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Banking in Globalisation: Commerzbank in the New Economic Course of the People’s Republic of China and the Role of Hong Kong

Abstract: Since the open-up policy at the end of the 1970s, China – the largest single market in Asia – received growing attention from foreign investors and banks. However, the fragile domestic market and undeveloped financial system in China did not allow a rapid inflow of foreign banks, given that the foreign banks could exert suppression on the domestic banks. As a result, it took several years for most foreign banks to gain a foothold in mainland China. This article demonstrates how Commerzbank – one of the German Big Three – entered the Chinese market in the 1980s by establishing a branch in Hong Kong and opening a representative office in Beijing. On the basis of archival evidence and other contemporary sources, the case of China provides one slice of the history of Commerzbank’s expansion and illustrates how it coped with the surge of internationalisation in the 1980s.

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Keywords: Globalisation, West German bank, Commerzbank, Bank of China, Hong Kong, People’s Republic of China, Globalisierung, westdeutsche Banken, Volksrepublik China

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1 Introduction

The People’s Republic of China (hereafter PRC) was once again the most important trading partner of the Federal Republic of Germany (hereafter FRG) in 2021. The latest research of Commerzbank among its corporate clients in 2021 indicates that the “Renminbi (hereafter RMB) continues to gain significance” and “companies expect improvement in their China business” after the declines due to the pandemic. Efficient financial support for the Sino-German economy and the further opening-up of the Chinese economy were addressed. As globalisation is taken for granted, much attention is now being paid to whether and how China, with the massive influx of foreign credit institutes and investors, will further deepen the openness of its financial markets. However, little is known about how foreign banks engaged with China as an emerging market when the market-oriented reforms started in the 1980s.

The role of the PRC as a global player in banking sector, as Commerzbank and also other banks expected, was hardly conceivable before 1978. After the anti-Japanese war and the civil war, the PRC was founded in 1949 by the Chinese Communist Party. The socialisation process launched firstly various campaigns, in which the Chinese economy remained rather isolated by addressing self-reliance. The status remained unchanged until Deng Xiaoping introduced the reform and opening-up policy in 1978. From then on, the phase of the new economic course began, when China allowed more private commercial activities and foreign businesses on the mainland.

The economic reforms brought forth many large-scale projects, which required diversified financing support. Giant German companies such as Volkswagen AG and Thyssen AG signed contracts with China, and foreign banks crowded to gain licences in mainland China. Commerzbank established a branch

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in Hong Kong in 1979 and opened its representative office in Beijing in 1982. In 1992 Commerzbank and CDFC (HK) Ltd.⁴ arranged syndicated loans of USD 420 million for Volkswagen China, the largest international Euro loan for a Chinese address since 1989. However, after having a representative office in Beijing for ten years, Commerzbank managed to open its first branch with full operation licences in all sectors in 1994 in Shanghai, the first financial centre in China.⁵

Compared to the first wave of globalisation in the nineteenth century in the imperialistic context, foreign banks were in a newly formed international constellation in the postwar era and developed different paths to the Asian market. However, historical research in this regard is scant. Therefore, this paper utilises documents from Commerzbank regarding China in the period under review,⁶ such as the internal reports about Hong Kong and mainland China, and meeting minutes about the financing decisions of industrial projects in the PRC, so as to discover the motivation, measures, and risks of foreign banks entering the Chinese market. Furthermore, the case study intends to identify the role of Hong Kong in this process and argues that the intertwined economic relations between Hong Kong and the mainland was albeit a powerful attraction for foreign banks, but was not the sole motivation of banks to be present in Hong Kong, nor the only way to the mainland.

The paper is organised into the following sections. The first part reviews the activities of Commerzbank with China before 1978, the second part focuses on the role of Hong Kong, from both the perspective of Commerzbank and of the Chinese state-controlled banks, and the third part delves into the new dimension of Commerzbank in the Chinese market in the 1980s during the new course of economic liberalisation and opening up. The paper ends with concluding remarks.

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⁴ CDFC is China Development Finance Company (HK) Limited, a subsidiary of Bank of China in Hong Kong, started its investment banking business in 1979.
⁶ The research period ends in the late 1980s due to the thirty-year rule for the release of internal records in historical archives.
2 Background

*Commerzbank*, founded in Hamburg by German merchants in 1870 to finance German companies’ domestic and foreign trade,\(^7\) is one of the West German *Big Three* private banks.\(^8\) Its involvement with China can be traced back to the nineteenth century: the trading company of Carl Mäkel, who engaged in China’s trade, was one of the first customers of *Commerzbank*. In 1873, *Commerzbank* established the subsidiary, the *London and Hanseatic Bank* in London “for the purpose of conducting general banking and commercial business between England and Germany, as well as between Germany, India, China and North and South America, the West Indies, and other countries.”\(^9\) In the first half-century after its foundation, the supervisory board of *Commerzbank* consisted primarily of Hamburger merchants, some of whom specialised in trade with China, e.g. Senator J.H. Garrels of the trading firm *Garrels & Börner*. It is worth noting that although *Commerzbank* does not belong to the founders of *Deutsch-Asiatische Bank* (hereafter DAB) in the nineteenth century – the sole German bank present in China prior to 1945,\(^10\) *Commerzbank* was active in the Chinese market through its merchant networks and participated in several syndicates for China.\(^11\)

Following the foundation of the PRC in 1949, most foreign credit institutions had voluntarily or reluctantly withdrawn from the mainland.\(^12\) The clearance and liquidation process is owing to the fact that, on the one hand, the foreign banks, with their privileges during the wars, had dominated the Chinese financial market for a long time; on the other, China’s leadership attached great im-

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\(^8\) The term Big Three refers to the largest three German credit institutions on the basis of their balance sheet, which were Deutsche Bank, Dresdner Bank, and Commerzbank. This term was seen in the Commerzbank’s advertisements as a translation of the German term Großbanken, see HAC-400/342, Opening of Beijing Representative Office.

\(^9\) HAC-Digitales Archiv, Krause, China.


\(^12\) *P. Song*, 从利用到清理：建国初上海外资银行政策的嬗变 (From Utilization to Liquidation: The Transmutation of Foreign Bank Policies in Shanghai at the Beginning of the Founding of the PRC), in: 学术界 ACADEMICS 211/12, 2015, pp. 207-216.
portance to economic independence, i.e. was extremely unwilling to be in debt to capitalist countries, which left little room for business of foreign banks.

Although the FRG and the PRC embarked on two wildly divergent paths of economic reconstruction in the postwar period, bilateral trade should have flourished because of its complementary nature, given that Chinese industrialisation had significant needs for German industrial products and plants, while inexpensive Chinese agricultural products were in massive demand in West Germany. However, the trade embargo initiated by the USA in 1949 against China had been upgraded after China entered the Korean War. To guarantee a better influence of the embargo and unite more European countries in blockading the Chinese foreign trade, the Battle Act required recipients of the Marshall Plan to strictly follow the embargo, painfully hindering West German-Sino trade.13

Not only the traffic of goods was severely controlled, but Chinese assets and accounts in the USA were also frozen; most crucially, the payment transactions were closely monitored: without special authorisation, all direct and indirect transactions in USD with any native or legal person of the PRC were forbidden.14 For instance, in 1956, the US Treasury Department confiscated the accounts of Commerzbank-Bankverein.15 The reason was that the bank had financed the export of Cuban sugar to Budapest, which could have been shipped to China. Although the accounts were released after a few days, with the support of Wilhelm Vocke, the president of the Bank deutscher Länder (hereafter BdL),16 it exemplifies the difficulty of conducting business with the PRC.17

With the continuous efforts made by German companies, who were unwilling to give up their business ties with China, Sino-West German trade, although never come at a complete standstill, was only able to resume at the company level

15 The military governments in the American, French and British occupation zones decentralised the big banks in the postwar period, and the former Commerzbank consisted of nine branch groups with no clear legal status in 1947. Legislation passed on 29.03.1952 on areas in which banks were allowed to establish branches permitted the establishment of three successor bodies: one of them is Bankverein Westdeutschland AG (as of 1956 Commerzbank-Bankverein AG), Düsseldorf.
16 Bank deutscher Länder (BdL) was founded in Frankfurt am Main on 1.03.1948 after long quarrels among the Allies about establishing a central bank in the FRG. The BdL was thus a functional successor to the Reichsbank and a precursor to the Deutsche Bundesbank, today’s central bank of Germany.
on a bartering basis in the 1950s. One of the milestones was the signing of a quasi-governmental trade agreement between the German Eastern Business Association (Ost-Ausschuss der deutschen Wirtschaft) and the Chinese state-owned trade organisation, the China Council for the Promotion of International Trade (CCPIT) in 1957. In order to minimise the governmental tones in the trade agreement, the BdL left the trade clearing to a private bank, DAB. After closing all branches in mainland China, DAB was re-registered as a foreign trade bank in 1949 in Hamburg. Deutsche Bank was the largest stakeholder, and Commerzbank also participated in the consortium of the new old bank. In addition, with the approval of the BdL and the Alliance, Commerzbank established correspondent banking with Bank of China for the settlements of Sino-West German trade, respectively, in 1953 and 1957.

Compared to the volumes of goods exchange, the capital flows were at a minor scale due to China’s insufficient foreign exchange reserves and the strict control of payment transactions. Nevertheless, it should be seen as a strategic manoeuvre for the West German banks to establish correspondent banking relations with China as early as possible, which paid back in the 1980s when they intended to set foot in the Chinese market.

At the beginning of the postwar period, however, correspondent banking was the main instrument for West German banks to conduct cross-border trade finance. Their ambitions to go overseas were curbed, partly by the asset losses during the two World Wars and partly by the decentralisation process initiated by the Alliance in the 1950s, which weakened the power of the West German Big Three. It was not until 1956 that the restrictions on banks were removed. Thus,

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19 The Ost-Ausschuss der Deutschen Wirtschaft was founded in 1952 based on the major regional initiative of the German economy for 29 countries in Central Europe, Eastern and Southeastern Europe, in the South Caucasus and in Central Asia.
20 Founded in 1952, China Council for the Promotion of International Trade (CCPIT) is a national foreign trade and investment promotion agency.
21 Bauert-Keetmann, Unternehmens-Chronik Deutsch-Asiatische Bank, pp. 248-249.
22 Commerzbank opened accounts in Bank of China respectively in 1953 (London branch) and in 1957 (the head office in Beijing). See HAC-400/727, Representative Office in Beijing, Speech of Dr. Walter Seipp, 1982.
the three banks were able to reunite their successors and resume the bank names in the following years.24

In the 1960s, they turned to private customers in addition to corporate clients and expanded the branch networks markedly throughout West Germany.25 Only in the mid-1960s did the banks begin to pay more attention to the international market. In 1964, Commerzbank sent an employee in the foreign department (Zentrale Auslands-Abteilung) to visit Beijing for the first time after the Second World War. Since then, Commerzbank managers have regularly visited the Canton Trade Fair and other large cities in China (including Hong Kong) whenever possible.26 The detailed reports of meetings and dialogues with representatives of Chinese enterprises, bankers and officers there served mainly two purposes: firstly, to explore more business possibilities. Since Sino-Soviet relations had deteriorated, more quota in foreign trade was planned to capitalist countries; and secondly, to better evaluate the risks in financing the relevant trade, because the data about the Chinese economy was rare, and it was always more efficient to acquire statistics and information from Chinese counterparts through in-person meetings. As the reports mentioned, geographical distance and ideological differences shaped cultures and thinking modes in the PRC and the FRG, so an adequate understanding of Chinese policies and working manners was a considerable advantage for foreign banks.27 Closer observation and in-person communication ensured a longstanding relationship between Commerzbank and the PRC, moreover, it enabled the bank to realise the pragmatism of China on its economic issues.

As Ping-Pong diplomacy eased tensions between the PRC and the USA, 1972 saw the normalisation of Sino-West German diplomatic relations. Following the political rapprochement, economic conditions were regulated accordingly, as

24 Deutsche Bank on 2.05.1957 with headquarter in Frankfurt, Dresdner Bank in May 1957 with headquarter in Frankfurt, Commerzbank on 1.07.1958 with headquarter in Düsseldorf, later relocated in Frankfurt.
26 The mutual visits of were more frequent in the 1980s. In Hong Kong, Commerzbank used to pay visits to different banks there to acquire more information about the business potential. For more reports see HAC-HH/v647, Auslandsabteilung: Reiseberichte, China, Hong Kong, Singapore, 1967-1978; HAC-400/2189, correspondent letters with Bank of China, 1981-1990.
27 For instance, it is mentioned, that German exporters, who had adapted to Chinese customs better, were more likely to be considered by the Chinese side. HAC-HH/v647, Canton-Messe Herbst, Frankfurt, 8.12.1970.
several agreements were signed to ensure a frame of bilateral collaborations.\(^{28}\) Right after the normalisation, *Commerzbank* immediately foresaw the enormous potential of trade financing demand and expressed the wish to have a presence in mainland China in a meeting with *Bank of China* in 1973. Unsurprisingly, the request was turned down since *self-reliance* was still dominant in the foreign economic policy during the Cultural Revolution, and China was not prepared to welcome foreign banks to its market.\(^{29}\)

### 3 Hong Kong

#### 3.1 Commerzbank

Not being able to have an office in mainland China did not hold the West German banks back from expanding in Asia in the 1970s. On the contrary, driven by the increasing competition in West Germany, i.e. the aggressive expansion of American and Japanese banks and the saturation in the domestic market, West German banks perceived internationalisation as necessary, as they expected their corporate customers would intensify their international activities. However, the cautiousness and hesitation of West German banks towards the step into the overseas market was also evident since they found the international expansion risky.\(^{30}\) As a consequence, the *Big Three* did not act on their own in regard to the expansion, but in the form of *banking clubs*, a strategic alliance among European banks. These multinational cooperative groups were built to assist the bank members to enter emerging markets on efficient costs by sharing business networks and distributing risks over several shoulders.\(^{31}\)

While the potential of mainland China was still under discussion, Hong Kong in the 1970s was already a rising star in Asia. There were mainly two ways to approach the Hong Kong market, by either participating in existing banks in Hong

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28 Development of the bilateral trade after the diplomatic normalisation, see Figure 1: Foreign Trade of the FRG with the PRC 1972-1989 in appendix.


Kong or by establishing financial companies as Deposit-Taking Companies (DTCs),\(^\text{32}\) whilst no new licences for branches were possible from 1965 onwards due to severe banking crises in Hong Kong.\(^\text{33}\) Therefore, a series of financial companies were founded by banking clubs, in which West German banks, including *Dresdner Bank* and *Deutsche Bank*, participated before 1975.\(^\text{34}\) Among them, *Deutsche Bank* even possessed a branch in Hong Kong by taking over the shares of DAB in 1972 from other stakeholders. *Commerzbank* seemed to be an exception among the **Big Three**, whose banking club i.e. the **Europartners**, prioritised the markets in Europe and in the USA, by establishing the Luxembourg subsidiary, the branch in London, and extending networks to Latin America, Russia and the Middle East, while the Asian market was barely touched.\(^\text{35}\)

The absence of *Commerzbank* and its banking club in Hong Kong can be explained by two factors: first of all, the DTCs of foreign banks could hardly compete with the long existing British and local Hong Kong banks with the restrictions of business scope, the unsuccessful first attempt conducted by Dresdner Bank provided proof. It had jointly founded the financial company *Asian and Euro American Merchant Banking Group* (ASEAM Group) with other international banks in 1973, which had to be liquidated two years afterwards because of its unclear business position and fragmented ownership.\(^\text{36}\) Besides, it was also not urgent for the traditional trade financing bank, *Commerzbank*, to be present in Hong Kong, as long as it was able to maintain business with Hong Kong and mainland China through the correspondent banking network.\(^\text{37}\)

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\(^{32}\) Deposit-taking companies operate as subsidiaries of banks or associated companies. They specialise in the consumer finance and securities businesses and are authorised to accept deposits of HKD 100,000 or more with maturity terms of at least three months.


\(^{34}\) To name a few: Westdeutsche Landesbank (1972), Bayerische Landesbank and Hamburgische Landesbank (1972), Berliner Handels- und Frankfurter Bank (1975) were also present in Hong Kong in the form of establishing financial companies.

\(^{35}\) See Table 1: The Commerzbank’s involvement overseas 1953-1980 in appendix.


\(^{37}\) See Table 2: The Commerzbank’s share in German foreign trade with Hong Kong in appendix.
only British banks such as *Hong Kong and Shanghai Banking Group* (HSBC), but also with local Chinese banks like *Bank of East Asia*.  

However, it would be wrong to assume that *Commerzbank* overlooked the importance of Hong Kong. The idea of establishing a foothold in Hong Kong was discussed as early as 1974 and finally took shape in 1978, as soon as the Hong Kong government announced the intention to end the ban on new banking licences. In the board document of *Commerzbank* discussing the opening of a branch in Hong Kong, this financial centre stood out immediately “with its potential for mostly medium-sized industry, including many (West) German companies”, “in its function as a hub and starting point for transactions and investments in the entire Asian region”, most notably “as an important trading centre of the China trade”. Besides, having learnt from the prior experiences of other West German banks, *Commerzbank* did not choose to enter the Hong Kong market in a form of banking club, but pursued an independent presence by applying for a branch licence on its own. Moreover, it formed clear diversification in the business sectors regarding other hubs in Asia, i.e. Singapore and Tokyo, to avoid overlap and possible conflicts in their business spectra.

Under the presumption that up to three German banks would be allowed to obtain a licence, *Commerzbank* acted agilely and successfully opened a branch in Hong Kong in 1979 with full functions.

This move brought *Commerzbank* a leap towards the mainland and the Pacific-Asian market, however, the further development in the mainland could not be taken for granted. In the face of the second wave of globalisation, the PRC decided not to be dragged into it, but to cope with it and integrate itself into the global economy on its own initiative, as manifested in its decade-long policy of self-reliance.

### 3.2 Chinese State-controlled Banks

If we take a closer look at Chinese banks in Hong Kong, it is safe to argue that Hong Kong played an essential role in guiding the mainland towards the interna-
tional economy. Possessing all the ingredients of a financial centre, with a favourable geographical location and tax conditions, a liberalised market and lively trade traffic all over the world, Hong Kong attracted not only an influx of foreign financial institutions but also promoted the development of Chinese banks.42

Mainland China had a substantial presence in Hong Kong’s financial sector through thirteen licensed Chinese state-controlled banks (hereafter CSCBs) and several finance companies as well as merchant banks. Among them, Bank of China took the lead, which was administratively a foreign department of China’s central bank – the People’s Bank of China (PBoC). Bank of China acted as the sole authorised Chinese bank specialising in international trade and finance until 1978 and gained the independency from the PBoC in 1979. With the head office in Beijing, its overseas branches and offices were not limited in Hong Kong but also extended in London, Singapore and so on.43 Hong Kong is of special significance for China’s integration into the world economy in two regards, as a source of trade surplus and forex, and as a platform for knowledge transfer.

In terms of business, the CSCBs generally dealt with the trade financing, foreign exchanges, and deposit management prior to 1970. As China’s relations with Hong Kong and the non-socialistic countries underwent a steady improvement, the expansion of the CSCBs was seen initially in the aggressive branching throughout Hong Kong. The number of branches of the thirteen CSCBs increased rapidly from 55 in 1970 to 153 in 1979. After overtaking the second largest banking group in Hong Kong, Chartered Bank, the CSCBs ranked right behind the HSBC Group.44 In addition, along with a surge of establishing deposit-taking companies and subsidiaries, the CSCBs widened the range of their financial services to securities and syndicated loans in the post-Mao period.45 To maintain competitiveness in Hong Kong with a larger network and business spectrum, nine CSCBs out of the thirteen were injected with capital in 1975.46 Moreover, aside from Bank of China, the board of directors and management of the other eight CSCBs were reorganised in 1981, and their head offices were

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45 See Table 3: Chinese State-Controlled Banks and Their Deposit-Taking Companies, 1980 in appendix.
relocated from other Chinese cities to Beijing; two years later Bank of China upgraded the management further by forming the Bank of China Group to include all the CSCBs in Hong Kong and Macau. It should be reasonable to interpret these measures as an increasing appreciation of the importance of Hong Kong by the mainland.

In regard of rethinking and reorientating China’s foreign economic policy, Hong Kong as an entrepot served as a buffer zone for ideological contradictions between the PRC and capitalist countries. With a strong presence of both foreign and Chinese banks, personal meetings and communications could be easily arranged in Hong Kong. Commerzbank also emphasised the connecting function possessed by the Hong Kong branch of Bank of China, which had relatively limited business with West German banks but occupied an excellent position as a link between the head office in Beijing and the bank’s foreign correspondents all over the world.

Furthermore, Hong Kong offered the mainland an outward view. For example, the Chinese Premier Zhou Enlai instructed China’s state-owned news agency Xinhua and Bank of China to conduct systematic studies of Hong Kong’s political, economic and social situation since the late 1960s. The studies arguably led to prudent attempts at financial innovation in the 1970s, such as deferred payments, supplier credit, and mutual deposits. During this period, credit lines were also guaranteed by foreign correspondent banks to Bank of China, which were rarely utilised with the concern of possible ideological contradictions. These measures were innovative in the sense that they enabled the PRC to finance the purchase of plant and machinery without jeopardising its ideological stance on trade finance and foreign debt.

Since the 1960s, Bank of China had adhered mainly to international usances – also known as deferred payment in practice, which is a letter of credit payable at a predetermined date after the conforming documents are presented. While it could be understood as indirect credits for trade financing, the mutual deposit scheme acted as de facto inter-bank loans: Bank of China and other foreign banks deposited funds in their respective local currencies, with foreign banks

47 Jao, Hong Kong’s Role, p. 32.
52 HAC-S1/279, In naher Zukunft könnte Peking erstmals auf dem internationalen Anleihemarkt auftreten, Martin Kohlhaussen, Handelsblatt, 8.10.1984.
depositing more to bridge the deficits of China's forex.\textsuperscript{53} This flexible method was
documented in detail in the Commerzbank's archives that Bank of China was pro-
posed to make reciprocal deposits (with Commerzbank's subsidiary in Luxem-
bourg) on a case-by-case basis in Deutsche Mark (hereafter DM) and other Euro-
pean currencies with maturities of up to twelve months.\textsuperscript{54} These deposits were
intended to promote trade and to alleviate the dilemma of scarce foreign ex-
change reserves.\textsuperscript{55} Although the amount of the mutual deposits seems quantita-
tively insignificant, it demonstrates cautious changes in China's foreign policies
and the readiness of Commerzbank to assist China's modernisation by improv-
ing the fragile conditions of Sino-West German trade.

### 3.3 The Role of Hong Kong

Hong Kong was the perfect junction for both foreign banks seeking to enter the
mainland and for the Chinese government.

As an important source of trade surplus, Hong Kong's well-established bank-
ing system has made it the most important foreign exchange centre for the main-
land China, its essentiality is also manifested particularly in terms of large-scale
financing projects and China's augmenting openness to international capital.\textsuperscript{56} While the Chinese government was constrained by policy but driven by pragmat-
ism, the various attempts made by the mainland China in Hong Kong have
prepared the ground for further opening and financial reform in the mainland.

The importance that Commerzbank attached to Hong Kong was twofold, in
its own right as a financial centre, and in the sense of being the most important
neighbour of mainland China.

On the one hand, Hong Kong played the role of financial centre for the Asia-
Pacific region in not only prospering trade transactions between Hong Kong and
West Germany but also taking care of business with other local correspondents
of Commerzbank. Besides, the favourable concentration of international financial
institutes allowed the branch to participate in syndications led by, for example,
Wardley,\textsuperscript{57} HSBC, Bank of China in HKD or other currencies.\textsuperscript{58} In addition, Hong

\begin{itemize}
\item \textsuperscript{53} History of Bank of China (1949-1992), Vol. 1, p. 469,
\item \textsuperscript{54} HAC-HH/v647, Bank of China, Peking, Frankfurt/M., 22.12.1972. Commerzbank mentioned here the concept \textit{indirect way} with the expression of “mittelbaren Weg”.
\item \textsuperscript{55} HAC-HH/v647, Bericht über die Reise in die Volksrepublik China, 15.-27.09.1975.
\item \textsuperscript{56} M. Kohlhaussen, Commerzbank AG. Strategien im Bankbereich, Landsberg 1991, pp. 481-503.
\item \textsuperscript{57} Wardley is a wholly owned subsidiary of Hong Kong and Shanghai Banking Corporation.
\item \textsuperscript{58} HAC-400/ED000440, Strategiepapier Südostasien 1981.
\end{itemize}
Kong was also crucial for global securities trading. As early as June 1981, Commerzbank had installed a departmental director in the Hong Kong branch responsible for expanding the securities business in the Southeast Asian region and Japan because these tasks could be handled much more quickly and cost-effectively from Hong Kong than from Tokyo. Moreover, when Commerzbank established the subsidiary, Commerzbank Securities (Japan) in 1986, its headquarter was initially located in Hong Kong.\(^5\)

On the other hand, Commerzbank attached extra meaning to Hong Kong, compared to Tokyo and Singapore, due to the nexus between Hong Kong and mainland China.\(^6\) Hong Kong benifitted from the favourable supply of food and raw materials, and also enjoyed the goodwill of the mainland as a listening post and a trading hub.\(^7\) Even the increasing concerns in the banking sector about the handover of the British Crown Colony to the PRC in 1997 seemed to have not bothered Commerzbank for a long time.\(^8\) The close economic ties between Hong Kong and the mainland underpinned the confidence of Commerzbank in investments in both regions, since the bank was aware that Beijing – convinced by the usefulness of Hong Kong – would not want the status quo to change, therefore, Hong Kong would not become less attractive to foreign investors as it approached 1997.\(^9\)

In the beginning of the 1980s, Commerzbank planned to utilise the Hong Kong branch to intensify business with Chinese addresses, both in Hong Kong and in mainland China, such as the City of Shanghai, China Airlines, China Ocean Shipping Company Limited, and to establish contacts with other parts of mainland China for further commercial cooperation.\(^10\)

Though vivid economic exchanges with the mainland were repeatedly mentioned, the expected synergetic effects were not clearly visible in the balance sheets of Commerzbank in both regions in the 1980s, and the importance of Hong Kong should be not considered as solely dependent on the mainland. In

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\(^6\) HAC-400/602 II, Vorlage zur Eröffnung einer Filiale in Hongkong, 10.05.1978.

\(^7\) D.R. Meyer, Hong Kong as a Global Metropolis, Cambridge 2003, pp. 213, 244.

\(^8\) HAC-400/ED000440, Strategiepapier Südostasien 1981.

\(^9\) HAC-400/602 II, Vorlage zur Eröffnung einer Filiale in Hongkong, 10.05.1978; HAC-S1/279, Für europäische Unternehmen eröffnet sich im Fernen Osten noch ein weites Betätigungsfeld, 26.04.1984.

\(^10\) HAC-400/ED000440, Strategiepapier Südostasien 1981. More Chinese companies were listed, e.g. China Light, Hutchinson, Hong Kong Land, Jardines, Swire, Hong Kong Electric, Hong Kong Gas, Hong Kong Telephone.
fact, Hong Kong and the mainland were handled with respective emphases, at least from the point of view of Commerzbank.

4 China-oriented Bank

When economic reforms and expansion in foreign trade had generated significant demand for forex and capital, China reached out to foreign addresses through Bank of China and the newly established China International Trust and Investment Corporation (hereafter CITIC), which was authorised in 1979 as a state-owned investment company to engage intensively with international financial institutes and to explore more forms of collaboration. On 12th November, 1980, Commerzbank signed a cooperation agreement with CITIC in Beijing so as to promote West German-Sino joint projects, advise on banking transactions and mobilise technical know-how for China.65

Since Bank of China had already been actively advised by Commerzbank on other financial products in the 1970s, it may well have been presumed that China would deepen financial ties with its foreign partner banks.66 However, based on the experience of fluctuations and the readjustment phase, during which the economy was overheated by foreign loans and credits, China considered only a gradual opening to be possible. In this manner, the capital absorption capacity would not be overwhelmed, and foreign companies would not exert a negative influence on the development of domestic enterprises. Therefore, in the early 1980s, most foreign banks could only open representative offices in China, which were not allowed to offer operative banking services. In 1979, the first foreign bank, Japan Export-Import Bank, received permission to set up a representative office in Beijing.67

But was it necessary for German banks to follow suit and rush to gain permission? Would it have been wiser to wait and see how the open-up policy developed, as did Commerzbank in the case of opening the Hong Kong branch?

67 In 1980, First National Bank of Chicago opened its branch in Beijing as the first American bank. HSBC opened a representative office in Beijing as an addition to its branch in Shanghai and office in Guangzhou. Besides, many European banks received licences to open representative offices in Beijing. For more details see HAC-400/1477, Auslandsberichte, 10.08.1981.
The motivation to be present in China was a result of both urgency and rational calculation. The urgency came from the augmented competition for the Chinese market and the pressure for improving the proficiency of Commerzbank. For years, West Germany ranked fourth among the Chinese trading partners, right behind Hong Kong, Japan, and the USA.\textsuperscript{68} Sino-West German trade demonstrated a growing trend due to the improving absorptive capacity of China, and the business volume of Commerzbank in this regard increased as well. However, Commerzbank’s share in the bilateral trade slightly declined, implying a cumulative competition among German banks.\textsuperscript{69} Although the data of Commerzbank shares from 1978 onwards is not available, this declining trend in the 1970s clearly shows the rapidly growing competition. Moreover, Commerzbank had to forego yielding dividends from 1980 to 1982, because it paid a higher price for its quick expansion and mismatching in deposits in the 1970s. When Walter Seipp was appointed the chairman of the bank in 1981, he was confronted with the urgent need to improve the bank’s profitability instead of pursuing enlarging size.\textsuperscript{70}

But urgency alone could not drive the expansion. Another decisive factor was the business potential in the targeted market. As described by the board member Martin Kohlhaussen (responsible for Asia), Commerzbank was a “China-oriented bank”: The bank followed not only customers to the giant market overseas but, more accurately, followed the business potential.\textsuperscript{71}

While large corporations such as Volkswagen and Siemens went to China to set up joint ventures and to start production for the Chinese market, Commerzbank saw additionally the potential for small- and medium-sized enterprises (SMEs). This was because once China had initially completed the purchase of entire plants or producing lines, Chinese industry would be able to manufacture parts of complex systems themselves from the 1980s and only need components that they could not produce on their own. This proved to be the gateway for industrial SMEs, for whom the Chinese market had previously represented risks difficult to calculate. Thus, SMEs would predominantly need assistance from

\textsuperscript{68} Germany ranked fourth from 1983 to 1985. See HAC-S1/279, Martin Kohlhaussen-Presse, „In naher Zukunft könnte Peking erstmals auf dem internationalen Anleihemarkt auftreten“, 8.10.1984; Bundesstelle für Außenhandelsinformation, 1985.

\textsuperscript{69} See Table 4: The Commerzbank’s share in West German foreign trade with the PRC in appendix.


Commerzbank when entering the market, not limited to granting credit and processing payments in foreign trade alone, but in all kinds of legal matters.\footnote{Interview with Martin Kohlhaussen, 13.12.2022; HAC-400/727, Dr. Walter Seipp Gespräch, 1982.}

Therefore, it is not difficult to understand why the German Big Three competed strongly against each other to obtain the approval for a representative office in Beijing and thus to be the first West German bank present in China.\footnote{All three banks gained the licences in 1981, and Commerzbank managed to open its representative office in Beijing officially on the 16.04.1982.} To demonstrate the significance attached to business in China, the chairman of the board, Walter Seipp, and board member Martin Kohlhaussen attended the opening of the representative office in Beijing in 1982.\footnote{The first representative Michael Zuberbier worked there until 1985; then his successor Wolffhart Auer von Herrenkirchen came.}

Although the representative office was not an operative unit, it was “an investment in the future”, according to Kohlhaussen, because “no sizeable financial business was and is ever going to appear directly on the doorstep”.\footnote{Self translation of the quote „das große Finanzierungsgeschäft stand damals und steht auch heute noch nicht unmittelbar vor der Tür“. See HAC-S1/279, Deutsche Banken sind „Öffnungs-Partner“, Welt, 17.06.1985.} However, sometimes opportunity did come straight to a local representative office. For instance, in the early phase of the new economic course, the scenario was not uncommon that an unregistered delegation of ten from Inner Mongolia (a province in northern China) would appear in front of the representative office with a multi-million RMB project, asking for financing plans.\footnote{HAC-S29/351, Commerzielles, "Xi de Shang Ye Yinhang" Respräsentanz in Peking, China, Ausgabe 3, 1986.}

Hence, regarding the question of how the representative office in Beijing contributed to the further development of Commerzbank’s business in and with the PRC, it should be discussed from the following four aspects, namely trade financing, the capital market, risk management,\footnote{More about the theme risk management in banking, see the article of Alexander Nützenadel in this volume: Risk Management, Expectations and Global Finance. The Case of Deutsche Bank 1970-1990.} and personnel policy.

### 4.1 Trade Financing

Since trade financing was the traditional strength of Commerzbank, its endeavours to expand business with China were multifaceted. Already in 1978, when the delegation of Commerzbank visited China right after the announcement of
the reform, they had proposed several forms of trade financing to the CCPIT in
detail, to explain how China could be able to accelerate imports from West Ger-
many and reach development goals. Furthermore, given the recurring wording
of the Chinese purchases on a deferred payment basis, Commersbank highlighted
the possibility of financing both the German exporters and (Buyer credit),
which was an effort at a broader interpretation of the ideologically justified
delayed payments. Although the Chinese authorities did not initially accept those
suggestions, they showed great interest.78

Alongside letter of credits and buyer credits, West German banks were pro-
gressively involved in so-called local cost financing. A growing number of large
projects in developing and emerging countries relied on the house banks of Ger-
man exporters to finance the costs incurred locally; for instance, Commersbank
offered to participate in financing Ningbo’s steel complex by granting credits to
the local German exporters.79 Moreover, the Euro-market seemed to be a suitable
financing source, especially when the foreign branches of West German banks
could also benefit from the federal export credit insurance system.80

As mentioned before, in order to attract more SMEs, Commersbank invested
in advertisements and public communication, manifesting in the numerous me-
dia reports in the domestic and international press about the opening of the repre-
sentative office in Beijing.81 Topics for clients’ interests were published primarily
in the bi-monthly Außenhandelsblättern (Foreign Trade Papers) and in the cus-
tomer magazine Commersbank Journal. The expertise in matters of macroeco-
nomic analysis was documented in the monthly Viewpoint in the magazine Far
Eastern Economic Review, which underlined the importance the bank attached
to the clientele in the East Asian region. Apart from this magazine, these view-
points were also published in other international journals such as the Econo-
mist, Institutional Investor and occasionally in the Financial Times. Special bro-
chures such as Wirtschaftspartner China (Economic Partner China) rounded off
the contributions on the topic of the Far East.82 These efforts were made not only

78 HAC-HH/v647, Bericht über den Aufenthalt in Peking der Herren Dohm, Dr. Jahn und
79 In this case, Commersbank offered to finance a share of the Hermes-covered financial credits of
DM 1 billion for the German supplies and an uninsured credit portion of DM 478 million to finance
advance and interim payments and local costs. HAC-400/2125, Vorstandssitzung 3.03.1987.
80 HAC-S1/279, Martin Kohlhaussen-Presse, In naher Zukunft könnte Peking erstmals auf dem
internationalen Anleihemarkt auftreten, Handelsblatt, 8.10.1984.
81 HAC-400/729, Pressemitteilungen der Eröffnung der Repräsentanz in Beijing; HAC-S1/279,
Presseausschnitte.
82 Kohlhaussen, Commerzbank AG.
to keep the potential clients informed with the possibilities in China but also to present *Commerzbank* as an internationally engaged financial institution.

Following the further liberalisation in 1985 in banking sector, a number of other Chinese banks were allowed to engage in international trade settlements, thus creating competitive pressure on *Bank of China* as well, since it was no longer the exclusive bank for international settlements. Therefore, alongside the deferred payments, the financial instruments for trade financing were able to be diversified in the 1980s.\(^{83}\)

For instance, *Bank of China* promoted the letter of credits opened in RMB, which were expected to be paid in China to save Chinese forex and avoid any possible losses due to the repeated appreciation of DM. For German trade companies that entered into a settlement in RMB, they wished to receive appropriate hedging and to lock foreign exchange rates. In contrast to the strict prohibition of currency hedges in the 1970s, the foreign exchange forward transactions in RMB were generally possible in the financial settlement of goods exchange between the FRG and the PRC. Usually, *Commerzbank* negotiated with *Bank of China* about the applied conditions to the forward transaction for individual cases before the trade conclusion. The maximum term for RMB futures was six months in 1984, while a longer term was also possible in exceptional cases.\(^{84}\)

### 4.2 Capital Market

In addition to trade financing, *Commerzbank*, as a universal bank, engaged in international corporate finance and syndication business in depth. The utilisation of the European capital market was not only for a better profitability of *Commerzbank* but also suited the interests of the Chinese counterparts.

In the *China faces the future* conference held by *Bank of China* in 1985, Kohlhaussen addressed in his speech that the financial services of his bank “encompassed not only stock exchange introductions of foreign shares but also the launching of foreign issuers’ DM bonds.”\(^{85}\) Despite being an intermediary between West German trading partners and their Chinese counterparts, *Com-
merzbank was willing to act also as an initiator of financial activities concentrating on China.86

Commerzbank may have received hints from the meeting in March 1978, well before the announcement of the open-up policy. In that meeting, Bank of China raised many questions about the syndication and credit loans in different forms, which Commerzbank recognised as an implication that an openness in this section could be expected.87 The following year, China made its first borrowings on international markets, including a Euro-dollar loan of over USD 10 million arranged by Commerzbank.88 Although this loan – like most of the other credit lines – was barely utilised by Bank of China, it certainly gained more significance as it symbolised the attempt of Bank of China to enter the so-called Euro-market.

After the bond issue and syndicated loan were officially written in the Articles of Association of Bank of China in 1984, the legal foundation for more comprehensive financial services was secured.89 In October 1984, Japan Bond Research Institute assessed Bank of China as a prime borrower with an AAA; afterwards, the first public bond issued by a Chinese address since the foundation of the PRC in 1949 was in November 1984, when Bank of China issued a foreign bond of Japanese Yen 20 billion (approx. DM 250 million) under the lead management of Nomura Securities Co. Ltd., in which Commerzbank participated as a foreign underwriter with a quota of Japanese Yen 25 million (approx. DM 313,000).90

The first issue of Eurobonds came immediately in Frankfurt am Main in 1985. A total of DM 150 million were issued by Bank of China under the syndication of ten banks, among which the West German Big Three were involved. Admittedly, London should have been the first choice for the first issue of Eurobonds, but it did not work out because of the remaining foreign debt problems prior to the foundation of the PRC.91 Nevertheless, this DM foreign bond was a milestone as

87 HAC-HH/v647, Auslandsabteilung: Reiseberichte, China, Hong Kong, Singapore, 1967-1978.
88 HAC-S1/279, Deutsche Banken sind „Öffnungs-Partner“, Welt, 17.06.1985.
89 The State Council approved the fourth Articles of Association, following businesses were permitted: gold trading; organising or participating in international syndicated loans; investment or joint ventures in foreign countries, Hong Kong and Macau; issuing foreign currency bonds and other marketable securities. History of Bank of China (1949-1992), Vol. 2, pp. 935-940.
91 The problems of foreign debts were negotiated and solved between the Chinese and British governments in 1987, in which year another Euro-Dollar bond was issued by Bank of China in London. See History of Bank of China (1949-1992), Vol. 2, p. 641.
the first Chinese bond on the European markets. Turning directly to private Western investors was quite unusual for China as one of the state trading countries. This notwithstanding, the bonds issue supported by German banks came up with a convincing success in subscription. Moreover, it documented the confidence that Western investors had in the reliability of Chinese economic policy, as China was sought as a trustworthy debtor by many international investors.\textsuperscript{92} After this issue, Chinese authorities issued four more bonds in Frankfurt up to 1988.\textsuperscript{93}

### 4.3 Risk Management

The open-up and reform policy unlocked the gigantic market potential in China, however, the economic transition was not completed in a day. The transit phase was marked by fluctuations, experiments, and uncertainties. Although Chinese authorities strived to monitor and control the pace of the opening-up, it remained difficult for foreign banks to evaluate risks appropriately. Moreover, \textit{Commerzbank} became more cautious and selective in approving foreign credits in the critical period at the beginning of the 1980s.\textsuperscript{94}

Therefore, three steps were developed for a more systematic risk management, namely: information collection and rating, the application of appropriate instruments, and finally responsible decision-making.

For a financing request from mainland China, the representative office in Beijing would firstly collect as much relevant information as possible. From July 1980, the bank introduced stricter regulations on approving loans to corresponding foreign banks. Any foreign loans which exceeded DM 10 million were to be approved by the entire board of directors after a vote by relevant departments and the responsible Executive Director.\textsuperscript{95} At the board meeting, basic analysis was made available for board members. In addition to a technical analysis for concrete conditions for a specific offer, one of the most important analyses was delivered by the foreign department (Zentrale Auslands-Abteilung). Since 1978, multinational banks had begun to employ systematical rating models to assess the risks of developing countries. In the case of \textit{Commerzbank}, the rating methodology has been further adjusted to central planned economies. And continuous

\begin{itemize}
\item \textsuperscript{92} HAC-S1/279, Deutsche Banken sind „Öffnungs-Partner“, Welt, 17.06.1985.
\item \textsuperscript{93} For instance, the Eurobonds of USD 200 million were issued on 22.07.1986 in Frankfurt a.M. History of Bank of China (1949-1992), Vol. 2, p. 900.
\item \textsuperscript{94} HAC-400/100, Auslandsgeschäft, Handakten Dr. Christian Franck, 1982. \textit{Sattler}, Hundertfünfzig Jahre Commerzbank, p. 391. \textit{Kohlhaussen}, Commerzbank AG.
\item \textsuperscript{95} \textit{Sattler}, Hundertfünfzig Jahre Commerzbank, p. 391.
\end{itemize}
information exchange between the risk targeted groups and the practical banking units kept the rating system updated. There was also a regular exchange within the banking club, the Europartners. They met twice a year to discuss and compare their ratings for a targeted group so as to minimise the information asymmetries as well as the risks in banking business. For example, in 1982, four member banks of the Europartners gathered to exchange their ratings about socialist countries, including the PRC, to which Commerzbank gave the best rank among the four banks.96

After understanding how much the risk could be, the next step was whether the risk should be taken and how to deal with or reduce it. It was pertinent to mention some means of dealing with the two most common risks in cross-border trade, i.e. political and economic risks.

West Germany had developed an export financing system – including refinancing supplier and delivery-related buyer credits.97 For political risks, particularly in developing countries, two special credit institutes were established to spread German banks’ exporting risks over many shoulders. AKA Ausfuhrkredit-Gesellschaft mbH (AKA for short) was set up in 1952 by a syndicate of German large commercial banks, the major regional and public-sector banks as well as the leading private banks under the leadership of Rheinisch-Westfälische Bank Aktiengesellschaft and engaged in financing the middle- and long-term export.98 The other one, Kreditanstalt für Wiederaufbau was a corporation established under public law to support West German exports. For both institutes, the Hermes Guarantee (Hermes Deckung, national export credit insurance) was one of the most important preconditions. The FRG designed the Hermes Guarantee to cover the political and economic risks that inevitably arose in German exports. The costs were usually borne by exporters, who would normally include the costs in their export pricing.99

Although it was emphasised that trading contracts should be based on the Hermes Guarantee to avoid possible losses, Commerzbank still made a few ex-

97 Supplier credit is granted to the German exporter until they receive the full purchase price from the foreign buyer. Together with the federal ministries, KfW developed a new financing instrument through which loans were extended directly to the foreign importer as buyer credit.
98 Krause, Commerzbank, p. 92. Supplier credit (AKA-A Plafonds), buyer credit und forfaiting (AKA-C und AKA-D), Equity credit (AKA-E).
ceptions for export financing requests to Chinese counterparts.\(^{100}\) For a medium-sized project in favour of the company Steinmüller, the bank offered a Plafond C loan (buyer credits) of approx. DM 230 million together with Deutsche Bank and Dresdner Bank without Hermes Guarantee;\(^{101}\) for a long-term project, the offer was made by Commerzbank and Dresdner Bank to finance the company Schloeman-Siemag in terms of an expansion stage of the Baoshan steel plant for a total of DM 925 million under Hermes Guarantee and a loan component of the same amount, which included uninsured German services.\(^{102}\) Although these two offers were not realised, they showed a confident expectation of Commerzbank in China even during hard times.

Why was Commerzbank willing to grant the credit facilities without the Hermes insurance? The following reasons may be suggested in three aspects:

a) The mainland was a cautious debtor that tried to avoid the mistakes of heavily indebted developing countries, which – as evident in various media reports – conformed to the requirements as a top borrower and contributed to the positive overall risk evaluation.\(^{103}\)

Therefore, it is always important to find out how much stake the state held behind the Chinese counterparts.\(^{104}\) Since state-owned enterprises and credit institutions were still the main borrowers in China during the early phase of reform and opening-up, after Commerzbank had cross-verified the state character of the debtors from different sources, their risks were equated with the risk of China as a nation and gained optimistic estimates as well.\(^{105}\) For instance, the loan applications from three regional state-owned institutions, GITIC (Guangdong), SITCO (Shanghai), and BITIC (Beijing), were cases, in which the credibility of the institutions was appreciated through their state-owned character.\(^{106}\) Besides, a future-oriented vision and the potential for further development were

\(^{100}\) HAC-S1/279, In naher Zukunft könnte Peking erstmals auf dem internationalen Anleihe- markt auftreten, Martin Kohlhaussen, Handelsblatt, 08.10.1984.
\(^{101}\) Under the conditions of the Plafond C, credits from funds of all, some or one of the AKA consortium banks can be granted to foreign buyers and payments are made directly to the exporters.
\(^{102}\) HAC-400/2125, Vorstandssitzung 3.03.1987.
\(^{103}\) HAC-S1/279, Martin Kohlhaussen-Presse, Neuausrichtung der Geschäftsstellenstruktur, Vortrag vor Gebietsfilialeleitern, Februar 1991.
\(^{104}\) Interview with Martin Kohlhaussen, 13.12.2022.
\(^{105}\) HAC-400/2080, Vorstandssitzung 11.02.1986.
\(^{106}\) The three institutions are Guangdong International Trust and Investment Corporation, Shanghai Investment and Trust Corporation, and Beijing International Trust and Investment Corporation. Normally, the documents of these institutions would be required and cross-checked with other publications and information sources.
also essential factor for decision-making. A state-owned company or state-involved project usually suggested a series of investments and strategical plans, which spoke for a potential of follow-up business compared to single projects. Thus, the board may have been more likely to green light such projects.\textsuperscript{107}

b) The growing transparency about the Chinese economy improved the credibility of China. Unlike in the past, China began to publicise more data about its macroeconomy in the 1980s, and banks could acquire related information through different sources, not limited to documents provided by their correspondent banks in the mainland or Hong Kong but also through other Asian branches and representative offices of Commerzbank. Besides, the information provided by the third parties, such as research groups, consulting agents, also served as important neutral voices.\textsuperscript{108}

c) The growing competence in international trade also required the bank to give German exporters more support concerning the Chinese market. In 1987, among other international banks, Commerzbank was invited to submit a financing bid for the Shanghai branch of People’s Construction Bank of China (PCB)\textsuperscript{109} for an approx. USD 165 million syndicated loans. The branch of PCB was entrusted with a 300,000-tonne ethylene project with a total financing requirement of USD 272 million, one of the most vital projects in the country. Authorised by the State Council and with the approval of the state exchange control authorities, its Shanghai branch turned to the international capital market for the first time. On the German side, Uhde GmbH and Linde AG were striving to be involved as exporters. To achieve a price advantage, the company Uhde GmbH proposed to give up a Hermes Guarantee. After several rounds of discussions, Commerzbank made its offer with the known risks. However, the offer was not chosen by the Chinese side, probably because another foreign bank offered more favourable terms.\textsuperscript{110} Although the bank valued the Chinese market, it did not intend to capture the market at all costs.

4.4 Personnel Policy

The banking business in an international context means that banks need connect cross-border business technologically through their nature as intermediar-

\textsuperscript{107} Interview with Martin Kohlhaussen, 13.12.2022.
\textsuperscript{108} HAC-400/2080, Vorstandssitzung vom 11. Februar 1986.
\textsuperscript{109} It is known as the China Construction Bank (CCB) after its renaming in 2005.
\textsuperscript{110} HAC-400/2124, Vorstandssitzung 24.02.1987; HAC-400/2125, Vorstandssitzung 3.03.1987; HAC-400/2129, Vorstandssitzung 7.04.1987.
ies and operationally through huge information networks, which are highly dependent on people, as Kohlhaussen said, “banking is people.”

Basically, the employees of the representative office in Beijing were Chinese, in addition to German employees as head of the office with or without an assistant sent by the head office in Germany. Commerzbank stated that a great deal of time and energy, above all patience and empathy, was to be invested in business with China. The Western business partners had to convince their Chinese counterparts that they were interested in long-term economic relations. Due to historical experience and the dissimilar economic and social systems, Chinese partners always negotiated carefully and with great perseverance. In addition, it was crucial to understand the hierarchical structure of partner institutes and to approach the person in charge for a conversation.

Thus, Chinese employees, who could speak English or even German, were badly needed with regard to the priority of the representative office: information collection and contact maintenance with both Chinese authorities and international customers in mainland China.

Although the infrastructure in China at the time was underdeveloped, the poor telephone connections and the difficulty in ordering train and plane tickets did not stop the representatives from travelling to other Chinese cities, for example, to the Special Economic Zones in coastal cities. Under the trend of liberalisation and decentralisation in China, employees of the representative office regarded themselves as “business developers”, who should cover these long distances to search for suitable province-specific projects and business opportunities and bring Commerzbank into the game.

A peculiarity in the recruitment of Chinese staff, as Kohlhaussen recalled, was that candidates were assigned to Commerzbank from the Chinese side. After interviews, the bank could select two or three as employees for working in the representative office for a certain time. When their employment with the bank ended, new candidates were recommended to the bank. It was explained to Kohlhaussen that such a rotation system had been designated so as to give as

111 Interview with Martin Kohlhaussen, 13.12.2022.
113 Mainland China set up the first four coastal cities (Shenzhen, Zhuhai and Shantou in Guangdong Province and Xiamen in Fujian Province) as Special Economic Zones (SEZs) in 1979. Granted more market-oriented economic policies and flexible governmental measures, the SEZs were designated to promote foreign and domestic business.
114 HAC-S29/351, Commerzielles, "Xi de Shang Ye Yinhang" Respräsentanz in Peking, China, Ausgabe 3, 1986.
many young Chinese as possible the opportunity of getting to know the working manner of a foreign bank.\footnote{115}{Interview with Martin Kohlhaussen, 13.12.2022.}

In this respect, \textit{Commerzbank} contributed to the gradual modernisation of the Chinese banking sector in the age of reform and opening-up by additionally providing trainee programmes to employees from other Chinese banks. The trainee programme enabled the employees of partner banks of \textit{Commerzbank} to have a study stay in Frankfurt. In 1981, \textit{Bank of China} tried this programme for the first time, which worked well for both banks.\footnote{116}{HAC-400/696, Fortbildungszentrum Glashütten-Oberems, 1989.}

On the one hand, although China had actively conducted studies about foreign banks through their overseas branches and correspondent banking networks from the 1970s onward, it lacked expertise in international banking. Through the on-site study in Frankfurt, Chinese trainees could learn more operational skills from \textit{Commerzbank} and achieve better productivity in handling bilateral future business.\footnote{117}{Bank of China began to send its young talents for an advanced study in their partner banks in foreign countries in 1979. History of Bank of China (1949-1992), Vol. 2, pp. 671, 886.} Moreover, it might have exerted a positive impact on China’s convergence with international financial and trade standards, which was of utmost importance for the institutional reform in China’s banking sector in the 1980s.\footnote{118}{HAC-S1/279, In naher Zukunft könnte Peking erstmals auf dem internationalen Anleihe- markt auftreten, Martin Kohlhaussen, Handelsblatt, 8.10.1984.}

In 1986, \textit{Commerzbank} mentioned that \textit{Bank of China} would formulate its promise of payment on half a DIN A4 page, i.e. in a pleasant short and uncomplicated manner,\footnote{119}{HAC-400/2096, Vorstandssitzung vom 6.05.1986.} which according to the bank, had not yet generated any difficulties; in the following year, the letters of credit issued by \textit{Bank of China} became subject to the standards UCP 400 in international settlements.\footnote{120}{The Uniform Customs and Practice for Documentary Credits (UCP) is a set of rules on the issuance and use of letters of credit. The UCP is utilised by bankers and commercial parties. The UCP 400 refers to the 1983 revision, ICC Publication No. 400. History of Bank of China (1949-1992), Vol. 2, pp. 584-585.}

On the other hand, some of these trainees appeared in later visits of Chinese delegations or became senior managers in other enterprises involved in German business; the contacts built through trainee programmes may have positively affected further business activities, as the Chinese valued continuity in personal relations.\footnote{121}{For example, Commerzbank proudly claimed to have had the chief economist of Bank of China as a trainee. See HAC-S1/279, Deutsche Banken hofieren China – Als Schuldner ist die Volksrepublik eine Top-Adresse geworden, 21.07.1987.}
Beyond the representative office, contacts were also pursued through different exchanges in the league of bankers and policymakers. Therefore, it is no wonder that Kohlhaussen was appointed by the former Federal Minister of Economics Graf Lambsdorff as the only representative of the German banking industry in the German-Chinese Joint Commission (Deutsch-Chinesische Kommission).\(^{122}\) Furthermore, Kohlhaussen also visited the PRC in the economic escort of the then FRG chancellor Helmut Kohl in 1987.\(^{123}\)

Not only the update in information and cultural understanding but also the technical upgrade contributed to the expansion in the Asian area. Once equipped with telegramm and computers, the efficiency of communication was vastly improved.\(^{124}\) These measures took the Chinese needs and regulations into account and should be considered as investments for long-term returns.

## 5 Conclusion

The efforts of Commerzbank to enter the Chinese market in the 1980s were much more structured and multilayered, compared to its relatively scattered engagements between the 1950s and the 1970s, such as the correspondent banking with Bank of China, minor participation in Deutsch-Asiatische Bank and regular visits to the PRC.

While no one would dispute the role of Hong Kong as a springboard for foreign banks to enter the mainland, it would be wrong to neglect the importance of Hong Kong by itself as a financial centre and the impact it exerted on the mainland in this process. It played a role rather as a meeting place for the bilateral needs of foreign banks and China state-controlled banks. Hong Kong was a buffer zone for the mainland to enter the globalisation gradually, and, above all, voluntarily. Although foreign banks usually attached more importance on Hong Kong due to its promising nexus with the mainland, business with the

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122 The Federal Minister of Economics (Bundeswirtschaftsministerium) was renamed as the Bundesministerium für Wirtschaft und Klimaschutz. The German-Chinese Joint Commission was established to promote the bilateral economic relations on the occasion of the China-visit of the Federal Chancellor in 1975. See HAC-400/2189, Notiz zum Besuch der Bank of China bei der Commerzbank, 23.6.1982.


mainland and Hong Kong was conducted independently, mainly due to the divergent systems of both regions at the time. Synergetic effects were expected by Commerzbank but not yet realised in the 1980s.

Aside from the globalisation which dated back to the nineteenth century, when foreign banks needed to serve the local merchants who engaged in overseas business, the experience in the 1980s suggests that banks tended to enter a market in advance of their customers so as to achieve a proactive advantage. The selective timing mechanism and scientific information system are remarkable in this period.

The following characteristics can be drawn from the case study of Commerzbank in the Chinese market: deregulation, globalisation, and localisation.

**Deregulation** – In the reform and open-up period, China provided the essential prerequisite for foreign banks, as the restrictions on administrative access for foreign banks were removed. The gradual liberalisation in China’s economy offered foreign banks the vision of profitability and expansion opportunities. Multipronged measures were adopted for the open-up reform in the 1980s, while prudency was the fundamental guideline based on a pragmatic outset but also historically determined. It is indeed the prudency which made China a welcomed debtor in the international market.

**Globalisation** – Due to the increasing domestic competition and the pressure from oil and debt crises, Commerzbank was pushed to go global and turn to the attractive emerging Asia-Pacific market for a breakthrough. With Singapore more intensively connected with the East Asia area, the Hong Kong branch served as a front line to access the Asian market and to deepen the connections with China. The successful establishment of the Beijing representative office can be interpreted, on the one hand, as a return for the investment that Commerzbank had been associated with Bank of China and maintained good relations with China for more than 30 years; on the other hand, a result of mutual interests, composed of the European integration, the trend of the global expansion of multinational banks, and China’s need for modernisation.

**Localisation** – When it comes to the activities of the Commerzbank in China, it would be inappropriate to focus exclusively on internationalisation but to omit the bank’s commitment to localisation. Since China began to embrace more business opportunities, Commerzbank kept enhancing its understanding of the Chinese market to compete in a different cultural context by employing a localised team for the Beijing office, providing trainee programmes to its Chinese counterparts. Notably, it diversified financial instruments in trade financing to meet China’s needs, extended its business spectra to project financing and bond issues, and updating its risk assessments. All these measures reflected not only
the continuity of *Commerzbank*’s activities in China since the 1950s but also emphasised the of the bank in adapting to local policies and conditions.

So although it was impossible to set up a branch in China in the 1980s because China wanted to protect its embryonic banking system by excluding foreign rivals, *Commerzbank* did make significant progress in this market.

### 6 Appendix

**Tab. 1: Commerzbank’s Involvement Overseas, 1953–1980.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Representative Office</th>
<th>Branch</th>
<th>Subsidiary / Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>Rio de Janeiro</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Madrid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1955</td>
<td>Amsterdam (till 1961)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>Beirut (till 1980)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>Buenos Aires,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Johannesburg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>Tokyo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td>New York</td>
<td></td>
<td>International Commercial Bank Ltd. (ICB), London* **</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>UNIBANCO - Banco de Investimento do Brasil S.A. (B.I.B.), Rio de Janeiro</td>
</tr>
<tr>
<td>1969</td>
<td>Sao Paulo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>Mexico, Sydney*</td>
<td></td>
<td>New York</td>
</tr>
<tr>
<td>1973</td>
<td>London</td>
<td></td>
<td>Europartners Bank (Nederland) N. V., Amsterdam</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>UBAE Arab German Bank S. A.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Luxemburg/Frankfurt</td>
</tr>
<tr>
<td>1974</td>
<td>Copenhagen*, Teheran*</td>
<td></td>
<td>Chicago*</td>
</tr>
<tr>
<td>1975</td>
<td>Kairo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>Moscow, Bahrain*</td>
<td></td>
<td>Paris*</td>
</tr>
<tr>
<td>1977</td>
<td>Jakarta</td>
<td></td>
<td>Brussel*, Tokyo</td>
</tr>
<tr>
<td>1978</td>
<td></td>
<td></td>
<td>Antwerpen*</td>
</tr>
</tbody>
</table>
Continuation Tab. 1:

<table>
<thead>
<tr>
<th>Year</th>
<th>Representative Office</th>
<th>Branch</th>
<th>Subsidiary / Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>Toronto</td>
<td>Atlanta/Georgia (Agency) Hong Kong</td>
<td>Commerzbank (South East Asia) Ltd., Singapore Korea International Merchant Bank, Seoul **</td>
</tr>
<tr>
<td>1980</td>
<td></td>
<td>Madrid, Barcelona</td>
<td></td>
</tr>
</tbody>
</table>

* Commerzbank as the first German institute. ** Commerzbank as a founding member.  
Generated by the author based on different sources from the Historical Archives of Commerzbank (HAC).

**Tab. 2:** Commerzbank’s Share in German Foreign Trade with Hong Kong, 1974–1977.

<table>
<thead>
<tr>
<th>Year</th>
<th>German Imports from Hong Kong (DM 1,000)</th>
<th>CB-share</th>
<th>German Exports to Hong Kong (DM 1,000)</th>
<th>CB-share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>1,426,339</td>
<td>21.3 %</td>
<td>590,427</td>
<td>11.6 %</td>
</tr>
<tr>
<td>1975</td>
<td>1,756,670</td>
<td>18.4 %</td>
<td>520,737</td>
<td>9.4 %</td>
</tr>
<tr>
<td>1976</td>
<td>2,393,904</td>
<td>13.5 %</td>
<td>641,115</td>
<td>9.6 %</td>
</tr>
<tr>
<td>1977</td>
<td>2,282,076</td>
<td>11.4 %</td>
<td>692,475</td>
<td>10.2 %</td>
</tr>
</tbody>
</table>

Source: HAC-400/602II, Vorlage zur Eröffnung einer Filiale in Hongkong, 10.05.1978.

**Tab. 3:** Chinese State-Controlled Banks and Their Deposit-Taking Companies, 1980.

<table>
<thead>
<tr>
<th>Name of Banks</th>
<th>Deposit-taking Company / Subsidiaries / Affiliates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CCIC Finance Ltd.</td>
</tr>
<tr>
<td></td>
<td>Kincheng Tokyo Finance Co., Ltd.</td>
</tr>
<tr>
<td>Bank of Communications</td>
<td>Chiao Tung Finance Co., Ltd.</td>
</tr>
<tr>
<td>China and South Sea Bank</td>
<td>Chung Nan Finance Co., Ltd.</td>
</tr>
<tr>
<td>China State Bank</td>
<td>The China State Finance Co., Ltd.</td>
</tr>
<tr>
<td>Chiyu Banking Corporation</td>
<td>Chiyu Finance Co., Ltd.</td>
</tr>
<tr>
<td>Hua Chiao Commercial Bank</td>
<td>Chiao Yue Finance Co., Ltd.</td>
</tr>
</tbody>
</table>
Continuation Tab. 3:

<table>
<thead>
<tr>
<th>Name of Banks</th>
<th>Deposit-taking Company / Subsidiaries / Affiliates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kincheng Banking Corporation</td>
<td>Kincheng Finance (HK) Ltd. / Kincheng Tokyo Finance Co.</td>
</tr>
<tr>
<td>Kwangtung Provincial Bank</td>
<td>Five Rams Finance Co., Ltd.</td>
</tr>
<tr>
<td>Nanyang Commercial Bank</td>
<td>Nanyang Co., Ltd.</td>
</tr>
<tr>
<td>National Commercial Bank</td>
<td>Che Hsing Finance Co., Ltd.</td>
</tr>
<tr>
<td>Po Sang Bank</td>
<td>Po Fung Finance Co., Ltd.</td>
</tr>
<tr>
<td>Sin Hua Trust, Savings and Commercial Bank</td>
<td>Sin Hua Finance Co., Ltd.</td>
</tr>
<tr>
<td>Yien Yieh Commercial Bank</td>
<td>The Yien Yieh Finance Co., Ltd.</td>
</tr>
</tbody>
</table>

Source: Y.C. Jao, Hong Kong’s Role in Financing China’s Modernization, in: A.J. Youngson (Ed.), China and Hong Kong The Economic Nexus, Hong Kong 1984, p. 36.

Tab. 4: Commerzbank’s Share in West German Foreign Trade with the PRC, 1973–1989.

<table>
<thead>
<tr>
<th>Year</th>
<th>Share in West German Imports from the Mainland</th>
<th>Share in West German Exports to the Mainland</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>ca. 22 %</td>
<td>ca. 61 %</td>
</tr>
<tr>
<td>1974</td>
<td>ca. 25 %</td>
<td>ca. 55 %</td>
</tr>
<tr>
<td>1975</td>
<td>ca. 22 %</td>
<td>ca. 45 %</td>
</tr>
<tr>
<td>1976</td>
<td>ca. 20 %</td>
<td>ca. 31 %</td>
</tr>
<tr>
<td>1977</td>
<td>ca. 18 %</td>
<td>ca. 29 %</td>
</tr>
<tr>
<td>1978–1987</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1988</td>
<td>ca. 11.8 %</td>
<td>ca. 19 %</td>
</tr>
<tr>
<td>1989</td>
<td>ca. 11.3 %</td>
<td>ca. 19.7 %</td>
</tr>
</tbody>
</table>


**Bionote**

**Yi Liu**