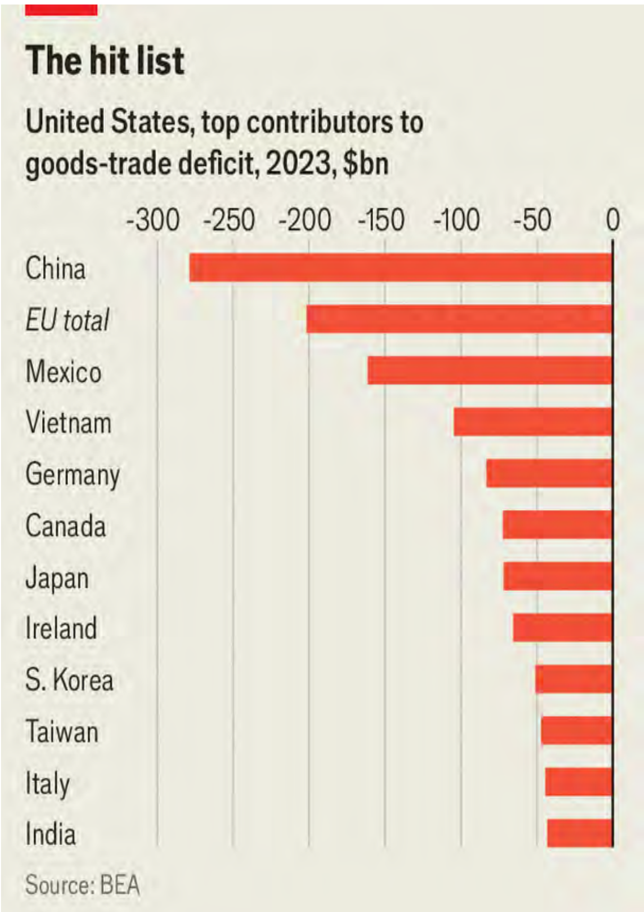
The biggest losers from Trumponomics

ACROSS CABINET tables, boardrooms and diplomatic missions this week, one topic of discussion has overshadowed all others. The sweeping victory of Donald Trump and the Republican Party in America's elections will give huge powers to an impulsive president with unorthodox economic beliefs and a belligerent approach to negotiation. Bigwigs in government and business all over are scrambling to analyse the consequences—for America and for the rest of the world.

America, the world's largest economy, issues the global reserve currency and hosts the planet's biggest banks and firms. Its scale, depth and interwovenness with the global economy mean that even small policy changes at home can resonate far beyond its shores. Mr Trump has promised to overhaul the main pillars of the American economy, from trade and regulation to immigration. His policies stand to reshape the flows of goods, capital and labour that irrigate the world economy. This will create some winners, and many losers, all over the globe.

Start with the flow of goods. Mr Trump is deeply suspicious of trade. "The most beautiful word in the dictionary is tariff," he told a business audience in October. He has advocated a universal protectionist wall, with tariffs of 10-20% on all imported goods, in addition to much higher tariffs aimed at an unfortunate few.

The proposals may not be implemented in full. "On day one they'll lay out something that will get everyone's attention but won't go straight for universal tariffs because that would lead to stockmarket destruction," says Sarah Bianchi, a former deputy United States trade representative. Mr Trump may, in part, use tariff threats to extract concessions from friends and enemies alike. Still, implementing just a fraction of what he has proposed would make for America's largest increase in tariffs since the 1930s.



Who might the administration choose to hit hardest? Mr Trump and his advisers are obsessed with bilateral balances. Any country that records a big trade surplus with America, they reckon, must be cheating Uncle Sam. The list of villains is long (see chart). The president-elect has hinted he would slap a 60% tariff on all Chinese goods, five times the current average level. Analysts reckon China's exports to America could more than halve as a result, knocking one percentage point off China's GDP amid already tepid growth. The impact would be limited by the fact that Mr Trump's original tariffs, kept by Joe Biden, have already caused China's exports to America to dwindle. Mr Trump has also threatened tariffs of 25% on most Mexican goods, with cars subject to much higher levies. That would badly hurt Mexico. The value of the country's goods exports to America is equivalent to 27% of its GDP, compared with less than 3% for China. Mexico has fewer alternatives, too. More than four-fifths of its exports go to its northern neighbour.

The EU also has reasons to fret. The bloc runs a goods-trade surplus of around $200bn with America. Goldman Sachs, a bank, forecasts that new tariffs could shave 0.5% off Europe's GDP, with Germany, the bloc's biggest economy, taking the worst hit. Many other countries could find themselves in the firing line. Vietnam's trade surplus with America hit $100bn last year. Those of Canada, India, Japan, South Korea, Switzerland, Taiwan and Thailand run into the tens of billions of dollars.

Should a tsunami of tariffs materialise, few countries would prosper. But some may gain relative advantages. Allies without glaring trade surpluses with America may be able to secure exemptions (such a deal is reportedly under consideration for Britain). Other countries may benefit by not being China. Some multinational firms will speed up relocation efforts. Steve Madden, an American fashion firm, announced it would move its Chinese production sites elsewhere. Black &Decker, a toolmaker, has said it will do the same if Mr Trump goes ahead with his tariffs. Firms leaving China may be tempted to shift to Mexico and South-East Asia—despite these countries being potential targets for higher levies.

The global reallocation of capital—the second big shift—is already in full swing, even though Mr Trump will not be inaugurated for another two months. Investors expect his proposed mix of tax cuts and deregulation to boost domestic corporate profits. The S&P 500, an index of large American firms, hit fresh records from November 6th to 11th—while stocks around the rest of the world dropped by around 2%. "We are at an extraordinary confluence of strong American economic performance, weakness in the rest of the world and the likelihood of a set of policies that will further turbocharge the US and its financial markets," says Eswar Prasad of Cornell University. "It is increasingly difficult for fund managers to make the case for diversification away from the US market."

Deregulation could also give American firms a cost advantage over foreign ones. Mr Trump has promised to slash environmental rules while pushing down energy costs at home—a worry for European firms, which already suffer from higher electricity prices. "If they abandon climate rules and we continue our course, we are going to be fully knocked out in manufacturing," says Luis Garicano, a former member of the European Parliament now at the London School of Economics.

Investors have also been lured to America's currency. The dollar has climbed by 3% against a basket of foreign currencies since November 5th. The Republicans' clean sweep, including majorities in both chambers of Congress, promises to take it higher still. Fiscal laxity was likely regardless of who won the election, but an absence of political gridlock will allow deficits to widen even more. Coupled with the inflationary pressures of higher tariffs and tighter labour markets as immigration ebbs, this could force the Federal Reserve to hold interest rates higher for longer, keeping the dollar strong.

Dollar dolour

This is bad news for poorer countries. A mightier dollar buoys the value of their imports, many of which (particularly commodities) are priced in the currency. Those that have borrowed in dollars will see the value of their debts soar. Research by the IMF published last year suggests that every 10% rise in the dollar's value reduces economic output in emerging markets by about 1.9% after six months, and that these effects linger for two and a half years. Higher interest rates in America also make the rest of the world less attractive. Capital flows out of emerging markets, forcing their central banks to raise rates to prop up currencies already weakened by deteriorating trade balances. That reduces lending and investment just when those economies need a boost.

Mr Trump's policies are also set to reshape migration flows—the third big upset. He has repeatedly promised to deport millions of illegal immigrants. Mexico, again, would suffer more than any other large economy. Reintegrating a huge mass of workers into its labour market could take years, causing unemployment to surge. Mass deportations would also choke off remittances from America to Mexico—the largest single route for such payments. Transfers ran to over $60bn last year, outstripping the amount of foreign direct investment Mexico received.

Deportations could also cripple economies across central America and the Caribbean. In 2021 El Salvador, Guatemala and Honduras received between $6bn and $14bn in remittances from America, accounting for between16% and 23% of their GDP—a number that has been rising steadily in recent years as cross-continental migration has grown.

The incoming administration's policy on high-skilled migration is less clear. In June Mr Trump suggested that students graduating from American universities should be eligible for green cards, which give the holder permanent residency. But during its last time in office, his administration restricted immigration even from high-skilled workers. Should that happen again, other parts of the world could benefit. Skilled migrants tend to be highly mobile. If America no longer welcomes them they may flock to other rich, English-speaking countries, such as Australia and Britain. Research by Saerom Lee and Britta Glennon of the University of Pennsylvania suggests that Canada's startup visa programme, launched in 2013, led to a 69% increase in the following eight years in the number of migrants based in America who moved to Canada to start firms.

Mr Trump's exact policies will not be known for months, but who stands to lose most from them is already clear. Faced with high barriers on at least two fronts—trade and migration—Mexico seems set for a great deal of economic pain. The new administration will throw yet more sand in the gears of China's export machine, compounding the country's domestic woes. And on top of tariffs, a growing transatlantic gap in the regulatory burden could sap the European economy.

The list of winners, on the other hand, is likely to be short. If they play their cards right, it could include close allies such as Britain and Australia. Countries that pump a lot of oil, which used to run big trade surpluses with America, will probably be sheltered from tariffs because, thanks to surging shale production, Uncle Sam has been a net exporter of the stuff since 2021. If they can stay out of Mr Trump's eyeline, smaller export-focused countries in Asia may benefit from the redeployment of manufacturing from China, as they already have in recent years.

There are two lingering sources of uncertainty. One is the inherent unpredictability of Mr Trump's policymaking. Competition for his ear will be central to this process, which is not reassuring. His courtiers range from Silicon Valley moguls wanting few restrictions on skilled migration to border hawks in the America First camp; from hedge-funders who see tariffs as bargaining chips to mercantilists keen on slashing imports at all costs. Mr Trump may wield his tariffs Godfather-style, granting exemptions to countries and companies according to how much they bend to his will. The White House will become a hub for lobbyists. Special favours may end up eroding competition and tainting America's reputation abroad.

The other source of uncertainty is how governments around the world respond to the administration's threats and punishments. In a zero-sum world for commerce, the temptation to impose retaliatory tariffs and other protectionist measures will grow. Many of America's trading partners will simply hope to avoid the worst of Mr Trump's ire. A bolder, if less probable response would be to band together. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership, a trade deal between nations in the Americas and Asia, continued after Mr Trump pulled out of it during his first term. More ambitious accords could keep the flame of international trade alive, waiting for America to return to the table.