

# HARVESTING GOLDEN OPPORTUNITIES FOR THE DUTCH AGRI-FOOD BUSINESS IN CHINA





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*The Hague* Centre for Strategic Studies (HCSS) & LEI

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*The Hague* Centre for Strategic Studies & LEI Wageningen UR

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# EXECUTIVE SUMMARY

# EXECUTIVE SUMMARY

China is under extreme pressure to satisfy the food needs of its current population – 1.3 billion people, of which 200 million are middle class consumers – and future generations. Food security, crucial for socio-political stability, is the number one policy priority of the Chinese government.<sup>1</sup> Upgrading food quality and safety has also been prioritized by Beijing after series of incidents in the increasingly complex food supply system. Meeting the growing demand for high-value and safe food of middle- and high-income households requires a rapid transformation of the Chinese agri-food sector.

China's agri-food challenges offer business opportunities for the Netherlands. The supply capacity and knowledge of the Dutch agri-food sector can contribute to a more diversified and sustainable food supply of trustworthy quality in China. At the same time, however, Dutch companies operating in China experience considerable risks, ranging from an unlevel playing field with Chinese state-owned companies, ill secured intellectual property and rights, unfavorable ownership regulations, and barriers for market entry. In addition, competition from foreign actors looking for similar opportunities in the Chinese market is fierce.

This report aims to provide an impetus for a more strategic national Dutch agri-food policy towards China. It has been commissioned from HCSS and LEI by the Dutch Ministry of Economic Affairs with the aim of exploring the ways in which the Dutch government can strengthen the position of the Dutch Topsectors Agri & Food and Horticulture & Propagation Materials in China. The focus of the analysis is on opportunities and risks for Dutch agri-food sector *in* China and that are the result of Chinese agri-food policies and practices that directly impact the operations of the Dutch agri-food industry. The analysis builds on a review of academic literature and

policy documents and data generated through an online survey, interviews, and a round table with CEOs and high level managers from leading Dutch agri-food organizations that are active in China.

## Reciprocity

We argue that the interests of the Dutch agri-food sector in China are best served by a national agri-food strategy towards China based on reciprocity. The Dutch Advisory Council on International Affairs (AIV) has encouraged the Dutch government to pursue more reciprocity in its trade relationship with China in order to promote better access for Dutch goods and services exports to the Chinese market.<sup>2</sup> However, reciprocity can be used as more than a means to rebalance trade relations that are considered as too much in the favor of China. We conceptualize reciprocity as a strategy aimed at creating a balanced relationship that benefits both sides, and which promotes shared interests and mutual gains, such as food security and environmental sustainability. By looking for win-win opportunities, reciprocity can be used as a tool to identify new and fruitful areas for cooperation. In that sense, reciprocity is different from a traditional trade relationship or development cooperation.

There are several reasons to build a national agri-food strategy towards China on the basis of reciprocity:

- Geopolitical changes in the international environment, such as the transition to a multipolar world, slow progress in international trade negotiations, and a lack of a coordinated EU-China policy raise the interest of the Netherlands in a strengthened bilateral relationship with China.
- The current lack of a national agri-food strategy towards China results in suboptimal internal coordination and fragmentation of initiatives and actors. This undermines the Dutch 'bid' to China and makes that the potential for cooperation with China is not fully exploited.
- Reciprocity is likely to resonate with Chinese policy makers, given China's long history of focusing on win-win cooperation in its foreign relations.
- Reciprocity also fits with the Dutch government's strategy, which consists of using shared interests as a means to engage with China and to strengthen its economic ties with Beijing by making contributions to China's sustainable economic development.

- Catering to Chinese needs may improve the overall position of the Dutch agri-food sector in China and may have positive spill-over effects to other policy areas as well, such as commodity trade or security. It may be instrumental to the Dutch government's broader objective that China becomes a responsible stakeholder in international affairs.

### Golden opportunities and obstacles

A national agri-food strategy towards China should focus on harvesting 'golden opportunities' and overcoming obstacles. We define golden opportunities as areas of cooperation that benefit both China and the Netherlands, focus on the long-term, involve an exchange of goods and services of more or less equivalent value, and often contribute to sustainability. To identify golden opportunities we looked at areas where Chinese agri-food goals and needs can be matched with strengths of the Dutch agri-food sector. Table 1 summarizes the result of the 'matching exercise' between the Chinese agri-food needs and Dutch strengths, and draws on data collected through a round table with experts, interviews and a web-survey.<sup>3</sup> Dozens of economic opportunities are identified within four supply chains that are among the core activities of the Dutch agri-food in international markets. An analysis of the threats to the Dutch activities in China has resulted in a differentiated outlook on the viability of these opportunities.

## CHINESE DEMAND FOR GOODS, SERVICES AND TECHNOLOGY FROM DUTCH AGRI-FOOD

(Colours qualify the opportunities)\*

	<b>Import demand for Dutch export goods</b>	<b>Breeding and genetics</b>	<b>Production and processing</b>	<b>Supply chain management and logistics</b>
<b>Horticulture supply chains (focus on vegetables)</b>	Imports of high yielding seed varieties	Production and R&D on high yielding and locally adjusted varieties	Knowledge services for more integrated cultivation systems	Cold storage, cold chain, agrologistics
	Imports of fresh and processed fruit and vegetables	Seed quality control system / NAK	Raising the volume of protected crops in the Northern regions	Reducing post-harvest losses
		Collaboration between Dutch universities and Chinese seed firms	Integrated and/or organic pest management	Integrated vegetable supply chains
			CSR/raising awareness on societal outcomes of improved cultivation	Quality control systems
<b>Potato supply chains</b>	Imports of seed potatoes	Production and R&D on locally adjusted varieties	Processing and production of consumer products	Cold storage, cold chain
	Imports of processed potato products	Seed potato quality control system	Cultivation and mechanization	Reducing post-harvest losses
<b>Meat supply chains (and other animal products)</b>	Imports of consumer products, ready to eat	R&D on modern genetic materials	Disease prevention and antibiotics use	
	Imports of modern genetic material		Feed conversion	
			Manure management	
			Slaughtering technology	
<b>Dairy supply chains</b>	Imports of infant formula and other dairy products	Modern genetic materials	Food safety control systems and knowledge	Quality control systems
			Disease control and veterinary drugs	Cold storage, cold chain
		Automated milking systems	Management of mega-farms with integrated production	
			Dairy production systems	

TABLE 1 OPPORTUNITIES FOR COOPERATION

- \*EXPLANATION:
- NO PARTICULAR DRAWBACKS IDENTIFIED
  - DRAWBACKS IDENTIFIED THAT CAN BE OVERCOME OR AVERTED IN THE MEDIUM TERM; OR POTENTIAL OPPORTUNITY IN THE FUTURE
  - PROHIBITIVE DRAWBACKS IDENTIFIED; OR CLOSED OFF IN THE FUTURE

SOURCE: BASED ON IN-DEPTH INTERVIEWS, ROUND TABLE WITH EXPERTS, AND ONLINE SURVEY

The table shows there is extensive potential for cooperation in many stages of the food supply chains, ranging from import to logistics, and across various supply chains, particularly for vegetables, potato, dairy and meat from intensive livestock production. At the same time, the terms and conditions for investment partnerships with foreign companies set by the Chinese leadership sometimes discourage rather than attract foreign involvement. Dutch companies are facing challenges such as restricted market access, trade barriers, protectionism, disadvantageous and rapidly changing regulations, and a lack of protection of intellectual property rights. The obstacles are most prominent in the breeding of plant and animal genetic material. For seed breeding, meat or feed ingredients, the Dutch are leading global firms in their specific market but bring too little volume to the market to be really critical players in the eyes of the Chinese government. Mitigating these obstacles and seizing the above mentioned opportunities for the Dutch agri-food sector requires active involvement and support of the Dutch government.

### Perspectives for action: towards a reciprocal agri-food relationship

Developing and implementing a reciprocity-based national agri-food strategy towards China requires that the Dutch government – in close cooperation with the Dutch Topsectors Agro & Food and Horticulture & Propagation Materials – take several actions, which are elaborated in chapter 4.

For many of them, we recommend that the Ministry of Economic Affairs take the lead, especially when it comes to issues that involve strategic policy planning and interdepartmental coordination. A first priority is to address the fragmentation of Dutch agri-food policies and actors. Integrating successful initiatives and policies into a comprehensive China strategy is important to enhance synergy, ensure continuity, and improve the visibility of the Dutch agri-food Topsectors in China. Improving cross-sector cooperation with and within the Dutch agri-food sector is important to design better package deals and to create unique value propositions.

The Ministry should ensure the strategic synergy of the individual activities of Dutch agri-food actors and the broader objectives of the Dutch agri-food strategy towards China. This can be done by encouraging that Dutch propositions respond to Chinese needs – such as the transfer of technology and skills to Chinese counterparts – and are competitive compared to the bids of Chinese and foreign competitors. From a strategic point of view, promising niche markets are those in which the Dutch agri-food sector can position itself as a preferred partner to Chinese stakeholders. Through the gathering and sharing of business intelligence the Dutch government can help the Dutch agri-food sector to become operational in these markets.

The Ministry should also safeguard the continuity and long-term effectiveness of a reciprocity-based national strategy by anticipating Chinese challenges and needs that have not officially or not yet been prioritized by the Chinese government, but that are likely to offer opportunities for the Dutch agri-food sector in the long term. The strategy could also be connected to Dutch policy goals in areas beyond the agri-food domain. This would require a whole-of-government approach and strategic collaboration beyond ministerial boundaries.

In China, the Dutch embassy, the Agricultural Bureau, and the Netherlands Business Support Offices also have a crucial role in developing and implementing a reciprocity-based national agri-food strategy. In preparing a strategic agenda for the government-to-government dialogue on agri-food with China, priority should be given to how Dutch technologies, know-how, expertise and experience may help address China's agricultural challenges. Obstacles that need to be addressed include the conditions for investment and market access for Dutch agri-food actors in China, in particular regarding intellectual property rights and ownership rules for activities in seed breeding, animal genetics and dairy processing. Maintaining a close diplomatic relationship with the Chinese government could help foster the trust necessary for a reciprocal relationship. Furthermore, the Dutch embassy and the Dutch Agricultural Bureau can help Dutch agri-food businesses operate in the complex Chinese business environment by sharing business intelligence on current and future Chinese agri-food challenges and policies and the regulations that underpin China's 'bringing-in' strategy.

# 1 INTRODUCTION

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# 1 INTRODUCTION

Developments in China are among the major driving forces of the emerging geopolitics of food. With its rapidly growing economy and middle class, China is under extreme pressure to satisfy the increasing demand for more food and luxurious food products, such as meat and dairy. Meeting the food needs of its 1.3 billion population – of which 200 million are emerging middle class consumers – is a priority for China in order to ensure stability in the country.<sup>4</sup> The developments in China are directly relevant for the Dutch agri-food industry and represent both opportunities and threats.

The rapidly developing Chinese market and Beijing's interest in achieving food security and food safety for its growing population offer a myriad of opportunities to the Dutch agri-food industry. With its extensive agricultural production and knowledge, the Dutch agri-food industry is already an 'A-brand' and could strengthen its position as a strategic partner to China for realizing a diversified food supply of trustworthy quality and the transition from small-scale, traditional farming to large-scale, modern farming.

However, certain market dynamics and policies of the Chinese government are a threat to the position of the Dutch agri-food industry in China. China is selective in opening up to foreign companies by lowering the regulatory barriers for market entry in agriculture. Dutch companies operating in China experience a level of competition from Chinese players, sometimes state-supported. This creates an uneven playing field, which makes it hard for Dutch companies to operate competitively on the Chinese market. In addition, there are foreign competitors with larger stakes in Chinese markets, such as the US and New Zealand.

How should the Dutch government respond to these opportunities and threats? This report aims to provide an impetus for a more strategic national Dutch agri-food policy towards China. It argues such a strategy should be based on reciprocity. A reciprocal strategy aims to create a balanced relationship that benefits both sides, and which

promotes shared interests and mutual gains, such as global food security, environmental sustainability and social stability, whilst promoting and protecting the interests of the Dutch agri-food Topsectors. This report has been commissioned by the Dutch Ministry of Economic Affairs with the aim of exploring the ways in which the Dutch government can use reciprocity to address some of the threats to Dutch agri-food Topsectors in China, and to facilitate that they seize the opportunities in the Chinese markets.

## 1.1 Research interest

In the report *The Emerging Geopolitics of Food* (2013), HCSS and LEI argued that, in light of recent geopolitical trends and worldwide food security issues, the complementary needs of importers and exporters are significant and can be served by a cooperation from which all parties involved would benefit. This study builds on that conclusion and explores the added value of reciprocity for developing a more strategic approach to the Dutch agri-food policy towards China.

In the Dutch policy context, reciprocal relations with China is sometimes mentioned as a way to address asymmetry in trade relations, which are considered to be too much in favor of China. Reciprocity is also referred to as a means to involve China in international security issues. This report aims to make a contribution by considering reciprocity as a basis for bilateral cooperation based on shared interests in the agri-food domain.

Capitalizing on shared interests is already anchored in the Dutch government's China policy.<sup>5</sup> In 2007, the Dutch Advisory Council on International Affairs (AIV) recommended that the Netherlands aims at contributing to reduce social uncertainties in China via bilateral relations, in which the Netherlands should focus on those areas where the Netherlands has something to offer China. Agriculture is mentioned as one of the 'niches' that can help the Netherlands build up an economic profile in China.<sup>6</sup> This is particularly relevant for the Dutch Topsectors Agri & Food and Horticulture and Propagations Materials. The Chinese government has developed an active food policy that has an internal and external dimension, which offers opportunities for cooperation with foreign actors. Domestically, it aims to increase production, to modernize its agricultural and food sectors, and to bridge the urban-rural income gap. Globally, China acquires or leases arable land to produce farm commodities for the home market, and engages in strategic alliances with countries and firms that supply to China. Against the backdrop of slow progress in the Doha-round negotiations on an international trade agreement and the lack of a coordinated EU-China policy, developing strategic cooperation on agri-food with China has become ever more important.

Strengthening bilateral relationships with China on the basis of reciprocity is not only beneficial for the Dutch agri-food industry in China, but it may also be desirable for the Netherlands from a broader point of view. China is a global power and its influence on global affairs will continue to grow in the coming decades. China's engagement in international affairs is key to solving global challenges, including in the areas of international security, development, and climate change. According to the AIVD, engaging with China instead of opposing or containing it, and building a 'mature' relation based on mutual respect is considered desirable, as it will promote international stability and that China becomes a 'responsible stakeholder'.<sup>7</sup> Thus, strengthening reciprocity between the Netherlands and China has merits beyond increasing business opportunities for Dutch companies and boosting Dutch exports to China. It is a policy strategy with broad applications that can potentially enhance synergy between various Dutch policy agendas. A good relation with China will be necessary for promoting Dutch interests in the current geopolitical arena.

## 1.2 Research question and structure of the report

This report aims to answer the following research question:

*How can reciprocity be used as a strategy to seize opportunities and mitigate risks for the Dutch agri-food top sector in China?*

In order to answer this research question, the report is structured in the following way:

**Chapter 2** provides the conceptual framework of the report. It explains the concept of reciprocity and introduces the concept of 'golden opportunities'. It discusses the reasons for developing a more strategic Dutch agri-food policy based on reciprocity, the merits of such strategy, and the benefits it has for the Netherlands. It also looks into the building blocks for a reciprocal relationship between the Netherlands and China. Finally, the chapter demonstrates how reciprocity can be used to identify golden opportunities for cooperation and to mitigate threats.

Next, **chapter 3** examines the content and focus of an agri-food policy based on reciprocity. It discusses the challenges that China is facing in the areas of agriculture and food, and identifies areas in which China may have an interest in collaboration with foreign partners. Opportunities for cooperation with the Netherlands are identified by analyzing of the main strengths of the Dutch agri-food sector and by matching them to China's needs for addressing its challenges in the agri-food domain. It also specifies the risks and obstacles that Dutch agri-food actors encounter in China.

Finally, **chapter 4** is the concluding chapter and focuses on perspectives on action for the Dutch government. It summarizes why the Dutch government needs a national agri-food strategy towards China based on reciprocity, and offers various policy recommendations on how the Dutch government – together with the other two parties in the triple helix (businesses and knowledge institutes) – can implement such a strategy. It offers specific recommendations for actions in the Netherlands, in China, and the EU.

### 1.3 Scope of the research

The scope of the report had to be delimited in order to keep the analysis and data collection specific and focused. As a consequence, several relevant issues remain understudied. These issues are the following:

- Despite that reciprocity as a concept is not confined to any sector, our analysis focuses on agri-food only, and particularly on the threats and opportunities for Dutch agri-food top sector in China. This means that the analysis does not go into detail about how reciprocity between China and the Netherlands could translate in opportunities for cooperation outside China, for instance in the Netherlands or in Africa.
- There is anecdotal evidence of successful economic diplomacy that found the leverage for a breakthrough in agricultural market access in completely different areas of Sino-Dutch cooperation. Those were ad hoc successes created by a prudent use of the political economy around high-level meetings of the political leadership. Those achievements have led to an intention to connect multiple policy fields in such missions. A more coherent approach warrants a separate analysis, beyond the present paper with its focus on reciprocity within the agri-food domain, on consistent and strategic windows of opportunity for reciprocal cooperation across policy domains such as public health, resource efficiency and technology.
- When discussing the Dutch agri-food sector, we are referring to Dutch businesses and knowledge institutes that are active in the Topsectors Agro & Food, and Horticulture & Propagation Materials, including the supply, processing, and distribution of raw agricultural materials, and breeding. Our analysis however excludes fisheries and floriculture. No data was collected among multinational corporations and large consulting or engineering bureaus that largely operate outside the realm of the agricultural Topsectors or Dutch government.

- The Chinese demand for Dutch goods and services is discussed within the framework of current policies. A further analysis would be to anticipate the impact of policy changes under the 13<sup>th</sup> five-year plan, starting 2016. Also, a basic perspective is taken on the Chinese government, with a focus on central and regional powers, while ignoring the complexities of the party-political setting at all levels of society. There are wide regional differences in terms of stages of development. It is beyond the scope of the present paper to analyze how uneven economic opportunities for the Dutch agri-food lead to diverging terms of engagement with the local leadership.
- The analysis of the threats to the Dutch agri-food sector is limited to the challenges and obstacles that the Dutch agri-food industry faces as a consequence of Chinese policies and practices in areas that directly impact the operations of the Dutch agri-food industry in China, such as regulation on import and export, ownership, or foreign investment. More generic threats to the business climate that may derive from the broader macro-economic and socio-political situation in China fall outside the scope of this report. In addition, it is obvious that doing any form of business in China requires an adaptive mind-set for Dutch entrepreneurs. The study will not dwell on the challenges imposed by language and cultural barriers, and by a business environment in which personal relations dominate, and regulatory conditions may swiftly and frequently change.

#### **1.4 Research design and method**

The research for this report was carried out in three phases. In the first phase, a conceptual framework for reciprocity was developed. In the second phase, the case study on China was conducted, in which Chinese agri-food interests were analyzed and matched with strengths of the Dutch agri-food sector in order to identify areas for win-win cooperation, the so-called 'golden opportunities'. Finally, in the third phase of the research, the results of the previous two phases were synthesized and policy recommendations were formulated on how the Dutch government can use reciprocity as a strategy to support the Dutch agri-food sector in China.

The findings of this report were generated through a combination of research methods. In the first place, the analysis builds on a review of academic literature and policy documents. Next, the findings generated through desk research were complemented by empirical data that was gathered through three different means. First, several face-to-face semi-structured interviews were conducted with people

from Dutch companies and knowledge institutes that are active in the Chinese agri-food sector. Second, a survey was held in order to generate quantitative data about the business' perspective on the threats and opportunities in China for the Dutch agri-food industry. Third, a round table was organized with CEOs and high level managers from leading Dutch agri-food organizations that are active in China. During this round table, the findings of the research were presented to the audience for evaluation, and in addition, participants were able to provide input for the report's recommendations.

# 2 RECIPROCITY IN THEORY: A CONCEPTUAL FRAMEWORK FOR COOPERATION

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## 2 RECIPROCITY IN THEORY: A CONCEPTUAL FRAMEWORK FOR COOPERATION

This chapter discusses the merits of a Dutch-Chinese agri-food strategy based on reciprocity. As we argued in our earlier report *The Emerging Geopolitics of Food* (2013), such a strategy can help to secure Dutch interests in a world where agri-food issues are increasingly geopoliticized. HCSS and LEI pointed out that reciprocity is a way for the Netherlands to gain a competitive edge in agri-food trade, by “focusing on cooperative solutions aimed at creating long-term win-win situations that benefit both the Netherlands and the sourcing countries.”<sup>8</sup> In section 2.1, we first elaborate on why such a strategy can be an answer to changing relations with China. Next, section 2.2 discusses the building blocks of such a strategy. Finally, section 2.3 examines how such a strategy can be operationalized.

### 2.1 Why reciprocity?

The rise of China has profound effects on international agri-food trade. Parallel to its rapid economic growth, demand for agricultural products in China has soared. In line with its more state-led nature of the Chinese economy, and in light of these rising agri-food needs, Beijing is keeping a grip on the agri-food sector by supporting, owning or managing strategic industries.<sup>9</sup> This has de facto made state-to-state contacts more important to advance agri-food interests in China. As former Dutch Minister of Economy Verhagen said: “most Dutch companies know where they need to go [when conducting business abroad]. But things are different in a country like China. There it matters much more if a minister or vice minister joins [a trade delegation], because more doors will open up.”<sup>10</sup> Chinese and Dutch trade delegations regularly take place, as the November 2013 visit of the Dutch Prime Minister Rutte to China and the March 2014 visit of the Chinese President Xi Jinping to the Netherlands.

Despite such efforts, capitalizing on agri-food opportunities remains difficult because of the predominantly state-led nature of the economy in China. In many fields, Beijing is setting the rules for foreign companies operating within its borders, making its

markets much harder to access than more open economies. This is compounded by a transition to a multipolar world, where blocks of states are more adamant in advancing their often opposed interests.<sup>11</sup> State relations in such a world tend to be more uncertain, with increasing international tensions that put pressure on trade policies and negotiations common to a more multilateral system.<sup>12</sup> Instead of looking for multilateral solutions, states are incentivized to 'go at it alone'. This affects the effectiveness of international organizations like the WTO, as is illustrated by the failure of the Doha trade-negotiations on a new free trade agreement. And as one report notes, "[t]he failure to reach agreement within the WTO has led to the proliferation of bilateral or regional trade agreements through the world."<sup>13</sup>

Within the EU, some member states like the Netherlands, the UK, Germany, Denmark and Sweden, feel that economic relations have become disproportionately favorable for China and should be based on a more equal footing.<sup>14</sup> Market access for Chinese products and technology in Europe should be reciprocated by equal access to Chinese markets for European companies. One recent report by the Dutch Advisory Council for International Affairs argues for a strategy based economic realism: open trade relations where possible, but where the Chinese market remains closed for Dutch or European products, such restrictions should be reciprocated – or their removal should be demanded.<sup>15</sup>

Before the financial and economic crisis, Member States agreed on a coordinated strategy for negotiating a Partnership and Cooperation Agreement (PAC) with China. Since then, however, discordance amongst Member States has intensified and increased economic competition precipitates short-term thinking and the nationalization of European policies. Some European states have favored bilateral deals with Beijing to help their ailing economies. Countries like Greece, Italy, Portugal, Spain, Bulgaria, and Hungary have turned to China to attract investments as a solution to their rising government debt and declining revenues. This economic dependence on China has caused these countries to take on a more cautious attitude towards China and to withhold public criticism on the Chinese government, for example on issues like a level playing field and access to the Chinese market for European companies. On the other hand there is a group of countries, including The Netherlands, Denmark, Germany, the United Kingdom, and Sweden, that is more assertive in wanting to address the asymmetry in the trading relationship with China.<sup>16</sup>

Since the economic crisis, developing and implementing a common, revised EU-China strategy has become increasingly difficult. Not all member states agree on policy

priorities. Although the Netherlands stands to gain from free trade, multilateralism, and a common European agri-food policy, such deadlock means the Netherlands has few other options than simultaneously promoting its interests bilaterally.

A bilateral reciprocal strategy holds great promise. It fits the shift in relations with China, which has rapidly changed from an aid donor to a trade partner. This is reflected in the ambition of the Netherlands to transform, where possible, aid relations to trade relations with countries around the world, as is apparent in the creation of the Dutch Ministry for Trade and Development Aid. But reciprocity is not just a means to rebalance trade relations, nor is it a completely novel concept. It echoes a broader, culturally embedded trade approach that China seems to favor. Thinking in terms of giving and taking is reflective of the Chinese preferred model of doing business. This is apparent in several existing trade strategies between the EU and China. For example, one of the main threads in the *EU-China Strategic Partnership*, which exists since the 1985 Trade and Cooperation Agreement, is the constant search for mutual beneficial efforts. The December 2013 communiqué talks extensively about “Two-way investments for everyone’s benefit”<sup>17</sup>, and the March 2014 Communiqué is entitled “Deepening the EU-China Comprehensive Strategic Partnership for mutual benefit”<sup>18</sup>. Looking for mutual gains is already engrained in economic relations with Beijing.

Reciprocity in the agri-food domain may not only improve the overall position of the Dutch agri-food sector in China but will have positive spill-over effects to other areas as well. In addition to creating business opportunities, engaging with China is considered crucial for solving global challenges. As a global power, China has major influence on international affairs, such as peace and security, socio-economic development, and climate change. Western policy makers have been debating for years now how to nudge China into becoming a more responsible stakeholder in international affairs.<sup>19</sup> Reciprocity is a policy strategy with broad application that can potentially enhance synergy between various Dutch policy agendas, and embolden China to become a responsible stakeholder. For example, reciprocity could be used as a condition in the negotiations between China and the Netherlands on the de facto embargo on Dutch arms exports to China. As China seeks to buy arms systems in the Netherlands, lifting this embargo could be made conditional on the ratification and implementation of the International Covenant on Civil and Political Rights (ICCPR).<sup>20</sup>

## 2.2 What is reciprocity?

A reciprocal strategy can build on existing efforts and helps to advance Dutch agri-food trade interests in China in a more effective way. It can help to develop a more

integrated approach, with an encompassing proposition of Dutch agri-food assets to meet Chinese needs. Such a strategy would be based on an equal standing between partners, and might involve reviewing existing relations, such as more balanced market access. We argue that this can best be done by looking for opportunities that benefit both China and the Netherlands.

### 2.2.1 Building blocks

In the broadest sense of the word, reciprocity refers to every exchange of value, with one action 'reciprocated' by another. In theology, it is exemplified by the Golden Rule: "Do unto others as you would have them do to you". Evolutionary psychologists refer to reciprocity as a norm to explain cooperative behavior between animals – you scratch my back, I'll scratch yours.<sup>21</sup> Trade agreements too are often based on reciprocity, for example when two states decide to remove trade and investment restrictions *in exchange* of market access. Political scientist Robert Keohane captured these elements in his definition of reciprocity as "exchanges of roughly equivalent values in which the actions of each party are contingent on the prior actions of the others in such a way that good is returned for good, and bad for bad."<sup>22</sup> Reciprocity thus involves:

- Some kind of **equivalence** in exchange of values: one actor gets something that is roughly similar in value to what it gave away.
- **Multiple interactions**: it is a long-term relationship.
- **Contingency**: the response of one actor depends the previous actions of the other. In any exchange of benefits, the possibility exists that actions are not followed by the expected reaction of another party. If one side does not react as expected, the very existence of the reciprocal exchange is threatened.

Many agri-food trade relations entail a measure of reciprocity: they involve the exchange of more or less equivalent valuable goods and services, and they hold for a longer period. Such agreements work better if parties are incentivized to stick to the deal. Keohane distinguishes three factors that can contribute to this:

- **Shared interests**. When both parties strive towards the same goal, say securing some food commodity, cooperation will be much easier to establish than when actors have opposing interests.

- **Shared norms** are the invisible glue that binds actors to the interaction. Devising an effective food security framework, for example, will be easier if states share a similar concern for global food security. Keohane argues that shared norms are particularly important when the group of actors and the equivalence of values exchanged is less tangible and contingency is higher. In such cases, which he dubs “diffuse reciprocity”, the benefits are often spread out over the long term. Shared norms can have a dissuading effect on ‘free-riding’ (i.e. not sticking to your end of the bargain once you have received the benefits).
- **Trust.** Agreements are easier to foster and enforce when both parties believe the other party will stick to its side of the deal and is committed to the agreement.

In sum, this means that a reciprocal agri-food relation between the Netherlands and China has a higher chance of success when Dutch and Chinese partners share interests and norms of behavior, and trust-levels are high.

### 2.2.2 Reciprocity compared to other types of economic relations

Reciprocal relations differ from other economic relations in several ways (see Table 2). Unlike a market transaction, a reciprocal exchange is not based on outright and exclusive self-interest, nor is it a one-off exchange. Yet it distinguishes itself from more normative or altruistic relations customary in development aid, as it eyes win-win situations that are mutually beneficial. Traditional development aid is comparatively more focused on needs and interests of the aid-receiving country. Reciprocity involves advancing Dutch interests by thinking about the interests of China, and seeking complementary strengths and weaknesses.

The win-win situation of a reciprocal exchange may be exclusive to the two partners involved, or benefit a broader group of actors. In extremis, such an exchange would help to secure global public goods, such as global food security or a sustainable planet. To ensure safer food, for example, Chinese and Dutch businesses, government agencies, and knowledge institutes increasingly work together. Food safety can be seen as a public good, the value of which is a global concern. But reciprocity is not necessarily focused on such global public goods. For example, benefits may well accrue to a specific company (e.g. more profit) or one sector (e.g. mutual market access).

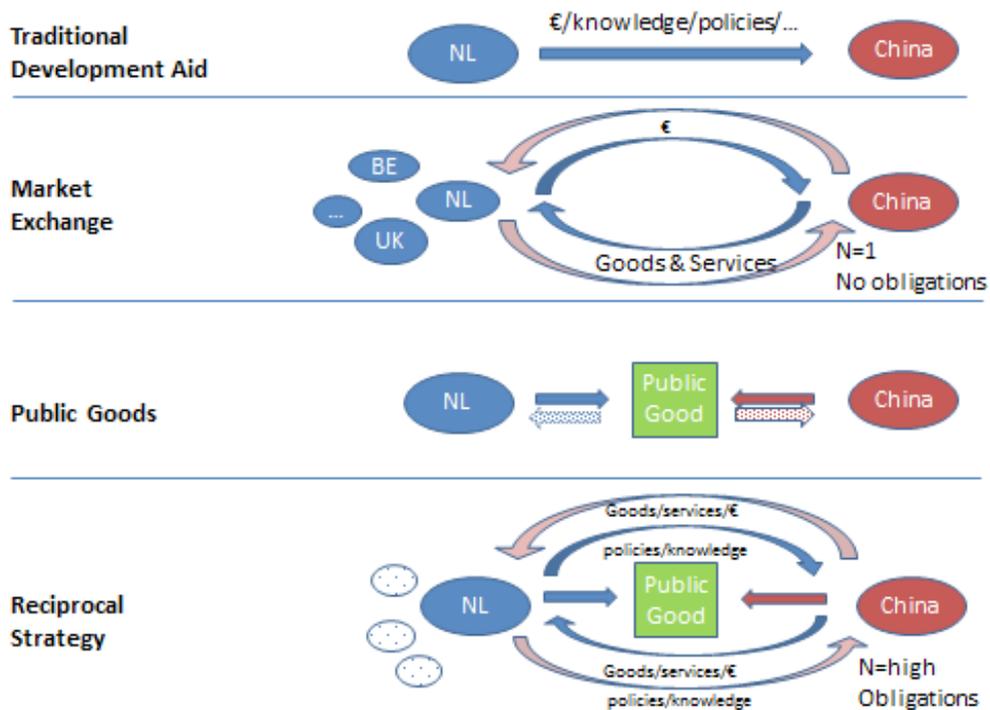


TABLE 2 A RECIPROCAL STRATEGY IN COMPARISON TO OTHER BILATERAL RELATIONS

We dub such mutual beneficial opportunities for cooperation in the field of agri-food ‘golden opportunities’. Such opportunities exist where the need of one party can be matched with a strength of the other. Many ‘needs’ can be fulfilled by simply acquiring a good or product on the market place, and thus do not require a specific strategy. But sometimes states are unable to secure their needs via the marketplace. For example, many states deem it necessary to protect themselves against supply shocks, which may threaten the profitability of an industry, or pose threats to food security. To increase resilience, it may well be that a government aims for cooperation with other states to increase security of supply. Efforts may focus, for example, on increasing the foreign supply of goods that are essential to the Chinese economy, such as high quality milk powder from the Netherlands. In another hypothetical example, exclusive and patented technologies for efficient water management might be shared in exchange for improved market access. Or a research program at a Dutch university might be set up to develop more efficient water management technologies dealing

with agricultural problems in China. In exchange, Dutch dairy companies could gain market access to China.

A reciprocal strategy would focus on these 'golden opportunities' where a Chinese need can be coupled to a Dutch strength. An integrated reciprocal strategy would consist of Chinese-Dutch cooperation in the exchange of goods and services roughly equivalent in value, and looks at mutual benefits. The exchanged goods and services can be as broad as countries want: they can involve aid, support for specific policies, knowledge and technologies, etc. Exchanges can concern private or public goods, and the exchange is strengthened by shared interests, norms and trust (which Keohane refers to as "obligations").

Because a reciprocal strategy aims to develop a long-term relationship, golden opportunities will often entail an element of sustainability. First, developing long-term economic relations require looking ahead and thinking about how to sustain relations. Second, such relations may well evolve around public goods in which, by their very nature, multiple actors have a stake. Food security and food safety are good candidates for a reciprocal strategy. Third, the awareness of sustainability issues in China is rapidly growing. In parallel to its economic growth, concerns about environmental issues and about social stability and security of supply have rapidly risen.

Operationalizing a reciprocity strategy requires thinking about Dutch strengths and how they can meet Chinese needs – now and in the future. Such a strategy can help to identify new economic opportunities, and serve as a means to generate a more balanced agri-food relation with China. A reciprocity focus aims to overcome that obstacles (such as limited market access and lacking legal frameworks) by a broad strategy based on identifying and matching multiple needs and strengths over different dossiers.

### **2.3 Conclusion**

This chapter has elaborated on the benefits of a reciprocal agri-food trade strategy. Because the Chinese economy is predominantly state-led, capitalizing on the economic opportunities offered by China's rapid rise is often difficult for foreign companies. This challenge is compounded by an increasingly multipolar international system, made up of blocks of states adamant in advancing their often competing interests. Several European states, including the Netherlands, have argued that uneven trade relations with China should be replaced by a relationship based on a more equal, or reciprocal, footing. Although a unified EU-China strategy based on

reciprocity is lacking, such a reciprocal strategy continues to hold great promise. Reciprocity fits a broader, culturally embedded trade approach that China seems to favor and is already reflected in China's current trade relations.

A reciprocal strategy can help rebalance agri-food relations with China while helping to identify (new and) mutually beneficial areas for cooperation. Such a strategy aims to seize opportunities and mitigate threats for the Dutch agri-food sector in China. It builds on existing efforts and proposes a more integrated proposition to current and future Chinese agri-food needs. A reciprocal strategy focuses on win-win initiatives, or golden opportunities, that form the building blocks of a long-term strategy. Building and implementing such a strategy benefits from shared interests, norms and trust. The rest of this report investigates what the shared interests and complementary relations are that offer golden opportunities for Sino-Dutch agri-food trade.

# 3 RECIPROCITY IN PRACTICE: AGRI-FOOD COOPERATION IN CHINA

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# 3 RECIPROCITY IN PRACTICE: AGRI-FOOD COOPERATION IN CHINA

This chapter aims to identify the ‘golden opportunities’ for the Dutch agri-food business (including horticulture and breeding) in China, building on the conceptual framework set out in the previous chapter. It identifies areas that should be the focus of the Dutch government’s agenda for a strategic partnership with China. It does so by analyzing the complementary interests of the Netherlands and China, and by matching Dutch strengths and Chinese needs. The outcome of this analysis is a list of golden opportunities: areas for cooperation from which both parties stand to gain (win-win situations), have a long-term perspective, and that contribute to sustainability.

Section 3.1 starts with an analysis of the complementary interest of the Netherlands and China in cooperation on agri-food challenges in China. Section 3.2 looks more specifically into the opportunities on the basis of the activities of the Dutch agri-food sector in China, and their perceived strengths and potential contributions to Chinese policy objectives. Finally, section 3.3. discusses some of the obstacles that Dutch agri-food businesses encounter in China, and which require attention from the Dutch government in its agri-food policy towards China.

## **3.1 Complementary interests in cooperation**

The implicit and explicit policy goals of both China and the Netherlands are the starting point for our analysis of complementary interests that may provide a basis for reciprocity-based cooperation. These broad Chinese and Dutch policy goals are summarized in Table 3 and are elaborated further in the following sections.

CHINESE GOALS	DUTCH GOALS
Food security	Strengthening position of Topsectors
Food safety	Market access and level playing field
Minimizing negative externalities	Knowledge & technology
Knowledge & technology	Sustainable development
Market access	

TABLE 3 SUMMARY OF CHINESE AND DUTCH POLICY GOALS

For China, the most evident objectives are ensuring food security for its growing population and organizing a stable and safe supply for the increasing middle class in urban and metropolitan areas. In addition, China’s leadership has an interest in reducing the negative externalities of rapid economic growth by addressing the widening rural-urban divides and, increasingly, environmental protection. To achieve this, China depends on foreign countries for a range of agricultural commodities and is interested in acquiring relevant knowledge and technology.

For the Netherlands, the primary objective is to improve the position of the Dutch agriculture and food related Topsectors in terms of economic and innovative strength, and to gain access to the rapidly expanding Chinese markets. Increased market access allows Dutch agri-food firms to make profit, but requires a level playing field vis-à-vis Chinese competitors and an effective opening up, particularly in terms of the recognition of Dutch food safety and quality standards and other non-tariff measures. On the non-profit side, Dutch research centers have an interest in gaining new knowledge and technologies. The policy on food security and environment of the Dutch government recognizes that a stronger sustainability profile of China’s food systems is an important global public good.

To develop a strategic cooperation with China, it is crucial that the Dutch government develops an agri-food policy that meets China’s needs to achieve its objectives. In line with its agri-food policy goals, the Chinese government has prioritized several areas for foreign investment and international cooperation. The next section gives an overview of these areas for potential cooperation, with a focus on the policy interests of China’s government.

### Chinese interests

China’s challenges to improve food security and food safety and to minimize negative externalities run across the agricultural sector and affect a wide range of supply chains

(see box 1). To address the challenges, the Chinese government has developed an agriculture and food policy which includes a guideline for the modernization of China's agriculture during the years of the 12th 5-year plan (2011-2015): the National Modern Agriculture Development Plan (NMADP).

China's strategy is to largely realize many of its agricultural and food policy goals necessary to control food security and sociopolitical stability in an independent manner- with few international partnerships. The country's leadership combines a gradual, sometimes slow, opening up of its market under World Trade Organization (WTO) rules with a continuation of self-sufficiency objectives (including for grains, pork and dairy), a 'going out' policy to secure critical supplies of commodities such as feed grains and pork from abroad, and a limited dependence on foreign technology. Nevertheless, Beijing's agriculture and food policies hint explicitly at international cooperation around the 'bringing in' of foreign science and technology. Technological change is the main driver of improved food security and food safety, higher productivity of land and labor, and reduced environmental pressure.<sup>23</sup> A strategic Sino-Dutch cooperation can be strengthened around specific sectors and supply chains that are targeted for modernization by the central and provincial governments in China. Based on an analysis of the NMADP for 2011-2015 and a literature review, we have identified three major opportunities for collaboration with foreign governments and businesses.

1. China builds partnerships around its growing **imports of agricultural commodities that are short in domestic supply**. China is now the world's largest net importer of agricultural products. Soybeans, mostly from Brazil, make up almost half of agricultural imports. Maize and beef are other land- and/or water-intensive commodities imported in bulk, particularly from the US. These flows entail reciprocal elements, implying that Chinese investment capital is used to bring land into cultivation, or that contracts specify prices above market levels or other quid pro quo. In terms of consumer products, dairy is a major import flow, with New Zealand and the Netherlands being the major suppliers. In return for market access, China seeks to cooperate on the safety and quality of its distribution channels for dairy. The use of machinery, propagation material or technology from abroad is often used to establish training programs for skills development with Chinese employees, and is regularly a prime component of knowledge cooperation around pilots for agricultural innovations.

## **Box 1. An overview of China's challenges across the agri-food sectors**

**1. Maintaining self-sufficiency in rice and wheat and diversify to potato.** To maintain self-sufficiency in these staple foods (the policy target is that 95% of food staples consumption is met from domestic supply), productivity growth has to keep up with rising demand. Beijing aims for an annual growth of crop output of 1-3.5%. The demand growth for grains will slow down over the years as living standards rise and urbanization continues (Lohmar, 2010). In contrast, resilient demand growth is expected for animal and horticultural products. Potatoes are now the third-largest staple food. While the consumption rises, yields are far below potential due to the use of low quality varieties, poor cultivation techniques and limited storage and distribution management.

**2. Productivity growth in meat production.** Meat consumption in China, mainly pork, has grown rapidly from about 10 million tons in 1980 to about 70 million tons in 2010. The target for output growth of livestock products is 1-6% per annum. As a result, China's import demand for soybean will remain strong. Productivity and efficiency gains are needed in the face of resource scarcity and rising wage costs. Modernization and upscaling of farms is considered a necessary development. The biggest challenges in the development of pig farming in China are disease control, production efficiency and feed efficiency (Hoste, 2013). Similar challenges exist in poultry and aquaculture. The provinces with industrial meat production increasingly face sustainability issues.

**3. Productivity growth and supply chain development in dairy production.** The consumption of dairy products such as milk powder, yoghurt and ice cream, has grown rapidly, averaging an almost 13% annual growth rate in milk consumption since 2000 and further growth is expected. While the stock of dairy cattle has expanded from 5 to 12.5 million head in just a decade and production has expanded, the supply of high-quality milk is limited. Widespread concerns on food safety are pushing the demand for import products, particularly for infant formula. The government aims to scale up production and modernize the supply chains.

**4. Expanding supply of horticultural products and reducing post-harvest losses.** China is the largest producer of vegetables in the world, with 18.4 million hectares under cultivation in 2009. Yield per hectare is considerably below potential and pesticide use is high. The substandard quality of seeds and

the use of basic solar greenhouses are major bottlenecks. Perhaps 20% of perishables is lost after harvest, mainly due to poor storage (Liu, 2014). Demand for high-quality vegetables is increasing, as are food safety requirements from modern retailers or exporters, but the expertise on supply chain management for stable supplies of produce is limited.

**5. Rural development.** The gap between the returns to farming and urban incomes is widening. The size of the average Chinese farm is small, less than one hectare and with limited hired labor, which hampers investment in mechanization, irrigation or training. Practical skills need to be nurtured widely before modern technology and good practices can be applied on farms. Chinese farm policy currently aims at converting low-productive low-skilled farm jobs into more productive jobs on more modern farms in food processing or rural services to prevent further rural unemployment and limit migration to overcrowded cities. This will need to raise the commercial viability of millions of smallholder farmers, for example in the dairy sector in the northern regions, or smoothen exit of farms (Christaensen, 2013).

**6. Environmentally sustainable farming.** Better environmental management in farming is needed to prevent that limits to land and water availability will further constrain the growth of agricultural productivity (Tokgoz, 2013). Economic development, including the intensification of agricultural production, has led to environmental degradation in several areas, such as desertification, salinization and soil erosion. The loss of high-quality farmland has been prevalent in the coastal provinces, a highly fertile region, but agriculture must compete with increased urbanization and industrialization for land and water.

Christaensen, Luc. 2013. "When China Runs Out of Farmers." In *Food Security and Sociopolitical Stability*, C. Barrett (ed), OUP.

Daviron, Benoit, and Mathilde Douillet, eds. 2013. *Major Players of the International Food Trade and the World Food Security*. FOODSECURE Working Paper 12. The Hague: LEI Wageningen UR. <http://www.foodsecure.eu/publicationDetail.aspx?id=40>.

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Liu, Gang. *Food Losses and Food Waste in China*. OECD Food, Agriculture and Fisheries Papers. Paris: Organisation for Economic Co-operation and Development, April 3, 2014.

Lohmar, B., F. Gale, F. Tuan, and J. Hansen. 2010. China's ongoing agricultural modernization: Challenges remain after 30 years of reform. In *China's Agricultural Modernization*, ed. R. Jeffries, 1–68. Nova Science Publishers.

Tokgoz, S., D. Alencar Parente Torres, D. Laborde, and J. Huang. 2014. *The Role of U.S., China Brazil's Agricultural and Trade Policies on Global Food Supply and Demand*. FOODSECURE Working Paper 19. The Hague: LEI Wageningen UR.

2. There is a wide interest to collaborate around the **development, modernization, and productivity growth of China's domestic food supply chains**, for all arable crops, horticulture and livestock apart from rice and wheat, the "sensitive" grain crops.<sup>24</sup> Grains are a sensitive sector in which China mandates practically full command over its production technology. This leads to limited cooperation with foreign partners, and heavy investments in technology development for productivity growth and drought resistance. 'Bringing in' is extensively applied to other agri-food sectors, however, and technology can be shared between Chinese and foreign partners. Practically all foreign firms work in joint venture with Chinese companies or owned subsidiaries, although in some cases the foreign company is allowed to own a majority share. There are three areas for cooperation on modernizing in China, linked to different stages of the supply chain.

(a) China aims to rapidly catch up with global advances in **seed breeding technology and animal genetics**. A more widespread use of high yielding plant varieties and varieties resistant to abiotic stress (e.g. drought, salinization) and biotic stress (pests and diseases) in the Chinese context may achieve higher yields per hectare, better quality of products and less use of pesticides. Biotechnology, particularly for crops, has become a major R&D orientation of the Chinese government.<sup>25</sup> In addition, Beijing collaborates with the world's leading developers of genetic material, including Dutch breeders of livestock, vegetable seed and potato seed. Rather than importing such products from overseas, Beijing's position is that all breeding activity should be done in China. Foreign breeders may only work with fully Chinese subsidiaries or in joint ventures under Chinese control.

(b) If Chinese farmers and downstream producers would apply *en masse* the practices in **agricultural production and food processing** that are common in the agricultural systems in the world's agricultural powerhouses, then China's natural resources would come a much longer way to feed the 1.3 billion Chinese. This notion of catch-up on a wide array of cultivation techniques, farm management practices, systems to control pests and disease, and food processing technology underlies China's interest in cooperation with the world's largest and most successful producers and exporters of agriculture and food products. There is a demand for production technology around software and hardware, for example for expanding the vegetable production under protected cover beyond the current level of 15% of the total vegetable cultivated area.<sup>26</sup> Foreign technologies need to match with local agronomic and market conditions, however. Therefore, at an even larger scale, there is a Chinese interest in the transfer of knowledge on the more efficient use of fertilizers and agrochemicals,

and on management practices that bring 'more crop per drop', i.e. a higher productivity of scarce water resources. Foreign support is also required to support major improvements in storage and cold chains, for example in potatoes.<sup>27</sup> China's interests to improve livestock production systems are generally similar to cropping systems, although the complexity of meat and dairy supply chains raises other issues for cooperation with foreign partners. In a country where backyard farming is still common, particularly for the emerging large-scale and the few mega-scale livestock farmers, it can be of interest to enter into partnerships with overseas providers of inputs and expertise. Feed conversion and disease control are key areas of cooperation, with strong sustainability implications. The Eastern provinces, where intensive livestock husbandry dominates, will increasingly face manure-related environmental problems. Also, a high quantity of different types of antibiotics have been found in meat for human consumption.<sup>28</sup> The strengthened policies aimed at reducing the use of antibiotics and stronger environmental protection reveal the Chinese government's interest in these issues.

(c) China seeks solutions for **food supplies in urbanized and metropolitan areas**, mainly concerning **food safety, distribution and marketing**. In urbanized areas, the food sector has developed rapidly from a local affair into a complex web of suppliers and relations, often around supply chains for the rising supermarkets.<sup>29</sup> This development particularly affects the burgeoning dairy sector, fresh vegetables supply and other high-value supply chains, where the post-harvest losses are substantial and quality control systems are inadequate. Consumers in China are concerned that food safety is compromised in this new setting. The global attention for food safety in Chinese domestic markets emerged around 2003, following several food poisonings and trade in fraudulent products.<sup>30</sup> After the Melamine crisis of 2008, the concerns of Chinese consumers over food safety are at an all-time high.<sup>31</sup>

(d) To realize the transition to more productive, safe and resource efficient supply chains, China needs to invest in the development of **human capital**, and **legislation and financial services** across the agri-food sector. The NMADP acknowledges the importance of strengthening the access to financial services for rural and agricultural communities, including the availability of services for rural credit and insurances. Many areas of legislation that contribute to increased sustainability of agriculture could be introduced. Through private investment, public-private partnerships and government-to-government relations, foreign partners may contribute to achieving the government's objectives regarding food security, food safety and reducing negative externalities.

Because 2014 is the fourth year of the current planning cycle, there is a need to ask whether China’s interests in international agricultural cooperation may change in the years to come. The indication is that agricultural development will remain a priority for the Chinese government. The so-called *number one document*, a policy statement on the single most important policy priority issued by the authorities in January each year, has focused on rural development and agriculture for eleven consecutive years. This year’s issue reconfirmed that the national food security system, mainly for grain security, is on the top of the reform list for the next few years. “Holding the rice bowl firmly in our hands is a basic policy that must be adhered to in governing the country for a long time to come.”<sup>32</sup> Particular references to international collaboration speak of support for “mutually beneficial and win-win cooperation in agricultural production and import and export abroad”, particularly with neighboring countries. To boost the ‘go global’ strategy for agriculture, the government explores the establishment of capital facilities to support agricultural trade and overseas agricultural development. These policy intentions come with a gradual tightening of the regulations for foreign agricultural investment in China, after decades of relatively open access. A series of anti-trust examinations for foreign corporations and more subtle measures such as the upcoming requirement to combine seed sales activities with local R&D are changing the playing field.

To sum up, China’s challenges offer several opportunities for cooperation and foreign investment. The Chinese interest in foreign cooperation and agricultural modernization covers a wide range of innovations that support more productive, safe, and resource efficient agri-food supply chains. These interests are summed up for each step in the supply chain in Table 2.

1. IMPORT	2. MODERNIZING CHINESE FOOD SUPPLY CHAINS		
	A. BREEDING AND GENETICS	B. PRODUCTION AND PROCESSING	C. SUPPLY CHAIN MANAGEMENT AND LOGISTICS
Consumer products	Seeds	Agricultural management, integrated control of pests and diseases	Storage and cold chain
Propagation material	Animal genetic material	Protected crops, housing	Reducing post-harvest losses
Machinery	R&D/local adjustment	Environmental management	Food safety and quality control
Knowledge & technology	Quality control	Processing technology	
D. HUMAN CAPITAL DEVELOPMENT, LEGAL AND FINANCIAL SERVICES			

TABLE 4 OVERVIEW OF CHINESE INTERESTS THROUGHOUT THE SUPPLY AND VALUE CHAIN

### 3.1.2 Dutch interests

The Dutch interests in strengthening the cooperation with China on the basis of a reciprocal strategy are a mixture of commercial opportunity and common goods.

In the first place, private and public actors have an interest in improving **the international position of the Dutch agri-food related Topsectors**. Under recent industry policy, nine of the most important internationally operating Dutch economic sectors are encouraged to develop their innovative capacity within a partnership between government, business and knowledge institutes. For food and agriculture the two relevant Topsectors are Agro & Food and Horticulture & Propagation materials. China is one of the focus countries within the Dutch international ambition of facilitating the development of solutions for improving food security and sustainability in Europe and beyond.<sup>33</sup> For the Netherlands, the added value lies in enabling public-private clusters to adapt Dutch agricultural knowledge and innovations to the local Chinese context.

Second, both Topsectors support the expansion and diversification of the agri-food exports into China and increased investment; even only having local presence in China would be attractive because of the scale of the market opportunities, which are illustrated by annual export growth above 20% over the past decade. This is part of a trend of increasing consumption in China of more processed products and luxury products such as wine, flowers, or premium meat cuts. Improved **market access and a leveling of the playing field** in the competition with Chinese firms are required to further expand Dutch activities. Permits for introducing new agricultural products on the Chinese markets are difficult to obtain. The competition with Chinese firms is hampered by investment conditions on foreign ownership and intellectual property rights for activities that the central or provincial Chinese authorities consider strategic, such as breeding or dairy production.

Third, the long and fruitful history of **cooperation around knowledge and technology** has brought the Dutch agricultural innovation system a reputation of excellence among the Chinese. Partnerships on knowledge and education, from basic science to marketable products, and from practical trainings to post-graduate courses, are valuable platforms for exchange. Scientific and knowledge collaboration may have many motives, ranging from scientific excellence to appropriately responding to policy priorities. An example of a practical motive is that scientific exchange on detection methods for antibiotics has helped to overcome barriers for market access of Dutch dairy exports. A knowledge cooperation may also open up new areas for governmental cooperation and initiate bilateral business opportunities.

Finally, the Netherlands has an interest in developing government-to-government relations with central government in China, as well as provincial governments, around **sustainable development**, food security and food safety, and resource efficiency. China ranks among the nations with the largest leverage for addressing environmental sustainability in the global food system.<sup>34</sup> Improving the country's economic, social, and environmental situation also brings advantages for the Netherlands from the perspective of other policy areas than agri-food, such as poverty reduction, human rights, and climate change. The Netherlands' policy position is that it has much to offer in terms of a partnership with China around contributions to the quality of China's rapid economic growth.<sup>35</sup> In order to support this reciprocal approach for the agricultural domain, insights into the opportunities and obstacles that the Dutch agri-food sectors face *in China* are necessary.<sup>36</sup>

### 3.2 Existing activities and strengths of Dutch agri-food actors in China

There is a considerable number of Dutch companies and Dutch knowledge institutes operating in the Chinese agri-food sector, creating strong and international agri-food ties.<sup>37</sup>

China is a major destination for Dutch agri-food exports. Since 2009, the Dutch have gradually developed a substantial surplus on the bilateral agricultural trade balance. A record trade surplus is recorded for 2013, to the value of over 1.0 billion Euro. Infant formula, the main export product, accounts for over 30% of total exports. Other major products in the portfolio are offal, meat and agricultural machinery.

Dutch foreign direct investment (FDI) in China's agri-food is expanding substantially: one in four Dutch companies in China is active in the agribusiness, including ten in horticulture and propagation materials (i.e. breeding material for plants and livestock).<sup>38</sup> Key agri-food activities are food, feed, propagation material, mechanization and technology as well as knowledge, advice, and finance. The presence of the Dutch agri-food in China has recently been strengthened by the establishment of a Sino-Dutch joint venture of for the production of infant formula. Other clusters of potential interest such as aquaculture and floriculture are not discussed in this report. With notable exceptions, the activities of the Dutch agri-food in China are located in the Coastal provinces, close to the more developed consumer markets, and in the areas where modern agricultural supply chains are emerging.

Several interview respondents indicated that the Dutch agri-food players have not expressed a clear collective interest to establish a structural presence in China.

Indeed, the type of involvement of companies and the risk profile in their Chinese portfolio differs widely, depending on whether firms are involved in trading activities or have established a local production facility.<sup>39</sup> About one-third of firms export goods and services to China with no further investments in local presence. Two-third of firms have invested in local production facilities, in many cases in a joint venture with a Chinese company. The companies that combine exports with local presence have a widely varying scope of local operations, from wholly owned production or R&D facilities to shares in a local entity.

One of the main strengths of the Dutch agri-food – according to the internet survey conducted for this study – is the excellent **reputation** of the Dutch agricultural knowledge and innovation system in the Chinese government. The ability to combine good practical knowledge with a strong theoretical underpinning is considered a particular strength of the Dutch agri-food sector. **Knowledge-intensive** ways of working are applied by all Dutch agri-food players in China.

Two other strengths of the Dutch agri-food sector that facilitate partnerships are the **chain-wide approach** and so called **triple helix cooperation**, which consists of close cooperation between government, business, and knowledge institutes. Both the chain-wide approach and triple helix in the Netherlands have historical roots in a tightly knit network of activities in education, research and extension services. A minority of respondents considers the development of a chain-wide approach challenging because cooperative structures or innovation clusters have no tradition in the governance culture of Chinese agriculture. There are signs of development of a cooperative entrepreneurship, however.<sup>40</sup> The Dutch expertise on developing synergies and improving efficiency and innovation across the entire supply chain are of interest to the Chinese governments.

### 3.3 Opportunities for the Dutch agri-food sector in China

The Chinese demand for goods, services and technology from the Dutch agri-food players creates opportunities for further growth of Dutch exports and Sino-Dutch collaboration on commercial activities and knowledge-driven cooperation. Despite the opportunities, and with notable exceptions, the Dutch agribusiness has shown some reluctance to set up operations in China. The very recent development in the dairy sector indicates that the tide can turn swiftly.

Based on their expertise and current position in the Chinese dairy cluster, Dutch players may contribute substantially to developing a reliable supply of dairy products

in China, particularly for the urban consumer. The Sino-Dutch Dairy Development Center, a partnership between FrieslandCampina, Wageningen UR and China Agricultural University, serves as a showcase for these opportunities. The Dutch have the technology to boost the current level and quality of milk supply. Through a recently launched joint venture with a milk producer for the production of infant formula, the Dutch activities now include a complete supply chain for the urban and metropolitan markets. The Chinese counterpart brings 60 large-scale dairy farms into the joint venture, the Dutch their processing and marketing expertise. Several high-level contacts with the Chinese government over the past years have addressed Sino-Dutch dairy cooperation, which appears to have been instrumental for closing this deal.

With that success story in mind, it is informative to review how other agri-food players in China assess the opportunities for and threats to their activities in this expanding market. On the basis of an analysis of the Chinese agri-food interests and the profile of the Dutch agri-food sector in China, opportunities exist mainly in the following sectors: feed, horticulture (we focus on vegetables in this report), potato, intensive livestock, and dairy.

Interviews, a survey and a roundtable discussion were organized to collect data from the Dutch agri-business on their assessment of the scope and feasibility of market opportunities in China (see section 1.4). Below, the results are discussed for four particular supply chains within which The Netherlands may contribute. The information from the interviews is summarized in three categories of opportunities:

(a) No particular drawbacks identified. Opportunities for cooperation may be realized by strengthening the Dutch bid, i.e. finding partners, lowering thresholds for small and medium sized companies (SME) access, developing business cases, using effective facilitation instruments, etc.

(b) Drawbacks identified that may be overcome in the medium term or potential opportunity in the future. While some opportunities need to mature before they can be exploited, the assessment is that the starting position of the Dutch players is good. Alternatively, threatening factors in the business or regulatory environment may be successfully redressed with due action, even though the processes of eliminating obstacles may be slow and costly.

(c) Prohibitive drawbacks identified or closed off in the future. Some of the present or future opportunities are impeded by existing regulations or come under a fundamental

threat by regulatory change in the future. These drawbacks typically cannot be overcome by a bilateral partnership because they require a change in the business environment.

These opportunities are discussed below, with a focus on expanding local presence. There are also sizeable opportunities for export growth of consumer products to satisfy the Chinese needs. Increased market access for these products (entry barriers for peppers are an example) will feature prominently in a reciprocal cooperation strategy. However, because such trade flows provide limited opportunity for cooperation on a long-term path for sustainability in agriculture and food supply, these export opportunities for consumer products are not further addressed in the sections below.

### 3.3.1 Key areas for increased cooperation with limited external drawbacks

#### **1. Strengthen the development of institutions and knowledge partnerships**

**around seed breeding.** Some of the most important Chinese seed breeders are branches or joint ventures of Dutch companies.<sup>41</sup> They are hesitant to further develop their presence in China, however (see section 3.3.3 below). The propagation materials of Dutch seed breeders have gained an excellent reputation in China thanks to a well-functioning inspection system in the Netherlands. NAK, the Dutch organization for seed quality control, would be an interesting innovation format for the development of the breeding sector in China. According to the interviewed participants, such an institutional innovation could be positioned. While that would lead to a more positive outlook for Dutch breeders' activities in China in the long run, a stronger cooperation of Dutch knowledge institutes with Chinese breeding companies could create a platform for dialogue and mutual understanding. Professors from Dutch universities may act as forerunners; academics are typically perceived as governmental players by the Chinese companies.

**2. Develop the potato as a high-end product and food security staple.** On the basis of the extensive Dutch expertise in potato growing and in organizing an efficient potato chain, many Dutch companies are well positioned to capitalize on the opportunities that arise from the continued growth of the market for potatoes and potato products. The high-end potato chain is becoming more professional, making it attractive for investments in (foreign) technology for a more efficient production. This includes cooling houses and the development of logistics around a cold chain, particularly in connection to rising demand for the processing of starch, chips, frozen French fries and dehydrated potatoes. In addition, potato has a large

potential as a food security crop grown by small farmers for the market and for home consumption. This has recently led China and the Netherlands to establish a partnership on the development of the potato sector for 2013-18. The partnership agreement encompasses public, private and public-private collaboration at local, regional and national levels on numerous disciplines. Given the need for adapted breeds of seed potato, the Dutch could also contribute to a system of quality control, as with vegetable seeds.

**3. Develop high quality fresh vegetable supply chains.** The Dutch horticulture clusters in China have much to offer for modernizing fruit and vegetables supply.<sup>42</sup> Respondents observe that the Chinese used to supply cultivation technology through training, but that this is tilting towards advice and training on more integrated cultivation systems, supported by an own supply of inputs and equipment. There is ample market opportunity and limited restriction to operate on this market, according to a horticultural knowledge provider. The Dutch expertise in protected crops matches market opportunities for locally adjusted cultivation methods and greenhouses. For example, the production during the winter season in the northern provinces may be increased by improving solar greenhouses. The recent memorandum of understanding of the Dutch vegetable cluster (represented by Wageningen UR, Dutch breeder organization Plantum and Greenport Holland International) with Shandong province is a good example of potential vegetable partnerships. Such a partnership for the promotion of integrated horticultural chains, from seed breeders to retailers, could be developed with other emerging centers of vegetable production as well, such as in Yunnan province and Tianjin municipality. For several years, capacity building on plant breeding and integrated chains has been delivered by knowledge institutes. That strategy of engagement would now seem to need a boost in the form of an engagement of the Dutch industries, with the aim of raising the Dutch commercial interest in the partnership.

**4. Integrated management of animal diseases and quality of livestock products.**

Respondents have suggested that reduction in the use of antibiotics in the Chinese livestock industry could be an interesting opportunity for cooperation with China on a governmental level in developing and implementing instruments. The respondents indicate that Dutch players could contribute to the development of a trustworthy supply of raw milk. Improved management and vaccination could reduce the use of antibiotics and bacterial resistance in the livestock sector, leading to several health and safety benefits.<sup>43</sup>

### 3.3.2 Opportunities with drawbacks that can be overcome or that need to mature

**1. Environmental technologies.** The market opportunities for environmental technology for crops are present today but they need to mature. As is illustrated by the expanding portfolio on integrated pest management, organic crop protection and manure management, Dutch technology and expertise is already finding its way to the Chinese market. The societal benefits of improved vegetables cultivation and crop protection –i.e. improved food safety, environmental protection, returns to farming and farmer health– provide an interesting opportunity to position the Dutch cluster in China. A precondition is that the awareness of these social benefits is raised with authorities at various levels and with provincial strategic committees. For example, drip irrigation would be a suitable technology for the water-scarce Northern areas, but the policies and incentives for increased water productivity need to be in place to make the investment in such technologies feasible under market conditions.

**2. Feed conversion and manure management for livestock.** The opportunities for Dutch involvement for increasing the efficiency of meat clusters are limited by sensitivities that are eroding over time as the market matures. Dutch expertise on manure management is already finding its way to the Chinese market. It is expected that the specific Dutch expertise on intensive livestock systems will be in greater demand when traditional herds are replaced with more modern breeds and policies have adjusted to the new setting. The professionalization in the pork chain is already creating opportunities for Dutch equipment and expertise such as feed stations and cooling techniques.<sup>44</sup> For major leaps in feed conversion rates and a substantial reduction in environmental footprints, the IPR and investment rules need to facilitate shifts to more advanced breeds of hogs and poultry (as well as dairy cattle). Regarding feed efficiency, Dutch suppliers are already contributing knowledge to improve the nutrient composition of feed. This may lead in time to closer cooperation within an integrated supply chain on a more diversified feed base (i.e. beyond soybean). This would have the additional benefit of reducing demand pressure on the global market for soy, which is also the main feed for hogs in the Netherlands.

### 3.3.3 Opportunities that face prohibitive drawbacks, at present or in the future

**Imports and breeding of high yielding genetic material.** Several respondents do not export vegetable seeds, seed potatoes or animal genetics to China as a result of negative experiences involving copying by Chinese counterparts due to a lack of

protection of breeders' rights. Dutch breeders and their local subsidiaries or joint ventures are well-positioned to deliver R&D for a variety of vegetable seeds (as well as other horticultural products) that are adjusted to local agronomic conditions and management practices. However, the breeding companies are pessimistic about their investment horizon unless the legal conditions improve towards a better protection of IPR and more favorable ownership rules (see section 3.4 below).

### **3.4 Risks for the Dutch agri-food sector in China**

Despite the complementary interests and opportunities for cooperation between China and the Netherlands, Dutch agri-food businesses face several considerable obstacles in China that undermine the development of a reciprocal relationship. Collaboration would take on even greater significance if adequate solutions could be found for some of the challenges that Dutch agri-food actors encounter in China. The internet poll and interviews with Dutch agri-food companies in China that were done for this study revealed several obstacles discussed below.

#### **Intellectual property rights (IPR)**

Companies are less likely to have production operations in China when they operate in sectors in which the protection of intellectual property rights (IPR) is important, or in which various restrictions are present, such as biodiversity regulations or shareholder requirements. This relates in particular to plant breeding and animal genetic material. Many breeding companies consider the risks involved in investments or activities in China a barrier to strengthening local presence. For example, the Netherlands has applied for the registration of various types of plant varieties including potatoes, eggplant and tomato on a list of IPR-protected products.<sup>45</sup> Registration is a lengthy procedure however, and even for registered seeds, the protection of copyrights is insufficient due to lack of enforcement. Some circumvent this problem, when possible, by only selling a specific subset of their products in China. For example, seed breeding firms prefer to sell only hybrid cultivars in China, because the plants from these seeds are sterile and cannot be reproduced in the field.

#### **Investment conditions and regulations make up an uneven playing field**

In terms of market access, China remains a closed market for many products that Beijing considers 'strategic'. For example, a bilateral protocol with China needs to be signed for each fruit/vegetable species.<sup>46</sup> Key obstacles are the regulatory restrictions imposed on business-to-consumer marketing for imported pork and, as any newcomer on the market, the need to establish reputation for safety and quality of meat from Dutch origin. Import restrictions also apply to imports of poultry meat and automatic

milking systems. The opening up of the Chinese market for new products has proved cumbersome. It may take 2 years to receive approval of the competent authorities for market access dossiers to introduce Dutch animal products in the Chinese market, and in over 90% of cases it takes even longer.<sup>47</sup> Frequent changes in China's regulatory import requirements have been recorded for the dairy sector raise barriers to trade but not to the extent that export growth is impeded. Market access is especially difficult for companies that operate in sectors that are considered sensitive or less relevant by the Chinese government. For the companies that face restrictions in the form of licensing or unfavorable ownership rules for equity and technology, this is a disincentive for investment because it shortens the investment horizon. In the case of a recently established joint venture around the production of infant formula, both companies take equal shares in the joint venture. It is an indication that there is scope for a balanced governance of Dutch interests when the Chinese partner and the Dutch partner identify full complementarities and many synergies in their collaboration. Basically, the Dutch bid must provide a match to the needs and interest of the Chinese.

### **Competition from Chinese companies and foreign competitors**

In the development of the potato sector, the Chinese government trusts the Dutch with a leading partnership, despite a far larger market share of US producers. The Chinese government considers the Netherlands a business partner of interest for modernizing agri-food in specific sectors within agri-food, but in different graduations.<sup>48</sup> Dutch technology is leading for mainstreaming potato cultivation. However, when it comes to seed breeding, meat or feed ingredients, the Dutch are leading global firms in their specific market but bring too little volume to the market to be really critical players in the eyes of the Chinese government. The Netherlands is seen as *one of many* technology hubs, operating in the shadow of other major foreign players on the Chinese market, such as the United States. This in itself could motivate a strengthened government strategy for a partnership with China that serves Dutch commercial interests, for example around exports of dairy equipment or fresh vegetables, within the framework of reciprocity and sustainable development.

Apart from the risks determined that require a strategic response towards the Chinese counterparts, there are impediments that need to be addressed by better organizing a Dutch bid to the Chinese.

### **High entry barriers for smaller players**

Entering the Chinese agri-food market appears difficult for Dutch SMEs, with the exception of a number of small consultancy or trading firms. An explanation for the

small presence of SMEs, mentioned by participants in the study, is that companies need a certain scale to set up activities in China. They must be able to bear financial risks over a long investment period. In addition, SMEs can be hampered by a lack of insight into 'how things work' in China, especially at a municipal level. This is a risk for the performance of Dutch agri-food in China because SMEs are a key pillar in the agricultural innovation system in the Netherlands. Typically, they are clustered as technology providers and incubators around a market leader and, as such, critical partners in R&D trajectories, for example of the large dairy corporations. Interviewed respondents noted it is not easy to replace Dutch SMEs in the Chinese context by local collaborators. A more effective support of SME involvement under the wings of a knowledge broker and matchmaker could provide a remedy.

### **Mismatch of Dutch supply and Chinese demand**

A particular risk could evolve around a mismatch of Dutch supply with Chinese needs. Sometimes this is a matter of timing. The demand for complete greenhouse systems has faded entirely, as the technology did not prove to match with market conditions. Also, Dutch technology investments sometimes have been 'too little and too late, which shows a lack of commitment to anticipate emerging opportunities for collaboration in China. For example, environmental protection is now clearly higher on the agenda of the Chinese government than five years ago, but there have been few targeted actions to position the Dutch expertise in this area.

Besides the opportunities that exist, these risks should receive also attention from the Dutch government in its efforts to develop a more strategic agri-food cooperation with China.

### **3.5 Conclusion**

As a major export destination and emerging consumer market, a source of key minerals, and a competitor for the purchase of feed ingredients on world markets, China has a considerable influence on the Dutch agri-food sector. This report analyzes both the Chinese agri-food needs and strengths of the Dutch agri-food Topsector to identify shared interests and areas for cooperation in China. This 'matching exercise' shows there is extensive potential for cooperation. Although China is largely self-driven in the realization of its food and agricultural policy objectives, the demand for high quality and safe food by the growing Chinese middle class offers opportunities for the Dutch agri-food Topsector in particular. Meeting the needs of this segment of the population is an important policy objective of Beijing, as it key to maintaining social and political stability. The Netherlands has a strong interest in developing a more

strategic cooperation with China to meet this goal, to export its agri-food products, services and expertise and to improve the conditions for doing business in China.

The Dutch agri-food business operates in China on a limited scale in comparison to some players in China (both domestic firms and foreign competitors). In some markets, however, the Netherlands is well positioned to contribute to the modernization of agricultural supply chains, particularly in upgrading food supplies for relatively wealthy Chinese consumers. Examples are the development of high-quality fresh vegetable and dairy supply chains, as well as integrated management of diseases and quality, with benefits in terms of efficiency, food safety and the environment. In addition, Dutch knowledge and technology may contribute to strengthen the position of potato as a food security crop. However, although potential opportunities for the Dutch agri-food in China exist, there are also considerable obstacles and risks. Dutch companies are facing restricted market access, trade barriers, protectionism, disadvantageous and rapidly changing regulations, and a lack of protection of intellectual property rights.

While Beijing's agriculture and food policies hint explicitly at international cooperation around the 'bringing-in' of science and technology, the terms and conditions for investment partnerships with foreign companies sometimes discourage rather than attract involvement. This is most prominent in the breeding of plant and animal genetic material, which will require majority ownership by a Chinese company from 2015 onwards. The recent launch of joint ventures in the dairy sector indicates that building up relations around a strong proposition can help to improve its risk-return balance. For seed breeding, meat or feed ingredients, the Dutch are leading global firms in their specific markets but bring too little volume to the market to be really critical players in the eyes of the Chinese government. To bring the investment conditions in line with the Dutch interests, partnerships with like-minded competitors (in the EU or beyond) appear crucial.

# 4 CONCLUSIONS AND POLICY RECOMMENDATIONS

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# 4 CONCLUSIONS AND POLICY RECOMMENDATIONS

To explore the prospects for the Dutch government to use reciprocity as a strategy to strengthen the position of the Topsectors Agri & Food and Horticulture & Propagation Materials in China, the previous chapter identified opportunities for cooperation based on shared interests and mutual gains, and certain obstacles. This chapter focuses on how the Dutch government can seize these opportunities and mitigate potential threats to the Dutch agri-food sector in China. In conclusion of the report, it provides policy recommendations for the Dutch government on how to implement a national agri-food strategy towards China based on reciprocity.

## 4.1 Policy rationale: a national agri-food strategy based on reciprocity

This report has demonstrated that there are several reasons to also build a national agri-food strategy towards China on the basis of reciprocity:

- **Geopolitical changes in the international environment**, including the transition to a multipolar world, leave the Netherlands little other choice than to strengthen its bilateral relationship with China. Against the backdrop of the slow progress in the negotiations on a new global trade deal, other countries – including EU member states and the US – are increasingly opting for bilateral trade agreements. The Netherlands stands to gain from free trade and multilateralism and should continue to promote these, but simultaneously pursue its interest bilaterally. Strengthening bilateral relationships with China is also important to the Netherlands given the state-led nature of the Chinese economy and the lack of a coordinated EU-China policy.
- **The potential for cooperation with China is not optimally exploited.** The Dutch government has developed several initiatives and is working on an increasing number of sectoral agri-food agreements with China, but the variety and sometimes temporary nature of the initiatives show that the Dutch government

and the private sector are searching for a more effective formula for shaping their agri-food policy towards China. The lack of a coherent and overarching national agri-food strategy towards China and of internal coordination among stakeholders are undermining potential opportunities for the Dutch Topsectors in China.

- **Reciprocity is likely to resonate with Chinese policy makers**, as China has a long history of focusing on win-win cooperation in its foreign relations. It also builds on the assumptions of the Dutch government's China policy, which considers shared interests as a means to engage with China. The Netherlands and China can be considered natural partners for working together on agri-food issues: the 'Dragon' ranks among the nations with the biggest leverage for addressing environmental sustainability in the global food system, and is one of the major players in the global food market<sup>22</sup> while the Netherlands is a leading agricultural player with knowledge and technology that can contribute to food security, food safety, and sustainable production and consumption patterns.
- **Catering to Chinese needs may improve the overall position of the Dutch agri-food sector in China and improve cooperation in other areas as well.** Engaging with China is considered important for several reasons: to capitalize on other broader business opportunities in China, to rebalance a trade relation that is perceived as being unfairly balanced towards China's interests, and to encourage China to act as a responsible stakeholder in international affairs.

#### 4.2 Policy focus: golden opportunities and obstacles

Our research revealed potential for more reciprocity in agri-food cooperation between the Netherlands and China. Dutch agri-food actors show an interest in increased cooperation with China. China's enormous market size and growth generate business opportunities for Dutch agri-food industry. In light of the Dutch strengths in agri-food and market development in China, cooperation with China is considered a priority for both the Topsectors Agri & Food and Horticulture & Propagation materials. The bulk of firms that we interviewed for this study shows an interest in expanding their commercial activities in China. At the same time, the Chinese government and other Chinese stakeholders show an interest in cooperation with Dutch agri-food actors. The perceived performance of Dutch agri-food companies and knowledge institutes in China is good. One of the main strengths of the Dutch agri-food sector is its outstanding reputation for delivering luxury food products of high quality and safety for the growing Chinese middle class. Another strength is the Dutch triple helix approach between government, business and knowledge institutes.

Regarding the substantive focus of a reciprocity-based national agri-food strategy towards China, we recommend that Dutch government focuses on seizing the ‘golden opportunities’ and removing the obstacles that were identified in the previous chapter and that are summarized in Table 1. Our matching exercise between the Chinese agri-food needs and Dutch strengths revealed extensive potential for Sino-Dutch cooperation in many stages of various food supply chains, ranging from import to logistics, and particularly for vegetables, potato, dairy and meat from intensive livestock production. The Netherlands is well positioned to contribute to the modernization of these supply chains, particularly to upgrade food supplies for relatively wealthy Chinese consumers. At the same time, Dutch companies are facing restricted market access, trade barriers, protectionism, disadvantageous and rapidly changing regulations including ownership, and a lack of protection of intellectual property rights. The obstacles are most prominent in the breeding of plant and animal genetic material. Addressing these obstacles and seizing the golden opportunities for the Dutch agri-food sector requires more strategic involvement of the Dutch government, supported by a national agri-food strategy towards China.

### 4.3 Perspectives for action: implementing reciprocity

Developing and implementing a reciprocity-based national agri-food strategy towards China requires that the Dutch government – in close cooperation with the Dutch Topsectors Agri & Food and Horticulture & Propagation Materials – takes actions at several levels. This section identifies what the Dutch government can do.

#### 4.2.1 In the Netherlands

A crucial first step is to **address the fragmentation** of Dutch policies and actors. The Dutch activities in China are currently “fragmented” and hampered by “a limited coordination”, in the words of respondents. The collective effort of the Dutch players, however, lays a basis for a more strategic partnership and there is a general interest in expanding Dutch agri-food business to China. But the Dutch government, companies, and knowledge institutes often do not work together effectively to harness maximum potential. Without concerted action, organization, and coordination, the Dutch agri-food sector will not be able to offer an appealing proposition to China, that may help tilting the current trade relationship towards a more balanced and reciprocal one. To address this fragmentation, we recommend the following actions for the Ministry of Economic Affairs:

- **Integrate successful existing initiatives and policies** into a comprehensive China strategy for the Dutch agri-food sector. Such an effort would enhance

synergy and ensure continuity of initiatives and contribute to the visibility of the Topsectors Agri & Food and Horticulture & Propagation Materials in China. Continuity and visibility of Dutch activities will help building trust between China and the Netherlands.

- **Maintain and strengthen cooperation and communication in the triple helix**, which is a competitive advantage for the Dutch agri-food sector in China. Building networks of agri-food businesses in the Netherlands helps companies – particularly SMEs that lack economies of scale but that can play a pivotal role in innovation and adaptation – in overcoming some of the barriers to make their first successful steps on the Chinese markets. Intensified collaboration between the Ministry of Economic Affairs, large players, industry platforms and knowledge institutes could facilitate – the supply chains and clusters with an interest in innovation and business expansion in the Chinese market – for example through sharing of information and experiences regarding market entry and the setting up of businesses in China.
- **Facilitate information exchange and institutional organization** within the Dutch agri-food sector itself. Cross-sector cooperation will help the Dutch agri-food sector to design better package deals and to create unique value propositions that other countries, firms or knowledge institutes which operate individually may not be able to offer. This is particularly relevant given the interlinked nature of China’s agri-food challenges and the interests of the Chinese government in the Dutch chain-wide approach and system solutions.

In addition, the Dutch government should **develop new initiatives and give strategic focus** to the activities of the agri-food sector in China. To do this, we recommend the following actions be undertaken by the Ministry of Economic Affairs in close collaboration with the Dutch Agricultural Bureau in Beijing:

- **Stimulate a ‘Dragonhead’ entry strategy for China.** This policy refers to the traditional dragon dance that has dancers inside a costume who follow the head blindly. The Chinese government uses this model to help ‘pulling along’ farmers with designated large companies, by giving them a market for their products and providing technical information. Large Dutch companies that are among the Dutch candidate dragon heads could pull along several SMEs.

- **Collect data and benchmark the competitive position of the Dutch agri-food sector in China.** Increased competition on the Chinese market from foreign companies was identified as one of the major threats to the Dutch agri-food sector in China. To position itself as a preferred partner of Chinese stakeholders, gathering data on the competitive position of the Dutch agri-food sector is key. A regularly updated benchmark creates insights into the strengths and weaknesses of the Dutch agri-food sector compared to other (European) agri-food players.
- **Identify and select promising niche markets** where Dutch agri-food businesses can offer attractive solutions to Chinese problems and have comparative advantages over foreign competitors. The selection of attractive niche markets should be based on the one hand on Chinese needs, and on the other hand on the gathered data on whether the Netherlands is able to position itself as a preferred partner for the Chinese in this market. These are the areas where reciprocal deals can be struck and Dutch agri-food businesses have the largest chance of success. One example of a promising market in which the Netherlands has something unique and valuable to offer, is the (growing) market for high-end food of superior quality and safety for the growing number of wealthy Chinese consumers. The Dutch government could focus its support efforts on Dutch agri-food actors that are already operating in this or other promising markets or on parties that want to become operational in this or other niche markets.
- **Develop holistic, cross-sectoral Dutch agri-food propositions.** By integrating the wide range of products and services of Dutch companies and the expertise of the Dutch knowledge institutes, the Netherlands could formulate an attractive proposition to China. With comprehensive package deals that offer chain-wide solutions to Chinese challenges and that cover multiple supply chains identified as strategic by the Chinese government, the Dutch agri-food sector can make competitive value propositions compared to Chinese and foreign competitors. However, the dynamics of multi-stakeholder consortia are typically complex and uncertain. Therefore, the government needs to play a role in coordinating and assessing the Dutch proposition through a strategic lens.

Finally, the Dutch government could take the following actions aimed at **maximizing the continuity and long-term effectiveness** of a reciprocity-based national strategy for agri-food cooperation with China:

- **Develop a long-term strategic vision on developing future business opportunities in China.** This means anticipating Chinese challenges and needs that have not officially or not yet been prioritized by the Chinese government, but that are likely to offer opportunities for the Dutch agri-food sector in the future. Developing such a vision needs to be done by the Dutch government in conjunction with Dutch companies. Anticipating opportunities in China for the Dutch agri-food sector on the long-term should be an integral part of the strategic planning process of the Ministry of Economic Affairs and other relevant ministries, and of the interdepartmental working groups focused on China. Bilateral cooperation among Dutch and Chinese knowledge institutes could function as an antenna for the maturity of future opportunities, for example through a program along the lines of the China-UK Sustainable Agriculture Innovation Network. This knowledge partnership examines environmentally sustainable agriculture in China and feeds into existing policy dialogues in this area.
- **Connect the agri-food strategy towards China to policy goals in areas beyond the agri-food domain.** Dutch propositions in the agri-food domain can be complemented with package deals around seemingly unconnected areas of interests, such as health care and tourism. Efforts aimed at strengthening bilateral cooperation are most effective when backed up by a whole-of-government approach. This requires thinking beyond ministerial boundaries, and to strengthen strategic interdepartmental collaboration, for example when preparing trade missions or high-level visits to and from China. In the recent past, the merits of such collaboration have already been proven, for instance when the Dutch minister of Health, Welfare and Sports managed a break-through in the negotiations on agricultural trade during her visit to China.

## In China

There are several things that the Dutch government could do in China in order to seize opportunities and mitigate threats for the Dutch agri-food business in China. Here, the Dutch Agricultural Bureau in Beijing has a leading role to play. We recommend the following actions:

- **Develop a better awareness and understanding of current Chinese agri-food challenges and policies and the rules and regulations that underpin China's 'bringing-in' strategy.** In order to create win-win cooperation, Dutch propositions to China should serve both the public interests of the Chinese government and the private interests of Chinese entrepreneurs. Knowledge about the Chinese agri-

food needs and challenges, and the general business environment will help the Dutch agri-food sector to position itself as preferred partner of the Chinese government. Through its network in China, the Dutch Agricultural Bureau should gather intelligence on how to serve Chinese interests best and how to develop business within the Chinese economic and legal context.

- **Help Dutch agri-food business operate in the complex Chinese business environment.** Dutch entrepreneurs and policy makers should take into account that China is an enormous country, a continent in itself, with several layers of governments and a large number of officials. Navigating this complex operating environment requires close coordination and collaboration between the Dutch triple helix partners. The Dutch government, especially the embassy and the Agricultural Bureau, can help Dutch agri-food businesses become more savvy about doing business in China by sharing the above mentioned intelligence. In addition, the government has an important role to play in financing projects and providing seed money for Dutch agri-food companies and knowledge institutes. A mechanism could be established to attribute funding to those activities that strengthen the national agri-food proposition to China. A wider involvement of SMEs requires particular effort, beyond current facilities provided under the Topsectors or for export promotion. Because of the importance of developing trading activities into local presence in China, the role of the Dutch government in carrying investment risks should be reassessed.
- **Strengthen Holland Branding of all agri-food actors.** The Dutch agri-food activities in China appear to develop from supplying hardware into advising and training the development of supply chains, supported by innovative technology. Such activities require that a new marketing strategy be developed. Clear focal points for marketing the Dutch expertise and technology are an 'Orange Vegetable' project and horticultural demonstration facilities. In the provinces where the Dutch employ multiple activities, the marketing and demonstration activities could be bundles with training activities, to raise the skills levels in farming and food processing up to standards for working with modern technology.
- **Strengthen the government-to-government dialogue on the investment conditions in China and market access,** in particular regarding **intellectual property rights** and **ownership rules** for activities in seed breeding, animal genetics and dairy processing. The risk of losing technology due to theft or regulatory change is considered high, and the presence of local R&D facilities

Dutch breeders will come under threat when new legislation rules out majority ownership of foreign breeding firms after 2015. China remains a closed market for many products.

- **Maintain a close diplomatic relationship with the Chinese government through the Dutch embassy, the Agricultural Bureau, the Netherlands Business Support Offices (NBSO'S), and the organization of trade missions, and state visits.** Because of Beijing's strong hand in the Chinese economy, state-to-state contacts can be an effective instrument to capitalize on opportunities and to overcome obstacles. For example, the visits of Dutch prime minister Rutte to China in 2013 and of Chinese president Xi Jinping to the Netherlands, were valuable investments into the relations between the two countries. A strategic agenda of high-level exchanges between Chinese and Dutch government officials help to foster the trust necessary for a reciprocal relationship, and may help to identify areas of cooperation that indeed result in win-win outcomes for both sides. Dutch technologies, know-how, expertise and experience that may help address China's agricultural challenges could be an important focal point for a more strategic dialogue between the Netherlands and the China. A wider involvement of the agri-food industry in trade missions and preparations of diplomatic events can help to identify the opportunities and obstacles that need to be addressed in the government-to-government dialogues. Dutch companies and knowledge institutes in China that were interviewed for this report say that the network and expertise of the Dutch embassy and the Agricultural Bureau are an asset. Therefore, it is important to keep their knowledge on Dutch activities in China up to date and maintain sufficient man power. In this light, the expansion of Dutch diplomatic presence in China is a positive development.

#### 4.4 Summarizing

In sum, the development of an overarching national agri-food strategy towards China based on reciprocity is necessary and instrumental for the Dutch government's ambition to support the Dutch Topsectors Agri & Food and Horticulture & Propagation Materials in China. While promoting the continuation and visibility of successful initiatives, the Dutch government should also develop new initiatives and take actions aimed at developing and implementing a comprehensive agri-food strategy towards China. Focusing on mutual gains for both China and the Netherlands offers a strategic perspective for action for the Dutch government to strengthen bilateral cooperation with China in the agri-food domain and potentially beyond.

# ENDNOTES

# ENDNOTES

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