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Flattening the curve

Leading Republicans want to send China the bill for coronavirus pandemic's costs

Escalating calls could leave Trump pinned between allies and trade deal

By **David J. Lynch**

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Leading Republicans are demanding that China be made to pay financially for what they allege was a coverup of the lethal coronavirus outbreak that ultimately brought the U.S. economy to a near halt, erasing more than 26 million American jobs and costing the federal government trillions of dollars in emergency spending.

Key lawmakers want President Trump to cancel the \$1 trillion-plus U.S. debt to China and to push companies to relocate their medical product supply chains to the United States. Missouri's Republican attorney general this week sued Chinese authorities in federal court, seeking to recover billions of dollars in spending on pandemic care and economic relief. Mississippi's attorney general, also a Republican, said she intends to do the same.

Several of the proposed punitive measures face significant hurdles and, if enacted, would be likely to involve steep costs for the United States, apart from whatever benefits might be gained. But the Republican campaign aims to capitalize on growing public distrust of China and to draw voters' attention to Beijing's alleged responsibility for the deepening recession, rather than criticism of the president's pandemic response. Congress in the past two months has approved nearly \$3 trillion in new spending to combat fallout from the virus, a figure that does not include the financial toll for states and cities.

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Among the loudest China critics is Sen. Lindsey O. Graham (R-S.C.), a close White House ally. In recent television appearances, the chairman of the Senate Judiciary Committee has called for canceling the U.S. debt with China, slapping a “pandemic tariff” on Chinese goods and imposing unspecified sanctions on Chinese officials.

“China needs to pay,” Graham told Fox News earlier this week, accusing the government in Beijing of “gross negligence and willful deception” in its handling of the outbreak.

While Chinese officials almost certainly will never send the United States a check, analysts said, the mounting demands could put the president and the business community in a difficult position. Efforts to blame China for the pandemic also could further sour relations between Washington and Beijing.

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Public opinion toward China has turned sharply negative: 66 percent of Americans hold an unfavorable view of the country, up from 47 percent in the spring of 2017, according to the Pew Research Center. Republican sentiment is especially downbeat, with 72 percent reporting an unfavorable view.

For Trump — who blends criticism of China's trade practices with lavish praise of Chinese President Xi Jinping — bowing to the anti-China voices in his party carries risks. An open rupture in relations with Beijing could prompt Chinese officials to abandon purchases of U.S. farm goods required by the president's trade deal with China, a White House priority little more than six months before Election Day.

The business community, meanwhile, worries about calls for a wholesale uprooting of long-established supply networks in China but does not want to end up in a public dispute with China critics in the White House.

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The United States also depends upon China for many pharmaceuticals and other medical supplies, further complicating any potential confrontation. The administration so far has talked tough on China without committing itself to any specific proposals.

“There’s nobody ever been tougher on China than me,” the president boasted Tuesday. “ ... I’ve been very tough.”

Those who want him to get tougher have zeroed in on the nearly \$1.1 trillion that the United States owes China. Graham said recently that he wanted to start “canceling some debt that we owe to China, because they should be paying us, not us paying China.”

The proposal is an audience pleaser on cable television. But it would be almost impossible to implement.

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The U.S. debt is not a loan that Washington can refuse to repay. China holds more than \$1 trillion of Treasury securities that it purchased on the open market. Those securities carry the U.S. government’s promise of repayment and are a cornerstone of the global financial system.

Buyers of U.S. Treasury bonds essentially loan the federal government money in return for periodic interest payments until their securities mature and are repaid.

An administration refusal to honor the bonds held by Chinese institutions would disrupt trading in the \$17 trillion Treasury market and upend markets for stocks, as well. Any selective default would probably cause the government's borrowing costs to rise — just as its annual borrowing needs quadruple compared with last year.

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“Any attempt at a selective default would damage the safe-haven status of all U.S. Treasury securities, since that would set a precedent for the U.S. government being able to walk away from any of its debt obligations,” said Eswar Prasad, former head of the International Monetary Fund's China desk. “This could reduce the demand for Treasuries and make it harder for the U.S. Treasury to secure financing for the large amounts of debt it will have to issue in the coming months and years.”

There also would be practical difficulties in implementing a debt-cancellation strategy. The Chinese government would hardly remain idle while U.S. politicians debated rendering its Treasuries worthless. Chinese officials could begin selling their holdings before Washington acted and could retaliate in other ways, such as by putting an embargo on critical materials that the United States buys from Chinese factories.

“It’s an act of financial war. Let’s not kid ourselves,” said Patrick Chovanec, economic adviser for Silvercrest Asset Management Group.

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Graham’s office did not respond to a request for comment.

Relations between Washington and Beijing, already raw after two years of trade conflict, have deteriorated amid the pandemic. Chinese officials have been irked by the president's occasional public references to the "Wuhan virus," while U.S. officials bristled at a Chinese propaganda campaign that blamed the U.S. military for the disease.

"That makes it much tougher to have the level of coordination between the two governments on health and economic matters that the world needs from the two biggest and most powerful nations," said Myron Brilliant, executive vice president of the U.S. Chamber of Commerce.

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Sen. Tom Cotton (R-Ark.), who says a Chinese coverup allowed the virus to spread, has proposed imposing sanctions on Chinese officials and has introduced legislation permitting U.S. citizens to sue China for pandemic damages.

Cotton's bill — and the House version introduced by Rep. Dan Crenshaw (R-Tex.) — would lift the sovereign immunity that prohibits most lawsuits against foreign governments. Sen. Josh Hawley (R-Mo.) has introduced similar legislation.

Missouri Attorney General Eric Schmitt (R) isn't waiting for congressional action. Earlier this week, he sued the Chinese government in U.S. District Court in Missouri, seeking “billions of dollars” in damages for the medical and economic toll of the coronavirus.

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“An appalling campaign of deceit, concealment, misfeasance, and inaction by Chinese authorities unleashed this pandemic,” the state alleged in court filings.

Schmitt also named the Chinese Communist Party as a defendant, in a bid to circumvent the prohibition against suing a foreign government. Julian Ku, constitutional-law professor at Hofstra Law School, said U.S. courts have never ruled on the question of the all-powerful CCP's responsibility for Chinese government actions.

But he said that while the case may “embarrass” Chinese authorities, it is unlikely to do much more.

“It is a very difficult case,” Ku said. “In general, foreign governments are immune to being dragged into U.S. courts.”

Demands to punish China come as the administration remains divided between hard-liners such as White House aide Peter Navarro and officials who worry about a tougher line's impact on financial markets, including Treasury Secretary Steven Mnuchin and Larry Kudlow, director of the National Economic Council.

Michael Pillsbury, a China expert at the Hudson Institute, said the president is not ready for a dramatic reorientation of his policy toward Beijing. For now, he said, Trump is content to wait for the results of an internal probe of China's role in the virus.

“It's not time yet for the super-hawks to take over from the president's trade-focused approach, even though he says he's ‘unhappy’ with China,” Pillsbury said.

The White House declined to comment on the various Republican proposals.

The anti-China efforts thus far appear largely symbolic. But some House Republicans are discussing possible legislation to require the Government Accountability Office to formally assess China's financial liability for pandemic-related costs in the United States, said Derek Scissors, a China analyst at the American Enterprise Institute.

A GAO cost estimate could become the basis for a new levy on Chinese goods entering the country, a move Scissors acknowledged would involve costs for the United States as well as China.

The objective would be "to inform U.S. policymakers of how much China has screwed with us, not to pretend that China is going to pay us," he said. "Right now, we're just flailing in the dark."