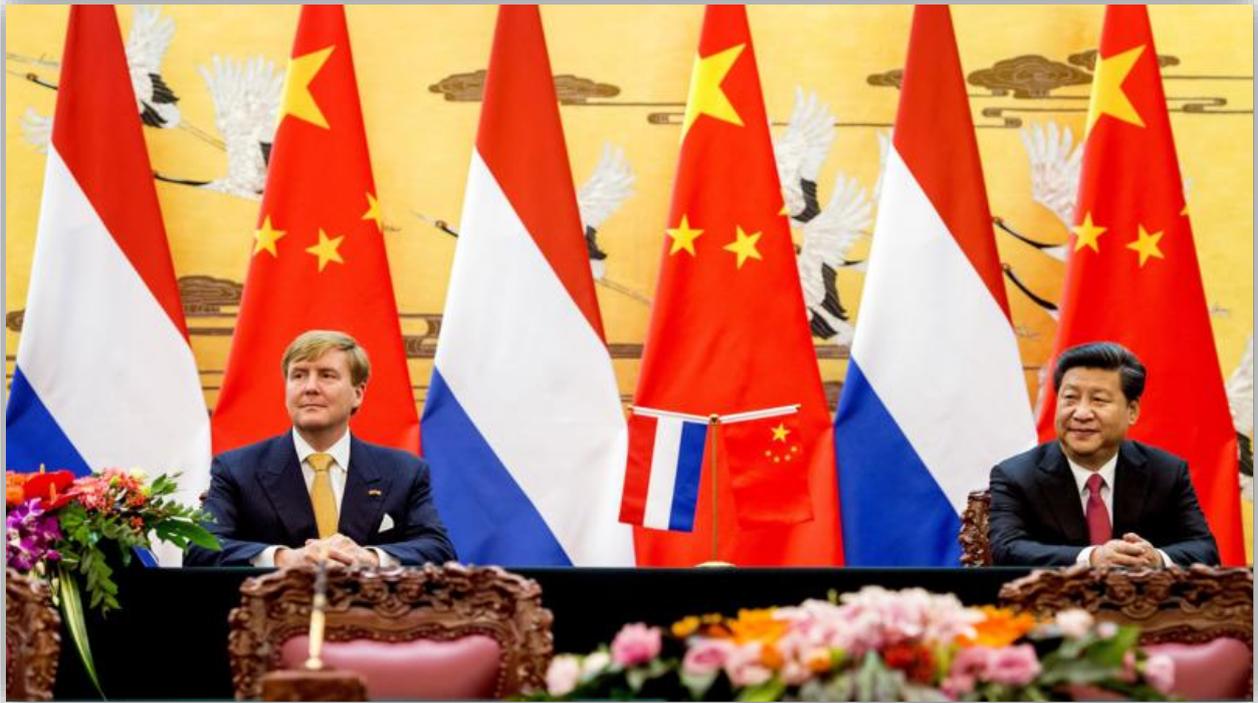


# Dutch Economic Diplomacy to China



(Koninklijk huis, 2016)

*The effects of Dutch economic diplomacy in the Life Sciences  
& Health sector to China over the years 2010 - 2015*

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# 讓我們所有的舉動

*Let's all move!*

*Allemaal bewegen!*

## Executive Summary

The aim of this dissertation is to indicate the effects of the Dutch economic diplomacy on the export of Life Sciences & Health companies to China in the period from 2010 until 2015. Economic diplomacy is a form of diplomacy where the government actively tries to influence economic elements like export for economic purposes. (Van Bergeijk, 2009, p. 5) An important theoretical model for economic diplomacy is the gravity model. (Tinbergen, 1962, p. 31) The more economic mass a country has, the more economic interaction there is with other countries. On the other hand, when there is more distance between countries, the economic interaction is lower.

In 2011 the Dutch government developed a new economic policy. This so-called Topsector policy has selected nine sectors in The Netherlands that receive extra support from the Dutch government. The Life Sciences & Health sector is one of these nine Topsectors which is selected. (Ministerie van Economische Zaken, Landbouw & Innovatie, 2011, p. 1)

Over the years, China had an economic growth between 7% and 13% each year. (CIA The World Factbook, 2016, para. 1) Also the Life Sciences & Health sector in China is the fastest growing healthcare market in the world. (Health Counselor at the Embassy of the Netherlands, 2013, p. 5) The export of Life Sciences & Health companies to China has grown with 160% between 2011 and 2015. If this growth number is compared with the growth numbers of the economic mass, which were lower, it indicates that the economic distance between The Netherlands and China in the field of Life Sciences & Health is reduced, based on the gravity model. What also indicates a positive effect is the fact that the export of the Life Sciences & Health sector to China has increased while the total export of the Life Sciences & Health has decreased with 24%. (Statline, 2016, para. 1)

Based on the meso-level analysis the economic diplomacy goals of the Topsector policy are achieved. Especially the reform of the diplomatic network was successful. For the Life Sciences & Health sector a Health Counsellor is available for Dutch businesses and can give specific market information. (Ministerie van Volksgezondheid, Welzijn & Sport, 2011, p. 1) Also the diplomatic network is expanded with one Consulate in Chongqing, economically an important region, and two Trade Representations. (Royal Netherlands Embassy, 2016, para. 1) The goal of the economic diplomacy within the Topsector policy was to organise more trade missions headed by a Minister of high government official. (Ministerie van Economische Zaken, Landbouw & Innovatie, 2011, p. 5) Over the years many trade missions in the field of Life Sciences & Health were organised.

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## Acknowledgements

In 2007 I started my studies European Studies with the ambition to finalise it as soon as possible. In the period after 2010 I have followed my heart and in 2010 I was sworn as Councillor in the City Council of my hometown Breda. Finalising my studies became a hard project with a lot of struggles. I would like to thank a lot of people who have supported me during this struggle in general but I want to highlight a few of them.

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This dissertation is the last step in order to finalise my study and becoming Bachelor in European Studies. My study was paused many times, but never stood still. Just like my motto

Let's all move!

Allemaal bewegen!

## Introduction

This dissertation addresses the effects of economic diplomacy on the export of companies within the Topsector Life Sciences & Health to China in the period of 2010 until 2015. This research question is divided into the four sub questions, which are mentioned here below:

- *What is the definition of economic diplomacy?*
- *What is the relation between economic diplomacy and export?*
- *What kind of economic diplomacy is used by the Dutch government to stimulate the export of the Life Sciences & Health-sector to China over 2010 - 2015?*
- *What are the effects of the various economic diplomacy instruments used by the Dutch government between 2010 and 2015, on the export of LSH companies to China?*

Before answering the sub questions, this dissertation starts with a justification of the used methodology. The sources used in this dissertation have been selected by means of an extensive literature review. In the end the findings are discussed on a macro- and meso-level.

The first chapter describes the definition of economic diplomacy and other economic activities influenced by the government. Economic diplomacy is a broad concept and is frequently employed in various situations.

The relationship between export and economic diplomacy is central in the second chapter. This chapter describes what elements of economic diplomacy a government can use and with which instruments a government can stimulate its export.

The third chapter evaluates the Dutch economic diplomacy policy since 2010. In that year the Dutch government started to develop the so-called 'Topsector Policy' with economic diplomacy as part of it. In the case of the Dutch government, the economic growth and the dependency of the Dutch economy on export are the most important drivers that stimulated the development of the Topsector policy. (Ministerie van Economische Zaken, Landbouw & Innovatie, 2011, p. 2)

The gross domestic product (GDP) of The Netherlands consist of export for more than 29% in 2010. With a total value of 69% of the total Dutch economy, export is the most important contributor to the Dutch economy. The Netherlands is the number five export country in the world. These

numbers ensure that economic diplomacy is high on the political agenda. (Export draagt 29 procent bij aan Nederlandse economie, 2012, para 1).

Since 2010 economic diplomacy has had an important place in the Dutch diplomatic policy. The Dutch government proactively collaborates with the nine Topsectors to stimulate export and support Dutch companies in doing business abroad. In order to encourage export the Dutch government facilitates Dutch businesses in expanding their activities internationally. The Dutch government uses various instruments to stimulate export towards several countries. The goals of the international section of the Topsector policy is to solidify the Dutch position as an important international player. One of these nine Topsectors is the Topsector Life Sciences & Health. (Ministerie van Economische Zaken, Landbouw & Innovatie, 2011, p. 5) This dissertation provides a detailed analysis of this Topsector. More information about the Topsector Life Sciences & Health can be found in chapter three as well.

Chapter four describes all activities that took place in order to stimulate the export of Dutch Life Sciences & Health companies to China. All three elements of economic diplomacy (foreign service & representation, bilateral visits and export promotion) are discussed in this chapter. This chapter also provides more information about the business culture in China and the specific market information for the Life Sciences & Health sector.

In fifth chapter all the results that were found in the other chapters are discussed on the basis of the theoretical model. This model can be found in the first chapter. This chapter is divided in a macro-level and a meso-level. At the macro-level the 'hard' numbers of export are analysed. The gravity model is also part of this analysis. At the meso-level the focus lies on the instruments that have been used over the years to stimulate export of Life Sciences & Health companies to China. The last chapter is summarizing all the conclusions of this thesis.

## Methodology

This dissertation is a quest for the effects of economic diplomacy on the export of companies within the Topsector Life Sciences & Health to China in the period 2010 until 2015. A literature review is the main method of research. Sources consist of literature in the field of economic diplomacy and public policy papers. The central research question (What are the effects of economic diplomacy by the Dutch government on the export to China of companies in the Life Sciences & Health sector in the period between 2010-2015?) has a descriptive dimension.

The first sub question is about the definition of economic diplomacy and could be answered based on existing literature. There is a limited amount of literature about the exact definition of economic diplomacy. One of the most renowned researchers on the topic of economic diplomacy is professor Van Bergeijk. In his book 'Economic Diplomacy and the Geography of International Trade' (Van Bergeijk, 2009, p. 5) he summarises the analysis of several other empirical researchers on this topic. By using the standing theoretic framework, the definition of economic diplomacy can be interpreted in an accurate way. This literature study supports the correlative study by defining the meaning of 'economic diplomacy' and describes the scientifically proven relationship between economic diplomacy and export. In this dissertation China plays an important role. The gravity model of Tinbergen is one of the theoretical frameworks that is used to discuss the effects of economic diplomacy. (Tinbergen, 1962, p. 31) Export is an important element in this literature. For that reason the second sub question about the relation between economic diplomacy and export, can be answered as well by this study.

Public policy papers and information about the Dutch Topsector policy are used to provide the proper context. The third sub question of this dissertation is specifically focused on the Dutch government and all instruments that the Dutch government has used to stimulate export to China for Life Sciences & Health companies in the period between 2010 and 2015. An accurate description of the these instruments is necessary to produce proper conclusions on the correlative relationship between the used instruments and the effects of it.

The final sub question is answered in order to find a correlation the used instruments and the effect on export. In order to make a good analysis about the effect, both quantitative and qualitative data are needed. This distinction can also be found in chapter five where the effects are discussed on two levels: a macro-level and a meso-level.

For the macro-level analysis the general and LSH-specific export rates to China are used. This is a quantitative secondary data method that uses of the data of the Centraal Bureau voor de Statistiek (CBS) (Statline, 2016, taylormade data). These data can be interpreted on four different levels.. The meso-level analysis is done with qualitative secondary data.

### Causality

Based on the current literature it is not possible to prove the exact and empirical correlation between the activities in the framework of economic diplomacy and the increase of export. There are too many other factors that influence these export numbers. It is possible, however, to give an indication of a correlation based on the theoretical models. This is done in chapter five, followed by a discussion of possible effects.

There is a more descriptive way to measure the effects of economic diplomacy. It is possible to consider the fact that the government supports individual companies with specific activities can be seen as an effect of economic diplomacy. Without the support of the Dutch government those activities would not take place at all. The fact that they did take place, can be seen as an effect of economic diplomacy.

The basic understanding in this dissertation is that when individual companies benefit of an instrument that the government uses for economic diplomacy, this can be seen as an effect of this diplomacy. For example, the Dutch Embassy supports individual companies with an individual match making programme. It is not possible for private organisations to have a direct meeting with a governmental institution in China. The Dutch Embassy can support a company by facilitating or attending a meeting, thus offering this company the possibility to meet with Chinese officials. Without diplomatic support, such meetings would not be possible for individual companies.

## Economic Diplomacy in General

### Introduction

This first chapter should give a clear definition of the term 'economic diplomacy'. It is a broad concept with various meanings. Economic diplomacy includes several economic activities and it is often used to take down formal and informal trade barriers between countries. The theoretical model of prof. Tinbergen is explained as well in this chapter. In the end the three elements of economic diplomacy described.

### Definition

Economic diplomacy is a form of diplomacy where the government has an active policy in involving and influencing economic elements like export, import, investments, aid, lending, and migration for economic purposes. (Van Bergeijk, 2009, p. 1) The government wants to persuade other governments or non-state actors by using a set of economic activities to influence and strengthen their position in the economic diplomacy. The most commonly described economic activities in the literature are export, import, investments, lending, aid and migration. For the focus of this dissertation, especially the section export is an important economic activity and nowadays within economic diplomacy the main goal is to increase this. (Van Bergeijk & Moons, 2013, p. 14)

### Export

The simple definition of the term export is shipping, serving or selling a good, product or service abroad. (Investopedia, 2016, para Export) Export increases the potential market for an exporter because a company is not limited to the domestic market anymore. This is the reason that exporting adds more value or money into the domestic market. Export is often seen as an important factor for economic growth and increasing welfare in a country. This makes export a crucial factor in the economy (Van Bergeijk & Moons, 2013, p. 7). In order to achieve economic growth a state can choose to boost export by stimulating entrepreneurs to do business abroad. This is when a government starts to develop economic diplomacy. (Van Bergeijk, 2009, p. 14)

A big difference between domestic trade and export is that there are certain trade barriers which obstruct trade between two commercial parties. Within a domestic market both trade partners are familiar with the common legislation, they have access to market information, have the same currency and usually speak the same language. There is also an equal level playing field with competitors in the same market. All those components are not the case in international trade. (Van Bergeijk, 2009, p. 31)

### Theoretical Model of Economic Diplomacy

The most well-known theoretical model is the gravity model of Jan Tinbergen, which he explained in his book *Shaping the World Economy - Suggestions for an International Economic Policy* published in 1962. The gravity model is an empirical trade model and describes the bilateral trade flows. This trade model is often used for measuring the effects of trade agreements by, for example, the World Trade Organisation. The gravity model consists of two important elements: economic mass and distance between countries. Similar to scientific gravity, there is less interaction between things when the distance is larger or the mass is lower. The gravity model relates this effect to economic flow between countries. The bigger a country is (economic mass), the more economic interaction there is. Also the distance between countries is relevant for the amount of trade. Neighbouring countries do have more economic interaction than countries on the other side of the world. In the gravity model, distance is not only a geographic factor. Trade barriers like economic sanctions or import tariffs are enlarging the economic distance between countries. Cultural and linguistic barriers are relevant for this model as well. Languages and cultural barriers makes the distance between countries larger, while a common history or historical ties makes the distance smaller. (Tinbergen, 1962, p. 12) (Van Bergeijk & Moons, 2009, p. 5)

### Formal & Informal Trade Barriers

Despite an increasingly globalised economy and widespread use of high-developed communication networks, there still are trade barriers between countries. (Van Bergeijk, 2009, p. 31) This negatively influences the trade flows between countries. There are two types of trade barriers in international trade: formal trade barriers (such as economic sanctions or tariffs) and informal trade barriers (such as cultural differences). (Harris & Li, 2005, p. 22) With active economic diplomacy the government tries to influence and change these trade barriers by influencing other governments. Non-state actors also play a role in economic diplomacy Non-state actors are often international organizations who have an authority in the global economic climate, for example, the World Trade Organization. (World Trade Organisation, 2016, Para Export competition/subsidies)

It's good to mention the different types of trade barriers. Formal trade barriers are specific measures, often introduced by the government with the aim to obstruct free trade. These trade resistance factors have the goal to protect the domestic producers or market against foreign producers. Examples of these trade restrictions are import tariffs, export subsidies or economic sanctions. (Harris & Li, 2005, p. 22)

Informal trade barriers are barriers that obstruct foreign trade in an informal way and are not imposed by the government or an authority. Examples of informal trade barriers are cultural differences, lack of market information of unstable currency rates. (Harris & Li, 2005, p. 70) In general, economic diplomacy consists of three elements: commercial policy, economic security and international organizations. (Van Bergeijk, 2009, p. 173)

### Commercial Policy

The main goal of commercial policy is to stimulate international trade, international collaboration, for example, in the field of international investments. The reason for the government to implement such a policy is that it increases domestic wealth. (Van Bergeijk, 2009, p. 173) Not only does it stimulate economic growth, international trade also provides access for new products and technologies. In the field of geopolitics, the economic influence of a state is a relevant factor of power. For that reason, economic growth and welfare are an important reason for a state to promote international trade.

For commercial policy, a state can use its governmental relationships and diplomatic influence. The focus of commercial policy lies on supporting companies in doing business abroad. Three types of instruments are available for a state to use in their commercial policy. First of all, a government can use the foreign service and representation. This is the diplomatic network of Embassies, Consulates and Trade Representations. Another instrument within commercial policy is the use of export promotion. The most common and well known instrument is the use of bilateral visits or trade missions. These three instruments are explained in detail in the next chapter. (Van Bergeijk, 2009, p. 83)

### Economic Security

There is a relationship between the economic ties of two states and the risk of an armed conflict between states. Common understanding is that when there is a close economic collaboration or mutual economic dependency, most democratic states avoid conflicts because of these ties. When there is economic integration between states, the risk of political disruption or a military conflict is lower. (Van Bergeijk & Moons, 2009, p. 23) Strong economic ties between states are therefore a part of the national security policy of a state.

### International Organisations & Trade Diplomacy

Economic diplomats are government officials who represent a state in an international organisation or multilateral organisation that is active in international trade and global economy. They represent and protect the economic interests of a country in these international organisations. The most important and well-known international organisation in the field of international trade is the World Trade Organisation (WTO). (World Trade Organisation, 2016, para. 1) States can influence the WTO's economic policy by lobbying. The most important reason for states to have this kind of diplomacy is to stimulate a better economic climate. (Van Bergeijk & Moons, 2009, p. 85)

### Conclusion

Economic diplomacy is a kind of diplomacy where a government actively influences economic elements like export, import, investments, aid, lending and migration in order to achieve economic purposes. Export has a positive effect on the domestic economy and common wealth. For that reason governments often stimulate entrepreneurs to do business abroad. The gravity model is a theoretical trade model that is used to indicate the bilateral trade flows between countries. The economic mass and distance between countries are two elements of this gravity model. The more distance between countries there is, the less economic interaction between those countries. The bigger the economic mass of a country, the more economic interaction there is. One of the problems for companies that want to do business internationally are formal and informal trade barriers. Economic diplomacy helps to tackle formal and informal trade barriers. There are three types of economic diplomacy. The government develop commercial policy; this is the most common kind of economic diplomacy where companies are stimulated to do business abroad. The second diplomatic tool is the one concerning economic security and stability. The last type of economic diplomacy is the permanent representation of a state at international organisations.

## Instruments of Economic Diplomacy

### Introduction

In the field of economic diplomacy, commercial diplomacy plays an important role. When a state is willing to use economic diplomacy to increase the domestic wealth, export often is the economic tool to achieve this goal. The difference between international trade and domestic trade is that in international trade there are formal and informal trade barriers. (Harris & Li, 2005, p. 74) Within the economic diplomacy of a state, it tries to stimulate export by supporting its national producers in order to face the trade barriers. This chapter analyse what a state can do to support its domestic producers in order to stimulate export and which instruments the government can use to achieve this.

### Requirements in International Trade

There are three ways how a government can support companies in doing business internationally. As discussed in the previous chapter, there are differences between a domestic market and a foreign market that makes it more difficult to enter a foreign market. The government can stimulate export by meeting the requirements of companies and supporting them in doing business abroad.

### Information

For a good international export strategy, a company needs information from their target country or market. In contrast to domestic trade, this information is harder to get because of different languages and cultural barriers. If an exporter gets proper information in advance before they start exporting towards a country, they have an extra advantage. Good solid background information saves a loss, avoids expensive pitfalls and creates better market access. (Harris & Li, 2005, p. 73)

For a good export strategy, exporters need information on the following topics:

#### *Local consumer preferences*

Preferences of consumers or end-users in the foreign market are important. Also the ability and possibility of the market to adapt or adjust new products is relevant for a company to know.

#### *Reliability of local trade partners*

This topic concerns the reliability of a local trade partner. This includes the cultural reliability but also the legal and political reliability of local trade partners. For potential exporters, it is necessary to know what they could do and what their rights are when something goes wrong with, for example, the payment of a delivery. When the local legislative and political system do not provide

the security to have a reliable position, exporters might reconsider that specific market or make some restraints in advance.

#### *Distribution networks*

Information about the economic infrastructure is important for exporters. Economic infrastructure is about the logistic infrastructure in rural areas but also about financial infrastructure or the use of modern communication tools.

#### *Quality standards*

In some countries exporters have to comply to certain quality standards or other requirements before their products are allowed to enter the market. Information about regulatory affairs is crucial for exporters before they develop an export strategy.

#### *Prospects of a market*

Market information or information about market opportunities in niches is important for a producers export strategy. Identification of significant investments in specific sectors or projects is valuable for exporters.

#### *Local negotiations and contracting procedure*

This topic includes legal information about economic laws and contractual procedures. For a well prepared market access, exporters need to take all potential legal risks into account before they enter the market. (Harris & Li, 2005, p. 73)

### **Reduce Trade Barriers and Risks**

A state can develop a policy in which they reduce financial barriers from other countries or reduce the risks of export. In order to stimulate export the government provides support through guarantees or subsidies to companies to make it easier to export their products to a foreign country. Within the framework of the World Trade Organisation specific export subsidies to lower the costs of a product are not allowed. (World Trade Organisation, 2016, para. 1)

This governmental policy focus on financial instruments or export insurances in addition to the private initiatives. The Dutch government works closely together with Atradius Dutch State Business (Public Limited Company) to provide a range of insurance products to Dutch companies that are active internationally. (Atradius, 2016, para. 1) Atradius received more than two hundred and fifty applications from Dutch exporting companies for an *export credit insurance*. (Atradius, 2016, p. 8)

### Government Required Business

For some types of business, involvement of the government is required in order to export the products. Typical goods in this category are military goods, energy contracts, nuclear goods or large infrastructural projects. Many of the exporting and importing companies are state-owned and government involvement is required to do business. (Van Bergeijk, 2009, p. 15)

### Instruments of Economic Diplomacy

A state have three instruments that it can use to support companies with their need for information, to reduce trade barriers or to be involved in government required business. The following paragraphs describes these three instruments of economic diplomacy.

#### Foreign service & representation

Embassies and Consulates are permanent diplomatic representations of a government in foreign countries. They establish the political, economic and cultural relationships between countries on a bilateral level. The political and diplomatic relationships between countries also plays a role in economic diplomacy. A good political relation reduce the risk of economic distortions or trade disruption. With a difficult political relationship there is a higher risk of economic sanctions or a military conflict with devastating effects for the economy. Political tension between countries can cause investors to postpone or even cancel their investments and projects in a country. (Van Bergeijk & Moons, 2009, p. 6)

In 2007 the relationship between bilateral trade and the presence of a Embassy or Consulate in a country has been researched by Andrew Rose. His conclusion, based on data, was that the addition of a diplomatic post increases the bilateral trade between the home country and the host country with six to ten percent. (Rose, 2007, p. 24)

The first part of this chapter explains that information is relevant for (potential) exporters. The government can support them by providing them information about a foreign market. The diplomatic posts all over the world play an essential role in the information supply to companies and entrepreneurs. (Harris & Li, 2005, p. 73)

The Embassy plays an active role in publishing market scans, partner scans and market reports. In the case of the Dutch Embassy in Beijing, a market report for the Life Sciences & Health sector was

published in 2013. This report gives an insight into the specific market and explains the policy trends of the Chinese government. (Health Counselor at the Embassy of the Netherlands, 2013, p. 1)

The Kingdom of The Netherlands has more than one hundred forty diplomatic posts like Embassies, Consulates and NBSOs (Netherlands Business Support Offices) or Trade Representations. (Ministerie van Buitenlandse Zaken, 2014, para. 1) Furthermore, the Dutch diplomatic network is active in the field of economic diplomacy and supports Dutch businesses with information. Besides providing information, the diplomatic posts can also support businesses on a more individual level with various services. One of these services is a '*Company Check*'. A Dutch company can ask the Dutch Embassy or Consulate to check their foreign counterpart. The diplomatic post will check if this company is registered at the Chamber of Commerce and if it is a reliable partner based on the legislative history of the counterpart. (MKB Servicedesk, 2016, para. 1)

#### Bilateral Visits

In the past, it was very common that government officials pay visits to other countries to establish a strong relationship. Besides diplomatic representation, bilateral visits are a good instrument to maintain a relationship or address issues on the political agenda. By visiting another country, a government official demonstrates the importance of the relationship. (Van Bergeijk, 2009, p. 86) When a new government or cabinet takes office, it is common to pay a visit to countries that are important for the relationship. These are mostly neighbouring countries but usually countries of economic relevance are also been visited relatively soon. A Dutch prime minister, for example, always pays his first visit to Belgium or Germany. (Telegraaf, 2010, para. 1)

Bilateral visits are important for economic diplomacy as well. During these bilateral visits the three elements of economic diplomacy can be highlighted. Bilateral visits are important for economic diplomacy for three reasons. First of all, government involvement is necessary for a specific type of product. Negotiations are often done during bilateral visits. These negotiations take place between state-owned companies. Another reason why these visits are important is that in some countries the dominance of the public sector is very strong. In order to do business in these sectors the presence of government officials is important. Without government involvement, it is not possible to do business in these sectors. (Van Bergeijk & Moons, 2013, p. 15) Finally, an official visit to a country can be seen as a signal of mutual friendship between states which gives a guarantee of economic stability and trust. A stable economic climate has a positive effect on the commercial relationships between individual companies. (Van Bergeijk & Moons, 2009, p. 8)

These bilateral visits of a minister or head of state can be combined with a so called trade mission. A trade mission is a collective visit of companies to another country, headed by an official, with the goal to enlarge the mutual trade or business. During a trade mission there can be several activities to reach this goal. Often there are official trade dinners, matchmaking programs, official visits or negotiations. The government can use these trade missions as an active instrument to promote export and support the private sector in international trade. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1)

### Export Promotion

Export promotion is the name for all activities that support private companies to enlarge their export. Export promotion is done by the government or by non-state actors such as industry associations. Export promotion consists of a broad range of supportive activities. Most countries have a special office for export promotion. In The Netherlands the Rijksdienst voor Ondernemend Nederland (RVO) is responsible for export promotion. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1)

Export promotion is divided in three elements. The first one is, again, information. Companies are supported by providing important information regarding a market or country. The difference between the information of an Embassies is that they supply market-specific information. RVO supplies general information about international trade, legislative information about, for example, regulations and logistic information about transport or logistic issues. A second element of export promotion is the activities that RVO organises for the private sector. A classic activity of export promotion is the collective participation of a booth at a trade exhibition. A third element is the support by subsidizing trade activities or other business supporting activities. This is not an export subsidy, which is illegal in the WTO framework, but the subsidy is focussed on supporting the export facilities like travel costs or translation costs. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1)

### Conclusion

A government stimulates export by supporting companies in three ways. The first one is by providing information. Often entrepreneurs do not have enough information about a country or a market that they want to enter. The government could support them by supplying information about several issues. The second one is to reduce the financial barriers and risks. The last way is to

support companies who are in a sector where government involvement is required. In order to support companies in these three ways, the government can make use of three instrument. The first instrument is the diplomatic network that is represented all over the world. By providing reliable information about a market, they support entrepreneurs. The second instrument is the pay visits to a foreign country. Combined with a bilateral visit, a trade mission with entrepreneurs can join the official visit. The last instrument is export promotion. Export promotion includes all activities which are done to support entrepreneurs in doing business abroad.

## The Dutch Way of Economic Diplomacy

### Introduction

In the previous chapters, economic diplomacy and the role of the government were described in a general way. In this chapter, there is a focus on the economic diplomacy of The Netherlands. In 2011, the Dutch government developed a new policy, the so called Topsector policy, for the private sector in which economic diplomacy is included. One of these Topsectors is the sector Life Sciences & Health. For the right context, this chapter explains the scope of the Topsector Life Sciences & Health.

### The Dutch Topsector Policy

In 2011, the Dutch Minister of Economic Affairs, Agriculture and Innovation, Mr. Verhagen, announced for the first time the development of a new economic policy. The Dutch government has an active economic policy and involvement in the private sector since the second world war. Over the years, the Dutch government has developed different types of economic policies: from support of individual companies (so called '*National Champions*') in the late 1970's, until a more focused policy on European integration and liberalisation. Up to 2010, the economic policy was more focussed on subsidy for innovative projects. Also the segregation between the private sector, the government and knowledge institutions was very high. The cooperation between these three groups has become one of the elements in the new Topsector policy of the Dutch government. (Ministerie van Economische Zaken, Landbouw & Innovatie, 2011, p. 14)

### Ambition

For the start of this new economic policy, the Dutch government defined a clear ambition that should be reached by the new policy. In the letter of the Minister with the first outlines of this new policy, sent to the Dutch Parliament in February 2011, (Ministerie van Economische Zaken, Landbouw & Innovatie, 2011, p. 1) the ambitions are quite generally formulated. The new policy focus on the growth of Dutch companies and puts export and international trade in a central position in the governmental policy. Also the Dutch economy must benefit more from the growth of the world economy. In the policy paper '*Naar de top*' published in September 2011, (Ministerie van Economische Zaken, Landbouw & Innovatie, 2011, p. 1) the ambition is more specific on the following three points:

- The Netherlands must be in the top five of knowledge economies in the world by 2020.
- Increase of the Dutch R&D-investment up to 2.5% of the GDP in 2020.

- 'Consortia of Knowledge & Innovation' (Public Private Partnerships, combined projects - TA) project organisations with public and private parties with a total value of more than €500 million which is financed for 40% by the private sector.

### Selection of Topsectors

The biggest change in the policy is the focus on the so-called nine Topsectors. These nine sectors are selected by the Dutch government and have a prominent role in the economic policy. The Dutch government decided to focus only on these sectors and put all the effort into activities in these sectors. The nine sectors are selected on four criteria. The sectors should be driven by (1) knowledge. The government wants to have a good collaboration between research institutions and the private sector. Because of the fact that the Dutch economy is considered as a knowledge economy, the sectors all are intensively based on knowledge, innovation and research developments. The international orientation (2) of the sectors are essential in the selection of the Topsectors. The Netherlands is a country that depends on export for its wealth and economic growth. Export and internationalisation are important elements in the Topsector policy. The economic policy has a broad range and for that reason specific regulation in certain sectors is a relevant factor. Deregulation within The Netherlands is also a part of this economic policy. Sector specific regulations (3) is also a criteria for the selection of the Topsectors. The last criteria of the selection is that the sectors should be involved in solving social challenges (4) such as climate change, scarcity of water and an aging population. (Ministerie van Economische Zaken, Landbouw & Innovatie, 2011, p. 13)

Based on the four criteria (knowledge driven, export oriented, specific regulations and solving social challenges) the following nine sectors are appointed as Topsectors by the Dutch government in 2011: (Ministerie van Economische Zaken, Landbouw & Innovatie, 2011, p. 5)

- Agriculture & Food
- Creative Industry
- Chemical Industry
- Energy
- High-tech Systems & Materials
- Horticulture & Starting Materials
- Logistics
- Water
- Life Sciences & Health

### International Agenda

More than forty thousand companies within the Topsectors are international active and exporting their products. In total, these companies export more than €160 billion which means that the Topsectors representing more than 62% of the total export of The Netherlands in 2012. Export is a very important factor for the Dutch economy. The table below shows the development of the total export of The Netherlands in the researched period 2010 – 2015. (Centraal Bureau voor de Statistiek, 2015, para. 1) All nine Topsectors have a structure of five pillars which they should develop policy and activities on. These five pillars are *Research, Innovation, Human Capital, Finance* and *Internationalisation*. Every sector has to develop a specific internationalisation agenda: a strategy for internationalisation based on the needs and characteristics of every sector. (Ministerie van Economische Zaken, Landbouw & Innovatie, 2011, p. 24)

### The total export of The Netherlands

2010	2011	2012	2013	2014	2015
€371,549	€409,358	€429,717	€433,106	€433,405	€425,572

x Million

(Centraal Bureau voor de Statistiek, 2015, para. 1)

In the internationalisation part of the policy paper *'Naar de Top'* but also in the new policy of the Dutch Ministry of Foreign Affairs, presented in the policy paper *'Voor Nederland, wereldwijd'* (Ministerie van Buitenlandse Zaken, 2013, p. 1), the Dutch government announced some measures in order to achieve the Topsector ambitions. In this chapter the measures which have an impact on the international agenda and which are part of the economic diplomacy of the Dutch government is discussed.

### Economic Diplomacy Embedded in the Diplomatic Network

In this new policy, the economic interest of The Netherlands and the private sector is embedded in the diplomatic network. Every Embassy has an economic department or, in the case of a smaller Embassy, an economic councillor. The economic services are extended to more products such as a *'Business Partner Scan'* (in Dutch: *'Zakenpartnerscan'*) and market reports. (Rijksdienst voor Ondernemend Nederland, 2015, p. 1) In the international agendas, the Topsectors point out which countries are priority markets for them and what they expect from the diplomatic posts. (Topsector Life Sciences & Health, 2015, p. 1) Even the buildings of the Embassies and Consulate

are used to facilitate the private sector, for example, for meetings or matchmaking programmes. (Royal Netherlands Embassy, 2016, para. 1)

### Trade Missions

The Dutch government actively organizes economic trade missions to other countries. Companies, within the Topsectors, have the possibility to join a trade mission headed by a Minister or the Royal Couple. During the mission they can follow a collective programme, join collective visits, be present during trade dinners and receive a matchmaking programme. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1) Since 2012, the Dutch cabinet has a Minister of Foreign Trade & Development Aid (VVD & PvdA, 2012, p. 14) who headed many trade missions over the years. (Rijksoverheid, 2016, para. 1)

### Development of a Strategic Travel Agenda

Since 2011, the Dutch government has developed a '*Strategic Travel Agenda*'. On this agenda all planned and intended visits of the Royal Couple, Ministers, government officials, Mayors and other regional officials are mentioned. This agenda is a rolling document and is discussed with the Topsectors on a regular basis. This instrument makes it easier for the private sector to prepare themselves for a trade mission and the government receives more relevant input for visits to countries which are important for the Topsectors. (Ministerie van Buitenlandse Zaken, 2016, p. 28)

### The Dutch Trade and Investment Board

The *Dutch Trade and Investment Board* (DTIB) is a public-private partnership in the field of international trade, export and economic diplomacy. Within this board several topics like the strategic agendas of the Topsectors, export barriers and the strategic travel agenda are discussed. All issues between the government, knowledge institutions and the private sector are discussed in this forum. (Internationaal Ondernemen, 2016, para. 1)

### Focus on Emerging Markets

Not only is there a focus on sectors in the new policy, in the international agenda there is also a focus on a country level. Specifically, emerging markets and middle income countries getting priority in the new policy. In these countries, the Dutch government and the diplomatic network play a pro-active role in supporting the private sector. (Dutch LSH Alliance, 2014, p. 14)

### Holland Branding

The Holland branding is a marketing tool developed by RVO with the objective to promote The Netherlands as a successful and trustable export partner. The government is using the same promotion for the economic events and companies can use several templates to show that they are a Dutch company. (NBTC Holland Marketing, 2016, para. 1)

### The Life Sciences & Health Sector

The Life Sciences & Health sector is one of the nine Topsectors in this policy and an important sector that has a strong international orientation. For this dissertation, the definition of the CBS (Centraal Bureau voor de Statistiek) is used to define the Topsector Life Sciences & Health. This definition is also used for the development of the Topsector policy in 2011: *“The Life sciences & health is an innovative and technology driven sector with the primary focus on the health and wealth beings of humans and animal. This sector has several subsectors like Pharma (development of pharmaceutical products and raw materials) Medical Instruments (development of medical instruments and disposables, irradiation devices and electro medical therapy, and Research (medical laboratories and biotechnology) “* (Panteia, 2013, p. 18)

For the selection of the nine Topsectors, information of the CBS from 2008 was used. In 2008, the Topsector Life Sciences & Health was responsible for 3.7% of the GDP of The Netherlands. This makes the Topsector LSH the third largest Topsector of the nine, after the Topsector HTSM (High Tech Systems & Materials) and Topsector Agro-Food. In the first *Monitor Topsectoren* (Centraal Bureau voor de Statistiek, 2012, p. 13) the Topsector Life Sciences & Health included two thousand two hundred ninety Dutch registered companies which have a total export value of €7.2 billion in 2010. The other export rates of the Topsector Life Sciences & Health are presented in the overview below. Only 22% of all the companies which are active in the Topsector LSH are exporting their products abroad. (Panteia, 2013, p. 26)

### The total export of the Dutch Life Sciences & Health sector

2010	2011	2012	2013	2014	2015
€7,156	€6,633	€6,403	€4,992	€4,729	€5,473

*x Million*

(Centraal Bureau voor de Statistiek, 2015, para. 5)

The Topsector Life Sciences & Health is actively promoting the Topsector abroad. The Topsector Life Sciences & Health has developed a special promotional toolkit. It is one of the sector specific actions which will be described in this chapter. This sector specific *Holland Branding* is called *Health~Holland* and has the main goal to promote the benefits of the Topsector Life Sciences & Health all over the world. (Health Holland, 2016, para. 1) These quotes are a selection of the fact sheet which has been developed for the toolkit:

*“The Netherlands ranks 4th worldwide in patent applications for medical technology and 9th in patent applications for biotechnology.”*

*“In 2014 the country had 82 hospitals at 276 locations of which 8 are University Medical Centres and 22 classified as hospitals, 106 private clinics and 213 independent clinics”*

*“Expertise in healthcare infrastructure is characterised by a turn-key plus approach: Dutch companies are able to cover all aspects from hospital design & engineering, financing, waste management, medical equipment etc. while paying special attention paid to energy efficiency and ‘healing environments’”*

*“The Netherlands is a global market leader in mobile health care, which enables the Dutch to contribute to rural health care in developing countries around the globe.”*

(Health Holland , 2016, para. 1)

### Conclusion

In 2010 the Dutch government has developed a new economic policy, the so-called Topsector policy. In this new policy, nine sectors are selected to gain support from the Dutch government. One of the parts of this policy, is the development of an international strategy for every sector with a strong focus on economic diplomacy. This international strategy stated clear goals to stimulate economic diplomacy for the Topsectors. The most important goals are the embedding of economic diplomacy in the diplomatic network, more trade missions that are headed by a government official and more focus on emerging markets. The Life Sciences & Health sector is one of the nine

Topsectors. With a total export value of €7.2 billion and the reputation of the best European healthcare system, the Topsector Life Sciences & Health has a huge international potential.

## The Life Sciences & Health Sector in China

### Introduction

This dissertation has the main goal to show the effects of economic diplomacy on the trade flows between countries and more specific on the export from a country to another. In order to show these effects, this dissertation has the focus on the effects on the export within a specific sector towards a specific country. The sector that is chosen for this focus is the Topsector Life Sciences & Health which is explained in the previous chapter. In this chapter the activities of the Life Sciences & Health sector in China are discussed. The Topsector Life Sciences & Health has done some activities in the field of economic diplomacy towards China. An identification of these used instruments in the period 2010 and 2015 is necessary for a good analysis in the following chapter. For that reason, the identification of these used instruments is included in this chapter.

### Chinese Business Culture

With a population of more than 1.3 billion people, the People's Republic of China is the world's biggest population and one of the most fast growing economies in the world. Over the years, China has faced an enormous increase of their economy and therefore their national wealth level. Not only is China an emerging market because of the amount of people living in the country, because of the economic growth the middle-class in China is growing fast as well. China is developing its economy from an exporters market towards a consumer market with a huge potential for foreign companies. China actively invests in its economy and tries to become a world player in the world economy. (CIA The World Factbook, 2016, para. 1) The economy is already the number two economy in the world. The Chinese economy has shown an economic growth between 7% and 13% over the past years. Also for The Netherlands, China is an important export country. The table below shows the total amount of export from The Netherlands to China. (Statline, 2016, para. 1) China is member of the World Trade Organisation since 2001 and is active involved in the BRICS group, an association of the five emerging market (**B**razil, **R**ussia, **I**ndia, **C**hina and **S**outh-Africa) formally founded in 2009. (World Trade Organisation, 2016, para. 1)

### The total export from The Netherlands to China

2010	2011	2012	2013	2014	2015
€5,391	€6,696	€7,646	€7,711	€7,920	€8,570

*x Million*

(Statline, 2016, para. 1)

China is an emerging market with huge opportunities for foreign companies. But it also has some negative aspects which makes it hard for foreign companies to do business in China. These aspects are relevant for the topic of economic diplomacy and the goal to promote export to China. Not only is it hard to be physically active on the China market because of the enormous wideness of the country and its poor logistic infrastructure. (Task Force Health Care, 2011, p. 2) Also in a cultural way it is complex to do business in China. Firstly, there is a language barrier that makes it hard to communicate with a partner which usually do not speak proper English. The main problems of doing business in China are the issues with bureaucracy, corruption, political complexity and legal issues. Therefore most of the companies consider China as a long-term prospect where the support of a government is necessary. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1)

Building a relationship with your partners is very important in doing business in China. The Chinese people even have a special word for it; *Guanxi* which defines the close relationship between people. *Guanxi* does not only mean to maintain the relationship by regular visits, bringing presents with you during appointments and showing interest in the family of your partner; it also includes an investment in the relationship by inviting them to business dinners or your own network. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1)

Another important element is business relations is the role the government can play. In China, the government has an important role in society and China is publicly dominated. Many companies are state-owned in China and therefore government support is required. This is not only for usual governmental business like in the defence industry, state-owned companies are also active in the financial world, logistics, retail and the healthcare market. (Health Counselor at the Embassy of the Netherlands, 2013, p. 5)

### Healthcare in China

China is becoming the second largest market in the world for medical technology and medicines. Over the past years, the Chinese government invests in improvements in the healthcare system because of an increasing demand from patients and the population who become more wealthier. When the middle-class in a country is growing, the demand for good healthcare facilities is also growing. On the one hand, Chinese hospitals in the first tier cities (like Beijing, Shanghai and Guangzhou) invest in more advanced Western technologies in order to increase the quality of care. On the other hand, the hospitals and healthcare facilities in second (Tianjin, Suzhou and Zhuhai) and third tier cities invest in the quantity of care and try to make healthcare accessible for more

Chinese people by building more hospitals. (Health Counselor at the Embassy of the Netherlands, 2013, p. 9)

Because of new healthcare reforms in 2009 and 2014, the healthcare expenditures of the government increase to 5.1% of the GDP in 2011 and 6.7% in 2015. These number makes China the fastest growing medical technology market in the world and a very interesting market for Dutch businesses in the Topsector Life Sciences & Health. (Task Force Health Care, 2011, p. 2) The total export of the Dutch Life Sciences & Health sector to China is presented in the table below. The healthcare market in China is publicly dominated. Most of the hospitals in China are publicly owned. Since the reforms of 2009 and 2015 it is slowly possible for private (domestic) investors to found new privately owned hospitals. All hospitals or medical facilities are controlled by the Health and Family Planning Commission. (Royal Netherlands Embassy, 2013) The National Health and Family Planning Commission is the counter partner of the Dutch Ministry of Health, Welfare & Sports. In most cases, the hospitals are controlled by the provincial (e.g. the Sichuan Health and Family Planning Commission) and local health and family planning commission. All business that is done with hospitals, is approved by a Health and Family Planning Commission on one of the three levels. In every case that a foreign company want to do business with a Chinese hospital, it should deal with the Chinese (national, provincial and local) government. (Health Counselor at the Embassy of the Netherlands, 2013, p. 13)

#### The total export of the Dutch Topsector Life Sciences & Health to China

2010	2011	2012	2013	2014	2015
-	€316	€455	€568	€544	€824

*x Million*

(Statline, 2016, para. 1)

#### Life Sciences & Health Economic Diplomacy to China

Given the fact that the Chinese government is strongly involved in the Life Sciences & Health sector in China and that the Chinese culture is demanding government involvement as well from his counterparts, the Dutch government and the Topsector LSH in its place is supporting Dutch entrepreneurs in the Topsector LSH with doing business in China and getting market entrance. Over the years, several instruments are used to promote export to China in the LSH sector. This paragraph gives an overview over these instruments and activities, structured in the framework of instruments of economic diplomacy which is discussed in chapter two.

### Foreign service & representation

The Kingdom of The Netherlands has its Embassy based in the capitol of China; Beijing. Besides the Embassy, The Netherlands has four Consulates based in Shanghai, Guangzhou, Chongqing and Hong Kong. For special economic support, the Dutch government founded the NBSO's (Netherlands Business Support Office) in economic important regions in emerging countries like China. In China there are six NBSO's located in Chengdu, Dalian, Nanjing, Jihan, Qingdao and Wuhan. (Royal Netherlands Embassy, 2016, para. 1)

In the period between 2010 and 2015 three new diplomatic posts are opened in China. The highest diplomatic representative in hierarchy, a Consulate, is opened in the city of Chongqing in 2013. Chongqing is one of the five sovereign city-provinces in China and estimated as the fast growing economic metropolises in the world. Besides that, the Dutch government opened a Consulate in this economically important city, two new NBSO's are opened in 2012. One NBSO is opened in Qingdao, the other in Chengdu. Qingdao is relevant because of the fifth largest harbour in the world and its marine industry. Chengdu is, located near to Chongqing in the same province Sichuan, the most important city in West-China (Royal Netherlands Embassy, 2016, para. 1)

One of the goals of the general Topsector policy was to embed economic diplomacy and economic support more in to the diplomatic network. In the case of the diplomatic network in China, this goal is pursued by implementing four actions.

In 2014 the Dutch Ministry of Foreign Affairs and the Ministry of Economic Affairs combined launched the idea of Innovation Attachés. The IA-Network (Innovation Attaché Network, part of the Dutch Ministry of Economic Affairs) is based on diplomatic posts in economic important countries all over the world and they support the Dutch Topsectors in their international R&D and innovation ambitions. Their aim is to strengthening the cooperation between Dutch companies, research & knowledge institutions and universities and foreign partners in the field of technology, knowledge's and research projects. The Innovation Attachés have four main tasks. They are a liaison for international R&D cooperation, they are trend watchers for technological opportunities for the Dutch industry, they should inform Dutch companies with publications and seminars about trends and developments and they support individual companies with knowledge driven investments or R&D-projects. There are Innovation Attaché in eighteen countries in the world and

four in China (One in Beijing & Guangzhou. Two of them are based in Shanghai) (Rijksdienst voor Ondernemend Nederland, 2016, Innovatie Attaché Netwerk)

Not only the Dutch Ministry of Economic Affairs is involved in economic diplomacy or economic support for companies, the Dutch Ministry of Health, Welfare and Sports has also representatives in the diplomatic networks. This Ministry has five representative abroad; Two as representatives at the European Union, one as repetitive at the World Health Organisation (WHO), one in Washington and one in Beijing in the Dutch Embassy. These so-called Health Counsellors (in Dutch: VWS Attaché) inform, advise and facilitate the Dutch government in the field of Health, Welfare and Sport. (Ministerie van Volksgezondheid, Welzijn & Sport, 2011, p. 2) Since 2012, the Health Counsellor in China also has an economic responsibility by supporting companies in the Life Sciences & Health sector. This is been called *Support Plus* (in Dutch: 'Ondersteuning Plus') in the services in the direction of Dutch companies. (MKB Servicedesk, 2016, para. 1)

As mentioned in chapter two, information is a crucial informal trade barrier and relevant for the international strategy of entrepreneurs. One of the instruments a government can use for economic diplomacy and economic support of companies is providing information about specific markets or doing business in a certain country. The diplomatic network plays a role in providing this information. Also the Dutch representation is active in providing market information towards companies. The diplomatic network produce several market reports and market studies for all the nine Topsectors. The Dutch Embassy, Consulates and NBSO's in China produced six market reports for Dutch businesses in the period between 2010 and 2015.

<i>Date</i>	<i>Name of publication</i>
2011	<i>Marktkansen in China voor de medisch-technologische sector</i>
2013	<i>China - Topsector Life Sciences - Opportunities for Dutch companies</i>
2015	<i>Guangdong - Medische Sector - Kansen voor Nederlandse bedrijven</i>
2015	<i>Sector Life Sciences and Health Care in Jiangsu Province</i>
2015	<i>Medtech overview in China</i>
2016	<i>China Health</i>

(Task Force Health Care, 2011, p. 1)

(Health Counselor at the Embassy of the Netherlands, 2013, p. 1)

(Consulaat Generaal van het Koninkrijk der Nederlanden in Guangzhou, 2015, p. 1)

(NBSO Nanjing, 2015, p. 1)

(Innovatie Attaché Shanghai, 2015, p. 1)

(Rijksdienst voor Ondernemend Nederland, 2016, p. 1)

The Dutch government is not only supporting Dutch companies with the supply of information, the government also offer special economic services towards individual companies. One of the most popular instruments that the Dutch government uses, is the *Business Partner Scan* (in Dutch: *Zakenpartnerscan*) This *Business Partner Scan* provides an overview of potential business partners including contact details in a specific country in a specific market. When an individual company applies for a *Business Partner Scan*, the diplomatic post in China is looking for potential business partners in that specific market segment. This partners can be potential end users, costumers, agents or distributors. The diplomatic employee will arrange a personal introduction with these potential business partners. The cost for a *Business Partner Scan* is €500 (Rijksdienst voor Ondernemend Nederland, 2015, para. 1)

Besides these four concrete measures for embedding economic diplomacy more into the diplomatic network, the diplomatic posts are always open for general support in doing business. On the Embassy in Beijing, there is a economic department that answers individual questions or give advice to companies. In general, the diplomatic posts are supportive toward Dutch companies. Some of the Consulates or NBSO's even want to literally open their doors for Dutch companies by opening their offices for economic events, meetings of trade dinners. (Royal Netherlands Embassy, 2016, para. 1)

#### Bilateral visits

One of the priorities in the Topsector policy is that there will be trade missions led by members of the Dutch government. Two years after the launch of the Topsector policy, the new cabinet Rutte II fortified this ambition by the appointment of a special Minister of Foreign Trade & Development Corporation in the person of Ms. Ploumen. (VVD & PvdA, 2012) According to the Dutch government, the presence of a Minister opens doors for companies to new contacts. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1)

Participation of companies to a trade mission have several benefits. They can use the trade mission for meetings with potential business partners and therefore enlarge their international network. By joining a trade mission, companies get new market information and the possibility to increase the brand awareness of their product in the foreign market. Another benefit of these trade missions

is that companies can meet other Dutch entrepreneurs who are active in the same country and share their experience and knowledge about doing business in that specific country. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1)

The Rijksdienst voor Ondernemend Nederland (RVO) is responsible for the organisation of trade missions that are led by a Dutch Minister. Dutch entrepreneurs have the possibility to join the Minister in a trade mission to a certain country. The programme of the trade mission consists of several aspects. An important programme part is the matchmaking programme. During the matchmaking, participants of the trade mission have individual meetings with potential business partners and customers, in advanced arranged by the Embassy. Besides the individual meetings, the programme also included collective visit, workshops or seminars. This part is mostly focus on gathering new market information and get informed of new trends and developments. Another important part of the programme of a trade mission are the formal trade dinners or networking receptions which are hosted by the officials . Entrepreneurs have the opportunity to bring their business relations as special guests to the dinner. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1)

The international section of the Topsector policy also stated the action to focus more on emerging markets. Like described in this chapter, China is an emerging market with huge business potential for Dutch companies. The economic relationship with China is important and China is a focus country for the Dutch Ministry of Foreign Affairs. The most remarkable highlight of this, is the decision of the Minister of Foreign Trade & Development Corporation Ms. Ploumen in 2014 to have at least one trade mission every year to China. (NU.nl, 2014, para. 1)

Not only the Minister of Foreign Trade & Development Corporation is leading trade missions to China. The Dutch Ministry of Health, Welfare & Sports stated in 2011 that they want to support Dutch businesses within the Life Sciences & Health sector in their international ambitions to China. Over the years, several health officials led trade missions to China such as Minister Schippers in 2013 and Vice Minister Van Rijn in 2015. (Ministerie van Buitenlandse Zaken, 2016, p. 1)

*Overview over bilateral visits to China from 2010 until 2015*

*In this overview is only the activities which are relevant for the Life Sciences & Health are included in this overview.*

<i>Date</i>	<i>Activity</i>	<i>Participants*</i>
<i>2011 (9 Dec)</i>	<i>Incoming visit from the region Jiaozuo</i>	<i>8</i>
<i>2012 (4 – 8 Jun)</i>	<i>Trade mission to China (Beijing &amp; Shanghai)</i>	<i>6</i>
<i>2013 (9 – 13 Sep)</i>	<i>Trade mission to China led by Minister Schippers (Beijing &amp; Chengdu)</i>	<i>25</i>
<i>2014 (22 – 26 Mar)</i>	<i>Trade mission to China led by Deputy Minister Van Halder (Beijing &amp; Shanghai)</i>	<i>19</i>
<i>2014 (17 Sep)</i>	<i>Incoming visit from the region Beijing</i>	<i>7</i>
<i>2014 (26 – 31 Oct)</i>	<i>Trade mission to China led by Minister Ploumen &amp; Director General (Ministry of Health, Welfare &amp; Sports) Van den Dungen (Beijing, Shanghai &amp; Chengdu)</i>	<i>13</i>
<i>2015 (3 – 7 Jun)</i>	<i>Trade mission to China led by Prime Minister Rutte (Beijing &amp; Shanghai)</i>	<i>15</i>
<i>2015 (9 – 10 Jul)</i>	<i>Incoming visit from the region Chengdu</i>	<i>8</i>
<i>2015 (25 – 29 Oct)</i>	<i>State visit by the Royal Couple &amp; trade mission led by Vice Minister Van Rijn (Beijing, Shanghai &amp; Guangzhou)</i>	<i>25</i>
<i>2015 (8 – 12 Nov)</i>	<i>Incoming visit from the region Hong Kong</i>	<i>8</i>

*\* Amount of companies active in the Life Sciences & Health sector who joined the trade mission*

### Export promotion

Export promotion are all the activities that take place in the exporting country and that supports companies collectively. The main activities within export promotion are focussed on collective groups or on the industry as a whole. Also the organisation of corporation between public and private partners within economic diplomacy is part of the element. In the new Topsector policy three actions are mentioned which can be seen as part of the element export promotion. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1)

An importing factor of the Topsector policy is that there will be a focus on specific countries. The Dutch entrepreneurs should benefit more from the economic opportunities in emerging market. For that reason China has become a focus country within the Topsector policy. This has the result that for all the ministries China will be a focus country. Also the Ministry of Health, Welfare & Sports

has put China on the international agenda. (Ministerie van Volksgezondheid, Welzijn & Sport, 2011, p. 1) (Ministerie van Volksgezondheid, Welzijn & Sport, 2015, p. 1) In 2015 the Topsector Life Sciences & Health presented their international agenda in the paper *Strategie Internationale Topsector Life Sciences & Health*. (Topsector Life Sciences & Health, 2015, p. 1) In this international agenda, three countries are mentioned as top priority for the Topsector LSH. Beside the USA and Kenya, China is the third focus country for the Topsector LSH as an emerging market. This announcement as focus country for the Topsector LSH will lead to more (funding for) activities for export promotion to China.

The Dutch government is promoting The Netherlands in general and as business partner more specific with a special *Holland Branding*. This is a marketing branding for all exposure or promotional activities abroad. Not only uses the Dutch government and the diplomatic posts all over the world the same branding for their marketing, the use of this *Holland Branding* toolkit is also open for private parties and individual companies. (NBTC Holland Marketing, 2016, para. 1) In 2014 the Topsector Life Sciences & Health launched their own international branding, specifically for the healthcare activities. This *Health~Holland* brand toolkit is not only a marketing tool, it also includes information about the healthcare sector in The Netherlands and proof stories of successful Dutch companies in the LSH sector. This *Health~Holland* toolkit is also available in Chinese. (Health Holland, 2016, para. 1)

### Conclusion

The People's Republic of China is, with a population of more than 1.3 billion people, the world's biggest country and one of the most fast growing economies worldwide. With an economic growth between the 7% and 13% each year, China is an emerging market with huge opportunities for foreign companies. Unfortunately, it also has some down sides that makes it hard for foreign entrepreneurs to do business in China. This same balance is also the case for the Life Sciences & Health sector. The healthcare market is the fastest growing medical market in the world. On the other hand, the healthcare market in China is dominated by the Chinese government or public institution what makes it hard for foreign companies to enter the market without support of the Dutch government. For that reason the Dutch government is active in their economic diplomacy. The diplomatic network expanded with a new Consulate in Chongqing and it published six market reports for the Life Sciences & Health market in China. In six years more than ten bilateral visits took place and one hundred and thirty four companies joined a combined trade mission. The

highlight was the official State Visit of the Dutch King and Queen in 2015. In the field of export promotion a special marketing toolkit for the Life Sciences & Health sector is developed in Chinese.

## Discussion

### Introduction

This last chapter is about the effects of all the instruments that the Dutch government has used within the framework of economic diplomacy in order to promote the export of companies in the Life Sciences & Health sector to China between 2010 and 2015. In fact, this chapter answers the central research question about the effect of economic diplomacy on the export of LSH companies towards China between 2010 and 2015. These effects are shown on two levels. The macro level is about the numbers of the export rate. This is the most abstract effect which can be occur. A meso analysis is done in this chapter to focus more on the used instruments in combination the literature. The findings from other chapters are used to be discussed in this chapter.

### Macro level

For this macro analysis, the main results are the general export rates (of the LSH sector and to China) which have been measured by the CBS over the years. All of these numbers are available for the period between 2010 and 2015 with exception of the specific Life Sciences & Health numbers to China in the year 2010. Because of the used research method of the CBS, this number is not available. (Statline, 2016, para. 1) In this macro analysis, four types of numbers are relevant.

First of all, the numbers of the total export of The Netherlands are relevant for the right context. These numbers give a good framework for the discussion of the other information more specific on LSH and China. In this period, the total export of The Netherlands increased with 14.5% from €371 billion in 2010 to €425 billion in 2015. This trend shows a positive development of the general export in the researched period. (Centraal Bureau voor de Statistiek, 2015, para. 15) (The World Bank, 2016, para. 1)

The second relevant number is the total amount of export towards China. Fluctuations in this general trade flow to China are relevant for the results of the more LSH-specific export numbers. The trade flow towards China has grown enormous with more than 58 % from €5.4 billion in 2010 to €8.6 billion in 2015. (Statline, 2016, para. 1) This enormous growth have a relation with the reduction of the trade barriers, according to the Gravity Model of Tinbergen. The bigger the economic volume the country is, the more important the market is for exporter. Just like gravity, it is also that the more far away a country is, the trade flow is less because of trade barriers. According to this Gravity Model, an economic growth of more than 58% could point to a reduction of the trade barriers because the Chinese economy is not grown that fast in this period (the economic

volume is not equally increased) (Tinbergen, 1962, p. 19) It is not possible to make a correlation between the reduction of trade barriers and the efforts of economic diplomacy.

A third important number is the value of the total export of the Life Sciences & Health sector. This dissertation is specifically focussed on the export results of the Topsector Life Sciences & Health to China. For the right context, the development of the total export flow of the Topsector Life Sciences & Health is relevant. These numbers show an interesting trend. The total export of the Topsector Life Sciences & Health decreased in the period 2010 – 2015 from €7.2 billion to €5.5 billion, a downturn of 24%. A note for further research on this result is that the CBS has changed the subdivision in 2013, the year with the biggest downturn in the numbers. (Centraal Bureau voor de Statistiek, 2015, para. 1)

The last numbers which are important in this macro analysis is the total export of the Life Sciences & Health sector to China. This is the most concrete number in this macro analysis. Because of the research method of the CBS, the first year (2010) of these numbers is not available. In contrast to the decrease of the total LSH export, the LSH export to China increased enormous with 160% In 2011 the LSH-sector has exported €0.3 billion. In 2015 this export flow has grown up to €0.8 billion. (Statline, 2016, para. 1)

Like Van Bergeijk discussed in this book *Economic Diplomacy and the Geography of International Trade*, it is hard to find empirical relations between economic diplomacy and the increase/decrease of a trade flow. (Van Bergeijk, 2009, p. 3) On a macro level with the use of hard numbers like this export rates, it is simply not possible to vouch an empirical correlation. This correlation is only possible with more strict measures within economic diplomacy or trade policy like economic sanctions or military conflicts. Concerning the effects of commercial policy, the gravity model of Tinbergen can give some directions to the results like presented above.

According the Gravity Model, two elements are relevant for measuring economic trade flows; economic mass of a country and the distance between an exporting country and the importing country. (Tinbergen, 1962, p. 23) In the case of China, its economic mass is increased in this years as well as the Dutch LSH-export flow to China. The general economic growth of the GDP of China between 2010 and 2014 is increased with 72%. (Trade Economics, 2016, para. 1) The differences between the general economic growth of China (+72%) and the LSH export flow to China (+160%) indicates that the growth of the economic mass of China is not completely responsible for the

increase of this export flow. That brings up the other component of the gravity model; the geographic and cultural distance between countries. Given the fact that the geographic distance between The Netherlands and China isn't changed, the conclusion could be that the cultural distance between China and The Netherlands, is decreased. In his gravity model Tinbergen describes this cultural distances with examples of the formal and informal trade barriers.

This gravity model is used to give an indication of the situation, not to formulate a hard conclusion or correlation. There are plenty of other arguments or relevant factors which have an effect on the export rates. For example, for the general export flow the fluctuations of the currency or economic reforms are also influencing factors. For the Life Sciences & Health the healthcare reforms in China or regulatory restrictions are relevant factors for their export towards China. After all this macro analysis just gives an indication of what effects could be, based on the relevant models and literature, and no hard conclusions of correlation between economic diplomacy and the growth of the export of the Life Sciences & Health sector to China.

#### Meso level

It is not possible to express the effects of economic diplomacy or economic policy only into hard numbers. For a good analysis, a meso analysis of the several policy instruments is necessary. In this paragraph the results of the three instruments of economic diplomacy, foreign service & representation, bilateral visits and export promotion, which are used in order to stimulate the export of Life Sciences & Health companies towards China are discussed.

Within economic diplomacy the foreign services & representation plays an important role. The efforts of the diplomatic network have several effects on the export of Life Sciences & Health companies to China.

First of all, with the current diplomatic representation The Netherlands indicates the diplomatic, political and economic importance of China and shows that they are willing to invest in the bilateral relations. With one Embassy, four Consulates and six NBSO's or Trade Representations, the most diplomatic posts of The Netherlands are in China. (Royal Netherlands Embassy, 2016, para. 1) Because of the presence of six trade representations China has more posts than another economic important partner of The Netherlands; The United States of America. (one Embassy, four Consulates and five Trade Representations) (Ministerie van Buitenlandse Zaken, 2014, p. 1) This is an important diplomatic signal given to the Chinese government by opening the Consulate in

Chongqing in 2013. Compared to other equal sized European countries, The Netherlands invest way more in the political and economic relation with China. For example, Denmark has only three Consulates and just one Trade Representation. (Danish Representations in China, 2016, para. 1) With this high presence of diplomatic and economic posts, the Dutch governments gives an important messages to China where public involvement is crucial when a company want to be active in the healthcare market.

The presence of a Consulate or Trade Representation is not only important for the political signal or governmental support in doing business. In 2007 Mr. Rose researched the effects of diplomatic posts on the bilateral export in his publication *The Foreign Service and Foreign Trade; The Embassies as Export Promotion*. (Rose, 2007, p. 18) The conclusion of this research is that the bilateral export is increasing with 6% to 10% with each additional Consulate or diplomatic post. The Kingdom of The Netherlands opened a new Consulate in Chongqing in 2013 and two Trade Representations in Qingdao and Chengdu in 2013. (Royal Netherlands Embassy, 2016, para. 1) According to the research of Rose, the opening of these three diplomatic posts should have a positive effect on the bilateral trade.

The most important goal of the Topsector policy was to embed economic diplomacy into the diplomatic network. With this policy the Dutch government wanted to reform the Embassies and Consulates from organisations with a primary focus on diplomatic support and political diplomacy towards organisations which are actively involved in the economic traffics between countries. They should be reformed to organisations which are conducive for economic support and with a (primary) focus on economic diplomacy.

Based on the measures of the years, this goal of economic embedding succeeded. First of all, economic support towards individual companies is on the agenda of the diplomats nowadays. The Embassies and Consulates are open for economic services, like the *Business Partner Scan*. (Rijksdienst voor Ondernemend Nederland, 2015, p. 1) In emerging markets like China *Innovation Attachés*, special economic servants, are active since 2014. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1) For the Life Sciences & Health sector in China is a special *Health Counsellor* from the Ministry of Health, Welfare & Sports active in supporting Dutch companies. This economic diplomacy for China from the international department of the Ministry of Health, Welfare & Sports is pledged in 2011. (Ministerie van Volksgezondheid, Welzijn & Sport, 2011, p. 1) This support from the Ministry of Health, Welfare & Sports for economic purposes has shown its

results with a first Life Sciences & Health market report written by the *Health Counsellor* in 2013 and the support within other activities focussed on the Life Sciences & Health sector in China. (Health Counselor at the Embassy of the Netherlands, 2013, p. 7) Last but not least, the diplomatic network produced six healthcare market reports between 2010 and 2015. With these market reports the fulfil the information needs from companies who want to do business in the Life Sciences & Health sector in China.

One on the goals of the international agenda of the Topsector policy was an active use trade missions and bilateral visits to promote export and support Dutch entrepreneurs in doing business abroad. Most of these trade missions are be headed by a member of cabinet or high government official. In the period from 2010 until 2015 ten bilateral visits were organised. In total one hundred and thirty four companies who are active in the Life Sciences & Health sector participated in one of these trade missions. (Ministerie van Buitenlandse Zaken, 2016, p. 1) The effects of bilateral visits can be divided into two categories; individual effects and collective effects.

Many individual companies have benefit of the participation of trade missions. In a research in 2010 75% of the companies who participated in a trade mission was positive about the contribution of a trade mission. One out of five companies said that they even had direct business as a direct result of the trade mission. This information is based on the answers of companies who joined trade missions. (Heuts & Poel, 2010, p. 10) What can be seen as an effect of economic diplomacy is that one hundred and thirty four companies within the Life Sciences & Health sector joined the trade mission to China. All these companies have received an individual matchmaking programme which means that they all have met new potential partners in the healthcare market in China. They had the possibility to join collective visits to Chinese hospitals or governmental organisations which was not possible without the support of the Dutch government. (Rijksdienst voor Ondernemend Nederland, 2016, para. 1) That fact that it was possible to be pay these visits to governmental institutions can be seen as an effect of the economic diplomacy.

Besides the individual effects for companies, these bilateral visits also have a collective effect for The Netherlands as a whole. Because of the amount and level of visits, The Netherlands shown that China is an important partner for The Netherlands and that the government is willing to invest in the relationship. In a country where the public dominance is high like in China, this is relevant for Dutch businesses. In general The Netherlands shown the importance of the bilateral relationship by the amount of visits. Every year one or more officials have visited China including the Prime

Minister of The Netherlands Mr. Rutte in 2015. (NOS, 2015, para. 1) In the same year, there even was an official State Visit by King Willem-Alexander and Queen Maxima to China. The fact that the Royal Couple payed an official state visit to China in one of their first years that they are King and Queen indicates the importance of the relationship between The Netherlands and China. (Koninklijk huis, 2016, para. 1) The Chinese gave the same signal by the decision to lease a pair of pandas to a Dutch zoo. In the Chinese diplomatic tradition this is one of the highest appreciations to another country. (NRC Handelsblad, 2015, para. 1)

The last element of economic diplomacy is the export promotion, the general promotion of The Netherlands as a reliable business partner. One of the results of the economic diplomacy policy is that the Dutch government have developed a *Holland Branding*; a collective marketing toolkit that all companies or export related organisations can use. (NBTC Holland Marketing, 2016, para. 1) Also in the Life Sciences & Health export promotion was an important element of the international agenda. The Dutch healthcare system is ranked for the fourth time as the best healthcare system in the European Union. (Ministerie van Buitenlandse Zaken, 2016, p. 45) This is one of the achievements that the Topsector Life Sciences & Health would tell in other countries in order to make The Netherlands more attractive to do business with. For this goal the Topsector Life Sciences & Health has developed a collective branding for international use. This *Health~Holland Branding* is telling the success stories of the Dutch Life Sciences & Health sector. This branding is translated in Chinese and is actively used since November 2014. (Health Holland, 2016, para. 1)

## Conclusion

In this chapter a macro-level analysis is done based on the export rates of the Life Sciences & Health sector to China. The gravity model is used to put these export numbers in the right context and to illustrate a correlative relationship. The same is done on a meso-level. The literature and the founded results are combined in an analysis of the effects of the used instruments.

## Conclusions

In this dissertation some steps are taken in order to answer the central research question which concerns the effects of economic diplomacy on the export of Life Sciences & Health companies to China in the period between 2010 and 2015.

## Step by step

In the first chapter, the definition of economic diplomacy was given. Economic diplomacy is a kind of diplomacy where a government is active in the influencing economic elements like export order to achieve economic purposes. Export has a positive effect on the economy and for that reasons governments develop policies to stimulate export. This chapter discuss the theoretic model of Tinbergen. This gravity model which is based on economic mass and distance between countries, indicates the bilateral export and trade flows.

The second chapter is about the role of export within economic diplomacy and explains what a government can do to stimulate export. Especially support from the government in the field of information, trade barriers and government requirements is important for entrepreneurs who want to do business abroad. Governments have three instruments they can use in order to stimulate export. States can make use of the diplomatic network that they have in other countries, they could pay bilateral visits or develop activities in the field of export promotion.

In the third chapter, the Dutch Topsector policy is described and discussed. This Topsector policy has selected nine sectors in The Netherlands which gets extra support by the Dutch government. Also economic diplomacy is part of this Topsector-policy. Within the international part of the Topsector policy, the most important goals are the embedding of economic diplomacy in the diplomatic network, more trade missions which are headed by a government official and more focus on emerging markets. One of the nine Topsectors is the Topsector Life Sciences & Health. In this chapter the Topsector Life Sciences & Health is explained by some achievements of the sector. The focus of the dissertation is on the economic diplomacy to China.

In the fourth chapter the economic situation in China is described. With an economic growth between the 7% and 13% each year China is an emerging market with huge opportunities for foreign companies. Also the Life Sciences & Health sector is booming in China. At this moment China is the fastest growing medical market in the world. All the activities that the Dutch

government has organised in China over the years in order to stimulate the export of Life Sciences & Health companies to China are also discussed in this chapter.

In the last chapter a macro-level analysis is done on two different levels to discuss possible conclusions. The gravity model is used to illustrate a correlative relationship between the economic diplomacy activities and the fluctuations of export rates on a macro-level. Also the activities are separately discussed on a more meso-level. The literature and the founded results are combined in an analysis of the effects of the used instruments.

### Main conclusions

Based on the macro-level analysis the following conclusions can be drawn. Not only is the export of Life Sciences & Health companies to China grown with 160% between 2011 and 2015, the sector specific export is also grown more than that the economic mass of China has grown. According to the gravity model this indicates that the cultural and economic distance between The Netherlands and China in the field of Life Sciences & Health is reduced.

The fact that the export of Life Sciences & Health companies towards China is grown, is also remarkable given the fact that the total value of export of the Life Sciences & Health sector has turned down with 24% between 2010 and 2015. This trend was not applicable for the Chinese Life Sciences & Health market.

On a meso-level the conclusion are more related to the used instruments over the years. When the focus is on the Dutch diplomatic network in China, it is possible to say that economic diplomacy is embedded in to the network. With special economic Innovation Attachés and even a Health Counsellor special for the Life Sciences & Health sector, the diplomats are active in the field of economic support. They have produces several market reports for Dutch governments and literally open the doors for economic events.

Not only on the level of the individual diplomats economic diplomacy is embedded, also the general diplomatic policy is focussed on economic interests. The diplomatic network in China is extended with a Consulate in Chongqing, an economic important region. Also two new Trade Representations in Chengdu and Qingdao opened there doors in the researched years. According to the theory of Rose this should have an effect on the bilateral trade flow.

The Dutch government has invested a lot in the bilateral relationship between The Netherlands and China. The frequency of the bilateral visits from government officials indicates the importance of the relationship. Every year there will be a trade mission to China headed by a member of the Dutch government. The highlight of the researched years was the State Visit of the Dutch King and Queen in 2015. Parallel of this State Visit the Vice Minister of Health, Welfare & Sports led a trade mission of Dutch Life Sciences & Health companies. The pandas that were given as a token of appreciation by the Chinese government shows that the investment in the relationship is successful.

#### Future research

The effects and results of the individual instruments that have been used could be measured on a micro-level. In the end individual companies benefit from the economic diplomacy and all the economic activities that have been organised. Case studies of companies who participated in trade missions gives a valuable insight in the specific results of economic diplomacy.

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