

# EXPORT AND POLICY SUGGESTION FOR THE NETHERLANDS

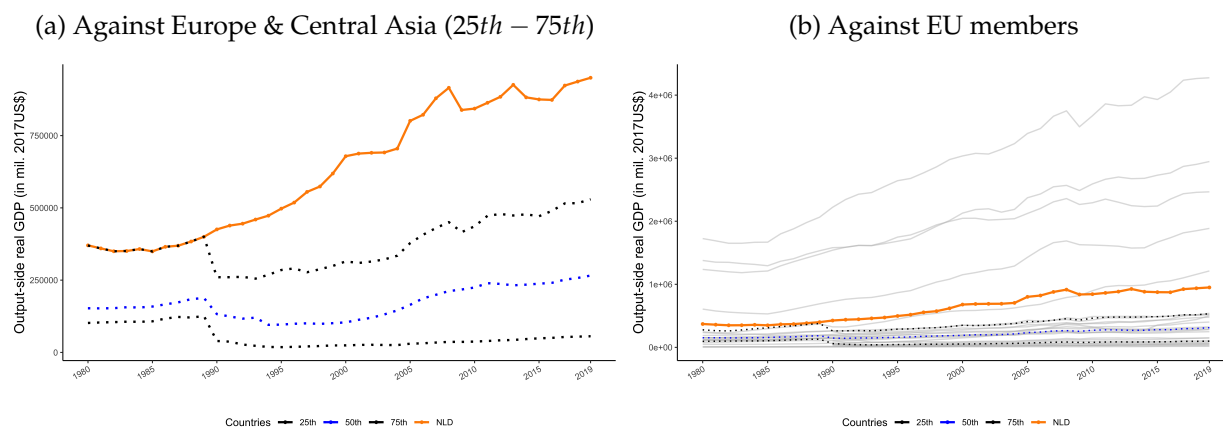
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December 20, 2023

## 1 RECENT ECONOMIC PERFORMANCE OF THE NETHERLANDS

The overview of the Dutch's economy is twofold. I first compare the Netherlands against all countries classified as EU and Central Asia region, which should yield a more aggregate level of the regional economies overview. The second comparison goes by placing the Netherlands against the EU members, which highlights the within-group comparison.

Figure 1: The Output-side Real GDP of the Netherlands: 1980 – 2019



In Figure 1a, the real GDP of the Netherlands has been fairly consistent in an upward trend, i.e., positive growth, as of 2019. The Dutch substantially outperformed the 75th of the Europe and Central Asia countries around 1990, highly due to the entry of the transition economies in Eastern Europe (Fischer et al. (1996)). The positive real output growth also applies to the comparison within EU members in Figure 1b. The Netherlands performs above the upper quartile, with only five countries having even higher real output. Overall, we see the consistency in positive economic growth of the Netherlands and being one of the leading countries from this descriptive evidence.

## 2 EXPLORATION OF THE NETHERLANDS EXPORT PATTERNS

Preliminary explorations in Figure 2 suggest that the export growth rate of the Netherlands fluctuates recently, but the export share of real GDP ramps up gradually. This may suggest a **growing dependency** of international trade for the Netherlands. To identify what sectors in the Nether-

lands possess the most CA, I calculate the Revealed Comparative Advantage (RCA) index<sup>1</sup> and follow Proudman and Redding (2000) to present five-year averaged RCA in Table 1. Additionally, Compound Annual Growth Rate (CAGR) is provided in the third column.<sup>2</sup>

Figure 2: Export Profile: 1995-2021



Table 1: Top RCA in the Netherlands, 2015-19

Industry	RCA	CAGR
06 TREES AND OTHER PLANTS	4.54	2.44%
18 COCOA AND PREPARATIONS	3.57	2.17%
01 ANIMALS; LIVE	2.30	3.09%
14 VEGETABLE PLAITING MATERIALS	2.23	4.95%
15 ANIMAL OR VEGE. FATS AND OILS	2.14	2.98%
20 PREPS OF VEGE., FRUIT, NUTS	1.98	1.28%
04 DAIRY PRODUCE	1.97	4.07%
08 FRUIT AND NUTS, EDIBLE	1.96	6.57%
05 ANIMAL ORIGINATED PRODUCTS	1.95	2.23%
99 ETHYL ALCOHOL	1.83	-3.53%

We observe that agricultural products (primary sector) are the most "competitive" sectors for the Dutch's export, generally having an export expansion during the five-year period (positive CAGR). Yet, the Dutch's top export industries (by value) during the same five year are 27 (MINERAL), 85 (ELECTRICAL MACHINERY), and 84 (NUCLEAR REACTORS), which are the secondary sector. The export of the Netherlands clearly has a *mismatch* between her top exporting industries and the most "export-competitive" sectors.

### 3 GRAVITY ANALYSIS ON BARRIERS IN THE DUTCH'S EXPORT

To study the bilateral trade of the Netherlands and the barriers, I propose the naive gravity model following guidance of Head and Mayer (2014):

$$\ln(F_{ij}) = \ln(G) + \ln(M'_i)\alpha + \ln(M'_j)\beta - \ln(D'_{ij})\theta_{ij} + \ln(\phi'_{ij})\rho_{ij} + \varepsilon_{ij} \quad (1)$$

where  $F_{ij}$  is the trade flows from origin  $i$  to destination  $j$ ,  $M_{\{i,j\}}$  is the GDP of country  $i, j$ ,  $D_{ij}$  is the distance between  $i, j$  (think of as "trade cost"), and  $\phi$  are primary variables of interest. Table 2 summarizes the key estimates into the relatively *cultural* and *political* aspects.

In Model (4), every 1% increase in *Distance* to an importer is associated with a 0.95% decrease in the bilateral trade flows between the Netherlands and the destination. The Netherlands exports 980% more to the countries who share common language ( $\exp(2.38) - 1 = 9.80$ ), but interestingly trades 58.5% less to the countries who share a border with the Dutch than those who do not ( $\exp(-0.88) - 1 = -0.585$ ). This may a bias driven by the small sample pool who fits the conditions, but aggregately the Dutch's exports is 4.48 times higher if sharing the cultural similarity. In a political lens, the Netherlands exports 9.5% less to countries who share common legal origins ( $\exp(-0.10) - 1 = -0.095$ ), but trades 15% more to her *RTA* partners ( $\exp(0.14) - 1 = 0.15$ ). Jointly, the Dutch's exports is 1.04 times higher if sharing the political similarity.

<sup>1</sup>RCA is given by  $RCA_k^i = \frac{X_k^i/X^i}{X_k/X} = \frac{X_k^i/\sum_k X_k^i}{\sum_i X_k^i/\sum_i \sum_k X_k^i}$ .  $RCA_k^i > 1$  implies country  $i$  has a Revealed CA for good  $k$ .

<sup>2</sup>CAGR is calculated by  $\left( (X_{k,t}^i/X_{k,t_0}^i)^{\frac{1}{t-t_0}} - 1 \right) * 100\%$ . Here,  $t_0 = 2015, t = 2019$ .

Table 2: Naive Gravity Estimations (Dependent Variable: Trade flows)

Specification	(1) (Baseline)	(2) Cultural	(3) Political	(4) (All)
Distance (log)	-1.01*** (0.07)	-0.98*** (0.08)	-0.98*** (0.09)	-0.95*** (0.09)
Common Language		2.33*** (0.59)		2.38*** (0.60)
Contiguity		-0.87 (0.77)		-0.88 (0.77)
Common Legal Origins (Post Trans)			-0.02 (0.15)	-0.10 (0.14)
Regional Trade Agreement			0.14 (0.16)	0.14 (0.15)
Adj. R <sup>2</sup>	0.87	0.99	0.99	0.99
Observations	190	187	190	187

Notes: \*\*\* $p < 0.001$ ; \*\* $p < 0.01$ ; \* $p < 0.05$ . This table did not present the Exporter GDP (log) and the Importer GDP (log) since the two are known to positively correlated with bilateral trade.

## 4 POLICY RECOMMENDATION FOR THE EXPORT STRATEGY

Bearing all the above trade data summary in mind, the Policy memo goes by:

- (i) The Ministerie van Economische Zaken should aim to reduce the transportation cost domestically and globally. Shortening the "distance" largely increases bilateral trade, especially for agricultural products that are known to be relatively "sticky" around the nearby countries.
- (ii) Politically, following (i), the Ministerie van Economische Zaken should also prioritize the markets expansion of their agricultural products by more signing RTAs with the EU and Central Asia countries. It secures a dominant market share in the corresponding export, and a RTA containing both agricultural products and manufacturing products is a first-best.
- (iii) Culturally, the Ministerie van Economische Zaken should solidify the trade relationship with the existing Dutch-speaking countries, and use language as a powerful tool to expand into the other foreign markets. A similar case can be seen in the prior rising of Chinese export and the gaining popularity of learning Chinese. A common language smooths out the potential trade cost and generates a huge trade booster according to the data.

## References

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