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FRANCESCO CITARELLA[1]

INTERNATIONALISATION OF THE ITALIAN ECONOMY AND THE ROLE OF BANKING IN RESHAPING THE SME VALUE CHAINS

1. *Internationalisation of the Italian productive system*

The process of Internationalisation has been characterised by rapid expansion during the past two decades in Italy as well as at global scale. The process implies much more than just foreign investment on the part of SMEs and includes the capacity to attract foreign capital[2].

A globalised or internationalised economy, i.e. globalisation, defines the growing interdependence between economies (Bordo *et al*., 2003). During the past three decades, inter-country economic interdependence has become more intense and operates through trade, the labour force, information and technology exchange, productive investment and financial capital flows. This implies structural change which has impacted on the technical and economic potential of production processes, localising individual phases and 'activities' in different areas of the world in a centralised process. In other words, goods and services now produced globally make products in one country highly dependent on economic activity in a range of other countries (Helpman, 2006; Baldwin, 2012; Grossman, Rossi-Hansberg, 2008).

Furthermore, globalisation has restructured traditional models of production and economic-political relations and has redefined the priorities of States and Governments subordinating them to the laws of free trade and the marketplace.

Within this scenario, Companies have exploited the opportunities offered by globalisation both through vertical and horizontal integration processes, (the former privileging entry to multinational economies and transnational companies, the latter in terms of acknowledging the value of foreign trade in national economies). Globalisation however, also implies greater sustainability and social costs and drastic changes in the nature of economic relations. In this respect, only if economists and politicians work together will it be possible to create a sustainable economic model of reference.

2. *Variables underpinning internationalisation*

In the internationalisation process, cutting production costs is not necessarily a priority for enterprise. The basic aim of Companies is through specific entry strategies, to penetrate markets in foreign countries with greater potential for economic and commercial development to acquire significant market share.

Internationalisation far exceeds the spectrum of trade and economic transactions. Having pervasive implications on politics and society, the process has become a powerful driver of integration and

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[2] Italy is classified in terms of stock and foreign investments as the least active of the most important European partners.

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change in Society and represents the foundation on which the complex process of globalisation stands.

A series of variables underpinning the process are implied in internationalisation strategies. Crucial elements involve the choice of markets or geographic area. Companies starting on the internationalisation path have to carefully analyse both the choice of location of their investment and major variable macroeconomics characterising the markets in a given period[3].

In this context, the analysis of Foreign Direct Investment flows (FDIs) can guage trends in international trade and the way in which a particular market attracts productive foreign capital. The self-propelling process triggers a virtuous cycle of growth. In addition, companies have to assess the extent of development of its own particular market segment taking into account saturation levels or whether a particular industry has developed to a sufficient extent to offer opportunities for sub-suppliers[4].

The analysis in economic and legal terms of new markets also has to take into account the corporate objectives envisaged in the internationalisation process which also depend on a company's structure and size.

A driving factor of internationalisation is the search for new outlet markets whereby corporate growth goals are achieved through the retail of products with competitive advantage, the use of resources and knowhow that already characterise the enterprise, or the desire to exploit delocalisation benefits and those deriving from economies of scale. Moreover, internationalisation is also privileged by virtue of the low cost of raw material and labour characteristic of most emerging markets[5].

In short, success in acquiring significant market share in the country where a company has internationalised, not to mention flexibility and cost control helps to penetrate not only neighbouring markets, but also where companies face intense competition such as markets at American and European scale.

2.1. *The Italian scenario*

The Italian industrial fabric, distinguished mainly by SMEs, impacts inevitably on their relevant internationalisation strategies. Frequently, businesses decide to start on the internationalisation path provided with investment opportunities, but lack strategies to drive the process of long-term internationalisation[6].

As far as Italian SMEs are concerned, their distinctive feature in internationalisation processes is that they are not always aware of their positioning within the internationalisation scenario. The 'experience' of most SMEs is indirect or what Cafferata (1993) and Rispoli (1994) call 'objective' forms

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[3] Low tax levels, less local bureaucracy, acknowledgement of major international conventions on international law, and the launch of fiscal and legal liberalisation processes are factors that inevitably have affected the choice of markets to invest in.

[4] The absence of a precise strategy can adversely affect the final result that the company intends to achieve. Uncoordinated internal and external activities inevitably lead to higher costs, make the company unprepared for short-term strategies and incapable of defining those needed to respond to the shocks typical of emerging markets.

[5] Italian SMEs operate as 'chain' end rings, fine-tuning the finished product and serving a domestic or local market, but buying from an international chain of goods and services or manufacturing intermediate goods and services for industrial users who they serve on an international market.

[6] Together with the low cost of production factors, such markets also offer great potential, both in terms of prospective consumers and in geographical terms. In fact, many of these countries could become eventual logistic platforms and production centres relevant to export to other countries. This would allow these companies to expand their presence on foreign markets by gaining new market shares and, ultimately, significantly reducing the costs associated with internationalisation.

of internationalisation. In other words, SMEs can have links with international environments, independently of penetrating foreign markets for the direct placing of their goods or services. In addition, even when a proper internationalisation strategy is in place, SMEs - as well as and even more so than large companies - come up against two major limitations: the liability of foreignness (Nachum, 2015) and the liability of newness (Schoonhoven, 2015).

Inevitably, due to such constraints, Italian SMEs have opted for the export mode, with little propensity for foreign investment. In most cases, internationalisation on the part of Italian SMEs has involved the finished product rather than activities upstream of the value chain. For these in the main, even in the case of decentralisation, local territory is exploited proficuously in terms of resources and suppliers.

In short, the preference for less 'demanding' modes of internationalisation has undoubtedly underpinned the governance models of businesses. The focus on the family nature of an entrepreneur's business for example, implies an excessively limited use of managerial figures and structured forms to adequately address the challenges of internationalision.

However, as Grandinetti and Rullani (1996) point out, Italian SMEs foster a 'natural' relationship with internationalisation, given that their niche skills can only create value through sales worldwide. The competitive advantages of Italian businesses are mainly deeply rooted in the territory, motwithstanding being intrinsically of a 'global' nature and exploitable internationally without needing to adapt supply to different markets.

In other words, essentially they are the core features of Made in Italy: products/supplies that are particularly suited to niche but at the same time, global markets. Furthermore, the products are in the luxury goods category targeted at top bracket segments of the market, thus price levels and margins of profitability can often withstand even high production differentials compared to low-cost producers.

On the other hand, a more detailed analysis reveals that the path of internationalisation is still far from completion (Grandinetti, Micelli, Rullani, 1993). One reason is the selective nature of such processes, in the sense that they are often only limited to a few functions and activities of the value chain (predominantly sales). Another reason is that often, no clear-cut strategy of internationalisation that sums up a series of strategic choices is evident.

Moreover, if it is true to say that the export mode is still the most suitable to support the internationalisation of Made in Italy products or services, the lack of a structured approach to international operations appears to be a potential weakness factor. The scenario is gradually changing however by virtue of trends such as: the growing scale of markets (with related problems of corporate size); competition coming from new players worldwide, and the delocalising trend on the part of Western enterprises towards low-cost countries.

To date, Italian entrepreneurs have favoured a more qualitative as opposed to a dimensional approach, preferring to enhance and strengthen the system of relations at local scale (territorial district) rather than growing rapidly and risking loss of control. Notwithstanding, in the future, when markets open up even further globally, enterprise size will be of the utmost importance in achieving competitive advantage. In order to govern their growth, SMEs will have to radically change their traditional governance and management models.

Differentiated internationalised business models, taking into account sectoral and corporate typologies, are equally suitable and effective and all concur in achieving the goals of internationalisation.

3. *Internationalisation, Finance and Banking Services*

Internationalisation processes require adequate financial resources as entry into countries that are often geographically distant entails additional costs linked to the diverse legal systems and linguistic and cultural barriers.

Generally, banking services in support of SME internationalisation and production are divided into three sectors: cash loans (including ordinary loans, those specifically for export or import transactions, so-called trade finance), risk cover (including letters of credit protecting exporting companies from foreign insolvency) and information and business support services.

Given the link between financial constraints and internationalisation, international business activities are generally more credit-intensive and therefore have greater funding requirements[7]. On the other hand, financial constraints affect non-internationalised SMEs more compared to those already present on foreign markets, which are more productive and efficient and tend to possess higher levels of liquidity and self-financing (Minetti, Zhu, 2011)[8].

Trends suggest that financial constraints, although not the major obstacle to SME internationalisation impact more in particular periods or in relation to certain forms of businesses. In this respect, analyses promoted by the Italian Institute of Statistics (ISTAT) indicate that the lack of funding constitutes a penalising factor for exports, particularly in the field of instrumental goods, where multi-annual tenders/orders are more frequent. However, it is worth pointing out that the SMEs that renounce internationalisation attribute their choice to organisational or information factors rather than to financial constraints (Cristadoro, D'Aurizio, 2014).

Notwithstanding, the financial integration of the world economy, the revolution in digital technologies, trade agreements that have reduced tariffs and other barriers and the abolition of transport costs have all contributed to a new technological paradigm that has changed the organisation of production processes and expanded the range of goods and services. As a result, the international division of labour has intensified and production processes structured according to Global Value Chains (GVCs) have enabled comparative advantages between different countries. In other words, the internationalisation of the intermediate goods market.

On the other hand, the drop in world trade, well in excess of GDP and industrial production has stimulated in depth studies on the part of numerous scholars (Bems *et al*., 2013). Reasons range from the financial crisis (the *credit crunch*), which has also affected trade finance to the predominance of GVCs and such studies reveal interesting implications on the reactions to the crisis in Italy. Several works highlight that the impact of the crisis on enterprises depends on their position in the GVCs (Altomonte *et al*., 2012; Barba Navaretti *et al*., 2011). Companies classified as the most productive make significant FDIs, those classified in terms of intermediate productivity rely on outsourcing while the last group remain vertically integrated within their home country. These data have been empirically tested and confirmed through various studies (with reference to Italy, Federico, 2010). Within this scenario, other findings from research indicate that the marked differences in business characteristics are directly linked to positioning in the GVC supply chain with intermediate production units the least dynamic, in other words SMEs, implementing strategies that do not entirely cover innovation, human capital and internationalisation. However, in sum, the impact of the crisis was shown to be

[7] Thus, especially higher fixed costs (Feenstra *et al*., 2014, Manova, 2013); additional factors that in the case of exports lead to an increase in the use of bank intermediaries are linked to the need for protection against the foreign insurer's risk of insolvency and the greater distance between seller and buyer, which determines a longer interval between production and delivery of the goods (Chor, Manova, 2012).

[8] Also on the part of the Credit Institutions, the tendency to select the least risky subjects in times of crisis could help to protect internationalised firms to a greater extent (*flight to quality*).

quite uniform in the companies present in the GVCs, depending on their role as end-users or intermediaries and their ability to pursue aggressive and innovative strategies (Accetturo, Giunta, 2014).

In the context of productive internationalisation nonetheless, Italy lags behind other major European countries in terms of foreign investment depending on whether incoming FDIs are the terms of comparison in that the industrial fabric, made up mainly of SMEs far less inclined to face the high costs and risks associated with manufacturing abroad, with the relevant implications for settlement or involvement in foreign markets. However, it should be pointed out that during the last decade, Italian foreign investments have increased in the most intensive technological sectors and in Asian and emerging countries, due to the dynamism of SMEs attracted by the growth prospects of the above-mentioned economies.

Notwithstanding adequate support of SMEs is fundamental for entrepreneurs to deal with global market changes save influencing decision making or risk prevention. Policies of support for SMEs should entail rewarding innovation and not involve risk unless such policy is devised as a response to specific market failure. In similar circumstances, changes in the global market could impact heavily on smaller businesses (i.e. those operating in the GVCs or in economies such as Italy, where SMEs are the prevalent form of enterprise).

To support SMEs with interests in export, efforts should be put in place in order to create open markets via trade negotiations and to ensure legally valid instruments applied to third countries in defence of trade not to mention the application of global trade rules and regulations and the support of domestic markets, without neglecting the issue of symmetrical access. In short, SMEs should be guaranteed against trade barriers in terms of low or non-tariffs.

4. *Concluding remarks*

Trade policy strategies should envisage the enhancement of productive specificities, partnerships to ensure access to markets to develop and above all coordinate with SMEs to enable them to deal with the complex process of trade negotiations. More generally, policies should be designed to meet SME needs given the gap between how SMEs consider obstacles to internationalisation and where such obstacles are perceived by policy makers. Practical and accessible support measures on the part of local and national intermediaries, SME experts, and the business links should also be provided. At the same time, effective pathways should be devised to assist SMEs in terms of intermediation, tax relief, punctual payments and measures contributing to the rapid distribution of funds, especially for the sectors of economic activity most exposed to the pressures of globalisation and the recession.

Equally important is support for SMEs to provide a skilled and knowledge-intensive workforce given that SME competitiveness is guaranteed by high-level skills, particularly in areas such as engineering, technical maintenance and construction. The putting in place of such expertise will contribute to tackling global changes, promote European partnerships and long-term cooperative projects between SMEs, Management, Universities and Research Institutes in emerging economies. Networks that are strategic for globally active SMEs should also not be underestimated. In this respect however, the EU has not fully exploited its potential to improve the position of SMEs as exporters to third-country markets and importers from such markets. In this context, of particular interest is the role that the EU and the Member States can play in supporting SMEs that are sufficiently competitive to operate as Initial & Intermediate enterprises (I&I) in GVCs. Thus, innovation in the real economy is important, especially in complex economic, socio-environmental scenarios. It is crucial that policies provide a timely response to new challenges, be prepared for assessment on tangible elements of quality and create open dialogue with relevant stakeholders to exploit best practices and outcomes.

At European Union scale, in addition moreover, existing and operating institutions and intervention tools, including Structural Funds and the European Investment Bank (EIB) Quantitative Easing could be renewed and integrated within the new industrial policy to radically change operative methods. In the long term consequently, policies of dedicated Institutions, such as the above mentioned EIB or European Industrial Agency should be defined more consistently with the objective of reforming the EU country production structure[9].

It is a commonplace that growth, development and employment are extremely relevant issues and are the foundations underpinning the focus for reflections on future policies. However, Italy has been able to recover competitiveness only in part, given her endemic incapacity to define efficacious economic policies capable of steering economic recovery. Reviewed policies should include specific drivers to increase market share at home and abroad in the economic context of reference, in particular that of SMEs. More credit should be available, fluctuations in financial markets should be dealt with, consumption triggered and more balanced international agreements strived for. Not least, the impetus deriving from globalisation and the innovative digital revolution also have to be exploited. At the same time, legal reforms already delineated in 2014 require putting in place together with the dissemination of new digital brokerage platforms within the Community, the increasingly important role of technical standards and the changing need to regulate the free movement of goods and people and the freedom of settlement in internal and international markets. In recent years, credit and credit support policies and instruments have been insufficient to divert trends away from the growing credit crunch in the SME business system. The main tool available to SMEs and to date still sustained by significant resources, is the Central Guarantee Fund, intervention that has created, in Italy in a short period of time, the most important publicly guaranteed financial instrument which is growing constantly to an exponential degree.

Despite the success of the Fund however, equally important accompanying skills of the same to market needs have not been observed. This prevents the Fund from becoming the target of firms actually in need of public intervention and from becoming progressively functional to the needs of banks undergoing losses observable from the exponential growth of operations of 'direct collateral' to mitigate the absorption of Credit Institution capital. This trend, uncountered by appropriate reform policies, has led to ineffective allocations and dissipation of large amounts of public resources, also resulting in a shift in confidence of trusted intermediaries, as natural support for certain categories of businesses, and to ensure access to credit and finance to weaker and smaller businesses.

In short, from the analyses carried out, a positive, consistent and defined government strategy has emerged in support of SME internationalisation processes, despite the complicated economic and productive environment, addressed mainly to the growth of new product sectors and to the support of innovative performance of traditional sectors competing on global markets.

On the other hand, taking into account that SMEs are particularly active in Made in Italy production, and that they play a more consistent role in production where national traditions are most exalted, it is therefore the responsibility of public Institutions to consider the relationship between dimension-supporting operations and cultural incentives favouring the penetration of SMEs onto foreign markets.

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[9] The funding of an EU industrial policy should be put in place via European resources thus avoiding the onus on the national budgets of countries in economic difficulty. The size dimension considered adequate for implementing an Industrial Policy Programme as envisaged by Euro Memorandum should also be taken into account.

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ATTILIO CELANT[1]

THE BANK/TERRITORY INTERACTION IN THE COMPETITIVENESS OF PRODUCTIVE SYSTEMS. AN INTRODUCTION

In Italy, to date, the overcoming of the longest and most complex economic crisis since the Second World War is not as clear and certain as it is optimistically believed. The fact itself that the positive evaluations on the "conjunctural" or "structural" nature of the good GDP growth in 2016 (a few decimals above the forecasts) have involved politicians, bank leaders and trade unions, reveals that there is a strong persistence of a need for reassurance and self-persuasion, rather than a refined reading and interpretation of a complex phenomenon: an unconscious attempt to chase away the fear of unwanted developments of a complex and partly unknown reality, rather than a closing point on the past. Yet economic recovery signs are clearly visible. These signs obviously play a significant psychological role, but also foster actual economic expansion, even regardless of the controversial data on productivity in the various sectors of Italian economy and on the "quality" of the newly created jobs. The Italian economic system is generally poorly competitive – a good level of competitiveness is currently observable only in some specific sectors. In general, Italy is called to overtake several vulnerabilities on specific aspects of the its productive system.

In Italy, several productive sectors are affected by serious critical aspects: among them, we can include the digital world, the technological innovation, the public sector, the banks, the whole financial system and, last but not least, the territorial efficiency. In some of these areas, though, serious and commendable government initiatives have been displayed: the "Digital Agenda", the "Industry 4.0" are excellent examples that, despite some difficulties in the implementation stages, show promising expectations. Like many other aspects of today's economic life in Italy, some cultural obstacles must be overtaken, before other kinds of practical issues can be faced: for instance, it is not yet widely accepted that the "Digital Agenda" and the "Industry 4.0" topics are nothing but two sides of the same coin. The industrial sector cannot consider the digital world cannot be seen as a mere "service" – a separate activity to be activated on demand to make production more competitive. The digital world, as well as the whole IT segment, is highly integrated within the entire industry and tertiary sectors. The exponential growth of the demand for speed in the flows of information does not merely imply that a broad band and an ultra-wide band must be realized all over the country: it also opens a huge window on the production of hardware and high-tech industrial goods, and on the necessity of technological know-how.

Some critical issues are also present in the banking and in the whole financial sectors, with special reference to in its connections with the territory. In Italy the whole credit system needs to face and solve several systemic problems, that the economic crisis and the lack of productive growth have made more evident and more urgent. The theme of the financial risk is still to be faced, with poor possibilities to be solved in the short term: this problem was once limited to the so-called investment banks, but today it has reached an increasing number of banks (many of them in the so-called retail environment). The repercussions involve both increasing risks for deposits and bonds and, concerning the relationships between the banks and the territory, a progressive loss of interest in other forms of investment: it is the case, for instance, of the investments in infrastructures. It should also be noted that Eurostat's and EU Commission's indicators point out that, in Italy, the performances of the bank-

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ing system are generally favorable, albeit in a more attenuated way than in other European countries. In recent years, the indebtedness of the Italian banks, or, better said, their leverage has significantly improved, while the greater availability of own assets has allowed for good progresses in terms of overall stability.

The Italian banking system, as some contributions have mentioned, is undercapitalised. The subsequent lack of own financial resources, on the one hand, allows the banks to have higher profit rates, but, on the other, it does not grant the whole banking system absolute tranquility and security – especially in the presence of sometimes alarming percentages of NPLs. Some discussions have been promoted and some criticisms have been moved on the lack of transparency of some investments: local and national newspapers have often investigated and reported critical cases. The Italian banking system is furthermore still characterized (and possibly penalized) by a widespread structure based on local small and medium-sized companies, that are inherently poorly equipped to face the challenges of a global market.

The opportunity to reduce the number of credit institutes by increasing their average size is a recurrently spoken mantra, not only for the financial sector, but also for the whole Italian economic system; nonetheless, in many cases it is possible to observe how the interaction between the financial system and the territory, namely between the banks and the local business structure, is starting to produce interesting outcomes – although often not officially recognized, by both some local credit institutes and the whole banking system. Such interaction is constantly and sharply evolving and must be thoroughly explored, by verifying its attitudes towards rationalization and competitiveness of the credit market. For instance, the increasing commitment to brokerage (with special reference to derivatives) and purely speculative operations has led the banks to subtract resources from the productive system (the so-called utility banking): this has produced a negative impact on both the growth prospects of the local businesses and the security of investments. Many actors of the political and economic environment hope that the two components are oriented towards a substantial re-balancing, in order to increase their own securitization and, at the same time, with the aim of allocating funds that will become available to foster the growth of local resources.

As the Basel Agreements impose and the ECB's top leaders recommend, in the presence of a strong fragmentation of the banking system and of an excessive proliferation of the number of credit institutions, corporate policies must pursue incorporation and merging processes. However, with a lack appropriate and specific safeguard guidelines, the growth of the average size associated with the disappearance of typically local small-sized banks, that are, as such, very close to the local productive structure, is likely to produce a further detachment between the banks and the local systems, with their structural features and their operative peculiarities: with this reference, the debate is focused on whether the local dimension should be maintained anyway, or the adoption of an appropriate technology by the large aggregating banks could compensate the privileged relationships between the local banks and the local businesses.

This increasing insensitivity of the banking system towards the local economic structures is not, by itself, negative: there are many evident and largely positive consequences related to the growth of the average corporate size, that takes place through the acquisition of small an less competitive companies. Among other things, we could mention that larger banks tend to diminish the existing asymmetries between the power of the local economic potentates (that sometimes tend to overlap with the shareholders and the owners of the local banks) and the weakness of the bank management, especially when the size of the credit institutions is small and only involves local actors. These asymmetries have sometimes encouraged (or, at least, not hindered) poorly transparent financing operations, which in turn have sometimes fostered a growth of the NPLs, resulting in the introduction of more vulnerabilities in the local credit system. It has to be stressed that these poorly transparent processes are endogenous within small credit institutions, and have solidly contributed to discredit the Italian banking system and to create some overall system fragility.

Despite these and other aspects that should be investigated, it is my opinion that an effective interaction between the banks and the local systems could still contribute to the credit system's success and to the creation of efficient procedures for the funding of local businesses and enterprises – obviously, provided that the banks are perfectly aware of both opportunities and limitations presented by the local systems. Furthermore, it is necessary to thoroughly define the role of the banking system within the relationships between the territory, the productive growth and the economic development – a process that still offers wide margins for the research on the mechanisms underlying the economic growth, especially given the radical transformation of the value chains following the progressive dematerialization of the economy.

An example of this is provided by the so-called "short-termism syndrome", that some authors use to identify an important cause of the financial crisis and the difficulties in overcoming it. As can be expected, the intensive use of short-term fund deployment did not have a positive impact on the local businesses, on their potentials and on their perspectives for productive growth. Even though a trade-off relationship between the short-term investments and the infrastructural investments has not been demonstrated, the latters have dramatically dropped, mainly due to their necessity for long-term, or very long-term commitment, that the banks are nowadays often not available to grant. The resources have therefore moved towards short-term and very short-term investments, that are not necessarily more profitable, but, with high market volatility, are certainly more reassuring.

In fact, the fall in the propensity towards long-term loans has produced a negative impact on the infrastructures required by the local businesses to improve their competitive performances – for example, the renovation of physical structures on which the productivity and efficiency of the system is based, like ports, highways, home-work connections, urban traffic, airports, town planning policies, seismic prevention and the protection of the territory and its physical and functional organization, a delicate and urgent area of intervention. The crucial investments in dematerialized infrastructures, such as the ultra-wide band, the country's digitization process, the funding for technological innovation projects, and so on have been penalized as well.

In the literature, it is perfectly known which features encourage the technological progress, the push to modernize the economy and to create innovation: belonging to large global networks rather than on geographical proximity, the coexistence and the hierarchical rank. In the past, I was able to show like one thing not only does not exclude the other, but how these two modes must interact. The main question is: what could be the role of the banking system and of the relationship between banks and businesses, within the area defined by this new discovery of the importance of the local attitudes? And, subsequently, what kind of nature must the new sensitivities for the dynamic characteristics of the territory have?

On the one hand, the concept of "network" implies the presence of advanced forms of detachment between the enterprises and the territory, of supranational corporations, of connections and flows, which in turn innervate (as origins and destinations) from specific nodes (each associated with its own characteristics, potentialities and strengths); on the other hand, if we want to discuss productive growth, we cannot disregard the local structures, the technological hubs, the apical educational institutions, the technology production, the widespread scientific culture rooted within the main metropolitan areas, the global cities and their innovative potential. In any case, if we expect them to produce the greatest possible propulsive effects on geographic spaces, we must be aware that the reticulated structures such as metropolitan areas, global cities and smart cities require relevant investments – a very crucial aspect, because these structures encompass the strongest productive potentials for economic growth. These investments must be projected with both counter-conjuncture functions, to counter the recessionary phases of the economic cycle (also in the case, recognized by many economists, of so-called long waves), and infrastructure upgrade scopes, for competitive adaptation.

Investments in the local production systems and, therefore, in its features and potentials are of crucial importance: as already mentioned, if the creation of new economic value is based on the growth of productivity and occupation, and the productivity of local economic system cannot disregard the values expressed by the geographic space and its constituent elements. A typical example is provided by tourism. In Italy, tourism is accredited to be worth of, depending on the calculation methods, 10-12% of GDP, with some highest tips (like in the case of the provinces of Bolzano and Trento, Aosta, Rimini) of almost 20% of GDP: tourism has become a strategic asset for Italy's economic growth, along with its critical aspects that could determine the success or decline of even the main tourist locations. For many local contexts, the hospitality sector currently largely integrates the individual incomes and the regional GDP.

There is no doubt that part of the success of a touristic season, is strongly linked to climate factors and favorable meteorological conditions – in other words, to factors that are "external" to tourism organization. It is also true, though, that long-term tourism growth depends to a great extent on land-structuring processes, as well as on other factors such as the effectiveness of promotional and communicative campaigns. In Italy, such processes are partly linked to public funds (even in the presence of private sponsors, like in the case of the ordinary and extraordinary maintenance of the Pompeii site, the goals can only be achieved through a direct participation of the government), but partly depend on the entrepreneurship of the private companies and of their organizational foresight. In the fields of congressional, trade fair and sport tourism, for instance, the availability of adequate structures, where the required activities can be actually carried on, is a basic condition for the formation of a specific market and its flows: such structures can be designed and realized by local administrations, individual entrepreneurs or consortium structures (the vicissitudes of football stadiums in Turin, Milan, Rome and Naples are emblematic).

For all the mentioned activities, that only represent a small percentage of those that might actually be discussed, a supportive relationship between banks, enterprises, territory and institutions is crucial – whether we are dealing with the public (local or national) sector or with individual entrepreneurs and business groups. The bank/territory relationship becomes even more interesting when a good market position is subjected to minimum market sizes, sizes that are far beyond the reach of individual companies, because the productive structure is characterized by the presence of many small-sized companies. The formation of a network of companies, an experience that is now very common across almost all of Italy's territory (an example is provided by the well-known "districts", both industrial and touristic, that have experienced different levels of success), grants – at least in the author's opinion – the Italian territory new operational opportunities, which means, for the Italian banking system, new opportunities for inclusion in the local economic processes and for growth.

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MARIA GIUSEPPINA LUCIA[1]

FINTECH, GEOGRAPHIC SPACE AND ECONOMIC DEVELOPMENT. SOME DIRECTIONS FOR RESEARCH

1. *Open calls via the Internet: crowdfunding*

In recent years, a variety of factors have spurred radical changes in business models and community relations. There can be no doubt that technological developments have had a major role in the organization of production, consumption and in bringing together supply and demand. But the pace of change picked up significantly as a result of the 2007-2008 global crisis, which on the one hand drew scholars' attention to the conceptualization of a monetary and financial ecology[2], and on the other mobilized bottom-up initiatives for overcoming the problems caused by the recession through innovative reformulations of traditional sharing practices.

In today's society, we share and trade via online platforms, where virtual communities meet and interact. The ICT technologies that were initially used only for certain back office operations were rapidly applied to all aspects of providing financial products and services. New FinTech applications have burgeoned, as demonstrated by the statistics available for 2014, when the sector accounted for around 12 billion dollars worldwide (Economyup, 2017).

While an exploration of FinTech in general is provided in the geographic study by David Bassens, Reijer Hendrikse and Michiel van Metereen (2017), our analysis here will center on only one of the many forms of the *new* financial system, crowdfunding.

Taking its impetus from the credit squeeze that followed the financial crisis, crowdfunding is a means of raising funds through an open call in the Internet targeted to anyone and everyone – a crowd, as the name itself implies – who wishes to take part (Belleflamme *et al*., 2013; Mollick, 2013). Originating with initiatives on the part of music groups, environmentalists and philanthropic activists, crowdfunding immediately attracted the interest of small and medium enterprises, start-ups in particular, as well as real estate investment businesses, gaining a prominent position in the FinTech world along with all the other Internet-based financial services addressed to the public at large (Langley, Leyshon, 2017).

In recent years, the capital raised through crowdfunding worldwide has grown sharply, going from 500 million US dollars in 2009 to 2.7 billion in 2012 and 34 billion in 2015, a trend which is expected to continue in the coming years. Geographically, the areas that are most active in this business are the United States and, in Europe, the United Kingdom, but Asia is fast becoming a player on the international scene and could soon join the top ranks in terms of funding volume (Crowdfunding Buzz, 2017; Statista, 2017). Currently, most of the specialized platforms that act as financial intermediaries between investors and ventures seeking financing are concentrated in the United States and the

[1] Universiy of Turin.

[2] The term ecology has come into common use in all disciplines. In geography, numerous studies refer to financial ecology, though it would not appear to have been precisely defined. Intuitively, however, it could be seen as the relationship between the financial economy, sustainability and social equity, or in other words, as it is understood in the neurological sciences, as the "relationship of each thing with all the things around it" (Lotto, 2017). For more detail in the ecology of finance (see Douthwait, 2000).

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United Kingdom (Langley, Leyshon, 2017).

Essentially, it is the same mechanism of transferring resources from parties with a surplus to parties lacking funds which, following the gradual rise of the liberal policies of the 1990s, can be managed by actors other than the traditional ones. But it should be borne in mind that although it can be regarded as a consequence of processes of disintermediation, the differences are substantial. In the Nineties, in fact, regulations governing the liberalization of the financial system were enacted at the institutional level, while the development of information and communication technologies simply played a supporting role, albeit one of primary importance.

In the case of digital finance, on the other hand, the Web itself is the protagonist in organizing financial services, and public powers are called upon to develop an appropriate regulatory framework for the new organization of financial services (Salomon, 2017). The United States and many European countries, in fact, have introduced regulatory measures for eliminating problems of information asymmetry and risk factors, and in particular the risk that investors will be defrauded (Bethlendi, Végh, 2014).

Naturally, in the case of FinTech – and of crowdfunding in particular – as for many others, it must be noted that geographic space is organized along coordinates that differ from the traditional categories, and that consequently geography must devote greater attention to the territorial implications of the changes that have burst onto the worldwide financial scene.

Starting from a brief overview of the many papers published in the English-speaking academic world, the following pages will attempt to outline some of the directions that could be taken by the research conducted by the Work Group on the Internationalization of the Italian Economy and the Role of Credit Institutions in the Reorganization of the SME Value Chain now being set up by AGEI, the Italian Geographers' Association.

2. *Brief analysis of several scholars' views of crowdfunding*

The new ways of bringing together supply and demand on online platforms have been variously interpreted and are still being scrutinized by economic and managerial science, sociology, geography and communication science. In the latter field, the work of Jose van Dijck (2013) constitutes a benchmark for all scholars interested in the FinTech phenomenon.

Among analyses of business economics, particular interest attaches to those investigations that attempt to determine what role bank credit will have in a period when financial services have been irreversibly revolutionized.

At the beginning of the 1990s, faced with the sweeping changes brought about by globalization, market integration and the pervasive presence of technological tools that made it possible to conduct financial transactions regardless of physical location, some scholars had announced the end of geography (O'Brien, 1992). Likewise, provocatively titled recent publications have suggested – though the suggestion is still framed as a question – that we may soon see "the end of banks" (Roux, 2015). A more attentive reading, however, shows that their aim is to warn of the difficulties facing the banking system, which not only seems unable (or unwilling) to learn from the crisis and become more prudent, but must also rise to the challenges posed by "finance otherwise". According to the experts who have examined these issues, if the banks are to maintain or increase their performance in this new setting, they must adopt business models that are better able to respond to the new players' agility in producing and providing innovative financial services and to changing consumer behavior.

If we look at the considerations voiced regarding the nature of the relationship traditional lending and the new platforms, we see a clear difference of opinion. Some scholars, in fact, argue that the rise of financial digitization results in the *disruption* of traditional systems (McWilliams, 2015), a term coined to denote a bottom-up innovation that makes a product or service accessible to an ever-increasing number of consumers[3]. Other scholars, by contrast, hold that the contrast between the banking system and crowdfunding is only apparent and that the two mechanisms can coexist, for example by appealing to different customer targets. In addition, they do not rule out the possibility that institutional investors could start and operate a platform for collecting funds for innovative SMEs. In this case, a new institutional player would appear on the financial scene: the *internet and software platform* (Langlay, Leyshon, 2017).

In the field of geography one can find an extensive literature on the socio-spatial implications of the digitization of finance. Following once again in the footsteps of David Harvey, the phenomenon has been investigated from a critical standpoint, as an evolution of capitalism which, thanks to the use of the Internet and, accordingly, the involvement of a limitless and generic crowd of investors, disguises a democratic and redistributive finance. In this connection, a significant contribution has been made by David S. Bieri (2015), who examines crowdfunding as a tool of the capitalist system to divert capital flows from the production sector to urban real estate and infrastructure, with all the attendant social consequences of which Harvey's many writings warn.

The new credit system – and, more generally, FinTech – is thus seen as the outcome of a particular combination of socio-technical practices and capitalist business practices which has been dubbed *platform capitalism*[4], a neologism that draws attention to the idea that crowdfunding essentially operates on line with tools such as venture capital that are typical of traditional finance.

3. *The platform intermediary and its geographic implications*

The platform intermediary operates in the organization of geographic space with concurrent dynamics of dispersion and agglomeration. The most striking feature of crowdfunding is the geographic dispersion of investors. At the time of its first appearances in financing music projects, it was calculated that the average distance between the artist-entrepreneur and investors was around 3,000 miles, as compared to 70 between venture capital and target firms. In a few short years, such operations have eliminated the economic frictions associated with geographic distance. A study of the major platforms found, for instance, that investors in the Amsterdam-based platform Sellaband are located in 80 countries around the world, the greatest concentration being in the United States (Agrawal *et al*., 2011). But geography cannot fail to see that although funding is collected in a virtual space, the projects thus funded undeniably have effects on the social and economic setting of the entrepreneur who turns to crowdfunding in order to bring innovative ideas to fruition.

Again in connection with the geographic dispersion that is characteristic of crowdfunding, it should be noted that a survey of the location of the major platforms providing digital intermediation services found that they are headquartered in the global financial centers. Thus, the more highly qualified functions still tend to cluster in places offering highly specialized human resources and advanced technological infrastructures. This meeting between innovative technologies and financial operators' ability to develop increasingly sophisticated tools has resulted in a concentration of tech firms and financial enterprises in the London metropolitan area, known as the Silicon Roundabout, or East London Tech City, which has been said to embody the «union of the technological prowess of Silicon Valley with the financial acumen of Wall Street and, in particular, the City of London» (McWilliams,

[3] The idea of the disruption associated with the digital era was introduced by Christensen in his 1997 book, *The Innovator's Dilemma*, by analogy with Joseph A. Schumpeter's view of capitalism as a process of "creative destruction". Langlay, Leyshon, 2017.

[4] A term introduced by the German blogger Sascha Lobo. Langlay, Leyshon, 2016.

2015).

In addition, the financial relationships set up by the platform give rise to a virtual community and thus to a different conception of the notion of *proximity* between parties who are distant in space but brought together by a common project and shared expectations of capital gain. Once again, geographic scholars must acknowledge that even the digitized financial system, though freer from constraints, is organized by actors who operate in a given social and territorial setting.

With a view to analyzing the phenomenon from a different vantage point and at a different scale, one promising area for geographic research would be to explore the opportunities that crowdfunding holds for small and medium enterprises, a topic that immediately brings to mind the nature of the relationships between the traditional banking sector, financing extended via online platforms, and geographical territory. Empirical studies based on conducting structured interviews and administering questionnaires to banks, businesses and investors could conform or refute this hypothesis. Naturally, geographic analysis must necessarily be combined with a thorough scrutiny of the characteristics of the territory, seen as a "complex of conditions" that interact with each other and, if correctly managed, can provide essential support to the organization and development of the economic system (Conti, 2012).

Following this line of thought, research on local production districts and clusters, which are not only home to many small and medium enterprises[5] but also provide a milieu which acts as an incubator for innovation, could supply valuable insights for the governance of economic and territorial development. In the specific case considered here, the geographer could provide a foundation for policies underpinning the formulation of strategies for mending the relationships between banks and their local areas. These relationships have deteriorated in recent years, both because of the consequences of the global crisis, and as a result of short-sighted governance policies and risky financial transactions that in many cases have undermined savers' confidence, thus aggravating the credit squeeze affecting small and medium enterprises.

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[5] For details of the new approaches to SME financing, see OCDE, 2015, and the European Commission, 2015.

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SILVIA GRANDI[1]

INTERNATIONALISATION OF THE ITALIAN BANKING SYSTEM. THE IMPACT ON THE ITALIAN ECONOMY

1. *Introduction*

Ones 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 filed 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. Ones can find Italian significant scientific publications on local systems and industrial districts, starting with the seminal works of Bagnasco (1977) and Becattini, (1979), but - despite citing it as a key innovative process as response to globalization (Corò, Rullani,1998; Quintieri, 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[2] 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, 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 (Institute for Foreign Trade), SACE (Foreign Trade Insurance Services), SIMEST (Italian Company for Business Abroad) and CDP (*Cassa depositi e prestiti*) we might deem that this is not the right conclusion.

Within 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. 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 internationalization patterns to those of banks cor-

[1] University of Modena e Reggio Emilia.

[2] 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).

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porate strategic choices has been carried out with GIS support.

2. *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 influential 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 21st 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 (*Istituto Affari Internazionali*) for the ABI (*Associazione Bancaria Italiana*) (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 (fig. 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.

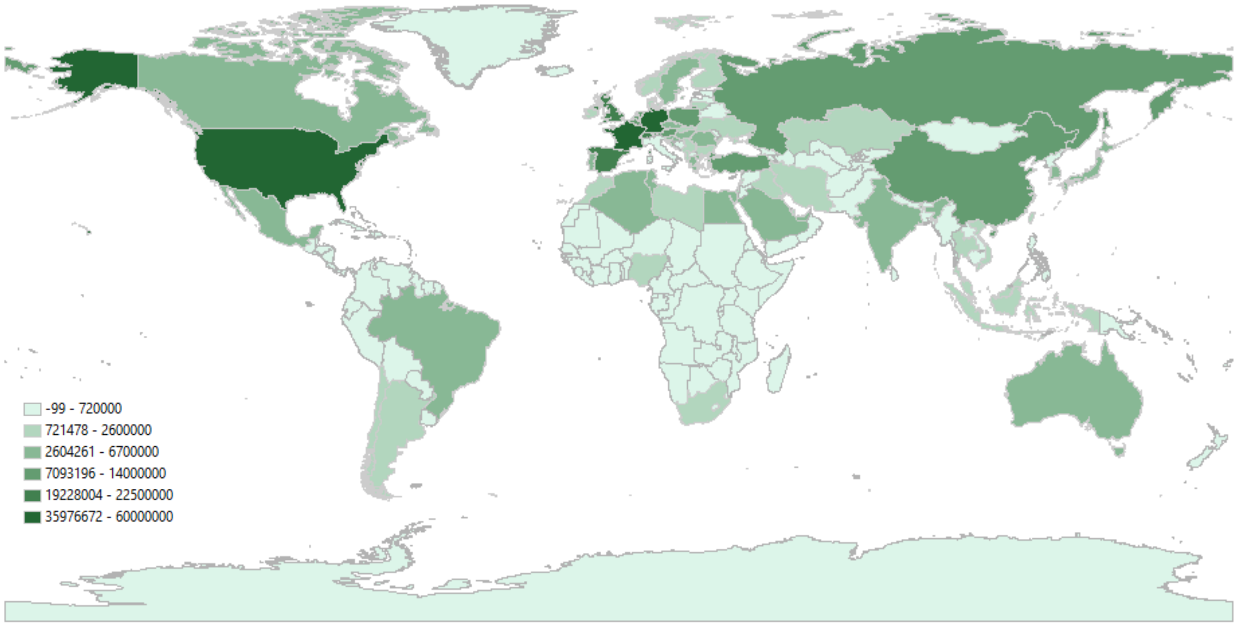

Figure 1. Italian export by value in euro (by Country), 2015 data. Source of Data: Ministero dello Sviluppo Economico, 2017. Shp: Esri, 2002 elaborated by S. Grandi, 2017.

3. *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 Knigth 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).

4. *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 advanced 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 Foreign Direct Investment 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 recommendations should be an output of this potential research agenda.

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CHRISTIAN SELLAR[1], TU LAN[2]

BANKS, SERVICES, AND THE STATE: THE INFRASTRUCTURE SUPPORTING ITALIAN SMES ABROAD

1. *Introduction*

Investigations of cluster-networks have studied the structure of spatial networks generated by firms' value chains, between clusters, between city regions, and across different sectors. These discussions focus on the types of linkages and relationships that develop between cluster and the effects these linkages have on cluster performance and competitiveness. This paper focuses on the role of banks, together with service firms and state agencies such as ICE (Institute for Foreign Trade) and various others that provide Italian small and medium enterprises (SMEs) with the services needed to operate over long distances. In so doing, we identify two gaps in the literature: first, the scarce treatment of knowledge transmission over long distance, and second, the lack of explanation of how internationalizing firms, especially SMEs, embed themselves in the host regional economies.

This paper makes two contribution to the literature. First, it detects a cross-scalar and cross-sectoral service infrastructure that facilitate both long distance knowledge transmission and firms' embeddedness. Such infrastructure began developing in the mid-1990s, the demand generated by manufacturers in the sending cluster led to internationalization in the banking, aimed at following clients. Once there, mergers and acquisitions and business opportunities expanded Italian banks to new clients and geographical areas, covering entire macro regions. After a certain point, banks would connect with service firms, corporate leaders, and also branches of ICE and other state agencies to build linkages of their own in key urban economies. By the mid-2000s or later according to the geographical area, these actors established communities of professionals supporting Italian manufacturers. This paper calls these communities 'Investment Promotion Communities' (IPC). The second contribution consist in analyzing the relationship between internationalizing SMEs and IPC, showing the extent to which IPC have a common structure in different host regional economies vs. the extent to which they adapt to the local conditions.

The following research questions frame the contributions,

a) What are the functional synergies between banks, services, and public agencies such as ICE and others?

b) What is the relationship between IPC and SMEs internationalization strategies?

c) How do IPC adapt to the host regional economies?

The empirical material builds on interviews with Unicredit, Intesa San Paolo, private consultancies, business associations, and Italian state agencies. The focus is on Timisoara, Romania and Shanghai, China. The two areas are chosen because they are among the largest concentrations of Italian firms outside Italy, and because they present highly diverse host countries institutions. Research consisted in the collection of FDI and trade data, internal document of business association, and interviews. The authors conducted 18 interviews in Suzhou/Shanghai, and 11 in Italy between 2013 and 2015. One author also conducted 24 interviews in 2005-2006 in Timisoara. In both areas interviewees were government officials, trade union leaders, bank managers, and business managers. They were

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selected with purposive sampling procedure wherein interviews with key consultants and leaders in business associations were used to identify and invite potential interview participants.

The paper is organized as follows. The first section discusses the paper's contribution to the literature on cluster-networks. After a brief methodological section, the empirical sections illustrate the evolution of the Italian clusters in Timisoara and Suzhou, emphasizing the structural similarities but relational differences among the two IPC. The final section summarizes the findings.

2. *The State, value chains and cluster networks*

Bathelt and Li (2014) describe four major approaches to study transnational businesses in economic geography, each focusing on a specific scale or set of actors. None of these approaches however conceptualizes what makes foreign direct investments (FDIs) and, more in general, relations on the value chains durable, as opposed to short term trade. Drawing upon the four approaches, they propose the concept of a global-cluster network, which synthesizes the relationship between FDIs and clusters into a single framework. This paper attempts to address two problems Bathelt and Li did not address.

First, economic geographers have been interested in the ways in which different forms of knowledge are produced, circulated, and appropriated by firms in transnational businesses. In response to the literature on new regionalism, which argues that the local scale is the primary place of knowledge production, many scholars found that physical proximity is neither sufficient nor necessary for innovation (Amin, Cohendet, 2004; Bathelt, Malmberg, Maskell, 2004; Storper, Venables, 2004). Long-distance innovative work may occur either through specialized teams in transnational corporations (Jones, 2007), or through regularly held international trade fairs (Bathelt, Schuldt, 2008). However, besides these studies, the institutional underpinnings of long-distance learning are scarcely investigated. Therefore, there is no clear understanding of how long-distance innovation is sustained over time, and why certain ventures succeed while others fail (Jones, 2008, p. 80).

The second problem lies with the literature on transnational communities focusing on the ethnic networks which neglects how the firms are embedded in institutional contexts (Hsu and Saxenian, 2000). There have been a number of attempts to use the concept of "embeddedness" to study transnational businesses such as in the global production networks literature (Coe, Hess, Yeung, Dicken, Henderson, 2004). However, in many empirical studies the concept of social embeddedness tends to be over-territorialized – i.e. it neglects the practices of the actors working across territorial borders (Bathelt, Schuldt, 2008; Jones, 2008). More importantly, they cannot explain how actors involved in FDIs produce innovation and how they negotiate institutional contexts in the home and host countries (Yeung, 2008).

In this paper we identify several institutions aimed at supporting firms' local embeddedness by working across national borders. We called them IPC building on the work of Phelps and others (Drahokoupil, 2008; Phelps, Power, Wanjiru, 2007). We propose the following conceptual boundaries for IPCs. At the core, there are public agencies of national and subnational governments. A second layer consists of public-private partnerships, which include not only for-profit entities with partial or total state ownership, but also chambers of commerce and business associations officially recognized by the state. A third layer consists of private consultancies or banks that provide services complimentary or overlapping with those of public agencies. We understand institutions not only as established organizations, but also as various kinds of customs, rules and routines of the none-firm organizations when working on transnational investment projects. We argue that these communities have similar network structures in key locations of Italian investments; however, relations within networks vary according to each host area

3. *Italian firms' landscape in Timisoara and Shanghai/Suzhou*

In an earlier paper (Sellar, 2015) the author argued that banks and services act as knowledge pipelines between cluster networks. In short summary, the demands of financial service by internationalizing firms was the first input leading to the internationalization of large banks such as Unicredit. Once established in foreign locations, initially throughout Central and Eastern Eurpope, and later further afield to include China, Unicredit established a division called 'New Europe Desk' with the specific role of assisting Italian firms in understanding the local market, but also local cultural specificities. The desk was later renamed International Desk, to signal a broadening focus beyond Italian firms to include all sort of crossborder investors.

In this paper we argue that banks and services are only one element of much larger IPC that do not only facilitate knowledge transfer, but also play a political role that facilitate firms' embeddedness. The two areas in consideration have been particularly successful in embedding Italian firms. Table 1 presents a profile of Italian investments in both Suzhou/shanghai and Timisoara. At the respective time of interviews, both areas represented the strongest concentration of Italian firms outside Italy (Federico, 2006; Lan, Sellar, Cheng, 2016). In both cases, manufacturing represented the lion share of investments; interviewees reported that supply chain relocation was a key reason why Italian FDI and expatriate entrepreneurs clustered. The main differences concern firm size – the closer Timisoara attracted firms on average smaller than the further away Suzhou/Shanghai – and reason for the investment: in Timisoara most firms adopted a strategy of cost containment to serve the Italian market; in Shanghai/Suzhou relocation closer to the main client as well as serving the Asian market were listed as main reasons for investment. Taken together, these data show that a) Italian firms internationalization is only for a small part driven by large corporation; expatriate entrepreneurs and suppliers of larger companies play the lion share; and b) internationalization has a specific time frame, occurring a decade earlier in the spatially and culturally closer Timisoara.

Timisoara 2005	**Shanghai/Suzhou 2015**
# of registered firms: 2293	# of registered firms: 467 (387 Shanghai, 80 Suzhou)
Stock of registered capital: USD 188 Million	Stock of registered capital: USD 583 million (Suzhou only)
Predominant sectors N/A	Predominant sectors: Manufacturing 50% consultancies 25% rest logistics, banks, energy and telecom
Typical enterprise: mostly led by entrepreneurs, may or may not have parent company in Italy.	Typical enterprise: branch of 'pocket multinational' (small sized but successful MNC), led by CEO
Predominant reason: cost containment, serving the Italian or European market	Predominant reason: follow the main client, usually large MNC
Italian investments Started with subcontracting relations in labor intensive industries in 1990, by 1998 later larger technology intensive companies arrived.	Italian investments started growing around 2004

Table 1. Profile of Italian investments.

4. *Services to internationalizing SMEs: structural isomorphism driven by home country institutions*

Our previous research in Slovakia (Sellar, Pástor, 2015) Romania (Sellar, 2013) and China (Lan, Sellar, Cheng, 2016) shows a considerable degree of structural similarities among IPCs. These similarities originated in the conditions of Italy; more precisely, in the legislative reforms of the 1990s: in those years, the Italian government introduced new laws that supported firms abroad as a tool of foreign policy. In a parallel move, internationalizing SMEs began demanding their service providers financial and consulting support in their early foreign investments. Thus, IPCs acquired since the beginning a mixed public-private character, in which multiple organizations in both the public and private sector offer oftentimes overlapping services to firms. As a result of those legislative and social processes in the homeland, services to SMEs in Shanghai/Suzhou and Timisoara have a similar structure. In both areas there is a backbone of national state agencies that perform 'higher order' promotional activities, aimed at increasing the reputation of the 'made in Italy' brand, but also disseminate information about business opportunities. In Timisoara, these agencies coexist with initiatives by Italian regional governments, aimed at assisting firms from the regions represented. In Shanghai these regional agencies were established, but had to close due to lack of resources. In both areas, CEOs and expatriate entrepreneurs established business association and chambers of commerce as a form of bottom up organizations aimed at exert influence on the local governments, but also to officially partner with the Italian consulate. By the Italian law, these organizations enjoy a special recognition by the Italian State, attributing a hybrid public and private status. In both areas there is a significant presence of banks and consultancies. These private entities provide financing and more direct services to firms, such as legal and accounting services, as well as helping with cultural mediation with local labor and partners. Finally, the two tables show the evolution over time of the two IPCs: they follow closely the pattern of Italian investments, progressively adding organizations and functions while Italian firms grow in numbers and size.

5. *Operations in the IPCs: relational differences in host country contexts*

Albeit structurally very similar, the networks within the IPC and between IPC members and client firms are relationally very different. In a nutshell, the IPC in Timisoara is decentralized, there is considerable overlap among service providers, and firms interviewed sometimes complained about the quality of the services received. However, Italian firms – individually through their participation in the chamber of commerce and collectively through their own business association – may exert a considerable influence in the city – and Romania as a whole. On the other hand, the IPC in Shanghai is centralized under the leadership of the consulate, promotional initiatives are streamlined through strategic planning, and the IPC provides services to both Italian and Chinese firms. However, the relative importance of Italian firms in the urban economies of Shanghai and Suzhou is marginal, thus not allowing a degree of influence comparable with Timisoara. Table 2 summarizes the relational differences in the two IPCs; the remainder of this section presents supporting evidence form the interviews and data collected about the centralized vs. de-centralized nature of the two IPCs and the power influence vs. weakness of Italian firms in the two contexts.

	Timisoara	**Shanghai/Suzhou**
Coordination within the IPC	LOW	HIGH
Importance of Italian firms in the local economy	HIGH	LOW
Clientele	Mostly Italian firms (except bank, who service all)	Italian and Chinese firms

Table 2. Relational differences in Italian IPCs in Timisoara vs. Shanghai/ Suzhou.

The relative importance of Italy as a trade partner in Romania vs. China drives the stronger bargaining power of Italian firms in Timisoara vs Shanghai/Suzhou. At the national level, in 2014 Italy was Romania's second trading partners after Germany, while in the same year Italy was China's 22nd trading partner, similar to the position of Iran (UNCTAD, 2015). By the mid 2000s, foreign firms represented 21% of the investment stock in the whole county of Timisoara; Italians lead both by number of firms and stock of capital (fig. 1).

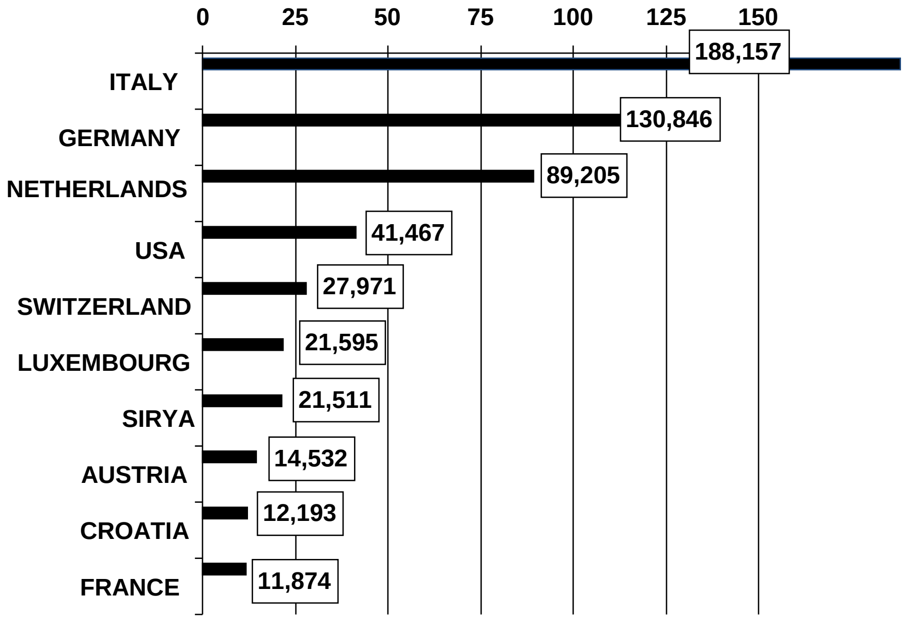

Figure 1. Capital stock invested in foreign firms in Timisoara by nationality – million of US dollars. Source: Sellar, 2013, p. 7.

The large number of Italian firms attracted the attention of the largest business association in Italy, *Confindustria*. *Confindustria* sponsored the establishment of an association of Italian firms in Romania, *Unimpresa*, which became soon a major player in Romanian national politics, and also in Timisoara through its local branch (interview President. Timis branch, Unimpresa Romania. Interview. April 3 2006). In a nutshell, the chaotic emergence of Italian investments, together with the relative powerful position of Italian firms in the city economy did not require a particularly co-ordinated action in the IPC. As a result, Timisoara's IPC was a rather loose group of service providers, in which *Unimpresa* played the strongest role in representing Italian firms in the city.

Across Eurasia, the local context in Shanghai/Suzhou is in many respects the opposite of Timisoara. First of all, Italian firms have a marginal weight in both urban economies. Second, the culturally distant local governments never considered Italy a role model – or even a strategic partner. Third, Italian investments in the region developed largely after the crisis of 2008, in a situation in which Italian state agencies, but also service providers, have had fewer resources to invest. Therefore, the IPC had to increase its efficiency through leadership and centralization. Two enterprising consul general used their authority of representatives of the Italian government to exercise leadership on the IPC. First, they streamlined the work of Italian public agencies by introducing co-ordination in event planning. Second, they built synergies with Italian consultants and manufacturers by introducing strategic planning, regular stakeholders meetings, and information-sharing that involve both representatives of the Italian public agencies and businesses. To advertise those changes, the consulate and the Chamber of Commerce, branded the IPC in Shanghai as *Sistema Italia* (Italian System) (Consulate, 2013). Thus, the loose set of relationships in the IPCs in Timisoara has been replaced by a much stronger and coherent "*Sistema Italia*" that plays a central role in facilitating both political appeals of the Italian government and economic ambitions of the Italian firms.

Firms, on average larger and more established than in the close-to-home Timisoara, contribute to the stability of *Sistema Italia*. In Suzhou only, Italian firms grew from from 10 in 2005 to 80 in 2015, with low disinvestment. Their cumulative Investment stock in 2015 was 493 million Euros (538 million US dollars), with total investment 907 million euros (990 million US dollars) (fig. 2).

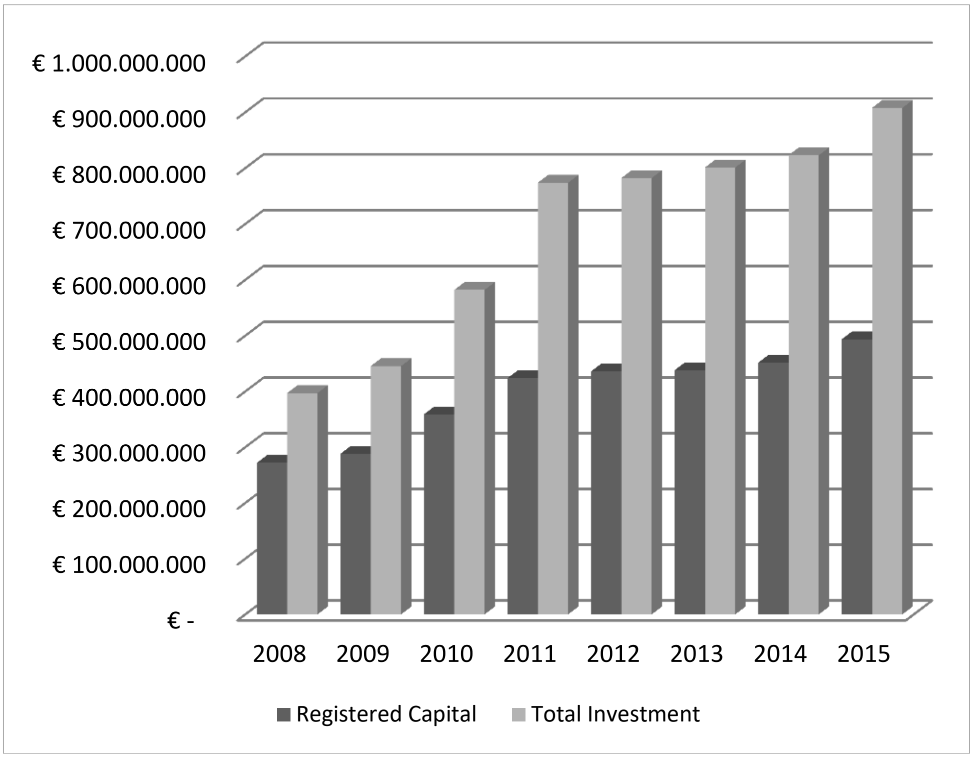

Figure 2. Italian investment in Suzhou *Source: China Italy Chamber of Commerce 2015. 8th Suzhou Appreciation Meeting presentation delivered at the meeting between Italian entrepreneurs and Chinese authorities, Suzhou, China, May 27, 2015.*

80 Italian firms in Suzhou have an investment stock nearly three times higher than two thousand plus firms in Timisoara. The following interview captures the connection between the bottom up initiative of firms in Suzhou, the Italian institutions in *Sistema Italia*, and the local Chinese government.

Back in 2004 my family and I were the only Italians… In 2007 my wife and I hosted a Christmas dinner, 20 people came... At that first dinner in 2007 we acknowledged that we were few, and uninfluential. The Chinese government helps you a lot in the start up phase, but after you start working they stop supporting you. Our firms are too small to have weight with the local government. Thus in December 2007 we decided to meet once a month to talk about common problems. In 2008 we wanted to be better represented. We joined the Italy-China Chamber of Commerce; I became board member of the chamber. That way we attracted more attention from ICE and the consulate (interview General manager SIT Manufacturing (Suzhou) Co., Ltd, and Board director, China-Italy Chamber of Commerce April 20, 2015).

At a functional level, the network between firms' association and the consulate leads to access to the local government. While in Timisoara such access was easy to achieve – given the relatively small size of the city (around 600 thousand including the county) and the relative weight of Italian firms – in Suzhou it was very difficult. First, the Chinese government has a strong tradition in partnering with other governments rather than with firms directly. Second, by population only Suzhou counts 12 million of people, approaching the order of magnitude of the whole country of Romania. Thus, the access to officials described in the following excerpt was of critical importance for firms: every year at the end of May we hold a meeting (we call it 'appreciation meeting') companies come, accompanied by all Italian institutions, to meet with the highest levels representatives of the Suzhou government. The meeting occurs in the morning, followed by a luncheon where companies and Chinese authorities can network (interview General manager SIT Manufacturing (Suzhou) Co., Ltd, and Board director, China-Italy Chamber of Commerce April 20, 2015).

In a nutshell, the relatively weak position of Italian firms in China, the relative stability of the investment, and the good leadership of the consulate led to a highly integrated system promoting Italian businesses and providing services to firms, which is structurally similar to the IPC in Timisoara, but much more integrated and centralized.

6. *Conclusion*

The goal of this paper was to highlight the role of business services in the literature on cluster-networks. First, we argued that the role Italian banks in firms' internationalization should be understood in a much larger context of IPC. Second, IPC play two key roles in firms' internationalization: they support the transfer of knowledge between Italian firms and host economies, and aid firms' embeddedness. The paper specifically studied IPC in Timisoara, Romania, and Suzhou/Shanghai, China. Notwithstanding the differences in firms' size and motivation of investment the two IPCs have very similar structures, driven by institutions in Italy. At an organizational level, the two IPC have profound differences, driven by the political realities of host countries and cities. In sum, banks are part of a larger, public-private IPC, driven by institutions in Italy and highly adaptable to local conditions. As such, IPC are unexplored, have yet to attract the attention of academics, and have yet to become a conscious tool of national policies.

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FABIO GIORGIO[1]

ITALY'S ROLE IN INTERNATIONAL MARKETS. AN OVERVIEW OF FOREIGN TRADE DATA

1. *The contribution of exports of goods and services to the formation of Italian GDP*

The relationship between real growth and exports of goods and services in Italy is extremely tight as one is strictly dependent on the other. The statistical indicator that represents this ratio identifies a very strong correlation between the two factors and, in the last decade, variations in exports of goods and services have almost always brought about variations in GDP in the same direction. In particular, at the end of 2008 and throughout 2009, during the world trade crisis, also the indicators of the economic development were negative, while in the two-year period 2010-2011 there was an improvement in both. Moreover, from 2012 to 2014, exports of goods and services were the only component that made a positive contribution to national wealth. Lastly, during the last two years, real GDP growth of 0.7% in 2015 and 1% in 2016 was associated with a sharp increase in exports, of 4.1% and 2.6% respectively.

This appreciable parallelism between the changes of these two variables depends on the fundamental role that export holds in the Italian economic system and in the formation of the gross domestic product. In an open economy like the Italian one, internationally oriented and traditionally based on manufacturing, the contribution of exports of goods and services to GDP formation is particularly significant[2]. It reached significant percentages over the three-year period 2006-2008 (about 27%) and, by contrast, it was significantly lower in 2009 (22.5%), following the crisis that greatly hindered the volume of trade in all the geographic areas of the globe. Since 2010 it has returned to growth and during the three-year period 2012-2014, the contribution of Italy sales abroad to the formation of national wealth has been around 29%. Between 2015 and 2016, according to the latest national data published by ISTAT, the relative incidence was 30%[3]. In general, for the two-year period 2017-2018 it is expected a particularly significant input from exports to Italian national wealth: a contribution of 32% this year and of 32, 5% the next[4].

From 2010 to 2015 (see Table 1), exports of goods and services grew – in real terms[5] – to a greater extent than other components of GDP, providing the largest contribution to national growth. In particular, in 2011, against a 6.1% increase in Italian sales abroad, consumption and investment slowed down by 0.5% and 1.7% respectively. In 2012, also, a 2% increase in exports was associated with a sharp fall in consumption and investment, equal to -3.3% and -9.4%, while in 2013, despite the contin-

[1] Ministry of Economic Development (General Directorate of Internationalisation Policies and Trade Promotion - Division II - Analysis, Markets and Countries - Economic Observatory).

[2] Current prices. Seasonally and calendar adjusted data.

[3] Starting from September 2014, with the publication of a new release of national accounts, Member States of the European Union adopted the new European system of national and regional accounts – Esa 2010 – replacing Esa 95.

[4] According to estimates of the 'Economist Intelligence Unit - May 2017.

[5] Economic Observatory on ISTAT data *(seasonally and calendar adjusted, chain linked volumes 2010=100)*.

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ued contraction in domestic demand[6] (-2.8%), exports of goods and services improved the levels achieved the previous year (+ 0.9%). However, the data released by ISTAT show that in the last three years Italy is starting growing again, albeit slightly. In 2014, the slight increase (+ 0.2%) of GDP was the result of an exports acceleration of 2.4%, which compensated the significant fall in investments (-2.2%). Even in 2015, Italy's gross domestic product registered a modest increase (+ 0.7%) driven by both domestic demand (+ 1.1%) and, above all, by exports (+ 4.1%). A similar trend was also registered last year when the simultaneous increase in domestic demand (+ 1.5%) and - to a greater extent - of exports of goods and services (+ 2.6%) brought a fairly important growth to national wealth – equal to 1% – which had not been achieved for years.

All this demonstrates once again the good performance Made in Italy carries out all around the world, even in the presence of difficulties within the Italian inner market.

Time	**Gross domestic product**	**Imports of goods and services**	**Domestic Demand**			**Exports of goods and services**
			Changes in inventories and valuables	**Final consumption expenditure**	**Gross fixed capital formation**	
2011	0.7	1.2	-0.7	-0.5	-1.7	6.1
2012	-2.9	-8.3	-4.5	-3.3	-9.4	2.0
2013	-1.7	-2.3	-2.8	-1.9	-6.6	0.9
2014	0.2	3.1	-0.4	0.0	-2.2	2.4
2015	0.7	6.7	1.1	1.0	1.4	4.1
2016	1.0	3.1	1.5	1.2	3.1	2.6

Table 1. National accounts *(Percentage change – seasonally and calendar adjusted, chain linked volumes 2010=100).* Source: Economic Observatory on ISTAT Data.

2. *Italy's Foreign Trade*

Focusing only on the foreign trade of goods, the elaboration of the data of the International Monetary Fund highlights that Italy, during the first ten months of 2016 (last available data)[7], was – with a market share of 2,9% – the eighth exporter in the world, preceded by China, the United States, Germany, Japan, the Netherlands, France and South Korea.

Analyzing the Italian export dynamics over the last few years, it is noted that from February 2010 to March 2012, Italy's products sales abroad showed positive growth rates (year over year). Conversely, since April 2012, exports have been registering fluctuating trends: in April, September and December 2012, during the two-month periods of February-March, May-June and in the months of August and November 2013, August 2014, January and October 2015 and January, March, April, June, July and October of 2016, Italian exports have experienced decreases.

In general – from 2010 to present – Italian exports of goods has been growing on average every month by about 6%. The signs of this new attractiveness of Made in Italy come from the level reached by Italian exports of goods[8] in 2016: Italian foreign sales, which rose by 1.2%, amounted to € 417.1 billion, the best result ever when compared to the export performance made in previous years. The Eu-

[6] Domestic demand excluding inventories.
[7] Economic Observatory on IMF – DOTS data, March 2017.
[8] Current prices.

ropean Commission[9] also foresees that the 2017-2018 biennium will feature export growth rates of 6.7% and 4.9% respectively.

The most striking result has been, for some years now, the consolidation of the surplus of Italy's trade balance: in 2016 the trade balance, backed by the large surplus of non-energy products, was € 51.5 billion, resulting – compared with the values obtained in previous years – the largest surplus ever.

This surplus is due both to the success of Made in Italy products on foreign markets, but also to the contradictory signals concerning purchases and consumption, which come from the inner market. In this respect, it is worth pointing out the abrupt decrease in imports over the three-year period 2012-2014 (-5.3% in 2012, -5.1% in 2013 and -1.1% in 2014): on the one hand it has allowed to reduce the trade deficit, on the other hand it has shown the marked contraction of purchasing power and consumptions of Italians. Positive indications, however, have come from the analysis of 2015, where imports increased in the same way as exports (+ 3.8%). Last year, however, imports came back to a contraction, registering a -1.3%.

Energy[10] keeps on weighing heavily on Italy's trade balance. Suffice it to think that by excluding the energy sector, the Italian balance would have reached a surplus of just over 78.8 billion euros in 2016, which is just a little more than what Italy exported, in same interval of time, in the United States, the United Kingdom and Switzerland.

The typical "Made in Italy" sectors, such as machinery, fashion, agro-food and furnishing, are decisive for Italian export performance. Only these four sectors account for over half (55%) of national exports. The Italian market, among the European Union countries, registers the second commercial manufacturing surplus after Germany; this contradicts the thesis of Italy's alleged decline and points out, on the contrary, the continuing relevance of Made in Italy's top sectors. This is also accomplished in spite of the overwhelming rise of developing economies in world trade: among the advanced countries, Italy is the one that, with the advent of globalization, has retained a higher percentage of market shares at an international level. Following the emergence of China and other BRICS countries in the world market, Italy managed to maintain 78%[11] of its export shares compared to 2000; a performance not comparable to that of Germany (100%), but better than Japan, whose shares were reduced to 55%, France (62%), the United Kingdom (58%), Canada (57%) and, even if only slightly, better than the United States (76%).

It is the strength of Made in Italy's top sectors that allows the country to balance the strong energy deficit and the structural passive of other sectors (such as chemistry, cars, computers and consumer electronics), where the absence of a sufficient core of large national groups condemns the country to an inevitable dependence from abroad.

In this regard, elaborating the latest IHS data for the year 2016, it is noted that:

- Italy has the world's fourth largest surplus in the mechanical sector (+43.9 billion dollars in 2016), preceded only by Germany (+82.9 billion), Japan (+69.5 billion) and China (+63.2 billion);
- Italy is the third exporter in the world, behind China and Germany, in the home furnishing sector, with a market share of about 6%;
- In the fashion system, Italy is, behind China and India, the third-largest exporter in the world - with a market share of 6% - and has the third commercial surplus market;
- Italy is the eighth largest exporter in the food sector in the world. However, looking in depth at the data, Italy is first in the pasta sector, second in both wine (behind France) and olive oil

[9] AMECO data.
[10] The energy sector includes, in particular, crude oil and natural gas.
[11] Economic Observatory on IMF – DOTS data, March 2017.

(behind Spain) and fourth in cheese.

Another peculiarity is the tendency of Italian entrepreneurs to reposition their products where there is a greater demand. In fact, from the point of view of the geographical destination of Italian goods, 2016 saw a 3.1% increase within the EU at 28, which more than compensated the fall of 1.2% in non-EU countries[12].

The dynamism of Italy's commodity exchanges within the EU[13] is confirmed by the + 3.1% increase achieved – last year – from exports – from 226 billion euros in 2015 to 233 billion – and, although less marked, by the + 1.8% increase achieved by imports. These results have allowed Italy's trade surplus to reach about € 11.6 billion, even better than the 8.6 billion surplus achieved in 2015. As far as the geographical destination of Italian goods is concerned, in 2016, Italian intra-EU sales, if compared with 2015 figures, registered an increase with all the major trading partners, such as Spain (+ 6.1%), Germany (+ 3.8%), France (+ 3.0%), the Netherlands (+ 1.7%) and the United Kingdom (+ 0.5%). It is also worth noting the good performance in the Czech Republic (+ 6.5%).

The decline in Italy's exports in 2016 in the non-EU areas is attributable to the contraction in non-EU Europe, mainly a consequence of the multiannual reduction in Russia (due to the well-known international events that are affecting the country), together with the decelerations registered in Central America, the Middle East, and in the entire African continent. Against this, sales of Italian products continued to be particularly good in North America, driven by the US market (+ 2.6%), in East Asia (+ 2.4%) – thanks to the good results achieved in China, Japan and the so-called ASEAN[14] countries – and Oceania (+ 11%). However, it should be noted that the first months of 2017 have been characterized by particularly favourable dynamics: between January and March, Italian products have experienced a widespread increase in all non-EU areas, improving positions already acquired during the first quarter of last year.

As far as the countries of destination of Italian exports are concerned, Germany is the first (representing 12.6% of the sales abroad), followed by France and the United States, with a share of respectively 10.5% and 8.9 %. In the ranking of Italy's main client markets, there are only three non-European countries – the USA, China and Japan – in the top 15 places (see table 2).

On the other hand, as far as the markets of origin of Italian imports are concerned, Germany is always the leader – accounting for 16.3% of Italy's purchases of goods abroad – preceding France (8.9%) and China (7.5%).

At a regional level it should be emphasized that more than two thirds of the Italian trade exchange concerns Northern Italy. In particular, the North West has the lion's share: on the one hand, in fact, this area contributes for more than 39% to Italy's overall sales abroad, on the other, about 42% of the purchases from international markets are directed to this area. Decisive is also the role of the North East which accounts for 32% of the exports and for more than 23% of the imports.

In addition, if Central Italy accounts for more than 16% of national trade, Southern Italy holds the lowest shares: just over 10% of Italian sales abroad, in fact, concerns the South of Italy, while only the 12% of imports are destined to this area.

It should also be pointed out that more than 1% of exports and about 5% of imports are entered – by ISTAT – in the *different and unspecified* category. This last entry, in fact, collects commercial transactions for which it is not possible to specify exactly the province/region to which the transaction refers. Such is the case, for example, of purchases of goods aimed at meeting a not immediate internal de-

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[12] The data for the first quarter of 2017 indicates that Italy's intra-EU exports increased by 8.2% while extra-EU exports increased by 12.4%.

[13] EU 28.

[14] Association of Southeast Asian Nations: Brunei, Cambodia, Philippines, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Singapore, Thailand and Vietnam.

mand and that, for this reason, are destined to reach the places of actual use at different times; or of those sales abroad made by *groupage*[15], for which it is not easy to indicate the places of production; or transactions executed by operators submitting quarterly or annual summary recapitulative statements.

Regarding the regions, about 27% of Italian exports to international markets come from Lombardy, followed by Veneto (14%), Emilia Romagna (13.5%) and Piemonte (just under 11%). Fifth is the first region of Central Italy, Tuscany (8%), while the first Southern region is in ninth position, Campania (about 2.5%). Milan, Turin, Vicenza, Brescia and Bergamo are the provinces that, in this order, export more; in total, the sales flow in 2016 amounted to 105.5 billion euros for a contribution to national exports of just over a quarter. Among the first twenty exporting provinces three are from Central Italy (9th Florence, 15th Rome and 17th Arezzo) and one is from the South (20th Chieti).

Lombardy and Veneto are – in that order – also the most active regions in terms of Italian imports, absorbing over 40% of the total. Lazio is third (9%) and precedes, for just a few tenths of a percentage point, Emilia Romagna and Piemonte. Also in this field Campania, which is in the seventh position, represents the most dynamic Southern region. As far as the provinces are concerned, Milan – followed by Rome, Turin, Verona and Vicenza – holds the position of leader. In this context, the ranking of the first twenty provinces shows the presence of two provinces of South Italy, namely Naples (9th) and Syracuse (14th); the latter, in particular, thanks to the intense port activity in the energy field.

Pos.	Client countries	bill. €	%	Supplier countries	bill. €	%
1	Germany	52.7	*12.6*	Germany	59.5	*16.3*
2	France	43.9	*10.5*	France	32.5	*8.9*
3	United States	36.9	*8.9*	China	27.3	*7.5*
4	United Kingdom	22.5	*5.4*	Netherlands	20.2	*5.5*
5	Spain	21.0	*5.0*	Spain	19.5	*5.3*
6	Switzerland	19.0	*4.6*	Belgium	17.8	*4.9*
7	Belgium	13.5	*3.2*	United States	13.9	*3.8*
8	Poland	11.2	*2.7*	United Kingdom	11.0	*3.0*
9	China	11.1	*2.7*	Russia	10.6	*2.9*
10	Netherlands	9.7	*2.3*	Switzerland	10.6	*2.9*
11	Turkey	9.6	*2.3*	Poland	8.7	*2.4*
12	Austria	8.8	*2.1*	Austria	8.3	*2.3*
13	Russia	6.7	*1.6*	Turkey	7.5	*2.0*
14	Romania	6.6	*1.6*	Czech Republic	6.4	*1.7*
15	Japan	6.0	*1.4*	Romania	6.2	*1.7*

Table 2. Main Italian trade partners in 2016. Source: Economic Observatory on ISTAT Data.

3. *Exporting enterprises*

From ISTAT's source data, surprisingly, it stands out the decisive role of Italian small and micro-enterprises: constantly looking for alternatives to the contraction of domestic demand, even small-

[15] A situation in which several companies transport their goods together in order to reduce costs.

scale companies have been able to manage foreign markets by increasing the number of exporting firms – between 2012 and 2014 – by 1.7%. The difference is significant compared to 2009 when the impact of the crisis had severe costs. According to the National Statistics Institute, about a third of the total export-oriented companies, which have operated at least in five non-EU areas with a growing number of products, have increased their sales over the last few years.

In addition, from ISTAT's report «Statistics on the competitiveness of manufacturing sectors – Edition 2015», it is clear that exporting companies also perform better on the domestic market. In 2014, companies that exported more than 75% of their total production had an average revenue growth of 4%, those that exported more than 25% and less than 75% increased it by only 0.6% and those that exported less than 25% decreased their sales (-2.3%). From recent editions of the report, i.e. 2016 and 2017, it is possible to note that the highest degree of competitiveness required to operate on international markets seems to be associated with a better employment performance. For example, medium-sized exporting companies operating in the manufacturing sector have a higher chance of creating jobs of 10 (in the class 50-149 employees) and 14 (in the class 150-249 employees) percentage points, compared to companies operating only in the domestic market. In addition, enterprises that sell globally (the so-called "Global companies") have increased – between 2011 and 2014 – both the employment of 21,800 employees (+ 5.1%) and the added value of 1.8 billion of euros (+ 6.5%).

According to the latest data from the ISTAT-ITA Agency Report «Foreign Trade and International Business Activities», *Italian exporting enterprises* are slightly less than 193,000, accounting for 4.5% of all the Italian active companies. Among them, the companies steadily present on foreign markets – those with an annual export of over 250,000 euros[16] – are more than 49,000, accounting for about 26% of the total.

99% (around 191,000) of exporting companies are micro, small and medium-sized, i.e. 4.4% of all Italian SMEs. Exporting SMEs attain a total volume of foreign sales of 206.5 billion euros and contribute to Italy's total exports by 54.5%. They also give work to just over 2.5 million people, accounting for 57.5% of the total number of employees operating in exporting Italian companies.

Again, according to the same report, during 2015 *the exporters in Italy*[17] (that is, all individuals and businesses that - identified on the basis of the VAT code - have completed at least one foreign trade transaction during the period considered) were 214,113, up by + 0.5% compared with the 213,010 of 2014. They are mainly located in Lombardy (28.9%), Veneto (13.2%), Emilia Romagna (10.5 %) and in Tuscany (9.1%).

At EU level, by analysing EUROSTAT's latest statistics[18], it is noted that Italy ranks second in terms of number of exporters, behind Germany (just under 312,000) and in front of the Czech Republic (beyond 163,000), Spain (just under 157,000) and the United Kingdom (137,000).

Turning to the size of the companies, it is evident that Italy is leader in the EU, both in terms of micro and small enterprises, by registering a share – on the total of EU exporters of equal size – respectively of 13.2% and 15.5%, and always standing in front of Germany. Germany, which instead gains the first place both in terms of medium-sized enterprises (preceding UK and Italy) and in large enterprises. As far as companies with at least 250 employees are concerned, Italy – with approximately 1,900 enterprises – accounts for 6,3% of the EU total, in the sixth place, after not only Germany, but also the United Kingdom, France, Poland and Spain.

It can also be interesting the analysis of the average contribution provided by each operator to the country's overseas sales, i.e. the average export of each firm. From this elaboration it is noted that this particular ranking is led by Ireland (7 million euros per capita), followed by Luxembourg, with 5.4

[16] As defined in Chapter 6 "*Le imprese*", "*L'Italia nell'economia internazionale*", ICE Italian Trade Agency – ISTAT.

[17] The expressions exporting enterprises and exporters are often used as synonims. However data on exporters are available for 2015 whereas data for export/import companies are available up to 2014.

[18] Data are referred to 2013.

million. The success of these two countries must be attributed to the small number of exporting companies – just over 12,000 in Ireland and 2,581 in the Grand Duchy.

Italy ranks 16th, totaling 1.8 million euros[19] – significantly below the EU average (2.5 million euros). This result is a synthesis of a very low value obtained when we refer to the micro enterprises (€ 0.2 million), of a value in line with the EU average if we turn to the small enterprises (€ 1.3 million) and of a value above the average of the EU if we refer to the medium (€ 10.4 million) and large enterprises
(€ 91.8 million)[20].

4. *Italians' foreign direct investments.*

With reference to foreign direct investments, as of December 31, 2015 (latest data available), Italian investments in foreign companies amounted to 29,483 (according to the *Reprint Database*, ed. by Politecnico di Milano–ITA Agency), more than a half located in the EU, provided jobs to a little less than 1.5 million people and reached a total turnover of just over 512.6 billion euros. The sectors most concerned were wholesale (44.2%), manufacturing – in particular automation-mechanics and metallurgy – (28.2%), and professional services (10%), mainly financial and insurance activities. It should also be noted that in the 81% of the investments, Italian had a majority participation, while in the remaining cases there was a parity or minority participation. The main target markets of Italian investments – in terms of number of participated companies – are the United States, France, Romania, Germany, Spain, the United Kingdom, China, Brazil and Poland.

On the other hand, at the same date, Italian foreign-owned companies were 11,294 (of which less than half in Lombardy), with a number of employees of around 988,000 and with a total turnover of over 504.3 billion euros. These companies, mainly of EU (60%) and US (19%) origin, operated in wholesale (31.3%), manufacturing (27.4%) – mainly mechanics, metallurgy and chemistry- pharmaceuticals – and professional services (18%). Moreover, over 90% of foreign companies that invested in Italian companies had a controlling stake. Germany, the United States, France, the United Kingdom, Switzerland, Spain and Japan – in terms of number of participants – are the main countries that invest in Italy.

[19] Confirmed by provisional EUROSTAT data of 2014.

[20] Data for 2014 confirm the trend in the average exports for micro and small enterprises whereas for medium and large enterprises export average value reveals an increase of respectively 11.2 and 92.3 million euros.

L'apporto della Geografia tra rivoluzioni e riforme. Atti del XXXII Congresso Geografico Italiano
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GIOVANNI MAIONE[1]

INTERNATIONALISATION OF BUSINESS AND NEW OPPORTUNITIES FROM THE MARKETS. FOCUS ON AFRICA AND THE MIDDLE EAST, THE NEW FRONTIERS OF DEVELOPMENT

1. *An Italian story*

Banca Monte dei Paschi di Siena was established in 1472 and is the oldest bank in the world, as is well known. Five centuries of experience and traditions rooted in the territory liaise Italy's past with the present.

It is also the story of a modern bank which knows how to compete in the current scenario and is able to adapt to market changes without forgetting its vocation. New management has streamlined the bank's organizational structure focusing again on its core business and strengthening commercial and risk monitoring units.

The Bank leads the Montepaschi Group which has always fostered and supported the internationalization of Italian companies. Its long experience with the companies enables the Group to enrich its offer with products and services aimed at companies wishing to successfully compete on international markets.

2. *Internazionalizzazione d'impresa*

The *Internazionalizzazione d'impresa* Project makes the international products and services of the Bank easily available for companies operating on international markets and aimed at providing the best solutions to the most frequent needs of customers:

- wishing to expand their trade business on international markets;
- interested in looking for partners abroad to develop their projects rather than capitalize investments;
- wishing to invest abroad using homogeneous applications and service quality offered by
    - our Team of specialists in international business
    - our foreign network
    - a whole set of selected external partners supplementing our service offer.

The Project is published on the Bank's website www.mps.it underlying the focus of our Bank on needs of the Italian SMEs operating in this field.

Internazionalizzazione d'impresa is a useful tool to develop business relationships with new foreign customers with a combined offer of international products and services supporting internationalization processes.

[1] Banca Monte dei Paschi di Siena. Area Manager for Southern Italy and Sicily. Keynote speaker.

3. *Strengths*

3.1. *Presence in Italy supporting foreign business*

The Montepaschi Group is one of the main Italian institutions and has a significant market share in foreign trade intermediation supporting more than twenty-five thousand companies in their international business through its network of branches and centres for small and medium-sized companies.

Thanks to its widespread distribution all over Italy and to the commitment of its staff Banca Monte dei Paschi di Siena makes all its experience available to the companies working abroad with proposals and tailored solutions to facilitate their introduction and consolidation on international markets.

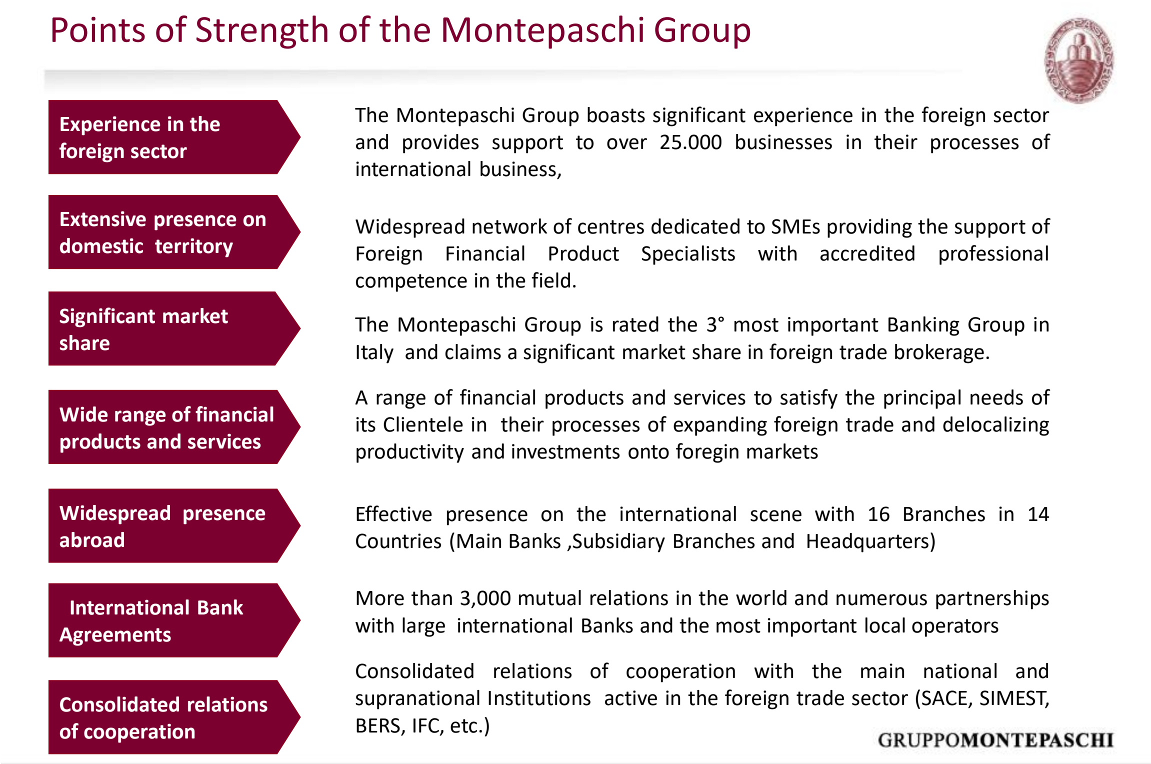

Figure 1. Points of Strength of the Montepaschi Group.

The Team of "Specialists in international business" working in the network of SMEs centres is locally rooted, in contact with the companies and able to provide practical information and feedback in line with their internationalization projects.

Information and in-depth analysis on the opportunities Banca Monte dei Paschi offers to the export companies can be found in the section "*Internazionalizzazione d'impresa*" on our website.

3.2. *Commercial Offer*

The Bank is supporting the internationalization of Italian Companies offering a wide range of products and services aimed at meeting all main needs of the customers as to commercial expansion, production delocalization and investments on foreign markets.

In addition to the traditional intermediation and service tools, such as the issue of contract guarantees and/or of short, medium or long-term credit lines, the Bank has set up a wide portfolio of high value–added products aimed at facilitating the introduction of our companies in the international markets.

To this purpose, Banca Monte dei Paschi di Siena has built strong cooperative relationships with major national and international institutions operating abroad such as SACE, SIMEST, ICE, EBRD, IFC.

Moreover, the Bank has tightened up cooperation agreements with a qualified group of professional providers to supplement the bank's offer in several fields such as *legal and tax assistance, business matching, information on foreign counterparties* and *their commercial assessment* without neglecting the interesting chances of *business scouting* offered by international markets.

3.3. ***Direct presence in foreign markets***

Banca Monte dei Paschi di Siena is also able to support its customers directly abroad through its own network of sixteen units – subsidiaries, branches and representative offices – in fourteen countries.

In particular, the following services are available:

- lists of counterparties and tailored commercial Matching;
- assessment and assistance for investment projects;
- B2B meeting organization abroad supporting the customer and providing logistics and interpreting services;
- B2B meeting organization in Italy with foreign buyers visiting our country.

Banca Monte dei Paschi di Siena is able to support the companies in countries representing the "new frontier" of the Italian export such as Russia, Turkey, China, India and Africa.

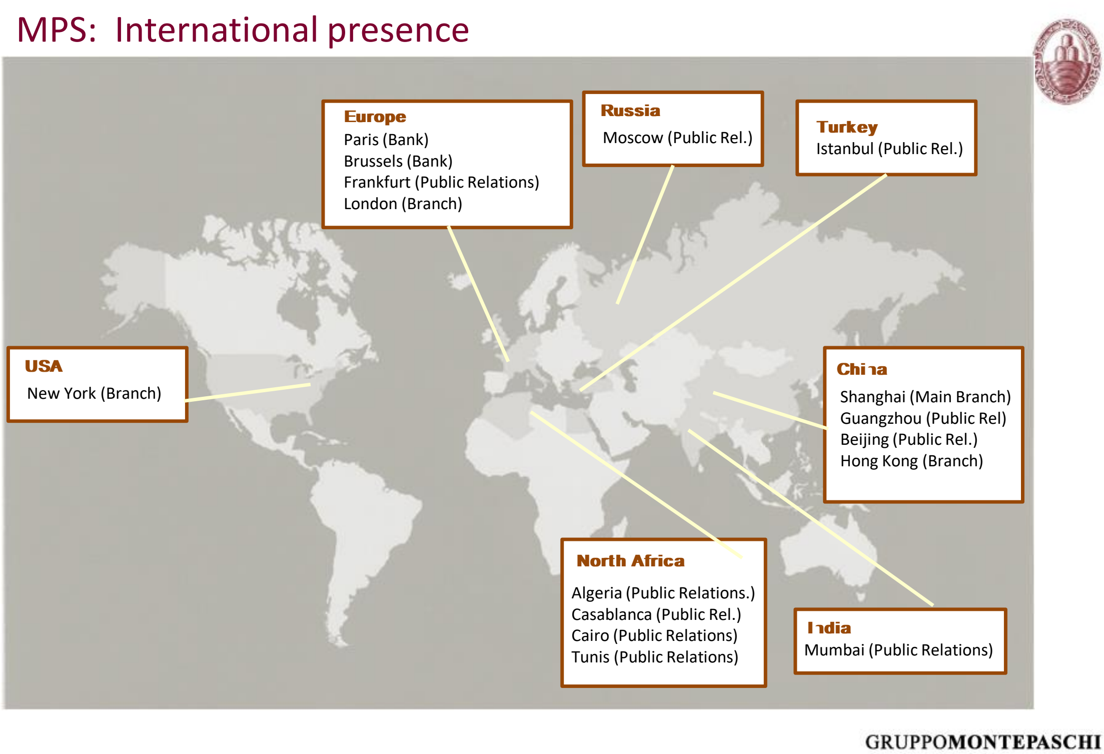

Figure 2. MPS: International presence.

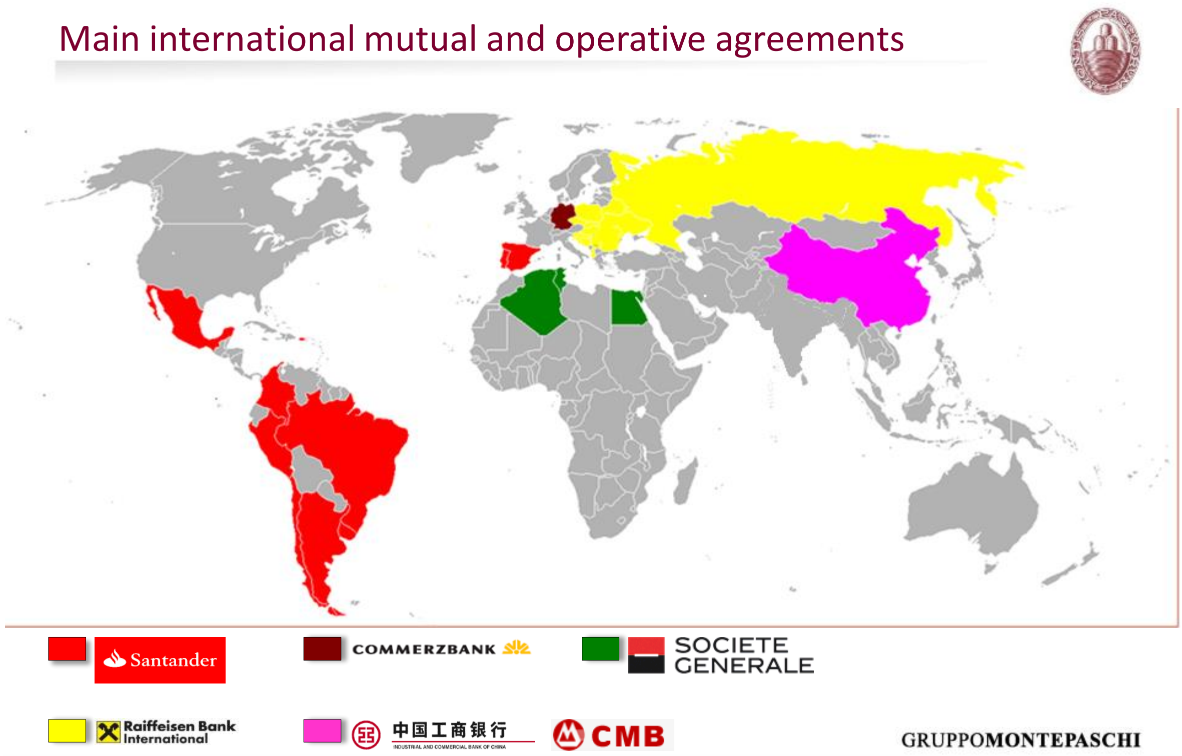

Figure 3. Main international mutual and operative agreements.

Banca Monte dei Paschi di Siena is able to support the companies in countries representing the "new frontier" of Italian export such as Russia, Turkey, China, India and Africa.

4. *Conclusions*

Thanks to its deeply rooted presence in the Mediterranean countries, Banca Monte dei Paschi di Siena has become a point of reference for customers operating on African or Middle East markets and remain such also in the current critical situation.

With a new supporting model addressed to customers interested in expanding their business or to investing abroad, the Bank offers answers to the problems of companies which are not sufficiently structured to autonomously meet the challenges linked to penetration of particularly demanding markets.

Fostering dimensional growth and innovation of our customers is the key driver of Banca Monte dei Paschi di Siena in supporting companies; a successful story can only go this way.

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NICOLA GIORGI[1]

THE BPER BANCA MODEL KEYNOTE SPEAKER TO COMPETE AND GROW ON FOREIGN MARKETS. INFORMATION, STRATEGIES AND RESOURCES FOR TTALIAN SMES

The aim of the BPER Group fouded in 1994 under the aegis of BPER Banca, was to create a federal system whereby its branches would be able to exploit the synergies of a large group while at the same time, remaining independent and rooted in the local territory.

BPER Banca, part of the BPER Group, comprises 4 independent banks well-established within the various territories. Besides the Credit Institutions, the Group also includes a number of companies dealing with financial products and tools.

BPER Banca's main goal is to respond to the challenges of increasingly competitive markets by combining the virtues of a national bank with effective knowledge of the territories in which its clients live and work. A Bank with a focus on households and on small to medium-sized companies (SMEs), fully meets its established objectives to actively support new and ongoing projects and to comply with the needs of the socio-economic community of the territory in which it is based.

BPER Banca's ongoing relations with the territory and commitment to its clients underpin the Group's success. Based on the creation of value for its stakeholders and on targeted governance, the Group's concerns are related not only to the impact of economic and financial elements but also to the socio-environmental spillover via risk assessment and opportunity analyses involving the territory of reference. BPER Banca defines its strategies and objectives taking into account the needs, expectations and requirements of its stakeholders. On the one hand, BPER Banca plays an active role in their daily lives and decisions and, on the other, is in turn influenced by them. An easy concept to grasp if applied to the Bank's clients or shareholders; and no less true if attention is shifted towards employees, suppliers and the local community. The Bank analyses and structurally classifies its stakeholders, relative to the company functions. They may have many interests (economic, social, environmental) in common, a stakeholder for example, may belong to more than one category at the same time (i.e. an employee who is also a client of the Bank).

Over the years, therefore, relevant channels have been put in place to deal with the various parties, BPER Banca via a number of tools and channels establishes a two-way dialogue with its stakeholders to listen to their needs and to gratify their expectations with respect to the company's operations, at the same time taking into account the common good of the Bank.In particular, in 2016, a structured process of commitment was launched, with the aim of gradually involving all the Bank's stakeholders. The main activities carried out during the year concerned: clients; clients – territory/community; territory/community and investors.Clients were asked to assess the importance (on a Likert scale of 1-10) of the tangible aspects indicated in the 2016 Sustainability Report, referred to 2015, as part of the annual Customer Satisfaction survey which in 2016 involved 1,000 customers of the Bank,Clients – territory/community, 4 Focus Groups[2] (Milan, Modena, Lanciano and Crotone) were set up, ad-

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[2] The focus groups involved a total of 35 non-profit organisations, clients of BPER Banca and active in various fields.

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dressed to representatives of the Services Sector relative to their expectations with respect to the Bank, in terms of Corporate Social Responsibility. The result of this initiative was a specific report that highlighted the expectations of the non-profit organisations not only with respect to the Bank as a whole, but also in terms of the services and products dedicated to them. Territory/community: an analysis was carried out of the daily press releases from the External Relations and CSR Office, with a focus on the issues considered of major interest during 2016.

The Investor Relations (IR) Office, the "reference point" for external stakeholders facilitates access to information on company functions and on corporate life. In particular, IR Office Management deals with relations involving the financial community, Rating Agencies, investors, intermediaries and other stakeholders, disclosing the Group's decisions and strategies in order to promote its values and increase market and investor confidence.

In 2016, therefore, the IR Office prepared the press releases and market presentations on the financial results and Business Plan of the Parent Company and Group, handled periodic reporting with regard to identification of shareholders and organised corporate events with analysts and investors (presentations, seminars, etc.). The Bank in order to fully satisfy the requirements of its stakeholders and to generate and distribute value also conducted initiatives to define strategic objectives of the 2015-2017 Business Plan, at that stage, still in the implementation phase. Specifically, the following aspects emerging from discussions with internal stakeholders were considered.Processes triggered included: the review of the network of branches, the development and putting in place of a digital strategy and streamlining and rendering efficacious sales and credit processes, particularly as concerns granting and management of loans. In the perspective of financial inclusion, BPER Banca has stipulated an Agreement with the Italian *Ente Nazionale per il Microcredito* to provide SME clients with Microcredit guaranteed by the Central Guarantee Fund for SMEs and auxiliary services sanctioned by law.

NON-BANKING PROFESSIONAL SERVICES
INDIVIDUALIZED SEARCH FOR AND RATING OF MATCHING COUNTERPARTS
BANKS WITH A GOOD REPUTATION FOR TRADE FINANCE OR FOR DELIVERING IN LOCO BANKING SERVICES
BUSINESS NETWORKS

Table 1. Added value to what BPER Banca offers. Specific services tailored to meet client needs.

BPER Banca continues to invest in support for enterprises that intend to exploit the potential of foreign markets. The Bank envisages such support as a model whose strengths can be found in the new website *bperestero.it* and in their Foreign Specialists, local professional profiles who provide high level consultancy and indicate profitable international business opportunities. The website, a core element of the model, offers solutions, information and consultancy to support enterprises in defining which products to export, which countries to privilege and how to carry out benchmarking and scouting of supply markets. In short, a full set of consultancy services to underpin the many processes that Companies intend to start abroad and have to govern such as strategic planning and the defining budget control, foreign sales and purchases.

In addition, on the website *bperestero.it* corporate buyers can avail themselves of a specific section dedicated entirely to services of supply.

FLANKING BUSINESSES RIGHT FROM THE START IN DEFINING PLANS FOR EXPANSION ONTO FOREIGN MARKETS :

- **THE DEDICATED WEBSITE BPERESTERO.IT**
- **THE BANK'S FOREIGN SPECIALIST STAFF**

PROMOTING A STRUCTURED APPROACH.

BPERestero.it:
INNOVATIVE I.E. DEDICATED, OPEN, UNIQUE, BY VIRTUE OF THE WEALTH AND BREADTH OF INFORMATION PRESENTED

150 EXAMINED COUNTRIES
400 EXPORTING PRODUCTS
500 COMMODITY MONITORATE
PROFONDITÀ TEMPORALE DI OLTRE 1OY
OVER 10 YEARS TIME SPAN
TIMELINESS OF UPDATING
MAIN FORECAST FOCUS

SPECIALIST FOREIGN STAFF OF BPER BANCA:
RESOURCES DEDICATED TO ASSISTING BUSINESSES IN THEIR PROJECTS OF EXPANSION ONTO FOREIGN MARKETS

In particular, once strategies of penetration and growth on foreign markets have been defined, Companies can count on BPER Banca's quality financial products and services at transnational scale. Services include specific loans, international guarantees for payments and receipts as well as tailor-made financial packages linked to specific export contracts (e.g. Forfeiting and Post-financing).

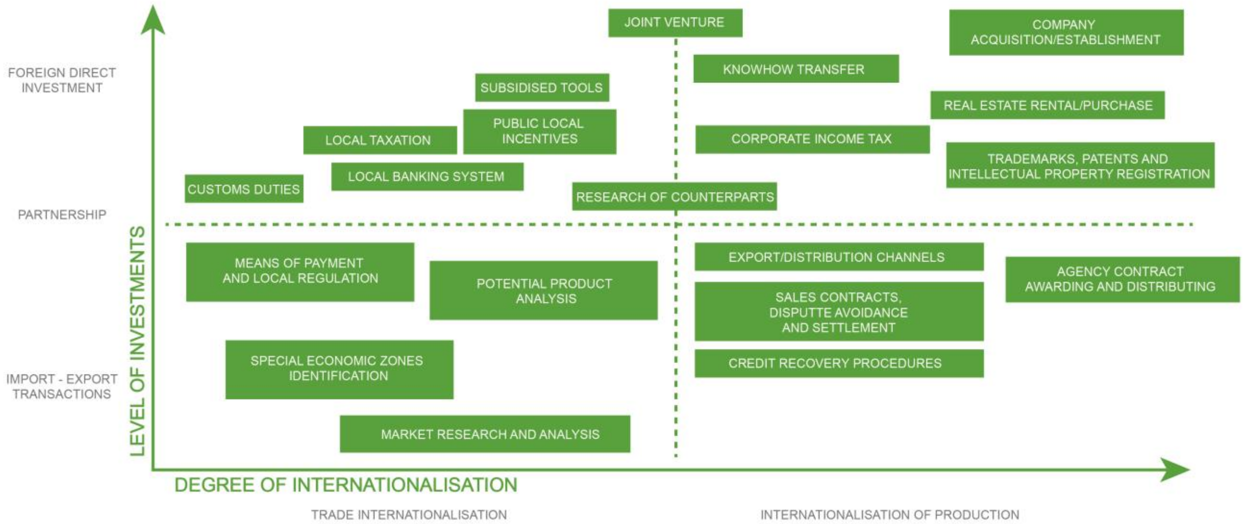

Figure 1. Non-banking professional services.

The website *bperestero* enables a methodical approach to the opportunity analysis phase, at the same time, the BPER Banca Foreign Specialist is a crucial professional figure who accompanies firms in their definition of penetration strategy of selected markets. Flanking the Specialist is a network of foreign consultants and – inhouse at the Marketing Directional Headquarters of BPER Banca Group – a team of consultants preside over the target markets. The Team of BPER Banca Specialists also organises Courses of Assessment and Evaluation at no expense for Companies during which foreign market consultants selected on the basis of the issues discussed, take part in B2B Meetings. The events focus on specific issues pertinent to diverse topics and countries which include: China, Russia, Turkey, India, Brazil, Asia, USA, the Emirates, Oman, Uzbekistan, Canada, Poland and Germany. Thanks to the network and to a consolidated partnership with foreign Banking Groups, Institutions and renowned Consultancy Practices, BPER Banca records numerous activities relative to indicating profitable foreign business opportunities for enterprises[3]. Since the early days of its launch, access to the *bperestero.i*t website has reached thousands of users, illustrating to Companies clear and timely data on the international flows of any given sector or product. This has enabled the carrying out of a targeted analysis in order to identify the best export markets and to verify both strategies to put in place and those imposed by competitor markets.

[3] From the Emirates fashion entrepreneur seeking Italian firms to place in the prestigious Dubai Mall, to the American investor interested in acquiring minority shares in Italian firms. From the Canadian Pasta Manufacturer willing to invest in the agri-foods sector to the Chinese importer interested in foods & beverages up to the business missions arranged in order to meet with economic operatos and buyers and to verify opportunities for investment in the Chinese Industrial Park of Gaochun (Nanjing). Some of these success stories are uploaded on the BPER institutional website (www.bper.it).

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CHIARA TUFARELLI[1]

THE ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS IN SUPPORTING EUROPEAN SME FOREIGN DIRECT INVESTMENT

1. *Introduction*

Programs and specialized agencies supporting Foreign Direct Investment (FDI) in emerging markets have long been a salient feature of the development work carried out by the multilateral development industry. A wide array of advanced and specialized financial products and services are provided by development banks and multilateral and bilateral investment guarantee agencies, and are made available to the global banking system and to internationalized enterprises worldwide.

Typically, financial strictures put political pressure on governments and ultimately on multilateral development institutions programs and performance. As a case in point, under the current economic crisis, multilateral agencies are confronted with a pattern of shrinking contributions on the part of several European shareholders. The economics of institutional governance is, as a consequence, becoming increasingly more pressing: the complex governance of multilateral organizations is strained by requests for greater efficiency on the part of the shareholders, who tend to threaten to divert their contributions away from multilateral investments, towards more visible and manageable bilateral development activities. European donors administer their relationship with multilateral development institutions – and convey their respective governments' policies requirements – through a governance mechanism that involves several ministries and relations across different levels of government (and with a varying degree of compactness according to country and agency-specific arrangements[2]).

While governance styles vary across countries, European shareholders have consistently shown to be vocal about their need to justify their Government's funding to their domestic political constituencies: they expect to show that contributions to multilateral agencies are utilized to undertake investments which directly advance the Country' s geo-political priorities – and, most noticeably, domestic employment creation policies. FDI support activities are in general perceived as being congruous with real sector support policies, and are therefore overall endorsed and encouraged by the European shareholders. Donors assume that financing the internationalization of companies bears a positive impact on the real sector in the parent country as well as in the host country, and that these development activities will eventually generate employment.

Italian companies (and Italian SMEs in particular) however seem to under-utilize the multilateral funding available to FDI investment. This paper attempts to provide an explanation for this occurrence, and highlights the importance of matching SME support policies undertaken by multilateral institutions with market characteristics.

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[2] These mostly include the Ministry of Treasury, the Ministry of Foreign Affairs and Development Cooperation, the Central Bank and the National Development Cooperation Agency – as well as a series of more theoretically operational figures (such as, for instance, the Executive Director, usually an emanation of one of the above-mentioned agencies).

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2. *FDI Support Funding and Multilateral Development Institutions*

As patterns of corporate legal forms and financial accounting change over time, definitions of FDI have been modified to incorporate new types of investment and improve upon the accuracy of definition and measurement[3]. For the purpose of this discussion, we look at FDI consisting of direct debt or equity investment from an enterprise in a EU (parent) country to a company in the (host) – emerging market – country.

FDI could thus be broadly defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (host country enterprise). EU outward FDI stock[4] has increased steadily over the past 10 years, rising from 35% to 59% of aggregate GDP during 2005-2015[5].

The modality of FDI has been increasingly shifting away from traditional forms associated with either extractive activities or labor-intensive manufacturing for exports, and it now mainly consists of investments such as mergers and acquisitions (most recently purchasing privatized assets in Latin America and Eastern Europe, or assets underlying non-performing bank loans in Asia or currently in Europe). *Noticeably, FDI differs from portfolio investments, as it is undertaken within a long term investment strategy – implying the acquisition of control or at least of an effective representation in the lasting interest of the parent company*. This feature informs the inherent stability of FDI (a backbone justification for multilateral agencies support programs, as discussed below).

3. *Rationale for International Financial Institutions s' investments in FDI*

FDI support programs in emerging markets are an important component of the multilateral agencies' development work for a variety of reasons. In the first place, FDI has been widely proven a driver for technology and know-how transfer to domestic enterprises and to the labor force, enhancing productivity and often providing a preferential access for exports abroad. Most relevantly and from a macro-accounting host country perspective, FDI is non debt-generating, and is therefore a preferred source of capital for financing a current account deficit. Moreover – and yet again in a macroeconomic perspective – relatively long term FDI has shown to act as an automatic stabilizer in response to short-term crises. With the world economy increasingly globalized and intrinsically more unstable, FDI flows to emerging markets have in fact consistently shown to be resilient during the financial emergencies occurred over the past 40 years. No significant FDI withdrawals were in fact recorded during the Latin American debt crisis (1980s), the Mexican currency crisis (1994-95), the East Asia financial crisis (1997-98) (Loungani, Razi, 2001) and the 2008 global financial crisis (Alfaro, Chen, 2010).

FDI support programs implemented by multilateral development institutions take stock of the vast literature and best policy practice databases on FDI determinants. These are related to: i) the market size and growth trends of the host country: market seeking investments in fact focus on countries with large markets and promising growth prospects; ii) the wage-adjusted productivity of labor (correlated, in turn, with availability of technology and innovation); iii) the availability of infrastructure; and iv) the stability of the fiscal system. Other relevant – and broader – macro determinants refer to

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[3] This paper utilizes OECD BMD4 definition of FDI.

[4] FDI stock is herein defined as gross border expenditures to acquire or expand corporate control of productive assets.

[5] OECD (2008).

the host country's political stability, to the conditions that support physical and personal security to the level of corruption and quality of governance, as well as to the legal framework and rule of law.

FDI support investment activities undertaken by multilateral investment agencies are therefore enacted in the framework of investment programs addressing the following themes:

- monitoring and mitigation of disruptions in the banking and capital market chain supporting FDI in emerging markets, which could result in higher spreads and withdrawal of subsidiaries;
- strengthening the policy dialogue on issues related to the investment regime (such as legal and regulatory framework on basic rights, rule of law, regulatory efficiency and property rights, as well as issues such as enforcing contracts and starting and conducting a business, with focus on latent risk, so as to improve risk management by foreign investors);
- developing local capital markets in order to provide a wider range of financing sources, such as allowing nonbank financial institutions (i.e., pension funds and insurance companies) participate in the provision of long-term financing to FDI;
- improving infrastructure quality, and strengthening the local supply chains.

4. *International Financial Corporation and FDI Programs*

While addressing FDI-background reform issues in host countries, the World Group provides specialized market support to parent companies via the International Financial Corporation (IFC), which is the largest global development institution – with 108 offices worldwide – focused exclusively on the private sector in its developing member countries. IFC has a total disbursed investment portfolio of $37.6 bn (as of FY 2016) consisting mainly in loans (63.7% of total portfolio), equity (28.7%) and debt securities (7.6% of total disbursements).

IFC operates on a risk-sharing model with the private sector, making available a maximum of 25% of total project cost for each investment undertaken. The group of industries included in IFC investment strategy is fairly wide and includes: infrastructure and natural resources, financial markets, chemical industries[6], manufacturing industries including machinery and construction materials (such as cement, metals, glass), agribusiness including forestry (pulp and paper, plantations), commodities, livestock, beverages, dairy, food processing, services including health (hospitals), education, tourism, retail, property and life sciences (pharmaceuticals).

The IFC operates by extending senior debt finance, structured and mezzanine finance (the latter including convertible and subordinated debt and Tier II instruments) and private equity finance. In addition, it offers sustainable finance funding programs, to support global trade finance and to strengthen supply chains. The latter instruments have proven to be especially crucial at responding to investors' concerns on markets' responsiveness to outward FDI, and have been designed to a wide degree of detail.

The decreasing availability of lending from trade and commodity finance in emerging markets is in fact threatening to impact the overall value of global commerce (estimated at $14 trillion in 2016)[7], with potentially dangerous consequences in strategic sectors such as agriculture and energy. Multilateral development agencies are seeking to offset scarcity of financial resources in such crucial areas by offering various instruments in trade portfolio solutions. IFC programs cover pretty much the entire economic value chain, supporting exporters across industries and addressing all productive stages: pre and post-harvest financing, inventory and warehouse receipts financing, working capital and

[6] Such as: refining and distribution, petrochemicals, fertilizers, inorganics and specialty chemicals.

[7] IFC (2016).

supply chain financing and pre-export financing.

Global trade and supply chain activities are designed as public-private partnerships (i.e., with a risk-sharing mechanism), and account for about 35% of IFC's total commitment, where IFC contributes with its own funds and mobilizes other entities to support the emerging market trade portfolios of banks, by channeling liquidity or guarantees.

In summary:

- IFC is the largest single lender financing FDI in development economies, with a global presence;
- it provides a comprehensive, innovative and well-targeted range of financial instruments, geared at supporting FDI – including international trade and supply chain finance facilities;
- it has statuary obligations to fund private sector entities;
- IFC works in partnership with the private sector, adopting a risk-sharing lending strategy– thus mitigating risks of institutional distortions in designing investment strategies.

5. *Italian FDI and IFC Support*

IFC may not invest directly in Italian companies, due to statuary constraints, since Italy is a Part I (donor) country. It will, however, participate Italian companies' FDI operations in developing markets – such as, for example, the incorporation of a foreign subsidiary or the acquisition of a foreign supplier.

The IFC Italian portfolio has historically focused (a) on the financial sector vis-à-vis the non-financial industries and (b) target larger concerns, as opposed to SME companies. This imbalance across industries in favor of the financial sector has given rise, over the recent years, to complaints on the part of the Italian Authorities involved in the governance of the institution. It was in fact felt that IFC was making its portfolio choice simply by picking larger, easier transactions with the financial industry, thus letting out non-financial companies in need of support to enact FDI operations. The underlying argument is that, by investing in the financial sector as opposed to the non-financial industries, the impact of IFC funding on the real economy of the parent, Italian economy, will not be optimized, as these investments will ultimately not generate jobs in the domestic market. In other words, Italy as a shareholder of the Institution would not receive the expected returns on equity (in this case in the form of generation of domestic employment), which are central to the Italian political debate on the economics of governance of multilateral institutions.

IFC overall committed Italian portfolio was about $1 billion in 2016, approximately 50% of which invested in the financial sector; this ratio was down from 86% of total portfolio committed to the financial sector in 2013. Commitments undertaken during the 2014-2016 periods consist of[8]:

- *Unicredit Bank*, Bosnia and Herzegovina – in May 2016 IFC committed a €2.5 mill straight senior loan from IFC's own account and a €2 million straight senior loan from the IFC-Canada Climate Change Program to Unicredit Bank d.d.in Bosnia and Hezegovina, a subsidiary of Unicredit., to support onlending activities for energy projects;
- *Maccaferri*, Falcon P.V, Jordan – in September 2014, IFC committed a $13 million loan from IFC's own account and mobilized up to $20 million from other investors to support Falcon Maan, a 21 MW solar PV power plant located in Amman, Jordan; the project was financed by the Jordan-based Catalyst Private Equity Fund, a regional fund specialized in the energy and water technology sector, IFC and two Italian companies subsidiaries of the Italian Maccaferri Industrial Group; the Group's total revenue was € 465 million in 2016, with an EBITDA of 40

[8] IFC, 2017.

million;

- *Recordati Ilaç* – in June 2014, IFC committed a $34 million local currency corporate A loan to Recordati Ilaç, the Turkish subsidiary of Recordati S.p.A., a listed multinational company involved in specialty pharmaceutical, to finance the new production facility in the Istanbul region;
- *Enel Wind, Brazil* – in May 2014, IFC committed a $200 million A loan to Enel Brasil Participaçoes, a wholly owned subsidiary of Enel Green Power, to support the development, construction and operation of 12 wind power plants located in Brazil's northeast region.

Former commitments were made with the following partner companies: Colacem (for a $28.7 million project in the Dominican Republic and Faber Industries, for a $26.1 million investment in Thailand. Disclosed investments include CLN and Proma Group (producing motor-vehicle parts), for a $20 million investment in Serbia and Piaggio Diesel (producers of diesel and turbo diesel engines for light commercial vehicles and two wheelers), for a FDI operation in a Vietnam two-wheeler manufacturing facility.

While not attempting to carry outs an actual portfolio analysis of IFC participation to Italian SMEs, which would require a thorough analysis of disclosed investments as opposed to committed amounts, this discussion would like to highlight the following general traits:

- the overall portfolio is small when compared for example to the portfolio of France (whose 4.25% shareholding quota in the World Bank Group is however higher than Italy's 3.17%), where IFC commitments in FDI amount to approximately $1.7 billion, plus $2.1 billion provided in the form of Syndicated B loans and parallel loans with French financial institutions;
- it remains biased towards the banking sector;
- it is geared towards large, public-participated companies: the 2014-2016 increase in investment to the non-banking industries could most probably be ascribed to the relatively large ($200 million) loan extended to Enel Wind Brazil in 2014);
- when co-investing with private sector companies whose public participation is lower than 20% of the total, these are large size enterprises as opposed to SMEs;
- funding is mainly carried out under a loan investment, as opposed to equity deals.

6. *Structure of the Italian Non-Financial Sector and IFC Policies*

The characteristics of Italy's industrial structure could partly explain the pattern of IFC investment described above. It should be underscored that financial institutions ordinarily have statutory limits on the minimum size of the equity investment deals. In the case of the IFC, the agency will not provide financing smaller than $5 million, and is allowed to fund an average of 25% of total project cost, which makes the minimum possible equity deal not smaller than $20 million. Other pre-requisites of IFC investment policies are that the partner company, which should in turn provide strong equity participation to the project within a long-term strategy should have a successful track record in the industry (with strong financials), be at least 50% privately owned and meet IFC environment and social standards.

The above requirements rule out possible co-investment with small companies, which account for about 150,000 Italian enterprises and collectively produce approximately €97 billion of trade value, who would hardly be able to engage in a + $20 million operation.

With reference to medium-sized enterprises, FDI is moreover limited by different factors related to the low propensity for FDI. The number of Italian medium-sized companies, at about 9,800 in 2016, is 14% higher than the French market (with about 7,000), and generates 16% more trade value.

Furthermore, Italian SME export figures have been consistently exceeding French exports by 16-17% over the past 10 years[9]. However, Italy's FDI stock for the entire industrial sector as recorded in 2015 remains less than one third lower than the corresponding French financial stock.

Italy's outward FDI calculated as a percentage of GDP is at 26% (again much lower than the French, calculated at 50%). With FDI propensity increasing with the average size of firms, it could be inferred that Italian FDI will mostly be carried out by large companies (as opposed to SMEs). In essence, building a large enough pipeline with Italian SMEs proves to be simply impossible for multilateral investment institutions, since SMEs are internationalized mainly via the export (as opposed to the FDI) model. The most plausible targets for IFC co-investment pipeline would thus appear to be Italy's large enterprises, which account for a total trade value of €83.4 billion (15% lower than French trade value generated by large companies). Yet again, when analyzing Forbes' global ranking for the 2000 largest companies for Italy and France. It can be remarked that the portfolio of the largest Italian companies included in this sample produce a much lower market value (400% less on average) than French companies, with similar differentials in terms of combined asset values[10]. Most noticeably, the overall revenue/profit figures see Italian companies with $822.8 billion and €6.4 billion negative profits, with French companies generating $ 2.185 trillion in revenues and $72.5 billion profits.

It could thus be argued that that the potential portfolio of a multilateral global financial player in Italian larger size companies might be limited by two main factors. These are: 1) Italian large companies are smaller in number if compared to, i.e., French large companies; and 2) within that smaller potential investment pipeline, companies fulfilling the requisites of having healthy financial accounts might be less in number, comparatively to a smaller pipeline extracted from the French (larger) enterprise ranking.

Another factor which might be of obstacle to IFI's support to Italian large companies' FDI is the propensity among the healthy, large companies, to resort to the market in order to raise capital – consistently lower in Italy than in the other EU G7 Countries. Borsa Italiana's capitalization, with 328 listed companies, is thinner than the Paris and Berlin stock exchanges (with 600 and 750 listed companies respectively).

7. *Conclusions*

Programs providing support to outward flows of FDI from EU countries have long been part of multilateral agencies' activities, who tackle the complex issues underlying FDI from a variety of angles, i.e., through development programs addressing institutional robustness and by extending financial and guarantee facilities to investors. This paper has reviewed the comprehensive set of financing instruments provided by the largest multilateral agency dedicated to co-investing in developing economies with private partners on a risk-sharing basis. It has then looked at the pattern of IFC portfolio in Italy, and has attempted to draw a few suggestions to explain why it is focused on the financial sector with relatively few, large and occasionally Government-participated non-financial private partners. In conclusion, this analysis suggests that, given the policy guidelines informing IFC investment, Italy's industrial structure provides several constraints to developing a robust portfolio.

It remains to be seen whether some adjustments on the part of the Italian Authorities on the policies priorities set out by Italy (as a shareholder) for multilateral investment agencies can be identified, so as to enhance the effectiveness of funding for Italian SMEs. This issue is however beyond the scope of the present paper, and is best left as a topic for future research.

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[9] OECD, 2008.

[10] Italian combined asset value is at $4.703 trillion and French is at $11.651 trillion.

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