

The China Challenge

Impact of the politicized business environment on Dutch companies in China

Executive summary | July 2020

Introduction

Commissioned by the Leiden Asia Centre, China Circle and Krijger & Partners conducted a joint study focused on the influence of the highly politicized Chinese climate of doing business in and with China for Dutch companies. Dutch businesses prefer to steer clear of having to navigate sensitive political waters, and rather leave this to the political establishment. It has become clear that this is no longer possible in the current Chinese context. Our research consisted of a comprehensive review of scientific studies, business papers, journalistic sources and the collection of qualitative data through a series of individual semi-structured (often confidential) conversations with senior Dutch business representatives. This study results in an enhanced understanding of the main issues and concerns that Dutch companies encounter in their business dealings with China. From our conversations, we conclude that Dutch business would welcome additional coordination, guidance and support from government, employers' organisations and other professionals.

For many Dutch companies China remains one of the world's most important markets. At the same time, it has become increasingly clear that China is not only viewed as an economic partner, but also as a competitor and strategic rival. Dutch companies are affected by the highly politicized Chinese business environment and the geopolitical rivalry between the 'ruling power' America and 'rising power' China, a struggle that supersedes the current trade war. Doing business with China for Dutch corporations is no longer business-as-usual.

"Cooperate where possible and protect where necessary". With these words, Stef Blok, the Dutch Minister of Foreign Affairs, summarized the key message of the Dutch government's China policy paper: *'Netherlands - China: a new balance'*, that was published on 15 May 2019. China is an important trade and investment partner of the Netherlands. More than 1,000 Dutch subsidiaries are active in China and over 500 Chinese subsidiaries are active in the Netherlands. Therefore, the China policy paper stresses the importance of working together and seizing opportunities on the basis of shared interests. However, China is not a democracy with an open market economy and transparent rule of law. China challenges the rules-based liberal international order by providing an alternative - and profoundly undemocratic - global order, by making use of existing, dated WTO International Trade Regulations, and by engaging in significant unfair trading practices. There is still much room for improvement in the area of reciprocity in China's trade relationships with the Netherlands and other Western nations.

With this report we try to answer three key questions:

1. What are **the most important challenges** Dutch companies are facing in doing business with China within the current geopolitical context?
2. What are **lessons learned** that can be shared amongst the Dutch business community?
3. What kind of **external support** do Dutch companies require?

This report sets out with an analysis of the geopolitical, Chinese and European context, followed by a specific chapter on Dutch companies operating in China, based on the interviews we conducted in the first half of 2020 with leading actors in the Dutch business community with regard to China. We supplemented this with information from recent public sources. The report ends with conclusions and a concrete China Checklist for Dutch companies with (potential) business interests in China.

Key findings

Dutch companies are severely affected by both the geopolitical struggle between the US and China, and the highly politicized Chinese business environment, because the Dutch open, globalized economy is easily affected by international frictions. Of course, macro-economic factors, like the Chinese and global economic slowdown, also play an important role. The Covid-19 pandemic seems to have aggravated existing political and economic trends.

Based on our research, it appears that a large amount of Dutch companies in China - multinationals, family businesses, SMEs and start-ups – are clearly facing increasing hurdles when doing business with China. Important challenges Dutch companies are currently facing are:

- Barriers to investments, trade, services etc
- State interventionism
- Unequal trade practices
- Unfair treatment of foreign companies in China
- Unpredictable behaviour and decision making by government bodies and officials
- Intellectual Property (IP) infringement and forms of economic espionage
- Forced technology transfer
- Getting caught between Chinese and American interests.
- Weaponizing trade relations on political issues

In the Netherlands, the merchant prefers to leave political affairs to the preacher. Now, it seems, the merchant and the preacher will have to start cooperating, when dealing with the challenge China poses to Dutch business.

The best way for Dutch government and business to ensure that the Netherlands will still play a role in the future, is to start long-term planning and consider long-term threats, instead of looking for short-term opportunities. If the Netherlands manages to retain specialist knowledge – for instance in the maritime industry, but also in the start-up climate in Amsterdam and Eindhoven – then it can stay a country of interest to China. Or, quoting the Dutch policy paper about how it wants to shape the relationship with China: “Open when possible, but protect when necessary.”

Many reports have been written about our relations with China, however these reports lack pragmatic advice. Given all the challenges, Dutch companies would welcome actions to be taken by the Dutch government, the Dutch business community and European Commission on how to deal with China. We make the following recommendations, intended to create a stronger and fairer economic relationship with China:

1. **Put values first:** every China policy from the Netherlands government and private sector should be based on our democratic values. By doing so, Dutch entrepreneurs can find a balance between the justified concerns about human rights and security on the one hand and the economic opportunities on the other.
2. **Strengthen the Dutch innovation agenda:** in order to compete with China’s state-controlled economy, the Netherlands and Europe should take back the initiative by strengthening their innovation agenda. It’s vital to design a long-term innovation strategy, to keep our competitive edge. China’s speed of change is enormous, imposing the task on us to keep up.
3. **Ensure a level playing field:** the Netherlands must actively cooperate with the EU-partners, to demand reciprocity in the regulatory sphere, improve market access for

Dutch and European companies, secure fair competition, implement screening mechanisms and accelerate negotiations of a China-EU investment agreement, that commits to ending forced technology transfer and other barriers.

4. **Offer tailor-made advice:** Dutch companies operating in China would welcome more professional, tailor-made business support by government bodies, employers' organisations and others. Not generic, but tailored and discrete.
5. **Organize peer-to-peer support:** the Dutch business community would welcome possibilities for sharing experiences, concerns and questions about doing business with China. This should be done in a way that helps the Dutch business community. Different parties could work closer together. Big words and China-bashing will work counterproductive.
6. **Enhance China knowledge:** more awareness is needed on China (politics, economics, culture and values) through university programmes and business trainings.
7. **Reform of the WTO:** in order to tackle China's unfair practices, including industrial subsidies and forced technology transfer, WTO reform is urgently needed.

There are many challenges for Dutch companies in China, but China also offers wide-ranging opportunities, particularly in the maritime, agriculture, high-tech and life sciences & health sectors. Dutch success stories in China can help new entrants to the China market. This report concludes with a China Checklist serving as a guide for Dutch companies willing to enter and operate in China.

Ardi Bouwers, CEO and Founder China Circle

Alex Krijger, Founder and Managing Partner Krijger & Partners

LeidenAsiaCentre is an independent research centre affiliated with Leiden University and made possible by a grant from the Vaes Elias Fund. The centre focuses on academic research with direct application to society. All research projects are conducted in close cooperation with a wide variety of partners from Dutch society.

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For contact or orders: info@leidenasiacentre.nl M. de Vrieshof 3, 2311 BZ Leiden,
The Netherlands