

## Cozen Currents: All Geopolitics Are Local

### The Cozen Lens

- The presidential election will be decided on domestic issues, but Vice President Harris and former President Trump are still touting their foreign policy platforms as they seek to woo voters.
- In America, the two parties are divided on whether to join the electric vehicle transition but are united against Chinese imports. In the European Union, the situation is exactly reversed.
- Former President Trump, Vice President Harris, and members of Congress have proposed no shortage of new tax benefits as they seek to curry favor with voters, but revenue offsets are in far shorter supply.



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### The Geopolitics of Electoral Politics

**China's Inevitability.** It is no secret that China will be the most significant foreign policy test facing the next president, and while Vice President Harris and former President Trump may have similar strategies, their tactics are very different.

- Part of the reason that Harris and Trump will both likely pursue relatively hawkish policies against China is that among voters, nearly 80 percent hold an unfavorable view of Beijing, and a majority see it as a competitor. Being tough on China is one of the few issues that still garners strong bipartisan support in Washington, DC.
- Although Harris and Trump want to separate from Beijing, Harris' aim will be derisking, while Trump's will be decoupling. The difference is subtle, but it depends on how tools like export controls and tariffs are used, with Trump proposing more sweeping measures.
- China may be the most critical foreign policy challenge, but given the consensus among voters, it is unlikely to be a decisive factor in the presidential election. Harris is trying to portray Trump's tariff proposals as a consumer tax, but polls have found that voters slightly favor Trump's plan, suggesting this may not be a winning line of attack.

**The Middle East's Divisiveness.** For as much unity exists concerning China, there is an equally high amount of strife, particularly within the electorate, about how best to approach the ongoing conflict in the Middle East.

- For over a year, the war in the Middle East has been a significant source of tension in US politics. Trump has argued that it reflects the Biden administration's weakness, while Harris has largely avoided the issue but was one of the first senior officials to call for a ceasefire. A flare-up in the conflict before Election Day could pose problems for Harris by adding credence to Trump's arguments. In particular, a direct confrontation between Iran and Israel threatens to draw in an expanding American troop presence in the region.
- If there were a foreign policy issue that could sway the election, the Middle East would likely be it. The most probable electoral impact would be the danger to Harris of losing support from Arab-American voters, who are most plentiful in Michigan. It is

uncertain how many of these voters Trump may gain, but it would still be a win for him if they stay home or do not vote for the presidency.

**Ukraine Aid Hangs in the Balance.** Similar to the conflict in the Middle East, the war between Russia and Ukraine has become a divide between candidates in the presidential election.

- The biggest difference between Harris and Trump on how to handle Russia's war with Ukraine is on whether to continue US aid for Ukraine. Trump has said he would quickly reduce US support for Kyiv, while Harris would likely maintain the US's current backing of Ukraine.
- The tension around the aid has not been as high as the divisiveness caused by the Middle East, but the cost of the US support has been a flashpoint among lawmakers and could be a point of focus with the rising deficit. Still, the war in Ukraine may not be decisive in this year's presidential election, though it has, according to US intelligence reports, drawn Russian attempts to influence the election in favor of Trump, similar to Iran's efforts to support Harris.
- Should both the House and Senate change majority parties in the upcoming election, the path to further funding for Ukraine could be at least a little less arduous with significant numbers of House Democrats and Senate Republicans in favor of providing additional financial and military support.

## The Global Politics of EVs

**Both at Home.** In the US, the culture war politics of electric vehicles (EVs) is far more prominent and divided than the choice on what to do about Chinese imports.

- Former President Trump and Republicans more broadly have launched an all-out attack on EVs, which provide a convenient nexus between long-standing cultural and economic critiques. This chatter is less theoretical for the Rust Belt swing states, especially Michigan, where much of the country's car manufacturing takes place. The political wrangling over EVs — with both major candidates addressing the topic from the stump — has turned the election into a de facto referendum on their future.
- While the bromance between Trump and Tesla CEO Elon Musk continues to grow and may have headed off some of the absolute worst case scenarios, make no mistake: the GOP is no friend to EVs. Republicans nevertheless continue to want to eliminate all existing subsidies and any emissions standards that would encourage EVs, and they're taking their pitch to voters. Red states have been the most aggressive in hiking the fees associated with EVs.
- Democrats are on their back foot defending the current tax credits and arguing that they will ensure the winners of the EV transition will be based in the US. Electric vehicles have been at the core of the Biden administration's industrial and climate strategy, reuniting many disparate constituencies from blue-collar factory workers to unions to environmentalists. If Vice President Harris wins in November, she will continue election-dependent tax credits for EVs and EV chargers and preserve them from GOP repeal, along with other avenues disbursing funds to battery and car projects.
- President Biden raised tariffs on Chinese EVs from a total rate of 27.5 percent to 102.5 percent to prevent foreign firms from establishing a foothold. With free trade at a political nadir, both parties are in lock-step agreement that protectionism is the answer, especially for such a crucial industry (and voter base). Substantially similar rates are likely to remain regardless of who wins the election. Trying to use the US-Mexico-Canada Agreement to get around these restrictions isn't likely to play out either, with Trump warning last week of up to "1,000 percent" tariffs on Chinese EVs made in Mexico.

**And Abroad.** In the European Union (EU), the political consensus is mostly united around a broad transition to EVs but is divided about how hard a tack to take on Chinese vehicles.

- Member nations are largely on the same page: the bloc has agreed on banning internal combustion vehicles by 2035 and emissions standards through 2040. Many countries have layered their own bans and regulations on top of these. Subsidies for EVs are uneven across the continent but generally much lower than those offered in the US.
- Several factors are holding back the EU from fully going to war against Chinese EVs. For one thing, significant market penetration already exists: Chinese imports made up a whole 19 percent of the European electric market in 2023 and it could rise to 25 percent this year. For another, the importance of automaking in each domestic economy varies widely. Even for countries with substantial auto sectors, exposure to counter-tariffs differs — while German companies specifically have a lot of exposure in the Chinese market, French car manufacturers, which are reported to have pushed the hardest for tougher trade measures, have comparatively little skin to lose from foregoing China as a customer. Lastly, the impacts of possible Chinese countermeasures on separate products (e.g., brandy, pork, dairy) would fluctuate by member.
- The clash between some nations' who worry about going too far (particularly Germany) and others who would rather increase protectionism leaves the bloc stuck in the middle. A divided vote among member states recently on whether to impose tariffs (with 10 in favor, 12 abstaining, and 5 against) meant a European Commission proposal to impose duties will move forward. While tariffs are the end goal in the US, in Europe they're the means to build leverage for ongoing negotiations, as the threat of losing Chinese market share or the threat of counter-tariffs on other products remains too large to stomach. A draft document leaked to the press indicates the Commission's actual task is establishing minimum prices or quotas.

#### The Hefty Cost of Tax Reform

**A Costly Affair.** An extension of the Tax Cuts and Jobs Act's (TCJA) expiring provisions already is projected to cost more than double what they originally did in 2017, but a recent nonpartisan analysis of the candidates' additional tax and spending proposals shows that new policies could add trillions more to the deficit.

- In the most comprehensive analysis of former President Trump and Vice President Harris' tax and spending plans to date, the Committee for a Responsible Federal Budget (CFRB) estimates that Harris' tax proposal would add \$3.5 trillion to the national debt over 10 years while Trump's would add \$7.5 trillion over the same period. The analysis is subject to significant uncertainty due to a lack of policy details, but the CFRB's estimates include both candidates' revenue raising proposals, suggesting both plans are far from fully paid for.
- In a finding that will concern the most fiscally responsible on Capitol Hill, the CFRB estimates that the most expensive portion of each candidates' plan is the part both parties agree on: an extension of most (or all) of the expiring TCJA provisions. Harris' proposed extension for individuals earning less than \$400,000 per year would cost roughly \$3 trillion while Trump's full TCJA extension would cost about \$5.4 trillion. The analysis indicates that regardless of the election's outcome, addressing the 2025 fiscal cliff won't come cheaply.
- While less expensive than a TCJA extension, Harris and Trump's campaign promises aren't making the fiscal balancing act any easier. CFRB finds that Harris' enhanced Child Tax Credit and Earned Income Tax Credit proposals would cost an additional \$1.4 trillion while Trump's exemptions of overtime wages, tipped income, and social security benefits from federal taxes would cost a combined \$3.6 trillion.

**Balancing the Books.** Although there is some agreement between lawmakers on the need to extend expiring TCJA provisions, there is little to no overlap between the two parties' plans on how to pay for it.

- Harris endorsed President Biden's \$5 trillion in revenue-raising proposals over the summer and senior Democratic tax-writers have similarly discussed plans to reverse many of the TCJA's changes to wealth-related tax measures. That approach is entirely at odds with the GOP: Republican lawmakers would prefer to raise revenue by repealing major parts of Democrats' signature climate bill, the Inflation Reduction Act. Other GOP lawmakers have argued that pro-growth tax cuts don't need to be offset at all.

- The wide gap between the two sides is raising concerns as to how they could negotiate an agreement to offset any tax bill under a divided government. Senator Thom Tillis (R-NC) told Tax Notes earlier this month that lawmakers are "...going to have to do car washes [and] bake sales" to help pay for the bill.

Of course, a sweep of the November elections by either party would eliminate the need for any bipartisan hand wringing over offsets. Unified control of government would allow the party in power to use budget reconciliation, a procedural tool by which legislation that impacts federal spending and the deficit can be passed through the Senate with a simple majority. However, such bills need to be deficit-neutral after 10 years, meaning either party would simply set most of the deficit-increasing tax provisions to sunset within a decade, while the political issue of adding to the mounting deficit in the interim remains.

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