



Pathways to a competitive future

Brussels case study

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**Urban Land
Institute**

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This case study is designed to be read alongside the reports *Brussels and Antwerp: pathways to a competitive future* and *Pathways to a competitive future: Antwerp case study*. Both are available on the ULI Europe website, Europe.uli.org.

About This Report

This case study of Brussels contributes to the ULI report *Brussels and Antwerp: pathways to a competitive future*, which examines the competitiveness of Brussels and Antwerp. That broader report, this case study, and a case study of Antwerp are based on research carried out by ULI in early 2016 that included workshops with ULI members and other public and private sector leaders in Brussels and Antwerp, interviews with Belgian urban specialists, and a review of the two cities against recognised measures of international performance. The broader report and the two case studies are designed to be read together.

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Executive Summary

This case study assesses Brussels's competitiveness using a framework (see figure ES-1) that consists of four main elements:

- **governance framework;**
- **competitive climate;**
- **agglomeration;** and
- **attractiveness to talent.**

The following presents a summary of Brussels's strengths, the threats to its competitiveness, and recommendations for how to improve its competitiveness.

The findings regarding Brussels's competitive strengths and weaknesses according to the elements of this framework are summarised in figure ES-2. The areas in which Brussels rates above average are its competitive strengths; those below the average threaten the city's competitiveness.

Competitive advantages

Brussels is internationally regarded as one of the 20 most important cities in the world, as a capital of European Union (EU) decision making, and the headquarters of the North Atlantic Treaty Organization (NATO).¹ As Belgium's major gateway for international finance and investment, Brussels has a number of competitive advantages, including the following (color-coded to match the competitiveness framework):

- A **diverse economy** that extends beyond its strategic political functions. The city is well placed to become a European leader in the circular economy, and many of its new incubator and accelerator spaces – particularly in the software, life sciences, and technology clusters – hold much promise.

- A **young and growing labour force.** Foreign workers are drawn by employment opportunities in EU institutions, as well as in the city's science, technology, and services sectors.
- Outstanding pan-European **transport connections.** These include rail links to cities such as Amsterdam, Frankfurt, London, and Paris, as well as excellent air cargo and passenger links to emerging markets.
- An **effort to move towards a more polycentric character,** as well as many opportunities to create more attractive development.

Figure ES-1: Competitiveness Framework

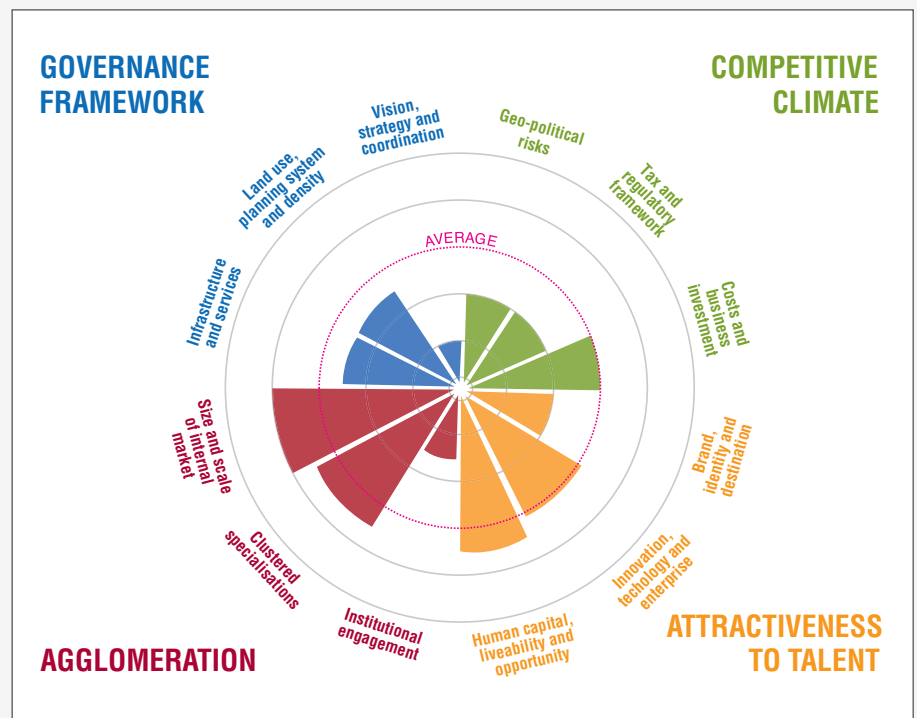
Governance framework	Competitive climate	Agglomeration	Attractiveness to talent
Vision, strategy, and coordination	Costs and business investment	Size and scale of internal market	Human capital, liveability, and opportunity
Land use, planning system, and density	Tax and regulatory framework	Clustered specialisations	Innovation, technology, and enterprise
Infrastructure and services	Geopolitical risks	Institutional engagement	Brand, identity, and destination

Competitive threats

Threats to the competitive standing of Brussels include the following:

- **Intergovernmental tension and weak metropolitan coordination.** Brussels's metropolitan governance is institutionally overcrowded, and the city lacks national support for its needs as the capital city. The city has few mechanisms to deliver long-term projects across municipal boundaries.
- The number of public and private bodies. A risk exists of **overlapping and duplicated interventions** that do not help the city capitalise and build on the benefits of agglomeration.
- Lack of effective promotion. The city's governing institutions do not effectively promote the city's many assets internationally, and the city suffers from the **lack of a clear brand and identity.**
- **Political and geopolitical risks** that create uncertainty for international investors. Disputes about the future of the federal state are ongoing, while terrorism and other threats to international security have recently become a more real and highly publicised danger.

Figure ES-2: Evaluation of Brussels according to 12 Competitiveness Criteria



Recommendations

Brussels can improve the competitiveness of its **governance framework** in a number of ways. These include implementing **governance reforms** and integrating how initiatives affecting economic development, policing, education, and housing are addressed and communicated. The city also can lobby for **revenue sharing** so it can capture more of the revenue generated by its commercial and political activities, and can create stronger mechanisms to **deliver long-term projects across municipal boundaries**. A focus on catalytic projects can also help break down barriers and address social imbalances. In addition, the city should **promote public transit and polycentric growth**.

To enhance its **competitive climate**, Brussels should work to better **match job creation to its population**. To address social and spatial segregation, economic strategy for the capital region and beyond should focus on creating jobs in lower- and middle-skill professions. The city can also work to **build its reputation domestically**, communicating the benefit to Belgium of having Brussels as its capital.

To improve the city's **attractiveness to talent**, Brussels can work to **enhance the city's brand and international positioning**. The city needs a more distinctive and authentic identity and image. Equally important is working to **enhance quality of life** in order to attract and retain a diverse international mix of future residents.

Brussels: Past and Present

As is the case with most European cities, modern Brussels is a child of the Industrial Revolution.² When it became the capital of the newly created state of Belgium in 1830, its newfound political stability triggered a period of explosive growth. Railways and industry boomed, and Belgium's imposed neutrality meant that Brussels was already attracting international institutions as early as the 1870s.³

The built fabric of Brussels was profoundly altered by King Leopold II's enthusiasm for redevelopment. During his reign, entire quarters were torn down from the 1880s to the 1900s and rebuilt in a fashion similar to that of Baron Haussmann's renovation of Paris, with wider boulevards and streets. The city suburbanised rapidly, and with a population of 200,000 in 1900, it was rapidly spilling over its borders. Attempts at urban extensions, and indeed metropolitan government, were piecemeal and had little impact – a theme familiar today.⁴

Brussels sustained little damage during World War II compared with many of its peers. Its metropolitan population passed 1 million in the 1960s, partly fuelled by rapid immigration from North African guest workers for manual jobs in industries such as brewing and tobacco. The postwar era was also one of large-scale investment in infrastructure. The 1958 International Exhibition in Brussels acted as the catalyst for major road projects, with the construction of American-style highways, which brought into being a car-dependent culture that persists today. Meanwhile, the Metro rapid-transit system opened in the 1970s to complement the established rail and tram network.

The postwar cycles from 1950 to 1980 were characterised by unplanned development, with numerous poorly coordinated office and residential projects appearing across the city. Many, such as Manhattanplan, were not

completed, leaving vacant land and unattractive public spaces. The term *Brusselisation* became shorthand for a lack of advanced planning and incoherent high-rise development, including for the purpose of new government buildings. The city centre became a services hub but was losing population to the suburbs; some of its neighbourhoods became run down. The social and spatial fragmentation that resulted from what is sometimes called Brussels's "urban trauma" survives to this day.⁵

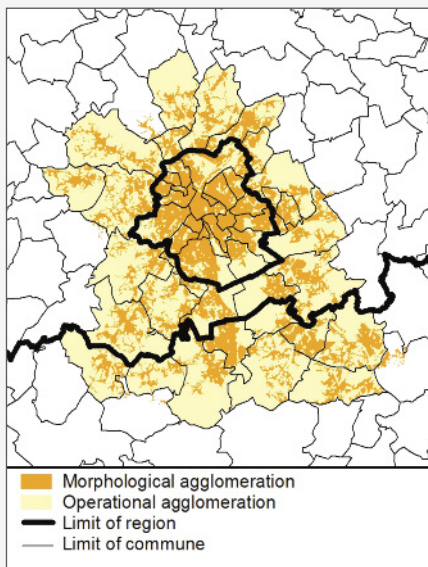
Strenuous and successful advocacy by local and national authorities to host the young European institutions proved to be a watershed moment for the city. The infrastructure and real estate requirements of what would become EU buildings were immense and spurred major investment in the city's east and southeast, now referred to as the "European Quarter". The presence of EU institutions also gave a big boost to the city's business services sector.⁷



View to the southwest of Brussels.⁶ Source: Michael Wal. Shared under Creative Commons Attribution-Share Alike 3.0 Unported license.

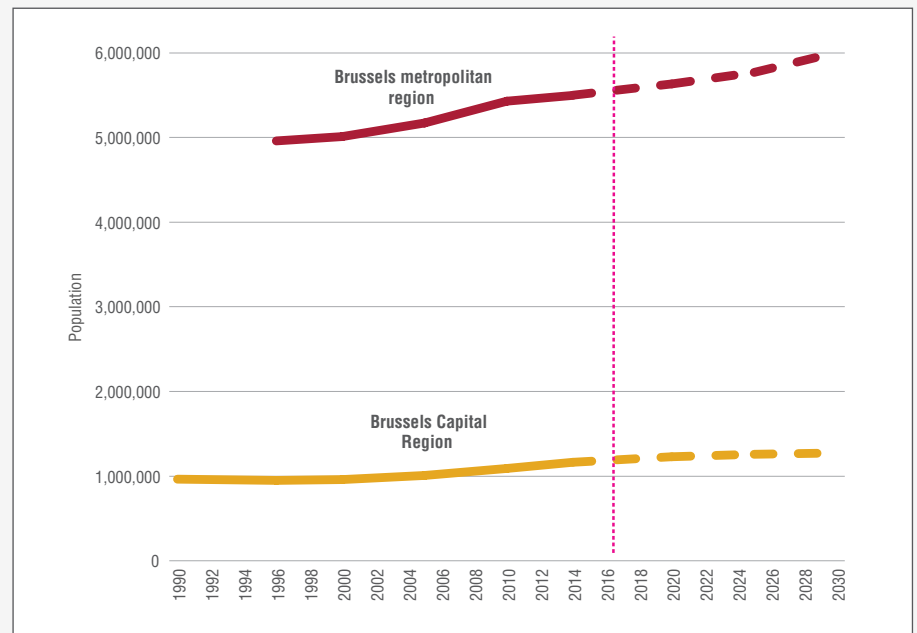
Until the late 20th century, the federal state played the key leadership role in Brussels, overseeing the 19 municipalities in a loose collaborative arrangement. The principle of a separate Brussels region was established in 1970, and soon afterward the Brussels Agglomeration was created to coordinate above the 19 communes on regional issues.

It was not until 1989, ten years after the formal transfer of competencies to the Flemish and Walloon regions, that a formal Brussels Capital Region was created with legislative and executive functions. The scale of this region did not encompass the wider functional area (it is only a little bigger than inner-city Paris and one-tenth of the size of Greater London), but it did at least help bring some coherence to local governance and strategic planning.⁸ In 2000, Brussels was nominated as the European Capital of Culture, and in the following years the city has begun to express more of its international character.



Brussels's urban agglomeration. Source: Tannier and Thomas reproduced in Thomas et al (2012)⁹ under a Creative Commons 4.0 Attribution Licence

Figure 1: Brussels's Population since the 1990s



Source: *Institute Bruxellois de Statistique et d'Analyse; LSE Metro Monitor (projections derived from trend data).*

Today, the Brussels Capital Region is home to nearly 1.2 million people – just a fraction of the 5.5 million people in the functional metropolitan area.¹⁰ Population decline has reversed and the Capital Region anticipates considerable growth up to 2030. Much of the growth is fuelled by Brussels's attractiveness to international workers, whether drawn by EU institutions or by its manufacturing, information technology, health, or service sectors. More than a third of its population is non-Belgian, and three-quarters of foreign-born residents are EU nationals. Population growth in the city is also fuelled by high birth rates in inner-city districts, where non-EU foreign nationals are clustered.¹¹ Brussels's largest overseas contingents are from France, Germany, Spain, Poland, and west and north African countries.¹²

In 2016, Brussels hosts a high concentration of strategic business functions linked to its position as the gateway to EU institutions and the Belgian domestic market. A third of its metropolitan gross domestic product is generated by the business and finance sectors, and a high proportion (27 per cent) is derived from public sector activity, which is unsurprising given that EU functions employ over 120,000 people in the city directly or indirectly.¹³ Knowledge sectors have grown rapidly in the past 20 years, especially in science, IT, and health care (figure 2). Manufacturing has fared well by European standards, with its share of total metropolitan output having fallen only slightly. Brussels's production strengths include aircraft components, food industries, clothing, chemicals, and electronics, with a strong high-tech and innovation component.¹⁴

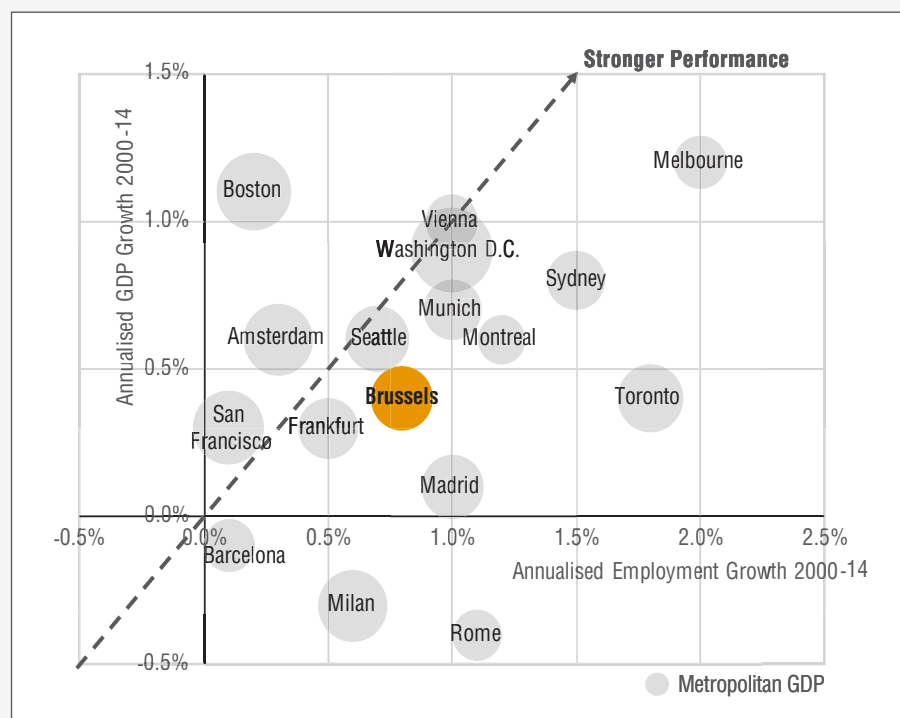
Figure 2: Performance of Brussels’s Key Economic Sectors

Economic sector	Share of GDP in 2014 (%)	Change in share of GDP since 1998 (%)	Raw output growth since 1996 (%)
Manufacturing	11.5	-1.7	+25
Professional, scientific, and technical	10.4	+2.2	+106
Finance	9.0	+1.3	+81
Health care and social work	6.6	+0.4	+57
Information technology	5.5	+1.4	+111

Source: LSE Metro Monitor, 2014.

In terms of international peers, Brussels’s functional economy is very similar in size to that of Toronto, Sydney, Frankfurt, and Madrid. Its economic performance and job growth have been in the middle range of peer cities over the past 15 years (figure 3).

Figure 3: Brussels’s Metropolitan Jobs and Growth Performance Relative to That of Its Peers, 2000–2014



Source: Brookings Global Metro Monitor, 2014.

Brussels City Competitiveness

In this section, Brussels's competitiveness is assessed using a framework that consists of four main elements:

- **governance framework;**
- **competitive climate;**
- **agglomeration;** and
- **attractiveness to talent.**

Governance framework

Vision, strategy, and coordination

Vision, strategy, and coordination together constitute perhaps the most severe area of competitive disadvantage for Brussels. Currently there is a lack of clear vision about what kind of city Brussels ultimately wishes to become and what appetite it has for global roles beyond its EU functions. Brussels's 19 municipalities are relatively empowered – with their own mayors and political coalitions – which effectively prevents an integrated governance model from taking form. Physical fragmentation brings about local political conflicts and stops collaborative strategies from being pursued by the municipalities.

Despite Brussels's excellent international connections and institutions, the city lacks strong leadership and vision. This is especially the case when it comes to metropolitan issues, which are hamstrung by the fact that urbanised development spills into three separate regions. City leadership is widely regarded as too insular and lacking in ambition to communicate the city's assets on the world stage.¹⁵

There are more recent positive signs: a new economic strategy for the Capital Region titled *Bruxelles 2025* emerged in 2015. Steered by the Brussels Committee for Social and Economic Concentration, the strategy is a collaboration between different tiers of government and private players. The objective is to make Brussels a centre of entrepreneurship in Europe and to resolve the "Brussels paradox," whereby



economic growth comes hand-in-hand with falling incomes and high unemployment. Provisions are made to improve support to small and medium enterprises (SMEs), such as drawing up a Small Business Act; rationalise the large number of economic development institutions; target financial and other assistance to job-creating sectors; and increase support for research and development, and innovation.¹⁶ The city has also published its strategy to become a European leader of innovation in the circular economy. The term describes an economy of zero waste, where products, components, and materials are managed (by design) to circulate continuously at their highest utility and value.¹⁷

Overall, although some players in the city have begun to assess its competitive position and needs, Brussels is unable to mobilise different levels of government around a shared proposition and build consensus on metropolitan priorities and investments, or what tools are needed to finance them. This ultimately means that Brussels cannot manage the necessary process of change quickly enough or coherently enough to catch up with peer cities that in recent decades have benefited from metropolitan tools and national support.

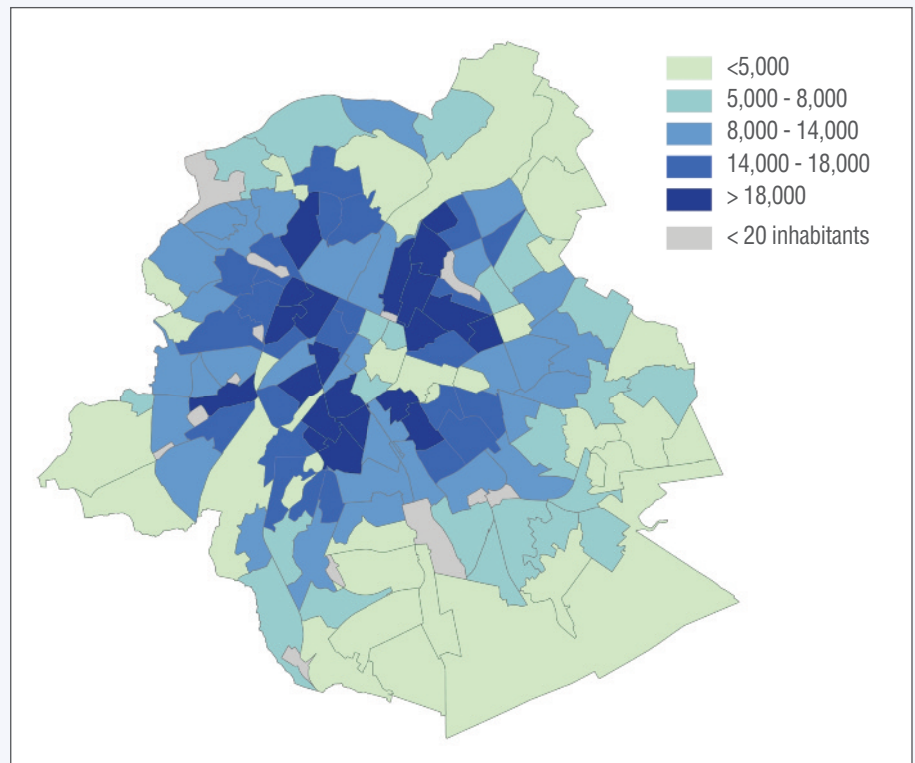
Land Use, planning, and density

Brussels's modern physical form – a legacy of uncoordinated planning between the 1950s and 1990s – also represents something of a competitive disadvantage.¹⁸ Political disagreements and the demands of European institutions in certain neighbourhoods resulted in incoherent planning and industrial ribbon development and sprawl. Since 1995, regional development plans have tried to regenerate the inner city, support disadvantaged areas, and prevent the encroachment of office space on residential communities, but with mixed success.

The Capital Region itself now has a medium-density inner city at just over 7,100 inhabitants per square kilometre, which is about 20 per cent denser than in 1995. But Brussels is widely seen to still have a lot industrial wasteland and vacant buildings, with many areas awaiting rezoning. There are also concerns that parts of the city lack attractive and innovative architecture to galvanise a sense of urban identity.¹⁹

Although peak densities top 25,000 inhabitants per square kilometre in Bosnie, Saint-Josse Centre, and Molenbeek, higher density is often associated with social segregation and exclusion.²⁰ Cultural preferences in Brussels are for private houses with gardens rather than apartments, and this has encouraged many young families to leave the Capital Region in favour of suburbs such as Dilbeek, Zaventem, Sint-Pieters-Leeuw, and Vilvoorde, where housing is cheaper and social housing is more available. This, in turn, has prompted families already in these suburbs to move farther out, to towns and villages 20 to 25 kilometres from Brussels, such as Halle, Opwijk, Steenokkerzeel, and Ternat. There is no agreement as to whether these smaller nodes beyond the Capital Region should densify.

Figure 4: Population Density in the Brussels Region, 2013 (Inhabitants/km²)



Sources: IBSA, SPF Economie - Statistics Belgium ; UrbIS²¹ ©Monitoring des Quartiers – IBSA, Brussels UrbIS[®]

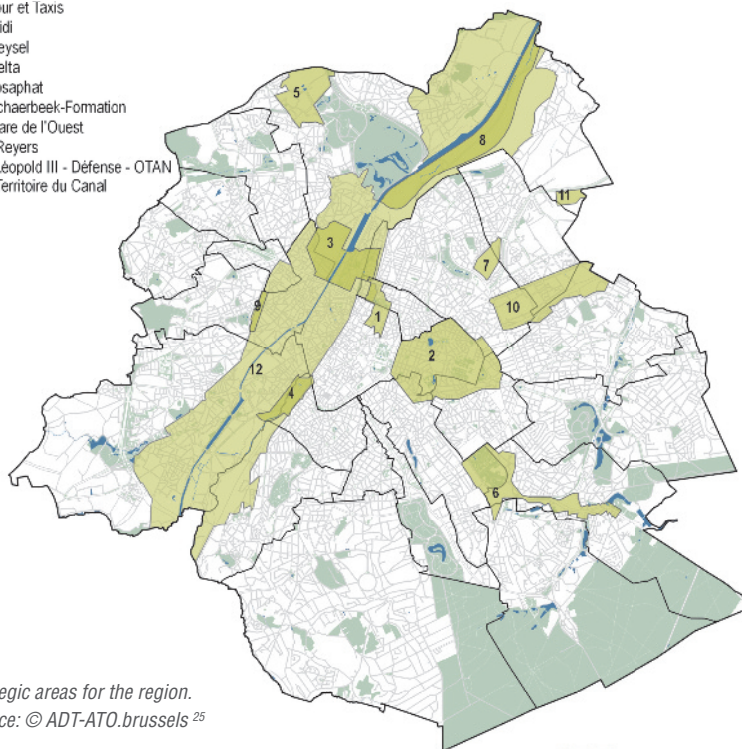
For the Capital Region itself, its 2013 Plan²² looks to build more housing (for 20,000 additional people a year by 2020) and improve transport to enable densification and compact mixed-use city policies over the next 20 years. The second ring is seen to provide the best opportunity for compact transit-oriented growth. Housing around parks and large arteries will be given the selective go-ahead for high-rise developments. Densification is contingent on a big increase in rail capacity and better interchanges between transport modes. The 2013 Plan represents a step forward but has no legal force over the wider metropolitan area, where better management of land uses is also needed.

Twelve strategic zones have now been identified for mixed-use development and densification, including the Canal Zone, the mixed-use Media Park in Reyers, Josapahat, and the Zuid Station district. The region has also identified most of the centre as an Urban Renewal Zone, targeted because it is the site of high-density, poor housing and poorly serviced areas that lack public space.²³

Brussels's Canal Zone

The Canal Zone is the largest zone and arguably Brussels's showcase project, spanning 15 per cent of the city and one-sixth of its population. The brownfield sites along this underused artery are to be transformed and strategies put in place to address poverty and radicalisation. The Brussels Capital Region government has taken a direct management role in what started out as loosely affiliated public and private redevelopment schemes that span seven municipalities. It now has a consolidated master plan to house 40,000 new residents, create new jobs, introduce a new museum, and transform the canal into a freight way that is fully plugged in to the European inland waterways network.²⁴ The zone is the demonstrator project that shows how private and public actors and civil society might be able to accomplish large-scale redevelopment together.

1. Cité administrative/Botanique
2. Quartier européen
3. Tour et taxis
4. Midi
5. Heysel
6. Delta
7. Josaphat
8. Schaerbeek-Formation
9. Gare de l'Ouest
10. Reyers
11. Léopold III - Défense - OTAN
12. Territoire du Canal



Strategic areas for the region.
Source: © ADT-ATO.brussels²⁵

Ultimately, the Capital Region's vision for Brussels in 2040 is of a compact city where transport journeys take no more than 30 minutes. This would set an example for Europe in terms of its economy, social cohesion, transport, and environmental qualities, and as such would make Brussels a highly attractive and competitive city.²⁶ For this to be realised, the region highlights the need for high-quality projects in the inner city, high-capacity transport, and measures to limit further development beyond the city borders. However, Brussels has not yet been able to advance on any of these steps at the requisite scale or pace, which is why it is behind many of its peer cities in this category of competitiveness.

Infrastructure and services

On paper, international city indices suggest that Brussels's infrastructure and transport platform is competitive. It is tied for first in UN-Habitat's City Prosperity infrastructure index, and places among the top 25 in two larger studies of mobility and physical assets.²⁷ Brussels also ranks seventh in Europe for connectivity in *fDi Magazine's* "Cities and Regions of the Future 2016/17" listing. But these scores only reflect quantity of international air and rail links and the high density of rail stations, not the quality of metropolitan service or overall commuter experience, which are lower.

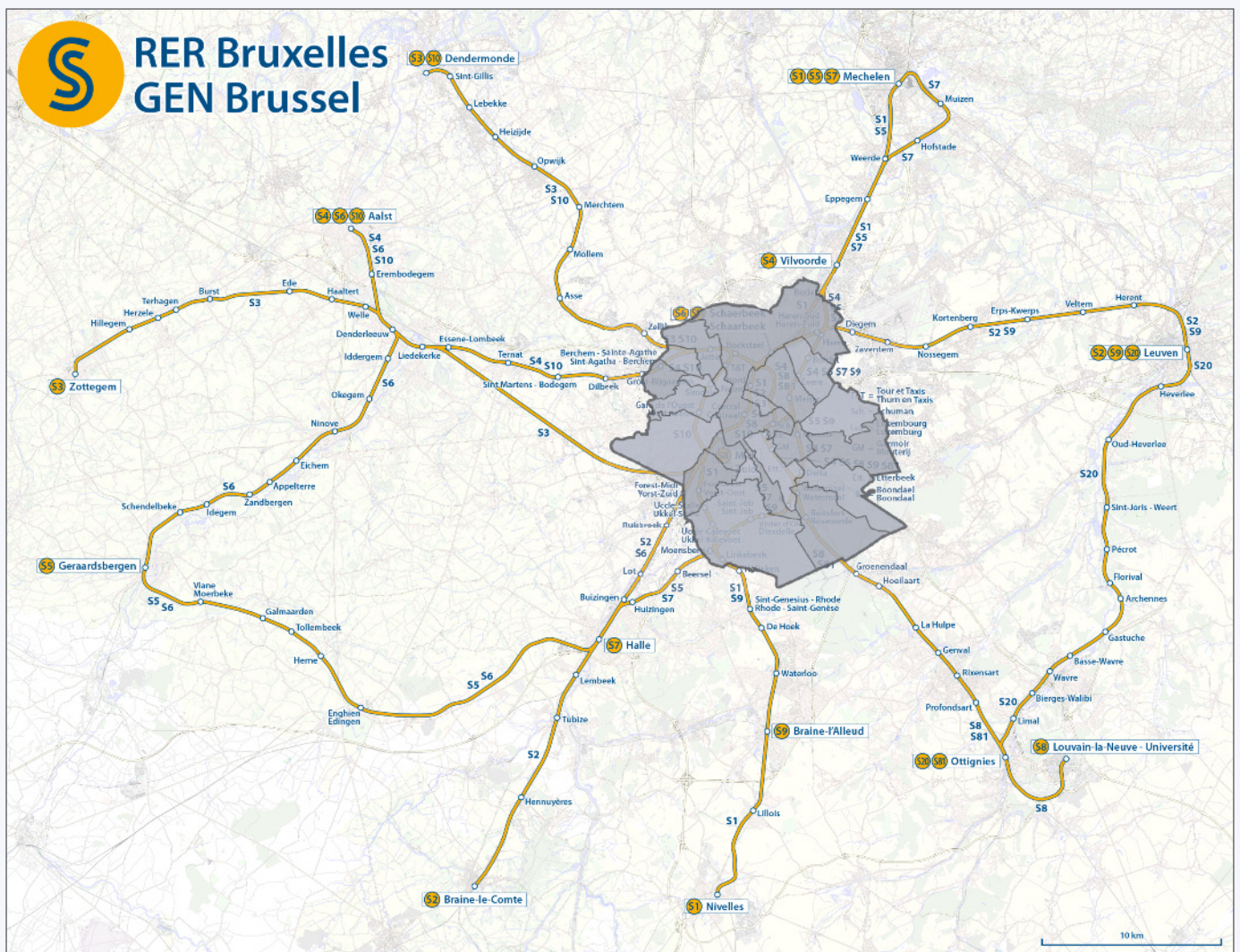
Brussels is a car-friendly and car-oriented city compared with other European capitals, a model that is popular with residents who commute from the periphery to their jobs. Because transport and logistics infrastructure in central Belgium has been heavily oriented towards Brussels, the city benefits from excellent high-speed rail connections, two airports (Brussels Zaventem and Brussels Charleroi), and a port that is

becoming more integrated into the European inland waterway network.²⁸ Before the March 2016 attacks, Brussels's airport was thriving in terms of both passenger numbers and cargo activity, and was named international cargo "Airport of the Year" in 2014 and 2015.²⁹

But over time, infrastructure investment in Brussels has not aided good accessibility across the wider region and has affected the prospects of surrounding cities Aalst, Mechelen, Dendermonde, and others, sometimes described as *banlieues*, or suburbs, of Greater Brussels. Another outcome is high inner-city congestion and increased public transport travel times.³⁰ Tunnels within Brussels are poorly built, and the failure of different tiers of government to manage their upkeep is seen as contributing to congestion. This, combined with weak integrated systems at the metropolitan scale, means that Brussels's infrastructure platform is below average when it comes to enabling productivity, innovation, and inclusion.

The main area in which Brussels's infrastructure can be improved to boost competitiveness is the regional train network, Réseau Express Régional Bruxellois (RER, named after the Paris system). When completed, the €2.5 billion project will form both a fully integrated orbital and radial network across rail, metro, bus, and tram, stretching well beyond the Capital Region (see map). Governance of the rail network will also be rationalised to improve traffic management.³¹ Concerns have been expressed, however, about managing the costs of the project, which threaten to cause funding bottlenecks and delay final delivery.³²

Other additions are planned. A North-South metro route has been approved recently and may be due for completion by 2024. The costs for the extensions and conversion are shared by the federal government (through a rolling two-year package known as Beliris) and the Capital Region. Several tram lines are also being extended and diverted to be fully integrated with other interchanges. At the same time, lines 1 through 5 are being fully automated to dramatically increase their capacity at peak times. Taken together, these big infrastructure projects should address the current network saturation in the medium term and may allow Brussels to catch up with its peers over the next ten to 15 years.³⁴



The forthcoming RER network and its size relative to the Capital Region.³³

Source: Maximilian Dörrbecker, 2016 (CC-BY-NC-3.0) Shared under Creative Commons license. Attribution-NonCommercial 3.0 Unported license.

Competitive climate

Costs and business investment

According to international benchmarks and indices, Brussels is not an outstanding foreign direct investment location. It rated only 24th in Europe in 2016 and is outside the global top 20 for investment projects.³⁵ The volume of Brussels's cross-border real estate investment is still robust – 12th in Europe and 38th worldwide. But the city ranks just 21st of 27 cities in ULI's 2016 *Emerging Trends in Real Estate® Europe* edition for development and investment prospects.³⁶ This is due, among other things, to a high reliance on public sector office deals and low confidence by retail occupiers.

However, costs are competitive in Brussels. Office rents have been falling in Brussels since 2013 in response to relatively modest demand and widespread use of commercial incentives.³⁷ Labour costs are relatively low compared with the education levels of the workforce. The

regional government has tried to improve the business cost and incentive structure for higher-growth sectors by putting in place better finance, advice, and infrastructure, all of which have been lacking in certain areas. Reduced duplication among economic development institutions and more targeted financial assistance are also important developments to this effect.³⁸ All in all, these factors place Brussels slightly above average in this competitive category, although these advantages are not well understood outside Brussels because the presence of EU, NATO, and other institutions is sometimes perceived as inflating costs.

Tax and regulatory framework

The regulatory framework is a competitive disadvantage in Brussels, not least because of overlapping regulations across different tiers of government. Belgium is ranked 119th among 140

cities by the World Economic Forum for the burden of government regulation, and the tax rate is ranked 120th. Among nearly 100 factors, these are among Belgium's five weakest scores, along with the negative impact of taxation on work incentives (135th).³⁹ The city has had limited success at supporting small business growth. Feedback at the ULI workshop highlighted that despite the need for foreign investment to fuel the development of Brussels's key sectors, the inefficiency of the Belgian federal system acts as a brake on decision making and results in higher taxes that create disincentives for investors. The regulatory burden could represent a risk causing some damage to Brussels's reputation as an investment location. Regulations are also a source of additional indirect costs to business and investors and therefore sometimes neutralise other cost advantages.



Geopolitical risks

Three distinctive political and geopolitical risks affect how Brussels may be perceived as an investment location – Belgium’s coherence as a nation state, the terrorism and security agenda, and multi-ethnic cohesion. Although these do not yet constitute critical disadvantages to the city’s competitiveness, they do add uncertainty for some international businesses and investors and prevent players from across metropolitan Brussels from acting with long-term confidence.

- **Belgium’s coherence as a nation state.**

Belgium has been divided into three major regions and three cultural communities for nearly 50 years (the main report, *Brussels and Antwerp: Pathways to a competitive future*, provides details). Both Flanders and Wallonia consistently demand more powers for their regions, to the extent that the Belgian state exercises limited power. The federal level is a fairly passive actor which oversees a system of political gridlock and has few instruments to create a strong collective Belgian identity.

Separatist grievances have grown as the income gap between the more affluent Flanders and the poorer Wallonia grows, and as transfers of tax revenue from Brussels’s Flemish periphery to the capital’s poorer areas increase. Brussels belongs to neither region: it is likened to “the neglected child of divorced parents.”⁴⁰ Since 2009, the Flemish nationalist party N-VA has been successful in regional and national elections and has become the largest coalition partner in the Flemish government and the federal government. In the lead-up to the 2019 elections, the party has to decide whether to call for a “confederal” state, or instead pursue its economic agenda and avoid confrontation over the question of independence.

Most commentators do not predict the emergence of an independent Flemish state that would break up Belgium, not least because the idea lacks majority public support in Flanders. Previous political standoffs, such as in 2010–2011, did not trigger economic decline or capital flight. In 2016, Standard & Poor’s warned that the “disintegration of the Kingdom of Belgium will remain a possibility over the longer term”, but still retained Belgium’s AA credit rating, as did Moody’s, because of the state’s record of sound fiscal and economic policy. No hard data exist regarding how recent developments have affected investor sentiment, but while the N-VA leadership continues to wield heavy influence on Belgian politics, the possibility of independence and its fallout may still make some investors wary.

- **The terrorism and security agenda.**

In 2015, it came to light that Belgium hosts significant jihadist and radical activity which has become a threat to the security of western Europe. In March 2016, the city fell victim to a major terrorist attack at Zaventem airport and the Maelbeek metro station, and the city remains on high alert. Some have argued that decentralisation to regions divided by language has reduced the state’s capacity to coordinate its defence against terrorism. The city’s status as institutional capital of the EU and headquarters of NATO increases its risk as a potential target. It is likely that the federal government will be empowered to carry out essential tasks of public security and even to overhaul local governments that deal poorly with extremism. In terms of investor appetite, there is concern that ongoing fear of potential attacks may inhibit demand and participation in events and retail activity in the city.⁴¹



- **Multi-ethnic cohesion.** Brussels is a city of many enclaves along lines of income and ethnicity. Stigmas are attached to certain Arab neighbourhoods in the city – most notably in the municipality of Molenbeek – and regeneration schemes to attract middle-class residents rarely result in increased interaction or sharing of amenities.⁴² As authorities step up their attempts to reduce criminality and deprivation in eight districts along the canal, there are risks of increased social alienation and division which in turn may affect the attractiveness of potential investment projects.

Consultation carried out for this report indicates that even when these risks are combined they do not present a fundamental disadvantage to Brussels’s long-term competitiveness compared with other high-profile political capitals in Europe and beyond. However, they do highlight the fact that Brussels has weaker tools to address these risks compared with other cities which have empowered metropolitan mayors and vertically aligned policy/finance tools.

Agglomeration

Size and scale of internal market

Brussels has the advantage of having more than 5 million customers in its metropolitan area and a central location within a country of more than 11 million people. But diseconomies of agglomeration are occurring because urbanisation is poorly managed and per capita costs of infrastructure are not substantially reduced. The office market has become split, with many large headquarters having moved to the airport zone outside Brussels to escape traffic. Because there is a lack of continuity and coherence in the way institutions implement policies in Brussels, and because infrastructure has not grown in accordance with demand, the returns to technology and knowledge development for Brussels firms have been suboptimal. If Brussels seeks to grow in sectors in which agglomeration advantages are known to be important, then in future it will need the urban and metropolitan systems that enable those agglomerations.

Clustered specialisations

Brussels has clustered specialisations in the **IT and life sciences** sectors, which together account for four of the city's six incubators.⁴³ The IT cluster is made up of about 2,000 companies with an annual turnover close to €5 billion. They employ up to 30,000 people in international companies such as Nokia and IBM, but also SMEs. Multimedia and software account for 60 per cent of the IT sector – 60 per cent of which are SMEs. The sector's ICAB incubator is one of the best established in Brussels, providing office space for more than 40 companies and 200 employees. This incubator model is inspiring others, such as the Media Park at Reyers.

The life sciences cluster constitutes another competitive advantage: it has more than 300 companies involved in pharmaceutical, medical, and biotech sectors. The cluster, which includes



five research institutes, a science park, and an incubator, hosts more than 3,000 researchers who benefit from cooperation and commercialisation of research facilitated by three universities in the Brussels metropolitan area and numerous medical establishments.⁴⁴ This strength in life sciences is recognised on international benchmarks: Brussels ranks an impressive 11th for life sciences R&D, ahead of Amsterdam, and has an impressive record of science and technology research (11th among 40 global cities).⁴⁵

Beyond these two specialisations, Brussels is also witnessing cluster effects in other sectors:

- **Green technology.** Sustainable construction, renewable energy, green chemistry, and sustainable food have become niches for Brussels, and the new 7,500-square-foot GreenBizz incubator of companies, supported by city and EU funds.⁴⁶ The Capital Region has also published a new circular economy strategy for making the transition to a waste-free economy over a ten-year period. This has the potential to catalyse both employment and more efficient use of resources and land in Brussels.⁴⁷

- **Creative industries.** In the past, initiatives for creative industries and media have been fragmented, but a more sector-specific approach is being developed. A plan for a new Media Park on the site where two national broadcasters operate in Reyers east Brussels presents an opportunity to support specialisation through mixed-use development with built-in social infrastructure.

Institutional engagement

Compared with many of its peers, Brussels lacks a single empowered business leadership group to provide a unified voice to support the city in undertaking the next phase of economic development and to help determine how to develop mutually reinforcing clusters. The Amsterdam Economic Board, Barcelona Global, and Stockholm Business Region are all examples of cross-sector business leadership entities that have come into being in the past decade. They build a strong collaborative ethos around shared economic targets, including at the metropolitan level. The number of public and private bodies in Brussels means there is still a risk of overlapping and duplicated interventions that do not help the city capitalise and build on the benefits of agglomeration.

Attractiveness to talent

Population, skills, and education

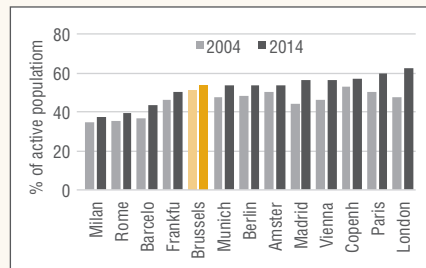
Brussels's population and skills base is a clear competitive advantage. Its working population has become highly international. Three-quarters of its foreign-born residents are EU nationals, attracted by EU institutions and affiliates, but also by knowledge sectors such as science, IT, and health care.⁴⁸ Much of this talent chooses to stay in Brussels beyond the initial posting. The large pool of talent is viewed as an advantage as Brussels looks to grow in emerging sectors.

At the same time, Brussels experiences the paradox of having many highly skilled people as well as a large poor and underskilled population. Nearly one-third of Brussels children leave school without their high school diploma, partly because the complex school system leaves many French-speaking schools underfunded. The youth unemployment rate is high – and is very high in certain neighbourhoods, such as Kureghem, Molenbeek, and Schaerbeek. Policies to encourage skills development have been fairly limited in scope and ambition until recently, and the city will need to show it can successfully create more accessible jobs, boost entrepreneurship, and reform the education system if it is to avoid becoming locked in to a two-speed economy.⁴⁹

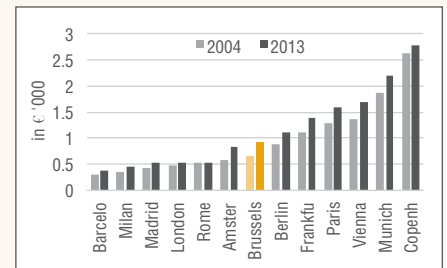
Innovation, technology, and enterprise

Brussels has strong assets to foster innovation, but faces stiff competition from other European cities. Its highly educated population is strongly pivoted towards sciences and technology, thanks to the specialisms at three universities (Universite Catholique de Louvain, Universite Libre de Bruxelles, and Vrije Universiteit Brussel); four technology-transfer offices; and three combined research centres.⁵⁰ Per capita expenditure on R&D is fairly high, as is patent activity (see figure 5).⁵¹

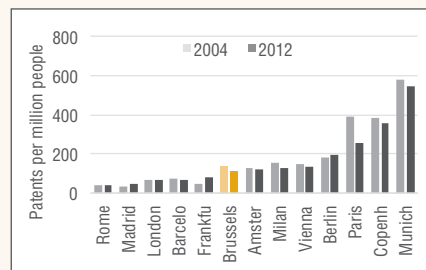
Figure 5: Brussels's R&D and Innovation Performance versus Other Leading European Cities



Source: Eurostat NUTS2 level. Liverpool and Helsinki 2008 data for 2004;



Source: Eurostat NUTS 2, Liverpool, Bristol, Utrecht, Antwerp, Gothenburg 2005 data for 2004; Helsinki data 2008 and 2013.



Source: Eurostat NUTS2 level.

Brussels itself has flexibility to build its own innovation system and policies. Over time, the region has tried to improve the business environment for innovation by putting in place better finance, advice, and infrastructure, all of which have been lacking in certain areas. There is strong public support for innovation via the Innoviris agency, which finances projects, provides networking opportunities, and steers the regional 2013 Plan.⁵² Innoviris manages the many regional, federal, and EU funds: half the Innoviris budget goes to firms (mostly IT), and the other half to universities and research centres.

But elsewhere, a recent review found that Brussels's innovation system is characterised by too many fragmented initiatives and a lack of engagement with activity beyond the Capital Region.⁵³ This is one reason Brussels is less

advanced than some of its peer cities for commercial innovation (ranking 46th), its public innovation framework (21st among 40 cities), and the software and web development economy (29th).⁵⁴ The consolidation of agencies and initiatives is one step peer cities have taken that Brussels perhaps should also take.

Another challenge for growing innovation sectors in Brussels is the fact that much of the city's office space is no longer suitable for the sustainability and lower per capita space requirements of innovation firms, and does not provide the neighbourhood vitality that younger populations prefer. This is a problem in the city's northern quarter and other districts. For these reasons, Brussels rates only average in this competitiveness category.

Brand, identity, and destination

In indices that weight political influence heavily, Brussels is still regarded as one of the 20 most important cities in the world.⁵⁵ The city performs in the global top ten for conferences, cultural events, media profile, and diplomatic institutions, and for this reason is consistently among the 30 most admired cities worldwide.⁵⁶ The city is enhancing its convention offer further with the construction of a new 3,000-seat-plus convention centre.

However Brussels's political fragmentation is preventing the development of a collaborative brand identity. Despite its integral association with the EU project, the city has yet to build a clear international platform around it and is not yet widely viewed as an iconic or inspiring European city that the Europeans feel a deep affection or affiliation. Because it is world famous as the host city of EU and NATO, these institutions dominate its identity, and the city has to work much harder for its other attributes to be recognised. Other political capitals, such as Washington, D.C., and Moscow, also share this challenge.

Currently, Brussels does not have an immediately recognisable offer internationally in many industries, from tourism to innovation, and business to students. This situation is compounded by Belgium's challenges in national identity. Ultimately, Brussels may need a determined communication effort to overcome its inherited disadvantages and develop a broad and appealing identity worldwide. Despite recent setbacks, in the future the city could develop a stronger brand if it becomes more open to innovation and experimentation, and if it rediscovers high-quality placemaking, especially along its waterfront.



Conclusion and Recommendations

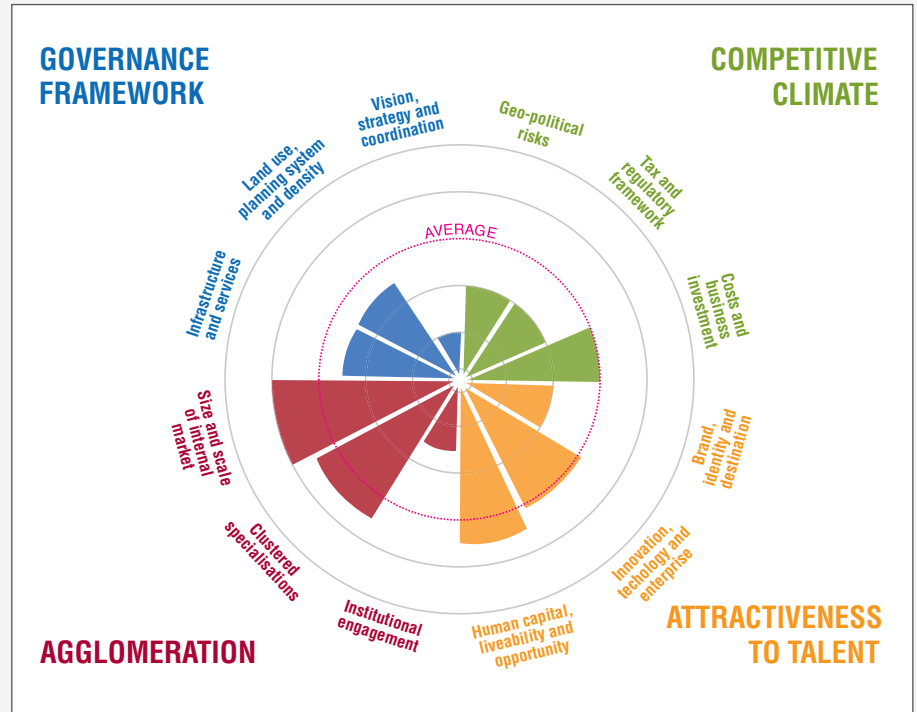
Figure 6 presents a summary assessment of Brussels according to the competitiveness framework used in this report. This assessment is based on the analysis presented above in comparison with nine peer group cities: Amsterdam, Berlin, Copenhagen, Dublin, Madrid, Rome, Toronto, Vienna, and Washington, D.C.

Competitive assets

Brussels is above average in two areas of agglomeration—**size of market** and **clustered specialisations**. The city has a diverse economy well beyond its strategic political functions. It is well placed to become a European leader in the circular economy, and many of its new incubator and accelerator spaces, particularly in the IT, life sciences, and technology clusters, hold much promise. **Innovation, technology, and enterprise** is another area of relative strength for Brussels.

The other area where the city is above average is in **human capital, liveability and opportunity**. Brussels is young and growing, in particular thanks to foreign workers drawn by EU institutions and by clustered specialisation in the city's science, technology production, and services sectors. The relatively low cost of real estate means Brussels also performs reasonably well in the category of costs and business investment. Strong international infrastructure links and efforts to move towards a more polycentric character and regenerate the inner city help Brussels score above average in **infrastructure and services**, as well as **land use, planning, and density**.

Figure 6: Evaluation of Brussels according to 12 Competitiveness Criteria



Competitive threats

While Brussels is internationally regarded as one of the 20 most important cities in the world, it is below average in **brand, identity and destination**. Brussels's governing institutions do not yet effectively promote the city's many assets internationally. A lack of social cohesion and problems with the integration of foreigners may also be a barrier to successful and well-managed development.

Vision, strategy, and coordination is another area where there is room for improvement in Brussels. The overall institutional framework is severely overcrowded, not surprising given that citizens effectively vote to elect four or five different tiers of government (district, city, province, region, federal). Efforts to determine core tasks for each level of government are highly charged and divisive, and in practice

city leaders have to constantly use negotiation to build capacity to act. This context poses a threat to effective **institutional engagement**. The number of public and private bodies means there is a risk of overlapping and duplicated interventions that do not help the city capitalise on and build on the benefits of agglomeration.

This lack of coordination can also increase the risks posed by **geopolitical factors**. The threat of terrorism is also faced by other European capitals, such as London, Madrid and Paris, but most of these cities have metropolitan tools they can use to address them. Domestically, the fraught nature of multilevel governance prevents any sustained leadership agenda from taking hold in Brussels. Intra-national conflicts and debates are an unwelcome distraction from the real challenge of establishing a more competitive framework for Brussels to flourish.

Recommendations

This report offers recommendations for Brussels in each of the three competitive arenas where it is facing the most significant competitive threats.

Governance framework

Implement governance reforms. Reforms to governance in Brussels are notoriously difficult, but there is an imperative to integrate the way issues involving the economy, policing, education, and housing are addressed and communicated. To address the governance risks, the city could coordinate amongst economic bodies to support new tech sectors and resolve confusion about responsibilities, and develop stronger leadership from business and civic institutions to support urban governance.

Develop metropolitan-scale collaborations.

Brussels needs reforms that will enable it to capture more of the revenue generated by its commercial and political activities. This includes mechanisms to share costs with surrounding municipalities where much of the professional population lives. The city also needs to encourage productive collaboration amongst the agencies of the Brussels Capital Region, Flanders, and Wallonia, and create stronger mechanisms to deliver long-term projects across municipal boundaries.

Deliver catalytic projects. Much rests on the pace and momentum achieved by major projects such as the Canal Zone. These projects are essential in breaking down barriers and addressing social imbalances. Brussels may need new implementation mechanisms to cut through some of the inter-municipal political division and manage the process of change in a coherent long-term fashion.

Promote public transit and polycentric growth. The shift from motorised traffic to public transport is essential to relieving congestion in inner-city Brussels and achieving sustainability goals. The RER system has the potential to catalyse cohesive development in the second and third rings of the wider region, but will need the support of one or more secondary cities to demonstrate what sustainable densification might look like.⁵⁷



Competitive climate

Match jobs to population. To address segregation, economic strategy for the capital region should focus on creating jobs in lower- and middle-skill professions, such as tourism, construction, retail, and logistics in the wider region. Concrete and high-profile projects will be important to encourage specialisation and prepare younger generations for the future job market.

Build Brussels's domestic reputation.

Communicate the benefit to Belgium of having Brussels as its capital, such as its tax yield, access to international markets, financial expertise, role as gateway to tourism, education and training facilities, complementary sectors, and an improved business brand for Belgium.

Attractiveness to talent

Enhance the city's brand and international positioning. Brussels's political and diplomatic role is unique. It has significant physical assets, including green space, historic buildings, and affordable housing. However, the city needs a more distinctive and authentic identity and image. The city should work to promote its assets internationally and build on these to develop a clear vision for the future of Brussels.

Enhance quality of life. Brussels can promote its lively areas and catalytic projects such as the Canal Zone in order to attract and retain a diverse international mix of future residents and ground its EU functions more actively in the real city.

Conclusion

Brussels has become a much more dynamic and international city over the last two cycles and the city's assets and opportunities will continue to appeal to international talent in the years to come. Yet Belgium's capital will struggle to absorb this growth sustainably unless it moves beyond a business-as-usual approach to infrastructure, land-use, inclusion and co-ordination. The city has real potential to become a compact, polycentric city with high quality placemaking and openness to innovation, just as London and Paris are pursuing. A mix of effective reforms and compelling vision about the kind of city Brussels wishes to become, and tactics to execute the vision, will be essential to securing its place as a globally competitive capital.

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