The Integration of Myanmar's SMEs into Global Value Chains: Promoting Access to Finance and Developing Human Resources

By

Ei Ei Mon

THESIS

Submitted to

KDI School of Public Policy and Management

In Partial Fulfillment of the Requirements

For the Degree of

MASTER OF DEVELOPMENT POLICY

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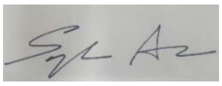
Committee in charge:

Professor Kim, Joon-Kyung, Supervisor ________________________

Professor Ahn, Sanghoon ________________________



Approval as of December, 2020

ABSTRACT

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Myanmar has been endeavoring to implement an industrialized nation from an agricultural country as the other developed nations. After the significant political transition from the Military Government to Democratic Government in 2011, the rate of FDIs investing in Myanmar is getting higher dramatically because of its economically geographic location and advantageous economic reform.

The effective way of industrialization is to support and encourage the growth of industrial based-Small and Medium Enterprises (SMEs) such as automotive parts supplier SMEs to FDI-MNCs. As the major players of the national economy, the Union Government has been providing fundamental needs of SMEs and nurturing the skilled labours required for foreign investment.

However, development is invisible significantly and they are still having multiple obstacles and challenges in receiving technologies, access to finance and market. The study comes to conclude that the agricultural-based SMEs are getting more supports rather than supportive SMEs for heavy industry. Thu, the government must encourage the growth of these types of SMEs in order to cooperate with FDI and to integrate into the global value chains (GVCs) for the industrialization of the nation rapidly.

Keywords: Industrialization, Global Value Chains, SMEs, Financing, HRD

Dedicated to my parents

ACKNOWLEDGEMENT

First of all, I would like to express my perpetual thanks to my mother who has been supporting me affectionately all the time.

I am deeply indebted to my major supervisor, Professor Kim, Joon-Kyung, the second supervisor, Professor Ahn, Sanghoon for their valuable guidance, and insightful advises and comments for thesis paper.

I feel heartfelt grateful to Dean, Associated Dean, all my professors and the staff members of KDI School. I really feel warm and secure with the intensive care of all faculty members and the dutiful staff during my stay in KDI School.

With a deep sense of gratitude, I must thank my bosom friends, senior officials and colleagues from my ministry, Ministry of Planning, Finance and Industry for their enthusiastic contribution and constant encouragement during the entire period of preparation of my thesis paper. Their help is very much appreciated.

Finally, I would like to express special thanks to the IBK organization that provided me a full scholarship to pursue the Master of Development Policy at KDI School in the Republic of Korea.

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Part I: Introduction

Along with the deepening globalization, every single country around the world has been striving to foster the economic growth itself in several ways in which industrialization is identified as the swiftest way for upraising the economic development of the nation. However, there have been multiple barriers for the developing countries with the unstable political and economic situation. As peace and development goes hand in hand, either economic prosperity or social well-being cannot be resulted without tranquillity inside the country.

Therefore, as a developing country with unstable political condition, Myanmar laid down the vision of the nation: *"to be a prosperous, peaceful and democratic Myanmar"* in the Myanmar Sustainable Development Plan (MSDP), 2018-2030 (Ministry of Planning and Finance, 2018). MSDP also supports the vision of national industrial policy: "to establish a new modern industrial nation" (Ministry of Industry, 2016).

In recent years, there has been a burgeoning interest in studying interaction between global value chains (GVCs), and small and medium enterprises (SMEs) in socio-economic development. A large body of literature on the global trade and investment has focused on the role of global value chains that can bring the certain level of economic development at all stages of every country (Rugraff & Hansan, 2011; ADB & ADBI, 2016; OECD, 2016). The foreign direct investment (FDI) resulting from the spread of GVCs has been utilized as a catalyst for promoting the state economy, and SMEs in the host countries become essential in the supporting sector of worldwide trade and investment (Rugraff & Hansan, 2011; ADB & ADBI, 2016).

According to the OECD (2016), registered enterprises in Myanmar were composed of 94% SMEs as the backbone of the national economy. It also highlighted that contribution of SMEs accounted for (52-97 %) of labour forces and (23-58 %) of GDP in the ASEAN region. Therefore, it is important to consider in much detail how to promote the partnership linkage between multi-national companies (MNCs) and local supporting SMEs with the resilient subcontracting. Hence, more research is needed in this area as well.

Although some researchers have examined that accessing loans from financial sources is one of the key barrels for SMEs (ADB & ADBI, 2016; Noorali & Gilaninia, 2017), there has been little research on how potential SMEs are able to access the long-term and affordable capital. This paper will add to our understanding of other alternative solutions: focusing on the effective credit guarantee system without pledged collateral, providing long-term loans with the low interest rate and receiving grants from the countries where a large number of FDI come to invest.

European Chamber of Commerce of Myanmar (EuroCham Myanmar) (2016) observed that automotive industry became the higher potential sector that can attract more FDI in Myanmar. Since political and economic reform in 2011, renowned automotive MNCs have been investing in Myanmar due to attractive incentives: low labour wages and production cost, favourable tax exemption and market potential in the region and world with export benefits like the General System of Preferences (GSP) and ASEAN Free Trade Agreement (AFTA).

Among the industries in the manufacturing sector, the automotive industry is the most potential industry that can highly accelerate the rapid industrial transformation of a nation. While Rugraff & Hansan (2011) has claimed that the local SMEs manufacturing and supplying the parts and components to MNCs have to be ready with a certain level of technology and skill to attract the automotive MNCs, it has not considered how the government should develop sound policies to encourage collaboration between MNCs and supporting SMEs. Thus my research builds on existing work by proposing some recommendations based on ratified laws and policies.

As the Union Government of Myanmar recognized the role of SMEs in 2011, the government has been providing the requirements of SMEs up to present; dissimilation of information, technologies transfer, raising awareness, access to finance and market etc. according to the SME Development Law, Policy and Rule. In order to expand their investment, the nation has been providing the different types of loans with the relevant interest rates, payment duration through the local private banks. However it cannot cover the financial need of SMEs operating across the country.

If the nation nurtures and provides these supporting SMEs, they will be ready for networking between FDIs in Automotive Industry. Moreover, they can take several advantages from their cooperation such as access the specific advanced technologies, skilled labour, business management and market outlets not only taking places in domestic but also entering into the GVCs. Consequently they could expand their productivity to the large industries that can manufacture and export the capital goods and final goods in the future. To support such kind of supporting industries is already mentioned in the Industrial Policy 2016 and Automotive Policy 2019. From this point, Myanmar can implement its vision, "to establish a new modern industrial nation" in the short period with the great momentum.

Objectives of the Study

The main purpose of this paper is to highlight why integrating SMEs into global value chains is prevalent for accelerating national industrialization process. This paper seeks to show that the support of government can foster integrating SMEs into GVCs by providing finance and promoting skilled labour market through the industrial policy and other related policies and law. Given the above broad purpose, the study has the following specific objectives:

1) To investigate the correlation between engaging GVCs and industrial transformation;
2) To assess the government support in terms of the financial support to SMEs and HRD promotion to attract FDI;
3) To propose the policy recommendations on the future FDI-SMEs linkage.

Research Questions

Considering the above objectives of the research, the study will attempt to answer the following research questions:

1) How effective is the Industrial Policy of Myanmar for integrating Myanmar's SMEs into GVCs?
2) To what extent are the government's SMEs financing and HRD promotion programme adequate and supportive?
3) What measures should the government undertake to provide support for SMEs to enter into the GVCs?

Methods and Structure of the Thesis

This paper mainly depends on the literature reviews and case studies. Although data availability is limited from the database of union government, necessary data will be collected from Ministry of Panning, Finance and Industry (MOPFI), Ministry of Investment and Foreign Economic Relations (MIFER), Ministry of Education (MOE), Ministry of Labour, Immigration and Population (MOLIP) of Myanmar and various research reports for Myanmar economy. The other additional data and information will be collected from the scholar articles and official reports of international organizations.

The remainder of this paper is organized as follows: Chapter 1 provides the review of literature on integrating SMEs into global value chains. Chapter 2 examines the correlation between industrialization and foreign direct investment. Chapter 3 analyses the automotive industries in Myanmar, Vietnam and Thailand. Chapter 4 observes the current situation of SMEs financing programme by the government. Then Chapter 5 focuses on TVET programme of the government for HR development. Finally, conclusion and recommendations will be discussed for the better financing programmes for SMEs and HRD, and some alternative suggestions will be added for the future industrial policy.

Part II: Research and Findings

CHAPTER (1): Review of the Literature

1.1. Objective

The objective of this section is to provide an overview of the main underlying theories and literature concerning the contribution of SMEs to industrial transformation through coordinating SMEs and FDI and integrating in the GVCs. There are many academic journal, articles, and books written on these areas of promotion of SMEs Development and the correlation between domestic SMEs and FDI to flow into the global market.

1.2. Literature Review

Along with the globalization, the GVCs have developed as the significant features of the global economy that can bring the certain level of economic development of at any stage of a country that is underdeveloped or advanced. Throughout this paper, the term “global value chains- GVCs will be used frequently. In defining “global value chains,” it is suitable to refer to the definition stated in the handbook reported by the United Nations Statistical Commission [UNStats] (2018). The handbook defined global value chains as the interlinked core production activities and supporting services activities between lead firms and specialized supplier firms to produce the final products in the market or deliver to the third countries (UNStats, 2018, para.1-2). According to the World Bank (2020), global value chains (GVCs) refer to international fragmentations of production which can lead to increased job creation and economic growth by participating in these supply chains.

What is the effect on the regional and global trade alongside the spread of globalization? There is a growing body of literature that examines the benefits of integrating Asian countries into the global value chains. Some of them find a positive relationship between foreign direct investment (FDI) and the favourable market impetuses through collaborating multinational companies (MNCs) with local firms including small and medium enterprises (SMEs) (e.g., ADB, 2015; ADB & ADBI, 2016; OECD-UNIDO, 2019; Pomfret & Sourdin, 2014; UN, 2011; Ruraff & Hansan, 2011).

Among them, a large number of researchers make the sound points focusing on some economic developed countries in the Asian and ASEAN region where the local firms have been attaining the best experiences and successful practices by participating in the international market in the form of MNCs-SME linkage through a system of protection and local content rule imposed by the government (ADB & ADBI, 2016 in Singapore and Taipei; see also TAF, 2000 as cited in Ruraff & Hansan, 2011 in Indonesia; ADB, 2015 in Thailand).

Local firms including SMEs are able to receive manifold opportunities by participating in value chains such as learning the sound management system for organization, business plan and financial statement, getting exposure to large customers and buyers, and having experiences by learning these firms, and engaging and thriving in the competitive global market (Pomfret & Sourdin, 2014; see also UN, 2011). On the contrary, OECD-UNIDO report (2019) evaluated that number of challenges are also introducing to SMEs in globalization and liberalization (cf. Pomfret & Sourdin, 2014; see also UN, 2011). Despite many new opportunities, the report claimed that numerous challenges are also introducing to SMEs in globalization and liberalization in trading between the countries and a limited number of SMEs is able to gain the benefits reflected from GVCs. However, it proposed the proper suggestions to confront these challenges and to fill the gap in policy implementation to address the competitiveness problems between local firms and MNCs.

In spite of having a good insight about the success stories of developed ASEAN countries participating in GVCs, IDE and MORIHARA (2012) show that the Vietnamese Government needs the sound management strategy and effective policies to cope with increasing competitiveness between local firms and MNCs (as cited in Ichida, 2015, p.82; see also Ha Thanh, 2020) whereas ADB (2015) casts light on Thailand which has successfully shaped its national economy form an agricultural-based country to the successful export-oriented manufacturing country by integrating the key manufacturing sectors into the regional value chain.

So far this paper has focused on the opportunities of engaging SMEs with global value chains. The following section will now proceed to investigate the challenges in finance that the SMEs in most developing countries have been facing over time. While there is a rich body of scholarship analysing the obstacles of SMEs to access the financial services for their growth and development (ADB & ADBI, 2016; Kayteyn & Saw, 2016; Beck & Cull 2014; World Bank, 2018, Noorali & Gilaninia, 2017), the OECD-UNIDO (2019) shows a number of gaps regarding financial assistance to SMEs in the survey.

Nevertheless, some scholars tried to address the obstacles of getting loans from financial sources in the developing countries (see ADB & ADBI, 2016; Kayteyn & Saw, 2016). One general finding in these studies is that there have been the prominent hurdles for the SMEs such as insufficient amount of credits provided by the government and poor coverage to all SMEs in the country, which can induce underperforming and impeding the growth rate of SMEs in these countries. In addition, a couple of studies have observed the other financial issues such as high interest rate, short duration of payment and very strict principles on collateral evidence imposed by the banks (Beck & Cull 2014; World Bank, 2018). However, there is very limited literature examining the sound banking system that should be restructured by the commercial banks (but see ADB and ADBI, 2016; Noorali & Gilaninia, 2017).

The World Bank report (2018) suggested that Myanmar and Cambodia should adopt an efficient and inclusive financial system which can strongly support the building and sustaining a market economy, and ensuring socioeconomic development in those countries. Furthermore, the report has pointed out that Myanmar should focus on creating resilient financial reform agenda urgently that can facilitate the participation of the country in the global trade and investment.

Having discussed the prevalence of providing finance to the SMEs for partnering with FDI's MNCs to engage with GVCs, this section will now evaluate the human resource development to draw the attention of FDI to invest in the country. Before looking at raising the high competency and the skilled labour market, this section will identify the requirements of local SMEs to be ready with a certain level of technology to attract the foreign investment.

Scott-Kennel and Enderwick (2004) as cited in Rugraff and Hansan (2011) underlined that SMEs are lack of awareness to access the explicit technologies they should request from the international cooperation and to apply them efficiently in their operations. In addition, the study further argued that the government is the key player of transferring technical know-how by imposing the favourable investment policy and law, but the governmental and institutional provision to local firms have very limited awareness, knowledge and marketing strategies regarding technology transferring and global trading.

Let us now turn to discuss the prominence of human resources development (HRD) and skilled labour market to draw attention of MNCs. The important strand of literature relates to how the country transforms into a higher capital, knowledge and skill-intensive host for attracting FDI (see World Bank, 2018; OECD-UNIDO, 2019). They observed that the capacity building of institution including staff capacity and nurturing the high competency technicians and labourers are related the supporting programmes of the government. There is still lacuna of research on the recommendations of policies enforcement for the strong linkage of foreign investors and local SMEs suppliers that are low in skill and technology, and weak in finance.

Having discussed the above literature, it can be summarized that the integration of SME suppliers into the global value chains (GVCs) can accelerate the socio-economic development and industrial transformation process of a nation to the greatest extent where the policy implications of the government plays the pivotal role to deal with the challenges facing by SMES and to sieve the upcoming opportunities from the global market through promoting SME-MNC linkage reflecting from the foreign investment.

CHAPTER (2)

Correlation between Industrialization and Foreign Direct Investment in Myanmar

When a nation marches towards the development, there are aggregate numbers of factors to be considered from all aspects. Among them, the structural transformation of the nation plays a vital role in the rapid development. Obviously, shifting from an agrarian economy to an industrial economy is the most crucial factor for both least developing countries and developing countries (Delli Gatti et al. 2012a, 2012b as cited in Carlos Rogelio, 2019). However, Stiglitz (2017) states that shift from an agriculture-based country to an industrialized country is literally difficult to take place shortly because of the association with urbanization in which existing majority of population living in rural have to be moved to civil. So, in that case, the heavy investment in their skills is truly necessary to fulfill the requirements of different industries in urbanization.

Myanmar also survives as an agricultural country for centuries according to the geographical condition and wide coverage area of arable land across the country. In spite of abundance of natural resources and fertilized soil, they have been depleting and retreating from time to time due to the climate change and humanoid impacts. Today, 70% of Myanmar population is living in rural areas and highly depends on the agricultural sector directly and indirectly. As long as depending on agriculture and other agro-related agribusinesses, the country may be lagging behind the other developing countries even in the ASEAN region and it is also still away from the hasty development in this globalization era. Thus, Myanmar has been trying to build an industrialized country from a current agricultural country for a couple of decades. However, it has been low significant improvement in this transitional period due to several conditions including fragile political situations.

This chapter explains the overview of the correlation between Industrial Policy and Foreign Direct Investment through describing some important points of Industrial Policy in Myanmar and enforcement of the consecutive governments on FDI from 2011-12 to 2018-19 financial year and lastly, recommending the supporting SMEs in automotive industry to cooperate with FDI to enter into the global market shortly.

2.1. Overview on Industrial Policy and Foreign Direct Investment in Myanmar

In bringing the development within targeted period, every developing country has a specific attention in setting the development policies for the national economy. However, their interest on the development is depending on the international and domestic context of the country. For instance, industrialization of South Korea initiated with legitimization for its military government as the political situation in the regime of President Park Chung Hee (Minns & Shaw, 2006, as cited in Carlos Rogelio, 2019). Later on, President Park changed the way to heavy and chemical industrialization by combining the support of partner countries and inviting the foreign investment into the country. When the heavy and chemical-based industries were promoted to family enterprises (*Chaebols*) with sound policies, South Korea could implement its successful industrialization only in nineteen years (1970-1989).

Hence, one of the key features of a successful developmental state is its autonomy to meet the targeted policy objectives of the country (Minns & Shaw, 2006, as cited in Carlos Rogelio, 2019). In the case of Korea, policy relating industrialization and economic development can be seen together. Thus, the national economy of Korea was mainly controlled by the state in "Developmental State" model. According to the National Statistical Office, Korea transformed the nation from an agricultural-based to a heavy and chemical-based country with significantly decreasing the agricultural share of GDP from 63.0% (1963) to 4.5% (2019) (J. K. Kim, personal communication, February 22, 2020).

In the rehabilitation period for its economy, Korea invited FDI to invest in the country and technical transfer from them to the youths including farmers from the rural. Therefore, FDI can be observed as a crucial role in struggling for the economic development of the developing countries. FDI can provide a local firm with new marketing channels, cheaper production facilities, and access to new technology, skills and finance, organizational management skills. All these benefits can provide a strong impetus to economic development of the nation.

2.2. Review of Myanmar's Industrial Policy 2016

According to the Industrial Policy of Myanmar published on March, 2016, some prominent points will be briefly highlighted that are likely to be supportive and effective in the industrialization processes of the country. In comparison with the countries in the world, Myanmar stands at the 40th largest country with total area of (261,228) square kilometre and the 26th densest country in the population of (54,409,800) (Worldometers, 2020). Moreover, Myanmar possesses manifold strengths and opportunities in terms of geography: locating in the strategic place between the ASEAN region and East Asia region, bordering the populous countries like China, India, Thailand and Bangladesh and also Laos PDR and having the long coastal line with Bay of Bengal in the west and Andaman Sea in the South. All these strengths favour the country by creating a wide market for the populous neighbouring countries and smooth trade with the deep sea ports (Ministry of Industry, 2016).

Based on these opportunities, Myanmar endeavoured to transform the nation to the industrial base by endorsing very first Industrial Policy of the nation in February, 2016. The policy is mainly aiming at leveraging the national economy shortly by fostering the more contribution of industrial sector in the national GDP. Therefore the government targets to improve the GDP Growth Rate in (7-9%) yearly with the improvement of (5-6%) contribution of industrial sector in 2030-31. Before promulgating the Industrial Policy in 2013-14, the industrial sector contributed only (33%) to the national GDP so it is aimed for (37%) in 2030-31(Ministry of Industry, 2016). According to Central Intelligence Agency (2017), Estimated GDP composition by the major sectors of Myanmar was (24.1%) in agriculture, (35.6%) in industry and (40.3%) in services sector.

Similarly, among the 12-points economic policies of the Union of Myanmar published in August 2016, the Union Government emphasized the industrial development through two points: “(a) Establishing an economic model that balances agriculture and industry, and supports the holistic development of the agriculture, livestock and industrial sectors and (b) Asserting the right of individuals to freely pursue the economic opportunities they choose, so as to enable private sector growth in line with a market economy system; formulating specific policies to increase foreign investment” (Government of Myanmar, 2016).

In 2015 before Industrial Policy was drawn, the rank of doing business in Myanmar was 167 out of 189 countries according to the 2016 Work Bank Report. That situation forced the country to reform its economy in order to attract the attention of foreign investors. Thus, the Union Government laid down the following four reform strategies: *Political reform, Economic and social reform, Administrative reform and Reforming for Private Sector Development* as soon as taking the inauguration of new democratic government in 2011.

What a more, it was recognized that only the growth of industrial sector was the core of economic development of the country. Therefore in February 2016, the Union Government adopted the Industrial Policy with the rigorous vision, *"to establish a new modem industrial nation"* in accordance with the vision of the state *"to establish a new peaceful and modem developed democratic nation"* (Ministry of Industry, 2016).

Generally, although agriculture is known as the vital vein of the nation, it is quite weak in producing the value-added agricultural products. It is one of the major issues in the development of industrial sector including the other issues: difficult to enter into the supply chain with lack of market penetration strategy, degraded and inadequate infrastructure, insufficient research, weak development in human resources and very poor in monitoring and evaluating the enacted rules and regulations.

According to Industrial Law (1990), manufacturing sector is comprising of (13) types of major industries with (41) sub-industries and detail list will be appeared as **Table (2.1)** in **Appendix (A)**. Among these industries, (7) types of products namely garment processed goods, plastic products, export of fisheries and prawns, electrical devices, auto parts and slippers have not only strong points but also weak points in manufacturing and marketing.

In this paper, the automotive parts supplying industries will be focused as the most fundamental industry bringing swift industrialization and joining to the supply chains. According to the industrial policy, the auto parts industries are the potential businesses to be improved in more developed transport than before. However, high transport costs, inadequate electricity, infrastructures, lack of skilled workers, to join to the global market are the weak points of this industry to be addressed. Regarding the auto part industries, their requirements and supporting programmes mentioned in the policy will be discussed under the final subtitle of this chapter, *"Import of Capital Goods in Myanmar."*

According to the Industrial Policy, six development fields will be supported intensively in order to achieve the goals of the policy. They are the fields of development for human resources, technology and innovation, financing, infrastructure, market expansion and tax and procedure relief. For the human resources development, conducting industrial trainings and workshops with foreign experts; establishing National Productivity Centre and arranging to nurture skilled labour at vocational schools will be undertaken in cooperation with the relevant Ministry, Non-Government Organizations (NGOs) and business organizations. In promoting technology and innovations, arranging for the development of production technology and quality control system through FDI; conducting technology transferring training for value-added product and providing financial assistance for the development of research.

To provide the financial assistance, special funds and business funds shall be raised by the government and all stakeholders concerning with the businesses. Meanwhile, foreign investment based on the advanced technology shall be invited in order to transfer their technologies through getting foreign aids, grants and loans from respective developed countries. All the financial assistance will be led by the Union Government in cooperation with local and foreign organizations. They have to encourage the banks which support industries by developing credit guarantee system and credit rating system. The potential industries shall be prioritized to support loans by the State policy (Ministry of Industry, 2016).

At the same time, for the promotion of market expansion, the relevant departments and organizations will be negotiated for giving awareness of international trade regulations, assisting the industries to enter into GVCs by manufacturing standardized products in cooperation with MNCs, holding the local and foreign Trade Expos and Business Matching, supporting finance for the advertisement of trade mark of Myanmar and coordinating to decrease the undesirable barriers in international trade.

The notices, procedures and instructions shall be applied for the measures for sustainable industrial development and the minimum environmental impact shall be followed for the implementation of policy effectively. This industrial policy is designed to enforce the national GDP and to enter into the GVCs with right existence and trend. However, a sustainable development of industrial sector must be performed together with the private sector development by revising some objectives and policies according to the changing economic development and requirements of the current situation (Ministry of Industry, 2016).

2.3. Promoting the Foreign Direct Investment in Myanmar (2011-2019)

Myanmar has started to realize that only FDI support effectively for economic growth in the relatively short period since last two decades. Therefore, the nation-wide resources were considered as the fundamental elements in attracting the foreign investment into the country. This MSDP seeks to boost both the quantity and quality of jobs in the economy. Accordingly, the strategies under Goal (3) are formulated with the recognition that the government has a critical role to play in improving the enabling environment in order to stimulate foreign and domestic investment, increasing access to finance, strengthening existing partnerships, and forging new linkages with the global and regional communities(Ministry of Planning and Finance, 2018).

Similar to some of the ASEAN States, Myanmar can be able to offer the investment environments in terms of plentiful cheap labour, natural resources and investment friendly policies (Cho et al., 2015). Myanmar is not only geographically located between two populated countries; China and India but also shares the Bay of Bengal with India. Since these factors favour the country as a highly potential country in trading, many multinational companies are keeping eyes on Myanmar to extend their investment. Based on these blessing factors, three consecutive governments have been reforming and promulgating the laws and policies that are able to promote foreign direct investment for over three decades. The implementation activities related to FDI promotion by a military government and two civilian governments can be seen as follows:

2.3.1 Initiatives for FDIs (Military-ruled Regime)

During the military–ruled regime between 1988 and 2011, the army-led government introduced the market-oriented system to attract the foreign investment in the country with five economic objectives by expanding the private sector and allowing the foreign investment. In spite of strengthening the tie of economic relation with China and India in the military coup in that period, many developed countries including the U.S.A, Canada and European Union (EU) imposed the investment and trade sanctions on Myanmar due to the violent suppression of frequent democratic demonstration (Turnell, 2006). Thus, the amount of foreign investment could not reach the level projected by the government despite amending the Foreign Investment Law (FIL) in 1988.

2.3.2. Economic Reform on Foreign Direct Investment (2011-2016)

After the military coup for 23 years, the first military- transformed civilian government came to power through the so-called democratic election in 2011. The government begun the transition of the country by initiating four reforms including economy aiming at attracting foreign investment and reintegrating into the global chains. The economic policy reforms included foreign currency exchange rate, the Foreign Investment Law (FIL) and taxation on import/export. Due to the signs of liberalization, the US and EU resumed the ties in terms of politics and economics to Myanmar. Meanwhile, the government promoted foreign direct investment by updating the previous foreign investment law (FIL) in Myanmar in 2012 as well as taking reform measures for the more attractive investor-friendly-environment.

According to the FIL, foreign investors can carry out not only 100 percentage investment on the businesses permitted by the Myanmar Investment Commission and able to lease the land to build up their businesses (Myanmar Investment Commission, 2012). As a result of economic liberalization, GDP growth rate surged to (5.591%) in 2011 and (8.426%) in 2013 (World Bank, Annual GDP Growth, 2020). Myanmar achieved the highest GDP growth rate throughout Southeast Asia in the year, 2013.

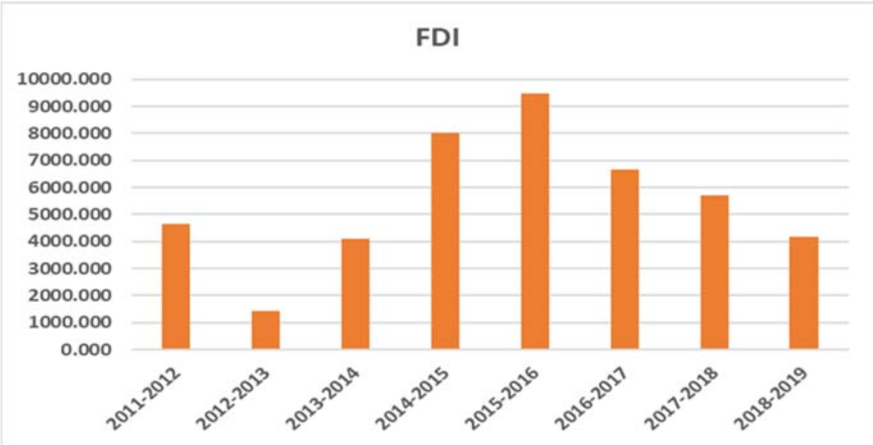
2.3.3. The Present Foreign Direct Investment in Myanmar (2016-2019)

In 2016, the civilian democratic government took the office through the landslide victory in the 2015 Election. The new government continues encouraging inclusive socio-economic development in the great momentum through the resilient plans and sound policy. Initially it released the 12 points Economic Policy in 2016 to forester the economic growth by focusing on the private sector development. In October 2016, the new Myanmar Investment Law (MIL) was promulgated by merging Foreign Investment Law (FIL- 2012) and Myanmar Citizen Law (MCL-2013) in order to render the equivalent incentives and rights in doing business in Myanmar (Myanmar Investment Commission, 2016).

According to the Foreign Investment Law (FIL), Rule and Policy along with the Myanmar Companies Art, the fluctuation of foreign direct investment of (50) countries in Myanmar can be reviewed by year and by sector during two consecutive democratic governments between

2011-12 FY and 2018-2019 FY in the following figures. **Appendix (B)** shows the Table of detail amount of investments of (50) countries by year between 2011 and 2019 **(Table 2.2)**.

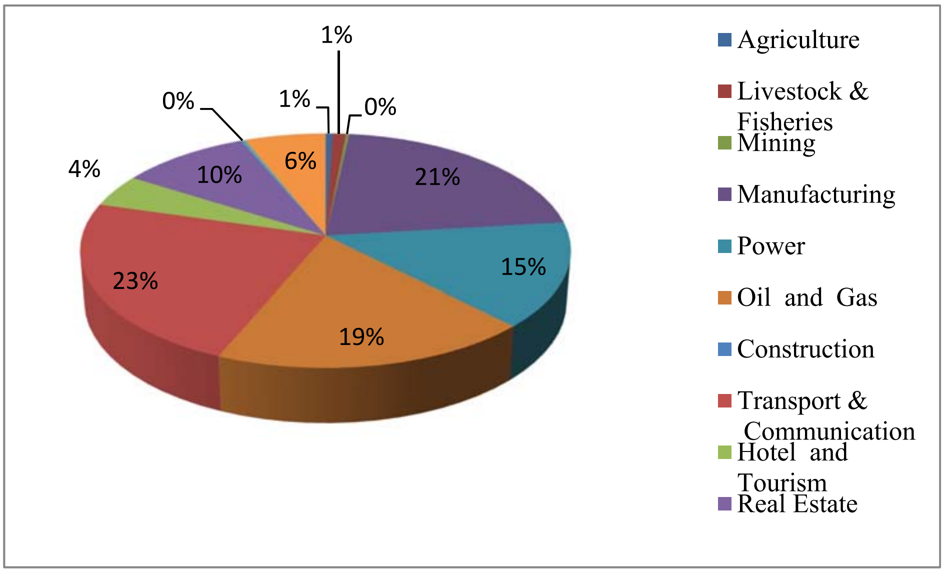
Figure (2.1a) Yearly approved amount of foreign investment of 50-countries (2011-12 FY to 2018-2019 FY)



Source: the Directorate of Investment and Company Administration (DICA)

According to the figures, the yearly approved amount of foreign investment during eight years (2011 to 2019), the invested amount by foreign countries hit the highest with (9486.123) million MMK in 2015-16 fiscal year. China was perceived as the largest foreign investor with the amount of USD (4345.728) million MMK in 2011-12 fiscal year. However, Singapore has been investing in the highest amount from 2012-13 to 2019, totally USD (20385.480) million MMK (44.46 % of total investment in Myanmar) followed by China (USD 11286.048 million MMK, 24.56%) (DICA, 2020). The FDI pattern appears to have been seriously affected by the sanctions imposed to the country. Massive political, social and economic reforms are aimed at reintegrating into the world economy after economic stability of the country.

Figure (2.1b) Yearly approved amount percentage of foreign investment by sector (2011-12 FY to 2018-19 FY)



Source: the Directorate of Investment and Company Administration (DICA)

Over time, it is found that the structure of the economy has changed. Regarding above **figure 2.1 (a)** and **(b)**, Manufacturing, Power, Oil & Gas and Transport & communication sectors contribution to investment rose dramatically in the same period. The pie shows that agriculture sector less attract to investor despite an agricultural country. Therefore the government has been leveraging theses potential sectors to draw great attention of FDI. **Table (2.3)** of detail amount of investment by sector will be found in **Appendix (C).**

The growth of real investment in the financial year 2015-2016 was the highest amount of FDI. After 2016, level of foreign investment has been gradually declining due to the political instability with re-emergence of domestic insurgences of the ethnic armed forces and conflicts between the different religions year by year. According these situations, the powerful countries like USA and EU are considering to withdraw the General System of Preference (GPS) and to impose the economic sanctions for a second time on Myanmar. Therefore, foreign investors have been thinking to proceed their businesses and to invest more currently.

2.4. Import of Capital Goods in Myanmar

Today, Myanmar has been facing the hindrances in social and economic development due to the political fragility. However, it can be anticipated that socio-economic development will be built very soon after reconsolidation of national peace and stability. Meanwhile, the state should grip the opportunities from the current economic circumstances. Myanmar should take South Korea the best example of Industrialization with import-substitution and export-oriented system by combining with FDI.

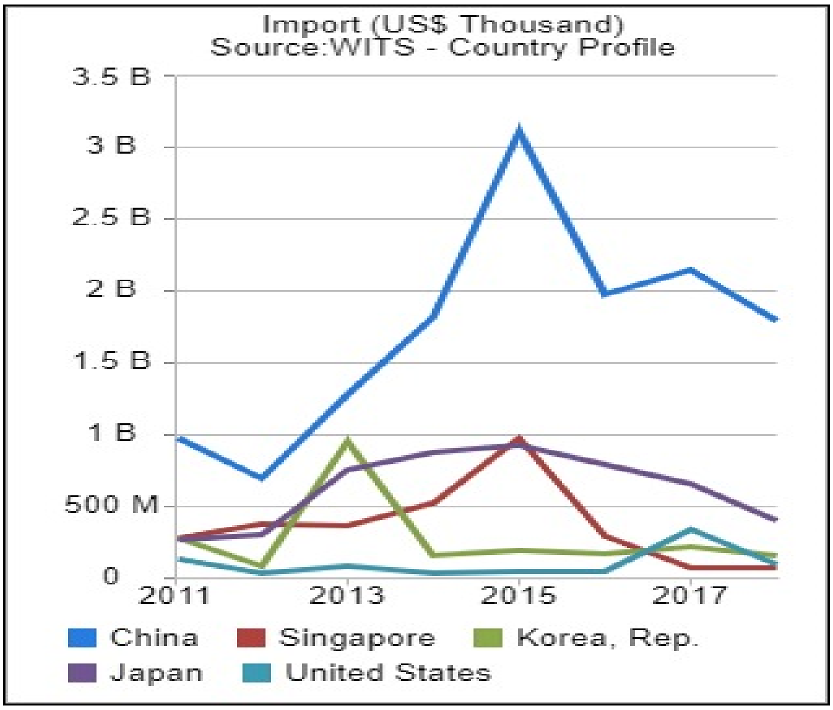
In the case of Korea, the country invited the foreign companies for investment from which advanced technologies were transferred as well as the government also nurtured the skillful workers and mechanics through the vocational trainings all over the country. As a result Korea reformed national economy from agrarian to industrial country very rapidly. For instance, to develop the automotive industry, Korea government adopted the Automotive Industry Promotion Policy in 1962. According to this policy, automotive multinational companies were allowed to invest in Korea only by the joint-venture with local automotive companies and import of vehicles and parts was restricted to foster the localization. This export-led policy forced the local automakers from the normal car-assemblers to the global players.

Nowadays, Korea becomes one of the top countries successfully producing and exporting the branded automobiles and automotive parts comprising components and spare parts (Pichnorak and Vouchneng, 2013). Likewise, Thailand and Vietnam, some developing ASEAN States, have been building their nation to be industrialized with the support of FDI: cooperation with MNCs. Regarding the development of automotive industry and penetrating into the global value chains in these two countries, the following chapter (3) will explain in compared with the existing situation of automotive industry in Myanmar.

According to the findings, Myanmar is quite difficult in capitalization to build up the heavy industries like automotive industry shortly as in the above-mentioned developing countries: Korea, Thailand and Vietnam. Therefore, it is evidence that cooperation of MNCs and supporting SMEs are the swiftest ways to improve local production, import-substitution and export-orientation of the economic development of the country.

According to the Industrial Policy 2016, automobile parts manufacturing industry was medium-term prioritized industry to be developed through encouraging local and foreign investments. During the regimes of two successive civilian governments from 2011 to 2019, (189) countries imported capital goods to Myanmar and **Table (2.4)** of top (10) countries will be shown in **Appendix (D)**. According to the World Bank Trade Data (2020), China, Singapore, Korea, Japan and US, and China are top five countries that always take the first importer of Myanmar along the years.

Figure (2.2) Capital Goods Import to Myanmar (By Country) (2011-2019)



Source: World Bank: World Integrated Trade Solution (WITS)

Therefore, in order to leverage the Automotive Industry development, the government of Myanmar adopted the Auto Policy in 2019 aiming at reducing import-substitute capital goods. By matching with MNC’s FDI in manufacturing the designated parts and components, current situation of capital deficiency can be addressed temporarily before the government is not able to largely subsidize supporting SMEs. However, it is critical for the domestic SMEs and workers to have the considerable level of skills and knowledge that the partners MNCs anticipate.

When business matching has been performed successfully between local SMEs and MNCs, manifold advantages such as advanced modern technologies, experiences on applying the modernized machines, managerial skills on organization and operation procedures, financial statements and access to market outlet to regional and global value chains (GVCs) will be incurred. Stating from these benefits, supporting SMEs can transformed to medium and large ones by combining the financial support in near future. As a result, manufacturing industrial sector will be developed and an industrialized modern nation would be emerged in explicit shape within decade.

CHAPTER (3)

Analysis of Automotive Industry in Myanmar, Vietnam and Thailand

Myanmar would not be able to sustain the national economy as an agricultural country as long as severe climate change and deteriorate environmental impact. On the other hand, the oil and gas sector is currently the third largest industry interested by the foreign investors, especially the strong economic developed countries leading China. However, natural resources such as oil and gas, minerals could not be expected to be long term existing and they would be depleted shortly due to the excessive exploitation for the sake of economic advantages. Therefore, the state has to strictly take control of the reservation of natural resources not to damage excessively although it plays the role in attracting foreign investment. At the same time, the other potential sectors such as manufacturing sector should be promoted by fulfilling the infrastructures and fundamental requirements to create the conducive environment for investors.

According to 1990 Industrial law of Ministry of Planning, finance and Industry, (56.9 %) of registered manufacturing industries are food and beverages enterprises based on agricultural products in 2018-2019 fiscal year **(Table 3.1 in Appendix-E)**. From the aspect of foreign investment, however, most manufacturing subsectors attracting MNCs are assembling of automotive parts, electronics, producing of machinery and spare-parts, building materials, food processing and beverages and making furniture, etc. In spite of much influencing by the garment and textile industries in the manufacturing sector, the automotive industry becomes a more interesting sector for foreign investors alongside favourable tax exemption of economic reform, lifting the sanctions of the international community, high potential market outlets in the region and globe, high human resources and low wages, and cheap production cost etc. (EuroCham Myanmar, 2016).

These days, the automotive industry is realized as the backbone of the industrialization approach of developing countries because it can fetch the multiplier effect of industrialization. The huge number of jobs opportunities would be created in the supplier network including the raw materials suppliers, auto-parts and components manufacturers, after-sales services providers. What the other more, these local suppliers have become parts of the world supply chain and the host countries also become the providers of some components for the world. That shall improve the significant amount of national GDP, production of import-substitute products and export volume by inviting automotive MNCs to invest in the country and participating in GVCs in cooperation between domestic supporting SMEs.

In this chapter, I will briefly explain the overview of automotive industry in Myanmar by focusing on the two civilian governments' regimes from 2011 to 2019. Then I will continue reviewing the recently published Automotive Policy of Myanmar 2019, future opportunities for supporting SMEs in automotive industry and analysis on the automotive industries of Vietnam and Thailand as the best lessons to learn for Myanmar.

3.1. Automotive Industry in Myanmar

In the past regimes before civilian governments, the former governments controlled the import of the new automobiles so the senior-level officers and the handful amount of elites attained such kind of opportunities. Normal civilians with high income were able to purchase only used luxury cars imported from Japan such as Toyota brand. After the inauguration of the elected new civilian government in 2011, it initiated the old car replacement plan for the sake of safety and environmental pollution control. According to the plan, the old cars were replaced with the new modern cars by allowing the import permits in 2012. For the citizens who had difficulties to import the modern cars, they were allowed to buy the new ones at authorized car showrooms across the country. Thus, the international car showroom business has been taken place in Myanmar, especially at the commercial city "Yangon" and other major cities.

Since those days, many international motor companies have been coming to Myanmar to play their roles and take opportunities in the free market economy of the country. Along with relaxation of foreign investment rules and the amendment of foreign investment law, the automotive industry has become the higher potential industry and it can take the nation to a new modern industrial nation. As the economy opens up, many international automotive manufacturers are coming dramatically into Myanmar to launch their brands. Toyota, Honda, Nissan, Suzuki and Mitsubishi from Japan, TATA from India, Ford from the U.S.A, KIA and Hyundai from South Korea, Daimler AG and BMW from Germany are pioneers to invest in Myanmar after economic reform in 2011. Some MNCs initiated their steps in the country in cooperation with domestic partners in negotiated share ration under the Foreign Investment Law. For instance, Toyota Tsuho Corporation owns 75% and its Myanmar partner Aye & Sons holds 25% share while Suzuki established its factory with 100% investment in Thilawa Special Economic Zone in Yangon, the commercial city of Myanmar.

However, most automotive companies have just opened the showrooms and service centres in order to sell their imported vehicles and fulfill the after sale services such as selling their imported spare parts and components from their own factory. They have been importing CBU (Complete Built-Up), assembling the imported parts in SKD (Semi Knocked-Down) and CKD (Complete Knocked-Down) system, then, localization and exporting worldwide. Despite relying on the local market, they mainly intend to export to the ASEAN region and the AFTA agreement signed countries with (0-5%) tariff free as well as to the world.

Myanmar has the large number of human resources that favour the high labour force, cheap wages and low production costs compared to the neighbouring countries and strategic location as the hub for automotive production to penetrate into the global market in the future. Therefore, multi-national automotive manufacturing companies has foreseen that Myanmar's automotive industry is the prosperous manufacturing industry of Myanmar, so they have been heavily investing in this potential sector (IPSOS, 2013). Although these firms started their operations with showrooms and service centres, some firms locally assembled the imported parts in SKD system and sold their vehicles in the local market aligned with the principles of Ministry of Planning, Finance and Industry before publishing the Automotive Policy 2019.

According to the Ministry of Planning, Finance and Industry, the current manufacturing companies based on SKD system are (15) companies which have been joint-ventured with the local automotive companies by assembling the parts imported from their based countries. They have been producing the renowned brands such as Ford, Borgward, Suzuki, Isuzu, Toyata, Nissan, Kia, Hyundai, Daewoo, Ssang Yong, etc. since 2012. As one company starts operating the CKD system and another three companies are under projects, the total number of manufacturing automotive companies are (19) involving (10) citizen-owns, (5) foreign-owns and (4) Joint-ventures up 2019. The detail list of companies' names and their produced brands will be appeared as **Table (3.2)** in **Appendix (F)**. The following **Table (3.3)** shows the current foreign-owned and JV automobile companies by country.

Table (3.3) Current Foreign-owned and Joint-Venture Automobile Manufacturing Companies (By Country) (2011-2019)

China	3	Foreign (1), JV(2)
Korea	2	Foreign(1), JV(1)
Japan	3	Foreign(3)
USA	1	JV
Total	**9**	

Source: Ministry of Planning, Finance and Industry

In Myanmar, there is very limited spare parts production so it relies on the imported spare parts and components since the days of using the used cars and old model vehicles. The reasons why are mainly insufficient capitalisms, inadequate infrastructures, lack of modern technology and very low numbers of skillful workers. Therefore development of SMEs in the automotive supportive sector has been left behind than other manufacturing sectors. Regarding the financial access of SMEs, the following Chapter (4) will briefly examine the lending programmes supporting to the SMEs. Then, Chapter (5) studies the training programmes of the government to nurture the skillful technicians for the automotive sector.

3.2. Automotive Policy of Myanmar (2019)

According to the Ministry of Planning, Finance and Industry, the emergence of Automotive Policy can be overviewed generally. The number of vehicles has been significantly climbing due to the liberalization of automobile importation in 2012. Whereas the numbers of vehicles were counted as (365000) units in 2011, it increased to (721324) units of approximately (15) units per (1000) people as for the statistics up to 2016 January (MOPFI, 2019). Consequently, more internationally renowned brand automobiles have been introducing with the increased demand of the country. Thus, appropriate control measures need to be set up for handling the business expansions of MNCs. Along with accumulative investments in the automotive industry, the other auto-related businesses such as the supply of raw materials, machineries and parts manufacturing, and distribution, after sales service, and insurance and finance institutes would develop and emerge as the domestic automobile related industries in the future.

As renowned brand manufacturers, perhaps they would manufacture their vehicles in the host country having the cheap labour cost and high human resources that can reduce import taxation and shorten the production time to reach the customers rapidly. In that case, assembling shall be one of the cooperative tasks as the initial stage between MNCs, local manufacturers and SMEs. Subsequently, the quality of products would be sustainably upgraded incorporation with MNCs in order to enter into the GVCs. Thus, favourable policies have to be act to attract FDIs and growth of auto-related business needs to be ready to cooperate with them for the sustainable development of automotive industry.

Hence, formulating the sustainable Automotive Policy plays an important role in the systematic development of vehicles and parts importation, domestic assembling, productions, sales and maintenance and export in the future. To meet three principles of *"least impacts on environment, energy efficient, safe and secure"*, firstly the National Automotive Policy Recommendation was drafted by the coordination of relevant Ministries and Non-Government Organizations (NGOs) such as Myanmar Investment Commission, Myanmar Engineering Society, Union of Myanmar Federation of Chambers of Commerce and Industry, foreign automobile dealers and automobile experts in 2015. Finally in May 2019, Ministry of Planning, Finance and Industry (MOPFI) formulated Automotive Policy based on the National Automotive Policy Recommendation and other reports. The vision of the Policy is to increase the new car market and usage of vehicles with affordable prices in every sector. The policy aims to emerge the sustainable Automotive Policy, to support the national transportation and economy through the development of Auto-related Industries, to develop Auto-related Industries as well as the Maintenance-related Technologies, to define and promulgate standards for quality assurance, safe, secure and least impact on the environment, to earn more Job opportunities and attract Foreign investments effectively, to establish Auto-related Industry by connecting and entering into global market and production network.

As the Roadmap and Action Plan of Automotive Policy, all Term and conditions are based on Unit in Operation (UIO) of Myanmar within 15 years ahead as follows:

Table (3.4) Roadmap and Action Plan of Automotive Policy

Step	**Target Period**	**Vehicle Penetration Ratio**	**UIO (unit)**	**Brand-new Car Sales / year (unit)**	**Production System Encouraged**
(a)	Short-term (initial stage 5 years)	4 %	2,000,000	200,000	**SKD**
(b)	Medium-term (second stage 5 years)	8 %	4,000,000	400,000	**SKD → CKD**
(c)	Long-term (third stage 5 years)	20 %	10,000,000	1,200,000	**CKD**

Source: Automotive Policy of Myanmar (2019)

In the short-term, an automotive environment would be established with the following action plans: initial start-up and operation of vehicle assembly and production factories, development of auto-related industries, a gradual lessening of used-car imports, expansion of the new car market and auto-related industries to grow.

The medium-term is plan for beginning of localization when initial operating with the CKD system, parts manufacturing industries and module parts manufacturing would be under progress. Among them, feasible hot items/parts would be selected and extracted for domestic market and expanded for export market gradually, finally portion of new car sales starts would be increasing.

The Ultimate Goals are set up in the long-term for (5) years: developing the CKD manufacturing factories and operating of production plants, rapidly developing the module parts manufacturing under strong Brand to Brand Complementation (BBC) Scheme, initiating new car sales and exports from several domestic plants with fully localization.

For a suitable economic environment for automotive manufacturing, sales and services: the following activities are mentioned to implement by the relevant ministries hand in hand. They are setting up the appropriate taxation scheme as the protection measures for domestic manufacturing, and imposing tax and registration fees differently between locally assembled vehicles by SKD, CKD and imported CBU vehicles.

To promote market competitiveness and the sustainable development of local manufacturers, the tax incentive for a certain period shall be offered to the manufacturers: the start-up SKD system, the transformation from SKD to CKD system and direct adoption of CKD system. Moreover, relevant liberalizations and reinforcements shall be implemented for the growth of auto-related SMEs and for integrating into GVCs. The Human Resource Development (HRD) Plans such as conducting skilled labours training, and trainings for getting Certifications on Maintenance and Maneuvering, and establishing Auto-related Industrial Training Centres should be implemented. Specifically, cooperation and coordination measures between stage government and regional government shall be performed in order to fulfill the infrastructure as of necessity. Automotive Institutes and Development Centres shall be established as well.

To promote auto-related industries, assembling, manufacturing, importation, sales and maintenance shall be performed in accordance with the rules and regulations promulgated by relevant Ministries. By this mean, the automotive industry would improve gradually resulting in the development of local auto-related parts manufacturing SMEs. Therefore, in order to promote from SKD to CKD manufacturing in the long run, rule and regulations of Automotive Policy, action plan and HRD plan shall be implemented in balance.

3.3. Analysis of Automotive Industries in Vietnam and Thailand

For the inclusive development of automotive industry, it should be transformed relatively and amend the policies and provision activities to the entire industry involving automobile manufacturing, assembling and nurturing the supporting industries. Thus, Vietnam and Thailand, two successful industrial transforming countries in the ASEAN region will be analyzed regarding to the promotion of their automotive industry with FDI as follows:

3.3.1. Vietnam

Beyond 1989 Doi Moi economic reform, the Vietnamese government has been making a great effort on the industrialization from an agrarian economy. As a result, the industry sector of the country has become to the strong stage of development and largely contributed to the speed of economic growth at the same time. Due to the large number of human resources and plenty of natural resources, industrial goods are manufactured mainly based on the cheap labour and natural resources (Truong & Nguyen, 2011). Generally, food processing and manufacturing labour intensive industries, such as textiles, footwear, furniture and etc. play role in the contribution of state GDP as major export products. Moreover, as the new high-tech industries, the electric and electronics industries have begun participating in export activities. The above-mentioned industries are not only strongly contributing to the major export activity but also integrating into the global market. Meanwhile, the automotive industry has been promoting through the policy reform since 1991but it still makes a limited contribution to the export with the need of greater value added and advanced technology (Truong & Nguyen, 2011).

Whereas Thailand and Indonesia has been initiated their enforcement of the automotive industry along with the industrialization since 1960, the proper state of Vietnam's automobile industry reached in 2000s (Nguyen, 2020). Truong & Nguyen (2011) described that Vietnam tried to develop its automotive industry as a top national priority for the sake of industrial capability and competitiveness improvement. Thus, the further internal efforts in the areas of upgrading skills and technology, fulfilling the efficient logistics, and expansion the industrial base and linkages were needed. Through provision of all these areas effectively, automotive industry can be developed rapidly resulting in the rapid industrialization simultaneously.

As the achievements in 30 years to promote the automotive industry, only the motorcycle industry is the most successful for domestic suppliers. Because of the extremely large market size, foreign assemblers have attracted to foreign suppliers to cooperate them in the local market of motorcycle. Hence, the rate of localization has increased to (95%) in the motorcycle industry. Consequently, the partnership between foreign companies and Vietnamese auto-parts suppliers results in the technology transfer and promotes the localization to the greater extent (Truong & Nguyen, 2011).

Regarding the locally manufacturing of the automobile, the supporting industries are essentially needed to develop like the successful motorcycle industry. IDE and MORIHARA (2012) proposed a management strategy in which Japanese SMEs would support to the Vietnamese supporting industries in the automobile sector. Training the local suppliers in a short period is very difficult to meet the desired level of MNCs. Thus, many local suppliers should actively cooperate with Japanese SMEs for the sustainable growth of localization and penetrate to the international market. Government policy has to encourage such management strategy to be successful for the sustainable development of automotive industry (IDE and MORIHARA, 2012 as cited in Ichida, 2015).

According to the report of Ministry of Industrial and Trade (MoIT) (as cited in Ha Thanh, 2020), the localization rate of passenger cars (PC) is quite low compared with the other developed countries in the ASEAN region. The report states that the Vietnamese automobile industry is still largely depending on the foreigner automobile manufacturers and assemblers. MoIT assesses that the main hinders faced by the local automobile industry are weakness in the core technologies to produce the main parts such as engine, and the control and transmission systems while locally produced parts such as tires, mirrors, car frame, plastic products, car seats and small ones are mostly in low technology. Since the main parts and other requited small components are imported, the production cost in the country is very high with the price of 10-20% higher than the imported cars in the region. According to ASEAN Free Trade in Goods Agreement (ATIGA), the automobile imported tariff between the ASEAN Member States (AMS) was removed in early 2018. Meanwhile, local firms have to pay the tax on imported materials, the CBU cars imported from AMS have zero-percent tax rate. Hence, the price of domestic produced cars is higher than the imported ones. (Ha Thanh, 2020; Nguyen, 2020).

In the case of Vietnam, the development of the automobile industry and localization rate has to be boosted than other sectors due to the high tax enforcement and underdevelopment of supporting industries. Therefore, it is suggested that the government should leverage the tax reduction tax for locally-manufactured auto parts. It would result in several benefits: more price competitiveness compared to imported ones, enhancement of the localization rate, and eventually improvement of the supporting industries. At the same time, the government should focus on integrating into the local and global supply chains and technical training to the local manufacturers and suppliers with the support of MNCs. (Ha Thanh, 2020; Nguyen, 2020).

3.3.2. Thailand

Over the last four decades after the 1960s, Thailand has transformed the country from a low-income to an upper-income economy with remarkable progress in social and economic development in 2011 (World Bank, 2020). It initiated its industrialization processes and opened the market economy in the 1960s. During the 1980s to1990s, Thailand became one of the countries having the fastest growing economy in the world. The period between 1987 and 1996 was a boom period of Thailand's economy when the real GDP grew up to (9.5 %). The main driving forces to leverage the state industrialization are export activities and foreign direct investment (FDI) in the country. Similar to the other some ASEAN countries, most FDI are keen to invest in Thailand due to low wages and workforce (Ramstetter et al. 2006 as cited in Punyasavatsut, 2008).

As the productivity and technological capabilities of Thai local companies were far behind than those of MNCs in the past, MNCs had been overwhelming most industries with the technological complex that hesitated to link with the local suppliers (Altenburg et al. 2004 as cited in Punyasavatsut, 2008). A large growing number of literature viewed MNCs as prospective agents of the development of small and medium-sized enterprises (SMEs). As the sources of knowledge and technologies, they can probably transfer their advanced technologies to domestic suppliers including SMEs, thereby uprising the productivity and quality of their products.

The existence of MNEs in the manufacturing sector also provides opportunities for the linkage between them and SMEs (Punyasavatsut, 2008). Likewise, Thailand's automobile suppliers have been under pressure to promote the linkages with MNCs and to be the biggest clusters of parts and materials for Japanese automakers in ASEAN. It is viewed that the linkages between MNCs and Thai local automobile manufacturers and parts suppliers are significantly developing these days. The networking and subcontracting with MNCs is able to encourage the competitiveness of SMEs in the automobile industry. The subcontracting benefits to SMEs consist of improvement of standards, capacity and skills, management and financial support, access to technology for high quality products, market access with the information of marketing and distribution channel (Knorringa & Schmitz, 2000 as cited in Rastogi 2018).

According to Rastogi (2018), the 1978 local content policy was one of the predominant factors behind the development of parts and components manufacturing industry. It promoted the linkage between MNCs and local firms through subcontracting arrangements. The strong networks of local suppliers assisted to attract international auto manufacturers to the country in the 1990s. Since 2000, Thailand's automobile industry has expanded drastically due to the liberalization of trade policy. As a result, numerous Japanese and U.S. automobile assemblers and auto parts manufacturers come to Thailand as a major export base for their global production.

According to Rastogi (2018), Thailand offers the great extent of investment opportunities to foreign investors as a leading role of automotive production in the ASEAN countries. Its automotive industry is the fastest growing of development in the region. Over the period of (50) years, Thailand has developed from an assembler of auto components to a top automotive manufacturer and become the export hub of MNCs. All of the leading automakers, assemblers and component manufacturers all over the world are coming to play in this potential country. A foreign original equipment manufacturer (OEM) competition and a network of supporting industries have been significantly developed in the industry. As the country continuously expands the manufacturing role, auto part suppliers are growing through the research and development (R&D) departments to meet the desirable supplies of MNCs.

These days, Thailand ranks the thirteenth largest automotive parts exporter and the sixth largest commercial vehicle manufacturer in the world, and leads the largest automotive manufacturer in ASEAN. As the ASEAN Free Trade Agreement, all the investors and manufacturers in automotive industry can benefit massively from six free trade agreements (FTAs) with Australia, China, India, New Zealand, and (10) member states of ASEAN.

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Alongside the environmental conservation and reduction of carbon dioxide emission, the global demand for green vehicles is rising. Globally, the number of electric vehicles (EVs) is projected to increase to 35% of all vehicles by 2040. In 2016, hence, Thailand Government set a roadmap for the general promotion of electric vehicles (EVs) and also approved a tax incentive scheme for EV production in the country.

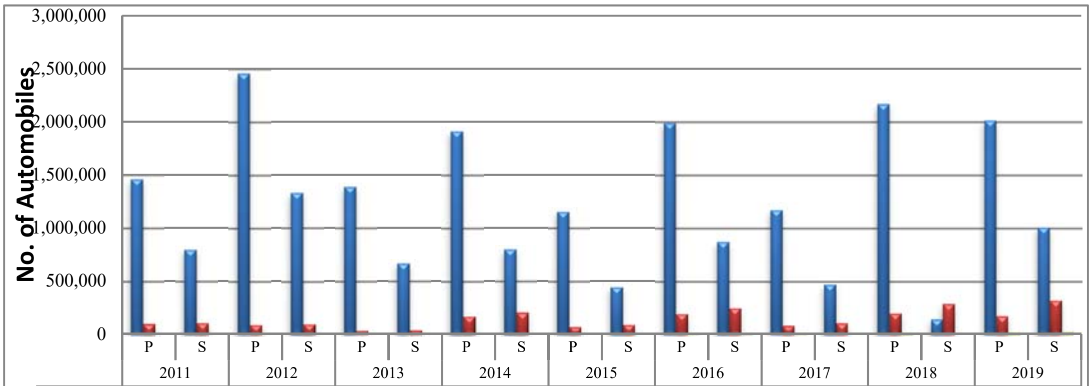
Meanwhile, the government has been boosting the component industry. It has permitted (10) components eligible for eight-year cooperate income tax (CIT) holidays. They include batteries, battery management services, EV smart charging systems, inverters, traction motors, portable electric vehicle chargers, DC/DC converters and electrical circuit breakers (Rastogi, 2018).

In the case of Thailand, one of the key factors that escalate the competitiveness of Thailand's automotive industry is the supportive policies of the government. It offers significant support in the form of tax and non-tax incentives to attract the foreign investment in the industry. Some of these general benefits favourable for the foreign investors are as follows: corporate income tax (CIT) exemption for up to eight years, import duty exemption on raw materials used in manufacturing export products, import duty exemption on machinery, permit to bring skilled workers and experts, permit to own land and permit to take out or remit money in foreign currency. Through these relaxation and impetus, more international investors, original equipment manufacturers seem appealed and the linkage between them and the local suppliers has been rising as well. Eventually, the entire automotive industry has been developing and contributing to the great potion of state GDP. Thus, Thailand is the most obvious example of the successful industrialization among the ASEAN member states (AMS).

Although Thailand and Vietnam have currently very successful industrial based economy, Thailand's automotive industry develops significantly much more than that of Vietnam due to the following possible reasons: difference on the implementation period (30 years earlier in Thailand), policies and tax enforcement for the incentiv FDI and local industries, and promotion of localized manufacturing and encouragement of competitiveness between the investors and domestic supporting industries including SMEs. Despite 30 years period of industrialization in Vietnam, the price of localized manufactured automobiles are still higher than the imported ones because of the higher production cost compared to the other ASEAN countries with need of technology content of main parts and components, and high taxation on these types of imported materials.

As the latecomer to the automotive industry, Myanmar is initiating its automotive industry's development with FDI's MNCs by imposing the attractive incentives on taxations, delivering the Automotive Policy with the short-term and long-term visions and profound perspectives until penetrating into the global trade. Therefore, Myanmar has to learn the lessons from these two countries to take the best practices relevant for the country. Depending on the participation of FDI and enforcement of government according to ASEAN Automotive Federation (2020), the production (P) and sales (S) of three countries are significantly different among the countries between 2011 and 2019 where Thailand stands significantly higher than the Vietnam and Myanmar **(see Figure. 3.1).**

Figure (3.1) Automobiles Production and Sale of Thailand, Vietnam and Myanmar (2011-2019)



	2011 P	2011 S	2012 P	2012 S	2013 P	2013 S	2014 P	2014 S	2015 P	2015 S	2016 P	2016 S	2017 P	2017 S	2018 P	2018 S	2019 P	2019 S
Thailand	1,457,	794,08	2,457,	1,330,	1,385,	665,57	1,913,	799,63	1,152,	443,56	1,988,	871,65	1,170,	471,96	2E+06	145,63	2E+06	1,007,
Vietnam	100,46	109,66	93,630	98,649	35,001	40,297	171,75	209,26	72,701	93,039	195,93	250,61	83,204	108,21	200436	288,68	176203	322,32
Myanmar											4,930	8,225	4,930	2,218	12292	1,974	15496	21,916

Source: ASEAN Automotive Federation (2020)

After studying the cases of Myanmar, Vietnam and Thailand, it is concluded that all these countries have been endeavouring their countries towards the industrial based economy through focusing on the development of manufacturing sectors. Among the various industries under the manufacturing sector, the countries selected the automotive industry as the very high potential not only for attracting the foreign direct investment (FDI) for the ease of capitalization, access to technology and related advantages, but also for integrating into the global supply chains in cooperation with multi-national companies (MNCs) reflected from FDI.

CHAPTER (4)

Supporting and Financing to SM ... Jnion Government of Myanmar

An agrarian country would not manage its economy to be sustainable for ages as discussed in chapter (3). Similarly, Myanmar is not able to sustain its national economy relying on agriculture and natural resources for the long ran. Thus, it needs to improve the other possible sectors based on agriculture to build up the sustainable economy of the nation. In 2011, the new-elected government inaugurated its regime when it recognized the global trade and investment and initiated the political and economic reforms with fruitful visions and missions.

Particularly, the government paid attention to the development of existing SMEs, the majority of the private enterprises in the country. Consequently, the government has been endeavouring to nurture the entrepreneurs and extant SMEs to grow into the large enterprises that would be the driving forces of the industrial transformation. For the sustainable development of SMEs, it is crucial to create an inducive environment so that they can grow and survive very well by mitigating possible challenges and obstacles. Therefore, the government has reviewed some important laws favouring for foreign investment and endorsed the new law and policy through supporting human resources and technology, encouraging innovation, provision of finance and market access, and implanting measures including the basic infrastructure development and favourable taxation system.

4.1. Challenges and Obstacles for SMEs

To be general, the United Nations business advisory series (2011) revealed that promoting SMEs is the key development vision in most countries for both socio-political and economic reasons. They play the crucial roles as the driving forces in creating employment opportunities, improving the domestic innovation and entrepreneurial ability, producing value-added products and generating the economic growth of the country. Despite the numerous benefits, SMEs have been facing challenges and obstacles because of the insufficient support and provision of the government in some developing countries.

The most serious obstacle is limited access and credit from the government and firm financial sources. SME financing is very important not only for the start-up, the expansion of working capital, but also for research and development purposes to produce the value-added products. Some countries are very poor in administration and management, information, communication and technology (ICT). Then, access to public services from the government is very difficult as well as applying registration, license and credits is full of time and cost consuming procedures (Kayteyn & Saw Htay Wah, 2016).

The other fundamental need for SMEs is adequate and upgraded infrastructures at any conditions. Therefore, the weak and insufficient infrastructures such as lack of ICT, storage facilities and technologies, transport and logistics, tenants and energy supply can retard their operations, productivity and market access. The capacity building and establishing the human resource programmes are necessary in terms of the overall education system and on-the-job training for specific areas. Furthermore, limited access to information about potential markets and business partners is another critical obstacle for SMEs to penetrate into international trade. Most SMEs are very weak at marketing and low experience in extending their markets to the world. Particularly, they are lack of idea and plan to be suppliers for foreign partners or export to global markets (UN, 2011).

4.2. Policies for Development of Myanmar's SMEs

According to Small and Medium Enterprises Development Policy (2015), the focal ministry shall the responsible ministry shall carry out (9) policies aiming at promoting domestic SMEs and reducing poverty. These policies are enacted as follows:

(a) Encouraging supporting enterprises that can create linkage to domestic and foreign markets

(b) Carrying out the transfer of technology and knowledge and investment promotion in cooperation with local and international organizations

(c) Encouraging human resource development and employment opportunities

(d) Encouraging the promotion of information and research activities and to make the smooth processes by eliminating obstacles

(e) Undertaking the development of entrepreneurial businesses

(f) Undertaking the development of business development services

(g) Enabling the participation of entrepreneurs and SMEs in regional business activities

(h) Enabling the economic development pattern that crates the sustainability and the capacity of SMEs and

(i) Focusing the shift from import substitution to export oriented system

Hence, the SME Development Department has been undertaking the improvement of Myanmar SMEs based of the sound policies mentioned in the SME Development Policy under the management of the Central Committee and Working Committee.

4.2.1. Definition of SME in Myanmar

Before enacting Small and Medium Development Law, Ministry of Industry (MOI) classified registered industrial enterprises into (3) types: large, medium and small ones according to the Private Industrial Enterprises Law (1990) which defines the enterprises based on the type of power or three horsepower and manpower. In 2015, MOI promulgated SME Development Law to enhance effectively and systematically the development of SMEs by setting up the specific categories of enterprises.

According to the SME Development law (2015), small and medium enterprises in Myanmar are classified into (5) types depending on the labour and capital as follows:

Table (4.1) SMEs Definition in Myanmar

Sr. No.	Categories	Small	Medium
1.	**Number of employee**	**Number**	
	(a) Manufacturing sector, Mining sector, Construction sector	Up to 50	Up to 300
	(b) Labor intensive manufacturing sector	Up to 300	Up to 600
	(c) Wholesale business	Up to 30	Up to 60
	(d) Retail business	Up to 30	Up to 60
	(e) Servicing business	Up to 50	Up to 100
	(f) Except from above business	Up to 30	Up to 60
2.	**Capital**	**Million Kyats**	
	(a) Manufacturing sector, Mining sector, Construction sector	Up to 500	Up to 1000
	(b) Labor intensive manufacturing sector	Up to 500	Up to 1000
3.	**Turn Over/Last Year**	**Million Kyats**	
	(a) Wholesale business	Up to 100	Up to 300
	(b) Retail business	Up to 50	Up to 100
	(c) Servicing business	Up to 100	Up to 300
	(d) Except from above business	Up to 50	Up to 100

Source: SME Development Law (2015)

4.3. Provision and Supporting by the Government

As the small and medium enterprises (SMEs) are the backbone of the socio-economic development in Myanmar, it needs to enhance their development systematically with the short-term and long-term visions. In order to implement such sound ambition, the Small and Medium Enterprises Development Center was established under Ministry of Industry as one of the national development plan in April, 2012 at the beginning of new civilian government regime. Then in 2014, with the aim of enhancing the capabilities of SMEs across the country and providing their needs in line with the time, the SMEs Development Center was restructured under the Directorate of Industrial Supervision and Inspection (DISI) of the san and extended to (53) SMEs Branches in all States and Regions (Ministry of Panning, Finance and Industry, 2020).

To reduce the obstacles and to promote the competitiveness of SMEs, several supporting programs such as dissemination of information for market and services, provision of technology and finance, awareness of business-related knowledge and management etc. are being undertaking continuously by promulgating the relevant rules and regulations: the SMEs Development Law and SMEs Development Policy in 2015, and SMEs Development Rule in 2016 with the support of international organizations, intellectuals and domestic business associations. As the focal ministry, Ministry of Industry has been conducting specific actions and activities as follows: coordinating with the line ministries, cooperating with local and international organizations for technological needs and transfer, managing to receive effective supports from the government and commercial banks to access finance for capital and loans, holding the Myanmar MSMEs' Products Exhibition and Competition Show throughout the country where the awarded MSMEs are connected to the regional and international network.

Accordingly to SMEs Development Law, Rule and Policy, it is very important to fulfil the vision of SMEs Development Policy *"Creation of regionally innovative and competitive SMEs across all sectors that enhance income generation and contribute to the social-economic development Mission"* (Ministry of Industry, 2015). Therefore, the government formed the SMEs Development Central Committee led by the President and Working committee led by the Vice President for aiming the effective provision in cooperation among the line ministries and State and Regional Governments. Consequently, (3) bodies named the SMEs Development Agency, Fund Management Body and Reporting and Evaluating Body MSMEs were organized under the SMEs Working Committee in 2018.

For transferring technologies, upgrading technologies and machineries, seeking appropriate solutions for technical problems and other constraints, sharing knowledge on entrepreneurship, communication and customer service from local and international experts are being conducted in collaboration with international organization ess Development Service (BDS) Providers through workshops, seminars and training, and institutional capacity building training for the staff members of Ministry and SMEs all over the country.

Regarding the market promotion, the department has been undertaking the disseminating the necessary information such as the products price, market information, International Standardization for the competitiveness in the local and global market and research and survey, organizing trade fairs and trade promotion events to enter into the international market and introduce new products, arranging for successful SMEs to participate in the international trade fairs and products shows, assisting the market promotion and cooperating with ASEAN Secretariat to offer award and incentives concerning the best-selling of export-oriented products, domestic products and import-substituted products.

By supporting such activities to the potential SMEs, their value-added and innovative products are able to introduce to international businesses with the high quality of the SME's products. Through this FDI-SME linkage, the domestic SMEs might extend their business plan with innovative idea and step in international global supply chains (GVCs). However, most training programmes are agricultural-bases such as training on farming method with good agricultural practice (GPA), storage, producing value-added products, processing and packaging for food and beverages according to the agricultural country. It is found that training on the foundry, fogging and engine maintenance are very few for such industrial-based SMEs so they still need supports than the other types of SMEs (SME Development Agency, 2020).

4.3.1. Issuing SME Member Card

With the aim of provision of appropriate support to the great extent, the ministry has been issuing the SME Member Card since 2016 There has been issuing (31838) member cards within three years from 2016 to 2019 and only SME member can apply loans and grants from the government's financing programme. Dur[illegible]t three years, the SME were able to apply member cards manually in headquarter and SMEs branches across the country so it consumed time and money for the SMEs. In 2020, therefore, the ministry has created the SME Web portal where SME Member Card Online Registration and e-payment System can be carried out by the SMEs conveniently forwards. Through the online registration system, the registration number of SME would be increased and the government will be able to manage the supporting system to SMEs much more effectively than before.

Table (4.2) Number of Issuing SME Member Card (By Year) (2016-2019)

Sr. No.	Year	Issued SME Member Card		
		Small	Medium	Total
1.	2016	2,349	131	**2,500**
2.	2017	9,567	1,323	**1,0890**
3.	2018	10,183	2,639	**12,822**
4.	2019	4,196	1,430	**5,626**
	Grand Total	**26,295**	**5,543**	**31,838**

Source: SME Development Department

4.3.2. Financing Programmes by Government

As mentioned above, the big challenge and hindrance of SMEs are accessing finance to bring up their capital growth, purchase modern machines and equipment and expand their business plan for the future. To solve this problem, they have been replied on both official and non-official financial sources. Although they desire to get loans from the government and commercial banks, there are many time and cost consumption procedures to get permission, to apply the relevant loans, to so receive the loans in the expected period. To access the loan from private banks is one of the biggest hurdles since they demand the resilient documents for collateral evidence.

To reduce such kinds of obstacles and support SMEs to enter into the global supply chains (GVCs), Ministry of Planning, Finance and Industry has been coordinating to lend loans and credits with the relevant interest rate, long lending period, collateral and non-collateral loans and grants in cooperation with international organizations, state-owned banks and private banks. Although there are SMEs loan programmes operating by private banks, this paper will focus only on the government's lending programmes due to the limited data availability from these commercial banks.

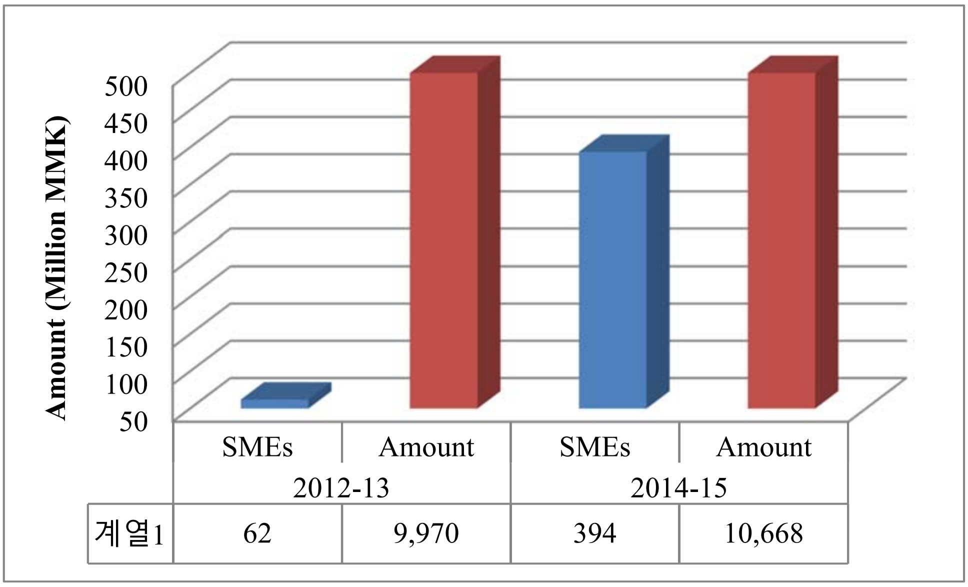
The SME Development Department under Ministry of Planning, Finance and Industry has been participating and undertaking the financial supporting programmes for SMEs in cooperation with international organizations, state-owned banks and private banks. In this paper, all the data supporting will be accounted for the fiscal year (FY) of Myanmar: 1st April to 31st March from 2011-12 FY to 2018-2019 FY. However, in 2019, the government transformed the fiscal year into 1st November to 30th September. Thus, there is an added mini-budget year from 1st April to 30th September in 2019. Since this paper emphasizes on the data within (8) years after the political- economic reform (2011), the data for financing will be cited from 2012-13 Fiscal Year to 2019 Mini Budget Year. The number of SMEs accessing different types of loans and the detail lending amount will appear in as **Table (4.4)** in **Appendix (G)**.

(i) **SME National Loan (2012-2016)**

At the initial stage of enhancement of SMEs development in 2012, the government arranged the special financing programme for SME in which the national loan amount in MMK (9970) Million was provided to (62) SMEs in 2012-13 and MMK (10668) Million to (394) SMEs in 2014-15. Each enterprise could apply the upmost MMK (100-500) Million and lending period was upmost (3) years with the interest rate (8.5%) of the loan. To apply this national loan, it needs to expose the land ownership and building on it as a collateral. That national loan was lending to the eligible SMEs through Small and Medium Industrial Development Bank (SMIDB).

Figure (4. l Loans to SMEs

(2012-2015)



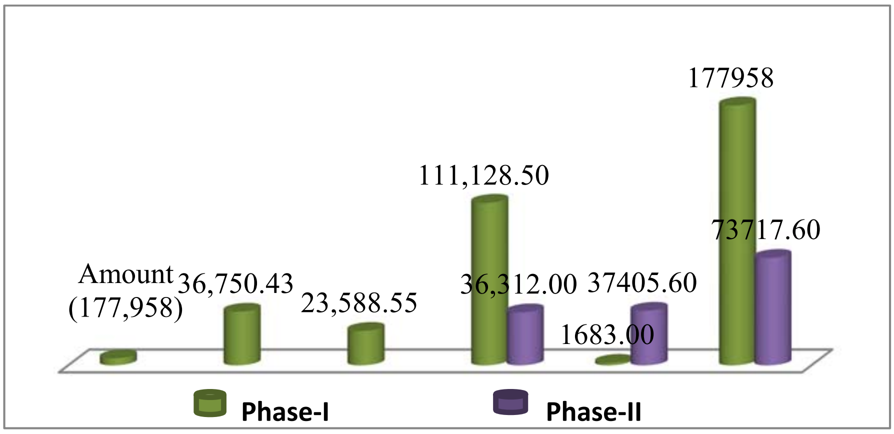
Source: SME Development Department

(ii) **JICA Two Step Loan**

The JICA Two Step Loan is the Official Development Assistance (ODA) loan provided by the Japan government to Myanmar government through the Japan International Cooperation Agency (JICA) and private banks as the participating financial institutions (PFIs). It composes of two phases: Phase-I (2016-17 FY to 2018-19 FY) and Phase-2 (2018-19 FY to present). In Phase-I, MMK (177,958) Million was lent to (376) SMEs through (6) PFIs. Then, the JICA restarted the programme as Phase-II in September, 2018 with the money that paid back by the SMEs in Phase I. In Phase-II, MMK (73717.60) Million was lent to the number of (426) SMEs through (11) PFIs starting from September, 2018.

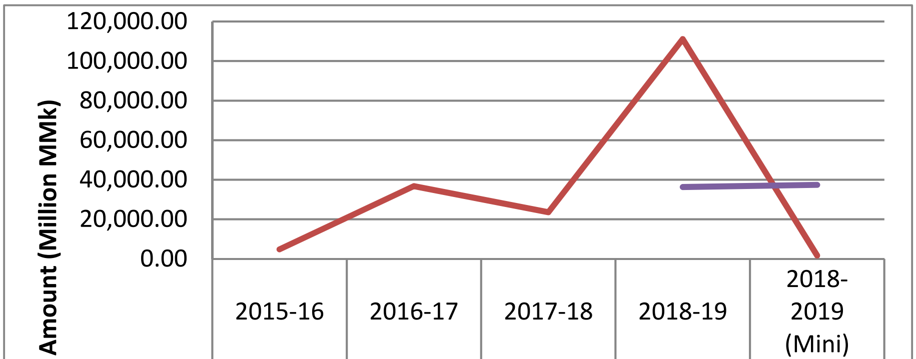
Upmost, MMK (100-500) Million can be borrowed and lending period is upmost (5) years with collateral (land ownership and building on it). As two-step loan, the interest rate per year is different among the parties through two steps. The Japan government specifies (0.01%) to Myanma Economic Bank (MEB) that s (4%) to private banks and they lend the credit to SMEs with (8.5-13%) depending on their specifications.

Figure (4.2 a) JICA Two Step Loan by Number and Amount Phase-I (2015-2019) and Phase-2(2018-2019)



Source: SME Development Department

Figure (4.2 b) JICA Two Step Loan Amount by Year (2015-16 to 2018-19)



	2015-16	2016-17	2017-18	2018-19	2018-2019 (Mini)
Phase-I	4,808.00	36,750.43	23,588.55	111,128.50	1683.00
Phase-II				36,312.00	37405.60

Source: SME Development Department

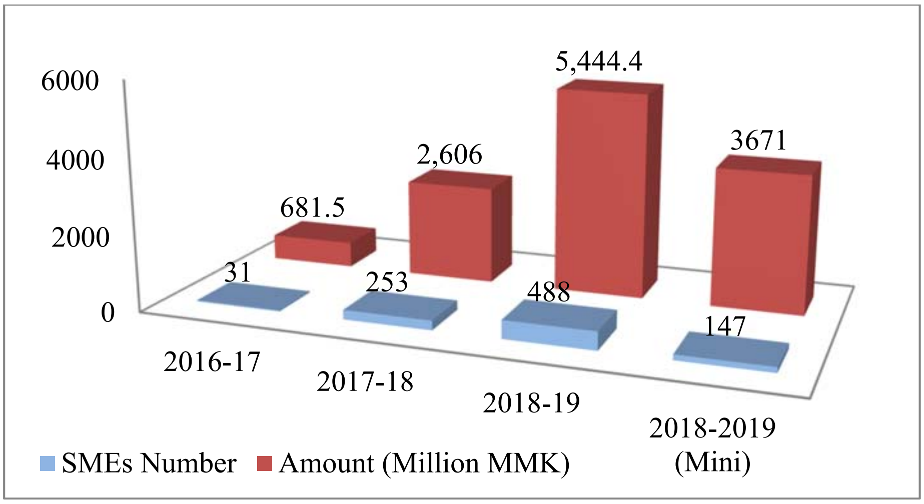
(iii) **Credit Guarantee Insurance (CGI)**

Pledging collateral to apply loans is the large impediment for SMEs operating with small capital and low properties. In order to solve this hindrance, the SME department has been implementing the Credit Guarantee Insurance (CGI) System in cooperation with Myanmar Insurance Enterprise, Sumitomo Mitsui Banking Corporation (SMBC) from Japan and three private banks in Myanmar.

According to the CGI system, it does not need the collateral to apply the credit but the strong future business plan is required to get the favour. Initially, SME has to apply for *"Recommendation Letter"* from the SME State and Regional Branches which issues the recommendation letter to the eligible SMEs. After applying the loans to the private banks with the recommendation letter, banks continue to send the proposal for insurance to Myanma Insurance Enterprise (MIE). When the *"Insurance Certificate"* is received from MIE, the banks lend the credits based on pledged collateral or non-collateral.

As the collateral, both the immovable ones like land and building, and movable ones such as vehicles or machines, etc. can be utilized. If the loan is applied with collateral, the premium fee is (2%) and the interest rate is (13%) of loan, whereas the former is (3%) and the latter is the same (13%) without collateral. The highest amount of loan that can be applied is MMK (200) Million for the lending period of (1) year. From starting that system in 2016, total MMK (12402.9) Million has been provided to (919) SMEs till 2019 mini-budget year.

Figure (4.3) Credit Guarantee Insurance (CGI) by Year
(2016-17 FY to 2019 Mini FY)



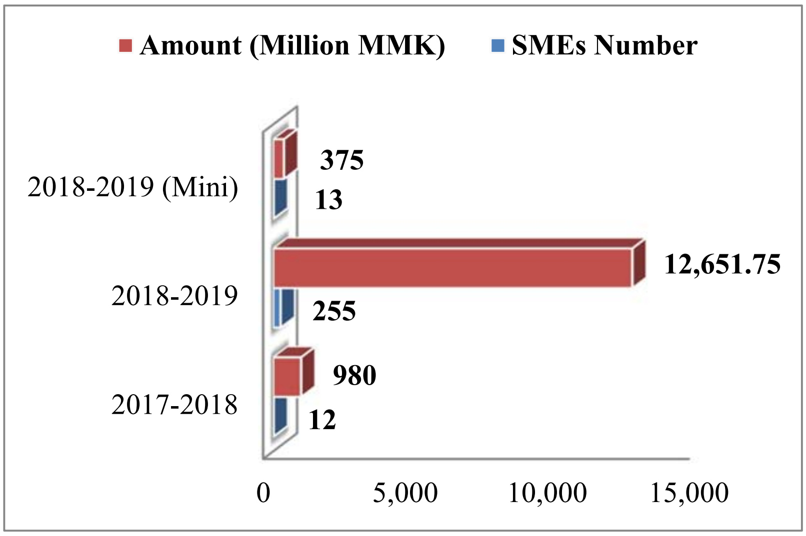
Source: SME Development Department

(iv) **Myanma Economic Bank (MEB) Loan**

Among (4) State-owned Banks named Myanma Foreign Bank, Myanma Investment and Commercial Bank, Myanma Economic Bank and Myanma Agriculture and Development Bank, Myanma Economic Bank (MEB) has been lending the SMEs for (3-5) years. The maximum amount of MMK (300) Million can be borrowed with the interest rate (9%) per year. Regarding the collateral, the SME who cannot show the collateral is able to apply the loan with the CGI system. In this case, they need to deposit the premium fee (3%) and the interest rate (9%) of applied loan. The total amount of loan that has already lent to (280) SMEs is MMK (14006.75) Million between January, 2018 and September, 2019.

Figure (4.4) MEB Loan by Year

(2017-18 FY to 2018-2019 Mini FY)



Source: SME Development Department

(v) **Responsible Business Fund (RBF)**

The Responsible Business Fund (RBF) Project is the Denmark-Myanmar Country Programme 2016-2020 between Denmark government and Myanmar government. The programme aims at increasing the responsible behavior and competitiveness of supported enterprises due to access to matching grant. According t project, the grant has been provided to the selected SMEs operating the projects on (7) areas: Energy Efficiency, Water Use efficiency, Waste Treatment & Recycling, Occupational Safety and Health (OSH), Food Safety, Managerial and Supervisory Skills and Practical & Technical Skills.

They can receive the financial grant in (60-80%) of the project they are conducting. The RBF Board approved the grant amount DKK (96.211) Million equivalent to MMK (21,168.40) Million to approved number of (631) SMEs from 2016 to 2019. Among seven areas, SMEs operating waste treatment and recycling is the largest number of applying the grant (199 out of 631) followed by energy efficiency area (152) and food safety area (129).

Figure (4.5) & Table (4.3) Distribution of Approved RBF by Number and Amount (2016-17 to 2018-2019)

Sr. No.	Area	Number of SMEs Approved	Grant Amount Approved	
			Million MMK	(%)
1	Energy Efficiency	152	6,952.00	33%
2	Water use Efficiency	23	954.80	5%
3	Waste treatment & Recycling	199	7,884.80	37%
4	Occupational Safety & Health (OSH)	72	1,496.00	7%
5	Food Safety	129	3,500.20	17%
6	Managerial & Supervisory Skills	12	198.00	1%
7	Practical & Technical Skills	44	182.60	1%
	Total	**631**	**21,168.40**	**100%**

Source: SME Development Department

4.4. Specifications for Applying Loans

Regarding the different types of loans supported by the government and international organizations, choosing the SMEs differs upon the specifications of these organizations and the private banks cooperated with them. The most important point is that the eligible SMEs must be in accordance with the definition of SMEs mentioned in 2015 SMEs Development Law. Generally, they have to be the SME members registered in the SME Development Department as well as the registered businesses in the respective government bodies such as municipal committee, industry, company registration departments and so on.

Then, they have to pay the tax and fees to these departments regularly and they have to show off these payment receipts and licences when they apply the loans. Specifically, they must attach the purpose of applying loans with the schedule of payment and the detail plan for using capital investment with the loan, the photos of operating business and land ownership for the evidence of collateral. For a company, it needs to show the related documents, company registration, cash flow, financial statements including balance sheet. Moreover, the recommendation letter of the respective State and Regional Government and the SME Development Department. Depending on these required documents mentioned above, the SMEs have been chosen for allowing the loans for the growth of their businesses.

According to the encouragement of government through the economic policy, national development plan, the respective ministries have been promoting the development of small and medium enterprises (SMEs) as the driving forces of national economy to build a developed industrialized nation. In this long journey, the government bodies have been coordinating the supporting programmes to fulfil the requirements of SMEs in cooperation with the local and international organizations and specific product manufacturing associations and intellectuals.

Among the numerous obstacles and needs for Myanmar SMEs, it is found that access to finance is the most challenging hinder for them to leverage their growth and market penetration. Although the government address this problem by supporting the various lending programmes with the support of international aids, only (7.72 %) of the registered SME members and only the total amount of loan in MMK (298,723.73) million have been provided due to the insufficient amount of loans and lack of rigid documents to meet the specifications of the banks **(Table 4.4 Appendix- G)**. Then, another important finding is that the large number of agricultural-based SMEs has been promoted in technology and most of them are considerable successful in their area with the support of these transferred technology and financial aids from the government.

However, there is no automotive and components parts manufacturing SMEs and applying loans to manufacture such products. There is very few training in engine maintaining, foundry, fogging and welding services for the workers. According to the Automotive Directory (2020), there are (4,309) automotive manufacturers and dealers mentioned, and they just distribute the imported spare parts, components and accessories in Myanmar. In order to reach the industrial modernized country, the government shall invite the multinational automotive companies (MNCs) and has to nurture the automotive parts and components supplying SMEs by providing the basic technologies and higher amount of loans simultaneously.

Regarding the financial assistance, it is apparent that the Credit Guarantee Insurance (CGI) system is the most reliable type of loan for most SMEs because it can be applied with both immovable and movable collateral and without collateral. Therefore, the government ought to extend such kind of loans to deliver widely to the SMEs particularly the potential enterprises to get into the global supply chains (GSC). To promote the FDI-SME linkage, the government should request the loans, grants and ODAs from the countries of large number of investors investing in Myanmar.

CHAPTER (5)

Promotion of HRD for attracting Foreign Direct Investment

Having examined financing programmes to SMEs including the provision of their fundamental needs undertaken by the government, this chapter will review the promotion of skilled-labour by the government in order to attract foreign direct investment (FDI) in Myanmar. Before discussing about raising of high competent labourers through the technical and vocational education and training (TVET), the first secession will focus on nurturing skilled workers who are the undergraduate level at Industrial Technical Centres (ITCs) under the Ministry of Planning, Finance and Industry, and providing technical transfer training to the SMEs with the support of local and international development partners.

Tevelte and Morrissey (2002) claimed the global statement in which some FDIs are attracted to the countries having abundant cheap unskilled labour for the reduction of production cost while other FDI is attracted by the advantageous natural resources or policy impetuses of the host. However, it is obvious that they desire to employ the relatively skilled labour by local standard. For the host countries, especially most developing countries, they consider FDI as a crucial supportive source for economic development that can fill the resource gaps depleting due to the environmental and social factors from day to day. Furthermore, FDI can also be a catalyst for acquiring not only skill and technology, but also organizational and managerial practices, and access to capital and market.

In the past, it had been considered that the availability of a bulk of low-cost labour was a prominent determinant of FDI when they chose the developing countries for the geographical specification of trade. For this perspective, Pfeffermann and Madarassy (1992) asserted that the host-choosing trend of FDI moves gradually from such labour-intensive, low-wages and low-skill manufacturing towards the higher capital, knowledge and skill-intensive industries based on advanced technologies. Through the establishment of knowledge-based industries, FDI can reduce the labour content of production and increase the productivity of high-quality, market-demanding products cost-effectively. Thus, the authors concluded that the host country rich of well-educated, skilful-labour become increasingly attractive for multinational corporations (MNCs) than the low-labour cost country (as cited in Noorbakhsh, et. al, 1999, p.11).

Hence, the role of the human capital plays very important in attracting FDI to developing countries and this significance has become increasingly higher overtime. The transfer of technology includes the transfer of skills necessary for utilizing that technology or technological development. Thus, the local firms may access the foreign technology through spillover effects (Noorbakhsh, Paloni & Youssef, 1999). Then, the well-developed linkages between multinational companies (MNCs) and local suppliers can increase employment of various skill levels resulting in the alleviation of poverty along with economic development. Therefore, the government should apply the opportunity of strategic location of the country to attract location-intensive foreign investors and adopt the comprehensive policy implications favourable for their trading.

Meanwhile, it is essential to build up the capacity building of the local labour market by nurturing the young skilled workers at low education levels and highly qualified technicians to meet the standards of knowledge and skills demanding by MNCs. Therefore, this chapter will analyze how the Myanmar Government has been rendering the promotion of skilled labours to draw more attention of foreign investors through enhancement of Technical Vocational Education and Training (TVET) sector.

According to Ministry of Education, TVET sector is one of the six focal areas of Comprehensive Education Sector Review (CESR) that has been implementing by the respective ministries to produce highly competent skilled labourers. Among these ministries, Ministry of Planning, Finance and Industry (MOPFI) and Ministry of Education (MOE) have been coordinating the promotion programmes of highly qualified technicians and skilled workers through technical and vocational institutes and schools in Myanmar.

5.1. Nurturing Skilled Workers by the Ministry of Planning, Finance and Industry

Before merging with Ministry of Planning and Finance (MOPF) in November, 2019, Ministry of Industry (MOI) has been raising the industrial human resources and undertaking research and development (R&D) Programmes for industrial sector development. All these development activities, and vision and mission of the ministry have been implementing by the Directorate of Industrial Collaboration (DIC) in cooperation with national and international organizations. Regarding the industrial human resource development, the Industrial Training Centers (ITC) are established in order to nurture the skilled mechanics for participating in the industrial sector.

5.1.1. Industrial Training Centres (ITCs)

Under the management of the Directorate of Industrial Collaboration (DIC), there are (8) Industrial Training Centers (ITCs) including (2) new ITCs that will open very soon with the support of International Organizations. All the data and facts relative to the ITCs are the secondary data from the DIC under Ministry of Industry. No. (1) Industrial Training Centre (Sinde) is the forty-year old ITC that has been conducting in cooperation with the German International Cooperation Agency (GIZ) since1979. This is the only one ITC opening two years regular training, whereas one year regular training is being conducted in the other (5) ICTs.

The other (5) ITCs are as follows: No. (2) ITC (Mandalay) with the support of the Institute of Project Planning and Research (China) established in 2008, No. (3) ITC (Thagaya) with the Korea International Cooperation Agency (KOICA) in 2009, No. (4) ITC (Pakokku) with Hindustan Machine Tool International Co., Ltd. in 2010, No. (5) ITC (Magway) with Korea International Cooperation Agency (KOICA) in 2011, No. (6) ITC (Myingyan) with Hindustan Machine Tool International Co., Ltd. (HMTI) from India in 2013. The new Industrial Training Centers namely No. (7) ITC (Monywa) and No. (8) ITC (Thadon) are under processing in cooperation with HMTI and they will be opened very shortly. Therefore, among (8) ITCs, four are cooperating with India and two with Korea while the rest two are functioning with Germany and China.

For the successful management and teaching for the students, the government provides the fundamental needs such as infrastructures: accommodation and electricity, training aids and raw materials from the government budget. Meanwhile, the cooperation agencies are supporting the machineries, equipment and technical training for the students. Regarding technical training, the department is delivering the regular training in all ITCs, Competency Based Modular Short Course (CBMSC) training in (4) ITCs and the mobile training across the State and Regions.

In all ITCs, the regular training based on (16) courses are being offered to the student with (70%) practical and (30%) theory. These courses are consisting of Machine Tools Operator, Machinery Fitter, Tools and Die Maker, automobile mechanic, electrician, pattern Maker, mechanical draughtsman, CAD/CAM, welder, electronics mechanic, CNC operator, foundry man, information technology, refrigeration and air conditioning. The courses based on the apparel manufacturing will be delivered in the new No. (7) ITC (Monywa) and the rubber technology related training will be conducted in new No. (8) ITC (Thadon) when they open.

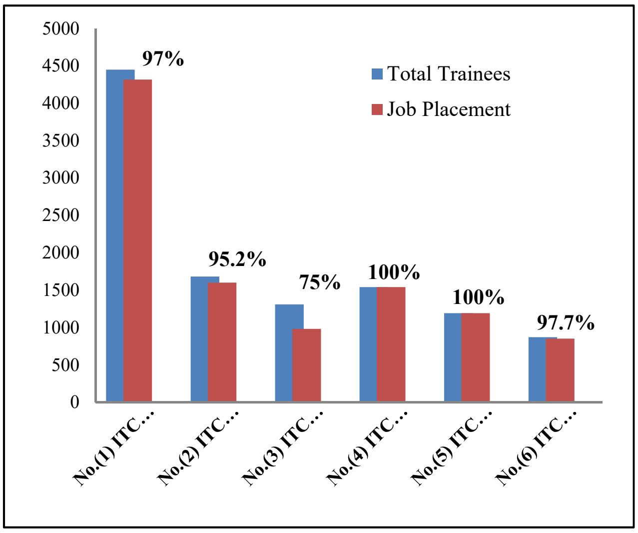
The students are selected on the general eligibility of admission: age between 17 and 25 years, the high school education-level, good health and motivation, the citizen of Myanmar who can obey the rules and regulations and desire to attend their graduation. After finishing (1) year training period, the students will achieve the certificate of accomplishment. Since the establishment, current six ITCs raise (11046) trainees where (10,485) trainees employ in the respective areas with job placement (95%) of total trainees (see **Table 5.1 and Figure. 5.1 a**).

No	ITCs' Name	Intake	Trainees	Job placement of

		No.	List	Trainees	
				No.	**(%)**
1	No.(1) ITC (Sinde)	(1) To (37)	4449	4316	97%
2	No.(2) ITC (Mandalay)	(1) To (11)	1682	1601	95.2%
3	No.(3) ITC (Thagaya)	(1) To (10)	1310	983	75%
4	No.(4) ITC (Pakokku)	(1) To (9)	1541	1541	100%
5	No.(5) ITC (Magway)	(1) To (8)	1192	1192	100%
6	No.(6) ITC (Myingyan)	(1) To (5)	872	852	97.7%
	Total		**11,046**	**10,485**	**95%**

Table (5.1) Job Placement of Regular Trainees of ITCs

Figure (5.1. a) Job Placement of Regular Trainees of ITCs



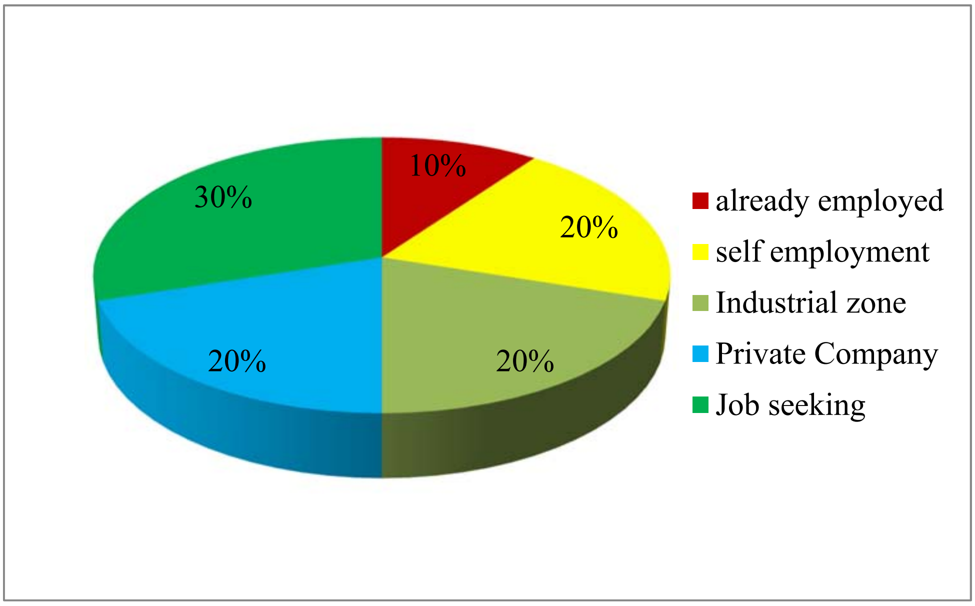
Source: Directorate of Industrial Collaboration (DIC)

5.1.2. Competency Based Modular Short Course Training

The ministry has been offering (3) month training on Competency Based Modular Short Course (CBMSC) in four ITCs: No. (2), No. (3), No. (4) and No. (5) ITC. Mainly, eight short courses are being given for the areas of various welding, motorcycle mechanic, small Farm engine mechanic, tractor diesel/ agro mechanic, electrical (house wiring and industrial installation) and air conditioning. The CBMSC is the Asian Development Bank (ADB) Loan Project for Equipping Youth for Employment Sector Development Programme (2018-2023). The pilot project has been already initiated in No. (2) ITC and No. (4) ITC with four courses since 2014.

As CBMSC training intent to the youths of rural area development, (570) trainees are trained (80%) from rural and (20%) from urban areas of least developed states and regions. Up to now, (10%) of certificated trainees are already employed, (20%) works in the industrial zones, (20%) in private companies, while another (20%) are self-employed and the rest of (30%) are still seeking jobs (see **Figure. 5.1.1. b**). Therefore, it is found that (70%) of employment is created for the human resource development and plays the considerable role in private companies and industrial zones.

Figure (5.1. b) Employment of CBMSC Training



Source: Directorate of Industrial Coordination (DIC)

5.1.3. Mobile Vocational Training

Likewise, in order to create the job opportunity for the rural area to alleviate the poverty rate, the ministry has been delivering the mobile vocational training in relevant states and regions according to their needs and skill demands since 2014. The offering courses are basic electrician course, basic welding course, small farm engine & motorcycle maintenance and repairing course, and automobile maintenance course. During (5) year period from 2014 to 2019, total number of (113) training have already opened and (5,998) youths have been trained with (5,836) male and (162) female.

For the industrial development of the nation, the labour market with skilled workers, mechanics and technicians has to be created to participate in the manufacturing sector, to produce the qualified products and to link the network with the FDI simultaneously. To reach this target, Ministry of Planning, Finance and Industry has been implementing human resources development through the mentioned training programmes. Therefore, the ministry sets the future plan for industrial sector: to establish the industry for manufacturing value-added food products, to establish the industry for daily apparel goods and related industries, and to establish the supporting industries for manufacturing of export substitute products in heavy industries.

5.2. Nurturing the Technicians and Skilled workers by the Ministry of Education

Ministry of Planning, Finance and Industry (MOPFI) is responsible for fostering the growth of basic skilled labours relative to the industrial sector whereas Ministry of Education (MOE) has been nurturing human resources in vocational education. As a focal Department of TVET Sector, Department of Technical and Vocational Education and Training (DTVET) under MOE has been endeavouring for the achievement in vocational education and raising the skilled workers essential for socio-economic development of country.

According to UNESCO-UNEVOC (n.d), the TVET sector is able to support a wider range of the technical related occupations for construction, electrical, electronic, and mechanical, etc., hotel and tourism, pharmaceutical and nursing, agricu ivestock breeding, and different vocational skills. Therefore, DTVET has been raising highly competent skilled youths at different education levels in order to be narrow the development gap between States and Regions.

According to the DTVET, there are (3) Government Technical Colleges (GTCs), (24) Government Technical Institutes (GTIs), (37) Government Technical High Schools (GTHSs), and (8) vocational education and training consisting Singapore-Myanmar Vocational Training Institute (SMVTI), Nyang Shwe Vocational Training Institute (NVTI), TVET Teacher Training Institute (TTTI), English Language Proficiency School (ELPS), Japan-Myanmar Aung San Vocational Training Institute, School of Industrial Training and Education (SITE), Yatana Welding Training Center (YWTC) and Food & Beverage Vocational Training Center (F&BVTC) under the department.

5.2.1. Government Technical Colleges, Institutes and High Schools

In all Government Technical Colleges (GTCs) and Government Technical Institutes (GTI), regular engineering training and short course technical and vocational training have been conducting. As regular training, the (8) subjects of engineering: civil, electronics, electrical power, mechanical, automobile maintenance, farm machinery, industrial engineering and information technology are being trained to the students who pass the high school exam. After completely finished the (3) year-training period, the students attained the diploma level in specific course and the qualified students are able to join the third year of Technical Universities.

In all Government Technical High Schools (GTHS), regular training in (8) fields of building, electronics, electrical, building services, auto mechanics, machining and metal process technology, metal work, refrigerator & air conditioning technology, and information technology are being trained to students who pass the middle standard schools. The training period for all fields takes 2 years and the certificate level is attained after completely finished.

The (54) numbers of short course training are being conducted in all GTC/GTI, GTHS and Vocational Institutes in areas of commercial marine (mechatronic), commercial professional, computer, accounting profession, food & consumer goods production, agricultural & industrial, management, medical expertise & medical training, driving & mechanic, livestock, fisheries & beekeeping, loom, crafts, timber, nurse, midwife & nurse assistant, hotels & tourism, tailoring, engineering and general training such as driving, Summer English Spoken Class and general welding and etc.

5.2.2. Vocational Institutes

There are (5) Vocational or Polytechnic Institutes under the DTVET operating in cooperation with national and International Organizations. The Singapore-Myanmar Vocational Training Institute (SMVTI) was reformed from the previous government technical high school on the memorandum of understanding (MOU) between Myanmar and Singapore government in 2004. The students finishing the high school exam can join SMVTI which offers (10) courses including hotel and Tourism subjects. The training period is (6) months-long and the accomplished certificate will be achieved after completion the course.

Nyang Shwe Vocational Training Institute (NVTI) has been conducting for aiming at creating job opportunities for residing local ethnic youths and nurturing the skilled labourers for the nation since 2016. The institute mainly offers regional demand-based modular courses especially short-courses on agriculture and livestock, hotel and tourism, engineering courses but the training period varies on courses offered. Up to 2019, the number of (41) training has been delivered to (1205) trainees for regional development.

English Language Proficiency School (ELPS) has been opening the different levels of English proficiency courses in the capital city of Myanmar. The two courses named food and beverages processing, and food and beverages services are being trained in the Food and Beverage Vocational Training Center (F&BVTC).

The School of Industrial Training and Education (SITE) is collaborated with Sea Lion Co., Ltd. and its global partners where the short course training is being opened for the certificate level on industrial technologies, woodworking and renewable energy, and advanced certificate training on the industrial automation, CNC production technologies, water & wastewater management and CNC woodworking.

Yatana Welding Training Center (YWTC) has been delivering the (3) months-training for Arc Welding and Pipe Welding course in cooperation with Total E & P Myanmar. From the establishment year (2016) to 2019, the number of (192) trainees have been nurtured in (14) intakes.

Table (5.2) Technical Colleges/ Institutes and Vocational Institutes under DTVET

No.	Description	Types of School	Number of Schools	Eligible level of Education	Period	Level of accomplishment
1.	GTC	Regular	3	Passing high school exam	3-years	Diploma
2.	GTI	Regular	24	Passing high school exam	3-years	Diploma
3.	GTHS	Regular	37	Passing middle school exam	2-years	Certificate
4.	SMVTI, NVTI, ELPS, SITE, YWTC, F&BVT	Short Course	6	-	Varies on course	Certificate
	Grand Total		**72**			

Source: the Department of Technical and Vocational Education and Training (DTVET)

TVET Teacher Training Institute (TTTI) and Japan-Myanmar Aung San Vocational Training Institute (JMASVTI) are under processing projects that will be opened very soon. TVET Teacher Training Institute (TTTI) is being implemented with the support of the Korea International Cooperation Agency (KOICA) and Japan-Myanmar Aung San Vocational Training Institute (JMASVTI) is the grant agreement project signed with Japan International Cooperation Agency (JICA). When JMASVTI is opened, the (3) years regular training in the area of industrial engineering, automotive technology (maintenance) and auto mechanics will be delivered and the certificate will be attained as in the Government Technical Institute (GTIs).

Moreover, TVET Reform programmes are under processing to upgrade three GTIs and three GTHSs aided by the German Development Bank (KfW) starting from 2019.

In order to train the qualified technicians and skilled labourers, the DTVET is undertaking the capacity building of human resources through opening and extending the Technical Colleges, Technical Institutes and Government Technical High Schools throughout the country to cover all the remote areas for the socio-economic development of these regions. Furthermore, DTVET is cooperating with the line ministries responsible for the TVET sector and international organizations for formal and non-formal vocational training to promote TVET sector for the country. By these means, the needs of qualified human resources in various industrial sectors can be fulfilled and the future linkage among the institutes, industries and private sector will also be strongly connected.

5.3. Implementation of National Skill Standards

According to an ASEAN member state, Myanmar has been actively taking part in the establishment of the ASEAN Community (AEC) that can be narrow down the gap of poverty and socio-economy to create a peaceful, prosperous, and harmonious developed community. Thus, the ASEN countries have been economic cooperating aim at the common labour market in the region with four goals: free flow of goods, free flow of services, free flow of capital and free flow of skilled labour in the region. Since 2004, the Skill Recognition System in ASEAN Project has been implementing as the ASEAN-Australia Development Programme.

In 2007, Myanmar also organized the National Skill Standards Authority (NSSA) under the Ministry of Labour, Immigration and Population (MOLIP) to facilitate the improvement of labour market flexibility in the region and to establish the National Occupational Skill Framework for enhancing the labour productivity. To provide a legal framework for NSSA, the Employment and

Skill Development (ESD) Law was enacted in 2013. According to (MOLIP), NSSA has been conducting the assessment and awarding the different types of certificates: National Certificate of Competency, Certificate of Accreditation, Assessor Appointment Certificate and Inspector Appointment Certificate. Regarding with the occupational competency standards (OCS), there are (4) levels of standards such as level-1 (semi-skilled worker), level-2 (skilled worker), level-3 (Advanced skilled worker) and level-4 (supervisor/technician). Among them, NSSA is currently assessing level-1 and 2 and still setting up the standards to assess level 3 and 4. The numbers of (14838) level-1 skilled workers and (1160) level-2 skilled workers, totally (15998) skilled workers have been awarded certificates of OCS from November, 2014 to March, 2020. Through the skill qualification certificates delivered by NSSA, Myanmar can bring up the international recognized the skilled-workers and qualified labour market for the international investment in the country.

As discussed in the introduction part of this session, today's trend of FDI inflow becomes changing from labour-intensive, low-wages and low-skill countries to the higher capital, knowledge and skill-intensive countries for their profitable investment and market penetration. Since Myanmar is geographically endowed as the hub of the ASEAN region connecting to two sizeable markets for trading and marketing, numerous FDIs including multinational automotive corporations are making vast investments in Myanmar for the purpose of international trading as the strength of geographical location.

By analyzing the supporting activities of TVET programmes by two ministries, it is found that the Government of Myanmar has been raising the qualified competent technicians and skilled labourers to be ready for various industries as well as the considerable awareness of knowledge and updated technology to SMEs. However, it still needs to resilient support and law enforcement for MNCs to employ the trained technicians in business cooperation with local supporting SMEs resulting in the opportunity for greater participatory in global value chains (GVCs).

CONCLUSION AND RECOMMENDATIONS

This chapter aims to provide conclusion depending on the findings presented in the previous chapters and provides some recommendations for the integration of SMEs into global value chains in Myanmar. The main goal of this study is to identify how to enhance integrating SMEs into the global value chains (GVCs) by financing them and promoting human resources development (HRD) towards accelerating industrial transformation of the country. Afterward, recommendations will give how the government can promote the national industrialization process by fostering FDI and SME linkage, and providing the essential needs to supporting SMEs in industrial sector for engaging in the global market.

Conclusion

The purpose of the study is to enhance integrating Myanmar's SMEs into the global value chains (GVCs) with the support of government. To be specific analysis, the area of automotive industry was selected as the most potential sector for the industrialization process.

Along with the political and economic reform, the multi-international automotive manufacturing companies have been investing in Myanmar aiming at the penetrating into the global market initiating from the local market. The reasons why choosing Myanmar as the host country are relaxing the laws and policies on the investment, achieving incentives in the regional and international market, favorably locating at the strategic place to connect the great market. Although abundant manpower, cheap wage and low-cost production with unskilled labour are only beneficial to the garment and agricultural-based industries, these factors cannot be largely supportive in the knowledge and technology-intensive automotive industry.

In the period of economic integration all over the world, every country should take the industrialization strategy into account. The study found that some countries are very successful in applying this strategy for their economic development. For instance, due to scarcity of raw materials, South Korea emphasized the utilization of manpower in technology transfer and nurturing the skilled generation by inviting foreign investment. Along with the export-oriented policy and import-substituting financing policies for domestic enterprises and strict policies on business cooperation for foreign investors, Korea reached its target of industrialization within 19 years, the shortest period among the industrialized countries in the world.

In comparison between automotive industrial developments of two ASEAN countries, it is found that Thailand develops significantly much more than that of Vietnam due to the following possible reasons: favorable policies and tax enforcement to both FDI and local industries, promotion of localized manufacturing and encouragement of competitiveness between investors and domestic supporting industries including SMEs. Whereas in Vietnam, citizens rely on the imported automobile more than local- manufactured ones due to the price difference reflecting from the high tariff on imported parts and components.

Since Myanmar also receives the opportunities like these two countries, numerous automotive MNCs may come more and more in the future. Accordingly, Myanmar initiated its automotive industry's development with FDI's MNCs after 2011 economic reform by imposing attractive incentives on tariff and adopting Automotive Policy in 2019. However, these MNCs have been manufacturing their automobiles mostly by assembling imported parts from their mother factories and third countries.

In Myanmar, automotive enterprises are slightly few and most are servicing firms and delivering firms that import automobiles, parts, components and accessories. As automotive industry is highly capitalized and technology-based one, there are very few large enterprises that can assemble the important parts and deliver to the market but they are not as demanded as the imported cars. Also, it stills need to nurture and encourage the supporting SMEs that can produce and supply the necessary value-added raw materials and high-quality parts and components for MNCs.

Therefore, the role of government support to SMEs becomes pivotal for start-up and the growth of existing ones. The Union Government of Myanmar has been providing the fundamental needs of SMEs as the national plan in cooperation with national and international organizations. However, this study found that the formal member of SMEs registering at the SME Development Department is quite low in about (16 %) of the estimated number of SMEs (about 270000) across the country. As only SMEs members are able to apply loans or grants, it cannot fully cover the whole country because of the insufficient amount of funds in the side of lenders, and sophisticated processes in documentation and the high ranking of collateral specification by the banks in the side of SMEs. Moreover, it is found that the majority of loans receiving SMEs are agricultural-based enterprises so far. Likewise, technology transfer programmes are mainly intended for the development of these types of SMEs as evidence of successful stories they achieve.

Human Resource Development of the labour market in terms of nurturing high competent technicians and skilled labourers are also the prevailing factors to attract the FDI. Therefore, the focal ministries for Technical Vocational Education and Training (TVET) Programmes have been conducting the long-term & short-term training and mobile training in the areas of engineering and other professions by establishing the technical colleges, institutes and training schools throughout the country. Despite raising a large number of trainees, it still needs resilient support and law enforcement for MNCs so that the trained technicians and laborer can employ in their production as well as the business cooperation with local supporting SMEs towards the greater participatory in global value chains (GVCs).

Recommendations

According to the study, Myanmar has been endeavoring to improve and develop its industrial transformation goal through various reform processes in accordance with the Myanmar National Development Programme (MNDP), 12- point economic policies, Industrial Policy since 2011. To reach this target, the development of supporting SMEs plays the vital role to participate in the international market by cooperating with heavy industrial based FDI in the earlier days and to grow into large enterprises that can do export by themselves in the future.

However, as a study result of the currently situation, supporting SMEs that can produce parts and components for local and foreign invested firms need to be nurtured and prioritized to support than the other manufacturing industries. Despite having new opportunities, they are still facing many challenges due to opening of political and economic windows. The following are key recommendations based on the findings of the study for promoting the integration of Myanmar's SMEs into global value chains (GVCs).

In order to improve the internationalization of SMEs, direct exporting by themselves is rather challenging than indirect of internalization: supplying components and services to large firms doing export or foreign invested firms. Therefore, the local supporting SMEs must have the strong sufficient finance and technology to meet the requirement of these firms. The government and stakeholders have to foster the export capacity of SMEs into the global market as the backbone of national economic development. Furthermore, the country can achieve multiple benefits such as generating foreign exchange, employment opportunity and poverty alleviation.

In Myanmar, SME financing is quite limited in terms of both coverage and amount of money, and sophisticated documentation processes. Raising funds or loans to provide sufficient amount of loans in all sectors is one of the barriers of developing countries. Therefore, the government should make a kind request to the developed countries doing much investment in the country so that they support the grants and force. To ease the loan application process, banks should discard some rules that control very strictly on the immovable collateral.

According to the findings, Credit Guarantee Insurance (CGI) System created by the government and some state-owned and private banks is the only appropriate and favorable type of loan for SMEs. In this system, SMEs are able to apply the credit with or without pledged collateral that can be move or movable. Therefore, the government should attempt to reserve the large amount of credit guarantee fund for SMEs so that they can extend to the others lending programmes to share the risks and promote their competitiveness.

Moreover, the government and partner banks should develop Supply Chain Finance to upraise the engagement of SMEs in the supplier network to the great extent. SMEs will acquire the loans depending on the invoices of large farm and MNCs that can allow SMEs to cover the requirement of working capital and finance for consequent orders to produce and supply timely. Correspondingly, for effective financing to SMEs like as in Thailand, the government should establish the SMEs Promotion Fund for SMEs or clusters of SMEs to support their establishment, improvement, and development of business operating, a partnership or joint venture to exportable large firms including MNCs, research and development, and market promotion of SMEs in ways that would enhance the overall efficiency and capacity of the SMEs sector.

Nowadays, the climate change is getting more severe in several conditions all over the world day by day and threatening every nation. Therefore, environmental conservation has become one of the important national priorities. Along with the improvement of Industry 4.0, most of the developed countries have been combining their industrial development to environmental conservation for the country. For instance, electric vehicles (EV) are being produced for saving the energy and reducing the carbon emission to the environment. Hence, the government should encourage such kind of MNCs to invest in Myanmar by offering multiple incentives including specific tax and policy relaxation, and favouring much more loans or grants to the supporting SMEs cooperating with these MNCs.

On the other hand, government agencies can act as mediators facilitating technology transfer and other linkages between large firms and SMEs as in Singapore. Since the 1980s, the Singapore government has been subsidizing SMEs so that they can hire the technicians from MNCs to work in their firms for (2) years. By this mean, SMEs can upgrade their skills requirement and knowledge awareness to upgrade their practising technologies.

Furthermore, the SMEs suppliers should be placed in proximity to the manufacturing factories of large firms and MNCs in the same place for the transfer of encoded knowledge. Although Myanmar government has been establishing the Special Economic Zones at the major port cities other industrial zones all over the country, they cannot draw much attention to the large firms and SMEs due to numerous hurdles: insufficient infrastructures, high production cost, a long distance from market and expensive land prices.

In that case, the government should reconsider how to manage these less-utilized industrial zones for accumulating all level of firms including SMEs. Hence, the government should expose some relaxations in the Industrial Zone Law and upgrade and provide adequate infrastructures for attracting FDIs and giving favour to the local firms. The enforcement of government is also necessary to endorse the Foreign Direct Investment Law in which the foreign investors must utilize the localized parts from the SMEs, make joint-venture or Public-Private-Partnership (PPP) with the local large firms and supporting SMEs, and technology transferring as the specific agreement within the parties. For the sake of doing it, the government should impose tax relaxation and tariff incentives to both MNCs and local firms as in Thailand while reduce taxation on the imported inputs to encourage the localization and competitiveness of local firms.

Raising Awareness of SMEs about the benefits of global supply chains is also prevalent to seize the opportunities and to mitigate the challenges they will encounter in the market. Thus, the government bodies should undertake not only holding knowledge sharing programmes, but also conducting the training on basic market-related topics such as drawing business plans, finance and accounting, marketing, market penetration and market expansion in cooperation with the intellectuals and relevant organizations. To achieve much effectiveness, the executive persons, expects and technicians should invite from the MNCs to the government's knowledge sharing and technology transferring programmes to share their practical experience and demanding specifications in cooperation with them.

Regarding on the HR development, the government has been nurturing the skilled laborers through TVET programmes in cooperation with international organizations across the country. The most imperative thing is to educate and motivate the young generations in the rural and remote area who are difficult to access the higher education so that they can continue the vocational education for raising their lives from farming to industry as in Korea that transformed its economy from agriculture-based to industrialized through TVET trainings to farmers and young generation from the rural area.

To be affordable education for everyone, the government should subsidize the training courses to take their fields of interest without any barriers. When they accomplish the trainings, financing in loans or grants should be supported to the persons who are willing to be start-ups and entrepreneurs, and the government should arrange and recommend the persons who desire to employ in the applicable firms and industries. To employ at the MNCs, they need to be high-qualified technicians as the international standard and the government should add strong policies relevant to each sector in Industrial Policy and in the Labour Law to recruit the local high competent technicians and employers proportionally based on the workforce of invested foreign firms.

The study has discussed and interpreted the important issues to promote the integration of supportive SMEs into global value chains by financing them and promoting human resource development. Based on this study results and findings, Myanmar can develop a plan of action and polices most suited to its particular situation that will enable to address the establishment and requirement of supporting SMEs and to promote linkage to FDI in the country by learning the lessons from the industrialization implications of South Korea, Thailand and Vietnam. With close cooperation and coordination between FDI, Myanmar can integrate into the global value chains (GVCs) very straightforwardly resulting in the socio-economic development towards the industrialization goal in very near future.

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Appendix (A)

Table (2.1) Types of Industries in Myanmar

1. Food and Beverages (a) Food stuff Industries (b) Beverage Industries (c) Tobacco and related products Industries (d) Pharmaceutical, chemical and botanical products for medicinal Products Industries
2. Clothing and Apparel (a) Textiles Industries (b) Clothing Industries (c) Production of textiles, cotton and animal by-products for apparels
3. Construction Materials (a) Furniture Industries (b) Wood-based Industries (c) Iron and Steel Milling (d) Construction Materials Manufacturing Industries (e) Construction and Other Manufacturing
4. Personal Goods (a) Leather and related products Industries (b) Personal and cosmetic Industries
5. Consumer Products (a) Rubber and polymer Industries (b) Toys Production Industries (c) Paints for building and auto Industries

6. Literature and Arts (a) Paper and Paper Products Industries (b) Telecast, broadcast and Printing
7. Raw Goods (a) Coke and Refinery Industries (b) Chemical and Chemical Product Industry (c) Production of non-metal mining products (d) Basic Metal Production (e) Advanced Rubber Raw Material Production Industry
8. Metal and Mineral Production a) Innovated metal products industries (except machineries and tools) (b) Metallurgical Products production
9. Agriculture Machinery (a) Farm Machineries (b) Pumps (c) Hand tools for farming
10. Industrial Tools and Equipment (a) Machineries and Tools (that are not shown in other) (b) Cable and Steel Wire
11. Automobiles (a) Vehicles, trailers and semi-trailers (b) Other transportation materials (c) Tire and Tubes (d) Auto-parts Industries

12. Electrical Equipment (a) Computer, Electrical, Television and related products (b) Electrical and Electronic Products (c) Electric Power Generator and related machineries (d) Electric Power Transmitting and Distributing and related Items
13. General (a) Machine and Machineries assembling and repairing (b) Other Production

Source: Industrial Policy of Myanmar (Ministry of Industry, 2016)

Appendix (B)

Table (2.2) Yearly Approved Amount of Foreign Investment (By Country)
(2011-12 FY - 2018-19 FY)

(USD in million)

Sr No.	Country	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total	Share (%)
1	Singapore		418.233	2300.121	4297.185	4251.223	3820.764	2163.963	3133.991	**20385.480**	**44.36%**
2	China	4345.728	231.773	56.160	511.415	3323.853	482.591	1395.219	939.309	**11286.048**	**24.56%**
3	Viet Nam	18.147	329.390	142.000	175.400	4.676	1386.200	20.806	64.935	**2141.554**	**4.66%**
4	Hong Kong		84.839	104.004	625.556	225.165	213.700	251.982	524.274	**2029.520**	**4.42%**
5	U.K	99.831	232.700	156.864	850.759	75.310	54.320	211.179	198.037	**1879.000**	**4.09%**
6	Thailand		1.300	529.072	165.679	236.174	423.058	123.858	286.033	**1765.174**	**3.84%**
7	The Netherlands		10.301		302.405	438.025	5.000	533.923	32.398	**1322.052**	**2.88%**
8	R.O.K.	25.572	37.942	81.205	299.586	128.091	66.423	253.904	166.392	**1059.115**	**2.30%**
9	Japan	4.318	54.063	55.711	85.740	219.793	60.423	384.119	177.395	**1041.562**	**2.27%**
10	Malaysia	51.864	4.324	616.108	6.724	257.221	21.390	21.877	9.119	**988.627**	**2.15%**
11	India	73.000	11.500	26.040	208.886	224.223		10.993	24.925	**579.567**	**1.26%**
12	U.S.A				2.041	2.610		128.680	154.240	**287.571**	**0.63%**
13	Canada		2.102		153.924	1.277	5.150	1.360		**163.813**	**0.36%**
14	Samoa				30.214	0.450	22.060	38.640	46.962	**138.326**	**0.30%**
15	Taiwan			0.760	5.489	8.293	10.458	17.210	89.340	**131.550**	**0.29%**
16	Brunei Darussalam		1.000	2.273	43.873	26.483	18.026	8.074	13.589	**113.318**	**0.25%**
17	U.A.E			4.500	1.692			100.500		**106.692**	**0.23%**
18	France			5.360	67.250		0.790	7.340	0.490	**81.230**	**0.18%**
19	Republic of Liberia				64.601					**64.601**	**0.14%**
20	Australia			17.696		29.733	16.290			**63.719**	**0.14%**
21	Luxembourg			5.200	40.150	0.400		1.527		**47.277**	**0.10%**
22	Switzerland				27.000	1.695			17.109	**45.804**	**0.10%**
23	Indonesia					13.190	9.034	9.859	0.950	**33.033**	**0.07%**
24	Seychelles					1.320	2.980	8.182	14.629	**27.111**	**0.06%**

Yearly Approved Amount of Foreign Investment (By Country) [Continued]
(2011-12 FY - 2018-19 FY)

(USD in Million)

Sr No.	Country	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total	Share (%)
25	Panama	26.000								**26.000**	**0.06%**
26	Cambodia						1.675		22.500	**24.175**	**0.05%**
27	Norway				11.800			6.000		**17.800**	**0.04%**
28	Germany				3.600		1.153	10.398		**15.151**	**0.03%**
29	Sweden				14.300					**14.300**	**0.03%**
30	Lebanon						12.980		1.044	**14.024**	**0.03%**
31	Marshall Island				4.499		6.510	1.000	0.350	**12.359**	**0.03%**
32	Mauritius				9.009					**9.009**	**0.02%**
33	Ireland						6.950	1.103		**8.053**	**0.02%**
34	New Zealand					6.950				**6.950**	**0.02%**
35	Bangladesh					2.356	1.077	1.500		**4.933**	**0.01%**
36	Qatar					4.500				**4.500**	**0.01%**
37	Macau							3.640		**3.640**	**0.01%**
38	Italy								3.299	**3.299**	**0.01%**
39	Sri Lanka				1.250			1.250		**2.500**	**0.01%**
40	Austria								1.865	**1.865**	**0.00%**
41	South Africa					1.309				**1.309**	**0.00%**
42	Cook Islands					1.150				**1.150**	**0.00%**
43	Laos			0.883						**0.883**	**0.00%**
44	Belize						0.810			**0.810**	**0.00%**
45	Afghanistan					0.653				**0.653**	**0.00%**
46	Philippines				0.506					**0.506**	**0.00%**
47	Cyprus									**0.000**	**0.00%**
48	Denmark									**0.000**	**0.00%**
49	Israel									**0.000**	**0.00%**
50	Russia Federation									**0.000**	**0.00%**
	Total	**4644.460**	**1419.467**	**4103.957**	**8010.533**	**9486.123**	**6649.812**	**5718.086**	**5923.175**	**45955.613**	**100.00%**

Source: Directorate of Investment and Company Administration: DICA (2020)

Appendix (C)

Table (2.3) Yearly Approved Amount of Foreign Investment (By Sector)
(2011-12 FY -2018-19 FY)

(US $ in million)

Sr No	Sector	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total	Share (%)
1	Agriculture		9.650	20.269	39.666	7.180		134.485	29.769	**270.788**	**0.59%**
2	Livestock & Fisheries		5.600	96.016	26.861	8.250	96.678	27.661	189.853	**450.919**	**0.98%**
3	Mining	19.897	15.334	32.730	6.259	28.923		1.310	6.000	**110.453**	**0.24%**
4	Manufacturing	32.254	400.716	1823.882	1502.013	1069.846	1179.514	1769.177	2054.502	**9831.904**	**21.39%**
5	Power	4343.978	364.201	46.511	40.110	360.100	909.883	405.774	185.960	**6656.517**	**14.48%**
6	Oil and Gas	247.697	309.200		3220.306	4817.790			10.204	**8605.197**	**18.73%**
7	Construction										
8	Transport & Communication	0.634		1190.232	1679.304	1930.996	3081.149	901.639	1852.558	**10636.512**	**23.15%**
9	Hotel and Tourism		300.000	435.210	357.949	288.395	403.646	176.767	92.158	**2054.125**	**4.47%**
10	Real Estate			440.573	780.745	728.680	747.620	1261.977	491.313	**4450.908**	**9.69%**
11	Industrial Estate					10.000		34.037	82.932	**126.969**	**0.28%**
12	Other Services		14.766	18.534	357.320	235.963	231.322	1005.259	927.926	**2791.090**	**6.07%**
	Total	**4644.460**	**1419.467**	**4103.957**	**8010.533**	**9486.123**	**6649.812**	**5718.086**	**5923.175**	**45955.613**	**100.00%**

Source: Directorate of Investment and Company Administration: DICA (2020)

Appendix (D)

Table (2.4) Capital Goods Import to Myanmar in 2011-2019

(By country)

(USD in thousand)

No.	Countries	2011	2012	2013	2014	2015	2016	2017	2018
1	China	981066.416	701248.753	1288681.633	1825803.388	3118493.755	1981333.773	2148380.939	1801148.767
2	Singapore	284958.142	376931.292	372198.009	522265.4726	975588.7124	293946.2211	69485.21114	77586.76961
3	Korea, Rep.	277463.1	89266202	956259.313	159848.7352	198624.3542	171984.2589	225298.7128	157583.1256
4	Japan	265229.197	311508.903	753476.427	876784.5331	927560.8336	798572.0764	654347.6085	409227.0277
5	United States	133621.643	34732.317	81337.901	39253.56839	48761.08231	50375.0063	345308.2136	101395.3705
6	Thailand	110680.256	116850.916	236847.574	480054.1978	516973.0196	593056.4872	617133.3072	843815.052
7	Georgia	66149.747	33735.25	28382.827					
8	India	54813.749	51357.952	59470.658	210715.1049	113471.6928	115798.446	163554.6818	176167.7405
9	Indonesia	35029.131	11602.636	13080.995	41523.02082	56502.95947	29862.77991	37989.32728	48392.56036
10	Switzerland	34610.151	744.502	4391.181	3005.33961	4245.90195	2383.21416	12398.7989	6943.93058

Source: World Bank: World Integrated Trade Solution WITS (2020)

Appendix (E)

Table (3.1) Registered Private Industrial Enterprises

(by 1990 Private Industrial Enterprises Law)

(30.3.2019)

Sr No.	Commodity Group	No. of Industrial Enterprises				%
		Large	Medium	Small	Total	
1.	Food & Beverages	3957	5848	19427	29232	56.99
2.	Clothings Appreal & Wearing	859	872	1337	3068	5.98
3.	Construction Materials	1191	1523	1906	4620	9.01
4.	Personal Goods	687	665	458	1810	3.53
5.	Household Goods	147	90	88	325	0.63
6.	Printing & Publishing	106	214	132	452	0.88
7.	Industrial Raw Materials	231	190	181	602	1.17
8.	Mineral & Petroleum Products	397	721	2322	3440	6.71
9.	Agricultural Equipment	12	29	38	79	0.15
10.	Machinery & Equipment	29	37	30	96	0.19
11.	Transport Vehicles	75	30	14	119	0.23
12.	Electrical Goods	66	16	17	99	0.19
13.	Miscellaneous	242	1190	5923	7355	14.34
	Total	**7999**	**11425**	**31873**	**51297**	
	%	**15.59**	**22.27**	**62.13**	**100**	**100.00**

Source: Ministry of Planning, Finance and Industry

Appendix (F)

Table (3.2) Automobile Manufacturing Companies in Myanmar (2011-2019)

Sr. No.	Manufacture		Brand	Country of Origin	No. of Models	System	Year of Permission
1.	Super Seven Stars Motor Industry Co., Ltd.	Citizen	KIA	Korea	3	SKD	2012
2.	Dynamic Industry Co., Ltd.	Citizen	KIA	Korea	4	SKD	2012
3.	Myanmar General Motor Co., Ltd.	Citizen	Lifan	China	2	SKD	2012
4.	Suzuki (Myanmar) Motor Co., Ltd.	Foreign	Suzuki	Japan	4	SKD	2013
5.	Tan Chong Motor(Myanmar) Co., Ltd.	Foreign	Nissan	Japan	1	SKD	2013
6.	Myanmar Economic Holding Co., Ltd.	Citizen	Yutong	China	2	SKD	2013
7.	Khaing Khaing Sanda Co., Ltd.	Joint-Venture	KSD	China	1	SKD	2013
8.	SC Auto (Myanmar) Co., Ltd.	Foreign	SC NEUSTAR	China	1	CKD	2015
9.	Capital Motor Co., Ltd.	Joint-Venture	Ford	USA	2	SKD	2016
10.	Aung Gabar Motor Service Co., Ltd.	Citizen	BAIC	China	4	SKD	2017
11.	Shwe Dehan Motor Co., Ltd.	Foreign	Hyundai/Daehan	Korea	12	SKD	2018
12.	Daewoo Bus Myanmar Co.,Ltd	Joint-Venture	Daewoo	Korea	2	SKD	2018
13.	Dagon Arr Mahn Thit Co., Ltd.	Citizen	SOUEAST Motor	China	4	SKD	2018
14.	Myanmar Brilliance Auto Co., Ltd.	Citizen	Brilliance	China	3	SKD	2018
15.	Gold AYA Motor International Group Co., Ltd.	Joint-Venture	DODA, CHANGHE, JETOUR, KARRY, BYD	China	11	SKD	2018
16.	Suzuki Thilawa Motor Co., Ltd.	Foreign	Suzuki	Japan	2	SKD	2018

Source: Ministry of Planning, Finance and Industry

Appendix (G)

Table (4.4) Financing SMEs (Loans supporting by Government)
(2012-2019)

(Million in Kyats)

Sr. No.	Fiscal Year	SMIDB Loan (2012-2015)		JICA Two Steps Loan (Phase-I) (2015-2019)		JICA Two Steps Loan (Phase-II) (2018-2019)		CGI (2016-2019)		MEB Loan (2018-2019)		Total	
		SMEs No.	**Amount**	**SMEs No.**	**Amount**	**SMEs No.**	**Amount**	**SMEs No.**	**Amount**	**SMEs No.**	**Amount**	**SMEs No.**	**Amount**
1	2012-2013	62	9,970.00									**62**	**9,970.00**
2	2014-2015	394	10,668.00									**394**	**10,668.00**
3	2015-2016			11	4,808.00							**11**	**4,808.00**
4	2019-2017			175	36,750.43			31	681.5			**206**	**37,431.93**
5	2017-2018			127.00	23,588.55			253	2,606.00	12	980.00	**392**	**27,174.55**
6	2018-2019			55.00	111,128.50	188	36,312.00	488	5,444.40	255	12,651.75	**986**	**165,536.65**
7	2018-2019 (Mini Fiscal Year)			8.000	1683.00	238	37405.60	147	3671.00	13	375.00	**406**	**43,134.60**
	Grand Total	**456**	**20,638.00**	**376**	**177958**	**426**	**73717.60**	**919**	**12402.90**	**280**	**14006.75**	**2457**	**298,723.73**

Source: Ministry of Planning, Finance and Industry