

Summary

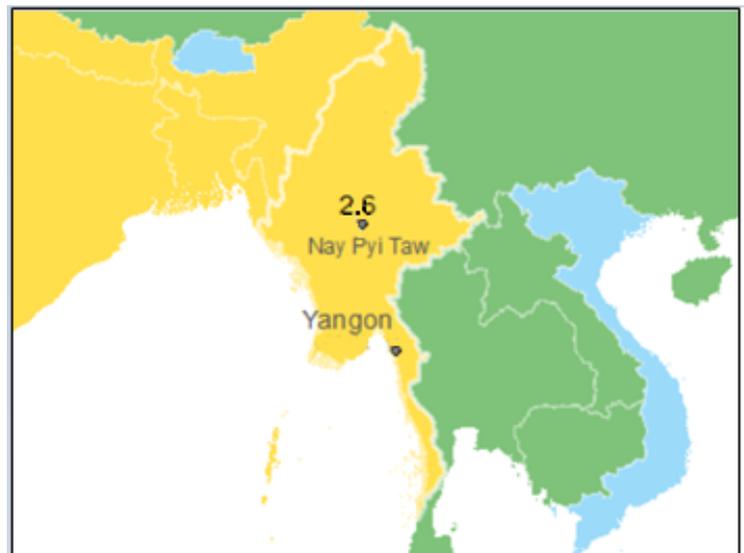
- Myanmar’s democratically-elected government is stable, but the military is still politically powerful and holds three key cabinet posts, including defence
- While the government is committed to seek private investment across sectors, its lack of governance experience is likely to delay policy implementation
- Fighting between ethnic minorities and the military in Kachin and Shan states poses disruption risks to road cargo transport and infrastructure projects

Risk scores

Overall

2.6 ⇒
HIGH

▶ Political	2.3	Elevated	⇒
▶ Economic	2.5	High	⇒
▶ Legal	2.5	High	⇒
▶ Tax	1.8	Elevated	⇒
▶ Operational	3.7	Very High	↗
▶ Security	2.6	High	↗
▶ Individuals	2.1	Elevated	⇒
▶ Cargo and transport	1.6	Elevated	↗



Structure and calculations

Analysts determine scores based on qualitative guidance. Each score represents the average expected level of risk over the coming year, and each outlook represents the projected direction of risk trends after that 12-month period. Overall risk scores are calculated as equally weighted averages of the six aggregate categories – Political, Economic, Legal, Taxation, Operational and Security. Risk is scored on a 0.1-10 scale. The scale is logarithmic, with intervals of 0.1 magnitude. This range is split into seven bands, ranging from Low to Extreme risk.

Business environment - strengths and weaknesses

Strengths	Weaknesses
Myanmar's abundance of under-utilised natural resources render it an attractive country for foreign investment.	The government's policy priorities lack detail, and the bureaucracy severely lacks capacity.
Myanmar's emergence from decades of international isolation after the lifting of numerous sanctions in April 2013 has created demand for consumer goods and strong growth prospects in sectors such as retail and telecoms.	Transport and communications infrastructure is poor in most of the country, except Yangon and the capital Naypyidaw.
Investments are likely to be relatively secure, provided that foreign investors undertake joint ventures with well-connected domestic firms and individuals.	Large sectors of the economy will continue to be ring-fenced to protect the vested economic interests of local businesses affiliated with political or military elite.
Labour rates are likely to be competitive compared with regional neighbours.	Ethnic insurgencies continue in several states, increasing the risk of business disruption due to attacks on commercial assets, such as oil and gas pipelines and mining operations.

Country risk - overall statement

Following the end of military rule in November 2010, Myanmar is still transitioning to civilian rule. The incumbent National League for Democracy (NLD) government took power in April 2016 and remains stable with control in both houses of Parliament. The military, however, is still politically powerful; it controls 25% of all parliamentary seats and important ministerial positions. Several of Myanmar's ethnic minorities have continued to fight for territorial control since the 1950s. Particularly in northern states, including Shan and Kachin, fighting involves artillery and airstrikes, causing the displacement of thousands of civilians. Myanmar's economy has grown by more than 7.5% per year on average during the past five years, and continued growth of over 7% is likely in the medium term.

Detailed analysis

The Myanmar government's continued stability depends on key compromises with the still-politically-powerful military, which holds three key cabinet posts

The National League for Democracy (NLD) government, which took office in April 2016, remains popular and its position is stable. The NLD convincingly won the November 2015 elections and currently controls both houses of Parliament. NLD president Aung San Suu Kyi is de facto leader of Myanmar, holding the positions of state counsellor, president's office minister, and foreign affairs minister. A close Aung San Suu Kyi aide, Htin Kyaw, is president, effectively as her proxy, because she is constitutionally prohibited from that office.

The government's stability furthers the trend of a relatively calm transition from military to civilian rule since 2010. The military is still politically powerful, and under the constitution controls three key cabinet posts (defence, home affairs, and border security), 25% of parliamentary seats (giving it a veto over any proposed constitutional changes),

and the National Defence and Security Council (which can declare the imposition of emergency rule and would then govern). The military's full withdrawal from politics would probably be a drawn-out process, if it were ever to occur.

Aung San Suu Kyi has a good working relationship with the head of the military, Senior General Min Aung Hlaing, whose extended tenure will likely keep him in office throughout this NLD administration. Min Aung Hlaing should be considered Myanmar's second leader. The NLD wants to achieve two goals that require the military's co-operation: amending the constitution (to reduce the military's political power) and concluding a comprehensive peace deal with ethnic armed groups, which would mostly likely entail greater regional autonomy, something the military opposes. The NLD is likely to consult with the military all through its five-year term in an attempt to attain these aims. Any attempt to force these issues on the military would increase the risk of a coup, and the NLD is therefore unlikely to push the military too far.

Consequently, if the NLD government maintains this relationship with the military, it is likely to last for its full five-year term. Although Aung San Suu Kyi has faced international pressure in the last year over her failure to speak out against alleged ethnic cleansing and human rights abuses committed by the army in Rakhine State, she remains popular and is the iconic figure with the potential to continue to spur Myanmar's transition towards more complete civilian rule. However, she will be 76 years old when her current term ends and she has not indicated a successor; if future NLD leaders cannot maintain smooth relations with the military, the risk of government instability will increase.

While Myanmar's government intends to seek more private investment across sectors, its lack of governance experience is likely to delay policy implementation

All segments of Myanmar society – including, crucially, the military – are committed to furthering the transition from military to civilian rule that began with the general election in November 2010. Although the overall trend is geared towards greater openness, the government's severe lack of capacity is likely to slow policy implementation, with policy details taking time to be clarified. After winning the majority in the November 2015 election, the National League for Democracy (NLD) is experiencing its first stint in power, and therefore lacks governing experience.

Policy formulation and implementation are likely to continue to be slow or piecemeal. For instance, the government only released a general 12-point economic policy in July 2016, four months after it took office. Similarly, the necessary bylaws for the Myanmar Investment Law passed in November 2016 were not enacted until February 2017. Bylaws and guidelines for the new Company Law passed in December 2017 have also yet to be finalised, and the date for the law to be enacted has been postponed to August 2018. Both businesses and government officials are likely to experience uncertainty until such details are provided and the practical interpretation of regulations is established.

The government's overall economic policy is tied to its national reconciliation objectives: to achieve a comprehensive peace deal with Myanmar's ethnic armed groups. Although a peace process is under way, the largest insurgent groups have not signed the agreement. In practice, the government is therefore likely to encourage investment in parts of the country that have lagged economically, including those states where there is ongoing fighting, to alleviate the militants' complaints.

Besides national reconciliation, policy priorities are agriculture, infrastructure, and manufacturing, including support for small and medium-sized enterprises (SMEs). The government also aims to privatise some state enterprises, strengthen and improve the transparency of the public finance system, and further open Myanmar to international trade and investment. To that end, the October 2016 Investment Law removed the need for investment permits except for strategic, large, or environmentally-sensitive projects. Similarly, the December 2017 Company Law will, after it is enacted by August 2018, increase the threshold for foreign investment in domestic firms from zero to 35%, opening up a range of activities to foreign firms.

China is Myanmar's largest investor, and the NLD has sought to improve ties with China after relations cooled under the previous USDP administration. Investment is also being sought from India, Japan, and ASEAN members. The

United States and the European Union have removed sanctions against Myanmar, except for arms embargoes, facilitating investment by Western firms.

Fighting in Shan and Kachin states poses disruption risks to infrastructure projects and puts local communities at risk of harm

In 2015 and in 2017, fighting intensified further in terms of frequency of attacks/operations and in terms of weapons used by the military and ethnic armed groups, particularly in Shan and Kachin states. The conflict involves artillery and small-arms fire, with the military also occasionally conducting air attacks involving jet aircraft and helicopter gunship fire. The fighting usually displaces civilians. In September 2016, the government launched a peace process with the Panglong Conference, but dialogue stalled in early 2017 as the militants and the security forces engaged in renewed fighting. Talks concluded without progress in May 2017. As the process progresses, fighting is likely to continue, especially with groups not participating in the dialogue.

Although mostly involving the military and one or more ethnic armed groups, fighting can also occur between the ethnic groups themselves or with local militia or the paramilitary Border Guard Force. The diversity of actors involved indicates the likely difficulties facing the government's peace process. For example, immediately after the Panglong Conference in September and October 2016, military units fought with the Kachin Independence Army in Kachin State, a Democratic Karen Benevolent Army spin-off group in Karen State, and the Shan State Army-South (SSA-S) in Mong Kung Township, central Shan State. Additionally, the United Wa State Army (UWSA), a China-allied ethnic armed group, fought the Myanmar National Democratic Alliance Army in eastern Shan State. Such fighting appears to have been on the initiative of local military or ethnic army commanders and would not indicate that the peace process has been derailed entirely. Talks were recently postponed again in May 2018.

Fighting poses disruption risks to road cargo transport and infrastructure development in the states concerned and along the Myanmar-China border. Infrastructure projects are not directly targeted, but risk disruption and collateral damage due to fighting nearby and stray bullets or artillery rounds. The China-Myanmar oil and gas pipelines pass through Shan State, but the many Myanmar military battalions deployed along the pipeline route and the presence of the UWSA in the vicinity decreases risks of collateral damage to the pipelines.

In addition, since October 2016, the military has been fighting Rohingya militants mainly around Maungdaw Township, western Rakhine State, bordering Bangladesh. Security operations in Rakhine are ongoing, with the military reportedly using helicopter gunships. The fighting displaced at least 120,000 civilians in 2017 and is likely to persist until the military determines that it has eradicated the militants in that part of Myanmar. As a response to reported discrimination against Rohingyas, on 25 June 2018, the EU placed seven officers of Myanmar's border guard and police forces under sanctions. These sanctions include asset freezes and a travel ban.