Policy briefs in the framework
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What are the main mechanisms that drive the rootedness of advanced services in the Brussels-Capital Region and what future policies should we envision in this regard?

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Key messages

- Brussels, and more widely the BCR, hosts a high share of advanced services (i.e. accountancy, audit, law, finance, management consultancy, advertising, and ICT) in Belgium because of its international functions as well as its gateway function between global and national markets.

- Advanced services constitute an important share of the Brussels economy and have continued to grow after the 2008 crisis, but more in the Brussels' peripheries than in the centre;

- While value added growth has continued, jobs have declined after the 2008 crisis as a result of structural trends such as digitization and the closing of bank branches, cost-reduction strategies, sectoral consolidation, etc.

- Because dynamics result from structural trends and firms in advanced services are embedded in the Brussels economic tissue, attractiveness policies can only have very limited impact to boost the development of advanced services in Brussels;

- Policy actions should therefore be transversal, focusing on potential bottlenecks for the development of advanced services: education, mobility, and social cohesion.

Introduction
Summary of the problem

Globalization goes hand in hand with processes of concentration of command and control functions in major cities. This concentration in world or global cities notably relies on complex networks of advanced services in the above-named fields. Brussels has a high centrality in the world city network, for example if we consider the most famous operational measure made by the GaWC research network (https://www.lboro.ac.uk/gawc/). The implication is that Brussels is highly specialized in these advanced services, but more importantly, that major specialized global firms are using Brussels as a basing point for their operations. Empirically, while the world city network has been at the centre of much attention, the local embeddedness of advanced services has been much less studied and therefore is less understood.

In this context, our project has focused on the internal functioning of the advanced services cluster in Brussels: where do advanced services firms locate in the Brussels metropolitan area? What is the spatial dynamics of these services, in particular do we observe a trend toward its suburbanization? Do service firms constitute a coherent complex of strongly interconnected firms, as the scientific literature suggests? And what is the actual impact of these activities on the Brussels economic sphere and beyond?

The better understanding of the way this major part of the Brussels economy actually works and, in particular, a better assessment of its actual impact on the Brussels social and economic environment, should at the end of the day help proposing a reflection on relevant policy actions.

We first made a complete portrait of advanced services in Brussels using quantitative data from diverse sources (National Bank, ONSS/RSZ, DBRIS), allowing a medium-term perspective from 1995 onwards, as well as the spatial dynamics at very refined scale. To better understand the actual functioning of these services, we combined a systematic survey with qualitative work in the form of interviews to assess whether advanced services firms form a coherent and interconnected complex as well as to explain the observed dynamics after the 2008 crisis. The qualitative work further focused on contemporary dynamics related to financial sector restructuring at times of rapid digitization (see the growing role of FinTech) and geo-political turbulence due to Brexit negotiations.

A number of important results can be drawn from this four-year study:

1. Advanced services represent a high share of the Brussels economy (around one third) and employment (around 18%) because Brussels hosts most commanding and strategic functions in Belgium, around 50% of all advanced services in Belgium, especially concentrated in the most central parts of the city. In the last two decades, we observe contradictory dynamics: growth has been higher than average economic growth in Brussels though we observe a limited trend to deconcentration at national level and more significantly at urban level, toward certain suburban poles, such as Zaventem;

2. One of the most spectacular trends is the disruption existing between economic and job dynamics, mostly in the financial sector. While economic growth has been high, especially after 2008, jobs have been dramatically cut: in the 2008 – 2014 period, annual growth in added value is 6.2% while jobs have been lost at a 2% annual rate. Such disruption is to be understood in the specific post-2008 crisis context, when previous trends have been accentuated, such as the digitalization, leading to the closing of agencies, offshoring of back-office functions. Thus far, digitization has not reinforced the status of Brussels as a financial hub in the European division of labour: despite clear efforts to seek synergies between financial institutions and fintech start-ups, generating new innovations, the chances for Brussels to become a leading FinTech hub are slim (e.g., compared to Amsterdam, Frankfurt, Paris).

3. Finally, we explored the way firms in these activities actually work and interact in the Brussels space. Though we do find formal and informal relations

Methods, approaches and results/body

between the different activities, we found no clear evidence that the different subsectors of advanced services are more interconnected between them than with other activities. Still, based on a survey with advanced services professionals (N=143, the sample being representative of the structure of the APS sectoral composition) that looked into day-to-day interactions with other APS professionals and clients, we found robust evidence that the Brussels APS cluster works as a complex based on formal and informal exchanges. Especially finance, law, and accountancy are interacting intensively when servicing third party clients, while there are strong linkages between finance and ICT emerging due to the challenges of digitization. We also found that advanced services are deeply embedded in the Brussels economy. Most firms locate in Brussels because they need to be there: to serve local clients; to serve the national market, as Brussels plays this role of connecting the global economy and the national market; or because they are related to other functions in Brussels, in particular the European institutions. More specifically, we found that 35% and 58% of clients are within the Brussels Metropolitan Area and the BCR respectively. Sustaining the complex is a set of rich professional exchanges that is also very much embedded: 25% and 51% of professional exchanges take place throughout the BCR and the Brussels Metropolitan Area respectively. This means that delocalization is currently unlikely despite pressures of digitization.

Our results show the strong impact of advanced services on the Brussels economy. However, a more important finding is how much structural trends and/or major policy shocks (e.g. low interest rates, Brexit, digitization) influence these sectors and cannot be easily escaped at the local level: these trends go a long way in explaining the loss of jobs in the financial sector, as well as how Brussels' position in European networks may evolve over the time. In contrast, due the high level of qualification and remuneration, the advanced services participate in the social polarization of the city, including the important presence of an international elite.

Conclusions

Policy recommendations

We identified in the project different levels of potential policy actions.

1. Regarding inter-urban competition:

There is a well shared idea that cities are in competition to attract investments, especially in high-end parts of the economy such as advanced services. In the global economy, capital is supposed to be highly mobile and to easily change its location. This is why cities develop attractiveness strategies. Our study of the Brussels advanced services does not provide evidences in favour of this vision. On the contrary, a large part of the Brussels advanced services is deeply embedded in the urban economy: by serving local clients, by the interface role between global and national economies, by the strong linkage with other functions of Brussels, as international administrative/political international centre. This embeddedness also relates to the strong formal and informal linkages between firms in the same activity. As a result, dynamics in advanced services derive from the context (digitization, spatial concentration of financial actors…) rather than from local policy action. At this scale, our strong belief is that not much can or should be done at the regional/urban level of the Region (see also point 4);

2. Regarding intra-urban competition:

Our study has underlined the trend toward the suburbanization of activities, including in the advanced services: delocalization is not the main process here, but rather a higher growth rate of activities in suburban areas. This issue can be thought either in terms of competition or complementarity. The competition relates to where taxes are paid by firms but also on the recruitment of the labour force since suburban firms tend to recruit less Brussels residents, even when they are located very near the regional ‘border’. However, firms or establishments located in the centre and in the peripheries are generally different in the nature of their activities; this is because firms in the centre have higher real estate costs, and hence they stay there because they need a central location (prestige, clustering effect, accessibility…). In consequence, advanced services in peripheries tend to be lower added value and less strategic activities. However, recent dynamics, such as in the area FinTech (the former B-Hive in Diegem) show this is less and less true.

3. Regarding socio-spatial polarization

we also explore the more general impact of advanced services, beyond the strict economic sphere. Through its recruitment, highly qualified-highly remunerated-highly international advanced services largely participate to the social polarization of the city, but also between the Region and its peripheries, since highly remunerated workers tend to live more than average in the suburbs, except the international elite. In the latter case, its concentration in central areas may have a significant local impact on the real estate and the neighbourhood environment. Since advanced services only play a part in these impacts, policy actions can only tackle this issue globally.

4. Our main conclusion is that the development of advanced services cannot be achieved through specific strategies oriented to advanced services, nor the mitigation of negative consequences can be tackled through sectoral policies. However, it is also true that such development may encounter bottlenecks and require more transversal policies, which cannot be developed in detail here:

› Education is a decisive factor of development and, despite the international recruitment, it mainly relies on the local/national educational system; digitization in advanced services means that the locally recruited labour force will need to rapidly adjust to new job requirements.

› Mobility is an important issue, including for firms in advanced services, especially since their recruitment is in average more suburban than the rest of the Brussels economy;

› More generally, policy actions and means in the economic field have much stronger impact on the local economy for local people and should focus on these activities rather than on international activities on which nearly no margin exists. It is therefore more viable and feasible to seek to support more grounded economic activities – such as those under the banner of the foundational economy: infrastructure, housing, utilities, care, education, etc. – than to design policies to attract advanced services with limited chances of success.

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List of publications

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Gilles Van Hamme is assistant professor in Economic geography at the ULB. He has a twenty years experience in the field of economic geography and territorial development. He has participated to numerous studies in Belgium and over Europe in these fields. His recent studies have focussed on the impact of city network position on competitiveness, but also on the social impact of economic transformations of large cities, Brussels in particular.

The double aim of the project was (i) the qualitative and quantitative cartography of the recent spatio-temporal dynamics within the advanced producer services sector (i.e. financial services, legal services, management consultancy, accountancy and auditing, advertising) and (ii) the tracking of socio-spatial dynamics that could explain the shifting economic geography of these sectors. The project was focused on competition and complementarity at three scales: Brussels within the world city network, the Belgian "global-city-region" (including Flemish and Walloon cities) and the Brussels metropolitan region s.s. More specifically, the focus was on financial center formation in Brussels and the service ecologies around the various European Institutions.

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