

# SEVEN

## THE UNEASY RELATIONSHIP BETWEEN TNCs AND STATES

### *Dynamics of Conflict and Collaboration*

Deutsche Bank, a large German universal bank, is a good example of the complex relationship which corporations have with states. As the name indicates, Deutsche is German in origin, but in recent years, like many large banks, it has attempted to become a globalized, stateless entity. This is particularly pertinent for the financial sector, as all banks must of necessity develop at least a token international presence, and many operate in a number of financial markets. We will thus here consider how a company may attempt to develop a 'stateless' image, and yet continue to have relationships with states, and particularly with its home country.

#### Deutsche Bank in History

Deutsche Bank was founded in 1870, around the time of the unification of the German state. The name was deliberately chosen to reflect the bank's German identity, although Gall et al.'s history of the bank indicates that from the outset the intention was that the bank should be cosmopolitan in orientation and should maintain international operations. The bank did set up several overseas offices and, later, branches, but its activities were initially curtailed by the domestic focus of the German banking infrastructure and, later, by the impact of the First World War, the German financial crisis of the 1920s, the Nazi dictatorship and the Second World War. Deutsche Bank also faced limitations due to the nature of financial regulation at the time, which frequently favoured national or imperial interests over global expansion, with the UK, for instance, placing restrictions on the activities of non-domestic banks.

During the reconstruction of Germany in the 1950s, Deutsche Bank was eventually re-established and this time was more successful in developing an overseas

presence, driven by the German state's post-war focus on exports, US financial aid and international business links. The state's participation in European integration, eventually leading to the establishment of the EU, encouraged Deutsche Bank in its overseas operations. The increasing deregulation of global markets in the 1970s also furthered Deutsche Bank's activities in the 1980s and 1990s.

## Deutsche Bank Today

Around the turn of the millennium, Deutsche Bank made further efforts to develop itself from a German to an international bank and build a distinct identity in the global sphere, following the globalizing activities of such banks as HSBC and Santander. Deutsche Bank acquired a number of local financial and trading firms, the most prominent being the Anglo-American merchant bank Morgan Grenfell. Efforts were also made to develop a more global structure, with the London and New York branches taking on more prominence in the organization as a whole and with the company emphasizing its global activities over its German roots. This was also assisted by increasing deregulation in the German domestic market, with the rules on mergers and acquisitions being relaxed.

Today, however, Deutsche Bank's situation as regards its globalization can be described as mixed. While it certainly has a strong international presence as a financial institution, its image remains strongly German; this does not preclude the development of a global image (witness the success of HSBC in this regard), but it is still strongly identified with Germany, both in positive terms and in more negative ones (with Deutsche being heavily involved in a number of high-profile cases revolving around profiting from slave labour during the Nazi period). The Morgan Grenfell section has been absorbed into the main bank and does not retain a distinct identity. A general lack of knowledge about the German banking system sometimes causes overseas laypersons to confuse Deutsche Bank with similarly named banks, such as the Deutsche Bundesbank (the German state bank) or the Deutsche Zentral-Genossenschaftsbank (a separate universal bank which is the main cooperative bank in Germany). Significantly, these other banks are also strongly identified with Germany. Deutsche is also prominently featured in the German market, and is listed on the Frankfurt and New York Stock Exchanges. However, the rise of Frankfurt as a European banking capital to rival London has meant an increase in prominence for Deutsche Bank in the European market, suggesting a regional presence.

## Conclusion

In conclusion, while a 'stateless' bank may theoretically be plausible, the Deutsche Bank example indicates how strongly connected states can be with businesses.

The international or domestic focus of Deutsche Bank has waxed and waned with the German state's own legal and policy systems in this area, and it has also been strongly affected by the policies and infrastructures of potential host states, even in its periods of greatest global expansion. States thus remain key players in global markets and in the development of global production networks.

## QUESTIONS

1. How closely would you say Deutsche Bank's degree of internationalization is linked with state policy, and how much with wider global financial trends?
2. In your opinion, can a business ever be truly independent of the state? Justify your answer.
3. What sort of state activities can encourage global networking among nationally originating businesses?
4. Why might states encourage companies such as Deutsche to develop a global presence, knowing that this might lead to reduced immediate financial benefits for them?

## FURTHER READING

- Gall, Lothar, Feldman, Gerald D., James, Harold, Holtfrerich, Carl-Ludwig and Büschgen, Hans-E. (eds) (1995) *The Deutsche Bank 1870–1995*. London: Weidenfeld & Nicolson.
- Pohl, Manfred and Burk, Kathleen (1998) *Deutsche Bank in London 1873–1998*. Munich: Piper Verlag.
- Quack, Sigrid and Morgan, Glenn (2000) National capitalisms, global competition and economic performance: an introduction. In Glenn Morgan, Richard Whitley and Sigrid Quack (eds) *National Capitalisms, Global Competition and Economic Performance*. Philadelphia, PA: John Benjamins. pp. 3–24.