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## PRESS RELEASE

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### **Industry in Belgium: past developments and challenges for the future**

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For almost thirty years, the question of the future of industry in western countries has been a regularly recurring topic. In Europe, and especially in Belgium, questions have been asked with particular urgency in recent years, a period marked by many uncertainties relating to the euro area's feeble economic growth, exchange rate movements and the rapid development of new areas of activity in the global economy.

In this context, in the spring of 2004 the Belgian social partners asked the Bank to conduct an analysis of industry in Belgium, in the light of the major changes which this sector is undergoing and the challenges ahead. This article summarises all the analyses carried out in that connection by the Bank and, on certain aspects, by the Federal Planning Bureau.

This summary is arranged in two main sections, namely a description and analysis of past and recent developments and, on the basis of those findings, a review of the necessary conditions and the actions to be taken by the economic agents in order to face the challenges for the future.

In recent decades, industry - and the economy in general - have felt the effects of two inexorable trends: deindustrialisation and ever increasing globalisation. Deindustrialisation, and more generally the sectoral changes affecting the developed economies, have essentially taken the form of a transfer of activities and jobs from industry to the service branches: between 1970 and 2003, the share of industry in the total value added of the Belgian economy thus declined from 29.3 to 17.4 p.c. In response to growing competitive pressures, unleashed in particular by the opening up of the external markets, industry in western countries has tried to secure substantial productivity gains by making more intensive use of modern capital equipment incorporating technological progress, and by refocusing on its core business. These developments have been particularly marked in Belgium. Thus, while the volume of industrial activity has expanded at a rate comparable to that of the economy as a whole, so that industry's share of economic activity has remained virtually unchanged when measured at constant prices, industry lost around 565,000 jobs between 1970 and 2003, while a net total of 1,115,000 jobs were created in services. Although this fundamental change in the structure of employment has been accompanied by an increase in the total number of jobs, it has meant painful adjustments for certain branches and regions.

In recent times, globalisation has accelerated further as a result of the growing strength of nearby emerging economies, such as the ten new EU member countries, or that of more distant but sizeable economies such as China. For the developed economies, this new wave of globalisation, with the ensuing fragmentation of the production process, is not only a source of challenges due to the emergence of new competitors, but also offers opportunities via the development of major markets. In reality, it has mainly resulted in an upsurge of the fears of relocation, and questions about the survival of western industries. At this stage, the data available for Belgium do not indicate any mass relocation of activities to these new competitors. Thus, financial flows in the form of foreign direct investment are still destined mainly for neighbouring countries, rather than the emerging countries. Similarly, although these emerging countries account for a growing proportion of Belgium's imports, their share is still limited at around 2.5 p.c. for China as well as for the ten new EU members together. Moreover, as regards the latter, Belgium's foreign trade is still in surplus. Nonetheless, according to the surveys on relocation, the possibility of relocating is an issue that business leaders are taking into consideration. Furthermore, some of these economies, including China, are rapidly progressing towards stages of development that are geared more to higher technology products and innovation.

In the face of these forces, which governments, firms and workers cannot hold back, what is needed is an integrated strategy aimed at preserving and enhancing the competitiveness and adaptability of the economy as a whole, and ultimately its prosperity. Here, competitiveness needs to be understood in the

broad sense, concerning both the overall production costs, taking account of the remuneration and productivity of the factors of production and the cost of the intermediate inputs, and the attractiveness and innovative potential of an economy, in terms of product quality and differentiation, and the efficient organisation of the production process, etc. It is therefore dependent on a considerable number of factors.

In an increasingly competitive international environment, production costs must continue to be closely monitored in order to ensure that they are kept under control, in the first place in relation to Belgium's neighbours. Those countries are in fact still the main markets for Belgian products, as well as being Belgium's main competitors in the allocation of the design, production and distribution phases, which are defined at European and global level. In Belgium, industrial wages are still high owing to the associated charges, and the recent rise in unit labour costs - though modest - has outpaced developments in some other European countries such as Germany and France. Wage developments in the service branches also affect industry, in that the production of industrial goods makes increasing use of these service activities. As regards the other intermediate costs, particularly energy prices, it must be said that Belgian industry has little control over them as they are more dependent on intermediate imports than in other European countries.

Apart from price competitiveness, the dynamism of an economy is increasingly measured in terms of its capacity to innovate, be it in the products supplied or the production methods used. That capacity stems from a combination of many factors which are difficult to measure, and it is particularly tricky to assess their overall effect on the economy's competitiveness.

As regards the capital stock, Belgium has a high rate of business investment, including investment in information and communication technologies. These investments contribute to Belgium's high level of industrial productivity. Conversely, there has been a shortage of public investment for many years, with barely enough to cover depreciation. The infrastructure of the Belgian economy, regularly singled out as one of its main strengths, could be jeopardised. In regard to employment, apart from the well-known handicaps represented by the low activity rate and the high level of unemployment, the qualitative aspects relating to human capital, namely labour training and organisation, must also be taken into account. Where training is concerned, Belgium has a high standard of basic education, though there is insufficient focus on the scientific and technical fields, and its industrial continuing training practices are in line with the EU average, although they lag behind in some respects, especially in relation to the countries which are most advanced in this matter.

R&D practices are another major factor in non-price competitiveness. In recent years, Belgium has stepped up its R&D spending significantly in order to work towards the target of 3 p.c. of GDP by 2010; at 2.2 p.c. of GDP in 2001, Belgium was above the European average, though well behind the leading countries in this sphere. However, the shortage of public funding is more marked than elsewhere. Moreover, innovation – synonymous with the acquisition, dissemination and sharing of knowledge - should not only show in a target for R&D expenditure, but must be reflected in all fields and involve all the players in the society.

Furthermore, a consistent and integrated approach to innovation seems to be central to the experience of the most dynamic European economies. Although the establishment and operation of such an innovation system concerns all the economic agents, the government must be assigned a particular and multiple role. That role consists primarily in linking the players concerned, building up a consensus on common objectives and ensuring that progress is monitored and assessed.

The face of industry will continue to undergo changes in the years ahead. So long as industry adopts an overall approach to adaptation, with the support of all the agents involved, it will continue to make a vital contribution to the development of the economy.