

# Internationalisation of the Italian banking system. The impact on the Italian economy

Silvia Grandi<sup>1</sup>

**Abstract.** During the last decade, the focus of political and economic geography on international trade and the expansion processes of the Italian economy on foreign markets has been rather marginal. This probably depends on the fact that this area is considered a traditional field of analysis of the discipline. By contrast, the development of Italian trade flows particularly in support of Small and Medium Enterprises (SMEs), have been extremely relevant. This paper provides an overview of the evolution of Italian banking and internationalization system, with focus to services, policies and the distribution of foreign trade. Preliminary results on banking services for internationalization and international trade support are provided and, in the concluding remarks, further research steps are provided.

**Keywords:** banks, geofinance, internationalisation

## 1. Introduction

One can find endless scientific, institutional and professional publications on international trade and internationalization processes or offshore banking, but only a few focus on the internationalization process of banks and other financial institutions. This is even more true for the Italian case: here this subtopic has attracted only few geographers (Lucia, 1999; Pegorer, 2014; Sellar, 2015) or scholars in other field studies (Padoan, 2000; Ministero dello Sviluppo Economico, 2001; Oriani, 2006).

Something similar happens in relating banking and small and medium size enterprises (SMEs) internationalization processes. One can find Italian significant scientific publications on local systems and industrial districts, starting with the seminal works of Bagnasco (1977) and Beccattini, (1979), but - despite citing it as a key innovative process as response to globalization (Corò and Rullani, 1998; Quinteri, 2006; etc.) – a few highlight the role of banks and other financial institutions.

As far as Italian geographers, the field of international trade and internationalization patterns has been the core of a SGI-CNR research project<sup>2</sup> in the 90s (Celant, 1999), but lately the focus of political and economic geography on international trade and the expansion processes of the Italian economy on foreign markets has been rather marginal and, eventually, related to financial flows and financialization processes (Lucia, 2010; Parenti and Rosati, 2016).

After the bibliographic review, one could conclude that banks are not significant in international trade and internationalization of firms. Is this conclusion true? Being banks among the private organizations closest to industrial and commercial enterprises (including SMEs) and knowing the significant support to internationalization processes of public policies and its agencies such as Ice, Sace, Simest and Cdp (*Cassa depositi e prestiti*) we might deem that this is not the right conclusion. With this framework, this paper presents the preliminary results of a research study aimed at analyzing – with an interdisciplinary and an economic and finance geography perspective – the relationship between commercial banks and internationalization of firms, starting from the Italian case. This paper aims at contributing to the literature in two ways, first in reviewing the literature, secondly to present a preliminary set of data analysis that relates the patterns of trade and the role of the Italian commercial banking system. In particular, the methodology applied involved preliminary interviews, real life observations, banks' website analysis and official statistical data collection. First, the analysis has been done with a geo-historical approach linking the local development theories to the history of banking. Secondly, data and spatial analysis relating Italian

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<sup>1</sup> Università di Modena e Reggio Emilia, [silvia.grandi@unimore.it](mailto:silvia.grandi@unimore.it).

<sup>2</sup> It is significant to mention the researches done in the 90s by Italian economic geographers: “*Ricerca e studi geografici applicati all'economia italiana anche nelle sue proiezioni internazionali e nella realizzazione di natura territoriale-ambientale*” and “*Processi di territorializzazione e regionalizzazione dell'economia italiana*” supported by the SGI – Italian Society of Geography and the CNR - Italian Council of Research (Celant, 1999)

internationalization patterns to those of banks corporate strategic choices has been carried out with GIS support.

## 1. Banks, SMEs and internationalization: an Italian system overview

In a geo-economic perspective and recalling the *path dependency* approach, it can be argued that the evolution of the Italian commercial bank and the other forms of credit services have been intertwined with that of SMEs, leading to mutually inter-influencing processes of adaptation, synergies, stimulus as well as conflicts and crisis. Traditional Italian economic history manuals position the birth of the modern banking system to medieval and Renaissance Italy and particularly the affluent cities of Florence, Pisa, Venice, Amalfi and Genoa. The latter were port-cities, key in relaunching the international maritime trade routes whilst Florence became extremely relevant thanks to the birth of a pre-industrial set of SMEs producing high quality goods. From an historical perspective, this organizational pattern is considered the basic root of the development of Italian SMEs economic system. In this ecosystem the letter of credit was invented, one of the most traditional and fundamental tool that has created the basis of the modern international trade market and firm international expansion processes.

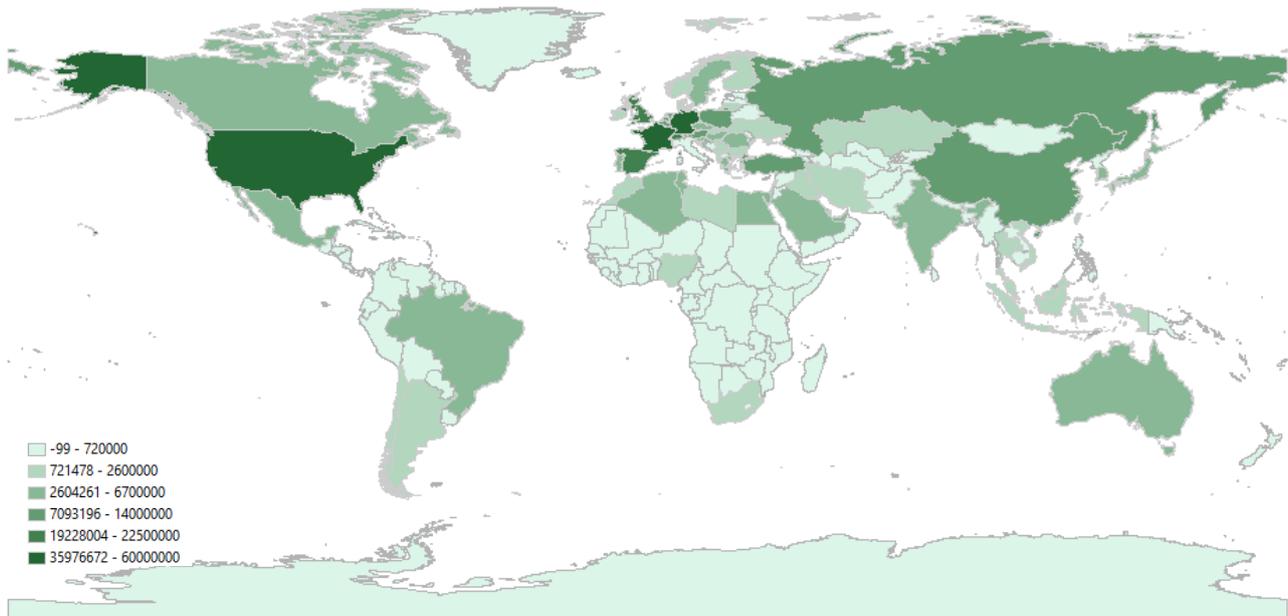
However, in the late 21<sup>st</sup> Century the structural and specialization characteristics of Italian industry, with a prevalence of SMEs - have led to significant delays in the process of internationalization of the Italian economy. Similarly, recalling the “weaknesses of size struggle”, Lucia (1999) reported that the insufficient size of Italian credit institutions and restrictive institutional policies have led to a serious international presence deficit of the Italian banking system in the ‘90s. Moreover, a study performed by IAI for the ABI (Padoan, 2000) showed that in the early 2000s the adequacy of the financial services offered by Italian banks to support the process of internationalization of businesses showed the tendency of Italian banks to concentrate foreign business more on the provision of currency than on the retail market, to behave in a conservative position regarding country risk, to operate with difficulties in credit segments such as buyer credit and forfaiting (*ibid.*). On the basis of this analysis, policy recommendations were given and, as of the year 2000, a revamping set of policy measures were focused on international trade and internationalization processes. Among them one can list: (a) promotional and financial initiatives such as the strengthening of financial support instruments for SMEs improving the Italian Ministry of Economic Development budgetary lines as well as the role of Sace, Simest and CdP (special agreement ABI-CdP called “Export Banca” on buyer’s credit, etc.); (b) regular institutional economic diplomacy activities and missions to target countries; (c) the definition of a specific initiatives on country risk; (d) increasing the level of collaboration between Italian banks and multilateral development institutions such as EU programmes (COSME in particular), European Investment Banks and other international banking system; (e) the reform of ICE and (f) a worldwide “Made in Italy” national brand campaign.

The globalization and a strong push of the Italian economic explicit and implicit policies towards foreign markets have shown significant numbers leading in 2016 in supporting about 100.000 firms and with financial publicly subsidized services of more than 10.000 million euro when summing Sace, Simest and CdP new financial commitments (ICE, 2016, p. 55).

In addition, official data shows that exports both in volume and value has been growing from 2009 (Italian Ministry of Economic Development, 2017; ISTAT, 2017) and the propensity to export, as the percentage of export of goods and services over gross domestic product (GDP) is rising for all types of enterprises, including SMEs (ICE, 2016).

The spatial distribution of exports in value (figure 1) shows clearly the concentration of Italian firms behavior, i.e. acting in a pattern that the Italian Ministry of Foreign affairs describes as “*a cerchi concentrici*” (Concentric circles), i.e. with higher intensity in “closer” area (intended both in term of distance and/or cultural and political affinity) and then lowering the intensity. In a way, the BRIC countries and Australia: Brazil, Russia, India, China are partially an exception.

**Figure 1.** Italian export by value in euro (by Country) – 2015 data



Source of Data: Ministero dello Sviluppo Economico, 2017  
 Shp: Esri, 2002 elaborated by S.Grandi, 2017

## 2. Banks international services: categories and organizational patterns

The propensity of Italian banks to operate actively in the markets around the world has increased from the '80s. This can be related to the globalization processes of the world economy and to the progressive loosening of many regulatory and currency constraints which has long been subject to international activity. Another driver is the development of mobility and the increase of data about products, firms, financial and people, providing the possibility to provide innovative services based on the intelligent analysis of this information.

The range of banking products available to companies with an international reach is getting wider and it can be useful to create some categories recalling organizational studies and strategic management and geographical linkages similarly to the approach of Knigh and Wójcik (2017).

First of all, banking services for international trade and internationalization can be classified in two groups, those relating to business and those relating to financial needs. Secondly, according to the channel of communication (*off-line* or *on-line*) and the level of customization another categorization of bank-to-customer services can be identified:

- *quasi-commodity services* (i.e. international bank transfer, exchange rates, etc),
- *banking financial services for foreign markets* (i.e. country/sectoral information, letter of credits, export credit loans, payment guarantees, export insurances, bills of exchange, promissory notes, etc.) to be managed to meet the customers' needs, flows and currency risks derived from the contractual commitments assumed, and
- *specialized and customized advanced services* (i.e. international partner searches, public funding support services, strategic consultancy, etc).

In order to launch a series of international market penetration strategies, firms - especially SMEs - require information resources on products, competition, national laws, business culture tips, trade fairs and contracts that make up the environment in which they are going to develop the new ventures or expand the first experience in that country and internationalized banks might have a privileged position on several of this points both for the access to a large set of data ("big data"), specialized databases and real life experience.

Therefore, banks can play, with internal resources and functions, fully or partially, the role of advance service producer, that often is played by specialized consultancy companies (export service

firms, strategy firms, etc.) or publicly supported bodies (Italian Trade Commission, Sace, Simest, bilateral chambers of commerce, export consortia, internationalization support desks such as SPRINT, etc.).

This potential privileged situation led to position commercial and retail banks often as intermediary between national, European and international institutions (i.e. Sace, Simest, CdP, European Investment Bank, world banks and other international development banks, etc.), but not all Italian banks value this possibility, just part of them. An indicator of Italian commercial bank's strategy can be found analyzing one of the most recent policy instrument that acts in this perspective has been the ABI-CdP agreement "Export Banca", a synergic way to provides in an integrated way financial support to banks for the benefit of firms, especially SMEs. In 2014, the number of banking groups participating to this agreement was 16 and, significantly, nearly half of groups are not Italian (ABI, 2017a). The results of four years of activity of this tool create the possibility to support about 100.000 firms in international trade and internationalization initiatives for plafond that from 4.5 billion (ABI, 2013) has been raised to 15 billion euro in 2015 (ABI, 2015).

### 3. Towards a research agenda

This paper has highlighted that scientific geographical studies on the Italian banking system and internationalization has not been significant in the last decade. The preliminary results of the research suggest that the main characteristics of Italian banks' internationalization service showing that in the latest decade significant changes occurred thanks both to policies and to corporate strategies.

Foreign activities of Italian banks are certainly positive for driving international trade and internationalization processes of Italian firms, including SMEs. However, it does not seem the only factor supporting firms: very relevant are still public support, other advance service providers and entrepreneurial risk and management skills.

In this paper, the analysis has been approached mostly with classical theoretical background both of organizational studies and in economic and finance geography. However, more innovative methodological approach can be considered in a future development of the research.

Overall, the analysis shows a potential for more work regarding the geography of banking and its relations with organizational, economic, cultural and political factors and, last but not least to local and regional development. Among potential future development of this research one can list:

- a further conceptualization of the bank-firm relation when 'going international';
- a wider creation of a dataset valuing the possibility of big data analysis of microdata (i.e. on financial fluxes, accounting data, etc.);
- the creation of a larger GIS to perform overlaying analysis;
- the analysis of the behavior of banks group of other countries;
- a stronger analysis of the relationship with FDI and with processes of frontier finance;
- the evaluation of the impact of digital financial services and other technologies in the process (so called 'fintech').

Finally, policy recommendation should be an output of this potential research agenda.

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