COFACE ECONOMIC PUBLICATIONS

SEPTEMBER 2019

FOCUS

By Christiane von Berg,
Economist for Northern Europe,
based in Mainz, Germany

Netherlands: What is the secret of Dutch trade?

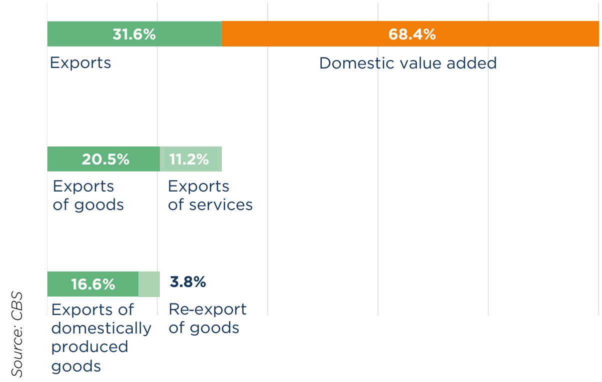
The Netherlands are an old trade nation. During the Dutch Golden Age in the 17th century, they emerged as a well-known global maritime and economic power, and even had a monopoly on European trade with Japan. Today, although some of this glory has faded, the Dutch economy is still a big player in global trade. In 2018, the Netherlands were the sixth-largest goods exporter in the world. In the service-exports category, the Dutch placed eighth in 2015[1]. Considering exports relative to GDP, the Netherlands took third place in 2015 (right behind Ireland and Switzerland). However, times have changed. The favourable trade environment has vanished and global trade has lost its momentum. Coface expects world trade to decrease by 0.8% in volume across 2019 as a whole (with a minus of 0.6% QOQ[2] in Q3 and a small plus of 0.3% in Q4).

So what does slowing global trade mean for the country with the largest port in Europe? How are the Netherlands coping with the increase of protectionism from the United States and China? What does Brexit imply for Dutch trade dynamics? And how will these factors combined affect the Dutch economy? So far, most signs are surprisingly positive...

Much is at stake – the current situation of Dutch trade

In 2018, the foreign trade quota (exports and imports of goods and services as a percentage of GDP) was at 161% (86% exports and 75% imports). Examining the value added, Dutch exports represent 31.6% for the Dutch economy, of which 20.5% are goods and 11.2% are services **(Chart 1).** The Dutch mainly export to their neighbours, at least with goods. In 2017, 24% of all Dutch export goods (turnover) went to Germany, 11% to Belgium, and 9% to the United Kingdom[3]. For the export of services, the top destinations include Germany, Ireland, and the the UK. On the import side, the main import origin countries for the Netherlands are China, Germany, and Belgium for goods, while for services it is Germany, the United States, and the UK (2018).

CHART 1
Value added of the Dutch economy, 2015

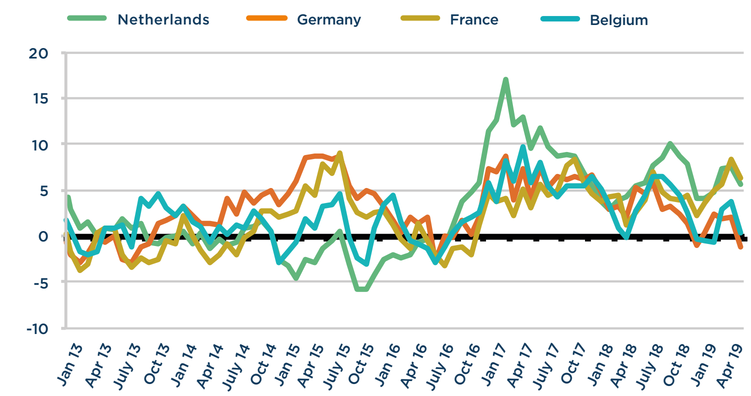


1 - See also: CBS: Internationalisation Monitor/2018-I, The position of the Netherlands, 2018.
2 - Percentage change quarter-over-quarter, seasonally-adjusted
3 - For more details: Coface Country & Sector Risks handbook 2019, p. 156.

Via the seaports of Rotterdam, Amsterdam, Moerdijk, Terneuzen, and several international airports, the Netherlands trades many goods. The main goods exports are related to "high-tech" products. The biggest part of this is machinery (with mechanical appliances, nuclear reactors and boilers), followed by mineral fuels and oil products, agriculture products, and chemical and pharmaceutical products. While machinery products are mostly re-exported by the Netherlands and not domestically produced, mineral fuels, as well as agricultural and chemical products, are in large part "made in the Netherlands". On the import side, the main products are mineral fuels, electrical equipment, machinery and vehicles. Nevertheless, the share of export services in the Netherlands is quite high, representing 30% of all exports in 2018 (mostly intellectual property charges, trade services, IT services, and transport).

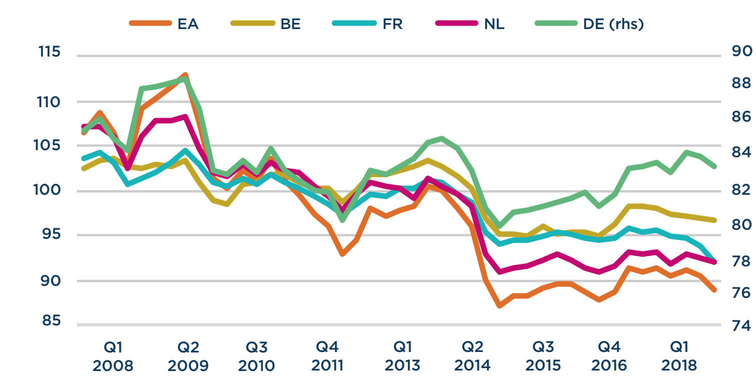
In the light of the above, how is Dutch trade coping with the rougher trade environment of the last years? At first glance, Dutch exports are developing well. Goods exports, in nominal terms, have comparatively strong growth rates year-over-year **(Chart 2)**.

CHART 2
Nominal exports of different countries, YOY in % (3M-moving average)



Source: National Statistical Offices, Datastream, Coface

CHART 3
ECB unit labour costs index Q1 1991=100



Source: EZB via Datastream

In comparison, Germany has a negative export growth rate. The export performance of Belgium is lacking too, even though the country's trade infrastructure shares some similarities with the Netherlands, such as the port of Antwerp. So what is the secret of Dutch trade that drives this dynamic?

All that glitters is not gold – the secrets behind Dutch export figures

Improved price competitiveness

Prices have improved the image of the Netherlands' exports **(Chart 2)**. When the growth rates of nominal exports are split into components of price and volume, the prices component has a big impact on the overall growth trend of nominal exports. The nominal export peaks in spring 2017 and mid-2018 were largely due to the increases in oil prices, with crude oil and gas representing a large share of domestically-produced exports. Therefore, adjusting for the price factor, real export growth was only around 3% in the early summer of 2019 instead of almost 9% YOY[4]. This is still significantly higher than the real export growth of Germany (which was negative). Nevertheless, even with these single events, the price-competitiveness of the Dutch economy has increased in the last years, which has contibuted to the stronger growth rate of exports. The unit labour costs decreased significantly in 2014 and have been on a flat path since then, while in Germany the costs have increased on a very low level **(Chart 3)**.

The Rotterdam effect

Non-price-competitiveness is also key. The Netherlands place in the Top 10 of many index rankings, like the WEF Global competitiveness index[5], the Global Enabling Trade Index[6], and the Logistics Performance Index[7]. Its favourable geographical location and a good infrastructure make the Netherlands one of the main gateways to Europe. Many neighbouring countries trade their goods via Dutch ports. If a Dutch company temporarily owns these goods, then the "re-export" of this good is part of the Dutch trade balance sheet. While the value added of these exports is very low **(Chart 1)**, as the product generally receives only marginal changes (e.g. repacking), the volume of these re-exports has a major impact on trade statistics. This is known as the Rotterdam effect[8]. For example, in 2016 total exports reached €432.5 billion, but €189.1 bn (around 44%) were re-exports. The same applies to imports: imports for the purpose of re-exports were also around 44% of all imports in 2016). The Netherlands had a trade surplus of €52.1 bn in 2016, but without re-export/imports, it would have been €20 bn lower[9]. This also has an effect on regional trade relationships. While the Netherlands traditionally has a trade deficit with Asia and the United States, in both cases without re-exports and the relating imports the Dutch trade balance would have a tiny surplus.

It is difficult to assess the evolution of the Netherlands' real, original trade dynamics, as yearly data for re-exports are only available up to 2017. However, the DNB (the Dutch central bank) provides estimates in its economic outlook forecast for the volume of re-exports and domestically-produced exports[10]. The DNB projects that, after higher growth rates in 2016 and 2017, the dynamic for original Dutch exports is decreasing almost to the point of stagnation in 2019 **(Chart 4)**. In the coming years, the growth rate

4 - The growth dynamic of trade is dampened due to one big, unknown company that relocated part of its activity abroad in October 2018. This basis effect will have an impact on the yearly rate of exports and imports for one year.
5 - World Economic Forum: Global competitiveness index 2018, p. 9.
6 - World Economic Forum: Global enabling trade report, http://reports.weforum.org/global-enabling-trade-report-2016/enabling-trade-rankings/ (last visited July 2019).
7 - World Bank: Logistics Performance Index 2018, https://lpi.worldbank.org/international/global (last visit July 2019).
8 - CBS: Internationalisation Monitor/2018-I, The position of the Netherlands, 2018, p. 27.
9 - See also CBS: Trade surplus excluding re-exports €20 billion lower, 01/05/2017.
10 - De Nederlandsche Bank: Economic Developments and Outlook, Nr. 17, June 2019, p. 10.

will likely be muted, with the main driver of the total exports being re-exports. As re-exports only contribute a small value-added to the Dutch economy, this will not significantly support economic growth. Ultimately, core Dutch trade (i.e. without re-exports) is not performing significantly better than other European countries.

New and old obstacles on the horizon

Netherlands in the middle of US protectionism?

The Netherlands are the gateway for trade goods to Europe, especially from the United States and China - both of whom are in the Top 10 of Dutch trading partners. Therefore, if the demand for European goods decreases in one country, then Dutch trade is affected as well.

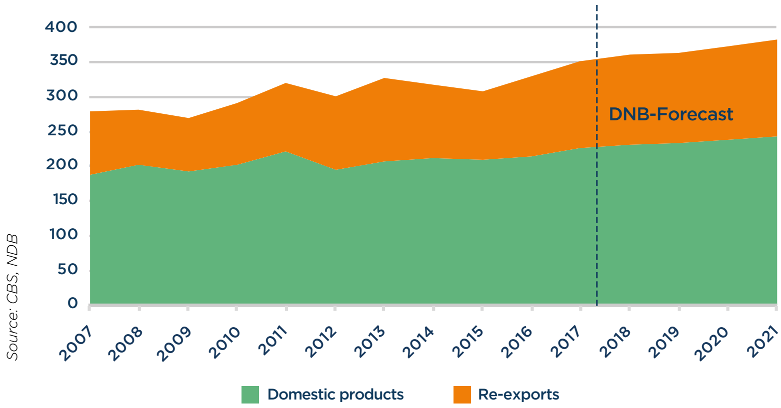
Dutch exports to the US had a value of €15.4 billion in 2016 (one third were re-exports from other countries). Good imports had a total value of €27 bn in 2016 with 60% of all imports being for the purpose of re-export[11]. Possibly in reaction to the new US trade policy, the growth of Dutch exports to the US has slowed since December 2018 (although it is still high), in parallel with an acceleration of export growth to China. This is in line with developments in Germany, where a survey showed that German exporting companies had lost their trust in the US policy framework, which was seen only half as good as the Chinese policy framework. In addition, Dutch exports to Belgium and Norway increased by an unusually strong amount YOY in spring 2019 (compared to 2018). Nevertheless, due to long-term contracts and the sheer size of the US market, ultimately only small-scale evasive manoeuvres are possible.

Potential US tariffs on European cars are also a looming threat for the Netherlands. According to the Dutch Statistical Bureau, CBS, Dutch companies earned €540 million from car exports to the United States in 2015[12]. Around €200 m of these were direct exports, while the rest were exports in the global value chain to European automotive companies, who were then exporting to the United States. This amount is negligible compared to the size of the nominal Dutch GDP of €825 bn in 2015. Therefore, US tariffs on European car exporters have only a limited direct effect on the Netherlands. However, taking into account second and third round effects (e.g. retaliation tariffs, increase of insecurity, decrease of business/consumer confidence), the Dutch bank ING estimates that the total damage for the European Union – and probably for the Netherlands too – would be around 0.2% of GDP[13].

Netherlands and Brexit

The threat of US tariffs is nothing compared to the potential impacts of a "no-deal Brexit"[14]. According to CBS and the OECD[15], Dutch companies made a profit of €25.5 bn from exports of goods and services to the UK in 2018 (3.3% of Dutch GDP), making the UK the second-most important trade partner (after Germany) in value added terms. The majority of these exports were services (€13.1 bn), while goods exports consisted of €9 bn worth of domestically-produced goods and €3.3 bn of re-exports from other countries. The main export products are crude oil products, vegetables, meat, and flowers. Although the former is not that time sensitive in its delivery, increased customs controls (in case of a no-deal Brexit) would have a major effect on the logistics for the other main products.

CHART 4
Volume of Dutch export goods in billion kilos



Despite these high profits, and the fact that the UK has yet to actually leave the EU, the effects of Brexit are already significantly noticeable. The British pound sterling fell by almost 15% between the vote in June 2016 and August 2019. The depreciation was even further worsened when Boris Johnson was promoted to the position of Prime Minister and the probability of a no-deal Brexit increased (-3.6% in the first two weeks after the nomination). This currency depreciation makes Dutch products more expensive for Britons, and so lowers their price competitiveness. The Dutch bank ING estimates that without this currency effect the Dutch export turnover of goods and services (which was over €50 bn in 2018) would have been €11 bn higher in 2018[16]. Additionally, due to the high uncertainty regarding Brexit and lower demand from the UK, total exports from the Netherlands to the UK only increased by 6% between 2016 and 2018. Goods exports increased barely (+2%). At the same time, Dutch exporters searched for other export destinations. Therefore – and because the main European export partners grew somewhat faster –, total exports to Europe (excluding the UK) grew by 17% from 2016 to 2018. However, there are also winners of the pre-Brexit phase in the trade sector. Dutch service exports to UK amounted to more than €20 bn in 2018, a large part of this is business services. As the demand for business advisory services, including legal advice, increased around the topic of Brexit, the service market is still growing fast (15% between 2016 and 2018).

In the case of a no-deal Brexit, the trade relationship between the UK and EU will follow the most favoured nation (MFN) rules of the World Trade Organization (WTO). The OECD estimated this scenario with their data on value added in trade and global value chains[17]: Dutch exports to the UK would fall by 17%, while Dutch GDP would decline by 0.7% in the medium-term (around five years). The sector most affected would be agri-food, whose exports to the UK would fall by 22% in the medium-term. Agri-food production would decrease by 2%, and as a result, the value of agriculture land would decline by 7%. In general, due to its openness and geographically proximity to UK, the Netherlands is one of the countries that would suffer the most from a no-deal Brexit.

However, Brexit does present some opportunities. Since the referendum, around 325 companies contacted the Dutch government regarding a move to the Netherlands (mostly to Amsterdam).

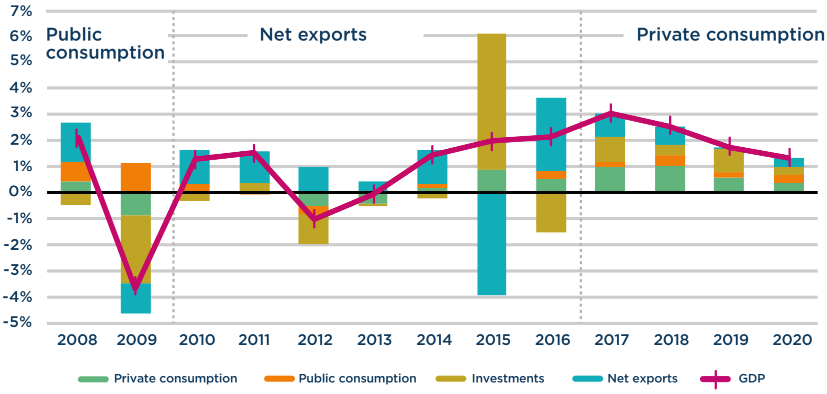
11 - *CBS: Trade deficit with US due to re-exports, 12/12/2018.*
12 - *CBS: Auto-export naar VS levert Nederland half miljard op, 04/06/2019.*
13 - *ING – Leering, Raoul: Higher US car tariffs would come at a bad time, 15/02/2019.*
14 - *Brexit means the exit of the United Kingdom out of the European Union. is the scenario where no withdrawal agreement between the UK and the UK is settled before the scheduled deadline (October 31, 2019 at the time of writing). In this event, the trade relationship would go from customs union to World Trade Organisation (WTO) rules.*
15 - *CBS: €25.5 billion revenue from exports to the UK, 13/5/2019.*
16 - *ING – Geijer,Thijs and Luman, Rico 2019: Dutch exporters, already feeling the Brexit pinch.*
17 - *OECD – Smith, Donal; Arriola, Christine; Carrico, Caitlyn, Tongeren, Frank van 2018: The Potential Economic Impact of Brexit on the Netherlands, Working Paper No. 1518.*

In 2017 and 2018, 50 companies relocated to the Netherlands (including Panasonic and Sony), adding €291 million in investments in 2018 and 1923 new jobs. This trend is likely to continue throughout this year (another 50 companies moved to the Netherlands in the first half of 2019), with more companies likely to come the more uncertain Brexit gets.

What does this mean for the Dutch economy?

There is no one big secret behind Dutch trade. Rather, a group of positive factors are making nominal exports look good. If you strip away both the trade data from the (oil) price effect and re-exports, then the development of real domestic-produced Dutch exports is more similar to that of other European countries. Nevertheless, the Netherlands does have some unique features. Their openness makes them very vulnerable towards trade shocks, but also allows them to quickly adapt their trade relationships (e.g. Brexit).

CHART 5
Dutch GDP growth (QOQ in %), its contributions (in pp), and the main driver of each period



*Source: CBS, Datastream *2019 and 2020 numbers are Coface forecasts*

So what would a global growth slowdown mean for the Netherlands[18]? Surprisingly, a slowdown in global trade does not necessarily immediately affect Dutch export data. One recent example is the development in the second quarter of 2019, when global trade decreased by 0.5% QOQ (price and seasonally-adjusted), while at the same time Dutch real exports increased by 1.3% QOQ. Upon further examination, however, we find that this plus in exports is related solely to re-exports, and that domestic exports stagnated. This means that even when exports are increasing and pushing the official GDP growth up, the value added for the Dutch economy is not the same.

Could a decrease in global trade be a recession threatening factor to the Dutch economy in the middle term? Not necessarily, due to another factor: the growing independence of output growth and trade in Europe. The European Central Bank has estimated that the elasticity of global trade to global output has decreased since the 2008-9 recession[19]. This has been the case for the Netherlands, where the components contributing to growth have changed accordingly in the years following the recession **(Chart 5).** In 2008 and 2009, public spending was the main growth driver (around one third of GDP growth came from public spending). Subsequently, foreign trade took over: between 2010 and 2016 (with the exception of 2015), net exports were the main reason that the Netherlands had a positive economic growth rate. Since 2017, this has again changed to domestic demand. Private consumption and investment are now the main drivers of Dutch trade, so that even with a weakness in global trade, the Dutch economy can grow. Therefore, even with this unfortunate global trade environment in the background, we still expect the Dutch economy to grow by 1.7% and 1.5% in 2019 and 2020 respectively, which is in line with the average growth rates of the last decade.

18 - Coface expects global trade to decrease by 0.1% QOQ (price-and seasonally-adjusted) on average in the second half of 2019.
19 - ECB: Box 1 – Understanding global trade elasticities: What has changed? Monthly Bulletin, July 2014.

September 2019 - Layout: Cécile Bélonie - Photo © Shutterstock

COFACE SA
1, place Costes et Bellonte
92270 Bois-Colombes
France

www.coface.com

FOR TRADE