



# **US Election Impact on Trade Policy and the Economic Outlook**

A changing landscape for global companies

October 2024

# Our vision

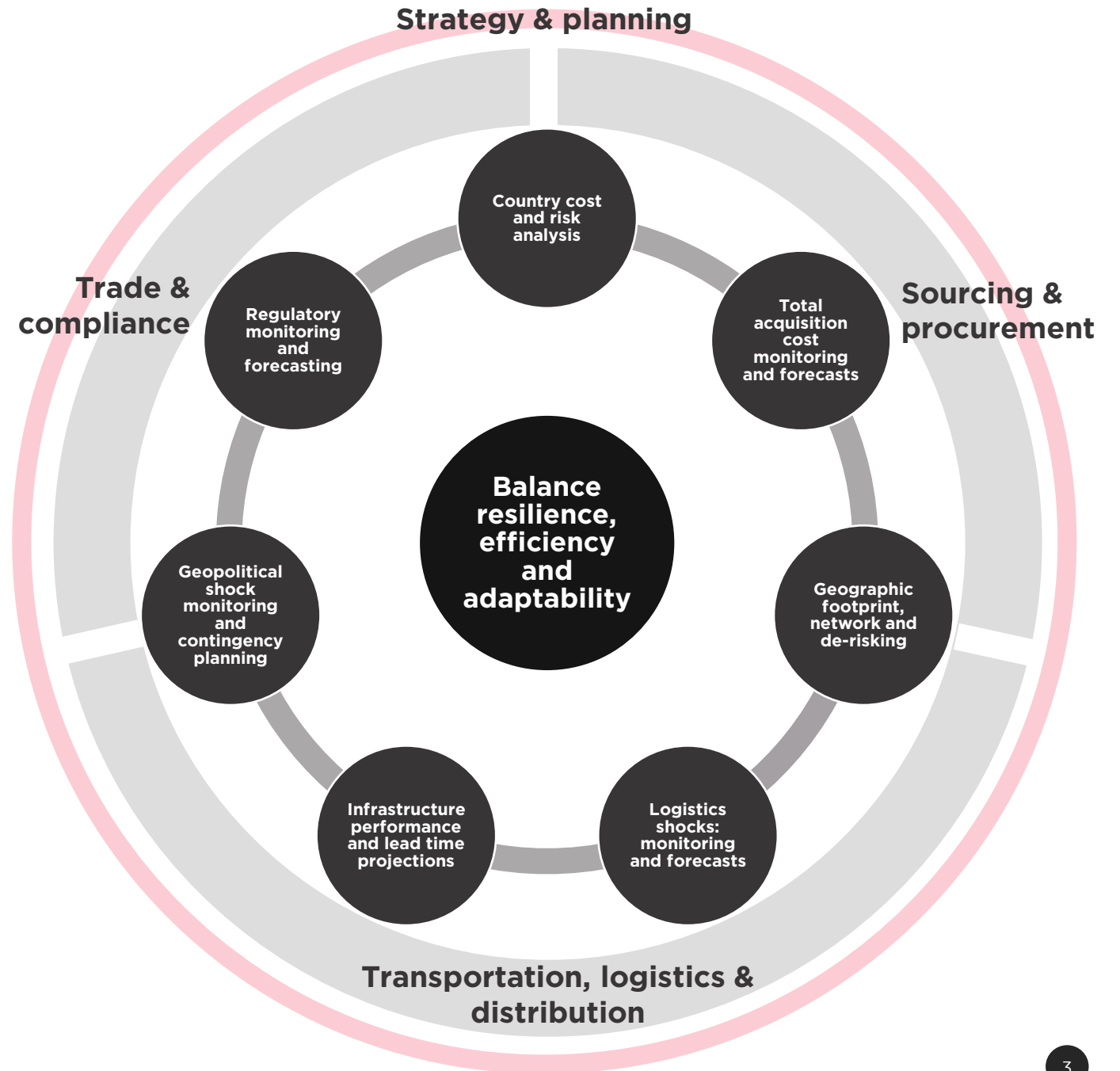
Help clients build more resilient, efficient and adaptive supply chains

.... focusing on geopolitical, policy and economic disruptors

... through advisory engagements and insights

# Our service lines

Bringing together political and economic insights in service of global supply chains



# Executive Summary

## Broad agreement on the problem space, but little agreement on the path ahead with implications for trade policy

- Consensus has emerged around the problem space: a changing US industrial base, export-driven trade practices, rising tech competition, and geopolitical shifts with China increasingly viewed as a major contributor to each of these
- Harris is focusing her initial economic policy on the working class with some investment in modernizing key industrial sectors with *relatively* smaller implications for trade policy, but with indications of trade
- Trump's policies focus heavily on tariffs and corporate tax breaks to drive a broad shift in the US economy and global trade environment far beyond his first administration's goals

## Both plans likely to be net drags on growth with spotty policy success

- Over a ten-year period, both plans are likely to be net drags on growth as they stand with Trump's tax cuts likely to be more than offset with his high tariff proposals
- Harris' plan is expected, generally, to have modest negative impacts on jobs, wages, and inflation with her policy goal of directing economic benefits to low- and middle-income households likely to be successful
- Trump's tariff proposals may have a net positive impact on the trade balance due to a sharp recession but likely to be successful in reducing risk exposure to China, not necessarily in reshoring industry to the US

## Consensus on the problem space indicates impacts across the supply chain regardless of election outcome

- The election will be a key turning point for US trade policy, but there are broad trends moving supply chains into a higher cost, higher risk environment continuing to point to disruptions across supply chains
- Major actions like the automatic in-kind tariffs proposed by Trump would upend sourcing and procurement
- Even without major shifts, however, we expect challenges to existing relationships such as the USMCA and a strong focus on actions countering China that will have evolving impacts across the supply chain

# Section I: Trade Policy

“Build it in America” and “Opportunity Economy” manifest in trade policy

# Political consensus around problems facing the US

National security and unfair trade concerns reinforce continued defensive trade policy

## US shifting economy

- US economic shift to services
- Loss of 4.3 million US manufacturing jobs blamed on China, trade

## Growth in Chinese exports

- Movement up value chain
- Government subsidies
- Limitations on US companies in China

## Tech competition

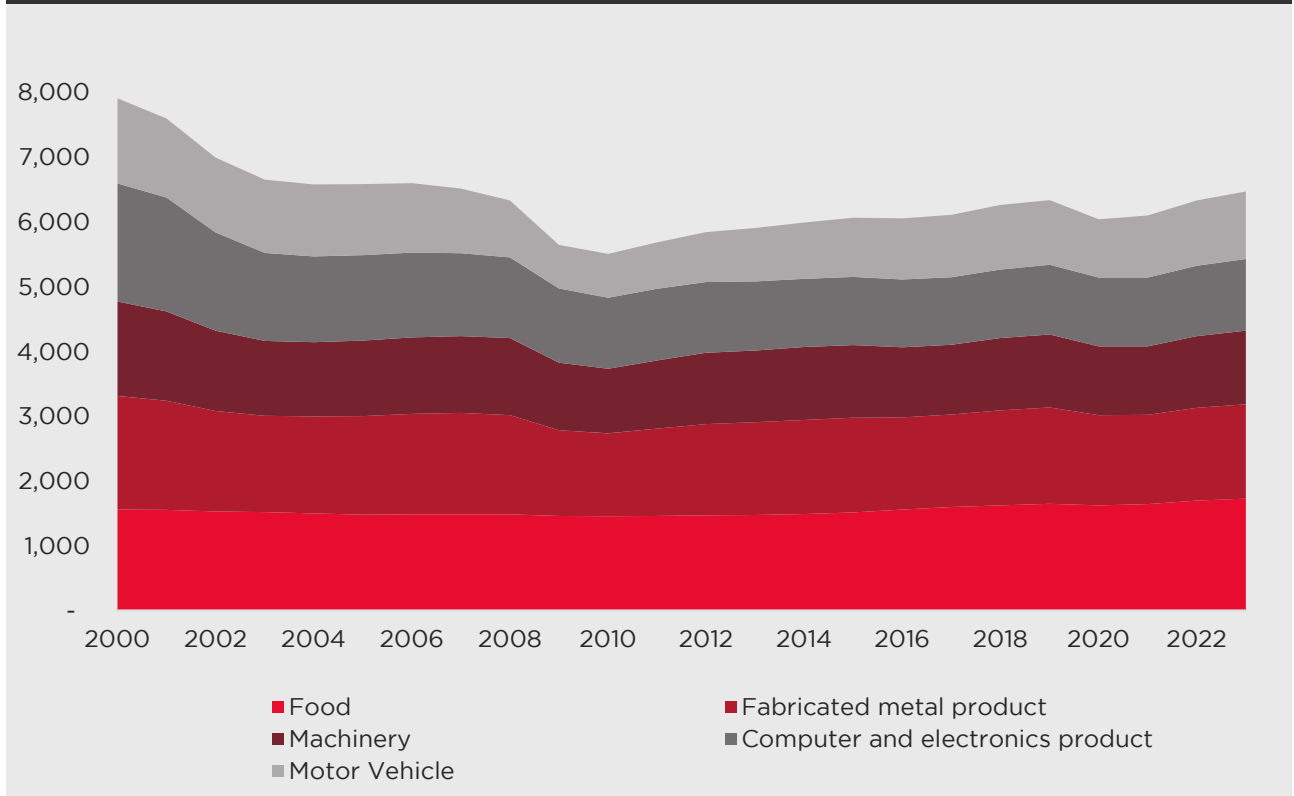
- Energy transition and AI create greenfield competition
- China, US, EU all competing in major industries w/ subsidies

## Geopolitical risk

- Structural shifts in international system
- Conflicting strategic needs (US and China in particular)

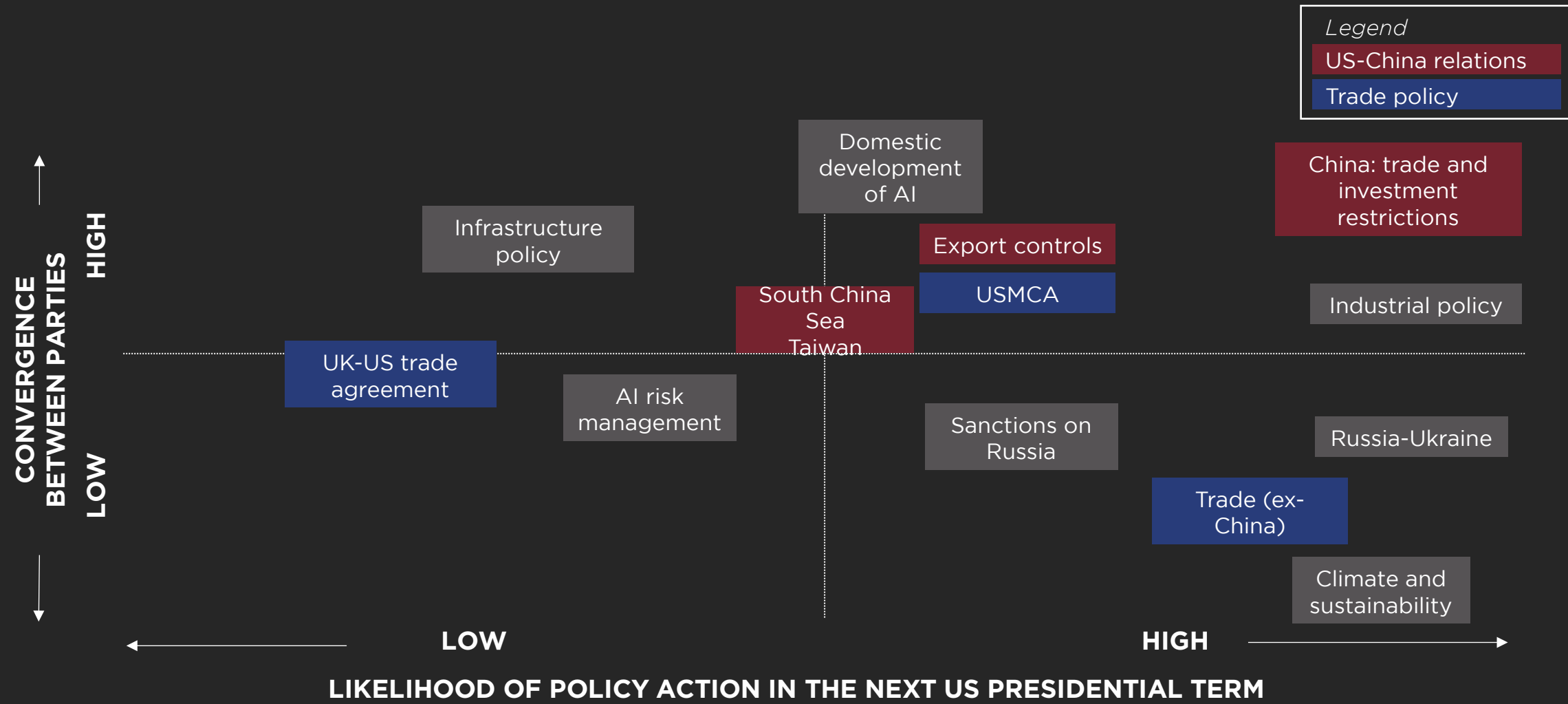
## MANUFACTURING JOB LOSS, LARGEST SEGMENTS

THOUSANDS



# US election spotlight: what's at stake?

US-China tensions are given, trade policy could experience wide swings



Source: Onyx  
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# Both candidates seek to reshore industry and jobs

The scale and trade policy implications differ substantively

		POLICY AREAS	HARRIS PROPOSAL	TRUMP PROPOSAL
INDUSTRIAL POLICY	ONSHORING INCENTIVES	INDIVIDUAL TAXES	Child, Earned-Income, and first time-home buyer credits; higher taxes on high-earners; tips exemption	Extend 2017 tax cut policies (TCJA), bring back state and local tax deductions
		GOVERNMENT PROJECTS AND SPENDING	\$1.8T spending on childcare, healthcare, drug pricing, education, housing, paid leave, public health, and others	Goal to deport >1 million undocumented immigrants
		CORPORATE TAXES	\$100 billion in tax credits over 10 years; small-business support with tax credits <i>Disincentive:</i> Increased corporate taxes, including rate increase from 21% to 28% (AMT from 15% to 21%)	Extend 2017 tax cut policies (TCJA). Lower some corporate taxes to 15%, others to 20%, make permanent Tax Cuts and Jobs Act provisions
		INDUSTRY FOCUS	Clean iron and steel, biomanufacturing, AI, aerospace, autos, other transport, data centers, and clean energy	Broad economy with focus on automotive, “essential goods,” energy, manufacturing, defense industrial base, tech (crypto, artificial intelligence, and space)
	OTHER	Permitting overhaul	Regulation removals	
	OFFSHORING DETERRENENTS	TARIFFS	Unknown  <i>Onyx position: Harris has a host of priorities above trade, especially US labor, and may view trade policy tools as tools to address those priorities</i>	China PNTR revocation or similar action; targeting other countries with “unfair” trade; 10-20% on all foreign goods; in-kind tariff retaliation; targeting offshoring companies
		FTA'S		Focus on deals may lead to agreements relevant to the extent they do not threaten reshoring
		OTHER	Increase foreign earnings tax	

Source: DNC, RNC, Campaigns, Onyx

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# Harris must work closely with Congress on key proposals

Lack of statements on trade reflects focus on other issues

## “OPPORTUNITY ECONOMY” PLAN

### ECONOMIC VISION

- Create a more equitable distribution for the US economy
- Significant direct and indirect support to the lower and middle class
- Subsidized modernization of the economy

### KEY CHALLENGES

#### Congressional approval

Economic proposals, particularly taxation, will require participation by Congress

#### Scale

Plans to provide industrial subsidies remain limited and may leave few constituents happy

#### Policy tensions

Plan to cap prices and reduce inflation clashes with energy transition that will likely raise prices

#### Party tensions

Unresolvable tension in Democratic party over internationalist aspirations and focus on working-class

# HARRIS WALZ

### KEY INDICATORS ON TRADE

#### Indicator

Rebuttal of both USMCA and TPP free trade agreements as failing to protect US workers and the environment

Linkage of industrial policy to trade policy and concerns about unfair trade

Linkage of economic and national security, technology competition

#### Implication on trade policy

Low likelihood of new FTAs  
2026 USMCA renewal

May support key industries and policies with tariffs, similar support

May use export controls, support investment restrictions

# Trump faces hurdles to implementing his full economic plans

Executive has broad authority to ratchet up trade pressures

## “BUILD IT IN AMERICA” PLAN

### ECONOMIC VISION

- Reshaping of the US economy to a high-degree of self-sufficiency
- Addressing and redressing “unfair” trade deals
- Building the greatest economy in history and become a “manufacturing superpower”

### KEY CHALLENGES

#### Congressional approval

Certain policies may require Congressional action, others may benefit from it

#### Complexity and scale

Uncertain returns on investment, creation of bubbles, reactionary competition

#### Policy tensions

Re-shoring of industry clashes with other policy priorities such as deportation of immigrants

#### Speed of change

Trade pressure can be increased quickly, but industrial policy is slower moving



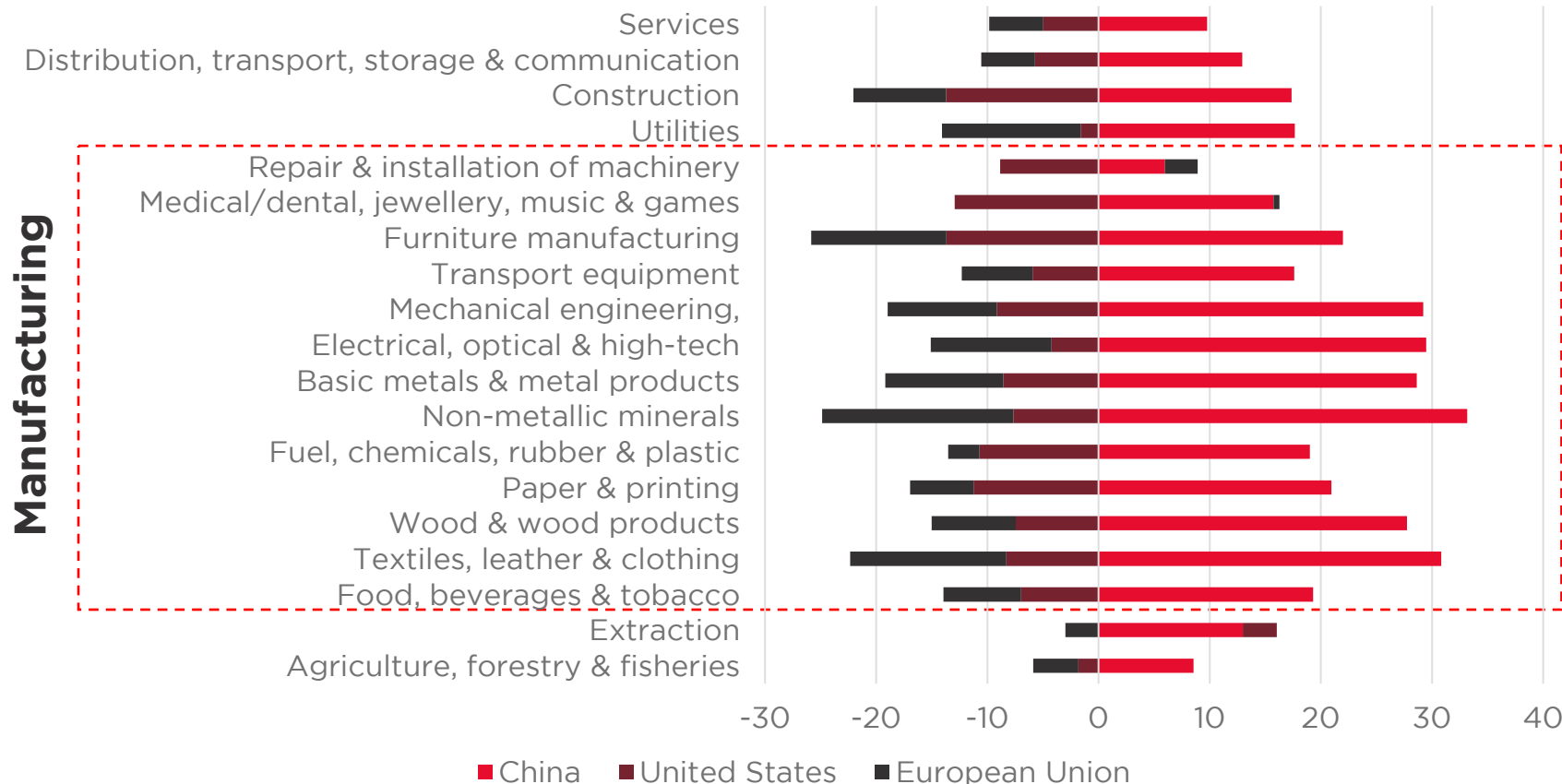
### PATHWAYS TO IMPLEMENTATION

Pathway	Benefits	Timeframe
Congressional	More difficult removal by successors, theoretically broader policy options	Speed of legislation
Executive Powers	Congressional oversight limited, broad authority on national security	Within days

# Finding alternative sourcing for key inputs is major challenge

Global manufacturing output has shifted heavily towards China across categories

## VALUE-ADDED OUTPUT CHANGE IN % OF WORLD OUTPUT SINCE 2000



## PRODUCTS WITH NO VIABLE ALTERNATIVE SOURCES\*

### Solar panels:

Photovoltaic cells and modules, inverters and power electronics

### Semiconductors:

Lithography equipment, specialized chemicals and gasses, high-purity silicon

### Medical devices:

MRI and CT scanners, precision surgical instruments

### Advanced Machinery:

CNC machines, robotic arms, rare earth elements

*\*Based on industry self-reports for potential exclusions*

# **Section II: Economic Impacts**

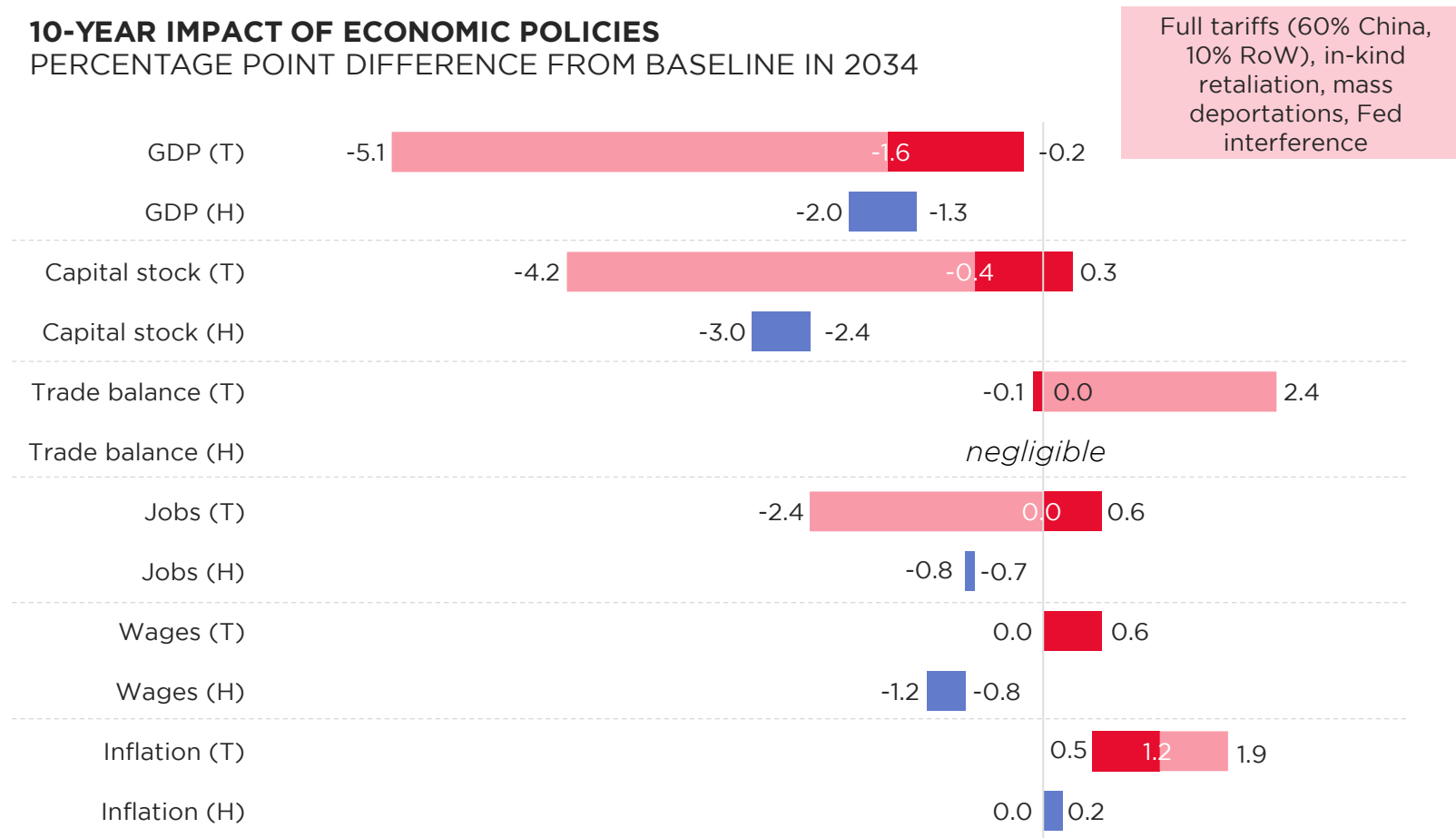
High cost, low rewards

# Both candidates' plans would likely be a drag on growth

If Trump can avoid policy mistakes, tax cuts will deliver growth

## 10-YEAR IMPACT OF ECONOMIC POLICIES

PERCENTAGE POINT DIFFERENCE FROM BASELINE IN 2034



## KEY INSIGHTS

### Harris

- **Key levers:** higher taxes
- **Wild cards:** price controls, fiscal policy
- Higher corporate, personal income taxes are a drag on investment and growth
- Minimal details on industrial policy
- Modest fiscal policy could marginally push up home prices, but would have a small overall impact on inflation
- Economic benefits flow to low- and middle-income households

### Trump

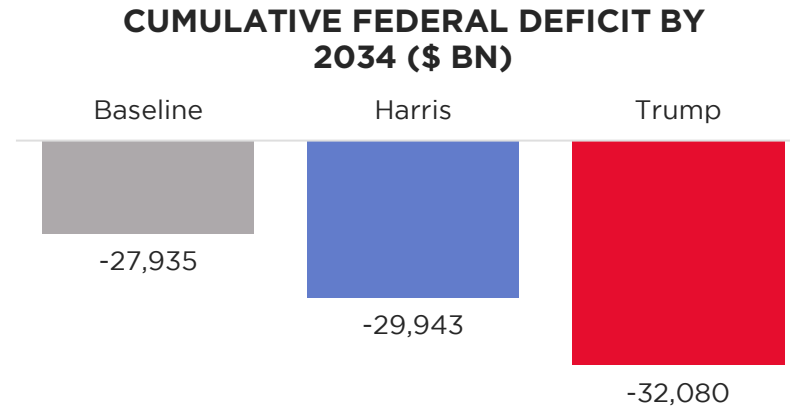
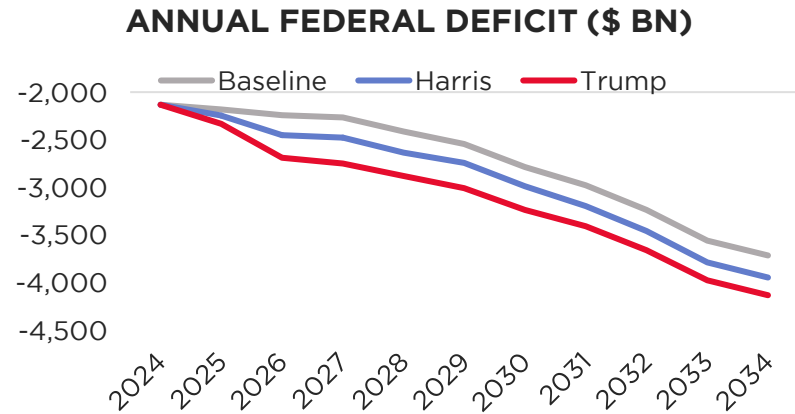
- **Key levers:** lower taxes, higher tariffs
- **Wild cards:** immigration, Fed intervention
- Lower corporate, personal income taxes spur investment and growth in the short-term
- Supply-side stimulus outweighed by negative impacts of tariffs
- Mass deportations would damage growth and spur inflation
- Interfering with Fed independence could have negative impacts for inflation, investment, and growth

Source: Wharton, Tax Foundation, Oxford Economics, Peterson Institute for International Economics, German Economic Institute, Mercatus Center, Onyx

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# And both plans exacerbate the US's fiscal challenges

Structural deficits will increase significantly, debt/GDP on the rise



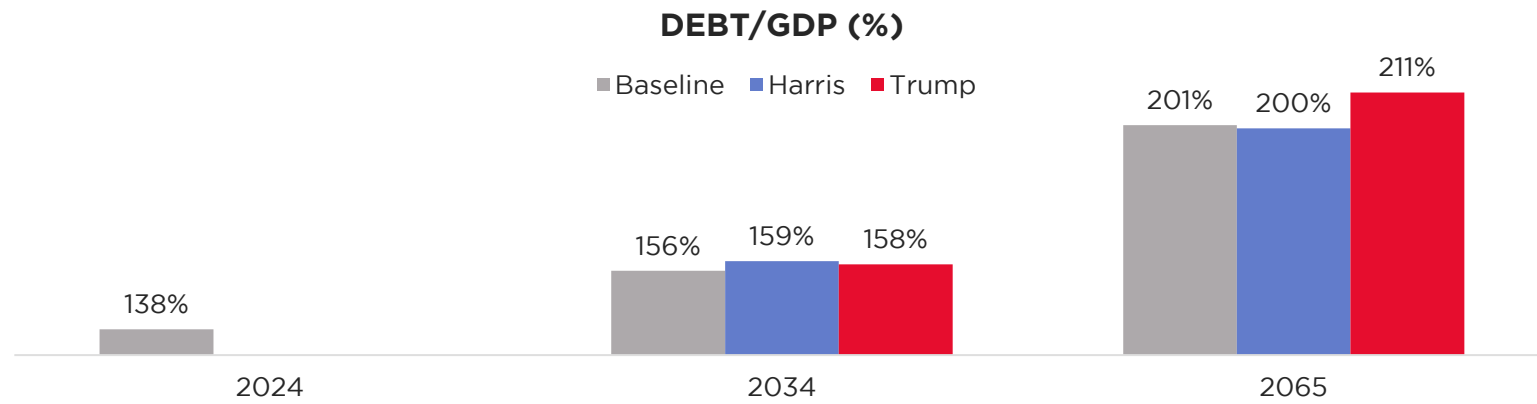
## KEY INSIGHTS

### Harris

- Adds \$2 trillion to the 10-year cumulative deficit and national debt
- Child Tax Credit expansion is responsible for 72% of the increased deficit
- Raising corporate income taxes generates \$1.1 T in offsetting revenue by 2034

### Trump

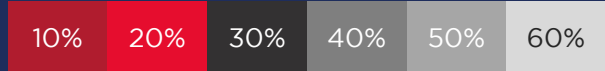
- Adds \$4 trillion to the 10-year cumulative deficit and national debt
- Extending TCJA and eliminating taxes on Social Security accounts for 80% of the increased deficit



Source: Wharton, Tax Foundation, Oxford Economics, Peterson Institute for International Economics, German Economic Institute, Mercatus Center, Onyx  
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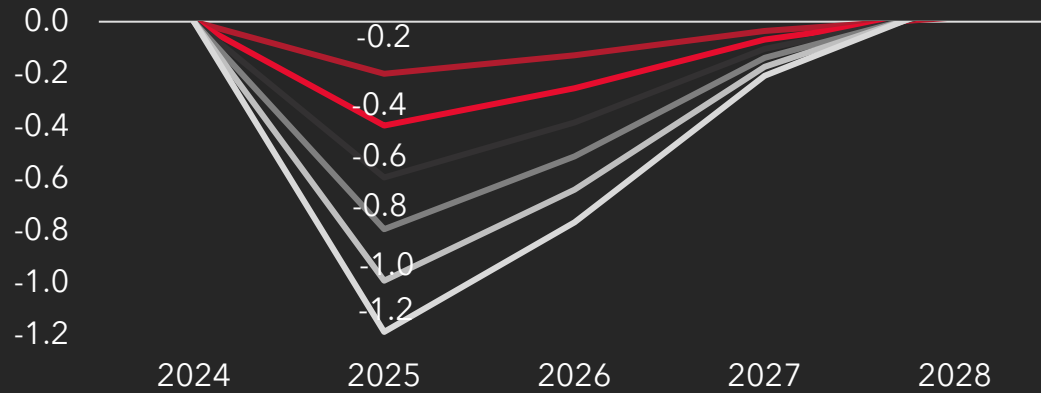
# Tariffs are the key lever – impacts become material at 20%

## Scenario: Varying tariffs on Chinese imports



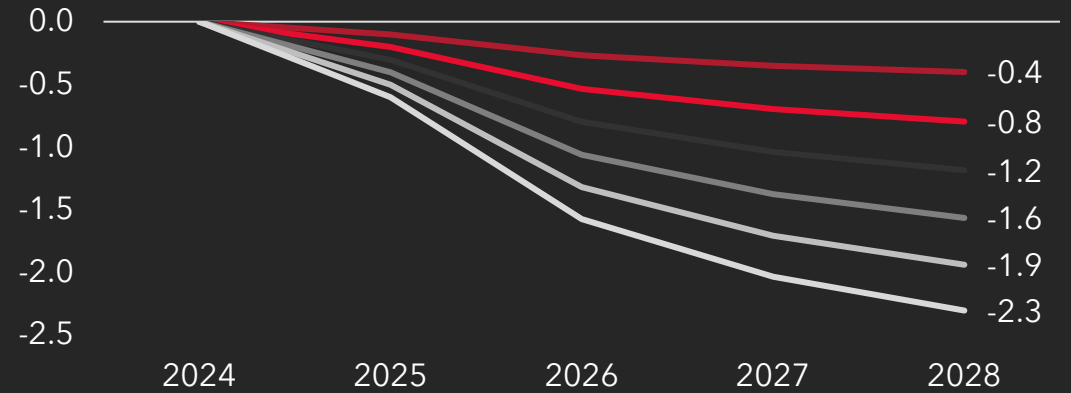
### US REAL GDP

PERCENTAGE POINT CHANGE FROM BASELINE



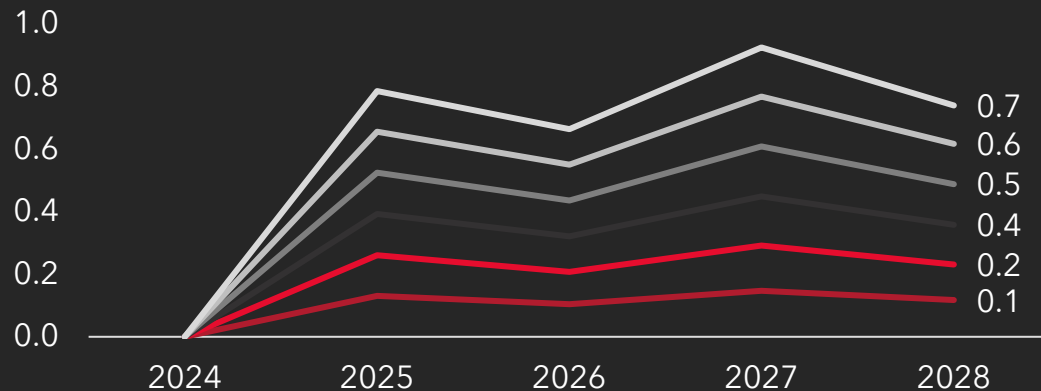
### CHINA REAL GDP

PERCENTAGE POINT CHANGE FROM BASELINE



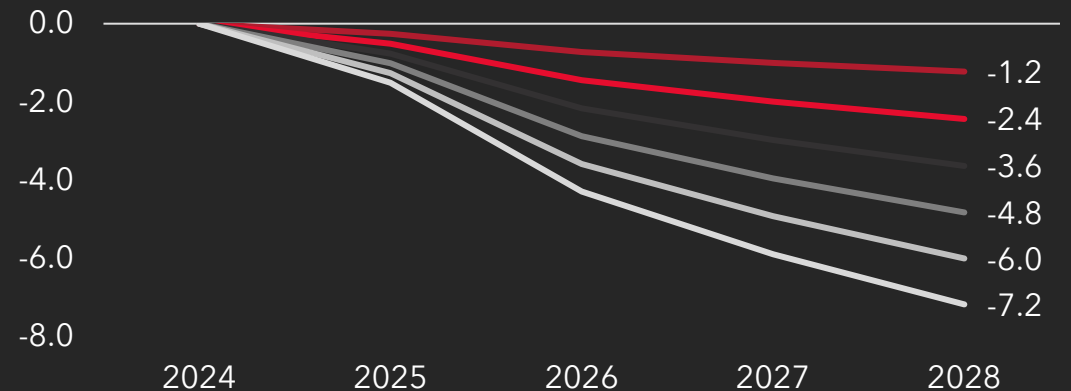
### US CONSUMER PRICES

PERCENTAGE POINT INCREASE FROM BASELINE PRICE LEVEL



### CHINA'S EXPORTS

PERCENTAGE POINT INCREASE FROM BASELINE



# Economic policies likely to have spotty effectiveness

Trump's plans inject a lot of uncertainty, Harris plan delivers on equity

## POLICY IMPACT ASSESSMENT



Policy Objective	Harris	Trump	Rationale
Economic growth	◐	○ to ◑	<ul style="list-style-type: none"> <li>Harris' higher taxes will be a drag on growth</li> <li>Trump tax cuts deliver short-term gain; tariffs, deportations, and Fed interference could undo that</li> </ul>
Job creation	◐	○ to ◑	
Fighting inflation	◑	◐	<ul style="list-style-type: none"> <li>Harris' plan could marginally bump housing prices, but is neutral overall</li> <li>Trump's plan could be highly inflationary depending on immigration and Fed policy</li> </ul>
Federal deficit	◐	○	<ul style="list-style-type: none"> <li>Harris' plan will grow the deficit substantially, adding to national debt</li> <li>Trump's tax will significantly increase the deficit</li> </ul>
Eliminating trade deficit	◑	◑	<ul style="list-style-type: none"> <li>Most policies don't affect the trade balance, only the source of trade</li> <li>Full Trump policies would shrink the trade deficit due to a sharp recession and lower imports</li> </ul>
Reshoring US manufacturing	◑	◒	<ul style="list-style-type: none"> <li>Harris mostly continues Biden-era incentives to re-shore</li> <li>Trump policies likely to shorten supply chains and de-risk China, but not necessarily invest in the US</li> </ul>
Leading in innovation	◒	◑	<ul style="list-style-type: none"> <li>Harris plan invests in R&amp;D, innovation, and start-ups</li> <li>Trump plan is neutral as tax plan doesn't incentivize capex spending on innovation</li> </ul>
Equitable growth	◓	◐	<ul style="list-style-type: none"> <li>Harris plan directs benefits to low- and middle-income households</li> <li>Trump plan directs greater benefits to top income quintile</li> </ul>



## **Section III: Supply Chain Impacts**

Rising risk across countries, industries,  
and nodes

# Looking ahead: risks, costs proliferating across scenarios

But speed and scale of impacts vary across scenario and industry

## SAMPLE SUPPLY CHAIN AND BUSINESS RISK EXPOSURE TO KEY SCENARIOS

SCENARIO	INPUTS	SOURCING AND PRODUCTION	DISTRIBUTION AND LOGISTICS	END MARKETS
<b>SLOW ESCALATION WITH CHINA</b>	<ul style="list-style-type: none"> <li>• US trade actions proliferate</li> <li>• High China exposure risk</li> <li>• Import restrictions grow</li> </ul>	<ul style="list-style-type: none"> <li>• Pressure to exit China rises</li> <li>• Geographic shift to SEA, Mexico, India, and beyond</li> </ul>	<ul style="list-style-type: none"> <li>• Physical risk with rising geopolitical tensions</li> <li>• Cost pressures in sourcing markets rises</li> </ul>	<ul style="list-style-type: none"> <li>▪ Retaliatory tariff risks grow</li> <li>▪ Export restrictions expand</li> </ul>
<b>HIGH RESHORING</b>	<ul style="list-style-type: none"> <li>• Labor cost, quality, and availability impact</li> <li>• Retaliatory risks - even from allies - are high</li> </ul>	<ul style="list-style-type: none"> <li>• High demand for limited domestic sources</li> <li>• Movement of suppliers to support OEMs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congestion and prices across logistics markets</li> <li>▪ Transportation geographies shift</li> </ul>	<ul style="list-style-type: none"> <li>▪ Inflationary pressures on consumers</li> <li>▪ Product slates likely to shift with less variety</li> </ul>
<b>HIGH TARIFF WALLS</b>	<ul style="list-style-type: none"> <li>• Poor access to wide-range of critical materials</li> <li>• Retaliatory risks - even from allies - are high</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tariffs raise costs, decrease procurement</li> <li>▪ Disruptions increase as supply-base shifts</li> </ul>	<ul style="list-style-type: none"> <li>▪ War risk rises in key areas, such as SCS</li> <li>▪ Logistics price spikes due to pre-positioning</li> </ul>	<ul style="list-style-type: none"> <li>▪ Consumption impacts with potential demand destruction</li> <li>▪ Export market risk</li> </ul>

Source: Onyx

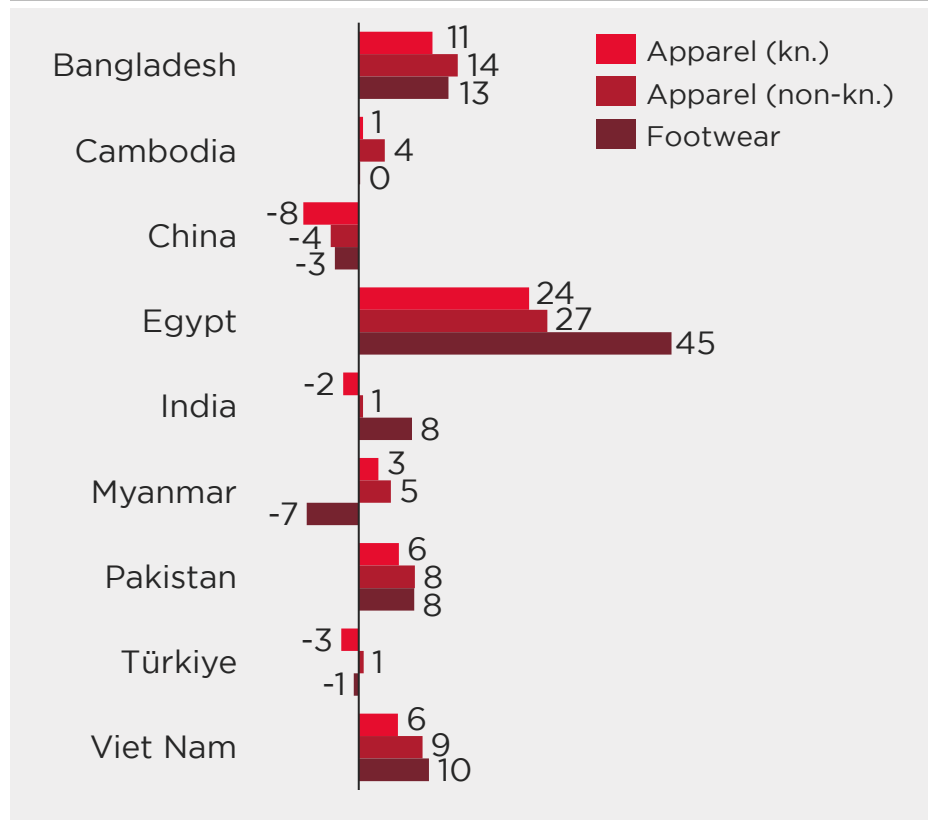
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# Trump Reciprocal Trade Act risks upending exports to US, sourcing

Apparel and footwear example in “high tariffs” scenario

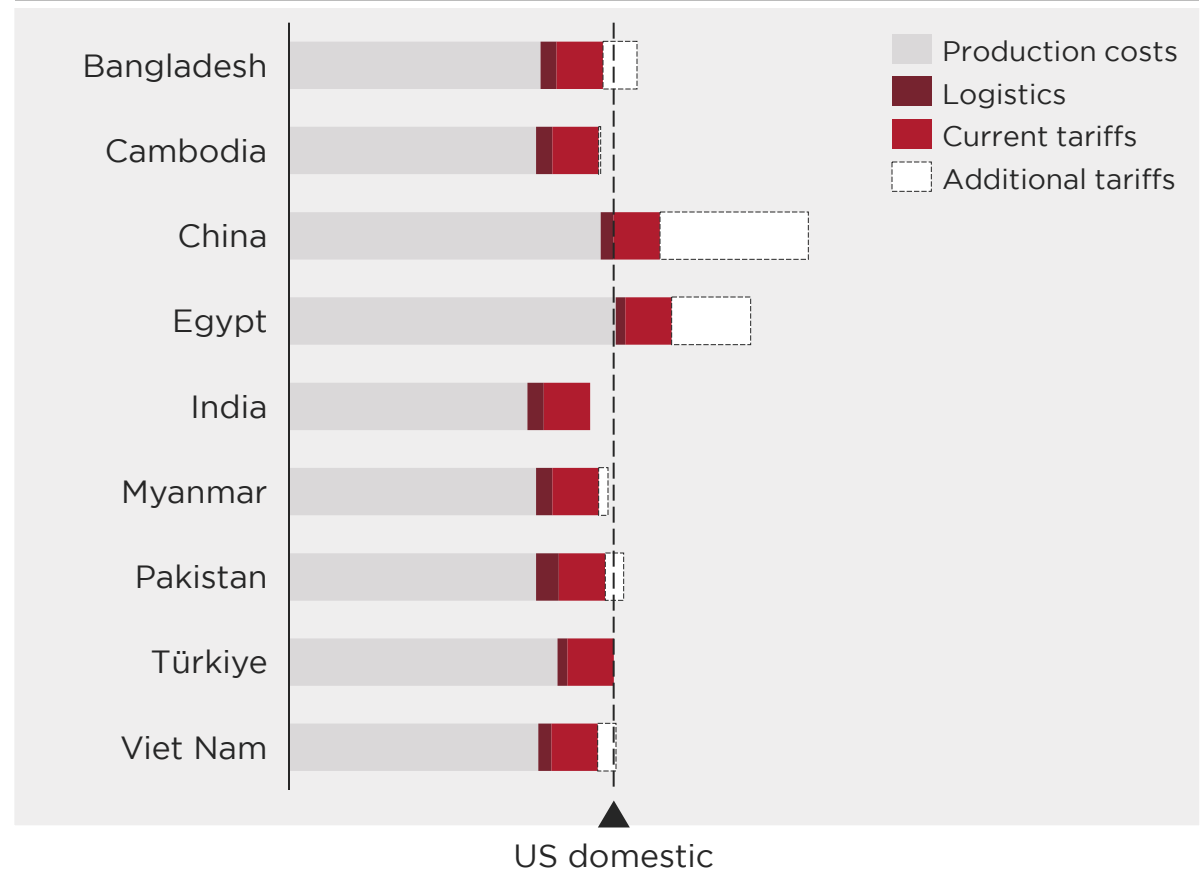
## The Trump Reciprocal Trade Act: “a tariff for a tariff”

Difference between avg. applied tariffs, US by partner (% , 2023)



## The Trump Reciprocal Trade Act: “a tariff for a tariff”

Total landed cost, index to US costs (US=100, 2022), apparel (kn.)



# Both candidates likely to push for revisions to USMCA

Likely to impact key sectors in the US economy across the supply chain

## *Most plausible scenarios*

	Status Quo Renewal	Targeted Revisions	Major Overhaul	US Withdrawal
Description	<ul style="list-style-type: none"> <li>No changes, USCMA is fully renewed as-is with a focus on using informal and formal dispute mechanisms to adjust</li> </ul>	<ul style="list-style-type: none"> <li>Limited revisions to address key issues such as rules of origin and improved compliance</li> </ul>	<ul style="list-style-type: none"> <li>Significant renegotiation of key provisions seeking new restrictions and more favorable terms for US industries, labor</li> </ul>	<ul style="list-style-type: none"> <li>Execute Article 34.6 to give required six months notice of withdrawal</li> </ul>
Impact	<ul style="list-style-type: none"> <li>No macro or industry impacts</li> <li>Likely continued growth in N. Am. trade and industrial base</li> </ul>	<ul style="list-style-type: none"> <li>Minimal macro impacts</li> <li>Reduced Chinese imports and investments in North America</li> </ul>	<ul style="list-style-type: none"> <li>Disputes and punitive trade actions across industries in negotiations</li> <li>New restrictions on intra-USMCA trade</li> </ul>	<ul style="list-style-type: none"> <li>\$1.5 trillion in USMCA trade</li> <li>High impact on auto, electronics, and energy</li> </ul>
Key uncertainties		<ul style="list-style-type: none"> <li>Limited insight into positioning</li> <li>Presidential vs. Congressional authority</li> <li>Interplay of issues (eg immigration and security)</li> <li>USMCA renewal terms and timeline</li> </ul>		

# “Slow escalation” initiatives hit across supply chain nodes

Putting a premium on companies’ contingency planning and expectations management

## Key China-related initiatives under way

Non-exhaustive

### Inputs, sourcing, and procurement impacts

- Tariff-specific:
  - 301 and 232 measures
  - Removal of PNTR status
- Mixed tariff/non-tariff:
  - De minimis reduction
  - Forced labor import bans
  - Sanctions and entity lists
  - Strengthen antidumping/countervailing

### End market impacts

- Technology:
  - CFIUS: new Treasury Dept rules (Aug’24) on semis, quantum, AI
  - Congress-enacted legislation on permanent screening
  - Connected vehicles
  - Bulk data transfers and IP protections
  - Advanced chip access and trusted partner packs
- **Reviews/future measures/areas of concern:**
  - **Commerce Dept list of strategic industries for future export control and tariff regimes**

### Distribution and logistics impacts

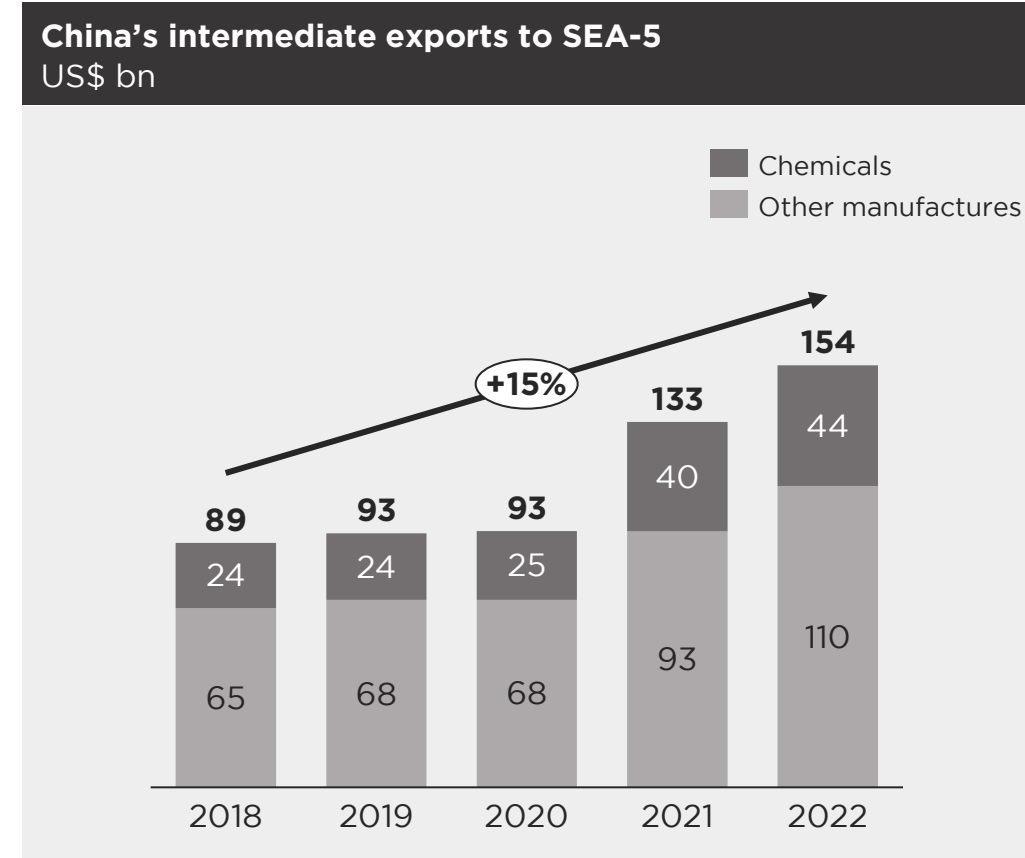
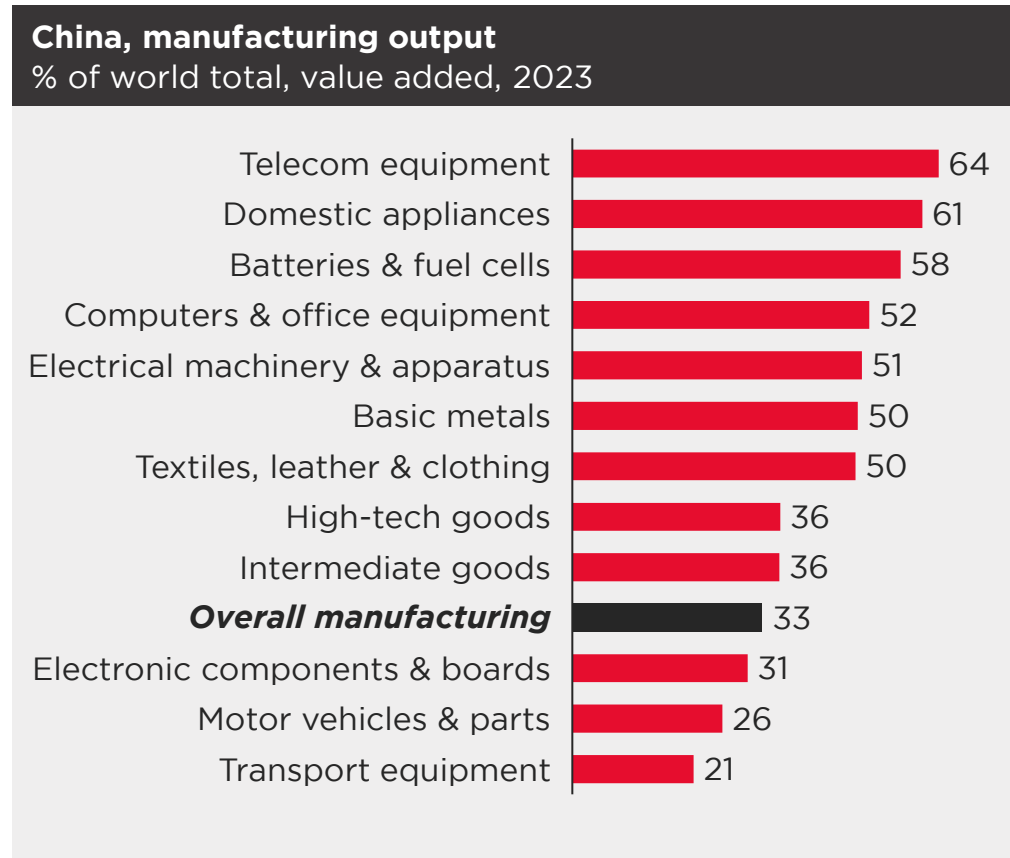
- Supply chain resilience, investment:
  - IPEF/APEP
  - Concern about vulnerabilities in connected port infrastructure, shipbuilding
  - White House Council on Supply Chain Resilience report (Dec’24)

### Industries likely under consideration for inclusion (non-exhaustive)

Aerospace & defense	Chemicals	Instruments manufacturing
Agriculture	Communications technology	Machinery
Autos and parts	Consumer products and services	Metals & fabrication
Batteries	Critical minerals	Pharmaceuticals
Biotechnology	Electrical equipment and appliances	Retail
Building materials	Energy equipment (incl. oil & gas)	Software

# But China won't be replaced easily, with business caught in the middle

Significant decoupling may take 5-10+ years



# Across scenarios, China could retaliate by restricting goods

Highlights that span across pharma, tech, capital and consumer goods

## ANTIBIOTICS

### Uses

- Bacterial infections

### China as share of imports

- Chloramphenicol (75%)
- Tetracyclines (71%)
- Streptomycin (64%)

## PERMANENT MAGNETS

### Uses

- Functions in electronic equipment, cars, motors and generators

### China as share of imports

- 80%

## MANGANESE

### Uses

- Input in steel and ironmaking

### China as share of imports

- 70%

## ESTERS

### Uses

- Input in synthetic flavors, perfumes, and cosmetics

### China as share of imports

- Phosphite esters (79%)
- Phosphoric esters (59%)
- Other esters (29%)

## China has already restricted exports of these goods in the past...

## ANTIMONY OXIDES

### Uses

- Flame-retardant materials, input to PV solar cells

### Year and purpose

- 2024: China imposes export limits due to dual-use; retaliation against US

## GRAPHITE

### Uses

- Steelmaking, batteries, motors, lubricants

### Year and purpose

- 2023: China requires govt. approval for exports, counter US tech curbs

## MOLYBDENUM

### Uses

- A rare earth input in steel alloys, used to make engine parts, drills, saw blades etc.

### Year and purpose

- 2007, 2014: domestic concern over exhaustible supply at home

## PHOSPHATES

### Uses

- Fertilizers

### Year and purpose

- 2022: protect domestic supplies, reduce farming costs and bolster grain security

## ...And could do so again to retaliate against the US or to protect domestic industry

# Get in touch

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