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Cheliout, S.; Walravens, L.

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## Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics  
Düsternbrooker Weg 120  
24105 Kiel (Germany)  
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)  
<https://www.zbw.eu/econis-archiv/>

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# Belgium's foreign trade: between restoring competitiveness and neo-protectionism

S. Cheliout

L. Walravens

## Introduction

The context underpinning trade flows between the various economies of the world is currently beset by numerous uncertainties and upheavals, at both economic and geopolitical level. In view of this situation, the various parties involved in trade, particularly firms, are now obliged to come to terms both with trade being reorganised around new production locations and emerging technologies, and with an upsurge in inward-looking policies and protectionism in recent years. These changes are in fact contributing to relatively riskier and less favourable external conditions which may be directly detrimental to the trade and economic relations of many countries, including Belgium. These new contextual elements, discussed in the first part of this article, indicate among other things that the trade tensions are likely to have a significant net negative impact on the growth of global activity in both the short and the medium term.

Looking more specifically at Belgium, the country's prosperity is based partly on its ability to trade. In fact, given the relatively small size of its economy and its limited natural resources, it is obliged to play an active part in world trade, as demonstrated in particular by its close integration in the production value chains and by its high degree of openness to international trade. Therefore, in view of a new situation featuring the resurgence of uncertainties and trade tensions, it is vital to be able to analyse precisely how Belgium has fared in world trade over recent years, notably in regard to its main trading partners. The second part of this article aims to answer these various questions relating to the progress of Belgium's trading relationships over the past decade, and more generally, its export performance, in order to establish in particular whether the recent measures designed to improve cost/price competitiveness have enabled Belgium to make good its structural losses of market share to some extent, and thus to address the new changes and challenges that it faces today.

Finally, the last part of the article analyses the sources of growth for Belgian exporters in recent years in a context of risks and uncertainties. By using microeconomic data on firms' commercial transactions, we can break down the growth of firm's exports into an "intensive" margin – i.e. the export growth due to the intensification of existing economic relationships – and an "extensive" margin – i.e. the export growth due to the establishment of new economic relationships. Analysis of the latter makes it possible to judge the recent situation and the position of exporters in world trade, and to make some recommendations for economic policies. The article also examines one particular point relating to specific recent developments in the US (trade wars) and the UK (Brexit). In the face of these specific events, we need to be able to describe the structure of Belgian trade with those economies and to observe whether any significant impact is already apparent in Belgium's current trading relations.

# 1. A changing international context with protectionism on the rise

## 1.1 “I think we’re not in Kansas anymore”

Between the fall of the Iron Curtain and the 2008 economic and financial crisis, world trade expanded rapidly. This strong trade growth was accompanied by further increasingly complex and advanced fragmentation of the production chains spread across the various countries of the world. Nonetheless, since the crisis, fundamental changes have disrupted that dynamism. The international trade framework in which businesses had been active worldwide until the crisis hit is considerably different in 2019. A number of stylised facts characterise these recent changes.

*First, global growth has become less trade-intensive.* Between 1990 and 2007 the volume of world trade grew twice as fast as real GDP, on average. But since 2011, there has been a turnaround and these two variables have ended up growing at the same pace: since the crisis, global trade growth has thus become less GDP-elastic.

*Also, the intensification of production value chains seems to have stalled.* For several decades, the rapid growth of trade has been accompanied by easier access to external inputs, apparent from the increasing incorporation of foreign value added in the goods and services traded. That reflected the greater international division of labour, referred to as (global) value chains. The rise of the value chains followed a trend towards the liberalisation of commercial and financial transactions, reductions in customs duties (especially where they had originally been highest) and lower transport costs, technological innovations (ICT revolution), and the growing role of multinationals. Together, these factors enabled countries and firms to specialise according to their competitive advantage while also importing more from other businesses: they helped to facilitate the geographical fragmentation of the production processes. China’s accession to the WTO in 2001, the integration of the former Eastern Bloc into the Single Market, and the emergence of other economies contributed to this phenomenon.

*This led to a change in the configuration of the main international trade players.* Over time, the geographical centre of gravity of world trade has gradually shifted following the economic rise of the BRICS – particularly China – and the Asian countries, and the increasing fragmentation of the production processes. Initially regarded as the “world’s factories”, they gradually became fully fledged markets in themselves, with dynamic demand, while taking up their position further along the value chains (modified “smiling curve”<sup>1</sup>). The outcome is that international trade now has three interconnected focal points: North America (centred on the US), Europe (centred on Germany) and Asia (centred on China).

Apart from these main centres, the idea that “North-South” trade drives global commercial transactions is no longer necessarily the norm, and there has been an increasing trend towards intra-regional links. In particular, trading has intensified between developing countries (“South-South”), as suggested by the recent expansion of FDI, indicating the growing interest of large emerging economies in other new markets: in 2017, China, South Africa, Singapore and India were among the ten leading investors in Africa<sup>2</sup>. Moreover, even though some of the partners may look relatively similar at first sight, they still retain comparative advantages which suit the changing character of the production chains, e.g. as a result of the emergence of new tasks involving a larger element of digital skills. This goes beyond the basic matter of optimisation and outsourcing from developed countries to developing countries where costs are lower. The proliferation of regional preferential trade agreements in recent years (EU-Canada, EU-Japan, Mercosur, etc.) seems to capture this increased demand for closer integration of intra-regional links.

1 World Bank (2017). China, in particular, has demonstrated its ability to quickly move up the global value chain, most strikingly so in the electronics sector; see Buysse *et al.* (2018).

2 UNCTAD (2019).

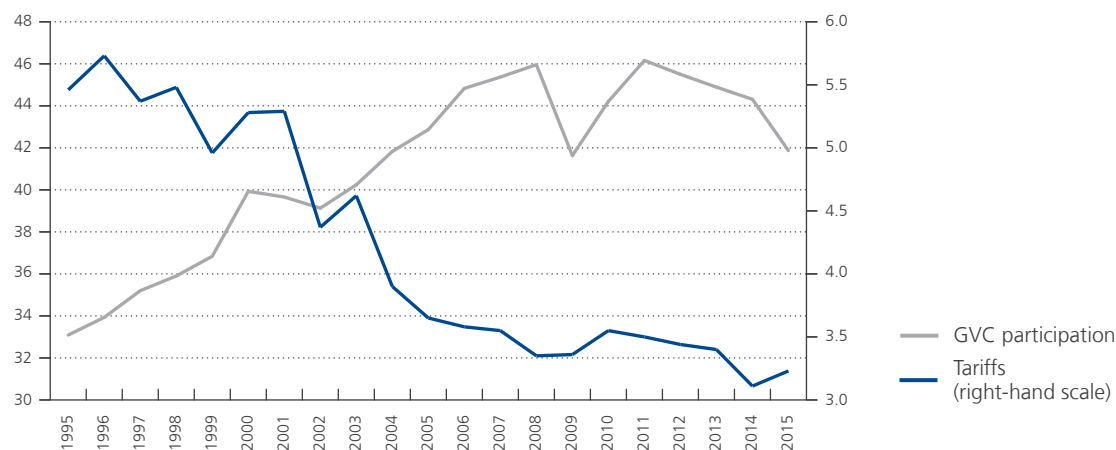
However, since 2011, there have been signs that the fragmentation of value chains is slowing, although it remains at a high level<sup>1</sup>. According to the OECD, the rising contribution of domestic supplies of intermediate inputs via “reshoring” or “nearshoring” seems to be a factor. The shift in the Chinese economic model towards growth sources geared more to domestic demand and towards other Asian partners may also have contributed to the pause.

Finally, the expansion of trade and the emergence of new players on the international scene may have been encouraged by the favourable context of declining trade tariffs. That being the case, their decline may at the same time have concealed the establishment of non-tariff barriers, such as quotas or the imposition of technical and phytosanitary barriers. *The general tendency towards tariff reductions seems to have come to a halt more recently amid the introduction of various protectionist policies.* More particularly, this strong resurgence of tariff barriers is noticeably linked to the escalation of trade tensions since 2018<sup>2</sup>. All these obstacles are tending to have a more significant impact on international trade, especially as certain global economies have been making greater use of non-tariff barriers. Ultimately, they represent new challenges for trade relations which, since the second world war, had been able to thrive thanks to a system of rules based on multilateralism. It is true that some regions and economies have adopted new free trade agreements even in the past few years (such as the EU-Canada “CETA” agreement in 2017, EU-Japan in February and EU-Mercosur in July 2019; also, to some degree, the renegotiation of NAFTA and its replacement by the USMCA at the end of 2018). But they seem to have been insufficient in view of the number and scale of the trade restrictions and retaliatory measures adopted in recent years.

Chart 1

### Global value chain participation and tariffs

(value added-weighted average over countries and sectors, in %)



Source: IMF.

1 According to the OECD, more than 70 % of world trade now comprises multiple transactions in intermediate products originating from production chains scattered across countries, before incorporation into the end product consumed. See OECD (2018).

2 Without going into the debate on the factors which may explain the reversion to protectionism – a debate which is beyond the scope of this article – we might nevertheless mention the possibility of increased anxiety in public opinion and the mistrust, or even rejection, of globalisation, with the idea that the resulting benefits are not fairly distributed. This scepticism seems more marked in the United States and other advanced economies. See Pew Research Center (2018).

## 1.2 Has Protectionism 2.0 become the “new normal”?

Since 2018, two main facts have been symptomatic of the shift towards a new form of protectionism: on the one hand, the trade war started by the Trump Administration, with China as the main target – though other regions of the world, notably the EU, were not left unscathed; and on the other hand, the as yet unknown future repercussions of the UK's departure from the EU. In both cases, there have been periods of respite and dialogue interspersed with episodes of uncertainty and escalation. As a result, the framework underpinning international trade has become steadily more uncertain and riskier. For firms focused on international business, it has become hard to navigate in this new context and to form clear expectations of the future profitability of this type of activities. The main decisions which have been highlighted in the news relating to these two events are described below<sup>1</sup>.

### *A tit-for-tat global trade war*

The US and China are the two main protagonists in the international trade war<sup>2</sup>. Following an investigation by the Trump Administration highlighting “unfair” Chinese practices concerning intellectual property and the transfer of technology and innovation<sup>3</sup>, in the summer of 2018, the US imposed an initial customs tariff on imports from China, triggering retaliatory measures by China involving equivalent amounts and tariffs. At the end of September 2018, Washington upped the stakes with new tariffs on quadrupled amounts. Following a period of reduced tension fostered by negotiations, hostilities took off again in May/June 2019 with a new increase in the American trade tariff and, above all, the blacklisting of a number of Chinese companies in the technology sector, some of which were well-established in the American market and had close links with other American firms, particularly as suppliers of semiconductors. Huawei was the most iconic case. Since then, talks have eased the tension between the two parties, and at the beginning of November 2019, they agreed to make gradual reductions in their import taxes.

Apart from the Sino-American dispute, the Trump Administration's protectionist attack has also concerned specific sectors and other regions of the world. From the beginning of 2018, the US imposed customs tariffs on washing machines and solar panels. Although the volumes involved were not large, the consequences were very significant owing to the symbolic offensive consequence of the tariffs. A second strike followed in the spring of 2018 aimed at steel and aluminium<sup>4</sup>. As in China's case where dialogue alternates with escalation – the American strategy being based on using punitive tariffs as a future bargaining tool – agreement was reached in the summer between the then European Commission President Jean-Claude Juncker and US President Trump on cooperation aimed at removing customs duties on industrial products, offering some hope of conciliation and avoiding any future outbidding. In particular, Washington had repeated some of its threats in regard to the motor vehicle sector. Although the threats were initially aimed at all countries exporting cars to the US, the risk ultimately applied specifically to the EU<sup>5</sup>. In view of the concerns of manufacturers operating in the US, the threat has not been implemented so far, but it is still lurking. Finally, in October 2019, in the dispute between the US and the EU over subsidies wrongly paid to aeronautical manufacturers on both sides of the Atlantic (Boeing and Airbus), the WTO decided in favour of the American authorities and gave the green light for punitive American tariffs.

1 See annexes 1 and 2 for a more comprehensive review.

2 See also Cordemans *et al.* (2018).

3 See Buyse K. and D. Essers (2019).

4 Despite an initial temporary exemption granted to the EU – and to Canada and Mexico, where the sanctions were eventually lifted once the Trump Administration considered that sufficiently satisfactory progress had been made in renegotiating the North American Free Trade Agreement – in the end, tariffs were actually imposed on those European products. In response, the EU adopted “rebalancing” measures to preserve a stable and continuous flow of imports, and hence the normal pattern of trade.

5 Bilateral agreements were in fact concluded with Canada, Mexico, South Korea and Japan.

## ***A future (hard?) Brexit: to deal or not to deal?***

Although Brexit has still not happened at the time of publication of this article, the uncertainty which has arisen in recent years over the definition of the future relationship between the two partners has nevertheless created an adverse climate for intra-European trade. In the June 2016 referendum, a majority of British people voted for Britain to leave the EU. The activation of Article 50 of the EU Treaty by the UK meant that the country had two years to negotiate an exit agreement and to define future arrangements with the EU. However, the passage which followed the start of this procedure was particularly stormy, with repeated instances of deals being negotiated and announced but then rejected, leaving a stalemate situation for much of the time. Following a further extension to 31 January 2020, granted at the end of October 2019, the uncertainty over the nature of future trade relations persists between “deal” – based on maintenance of a free-trade economic relationship – or “no deal” – a disorderly departure without any agreement, in which trade relations would, by default, be governed by WTO rules, entailing higher costs and restrictions on trade<sup>1</sup>.

### **1.3 Negative repercussions evident at global level**

Numerous institutions have assessed the likely impact of the recent trade restrictions on the international scene. This has led to publication of a range of estimates<sup>2</sup>, each highlighting different aspects depending on the scenario and channels examined. The exercise is not a simple one, because the assumptions may vary widely, and the expected repercussions may be complex owing to interactions which make it difficult to model them perfectly. Nonetheless, the simulations agree that, overall, the trade tensions will have a negative impact on global GDP in the short and more medium term<sup>3</sup>.

Various channels are identified through which trade tensions affect global economic activity. The first relates to trade, with a direct impact from a rise in trade costs (customs duties) which hamper the international competitiveness of firms and slow the pace of commercial transactions. Those costs may in turn fuel inflation, because corporate margins absorb only part of the increased production costs, passing on the rest of the rise in the consumer prices paid by households. The OECD<sup>4</sup> estimates that, in a scenario where the US and China mutually imposed 25 % customs duties on all their bilateral trade – a more critical situation than the present one – global production and trade would decline by 0.3 % and almost 1 % respectively by 2021.

Apart from these effects, there are others which may have a much more serious negative impact. That is true of the uncertainties eroding business confidence, with firms driven to postpone or even scale down their investment plans, and rendering financial markets more volatile, that being reflected in tighter financing conditions and higher capital costs for firms. In the same OECD exercise<sup>5</sup>, increased risk premiums on investments would seriously exacerbate the negative impact, virtually doubling the decline in global output and trade.

If global value chains are taken into account, that adds a further complex effect amplifying the expected negative repercussions: they bring supplementary interactions into play and heighten the exposure to the repercussions of global trade wars. As firms make greater use of imported inputs in their production process, the imposition of customs duties is liable to engender cumulative production costs and “cascade effects”<sup>6</sup>. Customs duties may apply upstream to (direct and indirect) input suppliers, affecting the costs and international competitiveness of the firms concerned,

1 For example, with the introduction of customs declarations and controls, health certificates or even certain taxes.

2 See, *inter alia*, OECD (2019), Gunnella V. and L. Quaglietti (2019), Vicard V. (2018).

3 However, it is possible that some countries might secure temporary gains as a result of the opportunities for diverting and reorienting trade. See below.

4 OECD (2019).

5 Ibid.

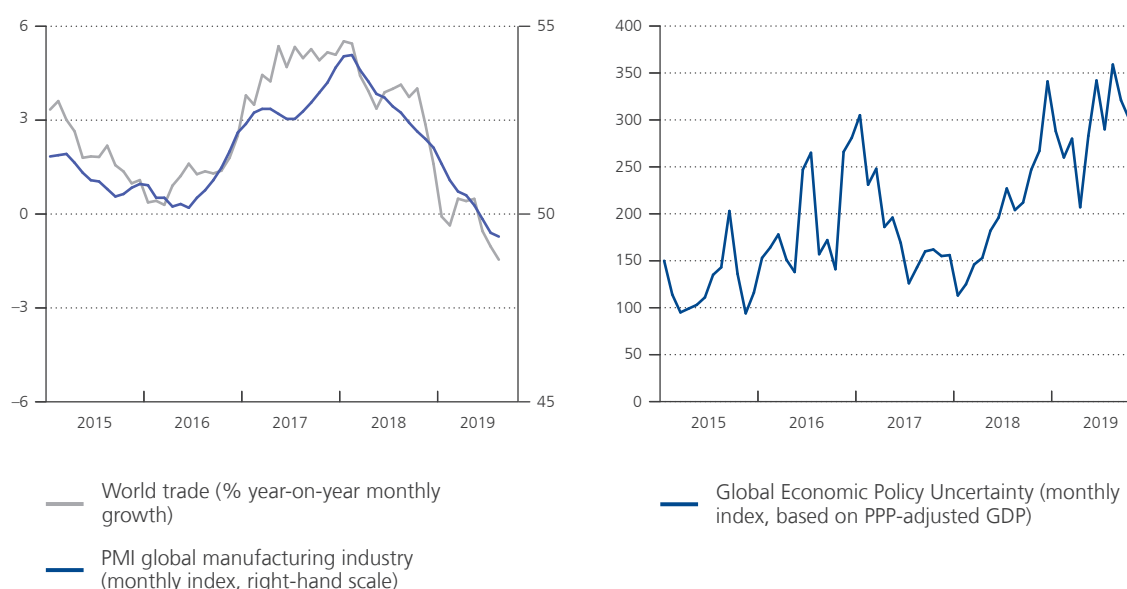
6 This so-called “cascade effect” arises since trade costs accumulate as intermediate goods are imported and then re-exported further downstream, going through different processing nodes before reaching the final consumer. See Diakantoni *et al.* (2017).

and downstream, affecting direct users of the taxed imports, causing a reduction in consumer demand<sup>1</sup>. According to the IMF, the effect of an increase in customs duty on real value added is amplified and negative for all countries, but to varying degrees depending on their sectoral specialisation – with manufacturing being particularly affected – and depending on their integration in global value chains. Germany, and to a lesser extent China and Japan, suffer more significant effects; conversely, for Canada and the US, whose manufacturing sectors are relatively smaller to their economic size and less closely linked into value chains, the impact would be less severe.

Finally, the impact of customs duties may vary depending on whether they are strictly confined to the two main protagonists (China and the US), or widespread affecting all the world's economies. In the first case, the IMF<sup>2</sup> estimates that the US, and China even more so<sup>3</sup>, are the great losers from a mutual bilateral war, while in contrast, third countries may make net gains thanks to the effects of trade reorientation. Canada and Mexico would benefit the most because of their close proximity to the US. Nonetheless, in the second case, all the world's economies would suffer significant losses.

**Chart 2**

### Slowing world trade and increased uncertainty



Sources: CPB, Refinitiv.

Several variables indicate that commercial or political tensions are starting to materialise. While there may be numerous other contributory factors (such as the slowdown in domestic demand in China), it seems that the trade channel has already been affected by the customs duties and retaliatory measures introduced: the volume growth of world trade slowed abruptly, from almost 5.5% in 2017 to a decline of 1.2% in the third quarter of 2019. Investment, which is traditionally very trade-intensive, also slowed sharply, especially in Europe and Asia; business and consumer confidence ebbed away. In manufacturing industry, output also contracted: this sector, where value chains hold a prominent place, was hard hit by the increased customs duties and the resulting uncertainty over future trade relations.

<sup>1</sup> Especially in the short term, substitution effects which can mitigate such adverse consequences resulting from customs duties are hard to achieve: it takes time for firms to modify their production structure or find new suppliers.

<sup>2</sup> IMF (2019).

<sup>3</sup> The negative effects in China would be greater because Chinese exports to the US represent a bigger share of China's economy than vice versa.

## 2. Belgium's foreign trade over the past decade

### 2.1 Belgium in world trade

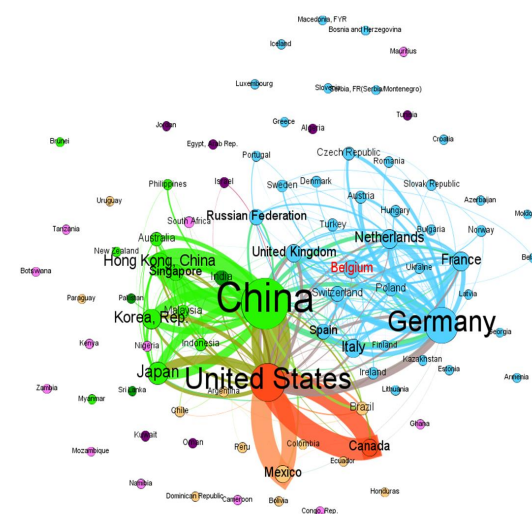
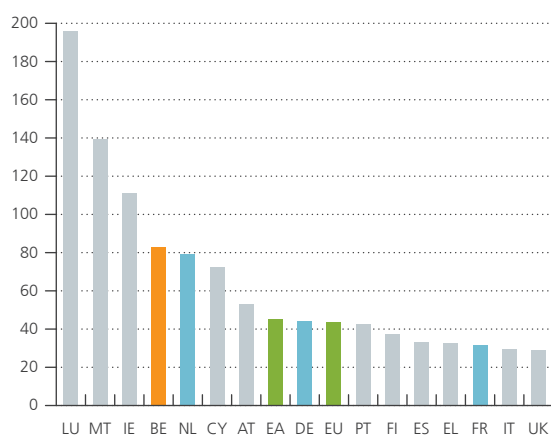
In view of the recent international trade developments, it seems important to consider how Belgium manages to evolve in this context of significant movements and uncertainties. International trade is essential to its current prosperity but also its future economic development. In fact, owing to its relatively small domestic economy and limited natural resources, Belgium is obliged to trade with the rest of the world, by importing goods and services which are unavailable in its territory or which can be produced more cheaply abroad. Similarly, a significant proportion of the goods and services produced by firms in Belgium is ultimately destined for international export in order to finance Belgium's imports and its domestic economy. This relative dependence of the Belgian economy on the rest of the world is particularly clear from the level of exports and imports in proportion to its gross domestic product, making Belgium one of the countries with the highest degree of openness in the world, averaging around 80 % of its GDP over the period 2016-2018<sup>1</sup>. For comparison, a country such as Germany, the euro area's biggest exporter, has an average degree of openness which is only about 40 % of its GDP. This high degree of openness is also reflected in employment, with exporters based in Belgium accounting for almost 30 % of total private sector employment.

Chart 3

#### Importance of world trade for the Belgian economy

##### Degree of openness

(share of trade in goods and services in GDP, average 2016-2018, constant prices, in %)



Sources: EC, NAI, UNCTAD, NBB.

However, the importance of foreign trade in Belgian economic activity expressed in the form of gross export and import flows needs to be viewed in perspective, because – owing to its central position in Europe and the presence of key logistical infrastructure in its territory, particularly the port of Antwerp – Belgium represents a platform for the entry and exit of goods, a significant proportion of which is simply re-exported without any domestic value added being created. The level of this kind of transactions, estimated at just over 30 % of total Belgian exports, means that Belgium – together with the Netherlands – is among the countries most affected

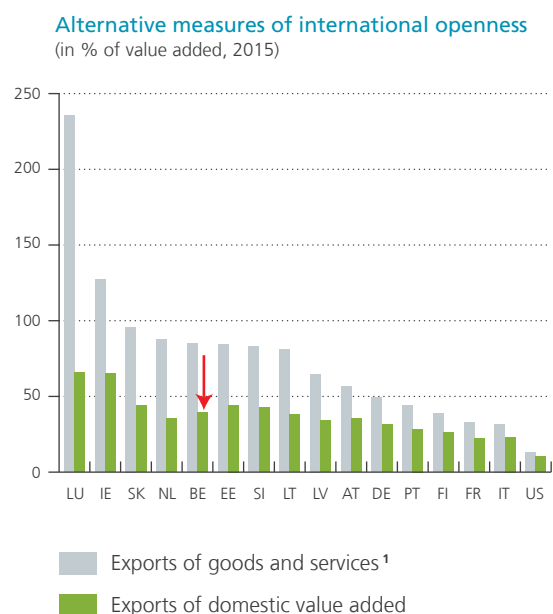
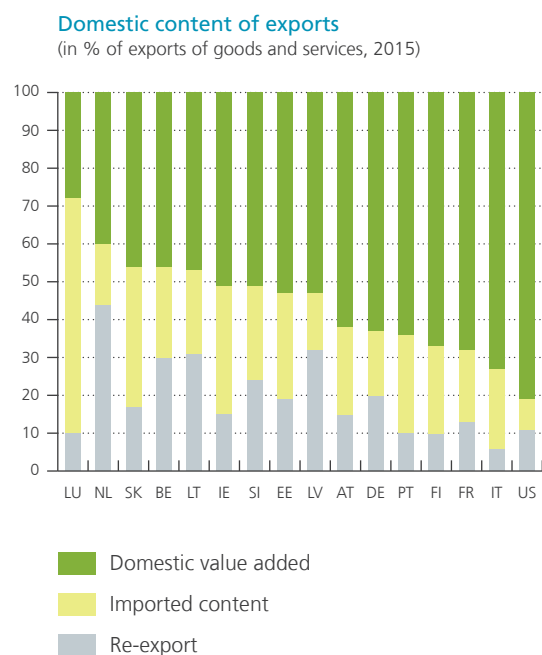
<sup>1</sup> The degree of openness is calculated as the average of exports and imports of goods and services in volume terms as a percentage of GDP over the period 2016-2018.



by this phenomenon at European level. However, measured in terms of exported value added, Belgium remains one of the countries with the highest degree of openness in the world: domestic value added exported accounts for more than 40 % of Belgian GDP.

Chart 4

### Domestic content of Belgian exports



Sources: NAI, OECD.

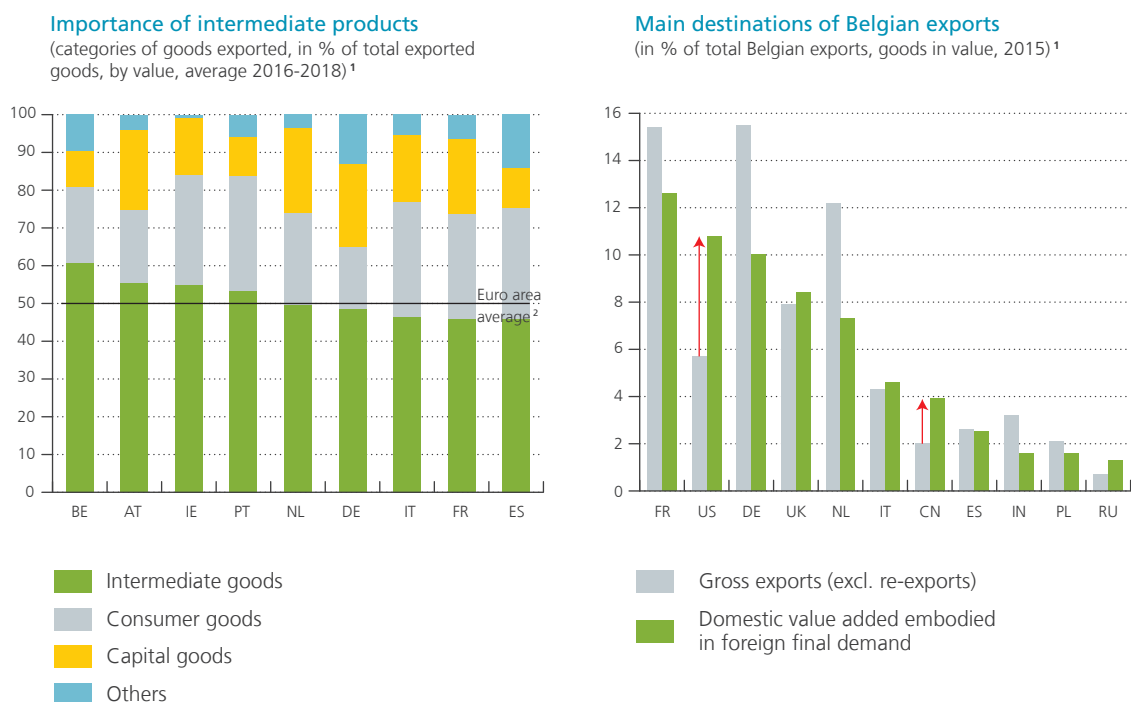
<sup>1</sup> According to national accounts.

The importance of foreign trade for the Belgian economy is also due to Belgium's considerable degree of integration in global value chains, which is also reflected in the large proportion of intermediate goods that Belgium exports throughout the world. Goods of this type represent about 60 % of total Belgian exports of goods to other countries, and especially to German industry. Nevertheless, while most of Belgium's direct exports are apparently destined for the European market (on average 70 % of total goods exports over the period 2016-2018, with around 55 % going to the euro area), and more particularly to Belgium's three neighbouring countries (43 %)<sup>1</sup>, in terms of domestic value added in final foreign demand, the Belgian economy's exposure to distant destinations is much greater than it seems. Thus, the share of the US – which represents only around 6 % of Belgium's total direct exports – is almost 11 % if exports of domestic value added are viewed on their own. The same can be said about China (4 % as opposed to 2 %). In the case of the UK, both approaches indicate a relatively similar share.

<sup>1</sup> Germany, France, Netherlands.

Chart 5

## Types of goods and geographical destinations of Belgian exports



Sources: EC, NAI, OECD, NBB.

1 Data compiled according to the national concept of the foreign trade statistics for Belgium.

2 Intermediate goods for the euro area.

## 2.2 Growth and structure of Belgian foreign trade

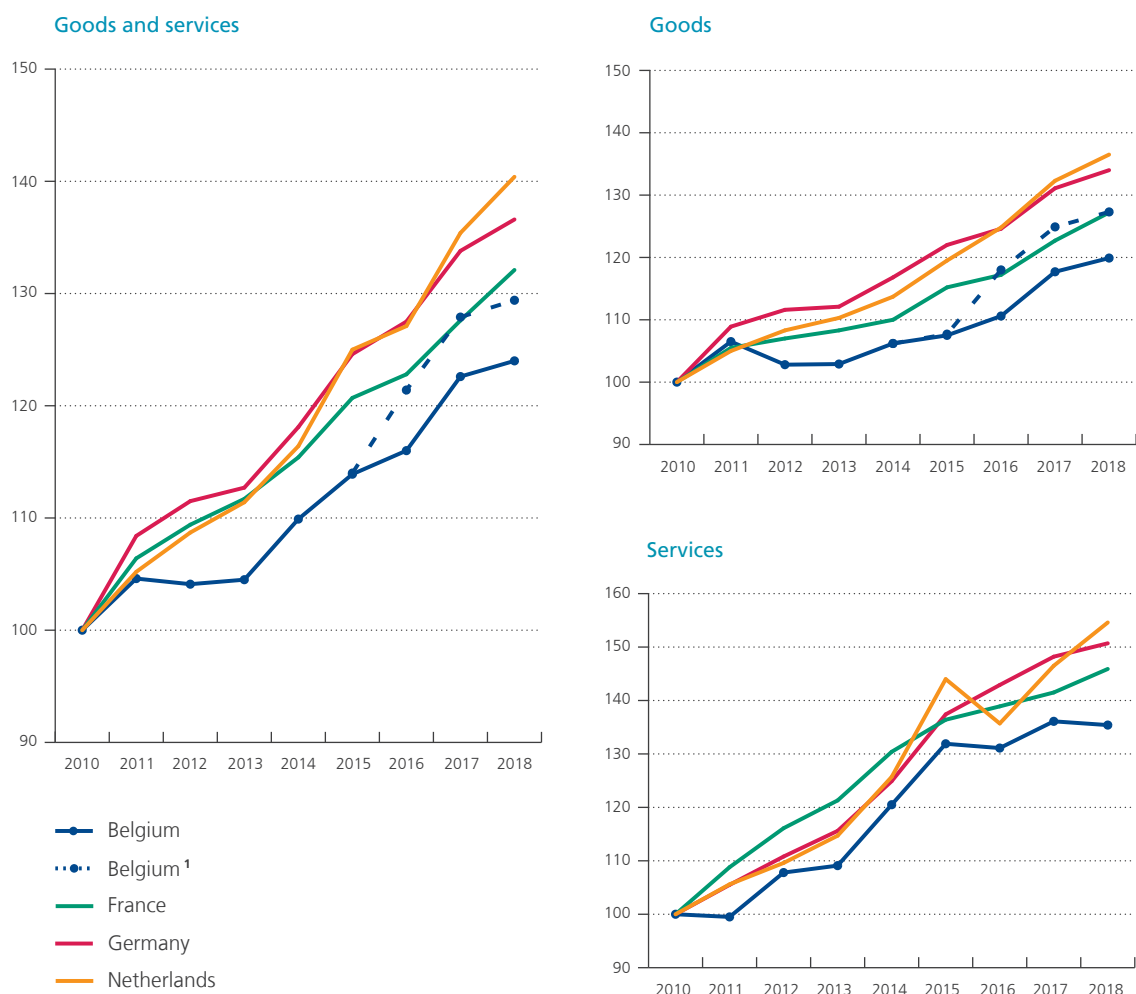
In view of the importance of this foreign trade for the Belgian economy, combined with the recent international developments featuring uncertainties and the marked slowdown in world trade, it is necessary to examine in more detail what has been happening in those respects over recent years.

In that connection, an initial analysis at aggregate level reveals that the growth of exports of goods and services, expressed in volume terms, has been relatively lower in Belgium since the beginning of the decade than in the neighbouring countries, both in terms of exports of goods and services. While exports of services had expanded relatively strongly during the period 2013-2015, that growth was then replaced by that of goods exports over the most recent period, 2016 to 2018.

Chart 6

## Belgium's trade in goods and services

(volume data, indices 2010 = 100)



Sources: EC, NAI.

1 Belgian export data taking account of the reorganisation of a company in the pharmaceuticals sector in 2016-2017.

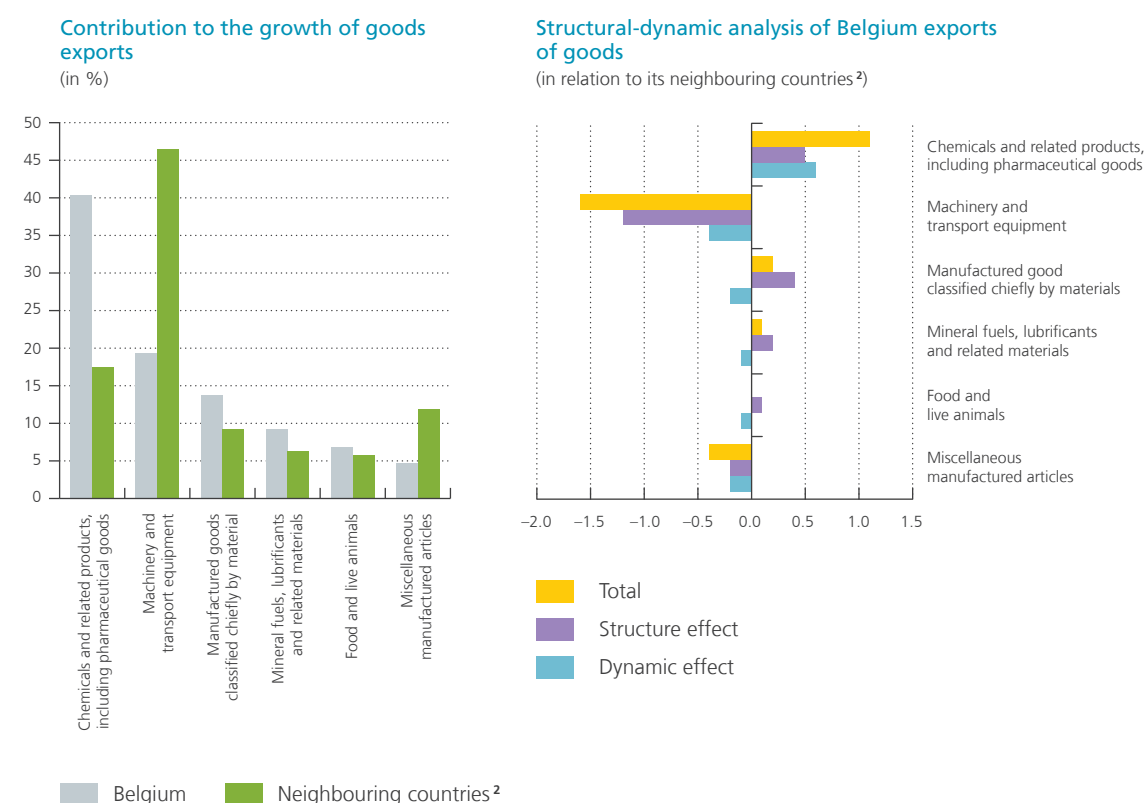
### Analysis of trade in goods

Over the period 2016-2018, the growth of Belgium's exports of goods, in volume terms, was relatively stronger than that of its main trading partners: on average 5.7 % compared to 3.8 % for the euro area and 3.2 % for countries like Germany. However, that strong dynamism of Belgian goods exports in recent years needs to be qualified. It is partly due to one specific factor linked to the reorganisation of the trade flows of a major multinational company operating in the pharmaceuticals sector, which considerably inflated Belgium's trade flows in goods both on the export and import side, a fact which limited the net impact on the value of GDP. Apart from this company-specific reorientation, the average growth of Belgian goods exports over the recent period has actually been much lower at around 3.7 %, which is barely higher than the figures recorded in Germany (3.2 %) and France (3.4 %) but lower than in the Netherlands (4.5 %). Overall, for the whole period 2010-2018, disregarding the specific factor mentioned above, the volume growth of Belgian goods exports is lower than that of its neighbouring countries: 2.3 % against 3.7 % in Germany, 3.0 % in France and 4.0 % in the Netherlands.

This relatively weaker growth of Belgian goods exports may be partly explained by the importance of the type of goods which it trades with the rest of the world, or in other words its export structure. A detailed analysis by product categories shows that Belgium's goods exports consist mainly of products from manufacturing industry. This situation, comparable to the euro area and Belgium's neighbouring countries<sup>1</sup>, nevertheless conceals the fact that the Belgian economy specialises to a higher degree in the export of products related to the chemicals and pharmaceuticals industry on the one hand, and manufactured products resulting from the processing of raw materials on the other, due in particular to the importance of the diamond trade.

**Chart 7**

### Contribution of the various types of goods to the growth of Belgian exports<sup>1</sup>



Sources: EC, NAI.

1 Main categories of goods.

2 Germany, France, Netherlands

This specialisation of Belgium's goods exports also makes it possible to identify more precisely the product categories which have contributed positively or negatively to the growth – in value terms – of Belgian goods exports with the rest of the world over recent years<sup>2</sup>. In fact, like the growth in volume terms, the figures for the development of foreign trade in value terms indicate that the average growth of goods exports over the period 2010-2018 was weaker in Belgium than in neighbouring countries. This analysis reveals that the biggest contribution to the growth of Belgian exports over this period came from the goods categories "chemicals and related products" including pharmaceuticals, "machinery and transport equipment" and "manufactured goods classified chiefly by material", which respectively represent an average of around 25 %, 23 % and 20 % of the total exports of Belgian goods, or more than two-thirds of the total.

1 Germany, France, Netherlands.

2 The analysis via the disaggregation of exports by type of goods is based on data in value terms.

Apart from the level of the contribution of the various categories of goods to overall export growth, the export structure also makes it possible to explain, at least partly, the lower average growth of Belgian exports compared to those of neighbouring countries<sup>1</sup>. That weaker growth may be due to both under(over)-specialisation in product categories which (do not) generate strong growth, or it may be down to a lack of dynamism specific to Belgium in regard to some of those products, or a combination of both factors. In this connection, analysis of these “structure” and “dynamism” effects in comparison with the growth recorded within a reference region comprising Belgium’s three neighbouring countries reveals that, of the three main goods categories which supported the growth of Belgian exports over the period 2010-2018, only the category comprising “chemicals and related products” including pharmaceuticals really helped to reduce the average growth differential, both via a favourable “structure” and “dynamism” effect. Conversely, goods from the category “machinery and transport equipment” contributed to the creation of this average growth gap between Belgium and its three neighbouring countries, both by their lower weight in its total exports (“structure” effect) and by a weaker average growth (“dynamism” effects). “Manufactured goods classified chiefly by material” contributed very little to reducing this growth differential, as the positive “structure” effect has been somewhat offset by the negative “dynamism” effect.

An analysis which combines the degree of over- or under-specialisation of Belgian exports – and those of neighbouring countries – in relation to the structure of world demand by types of goods and their contribution to the dynamism of that international demand also shows a number of additional indications which may explain the average growth differential in exports of goods between Belgium and its neighbouring countries. It thus appears that the category “machinery and transport equipment” – termed “progressive” on account of average growth outpacing total world demand – is also the category of goods which has done most to support the growth of global imports since the start of the decade. Belgium’s weaker specialisation in this type of goods compared to its neighbouring countries may therefore also be part of the reason for its weaker export growth. Conversely, Belgium’s over-specialisation in “chemicals and related products” including pharmaceuticals, which are also regarded as a “progressive” market and make a major contribution to the average growth of world demand, did not provide enough support for export growth to reduce the average growth differential in relation to neighbouring countries.

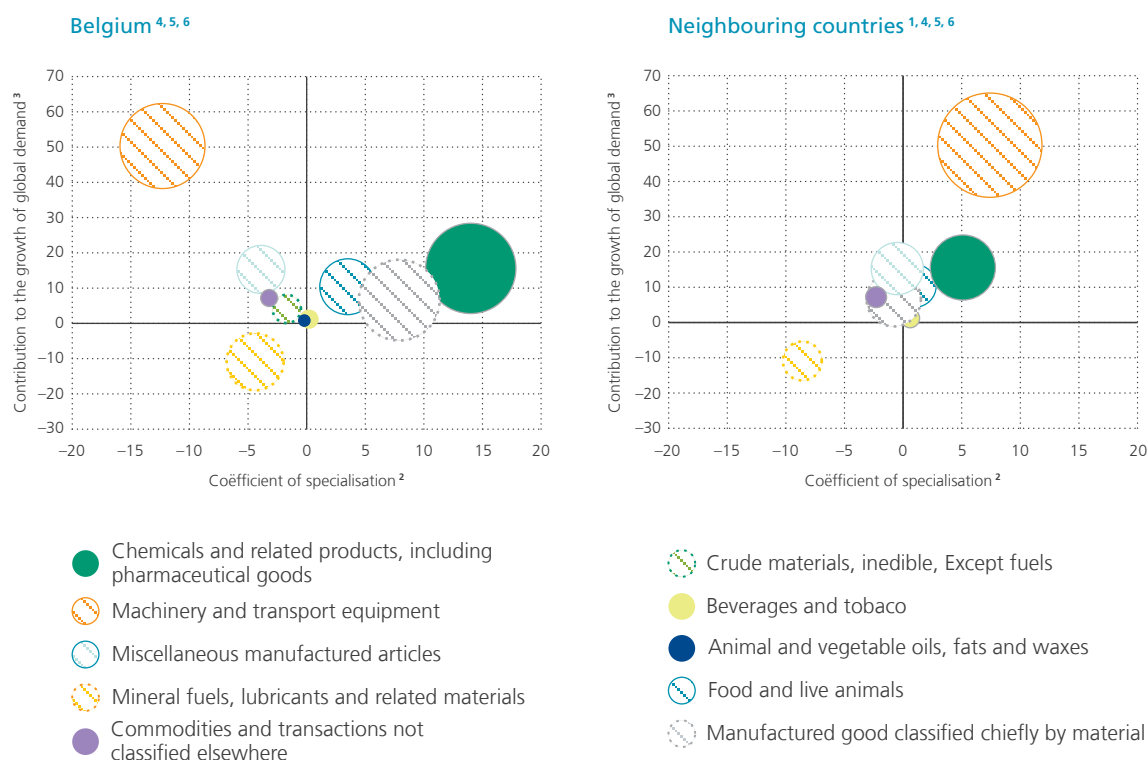
Beyond exports of goods, it is equally important to take account of imports since the balance of trade to and from other countries contributes directly towards supporting or curtailing the growth of the Belgian economy. In that connection, as export growth slightly exceeded import growth on average over the period 2010-2018, a trade surplus of around 0.3 % of GDP meant that, on average, trade in goods made a positive contribution to Belgian economic growth over the past decade<sup>2</sup>. One reason for that lies in excess net exports to the rest of the world in the categories relating to “chemicals and related products” including pharmaceuticals, and in “manufactured goods”. In geographical terms, that average surplus was due essentially to excess net trade with countries such as Germany and France. Belgium’s balance of trade in goods with the Netherlands shows a substantial deficit owing to the level of energy imports from that country.

1 Germany, France, Netherlands.

2 However, in value terms, the balance of trade in goods was negative, on average, at around 0.4 % of GDP over the period 2010-2018. Over the recent period (2015-2018), net trade nevertheless seems to be positive on average at around 0.3 % of GDP (0.7 % in volume).

Chart 8

## Impact of country specialisation and the dynamism of world demand by types of goods



Sources: EC, NAI, UNCTAD.

1 Germany, France, Netherlands

2 The specialisation coefficient for each product category is calculated as the difference between the average share of the product category in the exports of Belgium or neighbouring countries over the period 2010-2018 and the corresponding share of world demand expressed in euros.

3 Contribution to the average growth of world demand, expressed in euros, of the various product categories over the period 2010-2018.

4 The size of the circles represents the average weight of that product category in the total exports of the country or reference region (neighbouring countries) over the period 2010-2018.

5 A shaded circle represents a product category for which Belgium recorded weaker average growth than the reference region (neighbouring countries) over the period 2010-2018.

6 A circle with a continuous outline represents a “progressive” market in terms of world demand, i.e. a product category which, at the level of world demand, recorded average growth in excess of the growth of total demand over the period 2010-2018. Conversely, a circle with a discontinuous outline represents a goods category on a “regressive” market.

### Analysis of trade in services

Alongside trade in goods, trade in services is the second component of Belgium’s trading relationships with the rest of the world. That component currently represents just under 30% of Belgium’s total trade. This proportion has risen considerably over the past decade: before the 2008 crisis it was still only just over 20%. This high figure is due partly to the central role played by Belgium in relation to numerous – particularly multinational – businesses and organisations on account of its geographical location at the heart of Europe and its significant position in global value chains. Moreover, many transactions concerning the purchase or sale of goods are generally immediately accompanied by the provision of services such as maintenance, repair, logistics or finance. The importance of the pharmaceutical sector in Belgium, which already makes a considerable contribution to goods exports, also fosters this development owing to the frequent sale or purchase of specific licences worth substantial amounts of money.

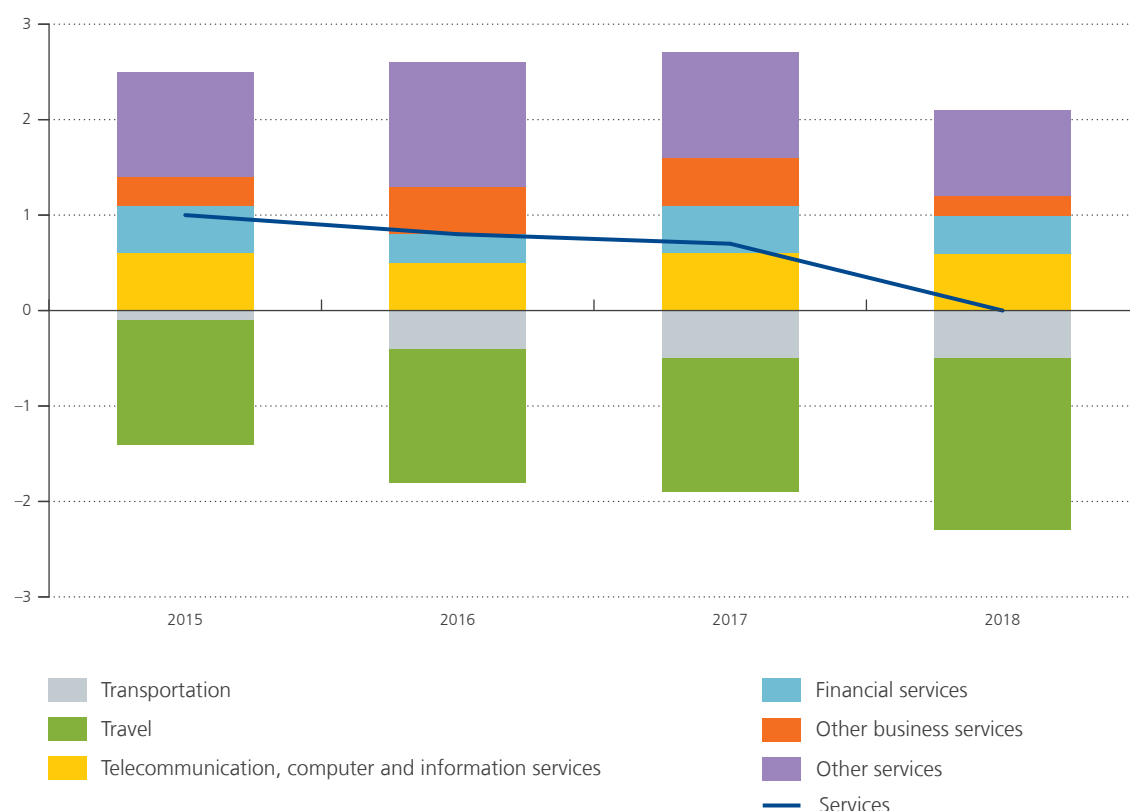
In terms of development, similarly to trade in goods, the volume of service exports recorded weaker average growth over the period 2010-2018 in Belgium, in comparison with neighbouring countries: around 4.0% compared

to growth of around 5.0% or more in those countries. This picture which is likewise apparent from the data in value terms may – by analogy with the analysis of goods exports – be due to the types of services exported by Belgium in comparison with neighbouring countries. However, owing to changes in the methodology used to calculate certain specific series of services over that period, the conclusions drawn from such a disaggregated analysis by service categories would be somewhat biased<sup>1</sup>. Nevertheless, it seems that “travel” and “transport” services have contributed to this growth differential, partly as a result of lower average dynamism.

**Chart 9**

### Belgium's balance of trade in services

(in % of GDP)



Sources: NAI, NBB.

Despite the increasing share of services in Belgium's international trade, their net surplus has diminished in recent years (2015-2018) and Belgium's trade surplus in services is now close to balance, so that it contributes very little to Belgian GDP growth. The disappearance of the surplus in services is due mainly to the decline in net “transport” and “travel” services<sup>2</sup> which recorded a rising deficit during 2015-2018, and the deterioration in the surplus in “other business services” – which include R&D and professional consultancy services – in 2018, which was not sufficiently offset by the upward trend in other service categories such as “IT and communication” services.

1 Some important methodological changes were implemented at the time of publication of the balance of payments data in September 2019. In particular, those changes caused some breaks in the series, so that it is no longer possible to compare the series over a long period of time. For instance, the balance of transport services was automatically reduced following conversion from “CIF/FOB” calculation to an “FOB/FOB” approach without there being any other real economic reason that could explain that decline. So, there is a break in the statistical series from 2015 compared to previous years. For more information: [https://www.nbb.be/doc/dq/e\\_method/bop300919\\_e.pdf](https://www.nbb.be/doc/dq/e_method/bop300919_e.pdf)

2 “Travel” services mainly concern tourism activities. Exports of this type of services correspond to expenditure by foreign tourists in Belgium, while imports represent expenditure by Belgian tourists in other countries.

## 2.3 Trend in market share of Belgium

In addition to the analysis of the intrinsic dynamism of exports and imports of goods and services, Belgium's foreign trade performance can also be analysed on the basis of the evolution of its trade balance with the rest of the world, and according to the trend in its market shares.

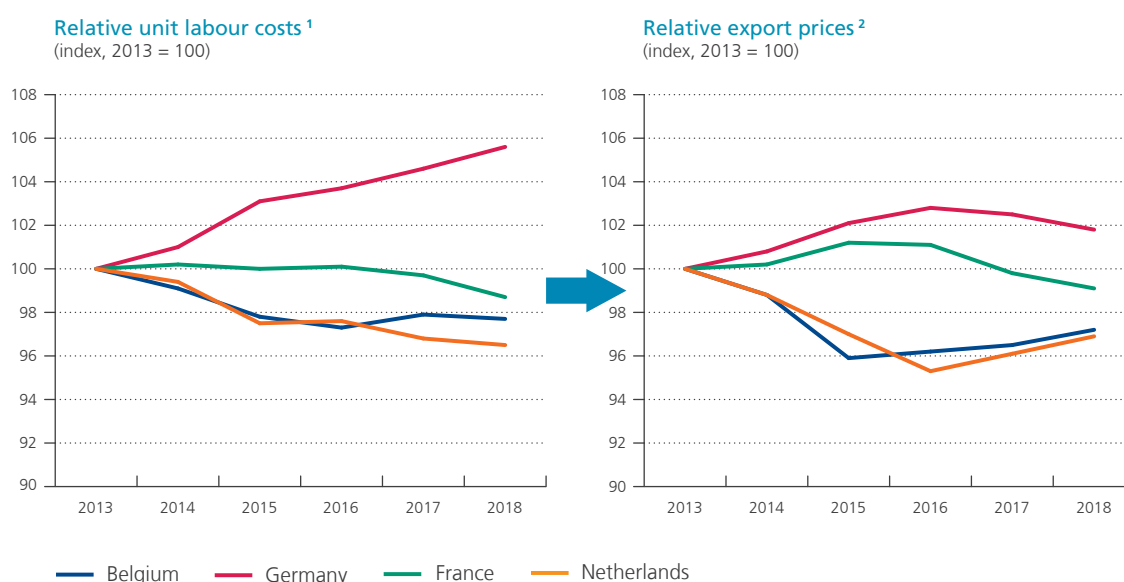
In this respect, while Belgium recorded a small surplus in its balance of trade in goods and services by volume, averaging around 2.8 % of GDP over the period 2010-2018<sup>1</sup>, it also suffered significant losses of export market share despite the cost-competitiveness measures adopted in recent years.

Cost competitiveness is considered to be a key factor determining export performance, particularly for Belgium in view of its high degree of openness to other countries, but also the level of its direct exports most of which are still destined for markets in the euro area and therefore face competition from domestic production or countries with a common exchange rate. However, while this particular focus on the cost-competitiveness aspect is important for Belgium, it is not the only factor having an impact on Belgian external performance.

Chart 10

### Unit labour costs and relative export prices

(in % of GDP)



Sources: EC, NAI.

1 Relative nominal unit labour cost of the country considered in relation to the average for all euro area countries, weighted by the proportion of the country's goods exports to the countries in the panel.

2 Relative deflator of exports of goods and services of the country considered in relation to the average for all euro area countries, weighted by the proportion of the country's goods exports to the countries in the panel.

While the level (growth) of the volumes exported by an economy depends, among other things, on the external demand addressed to it and the relative cost/price of its exportable goods, the relationship between that growth and cost/price will also depend on a range of other factors. These include the transmission of costs in export prices, the price elasticity of exports – which may vary according to the type of products exported – or the amount of domestic value added contained in the exports.

1 According to the national accounts statistics (0.8 % on average for value data).

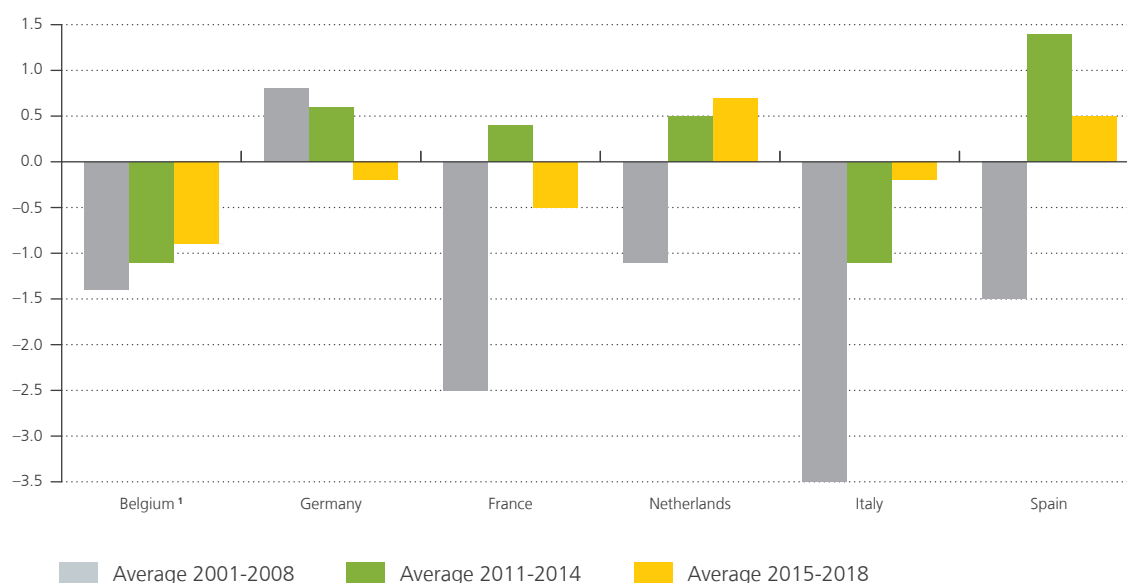


In this context, recent analysis seems to indicate that while Belgium's relative unit labour costs have improved slightly in recent years, particularly in comparison with its neighbouring countries, those gains in cost-competitiveness have not been entirely reflected in export prices, notably owing to a relatively limited "pass-through" of the cost-price of exports<sup>1</sup>. Various studies have highlighted this point. For instance, it has been shown (De Ville *et al.*, 2016) that changes (reduction/limitation) in unit labour costs did not always seem to be passed on in full in export prices, but were partly – and particularly – reflected in corporate profit margins.

Similarly, the low cost/price elasticity of Belgian exports has likewise been demonstrated in certain studies (Decramer *et al.*, 2014), which could explain why Belgium's external performance has remained modest. One possible reason for this low price elasticity, as illustrated in section 2.1, is the importance of intermediate goods in total Belgian goods exports. In the globalised context of value chains, Belgian exporters are mainly active in exporting this type of goods, for which prices do not seem to play an essential role, at least in the short term. In fact, it seems difficult to make rapid changes to established value chains, especially if they take place between entities in the same group, which is often the case in Belgium. Moreover, as for its three neighbouring countries, the share of high-technology exported goods is high in Belgium, and goods which are highly R&D-intensive, such as pharmaceuticals, appear less sensitive to a change in the cost/price than goods involving more standardised technology (Wierds *et al.*, 2012).

**Chart 11**

**Trend in market shares of Belgium and its neighbouring countries**



Sources: EC, ECB, NAI.

<sup>1</sup> Disregarding the reorganisation of a company in the pharmaceuticals sector in 2016-2017.

Finally, the limited transmission of costs to export prices would also be explained by the fact that Belgium's exports have a larger import content than those of its neighbouring countries – or conversely, lower domestic value added. In fact, the pass-through of lower costs, particularly labour costs, to export prices and performance would therefore be weaker. Belgium's export competitiveness thus seems to require monitoring of the movement

<sup>1</sup> In recent years (2013-2016), the decline in Belgium's export deflator was also supported by the reduction in prices of energy, especially petroleum products, which weigh on its exports.

in all the factors involved in export price formation, namely unit labour costs but also the profit margins of firms and the prices of inputs used in the exported goods.

Indeed, even though the losses of market share suffered by Belgium have been slightly lower than previously, the trend is still negative, on average, at around 1.0 % over the period 2015-2018, and considerably more marked than in neighbouring countries<sup>1</sup>. Therefore, while the wage moderation measures seem to have brought some improvement in Belgium's cost competitiveness, its export performance suggests that these measures adopted in recent years contributed only, to a small extent, to soften the trend towards less dynamic exports and the corresponding losses of market share which remain substantial in comparison with neighbouring countries.

### 3. Sources of export growth

On the basis of the above findings concerning Belgium's export performance, it has become apparent that the recent growth of exports has been subdued compared to the neighbouring countries, and that the efforts to master cost competitiveness have not fully translated as far as market shares are concerned. This final section aims to supplement the analysis from a microeconomic angle. It sheds light on the sources of activity growth for Belgian firms in other countries. Given the new, riskier international context, this section aims more specifically to trace the recent developments between 2015 and 2018 and the internationalisation strategies of Belgian firms.

#### 3.1 Mapping of export firms

Before we proceed to analyse the sources of export growth, an initial mapping of Belgian firms active on foreign markets reveals a number of stylised facts.

Table 1

#### Concentration of Belgian export activity<sup>1</sup>

	Total number of Belgian exporters	Share of top 100 exporters (in %)	Number of Belgian exporters by destination		
			EU	US	China
2016	9 827	56	6 401	1 984	1 221
2017	9 796	56	6 450	2 041	1 255
2018	10 215	55	6 721	2 118	1 294

Source: individual foreign trade data, national concept.

<sup>1</sup> Data include only firms whose exports to the EU exceeded € 1 million and those whose extra-Community exports represented at least € 100 000.

First, Belgium's international trade proves to be relatively concentrated: the number of export firms averaged around 10 000 units between 2015 and 2018, representing a small proportion of the total number of Belgian firms (just under 5 %). Nevertheless, there are significant numbers of entries and exits by firms each year.

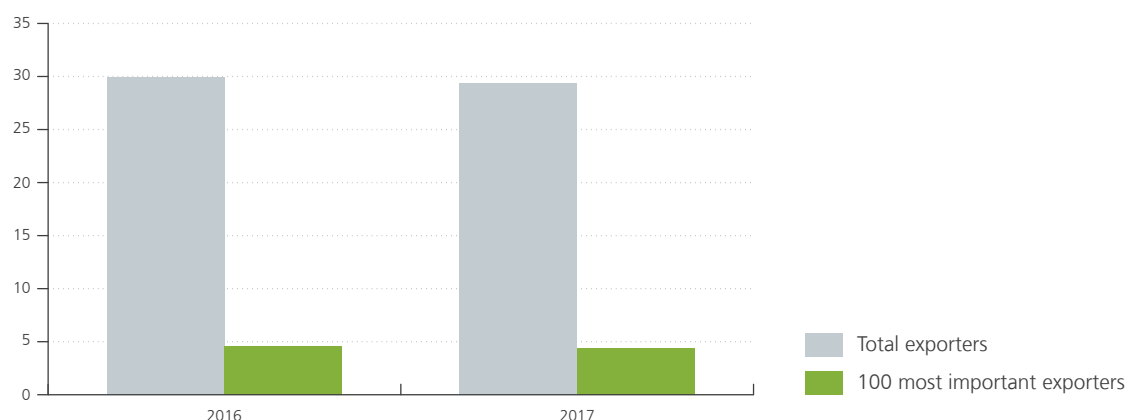
<sup>1</sup> Disregarding the reorganisation of a company in the pharmaceuticals sector which inflated Belgian exports during the years 2016-2017 (otherwise the loss of market shares would be around 0.5 %).

Moreover, within the same relatively small number of Belgian exporters recorded, large firms make up the majority. Despite this relative concentration, the sector is not all that disconnected with the rest of the Belgian economic fabric: it directly employs almost one person in three in the private sector. In addition, and above all, it is connected with many other domestic firms which supply services or intermediate goods upstream: overall, nearly two-thirds of all Belgian firms are indirectly linked to foreign trade and are therefore connected with demand from the rest of the world. Thus, international trade has widespread spillover effects on the rest of domestic activity.

## Chart 12

### Share of exporters<sup>1</sup> in employment in Belgium

(in % of total private sector employment<sup>2</sup>)



Source: individual foreign trade data, national concept.

1 Data include only firms whose exports to the EU exceeded € 1 million and those whose extra-Community exports represented at least € 100 000.

2 Excluding banks and insurance companies.

## 3.2 What are the recent growth sources for Belgian exports?

The use of microeconomic data on the commercial transactions of firms enables us to break down the firms' export growth into two different sources: an "intensive" margin and an "extensive" margin. The data and the methodology used are based on those of Dhyne and Duprez (2013) and are described below.

First, the individual transactions of Belgian firms with other countries are recorded as transactions by resident firms with the rest of the world, by country of destination (for exports) or origin (for imports) and by type of goods according to the HS6 classification of products (dividing exports into more than 5000 categories). As in the case of the macroeconomic series in the previous section, the transactions used to compile the foreign trade statistics adhere to the national concept, i.e. excluding transit flows and part of the quasi-transit. These data are obtained either from customs declarations, in the case of extra-Community trade, or from Intrastat declarations in the case of intra-Community trade. The data only include firms whose exports to the EU exceeded € 1 million at 2006 prices or whose extra-Community exports represented at least € 100 000 at 2006 prices. These are value data not volume data. The figures therefore capture not only variations in the quantities exported but also variations in prices or exchange rates.

Next, use of this microeconomic database enables the aggregate growth of exports between  $t-1$  and  $t$  to be subdivided into two main components:

- The first relates to the growth of international trade transactions that were maintained between  $t-1$  and  $t$ . It is called the *intensive component* of export growth, and can be seen as the intensification of existing trade relationships.
- The second relates to the fact that some international trading relationships recorded in  $t-1$  are no longer active in  $t$ , while others are newly formed in  $t$ . This process of creation/destruction of international trading is called the *extensive component* of exports. Exports grow (decline) because the amount of new transactions is larger (smaller) than the amount of transactions destroyed. In this study, an international transaction represents the export by a Belgian firm of a particular HS6 product to a specific country of destination. The extensive component of export growth may therefore have three dimensions: a “firms” component, a “countries” component and finally a “products” component. The “firms” component represents the extensive margin due to the entries and exits of firms on the international markets viewed as a whole. It is the contribution of new exporters compared to that of firms leaving the global markets altogether. The “countries” component is the extensive margin due to the entries and exits of existing exporters in  $t$  in a country of destination. This dimension therefore represents the conquest of new foreign markets or the pure departure of established exporters from a specific country. Finally, the “products” component corresponds to the extensive margin associated with the introduction or withdrawal of specific HS6 products by existing exporters in a country of destination in which they have already been present with other products.

To measure the contribution of the various components of export growth, the definition of that growth between two periods follows the one proposed by Davis and Haltiwanger (1992). It can be used to calculate the growth rate associated with the creation/destruction of transactions. It is given by:

$$\dot{X}_{it} = 2 \frac{X_{it} - X_{it-1}}{X_{it} + X_{it-1}}$$

where  $X_{it}$  represents the amount of transaction  $i$  (one firm, one country, one product) observed for year  $t$  and  $\dot{X}_{it}$  is the growth rate of that transaction between  $t$  and  $t-1$ . According to this definition, the growth rate associated with an entry is equal to 2, while the rate associated with an exit equals  $-2$ . Between these two extremes we can see the growth rate of the intensive margins.

Aggregate growth is obtained as:

$$\dot{X}_t = \sum_{i=1}^N \frac{X_{it} + X_{it-1}}{X_t + X_{t-1}} \dot{X}_{it}$$

where  $X_t$  represents the total amount of exports for year  $t$  and  $\dot{X}_{it}$  is the growth rate of transaction  $i$  between  $t$  and  $t-1$ .

### 3.3 Overall export growth: intensive vs extensive margins

Overall export growth and its breakdown into intensive and extensive margins permits a better understanding of the underlying dynamics. As a preliminary point, it should be noted that aggregate growth is the outcome of large gross movements which partly offset one another. Every year, some trade relationships grow while others decline, many are created and others are terminated or suspended. To gain a better grasp of the main tendencies underlying aggregate export movements, we shall confine ourselves to analysing the various *net* growth margins which reflect the difference between the gross positive and negative contributions for each dimension (intensive, firm-extensive, country-extensive and product-extensive).

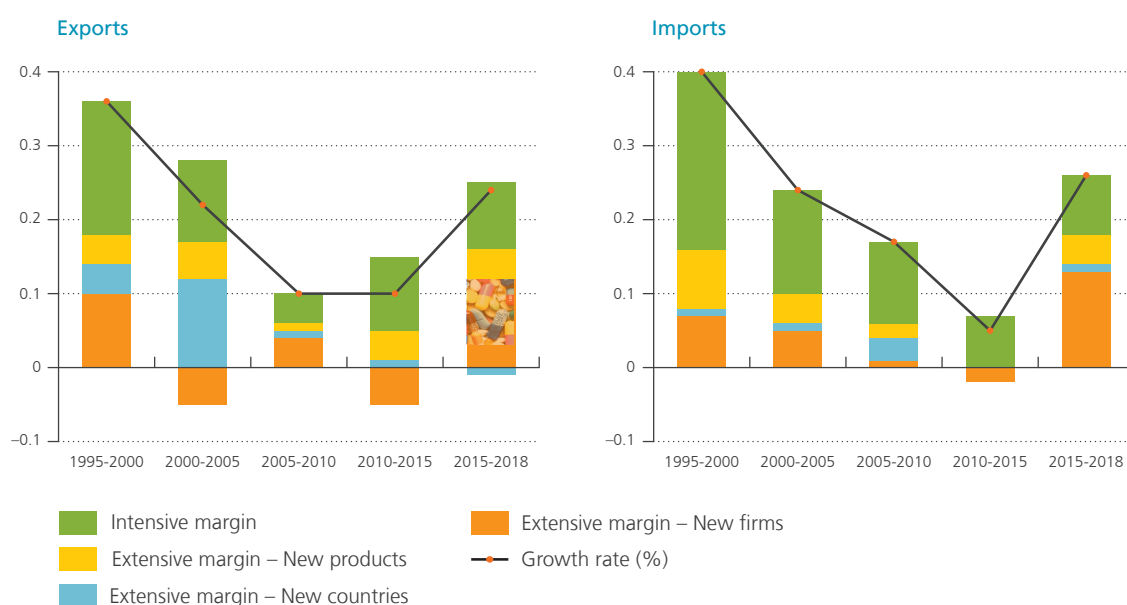
Assessed in the long term over various sub-periods, the net margins reveal that, before the introduction of the euro, the contribution of intensive margins predominated significantly over other sources of export growth. In contrast to the most recent period between 2015 and 2018, it appears that the growth of Belgian exports was supported by other contributions, particularly extensive ones, which became positive again. They thus indicate the emergence of new transactions with other countries as one factor supporting recent export growth. That is true in particular of the “new firms” component. However, its strong contribution during the period 2015-2018 does not necessarily reflect a steep rise in the number of exporters, because it is largely influenced by the decision by a major pharmaceuticals group to base its international activities in Belgium: that alone accounts for almost 60 % of the “new firms” component of the extensive margin. Nonetheless, even if the specific effect due to that group is neutralised, net export firm creations also supported Belgian export growth in the most recent period and more generally reflect changes in the structure of the population of exporters.

The contribution due to the introduction of new products (diversification of the range offered) also contributed to the increase in exports. Conversely, the extensive “country” component plays a minor role structurally, bearing witness to the difficulty of penetrating new foreign markets and the intra-European character of Belgian foreign trade. At the end of the period it was actually negative, indicating the termination of trading activities in a number of countries, perhaps in order to concentrate more effectively on certain key markets. True, during the recent period the positive contribution of the intensive margin shows that the intensification of existing relationships remains an essential basis for exporting. But the relative contribution of the extensive margins has also increased, which thus tends to point to underlying structural changes: in the new global context, the repositioning of Belgian firms is geared more to renewal of the fabric of exporters and the expansion of the product ranges offered abroad, rather than opportunities for penetrating new markets. Note also the link between extensive and future intensive margins: it is new relationships which could subsequently enjoy sustained growth.

### Chart 13

#### Breakdown of long-term export and import growth: extensive and intensive margins

(in p.p. unless otherwise stated)



Source: individual foreign trade data, national concept.

A breakdown of the growth of Belgian imports gives a similar picture. Thus, over the period 2015-2018 we find a relative increase in extensive margins as opposed to intensive growth sources which had predominated in the past. So, it would seem that importers have recently diversified their input sources to a greater degree.

While imports are often seen as less important than exports, they nevertheless potentially represent a source of productivity growth for firms, particularly via extensive margins which give domestic firms access to a wider range of inputs. This channel acts as a real competitiveness lever and seems to have been more active in recent years.

## BOX 1

### Exports growth to the “sensitive” markets of the UK and the US

In recent years, serious tensions have arisen between the US and its main trading partners, culminating in the introduction and raising of customs tariffs on numerous traded goods. In addition, the forthcoming departure of the UK from the EU has continued to generate considerable uncertainty over the future trading relationship between these two partners. That general climate causing doubts about disruptions of known relationships implies that the economies concerned will need to find a new balance; that is especially true for export firms which are confronted directly or indirectly by these events. These two cases, symptomatic of a gradual shift away from a multilateralist free-trade view to a more protectionist and bilateral approach to international trade directly concerns two of Belgium’s main trading partners in terms of direct exports, namely the ones in 4<sup>th</sup> and 5<sup>th</sup> place.

At the macroeconomic level, the protectionist measures adopted by the US are currently having little impact on Belgium. In fact, the Belgian value added involved in American imports of base metals – which include steel and aluminium – represents only 0.07 % of Belgian GDP. Also, Belgium’s contribution to Chinese exports to the US amounted to only around 0.14 % of its GDP over the period 2009-2011 (partly indirect contribution specifically involved in Chinese sales of electrical, IT or optical equipment to the American market) and contributed only the equivalent of 0.03 % of that same GDP to American exports to China (mainly via chemicals and pharmaceuticals). At this stage, it therefore seems that these protectionist measures have little impact on Belgium. However, the effect could be greater in the event of a worsening trade war between China and the US. Nevertheless, on the basis of the Belgian economy’s levels of exposure – and assuming that new tariffs do not extinguish the trade flows altogether – the macroeconomic effects should remain modest.

As regards the UK, although the final terms of any agreement covering post-Brexit trade will depend on the outcome of the negotiations with the European authorities, the main cost to Belgium is likely to stem from its trade relations. In fact, in terms of direct exports of goods and services, the UK represented on average almost 8 % of Belgium’s total worldwide exports between 2016-2018. As for the sectors which might feel the biggest impact, Belgium seems particularly exposed as regards its exports of goods relating to the categories “machinery and transport equipment”, “food and live animals”, “chemicals and related products” including pharmaceuticals, and certain manufactured products. However, at this stage, and despite the current great uncertainty and exit postponements, the foreign trade figures do not indicate any break which can be clearly identified as due to Brexit: Belgium’s surplus in trade in goods with the UK is still significant, at around € 5.5 billion in 2018 compared



to € 6.0 billion in 2017. However, from a microeconomic angle these flows concern numerous Belgian firms: in 2018, 19 122 Belgian firms supplied goods or services to almost 44 421 British businesses. Moreover, 28 400 Belgian firms obtained supplies from an indeterminate number of exporters located in the UK. In addition, 147 Belgian companies were partly owned by a business located in Britain in 2018, while 227 held at least 25 % of the shares in a British company, thus increasing their exposure to Brexit. Altogether, Britain's withdrawal therefore directly concerns almost 41 000 Belgian firms. For these firms, the introduction of tariffs or non-tariff and administrative barriers, such as conformity documents, customs declarations, will hamper their trade in varying degrees depending on the future shape of relations between the UK and the EU. Furthermore, their British counterparts might cut back their demand for Belgian goods and services if import tariffs are introduced. But Belgium's exposure to this shock is not confined solely to its direct exposure. Taking account of the relations of Belgian suppliers or customers with exporters and importers, the number of firms potentially concerned is much greater. For instance, it is estimated that almost two-thirds (67 %) of Belgian firms have links with British demand owing to their role in supplying the 18 510 exporters.

### Breakdown of annual export growth to the UK and the US – extensive and intensive margins

(in p.p. unless otherwise stated)



Source: individual foreign trade data, national concept.

The effects associated with trade relations between Belgium and Britain are also added to the indirect effects resulting from trade between the UK and other EU countries in which Belgium is a partial contributor. On the basis of 2015 (the last available year), these various exposures are estimated at around 0.7 % of GDP and are therefore additional to the 3.1 % of Belgian GDP already directly



exported to the UK. Britain's departure from the EU could therefore affect around 3.8 % of Belgian GDP via a reduction in the volume of trade with that country. However, 0.2 % could be (partly) redirected to other European partners if the British link in these value chains could be readily relocated either in Belgium or in another Member State.

The analysis of intensive and extensive margins can be refined by considering these specific destinations in Belgian export transactions in the microeconomic database. In regard to the British market, it seems that intensive margins have been negative in the wake of the vote in favour of Brexit, perhaps reflecting a certain reduction in trade with Britain, but also other factors such as the depreciation of the pound sterling or the cyclical slowdown in the UK. Nonetheless, there is no sign of a mass exodus of Belgian firms from this market. On the contrary, the contribution of new exporters on the British market seems to have been positive in the recent period, despite the uncertainties surrounding Brexit.

The same exercise was conducted for the US. Although exports to the US account for a smaller share of total Belgian exports than the British market, they are still significant. Belgium's direct exposure to that market underestimates its importance, because Belgian producers are more exposed to it through their German partners, in particular, whose involvement ultimately enables Belgian firms to reach a more significant number of American consumers. In regard to Belgian exporters' margins, given the greater difficulty of penetrating new markets which are geographically more distant, it is mainly established relationships that influence export growth. This is reflected in the relative importance of the intensive margins. Once again, in 2016 we find the activities of the major pharmaceuticals group having a big impact on the outcome for the margins. Overall, since this market is farther away, the extensive margins are naturally less marked, reflecting the greater difficulty in serving economies which are geographically more distant.

In conclusion, in view of the findings of the exercise concerning extensive and intensive margins, it seems clear that the introduction of tariffs following the adoption of protectionist policies in other countries would be damaging for Belgian exporters. They would impede not only the existing trade relations at the level of intensive margins, but also at the level of extensive margins, although the latter's contribution to export growth had been revived in recent years and is important for the future development of intensive margins. Since a substantial proportion of the domestic economic fabric leans against the Belgian trade sector, trade barriers would initially affect exporters but then trigger cascade effects, e.g. among their Belgian suppliers, whose order books would also shrink.

## Conclusion

With increasingly blurred lines of demarcation – between new global players, changing goods and services, and new technologies – combined with new forms of protectionism, the shape of international trade is changing. In the face of this situation, it seemed essential to take stock of Belgium's trading relations with the rest of the world in order to ascertain its position and see what role it can continue to play in the years ahead.

The article showed that Belgium is still an economy whose openness and integration into world trade remain important to its economic development and future prosperity. However, since the start of the decade Belgium's export performance has seemed to lag behind the average achieved by three of its neighbouring countries



which are also its main trading partners. In fact, Belgium is still suffering significant losses of export market shares in relation to the rest of the world. At this stage, it seems that the wage moderation policy introduced in recent years, intended in particular to promote Belgium's cost competitiveness, has not managed to reverse the trend towards less dynamic exports and, as the corollary to that, to improve Belgium's export performance. The reasons which might explain this are many: one is related to the price elasticity of Belgian exports which is relatively low, partly on account of the large proportion of total Belgian exports made up of intermediate goods. In fact, it seems more difficult to modify the existing value chains in the short term, especially if they are formed between entities in the same group, which is often the case in Belgium. Conversely, production cost comparisons exert a significant influence on the choice of location for production units in these chains, and that is therefore an essential factor for Belgium to monitor. In addition, as in the case of the three neighbouring countries considered in the analysis, the share of high-tech exports is substantial. These highly R&D-intensive goods such as pharmaceuticals are relatively less sensitive to price changes than goods involving more standardised technology, and that limits the impact of cost-competitiveness on Belgian exports. Finally, the import content of Belgian exports seems a little higher than that of its neighbouring countries, which is another factor which tends to limit the effects of a wage moderation policy.

This new context creates a need for adaptability to ensure better resilience, particularly on the part of Belgian firms. The increased contribution of extensive margins to Belgian export growth indicates renewal of the fabric of commercial transactions, mainly as a result of the advent of new firms exporting and diversification of the product range of existing exporters, auguring a future revival of growth if these new relationships develop. In order to remain resilient and maintain a degree of competitiveness, firms focusing on foreign markets will have to ensure that they can adjust their costs in response to shocks, if need be by absorbing the cost of tariffs or non-tariff barriers in their margins. All the same, use of competitive advantages on factors other than cost is quite important to enable firms to adopt a strategic position and secure lasting development internationally. To achieve that, firms will therefore need to do their best to ensure that they take up positions on buoyant markets where demand is dynamic, and in niche segments with a high technology content in order to maintain and even increase their share of foreign markets – a relatively less developed aspect in view of the smaller “country” – extensive contribution.

The Belgian authorities can help in various ways. Boosting export aid and export promotion, notably via regional agencies which have a positive effect on opportunities for penetrating new, more distant foreign markets<sup>1</sup>, is an obvious approach. But apart from that, the macroeconomic framework and, in particular, the regulatory system, must be sufficiently favourable to offer the necessary incentives for the expansion of trade and to ensure that trade is not hampered by unnecessarily constraining barriers. For that purpose, the allocation of resources – whether labour or capital – needs to be flexible. Where labour is concerned, we must ensure that it is possible to recruit qualified staff with the competence and soft skills specific to international trade, such as knowledge of languages. Upstream, education will play a key role. Another prerequisite concerns guaranteeing and investing in good quality infrastructures, not only to enable firms to continue to perform and trade in the normal way, but also to preserve Belgium's attractiveness as a leading commercial centre on the European continent. The initiatives adopted by previous governments to stimulate entrepreneurial culture and risk-taking should be pursued to maintain the positive signals visible as regards extensive margins. Finally, all these measures form part of a broader European framework to which they must respond. In view of the new international context, the European authorities have already made significant changes, shifting from their traditional multilateral position towards defining a new, more cautious framework (considering a new strategy for screening Chinese FDI)<sup>2</sup> but also a more aggressive approach where necessary (balanced retaliatory measures in response to the American protectionist attacks).






1 Van Bisebroeck and Schminke (2016) find robust evidence that export promotion programmes raise firms' propensity to start exporting outside the EU single market.

2 See Buysse K. and D. Essers (2019). The idea of reforming the European competition rules to enable European champions to emerge is also part of this debate, in order to provide sufficient strike force to stand up to the Chinese giants with the massive financial support that they enjoy (via state aid or by being linked to state-owned enterprises).

## Annexes

Table 1



### Main events relating to the escalation of the global trade war

Global trade war		
US / China  		
	Summer 2018	25 % customs tariff on Chinese imports worth \$ 50 billion
		Retaliatory measures against the US for equivalent amounts
	September 2018	10 % customs tariff on Chinese imports worth \$ 200 billion
		Retaliatory measures against the US consisting of a 5-10 % tariff on goods worth \$ 60 billion
	Winter 2018-2019	Negotiations: easing of tension
	May-June 2019	Previous tariff increased from 10 % to 25 % ; blacklisting of Chinese firms in the tech sector (Huawei)
		Retaliatory measures against the US consisting of a 25 % tariff on goods worth \$ 110 billion
	November 2019	Negotiations: easing of tension
US / Rest of the world  		
	January 2018	20-50 % customs tariffs on washing machine imports worth \$ 1.8 billion
		30 % customs tariffs on solar panel imports worth \$ 8.5 billion
		Retaliatory measures against the US
	March-April 2018	Customs tariffs of 10 % on aluminium and 25 % on steel concerning goods worth almost \$ 20 billion
		Retaliatory measures against the US
	June 2018	Rebalancing measures against the US: 10-25 % tariffs on goods worth \$ 3.2 billion
	Summer 2018	Negotiations with the EU: easing of tension
	January 2019	Definitive safeguard measures on imports of certain American steel products
	May 2019	New NAFTA agreement (USMCA): lifting of US sanctions on aluminium and steel for Canada and Mexico
	October 2019	WTO dispute over aeronautical industry subsidies: 10 % tariffs on imports of aircraft and 25 % tariffs on other European products

Source: NBB.

Table 2

## Main events relating to Brexit

Brexit  		
	June 2016	Referendum in favour of Brexit
	March 2017	Activation of Article 50 of the EU Treaty
	November 2018	Exit agreement negotiated by the 27 heads of State and government and Theresa May (UK Prime Minister)
		Divorce settlement: citizens' rights, financial settlements, transfer of European agencies located in Britain, transitional period (end 2020) before the UK actually leaves
		Protocol providing for a "backstop" to avoid the reinstatement of a physical frontier between the Republic of Ireland (an EU member) and Northern Ireland (part of the UK)
		Political declaration on the future relationship: maintenance of free-trade economic relations ("deal") to avoid a disorderly departure with no agreement where WTO rules would apply by default ("no deal")
	Spring 2019	Rejection of the withdrawal agreement by the British parliament
	March-June 2019	Brexit date postponed multiple times
	July 2019	Boris Johnson becomes Prime Minister of the UK
	October 2019	Amendment of the withdrawal agreement
	31 Januari 2020	<i>Brexit?</i>

Source: NBB.

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