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How the U.S. Election Could Impact Emerging Markets And South Africa

As the 2024 U.S. presidential election approaches, Donald Trump's and Kamala Harris's opposing policies will impact the U.S. economy and global markets. Each candidate brings distinct views on trade, monetary policy, foreign relations, and climate initiatives, with implications extending beyond U.S. borders to emerging markets like South Africa, where trade relations and capital flows are significantly impacted.

Against a backdrop of global monetary easing, a weakening US dollar, and waning US growth relative to the rest of the world, we explore six core areas of how the two candidates' differing policy positions will impact emerging markets and South Africa.

Key Policies Impacting Emerging Markets:

1. Trade, Tariffs, and Multilateral Relations

Both Trump and Harris have starkly different approaches to trade. Trump has traditionally pursued a protectionist trade policy, focusing on protecting U.S. industries. Meanwhile, Harris is expected to prioritise multilateral trade relations, work within international organisations, and foster stability. Below is the possible impact of South Africa under the different regimes:

Trump has emphasised tariffs and trade barriers to shield U.S. industries from foreign competition. If re-elected, Trump confirmed that he would reinstate and increase tariffs on imports, reducing demand for exports from South Africa and other emerging markets. His push to reduce U.S. reliance on foreign manufacturing could further weaken demand for South African goods, impacting industries that rely on access to U.S. markets. Trump may also seek to renegotiate or withdraw from trade agreements, potentially weakening South Africa's trade relationship with the U.S. and making it more vulnerable to global commodity price volatility.

Harris would focus on strengthening ties with organisations like the World Trade Organization, International Monetary Fund, and African Union. This would create a more stable trade environment for emerging markets, including South Africa, where exporters may gain better access to the U.S.

market without the looming threat of tariffs. Harris might also expand programs like the African Growth and Opportunity Act (AGOA), which offers African countries duty-free access to U.S. markets. With South Africa as a significant AGOA beneficiary, extending this program would provide opportunities to increase exports and strengthen its trade balance, which could lead to a stronger Rand.

2. Monetary Policy, Interest Rates, and Capital Flows

Monetary policy shapes capital flows to emerging markets, specifically U.S. interest rates. Trump's gesture that he would welcome presidential influence on the Federal Reserve and Harris's approach to an independent Fed could impact South Africa's financial stability and capital inflows.

Trump has previously pressured the Federal Reserve to lower interest rates to stimulate the U.S. economy. This strategy could channel capital flows to higher-yielding emerging markets like South Africa. However, his other policies may result in a stronger U.S. dollar, which could pressure the South African Rand. A strengthened dollar typically makes it more costly for emerging markets to service dollar-denominated debt and increases inflationary pressures. If Trump's policies lead to dollar strength, it could drive up South Africa's import costs and lead to a more volatile currency.

Harris would not directly control Federal Reserve policy. Her administration is expected to support a stable and independent Fed, prioritising long-term financial stability over short-term economic stimulus. This could benefit emerging markets by maintaining steady interest rate policies, enabling economies like South Africa to plan for capital flows with less volatility. Harris's approach might also avoid aggressive fiscal policies that could overly strengthen the dollar, helping to stabilise the Rand and reducing inflationary pressures on imports and dollar-denominated debt.

3. Foreign Policy and Sanctions

Foreign policy plays a vital role in shaping emerging markets, with Trump and Harris likely to pursue very different international strategies. Trump's assertive foreign policies may raise global trade tensions, while Harris is expected to take a more diplomatic approach.

Trump is known for his hawkish stance on foreign relations. His policies could heighten tensions with major global players like China. Given South Africa's BRIC membership and trade relationships with China, such geopolitical pressures may create indirect challenges. If Trump intensifies sanctions on crucial South African partners, this could disrupt trade networks, especially if China or other BRICS nations face more U.S. restrictions.

Harris's foreign policy approach is expected to be diplomatic, avoiding outright trade wars and fostering cooperation. This would benefit South Africa by creating a more stable environment for

its exports to the U.S. and China. An increased U.S. focus on Africa could further enhance South Africa's strategic position, with Harris potentially advocating for increased development aid and stronger partnerships focused on infrastructure, technology, and human capital development.

4. Commodities and Resource Exports

South Africa's economy is deeply rooted in its natural resources, including gold, platinum, coal, iron ore, and chrome, making global commodity demand a critical factor. Both candidates' policies will affect commodities, though Harris's focus on green energy diverges significantly from Trump's more traditional energy stance.

Trump's emphasis on U.S. energy independence and support for fossil fuels could maintain lower global oil prices, indirectly benefiting South Africa by reducing import costs. However, Trump's trade tensions with China might also affect demand for key South African exports like iron ore and other minerals. As South Africa depends on commodity exports, especially to large markets like China, reduced demand could hit these sectors hard.

Harris's climate-focused policies may accelerate the transition to renewable energy, leaving South Africa vulnerable to reduced demand for metals such as platinum, traditionally used in 'dirty' industries, and technologies such as internal combustion engines in motor vehicles. Furthermore, South Africa's reliance on coal-powered electricity generation and poor environmental protection record could result in U.S. sanctions and restrictions. However, Harris's green initiatives might also reduce global fossil fuel dependency, which could help stabilise oil prices, benefitting South Africa by reducing the cost of imports and improving its trade balance.

5. Investment Flows and Investor Sentiment

Investor sentiment and capital flows are critical for emerging markets, which often depend on foreign direct investment to support economic growth. The stability of U.S. policy and market conditions can significantly influence investor sentiment toward emerging markets like South Africa.

Trump's policies could heighten global market volatility, making emerging markets appear riskier to investors. Increased market uncertainty often leads investors to retreat from high-risk investments, potentially curtailing capital inflows to South Africa and other emerging markets. Reduced foreign investment could impact South Africa's growth, particularly in sectors like infrastructure and manufacturing that rely on foreign investment.

Harris is known for her more predictable policy approach. Harris's focus on stability could make emerging markets like South Africa appear less risky to global investors. Her emphasis on green initiatives and international cooperation might attract foreign investments, bolstering South Africa's

manufacturing, mining, and renewable energy sectors. Harris's policies could stimulate sustainable growth in South Africa's critical industries by reducing volatility and improving global confidence in emerging markets.

Conclusion: Weighing the Candidates' Impact on Emerging Markets

A Trump victory could offer short-term gains for South Africa if low U.S. interest rates drive capital flows to higher-yielding markets. However, Trump's protectionist trade policies and the potential for a stronger dollar may pose challenges, adding to currency volatility and complicating trade relationships. South Africa's reliance on raw materials and its alignment with BRICS might also make it susceptible to the influences of Trump's foreign policy stances, which could strain global trade networks.

Conversely, Harris's multilateral approach may provide long-term benefits for South Africa. By fostering international cooperation and supporting sustainable growth, Harris could create a more stable environment that attracts investment and encourages development. South Africa's strategic position as a key player in Africa could make it a valuable partner for Harris's international policies, which focus on global economic integration and environmental sustainability.

Investors should monitor the candidates' evolving stances as the election unfolds, especially those that impact U.S. economic relations with emerging markets. South Africa's increasing role as an investment destination in Africa means that U.S. monetary policy will significantly influence its growth trajectory, making this election a key event for global markets and investment portfolios.

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