

MARKET SIGHT LINES



The Protectionist Vote: How Are Elections Shaping Global Trade?

By Michael O'Keeffe, *Chief Investment Officer*



Earlier this year, we shared an [update on our Geopolitical Risk Dashboard](#), which includes a focus on U.S.-China competition, Middle East conflict, and the rise of protectionism around the world. We then shared a view on how the 2024 election supercycle is bringing focus to [an evolving world order](#), with the U.S. and China competing in what is increasingly a multipolar world. In this week's Sight|Lines, we continue the discussion, digging deeper into protectionism and the implications for global competition, China's trade relations, and geopolitical hotspots.

THE TAKEAWAY: ELECTION BEST INTENTIONS LEAD TO GLOBAL TENSIONS

Candidates' desire to appeal to voters means increased protectionism, with the potential for negative implications. In summary:

- Common themes in this [2024 election supercycle](#) include economic opportunity, protectionism, and international/trade relations.
- The focus on protectionism has been growing again recently, with the number of trade restrictions worldwide increasing fivefold over the last decade.
- China is trying to stimulate economic growth, in part, by subsidizing manufacturing to boost exports, which is driving the price of its products down and making them more competitive globally.
- China's tactics have increased competition for industries and companies here in the U.S. and in the European Union and are leading to protectionism.
- Given the increasing trade restrictions with the West, many products are also flowing to the "Global South," improving China's relations there.
- For example, China has a strong relationship with Iran, so we must focus on China's potential role in any further, sustained escalation of the Iran-Israel conflict.

IN-DEPTH: GLOBAL ELECTIONS MEAN PROTECTIONISM IS IN FURTHER FOCUS, WITH IMPLICATIONS ON GLOBAL TRADE, INTERNATIONAL RELATIONS, AND GEOPOLITICAL HOTSPOTS

Candidates want to win elections, so they focus on what seems best for voters. Lately, this has led to increased protectionism, which can have surprising negative implications. Going deeper:

- The [2024 election supercycle](#) means increased focus on economic opportunity, protectionism, and international/trade relations:
 - India's general election began last week, and one thing in common among both prime minister candidates is their focus on job creation.
 - The U.S. has been trying to establish a strategic partnership with India in an effort to counter China's influence, while China has emerged as one of India's largest trading partners.
- Increasing protectionism is seen in a dramatically higher number of trade restrictions worldwide:
 - In 2023, nearly 3,000 trade restrictions were imposed across the world – roughly five times the number in 2015.
 - Many of the policies implemented have been aimed at countering China and safeguarding domestic industries and controlling the flow of goods and services.
- China has been subsidizing manufacturing to stimulate economic growth, allowing companies to produce goods at lower prices, or even at a loss:
 - In a recent trip to China, U.S. Treasury Secretary Janet Yellen warned China against unfair trade practices – including overproducing products – which are a threat to U.S. businesses and jobs.
- For example, one study found that Chinese government subsidies amounted to 1.73% of GDP in 2019, compared to about 0.39% in the U.S. These forces of increased competition, protectionism, and China tactics combine to impact industries and companies in the U.S. and the EU:
 - At its peak, there were roughly 500 electric car companies in China. Chinese automakers today make up more than 8% of Europe's EV market, up from almost nothing in 2019.
 - The chemicals market is similarly facing significant overcapacity as China is set to increase production capacity for ethylene and propylene – the two most important petrochemical building blocks – to levels matching those of Europe, Japan, and Korea combined.
- With increasing China trade restrictions in the West, China is improving its relations with the “Global South,” as its products are exported there.
 - Exports to developing countries in Africa, Asia, and Latin America grew roughly 50% between 2019 and 2023 compared to 20% for the U.S.

- China's strengthening relationship with Iran brings into focus its potential role in an escalating Iran-Israel conflict:
 - Following the adoption of the Iran nuclear deal in 2015, which included the U.S. and China, among others, Iran signed a separate agreement with China in 2016 pledging closer military cooperation in a number of areas, including military training.
 - In 2021, Iran's relationship with China was further strengthened with the signing of a 25-year strategic partnership agreement that is set to bring \$400 billion to Iran's economy in exchange for a steady and heavily discounted supply of oil.

CONCLUSION

Protectionism is a big theme in this year's global election supercycle. With increased protectionism, trade restrictions have increased, shifting global trade relations and adding to geopolitical tensions. With continued focus on economic growth and competition, China is subsidizing its manufacturing industries, driving prices lower. And trade restrictions shift China's exports to other countries, increasing China's presence there. These improved relations mean competition for the U.S. And, when geopolitical hotspots arise, we must be increasingly focused on how China's relationships influence these events. We will continue to focus on the interrelationship of these topics as we conduct our geopolitical and investment analysis.

Michael P. O'Keeffe, CFA 

Chief Investment Officer

michael.okeeffe@stifel.com

www.stifelinsights.com

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