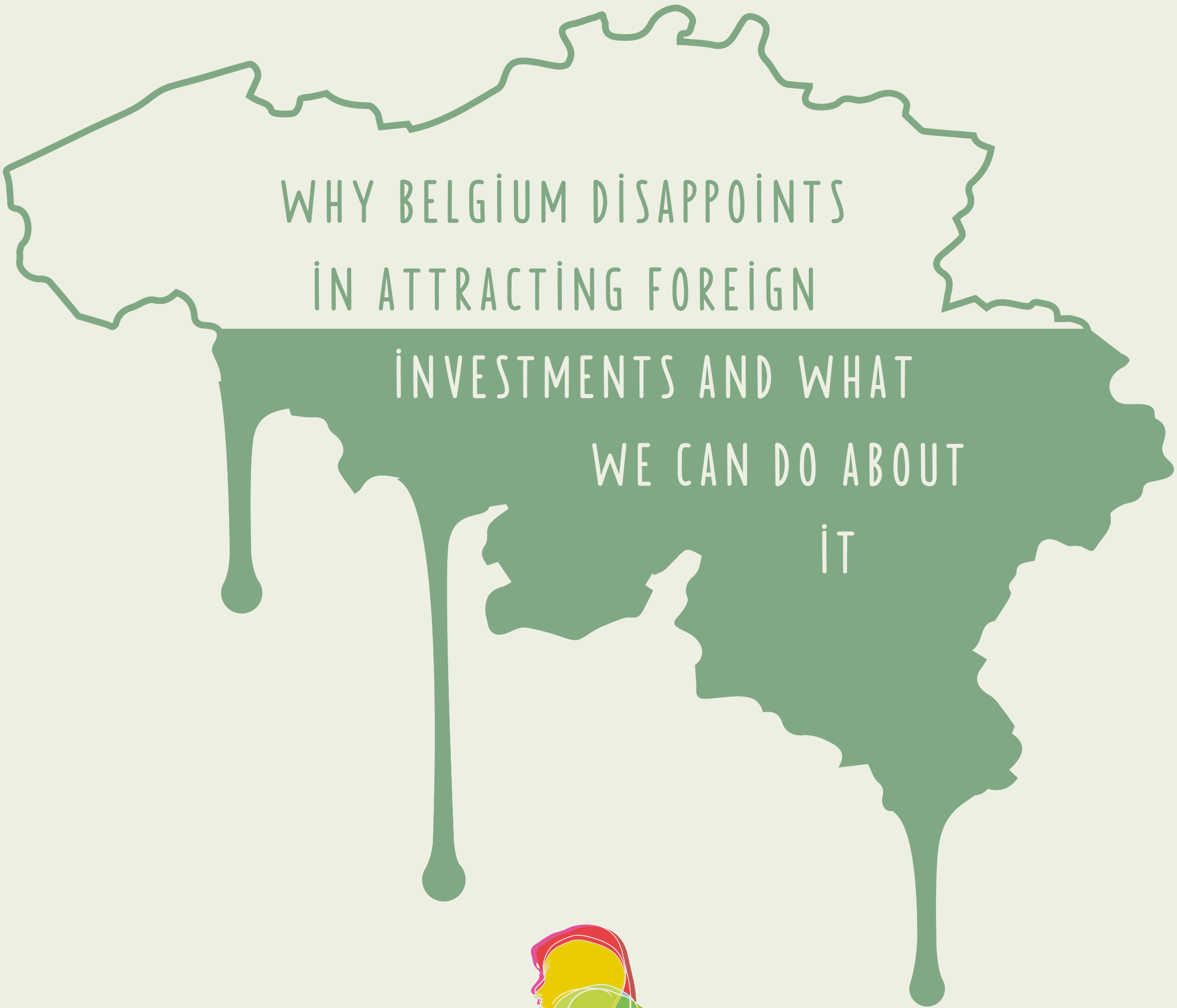
THE GREAT EXODUS

WHY BELGIUM DISAPPOINTS IN ATTRACTING FOREIGN INVESTMENTS AND WHAT WE CAN DO ABOUT IT



BRIEF SUMMARY

Foreign investments are like a hall of mirrors. Nothing is what it seems. Nonetheless, in our country, it does involve hundreds of billions of euro and governments still make offers in all manners of ways to win over foreign investors. With this report, the Friday Group aims to argue for a more balanced investment policy. There are several reasons for concern:

1. Compared to our neighbouring countries, Belgium has still not recovered in terms of attracting foreign investments and the Euro crisis clearly hit us harder compared to other countries. **Nowhere in comparable countries has disinvestment been so large**. Our country saw a drop in net foreign investments well over 124 billion EUR between 2008-2013.

2. The number of new additional replace by incoming? foreign investments is still too small to absorb the losses in foreign investments. **More foreign capital is flowing out than in.**

3. At the same time, Belgian businesses are bringing in far less money in from abroad than foreign businesses are taking investment revenue out of Belgium. Between 2003 and 2013, the cost resulted in a net 7 billion euro per annum, sums particularly lost to our neighbouring countries and above all in the financial manufacturing and energy sectors. **Belgium becomes, as it were, the cash cow of its neighbours** and this is a severe symptom of the weakening of the Belgian economy.

4. Next to that, he negative balance of investment revenue indicates that we may not be able to compensate a failing domestic economic policy by chasing after foreign capital. Over time, the bill could become prodigious, indeed, even leading to the **impoverishment of our society**, certainly, if those investments are not accompanied by a positive transfer of technology and productivity gain.

5. We run the risk of ending up in a **downward spiral**, in which a weakening economy will encourage our government further to pursue a policy tailored to foreign investors, such-that our own strengths are likely to be supported even less.

The Friday Group argues for **investing more under our own steam**. A powerful, sustainable economic strategy must allow us to employ our own capital more actively.

Just as the government encouraged households to subscribe to government bonds, the various government levels must also encourage households to invest in **project bonds**: from infrastructure, through healthcare to energy supply.

On the stock exchange, we should develop instruments to make it easier for **start-ups** to raise capital and to prevent premature foreign acquisition, certainly because, at the outset, our society often acts as risk investor.

The Friday Group also wants a better overview of the costs and benefits of foreign investments. The regions would be able to protect their interests more effectively by combining forces in a Belgian **trade and investment agency**.

The main message remains the same: we can never make up for a weak domestic economic policy with foreign investments.

“FOREIGN INVESTMENTS ARE LIKE A HALL OF MIRRORS. NOTHING IS WHAT IT SEEMS.”

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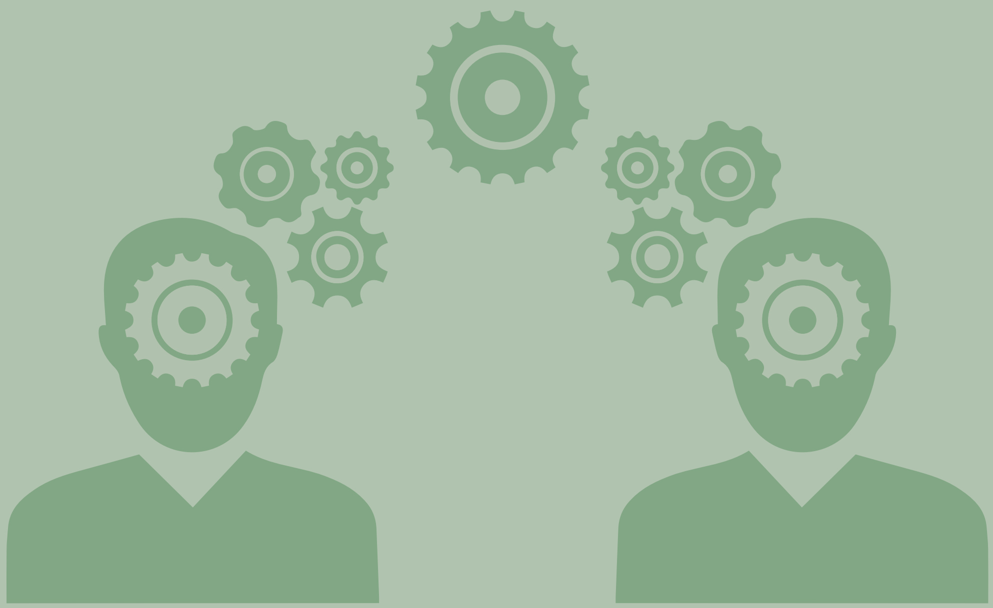
Every year, the regional governments, who since 2001 have been responsible for stimulating foreign investments, present optimistic reports about new projects in Brussels, Flanders and Wallonia.

A first observation of this report is that such optimism is largely misplaced. After all, the regions employ gross figures, which only illustrate how many investments are coming in, not how many are disappearing. In reality, our country is struggling with a problem of disinvestment.

A second point to note is that some definitions appear increasingly less relevant. Whereas, we assume that direct investments commit foreign businesses sustainably to our economy, that does not seem to be the case for a considerable proportion of them.



A third observation is the lack of transparency about the way in which our governments weigh up the benefits of foreign investments relative to the costs and whether they have the resources to do that at all.

This report stresses that foreign investments should not be a goal in themselves, but rather a means to strengthen our economy. : . Contrary to expectations, foreign investments can harm the prosperity of our society, if attracted in absence of a robust national economic strategy.

Everything argues in favour of more transparency, defining a clear, ambitious economic strategy, employing our own savings for strategic investments, and developing a precise and targeted investment policy – with increased cooperation as long as important competences such as diplomacy, taxes and finance remain at the Belgian level.

HOT AIR ZONE

At the end of the year, regional governments like to come out with optimistic figures about foreign investments. At the end of 2013, for example, the then Minister-President Kris Peeters reported almost 2 billion euro in investments in Flanders, worth 4,000 new jobs. His Walloon colleague reported almost 900 million euro and 1,500 jobs. However, those figures appear hard to reconcile with the news of various closures of large foreign businesses in our country.

The figures presented by the regional governments entail direct investments, that is to say, investments made by foreign businesses primarily to become owners of projects, infrastructure, companies, etc. In addition, they are gross figures. While these numbers do register the new investments, they do not balance how much capital and how many jobs disappear among foreign companies. It is comparable to a balance of payments, only with just one column, where the income is reflected.

It is therefore better to look up the net figures. That is not such an easy task. Our governments themselves do not release any detailed figures. Incidentally, that is also the case in several other European member states. The databases of the Financial Times and IBM are very specific, yet confine themselves predominantly to gross figures and are dependent on the contributions of individual businesses and governments. It also is difficult to assess the extent to which the definitions of these private information providers are scientifically comparable.

In short, there is a transparency problem. The figures about foreign investments are actually one great zone of hot air. Governments often refer to the importance of confidentiality, but in that case, it is hard to evaluate the choices, offers and success of those same governments. At the same time, investment promotion is pursued using public resources.

After much deliberation, we decided to use the figures of Eurostat and the European Central Bank. These are standardised and therefore make it possible to compare between European member states.[1] They are also more detailed than the data made available by the Belgian National Bank or the investment agencies of the regions.

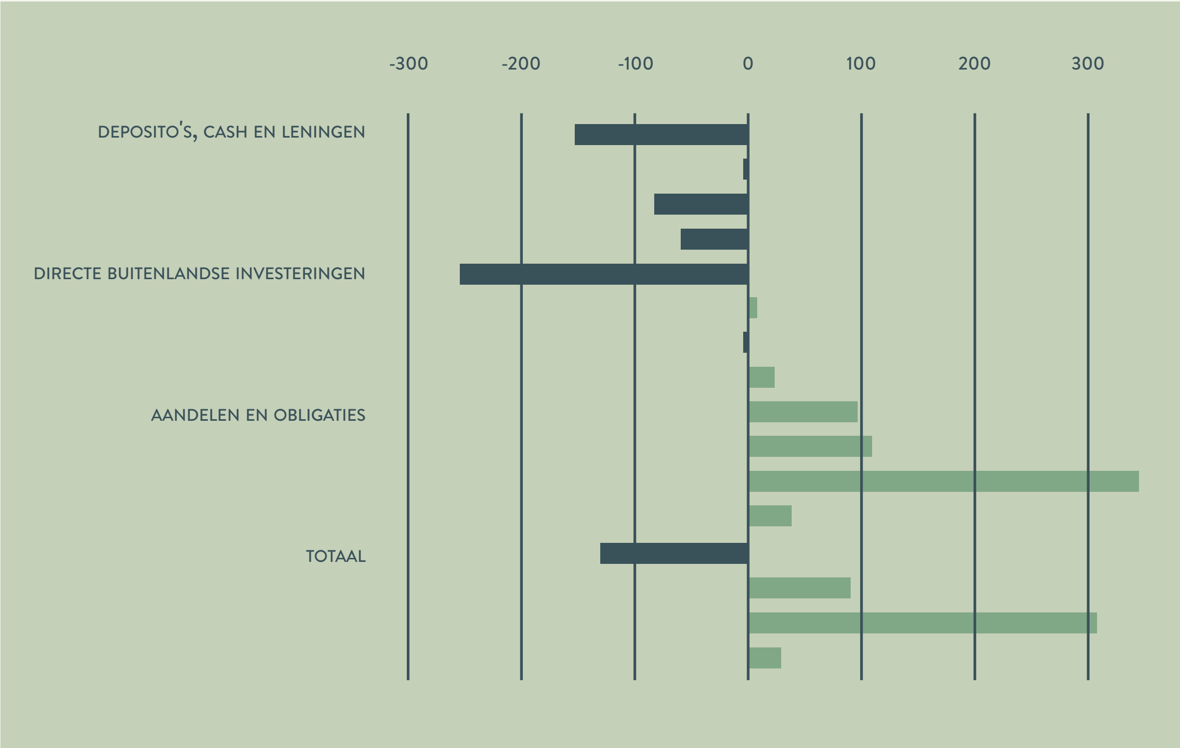
Controversy remains about the accuracy of the figures, since they still depend on reporting, in the first place by businesses and in the second place by public institutions. However, with this report, we hope to map above all the major movements and will methodically point out where we find great differences between the figures of a country of destination and those of a country of origin.

In this report, we discuss three kinds of foreign investment: direct investments, which were explained earlier, portfolio investments, mainly in shares and bonds, and the so-called other investments, mainly in savings accounts.

Traditionally, the main focus is on foreign direct investments. These are the investments with which a Belgian firm becomes completely or partially owned by a foreign firm. Bur according to the IMF-definition, there are also “indirect” or “portfolio” investments, in shares and bonds, and “other investments”, largely in deposits. The impact of the latter is the smallest, but, still, they do affect the extent to which Belgian banks are able to lend to households, companies, and governments.

THE GREAT EXODUS

The first observation is disconcerting: between 2008 and 2013, a net 124 billion euro worth of foreign investments flowed out of our country. That is a huge sum. This figure is a total for all kinds of investment. It is only when we look at the various kinds of investment, that the magnitude of the movement becomes clear.



Graph. The evolution of foreign investments (2008-2013, 2012 for DBI). Source: ECB and Eurostat.

The biggest disinvestment manifested itself in the deposits and loans category. Between 2008 and 2013, Belgians took 158 billion euro from savings accounts abroad, but the other way round, foreign savers took 267 billion away from Belgium. The greatest part of these entails savings by foreign banks, businesses and private individuals deposited in Belgium – with commercial banks or with the central bank. Thus, the net loss amounted to 109 billion euro, far greater than the losses in comparable countries like the Netherlands, Denmark and Austria.

The second biggest disinvestment occurred in the component of direct foreign investments. Between 2008 and 2012, Belgium took 246 billion euro from abroad, but the other way round, 231 billion euro disappeared from our country. therefore This does represent a very stark contrast with the positive reports mentioned earlier.

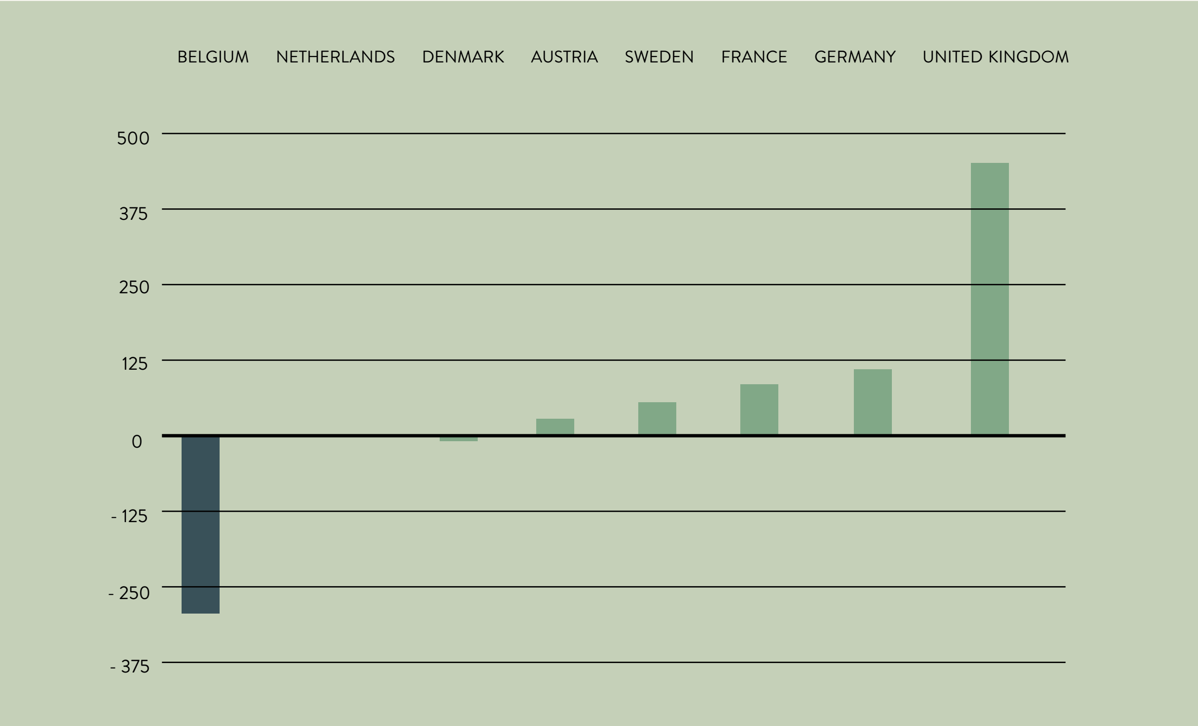
Then again, foreign investments in shares and bonds of Belgian companies (excluding banks) grew by 94 billion between 2008 and 2013, investments in government bonds by 16 billion. At first sight, the attractiveness of the companies on the stock exchange can stand in stark contrast with the subsiding of the direct investments, but the big players on the Euronext Brussels, such as AB-Inbev and GDF Suez, only post a small part of their turnover in Belgium itself. Furthermore, our country is still investing a good deal more in shares and bonds of companies than the other way round, which is also an indicator of the attractiveness of the Belgian economy. Moreover, of all neighbouring and comparable countries, Belgium attracted the smallest volume of investments in shares and bonds of companies: about a seventh of the investments that Austria attracted, a sixth of the Dutch and a third of the Danish.

Thus, the first conclusion is that the euphoria about the strong performance of Belgium and its regions in attracting investments is at least partially misplaced.

DIRECT FOREIGN INVESTMENTS

For Belgian politicians, direct investments seem to be a must. The advantages stressed are manifold: direct foreign investments create jobs, enhance added value, stimulate technological development and increase competition, so that businesses gain productivity. At this point, we leave these arguments for what they are. We will come back to that presently. First, we would like to continue to examine and place into perspective the disinvestment in our country.

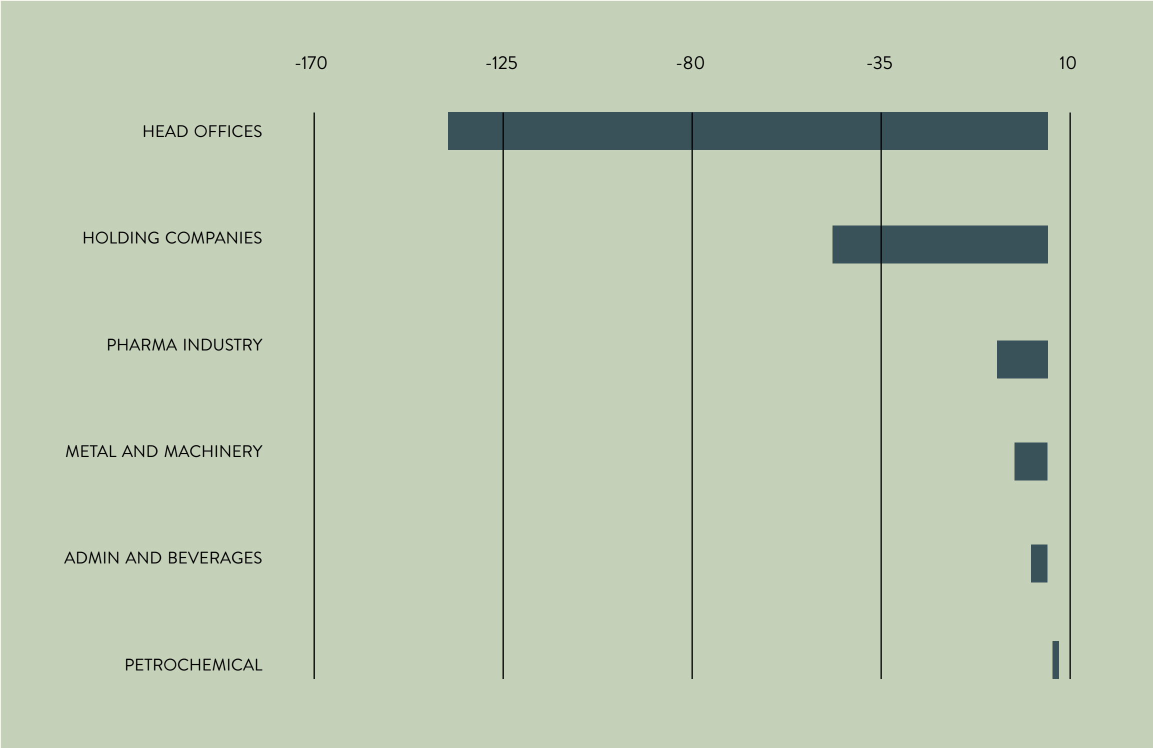
Between 2008 and 2013, direct foreign investments in our country therefore shrank by 231 billion euro. This does not mean that no such investments were made in our country, but that the losses exceeded the new projects. Our country did significantly worse than other neighbouring or comparable European countries. Thus, assertions that Belgium and its regions are attractive European investment markets do not directly hold water.



Graph. The evolution of the position of direct foreign investments in Belgium and other European countries (billion euro, 2008-2013).
Source: Eurostat database, foreign direct investment, positions.

What explains this considerable disinvestment? Between 2008 and 2013, holding companies and head offices in particular took well over 200 billion euro in direct foreign investments out of our country. In part, this resulted from a European instruction that Belgium had to adjust the notional tax relief, so that it became less attractive for major international businesses to park their money here.

In no other comparable country for which we have figures were the losses so great. The Netherlands, Denmark and Austria once again did markedly better. France and Germany saw foreign investments in holdings and head offices rise by 87 and 38 billion euro. As regards to France, we were able to discover that 17 billion euro in investments came from the Belgian services sector and 8 billion euro from the financial sector in particular. A representative of the financial sector explains this as follows: "When Paris has a need for capital, the French banks and national industries know what is to be done. Amending a number of tax measures did help with this, but we should not lose sight of the strategic considerations."



Graph. Change in the position of direct foreign investments in Belgium between 2008 and 2013 (billion euro). Source: Eurostat database, EU direct investment income, breakdown by partner country and economic activity.

Belgium recorded disinvestment in manufacturing too: 36 billion euro between 2008 and 2012. That is substantial, considering that during the same period the Netherlands saw direct investments in its manufacturing industry grow by 48 billion, Denmark by 7 billion euro and Denmark by 3 billion euro. !One of them should be Austria!

The direct investment position in the pharmaceutical industry shrank by more than 12 billion euro. However, our country's strengths in that sector are considerable. Johnson & Johnson invested almost 200 million in our country during that period, Pfizer 140 million in Puurs, Novartis several tens of millions. Sector representatives agreed that the existing activity was being kept up well, but that the period of big acquisitions in other investments ended, particularly because of the focus of the international giants on their activities in growth countries.

The explanation of the 12 billion in disinvestment therefore remains unclear. Interestingly however is the increased Dutch and Irish direct investment position in the pharmaceutical industry with 5 and 15 billion euro respectively, without investments in fixed assets – infrastructure, machines and software –. Because Belgium keeps its figures secret, it is almost impossible to reconstruct how much of that money comes out of our country. For the Netherlands, we find from the official figures a total transaction of 1 billion euro from Belgium in 2011. As regards Ireland, we see that only about 7 of the 15 billion in investments came from other countries in the Eurozone.

We put these figures to a number of representatives in the sector, but they had no immediate explanation. The Netherlands did take some knocks in the sector, we heard, and investments in research and development in Ireland did increase slightly, yet not in the order of billions. The most likely explanation, one that the sector representatives also confirmed, is that major pharmaceutical producers were not so much taking their production out of our country, but rather a large part of their "savings" and siphoning it off to European countries with better tax regimes.[2] The question is of course the extent to which the favourable tax measures on investments also applied to these "volatile" investments.

At the same time, we also noted a disinvestment in the metal industry. That is easier to explain with the closure of ArcellorMittal as principal example. The same applies to the food sector and in several other smaller branches of manufacturing. The petrochemical industry is the sole significant exception with a net investment of 3.5 billion euro resulting from the modernisation projects of ExxonMobil, Total and Gunvor in the Port of Antwerp.

As regards manufacturing, Belgium scored worst compared to neighbouring and comparable European countries. The services sector was unable to make good the losses in manufacturing. The sector of administration and support services registered a disinvestment of 4 billion euro.

This point raises two questions. What explains that Belgium c did so badly in comparison with peer-countries as regards direct foreign investments? What explains the enormous volatility – tens of billions moved in a short period – in this category of investment, a category considered to produce a sustainable bond with its recipient country? In other words, what is the actual impact of direct foreign investments on the economy?

Grafiek: De verandering van de directe buitenlandse investeringen per economische sector (miljard Euro). Bron: Eurostat.

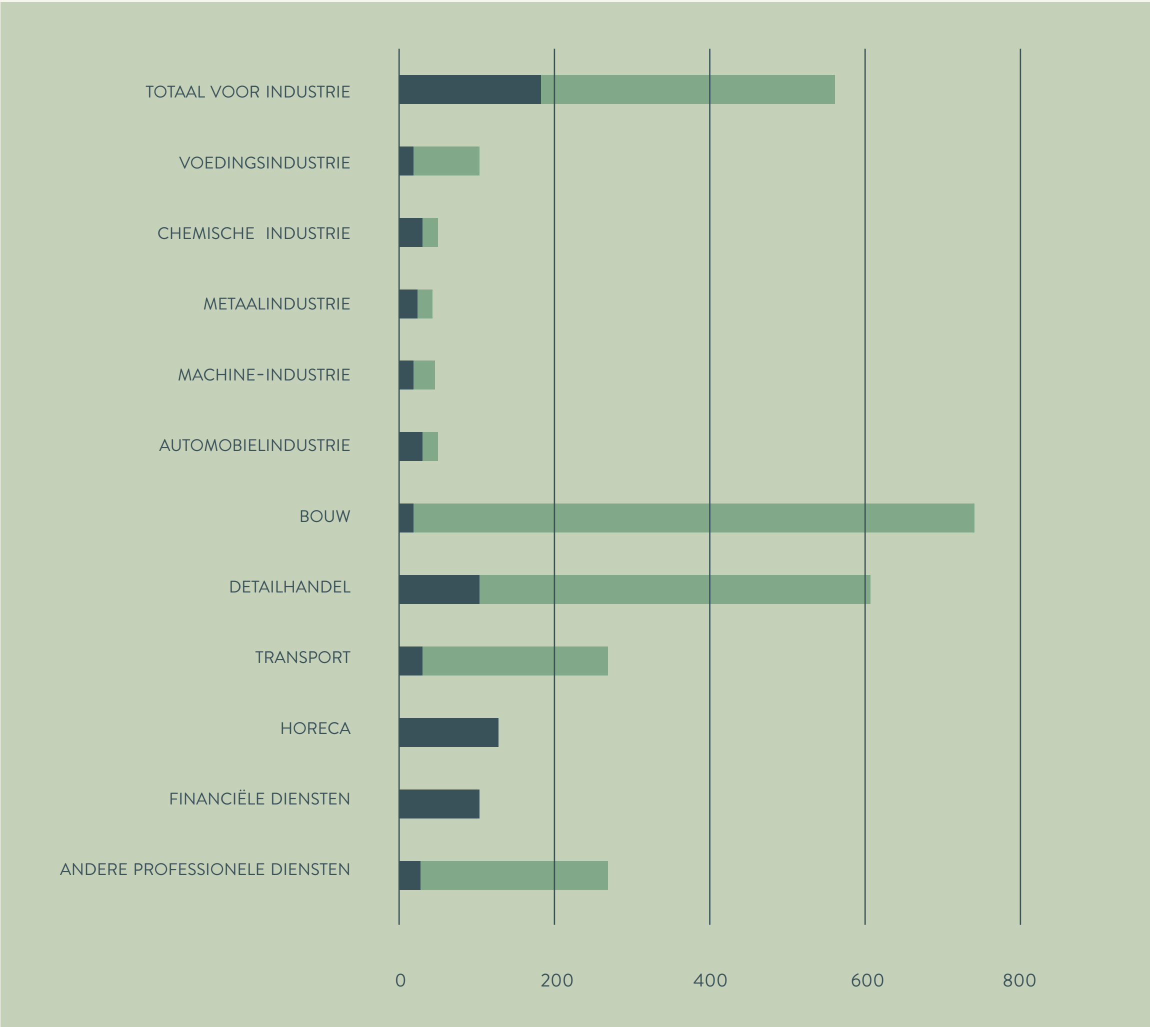
HEAD OFFICES
HOLDING COMPANIES
PROFESSIONAL SERVICES
MANUFACTURING
WHOLESALE AND RETAIL
FINANCE AND INSURANCE
OTHERS

THE IMPACT OF DIRECT FOREIGN INVESTMENTS

Let‘s take a look at the last question first. The rapid movement of direct foreign investments in head offices, in holdings and in the pharmaceutical industry to countries such as Luxemburg, Ireland and the Netherlands makes it likely that a good deal of the direct investments is not at all as fixed in our economy as is often assumed. It would even seem that these are disguised tax-optimising or even tax-evading portfolio investments. Thus, a great difference exists between the total volume of total direct foreign investments and the proportion actually invested in infrastructure, machines or knowhow.

A sizeable part of the direct foreign investments therefore creates little added value in our economy. While the fact that major international companies park substantial sums of their savings balances in our country may possibly make Belgium appear somewhat richer in the statistics, the favourable tax regimes ensure that the benefits for the National Treasury are probably limited. The effects with respect to infrastructure and employment are already quite limited.

Leaving these misleading disguised? direct investments aside for the moment, it is also no foregone conclusion how much the actual direct foreign investments contribute to our prosperity. The literature is clear about the impact on poor countries. In their case, businesses from rich countries often clearly contribute to more efficiency through investments, thanks to improvements in the infrastructure, better factories, transfer of knowledge, injection of new technology, and so on. In the case of investments in developed countries, the consequences are far less clear. Princeton professor Dani Rodrik put it like this: “One dollar of direct foreign investment is not worth anything more (or less too) than one dollar of domestic investment.” [3] Let us examine some assumptions in the Belgian context.



Graph. The contribution of foreign investments to Belgian employment (numbers of employed, 000).
Source. Own calculations based on OECD and Eurostat.

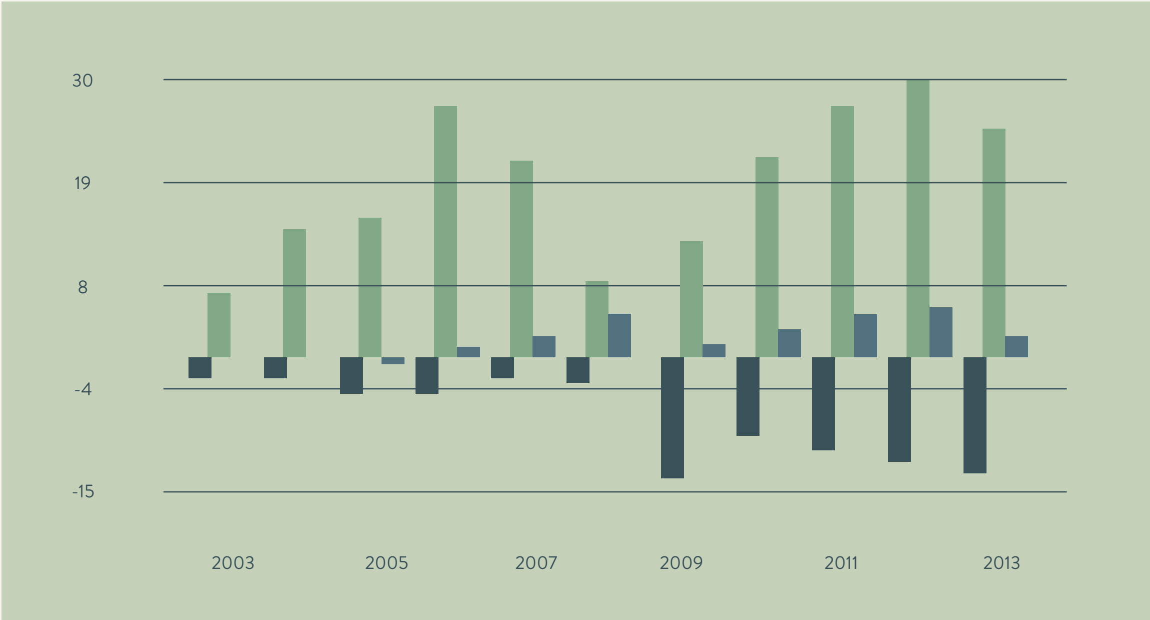
BUITENLAND BINNENLAND

FIRST: We often assume too easily that direct foreign investments increase added value and employment. In our country, foreign businesses represent 29 percent of the added value in the private sector. That is substantial compared to countries like Denmark, the Netherlands and Austria.[4] The importance is very large particularly in the chemicals, automotive and metal sectors. Foreign companies represent 18 percent of the employment in the private sector. That is modest compared to other countries.[5]

Nevertheless, it is not the case that all that added value and all those jobs are actually the merit of direct foreign investors. If direct foreign investments are already fixed in production, then in developed countries they usually replace existing production – through acquisitions or mergers or by domestic players' market share diminishing. Theoretically, the foreign capital should release scope for steering domestic capital to other, even more productive sectors, so that the added value and employment do actually increase, but, in practice, that is not the case for a majority of sectors. Lastly: a clear downward trend exists with respect to the employment intensity of foreign investments: i.e. fewer jobs for the same capital.[6]

SECOND: Foreign investment is no charity. It arrives with the objective to make profit. That is perfectly rational, yet, from the standpoint of society, the inflow of investments means that an outflow of investment revenue may be expected. In the longer term, the outflow is often even greater than the inflow - so there occurs a net loss of capital. This should not be problematic as long as Belgian businesses are still repaying enough revenue abroad. But that is exactly where it goes wrong in the case of Belgium.

Between 2003 and 2013, the average annual difference between the outflow of revenue from direct foreign investments (credit) and the inflow (debit) was as high as -7 billion euro, worth a total of -78 billion euro for the decade. Indeed, the deficit is increasing. In other words: Belgium is not only struggling with disinvestment, but also with a deficit on the balance of investment revenue. By contrast, comparable countries like the Netherlands and Austria record a surplus of 19 and 2 billion euro.



Graph: Net revenue from direct foreign investments (billion euro). Source: Eurostat, Balance of payments by country.

BELGIUM NETHERLANDS AUSTRIA

The Belgian deficit illustrates particularly the weak position of our country relative to the neighbouring countries. We estimate that, between 2008 and 2012, Belgium posted an average annual deficit of investment revenue of 4.1 billion with France, 1.9 billion with the Netherlands, 1.3 billion with the United Kingdom and 1 billion with Germany. Once again, their direct investment position in our country also reduced at the same time.[7] Thus, as an investment market, our country seems to be playing the role of cash cow of the neighbouring countries. We see the biggest deficits in the banking, industry and energy sectors. The surpluses that we ourselves recorded in countries like the Czech Republic, Spain and Poland were not big enough to compensate the deficits.

COUNTRIES

FRANCE	- 4.140	IRELAND	+ 1.434
THE NETHERLANDS	- 1.882	CZECH REPUBLIC	+ 1.095
UNITED KINGDOM	- 1.308	SPAIN	+ 657
GERMANY	- 935	UNITED STATES	+ 532
FINLAND	- 623	POLAND	+ 503
JAPAN	- 375	SLOVAKIA	+ 323
SWEDEN	- 360	ROMANIA	+ 292
NORWAY	- 341	HUNGARY	+ 207

Table. Revenue from direct investments between Belgium and partner countries (net, million euro). Source: Eurostat. Note: This is data for 45 countries, mainly European countries, which together represent 65 percent of direct foreign investments in our country.

SECTOR	
FINANCE	- 1.641
INDUSTRY	- 816
ENERGY	- 761
TRADE AND RETAIL	+ 508

Table. Revenue from direct investments in specific sectors (net, million euro). Source: Eurostat. Note: Ditto.

THIRD: Foreign businesses represent about 60 percent of Belgian exports. That is decidedly high. What counts, however, is not the export, but the effect on the balance of trade, i.e. exports minus imports. There the impact is already much smaller. In the case of the pharmaceutical industry, for example, between 2008 and 2013, on average 35 billion euro worth was exported, but also 28 billion imported, mainly components of medicines, resulting in a balance of 7 billion euro.[8] Only a small portion is ultimately reinvested in infrastructure, knowhow, or transferred through taxes.

FOURTH: It is very hard to precisely determine the extent to which foreign businesses increase the productivity of our economy. Several effects apply here. One of these is crowding out: the more competitive foreign players are replacing the less competitive domestic players. That occurred in such sectors as retail, construction, support services, etc. However, the question is what exactly determined the advantage of the foreign players: is it a better business model, superior products, or access to cheaper capital or a more sophisticated tax strategy? In other words: the question is whether the laws of the free market or other advantages determine the selection process.
Another effect involves standardisation: big investors can increase the productivity of suppliers by promoting uniform standards. However, these standards are often defined according to one big buyer. If such a big buyer drops out, the efficiency gains then disappear – and often the suppliers too, as we saw in the case of the closure of Renault, Ford Genk, etc.

A third effect involves technology transfer. This effect is just as unclear. Consider the pharmaceutical industry again. Did this sector develop itself so strongly over the past decades due to foreign businesses, or did the foreign businesses develop so well because the sector was so strongly developed in our country? For the latter, we would refer, for example, to the pioneering role of Janssen Farmaceutica, Solvay, the traditional strength of scientific research, the well-developed healthcare, etc. This know-how was present in Belgium even before the big foreign players arrived.

Today, a large part of the fundamental research is still financed by the government and made possible by first-rate education.

How much of that know-how ultimately ends up in the hands of foreign players is not clear. The way it often happens is by acquisition of university spin-offs. These acquisitions are reverse technology transfers, where particularly foreign investors enjoy the fruits of national public investments in scientific research and the availability of public or semi-public risk funds encouraging enterprising researchers . It is a given that foreign companies invest much in research, but that does not generate any transfer of technology for that reason alone. The public costs as regards expenditure reductions, exemptions and subsidies can hardly be estimated due to the tangle of measures, but they run into the tens of billions.

SPIN-OFFS

Spin-offs are very important motives behind our innovation. These spin-offs are often acquired by foreign capital after a few years. The examples are numerous, but we pick out two at random: Caliopa, acquired by China's Huawei, and Layerwise, acquired by America's 3D Systems. We calculated that the initial investment with public money in these spin-offs – through subsidies of the IWT and the salaries of the founding researchers at the university – fluctuated in each case at around at least 2-3 million euro. In the second phase, about another 3-400,000 euro in risk capital was added from PMV.

The questions arising in these cases are 1: the extent to which the return on the public investments, the risk capital of society, as it were, was calculated with the acquisition; and 2: why we still do not have any larger investment vehicles for such spin-offs.

⑤ DO OUR GOVERNMENTS KNOW WHAT THEY ARE DOING?

The comments in the previous section are by no means intended to call for protectionism and to bar foreign investments. We especially want openly to ask the question whether the present investment policy is robust enough to serve the public interest of our society.

It is clear that, despite the supposition that things would go better with the state reform of 2001, our governments were not capable of performing better. As an investment market, our country absolutely did not become any stronger from it compared to the neighbouring countries. However, the big disinvestment may not encourage our government to work even harder to attract more investments at any cost. The key element is above all a matter of better estimating the costs and benefits of direct foreign investments.

More specific recommendations follow later in this report. This section now presents some strategic considerations.

Due to the institutional fragmentation, we do not have the impression that our government is capable of serving the economic interests of our society effectively. That effectiveness cannot be measured precisely, but we cannot find, for example, any long-term strategy at all within which various departments are operating. Flanders Investment and Trade, Agence wallonne à l'Exportation et aux Investissements étrangers, and Brussels Invest and Export are doing their best to attract as many investments as possible and are focusing on key sectors, but the economic long-term vision within which they are working is not clear. The same applies to the targeted subsidies of the IWT or AST, or the various tax structures set up by other agencies.

Let there be no misunderstanding. In these agencies, we met many motivated employees, who themselves are very critical too. “We have the job of attracting investments, so that is what we try to do as well as possible,” we noted from one representative, “but our resources are very limited compared to our neighbouring countries and often there is also not enough political direction.” [9] Another representative said: “Actually, there is little political interest in what we do, as long as every year we are able to come out with some favourable figures.” [10]

Attracting direct foreign investments therefore seems to have become a goal in itself. A smart government, however, is bent on estimating as precise as possible how those investments could be a means to achieve a stronger economy and a better society. In short, we first need to make efforts towards a robust economic policy, only as a second step can an investment policy bear fruit.

Policy and political vision are missing especially in strategic sectors. In the energy sector, for example, our government seems to be more and more the investment slave of foreign players. In the absence of an energy strategy, the billions of investment revenue transfers to the Netherlands and France can be kept up and our own assets cannot adequately play a role in developing renewable energy. That applies, for example, to wind farms, which are largely financed from abroad.[11]

Then again, the eagerness to let the American Exxon group, a pacesetter in processing the highly polluting tar sand, invest in its refinery in Antwerp is at odds with the Flemish and European climate policy. In this case, foreign investors appear to be obliged to compensate a failing or absent policy.

In several sectors too, we risk an excessive dependence on foreign players. A vicious circle even seems to materialize in which foreign investors occupy the place of weaker domestic players, thereby enabling them to influence the government more effectively to come up with even more support to reinforce their position further on the Belgian market. In this way, the government is committing its future to major foreign players, yet the foreign players do not commit their future to that of our country at all – as witnessed in the evolution disinvestments and recent dramatic closures in the automotive and metal sectors.

That leads us to a following point: the VIP treatment of foreign investors contrasts with the problems faced by Belgium's small and medium-sized enterprises. A representative of an employer's organisation put it as follows: "These days, you need to have an army of consultants to make any sense of all the tax measures and that is only something multinationals can afford." [12] Another representative added: "Those who are able to lobby the hardest, not those who create the most jobs, will pocket the most advantages,." [13]

In the long term, it pays for a society to better support clusters of smaller local enterprises in becoming competitive. That also applies to promising start-ups and spin-offs. These innovative players can often benefit from financial support from the public sector in their initial phases, yet when young businesses are becoming genuinely successful foreign investors often step in.

Above mentioned problem also points at the incapacity of our country to employ the enormous savings reserves of the Belgian households in order to strengthen the economy of the same Belgians. Just take third-pillar pension funds: about 90 percent of the assets of the five big Belgian funds are situated abroad.[14] Obviously it is the task of the funds and financial institutions to achieve the largest possible return, but it is also just as important a task to support our own real economy. It is evident that this role needs public incentives and that the small players in the real economy must also be organised so they can invest in an easier way with their own capital. Belgian capital's persistence to "flee" abroad and the efforts of the government to entice foreign investors to Belgium are characteristic of the incapacity to strengthen our own economy.

Even though a huge amount of Belgian savings is being siphoned off to shares, bonds and savings funds abroad, Belgium's return on those foreign assets has - strangely enough - also become significantly smaller than what foreign investors earn on assets in Belgium. In other words, we are also a less successful investor in other countries.

Once again: we are not arguing for protectionism here, but for realism and rationalism. Belgium is one of the most globalised economies in the world and that often leads to the assumption that the international market forces and the foreign players will actually continue to be beneficial for Belgium. That assumption is questionable. To begin with, the international market is not free and countless political factors and interventions play an important part. Moreover, the ability to profit from globalisation depends greatly on the strength of our own domestic economy. Consequently and above all, we must reinforce that domestic economy and advance more under our own steam in order to continue profiting from globalisation.

6 RECOMMENDATIONS

Our country, with the three regions in the lead, can and must perform better when it comes to foreign investment. Below are some recommendations that we organise into four groups: striving for more transparency, defining a clear, ambitious economic strategy, employing our own savings for strategic investments, and developing a more targeted investment policy.

TRANSPARENCY — economic policy is a question of competitive connectivity. States try not to screen themselves against international trade and capital, but rather to manipulate those flows to their own advantage. Major international businesses are eager to make use of this and states play one another off purposefully.

Our country is one of the most open economies in the world. While that openness does create advantages for us, it also makes us vulnerable when governments no longer maintain oversight of the different foreign players. As priority therefore, we must **restore oversight and strive for more transparency**.

1 We suggest, first and foremost, to look for a thorough explanation for the sudden outflow of so-called direct foreign investments in sectors like head offices, holdings and the pharmaceutical industry. What happened exactly? What are the reasons? To what extent did it result from political decisions in our own country or in neighbouring countries? How will we deal with these very volatile direct foreign investments in the future? We count on committed members of all parliaments to ask the competent ministers questions about this.

2 In the same way, we suggest that the parliaments ask the executive branch questions about the 7 billion euro in investment revenue, which flows out of our country net each year. How do the governments explain the rising trend of this loss for our society and what can be done about it? How in future will the governments deal with the increasing dependence on foreign investors in key sectors like energy?

3 We also suggest that the governments set up a joint group of experts to weigh up the costs and benefits of foreign investments for different key sectors. Here it is important to obtain a good overview of, on the one hand, such direct costs as special tax measures, subsidies, financing infrastructure, and on the other hand, costs passed on to society, the so-called externalities, such as pollution, traffic congestion and volatility on the financial markets. It is very important that all levels of all administrations support this process.

4 At the European level, our country should argue for full transparency to be ensured with respect to foreign investments. There are two big objections to secrecy. Different investment measures are inconsistent with the spirit of the internal market. Societies have the right to know how many offers their national governments are making and thus how much the public interest is actually served. After all, secrecy can also be invoked to gloss over the short-sightedness of governments.

ECONOMIC STRATEGY — One of the main findings in the report is the impossibility to have a strong investment policy without a strong and strategic economic policy. This is crucial. The investment policy stands according to the economic policy and not the other way round, as often seems to be the case. We may not outsource the promotion of our economic interests or have it determined by those multinational companies that are able to lobby the hardest.

1 All our governments should be fully aware that even an open international economy requires an effective, far-sighted policy. The more open the economy, the more important it becomes to watch over the benefits of the international flows of capital, trade and knowledge. We are not arguing for a protectionist state, but rather for a directing state. It is about competitive connectivity.

2 Once again, we have to learn to develop our economic policy according to the public interest, i.e. maximum prosperity, high-quality jobs and well-being for the maximum number of inhabitants for the longest possible time.

3 We argue for reinforcing the social-economic advisory bodies of the regions (SERV, CES, CESRW), with the employers' and employees' organisations investing more in joint research and planning. Reinforcing these advisory bodies should allow clearer recommendations for a long-term policy to be reached with the increasingly larger number of organisations (VBO, VOKA, UNIZO, UWE, UCM, Agoria, ditto for the trades unions, etc.)

4 We argue for a small strategic economic advisory body at federal level, in which experts from the regional advisory bodies develop recommendations together for such federal policy domains as finance, pensions, etc.

5 We challenge all advisory bodies to come up with an economic plan for the future for our regions and our country in 2030 within a year. What are the objectives and how do we define the public interest? What are the instruments? How do we implement this given the uncertain context?

6 According to this, a specific plan for foreign investments should be drawn up. What are our interests? Where can foreign investments best contribute in comparison with our own investments?

EMPLOYING OUR OWN ASSETS — Our country is facing phenomenal challenges. An ageing population is creating a need for more care. Our public infrastructure needs improvement and many of our cities too. Because the tax burden is already c, the temptation for governments to seek the capital for this abroad or to privatise public sectors is very hard to resist, hence, there is a big chance for these sectors to end up in foreign hands. Such policy is short-sighted and frankly plain harmful for generations to follow.

1 First and foremost, we should tackle the most fundamental problem: compared to other European countries, many pay too much tax for often inferior public services and infrastructure. The key question is therefore: how do we get more value for our money and is there a possibility to learn from countries that are doing it properly?

2 We should keep the healthcare sector in our own hands as much as possible. It is the fastest growing sector and clandestine acquisitions by foreign care providers are likely to cost us enormous sums of money without guaranteeing quality services. The main question here is: how do we keep healthcare affordable and how do we ourselves become shareholder of high-quality hospitals, rest homes, etc.?

3 We should make every effort to prevent budget deficits and particularly put an end to the lack of long-term planning inciting our governments to finance large future infrastructure projects from abroad for convenience's sake. Through deferment and short-term policy, tens of billions of euro in investments have accumulated for the coming decades. The solution for the obsolete nuclear power stations alone will cost at least 50 billion euro. In addition, there is a backlog in building schools, transport infrastructure, etc. Besides the first pillar of government funding, we particularly plead to develop a second pillar of government community funding, with the possibility of subscribing via bonds at local, regional and national level.

4 We should rouse interest among citizens and funds to invest internally too. What sense is there to continue investing at extra interest abroad with a project, if some of the infrastructure in your own country – schools, stations, roads – starts to look like infrastructure in the Third World? Local and regional governments must have the courage to work with project bonds for critical infrastructure works, where subscribing households and businesses immediately see the tangible results of their investment.

5 We should foster our own promising start-ups. The initial risk investments of public funds should be converted into structural shareholder ship with the aim of supporting long-term growth. Those funds should help mobilise our householdsto support those promising start-ups by buying their shares.

6 The Friday Group argues for a Brussels stock exchange for "start-ups" and "grown-ups": the Brussels Startup Stock Exchange, in imitation of the London initiative. In the context of Euronext Brussels, a low-threshold share market should be organised in which the government provides support by helping small businesses with their stock exchange listings, enduring establishment via the public participating companies, financing a standard "good housefather-proof" audit, which particularly estimates the risks and publicity in Belgian media.

7 If investments strengthen our economy, then our governments should exempt those investments from taxes.

A TARGETED INVESTMENT POLICY — We stand up for an investment policy dedicated to the quality rather than the quantity of investments.

1 In one of our previous reports, we stressed that our economic diplomacy is very costly compared to other European countries and that in comparison we are not as effective as regards to improving our image, enlarging our global market share and promoting our interests. The existing ambiguity due to the administrative political fragmentation is frankly harmful. For as long as Belgium continues to exist, with its own diplomacy and economic powers, we have to accept that it is advantageous to continue coordinating at Belgian level when it comes to messages for countries abroad.

We argue for one Belgian trade and investment agency. That agency must be given an executive board with representatives from the regions. Horizontal clusters would exist within the agency, with specialists for investments in specific sectors, in addition to vertical clusters with specialists with respect to certain cities, provinces, specific economic areas, etc. In short: the interests of the regions are leading, yet benefit from the weight of the whole state.

2 That agency must become a customer-friendly one-stop shop for any foreign investor coming forward.

3 Within Belgium, it seems to us more advantageous to focus on larger cities than on regions as regards strengthening our image towards foreign investors. Cities have more natural strengths, greater identifiably and greater complementarity.

4 Whoever is given the authority, we must make the responsible players stronger. First and foremost, that is only possible by creating more clarity about the priorities, intended sectors and intended benefits for our society. Furthermore, to us it seems advisable to focus more on our own capacity instead of on costly consultants.

5 We are ill-disposed toward preferential treatment for foreign multinationals. The existing rules and the numerous tax measures are becoming so complex, that small and medium-sized enterprises can no longer see the wood for the trees and lose out. Consequently, many measures are becoming de facto discriminating with respect to our own economy. We therefore argue for far simpler rules and taxes.

6 We need a clear strategy with respect to start-ups. If society acts as principal risk investor, then society should enjoy the benefits the most. We also suggest reinforcing the supervision of technology transfers and to embed them in the investment policy. Knowhow is the raw material of the 21st century. We should therefore start using the knowhow that we accumulate more effectively to strengthen our economy and make sure that there is profit in it for both parties in the case of foreign investors.

1 *N.B. for FDI reporting, Eurostat and most EU member states follow the instructions of the IMF about balances of payments and OECD definitions.*

2 *Conversation with representative of sector organisation, 1 April 2015; Conversation with representative of sector organisation, E April 2015;*

3 *Rodrik, Dani, 1999. The New Global Economy and the Developing Countries: Making Openness Work. Washington: Overseas Development Council, p. 28.*

4 *Eurostat: Foreign control of enterprises by economic activity and a selection of controlling countries (from 2008 onwards) [fats_g1a_08].*
Aggregate for 2008-2011.

5 *Ibid.*

6 *Ibid. Also: Ernst and Young, 2013. Barometer of Belgian Attractivity, 2013. Diegem: Ernst and Young, p. 28.*

7 *Eurostat: EU direct investment positions, breakdown by country and economic activity (NACE Rev. 2)*

8 *UN Comtrade Database with Belgium as source.*

9 *Conversation with representative of trade agency, 18 March 2015.*

10 *Conversation with representative of trade agency, 27 March 2015.*

11 *Discussion with expert Catholic University of Leuven, 2 April 2015.*

12 *Conversation with representative of employers' organisation, 29 April 2015.*

13 *Conversation with representative of employers' organisation, 24 April 2015.*

14 *BNP Paribas Stability and Balance fund: 13 percent, KBC Pricos 94 percent, Belfius Balance Plus, High Equities, 88 percent, and Amonis 98 percent.*

COLOPHON

TITLE

The great exodus

Why Belgium disappoints in attracting foreign investments and what we can do about it.

Cette publication est également disponible en français sous le titre: Le grand exode. Pourquoi la Belgique peine à attirer des investissements étrangers et que faire pour y remédier
Deze publicatie bestaat ook in het Nederlands onder de titel: De grote leegloop. Waarom België teleurstelt in het aantrekken van buitenlandse investeringen en wat we eraan kunnen doen.

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AUTHOR

Jonathan Holslag

COORDINATION KING BAUDOUIN FOUNDATION

Brigitte Duvieusart, advisor | Pascale Criekemans, assistant

GRAPHIC DESIGN & LAY-OUT

Eduard Plancke

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