American Chamber of Commerce in the Netherlands

2019 Investors' Agenda of Priority Points

Study Investment Climate

AmCham
THE NETHERLANDS

Each year, the American Chamber of Commerce in the Netherlands (AmCham) publishes the Investors' Agenda of Priority Points (Priority Points). AmCham's Priority Points address the main challenges to the Dutch investment climate and form the basis for AmCham's dialogue with the Dutch government, employer organizations, legislators and other important stakeholders.

Priority Points 2019: Focus on a Strong and Flexible Economy

Foreign companies are of crucial importance to the Dutch economy. They are responsible for nearly 38% of the country's revenue and the employment of up to 967.000 people[1]. The U.S. still is the largest foreign investor in the Netherlands and both capital investments and jobs generated from U.S. FDI rose somewhat in recent years. While the Netherlands still is a top destination for U.S. investment, AmCham's study on the Dutch investment climate shows that competition within the EU is fierce and the Netherlands has dropped in the overall ranking for both U.S. investments and jobs.

In 2018, the Third Rutte Cabinet ultimately gave a strong impulse to the Dutch investment climate with the planned reduction in corporate tax from 25% to 20.5%. A transitional arrangement was also created at the eleventh hour for the benefit of expats who are faced with a retrenchment of the so-called 30% ruling. These measures were actively advocated by AmCham and are greatly appreciated by the American business community in the Netherlands.

At the same time, there is a declining trend for global FDI according to research conducted by Bain & Company at the request of AmCham, while foreign investments are essential for the Dutch economy and employment. For the Netherlands to remain attractive as a destination in an era in which competition with other countries in attracting foreign investors is fiercer than ever, it is important that strategic policy is pursued. AmCham advocates, among other things, maintaining and, where necessary, reinvigorating the top-sector policy, further digitizing business and realizing the supporting infrastructure, and encouraging R&D activities. AmCham strongly advises the government to implement predictable policy, to live up to aroused expectations and to fulfill agreements made - and, if necessary, to defend them firmly. For American companies, reliability and stability are essential for the development and continuation of activities abroad.

AmCham's Priority Points 2019 are a plea for a strong and flexible economy, whereby the investment climate in the Netherlands is improved and Dutch society continues to benefit from the substantial employment opportunities that international business offers.

Innovation: Invest in STEM Education, Keep Investing in the Digital Infrastructure and Increase Investments in R&D

The speed at which technological developments like artificial intelligence and robotics and changing demographics are impacting the (labor) market, requires us to invest in a skilled and agile workforce. The lack of technically skilled people at all educational levels is an issue that should be addressed. The number of graduates from STEM[2] studies is low compared to other OECD countries, and we therefore recommend to make it a priority to increase this number. Also, first-rate and continued education should include exposure to and hands-on experience with technological advancement as this is the best path to build the relevant skills of the future workforce that multi-national employers will covet. The Dutch digital infrastructure is of high quality. This is an important asset and it is therefore important to keep it state of the art. At the same time, we see that investments in R&D in the Netherlands as a percentage of GDP fall behind compared to other countries. We therefore recommend to keep encouraging such investments.

Human Capital: Build a Resilient and Adaptable Labor Market

The availability of employees with the right skill sets together with the cost and flexibility of labor remain a primary concern for companies. In a resilient and adaptable labor market, resources can be allocated efficiently which has proven to be a forceful driver for innovation. We advise the government to simplify, shorten and economize procedures and to acknowledge the importance of continued education. These measures can strengthen the Dutch labor market substantially. As the amount of freelancers ('ZZP') rises, the vulnerabilities of this group should be considered as well, as to avoid the social risk of a dichotomy on the labor market. If the right profiles are not sufficiently available on the Dutch market, it should be easy for companies to attract foreign talent.

This course of action could increase overall mobility in the Dutch labor market while simultaneously mitigating risks for both employers and the workforce.

Tax: Competitive Profit Tax Rate is Vital for the Dutch Investment Climate

Tax is a conclusive factor in foreign investment decisions by business. Benefits from foreign direct investments include additional employment, innovation and continued economic growth. As the international community and European Union are rapidly harmonizing fiscal frameworks, the Netherlands is losing its status as default destination for U.S. international investments. We strongly recommend the Dutch government to continue to reduce the corporate tax, financed from a broader base as well as the proceeds of new green taxes. The continued economic development of the Netherlands arrests without foreign direct investment; it is critical that the Netherlands government continues to act in accordance.

Industry: Avoid National Gold-Plating, Limit EU Regulation Costs, Support Responsible Energy Transition

AmCham supports measures that improve and secure the competitiveness of and stimulate innovation in the Dutch industry. We underline the importance of the Port of Rotterdam, Schiphol Airport and Brainport Eindhoven as major hubs for international business. The Dutch government should support the economic sustainability of its industry and avoid a position where it becomes uncompetitive internationally. AmCham therefore warns for the harmful effects of national gold-plating on the Dutch investment climate. The benefits of an EU level playing field are lost when national regulation increases the burden for companies. Furthermore, AmCham welcomes (the implementation of) a competitive regulatory framework in order to avoid high industry costs. To ensure a responsible energy transition for industry, constructive collaboration with the government is essential.

Economic Footprint of the Healthcare and Other Industries

The added value of foreign companies in the Netherlands extends well beyond their own employment and direct economic contributions. It also includes employment arising from its supply chain, R&D investments, the value of innovation to society, the impact of its products and the contribution to wellbeing in general. AmCham underlines that industries like the pharmaceutical industry have a large economic footprint in the Netherlands and contribute to both economy and society as a whole. It is important to understand that science-based and high-tech R&D have a positive impact on society far beyond the own business. AmCham therefore recommends to maintain and grow a competitive R&D climate.

Protect Intellectual Property

Creativity and innovation lie at the heart of many companies' business models. For many businesses, intellectual property protects more than just an idea or a concept – it protects genuine business assets that may be integral to the core services of the business and overall long-term viability. IPR intensive industries account for 35.5 % of NL GDP and generate 27.4 % of NL jobs[3]. They contribute to competitiveness and job creation. We therefore call for a commitment to properly protect and enforce intellectual property rights - in all sectors - to ensure that the Netherlands stays a safe and attractive place for innovative companies to invest in.

1 Source: CBS - Multinationals and non-multinationals in the Dutch economy (2018)
2 STEM: Science, Technology, Engineering and Mathematics – the so-called 'beta' studies
3 Intellectual property rights intensive industries and economic performance in the European Union - pg. 88. October 2016. A joint project between the European Patent Office and the European Union Intellectual Property Office.

The Investment Climate in the Netherlands

A study commisioned by AmCham the Netherlands and executed by Bain & Company, March 2019

Key Points

- FDI is a driver of both economic and job growth in the Netherlands. Yet, global FDI has been declining at about 17% per year since 2015. Negative sentiment against the consequences of globalization and FDI is on the rise, and governments worldwide are taking more protectionist measures
- The Dutch government is currently in the process of renewing its industrial strategy which it first released back in 2011. The new strategy aims for close collaboration between government, top-sectors and higher education to drive innovation and address some of the Grand Challenges facing Dutch society

Observations

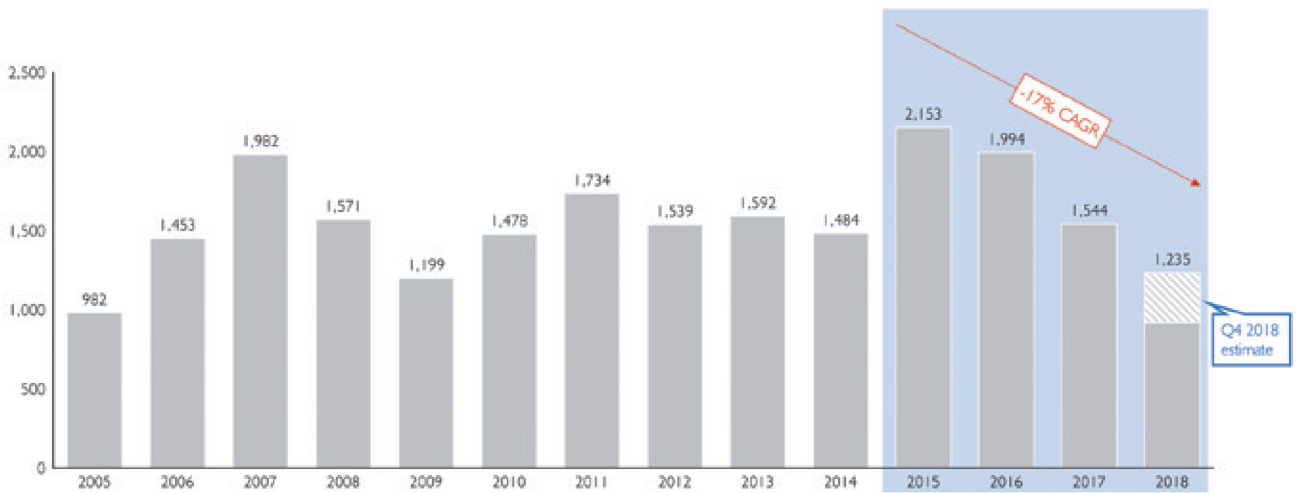
Foreign Direct Investments

Foreign Direct Investments (FDI) remain an important driver of economic growth for the Dutch economy. According to data from fDi Markets, which tracks cross-border investments, the Netherlands received about 50 billion dollars in foreign investments and 72 thousand new jobs from foreign investments over the past 5 years. While investments and jobs flowed into the Dutch economy from all over the globe, the #1 provider of both invested capital and jobs was the United States, which was responsible for 40% of all invested capital and 30% of all new jobs over that period.

From this perspective, it appears the Dutch economy continues to benefit from the inflow of foreign investments. However, when we consider the global picture for FDI, things look more challenging. Since 2015 the amount of FDI flowing into all countries across the globe has been decreasing at a rapid rate of 17% per year on average (**Figure 1**). This despite the fact that the global economy has grown at near 3% per year over the same time period. It even looks like the total FDI inflow for 2018 will be around the same level it was in 2009, which was during the depth of the global financial crisis. Why might global FDI flows be slowing down so sharply?

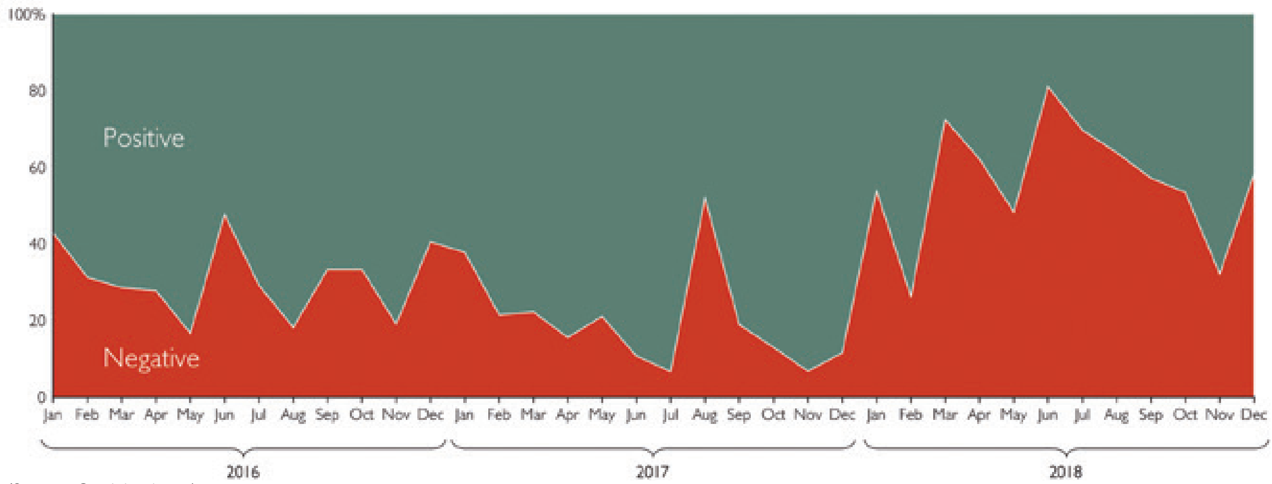
We observe four trends that may explain how the steam has gone out of FDI. First is the global rise in negative sentiment towards globalization. An analysis conducted by Bain & Company of news articles with terms like *globalization* or *free trade* in the headline and published by trusted news sources shows that the sentiment of these articles has turned substantially more negative over time (**Figure 2**). Second, governments are adopting more critical attitudes towards global trade. This has led to rising trade tensions among some of

Figure 1 **Global FDI inflow per year (in $B) - excluding Special Purpose Entities (SPEs)**



(Source: OECD)

2 Sentiment of articles published in trusted news sources on the topic of globalisation (in %)



(Source: Quid Analytics)

the world's largest economic blocks, which may still erupt into full-blown trade wars if peace talks collapse. Third, free trade agreements have rapidly declined in popularity in recent years. The global number of new trade agreements signed in 2018 was at its lowest point since 1983. And for the first time since the United Nations started tracking them back in the sixties, more trade agreements were abolished than new ones were signed.

Fourth and finally, governments have grown more worried about the national security concerns that some forms of FDI raise and in response have become more protective of their domestic markets. In 2016 the German government was shocked when the German high-tech robotics manufacturer Kuka was acquired by a Chinese firm. The government feared that more German *Mittelstand* companies with sensitive technologies would end up in Chinese hands and swiftly increased its own veto powers just months later in 2017. It took less than a year before the German government vetoed the acquisition of another German robotics player, by yet another Chinese firm.

> "This troubling global investment picture underscores the importance of a conducive global investment environment, characterized by open, transparent and non-discriminatory investment policies."
>
> *António Guterres, Secretary-General of the United Nations, in the UN World Investment Report 2018*

With foreign investors growing more hesitant in the face of rising uncertainty and global FDI in a downfall, creating an attractive and competitive business climate has become ever more important for countries that still wish to attract foreign investments. One way the Dutch government is trying to achieve this goal is by renewing its industrial strategy, which will be the focus for the remainder of this study.

The Dutch Industrial Strategy

Back in 2011, the Rutte-I cabinet released its new industrial strategy. The goal of the industrial strategy was to *"make room for Dutch companies to be entrepreneurial, to invest, to innovate and to export."*[1] To achieve this, the government pushed through a number of policy measures that reduced taxation (including a R&D tax credit) and eased regulatory pressure for companies. The strategy also had an especially strong focus on Research & Development and included the explicit goal to raise domestic R&D spending in the Dutch economy from 1.7% to 2.5% by 2020. A large part of this uptick in R&D spending was supposed to come from nine selected top-sectors (**Figure 3**) for which special sector deals were created. The deals addressed specific sector concerns on regulation and aligned higher education research efforts with the top-sector innovation targets.

These ambitious targets were set out eight years ago, so now is a good time to reflect on how effective the industrial strategy has been. Did the industrial strategy succeed in achieving its goals? When it comes to the growth in contribution of these sectors to the Dutch GDP, the results are mixed (**Figure 4**). Some sectors, such as Life Sciences & Health as well as High-Tech Systems & Materials, grew at impressive rates above 2.5% per year. Yet others, such as the Creative and Water sectors, actually shrank over the same time period.[2] Meanwhile R&D expenses had an impressive start and grew to 2.0% of GDP by 2014, but have since plateaued.

In an acknowledgement that some process still needed to be made in order to reach the targets drawn up in 2011, the Minister for Economic Affairs and Climate Eric Wiebes sent a letter[3] to the Dutch parliament back in the summer of 2018 announcing an overhaul of the industrial strategy. Innovation was once again a main focus of the strategy. But this time the government requested the top-sectors to formulate the so-called 'Grand Challenges' that our society will be facing in the upcoming years (examples include the transition to clean energy and healthcare in an ageing society). Furthermore, they were requested to build a list of 'Key Technologies' that they believe can assist them in solving these Grand Challenges (such as bio- and quantum technology). The top-sectors kindly obliged and picked a considerable amount of 8 Grand Challenges to tackle together with 10 Key Technologies to assist them in doing so.

This is where we currently are in the development process of the new industrial strategy. The Ministry of Economic Affairs and Climate is now working in close collaboration with other departments to formulate more concrete missions based on these Grand Challenges and Key Technologies. These missions will then be used to steer the efforts of the so-called *golden triangle* of the industrial strategy: government, top-sectors and higher education institutions.

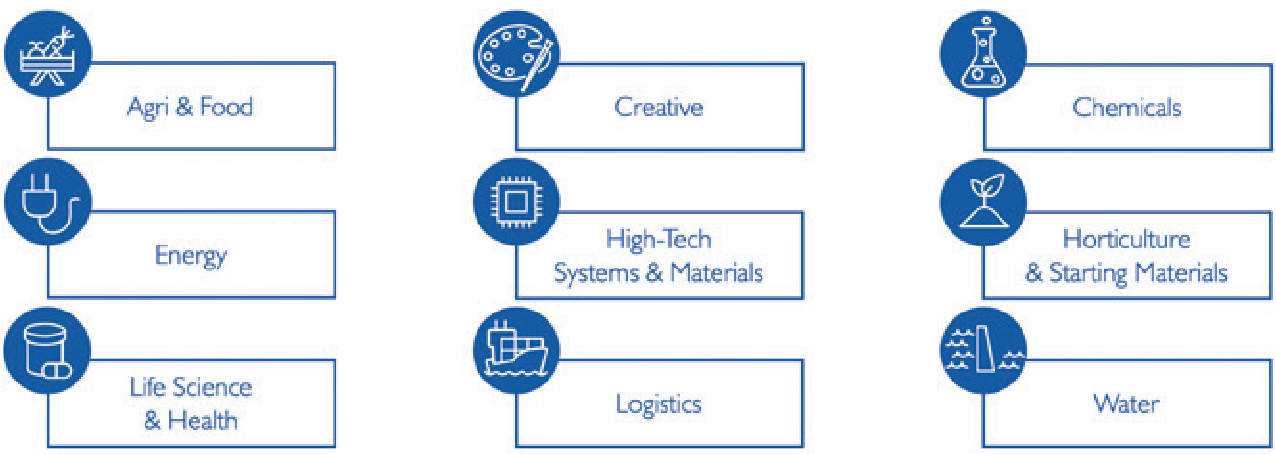
Industrial Strategies by Other European Countries

The Netherlands is however not alone in trying to use an industrial strategy to spur economic growth and attract foreign investments. Other European countries and even countries such as China (with its *Made in China 2025* strategy) have adopted such plans. Focusing on our near neighbors, we can compare the efforts of the Dutch government with similar strategies drawn up by the United Kingdom and Germany.

The United Kingdom released its industrial strategy (*Building a Britain fit for the future*) back in 2017. It has a very similar structure to the one the Netherlands is currently writing, likewise picking Grand Challenges to tackle and working closely together with UK top-sectors. A key difference however, is that the UK strategy sets aside £400M to address a shortage in STEM (Science, Technology, Engineering and Mathematics) graduates. According to the OECD 27% of UK graduates in 2016 were STEM students, slightly above the European average of 25%. Meanwhile, in the Netherlands only 16% of all graduating students did so in a STEM field: the lowest percentage of the whole European Union.

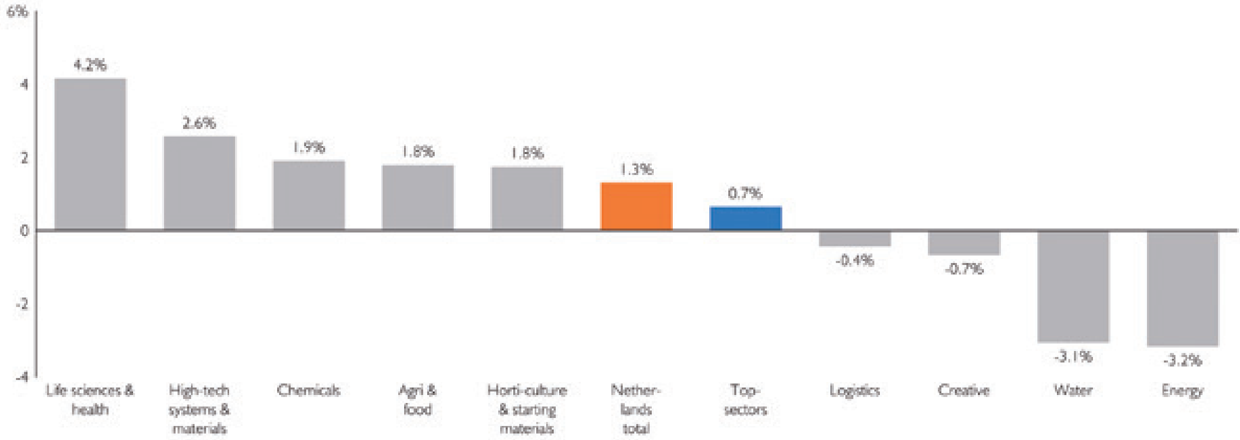
Turning to our neighbor in the east, the German Minister for Economic Affairs Peter Altmaier released his *National Industrial Strategy 2030* back in February this

3 Top-sectors named in Dutch industrial strategy



(Source: Topsectoren.nl)

4 Average growth rate per year of value added per top-sector (in % growth per year, 2010-2017)



(Source: CBS)

year. The document is a response to rising competition from countries such as China and to a growing fear in Germany that Europe is falling behind in high-innovation areas such as Artificial Intelligence and biotechnology. In what can be described as quite a drastic change of course for Germany, the strategy calls for an increase in protectionist measures to fend off unfair foreign competition. It even calls for a relaxation of European anti-trust regulation to allow larger European companies to emerge, which should be better equipped to compete with large-scale firms from the United States and China. Finally, the document presses for more direct state interference when high-tech companies are at risk of being acquired by foreign companies.

Recommendations

As Minister Wiebes rightly claimed in this letter to parliament: *"the world has not been standing still"*. Much has changed since the government first formulated the strategy back in 2011. Based on the study of the Dutch industrial strategy as well as the ones from the United Kingdom and Germany, we would suggest the following recommendations for the further formation of the industrial strategy:

1. Stimulate investment in innovation by reinvigorating close collaboration between government, companies and higher education.
2. Make it a priority of the industrial strategy to grow the number of STEM graduates and allocate the required resources.
3. Ensure that companies operating in the Netherlands remain competitive by safeguarding a level playing field.

[1] Kamerstuk 32 637: Naar de top – Het bedrijvenbeleid in acties
[2] The significant shrinking of the Energy sector is mostly due to the government's decision to reduce the levels of gas extraction in the Netherlands
[3] Kamerstuk 33 009

Appendix A: Definitions

Term	Definition
Cross-border greenfield investments	Only includes investments from foreign firms into a country (e.g. the Netherlands) that create new operations from the ground up, or expand operations currently already owned
FDI inflow	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 for example cross-border M&A activity and inter-company loans between a parent and a subsidiary company

Appendix B: Sources

Source	Topic	Source details / method / definition
Bundesministerium für Wirtschaft und Energie - National Industrial Strategy 2030	German industrial strategy	Document by the German Minister for Economics and Energy Peter Altmaier laying out a proposal for a new German industrial strategy. Published in February 2019
CBS monitor top-sectors 2018	Data on economic performance of top-sectors	Report by the Dutch Central Statistics Agency on the performance of the top-sectors appointed in the government's 2011 industrial strategy
Department of Business, Energy & Industrial Strategy - Building a Britain fit for the future	United Kingdom industrial strategy	The United Kingdom's Industrial strategy published back in 2017
fDi Markets	Greenfield investments into the Netherlands	fDi Markets, a service from the Financial Times, is the most comprehensive online database of cross-border greenfield investments available, covering all countries and sectors worldwide. The following reports were used as sources for this document: - Foreign Direct Investments into the Netherlands - Foreign Direct Investments out of the United States
Kennis- en Innovatieagenda 2018-2021	Grand Challenges and Key Technologies identified by the top-sectors	The Knowledge and Innovation agenda 2018-2021 lists all the Grand Challenges and Key technologies the top-sectors identified at the request of the government and are used for the formulation of the revised 2019 Dutch industrial strategy
OECD - Education at a glance 2018	Percentage of tertiary STEM graduates	Report on education statistics of OECD member states which was used to determine the percentage of tertiary STEM graduates in the Netherlands and other European countries - see table B5.2 in this report
OECD - FDI data	Global FDI inflows over time	OECD Dataset: FDI main aggregates - Summary
OECD - R&D expenditure data	R&D expenditure as % of GDP	OECD Science, Technology and R&D Statistics: Main Science and Technology Indicators
Overheid.nl	Documents & letters sent to Dutch parliament	Source for documents and letters send to Dutch parliament. For this study, the following documents were used: - Document 32 637 - Letter from Minister of Economic Affairs to Dutch Parliament about the new industrial strategy being launched in 2011 - Document 33 009 - Letter from Minister of Economic Affairs and Climate to Dutch Parliament sent in the summer of 2018 about the renewal of the industrial strategy
Quid Analytics	Sentiment analysis of news articles	Using tools provided by Quid Analytics, we analyzed the sentiment of about 5,000 news articles on the topic of globalization published by trusted news sources over the course of 2016 to 2018
United Nations Conference on Trade and Development (UNCTAD)	Trends in global Foreign Direct Investments	UNCTAD annually publishes its World Investment Report. The 2018 report discussed some of the major trends currently influencing global Foreign Direct Investments

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.

American Chamber of Commerce in the Netherlands

P.O. Box 15783, 1001 NG Amsterdam, The Netherlands

T +31(0)20 795 1840 E office@amcham.nl I www.amcham.nl