

US coronavirus economic relief package has one glaring flaw: failure to lift tariffs

- Besides tariffs on medical products hampering the US' own fight against the disease, trade war levies had already hit many businesses hard before the pandemic
- China will be ready to make more concessions as it seeks to reboot its economy

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The United States has become the new epicentre of the coronavirus pandemic. As cases of infection and death tolls continue to climb, the US economy has begun to go into free fall, with the jobless rate expected to hit 20 per cent, a level not seen since the Great Depression. The fate of economies elsewhere is just as dire, if not worse. For the first time in modern history, all economic engines worldwide are in “great lockdown” mode.

The US Federal Reserve has acted swiftly to cut interest rates to zero and establish a bond purchasing programme, liquidity support and lending facilities, measures of a magnitude not seen since the 2008 financial crisis. The Trump administration has worked with Congress to swiftly pass an over US\$2 trillion economic relief and stimulus package, the largest in US history.

Despite its extraordinary size, there is a glaring flaw in the US economic package – a failure to lift the high tariffs the US has imposed, before the Covid-19 outbreak, against its most important trading partners, notably China. Continued tariffs will undercut the effectiveness of the US' efforts to contain the economic fallout of this crisis.

As the pandemic reminds us, the US' economic fortunes, like its citizens' health, are inseparable from the rest of the world, a fact hardliners in the Trump administration seem unwilling to acknowledge.

First, continued tariffs hamper the US and global efforts to fight the pandemic by causing acute shortages and price spikes of critical medical supplies, such as testing kits, ventilators, protective gowns and N95 masks. The Trump administration should immediately remove all tariffs on medical products.

As social and economic life resumes normalcy in China, its manufacturers are ramping up production of medical goods to ship worldwide through both humanitarian and trade channels. It is obvious China is best positioned to help ease the global shortage of medical supplies. Yet hawks in Washington continue to resist working with China, claiming that the country might take advantage of the situation and gain market share.

Second, US economic emergency programmes would work best in the absence of trade policy distortions. Apart from giant corporations, such as Apple and General Motors, which have been hit by higher costs and supply

chain uncertainties, many small American businesses that rely on imported parts or consumer goods have seen costs soar and profits decline due to the tariffs. These already struggling businesses are now bearing the full brunt of the pandemic.

Third, there is no guarantee that individual countries' emergency economic programmes could on their own offset the rapid and severe contractions of output and employment. A synchronised global recession calls for a strong, coordinated and mutually reinforcing global response.

In the wake of the 2008 financial crisis, which originated in America, then-US president George W. Bush and Treasury secretary Henry Paulson convened a G20 summit in Washington and worked closely with world leaders to stimulate growth and prevent protectionism. US efforts to promote international cooperation made a crucial difference in containing the financial crisis. While far removed from the epicentre of that crisis, China unveiled a massive stimulus package to support the global recovery even before the G20 summit was convened.

Sadly, today, with the fallout of the pandemic threatening to be more severe than the 2008 financial crisis, there is neither credible leadership to forge a coordinated global response nor the political appetite to disavow protectionism.

On the contrary, the two largest economies, the US and China, remain locked in a bitter trade conflict, despite the temporary truce following the "phase one" deal. These persistent trade uncertainties threaten economic recoveries in both countries and inflict collateral damage on the world economy. Expect trade frictions, together with the fast-changing infection curve and more depressing economic data, to drive wild volatility in financial markets.

Political leaders should heed the eerily similar experience in the 1930s when the Smoot-Hawley Tariff Act ushered in American isolationism, triggered a trade war with many countries, shattered Wall Street confidence, and aggravated and prolonged the Great Depression. Only after then-president Franklin D. Roosevelt, in conjunction with the New Deal, slashed tariffs and promoted trade liberalisation and cooperation with foreign governments, did the US begin its slow recovery from the Great Depression.

The Trump administration's unilateral tariffs against China and other nations have threatened to permanently damage the global trading system shaped by America itself since World War II. Hardliners like trade adviser Peter Navarro prefer a fragmented global economy, divided by high tariff walls, investment restrictions and geopolitical rivalry, erroneously believing "decoupling" serves US interests.

In the face of the twin health and economic crises engulfing the entire world, such delusions about tariffs are especially dangerous. It is time Washington and Beijing ended the costly trade war once and for all.

Having been the first victim of the Covid-19 crisis, China also faces the daunting task of rebooting its economy and keeping the unemployment rate low. Because a predictable economic relationship with US is as important as any domestic stimulus measures, Beijing is more eager than ever to strike a deal with Washington.

It has strong incentives to go to great lengths to address long-standing US concerns over market access, hidden trade barriers, subsidies to state-owned enterprises and above all, intellectual property protection. Washington should seize this window of opportunity to resume the bilateral negotiations as soon as possible.

Beijing should commit to real policy changes and immediately embark on market-oriented reforms to create a level playing field for both domestic and foreign companies. In return, the US should lift all tariffs imposed on China since 2017.

The end of the trade war will help ease the tensions between the two powers and send a positive message to nervous global markets that, instead of mutual accusations and harmful divisions, solidarity and collaboration will finally dominate the fight against Covid-19 and the ensuing global economic devastation.

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