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FRANCE ATTRACTIVENESS SCOREBOARD & SURVEY ON FRANCE'S BUSINESS IMAGE

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FRANCE ATTRACTIVENESS SCOREBOARD

For the seventh consecutive year, Business France, in conjunction with the Treasury Directorate at the French Ministry for the Economy and Finance, and the French Commission for Regional Equality (CGET), is proud to present the *France Attractiveness Scoreboard*. By compiling a vast array of economic data concerning outcome indicators and economic attractiveness criteria, and without resorting to data-weighted aggregate indicators, the *Scoreboard* enables an objective analysis to be made of France as an investment location.

► Reasons for publishing the *France Attractiveness Scoreboard*

- **To meet the challenge** of measuring France's investment attractiveness in relation to other major European countries.
- To shed light on the complexity of measuring an economy's attractiveness, a notion **that depends on a considerable number of different criteria**.
- **To measure this attractiveness using quantifiable economic indicators** from leading data sources (OECD, IMF, UNCTAD, Eurostat, etc.).

► Methodological approach

- A comparison of France's attractiveness relative to 13 other countries: Austria, Belgium, Finland, Germany, Ireland, Italy, Japan, Netherlands, Poland, Spain, United Kingdom, United States and Sweden.
- The Scoreboard uses 126 indicators to examine **economic attractiveness criteria in nine fields** influencing the location of foreign investments: market size and strength / education and human capital / research and innovation / infrastructure / administrative and regulatory environment / financial environment / costs and taxation / quality of life / green growth.

► Key points

1- This seventh edition **confirms that France's structural advantages are fundamental to its investment attractiveness, and also highlights the impact of reforms underway to boost the competitiveness of the French economy.**

2- In contrast to international rankings based on composite competitiveness indicators and opinion surveys that provide patchy analysis far removed from the reality observed by investors on the ground, **the *France Attractiveness Scoreboard* provides comparative and objective analysis of the main criteria against which France's investment attractiveness can be judged.**

3- Main findings:

- **France's strengths:** Market size and location, human capital, an innovation- and R&D-friendly tax environment, a beneficial administrative and regulatory environment for business creation, high-quality infrastructure, a cost-effective energy mix, rising hourly labor productivity and moderation of labor costs in industry.
- **France's weaknesses:** Taxation in particular.

CONCLUSION: The *Scoreboard* seeks to demonstrate that investment attractiveness cannot be measured using a single indicator, and must instead be assessed holistically by considering all the components that make an economy attractive. It pinpoints a number of areas in which France must regain ground in today's competitive environment, and underlines the purpose of current reforms.

FRANCE'S FIELDS OF EXCELLENCE

Top 20 indicators of France's attractiveness as an investment location	France's position	Leading countries
Fertility rate (2014)	1	France, Ireland
Access to EU-27 markets (2015)	3	Belgium, Netherlands
Trends in unit labor costs (2015) - Manufacturing sector	1	France, Netherlands
Trends in productivity per hour worked (2015) - Manufacturing sector	2	Sweden, France
Government funding of business enterprise R&D expenditure (BERD) and R&D tax incentives (2013)	1	France, Belgium
R&D personnel (2014)	4	Finland, Sweden
Net growth in active enterprises (2014)- Total economy	1*	France, United Kingdom
Net growth in active enterprises (2014)- Manufacturing sector	1*	France, Netherlands
15 leading airports in the EU-28 (2015) – cargo	1	France (Paris-CDG), Germany (Frankfurt am Main)
15 leading airports in the EU-28 (2015) – passengers	2	United Kingdom (Heathrow), France (Paris-CDG)
Broadband penetration rate (2015)	2	Netherlands, France
Electricity rates (2015)	3	Sweden, Finland
Enterprises and individuals using the internet for interaction with public authorities (2015)	2	Finland, France
Change in lending to non-financial corporations (2016)	1*	France, Germany
Global market share in European investment funds industry (2015)	3	Ireland, Germany
Venture capital investment (2015)	3	Finland, Ireland
Carbon intensity (2014)	2	Sweden, France

FRANCE WELCOMES FOREIGN INVESTMENT

▶ The French economy is open to foreign investors

More than 30,000 French companies have set up business in foreign countries, while more than 20,000 foreign companies have made job-creating investments in France.

In 2015, France was Europe's second leading recipient of job-creating investment (source: Business France Europe Observatory) and has been **the leading destination in Europe for job-creating foreign investment projects in industry for the last 15 years.** (EY, 2016)

France has the seventh highest cumulative stock of inward foreign direct investment in the world (UNCTAD, 2015), after the United States, China (including Hong Kong), the United Kingdom, Singapore, Brazil and Germany.

Forty-five percent of the equity holdings in companies listed on the CAC 40 are held by non-residents. (Banque de France, 2016).

Of the world's 500 largest companies, 29 are French, 28 are German, and 26 are British. (Fortune Global 500, 2016)

▶ France welcomes foreign talent

With more than 240,000 international students enrolled in tertiary education, France is the **fourth most popular destination country in the world** (UNESCO, 2014). These figures include students on advanced research programs: foreign students account for 40% of PhD students in France. (Eurostat, 2014)

▶ An important contribution to the French economy

According to data for 2013 from the French National Institute for Statistics and Economic Studies (INSEE), foreign subsidiaries:

- Employ 13% of all French employees (and nearly one-quarter of the workforce in French industry)
- Generate 19% of the turnover in the French economy (and 29% across all French industry)
- Generate 32% of all French exports (and 34% of all French manufacturing exports)
- Account for 28% of all business enterprise R&D expenditure in France. (*French Ministry for Higher Education and Research, 2013*)

FRANCE'S FIVE KEY ADVANTAGES

The *France Attractiveness Scoreboard* highlights five of France's key advantages for attracting foreign investment: market size and location; a highly qualified and productive workforce; an R&D-friendly environment; buoyant enterprise creation; and high-quality, cost-effective infrastructure.

In addition to these five key advantages, France's attractiveness as an investment location is also enhanced by its robust high-quality financial system, the strength and diversity of its industrial base, and high quality of life.

1- MARKET SIZE AND LOCATION

With a GDP of US\$2,422 billion at current prices, France was the **world's fifth largest economy** in 2015 after the United States, China, Japan, and Germany.

France's location, combined with first-class multimodal transport infrastructure, makes it an ideal springboard to other countries, continents and world regions across Europe, Africa and the Middle East.

France also boasts a buoyant demographic profile, and is the leading country in Europe by fertility rate, verging on two live births per woman.

2- A HIGHLY PRODUCTIVE WORKFORCE

With an outlay on education equivalent to nearly 7% of GDP,¹ **France is a country in which education is a key priority.**

Labor productivity is high in France on both a per-employee and hourly basis: **France is ranked seventh in the world for hourly labor productivity**, which has been improving markedly in the manufacturing sector, with **an increase of 3.6% in France in 2015**, compared with 1.1% for the EU-28.

Moreover, French employees typically work 37.2 hours per week on average, compared with 35.2 hours in Germany, and 36.7 hours in the United Kingdom. (Eurostat, 2016).

The competitiveness and tax credit (CICE) has helped manufacturers in France to enhance their cost-competitiveness. Between the fourth quarter of 2012 and the first quarter of 2016, labor costs grew less sharply in France than the euro zone average, not only in manufacturing, construction and services (+3.5% in France, versus +4.7% in the euro zone), but also in manufacturing once construction is excluded (+4.2% in France, versus +5.8% in the euro zone). Hourly labor costs in the French manufacturing sector (€36.90) in 2015 were lower than in Germany (€38).

3- A LAND OF INNOVATION

France was ranked sixth in the world in 2014 for gross domestic expenditure on research and development, with US\$58.8 billion, after the United States, China, Japan, Germany and South Korea. R&D intensity (GERD/GDP ratio) in 2014 was 2.26% in France, higher than in the EU-28 as a whole (1.95%), and the United Kingdom (1.70%).

Researchers are also well represented. With 9.4 researchers per 1,000 members of the labor force in 2014, France was ranked ahead of Germany (8.4) and the United Kingdom (8.4). Furthermore, human resources in science and technology (HRST) accounted for 50% of the active population in 2015.

¹ French National Institute for Statistics and Economic Studies (INSEE).

Moreover, the French tax system offers the most generous R&D tax treatment in the world, thanks to France's research tax credit. The cost of employing a researcher in France is lower than in Germany, the United Kingdom, and the United States. In the words of the French National Research and Technology Association (ANRT), "France's research tax credit is turning it into one of the world's leading countries for industrial research." France also saw a larger increase than anywhere else in the world in private-sector research as a share of the active population between 2008 and 2013.

France's dynamic innovation capacity is also reflected by its performances in a number of different international rankings:

1) **France outstripped all its European counterparts** in the 2015 Technology Fast 500 de Deloitte for the **number of fast-growing technology companies** in Europe, the Middle East and Africa.

2) **France was also ranked first in Europe and third in the world** in the 2015 Thomson Reuters Top 100 Global Innovators, with **seven French entities among the 100 most innovative organizations in the world.** These include three research centers (CNRS, CEA, IFP Energies Nouvelles) and four companies (Alcatel-Lucent, Arkema, Safran, and Saint-Gobain).

4- A LAND OF ENTERPRISE

France is a very buoyant market for net enterprise creation. In 2015, a total of 526,060 companies were founded, including no fewer than 10,000 startups. The total number of active enterprises grew by 7.2% in 2014, through a net increase of 230,187 across the entire economy (compared with an EU-28 average of just 0.9%). In the manufacturing sector, net enterprise creation was 6.8% in 2014, equating to a net increase in active enterprises of 16,117. The vibrancy of manufacturing entrepreneurship contrasts with the rest of the EU-28, where net manufacturing enterprise creation fell by 0.7% in 2014, as well as with Germany (down 0.6%) and the United Kingdom (down 0.7%).

This wave of business development and creativity is fostered by a **favorable administrative and financial environment, especially for startups:** Paris is one of the cities to have introduced the most effective policy initiatives in the world to catalyze entrepreneurship and innovation, alongside San Francisco, New York and London. (*City Initiatives for Technology, Innovation and Entrepreneurship, Accenture*)

France is also making life simpler for entrepreneurs. Only four days were required in 2014 to found a company in France, compared with 4.5 in the United Kingdom and 10.5 in Germany. In the 14 countries examined by the Scoreboard, only in Belgium (4) and the Netherlands (4) is it possible to start doing business more quickly.

5- HIGH-QUALITY, COST-EFFECTIVE INFRASTRUCTURE

France has first-class airports: Paris-Charles de Gaulle is ranked first in Europe for cargo and second by passengers carried after London Heathrow.

France also boasts an excellent broadband penetration rate: With a land-based broadband subscriber rate of 40.4% in 2015, France was ranked second among the countries examined in the report, ahead of the United Kingdom (37.9%) and Germany (37.6%).

Electricity rates are especially attractive for companies operating in France, and are among the most competitive in Europe due to France's energy mix, and careful management of electricity generation and the national grid: France is consequently ranked third among the sample countries, after Sweden and Finland. Furthermore, the variability of electricity rates in France remains low.

SURVEY ON FRANCE'S BUSINESS IMAGE

A survey was conducted by Kantar Public in September 2016 with 779 key business opinion formers (including 178 chief executives of foreign companies operating in France) in seven countries (China, France, Germany, India, United Arab Emirates, United Kingdom, United States).

In addition to objective data already available, this survey provides insight into the following:

- It provides **a sharper picture of France's economic attractiveness** and changing views on this among Business France's target audiences.
- It distinguishes the **different perceptions and expectations in different geographic areas**.
- It identifies France's **main perceived strengths and weaknesses** as an economy, and **turns the spotlight onto France's specific key advantages**.
- It offers insight into **decision-making processes that lead to investment choices**.
- It clarifies and ranks the various **factors** (economic, social, legal, political, cultural) **that drive companies to set up business in Europe, and in France in particular**.
- It measures the **impact that corporate communications and changes to the business environment in France** (economic, legal, political) have on how France is perceived.

The survey concluded with qualitative analysis from a hundred key influencers, including journalists, as well as economic experts and financial analysts working in consultancies, research institutes, think tanks, and business schools.

IMPROVING SURVEY PERCEPTIONS OF THE ATTRACTIVENESS OF THE FRENCH ECONOMY

1. DESPITE CHALLENGING ECONOMIC AND POLITICAL TIMES, FRANCE'S ATTRACTIVENESS TO FOREIGN INVESTORS IS ON THE RISE

France's attractiveness is steadily growing: **74% of foreign investors considered France to be an attractive investment location in 2016**, compared with 65% in 2014 and 53% in 2009.

France's attractiveness is also improving in the eyes of German, British and American decision-makers: 65% of German decision-makers (versus 33% in 2014), **58%** of British decision-makers (versus 47% in 2014), and **61%** of American decision-makers (versus 39% in 2014), **believe that France is an attractive investment location.**

Perceptions held by companies from emerging economies are particularly encouraging: 96% of Indian and Chinese decision-makers believe that France is an attractive investment location.

France's energy and 'can-do' attitude are recognized by foreign companies: France is a country which seeks to attract foreign investors (79%) and which is pursuing reforms to modernize its economy (70%).

The leading measures introduced to attract new talent to France, lower the tax burden on companies, improve labor market flexibility, support innovation, and lower labor costs (particularly through the competitiveness and employment tax credit) have all contributed to improving France's attractiveness in the eyes of decision-makers (over 80% of respondents).

2. FOREIGN COMPANIES BELIEVE THAT FRANCE BOASTS NUMEROUS KEY STRENGTHS

When asked about criteria that make France attractive, chief executives from foreign businesses operating in France attached greatest importance to its **communication infrastructure (87%), transport and logistics infrastructure (86%), size of the domestic market (82%), workforce education and training (82%),** as well as its **industrial base (78%).**

Gaining access to the domestic market, along with those in neighboring countries, is a crucial factor for multinational firms in deciding where to locate their operations. As such, 82% of foreign companies polled stated that the size of the domestic market is a key determinant in France's attractiveness as an investment location. **France's location, combined with outstanding multimodal infrastructure, make it a natural springboard to other countries throughout Europe, Africa and the Middle East.** Foreign companies with operations in France stated that France serves as an export hub to countries in Africa (81% of respondents) and Europe (88%).

Perceptions of French labor costs are also improving, with 55% of respondents considering that labor costs made France an attractive investment location in 2015, up from 49% in 2014.

3. INNOVATION IS A REAL DRIVING FORCE FOR FRANCE'S ATTRACTIVENESS AS AN INVESTMENT LOCATION

Innovation and R&D in France are regularly cited by foreign business executives. Nearly three-quarters of decision-makers see France as an innovative economy.

France is also judged to be **particularly attractive when judged on human capital criteria,** with its well qualified R&D personnel and research partnerships with academia being looked on favorably by foreign decision-makers.

Access to finance (76%) was also identified by foreign investors as one of the leading criteria in France's attractiveness for R&D operations. Among the innovation support on offer, **France's research tax credit serves as a strong incentive encouraging companies to set up R&D operations in the country.**

4. THE POLITICAL, SOCIAL AND ECONOMIC ENVIRONMENT ALSO HAS AN IMPACT ON BUSINESSES

France is facing non-negligible security concerns that also have an impact on the business environment. Security issues, the terrorist threat, and the recent attacks are the main problems identified by companies, particularly those from the United States, the United Kingdom and Germany. More than half of all foreign businesses are expecting a negative impact on investments of theirs that have already gone ahead.

Conversely, a majority of foreign companies believe that Brexit is an opportunity for the French economy and its attractiveness to investment. Sixty percent of decision-makers think that Brexit will make businesses review their investment strategy in the United Kingdom, thereby benefiting other European countries. France emerges as the second most popular destination after Germany.

In this context, investors expect that the reforms underway in France – such as developing programs to attract foreign talent and startups, lowering the rate of corporate tax, and transforming the CICE tax credit into a decrease in social security contributions – will have a positive impact on France's attractiveness as an investment location.

Perceptions held by foreign investors of France's business image

France viewed from abroad (601 companies)

- 1. France's attractiveness to investment**
 - 74% (up 9% pts) recognize France's attractiveness.
 - 38% believe that this is improving.
- 2. Main factors in France's attractiveness**
 - High positive perceptions for the following statements: a country with expertise in various sectors (80%); an economically stable country (79%); a country actively seeking foreign investors (79%); the French are keen on technology (78%); a country with a stable tax and legal environment for businesses (76%).
- 3. Innovation**
 - 71% believe that France's ecosystem encourages innovation, and 90% have heard of the "La French Tech" initiative.
 - 78% recognize the creativity of French companies.
- 4. Macroeconomic environment**
 - 59% think Brexit is an opportunity for the French economy
 - 36% think Brexit is an opportunity for France's attractiveness as an investment location.
 - 60% believe that companies from their countries will review their investment strategy in the United Kingdom following Brexit, thereby benefiting other European countries.
 - 58% consider that security concerns in Europe will slow investment in France.

France viewed from the domestic market (178 companies)

- 1. France's attractiveness to investment**
 - 83% (up 21% pts) have a positive view of their investments in France.
 - Only 6% believe that France's attractiveness is improving.
- 2. Main factors in France's attractiveness**
 - High positive perceptions for the following statements: a country with expertise in various sectors (95%); the French are keen on technology (89%); a country where businesses should invest (82%); an innovative country (79%); an economically stable country (68%).
- 3. Innovation**
 - 52% (up 13% pts) believe that France's ecosystem encourages innovation, and 52% have heard of the "La French Tech" initiative.
 - 85% recognize the creativity of French companies.
- 4. Macroeconomic environment**
 - 67% think Brexit is an opportunity for the French economy
 - 47% think Brexit is an opportunity for France's attractiveness as an investment location.
 - 33% believe that companies from their countries will review their investment strategy in the United Kingdom following Brexit, thereby benefiting other European countries.
 - 59% consider that security concerns in Europe will slow investment in France.

Key influencers

- France's attractiveness is improving, and is seen more positively by key influencers (81% in Germany, 70% in the United Kingdom, 67% in the United States).
- The efforts of the French authorities to promote France's economic attractiveness are widely recognized, particularly by the British (83%).
- France's potential attractiveness for R&D investments is cited by key influencers who believe that France's ecosystem encourages innovation.
- Good knowledge of government measures to support innovation: France's research tax credit is well known, with a readily acknowledged impact on investment decisions.
- The creativity of French companies is also acknowledged (84% in Germany, 73% in the United Kingdom, 70% in the United States).
- Key influencers are slightly less optimistic than companies about the impact of government reforms.

Business France is the national agency supporting the international development of the French economy, responsible for fostering export growth by French businesses, as well as promoting and facilitating international investment in France. It promotes France's companies, business image and nationwide attractiveness as an investment location, and also runs the VIE international internship program.

Founded on January 1, 2015 through a merger between UBIFRANCE and the Invest in France Agency, Business France has 1,500 personnel, both in France and in 70 countries throughout the world, who work with a network of public- and private-sector partners.

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