France: Going International

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With the deadline for integration of the European Community nearing, France is definitely marching to the beat of a European drummer. With Frenchmen such as Jacques Delors, president of the European Commission and diplomat/writer/President Francois Mitterrand leading the push for a single European market, there is no doubt that France is in the limelight as one of the biggest pro-European forces in the EC.

France, the fourth largest economy in the world and the fourth largest exporter as well, has cultivated an image over its history as being somewhat protectionist of its own markets and definitely pro-France in matters of trade. Knowing that it will be facing open markets and increased competition after Jan. 1, 1993, the government has set up the Invest in France Agency to dispel that image.

"Attracting foreign investment has become a national priority," said Eric Fleuriot, director of the coast for IPA. "Up until now, if France wanted to protect an industry or a specific plant, the Ministry of Industry would likely to protect the market. With the removal of customs barriers, France is faced with the prospect of competition without the addition of jobs."

French industry has responded by expanding into foreign markets, with the French now moving Great Britain and Belgium in foreign takeovers. State-run Air France has raised to buy domestic competitors and brace itself for international competition as well.

Renault, the state-owned car manufacturer, has shown a marked increase in both profits and productivity, resulting from heavy capital investment in the last half-decade. France Telecom, the state-run communications group, also facing competition in its international business for the first time, has expanded its international holdings, buying pieces of the Argentinean and Mexican phone systems. It will retain the domestic phone-service monopoly, although value-added industry will open to competition in the near future.

"In the past we never bothered to attract outside investors, never explained what our country can do," Fleuriot said. "We are not after textiles, not after low-cost labor markets. We are looking for chemical, electronic, telecommunications, data processing, and bio-medical industries, where we can compete. NCR, Digital, Apple and IBM all have European headquarters in France."

Fleuriot points to France's increases in productivity per worker, its ranking third in the world in hours worked per worker, the death of French subsidies, low corporate-tax rate and experience in the high-tech computer and nuclear industries.

"We have a very favorable climate for investors. Productivity is up and inflation is down, the work force is very well educated and the infrastructure is there, we just need to get around the image problem," he said. "Only the Netherlands has had strikes in France, our lowest number since 1946, but people in the United States perceive us at having strikes. But we [the IPA] are not salesmen, we are consulting group to assist U.S. companies trying to invest in France. We have inside information and the entry network to make it easier for investors. We are a non-profit government agency, but most of the people who work here are from the private sector."

The nature of the French economy is conservative, one that avoids swings. It has been directed to hold down inflation, and has France's year-to-date inflation rate in April was only 3.1 percent, but the cost has been high unemployment. France faced an almost 10 percent unemployment rate in 1991, up from 1990, and according to Campbell Harvey, associate professor of finance at Duke University's Fuqua School of Business, the rate will not change until short-term interest rates drop.

"The short-term interest rates are very high, almost 10 percent compared to the 3.7 percent rates available in the United States," Harvey said. "This means that France doesn't invest in new machinery and new ventures when they are faced with high financing costs. This dampens the possibility of big growth in the economy."

According to Harvey, France had no choice but to raise its short-term interest rates. "The policy for France was determined by the Bundesbank in Germany," he said. "When Germany decided to monetize the East German mark, it increased the short-term rate. France had to do the same to prevent the flight of capital to Germany."

To help jump-start the economy, France has lowered its corporate tax rate from 50 percent in the mid-80s to below 34 percent, about the same as in the United States. In 1993 it will drop to 33.3 percent and only cover business done in France.

France faces a presidential election in 1995, which, according to Department of Commerce officials, will cause a slight slowdown in the economy. The main topic of interest is the debate over the Maastricht treaty on European unification, which is threatening to divide the right between those for unification and those against. The neo-Gaullist Rassemblement pour la Republique is split between

former president Jacques Chirac (anti-Maastricht) and Giscard d'Estaing (pro-Europe)."

According to a Department of Commerce official, the French people remain behind European integration, with some 65 percent polled in favor of the Maastricht treaty. As France and the rest of the 12-member state of the European Community move toward a single market, France's economy should expand through the increased trade and the relaxation of its trade barriers. Harvey estimates slow but positive economic growth in 1993, with a slight increase in 1993.