Clingendael
Netherlands Institute of International Relations

Policy Brief

DECEMBER 2017

Chinese Direct Investment in the Netherlands:
Patterns, reception and political significance[1]

Frans-Paul van der Putten

Chinese direct investments in the Netherlands have largely gone towards ICT and the agriculture/food sector. Moreover, when it comes to the top acquisitions, which account for the bulk of FDI from China, the main motive is not to gain access to the Dutch or the EU market, but to advanced technology and established global networks. Overall, Chinese direct investment in the Netherlands follows and supports both the Made in China 2025 strategy and the Belt & Road strategy. It is probably because of the relatively small number and low profile of Chinese acquisitions that Chinese direct investment attracts little public attention in the Netherlands, even though concerns do exist among Dutch government officials. An effective policy response requires a strategic approach that takes into account the unique nature of Chinese direct investments, their long-term, accumulative effects and their impact on global value chains.

Introduction

In 2000-2016 the Netherlands was the seventh-largest destination of foreign direct investment (FDI) from China in the European Union. Acquisitions account for the great majority of these investments. The prominent role of individual deals helps explain the sharp fluctuations in the annual value of investments, in particular since 2011 (Table 1). As a consequence, it is important to look at the specific characteristics of the largest acquisitions in order to understand the factors that influence Chinese investments in the Netherlands.

Some of the largest Chinese direct investment transactions in the Netherlands have occurred in the high-tech sector and are (indirectly) related to Royal Philips. Long the backbone of the Dutch high-tech sector, over the past decade Philips divested itself of most of its activities as part of its strategy to focus exclusively on health technology. For instance, in 2006 Philips spun off its semiconductors division under the name NXP Semiconductors. In 2015, Jianguang Asset Management (JAC Capital) purchased

1 A shorter version of this policy brief was first published as 'Chinese Investment in the Netherlands: A key role for acquisitions in the high-tech sector' in: John Seaman, Mikko Huotari and Miguel Otero-Iglesias, eds, 'Chinese Investment in Europe: A country-level approach', Paris etc: ETNC, December 2017. The author is grateful to John Seaman, Alice Ekman and Miguel Otero-Iglesias for their comments on previous draft versions.

a part of NXP, namely its Radio Frequency (RF) Power business, which produces chips for cell phone towers. NXP sold RF Power, which at EUR 1.6 billion is the third-largest instance of Chinese investment in the Netherlands, because it planned to take over another company, Freescale, and it wanted to avoid regulatory scrutiny. JAC Capital is a subsidiary of China Jianyin Investment Ltd (JIC), a state-owned investment company established in 2004 with the purpose of 'promoting technical progress and industrial upgrades'.[2] After acquiring RF Power, which has 2,000 employees, JAC renamed it Ampleon and turned it into a separate company based in the Netherlands.

The largest instance of FDI from China in the Netherlands to date is the EUR 2.45 billion acquisition of another part of NXP, its Standard Products division, by a Chinese consortium consisting of JAC Capital and Wise Road Capital.[3] The former NXP division is now a stand-alone firm named Nexperia and based in the Netherlands. It has 11,000 employees mostly working in factories outside the Netherlands and produces semiconductors for the automotive industry, among other sectors. Wise Road Capital is a private equity fund that invests in European and American high-tech companies.[4] The acquisitions of the two NXP divisions clearly contribute to the strategic aims of both JAC Capital and Wise Road (in the case of Nexperia) of investing in Western high-tech companies, as well as to the Chinese government's 'Made in China 2025' strategy that is aimed at moving China's manufacturing capacity up the global value chain.

2 As stated on the company's website: http://eng.jic.cn/en/aboutus/overview/index.html.

3 This deal was agreed in 2016 but was concluded only in February 2017 and is therefore not included in the Rhodium data on which this report is based.

4 It is not clear where the latter is based but its managing partner, Zhang Yuanjie, is a former managing director of the China Investment Corp. It is also unclear how the shareholding in Nexperia is divided between JAC Capital and Wise Road.

Table 1 Chinese Direct Investment Transactions in the Netherlands (2000-2016)

Year	Value (EUR million)
2000	0
2001	89
2002	0
2003	0
2004	0
2005	36
2006	8
2007	127
2008	15
2009	91
2010	79
2011	453
2012	55
2013	298
2014	1,750
2015	2,279
2016	318
Total	5,598

Source: Rhodium Group

Another Chinese company which has acquired assets that formerly were parts of Philips is China Electronics Corp. (CEC), the largest state-owned IT company in China. In 2007, CEC acquired the mobile phone business of Philips, including the rights to use the Philips brand for mobile phones, at an undisclosed price. Furthermore, CEC owns a controlling stake in TPV Technology, a Hong Kong-based company that is the world's largest producer of computer monitors. In 2004, Philips sold its technology related to computer monitors and entry-level flat screen televisions to TPV at a reported sum of EUR 270 million. In 2011, the Dutch company transferred its remaining television business to a joint-venture with TPV, which purchased Philips' entire (30 percent) share in the joint-venture for EUR 180 million in 2014. TPV has the exclusive rights to sell televisions and computer monitors under the Philips brand internationally. In 2016, an attempt by Philips to sell yet another business unit to Chinese buyers failed due to objections of the Committee for Foreign Investment in the US (CFIUS). A China-based private equity firm called GO Scale

Table 2 Major Transactions for Mainland Chinese Investments in the Netherlands (2000-2017)

Year	Target	Acquiring entity	State-owned	Value of transaction (EUR million)
2017	NXP Standard Products division	JAC Capital, Wiseroad Capital	Yes (JAC)	2,450
2014	Nidera BV	COFCO	Yes	2,050
2015	NXP RF-Power division	JAC Capital	Yes	1,600
2015	Reaal NV	Anbang	No	702
2014	Royal Nedschroef Holding BV	Shanghai Electric	Yes	325
2011	DSM Anti-Infectives BV	Sinochem	Yes	210
2011	Inalfa Roof Systems Group BV	BAIC	Yes	190
2014	TP Vision Holding BV	CEC	Yes	180
2013	Vesta Terminals BV	Sinopec	Yes	129
2016	Tanatex Chemicals Group	Transfar	No	100
2007	Burg Industries BV	CIMC	Yes	108

Source: Rhodium Group, Clingendael

Capital[5] had agreed to buy an 80 percent stake in the Dutch company's Lumileds division, which is based in California and produces light emitting diodes (LEDs), for USD 3.3 billion. CFIUS, which screens the relevance of foreign direct investments in the US for national security, did not disclose why it objected to the transaction.

Although the high-tech sector is the primary target for acquisitions by Chinese investors, several other sectors have also attracted investments from China, as is indicated in the table. The largest Chinese acquisition in the Netherlands – outside of the high-tech sector – has been the purchase of Nidera by China National Cereals, Oils and Foodstuffs Corporation (COFCO) at EUR 2.05 billion. Nidera was established in 1920 and developed into a major trading company for agricultural products, such as grain, seeds and vegetable oils, with an annual turnover of EUR 17 billion in 2015. In 2014, the three families owning Nidera agreed to sell a 51 percent stake in the company to COFCO, a state-owned enterprise and China's largest food company, for EUR 1.3 billion. In early 2016, Nidera borrowed additional funds from COFCO in order to compensate for a substantial loss. According to Dutch media reports, was caused by a rogue trader and that hinted at possible other internal irregularities.[6] In the summer of 2016, COFCO bought the remaining 49 percent of the shares for EUR 750 million. This sum represented a significant discount in comparison to the 2014 deal. In 2017, COFCO merged Nideria with COFCO Agri (the international trading unit of COFCO) to create a new business named COFCO International. By this time, it also became clear that Nidera had suffered further, major losses in 2016 due to irregularities. It is not clear to what extent the Chinese company was aware of Nidera's apparent weak internal controls when it made its investments.[7] For COFCO, the main strategic aim of the transaction seems to have been enabling it to become a significant player in the global trade in agricultural commodities.

Large acquisitions have also been made by Anbang Insurance Group (for the insurance business of SNS Reaal), Sinochem (a major chemicals conglomerate, for a 50% interest in the Anti-Infectives business of chemicals

5 Owned by GSR Ventures, Oak Investment Partners, Asia Pacific Resource Development and Nanchang Industrial Corp.

6 Camil Driesen and Teri van der Heijden (2017) 'Hoe een superhandelaar ten val kwam', www.nrc.nl, 10 February.

7 In November 2017, COFCO agreed to sell the seeds business of Nidera to Syngenta, the Swiss producer of agrichemicals and seeds, which had recently been acquired by China National Chemical Corporation.

firm DSM), Shanghai Prime Machinery Company (a subsidiary of Shanghai Electric Group, for full ownership of Nedschroef, a manufacturer of automotive fasteners), Beijing Hainachuan Automotive Parts (BHAP, a subsidiary of car maker BAIC Group; for full ownership of Inalfa, a global provider of vehicle roof systems), Sinomart KTS Development (a subsidiary of Sinopec, one of China's leading oil companies, for a 50% stake in Vesta Terminals which operates bulk storage facilities at various European ports), Transfar Zhejiang (a subsidiary of Transfar Group, a speciality chemicals company, for full ownership of Tanatex Chemicals which supplies technology for textile processing), and China International Marine Containers Group (CIMC, a manufacturer of containers of which shipping companies China Merchants are COSCO major shareholders, for parts of Burg Industries that relate to the production of storage and process tanks). With the exception of Wise Road Capital, GO Scale Capital, Anbang and Transfar, all of the above-mentioned Chinese companies are major state-owned enterprises.

Over the 2000-2016 period, greenfield investments were responsible for only 8 percent of Chinese direct investment in the Netherlands. A significant greenfield investor is ICT giant Huawei, which employed 650 people in the Netherlands in 2015. In 2005, the Netherlands was the first European country where Huawei obtained a major contract (for the deployment of a 3G network for Telfort). Currently, Huawei is active in the Netherlands as a provider of equipment for telecom operators, in the field of IT solutions, and by selling smartphones and tablets for consumers. According to a study by the Leiden Asia Centre that focused on greenfield investors, at the end of 2015 a total of 315 firms that were registered with the Chamber of Commerce in the Netherlands were Chinese. Interviews conducted with a number of these companies indicated that many of them were investing in the Netherlands with the purpose of creating a foothold from which they can explore the European market.[8]

8 Tianmu Hong, Frank Pieke, and Trevor Stam (2016), 'Chinese Companies in the Netherlands', Leiden Asia Centre.

The same study found that the majority of Chinese firms in the Netherlands are active in services or wholesale/retail, and that state-owned enterprises are responsible for the bulk of Chinese direct investment in the Netherlands.

In terms of value, the top recipient sectors are ICT and agriculture/food. Moreover, when it comes to the top acquisitions, which account for the bulk of FDI from China, the main motive is not access to the Dutch or the EU market, but access to advanced technology and established global networks. Overall, Chinese direct investment in the Netherlands follows and supports both the Made in China 2025 strategy and the Belt & Road (and the related 'Go Out') strategy.

Table 3 Chinese Direct Investment Transactions in the Netherlands by Industry (2000-2016)

Sector	Value (EUR million)
ICT	1,901*
Agriculture and Food	1,568
Financial and Business Services	686
Energy	313
Health and Biotech	287
Automotive	216
Electronics	202
Transport, Utilities and Infrastructure	122
Basic Materials	108
Industrial Machinery and Equipment	93
Consumer Products and Services	39
Real Estate and Hospitality	32
Metals and Minerals	30
Aviation	2

Source: Rhodium Group. (* Since 2017 data are not included in this table, the ICT figure does not reflect the record NXP Standard Products deal.)

While investments by Hong Kong companies are not included in the FDI data in this report, various companies from Hong Kong have a presence in the Netherlands. A notable case is CH Hutchison Holdings, which owns several container terminals in the Port of Rotterdam, among other Dutch assets. Another example is Ausnutria Dairy

Corp., which operates four facilities in the Netherlands for the production of infant milk powder for the mainland Chinese market.

The Dutch response

There are no known examples of the Dutch government taking action to prevent an instance of Chinese investment. In 2010, when the Xinmao Group attempted to acquire Draka, a manufacturer of cables (and formerly a part of Philips) for EUR 1 billion, then-Dutch Minster of Economic Affairs Verhagen stated that he saw no reason to object to such a deal. In his view, Xinmao (a private company) was acting on purely commercial motives, and the take-over would not have a negative effect on European competitiveness.[9] The Dutch government also had no objections to the various Chinese acquisitions of semiconductor producer NXP. Chinese investment is not a major topic of public debate. The case that is most widely known in the Netherlands is the acquisition in 2014 of a football club, ADO Den Haag, for EUR 8 million by United Vansen. A subsequent conflict between the club's Dutch management and the Chinese owner of United Vansen received extensive media coverage, and is likely to have had a negative – but still limited – impact on the image of Chinese investors in Dutch public opinion. It is probably because of the relatively small number and low profile of Chinese acquisitions that Chinese direct investment attracts little public attention.

Concerns do exist among Dutch government officials. The Dutch intelligence agencies have warned about large-scale industrial espionage by Chinese and other actors (not necessarily in connection to FDI). In 2012, several political parties raised questions in the Dutch parliament about the risk that the involvement of Chinese firms Huawei and ZTE in the Dutch telecom sectors could make Dutch entities more vulnerable to espionage. And as a result of (failed) take-over attempts of major Dutch companies KPN and AKZO Nobel by Mexican and US firms respectively, the government and the media have been paying increasing attention to the question of whether existing policies regarding acquisitions by foreign entities need to be adjusted. In 2014, the Dutch government started a program of assessing potential FDI risks on a sectoral basis, focusing on infrastructure sectors that the government considers to be of vital importance for national security. An initial outcome of this program is a proposed law that would enable the Minister of Economic Affairs to block foreign investment in a Dutch telecom firm if this endangers national security or public order. The government prefers a sectoral approach over a generic investment screening for inward FDI. Moreover, the response of the Dutch government relates to inward FDI from any source and is not linked to or integrated in an approach to China or the specific characteristics of Chinese investment.

In September 2017, the European Commission introduced a proposal for an EU-wide framework for investment screening. Concerns over negative repercussions of Chinese direct investments for national security and public order are important motives for the proposal, which is not formally directed at any particular investor country. Major EU member states, including Germany, Italy and France, support the Commission's proposal. In December 2017 the Dutch government announced that it does not support the proposal in its present form. The Netherlands agrees with the Commission that foreign investments could potentially affect national security and public order, and that coordination among EU member states can be useful, but it also stated that the proposal is unclear on many issues and that it includes elements that require further discussion, such as the proposed ability of the Commission to conduct screenings on its own in instances that affect individual member states.[10]

9 The deal eventually was cancelled as it took too long for Xinmao to obtain permission from the Chinese authorities for the take/over. The main stakeholder in Draka opted for a non-Chinese bid.

10 https://zoek.officielebekendmakingen.nl/kst-22112-2437.html.

Implications for Sino-Dutch relations

Chinese investment in the Netherlands is small compared to the overall value of inward FDI. According to data of the Dutch Central Bank, by the end of 2015 the combined value of Chinese and Hong Kong direct investment stock in the Netherlands amounted to a mere 1 percent of total inward FDI stock. The main purpose of many of the larger Dutch acquisitions is for Chinese companies to enhance their own competitiveness in China or globally; they are less often related to the Dutch or even the EU market. Once under Chinese ownership, the acquired companies often remain in the Netherlands and continue to operate under their previous management. This means that in the short term such take-overs can often be beneficial for the companies themselves, which gain better access to the Chinese market and Chinese capital, and for the Dutch economy, which suffers no jobs losses due to the transition. It is unlikely that direct investment so far has provided the Chinese government with an instrument to exert political influence in the Netherlands. Chinese investment is not only limited in relative size, but direct dependence on Chinese actors in terms of jobs or strategically important activities is also limited.

When it comes to the long-term effect of Chinese investment, two concerns need to be taken into account. The first is the possibility that the Chinese government, as part of a comprehensive and sustained strategy, will create a situation in which key technologies in many business sectors will be controlled by Chinese firms. This would concentrate bargaining power and high value-added activities in global value chains in China, and could ultimately weaken European competitiveness. As Dutch companies already are highly dependent on international supply chains, this scenario is only to a limited extent related to Chinese direct investment in the Netherlands itself. At the same time, due to their high degree of internationalization, Dutch companies may actually be very vulnerable to such a strategy. The second concern is that European governments will gradually lose their ability for autonomous policy-making towards China, as they become increasingly dependent on actual or expected Chinese investments.

Policy recommendations

In the future, Chinese direct investment will be of significant importance to the Dutch economy as it will very likely continue to grow in size. In order to adequately prepare for the above-mentioned long-term concerns, it is essential that the Dutch government takes certain steps.

- First, the Dutch government's approach to incoming direct investments should take into account that China is unlike any other country. Its vast economic resources, its geopolitical role as the main challenger to US and Western leadership, and the dominant role of the state in its foreign economic relations make China's foreign investments highly consequential. In order to be effective, investment policies need to be designed specifically to address Chinese direct investment, even if they are ultimately embedded in generic FDI policies.

- Second, Dutch policies towards Chinese direct investment should focus on the long-term, cumulative effects of transactions rather than on individual cases. Large Chinese enterprises and Chinese state-owned enterprises operate abroad with an important degree of autonomy and with a focus on commercial interests, but they are ultimately under the strong influence or formal control of a single entity, namely the Chinese Communist Party.

- Finally, incoming Chinese investments should be evaluated in terms of their impact on international production chains. The Dutch government needs to do this by sharing information and perspectives with other countries. An EU-wide framework for investment screening would contribute to this end. China, through its Belt & Road and its Made in China 2025 strategies, is aiming for a highly influential position in global value chains. The Netherlands, like other European countries, needs to be aware of this broader picture that mostly transcends national policies but that in the long run can have a major impact on its economic and security interests.

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www.clingendael.org
info@clingendael.org
+31 70 324 53 84

@clingendaelorg
The Clingendael Institute
The Clingendael Institute

About the author

Frans-Paul van der Putten is Senior Research Fellow at the Clingendael Institute. His research is aimed at understanding the consequences of the rise of China as a major power.