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THE EUROPEAN CRISIS: ANALYSIS OF ITS FUNDAMENTALS FROM THE PERSPECTIVE OF ECONOMIC GEOGRAPHY

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Extended Abstract

The outbreak first of the financial and then of the sovereign debt crisis has channelled attention both towards the interactions between real and paper economy and the new geographies emerging worldwide as a result of capital flows liberalisation. Since then, several studies have tried to shed light on the dynamics of the crisis, however often focussing on some very specific aspects, while neglecting the context in which these phenomena have developed.

The aim of this paper is to provide a general overview of the links between production and capital accumulation in Europe. In the years before the crisis remarkable imbalances in terms of trade and capital flows began to emerge, with countries treading diverging paths of development. In the same macro-region a heavily indebted and financialised nation like Great Britain, with a growing stake in worldwide production through FDI, could coexist with a big FDI receiver and manufacturing exporter like Ireland. Likewise, the net capital and goods importing Mediterranean countries coexisted with a net capital and merchandise exporting Germany. Hence the proposed new classification of countries, listed according to their trade profile and dependence on foreign capital inflows, with a distinction between portfolio and FDI investments.

Data on net foreign liabilities are also used to construct an indebtedness index which combines information on the absolute size of a country's foreign debt and its burden in terms of own GDP, which, together with the aforementioned indicators, aims at helping understand the fundamentals of the current financial crisis. According to this index, the European countries more at risk of default in 2007 were Spain, Great Britain, Italy, Greece and Portugal. It is therefore not surprising that they have been, with the exception of Great Britain, the target of speculators, also due to their underperformance on the exports markets. At the same time it is worth noting that in the pre-crisis period the eurozone as a whole, though internally asymmetrical as outlined above, has displayed a remarkably stable trade profile, with a growing net FDI position and a negligible indebtedness level. Financial markets seem therefore to have overestimated the weakness of the euro and of its underlying economy, especially when compared to the United States and the dollar. Also Great Britain, whose evolution very closely resembled the American one (a falling trade balance together with growing indebtedness), has been ignored by the speculation wave against indebted nations, probably because of the country's prominent role as an international provider of financial services and exporter of investment capital.

Keywords: European external imbalances, sovereign debt crisis, eurozone.

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