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PRESS RELEASE

Three regions, three economies?
(Article for the December 2016 Economic Review)

Are the production structures in the Flemish, Walloon and Brussels Regions interconnected, or conversely, do they tend to function independently of one another? This article shines a light on trade between the three Regions and assesses the size of the regional barriers that exist in Belgium. Establishing a trading relationship with a firm located in a different region does in fact entail an additional cost. According to our estimates, it is equivalent to an implicit extra distance between the customer firm and the supplier of up to 30 km.

These interregional barriers mainly affect trade in services, where the regulatory, linguistic or cultural component exerts a greater influence. Conversely, there is no significant barrier to trade in industrial goods which are more universal in character.

The scale of the regional barriers varies according to the region concerned. Our estimates indicate that a Flemish firm faces an implicit barrier equivalent to 10 km when wishing to make a sale to a Walloon firm. A Walloon supplier seeking a Flemish trade customer is confronted by an implicit barrier of 30 km. In regard to its export production and consumption, Flanders therefore makes less use of value originating from the other two regions than do Wallonia and Brussels. The Brussels Region is a rather special case because its firms often act as a link between the various economic sub-networks.

Of course, location within a region is not the only factor influencing economic relations between supplier and customer firms. Geographical distance is the primary factor here, regardless of the respective regions. Economic factors, such as size, sector of activity, any financial links, or membership of the same economic sub-network, also play a crucial role. In that connection, mapping the sub-networks demonstrates the existence of a number of areas within which trade is more intense.

However, one thing is certain: the presence of interregional barriers does not prevent trade between the various regions. Half of all firms in Belgium sell to trade customers in another region. Overall, each region is involved in the export trade of the other two regions. Moreover, 7% of Flemish value added is invested or consumed by households or public authorities in the other two regions. For Flanders, the Walloon market alone is comparable in importance to the German or French market, and more important than the Dutch market. For Wallonia and Brussels, the interregional market absorbs 9% and 40% respectively of the value added created. It is accounts for a bigger share than the German and French markets taken together. In that respect, it should be noted that the amount of exported value added from Flanders is much larger than from Wallonia on almost every single foreign market. However, there are noticeable differences in terms of the geographic repartition of the exports of those two regions.

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