



MOBILE DEVICE MAUFACTURING POLICY



ENGINEERING DEVELOPMENT BOARD
Ministry of Industries and Production
Government of Pakistan

2020

Message

Federal Minister for Industries & Production

The mobile device manufacturing industry has a huge potential in Pakistan. It is one of the top five industries across the globe that plays an important role in spurring economic growth. Pakistan has a huge market for mobile handsets but unfortunately majority of those handsets are being imported in Pakistan. The current government is determined to create jobs for youth, increase local manufacturing and overall socioeconomic enhancement. The mobile devices are also transforming the future of e-government which will further increase the demand of mobile devices in Pakistan.



Government of Pakistan has decided to provide a comprehensive, well defined policy that aims essentially to promote local manufacturing of PTA approved mobile devices in Pakistan. The policy aims to address the core issues faced by mobile device manufacturers and to provide an attractive tariff environment over the policy period, besides other non-tariff initiatives to promote “Make in Pakistan” strategy for mobile devices.

I must acknowledge the dedication and hard work of all the stakeholders mainly including Ministry of Information Technology and Telecommunication, Pakistan Telecommunication Authority and Engineering Development Board, who remained actively engaged in preparing the mobile device manufacturing policy. I look forward to investors and global players, who eagerly await this policy to enter the Pakistani market to offer good quality, low-priced mobile handset devices and help the nation in achieving the goal of sustainable development as well as making Pakistan a global exporter of mobile devices.

Muhammad Hammad Azhar

Message

Chairman Engineering Development Board

Pakistan is considered as one of the fastest growing countries in the telecommunication market. There is an increasing demand of mobile handsets but unfortunately the market share of local manufacturers was negligible in comparison with imported mobile devices.



In order to maintain consistent growth in future, the Government of Pakistan has recognized the potential of digital transformation by devising a well-defined mobile policy, encouraging the manufacturing of mobile devices locally. This will provide employment to talented youth and to local technical and semi-technical manpower leading to economic growth.

The locally assembled mobile phones are expected to replace imported sets, as tariff structures for local assembling and manufacturing would be feasible after implementation of policy. The main purpose of Mobile Device Manufacturing Policy is “Make in Pakistan” which will invite investors to contribute for the development of electronic eco-system.

Almas Hyder

Message

Secretary Ministry of Industries & Production

The focus of Ministry of Industries and Production is to strengthen the economy and reviving growth in manufacturing. Pakistan's subscriber base has reached 164 million in CY 2020, making it a significant market. Ministry of Industries and Production is determined to promote local manufacturing with the Foreign Direct Investment coupled with local investment to provide significant support to Government of Pakistan in addressing economic issues, ensuring import substitution, export enhancement and job creation for our talented youth, in line with Government's vision.



Mobile Device Manufacturing Policy has been finalized after intensive consultation with all stakeholders including Ministry of Information Technology and Telecommunication, Pakistan Telecommunication Authority, Federal Board of Revenue, Ministry of Commerce, Ministry of Industries and Production and Engineering Development Board. I am extremely grateful to all these stakeholders who have participated in these discussions and provided valuable inputs to assist the government in formulating a viable policy that meets the vision and objectives of Ministry of Industries and Production. Finally, I must acknowledge the dedication and commitment of the officials of Ministry of Industries and Production and Engineering Development Board who not only provided technical inputs but also put their efforts in approval of the policy.

Afzal Latif

Acknowledgement

I personally acknowledge the efforts of Pakistan Telecommunication Authority, Ministry of Information Technology, Federal Board of Revenue, Ministry of Commerce and other concerned Ministries/ Departments for their active involvement and support during the policy formulation process.



I further appreciate the efforts of various public and private sector stakeholders especially the CEO (Techno Pack Telecom Pvt. Ltd.) and other firms including G Five Mobile, VMate Pvt Ltd, VGO-Tel and Q-Mobile Digicom Trading Pvt Ltd Mobile Phone Importer & Manufacturer Association also provided valuable inputs that resulted in formulation of policy based on principle of “Make in Pakistan”.

This policy development was made possible by personal interest and commitment of Federal Minister for Industries & Production, Secretary for Industries & Production and Chairman, BoM, EDB’s officials and other EDB Board Members.

I extend my special thanks to Mr. Asim Ayaz, General Manager (Policy), Mr. Usman Ali, Deputy Manager (Policy) and Ms. Irum Javed, Assistant Manager (Policy) and staff that worked hard and with full dedication in devising this policy.

Raza Abbas Shah

Table of Contents

1.0 Overview Of Global Mobile Handset Indus.....	1
2.0 Mobile Manufacturing In Pakistan.....	1
2.1 Brandwise Imports.....	9
2.2 Mobile Operators In Pakitan.....	10
3.0 International Examples.....	10
4.0 Need For A Policy.....	12
5.0 Existing Tariff Structure-Pakistan.....	16
5.1 Comparison With Bangladesh Model.....	20
6.0 Potential Local Value Addition & Resulting Benefits.....	21
7.0 Recommendations.....	24

List of Tables

Table 1: Job Creation & Number of Local Manufacturers	4
Table 2: Import of CKD / SKD for Mobile Phones during 2018-19.....	6
Table 3: Import of CKD / SKD for Mobile Phones (July-Dec 2019).....	7
Table 4: Import of Mobile Phones in CBU Form (July-Dec 2019).....	8
Table 5: Brand-wise Imports of Mobile Phones.....	9
Table 6: Market Share of Cellular Mobile Operators.....	10
Table 7: Tariff Structure in Bangladesh.....	12
Table 8: Existing Tariff Structure for Import in CBU Condition.....	16
Table 9: Duty Structure on Imports in CKD / SKD.....	17
Table 10: Proposed Duty Structure for Mobile Phones.....	19
Table 11: Comparison of Proposed Tariff Structure with Bangladesh.....	20
Table 12: Percentage Advantage of CKD/SKD over Import in CBU Condition.....	21
Table 13: Estimated Localization.....	22

List of Figures

Figure 1: Mobile Phone Subscriber Growth - Pak Economic Survey.....	2
Figure 2: Annual Imports of Mobile Phones (CBUs) in Pakistan.....	3
Figure 3: Local Assembly of Mobile Phones in Pakistan.....	4

1.0 OVERVIEW OF GLOBAL MOBILE HANDSET INDUSTRY

Mobile handsets manufacturing industry is one of the top five industries worldwide having sales revenue of USD 522 billion approx., with annual sales of over six billion devices in CY 2019. China is the global hub of handsets manufacturing since 2010, having exports of over USD 150 billion per year as per data provided by Pakistan Telecommunication Authority (PTA). In recent years, it has been witnessed that mobile handset production is moving out of China due to increasing factor (labor) costs in China as well as trade tensions with USA.

According to statistics provided by industry sources, an average Chinese assembly line worker now costs around US\$ 700 per month. To take advantage of this situation, neighboring Asian countries of Pakistan are promoting their industry by incentivizing local assembly in their countries. High percentage of mobile phone demand is expected in Asia Pacific Region and Africa, while demand in the mature markets of Europe and North America is expected to remain stagnant. Resultantly, countries of Asia Pacific region like Vietnam, India, Indonesia and Bangladesh are expected to become emerging mobile device manufacturing centers.

2.0 MOBILE MANUFACTURING IN PAKISTAN

According to statistics maintained by PTA, Pakistan subscriber's base, which has reached 159 million in CY 2019, is now the eight largest country in the world, this growth trend is depicted in the chart below.

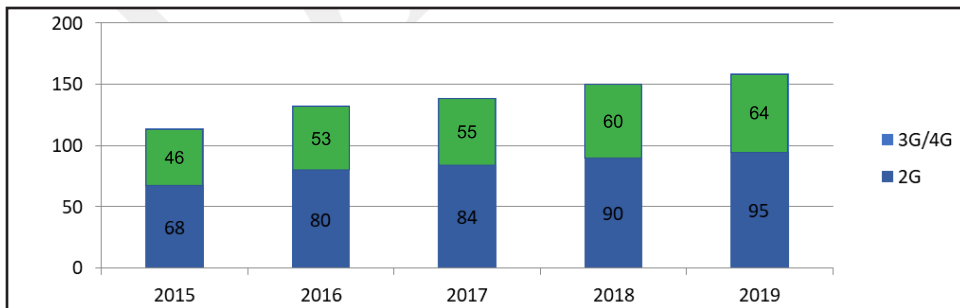


Figure 1: Mobile Phone Subscriber Growth - Pak Economic Survey

As per PTA data, the mobile subscription has crossed 164 million in CY 2020. Owing to significant size of population and continuous growth in mobile connectivity, Pakistan has become the world's seventh largest handset importer in the world as per Trade Map Data. This makes Pakistan market as an attractive destination for global brands, however, currently the market is largely dependent on imports as local manufacturing regime remains unattractive.

According to PTA, Pakistan's total annual market size (2G/3G/4G) is estimated at 34 million handsets out of which 20 million are 2G and 14 million units are 3G & 4G collectively. Following are the changing trends in mobile market of Pakistan.

- 4G devices have grown from 16% (Jan 2018) to 31% (Dec 2019)
- 3G devices have decreased from 19% (Jan 2018) to 13% (Dec 2019)
- 2G devices have decreased from 64% (Jan 2018) to 56% (Dec 2019)

The aforementioned statistics reveal that local market is shifting gradually towards latest technology.

Device Identification, Registration and Blocking System (DIRBS) project of PTA has been instrumental in controlling smuggling of mobile phone devices in addition to providing safeguards against security hazards.

International Mobile Equipment Identity (IMEI) registration requirement under DIRBS has resulted in growth of both local manufacturing & imports through legal channels.

According to the import statistics shared by PTA and the bench mark analysis, after the introduction of DIRBS, the commercial imports have shown increase from 17.2 million units in 2018 to 28.2 million mobile devices in 2019. The significant increase of 64% in 2019 as compared to the previous year reveals that imports through grey channels have been converted into legal imports. The import of mobile phones for the last 4 years is presented in figure below.

Pakistan: Mobile Phone Imports (No in Million)

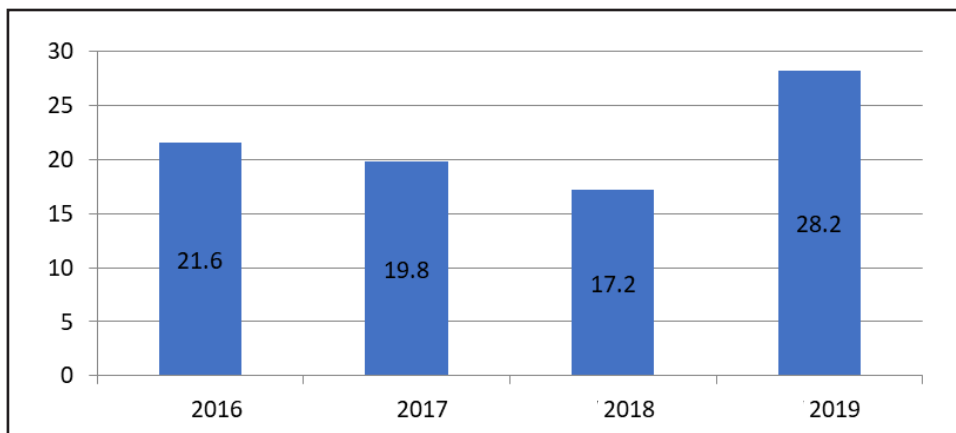
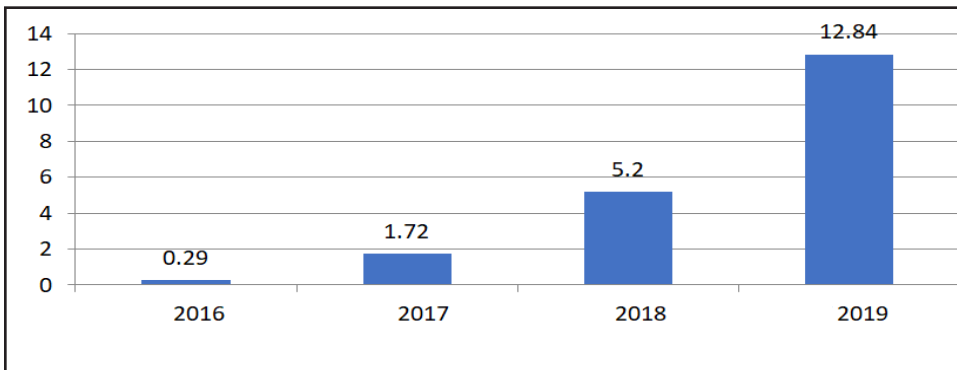


Figure 2: Annual Imports of Mobile Phones (CBUs) in Pakistan

Local assembly has also exhibited growth trend during calendar year 2019. Figure below depicts the local assembly of mobile phones in the corresponding period which has shown an increase of 147 % in 2019 as compared to the previous year.

Pakistan: Local Assembly of Mobile Phones (No. in Million)**Figure 3: Local Assembly of Mobile Phones in Pakistan**

It is evident that the imports have increased by 11 million as compared to increase in local manufacturing of 7.64 million. The aforementioned import figures reveal that local manufacturing could not benefit fully from introduction of DIRBS, and further potential still exists to convert the imports into local manufacturing thus ensuring jobs for educated youth including engineers, technicians, skilled and semi-skilled workers. PTA granted permission to 29 local companies for manufacturing out of which 19 are operational. The statistics regarding year of grant of type approval to local manufacturers and job creation provided by PTA are mentioned in table below.

Year	Local Manufacturers	Job Creation
2016	3	200
2017	3	600
2018	9	3,000
2019	14	8,000
Total	29	11,800

Table 1: Job Creation & Number of Local Manufacturers

Presently following two parallel manufacturing regimes are in place

- PTA type approved manufacturers import SKD/CKD via quota issued by IOCO
- PTA Type approved Manufacturers mostly import parts under HS Code 8517.7000 mobile for assembly of mobile sets.

After getting type approval by PTA, the manufacturers of mobiles phones are required to approach Directorate General, Input Output Coefficient Organization (IOCO) under Federal Board of Revenue (FBR) for quota allocation wherein imports in kit form under HS Code 8517.1211 are authorized to these companies after necessary verification by IOCO. However, PTA approved manufacturers are also allowed to import the parts for assembly/manufacturing of mobile phones under parts heading i.e. 8517.7000. The mobile phones thus assembled can also be registered on network by PTA. This parallel system, according to customs reports, is causing considerable damage to national exchequer. In addition, absence of a policy regime for mobile phone manufacturing is resulting in an unpredictable business environment.

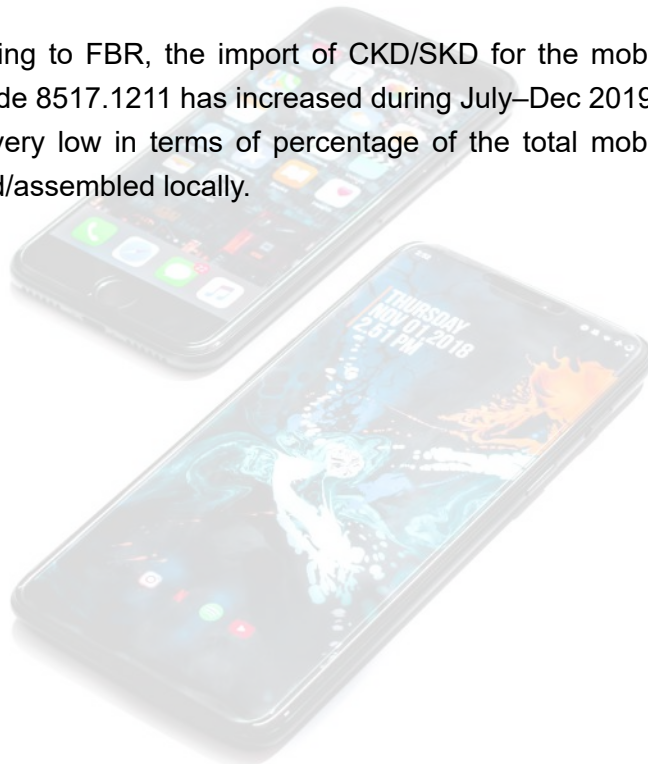
Federal Board of Revenue's data regarding import of Semi Knocked Down (SKD) / Completely Knocked Down (CKD) Kits for the year 2018-19 reveals that only 1,000 kits were imported under HS Code 8517.1211.



S.No	Slab	Quantity (Nos)	Import Value (Rs M)	Total Duty-Taxes Collected(Rs M)	Average Value @ 1US\$=155PKR
1	Upto 30US\$	-	-	-	
2	Above 30US\$ and upto 100US\$	1,000	8	3	51 US \$
3	Above 100US\$ and upto 200US\$	-	-	-	
4	Above 200US\$ and upto 350US\$	-	-	-	
5	Above 350US\$ and upto 500US\$	-	-	-	
6	Above 500US\$	-	-	-	
Total		1,000	8	3	

Table 2: Import of CKD / SKD for Mobile Phones during 2018-19

According to FBR, the import of CKD/SKD for the mobile phones under HS Code 8517.1211 has increased during July–Dec 2019. However imports are very low in terms of percentage of the total mobile phones manufactured/assembled locally.



S. No.	Slab	Quantity (Nos)	Import Value Rs (M)	Total Duty-Taxes Collected Rs (M)	Average Value @ 1 US\$=155PKR
1	Upto 30US\$	225,000	227	55	6.5 US \$
2	Above 30US\$ and upto 100US\$	142,200	1,185	348	53.8 US \$
3	Above 100US\$ and upto 200US\$	-	-	-	
4	Above 200US\$ and upto 350US\$	-	-	-	
5	Above 350US\$ and upto 500US\$	-	-	-	
6	Above 500US\$	-	-	-	
Total		367,200	1,412	403	

Table 3: Import of CKD / SKD for Mobile Phones (July-Dec 2019)

It is evident from Figure-2 and Table-3 that against the local assembly of 12.84 million mobiles during 2019 only 0.367 million kits were imported under respective heading in the period July-Dec 2019. If we consider that 50% i.e. approx. 6 million mobiles were manufactured locally in the period July-Dec 2019, then only 6% seem to have been manufactured through import in kit form whereas the remaining 94% mobiles were manufactured through import in parts under HS Code 8517.7000 i.e. the parts category. The reason behind the import in part category shows misdeclaration and under invoicing. The data regarding import of mobile phones in CBU Condition under HS Code 8517.1219 for July-Dec 2019 is presented in table below.

Rs in Million								
S. No	Category/ Slab	Quantity (Nos)	Im-port Value	RD Col-lected	Sales Tax Collect-ed	In-come Tax	Total Collec-tion	Average \$ Value
1	Upto 30US\$	4,442,402	9,852	734	605	311	1,650	14.30
2	Above 30US\$ & upto 100US\$	3,785,927	52,319	6,033	4,919	2,715	13,667	89.15
3	Above 100US\$ & upto 200US\$	875,016	23,230	2,044	1,415	782	4,241	171.77
4	Above 200US\$ & upto 350US\$	96,140	4,242	277	149	83	508	284.66
5	Above 350US\$ & upto 500US\$	2,897	218	22	13	7	43	470.85
6	Above 500US\$	20,740	2,927	341	195	107	643	910.50
Total		9,223,122	92,787	9,451	7,297	4,005	20,752	

Table 4: Import of Mobile Phones in CBU Form (July-Dec 2019)

According to FBR, mobile levy of Rs 572 million has also been collected during the corresponding period, in addition. The imports of below USD 30 category mentioned at S. No. 1 of Table-4 has 48% share of all mobile phones imported, accounting for 4.4 million mobile phone sets. During the same period, around 6 million mobile phones have been manufactured locally as indicated in Fig-3. Pakistan Economic Survey

reveals that 2G market has grown by additional subscription of 5 million in CY 2019, signifies that a large number of mobile phones out of 5.4 million mobiles belonging to higher categories seem to have been cleared in below 30 USD category/slab or have been replaced (4.4 + 6=10.4M) Since replacement is not possible in such a big number in six months, it can be assumed that higher category mobiles have been under invoiced and cleared in this category. Hence the complaints about import of used mobile sets by the local manufacturers seem justified and need immediate resolution by restricting the category to “other than smart phones category” for CBU Imports under 8517.1219.

2.1. BRANDWISE IMPORTS

Import figures for CY 2019 for leading brands in Pakistan are as under:

S. No.	Brand	Imports in No
1	Nokia	3,591,791
2	Samsung	1,542,013
3	Oppo	1,243,004
4	Vivo	739,233
5	Huawei	537,991
6	Q Mobile	510,912
7	Apple	134,830
8	Others	18 million approx
	Total	28.2 million

Table 5: Brand-wise Imports of Mobile Phones

The import figures suggest that potential for local assembly exists at least for top five brands being imported in Pakistan.

2.2. MOBILE OPERATORS IN PAKISTAN

Currently there are four cellular mobile operators in Pakistan i.e. Telenor Pakistan, Pakistan Mobile Communication Limited (PMCL/Jazz) PTML (Ufone), and China Mobile Pakistan (CMPak/Zong) are providing services using GSM, WCDMA and LTE etc. The market share of each operator is as under:

S. No.	Operator	Market Share %
1	PMCL(Jazz)	36.55
2	Telenor	27.68
3	CMPak (Zong)	21.71
4	PTML (Ufone)	14.06

Table 6: Market Share of Cellular Mobile Operators

In Azad Jammu and Kashmir (AJ&K) and Gilgit Baltistan (GB), Special Communication Organization (SCO) is also operating in addition to the four major operators. The mobile operators are of the view that Pakistan may adopt 4G technology at the earliest, which will improve the entire eco system.

3.0 INTERNATIONAL EXAMPLES

China has considered mobile phone manufacturing as a project of strategic importance with a goal focusing to improve balance of trade & self-sufficiency through localization of semiconductors, integrated circuit manufacturing, integrated circuit Design, testing and packaging. The Central Government led investment fund has been created with a focus to develop region specific industry in 2-3 major regions.

In 2015, Indonesia announced 4G smartphones must be 'Made in Indonesia' and in the same year promotion of local sourcing was announced i.e. minimum localization initially set at 20% will be increased to 30% by January 2017. Similarly minimum level of localization in case of 4G LTE was fixed at 30% in 2018-19 & increased to 40% in 2019-20. Samsung invested USD 3 Billion in Vietnam in 2014. The quantum of investment increased with the passage of time and Vietnam is second largest exporter of mobile devices after China.

India is promoting local manufacturing and has supported setting up of 268 manufacturing plants for producing 225 million handsets and related accessories. A total of 61 mobile phone brands are being produced by Indian Mobile Phone Industry with 670,000 employees. In addition India has introduced 2-4 percent export subsidy on exports of mobile handsets which is expected to enhance the volumes of local industry. Currently, India is the second biggest handset producer after China and is targeting exports of USD 110 billion in 2025.

In Bangladesh, 96.7 percent market share has been captured by android phones, which has increased productivity of the people and efficiency of market eco-system. Bangladesh has 10 manufacturing plants including Samsung, Transsion, Oppo, Vivo, Symphony etc. Bangladesh started from SKD Assembly in 2017 and has now graduated to manufacturing motherboards, a significant milestone of capability development in electronics sector. Bangladesh is aiming to use mobile handset manufacturing industry to leapfrog from textile to electronics within a period of 3-5 years by creating significant tax differential between import of CBU hand- sets versus import of CKD parts.

The tariff structure of Bangladesh for Completely Built Units and the import in kit form for local manufacturing having differential approx. 22% is presented below:

HS Code	Product	CD	SD	VAT	AIT	RD	ATV	TTI
8517.12.19 (CBU)	Cellular (Mobile/ fixed) Telephone set/smart phone	25	0	15	2	3	5	57.31%
8517.12.11 (CKD/SKD)	Cellular (Mobile/ fixed) Tele- phone set/ excel smart phone	10	0	15	2	0	5	35.47%

Table 7: Tariff Structure in Bangladesh

Source: Embassy of Pakistan in Bangladesh

CD = Custom Duty, SD = Supplementary Duty, VAT = Value Added Tax

AIT = Advance Income Tax, RD = Regulatory Duty, ATV = Advance Trade VAT

TTI = Total Tax Incidence

Recently, Bangladesh has exported mobile phones to USA also. To summarize, it can be inferred that almost all the above mentioned countries are using the opportunity provided by proliferation of mobiles for promoting local manufacturing, jobs creation, technology transfer, and exports enhancement by providing various incentives.

4.0 NEED FOR A POLICY

Mobile internet adoption is expected to become a key indicator to measure the inclusiveness within a country and for bridging the digital divide. The connectivity contributes positively to the UN's Sustainable Development Goals (SDGs). It contributes to developments in wider digital eco- system, as mobile internet users are addressable market for e-commerce, e-banking, e-education, e-health and digital services in

general, which is one of the main thrusts of the present government.

These opportunities however need to be dovetailed with supporting the local industry to become an international destination for mobile technology manufacturing and becoming a part of the global supply chain in this sector. Pakistan has a huge potential advantage if we consider its core competencies in view of human resource, infrastructure, size of home market, presence of related and support/service industries. Adequate, tariff structure and monitoring can enable Pakistan for import substitution followed by exports.

In the case of Pakistan, it has a significant advantage in nurturing an indigenous mobile phones handset industry that can be internationally competitive due to the following factors:

- Significant local demand as can be ascertained from the figures given in the preceding sections regarding size of the market as well as its increasing progression in sophistication in terms of migration towards 4G.
- Significant advantage in factor conditions due to the availability of a large number of IT trained manpower, the country's leading position in IT services freelancing as well as a low costing HR.
- Related and support industries like packaging, plastics, and IT software etc have strong presence in the local market.
- Geographic proximity to China, which is a global hub for handsets manufacturing, and is currently looking for investing outside China due to increasing labor costs as well as trade tensions with USA, is presenting a huge opportunity for Pakistan.

What Pakistan is missing in this mix is a coherent and stable policy

framework which can channelize investments in this sector and make it one of the leading export sectors of the country. While China continues to be the number one exporter of mobile phones in the world with exports of approximately USD 142 billion¹ in 2018, smaller regional countries have succeeded in developing sizeable exports due to consistent and conducive policies. Vietnam is a leading country in this regard with approximately exports in 2018 of USD 38 billion while Thailand exported approximately 2 billion worth of mobile phones. Taking into consideration Factor and other advantages of Pakistan, there is no reason to doubt that Pakistan can match exports of Vietnam in case a stable and investment friendly environment is provided for local manufacturing.

Pakistan is missing out the opportunity due to absence of local manufacturing policy that encourages “Make in Pakistan” vision. Neighboring and regional countries have already introduced incentivized policies that have resulted in local manufacturing of mobile (smart) phones, creating job opportunities for the huge population base that they have, ensuring cheaper devices for their consumers, as well as earning huge foreign exchange through facilitating exports of devices. In Pakistan, the shift to 4G technology is a big opportunity that can be harnessed through provision of an attractive manufacturing regime. Many companies in Pakistan who pioneered mobile assembly/manufacturing are being forced to closed their units and scale down their investments; while reverting to import of mobile phones instead of local manufacturing due to non rationalized tariff structure and an unpredictable environment, which can be addressed through a coherent and long-term framework of a mobile devices manufacturing policy.

Following are some of the benefits of having local manufacturing of mobile devices in comparison with imports in completely built (CBU) form.

- i. Establishment of joint ventures between global brands & Pakistani

companies for setting up of manufacturing plants in Pakistan, leading towards Transfer of Technology for manufacturing 4G/5G smart phones in Pakistan.

- ii. Incentives for local manufacturing can attract big investments from other global mobile phone manufacturers like Huawei, Samsung, Nokia, Oppo & others. Currently one Chinese joint venture has been established to manufacture smart phones in Karachi and few companies have set up their manufacturing facilities in collaboration with Chinese principals.
- iii. Foreign / Local investment of more than USD 200 million is expected if 20-25 new units are established and capacities of existing players are enhanced. Due to attractive local manufacturing policy, Samsung alone has invested heavily to setup mobile phone factories in Vietnam, Indonesia, & India. Pakistan can be the next destination for such investment in near future.
- iv. Over the next 2-3 years local production can reach up to 80% of total Pakistan handset market if attractive tariff plan is given to the industry. This can result in creation of at least 40,000 hi-skill direct jobs in electronics & information technology industry & up to 300,000 indirect jobs in ancillary sectors. A typical smart phone constitutes more than 60 parts and its assembly requires manpower, where Pakistan can benefit from its low labor cost..
- v. China exported approximately USD 142 billion worth of smart phones in 2018 and Chinese investors are looking for alternate manufacturing base in view of trade war with USA. Pakistan can become a hub for Chinese manufacturers in case an attractive policy and predictability is ensured to the industry for at-least five years.
- vi. Local Assembly will help to create an eco-system for development of local mobile software, applications and R&D centers in Pakistan.

In view of aforementioned benefits, it is imperative for Pakistan to envisage a policy with following goals.

- a. Technology Acquisition & Localization of Mobile Devices through Local Investment,
- b. JVs, Partnerships, FDI etc
- c. Creation of 200,000 direct & indirect jobs
- d. Price Reduction for consumers
- e. Development of efficient manufacturing eco-system
- f. Increase in digitization through 4G, 5G Technologies
- g. Exports of competitively manufactured handsets.
- h. Achievement of Security Objectives

5.0 EXISTING TARIFF STRUCTURE-PAKISTAN

The tariff structure on mobile phones in Completely Built Unit (CBU) condition falling under HS Code 8517.1219 is given in table below.

CnF Value	Custom Duty (PKR 250)*	Sales Tax (Fixed-PKR)	Income Tax (Fixed-PKR)	Mobile Levy (FED)	RD (Fixed-PKR)	Total Impact (PKR)
Upto \$30	PKR 0	130	70	-	165	365
>\$30 -\$100	PKR 0	200	100	-	1,620	1,920
>\$100 -\$200	PKR 0	1,680	930	400	2,430	5,440
>\$200 -\$350	PKR 0	1,740	970	1,200	3,240	7,150
>\$350 -\$500	PKR 0	5,400	3,000	2,800	9,450	20,650
>\$500	PKR 0	9,270	5,200	5,600	16,650	36,720

Table 8: Existing Tariff Structure for Import in CBU Condition

**Exempted under FTA

Sources: Pakistan Custom Tariff 2019-20. (Custom Duty). Income Tax Ordinance 2001. (Updated) Sale Tax Act, 1990 (9th Schedule updated through Finance Act 2019, Amendment Jan 2020) RD SRO 680(I)/2019 Dated June 28, 2019. FED Notification 2nd Amendment Financial Act 2019

Leading exporters of mobile devices such as China promote exports of CBUs instead of exports of parts and components. The reason behind exports in the CBU condition is that it is beneficial for the exporters to get export rebate. The exports of kits/parts of mobile phones involve high packing cost also. In addition, countries tend to promote job creation in their country instead of for the importing company. Keeping this in view it is important to provide sufficient incentives for local manufacturing, which ensures technology transfer and employment generation.

The duty structure on import of completely knocked down kit of mobile devices (HS Code 8517.1211) has fixed sales tax and fixed income tax equal to that of imports in CBU condition. The Regulatory Duty (RD) in case of CBUs is fixed whereas in case of local manufacturing the RD is 5%. The complete duty structure on CKD and its calculation is given in table below.

CnF Value	Custom Duty (PKR 250)*	Sales Tax (Fixed-PKR)	Income Tax (Fixed-PKR)	RD @ 5%	Total Impact (PKR)**
Upto \$30	PKR 0	100	70	5% (116)	286
>\$30 -\$100	PKR 0	200	100	5% (426)	726
>\$100 -\$200	PKR 0	1,680	930	5% (1163)	3,773
>\$200 -\$350	PKR 0	1,740	970	5% (2131)	4,841
>\$350 -\$500	PKR 0	5,400	3,000	5% (3294)	11,694
>\$500	PKR 0	9,270	5,200	5% (4263)	18,733

Table 9: Duty Structure on Imports in CKD / SKD

*Exempted for imports under IOCO

**Calculated @ 1USD=155 PKR, 15 USD, 55 USD, 150 USD, 275 USD, 425 USD, 550 USD

Source: Pakistan Custom Tariff 2019-20. (Custom Duty). (Page 53 S# 101)

RD @ 5% is Rs 116 on (\$15), 426(\$55), 1163(\$15), 2131 (\$ 275), 3294 (\$ 425) & Rs 4263 on (\$ 550)

The aforementioned tariff structure does not provide significant cushion to promote CKD manufacturing vis-à-vis imports, as can be seen in the Bangladesh example at Table-7. Since manufacturing includes wastages also, it is not considered feasible by the investors especially in view of packing costs of the CKD in parts and inclination of the principals for exports of CBU from their country of origin.

To sufficiently incentivize local manufacturing as well as support the Digital Pakistan initiative, it is important to introduce measures that sufficiently support Pakistan's national advantages.

The tariff structure being proposed in this policy and outlined in the table below, does not involve any change in customs duty. However it is proposed that the regulatory duty levied on manufacturing of mobile phones, income tax upto USD 200 category and fixed sales tax to be waived off on import of CKD/SKD under HS Code 8517.1211 in order to promote local manufacturing of mobile devices.

As the policy provides recommendations for import of parts and components in CKD/SKD form under HS Code 8517.1211, and its correlation with the number of cell phones assembled in Pakistan, the overall revenue collection will increase thus having a positive impact on the national exchequer. The proposal to assemble the cell phones locally will be beneficial for Pakistan in long term as benefit of low labor cost can be leveraged to make the country become competitive in international market. Moreover, it will encourage Chinese companies considering relocating to Pakistan and targeting the export market, which will boost the overall exports of mobile devices and accessories. The proposed duty structure is given in table below.

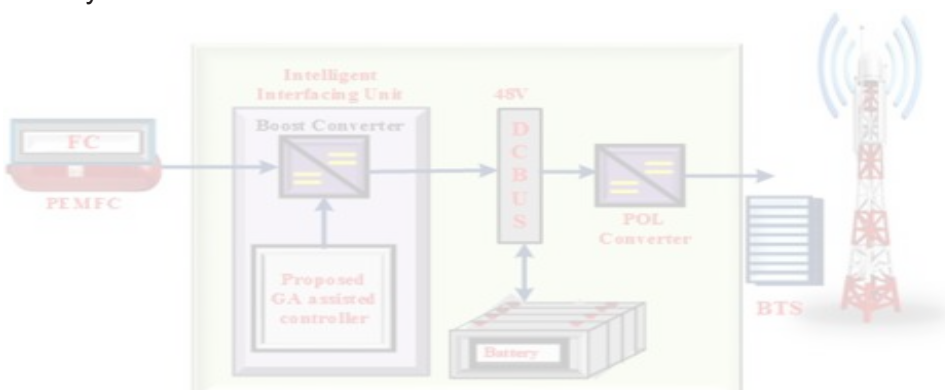
CnF Value	Existing Tariff CBU	Existing Tariff CKD/SKD – PKR	Proposed changes in Income Tax (On CKD/ SKD)	Reduction in RD @ 5%	Proposed Reduction in Sales Tax	New CKD/ SKD Tariff $f = b - (c+d+e)^*$	CKD/ SKD Advantage over CBU In PKR $g = a - f$
(a)	(b)	(c)	(d)	(e)			
Upto \$30	365	286	(70)	(116)	(100)	-	365
>\$30 - \$100	1,920	726	(100)	(426)	(200)	-	1,920
>\$100 - \$200	5,440	3,773	(930)	(1163)	(1,680)	-	5,440
>\$200 - \$350	7,150	4,841	(970)	(2,131)	(1,740)	-	7,150
>\$350 - \$500	20,650	11,694	3000 +2000	(3,294)	(5,400)	5,000	15,650
>\$500	36,720	18,733	5200+ 6300	(4,263)	(9,270)	11,500	25,220

Table 10: Proposed Duty Structure for Mobile Phones

*The rates of duty and taxes in prevailing Finance Bill to be levied

**Formula not applicable on above US\$ 350 categories.

The removal of income tax on import stage is adjustable, thus it will not have any impact on overall revenue collection of FBR. However, its removal up to USD 350 category will provide financial cushion to the local assemblers and relief from processing of refunds. Removal of sales tax is proposed to provide level playing field to all local assemblers across the country.



5.1 COMPARISON WITH BANGLADESH MODEL

The comparison of proposed duty has been carried out with duty structure in Bangladesh for CKD/SKD manufacturing. The analysis is presented in table below.

CnF Value USD	Basic Value PKR Equ (A)	CBU Total Tax Impact Bangladesh (57.31%) (B= A + (AxB))	CKD Total Tax Impact Bangladesh (35.47%) (C= A+(AxC))	Advantage CKD over SKD in Bangladesh on equivalent Terms, (D =B-C)	CKD Advantage over CBU In Pakistan (E)
15	2,325	3,657	3,150	507	365
55	8,525	13,422	11,549	1,873	1,920
150	23,250	36,575	31,497	5,078	5,440
275	42,625	67,053	57,744	9,309	7,150

Table 11: Comparison of Proposed Tariff Structure with Bangladesh

Assumptions: Similar currency and exchange rates in both countries (1 USD =155 PKR)

It is evident from the above table that tariff/ duty advantage on CKD/ SKD over CBU has been proposed to match the advantage provided in Bangladesh. The advantage in terms of percentage between CBU and CKD/SKD is described in table below.

CnF Value USD	Basic Value PKR	Existing Rate of Duty for CBU import	Total Cost CBU in PKR	Impact on SKD/SKD at proposed structure	Total Cost of SKD/CKD in PKR	Proposed CKD Advantage over CBU In Pakistan In percentage
15	2,325	365	2,690	0	2,325	16
55	8,525	1,920	10,445	0	8,525	23
150	23,250	5,440	28,690	0	23,250	23
275	42,625	7,150	49,775	0	42,625	17

Table 12: Percentage Advantage of CKD/SKD over Import in CBU Condition

In addition to the tariff differential, R&D support may be considered for exporting firms at the rate of 3% across the board which is expected to encourage companies to include exports in their business models.

6.0 POTENTIAL LOCAL VALUE ADDITION & RESULTING BENEFITS

The total potential local value addition, which includes both; the assembly allowance and value of parts in terms of percentage, is presented in the table below:



Duration	Localization Details	Localization vis-à-vis value of Device	Remarks
End of Year 1	Setup Local Manufacturing Plants/start of assembly operations (assembly allowance)*	8%	Start of local value addition
	Packing Materials	2%	
End of Year II	Charger	2%	Increase in local value addition resulting in foreign exchange savings and promoting “Make in Pakistan”
	Bluetooth hands-free	1%	
	Mother board (PCB) Assembly*	10%	
	Housing and other Plastic Parts etc.	8%	
	Display	8%	
	Battery	10%	
Total Potential of local value addition		49%	

* Parts and components to be localized as per plan except assembly allowance

Table 13: Estimated local value addition

The expected outcome of provision of enabling tariff is that import in CBU condition will shift to local manufacturing of mobile phones gradually. It will also have a positive impact on allied industry including packaging & plastic parts. The proposed subsidy for exports can also lead to significant exports if few renowned global brands are attracted to invest in Pakistan due to proposed tariff incentive on SKD/CKD manufacturing over CBU imports. In addition, there is a possibility to set up R&D centers & an ecosystem for software applications in parallel.

As the import of CKD/SKD for manufacturing will be allowed by Input Output Coefficient Organization (IOCO) through Certificate of Import Authorization, localization will be ensured by allocation of quota of respective

parts. In Table-13 above, an indicative list to achieve local value addition of 49 % has been envisaged by the end of year-II i.e. June 30, 2023. One year grace period has been given in the policy for setting up of mobile device manufacturing units by new investors. By the end of year-I or June 30, 2022, the allocation of packing material will be discontinued from CKD/SKD under IOCO import authorization, which will attract prevailing duty structure thereafter, if imported by the manufacturer. EDB shall study and determine the list of parts from table 13 that will be localized and excluded from the IOCO import authorization/quota by the end of year-II or June 30, 2023. Import are items which are not feasible to localize due to high technology or requirement of larger volume such as camera lens, mother board, semi-conductors etc. will continue in CKD/SKD form after June 30, 2023, whereas localized components will attract normal duty structure.

Mobile Phone industry, as seen from international examples, is highly dynamic and therefore requires intelligent decision making by the Government to extract its full potential. Engineering Development Board will ensure both, rationalization of import lists and provision of enabling tariff structure for localization of parts and components excluded from Import Authorization Certificate of IOCO through involvement of relevant stake holders. Thus, localization of the items highlighted in Table-13 according to the timelines given in the table will be ensured by EDB. Moreover, the local value addition will not be model-specific i.e. import of packing materials, chargers, battery etc. will not be allowed to the local mobile assemblers manufacturers after the lapse of timelines provided above in case of change of models of mobile phones. Hence, the localization achieved as per timelines will be applicable industry wide and no concession on generic parts will be offered thereafter.

7.0 RECOMMENDATIONS

Following recommendations are proposed to facilitate local manufacturing of mobile devices in Pakistan.

- a. Removal of Regulatory Duty for CKD/SKD manufacturing by PTA approved manufactures under IOCO approved quota/import authorization.
- b. Removal of Fixed Income Tax on CKD/SKD manufacturing of mobile devices up to USD 350 category.
- c. Increase in Fixed Income Tax on USD 351 -500 USD category by Rs 2000 and > USD 500 by Rs 6300 on CKD/SKD manufacturing only.
- d. Removal of Fixed Sales Tax on CKD/SKD manufacturing of mobile devices.
- e. PTA shall allow activation of handsets manufactured in the country under import authorization of inputs by IOCO in CKD/SKD kit (8517.1211) and not under HS Code 8517.7000 i.e. parts. This will eliminate misdeclaration in parts category at import stage. (Explained on Page 9 of the Policy). Activation of CBUs imported through notified routes after payment of all levied duty and taxes as fixed by government from time to time shall continue till any further amendment.
- f. In up to USD 30 category, words “except smart phones” to be inserted for CBU imports under 8517.1219 to avoid misdeclaration.
- g. R&D allowance of 3% to be given to local manufacturers for exports of mobile phones
- h. Locally assembled/manufactured phones to be exempted from 4% withholding tax on domestic sales.

- i. Government to commit to ensure maintaining tariff differential between CBU Imports and CKD/SKD Manufacturing till the expiry of the policy.
- j. Local industry to ensure localization of parts and components as per roadmap included in draft policy.
- k. EDB to act as Secretariat of Mobile Phone Manufacturing Policy and ensure development of allied parts, components and devices.