

AN ALERT FROM THE BDO TECHNOLOGY PRACTICE

BDO KNOWS: TECHNOLOGY

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

As President Trump nears his 100-day mark, Silicon Valley has already experienced a whirlwind of political activity. Within the first three months, the president has implemented a flurry of "America first" policies that have elicited a myriad of reactions from the tech world—including Apple's Tim Cook, Google's Sundar Pichai and Uber's Travis Kalanick, among others.

First came the U.S.' 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. Next came the travel bans on Jan. 27 and March 6—both intending to suspend immigration and travel to the U.S. from several foreign countries. Trump's suggestion for a border-adjustment tax (BAT) continues to undergo debate in the meantime, as policymakers and analysts question whether it will reach its intended goal of creating and reshoring U.S. jobs. And then most recently came two executive orders on March 31—one commissioning a 90-day study to identify potential trade abuses and the other ordering stricter effective enforcement of U.S. anti-dumping laws and countervailing duties.

Then there's the wait—which the president assures will be over soon—for the administration's take on the North America Free Trade Agreement (NAFTA) with Mexico and Canada.

In this month's alert, we break down the new administration's trade policies and what they'll mean for the tech industry.

SHIFTING TRADE ALLIANCES & IMMIGRATION POLICIES

On Jan. 23, Trump signed an executive order to withdraw the U.S. 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. tech industry, which has long depended on Asia for its supply chain operations, this move came as a shock.

Carl Guardino, president and CEO of Silicon Valley Leadership Group, [noted](#) that Silicon Valley congressional districts sponsored 105,000 jobs directly dependent on foreign trade. Other leaders mourned the loss of TPP's data provisions that would have enabled companies to move data freely across borders. Some worry that China's development of its own trade proposals with TPP countries could leave



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U.S. tech companies at a competitive disadvantage.

A likewise withdrawal from, or changing relationship with NAFTA may spark similar concerns—with many tech leaders focused on the potential loss of the NAFTA Professional (TN) visa as a consequence. The TN visa, which allows highly skilled Canadian and Mexican citizens, as NAFTA professionals, to work in the U.S. in prearranged business activities, has been a popular option for many foreign engineers looking to work in tech. Add to this the U.S.' recent suspension of the "premium processing" of H-1B visas, which enabled skilled workers to pay extra for a guaranteed answer from U.S. Citizenship and Immigration Services within 15 days, and the anxiety increases.

Because the tech industry is so highly dependent on skilled workers, any barrier to entry is significant. Tech giants such as Google, Apple, Microsoft and Amazon have been among the top recipients of H-1B visas in past years. A Goldman Sachs report cites that H-1B visa holders comprise

about 12 to 13 percent of tech-related jobs. Alphabet chairman Eric Schmidt [noted](#) in an interview last year that if the U.S. doesn't support highly educated foreign engineers, "they go and build competitors to our companies."

Tech companies' concerns that the U.S. may lose out on necessary talent to its neighbors has merit: Canada, in response to the travel bans and other changes, has recently launched Global Skills Strategy, a program that shortens the timeframe for tech workers obtaining visas and work permits from several months to two weeks. New Zealand has launched a LookSee Wellington initiative that offers 100 IT professionals free travel for job interviews with prospective employers. And still other countries are looking to take advantage.

IMPLICATIONS OF A BORDER-ADJUSTMENT TAX (BAT)

As described in last month's [alert](#), the suggestion for a border-adjustment tax, contained in the House Republicans' tax blueprint *A Better Way: Our Vision*

for a Confident America, would create a destination-basis tax system that would effectively tax all imports into the U.S. at the corporate tax rate of 20 percent but exempt all exports from any taxes at all. The hope behind BAT is that taxes on imports would encourage U.S. companies to re-shore manufacturing plants and factories from abroad.

For many tech companies that rely heavily on foreign manufacturers for parts or have their own manufacturing facilities in Asia, this proposal could severely affect current supply chain operations—and ultimately, pricing models. Hewlett Packard Enterprise CEO Meg Whitman told *CNBC* that the "supply chain has taken 30 years to set up. So, when all those components come in and are taxed, it's not going to be good."

For companies that move materials in and out across several borders—the U.S. for raw materials, then Mexico or Asia for final assembly, and then back to the U.S. to be sold, for example—this could also mean getting hit with multiple rounds of tariffs. To make up for these extra production costs, companies may need to increase their product prices—leading to higher prices for the customer and potentially decreased sales for the business.

While the drafters have indicated that they believe the BAT is an indirect tax that is compliant with the World Trade Organization's (WTO) non-discrimination rules on the equal treatment of domestic and imported goods, there is widespread concern that such a plan could meet an immediate challenge on whether it is, in fact, so. According to the *Irish Times*, lawyers for the European Union and other U.S. trading partners are already preparing for a legal challenge to the BAT "that could trigger the biggest case in WTO history," to the tune of \$385 billion in trade retaliation.

Either way, much is yet to be determined. With the House's failure to get a repeal



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of the Affordable Care Act off the ground, it remains to be seen whether President Trump's appetite for a radical tax proposal also championed by House Speaker Ryan has waned, but technology companies will be sure to be among the interested observers.

THE BEGINNING OF TRADE WARS?

The sum of all these measures may lead to an even greater consequence—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 Silicon Valley especially wants to avoid a trade war with: China, home to many of tech's biggest 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 tech industry. However, it could also catalyze domestic tech growth in China, complicating matters for the U.S. tech subsidiaries already there and

sparking greater competition for U.S. tech companies overall. 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 tech industry, which has long looked to foreign countries for supply chain operations, growth markets and skilled 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 affect how tech companies recruit, hire and onboard talent—and whether foreign tech workers will continue seeking employment in the U.S., or turn their hopes elsewhere. And while Trump's 100-day period is almost over, Silicon Valley knows that there is still much to be seen.

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