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China and the Dutch economy

Brussels
19 Dec. 06



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Presentations at the European Commission (DG Trade) and at the European Institute for Asian Studies.

Our presentation today

1. Overview of our recent study
 - Some stylized facts (China, trade, FDI)
 - Scenario analysis
 - Outlook and policy implications
2. Discussion of some exemplary reactions to our study
3. Kick-off for further discussion
 - Possibilities to refine and broaden empirical analysis
 - Is the impact of China on the Netherlands different for other euro area countries?

Table of content of study

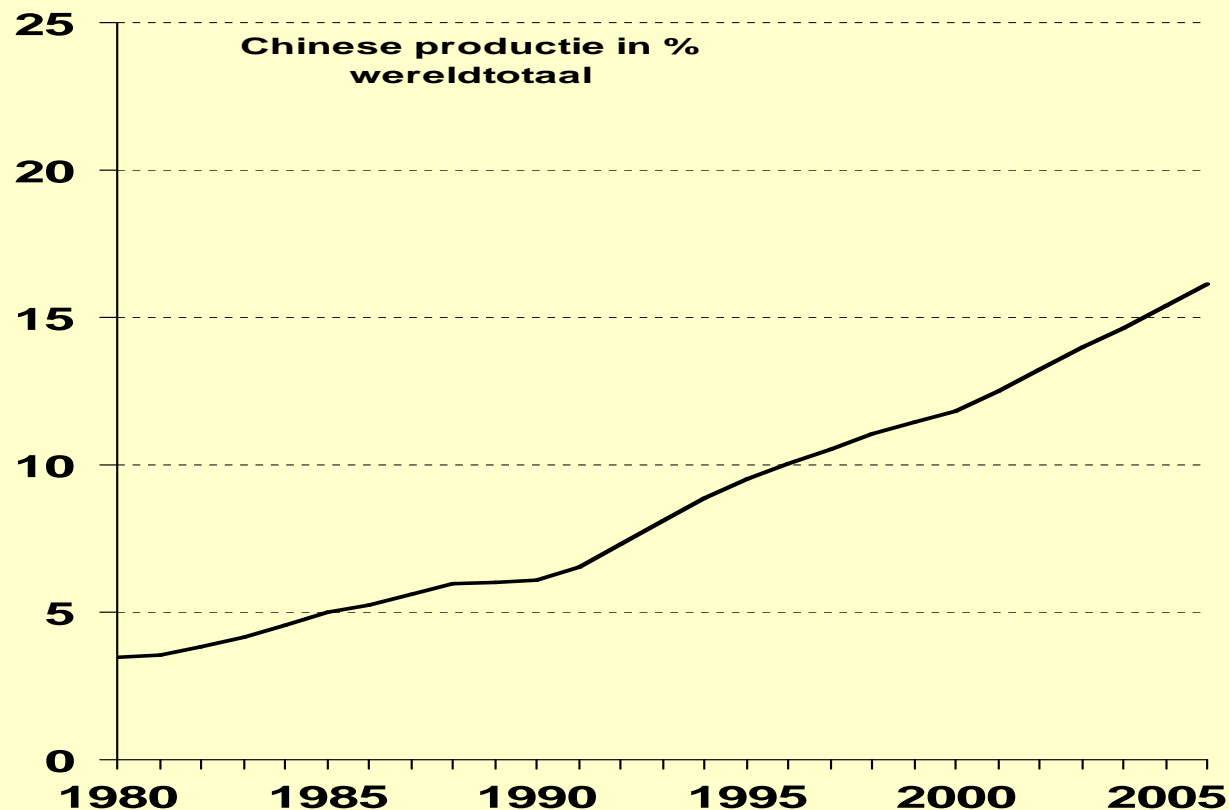
1. Introduction
2. The Chinese economy since 1978
3. The impact of China on Dutch and other European economies
 - 3.1 Foreign trade
 - 3.2 Labour markets and income distribution
 - 3.3 Inflation and interest rates
4. Scenarios and simulations
 - 4.1 Long-term scenarios up to 2040
 - 4.2 Medium-term outlook and simulation up to 2010
5. Outlook and policy consequences
 - 5.1 Impact, outlook and risks
 - 5.2 China and Dutch economic policy

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Chinese economic growth is spectacular: almost 10% per annum in 1980-2005

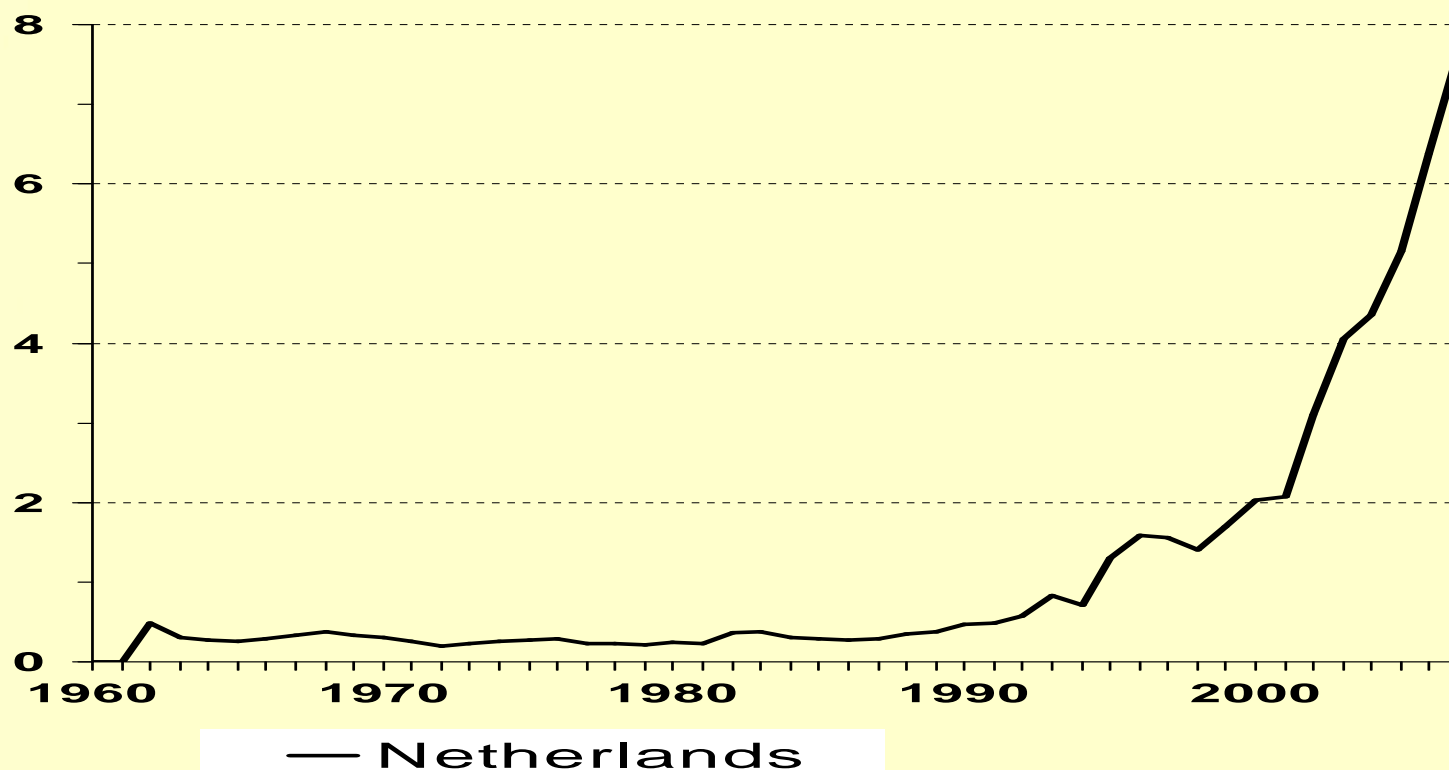


- Shares of China in world GDP (at PPP) has risen from 4% in 1980 to 16% in 2005

Dutch trade with China has risen very rapidly - I

- 8% of Dutch imports is coming from China
- China is the fourth foreign supplier
- Two-third of imports from China is re-exported

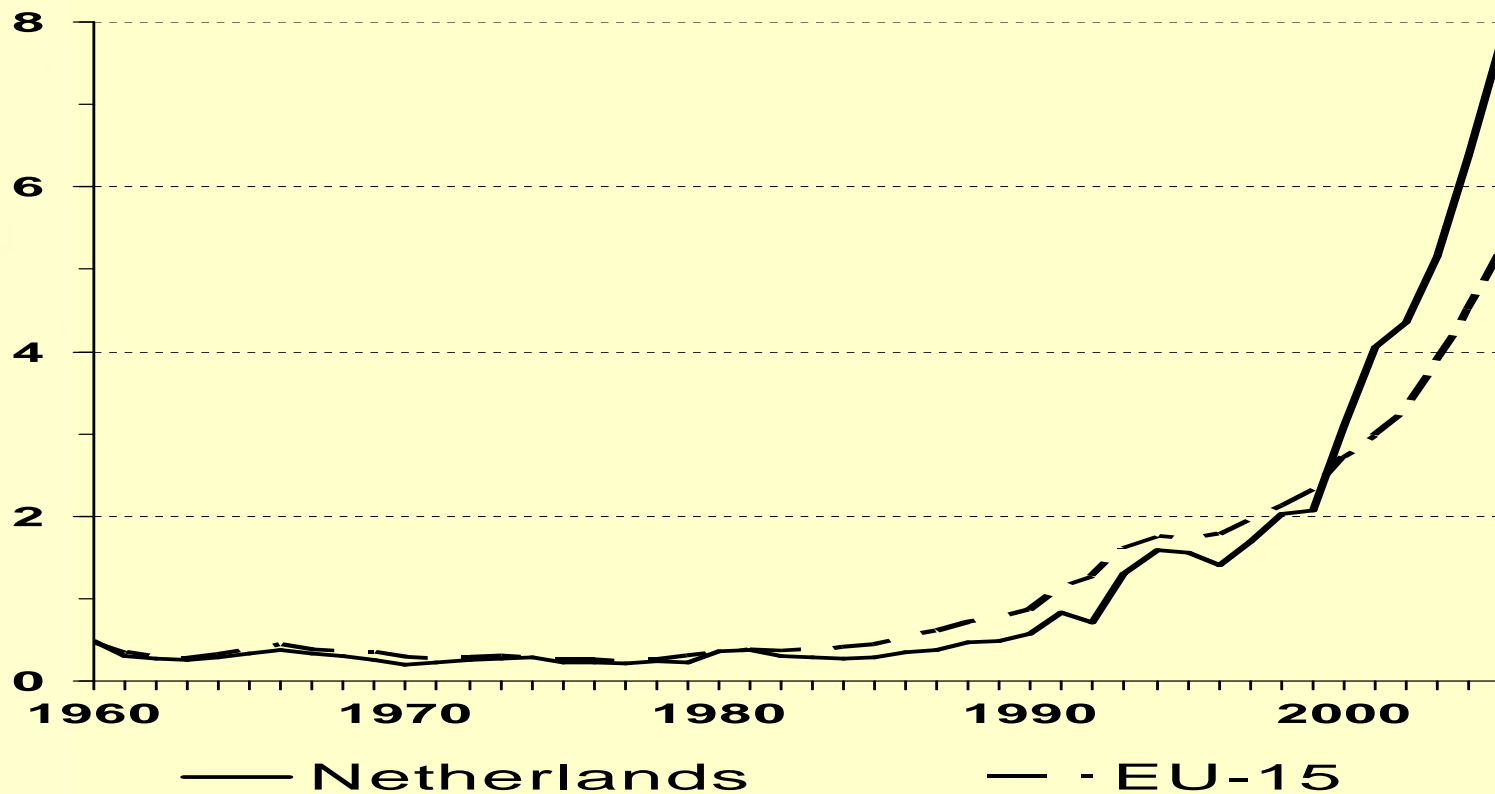
Imports from China as share of total imports



European trade with China has risen very rapidly

- 5% of European imports is coming from China
- China is gaining ground

Imports from China as share of total imports



Assessing the impacts

- Rapid developments give rise to uneasy feeling amongst many
- Linked to broader discussion on impacts of globalization and European integration
- At odds with economists advocating free trade and emphasizing benefits to all

Economists on globalization

- Back to David Ricardo's theory of comparative advantage
- True, but a difficult message to explain
- Some relevant empirical notions:
 - ▶ Revealed comparative advantage
 - ▶ 'Law of gravity applied to economics'

Empirical background

- Revealed comparative advantage
 - ▶ $\text{RCA-index} = (E_{i,r}/E_r) / (E_{i,W}/E_W) = (E_{i,r}/E_{i,W}) / (E_r/E_W)$
 - ▶ where i is sector, r is region and W is World

- Law of gravity
 - ▶ Explain variation in trade as function of mass, distance (with all its dimensions), etc.

Trade patterns in this study

- Analysis based on RCA
 - ▶ For China, Netherlands, Rest of Europe, Rest of Asia
 - ▶ Consider overlap / differences (substitutes versus complements)

- Analysis based on gravity approach
 - ▶ Describe variation in exports as function of mass, distance, institutions, etc.
 - ▶ Consider how much of exports is truly 'competitive'

Is China a major competitor of Dutch firms? (1)

Shares in total exports, 2000

Top 3 China

- 1. Apparel and clothing 13.6%
- 2. Other manufactured articles (toys etc.) 13.4%
- 3. **Electrical machinery** 10.5%

Top 3 Netherlands

- 1. Petroleum 10.2%
- 2. **Electrical machinery** 10.0%
(= re-exports!)
- 3. Office machines 9.8%
(= re-exports!)

Is China a major competitor of Dutch firms? (2)

Shares in world market, 2000

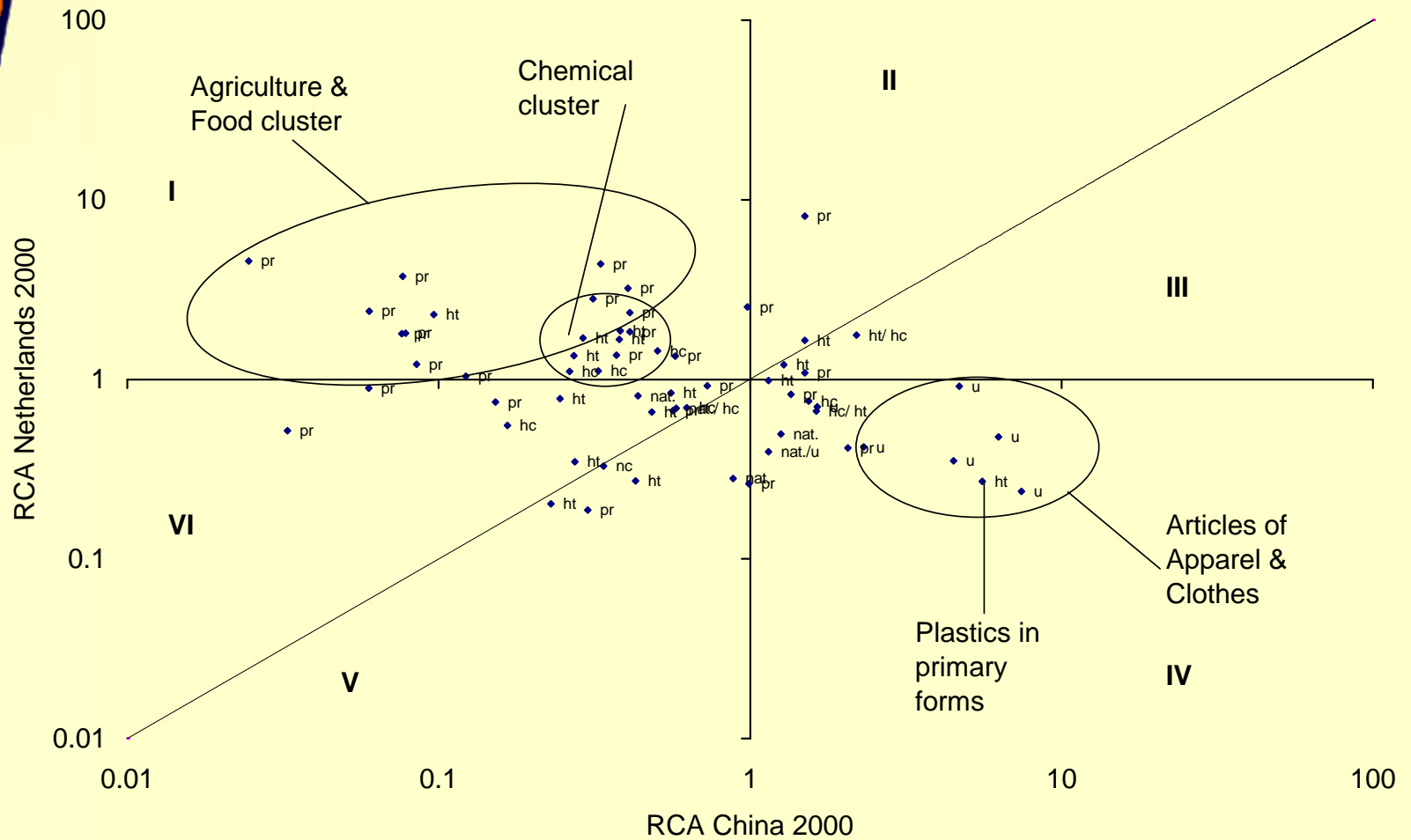
Top 3 China

- | | |
|-------------------------------|-------|
| ■ 1. Travel goods (bags etc.) | 40.8% |
| ■ 2. Footwear | 34.6% |
| ■ 3. Plastics in primary form | 30.6% |

Top 3 Netherlands

- | | |
|---------------------------|-------|
| ■ 1. Flowers and bulbs | 25.5% |
| ■ 2. Dairy | 14.4% |
| ■ 3. Tobacco manufactures | 13.9% |

And more refined...



Some implications

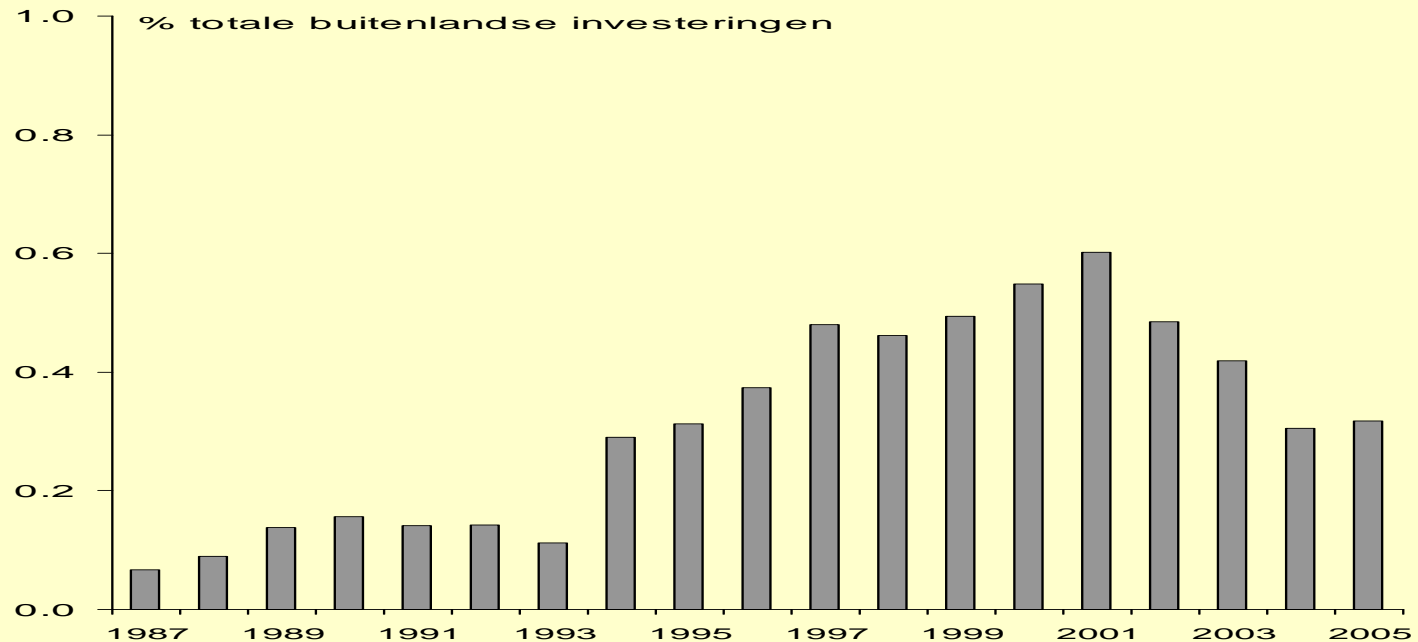
Dutch imports from China and EU new member countries (EUnmc)

Product group	From Eunmc		China	
	1980	2000	1980	2000
	% Dutch imports			
Coal, coke and briquettes	10.6	8.3	0.0	3.8
Plastics in primary forms	0.0	0.0	15.5	86.1
Cork and wood manufactures other than furniture	0.5	7.3	0.2	6.0
Textile yarn, fabrics, made-up articles, n.e.s.	0.8	4.8	1.7	3.4
Nonmetallic mineral manufactures, n.e.s.	0.7	3.3	0.1	5.5
Manufactures of metals, n.e.s.	0.5	4.6	0.2	6.0
Telecommunication & sound record & reproduce app & equip	0.1	3.9	0.0	4.8
Electrical machinery, apparatus & appliances, n.e.s.	0.3	1.9	0.0	4.6
Prefab buildings; sanitary, plumb etc fix nes	1.5	5.3	0.1	13.1
Furniture & pts; bedding, mattresses, etc.	1.2	7.8	0.1	4.9
Articles of apparel and clothing accessories	3.5	6.1	0.7	10.5
Footwear	1.5	2.5	0.4	13.3

Some first conclusions

- The products China exports intensively are not very important for Dutch producers
- This holds for goods intensive in low-skilled labour (textile, shoes, toys, etc.)...
- ... and for consumer electronics (assembled in China)
- Chinese and Dutch exports are more complements than substitutes
- This story seems to be different for Eunmc

Dutch foreign direct investments in China are limited



- In 2005 only 0.3% of total FDIs.
- Main reason: China is an interesting market.
- Low wage costs are less important.

China's emergence has a net positive impact on Dutch economy

- Cheaper imports from China have lowered Dutch prices and reduced inflation:
 - ▶ Consumption of the average Dutch household 300 euro per year cheaper

- Around 23,000 jobs are involved in exports to China and re-exports of Chinese products

- High Chinese savings have led to a lower capital market rate

- No noticeable impact on:
 - ▶ speed of labour market adjustments
 - ▶ income distribution

Changes in Dutch employment - 1995-2005 (1)

Top 5	in %	share in 1995	share in 2005
Computer service agencies	123.7	0.9	1.8
Health care	45.2	10.0	13.0
Employment agencies	34.7	3.3	4.0
Care and other services	33.7	15.6	18.8
Architects- and engineering firms	33.7	1.2	1.5

Changes in Dutch employment - 1995-2005 (2)

Bottom-5	in %	share in 1995	share in 2005
Textile and leather	-43.7	0.6	0.3
Defence	-24.2	1.5	1.0
Chemical basic products	-23.1	0.7	0.4
Utilities	-22.5	0.6	0.5
Publishing and printing	-20.7	1.7	1.2

Changes in Dutch employment - 1995-2005 (3)

- Sectoral differences in employment changes have various causes:
 - ▶ Differences in productivity
 - ▶ Differences in demand
 - ▶ Differences in deregulation
 - ▶ Differences in international competition

Outlook up to 2040

- Up to 2040, European exports of goods will rise by 5-10 percent per year. This means at least a quadrupling of exports to China.
- As markets open up and Chinese income per capita will rise, there will be new opportunities to provide services for Dutch firms.
- Dutch welfare will be enhanced by increasing trade with China.
- Increasing trade will be accompanied by restructuring in some sectors. Thus, flexibility and innovation will be of importance.

Some Do's and Don'ts for policy

1. Do not panic: net welfare effects are positive
2. No reason for major policy shifts
3. Refrain from trying to halt unavoidable adjustments
4. Do not blame China/globalisation for tough but necessary measures
5. Acknowledge the costs of adjustment prompted by China/globalisation

Some exemplary reactions

- 'China bedankt' (Thank you China)
- 'Free trade more beneficial for Dutch economy than any proposed change in policy during the Dutch election campaign'
- But also: 'Overly focused on economic aspects'
- 'The current changes are comparable if not more dramatic than in times when our textile and coal industry went bankrupt'

Propositions (to stimulate discussion)

1. Globalisation has a substantial positive impact on the Netherlands (cheaper products, more variation in products and new foreign markets for Dutch products), while the negative effects on income distribution and labour market have been limited.
2. The Netherlands benefit more than other euro area countries due to its role as key European distribution centre.
3. Globalisation does not require fundamental changes in policy. Good policy remains good policy.
4. Nevertheless, the general public has doubts. Thus, economists have an educative role to play. For society, this is probably more important than their research role.

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谢谢你

Thank You!

For further reading on China and the Dutch economy

- W. Suyker and H.L.F. de Groot (2006, editors): 'China and the Dutch economy. Stylised facts and prospects', *CPB Document*, no. 127, The Hague.
- J. Bakens and H.L.F. de Groot (2007): 'Globalisation and the Dutch Economy: A case study to the influence of the emergence of China and Eastern Europe on Dutch international trade', *CPB Discussion Paper*, forthcoming, The Hague.