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# PRESS RELEASE

**The world is a village… The integration of Belgian firms into the world economy**
(Article for the September 2017 Economic Review)

It is a well-known fact that only a minority of firms export their products abroad. And what would happen if all the others that don’t export actually did export part of their production? A new study from the National Bank comes up with some unusual answers to this surprising question.

After all, exporting companies do not produce their goods or services from nothing. They get their supplies of spare parts, components or support services (transport, trade, accounting, technical and specialised services, banking services, etc.) from other firms. Taking that into account, can it not be argued that these suppliers are also involved in exports? Part of their production is in fact intended for export. Indirectly, of course, but their contribution is very often indispensable. Suppliers of exporting companies in turn get their components or support services from other suppliers. The end result is a whole network of firms involved in Belgium’s export trade. According to our findings, this is a very wide-reaching network. It covers 66 % of Belgian firms, which is huge considering that less than 5 % of firms actually export. Two in every three Belgian companies are therefore indirect exporters: they are involved in export production chains. Conversely, only one-third of firms produce exclusively for the domestic market and make no contribution, even indirectly, to foreign sales.

Remarkably, indirect exporters are almost always connected to a multitude of foreign countries. They generally tend to supply several exporters, each one of which can sell its production to different destinations. Among these are of course Belgium’s neighbours (Germany, France, the Netherlands), the big economies like the United States, Japan or China, but also a whole host of smaller or further-flung states.

On the import side, the result is even more striking. Here, too, a very small number of firms import goods or services directly from abroad. A number of firms are nevertheless concerned indirectly. To illustrate this point, one need only to think of energy products or raw materials, indispensable for the vast majority of enterprises. Most firms do not import these inputs themselves, but obtain them indirectly. They get their supplies from importers, customers of these importers, or even clients of clients. Ultimately, vitually all Belgian firms use foreign components, even if they sometimes pass in transit through several other Belgian companies beforehand, possibly going through various stages of processing on the way.

These results have some important implications. Firstly, they reveal the harm that a rise in protectionism would cause. Limiting imports would not just hamper importers’ activity, but would penalise more generally almost the entire production network. Secondly, they imply that competitiveness issues are not just about exporting companies, but actually concern a very wide web of entreprises. A country’s ability to export depends on the performance of this network as a whole.

In this connection, another lesson drawn from the study is that there is a close relationship between the performance of a company and its position in the network. In Belgium, exporting and importing companies are the most productive. Then come what are known as ‘‘rank 1’’ firms, that is, the clients of importers and the suppliers of exporters. The ‘‘rank 2’’ firms, namely clients of clients of importers and the suppliers of exporters’ suppliers follow them. At the bottom of the ranking are the ‘‘rank 4’’ or higher firms, which have virtually no connections with foreign countries at all. Compared with the best performers, they suffer from a productivity handicap of 66 %.

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