

EURASIA

16 March 2020



ONLY THE CORONAVIRUS CAN CONVINC TRUMP OF THE VIRTUES OF INTERNATIONAL COOPERATION

Since the coronavirus outbreak became a pandemic, global risk aversion has spiked, driving the king safe asset such as US Treasuries to their lowest yield on record. Meanwhile, equity markets have tanked globally and high yield credit spreads have widened, reminding us all of the global financial crisis only twelve years ago. The difference is that this time the shock has not been created by financial imbalances in a particular country, the US, but rather it is exogenous and by now fully global.

By now, it seems clear that both negative demand and supply shocks will drag down the global economy towards an unprecedented recession unless immediate - and effective - policy action is taken. The handbook response during the global financial crisis was expansionary monetary and fiscal policy, the combination of which will depend on the available room for each government to conduct one or the other. In fact, for the last two weeks, governments and central banks have scrambled to come up with monetary actions and fiscal packages which would restore confidence and alleviate the woes in key sectors affected by the coronavirus outbreak. Asian central banks and governments reacted first by cutting rates and launching stimulus packages without even the attempt to launch a coordinated message, let alone action. Similarly, the Fed has cut rates by 150 basis points with new rounds of quantitative easing so far and Bank of England followed suit with a 50 basis point cut and renewed quantitative easing in April. In the same vein, additional quantitative easing measures were announced by the European Central Bank and the Bank of Japan. On the fiscal side, the United Kingdom has been the fastest to react while the Trump administration is flirting with the idea of a big bazooka. As usual, more hesitation exists in Germany, the country with the largest room, but at least the intention to act has been announced, if not executed. The key issue, though, is that all of these actions are domestic policies and, thus, clearly insufficient to deal with a global shock since their impact may not necessarily reach where it is most needed.

The needed for international cooperation was a lesson painfully learned in 2008. In fact, the massive dollar crunch which Lehman created beyond the US borders was not only tackled by the FED easing but also by policy cooperation. In fact, both the G7 and the G20, together with international organizations, played an important role during that period, which ended up with the FED making dollar liquidity available cross-border by setting up swap lines with major central banks. This cooperation is lacking today as it could not be otherwise. President Trump's continuous attacks to the Transatlantic Alliance, let alone to China through the trade war he initiated two years ago, have reduced the US' leeway – and probably interest – to lead a coordinated action.

As for China, the baton has not been passed on to China to lead such efforts, which would anyway be very difficult given existing and growing differences in economic models and, therefore, policy actions. In fact, no matter how much China tries to lead with examples, it is still far away with offering a playbook of comprehensive policy actions, as China, itself, is trying to refloat its economy after such major shock. Furthermore, financial markets are short of dollar, not renminbi so only the US administration holds the key to limit the global economic impact of the coronavirus outbreak. Given how badly the coronavirus outbreak in the US is affecting Trump's chances to be reelected, let's hope that he comes to his senses and see the advantages of leading a coordinated effort to save the global economy. For once since he came to power, he may see the positive angle of global cooperation and multilateralism, of course, for his own sake.



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