

American Chamber of Commerce in The Netherlands

2020 Study Investment Climate



The Investment Climate in The Netherlands

A study commissioned by AmCham The Netherlands and executed by Bain & Company, June 2020

Key Points

- Foreign direct investment (FDI) is an important driver of economic productivity. At the beginning of 2020, global FDI had already been on a slight downward trajectory for a number of years. COVID-19 is expected to lead to a significant further decline. Even in the most optimistic scenario, a drop of 30+% from 2019 levels is expected¹.
- Similarly, global trade was experiencing challenges before COVID-19 struck, driven by factors such as increasing regulation and a waning popularity for globalization. COVID-19 has acted as an accelerator for a number of such trade trends already taking hold.
- The Netherlands (recognized as the world's fourth most competitive economy² last year) has benefited immensely from FDI and foreign companies. Such businesses, for example, add 18% of value to the economy, create jobs and contribute 30% of all private R&D spending³. A drop in FDI will likely impact the Dutch economy significantly.
- Against the backdrop of declining FDI and disrupted global trade, this study outlines three phases that the Dutch government can follow to protect, recover and then 'retool' its economy so that it can thrive in the new normal.
- This study focuses on four 'retooling' recommendations. These cover the transition to a sustainable economy, taking the lead in (digital) technology and preparing the labor market and the country's infrastructure for a path of sustainable growth.
- Government focus on these four topics, with support from businesses, will also ensure that the Netherlands remains an attractive destination for FDI in the future.

Observations

The COVID-19 pandemic is foremost a humanitarian crisis, having killed over 355.000 people⁴ and impacted the lives of untold more. It has also overwhelmed health-care systems and workers worldwide. Measures aimed at slowing the virus have in many cases led to significant economic impacts, some of which further exacerbating human suffering. The following study will concentrate on this from a trade and economic perspective.

¹ OECD, mid May 2020

² The World Economic Forum's Global Competitiveness Index measures national competitiveness defined as the set of institutions policies and factors that determine the level of productivity

³ Dutch Ministry of Economic Affairs and Climate/ CBS

⁴ May 28th 2020 (John Hopkins University & Medicine)

Governments Interfere with Trade

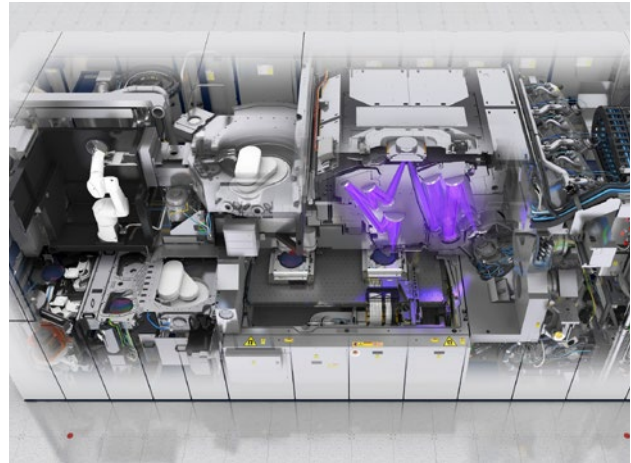
COVID-19 has accelerated the pace of a number of trends changing the global macro-economic environment that we were already witnessing. Digitalization, automation, the outsourcing of business services has sped up over the past months. Jumps in digitalization have been especially evident in retail and education, while some agriculture and logistics companies look to automation to replace seasonal workers unable to reach the country for example.

COVID-19 has also accelerated three global trade trends. The first is that trade is increasingly used as a tool of geopolitics, either to coerce countries into changing their behavior, such as through sanctions or tariffs, or to extend political and economic influence. US-China

relations have further deteriorated since the beginning of the year, resulting in further threats of tariffs. On the other hand, China's charm-offensive of donating medical supplies can be seen in a wider context to contribute to its Belt Road Initiative, where it gains political and economic influence through funding large infrastructure projects abroad for example.

Secondly, trade is increasingly framed as a topic of national security. Governments are interfering in trade based on national security or defense grounds. Before COVID-19, this was especially the case with data, tech or 'dual-use' products, which are products that can be put to both commercial and military use. Take the contested export license of the Extreme Ultraviolet Lithography (EUV) machine, made by the Dutch chip manufacturer ASML: the U.S. government has asked for the sale of the EUV machine to China to be blocked, fearing China may use the technology for military purposes. Representatives at the highest level of government in the U.S. and the Netherlands, as well as the Chinese and American Ambassadors in The Hague, have been involved. Another example are the recent bans by governments on Huawei's 5G network that also stem from security concerns. When politicians and diplomats interfere with trade, there is at times an almost indistinguishable line between genuine security concerns and protectionist tendencies. Since the COVID-19 outbreak, medical supplies also fall into this category. Governments have considered and implemented protective equipment export bans and both in the Netherlands and in the U.S. the government has seized and centralized medical supply distribution to some degree.

The third trend is a gradual shift away from globalization as regulation increases and countries slowly turn inward. The increase in regulation has been driven largely by the



U.S. pleads Dutch government to block ASML export license. Dutch government research whether genuine security concerns exist. China protests.

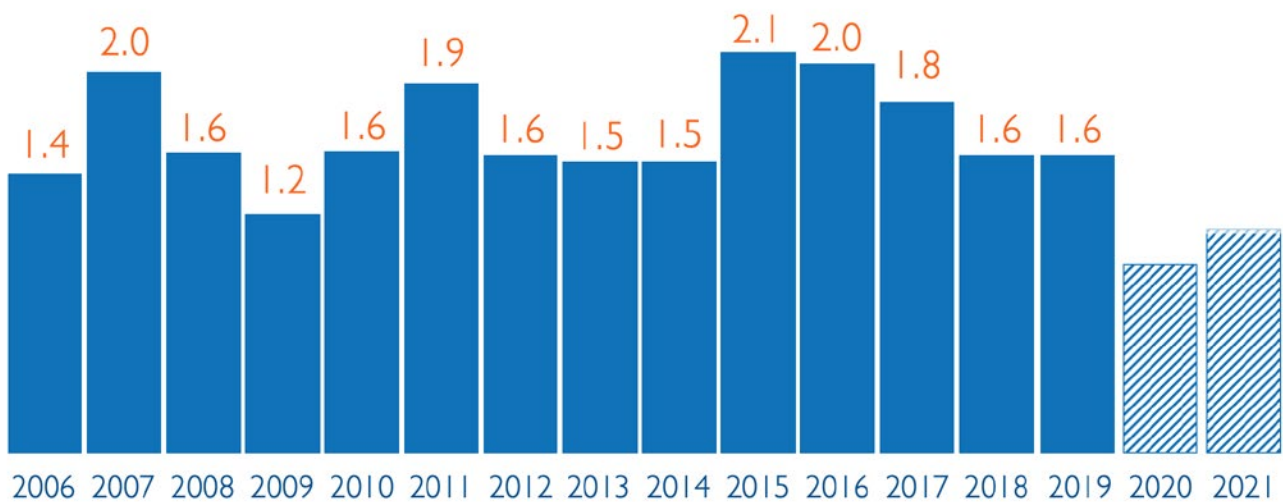
(Sources: Visual: ASML; Text: De Volkskrant)

European Union (EU) and its member states. A recent example is the anticipated taxation of digital services' advertising profits, commonly referred to as the 'tech tax'. France and other European countries threatened to unilaterally tax U.S. tech giants, provoking a counter threat of tariffs from the U.S. The OECD has since been tasked with developing a global regulation. Emphasizing 'European values' and ethical considerations, the EU has also taken the lead in other fields of digital regulation such as their recent whitepaper on an AI policy framework⁵. Fair taxation and regulating new technologies is not only crucial, but is also encouraged by tech companies who seek the development of one clear, global standard for their products. However, the proliferation of regulation should not hinder Europe's own tech innovation efforts from flourishing or prevent trade deals with the U.S., Canada and a post-Brexit UK.

Accompanying this increase of regulation, calls for (a degree of) self-sufficiency in various sectors are growing and no country has shown interest in leading the global

⁵ European Commission, 2020

I Global FDI inflow (\$T)



(Sources: Visual: Bain & Company; Data: OECD)

Forecast

response to COVID-19. European countries opted for mostly a national rather than European approach, especially at the beginning. There was a seeming lack of transatlantic coordination when the U.S. unilaterally imposed a flight ban from Europe. Further trade restrictions and delays due to COVID-19 are likely, as border checks are stepped up and there is less cargo space available as commercial airplanes operate less flights.

In this atmosphere of declining global trade, which is being accelerated by COVID-19, it is of interest to look at foreign direct investment, or 'FDI'.

Global FDI and Foreign Investment in the Netherlands

After a post-recession spike in 2015-16, global FDI inflow has declined for a fourth year in a row⁶ (Figure I). Part of the drop is likely attributable to the U.S.-China trade war, against a backdrop of generally worsening sentiment towards global trade. The 2017 U.S. tax reform that made it advantageous for U.S. companies to bring money held in foreign affiliates back to the U.S. is also partly responsible⁷. Considering the impact of COVID-19, the OECD estimates that global FDI flows

“...even under the most optimistic scenario, FDI flows will likely fall by at least 30 percent in 2020 compared to 2019 before returning to pre-crisis levels by the end of 2021.”

OECD, early May

will decline by at least 30% over 2020, and likely not regain 2019 levels until the end of 2021, at best. This is relevant for the Netherlands as it is a significant receiver of FDI.

The importance of foreign companies in the Netherlands cannot be understated. Either directly or indirectly, foreign companies are responsible for an estimated 1.5 million jobs. Yearly foreign companies spend ~€2.6B on R&D, amounting to 30% of all private R&D spending in the country. In turn, the Netherlands has a lot to offer and remains a popular location for foreign companies. Almost 400 companies made the move to the Netherlands in 2019, expecting to spend €4.3B in investment and generate 14.000 jobs in the first three years after their move⁸.

A significant drop in FDI will affect the Dutch economy, which is already suffering due to COVID-19 measures. We looked ahead at what the government can do to help the economy recover and return to thriving, thus continuing to attract foreign investment in the future.

⁶ OECD

⁷ OECD

⁸ Netherlands Foreign Investment Agency (NFIA)

Protect, Recover and Retool

We see three phases to the Netherlands' economic recovery (**Figure 2**). The first phase, 'protect', entails the measures taken in the first few critical weeks - to protect citizens from mass unemployment, to identify which crucial sectors need to be kept functioning and to support businesses as to prevent structural, irreversible damage to the economy.

The second phase is geared towards 'recovering' and restarting the economy. Questions that need to be asked here are on the one hand about the trade-offs and conditions of the gradual re-opening of the economy, and on the other, the degree of support for individuals and businesses suffering from remaining (partially) closed. Clear communication of the considerations underlying

decisions on re-opening and supporting sectors is crucial, as is a clear phased return plan to help businesses prepare and adjust, to the extent possible.

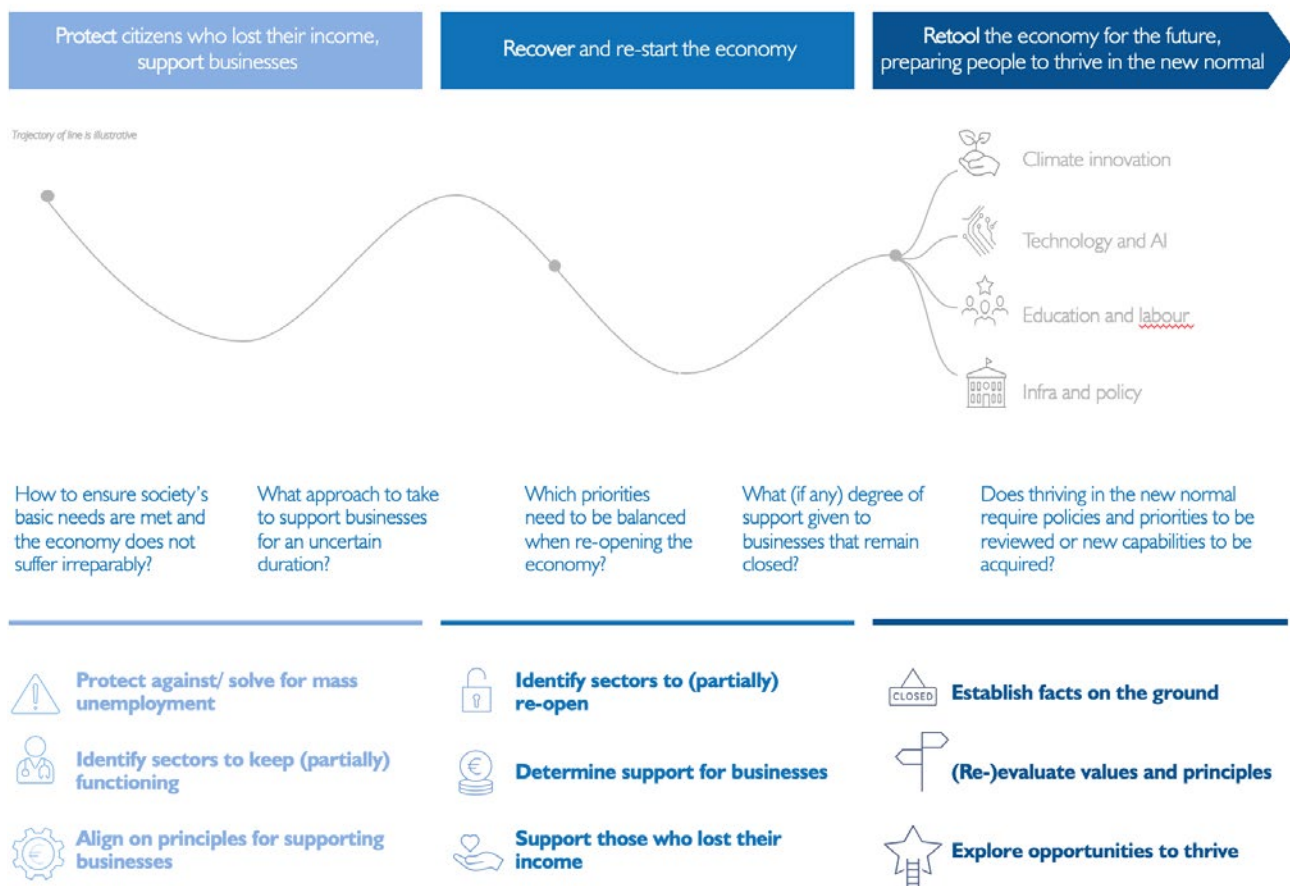
The third phase is 'retooling', which refers to preparing businesses and individuals to thrive in the 'new normal'. This is explicitly not a 'return' to before. Rather, it is firstly a recognition that the situation has changed, and secondly a proactive approach to reviewing and adjusting resources and priorities so that the economy will thrive, not just survive, in the new normal.

We identified four retooling focus areas that will develop and solidify a thriving, competitive and sustainable economy. The following section will look into each of these in further detail.

2 Three phases to the Netherlands' economic recovery

Economic perspective: protect, recover and retool

Healthcare and safety
Physical and mental wellbeing
Economy
Education
...



(Source: Visual and data: Bain & Company)

1. Faced with threats posed by climate change, capitalize on innovation and expertise to lead the transition towards a sustainable future

Climate change poses an urgent and all-encompassing challenge. For the Netherlands, this challenge is also an opportunity to lead and shine in areas in which it traditionally excels. Grounded in a strong public-private sector approach, the sectors of water management, sustainable agriculture, smart mobility and sustainable chemicals are key areas of Dutch expertise. With e.g. the world's best agricultural university in Wageningen and the international water education institute in Delft, talent and expertise abound. Government subsidies stimulate climate-friendly innovation and the adoption of sustainable practices and products, with notable results such as an electric car being the most sold car of 2019. Public-private partnership hubs, which stand at the core of Dutch innovation success, are scattered across the



Home to over 5,300 agri-food companies and multiple top R&D facilities, the Dutch have some of the most innovative, sustainable and efficient farms in the world.

(Sources: Visual: Bain & Company; Text: Invest in Holland)

⁹ *Mobility as a Service refers to the planning, booking and paying of all possible transport modes using an app. It could include (a combination of) bicycles, cars, trams, scooters or trains for example. MaaS is meant to improve a traveler's journey, collect anonymized data to gather insights and improve e.g. traffic flows and climate ambitions, and lessen the cost of and pressure on public infrastructure. The Dutch government currently has eight national MaaS pilots, carried out by the Ministry of Infrastructure, local governments and businesses. (Government of the Netherlands website)*

country, ranging from a new biotech incubator campus to 'mobility as a service'⁹ and waterway traffic flow regulation pilots.

Dutch climate policy is relatively ambitious, which, depending on the industry, can be either a challenge or opportunity from an FDI perspective. We recommend the Dutch government to continue to capitalize on their innovation and expertise to lead the transition to a sustainable future, supporting businesses in their transition adequately.



Retooling

Continue to capitalize on Dutch innovation and expertise to lead the transition to a sustainable future

1. Support businesses not just in their R&D, but also in the roll-out phase of their sustainable transition
2. Subsidize and stimulate adaptation measures for existing businesses, alongside encouraging new innovations coming out of the startup scene
3. Continue collaborative innovation across academia, industry and government, including in wider European and global context
4. Continue subsidies that successfully encourage businesses and consumers to adopt climate friendly practices and products
5. Policies should be consistent, in line with EU policy and long term oriented

2. Confronted with the prospect of AI and other high tech solutions transforming society, continue to outperform in high tech solutions and accelerate, with a sense of urgency, Dutch AI performance

Ranked as the fourth most innovative country worldwide, the Dutch are known for their high tech solutions. Innovative R&D hubs such as Eindhoven's Brainport Industries Campus, YES!Delft and TNO bring together industry, academia and government. A recent example is the repurposing of factory lines to produce high quality



Bringing together academics, government, startups and multinationals, Brainport Eindhoven is at the forefront of manufacturing, high tech and IT innovation.

(Source: Visual and text: Brainport Eindhoven)

PPE in the Netherlands, an initiative including Brainport, companies such as Auping and DSM and the government¹⁰. The Netherlands hosts leading high tech companies across a range of diverse sectors from medical to aerospace and semiconductors, including NXP, DSM, ASML, Philips and the European Space Research and Technology Centre. We strongly encourage the Dutch to continue to nurture their leadership in high tech solutions.

AI is set to revolutionize all aspects of society. Being part of the development will bring huge economic gains. Falling behind and becoming reliant on foreign technologies could have serious strategic consequences. Spurred on by the EU, European countries are investing in their own AI capabilities. The UK identified AI as 1 of 4 priorities in their new Industrial Strategy, France pledged €1.5B and Germany €3B to their respective AI strategies. The Dutch,

¹⁰ PPE refers to personal protective equipment

¹¹ The Netherlands fell from #5 in 2017, which was the second highest European country after the UK. Other European countries that have since surpassed it are Germany, Finland, Sweden, France, Denmark and Norway (Oxford Insights)

¹² Round table discussion (Feb. 2020) and general consultation (Mar. 2020) on artificial intelligence, Dutch House of Representatives

¹³ CBS, 2019 (data point from 2017, well before unemployment grew as a result of Covid-19 measures)

too, need to be part of this development. The government published a 'Strategic Action Plan for Artificial Intelligence' in October 2019. Whilst ambitious and detailed, more investment and speed is needed to get and stay ahead as a leader: the Netherlands recently fell to #14 on the Government AI Readiness Index¹¹ and is experiencing a brain drain of some of its most promising talent¹².



Retooling

Remain a leader in **high tech industries** whilst **accelerating artificial intelligence ambitions**

1. High tech solutions: Remain a global leader by continuing to develop talent, invest in innovation and encourage academia-industry-government hubs
AI: Accelerate, with a sense of urgency, Dutch AI performance by investing to attract and retain talent and foster an attractive, well-funded AI ecosystem
2. Attract, develop and retain both Dutch and foreign AI talent
 - Integrate latest digital learning (e.g. programming) in schools
 - Discontinue numerus fixus at universities
 - Increase PhD and post-doc funding and improve career opportunities
3. Cultivate an attractive, well-funded AI ecosystem, providing clarity on sources of funding
 - Proliferate academic-industry-government research hubs, increase access to funding and improve high quality data collection
 - Attract EU AI-related institutions, explore AI partnerships with top US academic institutions and companies and continue to involve tech start- and scale-ups in foreign trade missions

3. As rapid tech development may render many jobless and unprepared for the future (digital) economy, foster continuous learning for a diverse and digitally-enabled workforce

Despite there being low unemployment before COVID-19 struck (roughly 4.9% vs. the EU average of 7.6%¹³), part of the Dutch workforce is reasonably exposed. It has

many self-employed people, who are not always self-employed by choice, and 36% of the workforce does not have a fixed contract¹⁴. Recently we have seen just how vulnerable and dependent on government support this group can become in a recession.

A further glance at education and labor shows that almost half of the workforce works part-time, of which most are women¹⁵. Despite binding targets and more recently, a gender quota, the Netherlands struggles with a lack of gender and cultural diversity in senior positions. While primary and secondary education are declining in quality and have a pressing teacher shortage, the Netherlands is home to highly ranked universities. Recent government policy has focused on ways to increase labor participation, boost diversity, stimulate continuous learning and increase security for those without a fixed employment contract¹⁶.

Recognizing the government's sustained efforts at addressing these topics, we recommend the following:



Retooling

Foster **continuous learning** for a **diverse** and **digitally-enabled workforce**

1. Increase workforce resilience to future role changes driven by tech or a recession by continuing to encourage continuous (digital) learning or re-schooling
2. Continue striving for greater income security for those unwillingly self-employed or on temporary contracts, whilst facilitating some flexibility for employers
3. Fill vacancies and integrate people into the workforce faster and at the right level by focusing on competencies and potential, not just certificates or CV

¹⁴ 'Het betere werk' WWR, 2020

¹⁵ CBS, 2020 (data point from Q4 2019)

¹⁶ Recent policy reports include: 'Diversiteit in de top' SER (Sep. 2019) and 'In wat voor land willen wij werken?' (Jan. 2020)

¹⁷ CBS, 2019

¹⁸ World Economic Forum's Global Competitiveness Report, 2019

4. Continue to strive for greater cultural and gender diversity at all levels, addressing challenges faced at each stage of a career
5. Maintain an open, collaborative dialogue between the government and private sector, e.g. to minimize unintended financial consequences or administrative burdens

4. Embrace institutional stability and consistent policy, and ensure infrastructure supports growth

The Netherlands is politically stable with strong institutions and rule of law. Coalition governments, a broad array of political parties and the 'polder model' all encourage pragmatic politics. It ranks third within the Europe Union on public trust in the legal system and parliament¹⁷. The World Economic Forum's Global Competitiveness Report ranks the Netherlands first for macro-economic stability and second for business dynamism¹⁸. On physical and digital infrastructure the Netherlands scores high in most areas too. The country has a major international airport (Schiphol) and Europe's biggest seaport (Rotterdam), an extensive road, bicycle and rail network and excellent public transport. It is strategically located, European markets can be accessed by land or sea and it hosts the European distribution centers



Cushman & Wakefield ranked Amsterdam as the 7th best place worldwide for datacenters and 1st in Europe. The 6 locations that scored better were all in the U.S. or Singapore.

(Sources: Visual: Shutterstock; Text: 'Data Center Global Market Comparison', Cushman & Wakefield, Feb. 2020)

of >1.000 foreign companies¹⁹. The Netherlands has the highest internet penetration in the EU²⁰, hosts the world's leading internet exchange and Amsterdam is a top hub for datacenters²¹.

Whilst regulation and infrastructure support the Dutch economy, a few cracks and strains are starting to appear which may risk limiting growth and FDI in the future. These include housing and office shortages in major cities, insufficient student capacity at international schools and unclear policy for the rapidly expanding data center market in the Amsterdam-Haarlemmermeer region. We advise the government to:



Retooling

Embrace **institutional stability** and **consistent policy**, and ensure **infrastructure supports sustainable growth**

1. Strive towards long term consistency of policies, which is essential for building trust with the private sector and will encourage further FDI
2. Ensure strains on infrastructure are addressed before they become a limiting factor for future sustainable growth. Focus to go to:
 - Office space, housing and international schools in major cities
 - Improving traffic flow and minimizing traffic jams on major roads
3. Formulate a long term data center strategy that is consistent with future policy

Conclusion

The Dutch economy was in a strong position before the COVID-19 crisis hit. It was recognized as having the most competitive economy in Europe and the fourth most competitive economy in the world. It was a popular country for foreign businesses and FDI, which in turn played a vital role in the economy.

The Dutch economy is likely to recover well, supported by a committed government and having entered the crisis with a relatively low state debt. We recommend four specific 'retooling' focus areas aimed at helping the economy thrive in the new normal, thus also continuing the country's attractive investment climate. Underlying these, we reiterate the importance of stable, long-term oriented policy and an open, collaborative dialogue between the government and private sector as the Netherlands continues along a path of sustainable growth.

¹⁹ Ministry of Foreign Affairs
²⁰ CBS, 2019
²¹ Cushman & Wakefield, 2020

Appendix A: Sources text

Source	Topic	Source details / method / definition
AmCham The Netherlands members	Various	Interviews to understand members' views on topics such as Dutch attractiveness for FDI and potential challenges facing the (future) economy
Cushman & Wakefield	Datacenters	'Data Center Global Market Comparison' (Feb. 2020)
Dutch Central Bureau of Statistics (CBS)	Dutch workforce data, macroeconomic statistics	'Nederland langs de Europese meetlat' 2019; 'Deeltijd; Dashboard beroepsbevolking' 2019
Dutch House of Representatives	Artificial intelligence (general consultation and round table discussion)	'Strategisch Actieplan voor Artificiële Intelligentie (Rondetafelgesprek)' (20 Feb. 2020); 'Algemeen Overleg: Kunstmatige intelligentie en sleuteltechnologieën' (12 Mar. 2020)
European Commission	Artificial intelligence	'White Paper: On Artificial Intelligence- A European approach to excellence and trust', 19 Feb. 2020
Government of the Netherlands	Various, including Dutch key sectors, national AI strategy and labor reports	Smart transport, water and agriculture data and information; 'Strategic Action Plan for AI' (Oct. 2019); 'Diversiteit in de top' SER report (Sep. 2019); 'In wat voor land willen wij werken?' and 'Het betere werk' WRR report (Jan. 2020)
John Hopkins University & Medicine	Coronavirus resource centre	Overview of global deaths due to corona
OECD	FDI inflow data, global trends in FDI, FDI in Figures reports, 'Tackling coronavirus' report	FDI inflow equals transactions that increase the investment that foreign investors have in enterprises resident in the reporting economy less transactions that decrease the investment of foreign investors in resident enterprises. This includes cross-border M&A activity and inter-company loans between a parent and a subsidiary company for example
Ministry of Economic Affairs and Climate	Economic growth priorities (letter and speech)	Kamerbrief 'Groeistrategie voor Nederland op de lange termijn' (13 Dec. 2019); Toespraak 'Staat van de Economie 2020' by Minister Wiebes (12 Feb. 2020)
Ministry of Foreign Affairs	Infrastructure	'The Netherlands Compared 2020'
Netherlands Foreign Investment Agency (NFIA)	Foreign business contribution to Dutch economy, Dutch attractiveness for FDI	Invest in Holland website, NFIA annual results 2019
Oxford Insights and the International Development Research Centre	Artificial intelligence	Government AI Readiness Index 2017, 2019
World Economic Forum	Global Competitiveness Report	'The Global Competitiveness Report 2019' which includes rankings and various sub-indicators

About AmCham

The American Chamber of Commerce in the Netherlands (AmCham) is a non-profit, non-governmental, non-political, voluntary organization of companies and individuals who invest in and trade between the United States of America and the Netherlands. The Netherlands is one of the most important destinations for U.S. direct investment in Europe and a major hub of American professionals living and working abroad. Since 1961, AmCham is the main voice of U.S. business in the Netherlands and strives to improve the investment climate in the Netherlands.

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