



Insight

Coronavirus, Tariffs, and Buy American Laws

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Executive Summary

- The Trump Administration is pursuing two contradictory trade-related policies in response to the coronavirus outbreak: one that expands U.S. access to foreign-made medical supplies, and another that prevents the federal government from purchasing medical supplies that are not manufactured in the United States.
- The first policy provides tariff exemptions for certain medical equipment and supplies, lowering the cost of medical necessities during the current outbreak.
- The second policy invokes Buy American laws for medicines and medical supplies – restricting the government’s access to medical products produced abroad – which will increase prices and exacerbate current shortages

Introduction

Last week, amid the ongoing coronavirus outbreak, the Trump Administration released three lists of medical supplies that will be temporarily exempted from tariffs. These products are part of a broader group of imports from China that have been granted tariff exclusions at the request of U.S. businesses. At the same time, the Trump Administration is preparing an executive order to reduce U.S. dependence on international supply chains by mandating that all of the federal government’s medical purchases be of medicines and medical supplies manufactured in the United States.

These two seemingly contradictory policies, one targeted at expanding trade and the other at restricting it, are both aimed at combating the coronavirus outbreak. Only one will have the desired effect.

Tariff Exclusions

Since taking office, President Trump has imposed tariffs on \$370 billion of imports from China, increasing nationwide costs by [roughly \\$73 billion per year](#). In addition to raising the price of consumer goods, these tariffs also increase costs for businesses that utilize imports – including hospitals and other medical-service providers. Previous AAF research found that [over 60 percent of imports](#) from China are used by goods-producing and services-providing U.S. firms, and that a portion of the president’s tariffs could increase the cost of medical supplies by [\\$400 million nationwide](#).

The decision to exempt certain medical supplies from President Trump’s tariffs will undoubtedly help the U.S. response to the coronavirus by keeping costs down and increasing access to necessary medical equipment during a time of shortages. It will also reduce needless strain on the economy, a necessary policy response while the United States experiences this crisis. [Research shows](#) that tariffs hurt economic growth by reducing business investment, consumer spending, and productivity levels.

The three tariff exclusion lists cover 12 product categories including medical gloves, surgical drapes, goggles, and electromechanical appliances. The following table shows the Section 301 List 3 exclusions released on [March 12](#) and the Section 301 List 4 exclusions released on [March 10](#) and [March 12](#). These exclusions apply to approximately \$7.5 billion of annual U.S. imports. The decision to exclude these products from the president’s tariffs will save health care providers and patients over \$690 million, based on figures from 2019 – and possibly more, since demand for these products will likely rise this year.

Table 1: Section 301 Tariff Exclusions in Response to the Coronavirus

Tariff Exclusion	Value of Affected U.S. Imports (2019)	Tariff Rate	Cost Savings
Section 301, List 3	\$726.0 M	25%	\$181.5 M
Section 301, List 4	\$6.8 B	7.5%	\$510.4 M <i>[i]</i>
Total	\$7.5 B	7.5 – 25%	\$691.9 M

An Excel sheet with all of the above product exclusions and their 2019 import values can be found [here](#).

Buy American Laws

Last week, top White House trade advisor Peter Navarro [announced](#) that the Trump Administration was preparing an executive order to reduce U.S. reliance on foreign made medical supplies. The executive order will have three components – Buy American requirements, regulatory reform, and government investment in advanced manufacturing facilities in the United States.

[According to reports](#), the Buy American requirements in the executive order will mandate that all federal purchases of medicines or medical equipment by the Department of Health and Human Services and the Department of Veterans Affairs be of American-made products. Additionally, it may empower the government to force federal contractors capable of manufacturing medical supplies to do so and withdraw the United States from current World Trade Organization (WTO) commitments, such as a pledge to not discriminate against foreign-made products in government procurement. The regulatory reform will roll back current regulations that make it more difficult for U.S. pharmaceutical products to come to market and new medical manufacturing plants to open. The investment will subsidize U.S. manufacturing facilities capable of producing medicines and medical equipment. All three components of the executive order are aimed at reshoring the production of medical supplies and pharmaceutical products.

Rolling back regulations that inhibit U.S. manufacturing of medicine is a beneficial policy change that will spur U.S. production and economic growth. On the other hand, mandating that all government procurement of medical supplies be of American-made goods, especially in the middle of a public health crisis, is not. [Research has shown](#) that Buy American laws increase the cost of goods purchased by the government, and these costs are often passed down to consumers via higher prices. In this current outbreak, Buy American laws will make it more difficult and expensive for the United States to obtain needed medical supplies to combat the coronavirus, exacerbating current shortages. Furthermore, withdrawing from current WTO obligations will invite retaliation from our trading partners.

Similarly, it is understandable that the U.S. government would have an interest in increasing domestic manufacturing to avoid shortages of medical supplies in the future. Building new production facilities takes time, however, and it is unlikely that any amount of investment will eliminate the United States' need for foreign-made medical supplies during this crisis.

Conclusion

The Trump Administration has responded to the coronavirus outbreak with two separate trade-related policies, one that reduces the price of foreign-made medical supplies and another that could completely cut off the federal government's access to those same

medical supplies. While reducing tariffs will help increase U.S. access to needed medical equipment during this crisis, Buy American laws will raise prices and intensify current shortages.

[i] Due to limited data availability, this analysis overestimates the dollar value of products subject to tariff exclusions and therefore overestimates the cost savings. The dollar value of tariff exemptions was determined using HS10 codes, the narrowest classification available, but one that includes more goods than were specifically exempted. HS10 codes that appear multiple times on the tariff exemption announcement are only counted once.