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PRESS RELEASE

Direct investment and Belgium's attractiveness

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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.

In view of the small size of the Belgian economy and its very open character, FDI plays a significant role. At the end of 2005, almost half of the equity capital invested in Belgian companies as a whole was owned directly or indirectly by foreign shareholders. On that same date, subsidiaries of foreign firms, i.e. companies in which over 50 p.c. of the capital is directly owned by a foreign firm, on their own accounted for 357,600 workers in Belgium, or 15.2 p.c. of total employment in resident firms, while subsidiaries of firms resident abroad employed 343,864 people.

The purpose of the article is to analyse Belgium's outgoing foreign direct investment and the incoming investment from abroad, and to view it 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 data on FDI stocks are available.

During the 1990s, global flows of FDI expanded considerably following the lifting of barriers to foreign trade and capital movements, and the liberalisation and privatisation of previously protected sectors. That process was also facilitated by the progress of information and communication technologies. These various factors fostered the creation of new subsidiaries in other countries, particularly in the emerging economies, and cross-border mergers and acquisitions which are behind the major part of the FDI flows in the developed countries. The volume of FDI contracted sharply in the early years of this century, in a context of declining economic activity, corporate debt reduction and the bursting of the financial bubble. From 2004 onwards, global FDI resumed its expansion, driven partly by investment in emerging economies.

Although influenced by the same factors as those which determine the development of FDI on a global scale, direct investment links in Belgium differ from those in other developed economies in their magnitude. In fact, the ratio between FDI flows or stocks and GDP is significantly higher in Belgium than in the majority of other developed countries, for both inward and outward FDI. The scale of Belgium's direct investment links with foreign countries reflects both its function as a financial centre, particularly via the activities of the coordination centres, and its status as a small, open economy in a European Union where integration began earlier – and has progressed farther – than in other free trade areas. Leaving aside the coordination centres, Belgium's inward FDI stock in 2005 thus totalled 65 p.c. of GDP and its outward FDI stock equalled 53 p.c. of GDP, compared to 33.9 and 40.2 p.c. respectively for the EU as a whole.

In the past ten years, Belgium's outward 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. The latter, including the new EU members, accounted for 88.9 p.c. of Belgium's outward FDI stock in 2005. The main protagonists in these capital transfers, effected partly via mergers and acquisitions, were Belgian firms active in the service sector, and their primary aim was market development.

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Over the same period, incoming FDI seems to have grown a little more slowly. In terms of stock, it actually stagnated in the early years of this century. However, the recent dynamism of FDI in Belgium has been at least as favourable as in the other European countries taken as a whole, and especially the neighbouring countries. Looking at greenfield investment, which actually leads to the creation or expansion of activities, the number of projects launched in Belgium has been rising, and at a similar rate to those developed in the EU as a whole. In regard to attracting foreign investment, Belgium's main strengths in terms of activity are chemicals – including life sciences – and transport & communications, particularly logistics and distribution.

In general, the main motive for FDI projects 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 neighbouring countries whose economic characteristics are comparable, notably in regard to their standard of living. 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. Belgium is especially appreciated for the quality of its transport, logistics and telecommunications infrastructures, factors which the majority of business leaders recognise as highly important. Another of Belgium's comparative advantages is its central location at the heart of the most highly developed region in the European Union. These two types of advantage explain, in particular its favourable position in terms of logistics and distribution.