China pushes US over debt

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Analysts have assessed that a potential US default's impact on the Chinese economy would be "limited" due to its structure, while the Chinese government has urged Washington to resolve the stalemate.

China is the largest foreign holder of US debt, owning about $1.28 trillion of US Treasury bonds as of the end of July. Japan is the second biggest holder, owning $1.14 trillion.

Jin Baisong, a research fellow at the Chinese Academy of International Trade and Economic Cooperation, told the Global Times Tuesday that China's economy may face short-term pains if the US fails to raise the current debt ceiling of $16.7 trillion by the October 17 deadline and defaults on its national debt.

"China's exports will dramatically decrease because the default would significantly hurt the economy of the US and the European countries," Jin said.

Zhu Guangyao, China's vice finance minister, said Monday that the country is paying attention to the financial deadlock in the US and demanded that the US guarantee the safety of Chinese investments there, the Xinhua News Agency reported.

"In terms of the debt ceiling, the Chinese side feels that the US has to take realistic and resolute actions to ensure that a default on the national debt does not happen," Zhu said. "The US needs to consider its global impact, and the US government should speed up its negotiation with the Congress."

The impasse also raised concerns from Japan, with the country's finance minister Taro Aso Tuesday requesting "the US resolve its debt ceiling standoff without delay," Bloomberg reported.

Meanwhile, Olivier Blanchard, chief economist at the International Monetary Fund, Tuesday also warned that a US default would lead to a recession "or even worse," Reuters reported.

A few faint glimmers of hope surfaced on Monday in the fiscal standoff, with President Barack Obama saying he would accept a short-term increase in the nation's borrowing authority to avoid a default, Reuters reported.

A short-term increase would give Republicans and Democrats some breathing room, but by itself would not address the substantive issues preventing an agreement.

Despite the worries over the consequences, observers are cautiously optimistic that an 11th-hour agreement would be reached as was the case with the previous such situation two years ago.

"A US default can be seen as a hydrogen bomb for the world economy. It will have a deadly impact on the global financial system and damage the US' image," Xu Hongcai, director of the Department of Information under the China Center for International Economic Exchanges, told the Global Times. "So the US will do anything to prevent that from happening."

He Weiwen, co-director of the China-US-EU Study Center under the China Association of International Trade, agreed with Xu, adding that even if a default does happen, it will have a limited impact on China.

"China's economic growth is mostly dependent on its domestic investment, consumption and exports, not on the bonds it holds in the US Treasury," He told the Global Times.

The US Treasury usually borrows money by issuing bonds to pay back old debts. As a result, if the Congress cannot agree on a deal to raise the debt ceiling, the US might default on its debts.

"However, if the US finds other ways to pay its debts or if the country does not have debts that need to be paid back to China soon after October 17, China will not likely be directly impacted by a potential failure of a raise in the ceiling," He said.

Jin agreed with He, adding that a default would result in a much smaller shock for China compared with other economies.

Jin said China has fully developed all its economic sectors ranging from agriculture to services, while many other emerging economies such as India and Russia have not. Therefore, the country will be able to remain stable, even if certain sectors or industries might be fatally damaged by a US default.

"Although the US dollar will depreciate and hurt our foreign reserves, the yuan will appreciate and increase China's buying power," Jin said.

Agencies contributed to this story