China going global

The experiences of Chinese enterprises in the Netherlands

ERNST & YOUNG
Quality In Everything We Do

Contents

Executive summary and recommendations

This is a comprehensive study report providing detailed insight into factors that motivate Chinese enterprises to invest in the Netherlands. The report is based on an extensive survey, interviews with senior Chinese business leaders in the Netherlands and secondary research. The study involved an in-depth approach to understanding the nuances that make the Netherlands a preferred investment destination for Chinese enterprises. The report identifies the key challenges Chinese enterprises face in the Netherlands and presents recommendations to overcome them.

The Chinese economy is one of the fastest growing in the world. Within a very short time span, the country has carved a name for itself as a key manufacturing hub in a range of industries. The spurt in manufacturing and exports has resulted in a significant foreign exchange reserve for the country in recent years. The Chinese Government has embarked on a "go global" strategy to funnel this foreign exchange resource to international investments in Asia Pacific, the Americas, Europe and Africa. Today, Chinese outward foreign direct investment (OFDI) has spread to over 18,000 companies across 177 countries. At the end of financial year (FY) 2011, the overseas investment assets had reached almost US$2 trillion.

The economic slowdown in the US has shifted the focus of Chinese companies toward Europe in recent years. Europe has turned out to be one of the fastest growing investment destinations for China. In the year 2011 alone, Chinese enterprises poured over US$10 billion in investments into Europe. One of the key reasons for the shift to Europe is China's focus on obtaining advanced technology, as well as accessing new customers and distribution channels. Furthermore, due to the recent Eurozone crisis, European assets became more affordable and this opened up lucrative opportunities for Chinese enterprises to invest and expand overseas. According to a study conducted by Rhodium Group, total Chinese investment in Europe will touch US$500 billion by 2020.

To an increasing extent, Chinese enterprises choose the Netherlands as their gateway to Europe. According to the Netherlands Foreign Investment Agency (NFIA), 330 out of all 8,000 foreign companies currently established in the Netherlands are Chinese. The study results reveal that Chinese enterprises view the Netherlands as a perfect base to penetrate European markets. The respondents of this study indicated that a proactive attitude toward Chinese investments and the wholehearted support of the Dutch Government have been the major motivational factors for investing in the Netherlands. The government agencies such as the NFIA and related provincial, regional and municipal investment agencies provide comprehensive support to Chinese enterprises in organizing familiarization trips for location selection and consultants.

"China will be the world's economic power soon, and that role will bring different responsibilities, not only on financial, economic, cultural and educational levels; climate and energy issues are also part of this. Cooperation between countries is essential for the future. There are intensive and very positive ties between China and the Netherlands. The Netherlands serves as a gateway to Europe, which is attractive for Chinese enterprises to expand as part of the 'go global' strategy. At the same time, I believe that the flow of Dutch companies that invest in China will continue to grow in the future."

Jan Peter Balkenende
Former Prime Minister of the Netherlands; Professor of Governance, Institutions and Internationalism at Erasmus University, Rotterdam; Corporate Responsibility Partner at Ernst & Young

Traditional advantages of the Netherlands, such as the distribution and logistics network, tax and financial regulations, local technology and know-how, and a skilled workforce are well recognized as drivers of Chinese investment in the Netherlands by both the Dutch Government and Chinese enterprises in this study. In addition, there are three key drivers mentioned by Chinese senior business leaders that this study reveals: clients, competition and global image.

The report also highlights the cultural business difference between the Dutch and Chinese respondents. Whereas the Dutch respondents are more focused on the economic aspects of the bilateral relationship, Chinese investors are more concerned with the relational aspect of their business operations. However, respondents also mentioned that the initial cultural differences they faced waned gradually over time.

Even though the overall conditions for business look very positive in the Netherlands, the interviews reveal that Chinese enterprises identify quite a few challenges that prevent them from fully harnessing the opportunities the country has to offer.

Some of these challenges, such as the very different (business) culture and language barriers, will become less important as Chinese enterprises gain more international experience. Others can be addressed through better preparation, integration with the Dutch business community and adapting better to local business conditions. Hiring more local employees is of critical importance.

To help Chinese enterprises overcome the challenges they face in the Netherlands, this report presents several recommendations, divided into three categories: preparation, integration and adapation. In preparation, we recommend that Chinese enterprises be well prepared with feasibility studies and that they acquire country-specific knowledge prior to investing in the Netherlands. Although many of the regulations are different in the Netherlands, with better preparation and external help, complexity can be overcome. Integration covers entry into the market by acquiring in-depth knowledge about the local legal and administrative framework, using networks of Chinese companies in the Netherlands and engaging professional services firms or government agencies for advice. Adaption states that it is essential for Chinese enterprises to change their strategy and operating models when trying to penetrate local markets. The section on adaption emphasizes that Chinese enterprises should keep an open mind and adapt their products and sales communication to meet the requirements of the new market. Seeking advice from Dutch consultants in areas of marketing and branding will better equip Chinese enterprises.

Better preparation, integration into local communities and adaptation to local conditions may lead to prosperous Sino-Dutch trade relations in the near future.

China's "go global" strategy

China's "go global" strategy has encouraged enterprises to invest overseas

China's "go global" strategy

During the last three decades, China has seen sustained economic growth, accompanied by vigorous investment demand, massive capital inflow and rapid export expansion.

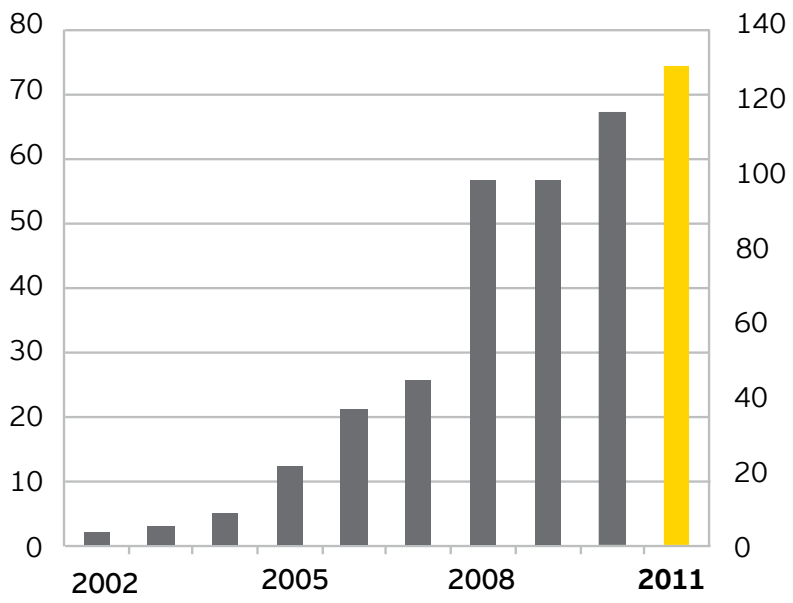
With growing confidence in participating in the global economy, many Chinese enterprises have started significant investments abroad. In 1999, the Chinese Government bolstered these initiatives and initiated a "go global" strategy to encourage Chinese enterprises – primarily state-owned enterprises (SOEs) – to invest overseas. Even at the time of the global financial crisis between 2008 and 2009, while worldwide foreign direct investment (FDI) activity was weak, China's outbound investment grew considerably. In 2010, China overtook Japan and the United Kingdom to become the fifth-largest global investor, and it retained this position in 2011. According to the statistics report released by the Ministry of Commerce of the People's Republic of China (MOFCOM) on 30 August 2012, China's net outward FDI was US$74.65 billion in 2011, up 8.5% year on year. So, by the end of 2011, China's outward direct investment (ODI) had increased to US$424.78 billion and Chinese investors had set up about 18,000 enterprises overseas, employing 888,000 foreigners with a total asset value of nearly US$2 trillion.

Among the total outward capital flows, investment by non-financial companies reached US$68.6 billion in 2011, rising 14%. However, investment in foreign financial sectors dropped 29.7% to US$6.07 billion, possibly because Chinese investors turned cautious amid international financial turmoil, particularly in Europe and the United States. However, in the midst of the debt crisis, Europe was the number two destination for Chinese OFDI after South America.

About 82% of the OFDI in 2011 went to developing countries, with investment in Europe, Oceania and Africa accelerating and in North America decreasing, according to the MOFCOM report.

OFDI

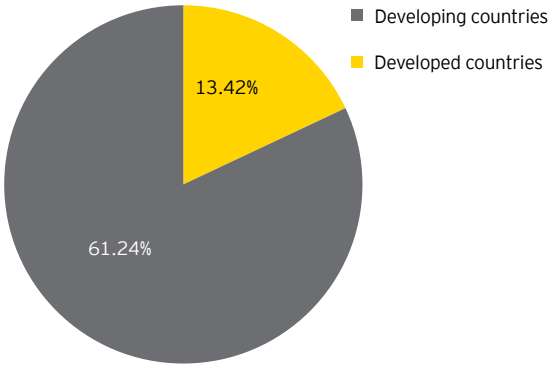
US$, billion



Data source: ChinaScope Financial, MOFCOM

OFDI destination (2011)

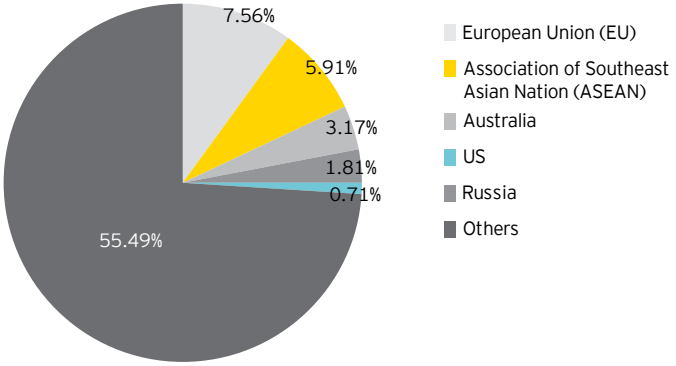
US$, billion



Data source: ChinaScope Financial, MOFCOM

OFDI destination (2011)

US$, billion



Data source: ChinaScope Financial, MOFCOM

In 2011, China's ODI in Europe rose 22.1% year on year to US$8.25 billion. In July 2012, the National Development and Reform Commission issued the Plan for Utilizing Foreign Investment and Making Outbound Investment during the 12th Five-Year Plan. Based on this plan, the following are the key objectives for China to invest abroad:

To participate proactively in international exploration of natural resources

China has a huge demand for natural resources and sources them from across the world. The Government encourages investment in overseas infrastructure projects related to natural resources, by strengthening investment ties with neighboring countries on cross-border transportation, and encourages qualified enterprises to engage in downstream processing of resources.

To accelerate technology advancement through overseas investment

China actively uses foreign investment to accelerate technological advancement, by promoting qualified enterprises to set up overseas R&D centers and support overseas acquisition of know-how. It provides guidance to domestic investors to invest in high-tech and advanced manufacturing projects abroad, and encourages enterprises to invest in the telecommunication, logistics, and culture and tourism sectors.

To explore overseas markets vigorously

China encourages companies in a range of sectors (e.g., textile, consumer electronics, automotive, equipment, chemical, metallurgy and construction materials) to expand their operations abroad. It also supports downstream processing of steel, non-ferrous metals, oil and timber in resource-rich countries with high market potential. In addition, the country encourages qualified enterprises to invest in creative industries abroad.

To enhance the competitiveness of Chinese companies through outbound investment

To enhance the competitiveness of Chinese companies, the Government encourages qualified enterprises to expand their overseas marketing networks and to acquire internationally renowned brands. Furthermore, it stimulates small, medium-sized and private companies to cooperate with big SOEs in making outbound investments.

Official Chinese statistics indicate that Asia, Latin America and Africa have been the top destinations over the past decade. Recently, however, China has started concentrating more on European markets.

Current state of Chinese investments in Europe

China has turned its investment eye toward Europe to explore new market opportunities

Current state of Chinese investments in Europe

Chinese investments in Europe have been on the rise in recent years. Annual Chinese OFDI flows to Europe grew from less than US$1 billion between 2004 and 2008 to roughly US$3 billion in 2009 and 2010.

In 2011, flows tripled again to almost US$10 billion. The strategy China has adopted is to explore new markets and opportunities, especially in Western Europe with its advanced technology innovations, new customers and distribution channels. The Eurozone crisis also offers China an opportunity to invest in the European market. Due to the crisis, a large share of European assets became more affordable and opened up promising opportunities for Chinese enterprises' overseas investment and expansion plans.

Chinese enterprises have made a series of high-profile acquisitions in Europe. The total number of M&A transactions increased from 4,084 in 2010 to 10,429 in 2011. This increase in investment is mainly due to the new objectives of China's 12th Five-Year Plan (including eco-friendly cars and renewable energy). European research and manufacturing technology is highly relevant to meet those objectives. In terms of numbers, the majority of Chinese enterprises investing in Europe are private. However, SOEs account for two-thirds of the investment value as they dominate in capital-intensive sectors. Rhodium Group, NY, estimates that, by the year 2020, the global total of outbound Chinese investment will reach US$2 trillion, of which investment in Europe, both acquiring established businesses and setting up new operations, could rise as high as US$500 billion.

Among the European subregions, Western Europe demonstrates a strong, perhaps surprising level of attraction in terms of foreign investment. Western European countries have a wealthy consumer market, advanced technologies and know-how, a solid infrastructure, a skilled workforce and an environment that is conducive to business.

The table shows the type of investments and the value of Chinese OFDI in Europe from 2000 to 2011. Out of the total number of deals, most of the OFDI from China to Europe concerns greenfield projects. The Netherlands secured a sixth position in terms of investment value and shared the fourth position, along with Italy, in terms of number of deals. This shows that, even in the face of continuing economic concerns in Europe, the Netherlands remained a stable, highly competitive and increasingly attractive location for Chinese enterprises to establish operations.

China's FDI in the EU (top 10) by country, 2000-11					
Country	Investment value (US$ million)	Rank compared with FDI from the rest of the world	Number of greenfield projects	Number of acquisitions	Total number of deals
France	5,722	+2	46	24	70
United Kingdom	3,684	-1	69	26	95
Germany	2,543	-1	113	33	146
Sweden	2,251	+4	14	6	20
Hungary	2,065	+14	14	4	18
Netherlands	1,164	0	32	15	47
Belgium	847	-3	12	3	15
Greece	714	+14	5	0	5
Italy	554	-2	31	16	47
Austria	391	+1	6	5	11

Source: Rhodium Group

The Netherlands' attractive business climate for Chinese enterprises

Proactive attitude toward Chinese investments and government support led Chinese enterprises to invest in the Netherlands

The Netherlands' attractive business climate for Chinese enterprises

There are many key factors that make the Netherlands an attractive destination for Chinese enterprises to invest in. Chinese companies recognize that the Netherlands is an ideal investment destination as a basis for their pan-European logistics operations. Thanks to its ideal location, extensive infrastructure and top-quality expertise in international logistics, the Netherlands is the perfect gateway to Europe.

According to the NFIA, 330 out of all 8,000 foreign companies currently established in the Netherlands are Chinese. The following section details the key drivers to attract Chinese investment in the Netherlands, as stated by the Dutch Government.

1. Strategic gateway

The Netherlands is strategically located in the northwestern part of Europe, giving the country a natural advantage to access the entire continent. Europe is one of the largest consumer markets in the world and almost all of the major consumer manufacturers have a presence on the continent. The central geographical position of the Netherlands, its accessibility and excellent infrastructure are only some of the reasons why numerous European, American and Asian companies have established their facilities in the Netherlands. As a major manufacturer of consumer durables, by setting up business operations in the Netherlands, China has the unparalleled advantage of tapping into one of the world's largest markets to sell its consumer goods globally.

2. Tax climate

The Netherlands is known for its favorable tax climate. The tax authorities are open to discussing an appropriate tax regime with individual companies, which can result in a binding agreement that gives businesses clarity and certainty. Its corporate tax rates are lower than the rates that apply in most of its European neighboring countries. In addition, there are numerous features that make it attractive for foreign companies to establish operations in the Current state of Chinese investments in Europe China Going Global: the experiences of Chinese enterprises in the Netherlands.

- Exemption from Dutch corporate income tax on dividends and capital gains derived from qualifying subsidiaries by a Dutch holding company.
- The absence of withholding tax on interest and royalties, various structures that allow tax-free repatriation of dividends.
- A tax benefit for expats living and working in the Netherlands that can amount to as much as 30% of the tax otherwise payable, and the deferral of VAT upon import of goods into the Netherlands are among the other main attractions.

In addition, the Netherlands has a wide tax treaty network, which provides yet another reason for companies to establish or expand their operations in the Netherlands.

3. Politically stable economy

The Netherlands is one of the most stable countries of the EU from a political and economic perspective. According to *The Global Competitiveness Report 2011-2012*, the Netherlands has climbed from eighth to the seventh place out of 142 countries in the World Economic Forum's index of most competitive economies. With its economic growth, relative to other prosperous EU Member States, its high standard of living and structural reforms of the labor market, as well as its social security system, the Netherlands is a prosperous, sustainable and enterprising nation.

4. Transport and logistics

The Netherlands ranks at the top in Europe for extensive infrastructure facilities. Its dense, high-quality transportation infrastructure offers fast sea, air, road and rail connections.

- **Seaports:** the Dutch ports rank first in Europe for handling international cargo. Rotterdam is the largest port in Europe and one of the busiest in the world. Another important seaport is the port of Amsterdam, which has excellent connections to the hinterland via water, road and rail. Furthermore, its proximity to Amsterdam Schiphol Airport makes it an ideal location for international cargo flows. The port of Amsterdam is Europe's Number four port and Number one petrol port. Over 90% of all cargo is destined for or originates from other European countries and is handled by the two seaports.

- **Inland shipping:** approximately 10% of the European waterway network is located in the Netherlands. The Rhine, Maas and Waal rivers offer ideal connections between the port of Rotterdam and the hinterland. Inland shipping accounts for over 30% of all freight transport in the Netherlands, and over 50% of the entire European fleet is owned by Dutch companies.
  - **Air transport:** the Netherlands' key transportation asset is Amsterdam Schiphol Airport. It is ranked as the best European airport for both cargo and passenger transportation. **Rotterdam The Hague** Airport is also an important asset for air transport.
  - **Road transport:** the Netherlands has retained its lead in road transportation. Transport tariffs to and from the Netherlands tend to be lower than in other countries and this makes the Dutch inbound (air, ocean and barge) and outbound (road) transport very attractive.
  - **Rail transport:** the Netherlands' share of international rail transport is relatively high (77%) compared with other EU countries, due to the fact that it is strategically located in the heart of the European market and it boasts the key import ports of Rotterdam and Amsterdam, with excellent onward connections to the hinterland by rail and various other modes of transport.

5. Qualified and multilingual workforce

The Netherlands has the most qualified, flexible and motivated workforce in Europe. Dutch professionals are also among the most multilingual in the world, enabling them to operate successfully in companies in any industry, serving customers throughout the continent. When it comes to overall labor costs and productivity, the Netherlands is extremely competitive compared with other EU countries.

6. International business environment

The country's pro-business environment creates a strong base and provides a gateway to Europe that helps international companies penetrate the continent. An international outlook and openness to foreign investment is firmly ingrained in the Dutch culture, and this has yielded a wealth of world-class business partners with expertise in dealing with global business challenges in today's economy. The Netherlands has played a pivotal role in the development of international business that commenced in the 1960s. Multinationals from all industrialized countries have discovered the benefits of investing in the Netherlands. The Netherlands can also easily play a key role in the business operations of a multinational company, for instance, by accommodating logistics functions, Europe the Middle East and Africa (EMEA) headquarter functions or R&D activities.

7. Innovation and R&D

The Netherlands is considered to have one of the most well-developed R&D hubs in Europe. Many of the most innovative companies in the world are Dutch companies, and the quality and frequency of product innovation is widely appreciated by their global peers. There are over 20 top institutes in the Netherlands conducting extensive R&D in both commercial and social sectors. At present, the country invests 1.8% of its gross domestic product in R&D. The Government has identified nine key sectors in the Dutch economy — life sciences, energy, water, chemicals, horticulture, food and agriculture, high-tech materials and systems, logistics and creative industries — and allocated a total of US$1.8 billion of the 2012 national budget to these sectors. The Government plans to increase the allocation to approximately US$2.5 billion in 2015. Parts of the existing budgets of research-funding agencies are included in the funding specification. The money will fund venture capital, innovation loans and tax deductions for companies investing in R&D in the targeted sectors. The government has also formed committees with representatives from government, industry and knowledge institutions and asked them to clinch "innovation deals" — public-private partnerships in which industry must contribute a minimum of 40% of R&D funding — by the end of this year.

8. Strong financial sector support

The Netherlands has the world's seventh-largest banking sector. The Dutch financial sector has many strong and thoroughly developed subsectors, including retirement management (pension and insurance services such as asset management), sustainable finance (carbon trading, sustainable investment and financing), financial logistics (international payment systems, cash management and transaction services) and trading venues (market making, derivatives trading, trade and export financing).

9. High quality of life

The Netherlands is proud to have a high standard of living, while maintaining an affordable life for its residents. The cost of living, housing, education and cultural activities is lower than in most Western European countries. Commercial real estate, offices, housing, food and consumer goods are reasonably priced and the cost of education and cultural activities is lower than in many other European nations.

Chinese investors are welcomed by the Dutch Government

Agencies such as the NFIA and related provincial, regional and municipal investment agencies work very closely and actively with companies in the Netherlands and China. They proactively approach Chinese enterprises and offer assistance. They organize seminars and meetings in both China and the Netherlands. Most of the Dutch agencies have representative offices in China, and their senior management teams visit China on a regular basis to meet local companies. Through those meetings in China, Chinese enterprises get to know more about the Netherlands and receive practical information and advice. Right from the initial stage, Chinese enterprises are supported by government agencies, external service providers and consultancy firms.

The Chinese business community in the Netherlands is represented by various organizations, but the Association of Chinese Investment Enterprises in the Kingdom of the Netherlands (ACIEN) is one of the main associations supporting trade relations between China and the Netherlands. ACIEN is a non-profit association of Chinese enterprises and organizations in the Netherlands. The main objectives of ACIEN are to promote the relationship and communication among Chinese enterprises in the Netherlands, strengthen cooperation between Chinese enterprises and local business organizations, assist in the protection of the rights and interests of Chinese enterprises and help them overcome business obstacles, in addition to promoting trade development between China and the Netherlands.

Mr. Maxime Verhagen, Vice Prime Minister and Minister of Economic Affairs, Agriculture and Innovation of the Netherlands, visited China in May 2011, together with a large business delegation of 45 companies from the Netherlands. Speaking at an event, Mr. Verhagen said that: "Chinese enterprises are very welcome in the Netherlands, whether they make greenfield investments or invest in existing Dutch businesses. I would like to stress that the Dutch Government treats all foreign investors, including those from China, equally."

Chinese investments in the Netherlands

Increasing clients, competition and global image are the most important drivers for Chinese investments in the Netherlands

Chinese investments in the Netherlands

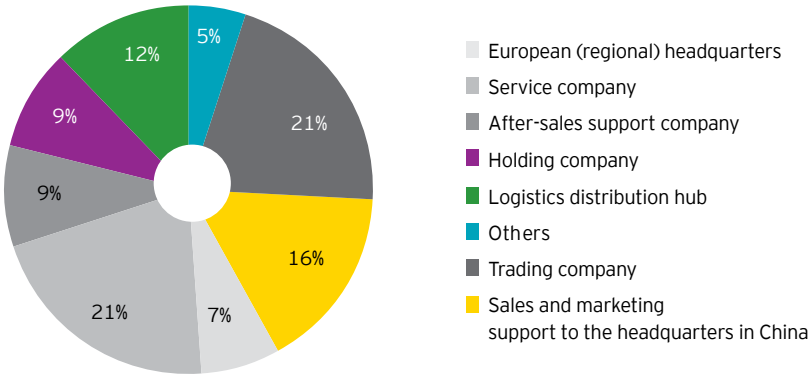
Apart from the inherent advantages the Netherlands offers when it comes to attracting foreign investments, Chinese enterprises have their own reasons to invest in the country. Whereas in the early days, Chinese companies would merely set up distribution centers in the Netherlands, today, a greater number of Chinese enterprises are considering the possibility of launching fully fledged business operations in the country.

Types of Chinese investment in the Netherlands

Chinese investors in the Netherlands mainly consist of two categories: SOEs and privately owned enterprises (POEs) that either start up a greenfield operation or joint venture, or make an acquisition.

In the external interviews with Chinese investors in the Netherlands held by Ernst & Young in September 2011, the majority of Chinese respondents mentioned that their operation in the Netherlands is very small compared with the size of their business in China. Of the Chinese enterprises surveyed, 21% were services companies, 21% were sales and support companies, 16% were engaged in sales and marketing support and 12% were logistics and distribution companies. Seven percent of the Chinese enterprises that have European headquarters have established these in the Netherlands. As one of the respondents highlights: "Our company here is so small, but our group has a total of over 1,100 staff members all over the world. Over 95% are located in China ... " Moreover, Chinese enterprises that are relatively big in the Netherlands, describe that they started with a small operational team to "explore the market" and, afterward, expanded their business in Europe. All, Chinese enterprises describe their investment in the Netherlands as part of a bigger investment plan to explore Europe.

Key Chinese activities in the Netherlands



Key drivers for Chinese investment in the Netherlands

The research performed by Ernst & Young has identified the following key drivers for Chinese investment in the Netherlands.

1. Clients

"Be where your customers are" is the mantra that most successful companies use for global expansion. Being closer to their customers gives companies a chance to observe and learn about their clients' needs and behavior and to develop suitable products for the market.

Market presence in the Netherlands, an open economy, provides Chinese companies with the advantage of learning more about European markets and customers, anticipating their needs by modifying existing products or rolling out entirely new ones for each market. Moreover, starting a business in the Netherlands will provide an opportunity to help serve other Chinese customers in Europe as well.

Most managers stress the fact that they want to serve their clients around the world and retain the high quality of service. As one respondent said: "For our globalization strategy, our location is important because it needs to be close to our clients."
A general manager stated: "We want to give our Chinese clients in the Netherlands the best service and if we want to do this, we need to be near them."

2. Competition

The fact that Chinese enterprises face increasing competition in both local and international markets has become a major driver for them to choose the Netherlands. Chinese enterprises face stiff competition from all over the world and most of the major players have a strong foothold in the Netherlands and other European markets. In order to reap the early mover advantage, more and more Chinese enterprises are building either manufacturing units or distribution centers in the Netherlands. Chinese enterprises are also directing more attention to producing goods that suit the host country's taste and needs, rather than trying to sell "one-size-fits-all" products. Benchmarking their operations and strategies with global competitors gives Chinese businesses an opportunity to fine-tune their products and services to cater to the specific needs of the European market.

Competition between SOEs that are operating in the same industry in China is fierce, and abroad they "fight for the same piece of cake with the competition." A manager of a Chinese enterprise mentions competition as an important motivation to come to Europe when she explains: "Our competitor has a bigger market share in Europe because we started a few years later and we are trying to catch up."

3. Global image

Another important driver for Chinese enterprises to go to the Netherlands is to build a global image. During the interviews, all respondents in the study mentioned that they want to show both clients and competitors that they are a global company. The respondents point out that the goal of their investment in the Netherlands is not only to enter the European market, but also to build a global market and brand image in China. They are unanimous in their view when they declare: "If you have an image in Europe and America, it means that you have a global image ... "

4. Distribution and logistics

The distribution and logistics network of the Netherlands is considered an important driver for Chinese enterprises that are operating in industries related to the trading of goods and services, particularly mentioned the seaports and airports of Rotterdam and Amsterdam as important gateways to the rest of Europe. "The Netherlands is the gateway to other European countries and we need to make use of the port of Rotterdam. From here, we distribute to different countries in Europe. We manufacture our products in China, ship them to the Netherlands, then bring them to our warehouse and immediately ship them to our clients in Europe. It is a good country for centralized distribution and sales."

5. Tax and financial regulations

The competitive Dutch tax and financial regulations are perceived by Chinese enterprises as a good reason to invest in the Netherlands.

Respondents comment: "The Dutch tax authorities are really open-minded and you can discuss and negotiate everything with them. Of course, they do have high expectations because we need to comply with the local laws, but at least everything is transparent and this is very good."

"Even though we are not a commercial company, I did some research on Dutch corporate law before I came here and I think the Dutch tax rates are very attractive."

6. Technology and know-how

Chinese enterprises, as well as the Government, are trying to harness the technological advancement the Netherlands has achieved over the years through mutual partnerships and investments. The Chinese Government has signed many partnership agreements to conduct research on key areas such as waste water management, reuse technologies, zero liquid technologies and information technology (IT). The Sino-Dutch Joint Scientific Thematic Research Program (JSTP) and Sino-Dutch Research Program (SDRP) are two of the main technological partnerships between the Netherlands and China. For example, one of the respondents in our survey stressed the fact that his company would like to transfer part of their European R&D platform from China to Europe, in order to gain more insight into new technologies.

7. Risk diversification

Another driver of Chinese investment in the Netherlands is the need to diversify or mitigate the risk of doing business. China's high dependence on US imports poses a great threat to the economy, because any dip in demand from the US would disrupt the equilibrium and create a huge pile-up of goods in China. So, in order to hedge the risk of this overdependence, Chinese enterprises are targeting the European market, including the Netherlands, to set up their business and sell their goods across the continent. According to the respondents, this strategy would provide more stability to the business, and any unforeseeable demand slump in any one market could be balanced by the demand from other markets.

Earlier, Chinese enterprises viewed Europe as one unified market and perceived that the European countries followed a single structure for doing business. However, the Ernst & Young survey revealed that, today, Chinese businesses see every European country as a unique market, and this renewed focus has helped Chinese enterprises to adjust their strategies accordingly in the Netherlands.

8. Skilled workforce

Chinese enterprises view the Netherlands as a country that fosters a high quality of education along with advanced technical knowledge in niche sectors, an informal working culture, a high level of tolerance and a good work-life balance.

According to the Chinese respondents of the Ernst & Young survey: "The Dutch are very professional and specialized." One of the respondents explains: "Chinese people are more generalist. They can be sales managers, service managers, all kinds of managers and work in different positions. Europeans are more specialized in one profession. This is very good; we need this actually to improve our professional levels, so we learned a lot from our European colleagues."

Chinese investors feel welcomed by the Dutch Government

The support from the Dutch Government gives confidence to Chinese enterprises when making decisions on investing in the Netherlands. It is important for Chinese enterprises to feel welcomed by the Dutch Government during the initial phase of overseas investment.

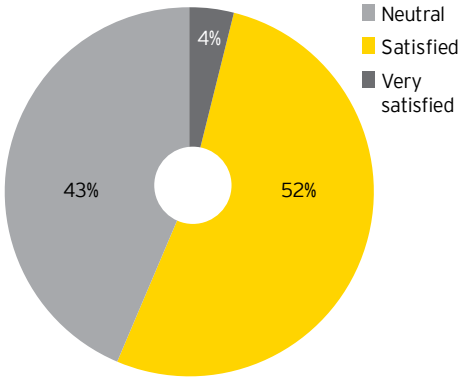
While conducting the Ernst & Young external interviews with Chinese investors in the Netherlands in September 2011, most of the Chinese investors said that they have a good relationship with Dutch investment agencies. The Chinese investors feel very welcome in the Netherlands and are satisfied with the support they receive from the Dutch Government. Prior relationships that were established in China between Chinese management teams and the Dutch Government are mentioned as a motivating factor for Chinese enterprises to come to the Netherlands. Most of the companies stated that the interaction between the representatives of the Dutch Government and the Chinese headquarters, that was established before the overseas investment took place, largely influenced their decision to invest in the Netherlands. The manager of one of the Chinese enterprises in the Netherlands states: "We did not know where to invest in the Netherlands, but then we met people from the Dutch investment agency and they were very professional and open.

"The Dutch Government protects foreign investments. If something happens, we can rely on the Dutch Government to help the investors. This is a major benefit of investing in the Netherlands." It is evident that Chinese enterprises rely on the Dutch investment agencies. This influences their motivation to come to the Netherlands. One of the respondents in the interview states: "If we want a good lawyer, we ask the investment agency to help us." Other firms also mentioned that they found their consultants through the network of the agencies. The above quotes indicate how the Dutch Government supports foreign entities.

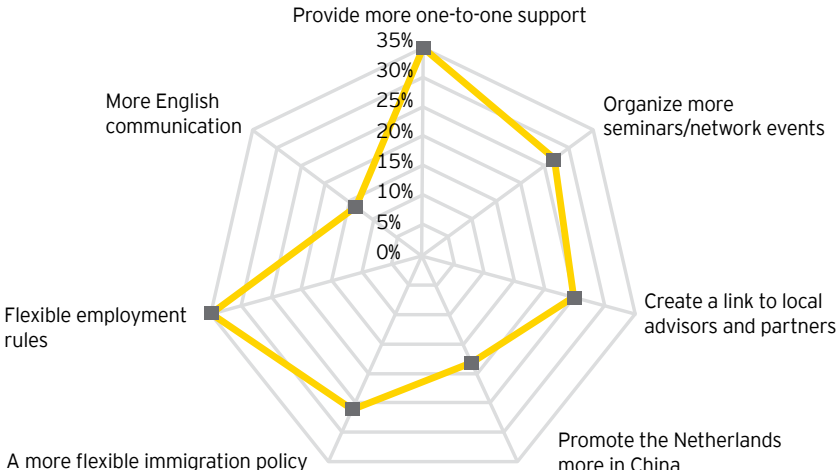
According to the external Ernst & Young survey, over 52% of Chinese investors said that they are satisfied with the local Governmental support that they received when entering the Netherlands. The Dutch Government provides tremendous assistance in establishing or expanding foreign enterprises.

When we asked about key recommendations for improvement of Dutch Government support, 35% of the respondents recommended providing more one-on-one support. They also highlighted the need and importance of organizing more seminars or network events for foreign investors and to provide or create a venue to link local advisors and partners. In addition, they highlighted the importance of flexible employment rules.

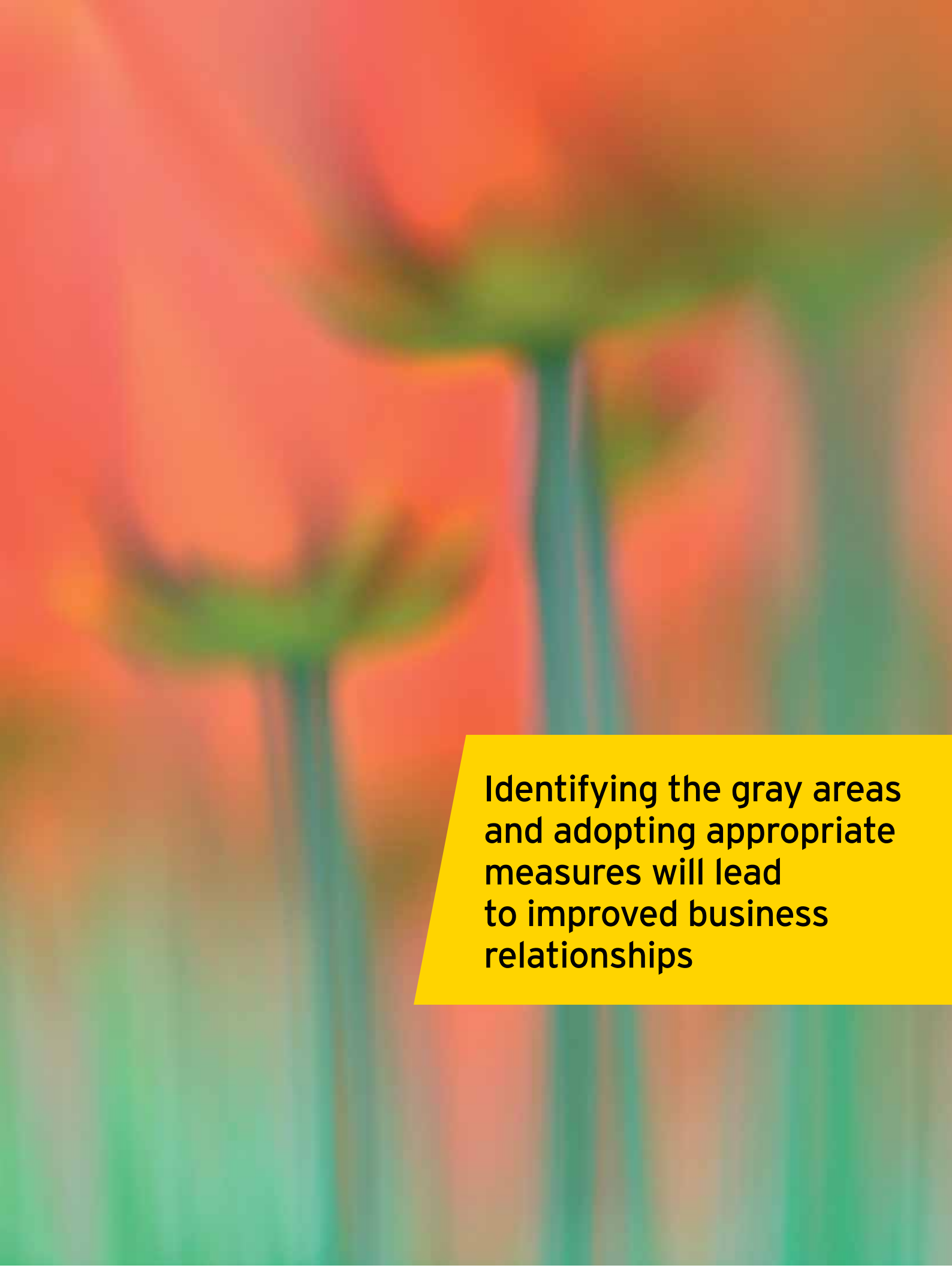
How satisfied are you with local governmental support that you received when entering the Netherlands?



Recommendation to Dutch Government (Ernst & Young external survey)



Key challenges for Chinese enterprises in the Netherlands



Identifying the gray areas and adopting appropriate measures will lead to improved business relationships

Key challenges for Chinese enterprises in the Netherlands

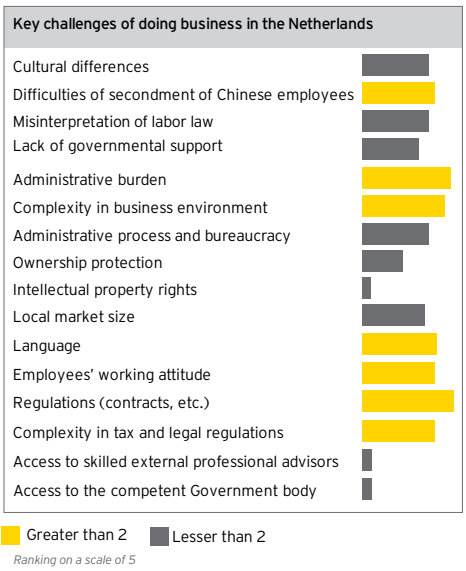
The top seven challenges respondents raised in the survey and during the external interviews were

1. Cultural differences in business

The Dutch and the Chinese business cultures differ in many aspects. While the Dutch are more organized and formal, Chinese businessmen are more informal and value building relationships with customers more. In China, the business between two parties relies mostly upon the first impression and subsequent effort they make to impress the client, whereas in the Netherlands, the relationship between a business and its client is formal and structured. This difference in business culture poses a challenge to Chinese people who come to the Netherlands to do business for the first time:

"Chinese people are definitely more network and relationship oriented."

"For me personally, it is a challenge to focus on relationships with local clients and relationships with colleagues. Chinese business is very focused on relationships, but here it seems that they apply a different business model."



"Dutch people speak to each other quite frankly and directly. That is totally different in China. If you meet someone in China and you speak to them the way the Dutch people do, they will never want to meet you again in their life."

2. Language barriers

The difference in language is another big challenge Chinese business people face in the Netherlands. Even though the Dutch people are generally multilingual, the Chinese find their official communication, which is normally drafted in Dutch, difficult to comprehend. The Government websites, as well as business write-ups, are mostly in Dutch, which the Chinese businessmen said they need to spend extra time and effort on, translating and understanding.

This is what some of the Chinese businessmen have to say regarding their problems with language and communication:

"Language sometimes poses a problem, because all Dutch Government letters are written in Dutch and, unfortunately, it is hard to find a related website in English. I do not understand why they cannot provide an English version. That is a big problem. If I receive a letter in Dutch, I do not have time for translation and let it slip, and sometimes this causes a delay in responding."

"I will hire more local employees, but it is always hard to find an employee who can speak three languages and once you have trained them, they leave the company."

3. Immigration process

The Chinese find the immigration and visa processes in the Netherlands to be lengthy and complicated. Some of the commonly heard grievances are:

"It is time-consuming to apply for Dutch working permits."

"IND procedures are a problem. It takes a long time. For example, at present, we intend to second a technician from China. As this person does not come from the management team, we have encountered some challenges. Her salary in China is not high enough to meet the Dutch requirements and I am worried about that, because if we apply for a visa for a non-knowledge migrant, the salary of such a Chinese technician will never be close to the required amount. In addition, you need to prove that you are unable to source a local employee to do the same job by putting an advertisement in the newspaper."

4. Tax and legal regulations

The Dutch and Chinese tax and legal regulations are so different that investors often find themselves spending a lot of time and resources getting things done. Most Chinese investors are not fully aware of the tax regulations and the exemptions that they are eligible to receive.

"Chinese investors are more flexible. Business is based on trust and we do not need a contract and long negotiations and lawyers to review the contract. If we are familiar with each other, we only need a simple contract or no contract at all. Here, you need a lot of documents and you have to review everything and ask lawyers and advisors for assistance. This has nothing to do with what is good or bad, but the Chinese are more efficient, whereas the Dutch way is more formal. I think this is the biggest difference."

5. Quality credibility of Chinese products

Another major challenge that Chinese enterprises face is the acceptance of their products in a global market. This is not unique to the Netherlands, but Chinese products are still perceived to be of inferior quality in some European countries, when the fact is that most of the top-quality consumer durables and electronics equipments are either assembled or manufactured in China.

"We investigated the acceptance level our company's products through some consultancy firms, but found that Western individuals are still worried and skeptical about using these products."

"If we want to win in this market, we need to modify our products and localize."

6. Dutch administration process in setting up a business

The Dutch administrative process to set up a new business is cumbersome, according to some Chinese investors. Ignorance of procedures, as well as other factors, pose challenges for Chinese investors in dealing with Dutch officials.

"Before I came to the Netherlands, I knew nothing about it. They transferred me and I just went. After a few months, I felt okay. My Dutch friends really helped me and gave me advice. This is really important for foreigners, to have some friends here."

7. Dutch labor issues

There are gaps between the labor laws of the two countries that pose challenges for Chinese investors in the Netherlands. Differences in rules and etiquette regarding work-life balance were cited as a major labor issue with Chinese employees in the Netherlands.

"It is really hard to find new employees, and if you have problems with existing employees, it is very hard to dismiss them. The culture gap is also quite big."

"In China, the management frequently changes your position, but in the Netherlands, everyone has his or her own position and it is fixed. In China, or let us say in Asia, employees are more loyal, flexible when asked to work overtime and they get on well with colleagues. The leader is considered to be the leader; there is no negotiation possible. But the situation here is not the same."

"You have to understand the rights of the employees in European countries. For example, in China, you wait for the boss to go home, so it was a shock when we went abroad and saw Dutch employees leaving at 5:00 p.m. sharp. We are a Chinese company and our management team leaves us no choice. We always carry our mobile phones and laptops around on holidays; this is required."

Recommendations

Preparation, integration and adaptation to the market may help to maintain a good business relationship and will lead to future prosperity

Recommendations

The recommendations are based on the suggestions given by Chinese investors during interviews conducted in July 2011. The study summarizes the recommendations in three categories: preparation, integration and adaptation.

1. Preparation

Key issues

Most Chinese enterprises have little or no awareness of the differences they will face prior to their arrival in the Netherlands. Chinese enterprises tend to have a short-term focus with respect to the establishment of operations abroad. Initial over-simplistic tax planning provides a good example of this short-term view. Most Chinese enterprises do not possess any in-depth knowledge of the Dutch and European markets. Furthermore, most enterprises express that they did not have a detailed understanding of Dutch business rules, nor of tax, legal, financial, human resources and immigration issues. The necessary steps to start up in a new country are therefore perceived to be complex. Marketing and branding are underestimated strategies to penetrate the Dutch and European markets.

Statements

The following responses were recorded from the interviews:

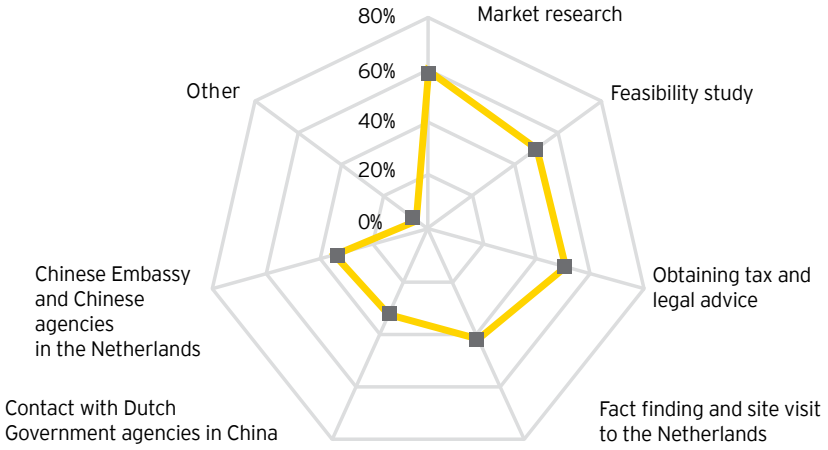
"Be prepared before coming to the Netherlands; learn about the country and culture, especially about the ways of doing business. For example, the first time when I arrived in the Netherlands, I had booked a hotel, but we wanted to cancel the reservation. I was told by the hotel manager that we could not cancel it at short notice without a penalty. We were not aware of this rule. When Dutch people go to China, they can always cancel at the last minute without a penalty."

"I would advise a Chinese enterprise to ask advice and work with professional advisors. You cannot just set up a company without any local knowledge. You need to be prepared."

"We did a lot of research and used Google – you can Google everything – but also engaged the help of a consultant, who created a team in China that established a business plan including, a description of the market here. This was a feasibility report that has been reviewed by our Board of Directors."

"My advice to other Chinese enterprises would be to work with consultancy firms first to acquire local knowledge."

Preparations before investing in the Netherlands



Recommendations

Develop a robust expansion plan with the assistance of local external professional advisors. Dutch business rules, as well as tax, legal, financial, human resources, labor law and immigration issues, are different in the Netherlands but, with preparation and help, complexity can be overcome. Perform market research or feasibility studies to gain knowledge about the market prior to investment. Make use of the familiarization trips offered by Dutch Government agencies to scan the landscape and make the right location decision. View tax planning as a continuous process. Engage professional consulting firms to understand the legal framework and tax regulations, and seek advice from tax consultants.

2. Integration

Key issues

The Netherlands and China obviously have different cultures, languages and business environments. Both cultural and legal problems arise in the human resources areas, where hiring, retaining and terminating employees pose challenges. Another issue is the language barrier. Although the Netherlands is well known for its openness and English is widely spoken, the official communication language of the Dutch Government is Dutch, which often results in late or sometimes no feedback at all for any required action. Tax problems are dealt with on an ad hoc basis, instead of on a continuous basis, so risks regularly evolve and penalties are incurred. Another problem raised was the lack of international and local market knowledge of Chinese expatriates.

Statements

The following responses were recorded from the interviews:

"We really try to educate new Chinese and Dutch colleagues. For example, we organize team activities for Christmas and Chinese New Year so they can share how the Dutch celebrate Christmas and how the Chinese celebrate New Year. We want to be very localized."

"Our company is really localized. We hire more local staff than other Chinese companies. This is one of our cost-saving plans. The salary of the Chinese people is low, but you need to second them from China to the Netherlands and this implies a lot of administrative costs, time and application procedures. I believe hiring local staff saves costs, and local people know more about the ways of doing business."

"Employ Dutch-born Chinese or Dutch trilingual employees."

"In my company, we have this human resource policy, which I think is pretty good. You can only get promoted to work overseas if you have an internationalized mindset or experience. After that secondment, you return to China so that you can use your experience."

"Legal regulations are complex; seek advice from professional lawyers."

"Seek help from law firms or consultancy firms."

"We prepared a survey, just like you are doing now, before we came to the Netherlands. We also engaged consultants from the Big 4 to help us prepare."

"Hire local people through recruitment agencies."

"I want to advise Chinese 'newcomers' to prepare better in China. The Dutch Government is very active in China and always willing to help Chinese companies prepare. In addition, multinational Dutch consultancy companies have a presence in quite a lot of cities in China."

"A suggestion for the Dutch Government ... When I came here, nobody gave me any training about how to live here. For example, I did not know what to do with my garbage. So I would like to receive more practical information on living here."

Recommendations

Use all kinds of means to learn about the laws and regulations. Build a network to keep informed and updated on regulatory changes. Participate in organizations such as ACIEN, which works closely with the Dutch Government. Chinese enterprises can manage the Dutch administrative burden by employing local employees, engaging experienced consultants or by approaching the Dutch authorities.

Another recommendation is to adapt to the Dutch market by being more aware of the differences in approach (when in Rome, do as the Romans do). Mingle with the local business community and include locals and experts in your team. Hiring local staff, where possible bilinguals or trilinguals, is an effective way to overcome language barriers. To avoid tax and legal risks, as well as penalties, engage external providers on a regular basis.

When sending Chinese expatriates overseas, it is advisable to select people with broad international experience and a global mind-set. It would also be helpful if the Dutch Government would publish a practical information booklet for foreigners who arrive in the Netherlands, on how to live in the Netherlands. Finally, it is essential for Chinese enterprises to change operating models to adapt to local market conditions. This seems to be a pitfall for many Chinese multinational enterprises. As the quotes in this report point out, many Chinese companies still behave purely like a Chinese company in the Netherlands. The tight relationship with their headquarters in China, where decisions are made, is often the reason for this. This really hampers the ability of Chinese companies to adapt to the local market.

3. Adaptation to the market (products and services)

Key issues

According to Chinese enterprises: "Made in China" is not always readily associated with high quality among Dutch and European customers, which impacts business success. Sometimes, the products need to be modified to meet the local standards and requirements, and it takes much effort to create brand awareness and credibility in a new market. Quite a few enterprises mentioned that they initially thought that the EU was one market and were not aware of the differences between the Member States.

Statements

"Initially, the problem was that we offered high technical products and services originating from China. In view of China's image, we showed that we did have some good-quality goods to offer and overcame this obstacle. We did this by sending them samples to try with a very competitive price. Normally, we always let them try and this works out to be a good approach."

"In Europe, the acceptance of a new product is low and consumers are still very skeptical. They first want to try and when we tell them that we already sell a lot in China, they do not believe us and still want to try and wait and are very reluctant. So you need to be patient."

"Our products are shipped from China. Sometimes, it is very difficult to sell products that are made in China in the EU market, but we are highly qualified and we have a special logo on our products that shows that we are a qualified supplier. We also obtained a quality certificate."

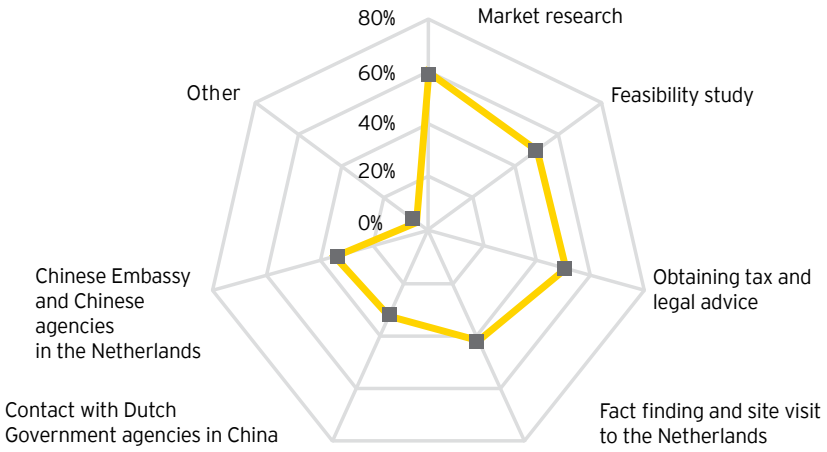
"I think it is very important to know the industry and to base your service or support on the industry. I think the Chinese are always looking at these three factors: service, contact person and price. We do hope you have Chinese speakers and one single contact person."

"Different countries require different adjustments."

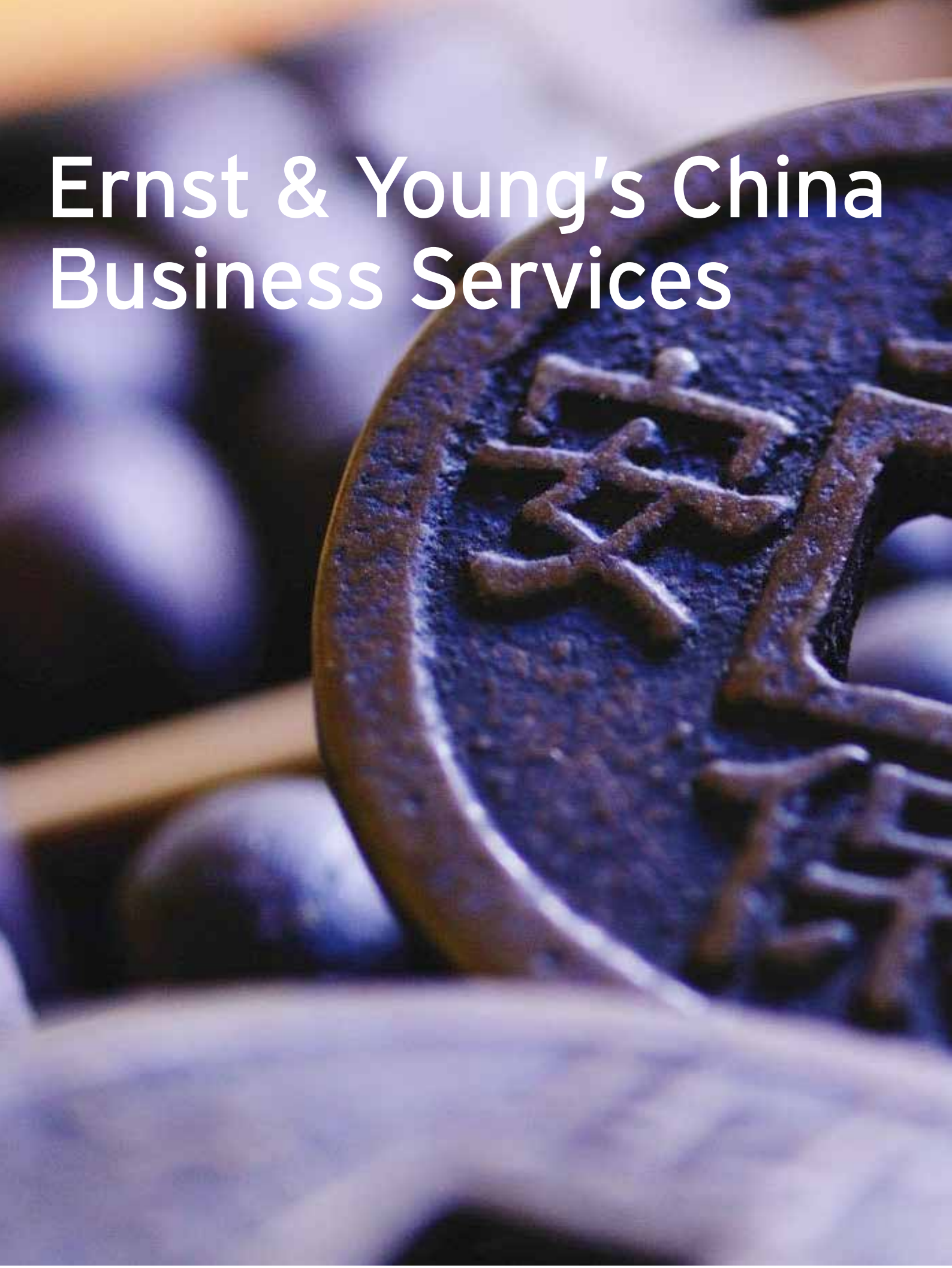
Recommendations

We recommend that Chinese enterprises keep an open mind and adapt products and sales communications to meet the requirements of the new market. For Chinese enterprises, pursuing a try-out approach may be helpful, and testimonials from other European customers may be leveraged to spread word-of-mouth publicity. Ensuring the quality of goods to be shipped may eliminate any possibility of the shipment being returned or rejected. Seeking advice from Dutch consultants in areas such as marketing and branding is helpful for Chinese enterprises to launch their products successfully.

Preparations before investing in the Netherlands



Ernst & Young's China Business Services



Ernst & Young navigating Chinese enterprises' cross-border challenges

Ernst & Young's China Business Services

China Business Services (CBS) is part of the China Overseas Investment Network (COIN) and provides seamless and high-quality client services, worldwide, to Chinese enterprises going overseas and doing business overseas.

Chinese enterprises that plan to invest and do business overseas face a wide range of challenges. Ernst & Young offers a wide spectrum of professional services to address these challenges:

- Market Entry Strategic Analysis
- Transaction Advisory Services
- Performance Improvement
- Assurance Services
- IT Risk and Assurance
- Tax Advisory and Compliance Services
- Legal Services
- Human Capital Advisory Services

We have integrated client service teams from Assurance, Tax, Law, Transaction Advisory Services and Advisory Services who are fluent in Chinese, English and local languages.

Our service teams include many Chinese-speaking professionals, who have a Chinese background, but live and work in major European destination countries, as well as experienced professionals from major overseas countries residing in China, to support the China-related investment issues of our clients. China Business Services (CBS) always endeavors to assign a Chinese-speaking professional to the service delivery team for a Chinese client. This practice has proven effective in bridging cultural and communication gaps and is widely welcomed and appreciated by our Chinese clients in the Netherlands and across EMEIA.

In the Netherlands, CBS works closely with Government, provincial and municipal investment agencies to provide services to Chinese enterprises.

CBS — VU University Amsterdam (VCRC) synergy

CBS in the Netherlands has formed an association with the Faculty of Economy and Business Administration (FEWEB) of VU University Amsterdam to study the underlying mechanisms that drive China's economic development. According to VU China Research Centre (VCRC), the joint research conducted with CBS will help provide useful information that Chinese enterprises can leverage to build and streamline business in the Netherlands and that can also assist Dutch Government agencies to take ideal regulatory decisions.

The strengths of CBS is:

- Wide presence across EMEIA and Greater China
- Highly experienced professionals with cross-border exposure
- Mandarin-speaking workforce in EMEIA
- Prowess in over 10 industry verticals

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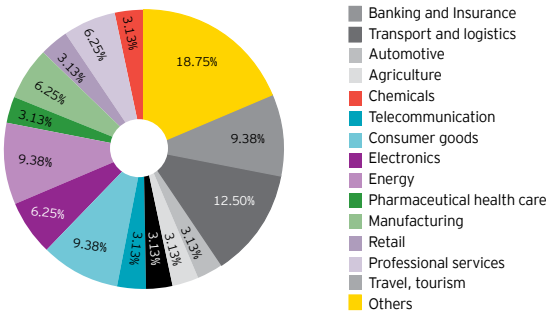
Ernst & Young especially wishes to express its gratitude to the executives of Chinese enterprises in the Netherlands who participated in this survey.

Appendix: research methodology

Research methodology

This report was based entirely on the external survey and interviews with Chinese enterprises conducted by Ernst & Young in 2011, in cooperation with the Chinese Research Centre of VU University Amsterdam. The Dutch Government agencies and the Association of Chinese Investment Enterprises in the Kingdom of the Netherlands (ACIEN) supported the research and helped contact the respondents. Executives from over 15 diverse industries were contacted to collect insights on the investment climate and on the challenges and drivers of investing in the Netherlands. A mix of companies of various legal forms was also surveyed and interviewed in this report.

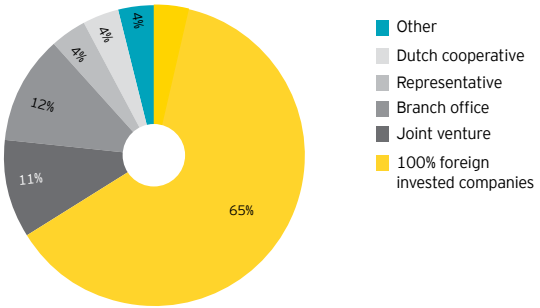
Industries covered in the survey



Primary research

Structured questionnaires with closed-end questions were used to collect information from the respondents. We also interviewed over 30 executives of Chinese enterprises in the Netherlands and the transcript of the conversation was used as the basis for preparing the content.

Entities surveyed



Secondary research

Extensive desk research was conducted to collect information on topics including the economy, bilateral trade and inbound-outbound investment flows. Sources include government websites, investment agencies, publicly available reports and news articles.

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