Asiamoney Military coup scuppers Myanmar’s future

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SOUTHEAST ASIA

Military coup scuppers Myanmar’s future

BY MORGAN DAVIS

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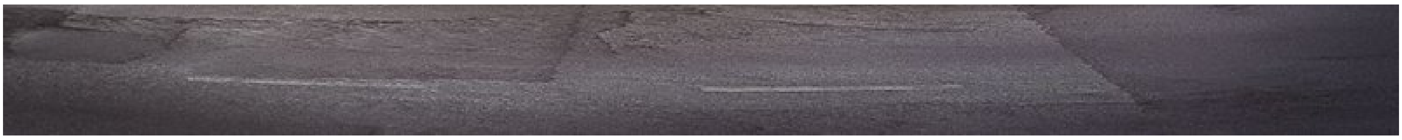
Myanmar is once again an investment pariah as the country’s businesses and financial sector reel from the impact of the coup.



Senior bankers go missing in Myanmar, bank branches shut down, and customers queue for hours at ATMs to withdraw their savings. The over-riding fear is, will bank runs or even nationalization follow next in this fragile economy?

Myanmar’s democratic awakening after decades of military rule had made it one of southeast Asia’s most exciting frontier markets. No more. The military ousted a democratically elected government and detained civilian leader Aung San Suu Kyi on February 1; they allege there was voter fraud in the November election which Suu Kyi’s National League for Democracy (NLD) won in a landslide. The electoral commission says there was no evidence of such fraud.

Pro-democracy supporters have staged a massive civil disobedience campaign in protest at the military coup, paralysing the economy and banking system. Hundreds of people have been arrested, and more than 500 people have been killed by soldiers – a number that was steadily rising as Asiamoney went to press.

In late March, the World Bank slashed its forecast for Myanmar’s economy to a 10% contraction in 2021, a sharp drop from the 5.9% growth expected previously.

> *“Everyone is scared. Unfortunately, banks in Myanmar are not the most progressive, even in the best of times”*
>
> **HAL BOSHER, ASIAN CAPITAL SOLUTIONS**

Bank representatives in the country say they cannot open their banks for business. Myanmar has simply ceased to function as protesters have taken to the streets day after day, clanging pots and pans and encouraging others to join in the civil disobedience movement. Bank staff do not call in sick or take leave – they just do not show up to work. And those who do attempt to go to work are often blocked by protests.

The little work that can be done is hampered by restrictions on the internet. One of the military government's first moves in early February was to cut off access to Facebook, Instagram and Whatsapp to stop any communication. The internet goes through periodic blackouts, and even when it is functioning, it is not stable.

The crisis has made even the simplest banking transactions problematic.

One European businessman says he and others had to come up with creative ways to pay staff in February. He teamed up with a cash-rich retail business that has been unable to make a bank deposit, taking their cash in exchange for making a deposit for them, as he has both international and domestic bank accounts. He says he was able to then use the cash to pay his employees, although some asked him to keep the money for them as they are unable to make their own personal bank deposits. Such improvisations hark back to the desperate measures many people used to overcome restrictions during decades of military rule.

Aung San Suu Kyi. Photo: Getty

Over the past few years, the economy opened up and Myanmar slowly introduced economic and financial reforms.

For example, for Thailand’s Siam Commercial Bank and a handful of other foreign lenders, 2021 was supposed to mark an exciting step in the opening up of Myanmar’s sclerotic financial sector.

They won licences to set up local subsidiaries which meant they finally had the freedom to lend and take deposits from companies, banks and individuals in foreign currency and in Myanmar kyat: in the past, they had been limited to having a local branch, barred from taking deposits, and only able to lend to international enterprises.

When SCB opened its Yangon office on January 15, it was looking forward to making the most of the exciting new opportunities. SCB’s president, Sarut Ruttanaporn, promised the bank would offer the full spectrum of commercial banking services and develop digital payment systems for companies and retail customers.

“Myanmar has become one of the top destinations attracting investors from around the world. The country’s strategic location links Asia’s two regional powers, China and India,” said SCB in a statement announcing the opening of its Myanmar branch.

Two weeks later, the military seized control and SCB, like most other banks and businesses in the country, closed its doors.

“SCB had great expectations…in what they wanted to do in the country,” says a banker with knowledge of the situation. “They had big plans [and] they have to go back to the drawing board all over again. But they can’t even go to the drawing board at this point, until they know how the situation is unfolding. The markets are virtually frozen.”

Companies are sitting on cash, unable to deposit their money in banks, while the banks have limited cash to refill their ATMs, he says. The banks look set to eventually run out of money.

There is not much they can do about that, as the military has effectively seized control of the central bank and gutted it of reformers. Senior officials at the central bank and key economic ministries – who were regarded as reformers keen to reduce the influence of the military in the financial sector – have been detained and not heard of since, according to their families.

The military dragnet also included Suu Kyi’s key economic adviser, Australian economist Sean Turnell: he was arrested at his Yangon hotel on February 6.

Opening and closing

For decades, the wider population had no confidence in Myanmar's banking system: this was a natural response to the military regime's random demonetization or withdrawal of banknotes, and a history of bank collapses and bank runs. Many people preferred to keep gold or gemstones rather than bank notes, and even buried their savings underground rather than entrust them to a bank.

But with the opening up of the economy and financial sector reform, from 2010-2011, banks finally succeeded in attracting more customers. Myanmar leaped ahead technologically too: people suddenly had access to smartphones – and therefore to mobile banking and mobile payments. Financial inclusion even exceeded the government's initial targets, jumping from 30% in 2013 to 48% in 2018.

In the aftermath of the coup, people are once again queueing up outside banks and ATMs to withdraw their cash because they fear the banks could collapse. Anecdotally, some are even willing to pay a 2% fee for someone to stand in line on their behalf.

Hal Bosher, a director of Asian Capital Solutions who was previously a senior executive at Yangon banking pioneer Yoma Bank, is one of those concerned that when lenders do reopen, there could be a run on banks.

> *"Because of the Rohingya case, most investment has dried up from western economies"*
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> THOMAS HUGGER, ASIA FRONTIER CAPITAL

The banks are liquid, but a lot of their holdings are in government paper and it is not clear if the central bank knows what to do or when to do it.

"Everyone is scared," says Bosher. "Unfortunately, banks in Myanmar are not the most progressive, even in the best of times. They're not very good at communication."

The central bank has imposed limits on how much money can be withdrawn – of K2 million ($1,418) per

withdrawn – of K2 million ($1,418) per week for individuals, and K20 million per week for companies.

One European businessman says people are scrambling to take as much money as possible out of the ATMs every day. He says people message each other about which ATMs have money, moving between locations to take out what they can.

Perhaps affronted by the impact of the bank closures on the economy, the military instructed the central bank to order commercial banks to resume business, and to warn of serious consequences if they did not obey, according to local media which quoted internal memos.

In late March, the central bank started to impose weekly fines of between K2 million and K30 million on private banks, depending on how many of their branches were kept shut, Frontier Myanmar magazine reported.

"The irony is that if the [military] does manage to get the banks to open it could well lead to the bank run they can very least afford," says one banker familiar with the industry.

The fear is that customer accounts will be moved from any banks which do not open for business to the military-controlled banks, or that the banks could be nationalized. Nikkei Asia reported that the deposit accounts would be transferred to state-run Myanma Economic Bank (MEB) and military-owned banks Inwa Bank and Myawaddy Bank.

The threat of nationalization is an especially frightening prospect for bankers who have taken to going through their financials, to make sure everything is in order, and poring over the minutiae of Myanmar's Financial Institutions Law of 2016 to understand what they might face.

Sections 93-96 describe what action the state can take when banks don't comply:

Sections 93-96 describe what action the state can take when banks don't comply: Section 94a2hh says the state can move to take over a bank "when it has failed to carry out any direction given to it by the central bank".

KBZ dilemma

One bank that has been caught off-guard is KBZ, the country's biggest lender, which seems unsure of how to juggle rising anger among customers and staff, and the demands of the new military rulers.

In a statement dated March 4, KBZ said it was "adapting our operations to ensure the safety of our employees and the provision of essential services to the Myanmar people while respecting the right to freedom of expression".

But on March 8, in a widely leaked internal memo first published by Frontier Myanmar magazine and subsequently seen by Asiamoney, KBZ management wrote to its 18,000 staff, suggesting that it is facing the prospect of nationalization or the Central Bank forcibly reopening its branches.

"While we remain committed to respecting our employees' freedom of expression, we are also in a no-win situation where if we do not open, the regulator will step in and open the bank for us," the memo said.

"We understand that many of you would prefer if we don't reopen. However, the reality is that your interests and our customers' interests are best served if we take the route of opening the bank ourselves, not by an external party, and remain as a private bank."

> *"No matter how the situation evolves, China will not waver in its commitment to advancing China-Myanmar relations"*
>
> WANG YI, CHINA STATE COUNCILLOR AND FOREIGN MINISTER

Mike DeNoma, the American chief executive who has run KBZ since 2017, has gone silent. Other bankers in Yangon insisted to Asiamoney that DeNoma had resigned in February. But a senior KBZ executive in Singapore said DeNoma was working from

February. But a senior KBZ executive in Singapore said DeNoma was working from home in the US. Neither DeNoma nor Marlene Nang Kham, daughter of the bank's founder, responded to emails. The bank's Singapore publicist said: "we have nothing to report about Mike."

DeNoma's LinkedIn profile may provide a clue: in the space of a few days in the middle of March it was scrubbed clean of all references to his career in Asia with Malaysia's Guoco Group, Citibank, StanChart, Taiwan's CTBC, and his four years running KBZ.

KBZ is controversial in Myanmar, not least because it is regarded by many as the too-big-to-fail institution. It was founded in 1994 by schoolteacher Aung Ko Win, who is close to Maung Aye, a key general in the junta that ruled Myanmar before reforms in 2010. In a meeting in 2008 with US diplomats, Aung Ko Win admitted that Maung Aye had handed him jade mining concessions. Aung Ko Win's wife is believed to have been the daughter of a senior military official.

Foreign investors

While there are plenty of private companies in Myanmar, there are very few ways for investors to participate in their growth. The Yangon stock exchange lists only a handful of thinly traded stocks. Outside Myanmar, Yoma Strategic Holdings, one of the country's better-known corporations, is listed in Singapore: its share price has plummeted since February 1.

Myanmar Metals is headquartered and listed in Australia: its shares have been suspended since the coup.

But many foreign investors had already turned away from Myanmar in the years before the coup, following the 2017 military crackdown on the country's Rohingya Muslims. A report by United Nations investigators in 2018 found mass killings and rapes of the ethnic minority group and accused the military of acting with genocidal intent.

"Because of the Rohingya case, most investment has dried up from Western economies," says Thomas Hugger, CEO and founder of Asia Frontier Capital. Chinese, South Korean and Thai companies are among the biggest investors in Myanmar.

"The Rohingya had a massive impact, not on eastern investment, but on western investment. It took the sheen off of Myanmar," says Bosher, adding that it also tarnished western support for Suu Kyi.

“There is some western investment, but not as much as you might think. There’s less exposure in that way, and less at stake.”

At the same time, that means there are fewer voices to push back against the military.

Myanmar’s renewed turmoil provides opportunities for China, which covets the country’s natural resources and has not condemned the coup.

Chinese president Xi Jinping visited Myanmar in January 2020, signing 33 agreements with the then-government that included major projects for Xi’s pet Belt and Road Initiative. China has been keen to implement the China Myanmar Economic Corridor, that will link China to the Indian Ocean via rail, in addition to other initiatives.

If other countries pull back from Myanmar because of the coup, China is well positioned to be the key player in the next iteration of the Myanmar economy. China offered in early March to play a neutral role in communicating with “the relevant parties” in Myanmar to help ease tensions.

“Over the years, we have maintained friendly exchanges with various political parties in Myanmar, including the National League for Democracy,” said China state councillor and foreign minister Wang Yi in a press conference on March 7. “No matter how the situation evolves, China will not waver in its commitment to advancing China-Myanmar relations, and will not change its course of promoting friendship and cooperation.”

Additional reporting by Eric Ellis