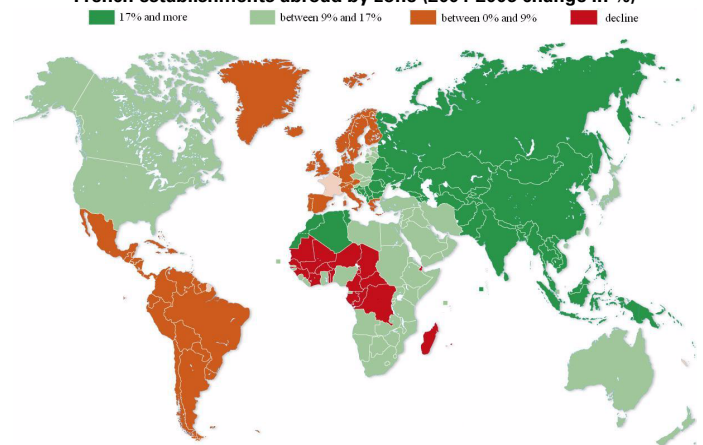


## French companies abroad

- The presence of French companies in the world continues to grow. According to the "Subsidiaries Survey" conducted by the French Treasury (DGTPE), there were more than 30,000 French establishments around the world in 2006, up from 28,000 in 2004. They employed six million people and generated some €850 billion in turnover, *i.e.* more than twice as much as France earned from exports.
- More than half of these companies operate in the service sector, and particularly in retail trade. As the report on the results of the 2004 survey highlighted, the size of this sector shows that French firms are willing to establish a presence abroad in order to get in touch with local demand. To a lesser extent, this is also true for the industrial sector, even if firms in this sector have more complex strategies.
- Overall, there are more establishments in neighbouring countries, particularly in Western Europe, which accounts for nearly half of all French establishments abroad and the lion's share of their turnover. French firms are also very present in developed countries farther afield - mainly North America - where they have established presences to both serve local demand and to take advantage of the comparative advantages that these countries represent in terms of firms' production strategies.
- Presence in emerging countries is more limited, particularly in terms of turnover, but this is growing rapidly (see map below). French firms view a presence in these areas above all as opportunities to penetrate high-growth markets and, to a lesser extent, as means for keeping down production costs, particularly manufacturing costs.
- There is no contradiction between selling products through a local outlet and exporting them from France. Overall, complementarity links appear to be stronger than substitution links, and a strengthened global presence enables French companies to win markets with a variety of strategies.

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 for the Economy, Industry and Employment.

French establishments abroad by zone (2004-2006 change in %)



Source: DGTPE, *Subsidiaries Survey*.

Over the past two decades, the activity of French companies abroad grew extremely fast. In 2006, Foreign Direct Investment (FDI, Banque de France data) totalled nearly €100 billion, more than triple the amount in 1996, while French exports increased by 70%. Each year, France ranks second or third worldwide in terms of foreign investment; over the past five years, on average, French firms have invested more than twice as much as their German counterparts. To win market shares, French companies have clearly increased their presence abroad in recent years.

For more than ten years, the French Treasury (DGTPE) has carried out the "Subsidiary Survey" (see Appendix), in order to better understand the nature and location of the French presence abroad, as well as to have a clearer grasp of the strategy of French companies around the world. The results of the previous survey, which was conducted in 2005 on data from 2004, were published in *Trésor-Éco* in November 2006<sup>1</sup>.

## 1. A strengthened global presence for French companies

The present survey found more than 30,000 French establishments in 2006, against more than 28,000 in 2004, a 7% increase<sup>2</sup>. These establishments employ six million people, compared to 5.5 million in 2004 – an increase of the same magnitude (+9%) as the number of establishments<sup>3</sup>. The number of expatriate employees (60,000) represented about 1% of the total.

These establishments generated some €850 billion in turnover in 2006, *i.e.* slightly more than twice

the amount generated by exports that year. Although most of those employed by French firms abroad are located outside Western Europe (61%), this region registered the lion's share of turnover (59%).

The service sector accounts for more than half of French establishments, a third of which work in retail trade (see Charts 1 and 2). The size of this sector shows that French firms are willing to establish a presence abroad in order to get in touch with local demand.

Chart 1: Sector breakdown of French establishments in 2006

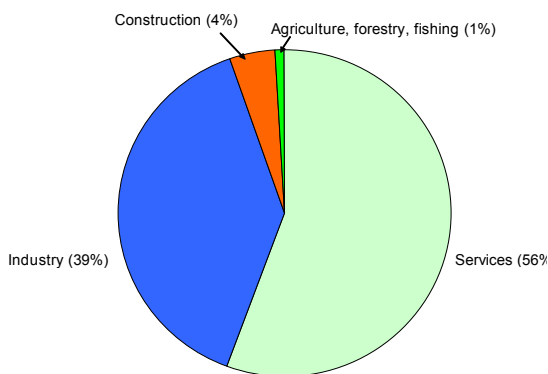


Chart 2: Breakdown of service sector

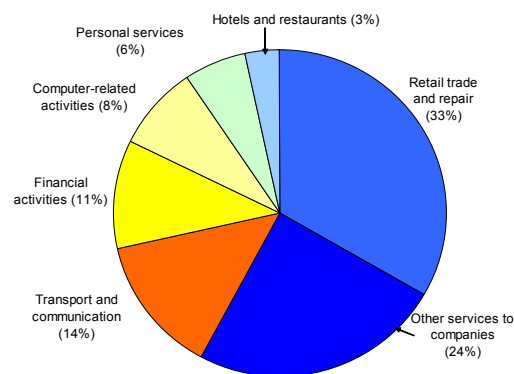
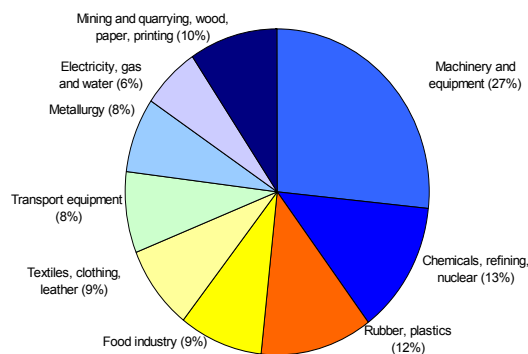


Chart 3: Breakdown of industrial sector



Source: DGTPE, *Subsidiaries Survey*.

(1) See Ceci N. (2006): "Census of French companies' establishments abroad", *Trésor-Éco* No. 4, November.  
 (2) This increase is less than that registered in 2004 over 2002 (+40%). Nevertheless, the change between 2002 and 2004 may partly be explained by differences in method.  
 (3) +13% between 2002 and 2004.

**Industrial firms** make up slightly less than 40% of the total number of establishments. Their presence abroad is motivated by a desire to be closer to their customers, as well as for organisational reasons, including lower

production costs. Machinery and Equipment represents the largest industrial sector (see Chart 3). Other areas (including construction and the primary sector) have only a very small overseas presence.

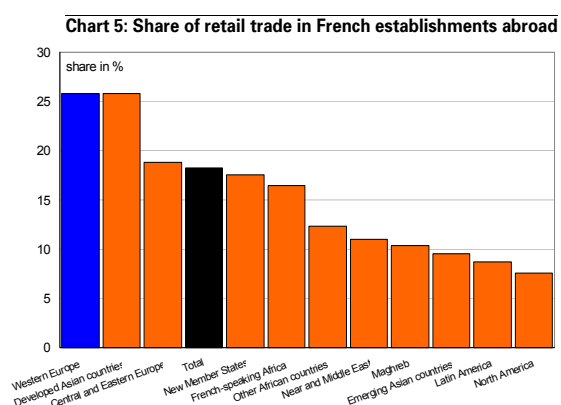
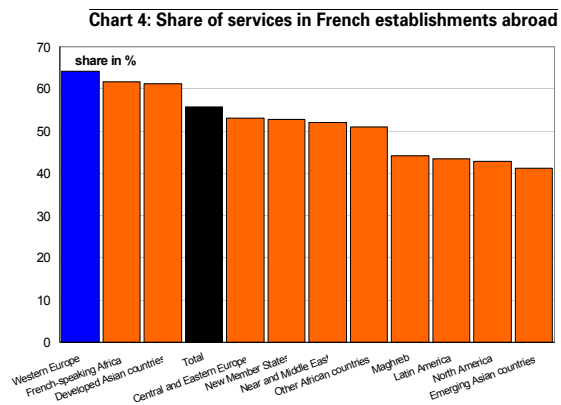
## 2. French companies are especially present in developed countries, particularly in Western Europe - their main market - and the US

The majority of French companies abroad are located in developed countries. These zones are host to 3/5 of French establishments and their employees (see table 1), but represent more than 4/5 of total turnover.

### 2.1 Less than half of French establishments are located in Western Europe, but this region represents more than half of total turnover

Overall, a large number of establishments are located in neighbouring countries. Germany alone hosts 3,300 establishments, while the other "major" European countries (the UK, Italy and Spain) are home to between 1,000 and 1,500 such establishments each. This strong French presence is the result of a strengthened European Single Market, which is a natural extension of the French market. Cultural and linguistic reasons are behind a strong presence in Belgium and, to a lesser extent, Switzerland, with 1,500 and 500 establishments respectively.

The majority of French firms in Western Europe are in the service sector (64%, compared with 56% overall – see chart 4). The goal of retail establishments is to serve local demand (see chart 5), much like the 161 Carrefour hypermarkets in Spain. The relative importance of other service sectors, including services to companies (particularly legal services), consulting and advertising (see chart 6) is more due to geographic and cultural proximity to France's European neighbours.



Source : DGTPE, Subsidiaries Survey.

**Table 1: French presence around the world in 2006**

	Number of establishments	Share in %	Total employees	Share in %
Total	30,352	100	5,966,766	100
Western Europe (1)	11,571	38	2,237,443	39
North America	3,686	12	909,899	15
Emerging Asian countries	3,361	11	579,172	10
New Member States (2)	2,303	7	335,183	6
Developed Asia Pacific countries (3)	2,228	7	280,205	5
Latin America	1,678	5	693,476	12
Central and Eastern Europe (4)	1,626	5	175,218	3
Maghreb	1,154	4	184,544	3
French-speaking Africa	1,107	4	171,629	3
Near and Middle East	1,015	3	193,416	3
Other African countries	595	2	93,204	2

(1) EU15, Switzerland, Norway, Iceland.

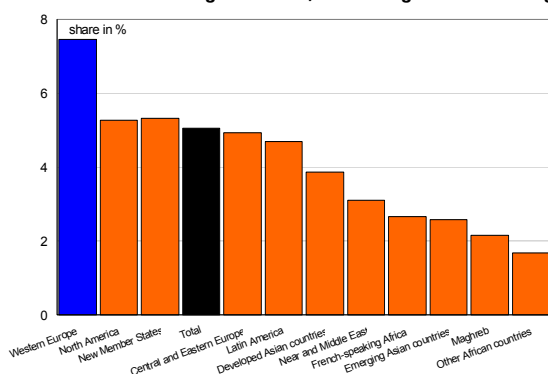
(2) The EU's ten new Member States in 2006.

(3) Japan, South Korea, Taiwan, Hong Kong, Singapore, Australia and New Zealand.

(4) Romania, Bulgaria (which only joined the EU in 2007), former Yugoslavia, CIS.

Source: DGTPE, Subsidiaries Survey.

**Chart 6: Share of legal services, consulting and advertising**



Source: DGTPE, Subsidiaries Survey.

For industrial companies, the choice to invest outside of France may be related to rationalisation of production processes. In the major industrial groups, companies tend to locate each phase of production in those countries that offer the best conditions in terms of skills or costs. They take advantage of the range of comparative advantages in host countries in order to increase productivity. With the context of a single market with harmonised standards, low transportation costs and no customs duties to pay, French industrial investments in other European countries are - much like European investments in France - mainly "vertical" investments. The goal is to split up production processes based on comparative advantages and production conditions offered by the various host countries<sup>4</sup>. The demand being satisfied could come from Europe or elsewhere in the world (automotive industry, Alstom, Sanofi-Aventis, etc.).

## 2.2 A strong French presence in North America and the developed countries in Asia basically in order to be closer to local demand

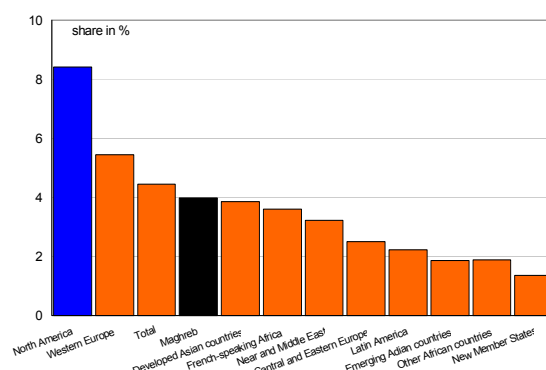
There is also a strong French presence in developed countries that are farther afield. North America and the developed countries in Asia-Pacific are host to 1/5 of French establishments and their employees, and generate 1/4 of total turnover.

In the developed Asian countries, French companies have established a presence in order to better access markets, to understand their customers' needs and to meet local demand. Such a strategy enables them to bypass trade barriers, reduce transport costs and also to get closer to

consumers and adapt to their requirements. For example, in the automobile industry, the creation of the Renault-Nissan alliance was driven by the desire to become more involved in the Asian market, mostly Japan and Korea. It also allowed Renault to overcome problems of access to these markets that foreign investors have encountered. Proof of this can be seen in the small number of French establishments in Japan compared with the country's economic might (fewer than 600, less than in India), and in the low level of Foreign Direct Investment in Japan (2.5% of Japan's GDP, compared with more than 20% for most EU countries).

The US is the second largest home to French firms after Germany. It contains more than half of the total number of French establishments and employees and also more than half of the turnover registered by French subsidiaries in developed countries farther afield. As in other countries, the main objective for many French firms is to get closer to final demand. Nevertheless, some American skills and specific innovations are the motivating factor for French companies' decision to set up branches there<sup>5</sup>. For example, 64% of the R&D units of major French groups are located in Europe, and 30% are in the US<sup>6</sup>. In addition, French companies are seeking to benefit from specific American skillsets in the field of IT - nearly a quarter of French IT-sector firms abroad are located in the US (see Chart 7). In the same way, *Vivendi's* acquisition of Universal Studios and Universal Music in 2000 strengthened the group's communication division, and provided film productions and music for its cable, television and Internet outlets.

**Chart 7: Share of IT activities**



Source: DGTPE, Subsidiaries Survey.

- (4) See Crozet M., Koenig P. (2005): "Le rôle des firmes multinationales dans le commerce international" (*The Role of Multinational Firms in International Trade*), *Mondialisation et commerce international, Les Cahiers Français No. 325, April*.
- (5) See El Mouhoub Mouhoud (2004): "Les logiques de l'innovation: Mondialisation et localisation des activités de R&D" (*Innovation Imperatives: Globalisation and Localisation of R&D Activities*), *Croissance et Innovation, Les Cahiers Français No. 323, December*.
- (6) See Lefebvre G., Madeuf B., Weisenburger E. (2001): "Création ou rachat de centres de R&D: deux voies pour assurer la présence des groupes français à l'étranger" (*Creating or Acquiring R&D Centres: Two Methods for Ensuring a Presence for French Groups Abroad*), *Ministère de l'Éducation Nationale, de la Recherche et du Développement, notes d'information, No. 01.26, June*.

### 3. Emerging countries are home to a relatively small but growing number of French establishments. This growth may indicate a desire by French firms to reduce costs, but it is above all the reflection of their willingness to conquer new, high-growth markets

Emerging countries are home to about 2/5 of French establishments - about the same number as in Western Europe - but they represent less than 1/5 of total turnover.

For French firms abroad, just as for French exports, geographic proximity offers a real bonus - the countries of Central and Eastern Europe and those of the Mediterranean basin (Maghreb and the Near and Middle East) are host to 12% and 7%, respectively, of total French establishments abroad, and to nearly half of the French presence in emerging countries. The emerging Asian countries are also an attractive location, welcoming 12% of French establishments. Sub-Saharan Africa is home to 6% of firms; this is much greater than the "weight" of this zone in the global economy (2%), due to France's longstanding ties with this part of the world. On the other hand, only 5% of French firms are located in Latin America, somewhat less than its global economic weight of 6%.

**Although emerging countries are home to a relatively small number of French establishments, this number is growing. Since 2004, the increase has been particularly strong in Eastern and Central Europe (see map on page 1), in Maghreb countries and in the emerging countries of Asia.** In all of these zones, growth has generally exceeded 15% over a two-year period, while the presence of French firms in Western Europe remained unchanged. In the same way, the number of employees in emerging countries increased by 21%, particularly in Asia, Central and Eastern Europe and the Near and Middle East. A sharp decrease in both French firms and employees in French-speaking Africa has corrected the rather elevated presence of recent years.

One very specific factor has also been at work in the past few years – the significant rise in large equipment contracts signed by French companies in these countries – a total of €38 billion in 2007, against less than €10 billion annually in the 1990s. This has doubtless played a part in the arrival of new subsidiaries, especially in the emerging Asian countries, as fulfilling these contracts generally implies a local and multi-level presence (including installation, consulting, engineering, construction, maintenance, etc.) of the companies in question<sup>7</sup>.

#### 3.1 An increase in French establishments in emerging countries is only partly due to a desire to reduce production costs

In emerging countries, rationalised production processes imply, to a certain extent, a search for ways to reduce production costs, salaries in particular. The net impact of the development of activities in emerging countries on employment in France is, however, difficult to evaluate. On one hand, offshoring, in the strict sense of the term, concerns only a small part of companies' activities. On the other, a parent company's offshoring of unskilled labour-intensive activities to foreign subsidiaries that offer comparative advantages in terms of lower salary costs may allow it to focus on activities in France that make use of local comparative advantages, and thus to maintain a local presence<sup>8</sup>.

For example, offshoring low-value-added textile production activities can take place while maintaining – and even developing – an innovative textile sector in France (professional clothing in particular), including luxury clothing that is very high-powered in terms of exports.

This is clearly the logic behind the presence of the French automotive industry in Central Europe, according to the French Automobile Manufacturers Committee (CCFA)<sup>9</sup>. The number of automobile production units in the new Member States has grown by 66% in two years. These plants are designed to produce new lower-end models (including the *Twingo* in Slovenia, the *Peugeot 107* and *Citroen C1* in the Czech Republic, the *Peugeot 207* in Slovakia and Dacia's Logan in Romania), for which the manufacturers' margins are lower and cost is a determining factor<sup>10</sup>. Naturally, these cars are used to meet local, Eastern European demand, but also, and to a great extent in some cases (such as the new *Twingo*), to meet standard, Western European consumers' demand for French cars.

This rationalisation is very similar to the phenomenon of offshoring, *i.e.* the displacement of production units to countries with lower wages in order to supply the same customers as before. For example, in recent years, driven by a highly competitive global environment, France's unskilled-labour intensive textile and clothing sector moved part of its production offshore, particularly to Maghreb countries. In this part of the world, the sector represented 11% of French establishments in 2006, against 3% in other zones (see Chart 8)<sup>11</sup>.

(7) See Madariaga N., de Pastor R. (2008): "Large contracts" signed by French firms in the emerging countries", *Trésor-Éco* No. 34, April.

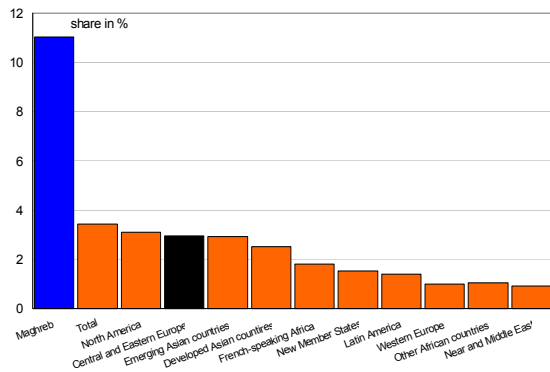
(8) See Crozet M., Mayer T. (2002): "Du global au local, quelle localisation pour les entreprises ?" (*From Global to Local, How Should Firms Approach Localisation?*), *Les nouvelles logiques de l'entreprise*, *Les Cahiers Français* No. 309.

(9) See "L'industrie automobile française, analyses et statistiques" (*Analyses and Statistics Relating to the French Automobile Industry*, *Comité des Constructeurs Français d'Automobiles*, 2008.

(10) See Bouabdallah O., Guilquin G., Pinçon M.A. (2008): "How the French car industry is faring in the face of globalisation", *Trésor-Éco* No. 43, September.

(11) See "Délocalisations et réduction d'effectifs dans l'industrie française" (*Offshoring and a Reduced Labour Force in French Industry*), INSEE, *L'économie française 2005-2006*.

Chart 8: Share of textiles-clothing



Source: DGTPE, Subsidiaries Survey.

### 3.2 The decision to establish a French presence abroad is strongly driven by a strategy to enter markets with high-growth potential

Even in emerging countries, the desire to move closer to the source of final demand is a major motivating factor for companies choosing a location. The size of the service sector, which accounts for half of all French establishments in emerging countries, shows how much a market-winning strategy counts in the decision to establish a French presence abroad; this fact was already pointed out in the results of the 2004 Subsidiaries Survey. For example, the strong presence of major French distributors abroad - such as Carrefour hypermarkets in China, Indonesia and Brazil - indicates a natural desire to satisfy high-growth consumer demands.

More generally, in a recent survey conducted by INSEE<sup>12</sup>, leaders of large companies listed proximity to their custo-

mers as the main criteria in developing their businesses abroad, even more than the chance to reduce wage costs. In the same way, the Competitiveness Survey carried out among foreign trade advisors confirmed that access to new markets (77% of those questioned) and proximity to customers (70%) were the two main reasons for developing a company's overseas activities<sup>13</sup>.

Even for a number of firms in the industrial sector, market penetration is a key factor in deciding where to build a presence. From this point of view, getting into the market early is important, and if possible before the competition has moved it. The first to arrive is often the first to capture the largest market share<sup>14</sup>.

For example, the 150,000 cars built each year in Brazil by two French manufacturers are primarily a means for satisfying a part of local demand, which is experiencing strong growth. In the same way, Renault-Nissan's decision to team up with *Mahindra & Mahindra* for the 2007 launch of the *Logan* in India, and its partnership with *Bajaj* to build a US\$2,500 car by 2011 are designed to capture a share of this high-potential market - a market that is nearly inaccessible by exporting cars from France, given the buying power of potential Indian customers.

In such cases, the "cost argument" thus plays a key role in deciding where to build a French presence. It does not, however, rule out an export approach, in that these products, if they had been produced in France or another industrialised country, could not have been sold to customers in emerging countries. Foreign investment is a natural complement to exporting.

## 4. A strengthened French presence abroad represents a complement to exports, and allows companies to diversify their strategies to win foreign market share

### 4.1 Data reveals that complementarity links appear to be stronger than substitution links

Regardless of the reason for investing abroad, companies who do so may, by producing goods locally, deprive the parent company's country of exports, which are replaced by sales by the foreign-based subsidiary. Establishments whose main motivation is lower foreign labour costs may even give rise to new imports in return.

Is there substitution or complementarity between exports and foreign-based French firms? The Subsidiary Survey may help answer this question. As it turns out, although

investments and exports are interchangeable for certain companies or sectors, a study carried out in 1998 revealed that, at the macroeconomic level, complementarity links are stronger than substitution links<sup>15</sup>.

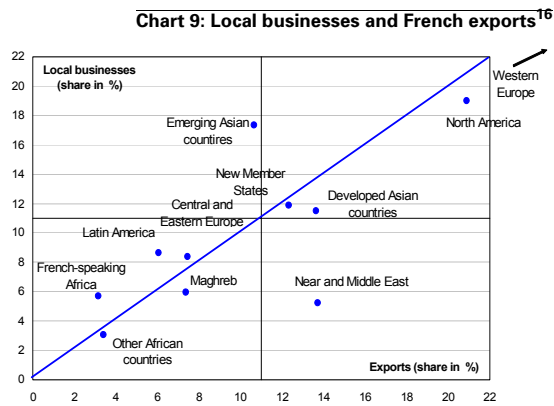
This result is consistent with data from the Subsidiary Surveys. Chart 9 suggests a certain complementarity between foreign presence and exports. Overall, French companies export to countries where they have a presence. In these zones, the turnover from local French businesses and exports from France is approximately equal - hence the concentration of points around the bisector in this chart.

(12) See Bardaji J., Scherrer P. (2008): "Mondialisation et compétitivité des entreprises françaises, l'opinion des chefs d'entreprise dans l'industrie" (*Globalisation and Competitiveness in French Firms: What Industry Business Leaders Think*), Insee Première No. 1188, May.

(13) See "Enquête Compétitivité: l'activité des entreprises françaises à l'international" (*Competitiveness Survey: French Firms Abroad*), Comité national des conseillers du commerce extérieur de la France (CNCCEF), avril 2008.

(14) See Crozet M., Koenig P. (2007): "Entreprises multinationales et commerce international" (*Multinational Companies and International Trade*), in "Mondialisation et commerce international", *Les Cahiers Français* No. 341, December.

(15) See Fontagné L., Pajot M. (1998): "Investissement direct à l'étranger et commerce international. Le cas français" (*Foreign Direct Investment and International Trade: The Case of France*), *Revue économique*, vol. 49, No. 3. Other more recent studies are based on this work.



Source: DGTPE, *Subsidiary Survey, Customs*.

Nevertheless, some geographic zones stand apart from the bisector, which represents a relative theoretical neutrality between local businesses and exports. Points located above the line are areas where there is a strong French presence, when compared with these areas' share of French exports. This is the case with the emerging Asian countries - the distance of this point from the bisector reveals that French businesses still export very little to these areas, in comparison with their presence on the ground. To a lesser extent, this is also true of French-speaking Africa, where the presence of French companies has dropped although they are still relatively present, particularly with respect to this zone's share of French exports.

On the other hand, due to legal barriers, there are very few French companies in the Near and Middle East compared with this region's share of exports. In addition, "large contracts" - which for France are a partial counterpart in return for the income earned from oil in these countries - have flourished in this part of the world. They feed the flow of contract-related exports, but do little to foster the presence of French subsidiaries on the ground, in contrast to other large contract zones (see note 7). Another significant point below the line is Western Europe, where the near-absence of export costs and trade barriers means

that the share of French exports is quite high (64% of total exports) compared with the turnover earned by French companies located in these countries (39% of the total number and 59% in terms of turnover).

#### 4.2 The strength of complementarity links is due to significant intra-company trade, but also to the positive effects of a French presence on the penetration of external markets

The complementarity between exports and French companies in the field is partly due to significant intra-company trade. In 1999, a survey by the Ministry for Industry found that some 41% of exports and 36% of imports of industrial products were the result of intra-company trade<sup>17</sup>. A French presence creates a knock-on effect in terms of exports.

In addition to inter-subsidiary trade, the presence of French establishments abroad has positive effects on the penetration of external markets. Companies with a larger number of subsidiaries are more high-powered in terms of exports<sup>18</sup>. Indeed, regardless of the nature of the French presence - whether it is a subsidiary for distribution or a production plant - its very existence allows the parent company to more easily adapt to the needs of the foreign market. A knowledge of the local situation means that a company can export other products under the same brand. A company that invests can win market share in the host country and improve its competitiveness at the same time.

This was true for Renault and PSA, who opened several production plants in Spain (Renault in the 1950s and PSA in the late 1970s). This allowed the Spanish market to get to know their cars, and meant that both firms consolidated their positions over the last two decades, making Spain the number one export market for French cars.

**Raphaël CANCE**

(16) A comparison of turnover and exports would have been more interesting than the number of French establishments, but the quality of the data obtained per country was not satisfactory. For readability purposes, Western Europe is located off the chart.

(17) Source: Sessi, *Enquête Échanges internationaux intragroupes*, 1999.

(18) See Mayer T., Ottaviano G. (2007): "The Happy Few: The Internationalisation of European Firms", *Rapport du projet Bruegel-CEPR*.

## Methodology

### Methodology used for the survey of the French presence abroad, the so-called "Subsidiary Survey"

#### 1-Objectives and description of the survey

In 2007, via its international network, the French Treasury launched its "Subsidiary Survey" of French companies abroad, using economic data from 2006. The survey updates the results obtained in 2005, which was carried out using data from the previous year. The next survey should take place in 2009. It has allowed us not only to make an overall evaluation of the range of activities of French firms abroad, but also to draw up a map of France's presence around the world and to better understand French companies' globalisation strategies.

The international activities of French companies are usually measured by the amounts of their Foreign Direct Investment (FDI, source: *Banque de France*). This rating system, as defined by the IMF and the OECD, has its limits, including the fact that the FDI concept uses only a criterion of residence, not of nationality. In addition, geographical distribution of FDI is based on the immediate source and destination countries for financial flows, which may be only intermediaries and not the real source or final destination. Finally, FDI takes into account only direct links between residents and non-residents, and not second-tier or lower subsidiaries. The goal of the Subsidiaries Survey is thus to more closely measure French interests abroad.

Data was gathered directly from French firms operating abroad. The survey was not mandatory, and was not the subject of requests for approval from foreign authorities. The French Treasury committed to keeping all information received from these companies confidential. The data are protected by the Confidentiality Committee of the French National Council for Statistical Information (CNIS). On occasion, the Economic Missions will publish directories listing French companies doing business in a given country, listing contact information and the company's principal activity, but only for those companies who have given their approval. A question to this effect appears in the questionnaire.

#### 2- Scope of the survey

The Subsidiaries Survey covers two types of entities - units or representative offices of French companies (whose registered offices are located in France) and companies in which French groups hold more than 10% of the share capital. This ratio is the same as that used to determine the international threshold of Foreign Direct Investment. Finally, in compliance with OECD recommendations, a company whose share capital is more than 50% French-owned is considered to be a French company.

#### 3- Survey quality

It is difficult to assess the reliability of the data thus gathered. It depends on the companies who responded and, naturally, on the quality of the data. During the course of this survey, as a quality improvement measure, the DGTPE worked with INSEE to check whether some companies belonged within its scope.

The number of establishments is the most reliable variable. The quality of the other variables, such as the number of employees, depends on the quality of the various companies' responses. The number of employees given is for the last year this figure was known. For 38% of French companies abroad, this figure was updated for the period 2005-2006. 30% of companies surveyed did not list a single employee (compared with 31% for the 2004 survey). For some of these companies, the results were corrected using publicly-available data gathered by the Economic Missions.

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