Opportunities and Risks of Foreign Direct Investment in Myanmar

By

Miss Lwan Po

ID: 5817190038

Supervised by

Dr. Tanakorn Limsarun

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Miss LWAN PO

Student ID: 5817190038

This independent study has been approved for the partial Fulfillment of the Requirement of the Degree of Master in International Business Management in Business Administration.

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Date......5....../......Oct......../......2019........

(Dr. Tanakorn Limsarun)

(Supervisor)

....

(Associate Professor Dr. Jomphong Mongkhonvanit)

Dean, Graduate School of Business Administration

Date......12....../......Oct......../......2019........

Siam University, Bangkok, Thailand

Abstract

Research Title : Investing in Myanmar: Opportunities and Risks

Researcher : Lwan Po

Student ID : 5817190038

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Advisor : ....

(Dr. Tanakorn Limsarun)

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After decades of isolation, foreign direct investment began to flourish as a seemingly civilian government replaced the military junta in 2011. While the prospects of this new market have captured the excitement of investors, Myanmar has yet to facilitate foreign investment efficiently. Primary objectives of the study were to assess contemporary risks and opportunities of investing in Myanmar and give recommendations for foreign investors. The study was particularly significant for foreign companies considering investing in or has already begun operating in Myanmar. The information provided could aid top management with deciding whether to invest, and operation and middle management with what to expect of local businesses and environmental factors, such as access to internet and electricity. Articles published on EBSCO Host between 2013 and 2019 were included in the study. Other articles from news agencies have been used to supplement them with up-to-date and specific information regarding events and the business environment. Opportunities included: (1) Natural resources; (2) Large market & demand for goods; (3) Low wages. Risks include: (1)

Inefficient & inexperienced government; (2) Inadequate transport and energy infrastructure; (3) Restricted economic sectors for FDI; (4) Internal conflict with ethnic groups; (5) Underdeveloped banking & finance sector; (6) Lack of skilled labor. A survey of 197 international firms which had existing FDI in Myanmar was conducted for the study. The survey explored their perception of 17 investigated factors with economic impact. The findings showed a majority of risk factors and the average of the means was 3.312. Before making strategic decisions, the top management was recommended to study the factors introduced in this study, as well as analyzing their implications for their own companies, brands, operations, and product lines. Operation and middle management of investing firms should be aware of several limitations when managing and operating businesses in Myanmar. The author recommended further research into the motivations and drawbacks of the top foreign investors of FDI in Myanmar: Singapore, China, Hong Kong, Thailand, South Korea, and United Kingdoms.

Keywords: Foreign direct investment, Myanmar, opportunities, risks, final frontier.

Approved

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Author

Lwan Po

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1 Introduction

After decades of isolation, foreign direct investment began to flourish as a superficially civilian government replaced the military junta in 2011 (Tin Maung Maung Than, 2015). Since then, Myanmar has taken a turn from nationalistic socialism to embracing capitalism, beginning an economic transition from agriculture to industry.

Myanmar was one of the last markets to open up its borders for multinational corporations, and has commonly been referred to as "Asia's final frontier" (Frankel, 2017; Dunne, 2018) since 2012 when major Western sanctions were lifted (Tin Maung Maung Than, 2015). Companies such as the Coca-Cola Company ('Coca-Cola Plant,' 2013) and Unilever ('Unilever partners,' 2017) were among the first to enter.

While the prospects of this new market have captured the excitement of investors, Myanmar has yet to facilitate foreign investment efficiently. In this regard, extensive analysis of opportunities and risks is imperative for the investor. The current study has accessed recent sources and compiled relevant information in order to provide an overview of factors as well as recommendations for interested parties.

1.1 Problem of study

The problem which the current study attempts to answer is whether the opportunities outweigh the risks of investing in Myanmar. The study collected survey responses to identify and estimate major opportunities and risks. Opportunities can be defined as factors which increase the amount, profitability, and efficiency of foreign direct investment, while risks decrease these components.

1.2 Objectives

The objectives of the study are to: (1) Review current foreign direct investment laws; (2) Estimate foreign direct investment by country and sectors; (3) Identify opportunities and risks reported in the literature (4) Compare the number of opportunities and risks through descriptive statistics based on survey results; (5) Conclude assessment with recommendations for foreign investors.

1.3 Scope

Articles published on EBSCO Host between 2013 and 2019 were included in the study. Other articles from news agencies have been used to supplement them with up-to-date and specific information regarding events and the business environment.

The current study emphasizes articles describing the economic environment of Myanmar in recent years, i.e. since 2015, because of Myanmar's rapid transitions and even turbulences from year to year, e.g. in terms of regulations and laws, and political conflicts.

1.4 Significance

The study is particularly significant for foreign companies considering investing in or has already begun operating in Myanmar. Information regarding Myanmar's current economic development growth and its drivers and barriers, are key factors for determining the threats and opportunities for conducting business in the country. Furthermore, by understanding the economic as well as political history and changes, the investor can get a better grasp of the current and long-term situation in Myanmar. The information provided can aid top management with making strategic decisions, i.e. whether to invest, how much, and in which sectors, and operation and middle management with what to expect of local businesses and workers and environmental factors, such as access to internet and electricity.

1.5 Operational definitions

MNC. Multinational corporations (MNCs) has facilities and assets in at least two countries ('Multinational Corporation,' 2018). The term MNC typically refers to large, international corporations, which operates in several countries, continents, or even globally.

Sanction. Economic sanctions are commercial and financial restrictions imposed on governments, groups, or individuals ('Economic sanctions,' 2018). The sanctions are implemented in the forms of trade barriers and tariffs.

FDI. Foreign direct investment (FDI) is the establishment or acquisition of business operations in another country ('Foreign Direct Investment,' 2018).

Net inflow. Net inflow of FDI is the total value of direct investments made by non-resident investors to a particular economy ('What is the difference,' n.d.). While approved FDI is the attainment of permits, inflow is the actual amount invested by the foreign entities.

MIC. The Myanmar Investment Commission (MIC) is government body under the Ministry of Planning and Finance that is responsible for preparing permits for foreign investors ('Myanmar Investment Commission,' 2018).

DICA. The Department of Investment and Company Administration (DICA) is a government agency under the Ministry of National Planning and Economic Development, which is responsible for company regulations, and serves as the link between firms and the government ('Directorate of Investment,' 2018).

Rohingyas. The Rohingya is a Muslim ethnic group in Myanmar.

Conglomerate. A conglomerate is the combination of two or more companies operating in different sectors under a single corporation group ('Conglomerate,' 2018). A conglomerate usually consists of one parent company and multiple subsidiaries, and are large and international.

Joint venture. A joint venture is a business project conducted by two or more business entities (Murray, 2018).

2 Literature Review

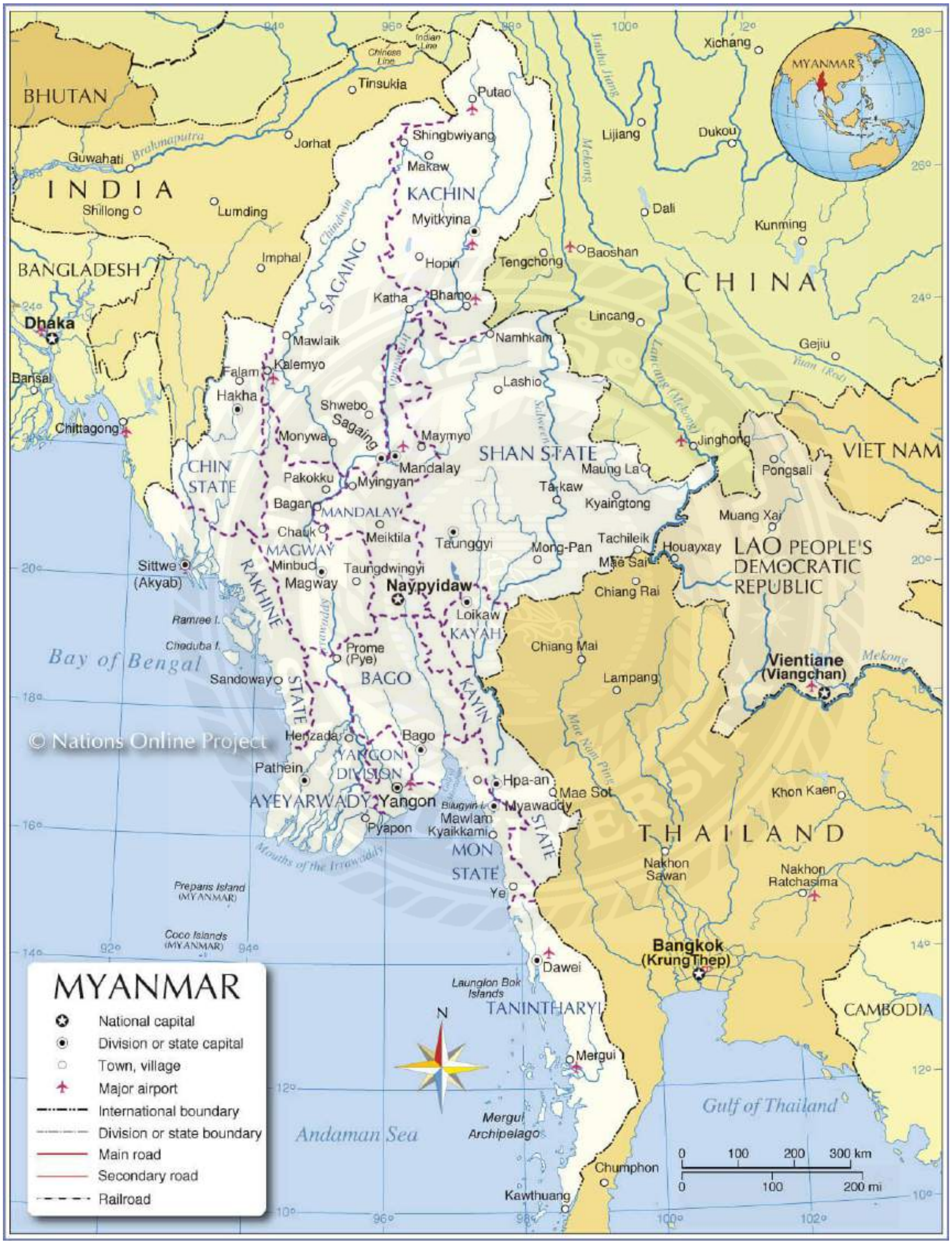


Image: Administrative map of Myanmar ('United Nations,' 2015).

2.1 Background

Myanmar achieved independence from the British Empire in 1948 for supporting the allied forces during the final phase of World War II against the Japanese ('Myanmar,' 2018). However, about a decade later, in 1962, the military staged a coup d'état, overthrowing the civilian government backed by the UN. In 2011, the military junta was dissolved, and Thein Sein was appointed as the president of the new government.

Myanmar's lagged development can be explained by the military's implementation of Socialism and central planning, which was similar to the system used by the Soviet Union ('Myanmar,' 2018). The centralized planned economy denied the existence of private enterprises and the influence of market forces, thereby boosting inflation, promoting illegal trade, accumulating large amounts of debt (Tin Maung Maung Than, 2015), incurring a high imports to exports ratio, and otherwise minimizing the nation's economic competitiveness and position. Its poor development was highlighted by the recognition of Myanmar as a *least developed country* by the UN in 1987 ('Myanmar,' 2018). After decades of inferior economic performance, as well as a growing fear of the Chinese domination over its economy – particularly in the energy and raw materials sectors (Turnell, 2015), Myanmar's junta began considering embracing foreign investments in order to improve its financial standing.

Myanmar's economic turnaround began in 2011 as the government lead by Thein Sein initiated political and economic reforms, which lead to the removal of sanctions by Western nations and unions, such as the US, Canada, UK, Australia, and EU in 2012 and 2013 (Turnell, 2015). Myanmar opened its borders for foreign investment with its new foreign investment law in 2012, replacing the law of 1988, as well as establishing a managed float of the kyat (Freeman, 2014), and was soon after called Asia's *final* or *new frontier* by the media and investors.

General elections were held on 8 November 2015, and the National League for Democracy (NLD) party won an absolute majority in both chambers and national parliament ('Myanmar,' 2018). On 6 April 2016, Htin Kyaw was elected as the first non-military president, while Aung San Suu Kyi assumed the role of State Counsellor – a position equal to a Prime Minister. Despite the change to a parliamentary government, the military continues to hold a strong influence on Myanmar's financial and political affairs.

2.2 Foreign direct investment

2.2.1 Laws

The foreign investment law of 1988 was revised and came in effect in November 2012 (Turnell, 2015), which triggered the arrival of hundreds of foreign companies into Myanmar. The revision included enticements as well as restrictions in order to protect local business owners. The enticements included: Five years profits "tax free" for foreign investors; tax exemptions on goods produced for export markets; the removal of customs duties on imported inputs; 50-year land leases with two 10-year extensions; And guarantee of not being "nationalized" (Turnell, 2015). Restrictions included: Prohibited from operating in small retail, agriculture, local language media, and small scale mining and energy projects; certain activities – e.g. production and distribution of food and beverages, infrastructure and construction, large-scale mining, private hospitals and health care clinics – require a joint venture with a Burmese partner, where up to 80% foreign ownership is allowed; Banking and financial services, foreign language media, and telecommunications require special permission.

In May, 2018, Suu Kyi's government introduced a new economic reform for attracting foreign investors: Foreign companies are now allowed to invest in Myanmar's retailers and wholesalers, and owning up to 100% of their stakes (Nitta, 2018). However, certain restrictions apply: Foreign investors must invest at least $700,000 in order to own 80% stakes of retailers, and $3 million for more. Furthermore, foreign companies cannot own minimarkets and convenience stores of 929 square meters or less. For wholesalers, the company must invest at least $2 million for 80% stakes and $5 million for higher. Additionally, The Ministry of Commerce will allow foreign companies to bring their products into Myanmar and handle sales by themselves, rather than finding local importers.

2.2.2 FDI by country

Data from DICA for fiscal years 2018 (figure 1) showed that the top foreign investors operate from Singapore (29%), China (28%), Hong Kong (12%), Thailand (6%), South Korea (6%). Other nations accounted for the remaining 19%. Singapore overtook China as the greatest foreign investing country in 2018 as China's total FDI of existing enterprises fell from 18.372 billion US$ (31%) in 2017 to 17.155 billion US$ (28%) in 2018.

Figure 1: FDI by country of existing enterprises as of 31st of January 2019.

#	Country	Existing Enterprises as of 31/1/2019		
		No.	Approved Amount (in $US million)	% of Total
1	Singapore	254	19,188.807	29.82
2	China	273	17,551.916	27.28
3	Hong Kong	164	7,844.533	12.19
4	Thailand	81	3,986.298	6.19
5	Republic of Korea	151	3,827.021	5.95
6	U.K.	55	3,626.529	5.64
7	Vietnam	22	2,161.103	3.36
8	The Netherlands	19	1,297.171	2.02
9	Malaysia	36	1,127.855	1.75
10	Japan	100	1,078.208	1.68
...	Remaining countries	171	2,660.466	4.12
	Total	**1,326**	**64,349.907**	**100.00**

Data obtained from Directorate of Investment and Company Administration (DICA), 2019.

2.2.3 FDI by sector

FDI in Myanmar has predominately been in the gas and oil and extractive mining industries – evidenced by 81.6% of total FDI from 1990 to 2005 was invested in the power sector (Win et al., 2015) – but it has seen a shift to other sectors of the economy – particularly the information and communication technology (ICT) sector, including telecommunications (Dale & Kyle, 2015).

On June 26, 2013, out of 91 telephone operators, only two licenses, valid for 15 years, were granted to Norway-based Telenor – pledging a $2 billion investment, and Doha-based Ooredoo – which pledged a $15 billion investment (Dale & Kyle, 2015). In late 2014, mobile penetration had risen from about 10% to 30%, and SIM card prices had fallen from K1.5 million to K1500 in about one and a half year.

In late 2014, 31% of the FDI was in the telecommunication sector, and 23.8% in oil and gas. Furthermore, the (electric) power sector remains a large target of investment, and focuses on generating a larger and more stable supply of electricity for the growing ICT sector.

Oil and gas remained as the most valuable sector for existing enterprises in Myanmar despite falling from 21.486 billion US$ (37% of total FDI) in 2017 to 18.884 billion US$ (31%). Other major sectors in 2018 included power (24%), transportation and communication (14%), and manufacturing (13%). The other sectors accommodated for the remaining 18% of total FDI.

Figure 2: FDI by sector of existing enterprises as of 31st of January 2019.

#	Sectors (under Myanmar Investment Law)	Existing Enterprises as of 31/1/2019		
		No.	Approved Amount (in $US million)	% of Total
1	Oil and Gas	86	18,136.835	28.18
2	Power	19	15,082.852	23.44
3	Transport & Communication	47	9,687.746	15.05
4	Manufacturing	883	8,964.973	13.93
5	Real Estate	39	4,120.105	6.40
6	Hotel and Tourism	58	2,644.092	4.11
7	Mining	10	2,359.934	3.67
8	Agriculture	28	376.940	0.59
9	Livestock & Fisheries	39	373.769	0.58
10	Industrial Estate	5	257.631	0.40
...	Other Services	112	2,345.030	3.64
	Total	**1,326**	**64,349.907**	**100.00**

Data obtained from Directorate of Investment and Company Administration (DICA), 2019.

2.2.4 FDI inflow comparison between countries

Figure 3 shows the total inflow of FDI to Myanmar, other developing countries in Southeast Asia, Laos, Cambodia, Vietnam, and Philippines, and the close neighbor, Thailand. The figure illustrates great variations among the developing nations with Vietnam and Philippines receiving an inflow of 14.1 and 10.057 billion $US, respectively, compared to the inflow of 4.685, 2.784, and 0.813 billion $US to Myanmar, Cambodia, and Laos, respectively, in 2017. One determining factor for this discrepancy can be the nations' English proficiency, which is moderate in Vietnam and high in the Philippines, while being very low in Myanmar, Cambodia, and Laos ('EF EPI,' 2018). Despite receiving a low score in Thailand and Japan, other factors, such as ease of doing business and an experienced business sector, can make up for it.

Figure 3: FDI inflow line chart of Myanmar and comparable nations.

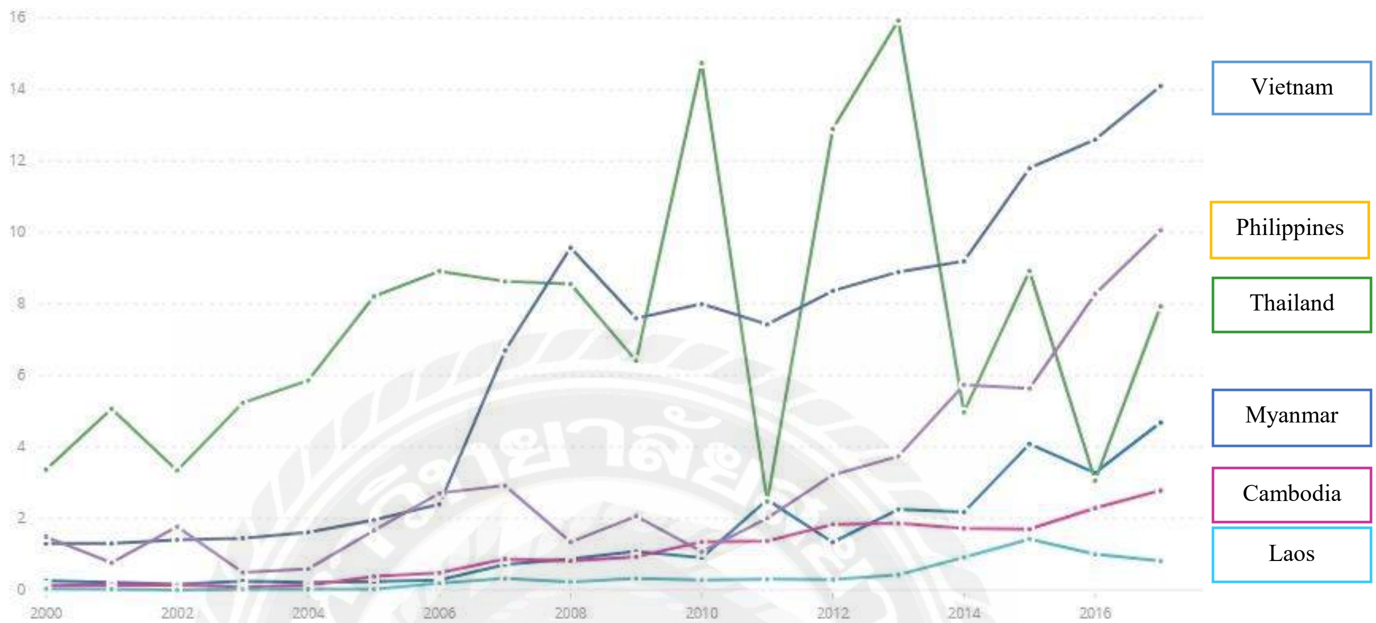


Figure 3 contains data of FDI inflow from the World Bank (‘Foreign direct investment,’ n.d.). X-axis: Years. Y-axis: Billions of US dollars. Countries by color: Myanmar - blue; Laos – teal; Cambodia – dark red; Thailand – green; Philippines – purple; Vietnam – dark blue.

2.3 Multinational corporations in Myanmar

The Coca-Cola Company opened a bottling plant in Myanmar in 2012 (‘Coca-Cola Plant,’ 2013). Other early newcomers included Heineken, Carlsberg, PepsiCo, and Ford. All five of them began operations through joint ventures: Coca-Cola, Carlsberg, and Heineken partnered with local companies for production and distribution; PepsiCo chose a local distributor combined with a Burmese-Korean producer; Ford commenced a partnership with Thailand-based RMA and the Burmese conglomerate, Capital Diamond Star Group (‘Consumer Goods,’ 2014).

Besides from the beverage and car industries, other trends include telecommunication and consumer goods production. As for the production of consumer goods, Myanmar is for some companies – such as the Taiwanese footwear producer Pou Chen – regarded as a low-wage export base, rather than producing for the limited domestic market (‘Consumer Goods,’ 2014).

Another early entrant is Unilever, operating since 2010 (‘Unilever partners,’ 2017). Initial market share and sales was modest, but when U.S. sanctions were lifted in 2016, the company experienced a rapid growth. Unilever and its rival Europe and Asia Commercial Co agreed on a joint venture in 2017, and now enjoys annual sales worth €100 million in Myanmar (‘Unilever partners,’ 2017).

Other MNCs in Myanmar include Nescafé (coffee), Burger King, KFC, Pizza Hut (fast food), and Samsung (smartphones) (Doland, 2017). While not having an official branch yet in Myanmar, Apple smartphones are readily available in the market from official and non-official resellers – the latter which receives the Apple products from Singapore and Thailand (Maiebrugger, 2013).

Some MNCs follow a more careful approach, and have yet to enter Myanmar, such as McDonalds and Starbucks (Doland, 2017).

In 2015, various foreign banks received licenses to establish branches in Myanmar, including Bangkok Bank Public Company Limited, Industrial and Commercial Bank of China, Australia and New Zealand Banking Group Limited, Mizuho Bank Limited, and others (‘Central Bank of Myanmar,’ 2015).

2.4 Opportunities and risks involved in doing business in Myanmar

The American Insurance company, AIG, gave Myanmar an overall risk score of “2.6” or “High” in May of 2018 (‘Myanmar – Business Environment,’ 2018). The score reflects the political, economic, legal, taxation, operational and security aspects of the country. The mentioned *strengths* and *weaknesses* will be assigned under “2.6.1 Opportunities” or “2.6.2 Risks”, respectively.

2.4.1 Opportunities

Natural resources. Myanmar has a large quantity of natural resources ('Myanmar – Business Environment,' 2018), such as natural gas, forests, ores, and rivers, which are attractive targets for foreign investment in the oil and gas, mining, and hydro-energy sectors.

Large market and demand for goods. Due to its long seclusion from the global market, there is large, domestic demand for consumer goods and technology from its 55 million citizens ('The World Factbook,' 2018), leading to high growth in sectors such as telecommunication and retail ('Myanmar – Business Environment,' 2018). With the telecom penetration already exceeding 75% in 2015 (Deb, 2016), budget smartphones priced around $80 are a hit in the local market (Beattie, 2013). Other untapped sectors, such as residential and commercial real estate ('Infrastructure for growth,' 2014), are growing at a fast pace.

Low wages. Myanmar's low wages makes it competitive in terms of cost of labor ('Myanmar – Business Environment,' 2018). According to the *Cost Of Doing Business in Myanmar* survey report of 2018 conducted by DICA, Myanmar's monthly minimum wages are 20% lower than Laos, Cambodia, and Vietnam, and about three times lower than those for Thailand and the Philippines ('Cost of Doing Business,' 2018). The cheap labor has already attracted the investment of Chinese, Taiwanese, European – e.g. H&M and Adidas, and US garment and footwear manufacturers (Gelb, Calabrese, & Tang, 2017).

2.4.2 Risks

Low global business ranking. Myanmar was ranked last of 189 countries on the "ease of doing business" ranking by the World Bank in 2015 (Tin Maung Maung Than, 2015) and has since climbed to 171th place in the 2018 edition ('Doing Business,' 2018). The ranking can be considered a starting point for assessing the risks involved in investing in Myanmar. According to the 2019th edition of the World Bank's *Ease of Doing Business* report of Myanmar, the country retained its ranking of 171th, and continued to struggle with low to very low scores for various business aspects: Starting a business – ranked 152nd; Getting electricity – 144th; Registering property – 136th; Getting credit – 178th; Protecting minority investors – 185th; Paying taxes – 126th; Trading across borders – 168th; Enforcing contracts – 188th; Resolving insolvency – 164th; And with one middle ranking for "dealing with construction permits" – 81st ('Doing Business 2019,' 2018).

Inefficient & inexperienced government. AIG reports that Myanmar's government lacks detail in policies, and that the bureaucracy lacks capacity and experience in order to implement new reforms effectively ('Myanmar – Business Environment,' 2018). For instance, Maw (2018) argues that the twelve-point economic policy agenda introduced by the government for fiscal year 2016/2017 has been a disappointment, due to poor prioritizing and implementation. He suggests that policy number 7, increased foreign investment, and policy number four, prioritizing basic infrastructure, can be utilized simultaneously by promoting investment in the infrastructure. Other issues of the bureaucracy is its slow pace of revising and enacting economic reforms (Maw, 2018) and completing confirmatory processes, e.g. approving projects and documents. For example, the new Company Law passed in February 2017 was postponed to be enacted in August 2018 – about one and a half year after the presentation of its guidelines ('Myanmar – Business Environment,' 2018). The sluggish performance of the bureaucracy may be rooted in the government's hierarchical structure with minimal delegation to middle management, governing competence – as high positions have been granted through affiliation rather than expertise, and widespread corruption – affecting more than one in two civil servants (Parikh, 2018). Investing firms have complained that the entry process is too long, lasting between three to four months on average (Gelb, Calabrese, & Tang, 2017).

Inadequate transport and energy infrastructure. Transport and communications infrastructure is lacking throughout the nation, besides from in Yangon and the capital Naypyidaw ('Myanmar – Business Environment,' 2018). Foreign companies complain about frequent electric outages around Yangon area, underdeveloped land infrastructure, and high freight charges due to low scale transportation options ('Infrastructure for growth,' 2014; Gelb, Calabrese, & Tang, 2017).

Restricted economic sectors for FDI. Large sections of the economy are heavily restricted in order to protect the local businesses connected with the military or political elite ('Myanmar – Business Environment,' 2018). Even though Myanmar is in a transitioning phase from a military regime to a civilian government, the military maintains considerable political power by controlling 25% of all parliamentary seats and key ministerial positions – such as defense and border affairs (Janssen, 2017).

Internal conflict with ethnic groups. Ethnic militant groups – especially in the Shan, Rakhine, and Kachin regions – continue to fight the government for autonomy. Their warfare poses a financial risk as it may disrupt business operations through attacks on commercial assets, e.g. oil and gas pipelines and mining sites ('Myanmar – Business Environment,' 2018). The military has been fighting the Rohingya militants since October 2016 mainly around Maungdaw Township in western Rakhine State, which borders Bangladesh. The conflict caused at least 120,000 civilians to be displaced in 2017, and the use of force is likely to continue until the militants have been eradicated. Furthermore, peace talks with the militant groups in Kachin and Shan states, Kachin Independence Army in Kachin State (located in Kachin) and Myanmar National Democratic Alliance Army – operating in Kokang area in Northern Shan ('Myanmar National,' 2018), were postponed in May 2018 ('Myanmar – Business Environment,' 2018).

Underdeveloped banking and finances sector. Myanmar's underdeveloped banking sector hinders investors, such as various US companies (Janssen, 2017), from entering its market. However, the reason is primarily due to one of the last remaining sanctions imposed by the US: The Patriot Act, which requires a high degree of due diligence by US banks doing business in Myanmar. Its requirements are so strict that US banks have yet to get a foothold in the country. Furthermore, the banking sector is being developed nearly from scratch, while struggling to upgrade information systems, personnel, and processes, expanding services, navigating the environment with ever-changing regulations, and evaluating alliances with foreign banks simultaneously – with the lack of skilled staff being considered the major bottleneck factor ('A Banking Boom?', 2014).

Lack of skilled labor. While the deficiency in educated employees has limited impact on sectors utilizing primarily low-skilled labor, such as agriculture, mining, and manufacturing, it can become a risk factor for service-oriented sectors, e.g. banking and finances ('A Banking Boom?', 2014), and IT-based companies. According to the United Nations Educational, Scientific and Cultural Organization (UNESCO), about 60% of its youth enrolled in secondary education, and only 16% of young males and females enrolled in tertiary education in 2017 ('Myanmar,' 2017). The Educational institutes have been monopolized by the government for decades, and the sector has been impaired by "international" schools operating without oversight or regulation. The MIC has only recently, in 2018, begun to consider foreign investment in private schools (Kean & Soe, 2018). Education has traditionally not been high on the agenda in Myanmar, but the sector has seen an increase in GDP expenditure from 0.8% in 2011 to 2.17% in 2017 ('Myanmar,' 2017).

Figure 4: Ease of doing business scores of Myanmar and comparable nations for 2018.

Rank	Economy	Score	Change from previous
26	Thailand	77.44	+5.68
68	Vietnam	67.93	+2.85
113	Philippines	58.74	+0.42
135	Cambodia	54.47	+0.23
141	Lao PDR	53.01	+0.43
171	**Myanmar**	**44.21**	**+0.30**

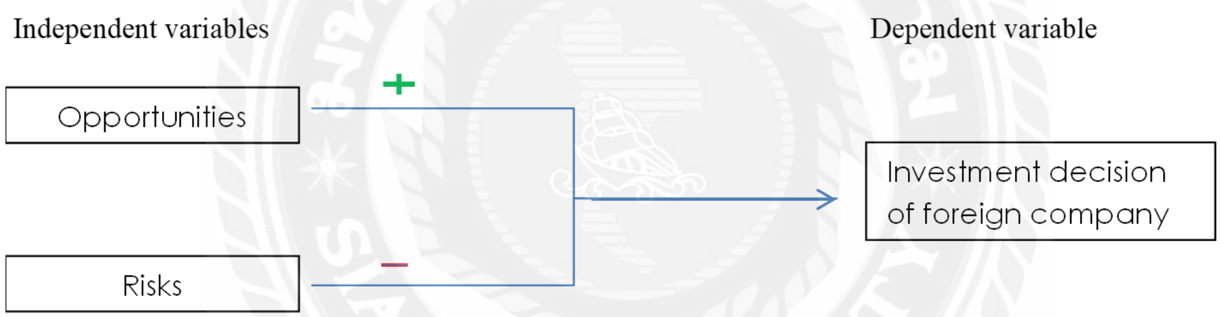
Information is retrieved from the 2018th edition of Doing Business by the World Bank Group ('Doing Business 2018,' 2018).

3 Methodology

3.1 Conceptual framework

The framework for the current study consists of two independent variable groups, “opportunities” and “risks”, and the dependent variable “investment decision”. Opportunities are defined as factors which attract FDI, while risks repel it. By evaluating the opportunities and risks, an investment decision can be recommended or discouraged.

Figure 5: Simplified framework of the study.



3.2 Research design

The current study used a quantitative descriptive research design. A survey was used to collect statistical data.

3.2.1 Population and sample

The population investigated consisted of 1155 international firms from the top ten sources of existing FDI in Myanmar (January Foreign Direct Investment By Country, 2019a). 197 completed responses were retrieved via random convenience sampling.

The recommended sample size can be calculated with the following formula:

$$n = \frac{\frac{z^2 \times p\,(1-p)}{e^2}}{1 + \left(\frac{z^2 \times p\,(1-p)}{e^2 N}\right)}$$

N = Population size; n = Sample size; e = Margin of error (percentage in decimal form); z = z-score.

With a 5% margin of error and 95% confidence level of a population of 1155 companies, the optimal sample size is 289. While the suggested sample size was not met, the author believed the survey sample to be representative of the population and can give satisfactory insight into their perception of opportunities and risks in Myanmar.

3.2.2 Participants

Participants of the study were 197 international companies with existing operations in Myanmar from the ten top sources of FDI: Singapore, China, Hong Kong, Thailand, South Korea, United Kingdom, Vietnam, The Netherlands, Malaysia, and Japan (January Foreign Direct Investment By Country, 2019a).

3.2.3 Measurement

The study used a self-administered questionnaire with items based on factors categorized as opportunities or risks of FDI in Myanmar from the reviewed literature. The items were measured on a five-point Likert scale ranging from 1 to 5. Point “1” and “2” corresponded to opportunities, point “3” was the middle or moderate value, while point “4” and “5” corresponded to risks. This design was used because all of the included factors could either be an opportunity or a risk factor depending on the wording and magnitude, e.g. low minimum wage is an opportunity or motivational factor for investment while high minimum wage is a risk factor and can deter FDI.

The questionnaire consisted of two parts: “Company information” (2 items) and “Factors of doing business in Myanmar” (17 items). The included factors were divided into nine groups: group 1 – resources: natural resources (1RE); group 2 – workforce: domestic market size (2MS), skilled labor (2SL), wages (2WA); group 3 – government: Efficiency (3EF), corruption (3CO), political involvement of military (3PM), and economic involvement of military (3EM); group 4 – conflict: Armed conflicts within Myanmar (4AC); group 5 – laws: Investment laws and reforms (5IL); group 6 – infrastructure: Transportation (6TR), electricity (6EL), communication (6CM); group 7 – technology: Technologic advancement (7TE); group 8 – banking and credit: Banking and financial sector (8BF), credit (8CR); and group 9 – legal protection: Contract enforcement (9CE).

3.2.4 Procedure

Due to constraints in time and resources, the survey was conducted completely online. Initially, requests of participation were sent to the nations’ business chambers of commerce of Myanmar for the participating countries via email. Then, their representatives sent the questionnaire to the member companies. The gathering period lasted for roughly three months between January to March 2019.

3.3 Hypothesis

Based on the study’s survey measurement of risks and opportunities, mean values lower than 3 or “Moderate” can be considered as opportunities, and mean values greater than 3 can be considered as risks. Based on these definitions, we can assume that:

H1$_0$: There are more risk factors than opportunities of FDI in Myanmar.

***H1**$_1$: There are not more risk factors than opportunities of FDI in Myanmar.*

H2$_0$: The mean of the sum of all the factors is greater than 3.

***H2$_1$**: The mean of the sum of all the factors is not greater than 3.*

4 Findings

4.1 Profile of respondents

197 of 1155 questionnaires were returned for the current study, which gave a response rate of 21.3%.

Figure 6: Characteristics of respondents.

Country	**Companies**		**Gas and oil**	**Power**	**T & C***	**Man***	**Other sectors**
Singapore	32	*16.24%*	2	1	4	17	8
China	28	*14.21%*	6	3	3	12	4
Hong Kong	24	*12.18%*	1	1	1	14	7
Thailand	13	*6.59%*	1	0	0	9	3
South Korea	33	*16.75%*	0	0	1	21	11
United Kingdom	20	*10.15%*	1	0	0	10	9
Vietnam	4	*2.03%*	0	0	0	3	1
The Netherlands	6	*3.04%*	1	1	0	2	2
Malaysia	8	*4.06%*	0	0	0	6	2
Japan	29	*14.72%*	3	1	3	16	6
All	**197**	***100%***	**15 /** ***7.6%***	**7 /** ***3.5%***	**12 /** ***6.0%***	**110 /** ***55.8%***	**53 /** ***26.9%***

T & C = Transportation and communication; Man = Manufacturing.

Figure 7: Respondents by country of the study's sample.

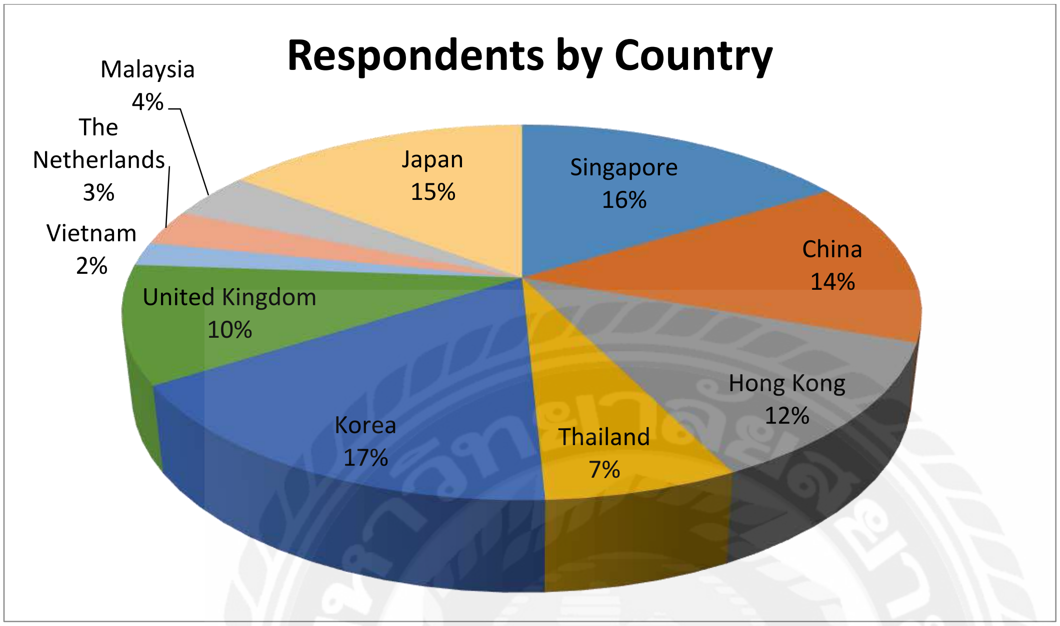
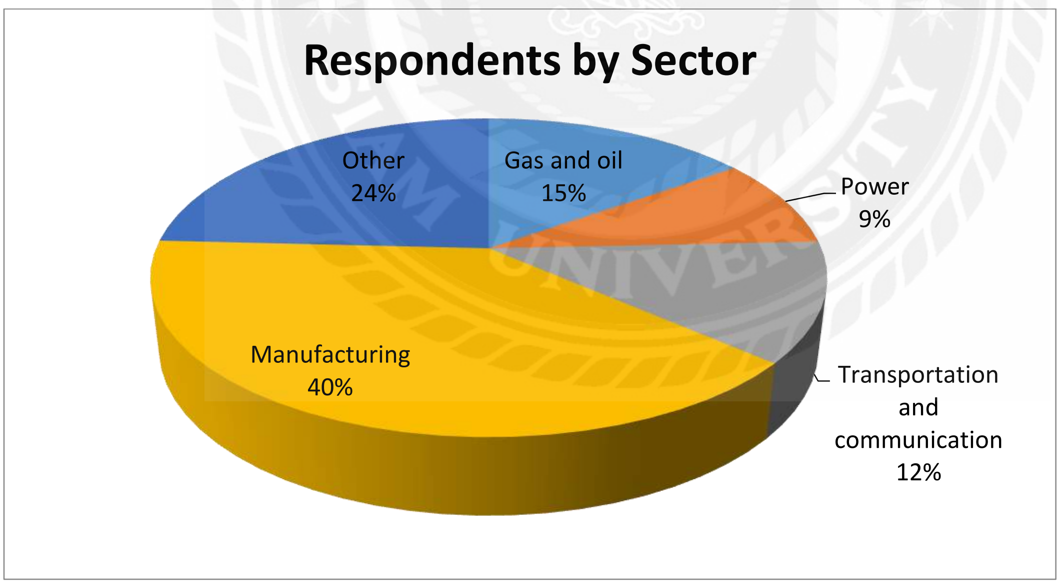


Figure 8: Respondents by sector of the study's sample.



4.2 Opportunities and risks in the survey

The survey revealed a significant majority of risk factors where only 4 of the 17 investigated factors were defined as opportunities: 1RE (resources), 2MS (market size), 2WA (wages), and 5IL (investment laws) with the mean values of 2.197, 2.454, 2.030, and 2.287, respectively (figure 10 and 12). The following factors were defined as risks: 2SL (skilled labor: 3.893), 3EF (government efficiency: 3.803), 3CO (corruption: 3.803), 3PM (political involvement of military: 3.363), 3EM (economic involvement of military: 3.500), 4AC (armed conflict: 3.257), 6TR (infrastructure – transportation: 3.818), 6EL (infrastructure – electricity: 3.787), 6CM (infrastructure – communication: 3.045), 7TE (technology: 3.757), 8BF (banking and finance: 3.651), 8CR (credit: 3.863), and 9CE (contract enforcement: 3.803).

4.3 Discussion

The top opportunity and risk factor based on the survey were wages (2WA: 2.03) and skilled labor (2SL: 3.893). The findings could explain why the majority of international companies invest in manufacturing plants in Myanmar. Labor costs are a significant expense for manufacturing which have led to a high rate of outsourcing of this sector from developed countries to developing ones. However, this advantage may be overshadowed by the several prevailing risks for manufacturers, such as lack of electricity (6EL: 3.787) and underdeveloped physical infrastructure (6TR: 3.818).

Although only showing a moderate association with the development of the banking and financial sector (figure 10: .244[*]), the lack of skilled labor could be linked to its delayed progression. However, correlations cannot explain cause and effect relationships and therefore it is speculation on the author's part to describe the business environment of Myanmar.

Figure 9: Descriptive statistics of the factors investigated.

	1RE	2MS	2SL	2WA	3EF	3CO	3PM	3EM	4AC	5IL	6TR	6EL	6CM	7TE	8BF	8CR	9CE
M*	2.197	2.454	3.893	2.030	3.803	3.803	3.363	3.500	3.257	2.287	3.818	3.787	3.045	3.757	3.651	3.863	3.803
SD*	0.769	0.826	0.767	0.803	0.948	0.915	0.796	0.863	0.846	0.718	0.892	0.868	0.689	0.912	0.868	0.875	0.898

M = Mean; SD = Standard deviation.

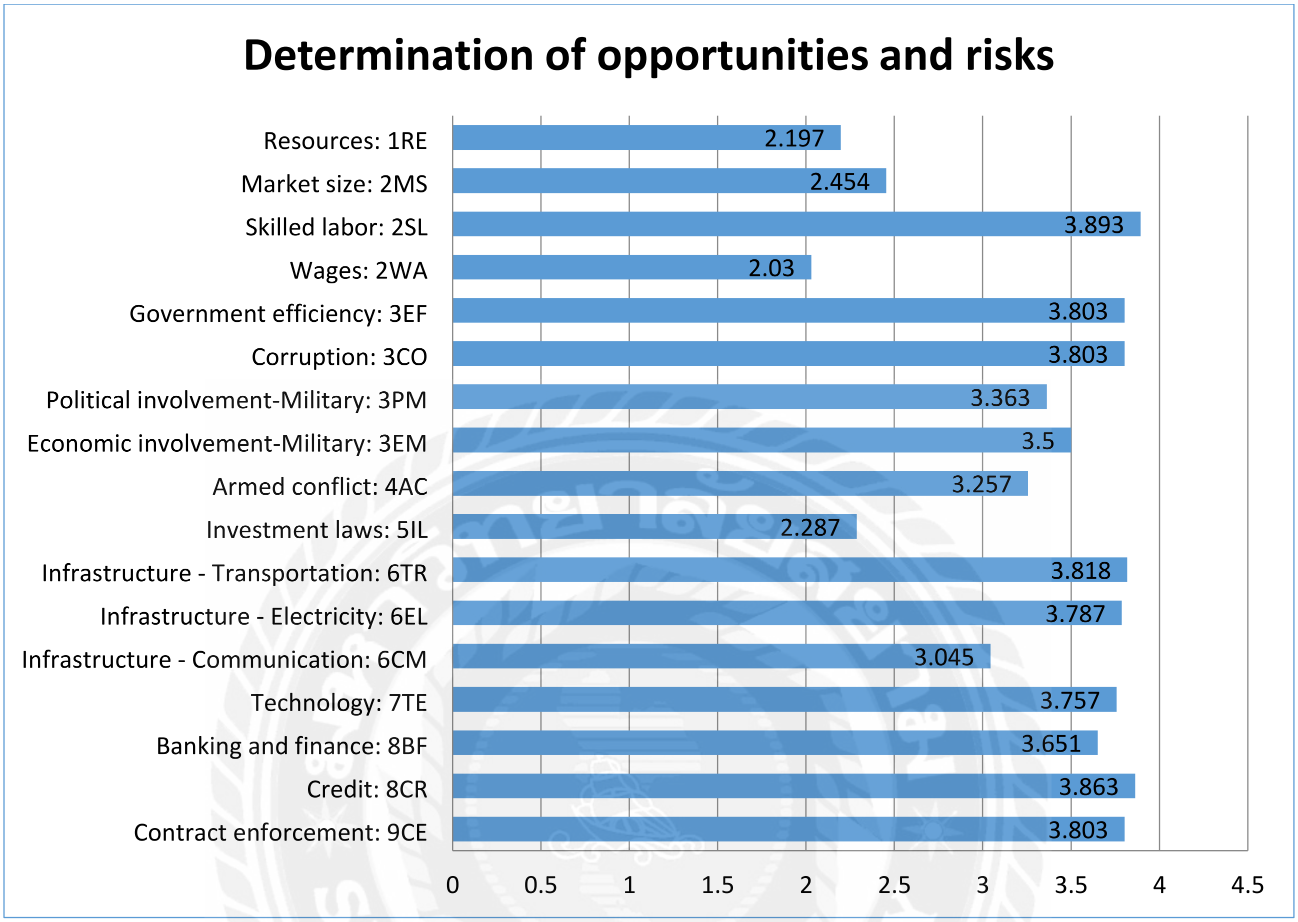
Figure 10: Inter-correlations of the factors investigated.

Factor	1RE	2MS	2SL	2WA	3EF	3CO	3PM	3EM	4AC	5IL	6TR	6EL	6CM	7TE	8BF	8CR	9CE
1RE	-																
2MS	x	-															
2SL	x	x	-														
2WA	x	x	-.269*	-													
3EF	-.305*	-.257*	x	-.497**	-												
3CO	x	x	x	-.620**	.770**	-											
3PM	x	x	.265*	-.498**	.687**	.627**	-										
3EM	-.243*	x	x	-.443**	.686**	.652**	.805**	-									
4AC	x	x	.303*	-.441**	.505**	.483**	.543**	.683**	-								
5IL	x	x	x	x	x	x	x	.260*	.306*	-							
6TR	x	x	.331**	-.464**	.375**	.407**	.375**	.459**	.510**	.251*	-						
6EL	x	x	x	-.410**	.359**	.411**	.335**	.410**	.305*	.272*	.644**	-					

6CM	x	x	x	x	x	x	x	.246*	x	.253*	.339**	.402**	-				
7TE	x	x	.270*	-.410**	.353**	x	.398**	.312*	.301*	x	.474**	.497**	.311*	-			
8BF	x	x	.244*	-.294*	.327**	.416**	.297*	.441**	.459**	x	.493**	.492**	x	.455**	-		
8CR	x	x	.253*	x	.282*	.273*	.359**	.458**	.443**	x	.421**	.407**	.393**	.401**	.787**	-	
9CE	x	x	x	-.333**	.405**	.495**	.424**	.565**	.634**	x	.492**	.399**	x	.335**	.621**	.631**	-

* Correlation is significant at the 0.05 level (2-tailed); ** Correlation is significant at the 0.01 level (2-tailed).

Figure 11: Determination of risks and opportunities based on the study results.



Note: Factors with values less than 3 are opportunities and factors with values higher than 3 are risks.

4.4 Hypothesis results

Figure 12: Summarization of opportunities and risks.

No.	Factor	Item	Mean value	Opportunity	Risk
1	Resources	1RE	2.197	√	
2	Market size	2MS	2.454	√	
3	Skilled labor	2SL	3.893		√
4	Wages	2WA	2.03	√	
5	Government efficiency	3EF	3.803		√

6	Corruption	3CO	3.803		√
7	Political involvement-Military	3PM	3.363		√
8	Economic involvement-Military	3EM	3.5		√
9	Armed conflict	4AC	3.257		√
10	Investment laws	5IL	2.287	√	
11	Infrastructure - Transportation	6TR	3.818		√
12	Infrastructure - Electricity	6EL	3.787		√
13	Infrastructure - Communication	6CM	3.045		√
14	Technology	7TE	3.757		√
15	Banking and finance	8BF	3.651		√
16	Credit	8CR	3.863		√
17	Contract enforcement	9CE	3.803		√
Total (17 factors)			**56.311**	**4**	**13**
Average of the means			**3.312**		

Based on the results of the survey, H1 and H2 are accepted, because there are considerably more risk factors than opportunities (4 against 13), and the average of the means is higher than 3 (3.312 against 3).

5 Conclusion and Recommendation

5.1 Limitations

Data gaps: One of the limitations of the study is the incompleteness of the data reviewed. While FDI by country and FDI by sector have been published by DICA, data of FDI by country and sector in conjunction was not available. For instance, while it was revealed that Singapore and China were the greatest investors of FDI as of 31st of January 2019, the allocation of the amount invested across sectors was unknown.

Missing factors: Due to the author's inadequacy of resources, it is likely that some factors which have an impact on FDI were not included in the survey of the study. This detail could be regarded as a bias as it has likely affected the results by including a greater amount of risks than opportunities. Furthermore, it could point out a precedence of risk factors of investing in Myanmar in the available literature.

Inadequate sample size: As reported in the methodology section, only 197 completed survey responses were returned, while the optimal sample size with a 5% margin and 95% confidence level of a target population of 1155 companies was 289. This means that the results of the study may not be fully representable for the foreign companies operating in Myanmar. Moreover, interpreting the results based on country and sector could be even more erroneous.

5.2 Further research

In accordance to the study's prominent limitations, the author recommends further research into the motivations and perceived opportunities and risks of FDI in Myanmar by country and sector among the largest foreign investors: Singapore, China, Hong Kong, Thailand, South Korea, and United Kingdoms.

5.3 Recommendations

The primary advice for investing in Myanmar is to study the risks and opportunities (figure 11 and 12) relevant to the investor's business in detail, and to review one's competitiveness and capabilities. Companies are recommended to do additional research in order to detect risks and opportunities not covered in the current study, and to investigate its findings.

Companies are recommended to operate in a way which minimizes risks without jeopardizing opportunities. For instance, Coca-Cola was able to enter Myanmar early due to its strategic planning: It saw Myanmar as a huge market for its consumer products; It constructed a manufacturing plant in Myanmar to overcome its poor infrastructure and to take advantage of the country's low minimum wages; The lack of skilled labor was not a significant concern due to the low requirements of manufacturing and distribution workers; Being a cash society was not a concern due to the low prices of its products – e.g. Coca cola; And it operated within the boundaries of the laws governing FDI by selling beverages and doing a joint venture with a local firm.

As confirmed by the findings of the study, the international business environment in Myanmar is lagging considerably behind those of developed nations, which manifests itself into a myriad of risks for bold enterprises. Therefore, the author only recommends MNCs with established operations in stable markets before investing in Myanmar to avoid bankruptcy in case of unsuccessful ventures.

5.3.1 Management levels

Top management. Before making strategic decisions, top management is recommended to study the factors introduced in this study, as well as analyzing their implications for their own companies, brands, operations, and product lines. It is worth noting that, while investment opportunities are still abundant in Myanmar, many limitations remain, such as difficulties in doing business, underdeveloped infrastructure, e.g. lack of efficient transportation routes for commercial goods and power instability, and restricted sections for FDI. Furthermore, before and after investing, management should study the laws relevant to foreign investment in order to operate within the country's legal framework and to determine which operations to maintain, cancel, or implement.

Operation & middle management. Operation and middle management of investing firms should be aware of several limitations when managing and operating the business: They should anticipate delays in obtaining various permits; Shipping and delivery services may be lagging and low-scale; Some areas have a chance of being affected by ethnic conflicts; Banking and financial services may be inadequate; There is a shortage of skilled labor; English proficiency among the locals is very low; Myanmar is very much a cash society with low facilitation for credit options. Additionally, in order to avoid instances of culture clash, the middle management of the joint ventures or branches should include locals who are adapt in the English language, who can act as mediators between local and foreign staff.

5.4 Conclusion

The military continues to wield considerable power in the political arena, which poses a potential and lasting threat to its economic stability. As evidenced by the Rohingya incident, it can act independently from the civilian government, meaning that it is an autonomous force which can take Myanmar back to isolation if acting rashly, e.g. by reviving the Western sanctions through human rights suppression and genocide. It is unlikely that the army will give away its authority to the government for the sake of the country's future, since such a decision would possibly lead to the return of the military's financial assets to the government.

On the other hand, FDI has continued to grow considerably since 2010, leading to a greater presence of MNCs, industry, and consumer products in Myanmar. The government introduces new economic reforms, leading to improved conditions for investors, which will maintain and increase FDI in the short and long term. Despite the growing FDI, Myanmar's infrastructure and bureaucracy remains undeveloped. While infrastructure can be built, political structure and power distribution is a far more difficult area to change. It is a given that, despite prepositions for optimizing governmental bodies and decision making, it is ultimately up to the government and military, who already are on the top of the chain, to give up authority, remove political positions, refrain from briberies, and other measurements for facilitating economic prosperity and transparent governance.

Conclusively, many risks remain for investing in Myanmar, as well as opportunities in various sectors, such as technology, health care, tourism, finances, food & beverage, automobiles, footwear, other consumer products, and more. The decision to invest or not depends on the investors' financial leverage and acceptance of risk.

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7 Appendixes

Survey of International Companies in Myanmar

1 Company Information

Check just one box per question.

1a.	What is the registered country of your company?	Singapore ☐ China ☐ Hong Kong ☐ Thailand ☐ Republic of Korea ☐	United Kingdom ☐ Vietnam ☐ The Netherlands ☐ Malaysia ☐ Japan ☐ Other: _ _ _ _ _ _ _ _ _ _ _ _ ☐
1b.	Which business sector is your company primarily operating in?	Gas and Oil ☐ Power ☐ Transport and Communication ☐ Manufacturing ☐ Other:_ _ _ _ _ _ _ _ _ _ _ _ _ _ ☐	

2 Factors of doing business in Myanmar

Please consider the following factors and tick the box which you agree with the most. If uncertain or the factor doesn't affect your company's operations, choose the middle option "Moderate". The other options have been worded accordingly to either be beneficial ("Opportunity") or detrimental ("Risk") to foreign direct investment.

		Opportunity			Risk	
	Group 1 – Resources					
2a.	Quantity of natural resources.	**Very high** ☐	**High** ☐	**Moderate** ☐	**Low** ☐	**Very low** ☐
	Group 2 - Workforce					
2b.	Size of domestic market.	**Very large** ☐	**Large** ☐	**Moderate** ☐	**Small** ☐	**Very small** ☐
2c.	Access to skilled labor.	**Very high** ☐	**High** ☐	**Moderate** ☐	**Low** ☐	**Very low** ☐
2d.	Size of domestic wages.	**Very low** ☐	**Low** ☐	**Moderate** ☐	**High** ☐	**Very high** ☐
	Group 3 - Government					
2e.	Efficiency of government (I.e. high efficiency means quick response time and document processing).	**Very high** ☐	**High** ☐	**Moderate** ☐	**Low** ☐	**Very low** ☐
2f.	Degree of corruption.	**Very low** ☐	**Low** ☐	**Moderate** ☐	**High** ☐	**Very high** ☐

2g.	Degree of political influence by the military.	**Very low** ☐	**Low** ☐	**Moderate** ☐	**High** ☐	**Very high** ☐
2h.	Degree of economic influence by the military.	**Very low** ☐	**Low** ☐	**Moderate** ☐	**High** ☐	**Very high** ☐
Group 4 – Conflict						
2i.	Risk associated with armed conflict between ethnic groups and government.	**Very low** ☐	**Low** ☐	**Moderate** ☐	**High** ☐	**Very high** ☐
Group 5 - Laws						
2j.	Influence of investment laws and reforms on foreign direct investment.	**Very good** ☐	**Good** ☐	**Moderate** ☐	**Poor** ☐	**Very poor** ☐
Group 6 - Infrastructure						
2k.	Quality of transportation routes and facilities (e.g. airports, ports, roads).	**Very high** ☐	**High** ☐	**Moderate** ☐	**Low** ☐	**Very low** ☐
2l.	Availability and consistency of electricity.	**Very high** ☐	**High** ☐	**Moderate** ☐	**Low** ☐	**Very low** ☐
2m.	Development and availability of communication infrastructure (e.g. internet and Wi-Fi).	**Very high** ☐	**High** ☐	**Moderate** ☐	**Low** ☐	**Very low** ☐
Group 7 - Technology						
2n.	Access to & development of technology.	**Very high** ☐	**High** ☐	**Moderate** ☐	**Low** ☐	**Very low** ☐
Group 8 – Banking and credit						

2o.	Development of banking & finances sector.	**Very high** ☐	**High** ☐	**Moderate** ☐	**Low** ☐	**Very low** ☐
2p.	Access to credit.	**Very high** ☐	**High** ☐	**Moderate** ☐	**Low** ☐	**Very low** ☐
Group 9 – Legal protection						
2q.	Enforcement of contracts.	**Very high** ☐	**High** ☐	**Moderate** ☐	**Low** ☐	**Very low** ☐