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US ELECTIONS 2024

OUTLOOK ON THE ECONOMY, FINANCIAL MARKETS, AND THE GLOBAL TRADE SYSTEM

American-German Institute
JOHNS HOPKINS UNIVERSITY

BERGOS

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AT A GLANCE

THE U.S. ELECTIONS ARE ENTERING THE DECISIVE PHASE AND ARE STILL OPEN SHORTLY BEFORE THE ELECTION DATE. BERGOS HAS FIVE SCENARIOS FOR THE OUTCOME OF THE ELECTION.

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SCENARIO 1

Kamala Harris becomes president, but the Democrats do not obtain a majority in both chambers

In this case, we expect a slightly positive market reaction and would not expect any major changes compared to Biden's current presidency.

SCENARIO 2

Donald Trump becomes president, but the Republicans do not obtain a majority in both chambers

In such a case, there could initially be a rather positive development on the U.S. markets.

SCENARIO 3

The Democrats win the presidency and have a majority in both chambers

There could initially be a general "risk-off" market sentiment on balance, especially in the United States.

SCENARIO 4

The Republicans win the presidency and have a majority in both chambers

This scenario is likely to entail major political changes and could lead to increased temporary uncertainty on the (primarily European) capital markets.

SCENARIO 5

Chaos

Even a long time after the election, there is no clear result or the outcome is so close that one of the candidates does not accept the result and may even contest it. Such delays or even question marks over the stability of U.S. institutions would cause great uncertainty and initially lead to a negative impact and increased volatility on the global capital markets.

There has been a paradigm shift in economic policy

This can be seen not only in the protectionist approach of both parties, but also in other areas of general economic policy. "Big government" is back in vogue. The era of hyper-globalization is over.

Non-aggression pact on national debt?

The high national debt plays virtually no role in the election campaign. Regardless of the election outcome, there is a threat of high budget deficits and rising national debt. The large expenditure items are not to be touched. In the short and medium term, the high deficits will support the economy. In the long term, rising national debt is a risk for the USA and therefore also for the international financial system.

Trump relies on isolationism

In addition to the restrictive trade policy, Donald Trump is planning a drastic reduction in immigration and extensive deportation of immigrants. Both will weigh on growth and drive up prices. On the positive side, Trump is not planning any tax increases and has announced a reduction in bureaucracy/deregulation.

Kamala Harris is backing higher taxes for companies and the wealthy

Kamala Harris wants to ease the burden on lower and middle incomes, or at least not burden them any further. Higher taxes are planned for companies, high-income earners and the wealthy.

Growth potential is not being exploited

The economic policy concepts of Trump and Harris do not suggest that the potential of the U.S. economy can be fully exploited. Model calculations for Trump's concepts show that growth would be significantly reduced and inflation would be noticeably higher if his plans were fully implemented. In this respect, Trump's plans would probably only be implemented to a much lesser extent.

Independence of the U.S. Federal Reserve at risk?

Donald Trump wants to have a say in monetary policy decisions. However, curtailing the Fed's independence is not easy. There is a greater threat from the ongoing loose fiscal policy and high national debt ("fiscal dominance"). This danger looms regardless of the outcome of the election, as neither Trump nor Harris have plans to consolidate the budget.

Reassessment of the international situation

The U.S. presidential election of 2024 is taking place during a period of reassessment of the ideological underpinnings, institutional arrangements, and legal basis governing its participation in the international economic system. The election of either Kamala Harris or Donald Trump will have strongly contrasting implications for the United States as a geoeconomic power, but neither will return the country to the pre-2016 status quo.

Criticism of globalization in the USA

While domestic dynamics – such as the absence of policies to deal with the distributional effects of trade liberalization – have contributed to the U.S. critique of globalization, the "China Shock" that led to economic dislocation in industrial regions of the country and the inability of the World Trade Organization to discipline China's subsidized manufacturing overcapacity have also played a role.

Trade policy: different approaches by Trump and Harris

Republican candidate Donald Trump would pursue an approach to the global economy characterized by a rejection of the current rules-based order, protectionism (including 10-20 percent across-the-board tariffs and a devaluation of the dollar), and a coercive approach to the trade and technology challenge from China. Although Kamala Harris would not launch new free trade agreements, she would pursue a positive geoeconomic agenda focused on alignment with like-minded countries, particularly as regards climate action.

Coalition formation

The United States will need to help lead a broad coalition to reform the outdated rules of the current global economic order, but success will depend on engagement with countries that while sharing U.S. economic values may not wish to align geopolitically. It will become clear under the presidential term starting in 2025 whether the United States will attempt to dismantle the international economic system, stand on the sidelines, or lead an effort at renewal.

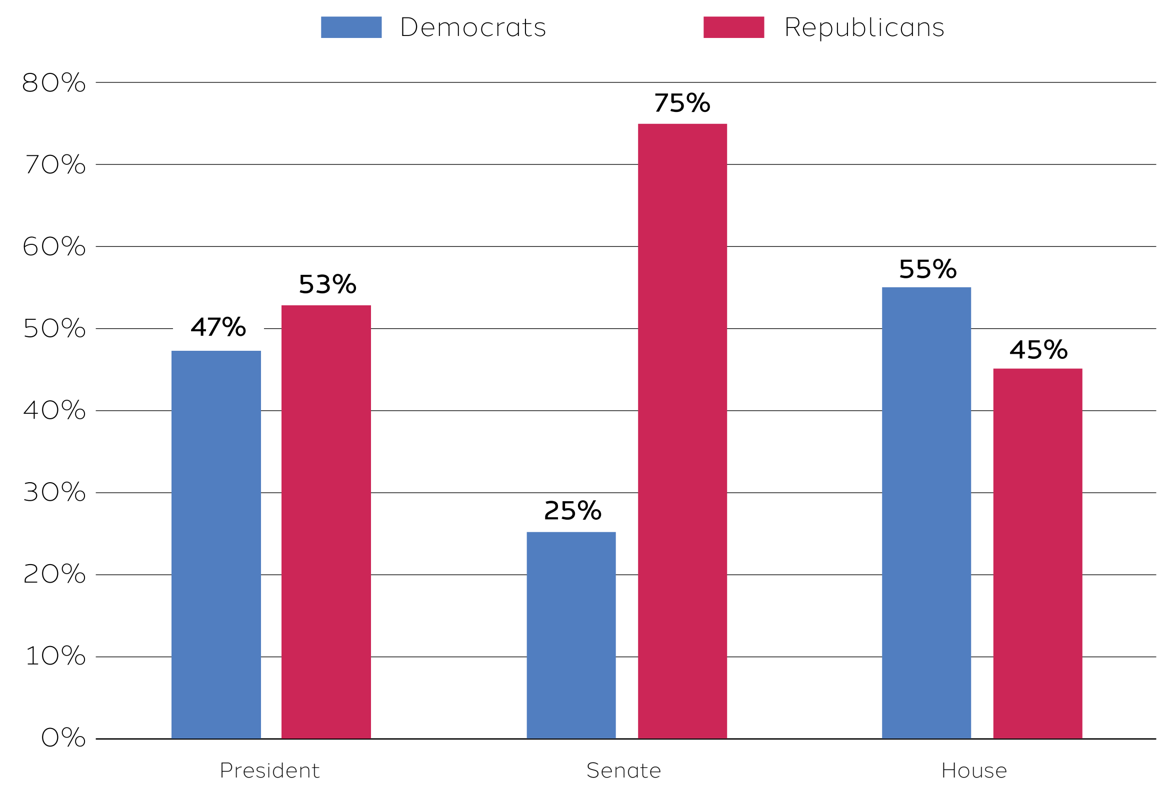
TIGHT RACE FOR THE WHITE HOUSE

SCENARIO ANALYSIS INCLUDING POSSIBLE MARKET IMPLICATIONS

TILL C. BUDELMANN, BERGOS AG

The U.S. elections are entering the decisive phase. A few weeks before election day on November 5, Democratic candidate Kamala Harris appears to have built up a slight lead over Republican former President Donald Trump in terms of total votes (popular vote). In the past, however, there has always been a so-called "polling error" to Trump's disadvantage. In 2016 and 2020, Trump ultimately performed better than the polls had suggested beforehand. This is unlikely to be the case this time. Instead, we assume that the models have now been calibrated accordingly.

However, the election of the President will not be the only thing that matters at the beginning of November. The future constellation in Congress will be at least as important. This is because not only the President will be elected, but also the entire House of Representatives with 435 seats and around a third of the Senate (34 seats out of 100). In principle, more significant policy changes can be expected, if the party of the future U.S. president also has a stable majority in both chambers of Congress. In such a case, stronger reactions in certain segments of the financial market are likely to set in, and more lasting impacts on the U.S. economic outlook can be expected. At present, one of the two chambers, the Senate, is in the hands of the Democrats, and the other, the House of Representatives, is in the hands of the Republicans.



U.S. Elections 2024 (Probabilities)
Source: Bergos AG. Own projection as of October 16, 2024

Based on the relevant statistical models[1] and expert opinions[2] a majority for one of the two parties in both chambers currently appears uncertain and less likely for the Democrats than for the Republicans. We currently see the Republicans as favored to regain the majority in the Senate, while the Democrats appear to have a slight advantage in retaking control of the House of Representatives.

Another detail to consider is that it is not the electoral votes but the electoral college votes, that are decisive for the election of the U.S. president. As a reminder: Hillary Clinton received 66 million votes 8 years ago, while Trump only received 63 million – putting her over 2 full percentage points ahead of Trump. However, Trump was ultimately elected by 304 electoral votes (Clinton by 227, seven voted for neither of them). In the run-up to the election, it is therefore less important to look at the possible overall distribution of votes (popular vote) than at the potential distribution in the electoral college. The results in the so-called "swing states", i.e., those federal states in which both parties can legitimately hope to win, will be correspondingly important. The following states in particular are worth keeping an eye on (in alphabetical order): Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania and Wisconsin. Pennsylvania has the highest tipping point probability.

Given the complexity of the election and the current tight race, particularly for the White House and the House of Representatives, we are exploring various scenarios. Depending on the outcome, the impact on the capital markets is likely to be very different. We quantify the probabilities of occurrence for the different scenarios and show what consequences the possible outcomes could have for the global financial markets and individual market segments. History has shown that investors generally favor a constellation, as seen in the past two years, in which the president has to come to terms with Congress and his party has a majority in at most one of the chambers of Congress.

SCENARIO 1

Kamala Harris becomes president, but the Democrats do not obtain a majority in both chambers

probability of occurrence 20%

This scenario will become reality with a current probability of 20%. In this case, we expect (ceteris paribus) a slightly positive market reaction and would not expect any major changes compared to Biden's current presidency. Infrastructure programs and the promotion of alternative energies are likely to continue under Harris. Many of the campaign promises – such as the increase in the corporate tax rate from 21% to 28% – would not be feasible under a divided Congress. Relief should come, particularly in Europe and the emerging markets, as Harris is likely to strike a somewhat more conciliatory tone than Trump on trade issues. In terms of sectors, we expect stocks of companies active in the renewable energy sector to benefit the most. In contrast, companies that make their money from fossil fuels will have a more difficult time. In addition, the healthcare sector could receive a boost from higher government spending on healthcare programs and the expansion of affordable healthcare options.

[1] E.g. Silver Bulletin or FiveThirtyEight

[2] E.g. Cook Political Report, Sabato's Crystal Ball or Inside Elections

SCENARIO 2

Donald Trump becomes president, but the Republicans do not obtain a majority in both chambers

probability of occurrence 12%

We currently assign a probability of 12% to the occurrence of this scenario. In such a case, there could initially be a rather positive development on the U.S. markets. Looking at the broad agenda, Trump is focusing primarily on tax cuts, deregulation, "fairer" trade agreements and the release of energy reserves. Traditional energy companies, such as oil and gas producers, are likely to benefit from this scenario. Companies that rely on renewable energies, on the other hand, are likely to have a more difficult time. In general, Trump's erratic approach to foreign policy and aggressive dealings with trading partners could become a burden, as they did during his first term in office.

With a divided Congress, Trump would probably not be able to cut taxes further. He would likely focus on immigration and trade policy, as he did in the second half of his first term. Trump's proposed additional tariffs of 10% on all imports and 60% on Chinese goods would drive up prices and fuel inflation in the U.S., possibly leading to a slightly more cautious stance from the Fed. In the longer term, higher U.S. tariffs, retaliatory measures by other countries and a labor shortage due to lower immigration could weaken trend growth in the U.S. For European companies, Trump's return to the White House would mean considerable trade and geopolitical uncertainty, which would have a negative impact on growth on the continent.

SCENARIO 3

The Democrats win the presidency and have a majority in both chambers

probability of occurrence 12%

Under a President Harris who is supported by both chambers of Congress, there could initially be a general "risk-off" market sentiment on balance. Many of the election promises that are difficult to implement in scenario 1 due to the divided Congress will become likely if the Democrats govern. These include raising the corporate tax rate from 21% to 28%. This is likely to have a negative impact on the (mainly U.S.) stock markets, as taxes obviously have a direct impact on corporate profits. Domestically operating companies in particular would suffer as a result. In addition, the tax increases are likely to have a negative impact on the U.S. dollar. As in scenario 1, companies focusing on renewable energies and the healthcare sector are likely to benefit. In contrast to a Republican sweep (scenario 4), future policy under Kamala Harris is likely to be much more predictable, even if she has both chambers of Congress behind her. The U.S. would also be a more reliable international ally under a Harris administration. This should reassure the capital markets in the longer term and, in a second step, boost Europe and the emerging markets in particular. We rate the probability of occurrence of such a scenario at 12%.

SCENARIO 4

The Republicans win the presidency and have a majority in both chambers

probability of occurrence 36%

This scenario is likely to entail major political changes and could lead to increased temporary uncertainty on the (primarily European) capital markets. Safe havens such as gold, but also the U.S. dollar and the Swiss franc, are likely to benefit from this, at least in the short term. Trump is also likely to feel encouraged by the clear mandate to introduce international trade tariffs in full, which should have a significant negative impact on Europe and the emerging markets. With Congress in Republican hands, the reduction in the corporate tax rate from 21% to 15% would probably be enforceable. Trump would try to exert pressure on the Fed, and his economic policy agenda could lead to a renewed rise in inflation. In principle, the U.S. equity market and the U.S. dollar are likely to benefit relatively. With regard to the bond markets, the "America First" policy could be accompanied by a budget deficit and lead to an increase in the credit risk premium or a shift in the yield curve. We currently put the probability of such a scenario 4 occurring at 36%.

SCENARIO 5

Chaos

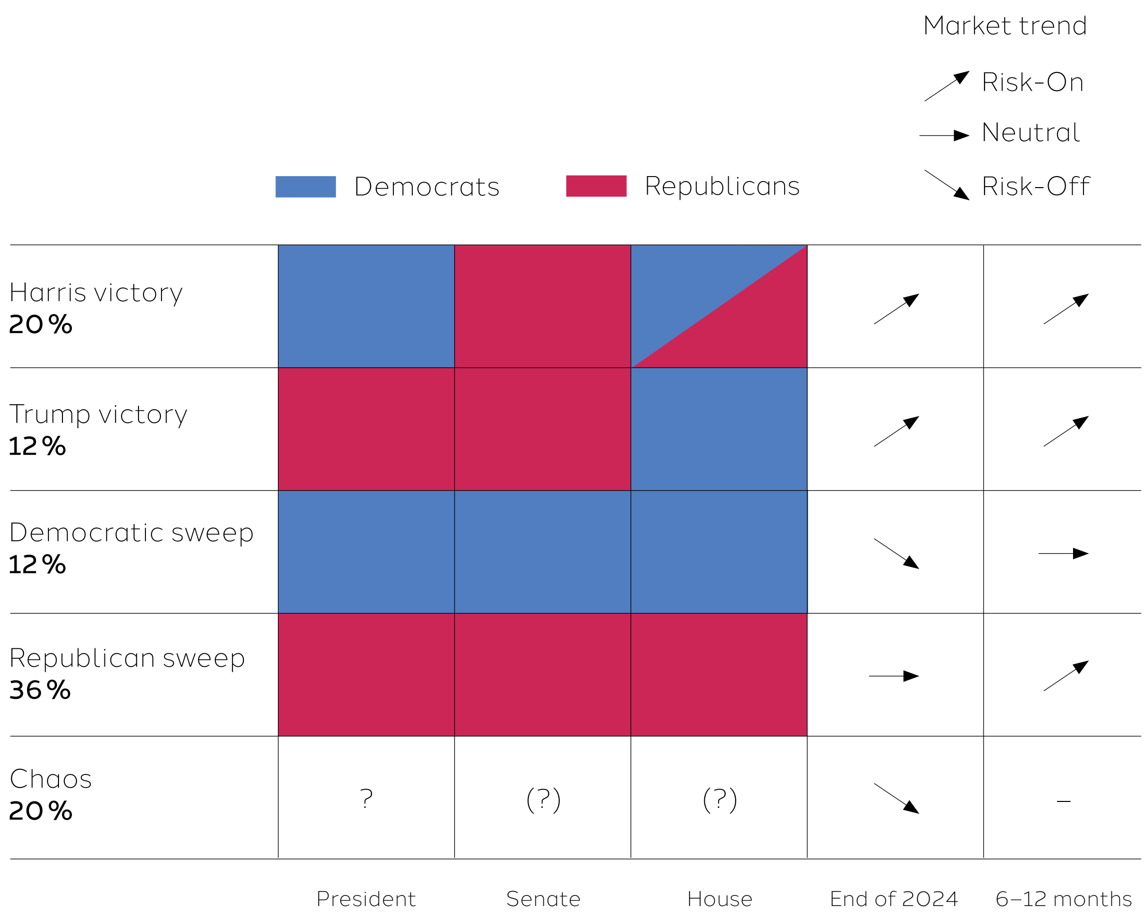
probability of occurrence 20%

Market participants should also be prepared for the fact that the result may not yet be known on election day or the day after. There is even a risk that there will be no clear result for some time after the election, or that the outcome will be so close that one of the candidates will not accept the result and contest it. Particularly in the event of a close election result in favor of Harris, it must be expected that Trump will contest the election. In the extreme case, as in the 2000 election, it will be up to the Supreme Court to decide the result. Such delays or even question marks over the stability of U.S. institutions would cause great uncertainty and initially lead to a negative impact and increased volatility on the global capital markets. A broad-based withdrawal from risk assets would lead to a lower yield curve and a flight to safer asset classes such as gold. We put the probability of such "chaos" occurring after the election at 20%. In the long term, however, this scenario will also lead to one of the other four possibilities. We do not expect irreversible damage to U.S. institutions.

The fundamental question is whether election trades can be made in advance with the necessary conviction. It is undisputed that U.S. presidential elections always entail a certain amount of uncertainty, which is not favored by markets. Accordingly, increased volatility is to be expected in the run-up to election day. However, as soon as the result is known and the policy becomes foreseeable, volatility has also decreased quickly in the past – even if there is a delay of several weeks or months. History also shows that equity markets have largely developed positively in the months following the elections and independent of who won. Historically, the U.S. stock market, as measured by the S&P 500, has risen by an average of more than 10 percentage points in the 12 months following the elections.

U.S. ELECTIONS

SCENARIOS



Election Scenarios (Probabilities)
Source: Bergos AG. Own projection as of October 16, 2024

ECONOMIC POLICY IN THE SPOTLIGHT

DR. JÖRN QUITZAU, BERGOS AG

1 Paradigm shift in economic policy

When Donald Trump became President of the United States of America in 2017, he broke taboos. With his “America First” policy, the trade war with China and the trade disputes with the European Union, Donald Trump ushered in a new era. The liberal economic order has come under serious pressure for the second time in just a few years. Previously, the global financial crisis had already cast doubts on the primacy of liberalized markets. At that time, however, the criticism was mainly directed at the globally connected financial markets. With Donald Trump’s presidency, the globalization of the real economy also came under fire.

Trump’s trade policy marked the start of a paradigm shift. The international division of labor and free trade were no longer seen as the basis for increasing prosperity to the benefit of everyone involved. In Trump’s view, free trade was one thing above all: harmful to American industry and American jobs.

With the pandemic and the Russia-Ukraine war, the disruption of supply chains and thus the issue of supply security later came into focus. In practice, this confirmed what is one of the fundamental economic insights: the division of labor and specialization are a guarantee for efficiency and prosperity, but specialization also creates dependencies.

The period of hyper-globalization was characterized by a certain carelessness and naivety. Too little consideration was also given to distributional aspects: While people in the top quintile of income in the USA – and in particular the top one percent – have seen their incomes rise sharply since 1970, inflation-adjusted incomes in the lower half of the income scale have largely stagnated. With these figures, it is obvious that the different income brackets also have different attitudes towards the globalized economy. However, instead of selectively correcting the shape of globalization, the pendulum has now swung in the other direction. Trump’s trade policy, the pandemic and the war in Ukraine have led to what is now known as deglobalization.

The world has experienced a paradigm shift in economic policy that can no longer be associated solely with the name Donald Trump. Trump broke the taboo back then. But his presidency was over after four years – without that also meaning the end of his experiments. Joe Biden has not reversed Trump’s policies everywhere. Biden has continued the tough stance against China and the protectionist approach of his predecessor. As expected, Biden has at least improved relations between the USA and Europe again, even if major projects, such as the transatlantic free trade agreement TTIP, have not materialized. Overall, Joe Biden has not negotiated any new free trade agreements during his time in office.[1]

However, the transatlantic relationship was not completely unburdened during the Biden presidency, either. With the “Inflation Reduction Act” and other programs, Biden set strong industrial policy priorities. Joe Biden is no stranger to the “America First” approach, just in a friendlier and more cooperative tone.[2] Strategic industrial and trade policy to protect the domestic economy is no longer a purely American phenomenon. It is now practiced in many countries, including European ones. “Big Government”, i.e., a strong influence of the state, is back in vogue.

[1] See Mildner (2024), Handelspolitik für die Mittelschicht – Reindustrialisierung, „Economic Security“ und die Zukunft der U.S.-Handelspolitik, in: ifo Schnelldienst 9/2024.

2

Economic policy plans of both candidates

Where do we go from here? What economic policy can we expect from the two candidates? The unpleasant answer is that, as far as we can see so far, neither Kamala Harris nor Donald Trump will rely on the power of market-based solutions. Instead, both want – each in their own way – a continued strong state influence on the economy.

We can only assess the economic policy positions of the two based on their public statements and publications. Declarations of intent from the election campaign often have a short lifespan, especially when the political opposition has a say. In the event of a split Congress (see our scenario analysis in the first section), extraordinary plans will often be significantly more difficult to be implemented. Forecasts of the quantitative effects of individual economic policy proposals are, therefore, only scenario calculations. In the case of trade policy measures, the macroeconomic effects depend very much on the extent to which the USA's trading partners react with retaliatory tariffs. Nevertheless, we will cite some calculations in order to at least give an indication of the potential impact of individual policy measures.

[2] See Mildner (2024).

Trade policy: both candidates are protectionist

What Kamala Harris and Donald Trump have in common is a protectionist approach. Both would forego significant parts of prosperity-enhancing free trade. This rejection obviously goes beyond what could be justified for geoeconomic reasons, including greater independence from autocratic countries, as otherwise free trade endeavors with the EU, for example, would be intensified. Despite the shared protectionist stance – new free trade agreements are not to be expected from either candidate – a further term in office for Donald Trump would probably be more unpredictable geo-economically and geopolitically than a presidency for Kamala Harris. Harris would probably implement protectionist measures in a more targeted manner than Trump, and she would probably be more reliable and predictable for partner states.

Trump, on the other hand, has very far-reaching protectionist plans: He has in mind a general basic tariff of 10% to 20% on all imports. The tariff on Chinese products would amount to 60%, while cars could even be subject to tariffs of 100%.

The general basic tariff would hit America's most important trading partners particularly hard: Canada, China, Japan, Mexico and Germany. The USA would also have to expect a slowdown in growth. In the likely event that, other countries react with retaliatory tariffs, the *Peterson Institute for International Economics* estimates the growth effect for the U.S. at -0.9% in 2026.[3] This means that without the 10% tariff, U.S. GDP could be 0.9% higher in 2026. Inflation would be 1.3% higher in this scenario. The 60% tariff on Chinese imports would lead to an additional GDP effect of -0.2% and an inflation effect of +0.7 percentage points in the event of Chinese retaliating measures. Calculations by the *Institut der deutschen Wirtschaft (IW Köln)* come to similar GDP effects.[4]

Europe would be particularly affected by the intensified trade conflicts through its largest economy, Germany. The USA is Germany's most important export destination (see Figure page 16). If imports are included, China ranks first as a trading partner, but here too the USA could soon be

ahead of China, as imports from China are falling sharply.[5] In any case, Germany's most important trading partners are the USA and China, two countries that are engaged in a serious trade conflict with each other. For Germany and Europe, trade relations with the USA are also more important than vice versa. A good 8% of industrial value added in Europe goes directly or indirectly to the United States, whereas only around 3.3% of industrial value added in the U.S. depends on emand in the EU.[6] In other words: in principle, there is more at stake for the EU than for the USA.

Calculations, which also take international interdependencies into account, come to the conclusion that German exports would fall by 2% overall.[7] This assumes an import duty of 60% on imports from China and 20% on all other imports. The calculations show a trade substitution effect. The decline in exports to the USA would be partially offset by exports to other countries, particularly Canada and Mexico.

[3] See McKibbin/Hogan/Noland (2024), How much would Trump's plans for deportations, tariffs, and the Fed damage the U.S. economy?, Peterson Institute for International Economics.

[4] See Obst/Sultan/Matthes (2024), Handelspolitische Konsequenzen einer Wiederwahl von Donald Trump, in: ifo Schnelldienst 9/2024.

[5] See Viklenko (2024), Ist China bald nicht mehr Deutschlands größter Handelrspartner?, German Trade & Invest.

[6] See Baur/Flach/Hillrichs (2024), Deutsch-amerikanische Handelsbeziehungen vor der U.S.-Wahl: Auswirkungen eines Trump-Comebacks, in: ifo Schnelldienst 9/2024.

[7] See Baur/Flach/Hillrichs (2024).

[8] For an overview of the respective intentions, see Hogan (2024), Trump vs. Harris on immigration: Future Policy Proposals, Peterson Institute for International Economics.

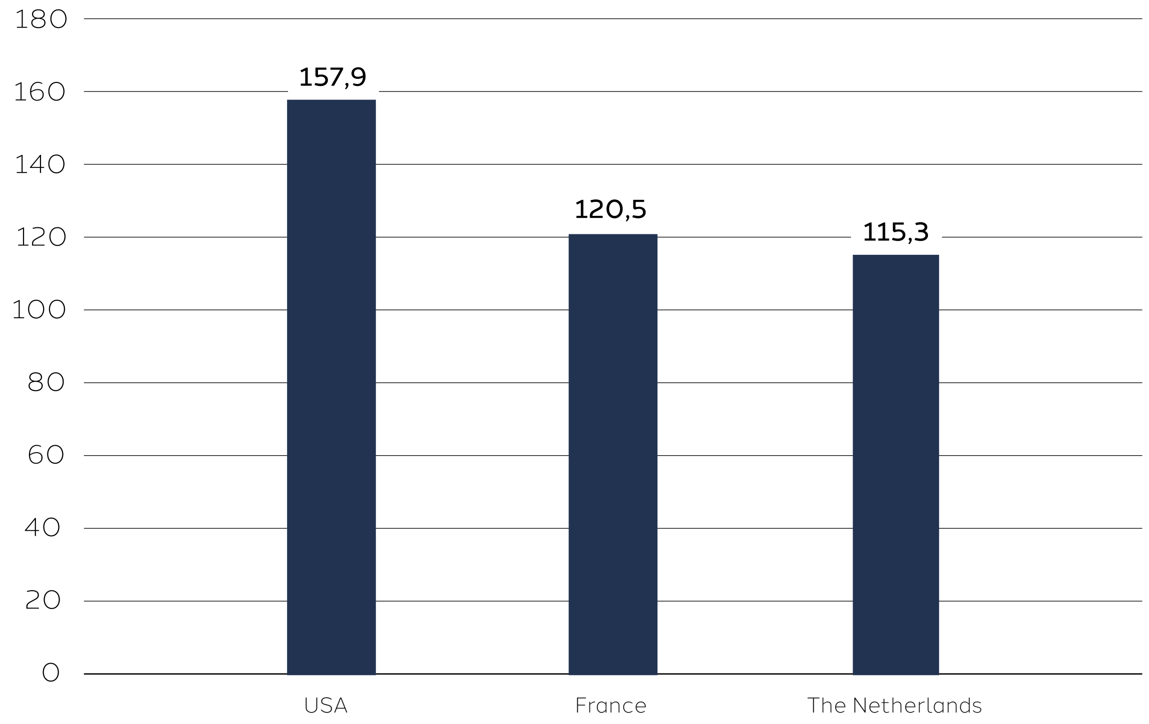
Migration: higher inflation and weaker growth?

Migration is a dominant issue in the U.S., as in many other countries. From a model theory perspective, cross-border labor mobility should be viewed positively. Workers migrate to where they are most urgently needed and can develop the highest productivity. From this theoretical perspective, it is difficult to understand why cross-border migration is viewed so critically in many countries. However, simple models of labor mobility often do not include the aspects that cause problems in reality. In practice, wages, which indicate the needs of companies and labor markets, are not the only decisive factors in migration decisions. For potential migrants, any social benefits in the destination countries also play a role alongside the opportunities in the labor market. This makes European welfare states in particular attractive to migrants.

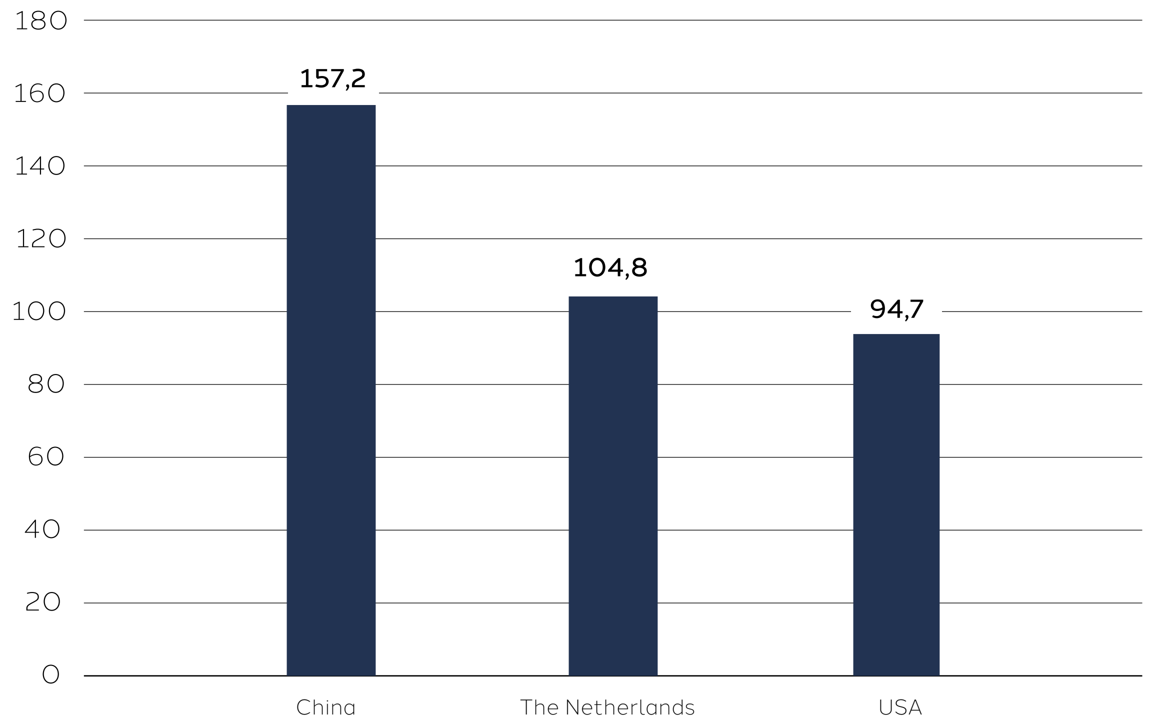
In the USA, the welfare state is far less developed than in many European countries. However, there are also various factors that can lead to friction between the domestic population and immigrants. There is not only competition in the labor market, but also for housing and other private and public goods. Different social groups are affected very differently by these competitive situations. This often results in different attitudes toward the issue of migration. Whether immigration ultimately leads to social tensions depends not only on its scale, but also on cultural factors. In practice, migration demands a great deal from both immigrants and the local population, especially when it takes place on a large scale. This is why migration has become such an important issue.

Donald Trump is known for his tough stance on migration. He intends to limit migration and possibly even deport (unauthorized) migrants on a larger scale.[8] All in all, Trump intends to take new measures and to re-establish measures from his first presidency to revive the immigration policy. Almost all of his plans are aimed at limiting or reversing immigration.

Trump's plan to deport (unauthorized) migrants on a large scale has attracted particular attention. As with many of Donald Trump's declarations, his plans cannot



German Exports 2023 in Bn Euros
Source: Destatis



German Imports 2023 in Bn Euros
Source: Destatis

be implemented without further ado. Immigrants are an important pillar of the labor market. Their absence would create a gap in the supply of services and in production. According to calculations by the *Peterson Institute for International Economics*, in a scenario with massive deportations, the U.S. economy could almost stagnate by 2028. Not admitting more immigrants or even partially deporting them would also lead to an increase in consumer prices, particularly in combination with high import duties. The consequences in this extreme scenario would be so severe that Donald Trump would be much more selective in the event of an election victory than he hinted at during the election campaign.

One effect should not be forgotten in this context: the constant influx of cheap foreign labor permanently depresses wages in the lower wage segment. A shortage of labor supply would therefore have a potentially wage-increasing effect for domestic workers. It is possible that this aspect of distribution policy in the battle for votes is at least a secondary aspect of Trump's migration policy ideas. In comparison to Donald Trump's plans, Kamala Harris's plans are about fine-tuning migration policy. She is more concerned with bringing migration into more orderly channels than significantly limiting it. No significant macroeconomic effects are to be expected from Harris's migration policy plans.

Tax policy and social justice: major differences

In terms of tax policy, the plans of Donald Trump and Kamala Harris differ significantly. Trump intends to make the tax cuts passed during his term of office as part of the *Tax Cuts and Jobs Act (TCJA)* permanent. Otherwise, they would end in 2025. If possible, the corporation tax should fall even further to 15%. Donald Trump would make tips tax-free, just like Kamala Harris. Trump does not envision tax increases. Additional revenue under Donald Trump would only come from higher customs duties.

Kamala Harris, on the other hand, intends to raise the corporate tax rate from the current 21% to 28%. She would also increase taxes for high earners and the wealthy. For so-called normal incomes, which include all annual incomes up to 400,000 U.S. dollars, taxes are not to rise. Tax relief is even planned, for example, the child tax credit is to increase.

Harris/Walz's tax policy measures address distributive justice. They also intend to increase social justice by lowering prices – for example, for food or healthcare. Some of the proposals in the Harris/Walz paper are aimed in the right direction. For example, more competition between providers should lead to lower prices. This is the right economic approach. However, the proposals go further. For example, Kamala Harris and Tim Walz intend to prevent price-gouging. They point to evidence that companies have used times of crisis during the pandemic to increase their profit margins at the expense of families. Of course, the intention to protect consumers from such price gouging sounds appealing. However, it is difficult to distinguish justified price increases due to acute shortages from "exploitative" profiteering.

Especially in times of crisis with supply shortages, as the world experienced during the pandemic and in the first year of the Russia-Ukraine war, abrupt price increases are normal. The higher prices provide the important scarcity signals for companies and consumers: entrepreneurs are incentivized to expand their supply and consumers have incentives to use less of the particularly scarce goods. Due to the complexity of price formation, it is almost impossible to distinguish between fundamentally justified and "exploitative" price increases – at least in the acute phase of exploding prices, but often also retrospectively. The amount of a reasonable profit is also not as easy to determine as it might appear at first glance. The controversial discussions on excess profit taxes in Europe during the energy crisis have shown this impressively. Such attempts to achieve greater fairness by intervening in the pricing system are ultimately often characterized by arbitrariness and may result in high economic costs.

Fiscal policy: higher debt foreseeable

When it comes to public finances, both candidates appear to have concluded a non-aggression pact. During the TV debate between Kamala Harris and Donald Trump, the word debt was not mentioned once.[9] In the program of Kamala Harris and her vice-presidential candidate Tim Walz ('A new way forward for the middle class'), the word national debt appears only once – on page 76, the last page of the document.[10] On the subject of budgetary policy, the paper confines itself to stating that experts consider Harris to be more fiscally sound than Trump.

Budget deficits and national debt do not play a major role in the election campaign. On the one hand, this is surprising because the high national debt could foreseeably become a problem for the country.[11] On the other hand, it is understandable to keep the issue largely out of the election campaign, as the policies of both candidates could probably only be financed with the help of persistently high budget deficits. In this respect, the more appropriate formulation would be: Harris is less fiscally unsound than Trump.

One weakness is evident in the economic policy concepts of both parties and candidates. They underestimate the behavioral effects of the measures they propose. Higher tax rates often do not lead to correspondingly higher tax revenues because taxpayers react by avoiding them. And higher customs duties do not lead to correspondingly higher customs revenues because the volume of trade decreases as a result of the levying of customs duties. However, this also means that one of Donald Trump's ideas is built on sand, namely to replace federal income tax with higher customs revenue. The calculation would not work out.

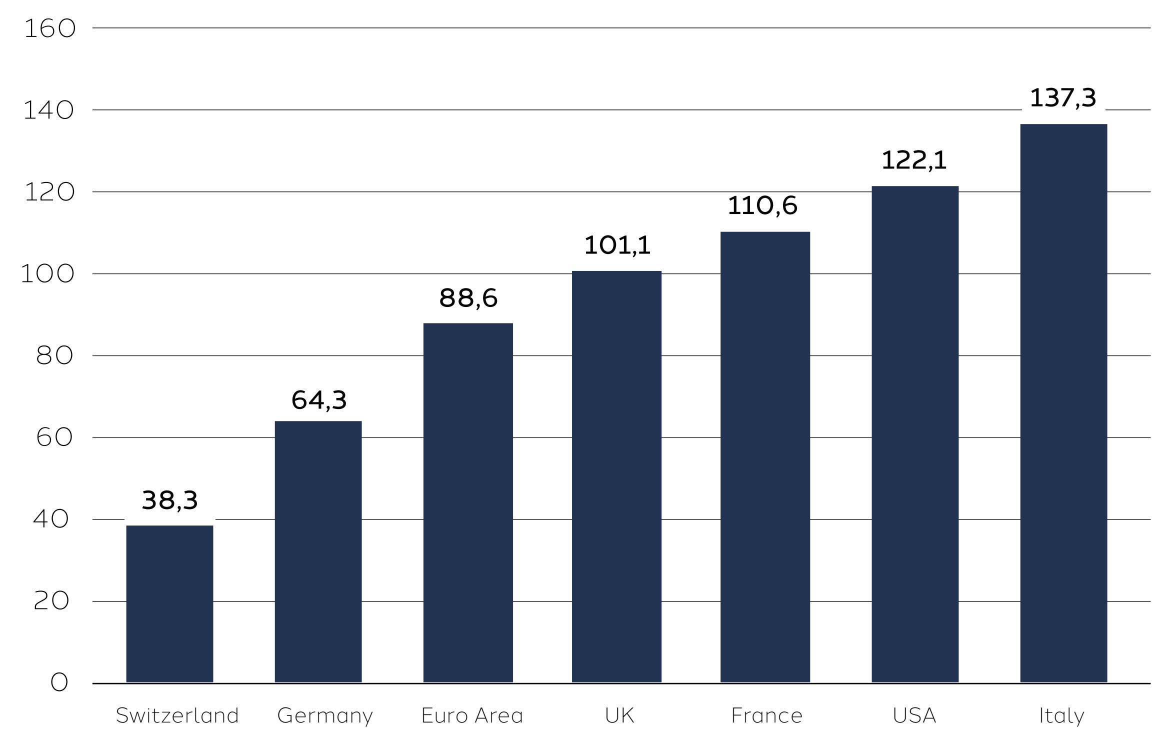
Overall, the economic policy measures can be summarized as follows: Donald Trump's plans, with hardly any offsetting tax cuts, are a burden on the budget via the revenue side, Kamala Harris's plans are more likely to cause problems on the expenditure side, for example, through extensive support for housing construction. The consequences for the budget deficit depend on which constellation of measures is ultimately implemented. With Trump, the budget could be slightly relieved in an optimistic scenario but could also be burdened in a more realistic scenario. With Kamala Harris, there is a higher probability of slight relief due to the tax increases. The real problem is that the U.S. budget deficit is already over 6% of GDP, which is extremely high. Regardless of whether the economic policy measures of the two candidates provide slight fiscal burden or relief, the budget deficit will remain at a very high level, as neither candidate will make any cuts to the major spending blocks (pensions, Medicare).

High budget deficits are positive for the short- and medium-term development of the economy because they generate additional demand. However, this will lead to a foreseeable further increase in U.S. public debt. The financial market players will want to be paid for the associated risk in the long term. Higher bond yields are therefore likely. At a certain point, financing the national debt will become a problem for U.S. government. The Fed will then find itself in a conflict again and will have to loosen its monetary policy, possibly by buying government bonds again.

[9] See Strain, Michael R. (2024), The Debt That Shall Not Be Named, American Enterprise Institute.

[10] See Harris/Walz (2024), A New Way Forward For The Middle Class.

[11] See Quitzau (2024), Public Debt: Is The Next Crisis Looming?, Bergos Economics.



Public dept international in % of GDP
Source: IWF

3
Trump's ideas for the independence of the U.S. Federal Reserve

Like many other central banks, the U.S. Federal Reserve has been an important economic policy player in recent years. The Fed has been more supportive of general economic policy than is consistent with its original mandate. With its expansive monetary policy, including quantitative easing (asset purchase programs), it has ensured that interest rates have remained low. The central bank thus made it easier for the government to cushion economic weaknesses and finance large spending programs – for example, during the pandemic – at a bearable cost.

High inflation from 2021 onwards forced central banks (including the Fed) to tighten monetary policy considerably. The Fed Funds Rate rose from 0.0–0.25% to 5.25–5.50% and yields on ten-year U.S. treasuries rose from one percent (January 2021) to up to five percent (October 2023). The rise in interest rates quickly became a burden for the U.S. budget. The share of interest payments doubled within two years. As a result, the government's room for maneuver and thus its political options are narrowing, even if interest rates have fallen again somewhat in the meantime.[12]

Donald Trump wants a say for U.S. presidents

Tighter monetary policy is clearly a problem for the government in the short run. Donald Trump has recognized this. The monetary policy of the U.S. Federal Reserve under the leadership of Jerome Powell, who Trump himself brought into office as Fed Chairman, was already a thorn in his side while he was President. In the campaign for the 2024 presidential election, Donald Trump reformulated his criticism in his typical style. He – Trump – has better instincts than many of the monetary policy decision-makers within the Fed. It is therefore important that the U.S. President has a say in monetary policy decisions. He also held out the prospect of replacing the Fed Chairman.

Kamala Harris is not known to have any such thoughts. If she wins the election, the Fed's political independence is likely to remain untouched. However, there is a risk for the Fed regardless of the election outcome. Both Donald Trump and Kamala Harris stand for a debt-driven fiscal policy. With higher national debt and rising interest burdens, the pressure on the Fed to ease financing conditions, i.e., to loosen monetary policy, is increasing.

Such a constellation is referred to as "fiscal dominance": The central bank is required to ensure the state's ability to act or even its solvency. It is therefore no longer completely free or independent to take the measures it deems necessary to achieve its actual monetary policy goals – price stability and maximum employment.

Why independence?

In Germany and in German-speaking countries, it is almost taken for granted that a central bank must be independent. Political influence is considered taboo. This supposed self-evidence is closely linked to the tradition of the Bundesbank and its successful monetary policy. As early as 1957, the Bundesbank Act made it clear that the Bundesbank was independent of instructions from the Federal Government. This independence was regarded as a key success factor for the Bundesbank's work.

However, even in Germany it was not clear from the outset that the Bundesbank would be completely independent. Chancellor Konrad Adenauer was firmly opposed to an independent Bundesbank because its predecessor – the *Bank deutscher Länder* – had too often conducted its monetary policy against Adenauer's wishes.[13] In addition, for a long time, there was academic controversy as to what was actually meant by "central bank independence".

Academics debated whether the question of "rule-based vs. discretionary" should be discussed. A rule-based approach could possibly even achieve better results than independent monetary policymakers, who have to make discretionary decisions on a case-by-case basis in their day-to-day business.

Internationally, central bank independence was not the rule until the early 1990s. It was only when empirical studies showed that the independence of a central bank had a positive effect on price stability that the Bundesbank model prevailed and the independence of central banks became the international standard. This blocked – or at least made it more difficult – for politicians to involve their own central bank in the financing of government spending.

The consequences of politicians interfering in monetary policy were recently demonstrated very clearly in Turkey. President Erdogan has repeatedly insisted on a loose monetary policy and has changed the president of the central bank almost every year since 2018. This resulted in a series of interest rate cuts from September 2021, which pushed the key interest rate down from 19% to 8.5% by mid-2023. This approach was very peculiar, as the inflation rate was already at 17% in September 2021. As monetary policy was loosened further, inflation peaked at over 70% and the exchange rate of the lira dropped like a stone.

However, political influence and its consequences are not always as direct and clear as in Turkey. In highly indebted Japan, politicians have also exerted pressure on the central bank in the past decade.[14] There have been at least indirect threats that the central bank could lose its independence if its monetary policy is not sufficiently expansionary. Until today, Japanese monetary policy is extremely expansive and yet the inflation rate has remained surprisingly low. The yen also remained fairly stable for a long time. It was only from the beginning of 2022 that the yen suffered heavy losses against the U.S. dollar.

The example from Japan shows that political influence does not necessarily have a direct impact on the stability of the currency. It remains to be seen whether the – politically desired – loose monetary policy will ultimately have strong negative consequences. In any case, the Japanese example shows that a central bank can be de jure independent, but de facto it may still have to take the wishes of politicians into account. As president, Donald Trump could therefore exert influence on the Fed's decisions if he were to build up a credible threat to the central bank's independence. A formal end to independence would not be necessary for this.

How great is the risk?

At 14 years, the members of the Board of Governors have a long term of office. The terms of office for the seven current members end between 2026 and 2038. Jerome Powell's term of office on the Board of Governors ends in 2028, while his term of office as Fed Chairman ends in 2026. The legal hurdles for the U.S. President to remove the Fed Chairman prematurely appear high.[15] The U.S. Senate, which is currently still dominated by the Democrats, would have to approve a change. This makes it difficult to exert influence through personnel changes until 2026. Giving the U.S. President a say in monetary policy decisions also does not appear to be easy to implement.

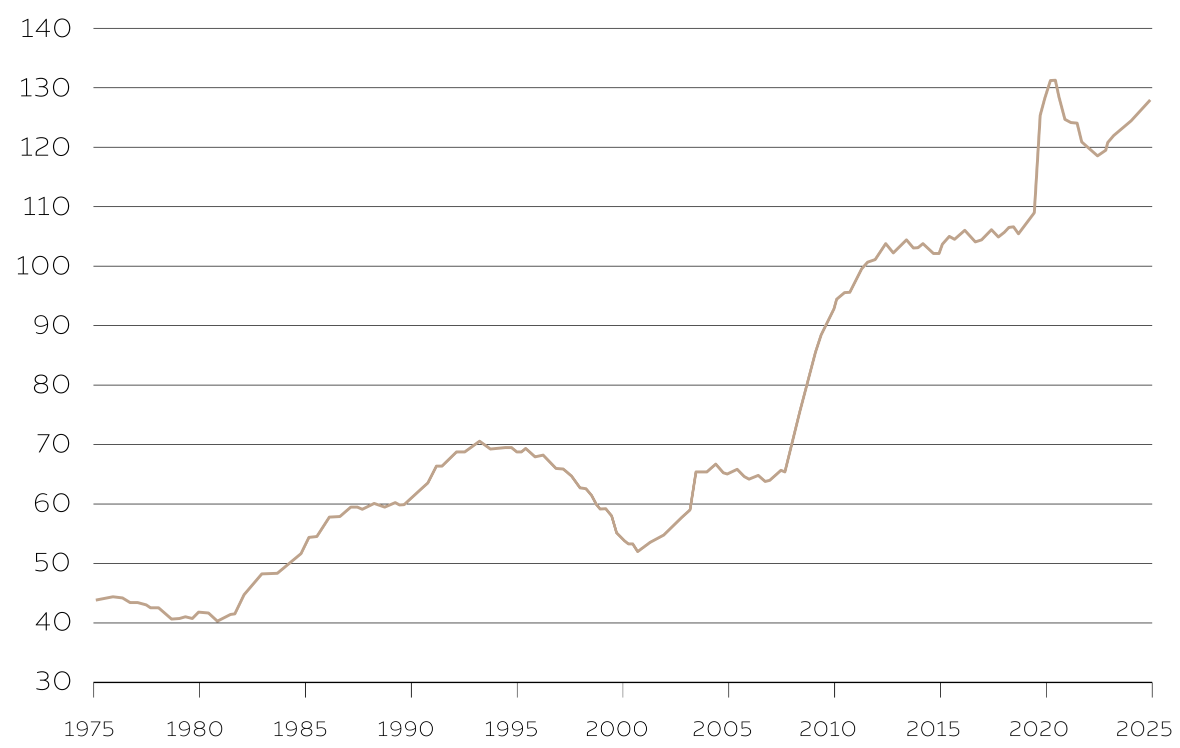
Even if greater political influence cannot be ruled out after the presidential elections, the hurdles are comparatively high. The risk of the Fed's hands being tied due to "fiscal dominance" appears greater. It is therefore particularly important to keep an eye on U.S. fiscal policy after the election.

[12] See Quitzau (2024), Rückkehr zu nachhaltiger U.S.-Finanzpolitik nötig, Börsen-Zeitung vom 17. Juni 2024.

[13] See Schäfer (2014), Sollten Zentralbanken unabhängig sein? Neue Diskussionen über ein altes Dogma, in: Wirtschaftsdienst – Zeitschrift für Wirtschaftspolitik.

[14] See Neue Zürcher Zeitung (2013), Diskreditierung der Bank of Japan, Neue Zürcher Zeitung vom 22.01.2013.

[15] See Vollmer, Uwe (2024), Ist die Unabhängigkeit der U.S. Fed in Gefahr?, in: Wirtschaftliche Freiheit – Das ordnungspolitische Journal.



Public dept USA, as % of GDP
Source: Macrobond

4

Conclusion

Regardless of the outcome of the election, the growth potential of the United States of America will not be fully exploited with the present concepts. The economic policy concepts of both candidates must be viewed critically from an economic – albeit for different reasons in some cases. For Kamala Harris, it is primarily the tax policy approach and high spending, while for Donald Trump it is the combination of aggressive trade policy, restrictive migration policy and monetary policy influence.

Calculations by the *Peterson Institute for International Economics* show that the implementation of Donald Trump's plans – higher tariffs, mass deportations and political influence on the U.S. Federal Reserve – is likely to lead to significantly lower employment and growth as well as significantly higher inflation. It is hard to imagine that Trump's economic advisors do not see the serious negative consequences of such an economic policy. In this respect, the plans announced during the election campaign are likely to be implemented only to a very limited extent. Should there be a split Congress, as described in section 1, eccentric economic policy measures would also be unlikely. In this respect, the prospects are ultimately not as bad as might be expected, given the excitement of the election campaign.

IMPACT ON THE GEO-ECONOMIC LANDSCAPE

PETER S. RASHISH, AMERICAN-GERMAN INSTITUTE – JOHNS HOPKINS UNIVERSITY

1 The United States and globalization: past, present, and future

The presidential election of 2024 is taking place during a period of reassessment in the United States of the ideological underpinnings, institutional arrangements, and legal basis governing its role in the international economy. The establishment of the post-World War II multilateral trading system under the General Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO) created a momentum of global economic integration that accelerated with the end of the Cold War in 1989 and the entry of China into the WTO in 2001.

Yet despite the United States once being the major proponent of this globalization – or "hyperglobalization" – that has taken root over the last 35 years, the country's center of political gravity has now shifted to a more skeptical stance toward the international economic system. While the election of either Kamala Harris or Donald Trump will have strongly contrasting implications for the United States as a geoeconomic power, it seems unlikely that whoever becomes president will return the country to a full embrace of the status quo ante that reigned until 2016.

During that period the United States led liberalization and integration efforts at the multilateral level through the Uruguay Round of trade negotiations and the creation of the WTO, at the regional level with the signing of the North American Free Trade Agreement (NAFTA) with Canada and Mexico, and through several bilateral free trade agreements with countries in Asia and Latin America. It was a leading force behind the Trans-Pacific Partnership (TPP) with 11 Pacific rim countries and launched the Transatlantic Trade and Investment Partnership (TTIP) with the European Union.

Over the last decade, however, the United States has experienced an election campaign during which the Democratic candidate Hillary Clinton expressed her opposition to the TPP that she helped to negotiate as Secretary of State, and the Republican candidate Donald Trump announced that "we have rejected globalism and embraced patriotism." Once elected president in 2016, Donald Trump's administration placed national security tariffs on imports of steel and aluminum, including from close trading partners like the European Union, threatened tariffs on U.S. automobile imports and withdrew the country from the TPP and the UN Paris Agreement on climate. It also did not revive the TTIP, which was not able to be concluded before the end of the previous Obama administration.

The Biden administration has returned U.S. relations with the EU to a cooperative footing by agreeing with the European Commission to create a U.S.-EU Trade and Technology Council (TTC) that met six times during Biden's presidency and has done something similar with Asian economies through the Indo-Pacific Economic Framework. Yet the Biden administration has not launched any new liberalizing free trade agreements that would require the United States to open its markets further to imports. At the multilateral level, while the United States has recommitted to the Paris Agreement, Biden has not reversed President Trump's decision to bar the appointment of new judges to the WTO's Appellate Body, which effectively has blocked the operation of the organization's dispute settlement system. And although the Biden administration has temporarily lifted Trump's national security tariffs on the EU, their definitive removal is contingent upon a successful agreement on a "Global Arrangement on Sustainable Steel and Aluminum" (GASSA) that the two sides failed to achieve by the original deadline of October 2023. (They have set March 2025 as a new end point for the negotiations.)

This evolution in U.S. foreign economic policy can be attributed to changes both within the country and outside it, although the two aspects are to a certain degree interrelated.

2 Neoliberalism or a new Washington Consensus?

On the one hand, there is an ongoing debate among U.S. policy experts and academics about what has come to be termed "neoliberalism." Although a single definition is difficult to settle on, it generally refers to a belief in the power of free trade and economic efficiency to guarantee U.S. prosperity. Critics of neoliberalism argue that U.S. trade policy has enabled the outsourcing of U.S. manufacturing to countries with cheaper labor and lower environmental standards, which has enriched U.S. corporations but has been detrimental to the working and middle classes at home.

The critique of neoliberalism tends not only to view U.S. trade policy as the cause of economic dislocation; it also sees an alternative trade policy as a possible solution.

In 2023, Jake Sullivan, the National Security Advisor to the president, gave a much-noted speech on U.S. international economic policy that endorsed the idea of a "foreign policy for the middle class" and a "new Washington consensus" (in contrast to the original free-market consensus of the 1980s that aligned the United States, the World Bank, and the International Monetary Fund) to build a "fairer, more durable global economic order," one that would place raising labor and environmental standards at home and abroad at the forefront.

It is worth noting, however, that this reassessment is not widely shared by other advanced market economies. The European Union, for instance, has an economy that is of similar size and sophistication to the U.S. economy and maintains an even greater degree of integration into global markets. Yet it has not seen the same degree of questioning of the value of post-Cold War globalization. While the United States has negotiated 20 free trade agreements and has not signed a new one in 15 years, the EU has concluded over 70 and signed a deal with New Zealand in 2024.

What could explain this example of similar causes leading to dissimilar effects? It is of course normal that political economy dynamics differ from one country or region to another: history, culture, and institutions all contribute to creating the contours of both political discourse and government policy.

But there is one noteworthy difference between the United States and the European Union in this context. While it is true that since 1962 the United States has maintained a program of Trade Adjustment Assistance to help workers displaced by trade liberalization, it is widely considered to be underfunded and ineffective. On the other hand, in countries like Germany, Sweden, and Denmark there exist strong active labor market policies – apprenticeships, retraining, job search assistance – that have helped workers adjust to job losses, whether they are caused by domestic market forces or international economic policies. These countries are also considered to maintain stronger social safety nets that help to cushion the short-term impacts of economic downturns. The existence of these policies and programs may contribute to a greater acceptance in Europe than in the United States of the process of globalization over the last 30 years.

3

The rise of China and the role of the World Trade Organization

On the external front, the rise of China has played a considerable role in the evolution of U.S. international economic policies. A 2016 paper on the "China Shock" helped to focus attention on the negative impact of exports of Chinese manufactured goods on employment in the United States, and the slowness of the labor market to adjust to these changes. The unemployment and related economic and social disruptions caused by Chinese competition continue to impact U.S. trade policy. During his presidency, Donald Trump imposed $380 billion in tariffs on China, most of which the Biden administration has kept in place. In May 2024, the Biden administration added $18 billion in targeted tariffs on Chinese imports in sensitive sectors that bear on national security and climate action.

But there is an important distinction between the way the Trump and Biden administrations responded to the challenge from China. Under President Trump, the United States pursued a unilateral strategy of coercion, preferring to go it alone and punish China with tariffs rather than work with allies, which would have increased U.S. leverage and effectiveness. (The one exception to this approach, the U.S.-EU-Japan Trilateral Initiative launched at the Buenos Aires WTO ministerial in 2017 to reform multilateral trade rules on industrial subsidies, did not go beyond the declaration stage.)

In contrast, the Biden administration not only cooperated with allies through, for example, the U.S.-EU Trade and Technology Council that among other things included a focus on semiconductor supply chain security and resilience, it also put considerable efforts into a positive agenda to strengthen the U.S. economy's capacity to compete with China. It worked with the U.S. Congress to enact several notable laws, including the Inflation Reduction Act (IRA), the CHIPS and Science Act, and the infrastructure Investment and Jobs Act. While the IRA included local content provisions for electric vehicles

that have been criticized as inconsistent with WTO rules, these measures may boost domestic manufacturing and jobs in the long run – particularly in industries important for the green transition. The main thrust of the IRA, however, is not to close off the U.S. market to imports from friendly countries, but rather to avoid asymmetric dependencies on unreliable suppliers like China for EVs and battery components as well as other goods essential to decarbonization.

There is, however, another important aspect to the geoeconomic challenge from China that goes beyond Beijing's economic practices, such as subsidizing domestic industries (steel, solar, automobiles) and then exporting this overcapacity in a way that contributes to economic growth at home but comes at the expense of production and employment abroad. Harmful as these practices are, they take place within the institutional and legal context of China's membership in the World Trade Organization. The WTO is a rules-based entity that allows members to bring complaints to its dispute settlement system when they believe their rights have been infringed by other members.

Crucially, however, WTO jurisprudence has not always proved itself up to the task of disciplining Chinese subsidies of its industrial firms. One clear example of the inability of WTO rules to account for the non-market behavior of a country like China is the 2011 case concerning U.S. trade defense instruments (anti-dumping and anti-subsidy measures) that it employed in response to imports of products made by Chinese state-owned enterprises that had benefited from official largesse. In its ruling, the WTO's Appellate Body opted for a narrow interpretation of WTO law, asserting that it only applied to entities ("public bodies") that act like governments, rather than state-owned or controlled entities more generally, thus disallowing the U.S. actions. Without major reform, it is doubtful that the WTO – an institution established to govern trade primarily among market economies – will be able to accommodate a large, state-capitalist economy like China.

Although the European Union does not agree with the U.S. decision to continue blocking the operation of the WTO's Appellate Body, its view of the challenge from China has evolved. As can be seen from its decision in October 2024 to impose anti-subsidy duties on the imports of Chinese electric vehicles, the issue of unfair competition from China, especially in an industry so important to the green transition, is far from a U.S. concern alone. While these duties are consistent with WTO rules that allow compensatory measures for unfair trading practices – indeed, the EU's action helps to reinforce their legitimacy – the need to reform these rules is nonetheless likely to become more urgent. This is not only true with regard to the treatment of subsidies of traditional vs. green goods and energy sources, but also how Article XX (general exceptions) can be clarified to enable trade policy to better support climate action, and– given the greater geopolitical rivalry that exists compared to the time of the WTO's creation in 1994 – when and how members should be allowed to invoke Article XXI, the national security exception.

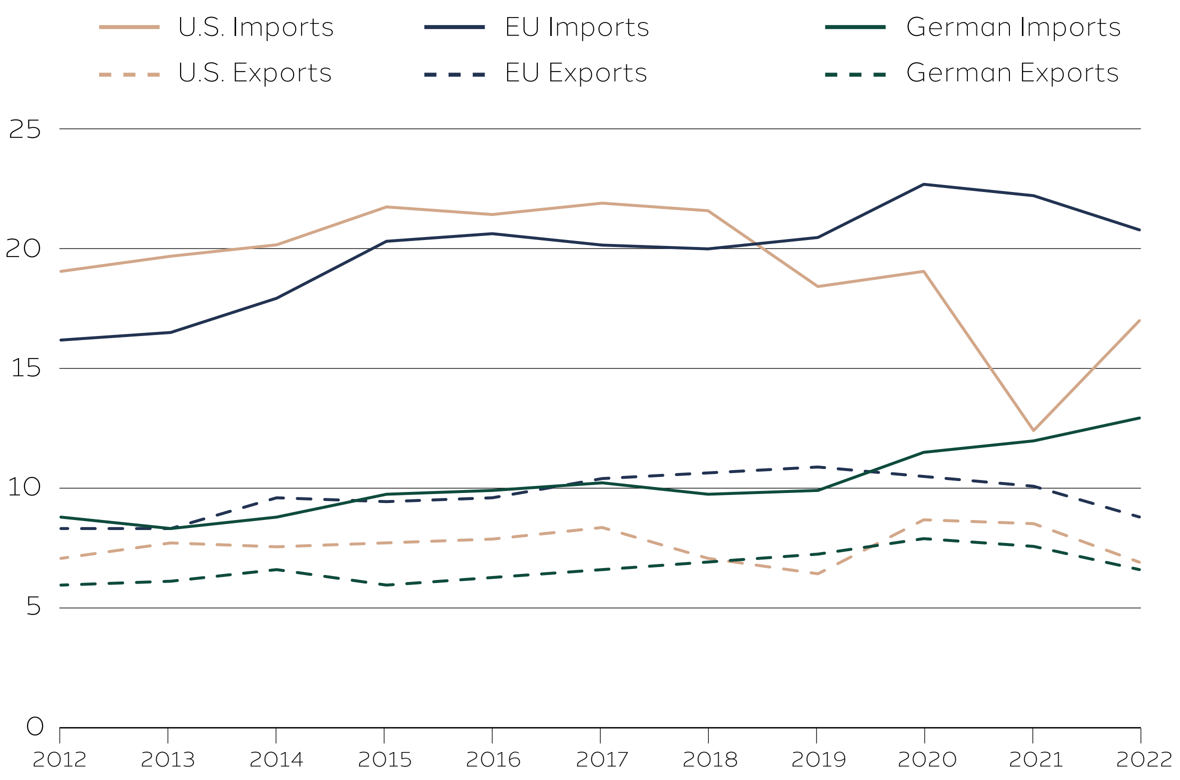
4

The Harris and Trump strategies: friendshoring vs. protectionism

While neither Vice President Kamala Harris, the Democratic party candidate, nor former President Donald Trump, the Republican party candidate, wishes to return to the type of international economic engagement that characterized the era of hyperglobalization, there are crucial differences between their two approaches to the U.S. role in the global economy. Kamala Harris favors a strategy based on what could be termed "friendshoring," a concept that was at the center of a speech by U.S. Secretary of the Treasury Janet Yellen in 2023. This idea makes a distinction among U.S. trading partners, endorsing cooperation with like-minded economies but pursuing derisking (decoupling in sensitive sectors) of U.S. trade and investment with countries, such as China, whose role in the global economy poses challenges to U.S. national interests.

This outlook can be seen the Democratic Party platform put forward at its August 2024 convention in Chicago. On the one hand, it states that:

"For too long, America's trade policies and approach to the global economy let middle-class jobs move offshore,



German, and EU Imports and Exports to China as Percentages of Total Imports and Exports Over Time
Source: World Integrated Trade Solution (WITS)

hollowed out our supply chains, rewarded corporate CEOs instead of valuing workers, and failed to generate inclusive economic growth. In response to the previous status quo, President Biden is committed to building a fairer, more durable global economic order, for the benefit of the American people and for people everywhere."

This language embraces some of the critiques of neoliberalism, including the focus on the failure of globalization to produce equitable results at home.

On the other hand, the platform goes on to say:

"America's prosperity and the prosperity of our allies and partners are mutually reinforcing. Under President Biden's leadership, companies from American allies are building cutting-edge factories in the United States, employing hundreds of thousands of Americans. U.S. partners provide critical materials, expertise, and products the world needs to achieve global climate goals and are important markets for U.S. goods. Trade with allies and partners on fair terms promotes growth and reinforces alliances."

This assertion is essential to an understanding of the Democratic approach to geoeconomics. Although the Harris campaign sees problems with the trading system writ large, it values economic statecraft with friends and allies to achieve common objectives. This is not protectionism, but rather what in the language of trade negotiators could be called "plurilateralism" – or, using a more martial term, "coalitions of the willing" – even if it mostly takes place outside the framework of the World Trade Organization.

The Republican platform agreed in July 2024 echoes some Democratic party concerns about globalization, although they are stated in a considerably more aggressive manner:

"For decades, our politicians sold our jobs and livelihoods to the highest bidders overseas with unfair Trade Deals and a blind faith in the siren song of globalism. The Republican Party stands for a patriotic "America First" Economic Policy. Republicans offer a robust plan to protect American Workers, Farmers, and Industries from unfair Foreign Competition. We commit to rebalancing Trade, securing Strategic Independence, and revitalizing Manufacturing. We will prioritize Domestic Production and ensure National Independence in essential goods and services. Together, we will build a Strong, Self-reliant, and Prosperous America."

But instead of working with allies, the platform takes an indiscriminate, protectionist approach in its proposals for U.S. international economic policy, including an endorsement of using trade policies to reduce the U.S. current account deficit:

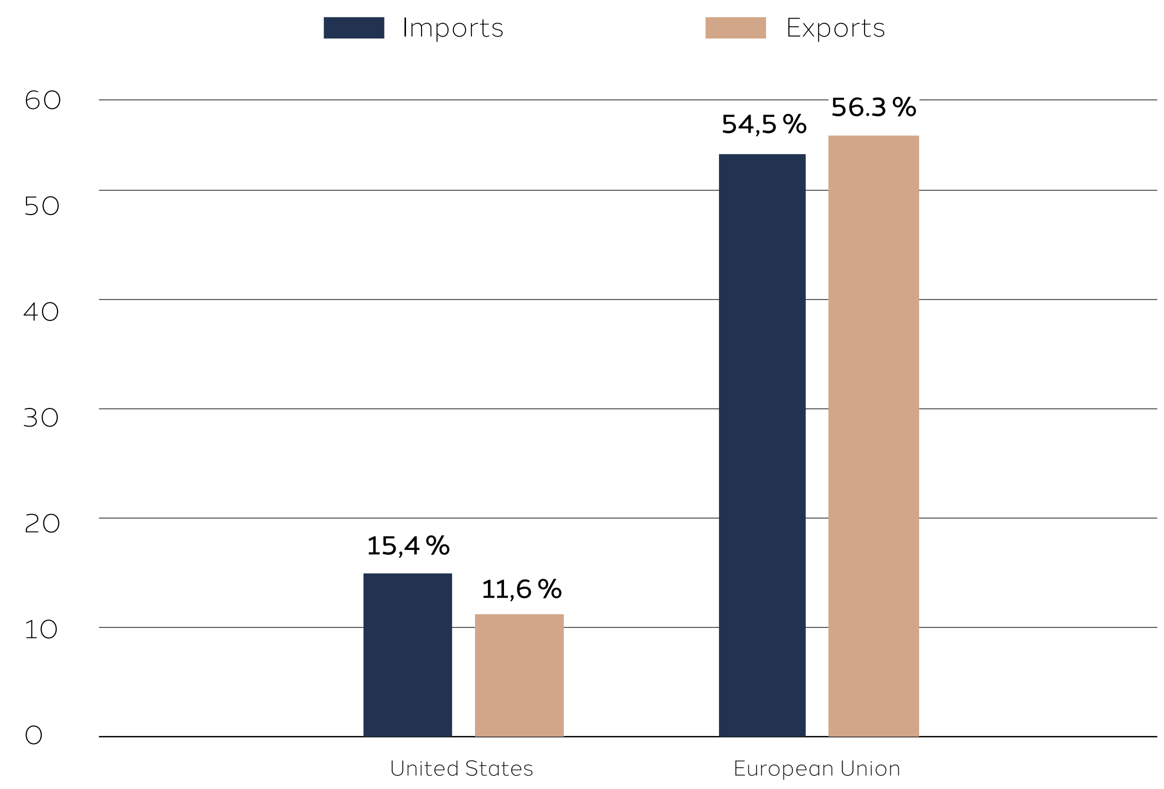
"Our Trade deficit in goods has grown to over $1 Trillion Dollars a year. Republicans will support baseline Tariffs on Foreign-made goods, pass the Trump Reciprocal Trade Act, and respond to unfair Trading practices. As Tariffs on Foreign Producers go up, Taxes on American Workers, Families, and Businesses can come down."

In addition to the Reciprocal Trade Act mentioned in the Republican platform, Trump has proposed 60 percent tariffs on China and a 10-20 percent across the board tariff on U.S. imports, as well as a devaluation of the U.S. dollar. According to one study, such tariff surges would have strongly regressive effects, reducing after tax incomes of the bottom half of earners by about 3.5 percent and costing an average household in the middle of the income distribution at least $1,700 per year.

For her part, since the Democratic convention in August, Kamala Harris has sought to portray herself as a moderate on issues related to the economy. She has decried Trump's tariff plans as a "national sales tax" that would cost middle-class families $4,000 per year, accused Trump of "inviting trade wars" at the September 10(th) debate in Philadelphia, and during a speech to the Economic Club of Pittsburgh on September 25(th) she stated, "I am a capitalist."

What does this ideological positioning suggest about how a Harris administration would approach the global economy? If Donald Trump were defeated in his campaign for reelection, the political dynamics in the United States would change; the "Make America Great Again" (MAGA) movement would not disappear, but it would be bereft of its incarnation and driving force. As a result, with a Harris victory there should be more political space to embark on international economic policies that bind the United States more closely with its allies, including efforts to tackle climate change and to reform the global trading system.

Part B – Peter S. Rashish



Comparison of U.S. and EU Total Imports and Exports (2022)
Source: World Bank

It is not certain, however that this new political environment would lead to a return to classical free trade agreements that would require the United States to open its market to imports from partner countries. Because the Transatlantic Trade and Investment Partnership launched in 2013 was a comprehensive negotiation between the United States and the European Union, two economic behemoths, it held considerable strategic promise to raise the standards of international trade in a way that favored U.S. and European interests. But because of its vast sectoral and issue coverage, TTIP was unwieldy to negotiate and opened itself up to opposition from parts of the public with strong convictions about how trade agreements should be crafted. Neither a President Kamala Harris nor European Commission President Ursula von der Leyen is likely to welcome the prospect of presenting a large-scale free trade agreement for ratification by the U.S. Congress and the European Parliament respectively given the politically fractious nature of trade policy.

One area where both Trump and Harris would be likely to have overlapping concerns is the U.S.-Canada-Mexico Agreement (USMCA) that replaced the North American Free Trade Agreement from 1993. There is a mandated review of the USMCA in 2026 and given his campaign rhetoric it can be expected that during a second term a President Trump would try to impose more restrictions on U.S. imports from Mexico and Canada if they contained Chinese content, including goods produced in those two countries by Chinese-owned firms trying to take advantage of tariff-free access to the U.S. market. Kamala Harris may share this concern, but she could also put a priority on introducing climate provisions to the USMCA; while Democrats in Congress were able to strengthen the environmental and labor provisions of the agreement compared to NAFTA, there is no language in the USMCA specifically related to climate change.

5 Transatlantic economic relations

What will the election mean for the transatlantic economic relationship, both in a bilateral sense and in terms of how the United States and the European Union leverage their statecraft to impact the global economy? As has been discussed, neither Trump nor Harris can be expected to launch a "TTIP 2.0" next year. But there are many other options for U.S.-EU cooperation short of a comprehensive free trade agreement.

The Biden administration has explored several of these frameworks, the most notable of which is the U.S.-EU Trade and Technology Council, which also includes a Transatlantic Initiative on Sustainable Trade. But there are others. The aforementioned Global Arrangement for Sustainable Steel and Aluminum (or GASSA) would forge a joint transatlantic approach to imports of these metals when they are both unfairly subsidized and carbon intensive and would in principle be open to other countries to join.

Negotiations also began on a Critical Minerals Agreement that would enable imported European components to be included in the IRA's tax benefits for electric vehicle purchases by U.S. consumers; while the Biden administration was successful in signing such an agreement with Japan, the talks with the EU have been held up by concerns from Congress about both the content of a deal and how its trade policy authority should be taken into account. The Biden administration is also engaged in a Clean Energy Incentives Dialogue to ensure that U.S. and EU industrial policy and subsidies work in a complementary rather than competitive manner.

Under a prospective Trump administration – which would once again place a high priority on unilateral freedom of action – it can be expected that the United States would withdraw from most if not all these forms of cooperation with the European Union. The one exception could be a refashioned U.S. EU TTC that had a near exclusive focus on threats to transatlantic security from Chinese economic practices. Whether the European Union, even one that under Commission President von der Leyen has moved toward the U.S. position on China, would agree to transform the TTC into a vehicle for Trump administration coercion (sanctions, tariffs, export and investment controls) at the expense of creating positive tools to ensure transatlantic prosperity and security (supply chain resilience, decarbonization, artificial intelligence governance) is uncertain. This is especially true if during a second term Donald Trump used trade policy as leverage to achieve results where the United States could be

portrayed as the "winner." Such a transactional approach could backfire with the EU, which has devoted considerable effort in the last decade to reinforcing its ability to act unilaterally within the global economy – not only to deter or respond to Chinese actions, but also those coming from the United States.

A Harris administration, on the other hand, would not only maintain most or all these transatlantic cooperation frameworks but could even seek to broaden their mandate. One area where Kamala Harris could be more ambitious than Joe Biden is climate statecraft. It is important to remember that as a Senator, Harris voted against the U.S.-Mexico-Canada Agreement in 2019 because of her concern that its environmental provisions were too weak. She may thus choose to make a priority of concluding the Global Agreement on Sustainable Steel and Aluminum with the European Union that would not only definitively remove the Trump era national security tariffs but could also lay the groundwork for a broader consortium of high-ambition economies that wish to pursue a green trade, finance, and technology agenda.

6 Conclusion: global economic order at a time of geopolitical fracture

Whether it is Russia's invasion of Ukraine or China's increasing global ambitions, geopolitical tensions have increased significantly in the last decade and are leaving their mark on the global economy. Rather than a stance of benign neglect that allows trade, investment, and capital flows to take place within their own set of globally agreed rules and norms, these phenomena are increasingly subject to countries' sometimes conflicting national security imperatives. As a result, while global trade overall has not slowed, there is growing political fragmentation in how it is organized.

Yet even if it is realistic to expect that not only geopolitics, but also the need to build resilient supply chains after Covid-19 and to better integrate climate action into international economic policy mean that countries are rethinking their approach to globalization, it remains essential to keep the worlds of economy and geopolitics separate to some degree. On the one hand, that is true because geopolitical overreach could lead to the imposition of sanctions, tariffs, investment restrictions and other coercive measures that do little to advance national security but that would reduce a country's economic prosperity.

On the other hand, the reform of the global trading system is becoming urgent, whether for reasons of climate change, technologies like artificial intelligence, or the broad challenge that China's industrial overcapacity poses to that system. That effort will require the alignment of a large number of countries that are committed to an open, high-standard, and rules-based global economy but who may not always share the same outlook when it comes to national security. If the next President of the United States attempted to frame an update to the global economic order as part of a larger geopolitical competition it could alienate potential allies who share its economic values but do not wish to choose between China and the United States. It is likely to become clear during the presidential term starting in 2025 whether the United States will attempt to dismantle the international economic system, stand on the sidelines, or lead an effort at renewal.

ABOUT US

Bergos AG is an independent Swiss Private Bank focusing on private wealth management. Bergos emerged in 2021 with a new shareholder base from its former mother company, the Berenberg Group founded in 1590, and has been serving international private clients and entrepreneurs in the Swiss financial center for over thirty years. Its headquarters are in Zurich with an office in Geneva. The Swiss Private Bank is dedicated to "Human Private Banking" and specializes in wealth management and advisory services. With more than 130 employees, the focus is on providing expert guidance in all known liquid asset classes, as well as in private markets and alternative investments. Following a "beyond money" approach, we also offer expertise in art collecting and philanthropy. For entrepreneurial clients, Bergos offers access to M&A and other corporate finance services. Bergos AG offers private clients, entrepreneurs and their families a holistic, cross-generational service that focuses on security, neutrality, internationality and openness to the world.

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