



The evolution and current status of Myanmar's automotive industry



Policy Dialogue of Industrial Development in Ethiopia



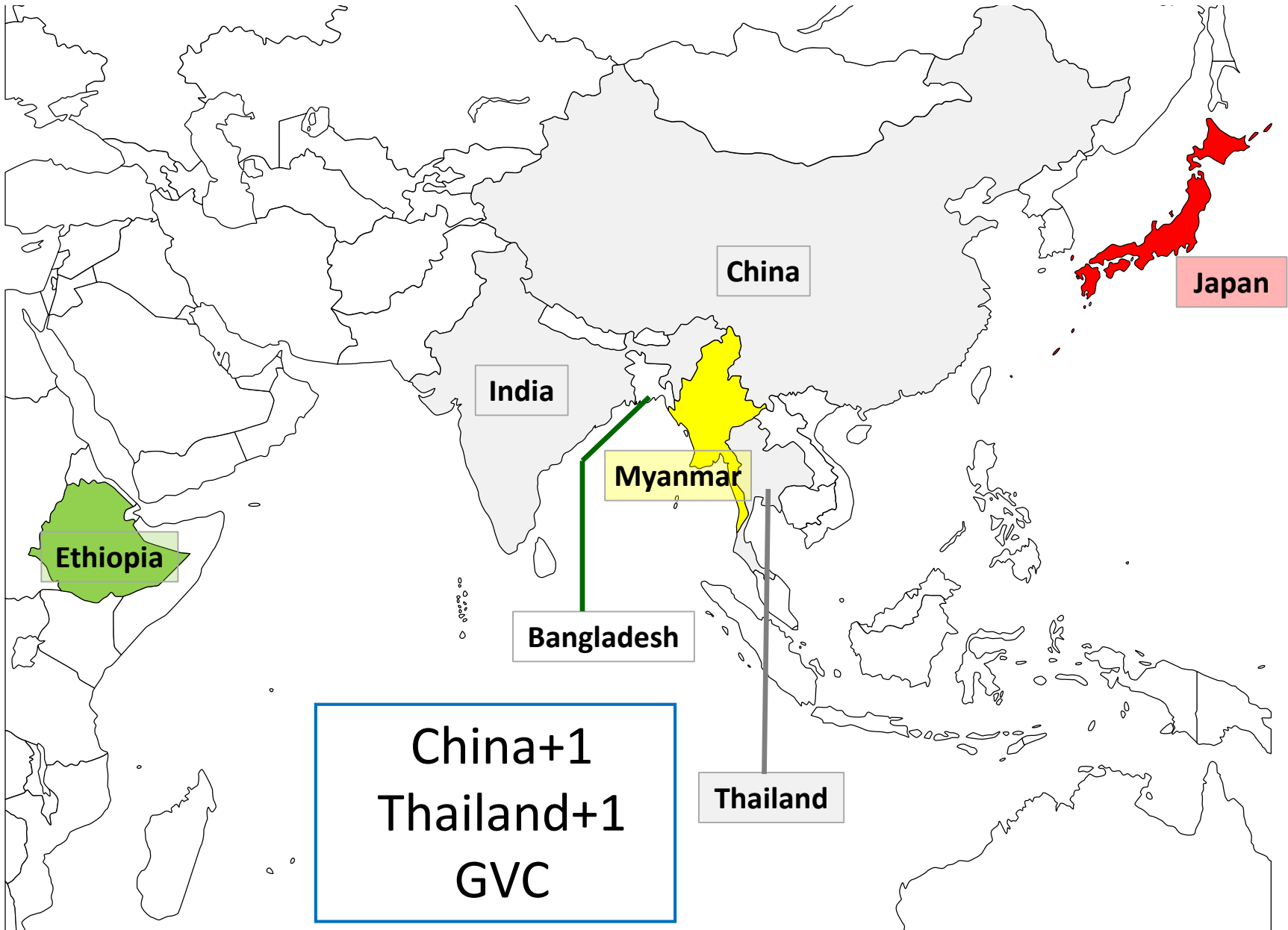
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Addis Ababa, February 2020

Geographical Locations



(Source) Homma (2014) at the High Level Forum of the Industrial Policy Dialogue in Ethiopia

Myanmar at a glance: Comparison with Ethiopia

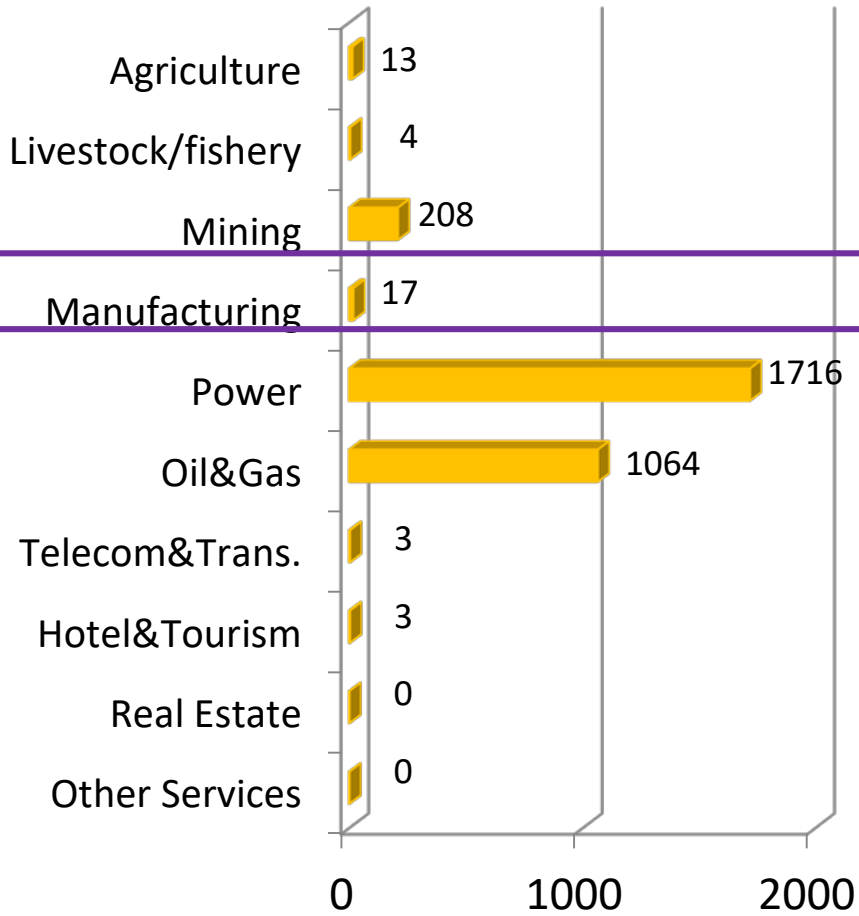


	Myanmar	Ethiopia
GDP (Current Mil USD, 2018)	71,215	84,356
Annual GDP Growth (2019)	6.5%	7.9%
Population (Thousand, 2018)	53,708	109,225
GNI per capita (Atlas Method, Current USD, 2018)	1,310	790
Land Size (km ²)	676,578	1,104,300
2020 Doing Business Ranking	165	159

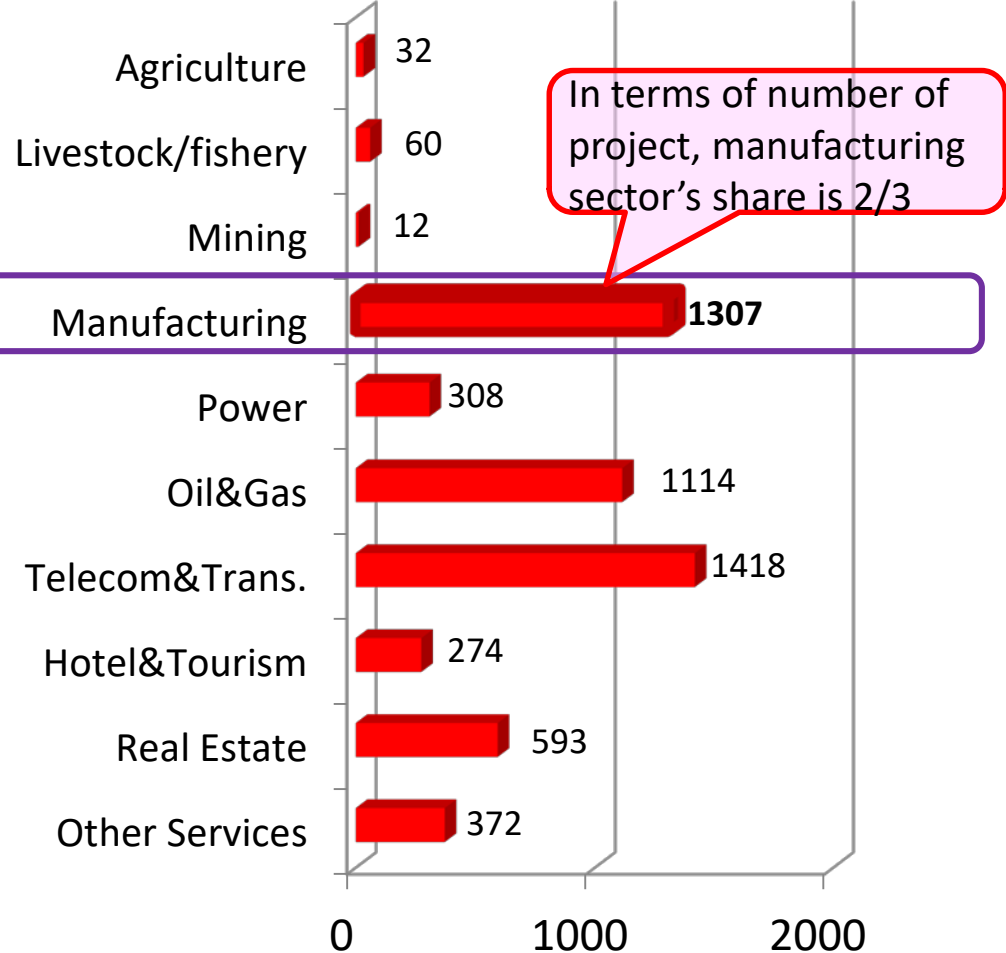
- Myanmar just opened up its economy in 2011, upon its transfer from the military regime to the civilian government
- Since then, rapid economic growth with FDI and economic policy reform have been going on

Increase of investment amount and diversification of investment sectors

(Unit: US\$ Million) **Avg. 2001/02-2011/12**



Avg. 2012/13-2018/19

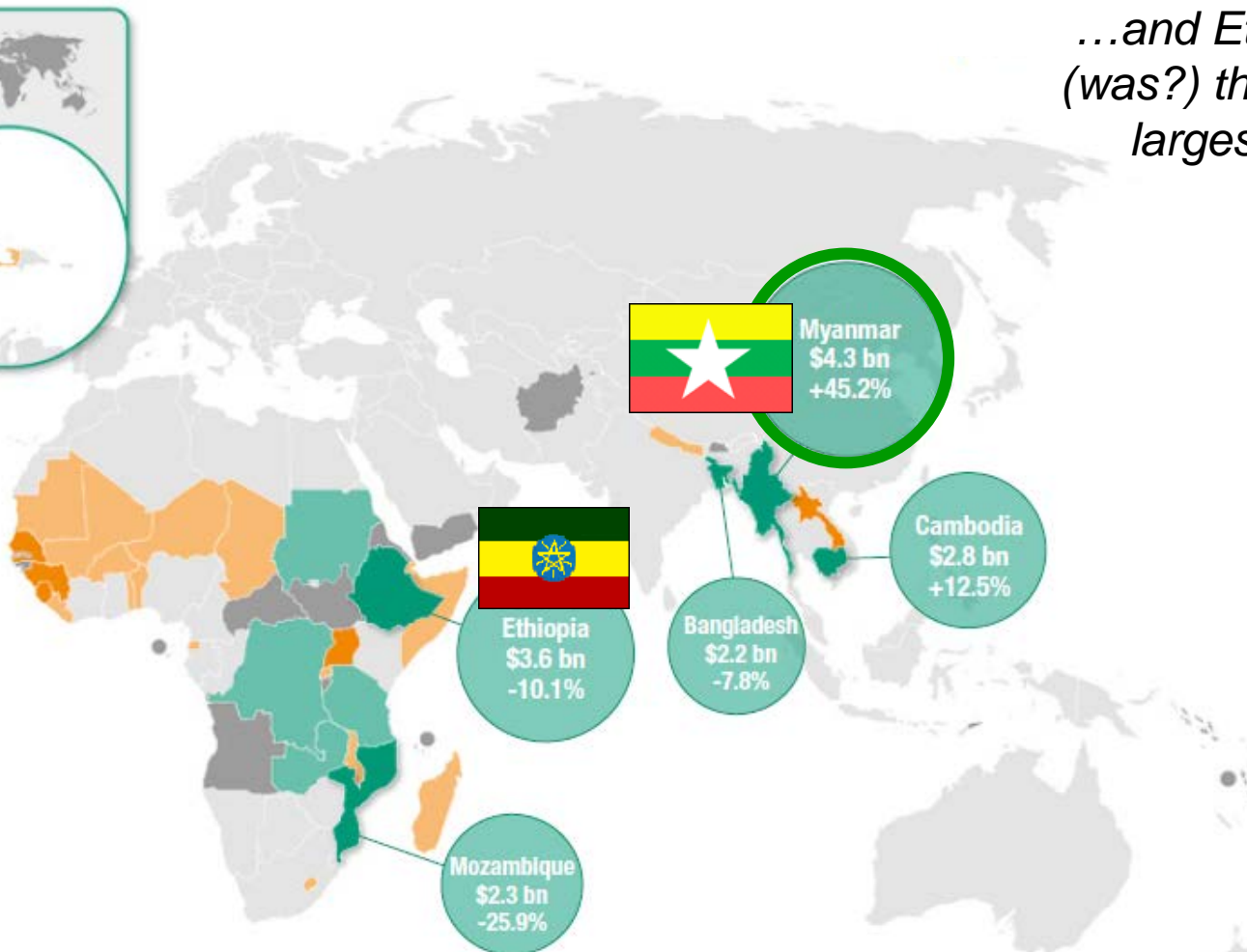


(Note) Year 2018/19 is the latest fiscal year ended in Sep. 2019

(Source) DICA (2019), processed by Homma 4

Myanmar becomes the top recipient of FDI inflow among the least developed countries

Top 5 host economies among the least developed economies in FDI inflow (2017, value and changes, Source: UNCTAD (2018) World Investment Report 2018)



...and Ethiopia is (was?) the second largest host



Myanmar received the World Bank's Star Reformer Award



*At the Investment Competitiveness Forum 2017 held in Vienna on 25-27 Oct. 2017,
together with Ethiopia as the two top reformers on investment environment*

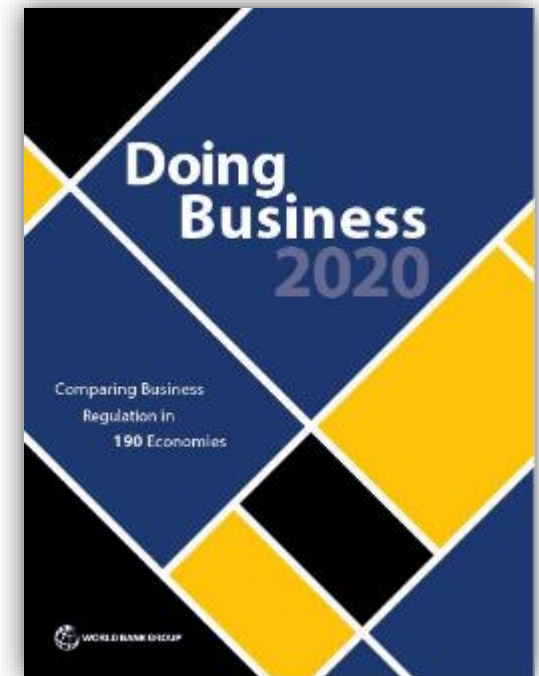


The World Bank Group's Ease of Doing Business Ranking

Top 3 and selected countries

	DB-2020	DB-2019	DB-2018	DB-2017	DB-2016
New Zealand	1 -	1	1	1	2
Singapore	2 -	2	2	2	1
Hong Kong	3 ↑	4	5	4	5
Korea Rep.	5 -	5	4	5	4
Malaysia	12 ↑	15	24	23	18
Mauritius	13 ↑	20	25	49	32
Thailand	21 ↑	27	26	46	49
Japan	29 ↑	39	34	34	34
China	31 ↑	46	78	78	84
Rwanda	38 ↓	29	41	56	62
Morocco	53 ↑	60	69	68	75
India	63 ↑	77	100	130	130
Vietnam	70 ↓	69	68	82	90
Indonesia	73 -	73	72	91	109
Zambia	85 ↑	87	85	98	97
Philippines	95 ↑	124	113	99	103
Pakistan	108 ↑	136	147	144	138
Mozambique	138 ↓	135	138	137	133
Tanzania	141 ↑	144	137	132	139
Cambodia	144 ↓	138	135	131	127
Ethiopia	159 -	159	161	159	146
Myanmar	165 ↑	171	171	170	167
Bangladesh	168 ↑	176	177	176	174
Somalia	190 -	190	190	190	-
(Total)	190	190	190	190	189

- Both countries are struggling with low ranking of the Doing Business, but...



Source: World Bank Group (2019; 2018; 2017; 2016; 2015): Doing Business 2020; 2019; 2018; 2017; 2016, reproduced by author

Business environment reform

(The World Bank Group - Doing Business)

Although Myanmar is still at 165th in overall ranking of the Doing Business, it was identified as one of the most improved economy in the world on Starting a Business in 2016 and 2020.



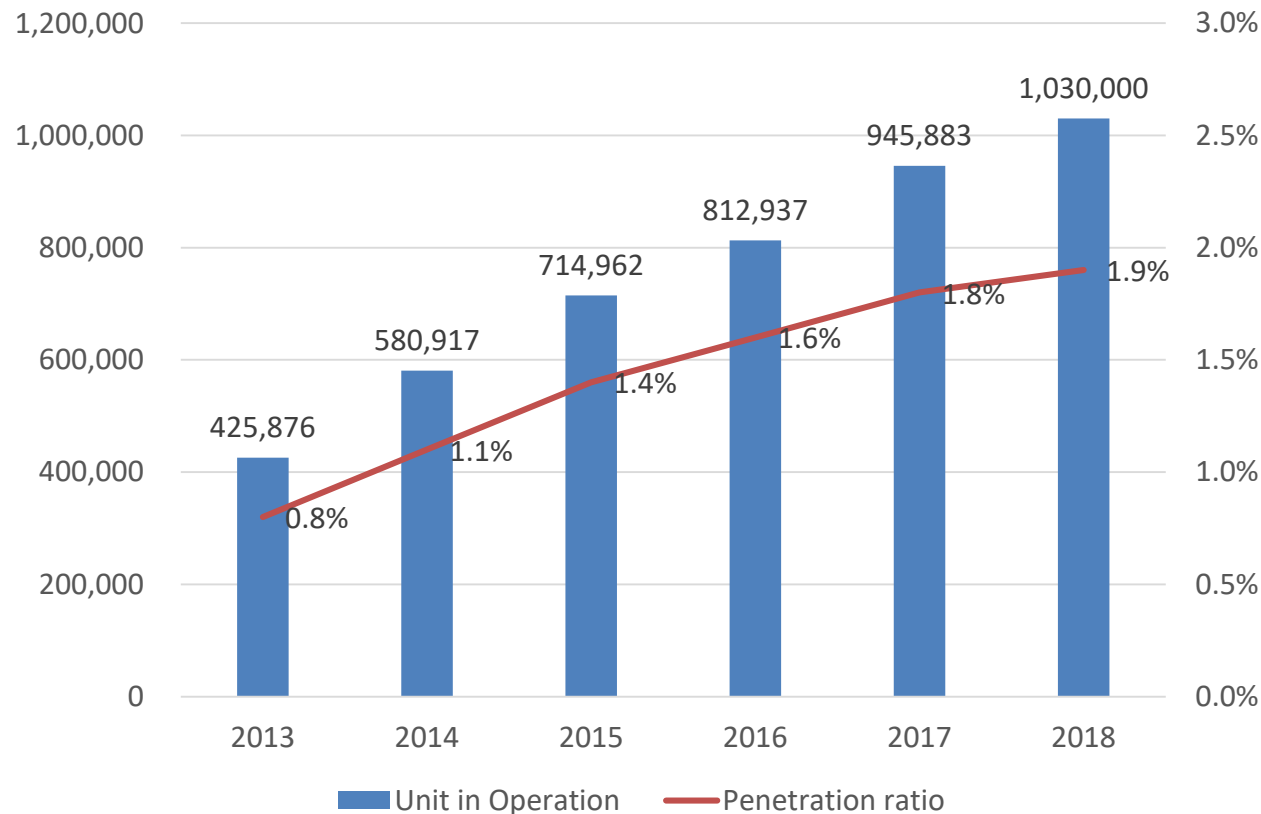
Indicator for "Starting a Business" (Myanmar)	DB2020	DB2019	DB2018	DB2017	DB2016	DB2015
	70th	152th	155th	146th	160th	189th
Procedure (number)	6	12	12	11	11	12
Time (days)	7.0	14.0	14.0	13.0	13.0	72.0
Cost (% of income per capita)	13.3	24.8	40.1	40.4	97.1	131.1
Paid-in min. capital (% of income per capita)	0.0	0.0	0.0	0.0	0.0	6,190.1

Emerging Automobile Industry in Myanmar



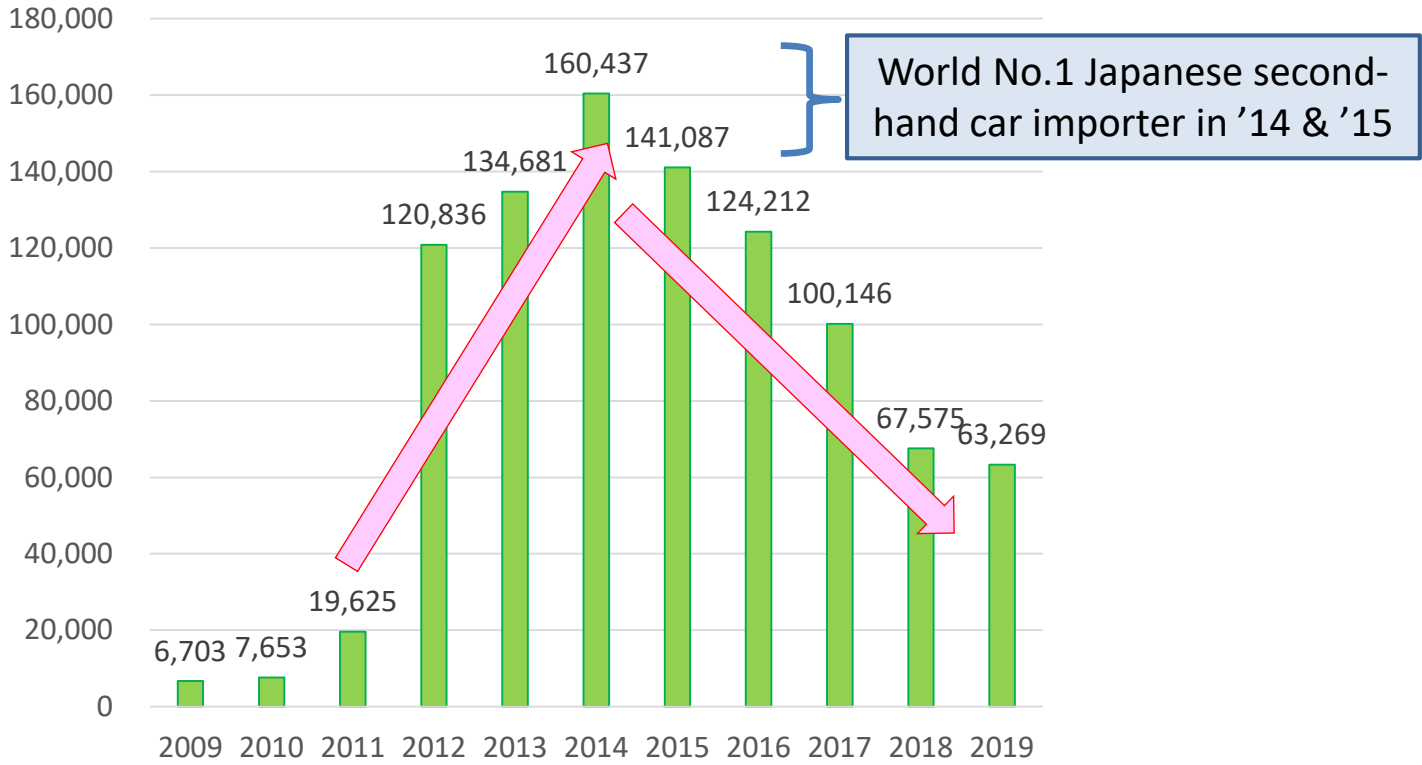
Evolution of Myanmar's automotive market and penetration

- Since the drastic open-up of its economy in 2011, Myanmar's automotive market and car penetration (per population) have been growing rapidly, but mostly by imported second hand cars.



Second-hand cars have been flow into Myanmar at a massive scale but rapidly declined due to its ban

- Myanmar has relaxed car import regulation and hit the record as the world largest Japanese second-hand car importer in 2014 and 2015.
- But since then it has been rapidly declining as the government has gradually tighten it up for safety (second-hand, right handle in right lane) and new car market creation.



Source: Japan Used Motor Vehicle Exporters Association (2020) , processed by Homma (2020)

Major restrictions of second-hand car import

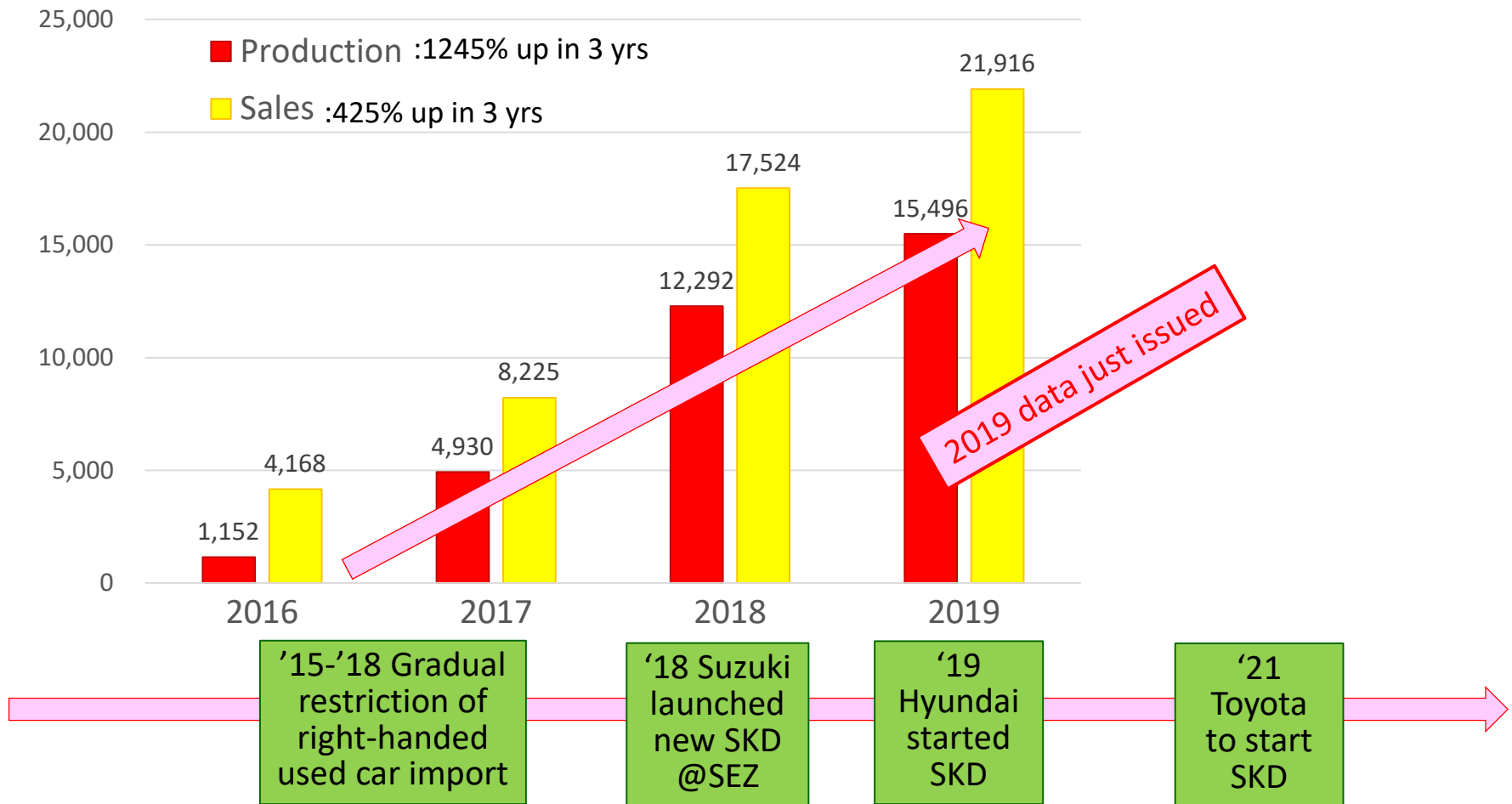
- Restriction of right handle car started from around 2015 and almost banned in 2018 for safety reasons.
- Car age limit has been gradually tightened since 2017; In 2019, only those which were produced in 2017-2019 for private and 2015-2019 for commercial are allowed.
- Yangon Region Government stopped issuing parking registration license for imported cars in Yangon since 2016 in order to avoid over-congestion of cars.



Right-handle bus with left-side entrance/exit in the right lane

Evolution of Myanmar New Car Market/Industry

- Myanmar's brand-new car market has been emerging from almost nothing several years ago, thanks to growing market expectation, its gradual used car restriction and tax difference.
- New car market creation led to launches of new car production



Evolution of Myanmar New Car Market/Industry

- Suzuki has resumed SKD production at small scale in 2013 and **much increased production in 2018** after setting up a larger factory in Thilawa SEZ thanks to new car market creation (Suzuki has share of more than 50% of the total new car production in Myanmar)
- Suzuki plans to move on from SKD to CKD



Suzuki Ertiga

- Toyota announced in May '19 to **set up the first factory (SKD) in Myanmar in 2021** in Thilawa SEZ, the flagship industrial park in Myanmar
- 2,500 units planned in the first year
- It is the Toyota's first factory to be set up in the greenfield country in the last 13 years since the same has happened in Russia in 2006



Toyota Hilux



Source: Suzuki (2019) and Toyota (2019)

Myanmar: the fastest growing new car market in Southeast Asia

- Myanmar is the fastest growing market in Southeast Asia, though its size is still limited but on the process for catching up.

New automobile sales in major ASEAN countries

	2019 Jan-Dec (units)	Annual Growth (%)
Indonesia	1,030,126	-10.5
Thailand	1,007,552	-3.3
Malaysia	604,287	1.0
Philippines	369,941	3.5
Vietnam	322,322	11.7
Singapore	90,429	-5.1
<u>Myanmar</u>	<u>21,916</u>	<u>25.1</u>
Brunei	11,909	6.1

Automobiles in Myanmar in 2012



- Very old cars and buses were common before flood of second-hand car import.
- Not much cars on road compared with the later years.



Automobiles in Myanmar in 2016

- Myanmar becomes the world largest importer of Japanese second-hand car in 2014 and 2015. It was good for supplying transportation to meet economic activities at the beginning but car congestions became a serious problem.
- Second-hand car import limitation has started around 2015, together with some efforts for new car market creation.



Automobiles in Myanmar in 2019



- Both the new car market and new car production have been rapidly emerging (though the absolute numbers are still small)



Tariff structure for importing passenger car in Myanmar

Tariff table for importing passenger car in Myanmar

Passenger car size	Custom Duty	Special Goods Tax	Registration Tax	
			CBU	KD
~1,350cc	30%	-	30%	0%
1,351~1,500cc	30%	-	50%	0%
1,501~2,000cc	30%	10%	50%	0%
2,001~4,000cc	40%	30%	80%	0%
4,001~5,000cc	40%	50%	80%	0%
5,001~	40%	50%	120%	0%

- Large difference made between CBU and KD by registration tax difference
- Currently no difference between SKD and CKD but will be introduced after clear definition is set up (according to the Automotive Policy)

Myanmar's first "Automotive Policy" has just launched with 3 step structure

- Myanmar has launched in May 2019 the AUTOMOTIVE POLICY, by Ministry of Industry, together with relevant ministries, Myanmar Investment Commission, Engineering Society, Federal Chambers (UMFCCI), relevant associations, foreign automobile dealers etc.
- It is based on the policy recommendation document prepared in 2015 by the private sector initiative (UMFCCI).
- Chap. 1. Introduction
- Chap. 2. Basic Principles
- Chap. 3. Automotive Industries Development Roadmap
- Chap. 4. Designation of Priority Areas
- Chap. 5. Sectoral Implementation Plan
- Chap. 6. Policy Recommendation
- Chap. 7. Conclusion



Note: Ministry of Industry was merged with Ministry of Planning and Finance and became Ministry of Planning, Finance and Industry in Nov. 2019

Myanmar's first "Automotive Policy" has just launched with 3 step structure

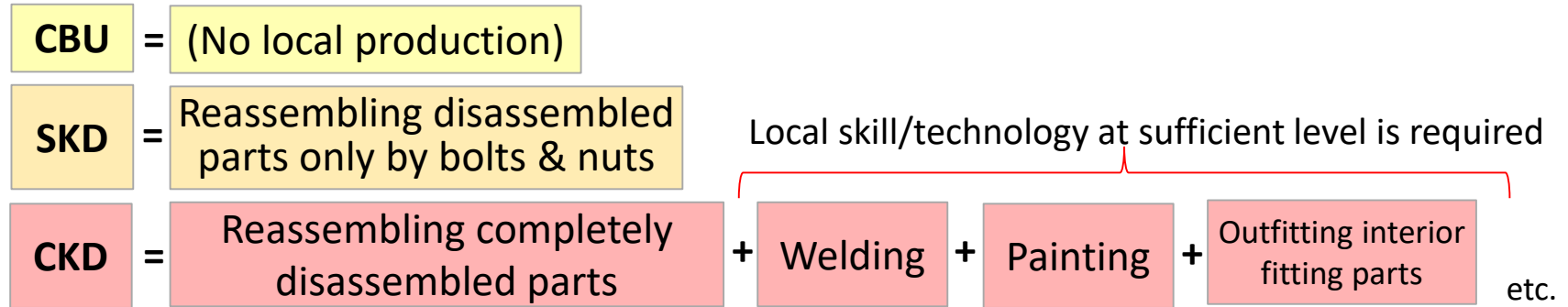
Designated target set in the Automotive Policy (May 2019) of Myanmar

Step	Target Period	Vehicle Penetration Ratio	Unit in Operation (UIO) (Unit)	Brand-new Car Sales /year (Unit)	Production system encouraged
(1)	Short-term (Initial stage 5 years)	4%	2,000,000	200,000	SKD
(2)	Medium-term (Second stage 5 years)	8%	4,000,000	400,000	SKD→CKD
(3)	Long-term (Third stage 5 years)	20%	10,000,000	1,200,000	CKD & SI

- Clear targets are set in 3 steps (short-, medium- and long-term), though it looks too ambitious.
- Clear direction from CBU to SKD and then CKD (The Automotive Policy recommends to make their clear definitions).

(For Reference) General Understanding of CBU/SKD/CKD

- For automobile and motorcycle industry, Semi Knock Down (SKD) and Complete Knock Down (CKD) production are often introduced where domestic industry is not developed (An example)



Source: Japan Automobile Manufacturing Association (JAMA) (2008) *JAMAGAZINE Feb. 2008*, processed by author (2014)

- Step by step shift from Complete Build Up (CBU) to SKD/CKD and finally local parts supply
- Encouraging investment in SKD/CKD (and car components) to enhance this shift in some countries by customs duty difference and investment incentives

step-by-step shift along with country's capacity development

Stage	CBU	→	SKD	→	CKD	→	Local parts supply
Benefits	Sufficient car supply		Employment creation		Local add value, HRD		Industrial development
Challenges	No technology transfer		Less local add value		Lack of quality local techniques		Lack of supporting industries

Source: Homma (2014, 2019)

Summary

- Myanmar's car market has been expanding along with the economic growth and economic policy reform.
- Against the flood of second-hand car import, several policy actions have been taken gradually.
- It resulted creation of new car market/industry and its rapid growth is expected.
- The Automotive Policy has been prepared based on the private sector initiative, with necessary elements for automobile policy.
- As a result, Myanmar has taken steady and necessary steps to grow automobile industry.
- Though the pre-conditions may be much different between Myanmar and Ethiopia, Myanmar's experience and path may be useful to learn.



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Thank you



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