

GDF Myanmar Mission Report (Full English translation)

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Members from Japan:

GRIPS Development Forum (GDF): Kenichi Ohno, Sayako Uesu

JICA Research Institute: Izumi Ohno

JICA Headquarters: Hironobu Murakami, Toru Homma

Member from Myanmar:

DICA Investment Promotion Advisor: Takafumi Ueda

Executive Summary

In the context of our Ethiopia-Japan Industrial Policy Dialogue, the purpose of this mission was to collect industrial policy information on Myanmar, which is at a similar or slightly advanced stage of economic development compared to Ethiopia. The three main topics were automotive policy, industrial park (SEZ) policy and the status of the garment industry. Valuable information was obtained on all these topics. Needless to say, Myanmar's experience cannot be directly copied to Ethiopia, so policy learning must be done with selectivity and necessary adjustment.

Regarding automobiles, the Myanmar market used to be dominated by used cars, like present-day Ethiopia. This situation suddenly changed when the government recently began to reduce used cars (mostly imported from Japan) by banning (new) right-hand drive cars¹ and car registration restriction in Yangon Region. This greatly and immediately decreased used car imports, prompting foreign car makers to invest in Myanmar to assemble vehicles. This fact shows that used car restriction alone can drastically change the domestic car market even if other automotive policy measures are not yet in place. A similar situation was also observed in Nigeria. In Ethiopia, too, an effective policy to reduce used cars policy should be introduced as the first step in an overall automotive strategy. On the other hand, several key policy decisions to promote domestic car assembly remain unimplemented in Myanmar, such as selection of priority vehicle models, definitions of SKD and CKD, and incentives that go with them. The automotive policy approved in May 2019 stresses the importance of introducing these measures, but concrete decisions are left for future work. The policy capacity of the Myanmar government is still low, but it is willing to listen carefully to foreign advice—including advice from Japanese officials and business leaders—without showing national pride or ownership very much. In the case of automobiles, the policy document was crafted by accepting many of the opinions of the Japanese car makers and the Japanese business community in Myanmar. This is a national feature not observed in Ethiopia or Vietnam. Acceptance of foreign advice was also visible in the investment law and the SEZ law, which were already approved. Japanese car makers seem willing to invest in car assembly in Myanmar even though policy details are not yet known and the Ministry of Industry, in charge of

¹ Cars drive on the right side in Myanmar and on the left side in Japan. Up to now, imported Japanese used cars were driven without changing the steering wheel from right to left.

automotive policy, was recently dismantled and merged to another ministry. This may be because the Japanese firms are fairly confident that the Myanmar government will continue to design an automotive policy which is not so different from what Japan advises.

A similar story goes with Thilawa Special Economic Zone (SEZ) which was constructed with Japanese official and private cooperation. There is a severe shortage of high-quality industrial land in Myanmar. Thilawa SEZ offers Japanese quality infrastructure service, management and investor support, and quickly attracted a large number of tenant firms. This was possible because right people were assigned to manage Thilawa SEZ, including Mr. Set Aung (now Vice Minister of Planning and Finance) and others who strongly promote Thilawa SEZ on the Myanmar side, and Mr. Matsui and other JICA experts who run Thilawa SEZ with dynamism and pragmatism on the Japanese side. Both sides also cooperate closely. Furthermore, the Japanese Ministry of Economy, Trade and Industry (METI) strongly supported the creation of Thilawa SEZ as Japan's top priority. As a result, necessary works progressed smoothly and quickly, the kind of works that are often delayed or suspended due to politics, bureaucracy or lack of expertise in most other countries. Even though an SEZ is supposed to be outside the domestic law, the autonomy given to the Thilawa SEZ Management Committee is extraordinary. It can decide such concrete details as the selection and approval of tenant firms, the criteria for import permission of used machinery and equipment, the salary scale of ministerial officials seconded to the one stop service, etc. without consulting the central government and its ministries (Section 2). This is surprising and unique to Myanmar. The government of Ethiopia or Vietnam is unlikely to allow so much freedom to lower level agencies or foreigners. Mr. Aung Naing Oo, Permanent Secretary of the Ministry of Investment and Foreign Economic Relations, stated clearly that Thilawa was a pilot project to which the government granted great autonomy to break through normal bureaucracy. On the other hand, a high-level official of DICA, a national investment agency, noted that "SEZs are special and have little implications for our work." We believe the best practices at Thilawa should be rolled out to all investment projects and industrial parks in Myanmar. This view is shared by some but not by all officials on the ground².

Regarding the garment industry, Myanmar is subjected to political and diplomatic uncertainties related to economic sanctions during the past military regimes and current international pressure over the Rohingya ethnic minority problem. When Myanmar was shut out from the Western market about a decade ago, it turned to Asian markets for garment export. At that time, a training center was established through Japanese cooperation and, after a few years of training, 80% of Myanmar garment firms achieved Japanese quality (we need to check if this was true, not an exaggeration). In 2015, the EU offered the EBA status to Myanmar, which opened up the EU market. At that time, the EU began cooperation to satisfy necessary compliance conditions (labor and environment) for Myanmar firms. Both Japan and the EU thus provided necessary support for developing country firms to export to their home market, a pattern also seen in Ethiopia. Regarding Japanese cooperation, it is noteworthy that product quality of Myanmar firms had improved significantly and continuously (because international cooperation does not always produce visible and sustainable outcome). However, it is also reported that Myanmar garment producers are shifting from the Japanese market to the EU market because the EU's compliance requirement is easier to fulfill than Japan's requirement for high product quality. Chinese FDI firms are the largest players in Myanmar's garment production. They came to

² However, it was reported that DICA leaders and officials other than those interviewed have a more positive attitude toward the Thilawa model and are willing to learn from it.

Myanmar because of such push factors as rising Chinese wages and the US-China trade war. The mission visited only one Japanese FDI garment firms in the outskirts of Yangon, where the general director explained that Myanmar workers were available in large quantity but not in quality, that they were extremely short-sighted and frequent job hoppers, and even incentives did not stop them from moving between factories. These features are similar to the problems of Ethiopian factory workers. Minimum wages were introduced in 2015 and revised in 2017 (the mission did not have time to investigate further on minimum wages). Currently, wildcat strikes are instigated by external trouble-makers at many factories, a situation not observed in the past governments.

Compared with 16 years ago when GDF first visited Myanmar, many changes are visible in Yangon's buildings, streets and airport. Cars are newer, high-rise buildings are being constructed, and a new city bus system (YBS) is in operation. Japanese FDI firms have also increased³. But such physical transformation is expectable, and it is also visible in Ethiopia as well as most countries caught in middle income traps. On the other hand, Naypyidaw was an artificially created capital city with a lot of greenery. Time wise, the present development stage of Myanmar is similar to Vietnam 15-20 years ago, even though this depends on individual items and cases. Ethiopia seems a little behind Myanmar in many aspects, but ahead of it in certain aspects such as transport and power infrastructure. More importantly, the characteristics of the Myanmar government and people are unique and different. Vietnam and Ethiopia are countries with high national pride and ownership, and they do not easily follow foreign advice even in fields where they have little prior experience or knowledge. Meanwhile, the Myanmar government and people are more flexible and open, and express less national pride or ownership in economic policy. This leads to positive attitude toward learning international best practices, but the lack of self-directed action is its negative side. It is reported that, prior to the current government, policy actions were faster and more decisive during the time of President Thein Sein (2011-2016). It is not clear whether Myanmar's socio-development will be accelerated if another proactive government comes to power.

We would like to greatly thank JICA, especially Mr. Homma, for arranging meetings for this mission and accompanying us to the meetings.

1. Automotive policy

In the past, used car occupied over 90% of road vehicles in Myanmar, and new car sales was only a few thousand units per year. This situation was akin to present-day Ethiopia. However, over the period of 2014 to 2017, the government introduced effectively and in steps a ban on right-hand drive cars and registration restriction on imported cars in Yangon Region, which dramatically changed the automotive market. New car sales surged from 4,168 units in 2016 to 8,225 units in 2017 and 17,500 units in 2018 (MSR data), and the rising trend continued in 2019. As financial institutions and car dealers began to offer car loans, purchasers expanded from the privileged few to the upper middle class. Most cars in Yangon streets are still right-hand drive, but new cars with left-hand drive are also emerging. In this young automotive market, Suzuki, which has its own assembly plant, is the leading manufacturer. Toyota also decided to shift from 100% CBU import to domestic assembly at its own assembly plant (under construction in Thilawa SEZ). Ford, Kia, Nissan and Hyundai also assemble cars locally, but theirs is commissioned production at local assemblers without their own plants. In circumstances where used car imports drastically fell and

³ The members of the Japanese business association in Myanmar are about 400 at present, increasing eight-fold in the last eight years. However, the pace of Japanese investments was rather slow in the last five years.

the new car market is rapidly growing, Suzuki is expanding its plant capacity and Toyota is building its first assembly plant in Myanmar. Other manufacturers are also likely to follow with positive actions⁴.

Even though the market is expanding, Myanmar is at a very early automotive development stage, namely SKD. It is not yet clear whether production will move up to CKD and local production of components (development of “supporting industries”) when market size becomes larger. To shift from SKD to CKD and localization, it is essential to incentivize production of higher domestic value. However, now that the ASEAN Free Trade Area (AFTA) has already been implemented in the region, any member country can import cars and car components (most of which are Japanese brand cars and components) free of customs duty from any other member countries⁵. The problem for Myanmar therefore is how to provide non-tariff incentives to car makers in a way that does not violate WTO rules and various free trade agreements (Ethiopia has not yet faced this problem in a significant way). The current ban on right-hand drive vehicles and Yangon car registration restriction are not enough for this purpose. For FDI assemblers in Myanmar, the additional serious problem is how to compete with imports of low-cost cars (of the same brand) from Thailand and Indonesia where car production volume is already large and per-unit production cost is therefore low. It is said that the most formidable rivals for Toyota Myanmar are Toyota Thailand and Toyota Indonesia. One possible policy option is to provide CBU import quotas (which increase car model variety) in proportion to the amount of domestic assembly of each firm. Other policy options should also be studied.

In May 2019, the Cabinet approved the automotive policy prepared by the Ministry of Industry (Section 4). This policy document can be highly evaluated for its clear recognition of importance of market volume, selection of priority car models, definitions of SKD and CKD, incentives associated with them, and future promotion of supporting industries. These key points are not yet clearly understood or accepted by Vietnamese or Ethiopian policymakers. As explained below, this may be because the Myanmar government has accepted many of the issues raised by the Japanese business association and car makers. On the other hand, the policy only recognizes crucial importance of these measures while concrete decisions on each measure is left for future discussion, which generates great uncertainty for car makers. We are also uncomfortable with the targeting of large and bold production volume and cars in operation as the policy’s top priority. We understand that production volume is critically important for the automotive industry, but an uncontrolled rapid increase in the number of vehicles will surely cause traffic congestion, accidents and air pollution. These negative social impacts should not be ignored or underestimated. If Yangon streets become like those in Manila or Jakarta, people will start to criticize the government and car manufacturers. Mounting political pressure may trigger unexpected regulation on car production and use. Proper balance between production volume and social consideration is imperative for a healthy and sustainable development of the automotive industry.

Suzuki

⁴ According to DICA (investment agency), cars are assembled by 12 FDI firms and 8 local firms. Nationalities of FDI firms include Singapore (3), Japan (2), Malaysia (2), China, Korea, Hong Kong and India. Nationalities and car brands do not necessarily match. For example, Nissan has invested as a Malaysian firm, and Ford as a Singaporean entity. It is also necessary to check whether and how much true production is conducted by these registered FDI car makers.

⁵ The ten members of ASEAN (Association of Southeast Asian Nations) are Singapore, Malaysia, Thailand, Indonesia, Philippines, Vietnam, Cambodia, Laos, Myanmar and Brunei.

The mission met with Mr. Keiichi Asano, Managing Director of Suzuki Myanmar Motor, and toured the assembly plant in Thilawa SEZ. Suzuki first came to Myanmar in joint venture with the Second MOI to produce small commercial vehicles (Carry & Wagon R) and motorcycles during 1998-2012. However, the joint venture was dissolved by the Myanmar side. Even after the plant was closed, Suzuki kept one person to maintain and protect the plant for possible future operation. In 2012, when President Thein Sein visited Japan, President Suzuki requested that automotive assembly be resumed in Myanmar. President Thein Sein agreed, and Suzuki promised to build a new plant in Thilawa SEZ (which was under preparation). In 2013, production of Carry was restarted at the old plant, and two models, Ertiga (seven-seater) and Ciaz (sedan) were added in 2015. In 2018, the new plant in Thilawa began operation and took over the production of Ertiga and Ciaz. When Swift was added, Suzuki assembled three passenger car models in Myanmar.

The Suzuki plant in Thilawa has one assembly line with 10 production processes, of which seven are currently used. There is also a final inspection area. It has 220 employees, of which 180 are production workers. The plant operates in two shifts (7:00-15:00 and 19:00-3:35), with 90 workers in each shift. The old plant is still operative and producing commercial vehicles. It also has the sales department and a training center.

Suzuki sold 6,000 new vehicles in the first ten years of production operation. This was the maximum volume allowed by the government. Since Suzuki was the only car manufacturer supplying new vehicles, its products carried high prices. Suzuki's initial plan was to attain 5,000 units per year, but the market grew far more rapidly than expected. This prompted Suzuki to expand the plant capacity and increase the number of production processes. At present (before proposed expansion), the maximum capacity is 20,000 units per year assuming full two shifts plus two-hour overtime. Sales was 12,000 units in 2018, and 15,000 units are expected in 2019. Three passenger car models are equally popular. Suzuki has 53 local dealers. They are required to have maintenance and repair capacity, and sell only Suzuki.

Suzuki's Thilawa plant has 20ha but only 1ha is currently used. It is engaged in SKD now, but construction of a CKD plant will soon begin in early 2020. The government has not clarified the definition of CKD, but Suzuki assumes it will require welding and painting processes. In fact, Suzuki already performs welding and painting for Carry at the old plant. In the future, Suzuki may close the old plant and move its functions to the Thilawa plant.

Suzuki meets regularly with DICA, the Ministry of Commerce (MOC) and MOI. As to the automotive policy, the business associations of Myanmar (UMFCCI) and Japan (JCCM) agreed to draft a policy proposal and they worked together for half year and submitted the result to the government. It divides the next 15 years into three five-year periods, each with numerical targets on Units in Operation (UIO) and annual sales volume. The definition of CKD was not agreed at that time due to objection by used car and import car dealers (who were members of MAMDA). Meanwhile, the Automotive Association of Myanmar (AAM) represents the voice of new car manufacturers. MOI is weak, but it is willing to support the manufacturing sector. Suzuki negotiated and modified contents as it worked with MOI officials in preparing the policy draft

There is no supply of automotive components in Myanmar. Suzuki imports components mainly from Thailand, Indonesia and Japan. Some are also imported from India and Vietnam. Myanmar has no comprehensive industrialization strategy, but the investment law, the SEZ law and the automotive policy do exist. Unlike other countries, Myanmar's top leaders do not say "manufacturing is our priority."

In Thilawa SEZ, corporate income tax is exempted for five years and no import duties are levied. Import duties on goods from ASEAN countries are zero in principle, but certain vehicles

must pay a hefty registration fee [which provides incentive for domestic car assemblers]. ASEAN components are imported duty-free, but Suzuki uses Japanese transmission components.

Toyota Tsusho

The mission interviewed President Takuya Ichihashi of Toyota Tsusho Myanmar. We did not meet the president of Toyota Myanmar who was on an overseas business trip. Below is information provided by President Ichihashi.

Toyota Tsusho came to Myanmar in 1996. The current business consists of imported car sales (40%), sales of imported automotive components (30%) and others (30%). Newly established Toyota Myanmar Co. Ltd. is jointly owned by Toyota (85%) and Toyota Tsusho (15%), with the former in charge of production, wholesale, external relations and marketing, and the latter responsible for retail sales. Initial employment will be 100 persons (Toyota Tsusho already hires 150 persons for its current business lines). Components will initially be supplied from Thailand by ship. Land link will be improved with new roads and bridges within two years. Land transport costs twice as much but it cuts time from two weeks to three days, in comparison with marine transport.

Depreciation of the Kyat (Myanmar's currency) is a business risk. It depreciates about once in three years. Imported components are paid in USD, so Kyat depreciation compels us to raise the car price.

ASEAN automotive import duties are not yet zero in Myanmar. Higher duties are levied on large passenger cars. When Myanmar fully implements ASEAN zero tariffs, car makers will benefit by more available models through CBU import, but it may also damage them because their production cost is higher than those in Thailand or Indonesia (of their own brand cars). As for commercial vehicles, the current CBU tariffs are 10-20%, which is too low to incentivize domestic SKD assemblers even if they are given zero tariffs⁶. [The too narrow import duty gap (5%) between CBU and SKD is also a problem for commercial vehicles in Ethiopia. Meanwhile, Ethiopia is not yet constrained by regional FTAs in any significant way].

At present in Myanmar, even without tariff incentive on SKD and CKD, domestic assembly is incentivized by the non-tariff privilege of being able to sell freely in Yangon Region, but such a measure cannot be sustained forever. Will there be incentive to move from SKD to CKD in the future? In Vietnam, for example, Toyota cars imported from Thailand is cheaper than Toyota made in Vietnam [because Thailand has a far larger production volume and thus can achieve low cost through scale merit and a thick layer of supporting industries].

According to Toyota Tsusho, automotive policy in Myanmar is inconsistent. Japan has offered many suggestions to its drafting process. Five or six years ago, Toyota and the Japanese business association organized a series of automotive seminars, discussed issues related to SKD and CKD, and Toyota even did a feasibility study (F/S) on a selected vehicle model for possible investment. But this plan was rejected due to inconsistent policy. In the last few years, however,

⁶ The problem of no or insufficient gap between CBU and SKD is not just for commercial vehicles. Even for passenger cars, the full implementation of regional zero tariffs means CBU will be imported duty-free from ASEAN members, which gives no scope for reducing import duties for SKD and CKD. Under such circumstances, incentives for domestic production must be offered in ways other than tariff reduction. Myanmar already has registration restriction of CBUs and used car imports in Yangon Region and high vehicle registration fees. Another option is providing CBU import permits conditional on domestic car assembly. Such incentivization must not violate WTO rules and other global and regional free trade agreements. GDF previously investigated this issue for Thailand and Indonesia, and found that required industrial policy would be highly complex legally and politically. Myanmar may also encounter a similar problem in the near future.

the automotive market in Myanmar improved significantly so Toyota conducted the second F/S and this time decided to invest in an assembly plant. At present, the Japanese side continues to advise the Myanmar government through the Japanese business association and the Japan-Myanmar Joint Initiative [a bilateral regular forum to discuss and solve concrete issues, also adopted in Vietnam and Indonesia]. The automotive policy approved in May 2019 has the production target of 400,000 vehicles per year, but this seems too high and difficult to achieve. President Ichihashi agreed with the GDF suggestion that aggressive volume targets and rapidly rising sales would cause traffic congestion, accidents and air pollution, which would be detrimental to the long-term development of the automotive industry.

Two Japanese experts provided the following additional opinions on automobiles. Mr. Matsui, JICA expert at Thilawa SEZ, stated that, even though the government had not announced the official definitions of SKD and CKD, according to common sense the difference between SKD and CKD should be the existence of welding and painting processes. Mr. Takanobu Matsuda, Director of JETRO Yangon, argued that automotive policy should contain a national car inspection system. However, this proposal was deleted in the approved automotive policy “in order to concentrate on production issues” (MOI).

2. Thilawa SEZ

At Thilawa Special Economic Zone (SEZ), the mission met with Mr. Yoichi Matsui and Mr. Akihiko Morinaga of One Stop Service Center (OSSC), and Mr. Tomoyasu Shimizu, President of Myanmar Japan Thilawa Development Ltd. (MJTD). Information below is based mostly on Mr. Matsui, the de facto lead manager of Thilawa SEZ.

The governments of Myanmar and Japan agreed on the establishment of Thilawa SEZ in 2012, and construction began in 2013. MJTD is owned by three Japanese trading companies (Sumitomo, Marubeni and Mitsubishi, 32.3% each) and the two governments (10% each)⁷. Actual operation is done by Sumitomo Corporation. For Sumitomo, Myanmar became the sixth country to invest in industrial parks following Indonesia, Philippines, Vietnam, India and Bangladesh. Zone A Phase 1 was completed in 2015 and Zone A Phase 2 was completed in 2017. Thilawa plans to develop a total area of 2,400ha, of which Zone A covers 405ha. Zone B Phase 1, 2, 3 are 101ha, 77ha and 46ha, respectively, with a total of 629ha. Zone A is already fully occupied except one space. In Asia, an industrial park sells on average 20ha per year, but Thilawa SEZ sold much faster. As of November 25, 2019, 114 tenant firms signed contracts (of which three had left due to their own reasons), of which 80 firms were already in commercial operation. Average employment by operational firms (which includes SMEs) is 340 workers per firm⁸.

Besides the general lack of suitable industrial land, the reasons for Thilawa SEZ’s rapid sales include Japanese standard high-quality infrastructure services and customer support, as well as the existence of dynamic supporters on the Myanmar side. Mr. Matsui also mentioned the high

⁷ According to JICA, 39% of MJTD capital is held by Japanese private sector. Within that, 32.2% each is owned by three trading companies and 1.1% each is owned by three Japanese mega banks (MUFG, Mizuho and Sumitomo Mitsui). Overall position is as follows: Myanmar private sector (41%), Japanese private sector (39%), Myanmar government (10%) and Japanese government (JICA, 10%).

⁸ According to President Shimizu of MJTD, there were 110 registered tenant firms, of which 75 were operational, hiring 11,000 employees. Nationalities of tenant firms breaks down to Japan (55), ASEAN (26), North East Asia (18), others (9). The number of import-substitution firms (73) was unexpectedly large compared with export-oriented firms (35). Import-substitution businesses include construction materials, galvanized steel, agricultural machinery, food and packing and automobile.

quality of Myanmar workers “who can make sushi as efficiently as Vietnamese workers.” Regarding effective political support, the role of Mr. Set Aung (currently Vice Minister of Finance), who cooperated very closely with Mr. Matsui to build and run Thilawa SEZ, was vital. Mr. Matsui has been in Myanmar for eight years, whose work progressed from general support of SEZ policy (for Myanmar government) to on-the-ground support of Thilawa SEZ (funded by JICA). In terms of organizational structure, Thilawa SEZ is managed by the hierarchy of Vice President (previously President) – Central Working Body (formerly Cabinet, now Commerce Minister) – Thilawa SEZ Management Committee – OSSC. All instructions and notices concerning Thilawa SEZ are issued by the Thilawa SEZ Management Committee. In August 2019, Mme. Aung San Suu Kyi, the de facto national leader of Myanmar, visited Thilawa for the first time.

SEZs are established by a special law and thus not governed by domestic laws. Mr. Matsui noted that the Myanmar government allowed his team to do whatever it wanted. Mr. Matsui and his team decide everything inside Thilawa SEZ without consulting central government or its ministries. He effectively acts as the lead manager of the SEZ, and announcing many rules including the condition for permitting importation of second-hand equipment (remaining life of at least ten years; aged equipment is not rejected if well maintained), and things each tenant firms can import duty-free (production equipment and up to five commercial vehicles excepting double-cabin pickup trucks). Mr. Matsui created 10 criteria for screening potential tenant firms which he himself uses to select candidate firms for entry into the SEZ (50 points out of 100 points are necessary for approval). If a firm falls short of 50 points, he advises it to adjust the business plan so it reaches 50. His criteria do not include minimum employment size, because employment generation is only one of the positive aspects and a firm is judged by its overall performance. All standard operation procedures (SOPs) are readily viewed on the Thilawa website for transparency, accountability and predictability. Mr. Matsui also thinks that a bonded warehouse, which does not yet exist in Myanmar, should be possible in Thilawa. He interprets laws and regulations flexibly and boldly, not mechanically or bureaucratically, to assist tenant firms as much as possible. He thinks he has such freedom thanks to Mr. Set Aung’s belief that “Thilawa is a laboratory” to try new things, and the support of Vice President Nyan Tun was also critical. Without their understanding, Mr. Matsui believes Thilawa SEZ would never have succeeded.

One Stop Service Center (OSSC) is directly under the Thilawa SEZ Management Committee. It can quickly issue any documents and permits. Visas usually take two months outside, but OSSC issues them in just two hours, which is like a miracle in Myanmar. Twelve ministries dispatch officials to OSSC. Their salaries are paid by the ministries but OSSC tops them with the same amount of bonuses, which means seconded officials receive double the original salary and are thus happy to work at OSSC. For ministries that do not dispatch officials to OSSC, tenant firms are prohibited to go to Naypyidaw (capital city) to negotiate with them individually. All communications and negotiations between tenant firms and ministries are mediated by the Thilawa SEZ Management Committee, and tenant firms are pleased with this arrangement. Tenant firms come to the front office [reception area] of OSSC to receive services. When necessary, OSSC officials can also meet with them in a small room, which is fitted by a surveillance camera to check if any bribe is passed to officials for special privileges. Thilawa SEZ has a strict no-corruption policy. Before investment, tenant firms must sign a declaration form that they will never pay any bribe to government officials.

The Thilawa SEZ Management Committee is a public body but receives no government budget. All costs are covered by business revenues and management fees paid by tenant firms. Firms pay rents for 50 years upfront, and they also must pay monthly management fee (\$1.2 per

m²), monthly OSSC service fee (\$250 per firm or \$50 per rental factory; which firms are very happy to pay for good support), and charges for water, power and local community assistance⁹.

The population of this region is 800,000 and young. The male-female ratio depends on each factory. Workers are recruited by negotiation with village chiefs, not through public offices or posting announcements at the factory gate. The quality and quantity of labor force are satisfactory. But if more firms come in the future, labor shortage may emerge. Workers' lunch is usually provided by outside catering service, not by factory canteens. Soft skills are taught to workers, but the starting level of Myanmar workers is relatively high so there is no need to teach very basics to them. Because Japanese firms teach technical skills to workers in their own way through on-the-job training (OJT) after recruitment, they do not want other institutions to teach skills in advance. Foster Electric Company (Japan), the largest employer in Thilawa, says their workers are highly skilled and diligent. Its management was surprised to discover that workers work very seriously during night shifts even without Japanese supervisors. Thanlyin Technology University nearby teaches programmable logic controller (PLC) and Japanese business manners through donation courses supported by AMEICC¹⁰. Students are recruited to Thilawa SEZ through internship and job fairs.

Electricity of 33KV is supplied from the national grid. Voltage has been stabilized with additional investments (assisted by Japanese ODA) in a gas-fired power plant, a substation and transmission lines. Previously, Thilawa on average had five power failures per month, but now it has only 1.8 failures. These are mainly caused by accidents at tenant firms or small animals. Thilawa SEZ also has two power generators as backup.

Access to Thilawa SEZ has improved when an ODA-built port opened in June 2019. The biggest bottleneck in land connection at present is the old narrow bridge on the Yangon River, but a new bridge is under construction (completion in 2022). When completed, it will take only 30 minutes from Yangon to Thilawa (it took more than 1.5 hours for us this time).

3. Directorate of Investment and Company Administration (DICA)

DICA is an implementation agency under the Ministry of Investment and Foreign Economic Relations. Its headquarters was previously located in Naypyidaw but now moved to Yangon. The mission visited its headquarters and Naypyidaw office. Below is information obtained from Deputy Director General Marlar Myo Nyunt [No.2 position in DICA] in Yangon.

DICA has the dual mandate of investment approval and company establishment. Investment application is submitted to DICA (at the central level) or State or Regional governments. After evaluation, permits or endorsements are issued to applicants. DICA is responsible for strategic projects, large investments over \$100 million, investments in government-owned land or structure, projects with environmental or community impact, other projects designated by the Cabinet, and large endorsement projects. Other endorsement projects are approved by States and Regions. There are three laws under which firms can invest in Myanmar: the investment law, the company law and the SEZ law. DICA is in charge of the first two. Total DICA staff at the headquarters and branches are about 500, with each branch having 10-15 assigned staff.

⁹ According to President Shimizu of MJTD, industrial park business is not by itself very profitable but it raises recognition and reputation of the developer in the host country and builds close relationship with tenant firms.

¹⁰ AMEICC is short for the ASEAN Economic Ministers (AEM)-Ministry of Economy, Trade and Industry (METI) Economic and Industrial Cooperation Committee, which is an industrial cooperation mechanism supported by the Japanese METI.

The mission asked a number of questions to which the following answers were given. First, Myanmar targets eight priority sectors,¹¹ and priority subsectors under them are also specified. Second, DICA's one stop service used to be provided at the headquarters and now at the Yangon branch. DICA has no KPI to measure its performance. Service speed differs from firm to firm. Some firms do not request all needed services upfront, in which case more time is required. Thilawa's one stop service is faster because it deals only with firms within the SEZ. Third, there is a division to monitor the progress of investment after approval. Only 35-40 staff are assigned there so not all projects can be covered. DICA rarely terminates investment permits although some firms withdraw for their own reasons. Fourth, DICA receives JICA support and it also visited foreign investment agencies—MIDA (Malaysia) and BOI (Thailand)—for research. DICA studies, but not copies, the practices of Thai BOI. As DICA is an implementation agency, it does not decide or propose policies. Fifth, main problems arise from difficulty in land acquisition and inter-ministerial coordination. Sixth, DICA does not plan to learn from Thilawa SEZ because it is a special model different from other investment cases. Seventh, DICA has no budget for investment attraction and seminars abroad. But it is often invited by Japan, China and other foreign countries and also joins marketing activities organized by local governments. Eighth, the next steps are inviting a bank branch to DICA headquarters, introduction of SOP, and creation of an online investment registration system.

4. Naypyidaw and automotive policy

The mission visited Naypyidaw, the capital city, on November 28 and held a series of meetings.

The Ministry of Industry

The following information was provided by Mr. Masanori Sunada, JICA Project Formulation Advisor. The Ministry of Industry (MOI) consists of two directorates (DIC in charge of international cooperation and DISI in charge of factory inspection) and four production units (transport and construction equipment, chemicals, garment, textile, dye, medicine, etc.) MOI has been a manager of state-owned enterprises and does not function as a policy maker or a private sector promoter. Decision making was fast during the Thein Sein government (2011-16). The investment law, the SEZ law, the company law and the automotive policy were initiated during the Thein Sein government and completed recently. The current government is slow in policy formulation. Ministries are unable to decide anything because no instruction comes from above.

At MOI, the mission inquired about the automotive policy of May 2019. However, the responsible director and his team members who actually drafted the document were unable to give clear answers on many points. Work on the automotive policy was started around 2013, and the Myanmar business association (UMFCCI) in cooperation with others submitted a policy proposal paper in 2015, which was the first sector-specific policy proposal in Myanmar. The paper reflected many ideas of Toyota, Suzuki and Deloitte (METI-supported research) while the government was only one of the members. Subsequently, the President Office instructed MOI to revise and complete this private proposal by deleting the proposal for a vehicle inspection system, for example, to concentrate on production issues, and adopt a policy document format. MOI conducted several

¹¹ The eight priority sectors are agriculture, (labor-intensive) manufacturing, infrastructure, medicine and health, education, IT, R&D, and hotels and tourism.

stakeholder hearings at the Myanmar Engineering Society in Yangon, completed the draft in 2017, and heard more opinions from the general public. The document was approved by the Cabinet Decision in May 2019. The mission asked how much had changed in terms of policy content from the original private proposal to the final official document, and the answer was “changes were relatively minor.”

The mission remarked that the automotive policy approved in May should be highly evaluated as it clearly acknowledged key policy points, which was not the case in Vietnam or Ethiopia. The fact that used cars were already significantly reduced by appropriate prior policy was also commendable. On the other hand, matters of concern included: (i) too much emphasis on rapidly increasing car volume, (ii) no demand forecast separately for commercial vehicles and passenger cars, (iii) essential details such as SKD and CKD definitions, priority models, incentives, etc. are only mentioned as important but not concretely specified, which makes this document an instruction for drafting an automotive policy, not an automotive policy per se. MOI replied that concrete decisions would take time because MOI had to consult with many other ministries and agencies [in the absence of top-down order and direction]. Regarding the current status of SKD and CKD definitions, MOI participants had conflicting views from each other. If these ladies who actually drafted the document cannot agree on the status of these definitions, no private firms will be able to understand the precise policy content.

It is likely that MOI created the automotive policy rather passively, by accepting most of the points raised by the private proposal in 2015, reformatting it into policy document style, and eliminating parts unrelated to production. Later revisions may also have reflected private voices, including Japanese. Because business concerns are heard and because Japanese firms and experts made many suggestions, the final content became largely consistent with what private (and Japanese) car makers want to see [In Kenya also, the automotive policy was drafted by strong private initiative with government only commenting and making minor revisions]. It seems risky for FDI firms to invest or expand in the automotive sector when critical policy details remain ambiguous, but they may feel comfortable that the Myanmar government has adopted what they proposed in the past, and expect that this trend will continue in the future. This situation is unique in Myanmar, which is hardly seen in Vietnam or Ethiopia where national policy ownership is very strong. The same can be said about the formulation of the SEZ policy, the investment law and investment-related policies.

During our mission week, the Parliament decided to dissolve MOI and transfer its functions to the Ministry of Planning and Finance (MOPF). In reality, MOI has been a manager of state-owned factories, so transfer of this responsibility to MOPF makes sense. But disappearance of a ministry in charge of industrial promotion, even though this function has been very weak, is a matter of concern.

Permanent Secretary Aung Naing Oo

The mission met with Permanent Secretary Aung Naing Oo of the Ministry of Investment and Foreign Economic Relations (MIFER). Previously he was Director General of DICA and member of the Myanmar Investment Commission (MIC), and also JICA's counterpart at DICA. He seemed to be equipped with high policy capacity and knowledge. Regarding automotive policy, Mr. Aung Naing Oo admitted that the current document was incomplete and served only as a roadmap to continue discussion with stakeholders on necessary contents. According to him, the policy therefore requires flexibility. Given the utter absence of supporting industries in Myanmar, it is

realistic to start with SKD promotion. The automotive policy pillars are Safety, Affordability (citizen can purchase cars at reasonable prices) and Environment. As the first step, the Automotive Steering Committee of the Ministry of Commerce has already imposed restriction on right-hand drive cars and used car import. The vehicle age limit was also reduced from 10 to 3 years. Development of supporting industries (domestic component suppliers) is a future task, but some foreign component manufacturers have already begun to visit Myanmar for information gathering. Myanmar doesn't have an official 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 are using the tentative definition of SKD announced by the Ministry of Commerce [DICA, according to JICA]. It divides components into ten groups and requires certain levels of separation. The Ministry of Transport and MOI also use this tentative definition. We have been working on these definitions for five years, but have not arrived at official definitions.

At the time of the previous government (2011-2016), President Thein Sein visited Japan and asked Toyota to invest in Myanmar. Toyota, after research for a few months, replied that the Myanmar market was full of used cars and they should be stopped before investment could be made. That is why Myanmar introduced the used car policy explained above.

Thilawa SEZ is given large authority to decide details. Thilawa is a pilot project to overcome bureaucracy, and the model, if successful, should spread to other industrial parks. Myanmar's World Bank Ease of Doing Business rank is very low, at 163rd [165th in 2020]. Thilawa SEZ has been managed effectively by Mr. Set Aung and Mr. Matsui, but we need institutionalization of good practices to maintain excellence even after they leave. A new industrial park law is being drafted by MOI (not yet approved), which deals with industrial park management, incentives and marketing.

The Permanent Secretary continued: you may be worried about the merger of MOI into MOPF, which eliminates the ministry specializing in industrial policy. You also think that MOI should be integrated with the Ministry of Commerce, not with MOPF. To these concerns I say that these are temporary arrangement until the election next year. When a new administration is established after the election, a proper decision will be made [but we are not sure if a proper organizational decision is really made whether the present government wins or loses]. I agree with your opinion that MOI's policy capacity should be greatly enhanced.

The mission remarked that the top national leader of Myanmar did not seem to directly instruct economic policies. Mr. Aung Naing Oo replied that the government was busy with ethnic problems and associated foreign pressure, and also that economic management was new for the present administration. The mission further asked if a powerful agency directly under President or Prime Minister consisting of best officials and professionals, such as EDB in Singapore and RDB in Rwanda, might work when economic line ministries were weak. Mr. Aung Naing Oo said that such independent agency was difficult in Myanmar where policy tradition was coordination of various policy authorities spread across ministries, even though that would take much time.

Other

The following additional information was obtained from Mr. Sunada, JICA Project Formulation Advisor (previously MOI Advisor). MOI has six industrial training schools where employees of both ministry-owned enterprises and private companies are trained, with no tuition fee. Its method consists of practice (70%) and classroom learning (30%). All students live in dormitories and teaching is done in military fashion. These schools have good records as TVET institutions. They

are supported by China, Korea, Germany and India. There is a plan to add more such schools. MOI has two directorates: the Directorate of Industrial Collaboration (DIC, relations with donors, etc.) and the Directorate of Industrial Supervision and Inspection (DISI, inspection of private factories, database of registered firms, etc.) The SME Agency was recently established and DISI serves as its secretariat (although its General Director comes from the Ministry of Commerce).

The mission also had a lunch meeting with three JICA legal experts in Naypyidaw. It also met Ms. Takaoka, JICA intellectual property expert, in Yangon. She was previously at the Ministry of Science and Technology, and now moved to the Ministry of Education, to help create rules and guidelines for implementing intellectual property right laws, especially trademarks. As IPR policy is further moved to the Ministry of Commerce, she will soon move there to continue cooperation.

Compared with 16 years ago when GDF first visited Myanmar, Yangon International Airport Terminal has been expanded and modernized, and passport control, check-in, boarding and arrival were relatively fast and smooth. Naypyidaw Airport was similarly modern. The newly created and scattered city of Naypyidaw was 15-20 minute drive away from the airport, through country-side scenery. Both the hotel district and the administrative district of Naypyidaw are spacious, but buildings are far from the road and surrounded by trees, thus not visible from the road. Naypyidaw does not have a skyline of concentrated high-rise buildings unlike other capital cities. There is huge space (actually, a wide road having 10 lanes each way) in front of the gigantic National Parliament complex.

5. The status of the garment industry

Myanmar Garment Manufacturers Association (MGMA)

MGMA is located inside the Myanmar Chamber of Commerce and Industry. We met Secretary General Khine Khine Nwe of MGMA, who also owns a garment factory, and serves as chairperson and member of many committees related to vocational training, education and state certification. She provided us with the following information.

MGMA has 560 member firms and the number is increasing. Many are Chinese firms. About 500 are garment production and export firms. There are also garment producers (especially subcontractors) that are not MGMA members. DICA handles company establishment and the Ministry of Commerce deals with export-import licenses. MGMA can act for them [only for the latter, according to JICA]. Import licenses can now be applied through internet, but export licenses cannot be put on-line because we need to carefully check applicants for possible abuse of the CMP system (unauthorized domestic sales of imported materials and accessories)¹². The Myanmar Automated Cargo Clearance System is also being introduced [through JICA cooperation].

Myanmar's garment export is still small compared with China, Vietnam or Bangladesh, but it is on the rise. Many Chinese firms leave home, where wages are high and trade war with the United States inhibits export, and come to Myanmar to produce for Western markets. A surge in garment export is driven by tariff-free privileges of EBA (of EU) and ASEAN free trade. As a single

¹² CMP means Cut-Make-Pack. It is a system where a garment firm receives all materials and accessories from a foreign buyer, processes them in Myanmar into finished products, exports all of them, and receives only the processing fee from the foreign buyer instead of purchasing imported materials and selling products separately. This eliminates the need to obtain foreign currency to import materials, which is an advantage in a country facing foreign currency shortage. However, there is a risk of illegally selling imported materials with no payment or taxes to domestic buyers to make money. To avoid this, the authority must make sure that the firm exported all products using imported materials.

country, Japan is the largest market but its growth is slow. The EU market grew rapidly (60%) in just one year, from \$2.17 billion in 2017 to \$4.6 billion in 2018. The Korean market is shrinking.

About a decade ago, when the Myanmar garment industry was seriously hit by Western sanctions, it turned to Asian markets. At that time, Japan cooperated with the establishment of two training centers in Yangon. The grassroots support budget of the Japanese embassy provided the equipment and METI/JETRO dispatched Japanese experts for training of trainers (TOT). Many courses were offered including industrial engineering (IE), sewing skills, quality control and maintenance of JUKI machines. As a result, 80% of the MGMA member firms achieved Japanese quality¹³, which greatly increased export to Japan in 2010. METI cooperation was followed by the assistance by the Japan Productivity Center for two years. By now, Japanese cooperation has ended. When the Western sanction was lifted, GIZ in turn began to offer Myanmar with marketing support (for participation in EU trade fairs and matching service).

The garment factory I manage specializes in the Japanese market. But I feel Japan is overly sensitive to product quality. One tiny deviation in stitching that no one notices should pose no problem in actual use, but Japanese buyers penalize it by levying charges on the entire lot. Japan should be more reasonable and ease the standard. Demanding perfection in food and medicine is understandable, but we don't need such perfection in garment. By contrast, Western buyers are more relaxed about quality. Instead, they require due compliance with labor and environment standards. Many of our member firms can achieve the Japanese quality standard, but they are turning to Western markets because Western compliance is easier than Japanese quality. The former is about proper documentation and general procedure but the latter requires attention to every product.

The EU conferred the EBA status to Myanmar in 2013, which expanded our EU market. The EU assists us with needed compliance. This includes environmental support regarding proper treatment of dyes, chemicals and disposed materials. The EU also created for us the Social Compliance Academy, whose courses are taught at one of our two TVET centers as well as at the Government Training Institute (at the level of industrial college) of the Ministry of Education. But all instructors come from MGMA, even in the latter institute. MGMA would like to cooperate more with the Ministry of Education. At universities and colleges, the textile faculty has traditionally been unpopular with students. To turn this around, MGMA is cooperating with the Ministry to establish Garment Module and Textile Module at the School of Fashion Technology, through its strong initiative and dispatch of instructors.

The revenue of MGMA consists of membership fees and license fees. These are enough to subsidize students and university professors (who take IE courses) to study for free. Our stitching course is offered 15 days per month, each class having 60-70 students. We teach not only skills but also about the labor law, workers' rights and human trafficking. IE is taught in two-month cycle with a batch of 20-25 students. Labor standards are taught twice a month with 80-90 students. Students of this course are mostly factory managers assigned for this task, so we teach this course on Saturdays.

Myanmar has no fabric or accessories fit for export garment. Chinese materials are cheap but low quality. We lack the sourcing knowledge—from where to import fabric and accessories for best quality and cost.

(Replying to our question about competition between FDI garment firms and local firms.)

¹³ It is amazing to hear that so many Myanmar firms could improve quality to Japanese standard after only two years of cooperation. The mission did not have sufficient time to verify this statement.

FDI garment firms are linked with large foreign buyers and assured of export markets, but Myanmar garment firms engage only in CMP where fabric, materials and markets are specified by individual buyers. This may be our disadvantage. Labor productivity is low in Myanmar. My impression after visiting many factories in different countries is that our labor productivity is one-third of China and half of Vietnam. But we cannot say for sure because we don't have reliable data¹⁴.

Honeys Garment Industry Ltd.

Mingaladon Industrial Park was developed 20 years ago by Mitsui Co. Ltd. (Japan) and is now owned by a Singaporean developer. We visited Honeys Garment Industry, a Japanese garment producer and retailer which operates in Mingaladon Industrial Park, for a meeting and a factory tour. Managing Director Iguchi explained as follows.

This company was established in 2012 by Honeys Holdings (Japan). We produce a large variety of ladies' garment and export 100% to Japan. Products are shipped and delivered directly from this factory to 900 retail shops in Japan. Our first factory is located in Yangon Industrial Park (Myanmar capital) nearby, having an area of 0.7ha and floor space of 6,000m², and producing ladies pants and clothes. Yangon Industrial Park provides no investor support service at all despite its name. This is our second factory in Myanmar with an area of 3ha and floor space of 15,000m², which began operation in 2015 and produces blouses, jackets, coats, pants, etc. We currently employ 2,800 workers, which can go up to 3,300 workers if we hire more part-timers¹⁵. Sewing is done on the second floor, and other processes are conducted on the first floor. We import materials duty-free from China, and export to Japan duty-free using Japan's GSP privilege.

This factory has 42 lines. One product is made by one or two lines. We have only one shift from 8:00 to 19:00. We want to increase shifts but lack Japanese supervisors (currently 4 to 5). Few young Japanese people are interested in garment business, and only old managers are available. Myanmar's garment is dominated by Chinese firms. According to the September issue of the MGMA Magazine, its members consist of 558 firms, which breaks down to China (227), Myanmar (112), Korea (64), Japan (19) and others (136). However, the total includes 89 sleeping factories. Twenty years ago in China, there were many young people working in the garment sector. Now they are in their 30s and 40s and manage many garment factories around the world including Myanmar. Chinese homeland faces labor shortage and can no longer produce garment. The garment sector in Myanmar is small in comparison with China, Bangladesh or Vietnam, but it is growing rapidly. Garment export was \$20 billion in 2018, and it may reach \$30 billion in 2019. The EU market is expanding fast, but there is a risk of EBA cancellation because of the Rakhine State problem [where suppression of the Muslim minority Rohingya is criticized by the West].

Workers are plentiful but their quality is a big problem. Even without posting any recruitment notice, about 30 people gather in front of our factory gate every morning. We interview

¹⁴ We also raised the question about the quality of labor productivity data in Myanmar. According to the Asian Productivity Organization database, Myanmar's labor productivity and its growth are as high as China, and far above the rest of ASEAN, which is hardly believable. Mme. Khin Khin Nwe was unable to explain this gap, which is natural because she is not responsible for official statistics. Another suspicion is related to sector decomposition of GDP, in which industry occupies 36% and, within that, manufacturing accounts for 25%. These numbers are consistent with mature industrial economies, but not with Myanmar whose industrialization is in an early stage. It may be that Myanmar's data quality is very low even among latecomer nations.

¹⁵ We saw a large number of sewers on the second floor, and worker density was one of the highest among all factories we visited. A special air circulation system consisting of water cooling and big fans was used because normal air-cons are not powerful enough to cool the huge space. If the factory can be expanded or a new factory can be built, it may be more comfortable for each worker to have a little more space.

and hire them as necessary. We currently have 160 part-timers, which can go up to 400 at busy times. Those who can sew well are hired as regular workers. Most sewers are females in their twenties, but we also hire males (about 5%, male workers do a better job than females). Workers are extremely short-sighted. When salary is paid on the fifth day of the month, about 150-160 workers do not show up for the next three days, and this happens every month. Employees are classified into four ranks: worker, sub-leader, leader and group leader, with each rank sub-divided into six groups (A to F). Thus there are 24 salary steps but this incentive system is not enough to retain workers. Monthly labor attrition is about 5-6%, and this is normal for any garment factories in Myanmar. Some new workers, after receiving basic training from us, go to other factories and say, "I have been trained at Honeys." However, group leaders (top-level employees) rarely quit. Middle managers are selected by internal promotion only; we do not hire them from outside. Salary is assessed and adjusted every six months.

The above is the situation of sewing workers, which are dominant in number. Workers in the cutting, inspection and packing sections do not job hop very much. Skills we teach them are specific to Honeys so moving to other factories does not benefit them. We have introduced 5S. We also want to do quality control circles (QCCs) but management is too busy coping with worker dropouts and have no time to start QCCs. We also provided uniforms but few workers wear them due to the same reason—quick worker turnover.

The internal regulation of Mingaladon Industrial Park prohibits poaching of workers, and six Japanese factories operating here do not engage in such activity. Meanwhile, Chinese factories are good at advertisement and recruit workers cleverly (without telling them negative things such as long overtime and termination after a short time). Honeys has its own brands and does everything from production to retail, so our production planning is relatively easy. Chinese firms are engaged in contract production for foreign buyers, whose orders have large ups and downs.

Myanmar's minimum wage was first instituted in 2015 at 3,600 kyat per day. It was revised in 2017 to 4,800 kyat per day. This is applied uniformly to all sectors and regions. At Honeys, salary is determined with minimum wage as the base, plus addition based on the 24 job steps mentioned above, plus various allowances including overtime, full-time attendance (30,000 kyat per month) and long service (up to 10,000 kyat per year). In Myanmar, overtime is permitted up to 20 hours per week and three hours per day (five hours on Saturday). We pay double for overtime. Worker strikes are common. Chinese and Korean factories face many strikes due to sexual harassment, working conditions and wages. There were no wildcat strikes during the past military regime or the Thein Sein government.

6. Other meetings

The mission had a dinner meeting with Professor Emeritus Masahiko Ebashi (Meiji Gakuin University). He and Kenichi Ohno participated in the JICA Ishikawa Project, a large-scale joint economic research project between Vietnam and Japan from 1995 to 2001. Professor Ebashi began to study Myanmar in 1997. He is now the Managing Director of MERAC Associates Japan, a private consultant company, and lives in Myanmar. Because of unreliability of economic data, he publishes monthly newsletters featuring Myanmar's socio-political events and analyses.

The mission also had a dinner meeting with Mr. Eiichiro Takinami (Director) and Mr. Nyana and Mr. Kaung (Researchers) of Myanmar Survey Research (MSR), a research and consultant company doing many projects for JICA and other bilateral and international organizations. MSR has 170 regular staff and 400 part-timers. MSR and MMRD, another consultant firm, are two major

research competitors in Myanmar. Prior to this mission, we received and read a report on Myanmar's automotive sector drafted by Mr. Takinami.

7. Myanmar's industrial policy: a summary

Finally, the industrial policy and situation of Myanmar can be summarized as follows.

Myanmar's industrial policy capacity is not high. Tentatively judging the quality of industrial policy from our limited information, Myanmar is in the same low rank as Vietnam and Indonesia, much lower than Myanmar and Thailand, and there is no comparison with such high policy performers as Singapore or Taiwan. The Thein Sein government of 2011-2016 was relatively fast and decisive in launching new economic initiatives, but the current government of the National League for Democracy (NLD) led by Aung San Suu Kyi is less effective in economic management. It neither leads nor controls responsible economic ministries. Without top-down instruction, it is natural that ministries engage in turf fights and protection of their authorities, leading to policy delay and incoherence. Nevertheless, according to some, the quality of economic ministers improved moderately last year. These are the situation concerning economic policy, but the main tasks of the current government are anti-military campaign, national unity and coping with foreign pressure, and by so doing enjoys general support of the people. It is unclear what political change will occur after the election next year. Diplomatically, Myanmar faces high uncertainty due to the imposition and/or lifting of sanctions by the West, and seems to balance the interests of the West and China as it proceeds. Japan would improve its international standing if it could effectively play the role of a neutral mediator between the two.

The main economic counterparts of Japan are Minister Soe Win and Vice Minister Set Aung of MOPF, and Minister Thaung Tun and Permanent Secretary Aung Naing Oo of MIFER. Japan also regularly consults with MOI, MOC and DICA. Based on information collected by the mission, the Japan Chamber of Commerce and Industry and the Myanmar-Japan Joint Initiative seem to be functioning well as policy input channels. The Parliament recently decided that MOI would be dissolved and merged with MOPF. It is reasonable to transfer the MOI's function of managing state-owned enterprises to MOPF, but the disappearance of a ministry specializing in industrial policy is a serious concern for all.

The investment climate of Myanmar is very poor. The World Bank EDB ranking is near the bottom, though there is a recent sign of improvement thanks to the enactment of a number of laws and regulations and the strengthening of DICA. Infrastructure services are also extremely poor even though there has been effort to improve them. The power supply is particularly deficient. The current capacity of 3500MW is 300-600MW short of demand, which causes frequent power failures toward the end of dry season. Domestic gas supply is also dwindling. JICA hopes to provide ODA loans to solve these problems but the Ministry of Power is so far not responding.

Myanmar's labor force is young, abundant and easy to hire. Workers are gentle and obedient, and can accomplish what is instructed. On the other hand, they lack working experience, have no comprehensive or long-term vision, and cannot plan ahead before acting. Their low technical skills and difficulty to hire middle managers are additional problems. Myanmar's worker characteristics are very different from those of Vietnamese or Ethiopians, who usually have clear ideas, think quickly and extensively, and are independent with strong ownership¹⁶. It is uncertain

¹⁶ Ethiopians and Vietnamese workers may show similar passivity at the very beginning, but they usually become

whether Myanmar characteristics will change through external stimuli, the deepening of industrialization or the passage of time. It is also hard to predict whether Myanmar can avoid a middle income trap in the future. The only thing that can be said is that, to achieve such transformation, the Myanmar government and people must make a big jump in their mindset and attitude at some future point, rather than a mere continuation of the present trend.

In Southeast Asia, people are generally very fond of Japanese society and culture. On top of that, the Myanmar government and people are meek and obedient, and readily accept Japanese advice. For these reasons, many Japanese fall in love with Myanmar and want to assist it more eagerly than other Southeast Asian countries. However, this should not become a blind love. We need to assess and advise Myanmar fairly and objectively, clearly telling the government and enterprises when their performance falls short of expected levels or breaches international codes of conduct.

more active over the years with proper guidance and incentives. However, Myanmar workers tend to remain passive even with many years of training and work experience.

Mission Schedule (Actual)

- Nov. 25 (Mon) Arrive in Yangon (Izumi Ohno: Nov. 26).
- Nov. 26 (Tue) AM: visit JICA Myanmar to meet Chief Representative Masayuki Karasawa, Senior Representative Mamoru Sakai, Project Formulation Advisor Kenji Nakano. PM: go to Thilawa SEZ to meet Thilawa SEZ Management Committee Advisors Yoichi Matsui & Akihiko Morinaga, President Tomoyasu Shimizu of Myanmar Japan Thilawa Development. Visit Suzuki Myanmar Motor Plant and meet Managing Director Keiichi Asano. Inspect Thilawa SEZ Zone A & Zone B.
- Nov. 27 (Wed) AM: meet Ms. Hiromi Takaoka, JICA intellectual property right expert, at JICA Myanmar Office. PM: meet Chief Representative Hirokazu Baba of AOTS Yangon Office. Meet General Secretary Khine Khine Nwe and Mr. Min Sue Han of Myanmar Garment Manufacturers Association. Visit Myanmar Japan Center to meet Coordinator Hidekazu Tanemura. Dinner meeting with Managing Director Masahiko Ebashi of MERAC Associates Japan (Professor Emeritus of Meiji Gakuin University).
- Nov. 28 (Thu) AM: fly from Yangon to Naypyidaw. Visit the First Ministry of Industry to meet Mr. Kan Chun (Managing Director of No.1 Heavy Industrial Enterprise), Ms. Yi Yi Kyaw (General Manager of Technological Development Development), and Ms. Myat Mon Thein (Expert). Lunch meeting with three JICA experts on legal framework support. PM: meet Permanent Secretary Aung Naing Oo of the Ministry of Investment and Foreign Economic Relations (formerly Director General of DICA and member of Myanmar Investment Commission). Exchange information with JICA Project Formulation Advisor Masanori Sunada at JICA Naypyidaw Meeting Room. Fly back to Yangon. Dinner meeting with Mr. Eiichiro Takinami (Director of Consulting Division and Japan Desk) and two Myanmar researchers of Myanmar Survey Research (MSR), a private research and consultant company.
- Nov. 29 (Fri) AM: meet Mr. Takafumi Ueda & Mr. Takahide Tahara, Advisors of DICA Japan Desk. Meet Dr. Marlar Myo Nyunt (Deputy Director General) and Mr. Khin Maung Phyu (Planning and Statistics) of DICA. Exchange information with President Takuya Ichihashi of Toyota Tsusho Myanmar. PM: visit the plant of Honeys Garment Industry, Ltd. and discuss with Managing Director Takeshi Iguchi. Meet Director Takanobu Matsuda of JETRO Yangon. Uesu and Homma return to Japan by night flight.
- Nov. 30 (Sat) Document work and city tour. Kenichi Ohno returns to Japan by night flight.
- Dec. 01 (Sun) AM: Izumi Ohno leaves Yangon for Bangkok.