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## PRESS RELEASE

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### **Belgium's position in world trade**

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The past two decades have seen an accelerating trend towards the global economy, a process reflected partly in changes to the global organisation of production processes. The liberalisation of trade and financial transactions, declining transport costs and progress in information technologies have given rise to the increasing fragmentation of the supply chain, production being dispersed among various locations according to the advantages specific to each of them. Also, the current phase of globalisation is bringing about the rapid emergence of new poles of economic activity. The latter, particularly China, hold an increasingly important position in world production, competing with incumbent producers and – over time – becoming vital trading partners for the more advanced economies, both as destination markets and as suppliers of consumption goods and intermediate products.

Like the other advanced economies, the Belgian economy has been and will continue to be affected by these developments. To retain or strengthen its position in the global economy and thus ensure its prosperity, Belgium will therefore have to prove that it can adapt to the changes in the international environment, making use of its comparative advantages. In other words, Belgium will have to keep an eye on its competitiveness. Apart from the traditional aspects of prices and costs (labour costs, capital remuneration, cost of intermediate inputs), the concept of competitiveness covers more qualitative or structural factors (quality of physical and human capital, innovation efforts, market efficiency, etc.) which are expressed in particular via the structure of exports (specialisation). Together, these factors determine an economy's capacity to offer goods and services which stand out from those of their competitors in terms of their quality or innovative character, and respond to changes in global demand.

From 1995 to 2008, in a context of rapidly expanding world trade, most of the advanced economies saw their market share decline. This reflected the fact that the emerging economies were catching up, as China tripled its share of world trade during that period, while the new EU member countries doubled theirs. The share of Belgian exports in world trade declined from 2.9 p.c. in 1995 to 2.1 p.c. in 2008. However, with annual growth averaging 5.4 p.c., Belgium's exports lagged almost one percentage point behind the average figure for a reference area comprising twelve European countries. Although Belgium outperformed France and the United Kingdom, it did significantly less well than the Netherlands and Germany.

The movement in relative export prices accounts for only a relatively small part of the export performance. This finding, which also holds true for the other European countries, is due mainly to the fact that exporters have hardly any influence over prices set at international level, particularly in the case of relatively standardised products. For that same reason, movements in labour costs, like changes in other production costs, are only passed on to a small degree in export prices, and are therefore mainly offset by adjustments to exporters' operating margins.

Apart from the movement in relative export prices, structural factors such as geographical focus and specialisation in certain product categories may explain performance on foreign markets. In comparison with other advanced economies, Belgium suffers from weak adaptability in these two respects. Its exports are still very heavily concentrated on its traditional markets, especially those in neighbouring countries where demand is relatively less dynamic. It also continues to specialise more in products whose manufacture depends predominantly on labour and capital, products for which global demand was relatively less vigorous during the period under consideration. It is more particularly the loss of market shares in capital-intensive products which lies behind the gap in performance between Belgium and other European countries. Conversely, Belgium has gained market shares in research-intensive and innovation-intensive products, but it is not sufficiently specialised in those areas.

Individual data at the level of Belgian manufacturing companies offer another point of view for understanding the trend in export performance. In particular, these data show that the population of export firms declined during the period examined, and particularly between 2005 and 2007. They also show that export activities are confined to a relatively small number of firms, which are often bigger and more productive than the average. In fact, access to foreign markets remains relatively difficult owing to the associated entry costs, which only the biggest and most productive firms can afford. The innovative character of the products offered may also influence firms' chances of success on foreign markets. Firms supplying mainly innovation-intensive goods represent a larger proportion of those which manage to enter foreign markets, especially the markets of emerging countries.

As exports of products incorporating research and innovation may be a factor fostering Belgium's total exports, it is worth examining the efforts made by Belgian firms in the sphere of innovation. According to qualitative surveys conducted at European level, the proportion of firms, including SMEs, which consider themselves to be innovative is higher in Belgium than in most European countries, with the exception of Germany. Innovation displays a positive correlation with firm size, and is more common in manufacturing industry than in services.

Innovation is a key factor in deployment on foreign markets: innovative firms are more often present on distant markets than non-innovative firms. Conversely, despite their efforts, Belgian firms seem to experience difficulties in continuing to the end of the innovation process, and that leads to relatively weak performance in proposing new-to-the-market goods and services.

That could be a sign that innovation – and particularly R&D – is not sufficiently widely dispersed in the economic fabric. In parallel with the concentration of exports, expenditure on R&D is concentrated in a small number of large firms, many of them under foreign control. The concentration of R&D also has a sectoral dimension: about half of the amount spent on R&D in manufacturing industry is focused on the chemical, biotechnology, pharmacy and health care sectors.

In conclusion, several conditions are required to enable a larger number of firms to engage profitably in export activities:

- ensure that production costs remain within reasonable bounds – particularly labour costs, over which the Belgian economic agents have more direct control – to enable firms to make sufficient profits to support their development;
- encourage the wider dissemination of innovation, particularly between large firms active in this sphere and the network of SMEs, and ensure that innovation efforts are translated into the marketing of new products which are distinguished from those of competitors, in order to alleviate the pressure of price competition;
- support the growth of firms and their international openness by reducing fixed costs associated with exploring foreign markets or by encouraging opportunities for contact with foreign partners, both to find new outlets and to take advantage of useful resources in terms of inputs or technology.

These measures aimed at strengthening the competitiveness of Belgium's exports of goods must be accompanied by efforts in favour of the other dimensions of globalisation, particularly trade in services and foreign direct investment. More generally, the foundations of the economy's international competitiveness largely coincide with what is needed to secure a structural, sustainable basis for general economic development, and thereby to raise the level of prosperity.