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Towards a maritime China strategy

This white paper aims to contribute to a more strategic positioning for the Netherlands towards China in the maritime sphere by addressing two questions:

1. Why and how is China relevant to the maritime sector and to the Netherlands?
2. What are the relevant building blocks of a strategic positioning?

Background and purpose¹

On 15 May 2018 the Dutch House of Representatives asked the government to draw up a China strategy and present it within a year. The request followed the realisation that the Netherlands and the EU were substantially impacted by China's growing influence, but that it was unclear how they would respond. The House of Representatives therefore requested an 'up-to-date, integrated, clear and future-proof strategy'.² Exactly a year later, Minister of Foreign Affairs Stef Blok presented the policy memorandum 'Nederland-China: een nieuwe balans' (The Netherlands and China: a new balance) to the House of Representatives.³ Minister Blok considered that this fulfilled the House of Representatives' request concerning the

Dutch China strategy.⁴ With regard to the China strategy at European level, he referred to two EU documents from June 2016 and March 2019.⁵

The China memorandum makes clear that the government is committed to cooperation with China in areas of shared interest. At the same time, the government wants to make the Netherlands more resilient to China where necessary. It aims to achieve greater reciprocity and curb any unilateral strategic dependencies. This strategy should be implemented as far as possible at EU level. The Dutch China strategy is embedded in these principles. In the Dutch maritime sector, as in other sectors, it is important to note that the government is now more willing to take measures to tackle undesirable aspects of the economic relationship with China. Still, the door to economic interaction with China remains wide open.

1 This white paper was produced on the initiative of the Municipality of Rotterdam, on behalf of the Rotterdam Maritime Board and in cooperation with Maritime by Holland (NML), Netherlands Maritime Technology (NMT) and the Clingendael Institute.

2 Motion of Member of Parliament Becker & co., proposed and adopted on 15 May 2018, with 128 votes for and 22 against.

3 <https://www.rijksoverheid.nl/documenten/rapporten/2019/05/15/nederland-china-een-nieuwe-balans>

4 The Dutch China strategy thus makes up the content of the policy memorandum.

5 https://eeas.europa.eu/archives/docs/china/docs/joint_communication_to_the_european_parliament_and_the_council_-_elements_for_a_new_eu_strategy_on_china.pdf and <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>

The municipality of Rotterdam, Maritime by Holland (NML) and Netherlands Maritime Technology (NMT) held a deep dive session with representatives of the Dutch maritime sector on 23 June 2020. Rotterdam, NML and NMT are partners in the Rotterdam Maritime Capital of Europe network. The deep dive was organised to discuss whether there was a need to further develop the China memorandum at sectoral level. The meeting concluded that despite the wide diversity of interests in the maritime sector, further steps should be taken to achieve a more strategic positioning for the sector towards China.

The aim of this white paper is to contribute to a more strategic positioning for the Netherlands towards China in the maritime sphere by addressing two questions:

1. Why and how is China relevant to the maritime sector and to the Netherlands?
2. What are the relevant building blocks of a strategic positioning?

The white paper thus aims to provide both information and structure.

Problem definition

Businesses and the Dutch government increasingly need to make informed choices with regard to China. In the first place, Dutch companies are facing steadily growing competition from China. This competition is not taking place on a level playing field. The Chinese government is playing a major background role in strengthening the international competitive position of many large Chinese companies. It is doing so by, among others, providing direct or indirect financial support while protecting parts of the massive Chinese domestic market. Secondly, China is becoming increasingly important as a market in its own right. The coronavirus pandemic is accelerating this longer-term trend. The World Bank and the IMF expect China to grow by around 2%, making it the only large economy not to contract in 2020. The IMF estimates that the global economy as a whole will contract

by 4.4% in 2020.⁶ China's role as a provider of capital becomes increasingly important as the performance of Western companies declines. Chinese companies and asset managers that perform well in their own market are consequently more able to invest in or acquire Western companies.

Finally, political sensitivity surrounding China is increasing. This is due to China's rise as a global power and the response to that rise, particularly from other large countries and the West as a whole. The strongest reaction to China has come from the United States. Since 2018, the US government has increasingly sought confrontation with China in trade, technology and diplomacy. It is trying to slow the pace of China's development and redirect it so that it does not harm America's economic and geopolitical interests. The Chinese government is strongly resisting this pressure from America. The resulting confrontation is being played out primarily through companies, including those of third countries. Not only Chinese and American but also European companies increasingly find themselves on the front line of the US-China geopolitical showdown. Relevant risks include being hit with sanctions or fines and being cut off from customers, suppliers or sources of labour, capital or technology.

Faced with these combined factors, the Netherlands and Dutch companies need to work actively to curb state-supported competition, exploit opportunities, and control political risks in their relations with China. At the very time when there is a need to take targeted action, the scope to do so is diminishing. States are gaining control of parts of the international economy. Market factors are less dominant than they once were, while political factors are growing stronger. In this context the nationality of economic players becomes more significant. Companies based in geopolitically influential countries thus have a competitive advantage over companies from smaller or less powerful

6 <https://news.cgtn.com/news/2020-10-13/World-GDP-to-drop-4-4-in-2020-IMF--UyNuoUJFIC/index.html>

countries. Markets and supply chains ultimately come to be dominated by large companies from powerful states. This trend not only threatens Dutch companies' earning capacity, but also makes it harder for them to determine their international strategy independently.

The Dutch China strategy is more principle-based and reactive than concrete and proactive. This has the advantage of maintaining flexibility, but that advantage can only be exploited if there is a certain autonomy of action. The underlying problem caused by the rise of China is that the Netherlands may no longer be able to act with sufficient autonomy. The application of the China memorandum to the maritime sector must be aimed at tackling this danger. A more strategic positioning for the maritime sector towards China is necessary to ensure that the government and companies in the Netherlands retain a sufficient degree of freedom of choice now and in the future.

Relevance of China to the Dutch maritime sector

The Dutch maritime sector is very diverse and includes (private and public) actors operating in the following areas: ports, offshore, maritime suppliers, shipbuilding, maritime shipping, hydraulic engineering, maritime services and knowledge institutions, inland shipping, yacht building/watersports and fishing.⁷ China is potentially relevant to these actors in two ways. First, China is a sales market and a source of capital. As mentioned above, China's role as a fast-growing market is particularly important. China is the only large country that has seen decades of rapid economic growth and currently it is the only major country that is not contracting economically. China is increasingly likely to become a source of technology. The Chinese government is actively seeking to strengthen

the global competitive position of Chinese companies and knowledge institutions in leading-edge maritime technology, particularly for offshore activities and shipbuilding. The other way in which China is relevant is closely related to this: the country is increasingly a competitor to the Netherlands. Chinese maritime companies are becoming larger, more international, more experienced and more high-end. Whereas a few decades ago the competition with Dutch counterparts took place largely in China, Chinese maritime companies now have strong market positions in many parts of the world. They are also increasingly present in the EU single market.

The extent to which Dutch maritime operators depend on or compete with China differs depending on the field and the operator concerned. In most cases there is a combination of dependence and competition, but in some areas there is mostly competition. Hydraulic engineering is an example of the latter. Dependencies may be variable, if Dutch operators have the freedom of choice to switch to non-Chinese markets or sources of capital or technology. They may also be fixed, however, if no alternatives are available.

As the competitive pressure from China has grown over a period of several decades, the dependence has also gradually shifted from variable to fixed. This is not only due to the continuing growth of the Chinese economy. The Chinese government policy is aimed at reducing China's own dependencies. The Chinese government does that among other things by strengthening China's capacity in leading-edge technologies, making it less dependent for those on foreign imports. In 2015 the Chinese government launched 'Made in China 2025' (MiC2025), a highly ambitious industrial master plan. 'Maritime equipment and high-tech shipping' is one of the sectors in which China aims to secure a leading global position by means of MiC2025.⁸ Another factor relevant to the maritime area is China's Maritime Silk Road

⁷ <https://www.maritiemland.nl/>. The Royal Netherlands Navy, which also forms part of the maritime sector, is not included in this white paper.

⁸ <https://merics.org/sites/default/files/2020-04/Made%20in%20China%202025.pdf>

strategic policy framework, which has been in place since 2013.⁹ This is a means by which the Chinese government encourages companies and knowledge institutions to build up strong market positions in all parts of the maritime sector. A key aspect for the Netherlands is China's aim of gaining greater control of international transport corridors, including those between China and Europe. Chinese state-owned companies have grown into powerful players in container shipping between Europe and the rest of the world, but also in many European container terminals. The combination of these activities makes European seaports more dependent on Chinese operators. It must be borne in mind that China is the largest trading nation in the world, with many cargo flows between China and the rest of the world. For the Netherlands, a key secondary factor is that Germany is our most important trading partner, partly because Germany's foreign trade flows largely through the Netherlands, and more specifically through the port of Rotterdam. China's biggest trading partner in the EU is Germany, and Germany's biggest partner is China.¹⁰ The port of Rotterdam's role as a German-Chinese trade link is very important to the Netherlands, but its importance may diminish in the future as a result of market factors and increasingly as a result of political factors.¹¹ China's investments in various European ports are encouraging Chinese ship owners to increase their short-sea shipping activities in Europe. For example, in October 2020 China Ocean Shipping Company (COSCO) launched a weekly shuttle service between Piraeus in Greece and Vado Ligure in Italy (both ports in which COSCO has interests).¹² While China is increasingly turning its fixed dependencies into variable dependencies, European countries are headed in the opposite

direction in their relations with China. That means that for the Netherlands too, China is increasingly becoming a necessary economic partner, but also increasingly an economic competitor and a threat to Dutch strategic autonomy.

A key feature shared by the whole of the Dutch maritime sector with regard to China is the need to safeguard free market principles. Two basic problems in that area are an uneven playing field and the emergence of fixed dependencies. China offers significant opportunities for many maritime operators in the Netherlands, but these two factors prevent them exploiting these opportunities to the fullest.

Building blocks for a strategic positioning

Increasing the maritime sector's own strength is the primary basis for achieving a strategic positioning. The government can play an important role by acting as a launch customer to encourage Dutch maritime manufacturers to continue investing in innovation.¹³ An active approach based on maximising the Netherlands' own capacity is essential, but it is insufficient to meet all the challenges resulting from the rise of China. It is also important to engage with more defensively oriented developments. A second key factor is that Dutch operators' main scope for action lies at the level of the European Union. The Netherlands is too small relative to China and too intertwined with the EU to be able to conduct an effective independent maritime strategy with regard to China.

At EU level two current trends are relevant to the Dutch strategic position. In the *economic* sphere European governments and companies have been trying for decades to create a more level playing field for Chinese-

9 Known in English as the '21st Century Maritime Silk Road', a major component of the 'Belt and Road Initiative'.

10 https://www.destatis.de/DE/Themen/Wirtschaft/Aussenhandel/Tabellen/rangfolge-handelspartner.pdf?__blob=publicationFile

11 https://www.clingendael.org/sites/default/files/2019-12/Report_European_ports_and_Chinese_influence_December_2019.pdf

12 <https://en.portnews.ru/news/304037/>

13 See also the master plan for an emission-free maritime sector published by Maritime by Holland in September 2020: <https://www.maritieland.nl/maritieme-sector/projecten/masterplan-voor-een-emissieloze-maritieme-sector/>

European competition. The emphasis has been on reciprocity. For a long time that was pursued primarily by encouraging the Chinese government to develop its own market more along European lines. Reforms aimed at liberalising the Chinese market stalled, however, at the beginning of the 21st century. For some years the EU has been increasingly prepared to augment existing efforts by deploying resources aimed at making the European policy more akin to Chinese policy (in a limited, relative sense). Examples include growing EU acceptance of a more offensive industrial policy,¹⁴ reciprocity in public procurement and more investment screening based on security considerations. The Dutch government is following this trend towards more active protection against undesirable effects of China's economic power.¹⁵ Steps taken by the European Commission since 2017 include publishing a new strategy for industrial policy,¹⁶ establishing the IPCEI (Important Projects of Common European Interest) Strategic Forum, publishing a recommendation on identifying six strategic value chains,¹⁷ and publishing a white paper on market distortions due to state subsidies from outside the EU.¹⁸ The ongoing negotiations between the EU and China on an investment treaty provide scope for country-specific measures.

The *geopolitical* sphere had not been a key focal point for the Netherlands or the EU since the end of the Cold War. That changed with the Russian-Georgian War of 2008 and the Ukraine Crisis of 2014. It gradually became clear that Russia was (once again) a major power that could potentially destabilise the European Union as a whole. Combined with the very rapid increase in Chinese direct investment in the EU in the period 2012-2017 and the rising geopolitical tensions between China and the US, this pushed geopolitical issues back up the political agenda of the European Commission and the larger EU member states. The European Union already let it be known in 2016 that it would pursue strategic autonomy.¹⁹ Various recent experiences have strengthened support for the pursuit of strategic autonomy. These include tensions with the US on import tariffs and European-Chinese economic cooperation, but also the coronavirus crisis and awareness of the EU's high dependence on China for certain medical products. Strategic autonomy at EU level concerns Europe's ability to choose independent policy directions on a strategic level without being forced to do so by other powers.²⁰

Examples of possible building blocks for a maritime China strategy include:

- A role for the government as a launch customer in the maritime manufacturing industry to encourage innovative investments by businesses;
- Close involvement of the sector and the Dutch government in European initiatives aimed at more active protection against undesirable effects of China's economic power, including reciprocity in public procurement, investment screening based on security considerations,

14 The EU's existing, more defensive industrial policy is focused among other things on innovation and market regulation. Examples of a more offensive industrial policy are sector- and technology-specific approaches.

15 An example of the Dutch government's more active role is the financial support it gave to the shipbuilder Royal IHC in 2020 to avert bankruptcy and the risk of the company falling into Chinese hands. <https://www.volkskrant.nl/economie/nederlandse-staat-redt-scheepsbouwer-royal-ihc-met-honderden-miljoenen~b27ae10d/>

16 <https://ec.europa.eu/transparency/regdoc/rep/1/2017/EN/COM-2017-479-F1-EN-MAIN-PART-1.PDF>

17 Clean and autonomous vehicles, hydrogen technologies and systems; smart health; industrial internet of things; low-carbon industry; and cybersecurity. https://ec.europa.eu/commission/presscorner/detail/en/ip_19_6204

18 https://ec.europa.eu/competition/international/overview/foreign_subsidies_white_paper.pdf

19 https://eeas.europa.eu/sites/eeas/files/eugs_review_web_0.pdf

20 For the debate on strategic autonomy and the relationship with security and defence, see: Dick Zandee et al., 'European Strategic Autonomy in Security and Defense: Now the going gets tough, it's time to get going', The Hague: Clingendael, December 2020. https://www.clingendael.org/sites/default/files/2020-12/Report_European_Strategic_Autonomy_December_2020.pdf

and curbing any concentration of economic power in a single state actor (the Chinese government) that exerts strong international influence through a multiplicity of Chinese and other companies.






- Close involvement of the sector and the Dutch government in European initiatives aimed at more strategic autonomy, by reducing the EU's external dependencies and/or making dependencies less unilateral.

The actual identification of building blocks and their development into a strategic positioning requires coordination within the Dutch maritime sector, both on the part of non-state actors and sub-national authorities and on the part of the Dutch central government.

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

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