

AN ALERT FROM THE BDO MANUFACTURING & DISTRIBUTION PRACTICE

# BDO KNOWS: MANUFACTURING

## MANUFACTURING'S POST-ELECTION FUTURE: SPOTLIGHT ON TRADE & IMMIGRATION

Just a few months into the Trump presidency, the manufacturing industry has already experienced a whirlwind of political activity.

Since taking office in January, the new administration has implemented a flurry of "America first" policies that have elicited a myriad of reactions from the manufacturing world, culminating with a formal notification to Congress of its intent to renegotiate the North America Free Trade Agreement.

This follows the Jan. 23 withdrawal from the Trans-Pacific Partnership (TPP), a trade agreement that would have lowered both non-tariff and tariff barriers to trade with 11 Asian countries. Then came two executive orders on March 31—one commissioning a 90-day study to identify potential trade abuses and the other ordering stricter enforcement of U.S. anti-dumping laws and countervailing duties. And on April 18, President Trump signed the "Buy American and Hire American" executive order to protect U.S. jobs by reviewing employment-based foreign worker programs and encourage domestic sourcing of materials, manufacturing components and manufactured goods. Then, on April 29, the [Office of Trade and Manufacturing Policy](#) was formally established to "defend and serve American workers and domestic manufacturers while advising the President on policies

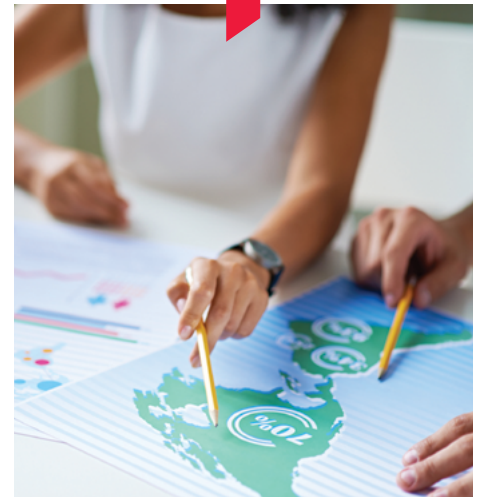
to increase economic growth, decrease the trade deficit, and strengthen the United States manufacturing and defense industrial bases."

To add some color, we're breaking down the new administration's trade policies so far and what they could mean for the manufacturing industry.

### SHIFTING TRADE ALLIANCES & IMMIGRATION POLICIES

On Jan. 23, Trump signed an executive order to withdraw the United States from the TPP, one of the Obama administration's signature efforts to boost U.S.-Asia trade relations and protect against rising competition from China. For much of the U.S. manufacturing industry, long dependent on Asia for supply chain operations and outsourced production, this move came as a shock. It's worth noting that the TPP may still move forward. Trade ministers from all 11 countries are reportedly working together to revive the trade agreement—without the U.S.

A renegotiation or possible termination of NAFTA may spark similar concerns—with many manufacturing leaders focused on the potential loss of the NAFTA Professional (TN) visa. The TN visa, which allows highly skilled Canadian and Mexican citizens, as NAFTA professionals, to work in the U.S. in prearranged business activities,



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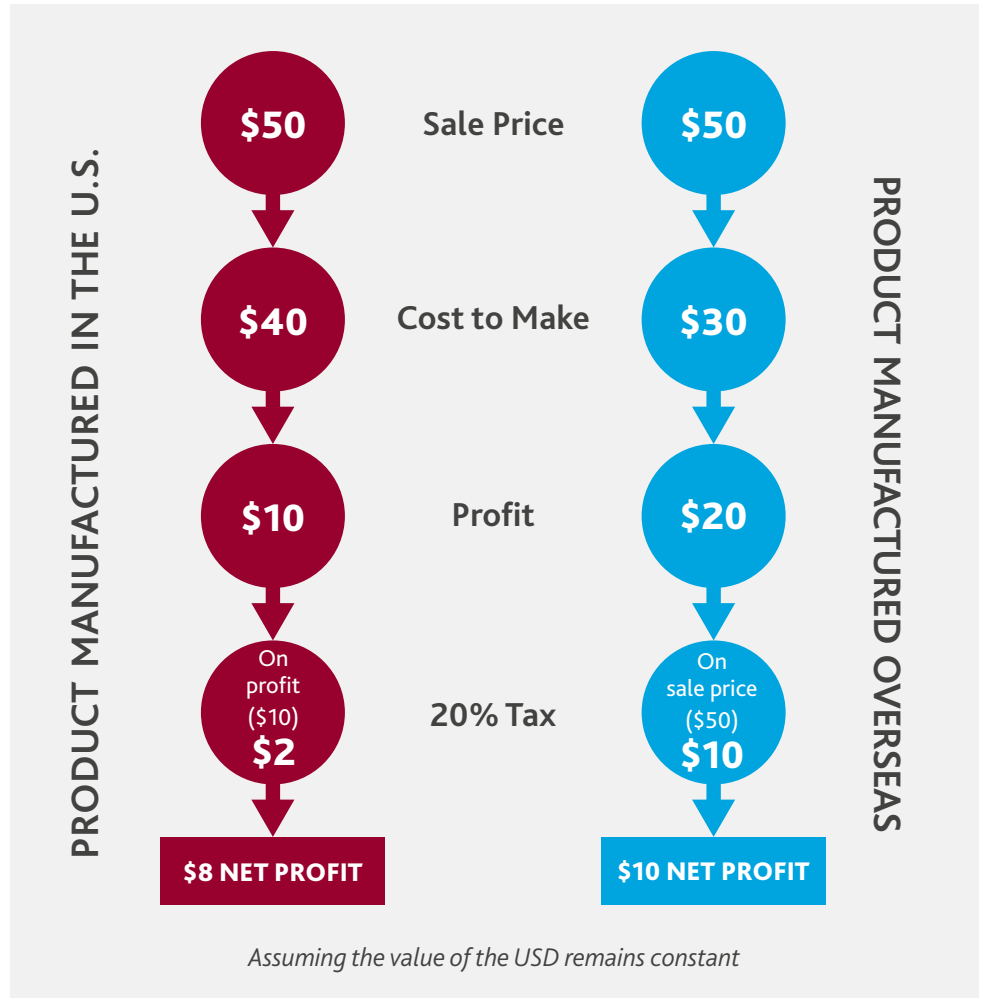
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has been a popular option for many foreign engineers and their U.S. employers. Its potential loss is compounded by increased scrutiny and reform of existing nonimmigrant worker programs, including the H-1B visa program for skilled workers.

As we **noted** in a previous article, the biggest culprit behind lost manufacturing jobs isn't trade or outsourcing. It's automation and robotics. Because the manufacturing industry is increasingly dependent on skilled workers—not to mention competing in an already-shallow labor pool against coveted, high-paying tech jobs in Silicon Valley—any barrier to entry is significant. According to data from myvisajobs.com, the manufacturing industry filed nearly 40,000 petitions for H-1B visas in 2016 alone (see appendix).

Following the formal notification of NAFTA renegotiations, National Association of Manufacturers (NAM) Vice President of International Economic Affairs Linda Dempsey issued the following statement:

"Manufacturers are rolling up their sleeves to identify ways to modernize the 23-year-old NAFTA so the United States can be competitive in today's global economy. The jobs of 2 million American manufacturing workers depend on trade with Canada and Mexico today. It's most important that we protect those jobs and use this opportunity to create more. NAFTA renegotiations must be focused on strengthening American competitiveness and North American trade so that manufacturers can continue to expand output and create well-paying jobs. The NAM is working closely with the Trump administration and Congress. We are explaining the impact of the current agreement on manufacturers and are providing detailed proposals on how best to reshape and improve this agreement for manufacturers and the millions of Americans they employ."



**DEFENDING DOMESTIC MANUFACTURING**

One of the proposals to boost U.S. manufacturing sales is the border adjustment tax (BAT), contained in the House Republicans tax blueprint, *A Better Way: Our Vision for a Confident America*. This destination-basis tax system would tax companies on their sales to U.S. customers while excluding foreign sales from U.S. tax entirely. This means sales of imported goods would be fully taxable while the sales of exported products would be exempt from tax. Further, the costs of goods, services and intangibles purchased from foreign parties and sold to U.S. customers would not be deductible from taxable income, as they currently are.

Take a look at the graphic above for a theoretical illustration of the BAT concept.

It assumes the cost of goods sold (COGS) for products manufactured overseas is 25 percent lower than the U.S. In this scenario, the profit to the company for goods manufactured overseas is still greater than for goods manufactured domestically, though it's slim.

This could be a game-changer for an industry that relies heavily on outsourcing production and importing raw materials to keep costs down—but has also lost increasing market share to foreign manufacturers. However, it's worth noting that the BAT was excluded from President Trump's outline for tax reform announced on April 26. While the proposal is not yet dead in the water, there are questions about whether it would violate the World Trade Organization's non-discrimination rules on equal treatment of imported and domestic goods.

## THE BEGINNING OF TRADE WARS?

The sum of all these measures raises concerns about the possibility of trade wars, as nations set up retaliatory tariffs that may make American goods even more costly to export. And there's one country the U.S. especially wants to avoid a trade war with: China, home to many major manufacturing plants and assembly lines.

According to an Oxford Economics [study](#), China is now the third-largest destination for American goods and services, with U.S. exports to China directly and indirectly

supporting 1.8 million new jobs and \$165 billion in GDP in 2015. A trade war between the two countries could deal a serious blow to the global manufacturing industry. While nothing is set in stone, how President Trump approaches trade will have resounding consequences around the world.

### BDO INSIGHTS

The administration's decisions on key trade policies will have significant immediate and long-term effects on the manufacturing industry, which has long

looked to foreign countries for supply chain operations, growth markets and labor. Shifting trade alliances and tax reform will cause companies to find themselves bound to new policies and regulations that may prompt massive revamps of current processes, standards and operations. Changing immigration policies will also affect how manufacturers recruit, hire and onboard talent—and whether skilled foreign workers will continue seeking employment in the U.S., or turn their hopes elsewhere.

## APPENDIX: 2016 H-1B VISA PETITIONS IN 2016

NAICS Industry	# Petitions	Average Salary
<a href="#">Semiconductor and Other Electronic Component Manufacturing</a>	7,760	\$104,700
<a href="#">Computer and Peripheral Equipment Manufacturing</a>	4,384	\$120,033
<a href="#">Communications Equipment Manufacturing</a>	4,134	\$107,679
<a href="#">Pharmaceutical and Medicine Manufacturing</a>	2,832	\$93,963
<a href="#">Professional and Commercial Equipment and Supplies Merchant Wholesalers</a>	1,922	\$88,223
<a href="#">Navigational, Measuring, Electromedical, and Control Instruments Manufacturing</a>	1,611	\$91,422
<a href="#">Motor Vehicle Parts Manufacturing</a>	1,548	\$79,380
<a href="#">Medical Equipment and Supplies Manufacturing</a>	1,539	\$93,446
<a href="#">Engine, Turbine, and Power Transmission Equipment Manufacturing</a>	1,309	\$81,866
<a href="#">Motor Vehicle Manufacturing</a>	1,150	\$95,713
<a href="#">Agriculture, Construction, and Mining Machinery Manufacturing</a>	933	\$90,092
<a href="#">Other Miscellaneous Manufacturing</a>	932	\$90,473
<a href="#">Other Electrical Equipment and Component Manufacturing</a>	806	\$97,926
<a href="#">Electrical Equipment Manufacturing</a>	692	\$85,265
<a href="#">Other General Purpose Machinery Manufacturing</a>	664	\$78,288
<a href="#">Industrial Machinery Manufacturing</a>	590	\$90,324
<a href="#">Other Food Manufacturing</a>	576	\$89,457
<a href="#">Basic Chemical Manufacturing</a>	552	\$90,890
<a href="#">Aerospace Product and Parts Manufacturing</a>	545	\$88,393
<a href="#">Ventilation, Heating, Air-Conditioning, and Commercial Refrigeration Equipment Manufacturing</a>	487	\$88,527
<a href="#">Plastics Product Manufacturing</a>	462	\$79,542

## APPENDIX: 2016 H-1B VISA PETITIONS IN 2016 (CONT'D)

NAICS Industry	# Petitions	Average Salary
<a href="#">Other Fabricated Metal Product Manufacturing</a>	388	\$73,045
<a href="#">Beverage Manufacturing</a>	368	\$95,668
<a href="#">Commercial and Service Industry Machinery Manufacturing</a>	314	\$92,346
<a href="#">Cut and Sew Apparel Manufacturing</a>	301	\$70,495
<a href="#">Petroleum and Coal Products Manufacturing</a>	247	\$121,318
<a href="#">Other Chemical Product and Preparation Manufacturing</a>	226	\$95,482
<a href="#">Apparel Accessories and Other Apparel Manufacturing</a>	214	\$77,321
<a href="#">Footwear Manufacturing</a>	208	\$111,206
<a href="#">Resin, Synthetic Rubber, and Artificial Synthetic Fibers and Filaments Manufacturing</a>	206	\$85,034
<a href="#">Electric Lighting Equipment Manufacturing</a>	202	\$76,104
<a href="#">Paint, Coating, and Adhesive Manufacturing</a>	201	\$89,313
<a href="#">Metalworking Machinery Manufacturing</a>	198	\$69,807
<a href="#">Household Appliance Manufacturing</a>	182	\$85,300
<a href="#">Iron and Steel Mills and Ferroalloy Manufacturing</a>	174	\$91,535
<a href="#">Rubber Product Manufacturing</a>	160	\$84,397
<a href="#">Railroad Rolling Stock Manufacturing</a>	159	\$87,755
<a href="#">Steel Product Manufacturing from Purchased Steel</a>	157	\$79,919
<a href="#">Architectural and Structural Metals Manufacturing</a>	151	\$68,488
	<b>Total: 39,484</b>	<b>AVG: \$89,234.23</b>

Source: myvisajobs.com 2016 H-1B Visas Report

#### BDO MANUFACTURING & DISTRIBUTION PRACTICE

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