

To the President of the House of Representatives
of the States General
Binnenhof 4
The Hague

Date 9 September 2019

Re Response to the AIV advisory report on 'China and the Strategic Tasks for the Netherlands in Europe'

Dear Madam President,

This letter presents the government's response to the Advisory Council on International Affairs' advisory report no. 111, 'China and the Strategic Tasks for the Netherlands in Europe'.

The government would first of all like to express its appreciation for the AIV's well thought-out analysis and recommendations regarding the European dimension of the Netherlands' China policy. The government views the report as a valuable addition to its recent policy document 'The Netherlands & China: A New Balance' and 'The State of the Union 2019'. It responds below to the report in general and specifically discusses each of its 10 recommendations.

The awareness that the European Union is of vital importance to the Netherlands in our relations with China, as the government's policy document also makes clear, was one of the factors that prompted the government to ask the AIV to consider a number of specific questions concerning the pursuit of Dutch interests within the Union. The AIV report gives a clear picture of the parameters of the space that the government would like to explore for this purpose in the coming years. Taken together, the government's policy document and the AIV report lay a solid foundation for the Netherlands' perspective for strategic action in Europe.

First and foremost, as the government's policy document had previously stated and the AIV confirms, making the policy decisions facing the Netherlands and the EU requires a comprehensive view of European welfare and values. This is necessary in order to 'be open where possible' and 'protect where necessary'. This comprehensive view should take further shape in the course of the new European Parliament's term of office (2019-2024).

The report's structure and methodology make it valuable and worth reading. The central questions formulated by the AIV concerning Europe's strategic tasks, and its discussion of 10 member states' bilateral relations with China and the issues on which member states disagree, are exceptionally useful as a guide to China-related questions that might confront the Netherlands in the near future.

It is crucial for the EU to arrive at forceful, united responses to geopolitical challenges, which need to be viewed as a coherent whole. The AIV rightly states that the relationship between the EU and China cannot be understood independently of the relationship between the US and China. The AIV's extensive discussion of these two relationships is therefore useful.

The government would like to respond specifically to the AIV's 10 recommendations.

Five recommendations on acting more strategically in respect of China:

- 1. Develop forums within the EU for the assessment of economic, value-related and security interests that China's rise demands, in the appropriate locations; if this is not successful, take the initiative as a last resort to set up a strategic forum with like-minded member states outside the framework of the EU.*

In its China policy document, the government advocates an integrated vision and approach. Bodies are also needed in Brussels to conduct assessments for this purpose. These bodies exist: working parties, committees, different configurations of the Council of the European Union, and the European Council. The challenge here is to better link various related issues and better coordinate the meetings of the different bodies.

The government would welcome steps to put China on the agenda of the European Council more

often, and enhance the organisation of the work within the European Commission, as the AIV recommends. The AIV suggests that a cluster for economic affairs and security could be created within the European Commission, and a Council for Economic Affairs and Security could be added as a new Council configuration. At national level the government has felt a need to more explicitly assess economic and security-related factors, and to that end it has established a new governance structure, including a ministerial committee on economy and security whose meetings are prepared by a group of civil servants. Our experience with this structure could be helpful in discussions at European level. Both the advantages and disadvantages of a new Council configuration (in addition to existing configurations such as the Foreign Affairs Council (FAC), Justice and Home Affairs Council (JHA) and Transport, Telecommunications and Energy Council (TTE)) should be further considered in these discussions. The preparation of European Council meetings in the General Affairs Council (GAC) makes the GAC another appropriate body to coordinate issues involving economic affairs and security.

As a last resort, if the strategic discussion on the EU and China does not prove possible, the AIV recommends setting up a strategic forum with like-minded countries outside the structures of the Union. The government shares the AIV's view that EU unity is of great importance for effective and decisive EU action in respect of China. The government also stated in its China policy document that if a common EU position cannot be reached, the Netherlands will seek to take steps with a leading group of EU member states. Our ultimate goal, however, is to embed these discussions in EU structures.

- 2. Advocate an update of the EU China strategy (2016) that expresses the wishes and demands of the member states in strategic terms of 'red lines' and potential forms of leverage; also advocate the establishment of a knowledge network on China within the new European Commission.*

The EU's China strategy (2016) is the basis of the Dutch government's China policy. Since the strategy was issued, however, the EU has become more realistic and more assertive. This can be seen for example in the Joint Communication issued this past March, 'EU-China – A Strategic Outlook', which formulates a number of planned actions and basic premises of future EU policy on China, thereby furthering refining the EU's China strategy. In line with this Communication, the government agrees with the AIV that more discussion and clearer decisions are needed in the EU about what is essential to the Union and what we need to protect, and that red lines and potential leverage should be identified.

As the AIV also states, the government notes in its China policy document that more expertise on China is needed and that a Dutch knowledge network will be set up for that purpose. The government agrees with the AIV that knowledge acquisition should be a concern at European level as well. It makes sense to set up exchanges between a Dutch knowledge network and similar European initiatives. The project planner who will be setting up the Dutch knowledge network will consider practical possibilities for doing this. We expect that such exchanges will be of interest to many member states.

- 3. Acknowledge that economic and technological 'decoupling' of the three great trading blocs (the US, Europe and China) for specific products and for security policy reasons can be advocated, but also entails strategic risks, given that economic interdependence can have a mitigating impact on global conflicts.*

The AIV recommends acknowledging the strategic significance in this multipolar world of economic interdependence between the powers (the three major trading blocs: America, China and Europe), as such mutual commercial ties can have a mitigating impact on conflict. However, the AIV observes, this effect is contingent on the dependence being reciprocal. In its approach to economic security, the government has taken additional measures to manage national security risks.¹ At the same time, the government recognises the political and strategic importance of economic interdependence. It is no accident that the Netherlands strives for economic cooperation with China and promotes trade, on the basis of shared interests. These interests include climate change and renewable energy, the SDGs, combating epidemics, the circular economy and sustainability, care for older people, agriculture/food and logistics/transport. These efforts will be backed up by, for example, high-level political visits. In each specific case, a balance must be struck between

¹ Letter to parliament 30821 no. 72, 'Tegengaan statelijke dreigingen' (Countering state-based threats), 18 April 2019.

openness and cooperation on the one hand and protection on the other. The government seeks to be open where possible and protective where necessary. It acknowledges in this connection the importance of reciprocal interdependence. The EU's efforts to conclude an investment agreement with China should also be seen in this light, with their focus on gaining access to each other's markets, including public procurement markets, on a basis of reciprocity and transparency (see section 1.3.1 of the policy document on China).

4. *Participate in initiatives taken by large EU member states for united action in respect of China and/or encourage EU representatives to participate in such initiatives.*

The government pursues a cohesive and forceful EU stance with respect to China. If joint action does not prove possible on major issues, the Netherlands will form a leading group of EU member states that nevertheless can take joint steps. This leading group may well include large member states, but we always aim to enlist as many smaller states as possible. The government recognises that the Netherlands can be a driving force in such initiatives where this is expedient. The AIV concludes that there is an undeniable tendency towards European unity regarding China. The government agrees with the AIV that this is the case on certain issues; a European framework for cooperation on investment screening was inconceivable until recently, for instance. The EU also has a bilateral cyber dialogue with China, where discussions take place on the application of norms in cyberspace. The tendency towards unity is not apparent in all areas, however; the government sees no such trend in the area of human rights, for example.

5. *Increase Europe's potential leverage with respect to China (market access, technology, legitimacy, and political and economic influence), starting with what the Netherlands itself can do by, for example, investing more in technology.*

The AIV's recommendation to strengthen the EU's potential leverage vis-à-vis China is generally in line with the efforts of the Dutch government and the European Council – described in the policy document on China – to promote integrated EU action on China, in which the Union should not hesitate to deploy its economic weight to enhance its geopolitical influence. The AIV's suggestion to invest more in Europe's technological strengths is in line with the argument made in the letter to parliament on European competitiveness.²

In this letter the government explains how it is working in the EU to ensure a level international playing field. The government also highlights the need for the EU to make better use of its leading position on the world market to enforce a level playing field and prevent economic espionage and the theft of intellectual property. Most of the instruments mentioned in the letter to parliament are also cited by the AIV: multilateral negotiations on new WTO rules, bilateral talks between the EU and China on an investment agreement, implementation at national level of the EU Regulation on investment screening, proportionate use of instruments for the defence of trade, a resumption of the discussion in the EU of an International Procurement Instrument (IPI), and EU leadership on international corporate social responsibility. These instruments also include enforcement measures against companies from third countries whose use of state finance disrupts competition in the single market.

The AIV mentions market access as a form of leverage. Market access plays a major role in the talks between the EU and China on a bilateral investment agreement, in which the EU is pressing for more access to the Chinese market. The trade-related friction between China and the US seems to be spurring China to move more quickly on an investment agreement with the EU, as the US attitude is making the EU market even more important for the Chinese. The IPI discussion also concerns market access: in this case China's access to the European public procurement market. The AIV also mentions concluding trade agreements with the 'ring of democracies' in the Asia-Pacific region as a means of exerting pressure on China; as the AIV itself notes, the EU is fully engaged in this effort.

The AIV also mentions technology as a form of leverage that can be used to ensure that the EU retains its lead in various technological fields, or at least does not fall behind. As stated in the government's position on EU competitiveness, the government believes that in addition to investments in the enabling conditions for a strong economy – strong institutions, a properly functioning single market, an outstanding educational system and access to finance – a modern

² Letter to parliament of 12 May 2019 laying out the government's position on European competitiveness, Parliamentary Papers 30821, 21 501-20, no. 73.

innovation and industrial policy is also necessary to make the transition to a sustainable, digital economy and remain competitive in the long run. One of the Netherlands' priorities in the EU is devoting a greater share of the multiannual financial framework to research and innovation.

At national level, the government's Mission-Driven Top Sector and Innovation Policy will address social challenges and develop key technologies. In this way the Netherlands is investing not only in meeting social challenges but also in its future earning capacity. As a first step, in the Spring Memorandum the government earmarked a further €10 million a year for investments in key technologies, in addition to the spending increase of €400 million on a structural basis included in the coalition agreement for basic and applied research.

The AIV also discusses the Union's options for deploying 'softer' instruments such as legitimacy and diplomatic and geopolitical influence as forms of leverage. The government sees that China's pursuit of recognition and legitimacy can give the EU a certain advantage. The AIV states that in order to enhance Europe's influence, it is advisable to push back against China's claims that international norms and standards are 'Western' by gaining support from the G77. As the government states in its policy document on China, it seeks to defend universal values, particularly human rights and principles of the international legal order, and advocate them more compellingly. The government also indicates that it seeks to join with like-minded countries to make a positive case for democratic values to third countries, including the G77. The AIV recommends that the EU devote more political and diplomatic efforts to Africa, a recommendation that supports existing government policy. As the government states in its policy document on China, it seeks to have the EU make more intelligent use of Europe's comparative advantages, especially in Africa. The European Council, too, stated in its strategic agenda for 2019-2024 that the EU will develop a comprehensive partnership with Africa. The Communication presented by the Commission in September 2018 on an Africa-Europe Alliance for Sustainable Investments and Jobs is part of this initiative. The Dutch Assessment of New Commission Proposals (BNC) file of 25 October 2018 (Parliamentary Papers 22 112 no. 2712) is a response to this Communication.

The government also recognises that Europe's geopolitical influence can be increased through a closer partnership with like-minded and/or democratic countries in Asia and Oceania, such as India, Japan, Australia and New Zealand, and committed itself to this in the policy document on China (which endorses cooperation with like-minded partners in Asia and Oceania with which the Netherlands shares a value framework). With support from member states including the Netherlands, the EU too is backing up its words with action. In November 2018, for example, the Commission and High Representative presented elements of a new EU strategy on India. The EU also recently reached framework agreements with Australia and New Zealand, and negotiations are currently under way with both countries on trade agreements. Finally, in 2018 the EU and Japan signed the biggest free trade agreement that the EU has ever concluded.

Another form of leverage that the AIV suggests using is the euro. The government sees various advantages in a greater international role for the euro, including in the area of energy.³ Like the European Commission, the government recognises the importance of sound macroeconomic and financial policy and of deepening the EMU, particularly with a banking union and capital markets union when it comes to strengthening the euro. The AIV states that strengthening the euro will ultimately require a form of European 'safe assets'. In the government's view, however, European 'safe assets' are undesirable.⁴ The Netherlands will assess any future proposals on a case-by-case basis, with the proviso that it is ultimately up to market parties to choose the best currency for their purposes and decide how to use it.

Moreover, the government takes note of the AIV's proposition that the EU should give priority to achieving greater military independence in conventional terms. NATO is the cornerstone of our security and of our security policy. Every country in the Alliance, including the Netherlands, is

³ BNC file on the Communication 'Towards a Stronger International Role of the Euro' and the Recommendation on 'The International Role of the Euro in the Field of Energy', <https://www.rijksoverheid.nl/documenten/rapporten/2019/01/18/bijlage-1-kamerbrief-inzake-informatievoorziening-over-nieuwe-commissievoorstellen>.

⁴ Response to the Reflection Paper on 'The Deepening of the Economic and Monetary Union', <https://www.rijksoverheid.nl/documenten/kamerstukken/2017/11/27/toekomst-van-de-economische-en-monetaire-unie>.

endeavouring to take greater responsibility for its own security, and at the same time to continue investing in strong transatlantic ties. After all, only a strong, united NATO will make an impression on other countries and offer lasting, reliable guarantees for our security. In 2014 the NATO countries agreed in Wales that they would strive for defence spending amounting to 2% of their GNP within a decade. In the government's view, a greater role for the EU in the field of security will also contribute to increased European responsibility within NATO. The different initiatives for European defence cooperation, such as Permanent Structured Cooperation (PESCO), are creating opportunities, for example through investments in conventional capabilities, that will enable Europe to take more responsibility for its own security. This will also contribute to more balanced burden sharing within the Alliance. The European Defence Fund to increase cooperation on capabilities will also benefit NATO. We must be realistic, however. The EU will not be capable of taking over NATO's role in regard to collective security.

Finally, the government will take account of the AIV's reflections on our relationship with Russia in the letter on Russia that is being drafted in accordance with the motion by MPs Chris Stoffer and Kees Verhoeven (Parliamentary Papers 33 694, no. 37), particularly with regard to the position that a future rapprochement with Moscow should not be ruled out. This letter will be sent to the House before the end of 2019.

Five recommendations for overcoming the lack of consensus within the EU regarding China:

6. *Upgrade the EU from observer to member of the 17+1 platform comprising China and a group of Central, Eastern and Southeastern EU member states, to enable the interests of the EU and of absent member states to be better promoted.*

The government shares the AIV's expectation that 17+1 will probably not disappear in the near future. It also recognises that if EU member states allow their bilateral interests in a relationship with China or the interests of the 17+1 platform to prevail over the interests of the Union, EU unity could be threatened. As the policy document on China shows, it is precisely this unity that is Europe's greatest strength in meeting the challenges of our multipolar world.

The government would stress that all EU member states have a responsibility to comply with EU rules and policy in their relations with China, in the 17+1 platform as elsewhere. It feels that enough checks and balances are currently in place to call member states to account if there is reason to think that bilateral undertakings made by 17+1 members are in conflict with commitments made within the EU. Therefore, the government does not intend to advocate upgrading the EU's status in the 17+1 platform from observer to full member. In its view, the EU should strive to strengthen the Union's cohesion by devising and implementing its own initiatives, for example as part of its Strategy for Connecting Europe and Asia.

7. *Be sparing with calls for and the use of majority decision-making on sensitive issues. The political costs of outvoting member states are often high. In areas where there are as yet no provisions for majority decision-making, it is not yet politically feasible to expand the options for using it through regular or 'light' treaty changes. There are other ways to strengthen European unity.*

The government set out its position on qualified majority voting on the Common Foreign and Security Policy (CFSP) in the BNC file on the Commission's Communication on 'more efficient decision-making' in this field.⁵ There it states that qualified majority voting in certain areas of the CFSP – such as EU standpoints on human rights taken in multilateral forums, approval of and changes to EU sanctions regimes, and carrying out civilian missions under the Common Security and Defence Policy – could help make the EU more forceful and effective in those areas. As the AIV indicates, this goal could be achieved in part within the limits of the current EU Treaty, for example by using the 'passerelle clause' in article 31 (3). It should be noted however that these areas of the CFSP involve instruments that are deployed to implement an overarching strategy like the EU China strategy, and the Treaty stipulates that the EU's overarching strategy for dealing

⁵ Response to the Communication 'A Stronger Global Actor: A More Efficient Decision-Making for EU Common Foreign and Security Policy', <https://www.rijksoverheid.nl/documenten/publicaties/2018/10/19/bijlage-13-kamerbrief-inzake-informatievoorziening-over-nieuwe-commissievoorstellen>.

with third countries or global issues must be adopted unanimously. Applying the passerelle clause would not change this principle, to which the Dutch government is itself attached in any event.

Moreover, the government does not expect agreement to be reached quickly on adopting qualified majority voting on certain areas of the CFSP, as this would require a prior unanimous decision by the European Council. Like the AIV, the government sees the discussion of qualified majority voting mainly as a tool to be used in the broader discussion on the effectiveness of the CFSP, as it could help restrain some states' conduct in specific current discussions.

Finally, the government shares the AIV's view that a regular treaty revision to expand the options for qualified majority decision-making is not yet politically feasible, or in fact desirable.

8. *Take initiatives to achieve informal coordination on salient issues like the MoUs relating to the Belt and Road Initiative or export controls (e.g. arms exports), modelled on the recently introduced screening of foreign investments.*

The government endorses the AIV's recommendation to support initiatives for EU coordination, provided they serve Dutch interests and there is sufficient capacity available for them. The Netherlands can actively participate in such initiatives or even take them itself. For example, towards the end of 2018 the Netherlands took the initiative to call together the heads of the member states' EU-China desks in The Hague. We were also involved in developing the European framework for cooperation on investment screening.

Coordination regarding the bilateral MoUs (political or otherwise) that China offers to different member states is desirable and is happening, even though the decision of whether to enter into such agreements is ultimately up to the members states themselves. The Dutch government is itself a strong proponent of member states' ability to make independent decisions on subjects where no EU competence exists. In the government's view, bilateral MoUs between EU member states and China need not undermine EU unity, as long as member states continue to respect the commitments made within the EU. To safeguard the security of our future digital infrastructure (for example in relation to 5G) and our broader cybersecurity interests, however, there is a need for common and above all coordinated European efforts, in conjunction with our EU partners.

The Netherlands is also continuing to work within the EU to achieve a level international playing field for the export of arms and dual-use goods. This policy does not target specific countries; it applies to China as well as other export markets. In recent years the Netherlands has actively pressed for modernisation of the EU framework for export control: the European Common Position on arms exports and the Dual-Use Regulation. Support within the EU for updating this framework has however proved to be limited. Despite considerable Dutch efforts, for example, it has so far not been possible to include cyber-surveillance technology in the Dual-Use Regulation. The planned changes to the Common Position seem, at least in the current round, to be very minor. The Netherlands is nonetheless continuing, in line with the AIV's advice, to press actively for further dialogue on export controls in both EU and broader multilateral forums, with particular attention to the need for export control regimes to evolve to keep pace with technological developments and the need to exercise control over the transfer of technologies with possible military end-uses. The Netherlands is still pressing for a common EU approach to China. If a strategic discussion taking account of strategic considerations does not get off the ground, however, our preference for a common approach need not prevent us from informally discussing strategic issues and coordination with interested member states, while retaining embedding in the EU structures as the ultimate objective.

9. *Consider substantive trade-offs or making counteroffers to encourage member states or neighbouring countries to support strategically important common positions.*

The AIV lists a range of tactics for strengthening EU unity, including substantive trade-offs and making counteroffers in response to Chinese offers. The AIV advises the government in each case to assess on strategic grounds whether the short-term costs are justified by the long-term benefits, taking account of the reality that trade-offs are not always possible. The government recognises these tensions. Both generally and in specific cases, it already considers the possibility of trade-offs, bearing both long- and short-term interests in mind. The precondition for such trade-offs is that they respect the parameters that the government has discussed with the House.

The government would also refer in this connection to its responses to the AIV report requested by

the House on 'Forming Coalitions in the EU after Brexit'⁶ and to the Clingendael Institute publication '*Weinig Empatisch, wel Effectief*' which emerged from a request by the House concerning the effective promotion of Dutch interests in the EU.⁷

10. Call on member states that are obstructionist in the field of foreign policy to make use of the option of 'constructive abstention' rather than their veto; consider as a last resort – besides specific actions with groups of like-minded states – issuing human rights statements on an 'all-except-one' basis, so that the European Union can still bring its political weight to bear.

This recommendation is in line with government policy. In the Foreign Affairs Council meeting this past 17 June, the Netherlands and several like-minded member states appealed to states to opt more often for 'constructive abstention' instead of a 'no' vote. After all, article 24 (3) of the EU Treaty states that the member states should support the Union's external and security policy actively and unreservedly, and refrain from any action which is contrary to the interests of the Union or likely to impair its effectiveness as a cohesive force in international relations. Due to the penchant for unanimity on the part of a sizeable group of other member states, persuading member states to move towards constructive abstention will remain a major challenge. Furthermore, in the government's view consensus should be the goal, with the proviso that the pursuit of consensus should not undermine the EU's effectiveness.

Yours sincerely,

Stef Blok
Minister of Foreign Affairs

⁶ <https://aiv-advies.nl/9s9/publications/advisory-reports/forming-coalitions-after-brex-it-alliances-for-a-european-union-that-modernises-and-protects#government-responses>.

⁷ Response to the Clingendael report '*Weining empatisch, wel effectief*' ('Perceptions of Dutch Interest Promotion inside the EU' – English executive summary on pp. 51-53), <https://www.rijksoverheid.nl/documenten/kamerstukken/2019/06/18/kamerbrief-over-belangenbehartiging-in-de-eu>.