



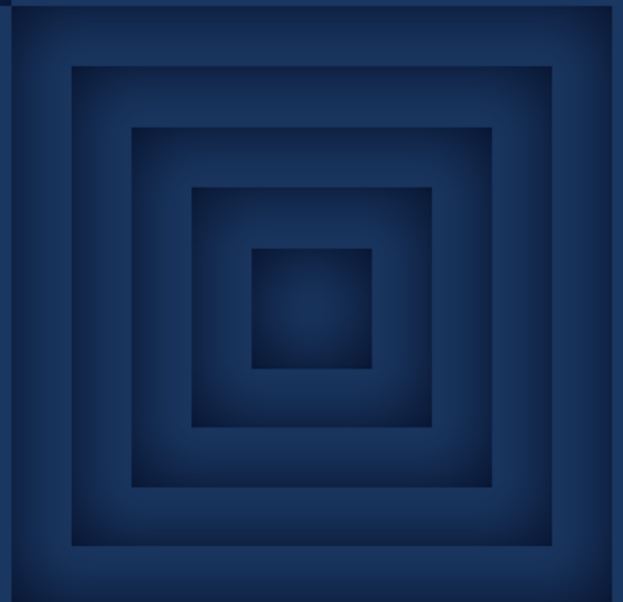
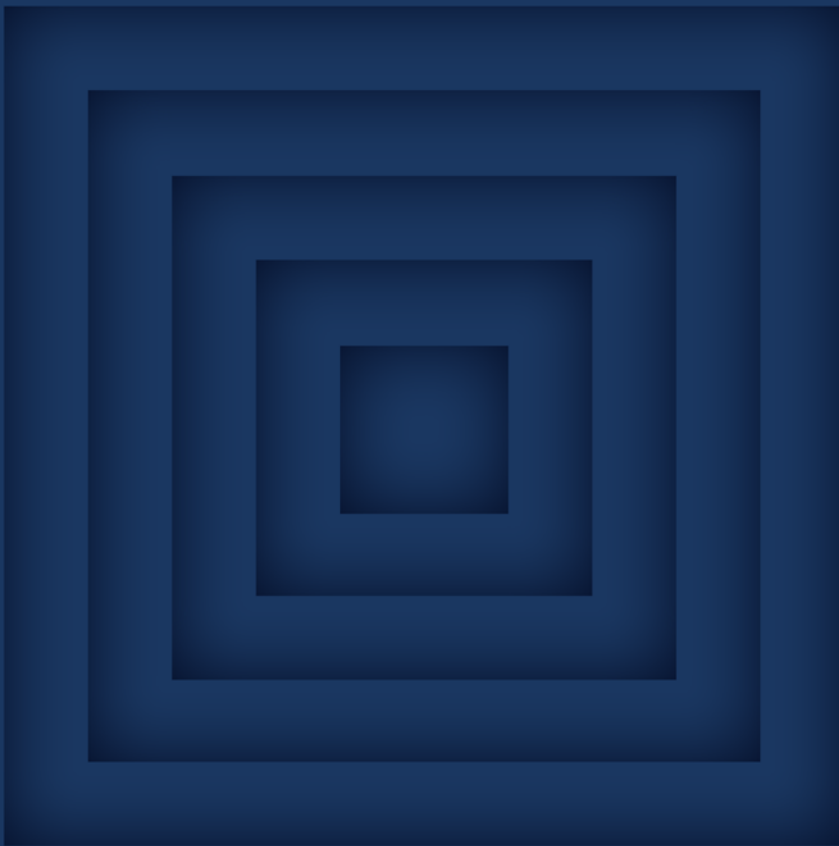
The Hague Centre
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Economic security risks to Dutch and European competitiveness

Parliamentary expert testimony

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The Draghi report comprehensively addresses the challenges faced by European competitiveness, although its findings are unfortunately neither new nor surprising. The European Union (EU) is vulnerable to economic coercion because of strategic dependencies in clean tech, military and digital supply chains on unfriendly actors, the most important of which being China. The EU is also dependent on allies like the United States (US), who is known to use extra-territorial sanctions and economic coercion to achieve its goals. But this is not new. The competition between the US and China for economic, political, military and technological supremacy has been unfolding over the last 10-15 years. It has led to growing geopolitical fragmentation and an erosion of the multilateral order. Still, it was only with the Russian invasion of Ukraine that Europe really recognised the consequences of the growing tensions. Now, the dependencies on critical raw materials and advanced technologies are threatening to put the EU in a similar position.

Such crises are likely to increase in frequency due to geopolitical tensions, so the EU's core task is to ensure that the next crisis will not find it as unprepared as last time. Tensions are growing due to the ongoing war on the European continent and its potential spill-over into EU territory, conflict in the Middle East, a new US administration that is likely to aggravate global trade tensions, and increasing instability in the European neighbourhood. In response, the EU has been introducing new legislation and strategies since 2022, including the [Chips Act](#), the [Critical Raw Materials Act](#), and the [European Defence Industrial Strategy](#). The hurdle remains effective implementation.

Implications for the Netherlands and its competitiveness

- 1. Increasing economic security is essential for the Netherlands, whose economy is highly dependent on open trade and secure supply chains.** About [35%](#) of the Dutch gross domestic product is dependent on trade. When it comes to clean tech, military applications or advanced digital products, companies in the Netherlands rarely import raw materials. Due to their reliance on imported components, many companies are in the last part of the supply chain (i.e., downstream), sometimes manufacturing and often assembling the finished products. This means that Dutch economic security is not heavily reliant on secure supplies of raw materials, but on supplies of processed materials and components.
- 2. Not every dependency is a risk, but the opaqueness of supply chains is blurring this distinction and hampering the effectiveness of solutions.** Companies in the Netherlands often do not have a clear picture of what their entire supply chain looks like nor of the geopolitical supply chain risks. Supply chains are opaque, complex, and involve thousands of actors and transactions across continents. While most companies are aware of their first or second tier of suppliers, it is costly to identify the whole supply chain. In the case of military applications, even though the government is closely working with a relatively concentrated defence industry, these companies in turn depend on dual-use technologies. Like other industries, thus, the defence industry also faces challenges to identify and mitigate risks.

- 3. Industry has been ringing alarm bells about the speed of action and regulatory burden in the EU as key challenges to increase economic security and competitiveness.** Turning goals into action takes too long. When this does happen, member states take different and sometimes even conflicting actions to reach the same goals. This is paired with growing obligations to report on corporate social responsibility and sustainability, which are often formulated as sticks rather than carrots. More and more often companies choose to make long-term investments in North America or the Middle East.
- 4. The massive investments in decarbonisation and defence in the Netherlands and the rest of Europe are at risk of economic coercion.** To achieve climate goals, massive public and private investments are being made in the Netherlands in offshore wind, electrolysers for green hydrogen, and the electricity grid. To strengthen military capabilities, investments are being made in the procurement of new applications and strengthening the Dutch [maritime industry](#). All these technologies are reliant on raw and processed minerals as well as components produced in China and the US, thus being vulnerable to economic coercion for achieving foreign policy goals.
- 5. The Netherlands has notable strengths, but it cannot increase its economic security on its own.** Dutch expertise is well-recognised globally in several sectors including the maritime industry, industrial equipment provision, advanced logistics, circularity and high-tech innovative companies. These are important capabilities that can strengthen domestic and international de-risked supply chains, but their effectiveness can be maximized by collaborating with other EU countries. For instance, the Netherlands is already a major metals [logistics and trade hub](#), so it would be an obvious choice to strengthen this function rather than establish a new hub elsewhere in Europe. Similarly, other countries can pick up different tasks that the rest of the EU, including the Netherlands, can benefit from.

Recommendations for the Netherlands in Brussels

- 1. Push for the effective implementation of policies in a coordinated European way rather than the development of additional regulations.** In the field of raw materials, clean tech and advanced digital products, the EU has been successful in developing strong policies over the last few years. Now the focus should be placed on implementation and European coordination.
- 2. Leverage energy and defence investments to establish de-risked supply chains for vital sectors.** Procurement is a key instrument that can support the development of domestic industrial capabilities, promote responsible sourcing in other countries, and increase supply chain transparency. Sectors that do not experience the same level of investments but that also need secure supply chains, like healthcare, can reap the benefits.
- 3. Support an assessment of each member state's comparative advantage and build on it.** Every EU member has its own industrial legacy and capabilities. By critically assessing their comparative advantage, domestic supply chains can be more rapidly and cost-effectively established.