2016 SUMMARY

NEW INTERNATIONAL BUSINESS DEVELOPMENT STRATEGIES ARE EMERGING TO TAKE FULL ADVANTAGE OF GLOBAL VALUE CHAINS.

France's place in a globalized world can be appreciated in three different ways: on a commercial level, through trade in goods and services with other countries; on a physical level through multinational French firms and foreign companies operating in France; and on a financial level, through the free movement of capital. France boasts a number of key advantages and capabilities that ensure it remains central to the global economy, not only for attracting foreign talent and investment, but also for the success of its products in markets throughout the world.

INTERNATIONAL BUSINESS DEVELOPMENT STRATEGIES

GREATER CROSS-BORDER TRADE AND INVESTMENT

Greater international competition, at a time when new technology is increasingly driving micro-management of value chains, is leading to new strategies to outsource operations both pre- and post-production.

Lower transport costs, progress in information and communications technology, and more mobile production factors have combined to make it easier to fragment production processes. Today, company operations, from product design, component production and product assembly to marketing, have spread across the globe, creating international production chains. Companies can spread their productive activities across several countries to exploit various comparative advantages, thereby improving their competitiveness.

As such, the strategic behavior of firms in a global marketplace no longer boils down to a binary choice between exporting and making investments abroad. The large increase in intra-group trade between parent companies and foreign subsidiaries is symptomatic of a more complex strategic relationship. The globalization of value chains has intensified cross-border investment and cross-border trading in parts and components, intermediate goods and finished products. In this trading structure, goods produced in one economy and exported to a different end market involve inputs from other economies, which in turn source inputs from yet other economies. The growth of trade is due mainly to this back-and-forth of intermediate goods, which cross borders several times before the finished products and services are sold to end consumers.

GOING GLOBAL EXPANDS GROWTH OPPORTUNITIES FOR FRENCH FIRMS

Multinational firms stand out from their domestic peers due to the key strengths that make them more competitive and lead to better performance in foreign markets.[1] **Adding an international dimension makes companies stronger**. It is clear that natural selection is at work when successful businesses develop overseas, going on to benefit from the positive effects inherent in their multinational expansion as they tap into new markets, broaden the scope of their products or services, seek to innovate to remain competitive, manage what they produce more flexibly, play a greater role in society, offer better rewards to their employees, and thrive on the back of international recognition. Building a pan-European or worldwide presence can also become a pre-requisite for firms to enjoy the same economies of scale as their competitors, while remaining able to respond rapidly to changes in demand.

The estimated 13% fall in global foreign direct investment (FDI) in 2016 to US$1.53 trillion – which was mainly felt in developing countries through a steep decline of 20%, compared with a 9% fall in developed countries – should not be thought to have arisen from a slowdown in multinational firm activity. This in fact rose in 2016, as multinational revenues (+7.4%) and assets (+6.5%) both grew more quickly than those of their domestic counterparts, creating US$7.9 trillion in value added, while a total of 79 million people work for a multinational overseas subsidiary.

FOREIGN INVESTMENT'S CONTRIBUTION TO ECONOMIC DEVELOPMENT IN FRANCE

Foreign investment contributes to economic development in host countries, and generates significant positive externalities, through job creation, productivity gains, technology and knowledge transfers, to name but a few. As such, it is considered to be a key driver of growth and economic development, and this is why many governments around the world have introduced policy to attract inward FDI.

The French economy is very open to foreign investment. At the end of 2014, the French National Institute for Statistics and Economic Studies (INSEE) recorded 22,571 foreign subsidiaries in France, employing nearly 1.8 million people, or 12% of the workforce outside the agriculture, financial and government sectors (approximately one in eight employees).

INSEE data states that foreign subsidiaries:
- Provide jobs for 12% of the workforce in France
- Generate 19% of all turnover in France
- Generate 30% of all French exports

This open nature is more pronounced in the manufacturing sector. According to INSEE, foreign subsidiaries:
- Provide jobs for 21% of the manufacturing sector workforce in France
- Generate 25% of all French manufacturing turnover
- Generate 34% of all French manufacturing exports

[1] Multinational firms operate in several countries, whereas domestic firms only operate in a single market.

FRANCE: AN INCREASINGLY ATTRACTIVE INVESTMENT LOCATION

FRANCE ATTRACTED 1,117 NEW FOREIGN INVESTMENT DECISIONS IN 2016, CREATING 30,108 JOBS

Foreign investment decisions in France were up 16% from 2015. On average, 21 new investment projects were confirmed by foreign investors every week.

In 2016, the number of decisions to invest at new sites in France grew 20% to 569, accounting for 51% of all investment projects and 38% of all jobs generated. While site creations reflect France's attractiveness as an investment location, expansion projects are a sign of the confidence that foreign-owned subsidiaries already set up in France have in the country. There was a 15% rise in the number of expansion projects confirmed in 2016 (452 investment decisions), and these projects mostly involved production/manufacturing operations (40%). Jobs generated by new and expanded sites accounted for more than three-quarters of all jobs generated by foreign investment.

European investments continued to hold the upper hand in 2016: 62% of confirmed job-creating foreign investments in France originated in other European countries, followed by North America (20%) and Asia (12%). The leading source countries of companies investing in France were Germany (17%), the United States (16%), Italy (13%), the United Kingdom (8%), and Japan (6%).

Many countries posted higher project numbers than the previous year, with the largest increases in investment decisions involving companies from Italy (+68%) and Germany (+35%).

NEW INVESTMENT DECISIONS IN STRATEGIC ACTIVITIES

Foreign firms are eager to invest in French manufacturing. In 2016, a total of 280 investment decisions were made in production/manufacturing operations in France, amounting to 25% of all foreign investments. The importance of such projects can be seen by the fact that these activities were also the leading contributor to employment, with 11,271 jobs, or 37% of all jobs generated by foreign investment. Confirmed production/manufacturing investments mostly involved expanding existing production facilities in France (65%) and new sites (16%). Investments in production/manufacturing in France confirmed by American, Belgian, British, German and Italian companies amounted to 62% of all such investments.

Moreover, the number of investment decisions involving global and European headquarters based in France rose sharply from 27 in 2015 to 36 in 2016, as did those involving French headquarters, rising from 24 to 34.

The location a company chooses for its headquarters generally makes it more likely that other high value-added operations, such as research laboratories, will follow to the same area. Headquarters require a highly qualified workforce, and can employ a few hundred people in major corporations, depending on the business sector and scope for decision-making It therefore becomes important for regions to remain competitive should they wish to attract, consolidate and retain economic activity.

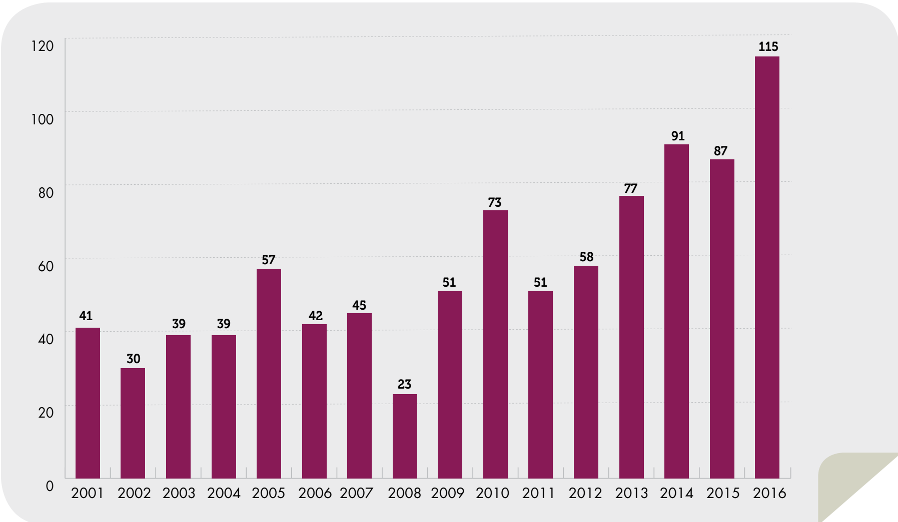
The number of foreign investment projects in R&D,[2] engineering and design boosted entrepreneurial momentum in 2016, with 115 investment decisions, including 72 in R&D alone. Beyond their impact on growth, R&D operations supply highly qualified jobs that generate high value added and are generally more stable than manufacturing jobs.

[2] Data on R&D activities and headquarters are fully comparable with all previous years, as these investments have always been recorded from the first job created.

Innovation is recognized by business decision-makers to be a driving force behind France's attractiveness as an investment location, as is the thriving "La French Tech" ecosystem. France is also deemed 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.

R&D, engineering and design accounted for 10% of all foreign investment decisions in 2016, generating nine percent of all jobs created in France by foreign investors. Investments in R&D operations mostly involved setting up new R&D or engineering centers. The United States (26%), Germany (19%) and Italy (10%) were together responsible for more than half of all foreign R&D, engineering and design investments in France in 2016.

FIG. 1 Inward R&D investments in France (2001-2016)



Source: Business France

FRANCE'S EXPORT PERFORMANCE

Globalization in recent years has been notable for the rapid integration of leading emerging economies, such as China, India, Brazil and Singapore. This phase has resulted in lower global market shares for developed countries. The share in global exports of goods exported by European Union countries fell from 45% in 1990 to 33% in 2015, while China advanced from 2% to 14%.

In this context, France's market share crept down until 2012 before levelling out in 2015 at 3.1% of global goods exports and 3.5% of goods and services exports. According to initial estimates, **France had a 3.3% global market share of goods exports in the first half of 2016**. A similar pattern can be discerned for all of France's European neighbors except Germany, whose global market share started to recover in 2013 but remains some way below its pre-crisis level. By way of comparison, Germany and the United Kingdom accounted for 8.1% and 2.8%, respectively, of global goods exports in 2015.

French goods exports levelled out at €453 billion[3] in 2016 (0.6%) after healthy growth in 2015, while goods imports amounted to €501.1 billion (+0.1%). These figures come in the wake of a slowdown in global trade, which grew by 1.9% in real terms in 2016, versus 2.7% in 2015, according to the IMF.

NUMBER OF REGULAR EXPORTERS UP AGAIN IN 2016

According to the French Customs Authorities, 124,100 companies in France exported goods to international markets in 2016.[4] Around 28,500, or 23%, were newcomers to international trade. Two-thirds of these new exporters were classified as first-time exporters (companies not having exported in the last five years).

The list of exporters changes significantly from year to year. Every year, nearly one-quarter are first-time exporters, while a similar number cease exporting. However, since 2012 many more companies have remained on the list for two years in a row. The number of companies exporting for at least two years once again rose by 2% in 2016, while the number of companies exporting every year for at least five years increased by 1.2%. This positive trend confirms that more and more French companies are taking advantage of foreign market opportunities and staying in the export market.

SMES AND MID-SIZE COMPANIES OUTPACE LARGE COMPANIES IN 2016

The French export industry was dominated by SMEs in company numbers (95%) and by large and mid-size companies in export value (86%). Despite constituting the vast majority of exporters, SMEs and micro-enterprises contributed only 14% of export value in 2016. The proportions were reversed for large companies, which accounted for only 0.4% of exporters but generated 54% of export value. Mid-size companies (*entreprises de taille intermédiaire* – ETI) made up 4% of exporting companies while accounting for one-third of export value.

Analysis of French exporters by company category reveals different trends depending on the size of the exporters. The number of mid-size companies in 2016 edged up 0.3% (0.1% increase in export value), while the number of large companies slipped 0.6% (1.6% decrease in export value). **The SME category proved the most dynamic, with export value up 2.1% in spite of a slight fall in the number of exporters (-0.7%)**. In 2016, SMEs exported on average to six or seven countries, even though one-quarter of their number exported to only one country.

[3] Source: French Customs Authorities. Estimated FOB/FOB gross data, including military hardware.
[4] This section is based on data and results from the French Customs Authorities report on the French export industry published in February 2017.

FRANCE IS A GLOBAL LEADER IN A NUMBER OF ITS SECTORS OF EXCELLENCE

French exports are most concentrated in high value-added sectors. Four sectors accounted for two-thirds of exports in 2016: transport equipment (24% of the total); capital goods (19.2%); chemicals, perfumes and cosmetics (11.7%); and food products (10%).

The economic turmoil over the past decade has affected the sector-specific composition of French exports, which is increasingly dominated by more high-tech exports. Today, French exports are concentrated in mid-range and high-end products, led by aviation and pharmaceuticals. Driven by increased global demand for airliners, aerospace industry sales climbed from 8.3% of French exports in 2007 to 13.1% in 2016. Similarly, pharmaceutical exports rose from 5.4% in 2007 to 6.6% in 2016. These sectors have the advantage of being less sensitive than others to competition and price (price elasticity).

France's global export share is 16.6% in the aerospace industry, 15.9% in beverages and spirits, 13.8% in perfumes and cosmetics, 9.2% in dairy products, 8.5% in leather goods and handbags and 6% in pharmaceuticals. These figures reflect both international recognition of its traditional expertise in wines, champagne, cheese and leather goods, for example, and the competitiveness of its cutting-edge and high-tech industries, such as aerospace, chemicals, cosmetics and pharmaceuticals.

In 2015, France was the world's leading exporter of beverages, along with perfumes and cosmetics. It was second only to the United States in aerospace, and was the third largest exporter of leather goods. With regard to food other than beverages, France was the second largest exporter of cereals and the fourth largest exporter of dairy products.

EXPORTING REGIONAL EXPERTISE

French exports are the work of companies and industries located throughout France. In 2016, two-thirds of French export sales came from five of France's 13 regions: Ile de France (Paris region) (19%), Grand Est (13.5%), Auvergne-Rhône-Alpes (12.8%), Occitanie (12.4%) and Hauts de France (10.3%). Some regions clearly specialize in specific sectors. More than three-quarters of exports from Occitanie (south-east France) in 2016 were in the aerospace industry, while more than one-third of Brittany's exports were in the food sector. In the north and east of France, automotive exports predominated, while in Nouvelle-Aquitaine (south-west France), 18.5% of exports were beverages, driven by the wine industry. Provence-Alpes-Côte d'Azur, Auvergne-Rhône-Alpes, Centre-Val de Loire and Normandie all specialize in chemical and pharmaceutical exports.