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International Activities of German Banks

by Friedhelm Ost, Cologne

In looking through the advertisement columns of foreign newspapers and periodicals, one cannot help being struck by the way large foreign banks emphasise the multi-national character of their business. Take for instance the American business journal "Fortune" and you will find quite a number of cases in point. There is for example the Bank of Tokyo whose publicity runs as follows: "Whom do you see at Düsseldorf, Schadowplatz 12? — The same man you see at 100, Broadway, New York. He sits in more than 100 offices — representatives, affiliates and associates located in that many cities all over the world." In the advertisement of the Chase Manhattan Bank it says: "... and when business takes you elsewhere in Asia, call on the services of Chase Network Pacific." A consortium of several US banks which together with European partners have founded the Atlantic International Bank, offer their services in the following terms: "These are the banks that built the bridge that narrowed the gap between them and us." A new bank in London makes it simpler and faster to finance your operations abroad "... and through the auspices of our European partners, we offer specialised services such as: finding and evaluating merger prospects, underwriting security issues, evaluating proposed sites, opening doors". And again: "The Bank of America has men-on-the-spot in the Common Market." These advertisements—and many more of the same kind could be cited—throw into relief the multi-national character of the American banking business. It is this conception which the big American banks have of their activities which again and again raises the problem of the presence of German credit institutions abroad.

US Banks as Pacemakers

In the course of the last decade, American banks have more than doubled the number of their foreign branches. By the end of last year, there existed nearly 400 of these "direct foreign branches" — a record figure. About half of these 400 were branches of the First National City Bank which is regarded as leading in the field of the "multibranch strategy".

On the other hand, there is the question which is commonly being asked within the British Commonwealth when people try to fathom the reasons for the international strategy of the American banks: "Does trade follow the flag or does the flag follow trade?" It is probably fair to say in favour of the American strategy that the expansion of foreign trade as well as direct investments followed America's greatly increased political presence overseas, particularly after the second world war. It has been found on investigation that the American banks were not outposts or pioneers, paving the way for industrial and commercial firms of their country, for in the majority of cases the foundation of their banking branches took place only after a certain time lag. US banks were encouraged to establish branches mainly in countries which have already attracted direct American investments. A further reason why American banks have in recent years increased their activity in Europe is the Eurodollar market, for, naturally enough, many banks wanted to be near the source of that market.

Contribution of German Banks to Foreign Trade

At the XI. German Bankers' Meeting in autumn 1968, the subject which aroused the keenest interest was "Cooperation of Banks beyond the Frontiers". At that meeting it was stressed that after World War II, the credit institutions, by placing their world-wide contacts and experience at the service of German industry, had decisively contributed to the enormous development of Germany's foreign trade. The President of the Federal Association of German Banks, Münchmeyer, put it as follows: "Without the decisive cooperation of the banks in the financing of long-term export transactions German industry and commerce would not have been half as successful. But the banks' backing went beyond the mere financing and handling of export business; thanks to the close-meshed network of friendly banks all over the world and to the specialised knowledge of those banks of conditions in their own country, German banks were frequently in a position to make the vital initial contact that led to new and

permanent sales outlets and sources of supply abroad." The activities of the banks during the past 15 years were thus primarily concentrated on financial transactions which helped Germany's foreign trade, but their functions have become more diversified. Especially during the last two years they have become more and more actively engaged in the international financing business. The internationalisation of commerce and industry is confronting the banking world with new tasks. Industry demands complete banking-service in the countries in which it establishes its own manufacturing units and sales outlets.

A Fresh Start after 1945

By the turn of the century German banks had already taken some courageous steps into foreign fields. After 1918, great efforts were required to compensate at least partially for the loss of foreign branches. New branches were established, only to be liquidated again after 1945. All that remained were contacts and business relations with foreign banks, firms and individuals. If one takes the sad losses sustained by German banks into account, their present activity abroad appears in a different light, for it would be unfair to compare it with the international business done by American or British banks without remembering what difficulties German banks have had to cope with at home and abroad during the post-war period. In a relatively short time the banks of the Federal Republic were able to re-establish a world-wide network of representatives. These foreign representatives and correspondence-banks have played a far from unimportant part in the expansion of Germany's foreign trade. By the second half of the fifties, however, this system was beginning to prove inadequate, and this realisation led the banks to invest more of their funds abroad.

Extent of Foreign Participations

During the period from 1952 until the end of 1968, portfolio investments by German banks abroad totalled DM 570 mn. This means that the banks occupy the seventh position among investors abroad, coming after the Chemical Industry, Electrical Engineering, Road Building, the Iron & Steel Industry and Mechanical Engineering.

The Federal Minister for Economic Affairs, with the approval of the German Federal Bank, puts "capital investments by West German residents in foreign economies" at DM 14,349 mn as per 31. 12. 1968; the share of the banks in this total amounted to roughly 4 p.c. The three largest banks also had the largest investments. But many regional and private banks have also acquired

participations in institutions abroad — mostly in partnership with important European and American banks.

Regional Distribution

An analysis of the regional distribution of the German banks' engagements abroad reveals a certain parallelism to total direct investments by industry. Roughly 55 p.c. of total German investments abroad went into the European zone where Germany's foreign interests are mainly concentrated. The credit institutions followed this trend at almost the same pace with the result that today about half of the foreign investments of German banks are placed in Europe. There they cooperate harmoniously with institutions from the EEC and EFTA countries, for German banks are still of opinion that the establishment of a European network of branches of their own is unnecessary. The Federal Association of German Banks in its annual report for 1968/69 points out that it is safe to assume that "in Europe cooperation with banks from EEC and EFTA countries will become still closer and that even the idea of creating an EEC Bank through merger or cooperation need not be dismissed as altogether utopian, should it ever become possible to agree on a common currency and economic policy for the whole EEC area".

Direct Foreign Investments by German Credit Institutions

(Cumulative Transaction Values from 1952 until 31. 12. 1968)

Country in which investments were made	in million DM
Europe	
Belgium/Luxembourg	60.5
Finland	0.7
France	34.5
Italy	4.4
Netherlands	13.1
Switzerland	69.5
Spain	24.5
Other countries	46.4
	268.9
America	
Canada	43.6
Argentina	7.1
Guatemala	0.6
Colombia	5.0
Other countries	207.1
	263.4
Asia	
Israel	12.5
Pakistan	2.6
Other countries	13.8
	28.9
Africa	
Ivory Coast	2.1
Cameroon	0.7
Morocco	1.3
Other countries	3.4
	8.3
Total	569.5

Source: German Federal Bank.

A closer investigation of the various kinds of German banking activity abroad shows that the main emphasis is not so much on the establishment of

subsidiary companies, but rather on "international partnership". If a rough division of German banking interests abroad into a few groups is required, it is as well to make it on the lines followed by the last Bankers' Meeting. That meeting differentiated between the following kinds of activity: The so-called "Eurodollar-Banks" form the first group. It is followed by the second kind of activity abroad which takes the form of participations in numerous commercial and development banks in the so-called developing countries. Partners in this field are primarily other European and American banks, but some are also the national banks of certain developing countries. Other forms of German banking activity abroad are the pooling of interests with foreign banks and private banking firms operating on a supranational basis.

Cooperation with European Banks

Space does not permit a description in detail of the various forms of participation entered into by German banks as part of their activities abroad. Nevertheless a few recent examples may serve to illustrate the determination with which the network of foreign footholds and participations has been built up.

The most important example as far as Europe is concerned is the foundation in July 1967 of the International Commercial Bank in London of which the German Commerzbank is a partner, together with the Westminster Bank, the Hongkong and Shanghai Banking Corp., The First National City Bank of Chicago as well as the Irving Trust Company. This newly established bank offers itself to German industry and its foreign customers (including the Eastern Bloc states) "as a source of foreign exchange credits over a period of several years". The Deutsche Bank has opened up for itself similar possibilities through participating in the Banque Européenne de Crédit à Moyen Terme in Brussels. Operating in the same field is the Compagnie Internationale de Crédit à Moyen Terme S.A. in Lausanne, which was founded on the initiative of the Banque de Suez et de l'Union des Mines, Paris, and the Bankers Trust Company, New York; its capital of 5 mn Swiss francs is shared between no less than 15 founder-members—American, Swiss, Belgian, Swedish, British and French banking houses—apart from the Commerzbank. The Dresdner Bank, with a view to extending its sphere of action in the Euro-Money and Capital Market, founded in 1967 its own institution under the name of "Compagnie Luxembourgeoise de Banque S.A." with its seat in Luxembourg.

Outposts in Developing Countries

In Asia as well as in Central and South America, banks, whether they be newly founded or existing ones in which participations have been acquired, are becoming increasingly important channels through which to direct German investments abroad. As most important examples may be quoted: the Deutsch-Asiatische Bank; the Deutsche Überseeische Bank; the Deutsch-Südamerikanische Bank and the Ibero-Amerika Bank. This strong presence of German banks in Southern and Central America may at first sight appear surprising, but it merely illustrates the fact that the banks lost no time in following in the wake of trade and investments made by industry. Besides, the fact that so many German credit institutions have established themselves in Latin America has encouraged many a German firm to venture overseas. Another large field German banks have marked out for themselves is the African continent, though their actual engagements there are still relatively unimportant. Such participations as they have so far acquired form, however, a solid basis on which to build up "tomorrow's foreign business". After all, a good many African developing countries offer German industrialists good investment opportunities.

Engagements in USA

Worthy of note are also the engagements entered into during the last two years in the USA. The Deutsche Bank in its annual report for 1968 points out that it has founded in New York, jointly with the Amsterdam-Rotterdam Bank N.V., the Midland Bank Ltd. and the Société Générale de Banque S.A., the European-American Banks. The Dresdner Bank, too, succeeded in 1968 in making "the jump across the pond" by founding its own brokerage firm in the USA. It operates on the Boston Stock Exchange under the name of German-American Securities Corp., Wilmington/Delaware.

The German banks have recovered lost ground. Their presence in the world is already quite important, considering the still relatively small volume of German investments abroad. If a comparison with the USA may be permitted, it must be borne in mind that American funds invested abroad are twenty times as large as German foreign investments, while the output of American firms abroad is more than thirty times the corresponding figure for Germany. It is safe to predict that in the seventies the credit institutions of the Federal Republic will continue to enlarge their existing foreign establishments and to create new footholds abroad.