



MARKET FOCUS

Attention EC Investors: Take a Look at Wallonia, Belgium

By W. P. VOSSSEN

For obvious reasons linked to the small size of their markets, the small states of Europe, of which Belgium is one, have always been forced to turn to the world market to ensure their economic development. Compared with the regions of the large European countries, the regions of the small European countries have, through necessity, had to develop and maintain a cross-border vocation directed toward exporting. This was obviously the case for the Walloon Region that, at the moment, exports more than half of its production.

As the formation of the Single Market in 1993 approaches, something that will definitely make Europe the biggest world market, there are many who are trying to plan for the effects that the disappearance of borders will have. With the completion of the internal market, the countries of the European Community will become, in a certain way, regions of Europe, with economic integration substituting interregional relations with international ones. In this respect, all these new "hyper-regions" will see their trade become easier, with an appreciable part of their international trade assimilated into interregional trade.

The dismantling of trade barriers should be more directly beneficial to the regions that can show an economically complementary nature. More specifically,

in western Europe, Belgium, and in particular Wallonia, has, in this respect, important assets largely due to its central position in relation to the markets of the European Economic Community. This is an undeniable advantage at a time when the strategy of large world groups is oriented toward the re-centering of activities, whether production or distribution, onto one or other main anchoring points, rather than toward the scattering of small units.

Today, occupying a central location allowing quick access to neighboring markets is an advantage for a region, particularly when it has other benefits such as an efficient distribution organization. This is precisely the case for the Walloon Region. Some consider it the center of Europe. Almost half of the 337 million consumers of the European Community are within a 500 km radius of Wallonia. This region is therefore particularly attractive for firms that want to exploit the opportunities of the future Single European Market to the fullest, all the more so since the objective of Just-In-Time distribution is soon to become as important as that of Just-In-Time production and assembly.

At the Crossroads

Wallonia is at the crossroads of the main

European traffic flows for all the modes of transport: road, rail, waterways, and air. Additionally, the business world and the Walloon regional government have decided to develop the two existing regional airports: that of Gosselies, near Charleroi, and Bierset, near Liege. These are the two largest industrial towns of the region, and in light of developments there, several businesses have already set up operations there.

But the Wallonia region's central location is not its only advantage.

The area also contains industries—that is, coal, iron, and steel—that made it the top industrial region on the continent at the beginning of the century. Although these industries suffered the full force of the crisis of the '70s, as did other areas of Europe, at the present time they are efficient again. There has also been a revival of another traditional industry—glass. The two principal Walloon producers in this, Glaverbel and Saint Roch, are now integrated within international groups, Asahi (Japan) and Saint Gobain (France) respectively. They were able to overcome the crisis thanks mainly to the development of hi-tech products.

After 15 years of vigorous restructuring, Wallonia has been able to find all its vitality again. The investments of Walloon businesses that have experienced an annual increase of more than 20 percent since 1988 bear witness to this. It is also seen in the figures for industrial production, which have increased by 5.5 percent for the first three quarters of 1990. Although prospects are tinged with uncertainty because of the events in the Persian Gulf, this trend ought

to continue in 1991, albeit at a slower rate, which will be the case for the whole of Europe.

The Workforce

The Walloon region also has a very high-quality workforce that, it should be remembered, has one of the highest productivity rates in the world, according to the U.S. Department of Labor. This is certainly related to the very high level of schooling in Wallonia.

The percentage of the population between the ages of 14 and 24 pursuing a continuation of education is more than 55 percent compared to barely 42 percent in Europe as a whole. Some 85,000 young people leave secondary education each year; 130 further education colleges and nine academic centers, of which three are full universities, enable them to perfect their training. It is an extremely dense academic network for a region whose population hardly reaches 3.5 million.

Over the last ten years, too, a very fruitful collaboration has developed between these universities and the industrial and business world in general in order to exploit this reservoir of knowledge better. This involves areas as diverse as computer science (Namur), biotechnology (Liege), and agrobiolgy (Gembloux), to name but a few. It is at Louvain-la-Neuve that this practice has been put into play with the most success by the Catholic University of Louvain (UCL). By favoring the setting up of private companies in the area around the university, the latter has attracted the petroleum group Shell, which has installed

its European research center there, and Nissan, which has just decided to set up there as well.

Foreign Investment

The aforementioned companies are not the only foreign companies that have realized the benefits offered by Wallonia with a view to the future Single European Market.

Foreign investments have undergone an unparalleled increase since 1988. During 1988 and 1989, they reached an annual total of 40 billion Belgian Francs compared to scarcely 6 billion in 1983. Besides investments from other member countries of the European Economic Community, U.S. companies have invested 16 billion BF; that is, a little over 40 percent of the total amount. Equally interesting, Japanese investors more than quadrupled their investments in 1989. Moreover, this trend was reinforced in 1990 with the decisions taken by NGK, Aisin, Asahi Glass, St mitomo Electric, and Nissan, among others.

In order to encourage the setting up of such companies and to stimulate economic activity in general, the Walloon region has a system of incentives that is certainly not negligible. Recently the whole system was revised with a view, on the one hand, to adapting it to the specific characteristics of the economic development of Wallonia and, on the other hand, bringing it into line with the European Community Commission's regulations on this matter.

Investment Incentives

Any company employing less than 250

people would be able to benefit from an investment subsidy up to a maximum amount of 20 percent, and this would be the case wherever a firm set up and without discrimination between Belgian and foreign companies. The intensity of this aid is evidently adjusted according to the significance of the project. This is assessed according to the number of new jobs generated, the development of the added value of the business, and the sector it is active in. Regarding the latter, the Walloon region particularly encourages investments made in the "strategic" sectors of telecommunications, aeronautics, micro-electronics, biotechnology, and agro-food stuffs.

If they are located in reconversion zones (more than two-thirds of the region), large companies could also benefit from investment incentives to a maximum of 24 percent. Moreover, the Walloon region has some 120 industrial zones ready to welcome potential investors. The zones have been equipped fully and are directly linked to the rail and road communication networks.

Aware that it is important that these businesses can offer products to the market that are at the forefront of technology, and that this often necessitates considerable financial outlays, the Walloon regional government has introduced a series of incentives aimed at supporting research and development activities. The incentives involve subsidies to firms that carry out actual basic research activities. For example, these cover up to 50 percent of the cost of chosen projects in either basic research or

R&D for industrial purposes. In some circumstances, subsidies for projects in technological innovation go even higher: 80 percent.

Besides exemption from property taxes, Belgian legislation allows several types of fiscal incentives to be granted. Among these are two that concern coordination centers and distribution centers.

Coordination centers function solely on behalf of branches belonging to the same corporate group and provide such services as administration, accounting, R&D, advertising, and financing. Legislation offers low taxation rates and outright fiscal relief for both the company and its non-resident employees for ten years. These include a "cost plus" lump calculation for taxable income; exemption from property taxes and withholding on interest and dividends; special interest rate deductions to reduce capital costs; and exemption from work

permit requirements for foreign executives and research staff. The legislation on coordination centers, however, only concerns the large multinationals. The centers themselves must have at least 10 full-time workers after two years.

Distribution centers are concerned with purchasing, warehousing, packaging, and distribution of either raw materials or finished products. No production activities are allowed. Distribution centers are subject to fewer restrictions, although they, too, must be part of a multinational group. They enjoy a favorable taxation system, as profits are worked out according to a lump sum percentage of five percent of their operating costs.

It should be noted that these systems are coordinated through the Department of Foreign Investments, in cooperation with the regional and local authorities concerned.

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