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P R E S S R E L E A S E

United States: Stimulus plan paves the way for record trade deficit

Paris, April 6, 2021 - As the world's largest importer, and second largest exporter of manufactured goods, the United States has had a trade deficit since the early 1970s. Escalating trade tensions - in particular with China - and the COVID-19 pandemic, which disrupted trade flows have affected the trade balance in recent year. **The trade deficit has reached a record level of over 900 billion USD in 2020.**

In its latest economic analysis, Coface predicts that after a 3.5% contraction in 2020, US GDP will rebound by 5.7% this year, which would allow the US economy to return to its pre-crisis level as early as mid-2021, ahead of most advanced economies. As President Joe Biden reaches the half-way mark of his first 100 days in office, this powerful rebound in the US economy is partly driven by the unprecedented fiscal response to the crisis. The support package adopted in March 2021 amounts to 1.9 trillion USD, and will bring the total fiscal response to the crisis to an amount equivalent to 27% of US GDP, more than any other mature economy. Using an analysis based on historical estimates of a potential trade balance, **Coface estimates that the deficit could grow by 56 billion dollars as a result of the stimulus plan.**

A determined deficit fueled by American consumption

Historically, **the US deficit is explained by substantial imports to meet American consumption**. Since 2015, the main change has been the decline in the volume of industrial products and materials in the trade deficit. According to the Energy Information Administration, the country became a net exporter of natural gas in 2017, and of crude oil and petroleum products in late 2019.

Although capital goods are the most important export sector (34% of the total between 2010 and 2020), they grew less than imports, largely due to Boeing[1] woes in the last two years, and then by the COVID-19 pandemic.

USA - China: a trade war with mixed results

Donald Trump's presidency highlighted China's considerable weight in the US trade deficit. Between 2010 and 2020, China accounted for about 44% of the balance. However, while this declined from a record high of almost 420 billion USD in 2018, Trump failed to achieve his 2016 campaign goal of significantly reducing the overall deficit, which ended higher than when he took office. While the tariffs impacted the bilateral deficit with China, which fell by 18% in 2019, nearly three-quarters of this decline was offset by the trade balance with the rest of the world. The situation is similar in 2020. **The trade war between China and the United States,**

[1] Following two crashes in October 2018 and in March 2019 involving the Boeing 737 Max, the aircraft was suspended from flight by certification authorities in March 2019. After modifying the aircraft, the Federal Aviation Administration (FAA), the U.S. agency regulating civil aviation, authorized its return to service in November 2020

which saw an increase in trade barriers, had mixed results.

Signed on January 15, 2020 by Trump and Chinese Vice President Liu He, the impact of the "Phase One" trade agreement is difficult to assess, given the COVID-19 pandemic. By the end of 2020, China has not met its goal of purchasing nearly 64 billion USD more in agricultural, energy, and manufactured goods than in 2017 baseline. Out of a total of 159 billion USD in promised commodity purchases[2], China had only met 59% of this target by the end of the year.

"U.S. rescue plan": a strong rebound, but an ever larger trade deficit

Following the shock of the COVID-19 pandemic crisis, another major shift in the macroeconomic balance is about to take place with the massive stimulus package, called the "American Rescue Plan Act". Adopted in March, it involves spending of nearly 1.9 trillion USD (9% of GDP) over the next 10 years, of which more than a third will be directly injected into the US economy in 2021, in addition to the nearly 4 trillion USD authorized by Congress in 2020.

Given the United States' rapid deployment of the COVID-19 vaccine (more than a quarter of the population had received at least one dose by the end of March), Coface expects a strong rebound in private consumption, which will push growth to 5.7% in 2021, after a contraction of 3.5% last year. **According to Coface, the country will be one of the first to return to its pre-crisis level of activity by mid-2021**.

The expected "boom" in US consumption will fuel demand for imports, laying the foundation for a record trade deficit. According to Coface, **the stimulus package could lead to an additional 56 billion USD deficit.** As a result, bilateral deficits with Mexico, but also with Germany, South Korea, Brazil and India could widen.

The greatest impact of the 8-year 2 trillion USD infrastructure investment plan unveiled last week by the White House will materialize only beyond 2021. Nevertheless, since the tax increases that finance it will be spread over 15 years, it will widen the federal budget deficit in the coming years, augmenting the trade deficit further.

From "America First" to "America is Back"

When Joe Biden succeeded Donald Trump January 20, 2021, Trump's "America First" policy, characterized by rising trade tensions and tariff barriers, particularly with China, came to an end. Biden's campaign and early actions signaled that trade policy would be part of his broader foreign policy, summarized by the slogan "America is back." The trade policy agenda, released in early March, indicates that restoring U.S. leadership in the world and repairing partnerships and alliances are his administration's main priorities.

On the other hand, early indications show a more assertive stance towards China. This is reflected in the administration's trade agenda, which makes it a priority to address "abusive and

[2] Source: Chad P. Bown. 2021. *US-China Phase One Tracker: China's Import Purchases*. Peterson Institute for International Economics.

unfair" trade practices. So far, the Biden administration has not announced any tariff reductions, leaving the possibility of using them as negotiating leverage in future bilateral discussions.

The full study is available here.

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