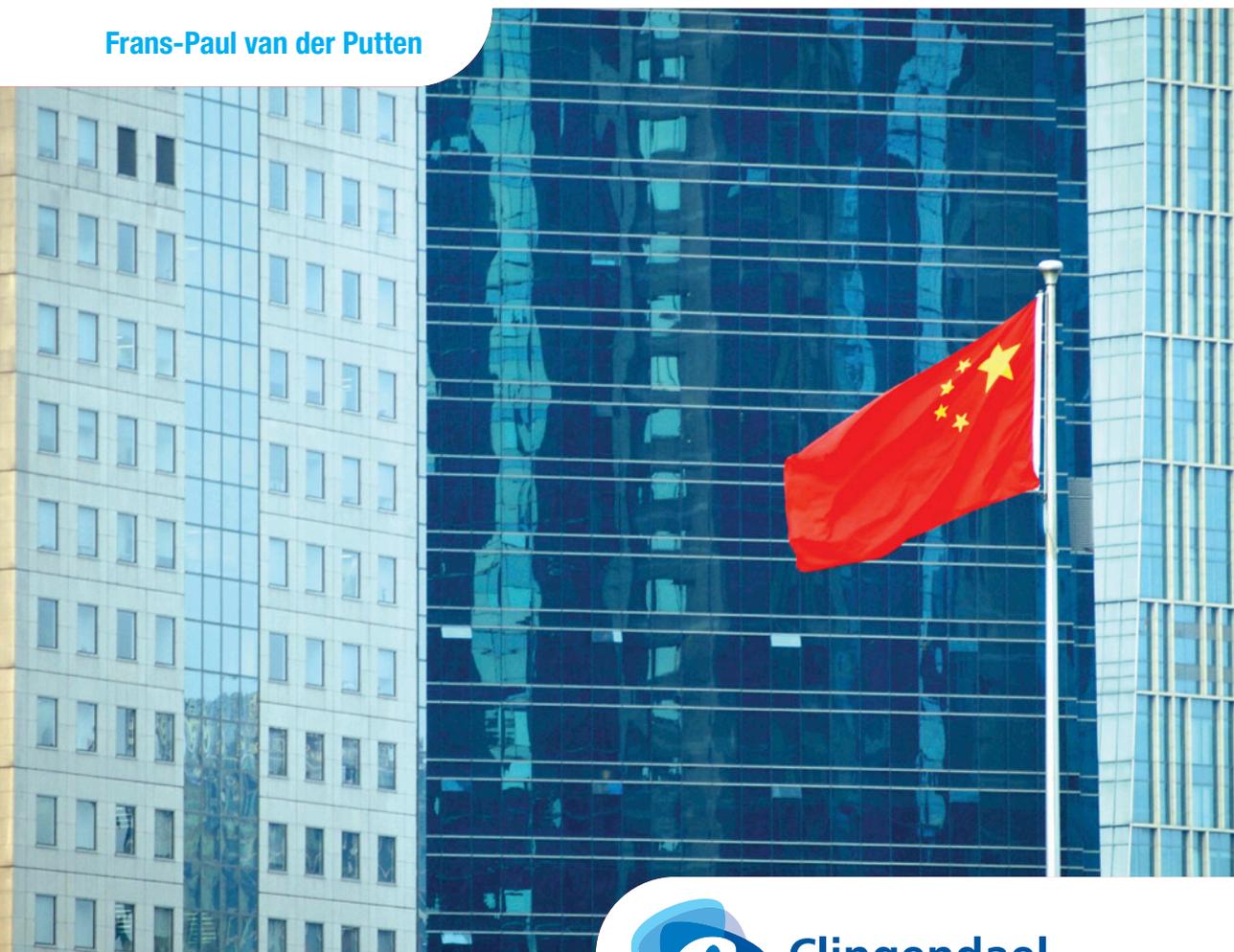


Noord-Brabant and China

Addressing China's growing economic and geopolitical significance at the subnational level

Clingendael Report

Frans-Paul van der Putten



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Clingendael Report
September 2018

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Report commissioned by the Province of Noord-Brabant.

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Introduction

This Clingendael Report was commissioned by the provincial government of Noord-Brabant (North Brabant) in the Netherlands. It aims to provide insights into how the province can further develop its relations with China, in particular in view of the interrelation between economic opportunities and international political developments. While China is a fast-growing investor in the Netherlands, political relations between the Netherlands and China are becoming more complex as geopolitical factors and increasingly relevant. This poses new challenges for subnational government bodies, which are neither mandated nor equipped to deal with international political issues. In interactions with Chinese companies and state institutions, however, economics and politics cannot be kept fully separate. In China, the government actively intervenes in the economy, including in foreign economic relations. Moreover, the economic ties between China and the West are becoming increasingly politicised as a result of geopolitical developments. This report will outline significant trends, discuss relevant questions, and provide policy recommendations.¹



Chengdu-Tilburg-Rotterdam Express. Source: GVT.

¹ The author is very grateful to everyone who agreed to be interviewed for this report.

1 Trends

Trade and investment

China has become a major element in Dutch foreign trade. Approximately one-quarter of containers that arrive at the Port of Rotterdam come from China.² This development is closely related to the role of Germany, which has traditionally been the Netherlands' largest trading partner. Germany's own largest trading partner is China, which is the world's largest trading nation. A significant proportion of the trade between Germany and China flows through the Netherlands. In 2017 the Netherlands was the EU's largest importer from China, and the second largest source (behind China) of imports into Germany.³ It should be noted that Germany, as a major manufacturing country, not only imports goods from China; in 2017 China was the third-largest export destination for German goods.

In recent years China has also become a fast-growing source of direct investments in the European Union. China (including Hong Kong) is the world's second-largest source of foreign direct investment (FDI), behind the United States. The inflow of Chinese direct investment in the EU reached a record value of 36 billion euros in 2016.⁴ Although China's outward direct investment declined in 2017, in 2018 the EU is expected to attract additional Chinese investments as they are diverted away from the United States because of tensions in US–China relations.⁵ The Netherlands was the seventh largest EU destination for direct investment from China during the 2000–2016 period.⁶ Chinese

2 Port of Rotterdam, 'China goed voor 25% geloste containers', 9 Sept. 2015, <https://www.portofrotterdam.com/nl/nieuws-en-persberichten/china-goed-voor-25-geloste-containers>.

3 Eurostat, 'China-EU – international trade in goods statistics', March 2018, http://ec.europa.eu/eurostat/statistics-explained/index.php/China-EU_-_international_trade_in_goods_statistics; Statistisches Bundesamt, 'Foreign trade: Ranking of Germany's trading partners in foreign trade', 14 Sept. 2018, https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/ForeignTrade/Tables/OrderRankGermanyTradingPartners.pdf?__blob=publicationFile.

4 Thilo Hanemann and Mikko Huotari, 'Chinese FDI in Europe in 2017: Rapid recovery after initial slowdown', MERICS, Berlin, 17 April 2018, <https://www.merics.org/en/papers-on-china/chinese-fdi-in-europe>.

5 UNCTAD, 'World Investment Report 2018', Geneva, 2018, p.6, http://unctad.org/en/PublicationsLibrary/wir2018_en.pdf; Thilo Hanemann and Mikko Huotari, 'Chinese FDI in Europe in 2017: Rapid recovery after initial slowdown', MERICS, Berlin, 17 April 2018, <https://www.merics.org/en/papers-on-china/chinese-fdi-in-europe>.

6 'Chinese direct investment in the Netherlands: Patterns, reception and political significance', F.P. van der Putten, Clingendael Institute, The Hague, December 2017, https://www.clingendael.org/sites/default/files/2017-12/PB_Chinese_Investment_Netherlands.pdf.

investors have shown specific interest in the Dutch semiconductor, agriculture and automotive sectors. Major instances of direct investment include the purchase by JAC Capital of two parts of NXP (now Nexperia and Ampleon), and the takeovers of Nidera by COFCO, Nedschroef by Shanghai Electric, and Inalfa by BAIC (see Table 1).

Table 1 Major transactions for mainland Chinese investments in the Netherlands (2000–2017). Source: Rhodium Group.

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

Dutch foreign economic relations have long been focused on Europe and North America, but China's rapid economic development requires a fundamental reorientation of Dutch policy-making on foreign relations and economic affairs. China is already the world's largest economy in terms of gross domestic product by purchasing power parity, and is on its way to overtake the United States in GDP size by market exchange rates. In a short space of time, China has become a significant economic partner of the Netherlands. As a result of FDI, Chinese companies are now present in the Netherlands, which brings them into direct contact with Dutch subnational governments.

Go Out, BRI, and Made in China 2025

Three policy frameworks for Chinese foreign economic relations are Go Out (from 1999), the Belt and Road Initiative (from 2013), and Made in China 2025 (from 2015). The Go Out policy is aimed at stimulating Chinese companies to invest abroad and to improve their global competitiveness. This policy has been the driving force behind the process that transformed China from a country with very little investment abroad in the 1990s into the major global investor that it is today. In recent years, Go Out has

been complemented with two policy frameworks with a more specific focus. The Belt and Road Initiative (BRI, also known as the New Silk Road or One Belt, One Road) is a loosely-defined, long-term approach to international development cooperation and trade facilitation. As a result of the Belt and Road Initiative, Chinese companies stepped up their involvement in overseas infrastructure development and international logistics, including in rail, air, and sea transport between Europe and China. One example that is relevant for the Netherlands is the emergence of COSCO, China's largest state-owned shipping and logistics conglomerate, as a major investor in European container terminals. COSCO has stakes in container terminals in the Netherlands, Belgium, Spain, Italy, and Greece. As the world's largest integrated shipping company, COSCO is also a significant customer of European ports and an influential player in container shipping between Asia and Europe. Finally, Made in China 2025 (MC2025) is a policy framework aimed at improving Chinese competitiveness in a range of technologically advanced manufacturing sectors that includes clean-energy cars, aerospace, and robotics, et cetera. This has stimulated Chinese investments in and cooperation with foreign high-tech companies and research institutes. Advanced economies such as the Netherlands are important sources of relevant technology.

The role of subnational entities in China–Europe relations

In China, provinces and major cities have a large degree of autonomy with regard to their economic development strategy. As a result, they are highly active in shaping their foreign economic relations. The role of Chinese subnational governments is visible, for instance, in the implementation of the Belt and Road Initiative. The initiative for establishing the first cargo train service between China and the Netherlands originated from Sichuan province. The outcome was the start in 2016 of the Chengdu–Tilburg rail service, which has an extension to Rotterdam, and which is operated by Austria-based LTE-group on behalf of Chengdu International Railway Service Company (CDiRS), a state-owned company. Chengdu is the capital of Sichuan province. The central governments of China and the Netherlands did not play an active role in setting up this rail link, which is known as the Chengdu–Tilburg–Rotterdam Express. The role of provincial and municipal governments in China's foreign relations enhances the role of subnational governments in Europe, since they – not national government bodies – are the primary counterparts for China's provinces.



Ceremony for the initiation of the Chengdu–Tilburg–Rotterdam Express at Railport Brabant, Tilburg. Source: New China.

The relevance of Noord-Brabant for the BRI and MC2525

So far, the two most visible consequences of the Belt and Road Initiative for Europe have been the creation of direct train links between Chinese and European cities, and greater Chinese involvement in European ports. The most important destination for cargo trains from China is Duisburg in Germany. Noord-Brabant is favourably located between Duisburg and the ports of Rotterdam and Antwerp. The province is therefore particularly relevant for the Belt and Road Initiative because of its role as a logistical hub. The number of large warehouses in the Netherlands has been increasing rapidly, with the main locations being along the corridor that connects the ports of Rotterdam and Antwerp with Germany's Ruhr region via Noord-Brabant and Limburg (notably West-Brabant, Tilburg–Waalwijk, and Venray–Venlo).⁷ The Chengdu–Tilburg–Rotterdam Express provides a direct link between Sichuan in the west of China and Tilburg in the heart of this corridor. Currently, four 41-container trains a week depart from Chengdu to Tilburg, with the same number leaving Tilburg for Chengdu. This allows multinational companies with manufacturing activities in China, such as Dell and Lenovo, to supply their warehouses in Noord-Brabant, which act as regional distribution hubs.⁸

Noord-Brabant is also highly relevant for Made in China 2025, as it hosts a large concentration of high-tech companies and research organisations. The fact that Philips,

7 Max Overmeer, Niels Le Duc, Kees Verweij, 'XXL distributiecentra in Nederland worden steeds groter en hoger', Consultancy.nl, 24 mei 2018, <https://www.consultancy.nl/nieuws/17736/xxl-distributiecentra-in-nederland-worden-steeds-groter-en-hoger>.

8 Geert Nijland, 'Nieuwe Chinese Zijderoute leidt naar West-Brabant', *Eindhovens Dagblad*, 22 August 2018, pp. 10–11.

traditionally the leading technology multinational in the Netherlands, was headquartered in Eindhoven from 1891 until 1998 has created an important basis from which an extensive ecosystem of innovative companies and research institutes has evolved. Many Brabant-based companies – large ones such as NXP Semiconductors and ASML (chip-making equipment), but also many small and medium-sized firms, as well as regional focus sectors such as photonics and energy-storage technology – are of great relevance to Chinese priority sectors under the Made in China 2025 framework, such as new-energy vehicles, information technology, power equipment, medical devices, high-tech ships, aerospace equipment, and robotics.

Western responses to increased Chinese economic involvement

Western governments, in particular at the national level, are increasingly concerned about China's involvement in their economies. This unease stems not just from the rapid inflow of Chinese investments, but also from a fundamental transition in Sino–Western relations. In recent years, the United States and Western European countries have started to regard China less as a potential partner and more as a threat to the international order that they built after the Second World War and that is based on liberal values and transatlantic dominance.

The United States, in particular, perceives China as its main geopolitical competitor: China is seen as trying to replace the United States as the world's most influential nation. The National Defense Authorization Act of 2019 even states that 'Congress declares that long-term strategic competition with China is a principal priority for the United States that requires the integration of multiple elements of national power, including diplomatic, economic, intelligence, law enforcement, and military elements, to protect and strengthen national security'.⁹ Previously, Sino–US tensions over issues such as the maritime disputes in the South China Sea and cyber-espionage existed largely separately from trade and investment relations between the world's two largest economies. But in 2018 this changed dramatically. The Trump administration views economic and security issues as closely connected, and is moving towards a trade war with China that is aimed at reducing the US trade deficit with China as well as at slowing down China's ascent as a geopolitical rival. Restricting China's access to advanced technology owned by American companies is increasingly seen as the key to continued US leadership. In August 2018, President Trump signed into law the Foreign Investment Risk Review Modernization Act (FIRRMA, a part of the National Defense Authorization Act). As a consequence of FIRRMA, which is widely understood as being prompted

9 US Congress, H.R. 5515: John S. McCain National Defense Authorization Act for Fiscal Year 2019, <https://www.govtrack.us/congress/bills/115/hr5515/text>.

mainly by concerns about China,¹⁰ Chinese direct investments in the United States that involve technology transfers deemed to be relevant to national security will be scrutinized more closely by the US government.

Restrictions on Chinese direct investments in the United States may lead to more incoming investments from China in the European Union (EU). But while investment screening in the EU is generally less of a barrier for Chinese companies than in the United States, the situation in Europe is also changing. The announcement of Made in China 2025 caused alarm in EU countries with important manufacturing activities. In particular the acquisition in 2016 of German robot maker Kuka by a Chinese manufacturer of air conditioners triggered a change in attitude of the German government. Kuka's robots play an important role in German car manufacturing, which is a major pillar of Germany's role as a significant exporting country. In 2017, Germany, France, and Italy jointly urged the European Commission to introduce EU-wide investment screening. Currently, each EU member decides for itself whether it has any kind of investment-screening mechanism, and if so what form it takes. However, in September 2017 the European Commission published a proposal for an EU-wide framework for investment screening on the basis of national security and public order. Somewhat similar to FIRRMA in the United States, European concerns about China are believed to be an important motive for the proposal. The proposal is still being discussed by the member states, but should it be implemented, it would still leave much discretion to individual EU countries. Yet the fact that the Commission proposed the framework shows that the mood in Europe is changing.

Map 1 Rail connections between Noord-Brabant and various cities in China.
Source: GVT.



10 Farhad Jalinous et al., 'CFIUS reform becomes law: What FIRRMA means for industry', White & Case, 13 August 2018, <https://www.whitecase.com/publications/alert/cfius-reform-becomes-law-what-firma-means-industry>.

Compared with Made in China 2025, the Belt and Road Initiative has caused less alarm in the West. The United States falls outside the geographic scope of BRI, and the US government has shown little interest in it. In Europe the reception to BRI has been mixed. Eastern and Southern European countries have expressed interest in being a participant in BRI, while Western and Northern countries have mostly adopted a wait-and-see approach. The main change is taking place at the level of the EU. The European Commission did not initially take much action in response to BRI, other than engaging with China on possible cooperation on a limited number of infrastructure projects within the EU and China. However, the Commission produced a strategy document ('Connecting Europe and Asia – Building blocks for an EU Strategy') on connectivity between Europe and Asia, which was published in September 2018 and which is the EU's answer to BRI. Like the Belt and Road Initiative, the EU strategy will make funds available and focus on transport, energy, and digital infrastructure. The difference is that the EU approach will focus on 'sustainable connectivity' – that is, environmental, economic, fiscal, and social sustainability – plus a level playing field. Moreover, the EU uses its approach to make the point that BRI 'is not the only game in town'.

2 Questions

What are the Chinese government's main long-term policy aims and how do these relate to Noord-Brabant?

The fundamental aim of the Chinese state is to maintain political and social stability. It does so on behalf of, and by serving, the Chinese Communist Party (CCP) and, especially since 1978, by increasing the level of economic welfare of the Chinese population. To further these aims, the Chinese government follows a dual approach at the international level. Economically, it engages with and integrates into the global economy. Starting in the 1980s, this interaction has produced a very high level of growth for the Chinese economy, which in turn created the basis for Chinese global influence. Politically, the Chinese government strives to protect China from disruptive policies by foreign states. The main potential threat, as perceived by China's political leadership, comes from the United States, which is thought to have the power and a motive (halting the rise of China as a rival global power) to disrupt China's stability. An inevitable result of China's international economic engagement is that it now has interests and vulnerabilities on a worldwide scale. In order to prevent foreign actors such as the United States from exploiting these weaknesses, China needs to expand its international political influence. This, in turn, generates concerns about possible Chinese interference, such as those in Europe discussed above.

Noord-Brabant is relevant for BRI and MC2025, two policy frameworks that are at the core of China's foreign economic relations. BRI and MC2025 are intended to enable China to continue its journey to become the world's leading economic power. Exports of mass-produced goods and large-scale domestic infrastructure investments used to drive China's economic growth, but as production costs and the developmental level in China rise, the country needs a different growth model. BRI provides this by linking the growth potential of developing countries to China's huge market, its pivotal role in global supply chains, and its trade with countries in Western Europe. Moreover, BRI also serves to increase further trade and investment links between China and Europe. The function of MC2025 is to help Chinese manufacturers to move up the value chain and to become less dependent on technologies where access is controlled by foreign actors. From a Chinese perspective, Noord-Brabant offers a highly interesting combination of opportunities in the logistics (BRI) and high-tech (MC2025) sectors.

While China's interests in Noord-Brabant are economic in nature, it is relevant to keep in mind that there is no major distinction between economic and political interests for the Chinese government and the Chinese Communist Party. Ultimately, China's foreign economic interests are essential for the country's main political aims. The Chinese

government and the CCP maintain a high level of control over both China's domestic economy and its external economic relations. This model is often referred to as state capitalism. Chinese banks and many of China's largest firms are owned by the state. Their CEOs are appointed directly by the CCP, and CCP committees are embedded in these organisations' managerial hierarchies. Privately-owned firms also have close ties to the government and have such CCP committees. The Party is even pushing for CCP committees to be set up in foreign firms that operate in China.¹¹ Inevitably, CCP members are expected to be politically loyal to the Party and its leadership. In their foreign operations, the leaders of Chinese multinationals need to show their loyalty to the CCP and contribute to China's policy aims, such as those that are set through BRI and MC2025. In this respect, Chinese investors active in foreign countries are fundamentally different from their Western counterparts.

Finally, the Chinese government expects foreign counterparts with which it engages to respect China's security interests, relating to such topics as the status of Taiwan or the South China Sea, and its control over Tibet and Xinjiang. China occasionally uses its economic power to pressure foreign actors into respecting these interests. Both the geographic scope of the Chinese government's understanding of its security interests and its ability to exert economic pressure are likely to continue expanding. One recent example is China's pressure on foreign airlines to stop referring to Taiwan as a country, or anything other than an integral part of China, through their websites, maps, and documents. While China has so far mainly targeted foreign companies and national governments in this regard, subnational entities may also get caught up in similar controversies.

Which international political factors are relevant for Noord-Brabant?

As commercial and research-based interaction between Noord-Brabant and China intensifies, a number of current international political developments are increasingly relevant.

- *The politicisation of international economic relations.* For a long time, the external economic relations of the Netherlands have existed largely separately from political factors. From the 1960s, Dutch foreign economic interaction was mainly with other EC/EU member states, North America, Japan, South Korea, and Taiwan, which shared similar political systems and were part of the same military alliance. However, the rise in importance of non-Western economies and the increase in geopolitical

11 Jake Laband, 'Fact Sheet: Communist Party groups in foreign companies in China', *China Business Review*, 31 May 2018, <https://www.chinabusinessreview.com/fact-sheet-communist-party-groups-in-foreign-companies-in-china/>.

tensions between the West on the one hand and Russia and China on the other has substantially changed the situation. The great powers are highly interconnected economically but also increasingly willing to use economic means to pressure each other for geopolitical concessions. One example was the 2014 retaliatory sanctions between the West and Russia that resulted from the crises in eastern Ukraine and the Crimea. Another example is the United States' current push towards a trade war with China. It seems likely that the US government is driven not only by the desire to eliminate the US trade deficit and to create new manufacturing jobs in the United States, but also by the aim of slowing down China's rise as a geopolitical rival.

This development is relevant for Dutch provincial-level governments because it is becoming less clear where international economic interactions overlap with political affairs. In other words, in the coming years and decades, provincial authorities may increasingly be confronted with issues on which national-level guidance and decision-making is required. At the same time, it becomes more difficult for them to distinguish between entirely non-political projects and those that have or may develop a political dimension. This is especially the case in regard to their interactions with China.

- *A growing tendency in the EU towards more investment screening.* This is one outcome of the previous development. The Netherlands has long rejected the need for a centralized national investment-screening body, but it seems likely that the European Commission's proposal for an EU-wide screening mechanism will be adopted by the member states.

On the one hand, this may provide provincial authorities with a greater capacity to identify politically sensitive investments at an early stage. On the other hand, it is possible that in the coming years further restrictions to foreign, or Chinese, investments will be contemplated either by the European Commission or by member states. As China's economic power grows and Sino-US tensions increase, European governments may find that a higher level of cross-EU coordination on incoming investments will be required. Noord-Brabant may increasingly need to take into account not only Dutch national guidelines but also those of other EU member states and the European Commission, as EU actors increasingly monitor each other's incoming investments and request information and clarifications on investment-screening decisions.

- *A growing tendency of governments to regard technology as a source of geopolitical power.* This, too, results from the politicisation of international economic relations. Similar to the role that oil played in the last century, advanced technology is regarded by governments of countries such as the United States, China, and Russia as the key to military and economic leadership.

As a province that hosts a large number of companies and research institutes in advanced technological sectors, Noord-Brabant should prepare for greater international political interest in, and possibly tensions over, access to technology.

How can Dutch provincial governments cooperate with Chinese entities without losing the ability to influence the long-term direction of such cooperation?

For provincial authorities in the Netherlands, but also for Dutch municipalities, companies, and research institutes, their most likely counterparts in China are also provinces, municipalities, companies, and research institutes. In many instances, these Chinese counterparts are themselves very large in size, integrated into a larger administrative and political context, and their organisational transparency is limited. As a result, the long-term bargaining position on the Chinese side may be stronger than on the Dutch side.

In order to maintain sway over the general direction of cooperation, it is necessary for Dutch organisations to: a) have a clear idea of where they want to go with this cooperation in the long term, including a clear idea of where they do not want to go; and b) be familiar with the administrative and political context in which their Chinese counterparts operate. In order for Dutch provincial authorities to maximise their capacity to achieve such insights, it makes sense to focus on cooperating with a limited set of Chinese counterparts. Noord-Brabant already has close ties with Jiangsu province, which are complemented by those that exist between the major cities of Brabant and Jiangsu. A recent example of cooperation in the high-tech sphere is the agreement between the Holst Centre in Eindhoven and Nanjing Tech University (NTU) to establish a joint research programme. While technological cooperation plays an important role in Brabant–Jiangsu relations, the establishment of the Chengdu–Tilburg rail connection has created an important link in the logistical domain between Noord-Brabant and Sichuan province. It would be useful for Noord-Brabant to focus on these two Chinese provinces – Jiangsu and Sichuan – and develop relevant capacity accordingly.

What are options for Noord-Brabant with regard to cooperating with other European regions or Dutch provinces?

As far as could be established in the course of preparing this report, subnational governments in the European Union limit their role to attracting foreign investments and facilitating other economic interactions. There are no known examples of regional authorities that have developed policies to deal with the political aspects of their relations with Chinese counterparts. As a result, there are no best practices yet available that can help Noord-Brabant to develop its own approach in this regard.

Cooperation with other Dutch provinces and European regions is relevant not only for exchanging experiences and establishing best practices, but also for engaging with national and EU-level authorities. Political, including geopolitical and security, issues should be dealt with at the national or the EU level. However, these higher administrative levels need to provide guidance to subnational bodies so that they are capable of knowing when political issues are involved in economic and research cooperation, and how to anticipate these.

Which national and EU-level guidelines are relevant for province-level policy-making on China?

The most recent strategy document on China published by the Dutch government dates from November 2013.¹² This document states that the Dutch government aims for enhanced trade and investment relations with China, while focusing also on human rights. It does not provide guidelines for government agencies on how to detect and deal with non-economic issues, nor does it discuss policy aims relating to Dutch geopolitical and national security interests in relations with China. Given the substantial developments that have taken place since 2013 with regard to China's outward investments and the geopolitical relationship between China and the United States, the Dutch strategy document is outdated, but a successor is not yet available. At the request of the Dutch Parliament, the Netherlands' Ministry of Foreign Affairs is currently preparing a formal China strategy, which is expected to be made public during spring 2019.

The European Commission released a China strategy in 2016.¹³ This was complemented in early 2017 by a set of conclusions provided by the Council of the European Union.¹⁴

The European Commission emphasises both economic interests and values: 'The EU should pursue an ambitious agenda of cooperation with China. Mutual economic and commercial interests are strong but should not prevent the EU from upholding its values in its relations with China'. Regarding incoming investments, the Commission states: 'The EU welcomes productive Chinese investment in Europe provided it is in line with EU law and regulations'. And on technology cooperation: 'The EU stands to gain from

12 Dutch cabinet to Second Chamber, 'Het Nederlandse China-beleid: Investeren in Waarden en Zaken', November 2013, <https://www.parlementairemonitor.nl/9353000/1/j9vvij5epmj1ey0/vjeqk6qdzhyh>.

13 European Union External Action Service, 'New strategy for the European Union's relations with China', 22 June 2016, https://eeas.europa.eu/generic-warning-system-taxonomy/404_en/7324/New%20strategy%20for%20the%20European%20Union%E2%80%99s%20relations%20with%20China.

14 Council of the European Union, 'Council Conclusions EU strategy on China', 13 January 2017, https://eeas.europa.eu/delegations/china_en/18539/Council%20Conclusions%20EU%20Strategy%20on%20China.

strengthening research and innovation cooperation with China by jointly developing knowledge and technology, tapping into China's talent pool, promoting the EU as an attractive location for research and innovation, and finding solutions to shared social and environmental challenges. Ensuring a level playing field for research and innovation, including reciprocal access to research and innovation programmes and resources, remains essential'. On BRI, the Council says it 'supports cooperation with China on its "One Belt, One Road" initiative on the basis of China fulfilling its declared aim of making it an open platform which adheres to market rules, EU and international requirements and standards, and complements EU policies and projects, in order to deliver benefits for all parties concerned and in all the countries along the planned routes'. Available national and EU-level strategy documents do not provide practical guidelines for subnational authorities on how to deal with politically sensitive aspects of their interactions with China. Moreover, even the relatively recent EU strategy already seems outdated in the sense that it does not cover the implications of BRI and MC2025 for incoming Chinese investments. Relevant EU initiatives are the EU's connectivity strategy and an EU mechanism for foreign direct investment screening (under development).

3 Recommendations for Noord-Brabant province

1. The province should develop relations only with a limited set of Chinese counterparts. The number of counterparts in focus regions and sectors should not exceed the province's monitoring capacity to gain insights into the administrative and political contexts in which these Chinese counterparts operate. This applies to the province's direct interactions with Chinese authorities and actors, and its role in facilitating cooperation between key sectors and organisations/companies in Brabant and their Chinese counterparts.
2. For Noord-Brabant, stimulating technological cooperation with organisations/ companies based in Jiangsu province and logistical cooperation with Sichuan-based actors would be a useful delimitation, provided that sufficient monitoring capacity is available.
3. Monitoring capacity can to a degree be developed jointly with other Dutch provinces and with the Dutch central government. The Netherlands Business Support Offices (NBSOs), Dutch consulates and the Netherlands' Embassy in China, and the Brabant Development Agency (BOM) and Netherlands Foreign Investment Agency (NFIA) constitute an important foundation. This should be complemented with a joint provincial-level knowledge network or information centre that is based in the Netherlands and that supports all Dutch provinces when dealing with Chinese investors and research institutes. The purpose of such a network or centre should not be to attract investments, but to provide provinces and municipalities with background information on Chinese actors, Chinese policy and regulatory frameworks, and data on Chinese activities across the Netherlands and the EU, as well as relevant Dutch and European guidelines on dealing with (or avoiding) politically sensitive issues.
4. Jointly with other Dutch provinces, Noord-Brabant should engage the Dutch national government on the issue of political guidance. The national government should be aware of the provinces' needs with regard to such guidance. The provinces should be aware not only of existing China-related policies but also of the direction in which these policies are developing, in particular with regard to the balance between incoming direct investment and national security.

5. Noord-Brabant should engage with other EU regions that have similar profiles in terms of their relevance for Made in China 2025 (with a high concentration of advanced technology firms and institutes) or the Belt and Road Initiative (that is, major logistics hubs that are directly linked to China) to exchange information and to achieve EU-wide guidance on how to deal with Chinese counterparts.

Literature relevant for Dutch provincial-level engagement with China

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Background interviews conducted for this report

Hannah Weckemann, Project Leader, Chinaforum Bayern, Munich, 19 June 2018.

Saskia Hieber, Senior Lecturer for International Politics, *Akademie für Politische Bildung*, Tutzing, 20 June 2018.

Marc Verbiest, Noord-Brabant Representative, Consulate-General of the Kingdom of the Netherlands, Munich, 20 June 2018.

Peter Vermeij, Consul-General, Consulate-General of the Kingdom of the Netherlands, Munich, 20 June 2018.

Guido Dierick, General Counsel / Country Manager Netherlands, NXP Semiconductors, Eindhoven, 9 July 2018.

Maurice Geraets, Board Member Netherlands, NXP Semiconductors, Eindhoven, 9 July 2018.

Paul Breddels, Business Development Manager, Holst Centre, Eindhoven, 9 July 2018.