

3.1 Belgium

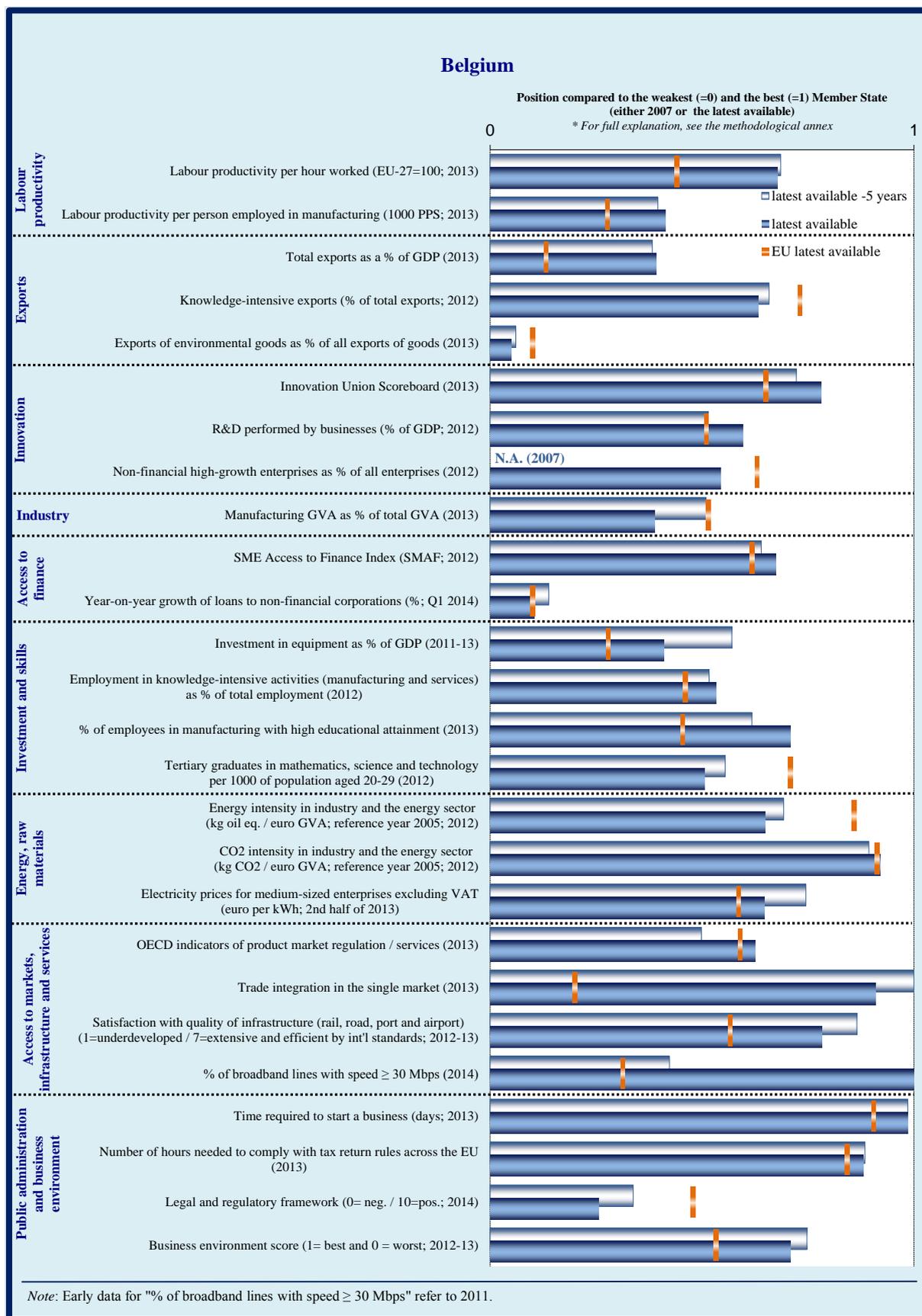
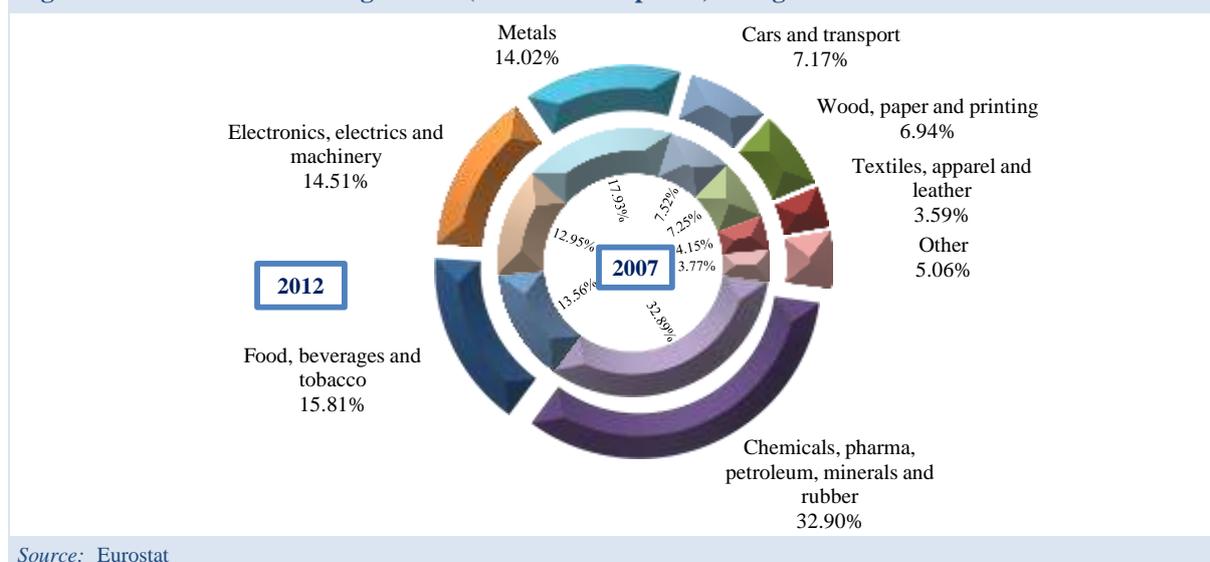


Figure 3.1.1: Manufacturing sectors (GVA at basic prices) - Belgium

3.1.1 Introduction and performance

Belgium is specialised in capital-intensive industries, and sectors with medium to high educational and innovation intensity, such as chemicals, petroleum, and textiles. Over the last five years the country has become more service-oriented than the average EU economy, both in terms of value added and employment.

In response to relatively fast wage growth, manufacturing companies have increased their value-added deflator, causing real output growth to fall and thus also affecting employment. To contain the wage handicap that the country suffers relative to its neighbours, the Belgian authorities have made increasing use of various types of wage subsidies over the past decade. Although these have had a not insignificant effect in some industries, the focus on job creation has led to a significant proportion of this type of support being directed towards domestic and not-for-profit sectors.

Trends in productivity have varied significantly across industries in recent years, as a result of which the relative unit labour costs vis-à-vis Belgium's main trading partners are also very different in the various sectors. Most manufacturing industries, and in particular textiles, chemicals, electrical equipment and car manufacturing, have suffered a sizeable competitiveness loss over the last five years due to higher unit labour costs.

To restore competitiveness to the economy as a whole, two objectives need to be achieved: improving cost competitiveness in critical industries and creating conditions favourable for business growth, i.e. conditions that encourage investment in infrastructure, human capital, mobility, and research and innovation, in particular with support for commercialisation.

3.1.2 Access to finance and investment

Small and medium-sized enterprises in Belgium have better than average access to finance compared to other EU countries. They also continue to enjoy easier access to public financial support than do many of their European counterparts. ⁽¹⁾ In 2013, however, conditions became slightly more difficult, despite the many policy measures introduced to improve access to finance in recent years. However, its main European trade partners have made progress in this area. ⁽²⁾

SMEs rely on bank loans as their main source of external financing, with loans to SMEs making up a higher than average proportion of the loans to non-financial corporations. The flow of venture capital to early-stage investments has reduced by half, but remains above than the EU average.

⁽¹⁾ Small Business Act fact sheet 2013, Sub-index on access to equity finance 2012

⁽²⁾ SME Access to Finance index 2012

A significantly higher proportion of SMEs in Belgium than in the EU on average reported having loan applications rejected or suffering from unacceptable lending conditions or difficulties in accessing public sector support programmes. The long delays in receiving payments from the public sector have, however, decreased significantly in recent years. ⁽²⁾

The three regions have addressed these issues by widening the scope of the funding and guarantees that they offer. The Flemish Government has a fund ⁽³⁾ specifically designed to finance spin-offs from research activities. The government also provides guarantees for businesses making it easier for them to obtain lines of credit from banks. The SME wallet, a support programme managed by the Flemish authorities, finances advice and training, including updating technological knowledge. ⁽⁴⁾ The Walloon government offers support to SMEs, ⁽⁵⁾ including an automatic mix of bank guarantees and co-funding to support start-ups and micro-enterprises. Another scheme offers subordinated loans to SMEs to part-finance specific innovation projects. ⁽⁶⁾

The large number of financial support schemes in place makes it difficult for SMEs to navigate their way through the complex subsidy landscape, which may explain the relatively low take-up of public support by innovative SMEs. In view of this, there is scope to further rationalise existing schemes and to reduce the administrative workload involved in applying for this type of support.

3.1.3 Innovation and skills

As ‘innovation follower’, ⁽⁷⁾ Belgium’ performance in this area is above the EU average. ⁽⁸⁾ The criteria on which it scores particularly highly include joint international scientific joint publications, collaboration amongst innovative SMEs and public-private joint publications. Recent trends, however,

show its rate of improvement to be significantly below the EU average. This is mainly due to a reduction in expenditure on non-R&D innovation, the relatively low level of sales of new innovations as a proportion of turnover, and to a lesser extent, the relatively small number of fast-growing innovative firms.

Belgium appears to be broadly on track to meet its target of increasing investment in R&D to 3% of GDP by 2020. R&D intensity ⁽⁹⁾ has been increasing since 2005, thanks to growth in both public and private investment (with public sector investment increasing from 0.56 % of GDP in 2005 to 0.70 % in 2012, and investment by businesses climbing from 1.24% to 1.52%). Private investment in R&D is concentrated mainly in high-tech sectors, in particular pharmaceuticals, with medium-tech industry accounting for the next-largest part.

The increase seen since 2005 in the intensity of private R&D has, in part, been driven by the particularly notable growth of R&D expenditure in pharmaceuticals and services. Between 2005 and 2011, expenditure in these sectors increased as a proportion of the total from 25% to 31% in pharmaceuticals and from 17% to 21% in services. Between 2007 and 2011, R&D intensity also increased in most other manufacturing sectors.

The pharmaceutical sector is playing a particularly important role in Belgium’s economy. At the same time, in recent years, many other sectors have benefited from knowledge-intensification of the economy and, to a certain extent, from a widening of the innovation base. There is still progress to be made in this area. In 2011, 43% of private R&D expenditure was concentrated in large firms (over 1000 employees) – only a small change from 46% in 2002.

The challenge is therefore to speed up its transition towards a more knowledge-intensive and innovation-based economy by fully exploiting the strengths of the research and innovation system, in particular by ensuring that the results of R&D in fact lead to innovative products and services coming onto the market. In particular, the quest for more fast-growing innovative firms ⁽¹⁰⁾ would be supported by better business clusters, and more favourable conditions.

⁽³⁾ Spin-off financieringsinstrument, SOFI.

⁽⁴⁾ <http://www.pmv.eu/en/services/sofi>
<http://www.evi-vlaanderen.be>

⁽⁵⁾ La Société Wallonne de Financement et de Garantie des Petites et Moyennes Entreprises, SOWALFIN and its subsidiaries like SOCAMUT (La Société des Cautions Mutuelles de Wallonie) and Novallia.

⁽⁶⁾ <http://www.kammco.be/fr/actualites/financement-tpe---produit-mixte-automatique-de-la-socamut.htm>
<http://www.novallia.be/fr/index.html>

⁽⁷⁾ The second-ranked group in the Innovation Union Scoreboard.

⁽⁸⁾ Innovation Union Scoreboard 2014

⁽⁹⁾ Investment as a percentage of GDP.

⁽¹⁰⁾ Research and innovation performance in 2013, Country Profile Belgium, European Commission.

There is potential in particular in the service sector that is growing at a faster rate than manufacturing.

Belgium has already taken important steps towards achieving the transition described above: It has adopted a diversified smart specialisation strategy and is taking a leading role in the Vanguard Initiative (see section 1.4.2), extended the support offered to creative and green industries, and is directing efforts towards strategic innovation that will help industries to adapt to the changing markets.

Initiatives to steer private investment have been taken at all levels of government, particularly with the aim of better aligning investment in research and innovation with policies to support exports and encourage firms to integrate into international value chains. At regional level, schemes offering support for carrying out research tend to be fragmented and are being criticised by businesses as complex and time-consuming. Although Belgium remains an attractive location for R&D investments e.g. due to its tax incentives, the sectoral disinvestment has also reduced the overall level of RDI investment. ⁽¹¹⁾

Labour market rigidities have led to evident skills shortages in high-qualification jobs and unemployment among lower-qualified job-seekers. Shortages of skilled professionals in technical occupations and growth sectors are hampering the efforts to improve the innovation performance of the Belgian economy. Adult participation in lifelong learning remains below the EU average, in particular for older and low-skilled workers. While the coordination of various sub-federal actors responsible for education, training and employment is improving, further efforts would be beneficial.

The government has taken initiatives to increase the number of science, technology and mathematics graduates, and this has led to some improvement recently. Despite this, Belgium continues to be below the EU average. ⁽¹²⁾

3.1.4 Energy, raw materials and sustainability

The high level of energy use in industry, combined with the poor energy efficiency of households, make

⁽¹¹⁾ Idem.

⁽¹²⁾ In-Depth Review, Macroeconomic Imbalances, Belgium 2014.

the economy highly energy-intensive. The production of metals and chemicals represents a fifth of the total value added in industry, but accounts for almost two-thirds of final industry energy consumption.

The high emissions intensity is mitigated by the high proportion of nuclear energy production in the country. A government plan from July 2013 provides a framework for phasing out nuclear energy, ensuring the security of electricity supply and increasing interconnection capacity. Uncertainty as to the future availability and cost of energy remain real concerns for businesses, however. ⁽¹³⁾

Strategies to reduce prices, such as conducting a review of the price indexation mechanism and increasing market transparency, are mainly directed towards the consumer market. The planned regionalisation of electricity distribution tariffs has added to the uncertainty surrounding the future changes in distribution costs for end-users. At regional level, measures have been taken to support cogeneration in order to reduce costs for energy-intensive industries and advice and support is also being provided for SMEs.

In order to achieve its targets for reducing greenhouse gas emissions, Belgium needs to take further action to make road transportation more environmentally friendly. ⁽¹⁴⁾ Traffic congestion at peak times constitutes a major problem in Belgium, in large towns and cities and on the main routes between urban centres.

3.1.5 Access to markets, infrastructure and services

Belgium's main exports are low and medium-technology goods, which are subject to greater price competition than high-tech goods. Over the past decade, the country has increasingly specialised in intermediate goods. Total exports of goods and services have been growing at a lower rate than have exports from the euro area as a whole, and only a relatively small increase has been seen in exports of high-tech goods.

⁽¹³⁾ Benchmarking study of electricity prices between Belgium and neighbouring countries, Deloitte and Touche 2013.

⁽¹⁴⁾ See the Country-Specific Recommendations for Belgium, <http://register.consilium.europa.eu/doc/srv?!=EN&f=ST%2010772%202014%20INIT>

The range of destinations for exports is, however, becoming increasingly diverse. In 2013, neighbouring countries were still the main destination for Belgian exports of goods and services, but the proportion of exports going to the larger emerging markets has continued to grow. Belgian exporters have also benefited indirectly from new markets through exports to Germany. ⁽¹⁵⁾

Increasing the competitiveness of its goods exports remains a challenge for Belgium and the increase in exports in services was not sufficient to compensate for the loss of market share seen in exports of goods. Further, the administrative costs for exporting are considerably higher in Belgium than in many other EU countries. ⁽²⁾

On the other hand, however, exporting firms benefit from the highly-developed support mechanisms available to them, such as the financial and commercial guarantees offered by the public credit insurance scheme, and the government-supported international networking initiatives. These are directed towards particular markets and sectors, on the basis of a prior analysis of the needs and commercial opportunities available.

Prices for goods and services are generally higher in Belgium than in other Member States, due to operational restrictions and yet unresolved obstacles to competition in the retail sector. ⁽¹⁶⁾ The planned regionalisation of regulations on setting up businesses provides an opportunity for lowering barriers to entry but the risk of market fragmentation needs to be actively managed.

Regulation of the provision of professional services continues to be excessive, in particular in the areas of legal, accounting and architectural services. A new competition authority was established in September 2013, replacing the old competition council. Despite the increase in its budget, the authority remains small compared to competition authorities in similar size countries. ⁽¹⁷⁾

The quality of transport infrastructure has been continually deteriorating over the past two decades. The Belgian authorities are trying to address the

problems by investing more, in particular in the road network in Flanders, in the regional rail network around Brussels, in multimodal transport systems in Wallonia, and in systems to improve the coordination of public transport between the different providers.

The markets for rail and air transport continue to function inefficiently. The regulator responsible for the main airports is not fully independent. Further, Belgium has not yet opened up its domestic rail passenger market to competition and the punctuality and reliability of railway services remain a concern.

The use of mobile broadband is increasing in Belgium, but the country still has one of the lowest penetration rates in the EU. The adoption of the telecommunications law in 2012 which simplified the procedure for switching providers has reinvigorated the Belgian mobile telephony market. ⁽¹⁸⁾

3.1.6 Public administration and business environment

The size of the public sector relative to the economy has further increased. Public services are generally perceived as being effective and of good quality, although administrative obstacles remain an issue. ⁽¹⁹⁾ Greater efforts are being made at the federal and regional level with the aim of ensuring that the government is able to meet its payments as they fall due.

The use of information technologies and innovative tools in public administration remains limited compared with private firms. ⁽²⁰⁾ A number of issues were encountered introducing evidence-based tools into public sector practices, leading into delays. These problems are now being addressed. ⁽²¹⁾ At regional level Belgium needs to implement the SME test as part of assessing the impact of regulations.

The generally low level of bureaucracy masks the negative effect that ‘red tape’ is in fact having in areas critical for competitiveness. ⁽²²⁾ The main

⁽¹⁵⁾ http://www.abh-ace.be/en/statistics/buitenlandse_handel_belgie/

⁽¹⁶⁾ OECD Product market database.

⁽¹⁷⁾ Commission Staff Working Document, Assessment of the 2014 national reform programme and stability programme for BELGIUM, SWD(2014) 402 final

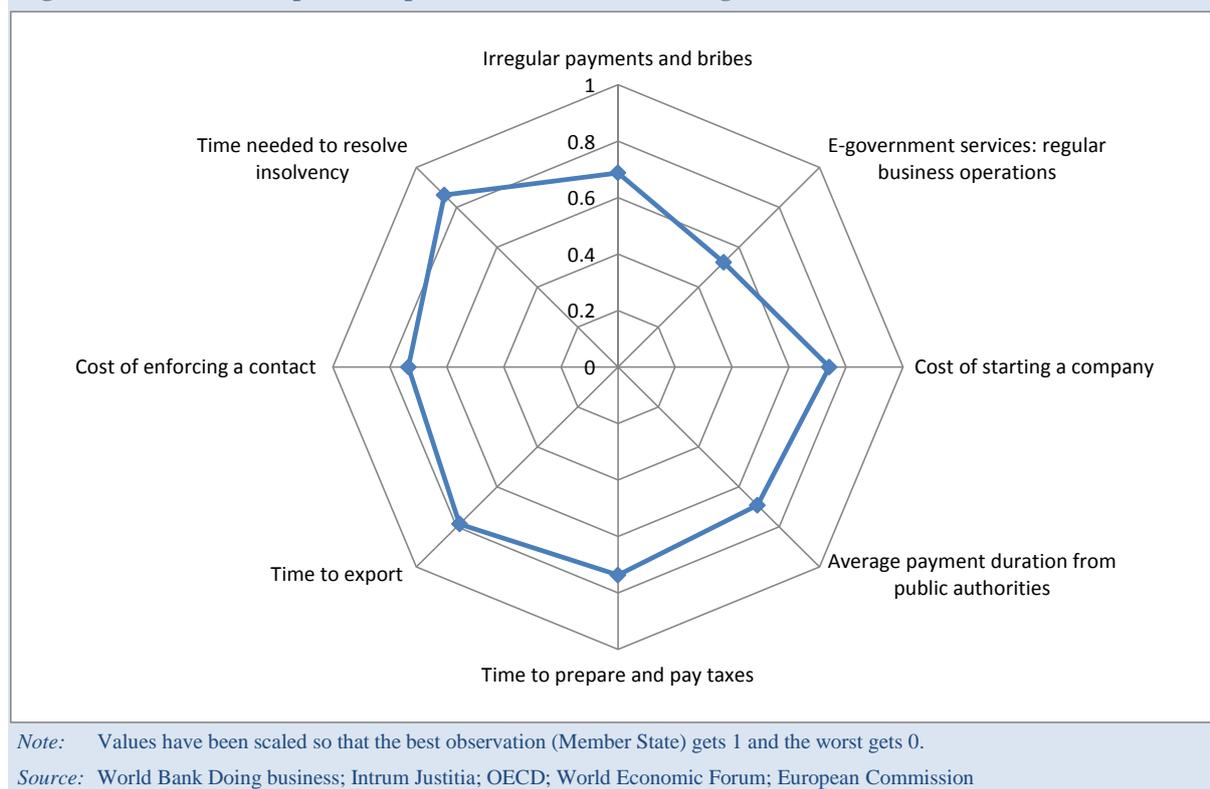
⁽¹⁸⁾ Digital Agenda Scoreboard 2013.

⁽¹⁹⁾ Public Sector Innovation scoreboard 2013? European Commission

⁽²⁰⁾ Compétitivité de la Belgique 2012

⁽²¹⁾ Excellence of Public Administration for Competitiveness in the EU Member States 2012

⁽²²⁾ Complexity of regional support schemes and employment subsidies, costs of export documents, administrative burden in taxation, employment and environment, weaknesses in the justice system, lack of coherence in immigration policy

Figure 3.1.2: Overall profile of public administration - Belgium

issues are linked to entrepreneurship, and high start-up and licensing costs.

The lack of entrepreneurial ambition has been a problem for some time. The three regions have taken significant action to promote entrepreneurship and these have delivered positive results. Further research is however needed to identify the underlying causes of this issue, and to achieve a change in attitudes, especially among young potential entrepreneurs, a long-term policy push is most likely needed.

The regional governments have launched a number of initiatives to simplify the granting of building permits and for registering property. Belgian law continues to require businesses to have relatively high minimum level of paid-in capital. Legislation remains complex in the areas of tax and social security, but noticeable improvement has been seen in environmental legislation. Simplification of the tax system would benefit the business environment, in particular by increasing transparency and reducing compliance costs.

The current tax system places a high tax burden on labour, while environmental taxes remain low. In view of this, there is reason to believe that shifting taxation to less growth-distortive tax bases would

support economic growth and employment while at the same time having a positive effect on the environment.

Belgium remains an attractive destination for foreign investment, as demonstrated by the increase in foreign capital in the economy and in the retained earnings of foreign corporations, which have grown from 114% of GDP in 2005 to 153% in 2012. The average number of jobs created by foreign investment is, however, only half of that in other EU countries.⁽²³⁾

3.1.7 Conclusions

During the period under review, Belgium has lost ground because of low productivity growth, loss of cost competitiveness, specialisation in low and medium-tech goods, and geographical orientation towards neighbouring countries.

⁽²³⁾ <http://www.nbb.be/belgostat>
Ernst and Young Barometer of Belgian attractiveness

Belgium will need to address a number of issues to increase its competitiveness. To restore cost competitiveness, it needs to keep growth in real wages in line with labour productivity and to address uncertainties in the energy market. The authorities could also take steps to further improve the attractiveness of the business environment, in particular by investing in transport and energy infrastructure, simplifying and rationalising administrative procedures, reducing the burdens on businesses, and continuing to invest in innovation in the public sector.

To restore non-cost competitiveness, and accelerate the transition towards a more knowledge-intensive economy, Belgium has further scope to do more to address the skills mismatch, to make technical careers more attractive, and to promote financing of research and innovation across a wider range of sectors and firms. In addition, it could encourage the commercialisation of innovative products and services, and continue to promote on industrial regeneration in order to boost productivity by exploiting new sources of growth.