CLOSE CONTEST EXPECTED IN THE 2024 US PRESIDENTIAL ELECTION

— WHAT ARE THE POLICY RISKS IF TRUMP RETURNS? —

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SUMMARY

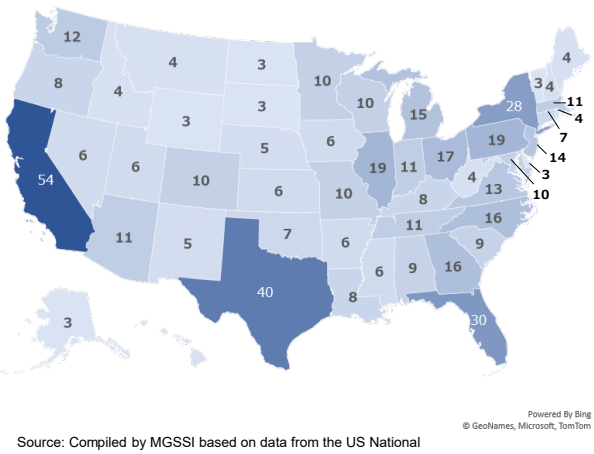
- The 2024 US presidential election is expected to be between Republican Donald Trump and Democrat Joe Biden. The presidential election remains highly uncertain as winning swing states will be the key to the election.
- In past elections, demographic composition, geographic factors, and economic climate have affected the share of votes received by each candidate. Taking these factors into account, simulations suggest that the 2024 presidential election will also be closely contested in swing states.
- The situation remains unclear, but the reelection of Trump presents risks such as a retreat on climate change measures, which have made significant progress under the Biden administration, and a move toward decoupling of the semiconductor and other manufacturing sectors from China.

1. OVERVIEW OF PRESIDENTIAL ELECTION STRUCTURE AND RESULTS OF PREVIOUS PRESIDENTIAL ELECTIONS

1-1. Presidential election process

On November 5, 2024, the US will hold its quadrennial presidential election. The people vote for electors who in turn promise to cast votes for a particular candidate. The people vote for electors, who in turn pledge to cast their votes for a particular candidate. The electors are generally allocated according to the demographics of each state and the Washington, D.C. area (Figure 1). Electors represent their state and vote for one of the presidential candidates. With the exception of Maine and Nebraska,[1] all electoral votes go to the candidate who receives the most votes, even by one vote. There are a total of 538 electors, each with one vote, and the candidate who receives at least 270 votes is elected president.

Figure 1 Electoral distribution by state



Source: Compiled by MGSSI based on data from the US National Archives and Records Administration

This report organizes the results of public opinion polls on the likelihood of the regime change scenario, assuming that Trump and Biden are the Republican and Democratic candidates, respectively, and examines

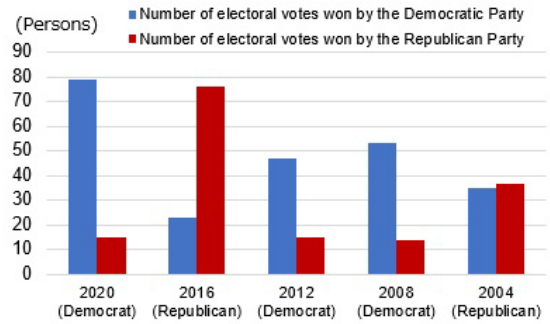
[1] Maine awards two of four electoral votes based on the statewide vote, with one vote awarded for each congressional district. Nebraska awards two of five electoral votes based on the statewide vote, with one vote awarded for each of three congressional districts.

the findings using analytical methods and statistical data presented in previous studies. It also presents risk scenarios for potential policy changes if Trump were to gain power.

1-2. Winning swing states is key to the presidential election

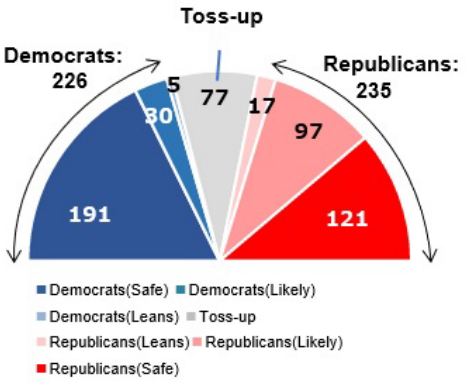
Comparing Republican and Democratic vote shares in 2016 and 2020, Democrats recaptured the states of Arizona, Georgia, Pennsylvania, Wisconsin, and Maine in 2020. Many of these are swing states[2] where there is competing support for Democratic and Republican candidates. Looking at the results of the past five presidential elections, results in swing states have generally been the key factor in determining the winner (Figure 2). According to 270toWin, a US political website that compiles the results of major US polls, the latest data at the time of this writing shows a slight Republican advantage in the presidential race, with Democrats likely to win 226 electoral votes and Republicans 235 (Figure 3). However, six states, including swing states such as Arizona and Georgia, are considered close, and it is unclear whether the 77 electors of these will vote Republican or Democrat.

Figure 2 Number of electoral college votes for republicans and democrats in swing states (since 2004)



Note: The party in the parentheses won the presidential election in that year. States where the difference in vote share between the Republican and Democratic candidates was 3 percentage points at the time of the election in question are considered swing states.
Source: Compiled by MGSSI based on data from the US National Archives and Records Administration and MIT

Figure 3 Electoral distribution based on most recent support trends by state



Note: Latest update on January 2, 2024.
Source: Compiled by MGSSI based on data from 270toWin

2. CLOSE CONTESTS EXPECTED IN SWING STATES IN 2024 PRESIDENTIAL ELECTION

2-1. Demographics indicate close share of votes in swing states

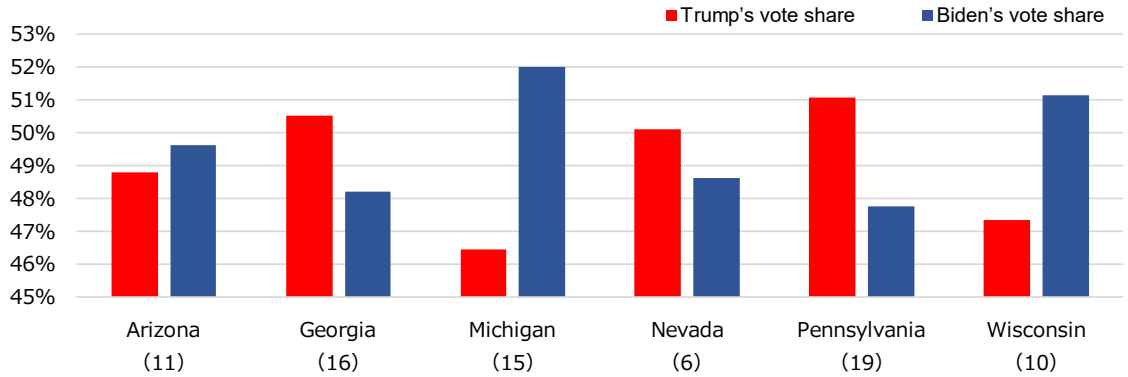
Based on past election results, demographic composition is known to have a significant impact on the share of votes received by each candidate. An analysis of Trump's 2016 win shows that Trump tended to receive more support in counties with a higher proportion of whites, higher percentage of US-born citizens, lower population density, and lower education level.[3] In addition, a survey conducted immediately after the 2020 presidential election by the US public opinion research firm the Pew Research Center, as well as data analysis and verification by the author, showed significant differences in voting behavior by residential area (urban, suburban, rural, etc.), race (white, black, Hispanic, etc.), generation (Gen Z, millennial, etc.), and education level (high

[2] Although there is no clear definition of a swing state, the term indicates a state where support for the Democratic and Republican candidates is evenly split. According to media reports, there are six swing states, Arizona, Georgia, Michigan, Nevada, Pennsylvania, and Wisconsin, and the term "swing states" in this report refers to these six. See The New York Times Nov. 5, 2023 "Trump Leads in 5 Critical States as Voters Blast Biden, Times/Siena Poll Finds" https://www.nytimes.com/2023/11/05/us/politics/biden-trump-2024-poll.html, etc.
[3] Bloomberg "The Voters Who Gave Trump the White House" https://www.bloomberg.com/politics/graphics/2016-how-trump-won/?leadSource=uverify%20wall

school graduate, college graduate, etc.).[4]

Assuming the same relationship, a simulation of the 2024 campaign using the most recent data on population (see Appendix) indicated the possibility of Trump winning three of the six swing states (Georgia, Nevada, and Pennsylvania) and Biden winning Arizona, Michigan, and Wisconsin. However, the share of the votes between the two parties is marginal in many swing states, and the outcome is expected to be a close contest that could change depending on the situation (Figure 4).

Figure 4 Expected swing state electoral distribution in 2024 based on latest population structure



Note: Figures in parentheses are the number of electoral votes for the state in 2024.
Biden's vote share is the total minus the vote share of Trump and third parties in 2020.
Source: Compiled by MGSSI based on data from MIT, the US Census Bureau, and the Centers for Disease Control and Prevention.

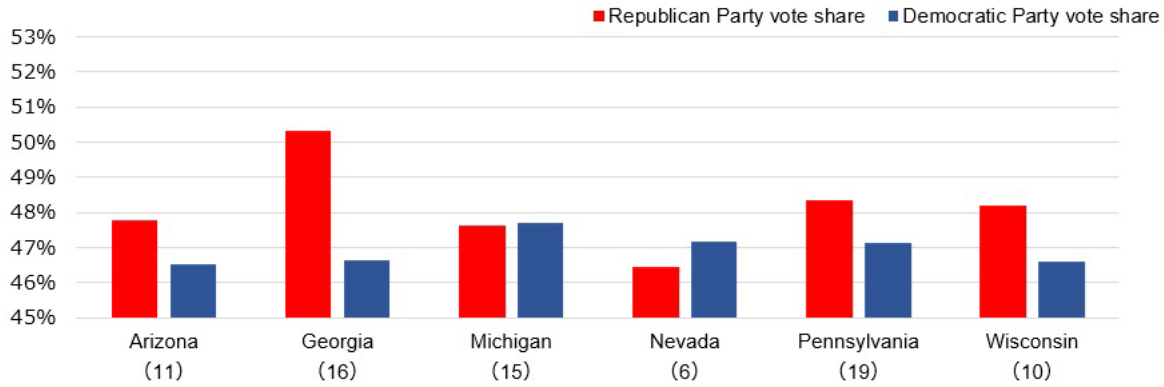
2-2. Breakdown of electoral gains in swing states is close, even with analysis based on economic climate, approval ratings, etc.

In addition to demographics, some believe that the current economic climate and the incumbent president's approval rating affect vote share. Moody's has created three models of the incumbent president's party vote share based on polling results and the economic and political climate (including the incumbent president's approval rating) to attempt to predict the vote share of the candidate running from the same party.[5]

With reference to this model, the author conducted simulations taking into account the vote share of the incumbent president's party in presidential elections since 1980, economic variables (per capita income, gasoline prices, unemployment rate, etc.), and political variables (incumbent president's approval rating, vote share in the last election, whether the incumbent party has been in power for three or more consecutive terms, etc.) (see Appendix). The results indicate that, regarding the swing states, the Democrats will win Nevada and Michigan, but the Republicans will win the other four states, including Arizona and Georgia (Figure 5). However, the difference in vote share between Republicans and Democrats in swing states is about 0 to 3 percentage points, and the simulation results here indicate that close contests in swing states can be expected.

[4] Pew Research Center "What the 2020 electorate looks like by party, race and ethnicity, age, education and religion"https://www.pewresearch.org/short-reads/2020/10/26/what-the-2020-electorate-looks-like-by-party-race-and-ethnicity-age-education-and-religion/
[5] Moody's analytics "2020 Presidential Election Model"
https://www.moodysanalytics.com/-/media/article/2019/President-Election-Model.pdf

Figure 5 Expected electoral distribution of swing states in 2024 based on economic and political outlook



Note: Figures in parentheses are the number of electoral votes for the state in 2024. The Republican vote share is the total minus the Democratic and third-party average vote shares from 1980 to 2020.
Source: Compiled by MGSSI based on data from MIT, U.S. Census Bureau, World Bank, Gallup, OECD, S&P Global, U.S. Department of Commerce, and U.S. Department of Labor, and Moody's presidential election model.

3. DIRECTION OF POLICY CHANGE AS A RISK SCENARIO IF TRUMP RETURNS

As previously mentioned, simulations of election results based on demographics, economic outlook, and other factors indicate a close contest in all swing states. Therefore, it is necessary to respond with the assumption that Trump will return to power. If a Trump administration were to take office in 2025, what changes could be expected from current policies? The following summarizes the risk of policy changes with regard to climate change measures and semiconductor policy, which were developed under the Biden administration and have had a particularly significant impact on the US economy and industrial trends.

3-1. Risk of change in climate action policy: Reconsidering decarbonization and a major shift to support for oil and gas

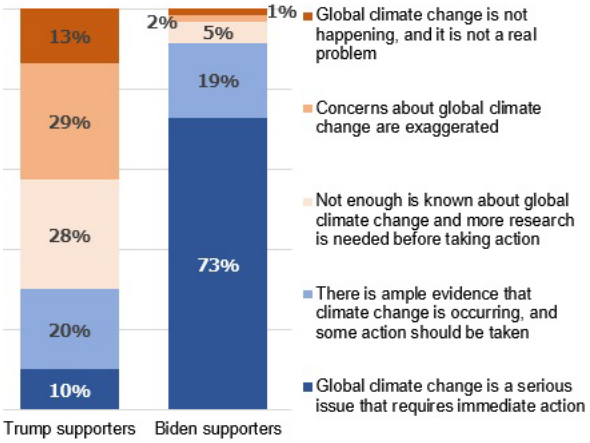
To begin with, the perception of climate change differs greatly between Trump supporters and Biden supporters. While over 70% of Biden supporters believe the issue to be serious and require immediate action, many Trump supporters are skeptical about the issue of climate change itself. They argue that global climate change is not happening, it is not a real problem, or that not enough is known about it (Figure 6).[6] In addition, Trump supporters differ from Democrats in that they have a low opinion of the Inflation Reduction Act (IRA), which was passed under the Biden administration to promote renewable energy and electric vehicles (EVs). On the other hand, there is no significant difference in the evaluation of the Bipartisan Infrastructure Investment and Jobs Act to rebuild roads, bridges, railroads, and other infrastructure (Figure 7). Furthermore, the Biden administration has officially reinstated the Paris Agreement through an executive order and has encouraged efforts towards decarbonization in government procurement by various agencies. These government-led decarbonization policies are also perceived unfavorably by supporters of Trump.

Based on these survey results and the track record of his previous administration, the first thing Trump is likely to do as soon as he takes office is to withdraw again from the Paris Agreement, since it can be implemented under presidential authority. In addition, a number of environmental regulations will likely be relaxed or repealed to support fossil fuels and increase natural gas exports.[7] Furthermore, Trump has described the IRA as the

[6] Harvard Dataverse "Cooperative Election Study Common Content, 2022" https://doi.org/10.7910/DVN/PR4L8P
[7] In his previous administration, Trump appointed a climate change skeptic as head of the US Environmental Protection Agency (EPA) and relaxed or repealed more than 100 environmental regulations. Examples include the EPA's relaxation of methane gas emission regulations for crude oil and gas companies, and the relaxation of safety regulations for offshore drilling implemented by executive order by former President Barack Obama in response to the 2010 oil spill in the Gulf of Mexico. See the press reports below

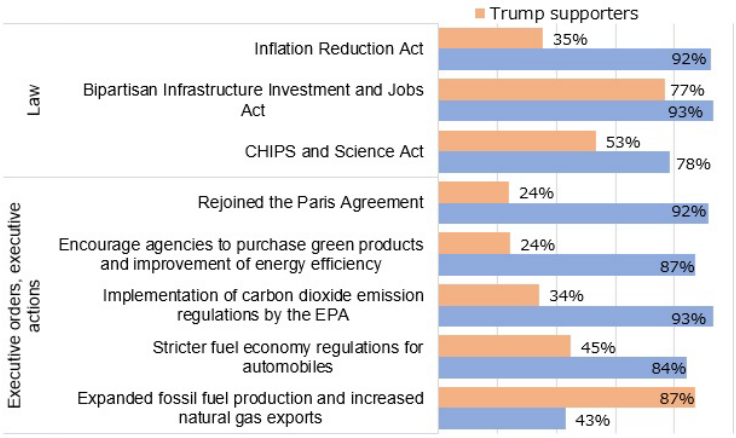
largest tax increase in history, and his campaign officials have expressed concern that tax breaks and similar incentives for decarbonization-related energy and EV purchases are too large.[8] Trump is expected to urge Congress to repeal the IRA or specifically review the promotion of renewable energy and EVs under the IRA. The repeal or partial amendment of the IRA is likely to become a reality, especially with a Republican majority in both the House and Senate such that the hurdles to the passage of a bill are not high.

Figure 6 Perceptions of the climate change issue



Note: Persons who responded that they voted for Trump (Biden) in the 2020 presidential election were defined as Trump (Biden) supporters.
Source: Compiled by MGSSI based on Harvard Dataverse

Figure 7 Evaluation of Biden Administration laws and executive orders



Note: Trump and Biden supporters defined in the same way as Figure 6.
Source: Compiled by MGSSI based on Harvard Dataverse

3-2. Risk of change in policy for the semiconductor sector: Further moves to decouple from China

The CHIPS and Science Act was enacted under the Biden administration in August 2022 to invest $52.7 billion primarily in the promotion of domestic semiconductor manufacturing, and the domestic production of semiconductors is increasing through investment tax breaks measures and the like. According to the above survey, a majority of Trump supporters approve of the Act, and compared to the decarbonization sector, the difference between their approval and that of Biden supporters is not so large for this Act.

During the previous administration, Trump increased pressure on China by imposing a 25% tariff on semiconductor imports from the country. Given these past moves and the view of his supporters, the move to foster the domestic semiconductor industry is expected to continue if Trump is reelected, along with the decoupling from China that was implemented under the Biden administration.

In addition, according to recent reports, Trump has stated that he will impose a 10% (additional) tariff on all products from China; that he has plans to phase out imports from China of all critical products, from electronics to steel to pharmaceuticals; and that he will establish new rules to prevent US companies from investing in China and to curb Chinese purchases of American assets.[9] During the previous Trump administration, import tariffs were imposed under existing laws, but it is unclear whether the policies Trump mentioned are possible under these existing laws, and new legislative action may be required if his policies are to be actually implemented. Nevertheless, if Trump is elected, rather than expanding support measures in the form of granting subsidies to the semiconductor and other specific industries as the Biden administration has done, he is likely to increase import tariffs and impose restrictions on investment in China, thereby strengthening moves to

for more details. The New York Times Jan. 20, 2021 "The Trump Administration Rolled Back More Than 100 Environmental Rules. Here's the Full List"
https://www.nytimes.com/interactive/2020/climate/trump-environment-rollbacks-list.html

[8] The Financial Times Nov. 22, 2023 "Donald Trump would gut Joe Biden's landmark IRA climate law if elected"

[9] See The New York Times Dec. 26, 2023 "A New Tax on Imports and a Split From China: Trump's 2025 Trade Agenda", and The Wall Street Journal Dec. 26, 2023 "Trump Is Primed for a Trade War in a Second Term, Calling for 'Eye-for-Eye' Tariffs" The "additional" in parentheses is an interpretation by Lighthizer, who is considered to be a candidate for Trump's next advisor.

decouple from China in a wide range of areas, including the semiconductor sector.

As described in this paper, analyses based on demographics, economic climate, and other factors do not rule out the possibility of a Trump reelection in the 2024 presidential election, with close contests expected in swing states. If Trump were to take office, there may be major policy changes, such as a reversal of the trend toward decarbonization-related climate change policies and a further move to increase decoupling from China in the semiconductor and other industrial sectors. It will therefore be necessary to anticipate the direction of these changes and prepare for them in advance.

APPENDIX: SUMMARY OF ANALYSIS RESULTS

Factor analysis of election results based on 2020 population composition

Multiple regression analysis was conducted on 2020 county data for the explained and explanatory variables laid out in Figure 8. The results are as follows.

Figure 8 Variables, regression equations, and analysis results

Variable notation	Variable name	Unit	Source and method
share	Trump's vote share	%	MIT Election Data and Science Lab, Trump vote count/votes
share_wh	Proportion of whites	%	American Community Survey, white population / total population
sum_high	Proportion of highly educated people	%	American Community Survey, Population with college degree or higher/population over 25 years old
log(income)	Median income	Logarithmic display	American Community Survey
sum_65	Proportion of elderly	%	American Community Survey, population aged 65+ / total population
share_nat	Proportion of resource-related workers	%	American Community Survey, resource workers / employed persons
factor(code)	Factors by county level (urban center, suburban, etc.)	-	Centers for Disease Control and Prevention
factor(ST)	State factors	-	-

```
stats::lm(formula = share ~ share_wh + sum_high + log(income) +
    sum_65 + share_nat + factor(code) + factor(ST), data = merge_cat_202
0)

Residuals:
     Min       1Q   Median       3Q      Max
-0.49595 -0.03946  0.00315  0.04422  0.30647

Coefficients:
             Estimate Std. Error t value Pr(>|t|)
(Intercept)  -1.164521   0.115408 -10.090  < 2e-16 ***
share_wh      0.599599   0.012394  48.377  < 2e-16 ***
sum_high     -0.732933   0.023107 -31.719  < 2e-16 ***
log(income)   0.127230   0.009745  13.056  < 2e-16 ***
sum_65        0.115747   0.034986   3.308 0.000949 ***
share_nat     0.294793   0.043013   6.854 8.68e-12 ***
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.07277 on 3053 degrees of freedom
Multiple R-squared:  0.7998,    Adjusted R-squared:  0.796
F-statistic: 206.8 on 59 and 3053 DF,  p-value: < 2.2e-16
```

Note: For each US county, multiple regression models were estimated using the share of votes Trump received in 2020, with the proportion of whites, proportion of the population educated to college degree level or higher, median income, proportion of senior citizens aged 65 years and older, and proportion of resource-related workers during the same period as explanatory variables. Fixed effects by county level and by state are taken into account.

Factor analysis of election results based on economic and political climate from 1980 to 2020

Pooled regression analysis was conducted by state data from 1980 to 2020 for the explained and explanatory variables organized in Figure 9. The results are as follows. Regarding the future economic climate, the projected values of changes in per capita income, stock price index, unemployment rate, and housing price were assumed to be in line with economic trends under the main scenario that the economy will experience a gradual slowdown in 2024, but will not enter a recession. It was also assumed that the incumbent president's approval rating would not change significantly and would remain within a flat range.

Figure 9 Variables, regression equations, and analysis results

Variable notation	Variable name	Unit	Source and method
share	Share of votes received by candidate of the incumber	%	MIT Election Data and Science Lab, Incumbent president's party vote count / total votes
Gas	Gasoline price	%, year-on-year	World Bank
Approval	Approval rating	% point, two-year difference	Gallup
House	Nominal house price index	%, two-year difference	OECD
SP500	Stock price index (S&P and Dow Jones Indexes)	%, year-on-year	S&P Global
Income	Real personal income	%, two-year difference	U.S. Department of Commerce and U.S. Department of Labor, per capita personal income realized at the rate of inflation
Unemp	Unemployment rate	% point, two-year difference	U.S. Department of Labor
share_pre	Share of votes cast in the last presidential election	%, two-year difference	MIT Election Data and Science Lab
party_dummy	Political party dummy	-	Dummy variable that is 1 if the same party has been in power for the past two elections
dems_dummy	Democratic dummy	-	Dummy variable that is 1 if the incumbent is a Democrat

Model (1) Pocket book model

```
plm(formula = share ~ Gas + Approval + House + share_pre + party_dummy,
    data = state2_2, model = "pooling")

Balanced Panel: n = 11, T = 51, N = 561

Residuals:
       Min.     1st Qu.      Median     3rd Qu.        Max.
-0.20054956 -0.03215030  0.00098103  0.03314065  0.15028285

Coefficients:
              Estimate Std. Error t-value  Pr(>|t|)
(Intercept)  0.0085904  0.0122979  0.6985    0.4851
Gas          0.0684580  0.0101066  6.7736 3.210e-11 ***
Approval     0.3765232  0.0193046 19.5043 < 2.2e-16 ***
House        0.2185085  0.0298483  7.3206 8.716e-13 ***
share_pre    0.9494889  0.0231427 41.0276 < 2.2e-16 ***
party_dummy -0.0619080  0.0068378 -9.0538 < 2.2e-16 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares:    7.4456
Residual Sum of Squares: 1.7262
R-Squared:      0.76816
Adj. R-Squared: 0.76607
F-statistic: 367.774 on 5 and 555 DF, p-value: < 2.22e-16
```

Note: Pooled regression models were estimated for the vote share of the incumbent president's party in each U.S. state for the 11 presidential elections from 1980 to 2020, with the year-on-year change in gasoline prices, difference from the incumbent president's approval rating from two years earlier, nominal house price index, vote share in the last presidential election, and a party dummy as explanatory variables. Fixed effects for each state are taken into account.

Model (2) Stock price model

```
Call:
plm(formula = share ~ Approval + SP500 + Income + share_pre +
    dems_dummy, data = state2_2, model = "pooling")

Balanced Panel: n = 11, T = 51, N = 561

Residuals:
       Min.     1st Qu.      Median     3rd Qu.        Max.
-0.16210372 -0.03102711 -0.00002058  0.03432804  0.12168513

Coefficients:
             Estimate Std. Error t-value  Pr(>|t|)
(Intercept) -0.0015192  0.0120446 -0.1261    0.8997
Approval     0.3001558  0.0237773 12.6236 < 2.2e-16 ***
SP500        0.2915587  0.0227843 12.7965 < 2.2e-16 ***
Income       0.8374261  0.0832952 10.0537 < 2.2e-16 ***
share_pre    0.9497520  0.0199725 47.5531 < 2.2e-16 ***
dems_dummy  -0.0504086  0.0060849 -8.2842  8.96e-16 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares:    7.4456
Residual Sum of Squares: 1.2302
R-Squared:      0.83478
Adj. R-Squared: 0.83329
F-statistic: 560.83 on 5 and 555 DF, p-value: < 2.22e-16
```

Note: Pooled regression models were estimated for the vote share of the incumbent president's party in each U.S. state for the 11 presidential elections from 1980 to 2020, with the difference from the incumbent president's approval rating two years earlier, year-one-year stock index, ratio of real personal income to two years earlier, share of votes in the last presidential election, and a Democrat dummy as explanatory variables. Fixed effects for each state are taken into account.

Model (3) Unemployment rate model

```
Call:
plm(formula = share ~ Approval + Unemp + Income + share_pre +
    party_dummy, data = state2_2, model = "pooling")

Balanced Panel: n = 11, T = 51, N = 561

Residuals:
      Min.    1st Qu.     Median    3rd Qu.       Max.
-0.1435699 -0.0323660 -0.0012093  0.0321382  0.1249028

Coefficients:
              Estimate Std. Error t-value  Pr(>|t|)
(Intercept)  0.0216692  0.0107472  2.0163   0.04425 *
Approval     0.1524400  0.0191949  7.9417 1.114e-14 ***
Unemp       -0.7368465  0.1300077 -5.6677 2.328e-08 ***
Income       1.0344570  0.0715251 14.4628 < 2.2e-16 ***
share_pre    0.8743654  0.0206817 42.2773 < 2.2e-16 ***
party_dummy -0.0527523  0.0057728 -9.1381 < 2.2e-16 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares:    7.4456
Residual Sum of Squares: 1.3814
R-Squared:      0.81447
Adj. R-Squared: 0.8128
F-statistic: 487.276 on 5 and 555 DF, p-value: < 2.22e-16
```

Note: Pooled regression models were estimated for the vote share of the incumbent president's party in each US state for the 11 presidential elections from 1980 to 2020, with the difference from the incumbent president's approval rating two years earlier, difference from the unemployment rate two years earlier, ratio of real personal income to two years earlier, share of votes in the last presidential election, and a party dummy as explanatory variables. Fixed effects for each state are taken into account.

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