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China No Match for Dutch Plants as Philips Shavers Come Home (1)
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(Updates with China economic growth in 18th paragraph.)

By Maaike Noordhuis

Jan. 19 (Bloomberg) -- Royal Philips Electronics NV workers in the Dutch town of Drachten who expected to be fired were astonished when the site manager said the company was bringing production of its top-priced electric shavers home from China.

Rob Karsmakers, the factory manager who returned from four years working for Philips in Asia, told the baffled crowd that the consumer-electronics company would boost investment in Drachten, where it employs 2,000 staff.

“A product engineer in Shanghai now is just as expensive as in Drachten,” said Karsmakers, who has overseen the plant since 2009, in an interview. “But in China, the headcount turnover is high. That is not sustainable.” Philips, which also lights the Eiffel tower and the Olympic Stadium in Beijing, employs a total of 14,000 people in the Netherlands.

The nation, the fifth-largest economy in the euro region, has expanded its allure as a manufacturing powerhouse next to its dominant German neighbor. The Netherlands leads in areas as varied as paints and combat uniforms for the U.S. Army. Apple Inc. uses chips produced by machines from ASML Holding NV for its iPhone and iPad, and TomTom NV help drivers navigate unfamiliar roads.

The Dutch trade surplus in the first nine months of last year was the second highest in the euro area behind Germany, Eurostat data show. The Netherlands was the seventh-biggest export nation in the past five years, according to ING Groep NV and the United Nations Conference on Trade and Development.

Keeping Triple-A

“The Netherlands in particular is a country of trade, it is how we earn our money,” said Maarten Leen, an economist at ING. Set up as gateway into Europe, with five major sea docks and the Schiphol airport near Amsterdam, the Dutch have managed to maintain a current-account surplus since 1981, Leen said.

Standard & Poor’s affirmed its AAA long-term credit rating on the Netherlands on Jan. 13, citing the “sustained and healthy current account surpluses,” averaging 6.4 percent between 2005 and 2010. That offset the view of a weaker-than- anticipated political climate in Europe, it said.

The Dutch have played a leading role in global economic trade for hundreds of centuries. The Dutch East India Company came to dominate business in Asia after it was founded in 1602, in the first ever initial public offering by a company, and traded spices, metals, textiles or porcelain.

Global Dutch brands today include Heineken NV beer, Royal Dutch Shell Plc and Unilever NV, the maker of Dove soap, Lipton tea and Magnum ice cream.

Chemicals, Tech

Chemical products such as Akzo Nobel NV’s Sikkens paint, and machinery such as ASML’s lithography systems make up a substantial part of export growth, on top of the traditional agriculture products such as flowers, onions and tomatoes.

The chemical and technology industries have shown the strongest growth in exports since 1996, with volume increases of
4 percent and 5.8 percent per year, respectively, data from Dutch statistical office CBS show.

"We have a superior infrastructure, with docks in Rotterdam, Delfzijl and Geleen, and the connection to the pipeline system for gas and ethylene in the surrounding countries, in Belgium, Antwerp and the Rhine-area in Germany,"
said Werner Fuhrmann, vice chairman of the VNCI Association of the Dutch Chemical Industry.

For ASML, its position in the Netherlands is key, as the company relies on a network of "hundreds of high-tech suppliers" and research institutes to develop its lithography scanners, Chief Financial Officer Peter Wennink said.

Specialized work "we can do fast and effectively with partners in the south of the Netherlands," he said.

Emerging Challenge

ASML, which has a 80 percent market share in the semiconductor equipment sector, is part of the Brainport area in the southern part of the Netherlands, an industrial hub that combines industries from food, to automotive to design and technology, including Philips and TomTom.

The country's corporate prowess has attracted suitors. In the past decade, Dutch companies, including ABN Amro Bank NV, previously the country's largest bank, and Royal KLM NV, the national carrier, have fallen into the hands of foreign owners, leading to widespread controversy in the Netherlands about a national company sell-out.

Today, the Dutch have other challenges. With the lingering European debt crisis, and two thirds of exports still dependent on Western Europe, the country faces a "great challenge" to match the growth it has seen in the past 15 years,'' Leen said, adding the Netherlands still hasn't made its mark in emerging economies, specifically in Asia.

China's economy expanded in the fourth quarter at the slowest pace in more than two years as Europe's debt crisis curbed demand for exports and the property market was weakened by measures to rein in home prices.

With the gravity point of the world economy shifting to countries like China, India and Brazil, innovation in the Netherlands should help the country maintain its trade position, Economics Affairs Maxime Verhagen said in a speech last year at the Wageningen University in the Netherlands.

The future lies in developing innovative products that help cut CO2-emissions, tackling the fallout of aging populations, and the growing demand for food from a growing global population, Verhagen said, referring to products such as Philips home healthcare offerings and Royal DSM NV's light material Aircargo containers.

"A big threat for industry in the Netherlands, or even Europe as a whole, is that governments erode fundamental innovation and education," Peter Wennink, CFO of ASML, said in an interview.

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