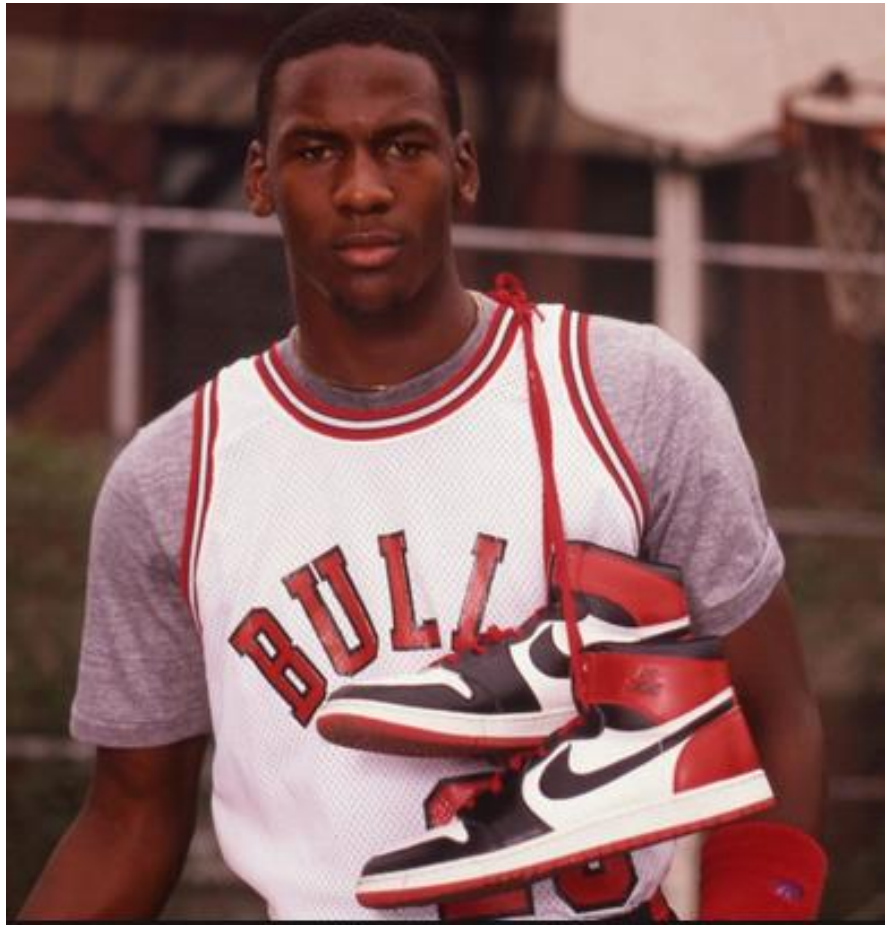
The smiley curve

ECON 3240 Spring 2015

Labor standards: N Kristof & Krugman vs. ILO better factories & J. Keady & L. Kretsu



Inequality: Michael Jordan makes $60 million per year, more than all 150,000 Nike workers in Indonesia Photo: STERN Nyu Center for Business and Human Rights

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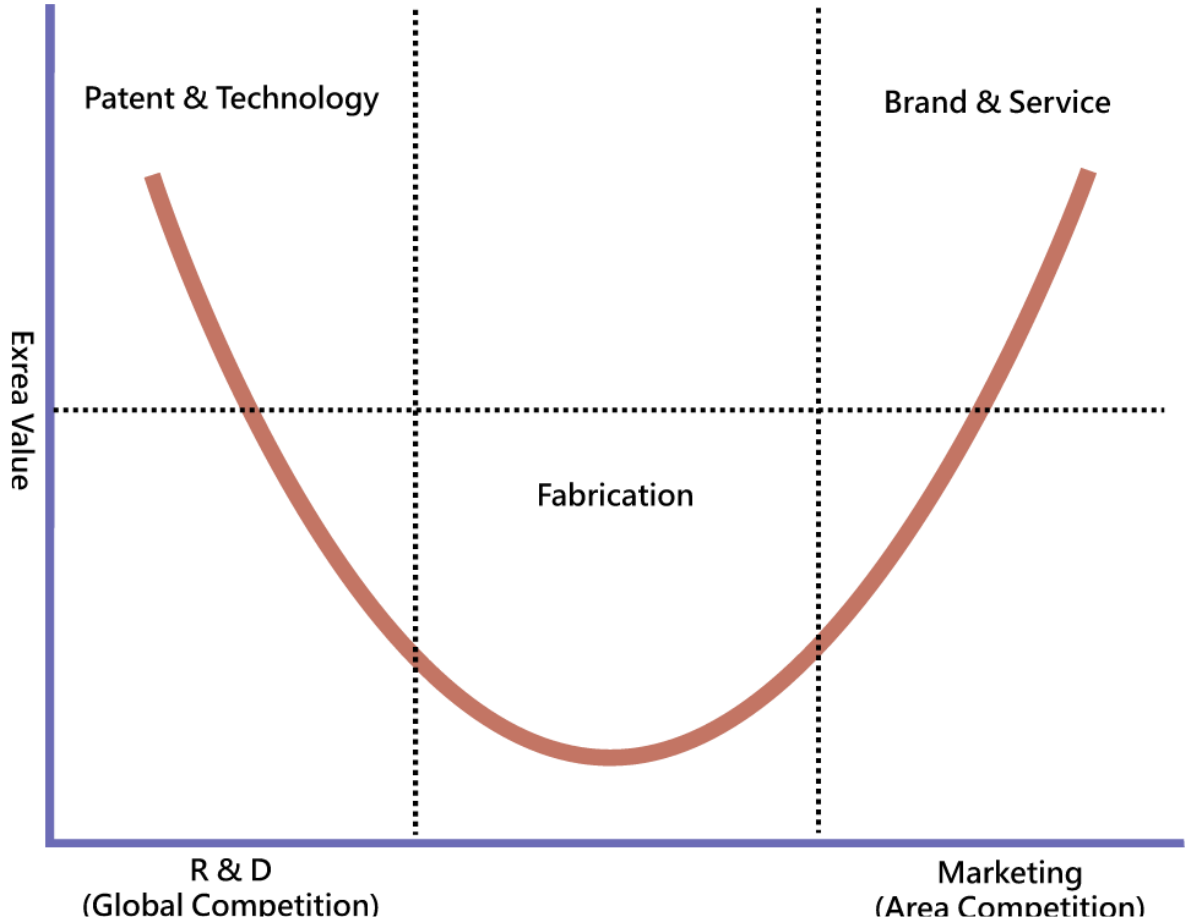


Figure 8: Trade deficit is not always what it appears (Fallows, 2010 & ADBI.2010)

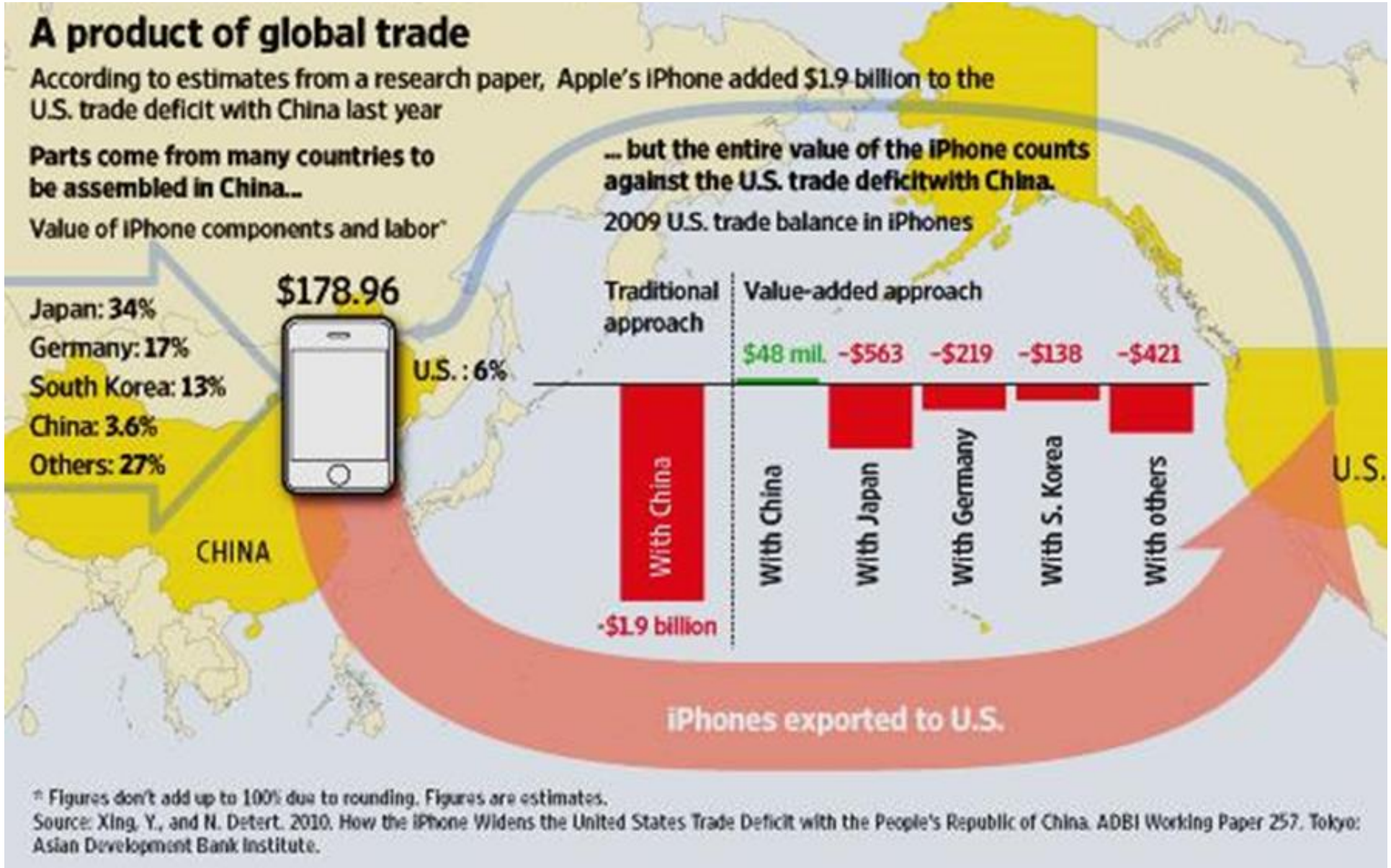
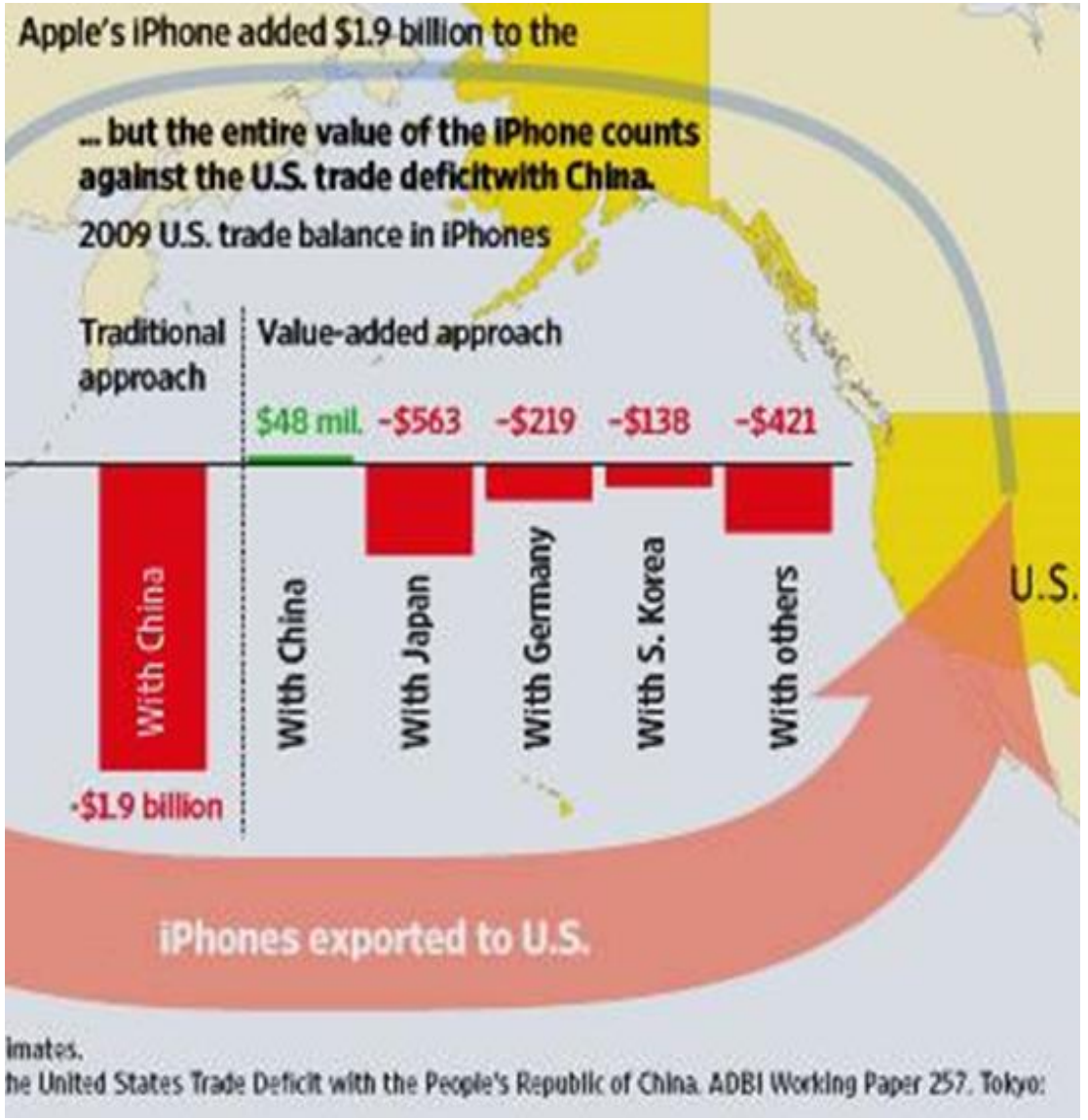


Figure 8: Trade deficit is not always what it appears (Fallows, 2010 & ADBI)

It appears that importing Iphones from China created a $2 billion U.S. trade deficit, but this is largely an accounting illusion: value added is what matters and China's share of Iphone VA is small



The smiley curve (Fallows, 2010 & ADBI) assembly is low VA activity high profits go research & retail … Apple and Apple Stores… What does China (Foxconn) get?

- China earns just 4% of the cost of a manufactured Iphone (U.S. gets 6% of this so net-net Iphones creates a trade surplus for the U.S.—according to Fallows…)
- Japan, Germany, South Korea & others get 91%
- What is the smiley curve?

Whose VA is in the Iphone?

1. In 2010, the U.S. exported $11 worth of components to China per Iphone. Apple then pays Foxconn $7 to assemble each iPhone so the net/net impact of importing IPhones may be a small trade surplus (depending on what share of U.S. parts VA is imported….) Source: ADBI, 2010)

2. What does this say about plants that assemble BMWs, Toyotas, Hondas, Mercedes etc. in the U.S.? Are they really eliminating the U.S. trade deficit with Japan or Germany? It depends…. On where the components of each car are made…..

Table 1: Apple iPhone 3G's Major Components and Cost Drivers

Manufacturer	Component	Cost
Toshiba (Japan)	Flash Memory	US$24.00
	Display Module	US$19.25
	Touch Screen	US$16.00
Samsung (Korea)	Application Processor	US$14.46
	SDRAM-Mobile DDR	US$8.50
Infineon (Germany)	Baseband	US$13.00
	Camera Module	US$9.55
	RF Transceiver	US$2.80
	GPS Receiver	US$2.25
	Power IC RF Function	US$1.25
Broadcom (US)	Bluetooth/FM/WLAN	US$5.95
Numonyx (US)	Memory MCP	US$3.65
Murata (Japan)	FEM	US$1.35
Dialog Semiconductor (Germany_	Power IC Application Processor Function	US$1.30
Cirrus Logic (US)	Audio Codec	US$1.15
Rest of Bill of Materials		US$48.00
Total Bill of Materials		US$172.46
Manufacturing costs		US$6.50
Grand Total		US$178.96

ce : Rassweiler (2009).