

U.S. 2024 presidential election: The potential global impact

How a Harris or a Trump win could affect the global economy

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Key points

- The U.S. presidential race has tightened since Vice President Kamala Harris became the Democrat nominee – and she is currently the favorite. But a win for former President Donald Trump would have the biggest impact on the rest of the world with policies on tariffs, energy and geopolitics having material effects.
- In China we focus on
- Europe
- Asia

A tight race

Before the summer we reviewed the upcoming presidential election and its likely impact on the U.S. economy¹. At that time, President Joe Biden had just bowed out of the race and Vice President Kamala Harris had taken up the mantle. Former President Donald Trump led Harris by a modest amount in overall polling approvals, though by less than he had led Biden. Since then, Harris has seen an improvement in ratings. Rising from a deficit of 1.7 points, she now leads Trump by 1.1pts².

Exhibit 1 illustrates this improvement in polling for the Democrats has spilled to marginal states, with Harris now leading in most marginals and almost neck-and-neck with her Republican rival in five others – only Florida remains staunchly pro-Trump. Exhibit 2 shows that based on this polling, the electoral college vote is now delicately poised – contrary to the position in July. Allan Lichtman, the U.S. historian who has correctly predicted each election since 1984, [recently announced](#)³ his prediction for a Harris win.

Yet Exhibit 3 suggests the election is far from decided. Eight years ago, Hillary Clinton enjoyed far larger leads over Trump at

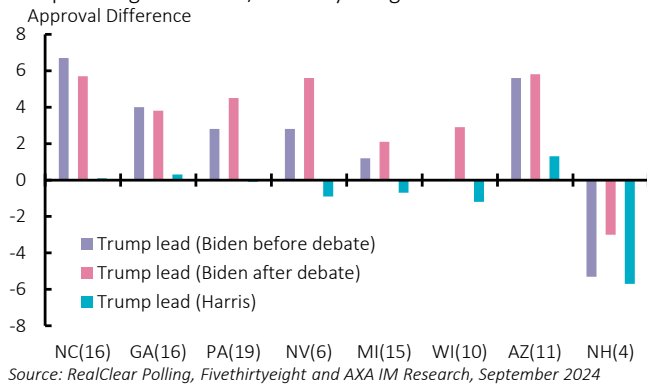
¹ Page, D., “U.S. 2024 presidential election preview: Trump faces new adversary”, AXA IM Research, 26 July 2024

² Real Clear Politics, 22 August 2024

³ Lichtman, A. Raza, N., Westbrook, A., “Harris or Trump? The Prophet of Presidential Elections Is Ready to Call the Race”, New York Times, 5 September 2024

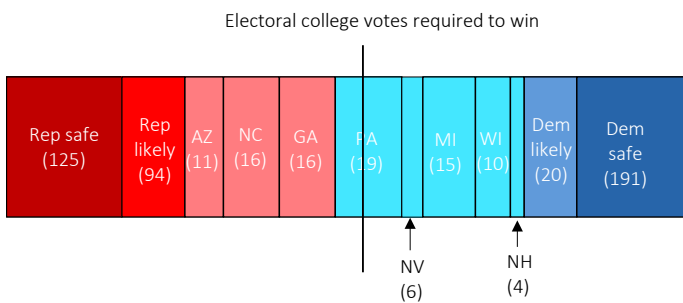
this stage but went on to lose. Harris’ convincing performance in September’s televised debate is likely to help arrest the tentative softening in her lead after the initial honeymoon and post-Democrat Convention support. We will continue to watch the polls for a clearer steer on November’s outcome.

Exhibit 1: Trump swing states lead holds in early Harris polling
Trump lead against Biden/Harris by marginal states



In this paper we consider the impact the U.S. election could have globally. We believe a Harris win could have a material impact on the outlook for domestic activity – particularly distributionally – albeit our expectation remains she would face a split Congress, which would hamstring bolder policy. Her victory’s impact on the world would thus likely be limited to the not inconsequential spillover effects from U.S. growth.

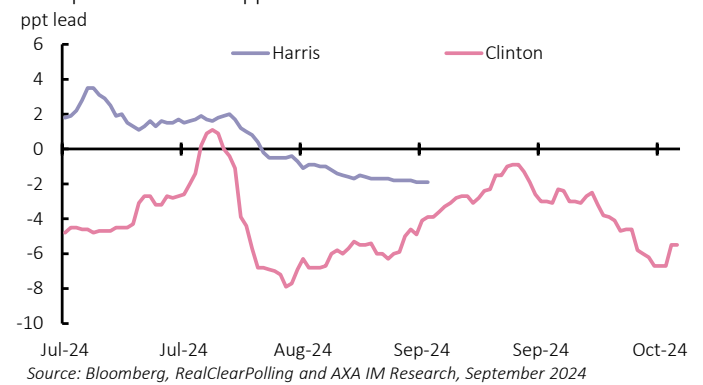
Exhibit 2: Trump still on track for electoral college victory
US - States with electoral college votes ranked by current polling



Yet a win for Trump would have more direct impacts for many economies and could start a chain of events that could lead to many indirect effects. In particular, we consider the impact of Trump’s proposed tariff policy. While we have explained that in price terms this is something we would expect to be felt more by U.S. consumers than foreign producers, in volume terms this is likely to have a material impact on China – the focus of Trump’s campaign ire – with a proposed 60% tariff. By contrast,

while the Eurozone would face a plausibly smaller 10% tariff – from the roughly 5% weighted tariff currently – trade tensions could rise further in the face of any EU retaliation or from the EU’s separate efforts to address carbon emissions through its Carbon Border Adjustment Mechanism.

Exhibit 3: Harris leads Trump, but Clinton led by more and lost
Trump lead in overall approvals



These policies are likely to drive U.S. interest rates and the dollar higher – despite Trump’s protestations to the contrary. This would impact the global economy, particularly emerging markets.

We also consider the implications of Trump’s statements on security. His antipathy to NATO and suggestion of a settlement in Ukraine could signal a period of security withdrawal from Europe. In the face of persistent Russian aggression, Europe could have to revert defence spending to levels that prevailed before the post-Soviet Union ‘peace dividend’ – which is something few European economies are well placed to fund. In Asia, Trump has also threatened less security provision, or a more transactional relationship. This could also see a reduction in U.S. security presence here, with implications for many nations in Southeast Asia.

More broadly, we examine Trump’s likely environmental stand. Reneging on the Paris Agreement in his first term, we expect Trump to weaken climate change avoidance policies. While we have argued that Trump is unlikely to reverse Biden’s signature spending bills⁴ completely, he is likely to oversee deregulation of oil and gas production, boosting output for both. In the short-term this is likely to lower energy costs, softening inflation outlooks globally. However, over the medium to long-term this is likely to keep U.S. greenhouse gas emissions high.

We consider the possible impact on China and Europe, before broadening our outlook to consider Emerging Asia, Japan, Mexico, Canada, and Emerging Europe, as well as briefly reviewing the impact for other economies.

⁴ Page, D., “Will the U.S. presidential election endanger an investment boom?”, AXA IM Research, 27 May 2024

Eurozone – High stakes amid political fracture risks



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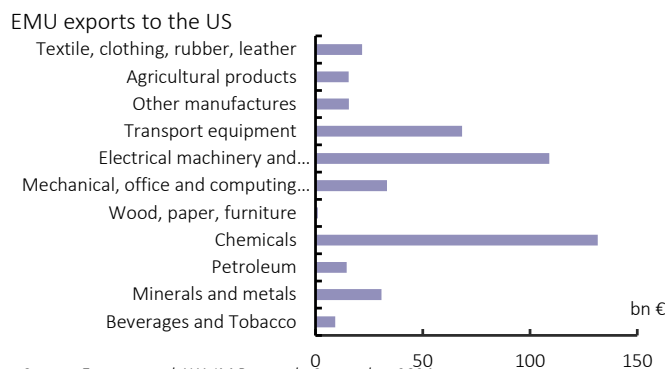
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- The direct impact of higher U.S. tariffs on the Eurozone would likely be limited.
- Of more concern would be an escalation of the trade war with China hampering domestic investment in the bloc.
- Increased geopolitical tensions risk EU political fractures amid high public indebtedness vulnerability.

Trade tariffs: Marginal direct impact

The U.S. election’s potential impact on the Eurozone is rather binary – a Kamala Harris victory is unlikely to have material effect, but a Donald Trump win would. Trump wants to narrow the U.S. trade deficit and the Eurozone is a key contributor to this. The bloc exported €450bn of goods in 2023 (Exhibit 4), consistent with a surplus to the U.S. of €133bn (0.9% of Eurozone GDP). In 2018, Trump implemented tariffs on steel and aluminium, which were met with retaliatory tariffs from the European Union (EU) on bourbon, motorcycles, and more. The impact on trade was minor (-0.1% on the 12 months’ average of Eurozone exports after March 2018).

Exhibit 4: Products exported by the Eurozone to the U.S.



If he were to secure a second term, Trump has proposed a blanket 10% tariff on the rest of the world, including the Eurozone. The weighted average of U.S. tariffs on EU exports is around 3%,

according to World Trade Organization data, implying a further 6.8% rise in export prices⁵. Assuming an historical elasticity of around -1, we estimate it would reduce total Eurozone goods exports by €30bn (0.2% of GDP) – a rather limited direct impact. Such an impact should be further moderated by a depreciation of the euro against the dollar in response to domestic tariffs and other policy adjustments limiting the Federal Reserve’s space for cuts. This would likely lower the price of Eurozone exports, also potentially benefitting the bloc from increased competitiveness in non-U.S. countries if they retaliate with increased tariffs on the U.S., but not on the Eurozone. Since the start of 2023, net trade has already added 0.2 percentage points (ppt) per quarter to Eurozone growth (0.0ppt in 2014-2019)⁶, with share of U.S. exports up 8% – tariffs present a direct risk.

We see a bigger indirect risk if a second-term Trump trade policy starts a trade war between the three main economic blocks. Trump has been even more aggressive towards China, threatening 60% tariffs. At the risk of oversimplifying, Chinese exporters would likely try to find a substitute market with similar consumers to the U.S.; Europe would be the natural target. A number of European industries, already in a tumultuous state, could face greater competition from Chinese producers, raising expectations of EU intervention with its own tariffs. Yet the current negotiation on Chinese electric vehicle tariffs has revealed challenges on this path. Reaching an EU majority is complex, as each country’s interests differ. Furthermore, political stability in the Eurozone has significantly eroded since Trump’s first term and key elections loom in Germany (2025), Italy (2026), and France (2027 at the latest).

For the Eurozone, global protectionist policies, together with associated economic uncertainty would likely affect domestic and foreign investment. The impact is difficult to estimate but would be crucial for both short and medium-term growth.

European security tensions

Another major uncertainty for the EU under a Trump presidency would be U.S. support for Ukraine and implications for NATO. Trump has claimed he would secure a peace deal in Ukraine in a day. The fear is that this is an implicit threat of withdrawal of U.S. support to Ukraine. The EU would not be able to replace the scale of U.S. support – especially on the materials side – and this would further strain EU relations. Further, it would raise concerns about U.S. commitment to NATO and European security more broadly.

⁵ “United States of America”, World Trade Organization (2024)

⁶ “Eurosysteem staff macroeconomic projections for the euro area, June 2024”, European Central Bank (June 2024)

In recent years, European countries have increased their defence spending, though still not all match their NATO pledges. A Trump presidency would likely push for at least this commitment. However, a wider perception of U.S. security withdrawal may lead countries to raise defence spending more materially, something that would additionally strain vulnerable EU public finances.

China – Eyes on trade fragmentation



- The expected increase in tariffs on Chinese goods would weaken China’s exports and threaten an already weakening growth outlook.
- Depreciation of the Chinese yuan, increased export diversion, and deeper supply chain integration offer some protection.

Tariffs would threaten economy

The upcoming U.S. election could significantly affect China’s economy, primarily through trade fragmentation. Both presidential candidates have discussed tariffs, though Donald Trump has threatened much larger increases than Kamala Harris – up to 60%. Exports have been a crucial driver of China’s economic growth, especially considering its several domestic challenges. However, the anticipated increase in U.S. tariffs on Chinese goods could exert considerable pressure on China’s export sector, subsequently dampening overall economic growth. Moreover, further disruptions in U.S.-China trade relations could erode investor confidence. In recent years, China has become less attractive to foreign investors due to increased government intervention. Additional tariff hikes would heighten uncertainties, threatening to further reduce foreign investment in China.

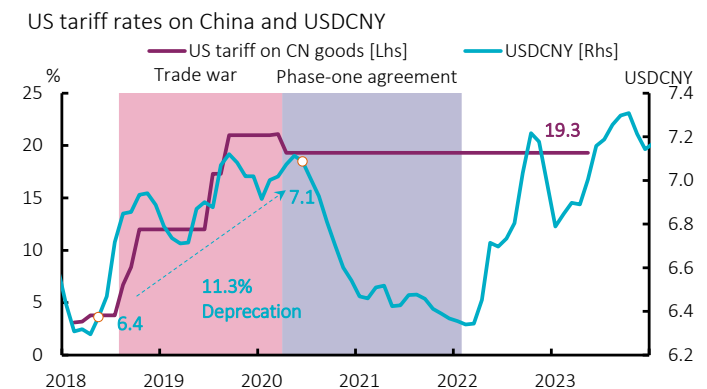
Any increase in tariffs would likely to trigger a natural appreciation of U.S. dollar (depreciation of the yuan), which could alleviate some of the trade pressure, making exports more competitive against other countries. However, the extent of currency devaluations will largely depend on the scale of tariffs. A significant weakening of the yuan could lead to capital flight, further destabilising China’s economy. During the previous Trump administration trade tensions, U.S. tariffs on Chinese goods surged to 21% by late 2019 from around 4% in early 2015, eventually settling at 19.3% with the Phase-One agreement in early 2020.⁷ The yuan depreciated by 11.3%, from 6.3 to 7.1 against the U.S. dollar (Exhibit 5), with the People’s Bank of China allowing the devaluation to follow market trends, albeit within a controlled range. This devaluation helped mitigate some of the direct economic impacts. However, with the yuan already weak —due to a

strong U.S. dollar and China’s economic slowdown—further tariff increases could push the currency to a fresh low.

More broadly, the persistent negative output gap in China’s economy has led to a low-inflation environment, increasing the risk of entering a debt-deflation loop. A decline in external demand due to higher tariffs would exacerbate this output gap and reinforce disinflationary pressures, including an increase in unemployment, particularly in export-dependent sectors, further weakening the labor market and dampening consumer confidence further.

Higher U.S. tariffs could also trigger capital flight from China, driven by a combination of slower economic growth, currency depreciation, stock market declines, and worsening risk perceptions. Both domestic and international investors may seek more stable/profitable opportunities elsewhere, particularly if they anticipate prolonged economic challenges. The scale and immediacy of capital flight would also depend on the severity of the tariff increases, the broader economic environment, and the Chinese government’s response to these pressures.

Exhibit 5: Yuan depreciation as U.S. tariffs hiked in 2018



Despite these challenges, the impact of tariff increases could be less pronounced than in 2018. China has increasingly diversified its exports away from the U.S., with ASEAN (Association of Southeast Asian Nations) countries now surpassing the U.S. as the top destination for Chinese goods⁸. Additionally, China’s deeper integration into key global supply chains and rich natural resources for key products—such as semiconductors, batteries and solar panels—may offer some protection against future trade disruptions. However, these connections could be more vulnerable to sanctions, with third parties encouraged to observe – which U.S. Democrats have made more use of – than pure tariffs, which Trump favors.

⁷ “Trade”, Asia Society Policy Institute (Winter 2020)

⁸ “China-ASEAN industrial cooperation deepens on RCEP”, China Daily (February 8, 2024)

The U.S. election therefore poses a risk to the fragile outlook for China's economy whatever the outcome. However, the suggested scale of tariff increases proposed by Trump pose the

biggest risks. Proactive and adaptive policy responses will likely be crucial in navigating these uncertainties as well as delicacy in handling other geopolitical developments.

EM Asia – Picking a side



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- EM Asia gained from the U.S.-China trade war, widening U.S. surpluses and attracting Chinese investment. If he wins, Trump may punish South-East Asia's role in enabling Chinese firms' indirect exports to the U.S.
- Korea and Taiwan could face a more challenging environment in any change of U.S. security.

A friend of the enemy

Emerging markets (EM) Asia will be closely watching the U.S. presidential election. While we see few direct impacts from a Kamala Harris win, a Donald Trump victory would likely pose several challenges for the region.

EM Asia broadly benefited from the 2018-2019 U.S.-China trade war, not only enjoying a more competitive position vis-à-vis Chinese exporters to the U.S. but also attracting foreign investment from firms engaging in "China + 1" strategies and investment from Chinese firms seeking to diversify their supply chains (and circumvent U.S. tariffs).

The region's favorable position can be attributed to its success in avoiding picking a side. However, if Trump wins, the risk of an escalation in the U.S.-China trade war could see key markets in the region find it difficult to continue to reside in this sweet spot. Trump would be unlikely to tolerate what he may deem an increasingly one-sided relationship with markets that have seen trade surpluses with the U.S. widen and benefited from U.S. regional security backing but simultaneously have built closer economic ties with China. EM Asia could therefore potentially face a tougher trading environment with the U.S. and a reassessment of existing security arrangements if Trump is re-elected.

The region now has a much wider trade surplus with the U.S. than in Trump's first term (Exhibit 6). While some of EM Asia's gains have come at the expense of China, this also reflects a rewiring of Chinese supply chains to circumvent U.S. protectionist policies, with South-East (SE) Asian nations being notable conduits. This has already played out in solar panels – a decade or so after the 2012 U.S. tariff hike on Chinese solar panels, SE Asia now accounts for around 80% of all U.S. solar

panel imports, much of which is linked to Chinese firms⁹. In August 2023, the U.S. Department of Commerce (DoC) announced the final determination of a circumvention inquiry that found Chinese producers were shipping solar products through these markets for minor processing to avoid paying anti-dumping and countervailing duties.

China's investment in SE Asia manufacturing facilities has also picked up in recent years. Its total outward direct investment position in Vietnam, Thailand, and Malaysia combined rose from U.S.\$16bn in 2018 to U.S. \$37bn in 2022, according to International Monetary Fund data. More recently, fDi Intelligence reported that in 2023 China pledged U.S. \$26.4bn in greenfield projects in the Association of Southeast Asian Nations, up from an annual average of U.S. \$7.7bn in 2014-2022.¹⁰ This makes it challenging for the DoC to identify and contain Chinese efforts to circumvent trade tariffs. Tougher anti-China policy could include blanket tariffs on nations deemed to be benefiting from close ties with China (particularly those enabling China's tariff evasion) – and EM Asia will likely be a prime target.

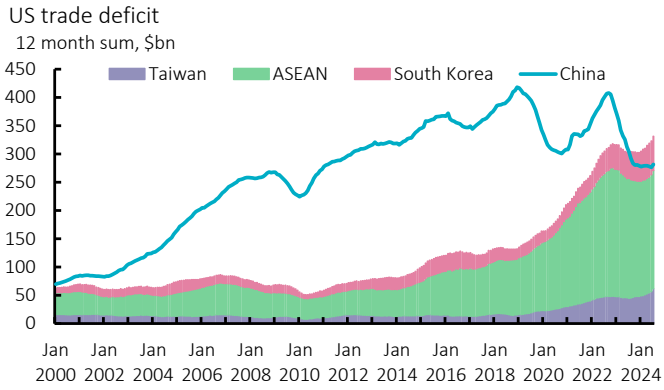
In addition to hiking tariffs on so-called unfair trade covering China-linked imports, there is a broader risk any future trade negotiations or disputes with a new Trump administration could include threats to withdraw U.S. security commitments, or demand greater contributions towards existing arrangements.

In particular, Korea and Taiwan have also seen trade surpluses with the U.S. widen and these could attract a protectionist response, given Taiwan's dominant position in semiconductor manufacturing and Korea's rising vehicle exports to the U.S. A harbinger of a more complicated relationship with the U.S. was Trump's comments in July that Taiwan should pay the U.S. for protection from China, while also bemoaning Taiwan's dominance in global semiconductor trade. Tellingly, in his first term, Trump accused South Korea of free riding on U.S. security support and renegotiated the Korea-U.S. Free Trade Agreement (KORUS) accordingly.

Exhibit 6: U.S. deficit with EM Asia greater than that with China

⁹ Featherston, R., Robinson, Q., "Assessing the United States' Solar Power Play", CSIS (July 1, 2024)

¹⁰ "The fDi Report 2024", fDi Insights (May 14, 2024)



Canada – Next door to the elephant



David Page
Head of Macro Research
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- Tariff policy is critical, but the expected impact should be limited to USMCA renegotiation, not direct tariffs.
- Indirect impacts are expected on the EV supply chain industry; oil production; and more unskilled migration.
- Spillovers are expected from a U.S. slowdown after 2025.

Tariffs first concern

As Canada's largest export destination, U.S. trade policy could form a major part of the election's potential impact – and this could be more pertinent if Donald Trump is re-elected. Canada exports around 75% of its goods and services to the U.S., worth 25% of GDP¹¹. Trump has not discriminated in campaign speeches between current trade partners in threatening a blanket 10% tariff. Such an increase would have a material impact on Canada's exports, though this would affect all trade partners, with U.S. industry struggling to replace all the more expensive imports quickly. Nevertheless, Business Development Bank of Canada (BDC) estimates a 0.3 percentage point impact on Canada's GDP and we would expect a weakening in the Canadian dollar to increase the Bank of Canada's (BoC) inflation concerns.¹²

In fact, we expect Canada, as part of the United States-Mexico-Canada Agreement (USMCA) trade deal (CUSMA in Canada), to escape a 10% 'blanket' tariff. This would make Canadian exports *relatively* cheaper to the U.S. and should boost demand for Canadian products as much as for domestic U.S. producers, lifting the 2025 outlook. Yet the USMCA deal itself is up for renegotiation in July 2026. Much as Canada was forced into concessions in initial negotiations in 2017, including on data storage, intellectual property, and dairy market access, we expect similar concessions this time. That said, Canada is unlikely to be high in Trump's trade concerns. Canada recently invoked 100% tariffs on Chinese electric vehicles (EVs) – a clear suggestion of where Canada's loyalties lie¹³. And even within USMCA, renegotiation is likely to be more

difficult with Mexico – albeit that any changes would also affect Canada's relationship with Mexico, accounting for 8% of Canadian trade.¹⁴

In his first term, Trump used trade policy to extract other concessions, something we expect to be repeated. Canada may face renewed pressure on defence spending. It has not met its 2% of GDP North Atlantic Treaty Organization (NATO) pledge since 1990, being closer to 1% for most of the last 30 years. The latest pledge to increase spending would only reach 1.76% by 2029-30.¹⁵ In May, 23 bipartisan U.S. senators wrote to Prime Minister Justin Trudeau about this shortfall¹⁶; Trump could be more forceful. Yet most of the impacts on Canada are likely to be felt indirectly. While we have argued that Trump will not renege on the entirety of U.S. President Joe Biden's Inflation Reduction Act, U.S. EV production faces greater risks. This could impact Canada which has invested in EV battery and supply chains in anticipation of increased U.S. production. Relatedly, U.S. oil and gas deregulation under Trump would likely boost U.S. oil production. This may depress margins on Canada's own oil production, albeit that this disinflationary boost may ease other pressures for more restrictive monetary policy.

Both U.S. candidates are likely to tighten migration, but Trump's suggested deportations may also impact Canada. This might result in some of the U.S.'s 11mn undocumented migrants fleeing north¹⁷. Canada has recently been relatively welcoming to migration but such a wave may be treated differently. First, Canada is paring back its temporary migrant workers amid some signs of a net inflationary impact. Second, Canada's migration has to date been controlled – with few unchecked crossings – and so migration has been targeted and traditionally high-skilled. A surge from the U.S. could change this. Also, depending on U.S. policy, some argue that Canada's safe third-party country agreement with the U.S. could be challenged legally, which could grant some migrants legal refugee status. Finally, U.S. policy may also encourage increased third-party migration, for example increasing student applications.

A Trump presidency may also play a role in Canada's domestic politics. Trudeau faces re-election in October 2025, but his Liberal Party is currently trailing the Conservative Party in the polls.¹⁸ Trudeau has demonized Conservative leader Pierre

¹¹ "The International Trade Explorer, 2023", Statistics Canada (August 6, 2024)

¹² "Monthly Economic Letter", Business Development Bank of Canada (July 2024, V)

¹³ da Silva, J., "Canada hits China-made electric cars with 100% tariff", BBC (August 27, 2024)

¹⁴ "Canada / Mexico", The Observatory of Economic Complexity (2024)

¹⁵ Cleannan, V., "NATO's 2% Spending Minimum. Will Canada Ever Make It?", (July 9, 2024)

¹⁶ Atwood, K., "US senators write to Canada's Trudeau asking him to meet 2% GDP defense spending commitment", CNN (May 24, 2024)

¹⁷ Jordan, M., "The Reality Behind Biden's Plan to Legalize 11 Million Immigrants", (January 27, 2024)

¹⁸ Ljunggren, D., "Canada's Trudeau faces setback as party loses crucial Montreal election", Reuters (September 17, 2024)

Poillievre as a northern Trump – which could be increasingly awkward if Trudeau faces delicate negotiations with Trump. Moreover, Trump’s populist policies could inflame similar tensions in Canada, adding to the rightward lean in Canada’s own politics, particularly if they prompt further migratory flow.

Finally, Canada is also likely to face a material indirect spillover from U.S. economic impacts. While we believe that escaping broad tariffs would provide a boost to Canadian GDP, we do expect U.S. growth to slow next year under a Trump presidency and more materially in 2026. And while energy disinflation may ease the net effect, if the Federal Reserve provides less policy easing that would in turn pin the BoC to relatively more restrictive policy, via Canadian dollar weakness versus the greenback. When Trudeau’s father Pierre was Prime Minister, he observed that living next to the U.S. economy was like sleeping with an elephant: “One is affected by every twitch and grunt” – we expect such twitches to be meaningful over the coming years.

Mexico – Time, patience and cold blood



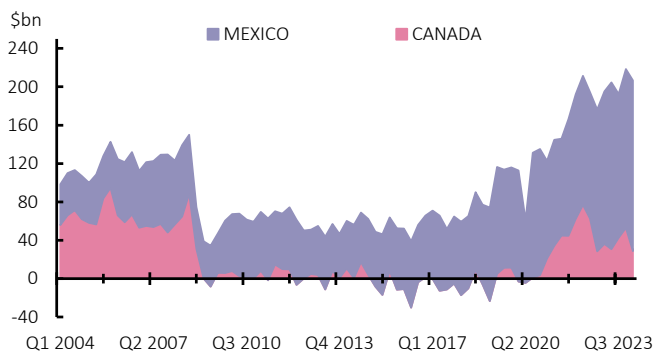
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- Trade policy is critical given the scale of trade share but difficult after surplus increases and Chinese investment.
- Other policy areas including fentanyl, judicial reform, and migration to complicate trade negotiations.
- Spillovers expected from any associated U.S. slowdown.

A complicated relationship

Mexico accounted for 16% of U.S. exports in 2023 – second only to Canada and on a par with total exports to the Eurozone – and one quarter of the entire U.S. trade deficit, while the U.S. accounts for 83% of Mexico’s exports.¹⁹ As such, trade developments will likely be the number one post-election issue for these two countries again. This suggests a bigger impact if Donald Trump beats Kamala Harris. As part of the United States-Mexico-Canada Agreement (USMCA) trade deal, we would expect Mexico to be exempt from any blanket 10% tariff as threatened by Trump, in theory boosting U.S. demand for Mexican exports as alternatives become more expensive.

Exhibit 7: U.S. trade deficit with Mexico has soared
US USMCA economies bilateral trade deficit



Source: US Census Bureau and AXA IM Research, July 2024

Yet there are several frictions from a Trump perspective. The U.S. deficit with Mexico has doubled over the last five years and is now close to China’s as a proportion of the total U.S. shortfall (Exhibit 7). Moreover, China has materially increased investment in Mexico, pouring investment into manufacturing facilities to produce goods for export into the U.S. that bypass direct tariffs. Trump has stated he will impose a 100% tariff on

Chinese produced electric vehicles (EVs) from Mexico, seemingly despite the trade deal, while Trump’s broader antithesis to U.S. EV adoption presents a further risk. Both are likely to cause Mexico difficulties when it come to the USMCA trade deal renegotiation in 2026, which could be difficult under either candidate. In 2017, the USMCA identified “non-market economies” (China) and restricted trade agreements allowed with them. More recently the Inflation Reduction Act identified (although did not precisely define) “foreign entities of concern” (China). The USMCA renegotiation could well include provisions along these lines, leaving Mexico in a tricky position with regards to Chinese investment, particularly if geopolitical tensions between the U.S. and China deteriorate. Additionally, any restrictive changes to the USMCA would also impact trade with Canada – Mexico’s second largest export market.

Previously, Trump has used trade negotiations as leverage over other policy areas and we envisage two flash points. Fentanyl is the largest cause of death of U.S. in 18-to-45-year-olds and most is believed to arrive from Mexico.²⁰ U.S. Republican senators have suggested bombing Mexican drug laboratories and/or using Special Forces to operate in Mexico. In 2020, Mexican President Andrés Manuel López Obrador restricted U.S. Drug Enforcement Agency (DEA) operations in Mexico, but recently tightened controls and legislation, joined the UN’s anti-trafficking campaign and increased co-operation with the DEA again. We expect further progress to be part of a trade deal. Moreover, Mexico has just passed judicial reform to elect judges. This was opposed by the Mexican judiciary and has raised concerns in the U.S., which may restrict future U.S. investment in Mexico.

On migration, Harris would likely limit this, increasing border tensions. But Trump’s threatened deportations would be more disruptive. PEW Research shows in 2022 of 11mn undocumented migrants, 4mn were Mexican and 4mn Latin American (LatAm). Mexico will likely be wary of a revival of Trump’s first-term Migrant Protection Protocols – the “Remain in Mexico” policy. A reduction in migrants may also reduce remittances to Mexico, worth 4% of GDP – with a larger impact across the rest of LatAm – something that would also be impacted by threatened taxes. However, migration is an area where Mexico can help the U.S.: alleviating U.S. southern border pressure, by better controlling its own. This is leverage that might help in negotiations.

Finally, Mexico could be particularly vulnerable to U.S. economic spillovers. Our expectation for higher U.S. inflation, a stronger dollar and less monetary policy loosening under

¹⁹ “Mexico”, Office of the United States Trade Representative (2024)

²⁰Claire Klobucista, C., Ferragamo, M., “Fentanyl and the U.S. Opioid Epidemic”, Council on Foreign Relations (December 22, 2023)

Trump would increase pressure on the Mexican central bank, Banxico, which has only lowered rates by 50bps from its post-pandemic peak. This would further weigh on the Mexican growth outlook, as would the slowdown in U.S. activity expected under a Trump presidency and any reduction in Chinese investment in the event of more restrictive conditions in a renegotiated USMCA.

Japan – Exposed by trade deal-lite



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G7 Economist
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- Trump tariffs would affect most Japanese exports.
- A more dovish Federal Reserve in 2026 would weigh on BoJ policy increases.
- Harris would be broadly neutral for growth and the Bank of Japan.

Trump negative, Harris neutral

As elsewhere, if the U.S. election outcome is a Harris win, we see a broadly neutral impact for Japanese growth and the Bank of Japan (BoJ). But we would expect greater cooperation on trade and defence.

We expect a Trump presidency, by contrast, to weigh on Japan's growth as any new tariffs would hit exports. Japan has two bilateral trade agreements with the U.S. and recently agreed to remove the previous Trump-era steel tariffs on around 1.25 million metric tonnes per year. But only around 5% of Japanese goods are covered by this agreement, with notable sectors untouched, particularly autos, which would be vulnerable to broader tariffs. Japan would also probably benefit less than other Asian countries from the substitution of production of certain electronics away from China due to differences in the manufacturing basis. Japanese exports are also heavily exposed to potential China and U.S. economic slowdowns, which account just under 40% of total exports²¹. We thus expect to see export growth slow materially in 2025. Note that in Trump's first term annual export growth slowed to 0.5% on average in 2018 and 2019, well below the 5% average in the first half of the 2010s.²²

A Trump presidency may also increase Japanese defence spending. During his last presidency, Trump required Japan to quadruple payments for the some 54,000 U.S. soldiers stationed there, a cost to Japanese tax payers, with no benefit to growth. Given recent rhetoric, further sacrifices will be likely needed if it wants to maintain this presence. And while Trump's demand for increased independent security across the rest of the region may boost defence spending elsewhere, Japan are already prioritising this area, so a similar boost to growth looks unlikely.

²¹ "[Japan](#)" The Observatory of Economic Complexity (2024)

²² "[U.S. economic growth slowed in 2018 as consumer rebound was offset by rising trade gap](#)", Associated Press (July 26, 2019)

Further, if a Trump victory leads to a more hawkish Federal Reserve (Fed), this would support the (BoJ) monetary policy increase towards neutral in the near term. Yet weaker domestic growth and a more dovish Fed amid a U.S. slowdown for 2026 would likely put pressure on such a move and may even require some loosening.

Emerging Europe – Trapped



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- U.S. trade policies could weigh on the region via indirect effects on Eurozone growth and the euro.
- The region’s geostrategic importance has increased, independent of the U.S. election outcome, through increased reliance and cooperation with the EU.

Potential ricochet from U.S. protectionism

Any increased protectionism will be a closely watched outcome of the U.S. election, again separating a Harris/Trump outcome. Central and Eastern European (CEE) countries rank very highly in terms of trade openness. In 2023, trade (exports and imports) accounted for as much as 175% of GDP in Slovakia²³ and close to Singapore levels of 100%-120% for the Baltics. Among the bigger economies in the region, Poland’s trade is still more than 90% of GDP, compared to only 25%-40% of GDP in China, India, Indonesia, Brazil or Russia.²⁴ The European Union (EU) is by far the CEE’s largest trading partner, accounting for 60%-80% of total exports²⁵, while the 3%-5% export share to the U.S. is still above China’s 1%. But a further rise in U.S. protectionism could affect the region indirectly via the effect on the Eurozone economy and the euro, rather than directly or via its impact on China.

Nervous neighbors

Yet beyond trade concerns, a second mandate for Donald Trump brings risks to financial and military assistance in the region. It remains to be seen whether Trump would end U.S. aid to Ukraine if elected as part of a “settlement in a day”. Still, it appears increasingly clear that Ukraine and the whole CEE region would have to rely more on Europe – and itself – for security. Most of these countries perceive Russia’s Ukraine invasion as an existential threat and have stepped up defence spending by 100%-270% since 2014. The national military budget reached 4% of GDP in Poland²⁶, while Latvia aims to reach 3% of GDP by 2027²⁷ and most CEE countries exceed the North Atlantic Treaty Organization (NATO) 2% of GDP pledge, a level that Trump has suggested could grant U.S. protection

“from a Russian invasion”. However, Trump is also supported by populist leaders such as in Hungary and Slovakia, whose pro-Moscow tilt continues to stir frictions within the EU. However, these economies also seem to be a gateway for Chinese investments into the EU, which in turn could bring trade tensions with the EU and U.S. alike.

²³ “[Slovak Republic trade statistics](#)”, World Bank (2024)

²⁴ “[Trade \(% of GDP\)](#)”, World Bank (2024)

²⁵ “[CEE](#)”, Office of Economic Complexity (2024)

²⁶ “[Poland to spend 5% of GDP on defence in 2025, says foreign minister](#)”, Reuters (July 13, 2024)

²⁷ Andžāns, M., “<https://www.fpri.org/article/2023/05/latvias-military-industry-marks-its-first-decade/>”, Foreign Policy Research Institute (May 31, 2023)

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