

Caught in the Middle?

The Netherlands in a world of growing global protectionism

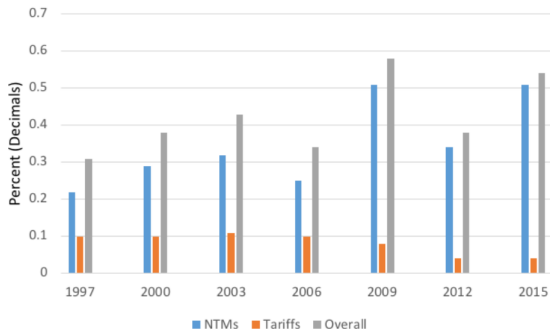
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The Netherlands is an open economy

- One third of GDP stems from value added through exports of goods and services
- One of the founding members of the European Union
- Port of Rotterdam is an important hub for re-exports
- Among the top destinations and sources for international investments

Protectionism in a globalised world



- Import tariffs slowly increasing again after 2015
- Dutch Central Bank (DNB): Trade war might lead to a drop in exports (17%), imports (7%) and GDP (3%)

CBS research on trade policy

CBS is in a unique position to measure these impacts

- ① Start from CBS data on international activities of firms in the Netherlands, match it to external datasets from:
 - European Commission, ITC, UNCTAD, WTO, DESTA, etc.
 - Partners, e.g. Ministry of Foreign Affairs.
- ② Develop research questions based on academic literature or policy interests
- ③ "Do the research", ~ weeks / years
- ④ Publish regularly, e.g. in quarterly "Internationalisation monitor", news media, or academic journals

Pass-through effects of import tariffs

Who foots the bill?

Trump on US import tariffs

Now, China is paying us, right now, billions and billions of dollars of tariffs a month. Every month, billions of dollars. I love it. Personally, I love it. But they're paying billions of dollars. And it's hurting them; it's not good for them.

(President Trump, February 25, 2020)

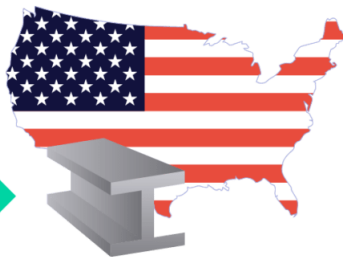
How a tariff works



Chinese steel costs
\$40 per 100lbs



A **25%** tariff is
added to the price

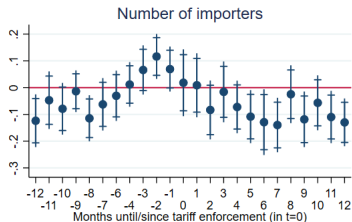
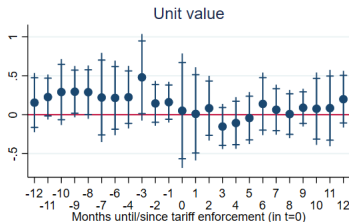
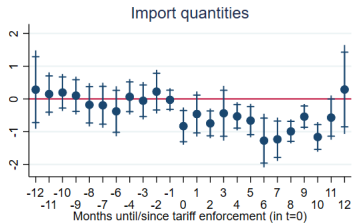
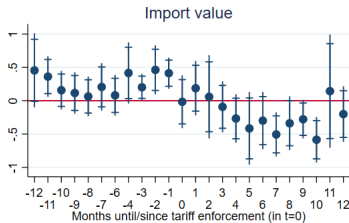


Chinese steel costs
\$50 per 100lbs in
the US

Pass-through effect of import tariffs

CBS Internationalisation monitor (2020-IV) looked at:

- ① Analysis of punitive American import tariffs against the EU
- ② Event study of EU retaliatory tariffs against the US: 25% on 182 US products
- ③ Broader analysis of all tariffs on imports from top 50 extra-EU countries over period 2013-2019



Note: Graph shows monthly treatment effects of tariffs compared to t-5 (95% confidence interval)
From: CBS (2020) Internationaliserings monitor 2020-IV

External validity

For a large sample of 3000 continuous Dutch importers, importing from 50 different extra-EU countries (2013-2019), we found:

- Confirmation that the importer pays the tariff, i.e. 100% pass-through
- However, significant differences exist between firms and products
 - Large firms and foreign Multinational Enterprises able to share the bill
 - Exporters more willing to share the costs in case of relationship specific products.
- Still looking into other factors, such as tariffs on imports for re-exports

Protectionism in an interconnected world

Global value chains can magnify trade costs

- Imports are crucial for exports: 1 euro of exports to non-EU countries contains 19 cents of non-EU imports
- Tariff on intermediate imports can increase exporters' trade costs
- Magnification effect of trade costs due to GVCs: 3% in general, up to 9-12% for certain industries

Table 1: Magnification of trade costs on Dutch goods exports from vertical specialization, 2019

| | (1) Standard (export) tariff (%) | (2) Foreign content share of exports (VS) (%) | (3) Tariff on imported inputs (% of export value) | (4) Two stage tariff (1 + 3) (%) | (5) Magnification factor (4 ÷ 1) |
|--|--|---|---|--|--|
| Total | 3.72 | 18.86 | 0.13 | 3.86 | 1.03 |
| Agriculture | 6.27 | 7.87 | 0.05 | 6.32 | 1.01 |
| Forestry and fishing | 2.56 | 7.96 | 0.02 | 2.58 | 1.01 |
| Mining and quarrying | 0.85 | 4.11 | 0.02 | 0.87 | 1.02 |
| Food products, beverages and tobacco | 9.99 | 14.1 | 0.29 | 10.28 | 1.03 |
| Textile, apparel and leather | 7.07 | 20.03 | 0.66 | 7.73 | 1.09 |
| Wood, paper and printing | 2.17 | 9.91 | 0.07 | 2.24 | 1.03 |
| Refined petroleum | 3.08 | 62.94 | 0.04 | 3.12 | 1.01 |
| Chemicals and chemical products | 3.09 | 17.41 | 0.2 | 3.29 | 1.06 |
| Pharmaceuticals | 1.93 | 14.02 | 0.06 | 1.99 | 1.03 |
| Rubbers and plastic | 2.8 | 9 | 0.13 | 2.93 | 1.05 |
| Non-metallic mineral products | 3.82 | 8.5 | 0.06 | 3.88 | 1.02 |
| Base metals | 1.95 | 22.09 | 0.1 | 2.05 | 1.05 |
| Fabricated metals | 3.13 | 8.47 | 0.11 | 3.24 | 1.04 |
| Computer, electronics and optical products | 0.8 | 10.27 | 0.05 | 0.85 | 1.06 |
| Electronic equipment | 2.17 | 9.9 | 0.14 | 2.31 | 1.06 |
| Machinery and equipment | 1.05 | 12.74 | 0.13 | 1.18 | 1.12 |
| Motor vehicles and (semi-)trailers | 2.11 | 12.47 | 0.17 | 2.28 | 1.03 |
| Other transport equipment | 3.06 | 13.61 | 0.12 | 3.18 | 1.04 |
| Furniture | 2.97 | 11.44 | 0.18 | 3.15 | 1.06 |
| Other industry and repair | 1.2 | 10.28 | 0.17 | 1.37 | 1.14 |
| Commercial services | 2.63 | 2.3 | 0.02 | 2.65 | 1.01 |
| Public sector | 1.17 | 1.52 | 0.02 | 1.19 | 1.02 |
| Other | 0.82 | 2.14 | 0.06 | 0.88 | 1.07 |

Note: Imports and exports refer to extra-EU only

Practical use of the database

- First time in the literature to calculate import-content-of-exports and magnification effect of import tariffs at product level
- Database can be used to get a bird's eye view on how specific trade policies affect Dutch exporters
- Preliminary results show that tariffs on intermediate imports have a profound negative effect on exports
- Upcoming year do the same exercise for non-tariff measures
- Forthcoming article in the ESB on role of bilateral trade agreements in a world of global value chains

Conclusion and future work

- Trade policy is becoming ever more important
- Microdata is ideally required to measure the impact of various trade policy instruments
- CBS is looking into its key elements: import tariffs, non-tariff measures and trade agreements
- Later this week:
 - Brexit (Tuesday, in Dutch)
 - Firms' perspective on international trade policy (Thursday, in Dutch)

Thank you for your attention.

For more information on our work:

www.cbs.nl/en-gb/dossier/dossier-globalisation

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