



Protecting Assembly, Distorting Markets:

A Review of Pakistan's Mobile Device Manufacturing Policy

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Key takeaways

1. Pakistan's Mobile Device Manufacturing Policy (MDMP) 2020 has encouraged investment in local mobile phone assembly, attracting around \$300 million in investment and around 30 manufacturers by February 2023.
2. The industry remains heavily dependent on imported components. The policy was designed to gradually develop domestic manufacturing capabilities through tariff protection and localisation. However, the progress in assembly has not been matched by comparable growth in component manufacturing. The policy achieved only 10% localisation against its target of 49% by June 2023.
3. Foreign exchange savings were also an intended outcome of localisation under the MDMP. However, the shift towards local assembly largely replaced imports of finished phones with imports of CKD/SKD kits. CKD kit imports increased from \$521.9 million in FY23 to \$1,375.5 million in FY25.
4. High tariffs on imported Completely Built Units (CBUs) have created incentives for smuggling and tax evasion.
5. We recommend that the sales tax differential between CBUs and CKD/SKD kits should be removed by applying a uniform 18% sales tax.
6. We also recommend that the industrial concessions should be made conditional on measurable manufacturing performance, particularly domestic value addition, localisation and exports.

Introduction

Pakistan introduced the Mobile Device Manufacturing Policy (MDMP) 2020 to boost investment, increase domestic production, and gradually lower reliance on imported mobile phones. The policy gave preferential tax treatment to companies that imported Completely Knocked Down and Semi Knocked Down (CKD/SKD) kits for local assembly, while maintaining higher taxes and tariffs on imported Completely Built Units (CBUs). This tariff differential was designed to encourage firms to begin local operations and eventually expand domestic manufacturing capacity.¹ The

policy has contributed to the growth of local assembly. Between January 2021 and February 2023, 31 companies received mobile device manufacturing authorisations, resulting in roughly \$300 million in investment.² However, Pakistan's smartphone industry continues to rely significantly on imported components, with domestic production primarily concentrated in assembly and basic manufacturing activities. The tax structure encouraging local assembly has additionally created issues for the formal mobile phone market. High customs duties and additional taxes applied to imported CBUs offer an incentive to bypass the formal imports and registration procedures.

¹ "Mobile Device Manufacturing Policy", Engineering Development Board. Available at:

<https://engineeringpakistan.com/wp-content/uploads/2020/09/Mobile-Device-Manufacturing-Policy.pdf>

² Tahir Amin, "Mobile manufacturing/assembly: Policy has attracted \$300m in investment, created 50,000 jobs in two years", 7 Feb 2023. Available at: <https://www.brecorder.com/news/40224777>

Therefore, Pakistan's mobile manufacturing policy needs to be analysed from two perspectives: its progress toward domestic production and the market distortions caused by high import taxes. The relationship between these two concerns is particularly substantial as the government creates a new policy framework for the mobile and electronics industries.

Mobile Manufacturing Policy: Progress in Assembly, Limited Manufacturing

The MDMP 2020 was initially implemented with the objective of establishing a domestic mobile phone manufacturing industry. It created a tariff differential between imported CBUs and CKD/SKD kits, which made local assembly economically viable. The policy also contained a roadmap for phased localisation, which encouraged manufacturers to gradually produce components domestically. The policy estimated a 49% total potential for local value addition by June 2023.³ It planned to manufacture batteries, chargers, packaging, and certain electronic components locally. Components that could be manufactured domestically were to be gradually removed from concessional import arrangements, while technologically complex components would continue to be imported. The policy also featured an export-related R&D allowance to encourage businesses to explore overseas markets. The immediate response from manufacturers was substantial. By February 2023, 31 businesses had received manufacturing approvals, with an investment of around \$300 million. Local plants produced 21.94 million handsets in 2022, compared to 1.53 million commercially imported finished phones.⁴ This reflects the scope of assembly operations established under the policy.

However, the expansion of assembly has not resulted in an equivalent increase in local component manufacture. The Prime report notes that local production continues to remain focused on low-value activities such as casings, packaging, and plastic accessories. More advanced components continue to be imported.⁵ Additionally, the Customs data also points to the industry's reliance on imported inputs. In FY26, Pakistan spent around Rs 520 billion on mobile phone imports; CKD/SKD kits imported by registered local assemblers totalled Rs 420 billion, while CBUs accounted for around Rs 100 billion.⁶ These numbers indicate that imported kits account for the majority of the industry's import spending. Although local assembly generates employment and adds value through domestic operations, the continued dependence on imported components raises questions about progress towards the policy's longer-term manufacturing objectives.

This problem is partly due to incentives created by tariff protection. Preferential treatment encourages local assembly, but domestic component production requires additional investment, technology, trained personnel, and sufficient production volumes. Industries may have limited incentives to undertake such investment decisions if they can continue to import kits at reduced pricing. The constant reliance on imported components underlines the importance of assessing strategy beyond assembly expansion. Increased production volumes and investment are crucial, but the policy's long-term viability is also determined by domestic value addition, component manufacturing, technology transfer, and export performance. These statistics provide a strong base for determining whether the incentives provided to local assemblers are assisting Pakistan in developing a competitive mobile phone manufacturing business.

³ "Mobile Device Manufacturing Policy", Engineering Development Board. Available at: <https://engineeringpakistan.com/wp-content/uploads/2020/09/Mobile-Device-Manufacturing-Policy.pdf>

⁴ Ibid.

⁵ Zartasha Inayat and Ali Salman, *Taxing Connectivity: How Taxes and Tariffs Deepen Pakistan's Digital Divide*, PRIME, May 2026. Available at: <https://primeinstitute.org/publication/taxing-connectivity-how-taxes-and-tariffs-deepen-pakistans-digital-divide/>

⁶ Mubarak Zeb Khan, "Mobile phone imports top Rs520bn in FY26", 22 July 2026. Available at: <https://www.dawn.com/news/2017427/mobile-phone-imports-top-rs520bn-in-fy26>

High Import Taxes and the Grey Market

The tax structure applied to mobile phones under MDMP 2020 is designed to generate revenue and promote domestic mobile phone assembly through differential tax treatment. Therefore, the taxes increase the cost of purchasing imported devices while giving preferential treatment to locally assembled smartphones. Several taxes, including fixed regulatory duties, mobile levies, withholding taxes, and sales tax, are applied to Completely Built Units (CBUs). In contrast, the Completely Knocked Down and Semi Knocked Down (CKD/SKD) kits utilised for local assembly benefit from lower duties and concessions. The combined effect of these taxes is significant and differs between price categories. According to the Taxing Connectivity Report, a mobile phone worth \$100, equivalent to Rs 28,000 at the assumed exchange rate, incurs approximately Rs 9,170 in total taxes, raising the estimated total cost to Rs 37,170. The effective tax burden increases from 23.6% for a \$30 device to 50.26% for a \$700 device. For a \$700-worth device, the taxes add Rs 98,500, increasing the after-tax cost to Rs 294,500 from a base cost of Rs 196,000.⁷ Such a large tax differential creates an incentive for smuggling and tax evasion. Traders who import phones without paying applicable duties can sell them at a lower cost than businesses operating through formal channels. The financial incentive is particularly strong for premium devices, where avoiding taxes can result in substantial savings.

Although the Pakistan Telecommunication Authority (PTA) launched the Device Identification, Registration and Blocking System (DIRBS) to reduce illegal imports and counterfeit devices, traders have found ways to get around it. These methods include software patching and International Mobile Equipment Identity (IMEI) cloning, which enable non-compliant devices to work on local mobile networks. As stated in

the Prime report, the PTA blocked roughly 100 million illegal devices identified during FY2024–25, among them nearly 72 million counterfeit or replica phones and 27 million devices with cloned or duplicate IMEIs. The continued presence of informal trade points to a wider economic issue. While higher import duties are meant to raise revenue and shield domestic assembly, they also strengthen the financial incentive to bypass formal import and registration channels. This results in an uneven playing field for tax-compliant businesses and threatens to weaken revenue collection. The tax differential across import channels also disrupts the mobile phone business. For example, an iPhone incurred around Rs 150,000 in tariffs and taxes during commercial import, compared to Rs 190,000 under passport registration and Rs 210,000 during CNIC registration. Such significant disparities in registration prices may encourage consumers to seek cheaper alternatives, such as phones sold through informal channels. This demonstrates how the current tax structure can provide incentives for tax avoidance while undermining competition in the formal market. The effectiveness of mobile phone taxation consequently depends not only on the revenue it generates but also on its effects on competition, compliance and the development of domestic manufacturing.

Recommendations

Pakistan's mobile manufacturing policy has encouraged investment in assembly, but the next phase of industrial development requires closer attention to domestic value addition and export performance. The tax structure also needs to be reviewed alongside the incentives it creates for formal and informal trade.

- Linkage between industrial concessions and manufacturing performance: The original policy already included a phased localisation roadmap. Its implementation

⁷ Zartasha Inayat and Ali Salman, *Taxing Connectivity: How Taxes and Tariffs Deepen Pakistan's Digital Divide*, PRIME, May 2026. Available at: <https://primeinstitute.org/publication/taxing-connectivity-how-taxes-and-tariffs-deepen-pakistans-digital-divide/>

experience can inform the design of future incentives, particularly the distinction between components that can be manufactured domestically and those that remain commercially or technologically difficult to produce. Plant-level measures of domestic value addition, supported by verifiable production and export data, could provide a clearer basis for assessing industrial progress.

- Tax differential between imported finished phones and assembly kits: The Prime report proposes replacing the 25% sales tax on imported phones valued above \$500 with a uniform 18% rate. This would remove one source of disparity, although other duties and registration charges would continue to affect the overall tax burden.
- Coordination between taxation and enforcement: There is a need to examine how differences between commercial and individual registration costs affect compliance. Monitoring formal import volumes, tax collections and registration violations together would provide a clearer picture of the effects of future tax changes.

The proposed Mobile and Electronic Devices Manufacturing Policy 2026–33 places greater emphasis on domestic component manufacturing, technology transfer and exports. It also proposes penalties for manufacturers that fail to meet localisation requirements. These measures address some of the limitations of the 2020 policy, but their effectiveness will depend on implementation and measurable progress in domestic value addition. The revised framework should also address the tax structure for imported finished phones, particularly the incentives it creates for informal trade.

Conclusion

Pakistan's Mobile Device Manufacturing Policy has encouraged substantial investment in local assembly, but the industry continues to rely heavily on imported components. The gap between growth in local assembly and progress in domestic value-addition raises questions about the results achieved through tariff protection. High taxes on imported finished phones create an additional challenge by increasing the incentive for informal trade. However, the recent increase in formal imports and tax collections shows that differences in registration costs and enforcement also influence compliance. The proposed manufacturing policy for 2026–33 provides an opportunity to examine these issues together. Clearer measures of domestic value addition, a review of the cumulative tax burden on imported phones and closer monitoring of formal-market performance would provide an evidence base for assessing the costs and benefits of Pakistan's industrial protection framework.