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PREPAREDNESS FOR ELECTION RESULTS

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PREPAREDNESS FOR ELECTION RESULTS

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It is no exaggeration to say that the outcome of the upcoming US presidential election is a crucial factor in today's geopolitics and geoeconomics. Indeed, the president of the most powerful country has played a decisive role in shaping the world order since the World War II. However, it seems that for the first time the risks of uncertainty in the global economy and global development in general are «going off scale». And perhaps for the first time, the processes in the US may come to threaten freedom and democracy, while peaceful development of humanity may be at risk due to aggressive intentions of autocratic countries.¹

This publication examines the state and dynamics of certain macroeconomic indicators that may be affected by the election «passions» and therefore have an additional reverse impact on the economic environment. It is worth noting that the current «historically formed» complexity of global economic processes is exacerbated by the existence of different moods in the leading democratic contexts – Europe and North America. Cautious expectations and rather unexpected positive results of the European elections helped to quickly reassure the European political elite and public. In the meantime, there is growing concern about the course of the US presidential race and its possible winner.

Accumulation of uncertainties

For the first time in half a century, the results of the US presidential election seem to be a source of global risks (including changes in the economic order) and are anticipated with fear rather than hope for positive changes. Moreover, unlike post-WWII decades, however, today we face the added stress of a relative decline of US power position worldwide vis-à-vis China, and the rising «axis of dictatorships» – Russia, China, Iran, and North Korea – intent on revising and replacing the US-led global order.²

Global uncertainties and contradictions are confirmed by various indicators that show negative trends in the state and dynamics of economic environments of both individual countries and the global economy as a whole. In particular, the current *Global Economic Policy Uncertainty Index (EPU)*³ indicates high risks for the global economy comparable to

the global shocks caused by the coronavirus pandemic (Figure «*Global Economic Policy Uncertainty Index*»). The rise in this index not only reflects fears among households and businesses about the immediate future, but also serves as a reminder that, as a result of weaker economic decisions by governments, consumers postpone spending and companies conserve investments and new projects, which puts depressive pressure on the economic environment and accelerates the decline in investment, production, and employment.

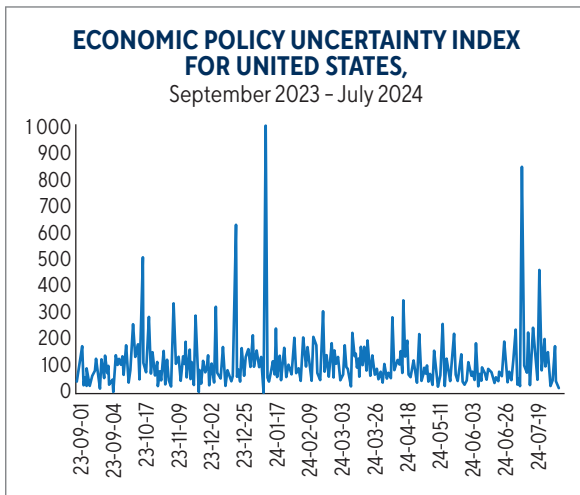
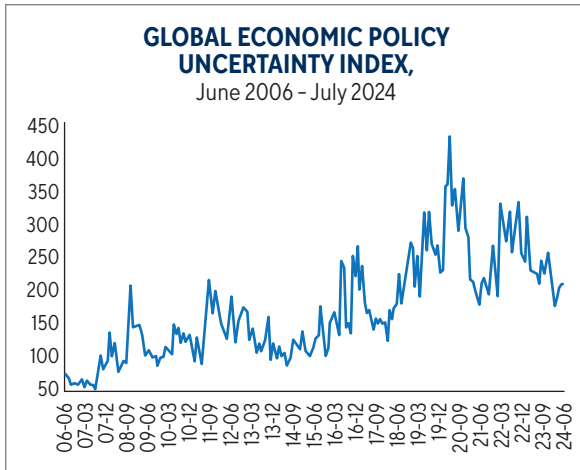
Let's have a look at the overall dynamics of the uncertainty index. The financial crisis of 2008-2009 (GFC) underscored the interconnectedness of global financial markets, emphasising the need for enhanced oversight of cross-border investments to prevent systemic risks. Similarly, the COVID-19 pandemic in 2020 exposed supply chain vulnerabilities, particularly in critical sectors like healthcare and pharmaceuticals, prompting calls for greater

¹ Geopolitical challenges and geo-economic shifts – Razumkov Centre, <https://razumkov.org.ua/statti/geopolitychni-vyklyky-ta-geoekonomichni-zsuvy>, https://razumkov.org.ua/images/2024/07/17/Geo_V_Eng.pdf.

² Michta A. The US Presidential Election 2024 – Two Outcomes, One Set of Challenges, <https://dgap.org/en/research/publications/us-presidential-election-2024-two-outcomes-one-set-challenges>.

³ McGeever J. US election, uncertainty and slowdown – a heady mix for markets. – Reuters, <https://www.reuters.com/markets/us/us-election-uncertainty-slowdown-heady-mix-markets-mcgeevers-2024-07-03/>.

domestic production capabilities and protection of strategic national assets.⁴ Additionally, russia’s invasion of Ukraine highlighted the criticality of protecting democratic and market values, as well as the ease with which food and energy can be used as weapons and have security implications. Of course, this was reflected in the shock spikes in the index.



The same applies to national economies, even the largest ones. In the winter of 2024, the surge in uncertainty index in the United

States to almost COVID-19 levels (Figure «*Economic Policy Uncertainty Index for United States*») reflected the formation of a perfect storm in American democracy, which has long been considered a model of power balance. And the opposite is true for Europe, as the European elections results had a soothing effect, confirming the continuity of the EU’s centrist policy.

Another feature of the index is the general assumption that the time around the US presidential election tends to put more pressure on its value, and this pressure will only increase as the November vote draws closer and may have a negative impact on voter sentiment.⁵ Meanwhile, the final decisions on the Democratic Party’s election policy are expected to ease the overall risks of uncertainty.⁶

More importantly, however, the outcome of the election will not alter the set of changes facing the United States and NATO, most fundamentally: how to restore the transatlantic alliance’s influence and firmness in defending (and not just being concerned about) democratic values against a growing alliance of autocratic, aggressive states, from Russia and Iran near Europe to China and North Korea in the Asia-Pacific? Therefore, international experts are increasingly convinced that, regardless of whether the Democratic or Republican candidate wins, the global security environment and the struggle for limited resources, including technological ones, will remain the main challenge facing the next US administration.⁷ And regardless of the president’s personality, the United States will need to prove its consistency in defending the values – possibly even by armed force – on which European and North American civilisations have been built over the past centuries (we reject any possibility of an authoritarian or autocratic state in the United States).

⁴ Marconi F. Foreign Direct Investment and National Security: Perspectives from the EU and the US. – IAI, <https://www.iai.it/sites/default/files/jaip2414.pdf>.

⁵ McGeever J. US election, uncertainty and slowdown - a heady mix for markets. – Reuters, <https://www.reuters.com/markets/us/us-election-uncertainty-slowdown-heady-mix-markets-mcgeever-2024-07-03/>.

⁶ Keller: Do vice presidential picks matter to voters? – CBS, <https://www.cbsnews.com/boston/news/keller-vice-president-running-mate-kamala-harris-tim-walz/>.

⁷ Michta A. The US Presidential Election 2024 – Two Outcomes, One Set of Challenges. – DGAP, <https://dgap.org/en/research/publications/us-presidential-election-2024-two-outcomes-one-set-challenges>.

HISTORICAL ELECTORAL ECONOMIC TRENDS IN THE UNITED STATES

It is not surprising that a comparison of key macroeconomic indicators in the pre-election period can provide clues or signals about how the economic environment will develop and how this development will affect said macroeconomic indicators. Let's look at the dependence of key indicators on the US president (Table «*US Presidents and economic growth*»).

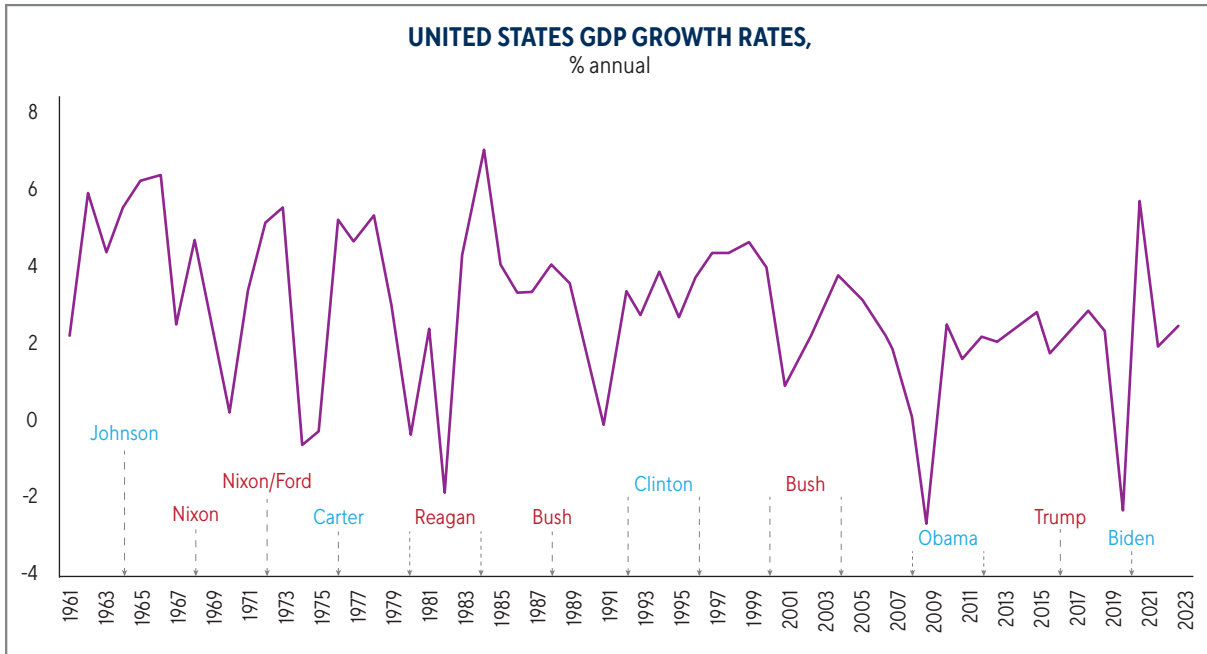
Growth. Looking at the economic dynamics since the early 1960s (after President Kennedy), there is no dependence of economic growth rates on the elected president or his party affiliation (Figure «*United States GDP growth rates*»). However, the growth rates in the second half of the 20th century were

somewhat higher than those observed since the beginning of the 21st century, which was to partially due to the global space liberalisation in the 1970-1990s and the collapse of the colonial and then socialist economic systems, which gave new countries an acceleration, largely supported by developed economies, including the US, as these countries were expected to adopt market and then democratic values.

Meanwhile, the GFC and the pandemic hit the US economy hard, causing the largest drop of more than 2%. Still, both the Democratic president in 2009 (Obama, his first year in office) and the Republican president in 2020 (Trump, his last year in office), despite taking extensive anti-crisis measures, including belated ones, were able only to mitigate the results of the economic collapse, as GDP fell by more than 2% in both cases.⁸

US PRESIDENTS AND ECONOMIC GROWTH				
Election year	Elected President	Party affiliation	Period in office	Average annual growth
1964	Lyndon Johnson	Democratic	(1963)-1968	5.0
1968	Richard Nixon	Republican	1969-1972	3.0
1972	Richard Nixon	Republican	1973-1974	–
–	Gerald Ford	Republican	1974-1976	2.6
1976	Jimmy Carter	Democratic	1977-1980	3.3
1980	Ronald Raegan	Republican	1981-1984	3.1
1984	Ronald Reagan	Republican	1985-1988	3.8
1988	George H. W. Bush	Republican	1989-1992	2.2
1992	Bill Clinton	Democratic	1993-1996	3.3
1996	Bill Clinton	Democratic	1997-2000	4.4
2000	George W. Bush	Republican	2001-2004	2.3
2004	George W. Bush	Republican	2005-2008	2.1
2008	Barack Obama	Democratic	2009-2012	1.0
2012	Barack Obama	Democratic	2013-2016	2.4
2016	Donald Trump	Republican	2017-2020	1.4
2020	Joe Biden	Democratic	2021-2024	2.6

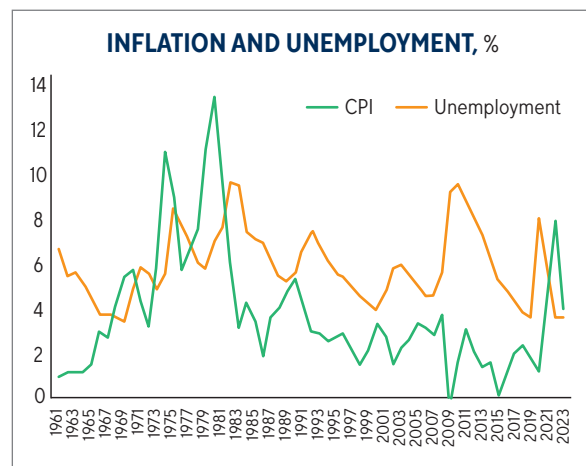
⁸ Hereinafter, unless indicated otherwise, the data used are from World Bank Indicators. – <https://data.worldbank.org/indicator/>; Trading Economics. <https://tradingeconomics.com/>; FRED Economic Data. – <https://fred.stlouisfed.org/fred-addin>.



This actually may serve as a warning signal that if the government institutions fail to consolidate in a timely manner, even the largest economy will be exposed to depressive effects by the spread of crisis shocks, not necessarily caused by political factors.⁹

Inflation and unemployment. Stabilising the overall employment situation is another important macroeconomic policy component, which contributes to both economic dynamics and economic agents' expectations of future prospects. That is why the Federal Reserve, the US central bank, is also authorised to keep the unemployment rate at a natural level. In other words, keeping inflation and unemployment within acceptable limits significantly reduces the risks of political (partisan) colouration, as the Federal Reserve is largely detached from political processes. Therefore, the dynamics of unemployment and consumer inflation demonstrate the classic inverse relationship (Figure «*Inflation and unemployment*»).

In times of crisis shocks, stabilising linkages can be easily disrupted, as was the case during the GFC or the COVID-19 pandemic. However,



both supply chains and inflation normalised fairly quickly. Yet each crisis also reveals peculiarities that are taken into account in the medium term. In particular, the pandemic has shown the fragility of jobs in all sectors, even in those where employees had never lost their jobs before, leading to a rapid increase in unemployment, while consumer demand and inflation fell dramatically. To neutralise this shock, financial supports were introduced, and these fiscal payments were often higher than salaries, discouraging workers from returning

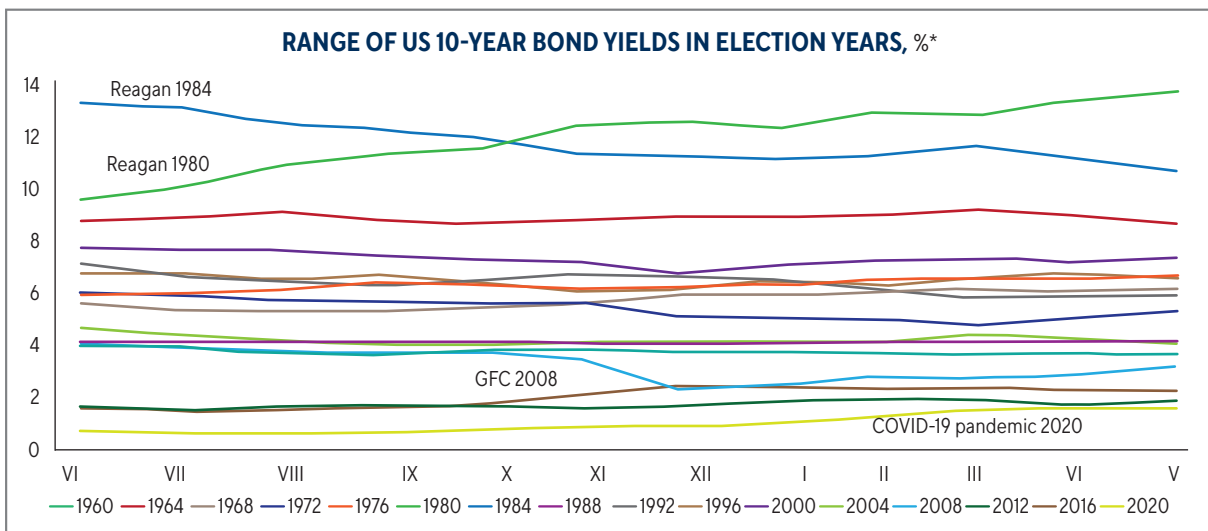
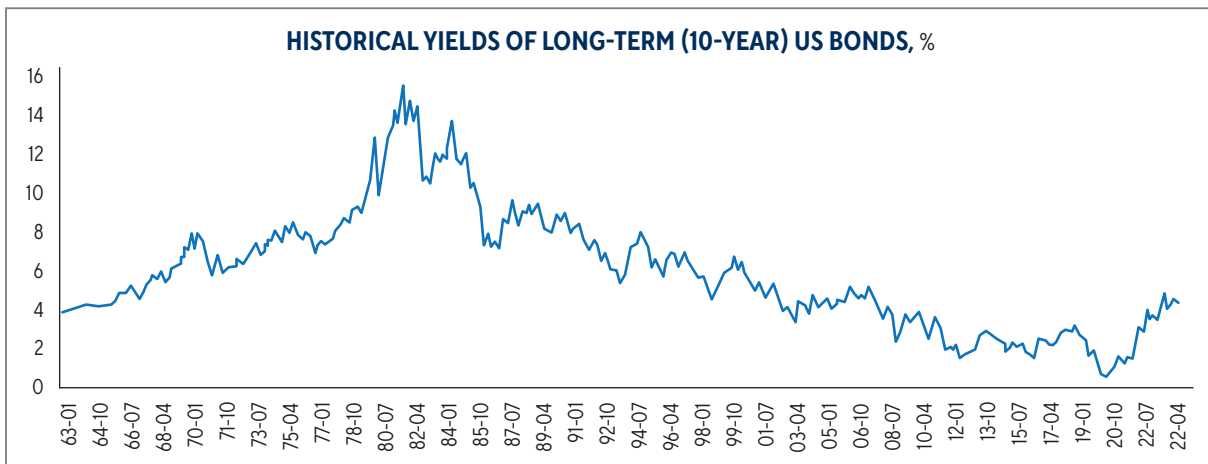
⁹ How could the US elections affect the world economy? – Lombard Odier Group, <https://www.lombardodier.com/contents/corporate-news/corporate/2024/march/how-could-the-us-elections-afec.html>.

to their previous jobs and encouraging them to look for new types of employment.¹⁰ Therefore, surprisingly, the pandemic has stimulated structural changes in labour markets.

Financial signals. Long-term bonds yield is one of the most important financial instruments. It is considered as a fairly reliable indicator of both US business activity and the financial prospects of the business environment. Analytical studies indicate that the annual yield of long-term (10-year) US bonds in election years is not significantly different from the yield in non-election years¹¹ (Figure «Historical yields of long-term (10-year) US bonds»). Moreover, in most cases, the benchmark (long-term) rates react weakly to

elections (Figure «Range of US 10-year bond yields in election years»). The only exception was observed in the 1980s, as discussed below.

At the same time, the «rule of thumb» is that in times of heightened political and economic tension, high interest rates raise suspense, in particular regarding possible financial crises, such as the prospects of federal budget deficits and debt or even recession.¹² In this context, the surge in yields in the late 1970s and early 1980s was a typical example, which indeed served as an alarming signal about the prospects for the US economy and became one of the determinants in the US economy’s transformation (box «High Interest Rate Signals»).



* The selected timeframe is June of the election year - May of the first year after the election.

¹¹ Galbraith J. The US Economy and the Election. – Intereconomics, <https://www.intereconomics.eu/contents/year/2024/number/2/article/the-us-economy-and-the-election.html>

¹¹ Garry P. The connection between US elections and market performance. – Intereconomics, <https://www.home.saxo/learn/guides/us-election/the-connection-between-us-elections-and-market-performance>.

¹² Galbraith J. The US Economy and the Election. – Intereconomics, <https://www.intereconomics.eu/contents/year/2024/number/2/article/the-us-economy-and-the-election.html>.

HIGH INTEREST RATE SIGNALS

Interest rate policy has a direct impact on economic dynamics and the value of the national currency. Let's recall one of the most important episodes of US economic development in the second half of the 1970s and 1980s.

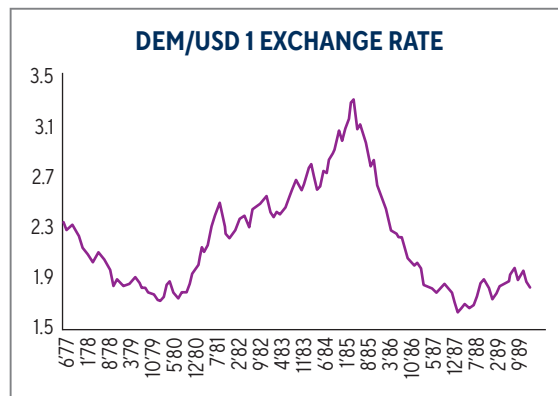
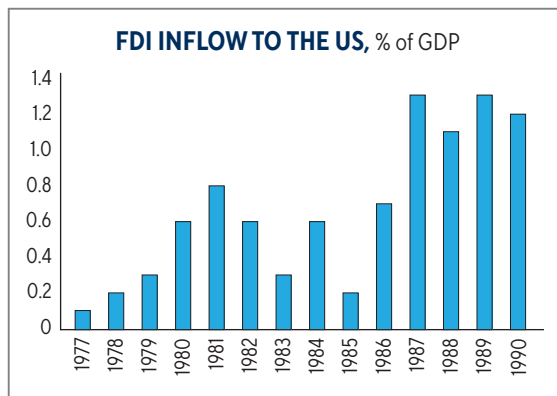
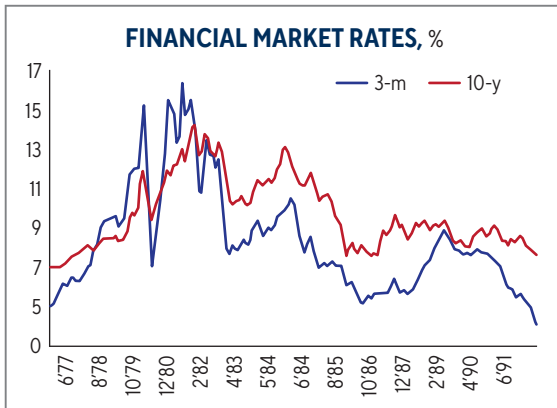
At that time, Europe was experiencing steady growth, including due to the expansion of integration processes, which supported the interest rates reduction and their mutual convergence, with Germany's rates serving as a benchmark. On the other hand, US rates were mostly kept higher in order to reduce inflation (which was a priority for the Federal Reserve) and to actively support capital inflows. It is worth noting that during the Reagan years, medium-term rates in the US were even higher than long-term rates (Figure «Financial Market Rates»), reflecting monetary policy aimed at achieving positive economic developments as soon as possible (taming inflation in the first place).

Note that high rates cannot be sustained for extended periods of time without putting negative pressure on the real sector such as crowding out investment. In addition, higher short-term rates today compared to long-term rates mean that a more significant decline in short-term rates is expected in the near future.

The drop in rates in the late 1970s only reflected the uncertainty of US business sector, resulting in a decrease in GDP during the 1980 election year (the last year in office of the Democratic president, Carter, elected in 1976). Meanwhile, the victory of the Republican candidate, Reagan, briefly calmed the markets, although they returned to previous high levels, responding to the risks of the newly announced economic policy.

In the meantime, the government's anti-inflationary priorities were yielding results: in the first years of Reaganomics (1981-1983), the unemployment rate reached 8-10%, but inflation fell to 3-4%. This victory over inflation was a significant factor in Reagan's re-election in 1984.

Two other important consequences of the Reaganomics' high interest rates deserve mentioning. First, a significant increase in capital inflows, including direct investment (Figure «FDI inflow to the US»), improved the country's economic environment and made it more attractive to foreign businesses and capital, including in the securities markets. Second, high interest rates, by ensuring a high long-term return on capital and thus contributing to its direct inflow, served as a solid basis for rapid strengthening of the dollar (Figure «DEM/USD 1 exchange rate»).

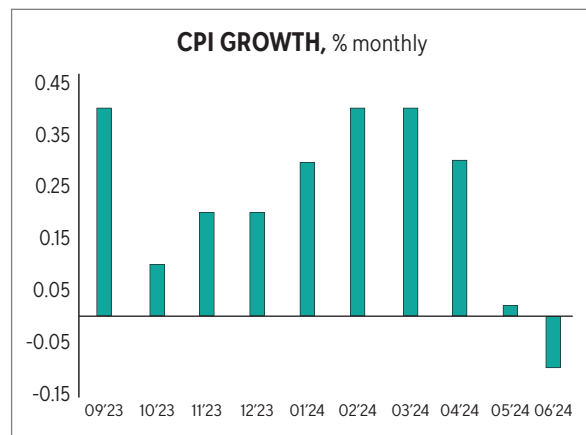
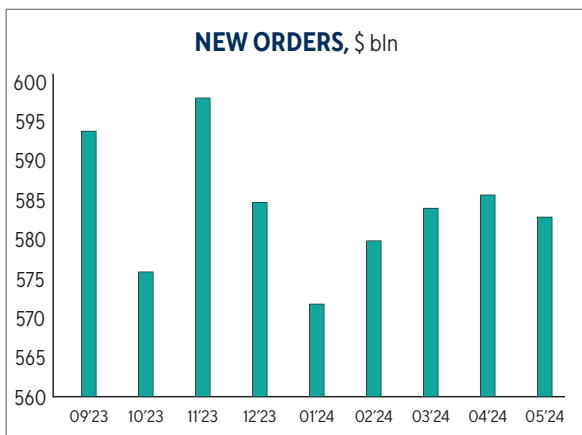
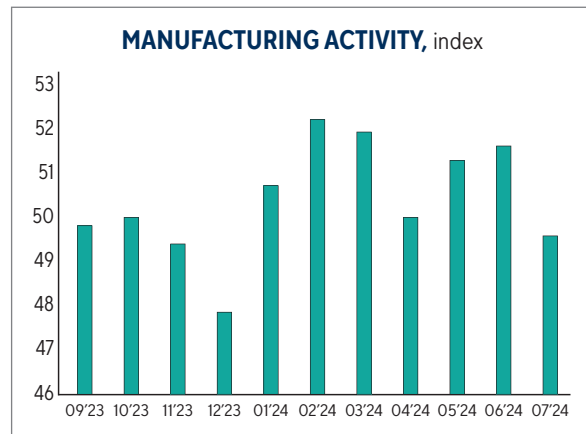
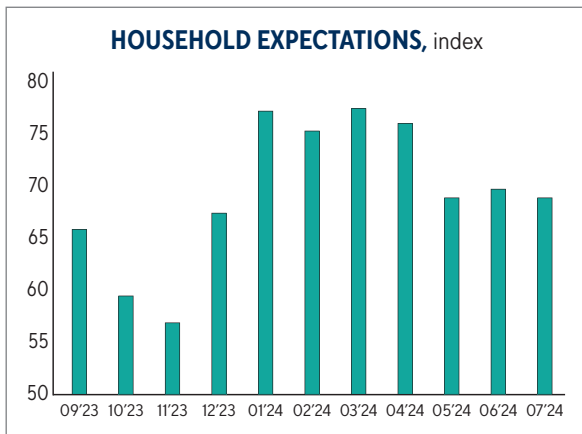


This is fully applicable to the equity market, which, along with the bond market, is one of the best barometers of economic sentiment and the outlook for the economy. Therefore, a rallying stock market in the election day indicates an improving outlook of big business and major markets, and thus may add to voters' positive attitudes towards the party controlling the White House.¹³ However, as in the case of government debt instruments, there is no significant correlation between equity market performance and election winners, at least in the short term).

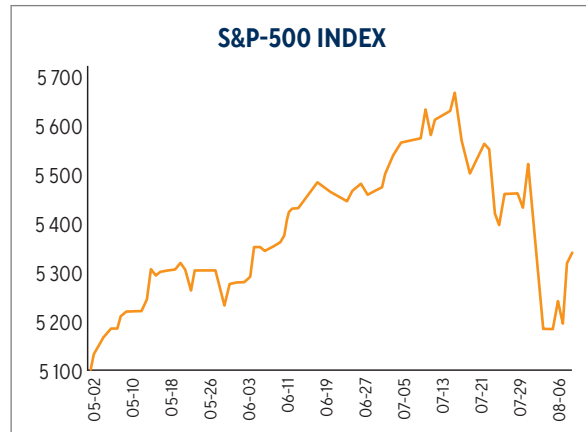
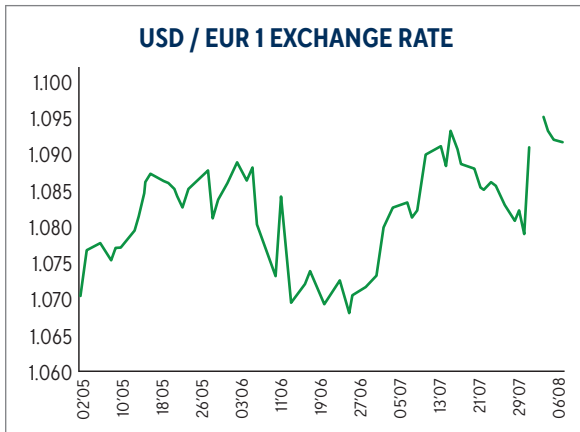
Current signals. What macroeconomic signals are being conveyed today, at the times of party congresses, approvals of official candidates for leadership positions in future administrations, and broad debates about the outcomes and outlooks of the country's development? Economic indicators obviously

do not reflect the full range of voters' preferences and expectations, but rather signal about the current state of households and businesses, which may affect the election results. Meanwhile, they add information about America's prospects, at least near-term.

First of all, since the spring 2024, most key indicators have been showing a quite soothing trend (Figures «Household expectations», «Manufacturing activity», «New orders», and «CPI growth»). Although the indicators of economic activity and expectations have somewhat deteriorated over the summer months, they still show positive dynamics in the aggregate — in June, there was even a decline in consumer prices. It appears that the country's economy is not as sensitive to the vicissitudes of political confrontation as is often presented in the media.



¹³ Garry P. The connection between US elections and market performance. – Saxo, <https://www.home.saxo/learn/guides/us-election/the-connection-between-us-elections-and-market-performance>.



The lag between data display and real processes also needs to be taken into account, so the situation may change as the election draws closer. For example, in July, the dollar was consistently strengthening while the stock market was weakening (Figures «USD/EUR 1 exchange rate» and «S&P 500 index»). If sustained, this combination usually signals imbalances in the currency and financial markets.

Meanwhile, the short-term financial shock in early August was somewhat unexpected, reviving fears of a recession. But the markets almost recovered over the next few days, likely indicating a «correction» of the long-growing markets, whose performance was improving along with the strengthening of the macroeconomic environment, rather than a manifestation of real crisis.¹⁴ Therefore, similar short-term (positive or negative) spikes are quite probable before the elections, reflecting the complexities and contradictions of the US socio-political environment on the eve of the presidential elections.

Europe's concerns

The upcoming transformations in the United States starting in 2025, when the new president takes office, are likely to have a major impact on Europe. This will elevate the risk of uncertainty and intra-European contradictions, which were already significant during the European elections. Despite the outcome of

the US elections, the European Union will still need to address the challenges of the present time in order to remain among key global actors.

It is already recognised that the war waged by Russia against Ukraine threatens peace in Europe as a whole. Consequently, the formation of a continental and global security system that gradually minimises dependence on the US umbrella will be the main challenge and impact of the US presidential race. Of course, this should be done promptly, as relying on US continued support for Europe could provoke aggressive intentions of autocratic or anti-democratic forces.

Security alternatives for Europe. One of the fundamental requirements articulated a few years ago was that European NATO members should spend at least 2% of their GDP on security and defence needs. However, in 2023 – the second year of Putin's aggression and its possible spread to Europe – 20 out of 31 NATO members (excluding most northern European and CEE countries) failed to meet the 2% spending target.¹⁵ It is already clear that not all Allies will immediately accept such requirements, at least in the short term, which will certainly have a negative impact on the EU's defence capabilities.

Today, the EU is in the process of forming pan-European institutions and putting them into operation, but this is just beginning and will take time to develop. It will gradually

¹⁴ S. Fursa. Apocalypse cancelled – https://censor.net/ua/blogs/3503314/rano_chi_pzno_rinki_provalyatsya_kriza_stanetsya (in Ukrainian)

¹⁵ Mr Trump has even floated the idea of the US withdrawing from NATO; although this is unlikely because it would need congressional approval, the wording itself sounds very ultimatum-like – US election: its impact on Europe, <https://www.eiu.com/n/us-election-its-impact-on-europe/>.

reveal the outlines of the EU's renewal,¹⁶ which in recent years has suffered from worsening international relations, unstable transatlantic ties, and declining European competitiveness, which has raised questions about the EU's authority and its defining role in international diplomacy and the global economic security.

Given that the United States is the EU's largest trade and financial partner, and European security is reliant on American security guarantees,¹⁷ the future of US foreign economic and defence policy will be highly consequential for the reliability and strength of both economic and defence (security) spheres of modern Europe, while its own security is being formed.

At the same time, Europe's rapidly decreasing share in the global economy has reduced the willingness of dynamic emerging economies to continue to recognise the EU's political and diplomatic leadership,¹⁸ which could not but affect the systems of global trust and security. This is despite the fact that another global player, China, is increasingly aggressive in communicating and implementing its own vision of a new global economic and political order. As the US and China engage in a tough confrontation, the EU will face additional pressure from both sides regarding its role in supporting/opposing the US / China, which will only increase in the months immediately before and after the elections.

The traditional concept of national security is undergoing profound changes in response to new challenges. Once dominated by defence and military issues, national security has now evolved to include economic considerations that reflect the complexity of a globally interconnected world. In the US, both Trump and Biden have asserted that

«economic security is national security». In Europe, this approach is still lagging behind the US, as the EU is just beginning to take measures, initiated by European Commission President Ursula von der Leyen, aimed at integrating economic security into the EU's overall security policy. The European Economic Security Strategy of June 2023 and the Communication «Advancing European Economic Security» of January 2024 further confirmed this new approach.¹⁹

This only reinforces the point that Europe must be ready to take responsibility for its own security regardless of the US election results and stop perceiving the current security umbrella as «natural», while showing a real willingness to build its own European system, starting with increased defence spending.²⁰

This applies not only to external threats, such as those stirred up by Russia, but also to internal destructive intentions from individual countries, political parties or their leaders who openly disregard the fundamental principles of freedom and democracy. The concepts of national security and economic security are now almost interchangeable, so focusing on certain economic signals (economic indicators and their dynamics) can provide insights into a country's short- and long-term economic prospects, and, therefore, its national security. Of course, there are no clear correlations here, but only about possible evidence of socio-economic and socio-political shifts.

While the US election campaign is still far from its apogee, its current developments are already impacting the political, institutional, economic, and security environment of the European Union.²¹

Trade and investment. Trade itself and the associated risks of losing key partners is

¹⁶ Geopolitical challenges and geo-economic shifts – Razumkov Centre, https://razumkov.org.ua/images/2024/07/17/Geo_V_Eng.pdf.

¹⁷ US election: its impact on Europe. – The Economist Intelligence Unit, <https://www.eiu.com/n/us-election-its-impact-on-europe/>.

¹⁸ Balázs P., et al. The changing world order and its implications for the «wider Europe». – Central European University, <https://cens.ceu.edu/projects/changing-world-order-and-its-implications-wider-europe>.

¹⁹ Marconi F. Foreign Direct Investment and National Security: Perspectives from the EU and the US. – IAI, <https://www.iai.it/sites/default/files/iaip2414.pdf>.

²⁰ Dempsey J. Is Europe Ready for a New Transatlantic Era? – Carnegie Europe, <https://carnegieendowment.org/europe/strategic-europe/2024/07/is-europe-ready-for-a-new-transatlantic-era?lang=en>.

²¹ The outcomes of the US elections will have a direct impact on the development of democratic processes in Central and Eastern Europe. Given that some post-socialist countries are beginning to take destructive positions and show open dissatisfaction with European integration policy, receiving a populist signal from America could trigger fragmentation processes in Europe itself – Hegedus J. Why the U.S. Presidential Election Matters for Central and Eastern Europe, <https://www.gmfus.org/news/why-us-presidential-election-matters-central-and-eastern-europe>.

another important component of national security (and economic capacity). Although it is believed that Democrats in the US are more supportive of transatlantic cooperation than Republicans, today one should rather focus on potential shocks to US-EU trade.²²

In the context of fragmentation and protection of national markets from unfair intrusion, the highly interconnected nature of the US and European economies poses a potential risk for the EU rather than a benefit. The United States is the EU's largest trading partner, with the EU exporting €502 billion worth of goods (almost 20% of total EU exports), while importing €344 billion from the US. This resulted in a trade surplus for the EU of almost €160 billion – one of the highest figures for all years of mutual trade.

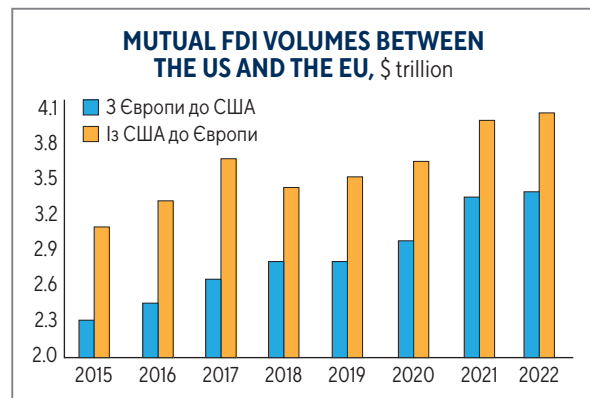
Moreover, on a country-by-country basis, the US has a trade deficit with 20 of the 27 EU member states. It is clear that any newly elected US president will have to make extraordinary efforts to at least reduce this deficit. However, according to some estimates, the surge in trade policy uncertainty, which reduced industrial production in the eurozone by 2% in 2018-2019, could now lead to a 1% decline in eurozone GDP.²³

Such risks are quite realistic. For example, the Republican candidate called the imposition of a 10% tariff for all US trading partners as one of his priorities, which would be a significant blow for the EU. While such measures would require congressional approval, this may not be a problem if the November congressional by-elections result in a Congress that is one-party with the president. Most likely, the EU will apply almost mirror tariffs – potentially a harbinger of a trade war between the two transatlantic allies. And for consumers, such mutually restrictive economic policies will mean nothing but higher inflation and rising unemployment.

As a general remark, since early 2022, with the start of the war in Ukraine, the risks of

increased economic (and political) fragmentation in the world have increased dramatically. The clear division of democratic and autocratic states that actually form two civilisational poles, as well as the blurring of positions of most Global South countries, revealed the weakness and instability of global interconnections, which at that time were playing a crucial role in global economic development – trade, cross-border investment and value-chain exposure.²⁴

Just like trade, investment will also be subjected to risks. In 2023, total European direct investment in the US amounted to \$3.46 trillion, accounting for almost two-thirds of investment inflows to the country. Although different businesses make investment decisions, it turns out that investment flows between the US and EU are mutually «coordinated» (Figure «Mutual FDI volumes between the US and the EU»). For example, the decline in investment exports from the US as a result of the America First measures in 2017-2019 meant a simultaneous decline in European investment exports to the US.



Therefore, the election of a candidate who supports foreign economic restrictions could have far-reaching economic consequences for Europe, increasing trade and investment uncertainty and the financial burden, including for security and defence needs.²⁵

²² US election: its impact on Europe. – The Economist Intelligence Unit, <https://www.eiu.com/n/us-election-its-impact-on-europe/>.
²³ Cingari P. Why Trump's re-election could hit Europe's economy by at least €150 billion. – Euronews, <https://www.euronews.com/business/2024/07/15/why-trumps-re-election-could-hit-europes-economy-by-at-least-150-billion>.
²⁴ Alcidi C., et al. Analysis of developments in EU capital flows in the global context. – European Commission, https://cdn.ceps.eu/wp-content/uploads/2024/04/CEPS-K_flows-2023_Final.pdf.
²⁵ Cingari P. Why Trump's re-election could hit Europe's economy by at least €150 billion. – Euronews, <https://www.euronews.com/business/2024/07/15/why-trumps-re-election-could-hit-europes-economy-by-at-least-150-billion>.

A VIEW FROM CHINA

While US relations with the EU are controversial but based on shared values, the US political elite overwhelmingly views China as its main adversary. Since this approach is bipartisan, the words and actions of the new president will reflect this consensus regardless of his or her personality. The Chinese political elite understands this and expects no significant changes in US policy after the election of a new president.

In turn, China also views relations with the largest economies – the US and the EU – from the standpoint of its own interests, primarily for promoting economic growth and development. And in this regard, the Chinese leadership faces a difficult choice. On the one hand, the expansion of foreign trade, investment, and access to technologies owned by leading developed economies is the main prerequisite for the growth of Chinese economy. On the other hand, even more important for China are the political and ideological postulates on which its society is built, and which the country's leadership will never abandon even for the sake of economic benefits.²⁶

Consequently, it is safe to say that China is not particularly concerned about who will lead America. Although there are areas of potentially common interests and tasks, in the vast majority of cases China will need to engage in political, ideological, and diplomatic confrontation with the United States (and to a lesser extent with Europe), which is confirmed by the events and processes of the previous decade. Moreover, China already has a positive experience in this (Box «*Who Wins/Loses from US Restrictions*»).

China is well aware of the significance of ideological and political statements and declarations by the US leadership. For example, the Trump Administration has called China a «strategic competitor» and the Chinese ruling party a threat to the American way of life and

WHO WINS/LOSES FROM US RESTRICTIONS

Just as leading economies are looking for and forming new supply chains, China is redirecting its investment flows to new regions of the world. And there are reasons to believe that China is already reaping significant benefits, including through a rational response to the imposed restrictions.

For example, The Obama and early Trump-era anti-dumping duties on South Korean washing machines led to a relocation of their production to China – and then when China was targeted, to Vietnam and Thailand. Trump's later global tariff increases on washing machines did lead to onshoring, but that meant substantial price increases for American consumers.

Today, something similar is happening. For example, investments by Chinese automakers and battery manufacturers in Mexico are shifting the «irritation» of supply logistics from China to the USMCA free trade zone partner in shaping supply logistics.²⁷

the «free world». The Biden Administration continued this rhetoric, identifying China in February 2021 as the «most serious competitor» that challenges the «prosperity, security, and democratic values» of the United States.²⁸

The main concern of newly elected President Trump in 2016 was the large US deficit (more than \$500 billion in trade in goods and services), primarily due to the deficit with China. Moreover, this deficit was seen as a negative factor for national security. Attempts to reduce it, including through agreements on restrictions, have failed, and in 2019, the deficit already reached \$580 billion. Attempts to reduce the trade deficit in later years were also unsuccessful, with the deficit exceeding \$970 billion in 2022.

Interestingly, both Trump and Biden administrations have tried various instruments that are similar in nature. In particular, these included «punitive» tariffs on Chinese imports, tighter controls and restrictions on Chinese

²⁶ Wang J., et al. Does China Prefer Harris or Trump? – Foreign Affairs, <https://www.foreignaffairs.com/united-states/does-china-prefer-harris-or-trump>.

²⁷ America's leadership choice and its consequence for the global economic order. – EASTASIAFORUM, <https://eastasiaforum.org/2024/06/03/americas-leadership-choice-and-its-consequence-for-the-global-economic-order/>.

²⁸ Wang J., et al. Does China Prefer Harris or Trump? – Foreign Affairs, <https://www.foreignaffairs.com/united-states/does-china-prefer-harris-or-trump>.

investment, tighter export controls on high technology, and new tariffs on Chinese «green technology» products.

Much of both presidents' foreign policy attention was focused on the Indo-Pacific, which is increasingly taking centre stage globally. Thus, the Trump Administration provided Taiwan with special security guarantees and initiated the creation of the Quad grouping to balance China's activity, including military, in the region. The Biden Administration has increased the US military presence in the South China Sea and initiated the Build Back Better Framework²⁹ and the Partnership for Global Infrastructure and Investment³⁰ as a «response» to China's Belt and Road initiative. Moreover, it was important to impose sanctions on Chinese companies that trade with Russia.

Therefore, any new president is very likely to continue protectionist policies towards China in order to restore America's economic leadership. At the same time, there is growing evidence that China is ready to take on the challenges of the new administration, which means that global economic relations will become even more complex.

RISKS FOR UKRAINE

It is clear that the foreign and domestic economic and political dynamics of most transitional countries depend on geopolitical interests of the US, the EU, and increasingly China. Therefore, the US elections, no matter the outcome, will have serious consequences for virtually all countries, including Ukraine.

Ukrainians highly appreciate the assistance and support from the United States in recent years. However, today we cannot but acknowledge the growing risks that could undermine good deeds. Unfortunately, there are reason to believe that although the approach to helping and supporting Ukraine includes a wide range of actions, both major US parties almost «consensually» deny Ukraine's membership in NATO.³¹

Regarding war and peace, there is a high probability of pressure for negotiations and a diplomatic end to the war regardless of the winner of the US election. A negative scenario («peace for territories») would not only mean losses for Ukraine but also undermine confidence in the West that pledged to support Ukraine, damage Western security guarantees in general, and provoke further aggression by autocratic states.

Scenarios of Ukraine's development as a reflection of the change of political elites in the United States. The new president means a new team that is likely to follow the policies of previous presidencies but will have its own vision of action in the renewed world and will try to implement it.

Unfortunately, the position of the most important national institutions is also quite indifferent. For example, the NBU's latest Inflation Report³² for July 2024, which essentially presents the country's monetary policy, does not mention the challenges and risks to Ukraine's monetary policy posed by the outcome of the political confrontation in the United States. This means that once again, the results will take us by surprise.

Published in Ukrainian – August 12, 2024, – <https://razumkov.org.ua/statti/gotovnist-do-rezultativ-vyboriv>,

²⁹ The Build Back Better Framework. – The White House, <https://www.whitehouse.gov/build-back-better/>.

³⁰ FACT SHEET: Partnership for Global Infrastructure and Investment at the G7 Summit. – The White House, <https://www.whitehouse.gov/briefing-room/statements-releases/2024/06/13/fact-sheet-partnership-for-global-infrastructure-and-investment-at-the-g7-summit-2/>.

³¹ Whether they want to justify this by saying that «as long as there is a war», the consistency with which various representatives of American politics repeat this thesis indicates that Ukraine should not count on NATO membership (and thus full Alliance's protection from the aggressor) even when the war is over.

³² US election: its impact on Europe. – The Economist Intelligence Unit, <https://www.eiu.com/n/us-election-its-impact-on-europe/>.