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How to Transform Congenital Disadvantage into New Momentum for Economic Development: Based on the Study of Dutch Foreign Trade

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Abstract: The Netherlands is an ancient trading country, and due to geographical constraints, it has been actively seeking business opportunities and resources. This paper examines how the Netherlands transformed its natural disadvantages into new drivers of economic development since the fifteenth century. The purpose of this paper is to better understand the dynamics and paths of economic development in the Netherlands. This paper takes the perspective of Dutch foreign trade, combines literature analysis and case study methods, and adopts the method of diachronic research. The results of the study show that the Netherlands has transformed its geographical limitations into a new driving force for economic development in the development of maritime power, commerce, and foreign investment. The innovation of this paper lies in the unique perspective. Starting from the economic development process of the Netherlands since the 15th century, it presents readers with a comprehensive and in-depth economic development process of the Netherlands.

Keywords: Netherlands, Congenital disadvantage, Development momentum, Foreign trade.

1. Introduction

The Netherlands is a low-lying country with poor natural resources, and its economic development is hampered by many inherent disadvantages. But the Netherlands was able to maintain its economic and political power for a long time in the 15th century, and even dominated the seas for a time. Today, the Netherlands has become a developed country in Europe, with a strong economy and a high degree of international competitiveness. This is inseparable from the fact that the Netherlands has continuously transformed the inherent disadvantages that limit its development into new drivers of economic development.

This paper begins with a description of the Dutch economy, both in its past and in its current challenges. The following literature review focuses on the inherent disadvantages of the Netherlands and the challenges it presents. On this basis, this paper analyzes in detail how the Netherlands became a maritime hegemon, lost its maritime hegemony, repaired the Dutch disease, and realized direct foreign investment based on case studies. Finally, the challenges that the Netherlands may encounter in finding new drivers of economic development in the future are analyzed.

This paper adopts the perspective of diachronic research and provides the possibility of a comprehensive understanding of the development of foreign trade in the Netherlands and the

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dynamics of economic development in the Netherlands at different times. Through the analysis of this paper, the public can better understand the driving force and path of Dutch economic development, and provide reference and inspiration for the economic and trade development of other countries.

2. The Current State of the Economy: From Glory to Challenge

The earliest foreign trade in the Netherlands dates back to the 15th century. During the "Dutch Golden Age" of the 17th century, the Netherlands rose to prominence as a world-famous maritime and economic power and even monopolized Europe's trade with Japan. With its great seafaring and trading power, the Netherlands became the economic center of Europe. This status not only brought it great wealth but also affected the structure of its economy.

Today, although these glories have faded somewhat, the Netherlands remains an important player in global trade [1]. Historically, Dutch supremacy has left a rich legacy for the country and has influenced the structure of the Dutch economy. For a long time, the basic structure of the Dutch economy has been dominated by international trade, financial services and high-value-added manufacturing, while maintaining the competitive advantages of traditional agriculture and industry.

With the convergence of global markets and the emergence of new economic powers, the structure of the Dutch economy began to face challenges. At the same time, the negative impact of the Dutch debt burden on the economy is becoming increasingly apparent. In response, the Dutch government has taken a series of measures to reduce the deficit. However, the debt level of the Netherlands remains high, which to some extent restricts the continued growth of the Dutch economy.

3. Historical Review: Innate Disadvantages and Challenges

The main inherent disadvantage of the Netherlands is its small size, which leads to a series of other congenital disadvantages, including the lack of natural resources, small population, and geopolitical location. These inherent disadvantages limit the economic development and industrial diversity of the Netherlands to a certain extent.

First, the Netherlands is a small country. The size of the Netherlands limited its economic and military development. During the years of the struggle for supremacy, the Dutch army was relatively small. In terms of modern agriculture, although the Netherlands has developed efficient agriculture, it is limited by land area, and the output of agricultural products cannot meet the needs of the domestic and international markets. In terms of modern industry, due to limited land, industrial areas and enterprises in the Netherlands tend to be concentrated in limited areas, which limits the diversity of its industries and the diversity of its economic structure.

Second, the Netherlands lacks natural resources. Compared to other European countries, the Netherlands has limited mineral resources, which makes the Netherlands relatively backward in the process of industrialization. Mineral-rich European countries can gain economic advantages by extracting and exporting ores and metals, creating jobs, promoting international trade, developing related industries, and attracting investment.

Third, the Netherlands has a small population. To a certain extent, this has affected the size of its labor market and its military resources. Despite the fact that the Netherlands has highly qualified human resources, the limitation of its population has always been a constraint on its development.

Fourth, the Netherlands is geopolitically unfavorable. The Netherlands is located in the heart of Europe, surrounded by many powerful countries with large land areas. This made it easy for the Netherlands to get involved in the strife of European countries. Historically, the Netherlands has been involved in many wars and political disputes in Europe, such as the Anglo-Dutch War, the French intervention in the Netherlands, and the Napoleonic Wars, all of which had a great impact on the Netherlands' maritime hegemony.

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4. Golden Age: The Hegemon of the Seas

The Netherlands is located in the lowlands, bordering the ocean. As a low-lying country, as early as the 13th century, it began to strengthen its dikes, reclaim land from the sea, and expand its territory [2]. The Dutch took advantage of their geographical location and port advantages to develop entrepot trade and transportation. They profit from importing raw materials from all over Europe, processing them and exporting them to other countries. In addition, the Netherlands made major breakthroughs in shipbuilding and navigation technology, becoming one of the most advanced shipbuilding countries in the world at the time. By the beginning of the 17th century, the Netherlands, with a population of less than 2 million, had 4/5 of the tonnage of merchant ships in Europe, 4-5 times that of England and 7 times that of France. At that time, Dutch ships were the cheapest and most practical in the European world, which allowed the Dutch merchant fleet to transport goods safely and quickly, gaining the advantage of maritime trade, and became known as the "coachmen of the sea" [2].

In addition, the Netherlands has implemented a series of measures to reverse its inherent disadvantage. These measures both derive from and serve the Dutch maritime supremacy. First, the Netherlands attracted a large number of foreign immigrants to the country to participate in the navy, transport, agriculture and industry. Second, the Netherlands has developed intensive agriculture adapted to small areas of land. The Netherlands increases the added value of its products through technological innovation and specialization in production. The Netherlands had a "modern standardized, increasingly standardized, reusable process method" that other countries did not have at the time, and it was highly mechanized and used many labor-saving methods and tools [3]. Thirdly, the Dutch government has supported the establishment of a number of commercial companies and trade organizations to encourage domestic and foreign trade and investment activities. These companies and organizations have amassed a great deal of wealth and influence through trade with other countries, laying a solid foundation for the economic growth of the Netherlands. The Dutch East India Company also adopted a joint-stock system to raise funds from the whole society, and the development of the joint-stock system and the financial industry directly combined the interests of the general population with overseas trade, and all classes of the Netherlands from top to bottom were involved in the tide of maritime trade [2].

In the 16th and 17th centuries, the Netherlands became the world's maritime hegemon by virtue of its strong naval power and commercial superiority. While overcoming the inherent disadvantages, the Netherlands has also given new impetus to the development of foreign trade, ushering in a golden age belonging to the Netherlands.

5. The Emergence of Crisis: The Loss of Maritime Hegemony

With the change in times and the changes in the internal and external environment, the Netherlands gradually lost its maritime hegemony. The reasons for the loss of maritime supremacy by the Netherlands are manifold, and in the final analysis, it is due to the inherent disadvantage of the Netherlands.

The first is geographical limitations. The Netherlands' small size and relative scarcity of resources made it lose its advantage in long-term maritime competition. In addition, the geographical advantage of the Netherlands is relative to countries such as Italy on the Mediterranean coast, while compared to the United Kingdom and France, it is at a significant disadvantage. Dutch merchant ships had to trade overseas in and out of the Atlantic, and the most recent route was through the English Channel. The English Channel was controlled by Britain and France, and Dutch merchant ships were often plundered by pirates from both countries when they passed through the channel and suffered losses.

The second is the rise of competitors. Countries such as Britain and France gradually caught up with and surpassed the Netherlands in terms of naval power and commercial trade, and industrial

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capitalism replaced commercial capitalism in Britain and France to occupy a dominant position, which was what the development of Dutch capitalism lacked [4].

The third is the mistake of strategic decision-making. Failing to seize the opportunity at a critical historical juncture, Dutch commercial capital was not transformed into industrial capital, and the Dutch position was replaced by Britain due to the lack of an industrial base to back it up. The decline of the Dutch East India Company, changes in the form of world trade, and competition between European countries made the Netherlands no longer dominant in foreign trade, and the long wars for hegemony and colonial wars consumed too much national power [5].

The eventual loss of maritime supremacy by the Netherlands illustrates that the inherent disadvantages that limit economic development cannot be overshadowed by the glory of the Golden Age. The inherent disadvantages of the Netherlands have a deep-seated impact on economic development, which is reflected in the single industrial structure and the rigidity of the labor market. This requires the Dutch government to find new development momentum for the development of Dutch foreign trade.

6. The New Crisis: Dutch Disease and Recovery

After the end of World War II, the Netherlands relied on the strong foundation before the war, and after more than 20 years of recuperation, by the late 60s and early 70s of the 20th century, the Netherlands was already a modern industrialized country dominated by manufacturing, and there was a considerable degree of prosperity in almost all fields [6].

In the 60s of the 20th century, the Netherlands experienced an economic crisis known as the "Dutch disease". The Dutch economy is overly dependent on the export of natural gas and other resources, and the export market is mainly concentrated on the European continent. This has resulted in a monolithic Dutch economy that is susceptible to external market fluctuations. As soon as the demand in the European market decreases, the Dutch exports that depend on it will be hit hard. In addition, the large amount of export income in the past led to the depreciation of the local currency and the appreciation of foreign currency, and the traditional export industry lost its competitiveness in the international market. When prices fall on the international market, the Dutch economy suffers from high unemployment, low economic growth, high fiscal deficits, and high inflation.

In the face of Dutch disease, the Dutch government took steps to intervene in the country's inherent disadvantages. First, reduce dependence on resources and promote diversified economic development. The Netherlands began to increase its investment in services and high-tech industries, gradually reducing its dependence on the export of natural gas and other resources. Second, open up new export markets and diversify market risks. The Netherlands is actively exploring markets outside Europe, especially in North America and Asia, in order to reduce its dependence on the European market. Third, we should adjust our industrial policies and pay attention to the growth of domestic demand. The Netherlands has strengthened domestic investment in infrastructure construction, education, medical care and other fields, increased the level of national income, and expanded the domestic demand market. Fourth, technological innovation, using local first-class universities and research institutions to attract international students and researchers, and close cooperation between institutions and enterprises to promote technological innovation and business transformation. Fifth, to strengthen international cooperation, the Netherlands has established extensive trade and investment relations with EU (European Union) member states and other countries and regions, and has strengthened its innovation network links with Europe and beyond through its participation in EU research programs and cross-border cooperation projects.

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7. Finding Another Way out: Direct Foreign Investment

The motivation for Dutch outbound investment is manifold. First, the Netherlands has a strong industrial base and advanced technology, which makes it capable of foreign investment. Second, the Dutch government actively encourages companies to invest abroad in order to achieve the country's economic development and diversification goals. Third, in order to overcome the inherent disadvantage of a small domestic market, Dutch companies also tend to expand their markets and reduce production costs through foreign investment. The Netherlands is known for its vast network of international treaties, three of which are bilateral and multilaterally applicable, mutually beneficial and applicable to all Dutch investment and trading partners [7]. Through overseas branches, mergers and acquisitions, the Netherlands has successfully entered the global market and gained access to more business opportunities and resources. This aggressive outbound investment strategy not only increases the competitiveness of Dutch companies, but also brings significant economic benefits to the Netherlands.

From the data point of view, since the 20th century, the Netherlands has gradually become an important foreign investment country in Europe and even the world. According to statistics, the stock of Outward Foreign Direct Investment in the Netherlands has continued to grow, from about 20 billion euros in 1990 to more than 800 billion euros in 2020. Dutch foreign direct investment is not only large-scale, but also wide-ranging, covering many countries and regions around the world. The Netherlands Foreign Investment Agency is the agency responsible for the management and promotion of foreign direct investment in the Netherlands as a specialized agency under the Dutch Ministry of Economic Affairs and Climate Policy. More than 15,000 companies around the world are invested and operated by the Netherlands, and these companies are involved in various sectors such as manufacturing, services, and finance.

8. Conclusion

The development of the Netherlands' foreign trade is a process of constantly adapting to the inherent disadvantages and finding new momentum for economic development.

Since the 15th century, the Netherlands has actively used its maritime resources and geographical location to develop a strong maritime trade power and become a global maritime hegemon. However, with the rise of competitors and the lapse of internal strategic decisions, the Netherlands gradually lost its maritime supremacy.

In the face of new challenges, the Netherlands has chosen to find new momentum for development by strengthening international cooperation, adjusting the economic structure, promoting scientific and technological innovation, and actively investing abroad.

Through the study of the foreign trade of the Netherlands, it can be concluded that in the face of congenital disadvantages and changes in the external environment, only by continuously innovating economic development methods, strengthening international cooperation, and promoting economic diversification can we find new momentum for economic development and maintain sustained economic prosperity.

The shortcomings of this article are, first, the lack of mathematical analysis methods, so that the article is not supported by sufficient data. Second, it mainly focuses on the overall economic development of the Netherlands, and lacks in-depth discussions on the specific development of different regions or industries in the Netherlands. Thirdly, due to space constraints, this article does not cover all aspects of the Dutch economy, which may result in some details being omitted or not sufficiently in-depth. It is expected that future research can focus on the economic benefits of Dutch direct foreign investment, and the analysis of the economic growth model of the Netherlands based on models.

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