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From COVID-19 to “Political Virus”: Implications for Business

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The impact of the coronavirus pandemic on the global economy has been largely disruptive. As the world is scrambling to contain the worst virus outbreak in recent memory, the last thing consumers, producers and investors need is a sharply escalating trade dispute between the two economic superpowers, the United States and China. The trade war was starting to calm down just before the COVID-19 broke out. Nevertheless, now tensions have reignited. Rather than being a reason for bringing the two nations together to fight the pandemic, it has sent their already strained links on a rapid downward spiral and fanned the flames of a menacing strain of nationalism.

The United States-China relations: Perilous past, uncertain present

Since 1949, the relations between the dominant powers in the East and West, the United States and China, have evolved from tense standoffs to a complex mix of exacerbating disordered world, increasing international rivalry, and growingly entwined economies. Prior to 2001, US foreign policy mainly focused on integrating China into the international community. This changed following Beijing's emergence as a potential global power. Even prior to Donald Trump's inauguration, he was stoking the flames on the campaign trail, using language of “rape” and “theft” in regards to Chinese trade practices. The Trump administration has staked out an aggressive position against China, accusing it of fostering unfair competitive conditions caused by large market-distorting subsidies and forced technology transfers. Trump's promise to stand up to China through the volley of tariffs is also motivated by the US strategy towards Beijing that consists to deter or to defeat threats to US and its interests, and appears to have a goal of halting China's quest to dominate Asia. Accordingly, in July 2018, US President Donald Trump followed through on months of threats to impose sweeping tariffs on China for its alleged unfair trade practices. Over the 18 months that have followed since, the two giants have been embroiled in countless back-and-forth negotiations, a tit-for-tat tariff war, prompting the US-China trade tensions to the brink of a full-fledged trade war. For several months, neither US nor China's President showed signs of slowing down, and as a result investors have been buffered by heightened uncertainty stemming from doubts of a decline in economic activity at the global level. But on January 15, 2020, the first signs of a truce were observed, when the two sides signed the Phase One Deal, which officially agreed to the rollback of tariffs, expansion of trade purchases, and renewed commitments on intellectual property, technology transfer, and currency practices. This has offered the prospect of some economic stability. The new coronavirus, however, has reignited tensions between the two world's largest economies.

The coronavirus threw fuel on the flames

Insults and growing accusations over the current coronavirus crisis are accelerating an already steep collapse in the world's most crucial relationship. Donald Trump's negative stance toward China is a far cry from his posture in January, when the virus had just emerged in Wuhan and when President Trump was focused on achieving the trade deal with China. At the time, he praised China's response to the coronavirus, regardless of reports that Chinese authorities had suppressed information about the new and deadly virus. An assessment of how the Trump administration responded to the coronavirus outbreak reveals a story of missed opportunities, mismanagement and a president who resisted the advice of public-health professionals and policy makers warning about this outbreak. Consequently, "Tough on China" has suddenly become the theme of the election. Mr. Trump and high-ranking administration officials have sought to pinpoint blame for the spread of the virus on Beijing, by depicting China as a scapegoat for his failure in containing the pandemic. They blamed China for obscuring consorious information regarding the coronavirus, knowingly referred to the "Chinese virus" and hasten support for the conspiracy theory, that the virus escaped from a Chinese laboratory. In response, China propagandized the mishandled US coronavirus response while attempting to spotlight the superiority of its own political system.

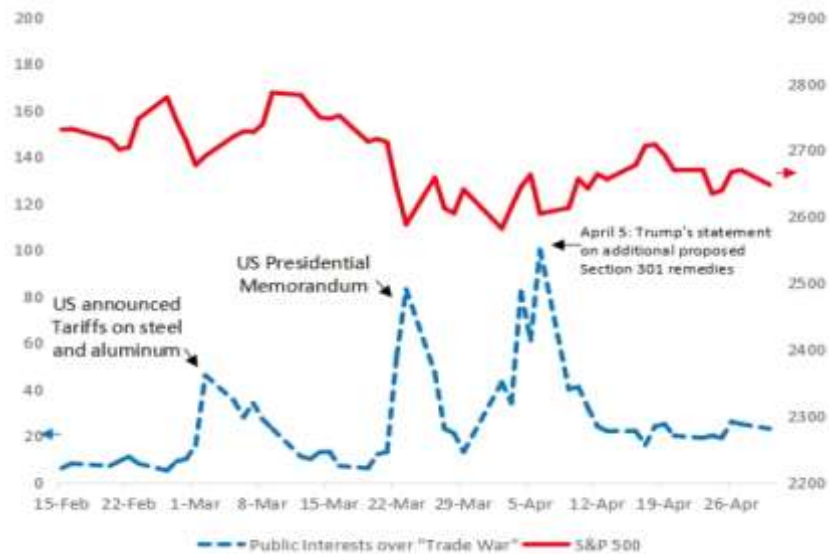
Rising nationalism

The coronavirus pandemic is reshaping the global economic and political map as well as the bilateral ties between the two world's largest economies. As bilateral ties plunge during the pandemic, US public opinion on China has also hit a new low. A recent Pew poll indicated that 66% of Americans have an unfavorable view of China. Likewise, nationalism and anti-foreign sentiment reaches its highest levels in China. In short, the COVID-19 is fuelling mistrust among consumers in both China and the United States about each country's products, as the momentum for a decoupling between the two giants exacerbates. In the same context, a very recent survey by Deutsche Bank's big data platform found that 41% of Americans would not buy a "Made in China" product again, and 35% of Chinese would prevent buying products "Made in USA". Overall, the survey outcomes underscore a sharp rise in commercial nationalism and an increasing distaste for globalisation.

Business impact: A lose-lose scenario

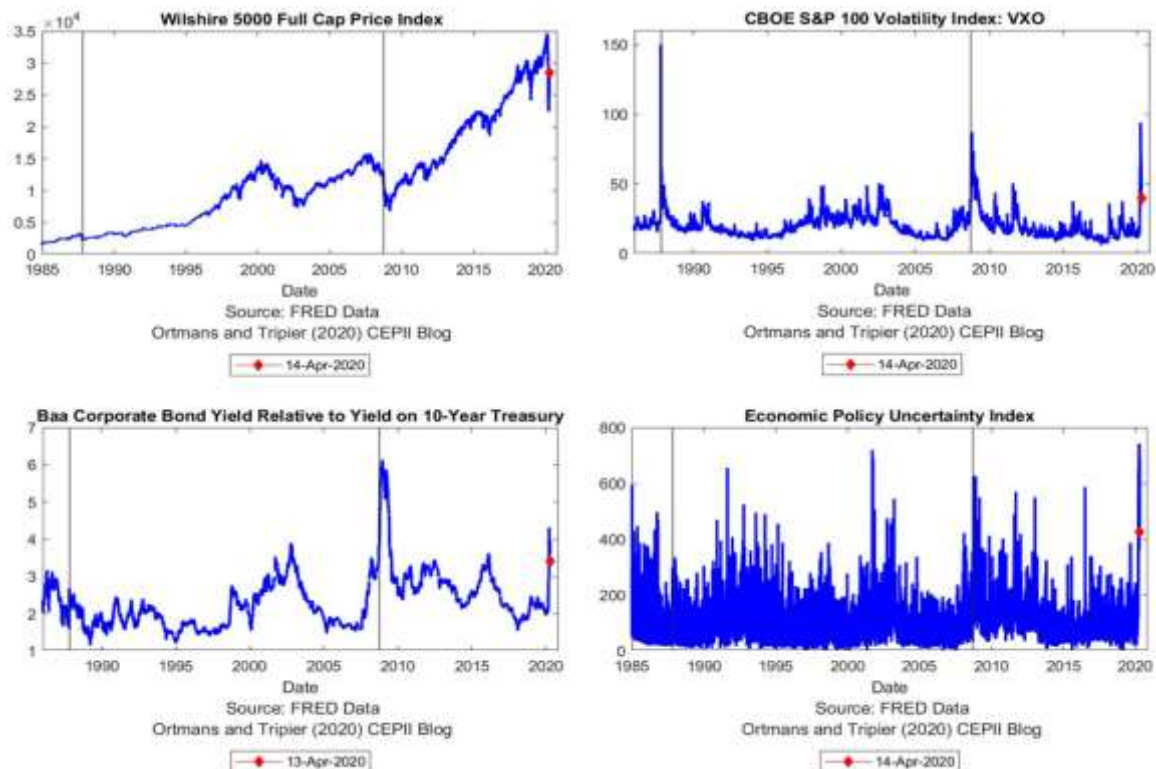
Prior to the emergence of coronavirus, the US-China trade war has been a great source of uncertainty for financial markets over the past year. The heightened uncertainty has weighed on investor confidence around the world, and has contributed to noticeable losses. As Figure 1 indicates, the marked decline in the stock market index on 22 March 2018 highlights that the presidential memorandum based on Section 301 of the Investigation of China's Laws, Policies and Practices was a widely unforeseen event. In response to the escalation of trade tensions, the S&P 500 index collapsed by about 4.5 percent on mid-March 2018. Public interest in the trade tensions also peaked on the same period. Similar drops of the S&P 500 index and corresponding surge in public interests are also seen for the other announcement dates highlighted in the Figure 1.

Figure 1: Public interests over trade war and stock returns



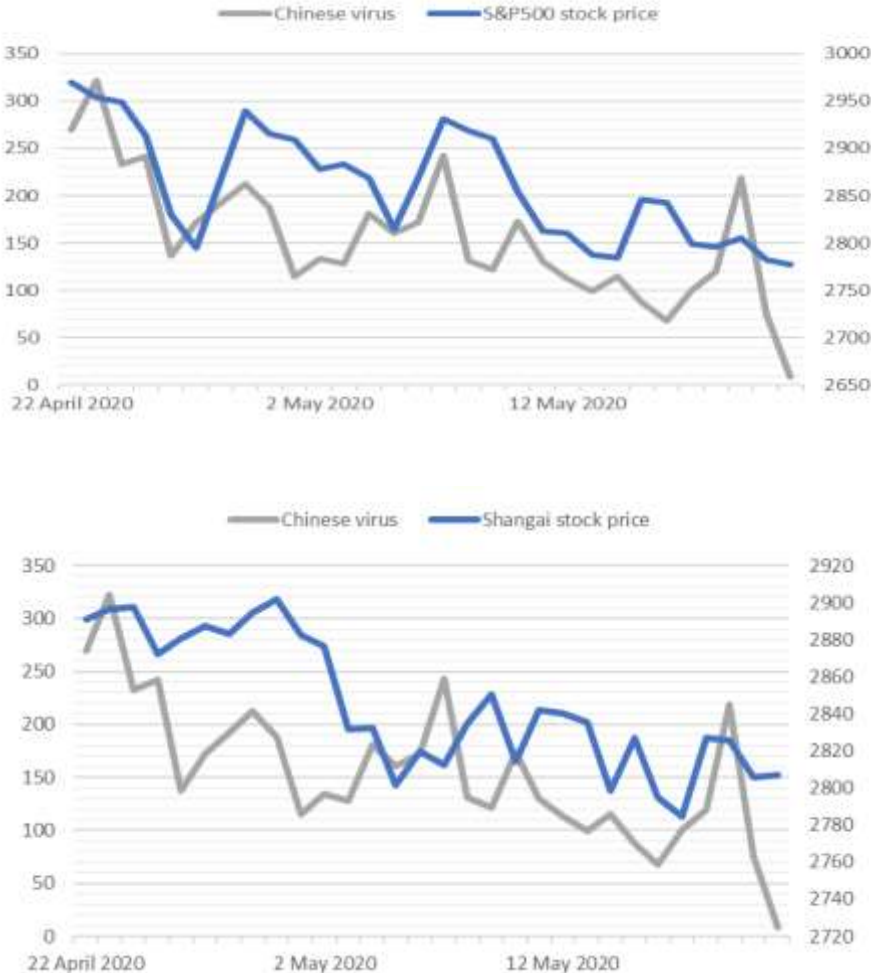
The increasing anti-China sentiment raises concerns in the business community, that the crackdown could harden further, slashing trade and investment flows between the two countries and deepening the US and global recessions. By focusing on four indicators of stock market value, stock market volatility, credit spread and uncertainty on economic policy (see Figure 2), we can observe that the coronavirus crisis generates large uncertainty as the stock market volatility increases sharply. The credit spread has more than doubled, before collapsing and staying at a high level over the Covid-19 crisis period (higher than that of 2008 global economic crisis). These observations underscore how the current crisis threatens the real economy.

Figure 2: Coronavirus, financial volatility and economic policy uncertainty



To assess the vulnerability of the two stock markets to increasing uncertainty surrounding the pandemic, it seems important to have a look at the correlation between the recent Trump’s “Chinese virus” claims and changes in US and China stock markets. As the “Chinese virus” label was first used on Twitter post, and as the President’s tweets have long been considered to be informative signals that may affect investors’ decisions in the stock market, we consider the tweets associated with the keyword “Chinese virus”. Figure 3 describes the tweet count per day associated with the term “Chinese virus” and the evolution of US and Chinese stock markets for the same period. We clearly observe that the period under study experienced a heightened uncertainty amid coronavirus crisis. We observe that there are some periods where the US and Chinese stock prices and the sentiment index operate in opposite directions while in other periods the variables of interest evolve in the same direction, highlighting the informativeness of sentiments in times of market distress.

Figure 3: U.S. and China stock prices and Twitter counts related to the “Chinese virus”



Overall, the responses of both stock markets to Trump’s “Chinese virus” claims seem significant, suggesting that the sentiment and confidence of investors are impacted by heightened uncertainty and rising doubts. Expectedly, traders and investors are very anxious about the consequences a reescalation of trade tensions will have on the markets. Their sentiment and confidence are highly impacted by the atmosphere of uncertainty stemming from growing anxiety of a decline in economic activity at the global level. It must be mentioned at this stage that increased volatility of US and China stock market due to

escalated tensions over the coronavirus can have large repercussions on the economy as a whole through its impact on real economic activity and public confidence.

Beyond the business implications of escalating trade dispute between US and China over the COVID-19 and the resulted “Chinese virus” politics, the language we employ and the actions we take in uncertain times amid unparalleled crisis will have lasting effects. During times like these, it is of paramount importance to be vigilant in combating the age-old viruses of hate and prejudice, which reassert themselves throughout history in turbulent periods. Such an uncertain environment requires global cooperation and medical solutions, not national where states have just to compete with each other.

Further reading

Bouoiyour, J., Selmi, R., (2020). “The United States and China Relations: The Beginnings of a New Cold War in the Coronavirus Era.” ***This preprint will be available for interested readers upon request.*** Corresponding author: refk.selmi@esc-pau.fr

Selmi, R., Errami, Y., Wohar, M., (2020). “What Trump’s China Tariffs Have Cost U.S. Companies?” *Journal of Economic Integration*, 35(2): 282-295.