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EUROPEAN REGIONALISM AND THE POLITICAL ECONOMY OF THE NETHERLANDS

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PREFACE

The Research Center for Regional Resources, Indonesian Institute of Sciences (PSDR-LIPI) has conducted researches on the impact of European foreign direct investment in ASEAN in the last few years. Different from previous researches that studied characteristics of the impacts of European foreign direct investment in host country; this study covers at the impacts of that in home country. However, the scope of this research is wider, which covers the economic and political impacts of European foreign direct investment. The issue of investment in fact can not be separated from the issue of regional political economy in wider context.

The debate on European regionalism has attracted scholars to understand it from different viewpoints. Some argue that European regionalism which recently becomes more integrated by the European Union (EU) has no historical precedent. However, it is clear that causes and objectives of the EU are both economic as well as political. This book attempts to present how European regionalism changes the structure of economic and political economy of the Netherlands. As a member of The European Union (EU), the Netherlands has an important position in the process of European integration since the beginning.

This book covers several issues: migration and labour market, the economic changes in the Netherlands since the EU enlargement from 1995 to 2003, the impact of European Union enlargement on the Netherlands' and Asian countries' economies, and the public opinion in the Netherlands on European integration. These issues, on one side, reflected the complexity in understanding the European regionalism and its impact that to member countries of the EU. The other side, the question about how the national public responds the process of European integration has played a role in discussing the future of Europe.

We would like to thank the numerous persons who have generously given their attention for this project. The research team of European regionalism consisted of Amin Mudzakkir, Ahmad Helmy Fuady, Maxensius Tri Sambodo, and Bondan Widyatmoko. Professor Uwe Becker of Universitiet van Amsterdam, Ms. A Moleenar of Clingendael Institute in The Hague, and Professor Henk Schoulte Nordholt of KITLV have provided literature and helped to map the issues on European integration in the Netherlands. We would also like to thank Kiki Vericho, MA of University of Indonesia for his valuable comments and Ms. Halina Nowicka for her language assistance. Particular thank to Pak Mintardjo who has been very helpful during our visit in the Netherlands. Last but not least, we would like to thank our staffs in PSDR-LIPI who have assisted in arranging administrative affairs and in publishing this book.

The Research Center for Regional Resources,
The Indonesian Institute of Sciences
PSDR-LIPI

Director,

Dr. Yekti Maunati, M. A.

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Chapter 1
Introduction

Since the end of the 1940s, economic integration; also known as regionalism, has grown rapidly in many parts of the world. Even, in the last fifteen years, the growth of regionalism has accelerated, not only in quantity but also quality. At the end of 2003, of the 146 World Trade Organisation (WTO) members, only Mongolia had not actively been involved in or negotiated economic integration with other countries (WTO 2003a). In addition, in October 2003, there were 285 Regional Trade Agreements (RTAs) in the world, with more than 145 new RTAs established after the establishment of the WTO multilateral forum in 1995. In terms of quality, WTO (2003b:48) notes that 43% of the world merchant trade in 2003 was within the scheme of regionalism.

Among so many RTAs, the European Union (EU) is a success story. At least, this can be seen from its membership numbers, level of integration and its influence in world economics and politics. The integration of the European Union began when six European countries (Belgium, France, West Germany, Italy, Luxembourg and the Netherlands) established the European Coal and Steel Community in 1951 (Hill 2002). It was then changed to the European Community (EC) when the Treaty of Rome was signed in 1957. In 1994, the EC evolved into the European Union (EU) with the Maastricht Treaty declaration. Since January 2007, the EU has had 27 member countries, with the highest level of integration compared with other RTAs. This did not only create the largest common market but also has been able to coordinate economic and political policies and also arrange a single currency in the region (Europa 2006).

The European economic integration and further enlargement should change not only the industrial structure but also the economic and political policies of its members. Tariff reductions in the region must change its members' comparative advantages, which could lead to industrial restructuring. From the economic and foreign policy points of view, for developing countries, the early development of the EU brings a reasonable fear. The pyramid of privilege in the EU foreign policy, particularly the Rome Convention, has put 69 African, Caribbean and Pacific countries (ACP) at the top of the pyramid (Ugur 1995:347) and ignores Asian countries.

Besides trade, the EU investment in non-member countries, including Southeast Asian countries, is an important effect to be studied. There is an assumption that the EU enlargement will decrease the EU investment in non-member countries. Unfortunately, unlike the impact of regionalism on trade, the impact on the EU investment abroad has not invited much attention.

Indeed, the EU investment contribution to world investment grew significantly. For instance, Foreign Direct Investment (FDI) from the EU dominated the capital inflow to the Southeast Asian countries. In the Southeast Asian countries, the EU was always one of the three biggest sources of FDI. In 2000, in Malaysia, FDI from the EU reached US$ 1.29 billion, more than FDI from the United States (US) that reached US$ 1.27 billion (ASEAN Secretariat 2002).

Particularly for the EU FDI into Indonesia, the Netherlands is a big source of FDI compared with other European countries. From 1995 to 2001, the FDI from the Netherlands reached US$ 1593.12 or 47% of total FDI from the EU to Indonesia. It seems that the European regionalism did not influence the trend of the Netherlands companies to invest to Indonesia.

Problem Statement

EU regionalism should affect economic transition and political economic policies of the member countries, including of the Netherlands. Morever, the increase of FDI from the EU, particularly from the Netherlands, to non-member countries raised questions:

1. How does migration change the labour market in the Netherlands?
2. How does the enlargement of the EU change factors of production, particularly on the labour structure in the Netherlands?
3. How do the patterns of investment and trade of EU enlargement change?
4. How do regionalism and globalisation affect peoples' perspectives in the Netherlands?

Research Objectives

In general, this study aims to analyse the effect of the EU enlargement on the Netherlands' political economics, particularly in terms of FDI patterns and focuses on:

1. Analysis of the impact migration on the labor market in the Netherlands;
2. Analysis of the impact of the EU enlargement on changes in factors of production, particularly in the labour structure in the Netherlands;
3. Analysis of the impact of the EU enlargement on investment and trade structure in the Netherlands;
4. Analysis of the regionalism issues, particularly the emergence of the EU, in discourse on the globalisation of political economics.

Literature Review

Vinerian analysis, which introduced trade creation and diversion concepts, dominated many studies on the economic aspects of RTAs (Krueger 1999:107). It is believed that the formation of an RTA will not only create trade among the RTA members but also divert trade from existing non-member trading partners, which initially have better competitiveness. Therefore an RTA is beneficial to the world economy only if trade that has been created from the RTA exceeds created trade diversion. Moreover, trade creation and trade diversion effects of an RTA also show changes in comparative advantages to its members because of reduction in tariffs and other trade barriers.

In a Ricardian model, the changes in the comparative advantages will affect production patterns, which will then change the countries' patterns of investment. Unfortunately, there are only a few studies on how an economic integration influences industrial restructuring and then changes the patterns of investment of a country. Most studies in this field focus on the impact of economic integration on the patterns of trade.

Indeed, there are also several studies that have been conducted to analyse the impact of economic integration on the FDI, such as of Egger and Pfaffermayr (2004), Mold (2003), Hubert and Pain (2002), Braunerhjelm and Oxelheim (2000), Markusen and Venables (2000), Bevan and Estrin (2000), Brenton, Di Mauro and Lucke (1999), Clegg and Scott-Green (1999), Blomstrom and Kokko (1997), Motta and Norman (1996), Rivera-Batiz and Rivera-Batiz (1992), Dunning (1992 and 1993). However, most of these studies give their attention to the effect of regionalism on FDI inflow to the region, not to the FDI outflow.

Basically, the impact of economic integration on FDI depends on the motivation of transnational corporations (TNCs) (Blomstrom and Kokko 1997:4; Egger and Pfaffermayr 2004). Economic integration could increase or reduce FDI in the integrated region. If TNCs' motivation is to exploit specific advantages of the TNCs and to complement their existing international trade, economic integration will increase FDI inflow to the region (Blomstrom and Kokko 1997; Dunning 1993). Economic integration will reduce trade barriers, increase trade and also increase investment in the integrated region.

On the other hand, if there are horizontal TNCs, economic integration could reduce FDI. For horizontal TNCs, there is a trade off between proximity and production concentration (Egger and Pfaffermayr 2004:100). FDI from horizontal TNCs comes from trade barriers, such as tariffs, which prevent them from penetrating to the domestic market. Economic integration will reduce tariffs, which means that it will decrease transportation and transaction costs and therefore will make TNCs prefer to export rather than to invest in the region. However, economic integration that enlarges the market will also invite FDI inflow from non-members. Therefore, it is not clear whether the integration will increase or decrease FDI into the region.

Limited studies have been done on FDI outflows from an integrated region, for instance by Blomstrom and Kokko (1997). Studies on the issue usually relate FDI outflows with TNCs' budget limitations. With a limited budget, TNCs will allocate their funds to their priority regions. If there is too much FDI invested in the integrated region, there is a fear that non-members will be ignored. However, Blomstrom and Kokko (1997:7) note that economic integration can also increase FDI outflows from the integrated regions. The dynamic effect of economic integration will increase economic performance of the region, increase TNCs' profitability and budget capability and therefore will increase FDI outflows.

Unfortunately, those studies cannot predict how economic integration will affect investment patterns of its member countries. This study aims to fill this gap through analyzing how the EU integration influences industrial restructuring and the Netherlands' patterns of investment.

Figure 1. Analytical Framework

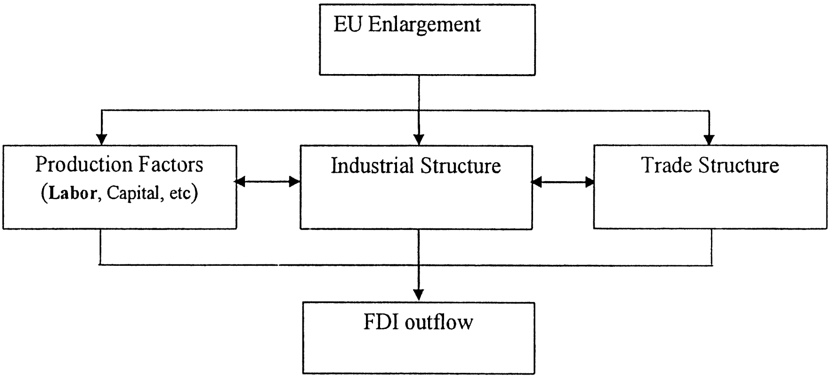

Figure 1 shows the analytical framework of this study. First, This study is based on the assumption that the EU enlargement will have a direct effect on the changes in production factors of its member countries. At least, this can be seen in the increasing migration flows to the region after enlargement. The migration provides not only a larger labour force but also changes the labour structure in the EU as well as in the Netherlands. This study will analyze how the EU and the Netherlands policies change the labour structure in the Netherlands, which is an indicator of an industrial shift in the country.

Second, this study will analyse changes in the economic industrial structure in the EU and the Netherlands. The EU regionalism is believed to create new regional production patterns. Therefore, shift-share analysis will be conducted in the EU-12 to understand how the Netherlands' industry has changed with the new production patterns. The shift-share analysis will be adapted to employment data in the industry.

Third, this study assumes that the EU regionalism had also changed production factors in the region through changes in output or trade. The EU regionalism changed the Netherlands trade structure as a consequence of trade creation and trade diversion because of changes in relative prices. The changes in trade structure show not only changes in industrial structure but also affects the Netherlands investment patterns.

In addition, prior to analysing the impact of EU regionalism on the Netherlands FDI, this study will analyse the regionalism issues, particularly the emergence of the EU, in discourse of the globalisation of political economics. Therefore, it will analyse the development of the EU, not only in terms of its enlargement but also its impact on its members' economic policies. It will analyse how the Netherlands is involved in the EU development and its impact on the economic policies contestation in the Netherlands. It will particularly analyse the interplay and how the non-state actors respond to integration issues, especially the issue of investment policy.

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Chapter 2
International Migration in the Netherlands: Policies, Trends and Impact on the Labour Market

Bondan Widyatmoko

Introduction

Economic renovation in the Netherlands after WWII brought consequences by large-scale labour migration. Most of the immigrants were from Mediterranean countries, such as Italy, Spain and other Southern European countries (North Mediterranean) and South Mediterranean countries such as Turkey and to a lesser extent, of the African region, like Morocco. This migration process was actually a business cycle scheme which means that labour shortages, especially in low-skilled jobs, in the Netherlands were filled by workers sent from a labour surplus country. The strong economic expansion had allowed every employer to freely recruit workers. This resulted in confusing the worker recruitment mechanism. Workers from nearby countries were coming to the Netherlands illegally since it was very easy to enter the country. In order to regulate the supply and demand mechanism, the government signed bilateral treaties with the labour exporting countries. However, even though the Netherlands had labour recruitment measurements for new, invited workers, these were not very strict. As long as the potential migrants had good health and working ability, they could get a position in the labour market.

Despite the large flows of guest workers, the Netherlands still thought of itself as an emigration country. The government emphasized that labour migrants were temporary workers expected to return to their countries of origin as economic expansion ended. This assumption proved to be wrong. In 1973, the economic crises resulting from high oil prices made the factories close their operations and many labour migrants became unemployed. Immediately, the government ended the labour recruitment. Some of the labour migrants, especially from Southern Europe, decided to return to their countries but most Turks and Moroccans preferred to stay. This shows that both loose management and a mistaken view of temporary labour immigrants had resulted not only in massive migration flows but also a large number of immigrants who stayed. This changed the Netherlands status as an immigration country.

Table 1. Immigration and Emigration Flows in the Netherlands (x1000)

	Immigration	Emigration
1940	20	26
1950	71	51
1960	45	58
1970	91	57
1980	113	59
1990	117	57
2000	133	61
2005	92	83

Source: CBS, 2007

The Table above illustrates the development of immigration and emigration in the Netherlands over time. It clearly proves that the Netherlands has become an immigration country as reflected in the number of immigrants that exceeded the number of emigrants. This was the result of several migration phases. The first characteristic migration flow was of immigrants from the former Dutch colonies; mostly Mollucans and Dutch-Indonesians. This was later, added to by people from Suriname following its independence in 1975. All of these de-colonized migrants had an option whether to choose Netherlands' nationality or that of their new independent state. Resulting from a treaty between the Netherlands and the new government, the Surinamese could choose their nationality between the Dutch and Surinamese until five years after their independence. This caused a second flow of Surinamese in 1979 and 1980 (De Beer in Jennisen 2003:181).

The second immigrant surplus was caused by manpower recruitment, mainly from Turkey and Morocco. Yet, there is an interesting point in this guest worker immigration trend that the two economic crises caused by high oil prices in 1973 and in the early 1980s did not result in decreasing migration flows. The most common explanation about this trend is that most of the guest workers tend to stay despite industrial collapse. This was due to the Netherlands' policy allowing more family reunions while implementing strict controls on new worker recruitment (Salt 1981:140). The immigrants who stayed began to bring their wives and children from their countries of origin, since both ethnic groups had low interest in engaging in inter-ethnic marriages. This was followed by a second wave of family forming migration of the second generation of immigrants who wanted to find spouses of their own ethnicity. The third migration phase was predominantly of asylum seekers and refugees. This was the result of a new approach by the Netherlands' migration authorities assimilated with an integration policy. Through this policy the only door for the new potential immigrants was through the asylum seeker and refugee scheme.

Both of these accumulated massive migration flows caused a relatively large proportion of immigrants in the Netherlands society. It was recorded in 1973 that France and West Germany had about two and a half million foreign workers, accounting for 10-12% of their labour forces, Switzerland had 600,000 (30%), Belgium and Sweden each about 200-220,000 (6-7%), The Netherlands 80,000 (2%) and Luxembourg 33,000 (30%) (Salt 1981:139). At the end of the twentieth century about 1.5 people lived in the Netherlands, who by their own birthplace or that of at least one of their parents were considered immigrants. All together, they comprised about 10% of the Dutch population (van Ours and Veenman 1999:4). However, this share has recently become greater.

The Netherlands has experienced large flows of immigrants, both of economic immigrants (labour migrants) and non-economic motivated immigrants (family migration, refugees and asylum seekers) which directly impacted on the Netherlands population structure and further also influenced economic growth. A large population increase meant that there would also be a raise in economic needs that would be a burden on the Netherlands despite is social security services for its citizens. Therefore, the logical scheme for the Netherlands was to limit further immigration through a national policy and increase the capability of staying immigrants to play a role in the Netherlands labour market. This is actually relevant to the European Union aims for a stronger participation by its population in work to foster growth and welfare (Constant and Zimmerman 2005).

This chapter aims to see the impact of immigration flows on the Netherlands population structure which further influenced the labour market conditions. In the first section, it will explore more deeply the migration policy and also the integration policy. Followed by the migration fluctuation story in the Netherlands which impacts on the Netherlands demographic composition and also labour market conditions. Portrayals of staying immigrants and their position in the Netherlands labour market over time will also be described in this section.

Immigration Policy Changes

Immigration policy in the Netherlands was made to control the composition of the migration flow. However, several factors could not be fully implemented because: First, The Netherlands government ratified an international agreement, i.e. the Geneva Convention which places an obligation on the government to allow refugees to come to the Netherlands. Second, the implementation of the Schengen Treaty in 1995 resulted in boundary free control, especially physical control. These could lead to a weakening of the migration policy and cause a threat to sovereignty and not only influence the economic growth and performance and immigrant characteristics but also the native population perceptions of immigrants (Bauer et al. 2001:4). If the immigration policy emphasized labour migration, it would help economic growth and performance and on the contrary, if the policy were more humanitarian or give more space for refugees or asylum seekers, transfer of immigrant skills would not occur. Furthermore, it is not impossible that the migrants would become a burden for the government because the government must pay for welfare services. In addition, it is very possible that this condition will trigger off social conflicts.

The Netherlands' immigration policies have changed several times. In 1970, after World War II, the Netherlands accepted massive migration flows. The first came from Indonesia; an ex-colony. In 1960, the better economic conditions of the Netherlands increased the demand for labour. However, the labour supply was not able to satisfy the labour needs of the Netherlands' industry, particularly of low skill, labour intensive industries such as mining. Furthermore, this condition followed the bilateral agreement to bring in foreign workers, especially from Southern Europe and Turkey and Morocco. In this period, the Netherlands was still relatively open to immigrants; moreover, there was no specific migration policy, with the only instrument to control migration the issuance of work permits as a requirement for guest worker recruitment (Ammersfoort 1999:148).

During the economic crisis resulting from the rise in oil price, decreased demand for labour and the decision to end the recruitment of guest workers, changed the Netherlands' migration policy to a more restricted one and stopped the labour migration flow. However, it had an impact on increasing the total of family migration in the early 1990s, followed by migration of asylum seekers and refugees. The Netherlands government implemented a Minorities Memorandum in 1983 in response to the Ethnic Minorities Report and Government Reply Memorandum in 1979 (Pang 2002: 7). This policy aimed to prevent marginalization of the migrants and end discrimination in education, housing access, social welfare and health considering that the migrants had a position relatively lowers than that of native Dutch. Because of the failure of the minority policy to control the number of migrants, the Netherlands government tried to revise the migration policy. In 1994, it implemented the Equal Treatment Act (ATA) which was followed by another policy, the Newcomers Integration Act WIN

Act in 1998 as new migration policies (Pang 2002: 12). These policies gave authority to the Netherlands government to force migrants to integrate with the Dutch community, select the migrant qualities that could enter the country and integrate new migrants as well as the migrants who were already in the Netherlands. In these policies it was stated that the newcomers must follow the orientation program in order to learn the Dutch language and also the Netherlands' social culture. There would be a test at the end of this program. Furthermore, the migrants who passed the test had the right to housing access and also social assistance from the government.

However, the lack of workers in the Netherlands at the end of 1990, caused migration to be reopened with the Treaty of Rome mechanism in the European Union Agenda which was based on economic measurement to control the high skill labour migration. Employers had been allowed to hire labour from other countries; however, they had to be able to give proof to the Netherlands government that the labour found could not be provided in the Netherlands. Besides that, the area of the outsourcing labour was limited to the European Economic Area: the EU countries and Iceland, Liechtenstein and Norway (Roodenburg 2003:34).

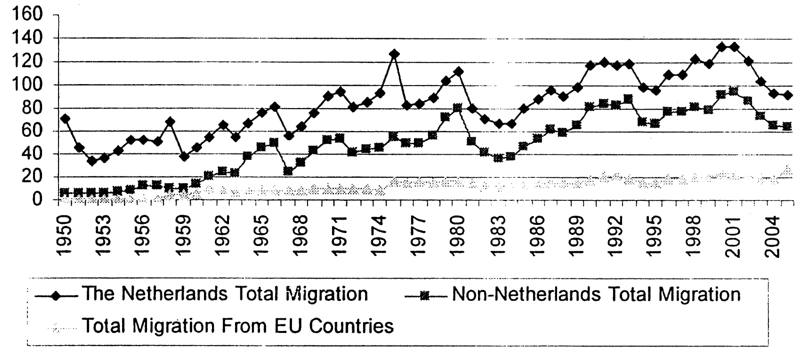
After 2003, a dramatic change took place in the acceptance of new migrants in the Netherlands. The migration policy was synergized with the integration policy to select more skilled immigrants and limit the large flow of migration. The WIN Act was extended in 2003 by the Civic Integration Examination Abroad and Civic Integration in the Netherlands based on the Aliens Act 2000. This policy covered some restrictions on the new immigrants such as: First, The minimum age for marital migration was raised from 18 to 21 (also to prevent forced marriages); Second, The minimum income for marital migration was increased from 100%

to 120% of the official minimum wage; Third, The partner already living in the Netherlands had to have adequate housing (stipulated when the marital migrant entered the country and when the permanent residence permit was issued); Fourth, Marital migrants needed to have a knowledge of a body of 500 common Dutch words before coming to the Netherlands (Snell 2003:10). However, the disappointing result of this policy led the government to force 'zero migration' to the Netherlands and prepare a completely new integration program (Bill of New Integration Act) to go into effect in 2006. Migrants had to twice go through selection to come to the Netherlands. These were the Civic Integration Examination Abroad and Civic Integration in the Netherlands. These programs defined and enforced immigrant responsibility in the process of integration. The main components of these programs were :(a) a new introduction exam for newcomers and old comers with a poor command of Dutch as a pre-conditions for a permanent residence permit; (b) Marital migrants would have to start learning Dutch prior to their arrival in the Netherlands. Starting in 2005, passing a basic exam in Dutch would be a pre-condition for a visa to enter the Netherlands; (c) The government would privatize the introduction programs and language courses; (d) Immigrants, newcomers and old comers alike would also be responsible for their own training in the financial sense. Immigrants would have to pay for their own introduction course, which would cost an estimated 6000 Euro, and immigrants who could not afford it would be able to apply for financial aid. This also would be a pre-condition for permanent residence. The new government following the 2006 Election results, under the Prime Minister, Balkenende, continued the same policy in order to increase the participation of migrants in the social life with the 'Living Together, Working Together' slogan (Nana 2007).

Migration Trends and Patterns

Migration and integration policies implemented by the Netherlands government not only influenced the number of immigrants entering the Netherlands but also influenced the motives and quality of these immigrants.

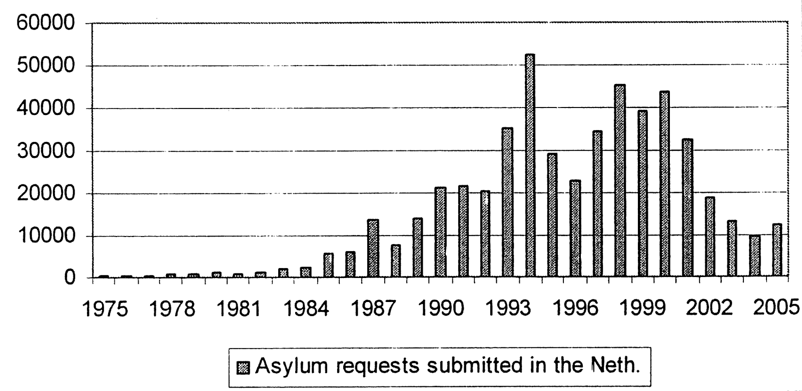
Figure 1
The NetherlandsTotal Migration Flows 1950-2005



Source: CBS, 2007

Figure 1 shows that from the 1950s the number of immigrants who came to the Netherlands increased. This was triggered by several things, such as labour migration, family reunion and family formation as a consequence of the guest worker structural changes leading to this kind of migration. Moreover, the increasing number of migrants was also caused by the number of immigrants who came from the Dutch ex-colonies, particularly Mollucans and Surinamese and also by the number of refugees and asylum seekers who entered the Netherlands. In the early 1950s, twenty thousand (20,000) Mollucans moved to the Netherlands. This migration was continued with the second flow of about 30,000 immigrants from Indonesia in 1958. Besides that, in 1967, the Netherlands Statistics Office (CBS) noted that 1,600 guest workers came from Turkey and Morocco. This number rose sharply in 1971 reaching 10,000 guest workers from Turkey and 3,000 from Morocco. However, after crises in 1973, the number of migrants did not decrease, even increasing until it reached the peak in 1980 of about 112,500 migrants. This increase was supported by family reunions, from Turkey, of 17,000 migrants and of 10,000 from Morocco. Besides that, there were also immigrants from the newly independent Suriname, reaching 40,000 in 1975 (Solak 2006: 13). In the 1990s, the migration flow to the Netherlands again increased; caused by the increasing number of refugees and asylum seekers. Figure 2 shows that the highest asylum requests were in 1993. However, after the activation of the New Aliens Act 2000 there was a significant decrease in the number of asylum seeker requests

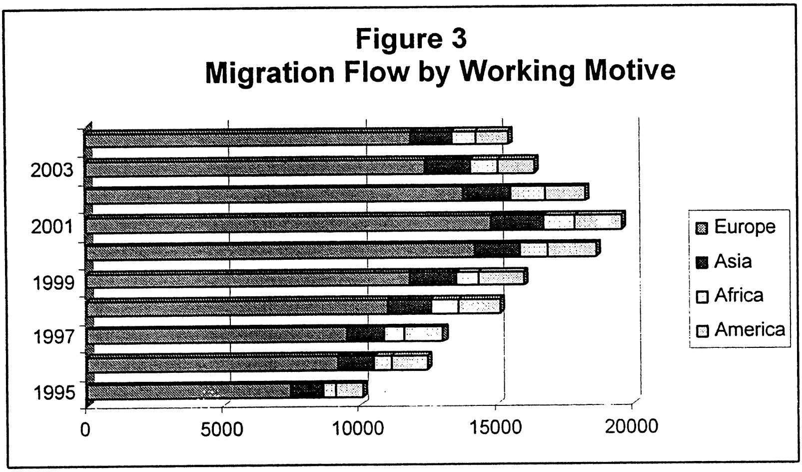
Figure 2
Asylum requests submitted in the Netherlands.



Source: CBS, 2007

Actually from the 1980s onwards, the migration flows to the Netherlands decreased dramatically after the second crisis following the oil boom. This was caused by immigration selection methods which decided when the immigrants could come to the Netherlands. It was tightened by fines and a punishment system in the 1990s (Vasta 2006: 7). This policy influenced both pros and cons in migration to the Netherlands. According to the CBS, in 1995 there were 33.22% immigrants with asylum seeker motives and 17.06% for marriage reasons. Furthermore, the immigrants who came to the Netherlands for motives of work and study made up only 15.29% and 2.77%. Two years after the Newcomers Act was implemented, the procentage of immigrants who came to work and study in the Netherlands increased to 20.81% and 6.96%. In 2004, this number increased to 24.01% for work and 15.65% for study in the Netherlands. This policy can be said to succeed in controlling migration in the migration selection context. We can see from the deacrease of the number of migrants for asylum seeker motives to only 4.5% in 2004.

Most of migrants who entered the Netherlands came from Europe. Figure 3 shows that in 2004, 4,596 immigrants came from Germany. This is almost 40% of the total migrants who come to work. This number was followed by Poland at 37%. Figure 4 shows that migrant who came because of marriage, came from Asia and Africa. Furthermore, in Figure 6 we can see that immigrants who came from Asia to study in the Netherlands increased gradually from 1995 to 2004 and this number will increase. The immigrants from Asia that came seeking asylum from the Netherlands' government, mostly came from Afghanistan, Iran and Iraq. This is reasonable when remembering the terrorist hunting done by the USA in those countries. Furthermore, 37% immigrants from India came to the Netherlands to work. Indians make up the biggest number of immigrants from Asia who came to work. This is also related to the economic growth in India which produced many IT professionals. According to CBS data on vacancies, IT expertise and Nursing are the highest job demands in the Netherlands. No wonder many Indian IT experts were happy to work in the Netherlands.



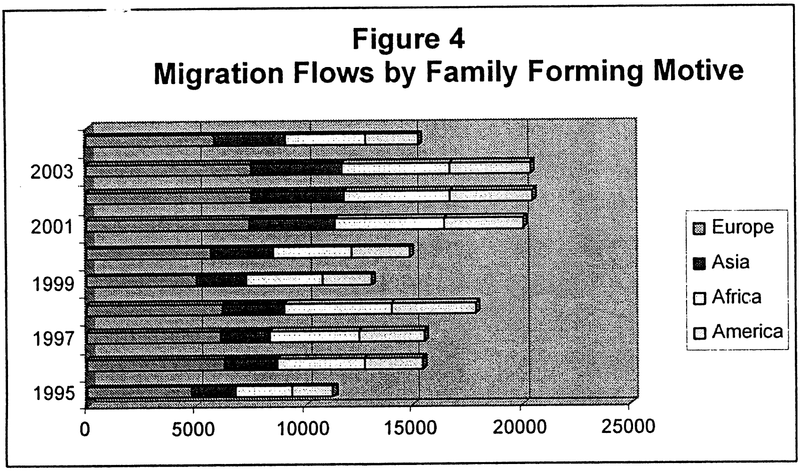


Figure 5
Migration Flows by Asylum Motive

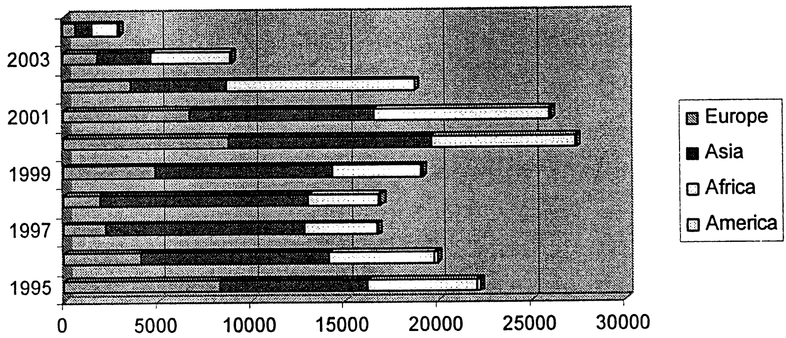
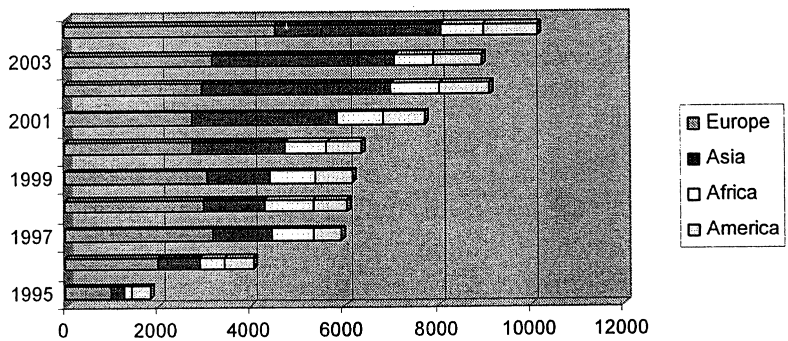


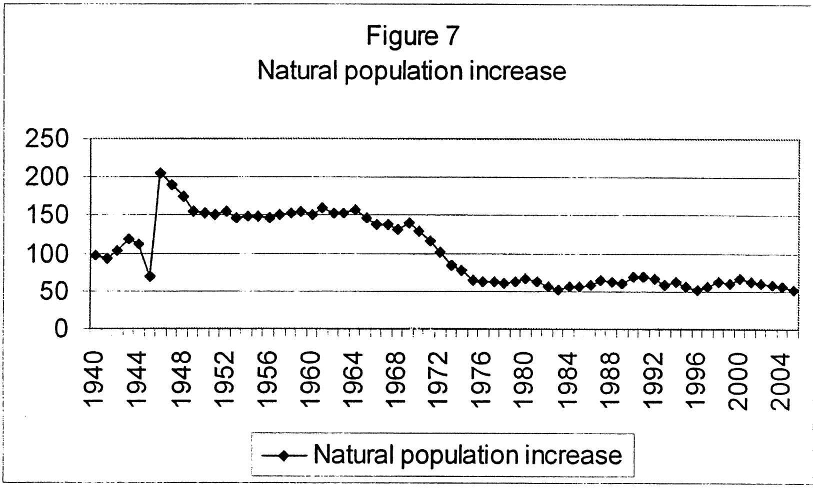
Figure 6
Migration Flows by Study Motive



Source: CBS, 2007

Immigrants and Dutch Demography

According to the demographic transition theory, the Netherlands has come into the third phase where its position as a developed country has resulted in a low population growth as a consequence of the decrease in the birth rate and also a low death rate (Todarro 1992:198). Figure 7 shows clearly the decreasing natural population growth from 1940 to 2004.



Source: CBS, 2007

However, the high birth rate in the Netherlands in the early 20th century has brought about the high number of the young in the population compared with the neighbouring countries. In 2000, the total fertility rate in the Netherlands reached 4.2 per 1000 of the population. It was still higher than the EU rate of 1.8. As a consequence, the Netherlands does not face an ageing population in the middle and long term (Coleman and Garsen 2002: 450).

Based on CBS data, in 2007, the Netherlands had 24.19% of 0-20 years population and 61.33% of working age (20-65 years) of its total population. Moreover, like it or not, the second and third generation of past migrants supports the stock of the productive age in the Netherlands. This is very reasonable remembering the stock of the foreign population in the country. In 1996, the non-Dutch population reached 4.6% of the total population. Nevertheless, in 1999, the new definition of foreigners in CBS has provided another view of the foreigner population in the Netherlands with almost 20% of the Dutch population having a foreign background.

Table 2. The Netherlands Population by Nationality 2006

	Total All Persons	Total First Generation	Total Second Generation		% Non-natives
			One parent born abroad	Both parents born abroad	
TOTAL	3.147.615	1.604.259	901.151	642.205	100
Total Non-Western	1.720.050	1.019.991	198.507	501.552	54,64
Turkey	364.333	195.711	24.607	144.015	11,57
Morocco	323.239	168.504	17.580	137.155	10,26
Suriname	331.890	187.483	48.831	95.576	10,54
Netherlands Antilles	129.683	80.102	28.138	21.443	4,1
China	44.713	31.188	2.298	11.227	1,42
Iraq	43.757	35.246	981	7.530	1,39
Afghanistan	37.246	31.987	188	5.071	1,18
The Philippines	13.499	8.574	3.826	1.099	0,42
India	14.682	9.673	2.148	2.861	0,46
Total Western	1.427.565	584.268	702.644	140.653	45,35
Germany	383.841	101.586	261.354	20.901	12,19
Indonesia	393.057	128.662	193.779	70.616	12,48
Belgium	112.315	35.950	70.496	5.869	3,56
Yugoslavia (old)	74.684	51.916	9.357	13.411	2,37
Poland	45.402	29.567	13.311	2.524	1,44
Italy	36.150	17.033	16.706	2.411	1,14
France	33.556	17.082	14.643	1.831	1,06
Spain	31.241	17.234	10.496	3.511	0,99
USA	30.726	18.744	10.914	1.068	0,97

Source: CBS, 2007

Table 2 above records useful information regarding the result of the long experience of migration. As shown in the Table, the total non-Western background population was higher than the

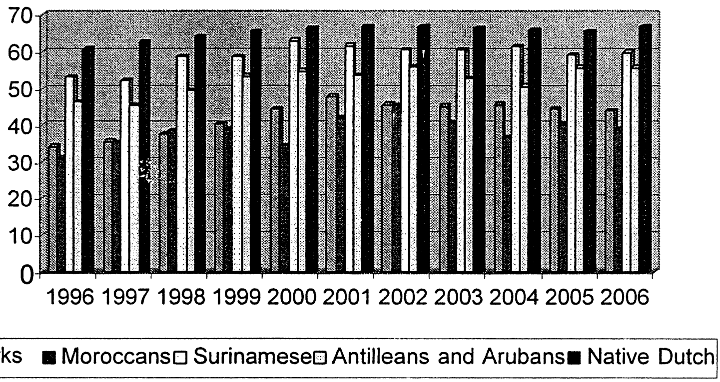
Western. Past migration source countries such as Turkey, Suriname, Morocco and the Netherlands Antilles dominated this group. Meanwhile, Indonesia, categorized as a Western group population shared the highest position with 12.48%. The old guest workers from Southern European countries such as: Italy, Spain and to a lesser extent the former Yugoslavia, accounted for less than 3% in this group regarding their high return migration.

Interestingly, the demographic structure of the non-Western immigrants was characterized by a strikingly high proportion of young people and children. CBS population data by nationality records that in 2007, the non Dutch proportion in the population aged 20-65 was more than 75% of the total non Dutch population. This share is relatively higher compared with the Dutch which was only 60% of the Dutch population. It is forecast that in 2020, 6% of the non-Western immigrants will be older than 65, compared with 20% of the indigenous people (CBS 2003a in Gijsbert 2004:15).

Immigrants and the Dutch Labour Market

Even though it makes up a large proportion in the Dutch population structure, the low immigrant participation rate in the labour market supports the Netherlands government's perspective that immigrants are not the answer to the Netherlands' ageing population problems in the future (Roodenburg et al. 2003:10). It is true that a large number of the productive age population will provide an adequate labour supply. However, it also depends on the quality of the labour able to compete in the Netherlands' competitive labour market. In the Netherlands' case, it clear that past migration groups, usually called ethnic minorities, have a low participation in education and the labour market. To start with, the majority ethnic minorities' secondary school pupils are in the lower grades such as pre-vocational programs and the school dropout rates are much higher than among the indigenous people (Giljbert 2004:26). The low quality of education directly influences the quality of the labour force produced and also its participation in the labour market. However, according to the study of Van Ours and Veenman, the educational attainment of second-generation immigrants in the Netherlands is relatively much better (van Ours and Veenman 2001).

Figure 9
Labour Force Participation by Ethnic Groups



Source: CBS, 2007

In 2006, only 46.7% of the non-Western foreign background population participated in the labour market. This share was relatively low compared with the Western foreign background population and the native Dutch. Among the non- Western group the Surinamese and the Antilleans had better attainment in the labour market compared with the Turks and the Moroccans. There are several reasons behind this achievement. The most common explanation was the colonial ties which enabled the Surinamese and the Antilleans to be able to speak Dutch better. This ability is very important not only for absorption in the labour market but also determines their educational attainment. The second reason is the cultural openness. Turks and Moroccans, who are Muslim, are relatively resistant to the Dutch open culture. They argue that most of the Dutch culture is not in keeping with Islamic principles. This perception makes them overprotective of their children and act exclusive of the Netherlands society. Therefore, it is not surprising if their education and labour market participation is low.

However, the activation of integration of the labour market policies has made a difference in the Netherlands labour market, especially in terms of female participation (Nickell and van Ours 2000:214-217). This can be seen from the amount of public expenditure as the percentage of the GDP used for financial support, such as labour market training and subsidized employment. As a result, subsidized jobs increased from 40,000 in 1990 to 85,000 eight years later. Second, there is coordination and bargaining in the making of every social-economic policy among the Union Federation, Employer Federation and also the Netherlands government itself. This success was not only available to native Dutch people but also to the foreigners. In 1996, the native Dutch female participation rate increased from 45.8% to 57% in 2004. This also happened in the foreign women work participation rate which accelerated from 38.6 % in 1996 to 47.40% in 2006.

Despite this achievement it is interesting to see the development of the job sectors filled by immigrants over time. As described above, the immigrants came to fill the large job vacancies in the Netherlands. They mainly worked in the low skilled jobs such as mining, cable and cigarette industries and to a lesser extent, the agricultural sector. However, the economic recession around 1973 made many immigrants unemployed. The unemployment figures tripled from about 200,000 in 1978 to more than 600,000 in 1982. Two years later, an all time high was reached of more than 800,000 people (van Oorschot 2000:2). They had few opportunities to search for new jobs because of their low educational backgrounds. The only possibilities for them were to establish their own businesses or fill the part-time jobs in the small firm sector in the Netherlands. No wonder that starting in 1980, the trend towards self-employment and part-time jobs increased over the years (Blaschke et al. 1990:81).

There are three categories of jobs in the Netherlands: full time jobs, part- time jobs and flexi jobs. Based on the working hours, full time jobs are usually strict 9 to 5 office hours. Meanwhile, the part time jobs are divided into small part-time jobs and large part-time jobs. Small part-time jobs are usually filled by students over 1-12 hours a week and the large part-time jobs range between 20-34 hours. Part-time work is highest in the health sector, the catering business and in education. These sectors are characterized either by a traditional high proportion of female workers and/or flexibility in working time. The last group of work in flexi jobs is characterized by non-contractual jobs and non-fixed working hours. They usually consist of jobs in the fields of trade and hotel and catering sectors (van Oorschot 2001).

Table 3. Distribution of Immigrant and native Dutch Businesses by Sector (in percentages)

	Immigrant business		Native Dutch business	
	1998	2000	1998	2000
Agriculture/forestry	1	2	Not included	Not included
Manufacturing	3	3	9	8
Construction	2	4	11	12
Car trade and repair	3	3	4	4
Wholesale trade	18	16	9	8
Retail trade	16	15	16	15
Catering	29	26	6	6
Transport	3	4	5	5
Business Service	12	18	23	25
Personal Service	10	9	18	18
Total Number (=100%)	29,658	36,454	534,000	559,000

Source: Adapted from van den Tillaart 2001:38 in Kloosterman and Rath 2003:132

As shown in the Table above the percentage of immigrant enterprises is twice as high as of the native Dutch. For example, the immigrant catering business is four times higher. Furthermore, van den Tillaart in Kloosterman and Rath describes that in mid 2000 the Chinese and Greeks, Vietnamese, Malays, Italians and Turks carved out niches in catering. However, there was an interesting case in the 1980s and early 1990s, when Turkish entrepreneurs operated as contractors or subcontractors at the lower end of the industry. Surinamese entrepreneurship penetration is striking by the penetration of the second generation in the business sector, consultancies, ICT companies and advertising agencies.

Conclusion

Long experience as an immigration country has resulted in the highest stock of foreign people staying in the Netherlands. Most of them were the result of the economic renovation migration after WW II which transformed into structural family migration. It was added also by the asylum seeker and refugee migration and to a lesser extent, by the de-colonization migration. In some part the presence of these immigrants was supposed to be the capital for the Dutch economic development. However, their relatively low educational attainment and labour market absorption, especially of the ex-guest worker immigrants, brought dilemmas for the government. Therefore, it is not surprising if the government has activated both policy measures to limit the new migration wave and promote policies to create new jobs for the immigrants.

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Chapter 3
Economic Changes in the Netherlands Since the 1995 European Union Enlargement

Ahmad Helmy Fuady

Introduction

Free movement of goods, services, capital and people are fundamental for the European Union (EU). Straathof (2007) notes that, since the Treaty of Rome was signed in 1957, these 'Four Freedoms' have been advanced through two channels. The first channel was a reduction of formal as well as informal barriers to trade, investment and migration within the EU through a series of treaties and policies among member countries. The second channel was the enlargement of the EU, which provided a larger room for the 'Four Freedoms.' Started with 6 founders in 1957, the union enlarged into 9 members in 1973, 10 members in 1981, 12 members in 1986, 15 members in 1995, 25 members in 2004, and 27 members in 2007.

Several studies have been conducted to assess the impact of the enlargement on member as well as non-member economic performances. These studies usually fit into two categories (Lejour; Solanic and Tang 2006). In the first category are static analyses of costs and benefits from the enlargement. Lejour, Solanic and Tang (2006) classify the works of Brown et al. (1997), Baldwin et al. (1997), Breuss (2001) and Lejour et al. (2004) in this category. Second, Studies, such as by Henrekson et al. (1997) and Vanhoudt (1998) applied regression analysis to present the impact of the enlargement on economic growth (Lejour, Solanic and Tang 2006)..

However, studies in this field rarely give special attention to the Netherlands economy, which is of particular interest to us. Among the rare studies is that of Földvári (2006) which provides a quantitative assessment of the impact of the European Integration on the Netherlands foreign trade and investment exclusively. Inline with Földvári (2006), this paper believes that the EU enlargement changed not only the economic structure of the EU as a group but also of particular member countries. The objective of this paper is to examine the economic changes in the Netherlands since the EU enlargement from 1995 to 2003. In this study a shift-share method is applied to employment data in the Netherlands and the rest of the EU-12 industries.

The rest of this paper is organized as follows: Section 2 provides the analytical framework of this paper. Section 3 presents a brief review of the shift-share method that is applied in this paper. Section 4 presents the empirical findings and discussion, which then lead to the conclusion in the last section.

Analytical Framework

Krueger (1999:107) notes that Vinerian analysis has dominated the analysis of economic integration since the 1950s. This classical analysis believes that economic integration will lead to trade creation and trade diversion. Economic integration will create trade among members because of lower barriers (tariff or non tariff) among them. However, the integration also diverts trade from existing non-member trading partners. Since member countries enjoy lower barriers compared with non-member trading partners, non-member countries can lose their competitiveness and abandon their trade. The World Trade Organisation (WTO) (2003: 49), therefore, notes the possibility of integration as a measure to exclude a third party that, initially, has a better competitiveness. In sum, within this traditional analysis, economic integration will be considered beneficial for the world economy only if the trade creation exceeds trade diversion from the integration. In other words, the analysis focuses on whether the integration will lead to welfare benefits or welfare loss in the economy as a whole.

Another important aspect of the Vinerian analysis is that trade creation and trade diversion of economic integration, indeed, reflects comparative advantage changes in the world economy. It changes the transaction costs to members and non-members, with the members enjoying lower trade barriers. Zero sum gain between members and non-members is the more likely result that will appear in this analytical framework. Using this static framework of analysis, we cannot explain how non-members can have a higher export to a member country if other member countries have a better price after the integration.

The answer to the question is, possibly, lying in the dynamic effect of integration. Deriving from Balassa (1961), Földvári (2006:18) identifies several dynamic effects of the integration, such as economies of scale, a faster innovation process and increasing competitiveness, which may contribute to economic growth. Similarly, this paper believes that economic integration will, in a dynamic process, lead to changes to economies of scale of the region's industries. An integration will allow for the achievement of economies of scale and therefore will create a divergence of industries in the integrated economy. They will specialise in industries in which they have the greatest comparative advantage, because they can achieve the economies of scale and leave the others to the rest of the world. In this sense, the third party (non-members) will benefit from the integration, because it can supply the integrated economy with products that are left behind by members.

Shift-Share Analysis

Shift-share analysis has been widely used to examine regional issues, such as industrial structure, employment changes, labour productivity and export rivalry (Herschede 1991:292). It is a relatively simple descriptive analysis but powerful to show trends in regional performance and changes in economic structure (Wilson and Wong 1999:5; Wilson 2000:541). Application of shift-share analysis to examining export rivalry among countries or regions, for instance, is shown by Herschede (1991), Voon and Yue (2003), Peh and Wong (1999), Wilson and Wong (1999), Wilson (2000) and Coughlin and Pollard (2001). Application of shift-share to examine employment changes can be seen, for instance, in Edwards (1976) and Stilwell (1969).

Like Edwards (1976), this paper applies a classic shift-share method to answer questions concerning structural changes in the Netherlands and other EU-12 countries. The shift-share method compares actual changes in an EU-12 member country with its share effect. The share effect is the change in the member country if it behaves as a small version of the regional economy. The share effect measures employment changes of each sector if it experiences the same rate of growth as the regional economy. A positive result in the net relative change shows that the member country has experienced higher employment changes compared to those if the member country would grow as the regional economy; a negative result shows that the member country has experienced lower employment changes than if the country would grow as the regional economy.

Net relative changes or a difference between actual changes and the share effect is attributed to particular sources, namely, industry mix effect and competitive effect. The industry mix effect results from the types of industry located in the region (Edwards 1976:308). The competitive effect results from the difference between the growth rate of employment in a member country and that in the regional economy. Consider the model below shown algebraically:

Let:

E_{ij}	= no of employment in industry i in country j
$\Sigma_i E_{ij}$	= no of employment in all industry in country j
$\Sigma_j E_{ij}$	= no of employment in industry i in EU-12
$\Sigma_i \Sigma_j E_{ij}$	= no of employment in all industry in EU-12

Also, let subscript o indicate the base year and subscript t denote the terminal year of the period studied.

Net Relative Change (NRCij) $= E_{ij} \{(E_t - E_o)/E_o - (\Sigma_i\Sigma_j E_t - \Sigma_i\Sigma_j E_o)/\Sigma_i\Sigma_j E_o\}$

Industry Mix Effect (Meij) $= E_{ij} \{(\Sigma_j E_t - \Sigma_j E_o)/S_j E_o - (\Sigma_i\Sigma_j E_t - \Sigma_i\Sigma_j E_o)/\Sigma_i\Sigma_j E_o\}$

Competitive Effect (CEij) $= E_{ij} \{(E_t - E_o)/E_o - (\Sigma_j E_t - \Sigma_j E_o)/\Sigma_j E_o\}$

The method is applied to employment data of OECD STAN Industry for the period 1995-2003 for the EU-12. The shift-share method only considers data on the starting and the terminal year of analysis and therefore it does not take into account continuous changes in the employment structure (Wilson and Wong 1999). As a starting point, 1995 is chosen because it is the year of the enlargement of the EU from twelve members to fifteen members. In addition, it is also the year when employment data for all EU-12 member countries is available in OECD STAN Industry. The year

2003 is chosen as the final year because of data availability considerations. An exception is made for France, because of unavailability of much industrial data for the year 2003, so data for the year 2002 is applied.

It should be noted, however, that the shift-share method only shows the employment changes or particular effects but does not explain causes of the particular effects (Herschede 1991:293; Wilson 2000:547). Therefore, it can show that a particular industry in member countries performed better than that in the EU, but it cannot explain what factors accounted for the good performance in the particular sector. Therefore, further examination is needed to have better insight into the changes. As a limitation, I consider that using this method, I cannot judge that the economic changes resulted from the EU enlargement. However, this method, still, provides a good picture of the Netherlands economic changes in the period of analysis.

Empirical Results and Discussion

The summary of shift-share analysis of the EU-12 employment is provided in Table 1. It shows the net relative change between actual change in employment and the share effect. Technically, the net relative change is the actual change in a country's employment minus the share effect; that is, change that occurs if the country behaves as a mini version of the regional economy, i.e., having an equal employment rate of growth as the EU-12. A positive result in the net relative change means that the country's employment growth was faster than the EU-12, while a negative result indicates the opposite.

Table 1. Net Relative Changes in EU-12 Employment, 1995-2003 (100%)

Country	Industry						
	0	1	2	3	4	5	6
Belgium	-0.03	-0.24	-0.37	-0.21	-0.23	-0.10	0.02
Denmark	-0.05	-0.27	0.00	-0.23	-0.21	0.02	0.00
France	-0.01	-0.20		-0.13	-0.11	-0.07	0.03
Germany	-0.09	-0.30	-0.61	-0.20	-0.32	-0.40	0.01
Greece	-0.07	-0.29	-0.44	-0.20	-0.10	0.16	0.02
Ireland	0.30	-0.30	0.10	0.02	-0.13	0.94	0.43
Italy	-0.01	-0.30	-0.25	-0.10	-0.33	0.04	0.05
Luxembourg	0.25	-0.25	-0.11	-0.12	-0.05	0.06	0.38
The Netherlands	0.05	-0.16	-0.31	-0.15	-0.30	0.03	0.10
Portugal	0.01	-0.21		-0.11	-0.12	0.11	0.08
Spain	0.11	-0.22	-0.37	0.06	-0.25	0.38	0.14
The United Kingdom	-0.02	-0.36	-0.21	-0.28	-0.34	0.04	0.04

Source: calculated from OECD STAN Industry

Note:

0: Grand Total

1: Agriculture, Hunting, Forestry and Fishing

2: Mining and Quarrying

3: Total Manufacturing

4: Electricity, Gas and water Supply

5: Construction

6: Total Services

Table 1 shows that of the 12 member countries, Ireland had the largest net relative change (30%) during 1995-2003. It means that Ireland experienced the fastest growth in employment, driven by a strong growth in the construction industry compared to the EU-12 as a whole. Luxembourg came in second (25%) in the net relative change, which was particularly contributed to by a rapid employment growth in service industries. The third best net relative change occurred in Spain (11%), where the construction, service and manufacturing industries contributed to the changes with 38%, 14% and 6% respectively. The Netherlands also experienced a positive net relative change (5%), which was particularly driven by service industries (10%) and construction industries (3%). Portugal is the last country that performed better than if the country had performed as the mini version of the regional economy (EU-12), with 1% net relative change, contributed by the construction industries (11%) and service industries (8%). The other 7 countries of the EU-12 membership experienced negative net relative changes, led by Germany (-9%) and Greece (-7%).

Based on the types of industries, Table 1 also shows interesting features. It seems that the agriculture, hunting, forestry and fishing industries and electricity, gas and water supply industries became less important for the EU-12, while the service industries strengthened and became the driving force of the economy of the region during the period of analysis. All members of the EU-12 experienced positive net relative changes in the service sectors and negative net relative changes in the agriculture, hunting, forestry and fishing industries and electricity, gas and water supply industries. It is not only the five countries that had positive net relative changes, but even Germany, which performed relatively poorly compared to the other EU-12 members during the period. Another obvious conclusion from Table 1 is that only Ireland and Spain had positive net relative changes in the manufacturing sector, while the other EU-12 members experienced negative changes during the period. Thus, the Table shows that the EU-12 economies are moving into the tertiary industries and the roles of the primary and secondary sectors have been left behind.

Kox and Rubalcaba (2007) claim that the European economy is in a process of structural change. They notice that two major trends characterised the structural changes in Europe. First, the share of manufacturing in the economy is shrinking; and Second, The service industry and particularly business services, account for an increasing share of the European economies (Kox and Rubalcaba 2007). Kox and Rubalcaba argue that the exploitation of economies of scale for human capital and the growing specialisation in knowledge services are drivers of the change. Other relevant drivers, according to them, are 'the growing tertiarisation of all production processes (including manufacturing) and the lowered costs of outsourcing in-house service functions.'

The finding also shows the tendency of convergence in the EU-12 economies. The economies of the EU-12 grew in a similar direction, going into the tertiary sector and de-emphasizing the primary and secondary sectors. The member countries did not diverge and specialise their own industries. Instead of country specialisation, they built regional specialisation. It is regional comparative advantage that was exploited and not the comparative advantages of separate countries. In this sense, deepening regional integration can also lead the European economy to further integrate with the rest of the world. The regional convergence, to specialise in the service sector, provides the rest of the world with an opportunity to fill in this region the need for primary and secondary products. This, for instance, can be confirmed with the increasing import of manufacturing products from the rest of the world into the region.

Shift-Share Analysis for the Netherlands 1995-2003

Table 2 shows shift-share components in the Netherlands employment. The most significant changes in the Netherlands employment occurred in service industries, with 22% actual change during 1995 to 2003. The positive net relative change (10%) of the industry was contributed by its positive competitive effect as well as industry-mix effect. This shows that the industry was located in a dynamic, expanding country and would not grow so fast in other countries. While, the positive industry-mix effect shows that the service industry was a growing industry in the EU-12 region.

Table 2. Shift-share components in the Netherlands employment, 1995-2003 (100%)

Industry	Actual Growth	Net Relative Changes	Industry-Mix Effect	Competitive Effect
1	-0.05	-0.16	-0.25	0.09
2	-0.20	-0.31	-0.36	0.05
3	-0.04	-0.15	-0.16	0.01
4	-0.19	-0.30	-0.22	-0.08
5	0.14	0.03	0.04	-0.01
6	0.22	0.10	0.07	0.04

Source: Calculated from OECD STAN Industry

Net relative changes in employment in construction and service industries were also positive and came from industry mix effect, which exceeded the negative competitive effect. It shows that the Netherlands was characterized by a predominance of the EU-12 rapid growth industries. It also indicates that the Netherlands grew in a similar structural direction with the EU-12 region.

Employment in manufacturing industry declined during the period of analysis. It can be explained by negative industry mix as well as competitive effect. The manufacturing industry in the Netherlands grew much more slowly (even negatively) than the industry at the regional (EU-12) level. The industry grew better in other countries in the region.

Table 3. Shift-share components in the Netherlands manufacturing employment, 1995-2003 (100%)

Industry	Actual Growth	Net relative change	Industry-Mix Effect	Competitive Effect
3	-0.04	-0.15	-0.16	0.01
3a	-0.07	-0.18	-0.32	0.14
3b	-0.31	-0.42	-0.40	-0.02
3c	0.10	-0.01	-0.34	0.33
3d	-0.12	-0.23	-0.36	0.13
3e	-0.05	-0.16	-0.36	0.20
3f	-0.05	-0.16	-0.31	0.15
3g	0.01	-0.10	-0.40	0.30
3h	0.00	-0.11	-0.34	0.23
3i	0.03	-0.08	-0.42	0.34
3j	-0.03	-0.14	-0.44	0.30
3k	0.04	-0.07	-0.22	0.15

Source: Calculated from OECD STAN Industry

Note:

3	TOTAL MANUFACTURING
3a	Food products, beverages and tobacco
3b	Textiles, textile products, leather and footwear
3c	Wood and products of wood and cork
3d	Pulp, paper, paper products, printing and publishing
3e	Chemical, rubber, plastic and fuel products
3f	Other non-metallic mineral products
3g	Basic metals, metal products, machinery and equipment
3h	Basic metals and fabricated metal products
3i	Machinery and equipment
3j	Transport equipment
3k	Manufacturing nec

Disaggregating the manufacturing industry, Table 3 shows that all manufacturing industries in the Netherlands experienced positive competitive effect, except for textiles, textile products and the leather and footwear industry. Interestingly, none of the Netherlands manufacturing industries had positive industry mix effects. It shows that even though the manufacturing industries in the Netherlands enjoyed a competitive advantage, which allowed the industries to grow at a faster rate than they would in other countries of the EU-12, the manufacturing industries were, indeed, slow growing or (even) declining industries at the regional level.

In this manufacturing sector, the machinery and equipment industries took a lead as industries that had the highest rate of competitive advantage (34%), with actual growth reaching 30% during the period. In terms of number of employed, the basic metals, metal products, machinery and equipment industries remained the most important industries in the manufacturing sector, with 3,830 employees in 2003. The increasing importance of the machinery and equipment industries and the continuing importance of basic metals, metal products, machinery and equipment industries suggests that the Netherlands' manufacturing sector tended to specialise in capital and technology intensive industries.

With the Netherlands' manufacturing sector tending to specialise in capital and technology intensive industries, the country seemed to reject the low skill industries, particularly the textile, textile products, leather and footwear industries. Besides the exploitation of the country's comparative advantage of capital and technology accumulation, external factors also contributed to the natural deindustrialisation. For instance, according to Suyker and de Groot (2006) the Netherlands trade with China has increased enormously. China's products accounted for almost 8% of the Netherlands imports with two-thirds of those re-exported to the rest of Europe (Suyker and de Groot 2006). Considering the relative strengths of China in low-skill production such as in clothing, textiles, shoes and toys, the decreasing low-skill industries in the Netherlands are somehow justified. The needs of the low-skill products can be satisfied from other countries, such as China.

Suyker and de Groot (2006) even note that Chinese products benefit the Netherlands in several ways. First, The Chinese products rather complement than substitute the Netherlands industry and more importantly imports of cheap Chinese products have reduced Dutch household consumption; by 25 Euro per month less (Suyker and de Groot 2006). Second, the growth of China provided more employment for the Dutch; 'Dutch employment associated with exports to China and re-exports of Chinese products is estimated at around 23,000 jobs, approximately ½% of total employment'.

In sum, de-industrialisation in the low-skill manufacturing sector in the Netherlands is a natural process in order to better exploit its comparative advantage. When the Dutch found that these low-skill products only provided relatively low returns, they moved to other industries. The further increasing importance of capital and technology intensive industries in the Netherlands manufacturing sector, indeed, provided more opportunities for other countries to produce the products. In this case, for instance, China can mutually benefit with the Netherlands in changing manufacturing industries.

Table 4 shows that almost all the Netherlands service industries experienced not only actual positive growth but also positive net relative changes. An exception can be made for the public administration and defence industries and private households with employed persons industry, which had negative net relative changes. The largest change occurred in finance, insurance, real estate and business services, particularly in real estate, rental and business activities. This was followed by community social and personal services, particularly in health and social work.

Table 4. Shift-share components in the Netherlands Service Employment, 1995-2003 (100%)

Industry	Actual Growth	Net relative change	Industry-Mix Effect	Competitive Effect
6	0.22	0.10	0.07	0.04
6a	0.16	0.04	0.03	0.01
6a1	0.16	0.05	0.01	0.04
6a2	0.12	0.01	0.10	-0.09
6b	0.16	0.05	0.00	0.05
6b1	0.13	0.02	-0.34	0.36
6b2	0.26	0.15	-0.32	0.47
6c	0.33	0.22	0.22	0.00
6c1	0.23	0.12	-0.01	0.13
6c2	0.36	0.25	0.30	-0.05
6d	0.21	0.09	0.04	0.05
6d1	0.10	-0.01	-0.12	0.10
6d2	0.17	0.06	-0.02	0.07
6d3	0.34	0.23	0.10	0.12
6d4	0.23	0.12	0.01	0.11
6d5	0.02	-0.09	0.05	-0.14

Source: Calculated from OECD STAN Industry

Note:

6	TOTAL SERVICES
6a	WHOLESALE AND RETAIL TRADE, RESTAURANTS AND HOTELS
6a1	Wholesale and retail trade; repairs
6a2	Hotels and restaurants
6b	TRANSPORT AND STORAGE AND COMMUNICATION
6b1	Transport and storage
6b2	Post and telecommunications
6c	FINANCE, INSURANCE, REAL ESTATE AND BUSINESS SERVICES
6c1	Financial intermediation
6c2	Real estate, rental and business activities
6d	COMMUNITY SOCIAL AND PERSONAL SERVICES
6d1	Public admin. and defence; compulsory social security
6d2	Education
6d3	Health and social work
6d4	Other community, social and personal services
6d5	Private households with employed persons

Interestingly, even though the real estate, rental and business activities industries had the largest actual and net relative changes during the period of analysis, the industry had negative competitive effect. It means that the industry in the country grew more slowly than the level of growth of the industry in the EU-12. The high level of positive net relative changes is attributed to the industry mix effect, which achieved 30%. In other words, the industries of real estate, rental and business activities in the Netherlands benefited from the EU-12 growth of the industry.

Overall, the service industry in the Netherlands performed well, with all actual growth, net relative change, industry-mix effect and competitive effect having positive values. This is similar to the study of Kox (2002), which shows that the business services industry in the Netherlands is among the fastest growing of the business services in the OECD countries. Kox (2002) attributes the high growth of the service industry to several characteristics. First, The openness of the industry in the Netherlands has attracted huge investment to it. There has been an increase of direct investment by foreign business service providers since 1995, which then accounted for an increasing share of the industry's total fixed capital formation (Kox 2002); Second, Still related to the openness, the Netherlands service industry benefited from the pressure of the competition. According to Kox (2002: 142), 'being exposed to foreign competition, gave these Dutch firms a learning-curve advantage as to product quality and efficiency. This learning effect mainly holds for the large national firms and small specialist firms.' In addition, Kox (2002) also notes that the multilingual capacity of the Netherlands service workers has clearly formed an asset in international markets.

Kox (2002), however, reminds that 'the strong growth of Dutch BS industries since 1990 may have been caused partly by a catch-up effect. Once this catch-up effect dries up, the structural growth spurt of Dutch BS industry might come to an end.' Kox (2002) also notes that labour productivity of the Netherlands service industry shows a stagnant tendency. 'Dutch service industries are engaged in relatively minor innovative improvements rather than in fundamental innovations. The Dutch computer-related and engineering branches are followers rather than leaders with respect to innovation' (Kox 2002:142).

Conclusion

The EU has enlarged considerably since its establishment. Started with 6 founders in 1957, the Union has enlarged into 9 members in 1973, 10 members in 1981, 12 members in 1986, 15 members in 1995, 25 members in 2004, and 27 members in 2007. The enlargement has provided a larger room for the free movement of goods, services, capital and people in the region (Straathof 2007). As a reflection of changes in comparative advantage, the 'Four Freedoms' have served fundamental changes in the EU economic structure. This paper posits that since the 1995 enlargement, the economic structure of the EU as a group and also in a particular member country, the Netherlands, has changed considerably.

Using a shift-share method, applied to employment data in the Netherlands and the rest of the EU-12 industries, this paper shows a tendency to a convergence in the EU-12 economy. The economies of the EU-12 grew in a similar direction, going into the tertiary sectors and de-emphasizing the primary and secondary sectors. The member countries did not diverge and specialise in their own industries. Instead of country specialisation, they built regional specialisation. It is regional comparative advantage that was exploited and not the comparative advantage of separate countries. In this sense, deepening regional integration can also lead the European economy to further integrate with the rest of the world and confirm this paper's argument. The regional convergence, to specialise in the service sector, provides the rest of the world with an opportunity to fill in this region the need for the primary and secondary products.

Detailed analysis of the Netherlands economic changes pronounce this paper's argument that since the 1995 EU enlargement, the country has benefited not only the region but also the rest of the world, since it provides a larger opportunity in the economic field. In the manufacturing sector, for instance, the Netherlands tends to specialise in capital and technology intensive industries, such as machinery and equipment industries and de-emphasize low-skill industries, particularly textiles, textile products, leather and the footwear industry. The need for low-skill products is filled by other countries, such as China, able to provide the products cheaply.

Another important finding of this paper is that, like in the EU-12, the service industry in the Netherlands has performed very well. The actual growth, net relative change, industry-mix effect and competitive effect of the industry have positive values. The supremacy of the service industry in the Netherlands economy shows that the country, in the same direction as the EU-12, is going into the tertiary sector and de-emphasizing the primary and secondary sectors. Thus, the same argument for non-member opportunities to fill in the need for primary and secondary products can be applied.

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Chapter 4

The Impact of European Union Enlargement on the Netherlands' and Asian Countries' Economies: An Analysis of the Patterns of Trade and Investment

Maxensius Tri Sambodo

Introduction

Cooperation in the European Community has been established for more than half a century. In the 1950s, six European countries, namely, Belgium, France, Germany, Italy, Luxembourg and the Netherlands were united both economically and politically in the European Coal and Steel Community. In 1957, those countries created a Common Market or European Economic Community through the Treaty of Rome. The development of the European Community was dynamic. In the 1960s, there was a trade revolution when the entire membership agreed to stop charging import duties. Thus there were no barriers to the flow of trade. In the 1970s came the first enlargement when Denmark, Ireland and the United Kingdom joined the European Union in 1 January 1973. In May 2004, the membership of the EU rose to fifteen countries and in 2007 it grew to twenty seven. The European Union enlargement is a process that will continue between the western and eastern parts of Europe. Basically both old and new members obtain gains from the enlargement. Now, most of the newcomers come from the eastern part of Europe. The driving force for this is the collapse of communism and the rise of democratic government in most parts of Eastern Europe.

The economic impact of enlargement can be significant and an integrated market boosts economic growth of the new and old members (Europe Union 2006). In the long term, economic integration can improve the standard of living for many Eastern European countries with many of them in the process of entering the market economy. Newcomers benefit from investments that come from firms based in Western Europe and have access to EU funding for their regional and social development. On the other hand, companies in the old member states have an opportunity for better market access to the new members. However, it seems that both old and new member countries become worried about the negative side of the economic integration especially its impact on lives and job security. There were fears in the old 15 EU countries about more immigration and/or an influx of cheap labour. People in the new member countries are worried about foreign takeovers of local companies and the impact on the local economies and on local businesses (Europe Union 2006). To meet these concerns, EU leaders agreed at a summit in June 2006 that future enlargements of the Union would take into account the Union's capacity to absorb new members.

Generally speaking, in terms of economic performance, the European Union (EU) is similar to the United States (US)[1]. As can be seen in Table 1, EU-25 and EU-15 consisted of 7.1% and 6% of the world population, which was higher than of the United States.

[1] European enlargement can be divided into seven stages. Stage one in (1957): Belgium, France, Germany, Italy, Luxembourg, the Netherlands. Stage two (1973): Denmark, Ireland, the United Kingdom. Stage three (1981): Greece. Stage four (1986) Portugal and Spain. Stage five (1995): Austria, Finland, Sweden. Stage six (2004): Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia. Stage seven (2007): Bulgaria, Rumania

This means the EU has a huge market and a high potential demand for local and imported products. In terms of the GDP, in the EU it was higher than in the US. However, in terms of the GDP per capita in the US it was higher than in the EU-25, or even in the EU-15. Economic stability, reflected by inflation and interest rates among the countries was quite sound. There was a positive real interest rate both in EU-15 and in EU-25, but it was a negative real interest rate in the US. The sum of exports and imports as a proportion of the GDP (this represents a degree of openness) was higher in EU-15 and EU-25 than in the US. In short, the EU had become important as an engine of growth in the world economy. Also, the EU enlargement had a positive impact on increasing the potential market and the GDP. Further EU enlargement did not alter macroeconomic stability. However, it seems that in terms of trade there was a decrease in trade volume and degree of openness in EU-25. This is a natural fact because the eastern part of Europe was part of EU-25 which meant trade with additional countries of EU membership would be included as part of intra EU trade thus shares in extra EU trade would decline. In terms of net inflow of foreign direct investment to the EU-15 it was much higher than to the US by almost five times.

Table 1. Comparison of Economic Indicators among the EU-15, EU-25 and The United States

Indicators in 2005	EU-15	EU-25	United States
Population (millions)	385.4 (6)	459.5 (7.1)**	298 (4.6)**
GDP per capita (current US$) (EU-25 = 100)	108.6	100	149.5
GDP at current market prices (EUR 1,000 million)	10,264	10,817	10,032
Inflation (annual %)	2.1	2.2	3.4
Short term interest rates: day-to-day money rates (annual average)	2.56	2.66	3.22
Exports – Extra EU (EUR 1,000 million)	1,173	1,071	730
Imports – Extra EU (EUR 1,000 million)	1,242	1,177	1,226
Sum of Exports and Imports to GDP (%)	23.5	20.8	19.5
Foreign direct investment, net inflow (BoP, current US$)**	548.7 billion	-	109.8 billion

Note: * share of the world (in %), ** summation of 15 countries

Source: *Eurostat Yearbook 2006-07.*

The question was who would benefit from the EU enlargement? To answer this question there were two approaches used in order to reap the comparative perspectives. First, measuring the direct impact of EU enlargement on the Netherlands economy and on that of some Asian countries, especially, Indonesia, Thailand and China. Second, measuring the indirect impact, that is, of the Netherlands' economy, on Indonesia, Thailand and China. There were two indicators used in this analysis, namely, trade and investment. This paper is organized as follows: After the Introduction, Part Two discusses the impact of European enlargement on the Netherlands' economy in terms of trade and investment. This section also analyses the impact of European enlargement on Asian countries, especially, Indonesia, Thailand, India and China. Further, this section discusses the linkage between trade and investment in the Netherlands on Asian countries, especially, Indonesia, Thailand, India and China. Part Three is the Conclusion.

Why the Netherlands?

There are nine reasons to study the impact of European enlargement on the Netherlands' economy. According to *Eurostat Yearbook 2006-07*, the Netherlands has an important role among the EU countries[2]. *First*, The Netherlands is a pioneer in the development of the European community together with the other five countries. Thus, it is useful to analyze the impact of European enlargement on an original member of the EU; *Second*, The Netherlands was the second largest population density nation among the EU-25 countries; *Third*, In terms of the employment rate, the Netherlands was the second largest and had the highest growth in the employment rate. Similarly in terms of the employment rate, the Netherlands was one of the top three lowest after Ireland and Luxembourg; *Fourth*, Based on the per capita GDP index, the Netherlands was the third largest and the share of its GDP in EU-25 was in the top five; *Fifth*, In terms of the net flow of FDI in extra EU-25, the Netherlands was the highest; *Sixth*, The Netherlands' position on exports and imports was in the top five; *Seventh*, The inflation rate in the Netherlands was the third lowest after Finland and Sweden; *Eighth*, The Netherlands experienced the highest deficit in trade balance in extra Eu-25 and at the same time it had the highest surplus in intra EU-25. This indicates, that in terms of interaction with other countries outside EU-25, the Netherlands was quite intense and the Netherlands also experienced the highest benefits in interaction with intra EU countries as can be seen from the highest surplus in intra EU-25; *Finally*, Since Indonesia and the Netherlands have an emotional relationship, after about 350 years of Indonesia being colonized by the Dutch, it is important to investigate the pattern of trade and investment between Indonesia and the Netherlands.

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[2] All the comparisons are based on EU-25 and only for 2005.

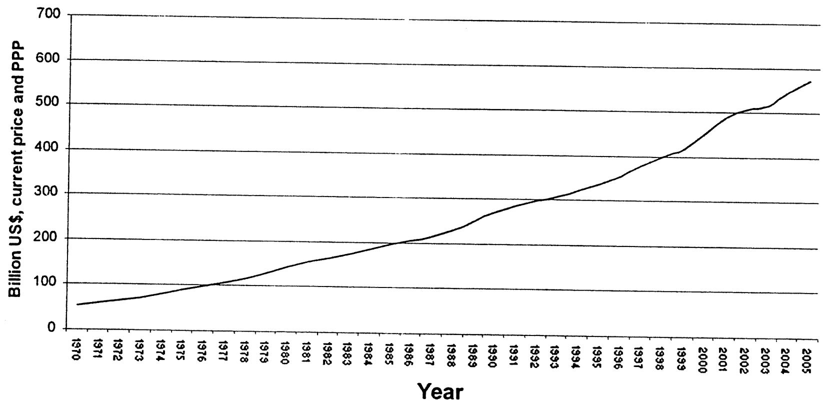
European Enlargement and the Netherlands' Economy

1. Trade Dimensions

From six member countries in the 1950s to 25 countries in 2004 and 27 countries in January 2007, the European Union has become one of the most dynamic regions in the world by implementing a single market and a single currency policy. The process of enlargement will continue. The new members mostly have come from the eastern part of Europe that was separated from the western part of Europe after the Second World War. The two parts had different ideologies: Communist and Democratic. New members of the EU need to fulfill three requirements. First, To implement a democratic regime; Second, To implement a market economy; Third, To have the administrative capacity to handle the rights and obligations of membership. Since 27 nations have become members of the EU, the EU has become one of the giant economies in the world and is important in stimulating world economic growth.

As can be seen from Figure 1, between 1970 and 2005, the Netherlands' GDP (Gross Domestic Product) increased by more than 11 times. The consistent increase in the GDP indicates improving standards of living and in terms of GDP per capita ranking in the world, the Netherlands was 15th (at PPP) in 2005 (*Wikipedia* 2007). According to the Social and Cultural Planning Office of the Netherlands or SCP (2001), in 1990, the Netherlands' GDP was 14% below the EU average but in 2001 it was 14% above the average. Further, in terms of GDP per capita, the Netherlands had the third highest after Luxembourg and Denmark (SCP 2001). Generally speaking, for more than three decades, the average annual growth of the Netherlands economy was about 2.6% (Figure 2). The highest economic growth was in the 1970s but after that the Netherlands did not reach 5% per annum. The Netherlands enjoyed consistent growth except in 1981 and 1982, when the economic growth was negative. This recession did not only affect the Netherlands' economy but also the world economies especially in the countries that depended on imported oil[3]. However, the Netherlands economy was quick to recover and in 1983 the Netherlands experienced positive economic growth. According to Huizinga et al (2002), in the medium term, the expected potential growth rate for Western Europe is projected at 2.25 to 2.50% per annum, which is not very different from the past 20 years. This also indicates that the magnitude of economic growth between the Netherlands and other Western European countries is not very different.

Figure 1. Netherlands' Gross Domestic Product



Source: *OECD Factbook 2007: Economic, Environmental and Social Statistics.*

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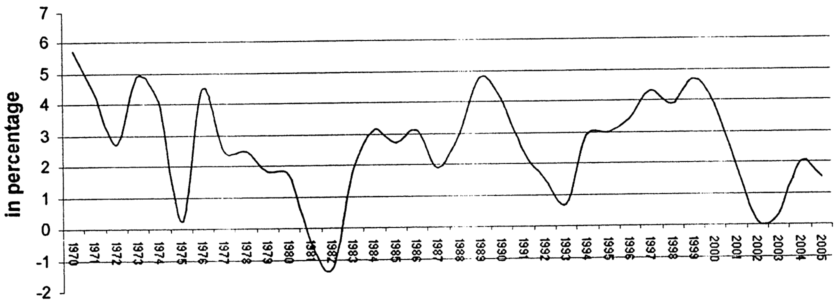
[3] There were two events that affected a raise in oil price. First, In 1980 there was the Iranian Revolution. Second, In 1981 there was an outbreak of the Iran-Iraq War (Barsky and Kilian 2004)

Figure 2. Netherlands' GDP Annual Growth



Source: *OECD Factbook 2007: Economic, Environmental and Social Statistics.*

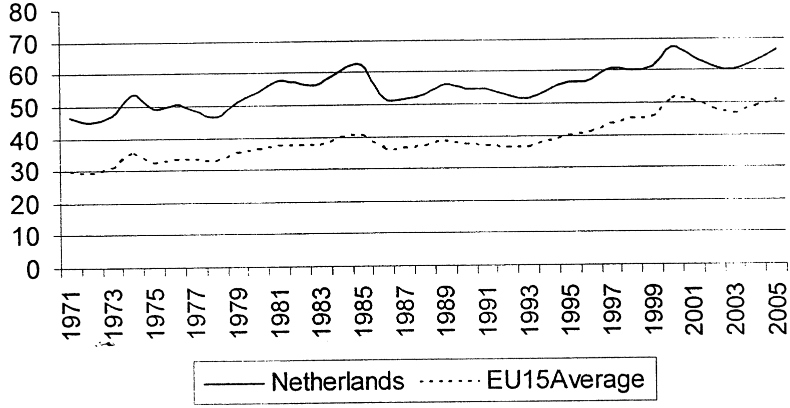
Integration with the European Union had positive impact not only on the Netherlands' economy but also on those of EU-15 and even of EU-27. According to some studies such as of Baldwin et al. (1997), Brown et al. (1997), the European Commission (2001), Lejour et al. (2004) and Breuss (2001) in Lejour et al. (2006), the static gain of EU enlargement on the GDP was from about 0.1 – 0.4%. As in Crespa-Curesma et al. (2002) in Lejour et al. (2006) it is said that the duration of EU membership has a positive effect on GDP growth per capita. There are two channels for economic gains from European enlargement according to Lejour et al. (2006). First, It increases the opportunities to trade; Second, It improves institutional capacity. Those channels can increase growth potential. The dynamic gain of EU enlargement can also be reflected in the change in economic institutions and productivity gains.

Like Lejour et al. (2006), Mooij (2000) argues that there are two effects of EU enlargement. First, Institutional change; and Second, Economic change. In terms of *institutional change*, there are four elements that need to be considered: The remaining barriers to trade and investment must disappear; There must be a Customs union where external tariffs must be equalized; There must be an internal market acquiescence to reduce Customs formalities, waiting times at borders and technical trade barriers; and free movement of people. *Economic effects* of the enlargement can be divided into three parts, namely, trade, foreign direct investment and migration. Mooij investigates the impact of additional membership of the EU from Central and Eastern Europe (CEE) and argues that the impact of EU enlargement was only modest. On the other hand, he points out that there could be problems with the enlargement, since, a lack of capacity of CEE governments can lead to problems in the functioning of the internal market; rigidity in the current institutional structure can slow down the future integration process; and unequal distribution of benefits and costs can raise problems in the budgeting issue.

As can be seen from Figure 3, the share of trade in the GDP was higher in the Netherlands than in the EU-15. This means the Netherlands' economy was more open than the average of EU-15. Lejour et al. (2006) argue that when the share of trade in the GDP increases by 1%, this can lead to a 0.7% increase in the GDP in the long run, given the openness of the new member states. Generally speaking, the difference between the Netherlands and the EU-15 was about 15% in terms of share of trade in the GDP. The share of trade in the GDP tended to increase and the pattern between the Netherlands and the EU-15 was similar. This reflects that both the Netherlands and the EU-15 had similar patterns, direction or preferences in intra and extra trade[4].

[4] Intra trade means trade within the region and extra trade means trade beyond the region.

Figure 3. Share of trade in GDP
(Trade in Goods and Services, in percentage)



Source: *OECD Factbook 2007: Economic. Environmental and Social Statistics*

Table 2 shows trade balance between the Netherlands and the intra and extra EU-25. The intra EU-25 trade balance was positive but the extra EU-25 was negative. This indicates, the Netherlands imported different products from those countries. It is possible to say that in terms of quantity, quality and variety of products imported from the intra EU these are more diversified than those from the extra EU. In terms of magnitude, the Netherlands' trade balance was positive because surplus intra EU-25 was larger than the deficit extra EU-25. Generally speaking, trade surplus and deficit tended to increase. The Netherlands' export intra EU-25 was larger than extra EU-25 and export intra EU was four times larger than extra EU. On the other hand, growth of import extra EU tended to increase and for the first time between 1998 and 2005, import extra EU in 2005 was larger than intra EU. This indicates extra EU-25 had become important to support the Netherlands' economy or the Netherlands had become dependent on extra EU-25.

Table 2. The Netherlands Trade Balance, Intra and Extra EU-25 Import and Export in (Mio Euro)

Year	Trade Balance		Intra EU-25		Extra EU-25	
	Intra EU-25	Extra EU-25	Exports	Imports	Exports	Imports
1995	35,056	-21,501	111,640	76,584	28,537	50,038
1996	39,715	-25,479	-	-	-	-
1997	47,251	-32,171	-	-	34,668	66,839
1998	50,359	-34,002	155,134	104,775	35,731	69,732
1999	57,282	-45,631	167,719	110,437	37,366	82,997
2000	79,131	-63,039	204,658	125,527	47,756	110,795
2001	84,378	-59,571	209,382	125,004	48,384	107,955
2002	79,250	-53,030	206,732	127,482	51,367	104,396
2003	81,677	-54,001	209,530	127,853	52,150	106,150
2004	92,508	-62,161	228,551	136,043	58,785	120,946
2005	115,499	-81,297	259,499	144,000	67,141	148,438

Source: External and Intra-European Union Trade, 2006

Table 3 gives more precise information on imported and exported products. In 1980, almost 24% of the Netherlands' imported products consisted of mineral fuels, lubricants and related products but in 2005, 34% of the Netherlands' imports were dominated by machinery and transport equipment. Further, the share of machinery and transport equipment in total imports increased dramatically in the Netherlands. This condition was similar to exports; in 2005 the Netherlands's exports were dominated by machinery and transport equipment. Thus, the Netherlands had become a net exporter of machinery and transport equipment. At the same time, the Netherlands experienced trade deficits both in mineral fuels and lubricants and related materials and manufactured goods classified chiefly by materials. The Netherlands experienced industrial deepening and used natural resources effectively to produce high value added products. Further, the Netherlands also became competitive in exporting chemicals. This can be seen from an increasing share of exported chemicals in total exports and also a raise in trade surplus.

Table 3. The Netherlands' Imports, Exports and Net Exports by Commodities

	Import		Export		Net Export (US$)	
Commodity	1980	2005	1980	2005	1980	2005
Food and live animals [SITC Rev.1 code 0]	11.3	7.3	17.1	11.0	4,022,255,616	14,534,894,100
Beverages and tobacco [SITC Rev.1 code 1]	1.4	1.1	1.6	2.1	105,941,184	3,647,494,521
Crude materials, inedible, except fuels [SITC Rev.1 code 2]	5.7	3.8	5.1	4.8	(570,473,472)	4,644,311,455
Mineral fuels, lubricants and related materials [SITC Rev.1 code 3]	23.9	15.4	21.8	11.7	(2,137,840,640)	(6,376,735,516)
Animal and vegetable oils and fats [SITC Rev.1 code 4]	0.8	0.8	1.0	0.6	93,317,504	(214,026,172)
Chemicals [SITC Rev.1 code 5]	8.7	13.5	15.7	17.3	4,948,188,160	17,243,043,859
Manufactured goods classified chiefly by material [SITC Rev.1 code 6]	15.9	10.6	13.6	9.3	(2,102,335,488)	(454,920,610)
Machinery and transport equipment [SITC Rev.1 code 7]	19.8	34.4	16.6	31.3	(2,854,043,648)	2,708,469,995
Miscellaneous manufactured articles [SITC Rev.1 code 8]	11.2	12.9	6.3	11.6	(3,861,188,608)	490,760,600
Commodities & transacts. Not class. Accord. To kind [SITC Rev.1 code 9]	1.4	0.1	1.1	0.3	(234,891,840)	682,834,385
Total	100.0	100.0	100.0	100.0	10,155,386,880	36,906,126,617

Source: UNSD Comtrade Database (Author's calculations)

Table 4 shows net export of SITC Rev 2 codes 71 to 79. There were four commodities that experienced a rapid increase in exports between 1980 and 2005, namely, machinery specialized for particular industries, general industrial machinery and equipment, nes and parts of nes, office machines and automatic data processing equipment and electronic machinery, apparatus and appliances, nes, and parts of nes. Those commodities had a significant impact on increasing net exports for codes 71 to 79. The commodities can be classified as knowledge based and capital-intensive products. Those commodities have a high added value thus a small increase in exports will have huge impact on increasing the reserve. At the same time, those commodities are based on metal as a raw material. From Table 3, it is clear that the Netherlands is quite strong enough to provide the raw material such as metal and some of the products manufactured are also exported to other countries. This indicates a strong linkage in those industries.

Table 4. Net Exports of SITC Rev 2 Code 71 to 79

Products	Net Export 1980	Net Export 2005
Power generating machinery and equipment [SITC Rev.2 code 71]	-390,027,200	-187,864,098
Machinery specialized for particular industries [SITC Rev.2 code 72]	-38,438,784	2,936,006,734
Metalworking machinery [SITC Rev.2 code 73]	-91,545,104	37,851,577
General industrial machinery and equipment, nes and parts of nes [SITC Rev.2 code 74]	-465,570,304	1,459,352,662
Office machines and automatic data processing equipment [SITC Rev.2 code 75]	-125,019,008	1,776,081,087
Telecommunications, sound recording and reproducing equipment [SITC Rev.2 code 76]	140,984,192	-2,004,570,817
Electronic machinery, apparatus and appliances, nes and parts of nes [SITC Rev.2 code 77]	-156,170,496	2,066,299,848
Road vehicles [SITC Rev.2 code 78]	-2,080,667,008	-3,912,098,735
Other transport equipment [SITC Rev.2 code 79]	573,056,192	710,648,437
Total	-2,633,397,520	2,881,706,695

Source: UNSD Comtrade Database (Author's calculations)

Tables 3 and 4 show that there was a transition in trade orientation. The Netherlands tended to export knowledge and capital-intensive products such as machinery and chemicals; supported by strong linkages within the domestic economy. As a result the Netherlands could gain from optimal trading. What is the implication? It is clear that the Netherlands has become less competitive in producing low tech and labour intensive products. Thus, the Netherlands needs to import from other countries both intra and extra EU-25. It is useful to analyze which countries would benefit because the new EU members Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia had comparative advantage in producing labour intensive products and at the same time, Indonesia, Thailand, India and China were also competing to enlarge their market shares in the EU market. For further analysis, the next section will apply an export similarity index for bilateral countries in the Netherlands market.

The Export Similarity Index measures similarity of any two countries' products exported to a third market. This is based on the reasonable assumption that if two countries produce and export similar products, then the level of competition will be intensified by opening up trade between the two. Thus the level of competition is determined by the magnitude of exports that are similar. The higher the Export Similarity Index between two countries, the greater degree of competition both countries may face, and vice versa. In 1979, Finger and Kreinin introduced another measurement of export similarity index, which was defined as the sum of smaller values of the two countries' shares of all products in their total exports to a third market[5]. To compute this index, an export share of each product to total exports of each country is required. This was intended to remove the scale effect when measuring the similarity index between a large country and a small country. But it seems that the Finger & Kreinin index measures the similarity of export structure. It does not reflect the degree of competition for exports of the two countries in a third market. The focus is placed on export structure rather than the absolute volume of exports.

[5] The Export Similarity Index was first introduced by MacDougall in 1952. The aim was to measure the similarity of British and American exports. The index was calculated from the ratio of the product elasticity of substitution between imports from two different sources to the aggregate elasticity of substitution of imports from those sources. However, the MacDougall index was not frequently adopted, because of its complexity in calculation.

Therefore, such an index would work well in the case where the sizes of exports are somewhat equal. Otherwise, it would not work as well. The index takes on a value between 0 and 100. 0 means export patterns are totally dissimilar and 100 means export patterns are totally similar. Finger & Kreinin export similarity index:

$$\pi_{jk} = \sum_{i-1}^{N}\left[\min\left(S_{ij}, S_{ik}\right)\times 100\right]$$

where :

S_{ij} = country j's share of export of product i to a third market in its total exports toward a third market and S_{ik} = country k's share of export of product i to a third market in its total exports toward a third market

Table 5. The Similarity Index between Indonesia, the EEC, China, Thailand and India in the Netherlands' Market in 2005

SITC	Indonesia and the EEC	Indonesia and China	Indonesia and Thailand	Indonesia and India
Agriculture [0+1+2+4]	13	4	9	12
Manufacturing [5+6+7+8+9]	43	46	41	42
All goods [0+1+2+3+4+5 +6+7+8+9]	56	55	50	59

Source: UNSD Comtrade Database (Author's calculations)

As can be seen from Table 5, bilateral competition between Indonesia and the other countries such as those in the EEC, China, Thailand and India was almost the same especially in manufactured products. On the other hand, for agricultural products the degree of similarity was quite low. The level of similarity tends to increase when all goods are included. Generally speaking, Indonesia has a higher degree of similarity with India in the Netherlands' market than the EEC, China and Thailand. It is important to note that in terms of distance, the EEC has comparative advantage, thus the EEC countries will have lower transportation costs than the other countries. Thus accession of the 10 EEC countries to the EU market will have better opportunity to obtain maximum benefits and this can crowd out the non EU countries especially if the products are similar in the EEC and the non EU countries. Table 5 also shows that by looking at the similarity index for all goods, it is clear that the structure of export of the countries is similar (or less divergent).

2. Investment Dimensions

According to the *European Union Foreign Direct Investment (FDI) Yearbook 2006,* the EU stock of extra EU FDI until the end of 2003 was about 1,976 billion Euro. It seems North America was a favourite FDI of the EU. Basically, extra EU outward stocks were characterized by an increased dominance of service activities such as trade, hotels, restaurants, transport, telecommunication, financial intermediation, business services, real estate services and other services, while the share of manufacturing tended to decrease[6]. As

[6] According to the European Commission (2006), in 2005 the EU-25 was the largest exporter and importer of services in the world. In terms of share of export and import of services in the world it was 28.3% and 24.7% and was followed by the US.

can be seen from Table 6, there were four member states of the EU that contributed about 54% of extra EU outward stock, namely, the United Kingdom, Germany, France and the Netherlands. The OECD (non EU) received more than 65% of extra EU investment. Asia became the second largest of the extra EU investment after the US. There was also growing interest in investing in China. The EU-25 investment in China was higher than in Japan and even in Africa, Canada and Australia. This means the growth of the Chinese economy lead to a good opportunity for investors from the EU-25 to develop businesses in China. It is also important to note that the Netherlands was the second largest investor in non OECD countries after the United Kingdom. Further, as can we see from Table 7, the EU outward and inward FDI stock was dominated by the service sector. The largest contributor to the service sector was financial intermediation, followed by business services. The manufacturing sector was the second largest receiver of FDI after services. Petroleum, chemicals, rubber, plastic products and food products were industries that the EU-25 was interested in. On the other hand, the EU-25 FDI stock aboard for textile and wood activities was relatively small. This indicates that investment from the EU-25 in the manufacturing sector focused on high value products based on high technology and information technology.

Investment patterns have implications on resource requirements. A developing country has limited resources especially in terms of skilled human resources and technology. It was expected that the EU-25 investment aboard would have a positive impact on technology and knowledge transfer to recipient countries. On the other hand, the EU-25 needs natural resources for material input. Thus in the future, many Asian countries will expect that more EU companies will invest because both parties will obtain maximum gains through collaboration. However, Asian countries need to develop a sound business environment and maintain their macroeconomic stability.

Table 6. Geographical distribution of EU-25 FDI Assets, four main contributors (at end-2003, EUR bn)

Stocks at End-2003	EU-25	UK	DE	FR	NL	Other EU
Extra-EU	1976	422	230	233	178	914
EFTA, of which	*307*	*34*	*18*	*26*	*38*	*191*
Switzerland	268	27	16	22	35	168
Other Europe, of which:	*151*	*37*	*9*	*4*	*7*	*93*
Russia	13	1	2	1	3	6
Canditates countries*	25	C	4	3	3	c
Africa	79	24	4	9	6	37
Northern America, of which:	*814*	*221*	*144*	*146*	*79*	*223*
USA	731	208	139	123	71	190
Canada	83	13	5	23	8	34
Central America	153	20	9	4	9	110
South America	101	11	6	9	7	67
Asia, of which:	*268*	*46*	*34*	*26*	*24*	*138*
Near and Middle East	15	2	1	3	3	6
Other Asia, of which	*253*	*44*	*33*	*23*	*21*	*132*
Japan	56	3	7	11	1	33
China (including Hong Kong)	93	13	10	4	5	62
Oceania, of which:	*61*	*26*	*6*	*4*	*7*	*19*
Australia	56	23	5	3	7	17
New Zealand	5	2	0	0	0	2
Not allocated	*42*	*3*	-	*5*	*0*	-
OECD (non EU)	*1288*	*289*	*198*	*191*	*133*	*491*
Non OECD countries	*646*	*130*	-	*38*	*44*	-

Note:
* Bulgaria, Rumania, Turkey and Croatia
- Missing values
c confidential
Source: *European Union Foreign Direct Investment Yearbook 2006.*

Table 7. EU Outward and Inward FDI Stock [i] (end-2003) by Economic Activity (EUR mn)

	Aboard		In reporting economy	
	Value	Percent	Value	Percent
1. Total	2,097,496	100	1,498,593	100
2. Agricultural, hunting and fishing	970	0.0	452	0.0
3. **Mining and quarrying**	124,130	5.9	28,104	1.9
4. Manufacturing	408,327	19.5	286,373	19.1
▪ Food products	70,571	3.4	36,517	2.4
▪ Textile and wood activities	39,089	1.9	46,007	3.1
▪ **Petroleum, chemical, rubber, plastic products**	115,702	5.5	96,553	6.4
▪ Metal and mechanical products	39,917	1.9	26,075	1.7
▪ Machinery, computers, RTV, communication	28,867	1.4	21,374	1.4
▪ **Vehicles and other transport equipment**	53,781	2.6	25,627	1.7
▪ Other manufacture	60,400	2.9	34,220	2.3
5. Electricity, gas, and water	48,581	2.3	9,091	0.6
6. Construction	13,873	0.7	7,500	0.5
7. Services	1,452,678	69.3	1,139,663	76.0
▪ Trade and repairs	104,843	5.0	79,576	5.3
▪ Hotels and restaurants	13,777	0.7	11,873	0.8
▪ Transport and communication	115,961	5.5	29,666	2.0
▪ **Financial Intermediation**	906,899	43.2	675,746	45.1
▪ **Business services**	257,811	12.3	302,216	20.2
▪ Other services	53,384	2.5	40,586	2.7
8. Other sectors	48,937	2.3	27,410	1.8

Note: i) FDI outward stocks are classified according to the activity of the non-resident enterprise. FDI inward stocks are classified according to the activity of the residents.

Source: *European Union Foreign Direct Investment Yearbook 2006.*

As can be seen from Table 8, between 2000 and 2004, the EU FDI flow to extra EU countries tended to fall from 437,044 million Euro to 114,951 million Euro. At the same time the flow of EU investment to Far East Asia tended to increase, although it had not reached the highest level in 2001. A dramatic rise in 2001 was mainly due to the China factor. In 2001, while the EU investment in India, Thailand, Malaysia, Indonesia, South Korea and Taiwan decreased, the EU investment in China, Singapore and the Philippines increased with China experiencing the highest increase. Among the ASEAN 5 (Thailand, Malaysia, Indonesia, Singapore and the Philippines), Singapore received the highest proportion of the FDI flow. This was mainly driven by the characteristics of Singapore as one of the developed countries in the world. Singapore attempts to develop a modern service sector as a basis for economic growth. Many developed countries in the EU-25 looked at this a an opportunity to expand their business activities with more emphasis on service sectors such as trade, hotels, restaurants, transport, telecommunication, financial intermediation, business services, real estate and other services.

Table 8. EU FDI outflow to Far East Asian Countries, 2000-2004
EU-25 for 2001-2004, EU-15 for 2000 (EUR mn)

	2000	2001	2002	2003	2004
Extra-EU	437044	306140	133897	135512	114951
Far East Asia	9892	64767	18227	15055	22115
of which					
India	733	353	1075	657	1076
Thailand	1534	-398	517	365	243
Malaysia	468	-647	308	-192	940
Indonesia	740	121	-434	1077	158
Singapore	-1003	9647	7669	3223	3111
The Philippines	280	378	-78	-181	265
China (including Hong Kong)	-936	51408	6417	6111	11307
South Korea	3182	1143	1642	3002	1390
Taiwan	2258	1182	435	100	1072
NICs1	1072	61088	13058	9439	13912
NICs2A	2278	-666	744	-5	1452
ASEAN	2220	9535	7641	4896	4574

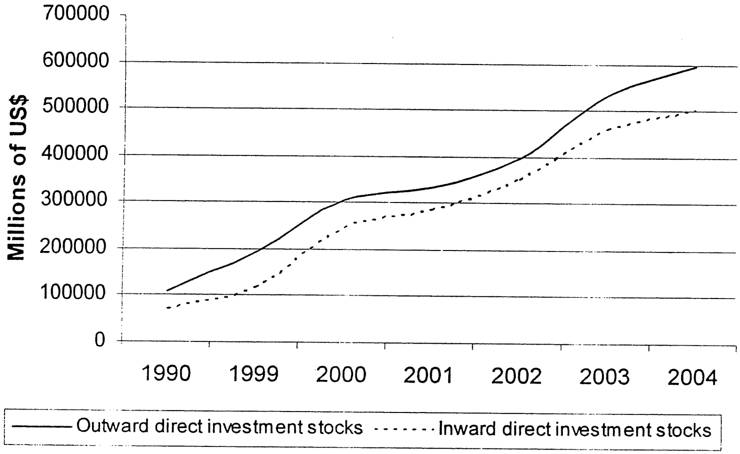
Note:
NICs1=the Core Newly Industrializing Countries (Hong Kong, South Korea, Singapore, Taiwan)
NICs2A=Asian NICs of the second wave of industrialization (Malaysia, the Philippines, Thailand)
ASEAN= Association of the South-East Asian Nations (10 countries)
Source: *European Union Foreign Direct Investment Yearbook 2006.*

The Netherlands

Figure 4 shows that there was a similar pattern between outward and inward FDI stock in the Netherlands. In terms of scale, the outward direct investment stocks were higher than the inward direct investment stocks. Between 2000 and 2002, the growth rate of outward and inward direct investment stocks was lower compared with the previous years. This indicates, during that period a flow of new or expanded FDI was quite moderate. However, after 2002, the trend of FDI stocks tended to increase. As can be seen from the figures, in 2004, the stock of outward direct investment was almost US$ 600 billion, while the inward direct investment stocks was about US$ 500 billion or it increased more than 5 times compared with 1990. The dramatic increase in FDI stocks reflects that a return on investment both inside and outside the Netherlands was quite high. As a result, investors tended to invest more. Generally speaking, an increase in the FDI also reflects a favorable investment climate.

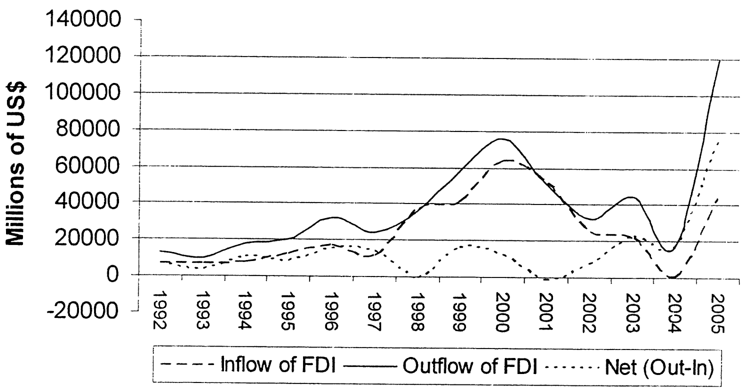
Basically, Figures 4 and 5 are highly correlated. It is clear that when the inflow and outflow of FDI increased, stocks of FDI also increased. A rapid flow of FDI happened between 1997 and 2000 when the flow of FDI increased more than four times. However, growth of FDI reached the bottom in 2004, with even an inflow of FDI almost zero at that time. It seems that in 2005, the flow of FDI began to recover. In short, although the flow of FDI tended to fluctuate, in terms of stock FDI it tended to increase.

Figure 4. Netherlands' FDI Stock



Source: *OECD Factbook 2007: Economic, Environmental and Social Statistics.*

Figure 5. FDI Inflow, Outflow, Net Outflow in Netherlands



Source: *OECD Factbook 2007: Economic, Environmental and Social Statistics.*

As can be seen from Table 9, in terms of EU FDI outwards stocks, China was the largest recipient of EU FDI. However, in terms of individual EU countries there were some variations. For example, in the case of the United Kingdom and the Netherlands, Singapore was the largest recipient of FDI but in the case of Germany, France and Italy, China was the largest recipient of FDI. The Netherlands was the third largest FDI investor in Far East Asia after the United Kingdom and Germany. Hong Kong, South Korea, Singapore and Taiwan were Newly Industrializing Countries. Most of the EU FDI outward stock stayed in those countries. It is important to note that the richer a country is the more investment it will obtain. This is because when a society becomes more modern, the demand for a high quality service sector becomes the greater. This is an opportunity for more advanced countries to provide it.

Table 9. EU FDI Outward Stocks in Far East Asia at the end of 2003 (EUR mn)

	EU of which	The United Kingdom	Germany	The Netherlands	France	Italy	Other MS*
Far East Asia	197715	41183	25478	19681	11656	2211	97506
of which							
India	6570	2158	1598	721	632	368	1093
Thailand	8798	1911	1032	774	883	63	4135
Malaysia	6312	1636	1370	884	235	117	2070
Indonesia	6460	1852	971	921	711	98	1907
Singapore	44638	14147	4995	5196	3364	268	16668
The Philippines	3322	829	353	710	191	39	1200
China (including Hong Kong)	92396	12795	10130	4688	3715	1017	60051
South Korea	15357	1959	4067	2714	979	115	5523
Taiwan	5351	1063	414	2114	196	43	1521
NICs1	137878	26999	12652	12950	6012	909	78356
NICs2A	18433	4376	2756	2369	1309	218	7405
ASEAN	71563	20850	8775	9060	5839	622	26417

Note:

NICs1=the Core Newly Industrializing Countries (Hong Kong, South Korea, Singapore, Taiwan)

NICs2A=Asian NICs of the second wave of industrialization (Malaysia, the

Philippines, Thailand)
ASEAN= Association of the South-East Asian Nations (10 countries)
OtherMS (other member states) has been computed as the difference between the estimated EU aggregate and the sum of the selected reporting countries.
Source: *European Union Foreign Direct Investment Yearbook 2006.*

Tables 10 and 11 provide useful information on the distribution of FDI according to region and industry. Up to 2003, FDI stocks in the Netherlands were dominated by developed countries, mostly from Western Europe. This indicates a tight dependency between the Netherlands and the Western European economies. Developing economies contributed less than 9% of FDI stocks to the Netherlands with most of them from Latin America and the Caribbean. About 65% of FDI stocks in the Netherlands were in the service sector. This is also the reason why most FDI stocks were owned by developed countries. By comparing Tables 10 and 11, there are three conclusions. First, The Netherlands experienced net outflows of FDI; Second, There was a similar result in the patterns of primary and secondary sectors. Both foreign investors and the Netherlands tended to invest more in the primary sector than in the secondary sector especially in mining, quarrying and petroleum; Third, In terms of magnitude of investment, Central and Eastern Europe received higher investment than Asia. FDI stock aboard in Asia was dominated by primary and secondary sectors, while in Central and Eastern Europe it was dominated by the tertiary sectors such as trade, transport, storage, communication and the financial sectors.

Table 10. FDI Stocks in the Host Economy, by Industry and Geographical Origin, 2003 (Millions of Euro)

Region/Economy	Total	Primary	Secondary	Tertiary
Total World	343158	68986	51607	222566
Developed Countries	301476	49497	49820	202159
Western Europe	231385	39224	39528	152633
North America	57308	10107	7693	39508
Other Developed Countries	12783	166	2599	10018
Developing Economies	30098	17012	1044	12042
Africa	301	154	2	145
Latin America and the Caribbean	27694	16815	783	10096
Asia	2103	43	259	1801
Unspecified	11584	2477	743	8365

Source: UNCTAD WID Country Profile Netherlands (Posting Date 19 September 2005)

Table 11. FDI Stocks aboard, by Industry and Geographical Origin, 2003 (Millions of Euro)

Region/Economy	Total	Primary	Secondary	Tertiary
Total World	430998	96820	73967	260211
Developed Countries	344505	71459	55361	217685
Western Europe	270349	60237	34933	175180
North America	73041	10873	20161	42006
Other Developed Countries	1115	349	267	499
Developing Economies	40512	14292	11368	14853
Africa	5349	3651	710	989
Latin America and Caribbean	17415	4623	4701	8090
Asia	17748	6018	5957	5774
Central and Eastern Europe	18083	2871	4316	10897
Unspecified	27898	8198	2922	16776

Source: UNCTAD WID Country Profile Netherlands (Posting Date 19 September 2005)

Conclusion

The degree of economic integration can be measured by international trade and foreign direct investment. This Chapter discusses who would benefit from the EU enlargement. There are two approaches used in this study. First, is the direct impact of the EU enlargement on the Netherlands economy and Second, is the indirect impact of the EU enlargement on Asian countries through a third country, namely, the Netherlands. This study shows that theoretically EU enlargement will benefit not only new members but also old members. Newcomers will benefit from investments and access funding. On the other hand, old members will have market access to the new members. Certainly there is a possibility for negative side effects of economic integration especially its impact on lives and job security.

There are nine reasons for choosing the Netherlands in this study with the two most important ones: First, The Netherlands is quite intense about having interaction with intra EU countries. Second, The Netherlands was a pioneer in developing the European Community. The Netherlands has shown remarkable economic progress over the last two decades. EU enlargement will give static and dynamic gains to the Netherlands such as increases in trade opportunities, improvements in institutional capacity and rises in productivity gains. The data shows that the share of trade in the GDP is higher in the Netherlands than in the EU-15. This means that the Netherlands' economy is more open than the average of EU-15. This is an opportunity for the Netherlands to obtain a more rapid increase in the GDP. By analyzing the patterns of trade we can conclude that the Netherlands has experienced industrial deepening and used natural resources effectively to produce high value added products. Further, there was also a transition in trade orientation. The Netherlands tended to export knowledge and capital- intensive products such as machinery and chemicals; supported by strong linkages within the domestic economy. As a result, the Netherlands could gain from trading optimally.

Can Indonesia reap full gains through competition in the EU market? Bilateral competition between Indonesia and the other countries such as those in the EEC, China, Thailand and India are similar especially in manufactured products. The analysis shows Indonesia has a higher degree of similarity with India in the Netherlands' market than the EEC, China and Thailand. However, it is possible that access of the10 EEC countries to the EU market will give them better opportunity to obtain maximum benefits and this can crowd out non EU countries especially if the products are similar between the EEC and those non EU countries. This is because the EEC countries have comparative advantage in terms of transportation costs and the single EU market.

Next, extra EU FDI outward stocks were characterized by an increased dominance of service activities such as trade, hotels, restaurants, transport, telecommunication, financial intermediation, business services, real estate and other services, while the share of manufacturing tended to decrease. In other words, investment in the manufacturing sector focused on high value products and was based on high technology and information technology. This caused the EU FDI outward, mostly to rich countries. Data shows that there was also a growing interest in investing in China and the EU investment in China was higher than in Japan and even in Africa, Canada, and Australia. This was because rapid economic growth in China would bring high returns on investment and the business environment in China was quite sound especially in proving good macroeconomic policy and infrastructure (*World Competitiveness Indicator 2006*).

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Chapter 5
European Integration and the Netherlands

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Introduction

'God made the earth, but the Dutch made the Netherlands'. This phrase perfectly illustrates the Dutch attitude towards their country. An attitude set against a backdrop of both the geography of the country and the Dutch sense of being wedged between larger, more powerful states of Europe (Rochon 1999). In other words, the Dutch have always considered it important to have good relations with their larger neighbours. A historian, Andreas Hoogerwerf (in Rochon 1999: 2) wrote on Dutch politics for a Dutch audience: 'We are strongly dependent on developments with our trading partners and on the world market. We experience the political and economic influence of the United States, Eastern Europe, Japan and the Third World. We feel the influence of policies determined in the European Community, NATO, the United Nations and multinational corporations'. Therefore, the involvement of the Netherlands in regional and global relations has a long tradition. The Dutch are quite conscious that their prosperity and security are dependent on economic developments in other countries and in international organizations. As a trading society and nation, the Dutch have undergone historical experiences which serve as central aspects, namely, pragmatism and flexibility, which are needed for their survival in a changing environment (Rochon 1999).

The involvement of the Netherlands in the European Union

(EU) started at the inception of EU more than half a century ago. The first efforts began with the agreement to create the European Coal and Steel Community in 1951. In 1957, six European states, including the Netherlands, established the European Economic Community (EEC). The acceleration towards the establishment of the EU was, among others, backed by the sharp upward inclination of the economies of Japan and the United States which drove the European leaders to affect the idea of Europeanization into a Union. In December 1991, EU leaders agreed to set up the European Union (EU) based on the Maastricht Treaty. Recently the membership of the EU became larger with new member states joining in.

Who will benefit from the EU enlargement, however, is a problem. As a country that strongly backed the EU enlargement, the position of the Netherlands is clear. However, how the Dutch public supports the process of integration is a crucial question. This paper tries to answer these questions in three sections. The first section is an overview of European integration theories and an investigation of the problem of these theories in favour of regionalization and globalization; The second section discusses the issues in terms of the European integration process; and The last section discusses the public support of European Integration issues in the Netherlands, especially in the case of the rejection by the Dutch citizens of the European Draft Constitution.

Theorizing European integration

At the theoretical level, European studies scholars discuss theoretical construction in order to understand European integration. What is called 'theory' is necessary if we are to understand the phenomena. In Gerry Stoker's words, theory 'helps us to see the wood for the trees' (in Rosamond 2000: 4). In line with this statement, first, we need to define 'integration'. According to Haas (in Rosamond 2000: 12), integration is 'the voluntary creation of larger political units involving the self conscious eschewal of force in relations between participating institutions'. Elsewhere, Haas adds it is:

> the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions posses or demand jurisdiction over pre-existing national states. The end result of a political integration process is a new political community, superimposed over the pre-existing one. (in Rosamond, 2000: 12)

Discussion on the European integration theory has attracted many scholars to understand the process of integration and to predict its future. Briefly, there was a classical debate in international relations literature in terms of European integration between 'neo functionalism' and 'neo realism' theorists. Neo functionalist theory was developed by Ernst Haas who sought to explain: 'how and why they (states) voluntarily mingle, merge and mix with their neighbours to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflict between themselves' (in Bache 1998: 17). He argues that the driving forces of the European integration process are non- state actors rather than nation states. The non-state actors are composed of domestic social interests (such as business associations, trade unions and political parties) and the European institutions, which have the power to promote their interests into the process that is represented in the polity. In contrast, the second theoretical camp, 'neo realism', argues that the driving forces of European integration are European nation states. According to its proponents, national security and sovereignty issues still had important roles in the polity (Hix 1999: 14-15).

The classical debate mentioned, however, is still under the Westphalian nation state system. Recent theories of European integration emphasize a linkage in terms of transnational interdependence. It means that state and non-state actors alike become interrelated across three levels of political institution: at a global cooperative process, at a regional institutional level like the EU and at a traditional national level (Coleman and Underhill 1998). In line with this, Andrew Moravcsik argues that there is a need to formulate a new way to study European integration. Adapting previous debate between neo functionalist and inter governmentalist, Moravcsik has developed a theory he calls 'liberal intergovernmentalism'. The main argument of the theory is that integration results from a compromise between 'demand' and 'supply' within the realms of foreign policy formation; inter-state bargaining and institutional delegation. The compromise works at two stages. While the first stage is a demand for European integration from domestic and social actors, at the second stage the European integration is supplied by intergovernmental bargains such as treaty reforms and budgetary agreements. In contrast with previous theories, however, the logic behind the state in the Moravcsik argument is economic rather than geopolitical interests, while state preferences are not fixed depending on the winner in the domestic political contest and inter state bargaining can produce a positive outcome.

From a more sociological and anthropological approach, there are theories which look at the integration process from the level of everyday political life. One of the theories is known as 'social constructivism'. Introduced by Anthony Giddens, the theory opens new paths to scholarly work that emphasizes socialization and the social construction of reality. At the methodological level, social constructivism emphasizes the symbolic aspects of European integration, discourse and more generally, the power of words to construct (to simplify a great deal again) two distinctive political ontologies relative to Europe, that of a Europe as a nation state and that of Europe as a transnational process (in Kauppi 2003)

Piere Bourdieu (in Kauppi 2003) conceptualized social constructivism which emphasizes the agency. There are several important terms in Bourdieu's theory: field, capital, and habitus. What is the so-called field is a relative autonomous sector of social activity. By capital, Bourdieu means social resources. Each field has its dominant 'habitus', a culture of an internalized set of principles of actions and of evaluation. In terms of the EU, the Bourdieu theory can be used to look at political agents in their attempts to monopolize the legitimate means of manipulating the social world. In this regard, the dominant party in a political arena is determined by its capital to influence the public sphere.

In short, recent theories on European integration intend to relate the EU phenomenon in terms of its response to regionalization and globalization. The relationship between the development of the global market in many sectors and evident steps towards a greater and a more institutionalized economic integration at a regional level in the world economy, however, is less clear. There is a need to look for a way to combine some of these insights to see European integration, especially since the mid-1980s, in terms of the dilemmas of nation states which on the one hand, are emasculated by the forces of globalization and on the other hand, overloaded by demands from domestic arenas. In Wallace's terms:

> European integration can be seen as a distinct west European effort to contain the consequences of globalization. Rather than be forced to choose between the national polity for developing policies and the relative anarchy of the globe, West Europeans invented a form of regional governance with polity-like features to extend the state and to broaden the boundary between themselves and the rest of the world (in Rosamond, 2000: 183).

In this regard, Giddens' and Bourdieu's arguments might also be used to think about how knowledge about globalization is socially constructed within the EU policy and how this in turn might promote particular policy possibilities while downgrading others. It is clear that more sociological and anthropological insights are needed to look at public opinion and how the opinion is constructed among citizens.

Reality is, however, eventually more complicated than theory. European integration may well be a totally unique enterprise without either historical precedent or contemporary parallel but is a ready source for comparative study in some of the most energized and lively social science currently going on. It is clear that a grand theory of European integration will not exist. What is the so-called 'theory' has a sphere and is time specific. In Robert Cox's (in Rosamond 2000: 194) terms:

Theory is always for someone and for some purposes. All theories have a perspective. Perspectives derive from a position in time and space, specifically social and political time and space. The world is seen from a standpoint definable in terms of nation or social class, of dominance or subordination, of rising or declining power, or a sense of immobility or of present crisis, of past experience, and of hope and expectations for the future. Of course sophisticated theory is never just the expression of a perspective. The more sophisticated a theory is, the more it reflects upon and transcends its own perspective; but the initial perspective is always contained within a theory and is relevant to its explication. There is, accordingly, no such thing as theory in itself, divorced from a standpoint in time and space. When any theory so represents itself, it is the more important to examine it as ideology, and to lay bare its concealed perspective

The European Integration Process

European integration as an institution started in the early 1950s as both a political objective and an economic tactic which collaborated to respond to the postwar world. The first effort was begun with an agreement to create the European Coal and Steel Community (ECSC) in 1951 with its political purpose, as quoted according to the Treaty of Paris by Gilpin (2000: 194), 'to substitute for age-old rivalries the merger of their essential [economic] interest.' In 1957, six European countries, composed of France, the Federal Republic of Germany, Italy, Belgium, Luxembourg and the Netherlands, signed the Treaty of Rome which led to the establishment of the European Economic Community (EEC/Common Market). The movement for European integration was speeded up by the Maastricht Treaty in December 1991 which approved the Treaty on European Union (EU). In describing the purpose of the treaty, Helmut Kohl, the German Chancellor, said, 'We want a treaty that makes it clear that economic union, currency union and political union are irreversible.' (Gilpin 2000: 198).

The movement towards a greater European economic and political unification, however, is far from being a success. The enlargement of the European Union (EU) apparently worked only on the surface level, with only national public leaders, business leaders and EU civil servants participating in it. European public opinion has been either hostile to or at least unprepared for the increasingly ambitious steps being taken towards a unified European political and economic structure (Gilpin 2000: 215). According to Warleigh (2003: 3-6), the European integration process, mainly in polity, is still more formal than substantial. Generally speaking, there is a problem called 'deficit democracy' in dealing with the lack of public support in the policy-making process in the EU. Civil Society in Europe in many cases even expressed a rejection of EU enlargement (Laursen 1999). Furthermore, these tendencies pushed debate on how to balance EU policies and national interests of the EU members, at least in the case of approval or rejection of the European Constitution among some of the EU members.

The acceleration to greater integration was speeded up in the 1980s. The stagflation and 'Eurosclerosis' in the 1970s on the one hand and the increases in both Japanese and the United States economies on the other, have provided the impetus for European leaders to articulate the idea of Europeanization into a Union. Started by the European Commission White Paper that published reports in 1985 to largely advocate an internal market, the acceleration towards a European Union found its momentum in the Maastricht Treaty in December 1991. Formerly, the White Paper proposals were incorporated into a Single European Act in 1989 and became the foundation for the creation of the Economic and Monetary Union (EMU). European leaders believed that this acceleration would revitalize the European economy to compete with Japan and the United States.

As well, the EU is part of the rising regional economic phenomenon. Its appearance is regarded as a response to an integrated global economy. In this sense, there are many arguments to regard regional economy in terms of globalization. In economic terms, some reveal that the EU has diluted the efforts of multilateral negotiations to dismantle barriers in economic terms and to have a significant impact on the distribution of global wealth in wider terms. As argued by Gilpin (2000: 193), the regional economy could entail maintaining or even raising barriers to restrict the access from an outside to an inside market. Each regional economy bloc imposes certain matters which in terms of globalization threaten to be highly discriminatory. The problems posed by this are serious.

The issues of national interest are crucial in dealing with the notion of globalization. Although treaties in the process of EU enlargement were intended to remove the barriers, this was only valid among the EU members. The impact of the EU on non-members is less clear. The question on whether or not the EU will open to trade and investment from non-member countries has became more crucial as European integration has both deepened and widened. In the Common Agricultural Policy (CAP) issue, for example, some agree that the CAP does discriminate against non-members. In wider areas, like the trading system, however, no consensus exists among economists on the impact of the EU (Gilpin 2000)

In political terms, the EU is a unique experiment. Some scholars have tried to define the EU outside the mainstream of political theories. Some of them say that the EU cannot be defined as a 'state' in the traditional Weberian meaning. Although the EU has the power as a political system, the national governments of the EU states still maintain exclusive prerogatives. So, the EU does not have a 'monopoly on the legitimate use of coercion.' While the early theorists, for example, Bertrand Badie and Pierre Birnbaum, said that a political system could not exist without a state, the later theorists reject this argument by saying that: '... the state should rather be understood as a unique phenomenon, an innovation developed within a specific geographical and cultural context... Hence, it is wrong to look upon the state as the only way of governing societies at all times and all places.' (Hix 1999: 4)

The historical context of the state in terms of the EU is quite different. In traditional political theories, the state is a product of the sixteenth and mid-twentieth centuries in Western Europe where the government still controls the politics, while the EU is a product of the late twentieth century of Europe where the control of state apparatus has decreased. The power of the EU is based on the voluntary commitment of the member states and their citizens and relies on sub organizations (of the existing nation states) to administer coercion and other forms of state power. In addition, whereas the state works at a high level of centralization, differentiation, universality and institutionalization, the EU works in a political system that is highly decentralized and atomized.

In the politics of the EU, the non-state actors have a significant role in influencing the policy making process. At least there are two non-state actors, often called 'intermediary associations', namely, political parties and interest groups (Hix 1999: 7). As a part of a modern democratic political system, political parties in each European country compete to win the election for national government office on one hand and represent their duty in the EU institutions on the other. Interest groups are voluntary associations of individual citizens or other private actors with an agenda to promote or protect the interests of their members in the political process. Besides lobbying the national government and the EU institutions, interest groups also give funds to political parties to represent their views.

Table 2. Chronology of European Integration

1951	The Treaty of Paris establishes the Coal and Steel Community;
1957	Treaty of Rome establishes the European Economic Community (EEC, or Common Market), composed of the six original member nations (Belgium, France, the German Federal Republic, Italy, Luxembourg and the Netherlands);
1962	The European Commission sets the goal of monetary unity;
1966	
1967	The Luxembourg Compromise establishes primacy of 'vital national interest' claims as a limitation of EEC powers;
1968	Integration of European institutions to form the European Community (EC), thus replacing the EEC;
1969	The Hague summit calls for economic and monetary unity;
1970	The Werner Plan proposes European monetary unity;
1973	Denmark, Ireland and the United Kingdom join the EC, increasing the six members to nine;
1979	The beginning of the European Monetary System (EMS), including the Exchange Rate Mechanism (ERM) of loosely fixed rates;
1981	Greece joins the EC, raising the membership of nine to ten;
1985	(June) The European Commission publishes a White Paper proposing completion of the internal or single market;
1985	(December) Commission White Paper proposals are encapsulated into the Single European Act;
1986	Portugal and Spain join the EC, raising the membership to twelve;

1987 (July) The Single European Act comes into force;

1989 End of the Cold War;

1989 (April) Publication of the Delors Plan for creating the European Economic and Monetary Union (EMU), including a single currency and the European Central Bank;

1989 (June) The Madrid summit sets July 1, 1990, as the beginning of stage one of the EMU;

1990 German reunification;

1991 (December) The Maastricht Summit approves the Treaty of European Union (Maastricht Treaty), agrees to create a single currency (Euro), and sets a three-stage timetable to achieve the EMU;

1992 (June) The Danes reject the Maastricht Treaty;

1992 (September) the French approve the Maastricht Treaty by a narrow margin and England drops out of the FRM;

1993 (May) the Danes approve the Maastricht Treaty in a second referendum;

1993 (September) the Maastricht Treaty comes into force, creating the European Union (EU);

1994 (January) Beginning of the second stage of the EMU;

1995 (January) Austria, Finland and Sweden join the EU, increasing the twelve members to fifteen;

1995 (December) The Madrid Summit confirms January 1, 1999, as the beginning of stage three, the final move toward the Euro and the EMU;

1996 (December) the Dublin Summit agrees on the stability and Growth Pact;

1999 (January) Beginning of the third and final stage towards EMU;

2002 The Euro is fully enshrined as Euroland currency ;

2004 The Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia join the EU, raising the fifteen to twenty five;

2007 Rumania and Bulgaria join the EU.

Source: Compiled by author

The Netherlands: Growing Public Hesitation

The role of the Netherlands in the European integration process cannot be separated from its foreign policy tradition. The history of the Dutch foreign policy reveals a remarkable recurrence of policy themes and priorities, such as in commercial policy, non-involvement in power politics, economic liberalism and internationalism. These traditions were categorized by scholars as: maritime commercialism, anti continentalism, neutralist abstentionism and internationalist idealism. In a subsequent phase, one category changed. Neutralist abstentionism was discarded when the Netherlands joined NATO. However, the main aim of the Dutch European policy was and had to be, an increase of European economic cooperation and later, integration, so as to safeguard Dutch economic growth, full employment and welfare policies. In summary, economic interests and considerations have consistently been the basic motives behind the Dutch Euro-policy (Van der Harst and Wiberg 1996)

In domestic politics, the Netherlands had several characteristics. Hoetjes (1996: 155-157) reveals some. First, there was the notion that 'the government belongs to us'. The Netherlands citizens considered themselves in charge of their government.

Policies were the result of negotiation and compromise. Therefore, the government had a strong base of support but there was always the risk of opposition and defiance; Second, There was a strong sense of privacy, 'the pillarization' or '*verzuilling*' in the Netherlands terms, with the result that the intervention of the government was limited; Third, Related to the characteristics mentioned above, the culture and structure of the Dutch governmental system showed some striking paradoxes.

However, the Netherlands response to global economy is clear. Thrift (1994) demonstrates it in four examples: First, the high level of export orientation of many Dutch firms, which was partly the result of both the small size of the Dutch domestic market and a long tradition of exporting; Second, the large number of multinational corporations in the Dutch economy, both foreign and Dutch; Third, the position of the Netherlands as a 'transit region' for international trade, based on its seaports (especially Rotterdam), its airports (especially Schiphol), its road, rail and waterway links and the whole infrastructure and companies associated with these points and lines of transit; the role of the Netherlands as a centre for financial and business service, especially Amsterdam; and Fourth, The role of the Netherlands as part of an international social structure, realized in the position of many Dutch cities as international transit cum cultural hubs and the importance of cities like Amsterdam as a meeting place for the transnational class.

Nevertheless, there is little debate about European integration in the Netherlands. Sometimes issues on European integration attract attention but more personalized stories rather than policy problems. The Dutch have awareness on crucial issues such as immigration or something that is related to everyday life issues. However, the Dutch culturally have a strong interest in things from abroad and a certain underestimation of domestic products, tradition or even the language. There is a Dutch saying: 'what comes from far away is better' that represents the Dutch self-image and implies a strong outward orientation. Recently, slogans that illustrate the Dutch cultural attitude such as 'trade ignores boundaries' and 'money never stinks' have appeared in public gossip as a sign representing that international economic contacts have a high priority, whereas political loyalties or divisions play second fiddle (Hoetjes 1996: 172-173)

The most crucial issue in terms of European integration is economic. It has even been a central motivation for European integration since its inception. The public support for European integration is determined by the economic perceptions of citizens. The case of the Danish and Norwegian rejection in a referendum of EU membership in 1992 indicated it, although the Danes eventually approved the Maastricht Treaty in a second referendum in May 1993. What is the so-called economic perception is a subjective thing, its causes conditioned by a political communication process among a variety of actors. In fact, citizen perception of the economy may be inconsistent with the objective economic reality (Gabel and Whitten 1997).

Surveys during the decades of the 1960s until the 1980s show public opinion trends among the Dutch towards the European integration process. In the 1960s, only 5-10 % of the population opposed EEC (European Economic Community) membership, and 70-80 % was clearly in favour. In the1970s and 1980s, the trends did not change. According to a Eurobarometer survey, public opinion in the Netherlands is most consistently pro-EU in the Union. In 2004, 64% of the population regarded EU membership as a good thing, compared to a 48% average in the EU of 15 (Andeweg and Irwin 2005: 210).

According to Hoetjes (1996), comparative public opinion surveys during the decades of the 1960s until the 1980s show a moderate interest among citizens in EC affairs. In the 1960s, only 5-10 % of the population opposed EEC membership and 70-80 % was clearly in favour. In the 1970s and the 1980s, this did not change with most Dutch people quite positive about the EC with little concern about the loss of sovereignty. In instrumental terms, a large majority (more than two-thirds and growing) of Dutch citizens thinks that EC membership has more advantages than disadvantages, and helps to solve problems. Hoetjes, furthermore, notes that an analysis of Dutch opinion during these decades makes it clear that support for the EC/EU is not clearly related to age, sex, socio-economic status or occupation. In terms of political parties, the four larger parties: (Labour (PvdA), Christian Democrats (CDA), Liberal-Left (D'66) and Liberal-Right (VVD) are in favour of the EC/EU; only among the rightist voters (orthodox Protestant, centre-democrats) and in the Green Left there is clear opposition to the EC/EU.

For a trading nation like the Netherlands, the removal of trade restrictions is very beneficial, in fact, essential, to its prosperity. The Netherlands where 55% of the GNP consists of exports, has always maintained an attitude towards European integration. The integration process remains important for economic development through exports to the other EU member-states. Based on the Netherlands Ministry of Finance Report in 1995, for instance, about 80% of all Dutch exports went to the 12 member-states that at the time made up the EU (Ben Soetendorp and Kenneth Hanf 1998: 36).

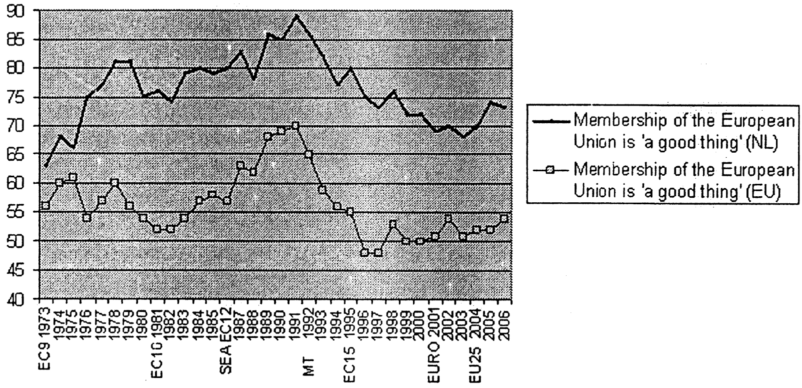
The consequence of this fact is that the Dutch government has always been a strong supporter of the expansion of European integration. In terms of institutional capacity, the mainstream political parties propose to strengthen the supranational institutions. In the view of the Dutch political elite, a powerful European Union is needed as a safeguard for small states against the formation of an informal directorate of the larger state. Only some politicians from the right and the left of the political spectrum have expressed opposition to European integration. The opposition arguments were more economical than political.

However, in recent years, some policy-makers in the Netherlands have begun to have doubts regarding the benefits of further integration. Besides the issue on the loss of national sovereignty in the political field, the crucial problem is the unbalanced country payments to the EU that are higher than its share in receipts from the EU budget. Particularly under the Common Agricultural Policy (CAP), until 1990, the Netherlands had been a net earner from the EU, receiving more in subsidies than it contributed. The enlargement changed the Netherlands' position; connected to the growing importance of the Structural Funds at the expense of the Common Agricultural Policy. As a consequence, the Netherlands became a net contributor and has even become the largest net contributor in percentage of its GNP: 0.71% in 1997 (Andeweg and Irwin 211). Thereafter, in relative terms, the Netherlands shifted from net receiver to net contributor to the EU, after Germany. In the agricultural sector, for instance, the Netherlands dropped from a net receiver of over 2. 5 billion Guilders in 1988, to a net contributor of almost 1 billion Guilders in 1995.

The Constitution of the European referendum in the Netherlands proved the growing suspicion to European integration among the Dutch. The Dutch referendum held on June 1st 2005, shows that the European Draft Constitution was rejected by 61.6% of voters. According to the post-referendum survey conducted by Eurobarometer (2005), the lack of information was the biggest reason behind the rejection of the Constitution (32 %). The remainder had a variety of reasons such as loss of national sovereignty (19 %), opposition to national government (14 %), Europe is too expensive (13 %), etc. In contrast, the reasons for acceptance were various, such as, essential in order to pursue the European construction (24 %), strengthens the feeling of European identity (13 %), strengthens the role of the Netherlands within the Union/the world (13 %), etc.

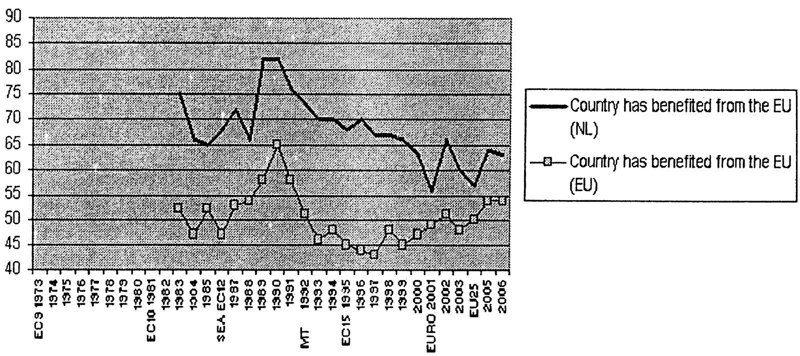
Ton van den Brink and Mendeltje van Kaulen (2007) argue that the rejection by the Dutch public of the EU's proposed Constitutional Treaty must be in place. Over all, the vast majority of the Dutch population is indeed still in favour of European integration and believes that the country benefits from EU membership. Moreover, the Dutch population is on average, more positive on European integration than the EU population as a whole. This is true not only for the period before but also for the period after the start of the referendum campaign.

Figure 1. Public support for European integration, expressed in percentages of the population that view European integration as a good thing 1973-2006



Source: Eurobarometer (in Brink and van Kaulen 2007)

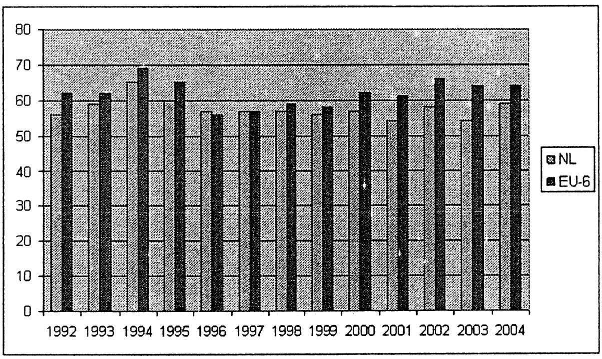
Figure 2. Public support for European integration, expressed in percentages, of the population that believes that EU membership is beneficial



Source: Eurobarometer (in Brink and van Kaulen 2007)

Brink and van Kaulen (2007) further argue that the problem must be addressed in terms of lack of European citizenship or the identity sense. Dutch citizens are relatively pragmatic in nature and inspired by the concrete benefits of European integration, rather than by profound feelings of European identity. In broader terms, the rejection by the Dutch public of the EU's proposed Constitutional Treaty related to more specific cases such as the negative opinion in favour of an enlarged EU in most notably the case of Turkey. It was also striking that in the years since 2002, the Dutch were highly critical of the effects of the Euro. All in all, the referendum outcome reflected the lack of 'politics of communication' between domestic and regional levels on one hand and between politicians' agendas and public desires. Nevertheless, in comparison with the other founding states of the EU, the Dutch show a constant comitment to the idea of European citizenship and the reason can be tracked to the long involvement of the Netherlands in the process of European integration since its inception.

Figure 3. Percentage of the population that thinks of itself as European citizens, Netherlands *versus* other founding member states



Source: Brink and van Kaulen (2007)

Conclusion

European integration has many faces. As a part of the regionalism phenomenon, European integration, represented by the EU, is regarded as a counter to globalization. Nevertheless, regionalism is also regarded as a way of globalization to locate its influence in a specific area. In theoretical terms, the European integration issue has interested many scholars to conceptualize how to understand a linkage between national, regional and global interests. It is clear that a grand theory of European integration does not exist. Reality is more complicated than theory. Nevertheless, a more sociological and anthropological theory is clearly needed to understand the facts at micro level in society. In the case of public opinion in terms of European integration, the question is how the image of European integration is constructed among the citizens. In this sense, there are many facts such as that the citizens' economic perception, for instance, actually does not correspond with the economic reality. In the Netherlands case, the objective economy shows that the country benefits from its participation, even since its inception, in the EU. The rejection by the Dutch of the European Draft Constitution, therefore, is a crucial question.

In answering this question, we must turn to the old issue on a 'deficit democracy'. European integration has never been democratic, caused by a lack of legitimacy and participation. In this sense, Alex Warleigh (2003), demonstrates both theoretically and empirically that the national government of the EU does not and should not, control every meaningful aspect of the integration process or the EU political system. The public opinion, to some extent, reflects the so-called 'popular sovereignty' in terms of European citizenship discourse. To cope with this problem, Alex Warleigh reveals that there is a need to reform the EU polity into four main categories: reconfiguring national sovereignty, institutional change, change in the scope and powers in the Union and the attempted creation of a European 'demos' by such a mechanism as EU citizenship and quasi-corporatist Union policy-making. If these reforms come about, the EU will take a significant role, as declared in its 1997 publication (in Bretherton and Vogler 1999):

> ... Increase its influence in world affairs, promote values such as peace and security, democracy and human rights, provide aid for the least developed countries, defend its social model and establish its presence in the world markets... prevent major damage to the environment and ensure sustainable growth with an optimum use of world resources. Collective action by the European Union is an ever-increasing necessity if these interests are to be defended, if full advantage is to be taken of the benefit of globalization and if the constraints it imposes are to be faced successfully. Europe's partners... expect it to carry out fully its responsibilities...

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Chapter 6
Conclusion

The number of immigrants has increased in the Netherlands since the 1950s. This has been triggered off by several things, such as labour migration, family reunion and family formation as a consequence of the guest worker structural changes leading to these kinds of migration Moreover, the increasing number of immigrants was also due to the number of immigrants from ex colonial countries, particularly the Mollucans and Surinamese and by the number of refugees and asylum seekers who entered the Netherlands. Now, the total non-Western background population is higher than the Western background population. Past migration countries such as Turkey, Suriname, Morocco and the Netherlands Antilles dominate this group. There is still a lag in educational achievement between the Dutch and migrant workers. In some ways the presence of these immigrants is supposed to be capital for Dutch economic development.

However, their relatively low educational attainment and labour market absorption, especially of the ex-guest worker immigrants, brought dilemmas for the government. Data shows that, migrant business is more concentrated in low skill jobs such as retail trade, wholesale trade and catering, while native Dutch business is concentrated in the service sector that needs high skills. Thus improving labour skills, especially in immigrants, is important if the Dutch government wishes to develop the performance of the service sector. Further, deepening regional integration can lead the European economy to further integrate with the rest of the world. EU enlargement benefits not only the region but also the rest of the world, since it provides greater opportunities in the economic field.

In the manufacturing sector for instance, the Netherlands tends to specialize in capital and technology intensive industries, such as machinery and equipment industries and de emphasizes low-skilled industries, particularly textiles, textile products and the leather and footwear industry. Similarly, an analysis of the pattern of trade and investment confirms that the Netherlands economy moved to the high value added products.

EU enlargement will give static and dynamic gains to the Netherlands such as increasing trade opportunities, improving institutional capacity and raising productivity gains. The data shows that the Netherlands has experienced industrial deepening and use of natural resources effectively to produce high value added products. Further, there is also a transition in trade orientation. The Netherlands tends to export knowledge and capital-intensive products such as machinery and chemicals; supported by strong linkages within the domestic economy.

However, there are some warnings in relation to the growing concern in search of a balanced opinion on regionalization, nationalization and globalization. The Netherlands needs to have a clear vision on those things. In the Netherlands case, the objective economy has shown that the country has benefited from its participation, ever since its inception, in the EU. However, the rejection by the Dutch of the European Draft Constitution is a crucial question.