Trump Risk Index

The global impact of a new US presidency

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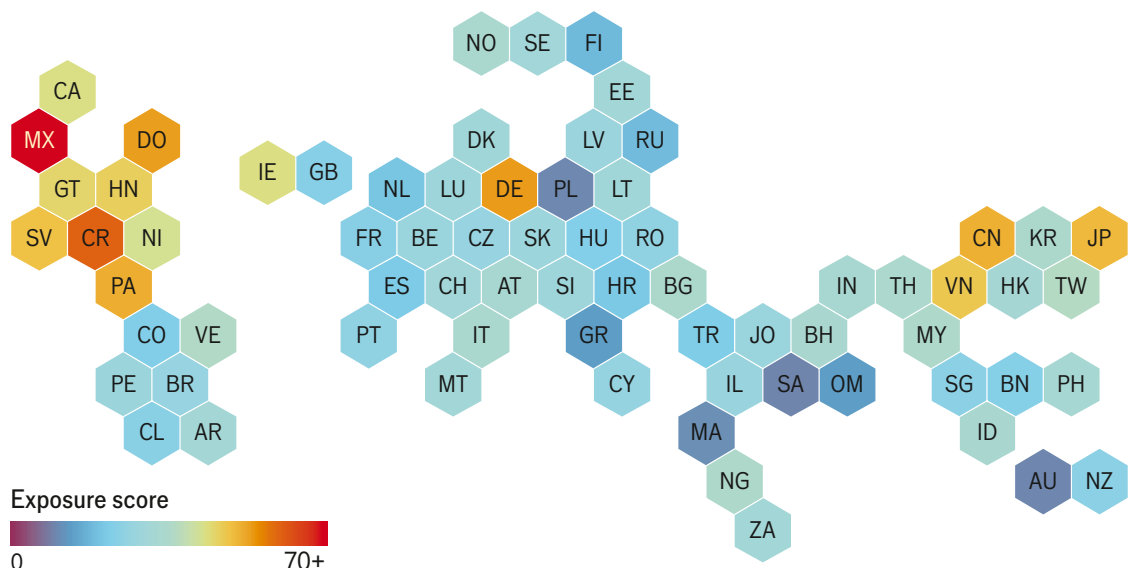# Trump Risk Index: the global impact of a new US presidency

The US presidential election in November will be a pivotal event for the global economy and geopolitics. We expect an extremely close contest between Democrat and Republican candidates. The presumptive Republican nominee, Donald Trump, would initiate sweeping policy changes in areas ranging from trade policy to national security if he returns to office. The global ramifications of these shifts mean that the implications of a Trump presidency are worth exploring fully.

We have developed an index to assess individual country exposure to a Trump presidency. The Trump Risk Index (TRI) uses quantitative indicators to measure the broad exposure of the US's 70 largest trading partners. Our overall risk score is based on an assessment of vulnerability across three areas—trade, immigration and security—where we would expect important policy changes under Mr Trump.

- **Higher tariffs and trade restrictions (40% index weight):** With some exemptions and carve-outs, we think that Mr Trump would follow through on his stated intention to impose a blanket tariff on US imports; he has proposed a 10% flat rate, although we believe that this would ultimately be watered down. Additional punitive measures on politically sensitive imports like steel would be likely.

Trump Risk Index (TRI): country exposure to policy changes expected under a Trump administration

TRI score: 0=least exposed, 100=most exposed

Exposure score

0   70+

Source: EIU.

- **Security burden-sharing (40% index weight):** US military aid would become more conditional, and Mr Trump would seek to rebalance key defence relationships. A Trump administration would intensify pressure on defence allies to make larger financial and materiel contributions.

- **Tighter border and security controls (20% index weight):** We expect that a Trump administration would increase funding for border-wall protection and other deterrence strategies. There would be an increased focus on migrant expulsions and some form of additional restrictions on legal pathways for international labour migration and study.

We assign higher weightings in the TRI to the trade and security pillars and a lower weighting to immigration to reflect the relative importance of these indicators in determining the broad, economy-wide impact of these changes on a country. Most of the indicators are assessed in relative terms, such as being benchmarked against a country's GDP or population, but some are treated in absolute terms. We apply a z-score system to score the indicators on an indexed range of zero (least exposure) to 100 (most exposure) and use that as the basis for ranking the geographies.

US allies and partners have most reason to be worried

The TRI shows that US allies and partners have among the highest overall exposure to policy changes under Mr Trump, as they have the deepest trade, security and cultural links with the US. This higher level of dependency also exposes them to major changes in the direction of US policy. Mexico ranks as the most exposed country overall, with an index score of 71.4, driven by its high trade and immigration exposure. Several other Latin American countries lie in the top ten most exposed owing to their economic and cultural links with the US. The NATO (or equivalent) allies of Germany and Japan are also included among the more exposed (ranked third and seventh respectively). Besides running large bilateral trade surpluses with the US—a major concern for Mr Trump—each is also reliant on US security provision and spends a relatively low share of GDP on defence.

Close US partners are among the most exposed to a Trump presidency
10 most exposed countries in the Trump Risk Index (TRI)
TRI scores: 0=least exposure; 100=most exposure

	Trade	Security	Immigration	Overall exposure score
Mexico	100.0	56.3	44.4	71.4
Costa Rica	33.8	100.0	27.8	59.1
Germany	55.5	72.8	7.7	52.9
Dominican Republic	29.0	56.7	91.4	52.6
Panama	13.1	100.0	27.7	50.8
China	76.7	46.8	4.7	50.4
Japan	53.8	65.3	8.0	49.2
El Salvador	18.2	52.0	100.0	48.1
Vietnam	64.4	39.8	27.0	47.1
Honduras	26.7	51.7	72.4	45.8

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Countries with low exposure to changes expected under Mr Trump are generally those with more distant or less reliant ties with the US. Australia is an exception and ranks as the second-least exposed country in our index, as it combines distant trade relations with the US with a balanced security relationship. Saudi Arabia (70th) is the least exposed, with a TRI score of 9.4; its trade links with the US have diminished in importance, as the US has emerged as an energy exporter in its own

right, and it spends heavily on defence (including on US arms). Links between the US and Saudi Arabia were warmer under the first Trump administration than they have been under Mr Biden. With its ties with the US disentangled in the wake of its invasion of Ukraine, Russia (63rd) is also prominent among countries with a low exposure.

More distant US partners have less exposure to a Trump presidency

10 least exposed geographies in the TRI

TRI scores: 0=least exposure; 100=most exposure

	Trade	Security	Immigration	Overall exposure score
Saudi Arabia	15.0	0.0	17.3	9.4
Australia	0.0	20.3	7.9	9.7
Poland	1.3	22.8	1.9	10.0
Morocco	4.7	19.9	5.0	10.8
Greece	13.4	15.0	8.7	13.1
Oman	22.8	6.3	7.4	13.1
Finland	17.5	23.7	6.1	17.7
Russia	19.9	24.1	2.1	18.1
Netherlands	5.4	40.1	8.7	19.9
Croatia	4.1	44.5	5.4	20.5

Source: EIU.

Trade: tariffs and protectionism

Protectionism under a Trump presidency would create uncertainty in the global trade landscape. The US goods trade deficit is a primary economic concern for Mr Trump, and he has indicated plans to address it if he wins the presidency, including through the use of the sort of punitive tariffs that were used regularly during his previous term in office. A geography's bilateral trade balance with the US has therefore been weighted heavily in the TRI trade sub-index to assess exposure, alongside indicators such as the direction of the trade balance and shipments to the US of politically sensitive items such as steel, aluminium and automotives, which are more likely to be subjected to tariff imposition. Free-trade agreement (FTA) status with the US is included as a countervailing

Major US trading partners most exposed to trade policy change under Mr Trump

Trade sub-index scores (10 most exposed geographies)
0=least exposure; 100=most exposure

	Country	Bilateral trade balance	Trend in bilateral trade	Current-account balance	Sensitive exports to the US	Reliance on US in goods trade	Free-trade agreement with US	Overall trade pillar score
1	Mexico	99.0	53.9	26.0	70.7	100.0	0	100.0
2	China	100.0	49.7	37.1	14.7	16.5	100	76.7
3	Canada	52.6	54.7	28.4	100.0	100.0	0	70.4
4	Vietnam	78.7	52.2	30.5	8.4	31.4	100	64.4
5	Germany	65.6	52.3	48.4	38.9	10.6	100	55.5
6	Japan	58.3	52.1	40.0	46.1	24.0	100	53.8
7	Taiwan	49.8	52.4	30.7	7.9	25.9	100	41.3
8	India	49.3	51.9	24.1	9.3	18.1	100	37.2
9	Ireland	28.6	51.3	62.9	0.0	47.7	100	37.2
10	South Korea	44.6	55.6	36.1	62.7	22.9	0	36.5

Note. For bilateral trade balance, trend in bilateral trade and current-account balance, wider or widening surplus=more exposure. Sensitive exports to the US include steel, aluminium and cars; more sensitive exports=more exposure. For reliance on US in goods trade, higher reliance=more exposure. For FTAs, no FTA=more exposure.

indicator: we still think that an FTA would offer some protection by making it more difficult to impose higher tariffs, although this may not always be a deterrent, as evidenced by Mr Trump's pressure on South Korea to renegotiate its trade agreement with the US in 2018.

Some of the biggest economic partners of the US rank highest for trade exposure. Mexico and Canada, neighbours of the US that together form the United States-Mexico-Canada trade agreement, are among the most exposed economies. Both have large trade surpluses with the US and export high volumes of sensitive goods. China's prominence is not surprising, given that it still has comfortably the largest bilateral trade surplus with the US of any economy; Mr Trump has threatened to remove its most-favoured-nation trading status (or, more specifically in the US context, revoking "permanent normal trade relations" with China) if elected. The high exposure of India and Vietnam reflects the larger role that they are now playing in US-focused supply chains. Germany and Ireland are assessed to be the most exposed geographies in Europe, partly driven by their sizeable current-account surpluses.

Australia and New Zealand have among the lowest direct trade exposure. Although both are security allies of the US, they are much more dependent on China and wider Asia in terms of trade

US trade deficit with nearshoring/friendshoring partners widens, while that with China reduces
US bilateral goods and services trade deficit by market (US$ bn)
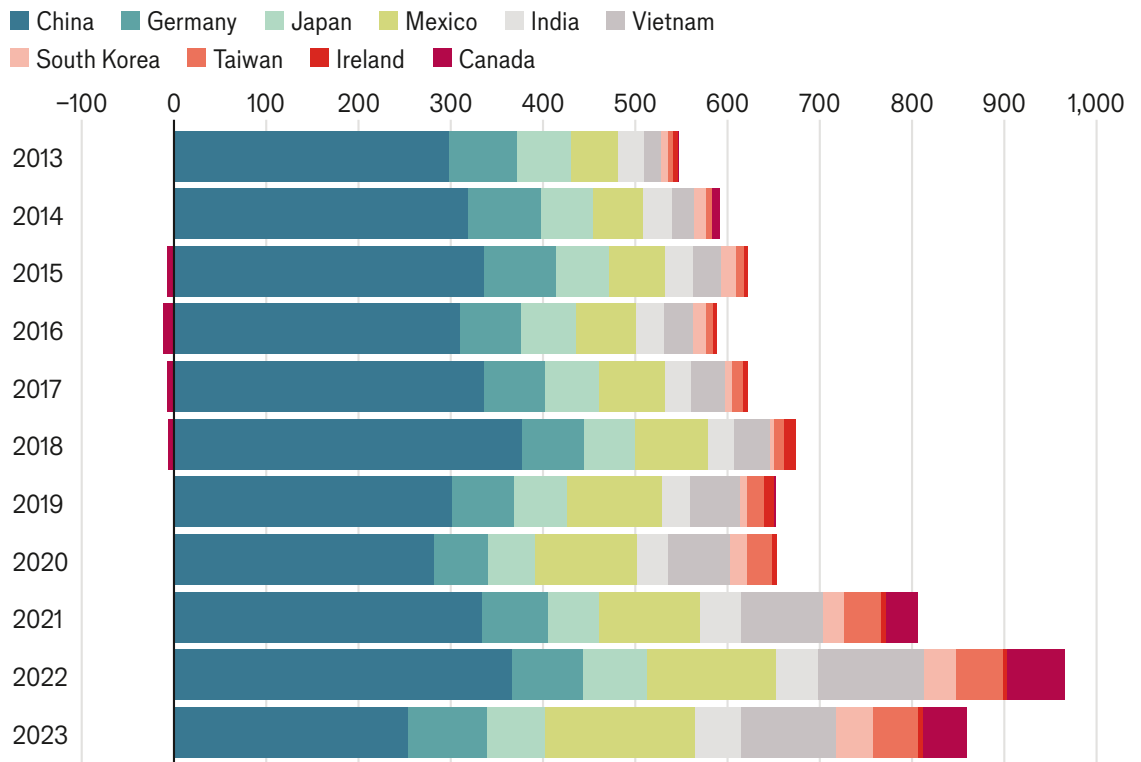
Source: US Department of Commerce; EIU.   Copyright © The Economist Intelligence Unit 2024. All rights reserved.

relations. Among European countries, Croatia, the Netherlands, Poland and Spain face less exposure, given that they are net importers of US goods and services, and that the US accounts for a small share of their overall merchandise trade. Jordan and Morocco are seen to have limited vulnerability, helped by their bilateral FTAs with the US.

Security: adjusting to a more isolationist US

The US approach to global security will shift under a Trump administration. We assess country exposure to a more isolationist, "America first" foreign policy in the security sub-index of the TRI. This category includes indicators such as reliance on US military aid and the local presence of US troops. Mr Trump is known for his belief that US defence alliances need to be rebalanced with counterparties contributing more. As a result, a country's spending on defence (in terms of share of GDP) is weighted heavily in the sub-index. We also consider foreign military sales, taking the view that more spending on US arms will lead to greater insulation from potential security changes under Mr Trump.

Some US allies are vulnerable to a more isolationist US security policy under Mr Trump

Security sub-index scores (10 most exposed geographies)
0=least exposure; 100=most exposure

	Country	US military aid	US troop presence	Military spending	Spending on US arms	Defence alliance with US	Overall security sub-index score
1	Costa Rica	100.0	0.9	100.0	99.2	100.0	100.0
2	Panama	100.0	0.7	100.0	99.2	100.0	100.0
3	Germany	0.0	100.0	76.3	78.9	0.0	72.8
4	Bulgaria	75.5	0.4	73.7	98.5	0.0	66.5
5	Japan	0.0	100.0	81.7	10.0	0.0	65.3
6	Bahrain	3.3	100.0	41.5	91.1	50.0	60.7
7	Ireland	0.0	0.8	95.8	99.3	100.0	60.5
8	Malta	0.6	3.7	91.3	99.4	100.0	59.2
9	Guatemala	0.6	0.4	92.5	99.0	100.0	58.7
10	Estonia	67.3	1.5	64.3	98.2	0.0	58.5

Note: For US military aid, higher military aid=more exposure. For US troop presence, higher troop presence=more exposure. For military spending and spending on US arms, lower spending=more exposure. For defence alliance with US, no alliance=more exposure.

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Some close US allies are assessed to have the highest security exposure. NATO allies in eastern and central Europe, such as Bulgaria, Estonia and Latvia, rank highly. This will be a cause for concern given their potential vulnerability if relations between NATO and Russia deteriorate into outright conflict. Germany, which hosts large numbers of US troops and spends a low sum of GDP on defence, is ranked third; meanwhile, although Japan shares some similar characteristics, it is evaluated as slightly less exposed owing to its higher spending on US arms. Several Latin American countries including Costa Rica and Panama that are in receipt of US military aid but have no or limited defence spending of their own are also at the top of the ranking.

US allies with low defence spending will be among the most exposed to security policy changes under Mr Trump

Military expenditure as a share of GDP; %; av of 2022-23

NATO 2% military spending target
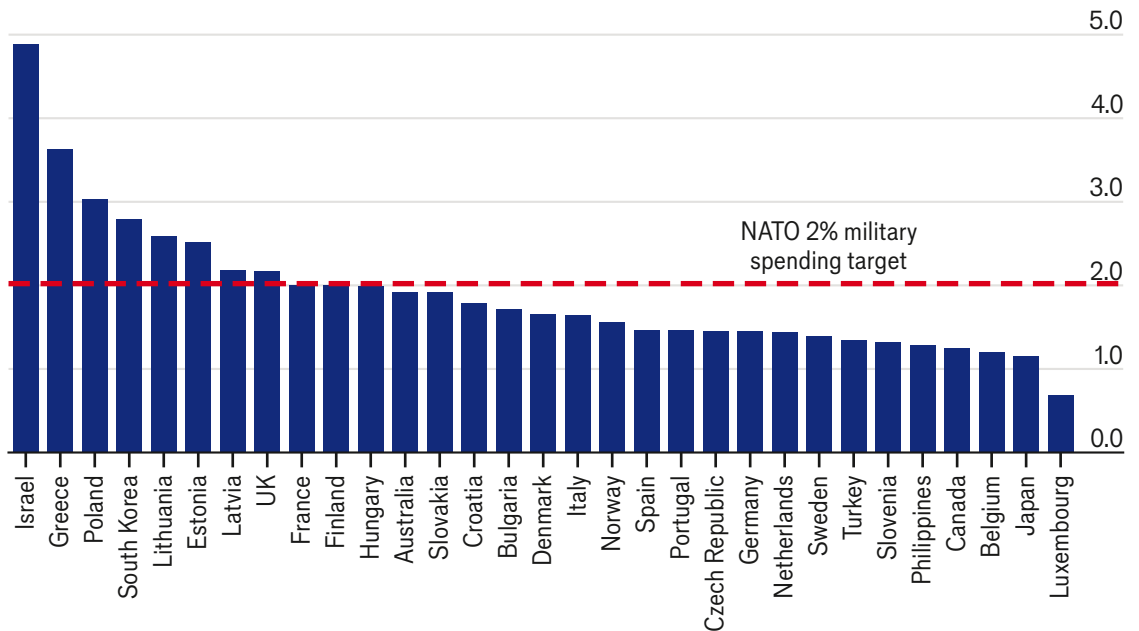
Note. Not all countries are NATO members.
Source: EIU.

There are some surprising inclusions among those less exposed to security policy changes. Among major NATO (or equivalent) allies, Australia, Finland, Greece and Poland are evaluated as the least exposed, bolstered by their own heavy defence spending and US arms purchases. Oman and Saudi Arabia are important Middle Eastern defence partners of the US, but have limited exposure to changes under a Trump administration owing to their own extensive military expenditure. Non-aligned countries such as India and Singapore also have fairly low exposure, despite close and co-operative military relationships with the US, because they are largely reliant on their own defence resources.

Immigration: remittance-reliant economies are most exposed

Tighter US immigration and border policies under a prospective Trump administration will have global spillovers. Immigrants to the US will often remit employment earnings to their home countries, while those studying in US institutions who later return home will typically do so with improved skills and prospects. We look to capture country dependence on these channels by including in the TRI immigration sub-index indicators such as economic reliance on remittances sent from the US and issuance of immigrant and student visas. Mr Trump took a tough stance on immigration during his first term—as suggested by the construction of a border wall and increased immigration enforcement—and the issue is playing a central role in his campaign this year.

Latin America is most exposed to tighter immigration policy under a Trump presidency

Immigration sub-index scores (10 most exposed geographies)
0=least exposure; 100=most exposure

	Country	Immigrant visas issued	Non-immigrant visas (ex student) visas issued	Student visas issued	Remittance inflows from US	Overall immigration sub-index score
1	El Salvador	100.0	63.7	15.5	100.0	100.0
2	Dominican Republic	100.0	74.5	39.6	59.8	91.4
3	Honduras	33.0	50.8	26.0	100.0	72.4
4	Guatemala	20.3	31.6	11.2	100.0	59.7
5	Mexico	31.1	100.0	17.4	28.4	44.4
6	Hong Kong	8.8	33.8	96.2	0.2	37.9
7	South Korea	5.3	6.3	100.0	1.5	34.3
8	Taiwan	4.2	6.3	99.5	0.6	33.4
9	Nicaragua	18.6	21.2	9.5	45.6	33.2
10	Singapore	1.7	11.1	99.7	0.0	32.7

Note. For immigrant visas, non-immigrant visas (ex-students) and student visas issued, more visas issued=more exposure. For remittance inflows from US, higher remittances=more exposure.

Source: EIU.

Smaller Latin American economies dominate the immigration sub-index in terms of high exposure. Remittances from the US, for example, are equivalent to at least 15% of GDP in El Salvador, Honduras and Guatemala, indicating significant economic exposure if immigration policies were to tighten. Similar to his first term, Mr Trump would probably increase restrictions on skilled worker H1-B and other immigrant visas, curtailing an important channel for legal immigration. Although India is the largest recipient of the H1-B visas, its relative exposure is moderate owing to its large population; instead, Latin American countries have higher exposure for this indicator. Hong Kong and Singapore feature within the top ten of exposed geographies owing to the large number of student visas issued to their citizens (relative to the local population); these flows contribute to their role as multilingual business hubs in Asia.

European countries are prominent among less exposed countries. They have generally low exposure in relation to immigration and border changes, according to the TRI, given relatively limited emigration for work and study to the US. Indonesia, with the world's largest Muslim population, ranks as the least exposed, with its emigration flows focused more on other destinations within Asia. Perceptions that the US has become less friendly to Muslims may have played a role in curbing work, travel and study flows. Mr Trump labelled travel restrictions targeting seven countries introduced during his first term in office a "Muslim ban".

The US is the largest source of remittances for economies in Latin America

	Country	Remittance from the US (as a % of GDP)	Remittance inflows from the US (US$ bn)
1	El Salvador	23%	6.7
2	Honduras	21%	5.9
3	Guatemala	16%	14.1
4	Dominican Republic	8%	8.0
5	Nicaragua	6%	0.9
6	Mexico	4%	52.6
7	Philippines	3%	12.8
8	Vietnam	2%	7.9
9	Jordan	1%	0.6
10	Nigeria	1%	5.7

Source: KNOMAD/World Bank Bilateral Remittance Matrix 2021 (December 2022); EIU.

Strategies to reduce Trump risk

Exposure is not the same as impact. Governments and businesses can consider strategies to minimise risk associated with policy changes that are likely under Mr Trump. A potential Trump administration is likely to perceive positively Germany and Japan's recent commitment to raise defence spending, for example. Pre-emptive steps could be taken to reduce trade risks. Ensuring appropriate controls to prevent the re-export to the US of Chinese goods to avoid tariffs would help to deflect one likely line of US criticism. State-directed purchases of US agriculture and energy commodities could assuage concerns over trade imbalances. Companies that export politically sensitive items such as steel to the US could consider market diversification to hedge higher tariff risks.

Fostering close leader-to-leader relations may also help. Mr Trump's first term showed that his decision-making could be swayed by interactions with other leaders; Japan's then prime minister, Abe Shinzo, was able to secure trade concessions for his country through the careful courting of Mr Trump. It is likely, too, that some leaders will see in Mr Trump an ideological ally with whom they can do business and perhaps secure benefits for their countries. Hungary's prime minister, Viktor Orban, or Argentina's president, Javier Milei, stand out as likely "Trumpists" in regions where most other political leaders are likely to prove ideologically distant. Mr Trump's return represents a risk for some countries, but not for all.

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