



*The Netherlands and the European Union(s)*  
*Synopsis seminar 4*

### **‘The Netherlands in Europe 3.0.’**

On behalf of the Scientific Council for Government Policy, prof. dr. Mark Bovens opened the seminar by welcoming the participants and expressing his gratitude to Pankaj Ghemawat for being today’s keynote speaker. Pankaj Ghemawat<sup>1</sup> is a renowned scholar who has become famous for his factual analyses on issues of globalization. For this particular seminar, Ghemawat adapted several World 3.0 frameworks to the European context and challenged the participants to think beyond the dichotomy of ‘more or less Europe’, to separate the ‘EU’-myths from the facts and to explore new ways to help shape our future in Europe. What will the future of the EU look like? What are therein the risks and chances for the Netherlands? And how should the Netherlands position itself in the (already) shifting trade and globalization patterns?

*The world is flat, or is it?*

As a starter, Pankaj Ghemawat asked the audience to vote on how globalized they believed the world really is. By way of polling, three basic quotes were used, each representing a different stage of integration. The first quote – *local decision-making, productivity-enhancing technological globalization and the growing demand for services will be the key sources shaping our futures* – was used to sketch a world where national borders are impermeable, also defined as ‘World 1.0’. Only a few participants believed this description best fitted today’s world. Most support was given to the quote of Thomas Friedman – *the world got flat...[creating] a global, web-enabled playing field that allows for multiple forms of collaboration on research and work in real time, without regard to geography, distance or, in the near future, even language* – describing ‘World 2.0’ where national borders have become permeable. A quote of a former CEO – *there is a balance on the spectrum between local and global that represents the ‘sweet spot’...I’ve referred to this concept of the right balance as ‘the race to the middle’* – used to sketch the particularities of ‘World 3.0’, came in as a fairly distant second. With this polling Ghemawat argued that the audience had a biased view on globalization. In fact, every time that this experiment has been conducted (under a several dozen audiences) similar outcomes have been reported.

Ghemawat argued that there is a robust tendency among people to overestimate the levels of globalization. He calls this ‘globaloney’. There are various bases for globaloney. First of all, the debate on globalization takes place in a data-free debating zone. Moreover, people often have a projection bias and predominantly believe what they want or fear most. In addition, there are a lot of social pressures to think ‘globally’. Lastly, there are a lot of over-exaggerated discussions on technology that often sketch situations of free movement of data and technology across borders. Against this background, Ghemawat wanted to provide the audience with a global reality check and take on the dominant perception (the world is flat): “everyone is entitled to his own opinions but not to his own facts”.

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<sup>1</sup> [www.ghemawat.com](http://www.ghemawat.com)

With the help of data on cross-border telephone calls, immigrant flows, FDI-flows and exports/GDP, Ghemawat showed that the true state of the world today is that of semi-globalization – with ‘semi’ as in ‘partial’ rather than 50 percent. To illustrate, *less* than two percent of the calling minutes involve international calls. In our high-tech, *über* connected world, practically all of our calls are still restricted to people inside our own country. Despite all the hubbub about immigration, only three percent of the world’s population is accounted for by first-generation immigrants. Trade intensity, measured by products and services exported from one country to another as a percentage of GDP, hit an all-time peak of 29 percent in 2008, before dropping to 23 percent in 2009<sup>2</sup>. FDI-flow across border accounted for only 9 percent of all fixed investment (what economists call ‘gross fixed capital formation’) in 2009, suggesting that more than 90 percent of all fixed investments in the world are still domestic. The biggest headline from these figures is that the actual levels of internationalization fall very far short of the levels implied by ‘World 2.0’ and that the ‘World 3.0’-perception is a much more realistic and useful basis to say something about policy. Are similar trends observable in the debates on Europeanization? What are the actual levels of European cooperation? And what implications does perhaps a ‘Europe 3.0’ have on the future of the EU?

#### *Semi-globalization and the EU - reality and implications*

According to Ghemawat, “if we lived in ‘World 2.0’ the EU would be irrelevant”. Or stated differently, “if the EU was perfectly integrated there was nothing to be gained from *more* Europe”. With these statements Ghemawat indicated that the integration process of the EU is still in an intermediate phase. More particularly, it can even be argued that the EU is not as integrated as for example the US regions. To prove this point, he used several statistics, reflecting the so-called CAGE-framework, an analytical tool that systematically assesses cultural, administrative, geographical and economic distances between countries. This assumes that countries are better thought of as located in (and occupying) physical and virtual space at very different distances from each other instead of supporting the vision of everything is equally far and equally near. Differences between countries can, as such, be seen as a *degree* of distance.

As a cultural-indicator, levels of trust within a country towards citizens from other European member states and towards citizens from countries outside the EU were used. On average, the question of ‘how much do you trust people from your own country’ nearly reached the 50 percent level, whereas trust towards citizens from other member states scored 20 percent and towards countries outside the EU only 13 percent. This shows that trust levels within the EU drop significantly between the home country and other countries. In terms of trade, it still proves very difficult to do business in other member states<sup>3</sup>. In addition, the relative transport costs per ton-km in the EU are much higher compared to the United States, which in turn hinder the competitiveness of the EU economy. Especially, when talking about the relative costs of transport by rail (1200% higher in 2005). Economically, the coefficient of variation of per capita income in the EU is much higher compared to the United States; these are 17, 4% in the US, 25, 5% in the EU-15 and 55, 3% in the EU-27 (2011).

Altogether, these figures strengthen the conclusion that CAGE-differences in the EU still matter. Ghemawat inferred that the EU has not experienced a balanced integration process. Although much attention has been devoted to administrative barriers, it is the cultural dimension that is most often ignored. The way forward for the EU is to do some rethinking on the division of labour between the member states and the EU, and avoid the discussion on *more* or *less* Europe. In principle, the EU needs to

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<sup>2</sup> However, this number is inflated and distorted compared to the *real* number of trade intensity as components of goods are often shipped more than twice across borders.

<sup>3</sup> <http://www.nytimes.com/2011/04/19/business/global/19debt.html?pagewanted=all& r=0>

reconsider the cultural, administrative, geographical and economical differences between the member states.

This would imply that the EU would be wise to dispel globaloney by encouraging exchange and information flows between countries and educate the young people to create more trust between member states. In addition, the EU should see nation states as building blocks, focus on administrative outliers, streamline the EU processes and resist protectionism. For the EU to become more competitive and create more prosperity for all individual member states, it is good to invest in transport, information and energy infrastructure while focussing on the issue of unemployment and recognize the global shifts.

#### *The Netherlands in Europe 3.0 – strategic choices*

What about the Netherlands? How globalized is it really? As a means of illustration, Ghemawat showed some figures of the Globalization Index 2013. This index is an annual representation of the latest global trends in terms of trade, capital, information and people flows. It particularly focuses on two distinct dimensions, the *depth* and *breadth* of globalization. The *depth* of globalization shows the overall proportion of flows that crosses national borders. The *breadth* of globalization identifies whether the flows are distributed globally among partner countries. In this index, the Netherlands is number one in the ‘average score’ chart of globalization<sup>4</sup> and has been so for many years. This implies that the Netherlands is on average the most outward focused country of the world.

There are several main drivers for the Netherlands’ top rank. First of all, the cultural openness of the country<sup>5</sup> and the foreign language proficiency of the inhabitants<sup>6</sup>. Second, there are various domestic initiatives, such as provision of advance tax rulings that stimulate global cooperation. Third, the Netherlands profits a lot from the EU’s regional integration. Fourth, the geographic position of the Netherlands at the estuary of rivers leading to Europe’s hinterland (which is the world’s most connected region) and the quality of its port infrastructures<sup>7</sup>. However, the proportion by which the Netherlands is on top of the ‘average globalization’ chart has been decreasing since 2005. This is not a huge surprise as the share of Dutch exports is mainly to countries close by (Eurocentric pattern of export) or to countries with which it has colonial ties (e.g. Indonesia or Surinam). Therefore, a ‘flat’ Netherlands in terms of permeable borders does not really exist. Distance does matter.

According to Ghemawat, the Netherlands still has some headroom to connect with other countries outside its immediate cultural vicinity. Especially, in the wake of the rising proportion of trade and capital flows occurring in emerging economies, Ghemawat foresees three options for the Netherlands to better its position in the ‘global shift’ of internationalization.

The ‘conventional’ option is to stay focused on the EU despite all problems. This is a logical option, as the Netherlands in contemporary times much depends on intra EU- interaction. The export intensity with Germany and England is, for example, much higher than with the US or China. In addition, the large merchandise trade flows into the EU prevail. A second option might be to ‘sail west’ and strengthen the ties with the countries bordering the North Atlantic. A third option, the *stretch option*, is to focus on emerging economies in East Asia. Here, a great example has been the effort of the Netherlands to become the gateway for China in Europe. Moreover, not even South Korea has a clear gateway in Europe yet, so

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<sup>4</sup> In terms of *depth* the Netherlands ranks fourth out of 140. With regards to *breadth* the Netherlands ranks sixth out of 140

<sup>5</sup> The Netherlands ranked 2nd on the in the IMD World Competitiveness Yearbook (2011).

<sup>6</sup> 87% of the Dutch master the English language, 66% the German language and 24% the French language.

<sup>7</sup> The Netherlands ranked first on the item of quality of port infrastructure in the Global Competitiveness report 2013-2014, World Economic Forum

there might still be an opportunity for the Netherlands to capture. Given the headroom, Ghemawat argues that the ideal 'globalization' strategy for the Netherlands would be a confluence of the three options. The Netherlands should never forget its particular interests in the EU and should not abandon its privileged position as 'gatekeeper' of the European hinterland. Yet, it should also use the opportunities provided by new emerging economies and should actively seek new trade relations. This means it should adopt a kind of EU+-approach.

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Professor Ghemawat concluded by emphasizing that 'it can't hurt, and might help, to inject a few more facts into the EU debate about what exactly the current level of integration is'. Also, one has to pick one's battles and decide what's possible and to deliberate on how to proceed in a particular direction. Not all things are going to be feasible right away. But having some sense of what the objectives are and what can be done now and what must be done later, would be critical to creating the degrees of freedom that are actually needed for policy makers to do what all the indicators in his presentation suggest.