



Trade imbalance data is better than it looks

Trade deficits are considered bad news for economies, and for an economy the size of the United States, a deficit of \$745 billion in 2015, the largest seen in decades, would be cause for alarm.

But the true picture is more complex.

Looking beyond traditional statistics shows how burgeoning global value chains are now driving changes in the manufacturing of, trade in, and value of goods.

Multinational corporations that have successfully leveraged global value chains have pivoted away from manufacturing and now concentrate more fully on marketing, design, and innovation.

Apple, Nike, Reebok, the Limited, and the Gap are major players in consumer electronics, athletic footwear, and fashion-oriented apparel, but own not a single production facility in the United States. With the exception of Apple, none of them owns production facilities anywhere in the world.

Official statistics have yet to catch up with new trade realities emerging from global value chains. Although the gross profit margins of the Apple iPhone exceed 60% and that of Nike products is more than 45%, this value is not shown in US export metrics.

Overseas sales data of Apple, the US's largest consumer products company, clearly reveals the link between intellectual property, division of labor, and distribution networks involved in global value chains.

An alternative scenario that includes value-added would highlight the profound impact this single company has on total US exports, increasing them by a full 3.4%, and on the trade deficit, shrinking it by 7%.

Apple has \$152 billion in overseas sales. When a foreign consumer pays the equivalent of \$500 for a single iPhone, Apple earns \$321.04. This figure is missing from US goods and services statistics, nor does it appear in export and import data.

Foreign iPhone sales create strong trade flows for foreign companies, and these sales increase US exports very little. The \$321.04 that Apple earns from every sale, which is an expression solely of value-added, is invisible in US export figures.

Few numbers demonstrate the overseas appeal of Apple products like the 45.2% growth in net foreign sales from 2013 to 2015. One that comes close, however, is the 56.5% increase over the same period of value-added, a figure attributable specifically to the iPhone, which has the largest gross margin of all Apple products.

Given how these implied returns benefit Apple's overall operations, they should be considered an integral part of US exports.

The most vivid example of the discrepancy between conventional statistics and realized value-added is in the People's Republic of China. The PRC bears so much overall responsibility for each value chain product, its export statistics are robust.

Yet the limits of these statistics are thrown into stark relief by the fact that multinational corporations pocket the largest share of the whole value-added of these products when they are sold within the PRC itself.

The value-added of Apple products sold in the PRC increased 135% from 2013 to 2015, which, if reflected in export statistics, would augment US exports to the PRC by 16.6% in 2015 and reduce the US deficit by 5.2%.

Japan's \$69 billion trade surplus with US is an object lesson on the limits of trade statistics. Comparing Japan's automotive exports with Apple products shows the asymmetric nature of reporting in the US-Japan trade balance.

Japanese cars flowing to the US contain no global value-added and are simply recorded as imports.

iPhones flowing from the PRC to Japan are not regarded as US exports, yet are saturated with the value-added stemming from Apple's intellectual property. An accurate representation of this would augment US exports to Japan by 8.6%, and reduce its deficit by 7.8%.

Researchers are now drawing on the greater analytical sophistication of the concept of current account to remedy the shortcomings of conventional export data.

The current account combines net exports of goods and services, and net income transfers, to determine the trade balance. It places a value on intellectual property as part of product sales, and clarifies the US trade balance with foreign economies.

But the limits of conventional export statistics mean it will require more than just increased data-gathering to refine the US trade balance.

Because of global value chains, items crossing borders now represent more than just salable commodities. Accurately quantifying the value added in products will show how global value chains enable US multinational corporations' intellectual property to affect exports, and will improve the view of US trade activity.

This episode is based on [research](#) done for the Asian Development Bank Institute by Yuqing Xing, a professor of economics and the director of Asian economic policy at the National Graduate Institute for Policy Studies, Tokyo.

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