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Government and businesses: Work together in the triple transition of geopolitics, sustainability and digitalisation!

The Netherlands and the EU face major societal challenges which impact its international economic relations. Geopolitical rivalry, the sustainability and energy transitions, and digitalisation are impacting trade flows, investments and the earning potential of the Netherlands and Europe at large. Companies are calling with increasing urgency for the government to formulate a vision and an integrated approach to deal with these transitions. A regular and consistent dialogue with the business community about these transitions is crucial, but currently lacking. This adds to the already huge challenge of weighing the many different needs of various industries and businesses. An important starting point would be the exchange of knowledge and insights between businesses and the government regarding the green, digital and geopolitical transitions. Based on discussions and interviews with ten Dutch companies and business organisations, this paper offers guiding recommendations how to shape that strategic discussion and to develop a trusted space for conversation between government and businesses. This could lay the foundation for better-informed innovation policy, trade promotion and financing instruments that are suited to our current needs.

Changing world, changing paradigm¹

After three decades of progressive globalisation, the world economy has entered a new phase. Governments are responding to geopolitical competition; they are increasingly worried about undesired strategic dependencies, and climate change is forcing them to reconsider

their approach to trade. The rapid digital transformation also requires a new set of policies, e.g. to guarantee access to technologies and critical resources and to reduce the vulnerabilities of critical digital infrastructure. The war in Ukraine and the COVID-19 pandemic have sparked a reassessment of the benefits of international trade. The ongoing paradigm shift from economic efficiency to economic security in government policy is undeniable. But how do businesses perceive these transitions, and how can the government take that into account?

Dutch businesses and industries are increasingly hard-hit by international decisions, especially those made in Washington, Beijing and Brussels.

¹ This Policy Brief was created following a commission from the Directorate-General for Foreign Economic Relations and the Strategic Policy Unit, Ministry of Foreign Affairs. This English version is a translation of the original piece that was published in Dutch in November 2023.

While new export controls, investment screening and extraterritorial sanctions appear to primarily affect the technological industry, far more businesses have to deal with unfair competition from China, new industrial policies in the US and tightened European regulations on issues like corporate due diligence.² At the same time, governments, customers and employees expect substantial efforts from businesses in the areas of sustainability and digitalisation. These major societal changes are forcing more and more companies to rethink their operations and risk management methods. A number of Dutch CEOs have recently called for a long-term governmental approach: they see a need for a systemic approach to the three transitions, greater investments in innovation policy, and a degree of certainty with regards to the introduction of new regulations.³ These needs have been echoed by other companies, as well.

The necessity of public-private partnerships

The triple transition of geopolitics, sustainability and digitalisation requires strategic coordination and cooperation between the government and the business sector, but the appropriate format for that discussion and the topics to be discussed are not self-evident. The ministries have no in-depth understanding of the concerns and preferences of businesses as regards the geopolitical transition – at least not yet. And even once all concerns have been mapped out, it will remain a tremendous challenge to weigh and unify all the different needs from across the business community into a single comprehensive approach.

It should be noted that it is not only in the ministries and boardrooms that the societal challenges and geopolitical tensions are being felt. Society as a whole is clamouring for a

government that plays a role beyond that of a mere supervisory authority in the economic arena.⁴ The citizens of the Netherlands expect their government to take a more directive approach in order to prevent economic vulnerabilities; and this view is also increasingly voiced in the political debate. The impact of the three transitions on the Dutch business community has become one of the ways in which political positions are determined.

A similar picture emerges from the election programmes of political parties across the entire political spectrum: the government must do more to protect and promote industry (especially sustainable industry), reduce undesirable dependencies, encourage innovation and shield the business sector from economic intervention and coercion by foreign governments.⁵

Although the preferred approach varies on the basis of party ideology (European or national, subsidisation or diversification), the core need is always the same: a proactive government that creates the conditions for an economy to flourish that is optimally capable of responding to the opportunities and challenges presented by the digital transformation, that supports the sustainable transition, and that offers protection against geopolitical uncertainties.

Discussing these issues begins with the creation of a shared awareness – awareness of the challenge that the business community and the government jointly face. And it all starts with dialogue. With this in mind, the Clingendael Institute has interviewed a wide range of businesses – in the (high) tech, food, logistics and financial services sectors – about societal challenges and new forms of public-private partnership. Aside from these individual interviews, Clingendael also organised an initial meeting where these companies discussed these issues with each other and the government. These talks made clear that the business sector

2 Examples of this in the domain of climate/environment are the Carbon Border Adjustment Mechanism (CBAM) and the European Corporate Sustainability Due Diligence Directive (CSDDD).

3 See e.g. [Peter Wennink](#), CEO of ASML and [Peter Berdowsky](#), CEO of Boskalis.

4 Tussen hoop en vrees: Bescherming van de gemeenschap en de-globalisering in het jaar van de Russischschok, [Clingendael Barometer Alert](#), November 2022.

5 Election programmes of the top six Dutch political parties in November 2023.

Figure 1 Five core points for the strategic discussion between the government and the private sector



would gladly cooperate with the government to determine the best way forward to tackle the three transitions, which will require action from both the government and the private sector.

The presence of a clear governmental vision and strategy will help companies make choices regarding issues such as inbound and outbound investment, diversification of supply chains and innovation ecosystems. Such a vision and strategy would be better implementable and more effective if the business community is involved in its formulation. After all, businesses are well aware of the vulnerabilities and undesirable dependencies that have emerged as a result of geopolitics, the sustainability transition and digitalisation. Furthermore, the government cannot achieve its goals in the areas of economic security and resilience without taking businesses on board. The overall goal must therefore be to find common answers and take joint action based on a shared vision.

It is therefore advisable for the government to invest in a strategic dialogue with the private sector on how geopolitics, the sustainability and energy transitions and digitalisation are affecting the economic arena. This paper offers five core points that can be used to structure that dialogue. They reflect themes that were consistently identified in Clingendael's

exploratory interviews with businesses (see Figure 1). Each of these points is briefly discussed below and supplemented with a number of subtopics that could offer starting points for the strategic discussion between the government and the private sector.

1) What is Europe's role?

Businesses are not just worried about China's assertive attitude, but also – or even more so – about the response of the United States. As a result of the geopolitical competition between Washington and Beijing, the Netherlands and the EU are feeling increasingly pressured to follow American policy preferences, for example where it comes to new export controls. American policies, such as its hard-line approach to Chinese technology companies and the financial support provided by the Inflation Reduction Act, also have direct consequences for various business sectors in the Netherlands. Although undesirable dependencies on China and Russia for the import of various resources and semfinished goods are justifiable causes for concern, businesses also point to their dependencies on US technologies.⁶

⁶ SEO, TNO and Clingendael Institute, [Geopolitieke Monitor](#): Strategische afhankelijkheden, economische beïnvloeding, Kennispositie en investeringsstromen, 2022.

Furthermore, various companies are dependent on turnover generated in the Chinese market and China's innovative capacity.

Businesses caution against making hasty decisions – and choosing sides – in the struggle between the two major powers, and advise to search for a joint European answer. European cooperation and European industrial policy could do much good in this regard, for example by reducing digital dependence on American platforms; reducing dependence on Chinese technology, resources and semifinished goods; promoting the development of European champions, and ensuring a better overview of national and European dependencies.

However, these steps also provoke questions. There are concerns about the feasibility of European alternatives, and a balance must be sought between industrial and innovation policy and the free market. Where that balance lies depends on the sector: while some interviewed companies indicated a preference for smaller consortia facilitated by a select group of EU member states, others are inclined to turn to the European Commission for financial support and market protection.

- What format is desirable for European cooperation? Should all twenty-seven member states stand shoulder to shoulder, or should we work in leader groups of smaller consortia, or perhaps even nationally?
- How to prevent poorly regulated state support from skewing the internal level playing field? How can the government facilitate European cooperation in a manner that specific companies and/or sectors deem desirable?

2) Diversification as a step towards greater economic resilience?

Cross-border supply chains and production processes are increasingly exposed to geopolitical risks. COVID-related disruptions and the increasing willingness of countries, particularly China, to temporarily or permanently cease the supply of critical resources have put reducing vulnerabilities at the top of both the government's and the business community's

priority lists. Diversifying production locations and suppliers could lower the risk of disruptions in supply chains. However, supply chains cannot simply be changed overnight. They often involve digital and physical business processes associated with substantial investments. They vary from cost-effective just-in-time supply chains aimed at obtaining a competitive advantage to massively funded research and development activities. Many companies therefore remain less than convinced of the value and necessity of investing in "China plus one" alternatives (wherein production and supply chains are diverse, i.e. not exclusively located in, or dependent on China) and relocating or increasing the number of production facilities.

Diversification is also necessary in situations where critical Dutch infrastructure is largely dependent on a small number of big players. For instance, the Dutch Cloud infrastructure and digital banking sector depend to a great extent on a handful of American Big Tech companies. Not all Dutch companies are sufficiently aware of the risks that this creates.

Aside from the countless commercial risks that geopolitical shocks present for business continuity, they can also endanger national security. Just-in-time business processes are vulnerable, and when the goods involved are of critical importance for society, this puts national public interests at risk. This can vary from medical goods to essential resources for our country's food supply.

New public-private partnerships that encourage the diversification of production processes and supply chains may lead to new market opportunities and jobs, while also contributing to the stable supply of critical goods. We must not be naïve, however: cost considerations will play a major role, and the government will have to find an answer. Industrial policy at the national and European level would have to take into account how certain dependencies affect national security, and the government will have to encourage businesses to map out and reduce vulnerabilities in their own supply chains.

- How can the government encourage and help companies to diversify?
- How can the concerns and interests of businesses that play a critical role in safeguarding public interests be better addressed?
- What level of costs would be acceptable to boost diversification, and who should bear them?

3) Towards a widely supported Dutch vision for the digital future?

Digitalisation is one of the most significant societal transitions that Dutch society is currently going through. The digital infrastructure of the Netherlands is of a high quality, and the Netherlands is a global leader in digital transformation.⁷ Despite this, the government provides little direction with regard to the major questions that will determine our digital future. For example, the question as to what capacities the Netherlands wishes to have “in-house” in order to guarantee various public interests, such as national security, competitive strength, and fundamental rights and values, including our democratic law-based system, is left unanswered. This is particularly pertinent in relation to the (decentralized) digital public infrastructure that underpins our society and economy and which is to a significant extent reliant on foreign private entities, including Amazon, Microsoft and Huawei. Relatedly, it is doubtful how and to what extent the Netherlands and the EU will be able to ‘own’ and shape digital applications, ranging from social media and AI-fuelled large language models to digital finance, and manage the accompanying vulnerabilities in the fields of disinformation and cybersecurity.

Various policy initiatives are being taken at the national and European levels to promote and protect digital sovereignty, such as the Dutch

7 The Netherlands ranks third among the 27 EU member states on the European Digital Economy and Society Index (DESI) of 2022. The country ranks second on the indicators of digital human capital and connectivity, and fourth in the integration of digital technologies and digital public services.

Agenda for Digital Open Strategic Autonomy of October 2023 and the EU report on the state of the Digital Decade.⁸ It would help companies if targets were linked to specific sectors and applications, ranging from the semiconductor industry to quantum technologies and artificial intelligence (AI). Currently, many businesses are heavily dependent on digital services from the US – financial and cloud services, for example. How desirable is that? In order to make the commercial and, especially, strategic choices needed to build a resilient digital society, we need a vision for the digital society of the future and the role that the Netherlands government will play in it.

- Can the government develop a vision for the digital society of the future, or set a dot on the horizon for e.g. 2040?
- What kind of public infrastructure and technology is needed to realise this vision?
- What role does the Netherlands wish to play in the supply chains of the digital future? And what steps are necessary to pursue this role, in terms of both developing and protecting unique knowledge and capacities?

4) How can access to resources be secured?

If one thing has underlined how all social transitions are interconnected, then it is the race for access to the critical resources needed for new advanced technologies, particularly green technologies. The digital and green transitions have made it necessary to invest in new mining techniques, the adjustment of production techniques, the securing of access to existing and new reserves, circularity and the diversification of supply chains.

In doing so, it is important to differentiate between raw materials and semifinished goods, and to ensure that trade in these products continues to flow through the Netherlands (e.g. via the Port of Rotterdam). Geopolitics plays a major role in this regard. It is important

8 [Agenda Digitale Open Strategische Autonomie](#), 17 October 2023; and [2023 Report on the state of the Digital Decade](#), 27 September 2023.

for the government to keep a watchful eye on dependencies and to support companies gain access to resources needed to support innovation and greening the economy. To that end, it is imperative to understand the Dutch positions in European value chains, as well as the position of other European countries in Dutch value chains. The European Critical Raw Materials Act of November 2023 and the Dutch raw materials strategy of December 2022 are important steps in the right direction, but remain relatively unknown among the business community. It also remains a question whether they are sufficient, and what more the government could do.

- How can the Netherlands ensure that the Dutch business community retains access to essential resources and semifinished goods for the digital and green transitions? What is the role of the European Union in this?
- Does the Netherlands have a clear idea of the resources and semifinished goods for which undesirable dependencies exist or could develop?
- Which concrete, sector-specific steps can the government and business community take to gain more insight into vulnerabilities in their supply chains?

5) How can we establish a Dutch economic security strategy?

Preserving the strong international economic position of the Netherlands and the Dutch business community requires the government to keep the long term in mind, to provide clarity, and to develop a decisive and realistic doctrine. A comprehensive economic security strategy developed by the government in consultation with the political and business communities would do much good; ideally, this policy would not be contingent on shifting political coalitions and would anticipate rather than respond to developments.

It is essential to be aware of the perspectives of businesses on our changing world, and how these changes affect risks and their long-term plans. It is also necessary to have specialised knowledge held within embassies, both in

Europe and beyond. With that knowledge, the government can help businesses navigate the new context and encourage them to conduct well-considered analyses of geopolitical risks and opportunities. For instance, innovation attachés could help spur cooperation among consortia in EU member states in order to keep production in Europe and remain internationally competitive, as well as to gain access to European funds. Economic departments at EU diplomatic posts could also help improve knowledge exchange about various aspects of a new, embryonic European industry policy.

- What form should a Dutch doctrine for economic security take? How should it balance the European and the national? What is the role of the political community in the establishment of this doctrine, and how can its continuity be assured?
- What are the perspectives of companies and trade associations on geopolitical shifts, and how do they adjust their risk management accordingly?
- What are the points of overlap and divergence in the government's vision for economic security and the vision of businesses for risk management and business continuity? How can the differences be resolved?

Concrete steps towards a shared vision

In today's rapidly changing world, there is a growing need for a sustained, structural dialogue between the government and the Dutch business community about how it affects the Netherlands. How business and trade associations view the three transitions, and how they respond to them, is crucial information for the policy makers of Economic and Foreign Affairs. After all, the government aims help companies navigate the new context and encourage them to perform more geopolitical risk and opportunity analyses. In short, there is a need for coordination and cocreation between the government and businesses regarding the major transitions of climate and energy, digitalisation and geopolitics.

Business representatives believe that a regular and systematic discussion with the government on these issues would be beneficial. For maximum effect, those discussions should involve a variety of businesses from different sectors, and should be conducted at the appropriate level of abstraction. Only then will it be possible to build the confidence required to establish a joint approach. There may also be a need for more tailored discussions, focusing on individual industries and/or one of the three transitions, in order to develop practical steps on how to move forward together.

The dividing line between market and state is blurring, and economic security is replacing economic efficiency as the guiding principle for policy. This challenge is particularly large for the Netherlands, which traditionally has had a *laissez-faire* attitude. A dialogue between the private sector and the government is therefore all the more important. The recommendations outlined in this paper, which were formulated on the basis of interviews with various companies, trade associations and the government, offer starting points for such a dialogue. Now that globalisation is changing, this dialogue is more important than ever.

About the Clingendael Institute

Clingendael – the Netherlands Institute of International Relations – is a leading think tank and academy on international affairs. Through our analyses, training and public debate we aim to inspire and equip governments, businesses, and civil society in order to contribute to a secure, sustainable and just world.

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