Germany and the Netherlands: Rivals on the football field, partners in the export game?

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Ana Boata, Economist for Europe
✉ ana.boata@eulerhermes.com

Manfred Stamer, Senior Economist for Germany and Emerging Europe)
✉ manfred.stamer@eulerhermes.com

Ludovic Subran, Chief Economist
✉ ludovic.subran@eulerhermes.com

Executive summary

- Half of German and Dutch exporters experience pressure on turnover and margins. 25% of German exporters and 17% of Dutch exporters also complain about worsening payment behavior domestically and abroad.
- German companies are more assertive exporters: 70% want to open new markets (including in the U.S. and China) whereas only 48% of Dutch companies prioritize new geographies. Current export structure for Germany (final goods, Asia) is certainly a plus. Overall, half of the companies surveyed in both countries will focus on product and service innovation in the next three years.
- While only half of respondents knew about their country's flagship policy (Top Sector Approach in the Netherlands and Industry 4.0 in Germany), these public initiatives are supportive of only 12% and 44% of exporters in Germany and the Netherlands, respectively.
- Better Dutch-German collaboration is seen as very positive by 48% of German companies and 73% of Dutch companies. One third of Dutch exporters expect more than 20% additional revenue from increased partnership.
- Dutch companies can make an additional EUR4.8bn in export revenue in Germany in 2016. Agrifood, chemicals and energy companies are best positioned. Conversely, German companies could make an extra EUR5.8bn in the Netherlands in 2016.

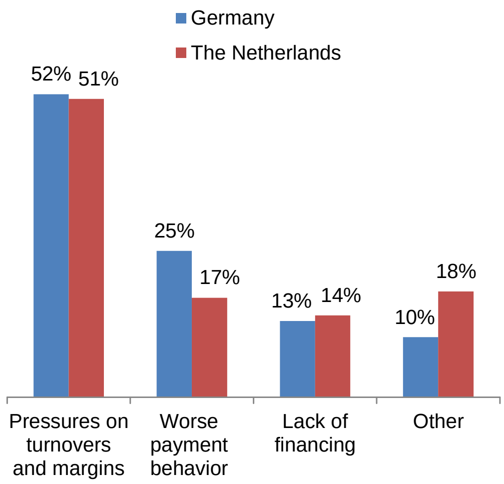
Major commercial challenges remain for Dutch and German exporters

A recent survey among Dutch and German exporters conducted by DNHK and Euler Hermes shows that one out of two companies still finds it difficult to increase turnover and margins (See Chart 1). Reasons invoked are similar for both countries: low consumer demand and increasing deflationary pressures due to fiercer competition. One in four Dutch companies gives declining sales prices as the main reason for pressure on turnover, compared with 1 out of 5 German companies.

The macroeconomic environment can explain why Dutch and German exporters still feel the heat. World GDP growth continues to be below +3% annually (and forecast at +2.5% in 2015 and +2.9% in 2016) and, more importantly, world trade growth has disappointed markedly. In the first half of 2015, world trade contracted by -14% in value, on the back of currency carnage and the BRICS hitting a wall. Euler Hermes expects trade in value to contract by -2.0% this year and to moderately recover next year (+2.6%) The turmoil in emerging markets and the flat recovery in Europe are not helping export growth for German and Dutch companies.

As a result, turnover growth among German companies is expected at +1% this year and Dutch companies should continue to see a contraction in turnover growth by -1% (See Chart 2). Margins stand strong at around 40.0% in the Netherlands and 41.5% in Germany but below pre-crisis levels and with an important boost coming from cheaper oil prices.

Chart 1: What are the main challenges for exporters?



Source: DNHK - Euler Hermes survey

70% of German and 48% of Dutch companies want to find new destinations for their exports in the next three years

When asked about their export strategy over the next three years, 53% of German companies said they seek new markets; 70% plan to expand export destinations. As for Dutch companies, only 31% want to explore new markets and another 30% prioritize customer loyalty and retention. Only 48% of surveyed companies in the Netherlands want to expand export routes. This difference can be explained by Netherlands' strong concentration on intermediate goods for Europe (33% of total compared to 19% only for German exporters).

One third of German companies want to find new destinations in Europe, one third in China and one third in the U.S. Diversification has always been a key objective for German export-oriented businesses. For Dutch companies, the main export destination mentioned is Germany (82%), followed by Belgium (36%), France (30%) and the United Kingdom (24%), more or less in line with current export markets (See Chart 3).

German exporters therefore appear more assertive than their Dutch counterparts, even though risks, especially longer payment terms, are a major concern. Companies in emerging markets pay on average at 69 days i.e. 5 days later than companies in OECD countries, and two weeks later than they used to before the crisis (See Chart 4).

Innovation, digitalization and human capital are top priorities for exporters in Germany and the Netherlands

Being located in mature high-income countries with well-educated workforces, export-oriented Dutch and German companies often count on innovation to sharpen their competitive edge. While both the Netherlands and Germany consistently rank within the top 15 in the Global Innovation Index firms have expressed their disquiet at the pace of innovation growth, which has seen both countries overtaken by Switzerland, the UK and Sweden, and Germany being outpaced by Asian powerhouses like Singapore and Hong Kong.

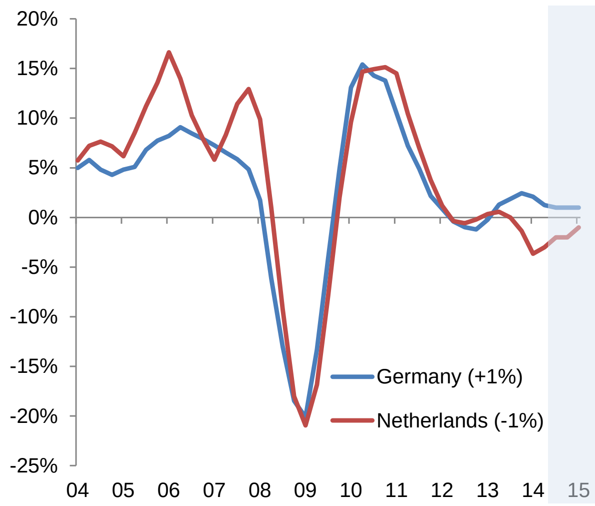
Half of the companies surveyed in both countries affirmed that the top priority for investment and growth in their sectors over the next 3 years is innovation. The survey also showed that digitalization is the second top priority for both Dutch and German companies: 32% of Dutch companies and 20% of German companies see it as a 'must do'. Investing in human capital is identified as the third main priority for Dutch and German companies: 17% for Dutch companies and 20% for German companies (see Chart 5 on page 3).

Pro-business policies in the Netherlands (Top Sector Approach) and Germany (Industry 4.0) are known but not seen as fully supportive

Germany and the Netherlands are very open countries. Trade openness (exports + imports) stands at 146% of GDP in the Netherlands and 70% in Germany compared with below 50% in France, Spain and Italy. This historic divide between 'surf' countries and 'turf' countries has accelerated with very mercantilist policies in Germany and the Netherlands over the past decade. As a result, exports currently represent 48% of GDP in Germany and 83% in the Netherlands (see Chart 6 on page 3).

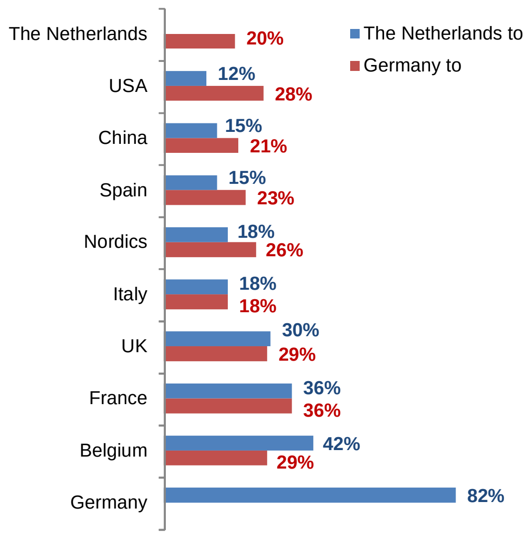
In this tradition, and in order to make their industries fit for purpose in an ever-challenging world, both countries have introduced specific public policies: a vertical industrial policy called Top Sector Approach in the Netherlands and a more horizontal industrial policy coined Industry 4.0 in Germany (See Table 1 on page 3). While the German industrial policy aims only at horizontal cooperation within the supply chain (between companies and across business processes), the Dutch policy introduces a vertical element as it targets selected industries and services.

Chart 2: Industry turnovers (annual growth)



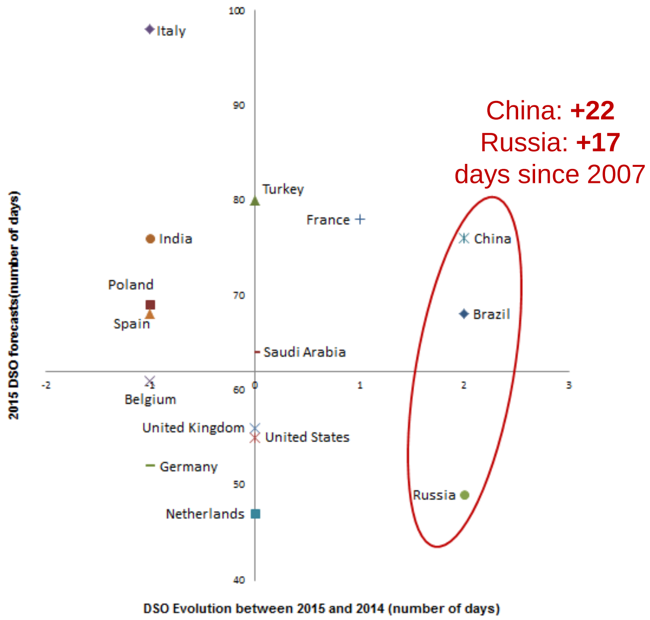
Source: Eurostat, Euler Hermes; 2015 forecasts are between brackets

Chart 3: Where do you plan to start/expand export activities?



Sources: DNHK - Euler Hermes survey

Chart 4: Days Sales Outstanding per country (2015 vs. change since 2014, number of days)



Sources: Bloomberg, Euler Hermes

Only 46% of Dutch respondents are aware of the Top Sector Approach started to be implemented by the government in 2011 but 44% of them consider it as significantly supportive for their sector and own business (see Table 2 on page 4). In Germany, 58% of the surveyed companies knew about Industry 4.0 but only 12% of the respondents regard it as significantly supportive for their sector and own business. There are two take away messages to these results: (i) continuing to raise awareness is key since half of the companies in both countries do not know about what these policies are and could mean for them; and (ii) there is a considerable lack of effectiveness of Industry 4.0, at this stage. With regard to the latter, without a major overhaul, expected gains (5-10% increase in productivity and 6% rise in employment in the manufacturing sector) will never materialize. The visible edge of the Dutch policy comes from the quantified public spending targets (increasing R&D spending to 2.5% in 2020, from 2% in 2013) and the successful partnerships with dedicated trade associations to inform and strengthen the sectors. The German initiative is very cutting-edge (market-oriented) and longer-term oriented but does not include significant subsidies and lacks on-the-ground support.

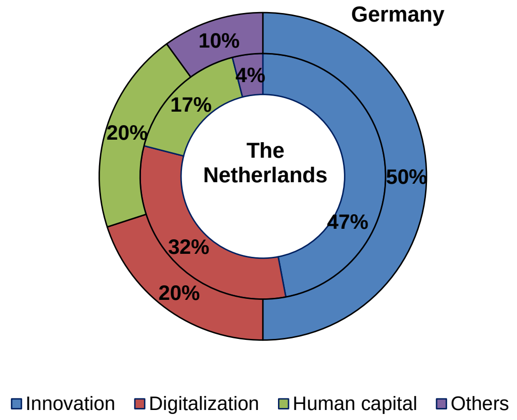
When asked what the government could do in each country, half of the companies in both countries called for better synergies between the education sector and their business needs. Additionally, 1 out of 3 German companies wants less bureaucracy and more harmonized rules across European countries (only 3% of Dutch respondents). One third of Dutch companies said that there is a need for more R&D funding and financial support (compared with. 1 in 6 German companies), an interesting statement when the Top Sector Approach is precisely focused on fostering the Knowledge Economy. Lastly, very few companies (less than 5%) in both countries think dedicated support for start-ups and international campaigns is needed.

Strengthening partnerships between German and Dutch companies perceived as very positive

84% of Dutch companies find it very easy to do business with German counterparts whereas only 58% of German companies find it easy to work with Dutch companies (See Table 3). Both countries are very well ranked according to the World Bank's Doing Business 2015 indicator: Out of 189 economies, Germany ranks 14th and the Netherlands 27th. In both countries, the business environment supports competitiveness and public services are deemed efficient (low administrative burden).

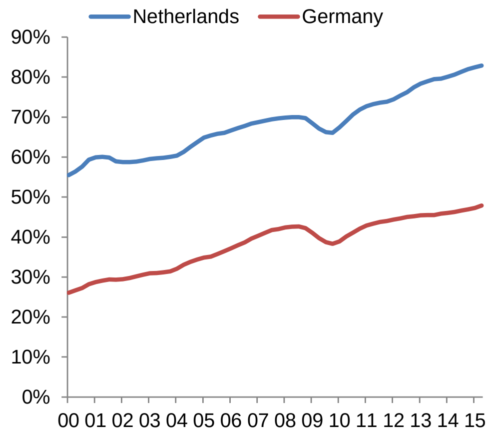
Germany and the Netherlands are already major trade partners, with very complementary supply chains. 67% of Dutch companies think there is already very successful partnering and can name best practices, compared with 27% among German companies. More importantly, both groups expect more to come! Indeed, 48% of German companies think better partnering with the Netherlands could improve their business and 73% of Dutch companies think increased partnership with Germany will boost their business.

Chart 5: What are your main priorities within the next 3 years?



Source: DNHK - Euler Hermes survey

Chart 6: Exports as % of GDP



Sources: National sources, Euler Hermes

Table 1: The Netherlands' Top Sector Approach vs. Germany's Industry 4.0

	The Netherlands: Top Sector Approach	Germany: Industry 4.0
Launched by	The Dutch government in 2011	The German business federations in 2011
Aim	Become a top 5 knowledge economy by 2020	Remain leader in the manufacturing engineering industry
Targeted sectors	Manufacturing sector but also several services: agri-food, horticulture, water, high-tech, life sciences, chemicals, energy, logistics and the creative industry	Manufacturing sector
Type of policy	Vertical cooperation: Sector-specific policies across the full breadth of the government, including education, innovation, foreign policy, regulatory burden, and help ensuring more synergies between the public and the private sector.	Horizontal cooperation across the value chains: Create "smart factories" through the digitalization of the manufacturing sector in order to: (i) Provide tailor-made products and services (including last-minute changes); (ii) respond flexibly to disruptions (suppliers); (iii) solve energy and resource efficiency issues; (iv) solve demographic issues (ageing workforce); (v) enable SMEs to use services and software systems that they were unable to afford.

Sources: German and Dutch government websites, Euler Hermes

The expected effect of stronger collaboration is very different in terms of magnitude. 57% of the Dutch companies expect increased partnership with German companies to boost revenues by more than 10% (almost one third expect more than 20%). German companies are more cautious; 60% of them expect revenues to increase by less than 10% from better bilateral collaboration (See Chart 7).

Lastly, stronger bilateral collaboration at the country level (i.e. policies, education) is seen as a positive move for 63% of German exporters and 79% of Dutch exporters. This block idea to face trade headwinds includes seeking synergies between policies in both countries. Chart 8 on page 5 summarizes where policy-driven opportunities lie ahead. In the verbatim of the surveys, additional initiatives to strengthen the impact of bilateral efforts include: (i) strengthening cross-border institutions (DNHK, INTERREG, for example) for awareness and advocacy; (ii) joint prospection and more roundtables between suppliers and clients in the two countries; (iii) increased investment in cross-border transport infrastructure and logistics (harbor, train); and (iv) further harmonization of business practices

Dutch companies can make an additional EUR4.8bn in export revenue in Germany in 2016. Agrifood, chemicals and energy companies are best positioned

Germany is the Netherland's leading trade partner (21% of its exports) and the Netherlands is a pivot for Germany (6% of its exports and 10% of its imports, its leading supplier). When looking at German imports over time (See Chart 9 on page 5), import needs in the energy, agrifood chemicals and machinery sectors have increased significantly between 6% and 12% annually from 2005 to 2013. Is the Netherlands well positioned in these sectors?

When looking at actual trade flows and despite serious headwinds, Euler Hermes expects overall Dutch additional export gains will reach EUR15bn in 2016, after EUR11bn in 2015. In 2016, around 60% of such gains are likely to come from three main markets: Germany (EUR4.8bn), Belgium (EUR2.4bn) and France (EUR1.4bn). Chemicals (representing 80% of the additional gains), agrifood, electronic products and machinery are the main potential revenue-makers.

When forecasting Dutch exports to Germany (See Chart 10 on page 5), agrifood (EUR1.1bn of new export revenues in 2016, 37% of total agrifood export gains), chemicals (EUR1bn, 32% of total chemicals export gains), energy (EUR0.9bn, 29% of total energy export gains) and machinery (EUR0.3bn, 30% of total machinery export gains) are where Dutch companies can gain the most from German demand in 2016.

Conversely, Germany is expected to make an additional EUR5.8bn of trade gains with the Netherlands in 2016 (ranked 3rd after France and China; the total is EUR65bn). Sector-wise, almost two thirds of export gains are concentrated in 5 sectors: chemicals (EUR1.2bn, 21% of total), agri-food (EUR0.8bn, 13% of total), mechanical (EUR0.6bn, 10% of total), electronic products (EUR0.6bn, 10% of total) and vehicles (EUR0.4bn, 7% of total).

Table 2: Do you know about your country's industrial policy? How supportive is it for your business and sector?

	Germany	The Netherlands
Aware of the Top Sector Approach and Industry 4.0 initiatives?		
No	42%	54%
Yes	58%	46%
of which What is the impact of these initiatives on your business and sector?		
(Significantly) supportive	*12%*	*44%*
Not (significantly) supportive	*88%*	*56%*

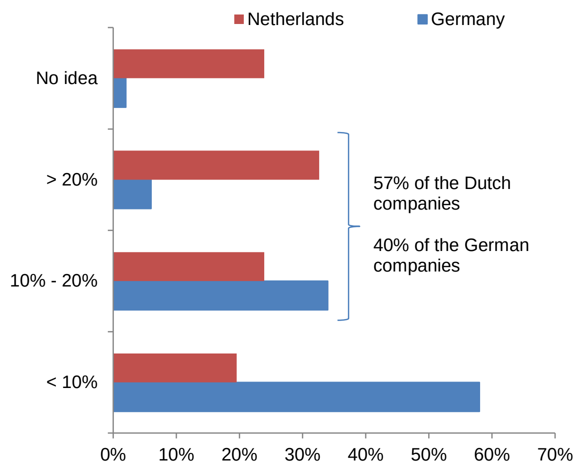
Source: DNHK - Euler Hermes survey

Table3: How would you describe doing business with neighbor companies? Is collaboration successful? What impact would you expect on your business from strengthened partnerships between the Netherlands and Germany?

	The Netherlands	Germany
Doing business with each other is (relatively) easy	84%	58%
Currently there is a successful cooperation between the Netherlands and Germany in your sector	67%	27%
Strengthened partnerships between the Netherlands and Germany would (significantly) boost business	73%	48%

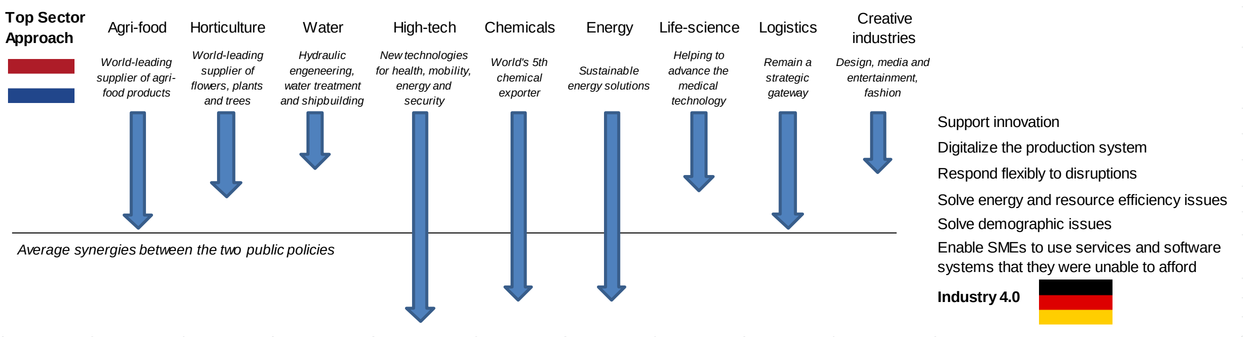
Source: DNHK - Euler Hermes survey

Chart 7: What are your turnover growth expectations from increased partnerships between the Netherlands and Germany?



Source: DNHK - Euler Hermes survey

Chart 8: Synergies between Dutch and German industrial policies



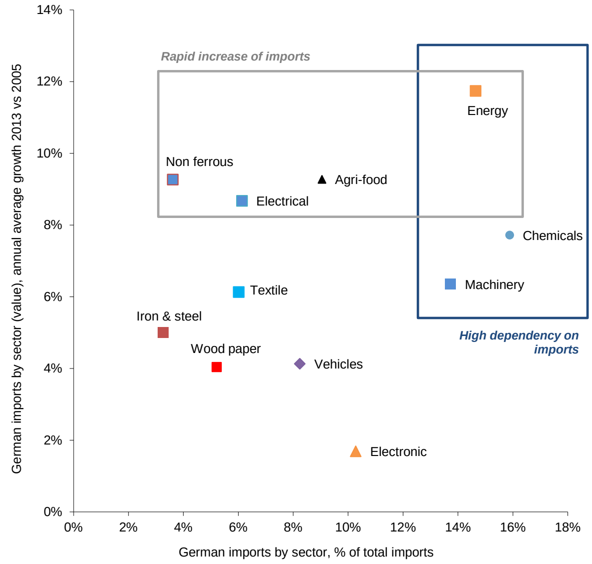
Sources: Euler Hermes

Agrifood-Innovation-Germany: Example of a quick win for Dutch exporters

Dutch agrifood output increased at an average annual rate of +3% over the past decade. This strong momentum was, however, hit in 2014 by the combined drop of agricultural commodity prices and the Russian ban on certain agrifood imports, implying a decline of -EUR3bn of output in 2014, down to EUR85.8bn. The Netherlands is a major hub for agrifood trade: it is the 2nd largest world agrifood exporter (EUR81bn in 2014 i.e. 16% of total exports). Total agrifood exports are forecast to increase by +EUR3bn in 2015 and +EUR3.5bn in 2016. Germany represents 26% of Dutch agrifood exports and 90% and 28% of German vegetable and meat imports, respectively, come from the Netherlands. Even so, there is room for increasing Dutch market share in this sector through innovation. While the overall agrifood sector accounts for 24% of the Netherlands' value-added, second after logistics, it only accounts for 15% of innovation expenditure, far behind high-tech (44%). The Dutch agrifood sector counts among Europe's cutting edge industries but value-added could gain an extra +EUR5bn by 2020. How? By penetrating further the German organic food market, expected to reach EUR15bn in value in the coming years. The most purchased products in this segment are vegetables, meat and dairy (eggs) where the Netherlands is already well-positioned. Dutch organic food exports only represent EUR1bn today.

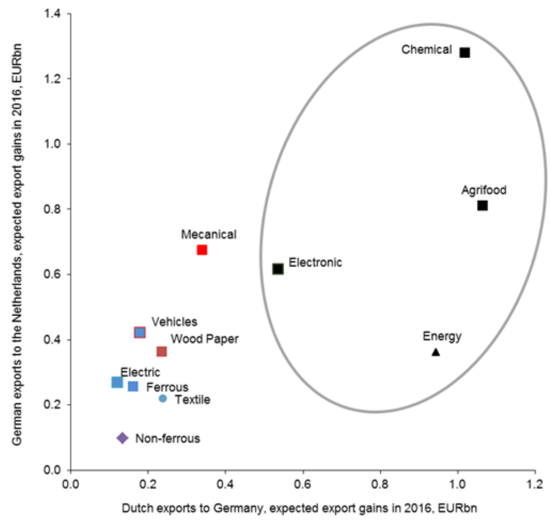
About the survey:
DNHK and Euler Hermes surveyed 75 Dutch and 153 German exporters, in all industry sectors, in June 2015. Fifteen questions were asked, aimed at analysing participants' trade experience including their perceptions on national flagship policies (Top Sectors Approach in the Netherlands and Industry 4.0 in Germany). Among respondents, 84% of Dutch companies already do business with Germany and 69% of German companies currently do business with the Netherlands.

Chart 9: German imports (% of total and average annual growth since 2005)



Sources: Chelem (2013), Euler Hermes

Chart 10: Bilateral export gains in 2016, EURbn



Sources: Chelem (2013), Euler Hermes

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Contact Euler Hermes Economic Research Team
✉ research@eulerhermes.com

Publication Director and Chief Economist
Ludovic Subran
✉ ludovic.subran@eulerhermes.com