

Steuber, Ursel

Article — Digitized Version

Foreign engagement by german banks

Intereconomics

Suggested Citation: Steuber, Ursel (1973) : Foreign engagement by german banks, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 08, Iss. 7, pp. 224-226, <https://doi.org/10.1007/BF02927664>

This Version is available at:

<https://hdl.handle.net/10419/138865>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Foreign Engagement by German Banks

by Ursel Steuber, Hamburg *

The internationalisation of banking in the industrial countries of the West has picked up speed since the mid-sixties. The American banks in particular have since 1965 almost trebled the number of their foreign establishments, and German banks likewise have been increasing their business commitments abroad.

The term multinational or international bank is applied not only to credit institutions with a network of branches spread all over the world but to other banks with a multinational bent in which a number of credit institutions of different nationalities have a stake or partner banks originate from other countries. As against the "multibranch strategy" adopted by American banks, the German banks have been favouring the concept of institutionalised multinational cooperation for their international banking business. What degree of multinationalisation German banks have attained cannot be determined by quantitative or qualitative criteria because the information published about the extent and results of their foreign undertakings and the procedures adopted by them in their international business is not sufficient for this purpose.

Growing Investments Abroad

It was only under the pressure of mounting US competition in Europe and in the light of quantitative and qualitative changes in the demand for banking services by an increasing number of multinational industrial companies that the German banks began to restructure their foreign business. Until the sixties German credit institutions had in the main concentrated on building up a world-wide network of correspondent banks to assist and finance foreign commerce and on arranging for agencies in other countries.

They hardly set up any foreign offices of their own, however. The fact that their investments abroad have increased since is an indication that the German banks are attaching growing importance to internationalising their banking business. Between 1961 and 1971 the volume of their direct investments rose at an average rate of 27 p.c. a year — from DM 103.8 mn to DM 928.0 mn.¹

* HWWA-Institut für Wirtschaftsforschung (The Hamburg Institute of International Economics).

While their share of total German direct investment has risen from 2.7 to 3.9 p.c. and is thus still modest, the credit institutions had between 1967 and 1971 on average a higher foreign investment growth rate than any other sector.²

As regards the regional distribution of direct investments abroad, some banks have been concentrating on non-European countries, but the bulk of direct investments went to Europe. The credit institutions thus followed the general trend in German direct investment: since 1961 Europe has been the principal region to attract investments.

Expansion by Multinational Cooperation

In addition to the big banks, regional credit institutions, private banks and the regional saving-banks head-offices have been major investors abroad. They extended their foreign interests, in the main, not by setting up subsidiaries or foreign branches, but by participating in joint enterprises with foreign banks. This institutionalised multinational cooperation which leaves each of the participating banks intact and free to make independent decisions creates many opportunities for diversifying the international business and flexibly adjusting it to market requirements. For most banks the "multibank concept" seems indeed to be the only way in which they can achieve the greatest efficiency and optimal size. Deutsche Bank AG, Dresdner Bank AG, Commerzbank AG and Westdeutsche Landesbank Girozentrale, the major German cooperation partners, are all applying this concept.

Deutsche Bank AG has been informally collaborating since 1963 with three European credit institu-

¹ Cf. Federal Ministry of Economics.

² Cf. Sabine von Saldern, Internationaler Vergleich der Direktinvestitionen wichtiger Industrieländer (International comparison of the direct investments of important industrial countries), HWWA-Report No. 15, Hamburg 1973, p. 75.

tions—Société Générale de Banque, Amsterdam-Rotterdam Bank and Midland Bank—in the European Advisory Committee. This collaboration has resulted in a number of joint enterprises which give Deutsche Bank world-wide representation. In Europe the Banque Européenne de Crédit à Moyen Terme, Brussels, was founded in 1967: it has been specialising in medium-term credits to finance industrial investments in Europe. For funds it draws on its own capital, borrowings in the Euro money market and the proceeds from medium-term bond issues in the European capital market. For the purpose of financing subsidiaries and associates of clients in the USA and import and export transactions the partner banks in 1968 founded the European American Banking Corporation and the European American Bank Trust Company, both in the USA. Creditanstalt-Bankverein and Société Générale came in as additional partners in 1971: both also joined the European Banks' International Company (EBIC). In 1973 Banca Commerciale Italiana linked up with this group as a further partner: it will not participate in all EBIC activities, however, because it is already widely represented outside Italy.

The most important connections formed by the *Dresdner Bank AG* in the course of its international collaborative efforts are its investments in the Banque de la Société Financière Européenne (BSFE), Paris, its holding company—Société Financière Européenne, Luxembourg—and the Associated Banks of Europe Corp. (ABECOR). Five other leading European banks, as well as the Bank of America and the Sumitomo Bank, have holdings in BSFE in addition to the Dresdner Bank. BSFE is in the main advancing medium and long-term credits to an international clientele and engaging in the arrangement of association and cooperation links beyond national borders. Its close collaboration with the Algemene Bank Nederland, Banque de Bruxelles and Bayerische Hypotheken- und Wechselbank in the international business led in 1971 to the establishment of ABECOR. It is the chief aim of this international banking group to extend and improve its world-wide service network, through the setting up of joint agencies and offices, and to handle security transactions in the USA.

Commerzbank AG engaged in the international business in a modified form in 1970/71 through a cooperation agreement with the Crédit Lyonnais and Banco di Roma. The three European banks in this group are maintaining direct collaborative links with each other and intend to cooperate closely in all fields of activity with a "quasi amalgamation" as their ultimate aim. For their international business this means the establishment

of a joint international banking network to provide all clients of the partner banks with the same services. Commerzbank has also an interest in the International Commercial Bank (ICB), which was founded in 1967 jointly with the Westminster Bank, The Hongkong and Shanghai Banking Corp., The First National City Bank of Chicago and the Irving Trust Comp. This group was joined early in 1973 by the two cooperation partners of the Commerzbank—Crédit Lyonnais and Banco di Roma. ICB has been specialising in medium and longer-term Euro finance transactions and is developing the financing of eastern trade deals.

Westdeutsche Landesbank Girozentrale in conjunction with the National Westminster Bank, the Royal Bank of Canada and the Chase Manhattan Bank in 1970 set up three financial institutions in London: Orion Bank Ltd., Orion Termbank Ltd. and Orion Multinational Services Ltd. Credito Italiano joined this banking group in 1971 as a fifth partner and Mitsubishi Bank in 1972 as its sixth member. Orion Bank Ltd. has been conceived as a banque d'affaires and is to render consultative services concerning financing matters, engage in international issues and provide syndicated loans. It is in close contact with the Orion Termbank Ltd. which has specialised in Eurocurrency loans for up to 10 years to multinational enterprises. The Orion Multinational Services Ltd. is operating as an international banking consultancy firm. It is, besides, acting as a management company for the two other Orion institutions, i.e. as a coordinating and planning group.

Focus on Medium-Term Banks

The examples of multinational links by German banks given here show that pivotal to the collaboration movement was the formation of international financing institutions, so-called "medium-term banks", mostly in London. The special feature of these multinational banks specialising in medium-term credits is a high degree of flexibility in regard to the size, life and denomination of loans as well as their purpose and rates of interest. Besides, it is possible to alter the conditions during the term of the credit. The banks have been procuring the bulk of the necessary funds in the Euromarkets which have seen an explosive expansion. The growing importance of the medium-term credit business for the banks operating on an international scale is due, on the one hand, to the large increase in the finance requirements of expanding industrial enterprises and of the multinational enterprises which have grown so much that the needs of some of them can no longer be met by any bank individually and, on the other, to the decline of the self-finance ratio in industrial

enterprises which has tended to increase the demand for medium- and longer-term credits.

Apart from their selective participation in joint enterprises with foreign credit institutions in the international financial centres London and New York, German banks have been attracted to Luxembourg by its liberal banking, foreign exchange and holding-company laws. In addition to the three big banks nine other credit institutions are represented here by subsidiaries.³ The business volume of these subsidiaries has expanded despite stricter operation of the reserve deposit requirements. One reason is that the clientele is international, another one that the German banks have in part started to finance their foreign credit business internationally.

Extension of Branch Establishments

In the course of the expansion of their international financing activities abroad German banks have of late, after long hesitation, made up their mind to set up branch establishments of their own

in foreign countries. Early in 1973 the Dresdner Bank set up the first London branch of any German credit institution. Westdeutsche Landesbank Girozentrale and Commerzbank have followed in the meantime. Deutsche Bank has at present a representative office in London. Other branches were set up recently in New York and Singapore, and another one is planned for Tokyo.

The tendency towards internationalisation and diversification will leave its mark on the business activities of German banks in the coming years. It is bound to continue because integration of production and world trade is inconceivable without integration of the capital markets. If greater mobility of capital is at present considered undesirable, it is because there has been no sufficient harmonisation of economic and monetary policies yet. Greater mobility of capital however is in accord with the declared objective of the greatest possible freedom for the exchange of capital and goods.

³ Cf. *Feine Töchter in Luxemburg* (Fine daughters in Luxembourg), in: *Wirtschaftswoche*, No. 15, April 6, 1973.

PUBLICATIONS OF THE HAMBURG INSTITUTE FOR INTERNATIONAL ECONOMICS

Hermann Clement

DIE ORGANISATIONSTRUKTUR DER SOWJETISCHEN AUSSENWIRTSCHAFT

(The Organisational Structure of Soviet Foreign Trade and Payments)

The present study offers a comprehensive survey of the structure and efficacy of the Soviet external trade monopoly. Last but not least due to its extensive basic material mainly derived from Soviet original sources that are difficult of access, this analysis contributes to supplying a long-felt want of information on the technical and organisational shape of Soviet foreign trade.

Large octavo, 362 pages, 1973, paperbound DM 19.50

VERLAG WELTARCHIV GMBH - HAMBURG