

What does a second Trump presidency mean for the rest of the world?

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It is something of an irony that as the predictive power of technology has improved significantly, the ability of pollsters to accurately forecast election results have waned by equal measure. Irrespective of whether you were surprised or not, a second Trump presidency, with control of Congress, is a reality and the implications must be properly understood.

In simple terms, Trump's foreign policy priorities can be summed up as follows: Ukraine, the Middle East and tariffs. Taking each in turn, given the dominant nature of US military support to Ukraine, the US President has significant leverage to broker a deal between both warring countries. Setting aside how palatable any compromise deal may be, a peace deal would (most importantly) end the human suffering, and also ease some of the economic overhang the war created in the first instance.

Any deal with Russia will almost inevitably lead to a lifting of sanctions allowing Russian oil and gas to be sold in European markets. Although things will not change overnight as the war has caused significant damage to the infrastructure in both countries. In addition, Russia has found new customers for its oil and gas and Europe has found new suppliers, but Russia's need to maximise export revenues and the lifting of sanctions will put downward pressure on oil prices.

Separately, Russia is one of the world's largest producers of potash, a key constituent of fertilizer, and therefore any fall in potash prices should also help the agricultural sector, an important part of the local economy.

The Middle East represents a much more complex and uncertain geopolitical environment.

Trump has always maintained a very strong position against Iran and its proxies, including Hamas and Hezbollah, which suggests a potential escalation of hostilities. However, his first administration brokered the Abraham Accords which normalised relations between Israel and several Middle Eastern countries which ended in the aftermath of the October 7th attacks. Trump may seek to breathe new life into those agreements and with Israel's reliance on US arms sales, the US president also has significant leverage over Israel to reach some form of agreement.

In truth, the outcome in the Middle East is very difficult to forecast, it could range from another uneasy ceasefire right through to escalation and full-scale war between Israel and Iran. In addition to the appalling loss of life, the impact on global energy markets and in turn the global economy could be devastating.

To be fair to Trump those are two problems he inherited but the third issue, tariffs, is his own creation. The rationale to Trump is probably quite clear, the US manufacturing sector has been hollowed out by decades of globalisation and domestic manufacturers are now being undercut by Chinese manufacturers benefitting from huge subsidies courtesy of the Chinese Government. The US also has a trade deficit with Europe and the rest of the world. Therefore, the solution is large tariffs on China of 60% and smaller tariffs on everyone else of 10% to 20%. He has also suggested that the revenue raised from tariffs could be used to reduce income taxes. What could possibly go wrong?

Unfortunately, a lot could go wrong, including for the US. Firstly, global supply chains are complex and therefore manufacturers will still have to import components from overseas incurring tariff charges.

Secondly, even if the tariffs have the effect of bringing manufacturing back to the US, it will take several years for those factories to be built, meanwhile companies have no option but to import incurring much higher costs. Thirdly, there was a reason manufacturing was off shored in the first instance, Asia is a cheaper place to manufacture many goods and so domestic production will have the impact of pushing up prices. Finally, if tariffs have the desired effect of reducing imports, then tariff revenues drop, and other taxes would have to be increased again.

Those are just the domestic issues tariffs would raise in the US. Geopolitics is dynamic, nothing happens in isolation, if the US imposes tariffs, then other countries will retaliate. This is called a trade war and as in all wars, no-one wins, its just the extent to which each side loses. Inflation would rise, meaning interest rates would have to increase and global economic growth would fall.

Ironically, just as Sir Kier Starmer is seeking to reset relations with the EU, the potential exists, admittedly slight, that the UK could negotiate a more favourable arrangement with a Trump Whitehouse. The previous Conservative Government was negotiating a free trade deal with the US at the end of Trump's last term in office, but talks were ended by the Biden Administration. Perhaps those talks could be restarted, UK manufactured goods are hardly undercutting US manufactured goods in their domestic market.

It raises an intriguing question, could the anti-Brexit Sir Keir Starmer be the first UK Prime Minister to secure a very tangible Brexit benefit? It would be a brave person who would bet on that outcome, but stranger things have happened.

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