



It's Time for China to Pay Its Debts to the United States

By Peter Huessy

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Many people assume China has the U.S. over a barrel. The country buys so much of our debt—around \$800 billion—that we cannot “rock the boat” when it comes to U.S. and China relations. That has meant not pressing the PRC “too hard” when it comes to North Korea, or Iran.

Just recently, a top Obama administration delegation visited the People’s Republic of China. While there, the Chinese were told not to worry about the U.S. paying its debts to the country — their investments in the U.S. were safe. True enough.

But, I was struck with the fact that the PRC, however, does not pay its debts to the U.S. Now, that may strike most Americans as a “You must be kidding story”. [But in fact it is true.](#)

Many decades ago, China sold sovereign bonds worldwide to investors in many nations. They sold tens of thousands of these

bonds on U.S. soil to American citizens on the recommendation of our government, indicating it was a solid investment.

Over the last sixty years, China has refused to pay to these bondholders either the principal or interest on these full faith and credit sovereign bonds. (To say nothing of the hundreds of billions also owed to U.S. artists from unpaid royalties on the more recent sale of pirated CD's and videos, but that's another story).

In 1987, threatened with being kept out of the British financial markets, China acknowledged the debt in owed from the sale of these exact same bonds to British investors. As part of the Great Britain-PRC agreement on Hong Kong, the PRC agreed to pay its debt to British citizens who owned these same bonds. By paying the British bondholders, but no other bond owners worldwide, including U.S. bondholders, China “selectively defaulted” on these bonds.

Standard and Poor's claims it does not have to find the PRC in selective default because under their view of things, it is their first amendment right NOT to discuss certain things or take such things up. Well, not so fast, boys and girls.

Under the rules, they are granted a license by the Security and Exchange Commission (SEC) of the United States to be a nationally recognized statistical rating organization (NRSRO), a charter to assess the risk of investing in sovereign and corporate debt, stocks, or bonds. The “selective default” of the PRC must be acknowledged, in that the metrics used by the NRSRO organizations that they themselves have promised to follow as part of their license agreement includes just such a requirement.

Now if China was found in selective default, this would cause the PRC to have to pay considerably more to finance its debt than it does now. Billions more.

But because everyone thinks the PRC is the strong economic horse, S&P fudges this issue big time and does a disservice to the American people. It is as if you could pay a credit agency to write-up your credit score according to your own rules! Well... wouldn't that be nice?

Ironically, with the fall of Saddam Hussein's government in Iraq, the PRC insisted at the United Nations that any successor government in Iraq must be held to pay its debts, including debts to China. The U.N. approved.

Under international law as it has been understood for centuries, successor governments, no matter the circumstances of the establishment of a new government, whether by revolution or civil war, must pay the sovereign debt incurred by its predecessor. But currently, the People's Republic of China owes a debt of over \$750 billion to American citizens who are holding these full faith and credit sovereign bonds (many of them denominated in gold) sold to them by the Republic of China. Worldwide, the debt China owes to all bondholders is estimated to be several trillion dollars. The debt owed to the American people should be paid. The U.S. government could dollar for dollar offset bond interest we owe China with interest, principal and penalties China owes us.

That would be \$750 billion. Split 10 to 1, the U.S. taxpayer saves \$700 billion in debt payments and the bond holders could receive the balance. As part of the deal, each state could receive badly

needed investment funds as well.[ABF Charities, a 501(c)3 organization devoted to humanitarian projects across all of the United States could distribute these funds]

And we could contribute significantly over a period of years to reduced U.S. debt. That could even be part of the upcoming budget and debt agreement, paid down over a period of years.

[But as Michael Auslin of the American Enterprise Institute writes](#) in The National Review, “Beijing’s plan since the early 1980s has been clear: Get strong. But in its success, China has developed the idea that the world’s rules don’t apply to it.” And I might add, when called to account for its behavior, it throws geostrategic temper tantrums.

Auslin suggests we imagine a China that protects U.S. intellectual property, pays its sovereign debts, upholds its contracts, and just for good measure, does not aim over a thousand missiles at Taiwan!

Yes, America pays its debts -- as we have assured Beijing.

Now, let’s ensure we hold the PRC to account for its illegal behavior. Rules are there for a purpose. As my grandfather used to tell me, “Good fences make good neighbors.” China must pay its debts, too. All \$750 billion!

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