

INTERVIEW

ASIA THROUGH BANK OF AMERICA'S EYES PLANS FOR SRI LANKA

From an interview by Nicky Careem, Assistant Editor of the Pacific Magazine's Ltd: monthly journal INSIGHT, with James Wiesler, the executive vice president, Asia/Pacific, of Bank of America.

INSIGHT: *What are Bank of America's problems in dealing with Southeast Asia?*

James Wiesler: Our problems are not serious. But being an international bank, we find it difficult to attract indigenous deposits. This is no handicap in dealing with competition from other foreign banks but when it comes to competition from large local banks, it does slow our growth in local currency loans which are sometimes more profitable than Eurodollar loans.

Are these problems caused by nationalism?

Yes. There is a lack of reciprocity between most countries in Asia/Pacific and the U.S. While they have a high degree of freedom to enter the US and either establish a number of branches or buy a US bank which can be partly or wholly owned, there are restrictions on US banks operating in the region. However, we do recognise that these countries want to establish their own financial systems without depending on foreigners. And what is encouraging to us — as outsiders — is Asia's desire to help itself.

ASIAN EARNINGS

What percentage of BOA's earnings comes from this region?

Including Japan, it runs to 7 percent of total BOA earnings. Our major contributors are Japan, Hong Kong, Korea, Singapore and the Philippines. At one time, Japan was the dominant contributor with 60 percent of the Asia division's earnings. Now it is less than 20 percent. This is due partly to the structural change and partly to the slow growth of foreign banks — sometimes registering negative growth — in Japan. But mostly, it is due to increased business activity in the

rest of Asia. Although Japan will be the dominant economy in Asia, as countries like Korea and Asean grow, there will be a great deal of intra-regional investments. Asia will no longer be the recipient of purely non-Asian funds and that is why we think this region is interesting.

Was this your reason for opening up in Sri Lanka?

Initially, it was prompted by the change in government in 1977. We feel that the country is trying to upgrade its economy by providing employment through foreign investment. This is evidenced by the establishment of a free trade zone and a friendly attitude towards foreigners. But despite such encouragement if there is no foreign investment, then there is no business for us. However, we found that many of our customers were affected by the high cost of labour in some Asian countries. In Sri Lanka, they discovered an efficient and cheap supply of labour. This was another reason for our decision.

What kind of banking will you do in Sri Lanka and how soon will you be profitable?

Essentially it will be in the trade area. But we may well be lending to major projects, particularly government sponsored ones. We hope to raise our lending base both domestically and from abroad. We intend doing offshore and on-shore business. But there is a shortage of US dollars and Eurodollars and the unknown quantity is how successful we will be in developing local funds for local lending. As regards returns, we hope to be profitable at the end of the first year. But if we average a 15 percent return at the end of five years, we would be satisfied.

Will BOA finance the oil needs of South East Asia and if so, how does it evaluate the risk factor of countries?

We look at the degree of political stability, the quality of government bureaucrats, plans for developing foreign exchange through exports and the capacity of the economy to handle development programmes. To establish a country's risk factor, we study IMF figures, Central Bank figures, in

addition to our evaluation system. Depending on these we will finance the legitimate needs of any business, any government or any group of people.

FIGHTING INFLATION

Most countries want to restrict credit to control inflation. How can you follow this guideline and also make profits?

We try not to lend money to those projects that are inflationary or are particularly speculative. We try and stay with trade financing or with government sponsored projects. For example, we have grown reasonably well in Hong Kong although there is inflation in that city. Just because there is inflation it does not mean that there is no growth. We have been financing the increasing volume of trade in Hong Kong and as that volume increases, so does our business. But we are careful in lending to speculative businesses or those contributing to inflation like the property market in Hong Kong. Our loans have been very small in that area.

How are you facing up to competition from European banks in Asia?

Swiss and German bankers are particularly competitive and they are coming to Hong Kong because of what is happening in their own countries. The German economy is not growing rapidly enough as a result of the recession a few years ago and German companies find themselves in a very liquid position. So German bankers are looking to areas where they can grow to offset the loss of profits they usually make at home. Switzerland is a very small country but they take in a lot of deposits and are faced with a similar European situation. The markets with good growth potential are Africa, Latin America and Asia. But the work ethic in Asia is much higher and will therefore attract international bankers. To meet this challenge, we are improving our management and marketing skills, be more aggressive in certain areas and expand in others — like Sri Lanka — and lower costs. But we have a profitability criteria. Unlike Japanese banks, we are not going to do things just for the sake of market penetration. We have standards that relate to the quality of our management and we feel that we are a well managed bank because we have profitability standards. Furthermore, we look carefully at return on assets and we cannot get

involved in all the competition because much of it is so low-priced, particularly in the term business. Here, the spread can be as low as 0.5 percent over a long time. We look a 15 percent return on capital and we cannot do that on such low spreads, especially for fixed term loans. For many years, BOA and other banks have been working on a 10 per cent to 11 per cent annual return on equity. But the high cost of money on the capital markets forced us to change our sights to a 15 percent return on capital. We hope to improve our management and service to meet this challenge. By these measures, we hope to attract more depositors to increase our capital to make that 15 percent.

CHINA'S GROWTH

In which areas or regional banking would you like to see change?

We would like to see opportunities for developing local resources so that we can be in the mainstream of domestic banking in the region. For example, we cover Australia from the Asia/Pacific region. There are six trading banks in that country and we are not allowed to do business other than in the field of offshore financing. After Australia reviews its domestic banking, we hope to be allowed into that domestic market. The only way we can enter most of the local markets in the region is through a merchant bank or a finance company.

Financial highlights of Bank of America, US\$ 1,000

	1977	1978
Assets	81,988,575	94,902,464
Deposits	66,405,379	75,828,044
Net loans	41,531,154	49,312,903
Net income	396,276	497,920

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and the subsequent narrowing of margins. Business and trade circles in most countries have become very apprehensive about a rise in interest rates. In a developing economy like that of Sri Lanka although development, broadly defined, could be compatible with slow growth whether the present policy targets of high investment priority could be achieved by slowing down of growth rates, is an important aspect that needs careful consideration. In effect, changes in interest rate policy by itself has both its negative and positive aspects to be weighed against each other in making an assessment of its use as a policy instrument.