Global value china and US-China trade war

Professor Xing Yuqing, visiting research professor at the East Asian Institute and Professor of National Graduate Institute for Policy Studies in Tokyo, began his presentation with an examination of the trade imbalance between the United States and China. In 2018 China accounted for 47.1% of US trade deficit in goods, up from 19.7% in 2001. Unfair trade practices by the Chinese government, low savings rate of US household and dominance of US dollar were cited as reasons for the trade deficit. From the perspective of global value chain (GVC), however, the deficit is attributed to the inconsistency between trade statistics and modern trade based on GVC.

Professor Xing explained that trade statistics assume that the full value of exported goods is created by the exporting countries. However, Chinese exports contain a large portion of intermediate inputs from other countries, which greatly exaggerated its export capacity. In the case of China-US trade, the degree of statistics distortion has reached the highest because China has become the centre of global manufacturing assembly, while the United States is the destination of most products assembled in China.

For example iPhone X, China only gained a total value-added of $104.25, accounting for 25.4% of the $409.25 the bill of materials. Conventional trade statistics show that the United States ends up with a trade deficit of $332.75 with China for each iPhone X imported. On the other hand, of the $332.75, China contributed only $104, while the rest came from Japan, Korea and other non-American countries. In terms of value added, the trade deficit is only $104.

US exports to China have also been underestimated, Professor Xing argued. Taking advantage of GVC, American multinational corporations have transformed into factory-less manufacturers which derive revenues from intellectual properties, such as patent, brands, technology and distribution networks. Currently, however, the trade statistics did not record this part of the revenue as many American products are produced outside of the United States and do not cross US borders.

Additionally, the value added from IP is embodied in physical products rather than collected in terms of royalties or licensed fees. Apple is the largest American factory-less manufacturer. None of its products sold in the global market is counted as an export of the United States as they are all “assembled in China”. Professor Xing estimates that in 2015, the value added gained by Apple amounted to $19.2 billion. If the value added was considered as a US export to China, its exports to China would rise by 16.6% and corresponding trade deficit would fall by 5.2%.

In conclusion, Professor Xing stated that the income associated with intangible assets should be classified as exports in the age of GVC. It is necessary to adjust bilateral trade balance with the value added of intellectual property.

This summary reflects the personal opinion(s) of the seminar speaker(s) and should in no way be attributed to the East Asian Institute.