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### Global trade & the Dutch hub: understanding variegated forms of embeddedness of international trade in the Netherlands: clothing, flowers, and high-tech products

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## Introduction

### Growing world trade and the Dutch trade hub

For almost two centuries world trade volume has grown more rapidly than worldwide GDP. Trade liberalization, reduced transport costs, and the development of modern information and communication technologies have all been instrumental in this. Industrial specialisation at the national and regional level is also said to have contributed to the growth of trade. Particularly economic geographers have argued that regions have come to play a more important role in world trade as they have become the locus of specialized economic activities with a worldwide reach and compete and interact with each other on a global scale through global flows of information and goods (Storper, 1997, Sassen, 2008, Scott, 2000). Once bound to the same geography, large corporations have started to geographically unbundle various departmental activities, locating product development, production, distribution, finance, and warranty services in different locations. In this process regions have become specialized in certain industries or activities within global value chains. Some regions are specialized in the development of computers, others in textiles, chemicals or even dairy products. Increasingly global flows of goods and/or information are occurring between specialized clusters. Within this new global economic structure, trade does not necessarily involve direct trade flows between regions of production and consumption. Sometimes goods first go to a specialized international trade and logistics region before they are routed to other parts of the globe. Sassen (2008) has called regions that function as a kind of hub between different areas of the world, where flows of goods and/or information come together, *global platforms*. These global platforms function as a point of entry to larger market areas for one or more specific types of goods or services.

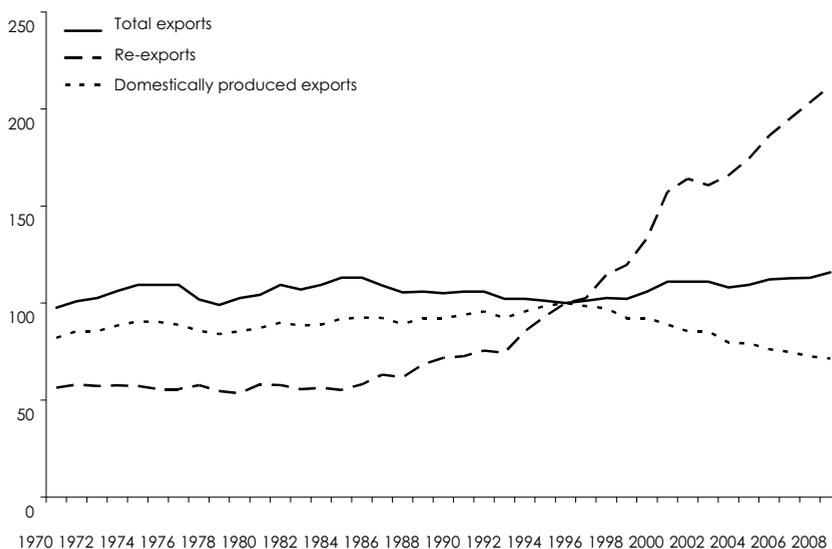
The Netherlands represents one of these places. The Dutch have a long history as a trading nation and an intermediary between production and consumption markets all over the world. This specialization exists at the level of the country as well as at the sub-national level of regions and cities. Much of this can be traced back to the country's Golden Age of the seventeenth century. Dutch colonial trade links through the Dutch East and West India Companies brought products from Asia, India, Africa and the

Americas to the whole of Europe via the Netherlands. Amsterdam became the epicentre of this activity, a world city or global platform in the era of trade capitalism.

### 1.1 The growth of re-exports

Particularly since the end of the 1980s the Netherlands has reasserted its trade prowess, strongly developing into a transit economy of import/export and becoming a node in international trade.

**Figure 1.1: The development of the volume of total exports, re-exports, and domestically produced exports of fabricated goods with respect to relevant world trade<sup>1</sup>, 1970-2008, index data, 1995=100**



Source: Mellens et al. (2007, p. 26).

<sup>1</sup> Relevant world trade is trade in goods with a, for the Netherlands, relevant world market. See for how this is calculated exactly and a discussion on the issue Mellens et al. (2007)

Statistics show that large re-export flows<sup>2</sup> go through the Netherlands and that these flows are growing (Mellens et al., 2007, Kymper and Veldman, 2004, WRR, 2003, Kusters and Verbruggen, 2001, Gorissen, 2003). In the last twenty years, except for 2002, re-exports have grown faster than exports of domestically produced goods (see Figure 1.1). Not only the volumes of re-exports have grown over the last decades, as shown by the index data of Figure 1.1 but also, as Table 1.1 shows, the value of re-exports has increased substantially over the last years and count much more than forty percent of total exports ever since the year 2000. However, 2008 shows a fall in re-export as percentage of total exports which is caused by the international economic crisis.

**Table 1.1: Exports and re-exports of goods in the Netherlands**

<b>Year</b>	<b>Export (billion Euro's)</b>	<b>Re-export (billion Euro's)</b>	<b>Re-export % of total export</b>
2002	233	98	42.2
2003	234	98	41.8
2004	256	111	43.4
2005	281	122	43.4
2006	319	140	43.9
2007	348	155	44.7
2008*	368	153	41.5

Source: StatLine (Statistics Netherlands, [www.cbs.nl](http://www.cbs.nl))

\* Preliminary data

To get an idea of the strength of this specialization, Balassa indices can be calculated for re-exports (see Table 1.2)<sup>3</sup>.

<sup>2</sup> The definition of re-export has long been unclear and un-standardized. Unmodified re-exports and re-exports after small industrial processing, to a certain extent, were grouped together as re-exports. Until recently in Dutch trade statistics it was unclear what was to be considered a small industrial processing (adding up to re-export) and what as major processing (adding up to normal export). Different public organizations used different standards. Currently standardization of data takes place in accordance with Eurostat (personal communication with representative of Central Bureau of Statistics of the Netherlands, 2007). It has been agreed to record trade as re-export when after import there is a transfer of ownership to a resident of the importing country followed by export of the same product which means that the product has not undergone a change of more than two digits in the eight digits product code of the Harmonized System (HS) of the EU (Roos and Exel, 2004). This has made the re-exports category much clearer. However, the category of re-export does not tell us much about the kind of services that are added to the value chain in the re-exporting country. Goods that are re-exported may or may not have been subject to trade intermediation, trade related juridical services, marketing, transportation, and distribution. For example packaging and customization of products included in distribution services is of a totally different kind than the buying, reselling and marketing of a product. Both kinds of services may be delivered to a re-export flow.

<sup>3</sup> A commonly used method to investigate a country's industrial specialization is to compare the size of a specific sector in one country with the size of that sector in other countries. The Balassa-index is often used for this. The supposition, on which the Balassa-index is based, is that strong industries export more, leading to

**Table 1.2: Re-exports (in billion of Euros) in different European countries and the Balassa-index for re-exports in these countries in 2000**

	Export	Domestically produced	Re-exports	Share of re-exports in total exports	Balassa-index re-exports
	<i>(billions of Euro's)</i>				
Belgium	153	103	50	33	1.4
Denmark	45	36	9	20	0.8
Germany	558	467	91	16	0.7
Finland	49	47	2	4	0.2
France	297	206	91	31	1.3
The Netherlands	196	112	84	43	1.8
Sweden	87	85	2	2	0.1
Total	1385	1056	329	24	1

Source: Mellens, Noordman, and Verbruggen (2007, p. 33) and own calculation

The Balassa-index in this table compares the share of re-exports in the total exports of a country to the share of re-exports for some reference countries. It is clear that within the European context the Netherlands stands out as a re-export specialist with a Balassa-index of 1.8. Belgium and France follow the Netherlands with indices of 1.4 and 1.3 respectively. Compared to Hong Kong, with a re-export share in 2001 of almost 90 percent of total exports of goods (WRR, 2003, pp. 44-45), re-export shares of the Netherlands are not that high, but Hong Kong may be the real exception in this category, even Singapore, that is also seen as an important global gateway has a share of 'only' a bit more than 45 percent (idem). A share of more than 40 percent of Dutch exports being comprised of re-exports is comparatively high within Europe (Table 1.2). 88 percent of Dutch re-exports is Europe bound and nearly half of re-exports is imported from Western Europe, while one third comes from the US and Southeast Asia (Roos, 2007). This makes the Netherlands a true intermediary between global markets.

When examining the role of the Netherlands as a trading nation, re-exports have received a lot of attention (examples of this are Kusters and Verbruggen, 2001, CPB, 2005, Roos and Exel, 2004, ESB-Dossier, 2003, WRR, 2003). However, re-exports as a category, is broad and loosely defined. It simply does not tell us much about the internal composition and proportions of goods and services included, nor does it say much about

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comparatively higher exports of the products of that sector. A comparison then is made between the share in export (X) of a specific product (j) in the total of exports of a country (i) and the share in exports of that specific product in the total of exports in a set of reference countries (ref).

$$\text{Balassa-index} = (X_j/X_i)/(X_{jref}/X_{iref})$$

When the export share of the specific product in the country under investigation is the same as it is in the reference countries, the index is 1, above 1 there is some specialization.

what an economy actually gains from re-exporting. In the Netherlands, this has led to debates on whether or not this re-export trade consists merely of “moving boxes” through the country and does not effectively contribute to the domestic economic growth, while exacting high infrastructural and environmental costs. Or, that although the return on one unit of re-export is not very high, it also does not demand much labour input, therefore making transfer and re-export economically viable and beneficial (CPB, 2005, Brakman and Garretsen, 2003). Research suggests that within entrepôt economies, that are large re-exporters, indeed more is taking place than mere transshipment since goods leave entrepôt economies much more expensive than they enter them (Feenstra and Hanson, 2004). Manshanden and Kuipers (Manshanden and Kuipers, 2003) state that more money is gained with re-exports than with transit trade, in which trade and distribution activities are not present, because of trade margins and tax revenues. If this is the case, a continuation of the argument would involve determining what policies should be pursued to enhance the Dutch role as trade hub. The discussion on re-exports shows that in fact little is known about it, especially in qualitative terms. However, to eventually come to policies that stimulate the Dutch trade hub, it is needed to know what activities are related to re-exports and how they are embedded in the Netherlands.

## **1.2 Theoretical approach and research questions**

### ***1.2.1 Research questions***

To understand trade data and activities, one could use (neo)classical trade theory, new trade theory, and transaction costs theory. They all give some explanations for the existence of trade. However, they insufficiently explain the existence of specialized re-export economies. Neoclassical trade theory and new trade theory explain how trade takes place between places with different – given or developed – comparative productivities in the production of goods. However, these trade theories seem to assume that trade only takes place between areas of production and consumption, whereas the existence of re-export hubs shows that international trade can also be an industry in itself resulting in exports of goods that are not domestically produced. I will elaborate on this more in Chapter 2. Transaction costs economics says that whenever there is an intermediary trader between producer and consumer, this trader can only be explained by the fact that the use of the trader lowers the costs that are related to the transaction. These costs are related to uncertainty on such things as product quality, amounts needed, trustworthiness of the trading partner, delivery time, et cetera. When a trader has superior knowledge on these issues or superior relations that enable him to find solutions to problems that might arise, he has fewer uncertainties and his risks are lower.

Therefore, the transaction costs will be lower for him. That these kinds of transaction costs exist, has become clear in research on the role of traders: what they add to products are things like knowledge about markets and opportunities for trade, a guarantee of quality, logistic services and administration (Andersen, 2005, Biglaiser and Friedman, 1994). Gravitation models of trade also show the importance of transaction costs. There is more trade between countries when they are more proximate to each other spatially and culturally, have colonial ties, or common membership of international organizations and free trade areas (WRR, 2003, Linders, 2006). Yet, they are unable to fully explain trade data between countries and only take efficiency as a reason for the direction of trade flows into account – as they are based on transaction cost economics. Furthermore these models do not explain why certain places are able to develop into hubs with competitive levels of transaction costs for international trade.

This research seeks to fill in the lack of understanding regarding concentration and embedding of trade activities at specific places by studying the Dutch trade hub, not with quantitative models, but by qualitatively studying the processes within that hub. The trade hub is seen as a local production system linked to industrial systems elsewhere forming part of an international value chain. Mechanisms within this system<sup>4</sup> and international value chains are the starting point of the analysis.

The first question this research will begin to answer is what the development as a trade hub in quantitative terms means from a qualitative perspective: what economic activities lay behind the quantitative data? What does being a high volume trading nation really mean? Does it mean the Dutch only have the cheapest distribution methods but are totally dependent on decisions taken elsewhere, or does it mean that the Dutch have some power as a coordinator and control centre within international value chains because of the pro-active role of the Netherlands in connecting markets of production and consumption? The first research question then is:

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<sup>4</sup> This approach to analyzing trade hubs comes close to the way in which transport geography has tried to understand the competitiveness of transport hubs and port areas. Transport geography also focuses on the local production system or cluster as a starting point to understand competitiveness, instead of quantitatively focusing on the flows that go through port areas (Airriess, 2001, Cheung et al., 2003, De Langen and Visser, 2005, Evans and Hutchins, 2002, Goetz and Rodrigue, 1999). It has made the case for the study of transport as a separate economic category in the division of labor and, just like this study, it recognizes trade as a distinguishable category. What these studies show is that to understand a container hub, it is necessary to investigate processes within the hub itself, such as local governance and collective action (De Langen and Visser, 2005) and the implementation of ICT (Airriess, 2001). However, what these studies generally do not really take into account is the influence of the external links within global value chains on these regions. Furthermore, little attention is paid to the interaction between developments in these global value chains and in the hub itself. Only in some cases the literature places the developments in the ports into developments within the transport industry. An example of this is Loo and Hook (2002) who try to understand the opportunities for Hong Kong as a logistics hub as the result of Chinese policy and the rise of containerization in the transport industry. However, they do not take the wider value chain (trade, production) into account.

- (1) *What trade activities and trade role lay behind the re-export data in the Netherlands and to what extent does the Netherlands play the role of a coordination and control centre in the trading function of international value chains?*

A next important question is how strongly this trade role is connected to the Netherlands and to what extent this role is difficult to be taken over by other countries.

- (2) *Through which processes are these trade activities attached to the Netherlands and to what extent are they in such a way attached that they cannot be easily relocated?*

And, as a result of this,

- (3) *What are, in light of the answers given to the previous questions the strengths and weaknesses of the production system of international trade in the Netherlands?*

A very important hypothesis that will steer this research and the way that is looked at the questions, is that the trade hub, as a specific type of global platform, should not be studied and seen as one homogenous type of global platform. On the contrary, at least three types of trade hubs should be distinguished that have their own characteristics, dynamics, and processes of geographical embedding. First, a trade hub can be a place that only physically connects demand and supply through distribution activities. I call this case a distribution node. The trade hub can also be the place where supply and demand physically come together. The trade hub then is a true marketplace where goods are shown and change from owner. Finally, a trade hub can be a place where scattered demand and supply get connected through traders and their trade networks. The trade hub in that case, is not a place where demand and supply literally meet each other and are concentrated, but only the place where they are connected. I call such a trade hub a trade-network node. All these types of trade nodes can include a combination of trade (transfer of ownership) and distribution (physical handling) of goods but they do not necessarily have to. The different types of trade nodes, when combining both, can develop in a way that only one of the two remains. In the case of a distribution node, the import and subsequent export of goods that is related to distribution in the node can be replaced by mere transshipment or throughput. This means that no legal transfer of ownership takes place anymore in the distribution node, but only physical transportation. In the case of a marketplace node, physical trade can become virtual trade. Demand and supply still come together in the node but the products traded are not present in the node anymore. An example of such a virtual marketplace node is the London Metal Exchange where the metal exchanged is not physically present. A trade network node can develop into a trade node without distribution when traders directly

sent the goods from the supply to the demand side. In this case demand and supply still find each other through a trader in the trade network but physically the trade network node does not play a role anymore in the trade. To really understand a trade node, these types of nodes should be distinguished. This is what I will do in this book. It consists of case studies of each type of trade node: clothing represents the trade-network node, flower trade represents the market-place node, and high-tech products represent the distribution node. This distinction enables us to see that Dutch (trade) policy has been one-sided in a way, focusing mostly on the development of the distribution node.

### *1.2.2 Relevance of research questions*

The questions of this research are of interest to theory development with respect to the role of local industrial systems within a globalizing economy and to the development of theory on nodes of international trade. In chapter two a theoretical framework will be constructed that enables us to investigate the questions in three case studies of re-exports through the Netherlands. The point of departure in this theoretical framework is the idea that a spatial economic structure like a trade hub, can best be understood as the result of (1) processes and characteristics of the hub itself: economic processes like the development of economies of scale or of knowledge, and characteristics such as legislation or physical conditions of the hub (e.g. tax laws, customs unions, infrastructures), (2) processes and characteristics of the global value chains of which the trade node is part (e.g. changing governance structures, power configuration, and steering), and, (3) the characteristics of industries or sectors (products and markets and the activities involved). To understand a trade hub it is necessary to look at processes within these three arenas and to see how they interact at different levels to create a given economic outcome.

The exact processes that I will be looking at in this study will be discussed in the theoretical section (Chapter 2). At this point it will also become clear why, for a good understanding of the node of international trade in the Netherlands, it is necessary to look at specific products and their value chains of which this node is part. It will become apparent that there are so many possible different economic activities involved in international trade that one must focus on the specific activities that international trading firms perform in the Netherlands. Only then will one be able to understand why these activities take place so often in the Netherlands. Therefore in the case studies of this research a description of the trade specialization in terms of activities that firms in the Netherlands do is very important. Through this perspective we can answer the question to what extent the trade functions of the Netherlands act with coordination and control capabilities, how they are attached to the Netherlands and possibly even have become embedded in the Netherlands, and how policies have added to this.

This research is also of interest to the development of economic and trade policy in the Netherlands. The idea that the Netherlands is a country of trade is felt strongly in Dutch policy and political thinking. In light of the strategic location of the Netherlands in the Rhine delta, nothing seems to be more logical than pursuing trade-friendly policy. This policy takes shape in the support of extensions of the Port of Rotterdam and Amsterdam Schiphol Airport and in large infrastructural investments such as in the freight railway to Germany, the Betuwelijn, and in the HSL (high-speed railway). Since there is a lack of knowledge about the firms and activities behind the statistical trade data that show a high specialization in trade and how these activities are related to the Netherlands and broader international value chains and production networks, it is very uncertain how these policies affect the activities of firms that currently create the high import and re-export activity within the Netherlands. It makes it also unclear whether or not the strategy taken can be seen as a strong competitive strategy in the terms of Jessop (1998). This is a strategy that improves the overall (structural) competitiveness through innovation instead of only attracting mobile resources at the expense of other localities in a kind of zero-sum game, which can be seen as a weak competitive strategy (Jessop, 1998, p. 79). Activities attracted by a weak competitive strategy are, of course, much more prone to relocation as other places are able to imitate the strategy. I will elaborate on this point in Chapter 4.

### **1.3 Organization of the book**

This book is organized as follows. In the next chapter I will build an explanatory framework for the concentration of international trade based on theories on value chains and on territorialization of economic activities. After the theoretical chapter, a short chapter follows on research methods and case selections. Chapter 4 analyses Dutch trade policy, showing the focus that has been placed on developing the distribution node. Thereafter, three case studies of Dutch international trade in clothing, flowers, and high-tech products will show how varied the embedding of international trade in the Netherlands actually is. It shows the importance of distinguishing three types of trade nodes and to take into account product and market characteristics as well as the organization of the value chain when trying to understand the embedding of international trade in a specific node. Each case-study chapter (Chapters 5-7) tries to come to a conclusion on the trade activities in the Netherlands and their embedding in the Netherlands. In the concluding chapter (Chapter 8) I will reconstruct the explanatory framework for the attachment of international trade and distribution developed in Chapter 2 and will discuss this framework with reference to the case studies and the Dutch context. I will also remark on the research, the theory and methodology used and questions that remain open for discussion and research.