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Trump 2025: Economic policy impact of a potential 2nd Trump term

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Abstract

As the 2024 US presidential election draws near, speculation abounds regarding the potential outcomes of the election and their economic ramifications. With Donald Trump set to secure the Republican nomination, attention shifts to the implications of a possible second term for the former president. In this edition of RBI Quarterly, we explore possible outcomes of a Trump re-election, with a particular focus on economic policies.

One of the key areas of interest lies in fiscal policy, where the Trump administration had pursued an agenda marked by tax cuts and deregulation during its first term. Should Donald Trump secure a second term, the continuation of such policies could significantly shape the nation's economic landscape. We also analyze the future of the Inflation Reduction Act, potential implications of an extension of the Tax Cuts and Jobs Act (TCJA), their impact on federal fiscal sustainability as well as regulatory rollbacks. We will also address global aspects when it comes to discussing trade but won't go into detail on other geopolitical impacts of a second Trump term.

Additionally, trade policy emerges as a critical aspect of the discussion, given Trump's protectionist approach to international trade relations during his first term. Therefore, we will explore the implications of his trade policies on international trade dynamics and the broader global economy.

1. Chances of Trump 2.0

As the United States gears up for the 2024 presidential elections, one name looms large on the political horizon: Donald Trump. With the possibility of a return to office, Trump's candidacy has ignited fierce debate and speculation, particularly about the outcome of his potential economic policies.

The chances of Trump being re-elected are quite realistic. After Super Tuesday on March 5, the last contender from the Republican camp, Nikki Haley, announced that she was withdrawing from the race. For the Democrats, Joe Biden will likely run for a second term, in the absence of a serious opponent within the Democratic party. Consequently, 2024 will see a repeat of the 2020 election – with a different outcome if current polls are to be believed. Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania, and Wisconsin are considered battleground states. As of mid April 2024, Donald Trump leads in six out of seven swing states and still holds a small lead in national polls.[1]

However, although the policies of the next US administration will be heavily shaped by the presidential election, overall federal policy also depends on the partisan composition of Congress. A total of 468 seats in the US Congress (all 435 House seats and 33 Senate seats) are up for regular election in 2024. In addition, one Senate seat is up for a special election. Ahead of the elections, the GOP holds a majority in the House, while Democrats and Independents who caucus with Democrats hold a majority in the Senate. In mid April 2024, polls indicate that the GOP will probably win the majority in the Senate but lose it in the House.[2] A divided government would likely lead to increased political gridlock and challenges in passing legislation.

A potential second Trump term raises a multitude of questions and uncertainties for economists, policymakers, and investors alike. Will Trump double down on his economic agenda, pursuing further tax cuts and aggressive trade policies? Or will he follow a more moderate approach, seeking to build on past successes while addressing lingering challenges? And how will this impact the US economy? Examining Trump's initial tenure in office can shed light on potential outcomes should he be re-elected for a second term. Assessing his first term, supporters point to record-low unemployment rates, robust stock market performance, and deregulatory efforts as evidence of Trump's ability to deliver on his promises of economic prosperity. Critics, however, highlight growing income inequality, escalating trade tensions, and mounting national debt as indicators of a more nuanced reality. To gauge the implications of a potential second Trump term on the US and the global economy, this study investigates the prospective economic policy of another Trump presidency. To this end, we will explore six key policy areas: taxation, trade, defense, energy, financial services, and M&A. By examining policies and their outcomes during Trump's first term and assessing statements made in the current election campaign by Donald Trump himself, his team of advisors, and relevant right-of-center think tanks, we aim to provide insights into the potential policy decisions a second Trump term might bring and their economic impact.

1 Aggregated polls provided by RealClearPolling, as of April 15, 2024
2 Polls as of April 15, 2024, as provided by racetothewh.com

2. Role and authority of the US president

The United States is a constitutional federal republic, where power is shared and controlled through a system of checks and balances. Thus, the powers of the US president are substantial and wide-ranging, but constitutionally limited. Understanding the extent of these powers is crucial when analyzing the potential impact of a second Trump presidency.

Vertically, power is divided between the states and the federal government, with the states having the right to make laws on all subjects that are not granted to the federal government or denied to the states. Horizontally, three branches of government share power: The US Congress enacts laws, the executive branch led by the US President carries out and implements these laws, and the Supreme Court judges and interprets these laws. While decisions on foreign policy, trade, and regulation are heavily dependent on the executive branch, overall federal policy depends on legislature as well. Additionally, many areas of environmental and energy policy in the US are determined at state level.

The US President's primary role is to carry and uphold laws made by Congress, giving him significant leeway in putting policy plans into action. Through executive actions, the US President can influence regulatory policy, trade negotiations, and the administration of federal agencies, impacting industries ranging from finance to healthcare.

The US President also has considerable executive power in different areas, such as foreign policy, economic administration, and national security. As the Commander-in-Chief of the armed forces, the President holds broad powers to deploy military forces. Additionally, the president plays a central role in shaping economic policy through executive orders, budget proposals, and appointments to key positions such as the Secretary of the Treasury and the Chair of the Federal Reserve. These executive powers are subject to constitutional and legal constraints, and budgetary constraints imposed by Congress. It can be challenging to agree on laws with Congress when the other party controls one or both houses. Also, presidential actions like executive orders can be easily reversed by the next president without needing Congress's approval. That is why many executive orders are usually issued during the first weeks of a new US President's term in order to begin realizing the political goals of the President's party.

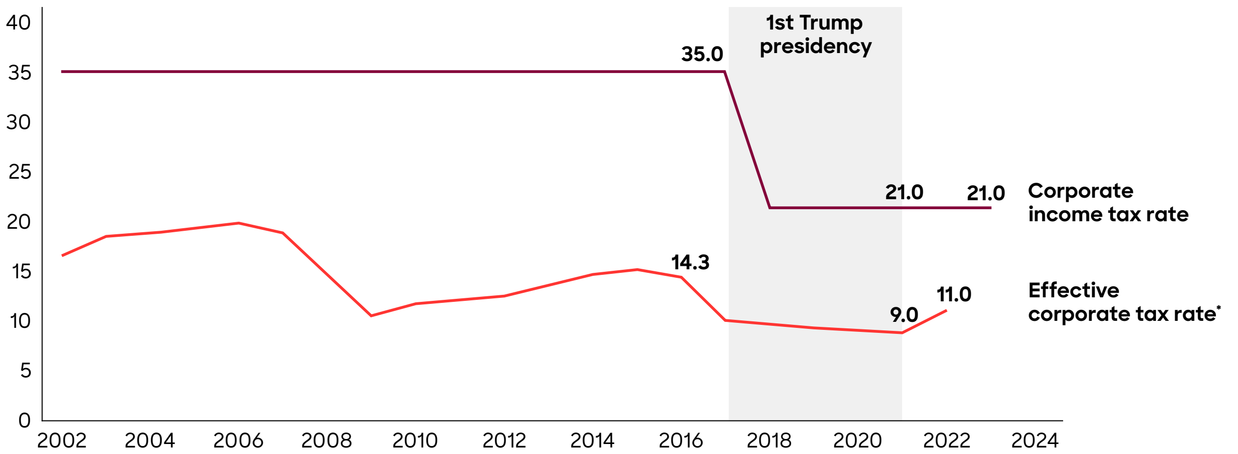
3. Economic policy under Trump 1.0

The phase following a presidential election is a period of preparation for the incoming administration. During the initial weeks and months of a new presidency, substantial legislative achievements are uncommon while key positions in the administration are being changed, leading many presidents to rely on executive orders to begin implementing their policy agendas. Donald Trump's first presidency serves as a prime example of this, as he extensively used executive orders to roll back several policies put in place by the Obama administration. One of the most notable instances was Trump's immediate action to dismantle Obama-era environmental regulations. He withdrew from the Paris Climate Agreement due to the – in his view – unfair economic burden on US workers, businesses, and taxpayers resulting from the pledges made by the USA as part of the agreement. He further rolled back US vehicle emission standards and over a dozen rules of the US Environmental Protection Agency (EPA) and cut Corporate Average Fuel Efficiency (CAFE) standards. In total, the Trump administration rolled back more than 100 environmental rules.

These actions underscore the power of executive orders as a tool for a new president to quickly alter the course set by their predecessor, especially in areas where legislative change would require more time and possibly face significant opposition in Congress. To be fair, President Biden also relied heavily on this approach, signing more executive actions during his first 100 days in office than any recent president following a partisan change.

Trump's first term saw rather conventional Republican economic policies, while the President's trade and foreign affairs strategies were characterized by an unconventional and notably protectionist stance. In terms of fiscal policy, Trump's first term was characterized by the most significant tax code overhaul in over three decades. In December 2017, the Tax Cuts and Jobs Act (TCJA), which drastically reduced income taxes for corporations and individuals, was signed into law. It lowered corporate and individual income tax rates, doubled the standard deduction, limited some other deductions, and introduced other changes to simplify the tax code. For instance, the corporate tax rate was reduced from 35% to 21%. → **Fig. 1**

Figure 1: **Development of corporate tax rates in the United States** [%]



* The effective tax rate is measured as federal government corporate tax receipts divided by corporate profits

Source OECD, Federal Reserve Bank of St. Louis

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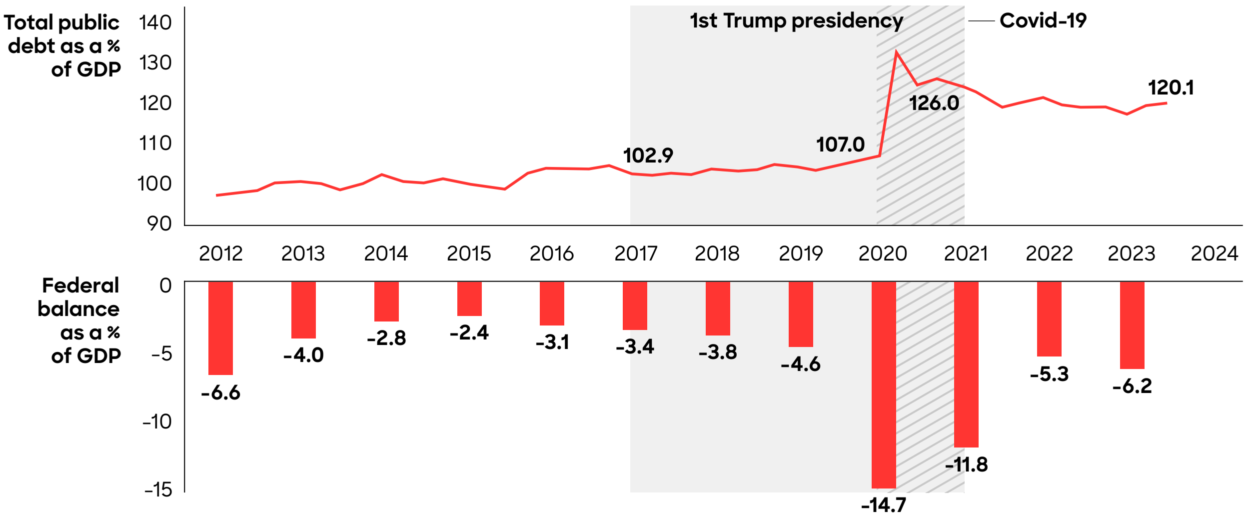
The changes were intended to stimulate economic growth, create jobs in the US, and enhance the USA's international competitiveness. Trump's plan was to offset the reduced federal income with increased revenues from tariffs that he raised – a plan that didn't work out as planned.

While federal net outlays declined during the initial two years of Trump's first term, they exceeded previous administrations' levels even before Covid-19. Federal net outlays increased from USD 3.98 trillion in 2017 to USD 4.45 trillion in 2019. Covid-19 greatly expanded government spending, leading to record outlays in 2020, reaching USD 6.55 trillion, more than 30 % of GDP.

With rising federal outlays and falling tax income, government deficits grew steadily during Trump's first term of office, leading to an increase in national debt despite promises to the contrary. During the pandemic, the exploding costs then led to a drastic increase in national debt. → **Fig. 2**

Figure 2: **Development of selected fiscal policy KPIs**



Source OECD, Federal Reserve Bank of St. Louis

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Overall, the Trump administration added USD 8.4 trillion to the national debt over a 10-year budget window, according to a study by the Committee for a Responsible Federal Budget. USD 3.6 trillion of the total stemmed from Covid relief measures and executive orders, USD 2.5 trillion from tax cuts, and a further USD 2.3 trillion from increases in spending. Notably, increased tariffs on imported goods were a rare instance of deficit reduction, generating USD 445 billion over the decade. This contradicts Trump's earlier claim, made in a 2016 interview with The Washington Post, that he could "pay down the national debt over a period of eight years" by renegotiating trade deals and fostering economic growth.

During Trump's first term, his administration initiated the rollback of many regulations introduced by previous administrations. One prominent example is the Dodd-Frank Act: Its rollback aimed at easing restrictions on banks, especially smaller ones, and on reducing compliance burdens. Additionally, there were efforts to loosen regulations on capital requirements for banks, providing them with more flexibility in lending and investment activities. With respect to the introduction of new laws and regulations, the first Trump administration was significantly more restrained than the administrations before and after. On average, 72,000 new pages were added to the Federal Register each year under Trump. During the second Obama administration, the number was around 84,000 new pages per year, and in the first three years of the Biden administration it was around 81,000.

Regarding foreign policy and trade, Donald Trump's stance was characterized by a more protectionist approach compared to previous administrations. Throughout his presidency, Trump prioritized "America First" policies aimed at reducing trade deficits, promoting domestic manufacturing, and renegotiating trade agreements to prioritize US interests. Additionally, Trump imposed tariffs on a wide range of imported goods, ranging from steel and aluminum to washing machines and solar panels, particularly targeting China, but also India, the EU and even US neighbors Canada and Mexico in an effort to address what he perceived as unfair trade practices and intellectual property theft. Trade between the US and China declined and analyses by economists, including those from the FED, concluded that the protectionist policy cost GDP growth, damaged employment, and increased prices for tariffed goods.

How likely is it that these policies will see a revival under a potential second Trump presidency? Both Trump's public statements and policy recommendations from right-of-center policy advisors compiled under the "2025 Presidential Transition Project" point in that direction. But while Trump's policy priorities have not changed since his first term, the domestic and global economy have.

4. Domestic economic policy: Expectations for Trump 2.0

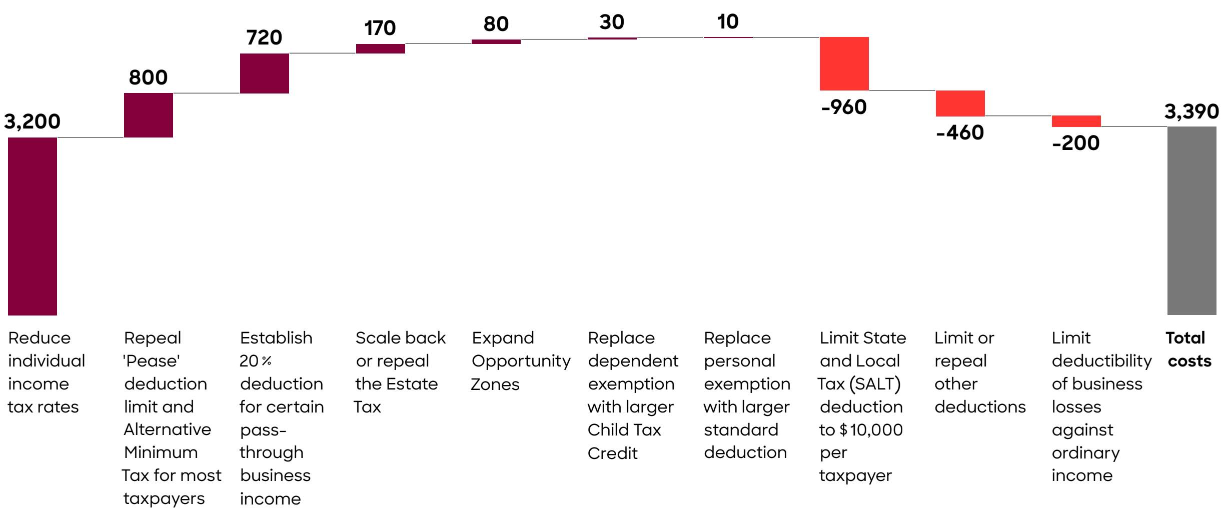
As we have seen in the previous chapter, Donald Trump implemented a number of domestic policy elements during his first term in office that are typical of a Republican presidency, such as tax cuts and a generally corporate-friendly stance. In the following chapter, we analyze what a second term in office for Donald Trump could look like. Our main focus in the area of domestic economic policy will be on fiscal policy, including taxation and spending, as well as possible changes in the area of financial market regulation and energy policy.

The next Congress has a unique opportunity to shape fiscal policy

The upcoming legislative term is poised for major decisions in the area of tax policy, irrespective of the election outcome, as various provisions of Trump's Tax Cuts & Jobs Act are set to expire at the end of 2025. However, higher interest rates, a burgeoning national debt, and lingering memories of inflationary spikes in the post-pandemic era add up to a very different economic backdrop as compared to the times when the TCJA or the Inflation Reduction Act (IRA) were signed by Presidents Trump and Biden, respectively. These factors will add an additional layer of contention to the process of shaping fiscal legislation.

The potential for major tax reforms is significantly heightened if one party gains control of both the White House and Congress. Should Republicans secure a clean sweep, we expect all tax breaks introduced by the 2017 TCJA, slated to expire by the end of 2025, to be prolonged. This measure would stave off tax hikes amounting to 0.6 % of GDP in FY 2026 and 1.4 % in FY 2027. The majority of these extensions would focus on the TCJA's provisions related to personal taxation. In sum, the continuation of the TCJA's expiring measures would cost approximately USD 3.4 trillion in the budget window until 2035, escalating the federal debt-to-GDP ratio by approximately 9 percentage points compared to the current law. → **Fig. 3**

Figure 3: **Budgetary effects of a TCJA extension** [USD bn]



Source Committee for a Responsible Federal Budget

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Even with a clean sweep, the Republicans would still not be able to make the extension of tax cuts permanent. The tax policy changes would still have to be enacted through the special budget reconciliation process, which requires only a simple Senate majority to pass spending and tax legislation. Budget reconciliation rules, however, prohibit fiscal legislation from adding to deficits beyond a 10-year budgetary window. As of now it remains unclear how Republicans could offset the considerable costs associated with extending the TCJA provisions. Options such as broadening the tax base and revoking clean energy tax credits under the IRA may fall short of bridging the fiscal gap. Consequently, a permanent extension of expiring TCJA provisions appears improbable even under a Republican government trifecta. Instead, Republicans might be compelled to allow most TCJA provisions to sunset in the early 2030s.

Unlike almost all personal tax provisions, which expire after 2025, most corporate tax provisions are permanent. Among policy advisors closely associated with Trump, there are even calls for additional tax cuts in addition to extending the legislation of the TCJA. Specifically, under the umbrella of the "2025 Presidential Transition

Project", policy advisors suggest reducing the corporate income tax rate from the current 21% to 18%. To fund part of this, they propose broadening the tax base by radically simplifying the tax system and largely abolishing tax deductions and exclusions. Furthermore, all tax increases enacted in the IRA, such as on stock buybacks, the coal excise, or book minimum taxes, are to be abolished according to these policy advisors.

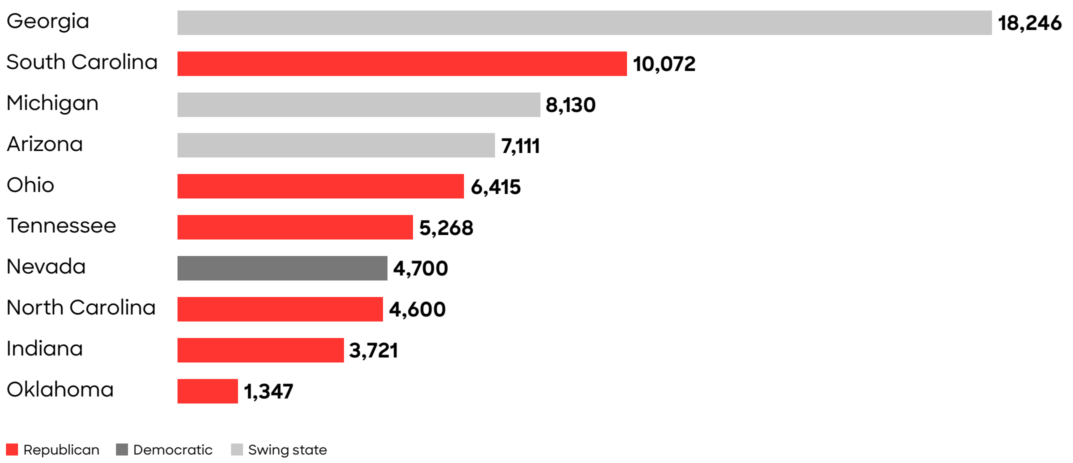
Whether additional tax cuts are implemented or the current provisions of the TCJA are extended, both scenarios are expected to exert adverse effects on the US national budget. Such outcomes may also influence the cost of capital in the US, reminiscent of the UK's ill-fated endeavor to reduce taxes in 2022.

A full repeal of IRA incentives seems unlikely

While it may appear obvious that Donald Trump would cut back on President Biden's signature law, the IRA, to finance his tax plans, this assumption is not as straightforward as it may seem. Of course, under a President Trump, the executive branch could influence IRA and associated energy and environmental policies. This might involve delaying fund implementation, reducing staff in relevant agencies, appointing more political figures to staff positions, classifying more scientific output as requiring review, withdrawing from COP, and implementing other measures. But Republicans would have to win the presidency and both chambers of Congress to fully repeal the IRA or at least vast parts of it. What is more, both houses and the President would have to form a consensus on which programs to cut or shrink. An attempt to fully repeal the IRA tax credits by a potential Trump administration would most likely provoke significant backlash among the Republican party, especially considering that clean energy investments already greatly benefit the economies of red states.
→ **Fig. 4**

Figure 4: **Clean technology projects in the US**

Clean energy (solar, wind and storage) investments announced
August 2022-August 2023, by state [USD m]



Source Company reports, Jack Conness

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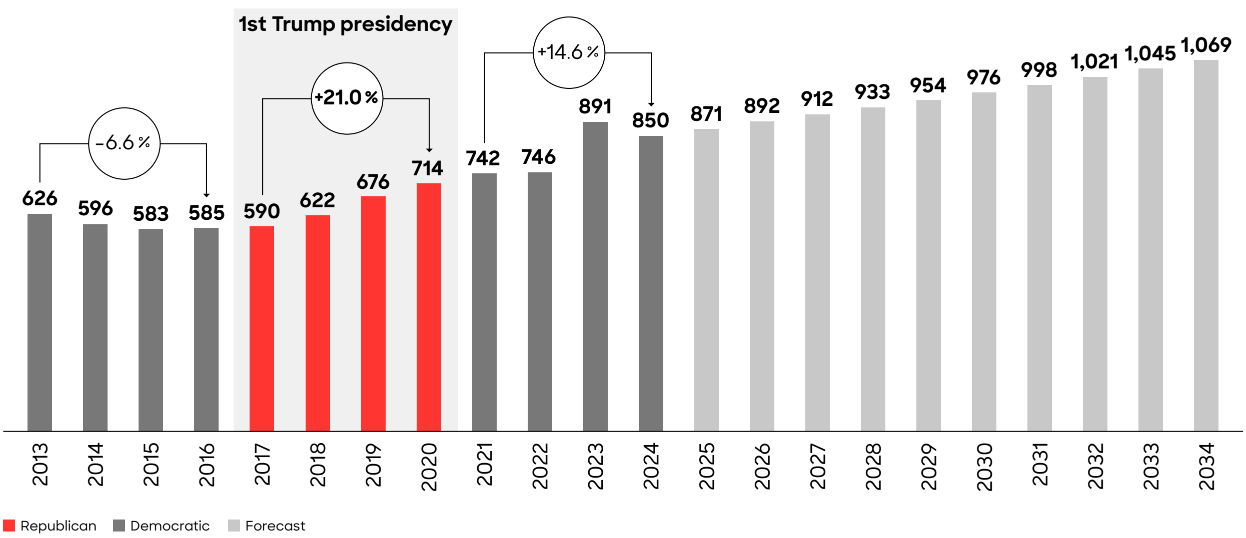
Additionally, many of the regulations in the IRA are viewed as being beneficial to the US economy, which is in line with Trump's America First stance. As it typically takes around two years for the benefits of major legislation to become visible in the economy, Trump could reap the benefits of the economic impact of the IRA, which will likely diminish his desire to significantly curtail it.

Should Republicans achieve a clean sweep and, contrary to our expectations, introduce a budget reconciliation process to target the IRA – which would only require a simple majority in the Senate to pass – we anticipate that incentives for electric vehicles (EVs), EV charging, energy efficiency, and solar power will be most at risk, given the significant number of bills previously introduced by Republicans targeting these sectors during past legislative sessions.

Defense sector will likely benefit from a second Trump tenure

During his first tenure, Donald Trump augmented the defense budget by approximately USD 225 bn. In 2017, the US military encountered significant readiness challenges, as reported by the Army and other government authorities. Training accidents resulted in more casualties than combat that year. These challenges were attributed to continued demands on their forces and to previous budget cuts during President Barack Obama's administration. President Trump's fiscal 2019 budget proposal for the Pentagon directed nearly 90 % of the increased funds to personnel, operations, and maintenance accounts. → **Fig. 5**

Figure 5: **Federal defense outlays** [USD bn]



Source Company reports, Jack Conness

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This increase in spending was also reflected in the revenues of the US defense industry. On average, revenues were around 7 % higher per year during the Trump administration than during the Obama administration. While the numbers may appear impressive, the actual outcome for the US military was, however, somewhat disappointing. Despite increased military spending Donald Trump did not deliver on many of his announcements regarding the military. During his 2016 campaign, he promised to expand the Navy to 350 ships and significantly increase the number of active duty-enlisted soldiers in the Army. At the end of his term of office, the Navy had 294 ships. Although the number of active soldiers in the Army increased during Trump's term of office, it only amounted to around 461,000 by the end, instead of the proclaimed 540,000.

Although Donald Trump didn't stand out during his time in office for trying to resolve conflicts by military means, the current geopolitical situation, including wars in Ukraine and the Middle East, as well as increasingly aggressive Chinese rhetoric regarding Taiwan, suggests that Trump is unlikely to cut back on military spending. Instead, we expect him to maintain or even increase funding for defense, thereby benefiting the US defense industry. Furthermore, it can be assumed with almost certainty that Donald Trump will continue to pressure his NATO allies to increase their defense spending, which will likely further benefit the US defense industry. According to the EU Commission, between the onset of the Ukraine conflict in February 2022 and June 2023, EU member states allocated over 100 billion euros to military equipment, with approximately 80 % of these acquisitions made outside the EU. Notably, more than 60 % of these expenditures were directed to the United States alone.

Trump will likely fossilize the US energy sector again

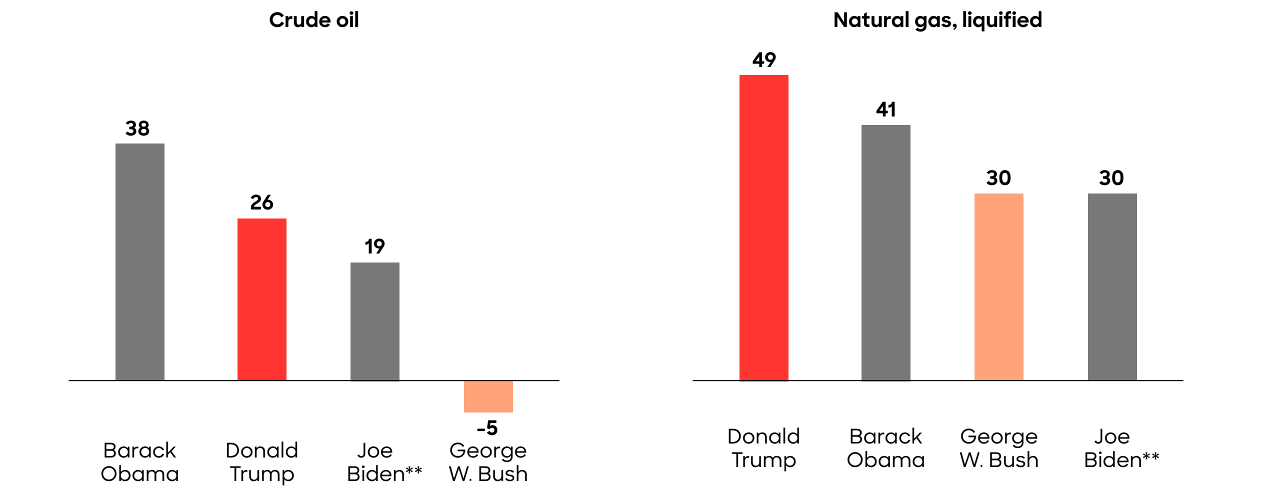
With regard to the energy sector, especially European allies will likely be watching the upcoming US elections with great interest. Following Europe's recent move away from its reliance on fossil fuels from Russia after their invasion of Ukraine, the US has emerged as Europe's primary supplier of liquefied natural gas (LNG), accounting for 46 % of European LNG imports in 2023. However, in January 2024, President Biden unexpectedly imposed an export ban on LNG under pressure from climate activists, reigniting uncertainty surrounding Europe's long-term energy security.

Energy is also a focal point in Donald Trump's election campaign, with consistent emphasis on the significant rise in energy prices in recent years. He routinely slams the electric vehicle policies of the Biden administration and frequently chants "drill, baby, drill" at rallies to energize his supporters. If Donald Trump returns to office, he is expected to reverse many of the Biden administration's initiatives aimed at combating climate change and instead initiate new efforts to expand fossil fuel production. During his first term, Trump and the Republican-controlled Congress already rolled back around 100 climate protection laws enacted by the Obama administration, resulting in an estimated cumulative emissions increase of 1,828 million metric tons of CO_2 equivalents by 2035. Furthermore, he withdrew the US from the Paris Agreement in 2017. In the event of a potential second term, efforts to dismantle clean energy laws and regulations enacted during the Biden administration should be expected, and Trump is anticipated to want to reduce staff in organizations like the EPA, increase the share of political appointees, and control scientific output from the EPA and the Department of Energy. Some of Trump's advisors even suggest withdrawing the United States from the UN Framework Convention on Climate Change (UNFCCC) and the Paris Agreement again.

However, certain legislation, such as investment tax credits for renewables and tax credits for clean hydrogen, may prove challenging to reverse given the number of red states benefiting from these rules. What is more, Democratic-leaning states like California are also expected to uphold climate action efforts. Moreover, courts will likely limit the wholesale dismantling of climate policies, as seen during Trump's initial term in office.

Trump's campaign website further outlines his aim to reinstate US energy dominance and ensure energy security for the US and its allies. This suggests that, in a second presidency, Trump would probably swiftly lift the temporary suspension on issuing new LNG export permits that President Biden recently installed. The website further states that Trump plans to restore US energy dominance by ramping up domestic energy production. Therefore, it is likely that the US Interior Department would revise its five-year offshore oil and gas leasing program to increase the scale and reach of drilling auctions. The current plan, crafted by the Biden administration, features a historically low number of auctions as part of a broader push towards cleaner energy sources. Should Republicans gain control of Congress, a second Trump administration might also pursue the sale of additional federal land to states seeking to enhance mineral, oil, and gas extraction efforts. These actions would also be consistent with Trump's first term in office, which was accompanied by a strong increase in US oil and gas production. → **Fig. 6**

Figure 6: **Percentage change in field production of crude oil and natural gas liquids* in the first 48 months of their presidency**



* Data shows the cumulative % increase in oil or natural gas production from month one to the last month of each presidency
** The latest available data for President Biden is as of the 34th month of his presidency

Source EIA

However, it is important to note that Washington's influence on domestic oil production is limited, as a significant portion of production occurs on private and state-owned lands. While the Trump administration regularly touted its deregulatory initiatives as bolstering US energy production, analysts argue that it was rather Trump's foreign policy that exerted a more direct influence on US oil production.

This was primarily due to sanctions on large oil and gas exporting countries that resulted in a reduction of barrels available on the global market, creating an opportunity for US producers to capitalize on filling this gap. The resurgence in US oil and gas production was therefore primarily fueled by the anticipation of higher energy prices due to a constrained global oil supply, rather than federal government directives.

Regulatory changes are also expected in the financial sector

If Trump were to return to office for a second term, it is likely that his administration would also continue to roll back regulatory measures in areas other than environmental protection. Trump's stance on regulation during his first presidency was characterized by a mix of approaches. During Trump's first term, the administration rolled back numerous regulations across various sectors, aiming to reduce bureaucratic red tape and stimulate economic activity. Overall, Trump's approach to regulation was largely focused on promoting business competitiveness and deregulation, although the effectiveness and consistency of these efforts remain a matter of debate.

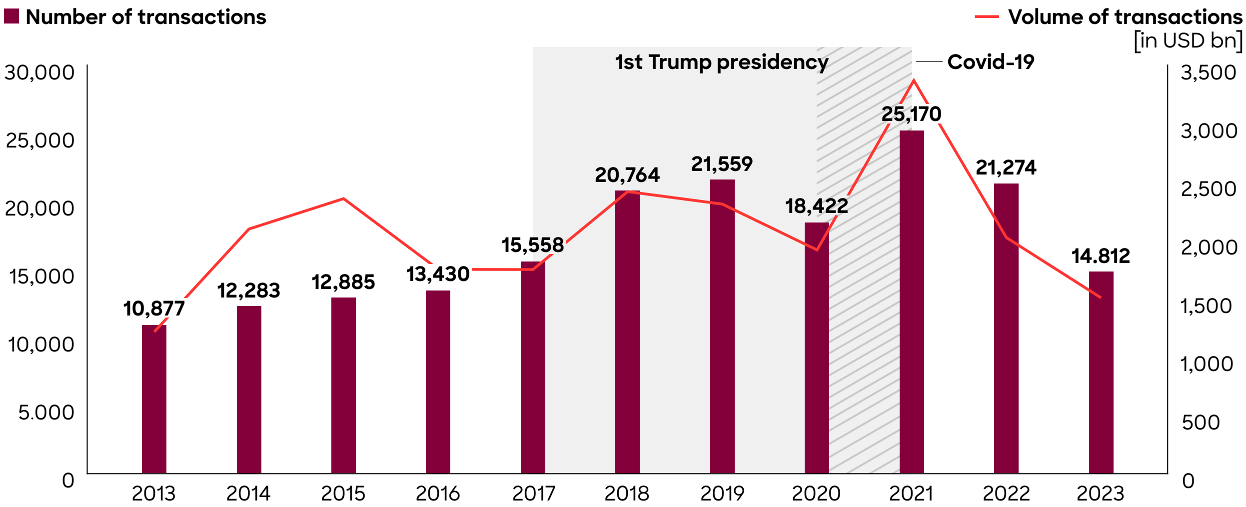
For a possible second term in office, right-of-center policy advisors are advocating for further deregulation, particularly within the financial sector. Accordingly, the next administration can be expected to focus on restructuring the financial regulatory framework to enhance regulatory efficiency, reduce associated costs and address regulatory gaps. Specifically, the advisors suggest that components of the Dodd-Frank Act should be withdrawn, namely Title I, II and VIII. Title I of Dodd-Frank legislation established the Financial Stability Oversight Council, designed as a kind of super-regulator responsible for pinpointing systemically important financial institutions and subjecting them to a more rigorous regulation. Title II of the Dodd-Frank Act introduced the contentious provision called orderly liquidation authority (OLA), offering an alternative to bankruptcy for major financial institutions. Title VIII of the Dodd-Frank Act grants the Financial Stability Oversight Council (FSOC) comparable expansive authority to designate specialized financial entities known as financial market utilities. A withdrawal of these regulations would be connected with the goal of preventing bailouts, addressing the too-big-to-fail issue, and therefore protecting taxpayer money, according to right-of-center policy advisors.

Further policy suggestions include establishing new regulatory frameworks for financial firms that eliminate activity restrictions, such as those preventing investment banks from accepting deposits. Regulations could be reduced in exchange for straightforward higher equity or risk-retention standards. All of these deregulatory measures align with the trajectory of the first Trump administration, which was marked by extensive deregulation of the financial sector. For instance, certain provisions of the Dodd-Frank Act were already repealed during Trump's initial term in office. Additionally, the administration appointed officials to regulatory agencies perceived as more industry-friendly and less inclined towards stringent regulations. Therefore, we anticipate that a potential future Trump administration would likely maintain a more relaxed approach to financial regulation.

Restoring a more business-friendly environment could lead to another wave of M&A transactions

The prospect of a business-friendly regulatory and tax environment is expected to boost the M&A environment in the US in a possible second Trump term. During his first term, Donald Trump's administration already took a relatively hands-off approach to antitrust enforcement, fostering a surge in M&A activity. → Fig. 7

Figure 7: **M&A activity in the US**



Source IMAA Institute

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However, Trump's first tenure reflects a tale of two halves in terms of merger enforcement record. During the first two years, there was a decline in enforcement compared to the Obama era. The latter part of his term, however, reflected a notable increase in enforcement actions, especially in terms of filing complaints to block deals.

Several factors contributed to this changing trajectory: To at least some extent, President Trump's populist appeal to the American worker and consumer likely played a role in pushing for more intervention in mergers. However, even when the Trump administration allegedly intervened in specific merger investigations, the administration didn't appear to be ideologically inclined towards ramping up merger enforcement or altering standards and regulations. While politics regularly exerted a significant influence on antitrust merger enforcement, more so than in the past, there were additional developments over the last two years of Trump's first term. Namely, a consensus emerged among American antitrust regulators that increased consolidation in certain industries has hindered economic growth and that a more aggressive course correction is needed. Additionally, concerns about consumer welfare in the era of Big Tech and Big Data gained traction among the same group of regulators, calling for a different approach on vertical deals, among others.

The Biden administration has intensified the stringent regulatory stance towards Big Tech and Big Data, as evidenced by recent blockbuster lawsuits filed by the Department of Justice against Apple. Overall, President Biden's administration has indicated a more assertive approach to antitrust enforcement. His appointments of officials known for their strong antitrust perspectives signal a readiness to adopt a firmer position against corporate consolidation and monopolistic practices.

In a potential second term, President Trump is anticipated to adopt a slightly less stringent approach to antitrust matters, albeit not as lenient as in the initial years of his presidency. Particularly the Big Tech sector may face increased scrutiny in the future. Generally, we expect M&A activity to rebound amid a generally favorable business climate and the expectation of declining interest rates.

5. Outlook for US trade relations under Trump 2.0

As during Trump's first term, another Trump presidency will likely have a major impact on international relations and the liberal international order. In the Presidential Transition Playbook, Peter Navarro, the former Director of the Office of Trade and Manufacturing Policy under Trump, provides a comprehensive view of potential trade strategies and policy directions of a second Trump administration.

Former Trump advisor points out two major challenges with regard to international trade

Navarro's contributions are particularly relevant given his instrumental role in shaping trade policy during Trump's first tenure, his advocacy for reducing US trade deficits, and his alignment with Trump's trade agenda. Navarro highlights two main challenges: the constraints imposed by the World Trade Organization's Most Favored Nation (MFN) rule and the strategic competition with China, laying out a series of policy recommendations that Trump will likely consider should he return office.

The WTO's MFN rule, a cornerstone of global trade agreements, requires countries to extend any favorable trading terms offered to one member to all other WTO members. This principle aims to promote equality in trading conditions but has been criticized by Trump and advisors like Navarro for limiting the United States' ability to negotiate bilateral trade deals that could more directly benefit US interests. They argue that the MFN rule has inadvertently facilitated what they perceive as unfair trade practices, allowing other countries to maintain high tariffs and non-tariff barriers on US goods while benefiting from lower tariffs in the US market.

In response to these perceived constraints and to address trade imbalances, one policy recommendation put forth is the United States Reciprocal Trade Act (USRTA). This act, already supported by President Trump in 2019, proposes granting the US president the authority to adjust US tariffs in response to higher tariffs imposed on American exports by other countries without the approval of Congress, aiming for a more balanced and reciprocal trade environment. Although the USRTA was introduced by a Republican member of the House of Representatives in 2019, it was rejected by a large, bipartisan majority.

The approach also includes addressing non-tariff barriers, with the USRTA providing mechanisms for the US to negotiate the reduction of such barriers with trading partners. Should these countries refuse to engage in reducing their non-tariff barriers, the act allows for the imposition of reciprocal duties, striving for supposed equity in trade relations. Two scenarios under the USRTA involve: (1) directly negotiating lower tariffs or (2) imposing reciprocal tariffs on imports from countries that maintain higher tariffs on US exports, potentially leading to a more balanced trade environment or escalating trade tensions.

When it comes to tariffs in general, Donald Trump has ambitious plans for his potential second term in office. In an August 2023 interview with Fox News, he suggested implementing a 10 % import tariff on all goods. The Committee for a Responsible Federal Budget (CRFB) estimated that such a policy could raise around USD 2.5 trillion in federal budget from 2026 to 2035, according to conventional scoring methods. However, it is also anticipated to hamper economic growth and potentially spur further inflation, prompting the Federal Reserve to raise interest rates again. Trump intends to use the funds generated to pay down the national debt – which is unlikely to succeed given his tendency to spend generously, as seen during his first term.

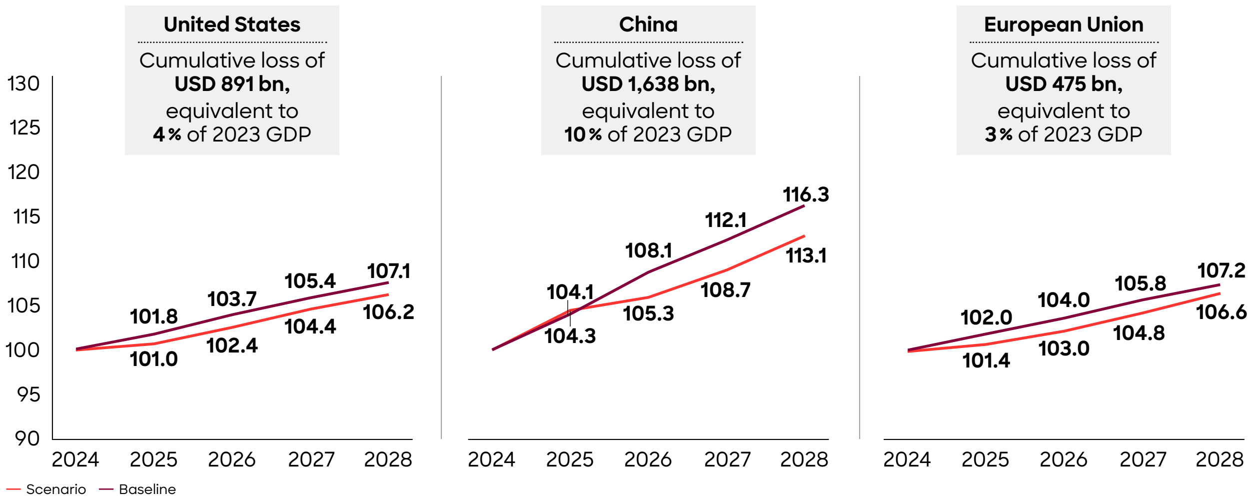
Renewed trade tensions are likely, particularly with China

The prospect of Donald Trump returning to the presidency also raises critical questions regarding the future of US-China trade policies. Trump's initial tenure was characterized by an aggressive trade stance against China, emphasizing tariff impositions and trade barriers aimed at rectifying what he perceived as unfair trade practices and intellectual property theft by China. These actions led to a trade war that not only affected the two economies but also had ripple effects across global markets, disrupting supply chains and increasing costs for consumers and businesses worldwide. At the same time, Trump was able to change the national consensus regarding economic relations with China. Most trade restrictions were continued or even expanded by President Biden.

Should Trump assume office again, it is plausible that he may escalate his confrontational trade policies towards China. This could involve increasing tariffs on Chinese goods, potentially leading to retaliatory measures from China. In another interview with Fox News, in February 2024, Trump specifically suggested that he would consider imposing a tariff upward of 60 % on all Chinese imports if he regains the presidency. Such a scenario would exacerbate tensions between the world's two largest economies, affecting global trade networks, and possibly leading to a further decoupling of US and Chinese tech and manufacturing sectors.

Even a more tempered stance by the US, and possibly other Western nations, towards China could still result in substantial damage. Oxford Economics has devised a scenario to evaluate the potential consequences of a renewed trade conflict. For this scenario, Oxford Economics assumed that the US imposes a punitive tariff of 20 % of the imported value of goods from China. Other Western nations such as the EU, UK, Japan, and Canada follow the US example and impose tariffs of 10 % on China. China retaliates with similar tariffs. Additionally, it is assumed that the West also denies China access to new Western technology, negatively affecting Chinese productivity growth. The scenario concludes that such a step would also have negative implications for global financial markets. It is expected that the global stock market index would fall by 10 percentage points compared to the baseline scenario. US bond yields are likely to decrease slightly due to their traditional role as a safe haven, while Chinese bond yields would increase. The dollar is expected to appreciate in such a scenario. → Fig. 8

Figure 8: **Economic harm caused by a renewed Sino-US trade war**
[GDP growth under different scenarios*, index, 2024 = 100]



* The scenario assumes that the trade war starts effectively as of the first quarter of 2025

Source Oxford Economics, Roland Berger Institute

The ramifications of such a scenario would be significant for all involved economic regions, with the Chinese economy suffering most notably. By the end of a potential second term for Trump, the estimated damage to the US economy would reach approximately USD 900 billion, equivalent to 4% of US GDP in 2023. For China, the damage by 2028 would be even more substantial, at USD 1,638 billion or 10% of their GDP in 2023. The EU, while still affected, would experience relatively milder consequences, with damages totaling "only" USD 475 billion or 3% of the EU's 2023 GDP.

The implications of renewed trade hostilities could be even more far-reaching, impacting not only bilateral trade and GDP, but also the broader geopolitical landscape, as other nations may be forced to navigate the complexities of aligning with either the US or China. Moreover, Trump's approach to China could influence the strategic priorities of other countries, particularly those within the Asia-Pacific region. Nations may reassess their trade policies and alliances in response to heightened US-China tensions, potentially leading to an even more fragmented global trade system. This fragmentation could hinder international cooperation and the ability of the WTO to mediate trade disputes, further challenging the principles of free trade and open markets.

However, the realization of such policies is not guaranteed and would significantly depend on the future composition of Congress. Should Trump return to the presidency, his administration's inclination to use tariffs as a strategic tool is expected to continue. Yet the enactment of the USRTA and the implementation of stringent policies on China and the rest of the world would be conditional upon securing congressional support. The feasibility of these actions would thus rely on a legislative environment aligned with Trump's trade agenda.

6. Conclusion

The election on November 5 is poised to be a landmark election, with far-reaching implications not only for the US economy but also for the geopolitical landscape and other economies around the world.

As is customary in US politics, the first weeks of Trump's second term will most likely witness a flurry of executive orders aimed at overturning many policies enacted by the previous Biden administration. Of particular focus could be laws associated with the Biden administration's hallmark legislation, the Inflation Reduction Act. However, Trump's approach may also involve strategic retention of certain measures that align with his protectionist agenda, potentially signaling a nuanced blend of policy continuity and change.

Regarding fiscal policy, further tax cuts are unlikely in our view given the high public debt. However, an extension of existing tax rules implemented under the TCJA, which are set to expire in 2025, is likely under a Republican sweep. Trump's recent discourse suggests a shift towards emphasizing the preservation of existing tax policies rather than advocating for new rounds of tax reductions, which would likely encounter challenges. This strategic pivot may reflect a pragmatic recognition of political realities.

Nevertheless, it can be expected that Donald Trump once again aims to create a more business-friendly environment, i.e., by reducing the bureaucratic burden or by keeping taxes low. It is anticipated that these measures will stimulate M&A activity in the US. This trend, already observed during Trump's first term, will likely continue as companies capitalize on favorable market conditions and strategic opportunities. The resulting consolidation within industries could reshape competitive dynamics and market structures, driving further growth and innovation.

On trade and foreign policy, a second Trump presidency would likely reignite trade conflicts, particularly with China and maybe also with the EU. Trump's inclination for protectionist measures and his confrontational approach to trade negotiations suggest that the use of tariffs and trade barriers, or at least the threat of them, could once again become central instruments of US trade policy. A renewed trade war with China, in particular, would have significant implications for the global economy, potentially disrupting supply chains, dampening consumer sentiment, and further fueling geopolitical tensions.

Overall, a potential second term for President Trump would represent a continuation of his distinctive brand of governance characterized by a mix of populist rhetoric, protectionist trade policies, and business-friendly initiatives. While some aspects of his agenda may find bipartisan support, others are likely to encounter resistance, particularly in a politically polarized landscape. As the US awaits the outcome of the upcoming election, the trajectory of US policy and its implications for domestic and global affairs remain subjects of keen interest and debate. As stakeholders brace for the potential implications of a second Trump presidency, vigilance, flexibility, and proactive engagement will be essential in navigating the opportunities and challenges that lie ahead.

What to expect? How to prepare?

How should CxOs prepare for a second Trump presidency? CxOs must develop a comprehensive understanding of the potential implications of a second Trump presidency on economic policies. To be succinct, in the realm of international trade, tariff escalation on US imports and confrontational trade policies towards China may fragment and destabilize the global trade system and strain or even disrupt value chains. Concerning the IRA, while a full repeal of the IRA is improbable, potential cutbacks on President Biden's landmark legislation could jeopardize incentives for electric vehicles (EVs), EV charging, energy efficiency, and solar power development. Finally, regarding future US energy policy, in the short term, a shift away from climate protection measures and an expansion of fossil fuel production may alter the incentives for investments in clean technology. Nevertheless, in the long term, the inexorable realities of climate change will make a sufficient supply of "green energy" both a political and an economic necessity.

In this situation, CxOs should utilize scenario planning to anticipate potential disruptions in trade, subsides, or energy prices. Additionally, to understand the potential impact of trade disruptions and/or tariffs, a comprehensive transparency regarding the supply chain is required, particularly Tier 2 and Tier 3 suppliers. Another strategy to consider is enhancing the resilience of your supply chain by sourcing more regionally. Transparency is also necessary concerning the financial implications of potential subsidy reductions on your project portfolio. Finally and despite potential shifts in incentives for investments in clean technology under a Trump administration in the short term, a steadfast commitment to investing in clean technology is imperative to remain competitive in the long run.

Further reading

- [ROLAND BERGER TREND COMPENDIUM 2050: POLITICS AND GOVERNANCE]
- [NAVIGATING GEOPOLITICAL UNCERTAINTY]
- [SHIFTING THE US SUPPLY CHAIN BACK HOME FOR CHEAPER, CLEANER ENERG]

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