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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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## Summary

The Netherlands is famous as a country of trade: a place where flows of goods from all over the world come together and from where they get redistributed throughout Europe and the World. The strength of the Netherlands as a trading nation is often illustrated with data showing a growth of re-exports from the Netherlands (ESB-Dossier, 2003, WRR, 2003, Kusters and Verbruggen, 2001, Mellens et al., 2007). Re-exports are exports of goods that first have been imported. Without any significant industrial processing, these imported goods leave the Netherlands. The only thing that really happens in the Netherlands to these goods is a change in ownership: they first come into the possession of a Dutch-based person or company and subsequently to a foreign-based person or company. Re-exports are different to mere throughput, where no change of ownership takes place.

The growing re-exports receive, as said, a lot of attention from researchers and policymakers. To explain the very high Dutch re-exports – already counting for more than half of our total exports – they often point to the favourable location of the Netherlands close to the sea, its ports, hinterland connections, and trade-mindedness. Although these are all relevant conditions to explain re-exports, these explanations lack a clear understanding of the different activities that create re-exports and are not specific enough to be fully able to fully interpret re-export data and what they really mean. More specific, it is unclear to what extent the Netherlands as a (re-export) trading nation depends on decisions taken elsewhere, or that, as part of the activities that create re-exports, coordination and control activities take place in the Netherlands, producing other areas and countries dependent on the Dutch. Without knowledge of the activities that are hidden behind re-export data, it is difficult to interpret re-export data in specific cases, to explain how re-exports are attached to the Netherlands, and, in view of policy making, how this attachment or embedding can be stimulated through policy, if at all.

## Research questions

This research has tried to get a better understanding of re-export related trade activities in the Netherlands and their embedding in the Netherlands. An important starting point of the research was the idea that different types of goods and different types of trade activities would have a different kind of embedding in the Netherlands. Three basic types of trade activities and related trade nodes that create re-exports have been identified at the start of the research. First, a trade hub can be a place that only physically connects demand and supply through distribution activities. This is, for example, the case when European distribution centers import goods in the Netherlands and re-export them to the European market. The European distribution centers are in fact purely logistic nodes: trade deals are made elsewhere. But legally trade flows do take place through the Netherlands when goods are imported and re-exported. I've called this case a distribution node. Second, a very different type of node exists when supply and demand physically come together. The trade hub then is a true marketplace where goods are shown and change owner. A case in point is the international flower auctions in the Netherlands where traders and flowers from all over the world converge. Finally, a trade hub can be a place where scattered demand and supply become 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. Traders organize the connections between markets and import and export goods through their trade network that in this way passes through the Netherlands. I call such a trade hub a trade-network node.

This research has tried to answer three questions in relation to re-exports and the concentration of trade in the Netherlands.

- (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?
- (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?
- (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?

This research shows the variegated forms of embedding of trade activities and re-exports in the Netherlands in the three types of trade hubs mentioned above. It reveals that not

every type of activity resulting in re-exports shows the same strength of embeddedness in the Netherlands: some activities appear to be much easier to relocate than others. Because of the various ways in which trade can be embedded, the Dutch trade node shows different strengths and weaknesses. Because of the very different ways trade is attached to the Netherlands and the variety of reasons for trade activities to become concentrated, a much more precise and case specific study of the Netherlands as an international trading country is needed. Only then re-export data and changes in these data can be interpreted rightly and is it possible to formulate policies to stimulate one or more specific types of trade roles in international value chains.

### **Theory and methodology**

This research takes re-exports as an activity in larger value chains that run from design and raw materials to final products and consumption. The value chain, although possibly having a linear connotation, is not taken as a strictly linear concept in this research: all steps in the chain can have different horizontal and vertical connections with players inside the own or related chains, giving the relations between players in fact a network-like structure. Value chains are often global in nature, as design, for example, takes place in the United States, while production is in China, logistics and supply chain management are executed in the Netherlands, and consumption takes place in the entirety of Europe. This means global chains and networks of activities are at stake.

The way in which globalization is often described – as a process of deterritorialization and worldwide competition between regions – seems to suppose a very loose connection to specific places of specific activities in chains and networks, including trade and re-exports. However, this does not necessarily have to be the case. A key concept in this research has been *territorialization* as developed by Storper (1997). Following Storper, activities that depend on territorially-specific resources are not very easy to relocate. Territorially-specific resources can be related to unique, only locally available things like knowledge, scale economies, or historically developed (complementary) institutions.

Although location-specific factors are important to explain how strongly an activity is embedded in a place, this does not mean that activities that are not based on territorially-specific resources can be relocated very easily. To understand why, the relations in the value chain of which trade activities are part, have been taken into account. When large investments have been made by a foreign lead firm in a location, for example to enable logistic activities, these investments will, at least temporarily bind activities to this place. Also investments in personal relations that enable trade to take place can make it very costly to change to new trade partners. To understand the embedding of trade activities in the Netherlands, therefore, not only territorially-specific

resources but also relations between partners in the value chain have been taken into account.

Storper's (1997) work enables us also to make a distinction between different types of world of production, carrying all their own characteristics with respect to the input needed to make the product (specialized versus standardized), and the markets a product focuses on (specific, uncertain versus generic, predictable markets). The typology of worlds of production is used in this research to understand the role trade plays in different cases and the activities that are related to trade in different cases. This led to the hypothesis that in every world of production – Interpersonal World, Market World, Industrial World, and Intellectual World – other factors would be important to explain the existence of trade and trade nodes.

To answer the research questions, a literature and document study has been conducted into the role of international trade in Dutch economic policy. Also, three case studies have been carried out into international trade and re-exports through the Netherlands: clothing, cut flowers, and high-tech products. More than seventy semi-structured interviews have been conducted with business people in these industries about the organization of the value chain, the trade activities of their company or of the Netherlands for the specific product, and the relations the companies have with their location and the Netherlands through their staff, knowledge pools, and other organizations or infrastructures. Besides the interviews, a study of (business) literature, websites, and visits to business conventions have been an important source of information. As far as is available, statistical data have been used to support the argument.

### **The strength of the Dutch trade hub**

An analysis of Dutch policy in the fields of trade and distribution shows that trade hasn't received a lot of attention as an industry in its own right. Trade has mainly been stimulated through export stimulation and the development of the Netherlands as country of distribution. Recently, especially the development of logistic knowledge, has received a lot of attention. The case studies of trade in high-tech products and clothing through European distribution centers show that it is questionable if the development of knowledge in the field of logistics and distribution will lead to the attraction of physical flows of goods and trade.

#### ***Clothing: speed and flexibility***

Besides a short section on European distribution centers, the case study of clothing has been mainly focused on private label companies. These are companies that organize production abroad, and to different extents, also design clothing for other companies

such as fashion brands, catalogue houses, or chain stores. Private label companies play the classic role of a trader as a connection between different worlds. The trade generated by these companies has been chosen as a case-in-point of the trade network node.

Traders in this chain add speed, flexibility, and certainty to the value chain of clothing. Their help is needed as production abroad is often difficult to organize because of cultural differences and communication problems. Although private label firms coordinate parts of the value chain, they are also very dependent on decisions taken elsewhere in the value chain or the network: the decision to use a private label to organize production abroad is taken by lead firms that also have the choice to coordinate production without the help of a private label firm.

Contrary to our expectations, the functioning of private labels hardly depends on local clusters of knowledge-exchange on fashions or trade opportunities or of input-output relations. The strength of Dutch private labels seems mainly to be explained by historical developments and characteristics of Dutch home market demand. There is no strong embedding of this type of trade to the Netherlands, especially because the private label firms have a weak position towards demand. Organizational changes in value chains, like an increase of integration of activities within larger firms, will strongly influence the rationale for their existence in the Netherlands.

*Cut-flowers: large choice, efficient logistics, superior knowledge*

The case of cut-flowers has been chosen in this research as the ultimate example of trade through a centralized marketplace: at the Dutch auctions, supply and demand literally meets on a daily basis. At the auction, exporters and importers buy a rich assortment of flowers from thousands of growers that often only grow a few different varieties.

At the central marketplace of the auction, external scale economies as a result of clustering are very important: clustering enables efficient logistics of a product that is mostly produced in monocultures, while trade to the final consumers takes place in a broad and deep assortment. Also, local knowledge advantages are important to explain the continuous strength of the central marketplace, even in times of increased production abroad and integration of activities in the value chain. In and around the Dutch auctions traders and producers meet and are best able to hear the business whispers on product and price developments. Foreign trade is very dependent on the assortment present at Dutch auctions and the knowledge of Dutch traders. Flower trade is dominated and controlled by the Netherlands and can only with great difficulty be taken over by other countries. The very strong embedding of trade in this sector can be explained by the various forms it shows: it is based on economies of scale as well as knowledge advantages and on long historical developments of infrastructures and institutions that have resulted in the very broad and deep assortment the flower auctions offer today.

***High-tech consumer products: costs count***

Re-export of high-tech consumer products represents the case of a distribution hub: re-exports of this product are almost only created by European distribution centers of large, international lead firms. Only a few international operating distributors exist that operate as international traders in high-tech products. In general, trade to retailers is organized through national operating distributors and/or national sales organizations of producers, whilst European distribution is in the hands of the producers.

This case shows the dependence on large infrastructures (ports, roads), taxation rules, and efficient border procedures of distribution activities. Infrastructures, taxation, and efficient customs lower costs and increase speed in the chain. Since these are the main reasons for distribution activities to locate in the Netherlands and distribution is very strongly organized and controlled from head offices abroad, they aren't very strongly embedded in the Netherlands. Relocation of these activities is almost permanently taken into consideration. In view of the way logistic and distribution activities are generally controlled from abroad, it is by no means certain that through the development of logistic knowledge, logistic flows will become physically more strongly embedded in the Netherlands.

**Variegated forms of trade, re-exports, and embeddedness**

This research shows the relevance of making a distinction between different types of trade nodes that lies behind apparently unidirectional re-export data. Different types of trade nodes show a different form of embedding. This research also demonstrates that the interpretation of the role of a specific trade node can only be done accurately when the type of product that is traded and the way in which the value chain is organized are taken into account. This means that we have to look at the larger chain or network in which a trade activity takes place to understand the forces to which a specific trade activity is subject to and what room there is to strengthen the role and embedding of that trade activity. Finally the insights of this research put into perspective the importance we attach to growing or falling re-export data. They can reflect competitive strength as well as weakening of the position of the Netherlands as a trading nation. An increase of re-exports does not necessarily mean an increase in power to control international trade, as much as a loss can reflect a shift in competitive strength from physical handling towards coordination pur sang and be a sign of great adaptive capabilities.