive self-inflicted financial losses.

High levels of foreign private ownership do not meaningfully increase U.S. political vulnerability

The relevant issue regarding potential coercion involves debt held by foreign official institutions, such as central banks and sovereign wealth funds

Consequently, high levels of foreign private ownership do not meaningfully increase U.S. political vulnerability.

### **Foreign official holdings and China**

The relevant issue regarding potential coercion involves debt held by foreign official institutions, such as central banks and sovereign wealth funds.

Japan is the largest single foreign holder of U.S. Treasuries, but as a treaty ally, its position is not generally framed in adversarial terms. European official holdings are fragmented and largely aligned with U.S. interests, making them highly unlikely to be used coercively.

Among official holders, China stands out for the sheer scale of its holdings, its centralized strategic control, and its geopolitical rivalry with the United States. As of December 2025, it was the third-largest foreign holder of U.S. debt. China reached an all-time high of \$1.32 trillion in U.S. Treasuries in 2013, then steadily reduced its holdings to \$683 billion by December 2025.<sup>4</sup> This reduction has diluted China's capacity to disrupt the bond market through unilateral action.

A large-scale sell-off by China would also be economically self-defeating. Depressed Treasury prices would generate losses on China's remaining holdings, while dollar depreciation could complicate exchange-rate management and affect export competitiveness. Moreover, U.S. Treasuries function as core collateral in global dollar funding markets, limiting the feasibility of abrupt liquidation. Past episodes of Chinese reserve adjustment were largely absorbed by other investors, including U.S. households, mutual funds, and the Federal Reserve.<sup>5</sup>

Greater diversification of reserves toward gold or euro-denominated assets could exert marginal long-term effects on Treasury demand. Still, such adjustments tend to be incremental and market-absorbed rather than disruptive.

### **Structural fragilities in global bond markets**

More price-sensitive actors, including hedge funds, households, and foreign bond holders have partially replaced traditional institutional investors

While deliberate debt weaponization appears unlikely, a recent OECD report suggests that sovereign and corporate bond markets have become structurally more fragile.<sup>6</sup> Global bond markets now exceed \$100 trillion and have undergone significant changes in their investor base.<sup>7</sup> More price-sensitive actors, including hedge funds, households, and foreign bond holders have partially replaced traditional institutional investors.

At the same time, governments are increasingly shifting from longer-term borrowing to more short-term financing needs. In 2025, government refinancing needs reached record levels, accounting for roughly 80% of gross borrowing.<sup>8</sup> These developments may reduce the shock-absorption capacity of debt markets. Such vulnerabilities, however, are systemic rather than geopolitical. They reflect leverage, refinancing pressures, and evolving market structure, not the strategic leverage of foreign creditors over the United States.

## Conclusion

U.S. financial dependence on Europe and Asia is substantial, but it is embedded in dense networks of mutual interdependence. Private investors act according to market logic, while official holders face strong economic constraints that limit the credibility of coercive threats.

Financial interdependence creates exposure, but not geopolitical leverage. The greater risk to financial stability is not deliberate debt weaponization, but in the broader structural fragilities of an increasingly leveraged and price-sensitive global bond market.

The greater risk to financial stability is not deliberate debt weaponization, but in the broader structural fragilities of an increasingly leveraged and price-sensitive global bond market

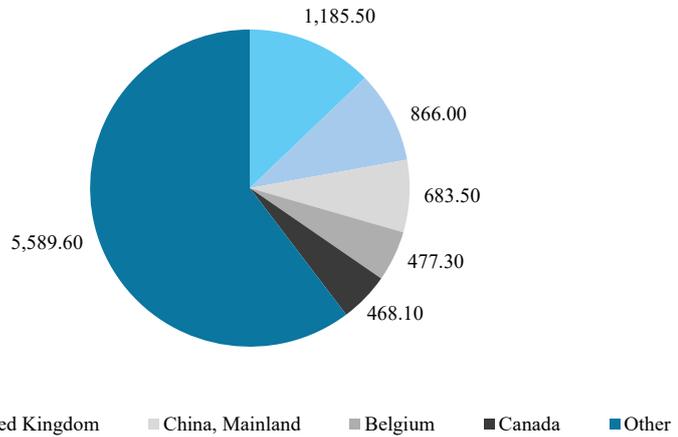
EXHIBIT 8.0 – ESTIMATED OWNERSHIP OF U.S. TREASURY SECURITIES, 2020-2024

Month, Year	Total Debt	Foreign Holdings	Foreign Holdings as a Share of Total Debt
December 2020	\$20.9 trillion	\$7.3 trillion	30%
December 2021	\$22.6 trillion	\$7.7 trillion	30%
December 2022	\$23.8 trillion	\$7.3 trillion	31%
December 2023	\$26.2 trillion	\$7.9 trillion	34%
December 2024	\$28.1 trillion	\$8.5 trillion	30%

Note: Table includes marketable Treasury securities held by the public. Data current as of May 14, 2025.

Source: Board of Governors of the Federal Reserve System.

**EXHIBIT 9.0 – FOREIGN OWNERSHIP OF U.S. TREASURY SECURITIES, DECEMBER 2025, USD BILLION**



Source: U.S. Department of the Treasury.

**EXHIBIT 10.0 – U.S. TREASURIES HELD BY CHINA, 2016-2025, USD BILLION**



Source: U.S. Department of the Treasury.

## Notes

---

- <sup>1</sup> <https://home.treasury.gov/news/press-releases/sb0410>
- <sup>2</sup> <https://www.federalreserve.gov/releases/z1/>
- <sup>3</sup> <https://www.nytimes.com/2026/02/25/opinion/us-dollar-china-currency-eu.html#:~:text=Small%20wonder%20that%20other%20countries,as%20those%20assets%20look%20riskier.>
- <sup>4</sup> <https://www.ceicdata.com/en/china/holdings-of-us-treasury-securities/holdings-of-us-treasury-securities#:~:text=Home%20%3E%20Countries/Regions%20%3E%20China,Holdings%20of%20US%20Treasury%20Securities.>
- <sup>5</sup> <https://www.bloomberg.com/news/articles/2026-02-13/why-china-is-retreating-further-from-us-treasuries>
- <sup>6</sup> [https://www.oecd.org/en/publications/global-debt-report-2026\\_e9d80efd-en/full-report.html](https://www.oecd.org/en/publications/global-debt-report-2026_e9d80efd-en/full-report.html)
- <sup>7</sup> *Ibid.*
- <sup>8</sup> *Ibid.*