

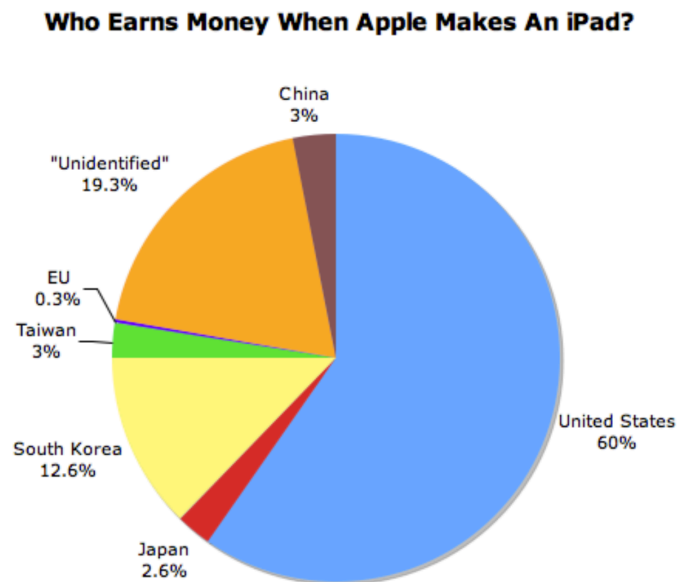
Which Countries Make Money Off the iPad?

Hint: China's near the bottom of the list.

Jordan Weissmann, Jan 19, 2012

Everyone knows that iPads are made in China. And when the world's trade statistics get tallied up, China gets to count the full price of each Apple tablet among its exports. But how much money does China actually make off the iPad?

Very little. According to a [new report](#) from the National Science Board, the country rakes in only about as much as Taiwan and far less than South Korea off each device. This pie chart shows the percentage each country contributes to the wholesale price of an iPad, minus the cost of raw materials.



Why is China's slice so small, and the U.S. slice so big? It's all about "value added." That's the term economists use when they talk about making something worth more than the sum of its parts (or labor). Basic assembly of a small device, the core of China's manufacturing base during the past decade, doesn't add much value. Creating a high-tech processor that can be sold at a markup does. Designing and marketing a must-have gadget adds the most value.

For a more in depth breakdown of the data, here is the NSB's complete table, which is based on research from the University of California -- Irvine. The consumer price gets broken down into distribution and retail, value capture, labor, and direct inputs (raw materials). Value capture is

essentially the profit after labor is subtracted. For every \$499 tablet, the U.S. takes home \$162. Countries which manufacture high tech components, particularly South Korea, grab another sizable share. China, which handles the basic task of packing together the final tablet, only grabs about \$8 from the process.*

Table 6-B
Value chain of Apple iPad, by location and activity: 2010
(Percent)

Characteristic	Activity	Location	Amount/cost (dollars)	Share of retail price (%)
Distribution and retail	Manufacturer's suggested retail price	Worldwide	499	100.0
	Distribution	Worldwide	75	15.0
	Wholesale price (received by Apple)	United States	424	85.0
Value capture.....	Total value capture		238	47.7
	U.S. total	United States	162	32.5
	Design/marketing	Apple	150	30.1
	Manufacturing of components	U.S. suppliers	12	2.4
	Manufacturing of components	Japan	7	1.4
	Manufacturing of components	South Korea	34	6.8
	Manufacturing of components	Taiwan	7	1.4
	Manufacturing of components	EU	1	0.2
	Manufacturing of components	Unidentified	27	5.4
Direct labor	Total direct labor		33	6.6
	Labor to manufacture components	Unidentified	25	5.0
	Labor for final assembly	China	8	1.6
Inputs.....	Nonlabor costs	Worldwide	154	30.9

EU = European Union

NOTES: iPad is configured with 16GB of memory and no cellular access. Value added is amount contributed by country, firm, or other entity to value of good or service and excludes purchases of domestic and imported materials and inputs. Value capture is value added excluding the cost of direct labor, which is the same as gross profit. Detail may not add to total due to rounding.

Because of the differential between what China actually contributes to the process of making electronics like the iPad and what gets reflected in its export figures, some say world trade data is heavily distorted. As the NSB notes:

Because final assembly of the iPad and other electronic goods manufactured by foreign multinationals yields little value for China, observers claim that bilateral trade statistics are misleading. The large U.S. trade deficit with China in electronic goods is due in part to crediting China for the entire shipping cost of these goods, even though much of the value of these goods derives from imported parts and components from other Asian countries, the EU, and the United States.

The report goes on to cite a 2010 study that concluded the value of China's iPod exports to the United States would drop 95% if measured by value added.

In the end, this is why countries that start off specializing in basic manufacturing inevitably try to move up into complex parts and design. We've seen it in Taiwan, and it's beginning in China. After all, nobody wants to stay at the bottom of the value chain.

*Obviously there is a gap in this data -- that large chunk of "unidentified" labor and component manufacturing, which together contribute \$52 to each iPad.