

On the Profit Impact of Sino US Trade War on Electronic Manufacturing Industry---Taking a Limited Liability Company as an Example

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Abstract

In 2018, the Sino US trade dispute initiated by Trump government was the largest trade war in economic history, which reshaped the world economic and financial structure and slowed down the pace of global economic recovery. From the perspective of A limited liability company, this paper analyzes the impact of Sino US trade war on the tax and profit of small and medium-sized technology enterprises in China.

Keywords

Sino US trade war, Profit analysis, Tax.

1. The Root Cause of Sino US Trade War

(1)Trade imbalance

In 2018, the US trade deficit in goods and services increased by 12.5% compared to last year, up to US \$621 billion, which was the highest level since 2009. The US trade deficit with China expanded to US \$419.2 billion, creating a new historic record. The fundamental reason why the United States launched a trade war against China is the serious imbalance of trade between China and the United States. The current trade pattern between China and the United States is China's trade surplus in goods and trade deficit in services, which reflects the comparative advantages of China and the United States[1-5].

(2)American Hegemony

China's rapid development has threatened the US's dominant position in the world. In order to contain China's rapid development, trump government unreasonably launched a trade war against China. Therefore, the White House issued a statement on Sino US trade, claiming that in view of China's theft of intellectual property rights, technology and other unfair trade practices, the US will implement 25% tariff on China's \$50 billion goods with important industrial technologies. It is unsure how long this farce will last, but there is no doubt that in this era of global integration, the U.S. government is undoubtedly begging for its own pain.[6-9]

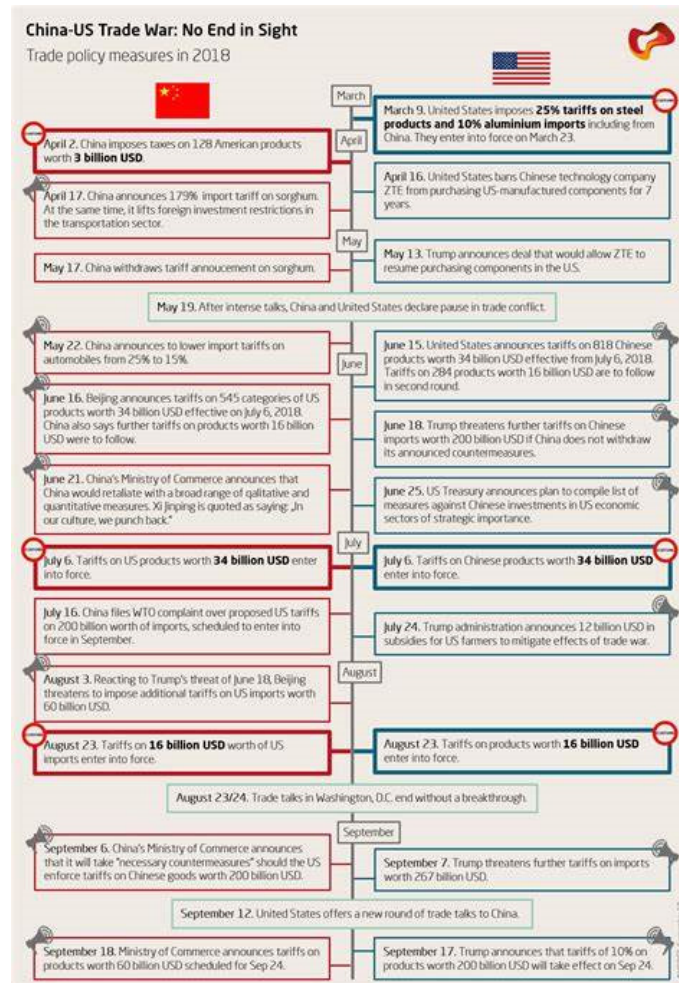


Fig.1 China-US trader War

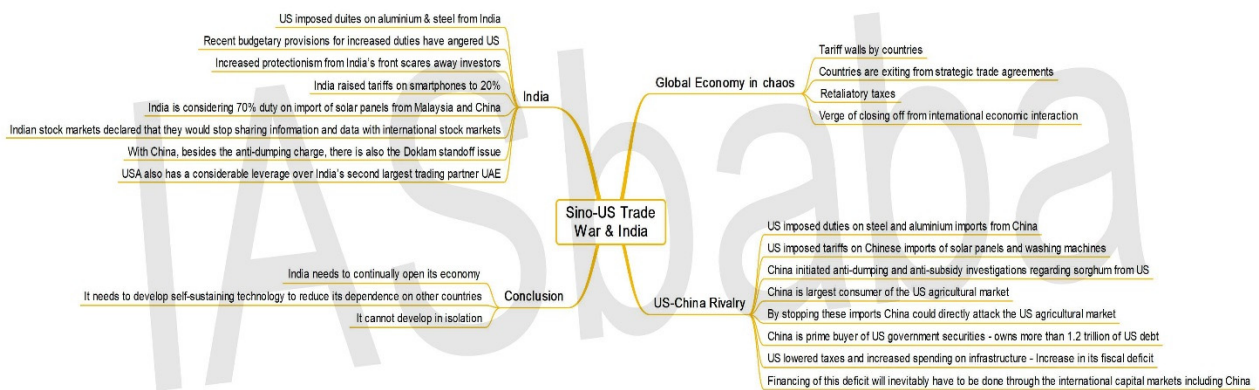


Fig.2 sino-US Trade War& India

2. Company a Profile and Financial Situation

(1) Company profile

Company A is a traditional small and medium-sized manufacturing company in China, and also a small and medium-sized company specialized in foreign trade export, which is located in the Pearl River Delta with high-tech talents and high-quality labor resources. A limited liability company is a mobile phone manufacturing company engaged in the development of mobile phone technology, computer software and information technology; technology testing, technical consulting, technical services, technology transfer, home appliances, communication equipment [10-12].

(2) Financial situation

Assuming A company mobile phone Co., Ltd. is a mobile phone Co., Ltd. that exports to the United States. All of its products are outsourced to B Company Limited for processing. Suppose A company mobile phone Co., Ltd. delivered 2 million yuan of raw materials to B Company Limited for processing in 2017, with an annual processing fee of 200 thousand yuan. B Company Limited would return all the processed clothing with a value of 5 million yuan to A company mobile phone Co., Ltd., and A company mobile phone Co., Ltd. would export all the mobile phones with a value of 5 million yuan to the United States. Before the Sino-U.S. trade war, the value-added tax to be paid by A mobile phone Co., Ltd. on behalf of company B was 352 thousand yuan, and the tariff rate to be paid to the U.S. Customs when exporting 5 million yuan mobile phones was 750 thousand yuan. The operating profit was RMB 1.698 million, and the company income tax of RMB 424500 was required. The net operating profit was RMB 1.2735 million. After the United States launched a trade war against China, the tariff rate was increased from 15% to 25%, and the VAT rate remained unchanged, which was still 352000 yuan, and the tariff was increased to 1.25 million yuan. The operating profit was decreased to RMB 1.198 million, company income tax paid was RMB 299500, and net profit was decreased to RMB 898500. It can be seen that the U.S. trade war has reduced the financial tax paid by A mobile phone Co., Ltd. by 132 thousand yuan, and reduced the net profit of the company by 375 thousand yuan[13-17].

3. The Influence of Sino US Trade War on China's Electronic Products Export

Reducing the profit space of electronic products export and the total export volume of electronic products

From the perspective of China's export structure to the United States: in 2016, the import value of the United States from China was 462.6 billion US dollars, which made China the largest supplier of goods to the United States. The highest import value is electronic and mechanical products (US \$129 billion), the increment of tariffs by the US ultimately affects the tax payer, some American companies and consumers. In order to reduce the negative impact of tariff increase on enterprises and stabilize American customers, China's electronic manufacturing enterprises will adopt the way of price reduction in the short term, thus reducing the profit space. China's electronic manufacturing enterprises are not only facing the sharp decline of export orders, but also the phenomenon of factory closure.

Devaluation of RMB and increase of import cost of electronic enterprises

As of December 19, 2018, the rate of RMB to the US dollar was 6.8954, 5.9% lower than the 6.5063 at the end of last year. In terms of monthly data, the depreciation in May, June, July and October exceeded 1%, and as for the fluctuation comparison of the US dollar index, it exceeded the US dollar by 2.54% and 2.97% respectively. For China's electronic purchase and sale and components industry, the devaluation of RMB makes the import cost of such components increase [18-19].

4. Conclusion

What can be concluded from the net profit of A Co., Ltd. in 2018 is that in this era of global integration, foreign trade transactions between China and the United States are becoming more and more frequent, and the impact of Sino US trade war on Chinese enterprises is not only reflected in the mobile phone manufacturing industry, but also other types of trade. All in all, both China and the US should take active and effective measures to resolve the Sino US trade war in order to seek "win-win".

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