

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/tactician/President Francois Mitterand 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 Fleurisson, director of the east coast for IFA. "Up until now, if France wanted to protect an industry or a specific plant, the Minister of Industry would lobby 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 rivaling Great Britain and Belgium in foreign takeovers. State-run Air France has rushed to buy up 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 communication 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," Fleurisson said. "We are not after textiles, not after low-cost-labor industry. We are looking for chemi-

cal, electronic, telecommunications, data processing, and bio-medical industry where we can compete. NCR, Digital, Apple and IBM all have European headquarters in France."

Fleurisson points to France's increases in productivity per worker, its ranking third in the world in hours worked per worker, the death of French unions, 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 had less strikes than France, our lowest number since 1946, but people in the United States perceive us as having strikes. But we [the IPA] are not salesmen, we are a 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.

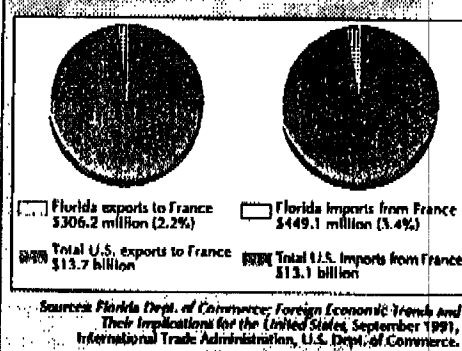
"The short-term-interest rates are very high, almost 10 percent compared to the 3.73 percent rates available in the United States," Harvey said. "What this means is that firms don't invest in new machinery and new ventures when they are faced with high financing costs. This dampens the possibility of 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 once-staggering corporate tax 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 33.33 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

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former president Jacques Chirac (anti-Maastricht) and Giscard d'Estaing (pro-European). The center-right Union pour la Democratie Francaise is against Maastricht, while President Mitterand's Socialist party remains staunchly pro. The popular vote supports the treaty.

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 1992, with a slight increase in 1993. ▲

REPUBLIC OF FRANCE

Geography: France is an independent nation in Western Europe. Three of its six sides are bounded by water—the English Channel on the northwest, the Atlantic Ocean and Bay of Biscay on the west, and the Mediterranean Sea on the southeast. The remaining sides are shared by Belgium and Luxembourg on the northeast; Germany, Switzerland, and Italy on the east; Spain and Andorra on the south; and Monaco, on the Mediterranean coast near Nice. Metropolitan France includes Corsica, a large island located off the coast of Italy, and six overseas departments and numerous small overseas territories, all represented in the National Assembly. Land Area: 543,965 sq km (210,026 sq mi). Capital and largest city: Paris (1982 pop. 7,188,918). Population (1990 est.): 56,556,000; density: 104 persons per sq km (269.3 per sq. mi). Distribution (1990): 74 percent urban, 26 percent rural. Average annual growth (1990): 0.5 percent. Official language: French. Major religion: Roman Catholicism.

EDUCATION AND HEALTH. Literacy (1990): 99 percent of adult population. Universities (1989): 72. Hospital beds (1988): 686,854. Physicians (1988): 177,746. Life expectancy (1990): 77. Infant mortality (1990): 7.5 per 1,000 live births.

ECONOMY. GDP (1990): \$1,191 billion; \$21,000 per capita. Foreign trade (1990): imports—\$232 billion; exports—\$210 billion; principal trade partners—Germany, Italy, Belgium-Luxembourg, United Kingdom, United States. Currency: 1 franc = 100 centimes.

The competitive business climate created by membership in the EC has forced many smaller companies to be restructured into powerful corporations. The textile and garment and perfume industries have long been world leaders.

Three-fifths of the land area is used for farming; about 31 percent is cultivated, 3 percent is in vineyards and orchards, and 24 percent is used as meadow and pasture. France is a leading producer of beef, veal, poultry, and cheese, milk and eggs. Wine is a major crop throughout the country, especially in such regions as Burgundy, Champagne, Bordeaux, and Alsace.

France is the fourth-largest exporter and the fifth-largest importer in the foreign-trade market. The two principal ports are Marseille on the Mediterranean, and Le Havre at the mouth of the Seine. In 1989 more than 42 million tourists visited France, placing it third among the nations of the world.

GOVERNMENT. Type: federal republic. Government leaders (1992): Francois Mitterand—president; Pierre Berégovoy—prime minister. Legislature: Parliament—National Assembly and Senate. Political subdivisions: 22 regions, 96 metropolitan departments, 4 overseas departments, 4 overseas territories, 2 collective territories.

COMMUNICATIONS. Railroads (1989): 36,680 km total. Roads (1989): 35,300 km motorways and national roads; 1,500,000 km other roads. Major ports: 6. Major airfields: 10. Train service, provided by the state, is fast and efficient. The Trains a Grande Vitesse (TCV, "high-speed trains") are world famous. In 1988 a consortium began work on the English Channel Tunnel or "Chunnel," scheduled for completion in 1993, to establish the first direct rail link between France and Britain. Airlines are also state run; Air France is one of the world's largest airline companies.

France Key economic indicators

	1988	1989	1990
Domestic Economy			
Population (million)	56.0	56.3	56.5
Population growth (percent)	0.8	0.5	0.4
GDP in current dollar	923.9	961.8	1,189.7
Real GDP (1980=100)	117.8	122.4	128.3
Production and Employment			
Labor force (million)	24,137	24,278	24,458
Unemployment rate (percent year end)	8.8	9.1	8.6
Foreign Direct Investment			
In U.S. dollars (million)	11.1	14.1	17.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis, International Trade Administration, U.S. Dept. of Commerce.