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Trade and Industry
REPUBLIC OF SOUTH AFRICA

Support for localization of IT Devices

Advanced Manufacturing,

October 2014

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1. Purpose

- To provide feedback on the assessment conducted on the viability of supporting local assembly of IT equipment;
- To identify areas for Government support – leverage on massive public spending;
- To enable industry to increase local production of these devices, i.e. Desktops, Laptops, Tablets and Smartphones resulting in job creation. This work was conducted on the basis of gathering information to:
  - Get to know the local sector & key role players;
  - Understand the extent of public spending;
  - Assess local manufacturing capacity; and
  - Identify actions to support localisation

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2. SA Overview

Identified Role Players

Laptops & Desktops Players				
Company Name	Brands	Location	Primary Activity	Types
Pinnacle	Proline	Gauteng	Local Assembly	Mobile (laptops) & Desktops
Sahara	Sahara	Gauteng	Local Assembly	Mobile (laptops) & Desktops
Mustek	Meccer	Gauteng	Local Assembly	Mobile (laptops) & Desktops

Tablet & Smartphone Players				
Company Name	Brands	Location	Primary Activity	Types
Tech4law	Wise tablet	Durban	Import	Tablet PC
CZ Electronics	Mint Tablet	Gauteng	Local Assembly	Tablet PC & Smarthpones
Millburg	VUYA	Port Elizabeth	Import	Tablet PC

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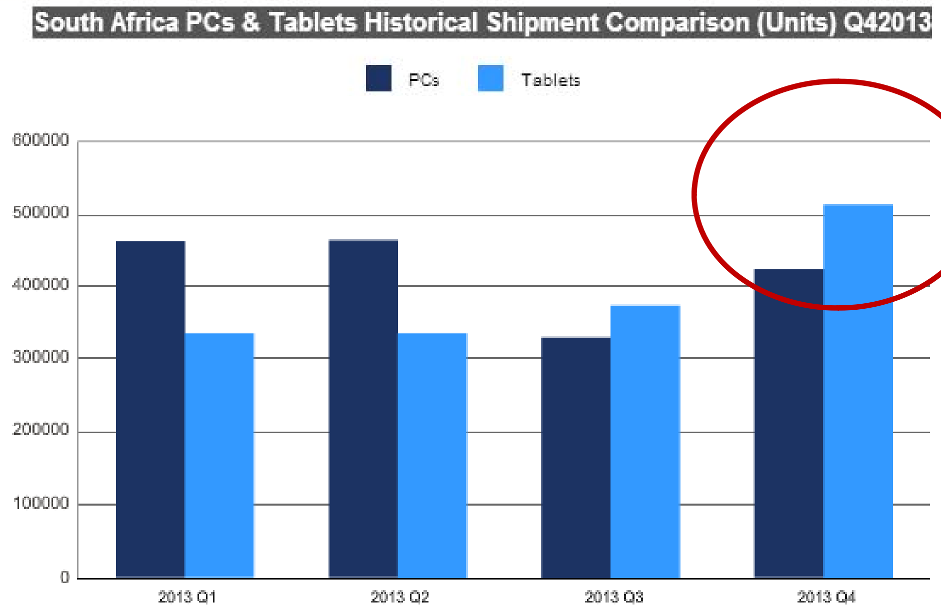
2. SA Overview

Shipment comparison between Tablets & Desktops (including laptops) - 2013

IDC
Analyze the Future

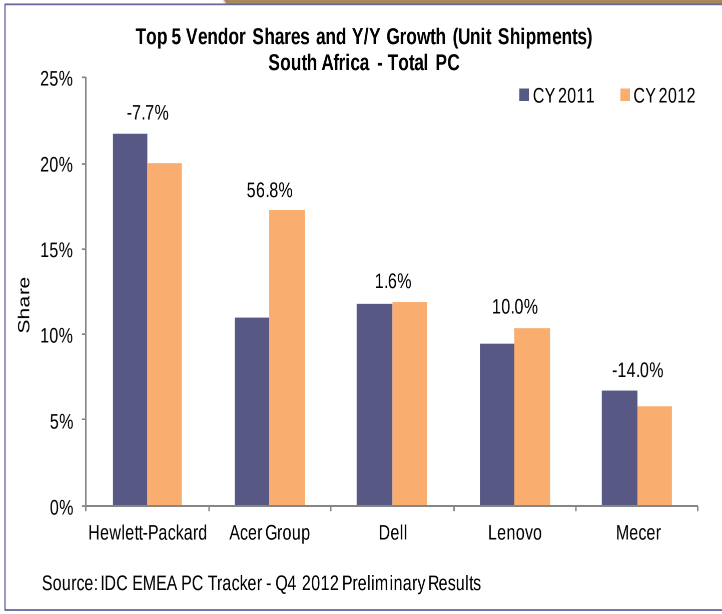


- Constant increase in tablets, with a slight decrease in laptops;
- This trend is expected to continue

2. SA Overview

South Africa - Top 10 Vendors by Units - Total PC					
Vendor	**CY 2011**	**Share**	**CY 2012**	**Share**	**Y/Y Growth**
Hewlett-Packard	507,461	21.8%	468,569	20.0%	-7.7%
Acer Group	257,119	11.0%	403,071	17.2%	56.8%
Dell	274,261	11.8%	278,593	11.9%	1.6%
Lenovo	221,619	9.5%	243,715	10.4%	10.0%
Mecer	156,783	6.7%	134,779	5.8%	-14.0%
Samsung	202,023	8.7%	123,952	5.3%	-38.6%
Toshiba	124,188	5.3%	96,923	4.1%	-22.0%
Proline	79,966	3.4%	85,810	3.7%	7.3%
Apple	54,305	2.3%	56,869	2.4%	4.7%
Rectron	44,612	1.9%	45,321	1.9%	1.6%
Others	409,292	17.6%	400,012	17.1%	-2.3%
Total	**2,331,629**	**100%**	**2,337,614**	**100%**	**0.3%**

Source: IDC EMEA PC Tracker - Q4 2012 Preliminary Results ^Top



- Declining market share for local assemblers – combined 10% market share;
- Declining sales volumes;
- Minimal Y/Y growth – 03%: **tight margins**

2. SA Overview (Tablets)

Market distribution by brand - 2012 - 2013

Vendor	Share
Apple	44.67 %
Samsung	38.95 %
Huawei	5.36 %
Acer	1.57 %
Onyx	1.42 %
Wise Touch	1.42 %
Other	6.5%
Total	100%

Source: (http://businesstech.co.za/news/mobile/43134/tablet-war-brewing-in-south-africa/)

- Local market dominated by Global brands;
- Local companies do not own IP and thus high dependence on – international OEM's (this applies to all areas of these devices)

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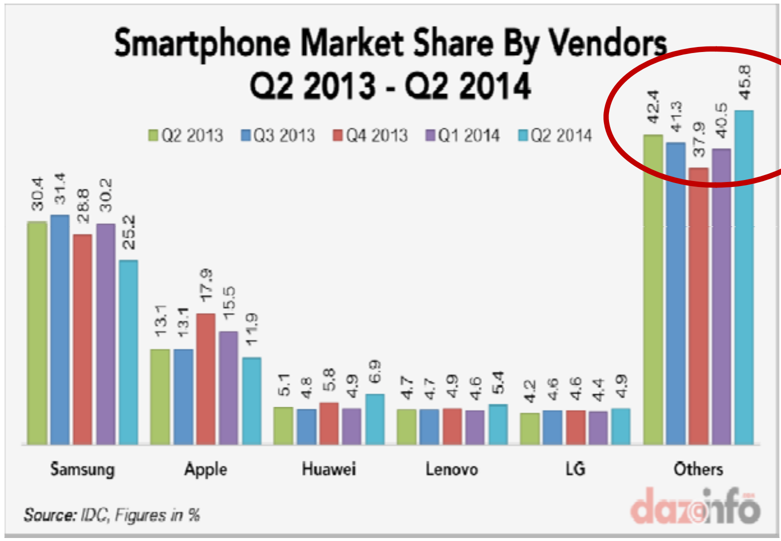
2. SA Overview (Smartphones)

Smartphones Local Landscape;

- Only local assembler – Mint Mobile
- Market dominated by Multinational Companies;
- South Africa remains a net importer of Smartphones

- Localization is a possibility – even though electronics are imported (not unique to smartphones but applies across the entire electronics manufacturing)



- Increase in appetite for cheaper/alternative smartphones between Q1 – Q2;
- Capacity and capabilities exists locally to manufacture smartphones, including OEM’s – Hisense, LG

2. SA Overview

Place Internets accessed	Geotype	Province (per cent)									
		WC	EC	NC	FS	KZN	NW	GP	MP	LP	RSA
At home	Metro	24,3	10,2	NA	NA	9,5	NA	16,3	NA	NA	16,4
	Urban	14,8	7,7	8,0	7,4	7,0	7,6	11,0	11,1	9,8	9,2
	Rural	10,6	1,2	1,8	4,3	1,0	1,7	7,7	3,3	1,7	2,0
	Total	**21,0**	**4,8**	**6,6**	**6,9**	**5,7**	**4,4**	**15,6**	**6,8**	**3,0**	**10,0**
At work	Metro	27,6	16,4	NA	NA	16,9	NA	29,5	NA	NA	26,5
	Urban	18,5	18,4	12,5	11,6	16,8	14,1	13,8	13,5	18,6	15,1
	Rural	14,6	1,6	2,0	4,5	2,9	3,8	9,4	4,5	2,2	3,2
	Total	**24,4**	**9,5**	**10,2**	**10,4**	**11,5**	**8,6**	**27,5**	**8,5**	**4,9**	**16,1**
Using mobile devices	Metro	41,3	42,3	NA	NA	28,7	NA	37,9	NA	NA	37,2
	Urban	25,6	29,9	37,2	37,7	32,9	38,0	42,1	42,5	27,7	35,3
	Rural	11,5	14,7	15,9	17,7	17,4	24,8	29,1	23,5	14,3	17,9
	Total	**35,4**	**24,4**	**32,5**	**34,3**	**25,3**	**30,9**	**38,3**	**31,9**	**16,5**	**30,8**
At Internet Cafes or educational facilities	Metro	20,1	11,0	NA	NA	8,8	NA	16,1	NA	NA	15,4
	Urban	10,9	7,5	3,8	11,6	10,8	8,8	8,5	6,5	5,2	8,8
	Rural	3,5	1,6	0,6	2,3	3,2	5,6	3,4	3,5	0,9	2,6
	Total	**16,7**	**5,1**	**3,1**	**10,0**	**7,1**	**7,1**	**15,1**	**4,8**	**1,6**	**9,6**

Source: (http://mybroadband.co.za/news/internet/104483-top-internet-province-in-south-africa-revealed.html)

- Internet & wireless access by South Africans is on the increase – mobile phones dominate internet access – increase demand for smartphones;
- **Opportunity for locally made devices to take advantage of this trend**

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3. Imports (Tablets) - Value

Year	2011	2012	2013
H84713000: Portable automatic data processing machines, of a mass not exceeding 10 kg, consisting of at least a central processing unit, a keyboard and a display **(TABLETS)**	6,984,771,391	8,523,168,228	10,241,667,207

Source : (http://tradestats.thedti.gov.za/TableViewer/tableView.aspx)

- Net importer of Tablets – in 2013 S.A imported just over R10bn worth of these devices
- Trend expected to increase as new entrants emerge with cheaper options and alternative products– Huawei, Lenovo & others;
- **Tablets are classified under the same code as laptops and other computer related devices;**
- This is a significant market and expected to continue to grow driven by technology innovation and increased use by South Africans

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3. Imports (Smartphones)

Year	2011	2012	2013
H85171210: Designed for use when carried in the hand or on the person	25,845,819	20,896,207	23,390,004

Source : (http://tradestats.thedti.gov.za/TableViewer/tableView.aspx)

- Net importer of Smartphones
- Trend expected to increase as new entrants emerge with cheaper options – Huawei, ZTE & others;
- This market is expected to grow as influenced by the increase in internet access – further supported by cheaper alternative products

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4. Tariff Position & Analysis (Laptops, PC, Tablets & Smartphones)

HS Code	Duty (%)	Description
847130 **(Covers PC's, Tablets & Laptops)**	0%	Data-processing machines, automatic, digital, portable, weighing <= 10 kg, consisting of at least a central processing unit, a keyboard and a display (excl. peripheral units)
8517.12.10 **(Mobile phones)**	0%	Telephone sets, including telephones for cellular networks or for other wireless networks.....**Designed for use when carried in the hand or on person**

Source: (SARS – Tariff Book, July 2013)

- **Desktops, Laptops & Tablets classified under the same HS Code** – limitation in duty increase for tablets
- All computer and related products attract ZERO duty – **not favorable** for local production – as per GATT;
- Even though mobile phones attract ZERO duty – **BOUND RATE => 20%**
- **Opportunity to raise duties on mobile phones to support local manufacturing *(NB: Bound rate applicable only to countries outside free trade agreements , e.g. SADC, SACU, EU)***

5. Key Observations

Key Characteristics of S.A Industry:

- Government continues to procure these devices – minimum R5bn was spent in 2013 according to National Treasury;
- Growth in internet penetration and thus influences the increase in demand for mobile devices;
- Overall sales (largely pushed by tablets) expected to increase by 30% from 2014 to 2017 to the value of R48bn.
- No local IP – dependence on OEM's for innovation and introduction of new technologies;
- Dependence on imported electronic components for local assembly;
- **Local content significantly low** – only from a product perspective (local labor, value addition etc. will greatly increase local content);
- This is a highly innovative sector, very competitive and tight margins – volumes count!!!

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6. Challenges/Opportunities

- **Challenges**
  - Local content on these devices is significantly low -= almost 100% inputs imported;
  - Local industry is limited in terms of innovation, research & design – reliant on competitors for new products and solutions (dependence on multinational OEM for technology development);
  - Free trade policies – no duties on imported computer-related products

- **Opportunities**
  - To **support and leverage** the anticipated procurement by Government on strategic projects such as Broadband Policy, ICT Policy, e-Classrooms as envisaged by the Dept. of Basic Education that all learners must have a tablet to improve the quality of education etc. Current estimates – 11 million tablets will be required over a 3-year period for an example;
  - **Investment in Smartphone** manufacturing, possible to attract the likes of HP, Dell etc. to setup local facilities;
  - **Ability of local assemblers to meet Government's product specifications (good enough products)** – e.g. **the dti** is rolling out and replacing Dell laptops with Proline (assembled in Midrand by Pinnacle)
  - Regional hub as supply base for neighboring countries

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7. Recommendations

1. It is recommended that these devices (tablets, laptops, desktops & smartphones) be considered for "**designation".** Even though local content is low, all other value addition activities will make up for this shortfall. JOBS will still be created in assembly

Rationale:

- To sustain & increase local assembly of these devices;
- To entice already existing OEM's (Hisense, LG & soon Samsung) to possibly increase production lines to include these devices – increase jobs
- To create an attractive value proposition for other multinational companies to set up locally. e.g. Dell, HP (had a plant before), etc.

2. Work with TISA to attract investment in Panel and PC board manufacturing by companies such as Samsung, LG, etc. – to strengthen the local value chain

3. Apply for 20% import duty increase for smartphones to support local manufacturing

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Thank You!!!!!!!!