



Selected topics from the Japanese and Myanmar experience in CMP and industrial zone

7th High Level Forum for the Phase II of Policy Dialogue of Industrial Development in Ethiopia

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Contents

*Selected topics to complement the preceding presentations
featuring Myanmar's case*

*(Given comprehensive presentation has been already done in the 6th
HLF, this time just some selected issues are picked up)*

1. Myanmar's "CMP" basis garment manufacturing *(to see how it works and contributes to solving foreign currency issues)*
2. Industrial zone development from Japanese zone developer's view
3. Issues which Japanese investors are dealing with *(to see how they are concrete and detailed)*
4. Implications

CMP (Cutting, Making and Packing)

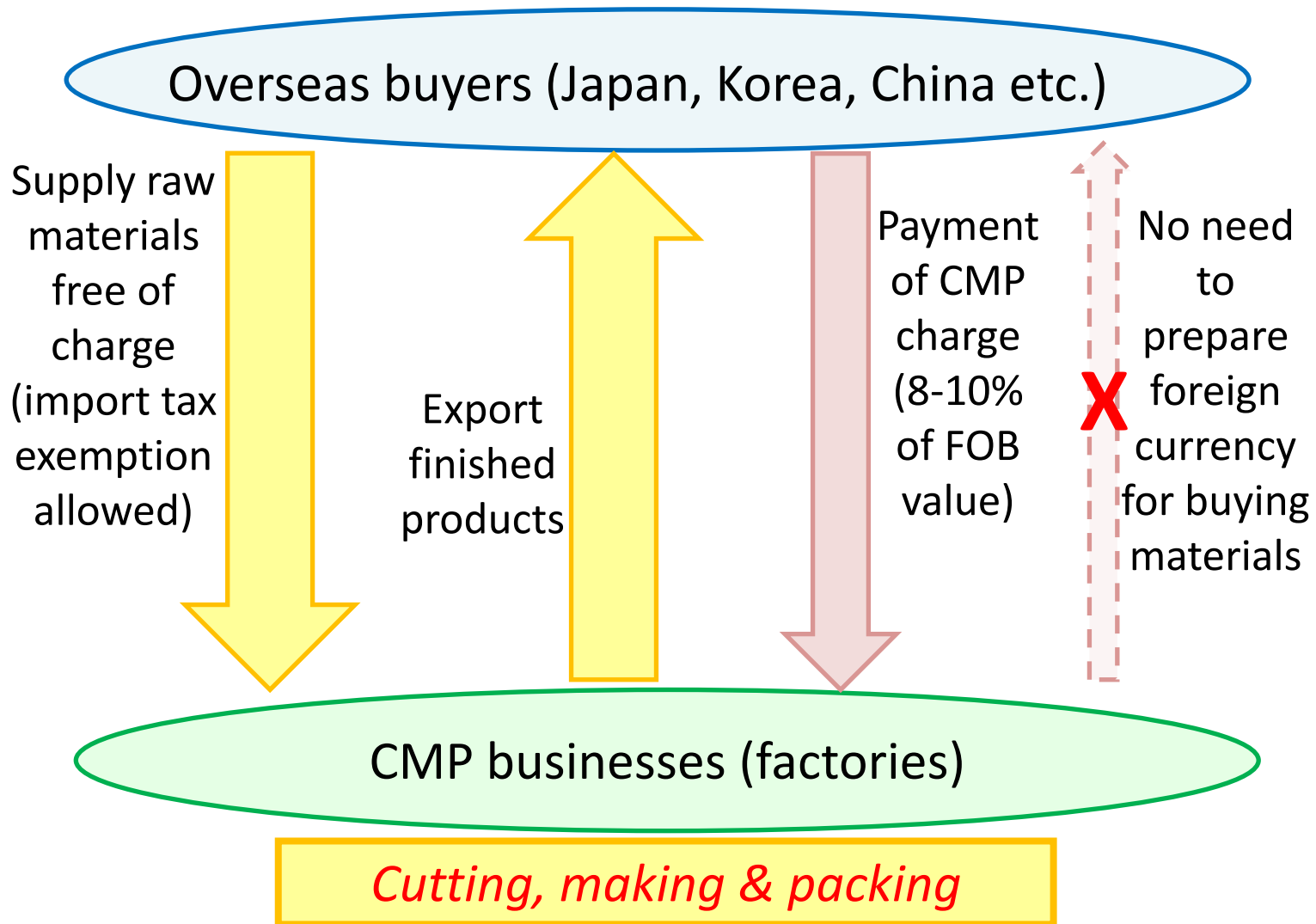
the way how it works

- Myanmar's garment sector as its leading manufacturing industry is based on a system on processing charge-basis: Typically known as "**CMP**" in Myanmar - **Cutting, Making and Packing**
(for reference: it is called as "CMT" in Cambodia – Cut, Make & Trim)
- The **CMP System** is a form of production on consignment in which the main raw materials (fabrics and ancillary materials such as interlining cloths, lining materials, buttons and fasteners) are provided by overseas buyers and imported free of charge, then cut, sewn and packed in the domestic factories, after which all of the finished products are exported. (Kudo, 2012)
- It starts expanding to other type of manufacturing such as medical needle and digital camera parts, however, almost all are still garment sector

Source: Interviews by the author from CMP enterprises and MGMA;

Kudo T. (2012) "How has the Myanmar garment Industry evolved?"

CMP (Cutting, Making and Packing) the way how it works



CMP: how it has been emerged

Contribution to avoiding foreign currency issues

- CMP consignment processing business emerged when the Asian Financial Crisis hit the Southeast Asian countries including Myanmar whose foreign exchange position deteriorated rapidly in 1997.
- The only payment required for this process is the “processing charge” (“CMP charge”) from the overseas buyers to the garment factories in Myanmar.
- The system made possible for the local garment manufactures **to import raw materials without export earnings**. The system provided a way **to avoid foreign exchange settlement**, which is the most difficult issue involved in importation in Myanmar

Source: Interviews by the author from CMP enterprises and MGMA;

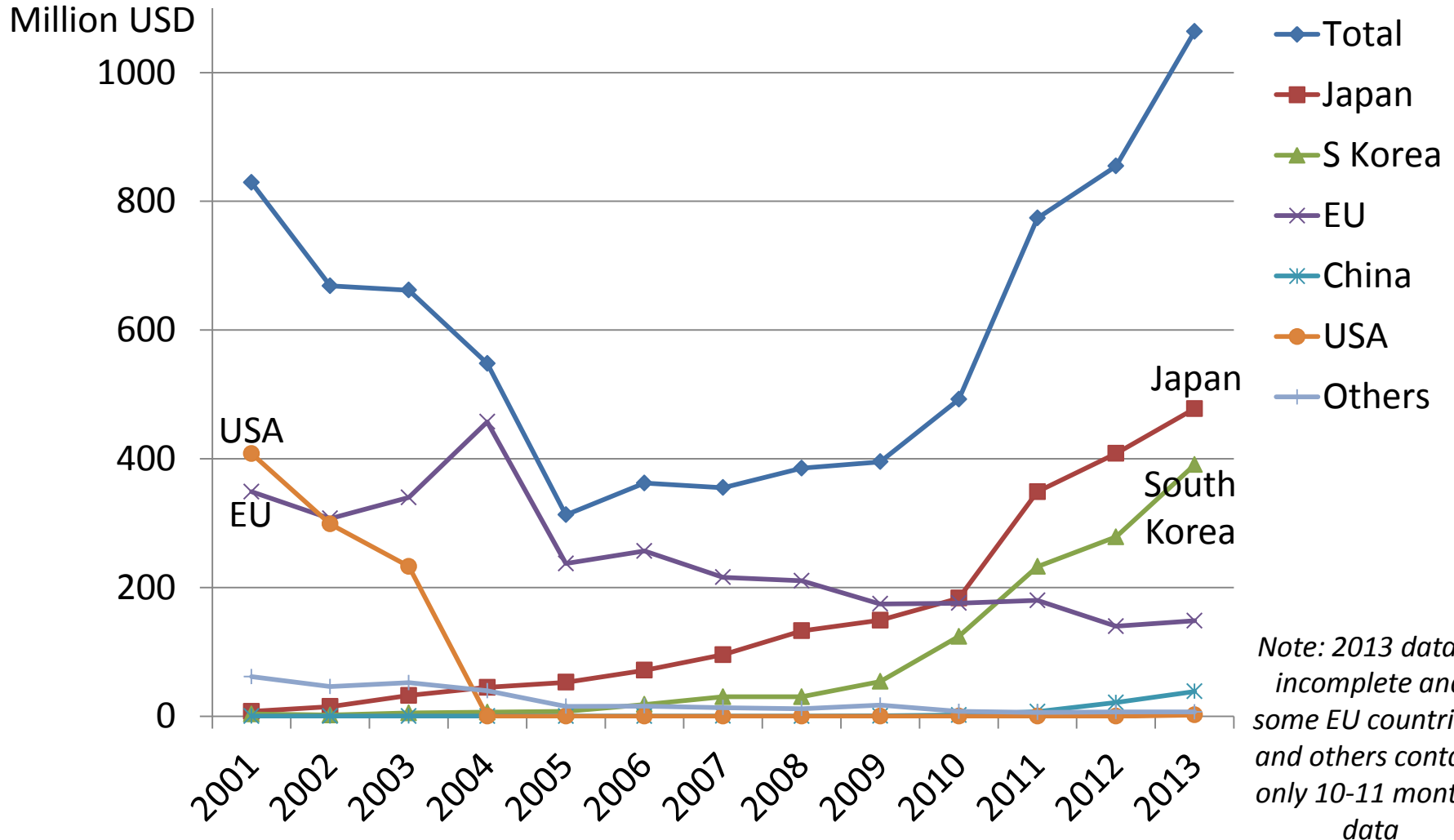
Kudo T. (2012) “How has the Myanmar garment Industry evolved?”

CMP: its regulatory requirements

- CMP business needs to submit investment application and to be permitted by Myanmar Investment Commission (MIC) as specifically designated business as “... **manufacturing on CMP basis**”
- It is **distinguished clearly with non-CMP** business; if a company would like to extend its business and newly start CMP, it needs to establish another company and apply a separate investment proposal for approval
- Once approved as a CMP investment, tax exemption is applied for importing raw materials
- CMP products need to be **exported 100%**
- It also needs to register as a member of Myanmar Garment Manufacturers Association (MGMA): Now 283 companies are registered as CMP companies at MGMA

Garment export (almost all as CMP) expanding with drastic transition of major players

- Import value of main Myanmar garment importing countries -



CMP: its lessons in the past

- ✓ At the beginning, it was allowed to import machinery/equipment and even vehicles under the CMP arrangement
- ✓ Overseas buyers could supply necessary machinery and ask local CMP enterprises to repay little by little. This arrangement contributed to reducing the initial investment cost
- ✓ Gradually some of CMP enterprises misused the system, for example, to use imported materials/machinery/vehicle for other purposes like just reselling domestically (at that moment the rights of import were very limited)
- ✓ Then the regulations were tightened; MIC approval and MGMA membership became required; machinery/vehicles became not applicable

Source: Interviews by the author from CMP enterprises and MGMA;

Kudo T. (2012) "How has the Myanmar garment Industry evolved?"

Current issues on garment sector

CMP-related and general issues

- There are still some needs for machinery to be applied as CMP
- Improvement of import/export procedure is strongly demanded
 - ✓ smoother administration process at the customs
 - ✓ Requirement for one-stop-service or branch of customs at industrial zones
 - ✓ extending the short valid of import/export licenses to meet actual production cycle
- Labour-related issues
 - ✓ Pressure for wage hike (neighbouring countries recently are experiencing)
 - ✓ Gradually increasing difficulty to secure human resources along with labour intensive industries' expansion in the country
 - ✓ Needs to improve labour productivity further

Tentative Observation by Japanese Developer on the Ethiopian Industrial Zone targeted to Japanese Firms

1. Possible Industries

- Possibility of labour intensive industries and other industries

2. Industrial Zone Facilities

- Rental factory

3. Rental Fee

- Evaluation of the price

4. Speedy Custom Clearance

- Important Pre-Condition

5. Other Important Viewpoints

- Infrastructure (water, electricity, etc.) etc.

Reasons for Myanmar as promising & issues: trend



No. 10: Myanmar

Reasons

(Total No. of respondent companies: 53)

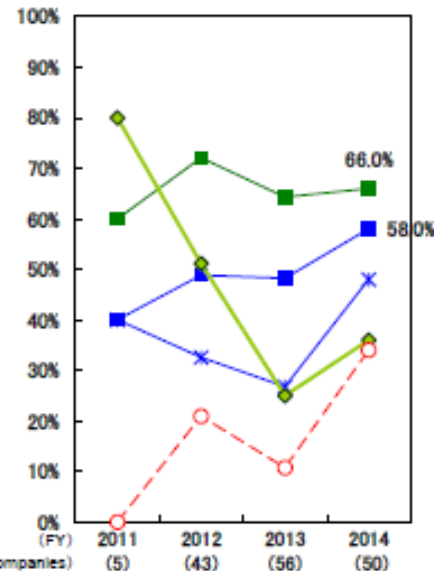
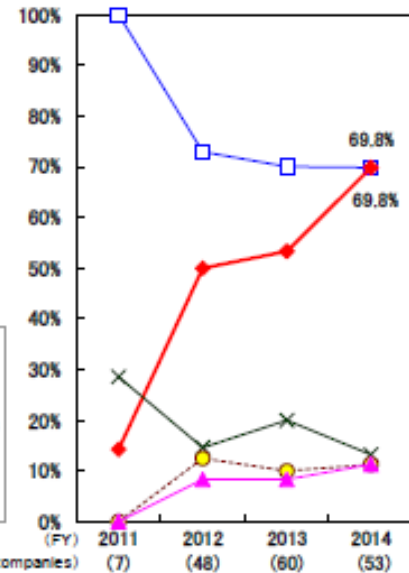
	No. of companies	Ratio
1 Inexpensive source of labor	37	69.8%
1 Future growth potential of local market	37	69.8%
3 Good for risk diversification to other countries	7	13.2%
4 Base of export to third countries	6	11.3%
4 Current size of local market	6	11.3%

Issues

(Total No. of respondent companies: 50)

	No. of companies	Ratio
1 Underdeveloped infrastructure	33	66.0%
2 Underdeveloped legal system	29	58.0%
3 Execution of legal system unclear	24	48.0%
4 Security/social instability	18	36.0%
5 Complicated/Unclear procedures for investment permission	17	34.0%

- Myanmar is ranked at No.10 most promising countries for Japanese manufacturers as mid-term investment destination
- Various issues raised but the result implies investment stages are moving from just an interest to actual implementation



Myanmar-Japan Joint Initiative (MJJI)



Platform for investment environment improvement

- A **forum of discussion** between Myanmar and Japan, among parties of both public and private sectors, to identify **concrete measures for promoting investment and trade**, and to lead **“Quick Win”** of Myanmar by way of accelerating development of **investment environment**
- Periodically held so far 5 times in March, May and October 2013 and July and November 2014
- **List of issues** to discuss (Japanese draft of “Action Plan”) incorporating concrete measures and target schedule of necessary efforts in the following **9 areas**:
 - (1) **Visa and Stay Permit** (Visa issuance rules, simplified operation)
 - (2) **Trade policy** (further relaxation of trade regulation, reduction of import related tax, tax exemption and speedy custom clearance)
 - (3) **Investor friendly environment** (legal measures for investor protection, development of financial and security market)
 - (4) **Taxation** (review of various tax systems) *(go on to the next slide →)*

Myanmar-Japan Joint Initiative (MJJI)

Platform for investment environment improvement

- **list of issues** to discuss on **9 areas** (*continued*):
 - (5) **Infrastructure Improvement** (urban transportation improvement, power supply & telecommunication, review of relevant rules of construction business)
 - (6) **Abolish unfavorable treatment against foreigners and foreign companies** (foreigners' price issues, enlarge sectors of foreigners' access)
 - (7) Appropriate **insurance system and open market** to foreign companies
 - (8) Ensuring **resettlement scheme of labor dispute**
 - (9) Improvement of **other administration procedures**



JICA's contribution to IZ management - The Project for Improvement of Capacity of Thilawa SEZ Management Committee in Myanmar

- **Objective:** The Project aims to achieve **effective and smooth operation** for the Thilawa SEZ by **capacity development** of Thilawa SEZ Management Committee (TSEZ-MC) and One Stop Service Center (OSSC) through **establishing organizational and administrative management, management of import and export, customs and logistics, and approval and licensing procedures.**
- **Project period:** September 2014 – October 2015
- Awarding ceremony for investment approval for the first 5 companies on 12 Dec. 2014 was conducted in the presence of H.E. Vice President



Summary and implications for Ethiopia



- ✓ CMP system for garment manufacturing may be useful especially counties like Ethiopia which faces foreign currency and initial capital shortage
- ✓ Careful regulatory arrangement when introducing CMP is required to avoid misuse
- ✓ Japanese IZ developers' view for Ethiopian industrial zone: target industry, necessity of rental factory, competitiveness of rental fee, highest needs for smooth custom clearance
- ✓ Industrial zone development as a comprehensive package with trouble shooting function is welcome
- ✓ Concrete, detailed and on-the-ground-basis arrangement is required for attracting more investors

Amesegenalew

Thank you



Realize the potential.

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