## Case studies: The iPhone case

One of the ways in which existing trade statistics misdirect public policy and public opinions is their failure to capture the domestic value added that is derived from imports. A much cited example comes from the popular iPhone. Apple, the company that makes such products as the iPad and the iPhone, has been the subject of much public and political criticism in the United States for its "offshoring" of the production of its products to China, adding to the already large trade deficit with China, and its avoidance of state, local, and federal taxes through its overseas activities.

## iPhone Study

Value of inputs from U.S. shipped to China (included in U.S. exports)	\$ 10.75
Value of inputs shipped to China from other countries	\$ 161.71
Manufacturing costs to China	\$ 6.50
Wholesale value of iPhone shipped to U.S. (included in U.S. imports)	\$ 179.00
Retail value of iPhone sold in U.S. stores (included in PCE)	\$ 499.00

This public image of Apple, and a similar perception of many multinational U.S. companies, has flamed protectionist sentiment and focused too much energy and public debate on "Benedict Arnold" corporations and "lost" US jobs, thereby diverting attention from more fundamental structural reforms, such as overhaul of the tax system, and investments in training and human capital.

Despite these public perceptions, as it turns out, most of the value-added in the iPhone comes from the United States. According to a 2011 case study (Kraemer, Linden, and Kramer, 2011) only \$6.50 out of the \$499 retail value of an iPhone makes its way back to China for the assembly and manufacture of inputs from the United States and other countries (see Table above). Most of the money derived from the sale of the iPhone made in China ends up going to the United States. The total \$499 retail price of the iPhone made in China breaks down as follows: 2% (\$10.75) for the value of U.S. inputs shipped to China, which are included in U.S. exports; 32% (\$161.71) for the value of inputs shipped to China from other countries; 1% (\$6.50) of the manufacturing costs of assembling the iPhone in China; 36% (\$179) for the wholesale value of the iPhone shipped to the United Sates (included in U.S. imports); and 64% (\$320) going to United States in the form of difference between the retail and wholesale imported price of the iPhone. The bottom line is that roughly two thirds of the value of the iPhone made in China goes to the United for research, design, engineering, financing, transportation, advertising, and retailing, logistical and their inputs, and Apple profits.

## Source:

Steven Landefeld: Implications and Challenges Associated With Developing a New System of Extended International Accounts, Discussion paper, International Conference on the Measurement of International Trade and Economic Globalization, Aguascalientes, Mexico, 29 Sep – 1 Oct 2014.