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BELGIUM

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
GDP (at current prices) 2/	247.6	222	230
Real GDP Growth (pct) 3/	2.8	1.7	3.5
GDP by Sector (pct):			
Agriculture	1.2	N/A	N/A
Construction	6.2	N/A	N/A
Energy	4.4	N/A	N/A
Industry	17.8	N/A	N/A
Services	52.6	N/A	N/A
Nontradable Services	17.7	N/A	N/A
Real Per Capita GDP (US$) 4/	24,274	21,658	22,416
Labor Force (000s)	4,315	4,330	4,341
Unemployment Rate (pct)	9.5	9.0	8.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.5	5.5	N/A
Consumer Price Inflation	1.0	1.1	2.1
Exchange Rate (BF/US$)	36.45	37.73	41
Balance of Payments and Trade:			
Total Exports FOB 5/	173.3	165.4	166.3
Exports to U.S. 6/	7.1	8.2	9.0
Total Imports CIF 5/	160.7	150.3	140.8
Imports from U.S. 6/	11.2	11.3	12.3
Trade Balance 5/	12.8	13.8	14.5
Balance with U.S. 6/	-4.1	-3.1	-3.3
Current Account/GDP (pct)	4.1	4.2	4.1
External Public Debt	10.6	11.2	N/A
Debt Service Payments/GDP	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	-1.0	-0.9	-0.5
Aid from U.S.	0	0	0
Aid for All Other Sources	0	0	0

1/ 2000 figures are all estimates based on monthly data available in October 2000.

2/ GDP at factor cost
3/ Percentage changes calculated in local currency
4/ At 1985 prices
5/ Merchandise trade. Government of Belgium data.

Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.

1. General Policy Framework

Major Trends and Outlook

Belgium possesses a highly developed market economy, the tenth largest among the OECD industrialized democracies. The service sector generates more than 70 percent of GDP, industry 25 percent and agriculture two percent. Belgium ranked as the eleventh-largest trading country in the world in 1999, with exports and imports each equivalent to about 70 percent of GDP. Eighty percent of Belgium's trade is with other European Union (EU) members. Seven percent is with the United States. Belgium imports many basic or intermediate goods, adds value, and then exports final products. The country derives trade advantages from its central geographic location, and a highly skilled, multilingual and industrious workforce. Over the past 30 years, Belgium has enjoyed the second-highest average annual growth in productivity among OECD countries (after Japan).

Throughout the late 1970s and the 1980s, Belgium ran chronic budget deficits, leading to a rapid accumulation of public sector debt. By 1994, debt was equal to 137 percent of GDP; since then, however, the country has made substantial progress in reducing the debt and balancing its budget. Belgium has largely financed its budget deficits from domestic savings. Foreign debt represents less than 10 percent of the total and Belgium is a net creditor on its external account.

Belgium's macroeconomic policy since 1992 has aimed at reducing the deficit below three percent of GDP and reversing the growth of the debt/GDP ratio in order to meet the criteria for participation in Economic and Monetary Union (EMU) set out in the EU's Maastricht Treaty. On May 1, 1998 Belgium became a first-tier member of the European Monetary Union. The government's 2000 budget projects a 0.9 percent deficit and continues the debt reduction policies with the aim of achieving a debt/GDP ratio of 110 percent by the end of the year.

Economic growth this year is mainly created through higher exports and increased domestic demand, as well as by increased investments. Wage costs seem to be under control, and unemployment is expected to come down from 9 percent in 1999 to 8.5 percent in 2000. However, the 8.5 percent is an average figure which glosses over significant differences, both between demand and supply as well as between regions.

Belgium's unemployment situation improved slowly last year. Standardized EU data put Belgium's unemployment rate at 8.5 percent in June 2000, 1 percent below the EU's average. However, strong regional differences in unemployment rates persist, with rates in Wallonia and

Brussels being two to three times higher than in Flanders. Although wage growth has been very modest since 1994, wage levels remain among the highest in Europe.

In 1993, Belgium completed its process of regionalization and became a federal state consisting of three regions: Brussels, Flanders and Wallonia. Each region was given substantial economic powers, including trade promotion, investment, industrial development, research and environmental regulation.

Principal Growth Sectors

Sectoral growth in the Belgian economy reflects macroeconomic trends. Industry sectors that are oriented towards foreign markets, in particular those in the semi-finished goods sector such as iron and steel, non-ferrous metals and chemicals are very sensitive to foreign business cycle developments. Business investment is expected to increase by 4.7 percent in 2000. The capital goods sector in particular is benefiting from strong investment demand in Belgium. This year, the National Bank of Belgium reported a record level in Belgium's business cycle, caused by a marked improvement in both trade and manufacturing industry. In the construction sector, the economic climate is stable. The fact that both the semi-manufactured goods and the consumer goods sector are still on an upward trend, show that the economy is still on a fairly high growth path.

Government Role in the Economy

On May 1, 1998 Belgium became a first-tier member of the European Monetary Union. Belgium will gradually shift from the use of the BF to the use of the euro as its currency by January 1, 2002. On January 1, 1999 the definitive exchange rate between the euro and the BF was established at BF 40.33.

Since 1993, the Belgian government has privatized BF 280 billion worth of public sector entities; in 1999, the government did not raise any further money through privatization, although it is now actively pursuing public private partnerships (PPPs). Further privatization of the last two enterprises with a strong public sector stake, Sabena and Belgacom, will probably occur before the end of this coalition's term, i.e. 2003.

Balance of Payments Situation

Belgium's current account surplus stagnated in 2000: at 4.1 percent of GDP, it was well above the EU average of 1.5 percent of GDP, and one of the largest in the OECD area. The surplus largely reflects a strong trade balance: exports picked up in response to more buoyant economic conditions in EU countries, and to a significant improvement in cost-price competitiveness. The impact of the East Asian crisis was limited, given that Belgium's exports to these countries, including Japan, represent only five percent of total exports.

Infrastructure Situation

Belgium has an excellent transportation network of ports, railroads and highways, including Europe's second-largest port, Antwerp. Major U.S. cargo carriers have created at Brussels-Zaventem airport one of the first European hub-and-spoke operations.

2. Exchange Rate Policy

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3. Structural Policies

Belgium is a very open economy, as witnessed by its high levels of exports and imports relative to GDP. Belgium generally discourages protectionism. The federal and some regional governments actively encourage foreign investment on a national treatment basis.

Tax policies: Belgium's tax structure was substantially revised in 1989. The top percent in marginal rate on wage and salary income is 55 percent. Corporations (including foreign-owned corporations) pay a standard income tax rate of 39 percent. Small companies pay a rate ranging from 29 to 37 percent. Branches and foreign offices pay income tax at a rate of 43 percent, or at a lower rate in accordance with the provisions contained in a double taxation treaty. Under the present bilateral treaty between Belgium and the United States, that rate is 39 percent.

Despite the reforms of the past years, the Belgian tax system is still characterized by relatively high rates and a fairly narrow base resulting from numerous exemptions. While indirect taxes as a share of total government revenues are lower than the EU average, personal income taxation and social security contributions are particularly heavy. This year, the federal government announced several measures aimed at gradually reducing the personal income taxes. However, the impact of these will only be measurable before the next general elections in 2003. Total taxes as a percent of GDP are the third highest among OECD countries. Moreover, pharmaceutical manufacturers are saddled with a unique turnover tax of six percent. Taxes on income from capital are by comparison quite low; since October 1995, the tax rate on interest income is 15 percent, and the tax rate on dividends is 25 percent for residents. There is no tax on capital gains.

Belgium has instituted special corporate tax regimes for coordination centers, distribution centers and business service centers (including call centers) in recent years in order to attract foreign investment. These tax regimes provide for a "cost-plus" definition of income for intragroup activities and have proven very attractive to U.S. firms, but are now being targeted by the European Commission as constituting unfair competition with other EU member states.

Regulatory policies: The only areas where price controls are effectively in place are energy, household leases and pharmaceuticals. Only in pharmaceuticals does this regime have a serious impact on U.S. business in Belgium. American pharmaceutical companies present in Belgium have repeatedly expressed their serious concerns about delays in product approvals and pricing, as well as social security reimbursement. Discussions on this subject are now ongoing between industry representatives and the Belgian government.

4. Debt Management Policies

Belgium is a member of the G-10 group of leading financial nations, and participates actively in the IMF, the World Bank, the EBRD and the Paris Club. Belgium is also a significant donor of development assistance. It closely follows development and debt issues, particularly in Central Africa and some other African nations.

Belgium is a net external creditor, thanks to the household sector's foreign assets, which exceed the external debts of the public and corporate sectors. Only about 10 percent of the Belgian government's overall debt is owed to foreign creditors. Moody's top Aa1 rating for the country's bond issues in foreign currency reflects Belgium's integrated position in the EU, its significant improvements in fiscal and external balances over the past few years, its economic union with the financial powerhouse Luxembourg, and the reduction of its foreign currency debt. The Belgian government has no problems obtaining new loans on the local credit market.

5. Significant Barriers to U.S. Exports

From the inception of the EU's single market, Belgium has implemented most, but not all, trade and investment rules necessary to harmonize with the rules of the other EU member countries. Thus, the potential for U.S. exporters to take advantage of the vastly expanded EU market through investments or sales in Belgium has grown significantly. However, some barriers to services and commodity trade still exist.

Telecommunications: Although Belgium fully liberalized its telecommunications services in accordance with the EU directive on January 1, 1998, some barriers to entry still persist. New entrants to the Belgian market complain that current legislation is not transparent, that the interconnect charges they pay to Belgacom (the former monopolist, 51 percent government-owned) remain high and that BIPT, the Belgian telecoms regulator, is not truly independent. Further privatization of Belgacom, expected in 2001, may enhance the increasingly competitive environment and lend more independence to the regulator.

Ecotaxes: The Belgian government has adopted a series of ecotaxes in order to redirect consumer buying patterns towards materials seen as environmentally less damaging. These taxes may raise costs for some U.S. exporters, since U.S. companies selling into the Belgian market must adapt worldwide products to various EU member states' environmental standards.

Retail Service Sector: Some U.S. retailers, including Toys'R' Us and McDonalds, have experienced considerable difficulties in obtaining permits for outlets in Belgium. Current zoning legislation is designed to protect small shopkeepers, and its application is not transparent. Belgian retailers suffer from the same restrictions, but their existing sites give them strong market share and power in local markets.

Pharmaceutical Pricing: Pharmaceutical products are under strict price controls in Belgium. Furthermore, since 1993, procedures to approve new life-saving medicines for reimbursement by the national health care system have slowed down steadily, to an average of 410 days, according to the local manufacturers group of pharmaceutical companies. The EU’s legal maximum for issuance of such approvals remains 180 days. A six percent turnover tax is charged on all sales of pharmaceutical products. There is a price freeze on reimbursable products and a required price reduction on drugs on the market for 15 years. Discussions on this subject are now ongoing between industry representatives and the Belgian Government.

Public Procurement: In January 1996 the Belgian government implemented a new law on government procurement to bring Belgian legislation into conformity with EU directives. The revision has incorporated some of the onerous provisions of EU legislation, while improving certain aspects of government procurement at the various governmental levels in Belgium. Belgian public procurement still manifests instances of poor public notification and procedural enforcement, requirements for offsets in military procurement and nontransparency in all stages of the procurement process.

Broadcasting and Motion Pictures: Belgium voted against the EU broadcasting directive (which requires a high percentage of European programs "where practical") because its provisions were not, in the country's view, strong enough to protect the fledgling film industry in Flanders. The Flemish (Dutch-speaking) region and the francophone community of Belgium have local content broadcasting requirements for private television stations operating in those areas. The EU has taken the Walloon and Flemish communities to the European Court of Justice concerning these requirements. TNT has experienced considerable problems in arranging distribution of its signal on Belgian cable, while NBC and Viacom, which have a majority interest in the British-based TV 4 channel, face similar problems with broadcasting authorities in Flanders.

6. Export Subsidies Policies

There are no direct export subsidies offered by the Belgian government to industrial and commercial entities in the country, but the government (both at the federal and the regional level) does conduct an active program of trade promotion, including subsidies for participation in foreign trade fairs and the compilation of market research reports. All of these programs are offered to both domestic and foreign-owned exporters. Also, the United States has raised with the Belgian government and the EU Commission concerns over subsidies via an exchange rate program to Belgian firms producing components for Airbus.

7. Protection of U.S. Intellectual Property

Belgium is party to the major intellectual property agreements, including the Paris, Bern and Universal Copyright Conventions, and the Patent Cooperation Treaty. Nevertheless, according to industry sources, an estimated 20 percent of Belgium's video cassette and compact disc markets are composed of pirated products, causing a $200 million loss to the producers. For software, the share of pirated copies has dropped from 48 to 39 percent in one year, still representing a loss of $570 million to the industry.

Copyright: On June 30, 1994 the Belgian Senate gave its final approval to the revised Belgian copyright law. National treatment standards were introduced in the blank tape levy provisions of the new law. Problems regarding first fixation and nonassignability were also solved. The final law states that authors will receive national treatment, and allows for sufficient maneuverability in neighboring rights. However, if Belgian right holders benefit from less generous protection in a foreign country, the principle of reciprocity applies to the citizens of that country. This is the case for the United States, which does not grant protection of neighboring rights to Belgian artists and performers, nor to Belgian producers of records and movies. As a consequence, U.S. citizens in Belgium are subject to the same restrictions.

Patents: A Belgian patent can be obtained for a maximum period of twenty years and is issued only after the performance of a novelty examination.

Trademarks: The Benelux Convention on Trademarks established a joint process for the registration of trademarks for Belgium, Luxembourg and the Netherlands. Product trademarks are available from the Benelux Trademark Office in The Hague. This trademark protection is valid for ten years, renewable for successive ten-year periods. The Benelux Office of Designs and Models will grant registration of industrial designs for 50 years of protection. International deposit of industrial designs under the auspices of the World Intellectual Property Organization (WIPO) is also available.

8. Worker Rights

a. *The Right of Association:* Under the Belgian constitution, workers have the right to associate freely. This includes freedom to organize and join unions of their own choosing. The government does not hamper such activities and Belgian workers in fact fully and freely exercise their right of association. About 63 percent of Belgian workers are members of labor unions. This number includes employed, unemployed and workers on early pension. Unions are independent of the government, but have important links with major political parties. Unions have the right to strike and strikes by civil servants and workers in "essential" services are tolerated. Truckers, railway workers, air controllers, ground handling and Sabena personnel have conducted strikes in recent years without government intimidation. Despite government protests over wildcat strikes by air traffic controllers, no strikers were prosecuted. Also, Belgian unions are free to form or join federations or confederations and are free to affiliate with international labor bodies.

b. *The Right to organize and Bargain Collectively:* The right to organize and bargain collectively is recognized, protected and exercised freely. Every other year, the Belgian business federation and unions negotiate a nationwide collective bargaining agreement covering 2.4 million private-sector workers, which establishes the framework for negotiations at plants and branches. Public sector workers also negotiate collective bargaining agreements. Collective bargaining agreements apply equally to union and non-union members, and over 90 percent of

Belgian workers are covered by collective bargaining agreements. Under legislation in force, wage increases are limited to a nominal 5.9 percent for the 1999-2000 period. The law prohibits discrimination against organizers and members of unions, and protects against termination of contracts of members of workers' councils, members of health and safety committees, and shop stewards. Effective mechanisms such as the labor courts exist for adjudicating disputes between labor and management. There are no export processing zones.

c. *Prohibition of Forced and Compulsory Labor:* Forced or compulsory labor is illegal and does not occur. Domestic workers and all other workers have the same rights as non-domestic workers. The government enforces laws against those who seek to employ undocumented foreign workers.

d. *Minimum Age for Employment of Children:* The minimum age for employment of children is 15, but schooling is compulsory until the age of 18. Youth between the ages of 15 and 18 may participate in part-time work/part-time study programs and may work full-time during school vacations. The labor courts effectively monitor compliance with national laws and standards. There are no industries where any significant child labor exists.

e. *Acceptable Conditions of Work:* the current monthly national minimum wage rate for workers over 21 is BF44,209 ($1,142); 18-year-olds can be paid 82 percent of the minimum, 19-year-olds 88 percent and 20-year-olds 94 percent. The Ministry of Labor effectively enforces laws regarding minimum wages, overtime and worker safety. By law, the standard workweek cannot exceed 40 hours and must include at least one 24-hour rest period. Comprehensive provisions for worker safety are mandated by law. Collective bargaining agreements can supplement these laws.

f. *Rights in Sectors with U.S. Investment:* U.S. capital is invested in many sectors in Belgium. Worker rights in these sectors do not differ from those in other areas.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		109
Total Manufacturing		7,176
Food & Kindred Products	1,037	
Chemicals & Allied Products	4,176	
Metals, Primary & Fabricated	132	
Machinery, except Electrical	205	
Electric & Electronic Equipment	328	
Transportation Equipment	331	
Other Manufacturing	966	

Wholesale Trade	3,456
Banking	365
Finance/Insurance/Real Estate	3,728
Services	2,593
Other Industries	-142
TOTAL ALL INDUSTRIES	17,285

Source: U.S. Department of Commerce, Bureau of Economic Analysis, July 2000