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FOREIGN BANKS AND INSURANCE COMPANIES IN FINANCIAL SECTOR REFORM IN MYANMAR AND VIETNAM

Parallel Journeys, Divergent Paths

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ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
ATM	Automated teller machine
BIDV	Bank for Investment and Development of Vietnam
BTA	Bilateral Trade Agreement
CBM	Central Bank of Myanmar
CLMV	Cambodia, Lao PDR, Myanmar, Vietnam
FB	Foreign bank
FMI	First Myanmar Investment Company
GDP	Gross domestic product
HNX	Hanoi Exchange
HOSE	Ho Chi Minh City Stock Exchange
IBRB	Insurance Business Regulatory Board
IPO	Initial public offering
JSCB	Joint-stock commercial bank
JVB	Joint-venture bank
MADB	Myanmar Agricultural Development Bank
MEB	Myanmar Economic Bank
MFTB	Myanmar Foreign Trade Bank
MIC	Myanmar Insurance Corporation
MICB	Myanmar Investment and Commercial Bank
MMK	Myanmar Kyats
MSEC	Myanmar Securities Exchange Centre
OECD	Organization for Economic Cooperation and Development
PBUB	Peoples' Bank of the Union of Burma
SBV	State Bank of Vietnam
SEL	Securities Exchange Law
SEZ	Special Economic Zone
SOCB	State-owned commercial bank
UNCTAD	United Nations Conference on Trade and Development
USAID	U.S. Agency for International Development
USG	U.S. government
VAMC	Vietnam Asset Management Company
VND	Vietnamese Dong
WTO	World Trade Organization
YSX	Yangon Stock Exchange

EXECUTIVE SUMMARY

From equally unpropitious foundations, Myanmar and Vietnam began the process of financial sector reform nearly simultaneously in 1990.

From the outset in both countries foreign financial institutions were slated to fill a key role. Following a severe banking crisis in 2003, however, as well as significant political instability, Myanmar stumbled, sanctions were applied by a range of nations, and foreign investment in the country's financial sector was effectively frozen out for a further decade.

In Vietnam, foreign financial institutions slowly advanced in response to incremental openings, and in stages emerged as key niche players in banking, insurance, and bond and equity markets.

Lessons from Vietnam's Experience

The lessons of Vietnam's experience with foreign investment in its financial sector are instructive for Myanmar. These lessons include:

Banking

- Domestic banks largely hold their own against foreign competitors. In certain niches foreign institutions take market share, but domestic banks (with critical local knowledge) remain broadly dominant.
- Foreign banks *do* bring about increased competition in banking, evident in declining net-interest margins across the sector in the wake of foreign entry.
- Beyond such pricing benefits to bank clients, the extra competition brought by foreign banks also yields increases in investment across the sector in more advanced technologies and methodologies.
- Foreign banks do engage in a degree of 'cherry picking' of the best and most creditworthy clients.
- In terms of efficiency, the Vietnam experience suggests that foreign banks are more profit- and cost-efficient than domestic private banks, but less efficient than state-owned banks. The former result seems to be a function of better technologies and lending methodologies; the latter would appear to be due to large volumes of inexpensive deposits accumulated by state banks from risk-averse clients anxious for state assurance.
- Allowing foreign equity investment in domestic banks increases the efficiency of such banks, while lowering the proportion of non-performing loans.
- Foreign banks are especially prevalent (and productive) in interbank lending, and more broadly in the provision of liquidity to other credit institutions. This role is especially instructive for Myanmar, where the underdevelopment of the interbank market is a singular and inhibiting feature of its banking system, and where distrust seems to exist between domestic banks.

Insurance

- Given actuarial and other commercial complexities, life insurance is especially amenable to the entry of foreign (global) insurance firms.
- Foreign insurance companies deliver better products, technologies, and methodologies to the product side of the business.
- Perhaps even more important, foreign insurance companies (but especially life insurance firms) are significant buyers of long-term government and private sector debt.[1] Accordingly, foreign insurers are powerful contributors to local securities markets, and more broadly to prudent fiscal management and macroeconomic stability.
- Foreign insurance firms are significant generators of employment and taxation revenue.

Equity Markets

Allowing foreign investors to invest in local equity markets:

- Increases the proportion of institutional investors in these markets.
- Results in higher trading volumes.
- Brings improved analytical transparency and information disclosure.
- Delivers significantly reduced stock price volatility.

Since this paper focusses on the role of foreign investment in the financial sector, relatively little discussion is contained herein on what might be regarded as the principal warning provided by Vietnam's banking reform story for Myanmar – that is, of the dangers of too many banks with too little focus on risk management, and the consequent rise in repayment delinquencies, non-performing loan ratios, and compromised bank solvency. Cleaning this up in Vietnam has hitherto mostly involved establishing the (costly) Vietnam Asset Management Company (VAMC). In 2017, however (and in a way that unites some of the themes of this paper), the Vietnamese monetary authorities are edging towards a "foreign solution." In this case, and in the words of Vietnam's Prime Minister, "Right now, if there are any foreign investors interested in buying any of our under-performing banks, we will sell them entirely."[2]

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[1] Government debt in this context is mainly that of the central government. However, the Hanoi and Ho Chi Minh City regional governments are also regular issuers of bonds, some of which are picked up by foreign insurers (though they are not dominant in this market). Other provincial governments may likewise issue debt instruments, but such issues must be explicitly authorised by the Ministry of Finance.

[2] Prime Minister Nguyen Xuan Phuc made this comment on January 17, 2017, cited here from Uyen and Boudreau (2017). Otherwise, foreign equity investment in a Vietnamese domestic bank is capped at 30 percent.

Recommendations for Myanmar

The findings of this report prompt the following recommendations for Myanmar:

- Special restrictions on foreign banks should be removed, creating a level playing field for all banks in terms of the products and services they offer.
- Applications for a foreign bank license should be possible at any time, rather than as part of an irregular tender process with country-specific restrictions.
- Foreign banks should be permitted to take up equity positions in domestic banks, and to engage in joint-venture arrangements. In particular, Myanmar could benefit from a program comparable to Vietnam's Strategic Partnership program.
- All banks should be allowed to create and trade simple hedging products against foreign exchange risk.
- Foreign insurance companies should be allowed into Myanmar, while at the same time pricing and product restrictions on existing local firms should be removed.
- Investment restrictions on insurance companies, domestic and foreign, should be removed in order to stimulate Myanmar's capital markets.
- Foreign insurance companies should be allowed to take any corporate form, from joint-ventures with local players to 100 percent foreign-owned subsidiaries. At a minimum, life insurance, for which there are very few local providers, should be an activity allowing 100 percent foreign ownership.
- Foreign investors should be allowed to buy and sell equities and other securities on the Yangon Stock Exchange.

INTRODUCTION

Of all the possible models suggested by recent history as instructive for Myanmar's economic transition, none would seem as compelling as that of Vietnam. Counted along with Myanmar in that quartet of countries that comprise the CLMV subset of ASEAN nations,[3] Vietnam is arguably the most successful economic development story of the recent Asian tiger narrative of growing, export-oriented economies. Moreover, the fact that Vietnam began this journey from a point as ill-starred as where Myanmar finds itself today only adds to the potency of the possible lessons entailed.

In terms of financial sector reform, a little-known feature of Myanmar and Vietnam is that the two countries commenced their efforts nearly simultaneously, and from very similar starting places. Their shared journey accordingly was a parallel one in many respects until 2003, when a banking crisis in Myanmar largely derailed its financial reform agenda.[4] In Vietnam financial sector growth and reform powered ahead, not without incident and misstep, but sufficient for the country's banks and other financial institutions to materially contribute to the country's development more broadly. Vietnam also confidently engaged with international financial institutions, and an array of foreign banks, insurance companies, and other firms were invited to be part of its growth story. Meanwhile, in Myanmar foreign institutions continued to be pushed away until 2013, when the first stirrings of a new political and economic order were felt. These culminated in the 2015 election of a new democratic government, bringing new hope in Myanmar that genuinely transformational growth, in the financial sector and elsewhere, might be just around the corner.

Given both the parallels and divergences, the purpose of this paper is to explore the lessons for financial sector reform in Myanmar from the experiences in Vietnam. In particular, this paper focuses upon the role of foreign institutions which, as noted, have hitherto been shunned in Myanmar, but which in Vietnam have played an important role. With Myanmar having taken the first steps to invite the participation of foreign financial institutions, what does the Vietnamese experience tell us?

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[3] 'Cambodia, Laos, Myanmar and Vietnam' – the quartet of nations, all formerly suffering under central planning, late-comers to ASEAN, and in varying degrees undergoing rapid growth and economic transformation.

[4] Myanmar's 2003 banking crisis was of an epic scale. Triggered by the collapse of a cohort of non-bank financial institutions that were little more than Ponzi schemes, the contagion of panic quickly spread to the banks that soon suffered a series of "runs." With no liquidity or other support coming from the central bank (itself hampered by both a lack of critical expertise in dealing with a financial crisis, and a military leadership above it not altogether unhappy than an increasingly assertive business class was being taken down a peg), liquidity dried up, and three of Myanmar's largest banks became insolvent and were closed. Not recognizing that a functioning financial sector was important to Myanmar's prospects for growth and development, Myanmar's then military leaders allowed the country's banks to whither, and for nearly a decade genuine financial intermediation ceased to function.

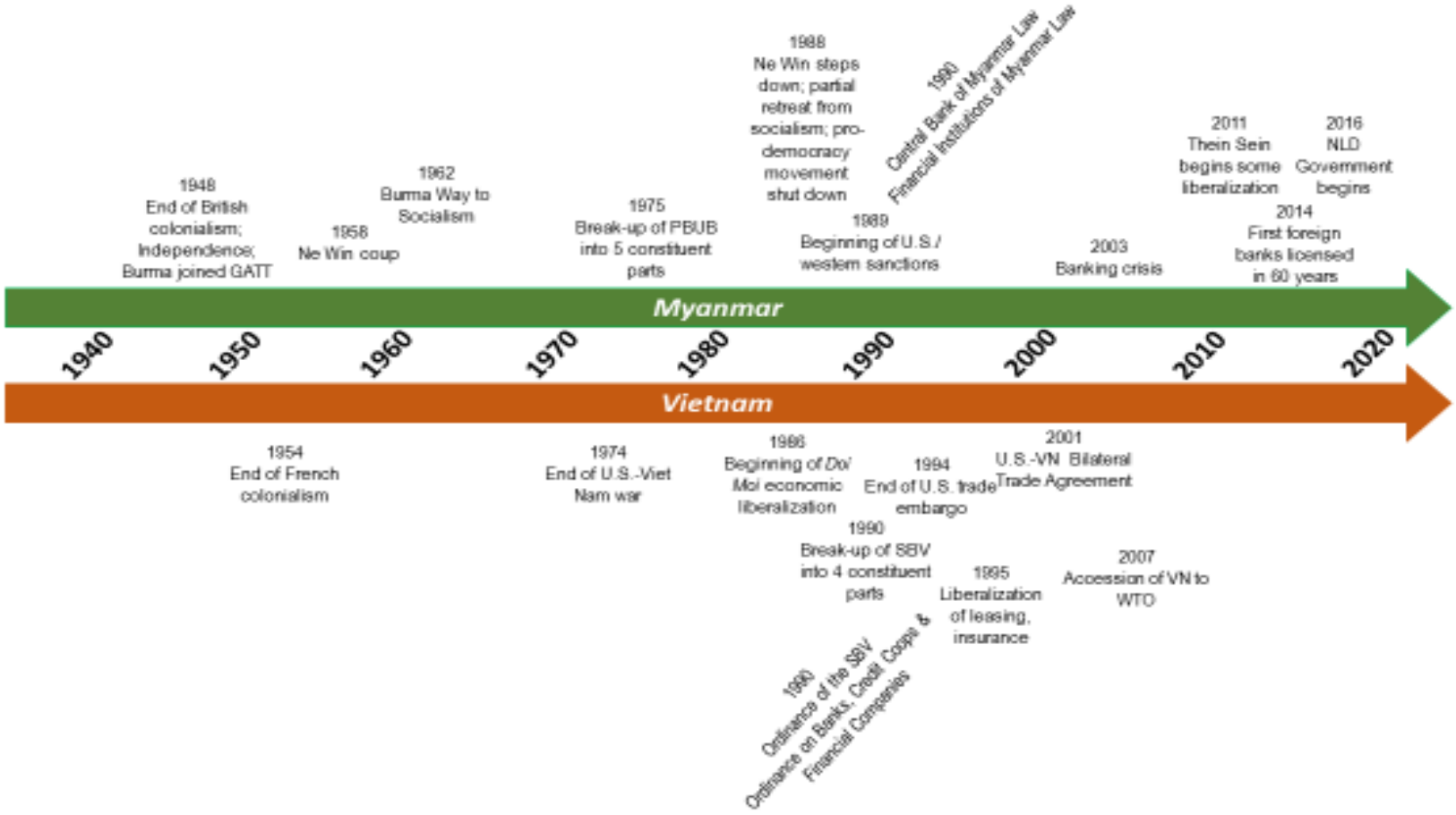
In attempting to answer this question, this paper takes up a number of issues. First, it briefly outlines the history and foundations of the respective financial sectors in Myanmar and Vietnam, a procedure that itself suggests the themes to come. Following this, we present the structure of the two systems as they exist today, as well as some comparative data. The role of foreign banks is then explored, beginning with a brief discussion of the state of the consensus of their functions broadly, before examining the particular experiences of each country. In this section it is the Vietnamese story that leads, and presents experiences and lessons for Myanmar. Leaving banking behind, the paper then takes up the issue of insurance, again pointing to experiences in Vietnam that suggest foreign firms can deliver both sector-specific product benefits as well as highly advantageous macroeconomic consequences. Rounding off our story of the respective financial sector experiences in Myanmar and Vietnam is a concise examination of the two countries' stock markets – arenas of risk, as well as some reward.

History and Foundations

- The modern histories of Myanmar and Vietnam contain tantalizing parallels and divergences, and not just in the economic sphere. Nevertheless, this is particularly the case with respect to the financial systems of both nations, from which we can draw the following stylized facts, summarized in the graphic on the following page. Both Myanmar and Vietnam have financial sector foundations in colonial institutions, although Myanmar's was based in British law, while Vietnam's was established upon French jurisprudence.[5]
- In both, colonial arrangements were nation-building as well as exploitative. During the colonial era the financial systems of Myanmar and Vietnam were highly effective in facilitating the opening up of export markets in commodities and transforming agriculture as a consequence. They were less good, however, in advancing anything like financial inclusion among the indigenous populations, or in supporting much in the way of industrialization or export diversification.

[5] Interestingly, in general the scholarly literature on such concerns finds that countries following British legal norms tend to enjoy better functioning financial systems than those based on French traditions. This pattern, identified first by La Porta *et al* (1997, 1998, 1999), is founded on the idea that British common law (relative to French civil law) is more adaptive to change, as well as more effective in protecting property rights.

Figure 1: Timeline of Key Economic Events in Myanmar and Vietnam



- At independence, both turned radically against a "cosmopolitan" financial sector[6] – both in ways that were a consequence of searing nationalism, but at different times reflecting a diverse understanding of socialism.
- Both built a mono-bank under socialist precepts. Both disassembled that mono-bank as the signature start of their financial reforms.
- Myanmar's mono-bank, the Peoples' Bank of the Union of Burma (PBUB) was broken up in 1975 into the constituent parts that became the Central Bank of Myanmar (CBM), the Myanmar Economic Bank (MEB, the country's main, state-owned, general commercial bank), Myanmar Agricultural Development Bank (MADB, in subsequent years the *exclusive* lender to farmers and other agriculturalists), and two smaller, specialized lenders, the Myanmar Foreign Trade Bank (MFTB) and the Myanmar Investment and Commercial Bank (MICB).
- Vietnam's State Bank of Vietnam (SBV) was broken into almost identical functional parts as its Myanmar counterpart: the Vietnam Industrial and Commercial Bank, Vietnam Bank for Agriculture and Rural Development, the Bank for Foreign Trade of Vietnam, and the Bank for Investment and Development of Vietnam. This process did not commence until 1990.
- Both took the seminal step of allowing privately-owned, domestic commercial banks and, in theory, foreign banks, in 1990.
- In Myanmar this came about via the *Central Bank of Myanmar Law* (1990) and the *Financial Institutions of Myanmar Law* (1990). In Vietnam this came via the *Ordinance of the State Bank of Vietnam* (1990) and the *Ordinance on Banks, Credit Cooperatives and Financial Companies* (1990).
- At the same time, both countries saw a role for foreign banks in their reforms. In Myanmar this was meant to come via a three-stage process in which first representative offices would be established, then joint-ventures, then 100 percent foreign-owned branches or subsidiaries. In Vietnam, foreign banks were similarly initially limited to joint-ventures and branches, with fully foreign-owned subsidiaries to follow.
- However, after establishing an early lead in opening up its banking sector, Myanmar soon fell behind. More and more isolated politically, Myanmar was not compelled by treaties or any other external motivation to open up. In 1996-97 at least three foreign joint-venture banks were proposed in Myanmar, and all were rejected by the CBM. No movement took place in terms of stock market, insurance, or capital markets development.

[6] I.e., including a mix of foreign and local actors.

- In 2003 Myanmar suffered a banking crisis that would set the country back a decade and send its financial sector into hibernation. Little understood (then or since) was that what followed this crisis was an even more complete rejection of anything resembling financial cosmopolitanism. Regarding the crisis as the result of reckless Sino-Burmese (sic) bankers,[7] Myanmar's then-ruling military junta allowed the badly wounded banking sector to fester. By contrast, ethnic Burman financial entrepreneurs were assisted and encouraged. The age of the indigenous crony had arrived.
- Meanwhile, international sanctions, at this time also increasingly targeting Myanmar's financial sector, slammed an already closing door.
- By contrast, in Vietnam forces to open up the financial sector were gathering strength. The United States-Vietnam Bilateral Trade Agreement (BTA) (2001) and Vietnam's accession to the World Trade Organization (WTO) in 2007 were the beachheads.
    - The BTA called for 100 percent U.S. subsidiary banks to be established by 2010, and allowing a presence for 100 percent U.S. -owned insurers by 2006.
    - Vietnam's WTO accession would extend the concessions previously granted to the United States to other foreign investors.
- In Myanmar foreign capital would essentially play no transformative role in the first decade of its 21st century development story.[8] In Vietnam this role would be complementary and supportive of the broader reform trajectory.
- Beyond banking, other financial services were opened up in Vietnam to foreign investment. These included insurance (progressively liberalized from 2000) and financial leasing. The latter, a small but potentially important source of finance for SMEs, was opened up to foreign participation from 1995.[9]
- In 2014 Myanmar finally licensed its first foreign banks in nearly 60 years although greatly limited their activities.

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[7] Just over half of Myanmar's private banks at this time were owned by family conglomerates that were regarded (and sometimes self-identified) as Sino-Burmese.

[8] Indeed, Myanmar's economy broadly did not enjoy much in the way of structural transformation in the first decade of the 21st century. Foreign investment arrived, primarily from China, Thailand, Singapore, and Japan, but much of it was confined to the energy and other extractive sectors, and it more or less left intact the long-standing structural make-up of economic activity in Myanmar.

[9] In 2017, three of Vietnam's largest leasing firms are 100 percent foreign-owned (Kexim, Chailease, and Vietnam Financial Leasing International Company). In late February 2017 one of Vietnam's largest domestic financial firms, Bank for Investment and Development of Vietnam (BIDV) Financial Leasing Company (hitherto a wholly-owned subsidiary of the Bank for Industrial Development of Vietnam), became a foreign/domestic joint-venture, with Japan's Sumitomo Mitsui Trust Bank allowed to take a 49 percent stake (Vietnamnet 2017).

THE FINANCIAL SECTOR IN MYANMAR AND VIETNAM

A Snapshot

As noted already, the purpose of this paper is to examine the comparative use of foreign capital in financial sector reform in Myanmar and Vietnam, rather than an examination of these sectors' relative performance more generally. Nevertheless, Table 1 below allows some observations on the broad state of play, and provides a context against which the discussion around foreign financial sector investment might be considered:

Table 1: Comparative Economic and Banking Sector Statistics (2015)

Measure	Myanmar	Vietnam
Per Capita GDP (US$)	1,300	2,100
Bank Assets (% GDP)	49	175
People with Bank Accounts (% population >15 years)	23	31
People with Debit Cards (% population >15 years)	2	27
Number of Private (and Semi-Private) Banks	24	40
Total Assets of Private Banks US$ billion	17	261
***Concentration – Market Share (%) of Top 3 Commercial Banks*[10]**		
Deposits	68	34
Loans	64	36
Equity	36	30

Source: Roland Berger 2016

The first observation permitted from Table 1 is that Vietnam's banking sector is considerably larger, in both absolute terms (total assets) and size relative to the economy (assets as a share of gross domestic product, or GDP). Vietnam is a bigger economy overall (per capita GDP is nearly double that of Myanmar and its population is nearly twice as large as well), but clearly its banking sector plays a larger role in the economy by whatever measure we might choose. By global standards financial inclusion is low in both countries

[10] For Myanmar these are KBZ, Ayeyarwaddy, and CB Banks. For Vietnam the top three are Vietinbank, Vietcombank, and BIDV.

(indicated in Table 1 by the proportion of people with bank accounts), but the proportion of the population with relatively sophisticated consumer financial products (possession of a debit card, for instance) is also more advanced in Vietnam than in Myanmar.

As with most countries, the banking sectors of both Myanmar and Vietnam are highly concentrated. Starkly apparent from Table 1, however, is the very great dominance in Myanmar of the three biggest private banks. In all measures apart from capital, the three largest private banks in Myanmar comprise a highly concentrated cohort and, in this sense, effectively constitute institutions "too big to fail."[11]

Meanwhile, Table 2 gives an overview of the structure of the banking and insurance sectors of Vietnam and Myanmar. Readily observable is the number of banks of all kinds serving Vietnam, the different ownership types, and the divergence in the role of foreign institutions. The identical number and somewhat similar roles of the four major state-owned commercial banks is a reminder of both past legacies and lingering realities.

Table 2: Banks, Insurance Companies, and Ownership (2017)

Institution	Myanmar	Vietnam
Major State-Owned Commercial Banks	4	4
Other State-Owned Banks*	7	2
Private Commercial Banks	17	28
Foreign Banks		
- Subsidiary	-	6
- Branches	13	51
Joint Venture Banks	-	2
Bank Representative Offices	45	51
Insurance Companies		
- Life (of which, foreign)	3 (-)	17 (15)
- General Insurance Only (of which, foreign)	-	29 (11)
- Combined General and Life	10 (-)	-

*Note: * Most of these are extraordinarily small and niche institutions belonging to several of Myanmar's regional governments.*

Sources: Adapted from data from the State Bank of Vietnam and the Central Bank of Myanmar

Foreign Banks: Some General Propositions

There is a vast literature on the role that foreign banks might play in countries broadly, and in developing and transition economies, in particular. Accordingly, the pros and cons of their role are much debated – in theory and empirically as well as in terms of political economy (the extent to which "foreign finance" may rob a nation of its sovereignty is a perennial

[11] That this dominance is not apparent in terms of capital is a clue to the fact that many of Myanmar's smaller banks are largely inactive. In short, Myanmar's banking sector has quite a margin of idle capital.

obsession of conspiracy theorists more or less everywhere). Such debates are far from settled, and are not usually as dichotomized as suggested here. Nevertheless, if we were to line up the arguments for and against a positive role for foreign banks in developing countries, the two sides would usually assert some combination of the following arguments:

The "pro" case for foreign banks posits that they:

- Increase competition in the banking sector;
- Increase access to finance – in product range, geographic and demographic spread, borrowing firm characteristics, and the magnitude of funds available;
- Improve economic and financial performance of borrowers;
- Bring greater financial stability – for individuals and firms, and in terms of the macro-economy broadly;
- Deliver positive spill-overs – technological, methodological, product variety and training;
- Stimulate better host country regulation and supervision.

The "con" case for foreign banks, on the other hand, alleges that they:

- Cherry pick customers;
- Import financial instability;
- Stoke ancient fears and phobias.[12]

These are some of the arguments for and against foreign banks. What of their actual role, thus far, in Vietnam and Myanmar in recent times? It is to this issue that we now turn.

Foreign Banks in Vietnam

Initial Liberalization, 1990-2000

Foreign banks were first authorized in Vietnam following the promulgation of the 1990 *Ordinance on Banks, Credit Cooperatives and Finance Companies*. The initial terms were restrictive, confining entry to either a joint-venture between a foreign bank and a local

[12] The last of these 'cons' might be regarded as especially relevant in the case of Vietnam and Myanmar. Vietnam's entire modern history is generally regarded as being predicated on an all-encompassing desire to throw off the yoke of foreign domination, and to create its own path and its own destiny. For Myanmar, much of the same anti-imperial passion is central to the country's defining narrative, but on top of which is a keenly held historical grievance on the role of foreign financiers in the latter colonial era when, in the wake of the Great Depression, fully one-quarter of the country's paddy fields were surrendered as collateral to foreign moneylenders. In Myanmar's case, these moneylenders were the *Chettiars* from what is now Tamil Nadu in India. The historical role of the *Chettiars* in Myanmar is discussed in great detail in Turnell (2009).

partner (hereafter a Joint-Venture Bank, or JVB), or as a branch of the overseas parent.[13] In short (and as in Myanmar in its initial opening in 2013), in this first iteration 100 percent foreign-owned subsidiaries were not permitted. An array of other conditions and restrictions were also put in place. JVBs were limited more or less to higher minimum capital requirements (US$10 million, almost double the legal capital required for a local privately-owned commercial bank). But for foreign bank *branches* additional restrictions applied (in addition to a *still higher* capital requirement of US$15 million):

- Foreign bank branches were not permitted transaction points outside their branch office, no sub-branches were permitted, nor were ATMs allowed at locations other than the branch office.
- Foreign bank branches were not allowed to accept deposits in Vietnamese dong (VND) of more than 10 percent of the branch's paid-up capital from Vietnamese citizens (and legal entities) with which the bank did not have a credit relationship. This ratio was subsequently loosened in stages (see Table 3 below).
- Foreign bank *branches* were not permitted to accept *time* deposits in VND from Vietnamese citizens (and legal entities) with which the bank did not have a credit relationship, nor accept foreign currency deposits from Vietnamese citizens with which the bank did not have a credit relationship.
- Foreign banks were not permitted to underwrite credit and settlement transactions in foreign currencies for Vietnamese citizens and legal entities with which the bank did not have a credit relationship.
- Foreign bank branches' operating licenses were limited to 20 years.

Notwithstanding these restrictions, the attractions of Vietnam as an investment destination (that is, as a fast-growing greenfield location for international financial services) were such that by the mid-1990s the foreign bank sector became crowded. Most of the foreign banks came either from developed financial jurisdictions such as the United States, Europe, and Australia, or from Asian countries such as China, Japan, Korea, Thailand, Singapore, and Taiwan. Nevertheless, throughout this first period of foreign banking liberalization in Vietnam, foreign banks were primarily devoted to serving foreign corporate clients and foreign travelers (mainly as a consequence of existing client needs and familiarity). Foreign bank branches overwhelmingly centered their activities on foreign-currency based trade finance, while JVBs provided very limited services to the Vietnamese private sector. By the end of the 20th century foreign banks had created a not-insignificant beachhead in Vietnam, with 26 branches established, but they only represented a very minor share (around 1 percent) of overall banking activity in the country (Kousted et.al. 2005, 13-18).

Further Liberalization, Pre-WTO Accession, 2000-2006

[13] For the new JVBs, the local partner had to have at least 51% equity.

The major impetus to full foreign bank entry into Vietnam's financial sector came after the country's negotiation of the United States-Vietnam Bilateral Trade Agreement signed in 2000 (and then, later, with the country's entry into the WTO in 2007). In terms of financial sector issues, however, the BTA did not come into effect until five years after the respective signatures had been affixed. Nevertheless, in the interim period an array of liberalization measures governing the regulation of foreign banks was put in place. None was especially seminal individually, but collectively they greatly expanded the field of operations for foreign banks in Vietnam. Table 3 presents a summary, with measures exclusively applied to the United States noted in italics:

Table 3: Branch Restriction Liberalization in Vietnam, 2000-2006

Time Interval	Restrictions and Liberalisations
Before 2000	Foreign bank (branches) were able to accept deposits in Vietnamese Dong (VND) from Vietnamese entities and citizens with which the bank did not have a credit relationship, up to 10 percent of the branch's capital.
From early 2000 to September 30, 2003	Foreign bank (branches) were able to accept deposits in VND from Vietnamese entities and citizens with which the bank did not have a credit relationship, up to 25 percent of the branch's capital. *United States, exclusively: From December 2001, the number of U.S. bank branches was no longer subject to country quota.*[14] *"National treatment" was granted to U.S. equity positions in Joint-Stock Commercial Banks.*[15] *In December 2002, U.S. bank branches were able to accept deposits up to 50 percent of a branch's capital.*
From October 1, 2003 to March 31, 2004	Foreign bank (branches) able to accept deposits in VND from Vietnamese entities and citizens with which the bank does not have a credit relationship, up to 50% of the branch's capital.
From April 1, 2004 to February 28, 2005	Foreign bank (branches) from Europe were able to accept deposits in VND from Vietnamese entities and citizens with which the bank did not have a credit relationship, up to 250 percent of the branch's capital. Other non-U.S. foreign bank branches remained restricted at 50 percent. *United States, exclusively: In December 2004, U.S. bank branches were given full national treatment, thus lifting all limits on their raising of VND deposits. U.S. bank branches were able to acquire some Land Use Rights for mortgage. U.S. bank branches were also able to access discount, swap, and forward facilities at the State Bank of Vietnam.*
From March 1,	Foreign bank (branches) from Europe allowed to accept deposits in VND, from

[14] Up to that point U.S. bank presence in Vietnam had been limited to two branches (of the then Citibank and Bank of America) and three branch offices – of the then Chase Manhattan Bank, Bank of America (that is, in addition to its branch), and American Express.

[15] By "national treatment," Vietnam undertook to treat U.S. nationals and entities no less favourably than its own nationals and entities with respect to equity positions in commercial banks. National treatment is a basic principle of the World Trade Organization.

Time Interval	Restrictions and Liberalisations
2005 to end 2006	• Vietnamese legal entities with which the bank had no credit relationship, up to 400 percent of the branch's capital. • Vietnamese individuals which the bank does not have a credit relationship, up to 350 percent of the branch's capital. Other foreign bank branches, apart from U.S., remained restricted at 50 percent.

Source: Vu and Turnell 2010; Kousted et.al. 2005.

Performance of Foreign Banks Relative to Domestic Banks

The performance of foreign banks in this relatively early, highly restricted period of entry is of particular interest with respect to Vietnam's relevance as a model for the development of Myanmar's financial sector, because the prevailing terms of foreign bank entry into Myanmar are highly restrictive.

Accordingly, much attention is given to this period up to 2006. We begin with some broad measures of market share, before moving into questions of banking efficiency. All three of the major ownership types are measured – the State-Owned Commercial Banks (SOCBs), the Joint-Stock Commercial Banks (JSCBs), and the Foreign Banks (FBs).[16]

MARKET SHARE

Apparent from Table 4 is that, greatly contrary to expectations, domestic banks had little to fear from foreign banks for the major part of their business. In a dramatically growing sector (financial intermediation grew at double digits throughout this period), the share of FBs more or less stabilized at a little below 10 percent of the market. Moreover, and as widely experienced elsewhere, the FBs' customer cohort overwhelmingly comprised foreign entities and individuals, and only a limited slice of the Vietnamese business community, mostly small entrepreneurial firms with international ambitions. The "commanding heights" of the Vietnamese economy (i.e., mainly large, state-owned enterprises) remained resolutely in the hands of the domestic banks. Some of this was by fiat as state-owned enterprises continued their venerable relationships with the SOCBs. Similarly what might be labelled as "upper end" Vietnamese consumers and small-to-medium enterprises likewise stayed with local banks, switching from the SOCBs mainly to the JSCBs.

Table 4: Vietnam Banking Market Shares, by Ownership Type (%, end-year)

	2000	2001	2002	2003	2004	2005	2006
DEPOSITS							
SOCBs	78.8	79.6	79.3	79.3	76.2	75.7	71.8
JSCBs	11.2	10.7	11.1	11.6	14.5	16.2	20.3

[16] By this time the number of joint-venture banks had shrunk so much that they scarcely could be regarded as a separate category, and their market share here is included in the FB class.

FBs	10.0	9.7	9.6	9.2	9.3	8.0	8.0
LENDING							
SOCBs	79.0	80.9	82.0	81.8	79.3	76.4	71.6
JSCBs	8.8	9.1	9.3	10.5	12.1	14.9	20.0
FBs	12.2	10.0	8.7	7.7	8.5	8.7	8.4

Source: Authors' calculations based on data from the State Bank of Vietnam.

EFFICIENCY

An alternative way of measuring relative bank performance is to examine various measures of bank efficiency. These assess bank performance relative to what the "best-practice bank" could otherwise achieve. They provide indications of the abilities of different bank-ownership types to turn inputs into outputs. As per the story of market share above, the results positively reinforce the notion that the Vietnamese banking sector had little to fear from the entry of foreign banks. Indeed, while there is some evidence that the foreign banks forced Vietnamese banks to become more efficient through increased competition, local banks were able to continue to exploit various home base advantages.

Our analysis of SOCBs, JSCBs, and FBs in terms of cost, profit, and price efficiency yielded the following insights:[17]

- **Cost Efficiency**:[18] There was little difference in the cost efficiencies of any particular bank by ownership type in Vietnam in this time period. Nevertheless, in rank order SOCBs were marginally more cost-efficient than FBs, which, in turn, were more efficient than JSCBs.
- **Profit Efficiency**:[19] Overall, Vietnamese banks of all forms were less profit-efficient across the time period than they were cost-efficient. Once again, however, the ranking placed SOCBs as more profit-efficient than FBs, which were more profit efficient than JSCBs.
- **Price Efficiency**:[20] In terms of price efficiency the rankings were again unchanged – SOCBs coming out on top, followed by the FBs, with the JSCBs bringing up the rear.

At first glance these results may seem surprising. Are not private institutions usually more efficient than state-owned enterprises, and are not foreign banks – with all their purported

[17] Vu and Turnell 2010, 2012; see also Vu and Nahm 2013.

[18] Cost efficiency measures how close the actual costs of a bank in Vietnam are to what a best-practice bank's costs would be to produce the same outputs under the same conditions.

[19] Profit efficiency measures how effectively a bank operates according to its ability to a) produce the maximum amount of output using a minimum of inputs (technical efficiency), and b) to choose the optimal mix of inputs and outputs at a given price vector to maximize profit (allocative efficiency).

[20] Price efficiency indicates by how much the maximum profit obtained at a bank's own price level would differ from the maximum profit at the most favorable price level.

advantages in technology and advanced methodologies – more likely to be more efficient than either of their local competitor types?

Keeping in mind the meanings of the efficiency scores, and in the precise context of the Vietnamese banking sector in the period, the following explanations make sense of the seeming conundrum:[21]

- Being owned by the state, thus the first banking choice for state-owned enterprises (especially the large and pivotal enterprises, including gas and petroleum, electricity, certain export and import businesses, media, and so on), the SOCBs had the first pick of what were initially the most lucrative bank clients.
- Throughout this period the SOCBs were protected and explicitly guaranteed by the State, and were understood to be so favored. This granted them unrivalled advantages over the JSCBs and the FBs as being considered safe places to which to entrust savings by domestic depositors not overly familiar with banking. This advantage conferred upon SOCBs a large market share of relatively "cheap" deposits, which in turn allowed them to price more competitively on the lending side yet extract higher profits.
- In this initial period the SOCBs were by far the largest banks in the country in terms of assets. This in itself yielded efficiencies of scale that the SOCBs were still in a position to exploit. Research by the authors indicates, however, that these scale efficiencies had more or less run their course by the middle of the period under analysis here, while scale economies were still being extracted by the then much smaller, albeit fast-growing, JSCBs and FBs.[22]
- In addition, the SOCBs had a much longer history and potential client base via their nationwide branch networks. These networks, and a certain conservatism and inertia among depositors (also otherwise noted), gave the SOCBs a greater share of loanable and investible funds, compared to their JSCB and FB competitors. Of course, the presence of the vast branch networks was especially important in catering to the savings and financial needs of smaller-scale clients, from individuals to small-to-medium enterprises.
- Compared to the SOCBs and all their noted advantages, which together can be thought of as "market power," both the JSCBs and the FBs faced higher costs and other disadvantages.

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[21] There is also a time element in our efficiency findings, which examines a period after which the SOCBs had already undergone substantial restructuring and phased recapitalization, and beyond the most complete forms of state 'directed' lending.

[22] Indeed, the authors' research suggests that SOCBs are now operating beyond their optimal scale, and have too many staff, too much borrowing, and a nationwide network of many ineffective branches. In contrast, FBs in Vietnam are small in scale and limited in scope, with much potential to expand production and branch networks. Meanwhile, most (but not all) JSCBs in the research noted were at the cusp of exhausting available economies of scale.

- Funding costs were higher for the JSCBs as they built infrastructure and systems from more or less a standing start, and faced more expensive marketing and other costs in attracting deposits. Having a far shorter history and possessing limited brand awareness, in the years considered here they were mostly small in both size (measured by equity capital and total assets) and network (measured by the number of branches). Compared to both the SOCBs and the FBs, JSCBs tended to lack modern systems, and mostly were staffed by people with limited contemporary banking skills and little experience in transactions processing, credit analysis, and customer relations. Of course, the JSCBs were regarded as lacking in explicit support from either government (in contrast to the SOCBs) or foreign parents with deep pockets (the FBs). All of this meant they paid rather more for funding than banks in either of the other two ownership categories.
- The FBs were also faced with a number of disadvantages with respect to the SOCBs, many of them compelled by government restrictions of the sort already noted. For instance, the tight restrictions on branch outlets, other transaction points, and even ATMs, meant they concentrated their physical presence in Vietnam in expensive Hanoi and Ho Chi Minh City. In these locations they were housed in "marquee" buildings, with accoutrements built to signify the foreign banks' strength and reach. Add to these the higher costs of expatriate staffing, use of more expensive technologies, and compliance for home country head office and regulators, and the overall picture was one of high-cost operations. Meanwhile, in attracting customers the FBs faced other barriers familiar to foreign entities the world over – barriers in language, culture, currency, country-specific market features, various biases against foreign institutions, and other explicit and implicit barriers. Together the disadvantages imposed on them in this early period of foreign bank opening seemed to surpass the advantages possessed by FBs (long experience in banking internationally, good lending practices, good risk management skills, advanced technologies, and capital support from their parent banks, and so on), leading to lower levels of efficiency with respect to the local SOCBs. Of course, there was probably a certain "loss-leader" aspect to FB operations in this period, diminishing the efficiency frontier that could perhaps be exploited.
- A related flip side to the higher expenses of the FBs is that they were responsible for most of the innovations to banking in the country. FBs led the introduction into Vietnam of credit cards, debit cards, ATMs, factoring, forfaiting, and other modern financial services.

HOME COUNTRY DIFFERENCES

A curious finding of the authors' research into the efficiency of foreign banks in the early period after entry to Vietnam is that the home country of the respective foreign bank made a difference. To put it simply, foreign banks from OECD (Organization for Economic Cooperation and Development) countries, including the US, Europe, Japan, and Australia, were significantly more efficient than from anywhere else. Perhaps this should not be surprising. The OECD comprises nations with the most sophisticated financial systems and, presumably, the most sophisticated banks along with them. Berger et al. (2000) proposed three hypotheses related to foreign bank performance in a host country:

- Under the *home field advantage* hypothesis, foreign banks are generally found to be less efficient than domestic banks. The explanation is that operating or monitoring an institution from a distance entails organizational diseconomies, or other advantages of domestic banks (e.g., language, culture, regulation, and other barriers) are too difficult to overcome in most cases even for efficiently operated, cross-border organizations.
- Under the *general form of the global advantage* hypothesis, efficiently managed foreign banks, regardless of the nation in which they are headquartered, are able to overcome any cross-border disadvantages and operate more efficiently than domestic banks in other nations.
- Under the *limited form of international advantage*, only the efficient institutions headquartered in nations with specific favorable conditions in their home countries are able to overcome any cross-border disadvantages and operate more efficiently than domestic institutions.

In Vietnam the "limited form of international advantage" hypothesis seems to operate. Banks from the OECD countries (in the research employed here, a total of 8 banks) are actually more efficient than any other bank type (including the SOCBs). The average of *all* FBs, therefore, is brought down by the others, but especially banks from the rest of Asia. Broad hypotheses as to why this might be the case are beyond the scope of the present research, but presumably the scale, as well as technological and methodological advantages, of OECD banks were sufficient to trump both local advantage and that which might be thought to pertain to institutions more attuned to challenging environments. Of course, it has already been noted that FBs face considerably higher staffing costs than any other banks. In the end then, this interesting finding may come down to the simple adage that you get what you pay for.

WTO Accession, and After

From 2007, and with Vietnam's accession to the WTO, financial sector reform – but especially its degree of openness to foreign investment – accelerated dramatically. In terms of banking specifically, two measures especially stood out. First, foreign banks were permitted to establish wholly-owned *subsidiaries* as well as branches. Second, with the launching of the Strategic Partnership Program, foreign banks could take equity positions in local banks (including state-owned ones); see below for definition.

Under the terms of its accession to the WTO in 2007, Vietnam entered into a range of commitments that dramatically expanded the scope of activities allowed to foreign entities in the country's financial system.[23] Building and expanding upon the earlier US-Vietnam BTA, these included:

[23] For Vietnam's commitments on banking and financial services under its accession to the WTO, see WTO (2006).

- From April 1, 2007, Vietnam allowed full 100 percent foreign-owned banks (that is, wholly-owned subsidiaries of foreign banks) to enjoy "national treatment" with respect to locally-owned institutions. Since Vietnam wanted to attract foreign banks of some heft and international standing, the foreign parent of such banks had to have in excess of US$10 billion of total global assets at the end of the year prior to application for establishment in Vietnam.

- Further increased the deposit limits on foreign bank *branches*:
    - 1 January 2008, up to 800 percent of paid-in capital
    - 1 January 2009, up to 900 percent of paid-in capital
    - 1 January 2010, up to 1,000 percent of paid-in capital
    - 1 January 2011, full national treatment (no specific foreign branch limit) applied.
- From April 1, 2007, foreign investors were allowed to take equity positions in Vietnamese joint-stock commercial banks under the rules of the aforementioned Strategic Partnerships.[24] Total foreign equity could not exceed 30 percent of a bank's chartered capital, with a single foreign investor limit of 15 percent; with Prime Ministerial approval this could go up to 20 percent. In 2014, under Decree No.01/2014/ND-CP, the individual limit for a single foreign investor was lifted to 20 percent without special permission, although the equity limit for all foreign investors at any local bank remained unchanged and capped at 30 percent. In January 2017 in an effort to enlist foreign capital in the struggle to assist Vietnam's financial sector, which was beset by high and persistent non-performing loans, the Prime Minister announced that foreign ownership limits could be lifted completely for especially troubled institutions.[25]
- By 2017, fourteen banks had been partially acquired by foreign strategic investors holding at least 5 percent of charter capital:

Table 5: Vietnam's Strategic Partner Banks

Foreign Strategic Partner Bank	Domestic Bank
Standard Chartered Bank (UK)	Asia Commercial Bank
ANZ (Australia)	Saigon Thuong Tin Commercial Bank (Sacombank)
HSBC (UK)	Viet Nam Technological and Commercial Bank (Techcombank)
OCBC (Singapore)	Vietnam Prosperous Bank (VP Bank)
Deutsche Bank (Germany)	Hanoi Building Commercial Bank (Habubank)

[24] This commitment was included under government Decree No.69/2007/ND-CP.

[25] As mentioned earlier, he evocatively noted, "Right now, if there are any foreign investors interested in buying any of our under-performing banks, we will sell them entirely." Prime Minister Nguyen Xuan Phuc, quoted in Uyen and Boudreau (2017).

Foreign Strategic Partner Bank	Domestic Bank
BNP Paribas (France)	Orient Commercial Bank (OCB)
Sumitomo Mitsui Banking Corporation (Japan)	Vietnam Bank of Export and Import (Eximbank)
Société Générale (France)	Southeast Asia Commercial Bank (SeABank)
Maybank (Malaysia)	An Binh Commercial Bank (ABB)
SBI Holdings	Tien Phong Commercial Bank (TP Bank)
Commonwealth Bank of Australia	Vietnam International Commercial Bank (VIB)
Fullerton Financials Holdings	Mekong Development Commercial Bank (MDB)
Mizuho Corporate Bank	Commercial Bank for Foreign Trade of Vietnam (Vietcombank)
Bank of Tokyo Mitsubishi UFJ	Vietnam Bank for Industry and Trade (VietInBank)

- In addition to these liberalization measures with respect to foreign banks, with WTO accession came further commitments to open up Vietnam to foreign securities firms (first allowed as minority partners in joint ventures; after five years from the date of accession, full 100 percent foreign ownership) and finance and financial leasing firms (any ownership form, but foreign parent to have at least $US10 billion in assets).[26]

Performance Post-WTO Accession

MARKET SHARE

As seen in Table 6, Vietnam's accession to the WTO did little to change the overall market share of foreign banks in the country. In terms of deposits they remained bit-players, attracting funds from foreign firms operating in Vietnam, expatriates working in the country, and a portion of the country's professional and managerial classes.[27] With respect to lending in the broad sense, the share occupied by foreign banks progressively retreated following WTO accession.

Table 6: Market Share by Bank Ownership in Vietnam, 2008-15

	2008	2009	2010	2011	2012	2013	2014	2015
DEPOSITS								
SOCBs	57.8	51.4	48.5	47.5	46.4	44.1	43.3	46.1
JSCBs	32.7	39.4	43.3	43.0	45.1	46.9	47.9	45.7
FBs	9.5	9.2	8.2	9.5	8.5	9.0	8.8	8.2
LENDING								
SOCBs	58.1	54.1	51.1	52.0	52.0	52.0	52.4	53.2

[26] For more details, see WTO (2006).

[27] See Neilson (2010).

JSCBs	29.6	35.6	38.9	38.3	39.6	41.2	41.5	41.4
FBs	12.3	10.3	10.0	9.7	8.4	6.8	6.1	5.4

Source: Authors' calculations based on data from the State Bank of Vietnam

In terms of the efficiency scores of the sort used in this paper for 2001-2006, other authors more or less confirm a continuation of the pattern noted for the earlier period up to the present. Thus, according to Phuong (2016), SOCBs have continued to be the most cost-, profit-, and price-efficient of banks in Vietnam, exploiting their market power, state connections, and a relatively cheap funding base as before, followed by the foreign banks, with the JSCBs again bringing up the rear.[28] Meanwhile, Nguyen et al. (2016) and Phuong (2016) found that the Strategic Partnerships permitted to foreign investors in local banks helped to improve the performance of those banks (both SOCBs and JSCBs) right across the efficiency categories, and in terms of accumulating fewer subsequently non-performing loans.[29]

GROWING FOREIGN BANK CONCENTRATION ON WHOLESALE, INTERBANK MARKETS

The decline of the overall market share of foreign banks in lending in general following WTO accession was not the result of a collective retreat from Vietnam, but an increasing concentration by the foreign banks on wholesale and investment banking, and as the providers of financial services to other banks. Table 7 reveals the story, across multiple products and platforms.

As is readily apparent from Table 7's first line, foreign banks in Vietnam are significant suppliers of liquidity to the banking system. Averaging around 50 percent of total assets in the last few years, the loans they provide to other credit institutions are more than three times the equivalent shares assigned by the domestic banks (both SOCBs and JSCBs). Meanwhile, foreign banks' own funding from regular depositors, roughly 50 percent of their total assets across 2012-15, is significantly below those of the local banks, which fund more than 70 percent of their lending from deposits. The loan-to-deposits ratio of the FBs is also lower, as is the proportion of the revenue they derive from interest income.

Table 7: Selected Vietnam Banking Indicators by Ownership Type, 2012-2015

	SOCBs				JSCBs				FBs			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015

[28] Now, however, with the latter especially hampered by high levels of defaulting loans and similarly compromised assets, the group of most efficient banks included the four major SOCBS, three 100 percent foreign-owned banks (HSBC, Hong Leong Bank, and Shinhan bank), and the Viet-Thai joint-venture bank.

[29] This finding also pertained to those SOCBs with a foreign stakeholder, apparently because of the foreign banks' significantly greater responsiveness to the commercial incentives of ownership, claimants being motivated solely by pecuniary returns.

	SOCBs				JSCBs				FBs			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
Deposits/Loans to other credit institutions (% of Total Assets)	9.9	10.7	11.8	10.6	18.0	14.4	12.1	7.5	43.3	44.3	51.1	56.7
Deposits from customers (% of Total Assets)	67.8	70.5	68.8	72.3	61.7	69.4	73.4	77.9	45.1	49.8	55.0	54.4
Loans-to-deposits ratio	1.0	1.0	1.0	0.9	0.8	0.7	0.7	0.7	0.9	0.6	0.5	0.5
Trading securities (% of Total Assets)	0.7	1.3	3.0	2.5	0.3	0.8	1.1	0.9	2.9	2.2	2.2	1.5
Interest income/Total income (%)	88.6	85.9	84.5	85.6	94.4	90.9	89.4	90.6	75.1	74.5	72.1	67.1
Interest expense/Total expenses (%)	66.8	62.8	59.3	56.5	75.3	70.6	68.4	65.4	43.1	39.3	35.4	30.2
Operating expense/total expenses (%)	19.2	21.3	22.4	22.6	17.7	20.9	21.6	21.4	38.8	47.4	51.0	49.8
Net gain/loss from foreign exchange trading (%)	1.1	1.0	1.0	1.1	n.a	n.a	n.a	0.3	3.9	4.2	5.1	6.4
Net gain/loss from trading securities (%)	0.2	0.2	0.4	0.1	0.1	0.2	0.3	0.1	2.5	2.7	2.2	1.9

Source: Authors' calculations based on SBV data

Consistent with the assertion here that foreign banks in Vietnam devote much of their activity and resources to wholesale and interbank activity, it is no surprise to see in Table 7 their disproportionate earnings from trading both foreign exchange and securities. In both categories, across 2012-15 foreign banks in Vietnam earned proportionately around six times the profits of their local competitors. More broadly, foreign banks in Vietnam derive a significantly higher proportion of earnings from activities beyond those considered to be part of traditional bank intermediation.

Foreign Banks in Myanmar

Five Decades of Exclusion

From 1962 to 2014 foreign banks did not operate in Myanmar. They were active in the country for over a century before their nationalization at the onset of military rule and the beginnings of the "Burmese Way to Socialism" in 1962. Thereafter, local subsidiaries of the great names of international banking, including predecessors of HSBC, Citigroup, Standard Chartered, and Lloyd's, were folded into a state-owned monolith, the Peoples' Bank of the Union of Burma. For the next 50 years foreign banks continued to be banned in Myanmar. Nominally allowed under the 1990 *Financial Institutions of Myanmar Law* (which, as noted earlier, kicked off the reform process), in practice the reintroduction of foreign banks into Myanmar remained a step too far for the military regimes prevailing prior to 2013.

In September 2014 all of that changed when the Central Bank of Myanmar announced the names of nine foreign banks to be awarded licenses to operate in the country. A keenly

awaited decision that followed a generally well-regarded selection process the year before (assisted by the German consultancy firm, Roland Berger), the nine winning candidates were:

Australia and New Zealand Banking Group (Australia)
Bangkok Bank (Thailand)
Bank of Tokyo-Mitsubishi UFJ (Japan)
Industrial and Commercial Bank of China (China)
Malayan Banking Berhad (Malaysia)
Mizuho Bank (Japan)
Overseas Chinese Banking Corporation (Singapore)
Sumitomo Mitsui Banking Corporation (Japan)
United Overseas Bank (Singapore)

As seen from this list, all of the successful foreign bidders – with the exception of ANZ – were from Asia. This was no surprise, given the lingering sanctions that disallowed any U.S. candidates and the general risk-aversion of European banks still in recovery mode following the global financial crisis, which were mostly divesting themselves of Asian operations and assets. Simple geography was likewise a factor, and the strong financial links between Myanmar and Singapore (the latter long the banker for Myanmar's elite) and Japan (by far Myanmar's largest source of official development assistance) explain the multiple entrants from these countries.

Local Opposition and a Restrictive Mandate

The arrival of foreign banks in Myanmar prompted firm opposition from most of the domestic banks, which spent considerable time and resources resisting their entry and, when this became a *fait accompli*, limiting foreign banks' allowable activities. The requirements and restrictions subsequently imposed on them include:

- Minimum paid-up capital of US$75 million;
- One branch only;
- A bespoke income tax rate of 35 percent, compared with the 25 percent rate applicable to local banks;
- A prohibition on lending to Myanmar nationals or enterprises, except in partnership with a local bank; and
- A ban on taking local currency deposits from Myanmar nationals.

Also restricting foreign bank operations in Myanmar is the *Transfer of Immoveable Property Act,* which does not allow foreigners to accept land as collateral. Thus, even if foreign banks were permitted to lend to local firms, the size and scope of these loans would be limited. On the other hand, the interest rate floors and caps imposed on the local banks (currently 8 percent on deposits and effectively 13 percent on loans) do not apply to the foreign entities. Overall, foreign banks in Myanmar are relegated in essence to the provision of financial services to other foreign investors. In most cases, these will be investors from the same countries from which come the individual banks themselves. Finally, the prohibition remains

against foreign banks taking equity positions in local banks (a ban exercised in practice by the CBM, rather than prohibited by law), also the exclusion of foreign bank/domestic bank joint-venture arrangements.

Four More Licenses Issued

In February 2016 (by which time all nine foreign banks granted provisional entry had taken up their licenses) the CBM announced a second round of foreign bank license issues. The pool of applicants was limited, however, to banks from countries that were not already represented in the original nine, and to institutions that already had representative offices in place in Myanmar. Thirteen foreign banks put in bids, and the following four were selected:

Bank for Investment and Development of Vietnam (BIDV)
E.SUN Commercial Bank (Taiwan)
Shinhan Bank (South Korea)
State Bank of India (India)

Performance

A lack of timely data and the brief time that foreign banks have been back in Myanmar prohibit much in the way of analysis of their performance. Nevertheless, anecdotal and media accounts of their activities suggest that most of the banks have a very limited array of clients (as hinted above, most from their home country), individual transactions tend to be large, and Japanese banks are the most active of the foreign banks (not surprisingly perhaps given the elevated levels of Japanese foreign direct investment in Myanmar). Collectively, the foreign banks are chafing against the restrictions on their activities, especially in not being allowed to take in *kyat* deposits and grant *kyat* loans. Many of the foreign banks have brought in substantially more capital than levels dictated by regulatory minimums. This last aspect highlights an unusual aspect of the foreign bank story in Myanmar today: despite the restrictions, they contribute a disproportionality large share (47 percent) of the capital applied by the banking sector overall. This suggests a foundation, one might think, for a rather more prominent future role for foreign banks in Myanmar.

Insurance

'A sound national insurance and re-insurance market is an essential characteristic of economic growth'

UNCTAD 1964[30]

The idea that banks can play a crucial and leading role in a country's growth and development has long enjoyed something of a consensus in the literature devoted to the broader role of financial institutions. The notion that this role might extend to insurance is of more recent origin.[31] Nevertheless, there is now a growing belief that insurance, and the firms that provide it, likewise can be important engines for economic transformation. The empirical and theoretical studies supporting the case are as yet relatively small (that is, compared to the examined roles of banks, equity markets, and microfinance), but their arguments tend to focus on contributions such as the following:[32]

- **The intrinsic product benefits of insurance:** The contributions of insurance in supporting commerce and entrepreneurial activity by pricing and ameliorating risk. For individuals, lives can be made more financially secure, providing a foundation from which more expansive choices can be made.
- **Insurance firms as mobilisers of capital:** Insurance companies must match growing liabilities (that is, their potential pay-outs) with assets to match. In the case of life insurance these liabilities are long-term, and so must be the assets. What form do these assets take? Overwhelmingly it is long-term bonds issued by governments (at all levels, though primarily national) and, to a lesser extent, private corporations. Either way, insurance companies are significant buyers of long-term debt of the form that is used to finance the construction of physical infrastructure, thus growth.
- **Insurance companies as the source of capital market and financial stability:** As an extension of the point above, insurance companies tend to be long-term and stable buyers of capital market securities.
- **Suppliers of foreign exchange:** Foreign insurers not only bring long term stable funding, but much-needed foreign currency reserves into financial systems usually short of them.
- **Limiting currency risk:** Insurance companies' assets need to be in local currency, to match their liabilities in the same unit. This helps minimize the dependence on

[30] United Nations Conference on Trade and Development (1964, 55).

[31] The first explicit study suggesting a supply-leading role for insurance and economic growth would seem to be Ward and Zurbruegg (2000). A recent study linking both insurance to economic growth directly, as well as indirectly via the support the sector provides to banks, is outlined in Pradhan et.al. (2015).

[32] For a review of some of these studies, see Outreville (2013), Lee *et al.* (2013) and Haiss and Sumegi (2008).

foreign currency-denominated borrowing that is so often an unfortunate feature of capital raising in, and, for developing countries, a contributing factor in financial crises.

- **Enhancing savings propensities:** The very presence of insurance products, and their promotion, can add to the understanding of the uses and possibilities of savings. This potential contribution is aided by the fact that the yields of insurance products are often in excess of those available to deposits in banks, and other existing savings vehicles.
- **Mitigating retirement and dependency burdens:** With ageing populations throughout much of the world (Myanmar itself will not remain immune), the burdens on state budgets will ultimately be levied on working populations and, accordingly, subtract from potential growth. Retirement products offered by insurance companies can reduce these burdens.

In terms of the specific benefits of *foreign* insurance providers, the notion that they are agents for the dissemination of better industry practices, products, technologies, and regulation is often cited. Although this last aspect must come with important caveats in recognizing clear vested interests, in *practice* throughout the region foreign insurers have indeed become important partners in industry regulation.

Insurance in Vietnam

Vietnam's insurance sector was opened up to foreign investors in 2006[33] when foreign insurers were permitted to enter into joint ventures with local firms to offer a limited range of products (at core, servicing foreign enterprises and trading activities, and reinsurance). Such was the perceived complexity of insurance, however, these joint-ventures in fact preceded the establishment of 100 percent locally-owned private insurers (which were permitted only in 1995) in a market that hitherto exclusively belonged to the state-owned Bao Viet Insurance. Four such joint ventures were formed by 1999, the year in which foreign insurance firms were permitted to establish fully foreign-owned insurance entities.[34] Initially the activities of these 100 percent foreign-owned insurers were likewise limited, in essence (somewhat didactically) to life insurance,[35] but once again the signing of the United States-Vietnam Bilateral Trading Agreement in December 2001 brought about further openings (via the *Law on Insurance Business*) to *all* types of insurance provided by majority U.S.-owned firms by 2003, and 100 percent U.S.-owned firms by 2005. As with banking, Vietnam's entry into the WTO in 2007 subsequently extended these concessions to other countries' foreign investors.[36]

The growth of insurance in Vietnam has been extraordinarily rapid, with average premium growth rates of over 16 percent per annum for the sector overall across 2011-15 (the period of data availability), and 25 percent for life insurance across the same period. Around half a million people are employed in the insurance sector in Vietnam (a number that has tripled since 2011).[37] In 2015 the annual flow of insurance premiums in Vietnam came to around US$2 billion, or around 1.3 percent of GDP.

In 2017 Vietnam has 60 insurance companies, of which 17 exclusively provide life insurance. In Vietnam, life and non-life insurance are kept rigidly apart by law, with the exception of certain schemes allowed to general insurers offering health policies. Thus, (and, as we shall

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[33] Some joint ventures have existed prior to this date: AIG, for example, has operated in Vietnam since the 1990s.

[34] The joint venture firms were not regarded as a success, and all were ultimately abandoned. All sides complained of differing expectations of product and market growth, governance conflicts, and disputes over the use of technologies and methods. Source: Personal correspondence between the authors and industry participants.

[35] Actuarial complexity means that life insurance is a difficult business to undertake, and in many developing and transition economies it is a field that has been first opened to foreign investment. In the Vietnam context life insurance is understood as more or less the full gamut of life products, including whole life insurance, term life insurance, endowment insurance, annuity and investment-linked insurance, and the provision of accumulated pension payments.

[36] Accordingly, foreign-owned insurance companies broadly were permitted from January 1, 2008, to engage in all forms of government mandated insurance such as insurance for construction, oil and gas projects, third-party motor vehicle liability and for projects specified as involving elevated public and/or environmental risk.

[37] These particular numbers are taken from Vietnam's Bureau of Insurance Supervisory Management, but they are consistent with a host of industry and other reports for the sector. See, for instance, Thai Trade Center (2016).

see, in contrast to the situation in Myanmar) there are no insurance companies in Vietnam that offer both non-life and life insurance.

Table 8: Vietnam's Ten Largest Life Insurers

Insurer (Country of origin)	**Market Share** (% of premiums paid)
Prudential Vietnam (UK)	29.9
BaoViet Life (Vietnam)*	25.7
Manulife Vietnam (Canada)	12.1
AIA Vietnam (USA)	9.2
Dai-ichi Vietnam (Japan)	9.1
Chubb Life Vietnam (USA)	4.4
PVI Sun Life (Vietnam-Canada)	2.3
Generali (Italy)	2.0
Hanwha Life (South Korea)	1.9
Prevoir (France)	1.4
OTHER	2.0

*Note: *Sumitomo Life of Japan holds an 18% equity stake.*

Source: Association of Vietnam Insurers 2016, cited in Thai Trade Center 2016

Non-life insurance[38] is dominated in Vietnam by local firms, even though in terms of numbers of companies there is a slight majority of foreign-owned non-life insurers. Life insurance, however, is greatly dominated by foreign firms. Of Vietnam's 17 life insurers, 11 are 100 percent foreign-owned, 5 are joint-ventures, while just one local firm is in the life insurance market, the majority state-owned Bao Viet Life.

In terms of structure, foreign life insurers can operate either via a locally established 100 percent foreign-owned subsidiary, or as a branch of the offshore parent.[39] All foreign insurers have to demonstrate they have over US$2 billion in group assets and over 10 years of experience in the business. Likewise, they must have been profitable in the 3 prior years before setting up in Vietnam. The minimum paid-up capital for a foreign non-life insurer is

[38] Often called 'general' insurance, includes property, motor vehicle, health, and other traditional insurance products.

[39] However, in practice all of the foreign life insurers in Vietnam operate as wholly-owned subsidiaries rather than branches.

VND300 billion (roughly US$15 million, depending on Vietnam's volatile exchange rate), while the minimum for a life insurer is VND 600 billion (about US$30 million). Incremental capital requirements are levied for life insurers adding investment-linked schemes (an additional VND 200 billion or US$10 million) and pension insurance (VND 400 billion or US$20 million). Reinsurance companies require capital of VND 700 billion (about US$35 million), and VND 1,100 billion (about US$55 million) if covering life or health insurance. Finally, the minimum capital required for a foreign insurer *branch* is VND 200 billion (about US$10 million).

Beyond capital requirements, a range of other prudential measures are levied on local and foreign insurers alike. These include various reserve requirements such as minimum solvency margins, security deposits into a commercial bank equivalent to 2 percent of legal capital, a compulsory reserve fund that must be maintained to match at least 10 percent of capital (and into which 5 percent of after-tax profits must be paid each year), and the payment of contributions (to reach 5 percent of assets of a non-life insurer, 3 percent of assets for a life insurance company) into the Association of Vietnamese Insurers' policy-owner protection fund.[40]

Similarly, insurers are restricted in terms of where capital and premiums can be invested, as can be seen in Table 9 below:

Table 9: Investment Limitations on Surplus Equity and Premiums[41]*

Non-Life Insurers	1) Unlimited purchase of government securities, securities subject to government guarantee, and deposits in authorised deposit-taking institutions. 2) Purchase of shares, unsecured bonds and capital investment in other enterprises not to exceed 35 percent of idle capital from reserves. 3) Purchases of real estate and other lending limited to 20 percent of idle capital from reserves.
Life Insurers	1) Unlimited purchase of government securities, securities subject to government guarantee, and deposits in authorised deposit-taking institutions. 2) Purchase of shares, unsecured bonds and capital investment in other enterprises not to exceed 50 percent of idle capital from reserves. 3) Purchases of real estate and other lending limited to 40 percent of idle capital from reserves.

*Note: * Surplus equity and premiums are each subject to these limitations individually.*

Contributions of Foreign Insurers in Vietnam

Following the entry of foreign insurers into Vietnam the insurance business has grown rapidly, providing products hitherto unavailable and boosting the country's capital markets.

[40] Other reserve requirements are applicable to pension schemes, annuities, investment products, and so on.

[41] Table derived from Hogan and Lovells (2015, 9-10).

Foreign life insurers are now the bedrock investors in Vietnamese government bonds, beyond the state-owned banks. This is especially the case with respect to medium- and (lately) long-term bonds, the ideal asset class to match their growing and equally long-term liabilities. In 2015, foreign life insurers even worked with the Vietnamese government to develop 30-year government bonds.[42]

Table 10 presents the asset allocation of Prudential, by far the largest of all the foreign insurance companies in Vietnam and the largest life insurer, foreign or domestic. The extent to which the purchase of government bonds is central to the company's asset allocation strategy is readily apparent.

Table 10: Asset Allocation: Prudential Vietnam

(VND millions)

	Total Assets	Long-term Investment (Government bond purchases)[43]	Long-term Investment As a Share of Total Assets
2007	16,703,125	14,539,787	87%
2008	19,487,143	15,929,010	82%
2009	22,254,511	16,981,892	76%
2010	25,457,004	18,230,988	72%
2011	28,511,637	25,457,004	89%
2012	32,958,863	24,001,835	73%
2013	37,839,464	28,578,881	76%
2014	44,565,602	33,583,507	75%

Sources: Authors' calculations based on Prudential Annual Reports, 2008-2016. Using average exchange rates to USD for 2007 and 2014, in dollar terms in 2007 Total Assets were $16,071 million and Long-term Investment was $13,989 million. By 2014 these figures were $56,549 million and $42,614 million respectively.

Prudential's strategy is not unusual among the insurance companies which, in 2016, were the buyers of 22 percent of all Vietnamese government bond issues. Of this, foreign insurers accounted for just over a third, with Prudential as the biggest buyer, followed by Cathay Life and Manulife Vietnam.[44]

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[42] Information provided to the authors by a foreign insurer in Vietnam, and confirmed by regulatory officials.

[43] Mostly national government issues, but some bonds issued by the Hanoi and Ho Chi Minh City provincial governments.

[44] Data acquired by the authors from official sources. Beyond life insurers, foreigner investors do not seem interested in Vietnamese government bonds. This suggests that this segment of the market is driven by liability-asset matching, rather than the inherent attractiveness of Vietnamese government bonds. This phenomenon

Beyond capital accumulation and increased liquidity in government capital markets, other benefits from the presence of foreign insurers in Vietnam have more or less followed the conceptual virtues outlined at the beginning of this section. Thus, foreign insurers have brought to the sector modern technologies, methods and, notwithstanding the existence of potential conflicts of interest, they *have* given regulatory and supervising agency support to Vietnam's Bureau of Insurance Supervision Management.

The creation of an entirely new industry, and the employment possibilities from this, have likewise been readily apparent. As at June 2016 there were around 440,000 insurance agents in Vietnam (up from 400,000 the previous year and 295,000 in 2014). Life insurers were the major component of this employment, with foreign life insurers leading the way. Of the 440,000 agents employed in 2016, over 180,000 were with Prudential alone, 100,000 more in the part-domestic/part-foreign Bao Viet Life, and over 100,000 more with the remainder of the five largest life insurers. In short, insurance – and foreign insurers, in particular – are major creators of a formerly nonexistent category of employment in Vietnam.

Insurance in Myanmar

In the colonial years a small but vibrant insurance sector served the needs, overwhelmingly, of foreign businesses, foreign business people, and government officials. The sector was effectively eliminated in 1962 upon the nationalization efforts of the "Burmese Way to Socialism," and would be largely forgotten today were it not for a handful of old buildings in the streets of Yangon that grant physical testimony to its existence.

Today, Myanmar's insurance market is the least developed in Southeast Asia. Non-life insurance premiums are less than 0.1 percent of GDP (the ASEAN average is around 1.5 percent, in Cambodia and Laos shares are both around 0.5 percent, and in Vietnam the share is a little over 1.4 percent of GDP). Life insurance, with the exception of some state employee schemes and construction company plans, is essentially non-existent.[45] Even more so than the financial sector broadly, insurance has long been suppressed in Myanmar. Beginning in 1959 (that is, even before the arrival of Myanmar's military government that gave the sector the *coup de grace)* all private insurers were progressively nationalized, and insurance business limited exclusively to the state-owned Myanmar Insurance Corporation (MIC).[46] The MIC offered a very limited product range, which more or less included the range of products allowable to private insurers today.

In 1997 a new *Myanmar Insurance Law* was promulgated, under which (in theory) private insurance companies were allowed. For 16 years nothing happened. Finally, in 2013, 12

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surely elevates the importance of foreign insurers in nascent government bond markets – in being essentially first-mover market-makers.

[45] Total life insurance premiums in 2014 amounted to little more than $US2 million. There is little existing market, in short, for foreign insurers to "disrupt" – but much to build.

[46] It was known as the 'Union Insurance Company' up to 1976.

private insurers were granted licenses to conduct a limited range of insurance business. Interestingly though and in contrast to Vietnam, private insurers could offer *both* life and general insurance, or limit themselves to either. Among the allowable insurance services that could be offered by the private insurers included:

- Fire
- Cash-in-transit and money security
- Marine hull, machinery, and cargo
- Health, personal accident, and diseases
- Travel
- Third-party and comprehensive vehicle insurance
- Life, sportsman (sic) life, and snake bite life insurance

Numerous other categories remain the preserve of the MIC, including below and a dozen or so other products:

- Theft
- Oil and gas business
- Liability
- Aviation
- Workers' compensation

Beyond the restriction of product offerings, insurance companies in Myanmar suffer under a number of other constraints, only some of which seem to have any rationale in prudence or anything reasonable. Most egregiously, these include a prohibition on competing with each other on price (premiums) or any meaningful product differentiation (even within the limited range of activities noted). Maximum sums insured are likewise set for *all* firms, and none are permitted to seek reinsurance for individual policies sold.[47] Meanwhile the sector is regulated by the Insurance Business Regulatory Board (IBRB) under the Ministry of Planning and Finance.

Meanwhile entirely appropriate regulations are designed to ensure sector sustainability and stability, and consumer protection. Among the most important of these include minimum capital requirements of MMK40 billion (around US$32.4 million) for general insurance, MMK6 billion for life (US$4.9 million) and MMK46 billion (US$37.3 million) for combined general and life. It will be noted that these minimums are significantly higher than the equivalents noted above in Vietnam. This capital is allocated as follows:

- 60 percent deposited in a state-owned bank (refundable after one year)
- 30 percent in government treasury bonds
- 10 percent permanently deposited in the (state-owned) Myanmar Economic Bank.

[47] This limits what can be offered in yet another way. The maximum fire insurance a particular firm can offer is MMK500 million (just over $US400,000) – not even close to being adequate for any significant commercial structure (Oxford Business Group 2017, 90).

OBSTACLES REMAIN

Notwithstanding the limited business allowable, domestic commercial interest in obtaining an insurance license was fierce, with the 2013 tender process for new private firms generating bids from more than 20 entities. In the end, the twelve firms successfully secured licenses – nine to offer both life and general insurance, with three others pursuing life insurance alone.

Table 11: Private Insurance Companies in Myanmar

Insurer	Insurance Activity
Aung Myint Moh In Insurance	Life
Aung Thitsa Oo Insurance	Life and General
Aya Myanmar Insurance	Life and General
Capital Life Insurance	Life
Citizen Business Insurance	Life
Excellent Fortune Insurance	Life and General
First National Insurance	Life and General
Global World Insurance	Life and General
Grand Guardian Insurance	Life and General
IKBZ Insurance	Life and General
Young Insurance Global	Life and General

Source: Foerch et al. 2016

As with the banking sector, Myanmar's private insurance sector is highly concentrated, with the top five firms holding almost 90 percent of the market. The top five firms are (Roland Berger 2016):

1. IKBZ (33 percent market share)
2. Grand Guardian (18 percent)
3. Aung Thitsa Oo (16 percent)
4. First National Insurance (12 percent)
5. Ayeyar Myanmar Insurance (10 percent)

Notwithstanding the significant interest and enthusiasm for the development of the insurance sector in Myanmar, on both the demand *and* the supply sides of the issue, significant barriers remain. Many of these are eminently fixable through changes to government regulation, some will only be surmountable with time and industry maturation. Others will require broader changes in public mores and perceptions. Among the most significant barriers in place at the moment though include:

- Overly restrictive regulations (of the sort noted above).
- Consumer issues:

  - Lack of awareness and cultural resistance to insurance.
  - Lack of trust in insurance firms (many customers in Myanmar are skeptical insurance companies will really pay out).
  - Premiums regarded as too high.
  - Lack of knowledge of how to lodge claims.
- Producer issues:
  - Within existing firms, there is a lack of proper understanding of insurance business/risk management. The lack of actuaries in Myanmar is chronic.
  - Many existing firms are more apparent than real.[48]

FOREIGN INSURANCE

With the exception of three Japanese insurers authorized under restricted licenses in the Thilawa Special Economic Zone (Mitsui Sumitomo, Sompo Japan, Tokio Marine and Fire), at the time of writing foreign insurers are not permitted to operate in Myanmar.[49] There is *great* interest in doing so, however, and foreign insurers from all over the world have made something of a beeline for Myanmar over the last few years. This interest is based on what are expected to be bullish expected growth rates for the sector when it is ultimately opened. Based on comparable countries, (and using metrics such as GDP/premium ratios), consultancy firm Roland Berger predicts premiums will grow beyond US$1 billion by 2020, with expected annual growth rates of over 100 percent.[50]

One particular area in which strong growth is expected is motor vehicle insurance.[51] Myanmar has the lowest car penetration ratio of any country in ASEAN, with 11 vehicles per 1,000 people in 2015, compared to Vietnam with 23 the same year, Laos with 20 and Indonesia with 79.[52] Likewise, life expectancy (at present the second lowest in ASEAN at 67

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[48] As apparent from the data presented here, the bottom seven firms fight it out for just 10 percent of the market. Truth be said, however, the struggle is not a very fierce one, and quite a number of these smaller firms are effectively moribund. When confidentially asked by the authors why he had sought an insurance license the owner of one of the moribund firms replied – 'because it was available'.

[49] Some of the representative offices of foreign insurers do, however, organize offshore reinsurance for business undertaken by the MIC, and provide facilities for offshore operations of foreign firms operating in Myanmar (World Bank 2017, 6). The three Japanese firms operating in Thilawa were initially restricted to the provision of insurance for fire, life and vehicles, but in late 2015 were granted permission to offer liability insurance (Oxford Business Group 2017, 89).

[50] Metlife, one of the foreign insurers anxious to enter the Myanmar market, estimates $US1billion of annual *life* insurance premiums will be paid by 2028 (Oxford Business Group 2017, 89).

[51] At present basic third party insurance is required for the registration of motor vehicles, but few drivers in Myanmar have comprehensive insurance.

[52] Of course, with respect to motor vehicles, the demand is twofold – insurance for the vehicle itself, *and* for the damage the vehicle (and its driver) can do. As the World Bank (2017, 9) notes, accidents occasioned by motor vehicles comprise a 'global "epidemic" comparable to the worst epidemics addressed by the World Health Organization. This statement is assuredly not without relevance in Myanmar.

years) can be expected to increase. This, coupled with rising wealth, *should* increase demand for life insurance products. Finally, and depending upon broader health policies, health insurance too is predicted as an area for growth.[53]

Just over 20 representative offices of foreign insurance companies are in place in Myanmar, the possession of which is likely to be a prerequisite for the granting of full foreign insurance licenses when they are (as seems imminent) finally bestowed.[54] Some of the already-in-place insurers have banded together to form a Foreign Representatives Offices group to conduct advocacy and otherwise smooth the way for foreign insurance operators in Myanmar, as well as to assist regulators in the fashion familiar to Vietnam and other countries in the region.[55]

Naturally, on this score foreign insurance companies are not the only voices from outside Myanmar. The World Bank, which is in partnership with the government to reform the financial sector more broadly, is likewise prominent. The Bank takes a somewhat conservative approach, suggesting for instance that foreign insurers only be allowed to enter as joint-venture partners (maximum 49 percent stake) in general insurance, although it is sanguine with respect to full 100 percent foreign ownership for (the significantly more complex) life insurance.[56]

Other commentators and industry players interviewed by the authors argue strongly against the joint venture model, regarding it as unnecessarily inhibiting of good practice and in reality often being little more than arrangements that facilitate rent-seeking by local crony firms. In this, the initial experience of Vietnam in limiting foreign insurance firms to joint ventures was often cited (indeed, many of the interviewees were experienced players in Vietnam, now casting their eyes towards Myanmar). On the other side, one of the reasons for the World Bank's caution is the various cultural and social assumptions entailed in the whole question of insurance. The Bank's concerns in these areas, as outlined here with respect to the issue of liability insurance, are worth quoting in full as they pertain to the essence of why insurance products are so different from other financial services:

> Insurance is a particular product in that it sells a promise to provide compensation in the event of a scenario which is usually an extreme and unexpected loss. This immediately involves strong social expectations, especially where compensation for personal injury is involved. Both the scale of the compensation and the manner in which it is delivered vary enormously around the different countries of the world.

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[53] Expectations mentioned to the authors by foreign insurers seeking entry into Myanmar.

[54] At the time of writing (early August 2017) assurances have been repeatedly given by various authorities in Myanmar that foreign insurers are about to be granted entry. With respect to life insurance, this entry is expected to allow for 100 percent foreign ownership, while general insurance entry will be restricted to joint-venture. Authors' interviews with various industry participants and regulators.

[55] An association for Myanmar insurance companies, the Myanmar Insurance Association, was established in October 2017. It plans to develop an insurance school, and has signed memoranda of understanding with insurance institutes and associations in India, Malaysia, Australia and New Zealand, and Japan.

[56] Authors' interviews with officials in Myanmar involved in discussions with the World Bank, and World Bank (2017).

> Compensation for Third Party Liability claims is the critical output of the insurance sector in almost all developing countries. Injuries are one of the major causes of disruption in society, whether the injuries occur at work, or are caused under General and Products Liability policies…The treatment of these issues is deeply intertwined in the social structure, medical structures, and legal structures of Myanmar (World Bank 2017, 9).

Stock Exchanges

The empirical record of the direction and magnitude of stock-markets on economic growth and development more broadly is, despite considerable attention to the question, decidedly mixed. Particular country experiences, even global outcomes for considerable periods of time, reveal significant issues around volatility, a tendency towards speculative bubbles, and sudden collapses that may counter the erstwhile positive narrative broadly of supply-leading financial deepening and economic growth. In short, wildly different country experiences with market institutions unusually prone to the inconsistencies of institutional quality and sentiment have produced an empirical record that, despite the efforts devoted, does not generate anything close to a broad consensus on the worth of stock markets for economic growth and development. Context here, as in so much of real-world economics, is everything.

Yet, and notwithstanding such complexities, the idea that equity markets are an essential component of a strategy for long-term capital accumulation enjoys considerable theoretical support, and certainly in terms of the understanding of most developing country policy makers (Vietnam and Myanmar included).[57]

Vietnam's Stock Exchanges

Vietnam currently has two stock exchanges. The first was established in Ho Chi Minh City (Ho Chi Minh Stock Exchange, or HOSE) in July 2000, and the Hanoi exchange (HNX), a limited liability corporation owned by the Ministry of Finance, was established in March 2005. Their growth has been rapid. From just two stocks on the HOSE in 2000 and a market capitalization of VND 986 billion (around US$45 million, or 0.28 percent of GDP), the two exchanges now host around 800 corporate entities with a market capitalization of over VND 1.36 quadrillion (US$66 billion, or 35 percent of GDP).[58] In practice, the HOSE lists most large cap stocks and accounts for over 80 percent of all stocks listed by market capitalization, while the HNX hosts primarily SMEs, provides a platform for the trading of unlisted companies mainly state-owned enterprise stock, and is the primary vehicle for the

[57] The seminal work (in terms of impact among practitioners) in outlining the 'theoretical' case for the role of stock markets in stock markets is Levine and Zevoros (1996). Of course, an enormous literature (dealing both with theory *and* the empirical record of stock markets in transition economies) has grown up subsequently. For an influential opposing view, see Arestis, Demetriades and Luintel (2001).

[58] Many of these firms made their way onto the HOSE and HNX courtesy of Vietnam's far-reaching privatization (known as "equitization" in the locally accepted vernacular) program.

auction and trading of government and corporate bonds. Including the latter, Vietnam's stock exchanges aggregate capital equivalent to around 60 percent of the country's GDP (Vo 2015).

Currently over 1.5 million separate trading accounts are found on the HOSE and HNX, up from a mere 3,000 in 2000. Around 90 securities firms conduct trading, up from 7 in 2000, but down from over 100 in 2012 (and before a series of reforms brought about mergers, and some closures of securities firms found to be inadequately capitalized and/or improperly trading in various ways). Foreign ownership of these securities firms is now permitted. The HOSE and HNX are notable for their large number of relatively small cap stocks, but Vietnam's major corporate entities have been the prime beneficiaries of the stock markets' rise, as indicated by the extraordinary growth of the VN 30 index of the largest blue chip firms on the HOSE (Nguyen and Nguyen 2016).

The Hanoi exchange hosts Vietnam's primary bond market. Government bond auctions are centralized on the HNX via a purely electronic platform, upon which all clearing and settlement transactions also take place. A benchmark yield curve is generated in the market, offering a nascent and somewhat underutilized pricing framework for the still very small private sector bond market. Meanwhile the HNX's exchange platform for unlisted stocks currently has about 300 enterprises in which trading can be conducted. Most of these are state-owned enterprises in which financial claims are issued, but some are enterprises that fall short of the requirements for a full listing, but that might get there soon. As Nguyen and Nguyen (2016) note, the aim of this platform is to "step by step narrow the grey market of the equitized but not-yet-listed stocks."

PERFORMANCE

Important contributors now to the mobilization of capital in Vietnam, the early years Vietnam's stock exchanges exhibited the sort of volatility and irregularities typical of nascent equity markets everywhere (and which continue to bedevil the stock exchanges of Cambodia and Laos, for instance). The HOSE in particular was a volatile and unstable arena of speculative trading and unsound practices. The HOSE market index surged by 500 percent in value in its first 18 months, before falling 70 percent by April 2003. Thereafter followed a couple of years of low liquidity, sparse trading, and a broadly dysfunctional market in terms of capital aggregation and allocation.[59] From 2005 to 2007 there followed another dramatic upswing, the index rising over 280 percent from December 2005 to February 2007, before once again plummeting downwards with the global financial crisis (Ogimoto 2013, 174-175).[60] Instability and uncertainty mostly prevailed for a couple of years thereafter, before a long period of greater stability and growth followed (with occasional wobbles), leading to the present.

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[59] Short-selling was outlawed at this time too, but margin trading continued to be permitted.

[60] In an effort to dampen this dramatic upswing, in 2007 the State Bank of Vietnam introduced a limit (3 percent) on bank loans outstanding for securities investments. SBV Order 03/2007/CT-NHNN, cited in Ogimoto (2013, 175). This was followed by a similar Order the next year (03/2008/QD-NHNN) that limited lending on securities to no more than 20 percent of a bank's capital.

FOREIGN INVESTORS

One of the forces for greater stability in Vietnam's stock markets was the arrival (permitted from 2006) of foreign investors. In contrast to local investors, foreign buyers of Vietnamese equities are overwhelmingly (over 90 percent) institutional investors, for the most part with a long-term horizon (Vo 2015). As of 2016 over 20,000 foreign investor accounts were found on the HOSE and HNX, with funds employed of over US$15 billion. Under normal circumstances foreign investors are not allowed to own more than 49 percent of a listed company, although exceptions (noted earlier) are permitted for troubled banks and other entities otherwise exempted. Batten and Vo (2015) and Vo (2015) found that the arrival foreign investors on Vietnam's stock exchanges brought about higher overall levels of trading, improved analytical transparency and information disclosure, and significantly reduced stock price volatility.

Yangon Stock Exchange

On March 25, 2016, trading commenced on the Yangon Stock Exchange (YSX). On that first day just one stock was available. The realization of the efforts of two decades, numerous side-tracks and false dawns, the YSX has come to symbolize both the hope for financial sector transformation in Myanmar and, in the Exchange's struggle for relevancy, the scale of the task ahead.

BACKGROUND

The roots of the YSX go back as far as 1996, when Japan's Daiwa Securities sought to create, in a 50-50 joint venture with the Myanmar Economic Bank (MEB), the Myanmar Securities Exchange Centre (MSEC) in Yangon. The basis of what was *supposed* to be a fully functioning stock exchange, the MSEC was never more than a very small-scale affair that listed and traded just two stocks, Myanmar Citizens Bank and the Forest Products Joint Venture Corporation. Trading was paper-based, extraordinarily thin (it was often said that there were buyers, but no sellers), and illiquid. Had events gone to plan, the initial over-the-counter trading on the MSEC would have graduated to a full bourse with the MEB running settlement functions, all backed by new securities laws and regulations. A number of half-hearted initiatives to these ends were launched in the early 2000s, but Myanmar's political environment precluded anything material from happening.

In 2012 however establishment of a fully functioning stock exchange in Myanmar finally took hold. In April 2012 it was announced that the operators of the Tokyo Stock Exchange had joined the MEB-Daiwa partnership in the Yangon Stock Exchange Joint-Venture Company Limited (YSX), with the objective of having a fully-computerized trading platform, a scaled-down version of Tokyo's own, up and running by 2015. The joint venture was launched with paid-up capital of MMK32 billion (authorized capital of MMK100 billion) and owned by MEB (51 percent), Daiwa Institute of Research (30.25 percent), and the Japan Exchange Group (18.75 percent) (Rhoden 2015).

The necessary legal infrastructure for a stock exchange also soon emerged, in July 2013, when a new *Securities Exchange Law* (SEL) was enacted by Myanmar's parliament. Drafted with the assistance of Japan's Policy Research Institute, the SEL established the Myanmar Securities and Exchange Commission to regulate securities markets, determine procedures for obtaining a securities trading license, and outline the legal framework for the YSX (Than Htike Oo 2012).

Meanwhile, a series of licenses for security companies to provide services to the YSX were set out in a notification from the Securities Business Supervisory Commission of the Ministry of Finance. Specifically, minimum paid-up capital benchmarks were set to gain a license in:

Securities underwriting	MMK15 billion
Securities dealing	MMK10 billion
Securities broking	MMK7 billion
Securities investment advice	MMK0.03 billion

Other non-financial requirements on securities companies are rather more demanding, especially in the context of Myanmar, where engagement in formal financial markets is not something most citizens could have experienced within the country's borders in recent years. These included requirements that directors of securities businesses have "at least one year" of experience in the industry, and that every securities business "must have an expert with at least 3 years of experience in the sector" (the latter surely opening the door almost exclusively to foreigners or expatriates) (Myanmar Securities and Exchange Commission 2015).

In early October 2015 it was announced that conditional underwriting licenses had been offered to ten bidders. This highest form of license to operate on the exchange (that is, Securities Underwriting) allows the winning firms to engage in dealing, broking, and consulting services. More broadly such firms are expected to be "market makers" in seeking potential firms for listing. In selecting the underwriters the role of the Japanese partners, both the Tokyo Stock Exchange staff as well as those from Daiwa, were critical in conducting compliance and capacity checks (Hammond 2015). The inclusion of Daiwa in this is noteworthy, especially given that a subsidiary of the firm (Daiwa Securities Group) was one of the entities offered a license. Other license winners included Aya Bank and United Amara Bank (Hammond 2015). As of April 2017, six of the ten firms offered licenses had taken them up.

TRADING GETS UNDERWAY

Across its first year of operation the number of listed firms on the YSX quadrupled, and the initial listing entity, First Myanmar Investment Co. (FMI), was joined by Myanmar Thilawa SEZ Holdings Public Ltd (May 20, 2016), Myanmar Citizens Bank Ltd (August 26, 2016), and First Private Bank Ltd (January 20, 2017). Clearly, however, four is still a small number, and the first year of trading has not been smooth. As per the experience of nascent exchanges more or less everywhere, the YSX has exhibited much volatility in its first year of trading. All four stocks have seen gyrations in their share prices, and at the time of writing are each worth only around half of the prices at which they were listed. Meanwhile trading is similarly down about 50 percent from the volumes typical of the YSX's early months (Investment Frontier 2017).

One particular feature of the YSX, which to date limits its utility as a capital aggregator for Myanmar is that none of the companies listed so far arrived at the Exchange via an initial public offering (IPO). All were stocks hitherto available for sale "over the counter" in various ways; in the case of FMI, the company was already listed on the Singapore exchange. In other words, what listing on the YSX allowed was trading in ownership claims, and not (yet) primary capital raising via IPOs or other forms of new capital formation.

THE ROAD AHEAD FOR THE YSX

Although foreign interests have been present from the start of the YSX (and the YSX itself remains a joint venture), foreign investors are not yet permitted to buy shares on the Exchange. Comments from officials from time to time have suggested this exclusion could soon be lifted (most recently, in June 2016, via comments from the Securities and Exchange Commission of Myanmar), but no movement on this front has yet taken place.[61] This is a pity. As was the case in Vietnam, most investors in the YSX today are private individuals with all sorts of trading strategies, only some of whom might be regarded as leading to price discovery and other fundamentals.[62] Foreign investors, mostly in the form of institutions, regulated appropriately alongside their local peers, are likely the source of market liquidity, depth, and a certain stability that are currently lacking.

Updating Myanmar's *Company Law* remains a significant item on the "to-do" list if foreign investors are to be attracted to the YSX. Dating back to 1914, the current law establishes that the presence of just a single foreign investor in a Myanmar company renders it being classified as a foreign entity, and accordingly subject to a number of restrictions, not least in the use and ownership of land. It would be hard to imagine a greater disincentive to both foreign investors and, potentially, listing firms. A new *Company Law* will be in place as of 1 August 2018, and regulations to be issued under the law are being developed now.

[61] The Myanmar Securities Exchange Commissioned not only suggested foreign investors might soon be allowed to invest on the YSX, but that joint-venture firms might be permitted to list, too.

[62] Freeman (2017) notes that there are 20,000 individual investors registered to trade on the YSX.

CONCLUSION

One of the most noteworthy features of Vietnam's financial sector reform trajectory, nearly thirty years in progress, is the high degree to which it has embedded foreign investment and participation. Flowing against popular perceptions of a country perceived to be unusually jealous of its national sovereignty, in stages Vietnam has opened to foreign banks, insurance companies, leasing firms, and equity investors, amid an array of foreign actors. Vietnam's financial sector reform story is not one of unambiguous success (indeed, far from it) yet, in its openness to the world, it is the assessment of this study that it presents a narrative that demonstrates the contributions that can be made by foreign financial institutions in both capital aggregating, and stability-enhancing, ways.

In contrast to Vietnam, until very recent times Myanmar has shunned foreign banks and other institutions of global capital. Now, in fits and starts, it is in catch-up mode. In this pursuit Myanmar can draw upon many lessons and experiences from other countries further down the liberalizing track. Not the least of these is Vietnam, a country that began from a similarly inauspicious place, and carried familiar colonial, socialist and nationalist baggage. The parallels are not exact yet they are sufficiently proximate to be instructive. Advocates of financial sector reform in Myanmar often look far and wide for models to emulate. The primary theme of this paper is that the search for instructive examples may be rather closer to home.

RECOMMENDATIONS FOR MYANMAR ARISING FROM THIS STUDY

The findings of this report prompt the following recommendations for consideration by policy-makers.

- Special restrictions on foreign banks should be removed, creating a level playing field for all banks in terms of the products and services they offer.
- Applications for a foreign bank license should be possible at any time, rather than as part of an irregular tender process with country-specific restrictions.
- Foreign banks should be permitted to take up equity positions in domestic banks, and to engage in joint venture arrangements. In particular, Myanmar could do well to put in place something similar to Vietnam's Strategic Partnership program.
- All banks should be allowed to create and trade simple hedging products against foreign exchange risk.
- Foreign insurance companies should be allowed into Myanmar, while at the same time pricing and product restrictions on existing local firms should be removed.
- Investment restrictions on insurance companies, domestic and foreign, should be removed in order to stimulate Myanmar's capital markets.
- Foreign insurance companies should be allowed to take any particular corporate form, from joint ventures with local players, to 100% foreign owned subsidiaries. At a minimum, life insurance, for which there exists very few existing local providers, should be an activity allowing 100% foreign ownership.
- Foreign investors should be allowed to buy and sell equities and other securities on the Yangon Stock Exchange.

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