

Recent Trends in Foreign Direct Investment and Disinvestment in Belgium

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I. INTRODUCTION

Most observers of international investment transactions agree that foreign direct investment played an important role in the external relations of the industrial countries, especially since the end of the nineteenth and the beginning of the twentieth century. It was with the growth of large manufacturing enterprises during that period that foreign investment, as a new form of technology transfer gradually replacing trade and migration as chief technology transmission vehicles, came into existence. There had been direct investment before that period, particularly because of the colonial ties that existed between countries. But, as Lipsey (1982) points out, direct investment in foreign manufacturing came to be the characteristically American form of foreign investment, and the twentieth century witnessed both an increasing and predominant role of manufacturing with the U.S. as source country for direct investment. It is only in recent years that other industrial countries have been able to strengthen their international direct investment position vis à vis the U.S. These recent changes in source countries have been accompanied by important shifts in the destination of direct investment. It is within this context of changing sources and destinations of international direct investment that changes in the relative position of Belgium as a host country will be studied.

Because of the lack of detailed information, the discussion will to some extent be based on financial data relating to balance of payments

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statistics and will sometimes cover all operations in addition to manufacturing. However, as has been repeatedly argued, these financial flows reflect reasonably well the size of the underlying real transactions¹.

II. SOURCES AND DESTINATIONS OF INTERNATIONAL DIRECT INVESTMENT

There has been an enormous expansion of direct investment in the postwar period. However, except for the U.K. and U.S., reliable statistical information on these transactions in the 1950's is scarce. For more recent periods, the United Nations Centre on Transnational Corporations has tried to estimate the stock of direct investment for the major industrial countries. The O.E.C.D. has presented comparable data on the corresponding net capital in- and outflows. These data are presented in table 1 and table 2 and are graphically reproduced in figure 1.

Table 1 shows how the U.S. and the U.K. accounted for about 70 per cent of the stock of all direct investment in 1967 but less than 60 per cent in 1976. Germany and Japan in particular have gradually been replacing the U.K. and the U.S. as sources of foreign direct investment over the period considered. These changes in sources can better be observed from table 2 which shows the share of the thirteen industrial countries in the net outward direct investment flows as they are recorded in the balance of payments statistics (excluding reinvested earnings). These figures clearly show how the European countries have become major sources of direct investment in recent years. Note also the remarkable performance of the Netherlands. In terms of net outward direct investment flows, the share of the U.S. not only gradually decrease over time but even became negative in 1981 and 1982. This implies that the U.S. divested more than invested abroad. However, it should be noticed that since the figures shown in table 2 omit retained earnings they exaggerate the decline in supply of U.S. owned equity funds.

Simultaneously, with the decline in importance as a source of direct investment, the U.S. has become a major destination for direct investment. The shares of traditionally heavy recipients such as Canada and Australia, along with some of the European countries, reduced sharply over the most recent period. Despite these changes in sources and destinations of direct investment Belgium's relative position as a

foreign investor or as a recipient country has, in quantitative terms, changed very little. However, the fact that the sources have changed so drastically should be reflected in the structure of foreign investment in Belgium.

TABLE 1
*Stock of direct investment abroad of developed market economies,
by major country of origin, 1967-1978*

BILLIONS OF DOLLARS, END OF							
Country of origin	1967	1971	1973	1975	1976	1977	1978
United States	56.6	82.8	101.3	124.2	137.2	149.8	168.1
United Kingdom	17.5	23.7	26.9	30.8	32.1	36.8	41.1
Germany, Federal Republic of	3.0	7.3	11.9	16.0	19.9	24.8	31.8
Japan	1.5	4.4	10.3	15.9	19.4	22.2	26.8
Switzerland	5.0	9.5	11.1	16.9	18.6	25.4	24.6
France	6.0	7.3	8.8	11.1	11.9	21.9	23.7
Canada	3.7	6.5	7.8	10.5	11.1	13.1	14.9
Netherlands	2.2	4.0	5.5	8.5	9.8	12.1	13.6
Sweden	1.7	2.4	3.0	4.4	5.0	5.6	6.0
Belgium-Luxembourg	2.0	2.4	2.7	3.2	3.6	4.8	5.4
Italy	2.1	3.0	3.2	3.3	2.9	3.1	3.3
TOTAL ABOVE	101.3	153.3	192.5	243.8	270.4	319.6	359.3
All other (estimate)	4.0	5.1	6.3	15.1	16.8	9.5	10.0
GRAND TOTAL	105.3	158.4	198.8	258.9	287.2	329.1	369.3
PERCENTAGE DISTRIBUTION							
United States	53.8	52.3	51.0	47.8	47.6	45.5	45.5
United Kingdom	16.6	15.0	13.5	11.9	11.2	11.2	11.1
Germany, Federal Republic of	2.8	4.6	6.0	6.2	6.9	7.5	8.6
Japan	1.4	2.8	5.2	6.1	6.7	6.7	7.3
Switzerland	4.8	6.0	5.6	6.5	6.5	7.7	6.7
France	5.7	4.6	4.4	4.3	4.1	6.7	6.4
Canada	3.5	4.1	3.9	4.1	3.9	4.0	4.0
Netherlands	2.1	2.5	2.8	3.2	3.4	3.7	3.7
Sweden	1.6	1.5	1.5	1.7	1.7	1.7	2.6
Belgium-Luxembourg	1.9	1.5	1.4	1.2	1.2	1.5	1.5
Italy	2.0	1.9	1.6	1.3	1.0	0.9	0.9
TOTAL ABOVE	96.2	96.8	96.9	94.3	94.2	97.1	97.3
All other (estimate)	3.8	3.2	3.1	5.7	5.8	2.9	2.7
GRAND TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: United Nations Centre on Transnational Corporations, (published in Stopford, Duning and Haberich (1980, p. xv)).

TABLE 2
Outward net direct investment flows
(Percentage distribution among 13 countries)

	1961-67	1968-73	1974-78	1979	1980	1981	1982
Canada	2.3	4.5	6.2	9.9	14.6	17.7	[-353]
United States	61.1	45.8	29.3	24.1	8.9	[-3844.1]	[-8412.6]
Japan	2.4	6.7	13.0	11.1	9.4	15.3	25.2
Australië	0.7	1.4	1.6 ⁽¹⁾	1.4	1.7	3.3	
Belgium- Luxembourg	0.3 ⁽²⁾	1.4	2.5	5.1	0.8	0.4	[-63]
France	6.9	5.2	7.8	7.6	12.2	14.2	15.8
Germany	7.2	12.5	17.0	17.1	16.0	13.9	18.4
Italy	3.6	3.3	2.0	2.1	2.9	4.3	5.3
Netherlands	4.4	6.8	9.6	9.0	12.8	9.9	12.4
Sweden	2.0	2.4	3.7 ⁽³⁾	2.4	2.5	2.6	5.0
Unit. Kingdom	8.7	9.1	9.2	9.2	16.1	18.6	10.1
Spain	0	0.3	0.6	0.8	1.2	0.8	2.9
Norway	0	0.3	0.9	0.2	1.0	0.6	1.6

(1) From 1974 to 1976 (2) From 1965 (3) From 1974 to 1977

Figures between squared brackets represent net foreign divestment capital flows and are expressed in millions of dollars.

Source: O.E.C.D. (1981) and I.M.F., Balance of Payments Yearbook, 1982.

TABLE 3
Inward net direct investment flows
(Percentage distribution among 13 countries)

	1961-67	1968-73	1974-78	1979	1980	1981	1982
Canada	16.2	12.1	3.2	8.5	0.8	[-2.910]	[-2.011]
United States	2.6	11.4	26.7	36.8	34.7	63.0	54.8
Japan	2.0	1.7	1.2	1.1	1.3	0.6	2.3
Australia	15.6	12.9	9.5 ⁽¹⁾	7.1	1.1	1.0	1.3
Belgium- Luxembourg	4.5 ⁽²⁾	6.1	9.4	5.3	7.1	4.9	8.2
France	8.2	8.2	15.2	12.1	15.2	8.4	8.3
Germany	21.3	16.4	14.7	7.6	1.1	4.1	4.5
Italy	11.5	8.3	5.0	1.7	2.7	3.9	3.3
Netherlands	4.7	8.5	6.0	6.0	8.8	4.8	2.8
Sweden	2.4	1.7	0.5 ⁽³⁾	0.5	1.2	0.6	0.9
Unit. Kingdom	9.7	7.4	6.1	4.9	18.8	0.5	3.0
Spain	2.7	3.7	3.7	6.5	6.9	5.9	9.2
Norway	0.8	1.4	4.1	1.9	0.3	2.3	1.4

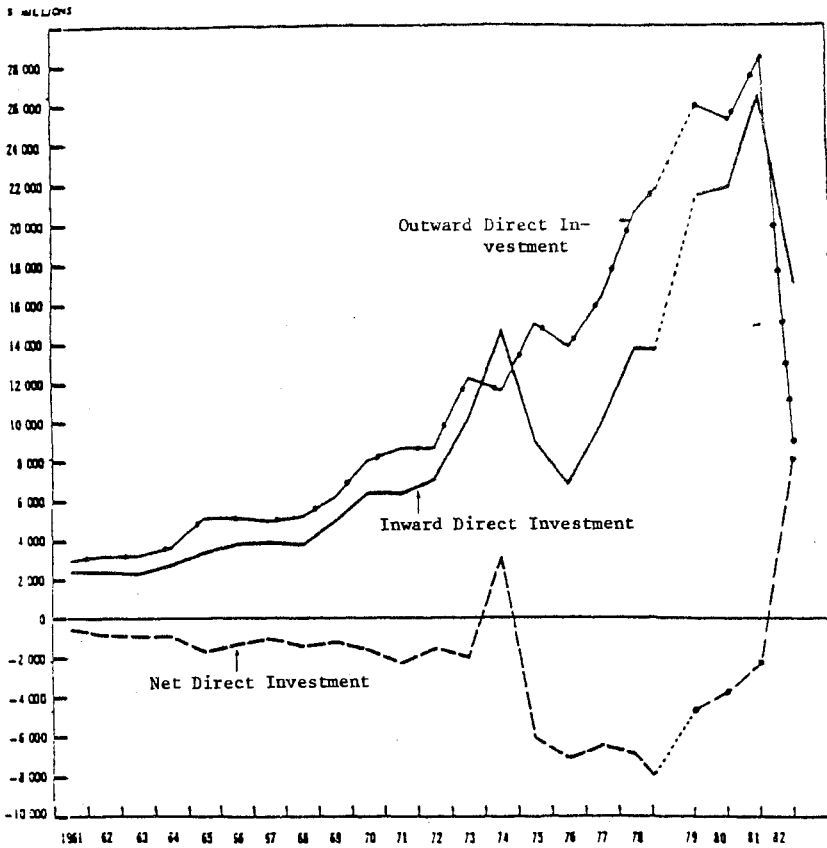
(1) From 1974 to 1976 (2) From 1965 (3) From 1974 to 1977

Figures between squared brackets represent net foreign direct divestment capital flows expressed in millions of dollars.

Source: O.E.C.D. (1981) and I.M.F., Balance of Payments Yearbook, 1982.

Finally, taking into account the high rate of inflation in recent years, figure 1 shows how the direct investment flows must be subject to a serious decline in real terms over the most recent periods. This decline and the impact of the changes in source countries on foreign investment in Belgium will be discussed in more detail in the following paragraphs.

FIGURE 1
Direct investment flows of 13 O.E.C.D.-member countries



Source: O.E.C.D. (1981). Updating based on statistics in I.M.F. Balance of Payments Yearbook, 1982.

III. FOREIGN DIRECT INVESTMENT IN BELGIUM

A. *International comparison*

According to table 4, which compares for the years around 1975 the degree of participation of foreign enterprises in the manufacturing sector of selected industrial countries, Belgium has the most foreign controlled industry among the European countries considered. Given that the years of reference and the definitions of direct investment differ according to the countries considered (see, for instance, the difference in cut-off points with respect to the minimum share holdings of equity capital) a ranking of the different countries on the basis of table 4 can only be considered as an approximation. Considering these limitations, one may nevertheless classify Canada, Australia, Belgium, Germany, France, Italy and Austria as countries which are quite heavily penetrated by foreign enterprises (production by foreign enterprises ≥ 20 per cent of total production). Moderately penetrated countries (between 10 and 20 per cent of production) are the United Kingdom, Norway and Spain, and countries which are only slightly penetrated are Japan, Denmark, Finland and Sweden. Beyond the information given in table 4, most authors also classify the Netherlands and Ireland as heavily penetrated countries and the United States as a country only slightly penetrated by foreign enterprises.

Over the period 1959-82 U.S. investment accounted for about 45 percent of all foreign investment in Belgium. The average of U.S. investment in foreign investment for all the E.E.C. countries fluctuated around 40 per cent in the years for which comparable information was available.

Given this importance of U.S. direct investment, it is interesting to analyze the evolution of U.S. investment in some more detail. Table 5 shows how the book value of U.S. direct investment, or the cumulative nominal value of the net assets owned by U.S. corporations, has evolved over time in selected industrial host countries. It presents, for the start of each decade, the value of U.S. direct investment measured relative to the total population in the different countries. With respect to manufacturing, Belgium climbed from the fourth position in 1950 to the third position in 1980. In spite of its relatively diminishing importance for U.S. foreign investment, Canada remained at the first position over the periods considered. With respect to total investment, Switzerland occupied second place in 1980, which shows this country's importance for American investment in trade and services. Another

TABLE 4
Share represented by enterprises or establishment of enterprises with foreign participation in manufacturing industry
(Percentages for some selected variables - Years around 1975)

	Cut-off point	Year	Number of persons employed	Production	Value added	Wages and Salaries	Investments	Profits	Assets
Australia (1)	> 25%	1972/73	28.5	36.2	34.3	31.3	31.3		
Austria (1)	> 50%	1973	20.1	22.1	22.5	21.9	20.4		
Belgium	≥ 10%	1975	33.0	44.0(7)					
Canada	≥ 50%	1974	43.1(1)	51.1(1)	51.0(1)	46.1(1)			53.9
Denmark (2)	> 50%	1976		8.8(7)					
Finland (1)	≥ 20%	1976	4.2	4.2	5.3				
France (3) (4)	> 20%	1975	19.0	27.8	24.5	21.6	28.7	29.4	22.1
Germany	> 25%	1976	16.9	21.7(7)					
Italy (9)	> 50%	1977	18.3	23.8(1)					
Japan	≥ 25%	1978	1.8	4.2(8)				6.9	4.2
Norway	≥ 20%	1974	12.3(1)	18.7(1)	18.0(1)	8.6(1)	10.6(1)		10.0(1)(6)(6)
Portugal	≥ 50%	1975	7.0	9.6					
Spain	> 50%	1971		11.2					
Sweden	≥ 20%	1976	8.6	10.8	9.9	9.4	5.7	11.7	8.9
United Kingdom (1)	≥ 50%	1973	10.8	15.3	14.7	12.5	15.8		

(1) Establishment - based data

(2) Excluding oil refining and car assembling

(3) Including natural gas

(4) Excluding food industries

(5) ISIC 2 + 3

(6) Value for fire insurance only, 10.0%

(7) Value for fire insurance + stocks at 31st December, 1974, 10.8%

(8) Turnover

(9) Sales

(9) Data on the basis of a survey covering 1,079 corporations which represented on 31st December, 1977, 2.4% of existing corporations and 63.9% of the total equity of existing corporations and Van Den Bulcke et al. (1979).

Source: O.E.C.D. (1981) and Van Den Bulcke et al. (1979).

TABLE 5
Book value of U.S. direct investment per capita in selected industrial countries for the years 1950, 1960, 1970 and 1980 (in dollars)

	1950		1960		1970		1980	
	M	T	M	T	M	T	M	T
Canada	135.86	258.50	269.51	625.24	471.39	1068.00	787.81	1877.21
Belgium-Luxembourg	3.92	7.72	15.43	24.42	85.20	152.90	343.93	676.22
France	3.84	5.18	8.80	16.22	36.79	51.01	110.15	174.05
Germany	2.54	4.28	11.51	18.15	46.58	75.72	156.87	250.45
Italy	.41	1.36	3.42	7.74	15.36	28.89	58.45	94.60
Netherlands	2.27	8.30	6.97	24.65	61.70	115.73	220.86	575.53
Austria	n.a.	1.87	n.a.	6.81	n.a.	n.a.	16.64	69.77
Denmark	1.87	7.49	3.49	14.63	13.39	73.45	43.36	247.27
Ireland	n.a.	n.a.	n.a.	n.a.	(100.65)(1)	(112.05)(1)	500.59	738.53
Norway	1.53	7.35	5.87	23.18	17.53	69.07	35.21	410.51
Portugal	.24	1.89	n.a.	3.51	n.a.	n.a.	10.12	26.01
Spain	.53	1.10	.89	1.95	11.31	21.82	46.59	71.55
Sweden	3.71	8.27	2.41	20.52	77.11	69.19	177.62	
Switzerland	2.13	5.33	16.98	47.39	74.15	287.08	148.35	1770.80
United Kingdom	10.57	16.73	41.32	61.70	89.81	144.28	248.31	511.26
Japan	.06	.23	.98	2.73	7.24	14.34	25.44	53.46
Australia	11.61	24.55	46.30	83.27	137.09	264.11	199.11	524.08

Note: M = Manufacturing

T = Total

(1) Figure relates to the year 1973, the earliest observations available for Ireland.

Source: U.S. Department of Commerce, Survey of Current Business, various issues.

remarkable phenomenon depicted in table 5 is the rapidly increasing importance of U.S. investment in Ireland since it became a member of the E.E.C. in 1973. Also Japan no longer remained at the bottom but by 1980 passed both Austria and Portugal, in terms of per capita U.S. manufacturing direct investment.

Further shifts in the destinations of U.S. direct investment can be observed from table 6, which for manufacturing shows the shares held by the different industrial countries. The evolution of American direct investment in nominal terms is represented in figure 2. The figure shows how American direct investment expanded rapidly after World War II and particularly in the 1960's. However, the annual increases in book value, in real terms, must have slowed down in the 1970's with the use of any reasonable deflator. They were negative both in nominal and real terms in 1982, and increased by only about 3 percent in 1983. This dramatic dampening of growth in U.S. direct investment is mainly due to the sluggish economic conditions in the host countries. These conditions depressed affiliate earnings, reduced funds available for investment, and provided U.S. companies with little incentive to expand their operations abroad. Given the high capital costs, U.S. parents preferred to invest in the domestic market where conditions were improving more rapidly.

Figure 2 also shows that trade and services became increasingly important in US direct investment over the period considered. Returning to table 6, the strong increase of the E.E.C. share in US direct investment is very remarkable. This is at the expense of the Canadian share which declined drastically over the period considered. The Belgian share in U.S. manufacturing investment in the E.E.C. also increased from about 10 per cent in 1950 to 13 per cent in the most recent periods. This effect is not only typical for Belgium, as the Netherlands and Italy have also enjoyed similar beneficial effects since the creation of the E.E.C. in 1957. The shares of these last two countries have increased in relative terms even more than the Belgian share. The country with the smallest increase is France. Its share in 1982 was only about 1 per cent higher than its 1950 share. Together with Italy, and to some extent Belgium, France's performance is also primarily responsible for the recent deterioration of the E.E.C. share of U.S. manufacturing direct investment in the industrial countries.

TABLE 6

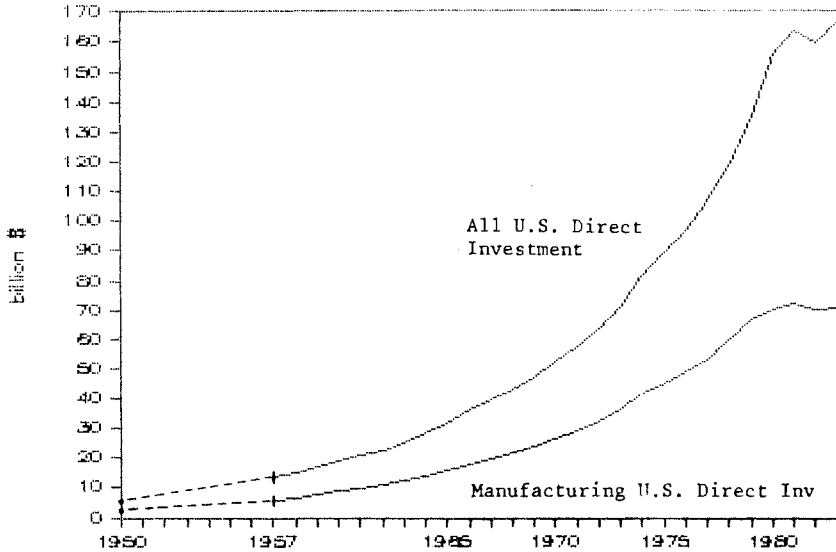
The geographical distribution of American direct investment among selected industrial countries (1950-1982) - Manufacturing

MANUFACTURING	1950	1957	1958-1962	1963-1967	1968-1972	1973-1977	1978	1979	1980	1981	1982
Canada	.637	.593	.530	.437	.378	.325	.297	.290	.269	.274	.281
Japan	.002	.006	.010	.018	.031	.36	.039	.041	.042	.046	.049
Australia	.032	.051	.052	.059	.064	.053	.049	.047	.042	.046	.040
Europe	.329	.350	.408	.487	.527	.586	.615	.622	.647	.635	.629
E.E.C. (6)	.122	.120	.160	.237	.280	.330	.348	.341	.365	.361	.347
Belgium-Luxembourg	.012	.015	.016	.024	.033	.045	.047	.048	.050	.048	.046
France	.055	.041	.046	.066	.071	.082	.078	.079	.084	.077	.068
Germany	.041	.045	.071	.100	.113	.127	.140	.126	.138	.144	.144
Italy	.006	.012	.018	.028	.033	.039	.040	.043	.048	.047	.043
Netherlands	.008	.007	.009	.019	.030	.037	.043	.045	.045	.045	.046
E.E.C. (9)	n.a.	n.a.	n.a.	n.a.	n.a.	.515	.543	.544	.590	.580	.572
Denmark	.003	.002	.002	.002	.002	.003	.003	.003	.003	.004	.004
Ireland	n.a.	n.a.	n.a.	n.a.	n.a.	.013	.022	.019	.024	.029	.037
United Kingdom	.181	.203	.223	.210	.189	.170	.170	.181	.190	.186	.184
Norway	.002	.003	.002	.002	.003	.006	.007	.006	.002	.002	.002
Spain	.005	.004	.003	.010	.014	.022	.024	.024	.025	.026	.024
Sweden	.009	.009	.003	.004	.007	.012	.010	.010	.008	.007	.006
Switzerland	.003	.004	.010	.012	.017	.020	.019	.020	.013	.014	.016

Source: U.S. Department of Commerce, Survey of Current Business, various issues.

FIGURE 2

*American direct investment in the industrial countries:
Europe, Canada, Australia and Japan (in 10⁹ dollars)*



Source: U.S. Department of Commerce, Survey of Current Business, various issues.

B. E.E.C. trade effects and U.S. direct investment in Belgium

The fact that the Belgian share in U.S. direct investment increased so rapidly in the sixties and the early seventies can to a large extent be associated with two major E.E.C. effects. Both these effects, the market enlargement and the creation of a customs union, have substantially favoured the location of affiliates of U.S. enterprises in small countries such as Belgium and the Netherlands. Prior to the E.E.C., these countries were surrounded by relatively high tariff walls while their small national markets made it impossible for these countries to be important producers of specialized consumer or producer goods (see Drèze (1960)).

As is well known from customs union theory, both trade creation and trade diversion intensify intra E.E.C. trade. There is clear evidence that U.S. investors have anticipated these effects and have consequently increased their production capacity and changed their local sales and export operations in the different E.E.C. member countries (see Scaperlanda and Balough (1983) for evidence relating to the

E.E.C., and Sleuwaegen (1984a) for evidence relating to the different member countries). To illustrate these trade effects, table 7 decomposes the proportional increase in sales of manufacturing affiliates of U.S. firms from 1957 to 1966 $\left(\frac{\Delta S}{S}\right)$ into a domestic sales effect $\left(\frac{\Delta S_D}{S}\right)$ and an export sales effect $\left(\frac{\Delta S_X}{S}\right)$. The table shows that for Belgium and the Netherlands, the increase in export sales was larger than the increase in local sales. Further decomposition of the export sales term into an export growth effect and into the initial (1957) export sales (openness) ratio shows how, during the period considered, export sales growth in all E.E.C. countries has been an important factor in the rapid increase in the volume of U.S. investment in these countries. The effect for Germany is smaller. The table also seems to suggest that the U.S. investment boom within the E.E.C. to a large extent has occurred at the expense of other European countries. The figures suggest that, for most of these countries, E.F.T.A. (Spain did not belong to E.F.T.A.) did not fully compensate for the relative export market losses caused by the creation of the E.E.C.. An exception is Sweden, which had a rapidly increasing export/sales ratio over the period considered. Note also that the U.K.'s export/sales ratio remained unchanged for both periods. The importance of E.E.C. and other European export markets for U.S. subsidiaries located in selected European countries is represented in the last two columns of table 7.

The period between 1966 and 1977 changes very little from these observations. Table 8 shows how during this period export growth was less important for the large countries and the small non E.E.C.-countries than for the small E.E.C.-countries. Also the new members of the E.E.C.: Denmark and Ireland seem now to enjoy the same trade advantages than do the other small E.E.C. member countries. A comparison of the last three columns of table 8 with the last two columns of table 7 reveals how over the period 1966-1977 exports were less concentrated in the original six E.E.C.-countries, but that for most of the European countries considered, exports to non-European countries became more important. Table 9 expresses exports by U.S. majority owned affiliates as a share of exports by all firms in selected industrial countries. For most of the countries these shares take on larger values over the years considered. Not surprisingly, the small countries such as Ireland, Belgium and the Netherlands show very high ratios. As to the larger European countries, exports by the U.K. continue to depend most heavily upon U.S. direct investment.

TABLE 7

The Relative Contributions of Domestic Sales and Export Sales to the Increase of Total Sales of U.S. Majority Owned Manufacturing Affiliates in Selected European Countries (Period: 1957-1966)*

	$\frac{\Delta S}{S} = \frac{\Delta S_D}{S} + \frac{\Delta S_X}{S}$	$\frac{\Delta S_X}{S}$	$\frac{\Delta S_X}{S} \cdot \left(\frac{S_X}{S}\right)_{1957}$	$\left(\frac{S_X}{S}\right)_{1966}$	$\left(\frac{\Delta S_{XEC}}{S_X}\right)_{1966}^{**}$	$\left(\frac{S_X \text{ oth. Eur.}}{S_X}\right)_{1966}^{**}$		
Belgium	3.33	1.37	1.97	8.06	0.24	0.51	0.62	0.29
France	3.08	2.42	0.66	11.00	0.06	0.18	0.58	0.27
Germany	3.30	2.42	0.87	4.06	0.21	0.25	0.51	0.36
Italy	5.70	4.42	1.28	73.75	0.02	0.19	0.52	0.32
Netherlands	4.58	2.11	2.47	14.81	0.17	0.47	0.50	0.37
United Kingdom	1.51	1.12	0.38	1.52	0.25	0.25	0.27	0.27
Denmark	0.46	0.53	-0.06	-0.21	0.31	0.17	0.20	0.54
Ireland	1.18	1.16	0.02	0.03		0.51	0.07	0.19
Norway	1.18	1.16	0.02	0.03	0.56	0.27	0.17	0.65
Spain	6.11	6.06	0.05	0.37	0.12	0.02	0.33	0.44
Sweden	1.89	1.05	0.84	13.14	0.06	0.31	0.41	0.48
Switzerland	4.19	3.03	1.16	1.94	0.60	0.34	0.35	0.36
Other Europe*	5.52	4.12	1.40	6.23	0.22	0.25	0.23	0.43

Source: U.S. Dept. of Commerce (1960), U.S. Business in Foreign Countries (1957), and U.S. Dept. of Commerce (1975), U.S. Direct Investment Abroad, 1966.

Note: * The figures in the table should be interpreted with some caution, since the 1957 data include the operations of U.S. affiliates that were 25 per cent owned and over. However, the resulting bias may be considered to be very small.

** Refers to majority owned affiliates in all industries.

TABLE 8

The Relative Contributions of Domestic Sales and Export Sales to the Increase of Total Sales of U.S. Majority Owned Manufacturing Affiliates in Selected European Countries (Period: 1966-1977)

	$\frac{\Delta S}{S} = \frac{\Delta S_D}{S} + \frac{\Delta S_X}{S}$	$\frac{\Delta S_X}{S}$	$\frac{\Delta S_X}{S} = \frac{\Delta S_X}{S} \cdot \left(\frac{S_X}{S}\right)_{1966}$	$\left(\frac{S_X}{S}\right)_{1977}$	$\left(\frac{S_{XEEC6}}{S_X}\right)_{1977}$	$\left(\frac{S_{XEEC9}}{S_X}\right)_{1977}$ *	$\left(\frac{S_{X \text{ oth. Eur.}}}{S_X}\right)_{1977}$ *
Belgium	5.86	1.40	4.46	8.74	0.51	0.63	0.18
France	4.14	2.64	1.49	8.42	0.18	0.62	0.17
Germany	5.12	3.22	1.90	7.50	0.25	0.55	0.25
Italy	3.45	2.50	1.00	5.17	0.19	0.39	0.21
Netherlands	7.15	2.62	4.54	9.61	0.47	0.54	0.14
United Kingdom	2.21	1.46	0.75	2.98	0.25	0.36	0.17
Denmark	3.13	1.28	1.85	11.11	0.17	0.41	0.32
Ireland	10.42	1.20	8.62	16.90	0.51	n.a.	n.a.
Norway	2.31	1.33	0.98	3.70	0.27	0.67	0.06
Spain	7.80	6.13	1.67	71.27	0.02	0.55	0.25
Sweden	3.87	2.60	1.27	4.03	0.31	0.36	0.21
Switzerland	1.09	0.37	0.72	2.12	0.34	0.36	0.17
Other Europe	4.64	3.31	1.33	8.60	0.15	0.56	0.15

Source: U.S. Dept. of Commerce (1975), U.S. Direct Investment Abroad, 1966, and U.S. Dept. of Commerce (1981)
U.S. Direct Investment Abroad, 1977.

Note: * Refers to majority owned affiliates in all industries.

TABLE 9
*Exports by U.S. Majority Owned Manufacturing Affiliates
as a Share of Exports by All Firms*

	1957	1966	1977
Belgium-Luxembourg	.023	.094	.171
France	.013	.061	.094
Germany	.031	.066	.094
Italy	.002	.044	.047
Netherlands	.011	.084	.148
United Kingdom	.099	.164	.166
Denmark	.022	.010	.028
Ireland	n.a.	.125	.253
Norway	.048	.028	.026
Spain	.048	.028	.026
Sweden	.005	.031	.031
Switzerland	.046	.065	.038

Source: U.S. Dept. of Commerce (1960, 1975, 1981).

n.a. = not available.

C. Global and sectoral evolution

In spite of the comparative tables, discussed in paragraph A, which suggest that Belgium's relative position as a host country for attracting foreign direct investment has not significantly worsened, the fact that world direct investment has decreased in recent years implies that Belgium receives less direct investment. This is illustrated in both table 10 and figure 3.

It can be observed from table 10 that since 1974, the year which showed a record amount of planned foreign investment (measured as planned capital expenditures), there has been a rapid fall in new foreign investment. Looking at the distribution according to the three major industrial sectors, it follows that the fall is largely explained by the reduction in manufacturing investment, although in recent years trade and services also display a slow-down. It is obvious that as many observers have attributed the rapid acceleration of the economic growth rate in Belgium in the postwar period until 1974 with the massive entrance by foreign enterprises in the Belgian industry during the same period (see figure 3) the recent regression of foreign investment may equally well be associated with the recent Belgian economic growth slowdown. A comparison of new investments by foreign enterprises with new investments by domestic enterprises in Belgium is given in table 11.

TABLE 10
Evolution of the number and size of foreign investment projects in Belgium - 1959-1982

Year	Number of projects				Planned investment (millions of BF)						Total at 1959 prices	Projected employment	
	Manu- factur- ing	Trade	Services	Total	Manufacturing		Trade		Services				
					At cur- rent prices	As a percent of total	At cur- rent prices	As a percent of total	At cur- rent prices	As a percent of total			
1959-1968	601	1,898	946	3,445	72,654	0.90	2,930	0.04	4,630	0.06	80,214	67,201	51,543
1969-1973	374	1,968	1,375	3,717	57,950	0.86	2,777	0.04	6,806	0.10	67,533	42,565	30,162
1974	79	480	358	917	22,290	0.92	1,038	0.04	1,056	0.04	24,384	11,415	5,616
1975	44	370	284	698	7,236	0.74	464	0.05	2,090	0.21	9,790	4,079	2,138
1976	35	435	275	745	8,600	0.81	759	0.07	1,201	0.12	10,560	4,105	1,764
1977	33	559	409	1,001	5,877	0.64	2,345	0.26	974	0.10	9,196	3,361	1,863
1978	32	620	431	1,083	7,454	0.61	2,122	0.17	2,580	0.22	12,156	4,256	1,213
1979	32	326	195	553	7,489	0.70	1,093	0.10	2,119	0.20	10,701	3,599	630
1980	17	407	217	641	2,563	0.45	1,290	0.22	1,871	0.33	5,724	1,815	551
1981	16	339	201	556	5,457	0.64	1,208	0.14	1,915	0.22	8,580	2,579	524
1982	14	333	163	510	7,292	0.83	782	0.09	675	0.08	8,749	2,546	962
TOTAL	1,277	7,735	4,854	13,866	204,862	0.83	16,808	0.07	25,917	0.10	247,587	147,521	96,966

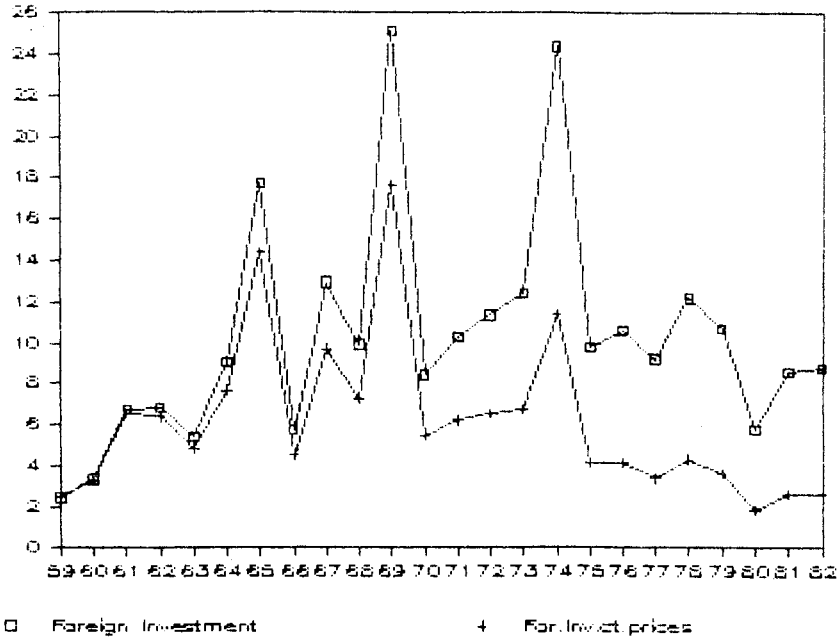
Source: Belgian Ministry of Economic Affairs, op. cit.

TABLE 11
Investments and employment creation by new manufacturing establishments of Belgian and foreign enterprises

	1964-1970	1971-1975	1976	1977	1978	1979	1980	1981
<i>Investment outlays by (in 10⁶ BF)</i>								
(1) All new establishments	38,807	35,968	9,553	4,453	5,899	5,488	3,269	2,207
(2) Foreign new establishments	26,789	28,928	7,654	1,775	3,492	2,875	876	456
(2) as a per cent of (1)	69.0	80.4	80.1	39.9	59.2	52.4	26.8	20.7
<i>Employment creation by</i>								
(1) All new establishments	15,963	91,876	12,826	13,374	9,160	7,447	5,707	5,697
(2) Foreign new establishments	65,212	52,942	3,573	3,058	1,973	1,463	937	851
(2) as a per cent (1)	56.2	57.6	27.9	22.9	21.5	19.6	16.4	14.9

Source: Belgian Ministry of Economic Affairs, op. cit.

FIGURE 3
Foreign direct investment in Belgium, 1959-1982: planned capital expenditures by new firms (bio BF)



Source: Belgian Ministry of Economic Affairs, *Buitenlandse Investeringen in België*, various issues.

In terms of employment created by new establishments, table 11 reveals the capital-intensive character and the rapid increase of the capital-labour ratio of new foreign establishments in relation to Belgian manufacturing establishments. Clearly, this evolution must be of major concern for analyzing the rapidly growing Belgian structural employment problem.

In spite of its recent decline in importance, foreign investment in manufacturing still accounts for the largest share of all foreign investment. Within manufacturing, metallic fabrications and chemicals are the most important sector for foreign investment. This follows from table 12, which shows that it is only in recent years that foreign investment has become somewhat more diversified.

With respect to the share of sales held by multinational enterprises in the different industrial sectors, Daniël Van Den Bulcke has shown that the rubber, petroleum and chemicals sectors are especially dom-

TABLE 12
Distribution of foreign investment according to the major industrial sectors (1959-1982)

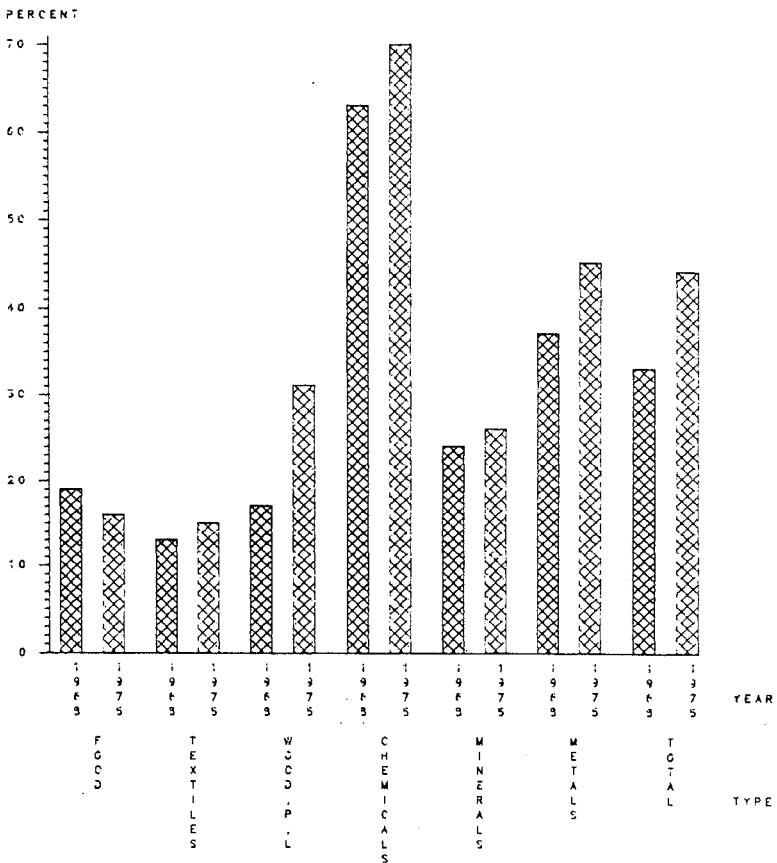
	1959-1968	1969-1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Metals and metallic fabrications	0.365	0.249	0.271	0.279	0.041	0.245	0.324	0.074	0.189	0.219	0.503
Chemicals and plastics	0.348	0.347	0.482	0.302	0.850	0.184	0.534	0.609	0.270	0.485	0.147
Petroleum and gas	0.138	0.193	0.004	0.	0.	0.	0.	0.114	0.	0.	0.254
Textiles	0.042	0.071	0.030	0.074	0.068	0.012	0.	0.	0.	0.017	0.
Other industry	0.065	0.116	0.212	0.324	0.039	0.438	0.142	0.203	0.541	0.279	0.096

Source: Belgian Ministry of Economic Affairs, op. cit.

inated by multinational enterprises. The metals sector ranked at the third place with 45 per cent in 1975. Figure 4 also shows how these shares increased between 1968 and 1975 with an overall increase for the manufacturing sector from 33 per cent in 1968 to 44 per cent in 1975. It has been demonstrated elsewhere that the shares of output accounted for by multinational companies in the Belgian manufacturing industries can be reasonably well explained by technical efficiency and product differentiation abilities displayed by these companies (see Sleuwaegen (1984b)).

FIGURE 4

Share represented by foreign enterprises in the sales by the Belgian manufacturing sectors (1968-1975)



Source: D. Van Den Bulcke et al., (1978), p. 87.

D. Analysis by country of origin and region of destination of foreign investment in Belgium

In the early 1960's, U.S. corporations must have enjoyed important advantages vis à vis their European competitors which might explain the U.S. direct investment boom in Europe during that period². In Belgium, over the period 1959-1968, 65 per cent of all foreign investment came from the United States. E.E.C. countries other than Belgium accounted only for about 27 per cent of all foreign investment. This pattern has changed drastically since 1968 with E.E.C. investment has becoming more important than U.S. investment Germany, France and the Netherlands were the most important E.E.C. investors, respectively. However, it should also be observed from table 13 that, in the most recent years countries other than the U.S. and the E.E.C. countries have accounted for an increasing share of foreign investment in Belgium. In spite of the increasing importance of Japanese direct investment in total world direct investment, Japanese investment represents, except for the years 1980 and 1981, only a small fraction of all foreign investment in Belgium.

To properly consider the changes in sources of direct investment described above, it is important to derive from figure 5 how these relative changes and the regression of direct investment in Belgium are related to the stagnation and decline of American foreign investment in recent years.

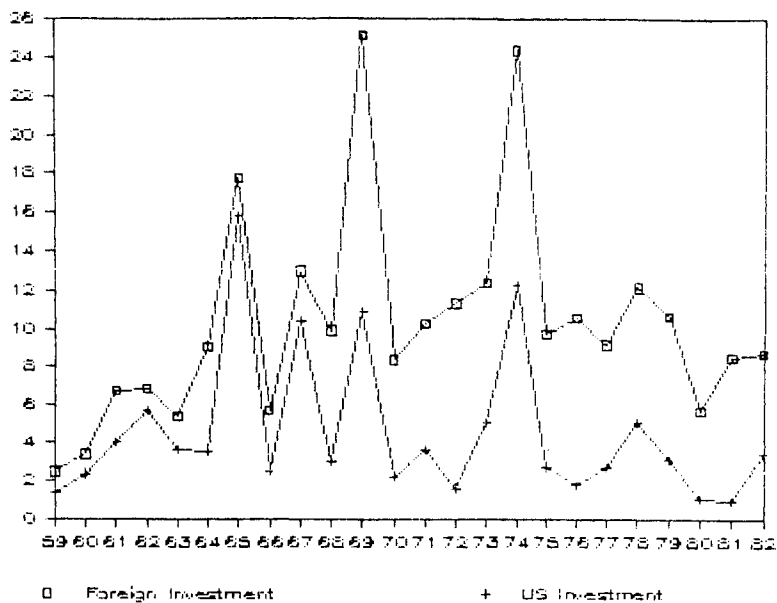
Turning to the regional destination of foreign investment, table 14 shows how in the early sixties almost eighty per cent of all foreign investment in manufacturing went to the Flemish region, while the other twenty per cent was destined exclusively for the Walloon region. Brussels' share of manufacturing foreign investment was of only minor importance. From the second half of the sixties through the late seventies Wallonia has considerably improved its relative position vis à vis Flanders. Only in the most recent years has Flanders again strengthened its position. Note also that with respect to all foreign investment, the share of Brussels is considerably larger than when only manufacturing is considered. This points at Brussels' attractiveness for foreign investment in trade and services. These sectors have become more important for foreign investment in recent years. The relatively large share of Brussels in foreign manufacturing investment in 1981 and 1982 seems to be of an exceptional nature.

TABLE 13
Geographical origin of foreign investment in Belgium (shares)

	1959-1968	1969-1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
U.S.A.	0.650	0.346	0.505	0.279	0.169	0.291	0.423	0.291	0.186	0.114	0.389
E.E.C.	0.275	0.553	0.421	0.596	0.718	0.395	0.323	0.558	0.577	0.536	0.337
Germany	0.112	0.173	0.013	0.017	0.168	0.025	0.085	0.023	0.174	0.277	0.022
France	0.053	0.127	0.189	0.340	0.036	0.156	0.030	0.039	0.134	0.071	0.028
Italy	0.003	0.003	0.007	0.054	0.216	0.004	0.005	0.001	0.011	0.001	0.001
Netherlands	0.058	0.103	0.182	0.041	0.261	0.104	0.158	0.058	0.152	0.112	0.220
United Kingdom	0.046	0.132	0.023	0.132	0.026	0.099	0.029	0.312	0.089	0.062	0.053
Japan	0.002	0.023	0.023	0.002	0.061	0.035	0.046	0.004	0.119	0.249	0.001
Other countries	0.073	0.078	0.051	0.123	0.052	0.279	0.208	0.151	0.118	0.101	0.278

Source: Ministry of Economic Affairs, op. cit.

FIGURE 5
American and all foreign direct investment in Belgium, 1959-1982
 (Planned capital expenditures by new firms) billion BF



Source: Belgian Ministry of Economic Affairs, op cit.

TABLE 14
Regional distribution of foreign investment

	Flanders		Wallonia		Brussels	
	Manufac- turing	Total	Manufac- turing	Total	Manufac- turing	Total
1959--1964	0.776	—	0.201	—	0.023	—
1965-1969	0.608	—	0.350	—	0.042	—
1970-1974	0.549	0.514	0.370	0.324	0.081	0.162
1975	0.356	0.335	0.644	0.487	0.0	0.178
1976	0.444	0.414	0.537	0.444	0.019	0.142
1977	0.444	0.352	0.560	0.367	0.0	0.281
1978	0.498	0.461	0.495	0.345	0.007	0.194
1979	0.837	0.800	0.131	0.106	0.032	0.094
1980	0.589	0.378	0.386	0.207	0.025	0.415
1981	0.599	0.571	0.025	0.025	0.376	0.404
1982	0.471	0.456	0.277	0.247	0.252	0.297

Source: Belgian Ministry of Economic Affairs, op. cit.

IV. THE COMPETITIVENESS OF BELGIUM FOR ATTRACTING FOREIGN INVESTMENT

In past years several surveys have been conducted to detect the factors that were responsible for the massive entrance by foreign enterprises in Belgian industry during the postwar period. For the period between 1945 and 1968 the following factors, listed in order of decreasing importance, showed up as predominant in the decision to invest in Belgium³:

- the availability of a qualified labour force
- the economic infrastructure and central location of Belgium in Europe
- the fiscal system
- the investment incentives granted by the government and the existing credit facilities.

Other factors which were listed as important included the absence of exchange controls and the possibilities of repatriating profits, the flexibility of the government administration in dealing with foreign investment projects, the good industrial relations and the active promotion of location and investment incentives in Belgium.

A follow up to these surveys⁴ for new foreign investment between 1968 and 1976 revealed the following factors as the most important determinants:

- the central location of Belgium in the E.E.C.
- the high productivity of the labour force
- the existing infrastructure and transport facilities
- the possibilities to enter the E.E.C. market and the investment incentives granted by the Belgian government.

It is interesting to note that the possibilities to penetrate into the E.E.C. market were much more important for U.S. investors (second in ranking) than for E.E.C. multinationals (tenth in ranking). About fifty per cent of the latter group considered the local Belgian market as an important location factor.

The recently published results of a survey conducted by the American Chamber of Commerce in 1980 also emphasized the forementioned factors as predominant in the original investment decision by U.S. firms in Belgium⁵. However, the same survey revealed that about 50 per cent of the manufacturing affiliates of U.S. enterprises think

that these location conditions are no longer met, which might explain why nearly half of the responding companies have considered alternative locations for all or part of their operations outside Belgium. Of large manufacturers 55 per cent of these with more than 500 employees have considered relocating. The following factors, in decreasing order of concern were reasons large manufacturers actually decreased their original expansion plans:

- unit labour costs
- excessive government regulations
- insufficient government incentives and subsidies
- labour militancy
- the Belgian social security burden.

The above list shows how the factors which were responsible for the original investment plans have now become decisive in both the downward revision of these plans and in the relocation and disinvestment considerations of an important group of American companies in Belgium. We shall return to this problem in the last paragraph of this paper where we shall present statistical evidence about the size of foreign disinvestment in Belgium.

Based upon the results of a study by the European Communities, the concern of the U.S. investors seems to be well-founded. For 1981, Belgium showed up with the highest absolute level of hourly labour costs relative to its competitors (see table 15).

In order to compare unit-labour costs internationally we should also take into account differences in productivity among countries. These productivity differences may be less important for a multinational firm with fairly standardized production techniques. However, many of the listed locations factors, such as the quality of the labour force, the industrial relations and the general economic climate, may also cause substantial differences in productivity among countries. Table 16 presents for three different periods, using the first year of each period as the base year the evolution in productivity, compensation per employee and unit labour costs for the manufacturing sector in selected industrial countries.

Table 16 shows that Belgian labour costs increased considerably in the sixties, but especially in the period from 1972 to 1977 the average labour costs in Belgium increased more markedly than in several other European countries. Taking account of the dollar exchange rate evolution, Belgium left behind all other industrial countries during this

TABLE 15
Average hourly labour costs in manufacturing industry (in ECU's)

Country	1981
Belgium	11.60 (10.47)
Denmark	10.00 (-)
Germany	10.30 (9.97)
France	9.30 (7.93)
Ireland	5.90 (-)
Italy	7.30 (7.70)
Luxembourg	10.50 (-)
Netherlands	10.60 (9.38)
United Kingdom	6.90 (6.37)
U.S.A.	- (9.95)
Japan	- (6.50)

Note: Figures for Community countries relate to labour costs and include all expenditure borne by employers in connection with the employment of workers, i.e. direct pay, bonuses, paid annual leave, benefits in kind, social security charges paid by the employer, special levies, etc. (*Source:* Eurostat, 17 December 1982).

Data in brackets for certain Communities, the United States and Japan covering earnings and fringe benefits are drawn from the Institut der Deutschen Wirtschaft, 6 May 1982.

Source: E.E.C., European Economy, May 1983.

TABLE 16

Evolution of unit labour costs and their components in selected industrial countries (1960-1982). Indices (Base year = First year of the different subperiods)

	Compensation per employee		Productivity (output per employee)	Unit labour costs	
	in national currency	in dollars		in national currency	in dollars
<i>U.S.A.</i>					
1960-1972	179.7	179.7	147.1	121.8	121.8
1972-1977	154.4	154.4	111.8	138.3	138.3
1977-1982	155.1	155.1	103.7	149.4	149.4
<i>Japan</i>					
1960-1972	454.3	539.5	320.7	141.5	168.0
1972-1977	210.2	277.3	131.4	160.0	180.7
1977-1982	126.2	136.1	123.6	102.1	110.1
<i>Germany</i>					
1960-1972	273.6	360.4	166.4	164.8	217.1
1972-1977	163.4	224.4	123.6	132.4	181.8
1977-1982	131.3	125.6	103.3	126.9	121.4
<i>France</i>					
1960-1972	286.8	280.7	201.3	142.7	139.7
1972-1977	202.6	208.0	121.0	167.6	172.1
1977-1982	191.2	142.9	115.9	165.0	123.4
<i>Italy</i>					
1960-1972	338.8	362.5	185.2	182.8	195.6
1972-1977	274.7	181.6	116.8	234.6	155.1
1977-1982	225.7	147.2	117.1	192.1	125.3
<i>Netherlands</i>					
1960-1972	327.5	387.8	177.6	183.6	217.4
1972-1977	184.2	240.9	127.5	144.6	189.1
1977-1982	136.8	125.7	118.2	115.7	106.4
<i>Belgium</i>					
1960-1972	300.1	340.9	189.8	158.1	179.6
1972-1977	202.1	248.2	134.2	150.6	184.9
1977-1982	143.6	112.7	124.5	115.4	90.5
<i>United Kingdom</i>					
1960-1972	245.5	219.0	146.9	168.0	149.8
1972-1977	239.1	167.0	113.4	210.8	147.2
1977-1982	194.0	194.4	109.2	178.1	178.5
<i>Denmark</i>					
1960-1972	322.1	320.1	178.9	179.6	178.5
1972-1977	202.9	234.9	129.9	156.3	180.9
1977-1982	168.9	121.7	120.9	139.4	100.4
<i>Ireland</i>					
1960-1972	341.4	304.5	161.5	211.6	188.7
1972-1977	243.2	169.9	112.4	216.2	151.0
1977-1982	211.7	172.2	122.4	173.1	140.8

Source: E.E.C. European Economy, May 1983, and own calculations.

period. It is only in the most recent period that Belgian labour costs have evolved more favourably. The depreciation of the dollar relative to the currencies of most of the other countries over the period 1977-1982 reinforces this favourable evolution. With respect to productivity, table 16 shows that Belgium performed considerably better than all other countries over all periods, except for the remarkable performance of Japan during the sixties. However, the E.E.C. study points out that the rapid growth of Belgian productivity over the past few years was due principally to a substantial fall in employment rather than to large increases in output. This implies that the loss in capacity has done little to improve the overall position of the rest of industry. Together with the evolution in the different components, one may observe that the favourable evolution in productivity has been responsible for the more modest increases of unit labour costs in Belgian manufacturing. In the most recent period Belgian unit labour costs expressed in dollars actually decreased. This recent evolution seems to have compensated for much of the loss in competitiveness that Belgium has suffered in previous periods vis à vis other European countries such as France, Italy and the United Kingdom.

It has been shown that U.S. direct investment in Belgium, as in other small European countries, is highly sensitive to changes in the competitive positions of the country (Sleuwagen (1984a)). One can also expect that the recent favourable evolution of Belgium's competitiveness will again strengthen its relative position as a host country for foreign direct investment.

V. DISINVESTMENT DECISIONS BY MULTINATIONAL ENTERPRISES

Since the beginning of the economic crisis in 1974 many host countries have not only been confronted with the problem of the regression in new foreign investment but also with the phenomenon of disinvestment. The meaning of foreign disinvestment is that multinational enterprises close down part of, or all of their production plants in a particular country. Table 20 depicts the size of foreign disinvestment in Belgium in terms of number of plants closed down, in terms of the size of the original investment plans of the production plants closed down, and in terms of employment lost.

TABLE 17
Foreign disinvestment in Belgium (1965-1981)

Period	Number of plants closed down		Capital disinvestment			Employment losses		
	#	% (a)	Millions of BF	% (b)	Millions of BF	% (b)	#	% (c)
1965-1969	14	3.95	567	0.88	552	0.97	1,670	5.54
1970-1974	53	14.44	2,697	4.72	2,361	6.19	3,830	15.08
1975-1979	109	61.93	5,472	14.93	4,297	23.37	8,689	114.21
1980-1982	28	59.58	13,226	86.38	n.a.	n.a.	2,121	104.13
1965-1982	204	21.62	21,962	12.67	n.a.	n.a.	16,310	35.91

(a) As a per cent of total number of new establishments in the periods considered.

(b) As a per cent of new foreign investment projects in the subperiods.

(c) As a per cent of planned employment creation by new foreign firms in the different periods.

Source: E. Halsberghe and D. Van Den Bulcke (1982), p. 2. Updating from Ministry of Economic Affairs, *Buitenlandse Investerings in België, Jaarverslag 1982.*

The total number of plants closed between 1965 and 1982 was 204. In terms of new establishments during the same period this represents about twenty per cent. This ratio increased rapidly in the last two periods to a level of about 60 per cent. A similar picture emerges for disinvestment measured in terms of the original investment plans for the closed plants relative to planned investment by new foreign firms in the different subperiods. However, the last measure underestimates the actual size of disinvestment by not taking account of the capital goods price evolution. Expressing disinvestment and new investment in constant 1963 prices corrects for this bias. Unfortunately, this information was not available for the most recent period. The actual size of disinvestment can also be measured in terms of employment losses. Given the evolution of the capital-labour ratio in the most recent periods, the disinvestment ratio, computed as the loss of employment relative to created employment by new foreign establishments, shows the most spectacular increase and points also at the real dimensions of the disinvestment problem.

A study by Martine Feron (1981) shows that the bulk of all foreign disinvestment over the period 1965-1979 was concentrated in two sectors: metals (45%) and textiles (27%). During this period about fifty per cent of all disinvestment was accounted for by American enterprises. E.E.C. enterprises accounted for about one third, with the

United Kingdom and the Netherlands as the most important disinvestors of this group. From the regional point of view, Liège suffered most from disinvestment in relation to new foreign investment during this period. Based upon this relative measure, Antwerp displayed the best score with 30 per cent of all new investment and only 13.5 per cent of all disinvestment in Belgium during this period. Recently, the trend in disinvestment in the province of Limbourg has also become very dis-favourable, and takes on very large proportions in relation to new planned foreign investment in the province (about 58 per cent during the period 1975-1979). With respect to the linguistic regions, Wallonia was in the worse position. It accounted for 38.5 per cent of all new foreign investment in Belgium, and 58.3 per cent of all foreign disinvestment. This contrasts with the situation in Flanders which had 56 per cent of all new foreign investment and only 41.5 per cent of all foreign disinvestment. From these figures it follows that Brussels did not have important disinvestments over the period 1965-1979.

Based upon the statistics collected by the "Fund for the compensation of employees laid off because of closures of firms" Erik Halsberghe and Daniel Van Den Bulcke (1982) analyzed the size of foreign disinvestments in relation to disinvestments by domestic firms⁶. They found that for the period between 1960 and mid-1977 the number of employees laid-off because of disinvestments amounted to 107,378, with 20 per cent of this total due to foreign disinvestments. However, over the period between 1975 and 1981, the number of foreign establishments closed down as a per cent of total number of foreign establishments exceeded a similar ratio for domestic firms by about 4 per cent (23,12% versus 19,41%, respectively).

TABLE 18
Employment losses due to disinvestment in Belgium (1975-1981)

Period	Belgian companies		Foreign companies		Total N (a)
	N (a)	% (b)	N (a)	% (b)	
1975-1976	22,811	4.53	10,762	3.24	33,573
1977-1978	18,065	3.59	6,665	2.01	24,730
1979-1980	15,112	3.00	4,809	1.45	19,921
1981	7,490	1.49	3,621	1.09	11,111
TOTAL	63,478	12.62	25,857	7.81	89,335

(a) Number of employees laid-off

(b) As a per cent of the 1975 employment in Belgian and foreign companies.

Source: A. Halsberghe and D. Van Den Bulcke (1982), p. 7.

Over the period 1975-1981, employment reductions due to disinvestments by domestic enterprises were 12.62 per cent of 1975 employment (table 21). The corresponding figure is only 7.81 per cent for affiliates of foreign enterprises. The difference in the relative magnitude of disinvestment in terms of number of disinvestments and in terms of the size of employment losses between domestic firms and foreign affiliates has undoubtedly much to do with the capital intensive technology which characterizes foreign investments in Belgium (see also table 11).

Table 19 shows how foreign disinvestments were distributed according to the countries of origin over the period 1968-1981. The table illustrates that U.S. disinvestments have become more important in recent periods. From the E.E.C. countries, the Netherlands and the United Kingdom displayed the highest score over the period 1968-1975. The Dutch disinvestments were closely related to the sectoral concentration of disinvestment in Belgium in textiles while, as Halsberghe and Van Den Bulcke (1982) pointed out, the British disinvestments are closely related to the reorientation of British investments due to Britain's entrance into the E.E.C. French disinvestments have also become very important in recent periods. This contrasts with German disinvestments whose evolution went in the other direction and which were relatively unimportant in all the periods considered. As to the sectoral mix, recent disinvestments by multinational enterprises and domestic disinvestments, expressed as a percentage of the total number of disinvestments, were distributed very similarly: textiles 31% and 36%, metals 30% and 31% and food products 9% and 12% for domestic and multinational firms, respectively (over the period 1975-1981).

The files of the Fund from which the previous tables were derived also contain data on the reasons for the disinvestment decisions. Table 20 shows that bankruptcy as a closure reason is more important for domestic firms than for foreign firms. The latter group of firms stop their activities more for economic reasons (market conditions, economic climate) than do domestic firms. Although no precise definition is given for these economic reasons, it may be accepted that these reasons are closely related to the location conditions listed in paragraph IV and are more the subject of an active reorganization policy of the firm. This evidence on the marked difference in disinvestment behaviour between multinational enterprises and domestic enterprises is completely in line with the theoretical considerations presented in Sleuwaegen (1984a).

TABLE 19
Employment losses due to closures of foreign affiliates according to the parents' country of origin (1968-1981)

	1968-1975		1976-1978		1979-1981		1968-1981	
	N (a)	% (b)	N (a)	% (b)	N (a)	% (b)	N (a)	% (b)
United States	4,063	3.14	4,773	3.69	3,193	2.47	12,029	9.29
E.E.C. (3)	13,104	7.52	5,836	3.34	4,322	2.48	23,262	13.25
Netherlands	6,448	11.12	2,737	4.71	1,260	2.17	10,445	18.01
France	2,605	5.25	1,801	3.62	2,007	4.04	6,413	12.93
Germany	986	2.28	641	1.48	409	0.95	2,036	4.71
United Kingdom	2,701	13.16	657	3.19	646	3.15	4,004	19.50
Other countries	1,116	4.38	815	3.16	915	3.56	2,846	11.06
TOTAL	18,283	5.55	11,424	3.46	8,430	2.56	38,137	11.58

(a) Total loss of employment

(b) As a per cent of the employment level for these different groups in 1978.

Source: E. Halsberghe and D. Van Den Bulecke (1982), p. 9.

TABLE 20
Reasons for closures by domestic and foreign enterprises (in per cents)

Reason	1975-1976		1977-1978		1979-1981	
	Domestic enterprises	Foreign enterprises	Domestic enterprises	Foreign enterprises	Domestic enterprises	Foreign enterprises
Bankruptcy	64	41	77	33	83	49
Economic reasons	10	27	15	57	10	37
Juridical Agreement	26	32	2	1	10	1
Liquidation	–	–	6	9	6	12
Other reasons	–	–	0.4	–	0.2	1
Number of enterprises	555	105	487	69	622	74

Source: E. Halsberghe and D. Van Den Bulcke (1982), p. 13.

These considerations imply that multinational enterprises face higher opportunity costs than domestic firms when the economic conditions worsen in a particular country. Multinationals can easily serve the market in that country through exports from plants located in other, more location competitive, countries where they may use the capacity more intensively. For domestic firms without foreign production plants, no such easy relocation possibilities exist in the short run. Given the high costs of setting up an international network, it is often more optimal for domestic firms to continue to operate in the country until material, labour and capital costs are no longer met and bankruptcy occurs.

To conclude this discussion on foreign disinvestment, it is useful to compare the Belgian situation with the trends in disinvestment in some other countries. The comparison that will be made is based on balance of payments statistics on direct investment. These data are subject to serious limitations due to the fact that they do not take account of reinvested earnings and local capital provisions. Moreover, the direct investment figures contain loans made by parents to affiliates, which implies that the reimbursements of these loans are considered as disinvestments. Aside from this problem, the data on disinvestment represent all closures of affiliates by multinational enterprises or all reductions in capital of affiliates, such that the degree of participation in equity capital falls below 20 per cent or 10 per cent (according to the definition applied in the host country), respectively.

TABLE 21
Distribution of direct investment and disinvestment enterprises among the original six E.E.C.-countries
 (D = Disinvestment, I = investment)

Country	1967-1975		1976		1977		1978 ⁽¹⁾		1979		1980		1981	
	D	I	D	I	D	I	D	I	D	I	D	I	D	I
Belgium-Luxembourg	0.033	0.113	0.055	0.156	0.041	0.138	0.045	0.150	0.064	0.116	0.051	0.135	0.043	0.127
France	0.110	0.158	0.202	0.211	0.183	0.237	-	-	0.252	0.345	0.276	0.370	0.293	0.296
Germany	0.411	0.369	0.330	0.392	0.429	0.326	-	-	0.393	0.272	0.336	0.219	0.389	0.283
Italy	0.199	0.165	0.140	0.072	0.043	0.144	0.047	0.071	0.036	0.048	0.049	0.065	0.065	0.114
Netherlands	0.247	0.195	0.273	0.169	0.279	0.155	0.265	0.166	0.255	0.219	0.288	0.210	0.210	0.180
Total in millions of ECU's	11,006	38,618	2,128	5,287	2,969	7,772	-	-	3,695	8,349	3,440	9,029	3,947	11,285
D as a per cent of I	0.285		0.403		0.382				0.443		0.381		0.350	

(¹) Data for Germany and France are missing. The shares of other countries are expressed relative to an estimated total based upon the net investment flow in France and Germany for 1978 and the ratio of gross and net investment flows in the previous year.

Source: EUROSTAT, Balance of Payments, Yearbook, various issues.

Table 21 also presents data on inward gross direct investment flows in order to obtain a relative measure of the magnitude of the disinvestments. In the period 1967-1975, disinvestment amounted to almost 30 per cent of all direct investment in the E.E.C. countries. The same ratio rose much higher in the last period with a peak of 44 per cent in 1979. The share of Belgium in gross direct investment inflows changed very little in the most recent periods. This contrasts sharply with the disfavourable evolutions of the German and Italian shares. With respect to disinvestment, the Belgian share increased somewhat in the most recent periods, but in relation to new gross investment, Belgium still scores better than all other E.E.C. countries. The shares of Germany and the Netherlands in foreign disinvestment in the E.E.C. remain high over the whole period. Remarkable phenomena for the period 1976-81 were the favourable evolution of the Italian share and the opposite movement of the French share in foreign disinvestment.

A disaggregation of table 2 according to the base countries of the in- or di-vesting companies revealed that the Belgian share in American disinvestment, which was very low for the period 1967-1975, increased very rapidly in the most recent periods. This, together with the decline in New American direct investment, has become a serious matter of concern for the Belgian industrial policy makers⁷.

To conclude, the table reproduced in this section shows that foreign disinvestment is not a problem unique to Belgium. Judging from the balance of payments statistics, the Belgian situation is often even better than the situation in other E.E.C. countries. However, the recent unfavourable evolution of American direct investment and disinvestment in Belgium needs to be closely followed for its future implications.

VI. SUMMARY

Foreign direct investment flows have evolved less spectacularly in recent periods than was the case in the sixties. They even decreased both in nominal and real terms in the most recent years. The recent trends have been accompanied by important changes in both source and destination countries. Within these recent changes, the in- and outflows of direct investment between E.E.C. countries and the U.S. have become more balanced. Also, Japan has become an important source country in the most recent periods.

Belgium is an important recipient country for direct investment. Measured in terms of the share of manufacturing sales held by affiliates of multinational enterprises, Belgium, with a share of 0.44 in 1975, belongs to the group of countries which are the most heavily penetrated. With respect to U.S. manufacturing direct investment per capita, Belgium ranked third place after Canada and Ireland among the group of all industrial countries, in 1980.

In spite of the fact that the relative position of Belgium among other industrial countries has not significantly worsened in recent times, the general slowdown of foreign direct investment, and especially of American investment, causes an important problem for Belgian industry. The increasing importance of E.E.C. direct investment is not able to fully compensate for these losses.

Direct investment in Belgium is still heavily concentrated in metals and chemicals, but together with the relative decline in the importance of the manufacturing sector, the industrial structure of foreign investment has become somewhat more diversified in recent years.

From the regional point of view, Flanders has somewhat recently regained its strong position which was characteristic of the development of foreign direct investment in Belgian manufacturing during the sixties. Flanders lost much its strong position in the seventies. These movements were offset by opposite movements in the share held by Wallonia. Especially with the increasing importance of trade and services in foreign direct investment, the position of Brussels considerably improved with respect to all new foreign investment in Belgium during the most recent periods.

Many American enterprises think that the locations factors which favoured Belgium as location site in the sixties are no longer met. Among these factors, American investors ranked the high unit labour cost as the major disfavoured factor in Belgium. Evidence collected by the E.E.C. shows that for 1981 Belgium had the highest average hourly labour costs relative to a large group of industrial countries. This same E.E.C. study however, also shows that in the past, Belgian productivity rose more rapidly than in the other countries, and that in the most recent period, both compensation per employee and productivity had the most favourable evolution for Belgium's competitive position vis à vis the other industrial countries.

The dissatisfaction of foreign investors may explain the important number of foreign disinvestments in Belgium. Although the number of disinvestments was higher for foreign firms than for domestic firms,

the loss in employment was significantly less for the group of foreign firms. This undoubtedly has much to do with the capital intensive technology used by foreign firms. With respect to the causes of disinvestment, it was found that foreign investors chose to close down plants more for location reasons than do Belgian firms, which often have no better option than to stay in business until bankruptcy. When location conditions worsen in Belgium, the opportunity costs of the Belgian plants become too high relative to the multinationals' operations in other countries. This may explain the important international relocation decisions by these firms.

The important number and size of American disinvestments in the most recent periods have become a serious matter of concern for Belgian industrial policymakers. However, foreign disinvestment is not a phenomenon unique to Belgium. Judged from balance of payments statistics and in comparison with the six original E.E.C. member countries, Belgium scores best with the lowest foreign disinvestment/investment ratio.

NOTES

1. In a strict sense the term direct investment is defined as international capital flows to firms in which the foreign investor has a controlling participation. However, because foreign direct investments are chiefly, if not exclusively, undertaken by multinational enterprises, most authors have used the term to cover the operations by these firms. In the text, various data sources covering different direct investment variables are used. The most important sources and corresponding variables are:
United States Department of Commerce: Book value of U.S. direct investment abroad, defined as net worth plus liabilities allocated to U.S. investors in the balance sheets of firms in which U.S. investors own at least 10% of the voting shares.
Organisation of Economic Cooperation and Development,
International Monetary Fund, *Eurostat*: Capital-in and outflows recorded in the balances of payments as direct investment.
Belgian Ministry of Economic Affairs: Capital (Property, Plant and Equipment) expenditures by foreign-owned enterprises in Belgium.
2. For an analysis of these advantages, see Sleuwaegen (1984a).
3. D. Van Den Bulcke (1975), pp. 79-87.
4. F. Haex, E. Halsberghe, D. Van Den Bulcke (1978), pp. 95-99.
5. American Chamber of Commerce in Belgium, 1980. Survey of American Companies in Belgium, Brussels, 1980.
6. The official Dutch name is "Fonds tot vergoeding van de in geval van sluiting van ondernemingen getroffen werknemers". According to this fund a closure by a firm is defined as a fall in the number of employees with 75 per cent or more of total employment in the previous year.
7. An analysis of the tables for different groups of countries is given in Sleuwaegen (1984c).

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