

The Secret Battleground, U.S. Treasury

Beneath the wars, the geopolitical manoeuvres and the tariffs and trade tussles, a secret battleground has emerged, the US Treasury. In this domain, India is making critical moves.

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U.S. Treasury

NEW DELHI: The international financial system is currently traversing its most significant period of structural realignment since the 1944 Bretton Woods Conference. At the epicentre of this transformation is the United States Treasury market, which for decades served as the undisputed “risk-free” anchor of global capitalism. However, recent years have witnessed a fundamental shift in how sovereign nations perceive and interact with US debt. This evolution is driven by a realization among global reserve managers that the US dollar and its underlying securities are no longer merely economic instruments but have been transformed into potent tools of geopolitical coercion. The freezing of Russian sovereign reserves in 2022 acted as a catalytic watershed, prompting a coordinated, albeit fragmented, retreat from US Treasury exposure by major holders such as Japan and China, while emerging powers like India have begun constructing parallel financial architectures to insulate their economies from Western financial leverage.

The immediate reaction from central banks, particularly across the Global South, has been a move toward “neutrality”. Reserve managers are increasingly viewing

the dollar-clearing system, including the SWIFT messaging network and the New York-based Clearing House Interbank Payments System (CHIPS), as a “single-key veto” held by Washington over global commerce. Consequently, a May 2025 survey revealed that 88% of 84 central bank reserve managers believe the weaponization of reserves will have permanent consequences for the future of reserve management, with 76% classifying US sanctions risk as a “significant” factor in their asset allocation decisions—a figure that stood at only 30% before 2022 (Table 1).

The institutionalization of this financial warfare is evident in the expanding budget of the US Treasury’s Office of Terrorism and Financial Intelligence (TFI), which requested a record \$231 million for the 2025 fiscal year to expand sanctions enforcement. This aggressive posture has pushed countries to seek “parallel rails” for trade settlement, ranging from bilateral currency swaps to decentralized digital ledgers.

[Table 1] Source: Analysis derived from Investopedia and IMF Data.

Global Reserve Allocation Sentiment Trends (2021-2025)	Pre-2022 Baseline	Post-2022 Reality	2025 Assessment
Perception of US Sanctions as Significant Risk	30%	68%	76%
Focus on “Neutral” Assets (Gold/Regional Currency)	Low	Increasing	High
Trust in Sovereign Asset Immunity	High	Eroded	Non-existent
Dollar Share of Global Official Reserves	~59%	51%	~47%

[Table 2] Source: Ministry of Finance (India) and EU Commission Briefings.

India-EU FTA Economic and Financial Impacts (2026-2030)	Projection/Commitment
Bilateral Trade Target (2030)	\$200 Billion
Tariff Elimination (EU Exports to India)	97% of lines

FDI Limit in Indian Banking (FTA)	74%
FDI Limit in Indian Insurance (FTA)	100%
Payment Infrastructure Integration	UPI-TIPS Interoperability

[Table 3] Source: Collated from various financial sources including central bank documents.

Country	Peak Holdings (Recent)	Reduction (2023-2026)	Key Trigger
Japan	\$1.3T (2021)	-\$110B	Tariffs
India	\$241B (2024)	21% (\$50B)	Tariffs/Sanctions
China	\$1.1T (2013)	\$688B	Trade War
Russia	\$100B (2022)	~100%	Ukraine Sanctions

[Table 4] Source: Bipartisan Policy Center and Tax Foundation Analysis.

US Fiscal Projections Post-OBBBA (2025-2034)	Value/Percentage
Estimated 10-Year Deficit Increase (with interest)	\$4.1 Trillion
Publicly Held Debt as percent of GDP (2034)	124%
Projected Average Deficit as percent of GDP	6.5%
Interest Payments as percent of Federal Spending	Surpassing defence spending

JAPAN AND THE PARADOX OF THE PRIMARY CREDITOR

Japan, the largest holder at \$1.1 trillion in early 2025, has used its position as a “nuclear option” in US trade frictions. Facing Trump’s April 2025 tariffs on autos and tech, Finance Minister Katsunobu Kato publicly noted Treasury’s as a “critical card in negotiations. Holdings dipped \$17.5 billion in one week that month, timed with tariff announcements, signalling resolve without full retaliation.

This built on yen interventions but gained geopolitical edge amid US-China tensions, where Japan balances alliance loyalty with China trade dependence. By December 2025, Japanese investors sold ¥3.74 billion in foreign bonds net, partly Treasuries, as yields rose and the yen strengthened. Such moves pressured US rates higher, forcing tariff concessions—Japan avoided full 60% hikes. Analysts view this as strategic signaling, blurring finance and diplomacy.

Japanese holdings of US Treasuries reached a peak of \$1.3 trillion in October 2021, but this figure obscures the underlying shift in capital flows. As the BoJ slowly normalizes its monetary policy—raising short-term interest rates from 0.5% to 0.75% in late 2025—the “subsidy” that Japan provided to US borrowing for two decades is rapidly evaporating. For years, the yen carry trade—whereby investors borrow in low-interest yen to invest in higher-yielding dollar assets—suppressed global yields. The reversal of this trade, estimated to involve between \$4 trillion and \$6 trillion in derivative exposure, triggers margin calls and forced selling across all US asset classes.

The withdrawal of Japanese capital represents a fundamental shift in the global supply of liquidity. Analysts suggest that the end of Japan’s negative interest rate era and the subsequent pullback from Treasury auctions could permanently add between 100 and 150 basis points to the US 10-year yield. This is not merely a market correction but a geoeconomic realignment where the world’s largest creditor nation is reclaiming its capital to stabilize its own domestic financial system.

INDIA AND THE PETRO-RUPEE

India has emerged as one of the most sophisticated actors in the transition toward a multipolar financial order. Its strategy is rooted not in an ideological opposition to the United States but in a pragmatic commitment to “strategic autonomy”—the ability to navigate global conflicts without becoming collateral damage in Western financial warfare. This has manifested in three distinct areas: the internationalization of the rupee, the creation of a “petro-rupee” infrastructure, and the landmark Free Trade Agreement with the European Union.

India’s most audacious move has been the creation of a direct mechanism for settling energy imports outside the dollar system. As the world’s third-largest crude importer, India’s decision to buy oil from Russia and the UAE in rupees has disrupted the decades-old petrodollar monopoly. This is not a symbolic gesture; at peak periods in 2024 and 2025, over one-third of India’s crude imports were settled in non-dollar currencies.

India reduced US Treasury holdings from \$241 billion in 2024 to \$190.7 billion by late 2025—a 21% drop, the lowest in five years. The RBI cited rupee support and diversification amid volatile dollar policies, with Treasuries falling to one-third of reserves from 40%. Trump’s 10% tariffs slashed India’s US exports 21% (May–Nov 2025), linked to Russian oil purchases, prompting retaliation via bond sales.

Geopolitically, India’s neutral stance on Ukraine and energy ties to Russia exposed it to secondary sanctions risks, echoing Russia’s reserve freeze. Sales accelerated post-2025 US Treasury sanctions on Russian oil firms, as Delhi prioritized strategic autonomy. Holdings of long-term debt hit \$174 billion, down 26% from 2023 peaks, funding gold buys and euro allocations. This pivot strengthened the rupee and insulated reserves, while pressuring US yields amid fiscal deficits.

The key to the durability of this system is the “recycling” of these rupees back into the Indian economy. Foreign oil exporters hold their rupee earnings in Special Rupee Vostro Accounts (SRVAs). On August 12, 2025, the Reserve Bank of India issued a quiet but revolutionary circular (Notification No. RBI/2025-26/72) that authorized foreign holders of SRVAs to invest their surplus balances into Indian Government Securities (G-Secs) and Treasury Bills. This effectively converts energy trade payments into domestic capital formation for India, creating a virtuous cycle of rupee demand that bypasses the need for US Treasury bonds as a reserve asset.

INDIA-EU FREE TRADE AGREEMENT: A GEO-FINANCIAL MILESTONE

The announcement of the India-EU Free Trade Agreement (FTA) represents a milestone. While the agreement covers 97% of tariff lines and aims to boost bilateral trade to \$200 billion by 2030, its most significant provisions are contained in the Financial Services Annex.

The FTA mandates the “interoperability and interlinkage” of India’s Unified Payments Interface (UPI) with the European Central Bank’s (ECB) TARGET Instant Payment Settlement (TIPS). This creates a direct, real-time technical bridge for cross-border payments and remittances between two of the world’s largest economic blocs, entirely bypassing the dollar as an intermediary currency. For the EU, this is a matter of technological autonomy, a response to the dominance of US-based giants like Visa, Mastercard, and dollar-denominated stablecoins. For India, it leverages its fintech leadership to insulate its trade from the volatility of US monetary policy. (Table 2)

This agreement is more than a trade deal; it is a geoeconomic realignment. By creating a stable, institutionalized framework for non-dollar trade and investment, India and the EU are effectively forming a “resilient web” that functions independently of the US Treasury system. The FTA’s provisions on financial technology, artificial intelligence, and potential central bank digital currency (CBDC) collaboration signal a long-term commitment to a diversified international monetary order.

CHINA AND THE REST

China led the trend, liquidating \$688 billion since 2013, with \$63.0 billion post-2022 amid trade war and Taiwan tensions. Sales spiked after 2025 tariffs, converting dollars to gold, silver, and commodities—deemed “economic warfare” to counter dollar weaponization seen in Russia sanctions. Despite self-costs, Beijing sold at losses, rewiring reserves toward “survival assets.”

Russia’s holdings plummeted from \$100 billion pre-2022 to near-zero after sanctions froze assets, forcing rouble-based trade and BRICS alternatives. This “reset” inspired others; China’s exit ended the dollar’s “exorbitant privilege,” with custodial buyers like UK/Belgium (leveraged funds) absorbing sales temporarily. Both cases framed Treasuries as liabilities in US-led conflicts.

Saudi Arabia trimmed 18% (\$50 billion) post-2023 oil spat, favouring yuan petroyuan deals. Brazil and South Africa boosted gold reserves 20–30%, citing sanction fears. Europe, indirectly, saw custodial holdings rise via Belgium/Ireland, masking diversification. Collectively, these reduced US auction demand, pushing 10-year yields from 4% (2024) to 5.2% (2026). (Table 3)

THE APRIL 2025 LIQUIDITY CRISIS

The fragility of the US Treasury market was demonstrated on April 2, 2025, when the announcement of new tariffs triggered a sharp deterioration in liquidity. Bid-ask spreads widened notably, and “order book depth”—the quantity of securities available at best bid and offer prices—declined to its lowest level since the March 2023 regional banking turmoil. This episode highlighted that the US Treasury market, despite its size, is susceptible to “fire sale” dynamics as the volume of outstanding debt grows faster than the capacity of primary dealers to intermediate trades. (Table 4)

As the United States grapples with its own fiscal sustainability and the market liquidity crises triggered by its trade policies, the global community is moving toward a more fragmented, but more resilient monetary system. The world is entering a financial interregnum, where the US dollar remains the dominant force, but its grip is being loosened by the very powers it once sought to lead.

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