U.S. election and trade policy: What investors need to know

In the Loop
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Key Insights

- Deglobalization, support for U.S. industry, and competition with China—these touchstones are likely to inform trade policy no matter who wins the election.
- Trump would likely focus on trade deficits and use trade as a negotiating tool. Harris would likely favor a multilateral approach to competing with China.
- For investors, understanding companies' exposure to overseas supply chains and their potential to increase prices in response to rising costs will be critical.

Gil Fortgang
Washington Associate Analyst, U.S. Equity Division of T. Rowe Price Investment Management, Inc.

Deglobalization, support for key domestic industries, and economic competition with China—these touchstones are likely to inform U.S. trade policy whether Democrat Kamala Harris or Republican Donald Trump wins the election.

But how each of the major-party presidential candidates would seek to make free trade fairer from the perspective of U.S. interests differs dramatically in scope and approach.

These divergences could have important implications for markets, industries, and geopolitics during the next president's time in office and beyond.

A Trump presidency would likely focus on trade deficits

Former President Trump and some of his key advisers have tended to regard significant trade deficits with other countries as potential signs of unfair competition and a detriment to the U.S. economy.

During Trump's four years in the White House, his administration sought to alleviate some of these imbalances by imposing tariffs on roughly USD 380 billion worth of imports, the bulk of which were from China.

In the runup to the 2024 election, Trump repeatedly has floated a 10% border tax on all goods coming to the U.S. from abroad and a tariff as high as 60% on imports from China.

Setting aside feasibility and the specific numbers, these pronouncements signal that a second Trump administration likely would take an aggressive stance on trade policy that would extend beyond China.

Such an approach could set the stage for extracting concessions, either on trade or to further other policy objectives.

Trade restrictions focused on specific industries or companies could also be in the cards, along with efforts to institute stronger rules on goods' country of origin.

Companies seeking to avoid tariffs have taken to shipping their products from or assembling them in countries with which the U.S. has free trade agreements. This workaround appears to be one of the reasons that U.S. trade deficits with countries such as Vietnam and Mexico have increased as its trade imbalance with China has declined somewhat (Figure 1).

How personnel can shape policy

Broad strokes aside, the specifics of Trump's trade policy are difficult to predict—as are the possible responses of the affected countries.

If Trump wins the election, I'll be paying close attention to the views of key appointees, especially the U.S. trade representative and the secretary of the Treasury. Who Trump puts in charge of specific agencies will shape the debate within the administration and drive policy outcomes.

Less is known about Harris's views on trade. However, if she were to win the presidency, her administration would likely retain a good deal of personnel from the Biden White House, suggesting that certain themes could also carry over to how it might handle trade.

A Harris presidency would likely take its cues from Biden's trade policies

What characterized the Biden-Harris administration's approach to trade? Much of the emphasis has been on economic competition with China.

During his presidential term, Joe Biden left in place the tariffs that Trump levied on Chinese imports. His administration also took targeted actions on trade that tended to be informed by national security considerations and efforts to strengthen domestic industry:

- **Semiconductors and artificial intelligence (AI):** Via export controls and rules on outbound investment, Biden sought to limit China's access to the tools and expertise needed to produce the advanced chips and other technologies at the heart of AI and quantum computing.

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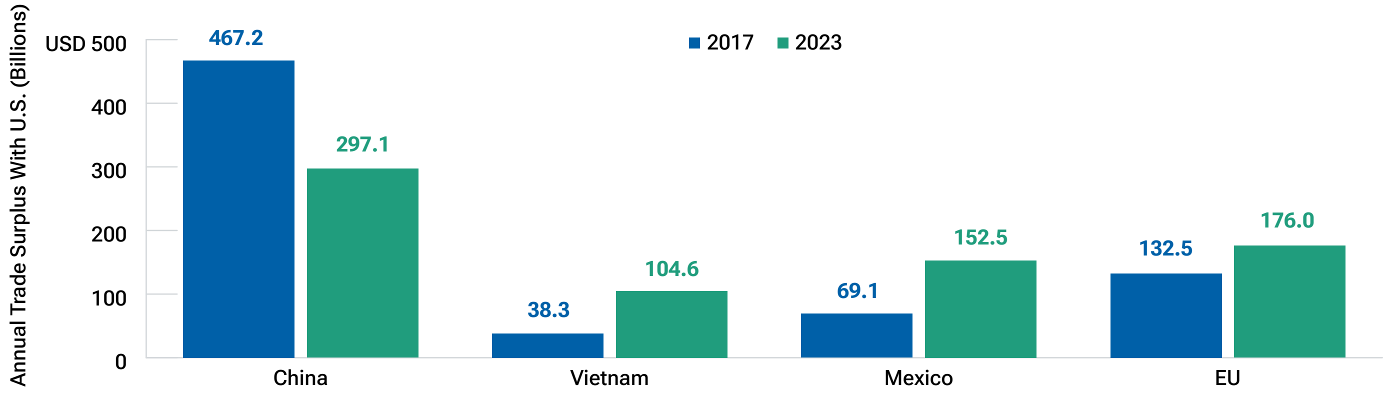
- **Protecting against overcapacity:** The Biden administration recently introduced tariffs affecting a modest USD 18 billion worth of goods imported from China. These measures focused on industries where China has squeezed competition by building up excess productive capacity, including electric vehicles, steel and aluminum, and solar power components.

In addition to focusing on strategically important industries, a Harris administration would probably favor a multilateral approach to trade policy, seeking to engage traditional U.S. allies.

U.S. trade deficit has shrunk with China and expanded with Mexico and Vietnam

(Fig. 1) Annual trade surplus with the U.S., 2017 and 2023



As of February 7, 2024
Source: U.S. Census Bureau via FactSet.

Three areas where the election outcome could make a difference:

1. Trade with China

A win by Trump:	A win by Harris:
Tariffs: U.S. could levy higher import taxes covering a wider range of Chinese goods. **Import-export controls:** Additional restrictions are possible, potentially expanding beyond AI-related technologies.	**Tariffs:** Dramatic expansion of tariffs is unlikely. Selective actions based on national security and industrial priorities are possible. **Import-export controls:** Additional restrictions are possible, potentially expanding beyond AI-related technologies.

2. Trade with Europe

A win by Trump:	A win by Harris:
Tariffs: Trump could use trade policy as a lever to achieve other objectives, such as pressuring the European Union to increase defense spending. **Ramifications:** The EU could respond in kind with its own tariffs. A more contentious U.S.-EU relationship might hamper cooperation in other areas.	**More of the same:** Where possible, a Harris administration would likely seek to work with traditional U.S. allies on trade and geopolitical challenges.

3. United States-Mexico-Canada Agreement (USMCA)

A win by Trump:	A win by Harris:
Contentious renegotiation: This trade agreement from Trump's presidency comes up for review in 2026. Trump's stated priorities of limiting the flow of immigrants and Chinese goods across the U.S.-Mexico border create the potential for a contentious renegotiation. **Border control:** Expect a push to limit tariff loopholes, potentially through stronger restrictions on the countries from which goods originate and limits on the amount of content that come from certain countries.	**USMCA review:** The review process would likely be less contentious. Limits on the trans-shipment of goods and adjustments to narrow other loopholes are possible.

U.S. election could shape the pace of deglobalization

Protectionist impulses should remain alive and well in Washington, regardless of which party is in the White House.

A Harris presidency would likely take a measured approach to trade policy that focuses on competition with China. Trump has signaled that he favors a more aggressive tack that would accelerate the process of deglobalization.

Amid these uncertainties, deep fundamental research can be a critical differentiator. The investment professionals at a well-resourced global asset management firm, for example, may be better positioned to understand individual companies' exposure to overseas supply chains and their potential to increase prices in response to rising costs.

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