The China Challenge

Impact of the politicised business environment on Dutch companies in China

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Executive summary

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 a strategic rival. Dutch companies are being affected by the highly politicised Chinese business environment and the geopolitical rivalry between the 'ruling power' America and 'rising power' China, a struggle that transcends the current trade war. For Dutch corporations who are doing business with China, it is no longer a case of business as usual.

Research project

Commissioned by the LeidenAsiaCentre, China Circle and Krijger & Partners conducted a joint study examining how the highly politicised Chinese climate is influencing Dutch companies that are doing business in, and with, China. Dutch businesses prefer to avoid navigating sensitive political waters, leaving 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, and journalistic sources, as well as the collection of qualitative data through a series of individual semi-structured (often confidential) conversations with senior Dutch business representatives. This study provides 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.

"Cooperate where possible and protect where necessary". With these words, Stef Blok, the Dutch Minister of Foreign Affairs, summarised the key message of the Dutch government's China policy paper: '*The Netherlands and China: a new balance*', which 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 face 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 begins with an analysis of the geopolitical, Chinese and European context. This is followed by a specific chapter about Dutch companies operating in China. This chapter is 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 that have (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 politicised Chinese business environment. This is because the Dutch open and globalised economy is easily affected by international frictions. Of course, macro-economic factors, such as the Chinese and global economic slowdown, also play an important role. The Covid-19 pandemic seems to have aggravated existing political and economic trends.

Our research indicates that a large number of Dutch companies in China - including multinationals, family businesses, small and medium-sized enterprises (SMEs), and start-ups – are facing increasing hurdles when doing business with China. Challenges currently faced by Dutch companies include:

- 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
- Weaponising trade relations on political issues.

In the Netherlands, there is a proverb that describes how merchants prefer to leave political affairs to preachers. Now, it seems, the merchant and the preacher will have to start cooperating when dealing with the challenge that China poses to Dutch business.

For government and business to ensure that the Netherlands can still play a role in the future, they should start long-term planning and consider long-term threats instead of looking for short-term opportunities. If the Netherlands manages to retain specialist knowledge, such as that which it possesses in the maritime industry and which is seen in the start-up climates of Amsterdam and Eindhoven, then it can continue to be a country of interest to China. With regards to its relations with China, to quote from the Dutch policy paper, the Netherlands should be: "Open when possible, but protect when necessary."

Many reports have been written about Dutch relations with China. However, these reports can lack pragmatic advice. Given the increasing challenges which they face, Dutch companies would welcome action by the Dutch government, the Dutch business community, and the European Commission to help 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 Dutch government and private sector should be based on our democratic values. This will help Dutch businesses find a balance between justified concerns about human rights and security on the one hand and 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 own innovation agenda. It is vital that we develop a long-term innovation strategy to enable us to keep our competitive edge. China's speed of change is enormous, making it our task to keep up.

3. **Ensure a level playing field**: the Netherlands must actively cooperate with EU-partners to demand reciprocity in the regulatory sphere, improve market access for Dutch and European companies, secure fair competition, and implement screening mechanisms. It should cooperate to help 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 a greater amount of professional, tailor-made business support by government bodies, employers' organisations and others. This support should not be generic, but tailored to individual needs and should be discrete.

5. **Organise peer-to-peer support**: the Dutch business community would welcome increased possibilities for sharing experiences, concerns, and questions about doing business with China in a discrete way. This should be done in a way that helps the Dutch business community. Different parties could work more closely with each other. In this respect, 'big words' and 'China-bashing' are counterproductive.

6. **Enhance China knowledge**: more awareness is needed about China (its politics, economics, culture, and values) through university programmes and business training.

7. **Reform of the WTO:** in order to tackle China's unfair practices, including industrial subsidies and forced technology transfer, there is an urgent need for reform of the WTO.

There are many challenges for Dutch companies in China. However, China also offers wide-ranging opportunities, particularly in the maritime, agriculture, high-tech, life sciences, and health sectors. Dutch success stories in China can help new entrants to the China market. This report concludes with a *China Checklist* which might serve as a guide for Dutch companies that choose to operate in China.

Introduction

China's rise, and its increasingly assertive attitude in the political and economic spheres, have repercussions for Dutch businesses. Moreover, in the era of the current president and Communist Party leader Xi Jinping, politics and ideology are no longer easily disconnected from economic affairs.

In the first half of 2020, China Circle and Krijger & Partners conducted this study to examine what impact the current highly politicised climate surrounding China has on Dutch businesses which are doing business in, and with, China. The report was commissioned by the LeidenAsiaCentre. In this report we share the findings of the study and the insights we gained into the way in which Dutch companies - including multinationals, small and medium-sized enterprises, and start-ups - deal with the politicised business climate in China. In this report, we first analyse the geopolitical, Chinese and European context. We then focus on the concrete experiences of Dutch companies in China, adding a new dimension to existing literature.

Methodology

For this study, we used the following complementary methods:

- a literature review,
- the collection of qualitative data through in-depth interviews,
- public information from government and media reports for additional data and insights.

We commenced by analysing a wide range of recent surveys of European businesses in China, and Dutch, European and American think tank reports (see the references for a full list). Reviewing existing studies, we were surprised to find how little research has been done into Dutch businesses in China. Subsequently, we selected Dutch business representatives working in relevant sectors (like high tech, chemical, energy, maritime, agriculture, financial) for interviews. We conducted twenty in-depth interviews with CEOs and senior managers, all with many years of China experience. Our own knowledge of China and access to networks of the China-related business community, proved indispensable for access to interviewees and level of the conversations. Due to the nature of the subject, all interviewees requested discretion and many asked for anonimity. To supplement the information we collected, we consulted government reports and media interviews with business representatives from underrepresented sectors. We believe that this report is representative for Dutch business in China.

The central argument adopted by this research paper **is that a separation of business and politics has become untenable when doing business with China.** In the proverb, the Dutch merchant prefers to leave politics to the preacher. However, this approach is proving increasingly difficult with regards to present-day China. Major political factors that impact Dutch business dealings in China include:

- **The US-China trade war and world technology war:** before the trade war, a technology war was already underway. Dutch high-tech companies feel squeezed between both superpowers.
- **China's ambition:** China has become more assertive in the international arena and president Xi Jinping has made it clear that China will not make major concessions on its core policies.
- **Unequal business practices**: a lot has changed since China opened its doors to international business, but progress lags behind expectations.
- **A divided Europe:** Europe is severely divided when it comes to dealing with China. A new balance must be found between opportunities and protection.

This report offers many concrete examples of the experiences of Dutch business people in China. These are examples which other companies seeking to do business with China might learn from. We look at factors that contribute to both success and failure. Dutch companies need to keep up with dazzling changes in China's market place and its rapid embrace of innovative technologies. While the common complaint about the lack of a level playing field does have substance, it should not be used as an easy excuse for all setbacks. Other issues play a role as well. It is important to analyse the causes of failure in order to succeed in the future.

We will link the current geopolitical situation with a pragmatic approach for how to deal with political, economic, and cultural dilemmas. At the end of the report, we provide two useful lists:

- Recommendations for Dutch policy makers
- The China Checklist for Dutch companies.

Whilst doing business in China may present challenges, many Dutch business people are also inspired by these challenges and find the enormous Chinese consumer market a compelling reason for continuing to do business with the country.

1. Geopolitical context

"China used to be a child. Now China has matured and the world looks at us in a different way."

Xu Hong, Chinese ambassador to the Netherlands (*NRC*, June 16, 2019)

"We greatly underestimated the degree to which Beijing is ideologically and politically hostile to free nations. The whole world is waking up to that fact."

US Secretary of State Mike Pompeo (media briefing, May 20, 2020)

An escalating trade war, conspiracy theories about the origin of the Coronavirus, and the controversy surrounding Huawei's 5G technology - all these issues are symptoms of the larger rivalry between the United States (US) and the People's Republic of China (PRC). Underlying geopolitical trends transcend the latest news about a Trump tweet, a virulent virus or tit-for-tat expulsion of journalists. Other related developments, such as climate change, the fragility of Western democracies, energy transition, artificial intelligence, and a growing world population, will substantially change our world in the coming decades.

The US perspective

For most Americans, the conflict with China is no less than a historic struggle for supremacy: a rivalry between the 'ruling power' and 'rising power'. China's assertive geopolitical attitude is a major irritant for the Americans. The US perceives China as the greatest threat to the international order and American global hegemony. It is willing to tackle China's power in all fields: China's global expansion, bilateral trade, as well as its actions in Xinjiang, Hong Kong and Taiwan.

What is of particular concern to the US is the way that China has positioned itself on the world stage, especially during the last 20 years. When China joined the WTO in 2001, the US (and many European nations) hoped China would gradually adjust to the Western international order, with its emphasis on rule of law, liberal democracy, and human rights. The reality turned out to be different. China did not want to adjust to the liberal democratic world order. Instead, it has provided the world with an alternative political-economic model of autocratic-capitalism.

The fact that the WTO has proven unable to effectively address the challenges which China poses to international trade relations has dented faith in the global, multilateral trading system. During his election campaign in 2016, Donald Trump repeatedly accused China of 'cheating'. After his election, tensions escalated and in 2018 a US-China trade war began.

The European perspective

The trade war between the US and China has been a wake-up call for Europe. In its March 2019 report *EU-China - A strategic outlook,* the European Commission described China as a 'systemic rival' of liberal democracy, much to Beijing's dismay. The report stated that: "China is, simultaneously, in different policy areas, a *cooperation partner* with whom the EU has closely aligned objectives, a *negotiating partner* with whom the EU needs to find a balance of interests, an *economic competitor* in the pursuit of technological leadership, *and a systemic rival* promoting alternative models of governance".[1]

As such, China is now perceived as both a partner and a rival at the same time. These statements are robust. However, when it comes to putting these words into action, the EU-report remains general and vague. The first action in the list of conclusions illustrates this clearly. The report states that: "The EU will strengthen the EU's cooperation with China to meet common responsibilities across all three pillars of the United Nations, Human Rights, Peace and Security, and Development".[2]

The report does not mention concerns within Europe about China's increasing influence as a result of its ambitious Belt and Road Initiative (BRI) or the allegations that China is playing different European nations against each other.

Other recent reports indicate that perceptions in Europe are changing. For example, a policy paper from the German national employer's organization BDI, which usually focuses on economic factors, is outspoken about political challenges as a result of China's rise, stating that China's alternative political-economic model presents 'the challenge of systemic competition'.[3] Many European companies and employers' organizations have indicated that they are suffering from the ever-increasing political pressure which is being placed on China's business environment. In order to confront this challenge, the European business community now openly advocates a stronger and more coordinated European approach and strategy towards China.

As it becomes increasingly clear that China is not going to change and conform to the Western liberal model, we see three different scenarios for Europe:

a) To muddle through, with each EU member determining its own relationship with China;
b) To adopt the US strategy and policies regarding China;
c) To design an independent and distinctly European China strategy.

One crucial, procedural aspect of European decision-making will play a decisive role in all three options. A strategy which is based on **qualified majority decisions – instead of the current EU voting system that demands the unanimity of all EU states** - would make Europe much more flexible and pro-active. It would also make it harder for China to impede the EU decision-making process by creating divisions between European nations.

The Chinese perspective

In China, a common perception about the US-China trade war is that America (personified by president Donald Trump) is frustrated by China's rise and is trying to curb its economic power. State media call the US 'irresponsible' and say that it is 'deliberately destroying the international order'. It states that China, on the other hand, wants to achieve 'win-win results', but 'will not hesitate to take countermeasures, if provoked'. Escalating frictions have made it clear to the authorities in Beijing that they need to focus on self-reliance and build up China's own technological capabilities.

In Chapter 2 of this report, we will take a closer look at Chinese perceptions of China's place in the world and its relationship with the US. We will also cover political developments within China and discuss the strong state-led system, which encompasses direct government control over major parts of its economy, as well as the intrusiveness of Chinese interventionism in economic affairs.

In this report, we distinguish **four major (geo)political factors that impact Dutch business dealings in China:**

1 – US-China trade war and world technology war

The trade war is the most visible proof of the increased tensions between the US and China. A tit-for-tat trade war started in March 2018 with a tweet from Donald Trump, announcing tariffs on US$60 billion worth of Chinese imports to the US. In October 2019, the US started blacklisting Chinese technology firms as a result of their business dealings in Xinjiang. A 'phase one' deal was reached early in 2020, after several rounds of increasing and bruising sanctions from both sides which slowed global growth, disrupted supply chains, and slashed US farmers' profits.[4] There have been some commentators who have described this deal as an important new phase, while others see it as simply a lull in the fight. Beijing's decision to impose a national security law on Hong Kong in July 2020 has substantially increased tensions.

A next step in the trade war is so-called 'decoupling'. This is the US term for the complete disengagement and severing of economic ties, which also encompass the ending of technology and student exchanges. The US policy of 'decoupling' contrasts with the European preference for cooperation with China. European businesses may find themselves between a rock and a hard place, as the EU may be forced to choose sides between the US and China. A 2020 survey by the German think-tank Bertelsmann Stiftung found that three out of four Europeans are concerned about the US-China conflict. The report stated that: "Europeans are aware that the conflict (...) is also forcing Europe to reposition itself politically the global level."[5]

The clash between the US and China is about much more than just trade. Long before the trade war began, a technology war was already underway. China resisted and banned US internet companies such as Google, Facebook, and YouTube. Chinese companies established their own variants: Baidu, Renren, YouKu, and more recently the superapp WeChat. Domestic Chinese companies are much easier for the authorities in Beijing to control. This tech war showed a 'decoupling' before the term was coined *avant-la-lettre*, creating two completely separate technology ecosystems. The next step in this competition involves China trying to set international standards. Dutch and other European high-tech companies, such as the Dutch semiconductor producer ASML, have been subject to the pushing and shoving from both superpowers. China wants to buy advanced semiconductor systems. The US government is trying to prevent China from obtaining them and puts pressure on the Dutch government to prevent export licenses. In Chapter 4, we will elaborate on this case.

2 – China's ambition

China has become more assertive in the international arena and as a result, its negotiation position on economic matters has hardened over the past few years. President Xi Jinping has made it abundantly clear that China will not make major concessions on its core policies, including its support for State Owned Enterprises (SOEs), its state-led industrial policies, and the protection of China's high-tech sector. Rather than a decrease as some expected, there has been an increase in the importance of SOEs in China. This undermines the level playing field between Western and Chinese businesses. As BusinessEurope indicated in its 2020 report, the consolidation of China's state-led economy presents systemic challenges that lead to market distortions within China, the EU, and on third markets. A fairer, more reciprocal economic relationship is urgently needed and would benefit Dutch business.[6] In Chapter 2, we will analyse the use of political power for economic gain by the Chinese state.

In 2013, China took the initiative to set up the Asian Infrastructure Investment Bank (AIIB). It established this new institution partly out of irritation about US resistance to grant China a larger governing role in the World Bank and the IMF. The AIIB is a multilateral development bank that finances infrastructure projects in Asia and Oceania. Some see it as a rival to the World Bank and the Asian Development Bank, which are dominated by developed countries, especially the United States and Japan. The AIIB, which already involves more than a hundred countries, is headquartered in Beijing.

The biggest Chinese project to date is the Belt and Road Initiative (BRI). BRI was envisioned by the current Chinese president Xi Jinping in 2013, after a trip to Kazakhstan and Indonesia. BRI's official aims include improving regional integration, increasing trade, and stimulating economic growth. The project intends to connect Asia with Africa and Europe via land and maritime networks. It is expected to involve over US$1 trillion in investments, largely in infrastructure. Ports, roads, railways, and airports, as well as telecommunications networks and power plants are all part of this mega plan. BRI provides opportunities for cooperation, but has also raised concerns in the US, Europe, and in some Southeast Asian nations. BRI's geographical scope is constantly expanding. So far, it covers over 70 countries, accounting for about 65% of the world's population and one-third of the world's Gross Domestic Product (GDP). There are concerns that China is also using BRI to implement its geopolitical agenda and making use of BRI projects to increase its international clout.

3 – Unequal business practices

Since China first opened its doors to international business in 1978, reports have frequently mentioned the inequality of business practices. A lot has changed over the past four decades, but progress lags far behind expectations and now a kind of 'promise fatigue' is setting in.

In Chapter 4 we will focus specifically on the Dutch business community and describe examples of business practices that hinder Dutch business. We will not only look at the complaints, but will also take China's rapidly changing economic landscape into account, discussing both the opportunities and risks this presents. The speed of changes in China's economy is phenomenal and it is a challenge for Western companies to keep up with China in many areas, such as the way that it adopts innovative technologies for example. Rather than for production and export, many Dutch companies also choose to operate in China now because of the access to the huge Chinese market that this offers.

4 – A divided Europe

Europe is very divided when it comes to dealing with China. Governments, business leaders, and civil society all seem to recognize this. The recent China policy paper by the Dutch government recognised this fact, stating that: a new balance must be found between "opportunities on the one hand and protection of our security, earning power, and values on the other hand."[7] However, there are stark differences of opinion between the EU-member states on how this new balance should take shape. In Greece, for instance, China is mainly seen as an economic partner, whereas in other European states concerns about China's geopolitical ambitions are mounting.

A united and independent European China strategy seems elusive. In light of the escalating tensions between the US and China that is – to use a euphemism - regrettable. Media, politicians, and think-tanks in the US are speaking openly about a 'new cold war'.[8] The Chinese foreign minister Wang Yi also referred to a new cold war at a press briefing in

Beijing.[9] China's decision to introduce a national security law for Hong Kong has further heightened tensions. Will Europe – including Dutch business - be badly shaken by the US-China conflict? One thing is clear: if European governments do not speak with one voice, Europe will never be the geopolitical player which Ursula von der Leyen, president of the European Commission, was hoping for.[10]

In the next chapter, we analyse China's ambitions and the role of the Chinese Communist Party (CCP). We also examine how political considerations affect economic relations.

2. Chinese political context

"No force can stop the advance of the Chinese people and the Chinese nation."
Xi Jinping, at the 70th birthday of the founding of the PRC (Oct 1, 2019)

"Our European future is determined by how Xi plays the game."
Ties Dams, in *De Nieuwe Keizer*[11]

Pride in China's rise, its wealth and power, is a recurring theme for Chinese leaders, including president and communist party leader Xi Jinping. Many Chinese people are confident that China will shape the 21st century and replace the US as the leading power. Statements about the 'unstoppable force' of China stimulate the nationalist and patriotic feelings of the Chinese population.

"'China' means the Chinese Communist Party." With these six words, a recent UK policy report summarised the era of party leader and president Xi Jinping. After decades where there had been some separation of state and Party, the Chinese state now largely aligns with the Chinese Communist Party (CCP).[12] The CCP has asserted its complete dominance over the government, military, media, and academia. The CCP also directs China's industrial policy, determines medium-term innovation targets, and has set out a long-term ambition that China will become the dominant economic and military power as well as the world's technological leader.

Under Xi's guidance, the Party leads. Xi has repeatedly called for a strict commitment to communism and stated that strong party leadership is of the utmost importance for the 'rejuvenation of the Chinese nation'. As a result, party-state intervention in the economy is increasing, rather than decreasing.[13] The long-held 'theory of convergence', whereby China would gradually move towards Western, liberal, open market economies, through integration into the world economy and the implementation of domestic economic reforms, is no longer tenable.[14]

Political power for economic gain

The Chinese model is a combination of market-led economic progress, an authoritarian political system, and a competitive, market-oriented society.[15] State - or, if you will, Party - investments and subsidies are used to gain influence in markets. Political power is used for economic gain, while economic gain is then used to increase political power. Both state-owned and private enterprises have mandatory, highly influential Communist Party cells.

Thus, the Party is able to control decision-making on mergers, investment, and technology transfer. Economic and political goals align in the the greater goal that China will become a dominant power. Due to the decisive investment policy of the Chinese authorities, China can act quickly and is able to create 'national champions'.

In his reflections on the 'socialist market economy with Chinese characteristics', Jacques Pelkmans, senior fellow at the Centre for European Policy Studies (CEPS), a Brussels-based think-tank, concludes that discrimination against foreign companies and the lack of reciprocity in trade and foreign direct investment (FDI) is deeply engrained in the Chinese system. Competition with Chinese State-Owned Enterprises (SOEs), both inside China and globally, is negatively affected by the substantial intervention of the Chinese party-state.[16] Figure 2.1 below illustrates the intrusiveness of the Chinese party-state.

Figure 1
Socialist market economy with Chinese characteristics

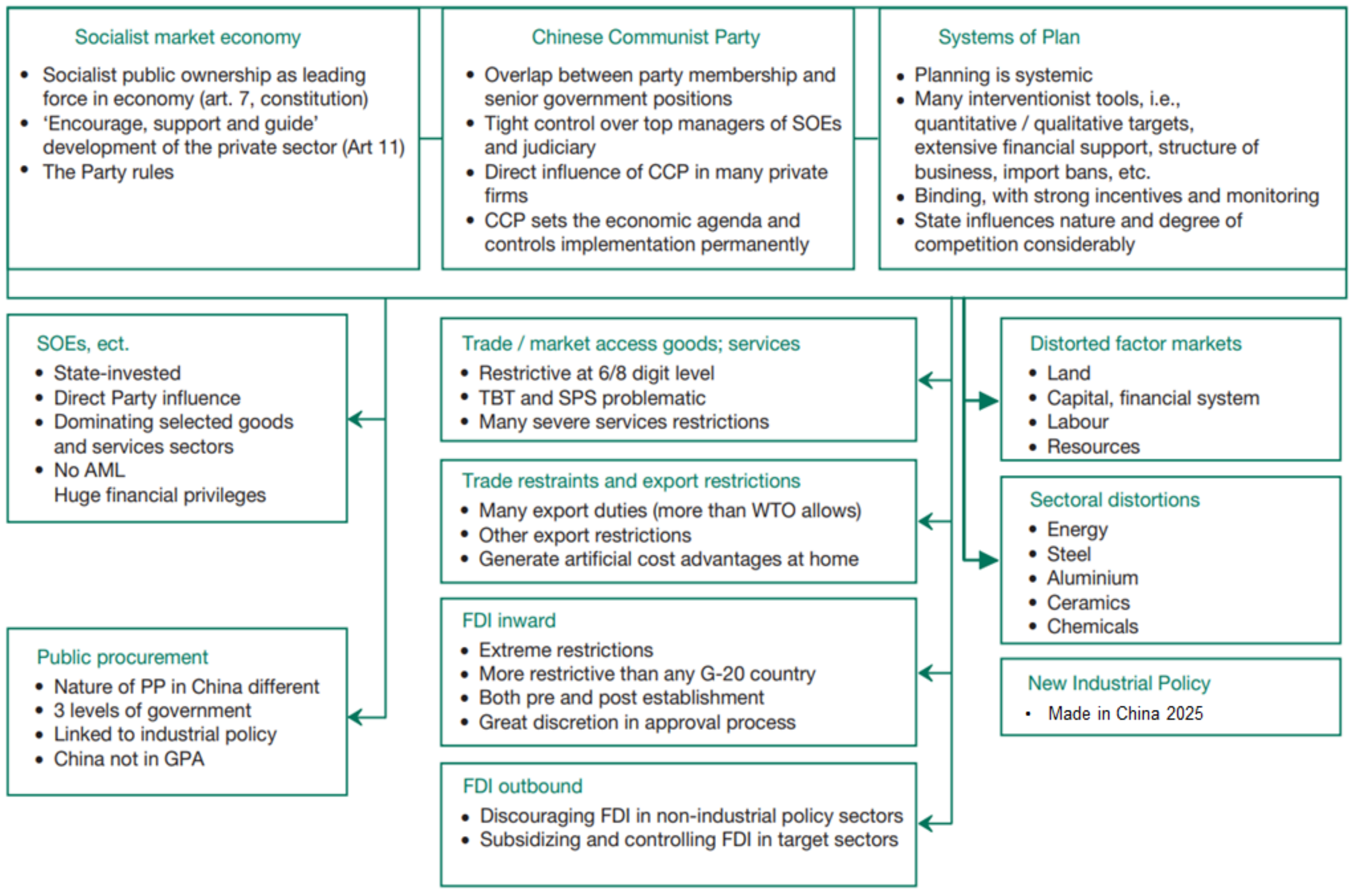

Figure 2.1. Source: Pelkmans (2018). AML = Anti-Monopoly Law, GPA = Government Procurement Agreement, TBT and SPS are WTO export-deterring measures, New Industrial Policy refers to the *Made in China 2025* program.

China's state-led system encompasses direct government control over major parts of its economy including key industries, financing institutions, and SOEs, as is clearly illustrated in Figure 2.1. Note how pervasive the role of the Chinese Communist Party is, with an overlap of all senior government positions with the CCP hierarchy. The Chinese party-state also exerts significant influence through Communist Party cells, both within state-owned and privately-owned companies. This pattern of extensive state control has increasingly blurred the boundaries between the public and private sectors.

The world's leading power

Xi Jinping's ultimate long-term goal is for the People's Republic of China (PRC) to be the leading power in the world. This goal is to be achieved in 2049, when the PRC celebrates its centenary. As Xi Jinping stated during a military parade held in 2019: "No force can stop the advance of the Chinese people and the Chinese nation."

As a result of these developments within China, political issues have encroached on business dealings. A 2019 report titled *China's Public Diplomacy*, produced by the Berlin-based Mercator Institute for China Studies (MERICS), warned international companies doing business in or with China about the implications of this situation. According to the report, Beijing actively attempts to influence foreign companies and uses its economic power to attain China's geopolitical goals. It places political and economic pressure on companies to advance its own agendas, such as the Belt and Road Initiative (BRI) which was discussed in Chapter 1.[17]

In 2015, the authorities in Beijing issued the *Made in China 2025* strategic plan. This plan sets out ambitious innovation goals for the next decade. The main goal of the plan is for China to move up the value chain, transitioning from being the 'factory of the world' to a producer of high-tech goods. In 2017, the Chinese Communist Party has added to this the aim that by 2030 China would become the world's number one in the field of artificial intelligence. To attain these goals, the Chinese authorities and businesses have begun investing heavily in facial recognition, self-driving cars, robotics, and 5G technology. However, as Western high-tech companies can attest, economic espionage has been part of the practice as well. The lack of protection of intellectual property has been a sore point for many investing in China or doing business there. Foreign companies are also partly to blame themselves, as some of these enter the market without registering their brand and intellectual property. Business leaders – including people we interviewed for this report - do not like to openly admit it, but economic espionage and cyber-attacks occur regularly, especially in the engineering, telecommunication, and aerospace industries. In its 2019 annual report, the Dutch general intelligence and security service AIVD described China as the nation which posed the greatest threat of economic espionage.[18]

Wolf Warrior diplomacy

In line with China's growing assertiveness on the world stage, the tone of China's diplomats has also become much more outspoken in recent years. Chinese ambassadors, practicing what some have called 'Wolf Warrior diplomacy' (after the very successful Chinese patriotic action movies), have made use of intimidating language to get their message across.[19] In November 2019, the Chinese ambassador to Sweden, Gui Congyou, said bluntly on Swedish radio that "We treat our friends with fine wine, but for our enemies we have shotguns."[20] Bilateral relations between Sweden and China have been adversely affected by the case of a detained Swedish citizen, the bookseller Gui Minhai, in which Chinese authorities have repeatedly refused Sweden's demands for his release.[21]

Irritation about statements in international business relations on political issues, such as the status of Taiwan, demonstrations in Hong Kong, labour camps in Xinjiang, or Chinese operations in the South China Sea – all regarded by China as 'core' or sensitive – can lead to a heavy-handed reaction from Chinese authorities, ostensibly meant for an international audience, but with an important side effect of feeding feelings of nationalism among the Chinese population. In Chapter 4, we will examine Beijing's reaction to the name change of the Dutch representative office in Taiwan,

A revealing example of how China applies economic pressure to deal with a political issue was a row in October 2019 about a tweet by the general manager of the Houston Rockets basketball team. The manager tweeted in support of demonstrators in Hong Kong: "Fight For Freedom. Stand With Hong Kong." Chinese authorities responded angrily. The situation escalated quickly into an uproar among the Chinese public, partly as a result of indignant articles in Chinese state media which denounced the tweet as 'insulting China'. Chinese broadcasters said they would no longer broadcast US National Basketball Association (NBA) games. The Rockets and the NBA quickly distanced themselves from the tweet. Business interests prevailed over human rights. In Chapter 4, we will provide some more specific Dutch examples of the way in which China tries to use economic pressure to make political points.

Incidents like the one concerning the Housten Rockets illustrate how important the Chinese market has become. For most companies, it is difficult to withstand this kind of pressure. This incident also indicates how difficult it can be for international companies to explain their side of the story to the Chinese general public. The Chinese government controls the press and can whip up nationalist feelings on social media. The way in which (fear of) Chinese indignation impacts on economic relations with China also features in Dutch business activities in relation to the country.

Shift in perceptions

Narratives on China and its rise have changed dramatically in the past decade. First in the US, and then to a lesser extent in Europe, China has gone from being seen as a constructive partner to being viewed as a menacing competitor. A look at reports from think-tanks on both sides of the Atlantic is revealing. In recent years, the use of terms such as 'systemic rival' to describe China have emerged, to China's dismay, More recently, such terms have also been accompanied by phrases referring to 'the need for decoupling', to a 'struggle' with China, a 'clash of values', an emerging 'tech war', and even a 'new cold war'.

Recent European reports have focused on examining the significance of the rivalry between China and the West. A report by the European Council on Foreign Relations (ECFR), for example, was titled *The meaning of systemic rivalry: Europe and China beyond the pandemic*[22]. Meanwhile, a report by the European Think Tank Network on China analysed the position of Europe in the face of the US-China rivalry.[23] King's College London has argued that in post-Brexit Britain there is a necessity for 'rising to the China challenge'.[24] Meanwhile, a report by MERICS titled *Export controls and the US-China tech war* describes the policy challenges for Europe that result from the technological competition between these two nations.[25] The threat posed by China seems to have become the common denominator.

American reports focus on the China threat[26] and have a more adversarial tone than most European reports. For example, the conservative Heritage Foundation has a series called *Countering China*. Meanwhile, the Center for Stategic and International Studies (CSIS) offers a series of reports titled *China Reality Check.* The American Enterprise Institute looks to lessons from the Cold War in *The Dark Art of Political Warfare.*[27] Frank Rose, from the Brookings Institution, takes the US-China rivalry to the next level in his article on China's rise in outer space.[28]

In Australia, China used to be seen as a strong trading partner, but recently perceptions of China have evolved. The titles of the Australian National University yearbooks on China reveal this shift: after yearbooks titled *Control (2017)* and *Prosperity (2018)*, the 2019 edition was called *Power.* The Australian Strategic Policy Institute (ASPI) – a think-tank reportedly responsible for "Australia's changing view of China"[29] - has published a number of influential reports. *The China Defence Universities Tracker,*[30] for example, seeks to raise awareness about China's influence on Australian universities and politics.

The Pew Research Center, in its research on perceptions around the world, has recently published reports which conclude that China's economic growth is mostly welcomed in emerging countries, while neighbors seem wary of China's political influence. In the past few years, negative views of China in Canada and the US have increased sharply. In *Attitudes toward China*, Pew describes a relationship between unfavorable views of China and per capita GDP in 2019 (see Figure 2.2).[31] Citizens in richer countries with relatively more political freedoms have a more negative view of China. Publics in the Netherlands, Germany, France, the UK, Japan, Canada, the US, and Australia largely have unfavorable views of China.

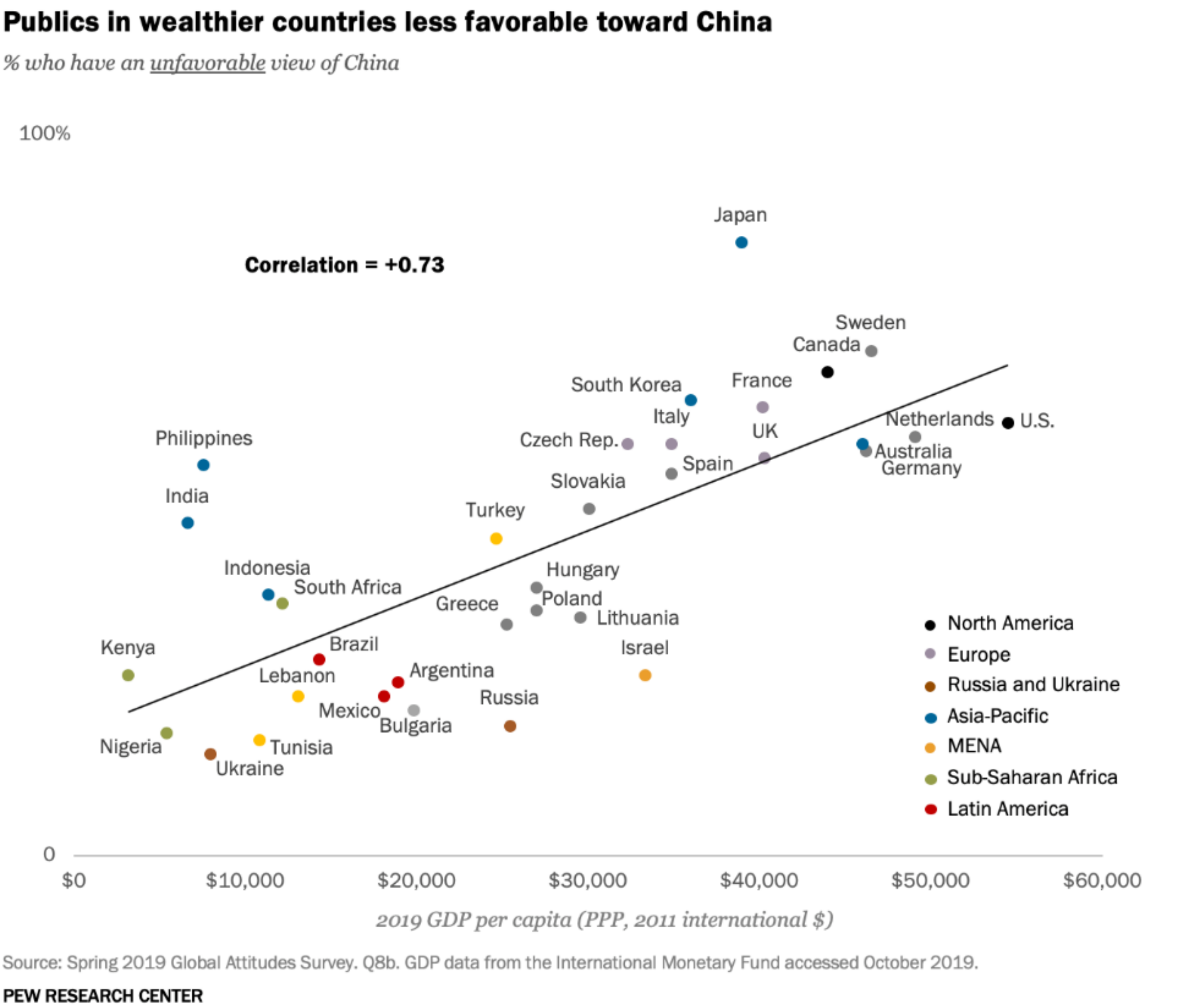

Figure 2.2. Source: Pew Research Center (Spring 2019), *Global Attitudes Survey*

With the Covid-19 pandemic, the world's eyes have turned to China in ways not seen since the Chinese government cracked down on the protestors in Beijing's Tian'anmen Square in 1989. The rise of a more assertive China has become a reality, including for those who previously saw China as a land of unlimited economic opportunities. The pandemic is a clear stress test for Xi Jinping and the Chinese Communist Party. The Chinese authorities will make every effort to maintain control. In our opinion, the global Covid-19 crisis has not fundamentally changed the narratives about China, but the language being used and the contradictions have become noticeably sharper.

3. European business: call for a joint EU China strategy

"China is, simultaneously, a cooperation partner, a negotiating partner, an economic competitor and a systemic rival."

European Commission, March 2019

The European Union (EU) is China's largest trading partner. China is the EU's second most important trade partner, after the US. The economic relationship between China and the EU is growing faster than its relationship with any other major economy. However, as Figure 3.1 below demonstrates, there is a large trade deficit for the EU with respect to China.[32]

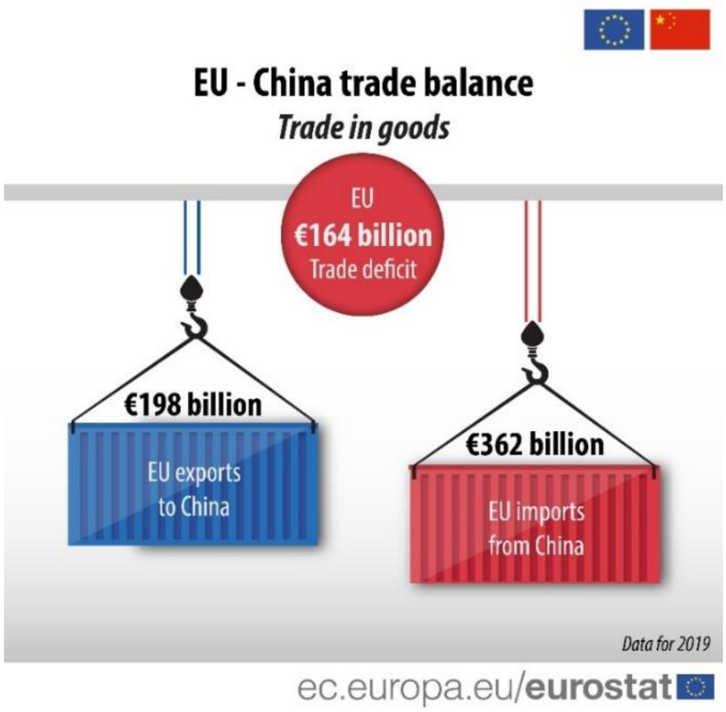

Figure 3.1. Source: EP (May 2020), *EU-China trade and investment relations in challenging times*

The EU's relationship with China offers tremendous opportunities, but is also imbalanced. While China has become an indispensable partner for Europe in addressing global problems like climate change, China is also increasingly perceived as a direct competitor in the pursuit of new technologies and as a systemic rival promoting alternative models of governance. The partner-competitor dichotomy leads to uncertainty. The European business-community has adapted its approach and now calls for an ambitious, unified, and above all independent European China strategy. It seeks a strategy with concrete advice on how to do business with China within the new geopolitical context: What is possible? What are the red lines? Where can business turn when they have questions, concerns, and specific issues?

This is an important moment for relations between Europe and China, with consequences for Dutch businesses. The Covid-19 pandemic, starting in China and spreading to the rest of the world, has accelerated pre-existing trends. The Dutch government, and the rest of the EU, need to address a whole range of questions about relations with China, including:

- How are the Netherlands and the EU positioned when doing business with China, particularly regarding sensitive high technology such as the building of 5G networks? What will be the effects of stricter EU screening of foreign direct investment?
- Which strategic sectors – such as ports, transport, financial services, and media – need a screening mechanism for Chinese investments?
- What are the positions of the Netherlands and Europe given the current mounting tensions between the US and China? What are the likely political and economic consequences of these increasing tensions for the Netherlands and Europe?
- How can Europe prevent its member states being played against each other by Beijing?
- Is there still room for a firm bilateral China-EU investment agreement?
- Do Dutch and European businesses and states want to decrease their supply chain dependency on China? This is a question which has emerged as a result of the Covid-19 crisis.
- Is it necessary to scrutinise supply chains for serious human rights abuses such as those that have been reported in Xinjiang? If so, how might this be done?

Despite the more assertive approach being taken by both the Chinese and European sides, Brussels seems to remain keen on maintaining cordial relations with Beijing. Ensuring strong business ties is still a priority for the EU, according to a recent report by the European Parliament: "We conclude that China is, and will continue to be, a major trade and investment partner for EU countries. In this context, it seems clear that regardless of the direction of the US-China relationship, the EU needs to explore options for fruitful co-existence with China."[33]

Bilateral trade and investment flows have been soaring over the last two decades. Total bilateral trade has increased from €400 billion in 2010 to €600 billion in 2018. Chinese investment flows into the EU have increased four-fold, from an annual average of close to €6 billion between 2009 and 2013, to around €24 billion between 2014 and 2018. Due to the Covid-19 crisis, the figures for 2020 will be significantly lower, but these increases illustrate the opportunities that a strong trade and investment relationship offers to both European and Chinese business.

However, this pretty picture of opportunities is only one part of the story. The increasing assertiveness of China on the world stage, the rivalry with the US, economic espionage, the lack of reforms of the WTO system, a slowdown and even reversal in market-oriented reforms in China, and human rights issues in Xinjiang and Hong Kong, have all created a new and highly politicised context in which European business must find a new balance when dealing with China. Due to the Covid-19 crisis and political tension, a highly anticipated summit between China and the EU, which was going to be held in September 2020 in Leipzig, Germany, has been cancelled.

At the moment there are many obstacles that undermine the potential in the relationship between the EU and China. The consolidation of China's state-led economy presents 'systemic challenges' that lead to market distortions within China, the EU, and on third markets. This undermines the level playing field between European and Chinese businesses. "A fairer economic relationship is therefore urgently needed," says European employers' organisation Business Europe in its recent report on China.[34]

European Round Table for Industry (ERT)

Fifty senior managers from the largest companies in Europe discussed the challenges China poses at a workshop in Germany in October 2019. The workshop was at the invitation of the European Round Table for Industry (ERT)[35] and Chatham House rules applied in order to give participants the opportunity to speak more openly about their concerns. Across the board, participants were very outspoken about issues on which they felt the European Commission needed to take urgent and decisive action. The ERT members formulated four key objectives that the EU should pursue in order to address the systemic challenges posed by China's state-led economic system *and* seize economic opportunities with China:

1. Secure a level playing field between China and the EU
2. Mitigate the impact of China's government-induced market distortions
3. Reinforce the EU's own competitiveness
4. Ensure fair competition and cooperation on third markets.

This clear set of recommendations, produced by the largest European companies, received broad support from the European business community. In an interview with VNO-NCW magazine *Forum* published May 2019, Frank Heemskerk, Secretary General of the European Round Table for Industry (ERT), describes some of the sentiments of European companies regarding China:

"CEOs of large companies should state that Europe is very different from the US and China. We are more concerned with sustainability in Europe, we look at the interests of all stakeholders. Europe is an insane success in terms of peace and prosperity, it is much more than just a market."

And: "The European Parliament must not get in the grip of scary nationalist thinking. Without the EU, we cannot make a fist towards the US and China. [...] I notice a strong commitment to the EU among the CEOs. They see Europe as clearly different from the US and China." [36]

Business Confidence Survey (BCS)

An important indicator for changing trends in business confidence in China is the yearly *Business Confidence Survey* (BCS) which is conducted by the EU Chamber of Commerce in China and has over 600 respondents. The title of 2020's survey is revealing, also pointing to uncertainties felt by business people as a result of the Covid-19 pandemic: *Navigating in the dark.*

Among the survey's main findings:

- Optimism on growth for European businesses in China for the next two years was 48% in 2020 (45% in 2019, down from a high 62% in 2018).
- Over the next five years, 44% of respondents expect an increase in regulatory obstacles.
- Three out of 10 respondents do not expect a level playing field.
- 16% of respondents felt compelled to transfer technology as a condition for market access (down from 20% in 2019).[37]

The top three regulatory obstacles referred to by respondents in the BCS 2020 survey are ambiguous rules and regulations, the unpredictable legislative environment, and discretionary law enforcement. The survey indicates that a major irritant for European businesses is that high-level promises to improve the business environment for international companies, have failed to translate into concrete action by China, resulting in a 'promise fatigue' on the part of European business. Meanwhile, Chinese firms operating in the EU are treated equally and there are clear mechanisms for seeking recourse if they feel discriminated. The clear message from European entrepreneurs operating in China is that it is high time for European companies to get reciprocal treatment.

The shadow of the state-owned economy continues to loom over the Chinese market. In the BCS 2020 report, 48% of European enterprises said they believed Chinese state-owned enterprises (SOEs) gain at the expense of privately-owned enterprises. SOEs are present in their industries and hold advantages in many areas of doing business, including public procurement, the ability to influence policy, and access to financing and licenses. Dutch businessman and sinologist Henk Schulte Nordholt expects this trend to continue: "President Xi is not a fan of the private sector. State-owned companies and the CCP are the engine and core of the Chinese economy in his view."

On the other hand, small and medium-sized enterprises account for 60% of employment in China. The economic fall-out of the Covid-19 crisis is forcing the Chinese government to increasingly support these businesses.

In spite of these issues, China's market is seen as increasingly important for European companies because of China's innovative power. In the BCS 2020, 78% of European businesses surveyed stated that China's innovation environment was equally or more favourable than the worldwide average. European enterprises see opportunity in Chinese innovation and expect to benefit from better suppliers and stronger competition. However, the recent supply chain issues that have arisen during the Covid-19 crisis have created an acute awareness about the dangers of being overly dependent on China. These include issues with the supply of protective gear and facemasks, but also the supply of components to European producers.

BusinessEurope
"A fairer economic relationship is needed and would best be achieved if China created a true level playing field between domestic and foreign firms and addressed the 'systemic issues' that lead to market distortions. A new sense of urgency is needed," BusinessEurope writes in its preface to the 2020 report *The EU and China. Addressing the systemic challenge*.[38] BusinessEurope is an umbrella group comprised of different European industry and employers' organisations from 35 European countries.

For BusinessEurope, the lack of WTO reform – in addition to signs of a slowdown or reversal in market-oriented reforms in China - has changed the picture. The current multilateral WTO-rulebook is designed for market economies and does not adequately address issues with state-led economies. Recent developments in China have led to a growing awareness among the European business community that systemic problems are worsening.

Addressing these problems requires a comprehensive and whole-of-government approach, rather than an 'issue-based' approach. The EU needs to equip itself with the right toolbox to engage China and "address China with one voice and act united, for example by moving towards qualified majority voting (QMV) on foreign policy matters in the future".[39] The BusinessEurope report also states that the EU should set up a mechanism to invest in knowledge sharing and capacity building in order to achieve information parity and informed decision-making across the EU.

German BDI
In 2019, the influential Bundesverband der Deutschen Industrie (BDI) presented its *Policy Paper China: Partner and Systemic Competitor?*[40] The BDI is the umbrella organization of German industry, representing 35 trade associations and more than 100,000 enterprises. The BDI-report has a clear message: **"A competition is emerging between our system of a liberal, open and social market economy and China's state-dominated economy. Politicians, society and the business community in Germany and Europe need a broad public discussion and orientation on this challenge."**

BDI says that a defensive European industrial policy against China's state-controlled economy is not an option: "It would be pointless to follow the *dirigiste* approach of Chinese industrial policy".[41] According to BDI, it is no use trying to change China. Therefore Europe needs to come up with an ambitious, long-term agenda, with the aim of strengthening its own competitiveness. BDI states that: "The Chinese government is planning over long time frames and is developing ambitious long-term goals. System competition with China is forcing us to think more strategically and long-term. (…) The German government and EU institutions (…) need the courage to develop and implement visions and 'moon missions'". These might include things such as the development of a comprehensive 5G-network or the expansion of e-mobility in Europe.[42]

The BDI report argues that the solution for the challenges China offers can be found in Europe itself. Only a strong, united Europe can compete with the other global players. The '17+1 group' (consisting of 16 Central and Eastern European states plus China) is a clear example of division within Europe. That can only be tackled if the European Union is able to act coherently and offer an attractive alternative to what China offers to individual Eastern European nations.

To sum up, the ERT, BusinessEurope, and BDI all, in unison, express a sense of urgency and demand decisive action concerning Europe's economic relationship with China. However, the question is whether there is an equally unified answer in Europe's political institutions.

European Commission
The call from Europe's business leaders for decisive action on China coincides with an awakening within the EU institutions in Brussels. In March 2019, the European Commission presented its *EU-China: A Strategic Outlook*.[43] This report contains remarkably robust language and reveals a fundamental shift. Much to the chagrin of Beijing, in its introduction the EU calls China a 'systemic rival'. To quote the report: "China is, simultaneously, in different policy areas, a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival

promoting alternative models of governance. This requires a flexible and pragmatic whole-of-EU approach enabling a principled defense of interests and values."[44]

The European Commission's view is that problems with China encompass more than just economic incidents. The Commission is convinced that the challenge is systemic and that the problem is geopolitical. The report also takes into account issues such as human rights, climate change, regional security issues like the South China Sea and China's increasing influence in Africa and the Balkans. China's assertive role in the world requires a response that is more than just economic.

Netherlands Ministry of Foreign Affairs

In May 2019, the Dutch government presented its first ever China strategy: *The Netherlands and China: a new balance*. The report is a plea for a new, more balanced relationship with China, set against the background of the geopolitical rivalry between China and the US. Stef Blok, Dutch minister of Foreign Affairs, said during the presentation: "If you ask me 'Should we fear China?' my answer is no. But we have to be realistic. We must base ourselves on facts and knowledge, not on feelings and images. We may have been too good-natured and gullible in the past."

Giant or dwarf

Many European and Dutch businesses hope that Brussels will not only come up with a clear China strategy, but also display its strength and act upon its words. As long as a China strategy is non-existent, the economic giant Europe will remain a political dwarf. In June 2020, a video summit meeting took place between the EU Commission President Ursula von der Leyen and Chinese President Xi Jinping. Von der Leyen stressed that substantial commitments from China are needed on transparency in subsidies and the topic of forced technology transfers.[45] Expectations are now focused on Germany, as it took over the EU presidency in July 2020.

Fuelled by the increasingly acrimonious trade war with the United States, China is likely to intensify pressure on Europe. Being crushed between China and the US is not an appealing proposition. It is a key task for Brussels and European capitals to ensure that Beijing is not able to continue to pick off individual European governments.[46] The European Parliament Policy Department puts it like this: "Within this context, the EU needs to reassess its longer-term strategy of engagement with China. Systemic rivalry is, of course, one option but cannot be the only one. China is too big a partner for the EU and systemic rivalry as a starting point can easily lead to deteriorating relations and even outright confrontation. As China's importance is likely to grow, the EU will need to define a nuanced approach to China, setting out conditions for a fruitful co-existence with China while also strengthening instruments to defend EU interests and EU values."[47] Europe has the economic strength to make a stand, what is needed now is political will.

4. Impact of politics on Dutch business in China

"Leading a company in China is like standing on a carpet, that - at any time – can be pulled out from under your feet."
Maarten Bijl, SHV Energy China, CEO

"In China everything is possible and nothing is easy. Take your chances, be open to the Chinese way of doing business and take a genuine interest in China."
Mathijs de Boer, Rabobank China

This chapter is based on a series of interviews that we conducted in the first half of 2020 with leading actors in the Dutch business world with regard to China. As many business leaders are reluctant to openly speak about their dilemmas, we have supplemented the information from these interviews with information and quotes from the media. To our knowledge, no other recent research has been conducted into the influence of the politicised environment on Dutch business in China.

As a result of China's economic and political rise, and Xi Jinping's ambition for China to become the world's leading power, politics has crept into business dealings. In this chapter, we focus on the role of politics in unfavorable business practices and on the hurdles which Dutch business faces due to – open or hidden - Chinese political pressure. The chapter begins by discussing the often-expressed complaints made about unfair business practices. These include complaints about unfair competition by Chinese privately-owned and state-owned companies and complaints about intellectual property theft. Following this, the chapter examines specific Chinese political hurdles. It analyses the repercussions of both Chinese and Dutch national security issues for Dutch businesses and the fall-out for supply chains and reputational risks. The chapter concludes by looking at Dutch icons (companies that evoke a feeling of Dutch pride). It asks whether, in the face of China's rise, it is necessary to formulate a more offensive policy towards certain sectors, or even protect strategic sectors of Dutch industry. First, however, we will take a look at general changes in the Chinese marketplace.

Everything is possible, nothing is easy

> "Insiders are very much aware of the worries and risks of doing business in China, but if business leaders don't talk about them openly, politicians and civil servants will never know what the issues are. Now, [with tensions rising between China and the US, the technology war and China being labeled as a systemic rival by the EU,] the core problems need to be openly addressed."
> Dutch manager with 15 years of experience in and with China

A range of Dutch companies are being severely affected by both the geopolitical struggle between the US and China and also the highly politicized Chinese business environment. This is because the open and globalised nature of the Dutch economy means that it 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.

Dutch companies have a history of four centuries of trade with China. Over the years they have managed to navigate many issues, for example regarding legislation, regulations, and market access. In 2020, more than 1,000 Dutch subsidiaries are active in China and over 500 Chinese subsidiaries are active in the Netherlands. The Netherlands is China's second largest trading partner within the EU, after Germany. Between 2001 and 2018, goods exports to China increased more than tenfold, from €1 billion to over €12 billion or 2.4% of the total Dutch goods exports. Imports from China grew fourfold, from €9 billion to more than €40 billion in the same period. This is around 9% of the total Dutch goods imports.[48]

As has been discussed earlier in this report, the context in which Dutch companies are doing business with China has become increasingly politicised. Dutch national policy towards China has somewhat shifted away from its traditional focus on economic interests and now also takes security and other issues into account. This has produced an important question for Dutch companies: Is it still possible to maintain an apolitical posture in an increasingly politicised and punitive China? In the American press, which is often a step ahead of that in Europe, China has been described as a 'minefield'.[49] That perception also already exists in the Netherlands to some extent. Some Dutch companies have been (or fear they will be) directly confronted with consequences of national or local Chinese political decisions, others suffer the consequences of rising geopolitical tensions. 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 that China poses to Dutch business.

Most of the Dutch companies we interviewed are active in China because they want access to its vast market. However, the time when Dutch companies could easily succeed in China may now be over. Hein Schumacher, CEO of the dairy producer FrieslandCampina, described how the company "used to hit home runs with China" but this has now passed:[50]

> FrieslandCampina's success on the Chinese market is an example of how a Chinese domestic problem has led to a windfall for international business. A scandal with contaminated milk powder in 2008, led to kidney damage of over 300,000 Chinese babies and the death of six. Lack of trust in the quality of domestic milk formula caused a run on Dutch (and New Zealand) milk powder that lasted for years. Now, more than a decade later, Chinese dairy producers like Yili and Mengniu have high quality standards and finally have won back a substantial market share, although some Chinese consumers still prefer foreign brands.

However, what is still true in 2020 is that if you have world leading knowledge or technology, China is keen to cooperate and provides many opportunities. The Netherlands is a pioneer in sectors like greenhouse horticulture, urban ecology, agricultural technology and intensive cattle farming. China still lags far behind in those areas. According to a research coordinator at Wageningen University, China is currently at the same stage of development which the Netherlands had reached during the 1980s. However, the coordinator notes that "they are learning fast.... [and] in the past ten years, they [have] caught up twenty years."

"It's not easy to do business in China," says Rob Zomer, international business manager at Evofenedex. He sums up the often-heard complaints of Dutch businesses: "The Chinese protect their own producers. And then there is also the problem of intellectual property. Companies are afraid that their products or services will be copied or that they will lose their rights."[51]

Rabobank's Mathijs de Boer concurs: "When Dutch companies start doing business in China, they often think: 'There is so much trading history between the two countries, we will succeed easily.' Those companies don't stand a chance." De Boer goes on to say that: "If there is a loophole [in negotiation or a contract], the Chinese will find it. So make sure you are well prepared. Chinese colleagues know the workings in business and political circles, their support and insights are indispensable."

A former CEO underlines the influence of politics on business in China, especially for multinational companies: "The Chinese government wants you to constantly brief them." He states that companies mostly interact with political instituations at the municipal and district levels. The influence of central level politics is only obvious during summit meetings and state visits. Small and medium sized enterprises (SMEs) receive much less government attention. However, they do deal with district-level authorities regarding security issues, licenses for high-tech companies, pollution issues, and now issues related to Covid-19. Local authorities have a lot of impact. "They can be very decisive, but they're not always consistent, and they lag a few years behind Beijing, when it comes to their behavior and anti-corruption enforcement" a Dutch manager says. Local authorities do have a lot of control. They look to Beijing for guidance, but can act autonomously, especially if they are far from Beijing.

> "Local authorities can decide to close a factory, just like that. We have a plant in a district of Guangzhou that has already operated for 25 years. Now the city government has developed urban renewal plans for the area where our plant is located. So they repurposed the land. They want to set up a brand new 'industrial park', and now we have a problem, because somehow in China, you never have all the necessary licenses. So they can easily find a way to kick you out. Compensation is an option, but that would be a long, cumbersome and non-transparent process."
>
> Dutch CEO in China

Closely watching China's political decision making – including the yearly National People's Congress sessions that are considered 'boring and predictable' – can pay off.

> "Sometimes a national policy change works to our advantage. The 'coal to gas' campaign is a case in point. It's imperative to know the Key Performance Indicators (KPIs) of the government. We position our goals to match their KPIs." Responding to the national policy change led to a sector growth rate of 15%. During the National People's Congress meetings, SHV Energy China started counting how many times the leaders mentioned the word 'hydrogen', seeing a big increase between the 2018 and the 2019 sessions. It also worked like this before and on a lower level. For the Asian Games in Guangzhou in 2010, the local government wanted to get rid of all diesel. So LPG Autogas proved to be an opportunity, suddenly everyone was very positive about us. That is possible in China too."
>
> Maarten Bijl, SHV Energy China

Swine fever is another example of how focusing on national policy can open doors. Recently, China lost half of its pig population due to an outbreak of African swine fever (deadly to pigs, not harmful to humans). Getting the disease under control has been a national priority, not least to lower skyrocketing pork prices and keep consumers happy. That political fact has opened up interesting possibilities for Dutch business and also for

Dutch universities, as Chinese scientists are eager to make use of the politically favorable time. “Suddenly, doors for interesting cooperation proposals and projects swing wide open,” says a researcher at Wageningen University.

Domestic developments in China can have a detrimental effect as well. Take the food industry for example. A local food safety incident can cause a state of panic at the local government offices. “Suddenly they demand inspection after inspection, fear seems to rule,” says a Dutch manager who adds that the situation has deteriorated in the past few years. Lower level officials now avoid taking decisions for fear of being held accountable, especially during politically sensitive periods like the celebration of 70 years of the People’s Republic of China in October 2019. The ongoing anti-corruption campaign has also played a role.

The fact that many homegrown Chinese companies have been established and flourished over the past four decades has changed the position of international companies. Lin Lianqi, former head of Akzo Nobel China and Philips Lighting Asia and now an independent business advisor, notes that in the past decade the importance of multinational companies (MNCs) has diminished in China. “China is much more mature. Reliance on MNCs and consumer interest in foreign brands has decreased.” This has influenced the Chinese business environment fundamentally. One change that Lin sees within MNCs themselves is that China no longer get special attention.The Chinese market is now part of a global strategy. “That one-size-fits-all approach doesn’t work, you need a local Chinese approach to operate here successfully. Many Dutch companies don’t seem to understand that the Chinese consumer market is very different from European markets, for example in the level of service consumers demand.”

The vast changes within the Chinese market, and the increasingly politicised environment, have led to a negative and counterproductive attitude among some Dutch business people, including those with long-time China experience. A former vice-chair of the EU Chamber of Commerce in Shanghai worked on changing that negative attitude. He focused on a constructive tone of voice, stressing that “we have to realize we are guests in China and understand China’s thinking and philosophy, while pushing forward our requests for a level playing field.” Meanwhile, Mathijs de Boer, from Rabobank, offers the following message to the business community seeking to do business in the new, assertive China: “In China everything is possible and nothing is easy. So come, take your chances, make sure you’re open to the Chinese way of doing business and take a genuine interest in China.”

4.1 Unequal business practices

Most of the reports in the Dutch media about doing business with China focus on the lack of a level playing field. Often mentioned practices are unfair competition (for example due to Chinese government support for state-owned enterprises), ambiguous Chinese rules and regulations, and the stealing of trade secrets.

Of course, the lack of a level playing field is not always the real cause of problems. Other issues can be at play as well. Companies might encounter problems with managers who are not capable of adapting to the Chinese business environment, with hiring the right people, and with managing these people successfully. China strategies are sometimes built on assumptions and misinformation. According to Sinologist and business advisor Valérie Hoeks, often the essence of the problems she comes across is "lack of 'alignment' between Dutch management and the local Chinese management team. In most cases, there is too little room for Chinese employees to give input to management, or they do not feel secure enough to do so." The result is that essential information about the local situation never reaches Dutch management.

Still, when faced with the option of pulling out of the Chinese market, many businesses mention that the country's 1.4 billion potential consumers are a compelling reason to stay.

> "There used to be non-reciprocity for companies to participate in programs funded by the Chinese government. Subsidiaries of Chinese companies in Europe could easily participate in European technology programs, but vice versa this was much more difficult. Although possible in theory, in practice it was nearly impossible to take all administrative hurdles to get a proposal granted, even with local Chinese representation. This created a non-level playing field in government tenders where companies would get credits for participating in Chinese government funded R&D programs."
>
> Former CTO of a Dutch company in China

State-Owned Enterprises

In some sectors, the Chinese market is opening up. For example, the market is opening, albeit slowly, in pharmaceuticals, medical devices, cosmetics and financial services. Dutch companies can take advantage of this. In these sectors, greater market access is an important factor in causing companies to feel welcome in China.[52] But in some cases, opening up only happens after Chinese SOEs had acquired leading market positions, leaving little room for newcomers.

In other sectors, such as in telecom, defense and artificial intelligence, Beijing strives for what can be described as 'industrial hegemony' by creating 'national champions'. It is in these areas where Chinese state-owned enterprises (SOEs) play a vital role. In these sectors, there is a growing trend towards increasing protectionism and state subsidies. China's arguments to defend its support for SOEs are interesting. A Party School economist explains that SOEs form a 'buffer against international pressure' and that they fulfill wider social responsibilities.[53] An economist from Beijing's Renmin University argues that SOEs play a pro-growth role in China: they stabilise growth in economic downturns due to massive investments; they promote technical progress by investing in risky areas of technology; and, they provide workers with a living wage.[54] The logics of Beijing policy makers are part and parcel of the business environment, so it is advisable to take note of them.

Business advisor Lin Liangqi admits that in some areas, such as in the technology and defense sector, local players are "more welcome". However, according to him the real issue is not the lack of a level playing field, but the fact that China's preferential treatment of international companies is disappearing. Lin says that although SOEs do get government subsidies, Dutch MNCs like Philips and Akzo Nobel do not have SOE competition and yet they still lose market share. As a reason for why MNCs are losing business in China, Lin points to the way which Chinese companies are extremely orientated towards service, while MNCs tend to be more oriented towards products. "To me, the main issue is that for many Dutch companies, the customer is not the number one priority. In the Chinese market, you can't just rely on your brand anymore. You need to cultivate a group of distributors and outlets. The end customer is important, and so is service. Those [Dutch] companies focus on premium products and profitability and maybe even look down a bit upon local competitors."

> "Company X pushes their traditional Dutch premium product in the Chinese market, with a margin of 60%. Chinese clients have a clear preference for a slightly different product. That product has a much lower margin, only 30%, but comprises 90% of the Chinese market. Company X does not want to invest in such a low-margin-product. Now their market share is dropping."
> Lin Liangqi, business advisor

One China-based senior executive with a Dutch multinational that has been operating in China for over four decades also holds up a mirror to Dutch business. He describes how forty years ago there was no home market in China, but now the market is huge and everyone wants a piece of the pie. "China is extremely price and consumer oriented," he says. "For Dutch MNCs it's difficult to keep up with that." He hears complaints from the

Dutch business community that 'China is very unpredictable', but he sees this as an easy excuse being used by by 'non-performing intermediaries' or people who speak Chinese, but do not know the Chinese business environment well enough.

All of the interviewees mentioned that the speed of change in China is enormous and some described how consumer behavior changes every month. Some agreed that it was difficult for Dutch companies to keep up. One China manager stated that the headquarters in the Netherlands of companies with operations in China "don't have a clue". Dutch businesses are impressed by how fast Chinese companies adopt new technology and integrate it into their production. They have already done this while their Dutch counterparts are still discussing the new technology.

One area of unfair business practices in China where progress has been made is in tackling corruption. A nation-wide anti-corruption campaign, which was initiated by Xi Jinping after he came to power, has led to steps to reduce corruption and also to new rules for enforcement. This is the upside of this campaign. The downside, according to Dutch businessmen, is that the exposure to risk has increased. It has become much more difficult to smooth out problems by, for example, entertaining officials.

> "We had a leakage at a factory, caused by a supplier, so we had to temporarily close it. It was fixed quickly, all government safety checks were okay, but a year has passed by and the factory is still closed. Local authorities don't take any action. In recent years, they've become risk averse. Bribes (a bonus for a local official taking risks) have gone, but punishment in case of a safety incident (the downside for local officials) is still there. To me, that's Chinese local government in a nutshell. You can lobby whatever you want, but there's no way to get through. So we've created a web of relations, with district governments, mayors, the Dutch consulate, you name it. But our competitors *guanxi* webs are even stronger, as they have a longer history and still have other means."
>
> Dutch CEO in China

The alleged unfair competition by Chinese state-owned and privately-owned companies does not just affect Dutch business within China, but also those in the Netherlands. The Dutch producer of buses VDL Group has complained about the Chinese state subsidies given to its Chinese competitor in the Dutch market. This competitor is the Chinese manufacturer of automobiles BYD. VDL Group complained about the subsidies after BYD won a bid for an order of 259 electric buses for the provinces of Overijssel and Gelderland. Another target of complaints is Alibaba which has been beating Dutch competition by delivering countless packages of cheap products in the Netherlands. In contrast, the operations of Europe Container Terminals (ECT) in Rotterdam harbor, a company that is owned by Hong Kong and Chinese conglomerate Hutchison Whampoa, seems uncontroversial.

IP infringement

Surveys on the business climate in China often indicate that forced knowledge transfer in China still is a major concern of Dutch business (see the appendix of this report). The Dutch security service AIVD warns about IP theft, economic espionage and the risk of infiltration in its yearly report.[55] According to a LeidenAsiaCentre report on collaboration in higher education, Dutch universities have also become aware of the possibility of IP-theft within academia.[56] Meanwhile, the China policy paper produced by the Dutch Ministry of Foreign Affairs states that "the safety, awareness and resilience of Dutch business and knowledge institutions against risks related to economic security seem insufficient."

Managers of Dutch companies do not like to discuss the issue of infringement or theft of intellectual property (IP) in public. During a closed session held recently, a senior manager of a Dutch company shared his concerns about the issues of forced knowledge transfer, espionage, and IP-theft. Then, when speaking with media representatives later in the day, he downplayed those exact same concerns. One eye-catching example of IP theft was that suffered by the Dutch semiconductor producing company ASML. The case had played out behind closed doors for years and only became public as a result of a court ruling.

In May 2019, a US court ruled in favor of the semiconductor technology company ASML in an IP theft case. ASML, the darling of the Dutch high-tech industry, was suddenly front page news. The company won US$845 million in punitive damages in this case, involving six former employees, all with Chinese names.

At the time, Peter Wennink, CEO of ASML, said in a statement that "the suggestions that we were somehow victim of a national conspiracy is wrong. The facts of the matter are that we were robbed by a handful of our own employees." Adding: "We resent any suggestion that this event should have any implication for ASML conducting business in China."[57]

The CEO of ASML, Peter Wennink, seems to have been walking a tightrope between ASML's business interests in China and strong anti-China sentiments in the US. ASML has become a pawn in the US-China tech war, with the Dutch government withholding an export license in 2020. It is when when Beijing states that it aims for China to become the world leader in a certain industry that IP theft and national interest come together. Later in this chapter (in section 4.3), we will examine more closely how that dynamic has played out for ASML and similar cases.

Joint ventures in China often involve technology transfer. Most Dutch companies decide not to use the latest technology in their Chinese factories. A former chief technology officer (CTO) of a Dutch company in China comments on this decision, saying that: "You must be smart: you don't have to bring all your technology to China and you can stay one step ahead of the Chinese competition. Moreover, in several areas, China is now so advanced that knowledge transfer takes place in the opposite direction." He stresses that, because a lot of knowledge is in people's heads, when people leave the company or are seduced into leaving this can present a much bigger problem. "You can try to build a prison, check laptops, USB-sticks and wastepaper bins, but that does not work. I think it's much better to educate people, to tell them that knowledge is property of the company, so taking it to another company is stealing."

Chinese high-tech companies also now have an interest in the protection of their own patents. This will impact awareness about the issue of IP theft in China. The creation of special IP courts in some larger Chinese cities has also improved the situation. In addition, since the beginning of 2020, the Chinese law has changed and forced technology transfer has been banned.

Hostage taking

A frightening form of unfair business practices was mentioned by multiple sources. This practice is not openly discussed and not the first thing that comes to mind when doing business: hostage taking.

> "If anything goes wrong, if there is an accident, for example, then the company is liable. If you don't cooperate with their way of fixing the problem, they can withdraw your licenses. Or they say: 'We will have a couple of people from your company, including you, arrested.' It's pure blackmail. That kind of threat has a deep impact. I left the country for a month, came back when I felt safe again, but now I do have some extra grey hairs."
> Anonymous

It proves difficult for foreign companies to trust the Chinese legal system. While there have been many new laws and regulations adopted over the past few decades, and these have established more clarity about the 'rules of the game', in the end judges can be influenced by political priorities, especially if national interest or the Chinese Communist Party are involved.

4.2 Political hurdles

China's growing assertiveness on the world stage is impacting business as well. Incidents of pressure, bullying, intimidation, or boycotts are mentioned by interviewees and can be found in news reports. Recently, Beijing has imposed a national security law in Hong Kong, practically abolishing the 'one country two systems' model which has been in place since the handover in 1997. The legislation has triggered concern about China's judicial system and could undermine trust in China's promises. [58] After political pressure, international companies operating in Hong Kong feel coerced to openly support the law, as the example of the banking giant HSBC shows. HSBC openly backed the security law on its account on the WeChat messaging app after pressure from a former Hong Kong leader. Analysts warn that international firms in Hong Kong must brace for increased political risks with little room to manoeuvre.[59] That outright pressure is a good example of the way in which China, in the words of CEO of SHV Energy China Maarten Bijl, seeks to "take one to warn one hundred, and foreign companies are an easy target."

In 2019, during protests in Hong Kong, Dutch businesspeople were already worried about increasing pressure on the business community. Beijing threatened businesses with 'consequences' if they permitted their employees to take part in demonstrations and expected companies to show their loyalty to China. After intense pressure, the airline Cathay Pacific, which is part of the Hong Kong and London-based conglomorate Swire Pacific, asked all their personnel to refrain from participation in 'illegal protests'. Many other businesses kept out of the spotlight because they feared repercussions. The Dutch business community in Hong Kong expressed worries about the situation in Hong Kong and the political fall-out, but prefered to stay anonymous. Repercussions can range from being denied a visa to intense intimidation.

Pressure is sometimes exerted by officials, but at other times it is more indirect. A company or country might be pressured, for example, through an article in Chinese state media with quotes from 'unknown sources' calling for a boycott. This is what happened to the Netherlands when, in the middle of the fight against the Covid-19 pandemic, it changed the name of its representative office in Taiwan. The Netherlands had ordered vast supplies of face masks and personal protection gear for medical workers. Signals by Chinese authorities and state media after the name change led to nervousness about postponement of deliveries, showing that this kind of arm-twisting can have an effect.

For decades, the de facto Dutch embassy in Taiwan was called 'Netherlands Trade and Investment Office'. Guy Wittich, the head of the office, announced a name change on King's Day, April 27, 2020, in a Facebook video, saying: "As of today our office name is 'Netherlands Office Taipei',". He explained that the expansion of activities had led to the change, to 'become more inclusive'. The Netherlands had followed the example of Australia, the UK, Japan and other countries.

The next day, China protested the name change and state newspaper Global Times published an article with the headline: 'Netizens call for Dutch products boycott, halt to medical exports to Taiwan'. A couple of days later, Global Times called the name change 'playing with fire' and said that, according to 'experts', the change poses risks to ties between the Netherlands and the Chinese mainland.

For Beijing, the so-called 3 T's (Taiwan, Tibet and Tiananmen) have long been sensitive issues. China has taken offence about 'incorrect maps' and the use of 'incorrect names' for regions. Many international companies struggle with choosing how to refer to the Special Administrative Regions (SARs) of Hong Kong and Macao, and also how to refer to Taiwan. The Dutch airline KLM has opted for: "KLM in China: KLM flies to seven destinations (including Taiwanese Taipei)" and for "Hong Kong, China" and "Taipei, Taiwan, China". KLM has also opted for the use of 'regions' instead of 'countries' to avoid complications.

In the past few years, many more issues have arisen. Chinese authorities and state media have increasingly made use of phrases like 'hurting the feelings of the Chinese people' to express displeasure in the actions of foreign businesses or governments. The things that Beijing is 'offended' by have ranged from comments about the protests in Hong Kong or the detention and forced labor camps in Xinjiang to depictions of Chinese people's use of chopsticks and the use of a Dalai Lama quote in marketing campaigns for a luxury brands. These latter two issues have led to consumer boycott of the brands by members of the Chinese public.

In March 2020, an incident occurred involving the delivery of 600,000 inferior face masks intended for medical personnel in the fight against Covid-19. The Dutch government complained and sent these masks back to China. The immediate reaction from the Chinese authorities was to lay the blame with the Dutch themselves. A spokesperson from the Chinese Ministry of Foreign Affairs (MFA) said that the Chinese producer of the masks had clearly stated that they were not intended for medical purposes. Chinese social media exploded with anger about arrogant Dutch people, fueled by seemingly coordinated disinformation. In China, government propaganda appeared to be highly effective at mobilizing public opinion. This propoganda consisted of repeated narratives in the state media which seemed to convince a large part of the Chinese population. "Do not politicize defective masks," the state broadcaster CGTN warned the Dutch a few days later. The Chinese MFA subsequently announced that relevant Chinese authorities had issued stricter supervision measures, putting the conflict to rest.[60]

Chinese companies are very aware of the value of patriotic behavior. They know that they can improve their reputation with the Chinese authorities by developing software for facial recognition programs that can be used by security organs, by developing an app with which the public can study Xi Jinping thought, or by halting the streaming of the NBA season during a political spat. Meanwhile, the same kinds of activities pose a reputational risk for European or Dutch companies because these companies have to take the complaints that migh be made by their domestic consumers and shareholders into account. Involvement with a Chinese company that is linked to forced labor, military-strategic issues, or China's massive surveillance industry, could lead to reputational risks for any Dutch company.

The situation in Xinjiang is a serious political issue that is impacting Dutch companies which do business in and with China. In China's remote western Xinjiang province, hundreds of thousands of Uighur Muslims have been sent to detention camps (China calls them 'vocational training centres').[61] There are suspicions that Uighur forced labor is being used in supply chains of western companies. This forms an ethical and reputational risk for companies who produce products or parts in Xinjiang, for example in the automobile industry. Another flash point is the South China Sea, where China is building islands, contested by neighboring countries and international law. For the Dutch dredging and offshore industry, it is important to assess pros and cons of getting involved in this sensitive area. These ongoing political issues, in which businesses might become involved, mean that companies need to develop strict internal procedures and risk profiles. Another political issue which could have significant influence on Dutch businesses is the US-China trade war. A US embargo might lead to restriction on US components in Dutch products. In this way, different political issues can cause a lot of work for financial, legal, and procurement departments in the Netherlands.

'KPN under attack for cooperation with the Chinese' shouts newspaper headline in January 2020.[62] KPN, the Dutch telecom provider, and Sunway, a partner of Tencent (the Chinese internet giant known for developing superapp WeChat) set up a joint venture in 2018 to develop a digital travel guide for Chinese tourists in Europe: WeGoEU. The app uses the WeChat platform. This is very convenient, as WeChat has over a billion users. The problem is data sharing. WeGoEU collects information on Chinese travellers in Europe and, according to the privacy statement of WeGoEU, that information could end up on Chinese servers. "We have lost our moral compass," a KPN manager says anonymously. Joost Farwerck, KPN CEO, tells broadcaster NOS that "it's absurd to think we use those data to pass on to the Chinese."[63] Nevertheless, due to media exposure, Farwerck says, KPN might reconsider the app, showing the interconnectedness of China, privacy concerns and reputational risk.

Dutch entrepreneurs must find a balance between justified concerns about human rights and security on the one hand and economic opportunities on the other. Putting values first - by basing their China policy on our democratic values – could help in finding the right balance.

4.3 Dutch and Chinese national interests

In discussions on doing business with China, issues of national security have come up. This is a result of China's rise and its stated ambition to become the world's number one (see Chapter 1). The Dutch government and business sector have become aware of the importance of examining their dependencies on China. They are discussing whether there is the need for the protection of Dutch strategic industries as well as whether, in certain sectors, Dutch innovations should be prevented from falling into foreign hands. It is also important to (re)consider the protection of Dutch critical infrastructure. In the Netherlands dikes and drinking water, as well as essential communication networks and medicine, come to mind.

Some paint a picture which pits China's 'raw mercantilism' against Europe's free market trading system, leaving the EU with little defense against China's 'opportunistic conduct'. Representatives of Dutch business see the ambitious plans on the Chinese side and suggest that Xi Jinping's goal of the great rejuvenation of China could result in Chinese authorities and business going to great lengths to achieve the upper hand in acquiring technology. 'Serving the country' might prevail over business ethics, when the national interest is at stake, they fear. To one observer, the Belt and Road Initiative (BRI) "looks like a divide and rule plan. Why would Europe receive that with open arms"

The Covid-19 crisis laid bare some of the vulnerabilities in the supply chains of global business. It has accelerated the trend of decoupling (or anti-globalization) that was already in motion as a result of the US-China trade war. There is no doubt that such decoupling can be achieved, but it will take time to build up industry supply chains in Europe and the US. International companies might need new regional strategies. Many chemical raw materials, for example, come from China. Commenting on the idea of decoupling, one senior executive states: “It is possible, of course, but it takes time to adjust or reshore. China still has the most complete supply chain in the world. Take face masks as an example: everyone can make them, but China is one of the few countries, if not the only country, who can mass produce a large quantity of them in a very short time.”

One of the lessons provided to businesses by the Covid-19 pandemic and the trade war has been not to put all your eggs in the basket of one provider. Self-reliance has become a buzz word and both China and the US are decoupling. The US has put in place export controls for AI, quantum computing, semiconductors, and 5G. Meanwhile, China has taken measures to reduce exposure to US technology and invest in high-tech at home. Kurt Sievers, the new CEO of the Dutch chipmaker NXP, suggests that maybe it is an advantage to be perceived as a European company during the US-China trade war. The trade war impacts the high-tech industry profoundly, so all scenarios are on the table. “Don’t break anything you might need in the future,” he says, when discussing Huawei, an important customer for NXP.[64] For others, a ‘China +1’ strategy is an answer to those risks: first go to Vietnam or another Southeast Asian country and then to China. But some companies, like ASML, are caught between a rock and a hard place.

> Innovation leader ASML, that refers to itself as ‘the most important tech company you’ve never heard of’, caught the attention of the US government (after being targeted by Chinese engineers in a case of IP theft, see 4.2). The Trump administration has tightened the rules to prevent China from obtaining US high tech. In early 2020, the US government mounted a campaign to block the sale of ASML’s highly specialized chip manufacturing technology (EUV lithography machines) to China. US Secretary of State Mike Pompeo and US ambassador to the Netherlands Pete Hoekstra, put their full weight behind lobbying the Dutch government in order to prevent China from getting hold of advanced technology.[65] “We have made it clear to the Dutch, that we believe this highly sensitive technology does not belong in certain places,” ambassador Hoekstra is quoted as saying in the leading Dutch financial newspaper.[66]

Former Dutch ambassador to China Ed Kronenburg, added a twist to the story by warning of the dangers of giving in to US pressure: “If the [Dutch] government allows itself to be used as a pawn by the US, don’t expect that Dutch companies can do business in China without restraint.” He added that “This will come around. You never know how and when, but Chinese remember everything.”[67] ASML was clearly caught between a rock and a hard place, with pressure coming from the US, China and the Netherlands. At the time of writing, the Dutch ministry of Foreign Affairs has not issued an export license to ASML for the advanced lithography machines.

The Dutch multinational Philips is also affected by the trade war. CEO Van Houten told Dutch BNR radio: “In China, we produce masks for respirators for the American market. We will have to produce those in the US now, to avoid import tariffs.”[68] Chinese companies that are blacklisted by the US pose a problem for Dutch business and government as well. The Covid-19 crisis has deepened the lack of trust between China and European nations.

Huawei is a Chinese high-tech firm that is blacklisted by the US, along with facial recognition company HikVision, ZTE and many others. Strong ties between the companies and the Chinese government are the primary reason for the US ban. The ban has far-reaching consequences, also for Dutch consumers: Huawei mobile phones can’t offer any Google services, including the Google Play Store, for example.

Huawei has shifted its focus to the next generation of connectivity, building a 5G infrastructure around the world and setting the global standard. US pressure is mounting on European allies to prevent Huawei from getting contracts to build the 5G network. In the Netherlands, the core of the network is not open to Huawei, and the company is not allowed to participate in the 5G-auctions, fearing a ‘kill-switch’ could be installed to sabotage the network.

4.4 National icons

There are certain industries where the Netherlands does not want to depend on other nations, now and in the future. In times of economic downturn, calls for a Dutch ‘industrial policy’ become louder. However, a question is how decide which sectors or companies to support and rescue. The national airline KLM is sometimes mentioned as a national icon, as are Schiphol Airport and the Port of Rotterdam. All form part of the Netherlands’ role as the ‘gateway to Europe’.

The maritime sector is important to the Netherlands. In addition, all water related industries are vital, as the Netherlands needs 'to keep our feet dry' in the future as well. Therefore, supporting the maritime sector might be seen as keeping vital technology and innovation in Dutch hands. The Netherlands used to be a shipbuilding nation. Now the majority of the shipbuilding industry has moved to China and Korea.

Royal IHC is a typical 'Dutch pride and glory' company. IHC is specialized in construction of innovative, high-tech dredging and offshore vessels and equipment. The Dutch government, and a Dutch-Belgian consortium of investors, decided to 'rescue' the dredging and offshore company from bankruptcy in April 2020.

Dutch dredging companies Van Oord and Boskalis, together with Belgian Deme and Jan de Nul, dominate the world dredging market, but China has been eying the Dutch technology for some time. According to media sources, the IHC board has encountered pressure from China to sell the company a number of times. In January 2020, a Chinese SOE was interested in the acquisition of IHC.[69]

In a letter to the Dutch parliament, the minister of Economic Affairs wrote: "The maritime sector is very important in the Dutch innovative manufacturing industry. Dutch expertise and experience are known worldwide. (…) The sector contributes to the international earning power of the Netherlands. Shipbuilders, contractors, dredgers, engineers and bridge builders, form part of the same sector." The letter says the main reason for saving the company is that "the loss of IHC as a strategic and innovative player in the maritime sector would undermine the robustness of the entire sector in the Netherlands and would have major consequences for the international competitive position of the maritime manufacturing industry."[70]

The IHC story shows that relatively small Dutch companies are easy prey for large Chinese companies with deep pockets. The Chinese government had compiled a list of core industries and technology they wanted to acquire. They labeled offshore equipment and high-tech vessels as a core strategic industries. An insider says: "We Dutch think a take-over is harmless. We have closed our eyes to the larger problem. If China wants a certain technology, they plan their steps a generation ahead in order to achieve their goal."

Strengthen the innovation agenda and organize peer-to-peer support

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. China's speed of change is enormous and that imposes on Dutch businesses the task of keeping up. The Netherlands can take back the initiative by strengthening our own innovation agenda. It is vital to keep our competitive edge.

China offers plenty of opportunities. Nevertheless, many Dutch entrepreneurs we interviewed, stated that they struggle with the increasingly politicised business climate in China. They would welcome clearer guidelines, screening mechanisms and more customised support from the Dutch government, employers' organisations, and private parties with extensive China knowledge and experience. They like answers to specific questions such as these: What is allowed and what is not? What checks can we perform in our supply chains? What should we be vigilant about? Who can we contact if we run into serious issues?

In order to guard against assumptions and misinformation about the Chinese market (in general and in their own sector), the Dutch business community needs high-quality and tailor-made advice. The fact that many of our interviewees wanted to remain anonymous underlines the need for discretion. Small-scale sharing of experiences and peer-to-peer support seem the preferred options.

5. Conclusion

"Open when we can, protect when we must (…) weighing opportunities on the one hand and the protection of our safety, our earning power and values such as the rule of law and human rights on the other." This is the key message of the 2019 Dutch government policy paper on China. Many Dutch companies still regard China as one of the most important markets in the world. However, for Dutch corporations doing business with China, it is no longer simply a case of 'business-as-usual'.

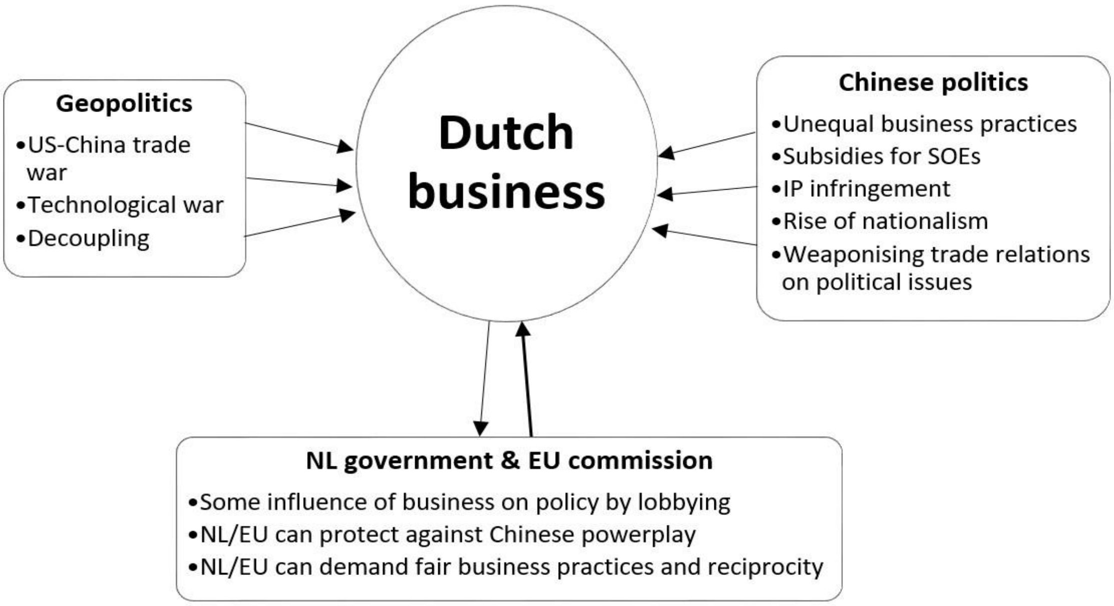

Figure 5.1. One-way influence on Dutch business of geopolitics and Chinese politics and two-way influence between Dutch business and policies of the Dutch government & EU commission.

In this report, we have demonstrated that Dutch businesses have been affected by the highly politicised Chinese business environment and the geopolitical rivalry between the 'ruling power' America and 'rising power' China. The impact of the Covid-19 pandemic has further exacerbated an already complex Chinese business environment. The wide range of Dutch entrepreneurs we interviewed gave us examples of the many challenges for Dutch companies in China. However, they also emphasised that China offers immense opportunities for Dutch entrepreneurs. Dutch companies would welcome actions taken by the Dutch government, the Dutch business community, and European Commission to more effectively deal with China. Below we provide a list of actions that it is recommended the Dutch and EU authorities take in order to create a stronger competitive position and a fairer economic relationship.

Recommendations for the Dutch government and the EU

1. **Put values first:** every China policy from the Dutch government and private sector should be based on our democratic values. By doing so, Dutch entrepreneurs can find a balance between justified concerns about human rights and security on the one hand and 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 own innovation agenda. It is vital to design a long-term innovation strategy, to keep our competitive edge. China's speed of change is enormous, imposing the task on European business to keep up.
3. **Ensure a level playing field**: the Netherlands must actively cooperate with EU-partners to demand reciprocity in the regulatory sphere, improve market access for Dutch and European companies, secure fair competition, implement screening mechanisms. It should cooperate to help 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. This support should not be generic, but tailored to individual needs and should be discrete.
5. **Organise peer-to-peer support**: the Dutch business community would welcome possibilities for sharing experiences, concerns, and questions about doing business with China in a discrete way. This should be done in a way that helps the Dutch business community. Different parties could work more closely. In this respect, 'big words' and 'China-bashing' are counterproductive.
6. **Enhance China knowledge**: more awareness is needed on China (politics, economics, culture and values) through university programmes and training for business and civil servants.
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.

Apart from these recommendations for the Dutch government and the EU, we have created a second list, targeting Dutch companies, in order to help them do business with China in these turbulent times. We call this list of recommendations: **'The China Checklist'**.

6. The China Checklist for Dutch companies

Let us avoid being alarmed by alarmism itself. There are many challenges for Dutch companies in China, but China also offers wide-ranging opportunities, particularly in the maritime, agriculture, high-tech, life sciences, and health sectors. However, it is imperative to prepare thoroughly, take precautions, pay close attention to the serious challenges and do a rigorous risk assessment. At the same time, we must make sure to focus on the opportunities the Chinese market offers. A positive business-mindset proves to be indispensable when dealing with the China challenge. Dutch success stories in China can help new entrants to the China market.

Thorough preparation	Capitalising on the unparalleled opportunities of China requires time. Prepare your strategy. Identify the most suitable market entry strategy and align these strategies with your business model. Pre-market entry phase research is indispensable. Identify the critical success factors which are needed to successfully introduce a product or service in the Chinese market. Select your local Chinese business partner with great care and be aware of country specific risks. Work with a dedicated team and include China expertise.
Values first	Operate based on a clear set of business principles and values. Consider adopting a company human rights policy. Stick to your principles. Chinese counterparts will appreciate that clarity and value-driven approach. Be respectful, open to cultural differences, but do not be afraid to hold on to your own values (for example with regards to corruption).
Chinese culture	Understanding key Chinese cultural concepts and how they impact business interactions is essential. Be respectful and invest in getting to know the Chinese people, their culture and language. For example, in China individual accomplishments or desires will be secondary to collective (societal, familial or organisational) obligations.
Long-term goals	Collaborate with those who understand your company's vision and values and who are genuinely invested in your long-term success. Long-term strategic thinking is a quintessential Chinese characteristic and appreciated in business strategy. Despite the focus on the long term, the way to accomplish these goals is pragmatic and opportunistic.

Good relationships	In China, your network is very important in doing business. Private and business lives mingle. Using your network and connections for business benefits is called *guanxi.* It is not just about what you do or the quality of your product or service, it is also about who you know and how you are able to leverage key persons in your Chinese network.
Political risks	No Chinese company is disconnected from politics. You will operate in a highly politicised business environment. Study the political landscape, assess short term and long term benefits and your political risk exposure, determine your investment and value chain posture. Develop operational excellence in managing risks and political uncertainty. Take reputational risks in the Netherlands into account.
Laws and regulations	Be aware and stay abreast of the complex and strict Chinese laws, regulations and product requirements that must be followed and any administrative formalities to be completed. Sound regulatory advice, on the basis of China-specific legal knowledge, is indispensable. Constantly weigh the pros and cons of taking legal steps, as they might ruin the long-term relationship with your partner.
MoUs and contracts	If you sign a Memorandum of Understanding, this is a positive signal of intent. However, do not think you have a deal. MoUs can fail to progress and deals should be actively pursued beyond the MoU signature. Provide solid and detailed contracts with clear agreements and be aware of the Chinese reputation for changing contractual terms after they have been agreed. Pay attention to your partners' intentions. When signing a contract, know the people and their ambitions.
Intellectual Property Rights	Obtain Intellectual Property (IP) protection for your products and services in China. Without patent, trademark, or copyright registration, there is insufficient legal basis to apply for legal help or fight IP infringement or violation in court. Be aware of the risks of IP theft and consider not to bring the latest technology to China. The collection, storage and access to data can entail all kinds of (privacy related) risks. Some sectors are vulnerable to espionage.
Local team & expert advice	Invest in local management, third party service providers and visit locations frequently. Hire reliable and reputable local partners and absorb and apply their invaluable local knowledge. Check whether the company you want to work with is registered by law.

This list of recommendations was compiled with valuable input from Sinologist and business advisor Valérie Hoeks, Dutch entrepreneurs and public available sources from the EU Chamber of Commerce in China, RVO/NL in Business, the economic network in China of the Dutch government, EUSME, PWC, and the Netherlands Chamber of Commerce.

Appendix

We have selected relevant illustrations from surveys discussed in the report. They provide visual insights into the perceptions of Dutch and European companies doing business in China.

The *Sino Benelux Business Survey 2019* of the **Benelux Chamber of Commerce** provides insights into perceptions of businesses in the three Benelux countries on the level playing field in China (see figure A1).

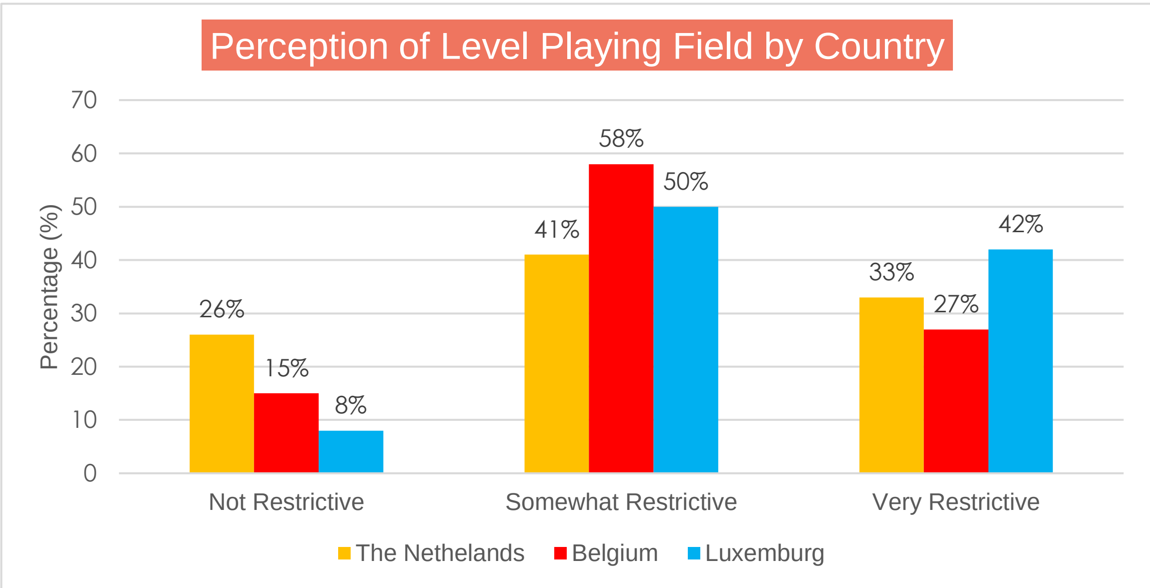

Figure A1. Source: on the basis of p 43 in the *Sino Benelux Business Survey 2019*, BenCham/Moore Stephens

The *Business Confidence Survey 2020* of the **EU Chamber of Commerce** lists the top regulatory obstacles (see figure A2 on the next page). Top three are all about the uncertain and unpredictable legislative environment in China.

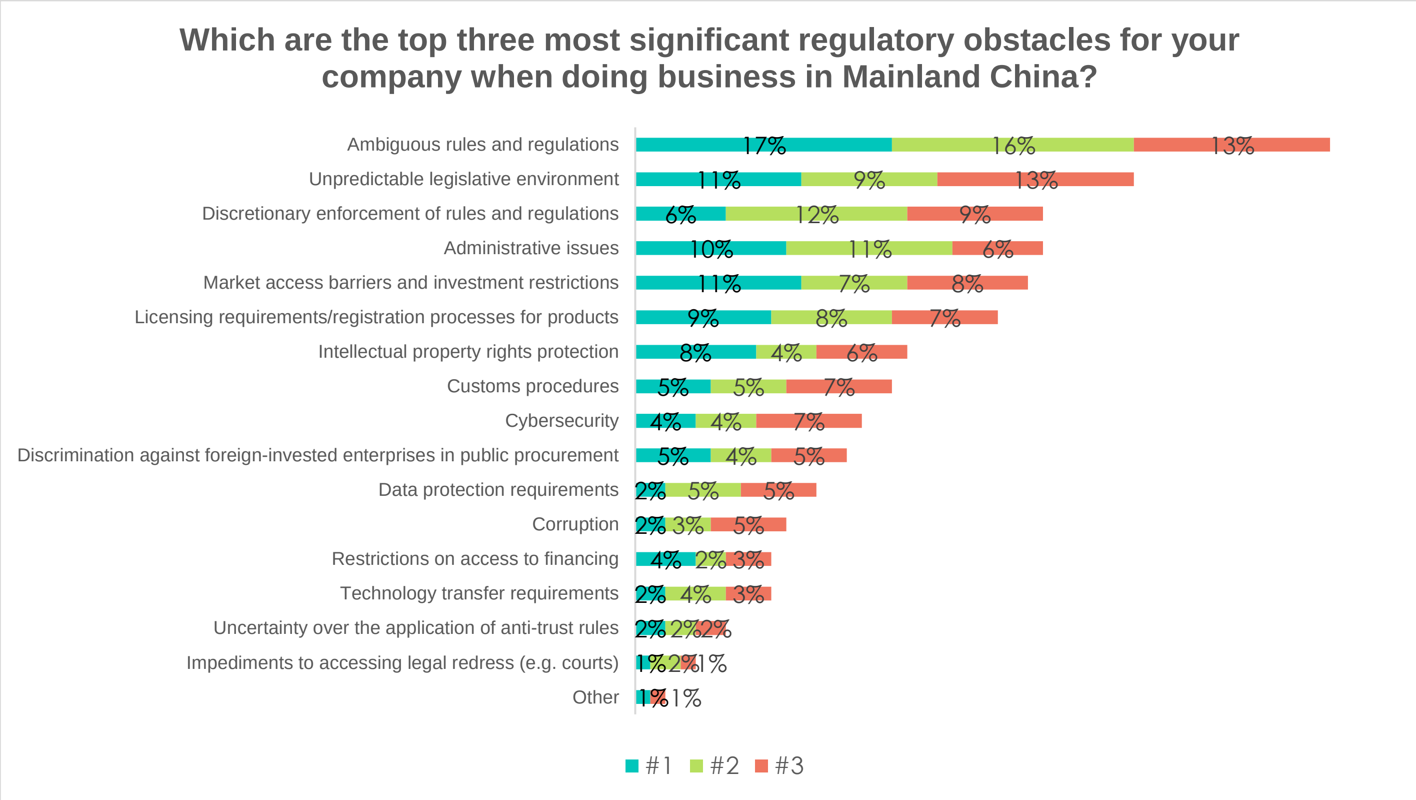

Figure A2. Source: *Business Confidence Survey 2020*, EU Chamber of Commerce in Beijing, fig 71

In its 2020 report, the **Bertelsmann Stiftung** looks at opinions within Europe towards both China and the US, and includes perceptions in the Netherlands. Figure A3 shows that EU countries share economic interests with China, but few perceive shared political interests and common values.

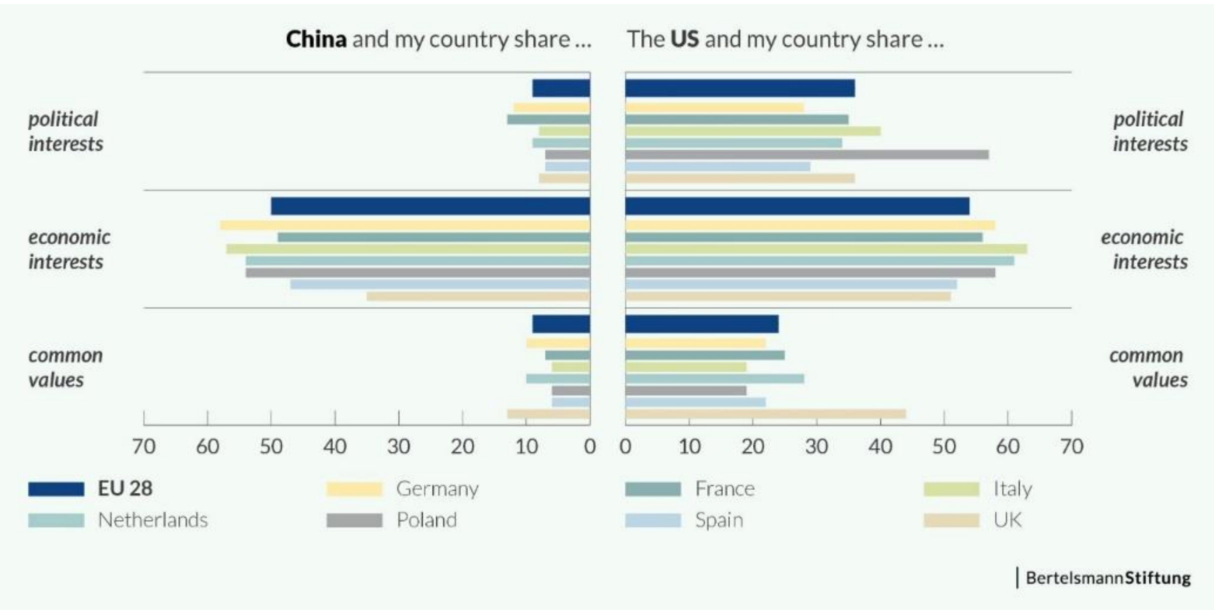

Figure A3. Source: Bertelsmann Stiftung (Jan 2020)

The Bertelsmann Stiftung survey notes: “One area where the EU’s citizens are particularly critical of the People’s Republic is data protection by Chinese firms.”[71] For many Europeans, data security is an issue of trust. China scores well below 10% in trust to handle data responsibly (see figure A4).

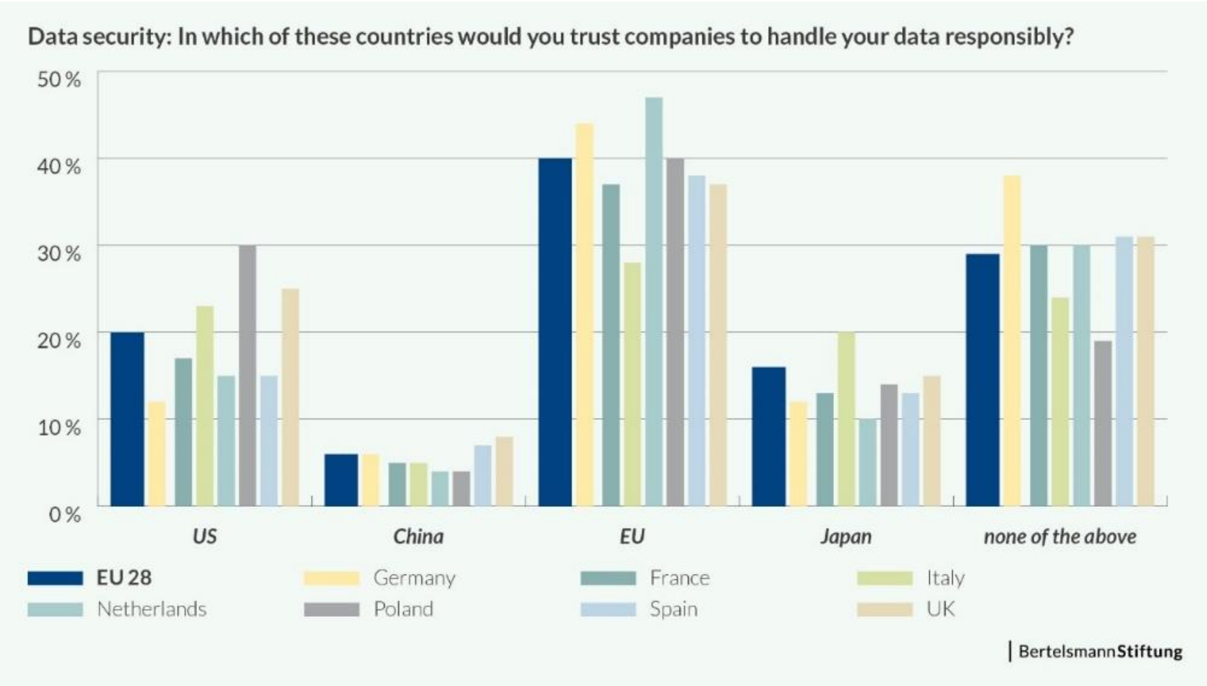

Figure A4. Source: Bertelsmann Stiftung (Jan 2020)

Sources and authors

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Sources not mentioned by name are for example: independent entrepreneurs, senior managers working at international Dutch companies (e.g. chemical industry, food retail, port sector, agri sector, energy, high tech, law firm, security), academics, financial and other consultants, business analysts and various senior civil servants working for the Dutch government or the EU.

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