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GEOFINANCE BETWEEN POLICIES, BANKING AND FOREIGN TRADE: AN ANALYSIS OF THE ITALIAN BANKING SYSTEM ACROSS BORDERS AND FIRMS INTERNALIZAZION BEHAVIOR

Silvia Grandi[1], Christian Sellar[2]

Abstract

Using the geographical patterns of Italian banks' international network as a case study, this paper studies the relationship between governmental economic strategies, the international strategies of banks, and firms' internationalization. After a spatial distribution analysis, this paper models the main strategic organizational processes of the Italian banking system since the late 2000s, highlighting the relationships with internationalization, trade flows and government policies. Italian banking groups are clustered according to drivers of internationalization and it describes trends in strategic behavior. The results are showing uneven patterns. In major Italian banks two main strategic organizational processes occurred: mergers & acquisition (M&A) by international groups and the M&A by clustering among Italian banks. Next to these cases, middle and small size banks operated strategies that can be depicted as: proximity expansion, finance city focus and exploratory expansion. This study also shows that trade flows and internationalization behaviors of Italian firms are only one among many the factors influencing location choices of Italian banks. On the other hand, government agencies may influence lending patterns through guaranteed credits.

Keywords: Relationship between governmental economic strategies, the international strategies of banks, and firms' internationalization.

1. Introduction

The term "Geofinance" was brought to the attention of a wider audience in a speech by the UK Deputy Governor for Prudential Regulation, who defined it as "impact of geography on the shape of banks, insurers and financial regulation" (Woods 2017), implying that a policy agenda needed to be built around the spatial restructuring of finance. Thus, even though there is no shortage of critical analyses on the geography of finance, the term geofinance tends to have a normative, policy oriented focus (Hall, 2018). We chose to use this term for a mildly provocative reason, as a matter of fact this paper critically engages the notion of policies shaping the spatial distribution of finance by arguing that there is a seldom investigated link between states' economic

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policies in a globalizing market, the spatial behavior of actors in finance, and firms' strategic decisions to explore and invest in international markets. In a nutshell, we argue that geofinance is not only about finance and geography, it is about the establishment of linking the actions of actors in the government, in the territory, as well as financial, and private firms sectors.

In particular, this paper develops its argument by presenting the early results of research on the Italian banking system, aimed at analyzing – with an interdisciplinary and an economic and finance geography perspective – the relationship between commercial banks, the state, and internationalization of firms,. Its primary contribution to the literature in financial geography is precisely in identifying a silver line connecting apparently disjoined processes of public policy, banks strategies, and firms' behavior.

To date, there is only a handful of studies on the globalization of the Italian banking system, by geographers (Lucia, 1999; Pegorer, 2014; Sellar, 2015; Grandi, 2019; Grandi, Sellar and Jafri, 2019), economists, and scholars in cognate disciplines (Padoan, 2000; Ministero dello Sviluppo Economico; 2001; Oriani, 2006, Vergara et al. 2018, Abel-Koch 2018). Even fewer scholars have studied the relations between the processes of internationalization of banks and small and medium size enterprises (SMEs). Italian scholars working on local systems and industrial districts, starting with the seminal works of Bagnasco (1977) and Beccattini (1979), highlighted the role of banking in fostering innovation in response to globalization (Corò and Rullani, 1998; Quinteri, 2006; Papi et al., 2017). Back in the 1990s, Italian geographers focused their attention on international trade and firms' internationalization patterns (Celant, 1999); however, lately the focus of political and economic geography on international trade and the expansion processes of the Italian economy on foreign markets has been rather marginal and, eventually, related to financial flows and financialization processes (Lucia, 2010; Parenti and Rosati, 2016). It is only recently that Italian geographers have begun looking at banks as a factor in reshaping SMEs value chains and, more in general, the influence of banks strategic choices on regional economies (Sellar, 2015; Parenti e Grandi, 2016; Citarella, 2019; Celant 2019;).

This paper shows that there are two main reasons why the behavior of banks should be looked at more carefully when discussing the links between Italy's economic policies and firms' internationalization. First, banks are among the most important private organizations supporting industrial and commercial enterprises (including SMEs). Second, the Italian State over the years has established several public organizations aimed at supporting firms' internationalization. These are – relatively to the rest of Italy's public sector – relatively large and well-funded organizations. Some of them – the so-called Sace, Simest and Cdp (Cassa depositi e prestiti) are specifically dedicated to finance.

Our methodology consisted first in the collection of official statistical data from Italy's national statistical office (ISTAT) and banks' website analysis. Building on those data, we correlated the spatial distributions of firms and banks international activities using GIS. A second step of the research has been conducted collecting direct interviews to the major Italian organizations dealing with banking and firms' internationalization –

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these included both state and private owned organizations. Interviews with the three major state-owned organizations supporting internationalization (SACE, Simest, CdP), one large lobby, two business associations and the national bank, were conducted in Rome in 2018 and 2019. Interviewees included high-level officials in divisions charged with external relations or internationalization. Public officials requested strict anonymity at the time of the interview. Thus, interviews will be cited as "public official #1," 2, etc. to identify interviewees in state owned organizations and "manager in private organization #1," etc. to identify those working for lobbies and associations. The authors contextualized the interviews using a geo-historical approach linking the local development theories to the history of banking, real life and ethnographic observations.

2. Banks and firms: a nation-specific pattern of internationalization?

This section discusses the pattern of internationalization of the Italian economy, building on the hypothesis 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 influential processes of adaptation, synergies, growth, as well as conflicts and crisis. This paragraph describes the state driven institutional mechanisms underpinning both processes. In so doing, this paper configures both banking and firms' internationalization as a partially State driven development strategy: on the one hand, banks and firms acted independently from one another and from the State; on the other hand, the Italian government influenced the opportunities available to firms by selectively backing banks' credit lines through financial guarantees and co-financing.

Building on earlier forms of public support to export, the Italian government built an institutional structure aimed at promoting the internationalization of the Italian economy in response to the post-Cold War environment of the 1990s and the accelerated globalization and crises of the 2000s-2010s. Such structure targeted both internationalizing firms and finance. The earliest forms of support date back to the early Twentieth Century with the constitution of INE (Istituto Nazionale per le Esportazioni, National Institute for Export), which was later renamed ICE (Istituto per il Commercio Estero, i.e. Institute for Foreign Trade or Italian Trade Commission), a public agency supporting Italian firms attempting to access foreign markets. The institute initially targeted non-European areas where the stronger French and British colonial powers had a system of tariffs and preferential trade agreements limiting Italian exports. In the 1970s, a new phase of global instability led the Italian government to add a second public agency – SACE – to provide credit insurance to exports, because the Cold War, decolonization and nationalization processes were threatening Italian investments.

The end of the Cold War, economic reforms in the Central Eastern Europe (CEE), and mounting pressure from low cost producers since the early 1990s challenged both firms and institutions supporting them. Firms experience strong price competition, while at the same time reforms in CEE opened up investment opportunities for offshoring aimed at cost containment. As a result, nationally contained value chains rapidly extended abroad: chiefly to Central Eastern Europe and North Africa in the 1990s; later, especially after the crisis of 2008, firms further expanded with a different kind of internationalization, aimed at market penetration in the Americas and Asia (Chiarvesio et al. 2006, Dunford 2006, Sellar et al. 2017). With a parallel process, banks also began acquisitions, especially in CEE (Sellar 2018, Vergara Caffarelli et al. 2018). In this new environment, converging pressures transformed state support to export, leading to a new institutional structure: first, entrepreneurs lamented the ineffectual Italian-speaking financial and informational services available abroad; second, entrepreneurial public servants sought resources to start new public-private partnerships to meet those needs; and third, during the prolonged recession following the global financial crisis of 2008, the Italian government prioritized exports as an anti-crisis measure (ibid.).

The mounting demands for state support to internationalization resulted in both new laws establishing state agencies and public private partnerships, and administrative restructuring of existing organizations. Early legislation was directly influenced by the post-Cold War environment, specifically targeting firms that chose to invest in Central and Eastern Europe. Law 100/1990 established SIMEST, a state agency providing financial services to internationalization, and Law 19/1991 established Finest, a second agency providing financial services, but with a more focused scope: it served firms headquartered in the northeastern regions close to the former Iron Curtain. Moreover, Finest financing was specific to projects in CEE and the former Soviet Union (FSU). The same law established Informest, a public-private partnership initially conceived as a knowledge-based support structure for Finest: firms would acquire information about opportunities in CEE from Informest, and then apply for funding from Finest. Law 212/1992 expanded both agencies and established grant programs, financed by the Italian government and managed by both the Ministry of Foreign Affairs and the Ministry of Foreign Commerce to aid with economic development in CEE.

In parallel, neoliberal reforms of economic development and the backlash of the economic crisis of the early 1990s, lead to a structural reform of the development agency for the Southern Italy set after the Marshall Plan. A new multi-agency system called Sviluppo Italia was created (now Invitalia). In this process the Italian *Istituto per la Promozione Industriale* (Institute for Industrial Promotion), IPI, (born from the reorganization of the, *Istituto per l'assistenza e lo sviluppo del Mezzogiorno*, (Institute for the assistance and the development of the South), IAS,M was funded during the Ciampi Presidency to support SMEs policies. The institute had a public-private governing body composed of what the government at that time considered to be the three drivers for development: the state (i.e. Ministry of Industry), the largest lobbies (i.e. the Italian main entrepreneurs' associations namely *Confindustria, Confapi, Confartigianato,* CNA) and the banking system (i.e. the Italian Banking Association, ABI).

Throughout the 1990s entrepreneurs, academics and policy makers began identifying finance as system-wide weakness in the support to internationalization. On the one

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hand, the predominantly small and medium sized Italian firms had scarce endogenous resources; on the other hand, banks also had an insufficient network to support firms abroad, especially after the privatization of the Italian banking system undergone at the end of the 1980s and in the 1990s. Among academics, Lucia (1999) reported that the insufficient size of Italian credit institutions and restrictive institutional policies had led to a serious international presence deficit of the Italian banking system. A policy-oriented study commissioned by the Italian Banking Association (ABI) 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, and to operate with difficulties in credit segments such as buyer credit and forfaiting (Padoan, 2000).

The Padoan (2000) study included policy recommendations that, thanks to the support of ABI, were implemented by the government in the form of administrative practices already by the end of the year 2000. These included the strengthening of financial support instruments for SMEs by improving the Ministry of International Trade budgetary lines and a stronger role of SACE, and SIMEST through an agreement with the state-owned investment bank Cassa Depositi e Presiti (CDP). The latter took the form of an agreement between ABI and CDP called "Export Banca" supporting buyers' credit. Revamped practices included a strengthening of economic diplomacy through regular activities and missions to target countries; the definition of a specific initiatives on country risk; increasing the level of collaboration between Italian banks and multilateral development institutions such as EU programs (COSME in particular), the European Investment Bank and other international banking systems; the reform of ICE and a worldwide 'Made in Italy' national brand campaign.

The pattern of reforms accelerated in response to the Global Financial Crisis. At the outset of the crisis in 2008 the Italian government merged the *Ministero per il Commercio Internazionale* (Ministry of International Trade) with *the Ministero delle Attività Produttive* (Ministry of Productive Activities). This reform established a single unit, in charge of both industrial policies and international activities, *the Ministero per lo Sviluppo Economico* (Ministry of Economic Development). Within the Italian state structure, such organizational changes are relatively infrequent: since the establishment of the Republic after World War II the then Ministry of Industry and Commerce was restructured six times, acquiring the name of Ministry of Productive Activities in 1999 after the merger with the Ministry of Communications.

Such reforms were part of a new law aimed at cutting administrative costs by merging ministries. Thus, the reform of 2008 can be interpreted as both a step towards building a more efficient and less costly bureaucracy and as a strategic choice to build an organization in charge of both industrial policies and policies supporting firms' internationalization. Therefore, the government created the structural precondition for a development strategy encompassing the domestic and international spheres. Within its borders, the new ministry pushed for more territorial marketing, introducing for the first time reforms to facilitate inward FDI. Beyond its borders, it adopted export promotion as an explicit economic development and anti-crisis strategy. In so doing, it charged consulates and other public agencies with more intense promotional activities for the 'Made in Italy' brand. Later, in 2011 ICE was closed and re-opened with a much nimbler structure focused on promoting the 'Made in Italy' brand abroad.

The overall goal of these reforms was to increase the number of firms that regularly export. In this perspective, from the interviews with SIMEST, emerged that banks, considered firms, where granted support in form of equity investment for their internationalization process in the 1990s, especially Intesa San Paolo and Unicredit. A further set of institutional architectural reforms opened in 2016 when SIMEST and SACE became part of the CDP group with the aim at creating a "single contact point to firms in the field of the financial support to internationalization processes" (interview with public official #1, 2018). Moreover, CDP itself gained a further function by law dedicated to the reform of the international cooperation and of the Italian official development aid (Law 125/2014). In particular, CDP became a development bank managing the development funds aimed to foreign direct investment of Italian firms in the least developing countries with a special financial risk, targeting the challenge of the for-profit public-private mechanism in the field of finance for development in the spirit of the strategy "from millions to trillions" following Addis Ababa Action Agenda of the UN (UN, 2015; Grandi, 2018).

Overall, these reforms took place without significant opposition because, on the one hand, the long tradition of supporting exports somewhat legitimized them; second, the traditional left parties and its political successors have had a long-standing tradition supporting SMEs as tools to promote rising living standards for the working class. Such political support extended to the attempts to encourage export and internationalization. However, several instances of conflict were reported, especially between public and private forms of support to internationalization, and between internationalizing banks and firms (Sellar et al., 2017; Sellar, 2015). Such synergy between the private sector and government policies supporting internationalization includes the financial sector, thanks to the tight relations between public agencies such as CdP and SIMEST and the banking sector. First of all, SIMEST provided some of the capital that allowed one of the largest Italian banks to internationalize; second, public financing works as guarantee allowing private banks to extend credit to resource scarce SMEs (Abel Koch, 2018).

State-finance partnerships are in part due to intrinsic weakness of the financial sector. Unlike in the Anglo American economies, where financial services are strong and highly clustered (Pazitka and Wojcik 2019), in Italy financial services tend to have fewer resources, smaller lending capabilities, higher level of risk aversion, and a lack of an established venture capital sector. In these conditions, the government stepped in to provide publicly-backed guarantees, aimed at, on the one hand, increasing the overall amount of lending to the industrial and commercial sector, and, on the other hand, directing lending to support internationalization. In a nutshell, the Italian government sees support of internationalization as a key economic policy. The policy took the form of specific forms of support dedicated to both firms and the financial sector. Thus, conceptually the internationalization of firms and banks are connected by the hub of state-owned organization and resources. On the other hand, banks and

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firms retain their own independence and strategic goals, resulting in diverse geographies of internationalization.

The outcomes of these policies are statistically visible, i.e. by 2016 about 100.000 firms were subsidized by public finances services of more than 10.000 million euros, including those provided by SACE's, SIMEST's and CdP's new financial commitments (ICE, 2016, p. 55). In addition, official data shows that exports both in volume and value has been growing from 2009 (Osservatorio Economico, 2016; 2019; ISTAT, 2017) and the propensity to export, as the percentage of export of goods and services over gross domestic product (GDP) is rising for all types of enterprises, including SMEs (ICE, 2016). The spatial distribution of exports in value (figure 1) shows clearly the concentration of Italian firms behavior, i.e. acting in a pattern that the Italian Ministry of Foreign affairs describes as "*a cerchi concentrici*" (concentric circles), i.e. with higher intensity in "closer" area (intended both in term of distance and/or cultural and political affinity) and then lowering the intensity. Partially an exception are the BRIC countries and Australia: Brazil, Russia, India, and China. Moreover, the data on Italian foreign directs investments shows that the geographical pattern are following a similar principles, but in term of flows the trend are fluctuating more significantly over the years (Osservatorio Economico, 2019).

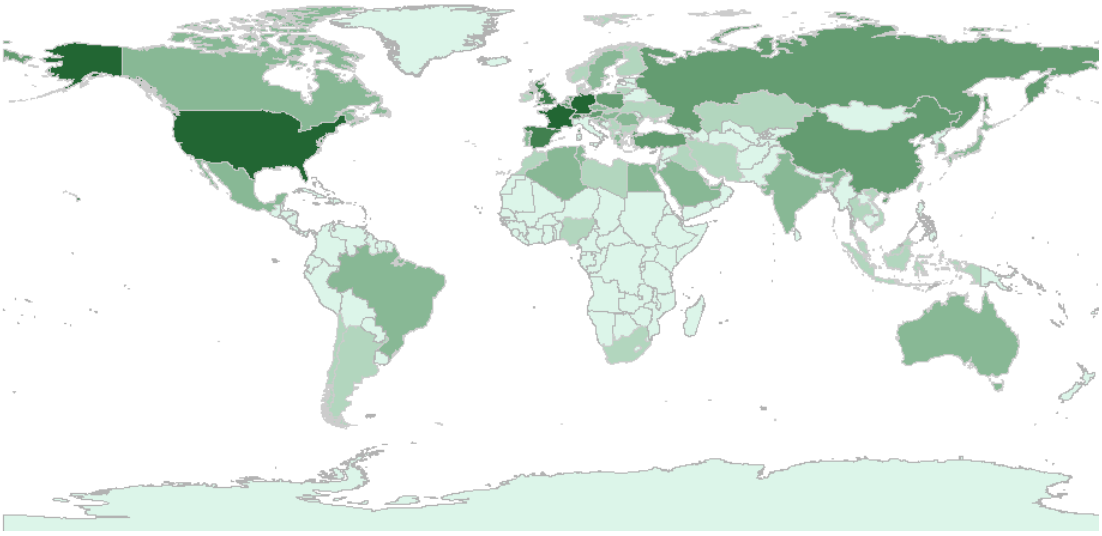

Figure 1: Italian export by value in euro (by Country), year 2015

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

Finally, both banks and firms have been affected by the consequences of global geopolitical and geo-economic struggles, including in situations in which the Italian State was not directly involved: "Italian banks were mostly affected by sanctions that are intrinsically designed to affect in the first-place financial flows. For instance, sanctions on Iran, Russia, Cuba had significant consequences on the Italian banking sector" in negative terms "when US sanctions began to lessen to Cuba, this opened up opportunities for Italian companies to invest. Then, when Trump tightened sanctions again, investments were lost" (interview with a manager of a private organization #1, 2019).

3. Banks' international services: loans, consulting and public institutions' support

The previous section has argued that the Italian State has attempted to manage the internationalization of the Italian economy by establishing laws and publicly funded organizations dedicated to provide financial guarantees to internationalization projects, targeting specific geographical areas. These government strategies affected firms (as recipients of credits) as well as banks: on the one hand, government guarantees facilitated the loan process; on the other hand, banks are also enterprises that could apply for funds for their own internationalization. This section analyzes more closely banks' international activities. In so doing, it portrays international banking as a complex blend of activities ranging from consultingfirms about international market, to providing loans to Italian firms in partnership with foreign banks, to significant mergers and acquisitions of foreign banks.

Empirical evidence based on the interviews illustrates that "*Italy does not have strong roots in internationalization of all its economic sectors (including banking), especially if we compare with France, the UK or Germany, because these were much stronger colonial powers. In the golden years of the 1970s and 1980s, banks could afford to maintain a network of international branches, but these were never profitable. The Italian Banking system kept those because until 1992 the banking sector was state owned and performance pressure was less strong. When banks were privatized, they could not afford these losses anymore, therefore from the 1990s to the early 2000s the network shrank considerably. In the late 1990s the model of internationalization began to change*" (interview with a manager of a private organization #1, 2019).

In a nutshell, the closure of branches was soon followed by a new wave of international activities, due to increased demands for loans by internationalizing firms and to the progressive loosening of many regulatory and currency constraints implemented by a variety of countries in that period. Another driver was 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.

In this framework of globalization and finance transition, the range of banking products available to companies with an international reach is getting wider; thus, it is useful to create some categories building on organizational studies, strategic management and geography, similarly to the approach of Knight and Wójcik (2017). These categories correlate to strategic decisions and depth on the level of international exposure. First of all, banking services for international trade and internationalization can be classified in two groups: those relating to business consulting and those relating to financial needs. Secondly, it is relevant to differentiate according to the channel of communication: off-line services or on-line services. As for business consulting, in

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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 their activities in a given country. Internationalized banks might have a privileged position on several of these points both for the access to a large set of data (big data), specialized databases and real life experience. Therefore, the level of customization can be another categorization of bank-to-customer services. In particular, these can be identified as:

- *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.).

Italian banks entered the market of business services since the 1990s, because consulting offered a higher profit margin than loans (Interview with public official #3, 2018). In doing so, they entered a competitive market occupied 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.). The position of banks is a blend of co-operation and competition with other service providers. Over the years, Italian commercial and retail banks became an intermediary between national, European and international institutions (i.e. SACE, SIMEST, CDP, the European Investment Bank, the World Bank, and other international development banks, etc.).

The government policies discussed in the earlier section of this paper facilitated the co-operation between banks and Italy's state owned organizations. First, interviewees pointed out that banks benefit from the services of SACE, a public agency providing insurance to internationalizing firms (interview with public official #2, 2018). Second, banks participate in the development of government policies affecting firms' internationalization through the business association. It is a highly formalized mechanism in which the banking association participate in the 'bilateral commissions' that Italy's Ministry of Economic Development and Ministry of Foreign Affairs establish to manage bilateral relations. Another interviewee described the operations of the bilateral commissions as follows: *we have a bilateral commission* [with a variety of countries, including]: *Italy-Vietnam, Italy-China. These meet once every six months or once a year depending on the importance of the relationship. ...if banks don't have physical presence, the business association discussed activities that can be done long distance (such as letters of credits and other forms of correspondence). In countries where Italian banks have branch offices, or subsidiaries, it informs the governments about any problem they may have* (interview manager in private organization #1, 2019).

A further way in which banks participate in policy making occurs through the banking association (ABI) membership in *Cabina di Regia* [Steering Committee, literally "Control Room"], the organization jointly lead by the ministries of economic development (MISE) and foreign affairs (MAECI) with the goal of coordinating Italy's internationalization strategies. The same interviewee stated that Control room *is charged with implementing] a national strategy, based on reports by Confindustria, a private lobby, the largest Italian business association, and then implemented by the various state agencies.* In addition to participating in bilateral commissions and in Control Room, ABI also works on contracts with SACE and SIMEST (risk insurance, bonds, supplier credits, etc.). They are state owned, and have monopoly power in their field, so banks need a unified voice through us to make sure that the conditions in these contracts meet banks' needs. Lastly, ABI is also in charge of the banking sector in international trade missions by inviting banks' representatives and arranging their meetings with local partners (interview manager in private organization #1, 2019). In short, the international activity of Italian banks consists chiefly in providing consulting, as well as loans, for international projects. They do so mixing co-operation and competition with other service providers. Co-operation is largely the outcome of synergistic activities between the business associations representing the banking sector, state owned organizations, and the Italian government. The following section discusses the geographic distribution of those activities.

4. The spatial pattern of banks' international services

Earlier works on the internationalization of Italian banks by Lucia (1999) and Sellar (2015) argued that banks followed an internationalization pattern similar, but not coincident with, Italian forms. In particular, Sellar argued that banks initiated internationalization in response to demands of assistance from their corporate clients. However, soon after the initial international steps, banks reached out to a much broader international clientele, following their own commercial strategies, independent from those of firms (Sellar, 2015). Overall, the organizational architectures and the localization behaviors of Italian banks can be still easily described, recalling classical economic geography approach of the strategy and structure for international multilocation expansion (Dicken and Lloyd, 1972; Conti, 1996). According to this approach, strategies of international expansion traditionally lead to the creation of public relation offices, branches, subsidiaries banks, mutual and operative agreements, licensing, joint ventures (JV), merging and acquisition (M&A) operations, according to bank's market penetration strategies and maturity phases (Figure 2).

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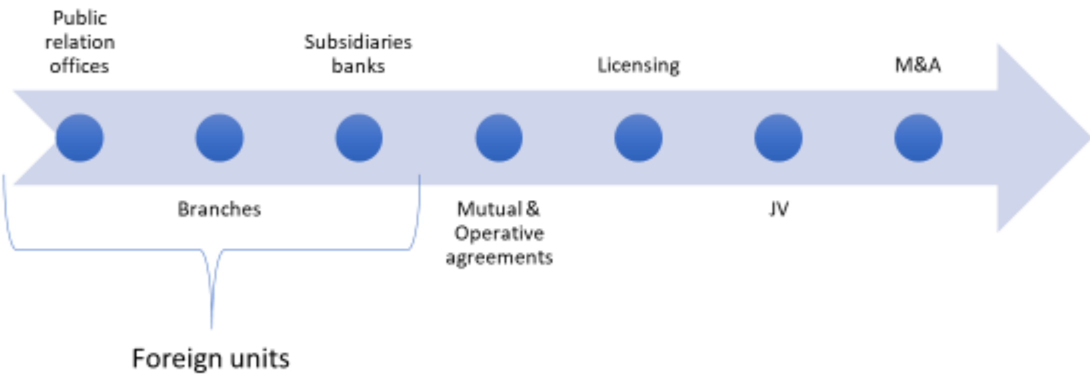

Figure 2: Strategies and structures for international expansion strategies of banks

Source: Author elaboration

These classic economic geographical approaches suggest that banking expansion occur through a progression from simple networking to foreign direct investment, often integrating the chosen mode of entries. Generally, if the pressure for a global integration of business is low and the willingness to keep the control is high, a corporate tends to focus only on using the existing core competences and infrastructure (i.e. their offices in Italy and their online portals) to explore opportunities in international markets that will be managed remotely, through online banking and agreements with local banks. If the pressure to respond to local market is higher with a need of more customized and rapid services, banks will consider opening a foreign branch, usually an office with a limited number of employees. Finally, when the intention is to go global while at the same time maintaining a tight control of operations from headquarters for focus and standardization, banks strategies may include widespread mergers and acquisitions with foreign banking groups that can reach the status of "transnational" banks. Currently, two major Italian banking groups (Unicredit and Intesa San Paolo) have reached the latter stage (interview with a manager in a private organization #1, 2019).

In this perspective, Italian banks can be divided in two main groups according to corporate strategy behavior:

(a) *Home based*: those performing only traditional foreign operations and services using domestic existing structures, and

(b) *Internationalized banks*: those expanding their business in foreign markets actively.

In terms of numbers, according to the analysis ABI data on Italian banks' international network (ABI, 2017b) only 18 Italian banks groups is comprised in type (b), counting a total of 357 foreign units in 2015 (Figure 3). Compared to those reported by Lucia (1999, p. 131), i.e. 11 banks group counting 274 units, referred to year 1996, the increase is significant in 20 years. However, further analysis of ABI data, updated at the year 2018m showed a reduction to 340 units and some changes in country coverage especially in Asia.

Year	1996	2015	2018
Number of bank groups	11	18	18
Names	Istituto Bancario San Paolo, Banca Popolare di Novara, Banca Commerciale Italiana, Credito Italiano, Cariplo, Nuovo Banco Ambrosiano Veneto, Banca Nazionale del Lavoro, Banco di Napoli, Banca di Roma, Monte dei Paschi di Siena	BNL-BNP Parisbas, Veneto Banca, Credit Agricole/Cariparma, Unicredit Group, Intesa San Paolo, Banca Popolare di Sondrio, Banca MPS, UBIbanca, Banco Popolare, Banca Popolare di Vicenza, Mediobanca, BPER, Banca Ifis, Banca Carige, BCC, Gruppo Mediolanum, CREDEM UNIPOL	BNL-BNP Parisbas, Veneto Banca, Credit Agricole/Cariparma, Unicredit Group, Intesa San Paolo, Banca Popolare di Sondrio, Banca MPS, UBIbanca, Banco Popolare, Banca Popolare di Vicenza, Mediobanca, BPER, Banca Ifis, Banca Carige, BCC, Gruppo Mediolanum, CREDEM UNIPOL
Number of foreign unit	274 foreign units	357 foreign units	340 foreign units

Figure 3: Italian internationalized bank groups (years 1996, 2015, and 2018)
Source: Author elaboration on ABI data 2018, 2017 and Lucia (1999).

The geographical distribution (Figure 4) both in terms of countries and city shows a pattern, as expected, coherent with Italian foreign and international trade policy strategy, market dimensions and trade data where the concentric cycle plus BRICs (Brazil, Russia, India and China) seem guiding the location patterns.

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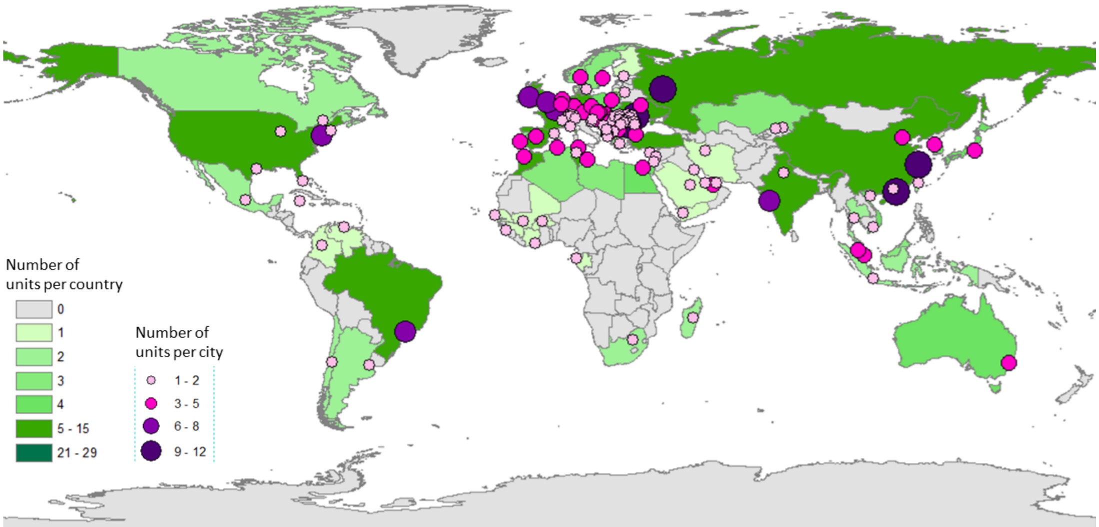

Figure 4: Distribution of the 'units' in foreign of Italian banks groups (by country and by city) – 2015 data

Source: S. Grandi elaboration on ABI data (2017b), shp: Esri.

Moreover, when analyzing the bank groups' behaviors related to internationalization, two main strategic organizational processes of the Italian banking system occurred in the late decades: the merging & acquisition (M&A) by international groups such as BNL acquired by the Parisbas group in 2006 or Unicredit merging with the Austrian HVB in 2007 and the M&A by clustering among Italian banks such is the case for smaller territorial banks into Iccrea – The banking group of the cooperative local banks (BCC). However, other phenomena have been observed, thus, it has considered useful to perform a cluster analysis based on the ABI data. In particular, the clustering criteria have been selected according to the following elements related to bank internationalization processes:

- type and number of 'units' established;
- current ownership of the banking group (Italian or transnational);
- distance of the area of expansion (proximity or world-wide),
- type of cities (financial hub, business city, minor city).

The analysis leads to the creation of five clusters, namely "Transnational M&A internationalization", "Internally supported Expansion", "Proximity Expansion", "Finance city focus" and "Exploratory Expansion", as reported in the following table 1 and figure 5. These describe the trend of strategic behavior of Italian banking group. In particular, data analysis shows a diversified approach. In the first case, M&A processes of Italian banks into transnational groups such as BNP Paribas (BNL) and Credit Agricole (Cariparma) lead to a significant increase of 'units' and of the world-wider geographical span. Indeed, data in number of units is overestimating the Italian initial reach, as now it includes BNP Paribas and Credit Agricole previous international network, but that turns in a leapfrog in term of international banking network closely related potentially with the Italian firms. In the second case, still M&A has been important strategic tool used in cases of the internally supported expansion.

In this case Italian major banks actively acquired cross-border banks. This is the case for Unicredit, mainly in Eastern Europe, a place that was considered an opportunity area, with higher growth potential and an absence of strong North American competition (Sellar, 2015) and following Italian foreign policy in the '90s as well as benefitting of some kind of support by SIMEST, as previously reported according to interviews collected.

The third cluster includes an interesting subset composed of local or regional banks that approached a cross-border expansion in geographical proximity areas with more or less successful results as growth strategy. This is the case of Banca Popolare di Sondrio that valued the position of the Valtellina area, where Sondrio is the provincial capital, and the intertwined financial and frontier workforce relationships with Switzerland. Veneto Banca, instead, expanded in the Eastern Europe in the same geoeconomic logic of Informest and Finest, but this operation lead to an over financial exposition explaining the bank crisis of the year 2016-2018 and the consequent significant reduction in foreign units in 2019.

The last two cluster are composed of residual strategies where active internationalization of the bank is minor and exploratory or merely linked to very few representation offices in NY-LON or other highly ranked financial centers, or other solutions. This does not mean that the banks do not dedicated international services, but rather it represents a conservative strategic behavior in valuing mainly special partnership agreements with correspondent banks. This is the case, for instance, of BPER, the BCCs, Mediolanum Group, CREDEM and Unipol.

	N. of banks groups	N. of foreign 'units'	Names of the bank groups
b.1. Transnational M&A internationalization	2	123	BNP Parisbas – BNL; Credit Agricole – Cariparma
b.2. Internally supported Expansion	5	120	Unicredit, Gruppo Intesa San Paolo, Banca MPS, UBIbanca, Mediobanca
b.3. Proximity Expansion	3	88	Veneto Banca, Banca Popolare di Sondrio, Banca IFIS
b.4. Finance city focus	4	22	Banca Carige, BCC, Gruppo Mediolanum, CREDEM, Unipol
b.5. Exploratory Expansion	2	4	Banco Popolare, Banca Popolare di Vicenza, BPER

Table 1: Cluster of bank internationalization

Source: Author's elaboration on ABI data, 2018

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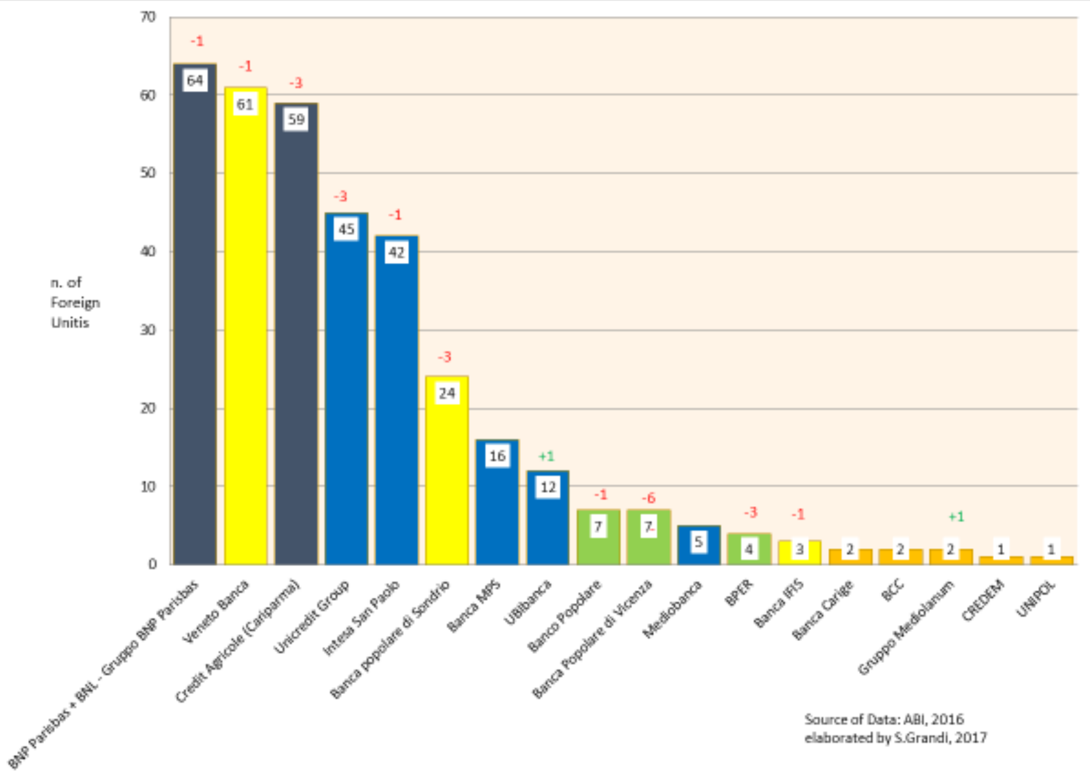

Figure 5: Distribution of foreign 'units' for each bank groups, cluster and variation years (2015-2018)

Source: elaboration on ABI data 2016; 2018

5. Firms' and bank relationships

The commitment of the Italian State to an overall strategy promoting internationalization, which affects both banks and firms, would suggest that internationalizing banks and firms tend to co-locate. However, the limited qualitative study by Sellar, involving two banking groups in Central and Eastern Europe and a sample of around 50 firms, suggested there is a weak relationship between banks and firms internationalization strategies (2015). He argued that, historically in the 1990s banks earliest internationalization projects were driven by following client firms. However, the two diverged almost immediately, because, on the one hand, banks expanded their customer base, and, on the other hand, firms largely chose arm-length relations based on prices, and thus did not work exclusively with Italian banks.

To verify Sellar's preliminary findings, we compiled a list of the top 20 countries in banking investments, including foreign 'units' of Italian banks, elaborating data from

ABI database (ABI, 2017b). Then, we compiled a list of the top 20 countries for presence of Italian firms. As a proxy, we used data on values of export in Euros compiled by the Institute for Foreign Commerce (ICE, 2016, p. 55). Figure 6 compares the two lists, showing that roughly 50% of the entries are in both lists. Some of them correspond with the priorities of the Italian government (China, USA). Others are relevant for proximity expansion (Switzerland and Eastern Europe Countries) probably more interesting for cross-border financial flows, SMEs trade, internationalization and eventually FDIs as delocalization.

Countries	**Banks Foreign Units**	**Ranking position according units**	**Ranking position according top export destination in value**
Romania	29	1	14
Switzerland	24	2	not in top 20
Moldovia	21	3	not in top 20
China	15	4	9
USA	12	5	3
France	12	6	2
Hong Kong	10	7	16
Croatia	10	8	not in top 20
Russia	10	9	13
Albania	9	10	not in top 20
Germany	9	11	1
India	8	12	not in top 20
Luxembourg	8	13	not in top 20
Brazil	7	14	not in top 20
UAE	7	15	15
Tunisia	6	16	not in top 20
Irland	6	17	not in top 20
UK	6	18	4
Spain	6	19	5
Morocco	5	20	not in top 20
Singapore	5	20	not in top 20
Turkey	5	20	10
Ukraine	5	20	not in top 20
Hungary	5	20	not in top 20

Table 2: Geographical distribution of foreign countries (2015-2018) and relations with top export destinations in value

Source: Author's elaboration on ABI data 2016; 2018 and ISTAT, 2018

The following interview excerpt captures the ambiguous relations between firms' and banks internationalization: "*There is a trend towards internationalization of both banks and firms. In some cases, such as former Yugoslavia, firms went first and banks followed. In others, the situation is not so clear. …, business services help banks to*

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build a relationship with the client, which is important, because Italian firms can easily change bank, even for small differences in rates" (interview with public official #1, 2019).

This result displays that internationalization of firms is only one of the factors influencing location choices of Italian banks; others are related to autonomous sectoral growth, diversification strategies and the willingness to co-locate into international highest international financial centers or emerging ones. Such multiplicity of factors shows, first, that retail banking is not limited to servicing the internationalization of Italian firms. Rather, it is open to all sorts of domestic and foreign clients. Second, it also shows that retail banking is not the only priority for banking groups; instead, financial operations are as much a powerful driver of investments as the servicing of firms.

6. Conclusions

This paper aimed at further exploring the policy agenda implicit in the notion of 'geofinance' by looking at the interactions between government policies, banks' internationalization, and firms' foreign investments. In so doing, it highlighted the interactions between two hitherto separate fields of inquiry in human geography – geofinance, and in particular the internationalization of commercial banks, and firms' internationalization. Using Italy's banks and firms as case studies, the paper argued that there is a weak, but significant, link between the two processes that is largely due to the effort of the Italian government to promote a systemic internationalization of the Italian economy. Governmental initiatives include a) funding state-owned organizations that provide financial guarantees, credit and insurance to internationalization projects. These financial instruments aim at increasing banks confidence to provide loans to internationalizing firms. Governmental initiatives also include b) the inclusion of representatives of banks and businesses in the government body in charge of setting the national strategy for internationalization. In so doing, banks and business associations work alongside diplomacy to negotiate foreign markets access to Italian firms and products.

The weakness in the relationship between the two processes is largely due to the independence of individual firms and commercial banks. On the one hand, firms choose their own internationalization strategies. Government-backed guarantees may encourage them to loan from Italian banks, but firms tend to adopt arm's length relationships with their providers of financial and consulting services, thus choosing their providers largely based on prices, quality, and availability of services. On the other hand, internationalizing banks have an incentive to broaden their clientele beyond Italian firms into loans to a wider array of firms, as well as financial operations.

Besides exploring the nature of banks-firms-government relations in shaping internationalization, this paper analyzed the various internationalization strategies of banks. At the most basic level, banks may choose to support their clients' internationalization from the home office, working online or through agreements with foreign banks. On the other hand, especially when there is pressure from their clients, banks may choose to open branches abroad, or even acquire foreign banks. Finally, banks may decide to enter the world of financial services, entering the market of investment banking in major financial centers. These different choices lead to different levels of financial commitment abroad, and to a diverse geography of foreign banking investments, as described in figure 5 and table 1.

Finally, the specific government policies and banks-firms relations outlined in this paper are heavily context-dependent, relying on the organizational structure of the Italian State, the weakness of investment capital that opened up a space for the government to leverage firms' and banks behavior through financial guarantees, and on the tradition of arm length relation between banks and firms. Such context-specificity suggests, first, that national origin is an underexplored factor influencing financial geographies as well as firms' internationalization. Second, it also suggests that the geostrategic choices of states may be more powerful, indirect, and not immediately detectable factors in shaping financial geographies.

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