

# Key Findings in Myanmar's Automotive Policy and Lessons for Ethiopia



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# Topics

- Summary of previous automotive workshops
- Myanmar highlights – policy content
- Myanmar highlights – policy capacity and formulation
- Implications for Ethiopia

**The GRIPS Development Forum (GDF) and the Japan International Cooperation Agency (JICA) dispatched a joint research team to Myanmar in November 2019. Automotive policy, SEZ policy and the garment sector were studied. This presentation focuses on automotive policy. The English translation of the full GDF mission report is available at:**

[www.grips.ac.jp/forum/af-growth/support\\_ethiopia/document/2019.11\\_MM/myanmar\\_E3.pdf](http://www.grips.ac.jp/forum/af-growth/support_ethiopia/document/2019.11_MM/myanmar_E3.pdf)

# Summary of Previous Automotive Workshops

- K. Ohno, “International Comparison of Automotive Assembly Policies: For Inviting Global Players to Ethiopia and Supporting their Expansion,” presented in February 2019;
- K. Ohno, “Policy for Attracting Automotive Assembly Part II,” presented in August 2019.

# Timeline of Automotive Production Development

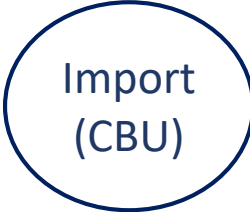
**CBU → SKD/CKD → Inviting foreign SI & developing local SI  
→ Large volume & low cost → Frontline technology**

**SI : supporting industry (terminology used in East Asia for domestic component suppliers)**

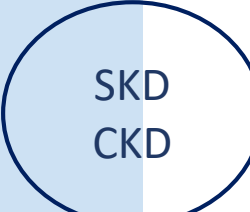
- The automotive industry is a fiercely competitive industry with a broad industrial base and changing technology. There are only 16 global car makers with original technology and having sales volume of 1-10 million vehicles per year.
- Latecomer countries must develop the automotive sector by climbing the technical ladder in proper steps. Each step requires different policy support. Jumping from bottom to top is hardly possible.
- Ethiopia is now moving from CBU to SKD/CKD (the first step)

# Timeline Visualized

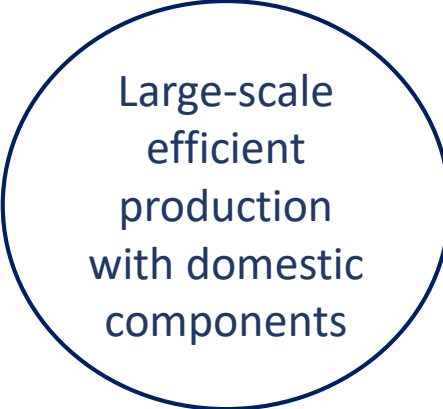
## Just importing



## Simple assembly



## Volume & efficiency



## Global leadership



### Typical volume

New cars are few; used cars and parallel imports dominate

A few to several thousand vehicles/year to start with

200,000 to a few million vehicles/year

Up to 10 million units globally

### Policy action

Little policy needed; private initiative in sales, spare parts, maintenance, etc.

Proper incentives & support; curb parallel imports; quality, safety, environment standards

Promotion of supporting industries, technology transfer, healthy demand growth, export

Private sector leads; R&D, trade negotiation, global standard setting

Sri Lanka, Tanzania, Mozambique, etc.

**Ethiopia**  
**Myanmar**  
**Kenya**

Indonesia  
Vietnam  
Uzbekistan

S. Africa

Thailand  
India  
(China)

Hyundai  
Toyota, Nissan, VW,  
Daimler, GM, Ford;  
Tesla, Google?

# Barriers to Japanese Automotive Assembly in Ethiopia

Hearings from 3 Japanese leading firms in Tokyo, AA, Nairobi & Yangon, 2018-19

## 1. Foreign currency shortage

All of the interviewed Japanese assemblers cited this as the biggest problem and challenge for assembly in Ethiopia.

## 2. Tax and tariff structure

Ethiopia's auto levies are very high and complex. Difference between commercial vehicle import and local assembly is 5%, which is too small (need at least 20-30% difference; 50% difference in Kenya).

## 3. Used vehicles and parallel imports

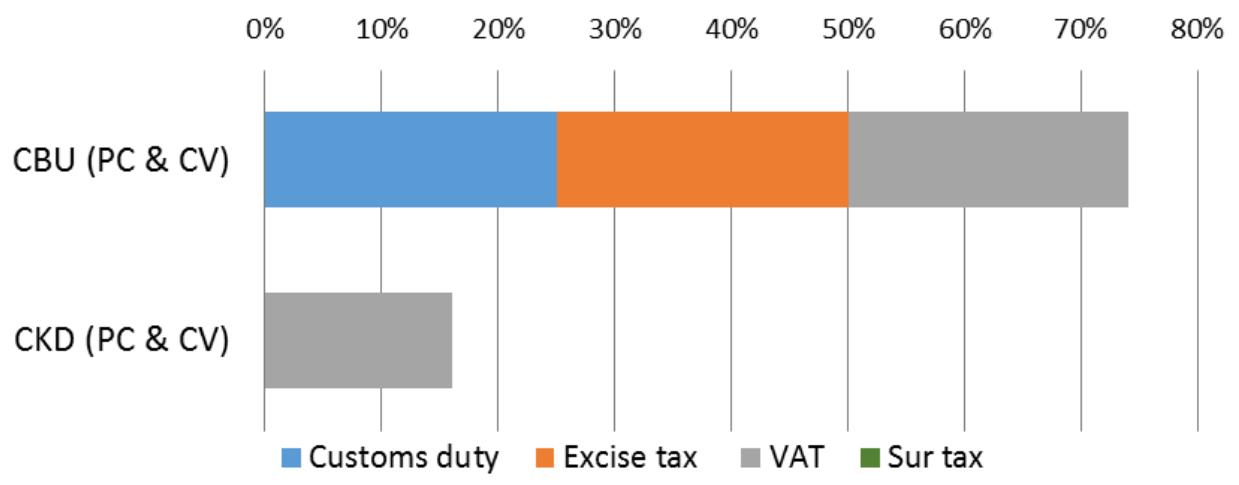
They suppress sales of new or locally assembled vehicles. Restrictions must be introduced in proper steps balancing industrial needs with the interests of importers, dealers and users.

## 4. Volume problem

Ethiopia's new car market is less than 8,000/year, but for growth and profitability, industry needs at least 100,000-200,000. Even if the current market is small, government can announce long-term forecasts, and introduce policies consistent with (do not frustrate) such forecasts.

# Kenya: Automotive Tax Structure (up to 2019)

Kenya's tax structure is simple without distinguishing PCs and CVs. Japanese firms report that all Kenyan officials say the same thing and are not bureaucratic. Kenya has 8-year age limit on used car import (trying to shorten it to 5-year).



	Description	Customs duty	Excise tax	VAT	Sur tax
1	CBU - passenger cars & commercial vehicles	25% (i)	20%	16%	--
2	CKD - passenger cars & commercial vehicles	0% (ii)	0%	16%	--

Notes: (i) 0% for ambulance and agricultural vehicles; (ii) positive rates apply for designated 17 automotive components. Rates are applied multiplicatively, not additively.

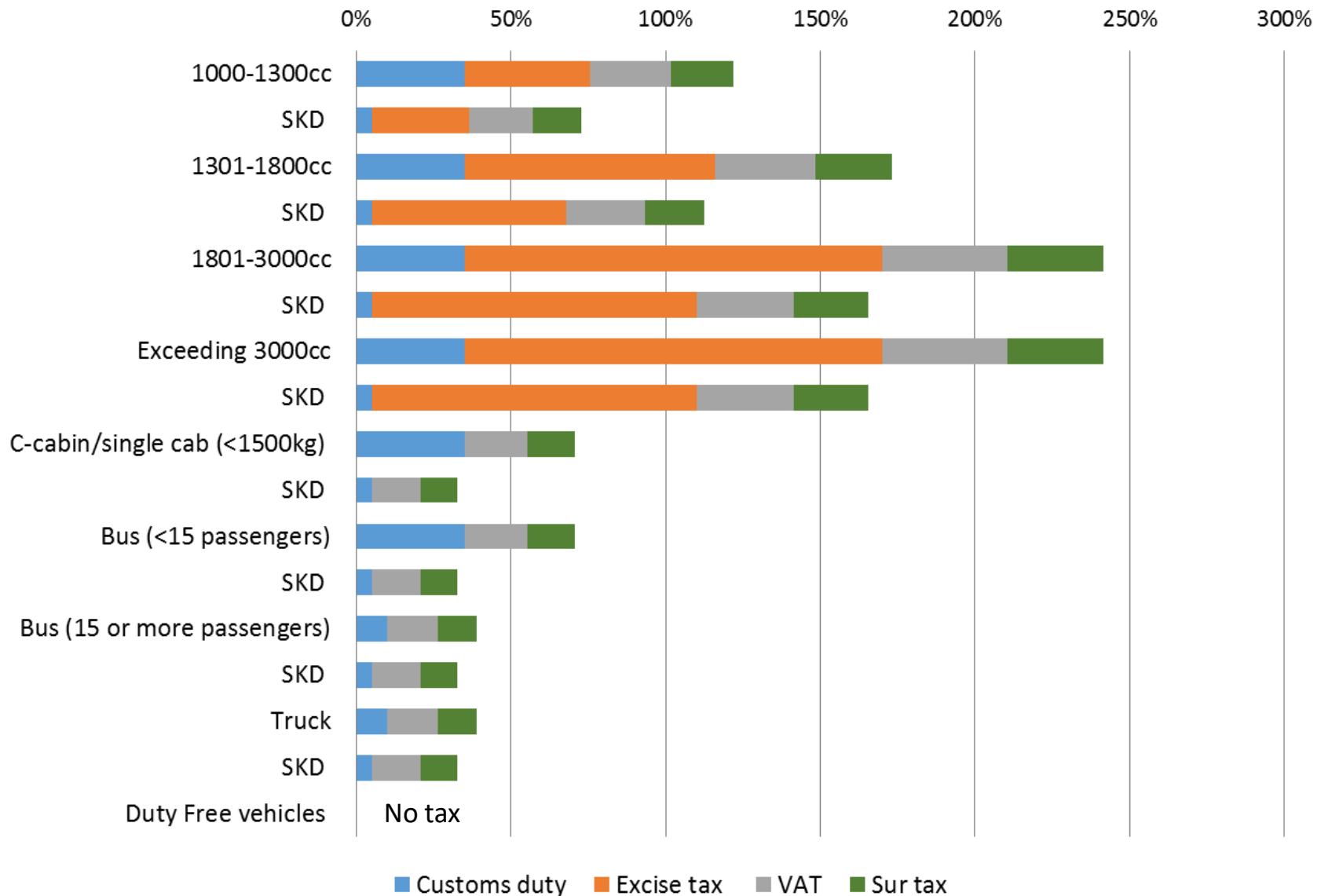
# Ethiopia: Automotive Tax Structure (up to 2019)

- Ethiopia is a country with high automotive tax rates.
- On high-end vehicles like Land Cruiser VX, taxes reach **256% of CIF value**, and on small passenger vehicles like Yaris they reach **132% of the CIF value**.
- For used cars, tax rates are the same as the table depending on their cylinder capacity. Up to 30% depreciation (10% for every year since manufacture) is deducted from the CIF price to calculate to the duty paying value **[now cancelled]**.

	Description	Customs duty	Excise tax	VAT	Sur tax
1	Cylinder capacity 1000-1300cc	35%	30%	15%	10%
2	Cylinder capacity 1301-1800cc	35%	60%	15%	10%
3	Cylinder capacity 1801-3000cc	35%	100%	15%	10%
4	Cylinder capacity exceeding 3000cc	35%	100%	15%	10%
5	C-cabin and single cab – carrying capacity not exceeding 1500 kg	35%	0	15%	0
6	Public transport- seating capacity less than to 15 passengers	35%	0	15%	0
7	Public transport- seating capacity greater than or equal 15 passengers	10%	0	15%	0
8	Truck	10%	0	15%	0
9	SKD	5%	Same as above depending on cylinder and seat capacity		
10	Duty Free vehicles	Free of tax			



# Ethiopia: Automotive Tax Structure



Note: multiplicative calculation. There may be other charges. New and used vehicles are levied basically the same rates except used vehicles can enjoy up to 30% reduction on CIF price (tax base).

# Reducing Used Car Import

- Reducing used car and parallel imports is necessary to develop domestic automotive assembly. It also improves safety and environment. This is implemented by imposing age limits, higher taxes and fees, a total or partial ban, etc.
- This is a policy area with many conflicting interests. Users, traders and political groups with vested interests often oppose used car limits—as seen in Kenya, Nigeria & Egypt.
- For this reason, restriction on used car imports must be done in steps. Political savvy and sensitivity is needed.

Example: 8 years → 5 years → 3 years → ban

- Ethiopia is not bound by regional agreements such as EAC or AFTA, which means it can introduce used car limits independently from its neighbors (unlike Kenya).

# Age Restrictions on Import



25 countries place a maximum age limit on imports

4 countries completely ban imports

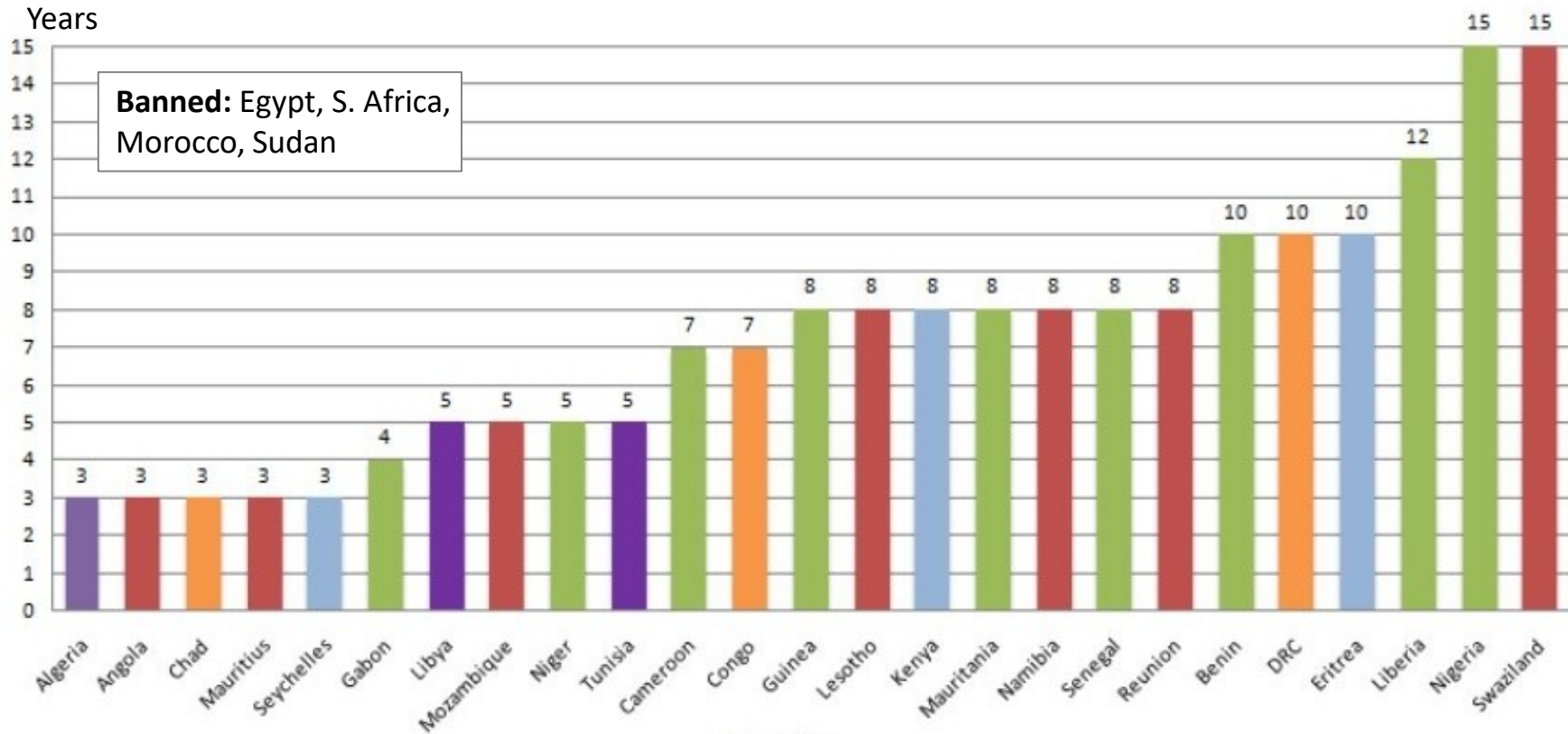
10 countries ban imports over 5 years old

6 countries ban imports over 10 years old

● Banned ● 5 and under ● under 10 ● 10+ ● None

Source: United Nations Environment Programme, *Africa Used Vehicle Report*, 2018.

# Africa: Age Restriction on Used Car Import



**No import restriction:** Burkina Faso, Burundi, CAR, Cote d'Ivoire, Djibouti, EQ Guinea, **Ethiopia**, Gambia, Ghana, Guinea-Bissau, Madagascar, Malawi, Mali, Somalia, S. Sudan, Sierra Leone, Tanzania, Togo, Zambia.

**No punitive import tariffs:** Benin, Burkina Faso, Burundi, Cameroon, CAR, Chad, Congo, Comoros, Djibouti, DRC, Egypt, E Guinea, Gabon, Guinea, Libya, Madagascar, Malawi, Mauritania, Mozambique, Niger, Namibia, Reunion, Senegal, Seychelles, Somalia, S. Sudan, Swaziland, Togo, Zambia

**No data:** Comoros, S. Sudan, Sao Tome & Principe

Source: United Nations Environment Programme, *Africa Used Vehicle Report*, 2018.

# Prepare Automotive Policy

A policy document with following contents should be drafted.

- Overview of Ethiopian automotive industry and market
- Policy objectives, targeted models
- Benchmarking of appropriate country
- Demand forecasts and modal shift projection
- Attraction of FDI assemblers and suppliers
- Incentives (exemption or reduction of equipment & component tariffs, corporate income tax, etc.)
- Promotion of domestic HR, assemblers and part suppliers
- Social aspects: safety, environment, traffic management, road infrastructure, etc.
- Coping with foreign currency shortage (unique in Ethiopia)

# Future Preview

- The next policy stage will be reached when local auto assembly volume rises above 10,000 and heads strongly toward 100,000+.
- **Localization** will be the key objective in this stage.
  - ✓ Strengthening domestic assemblers for foreign brand production
  - ✓ Strengthening domestic suppliers of auto components (“supporting industry promotion”)
  - ✓ Linkage and matching between FDI and local suppliers
  - ✓ Attracting FDI suppliers (they automatically come as volume rises)
  - ✓ Engineer and technician training
  - ✓ Incentivizing localization and domestic value creation (without violating WTO rules or being sued by competitors; learn and compare international practices)
- **Competitiveness through QCD** (100% **q**uality assurance, **c**ost reduction and 100% on-time **d**elivery) should be pursued. This enhances competitiveness and further increases volume.
- **Technology transfer**—domestic firms and engineers should learn and excel in required skills and technology as industry expands.

# **Myanmar Highlights: Policy Content**

# 1. Reduce used car import as the first step (Already successfully attained in Myanmar)

- Used Toyota once dominated Myanmar streets. New car sales were only a few thousands per year (similar to Ethiopia today).
- However, Myanmar restricted used car import in steps from 2014 to 2017. A ban on right-hand drive cars and registration ban in Yangon area were introduced. Car age limit was reduced from 10 to 3 years.
- This effectively eliminated used car import. New car sales quickly rose from 4,168 units in 2016 to 17,500 units in 2018, and continued to grow in 2019. Not only the very rich but also upper middle class began to buy cars. A MSR survey shows very strong consumer demand for cars.
- Suzuki is the only car maker with own assembler plant (since 1998). It is now expanding capacity and moving from SKD to CKD. Toyota was selling CBU cars but is now building its first assembly plant in Myanmar. Other assemblers are Nissan, Ford, Kia and Hyundai but their car assembly is conducted by local firms.



## (Cont.)

- This proves that, even if other policy measures are not in place, used car restriction alone can dramatically change the domestic car market (this also occurred in Nigeria where high CBU tariffs quickly stimulated SKD assembly).
- In many countries, including Kenya and Egypt, used car restriction encounters resistance from used car importers and dealers. Such resistance seemed to have been weak in Myanmar.



Suzuki Myanmar Motor plant in Thilawa SEZ



Toyota Myanmar plant  
under construction



# Suzuki Myanmar



- Since 1983, Suzuki invested aggressively and successfully in India, and it has the largest car market share there. Suzuki now targets Myanmar as the next growth-potential country.
- Suzuki began car and motorcycle assembly in 1998 in joint venture with Myanmar's Ministry of Industry. JV was dissolved by MOI in 2012, but Suzuki requested continuation to President Thein Sein, who granted Suzuki's wish. Suzuki pledged to build a second plant in Thilawa SEZ.
- The new plant opened in 2018. It has one assembly line and final inspection area, with 180 workers. It produces three passenger car models.
- In the first ten years in Myanmar, Suzuki sold 6,000 cars which was the ceiling imposed by the government. It then planned to sell 5,000 cars per year. But demand grew faster than Suzuki expected: 12,000 cars in 2018 and 15,000 cars in 2019. It is now expanding capacity and moving from SKD to CKD. It has secured 20 ha in Thilawa SEZ but it currently uses 1 ha only (future expansion possibility).
- Even though there is no official definition of CKD, Suzuki thinks CKD means SKD plus investment in welding and painting.



# Toyota Myanmar

- Toyota Tsusho came to Myanmar in 1996 to sell imported Toyota cars and components. Toyota Myanmar, newly established in 2019, is owned by Toyota (85%) and Toyota Tsusho (15%). Its car assembly plant is under construction in Thilawa SEZ, which will initially hire 100 workers.
- **Toyota Tsusho:** “Myanmar’s automotive policy is inconsistent. We advised and proposed to the government on many occasions. We organized automotive seminars, and also gave lectures on SKD and CKD concepts. Toyota even chose one model and conducted F/S. But it decided not to invest at that time due to policy ambiguity. However, the situation improved in the last few years. Toyota did another F/S and decided to invest this time.”
- **Permanent Secretary Aung Naing Oo (Ministry of Investment and Foreign Economic Relations):** “President Thein Sein (in power 2011-2016) invited Toyota to come and assemble cars. Toyota did research for six months and arrived at a negative conclusion. Toyota said that Myanmar was full of used cars, and it would not invest unless used car inflow was stopped. The Myanmar government took this seriously and introduced measures to curb used car import.”

## 2. Policy direction is reasonable but concrete details remain undecided

- The Japanese and Myanmar business chambers drafted a private sector proposal on automotive policy in 2015. The government instructed the Ministry of Industry (MOI) to revise the private proposal into policy format, focusing on production issues only. Japanese firms continued to advise MOI. Public hearings were held on the final draft in 2017. The Cabinet approved automotive policy in May 2019.
- We (GDF) evaluate this policy highly because it correctly identifies key policy issues such as (i) importance of market size, (ii) selection of priority models, (iii) proper definitions of SKD and CKD, (iv) appropriate incentives, and (v) promotion of supporting industry (domestic component suppliers) as a future task. MOI admits that changes from private proposal to final document were relatively minor.
- On the other hand, the policy document does not specify concrete contents. It stresses importance of these key issues without making any decision on essential details.

# (Cont.)

- **Permanent Secretary Aung Naing Oo:** “Our automotive policy is still incomplete, and serves as the basis for continued discussion with stakeholders. Since Myanmar has no domestic component suppliers, it is appropriate to start with SKD. Our auto policy pillars are Safety, Affordability and Environment. We already stopped used car inflow.”
- It seems risky for foreign car makers to invest or expand without knowing policy details (priority models, official definitions of SKD and CKD, and incentives associated with these). Japanese car makers are willing to invest, perhaps because they trust the Myanmar government to do the right things in the end (based on past records).



### 3. Official definitions of SKD and CKD are not finalized, but tentative definitions are available

- **Permanent Secretary Aung Naing Oo:** “We don’t have a clear definition of SKD, and the definition of CKD needs to be worked out in coming years. At present, to facilitate investment by foreign car assemblers, we use the tentative definition of SKD announced by the Ministry of Commerce. It divides components into ten groups and requires certain levels of separation. The Ministry of Transport and MOI use this tentative definition. We have been working on these definitions for five years, but have not arrived at official definitions.”
- MOI officials who were in charge of automotive policy were not sure about the current status of SKD and CKD definitions.
- In November 2019, the Parliament decided to dismantle MOI and move its functions to the Ministry of Planning and Finance. MOI’s main responsibility has been management of state-owned factories, which may well be transferred to MoPF. But disappearance of a ministry specializing in industrial policy is a matter of concern.

## 4. Balance between sales volume and social concerns is essential

- One problem of Myanmar's automotive policy is the pursuit of high sales volume as top priority.

Policy targets over 15 years

	Unit in operation	New car sales
First 5 years	2,000,000	200,000 / year
Second 5 years	4,000,000	400,000 / year
Third 5 years	10,000,000	1,200,000 / year

- Mindless pursuit of demand volume will worsen traffic congestion, accidents and air pollution, which will eventually backfire on the automotive industry.
- Automotive policy must balance the speed of demand increase with the introduction of road construction and improvement, parking, urban planning, traffic control, car inspection, environmental control, and driver licensing and education.
- New car sales of 400,000 after 10 years is a very aggressive target. Nigeria also targeted 400,000 new cars within 10 years, but actual result is way below (10,000 or less, data uncertain). In Vietnam, new car sales reached 300,000 only after 25 years of FDI car assembly.

# 5. Supporting industry development as a future task

- After a country proceeds from SKD to CKD, and achieves 100,000+ new car sales per year (10,000+ for each car model), then component production can be started by domestic suppliers, and FDI component suppliers can also be attracted. Until then, production size is too small to achieve scale merit and cost reduction. [These numbers are for illustration only; each maker has different thresholds in mind.]
- For Myanmar, the current goal is successful attainment of SKD and CKD. Supporting industry promotion will be a future target.
- **Suzuki:** “There is no automotive part supply in Myanmar. We import parts mainly from Thailand, Indonesia and Japan. Large industry volume is prerequisite for supporting industry promotion. Initial production may be plastic components, hidden parts and car seats.”
- **Toyota:** “Initially, we will bring components from Thailand by sea. Land link will be completed after two years, then we will use trucking. Land transport costs twice as much but it will cut time from two weeks to three days.”



## 6. How to incentivize SKD → CKD → SI under the zero tariff regime

- Domestic value creation should be incentivized in order to climb from SKD (simple assembly) to CKD (assembly with welding and painting), and promote supporting industry.
- However, the regional FTA is already in place in Southeast Asia. All goods are tariff-free within ASEAN, including cars and components. The question is how to offer incentives under a zero tariff regime, without violating any regional FTA or global rules (including WTO). This is a complicated policy issue that requires deep study.
- If cars can be imported freely, one benefit is to increase available models by imports. However, Thailand and Indonesia can supply Toyotas, Nissans, etc. at lower cost than Myanmar because they have already achieved large volume (1-2 million each) and low production cost.
- **Toyota:** “At present, local assembly is promoted by the ban on CBU registration in Yangon—but for how long? Will there be enough incentive to move from SKD to CKD in Myanmar? For example, cost-wise, Toyota Vietnam can’t compete with Toyota Thailand even if transport cost is added.”

# **Myanmar Highlights: Policy Capacity and Formulation**

# 7. Absence of top-down instruction leads to inter-ministerial delay and deadlock

- The current Myanmar government is weak and inexperienced in economic management. It lacks leadership, knowledge and coordination. Ministries wait for top-down instructions but they are slow in coming. This causes delay and inaction in policy making.
- The previous Thein Sein government (2011-2016) was faster, more decisive and economically literate.
- **Permanent Secretary Aung Naing Oo:** “The government is busy with the internal ethnic problem and foreign pressure associated with it. Economy is new to the current administration [of Mme. Aung San Suu Kyi]. A strong central agency under President or PM, such as Singaporean EDB and Rwandan RDB, is unlikely to work in Myanmar because our style is coordination of various authorities scattered across ministries. This takes time.”

## 8. In drafting economic policies, Myanmar readily accepts foreign advice

- Despite low policy capacity, the Myanmar government listens carefully to the economic advice of foreigners and adopts most of it. National pride and ownership are not overly exhibited in economic policy making.
- This was true in the drafting of the automotive policy, the Investment Law, the SEZ law, and the operation of Thilawa SEZ.
- Japanese auto makers, especially Suzuki and Toyota, continuously gave advice and requests to MOI, and most ideas have been accepted.
- Although key policy details are not yet decided (such as SKD & CKD definitions), Japanese car makers invest and expand because of relatively high trust in Myanmar's future policy direction.
- In Ethiopia and Vietnam (two countries I know well), such accepting attitude is unlikely. Policy ownership is strong, and foreign advice is not adopted wholly.

# Implications for Ethiopia

# 1. Listen carefully to foreign car makers with serious investment and value-creation intention

- Not all FDI firms are the same. Some pursue quick profit while others come for long-term stay, rain or shine. Some teach workers and local suppliers well, while others do minimum training only.
- Even among Japanese car makers, business aims, strategies and styles differ from firm to firm (e.g., Toyota vs. Nissan).
- Over time, after achieving sufficient volume, FDI policy should shift from “everyone is welcome” to attraction of true value creators for the country. The government should establish a good working relationship with such investors in the spirit of give-and-take, win-win on both sides.
- In the automotive sector, Ethiopia should select one or a few trusted foreign manufacturers for continued policy dialogue.

## 2. Introduce used car restriction as the first step

- Like Myanmar, Ethiopia should start by restricting used car and parallel CBU imports.
- High tariffs on CBUs, car age limits, excise and other taxes and charges, registration control, etc. are commonly used. They should be combined properly. Policing and enforcement must be in place.
- In many countries, used car restriction will ignite political resistance from those engaged in or benefiting from used car import business (how about Ethiopia?)
- Used car import restriction should be implemented with proper speed (over several years) to ease the shock and resistance, and allow preparation time. It should not be done too suddenly.
- This action alone will significantly transform the domestic automotive market, preparing for the next policy step.
- We are pleased that Ethiopia has begun to restrict used car imports, but the way it is done needs further consideration (e.g., sudden, complicated, and very high excise taxes without stakeholder consultation).

### 3. Identify key automotive policy issues for the current development stage

- Ethiopia's key policy issues are similar to those of Myanmar:
  - (i) Demand forecasts (mean, high, low) with modal shifts
  - (ii) Selection of priority model(s)—from among sedan, small/eco-car, SUV, wagon, van, pickup truck, etc.
  - (iii) Proper definitions of SKD and CKD
  - (iv) Appropriate incentives that go with priority model, SKD & CKD
  - (v) A future plan for promoting supporting industry (domestic component suppliers)
- Do not fill essential details too quickly without sufficient technical preparation and consensus-building among stakeholders. This includes SKD & CKD definitions.
- In drafting Ethiopia's automotive strategy and incorporating these key points, constantly consult with automakers, especially chosen leader(s), until everyone (or at least the majority) is satisfied with proposed policy direction.



## 4. Choose priority model and carefully design entry, incentives and eligibility

- Since volume is essential in automotive development but the domestic market is initially small, the market should not be crowded with too many entries. Most developing countries can accommodate one to a few brand leaders for passenger cars, and also for commercial vehicles.
- This can be achieved by license control, choice of priority models, and incentives only for true value creators. These measures must be introduced without violating (future) WTO rules and regional free trade agreements (incl. AfCFTA).
- **Vietnam:** free entry was permitted in the 1990s, resulting in 18 car manufacturers competing in a small market. None achieved sufficient scale. Prices remain high and technology transfer and supporting industry development remain slow, even today.
- **Uzbekistan:** GM is the only passenger car maker, with a few basic models, and Isuzu and MAN are the only truck makers. They achieve sufficient volume despite small local and regional markets (about 200,000). GM even built a huge state-of-art engine plant in Tashkent.

## 5. Maintain proper balance between industry needs and social considerations

- The automotive strategy should contain (i) relatively upbeat but not excessive demand forecasts, and (ii) measures to alleviate car-caused problems such as traffic congestion, parking, safety and air pollution.
- Industry's growth must be balanced with the quality of citizen's life. Car ownership must grow at the speed consistent with alleviating measures. Addis Ababa should not become another Manila, Jakarta or Bangkok.
- In case Ethiopia's automotive strategy focuses on production issues, other policies should be prepared in parallel to introduce necessary actions such as road infrastructure, intersection improvement, urban planning, transport master plan, vehicle inspection system, traffic safety education, etc.

## 6. Prepare, but not prioritize, actions needed in future

- Supporting industry promotion—and domestic value creation that goes with it—will be the next step after SKD and CKD policies are successfully implemented. The automotive strategy can mention it, but should not prioritize it. First things first.
- Many countries hastily force *localization* (use of domestically produced components) on FDI assemblers without attaining sufficient market size or introducing appropriate support measures. The result is rejection from or even exit of FDI firms (cf. Malaysia, Nigeria).