The Hidden Role of Multinational Corporations in the U.S.–China Trade Conflict

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Abstract

Since 2018, the U.S.-China trade conflict has generated significant uncertainty in the global economy. While most analyses focus on state actors and the bilateral trade imbalance—particularly its implications for reshoring U.S. manufacturing—this perspective neglects the corporate structures underlying global trade. In particular, the role of multinational corporations (MNCs) remains underexplored. This study reframes the trade conflict through the lens of the financialization–offshoring nexus (Milberg, 2008; Milberg & Winkler, 2009, 2013). Drawing on financial data from leading MNCs, we analyze how profits are created and allocated within global production networks. We identify four key mechanisms. First, MNCs offshore production to China and extract a substantial share of value added, leveraging superior bargaining power over suppliers. Second, the export of outsourced goods generates service trade revenues through intra-firm payments for intellectual property rights. Third, to minimize tax liabilities, MNCs retain most offshore earnings abroad and invest in short-term financial assets rather than repatriating capital. Fourth, profits from final sales in the U.S. market are primarily used for shareholder payouts—such as dividends, stock buybacks, and acquisitions—rather than reinvestment in domestic production. Our findings reveal a tightly coupled relationship between financialization and offshoring: the former depends on liquidity enabled by the latter, while shareholder value imperatives reinforce the drive to offshore. This nexus plays a central role in shaping the U.S.-China trade imbalance and constitutes a structural barrier to the reshoring of American manufacturing. Beyond geopolitics, the conflict reflects deep-seated transformations in corporate accumulation strategies.

Keywords: US-China trade conflict, financialization, multinational corporations

1. Introduction

Since 2018, the United States has waged what officials described as a “trade war” against China, imposing tariffs on more than two-thirds of Chinese imports, restricting investment, and promoting

reshoring as a pillar of industrial strategy. Yet after six years, the results remain underwhelming. According to U.S. Census and USTR data, the bilateral goods deficit with China fell from around $375 billion in 2018 to roughly $295 billion in 2024, a visible decline but hardly a structural correction. The overall U.S. trade deficit with the world has remained close to $1 trillion in recent years, or about 3 percent of GDP. In other words, even as production networks have shifted and some assembly has moved out of China, the aggregate imbalance in U.S. external accounts remains as large as before.[1]

This persistence raises a deeper question. If such an extensive policy campaign involving tariffs, industrial incentives, and strategic decoupling has not fundamentally altered the deficit, the source of the imbalance must lie deeper than trade measures themselves. The trade war has targeted the geography of production, but the imbalance endures because it is rooted in the geography of value, in how multinational corporations (MNCs) organize production, allocate profits, and recycle capital across borders.

In mainstream macroeconomics, global imbalances are usually explained by saving–investment gaps and portfolio equilibria (Feldstein and Horioka 1980; Bernanke 2005). Later extensions emphasize a worldwide demand for dollar-denominated safe assets (Caballero, Farhi, and Gourinchas 2017) and the dollar's "exorbitant privilege" in sustaining low-cost U.S. borrowing (Gourinchas and Rey 2014). More recently, Obstfeld (2025) has argued that domestic pull factors, including loose monetary policy and financial innovation, were equally important in generating the imbalance. While these macro-financial views illuminate the monetary side of the deficit, they overlook the corporate mechanisms of value capture—offshoring, profit shifting, and financialized accumulation—that underpin its persistence.

This paper reframes the trade conflict as a problem of capital circulation rather than comparative advantage. Building on the concept of the financialization–offshoring nexus (Milberg

[1] Throughout this paper, "the U.S. trade deficit" refers to the goods (merchandise) trade deficit as reported by the U.S. Census Bureau and the Office of the U.S. Trade Representative. In official and political discourse, especially during the trade war, the term trade deficit almost always denotes goods trade, excluding services where the United States runs a surplus. The overall balance including services is smaller (around $700–800 billion in 2024), but policy debate focuses on the merchandise deficit, which exceeded $1 trillion in recent years.

2008; Milberg and Winkler 2009, 2013), we argue that the U.S.–China imbalance arises from a mutually reinforcing relationship between production offshoring and financialized corporate governance. Offshoring provides the cost arbitrage and liquidity that sustain financialization, while financialization creates shareholder-value pressures that accelerate the drive to offshore. Together they form a single circuit linking global production with corporate finance.

We identify four interconnected mechanisms within this circuit: (i) offshoring and value capture, as production is relocated to low-cost sites such as China and Southeast Asia while profits remain concentrated in U.S. headquarters and tax havens; (ii) intellectual-property rent extraction, through which the export of outsourced goods generates service-trade revenues via intra-firm royalty and licensing payments; (iii) profit retention and financialization, as offshore earnings are held abroad and predominantly invested in dollar-denominated financial assets, including U.S. Treasury securities, corporate bonds, and money-market instruments, rather than in productive activities; and (iv) shareholder distribution and underinvestment, whereby repatriated profits are channeled mainly into dividends and buybacks instead of capital formation. Together these mechanisms constitute a self-reinforcing circuit linking global production with corporate finance and underpinning the persistent misalignment between trade and value.

These mechanisms describe the contemporary structure of U.S. corporate accumulation, one that connects global production to financial circuits of value without translating profits into renewed productive investment. In this configuration, profits generated through global production networks are realized and recycled largely within financial domains rather than extended reproduction. The persistence of the U.S. trade deficit is therefore not merely a sign of macroeconomic imbalance but a structural disjunction between the sites of production, the locations of profit recognition, and the channels of capital recycling. What appears as a national deficit is, in effect, a manifestation of how multinational corporations mediate the global circulation of value.

Drawing on evidence across multiple levels, the paper traces this circuit through national accounts, sectoral and firm data, and case studies of Apple, Microsoft, Nike, and Pfizer that illustrate its institutional variations. These materials reveal how the four mechanisms operate in practice and expose the hidden role of MNCs in sustaining the trade imbalance. In contrast to political rhetoric that blames foreign countries and to macroeconomic explanations based on saving–investment gaps

or capital inflows, our analysis shows that the imbalance originates in the corporate organization of value itself: production is offshored, profits are booked in low-tax jurisdictions, earnings are held in dollar assets, and capital is recycled through financial channels. In this sense, the U.S.–China trade conflict reflects not a bilateral distortion but a systemic logic of accumulation embedded in global corporate structures.

The remainder of the paper is organized as follows. Section 2 develops the theoretical framework that links trade, value, and capital circulation, contrasting the financialization–offshoring nexus with mainstream accounts of global imbalances. Section 3 draws on macro, industry, and firm-level data to document how the four mechanisms operate in practice. Section 4 turns to corporate case studies that illustrate the institutional variations of this logic. Section 5 concludes by discussing the implications of these findings for understanding the structural limits of trade and industrial policy in a financialized world economy.

2. MNCs and the Corporate Circuit of Value

Mainstream analyses of global imbalances, focusing on saving–investment gaps, exchange-rate adjustment and the dollar's international role, have moved beyond the popular view that blames unfair trade or Chinese industrial policy. Yet even these structural approaches do not identify the process through which capital circulates globally. Building on Milberg and Winkler's (2010, 2013) concept of the financialization–offshoring nexus, this section develops a broader framework that traces how multinational corporations (MNCs) mediate the creation, realization and recycling of value across borders. By linking trade, production and corporate finance within a single circuit of capital, the analysis reveals the hidden role of MNCs in sustaining the U.S.–China imbalance.

This framework can be described through three interlocking geographies of capital circulation: (i) the *production geography*, where MNCs organize cross-border production through contract manufacturers and supplier networks that lower costs and externalize risks; (ii) the *value geography*, where the same firms determine where profits are booked—typically in headquarters or tax-advantaged entities—by controlling design, pricing and intellectual-property rights; and (iii) the *financial geography*, where accumulated earnings are managed and recycled through global financial centers, often in dollar-denominated assets.

These geographies are not static but have evolved through successive waves of globalization,

a process that earlier radical political economists identified as central to the rise of multinational corporations as agents of capital expansion (e.g., Hymer 1978; MacEwan 1972). Each new phase—from the post-war spread of U.S. firms to the fragmentation of manufacturing since the 1980s, the rise of global production networks in East Asia, and the growing dominance of financial institutions in corporate governance—has widened the gap between where goods are produced and where profits are recorded (Vernon 1971; Dunning 1988; Panitch and Gindin 2012). Across these dimensions, MNCs act as the institutional link that coordinates production, profit recognition and capital allocation (Pitelis and Sugden 2000; Strange 1996). Across these dimensions, MNCs act as the institutional link that coordinates production, profit recognition and capital allocation. Their ability to command this transnational architecture explains why the locations of production, value capture and financial accumulation diverge, and why the geography of trade tells only part of the story. As subsequent research has shown, the international division of labor is increasingly a division of *value* rather than of *production*, with intangible assets, standards and data flows redefining what counts as trade (Baldwin 2016; Coe et al. 2008; Durand and Milberg 2022).

At the firm level, offshoring and financialization are not separate tendencies but elements of a single accumulation strategy. By relocating production to external suppliers, MNCs reduce fixed costs and capital requirements, stabilizing profit margins and generating large and flexible cash flows. Under shareholder-value governance, these liquid resources are increasingly channeled into financial uses such as dividends, share repurchases and portfolio investment rather than into domestic productive expansion (Milberg and Winkler 2010, 2013; Auvray 2019). The decisive link between the two processes lies in the management of intangible assets. Control over patents, software, brands and technical standards allows lead firms to separate the geography of production from the geography of value recognition. Through intra-firm royalties and licensing charges, they transform manufacturing output into service revenues booked at headquarters, turning global sourcing into an internal flow of financial income. As Orhangazi (2019) shows, the rise of intangible-intensive business models explains why profitability has remained high even as physical investment has stagnated.

This pattern intensified after the early 2000s, when China's integration into global production networks provided a vast industrial base that allowed U.S. and other Western corporations to

combine cost efficiency with financial flexibility (Gereffi 2014; Yeung and Coe 2015). The liquidity generated by offshore production, combined with relaxed capital controls and the dollar's central role in global finance, reinforced the circular movement of profits between Asian production platforms and Western financial centres (Panitch and Gindin 2012). In this way, the hidden corporate mechanisms of MNCs fuse offshoring with financialization, converting global production networks into circuits of financial accumulation.

<Figure 1. The Corporate Circuit of Value Linking Production, Profit, and Finance>

Note: The arrows represent the flow of value through production, intellectual-property revenues, offshore profit retention and shareholder distribution, corresponding to the four mechanisms discussed in the text.

Bringing these elements together reveals a corporate circuit of value that connects production, profit realization and finance (see Figure 1). The diagram illustrates how MNCs coordinate these three geographies—production, value and finance—within a self-reinforcing circuit in which offshoring generates liquidity, financialization converts it into shareholder value, and the pursuit of shareholder value strengthens the incentive to keep production offshore. **First**, production relocated to China and neighboring economies generates large volumes of contracted manufacturing, yet the decisive share of value added accrues to lead firms that control design, standards and global procurement. **Second,** as outsourced goods move through these networks, MNCs invoice affiliates for the use of intellectual property and other centralized services, realizing value through flows of intangible capital that appear in national accounts as exports of royalties, licenses and digitally deliverable services (Xing et al. 2021; Rikap 2018). **Third**, the resulting earnings are retained in offshore entities, placed in low-tax jurisdictions and invested in liquid dollar assets to preserve flexibility and minimize taxation. **Finally**, when profits are returned to the United States, they are predominantly used for shareholder payouts rather than for expanding domestic capacity, consistent with the pattern documented by Lazonick (2013).

Together these mechanisms form a self-reinforcing circuit: offshoring generates liquidity, financialization converts it into shareholder value, and the pursuit of shareholder value strengthens

the incentive to keep production offshore. This dynamic reconciles several empirical regularities: a persistent U.S. goods deficit coexists with surpluses in services and primary income, while high corporate profitability coexists with subdued domestic investment. What appears as a macroeconomic imbalance is, in reality, a firm-level circulation of capital organized by MNCs that links global production to financial accumulation.

Seen from this perspective, the trade conflict takes on a different meaning. Mainstream macroeconomic interpretations attribute the imbalance to monetary and fiscal asymmetries, whereas political rhetoric frames it as a contest of national interests or industrial policy. The circuit perspective developed here suggests instead that the imbalance persists because profits generated in offshored production are realized and recycled through financial networks controlled by U.S.-based multinationals. What is often presented as a bilateral trade problem thus reflects a deeper structural pattern of capital circulation in which both economies are embedded. For the United States, the circuit sustains a financialized regime of accumulation reliant on global liquidity. For China, it has long reinforced a subordinate position within the hierarchy of value capture, a position the Chinese state has sought to change for decades. Trade policy acts on the geography of factories, but the deeper imbalance lies in the geography of value capture and capital recycling. Recognizing this hidden corporate dimension helps explain why tariffs and reshoring initiatives have had limited effect. The following sections draw on macro-, industry- and firm-level evidence, together with case studies of Apple, Microsoft, Nike and Pfizer, to show how these mechanisms operate in practice and how the corporate circuit of capital continues to shape the U.S.–China economic relationship.

3. Empirical Patterns of the Corporate Circuit of Value

The corporate circuit linking global production, profit realization, and financial accumulation can be examined empirically through four connected mechanisms, each of which captures a distinct stage of how MNCs organise and channel value across borders. Drawing on trade statistics, balance-of-payments accounts, and firm-level financial data, this section shows how multinational corporations (MNCs) mediate the creation, capture, and recycling of value across borders.

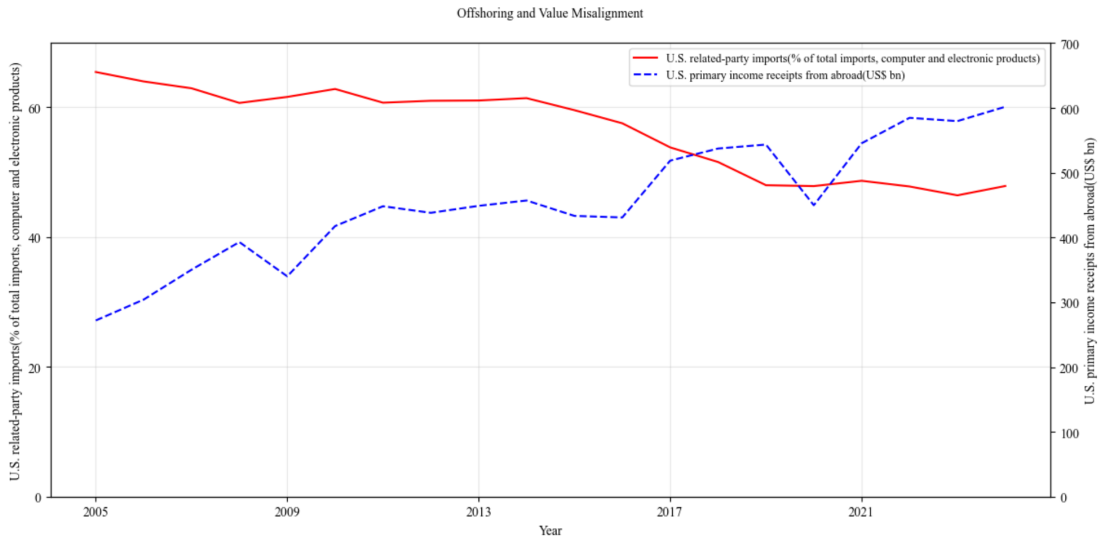
3.1 Offshoring and Value Misalignment

A central feature of the corporate circuit of value is the widening separation between the sites

of production and the sites where value is captured. Since the late 1980s, U.S. multinationals have shifted large parts of their manufacturing to China and neighboring economies while keeping control over design, standards, and the key intangible assets that determine profitability. As a result, production is located offshore, while the profits generated along these chains continue to be realized and accumulated by U.S. parent companies and entities in low-tax jurisdictions. This structural misalignment between where goods are made and where profits accrue forms the first mechanism through which offshoring contributes to the persistence of the U.S.–China imbalance.

Trade and production data illustrate both the magnitude of this relocation and the corporate hierarchical structure through which it is organized. U.S. imports of information and communication technology (ICT) goods from China increased from $17.27 billion in 2000 to $107.35 billion in 2024, accounting for about 25.7 percent of total U.S. ICT imports. Within these flows, related-party transactions—purchases between affiliates of the same multinational—constitute roughly a quarter of total imports in electronics and machinery, indicating that a notable portion of recorded "imports from China" reflects intra-firm procurement within U.S.-centered corporate networks.

Figure 2 illustrates this pattern: the related-party share of U.S. imports in ICT remains high throughout the period, while primary-income receipts from abroad continue to grow, making visible the persistent gap between the geography of production and the geography of value capture.



On the Chinese side, the composition of export-oriented manufacturing has changed but remains deeply rooted in the logic of processing trade. Processing exports accounted for more than 55 percent of China's total exports in the mid-2000s (East Asia Forum 2012; Ma 2009), declined to

around 33 percent by 2017 (Bai 2021), and have fallen to roughly 20 percent in recent years according to Chinese customs releases (GAC 2024). Despite this gradual decline, the share remains substantial and continues to anchor China's role as the global assembly hub in electronics and machinery. Correspondingly, foreign-owned affiliates have maintained or increased their weight in industrial production, contributing 2.95 percent of China's industrial value added in 2000 and 4.3 percent in 2020. These trends show that even as China's export mix evolves, multinational firms still organize and govern a significant share of the country's manufacturing capacity, reinforcing a production system that is spatially dispersed yet hierarchically controlled by U.S. parent companies.

Firm-level evidence also supports this view. Among S&P 500 non-financial firms, foreign sales consistently account for around 42-45 percent of total revenue —42.8 percent in 2017 and 42.3 percent in 2024—showing that nearly half of the market for these firms lies overseas. Foreign pre-tax income, however, typically contributes only 10-30 percent of total pre-tax income. The gap between a global revenue base and highly concentrated profit realization is not the result of weak foreign operations but reflects the allocation of functions within multinational production networks: offshore affiliates undertake routine manufacturing and distribution, while the higher-value activities remain attached to the U.S. parent. Identifiable manufacturing assets in China comprise just 0.93 percent of consolidated corporate assets, yet they generate most of the physical output under low margins. The financial statements of Foxconn, Pegatron, and Luxshare show low-single-digit operating returns, consistent with the 3–5 percent cost-plus mark-ups illustrated in the OECD Transfer Pricing Guidelines (OECD 2022, para. 2.59). The resulting pattern—extensive offshore production combined with limited offshore profitability—illustrates the firm-level foundations of the production–profit misalignment.

The same misalignment becomes clearer when examined through profitability ratios rather than absolute earnings. Among S&P 500 non-financial firms, domestic divisions earn substantially higher gross margins than their foreign segments. Over 2017–2024, the average gross-margin differential between domestic and foreign operations is around 8.5 percentage points, indicating a persistent pattern in which high-value activities remain located at headquarters while offshore units operate with far thinner margins. Although the specific mechanisms that generate this distribution—including the organization of intangible assets and internal group pricing—are examined in the next

section, the geographic asymmetry of profitability is already evident at the level of segment accounts.

These firm-level asymmetries scale up directly to the aggregate pattern commonly described as the U.S. goods deficit with China. What appears as a bilateral imbalance is, to a large extent, the statistical expression of how multinational firms organize production. Offshoring shifts the location of assembly and component processing to affiliates or contractors in China, and these cross-border shipments are recorded as U.S. imports from China, even when the underlying production is initiated, coordinated, and ultimately governed by U.S. parent firms. In this sense, the geography of production is internationalized, while the geography of value capture remains concentrated in U.S.-based high-value functions rather than in offshore manufacturing sites. As production relocates to alternative low-cost sites, the same organizational logic tends to reproduce large U.S. global goods deficits vis-à-vis new assembly hubs instead of reducing the United States' overall external imbalance. This structural configuration—production offshore, value capture at home—thus underlies the persistence of the U.S. overall goods deficit and constitutes the first link in the corporate circuit of value.

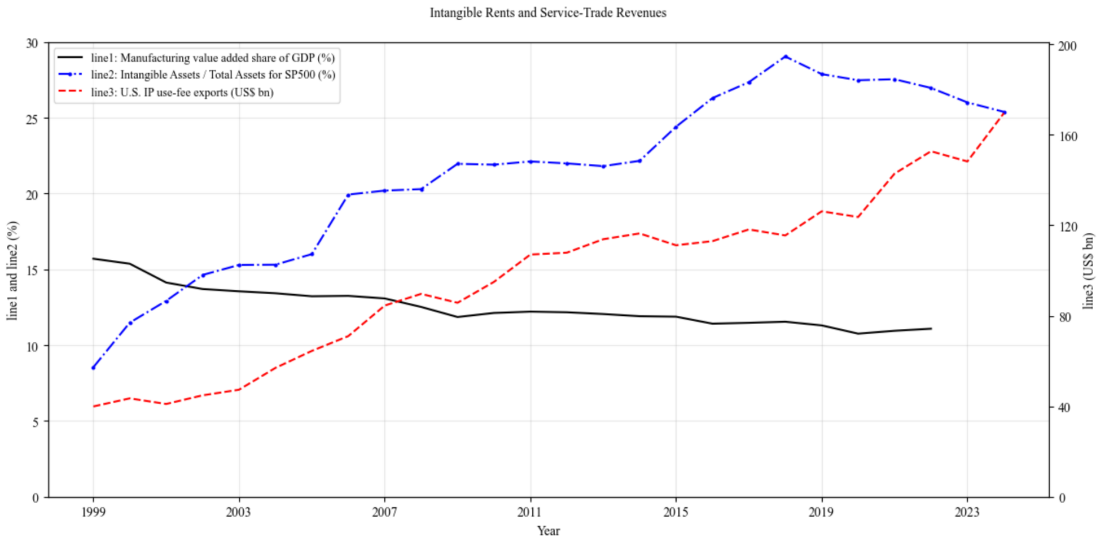
Put differently, the relocation of production reshapes the bilateral pattern of U.S. trade flows without altering the structural basis of the United States' global goods deficit. To understand how this asymmetry is sustained and amplified, the next section examines the role of intangible assets and the internal pricing of intellectual-property within multinational groups.

3.2 Intangible Rents and Service-Trade Revenues

As production fragmented across borders, U.S. multinationals shifted the basis of value capture from tangible facilities to intangible assets—patents, brands, software, and data—held by the parent economy. This constitutes the second mechanism in the corporate circuit of value. An increasing share of corporate surplus is no longer realized as manufacturing profits in the locations where goods are physically assembled; instead, it is generated through the control, licensing, and monetization of proprietary knowledge. This mechanism is visibly reflected on corporate balance sheets, particularly in intangible-intensive sectors. For leading technology and pharmaceutical corporations, intangible assets account for over 36 percent of total assets, and R&D expenditure has reached 9.4 percent of annual sale, consolidating proprietary knowledge as the central locus of profitability.

The appropriation of surplus operates through two distinct but complementary institutional channels: intra-firm licensing arrangements and cost-sharing agreements (CSAs). In the classic rent-extraction model of intra-firm licensing, the U.S. parent retains full ownership of the IP and grants usage rights to foreign affiliates in exchange for royalty payments, typically calculated as a percentage of sales. This mechanism directly converts overseas revenue into U.S. service income. Alternatively, technology giants often favor the more sophisticated Cost-Sharing Agreements (CSAs). Under this arrangement, the parent and a foreign affiliate (often in a low-tax jurisdiction) agree to share R&D development costs. In return, the affiliate obtains the "economic ownership" of the IP for non-U.S. markets. While this allows the affiliate to retain profits without paying continuous royalties on future sales, it requires initial "buy-in" payments and ongoing cost contributions. These intra-firm financial flows—royalties, license fees, and R&D cost contributions—are not neutral accounting entries but constitute the primary channels through which the parent firm captures a share of the surplus generated abroad. Through these channels, intangible rents rather than manufacturing profits become the dominant vehicle of corporate value realization.

At the macroeconomic level, this dynamic manifests as a persistent and expanding U.S. surplus in trade in intellectual property services. This surplus does not primarily reflect traditional service export competitiveness but rather the rentalization of intangible assets embedded in the global value chain. Between 2000 and 2024, U.S. receipts from IP licensing (Charges for the Use of Intellectual Property) surged from US $43.5 billion to US $169.5 billion. The balance on royalties and licenses has remained strongly positive, rising from US $27.3 billion in 2000 to US $115.5 billion in 2024. This growing surplus helps to significantly offset the structural merchandise trade deficit. This macro-level shift is reflected in Figure 3, where the rise in U.S. IP-use-fee receipts coincides with the long-run decline of manufacturing’s share in GDP, underscoring how intangible rents increasingly replace manufacturing profits as the dominant channel of value realization.



Crucially, the vast majority (often exceeding 60% and trending upwards) of these inflows originate not from arm's-length transactions with independent foreign clients, but from payments by foreign affiliates of U.S. multinationals. This affiliated nature confirms that the service surplus is fundamentally an expression how MNCs centralize IP-related income in the parent economy. The external surplus thus mirrors the internal organization of global corporate earnings.

The rentalization of IP is most pronounced in intangible-intensive sectors—namely, software, semiconductors, pharmaceuticals, and platform services (e.g., cloud computing). In these industries, royalty income often represents a significant percentage of total revenue for the U.S. parent, while foreign subsidiaries report substantial, corresponding royalty expenses relative to their sales. This pattern demonstrates a critical "export goods + simultaneously export service capital" structure. Corporate disclosures, transfer pricing documents, and specific case studies (detailed in Section 4) confirm how this reclassification operates via the two channels identified above. Nike exemplifies the licensing model, where global sales operations pay brand license fees to a centralized IP entity (e.g., in the Netherlands), remitting funds back to the corporate core. Pfizer similarly channels global sales profits back through royalty payments to patent IP entities. In contrast, Microsoft and Apple rely heavily on the CSA model: profits from offshore sales are primarily attributed to foreign entities (e.g., in Ireland) that hold economic rights via cost-sharing, with returns accruing to the U.S. economy through a mix of buy-in payments, cost reimbursements, and eventual dividends or service fees. Across these sectors, service-based income derived from the use of proprietary knowledge systematically replaces manufacturing profits as the core source of surplus.

Through CSAs and intra-firm licensing, MNCs realize a significant share of global production surplus as service income recorded in the United States. Indeed, the increase in U.S. royalty receipts from affiliates between 2010 and 2024 roughly matched the decline in the domestic share of manufacturing value added, suggesting that the locus of profit capture has shifted toward intangible assets rather than toward the physical sites of production. Taken together, the rise of intangible rents links globally dispersed production to service-based profits centralized in the United States, forming the second structural mechanism through which the corporate organization of value sustains the persistent U.S.–China imbalance.

3.3 Profits Retained Offshore and Financialized Recycling

The third mechanism links the globalization of production to a new pattern of capital circulation: the retention of profits abroad and their redeployment in financial rather than productive uses. Unlike the value-capture mechanisms examined in Section 3.2, which explain how surplus is captured along global IP and licensing chains, this section focuses on where that surplus is held and how it is ultimately allocated. Offshore profits are systematically accumulated within foreign subsidiaries and low-tax jurisdictions. Crucially, this pattern is not reducible tax optimization. It reflects a deeper shift in the logic of accumulation itself: surplus generated in global production is increasingly converted into liquid financial claims, decoupling profit generation from productive reinvestment.

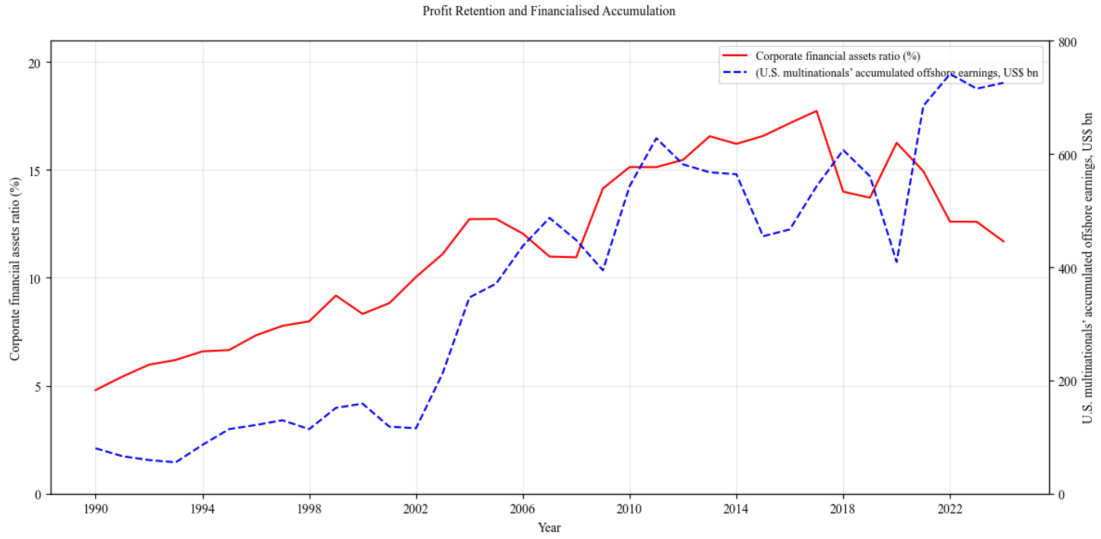
Company filings indicate that the buildup of offshore earnings is a structural rather than cyclical phenomenon. The stock of earnings retained abroad by major U.S. MNCs reached about US $725.7 billion in 2024. Although this accumulation coincides with a long-term decline in the effective tax rates (from roughly 40.1% in 1990 to 22.95% in 2024), the sheer scale of foreign-held liquidity points to forces beyond simple tax arbitrage. The global expansion of production has thus created a vast pool of surplus—legally offshore but strategically controlled by U.S. parent companies—that remains largely detached from the domestic productive base.

The persistence of this offshore pool reflects the intrinsic logic of financialized capital, which prioritizes liquidity, mobility, and financial yield over fixed investment. Global production networks generate profits that are inherently separable from their physical origin. For contemporary

multinationals, deploying this surplus in liquid financial assets—rather than in capital-intensive, uncertain manufacturing—offers higher flexibility and more immediate returns. Institutional arrangements reinforce this preference but do not originate it. Tax deferral provisions, centralized cash-pooling structures in jurisdictions such as Ireland or Luxembourg, and the accounting designation of "indefinite reinvestment" merely provide the channels through which capital's liquidity preference is operationalized. These frameworks stabilize and normalize the detachment between global surplus generation and productive accumulation.

The allocation of retained profits confirms this shift. These retained profits are not simply "trapped" offshore; they are actively redeployed into financial markets as a preferred mode of accumulation. Balance-sheet data reveal a marked change in asset composition: cash and marketable securities rose from 7.9 percent of total corporate assets in 1990 to 12.4 percent in 2024, while financial income increased from 30.8 percent to 38.9 percent of operating profits over the same period. Corporate liquidity is overwhelmingly channeled into short-term securities, corporate debt, and U.S. Treasury bonds rather than into new factories or R&D of comparable magnitude. In this sense, global production networks function not only as sites of value creation but also as sources of liquid surplus for financial deployment, reinforcing the financialization of the firm.

Figure 4 brings this mechanism into view: accumulated offshore earnings rise in parallel with the increasing share of financial assets on corporate balance sheets, indicating that retained profits are systematically redeployed into liquid dollar-denominated instruments rather than productive investment.



The macroeconomic counterpart of this behavior is visible in the U.S. balance of payments. While the United States runs large and persistent merchandise trade deficits, it enjoys a rising surplus in net FDI income, which increased from US $93.82 billion in 2000 to $297.03 billion in 2024. Income receipts from direct investment in manufacturing centers such as China have expanded correspondingly. These flows represent the financialized appropriation of value created abroad and mirror the firm-level shift from production-based to finance-based accumulation. The total stock of U.S. direct investment abroad rose from US $731.8 billion in 1990 to US $9.7 trillion in 2024, highlighting the extent to which global profits are recycled through financial channels rather than through domestic productive reinvestment.

The primacy of capital logic over institutional design is underscored by the aftermath of the 2017 Tax Cuts and Jobs Act (TCJA). Although the TCJA imposed a transition tax and shifted toward a territorial system intended to encourage repatriation, it did not alter the mode of accumulation. The capital that returned to the United States was not channeled into new productive investment; instead, repatriated funds were overwhelmingly directed toward share repurchases and dividends, leaving patterns of capital expenditure essentially unchanged. This outcome demonstrates that modifying the tax treatment of offshore earnings can reconfigure the geography of cash holdings but cannot redirect the underlying logic of capital use. The broader implications of this shift—particularly its relationship to shareholder distributions and the widening investment gap—are examined next section.

Taken together, these trends define the financial core of the corporate circuit of value. Offshore earnings function as reservoirs of globally generated liquidity, sustaining a steady inflow of investment income to the United States. What appears in national accounts as a positive balance on primary income is, in effect, the financialized form of value created in offshore production. The retention of profits abroad and their recycling through financial assets therefore constitute the third link in the circuit, connecting global production to the reproduction of a financialized regime of accumulation at the center of the world economy.

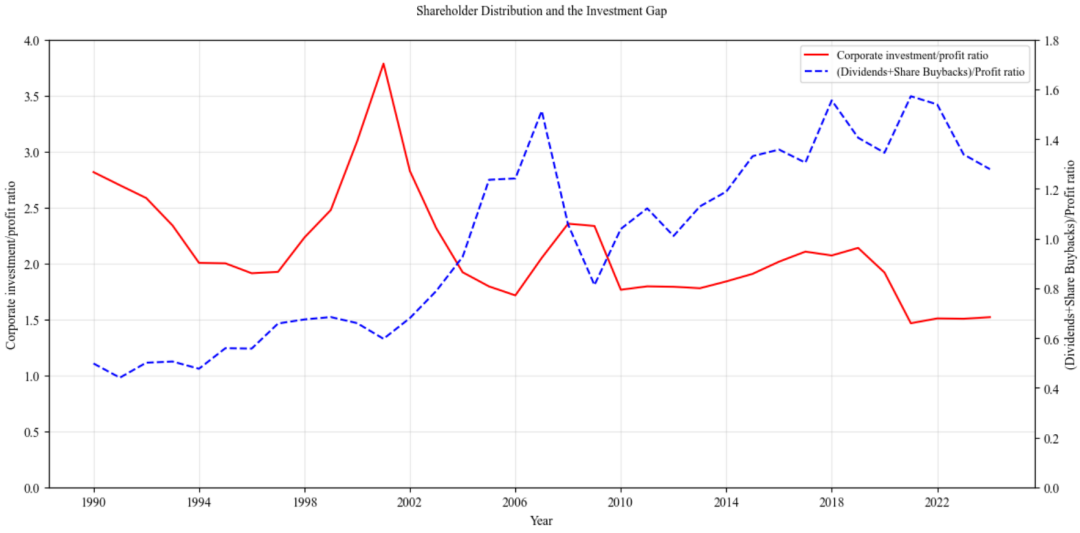
3.4 Shareholder Distribution and the Investment Gap

The final mechanism in the corporate circuit of value concerns the ultimate destination of

realized profits. While the previous section detailed how earnings are retained and managed within financial positions, this section examines their final distribution. Rather than financing new rounds of productive investment, a dominant share of corporate earnings is systematically distributed to shareholders through dividends and share repurchases. This pattern marks the culmination of the financialization process, as profits generated in global production and captured through intangible rents are exited from the industrial circuit to service financial claims.

Firm-level data indicate a fundamental shift in profit allocation priorities. Among S&P 500 corporations, dividends accounted for approximately 36.7 percent of net income in 2024, figure that has been overshadowed by the surge in share repurchases. Buybacks now amount to 53 percent of net income, transitioning from a supplementary tool to the primary channel for capital distribution. The total volume of buybacks among these firms reached US $679.3 billion in 2024. Most significantly, the ratio of total shareholder payouts (dividends plus buybacks) to capital expenditure has exceeded unity in most years since the mid-2010s. This metric confirms that corporations now systematically return more capital to financial markets than they invest in their own productive assets.

Figure 5 illustrates this divergence: as the investment-to-profit ratio falls, the payout-to-profit ratio rises above unity and remains elevated, marking the endpoint of the circuit in which profits are channeled to shareholders rather than to expanded reproduction.



The direct counterpart to rising shareholder payouts is a structural decline in investment intensity, creating a persistent investment gap. Despite elevated profit margins derived from global

sourcing and intellectual property rents, capital expenditure as a share of total assets has trended downward, settling at 4.9 percent in 2024. This divergence is equally evident at the macroeconomic level. The ratio of corporate investment to profits has fallen steadily from 2.8 in 1990 to 1.5 in 2024, and net private investment as a share of GDP has declined to 4.32 percent. These indicators demonstrate a structural break in accumulation: high corporate profitability no longer translates into expanded productive capacity, resulting in the decoupling of profit accumulation from capital formation.

This reorientation of corporate behavior is fundamentally driven by changes in governance and managerial incentives. Executive compensation structures have become tightly coupled with stock performance, reinforcing the priority of short-term shareholder returns over long-term reinvestment. The median ratio of CEO total compensation to corporate profits has risen to 1851 percent. Crucially, equity-based awards now account for 60.8 percent of total executive pay, with the ratio of stock and option awards exceeding 67.6 percent for top executives. Such remuneration structures align managerial interests directly with share price appreciation, thereby incentivizing the use of free cash flow for buybacks, which boost earnings per share, rather than for riskier, longer-horizon capital expenditure projects.

The aggregate result is a self-reinforcing financial cycle. By outsourcing production (Section 3.1), firms increase the free cash flow available for distribution. These funds are then channeled into share repurchases (Section 3.4), which support stock prices and executive compensation, completing the circuit of financialized accumulation. This mechanism explains the coexistence of record corporate profits with sluggish domestic investment and productivity growth in the U.S. economy. The investment gap is thus not a consequence of capital scarcity, but a structural feature of a regime where the corporation prioritizes the extraction of value from global supply chains for immediate delivery to financial markets. This dynamic sets the context for the firm-level analyses of Apple and Microsoft in Section 4.

Taken together, the four mechanisms trace an integrated corporate circuit of value that connects global production with financial accumulation. Offshoring shifts the physical locus of value creation to low-cost sites such as China, but profits remain concentrated in headquarters economies. Through

cost-sharing agreements and intra-firm royalties, a growing portion of this value is reclassified as service income derived from intellectual property and digital platforms, generating a persistent U.S. surplus in intangible exports. Offshore earnings are then retained and invested in financial assets, sustaining continuous inflows of investment income to the United States even as productive investment stagnates. Finally, these profits are recycled to shareholders through dividends and buybacks, completing the circuit by turning industrial surplus into financial returns.

What appears in national statistics as a bilateral trade imbalance thus reflects a deeper structural logic: global corporations transform industrial production into financial income through internal transactions, tax arbitrage, and shareholder-oriented accumulation. The U.S.–China deficit is not simply a symptom of asymmetric trade policy but the outcome of a transnational corporate system that links production, profit, and finance in a unified process of value circulation.

The following section turns to firm-level case studies—Apple, Microsoft, Nike, and Pfizer—to illustrate how these mechanisms operate in practice. By tracing the movement of value through their production networks, tax structures, and financial strategies, the analysis connects the macro patterns identified above to the concrete architectures of global corporate capital.

4. Case Studies: How the Corporate Circuit Operates in Practice

This section examines four representative multinational corporations to show how the mechanisms identified in Section 3 are organized and reproduced within firm-level structures. Despite substantial differences across industries—consumer electronics, digital services, branded consumer goods, and pharmaceuticals—the cases reveal similar patterns in the spatial organization of production, the ownership and deployment of intangible assets, the use of low-tax jurisdictions for profit booking, and the financialized allocation of offshore earnings. Together, these cases illustrate how the corporate circuit of offshore production, IP-centered value capture, and financial recycling is built and maintained in practice.

4.1 Apple: Contract Manufacturing, IP Centralization, and Financialized Repatriation

Apple coordinates one of the world's largest electronics supply chains while retaining full control over the intangible assets that determine profitability. The company operates without its own factories; instead, assembly is carried out by contract manufacturers such as Foxconn (Hon Hai),

Pegatron, and Luxshare. These firms perform tightly specified manufacturing tasks, hold no intellectual property, and operate as limited-risk manufacturers under cost-plus arrangements. Their margins are stable and low, taxed largely in China and other Asian production centers.

Upstream and downstream from assembly, Apple structures its operations around entities that own and manage the economic rights to its intellectual property. Historically, Apple Sales International (ASI)—incorporated in Ireland—held the rights to commercialize Apple's IP outside the Americas through a cost-sharing agreement. Under this arrangement, ASI reimbursed the U.S. parent for a portion of global R&D expenditures and in return booked residual profits from selling finished goods to regional distribution hubs. These profits were substantial, reflecting the commercial value of design, software ecosystems, and brand assets. ASI had minimal physical presence or employment, yet reported extremely high earnings at very low effective tax rates.

The chain of internal transactions reinforces this structure. Manufacturers sell finished devices to ASI. ASI then sells to regional distributors such as Apple Singapore or Apple Distribution International, which in turn sell to national subsidiaries and retailers. Throughout these transfers, margins from intangible assets are embedded in ASI's accounts, while distributors earn routine returns. The bulk of economic rents generated outside the United States thus accrue to ASI and affiliated entities rather than to production or retail markets.

Foreign earnings accumulated for more than a decade, recorded in Apple's financial statements as unremitted foreign profits. After the 2017 Tax Cuts and Jobs Act (TCJA), Apple began repatriating a portion of these balances, incurring one-time transition taxes. The repatriated funds were used primarily for large share-repurchase and dividend programs rather than expanded domestic investment.

Apple's global structure shows how contract manufacturing, centralized control of intellectual property, and the long-term retention of foreign earnings combine to separate the geography of production from the geography of profits and to channel much of the resulting surplus into shareholder payouts.

4.2 Microsoft: Intangible Assets, Platform Revenues, and Offshore Profit Centers

Microsoft represents a digital counterpart to Apple's hardware-based structure. The firm's

primary assets—software, cloud infrastructure, data, and platform services—are entirely intangible. Microsoft has long used cost-sharing agreements to allocate the economic rights to its intellectual property between its U.S. headquarters and foreign affiliates, most prominently in Ireland. Under these arrangements, affiliates reimburse the parent for R&D expenditures and subsequently hold the rights to commercialize software and cloud services in designated non-U.S. markets.

Irish affiliates serve as principal profit centers for licensing Windows, Office, server products, and cloud-subscription services. National subsidiaries act as limited-risk distributors, performing sales and marketing functions while retaining only routine margins. The high-margin revenues generated by licensing and subscription models therefore accrue largely to the Irish IP-holding entities rather than to the jurisdictions where customers are located.

The nature of Microsoft's products shapes their appearance in international accounts. One-time and volume licenses are classified as receipts for the use of intellectual property. Cloud-based offerings—Azure, Office 365, and other subscription services—are recorded as "telecommunications, computer, and information services." These categories represent major components of the U.S. services surplus. When cloud services are delivered through offshore affiliates, revenues accumulate abroad and reappear in U.S. statistics only when profits are distributed back to the parent as investment income.

Profit distributions from Microsoft's Irish affiliates exceed tens of billions of dollars in recent years. These flows have financed sustained share-repurchase programs that far exceed annual capital expenditures, even as the company expands data-center capacity to support cloud growth.

Microsoft's organization makes clear how the control and allocation of intangible assets determine where digital-service revenues are booked and how the associated earnings ultimately return to the United States through financial channels rather than productive investment.

4.3 Nike: Brand Ownership, Virtual Manufacturing, and Spatially Concentrated Profits

Nike provides a perspective from brand-driven consumer goods. As in electronics, the company outsources all manufacturing to factories in China, Vietnam, Indonesia, and other Asian economies. These facilities operate under cost-plus arrangements and hold no Nike intellectual property, yielding low and predictable margins. The value-creating functions—design, brand

management, marketing, and sponsorship—are concentrated in the United States.

Nike European Operations Netherlands (NEON) plays a central role in the company's global profit allocation. NEON purchases finished goods from Asian manufacturers and sells them to national subsidiaries across Europe and other regions. It also charges brand royalties tied to sales revenue. Both wholesale margins and brand-royalty income concentrate profits in the Dutch entity, which has historically benefited from favorable tax rulings.

Local sales subsidiaries retain only routine margins after paying royalties and transfer-pricing charges to NEON. Accumulated earnings in the European IP and distribution hubs are periodically remitted to the U.S. parent through dividends or intra-group financing. As with firms in technology sectors, these earnings are used predominantly for share repurchases and dividends rather than domestic capital expenditure.

Nike's brand-centered model illustrates how consumer-goods firms can pair Asian contract manufacturing with European IP and distribution hubs to concentrate profits offshore, while routing the financial returns of those earnings back to U.S. shareholders.

4.4 Pfizer: Patent-Based Rents, Intra-Group Pricing, and Offshore Concentration of Pharmaceutical Profits

Pfizer displays the same general architecture in a sector where the separation between production and profits is even more pronounced. Patents, regulatory data, and proprietary formulations constitute the company's core assets and generate substantial monopoly rents. These assets are created primarily in the United States, yet the economic rights to commercialize them abroad often reside in affiliates in Ireland, Luxembourg, or the Netherlands through cost-sharing agreements or transfers of intangible assets.

Pfizer Global Supply (PGS) operates manufacturing facilities in the United States, Europe, and Asia, supplemented by contract manufacturers. These facilities sell finished drugs to IP-holding affiliates at cost-plus prices. National sales subsidiaries then purchase products from the IP-holding entities at transfer prices that allocate only routine margins to local operations. The large economic rents associated with patented drugs therefore accrue to the IP-holding affiliates rather than to production sites or sales markets.

These offshore profits finance acquisitions, internal loans, and—after TCJA—dividends to the U.S. parent. The repatriated earnings support share-repurchase programs and balance-sheet restructuring. While Pfizer has expanded capacity in selected production segments, the scale of new investment remains small relative to the company's global earnings.

Pfizer's arrangement shows how patent ownership, intra-group pricing, and low-tax affiliates structure the flow of pharmaceutical rents and direct much of the income generated abroad into U.S. financial markets through dividends, buybacks, and other balance-sheet operations.

Across the four companies, the cases reveal a common structure of contemporary multinational organization. Production is geographically dispersed and operates on low and relatively stable margins. The ownership and allocation of intangible assets—design, software, brand, patents—determine where profits are recognized. These profits accumulate in a small number of affiliates located in low-tax jurisdictions and subsequently return to the United States largely through shareholder distributions. This firm-level circuit, linking offshore production, IP-centered value capture, and financialized capital allocation, underpins the macroeconomic patterns documented in Section 3 and helps explain the limited effectiveness of trade-centered policies in altering the structural drivers of the U.S.–China imbalance.

5. Discussion

The analysis in this paper points to a structural explanation of the U.S.–China imbalance. Contemporary global production is organized through multinational corporations that separate the geography of manufacturing from the geographies of value capture and financial accumulation. Once these domains are decoupled—and reconnected through offshoring, intangible-asset control, offshore retention, and financialized distribution—trade flows no longer correspond to the distribution of value. The bilateral imbalance persists not because trade measures fail to redirect production, but because the corporate architecture of value creation and appropriation remains intact. This section examines the implications of this argument for the limits of trade and industrial policy and for understanding the U.S.–China conflict within a globally integrated corporate system.

5.1 Trade Measures Fail Because They Target Production Rather than Value Capture

Tariffs and trade restrictions operate on the location of assembly, yet the decisive mechanisms of value capture lie in the control of intangible assets, the pricing of intra-firm transactions, and the internal allocation of profits. Because these mechanisms remain unaffected by changes in production geography, trade measures have limited effect on the aggregate imbalance.

The case studies demonstrate this clearly. Apple assembles devices in China, but profits are realized in Irish IP entities and ultimately accrue to the U.S. parent. Microsoft's cloud and software income is recorded as U.S. services revenue even when delivered from offshore affiliates. Nike and Pfizer reproduce the same structure in brand-intensive and patent-dependent industries. In each case, the bulk of value is appropriated far upstream from the site of physical production.

As long as MNCs can centralize intangible assets, set internal prices, and route profits through low-tax jurisdictions before they reach U.S. financial markets, tariff policy cannot realign value creation and value capture. Trade measures shift production patterns but do not alter the structure that sustains the imbalance.

5.2 Industrial Policy Cannot Succeed under a Financialized, Shareholder-Oriented Corporate Regime

Industrial policy assumes that stronger incentives, lower risks, or strategic subsidies will stimulate domestic investment. Yet the empirical patterns of Sections 3 and 4 show that U.S. corporations operate under a governance regime in which liquid financial returns are systematically prioritized over long-horizon productive commitments.

Offshore earnings are accumulated for liquidity, deployed into financial assets, and ultimately distributed to shareholders rather than reinvested. Even when capital is repatriated—as after the 2017 TCJA—it is used overwhelmingly for buybacks and dividends. The ratio of shareholder payouts to capital expenditure has exceeded unity for most of the past decade, and investment intensity has declined despite record profitability.

This behavior is not an anomaly but the institutional logic of the corporate circuit of value. Offshoring generates liquidity; control of intangibles concentrates profits; offshore retention preserves flexibility; and shareholder-oriented governance channels the resulting surplus into

financial distribution. Industrial policy therefore confronts not a shortage of capital but a structural disincentive to allocate capital toward production. Without governance reforms that realign managerial incentives and restrict purely financial uses of surplus, reshoring initiatives cannot fundamentally alter the trajectory of domestic investment.

5.3 The U.S.–China Conflict Reflects Tensions inside a Transnational System of Corporate Value Capture

The U.S.–China relationship is often presented as a rivalry between two national economies competing for industrial advantage. Yet the evidence shows that the two economies are deeply integrated within a transnational corporate system in which production, value capture, and financial accumulation are coordinated by multinational firms rather than by national economic strategies.

China remains a core production platform for U.S.-centered multinationals, reflected in the scale of ICT imports, the dominance of related-party trade, and the persistence of processing networks. The United States, in turn, remains the primary centre of intangible-asset ownership and financial appropriation, capturing surplus through intellectual-property income, digital-service revenues, and global investment returns.

The case studies illustrate how these circuits operate at the firm level. Apple binds Chinese production, Irish profit booking, and U.S. financial distribution into one integrated chain; Microsoft's cloud and licensing structure links global users, offshore IP entities, and U.S. shareholder payouts; Nike and Pfizer reproduce these dynamics across consumer and pharmaceutical sectors.

The "trade conflict" therefore reflects not decoupling but a tension internal to a shared accumulation system: China seeks to move upward in the hierarchy of value capture, while the United States seeks to maintain its position at the apex of intangible and financial rents. The persistent imbalance is thus a structural feature of this regime, not a bilateral anomaly.

5.4 The Structural Basis of the Imbalance and the Limits of Reform within a Financialized Corporate Order

The persistence of the U.S.–China imbalance reflects not a failure of policy design but the logic of a corporate order in which production, value capture, and capital allocation are structurally

separated. As long as multinational corporations retain the ability to organize global production while centralizing ownership of intangible assets and recycling surplus through financial markets, no shift in tariffs, supply-chain locations, or industrial incentives can realign value with production. The imbalance is reproduced because the institutional architecture that enables this separation remains intact.

In this respect, the problem is not simply that trade policy targets the wrong domain; it is that contemporary accumulation is organized around a systemic disjuncture between where value is created and where it is appropriated. Offshoring is one expression of this disjuncture, but its deeper foundation lies in the legal, accounting, and financial structures that allow corporate capital to detach profit recognition from productive activity. These structures constitute a regime of accumulation in which global production networks serve primarily as generators of liquidity for a highly concentrated set of firms, and in which capital formation is subordinated to the imperatives of shareholder distribution.

Recognizing this logic clarifies the limits of reform within the existing institutional configuration. Transparency in intra-firm pricing, coordinated taxation of intangible income, or constraints on buybacks may modestly narrow channels of arbitrage, but they do not alter the hierarchy of value capture embedded in the global corporate system. So long as the governance of the corporation prioritizes financial claims over productive expansion, and so long as states compete to host the legal fictions through which intangible assets are held, the geography of value will remain decoupled from the geography of production.

This suggests that the imbalance is not a bilateral distortion awaiting technical correction but an outcome of a broader political-economic regime. Any meaningful realignment of value, production, and investment would require institutional changes that challenge the central features of this regime—its permissive treatment of intangible-asset ownership, its fragmentation of the fiscal authority needed to tax global profits, and its embedding of corporate governance within financial markets. Without confronting these structural foundations, policy interventions will continue to act on the surface of global trade rather than on the mechanisms through which multinational capital captures and circulates value.

6. Conclusion

This paper has argued that the persistence of the U.S.–China imbalance reflects the institutional organization of contemporary multinational capitalism rather than the geography of trade. By separating the sites of production from the locations of value capture and financial accumulation, global corporations turn cross-border manufacturing into a circuit of intangible rents, offshore profits, and financialized distribution. The imbalance therefore persists not because trade or industrial policies have failed, but because these policies operate on terrains that are structurally decoupled from where value is appropriated.

The empirical mechanisms documented here—offshoring, IP-centered value capture, offshore retention, and shareholder distribution—show how multinational corporations reproduce this separation across industries. The U.S.–China conflict thus expresses tensions within a shared transnational regime of accumulation, not a bilateral anomaly. Recognizing this structural basis is essential for rethinking both the limits of current policy and the broader institutional reforms required to reconnect production, value, and investment in the global economy.

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