US protectionism broadens to nonmanufacturing sectors, may backfire

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29 October 2025

lakyara vol.406

Nomura Research Institute, Ltd.

Executive Summary

US protectionism has started to spread to nonmanufacturing sectors as recently exemplified by a large increase in the fee for an H1-B visa, a work visa for highly skilled foreigners such as engineers. However, such protectionist policies could trigger tech sector offshoring to the detriment of the US's economic future.

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US protectionism broadening to nonmanufacturing sectors also

The Trump Administration continues to pursue a tariff policy predicated on its belief that repatriation of manufacturing is essential to American prosperity. However, most of the US economy and workforce is not involved in manufacturing. According to preliminary nonfarm payroll data recently released by the US Bureau of Labor Statistics (BLS), only 7.97% or 12,722,000 of the 159,540,000 US workers on payrolls in August 2025 were employed in manufacturing. If President Trump and other US politicians are serious about revitalizing the US economy by protecting domestic employment against various threats, particularly external ones, they are unlikely to limit their protectionism to manufacturing. In fact, proposed legislation has already been introduced in the US Congress to curb outsourcing and call-center offshoring.

One such legislative bill is the Keep Call Centers in America Act[1] introduced in the Senate by Democrat Reuben Gallego and Republican Jim Justice in July. If passed, it would require companies to notify the Department of Labor (DOL) at least 120 days before relocating call center operations outside the US. Additionally, companies that offshore call center operations would be publicly blacklisted by the DOL for five years unless they repatriate the call center jobs.

Another bill is the Halting International Relocation of Employment (HIRE) Act introduced by Republican Senator Bernie Moreno in September. It would impose a 25% excise tax on US companies' expenditures for operations outsourced to another country. The resultant tax revenues would be used to fund domestic job-training programs. When introducing the bill, Senator Moreno took a jab at "globalist politicians and C-Suite executives [who] have spent decades shipping good-paying jobs overseas[2]."

NOTE

1) See, e.g., Megan Cerullo, "New bill aims to protect American call center jobs and consumers from AI," *CBS News, Money Watch*, Edited by Anne Marie D. Lee, July 30, 2025.

2) U.S. Senator Bernie Moreno, "New Moreno Bill Would Crack Down on Outsourcing, Fund American Workers," *Official Website*

Most recently, President Trump announced on September 19 that the fee for an H1-B visa, a work visa that US employers use to hire highly skilled foreigners (e.g., engineers and physicians), will be increased to as high as $100,000[3]. The fee hike would hurt the US tech sector, which employs many Indian engineers on H-1B visas. The presidential proclamation[4] announcing the fee hike stated that the H1-B visa program "has been deliberately exploited to replace, rather than supplement, American workers with lower-paid, lower-skilled labor," clearly indicating that fee hike was intended to protect Americans' jobs.

3) Bloomberg reported on its website on September 22 that a White House spokesperson said physicians and medical residents may be exempted from the H1-B visa fee hike. (Tozzi et.al., "'Patients Will Wait Longer:' $100,000 Visa Fee Risks Worsening Doctor Shortage")

4) The White House, "Restriction on Entry of Certain Nonimmigrant Workers," *Proclamations*, September 19, 202

The impact of US's reciprocal tariffs that stunned the world this spring will likely soon start showing up in US inflation and employment data. As the November 2026 midterm elections approach, a typical US administration would adjust its policies as warranted by the state of the real economy. The Trump Administration, however, in light of its modus operandi to date, may seek to motivate its supporters by pandering to them heading into the election. In other words, US protectionist policies, hitherto targeted primarily at manufacturing and trade in goods, may be extended even further into nonmanufacturing sectors.

More protectionism is at odds with prosperity

Such a broadening of protectionism to nonmanufacturing sectors would pose a number of contradictions for the Trump Administration and the US's economic future. For example, employment at call centers, the subject of one of the legislative bills discussed above, is expected to decrease going forward in the wake of widespread automation driven by AI and other technologies. The latest edition of the BLS's annual Occupational Outlook Handbook, which features projections of 10-year changes in employment by occupation, reported that 2,814,000 customer service representatives, the job title that most closely corresponds to call center work, were employed in the US in 2024. They accounted for 1.66% of total US jobs. Over the 10 years to 2034, customer service representative jobs are projected to decrease by 153,700 (5.5%) while total US jobs are expected to increase by 5,211,800 (3.1%). Only two other occupations are projected to experience greater job losses over the 2024-34 timeframe[5]. Perhaps this is why the Keep Call Centers in America Act would require Secretary of Labor to report to Congress on call-center job losses due to AI.

5) The two occupations projected to experience worse job losses were cashiers at -9.9% (-313,600) and general office clerks at -6.7% (-177,800).

On the upside, AI is of course projected to drive job growth in certain occupations. Software developer and data scientist jobs are projected to increase by 15.8%

(267,700) and 33.5% (82,500), respectively, over the 10 years to 2034. The correlation between labor demand and technological innovations like AI is thus not so straightforward on a macro level. Politically, however, certain occupations that experience job losses invariably tend to garner attention.

The Trump Administration is placing priority on achieving American dominance in the AI space. On July 23, it unveiled an AI Action Plan aimed at outcompeting China. However, if politicians end up focusing solely on certain negative repercussions of technological innovation, the US may ease up on its push to boost AI competitiveness.

The H1-B visa crackdown could likewise have unintended consequences. If demand for high-tech labor grows as projected by the BLS but supply fails to keep pace as a result of the visa crackdown and/or other factors, high labor-cost inflation could ensue. If so, US companies may outsource development work or entirely relocate their development operations to geographies without such supply-side constraints. If shrinkage in the H1-B labor pool is compounded by cutbacks in student visa issuance and federal research funding, the tech sector, a key driver of US economic growth to date, would be at risk of eviscerative offshoring.

From the outset, there was never any assurance that the Trump Administration's plan to repatriate manufacturing would succeed as envisioned by Trump. With labor costs obviously much higher in the US than in, say, Southeast Asia, US companies in labor-intensive industries that reshore production capacity would likely need to automate production processes. If so, manufacturing job growth could very well fall short of the Administration's expectations even if US domestic production increases by virtue of repatriation of production capacity. This is just one example of various perverse outcomes that could result from the Administration's policies.

As the Trump Administration pursues the lofty goal of "making America great again," it would be well advised to recognize the risk of its protectionist approach backfiring.

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