Global and African automotive industry - emerging trends and strategies –

Policy Dialogue of Industrial Development in Ethiopia

Seminar on the Ethiopian Automotive Sector: Shifting Conditions and Next Policy Steps

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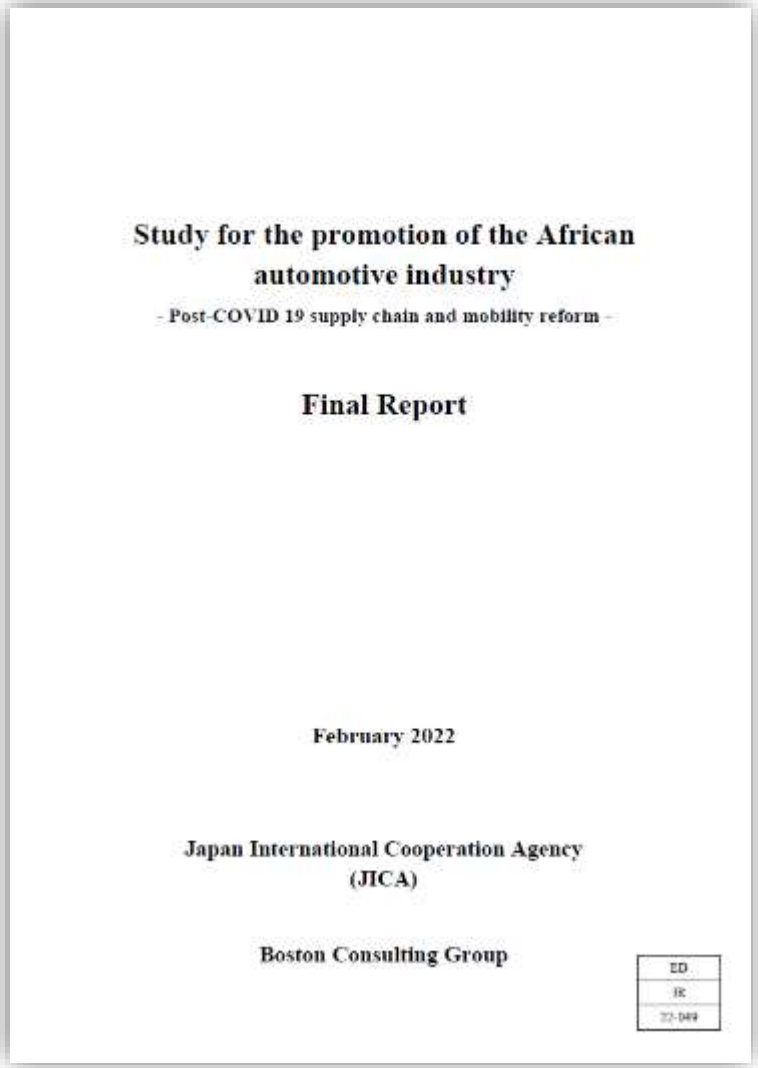
Addis Ababa, September 2022

Outline

1. JICA Africa Automotive Industry Study: Overview
2. Study's deep dive into Ethiopia
3. Comparable country case 1: Ghana
4. Comparable country case 2: Myanmar
5. Private sector players in Africa
6. Summary

JICA Study (2022) for the promotion of African automotive industry - Post-COVID 19 supply chain & mobility reform -

Webinar on Mobilizing Africa's Automotive industry for the future



Study for the promotion of the African automotive industry

- Post-COVID 19 supply chain and mobility reform -

Final Report

February 2022

Japan International Cooperation Agency (JICA)

Boston Consulting Group

ED
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22-049

https://libopac.jica.go.jp/images/report/12336822.pdf

https://www.jica.go.jp/english/news/field/2021/20220124_01.html

JICA and BCG (2022)

Study background

JICA Study for the promotion of African automotive industry: Post-COVID 19 supply chain & mobility reform

Context

The African automotive industry is at a major inflection point:

- Nascent demand for vehicles in Africa
- Potential social & economic impact if manufacturers & service providers locate operations in the region
- Growing policy focus seen across Africa aimed at effectively promoting a viable auto industry
- Dramatic regional & global trends impacting the automotive industry:
  - Innovation trends of CASE/MaaS[1]
  - Influence of COVID-19
  - Rise of carbon neutrality regulations globally
  - Regional opportunities arising from AfCFTA[2]

As a result, there is an increasing need for coordinated & informed approaches to promote Africa's auto industry

Objective

Establish a vision & recommendation on how stakeholders can support African auto industry in an integrated & effective way

- Pan-African vision and recommendations
- Five country deep-dives:
  - Ethiopia, Ghana, Kenya, Nigeria and South Africa

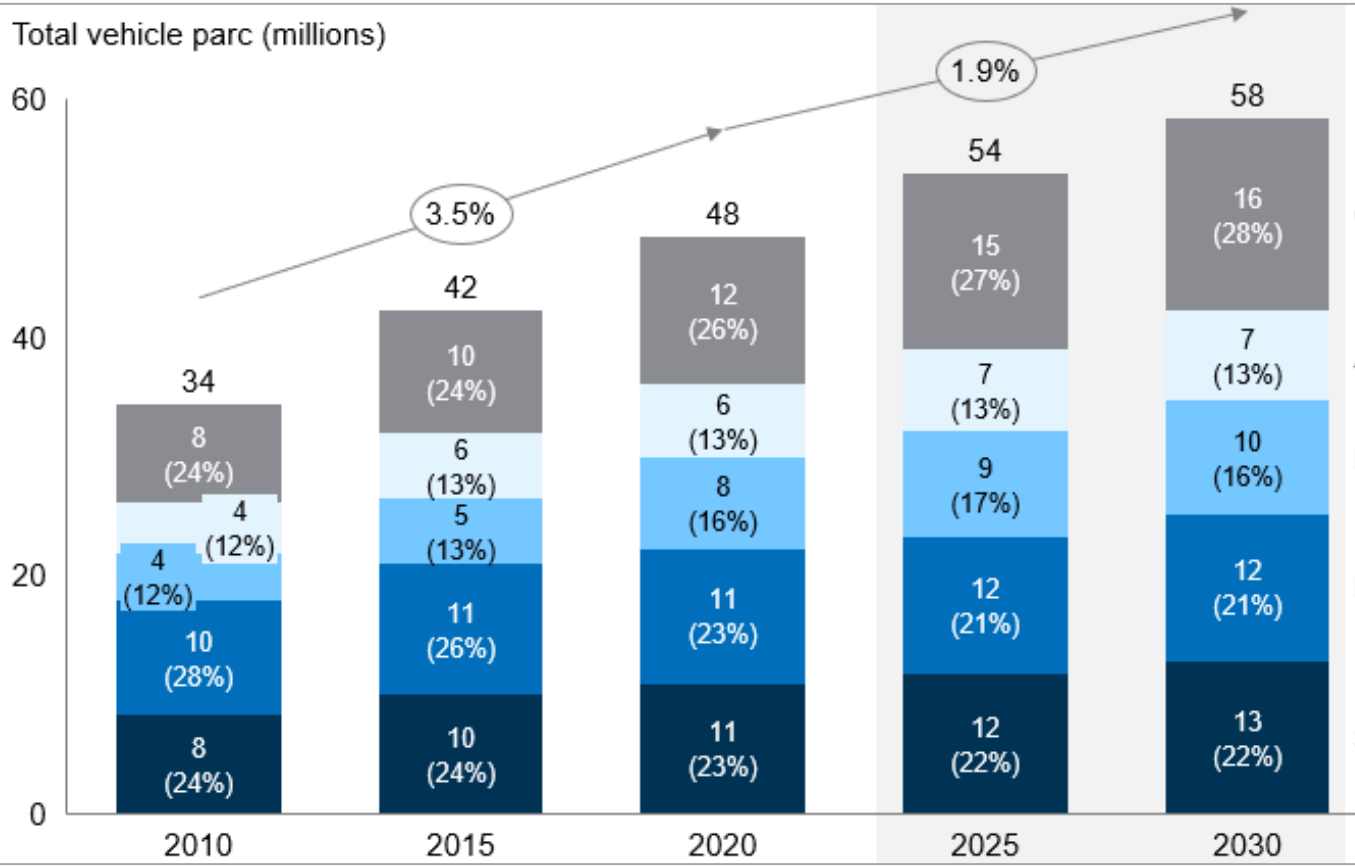
Commenced in May 2021 and consulted more than 120 stakeholders from the public and private sectors in the target countries, region and global HQs

Proposals will be finalized and shared in a Final Report ahead of discussion at the Japan-Africa forum, known as TICAD8[3], later in 2022 in Tunisia

1. Connected, Autonomous, Shared and Electric (CASE) and Mobility as a Service (MaaS) 2. African Continental Free Trade Area (AfCFTA) 3. 8th Tokyo International Conference of African Development (TICAD8)

Vehicle parc in Africa – limited at 48M with steady growth but low motorization

Africa vehicle parc by country, 2010-2030e

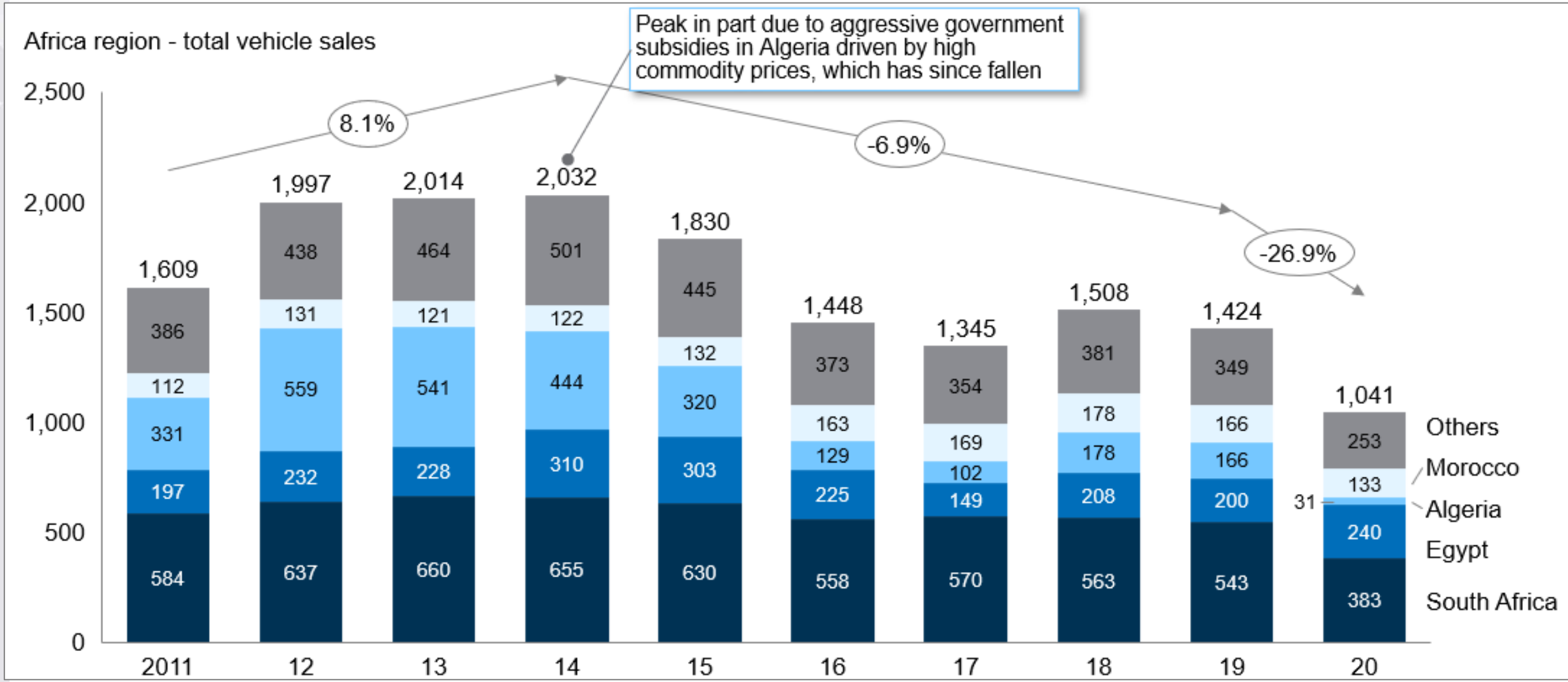


	CAGR ('10-'30)	GDP growth ('10-'30)	Population growth ('10-'30)
Others	**2.4%**	3.1%	2.5%
Algeria	**2.9%**	2.4%	1.9%
Egypt	**4.4%**	3.6%	1.9%
Nigeria	**1.3%**	2.8%	2.6%
South Africa	**2.2%**	1.4%	1.3%

Sources: IHS Markit, International Monetary Fund (IMF), JICA and BCG (2022)

Sales in Africa – limited new vehicle sales at 1.4M, with much larger used import market in most countries

Africa new vehicle sales (thousand units), 2011-20

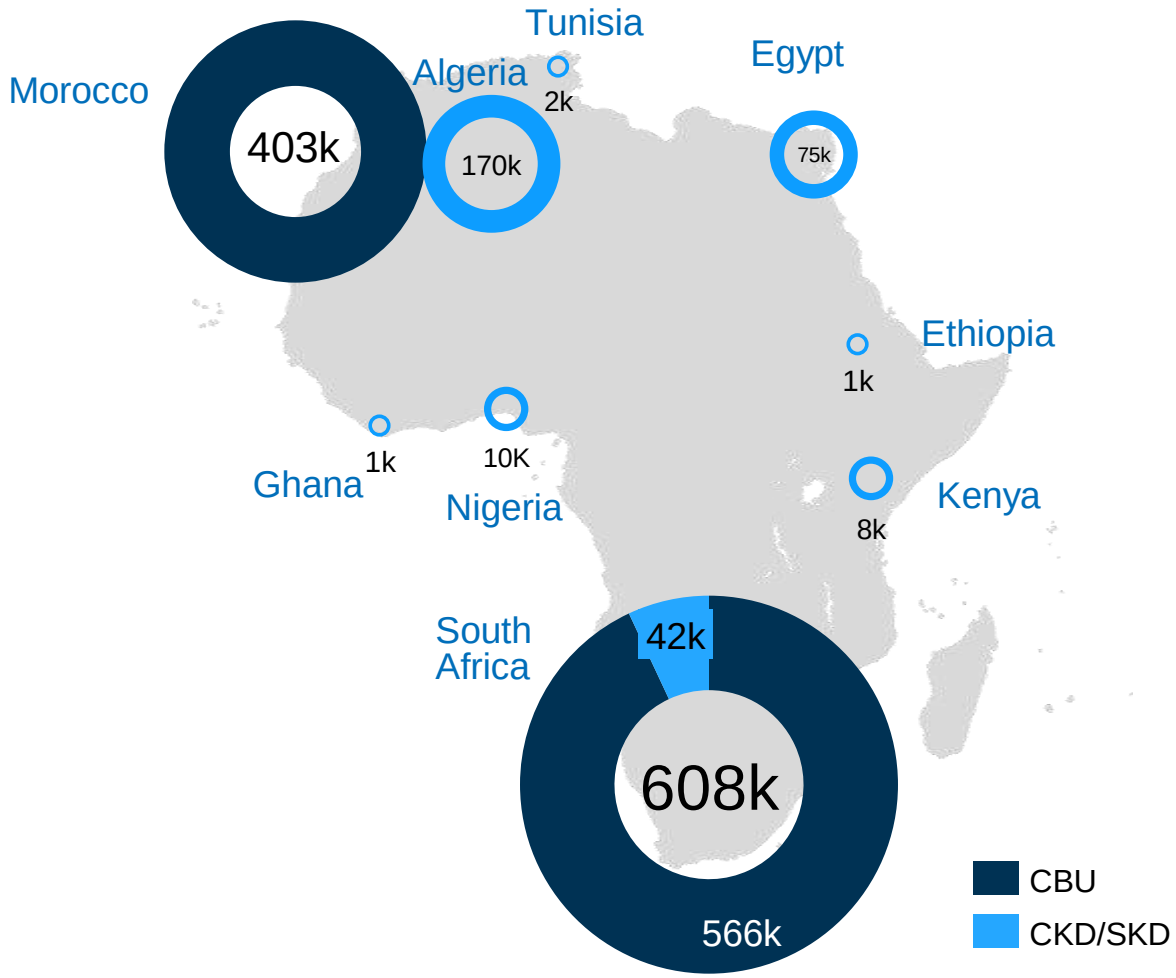


Sources: IHS Markit, International Organization of Motor Vehicle Manufacturers (OICA) , JICA and BCG (2022)

Scale production is limited to South Africa and Morocco

Elsewhere, small-scale assembly with limited value addition

Production of vehicles per year by process in 2019 (K)



Source: IHS Markit; AfDB; Press search, , JICA and BCG (2022)
CBU = Completely Built-Up unit; CKD = Completely Knocked-Down unit; SKD = Semi-Knocked-Down unit

Country deep-dives | Starting points vary across the continent

	South Africa	Nigeria	Ghana	Kenya	Ethiopia
Vehicle sales[1]	~550K new	~500K total ~40K new	~90-120K total ~10K new	~100K total ~10-15K new	~50K total ~30-40K new
Vehicle production	~560K CBU ~45K SKD/CKD	~10K SKD/CKD	~1-3K SKD/CKD	~8K SKD/CKD	~1K SKD/CKD
Auto policy	APDP[2]; SAAM[3] 2018 Long-term implementation of stable incentive framework	NAIDP[4] 2013 Not fully enacted; recent tariff revisions	GADP[5] 2018 Legislated in 2020; some tariff provisions set to come into force in 2022	NAP[6] 2019 Approved and awaiting full implementation	*Under development as of 2021* Auto excise taxes revised in 2020
Major opportunities	Stable, attractive policy framework Large existing ecosystem of suppliers	Potentially large market if new sales incentivized Historic supply base / skills ECOWAS opportunity over longer-term	Strong policy momentum ECOWAS opportunity over longer-term	NAP tariff plans would boost new vehicle sales EAC doubles addressable market Existing production base	Large nascent market Recent privatization wave attracting investment New vehicle sales boosted by 2020 excise tax
Key challenges	Key export markets shifting to NEV – potential bifurcation of demand Stagnant local demand	Local competitiveness challenged by 2020 vehicle tariff cuts and currency dips	Affordability of new vehicles; used imports are cheaper Currency depreciations	Delays in full gazettement of NAP and used import limits Affordability of new vehicles	Access to FX and currency depreciation No clear automotive policy / specific local incentives

1. Vehicle sales includes all new additions to vehicle stock annually including used vehicle imports, new vehicle imports and new vehicle production (less exports) 2. Automotive Production and Development Programme 3. South Africa Automotive Masterplan 3. National Automotive Development Plan 4. Ghana Automotive Development Policy 5. National Automotive Policy

Source: JICA and BCG (2022)

Four key trends impacting African automotive market

COVID-19 impact

Demand shock in 2020-21

Regional producers recovering - new vehicle sales expected to reach pre-crisis levels by 2023

Global supply chain challenges - impacting future choices

Regional integration

AfCFTA came into force Jan '21
- Timebound tariff elimination
- Auto ROO[2] being finalized
- Risk of protectionism

Africa Auto Pact proposed by AAAM, AFREXIM, ARSO
- To coordinate regional policy, temporarily allow SKD trade from aspiring producers

CASE[1] innovations

Connected services growing, esp. in B2B (e.g., fleet mgmt.)

Shared mobility gaining foothold
- Traditional taxis/buses remain affordable choice

NEV adoption lags global trend
- But exporters must adapt (e.g., SA, Morocco)

Carbon neutrality regulations

Carbon tariff policy in EU[1] others may impact auto trade in future
- Markets are major destination for SA & N. Africa auto exports

Local/regional emission regulation discussions ongoing, early stages

1. Connected, Autonomous, Shared and Electric (CASE), Mobility as a Service (MaaS)

Source: JICA and BCG (2022)

Potential of the AfCFTA - the world's largest free trade area <African Continental Free Trade Area>

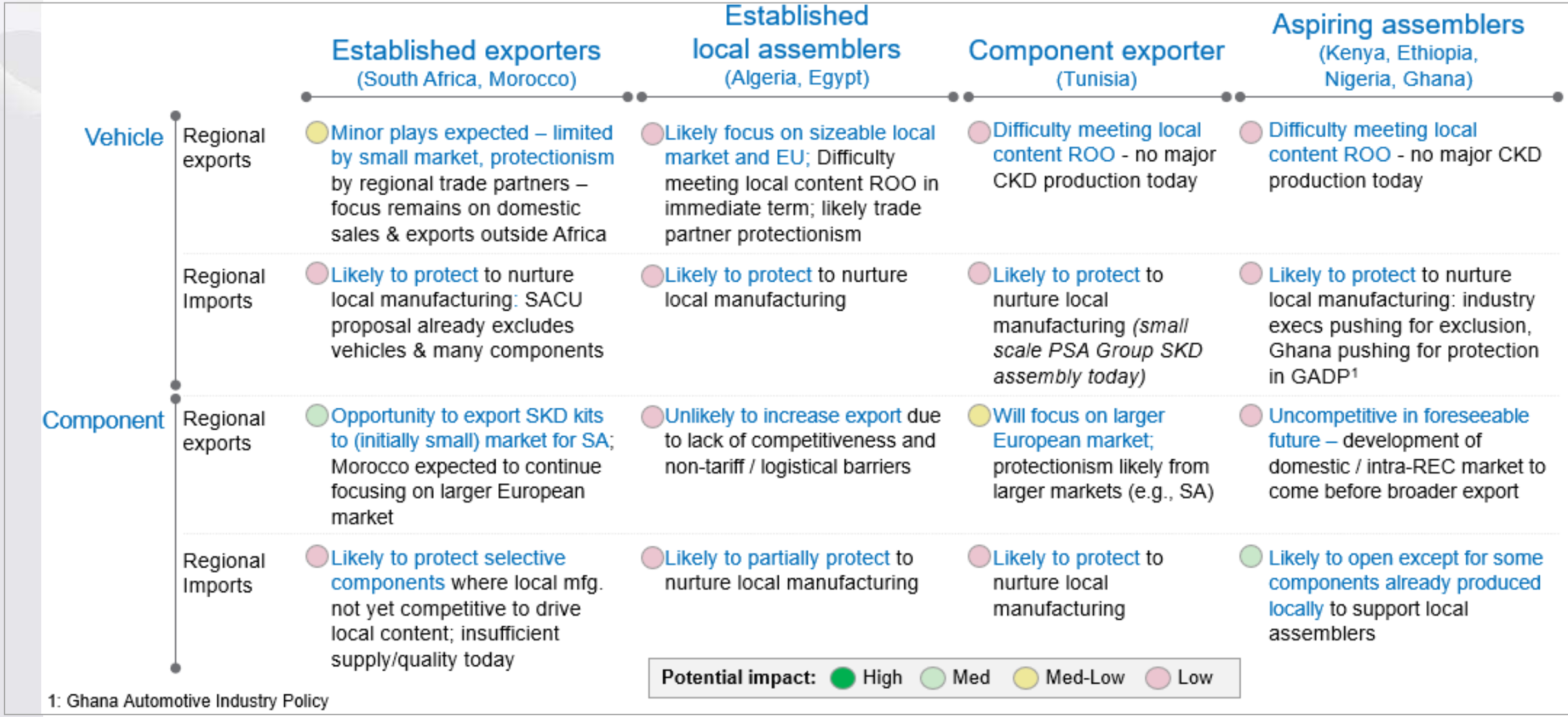
Source: AfCFTA Secretariat

- Came into effect in January 2021
- Time-bound tariff elimination
- A continent-wide free trade area that will eventually go beyond trade in goods to cover services, investment, competition, and intellectual property
- Impact on the regional automotive sector is expected to be limited in the short run due to (a) likely protectionism by existing and aspiring producers, and (b) restrictive ROO requirements: in the long run, it is expected to expand addressable market
- "Readiness" is important for respective countries to get benefits from AfCFTA

Source: JICA and BCG (2022)

Potential impact of AfCFTA in current form on regional auto trade is limited but expected in the long run

Potential impact of AfCFTA in current form on regional auto trade, by country



1: Ghana Automotive Industry Policy

Sources: Stakeholder interviews, BCG analysis, JICA and BCG (2022)

Future state | Potential future of African automotive industry

Regional market increasingly integrated — 2025-40

- Drive regional integration through the AfCFTA, Regional Economic Communities and stakeholder coordination mechanisms (e.g., Africa Auto Pact) to expand addressable market
- Promote green manufacturing and sector development across continent (e.g., carbon neutral production facilities)

African manufacturing poles (SA, N. Africa) adapt and thrive — 2022-30

- Facilitate switch to new technology for key exporters markets (NEV, carbon neutral) across supply chain
- Facilitate investment promotion for nearshore manufacturing in N. Africa (esp. Morocco, Egypt), and develop policy where gaps (e.g., Egypt)

North Africa and SA

Regional CKD assembly hubs emerge in rest of SSA — 2025-35

- Generate local demand first – clear & stable auto policies, conducive business environment, vehicle finance
- Foster local supply chain – closely linked to viable scale of demand, incl. skills & productivity development

High potential markets (rest of SSA)

Downstream supply chain transformed — 2022-40

- Professionalize downstream channels
  - Aftersales formalization, skills development, policy advancement (e.g., vehicle inspections, standards)
- Support innovative mobility solutions for Africa (e.g., Shared; Connected B2B) including incubator/accelerator models

Region-wide

CKD = Completely Knocked-Down unit; AfCFTA = African Continental Free Trade Area; NEV = New Energy Vehicles

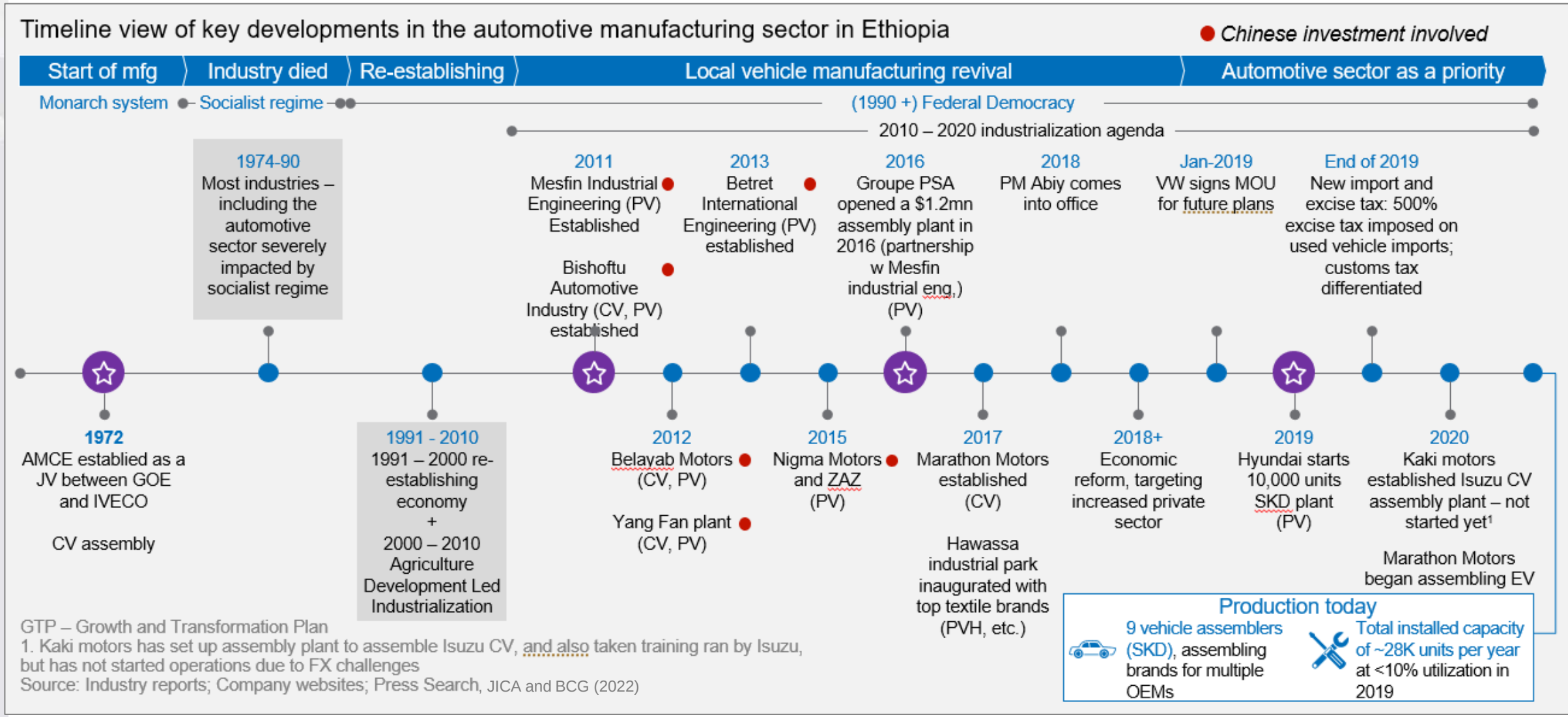
Source: JICA and BCG (2022)

Ethiopia baseline and emerging trends: summary

- **2nd largest population in Africa with low-income level:** Africa's 6th highest GDP (USD 96B in 2019), forecast to grow at 5% up to 2030; Low GDP per capita of USD 855
- **Historically state-led economy** with key sectors dominated by state-owned enterprises, but **recent privatisation** wave attracting considerable foreign investment
- **However, macroeconomic challenges to business remain** – severe FX shortages, high currency depreciation and inflation rate
- **One of lowest motorization rates in the world** at 8 per 1,000 people with historically very low new vehicle sales (<10K), driven by low income and high excise taxes
- **However, major shift to new cars in 2020 following excise tax overhaul** – from 22% of total sales in 2019 to an estimated 80% by second half of 2020
- **Local vehicle assembly remains minimal (~1K annually)** across 9 SKD plants due to limited access to FX and limited clear incentives to produce locally
- **Currently no cross-cutting sector policy in place but under development**

Source: JICA and BCG (2022)

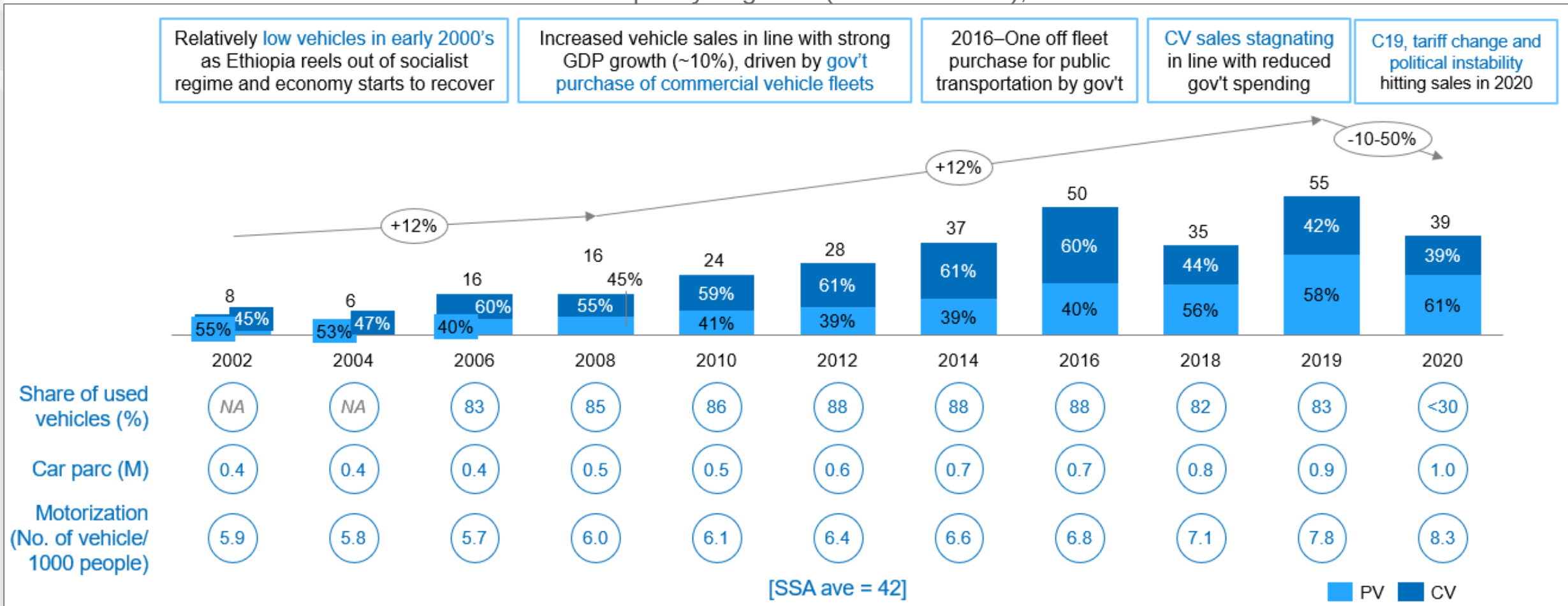
Timeline of automotive industry evolution in Ethiopia



GTP – Growth and Transformation Plan
1. Kaki motors has set up assembly plant to assemble Isuzu CV, and also taken training ran by Isuzu, but has not started operations due to FX challenges
Source: Industry reports; Company websites; Press Search, JICA and BCG (2022)

Demand in Ethiopia – Very low motorization rate due to weak purchasing power, high taxes; new sales historically negligible but recent shift due to major excise tax change

Vehicle sales in Ethiopia by segment (thousand units), 2002-20



Note: Vehicle sales estimated using import values and avg. vehicle price from comparable markets; ranges indicate margin of error
Source: BCG Analysis of import data from Trade Map, IHS, Oxford Economics, and comparable markets, JICA and BCG (2022)

Swift and profound impact of Ethiopia 2020 Excise Duty changes

Avg. vehicle import price up 80% since 2019…

Average cost of an automobile

80% increase in average cost of a car
30% increase in USD terms

Jul '19	Jan '20	Dec '20
ETB 590k	ETB 707k	ETB 1,070k
USD 20.7k	USD 21.9k	USD 26.7k

> *The cost of the most sought-after automobile in the market, the Toyota Vitz, has doubled in a year's time. A model which would have gone for 400k Br ($14k) a year ago is now being sold for 800k Br ($20k)*
>
> *Addis Fortune, July 2021*

…causing sharp decline in total imports, but shift to new vehicles

# of cars imported over 6-month period

40% decrease in # of cars imported

% of new cars out of all imports

3.6x increase in share of new cars

> *Earnings from excise tax [for Ethiopian government] increased by 65% from the 17 billion Br collected in 2019/20.*
>
> *Addis Fortune, July 2021*

Some minimal relaxation of restrictions in 2021

"New" vehicles (lowest tax) redefined, but limited application:

- Less than 3 years old, AND
- Less than 4,000km mileage

(Note: avg. mileage p.a. is 9,000km in Japan[1])

Excise tax on CKD kits reduced to 0%

- Previously 5% on small vehicles, 100% on largest

Excise tax on 7+ year old buses reduced

- From 400-500% → 300%

Limited impact on overall trends expected, unless further relaxation measures taken

1. Main origin of imports to Ethiopia in 2020

Sources: Addis Fortune; the Reporter Ethiopia; BCG analysis, JICA and BCG (2022)

Drastic market shift from used cars to new cars due to the impact of Ethiopia 2020 Excise Duty changes on vehicle entry price

Post 2020, 2X increase for vehicle entry price (~$25-30K)

Category	Vehicle & engine size	Purchase price (from Dubai)	Exit Price (COGS[1]) Before 2020	Exit Price (COGS[1]) Post 2020
New vehicles	Suzuki Dzire (<1300cc)	11 K	24K	~19K
Dominant sales models (post 2020)	Hyundai Creta (<1500cc)	19 K	52K	~34K
Used vehicles	Toyota Vitz ('05) (<1300cc)	1.5 K	8K	42K
Dominant sales models (pre-2020)	Toyota Corolla ('05) (<1500cc)	5 K	~20K	71K

*Dzire new entry level vehicle at **$25-30K** retail price*

Market Shift

*Vitz retail price significantly higher **(~$15-20K)** due to high demand & low supply*

Illustrative

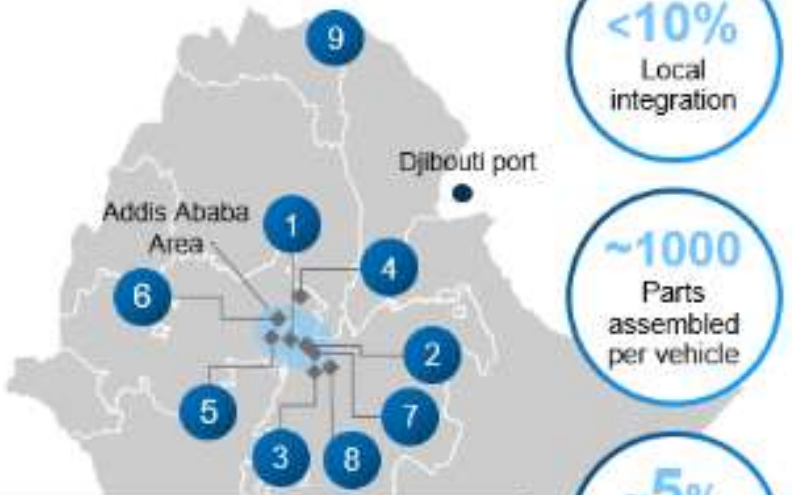
- **2X** increase in entry price for vehicles
- **3.5-5X** Increase in used vehicle price
- **20%** Price drop for new vehicles
- **New** Vehicles take over as entry category

COG = Purchase Price + Taxes Paid (excludes logistics and other costs)

Sources: EIC; BCG interviews; BCG analysis, JICA and BCG (2022)

Supply in Ethiopia: vehicle and component manufacturing – 9 SKD plants but production minimal (~1K p.a.) due to FX shortage, lack of policy / incentives for local industry

Map of plants



<10% Local integration

~1000 Parts assembled per vehicle

~5% Avg. capacity utilization

*KAKI Motors has started **assembling Isuzu CV***

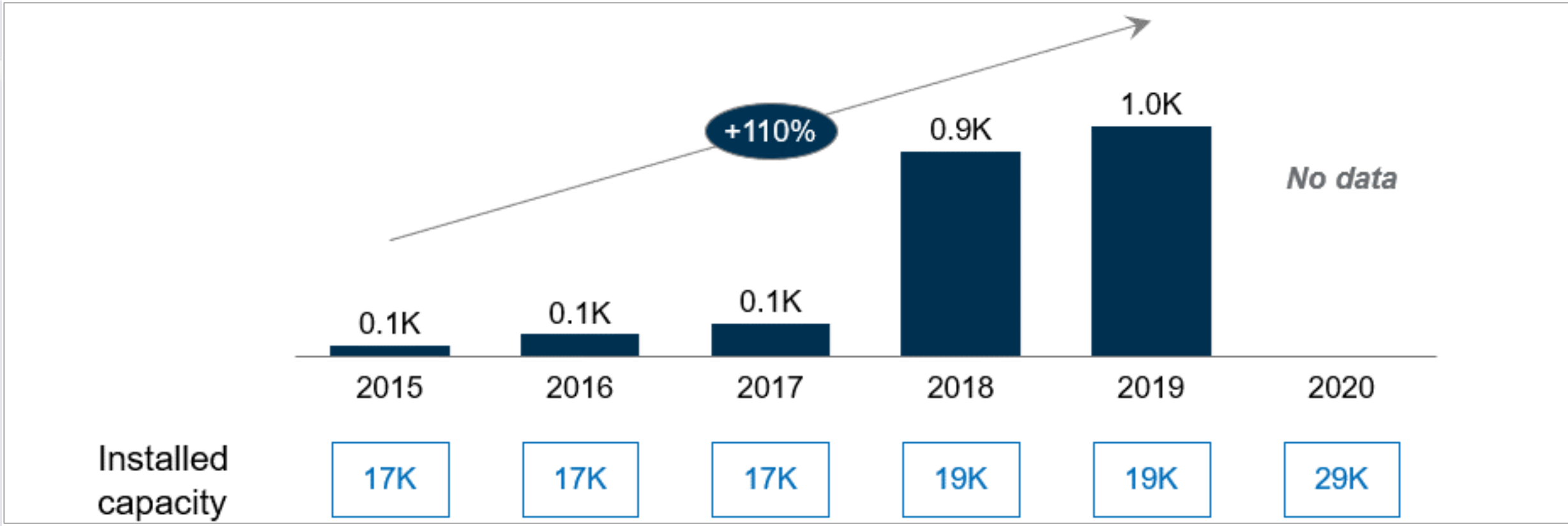
Note:** EIC reports > 100 investors that have received investment license for auto assembly most at pre-investment stage; **most dropped out due to challenges with operationalizing investment (securing land, etc.)

List of assemblers

		Name of plant	Installed capacity	Affiliation	Brand	Vehicle type
Single OEM assembly	1	Marathon Motors	10,000		HYUNDAI	CV, PV
	2	Yang Fan	5,000			CV
	3	Bishoftu Automotive Industry	5,000	Gov't	FAW	PV, LCV, HCV
	4	Betret International Engineering	1,200		BYD	PV
	5	Automotive Manufacturing Co of Ethopia (AMCE)	600		IVECO	HCV
	6	Nigma Motors And ZAZ	300		DAEWOO	PV
	7	Kaki Motors	3,600		ISUZU	CV
Multiple OEM assembly	8	Belayab	3,500		FAW KIA	HCV, PV
	9	Mesfin Industrial Engineering	2,200		GEELY SSANGYONG	PV

Note: HCV: Heavy commercial vehicle; PV: Passenger vehicle; LCV: Light commercial vehicle
Source: Fitch Solutions, 2019; Reuters; Company websites; Media research; MIDI; BCG Interviews

Volume of vehicles assembled in Ethiopia, 2015-20



Sources: MIDI, EIC, BCG analysis , JICA and BCG (2022)

Future of vision, impact, enablers of Ethiopia: summary

- **Local new sales forecast to reach 50K** by 2035 representing a fourfold increase compared to 2019 levels, boosted by new excise tax that incentivises new sales but reduces overall demand due to rising prices and very low affordability
- **Domestic sector constrained by low competitiveness** despite low input costs (e.g., labour) due to forex shortages, political instability and infrastructure challenges as well auto specific issues (e.g., lack of clear policy, skills gaps)
- **Potential for SKD assembly for local market;** sufficient scale in market for PV SKD & CV CKD but need dedicated effort to boost competitiveness vs. new imports
- **Key enablers to reach potential** are to address macroeconomic challenges, develop a targeted sector policy approach, and develop critical skills and infrastructure

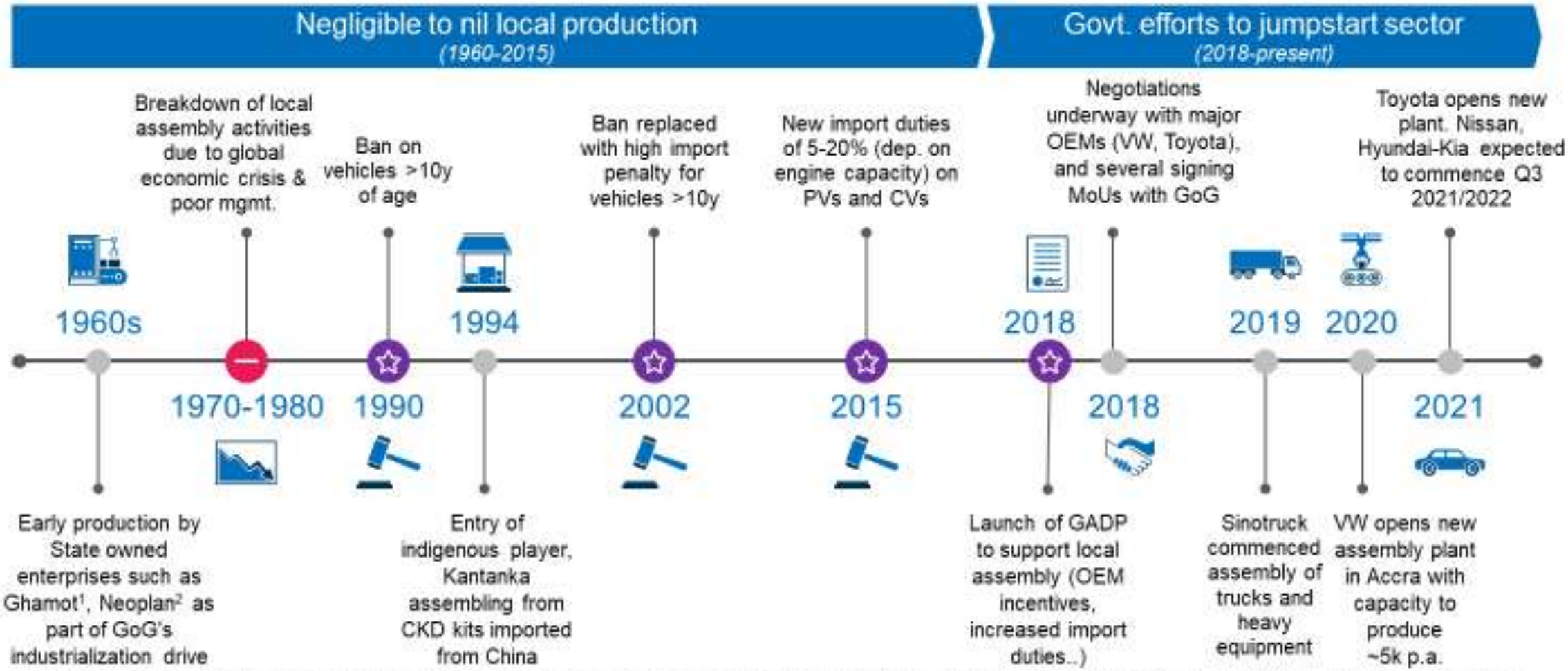
Source: JICA and BCG (2022)

Ghana baseline and emerging trends: summary

- **Africa's 9th largest economy (**USD 67B in 2019) with 4% CAGR forecast to 2030 despite recent macroeconomic challenges; sizeable FDI over past decade, boosted by relative stability
- **Modest vehicle parc** (1/6th of Nigeria at 2M in 2019) with **low volume of new sales** due to low affordability and availability of cheaper used imports
- **Domestic production historically negligible, but OEMs entering in last 2-3 years** with small-scale SKD assembly (e.g., Toyota, VW, Sinotruck); minimal local content
- **Entry sparked by recent automotive policy** (GADP 2018, legislated 2020) that will raise tariffs and provide fiscal incentives; capacity to reach 15K by 2022
- **Aftersales highly informal with limited regulation / standards,** but Government of Ghana (GoG) looking to introduce regulations in near-term
- **Limited near-term export potential** to ECOWAS (total 100K new vehicle sales in 2019) due to high ROO requirements, NTBs, likely protectionism from other aspiring producers (Nigeria)

Source: JICA and BCG (2022)

Timeline of automotive industry evolution in Ghana

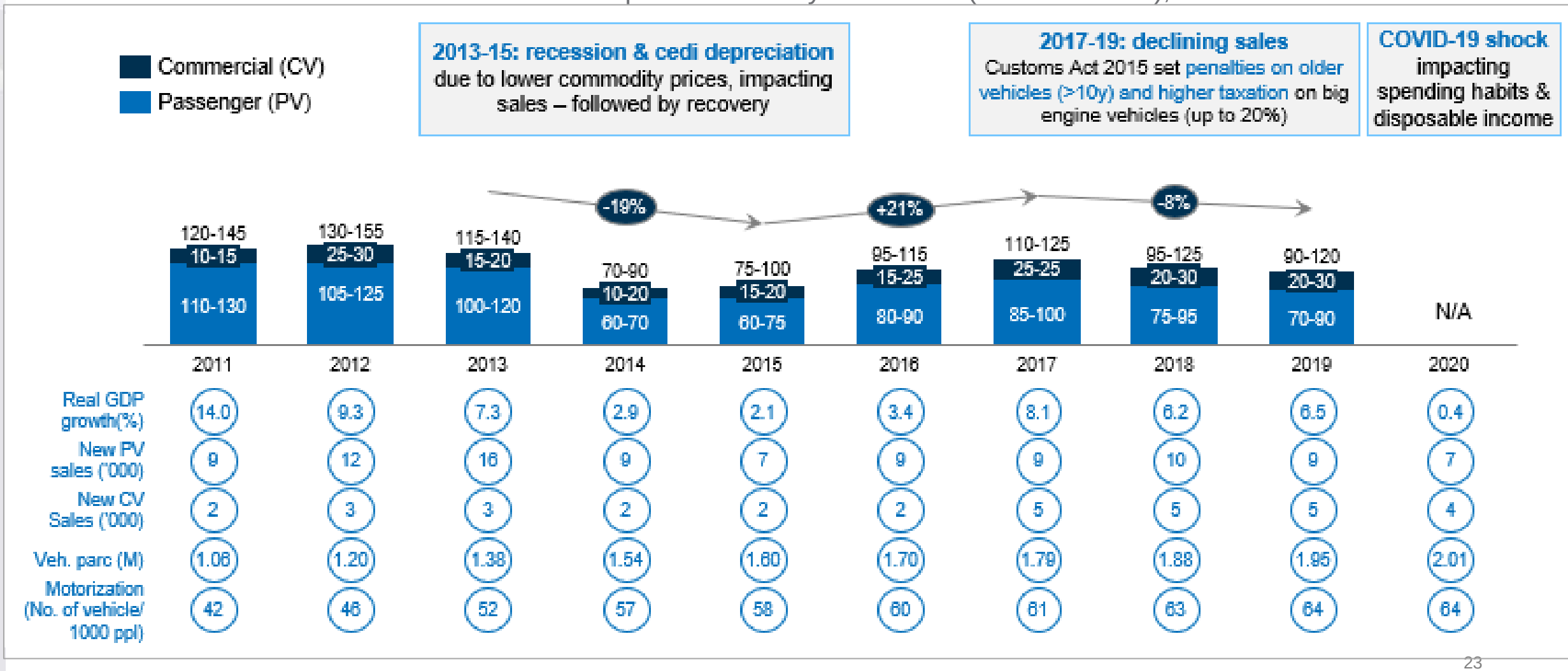


1. During privatization in 1970s, Ghamot became Toyota Ghana and turned away from vehicle assembly to dealership activities. 2. Neoplan (Ghana) Limited shutdown in Jan 2020 due to lack of contracts since 2010 and recurring losses

Source: GADP (Ghana Automotive Development Policy); Expert interviews, BCG Analysis, JICA and BCG (2022)

Demand in Ghana – Limited vehicle parc (1/6th of Nigeria) with minimal new sales (10-15K units), due to lack of affordability and availability of cheaper used imports

Ghana total vehicle sales – imports and locally assembled (thousand units), 2011-20



Sources: Trade Map (for total vehicle sales based on import values); IHS (new vehicle sales), WHO (car parc); BCG analysis , JICA and BCG (2022)

Supply in Ghana: vehicle and component manufacturing – negligible until recent OEM entry (small-scale SKD assembly) spurred by GADP; supplier base lacking

5 plants (4 SKD, 1 CKD) operational, with 1 more (SKD) expected to commence by 2022

Company	Brand	Plant start date	Type	Models	Annual capacity
Kantanka Automobile Company Limited	KANTANKA	1994	CKD	• **SUV** - Onantefuo, K71 • **PUP** - Omama	0.5K
Zonda Sinotruk Assembly Plant Ltd.	中国重汽	2019	SKD	• **Heavy trucks** - Howo A7, Hoka, Golden Prince, Steyr, Haoyun	1.5K
Universal Motors Limited	VW	2020	SKD	• **SUV** - Tiguan, Terramont • **Sedan** - Passat • **Hatchback** - Polo • **PUP** – Amarok	5K
Toyota Tsusho Manu-facturing Ghana Co.	TOYOTA SUZUKI	2021	SKD	• **PUP** - Hilux • **Hatchback** – Swift	1.3k
Japan Motors Trading Company Ltd.	NISSAN	2022	SKD	• **PUP** – Navara	5.1K
Hyundai-Kia	HYUNDAI KIA	To commence 2022	SKD	*TBD*	*TBD*

Applied — EoI

Station: CHANGAN, HYUNDAI, CHERY OMAK, ISUZU

Note: Above analysis considers Passenger and Commercial on-road vehicles only, and excludes off-road vehicles such as tractors. For example, Mahindra (Indian OEM) has assembly plant in Kumasi for the production of tractors. Above figures accurate as of Aug 2021.

Source: JICA and BCG (2022)

A series of OEM entry into Ghana

- Toyota assembly plant opened in June 2021, commissioned by the President
- By Toyota Tsusho Manufacturing Ghana Co. Limited
- Toyota Hilux and Suzuki Swift are to be assembled

- Nissan followed opening an assembly plant in March 2022, also commissioned by the President

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Akufo-Addo opens Toyota assembly plant in Ghana

EVANS EFFAH | June 29, 2021 10:48 PM

President Nana Addo Dankwa Akufo-Addo, on Tuesday, June 29, 2021, commissioned the Toyota Tsusho Vehicle Assembly Plant, which is assembling some models of Toyota and Suzuki vehicles in the country.

Akufo-Addo commissions Toyota & Suzuki vehicle assembly plant

Policy – GADP incentivizes local assembly via tariffs & fiscal incentives, with positive steps towards full implementation; OEMs attracted for small-scale SKD

Ghana Automotive Development Policy (GADP) 2018 – summary (1)

Key pillars	Policy action
Incentivizing local manufacturing	Tax Holidays • Corporate Tax holiday of 5yrs for enhanced SKD Registered Assemblers • Corporate Tax holiday of 10yrs to CKD Registered Assemblers Preferential duties • Exemption of import duties and related charges on any plant, machinery, equipment and parts for Registered Assemblers Value based duty rebate scheme on CBUs • Multiplier rebates for SKD (1x), Enhanced SKD and CKD (2x) based on number of units assembled • Rebates on Local Content manufacturing Streamlined Processes at the Port • Direct Port Delivery Procedure and Dedicated quay to for all cargo consignments imported by Registered Assemblers

Sources: Ministry of Trade & Industry (MOTI); Expert interviews; Press search , JICA and BCG (2022)

- GADP is the only policy outside of South Africa and North Africa to have been written into legislature

Policy – GADP (Continued)

Ghana Automotive Development Policy (GADP) 2018 – summary (2)

Key pillars	Policy action
Restricting and disincentivizing imports	Import duties and levies • Increased duties: 35% of CIF value on all vehicles as Import Duty on New and Used Vehicles for Non-Registered assemblers (vs 5-20% prior) Import restrictions on older used vehicles • Ban on vehicles>10yrs, vehicles assembled from parts imported as spare, salvaged and flooded vehicles
Promoting market development and trade	Vehicle Financing Schemes • Asset based vehicle financing scheme to promote the purchase of locally assembled vehicles and vehicles imported by local assemblers Government Procurement and Patronage • Preferential procurement policy for program vehicles Export development • Promotion and export of locally assembled vehicles to the ECOWAS market Industrial infrastructure • Establishment of a purpose-built Automotive Park (in progress) and Automotive Development Support Centre

Sources: Ministry of Trade & Industry (MOTI); Expert interviews; Press search , JICA and BCG (2022)

- GADP established “Auto Desk” under MOTI to provide support to prospective automotive investors

Tariffs in Ghana before and after GADP 2018

Tariffs	Pre-policy	GADP 2018
CBU – Passenger (*1)	5-20%	35%
CBU – Commercial (*2)	5%	35%
CKD	5%	0%
Enhanced SKD	5%	0%
SKD	5%	0%

*1: HS code 8703 (Motor cars and other vehicles principally for the transport of persons)
*2: HS Code 8704 (Motor vehicles not exceeding 5 tons for the transport of goods)

Sources: GADP, Customs Act (2015), Customs Amendment Bill (2020), JICA and BCG (2022)

Future of vision, impact, enablers of Ghana: summary

- **Low growth outlook for domestic market due to new tariff** – new sales to remain <20K, 2022 tariff increases average price without incentivising shift to used vehicles
- **Strong foundational policy in place but can go much further –** policy to drive shift from used to new; key enablers still to be built (skills, infrastructure, supply base)
- **Potential to foster small-scale local assembly –** current trajectory supports only 5-10K production; 30-40K if further import limits imposed
- **Critical to drive demand, support manufacturers and develop localisation –** must first follow through on GADP implementation and boost demand for new vehicles

Source: JICA and BCG (2022)

Myanmar at a glance: Comparison with Ethiopia

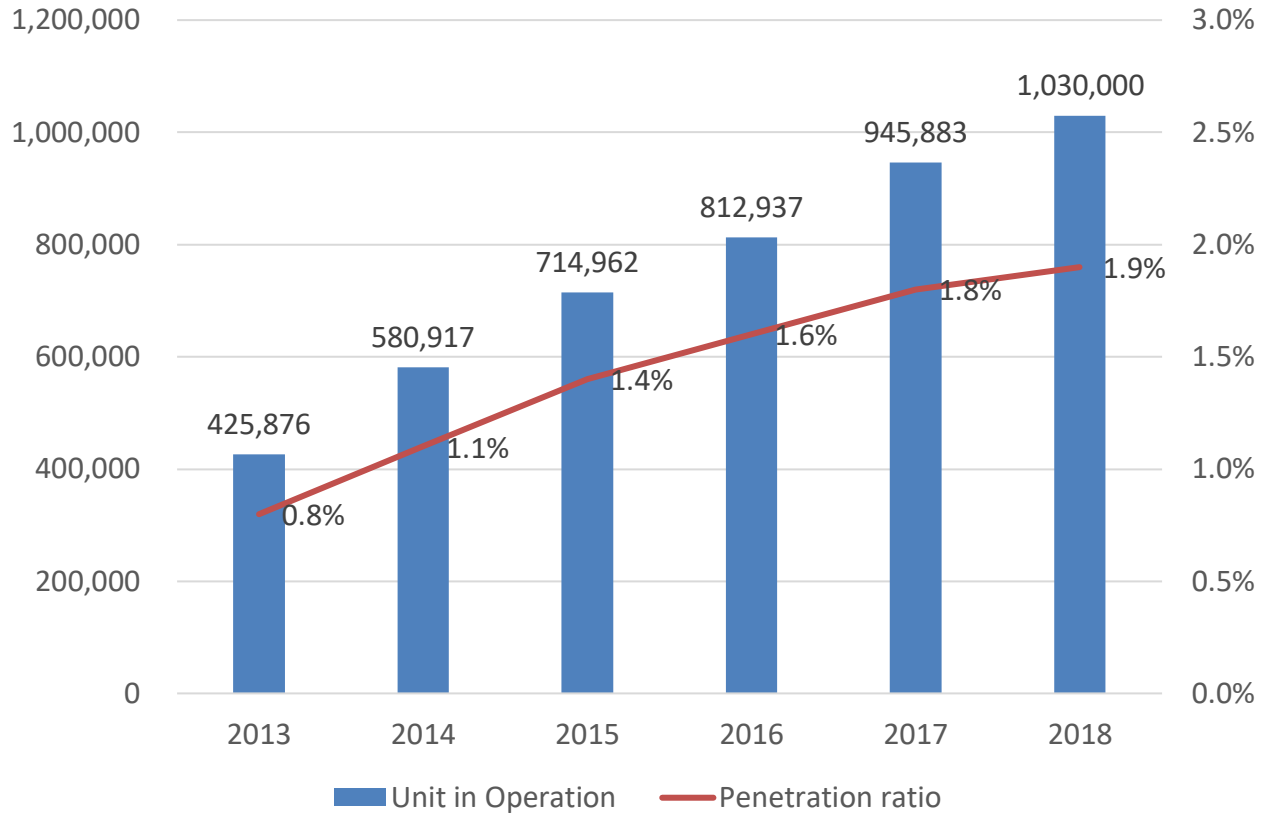
	Myanmar	Ethiopia
GDP (Current Mil USD, 2018)	71,215	84,356
Annual GDP Growth (2019)	6.5%	7.9%
Population (Thousand, 2018)	53,708	109,225
GNI per capita (Atlas Method, Current USD, 2018)	1,310	790
Land Size (km^2)	676,578	1,104,300
2020 Doing Business Ranking	165	159

- 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, including automotive industry
- A series of reform has transformed the overflown used import car market into attractive market for OEM to set up assemble plants: Suzuki, Toyota
- Unfortunately the coup d'état on 1 Feb 2021 has totally changed the situation. However, there are a lot of lessons learnt from the reform efforts before that, Following slides show the efforts and situations before Feb. 2021.

(Source) World Bank (2020), MIC/DICA (2015), JICA (2014), Homma (2019), MOFA (2022)

Evolution of Myanmar's automotive market and penetration

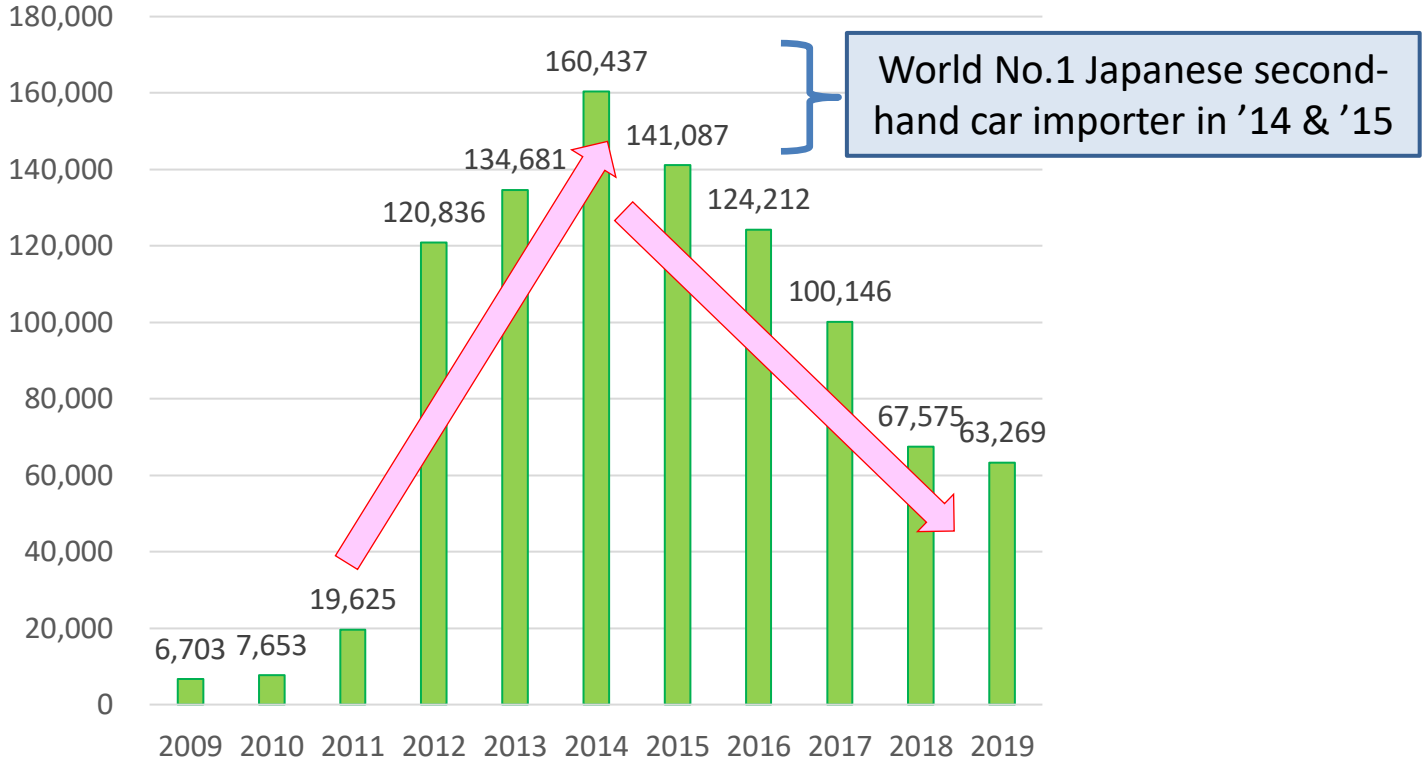
- Since the drastic open-up of its economy in 2011, Myanmar's automotive market and car penetration (per population) have been growing rapidly, but mostly by imported second hand cars.



Source: FOURIN (2018), Myanmar Survey Research (2019), processed by Homma (2019)

Second-hand cars have been flown 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

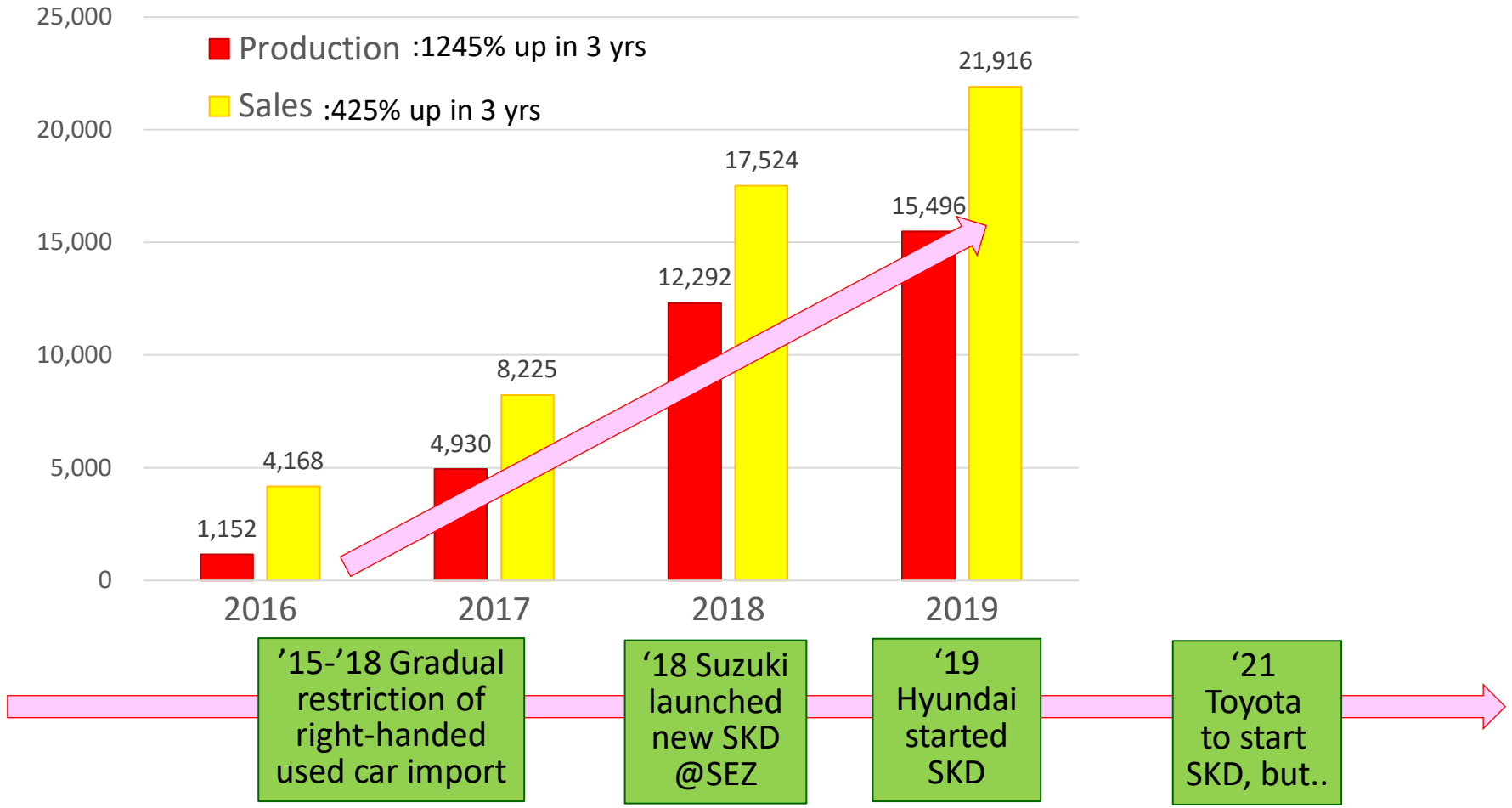
- Restriction of right handle car started from around 2015 and almost banned in 2018 for safety reasons.
- Car age limit has been gradually tightened since 2017; In 2019, only those which were produced in 2017-2019 for private and 2015-2019 for commercial are allowed.
- Yangon Region Government stopped 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



Source: ASEAN Automotive Federation (2020), FOURIN (2019), Suzuki (2019) and Toyota (2019), processed by Homma

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 February 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)

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)

Source: FOURIN (2019) and multiple government resources

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

Source: Ministry of Industry of Myanmar (2019) *Automotive Policy*.

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).

Source: Ministry of Industry of Myanmar (2019) *Automotive Policy*.

Automotive value chain in Africa (illustrative)

Component manufacturing (e.g., Tier 1, 2, 3; aftersales parts)	Vehicle mfg. & assembly (i.e., SKD, CKD, CBU)	Distribution & sales (e.g., import, dealership)	Aftersales & services (e.g., maintenance & repair)

OEMs and assemblers
Covering full breadth of supply chain from component and vehicle manufacturing, to dealerships, to providing maintenance and repair services

Global Tier-1 suppliers
Supply OEM plants for local / export

Local suppliers
Supply OEM plants for local / export

Global Tier-1 suppliers
Distribute aftermarket parts

Local suppliers
Distribute aftermarket parts

Dealerships, aftersales providers (formal, informal)
Import, sell, and provide aftersales services (e.g., maintenance & repair)

Finance and insurance providers
Provide financial and insurance services for new and used vehicles

Mobility startups
Most active around vehicle financing, fleet telematics, and ride-hailing services

Industry associations
Both regional and country-specific associations consisting of OEMs, suppliers, and dealerships

Source: JICA and BCG (2022)

Japanese auto private sector in Africa (OEM 1)

OEM (1)

- **Toyota** has the highest presence in Africa based on high levels of localization to serve country-specific needs and requirements, mainly via **Toyota Tsusho**, the trading arm of Toyota Group.
- Accordingly, Toyota has established a network of production plants across Africa with a **CBU** plant in South Africa, and several **CKD/SKD** facilities in **Kenya, Egypt, and most recently, Ghana**.
- Aside from production, Toyota's **sales and distribution channels** are well established with operations in 54 countries, and more than 400 sales and service points across Africa.
- Toyota Tsusho is actively supporting **mobility start-ups in Africa**, with investments in Sendy and Moja Ride through its Corporate Venture Capital (CVC) arm Mobility 54.

Source: JICA and BCG (2022)

Japanese auto private sector in Africa (OEM 2)

OEM (2)

- Another Japanese OEM with significant presence in Africa is **Isuzu**, a **leading CV player** in the region.
- **Isuzu** runs **CKD** plants in **South Africa, Kenya,** and **Egypt**, all of which were inherited from General Motors OEMs. Most recently **SKD** is on the pilot basis in **Ethiopia**.
- Another leading OEM, **Nissan** has **CKD** plants in **Egypt** and **South Africa**, and opened a **SKD** plant in **Ghana**.
- **Suzuki**, a major player in entry level vehicles and a market leader in India, have a limited production footprint (**shared facility with Toyota in Ghana**) but is **penetrating the entry level segment** leveraging their Maruti Suzuki plant in India.
- **Honda**, on the other hand, are working to streamline production globally and currently closing down production capacities in Europe. Honda's only presence in Africa remains the **SKD** plant in **Nigeria**.

Source: JICA and BCG (2022)

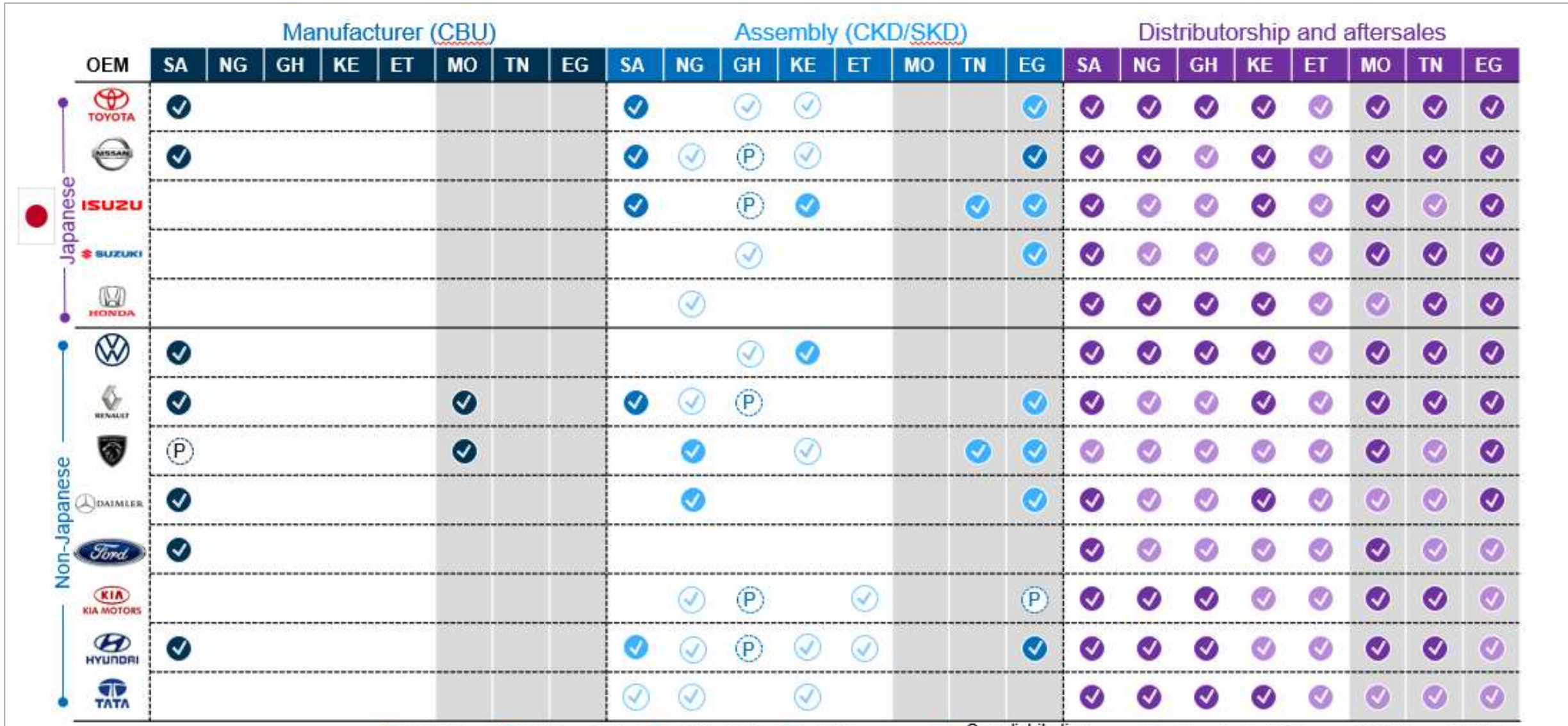
Japanese auto private sector in Africa (Tier-1 suppliers)

Tier-1 suppliers

- presence of Tier-1 suppliers, especially in SSA, is more **limited compared to OEMs**.
- **Denso** has plants in **Morocco** and **South Africa** to supply local OEM plants with future plans to provide premium aftersales services and spare parts continentally, similar to Bosch's success in emerging markets.
- **Bridgestone** recently closed its Gqeberha (formerly known as Port Elizabeth) plant in South Africa as it looks to restructure its global footprint, with one plant remaining in South Africa. Bridgestone has also started testing telematic solutions in South Africa to diversify income streams.

Source: JICA and BCG (2022)

OEM activity across priority countries in Africa – key players shown



Source: JICA and BCG (2022)

Summary

- Africa and Ethiopia: Growing demand for automotive, potential appetite for automotive industry, competition among countries, and OEM's strategies/decisions
- Policy matters, and its sequence matters: Tax/tariff structure reforms, used car restrictions, new car market creation, local assembly incentive, simple assembly SKD, more value-added CKD, local parts production
- Ethiopia now needs to consider how to incentivize local assembly vis-à-vis CBU import by tax difference
- Ghana and Myanmar (before 2021) show some successful (though mixed) cases in policy and its practice, at the similar stage of automobile industry development
- Importance of facilitating private sector's initiative and recognizing their real demands: OEMs are willing to contribute to development of the host country and its people and in order to do that, they prefer predictability, policy consistency, plan into action, business-friendliness etc.
- How to come up with "policy trade-off"? Policy coordination is definitely required.

Amesegenalew

Thank you

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