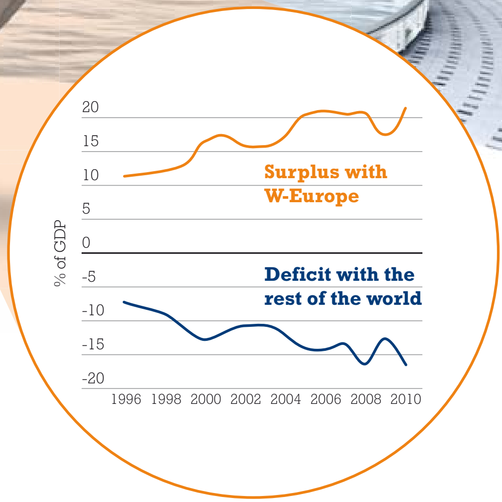
Summary

Dutch trade: more European than global



Dutch international trade after two decades of globalisation

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The Dutch Trade Study project, initiated by ING Economics Department, is drawing upon a wealth of expertise both inside and outside ING. An important part of the Dutch Trade Study project is a cooperation with Oxford Economics to create an econometric model to forecast Dutch trade on both macro and sector level. Cooperation with VU University Amsterdam led to valuable insights on the export destination of Dutch-made products as well as on imports for domestic use, by sector/product group and country, and of the size of indirect trade.

The study benefitted from the remarks and comments made by representatives of the Advisory Board and their organisations on earlier versions. The opinions or judgements contained in this study are however solely the responsibility of ING Economics Department. Members of the Advisory Board are:

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Foreword

International trade is pivotal to the prosperity of the Netherlands. As the world's 16th largest economy, its success as a trading nation is shown by the fact that it is the world's seventh largest exporter. This has been achieved against the background of the rapid globalisation of the world economy over the past 20 years.

The emergence of the debt crisis in the eurozone is creating fresh challenges to the success of the Netherlands' export-led economic model. These ongoing and profound changes in the global economy have important strategic implications. Will its current trade orientation in terms of geography and composition still suffice in coming decades? How can the Netherlands best profit from the global shift in economic gravity to Asia and Latin America? Which industries are best positioned? What will be the effect on global financial flows? What are the implications for economic policy and corporate strategy?

In order to assess the impact of possible changes in world trade on Dutch businesses, the financial sector and the economy in general, ING Economics Department has joined forces with Oxford Economics and the VU University of Amsterdam to construct a model that makes it possible to analyse the effects of different scenarios. This cooperation has led to a unique database which separates fully, on a sectoral basis, the development of re-exports and domestically-produced exports. Furthermore, the model makes it possible to categorise Dutch trade flows by final destination countries. This makes it possible to analyse the impact of particular country-specific or region-specific developments on Dutch industries.

This report will set the scene by reviewing the evolution of Dutch trade over the last 20 years. As such, it will lay the foundation for subsequent reports on the future development of the Dutch economy at macro level and at the level of specific industries.

The Dutch Trade Project is an ING initiative, but the support of the members of the Advisory Board of this project is vital. We wish to thank them for their comments on earlier versions of this study and for their suggestions for follow-up research topics.

Mark Cliffe

ING Group Chief Economist

Main findings

Global imbalances affecting financial and economic stability

The severity of the recent financial crisis has drawn attention to global imbalances. Although the precise role of these imbalances in the genesis of the crisis is controversial, debtor nations, led by the US are now aiming to reduce their deficits. Apart from the large imbalance between the US and China, there is also growing concern over the steady rise in current account deficits and surpluses among eurozone countries. The Netherlands, which like China and Germany runs a successful export-led model, may be singled out in the policy discussion on this issue, given that it is running a current account surplus of some 6% of GDP. This surplus is more than accounted for by trade with other developed Western European countries.

Dutch exports – more European than global

The Netherlands' headline surplus conceals a massive, and growing, current account deficit of close to 10% with countries outside the EU. Indeed, Dutch export success is largely confined to its European neighbours. Remarkably, the Netherlands runs a trade surplus of close to 6% of GDP with Germany alone. Outside Europe, the US is the main export market. The stronger growing emerging economies of Asia, Europe and Latin America are still only minor export markets for Dutch companies.

Deteriorating terms of trade have capped the current account surplus

The trend improvement in the current account surplus since the mid 1990s was interrupted by the savage downturn in world trade that followed the collapse of Lehman Brothers in late 2008. In addition, the Netherlands' terms of trade have been deteriorating, particularly for domestic trade, partly reflected the impact of rising commodity prices on import prices.

Main findings

Agrifood, chemical exports and re-exports of technological products stand out

A distinctive feature of Dutch trade is the tripling of re-export volumes since the mid-1990s. Like exports of services, this has outpaced the growth of domestically produced export goods. This reflects globalisation (boosting re-exports) and a further maturing of economies (boosting the relative demand for services). Overall, trade of domestically produced agrifood and chemical products and re-exports of technological products are the main drivers behind the current account surplus.

Production sectors generally losing market share, outside emerging Europe

Despite a seemingly strong performance of the export of key Dutch production sectors (agrifood, chemical and tech industry), they are losing share in world trade. A notable exception to this for agrifood and tech industry is emerging Europe, where market share is rising somewhat.

Foreign demand now biggest driver for Dutch manufacturing

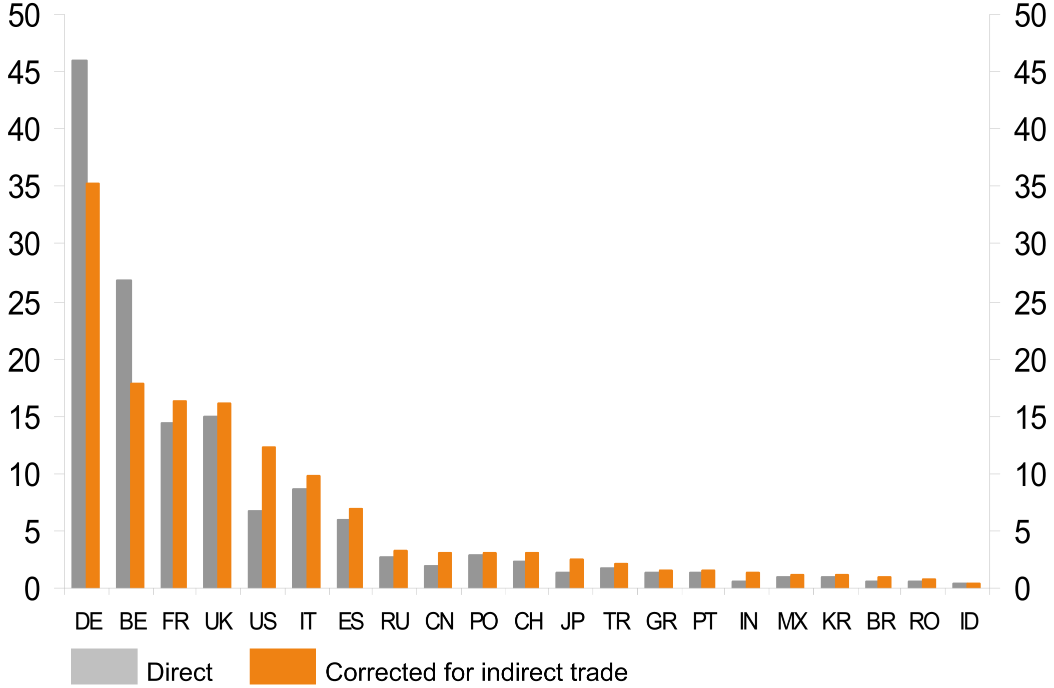
Globalisation has made foreign demand the biggest driver of Dutch manufacturing, with e.g. the chemical industry now relying on foreign demand for two thirds of its total. The surge in re-exports has boosted logistics activities. Major infrastructure investments have facilitated the growth of re-exports.

Ongoing growth of business services exports contributing to Dutch trade balance

The business services contribution to the Dutch trade surplus has almost doubled over the past 15 years, with the tax climate being very attractive for royalties and trust activities. Other growth pillars in this field include IT and intra-company services.

Strong export focus on slower-growing countries…

Domestically produced exports 2006-2009 (goods, euro bn)

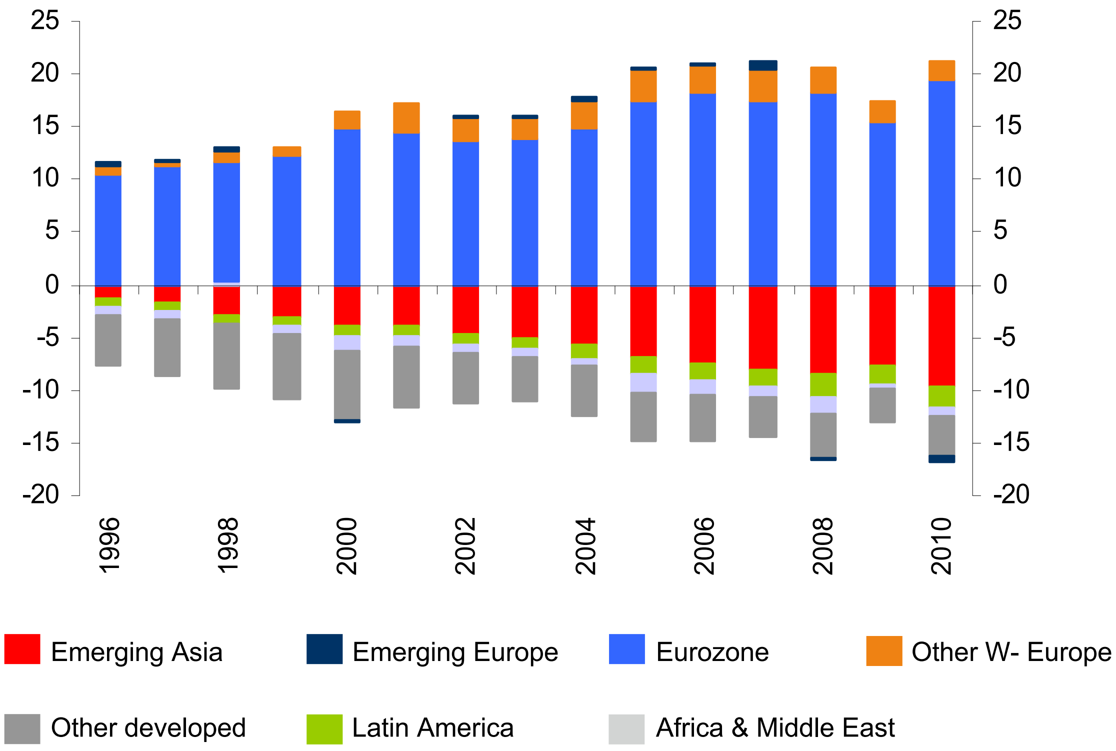


	Share in goods exports (%)*	
	Direct domestic exports	Corrected for indirect trade
Western Europe	71	64
Other developed	10	15
Emerging Europe	8	8
Africa & Middle East	5	5
Emerging Asia	4	5

- The majority of goods produced in the Netherlands is exported to the slower-growing economies in the world, such as the core eurozone countries, the UK, the US and Japan.
- Even taking into account so-called indirect trade effects (for example, exports to third countries via Germany), exports to the emerging economies in Asia and Latin America are relatively modest.
- In the short term, this means Dutch exports will suffer from the process of budgetary consolidation that is anticipated in many European countries. Indeed, exports to the peripheral Southern eurozone countries are still twice that of those to the so-called BRIC countries!

…resulting in a large trade surplus with Western Europe

Trade balance as % of GDP



Source: CBS, ING calculations

- Exports are very important to Dutch prosperity. The persistently large and growing surplus on the Dutch current account is attributable to the trade balance.
- However, the Netherlands primarily run a trade surplus with the other European countries. In fact, the eurozone region accounts for almost all of the trade surplus.
- The large surplus with neighboring countries is partially offset by deficits with all major regions in the rest of the world. The Netherlands has particularly large trade gaps with the emerging economies in Asia.

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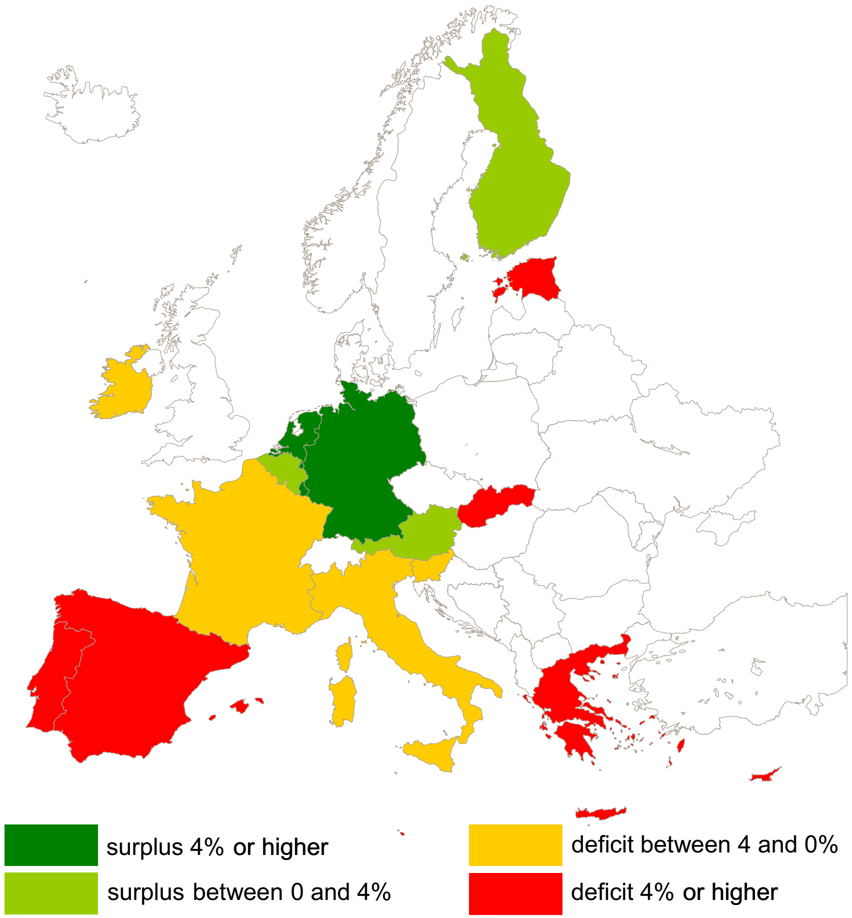
Redress of imbalances may impact Dutch ‘business model’

Eurozone imbalances, current account balance (% GDP)



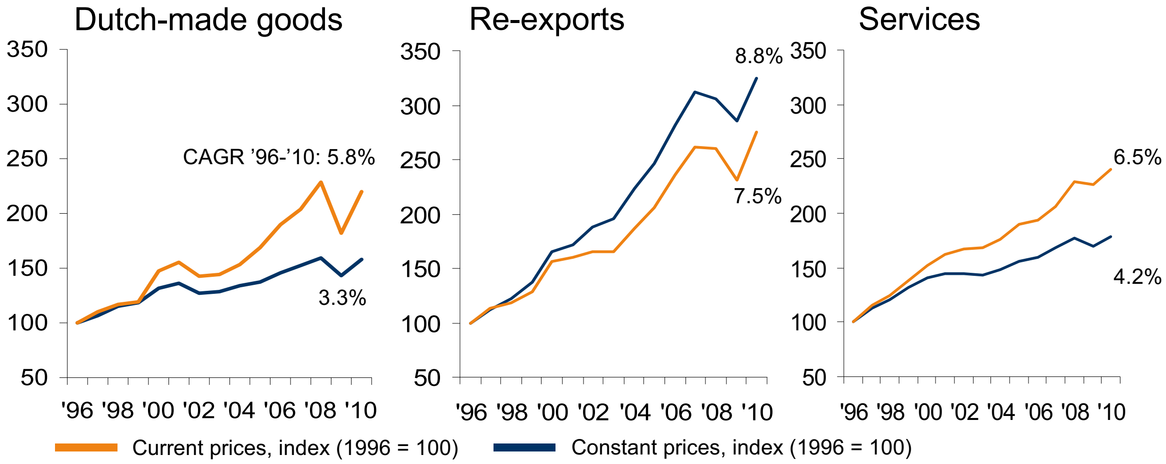
classification based on average balance in ‘06-’10

Source: IMF, ING calculations

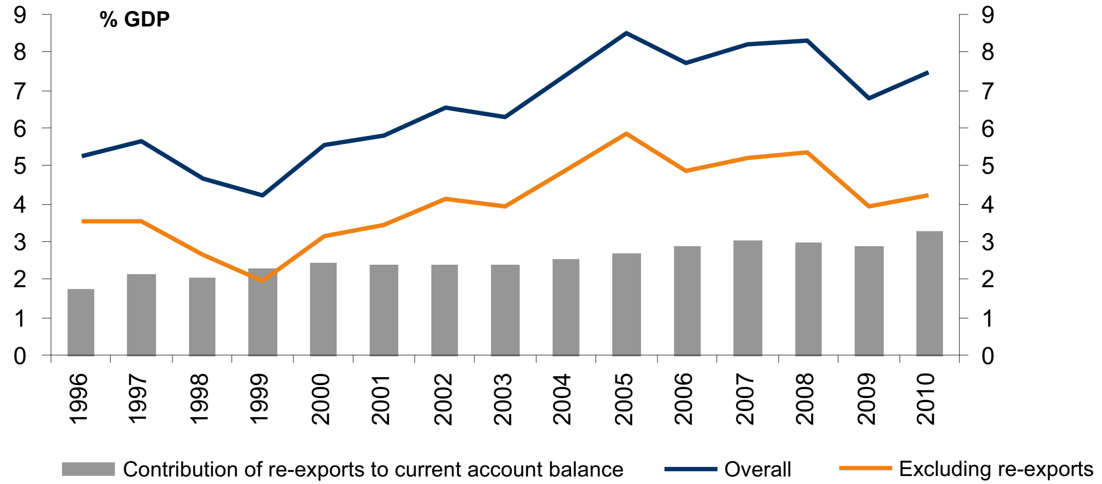
- The eurozone sovereign debt crisis has raised concerns about rising current account deficits and surpluses among Eurozone countries.
- Unwinding the imbalances over time will be a complex task for European policy makers and may have important implications for the ‘business model’ of the Dutch economy. This relates to the strong reliance of the Netherlands on exports.
- Deficit countries will have to adjust, for example by increasing their competitiveness. They are, however, not the only ones having to perform the rebalancing act. Meanwhile, the surplus countries will have to contribute to the adjustment process by increasing domestic demand. More imports lead to smaller trade surpluses.

Re-exports tripled, stable export growth of services

Export development of Dutch-made goods, re-exports and services



Current account balance (% GDP)

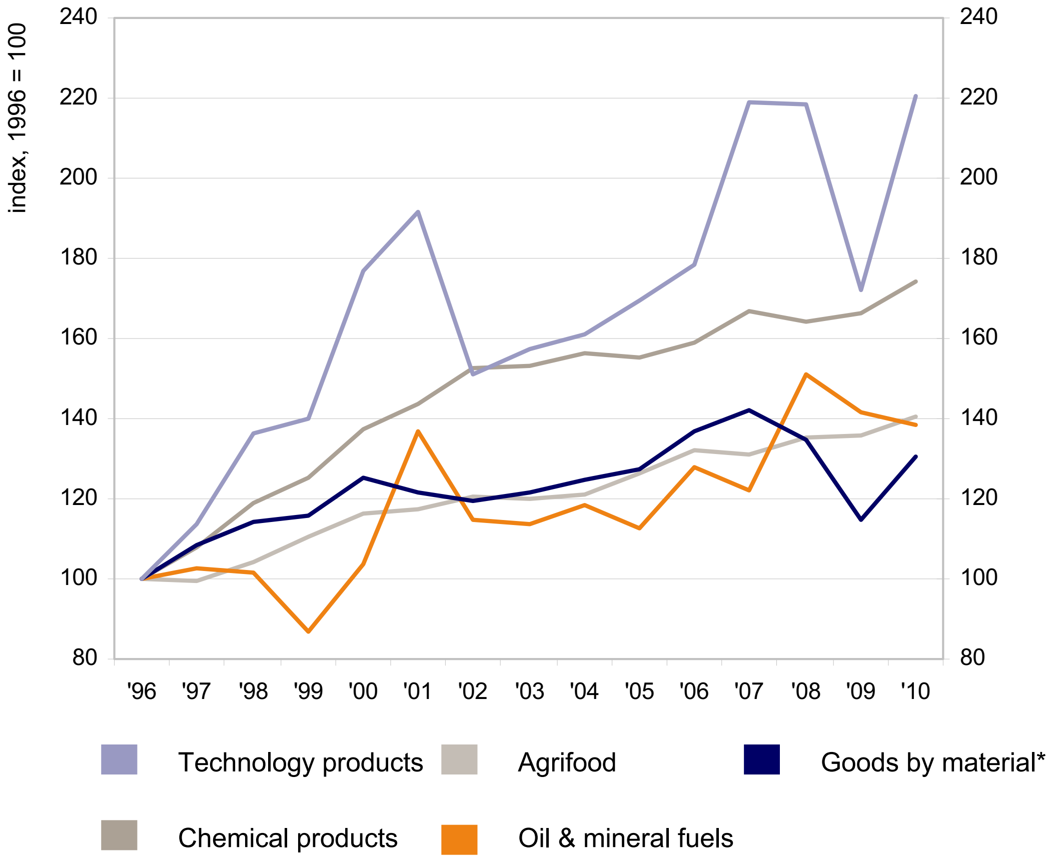


Source: CBS, ING calculations

- The most striking development in Dutch trade over the past 15 years, is the spectacular increase in re-export activity, which has particularly benefited the wholesale sector. Volumes of re-exports have more than tripled since the mid-90s.
- Although the emergence of Asia led to a loss of production in Dutch manufacturing in some cases, it boosted Dutch re-export activity. With its excellent connection to the European hinterland, the Netherlands has made good use of its geographical position.
- Export of services is still a minor part in exports (+/- 20%), but shows a stable growth, primarily realized by business services, such as intra-company, legal, accountancy and IT services.
- Export growth of Dutch-made goods has clearly lagged but it still important in terms of value added. Its share of GDP is around 27%, vis-à-vis 3% for re-exports.

Chemical and tech industry lead exports growth…

Development of domestically-produced exports, by productgroup '96-'10 (volume)



* rubber, plastic, metal, wood, paper

Source: CBS, ING/VU calculations

- Looking at growth of Dutch-made exports, the technological industry excels, with a compound annual growth rate (CAGR) of volumes in the period 1996-2010 of 5.8%. Chemicals comes second with a CAGR of 4% per year.
- Agrifood has shown a more stable growth (CAGR 2.5%), which is characteristic for this sector.
- The focus on trade in Western Europe goes for all sectors and may be a threat to future growth.
- In the long term the opportunities for the Dutch chemical and tech industry are plentiful, given major societal challenges (i.e. aging, mobility, sustainability). However, its cyclical character requires a flexible environment, e.g. in terms of labour market, and structural investments, in order to blossom.

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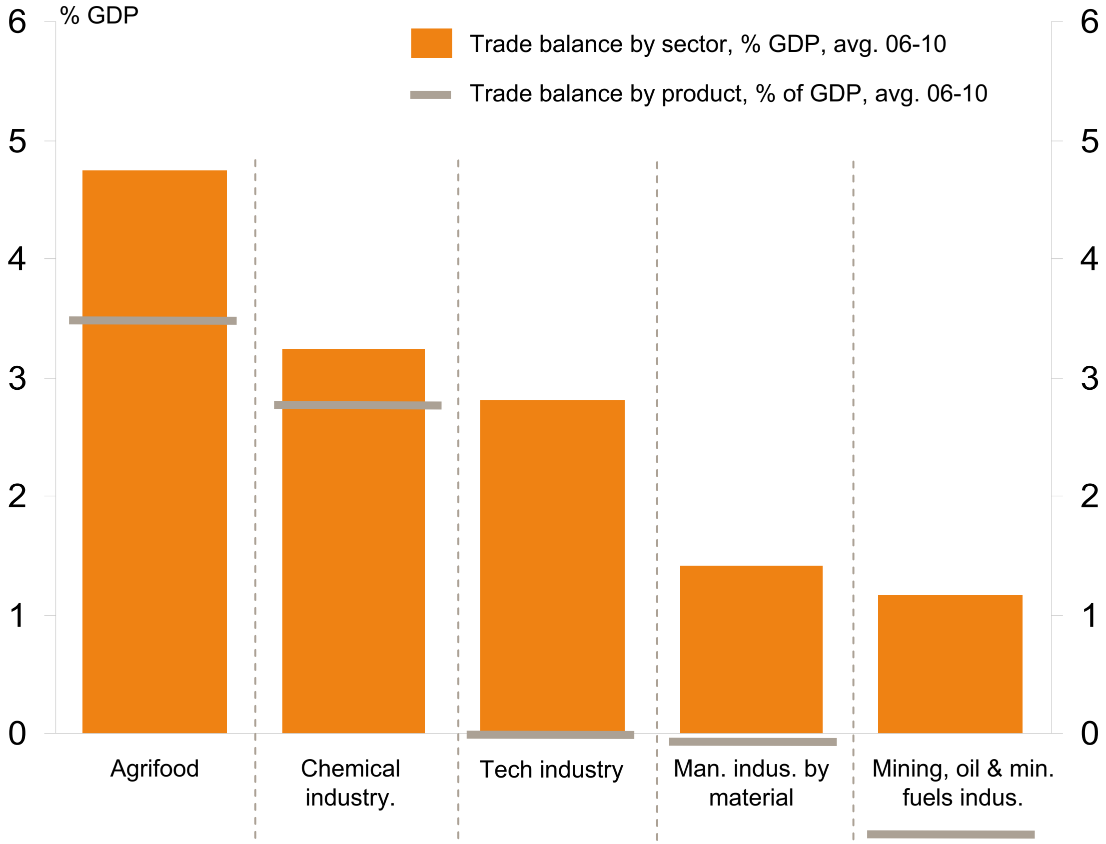
…but agrifood contributes most to trade surplus

Trade balance by sector and product average '06-'10 (% of GDP)

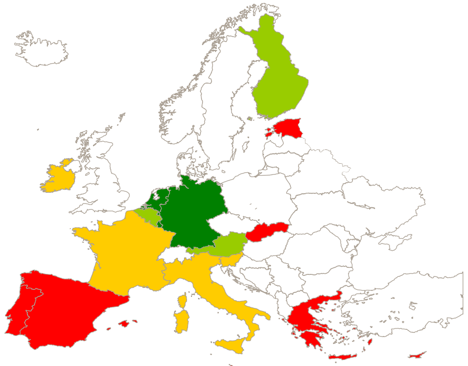


Note: the sum of the sector surpluses amount to appr. 13% of GDP. Household consumption accounts for a large deficit, bringing the total trade balance to +/- 7% of GDP

Source: CBS

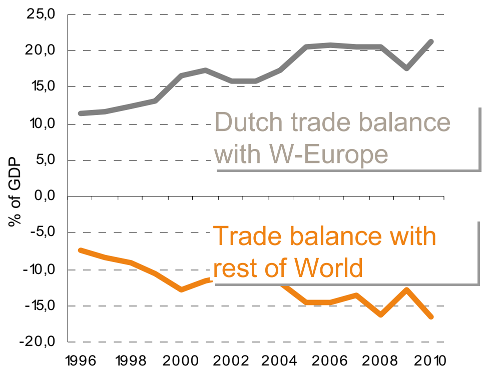
- The strongly performing tech and chemical industries (from an export perspective) also run large trade balance surpluses, but the agrifood sector makes the highest contribution to the Dutch trade surplus.
- Although the tech industry in itself has a rather high surplus, many tech products (in other tech product categories) have to be imported to satisfy final demand. Correcting for this, the surplus disappears, while those of agrifood and chemicals remain large.

Great trade successes so far – big challenges ahead



"European trade imbalances"

"The Netherlands: big surplus with Europe, big deficit with the rest of the world"



- Agrifood
- Chemical industry
- Technological industry
- Logistics
- Business services

"Key Dutch sectors in trade"

- Globalisation and European integration have had a dramatic impact on Dutch trade and prosperity. However, this great trading success cannot be taken for granted. The vast majority of Dutch exports are finally destined for Western Europe. Fiscal consolidation and demographic trends in these countries are, however, likely to dampen demand for Dutch exports in the years to come.
- Matching the growth performance of the past fifteen years will be a huge challenge for the Dutch key production sectors and logistics sector (re-exports), given the moderate outlook for Western Europe and trend towards local-for-local production.
- The structurally high and growing surplus on the Dutch current account is striking. However, financial and economic stability in the eurozone would benefit from more balanced growth in the various eurozone countries. From this perspective, a question mark seems in order regarding whether the export-based growth model of the Netherlands is sustainable. A re-balancing of the growth model, by stimulating domestic demand, may be required.

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