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## TRÉSOR-ECONOMICS

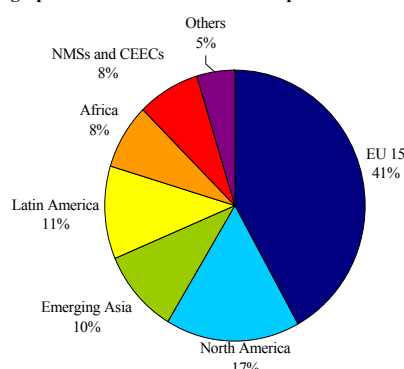
## Census of French companies' establishments abroad

French companies' establishments abroad generated turnover in excess of € 520 billion in 2004, thus exceeding French exports, which totalled 340 billion. A census of these establishments conducted by the French Treasury (DGTPE) reveals a number of pathbreaking observations:

- As far as the geographic structure is concerned, the characteristics are similar to those of French exports. French companies are more heavily involved than German firms in Africa and the Middle East, and less in Asia and the CEECs. In that sense, French companies are less well positioned than those of Germany.
- Emerging market countries and developing countries host a substantial share of French activities abroad even though they represent less than 10% of capital invested. Further, in recent years French activities have grown fastest in the countries of Central and Eastern Europe (CEECs) and in Asian emerging countries.
- Unlike what suggests Foreign Direct Investment data, French activity abroad is split roughly evenly between industry and services, each representing 40% of French establishments abroad and capital invested. The industrial sector is indeed larger than services in terms of the French companies' headcount and turnover abroad.
- French companies' establishments in emerging market and developing countries are often located there in order to win new markets. In these countries, as in the developed countries, trade and service activities are substantial employers, respectively employing more than 20% and more than 30% of the French companies' headcount. Yet the majority of the service activities in the emerging market countries and developing countries is primarily directed towards serving local demand.

This study was prepared under the authority of the Treasury and Economic Policy General Directorate and does not necessarily reflect the position of the Ministry of the Economy, Finance and Industry.

Geographical breakdown of French companies' headcount abroad



DIRECTION GÉNÉRALE DU TRÉSOR  
ET DE LA POLITIQUE ÉCONOMIQUE

The growth of French companies' activities abroad has far outstripped that of French exports in recent decades. The stock of French foreign direct investment (FDI) abroad has been multiplied by 17 since 1980, rising to € 720 billion in 2005, whereas French exports rose only fivefold to € 350 billion. Increasingly, French companies have little option other than to set up foreign establishments in order to win new markets. **This rapid growth in the presence of French firms abroad has made it all the more important to ascertain the location and nature of these establishments, with a view to analysing the international strategies being pursued by French companies.**

The French Treasury (DGTPE) has conducted a census of French establishments abroad, titled the "subsidiaries survey", via the international network of "Economic Missions". We thus now have

data on the geographical and sector breakdown of the number, headcount and turnover of French establishments abroad.

This survey notably contradicts received thinking on a number of points:

- although the emerging market countries and developing countries admittedly host less than 10% of the stock of French FDI abroad, they represent a greater proportion of French activities, notably in terms of headcount;
- service activities account for around only 40% of French investment abroad;
- French investment is no more oriented towards industrial or towards business service activities in the emerging market countries and developing countries than in the developed countries.

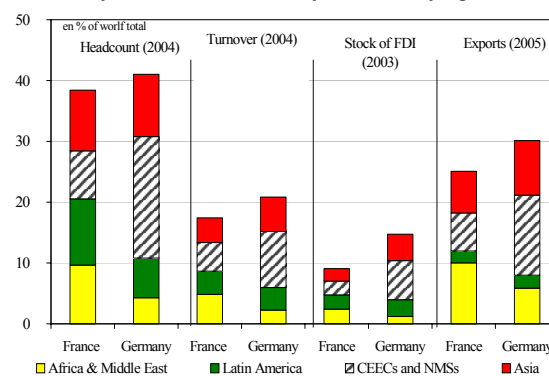
## 1. The specific features of the geographical structure of French exports are also visible in the geographical breakdown of France's presence abroad

French exports are penalised relative to German exports because their geographical structure is less favourable. Africa and the Middle East accounted for 10% of French exports in 2005, versus only 6% for German exports. Conversely, the CEECs and Asia account for only 13% of French exports, compared with 22% of German exports.

The difference in the geographical structure of exports is visible also in the geographical breakdown of France's and Germany's presence abroad. In 2003, the relative share of Africa and the Middle East in the French FDI stock abroad was double the figure for the German FDI stock. Conversely, the CEECs and developing Asian countries represent between half and a third as a proportion of the French stock of FDI. The headcount abroad also reflects these structural differences in Africa and the CEECs countries: these regions account for 10 and 18% respectively of French jobs abroad, versus 4% and 20% respectively of German jobs.

On the other hand, this difference ceases to exist in the case of Asia, where 10% of French and German employees alike are located. Germany's presence in Asia thus appears to be more capital intensive than that of France, but this could stem from differences in the structure of their presence in terms of sectors.

Chart 1: presence abroad and exports (developing countries)



Source: Bundesbank, Banque de France, "subsidiaries survey", CHELEM.

## 2. The emerging market and developing countries<sup>1</sup> are host to a substantial proportion of French activities abroad

**2.1 Less than 10% of French companies' foreign investment goes to the emerging market and developing countries, but these host around 40% of French companies' establishments abroad and their headcount**

As is to be expected, the developed countries account for the bulk of French companies' establishments abroad (56% in 2004). Western Europe in

particular accounts for 40% of the number of French establishments and their headcount. More precisely, the four main markets in which French companies are established are Germany, the United States, the United Kingdom and Belgium.

Even so, 44% of French establishments abroad are located in the EMC/DC, 14% of them in Asia, 11% in Eastern Europe and 10% in Africa. According to our

(1) This category of countries is hereafter designated EMC/DC.

census, in descending order, China, Poland, Morocco, Brazil, India and Russia rank among the top 15 countries in which French companies are established.

**The proportion of French establishments located in the EMC/DC (44%) far outweighs these countries' share of French foreign investment, as evidenced in chart 2 (9% of the stock of French FDI at the end of 2003, of which 2% in Asia, 2% in Eastern Europe, and 1.5% in Africa).**

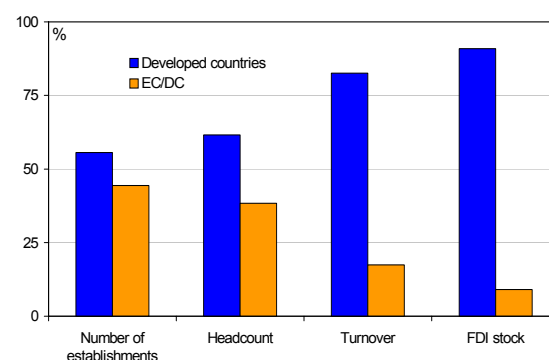
Indeed, French establishments located in the EMC/DC are (on average) smaller in size than those in the developed countries: 44% of these establishments account for only 38% of headcount and less than 20% of turnover. Moreover, Production in the EMC/DC is more labour intensive and less capital intensive than in the developed countries. In that sense, the FDI indicator underestimates the real share of the EMC/DC in the activities of French subsidiaries abroad. In the absence of data for the geographical breakdown of French output abroad, turnover provides the closest indicator: 15 to 20% of this is generated in the EMC/DC<sup>2</sup>.

## 2.2 French activities in the emerging market countries are growing faster than in the developed countries, and especially so in the CEECs and Asia

**The stock of French direct investment abroad grew at a moderate pace between 2002 and 2004 (4% per year, versus 20% per year over the period 1995-2002). The number of French establishments abroad, meanwhile, grew by 18% per year, on average, between 2002 and 2004.** This rapid growth in the number of establishments counted could be statistical in origin (due to better coverage by the "subsidiaries survey"), but economic factors could play a role too:

- The growth in the French stock of FDI abroad (in euros) slowed automatically with the appreciation of the euro over the period 2002-2004.

Chart 2: geographical breakdown of French companies abroad



Sources: "subsidiaries survey", Banque de France (2003) for FDI data.

- FDI flows declined across the board within the EU over the period, notably due to a pause in large-scale mergers and acquisitions. It could be that investment in the period 2002-2004 concerned start-ups or acquisitions of companies with smaller capitalisations.
- FDI do not include investments by French foreign subsidiaries if these are financed locally. Yet this form of expansion is likely to grow as French subsidiaries develop abroad.

**A growing proportion of French FDI is flowing towards the EMC/DC:** whereas these accounted for only 9% of the stock in 2003, they have been receiving more than 10% of flows annually. The growth in French investment in these countries is mainly directed towards the CEECs (5% of our FDI flows in the period 2001-2004) and Asia (3% of our FDI flows). According to the "subsidiaries survey", the headcount of French establishments abroad grew faster in the EMC/DC (20% per year between 2002 and 2004) than in the developed countries (11% per year). In the emerging countries of Asia, the number of French establishments and their headcount almost doubled in two years.

## 3. French activity abroad is evenly split between industry and services<sup>3</sup>

FDI data, which are usually broken down by sectors according to the activity of the head office, reveals that the service sector's weight is close to 2/3. Indeed, 40% of the stock of French FDI is held by holdings, and are therefore entered in the service sector, even though this does not reflect the subsidiaries' activity. **Excluding financial**

**services<sup>4</sup>, the sector breakdown of French companies' presence abroad is split between close to 40% for the industrial sector, 40% for services, and 20% for trade activities in terms of number of establishments and FDI stock.** The industrial sector outweighs services in terms of headcount (44% versus 34%) and

(2) The geographical breakdown of turnover derived from the "subsidiaries survey" is an approximate one, as explained in the Appendix on Methodology.

(3) We have included construction, and the production and distribution of energy and water in services, these two activities being more oriented towards local demand than manufacturing industry.

(4) L'étude de la répartition sectorielle du chiffre d'affaires et du stock d'IDE de source Banque de France nécessite d'exclure les services financiers (cf. annexe). D'après «enquête filiales», ces derniers représenteraient entre 5% et 8% des établissements français à l'étranger, de leurs effectifs et de leur chiffre d'affaire. Sauf mention contraire, les répartitions sectorielles présentées dans cette étude excluent les services financiers.

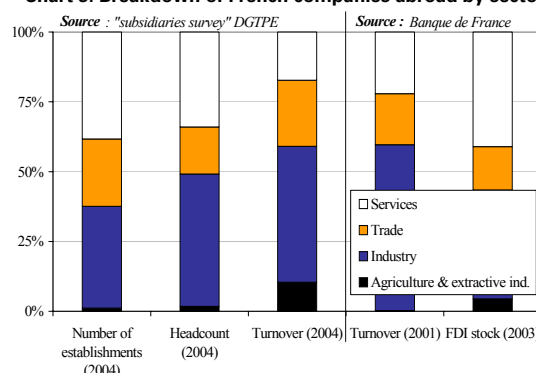
French turnover abroad (50 to 60% versus around 20%). The primary sector (agriculture and raw materials extraction) accounts for less than 5% in terms of number of establishments, headcount and FDI stock, and between 0 and 10% in terms of turnover.

In the services sector, business services are the leading segment for French investment abroad in terms of the number of establishments (39% of all service sector establishments); transport and communications are the leading service sector segment in terms of FDI (29% of the stock of non-financial services FDI), and hotels and catering lead the sector in terms of headcount with 23% of service sector employees. Finally, financial services are the leading segment in terms of turnover (32% of service sector turnover), according to the findings of the "subsidiaries survey".

According to the "subsidiaries survey", the largest French industrial segment abroad is comprised of chemicals,

pharmaceuticals, rubber manufacturing and plastics, accounting for around 30% of establishments, headcount and turnover in the industrial sector. According to Banque de France data, however, transport equipment emerges as the leading segment of French industry abroad, accounting for more than half of the sector's turnover and more than 40% of the stock of FDI.

**Chart 3: Breakdown of French companies abroad by sector**



#### 4. French investment in the EMC/DC is largely dictated by a strategy aimed at winning markets

The sector breakdown of French companies' presence abroad shows that French investment in the EMC/DC are largely aimed at winning markets. This contradicts some simplified presentations of investment abroad, which tend to equate it with relocation of activities when it takes place in emerging market countries or developing countries, and with the winning of new markets when it takes place in the developed countries. Indeed, it is noted that:

- while there are fewer French trade subsidiaries in the EMC/DC than in the developed countries, they are larger and account for 22% of the French companies' headcount in the EMC/DC, totalling more than 410,000 employees;
- the relative share of the service sector is equivalent to that in the developed countries, with 33% of the headcount representing a total of nearly 710,000 employees;
- These services are more oriented than in the developed countries towards local demand for infrastructure development and less towards business services.

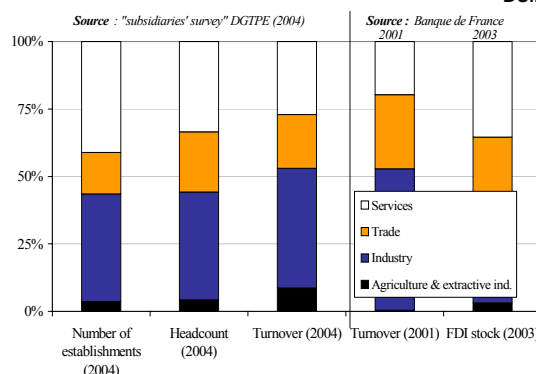
Moreover, 4% of the French companies' headcount in the EMC/DC is employed in exploiting the natural resources of these countries through agricultural or extractive activities.

##### 4.1 Headcounts in trade activities are high, including those in EMC/DC

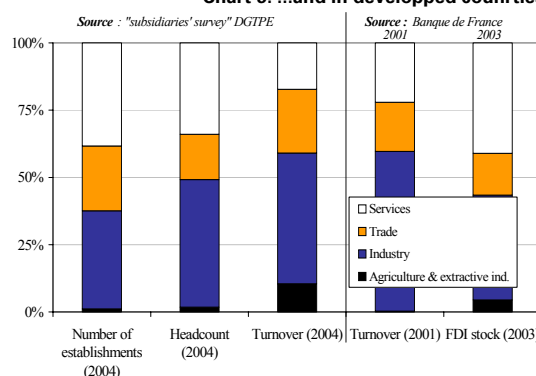
Although there are fewer trade establishments in the EMC/DC than in the developed countries, they are larger. The share of trade activities as a proportion of total activity is smaller in the EMC/DC than in the developed countries in terms of the number of French establish-

ments (15% versus 24%), but it is greater in terms of headcount (22% versus 17%) and FDI stock (20% versus 16%). Indeed, the average headcount in trade establishments is nearly twice as large in the EMC/DC as in the developed countries. The major French retailers notably have large establishments in South America (Brazil and Argentina), Asia (China, Thailand, Korea and Indonesia) and in the New Member States of the European Union.

**Chart 4: breakdown of French companies' presence in EMC/DC...**



**Chart 5: ...and in developed countries**



Investment in the EMC/DC also serves to exploit their natural resources. Agricultural and extractive activities account for a greater proportion of total activity in the EMC/DC than in the developed countries (4% of the number and headcount of French establishments in the EMC/DC, versus 1% and 2% respectively in the developed countries).

#### 4.2 Service activities account for as large a share of total activity in the EMC/DC as in the developed countries

**The share of industry in total French activity abroad is no greater in the emerging or developing countries than in the developed countries.** It is slightly greater in the EMC/DC in terms of the number of French establishments (40% in the EMC/DC, versus 36% in the developed countries), but it is very close in terms of FDI stock (41% versus 39%) and less in terms of headcount (40% versus 47%) and turnover (44% in the "subsidiaries survey" and 52% according to Banque de France data, as against 49% and 59% respectively in the developed countries).

At a more detailed level, we logically find that low-skilled activities such as food processing and textiles and clothing account for a larger share in the EMC/DC than in the developed countries (8% and 3% of headcount respectively, versus 2% and 1% in the developed countries). Conversely, the higher value added industrial activities such as aircraft manufacturing, shipbuilding and rail equipment manufacturing, or chemicals and pharmaceuticals, account for a smaller share in the EMC/DC than in the developed countries (1% and 10% of headcount respectively, as against 4% and 18% in the developed countries). Of course, this reflects the fact that the developed coun-

tries are more attractive locations for skilled activities than for unskilled ones. Moreover, the differences in the sector breakdown between EMC/DC and developed countries are relatively small. Consequently, the EMC/DCs' progression up the value chain looks unlikely to alter significantly the sector breakdown of French investment in these countries.

#### 4.3 The share of services is close to the one of industry

**The relative share of services in French activity in the EMC/DC is fairly close to that in the developed countries:** it is slightly higher in the EMC/DC in terms of the number of French establishments (41% versus 38%), but the same in terms of the headcount (33% versus 34%), and smaller in terms of FDI stock (35% versus 41%). Service establishments are relatively more numerous in the EMC/DC than in the developed countries, but they are smaller in size and with smaller capitalisations.

**At a more detailed level, we find that the services whose relative share is greater in the EMC/DC than in the developed countries cater to the specific needs of the EMC/DC in terms of infrastructure development,** i.e. construction (5% of the French companies' headcount in the EMC/DC versus 2% in the developed countries), production and distribution of electricity, gas and water (6% versus 3%), and sanitation and roadworks (3% versus 1%). Conversely, business services (R&D, IT services, etc.) account for only 4% of French companies' headcount in the EMC/DC, compared with 9% in the developed countries.

**Nila CECI**

**Table 1: geographical breakdown (in %) of French companies abroad<sup>a</sup>**

	Number of establishments	Headcount <sup>b</sup>	Turnover <sup>b</sup>	Stock of FDI
<b>Developed countries</b>	<b>56</b>	<b>62</b>	<b>83</b>	<b>91</b>
– EU15	39	41	49	58
– EFTA (excl. Iceland)	2	1	1	5
– North America	12	17	27	26
– Japan, Australia, New Zealand	3	3	5	3
<b>Emerging / developing countries</b>	<b>44</b>	<b>38</b>	<b>17</b>	<b>9</b>
– NMSs	7	5	2	2
– Other CEECs and CIs	4	3	2	1
– Near and Middle East	3	2	1	1
– Africa	10	8	4	2
– Latin America	6	11	4	2
– Asia	14	10	4	2

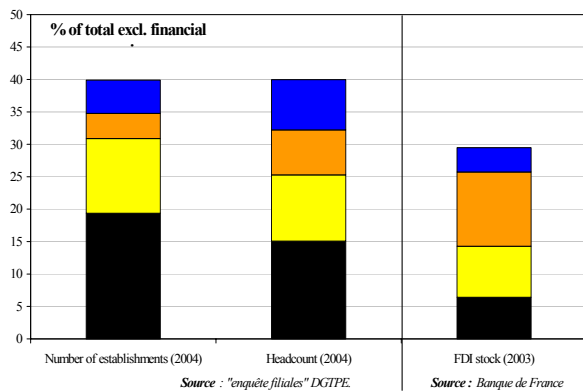
a. Figures are for 2004, except for the FDI stock, which refers to 2003.

b. breakdowns corrected for different response rates between regions.

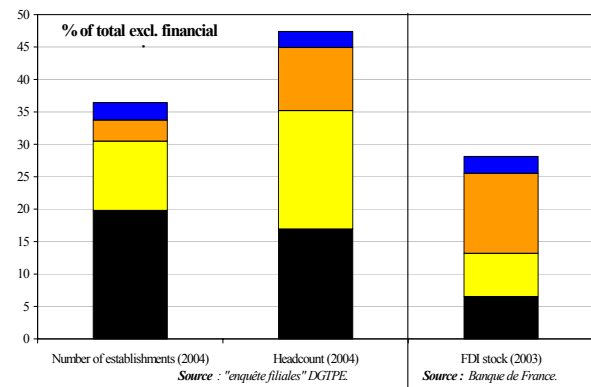
Source: "subsidiaries survey" for the number of establishments headcount and turnover, Banque de France for FDI.

## Annexe 1 : other charts

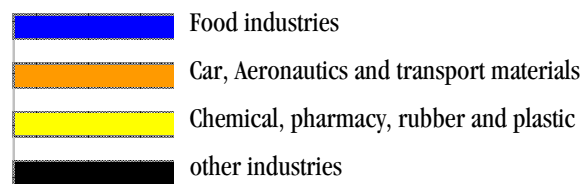
Relative share of French industrial activities in EC/DE



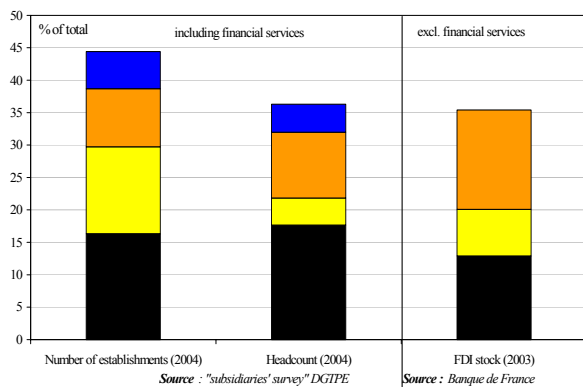
Relative share of French industrial activities in developed countries



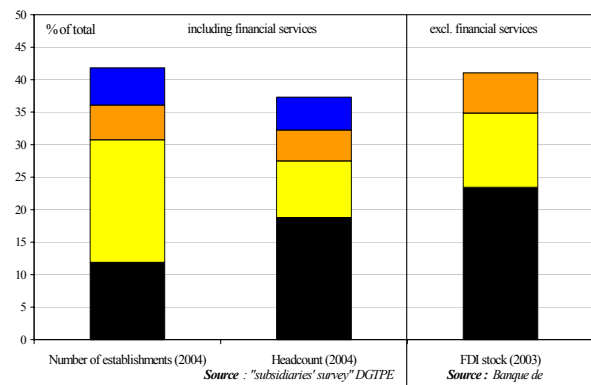
### Legends



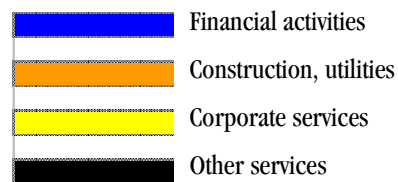
Relative share of French service activities abroad in EC/DC



Relative share of French service activities abroad in developed countries



### Legends





## Annexe 2 : Data used to measure French activities abroad

The Banque de France measures capital invested abroad by French companies (their stock of FDI) and the turnover of French subsidiaries abroad. The "subsidiaries survey" and the Banque de France data are based on very different methodologies, including in terms of their scope. The results obtained regarding turnover are broadly consistent, although they differ in their details.

Given the large number of missing values, caution is needed in interpreting the findings of the "subsidiaries survey", especially regarding turnover (see Appendix). Consequently, this study is confined to a handful of general observations and systematically compares the two available sources of data.

The "subsidiaries survey" found 28,200 French establishments abroad in 2004, employing more than 5.4 million people and generating an aggregate turnover of more € 520 billion (1). Moreover, the Banque de France estimated the stock of French FDI (2) at nearly € 610 billion at the end of 2004.

### I. DGTPE "subsidiaries survey" methodology

#### A – Aims and nature of the "subsidiaries survey"

The "subsidiaries survey" is a periodical survey conducted by the DGTPE in order to measure France's presence abroad. Information is gathered directly from French establishments abroad via the DGTPE's international network of "Economic Missions". The survey is of operational value also, since the task of the Missions is to promote the development of French companies abroad.

#### B – Scope of the "subsidiaries survey"

The "subsidiaries survey" covers both the secondary establishments and the representative offices of French companies located abroad, and companies affiliated to French groups in which the latter hold more than 10% of the share capital (this being the ratio adopted by convention, corresponding to the international threshold for the identification of "foreign direct investment"). Companies that are indirectly affiliated to French groups are included on the basis of the criteria recommended by the OECD<sup>a</sup>.

#### C – Advantages and drawbacks of the "subsidiaries survey"

The "subsidiaries survey" is currently the sole source of information concerning number of French establishments abroad and their headcount. It has the advantage of collecting data on the subsidiaries' sector of activity, unlike Banque de France data. French establishments whose activity is "not known" represent 17% of the total number of French establishments, 8% of headcount and 5% of turnover.

The French establishments surveyed are under no obligation to respond, which means that the information collected is more or less piecemeal, depending on the country. To boost the response rate, the information gathered for years prior to 2004 has been reutilised: 36% of the headcount and 32% of turnover date from years prior to 2003. Despite this approximation, headcount figures are known for only 69% of French establishments, and turnover for 22%. Consequently, our findings underestimate the headcount and turnover of French companies abroad, but the largest establishments are surveyed first, thereby largely limiting the downward bias<sup>b</sup>.

### II. Banque de France data methodology

#### A – Aims and nature of Banque de France data

The Banque de France compiles data concerning the stock of FDI in order to evaluate France's external position<sup>c</sup>. These data are derived from compulsory returns made by French banks and companies (above certain thresholds). Statistics for the turnover of foreign companies affiliated to France are compiled by questioning the French parent companies identified in the process of compiling the FDI statistics.

#### B – The scope of Banque de France data

The scope covered by Banque de France data is based on the resident company criterion<sup>d</sup> and differs from that covered by the "subsidiaries survey", the latter being closer to the concept of French interests abroad:

- The subsidiaries of French companies that are themselves held by foreign groups are treated as French investments.
- Companies indirectly affiliated to France (i.e. via a foreign intermediary in the shareholding structure) are not taken into account.
- Since 2002, financial links are taken into account only above a shareholding threshold of € 5 million.

- a. A subsidiary that is more than 50%-owned is considered to be a French company for the purpose of determining whether to include its downstream entities.
- b. Headcount and turnover are customarily highly concentrated: in France, 3.5% of companies generate three quarters of national turnover.
- c. France's external position is the difference between claims held by French residents on the residents of other countries on the one hand, and the liabilities of French residents vis-à-vis residents of other countries on the other.
- d. This criterion is consistent with the international standards set forth in the IMF Manual (5th edition) concerning direct investment.

In practice, the "subsidiaries survey" covers a larger number of establishments than the Banque de France data (but the total turnover for 2004 is similar in the two surveys): in 2002, it counted more than 20,000 French establishments abroad, compared with 5,200 for the Banque de France survey.

#### **C- Advantages and drawbacks of the Banque de France data**

The stock of FDI according to the Banque de France is the only available estimate of capital invested by French companies abroad. The method of collecting data from French parent companies has the advantage of homogeneity, depending on the establishments' host countries, thus avoiding skewing the geographical breakdown. Further, the regularity with which data are collected allows changes to be measured in relatively fine detail.

A major drawback with the Banque de France data is the way they are broken down by sector, which is based on the activity of the French parent company. We have nevertheless compiled a breakdown by sector based on these data, assuming that a subsidiary's sector of activity is close to that of its parent company, except in the case of subsidiaries of holding companies. We have therefore excluded the holding companies and financial services sectors<sup>a</sup>, which respectively accounted for 41% and 18% of French turnover abroad in 2001, and for 38% and 22% respectively of the stock of FDI in 2003.

#### **III. Prospects for cross-checking sources**

In the Banque de France data, financial holding companies are classified in the financial sector, contrary to holding companies in other sectors, which are grouped together in a sector called business services. The inclusion of holding companies artificially boosts the relative weight of the financial sector to 18% of French turnover abroad, compared with 7% in the "subsidiaries survey" data.

- a. In the Banque de France data, financial holding companies are classified in the financial sector, contrary to holding companies in other sectors, which are grouped together in a sector called business services. The inclusion of holding companies artificially boosts the relative weight of the financial sector to 18% of French turnover abroad, compared with 7% in the "subsidiaries survey" data.

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