

Having iPhones 'Made in the USA' is not that simple, international business experts say

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Credit: Apple

After Donald Trump promised trade reform in the presidential

campaign, how feasible is it that more manufactured items could carry a "Made in the USA" label?

[News reports](#) mention Apple asking two iPhone assemblers in Asia to study the possibility of moving production to the United States. Even though politics factor into the equation, this likely wouldn't come without sacrificing steep economical cost benefits, said two University of Kansas experts of [international business](#) and economics.

George Bittlingmayer, Wagon Distinguished Professor of Finance in the School of Business, is available to discuss the economic and political factors surrounding U.S. trade policy. Bittlingmayer's research interests include the effect politics and regulation have on business and financial markets as well as mergers and acquisitions. He has served as a visiting economist at the Federal Trade Commission.

Tailan Chi, professor and Carl A. Scupin Faculty Fellow in the business school, can discuss issues surrounding international business and strategic management. Chi's current teaching interests include the global regime of international business and business in China, and his current research interest include the choice of foreign market entry modes, the organization structures of multinational corporations and market evaluations of a firm's intangible assets.

Q: A quote in the news article about Apple's iPhone assemblers looking at moving iPhone production to the United States mentioned that the cost of an iPhone could then double. What are the key economic and political factors to watch in these types of discussions?

Bittlingmayer: The tradeoff is a lower margin in return for not being attacked politically, say with antitrust prosecution or other levers that the federal government has. At first blush, this looks like new territory. The political establishment has pretty much been pro-free trade for a while, with the flood of cheap goods from China and elsewhere being hard to resist, despite the job losses. So, it is hard to come up with historical examples of companies that pulled production back to the United States or that decided not to go abroad so that they would not become subject to the state's coercive powers.

I'll mention the threat seems real to investors. Apple stock had gone down slightly after the election, while the S&P 500 and even the Nasdaq are up.

Chi: It is currently not economical to make such products as iPhones in the United States, not only due to higher labor costs here. There is a highly sophisticated supply chain for electronic products in East Asia around China, and this is something that is very difficult to replicate in the United States in an economical fashion in the near to intermediate term.

Based on the Nikkei Asian Review article, the main Apple contract manufacturer, Hon Hai Precision Industry, is only studying the possibility of making iPhones in America. It sounds as if the company is exploring a hedging strategy in case the incoming Trump administration starts a trade war with China and imposes high tariffs on Chinese exports to the United States.

Q: Does the stock market reaction provide any clues at this point on what a change in trade policy would mean?

Chi: The fall in Apple's stock price that my colleague George Bittlingmayer referred to probably reflects investors' concern about the possibility of high tariffs imposed on U.S. imports from China in case there is a trade war. China is currently the largest market for smartphones (and many other electronics products), so it also makes long-term economic sense for companies like Apple to keep their supply chains in and around China.

Q: Are there any other historical examples to compare companies possibly returning production to the United States like this?

Chi: I am aware of textile firms from China shifting some of their production from China to the United States because of higher wages in China, savings in transportation costs and tariff-free apparel imports from some Central American countries. These companies now weave fabrics in the United States, ship the fabrics to Central American garment factories, and ship finished apparel back to the United States for a lower end-user cost than shipping cotton from America to China and then shipping apparel back to the United States.

Provided by University of Kansas

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