Key Economic Policies and the International Economic Policies of the US Biden Administration

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Abstract As the COVID-19 pandemic began in the year of 2020, the US was plunged into recession. Americans suffered under the insufficient supply of essential medical equipment, such as masks, protective clothing, and artificial respirators. Since 20 January 2021, six months into his presidency, Biden worked alongside the disastrous effects of COVID-19. Needless to say, Biden's priorities lay insolving the piles of domestic problems caused by COVID-19. The state focused on securing vaccines, adapted policies to supply vaccines, and announced widespread stimulus packages. Seven months into Biden's presidency, this essay seeks to point out the implications of the economic policy of the Biden administration, as well as the status and progress of such policies.

Keywords Biden · Economic policy · South Korea · American Rescue Plan

Introduction

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Economic policy of the Biden Administration

This essay begins by observing the economic policy of the Biden administration. Biden began his presidency by announcing his top four priorities. These included the fight against COVID-19, racism, climate change, and the devastated economy. A month after his inauguration, Biden signed a total of 31 Executive Orders on promoting his priorities. In comparison to the former US presidents Obama (First term: 14; 2ndterm: 1) and Trump (12), Biden has signed a notably larger number of executive orders[1], showing his determination during his early days of presidency. More specifically, six executive orders were signed on fighting COVID-19, three to combat climate change, two for labour policy, and the remaining for domestic manufacturing and the extension of Obama Care, which all reflect Biden's top policy priorities. Furthermore, Biden has taken more than 50 of Executive Actions, including the presidential memorandum and proclamation. These involve cancelling former president Trump's decisions, such as re-joining the Paris Climate Agreement, withdrawing Trump's decision to pull US out of the WTO, and continuing the DACA program. We can see that Biden has exerted much effort in order to paint his own colour to US policies by reversing the decisions made under the Trump administration.

The following explores through each of the four top priorities of the Biden administration. Firstly, we look at President Biden's steps to bring COVID-19 relief. The US currently globally stands as first with the highest number of cumulative confirmed cases and deaths - 33,852,501 cumulative confirmed cases and 607,155 cumulative confirmed deaths were reported in 12 July 2021.[2] To confront the exponentially rising number of cases since March 2020, Biden actively sought to supply vaccines that former president Trump had secured during his presidency. Within 92 days of his presidency, Biden was able to achieve his goal of vaccinating 200 million Americans within 100 days of his presidency.

Next, we explore Biden's policies aimed at overcoming the economic crisis. In 2020, the COVID-19 pandemic took its toll on the US economy and unemployment shot up, especially in April, marking the highest of existing statistics with 14.8%. Furthermore, US weekly jobless claims rose to more than 22 million. With such large-scale unemployment in the period of lockdown policies, private consumption expenditure, covering close to 70% of US GDP, dropped to 33.2% in the second quarter of 2020 in comparison to the first quarter (Refer to Figure 1, red line represents April 2020).

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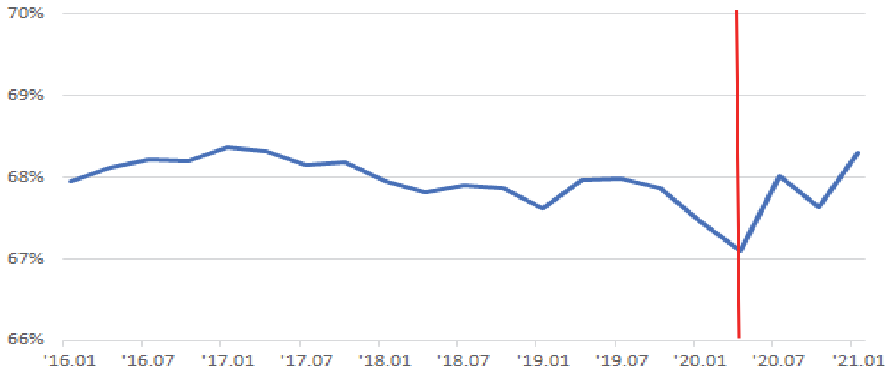
[1] Federal Register. Executive Orders.
https://www.federalregister.gov/presidential-documents/executive-orders/.

[2] Johns Hopkins CSSE.
https://www.arcgis.com/apps/dashboards/bda75947740fd40299423467b48e9ecf6/.

(In percentages)



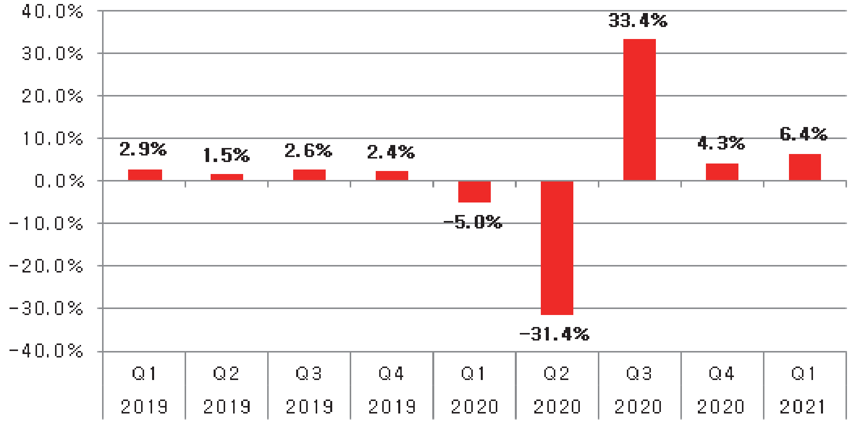
Source: Federal Reserve Bank of St. Louis Economic Data (FRED)

Fig. 1 US Private Consumption Expenditure to GDP

The US is currently seen as recovering from the COVID-19 shock. In the first quarter of 2021, economic growth rate rose steeply in comparison to 2020, rising from -3.5% to 6.4% (Refer to Figure 2). Many believe that the US Federal government's five stages of large-scale economic stimulus, amounting up to 4 trillion, as well as the monetary relief of the Federal Reserve have done much to ameliorate the situation. In addition, the Biden administration is enforcing a large-scale economic stimulus in order to recover from the COVID-19 economic crisis, also known as the American Rescue Plan of $1.9 trillion. The key part of this plan is to provide individuals with direct cash payments and checks. As much as private consumption expenditure makes up a large portion of the American economy, it was of importance for the recovery of the American economy to bring stabilisation of demand by temporarily increasing the disposable income of individuals. Individuals making up to $75,000 per year or married couples making up to $150,000 per year were provided payments through bank transfer or through mail as a check, each individual provided an amount of $1,400. During the fifth economic stimulus in 2020 December, $600 cash was provided to Americans. Keeping this in mind, through the recent American Rescue Plan as well as the emergency disaster relief fund, an individual enjoys a total of $2,000 increase in his/her disposable income. Another solution in the American Rescue Plan encourages the boost of private consumption. The weekly unemployment benefit of $300, to those who became unemployed due to COVID-19, was extended until 6 September 2021.

Observing the changes in the 2021 US retail sales reflects a distinct impact of the COVID-19 relief fund, which was provided in 2020 and 2021. Official statistics of 2021 show that average retail sales between January and May 2021 amount to $540 billion, and comparing this to that of the previous year (2020 January to May) amounting to $435.8 billion, there has been a 23.9% increase in retail sales (Refer to Figure 3). The increase in private consumption expenditure is clearer when looking at the difference between the April 2020 and April 2021, showing a 48.1% increase in retail sales. US retail sales is expected to increase even further as the $1,400 relief fund, through the American Rescue Plan by the Biden administration, lands into the pockets of American individuals.

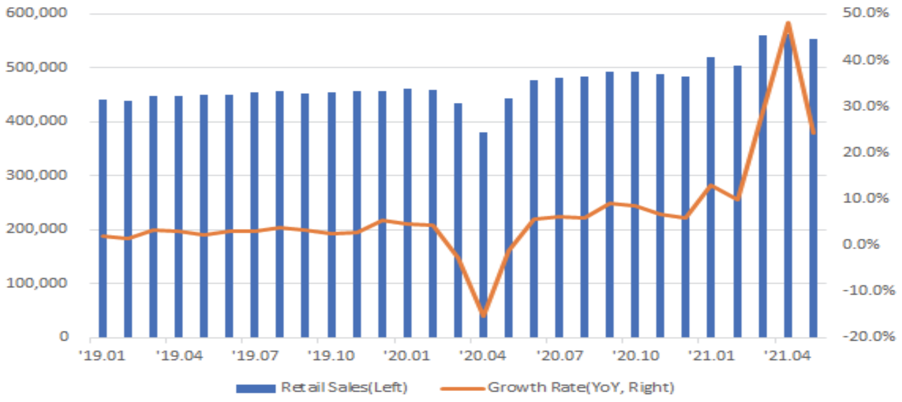
(In percentages)



Annual Rate Compared to the Year Before (Seasonally Adjusted, Annual Rate)
Source: US Bureau of Economic Analysis (BEA)

Fig. 2 US Quarterly GDP Growth Rate

(In million dollars, percentages)

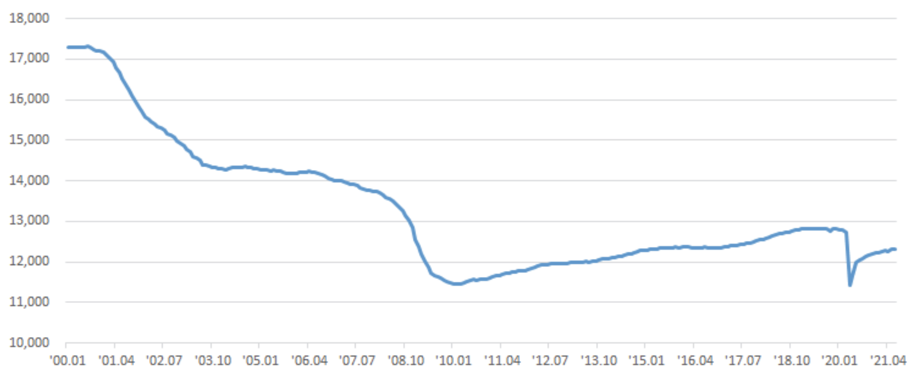


Source: US Census Bureau

Fig. 3 Rate of Increase in US Private Consumption Expenditure Between April 2020 and April 2021

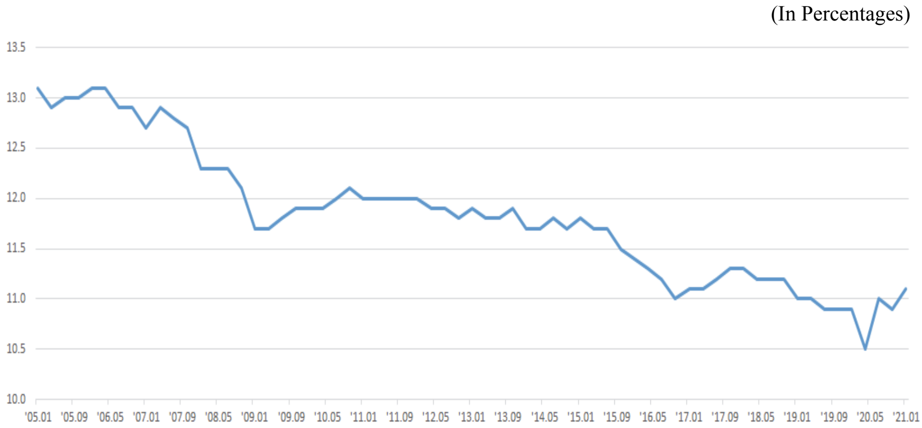
To further encourage economic recovery, the Biden administration is attempting to revive the stagnating American manufacturing. Referring to Figure 4, the number of employees in the US manufacturing sector has been declining ever since early 2000, and has gradually increased since Obama's presidency. The number plummeted again in 2020 as the COVID-19 pandemic took its impact on US manufacturing. Figure 5 further corroborates the fact that there has been a downturn in US manufacturing, showing that the ratio of manufacturing value added to US GDP has been steadily declining as well. To solve this situation, President Biden has announced on 31 March the "American Jobs Plan" abiding by his election slogan 'Build Back Better'. The budget of the plan amounts up to $2.25 trillion, which will be invested in horizons of eight years on diverse infrastructure sectors. These can be largely divided into: logistics; manufacturing and R&D; care facilities; housings, schools, hospitals; water systems, communications technology, and electricity. In particular, a total of $480 billion will be invested into the manufacturing R&D sector for the purposes of strengthening semiconductor manufacturing, expanding medical manufacturing against COVID-19, supporting the production and purchase of clean energy through government contracts, and expanding investment in clean energy and semiconductor technology. Such large-scale expansionary fiscal policy by the Biden administration is expected to lead the US economy to a quick recovery in the next two years. While the purpose of the "American Jobs Plan" focuses on the rebuilding and transformation of America's physical infrastructure, as well as reviving the fallen manufacturing, President Biden has also declared the "American Families Plan" to invest in human infrastructure. To enforce this, $1.8 trillion is expected to be invested. Even before his election, Biden has emphasized economic policies for the middle class, which include continuous economic growth and emphasizing competitivity, as well as bolstering future industries and improving the quality of human resources. More specifically, it is expected that lower- and middle-income families will be provided some relief through extensive tax credits, such as free pre-school and community college, support of child care, and paid leave programs. As large as the fund will be, it is also a heated controversy on how the US Federal Government will allocate the financial resources. The Biden administration is planning to allocate the funds through a tax reform. In other words, it is planning to increase corporate tax, lowered by former President Trump, from 21% to 28% and to raise the tax rate for high-income people as a form of financial resource. The Republican Party is strongly arguing against using the higher taxation as a source of finance, and demands that the total budget for the "American Jobs Plan" should be largely decreased. It is essential to note that the two large-scale plans by the Biden Administration must be passed by the US Congress, the Senate and the House of Representatives in order to be enforced. This means that there will be a heated negotiation on the financial resources and the budget of Biden's plans among the Biden administration, the Democrats and the Republicans, as the US Congress consists of half of each party (50 seats each).

(In Thousands)



Source: Federal Reserve Bank of St. Louis Economic Data (FRED)

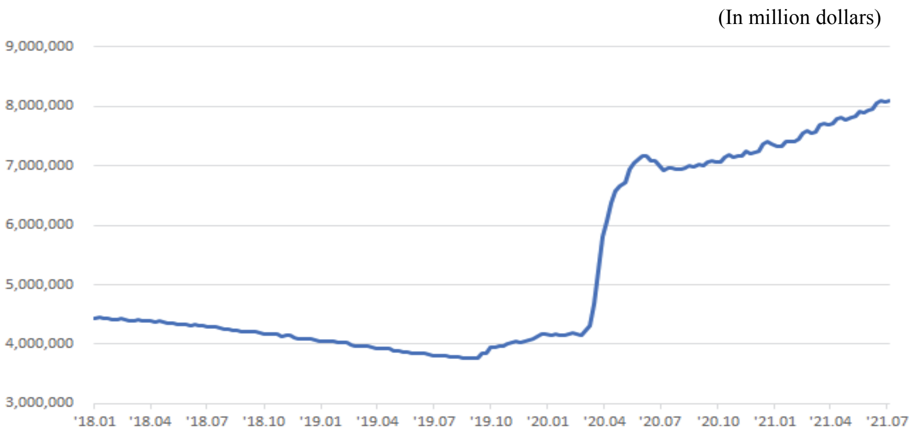
Fig. 4 Number of Employed in US Manufacturing



Source: Federal Reserve Bank of St. Louis Economic Data (FRED)

Fig. 5 US Manufacturing Value Added to GDP

After five years, the US Fed returned to keeping the interest rate at zero, and had been maintained ever since the global financial crisis. Along with this, the Fed took quantitative easing measures by increasing purchases of government bonds and MBS (mortgage-backed securities). The US Fed Balance Sheet, made up of government bonds and MBS, hit $8.1 trillion in 7 July 2021, which is two times greater than it was before COVID-19 in 26 February 2020 (with $4.16 trillion) (Refer to Figure 6). The liquidity provided in the market poured into the real estate market and the stock market, raising concerns in the US financial market on an asset bubble. There is also rising uneasiness on potential inflation, as prices of natural resources, such as crude oil, rose with the recovery from COVID-19, furthered by rising vaccination rates and increasing expectations of economic recovery. Possibly to endorse this, the Federal Open Market Committee (FOMC) discussed a potential measure of tapering in order to reduce inflationary pressures by reducing asset purchases. This measure was not mentioned again in the following FOMC meeting in June, but their original decision on not to increase the base rate until 2023 had changed, indicating that there will be an increase of interest rate in 2023. The Fed also increased its expected inflation rate from its original calculation in March 2021, from 2.4% to 3.4%, claiming that there have been positive influences in economic activities and the employment report. If the Fed decides to continue with the expansionary monetary policy without tapering measures, US dollars is expected to remain weak for a period of time. The Dollar Index, used to measure the value of the dollar against major currencies, reflected the weak dollar with an index below 90, at 89.829. However, with the increase in employment and private consumption expenditure, the US economy will continue to recover. It is expected that the Fed will start discussing possible contractionary measures such as tapering latest by the last quarter of this year. The Fed, attempting to catch two birds with one stone, both inflation and employment, will most likely be carefully monitoring the changes in the market to make monetary policy decisions such as tapering or increasing in interest rates.



Source: Federal Reserve Bank of St. Louis Economic Data (FRED) (July 2021)

Fig. 6 Changes in US Fed Balance Sheet

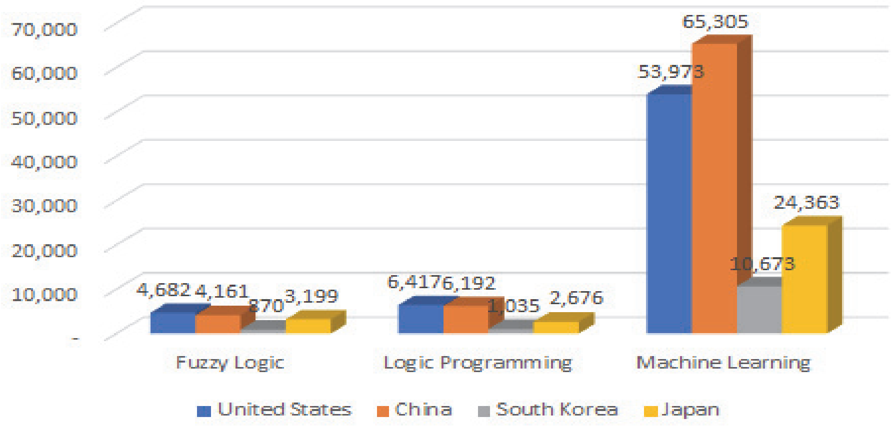
We move onto the third policy priority of the Biden administration - climate change. Former president Trump called climate change issues a hoax, relaxing regulations on fossil fuel industries, rolling back vehicle emissions standards, and exiting the Paris Climate Agreement. Biden, prioritizing climate change, cancelled Trump's decision on exiting the Paris Agreement and placed former Secretary of State John Kerry in the National Security Council (NSC) as the US Special Presidential Envoy for Climate. This reflects Biden's belief that climate change issues are directly linked with national security. Biden also continues to lay out further plans to achieve net-zero greenhouse gas emissions by no later than 2050. His "American Jobs Plan" is also a climate plan, in that it includes expansion of investment into the electric vehicles industry, as well as R&D investment into clean energy technology. Biden plans to implement carbon pricing by 2025, achieve zero greenhouse gas emissions from commercial buildings by 2030, and decarbonize the power sector by 2035. Biden's attempts to reclaim US global leadership in climate change is clearly shown through the G7 summit in February 2021, as well as through the Leaders' Climate Summit held in April with 40 major economies.

International Economic Policy of the Biden Administration

Let us now observe the international economic policy of the Biden administration, as well as the following trade policies. Biden seeks to achieve the following through his international economic policies: the revival of US leadership, active cooperation and recovery of relationships with allies, promoting the importance of human rights and democracy, and supporting the middle class. Former President Trump imposed import restrictions on both US allies and non-allies, which led to a drop of trust and credibility in the respective countries on the US. However, the Biden administration believes that the US is a country capable of leading international order, and is actively seeking to cooperate with allied countries on diplomacy, security, trade, and more fields in order to increase its credibility. The Biden administration is also taking a strong stance against the threats of the Chinese government on Hong Kong's sovereignty, as well as criticizing China's crimes against humanity for targeting Uyghurs, emphasizing the values democracy and the protection of human rights. Lastly, through his foreign policy designed for the middle class, Biden seeks to achieve a fair global trade order abroad, while domestically investing in clean energy, infrastructure, R&D, and education.

Biden is also revising the re-joining of the US in major international conventions and organizations that Trump had pulled the US out of. Biden has proceeded with re-joining the Paris Agreement and the WHO with the beginning of his presidency. His official decision on the Trans-Pacific Partnership (TPP) has not been established, but it is highly likely that the US will join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in order to go against China's interests of increasing its sphere of influence in Asia Pacific through the Regional Comprehensive Economic Partnership (RCEP) or the Belt and Road Initiative. However, if the US actually reviews the re-joining of the CPTPP, it will demand the original members to reinforce clauses on labor, environment, and digital law as it did in the US-Mexico-Canada Agreement (USMCA). The US will also attempt to incorporate its viewpoint in the decision making when the USMCA rule of origin in the manufacturing of cars clashes with the CPTPP clause.

Next, we look into the US critical supply chain review, which the Biden administration has recently been emphasizing. This year 24 February, President Biden signed the executive order "America's Supply Chains", which addresses the need to identify risks in the supply chain of four key products: the semiconductors, batteries, medical equipment, and rare earth elements. It also specified the importance of analysing the supply chain of defence, health, energy, ICT, logistics, and agriculture industries, as well as making relative policy suggestions. The purpose of such executive order is to support the reshoring of US companies, secure a sufficient stock of essentials, and obtain self-sufficiency in materials and industries. This is largely because there is a need to build the US-centric supply chain, as US automobile manufacturers such as GM and Ford are experiencing difficulties in production due to the recent supply shortage of automobile semiconductors. The three key factors of the US critical supply review of the Biden administration are as follows. Firstly, it blames the excessive dependency of materials on the global supply chain, most importantly the ineffective supply of masks, respirators, and necessary medical equipment to the medical staff and patients during the spread of COVID-19 in the US. Biden promised in his campaign to build a US-centric supply chain in not only essential medical equipment, but also in industries that are of importance to semiconductors, energy, ICT, and national security. The executive order "America's Supply Chains" can be seen as Biden's campaign promise coming to practice. The second factor is the US-China technology competition in the semiconductors, 5G, artificial intelligence, and other advanced technology. China seems to be pursuing a goal of increasing semiconductors, pushing self-sufficiency in semiconductors to 40% in 2020 and reaching 70% in 2025. Based on 2020, China's semiconductor self-sufficiency rate amounts to 15.9%, and many consider it realistically difficult for China to reach its self-sufficiency goal. China's share in the US 5G network equipment import market continued to grow since 2016, reaching 50% in 2018. However, from 2019, it started to decline steeply, possibly due to the US department of commerce enlisting China's 5G network equipment manufacturer, Huawei, in the Entity List to keep China in check. US and China also have the top two AI patent filings. While the US overtakes China in terms of Fuzzy Logic and Logic Programming, China takes the upper hand in Machine Learning (Refer to Figure 7).



Blue: US, Orange: China, Grey: South Korea, Yellow: Japan
Source: Created by author, with reference to World Intellectual Property Organization (WIPO)

Fig. 7 Industry-/ Country-specific Number of AI Patent Filings

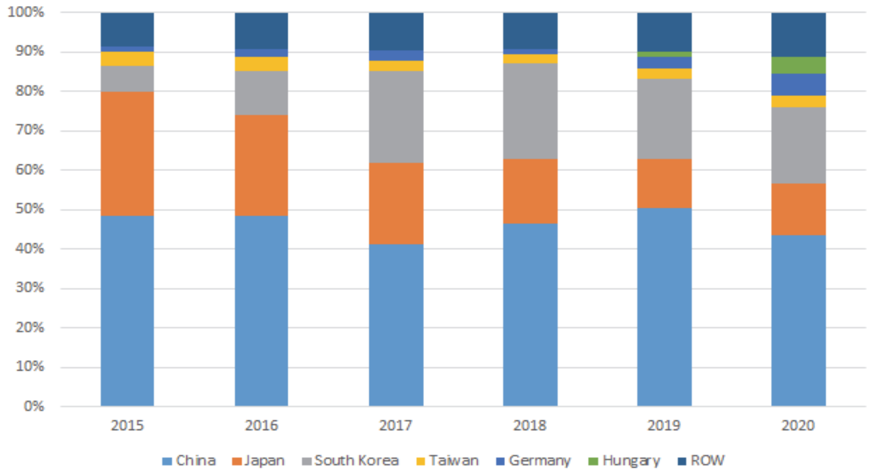
Lastly, the supply shortage of automobile semiconductors can be seen as the third factor that contributes to the US critical supply chain review. The 2020 COVID-19 pandemic decreased the global demand of automobiles, leading global foundries to cut short the production of semiconductors, instead increasing the production of smartphones, PC, and electrical appliances that have higher margins. This ultimately led to a shortage of automobile semiconductors. The situation worsened as global automobile semiconductor manufacturers in Austin, Texas, such as Infineon Technologies and NXP, were temporarily shut down as to the record cold wave, sweeping through Texas, stopped the supply of electricity. This had a large impact on the production of US automobile manufacturers, as Infineon and NXP take up a large portion of the global automobile semiconductors market, in 2020 taking 13.2% and 10.9% respectively.

With these factors in mind, the US plans to cooperate with allied countries to create a stable and improved supply chain for semiconductors and electric car batteries. The US specializes largely in design, core technologies, and manufacturing equipment in the semiconductors sector, and depend on the global supply chain such as Korea and Taiwan for the manufacturing of semiconductors. The Biden administration is seen to be pursuing two objectives of (1) cooperating with allies to make up for US's weak points in the semiconductors supply chain and (2) developing and strengthening the domestic semiconductors manufacturing sector. Its objectives are clearly demonstrated in the American Jobs Plan, which involves the investment of $50 billion to strengthen the semiconductor manufacturing capacity. Major US semiconductor company Intel has also expressed agreement in reinvesting in foundry and consignment production, announcing the IDM 2.0 strategy. It is also planning to invest a total of $20 billion and build two foundry plants in the state of Arizona.

President Biden also plans to expand investment in the electric car market through the American Jobs Plan. He has criticized the fact that the US share in the electric car market amounts only to a third of China's share, and plans to invest $174 billion in the manufacturing of electric cars and batteries, such as the installation of 500,000 electric car charging stations.

In 2020, China, Korea, and Japan took up more than 76% of the US lithium-ion battery import market of electric cars. China alone takes up 43%, increasing the US concerns of an increase in Chinese market share in the future electric car market.

(In Percentages)



HS Code 8507.60 Products

Light Blue: China, Orange: Japan, Grey: South Korea, Yellow: Taiwan, Blue: Germany, Green: Hungary, Dark Blue: Others

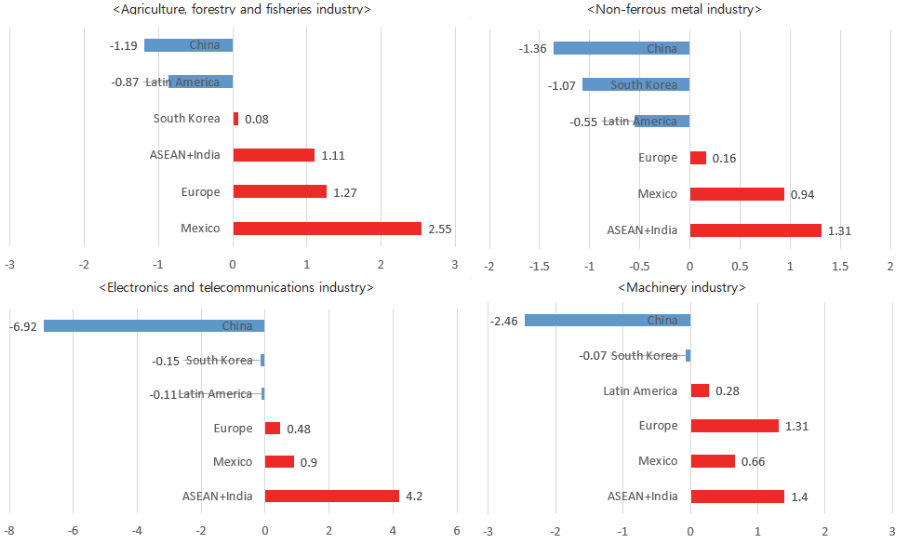
Source: USA Trade Online

Fig. 8 Annual Share of US Lithium-ion Battery Import Market

The Biden administration seems to be revealing a hard-edged China policy following the Trump administration. This may be reflected through the continuing spread of the Wuhan lab-leak theory and Anti-Chinese sentiment throughout the US. The Biden administration, however, seems to be refraining from imposing the unilateral tariffs that the Trump administration had used. Instead, they seem to be focusing on strengthening the sense of solidarity with its allies to pressurize China and its unfair trade practices.

In order to understand the trends of the decoupling of US and China, we may first observe the shares North America and China have in each other's import markets. Imports from China to North America have greatly decreased throughout most industries, with ASEAN, India, and Mexico's shares increasing especially in agriculture, forestry, and fisheries, as well as non-ferrous metal industries (Refer to Figure 9). Imports from North America to China in non-ferrous metal industries have also taken a dive, and increases in ASEAN, India, and Europe shares are seen in non-ferrous metal industries, electronics and telecommunications industries, and machinery industry (Refer to Figure 10). It is to note that the number of Chinese products that are ranked first to third in the US domestic market have increased after 2004 from 2,000 to 2,500. Furthermore, the Chinese product that has the largest share in the US market takes up more than half of the imports of the US for the specific product. Hence, it is difficult to forecast an import substitution in the short term, and the US-China decoupling will take a long time (Refer to Figure 11).

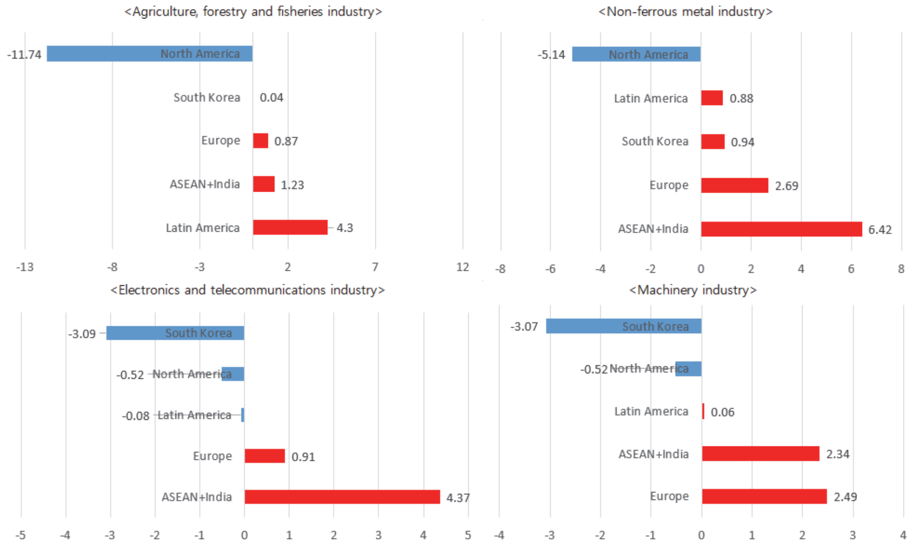
(In Percentages)



2015 to 2019
Source: Cho, et al. 2020

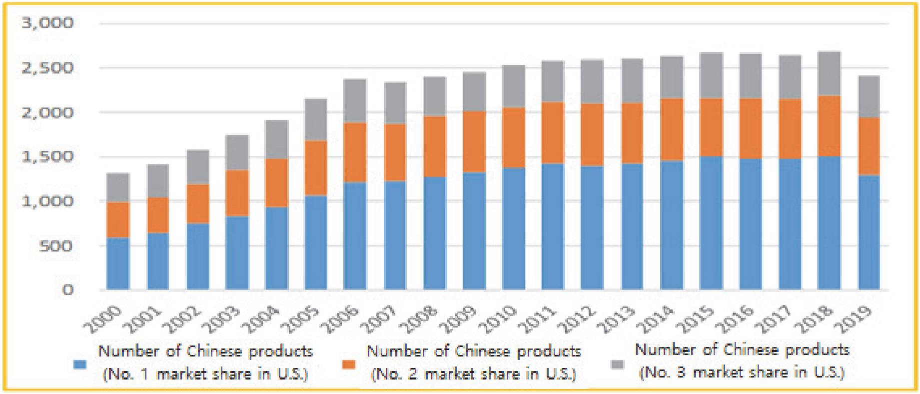
Fig. 9 Changes in the Share of Each Region in North American Import Market

(In Percentages)



2015 to 2019
Source: Cho, et al. 2020

Fig. 10 Changes in the Share of Each Region in Chinese Import Market



Source: UN Comtrade

Fig. 11 Number of Top 3 Chinese Products in the US Market

Next, we look at the Biden administration's policies towards trade agreements and tariffs. President Biden has expressed no interest towards entering new trade agreements before the he has made major investments domestically. It seems an obvious decision considering the fact that the US has the highest number of cumulative confirmed COVID-19 cases. After the COVID-19 situation stabilizes and a new basis for a new trade agreement is created, Biden plans to press for issues of labor and climate change. This is reflected by the 2018 USMCA, in which the democratic party demanded for higher environmental and labor standards. During her confirmation hearing, the United States Trade Representative Katherine Tai expressed her opinion on the need for a suitable trade policy adapted to the situation today, as there have been many changes that occurred ever since the TPP had first been formed.

For now, Trump's China tariffs seem to be lingering on in the actions of the Biden administration. The Biden administration plans to decide on the suitability of these tariffs based on China's implementation of the phase one trade deal, which had been signed by the US and China on 15 January 2020. Through this, there may be possible small readjustments to the tariff rates, but it seems to be highly unlikely that there will be a general removal of tariffs. In particular, there is a very high possibility that the imposition of Section 232 tariff on steel and aluminium imports based on threats to national security will remain. Former President Trump cut 10% of tariffs on UAE aluminium a day before his leave, instead placing quotas, while Biden decided to reimpose the tariffs at the very beginning of his presidency. The EU is also continuously demanding the removal of Section 232 tariff on steel and aluminium imports, and has temporarily suspended the rebalancing retaliatory duties and tariffs increases on certain US imports for six months.

Conclusion and Implications

This essay has developed upon the economic policies and main policy directions of the Biden Administration. It can be explained that there are both opportunities and risks that face Biden during his presidency. Firstly, the US economy is recovering along with the increasing number of vaccination rates. Various opportunities will arise with the active implementation of Biden's large-scale investments. In particular, the large increase of US domestic demand of building material and heavy equipment, such as steel, machinery and parts, will come simultaneously with the large increases in investments in clean energy and infrastructure. An eye needs to be kept out for the strengthening of the Buy American Act and its requirements on Federal agencies to procure materials and products domestically. The Biden administration is also planning to increase the corporate tax to achieve the necessary resources needed to enforce its large-scale American Jobs Plan. With the proposal of the US and the following cooperation of the G7, the new global minimum tax on corporate profits is expected to cause risks. Hence, Korean companies that have already entered the US market, or are planning to enter its market, need to prepare a suitable strategy against the increase of US corporate tax and the global minimum corporate tax.

South Korea will also have to face the recent significant issue of the US critical supply chain review on the basis of the following. Firstly, the two countries need to share their information on the risks in the supply chain of main materials and industries, mainly because the purpose of the supply chain review is to understand the weak points of the supply chains of each country and to improve on them. Furthermore, the cooperation of the two countries is crucial, especially to combat the COVID-19 pandemic with vaccines, or to make up for the insufficient number of semiconductors and strategic items that are necessary for the developments in the 4^{th}industrial revolution. The two countries also need to review their cooperation in the fields of transportation and logistics so that the supply chains can work effectively. To close up, Korea needs to actively request for incentives for investment and the relaxation of regulations on investment, as Korea's largest companies, such as Samsung, Hyundai, LG, and SK, are planning to invest large-scale in the US through the South Korea-US Summit.

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