

Foreign Investment in the Netherlands

Summary of advisory report 13

Significance of foreign direct investment

Foreign direct investment is taking off worldwide. It has increased in recent years much more than world trade and the world economy. That growth is expected to continue given the worldwide tendency towards the internationalisation of business and industry.

In Europe growth in foreign direct investment is being additionally encouraged through the completion of the single market. European integration is also leading to a concentration of business activity which was originally spread over the various European countries. For the individual countries this entails both opportunities and threats.

As a result of the growing internationalisation of business and industry it is becoming less and less important who the owner is; the location of the activities is the crucial thing. This means that government policy has to focus on encouraging business in the Netherlands, irrespective of whether the company is in Dutch or foreign hands. The equality principle must also be adopted in attracting foreign investment though an endeavour has to be made in attracting foreign business to prevent specific measures leading to competitive disadvantages for companies already operating in the Netherlands.

Position of the Netherlands

The Netherlands cuts a good figure in the competitive battle for foreign investment. The investment of American and Japanese companies in the Netherlands is of the same order as in Germany as a whole. And foreign investment does not only involve take-overs of existing companies - matters which have recently prompted a great deal of debate - but also the setting up of new businesses. It is in this latter respect that the Netherlands scores high. By comparison with other Western European countries the Netherlands attracts more new foreign business than one might expect in view of the size of the economy. That applies to all types of business: European head offices, distribution centres, production plants and R&D centres. The Netherlands scores particularly high with regard to the first two types. In fact more than 60% of the European distribution centres set up by Japanese and American companies in the last five years in Western Europe have been located in the Netherlands.

The Netherlands' strengths

Considerations which generally speaking play the biggest role in choosing a place to set up a business are communications, political stability, cost factors, the reliability of electricity supply and the proximity of the market. As regards these general criteria there is nothing much to choose from between the majority of Western European countries. The important thing is not to lag behind.

In asking for advice, the Minister for Economic Affairs refers to attracting foreign business as a means of filling the gaps in the industrial infrastructure. This has little to recommend it, according to the Council. The best opportunities lie in the Netherlands' existing strengths.

Consequently a policy is needed which cultivates the Netherlands' assets as a country in which to locate a business and enhances them where possible. In doing so the talents of surrounding countries and regions (e.g. subcontractors, infrastructure) can also be utilised. Such a policy offers the Netherlands a chance of standing out. The two main strong points in the eyes of foreign investors when looking for a place to locate a business are the Netherlands' powerful position in the distribution field and the fact that the population is internationally-minded.

Importance of a powerful distribution sector

Foreign companies - and not just distribution centres - opt for the Netherlands because of the good distribution outlets. With the disappearance of internal European frontiers, the distribution argument will only gather weight in foreign (production) companies' choice of location. Thus the importance of good distribution opportunities far exceeds the interests of the distribution sector alone.

It is in this light that investment in infrastructure has to be assessed. In doing so one has to take into account the necessity of diminishing the ecological drawbacks of mobility. To harmonise the ecological and economic aspects of a sustainable society, it is not less but different mobility that has to be achieved!

International outlook

Besides the distribution aspect, the Dutch population's international outlook is an important consideration for choosing the Netherlands as a place to locate a business. This is a particularly important point for companies with a lot of international contacts.

This international outlook emerges from among other things in the widespread knowledge of English and the willingness to communicate in English with foreigners. In the past another advantage was that those with a higher education spoke three foreign languages. With the restructuring of secondary education in the sixties, the Netherlands lost this edge on the other countries on the European continent. There is an opportunity to regain some of that former advantage with the increase in the number of final examinations subjects at pre-university school (from seven to eight). The Council thinks that pre-university school-goers badly need to include at least two and preferably three foreign languages among their final examination subjects. Thought could be given to Spanish, alongside German and French.

Amenable authorities

It is important for there to be a single, central desk to which foreign companies can address themselves. It is important for example to avoid foreigners who are interested in the Netherlands being sent from a provincial pillar to a municipal post. A national policy on attracting business requires good orchestration with the strengths of the Netherlands as a whole being the point of departure along with the specific assets of the individual regions. From the interviews the Council has conducted it gets the impression that this task is being carried out as it should be by the NFIA (Netherlands Foreign Investment Agency).

Foreign companies criticize of the unpredictability of government policy, (kite-flying tactics) and the tight deadlines by which administrative changes have to be implemented. In practice these companies are actually important champions of new business. Should they become irritated this may mean them losing their enthusiasm for the country. In preparing policy these points need to be given more attention so that we do not forfeit these important ambassadors for the Netherlands as a country for locating business.

Sector and country-oriented policy

The best opportunities of attracting foreign investment are among companies who are active in or around the sectors in which the Netherlands is already strong. Numerous foreign investors

have already been attracted to many of these sectors but in some of them marketing policy needs a sharper focus. For example, the vitality of the food sector as a whole in the Netherlands could perhaps be given a boost by getting new foreign food companies to set up shop here. Thought can be given here to attracting foreign companies in the functional food sector.

Worldwide, Japan is now the country with the highest external investment and it is likely that such investment from Japan will increase further in the years ahead. We can expect Japanese investment in Europe to lead to a substantial share in industrial employment, as happened in the past with American investment. Although the Netherlands has already attracted a lot of Japanese investment, the country has not taken as much advantage as it could from this trend. In this light it is important to pay a lot of attention to Japan.

Science and technology

Cooperation with universities is not a major reason for locating a business for internationally-operating companies which have scientific and research contacts throughout the world. It is much more important that the universities produce well-qualified people.

Foreign companies as a rule usually begin with a distribution centre and/or a production plant. Various companies in due course open up an R&D laboratory where development initially has priority. The emphasis here lies on adapting products which have been designed elsewhere and/or developing production processes. This is where most engineers coming from the polytechnics (HTO) are employed and about whom the companies are very satisfied.

Given the worldwide tendency to denationalize R&D, there is a big chance that research and development work will expand among foreign subsidiaries in the Netherlands with the emphasis also coming to lie on in-house product development. As a result the demand for good designers will increase. The Council recently made a recommendation on the training of these designers in the Netherlands. The importance of this is once again emphasized from this angle.

Costs

As regards labour costs in the seventies the Netherlands was relatively expensive. Since then these costs have not risen much relatively speaking, with the result that the total labour costs in the Netherlands at present do not compare unfavourably with those in surrounding countries.

As a result of the flat wage structure, in which highly-skilled labour is relatively cheap and unskilled labour is relatively expensive, the Netherlands is in a good position for highly-qualified employment. Targeted measures are desirable to strengthen the Netherlands' competitive position on this score. Such measures are currently being debated in the Lower House of Parliament. Many people are in favour of encouraging R&D through tax measures. The Council would add that highly qualified employment is not always linked to in-house R&D. New (technological) developments are coming at companies from all sides and faster and faster. It is of crucial importance that the employees involved keep abreast of developments. The Council would consequently suggest that on-the-job or in-service training activities should be involved in the debate on the (fiscal) measures to promote highly-qualified employment.

