The status quo of Establishment Trade in the Netherlands

In this paper I will discuss the status quo of Establishment trade in the Netherlands. Since Establishment trade is regarded by Statistics Netherlands as an integral part of a project on globalization, I will discuss the goals of this broader framework. The paper will comment on the the constraints and the difficulties encountered in developing statistics on globalization. Some figures on the various aspects of globalization will be presented.

1. Introduction

From recent literature it can be deduced that traditional statistics on international trade are rapidly becoming obsolete, as might be illustrated by the following quotations.

- The first quotation stems from an article titled *Grossly distorted picture*, published in the Economist, February 5th 1994. The article comments on the improvements in statistical systems due to the System of National Accounts. But it also comments on some chances missed. I quote:

  "International trade statistics still largely ignore the multinational nature of many modern firms".

- Secondly, in their book *Statistics for the 21st Century*, Duncan and Gross state that

  "The need for substantial improvement in international statistics is clear from the following: the individual categories in the world tabulation of the balance of payments should, in principle, sum to zero [..]. In actuality, there are large imbalances in many categories, indicating errors or biases".

- Furthermore, in an article in Business week (November 7, 1994) some worries are expressed about American trade statistics, since, I quote:

  "[..] it is not clear whether chips shipped to Korea will just be plugged into a VCR for sale in Topeka, Kan., or in Seoul. It's much more difficult to trace exports and imports".

- Lastly, in an article on investments titled *Put your factory here, please* (The Economist, June 10th 1995), it is stated that

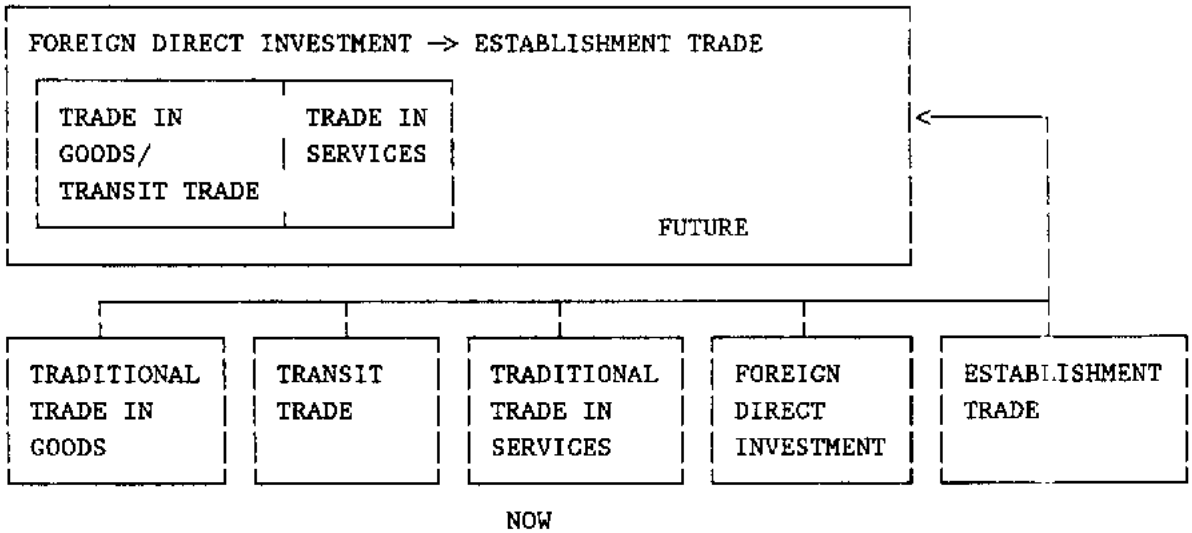
  "The problem is that much trade no longer fits the textbook model, in which goods are produced by one country, loaded upon a boat or an aeroplane and transported to foreign climes. For a start, goods are put together all over the place; many firms make components in one country and assemble finished wares in another. [..]. Moreover, the best way for firms to enter foreign markets is often to set up shop in them. In many service industries, it is hard to sell to locals any other way".

Summarizing these quotations and having listened to, or participated in discussions on international economic relations, we face several related problems:

- problems with regard to the concept of all kinds of statistics in this area;
- problems with regard to the quality of the data;
- problems with regard to the quantity of the data, or the required level of detail.

Globalization is nowadays a very popular subject. Policy makers hunger for data on globalization and access to international markets, but the needs have not yet crystallized. On the supply side, every occasion is seized to fill the information gaps. The result is a set of seemingly loose components that do not match. Our project on globalization will aim to fit the several loose components into one model (see figure 1).

FIGURE 1 FUTURE FRAMEWORK OF GLOBALIZATION



The figure shows five components of globalization:
- trade in goods;
- transit trade;
- trade in services;
- foreign direct investment;
- establishment trade.

In the remainder of this paper I will discuss the Dutch experiences with each of these loose components, along with some data and strategic options to bring about improvements.

2. The first component: international trade in goods

I will turn to the first component: international trade in goods. There is a lot of discussion about globalization, establishment trade and trade in services, and sometimes it looks like we forget the importance of this first component.

In the Netherlands, the value of exports of goods in 1994 was 282 billion Dutch Guilders, more than fivefold the 1970 value. This increase can be decomposed in, round or about, a doubling of the price component and a tripling of the quantity component.

This trend is not typical for the Netherlands, it is a common trend in the top seven economies in the world, as table 1 tells us.

TABLE 1 TRENDS IN ECONOMIC OPENNESS

COUNTRY	1965	1975	1985
CANADA	19.5	24.2	28.0
FRANCE	12.1	18.1	23.7
GERMANY	19.0	24.9	33.1
ITALY	13.4	21.7	26.8
JAPAN	10.3	13.7	14.5
UNITED KINGDOM	18.8	26.3	28.3
UNITED STATES	4.7	8.0	8.5

(Source: The Economist)

Openness, defined as the average of imports plus exports as a percentage of national income, has increased considerably in all seven economies.

especially in France, Italy and the United States. (Openness in the Netherlands, by the way, is approximately 50%).

The point is that the large and increasing importance of, let's say, regular imports and exports ask for special attention. We need both accurate and detailed statistical figures.

Unfortunately, statistics on foreign trade within the European Union are not very reliable since the internal market was completed in 1993 and Customs documents were no longer available. The problems on detailed levels (product by country) are huge.

A bilateral comparison with the United Kingdom (UK) revealed that the Netherlands import in about 8 500 of all 10 500 or so 8-digit codes of the Combined Nomenclature. In 90 % of these cases the Dutch import figures are more than double or less than half the comparable export figures of the UK. In the case of our export flow to the UK, the percentage of serious misses is 73.%. See also Table 2.

TABLE 2 PERCENTAGE OF CODES WITH EXPORT MORE THAN TWICE OR LESS THAN HALF THE COMPARABLE IMPORT - BY LEVEL OF THE COMBINED NOMENCLATURE

	2-DIGIT	4-DIGIT	6-DIGIT	8-DIGIT
DUTCH EXPORTS				
EXPORT/IMPORT > 2.00 OR EXPORT/IMPORT < 0.50	24%	50%	65%	73%
DUTCH IMPORTS				
EXPORT/IMPORT > 2.00 OR EXPORT/IMPORT < 0.50	26%	47%	64%	90%

The previous findings lead to the following conclusions:

- First of all, it is expected that improving the quality of regular foreign trade statistics deserves high priority in the coming years, leaving less room for new developments like Establishment trade. Or to put it differently, it would be unacceptable to the users of trade

statistics if a lot of effort is spent on elaborating complex concepts, while the relatively simple regular trade statistics produce doubtful results;
- On the other hand, the structural problems in Intra European Union trade might lead to a renewal, or a refinement, of the Intrastat system. If that is the case, than it is advisable to investigate the possibilities for incorporating data that fit into the concept of Establishment trade. A common interest is, in my opinion the recording of the trading partner in the Intrastat system: it is essential for improving regular trade data, and it could reveal intercompany trade.

3. *The second component: transit trade*

3.1. Introduction

Let's now turn to the second component: transit trade. I do not only refer to what is normally meant by transit trade (goods entering the Netherlands, which after reloading leave the country for their final destination), but also to some kind of transit trade which is somehow included in our regular trade statistics. Here is an overview of what can happen in the Netherlands to transited goods:

1. **Nothing at all** (except reloading)	(*Normal* transit)
2. **Value added logistics**	Other *transit-like* flows
3. **Assembly**	
4. **Production** (from raw materials to end products)	

As a *Gateway to Europe*, with its large seaports, transit and distribution (or redistribution) are of great economic importance to the Netherlands. In trying to create comparative advantages in attracting transit trade and persuading companies to establish European distribution centers here, the phenomenon of Value added logistics (VAL, for short) has become a topic. A typical example of VAL is, for instance, attuning products to the specific needs (or the specific technical standards) of other geographical markets.

VAL activities may vary from minor changes (packaging for instance) to substantial changes. It is therefore not easy to draw a clear dividing line between VAL and assembly.

We did some preliminary research in order to gain insight into the extent of the problem, and the results are quite astonishing. We used

the following sources:
- warehousing statistics;
- data on re-exports;
- data on so called 'hidden transit';
- data on firms which import and export the same types of goods.

The next paragraphs shortly comment on each of these sources.

3.2. Warehousing statistics

The idea that the group of firms which use the Customs facility of warehouses are of considerable economic importance, is not new. Since it is quite likely that there is an overlap between (European) distribution centers and this group of firms, the special attention for this group has been renewed, especially in the light of VAL related activities.

3.3. Hidden transit

Sometimes firms know at the moment of import that the imported goods will be exported. Firms should make use of a code signalling this *hidden transit* (but they not necessarily do so). Hidden transit, at the moment, amounts to 12 billion guilders at the minimum, or 5% of total trade.

3.4. Re-exports

Re-exports are a similar problem, the difference being that in the case of re-exports the importing firm does not know beforehand that the goods will be exported. Re-exports also amount to about 12 billion guilders.

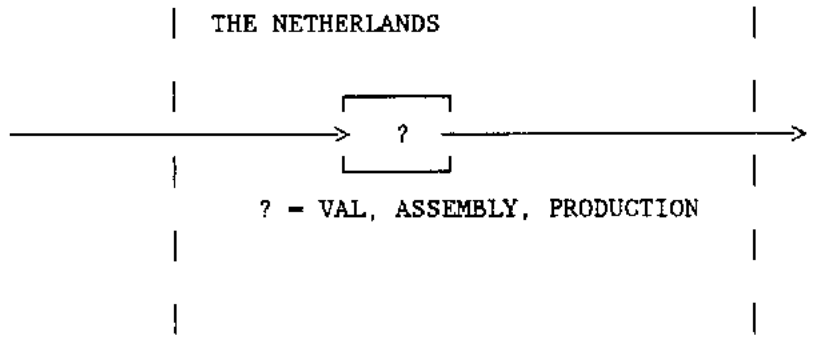
3.5. Firms that import and export the same type of goods

Since it is unclear whether or not firms use codes for hidden transit and re-exports *systematically*, we also looked at firms importing and exporting the same types of goods. Confining ourselves to the largest firms (in terms of trade) and the most important types of goods at a four-digit level of the Combined Nomenclature, we found that the amount of imports and exports that might have a transit-like character is about 70 billion Dutch Guilders, about 25% of total trade.

This leads us to the question, what exactly happens to these goods? Is it real transit, is it VAL or assembly (and if so, what is the value

added?), or is it production (See figure 2)? Knowledge on this point would greatly enhance the value of our statistics, and monitoring trends in transit, VAL and assembly would provide us with valuable indicators on globalization.

FIGURE 2 ECONOMIC ACTIVITIES WITH REGARD TO TRANSITED GOODS



4. *Trade in services*

So far I have not yet spoken about trade in services. Trade in services is traditionally measured by the Central Bank, in terms of money flows.

To give you some idea about the size and the development of trade in goods, let us look at the following data.

TABLE 3 INTERNATIONAL TRADE IN GOODS AND SERVICES IN THE NETHERLANDS, 1994

	IMPORTS	EXPORTS
	(Billions of Dutch Guilders)	
TRADE IN GOODS *)	253.7	282.2
TRADE IN SERVICES **)	49.6	56.9

*) Source: Statistics Netherlands
**) Source: Dutch Central Bank

The table tells us that, in 1994, imports and exports of goods were, respectively, 254 and 282 billion Dutch Guilders, and imports and exports of services were 50 and 57 billion Dutch Guilders. Figures on

services contain only a limited amount of detail, and they might be incomplete.

Nevertheless, index figures might indicate differences in development in the trade of both goods and services.

TABLE 4 INDICES OF TRADE IN GOODS AND SERVICES (1980=100)

Year	Services		Goods	
	Imports	Exports	Imports	Exports
1980	100	100	100	100
1985	148	145	142	154
1990	173	158	151	163
1994	221	224	167	192

Table 4 shows us that the increase in trade in services was comparable to that of goods in the period from 1980 to 1990, but in recent years the increase in trade in services (especially exports) is quite remarkable.

So in terms of both size and growth rate, services are important. However, in order to get the better (more detailed, complete) picture that everybody seems to want nowadays, we need a clear concept of what exactly we mean (and do not mean) by services. That concept is still missing. From both a theoretical and a practical point of view, it must be noted that the dividing line between goods and services is far from clear. This raises the question why some of us so painstakingly try to treat services separately from goods.

5. Foreign direct investment

The fourth component of globalization is Foreign direct investment (FDI). FDI is closely linked to Establishment trade, since these investments will normally lead to *cross border sales*. Apart from differences in definitions (like the control criterion), these cross border sales are conceptually the same as what we mean by Establishment trade.

Foreign direct investment is of course an important indicator on globalization by itself. It measures to what extent companies seek (and get) access to foreign markets.

According to figures from the Dutch Central Bank, inward foreign direct investments in the Netherlands amounted to 147 billion Dutch Guilders in 1992, and outward investments to 223 billion Dutch Guilders.

If we compare the indices on FDI in Table 5 to the indices on trade in goods and trade in services, it is evident that the growth rate of FDI is higher than the growth rate of trade in goods and trade in services.

TABLE 5 INDICES ON FOREIGN DIRECT INVESTMENT

Year	Inward				Outward			
	Total	EU	USA	Other	Total	EU	USA	Other
1980	100	100	100	100	100	100	100	100
1985	168	177	171	157	147	100	318	117
1990	302	400	221	293	204	195	324	150
1992	359	477	243	364	248	228	394	193

One of the quotes in the introduction stated that, I repeat

" .. *the best way for firms to enter foreign markets is often to set up shop in them. In many service industries, it is hard to sell to locals any other way*"

So it is interesting to look at the share of service industries in FDI.

TABLE 6 SHARES OF SERVICES INDUSTRIES IN FDI, 1980 AND 1992

	Inward		Outward	
	1980	1992	1980	1992
Total	100%	100%	100%	100%
Service industries	39%	48%	18%	45%
- Trade	18%	16%	7%	8%
- Transport and communication	2%	2%	2%	2%
- Banking and insurance	7%	9%	4%	15%
- Other services	12%	20%	5%	20%
Non service industries	61%	52%	82%	55%

The figures tell us that the share of services in outward FDI in 1992 was 45%, up from only 18% in 1980. The increase is mainly caused by banking and insurance and by *other services*. For inward FDI, the increase of share is less spectacular, from 39% to 48%.

6. Establishment trade

6.1. Introduction

In the previous paragraphs we have seen a lot of figures indicating the increasing importance of services in our economies. It was also noted that there is a more or less natural link between services on the one hand and Foreign direct investment and Establishment trade (ET) on the other. It is therefore not that strange that the relatively new area of ET is strongly linked to trade in services. To give you two examples:

- The Eurostat Task Force ET is focused on trade in services only. The mandate of the Task Force seems to be derived mainly from GATS requirements;
- In the Netherlands, we have a publication on ET, which has (quite wrongly) as a subtitle *International trade in services*.

There are however various arguments to extend the concept of ET to goods as well. To mention just a few:
- A framework of globalization should encompass both goods and services;
- Goods and services are intertwined, the dividing line is vague;

- The still dominating importance of goods in our economies;
- We seem to be working from GATS requirements to new concepts, and new sets of statistics. The starting point however should be a clear overall concept.

Not everyone is convinced of the importance of measuring ET. There is a duality in interpreting FDI and ET. Is it a good thing to gain access to foreign markets, or is it a threat to home employment? Is foreign control a sign of our industrial weakness, or do we have to embrace our foreign investors (the *Put your factory here, please* argument)? Do FDI data suffice to measure market access, or should they be supplemented by ET data?

6.2. Inward ET

ET is measured in the Netherlands by first clustering juridical entities into groups of enterprises. For each group, the proportion of foreign capital participation is determined. The sales of those groups having a foreign capital participation of over 50% are regarded as inward ET. By classifying the groups on the basis of their main activity, we can break down inward ET by sector. The following table summarizes the results for 1993.

TABLE 7 INWARD ESTABLISHMENT TRADE IN THE NETHERLANDS, 1993

Total number of groups of enterprises	3 512	
- Total sales	693	billion Dutch Guilders
Groups of enterprises with foreign capital participation of over 50%	1 078	
- Total sales	238	billion Dutch Guilders
· trade	99	"
· transport	5	"
· other services	8	"
Total services	112	"

Services account for 47% of inward ET. Within the services industry, the share of trade is about 90%.

It should be noted that in the Netherlands statistics on ET are composed by Statistics Netherlands, while statistics on FDI are produced by the

Dutch Central Bank. Since ET follows naturally from FDI it would be better to coordinate the two statistics, which could be done by either exchanging the databases on capital participations or adding questions in the FDI questionnaire.

6.3. Outward ET

Adding questions in the FDI questionnaire could provide us with data on outward ET. At the moment we do not have any data on outward ET. One option is to use data from consolidated annual reports, and to deconsolidate the Dutch part from these data.

7. Summary & conclusions

This paper describes the status quo of the several components of a project on globalization.

- Statistics on international trade in goods are, and probably will continue to be, of extreme importance. Improving the quality of these statistics will receive high priority;
- Transit trade is of great economic importance to the Netherlands. In order to achieve the goal of improving statistics on international trade in goods, *transit-like trade* (which is important by itself), will have to be made visible;
- International trade in services has a considerable and increasing share in international trade. Statistical data are not very detailed, and probably incomplete;
- Foreign direct investment (FDI) and Establishment trade (ET) are important indicators of globalization. By their nature, services are strongly linked to FDI and ET. The concept of especially ET is at the moment far from clear, and at the same time the link of ET to services (rather than both goods and services) is overstressed. If ET is considered important, than it is important to goods as well.

Now that a lot of discussion on ET has taken place, it is time for consideration (or reconsideration). Services and goods are in both theory and practice not that far different from each other, and it would be wise to incorporate new statistics on services as much as possible into a new broader framework, which might be called the framework of globalization.

Since globalization is taking place now, fast progress is necessary. Progress, however, can only be achieved gradually (not by revolution), since (on the demand side) user needs have not yet crystallized. On the supply side, the loose components (some of which are still in the developing phase) will have to be fitted into one clear model.

Robert Goedegebuure, 2 September 1995