

## EUROPE'S ECONOMIC LANDSCAPE FROM THE PERSPECTIVE OF TRADE FLOWS AND NET FOREIGN ASSETS POSITIONS

Maria Stella CHIARUTTINI

University of Zurich, Department of Economics, Zürichbergstrasse 14, 8032 Zurich, Switzerland.

[maria.chiaruttini@econ.uzh.ch](mailto:maria.chiaruttini@econ.uzh.ch)

---

### Abstract

Globalisation has been characterised by the emergence of huge imbalances worldwide. Countries have become highly asymmetrical in terms of trade balances and net foreign assets positions as a result of a process of production relocation of unprecedented proportions. The stability itself of Europe's trade position is the result of diverging trajectories for the group of net importing and exporting countries and similar growing disparities can be found analysing cross-country assets holdings. In the paper four main country profiles within Europe are identified: heavily indebted countries with increasing deficits in merchandise trade but growing net FDI positions and net exports in royalties and license fees, like the United Kingdom; rising manufacturing exporters with a positive net FDI position; a periphery of FDI recipients with an improving trade balance, and finally countries, like the Mediterranean ones, that are both net capital and goods importers.

**Keywords:** *globalisation, external imbalances, net foreign assets positions, Europe, EUROGEO 2013.*

---

### 1. INTRODUCTION

One of the most striking features of the worldwide economic evolution over the last thirty years has been the emergence of sizable external imbalances across countries (Belke and Schnabl, 2013). The scientific debate has mostly focussed on trade imbalances, the most prominent example of which is the current account deficit of the United States vis-à-vis China. In recent years however, thanks to improved data availability, it has become apparent that trade was only one side of the coin and that economies had started to diverge wildly also in terms of foreign assets positions (Bracke et al., 2008).

The main concern of the literature on global imbalances has been to determine whether and in which measure they represent equilibrium outcomes, corresponding to optimal responses to some forms of international asymmetries (like different stages of financial development) or, on the contrary, they constitute dangerous disequilibria which call for policy intervention (1).

While this is a fully legitimate purpose for an economic paper, I believe that, from a geographic standpoint, focussing merely on national imbalances, or on the notion of imbalance *per se* (is it good? is it bad? is it sustainable?) risks diverting attention from one of the main characteristics of globalisation, namely its disrupting capability of reshaping economic relationships beyond or, more precisely, independently of national borders, which ultimately correspond to a political concept.

Imbalances are just symptoms - what should be of interest for the research is the phenomenon they hint at, that is the emergence of new complex economic systems linking national economies through a nexus of industrial and financial relations. From the analysis of these mutual dependencies, it may well result that the newly identified economic system is, overall, much more stable than its single components. Which at the same time means that areas we are getting used to consider as integrated may hide major internal disparities.

This indeed appears to be the case of Europe. A first look at basic economic indicators suffices to convince oneself that European countries are far from developing in a homogenous way and that increasing asymmetries – significant both in terms of magnitude and of economic and political meaning - are arising among them.

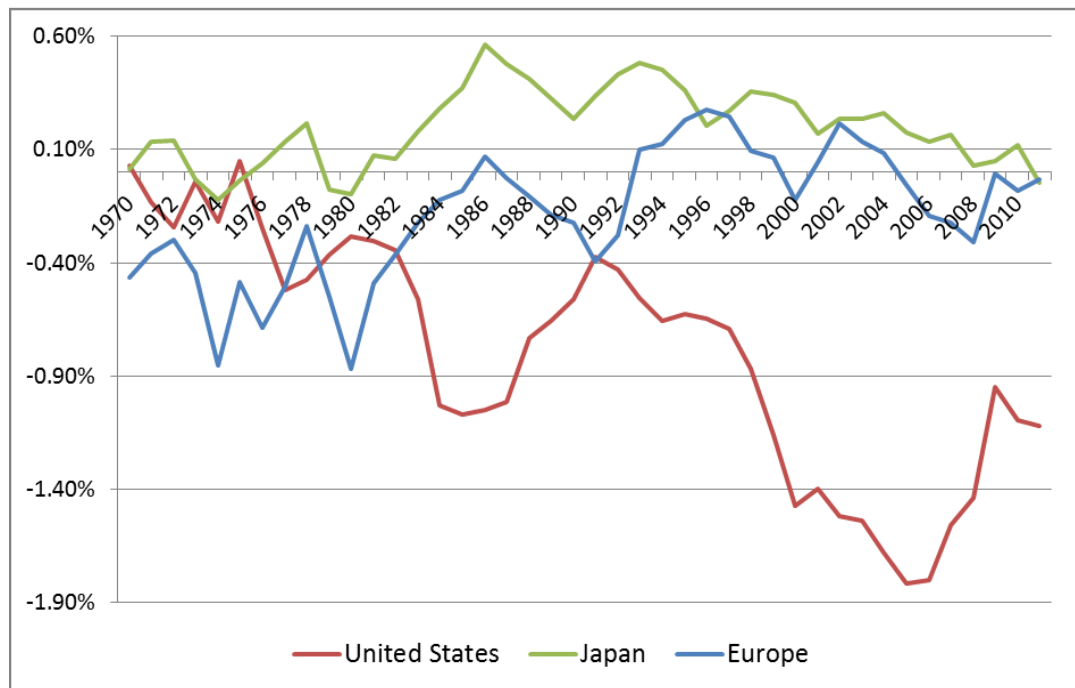
Despite the fact that in international comparisons Europe often appears as a single unity (for instance vis-à-vis the United States or other major country blocks) and that the discussion over external imbalances has focussed much more on the United States than on the old continent, several authors have specifically addressed the internal heterogeneity of the latter. Already in 2002 Blanchard and Giavazzi noted how current account dispersion within the European Union paralleled the widening of current account deficits and surpluses among OECD economies. The euro crisis, however, has spurred scholars to investigate this phenomenon more closely (Barnes et al., 2010; Hein, 2011; Chen et al., 2013; Belke and Dreger, 2013; Körner and Zemanek, 2013).

The aim of the paper is therefore to show, in a first section, how in Europe an overall trade stability can coexist with a growing divergence at national level. Then, in the second part, the evolution of the single economies is considered so as to identify groups which share a similar development path. The present analysis differs from the standard approach to the issue of European external imbalances in the choice of the relevant parameters. While studies usually provide current account figures and estimates of aggregate foreign assets positions, here the focus is on four of their subcategories, namely: net merchandise exports, net exports of royalties and license fees, net foreign direct investment (FDI) positions and net foreign financial investment (FFI) positions. They are meant to address, although in a rather crude fashion, four key questions in order to understand globalisation: 1) where physical production is located (merchandise exports) – 2) who sells property rights and the know-how necessary to produce (royalties exports) – 3) who owns production (FDI) (2) and, finally 4) where the capital financing consumption and investment comes from (financial investment). This frame of reference therefore, more than specifically tackling the causes of the present imbalances (e.g. introduction of the euro, demography, fiscal policy...), as most other papers do, enables to outline country profiles that are typical of this stage of globalisation and which can be found outside Europe as well.

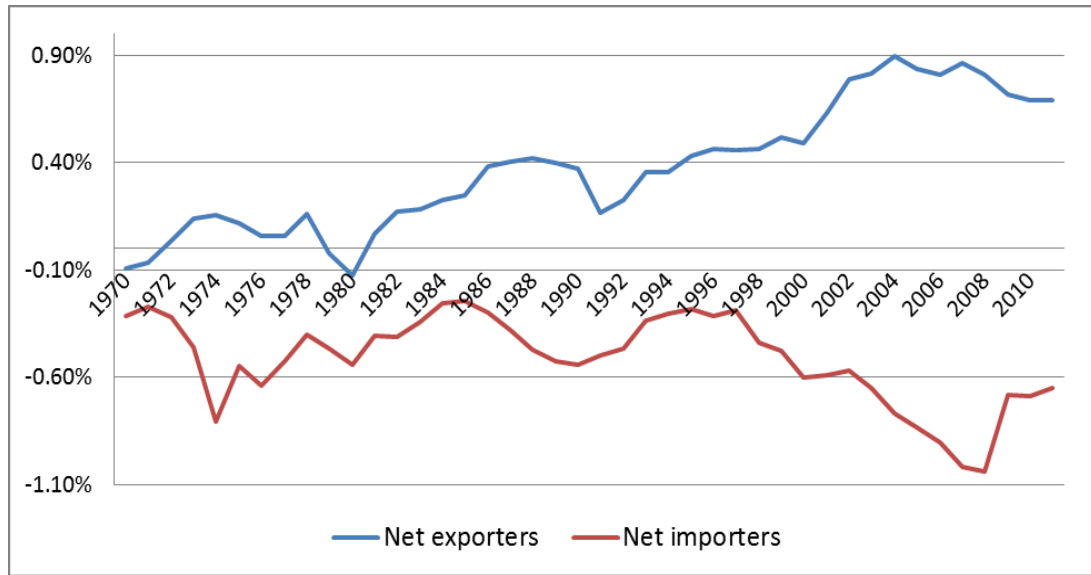
Trade data are those publicly provided by the *World Trade Organization* (WTO). For foreign investment positions the *External Wealth of Nations II* (EWN II) dataset developed by Lane and Milesi-Ferretti (2007 b) has been used. GDP data, necessary to perform calculations, have been taken from the database of the World Bank *World Development Indicators* (WDI). The time horizon considered goes ideally from the Seventies to today. However, since royalties data started to be collected only in 2000 and the EWN II only covers years before 2007, in order to provide a clearer comparison Table 1 is restricted to the period 2000-2007. References to the whole span of the time series analysed can be found in the text. The sample of European countries (“Europe”) comprises the EU-28 plus Switzerland, Norway and Iceland.

## 2. TRADE FLOWS AND CAPITAL POSITIONS IN EUROPE: AN OVERVIEW

As mentioned in the introduction, this first section provides a bird's-eye view on the aggregate situation of Europe regarding trade and cross-country holdings. As shown in **Figure 1**, while US and Japan's merchandise trade balance has been worsening all over the last two decades, Europe as a whole has succeeded in keeping it fairly stable. This overall balancedness, however, has increasingly been the result of two opposite tendencies, namely that of net exporting countries to improve their positions and that of net importers to worsen them, as is shown in **Figure 2** (3).



**Figure 1.** Merchandise trade balance as percentage of world GDP. *Source: author's calculations based on WTO and WDI.*



**Figure 2.** Merchandise trade balance as percentage of world GDP: European net exporters and importers. *Source: author's calculations based on WTO and WDI.*

Among the net exporters, the lion's share is not surprisingly that of Germany, in an order of magnitude comparable to China. Germany's merchandise balance in 2011 was almost 220 billion dollars, while China's has totalled approximately 155 billion dollars and both have been following a similar trajectory since the Nineties, growing from almost zero to 3-4% of world GDP. This parallelism must not however be misunderstood: both evolutions are due to globalisation (4), but they differ from each other in nature, as Germany's surplus results from an excess of the value (not quantity) of exports over imports more significant than China's. As will become clear later, these economies are typical examples of two different regimes, one characteristic of advanced or core nations and the other of catching-up countries.

After Germany, though on a smaller scale, the principal net exporters are oil-producing Norway, the Netherlands and Ireland (all around 0.9% of world GDP), followed by Switzerland, Denmark, Belgium, Sweden, and the Czech Republic (from 0.4% to 0.2% of world GDP). On the side of the net importers, we find the United Kingdom (2%), France (1.7%) and Spain (0.9%) and, with smaller deficits (between 0.5% and 0.2%), Italy, Greece, Portugal, Poland and Romania.

Although few years are available, the overall stability of Europe (a fairly constant and slightly negative balance) seems confirmed also in the case of trade in royalties and license fees. This contrasts with the evolution of the United States and Japan, which are increasingly net exporters (with a balance respectively of 1% and 0.1% of world GDP in 2011). Nonetheless, Europe's flat profile is the result, as in the previous case, of diverging forces. Grouping again net exporters and importers, it is clear that even during such a short period of time (12 years) the gap between the two has substantially increased, the former passing from 0.1% to 0.4% and the latter from -0.4% to -0.7%. On the exporters' side, four countries dominate, together with the United States and Japan, the world market: the United Kingdom, France, Sweden and the Netherlands, while Germany's account, though still smaller, has become positive in the last years (5). It is worth noting, as an anticipation of the next section, that, while France and the United Kingdom are at the same time merchandise importers, the Netherlands, Sweden and Germany are exporters. As regards the net importers, the main responsible for the fall of the balance is Ireland, as mentioned below.

The apparent European stability breaks down as soon as we start considering indicators of foreign assets positions. In the early Nineties the net FDI position of Europe and the United States begun surging, the former passing from 0.2% to 2.6% and the latter from 0.5%, to 1.8% of world GDP. Japan, on the contrary, had been growing since the Seventies, but it stopped when the Western ascent began. A feature that FDI and trade figures at European level still share, however, are the increasing disparities between the group of net FDI investors and recipients, though the positions of the former prevail on aggregate. The major net investors worldwide are, besides the United States, the United Kingdom and France (each with a surplus between 1% and 1.5% of world GDP during the last decade), while Switzerland, Germany and the Netherlands come after Japan each with roughly 0.4%. Other net investors are Italy and the Nordic countries, while the Eastern and the other Mediterranean countries are net recipients.

Unlike FDI, European net financial investment position (FFI) (6) has been constantly worsening since the Seventies, tracking very closely the United States, both dropping from almost balance to a deficit of more than 6% of world GDP. The countries which have contributed the most to this evolution are the United Kingdom, Spain, France and Italy, already mentioned as major net merchandise importers. As in the case of the United States, the principal cause of this deterioration was growing indebtedness. This trend has been mainly counterbalanced by the volatile position of Germany, the very stable position of Switzerland and the growing holdings of Belgium and Norway; nonetheless, the net assets of these four countries (2%) covered in 2007 only the UK negative position.

### **3. THE DIVERGING ECONOMIC PATHS OF EUROPEAN COUNTRIES**

The previous section aimed at providing an overview of the size and evolution of four types of imbalances for the developed nations, focussing in particular on Europe. This second part will further elaborate on the issue, showing how with these four very general indicators it is already possible to propose a classification of the European countries. While before, looking at the worldwide picture, what was relevant was the size of the imbalances with respect to the global economy, hereafter figures are given as percentage of each country's GDP, so as to highlight the different paths of development irrespectively of nation size.

The classification here proposed is very simple. There are two groups of mature economies which differ substantially in their recent evolution: the former (United Kingdom, France) follows what we can call the "American model", with reference to the United States, while the latter (Germany, Netherlands, Scandinavian countries) will be simply referred to as the "German model" (7). Then there are two other groups: that of the industrial periphery (Ireland, transition countries) and the Mediterranean economies. The present categorisation must of course be taken in a genuine "economic-geographical sense", as it does not aim at demonstrating the existence of four stereotypical paths of development, but instead it divides countries into different classes only to better clarify their characteristics, fully acknowledging the idiosyncrasies of each of them. Table 1 summarises the relevant data.

The United Kingdom is the country that most closely resembles the United States: both have been running large merchandise deficits in the past decades, accounting for 6-7% of their GDP, contemporarily to a (smaller) services surplus, mainly driven by exports of financial services for the United Kingdom and of financial services together with royalties and license fees for the United States (Chiaruttini, 2013). Obviously, the merchandise deficit reflects (though not uniquely) production offshoring, as attested by the increasing FDI positions. At the same time the debt burden has been constantly increasing, reflecting the need to finance

domestic consumption as well as the willingness of the rest of the world to invest in these two countries at the very heart of the global financial system. On the capital side, France shows a picture very similar to the United Kingdom, while only since the late Nineties the merchandise balance started deteriorating. Furthermore, France is also losing competitiveness in services. Recalling the figures on net royalties exports, we can summarise the “American model” as that of a country which controls international production through FDI and the sale of patents and other property rights; production offshoring is coupled with growing net imports and aggregate demand is financed through debt.

An alternative model is that of Germany and other continental countries. Also Germany is acquiring a growing stake in worldwide production (FDI), though its size is far beneath that of the United Kingdom and France. The country pursues a mercantilistic strategy with a remarkable surplus in merchandise trade and a net financial investment position which has kept growing since 1998. The Netherlands, which plays a key role as a re-exporter of Asian manufactures towards Europe, experienced the same evolution of Germany with respect to merchandise trade, while its net FDI holdings in percentage of GDP are almost comparable to that of the United Kingdom and France. At the same time, the royalties account, formerly negative, increased exponentially, being now, after merchandise, the most important contribution to the overall trade balance. Though negative, the FFI position began to improve around 2000. Switzerland too has very rapidly increased its net FDI position, while maintaining its role of international lender. Though usually seen merely as a financial operator, the country’s merchandise balance has been uninterruptedly growing and now its size surpasses that of financial and insurance services (Chiaruttini, 2013).

**Table 1.** Merchandise and royalties and license fees trade balance, net FDI position, net foreign financial investment (FFI) position of European countries: value in 2007 as percentage of GDP and difference from 2000 (2002 for trade figures of Belgium and Luxembourg) (8). *Source: author’s calculations based on WTO, EWN II and WDI.*

	Merchandise		Royalties and license fees		Net FDI position		Net FFI position	
	2007	change	2007	change	2007	change	2007	change
<b>American model</b>								
United States	-6.25	-1.42	0.42	0.15	7.25	6.13	-24.76	-8.77
United Kingdom	-6.51	-2.26	0.26	0.16	20.28	-10.81	-42.38	1.31
France	-2.76	-1.90	0.16	0.14	32.10	1.67	-22.12	4.18
<b>German model</b>								
Germany	8.01	5.11	-0.08	0.06	7.44	6.17	17.03	19.61
Netherlands	7.43	3.57	0.47	0.56	19.67	3.68	-21.32	14.57
Switzerland	2.42	3.21	-0.08	-0.44	68.85	16.70	62.06	21.64
Denmark	1.65	-1.93	0.22	-	7.09	7.45	-25.25	-1.88
Norway	14.25	-1.00	0.02	0.19	7.52	-1.99	36.29	34.33
Sweden	3.37	-2.39	0.63	0.49	3.88	-8.00	-15.98	37.43
<b>Industrial periphery</b>								
Ireland	14.51	-12.53	-8.74	-0.86	-18.22	84.14	0.14	-88.60
Czech Republic	2.40	7.30	-0.36	-0.30	-59.70	-22.84	-5.37	-10.12
Slovakia	-2.50	0.73	0.03	0.18	-51.98	-31.76	-33.24	-14.39
Hungary	-0.12	8.46	-0.61	-0.29	-50.55	-5.53	-64.51	-16.53

Poland	-6.01	4.08	-0.34	-0.04	-36.89	-17.50	-35.99	-7.21
Slovenia	-3.08	3.81	-0.31	-0.13	-14.50	-3.87	-60.64	-36.22
Estonia	-21.22	0.31	-0.13	-0.02	-51.11	-8.71	-45.41	-22.08
Latvia	-24.38	-7.36	-0.09	0.03	-33.92	-7.62	-64.91	-49.80
Lithuania	-18.59	-4.18	-0.05	0.05	-34.69	-14.54	-45.56	-18.72
Bulgaria	-27.17	-14.06	-0.15	-0.10	-92.65	-75.48	-14.20	-10.57
Romania	-17.62	-10.24	-0.12	-0.01	-36.40	-18.15	-36.13	-23.62
Croatia	-22.71	-6.65	-0.29	-0.32	-71.12	-61.86	-55.76	-22.35
<b>Mediterranean countries</b>								
Italy	-0.55	-0.71	-0.03	0.03	7.33	1.96	-29.52	-13.73
Greece	-17.99	-0.53	-0.18	-0.02	-6.90	-1.70	-96.99	-54.68
Portugal	-12.78	0.51	-0.16	0.06	-20.09	-9.25	-81.47	-39.85
Spain	-9.44	-2.39	-0.21	0.00	-0.96	-2.91	-84.94	-53.34
Cyprus	-33.06	-1.98	-0.15	-0.10	-39.53	1.21	26.85	49.10
Malta	-22.39	1.88	-0.48	-0.27	-106.03	-42.88	39.31	15.08
<b>Other countries</b>								
Austria	0.16	2.59	-0.20	0.02	-1.88	0.74	-19.18	6.94
Belgium	4.22	-0.45	-0.07	-0.03	-33.66	-27.02	60.72	-1.85
Finland	3.38	-6.19	-0.07	-0.33	10.35	-12.43	-42.31	136.20
Iceland	-9.57	-1.66	-0.02	-0.02	72.65	70.67	-197.96	-129.51
Luxembourg	-10.08	4.23	-0.01	-0.09	-44.06	58.47	156.02	-34.36

Another very successful exporter is Denmark. Though its merchandise balance tends to be volatile, since the Nineties it has been floating between 2% and 4% of GDP. Over time the country has accumulated net FDI assets, at the same time constantly improving its FFI position and its positive balance in royalties. Sweden tends to shift towards services in its trade structure (royalties account for one fourth of the overall services balance), but merchandise exports still remain important. Net FDI, always positive, had increased up to a large fraction of GDP in the Nineties to decrease afterwards. Another major merchandise exporter and capital provider (FDI but especially FFI) is Norway, whose performance was helped also by increasing oil prices. Finland's development in the most recent years has been characterised by the sudden increase in net royalties exports (9); its FFI position has improved and the country has continued accumulating FDI holdings with a peak in 2000 (10). While during the Nineties net merchandise exports have also grown substantially (up to 10% of GDP in 2000), afterwards they collapsed, a fact that makes of Finland, so to speak, a former example of the "German model". Austria is also a country that cannot be automatically put in this cluster: both the FDI and FFI positions of the country were, though negative, improving and the merchandise balance continued growing considerably similarly to Switzerland, but the 2007 crisis suddenly reversed the trend, what did not happen to Switzerland, the Netherlands and Denmark - while Germany suffered only up to a certain degree (European Commission 2010, p.56).

The "German model" comprises rich economies that, in the globalisation race, are successful as exporters of merchandise, technology and capital. There is a second group of countries that carry out the function of industrial producers, this time, however, dependent on foreign capital and know-how. In Europe, they are the transition economies (Eastern and

Baltic countries) and Ireland. They are a major target of FDI, with increasingly negative positions that account for an extremely high fraction of GDP. At world level, Poland's net FDI liabilities dramatically increased up to Brazilian levels (0.28% of world GDP in 2007), as did those of the Czech Republic (0.19%) and Romania (0.11%, like India). Ireland too, all over the Nineties, has been accumulating net FDI liabilities comparable to those of Mexico (0.4% in 2003) (Chiaruttini 2013). At the same time, for the majority of them also the FFI position plummeted. All of them are, with no exception, net importers of royalties (11).

The development of the merchandise balance of the transition countries displays a characteristic V-shape: after the dissolution of the Comecon area, the merchandise account fell sharply to start a quick recovery in recent years. The Czech Republic, confirming its long manufacturing tradition, has been the most successful in this recovery, soon followed by Hungary and the Slovak Republic, while Poland and Slovenia, together with the Baltic Republic, have not yet reached the balance, and neither have Bulgaria and Romania, for which a precipitous upwards trend began only some years after the EU accession. Also the newest Union member Croatia, though being primarily a tourism destination, has been experiencing a relative reduction of its net merchandise imports since 2008.

Ireland stands apart as a manufacturing exporter. The Irish economy, as it has developed in the globalisation era, deserves a very careful analysis. Here I will outline only few distinctive features. Ireland, which still in the Eighties was running a negative trade balance, in the following years experienced an export boom in manufacturing, with merchandise net exports peaking at 30% of GDP in 2001. In the following years the economy slowed down, as reflected also in its declining trade balance, which however fully recovered in few years (2008-2011). Irish growth is mainly due to foreign capital. The two leading export sectors in the last decade have been manufacturing and computer and information services (where Ireland is world leader together with India, each serving around 18% of the market (Chiaruttini, 2013)), two industries where foreign multinationals are largely predominant (European Commission, 2010). The dependent nature of Irish production expansion is also witnessed by the country's large and increasing net royalties imports, which almost totally offset the net exports of computer and information services.

Besides the emerging Eastern and Irish periphery, there is in Europe another kind of peripheral area, namely the Mediterranean countries. Leaving aside the small services economies of Malta and Cyprus (12), I will focus on Italy, Spain, Portugal and Greece. The main characteristic of this area is that it is constituted by rather advanced economies which at the same time fell behind in the context of the European Union. Spain, Portugal and Greece have been running for decades a sizable structural merchandise deficit (13). While for the last two countries this deficit has been partially compensated by an improving services balance (mainly tourism), Spain experienced difficulties in this sector as well, though still maintaining a positive account (Chiaruttini, 2013). At the same time the indebtedness level rose sharply, with a net FFI position plummeting since 1996 to record levels in the range of 80-100% of GDP. The Italian case lies in between the French and the Mediterranean one: its trade balance evolved in a very similar way to the French one (positive balance in merchandise in the Nineties, which afterwards turned negative, and declining services balance). Like France, Italy's net FFI position progressively deteriorated, though without reaching the extreme values of Spain, while net FDI holdings have been growing, not as steeply as France, but rather in the order of magnitude of Germany. Like the other Mediterranean countries and unlike France, however, Italy remains a net importer of royalties.

#### **4. CONCLUSION**



When thinking of globalisation, it often comes to one's mind that the stage is dominated by only two groups of countries: the advanced nations and the developing ones, the former offshoring industrial and, more and more frequently, even some services production towards the latter. This is however an oversimplistic view, as the European case demonstrates.

Involved in a double process of globalisation – the increasing interconnection between advanced and developing economies at world level and the enlargement of the European Union, which increasingly influences also non-member states – the old continent offers an excellent example of how globalisation works. It shows that globalisation does not lead to a convergence towards a unique ideal national economy (14). Much more it is characterised by growing disparities and increased dependence among countries, which are more complex than the duality rich-poor or mature-emerging economies.

There are at least four typical profiles one can identify: deindustrialising nations, like the United States, the United Kingdom and France, that control production abroad through FDI, while keeping a prominent role as technology exporters (royalties) and financial intermediaries; mercantilistic economies, like Germany, that pursue expansion through both FDI and domestic production; dependent countries that produce with foreign capital and technology and, finally, a group of advanced nations (the Mediterranean countries) that have not been able to stand competition from the last two groups and that might end up, because of an economic slump and wage cuts, being incorporated into the industrial periphery.

This structure implies at least two kinds of mutual dependences. The most obvious one is the dependence of the importers on the exporters. These latter, however, conversely depend on the demand of the former, which needs to be sustained through international credit (15). The second one is the dependence of the periphery on investment capital and technology from the core. At the same time the very existence of the periphery is fundamental for the core in order to reshape its economic structure, allowing a reduction in production costs and a concentration on high value added sectors. How well these role divisions will perform and if, in the case of the European Union and the euro zone, they will be sustainable, is something to be seen in the next future.

## REFERENCES

- Barnes, S., J. Lawson & A. Radziwill 2010. Current account imbalances in the euro area: a comparative perspective. *OECD Economics Department Working Papers*, No. 826.
- Battisti, G. 2013. Offshoring and financial markets. *ERSA Conference 2013 Papers Online*.
- Belke, A. & C. Dreger 2013. Current account imbalances in the euro area: does catching up explain the development? *Review of International Economics*: 21 (1): 6-17.
- Belke, A. & G. Schnabl 2013. Four generations of global imbalances. *Review of International Economics*: 21 (1): 1-5.
- Blanchard, O. & F. Giavazzi 2002. Current account deficits in the euro area: the end of the Feldstein-Horioka puzzle? *Brookings Papers on Economic Activity*: 2002 (2): 147-186.
- Bracke, T., M. Bussière, M. Fidora & R. Straub 2008. A framework for assessing global imbalances. *Occasional Paper Series*, No. 78.
- Caballero, R.J., E. Farhi & P.-O. Gourinchas 2008. An equilibrium model of “global imbalances” and low interest rates. *American Economic Review*: 98 (1): 358-93.

- Chen, R., G.M. Milesi-Ferretti & T. Tressel 2013. External imbalances in the eurozone. *Economic Policy*: 28 (73): 101-142.
- Chiaruttini, M.S. 2013. Features of tertiarisation in the developed economies and worldwide offshoring. *ERSA Conference 2013 Papers Online*.
- Dunford, M. & A. Smith 2000. Catching up or falling behind? Economic performance and regional trajectories in the “new Europe”. *Economic Geography*: 76 (2): 169-195.
- European Commission 2010. Surveillance of intra-euro-area competitiveness and imbalances. *European Economy*: 1. Luxembourg: Publications Office of the European Union.
- Hein, E. 2011. Distribution, “financialisation” and the financial and economic crisis: implication for post-crisis economic policies. *MPRA Papers*, No. 31180.
- Körner, F.M. & H. Zemanek 2013. On the brink? Intra-euro area imbalances and the sustainability of foreign debt. *Review of International Economics*: 21 (1): 18-34.
- Lane, P.R. & G.M. Milesi-Ferretti 2007 a. Europe and global imbalances. *Economic Policy*: 22 (51): 519-573.
- Lane, P.R. & G.M. Milesi-Ferretti 2007 b. The external wealth of nations mark II: revised and extended estimates of foreign assets and liabilities, 1970-2004. *Journal of International Economics*: 73 (2): 223-250.
- Obstfeld, M. & K. Rogoff 2010. Global imbalances and the financial crisis: products of common causes. In *Asia and the global financial crisis*, ed. R. Glick & M.M. Spiegel, 131-172. Federal Reserve Bank of San Francisco.
- Schnabl, G. & S. Freitag 2012. Reverse causality in global and intra-European imbalances. *Review of International Economics*: 20 (4): 674-690.
- Wójcik, D. 2002. Cross-border corporate ownership and capital market integration in Europe: evidence from portfolio and industrial holdings. *Journal of Economic Geography*: 2 (4): 455-491.

## NOTES

- (1) As an example of two recent papers that discuss both trade and capital imbalances, supporting, respectively, these opposite views, see Caballero et al. (2008) and Obstfeld and Rogoff (2010).
- (2) Clearly, there is no perfect parallel between goods production and FDI, also because the latter include investment in services enterprises as well. The paper refers only marginally to services, which are the object of another work (Chiaruttini, 2013).
- (3) A country is classified as a net importer (exporter) when it has been running a deficit (surplus) over at least the last ten years. Given the persistency of the single accounts even for longer periods, the distinction between importers and exporters is rather unambiguous and applying an alternative criterion in the few mixed cases does not change the results. In the case of royalties, given the short time period, the requirement is to have been a net importer (exporter) for at least 6-7 years.

(4) More precisely, there exists a direct connection between them, namely that Germany's machinery and equipment goods exports have been fuelled by China's growing demand, as Chen et al. (2013, p.104) remark.

(5) In terms of market shares (country's exports relative to world exports), the United States controls almost 40% of the royalties market, the other major players being the nations mentioned plus Switzerland. For details, see Chiaruttini (2013).

(6) Under this category I collect debt, portfolio equity and financial derivatives assets and liabilities. For a detailed explanation, see Lane and Milesi-Ferretti (2007 b).

(7) Though with a monetary policy perspective unrelated to this study, also Schnabl and Freitag (2012) counterpose the United States and Germany as both being core economies with an overwhelming influence on their periphery but with opposite behaviours.

(8) Data from only two years do not always accurately summarise one country's evolution. This is the case, for instance, of Swiss net royalties exports, which were negative only in 2007, of UK net FDI holdings, which only temporarily declined after 2000, of Denmark's net FFI position, displaying a clear long run upwards trend and of Latvia's and Lithuania's merchandise balance, now recovering.

(9) Also Iceland's net exports of royalties rose suddenly: it remains to be seen whether this constitutes a significant phenomenon given the pronounced volatility of the country's trade structure.

(10) As shown in the OECD statistics, the country's FDI position started recovering after 2007.

(11) Slovakia reached balance in 2007 to become thereafter a net importer again.

(12) As a side remark, these two economies are not only characterised by the importance of their touristic and (especially Malta) cultural and entertaining industry, but also by the fact of being tax havens (Battisti, 2013).

(13) Econometric evidence seems to support the claim that Mediterranean countries suffered from real effective exchange rate appreciations and Chinese exports displacement more than the euro area average (Chen et al., 2013).

(14) Within Europe, the homogeneity of developing trajectories is questioned for instance by Dunford and Smith (2000). While their paper is entrenched in the debate about convergence in neoclassical terms (GDP per capita, productivity, employment levels), here I am referring to convergence in economic structures such as external imbalances (which hence should tend to vanish) and the underlying production configuration.

(15) The emergence of a "debt-led consumption boom" model and of an "export-led mercantilistic" model has been studied by Hein (2011) in the context of financialisation.