

# Direct investment and Belgium's attractiveness

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## Introduction

With the expansion of international trade, foreign direct investment (FDI) is both one of the most visible manifestations of the globalisation of the economy and a development factor for a good many countries. For the emerging countries, in particular, it is a catalyst of economic growth. In the industrialised countries, it is a way of adapting production capabilities to meet the challenges presented by international competition and seize the opportunities offered by the emergence of new markets. FDI therefore represents an option to be considered by firms in defining their strategy.

In view of the small size of the Belgian economy and its very open character, FDI plays a significant role. That is partly reflected in the financial structure of resident firms. In fact, according to the results of the survey of direct investment conducted annually by the Bank, 47.6 p.c. of the equity capital invested in Belgian companies as a whole on 31 December 2005 was owned directly or indirectly by foreign shareholders. Moreover, 14 p.c. of the interests owned by those same companies in other businesses consisted of foreign investments.

The purpose of the article is to analyse these direct investment links and to view them in perspective, both over time and in relation to other developed countries, especially neighbouring countries. In addition, it aims to identify the main factors determining recent developments and Belgium's relative position in 2005, the latest year for which exhaustive data are available. An attempt will also be made to identify which of these factors are common to other countries and which are more specific

to Belgium, thus constituting comparative advantages or disadvantages.

The first section of the article will outline the global trends in foreign direct investment which have also affected Belgium. Once the international context has been defined, the importance of FDI in Belgium can be ascertained at the start of the second section. FDI appears to play a greater role in Belgium than in most other developed countries, and an attempt will be made to explain the reasons, e.g. by reference to the specific nature of certain FDI flows.

Although the Belgian economy has long been more open to trade and capital flows with the rest of the world than other developed countries, it seems that in recent times Belgium has once again distinguished itself from its neighbours, and from the EU<sup>(2)</sup> countries in general, with a larger increase in its outward FDI and an at least equally substantial increase in its inward FDI. That finding at the end of the second section prompts a more detailed examination of Belgium's outward FDI in section 3 and its inward FDI in section 4.

Section 3 will focus in particular on showing the countries and industries to which Belgium has devoted the most FDI, and examining whether there have been signs of any changes recently, such as an increase in labour-intensive investments in emerging countries.

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(2) In this article, the abbreviation 'EU' is used to mean the twenty-seven Member States making up the European Union.

In section 4 we aim to determine the industries and business functions attracting more or less FDI in Belgium than elsewhere in the EU. In the light of that information, section 5 will focus on the reasons why foreign investors may be interested in locating a project in Belgium rather than in another EU country.

## 1. Global trends in foreign direct investment

Following an initial expansion during the 1980s, particularly during the preparations for the single European market, the total amount of FDI in the world surged during the 1990s. This rise was due in particular to the lifting of barriers to foreign trade and capital movements, and to the liberalisation or privatisation of previously pro-

tected sectors, which boosted the degree of competition on certain markets. To cope with these developments and safeguard their competitiveness, firms had to revise their strategies by securing a presence in the largest possible number of markets, and – if appropriate – cutting their costs through international fragmentation of production. The adoption of these new strategies was reflected, for instance, in the creation of new foreign subsidiaries, particularly in the emerging economies, where they are the commonest method of foreign investment, and also in cross-border mergers and acquisitions, which account for the bulk of the FDI flows in the industrialised countries. The expansion of direct investment and the creation of foreign subsidiaries were also facilitated by the progress of information and communication technologies, which favours the integrated management of multinational groups.

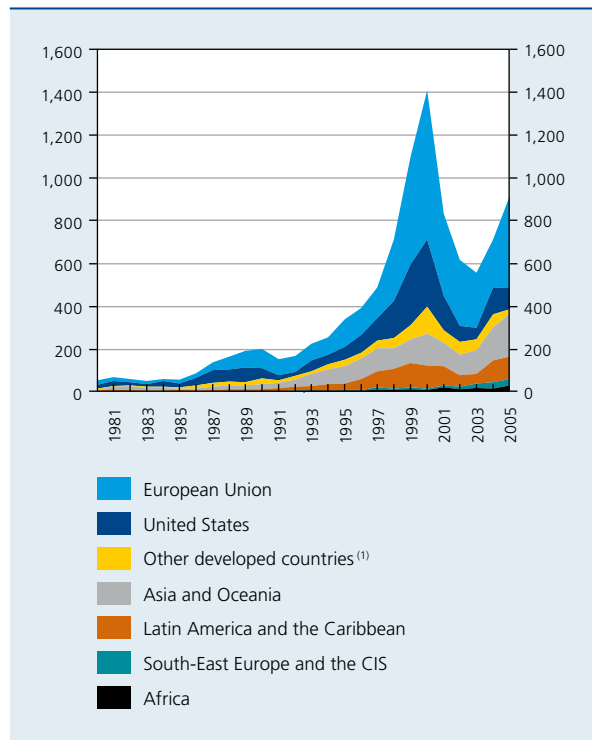
### FDI statistics

FDI is a phenomenon whose scale and contribution to economic development are still difficult to grasp and to quantify. It is generally measured on the basis of the flow statistics obtained from the balances of payments compiled by each country in accordance with the principles laid down by the International Monetary Fund (IMF, 1993). The IMF defines direct investment as a situation where a resident entity in one economy (direct investor) obtains a lasting interest in an enterprise resident in another economy (direct investment enterprise), implying the holding of at least 10 p.c. of the ordinary shares or voting power. The amounts of the flows recorded in the balance of payments relate not only to investment in the equity capital, which establishes this relationship of lasting interest, but also in capital contributions in the form of reinvested earnings and inter-company loans.

In Belgium, in addition to the flows recorded in the balance of payments, the direct investment links of resident enterprises are also recorded via an annual survey conducted by the Bank. That survey aims more particularly to compile statistics on FDI stocks as estimated on the basis of the book value of the equity capital – which comprises both investments in the capital stock and reinvested earnings – held by direct investors in direct investment enterprises, and that of the inter-company loans which they grant them. In comparison with the statistics available in the balance of payments, the range of variables covered by the survey is considerably extended. In particular, the survey also takes account of interests which direct investors control via indirect ownership links, i.e. through one or more related companies. In addition, it provides information on the scale of the activity of foreign subsidiaries of Belgian enterprises and subsidiaries of foreign enterprises in Belgium, measured on the basis of their turnover and the number of persons employed. Although they concern only enterprises in which foreign investors directly own more than 50 p.c. of the equity capital, these data on foreign subsidiaries provide valuable information on the economy activity which can genuinely be attributed to direct investment capital.

However, the FDI data have a number of drawbacks, connected mainly with their financial nature. In particular, the figures relating to inward FDI in an economy may be considerably overestimated as a result of capital transfers for which a resident company is merely acting as intermediary. Moreover – and that is a drawback which they share with the statistics on foreign subsidiaries – the FDI data do not permit any distinction between the share of the investments relating to the acquisition of interests in existing companies and those which give rise to a real expansion of the production facilities.

**CHART 1** FOREIGN DIRECT INVESTMENT INFLOWS  
BY GROUPS OF COUNTRIES  
(billions of US dollars)



Source : UNCTAD.

(1) Australia, Canada, Gibraltar, Iceland, Israel, Japan, New Zealand, Norway and Switzerland.

Having peaked in 2000, the volume of FDI contracted sharply between 2001 and 2003. That fall is attributable partly to the decline in economic activity during that period. It is also due to a debt reduction phase following the wave of mergers and acquisitions which occurred in the late 1990s. Finally, since FDI flows are recorded on the basis of the market value of the assets involved in the transactions, both their decline in 2001 and their very rapid growth rate in the late 1990s largely mirrored the stock market movements, especially the financial bubble which burst in 2001.

The developed countries are not only the source of the vast majority of FDI, they are also its main recipients. However, the past two decades have also seen the emergence of new players among the developing countries, such as China and India, and among the East European countries which recently joined the EU. Those countries, which offer both new markets for firms from industrialised countries and opportunities to cut their production costs, contributed more particularly to the global revival of FDI in 2004, but its continuation in 2005 was driven mainly by new mergers and acquisitions in the developed countries.

The recent FDI revival is also due to the rising price of commodities, especially oil, which triggered more investment in countries rich in natural resources (UNCTAD, 2006). The higher cost of energy also pushed up transport costs. This prompted some firms to expand the number of their subsidiaries, particularly in activities relating to transport and logistics (Cushman & Wakefield, 2006).

FDI flows also feature a growing proportion of investment on the part of service companies, thus reflecting the sectoral changes and the progressive expansion of the tertiary sector in the global economy.

## 2. Belgium, a key player in FDI

### 2.1 Importance of FDI in Belgium

Between 2003 and 2005, FDI in- and outflows recorded in Belgium's balance of payments averaged 10.6 and 9.8 p.c. respectively in relation to GDP. The FDI flows in Belgium thus substantially exceeded those seen in the majority of other European countries in relation to the size of the economy.

These differences are due largely to the fact that many companies based in Belgium act as financial centres for the multinational groups to which they belong. That applies, in particular, to the coordination centres which represent a significant proportion of Belgium's FDI flows. Enjoying special tax status, these companies are primarily intended to centralise the financial transactions of enterprises belonging to the same multinational groups as themselves. A very large part of the foreign capital which they receive is thus reinvested outside Belgium. As a result, the funds passing through the coordination centres greatly amplify the volume of Belgium's inward and outward FDI.

Excluding the capital movements attributable to the coordination centres<sup>(1)</sup>, both FDI in- and outflows would average only 5.8 p.c. of GDP over the period 2003-2005. Nonetheless, Belgium's FDI flows are still well in excess of those generally seen in the EU, where FDI inflows averaged 2.5 p.c. of GDP and FDI outflows 3.1 p.c.

The fact that Belgium is more open to direct investment is also reflected in the statistics on FDI stocks. According to the results of the Bank's survey of direct investment, FDI stock in Belgium, excluding the figures for the

(1) Namely the 224 companies licensed as coordination centres in March 2005.

**TABLE 1** DIRECT INVESTMENT FLOWS AND STOCKS IN THE VARIOUS GEOGRAPHICAL REGIONS<sup>(1)</sup>  
(percentages of GDP)

	Inward				Outward			
	1997-1999	2000-2002	2003-2005	Stock in 2005	1997-1999	2000-2002	2003-2005	Stock in 2005
Developed countries .....	2.1	2.5	1.4	21.6	2.6	2.6	2.0	27.7
European Union <sup>(2)</sup> .....	3.3	4.2	2.5	33.9	4.8	4.6	3.1	40.2
of which:								
Belgium .....	9.2	8.2	10.6	103.9	6.4	9.3	9.8	98.6
<i>p.m. Belgium, excluding       coordination centres</i> .....	7.9	4.9	5.8	65.0	4.7	4.3	5.8	53.0
Germany .....	1.5	3.9	0.6	18.0	3.8	1.6	0.7	34.6
France .....	2.2	2.7	2.3	28.5	4.6	5.9	3.8	40.5
Netherlands .....	6.8	9.3	3.8	74.1	9.0	10.5	10.5	102.6
United Kingdom .....	4.1	3.6	3.9	37.1	8.0	6.2	4.2	56.2
Twelve new members .....	3.8	4.0	4.7	37.5	0.2	0.2	0.7	3.2
United States .....	1.8	1.7	0.8	13.0	1.4	1.2	1.0	16.4
Other developed countries <sup>(3)</sup> .....	0.8	1.2	0.6	13.5	1.4	1.8	1.6	23.8
Developing countries .....	2.9	2.8	3.0	26.4	1.0	1.1	1.1	12.4
Asia and Oceania .....	2.4	2.4	2.8	23.2	0.9	1.1	1.1	13.0
of which:								
China (excluding Hong Kong) ...	3.4	3.2	3.5	14.3	0.2	0.2	0.2	2.1
India .....	0.5	0.8	0.8	5.8	0.0	0.2	0.2	1.2
Latin America and the Caribbean ....	4.9	4.3	3.8	36.7	1.6	1.8	1.2	13.5
South-East Europe and CIS .....	1.7	1.4	3.2	20.6	0.5	0.5	1.5	11.7
of which:								
Russian Federation .....	1.0	0.7	2.1	17.3	0.6	0.7	2.1	15.7
Africa .....	1.8	2.1	2.8	28.2	0.4	0.0	0.2	5.8
<b>Total</b> .....	<b>2.3</b>	<b>2.6</b>	<b>1.8</b>	<b>22.8</b>	<b>2.3</b>	<b>2.3</b>	<b>1.8</b>	<b>23.8</b>

Sources: UNCTAD, NBB.

(1) The groupings by geographical regions used here correspond to those generally given in UNCTAD reports (cf. UNCTAD, 2006). However, Bulgaria and Romania have been transferred to the group of the new EU member countries.

(2) Including FDI between member countries.

(3) Australia, Canada, Gibraltar, Iceland, Israel, Japan, New Zealand, Norway, Switzerland.

coordination centres, came to 65 p.c. of GDP for 2005, while Belgium's FDI stock in other countries came to 53 p.c. of GDP. The inward and outward FDI stocks for the EU as a whole, calculated according to the statistics published by UNCTAD, are estimated at 33.9 and 40.2 p.c. respectively of GDP. The differences are also very marked when Belgium's FDI is compared with that of the economies which are relatively more comparable, especially its main neighbours. Of those countries, only the Netherlands has higher ratios than Belgium.

The role played by foreign investment in the Belgian economy is therefore significant. According to the results of the survey of direct investment for 2005, the capital controlled directly by foreign investors represents 35.1 p.c. of the total equity capital of Belgian firms. By adding the capital which they control via indirect ownership, i.e. through one or more related companies in which they also own shares, that proportion is increased to 47.6 p.c. However, that figure tends to overvalue somewhat the actual level of foreign involvement in the Belgian production set-up, as the coordination centres alone account for 19.5 p.c. of the total equity capital of resident enterprises.

**TABLE 2** SIGNIFICANCE OF DIRECT INVESTMENT IN THE BELGIAN ECONOMY IN 2005  
(percentages)

<b>Foreign direct investment in Belgium</b>	
Share of foreign direct investment in the capital of Belgian enterprises	
Direct ownership only .....	35.1
of which coordination centres .....	12.1
Direct and indirect ownership .....	47.6
of which coordination centres .....	19.5
Direct investment enterprises (in which a foreign investor owns 10 p.c. or more of the equity capital)	
Share in the turnover of resident enterprises .....	50.4
Share in the employment of resident enterprises .....	21.6
Subsidiaries of foreign enterprises (in which a foreign investor owns more than 50 p.c. of the equity capital)	
Share in the turnover of resident enterprises .....	37.7
Share in the employment of resident enterprises .....	15.2
<b>Direct investment by Belgium in other countries</b>	
Direct investment in foreign equity capital as a percentage of total shareholdings in related companies .....	
	14.0
Foreign subsidiaries of resident enterprises (in which a resident investor owns more than 50 p.c. of the equity capital)	
Turnover of subsidiaries as a percentage of the turnover of resident enterprises .....	16.6
Employment in subsidiaries as a percentage of employment in resident enterprises .....	14.6

Source : NBB.

Resident direct investment enterprises account for over half of the turnover of Belgian companies taken as a whole. Those same companies also employ 21.6 p.c. of the total number of employees in resident enterprises. Enterprises considered to be subsidiaries of foreign firms, i.e. those in which foreign shareholders own more than 50 p.c. of the capital via direct shareholdings, in themselves account for 37.7 p.c. of the turnover of resident enterprises and 15.2 p.c. of their workforce, namely 357,600 employees.

Belgium's FDI in other countries represents 14 p.c. of the interests held by resident enterprises in related companies<sup>(1)</sup>. The scale of the economic activity generated by these foreign investments is still far less than that effected within the country. On the basis of the statistics for subsidiaries of Belgian firms based abroad, which employed 343,864 staff in 2005, the volume of this activity outside national territory can be estimated at around 15 p.c. of that taking place within Belgium.

(1) That percentage is unaffected by the direct investments of coordination centres. Since the latter are not authorised to hold shares in other companies, inter-company loans are the only means by which they transfer capital.

The relative importance of FDI in the Belgian economy is due to its small size and its longstanding openness to both capital movements and foreign trade. In that regard, Belgium's central location in western Europe certainly played a major role in the establishment of the first foreign subsidiaries on Belgian soil, where they enjoyed easy access to the European market, with the added facility of efficient transport and communication infrastructures. The industrial policies pursued in Belgium, notably via the economic expansion laws of 1959, and later the special tax status granted to coordination centres since 1982, also enhanced the country's attractiveness for foreign investors.

## 2.2 Recent developments

In recent years, Belgium's FDI in other countries has grown steadily. Flows thus increased from 9.3 to 9.8 p.c. of GDP between the sub-periods 2000-2002 and 2003-2005, in a context in which FDI outflows declined from 4.6 to 3.1 p.c. of GDP in the EU as a whole. This relative dynamism led to an increase in the total foreign shareholdings of Belgian

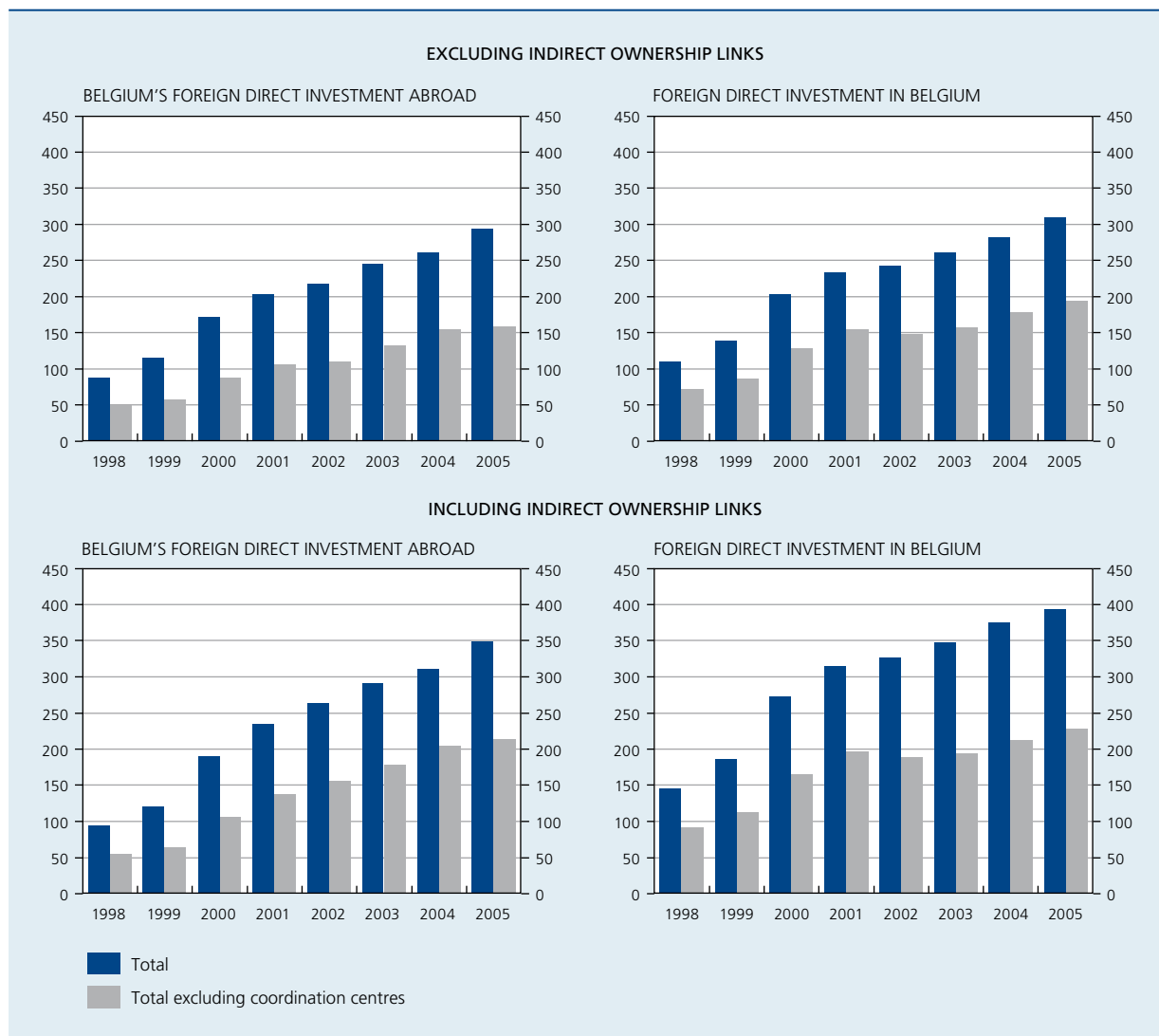
companies. Funds passing through the coordination centres certainly made a major contribution, but the FDI stock held directly by other enterprises tripled between 1998 and 2005. That growth appears even stronger if account is taken of the rising importance of capital owned via indirect ownership, which represent almost 16 p.c. of the FDI stock of Belgian enterprises in 2005.

While the total amount of foreign shareholdings in Belgian companies already exceeded that of Belgium's FDI in other countries, its expansion was more modest between 1998 and 2005. In particular, leaving aside the coordination centres, stabilisation occurred in 2002 and 2003. The flow figures presented in table 1, recorded by an accounting method different from that used for the stock statistics

– namely on the basis of the market value of the capital transferred, and not its book value – present a slightly more favourable picture, as FDI inflows expressed as a percentage of GDP continued to increase in Belgium over the period 2003-2005 compared to previous years, rising from 4.9 to 5.8 p.c. of GDP, excluding the coordination centres. Over the same period it declined from 4.2 to 2.5 p.c. of GDP in the EU as a whole, despite the increase recorded in the twelve new member countries.

However, the picture of a general rise in direct investment flows from and to Belgium needs to be qualified. Apart from the fact that it was greatly influenced by capital channelled through the coordination centres, other financial transactions also played a role. These include a

**CHART 2** DIRECT INVESTMENT STOCKS  
(billions of euro)



Source : NBB.

number of mergers and acquisitions, particularly in the banking sector towards the end of the 1990s, and more recently at the time of the creation of a Belgian-Brazilian brewery group in 2004 and the takeover of the main Belgian electricity operator by a foreign investor in 2005. As a general rule, these sporadic large-scale deals are not directly reflected in the formation of physical capital.

Investments which may actually lead to the creation or expansion of activities are commonly known as greenfield investments. They are recorded in the microeconomic databases set up mainly by consultancies or public agencies which promote FDI on the basis of publicized projects. Unlike the FDI statistics, these data take no account of disinvestments. Therefore, they cannot be used to illustrate relocations in the form of a simple transfer of activities from one country to another.

According to the figures published by UNCTAD on the basis of data collected by Locomonitor, the number of greenfield projects increased in Belgium between 2002 and 2005, but at a rate similar to that for the EU as a whole. Over the same period, the number of projects conducted by resident enterprises outside the country increased constantly in the case of Belgium, and at a slightly faster rate than in other EU countries. Consequently, Belgium's share in the total outward projects of EU countries, including flows within the EU, increased from 1.9 to 2.7 p.c. between those two years.

### 3. Motives behind Belgian investments abroad

For a business, the motives for embarking on a foreign direct investment are generally very diverse, and may vary considerably from one project to another. It is nevertheless possible to allocate them to various categories such as those used by Dunning (1998), who distinguishes between resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking investments.

Resource-seeking investments concern the exploitation of natural resources, and their location is therefore determined by the presence of those resources. Market-seeking FDI is motivated by the opportunity to tap new markets. It usually takes the form of production units encompassing the entire process of value added creation, and the choice of location is determined exclusively by proximity to the markets where the output is sold. Conversely, the choice of destination for efficiency-seeking investments depends on the possibility for achieving efficiency gains by fragmenting the production process internationally in order to take advantage of differences between countries

in the cost of factors such as labour, or other comparative advantages whose relevance varies according to the type of activity in question. In this case, the decision to locate a production unit in a particular country is therefore closely linked to the potential advantages of that country for a particular segment of the value added chain. Strategic asset-seeking investments, effected by the acquisition of shares in existing businesses, are aimed essentially at appropriating elements such as patents or market position, as a way of increasing the competitiveness of the underlying businesses. In practice, the investment and location strategies of firms active in a number of countries are often far more complex, and these various types of motives may be combined.

In the absence of direct information on the motives behind the foreign investments of Belgian enterprises, the reasons can be deduced from their location and the industries behind them.

Just as other developed countries are the main source of FDI in Belgium, most of Belgium's FDI stock is located in those same countries with which it has long-standing trade links, especially neighbouring countries and the United States. In 2005, the four neighbouring countries and the United Kingdom accounted for some 60 p.c. of the total, partly owing to cross-shareholdings linking resident enterprises with sister companies in neighbouring countries. The United States accounted for a substantial proportion of the activities of foreign subsidiaries (36 p.c. of total employment and 18 p.c. of turnover), owing to some large retail chains owned by a Belgian distribution group.

The close links between companies in nearby countries are not only due to strategic interests but also reflect the real expansion of activities. More than half the greenfield investment projects<sup>(1)</sup> initiated by Belgian firms in 2005 were located in developed countries, and over 40 p.c. of that total in nearby countries, namely France, the United Kingdom, Germany and the Netherlands, in descending order of importance. However, these projects are relatively less labour-intensive than those in other geographical regions, representing only just over one-fifth of jobs created by foreign greenfield investment initiated by Belgian firms.

(1) The data giving a geographical breakdown of greenfield investment projects by Belgian firms in other countries were obtained from IBM-Plant Location International.

**TABLE 3** GEOGRAPHICAL BREAKDOWN OF THE FDI OF BELGIAN ENTERPRISES

(percentages of the total, unless otherwise stated)

	Direct investment stock <sup>(1)</sup>		Subsidiaries established abroad 2005 <sup>(2)</sup>			<i>p.m.</i> GDP growth expected for the period 2007-2011
	1998	2005	Turnover	Employment	Share of manufacturing employment <sup>(3)</sup>	
Developed countries	92.4	88.9	85.3	82.4	24.6	2.5
European Union	73.4	74.3	62.8	44.4	35.0	2.0 <sup>(4)</sup>
of which:						
Germany	7.0	4.8	7.9	4.6	33.2	1.5
France	12.6	10.0	17.5	10.5	39.3	2.0
Luxembourg	9.6	17.7	4.9	6.2	3.6	<i>n.</i>
Netherlands	27.7	24.1	4.0	3.5	25.7	2.4
United Kingdom	5.5	3.7	11.7	7.7	41.5	2.2
Twelve new members	1.2	7.4	3.5	5.8	49.5	4.5 <sup>(5)</sup>
United States	14.2	11.9	18.4	35.7	10.4	3.0
Other developed countries <sup>(6)</sup>	4.7	2.7	4.1	2.3	44.6	2.3 <sup>(7)</sup>
Developing countries	7.6	11.1	14.7	17.6	21.8	6.0
Asia and Oceania	1.2	4.4	10.8	9.7	24.9	6.9 <sup>(8)</sup>
of which:						
China (excluding Hong Kong)	0.6	0.4	0.6	1.3	88.1	8.8
South Korea	0.1	2.2	8.4	2.1	4.5	4.8
India	0.1	0.0	0.1	0.8	84.7	7.5
Latin America and the Caribbean	4.9	4.9	1.2	3.4	22.5	4.0 <sup>(9)</sup>
South-East Europe and CIS	0.1	1.2	1.7	0.5	41.4	5.6 <sup>(10)</sup>
of which:						
Russian Federation	0.0	0.8	1.6	0.3	55.9	5.7
Africa	1.4	0.6	1.0	4.0	11.4	<i>n.</i>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>24.1</b>	<b>3.2</b>

Sources: Consensus Forecasts (October 2006), NBB.

(1) Including capital indirectly owned, excluding coordination centres.

(2) Enterprises in which over 50 p.c. of the capital stock is directly owned.

(3) The breakdown is based on the industries of the resident enterprises initiating the FDI.

(4) Excluding Luxembourg.

(5) Czech Republic, Hungary, Poland, Romania and Slovakia.

(6) Australia, Canada, Gibraltar, Iceland, Israel, Japan, New Zealand, Norway and Switzerland.

(7) Australia, Canada, Japan, New Zealand, Norway and Switzerland.

(8) China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and Turkey.

(9) Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

(10) Russia and Ukraine.

Between 1998 and 2005, a growing proportion of FDI was going to the twelve newest EU members. There, manufacturing industry represents half of the employment in subsidiaries of Belgian enterprises, whereas it represents only a third of jobs in subsidiaries established in the initial fifteen EU Member States. The manufacture of machinery and equipment in itself represents around 17 p.c. of total jobs in subsidiaries in those countries.

Part of Belgium's FDI is also focused more on the developing countries. However, in 2005 they represented only 11 p.c. of the FDI stock of Belgian firms. Among this group of countries, the proportion of FDI going to South-eastern Europe and the Commonwealth of Independent States has risen slightly, following investments in various industries, usually in service industries.



The share of the Asian countries in the FDI stock has also increased, though that of China and India is still marginal. The increase in stocks in the Asian countries was concentrated particularly in South Korea, Singapore and Hong Kong. Service businesses were the main driving force. The developing countries, especially in Asia, represent a larger share in the geographical breakdown of employment and turnover of subsidiaries than in the breakdown of total FDI stock, and that share has also risen in the past few years. In the Asian countries, manufacturing industry accounts for a quarter of jobs in subsidiaries, of which 11.5 p.c. is in metalworking.

The developing countries have become a leading destination for labour-intensive investments. That characteristic is evident in the fact that employment in subsidiaries located in developing countries, as a percentage of total employment in foreign subsidiaries of resident enterprises, is generally greater than their share in turnover. Similarly, while greenfield projects initiated by Belgian firms were less numerous in those countries than in the developed countries in 2005, they represented around 60 p.c. of the jobs created by such new investment in that year. Projects launched by Belgian enterprises generated particularly large numbers of jobs in China, Latin America, Russia and North Africa.

According to the stock statistics, firms involved in services accounted for almost 60 p.c. of Belgian FDI abroad in 2005, mainly business services and the financial sector, which include holding companies. Trade also held a significant position<sup>(1)</sup>. Manufacturing industry, which has represented a declining share of FDI by Belgian firms in other countries since 1998, accounted for only just over a third of Belgium's outward FDI stock and a fifth of the employment and turnover of subsidiaries. The manufacturing industry investing most heavily abroad is the chemical industry, whose foreign greenfield investments have been more job-intensive than those effected in Belgium. Among the other manufacturing industries, there have been labour-intensive greenfield investments in the food industry, textiles, rubber and plastic products and other non-metallic products.

FDI in developed countries, which still account for the bulk of the total foreign investment of Belgian firms, seems to be intended mainly to establish a presence in prosperous markets, in particular via mergers and acquisitions.

In regard to the factors which may encourage Belgian firms, in common with those of many EU-15 countries, to invest in emerging countries such as China, Russia and the countries which have joined the EU since 2004, it is also worth mentioning the importance of the factors determining market-seeking investments. These countries, which have enjoyed above-average growth in preceding years, also offer good growth prospects for the years 2007-2011, still better than those for the rest of the world.

Apart from sales opportunities, FDI in these countries may also be justified by efficiency-seeking arguments, mainly because the cost of labour is much lower in the emerging countries than in developed countries. The structure of Belgium's FDI seems to indicate that investments aimed at cutting production costs represent only a relatively small proportion at present. In fact, the low wage countries only account for a fairly modest proportion of the employment and turnover of subsidiaries located abroad, which suggests that the amount of FDI motivated by the relocation of activities to those countries is still small. However, the FDI statistics take no account of the other form of relocation, namely international outsourcing.

#### 4. Structure of foreign investment in Belgium

The industry structure of FDI in Belgium is fairly similar to that of Belgium's FDI abroad, the main reason being the large number of cross shareholdings between firms belonging to the same international groups. Thus, as in other developed countries, the FDI of foreign enterprises in Belgium is concentrated mainly in the service industries. Business services, in particular, represent no less than 22 p.c. of the inward FDI stock, even without the coordination centres. These are followed, in descending order of importance, by trade, financial activities, transport, storage and communication services. One-third of inward FDI goes into manufacturing industry. Nevertheless, according to the statistics on foreign subsidiaries only, this industry accounts for about half of the economic activity they generated.

Compared to other developed countries, the industries comprising chemicals, electricity, gas and water production, trade, transport and communications, and business services are more strongly represented in the FDI received by Belgium. Conversely, the manufacture of machinery and equipment, manufacture of transport equipment, financial intermediation services and construction work appear to be under-represented in the FDI in Belgium. However, the share of manufacturing activities is greater

(1) The share represented by trade in the statistics on subsidiaries increased from 2005 onwards as a result of the inclusion of firms in the United States owned by a Belgian distribution group.

**TABLE 4** BREAKDOWN BY INDUSTRY<sup>(1)</sup> OF DIRECT INVESTMENT IN 2005  
(percentages of the total)

	Direct investment stock			Turnover		Employment	
	By Belgium in other countries <sup>(2)</sup>	By other countries in Belgium <sup>(2)</sup>	<i>p.m. FDI in developed countries in 2004</i>	Foreign subsidiaries of Belgian enterprises	Subsidiaries of foreign enterprises in Belgium	Foreign subsidiaries of Belgian enterprises	Subsidiaries of foreign enterprises in Belgium
Agriculture, hunting, forestry .....	0.0	0.3	0.1	0.0	0.0	0.0	0.0
Mining and quarrying .....	1.8	3.6	3.5	1.7	0.1	2.7	0.2
Manufacturing industry .....	34.2	33.6	32.7	22.4	54.2	24.1	51.2
Food products, beverages and tobacco .....	5.2	3.3	3.2	3.5	4.2	2.4	4.6
Chemical, rubber and plastic products .....	11.3	14.4	9.4	6.9	13.5	7.7	13.1
Basic metals and fabricated metal products ...	1.9	2.7	2.4	2.7	5.0	3.1	7.3
Manufacture of machinery and equipment ...	0.6	0.9	2.2	3.6	2.0	4.2	3.9
Manufacture of electrical and electronic equipment .....	0.6	0.8	3.5	1.8	1.8	2.8	4.1
Manufacture of transport equipment .....	0.2	0.7	3.8	0.7	6.9	0.7	10.8
Other manufacturing industries .....	14.4	10.8	8.2	3.2	20.7	3.1	7.4
Construction work .....	0.4	0.4	0.8	0.9	0.5	3.5	1.4
Electrical energy, gas, steam and hot water ....	4.0	4.5	2.3	1.1	0.4	0.2	0.1
Services .....	58.9	57.1	59.8	73.2	44.8	69.0	47.1
Trade and repair .....	9.0	15.0	11.7	40.7	34.3	44.9	15.7
Transport, storage and communication services .....	6.7	7.4	5.0	3.0	4.3	3.2	5.4
Financial intermediation services .....	10.1	11.5	20.6	16.4	0.5	5.8	0.9
Real estate, renting and business services ....	32.1	22.2	14.3	12.4	5.2	13.6	21.7
Other services .....	1.0	0.9	8.2	0.8	0.5	1.6	3.3
Unspecified or other activities .....	0.5	0.5	0.8	0.6	0.0	0.5	0.0
<b>Total</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Sources: UNCTAD, NBB.

(1) Breakdown based on the industry of resident enterprises.

(2) Including capital indirectly owned, excluding coordination centres.

if the statistics on subsidiaries are taken into account. For example, the manufacture of transport equipment, especially motor vehicle assembly, represented almost 11 p.c. of employment in subsidiaries of foreign firms based in Belgium in 2005.

The Locomonitor data on greenfield investments effected between January 2002 and February 2007 in the EU countries largely confirm Belgium's sectoral strengths and weaknesses as indicated by the structure of FDI, and permit a more detailed diagnosis, particularly by extending it to include a breakdown of projects by business function. This database has listed 521 greenfield projects

in Belgium over the period considered, out of a total of 17,032 projects for the EU as a whole. Belgium thus attracted 3.1 p.c. of inward projects in the EU, whereas in terms of population it represents only 2.1 p.c.

Since greenfield investments are recorded on the basis of their real impact on the economy, manufacturing industry represents a greater share here than in the aggregates relating to FDI stocks, which also cover financial links. Thus, for the EU as a whole, almost 60 p.c. of the projects initiated are manufacturing-related, the remaining 40 p.c. leading to the establishment of service activities.

**TABLE 5** BREAKDOWN BY INDUSTRY AND BY KEY BUSINESS FUNCTION OF GREENFIELD PROJECTS CONDUCTED IN THE EU BETWEEN JANUARY 2002 AND FEBRUARY 2007

(percentage share of each country in the EU total, unless otherwise stated)

	Belgium	Five neighbouring countries	Twelve new EU countries	<i>p.m.</i> Weight of the industry or key business function in the EU total
<b>By industry</b>				
Industry .....	3.3	31.6	41.5	59.7
of which:				
Chemicals, plastics and rubber .....	7.8	39.0	29.2	4.7
Life sciences .....	4.4	43.2	18.4	4.9
Transport equipment .....	4.1	27.6	50.5	9.3
Heavy industry .....	3.1	34.8	42.9	10.4
Light industry .....	2.5	31.6	40.4	10.0
Food, beverages and tobacco .....	2.2	19.6	55.1	8.2
Electronics .....	2.1	36.0	40.6	7.1
Consumption goods .....	1.8	27.7	37.5	5.1
Services .....	2.7	42.8	27.9	40.3
of which:				
Logistics and distribution .....	7.0	38.9	30.3	3.8
Information and communication technologies (ICT) .....	2.8	54.1	16.4	15.8
Financial business and services .....	2.7	43.2	27.4	12.1
Property, tourism and leisure .....	0.8	22.8	48.9	8.5
<b>Total</b> .....	<b>3.1</b>	<b>36.1</b>	<b>36.0</b>	<b>100.0</b>
<b>By key business function</b>				
Logistics and distribution .....	7.8	37.8	32.7	6.3
Testing .....	4.2	39.4	28.2	0.4
Training .....	4.1	52.7	24.3	0.4
R&D .....	3.6	42.2	21.3	4.6
Customer support centre .....	3.6	47.7	18.6	1.6
Manufacturing production .....	3.6	26.6	52.4	26.6
Headquarters .....	3.5	62.3	7.3	4.0
Sales, marketing and support .....	3.0	55.0	17.8	18.1
Internet or ICT infrastructure .....	2.9	37.7	29.5	1.2
Technical support centre .....	2.9	38.5	33.7	0.6
Business services .....	2.9	43.9	26.7	10.6
Electricity .....	2.4	34.5	33.9	1.0
Shared services centre .....	1.9	19.6	50.6	0.9
Maintenance service .....	1.5	42.3	39.4	0.8
Retail .....	1.3	22.2	42.7	17.2
Extraction .....	0.8	24.2	39.5	0.7
Construction .....	0.7	17.8	59.3	4.8
<b>Total</b> .....	<b>3.1</b>	<b>36.1</b>	<b>36.0</b>	<b>100.0</b>
<i>p.m.</i> Population .....	2.1	47.3	21.2	

Source: Locomonitor.

In the service sector, Belgium attracted only 2.7 p.c. of the greenfield projects coming into the EU. It is under-represented in property, tourism and leisure, an activity for which it is less well-endowed with natural resources than other European countries with the exception of its neighbours, but also – albeit to a lesser extent – in financial and business services, and in information and communication technologies. These two Belgian weaknesses correspond to strengths in the five neighbouring countries taken as a whole. On the other hand, logistics and distribution, activities associated with transport and communication services, are one of Belgium's strengths.

As regards manufacturing industry, 3.3 p.c. of greenfield projects coming into the EU were located in Belgium. It specialises in particular in chemicals, including plastics and rubber, life sciences and the manufacture of transport equipment. For the majority of these activities, especially vehicle assembly, the Central European countries – the Czech Republic, Hungary, Poland and Slovakia – are serious competitors. Conversely, Belgium is under-represented in greenfield projects concerning the production of consumer goods, electronics and, to a lesser extent, the food industry.

The business function in which Belgium is by far the most specialised is logistics and distribution. It attracted no less than 7.8 p.c. of this type of greenfield project conducted in the EU. Some Central European countries, such as Poland and Hungary, are making increasing inroads into these activities.

In addition, as in the five neighbouring countries taken as a whole, Belgium is relatively specialised in various high value-added support activities, such as testing, training, customer support, R&D and headquarters. Its share of manufacturing projects (3.6 p.c.) also exceeds its share of total greenfield projects. This strength distinguishes Belgium from each of its five nearest neighbours. On the other hand, manufacturing is the dominant activity in most of the countries which have joined the EU since 2004. Taken together, these new EU Member States have received over half of the greenfield projects concerning the production of goods, whereas their share in total greenfield projects is only 36 p.c.

The activities in which Belgium is under-represented are construction, extraction, retail, maintenance services and shared service centres. Also, in contrast to its five neighbouring countries, Belgium does not specialise in sales, marketing and support.

In the opinion surveys such as the Ernst & Young Attractiveness Barometer (2006), business leaders also consider that Belgium is relatively good at attracting activities such as storage and logistical centres, headquarters, R&D centres, and back offices. Yet the ability which Belgium has demonstrated in attracting manufacturing units is at odds with the opinion expressed by business leaders in these surveys. That paradox could be due partly to the fact that the majority of the greenfield projects launched in Belgium concern the expansion of existing activities, rather than the establishment of new entities. Ernst & Young and Amcham Belgium (2005) have noticed that the country's image is more positive for business leaders already operating there than for those active elsewhere.

Analysis of the greenfield projects effected in Belgium and in the other European countries also provides further information. First, the number of jobs created per project is relatively small in Belgium, especially in comparison with the Central and East European countries which joined the EU in 2004 and 2007, and with Russia. Belgium shares this characteristic with other countries where hourly labour costs are high, such as France, the Scandinavian countries and Switzerland. On the basis of the Ernst & Young data, it seems that this smaller proportion of job creation in Belgium is due mainly to the fact that the projects are small in scale, the amounts invested per project being particularly low in Belgium, in contrast to most of the large European countries. On the other hand, over 1,000 jobs are evidently created for every million euros invested, a performance surpassed only by the Central and East European countries and Ireland.

## 5. FDI attractiveness of Belgium

To understand why firms effect FDI in Belgium it is first necessary to explain what prompts them to invest in Europe. As shown, in particular, by the scoreboard of Europe's attractiveness, produced jointly under the auspices of the Agence française pour les investissements internationaux and Invest in Germany (2007), Europe's main attraction for FDI lies in the size of its economy, as the EU is to date the biggest market in the world, ahead of the United States, Japan, China and India. The European market has achieved a high degree of integration, and the EU's national income is particularly high. In addition, its transport infrastructures are considered to be the best in the world, and the telecommunication infrastructures are very efficient. Finally, labour force there is productive and highly skilled, and the social climate is generally calm.

TABLE 6 INVESTMENT LOCATION CRITERIA: RELEVANCE AND BELGIUM'S POSITION

	Percentage of business leaders considering the criterion to be very important	Type of criterion	Belgium's position in the European ranking <sup>(1)</sup>
Transport and logistics infrastructures .....	54	operational	6
Labour charges and costs .....	52	financial	18
Scope for productivity gains .....	48	financial	15
Telecommunication infrastructures .....	48	operational	5
Clear and stable legislative and administrative environment .....	47	environmental	8
Tax burden on businesses .....	46	financial	16
Standard of education of the labour force .....	45	operational	6
Presence of a local market .....	44	operational	10
<b>Average of operational criteria .....</b>	<b>42</b>	<b>operational</b>	<b>8</b>
Flexibility of labour laws .....	41	operational	10
Stable social environment and climate .....	40	environmental	10
<b>Average of financial criteria .....</b>	<b>35</b>	<b>financial</b>	<b>13</b>
<b>Average of environmental criteria .....</b>	<b>34</b>	<b>environmental</b>	<b>9</b>
Expertise specific to the country or region .....	33	environmental	9
Land availability and prices, regulations .....	31	operational	n.
R&D, availability and quality of poles .....	29	operational	12
Language, culture and values .....	29	environmental	8
Social systems for international managers and head offices .....	27	financial	8
Government aid, subsidies and assistance .....	24	financial	10
Membership of the euro area .....	23	financial	yes
Quality of life .....	23	environmental	8
Proximity to financial investors .....	22	financial	8

Sources: Ernst & Young Europe and Belgium (2006).

(1) The twenty countries considered are the fifteen initial EU Member States excluding Finland, Greece and Luxembourg, plus Bulgaria the Czech Republic, Hungary, Poland, Romania, Russia, Slovakia and Switzerland.

In that context, since the European market can be served from any EU country, Belgium needs to distinguish itself from the others in order to consolidate its ability to attract FDI.

According to the results of a survey by Ernst & Young (2006), the criteria which decision-makers consider to be the most important are operational, and that is the criterion category where Belgium scores best in relation to other EU countries. Those criteria include proximity to markets, the quality of infrastructures and the quality of the labour force.

Belgium's central location is an advantage, because a very large market comprising some of the most highly developed regions of Europe, which therefore have high purchasing power, is situated within a 3 hour radius by road. Overall, according to Cushman & Wakefield (2006, op. cit.)<sup>(1)</sup>, Belgium is still the country with the easiest market access. However, the EU's enlargement, particularly towards the East, has changed that to some extent. According to our calculations based on the market

(1) Cushman & Wakefield (2006, op. cit.) ranks fifteen countries (the initial fifteen members of the EU excluding Greece, Finland, Denmark and Luxembourg, plus the Czech Republic, Hungary, Poland, and Russia) on the basis of the following criteria, in descending order of weight: ease of access to the market, quality of the transport system (density, congestion, freight), costs of storage spaces, business premises and labour, supply of building for logistics and planned stock of commercial land.

proximity indicator devised by the CEPII<sup>(1)</sup>, Belgium has dropped to eleventh place, just behind the Netherlands, if account is taken of all bilateral relations between EU countries and two developed countries close to the EU, namely Switzerland and Norway, and of the presence of several centres of economic activity in certain countries. The countries offering best access to the European market defined in those terms are the Czech Republic, Austria and Germany, in that order. However, the differences between the first twelve countries in the ranking are minor. Moreover, unlike some of those countries, Belgium has the advantage of sea ports, which may favour trade outside Europe.

Belgium's relatively advantageous geographical position is the main reason why the country is rated as the most attractive for transport and logistics functions, another significant factor being the density and quality of the transport infrastructures, which are also viewed by the majority of business leaders as a very important factor in their choice of location. In particular, according to the Institute for Management Development (IMD, 2006), Belgium has the densest road network among the EU countries considered and, after the Czech Republic, the densest rail network in that same group of countries. The opinion on the quality of the infrastructures is generally favourable, although road congestion<sup>(2)</sup> is now a real problem and the availability of international air links<sup>(3)</sup>, particularly to the United States, seems to be lower than in the three main neighbouring countries and the United Kingdom.

The criterion, again operational, for which Belgium achieves the best score among the business leaders polled by Ernst & Young is the quality of its telecommunication infrastructures. That result is particularly interesting as this is one of the five decision criteria most frequently considered in the selection of a location. However, that opinion contrasts with the results of the WEF and the IMD which generally place Belgium more towards the average for the EU countries.

On the other hand, the quality of the Belgian labour force – another criterion which the majority of business leaders consider to be very important – is highly rated in the surveys, and is confirmed by the statistics on the education systems, at least taking the country as a whole.

The flexibility of the labour laws is considered by business leaders to be fairly important in the choice of location. Opinions on Belgium are mixed in this regard. This is doubtless due to a compromise between the impression of a very rigid labour market indicated by a number of surveys, and the fairly considerable flexibility noted by the

World Bank (2006), e.g. in regard to working hours, the difficulty of hiring and firing staff, and the firing cost in terms of the number of weeks of salary, especially in relation to other EU countries.

Another operational factor enhancing Belgium's attractiveness, particularly for logistical functions, is the cost and availability of premises and land. Belgium apparently offers some of the cheapest rents for storage space among the countries considered by Cushman & Wakefield (2006, op. cit.).

The criterion concerning the quality and availability of R&D wins approval from business leaders in the industries where research is crucial, but is rated less highly by managers in the total set of industries. Belgium appears to have a rather poor image in regard to this factor, and that is now confirmed by the quantitative indicators relating to innovation. Thus, following the decline in its score and ranking between 2005 and 2006, Belgium's position is now only mediocre according to the innovation scoreboard drawn up for the EC<sup>(4)</sup> and according to the innovation indicator of the Deutsches Institut für Wirtschaftsforschung<sup>(5)</sup> (DIW). This poor performance puts Belgium below the average for the EU 15. According to the innovation scoreboard, however, Belgium is still well ahead of the EU average, since it scores better than each of the twelve new member countries. Belgium's downgrading is due to a less favourable assessment of its research input. For example, according to the Eurostat data<sup>(6)</sup>, R&D spending as a proportion of Belgian GDP declined from 2.08 p.c. in 2001 to 1.2 p.c. in 2005, whereas for the EU as a whole the figure only fell from 1.88 to 1.84 p.c.

Business leaders accord the same importance to the two other broad categories of criteria influencing the selection of a location, namely financial and environmental criteria. Some 35 p.c. of decision-makers consider them to be very important.

In terms of importance for the decision on the location of an investment, the financial criteria category displays a wide dispersion between elements such as labour costs, potential productivity gains and tax burden imposed on

(1) See Mayer and Zignano (2006) for a methodological explanation and a presentation of the data.

(2) Belgium is in a poor eleventh place out of fifteen in the Cushman & Wakefield ranking (2006, op. cit.) for this criterion.

(3) Cf. Amcham Belgium (2006).

(4) Cf. Pro Inno Europe (2007).

(5) According to the DIW (2006), the normalised score for Belgium (United States = 7) has recorded the sharpest decline among the countries already considered in the first ranking produced in 2005. It has in fact fallen from 4.21 to 3.75, whereas it has risen slightly in most other countries. As a result, Belgium – which was in seventh place among the eleven EU countries considered in 2005 – has been overtaken by the Netherlands and Austria. It is now in ninth place out of twelve, Ireland – which was added in 2006 – scoring only 3.58.

(6) Provisional figures for 2005.

businesses, which about half of the respondents consider to be very important, other elements such as government aid, seen as fairly important, and finally, the proximity of financial investors, a category considered to be of minor importance.

Belgium is one of the countries least well placed in terms of labour costs and outlook for productivity gains. The negative view of the level of labour costs is confirmed in the available quantitative data, where Belgium appears among the five countries with the highest hourly labour costs in the EU, mainly because of the indirect labour cost components, particularly the social contributions but also bonuses and holiday pay. This adverse position is offset at least in part by the high level of productivity, particularly in the manufacturing industry. On the other hand, business leaders take a rather unfavourable view of the outlook for additional productivity gains in Belgium.

Among the financial criteria, Belgium is also ranked at the bottom of the European league table in terms of the tax burden on businesses<sup>(1)</sup>. Although, according to Amcham Belgium (2005), the comparison with the four main neighbouring countries leads to a more negative view in regard to personal taxation than for taxes on companies, the nominal rate of corporation tax in Belgium is above the average for the EU. True, it was cut from 40.17 to 33.99 p.c. in 2003, but it has also been reduced in many EU countries, and a number of countries – in some cases the same ones – are considering further rate cuts. In fact, what matters is the effective rate of taxation on companies. In that regard, the Belgian tax system has long been more advantageous for certain activities, thanks to the favourable tax treatment of coordination centres. Although that tax system is to be finally abolished by 2010, other systems have been introduced to enhance Belgium's fiscal attractiveness. This mainly concerns the notional interest deduction<sup>(2)</sup> on part of the capital, which took effect in 2006. Another important aspect for businesses is the assurance of a predictable tax burden. In that regard, Belgium has developed rulings. In 2005, however, business leaders questioned by Amcham Belgium (2005, op. cit.) still felt that they were less effective than the systems used in the Netherlands and the United Kingdom.

In the opinion of business leaders, Belgium is rated slightly above the average of the European countries in regard to environmental criteria relating to the framework conditions which affect the conduct of business without directly influencing the costs or the activity (e.g. regulatory framework), or 'soft' values such as quality of life. That opinion applies to all the criteria considered, namely the clarity and stability of the political, legislative and administrative environment, the stability of the social environment and

the climate, the availability of specific expertise, language, culture and values, and quality of life.

As regards the regulatory framework, business leaders often view it as slightly more negative than it evidently is according to examination of the economic regulations on the basis of specific cases and quantitative variables (World Bank, 2006, op. cit.) or on the basis of a detailed questionnaire sent to national authorities (OECD, 2005 and Conway et al., 2005).

## Conclusion

Belgium, which has long had direct investment links with other countries, is participating fully in the increasingly global economy. The ratio between FDI flows or FDI stocks and GDP is significantly higher in Belgium than in the majority of other developed countries, including most of its main neighbours. This stronger presence of foreign players reflects both Belgium's role as a financial centre, particularly via the coordination centres, and its status as a small, open economy in a European Union where integration began much earlier – and has progressed farther – than in other free trade areas.

In the past ten years, Belgium's FDI has expanded constantly and at a faster pace than domestic economic activity. While outward FDI has, like that of other developed countries, focused more on developing countries, driven by the search for new markets and lower costs, particularly for labour-intensive activities, it is nevertheless still concentrated mainly on the developed countries, including the new EU members. The main protagonists in these capital transfers, effected partly via mergers and acquisitions, are Belgian firms active in the service sector.

Over the same period, inward FDI seems to have grown a little more slowly. In terms of stocks, it actually stagnated in the early years of this century. However, the significance of foreign investment in Belgium's economy remains substantial, and the recent dynamism of FDI inflows in Belgium has been at least as favourable as in the other European countries taken as a whole, and especially the neighbouring countries. The number of greenfield projects launched in Belgium is rising, and at a similar rate to that of projects developed in the EU as a whole. Belgium's main strengths in terms of industries are chemicals – including life sciences – and transport and communications, and, in terms of business functions,

(1) For a detailed assessment of recent trends in the taxation of companies in Belgium and the EU, see the article on the subject in this issue of the Review.

(2) For more details on this system and its implications, see box 17 in the Bank's Annual Report 2006.

logistics and distribution. The fact that Belgium specialises in attracting FDI for these industries and business functions is due to its particular strengths: proximity to the European markets, density and quality of its transport and communication infrastructures, the standard of training of the labour force and labour productivity.

In general, the main motive for foreign direct investment in Belgium appears to be to serve the European market, or at least its most highly developed core, which includes Belgium. When a location is being selected for a project, Belgium is therefore competing with other EU countries and, more particularly, with its neighbouring

countries whose economic characteristics are comparable, notably in regard to their standard of living. Compared with these countries, Belgium needs to perform well over the whole range of criteria, including labour costs and taxation. In particular, labour costs must stay in line with those in the main neighbouring countries. Compared to other EU countries, especially the new members whose economies are less advanced, Belgium has a handicap in terms of hourly labour costs but, at the same time, it offers high productivity and various advantages as regards environmental and operational criteria, especially the quality of its infrastructures.



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