

GLOBALIZATION & EUROPE:

PROSPERING IN THE NEW WHIRLED ORDER

FRANCE AND GLOBALIZATION

BY DANIEL S. HAMILTON AND JOSEPH P. QUINLAN

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Daniel Hamilton & Joseph Quinlan

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Preface and Acknowledgements

The French have been winners from globalization, but nowhere in Europe is globalization so criticized as in France. Many worry that a job gained abroad means a job lost at home, that their hard-won prosperity could simply slip away. They are angered by soaring fuel and food prices. They are anxious about the pace of global economic change, about their livelihoods, about their future.

These concerns are real, widespread, and legitimate. They are exacerbated, in turn, by France's home-grown challenges. Globalization did not create those problems, but it has exposed them.

What are globalization's gains and pains, and what do they mean for France? In this study we offer an up-to-date look. We chart changing flows of trade, investment, people, money and ideas. We look at how globalization has affected inflation, interest rates, incomes, jobs, wages, and economic growth. We explain globalization's effect on French consumers, workers, companies and governments. Who wins, who loses, and why. We highlight opportunities and identify challenges.

After carefully examining many different metrics of globalization, we conclude that in overall terms France has benefited from freer movement and higher flows of goods and services, investment, capital and ideas, and faces an increasingly acute need to facilitate freer movement of high skilled labor. These gains have not been evenly shared, however, and do not directly benefit every worker, firm, and community. There have been winners and losers.

Along the way, we found that for France the forces of "Europeanization" can be as profound as those of globalization. We were impressed by France's strengths and sobered by its challenges.

This study extrapolates from our larger book *Globalization and Europe: Prospering in the New Whirled Order* (Washington, DC: Center for Transatlantic Relations, 2008). We have taken the metrics of globalization outlined in that study, and applied them with more depth to France. Fuller detail on most points in this study may be found in the larger volume. We also draw on our annual survey *The Transatlantic Economy 2008*, which offers the most up-to-date set of facts and figures describing the deep economic integration binding European nations to America's 50 states.

We would like to thank Jessica Martin, Gretchen Losee, Iulia Teodoru and Peggy Irvine for their assistance in producing this study. We would also like to acknowledge support from the members of the Executive Council of the American Chamber of Commerce to the European Union: Accenture, Agilent Technologies International, AIG, Alcoa, Caterpillar, Dow, Dupont de Nemours, GE International, Honeywell, HP, Intel, LyondellBasell, Mars Inc., Motorola, Oracle, SAS Institute and 3M.

Daniel S. Hamilton
Joseph P. Quinlan
Washington, DC, June 2008

Introduction

Globalization is changing all of our lives as the pace of economic interdependence grows between developed and emerging countries. Debate thrives about whether globalization has been good or bad for European consumers, workers, companies and governments and what are the prospects in the future. In a dynamic and uncertain world can Europe act to take advantage of the opportunities created by globalization and mitigate its challenges?

The Executive Council of the American Chamber of Commerce to the EU commissioned the study *Globalization & Europe: Prospering in the New Whirled Order* from Daniel Hamilton and Joseph Quinlan to contribute to the debate about globalization and to help shape Europe's response.

Given the huge importance of France in Europe and as France is about to assume the Presidency of the EU, the Executive Council decided to take a closer look at France. We asked the authors to take a series of metrics and measure the impact of globalization on France's consumers, workers, companies and government.

Our goal is to demystify globalization and to make it more understandable to individuals. Ultimately, by providing a fact based and objective analysis which demonstrates clearly that in overall terms Europe and France have reaped substantial and tangible benefits from globalization, we hope that the study will help make globalization more acceptable to individuals and ensure that Europe and France take actions which enable consumers, workers, companies and governments to benefit further from globalization.

John Vassallo,
Chair
American Chamber of Commerce to the EU

Mark Spelman,
Chair
Executive Council of
the American Chamber of Commerce to the EU

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I. Oil and Water? France and Globalization

Globalization is the primary driving force of the world economy. No country, not even the hermit kingdom of North Korea, has gone untouched or is unaffected by globalization. Since 1990, walls have fallen, borders have been erased, and continents are connecting as never before. Globalization is the main fabric of the world economy, stitching nations and continents together in unprecedented ways.

Overall, Europe and France have been winners from globalization. In the following pages we slice and dice globalization in ways that present a clearer picture of its impact on French consumers, French workers, French companies, and the nation as a whole. We conclude that France has benefited substantially from freer movement and higher flows of goods and services, investment, capital, people and ideas. The French, on balance, are living better today than when the Iron Curtain fell and the Cold War ended, in part because of globalization.

Despite these benefits, the French have a hard time with globalization. In fact, "globalization" is feared – even detested – more in France than perhaps in any other nation in Europe. Sixty-four percent of the French consider it "a threat for jobs." Many fear stagnant or declining incomes, rising imports, and more intense competition from China and other developing nations. They are worried about record high oil prices, soaring commodity values, and turbulence in international financial markets. They fear that the tsunami of globalization could simply wipe away their dirigiste tradition, their culture, their very identity. They resist globalization because they believe it threatens the notion of equality, a founding principle of the French republic. In few other European countries have governments of every political color paid such lip service to the downsides of globalization. (1)

These anxieties have formed a potent brew that has hardened French attitudes toward globalization. From sheep farmer José Bové's attacks on McDonald's restaurants to former President Chirac's declaration that yogurt was a strategic industry off-limits to foreign investment, the French continue to demonstrate that they have a tough time reconciling themselves to their deepening integration into the world economy.

French fears are not entirely unfounded, since globalization has been disruptive and created a climate of uncertainty in nations around the world. Soaring demand in China, India and other rapidly developing countries has created new markets for French products and services, for instance, but has also placed upward pressure on world commodity prices, forcing French consumers to pay more for energy and food. The "great doubling" of global labor supply has helped to slow wage gains in the U.S. and the E.U., but also exerts downward pressure on consumer prices. These cross currents are likely to continue, buffeting consumers, workers, companies and governments.

As we discuss in greater detail in our most recent publication, *Globalization and Europe: Prospering in the New Whirled Order*, globalization has produced winners and losers. While globalization's gains are widespread, they nevertheless can seem abstract and diffused. Globalization's ill effects, on the other hand, can be tangible and traumatic, and can have an outsized impact on particular communities, families and individuals.

At first glance, therefore, globalization and France appear to mix as well as oil and water. A deeper look reveals that on balance globalization has brought considerable benefits to France, but also poses a number of challenges.

France remains one of the largest and most competitive economies in the world thanks in part to globalization. France accounts for 1 percent of the world's population but 5 percent of global production. It is the third largest economy in Europe and the sixth largest economy in the world. It is the world's top tourist destination and its fifth largest exporter.

Through greater integration with the global economy, France's trade flows have remained strong and have been redirected towards consumption-oriented, rapidly developing nations. Foreign direct investment flows to and from France are robust and growing.

Financial globalization—the near 24/7 movement of global capital—has also been hugely beneficial to France, providing needed funds to promote investment and growth at home. The global earnings of corporate France have soared over the past half decade, generating investment, creating employment and boosting the income of millions of French workers. Over the past seven years, real disposable household income has increased in France faster (18 percent) than in the euro area (11 percent), and significantly faster than in most neighboring countries. Globalization, in general, has helped raise France’s real economic growth and maintain the nation’s status as one of the most prosperous nations on earth.

In the following pages we examine globalization and its effect on France through five primary lenses: trade, investment, capital, labor and ideas. The interaction between these five flows also has cross-cutting derivative effects on French inflation and interest rate levels, employment, income, wages, and real GDP growth. In Table 1 we summarize the overall impact of these primary and secondary “globalization indicators” on France over the past fifteen years. In section II we explain in more detail the impact of each of these indicators. In section III we outline the impact of these indicators on key French stakeholders: consumers, workers, companies and the government. In the final section we provide a summary view and offer thoughts on how France might capitalize on its strengths and tackle its challenges.

Table 1: Summary Impact of Globalization on France

Metric	Outcome (Direct/Indirect)	Effect on France's Stakeholders
Trade	Solid gains in both exports and imports	France remains one of the largest and most competitive trading entities in the world. Globalization has produced strong gains in both manufacturing and services trade. Export growth to developing nations has been notably strong, benefiting various companies and industries.
Investment	Strong outflows/inflows	France has experienced net outflows over the past decade, although France remains one of the most attractive destinations in the world for multinationals. FDI outflows have helped boost the competitiveness and earnings of French multinationals. FDI inflows have helped create jobs and boost the incomes of French workers.
Portfolio Flows	Strong Inflows	France has enjoyed greater access to the global savings pool, a dynamic that has helped fuel investment in France and boost foreign ownership of French equities.
Labor Mobility	Greater mobility	Greater labor mobility in the EU and net inflows to France have provided new sources of supply and demand for French firms; immigrants will act as an offsetting factor to declining populations and the EU's and France's aging population.
Inflation	Lower	Lower due to more competition and lower-cost inputs, notably from the developing nations. Benefits all stakeholders. But greater demand for food, energy and other resources from developing nations has created upward pressure on prices.
Interest Rates	Structurally lower	Low interest rates have been key in promoting real growth in France. The lower cost of capital has benefited all stakeholders in France, notably corporations and consumers.
Employment	Net gains	Employment growth has slowed; labor regulations remain a concern, but new legislation is promising and greater cross border trade/investment has on balance helped create jobs.
Income	Net gains	Notably beneficial to French consumers, with lower import costs, a greater variety of goods to choose from. The EC estimates that every EU household would gain €5,000 annually if Europe capitalized on globalization's gains.
Wages	Modest increases	Real wages have increased over the past decade, a trend supported by lower inflation, greater competition, more product choice and availability.
Real GDP Growth	Upward bias	Real growth has trended higher in France, yet lags behind the U.S. and developing nations. Notwithstanding periods of weakness, globalization has been a significant boon to France's exports and French competitiveness.
Technological Diffusion	Net gains	France needs to raise its technological capabilities and leverage existing technical skills. Greater dispersion of technology has helped boost greater trade in services and allowed companies in France to access more of the global technology skills of developing nations.

II. France and Globalization: Key Indicators

Economic globalization can be measured in different ways. In this section we examine globalization and its effect on France through five primary lenses: trade, investment, capital, labor, and the flow of ideas as reflected in technology and innovation. We then discuss how these different factors interact to affect French inflation, interest rates, jobs, income, wages, and growth of French Gross Domestic Product (GDP).

Trade Flows

Trade: The Secular Shift from Developed to Developing Countries

Globalization has boosted international trade flows to record heights and changed earlier patterns of trade, much to France's benefit. Indeed, notwithstanding the rise of new trading powers like China, India, Brazil and others, France remains one of the largest exporters in the world. In 2006, France ranked as the fifth largest exporter of goods, trailing only Germany, China, Japan, and the United States. France also ranked in 2006 as the fifth largest exporter of services – an increasingly important component of French competitiveness.

Table 2: Top Global traders (2006, \$ Billions)

Exports			Imports		
Rank Exports	Value	Share	Rank Imports	Value	Share
1. Germany	1112	9.2	1. U.S.	1919	15.5
2. U.S.	1038	8.6	2. Germany	909	7.3
3. China	969	8	3. China	792	6.4
4. Japan	650	5.4	4. U.K.	619	5
5. France	490	4.1	5. Japan	580	4.7
6. Netherlands	462	3.8	6. France	535	4.3
7. U.K.	448	3.7	7. Italy	437	3.5
8. Italy	411	3.4	8. Netherlands	416	3.4
9. Canada	390	3.2	9. Canada	358	2.9
10. Belgium	369	3.1	10. Belgium	354	2.9

Source: WTO

France's European partners remain its prime customers and suppliers. In 2007 65% of French exports went to other EU member states and only 35% to the non-EU world (2). The Americas and Asia each accounted for 27% of French exports outside the EU; non-EU European nations accounted for 19%; Africa for 16%; the Near and Middle East for 9%; and other nations for 2%.

61% of French imports in 2007 came from within the EU; only 39% came from the non-EU world. Asia accounted for 35% of French imports from outside the EU; non-EU European nations accounted for 22%; the Americas for 21%; Africa for 12%; the Near and Middle East for 6% and other nations for 3%.

Table 3: Main French Export Markets

Main French Export Markets		Rank Imports	Value	Share
1. Germany		1. U.S.	1919	15.5
2. Spain		2. Germany	909	7.3
3. Italy		3. China	792	6.4
4. U.K.		4. U.K.	619	5
5. Belgium		5. Japan	580	4.7
6. U.S.		6. France	535	4.3
7. Netherlands		7. Italy	437	3.5
8. China and Hing Kong		8. Netherlands	416	3.4
9. Switzerland		9. Canada	358	2.9
10. Poland		10. Belgium	354	2.9

Source: Trade figures for February 2007 through January 2008, French Ministry of the Economy

This snapshot of French exports and imports, however, belies some important undercurrents of change. First, France's share of total global exports has trended lower over the past decade. This trend has also been evident in Germany, the United States and Japan, countries that have seen their share of global exports decline on account of rising goods production in the developing nations. Global exports are becoming more dispersed as more nations move up the manufacturing curve, boosting their capacity to produce and sell goods around the world. Yet in contrast to Germany, where net exports have added positively to real GDP growth over the past few years, the trade balance in France has deteriorated. A strong euro has challenged French exporters, but in general French businesses have not been as agile as their German counterparts in restructuring to respond to changing global demand. Consequently, unit labor costs have risen in France over the past few years, which have reduced the relative price competitiveness of French products. (3)

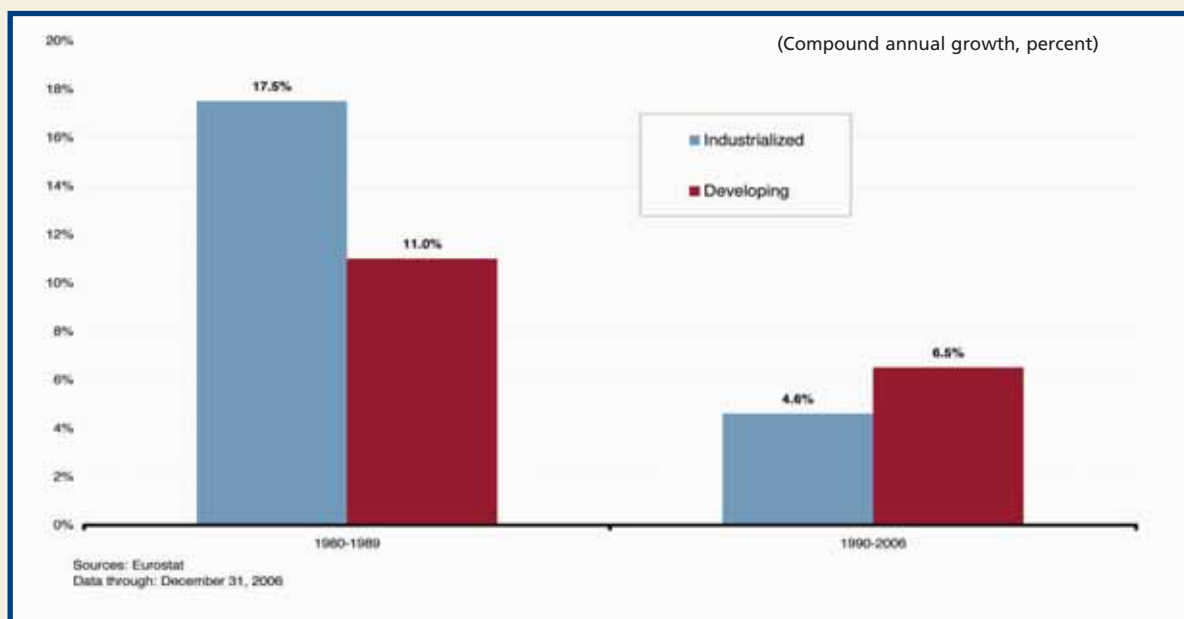
That said, French exports of goods were still some four times larger than those of India in 2006 and 50 percent greater than those of South Korea. Moreover, inordinate attention to shares and rankings ignores the far more significant fact that in absolute terms, both global exports as a whole and French exports in particular have grown considerably over the past 20 years. France's share of the pot may be smaller, but the pot itself is much bigger, because of the explosive demand generated by billions of new consumers who have entered the global economy over the past two decades.

In fact, if one looks at French trade flows over the past decade and a half, it becomes apparent that France has experienced a noticeable and healthy shift in trade – as have other nations in Europe. While intra-European trade remains important to France, the nation's trade outside EU borders has shifted significantly since 1990. More of France's trade outside the core EU-15 is directed at or sourced from developing nations today rather than from developed nations such as Canada, the U.S., Japan or Australia. That is a structural shift from the Cold War period, when France's main export markets were mainly with other developed nations.

Between 1980 and 1989, for instance, France's fastest-growing big export markets were Spain, Japan and the United States. Since 1990, France's fastest-growing big export markets have been China, Turkey and Singapore, and developing nations have accounted for six of France's top ten fastest growing export markets.

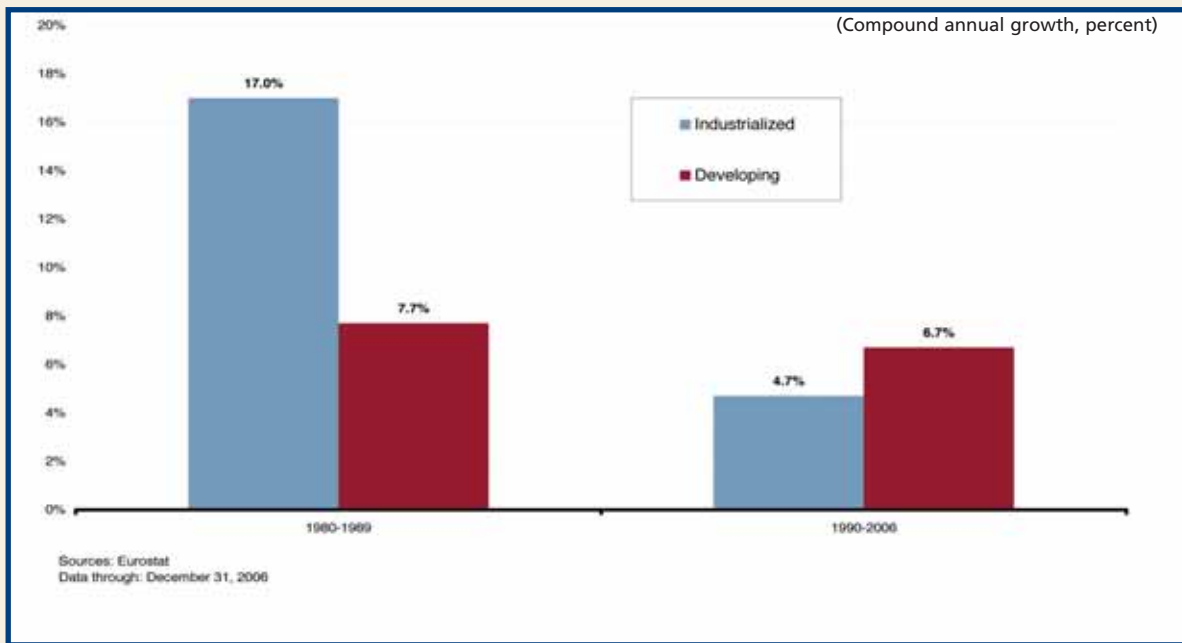
Between 1980 and 1989, French exports to developed nations rose at a 17 percent annual rate, whereas exports to developing nations rose at an 11 per cent compound annual average rate. Between 2000 and 2006, however, French exports to developed nations outside the EU-15 rose by just 20.3 per cent, whereas exports to developing nations soared 88.3 per cent. The result: developing nations accounted for roughly 65 per cent of France's total exports in 2006.

Figure 1: France: The Shift in Trade (Exports)



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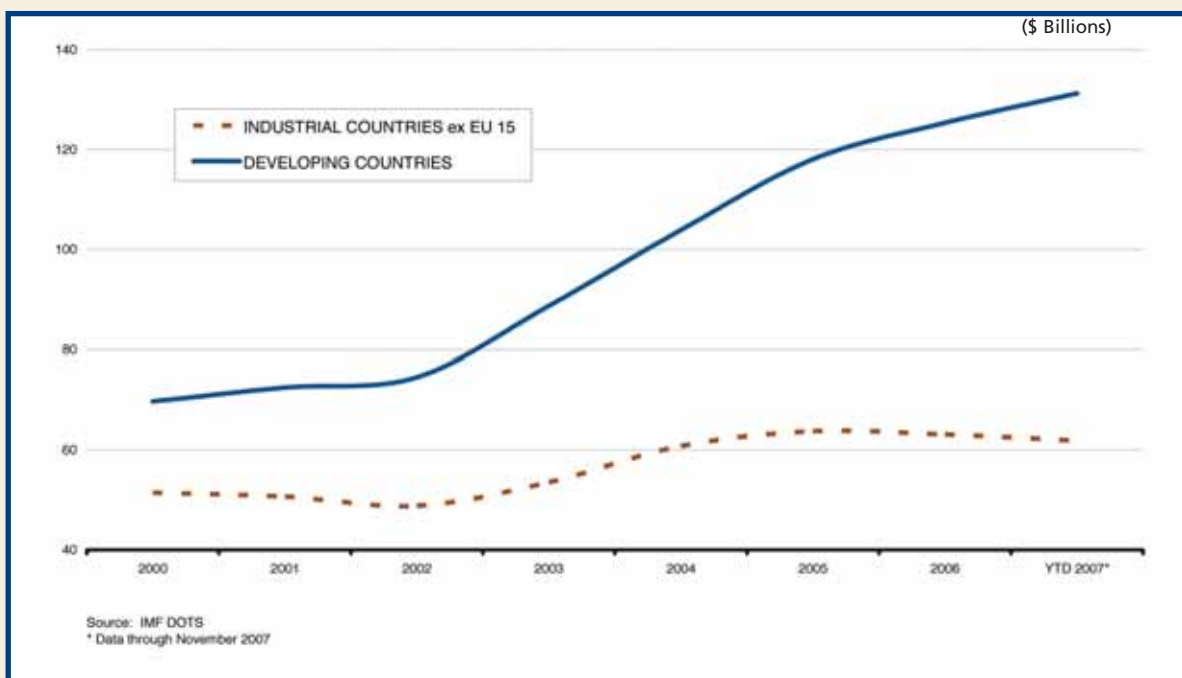
Figure 2: France: The Shift in Trade (Imports)



French imports have exhibited a similar pattern. Between 1980 and 1989, imports from developed nations grew by a 17 per cent annual rate, whereas imports from developing countries grew at only a 7.7 per cent annual rate. In the 1990s, however, the geography of France’s imports shifted, with developing nations registering stronger growth (6.7 per cent) than developed nations (4.7 per cent). Between 2000 and 2006 French imports from developed nations outside the EU-15 increased by less than 16 per cent, whereas imports from developing nations soared 109 per cent.

A number of factors are responsible for this reconfiguration in trade, including the enlargement of the EU and its Single Market to rapidly developing nations; greater cross-border specialization by French firms, which has boosted intra-firm trade between France and a host of developing nations; and rising final demand for French products in developing nations as consumption and investment become more important economic drivers.

Figure 3: France’s Exports - Developed vs. Developing Nations

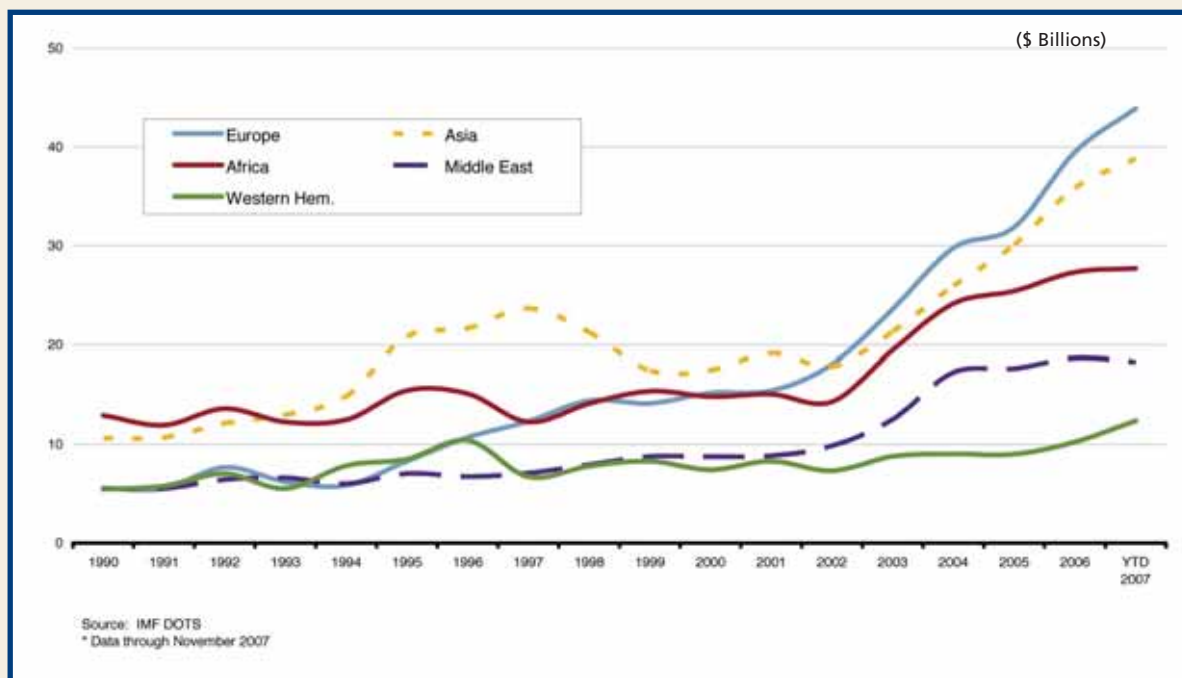


Much has been made of the supply side effect of the developing nations—namely the entrance of millions of new workers into the global labor force. But developing nations have also had a demand-side impact on the global economy – in 2007 they accounted for a record-shattering 40 per cent of global imports.

French firms and French workers have benefited greatly from this trend. Africa's imports from France rose roughly 104 per cent between 2000 and 2006. Russian, central and eastern European imports from France soared by 215 per cent over the same period. Middle East imports from France rose 126 per cent, Latin American imports rose 83 per cent, and developing Asia's imports from France soared 142 per cent between 2000 and 2006.

While French companies are benefiting from this shift in export patterns, they have not yet tapped its full potential. Even though France accounts for nearly 5 per cent of total imports from the world as a whole, it generally accounts for only 1 to 2 per cent of imports by many major emerging countries. France is also underrepresented in sectors such as capital goods, where demand from emerging countries is the strongest. (4) The challenge will be to tap this growth potential with goods and services that meet the needs of fast-growing developing countries.

Figure 4: Developing Regions -Imports from France



Key Benefits of Lower-Cost Imports

Developing nations have not only emerged as a key catalyst of export growth for French firms, they have become a low-cost source of imports for France. Lower prices for imports have meant more products at reduced prices and have thus generated a number of beneficial effects for French consumers, workers, companies and the government.

First, they have been deflationary. Despite current French concerns about imported inflation, consumer price inflation in France has averaged roughly 2% this decade, slightly below the Eurozone average. This positive trend has been due in part to lower cost imports, notably from China. Imports from China and other developing nations have lowered the cost of final goods for French consumers and have helped reduced input/intermediate costs for French industry. According to the OECD, since 2000 imports from China alone have reduced inflation in the eurozone on average by 0.2 per cent points a year. This long-term deflationary pressure is likely to continue.

Second, lower import costs have also put downward pressure on interest rates in France and other eurozone countries. The high savings rate of many developing nations has added to the global savings pool, and combined with lower prices and lower inflation has helped to lower long-term interest rates.

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Third, lower prices have acted to boost real wage gains for French workers. According to Eurostat, downward pressure on consumer prices due to cheaper imports contributed to a doubling in the growth rate of real consumption wages in the EU over the 1990s.

Fourth, access to cheaper imports has given French consumers more choices at lower prices and thus has helped stretch their purchasing power.

Fifth, greater competition has also pushed French companies to lower their costs and create greater efficiencies in production, which translate into higher productivity and greater output. Finally, as more people in developing nations increase their incomes and boost their consumption, French firms enjoy more export opportunities to more customers. French companies have been among the main beneficiaries of soaring import demand from central and eastern Europe, Russia, the Middle East, Asia and Latin America.

Developing countries have emerged as a significant source of global supply and demand. In many cases, the supply (exports) have exceeded demand (imports), notably as it relates to trade between developed and developing nations. Most developed nations run an aggregate trade deficit with the developing nations, and France is no different. In 2007, France's trade deficit with the developing nations totaled roughly \$3 billion. If China is excluded from the total, however, France actually posted a \$9 billion trade surplus with the developing nations in 2006. It is perhaps interesting to note that France's trade deficit with Germany is slightly larger than its trade deficit with China.

Figure 5: France's Trade Balance with Developing Nations

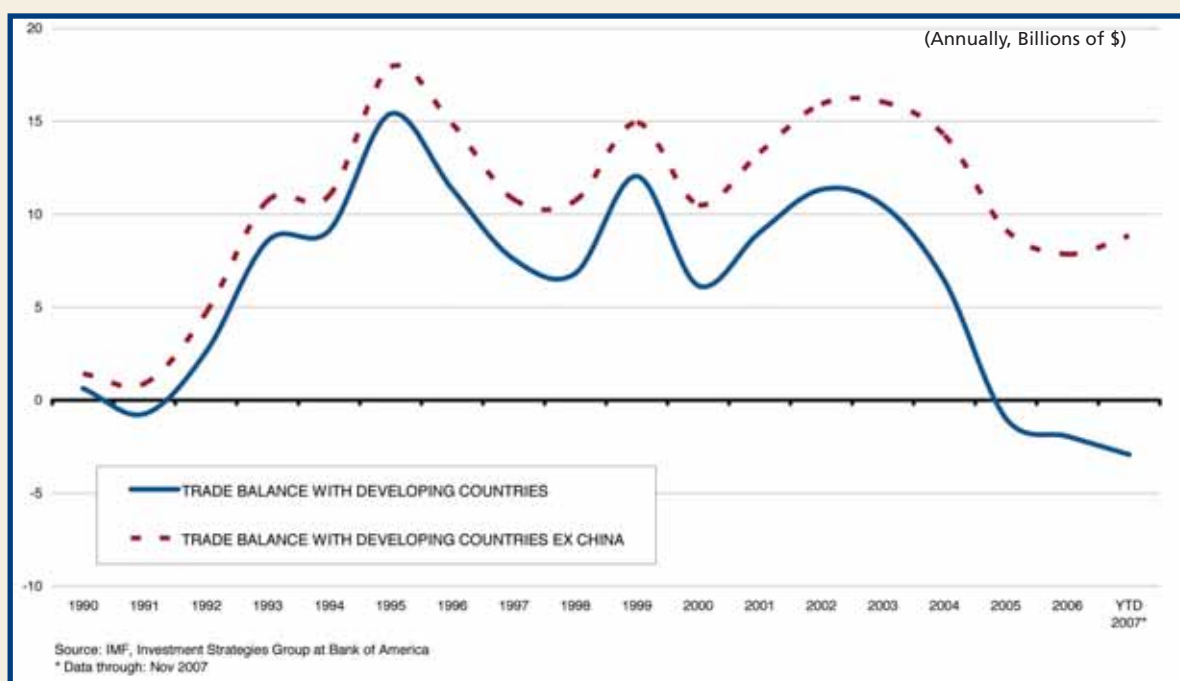
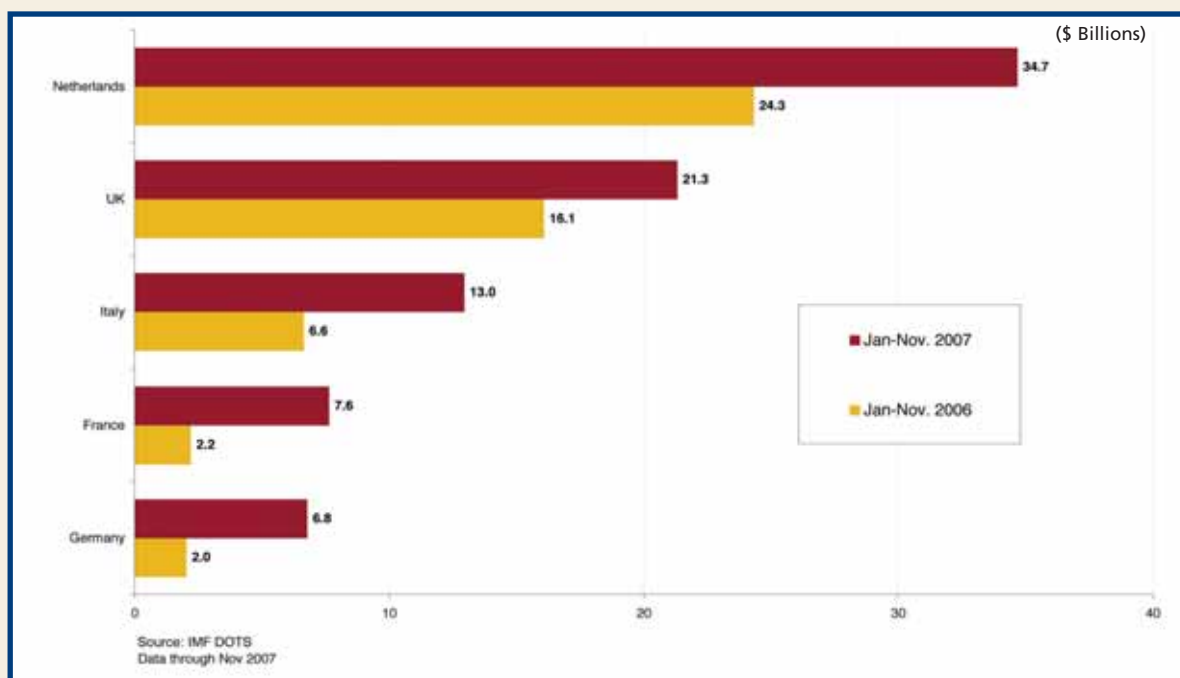


Figure 6: China's Trade Surplus with Europe



France is also recording trade surpluses in services, an important but underutilized strength of the French export economy. France recorded a €10.6 billion surplus in services trade in 2005, a €8.3 billion surplus in services trade in 2006, and a €6.3 billion surplus through the third quarter of 2007. (5) Yet growth rates for French services exports are trailing those of most other European countries. In 1996 France had close to a 6.5 per cent market share in world imports of services. By 2006 that had declined to just slightly more than 4 per cent. Germany's share was similar to that of France in 1996, but by 2006 it had inched higher to close to 7 per cent. The UK's share was the same as that of France in 1996, but by 2006 it had grown to about 9 per cent of world imports of services. (6)

Among the larger European countries, France occupies a middle position in services trade between the UK (which is significantly more active in services) and Germany (which has maintained its strong position in manufacturing). French specialization in services stems to a large extent from its leading position in tourism, although its advantage in patents and license fees has been on the rise since the beginning of the decade. Within the EU, only France, the UK and Sweden achieve significant trade surpluses in "royalties and license fees" (for the use of patents, copyright, trademarks). (7)

Investment Flows

Globalization has unleashed robust foreign direct investment flows, and France has been a primary beneficiary. France, in fact, has emerged as a primary recipient and provider of foreign direct investment (FDI) since 1990. Currently, France ranks as the third top destination for FDI in the world, trailing only the U.S. and the UK. Over the ten years ending in 2006 France ranked fourth globally, attracting \$481 billion in foreign direct investment, following only the United States (\$1.6 trillion), Belgium (\$1.2 trillion), and the UK (\$800 billion).

According to the United Nations, global FDI flows into France between 2000 and 2006 (\$382 billion) were only slightly less than those into China (\$397 billion). The mainland has attracted billions in foreign direct investment on account of its large, inexpensive labor market and potentially outsized consumer market. France's allure lies in its highly skilled labor force, wealthy consumer market and participation and leadership in one of the largest economic entities in the world—the European Union.

EU enlargement has not led to any large scale diversion of foreign direct investment from higher-cost nations such as France or Germany to low-cost producers such as Poland, Hungary

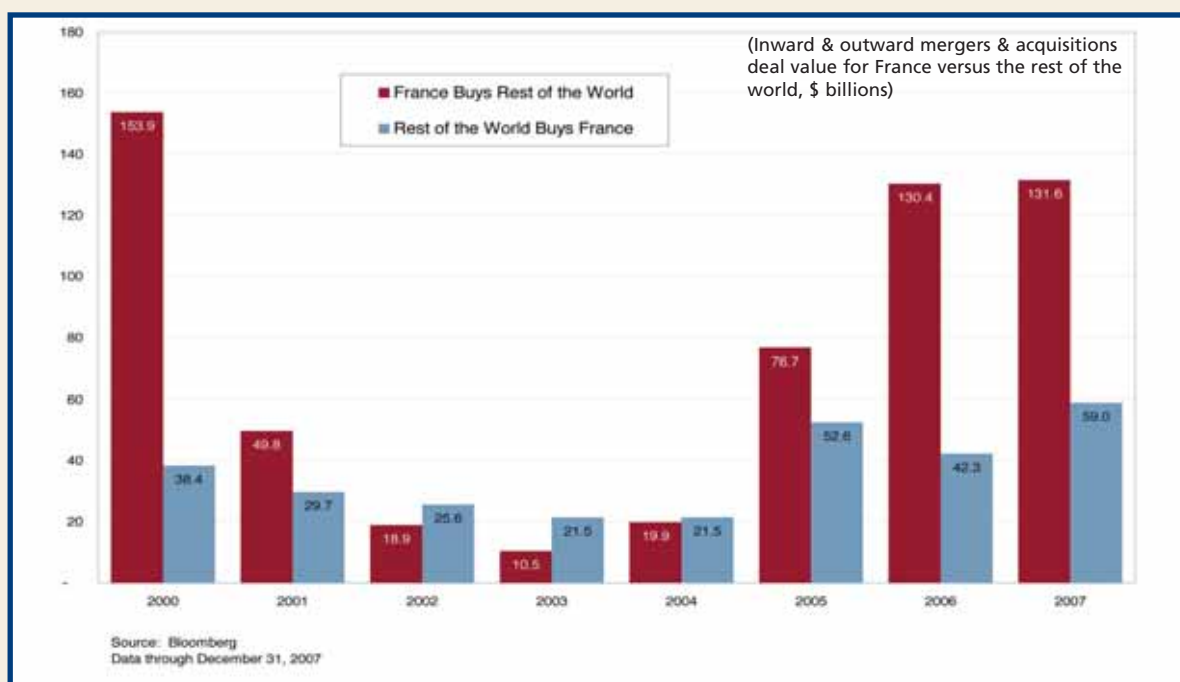
or Romania. While FDI inflows have increased sharply in many new EU member states, rising inflows have not been at France's expense. In fact, combined inflows to the accession nations totaled roughly \$40 billion in 2006, half the level of inflows to France.

France has experienced large increases in both inward and outward FDI stock since 1990 -- evidence that France is participating in the globalization of foreign direct investment flows. The level of inward stock in France soared nearly nine-fold from \$86.8 billion in 1990 to \$783 billion in 2006. The growth in outward stock was just as impressive—from \$110 billion in 1990 to over \$1 trillion in 2006. Interestingly, while France's outward stock in 1990 was roughly one-quarter less than that of Germany in 1990, by 2006 it was some 7.5 per cent greater – an important indicator of corporate France's surge into global markets over the past decade and a half. According to the UN, French firms accounted for 13 of the world's top 100 multinationals in 2006 – one more than German firms.

French firms have been notably aggressive in terms of global mergers and acquisitions (M&A) over the course of this decade. Mergers and acquisitions are one key element of total FDI flows and among the preferred form of investment for many companies domiciled in developed nations.

As Figure 7 highlights, French companies have acquired more assets overseas this decade than foreign companies have acquired in France—and by a wide margin. French M&A purchases totaled nearly \$600 billion between 2000 and 2007, versus less than \$300 billion in foreign M&A purchases in France. M&A outflows have not recovered to the “dot com” bubble days of the late 1990s, although M&A outflows were quite robust in 2006 and 2007. M&A purchases were in the range of \$131 billion on average. Inflows were much smaller, averaging roughly \$50 billion over the past two years.

Figure 7: France M&A Inflows/Outflows



By destination, French M&A outflows remain concentrated in the developed nations. Eight of the top ten markets in terms of French outward M&A were developed nations—with the United Kingdom ranked number 1, followed by the United States, the Netherlands, Italy and Canada. Russia and EU member Hungary were the only two developing nations among the top ten. French M&A has been directed at such sectors as telecommunications, electricity, financial services, and food and beverages.

The common denominator behind these trends is the dominant role of services in global M&A and foreign direct investment. Services have come to dominate global FDI over the past decade,

and Europe, led by France, has been at the forefront of this process. Today, services represent nearly two-thirds of global FDI stock, up from a 49 per cent share in 1990. Extra-EU outward investment is dominated by service activities—roughly 70 per cent of the EU's outward stock was in services at the end of 2004, up from 62 per cent at the end of 2001. Meanwhile, intra-EU investment in services, bolstered by Single Market initiatives, has remained quite strong, centering on financial services, distribution, telecommunications, environmental services, air and marine transport, and services investment in such infrastructure-related activities as water, electricity, energy, and environment. French firms such as Total (energy), Électricité de France (electricity, gas and water), France Telecom (telecommunications), Suez (electricity, gas, water and environment) Veolia and Saur (environment) are quite competitive in these sectors. (8)

Figure 8: France: Top Destinations for M&A Purchases Abroad

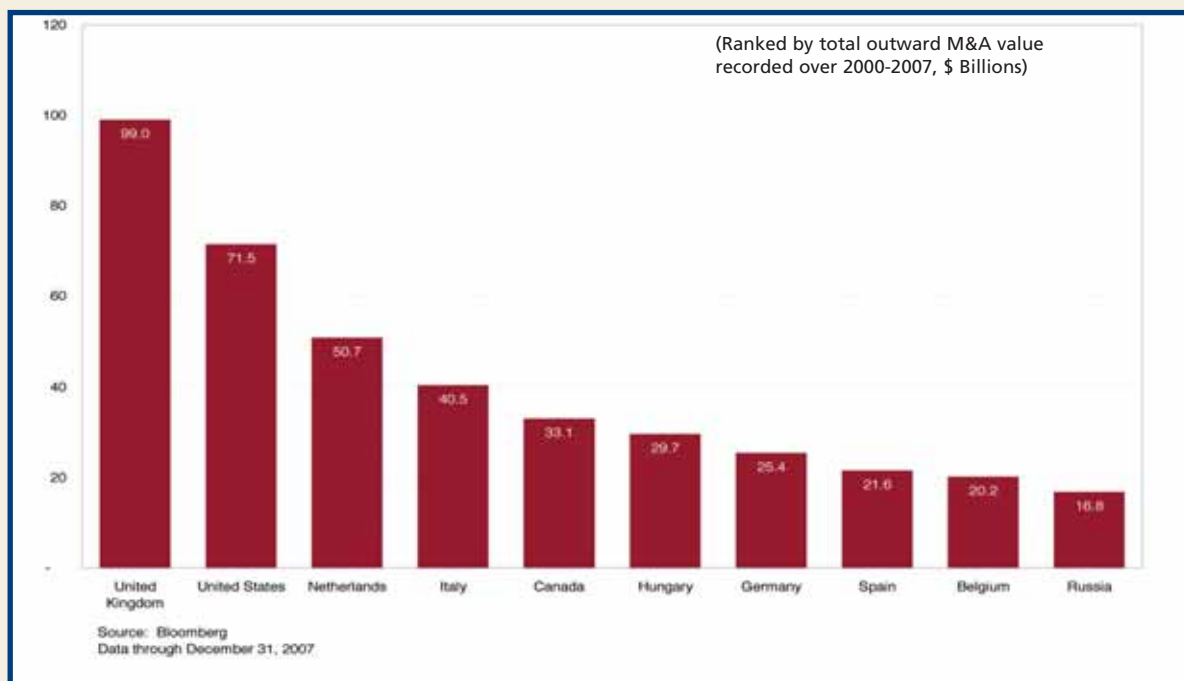
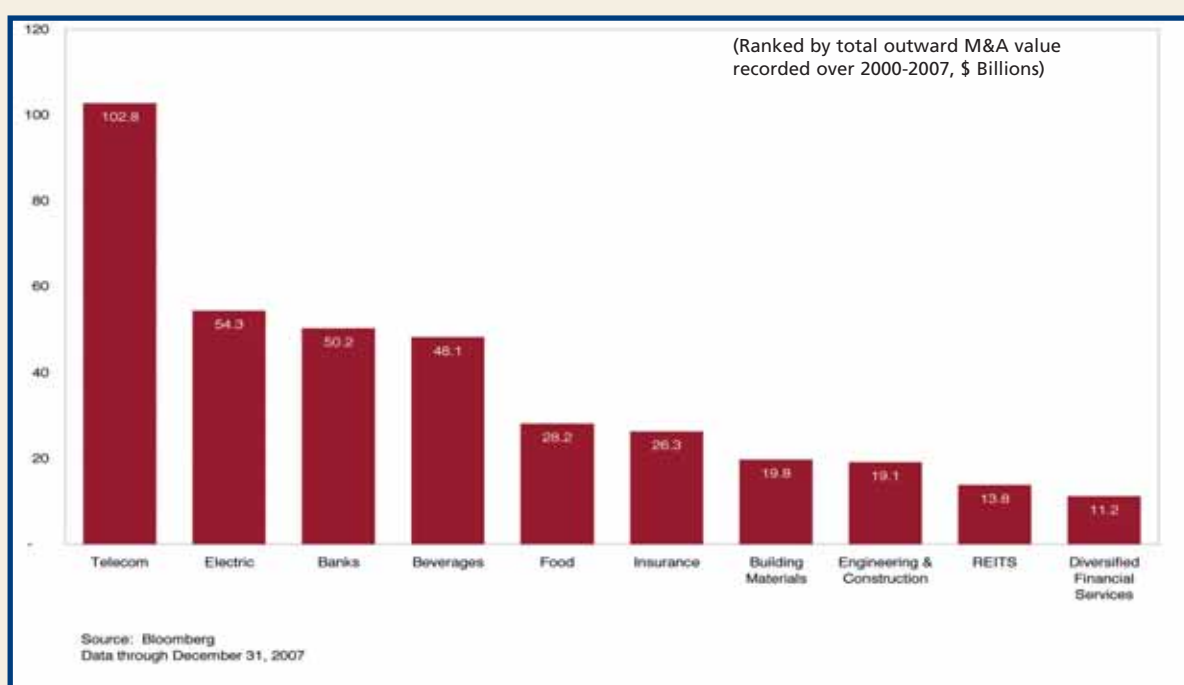


Figure 9: France: Most Popular Foreign Industries for M&A Purchases Abroad



FRANCE AND GLOBALIZATION

Because of rising levels of investment in services, FDI intensity remains strong within Europe in general and France in particular. A number of forces underpin this dynamic rise in services FDI, of which France has been a key driver. The first has to do with the ascendancy of the services economy, not only in the EU but around the world. Second, since many services are not tradable, cross border investment is the only way for companies to bring services to foreign countries. Third, services FDI has expanded as French and other European firms seek new markets and new resources outside the European Union. Finally, more Free Trade Agreements (FTAs) are centered on services, promoting greater cross-border investment in various service activities. In 1999 only 11 FTAs included services. Since 2000, the number has increased to 42.

In terms of M&A inflows, multinationals from developed nations—notably the U.S. and the UK—have lead the charge into France during this decade. American and British firms together accounted for roughly 40 per cent of M&A inflows into France between 2000 and 2007. The key sectors of attraction were service industries such as media, finance and telecommunications. (9)

Figure 10: France: M&A Inflows by Country

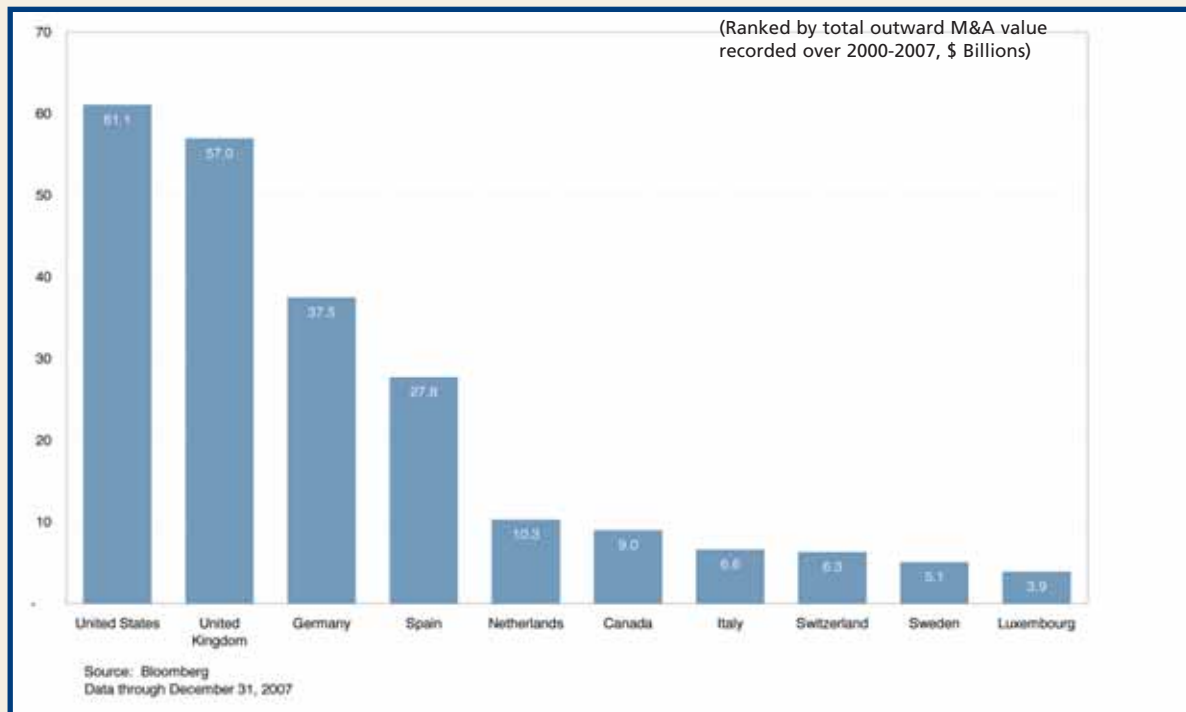
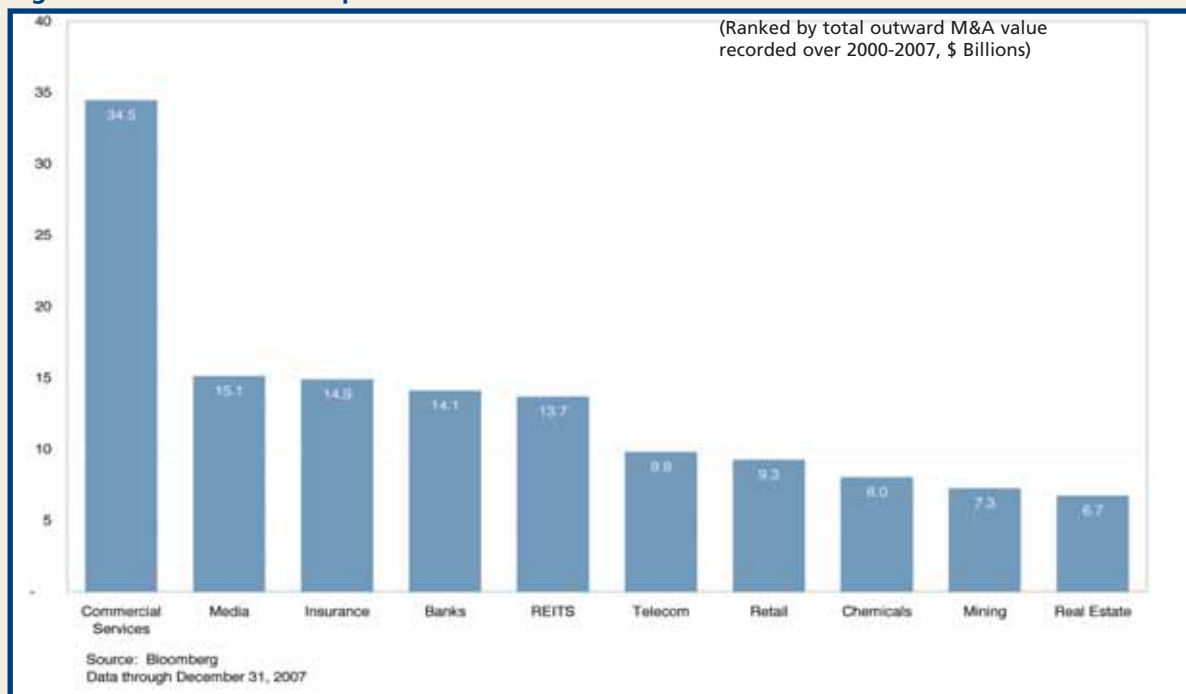


Figure 11: France: Most Popular Industries for Inwards M&A Flows

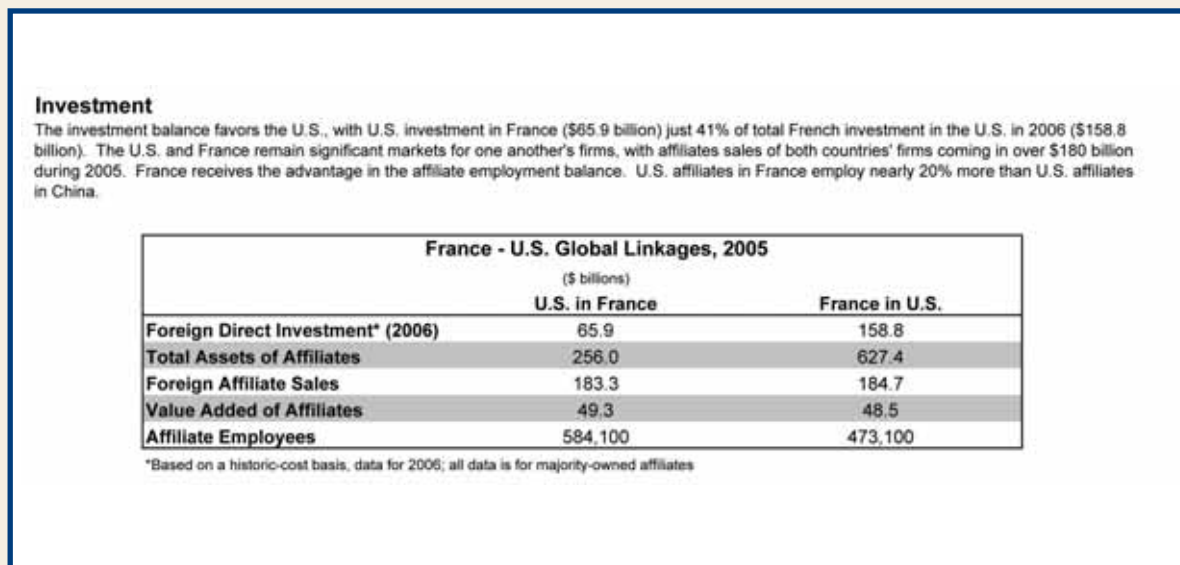


Rising capital outflows have enabled French firms to increase their overall profitability and productivity at home by relocating various activities and functions to other nations where operating costs are lower. The result is greater cross-border specialization among French companies, more competitive business enterprises, and more profitable firms.

FDI is also an important stimulus to French trade and employment. The 18,000 subsidiaries of foreign companies active in France account for 45 per cent of French exports of goods and 30 per cent of French imports of goods and services. They employ more than 2 million people. Foreign investors account for double the amount of French jobs as they did 10 years ago. Some 40,000 new jobs were created in 2006 as a result of foreign projects in France -- the highest level ever recorded (and a 33 per cent increase over 2005). One in seven private sector employees in France works for a foreign company, more than in Germany, the United Kingdom, the Netherlands, or the United States. (10)

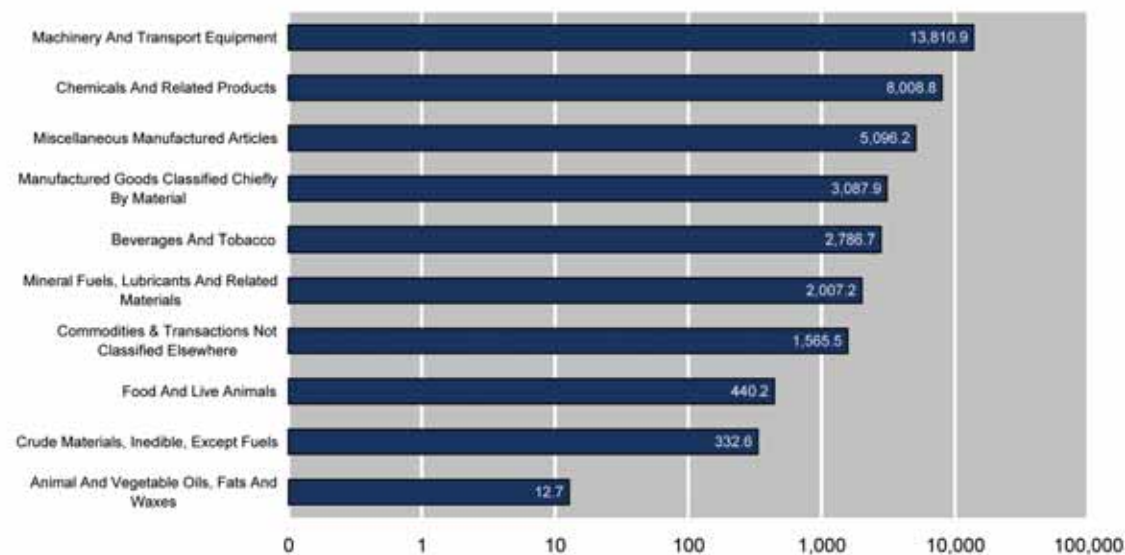
The U.S. is the leading foreign investor in France, with nearly 3,000 companies supporting 584,100 French jobs. U.S. foreign direct investments in France accounted for 16 per cent of all jobs created in France in 2007. U.S. affiliates in France employ nearly 20 per cent more people than U.S. affiliates in China. Business expansions accounted for 45 per cent of U.S. investments in 2007, reflecting confidence in the future of the French economy. The services sector continues to be a hot growth area for U.S. investors, accounting for 45 per cent of the jobs created or maintained by U.S. companies in 2007. (11)

Figure 12: France and the United States: Investment and Trade Figures



Trade

The U.S. accounted for 6.7% of total exports from France in 2006, but a share of 19.1% of total exports when intra-EU trade is excluded. Products exported to the U.S. ran the gamut, from heavy machinery and transportation equipment to agricultural products. Regarding imports, the U.S. supplied 4.6% of total imports by France in 2006, although the share rises to 14.8% after accounting for intra-EU trade.

Top Ten U.S. Imports from France, 2006 (in \$ millions)

Source: Bureau of Economic Analysis, International Monetary Fund, Office of Trade and Industry Information

France is also a major investor in the United States. In 2006 FDI by majority-owned French affiliates in the U.S. amounted to \$158.8 billion. French investments in the U.S. support 473,100 American jobs. Every business day approximately \$1 billion in commercial transactions take place between France and the U.S. (12) Services play a major role in Franco-American commercial relations as well. The United States accounts for 44 per cent of global sales by foreign affiliates of French companies. (13)

Capital Flows

Beyond trade and investment in goods and services, nothing better captures the velocity of globalization than the daily movement of global capital. Daily turnover in the foreign exchange markets has nearly quadrupled since the early 1990s, and totaled \$3.2 trillion in early 2007. The euro has been at the cutting edge of this trend; Europe's single currency accounts for 37 per cent of daily global turnover, second only to the U.S. dollar. The euro has allowed France and its eurozone partners to attract more of the world's excess savings, which has strengthened French and European capital markets relative to the United States, provided more liquidity for capital investment, and encouraged lower interest rates. The strong euro has also mitigated recent

inflationary pressures stemming from higher dollar-denominated prices for food, fuel and other resources. McKinsey calculates that in 2006 America's capital markets had some \$56 trillion in assets. Europe, including the UK, had roughly \$53 trillion, a sharp increase over recent years. On latest trajectories, this implies that Europe overtook the U.S. in 2007. (14)

The velocity of capital has also spawned more of a global equity culture, and France has been integrally involved. Foreign investors now hold 46 per cent of the market capitalization of the CAC 40 (Paris stock exchange index). That figure is well above the U.S. foreign ownership level (roughly 18 per cent) and greater than non-resident holdings of other European nations. In April 2007, Euronext (which includes the Paris bourse) joined forces with the New York Stock Exchange (NYSE) to give birth to the world's largest and most liquid stock-market platform, with average daily trading value totaling some \$120 billion and capitalization of listed companies totaling \$28.5 trillion. (15)

Soaring levels of foreign ownership and participation in European and French capital and equity markets have paid dividends for key French stakeholders by enhancing the capital efficiency of France's financial infrastructure and making more low-cost capital available for capital investment and consumer spending.

There are legitimate concerns that the financial turbulence currently affecting U.S. and British markets could be transmitted to France and other eurozone countries, but thus far there has been relatively little impact on the French economy. Despite headline-grabbers such as the trading scandal at Société Générale, French banks continue to perform solidly, and their exposure to the U.S. subprime market appears limited. French banks are generally well-capitalized and there is no French subprime market as such. Real estate prices have risen markedly, but French households are far less indebted than their U.K. or U.S. counterparts. Nevertheless, the turmoil is likely to dampen growth in 2008 and 2009 due to generally tighter credit conditions and reduced demand from these key partners. (16)

The Movement of People

Demographic Challenges

Europe as a whole is shrinking and aging. All told, Europe will lose 60 million workers over the next decade. This will have a profound impact on consumer trends, housing and care needs, social attitudes, defense capabilities and political priorities across the continent. The impact of aging populations alone could reduce average potential output growth in Europe by nearly half by 2040, absent structural reforms. Globalization is not responsible for these demographic pressures, in fact it may offer some solutions. But globalization does expose Europe's demographic challenge rather starkly.

France's fertility rate of 1.94 children per female puts the country in a better position than most of its EU partners, and together with migration inflows will enable France to register modest population gains. On the other hand, demographic aging related to longer life expectancy and an increasingly skewed ratio between older and younger workers will constitute a major challenge for the French economy. (17)

An older French work force, within a smaller and older European labor pool, is likely to exacerbate skill shortages and expose mismatches between available jobs and relevant skills. At a time when French unemployment levels remain high and employment growth in most sectors across the EU is on average 1 per cent per year, employment growth in high education sectors across the EU is growing by 3 per cent per year, and these workers enjoy both high employment rates (83.2 per cent) and low unemployment rates (4.8 per cent). (18) France and its European partners can address these trends by improving educational opportunities and boosting productivity through a better educated high-skilled workforce and an infusion of skilled migrant labor. Europe, including France, needs a large influx of skilled immigrants to help fill holes in the job market, maintain European living standards, and support its aging population.

Migration Worries

While lower transportation and communication costs have made it easier for people to move around the globe, their ability to do so has been restricted by government policies. Nonetheless, France and its EU partners are currently grappling with higher labor mobility from two different sources.

The first stems from the enlargement of the EU and the EU's commitment to the free flow of labor within its borders. The UK, Ireland and Sweden welcomed migrants from new EU member states when they joined four years ago. On July 1, 2008 France will open its borders to workers from eight of the new EU member states (Romania and Bulgaria face restrictions until 2014). Despite continuing high unemployment and popular fears of Polish plumbers stealing French jobs and pushing down wages, French companies have complained about labor shortages in some sectors. Moreover, over the past few years France has already been opening gradually to

migrant workers from eastern EU member states. The French government reports that between 2005 and 2007 only 30,000 seasonal workers and 4,850 regular workers came to France from eastern Europe, dispelling fear of a migratory “invasion.” (19)

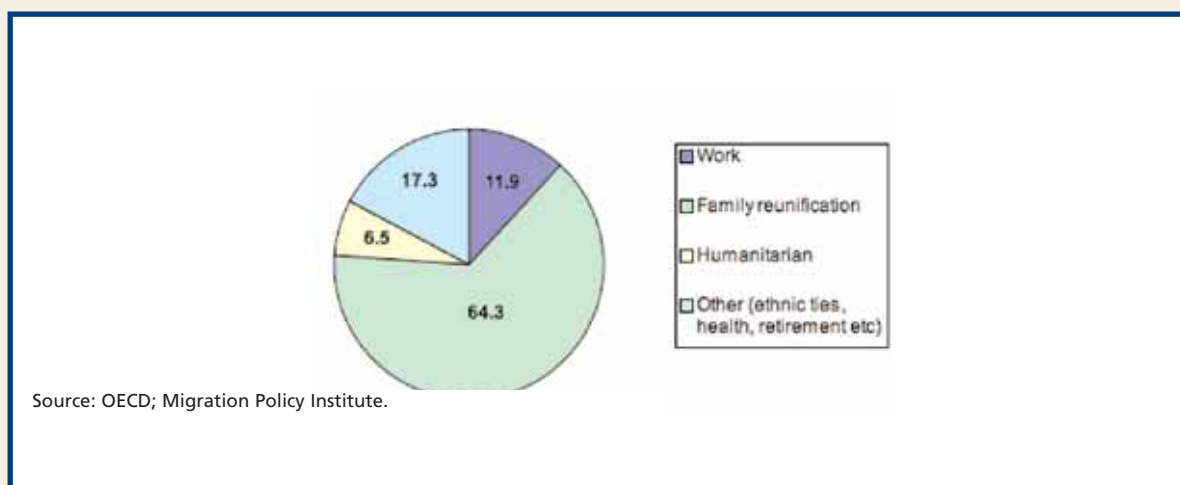
The second source of labor mobility involves high- and low-skilled workers coming into France from outside EU borders. Each year Europe receives a net inflow of 1 million immigrants a year, but it is receiving many poorly educated and low-skilled immigrants without receiving the number of well-educated, high-skilled immigrants that it needs. Of the foreign-born adults living in the EU25, 74 per cent are low- or medium-skilled and only 26 per cent are highly skilled. (20)

This trend stands in stark contrast to other regions of the world. 85 per cent of unskilled labor from developing countries goes to the EU and only 5 per cent to the United States, whereas 55 per cent of skilled labor goes to the U.S. and only 5 per cent to the EU. Highly skilled foreign workers account for only 1.7 per cent of all workers in the EU, compared with 9.9 per cent in Australia, 7.3 per cent in Canada and 3.5 per cent in the United States. (21) Europe has become a magnet for the unskilled at a time when its reliance on high-skilled foreign talent has become more critical.

Foreigners represent a larger per centage of the French population relative to the EU as a whole. Foreign nationals account for 3.26 million people in France (5.6 per cent of the population), out of 22.89 million in the EU27 (4.7 of the EU population). 6.47 million people in France (10.7 per cent of the population), are foreign-born, compared with 40.5 million foreign-born in the EU27 (8.3 per cent of the EU population). Legal, foreign-born labor accounted for 11 per cent of total employment in France in 2006. (22)

Over the past thirty years France’s migration inflows have shifted from being worker-oriented to family-oriented. The oil price shocks and resultant high unemployment in the early 1970s caused France to stop recruiting immigrant workers, yet migrants continued to enter France in large numbers to rejoin family members. Today, family reunification accounts for nearly 65 per cent of immigration to France — a major reason that the government wants to gain control over the numbers and types of migrants coming to the country (see Figure 13). Furthermore, the number of unauthorized migrants—an estimated 200,000 to 400,000 — fuels concerns over the rise in poverty, unemployment, and social tensions. (23) Many French politicians have been vocal in calling for higher barriers to migrants, fearing the loss of jobs and the threat of lower wages. The result: in recent years immigration has declined in France even as it has risen sharply in such EU partners as Spain, Italy and the United Kingdom.

Figure 13: Migration to France by Reason for entry (Percent of total Migration, 2004)



The fear that migration leads to greater unemployment is deeply rooted in European public opinion. Yet empirical evidence suggests that overall the migration effect on wages and employment of native workers is rather marginal. Migrant workers may displace a few native workers over the medium term, but the effect tends to be small and short-lived. In most cases, migration's impact on local jobs and wages is sector-specific; the overall effects are nominal. In sum, the empirical evidence is that migration can have negative short-term consequences, expressed in unemployment, wage pressure on markets with flexible pay, and more welfare costs. Over the medium to long term, however, the impact is positive in terms of overall economic growth. Since migrants are more mobile than native workers, they "lubricate the wheels" of European economic change. Migrants are also consumers and thus provide work for others. They often take dangerous, dirty or low-paying jobs that native French workers avoid. (24) The French hotel and restaurant industries have 35,000 to 40,000 vacancies, French employers say, even though the French jobless rate is 7.8 per cent, one of the highest in Europe. (25)

At the same time, highly skilled migrants can help spark innovation, improve productivity, and therefore help create new jobs. Inflows of the highly skilled are the lifeblood of global innovation networks, and foreign-born professionals have become critical to the French economy. France does rather well in attracting high skilled migrants, particularly in comparison to its EU partners. France registers positive net inflows of professional and technical workers and benefits from strong knowledge flows. France has a high inflow rate (8.3 per cent) and a low outflow rate (2.6 per cent) of professional and technical workers, with a significant portion from developing countries. France has been less affected by the brain drain of talent to the U.S. and other attractive destinations. Less than 2% of French scientists migrate to North America; the rate in other European countries is 4 to 8 times higher. (26)

The French economy also benefits from two other important inflows of people. France is the world leader when it comes to tourism. In 2006 78 million visitors came to France, generating \$42 billion in income. In recent years France has also registered one of the largest proportional increases in the number of foreign students in Europe. (27)

The French government is adjusting its migration policies to maintain or increase the size and quality of its workforce by attracting more high-skilled migrant labor, notably in technology-related fields. New laws on immigration and integration were passed in 2006 to facilitate inward migration of high-skilled labor. At the European level, the proposed EU "Blue Card," supported by the French government and inspired by the U.S. "Green Card," is intended to be the EU's major tool in the global competition for highly mobile high-skilled workers. The Blue Card seeks to create easier, EU-wide application procedures and more attractive entry and residence conditions. Some EU member states remain skeptical, however, and it will be difficult to win EU-wide support for this approach.

In short, France is bucking the European mainstream when it comes to shrinking populations and inflows of low-skilled migrants, and it remains a preferred destination for tourists and students. France's work force is aging, however, and France will not be able to isolate itself from the negative consequences for European growth resulting from the demographic challenges facing its neighbors -- all trends underscoring the urgency of EU-wide efforts to attract high-skilled talent and national efforts to improve educational opportunities, better match skills to jobs, create more resilient labor markets, and address issues of social exclusion.

The Movement of Ideas

France and the Globalization of Technology and Innovation

Information technology (IT) is one of the most important and transformational sectors of the global economy. Increasingly, a nation's rank along the information technology curve determines its rank in the global economic pecking order. Technology is a key economic differentiator—a variable that separates superior economies from the rest of the world. Since technological innovation lies at the core of any economy's long-term growth potential, France's current and future technological capabilities, in a world of rapidly globalizing information technologies, will be instrumental in determining the country's economic prosperity.

Within Europe, technology and innovation capabilities are disparate. In general, Ireland, the UK and the Nordic nations are further up the technology curve than the rest of Europe. Greece, Italy and Spain lie at the other end of the technology spectrum. France and the rest of Europe, in general, fall in the middle. By product, IT intensity is quite high in such sectors as aerospace, mobile phones, pharmaceuticals, and various engineering products, yet lagging in many service sectors/activities of Europe.

The general consensus is that Europe's information technology infrastructure not only lags behind the U.S. and Japan, but that the technology gap is rapidly closing between Europe and Asia's new tech powerhouses (like China, India and South Korea). Europe risks being squeezed between the high end challenge posed by the U.S. and Japan and the catch-up challenge posed by the rapidly developing countries. Despite some core strengths, France is more of a technology follower than a technology leader.

Is France Network Ready?

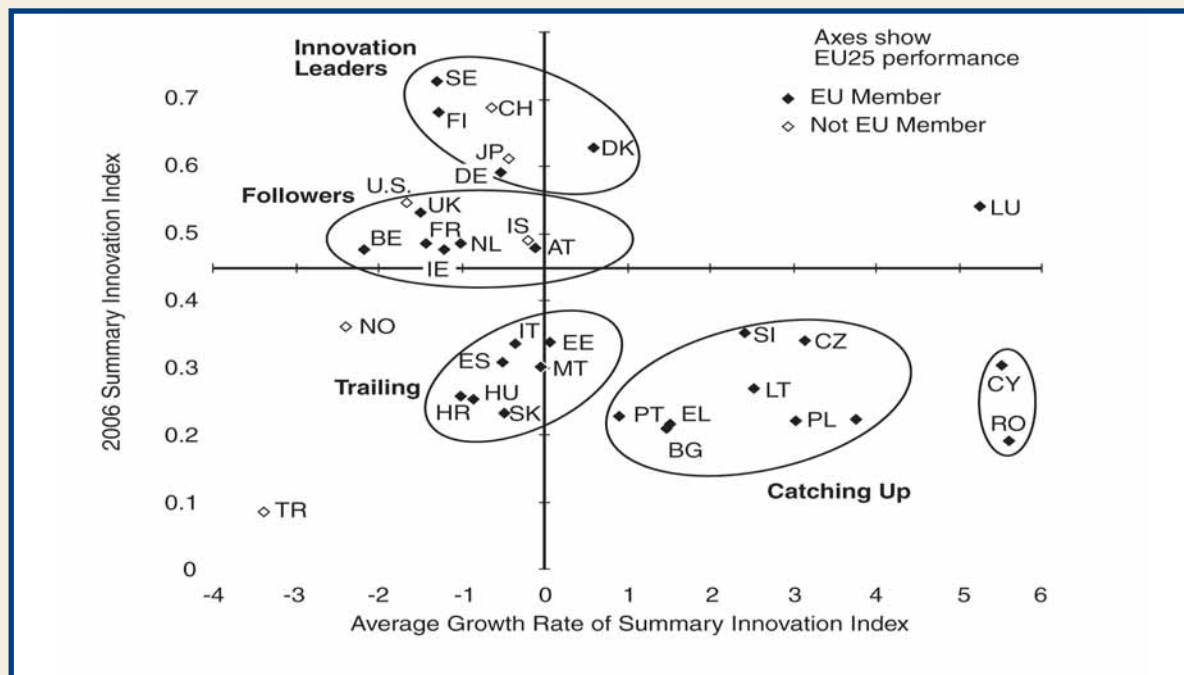
The Global Information Technology Report uses a Networked Readiness Index (NRI) to measure the degree to which a nation is prepared to participate in and benefit from ICT developments. The NRI is composed of three components indexes which assess the ICT environment offered by a country; readiness of the country's stakeholders (individuals, companies, governments); and usage of ICT among these stakeholders.

According to the last NRI survey for 2007-08, France ranked 21st and lagged behind such nations as Estonia, Israel, Australia, Canada and Switzerland. Europe as a whole, in contrast, ranked rather well in the survey, accounting for 7 of the top 10 spots. Denmark ranked first and Sweden second.

France and Global Innovation

By another measurement—innovation—France lags behind others in Europe. A series of reports produced for the European Commission concluded that Sweden, Switzerland, Finland, Denmark and Germany rank within the top tier of global innovation leaders, whereas France, the U.K., the Netherlands, Belgium, Austria and Ireland ranked behind the innovation leaders but above the EU25 average.

Figure 14: Innovation Trends in Europe, the U.S. and Japan



According to the European Commission's Regional Innovation Scorecard 2006, only three French regions ranked among the top 50 innovation regions in Europe: Ile de France (9th); Midi-Pyrénées (30th); and Rhône-Alpes (33rd). (28) This is a critical shortcoming, given that microregions are increasingly becoming technology incubators and key drivers of economic growth. As the world's economy becomes more networked and global, the local also becomes more important. Yet France appears to lack many key microregions or technology clusters that can drive innovation and growth. Moreover, such dynamic "learning regions," attuned to knowledge-driven best practices and interrelated business networks, are likely to attract foreign investment and generate high-skilled jobs in the future. By this standard, France is falling behind some EU counterparts.

In terms of France's ability to export high-tech goods, Table 5 underscores two critical factors. First, China and southeast Asian countries are already significant competitors when it comes to exporting high-tech exports. Second, France's high-tech export strength lies in medium-high tech exports -- an area likely to confront more competition from rapidly developing nations in the future. Given these realities, as France moves ever closer to a knowledge-based service economy, it must keep and embellish its competitive strengths in high-tech goods and services or suffer a loss in average economic welfare. In a world economy where the application of technology and innovation increasingly dictates the pace of change and levels of economic prosperity, France is challenged to raise its own innovation-intensity production and capabilities, while continuing to attract the investment capital and IT core competencies of foreign technology leaders.

Table 5: Export shares in Manufacturing, by Skill Intensity 2005, percent

	High Tech	ICT (part of High Tech)	Medium-High Tech	Medium-Low Tech	Low Tech
World	27.8	19.5	37.5	14.3	20.5
EU15	25.7	12.8	44.6	12.9	16.8
EU12	15.2	15.1	41.1	18.7	25.1
U.S.	36.1	20.2	40.0	10.1	13.8
Japan	27.1	21.9	55.7	12.8	4.4
China	36.2	33.2	20.7	12.8	30.3
SE Asia	47.8	43.4	23.1	8.9	20.2
Austria	14.1	8.7	43.7	17.4	24.8
Belgium	20.3	5.9	44.9	14.9	19.9
Bulgaria	5.4	4.6	23.3	27.4	43.9
Cyprus	49.2	32.3	21.9	4.3	24.6
Czech Republic	15.8	15.8	46.7	20.1	17.4
Denmark	23.2	10.8	29.8	11.7	35.3
Estonia	23.8	24.4	23.9	14.8	37.5
Finland	26.7	24.0	29.8	17.0	26.5
France	24.4	9.1	42.2	13.3	20.1
Germany	20.5	11.4	51.8	13.7	14.0
Greece	14.8	6.0	19.1	25.7	40.4
Hungary	32.8	31.6	43.6	9.4	14.2
Ireland	52.8	24.4	32.2	2.4	12.6
Italy	11.8	5.0	41.7	17.7	28.8
Latvia	7.7	4.6	17.4	13.0	61.9
Lithuania	11.3	10.6	29.5	15.5	43.7
Malta	57.3	50.3	15.7	6.3	20.8
Netherlands	34.7	24.6	31.7	10.2	23.4
Poland	6.8	7.4	40.4	24.3	28.6
Portugal	12.5	11.9	32.6	16.7	38.3
Romania	4.2	9.6	32.3	17.5	45.9
Slovakia	12.9	14.6	46.9	19.3	20.8
Slovenia	10.4	3.6	45.0	19.9	24.7
Spain	11.9	5.6	47.3	18.2	22.6
Sweden	24.0	15.3	38.9	15.3	21.8
UK	33.8	20.0	37.8	12.1	16.4

Note: SE Asia excludes China.

Source: "Globalization and the European Union: Which Countries are Best Placed to Cope?" by David Rae and Marte Sollie, OECD calculations based on UN COMTRADE.

French companies will be better able to meet this challenge the better integrated they are into global innovation networks. A Banque of France analysis of 28,133 French firms between 1996 and 2002 (29) revealed that firms with access to foreign markets through foreign affiliates and/or exports may have better access to new and improved foreign technology. Global firms should be more likely to benefit from international technological spillovers. Generally, empirical evidence tends to point to superior productivity of exporting firms compared to domestic ones.

France does boast some core technological strengths, particularly in rapid transit, autos, civilian and military air transport, pharmaceuticals and luxury goods. Moreover, the R&D sector accounts for 380,000 jobs in France, and in terms of researchers alone, France ranks sixth worldwide and second in Europe behind Germany. With an average growth of over 3% a year, the increase in the number of researchers in France has been one of the strongest in the OECD in recent years. (30)

Despite these strengths, France is inadequately mobilizing its R&D resources. The business sector contributed 51.7 per cent of all R&D investment in France between 2001 and 2005, behind Sweden, Finland, Germany and Denmark. France's R&D growth of 0.6 per cent between 2001 and 2005 was far below that of Ireland (8.5 per cent), China (19.7 per cent) and many other countries over the same period. While there have been some recent improvement, stimulated in part by the government's new research tax credits, it seems unlikely that France will achieve the Lisbon Strategy goal of 3 per cent of GDP invested in R&D in 2010. France needs to take this as a challenge and increase private sector R&D spending. (31)

Despite these challenges, French culture and creativity are widely considered to be two major assets of France's global "brand." According to rankings published by Brand Finance, France is number three worldwide in terms of the number of brands (in a number of sectors) with the highest equity (L'Oréal, Louis Vuitton and Chanel). To capitalize on the cachet of Brand France, it is necessary to stress simultaneously France's technological capacity and the reputation of its art de vivre. This underscores why France has a strong national interest in being a ferocious defender of intellectual property rights, a key protection for creativity.

Inflation

Over the past 15 years inflation in France has been markedly lower than it is likely to have been without globalization, due to more competition and lower-cost imports. This has benefited all stakeholders, and this long-term secular trend is likely to continue. On the other hand, the burgeoning demand of rapidly developing countries has more recently boosted prices for food, energy and other commodities. The strong euro has helped to ease some dollar-denominated pressures, but non-oil, non-food raw material import prices are rising at an annual rate of 6.5 per cent. As a result, the French government reported that prices in March 2008 rose at a 3.5 per cent annual rate, the fastest annual rate of increase for 11 years. Although eurozone inflation slipped to 3.3 per cent in April and the European Commission estimates that eurozone price rises will average 2.9 per cent in 2008, this remains higher than the European Central Bank's target of "below but close to" 2 per cent for the eurozone.

Current food price hikes are high, but less than those of some years ago, and those were caused by domestic legislation, not globalization. Heavy-handed regulations designed to protect against predatory pricing, codified in the loi Galland in 1997, in practice stifled competition and resulted in higher consumer prices. Between 1997 and 2002, French food prices rose by 11.8 per cent - well above consumer price inflation of 6.4 per cent during that period. The French government acted to contain prices and in 2005-2006 introduced some limited reforms of the loi Galland with some effect. (32)

In short, overall globalization has had a deflationary impact on France, although it can also transmit higher prices from abroad due to cyclical factors, as is currently the case. The loi Galland example demonstrates that domestic actions are equally critical, however, and that more could be done at home to fight inflation.

In comparative terms, inflation in France and other eurozone countries is lower than in the developing countries, many of which are facing combination of both wage and price inflation.

Chinese wage inflation, for instance, is rising at a 22 per cent annual rate. (33) China's overall inflation rate is running at an annual rate of 8.5 per cent. In Russia, inflation is well into double digits and rising. In India and Brazil inflation is above 5 per cent and rising.

Interest Rates

Eurozone interest rates are now tending higher than in the U.S., where the U.S. Federal Reserve has engaged in sweeping cuts in borrowing costs to offset its current financial crisis and recessionary pressures. The European Central Bank has maintained its main policy rate at 4 per cent to counter the inflationary pressures outlined above. Yet if one looks beyond the inflation spike of recent months to the past fifteen years, it is clear that globalization has been deflationary in general. This has helped to lower interest rates, which in turn has lowered borrowing costs for French consumers and the government, boosted capital spending by French companies, and helped to fuel real growth in France.

Jobs

French unemployment remains stubbornly above the EU average and is particularly acute among younger workers (near 20 per cent). At the same time, the employment rate is among the lowest in Europe, and employment creation remains under 1 per cent per year. Growth of the minimum wage (SMIC) has sharply outstripped general wages (and productivity), pricing many low-end workers out of the market. (34)

There have been some positive developments. In the last quarter of 2007 the French jobless rate was 7.5 per cent, the lowest in 25 years. The data record a trend of falling unemployment from 8.4 per cent at the beginning of 2007 and from a peak of 11.3 per cent in 1997. (35) Yet the current unemployment level is certainly too high and still far above the Sarkozy government's target of 5 per cent by 2012.

The relevant question for our study is the relationship between globalization and jobs. Popular concerns tend to focus on two issues. The first is the "offshoring" of jobs by French companies, and second is the relationship between the jobless rate in France and French imports from low-wage countries.

The phenomenon of offshoring—when a company shifts services and/or manufacturing activities outside the nation to either an affiliated or unaffiliated firm—is easily the most emotionally charged and misunderstood aspect of globalization. While offshoring is not new, it has generated a great deal of anxiety across Europe, including in France.

Critics charge that firms seek to offshore activities primarily to take advantage of cheap labor costs, destroying jobs at home. However, offshoring is more than just about chasing cheap labor. Other motivations include cost savings; cost restructuring; improving the quality of products and services; accessing intellectual property, wider experience and knowledge and best practices; and in general, making more efficient use of labor, capital, technology and resources. In other words, there are a myriad of reasons to offshore.

Although the threat of job losses steals the headlines, offshoring decisions can generate diverse economic effects. The UN claims that offshoring entails three substantial benefits to developed nations such as France:

Offshoring, undertaken by companies to reduce costs and/or improve quality and delivery, enhances competitiveness, and by extension, benefits the home country. Conversely, companies that refuse to offshore, risk losing competitiveness to those that undertake it.

It enables the home (or importing) country to shift to more productive and higher value activities. Economic dynamism depends on adaptation to changing comparative advantages, and offshoring is no exception. As long as resources are mobile and workers move to new jobs, such changes are not just beneficial but also necessary for long-term prosperity. The impact is no different from that of technical change that makes some jobs redundant and creates others, generally at higher wage levels.

Exporting host countries use some of their export revenues on imports of advanced products exported by the industrialized countries.

Winners from offshoring include French companies that are able to take advantage of potentially very large cost savings, new pools of highly skilled labor, more flexible management of workforce levels, and higher productivity. Offshoring some jobs abroad could keep particular businesses profitable, thereby preserving others jobs at home. By increasing productivity, offshoring enables companies to reinvest more in new technologies that will create new jobs and boost profits. Meanwhile, French firms that onshore production and services benefit from the jobs they generate and the investment they attract, and over the longer term through transfers of technology and skills to local populations. Consumers of offshored goods and services benefit from lower prices of the items they consume and by expanded business hours in many service industries. Price declines dampen inflation and thereby lead to real wage gains.

There are losers from offshoring as well—notably lower-skilled workers who lose their jobs due to offshoring decisions. However, this group is small relative to the overall French economy, since the scale of offshoring in France is quite limited.

Based on data from the European Monitoring Center for Change (EMCC), less than 7 per cent of jobs lost in France over the past four years were due to offshoring. The OECD estimates that in 2005 offshoring accounted for only 3.4 per cent of total job losses in France—a much smaller percentage than commonly realized – and that those offshored jobs were concentrated in electrical machinery. These losses are dwarfed in importance by job creation and destruction due to the normal churn of the French economy. Every year, about 15 per cent of French jobs are eliminated and 15.5 per cent are newly created. That translates into about 30,000 jobs created and destroyed every business day. Every hour that France is open for business, thousands of jobs appear and disappear for many reasons: technological progress, changing consumer tastes, cyclical fluctuations, government policy changes, corporate bankruptcies and internal restructurings, uneven productivity performance, and many other factors.

Offshoring plays a minor role in the overall mix, and France benefits significantly from onshored jobs as well. The French government estimates that 35,000 jobs are offshored each year whereas 30,000 jobs are created each business day in the French economy. Moreover, most offshored jobs flow to other European countries – a rather different picture than the widespread image of good-paying French jobs being exported to low-paying developing countries. (37)

Moreover, there is no general correlation between the jobless rate in France and French imports from low-wage countries, as Table 4 makes clear. Countries like Japan have low unemployment even though a relatively large share of their imports comes from low-wage countries. Conversely, countries with high employment rates—such as France—import relatively little from low-wage countries.

Table 4: Unemployment Rates and Imports from Low-Wage Countries

Country	2005 unemployment rate (per centage of workforce)	Penetration rate of imports from low-wage countries (per centage of imports)
Japan	4.4	39
U.S.	6.8	35
Germany	9.5	24
UK	4.7	15
France	9.7	11

Sources: OECD 2006 and McKinsey (2006);
http://www.lamondialisation.fr/pdf/mondialisation_rapport_ang.pdf

These conclusions make little difference, of course, to an individual worker who lost his job because his company moved across town or across the border. But as far as we can tell, relatively few French or European workers face such wrenching change. The EMCC reports that between 2003 and 2006 only 1.5 per cent of job losses due to corporate restructuring involved relocation within an EU country, and only 0.5 per cent of total jobs lost involved relocation to another EU country. (38)

Offshoring, in fact, is only a small part of a far bigger story: the generational shift in France's employment structure away from agriculture and manufacturing to services. By 2005, service sector employment in France accounted for 72.8 per cent of the workforce, whereas manufacturing employment accounted for only 16.6 per cent. (39) Knowledge-intensive services (financial services, business related services and communications) have contributed more to French GDP growth than manufacturing, agriculture or even other kinds of services (distributive services and personal and social services). (40) As France continues to transition toward an economy driven by knowledge-intensive services, the vast majority of French workers are affected more by the internal changes their companies make as they adapt their organization and production to changing competitive conditions, rather than by such external factors as foreign corporate takeovers, offshoring or relocation.

Income

In recent opinion polls, French consumers rank eroding purchasing power (*pouvoir d'achat*) as their greatest economic concern, above unemployment. Yet data show that over the past seven years, real disposable household income has increased in France faster (18 per cent) than in the euro area (11 per cent), and significantly faster than in most neighboring countries. (41)

The IMF has offered various reasons for the wide disparity between public perceptions and the national accounts data. Income per head, for instance, has increased less than the aggregate due to population growth (0.6 per cent). Real wages per hour have risen, but real wage incomes have stagnated since the 1980s largely due to a decline in paid hours worked. Perceived inflation has been persistently higher than measured inflation since early 2001, and highly visible price increases (such as for food and fuel) may have a disproportionate impact on perceptions. Households are also spending more on other non-discretionary items as housing, financial services, and insurance, which limits their discretionary purchasing power. Finally, income distribution data (available only through 2004) indicate that real incomes for the lowest and highest deciles of the population rose between 2002-04, but most other deciles were stagnant or declining, resulting in a middle class "squeeze." The IMF, however, noted in October 2007 that "among the largest advanced economies, inequality appears to have declined only in France." (42)

Many of these factors have little to do with globalization, even though globalization is often targeted as a culprit. The European Commission estimates that at least a fifth of Europe's income gains since World War II can be attributed to globalization, and that every EU household would gain over €5,000 annually if Europe seized the opportunities offered by the present phase of globalization. (43)

Wages

Real wages in Europe have increased modestly over the past decade, a trend supported by lower core inflation rates, continued openness to cross border trade and investment, and greater competition. Overall, European workers have benefited from net wage gains, but the "great doubling" of workers in the global economy has put a huge new pool of skilled and unskilled labor within reach of European firms, which has put downward pressure on wages, squeezed lower-skilled laborers, and weakened the bargaining power of unions.

There are considerable differences by industry and by country, however. A resilient economy should be able to reorient the destination of its exports and product mix toward fast-growing economies and value-added sectors. This has implications for wages, employment and productivity. As France has become more sensitive to the global economy, however, it has tended to adjust more through changes in employment and productivity than through wage

flexibility. The French economy seems less flexible than other major economies when it comes to adjusting to negative shocks to unit labor costs or to its terms of trade.

In France, domestic labor market rigidities are probably the single most significant barrier to higher economic growth, higher employment and higher wages. France's high unemployment rate, together with the relatively low numbers of hours worked by those who are employed (35-hour workweek), mean that France's labor input is low (and declining), despite the high productivity of French workers when they actually work. The 35-hour workweek has kept average annual pay increases below 1 per cent for nearly a decade. (44) With one of the lowest labor inputs in the OECD, France needs to work more if it wants to earn more. (45)

Main shortcomings in the labor market, as identified by the OECD and acknowledged by the French government, are: (i) burdensome legal restrictions on hiring, firing, working hours, and functional mobility for those with permanent contracts, which generate inefficiencies and a severe divide between employed "insiders" enjoying the fruits of France's generous social welfare system and unemployed "outsiders"; (ii) pervasive judicial involvement in labor relations; (iii) inefficiencies and lack of coordination among public job placement and unemployment compensation agencies; (iv) a high minimum wage; and (v) one of the highest tax wedges on employment in the OECD. These distortions in turn weigh heavily on the public sector, as tax breaks attempt to compensate for the rigidity of labor market institutions. (46)

The French government has sought to make the 35-hour workweek less binding, without formally reversing what is viewed as a social *acquis*, by eliminating taxes and social charges on overtime work and by seeking approval for majority agreements in individual companies in exchange for wage increases. (47) The government is also considering labor reforms as it relates to immigrants or guest workers. The latter are needed to fill low-paying jobs shunned by French workers, and, in time, will act to boost consumption levels in France.

GDP Growth

Real growth in the EU has trended higher over the past decade, notwithstanding periods of weakness. Globalization has been a significant boon to French exports, which have helped to drive other elements of growth. Since France has been shifting its exports to the developing countries, high growth in these countries can lift French growth, although France has not captured as large an export share in these markets as its global export share might warrant. As noted earlier, growing global demand for energy and resources has had a dampening effect on growth, although in France the slowdown in growth from 1.9 per cent in 2007 to an expected 1.5-1.6 per cent in 2008 has not been dramatic. France is growing much less fast than the rapidly developing countries, but grew faster than the U.S. in 2006 and 2007.

III. Globalization and France's Key Stakeholders

Having looked at globalization's impact on France via a number of key indicators, we now look at its effect on key French stakeholders – consumers, workers, companies and government.

Globalization and French Consumers

French consumer confidence has hit a 21-year low in the face of sluggish growth, persistently high unemployment, global financial turbulence and skyrocketing energy and food prices. Yet French consumers overall have been big winners from globalization, and consumer spending has been the main driver of French real GDP growth over the past few years. (48) As mentioned above, real disposable household income in France over the past seven years has increased by 18 per cent – faster than the 11 per cent eurozone average.

Because globalization, in general, has resulted in lower cost imports, greater availability of products, a structural reduction in inflation, lower interest rates and real income gains, France's consumers have reaped the most benefits. Lower cost imports mean better prices for consumers. Rising trade offers consumers greater product availability and variety. Real wage and income gains put more money in consumer pockets. Lower structural inflation means that consumers get more for their money. Lower interest rates mean lower borrowing costs.

According to some studies, two-thirds of the gain for consumers is attributable to the fact that the basket of goods France imports from the developing countries has expanded. Consumer goods imported from emerging countries are, on average, €1.89 less costly than their French equivalents. (49) From shoes to computers, the French consumer has more choices at lower prices. And speaking of computers, France does not really have an indigenous computer manufacturer -- so without low cost computer imports, where would France be in the digital age?

As mentioned earlier, the European Commission estimates that the opportunities offered by globalization could result in additional income gains of over ?5,000 annually for every household in France and throughout the EU. (50)

There are some caveats, however. While long term "core inflation" trends are down, greater food, energy and other resource demand by rapidly developing countries, together with global financial speculation, has created some countervailing – and highly visible -- inflationary pressures. Also, because France imports fewer intermediate goods than the United States or Germany, its trade orientation may be relatively more beneficial to producers than to consumers. (51)

Table 6: Globalization's Impact on French Consumers

Metric	Outcome (Direct/Indirect)	Effect on French Consumers
Trade	Robust gains in both exports and imports	Lower cost imports mean better prices and greater choice of goods and services; downward pressure on inflation; rise in net real incomes; but higher prices for energy and other commodities.
Investment	Strong outflows/inflows	Outward and inward flows of FDI help keep French companies competitive, thus restraining costs for consumers.
Portfolio Flows	Net Inflows	Higher growth and gains in real wages and incomes have increased the spending power of French consumers
Labor Mobility	Greater mobility/net inflows	Lower-cost labor helps keep prices down for consumers, but lower-skilled workers face competition from immigrant labor. The EU's Single Market for labor, however, should facilitate greater labor mobility within the EU, blunting some competition from low-wage labor from non-EU workers.
Technological Diffusion	Net gains	Greater dispersion of technology has helped consumers access lower priced imports of technology and services and tap innovations from abroad.
Inflation	Structurally lower	Lower inflation means consumers get more for their money.
Interest Rates	Structurally lower	Consumers have benefited from lower borrowing costs.
Employment	Net gains	Higher employment in Europe means that more consumers have greater purchasing power.
Income	Net gains	Notably beneficial to consumers, with lower import costs, a greater variety of goods to choose from.
Wages	Modest increases	Increased real wages put more money in consumer pockets.
Real GDP Growth	Upward bias	Real growth has offered consumers more choices and given them greater ability to spend.

Globalization and French Workers

Most consumers are also workers, and the effects of globalization on the French work force have been more uneven. Greater flows of trade, investment, capital, people and ideas have, on balance, benefited French workers. Less than 7 per cent of jobs lost in France over the past four years were due to offshoring, and France is also a major center for “onshored” jobs from abroad. Moreover, as outlined earlier, there is no correlation between the jobless rate in France and French imports from low-wage countries.

In comparative terms, however, French workers face some challenges. French incomes and wages are higher today than they were fifteen years ago. But per capita income is 30 per cent less than that in the United States. In 1991 it was only 17 per cent less. The difference corresponds almost exactly to the gap between these two economies in terms of the per capita number of hours worked. Only 41 per cent of the adult population works, one of the lowest labor participation rates in the world. In addition, unemployment has remained above 8 per cent for a quarter century. Youth unemployment is particularly high at 22 per cent. This situation is not due to globalization, but the competitive pressures and comparisons evoked by globalization do cast a brighter glare on French domestic challenges.

Moreover, there is considerable churn in the economy as French workers shift from agriculture and manufacturing to services, and the technological skills and training of France’s work force needs continuous and rapid improvement. These changes can be unsettling, and the challenge of lifelong learning in a knowledge economy can seem threatening to those with low skills and low educational aspirations. France’s rigid labor markets, in turn, make it harder for workers to move into new jobs in other industries. The key question is whether France can create tomorrow’s jobs fast enough to replace yesterday’s jobs as nimble economies elsewhere also “play the game of globalization.”

Table 7: Globalization’s Impact on French Workers

Metric	Outcome(Direct/Indirect)	Effect on French Workers
Trade	Robust gains in both exports and imports	Expanding trade has been a source of income and employment for French workers, as well as a source of low cost imports for workers and consumers.
Investment	Strong outflows/inflows	Foreign investment supports 2 million jobs in France. 1 in 7 French workers is employed by a foreign company. Investment is a key ingredient to growth. Workers in France have benefited from rising employment and trade, as well as the availability of lower cost goods.
Portfolio Flows	Strong outflows/inflows	Rising inflows have helped create a deeper, more liquid pool of capital that French workers can indirectly tap. It has been supportive of the euro, enhancing the competitiveness of Europe to the benefit of workers.
Labor Mobility	Greater mobility/net inflows	Immigrant workers are both a source of supply (filling unskilled positions unwanted by local labor) and demand (providing a boost to consumer expenditures). High skilled migrants boost productivity, innovation and thus help create jobs.
Inflation	Structurally lower	Lower inflation has helped boost real wage gains of French workers.
Interest rates	Structurally lower	Because the lower cost of capital is a key ingredient of economic growth, lower interest rates have been a catalyst to growth and job creation, with direct benefits to French workers.
Employment	Net gains	Net employment gains have directly benefited workers in France, although some workers (skilled labor) has benefited more than other unskilled labor.
Income	Net gains	Notably beneficial to workers, with more income translating into more purchasing power.
Wages	Modest increases	The trade off for modest wage gains has been rising employment levels and the greater willingness of European firms to hire more workers. The offset—high non-wage compensation costs.
Real GDP Growth	Upward bias	Without growth, employment lags, unemployment rises. France’s level of real growth is helping to reduce unemployment levels and stimulate job creation.
Technological Diffusion	Net gain	Greater dispersion of technology has allowed for greater trade in services, benefiting workers in the services economy (70% French workers), and allowed workers to access technological innovations and develop higher technological skills.

Globalization and French Companies

According to Forbes, 32 French companies rank among the 500 largest global corporations. That places France fourth behind the United States (194), Japan (59) and the UK (33). Corporate France has been able to tap a growing variety of accessible markets due to globalization. Rising levels of cross-border trade and investment have helped boost sales and profits for many French companies. Over the course of this decade corporate France has enjoyed a profits boom, due in large part to globalization.

Despite France's reputation for hostility toward globalization, the nation's largest companies have become more globalized over the past decade. The turnover of French multinationals expanded by an average of 10 per cent in 2007 - largely because of their engagement in the global economy. (53)

A number of trends account for this new dynamic. First, the ownership structure of French firms, traditionally characterized by concentrated cross-shareholdings between friendly compatriot companies, is giving way to more open and diversified corporate ownership, including by foreign investors. Second, French firms have been quite profitable. Many companies listed on the CAC 40 (54) have posted healthy profits over the past five years, and a large share of these profits has come from abroad. CAC 40 companies conduct two-thirds of their activities and employ two-thirds of their staff outside France. Investing abroad, in turn, can help strengthen French companies at home. The ten French industrial sectors that have invested the most abroad have at the same time created 100,000 jobs in France. (55)

Third, many French companies are world leaders and top competitors in their respective sectors—a competitive advantage that has attracted foreign investors to allocate more capital to the French bourse. Finally, corporate governance in France has become more aligned with the U.S., U.K. and other major developed nations, giving foreign investors more confidence in investing in French equities.

The bottom line: in a world of near-unfettered flows of global capital, corporate France has attracted more than its fair share of global capital. In turn, robust capital flows have helped drive capital investment and create job growth across a number of French industries.

Table 8: Globalization's Impact on French Companies

Metric	Outcome (Direct/Indirect)	Effect on Companies in France
Trade	Robust gains in both exports and imports	Strong trade flows have helped boost the sales and profits of many companies in France; greater cross border trade has resulted in lower import costs, helping to raise productivity and overall earnings.
Investment	Strong outflows/inflows	Another ingredient of growth for firms, with strong outflows allowing greater access to foreign markets, while rising inflows have helped boost the competitiveness of firms and allowed many to expand operations.
Portfolio Flows	Net Inflows	A key source of capital, allowing for lower interest rates and more attractive cost of capital.
Labor Mobility	Greater mobility/net inflows	A potentially key boost to companies, particularly given France's low level of labor participation and aging workforce.
Inflation	Structurally lower	Important to keeping input costs down and corporate profits up.
Interest Rates	Structurally lower	Another key source of growth. Lower interest rates entail a lower cost of capital and more capital for expansion and growth.
Employment	Net gains	Important in driving consumption in France, resulting in rising sales/earnings for most companies.
Income	Net gains	Another driver of growth and ultimately corporate earnings.
Wages	Modest increases	Only modest wage gains have helped boost corporate productivity and profits.
Real GDP Growth	Upward bias	Higher overall growth has meant greater sales and revenues and more opportunities to invest, expand and hire additional workers for many companies in France.
Technological Diffusion	Net gains	Greater dispersion of technology has allowed for greater trade in services and allowed corporate French companies to access more global technology skills of developed/developing nations.

The French Nation in a Globalizing World

How well positioned is France to deal with globalization? Compared with other developed countries, France ranks in the middle of the pack.

We can begin to assess France's ability to cope with globalization by understanding the relative degree to which it is integrated into the global economy. According to the Swiss Economic Institute's 2008 Index of Economic Globalization, France ranks as the 30th most "economically globalized" nation in the world, behind 21 other smaller European countries and the UK, as well as behind relatively smaller nations elsewhere around the world, such as Panama, Israel, Chile, Canada, New Zealand and Bahrain, but ahead of other more populous countries such as Germany, Italy, the United States, China, Russia, India and Japan.

Table 9: 2008 KOF Index of Economic Globalization*

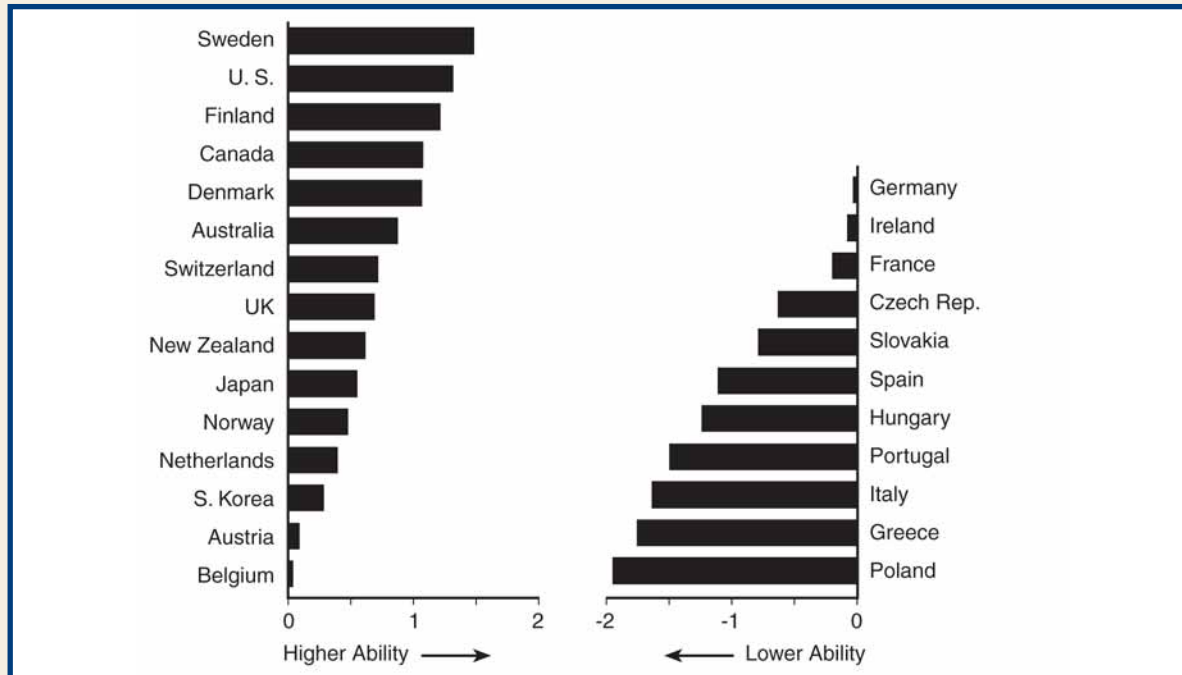
Top 30 Countries in terms of Economic Globalization		
1. Singapore	11. Denmark	21. Latvia
2. Luxembourg	12. Czech Republic	22. Iceland
3. Belgium	13. Cyprus	23. Canada
4. Malta	14. Israel	24. Slovenia
5. Estonia	15. Ireland	25. New Zealand
6. Sweden	16. Chile	26. Slovak Republic
7. Finland	17. Bahrain	27. United Kingdom
8. Hungary	18. Portugal	28. Lithuania
9. Austria	19. Switzerland	29. Panama
10. Netherlands	20. Spain	30. France
Other European and Other Key Countries		
31. Croatia	38. Poland	65. Brazil
32. Malaysia	41. Turkey	66. China
33. Italy	42. Bulgaria	72. Russian Federation
34. Norway	43. Romania	80. Japan
35. Germany	61. United States	84. Albania
37. Greece	62. Ukraine	101. India

*Note: Rankings are based on data for the year 2005. For more information, see <http://globalization.kof.ethz.ch>.
 See also: Axel Dreher, "Does Globalization Affect Growth? Empirical Evidence from a new Index," *Applied Economics* 38, 10: 1091-1110 (2006); Axel Dreher, Noel Gaston and Pim Martens, *Measuring Globalisation—Gauging its Consequences* (New York: Springer, 2008).

Source: KOF Globalization Index 2008, Swiss Economic Institute, Swiss Federal Institute of Technology.

In terms of size of population, then, France ranks just behind the UK as among the most globalized economies in the world. France is thus facing globalization's opportunities and challenges more directly than other relatively populous economies. How is France coping? The OECD investigated a range of factors in terms of "coping ability," and summarized these factors in a composite indicator for all OECD countries. (56) The results are shown in Figure 16. France ranked among those with a "lower ability" to cope.

Figure 15: Indicator of Ability to Cope with Globalization



Yet another lens through which to view France's ability to cope with globalization is the 2007-2008 Global Competitiveness Index (GCI) of the World Economic Forum, (57) which ranks the economic competitiveness of individual countries according to a variety of metrics. In general, Europe ranks rather well, accounting for 7 of the top 10 and 14 of the top 25 most competitive nations in the world. France was part of this cohort yet still ranked 18th, behind the U.S., the UK, a number of smaller European countries as well as Japan, Taiwan, Hong Kong, South Korea, Singapore, Canada and Israel.

A fourth lens to evaluate France's ability to cope with globalization is the EU's own framework for change. In March 2000, EU leaders met in Lisbon, Portugal, and declared their intention to make the EU "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion." To achieve this goal by 2010, they adopted a "Lisbon Strategy" of political and economic reforms. The World Economic Forum has used key elements of the Lisbon framework to evaluate progress by individual EU nations. According to this Lisbon Scorecard, France ranks as the 9th most competitive economy in the EU. France failed make the top ten, however, in such key subcategories related to the information society, liberalization, social inclusion and sustainable development.

Figure 16: Ranking and scores of EU countries (The Lisbon Scorecard)

Top 30 Countries in terms of Economic Globalization		
1. Singapore	11. Denmark	21. Latvia
2. Luxembourg	12. Czech Republic	22. Iceland
3. Belgium	13. Cyprus	23. Canada
4. Malta	14. Israel	24. Slovenia
5. Estonia	15. Ireland	25. New Zealand
6. Sweden	16. Chile	26. Slovak Republic
7. Finland	17. Bahrain	27. United Kingdom
8. Hungary	18. Portugal	28. Lithuania
9. Austria	19. Switzerland	29. Panama
10. Netherlands	20. Spain	30. France
Other European and Other Key Countries		
31. Croatia	38. Poland	65. Brazil
32. Malaysia	41. Turkey	66. China
33. Italy	42. Bulgaria	72. Russian Federation
34. Norway	43. Romania	80. Japan
35. Germany	61. United States	84. Albania
37. Greece	62. Ukraine	101. India

*Note: Rankings are based on data for the year 2005. For more information, see <http://globalization.kof.ethz.ch>.
 See also: Axel Dreher, "Does Globalization Affect Growth? Empirical Evidence from a new Index," *Applied Economics* 38, 10: 1091-1110 (2006); Axel Dreher, Noel Gaston and Pim Martens, *Measuring Globalisation—Gauging its Consequences* (New York: Springer, 2008).

Source: KOF Globalization Index 2008, Swiss Economic Institute, Swiss Federal Institute of Technology.

IV. Making Globalization Work for France

France is conflicted when it comes to globalization. On the one hand, France has been one of globalization's greatest beneficiaries, and stands primed to benefit even more. On the other hand, polls consistently confirm that the French population is deeply skeptical, even fearful, of globalization. France's main globalization challenge seems to be to align popular impressions with the realities behind France's integration into the global economy, while capitalizing on French strengths and helping those adversely affected by globalization.

French consumers, workers and companies have all prospered from globalization. Tens of thousands of French jobs are created and preserved annually thanks to U.S., European or Asian investments. 1 in 7 French employees works for a foreign-owned company, compared with 1 in 10 in Britain and 1 in 20 in the United States. France is a major beneficiary of foreign direct investment, receiving \$481 billion between 1997 and 2006. It is also an important location for significant R&D investments by foreign companies, primarily from Europe and the United States. Almost half of the top 40 companies listed on the Paris stock exchange are owned by foreign investors. France ranks relatively high as a global innovation leader. Moreover, it can approach globalization from a strong base: France's productivity is high, its demographics are healthy, its infrastructure is well-developed and its public services are strong.

France is potentially well positioned to take of advantage of the globalization of services; in 2006 it accounted for 4.1 per cent of global services exports. The country's basic economic prospects are sound; in recent years output has grown and public finances have improved. Unemployment, while still inordinately high, has fallen. France compares well with most countries in terms of attracting global talent. It registers positive net inflows of professional and technical workers and benefits from strong knowledge flows. Moreover, on balance France appears to be a net beneficiary of on- and offshoring. Between 2003 and 2006 the proportion of French job losses attributed to offshoring was minimal. According to the OECD, in 2005 offshoring accounted for only 3.4 per cent of total French job losses. The bulk of these jobs went to other EU nations, not to other continents.

France enjoys a high average educational level, which should help the workforce to be relatively adaptable by international standards, and a large proportion of younger workers has tertiary qualifications. Regional labor mobility is also relatively high in France in comparison with other EU partners.

French companies have also seized global opportunities and profited greatly. Corporate France has profited in particular from its deep integration with the United States. Corporate France's R&D activity in the U.S. has been critical to continued French economic vitality and profitability. R&D expenditures of French affiliates in the U.S. account for 15 per cent of total French R&D expenditures.

Despite these benefits, polls repeatedly show the French people alarmed about the impact of globalization on practically every aspect of French life. A widespread feeling of pessimism and insecurity threatens to subvert France's ability to gain further from globalization. Such fears are not entirely unfounded. France has slipped from 15th to the 18th most competitive nation in the world on the Global Competitive Index, and is 23rd on the Networked Readiness Index. Over the past quarter of a century, France has slipped from 8th to 19th in national rankings of gross domestic product per head. In 1991 French GDP per capita was 83 per cent that of the United States. Today it is 71 per cent. The difference corresponds almost exactly to the gap between these two economies in terms of the per capita number of hours worked. French is second only to Norway in the OECD in terms of hourly productivity rates, but the French enter the workforce later than in most other countries, they then work fewer hours and retire earlier. Moreover, unemployment has remained above 8 per cent for a quarter century. Youth unemployment is particularly high at 22 per cent. Only 41 per cent of the adult population works, one of the lowest labor participation rates in the world. The French public's instinctive belief that it is slipping behind a number of other nations is objectively true. (58)

France is benefiting from many aspects of globalization. But the pace of change elsewhere can be staggering and demoralizing as France confronts its own challenges. There is a widespread perception among the French public that a lack of purchasing power is constraining growth. But the country's growth difficulties are not due to low consumer demand but to rigidities that impede supply and impair export performance.

The need to reform rigid labor market institutions and practices requires France to adopt strategies that support workers and promote work opportunities, rather than protect particular jobs. Labor markets must become more flexible through abolition of the legal limit on working hours in favor of individual company negotiations with their workforce. The aging population will soon have a real impact on labor force developments and public finances, although France continues to register relatively strong birth rates and an increase in population, in contrast to many other EU partners.

France remains a highly competitive country, but its uneven export performance is further testimony to deep-seated domestic rigidities. French companies are benefiting from a shift in export patterns to developing countries, but have not yet tapped the full potential of this shift. Measures to strengthen the export capacity of small- and medium-sized companies could bolster overall export performance. (59) The services sector is an important strength of the French export economy that has yet to be exploited fully. As France moves ever closer to a knowledge-based service economy, it must keep and embellish its competitive strengths in high-tech goods and services or suffer a decline in economic welfare. Yet France appears to lack many key microregions or technology clusters that can drive innovation and growth, and is inadequately mobilizing its R&D resources.

Recent reforms introduced by the French government are intended to address these rigidities and stimulate economic growth – but they have been gradual and uneven, and the rest of the world is not standing still.

Playing the Game of Globalization

Today, President Sarkozy calls on France to “play the game of globalization” (60) – and France plays the game of globalization relatively well. It has gained considerably from the expansion of global trade, investment and capital, but has benefited unevenly from flows of people and ideas. France has great core strengths and the wherewithal to capitalize from globalization. But change is proving difficult for a society used to looking to the state to provide jobs, redistribute incomes, protect against unwanted imports, promote prestigious industrial sectors, and project national grandeur.

The French debate about globalization is in essence a debate the French are having about their own self-image and view of the world. Proponents of globalization need to explain the specific benefits to France overall and to key stakeholders in particular. We have identified both benefits and challenges in this study. Many have shied away from this responsibility, however, either because they believe it requires too much courage or effort or that it is politically expedient not to do so. Yet if those who want globalization to work for France don't make the case to explain its benefits, they will never convince their compatriots that it is worth confronting the costs.

As so often in the past, the debate in France is likely to be the key to the debate in Europe. An open, globally engaged France can both shape and benefit considerably from globalization; a closed, sullen and inward France could lose a great deal. Given both the depth of concern and the potential for great gain, it is important for France to find a new common ground – a new consensus on globalization. We offer this study as a contribution to the debate.

Appendix

Exhibit 1: FDI Inflows: France vs. China

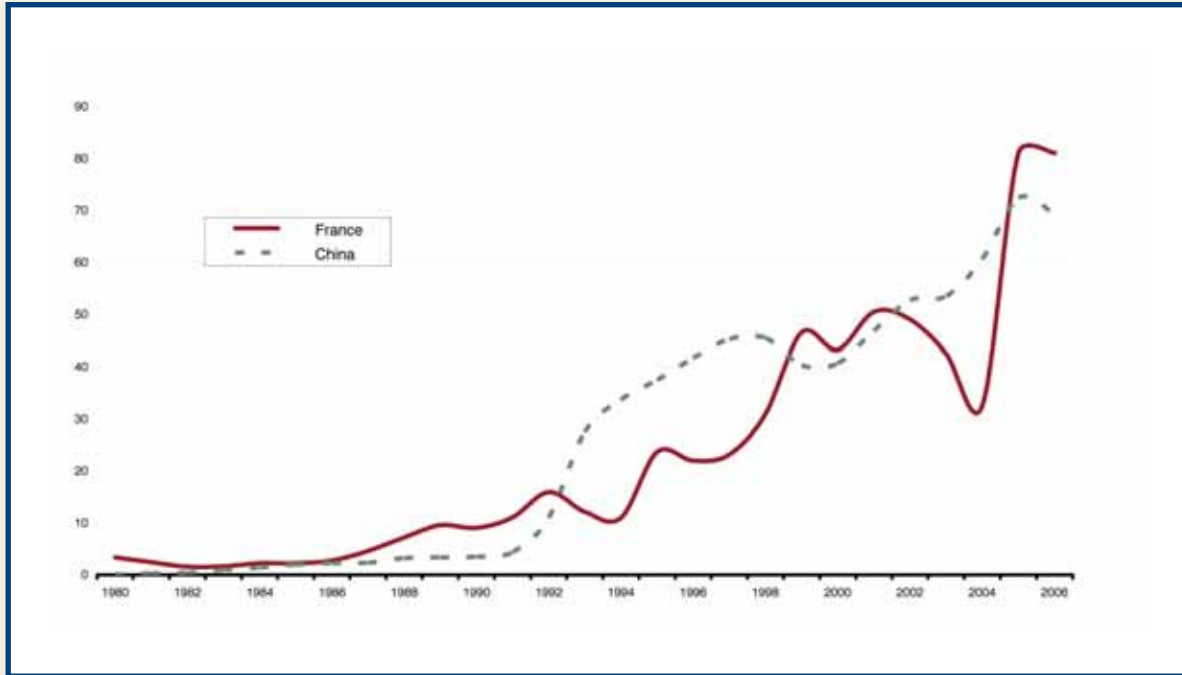


Exhibit 2: FDI Outflows: France vs. China

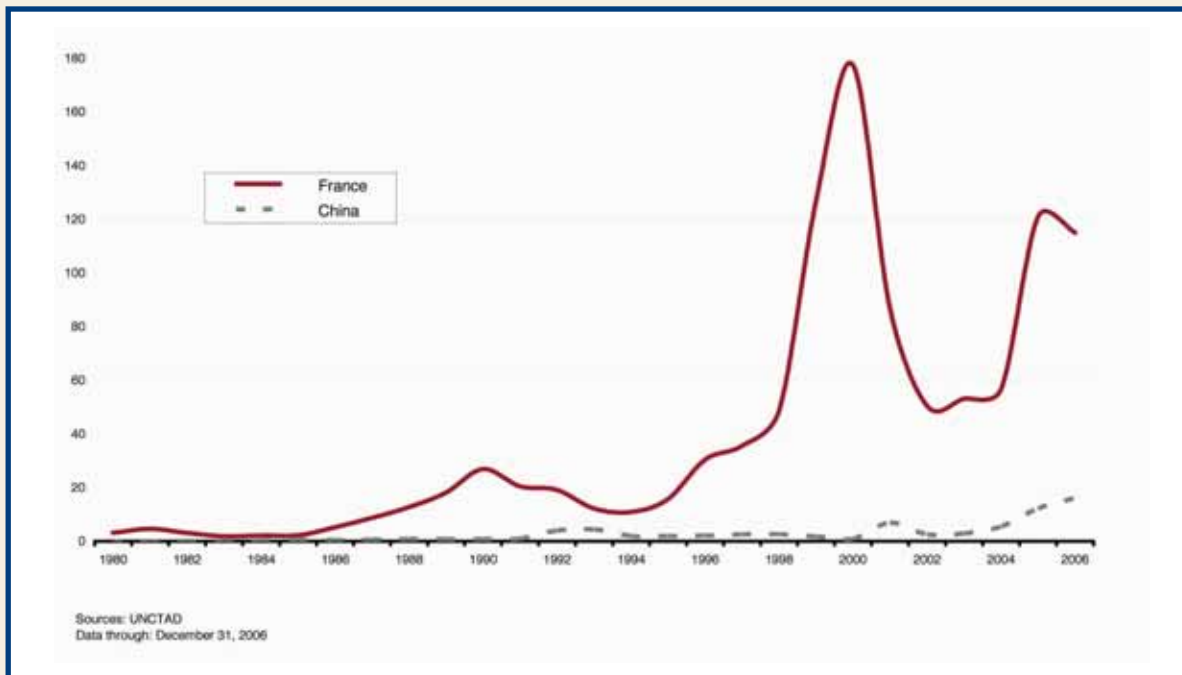


Exhibit 3: France: Foreign Direct Investment as % of GDP

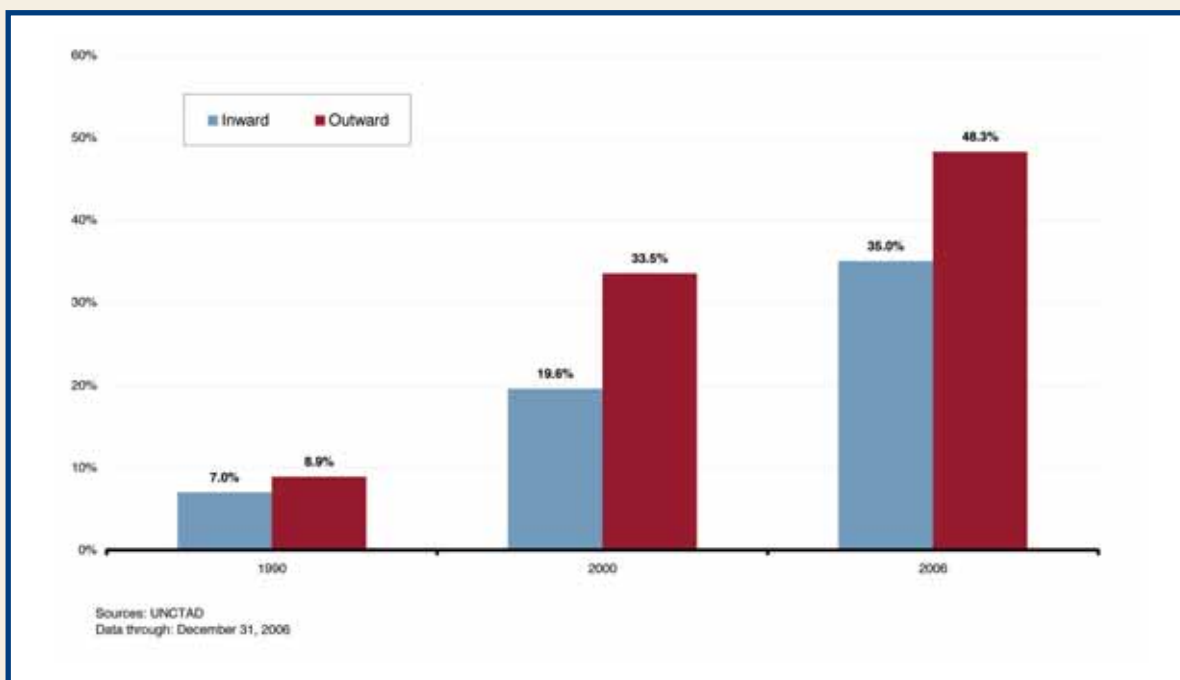


Exhibit 4: France: Foreign Direct Investment as % of GFCF

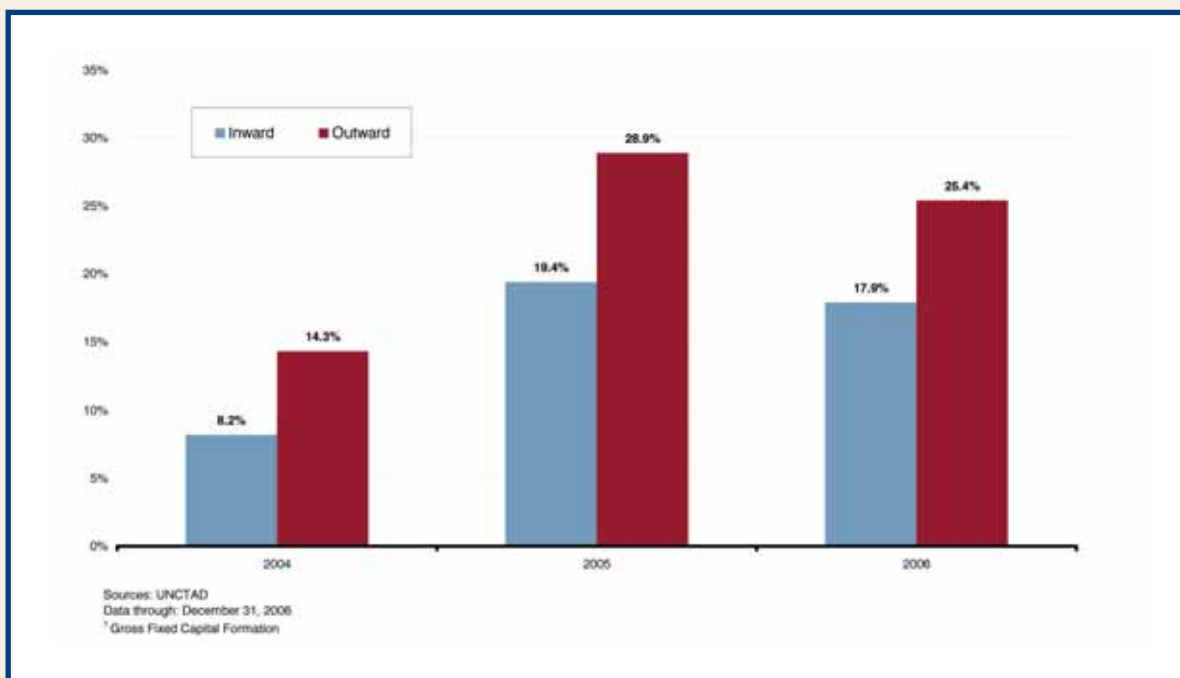


Exhibit 5: France: France: Foreign Direct Investment Inflows

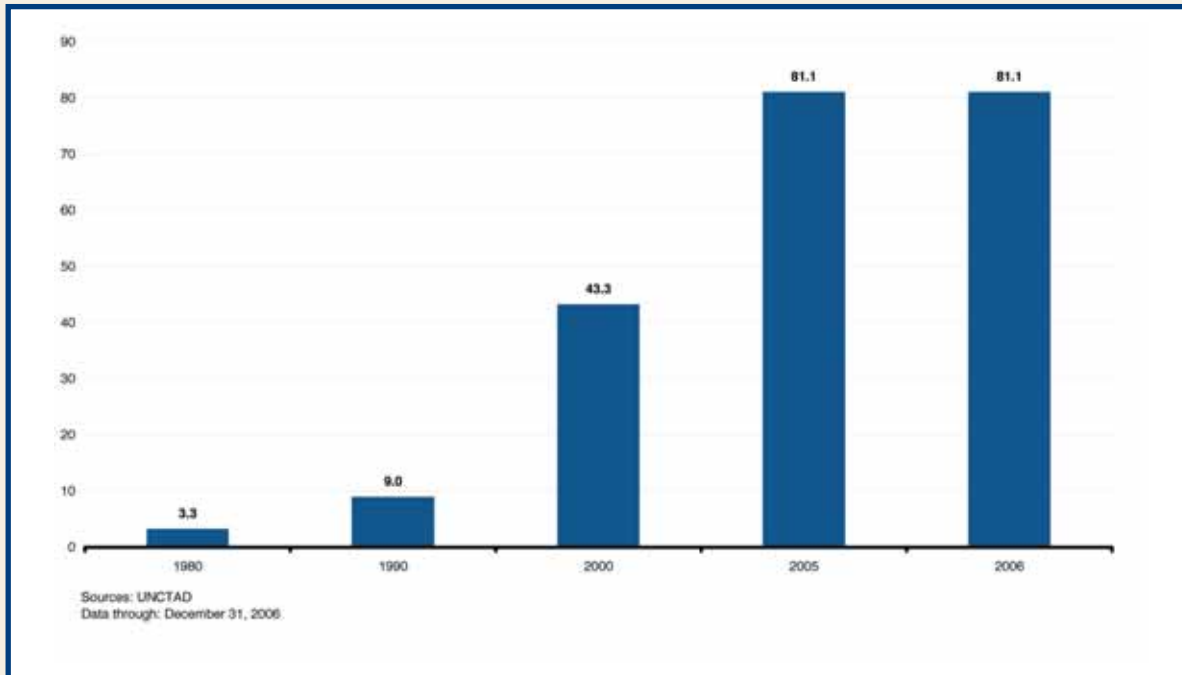


Exhibit 6: France: France: Foreign Direct Investment Outflows

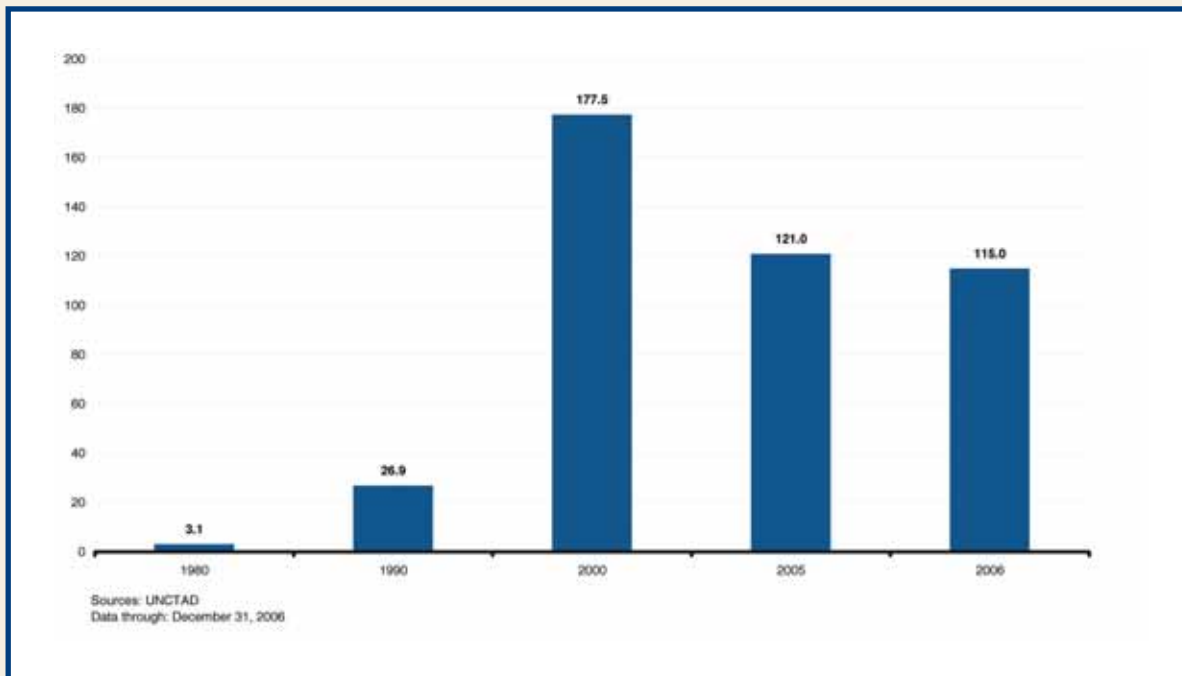


Exhibit 7: France: France: Foreign Direct Investment Inward Stock

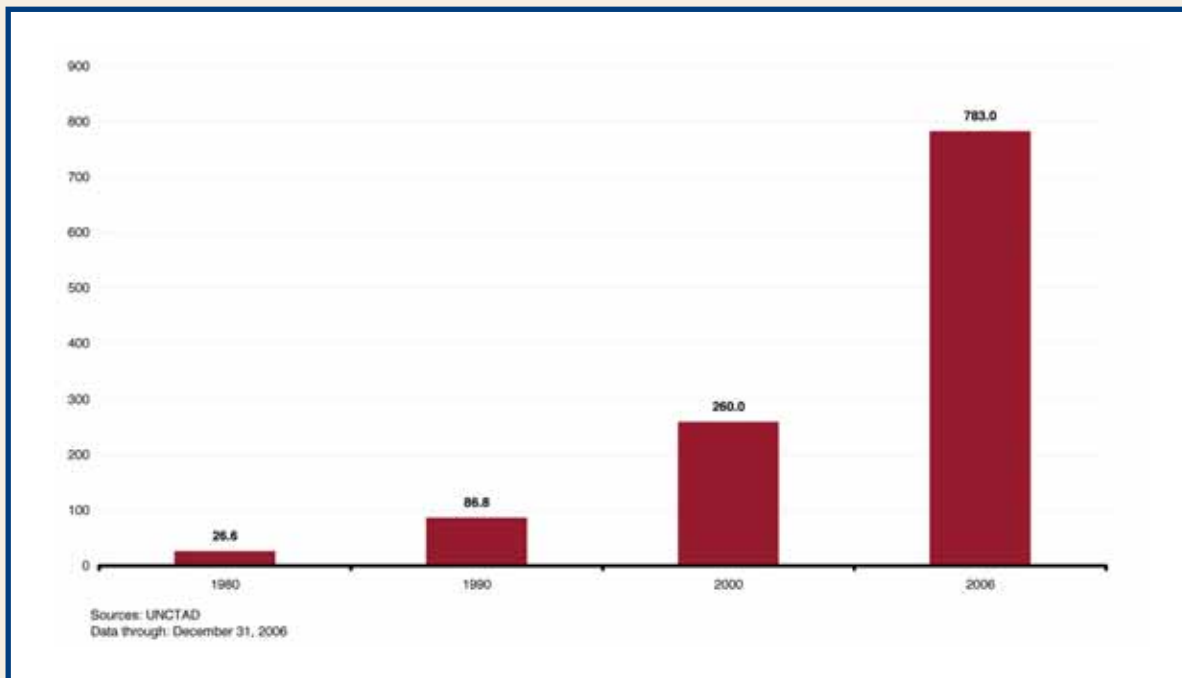
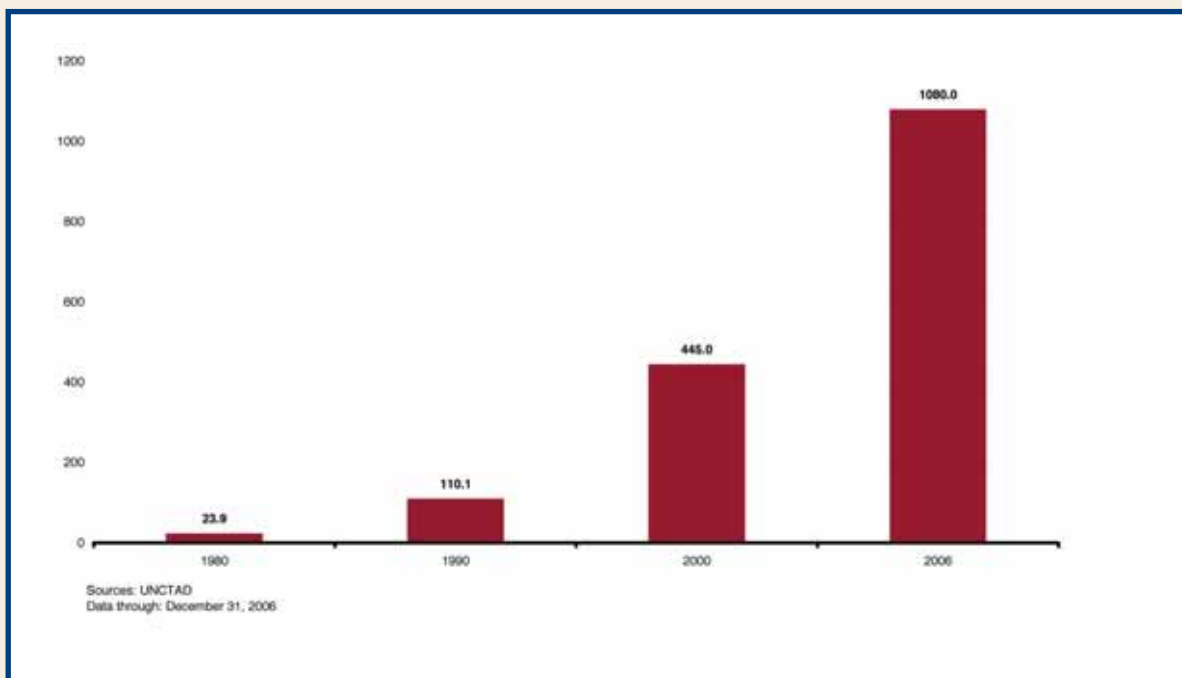


Exhibit 8: France: France: Foreign Direct Investment Outward Stock



Endnotes

- (1) In a November 2006 Eurobarometer survey, 64 percent of respondents in France said they believed that globalization meant greater risk for jobs and businesses; only 25 percent regarded globalization as an opportunity for French companies. Respondents in all other EU countries except Greece had a more positive outlook. For other commentary, see Katrin Bennhold, "Globalization: The unaddressed elephant in the French presidential election," *International Herald Tribune*, April 4, 2007; Sophie Meunier, "France, Globalization and Global Protectionism," <http://www.ces.fas.harvard.edu/publications/docs/pdfs/Meunier.pdf>; Philip H. Gordon, "Globalization Explained to the French," http://www.brookings.edu/opinions/2005/1011france_gordon.aspx
- (2) Trade figures for February 2007 through January 2008 from the French Ministry of the Economy.
- (3) Wachovia, *Global Chartbook 2008*, May 8, 2008 <http://www.wachovia.com/ws/econ/view/0,,4294,00.pdf>
- (4) See the report of the international working group on globalization chaired by Pascal Morand, *Globalization: The need for a new perspective* (Paris: French Ministry of Economics, Finance and Industry, 2007), available at http://www.lamondialisation.fr/pdf/mondialisation_rapport_ang.pdf
- (5) Banque de France.
- (6) International Monetary Fund, "France, Greece, Italy, Portugal, and Spain—Competitiveness in the Southern Euro Area," *Country Report No. 08/145*, April 2008, p. 74.
- (7) Isabelle Bensedoun & Deniz Ünal-Kesenci, *Globalisation in Services: From Measurement to Analysis*, OECD Statistics Working Paper (Paris: OECD, February 2008).
- (8) Morand, et.al, op. cit; Lionel Fontagné, *Les atouts de la France dans la compétition mondiale* (Paris: Conseil d'Analyse Economique, 2007).
- (9) UNCTAD, *World Investment Report 2007*; Thomson Financial.
- (10) The EU average is one in ten; the figure in the U.S. is one in twenty. INSEE - National Institute of Statistics and Information about the Economy; French Ministry of Economics, Finance and Industry; Agence Française pour les Investissements Internationaux (AFII) www.afii.fr; various reports by the Invest in France Agency: http://www.invest-in-france.org/uploads/files-en/07-11-21_160349_The_French_economy_is_open_ENG_November_2007.pdf; http://www.invest-in-france.org/uploads/files-en/07-07-12_144335_Whats_new_in_France_250607.pdf. See also "France And Globalization," Lecture Given By Mme Christine Lagarde, Minister Delegate For Foreign Trade, To The Ecole Des Hautes Etudes Commerciales In Lille, May 6, 2006.
- (11) "U.S. Maintains its Lead Among Foreign Investors in France," *New York*, February 21, 2008. <http://www.info-france-usa.org/news/statmnts/2008/BilanUS2007.pdf>
- (12) Bureau of Economic Analysis, U.S. Department of Commerce; <http://www.info-france-usa.org/news/statmnts/2008/BilanUS2007.pdf>]
- (13) Bensedoun & Ünal-Kesenci, op.cit.
- (14) McKinsey Global Institute Global Financial Stock Database. The eurozone accounted for \$37.6 trillion of assets; the UK for \$10 trillion; and non-euro countries Switzerland, Sweden, Iceland, Denmark and Norway for a combined \$5.6 trillion.
- (15) AFII; http://www.invest-in-france.org/uploads/files-en/07-07-12_144335_Whats_new_in_France_250607.pdf; http://www.invest-in-france.org/uploads/files-en/07-11-21_160349_The_French_economy_is_open_ENG_November_2007.pdf. See also "Not so exceptional; Business in France," *The Economist*, March 1, 2008
- (16) International Monetary Fund, "France: Staff Report for the 2007 Article IV Consultation," January 25, 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr0875.pdf>
- (17) INSEE 2006; Morand, et.al, op. cit.
- (18) European Commission, "Attractive conditions for the admission and residence of highly qualified immigrants," *European Commission Memo 07/423*, October 23, 2007.
- (19) See Katrin Bennhold, "France to welcome east EU labor," *International Herald Tribune*, May 29, 2008, p. 3.
- (20) Jeff Dayton-Johnson, Louka T. Katseli, Gregory Maniatis, Rainer Münz and Demetrios Papademetriou, *Gaining from Migration: Towards a New Mobility System* (Paris: OECD, 2007).
- (21) European Commission, "Attractive conditions for the admission and residence of highly qualified immigrants," *European Commission Memo 07/423*, October 23, 2007.
- (22) OECD; See also Celestine Bohlen, "Strike by illegal workers puts their value to test," *International Herald Tribune*, May 28, 2008.
- (23) Most of these undocumented workers are employed. *Confédération Générale du Travail*; Migration Policy Institute.
- (24) Various studies by the IMF tend to support this conclusion. For an overview of the empirical evidence, see Walter Nonneman, "European Immigration and the Labor Market" (Migration Policy Institute/Bertelsmann Foundation, July 2007), http://www.migrationinformation.org/transatlantic/ImmigrationEULaborMarket_75=2507.pdf
- (25) OECD; Bohlen, op. cit.
- (26) There are also roughly 250,000 foreign students in France, less than in the U.S, but about twice as many in relation to population (621,000 in the U.S., population of 300 million vs. 250,000 in France, population of 61 million). Sources: Migration Policy Institute; OECD; AFII.
- (27) France led Spain, the U.S. and China. Institut National de la Statistique et des Etudes Economiques (INSEE), www.insee.fr
- (28) Pro Inno Europe, *European Innovation Scoreboard 2006: Comparative Analysis of Innovation Performance*, http://www.proinno-europe.eu/doc/EIS2006_final.pdf
- (29) Delphine Irac, "Total Factor Productivity and the Decision to Serve Foreign Markets: Firm Level Evidence from France, Notes d'Études et de Recherche, E#205 (Paris: Banque de France, April 2008).
- (30) France follows the U.S., China, Japan, Russia and Germany. See AFII, "Innovation in France: decisive assets," http://www.invest-in-france.org/uploads/files-en/08-04-16_172723_Argu_April2008_Innovation_UK.pdf
- (31) AFII ; Monard, et. al., op. cit. www.invest-in-france.org.
- (32) International Monetary Fund, "France: Staff Report for the 2007 Article IV Consultation," January 25, 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr0875.pdf>
- (33) Tim Bond, "Brace for the nasty decade as inflation takes hold," *Financial Times*, May 20, 2008, p. 30; Gerrit Wiesmann and Ben Hall, "France and Germany feel inflation effect," *Financial Times*, April 16, 2008; William Buiters, "Inflation here, there and everywhere," May 14, 2008, <http://blogs.ft.com/maverecon/2008/05/inflation-here-there-and-everywhere/#more-241>.
- (34) International Monetary Fund, "France: Staff Report for the 2007 Article IV Consultation," January 25, 2008,

<http://www.imf.org/external/pubs/ft/scr/2008/cr0875.pdf>

(35) INSEE; Ben Hall, "French unemployment falls again," *www.ft.com*, March 7, 2008.

(36) "While offshoring is one element of the shifting pattern of the international division of labor, contributing to the loss of some jobs in Europe," the EMCC notes, "it is almost certainly only a minor one." For Europe as whole, according to the EMCC, less than 8 percent of jobs lost over the 2003-06 period were due to offshoring. See Donald Storrie with Terry Ward, *ERM Report 2007: Restructuring and employment in the EU: The impact of globalization* (Dublin: European Foundation for the Improvement of Living and Working Conditions, 2007), <http://www.eurofound.europa.eu/pubdocs/2007/68/en/1/ef0768en.pdf>; OECD, *The Internationalization of Production, International Outsourcing and OECD Labor Markets* (Paris, 2000); Jacob Funk Kirkegaard, *Offshoring, Outsourcing, and Production Relocation—Labor-Market Effects in the OECD Countries and Developing Asia* (Washington, DC: Peterson Institute for International Economics, April 2007).

(37) Morand et al., op. cit. A McKinsey Global Institute study concluded that for every one euro of spending on corporate services jobs that is moved offshore, France earns back 0.86 euros. The cost difference reflects lower cost savings to French companies and customers, as well as other direct benefits to the economy, increasing exports, for example. According to the McKinsey study, "offshoring has so far had little impact on France." McKinsey Global Institute, *How Offshoring Services Could Benefit France*, June 2005.

(38) Between 2003 and 2006, announced reductions in employment from all cases of restructuring reported to the ERM amounted to just over 1 percent of employment in 2005, varying from only 0.2 percent of employment in Italy to 2 percent in the UK. See Storrie with Ward, op.cit.

(39) IAB France.

(40) See Jens Henrik Haahr, Martin Eggert Hansen and Tine Andersen, *Restructuring in Europe: The Anticipation of Negative Labor Market Effects* (Copenhagen: Danish Technological Institute, 2006).

(41) See IMF, "France: Selected Issues," January 28, 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr0874.pdf>; Scheherazade Daneshkhu, "Sarkozy in uphill battle to fulfill living standards pledge," *Financial Times*, May 24, 2008.

(42) International Monetary Fund, "France: Staff Report for the 2007 Article IV Consultation," January 25, 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr0875.pdf>; Daneshkhu, op. cit.

(43) In 2004 prices. See C. Denis, K. McMorrow and W. Röger, "Globalisation: trends, issues and macro implications for the EU," *Economic Papers* 254 (Brussels: European Commission, 2006). <http://www.cpb.nl/nl/pub/cpbreesen/document/127/doc127.pdf>

(44) Carter Dougherty and Katrin Bennhold, "For Europe's Middle-Class, Stagnant Wages Stunt Lifestyle," *The New York Times*, May 1, 2008, citing Robert Rochefort, the director general of Credoc.

(45) International Monetary Fund, "France: Staff Report for the 2007 Article IV Consultation," January 25, 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr0875.pdf>

(46) International Monetary Fund, "France: Staff Report for the 2007 Article IV Consultation," January 25, 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr0875.pdf>

(47) International Monetary Fund, "France: Staff Report for the 2007 Article IV Consultation," January 25, 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr0875.pdf>

(48) Wachovia, *Global Chartbook 2008*, May 8, 2008 <http://www.wachovia.com/ws/econ/view/0,,4294,00.pdf>

(49) Monard, et. al, op. cit ; Fontagné, op. cit.

(50) In 2004 prices. See C. Denis, K. McMorrow and W. Röger, "Globalisation: trends, issues and macro implications for the EU," *Economic Papers* 254 (Brussels: European Commission, 2006). <http://www.cpb.nl/nl/pub/cpbreesen/document/127/doc127.pdf>

(51) Monard, et.al., op. cit.

(52) See Patrick Artus, Pierre Cahuc and André Zylberberg, "Working Time, Income and Employment Report," *Analyses Économiques* vol. VI-03 (Oct. 2007); John Thornhill, *Financial Times*, April 16, 2007.

(53) Paul Betts, "French blue-chip companies start singing the blues," *Financial Times*, March 14, 2008; "Not so exceptional; Business in France," *The Economist*, March 1, 2008

(54) The top 40 companies listed on the French Stock Exchange.

(55) "France And Globalization," Lecture Given By Mme Christine Lagarde, Minister Delegate For Foreign Trade, To The Ecole Des Hautes Etudes Commerciales In Lille (Excerpts) (Lille, 6 May 2006)

(56) These factors included product market restrictiveness; labor market flexibility; school results; skill levels; participation rates in lifelong learning; public expenditure on active labor market programs; the average immigration rate; the innovation framework; the degree of structural change in the economy; the rate of firm creation; and the degree to which foreign direct investment is restricted. See David Rae and Marte Sollie, "Globalization and the European Union: Which Countries are Best Placed to Cope?" December 6, 2007, [http://www.olis.oecd.org/olis/2007doc.nsf/LINKTo/NT000058AE/\\$FILE/JT03237661.PDF](http://www.olis.oecd.org/olis/2007doc.nsf/LINKTo/NT000058AE/$FILE/JT03237661.PDF)

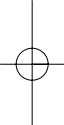
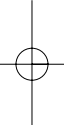
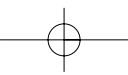
(57) World Economic Forum, *Global Competitive Index 2007-2008*, http://www.gcr.weforum.org/pages/GCI_2007_2008.aspx

(58) See Patrick Artus, Pierre Cahuc and André Zylberberg, "Working Time, Income and Employment Report," *Analyses Économiques* vol. VI-03 (Oct. 2007); John Thornhill, *Financial Times*, April 16, 2007.

(59) International Monetary Fund, "France: Staff Report for the 2007 Article IV Consultation," January 25, 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr0875.pdf>

(60) Cited in Katrin Bennhold, "Sarkozy Urges French to Play 'the Game of Globalization'," *The New York Times*, August 31, 2007.

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FRANCE AND GLOBALIZATION

BY DANIEL S. HAMILTON AND JOSEPH P. QUINLAN

"The work of Daniel Hamilton and Joseph Quinlan on globalization and transatlantic relations is compulsory reading for many entrepreneurs, politicians, journalists and academics."

- José Manuel Barroso
President of the European Commission

In recent decades walls have fallen, borders have been erased, and continents are connecting as never before. We are truly living in a new "whirled" order. Europeans have been big winners, but many are having second thoughts, particularly in France. They worry that a job gained abroad means a job lost at home, that their hard-won prosperity and most notably their national identity could simply slip away.

What are globalization's gains and pains, and what do they mean for France? In this study Dan Hamilton and Joe Quinlan offer a balanced, up-to-date look at the impacts of globalization on France. They map changing flows of trade, investment, people, money and ideas. They explain globalization's effect on French consumers, workers, companies and government. Who wins, who loses, and why. They highlight opportunities, identify challenges – and offer some surprising conclusions.