BETTER ODDS

GEOPOLITICAL REPORT

HOW THE NEXT US PRESIDENCY WILL IMPACT EUROPEAN BUSINESSES

EXECUTIVE SUMMARY

On November 5, voters in the United States will choose between Donald Trump and Kamala Harris for the next president. The candidates offer sharply contrasting visions for America and its role in the global economy.

European business executives and policy-makers are concerned about the potential business impact of the Trump versus Harris presidency on EU companies.

In short, Harris is expected to maintain more stable trade relations while Trump's proposed tariffs threaten to significantly disrupt EU exports, particularly in sectors like automotive and manufacturing. Germany and Italy's economies are notably the most vulnerable to a Trump presidency.

Leading up to November 5, European leaders are preparing contingency plans to address potential US trade aggression, highlighting the urgent need for strategic autonomy and resilience in navigating either scenario for transatlantic relations.

Policy Impacts on Trade and Tariffs

The contrast between Trump's proposed 10-20% import tariffs and Harris's expected trade relations stability heavily impacts EU export sectors, especially automotive and manufacturing. Trump's tariffs may lead to significant GDP losses for European economies, with Germany and Italy among the most vulnerable.

Economic and Market Volatility

A Trump presidency will likely introduce heightened economic volatility, affecting currency stability, particularly for the euro, and potentially eroding profits for European exporters. Harris's approach will likely foster more predictable economic conditions, although ongoing global challenges could create market uncertainties.

Strategic and Regulatory Adjustments

Both administrations could drive European companies to reevaluate US partnerships and supply chains. Trump's policies might necessitate relocating production to the US or supplier diversification, while Harris's approach fosters regulatory cooperation. Supply chain resilience and agility will remain a priority in both scenarios.

DIVERSIFY TRADE PARTNERSHIPS

INVEST IN STRATEGY AND INNOVATION

COOPERATE WITH OTHER EUROPEAN BUSINESSES

KEY POLICY DIFFERENCES BETWEEN TRUMP AND HARRIS

The main differences between Trump and Harris policies regarding Europe center on trade, defense, and international cooperation:

- **Trade:** Trump proposes a 10-20% tariff on all imports, potentially devastating for EU exports (1, 2). Harris is expected to maintain more stable trade relations, though some protectionist measures may continue (3).
- **NATO:** Trump has threatened to leave NATO, while Harris strongly supports the alliance and continued aid to Ukraine (4, 5)
- **Climate policy:** Trump vows to withdraw from the Paris Agreement again, while Harris is likely to maintain US climate commitments (5).
- **China strategy:** Both would pressure Europe on China, but Trump's approach would be more confrontational, potentially forcing Europe to choose sides more explicitly (6, 7).
- **Regulatory alignment:** Harris is likelier to seek cooperation on issues like AI, data privacy, and tech regulation through forums like the EU-US Trade and Technology Council (8).

While a Harris presidency would offer more predictability, European leaders recognize the need to build strategic autonomy and resilience regardless of the election outcome (5, 9).

POTENTIAL IMPACT ON EUROPEAN BUSINESSES

The potential impacts of a Trump or Harris presidency on European businesses would be multifaceted:

Economic volatility: A Trump presidency could increase market uncertainty and currency fluctuations, potentially affecting European companies' profits and investment decisions. Harris would likely provide more stability, but some economic unpredictability would persist.

Supply chain disruptions: Trump's proposed tariffs could force European companies to restructure their global supply chains, potentially increasing costs and complexity (6). Under Harris, existing supply chain pressures would likely continue but without drastic policy shifts.

Innovation and competitiveness: Stricter technology transfer regulations under either presidency could hinder European companies' access to US innovations. However, this may also spur increased R&D investment within Europe to maintain competitiveness (2).

Regulatory compliance: European firms may face diverging regulatory standards between the US and EU markets, particularly in areas like data privacy, environmental regulations, and product safety (6). This could increase compliance costs and operational complexity.

Strategic partnerships: European businesses may need to reevaluate their US partnerships and potentially seek alternative collaborations in other regions to mitigate risks associated with US policy shifts (2).

Regardless of the election outcome, European companies must adapt to a changing transatlantic business landscape, focusing on resilience, diversification, and agility in their strategies (6).

MARKET UNCERTAINTY AND FLUCTUATIONS

The prospect of a Trump presidency will introduce significant economic volatility for European markets and businesses.

Trump's proposed tariffs and protectionist policies would likely increase market uncertainty and currency fluctuations. The euro could face downward pressure against the dollar, with Goldman Sachs estimating a potential 3% weakening or up to 10% in a scenario with broader tariffs and tax cuts (10). This currency volatility could erode profits for European exporters and complicate investment decisions.

European companies should prepare for potential GDP losses, with estimates suggesting a 1% reduction in eurozone GDP under a 10% tariff scenario (8). As Europe's largest economy, Germany could be particularly vulnerable, facing potential GDP losses of €127-180 billion over a four-year Trump term (1). A Harris presidency would likely provide more economic stability. However, some unpredictability would persist due to ongoing global challenges and the need for both administrations to address issues like reducing dependence on China (6, 11).

3-10%

WEAKENING OF THE EURO AGAINST THE USD

TRADE AND TARIFF IMPACTS

1%

POTENTIAL EUROZONE GDP LOSS

The potential trade and tariff impacts of a Trump presidency versus a Harris presidency could have significant ramifications for EU-US economic relations:

- Trump's proposed 10-20% tariff on all imports would severely impact EU exports to the US, potentially reducing them by up to a third in some sectors (1). This could lead to a GDP loss of around 1% for the eurozone (11).
- Key EU export sectors at risk include machinery, vehicles, and chemicals, which made up 68% of EU exports to the US last year (8). Germany's automotive industry is particularly vulnerable, with the US being its largest car export market (1).
- In contrast, a Harris presidency would likely maintain more stable trade relations, though some protectionist measures may continue (5). Her administration would be more inclined to resolve disputes through existing frameworks like the EU-US Trade and Technology Council (5).
- Regardless of the outcome, the EU is preparing contingency plans. European leaders are more united in their approach to potential US trade aggression, with one senior diplomat stating, "We will hit back fast and we will hit back hard" (9) if faced with punitive tariffs.

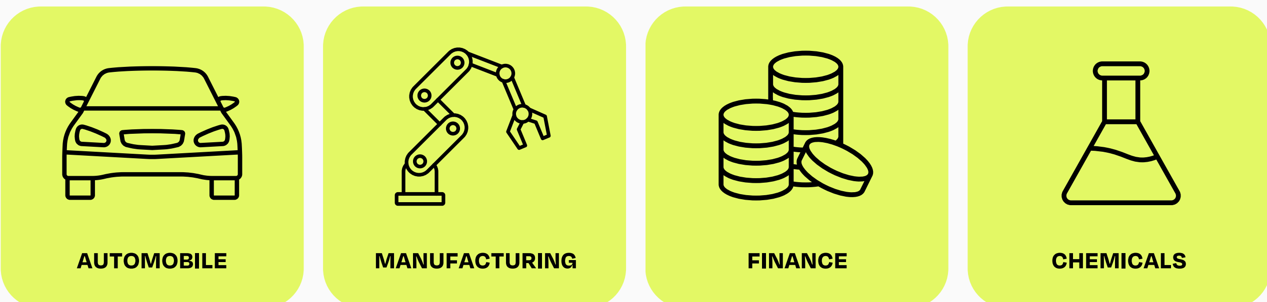
The EU's increasing reliance on the US export market makes it vulnerable to trade policy shifts, necessitating a strategic approach to maintain economic stability and competitiveness in the face of changing transatlantic relations (8).

VULNERABLE EUROPEAN SECTORS

Key European sectors facing significant risks under potential Trump tariffs include:

- **Automotive:** Volkswagen, Mercedes-Benz, and BMW particularly vulnerable, with the auto sector already struggling as the worst-performing Stoxx 600 sector in 2024 (2).
- **Manufacturing:** Machinery and capital goods companies at high risk, potentially seeing up to 2% reduction in industrial production (1, 2).
- **Financial services:** Despite recent strong performance, European banks are considered highly vulnerable (2).
- **Chemicals, technology, and beverages** are also identified as facing significant threats from tariffs (2).

The severity of the impact varies by country, with Germany's export-oriented economy being the most exposed, followed by Italy facing potentially higher tariffs on luxury goods exports (2).



GEOGRAPHIC VULNERABILITY TO TARIFFS

Germany is the most vulnerable European country to Trump's proposed tariffs, potentially facing GDP losses of €127-180 billion over a four-year term (1). Italy follows, with the highest expected tariff rates of up to 2.6% due to its luxury goods exports (2). France and Spain face moderate vulnerability, with tariff rates estimated between 1% to 2.6% (2). Factors influencing a country's vulnerability include:

- Reliance on industrial production
- Export dependencies on the US market
- Automotive sector exposure
- NATO defense spending compliance (countries not meeting the 2% requirement may face additional pressure) (5).

Germany's particular vulnerability stems from the US being its largest car export market and its high overall export value to the US (€158.75 billion in 2023) (1).

1. **Germany**
2. **Italy**
3. **France**
4. **Spain**

€127-180B

POTENTIAL GERMAN GDP LOSS

DYNAMICS IN THE TRANSATLANTIC ALLIANCE

The transatlantic strategic partnership between the EU and the US faces significant challenges and opportunities in the coming years, regardless of who wins the US presidency.

Both sides recognize the need to reinvent their relationship to address global issues and economic competition (6). Key areas for enhanced cooperation include:

- **Technology and digital policy:** The EU-US Trade and Technology Council aims to coordinate approaches on key tech issues like AI, semiconductors, and digital regulation (12, 13),
- **Climate action:** Renewed US climate leadership under Biden has opened doors for closer EU-US collaboration on environmental initiatives and green technologies (14).
- **China strategy:** While differences remain, there is growing willingness to work together on challenges posed by China's economic practices and global influence (6, 15)

However, tensions persist over issues like digital taxation, data privacy, and industrial subsidies (13, 16). To strengthen the partnership, both sides will need to:

- Increase dialogue and find pragmatic solutions to trade disputes (6).
- Align regulations to boost innovation adoption and productivity (6).
- Cooperate on securing critical supply chains and setting global standards (12).
- Balance strategic autonomy ambitions with transatlantic cooperation (16),

Ultimately, reinventing the EU-US alliance will require compromise, mutual understanding of domestic constraints, and a shared vision for shaping the global order in line with democratic values (6, 15).

RESHAPING SUPPLY CHAINS

Under a potential Trump presidency, European companies could face significant supply chain disruptions due to proposed tariffs and trade policies.

Implementing a 10-20% universal tariff on imports would likely force many European firms to restructure their global supply networks (17, 18). This could lead to:

- Increased costs for sourcing materials and components from the US
- Pressure to relocate production facilities to avoid tariffs
- Potential shortages of critical inputs if alternative suppliers cannot be quickly identified

In contrast, a Harris presidency would likely maintain more stable trade relations, but some supply chain pressures would persist. European companies might still need to:

- Diversify suppliers to reduce dependence on single sources
- Invest in supply chain resilience and visibility technologies
- Adapt to ongoing efforts to reduce reliance on China in critical sectors (19, 8)

Regardless of the election outcome, European businesses must prioritize resilience, supply chain agility and risk management to navigate the evolving transatlantic trade landscape (18, 2).

POTENTIAL SHIFTS IN INVESTMENT STRATEGIES

European investment strategies will likely shift significantly in response to the outcome of the US election.

Under a Trump presidency, investors may focus on:

- Defensive sectors less exposed to US trade, such as utilities and healthcare
- Companies with strong domestic European markets
- Hedging strategies to protect against currency volatility and trade uncertainties (6, 11)

In contrast, a Harris presidency could see investors favoring:

- Export-oriented European companies, particularly in aerospace and defense
- Clean energy and climate-related technologies
- Sectors benefiting from potential US-EU cooperation, such as advanced manufacturing and digital technologies (4, 2)

Regardless of the outcome, European investors will likely prioritize diversification and resilience in their portfolios to mitigate geopolitical risks and economic uncertainties stemming from US policy shifts (5, 4).

POTENTIAL RIPPLE EFFECTS

While much attention has focused on direct trade impacts, a Trump or Harris presidency may have several unexpected consequences for European companies:

- **Regulatory divergence:** A Trump administration may aggressively roll back environmental and consumer protection regulations, creating a widening gap with EU standards. This could force European firms to maintain separate product lines and compliance processes for US and EU markets, increasing costs and complexity (20).
- **Talent acquisition challenges:** Under Trump, stricter immigration policies could make it harder for European companies to recruit skilled workers for their US operations. Conversely, a Harris presidency might see an influx of talent to Europe if the US tightens visa programs for certain nationalities (2).
- **Cybersecurity pressures:** Both administrations will likely intensify scrutiny of technology companies and data practices. European firms may face increased pressure to demonstrate robust cybersecurity measures and data localization to maintain access to US markets (8).
- **Reshoring incentives:** Trump's "America First" policies could incentivize European companies to relocate some production to the US to avoid tariffs, potentially hollowing out certain European industrial clusters (2).
- **Climate policy whiplash:** A stark difference in climate policies between administrations could create market uncertainty for European renewable energy and cleantech firms looking to expand in the US market (4).

These less obvious impacts highlight the need for European businesses to develop flexible, scenario-based strategies to navigate the evolving transatlantic business landscape.

PREPARING FOR THE WORLD AHEAD

As Europe braces for the potential impacts of the US election, it's clear that a Trump and Harris presidency would both present challenges and opportunities for businesses in the EU.

- A Trump presidency would likely bring more immediate and severe disruptions, mainly through proposed tariffs that could significantly impact EU exports and GDP growth (6, 2). Key sectors like automotive, manufacturing, and chemicals would be especially vulnerable (1).
- A Harris presidency, while less disruptive, would still maintain some protectionist measures and continue to pressure Europe on issues like China relations and defense spending (6, 4).

Regardless of the outcome, European businesses and policymakers must prepare for a shifting transatlantic landscape:

- Diversification of trade partnerships and supply chains will be crucial to mitigate risks (20).
- Investment in innovation and strategic autonomy, particularly in critical technologies, will be necessary to maintain competitiveness (8).
- Strengthening intra-European cooperation and resilience will be vital to navigating potential economic volatility and policy shifts.

Ultimately, while the US election will undoubtedly impact EU-US relations, Europe's ability to adapt, innovate, and assert its own economic interests will be key to thriving in an evolving global economy (4).

DIVERSIFY TRADE PARTNERSHIPS

INVEST IN STRATEGY AND INNOVATION

COOPERATE WITH OTHER EU BUSINESSES

Sources

1. https://www.euronews.com/business/2024/10/29/how-a-trump-win-could-result-in-a-billion-euro-trade-war-for-germany
2. https://fortune.com/europe/2024/10/21/trumps-favorite-word-is-a-big-talking-point-for-european-ceos/
3. https://www.capitaleconomics.com/publications/europe-economics-update/impact-trump-victory-europe
4. https://www.cer.eu/insights/what-harris-presidency-would-mean-europe
5. https://theconversation.com/us-elections-heres-whats-at-stake-for-europe-in-three-key-areas-240768
6. https://www.cer.eu/publications/archive/policy-brief/2024/surviving-trump-20-what-does-us-election-mean-europes-economy
7. https://www.cnbc.com/2024/08/22/us-election-what-a-kamala-harris-victory-could-mean-for-europe.html
8. https://www.euronews.com/my-europe/2024/10/24/would-donald-trumps-trade-tariffs-hurt-europe
9. https://www.politico.eu/article/eu-donald-trump-trade-war-second-presidency-kamala-harris/
10. https://finance.yahoo.com/news/wall-street-already-priced-trump-010400215.html
11. https://www.cnbc.com/2024/07/15/what-a-trump-presidency-could-mean-for-europes-economy.html
12. https://en.wikipedia.org/wiki/European_Union–United_States_relations
13. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/united-states_en
14. https://europeanmovement.eu/policy/eu-us-relations-2/
15. https://www.intereconomics.eu/contents/year/2021/number/1/article/eu-us-relations-reinventing-the-transatlantic-agenda.html
16. https://apcoworldwide.com/blog/eu-u-s-transatlantic-relations-navigating-uncertain-times/
17. https://www.floridatechonline.com/blog/process-improvement/how-trumps-tariffs-are-impacting-the-global-supply-chain/
18. https://www.controlrisks.com/our-thinking/insights/global-trade-and-supply-chain-resilience-under-trump-vs-harris
19. https://www.inboundlogistics.com/articles/how-the-2024-presidential-election-could-impact-supply-chains/
20. https://futuresupplychains.org/new-trump-presidency-aims-to-degrade-global-trade

TURN UNCERTAINTY INTO ADVANTAGE

About Better Odds

Better Odds is an AI-powered platform for strategy and macro analysis, providing business leaders with tailored insights and action plans for making better and faster decisions in an uncertain world.

To learn more, contact:

Anna Loverus, Founder and CEO

0046 (0) 70 333 16 17

anna.loverus@betterodds.inc

www.betterodds.inc

BETTER ODDS