Effects of policies on reshoring activity

By Reginald Tucker

Some of the key economic policies instituted by the Trump Administration were designed to reduce the tax and regulatory burden on U. S. corporations to create an environment that would attract (or retain) investment in domestic manufacturing.

This change would improve the absolute ROI on U.S. investment, motivating and enabling all U.S. companies to grow faster by investing at home. At the same time, the U.S. ROI would be improved vs. offshore investments, leveling the playing field with some of our primary trading partners—namely China—by encouraging U.S. manufacturers to take advantage of lower taxes by reinvesting in their stateside operations. The changes would also encourage those companies who already produce outside the U.S. (or are planning to do so) to "reshore" those operations and bolster their domestic capacity and, by extension, American jobs.

FCNews recently caught up with Harry Moser, founder and president of the Reshoring Initiative, and an authority on all things concerning domestic manufacturing, to discuss these issues. More importantly, to find out if the stated objectives are meeting the intended goals.

Following are excerpts of that conversation:

Is there a direct correlation to the number of manufacturing jobs coming back to the U.S. and the Trump Administration's policies on taxation, trade and tariffs?

There's a direct correlation between these government actions and the reshoring trends. The lower tax rate—specifically taking it down from 35% to 21%—makes the return on investment in a U.S. facility much more competitive than it was before. Also, the immediate expensing of capital equipment helps companies finance the investments. In the past, suppliers had to depreciate any new equipment they purchased over the course of seven years, basically for tax purposes. Now, they can write off the equipment in the same year in which they made the investment. This includes a factory, machine tools, a steel mill—whatever. This helps reduce their tax in the current year because they have all that depreciation. However, it hurts suppliers in the second year/third year because they don't have those years of depreciation. It shifts those write-offs forward to the year in which those expenditures are made. This definitely motivates business owners to invest in capital now.

Harry Moser

Research shows the U.S. economy saw a bump in 2017 as a result of the tax cuts. Has that spilled over into 2018?

In 2017 we had 170,000 (announced) manufacturing jobs come back to the U.S. But in 2018 the responding number was 145,000—down 14.7% from the year before. However, it's still the second highest number of manufacturing jobs reshored, and it's two or three times the average of the last 10 years, excluding 2017.

To what do you attribute the lower number in 2018 compared to 2017?

We believe it's because of the uncertainty caused by the trade war with China and all the issues with the tariffs. It's a lot of back and forth. Companies don't know what's going to happen with the supply chain or the market. Therefore, the easiest thing for them to do is stay in a holding pattern. But it's all relative; if we didn't have such a huge year in 2017, we would be bragging about 2018, because it's up a lot from 2016.

Looking at the various manufacturing sectors, what industry was most impacted in 2018?

Most of the falloff in the reshoring numbers—specifically two-thirds—was in the automotive category. So if you look at the number of companies announcing reshoring jobs and/or foreign direct investment (FDI)—they're up 35% from 2017 to 2018. But we didn't have as many of the big gains when, for example, Nissan or Toyota puts in a whole new assembly plant. Announcements such as these typically result in the reshoring of 3,000-5,000 positions, not including the smaller, local suppliers who add anywhere between 500 and 1,000 jobs to support the additional capacity. Most industries were OK, but the transportation equipment number was off substantially.

Do you expect to see companies continuing to reinvest?

We saw a decent rise in capital expenditures, but now it's tailing off a little bit. Again, that's due to all the uncertainty surrounding the China tariffs—the aluminum and steel tariffs and the threat of automotive tariffs.

Is this strategy sustainable?

President Trump keeps bringing up new stuff—I think he has too many balls in the air. If he had just stuck to, 'Hey, we're going to fix the trade deficit' and maybe left all our trading parts alone and just focused on China—and perhaps gotten all of the other countries to help him—I think he'd be in a much better position today than having put aluminum and steel tariffs on our allies and threatening them with various actions. I think the reshoring numbers and FDI numbers would be much better if he had done that.

Where do we stand today on trade with China?

The Chinese trade surplus with the U.S. is about $400 billion a year in their favor in terms of goods. By comparison, the Chinese trade surplus with the world is about the same number. So when you boil it down, China is "trade-neutral" (or trade balanced) in aggregate with the rest of the world, but it has a $400 billion a year trade surplus with the U.S. That represents about half of our total goods trade deficit.

When you look at the numbers, you might say, "Damn, it looks like China is intentionally beating up the U.S., shipping us its exports (toys, clothing, refrigerators, electronics, TVs, cell phones, etc.). Either they have focused on the U.S. or we've been totally negligent in not producing the things we should have been making but did not.

Why has there been this imbalance for so long?

Economics. Fifteen years ago, Chinese wages were about 3% of the U.S. level. Which means it costs substantially less to produce there. Also the Chinese government was very flexible to support investment by domestic and foreign firms. At the same time, the U.S. has set itself up as the dumping ground for imports by having a currency that is 20% overvalued and no value added tax.