HOW THE iPhone WIDENS US TRADE DEFICITS WITH CHINA: THE STORY OF US$6.5 VALUE-ADDED TO CHINA FOR ITS EXPORTS OF US$179

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Executive Summary

1. It is almost impossible today to define clearly where a manufactured product is made in the global market. Global production networks have reversed conventional trade patterns, given new meanings to trade statistics and weakened the effectiveness of exchange rates on trade balances.

2. The iPhone is a typical example. The manufacturing of iPhones involves nine companies in China, Germany, Japan, Korea and the US. All iPhone components produced by these companies are shipped to China, for assembly into final products and then exported to the US and the rest of the world.

3. However, high-tech products invented by US companies not only will not increase US exports, but exacerbate US trade deficits. The iconic American product, the iPhone, contributed US$1.9 billion to the US trade deficit with China in 2009.

4. On the other hand, most of the deficit due to the iPhone is attributed to imported parts and components from third world countries and has nothing to do with China. Chinese workers simply put all these parts and components together and contributed only US$6.5 to each iPhone, about 3.6% of the total manufacturing cost of $178.96.

5. If China's iPhone export were calculated based on the value-added, i.e., the assembling cost, the export value as well as the trade deficit would be much smaller, at only US$73 million, just 3.6% of the deficit calculated with the prevailing method.

6. Conventional trade statistics and the traditional method of recording trade have failed to reflect the actual value chain distribution and painted a distorted picture of the bilateral trade relations. The Sino-American bilateral trade imbalance has been greatly inflated.

7. The *yuan*'s appreciation would have little impact on the global demand of products assembled in China because the appreciation would only affect the assembling costs. A 20% appreciation of the *yuan* against the US dollar would add a mere US$1.3 to the total manufacturing costs. It is doubtful that Apple would pass the US$1.3 to the American consumers.

8. It is the profit maximization rather than the competition that pushes Apple to have all iPhones assembled in China. The unprecedented globalization and well developed production networks make it possible for Apple to utilize a much cheaper location outside of the US to maximize its profits.

9. Though profit maximization is almost a universal goal for firms, many multinational companies including Apple have adopted corporate social responsibility (CSR) as one of its corporate values. It may be an effective policy option to practice CSR by creating jobs for low skilled workers, such as using American workers to assemble iPhones.