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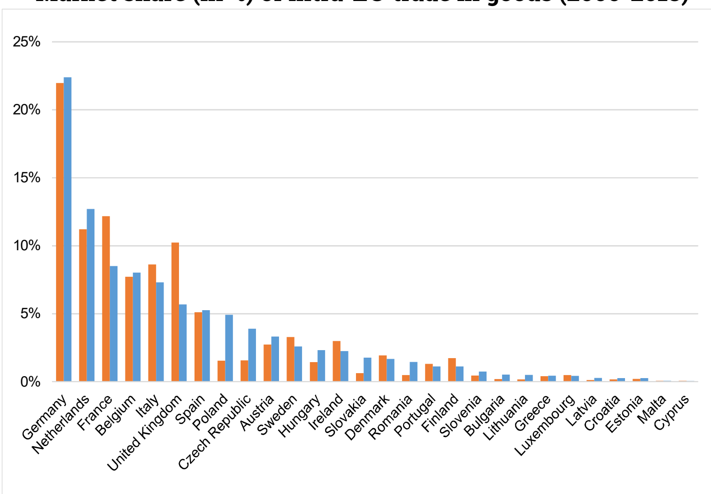
French exports of goods to the EU

- Despite the increasing weight of emerging economies in global trade, the European Union remains the leading destination for trade flows in goods and France's leading export market (59% of French exports in 2018). Since 2000, trade in goods within the EU has increased sharply (100% in nominal terms between 2000 and 2018).
- Similar to the United Kingdom and Italy, France's share in this surge has been modest: exports to Europe grew by only 26% in nominal terms, and its market share fell from 12% to 9% between 2000 and 2018. During the same period, Germany and the Netherlands consolidated their positions, while some Central European countries experienced strong growth, in particular Poland, the Czech Republic and Hungary.
- An analysis of the competition faced by French exports within the EU shows that Germany remains our main competitor in intra-EU trade. Competition from Italy, Belgium and the United Kingdom is falling off, while competition from the Netherlands and Spain is increasing. Moreover, French exports have been competing with those from Central European countries since those countries' accession to the Single Market, particularly in the automotive sector.
- Competition is increasing in France's main long-standing markets, and its export markets have become less diversified than, for example, those of Germany. This is partly the result of a less central location within the EU since the accession of the CEE countries in 2004. The countries bordering France (Germany, Spain, Italy, Belgium and the United Kingdom) account for 70% of its intra-EU exports.
- The erosion of France's cost competitiveness in the 2000s and a failure to move production sufficiently upmarket have also been obstacles to the country's exports. Strong cost competitiveness by the CEE countries has led to a re-structuring of value chains in Europe, which some Member States, Germany first and foremost, have been able to take advantage of to maintain their industrial base and boost their exports of finished products.
- The significant decline in France's market share of intra-EU exports of goods should be seen in light of the robust performance of exports of services in high value-added sectors (R&D, business and financial services) which are amongst France's largest revealed comparative advantages.

Market share (in %) of intra-EU trade in goods (2000-2018)



Source: Eurostat, DG Trésor calculations.

1. France is the third largest contributor to intra-EU trade in goods but has been gradually losing ground over the past two decades

This paper focuses solely on France's exports of goods to EU countries, which in 2018 accounted for slightly more than one-third of France's exports of goods and services worldwide.

1.1 The European Single Market is the primary outlet for French exports

As with most major advanced economies, France's market share in world trade has declined sharply over the last thirty years. France's share of world trade in goods fell from 6.3% in 1990 to 3.1% in 2012, before levelling off. This long-term decline was mainly due to the increased share of emerging economies in world trade: China's market share for goods rose from 1% in 1980 to 13% in 2017.

Despite the growing share of emerging countries in world trade in goods, the EU remains the leading destination for global trade flows (32.4% of world goods flows in 2018, including intra-EU trade), far ahead of China (13.4%) and the United States (8.4%). Trade between EU Member States accounts for almost 30% of world trade in goods. With the exception of the United Kingdom, all Member States export more to EU countries than to non-EU countries (see Table 1).

Table 1: Share of exports of goods to the EU

Year	EU28	France	Germany	Italy	Spain	United Kingdom
2000	68%	65%	65%	62%	73%	59%
2018	64%	59%	59%	56%	66%	47%

Source: Eurostat, DG Trésor calculations.

1.2 France is losing market share within the EU

Intra-EU trade[1] [2] remains dominated by Germany, the Netherlands and France, but while the first two have consolidated their market shares[3] since 2000, France has seen its position decline, as have Italy and the United Kingdom (see Table 2). While the UK has been the worst performer in terms of its European market share, France has also lost ground nearly every year since 2000. Central European countries, for their part, have benefited from the reshaping of trade in the Single Market: Poland, the Czech Republic and Hungary together accounted for only 4.5% of intra-EU exports in 2000 whereas the figure was 11.1% in 2018. It should be noted that the increase in the market share for CEE countries was gradual between 2000 and 2018, and that no marked change was observed at the time of their accession in 2004. We can therefore conclude that, although this increase in market share is linked to EU accession, it is not simply the mechanical result of a reduction in export customs duties for these countries.

(1) Intra-EU trade statistics published by Eurostat cover movements of goods between Member States. Goods in simple transit (i.e. those entering or leaving the territory of a Member State for the sole purpose of reaching another Member State or non-member country) are excluded, unlike quasi-transit goods (goods brought into the territory of a Member State to be declared as imports or exports for customs or tax purposes, without that Member State having acquired ownership of the goods)

(2) To be able to draw comparisons with 2018, the countries that have acceded to the EU since 2000 (Poland, the Czech Republic and Hungary in 2004; Bulgaria and Romania in 2007; Croatia in 2013) have been included in the EU aggregate for previous years.

(3) Measured, for each Member State, as the share of total EU imports from that Member State. Note that the potential market is different for each country, as a Member State can export to the entire EU minus its own market. Germany or France, for example, therefore have a smaller potential market than Cyprus or Malta.

Table 2: Market share for each Member State in intra-EU trade (2000 and 2018)

Rank	Member state	2000	2018	Rank	Member state	2000	2018
1.	Germany ↗	22,1%	22,4%	15.	Denmark ↘	1,9%	1,7%
2.	Netherlands ↗	11,2%	12,7%	16.	Romania ↗	0,5%	1,5%
3.	France ↘	12,2%	8,5%	17.	Portugal ↘	1,3%	1,1%
4.	Belgium ↗	7,7%	8,0%	18.	Finland ↘	1,7%	1,1%
5.	Italy ↘	8,6%	7,3%	19.	Slovenia ↗	0,5%	0,7%
6.	United Kingdom↘	10,2%	5,7%	21.	Bulgaria ↗	0,2%	0,5%
7.	Spain ↗	5,1%	5,3%	22.	Lithuania ↗	0,2%	0,5%
8.	Poland ↗	1,5%	4,9%	23.	Greece =	0,4%	0,4%
9.	Czech Republic ↗	1,6%	3,9%	24.	Luxembourg ↘	0,5%	0,4%
10.	Austria ↗	2,7%	3,3%	25.	Latvia ↗	0,1%	0,3%
11.	Sweden ↘	3,3%	2,6%	26.	Croatia ↗	0,2%	0,3%
12.	Hungary ↗	1,4%	2,3%	27.	Estonia ↗	0,2%	0,3%
13.	Ireland ↘	3,0%	2,3%	28.	Malta =	0,1%	0,1%
14.	Slovaquie ↗	0,6%	1,8%	29.	Cyprus =	0,1%	0,1%

Source: Eurostat, DG Trésor calculations.

If we analyse growth in value added[4] (i.e. wealth generated in each Member State by intra-EU trade), we see that there is also an increase in the new Member States at the expense of longer-standing members, but to a lesser extent. This can be attributed to the fact that a significant share of the value added of exports from the CEE countries is of foreign origin (27% for Poland, 39% for the Czech Republic and 43% for Hungary, against 21% each for France and Germany). In addition, the Netherlands and Belgium, which are ranked second and fourth, respectively, in terms of market share of intra-EU trade, are in sixth and eighth place in terms of value added, which might suggest that exports from these countries are overvalued due to quasi-transit trade (the so-called "Rotterdam Effect").[5]

2. Heightened competition with the newer Member States

2.1 Competitive intensity with Germany remains strong, and is increasing with the Netherlands and Spain as well as with newer Member States

If we use the Finger-Kreinin index,[6] which measures the degree of overlap in the structure of exports between two countries by comparing the share of each good in the total exports of each country, there is a marked overlap in French and German exports to the EU. Between 2000 and 2018, French (intra-EU) exports diverged slightly from those of Germany (whose FK score declined during this period) and Belgium, but were similar to British exports, and especially to exports from Italy, Poland, Hungary, Slovenia and the Netherlands.[7] [8]

An analysis of competitive intensity between France and other EU countries based on the share of those French exports to the EU that are confronted with a competitor's market share of more than 5% to other EU countries (see Table 1, Indicator 1 and Chart 1) shows that France faces strong competition from Germany within the EU. More than 90% of French exports are confronted with a market share of more than 5% from Germany to other EU countries. Competition with respect to Italy is stable. It is falling sharply with respect to the UK, but rising with respect to the Netherlands and Spain. In contrast to the early 2000s, competition is sharpening with the CEE countries: 36% with Poland (9% in 2002[9]); 26% with the Czech Republic (9% in 2000); 14% with Hungary (6% in 2000).

(4) Source: OECD, TiVA database, 2015 data, world exports.
(5) For example, goods destined for other EU Member States that arrive in Dutch ports are recorded as extra-EU imports by the Netherlands and as shipments from the Netherlands to the actual Member States of destination, even if there is no connection to the Dutch economy.
(6) Finger J. and M. Kreinin (1979), "A Measure of 'Export Similarity' and Its Possible Uses", *Economic Journal*, 1979, vol. 89, issue 356, 905-12.
(7) Note that the structures of extra-EU exports are less similar.
(8) However, the FK Index only provides comparisons at aggregate level, and does not reflect the market share development of individual competitors for each sector. By way of example, although Italy's export structure moved closer to that of France between 2000 and 2018, the fact that Italy itself lost market share over the period tends to put this phenomenon into perspective when assessing Italian competition.
(9) For Poland and Slovakia, detailed HS6 trade data is available only from 2002 onward.

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Box 1: Developing two competitive intensity indicators

The two indicators proposed below provide a nuanced estimate of the competition faced by French exporters in EU markets. They are constructed at tariff line level[a] and expressed (Indicator 1) as the share of French exports subject to significant competition from a competing country in other EU markets (set at a market share of more than 5%); (Indicator 2) as the share of French exports for which the competitor has a market share greater than that of France in another EU market. For each competing country, the indicators are calculated on the basis of exports to the 26 European markets in which the country is in competition with France (the 28 EU markets minus the French market and the market of the competitor country).

Indicator 1: Share of French exports to the EU confronted with a market share of more than 5% by a competitor country in other EU markets

$$I_i = \sum_p \alpha_i \frac{X^P_{FR \to EU}}{X_{FR \to EU}}$$

$$\begin{cases} \dfrac{X^p_{i \to EU}}{M^P_{EU}} > 0,05 \to \alpha_i = 1 \\ \alpha_i = 0 \text{ if not} \end{cases}$$

Where:

$X^p_{FR \to EU}$ is the exports of good p by France to the 26 EU Member States

$\dfrac{X^p_{FR \to EU}}{M^p_{EU}}$ is the market share of good p of competing country i in the 26 EU Member States

How to read the index:

- An index of 0% means that the competing country has no market share of more than 5% for any of the goods that France exports
- An index of 100% means that for all the goods that France exports, the competing country has a market share of more than 5%
- An increase (or decrease) in the index means that, for a growing portion of French exports, the market share of the competitor has exceeded (or fallen below) the 5% threshold

It should be noted that the index does not take into account (i) changes in the competitor's market share when it is already above 5% and (ii) changes in market share between 0 and 5%.

Indicator 2: Share of French exports to the EU for which the competitor's market share is higher than France's market share

$$I_i = \sum_p \alpha_i \frac{X^P_{FR \to EU}}{X_{FR \to EU}}$$

$$\begin{cases} \dfrac{X^p_{i \to EU}}{M^P_{EU}} > \dfrac{X^p_{FR \to EU}}{M^P_{EU}} \to \alpha_i = 1 \\ \alpha_i = 0 \text{ if not} \end{cases}$$

a. SH6 Level, over 5,200 categories; Eurostat data.

Where:

$X^p_{FR \to EU}$ is the France's exports of good p to the 26 EU Member States

$\frac{X^p_{i \to EU}}{M^p_{EU}}$ is the competing country's i market share of good p in the 26 EU Member States

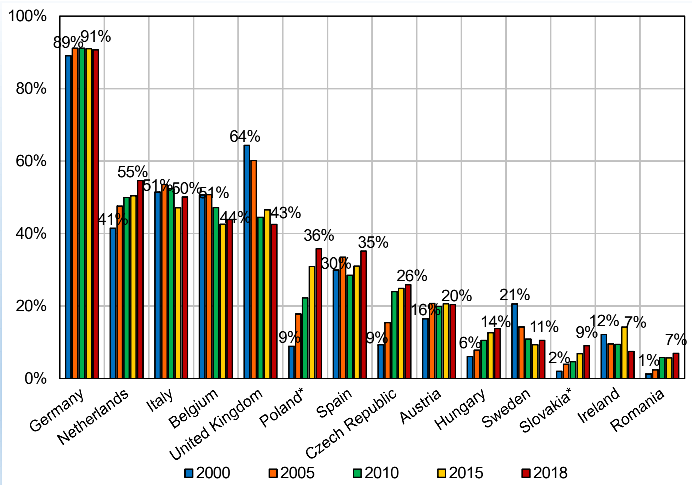
$\frac{X^p_{FR \to EU}}{M^p_{EU}}$ is France's market share of good p in the 26 EU Member States

How to read the index:

- An index of 0% means that, for each of the goods exported, France has a higher market share than the competitor
- An index of 100% means that, for each of the French goods exported, the competitor has a higher market share than France
- An increase (or decrease) in the index means that, for a growing portion of French exports, the market share of the competitor has exceeded (or fallen below) France's market share

Note that the index does not take into account (i) changes in the competitor's market share when it is already higher than that of France and (ii) changes in the competitor's market share when it remains lower than that of France.

Chart 1: Share of French exports to the EU confronted with a market share of more than 5% for the competitor country

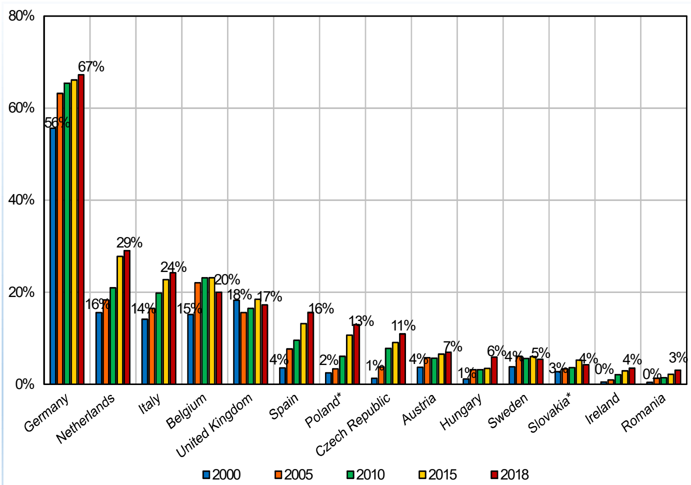


*For Poland and Slovakia: data for years 2002, 2005, 2010, 2015 and 2018.
Source: Eurostat, DG Trésor calculations.

An analysis of the share of French exports to the EU for which the competing country's market share is higher than that of France (see Chart 2 and Table 1; Indicator 2) reveals that, for a growing share of goods that France exports to the EU, other Member States have a higher market share than France: the index increases for nearly every country.[10] The increase is significant (i) for continental Europe's major economies: Germany, Netherlands, Italy and Belgium; and (ii) for the countries of central Europe (Poland, the Czech Republic, Hungary and Slovakia) which, prior to their EU accession in 2004, had a higher market share than France for only a very small number of goods.

These two competitive intensity indicators reflect France's loss of market share in the EU between 2000 and 2018 to other Member States for an increasing number of products.

Chart 2: Share of French exports to the EU for which the competing country's market share is higher than that of France[11]



*For Poland and Slovakia: data for years 2002, 2005, 2010, 2015 and 2018.
Source: Eurostat, DG Trésor calculations.

(10) Except for the UK and Finland.
(11) This chart only shows France's top 14 competitors.

2.2 France's key export sectors[12] are facing stiffer competition in intra-EU trade, and primarily the automotive sector

Stiffer competition is particularly noticeable in the automotive sector (which accounts for 16% of France's intra-EU exports): Indicator 1 (share of French exports to the EU confronted with a market share of more than 5% for a competitor) increased sharply between 2000 and 2018 with respect to the Czech Republic, Poland, Hungary and Romania. On the other hand, Spain now has a higher market share than France for almost half of France's car exports, with Indicator 2 (share of French exports to the EU for which the competitor's market share is higher than France's market share) increasing from only 5% in 2000 to 45% in 2018.

Box 2: Changing European value chains in the automotive sector

The automotive industry[a] is the sector where France's market share has declined the most. Between 2000 and 2018, intra-EU trade in this sector more than doubled in value (+102% to €469 billion in 2018) while French exports to this market rose by only 22% (€46 billion) with a market share that now stands at 9.8% against 16.2% in 2000. France nevertheless remains in second place, but lags far behind Germany, whose market share has remained unchanged at 30.2%. Although French companies sought to penetrate new markets by expanding their production facilities abroad (which weighed on France's trade balance but generated substantial FDI income), German companies further fragmented their production chain, with a high level of outsourcing and relocation of part of the intermediate production to lower-cost production countries (particularly CEE countries), while retaining the so-called "end-of-line" high value-added activities (assembly, finishing, packaging, marketing and design) in Germany. The other major European exporters (Spain, Belgium, Italy, UK) also saw their market shares decline. At the same time, the automotive industry in CEE countries recorded significant gains. One reason for this is the relocation of part of the production of many European manufacturers to these countries to take advantage of low production costs: according to the OECD, in 2015, 17% of the value added of German car exports (worldwide) originated in the EU Member States that acceded to the EU in 2004 (only 11% for Italy and 8% for France).

Table 3: Intra-EU market shares of major automotive exporters in 2000 and 2018

Rank	Member state	2000	2018	Rank	Member state	2000	2018
1.	Germany =	30.2%	30.2%	6.	Italy ↘	6.4%	5.1%
2.	France ↘	16.2%	9.8%	7.	Poland ↗	1.8%	5.0%
3.	Spain ↘	10.7%	8.5%	8.	United Kingdom↘	7.0	4.5%
4.	Belgium ↘	8.6%	7.3%	9.	Hungary ↗	2.4%	3.8%
5.	Czech Republic ↗	2.0%	6.2%	10.	Netherlands ↘	4.1%	3.6%

Source: Eurostat, DG Trésor calculations.

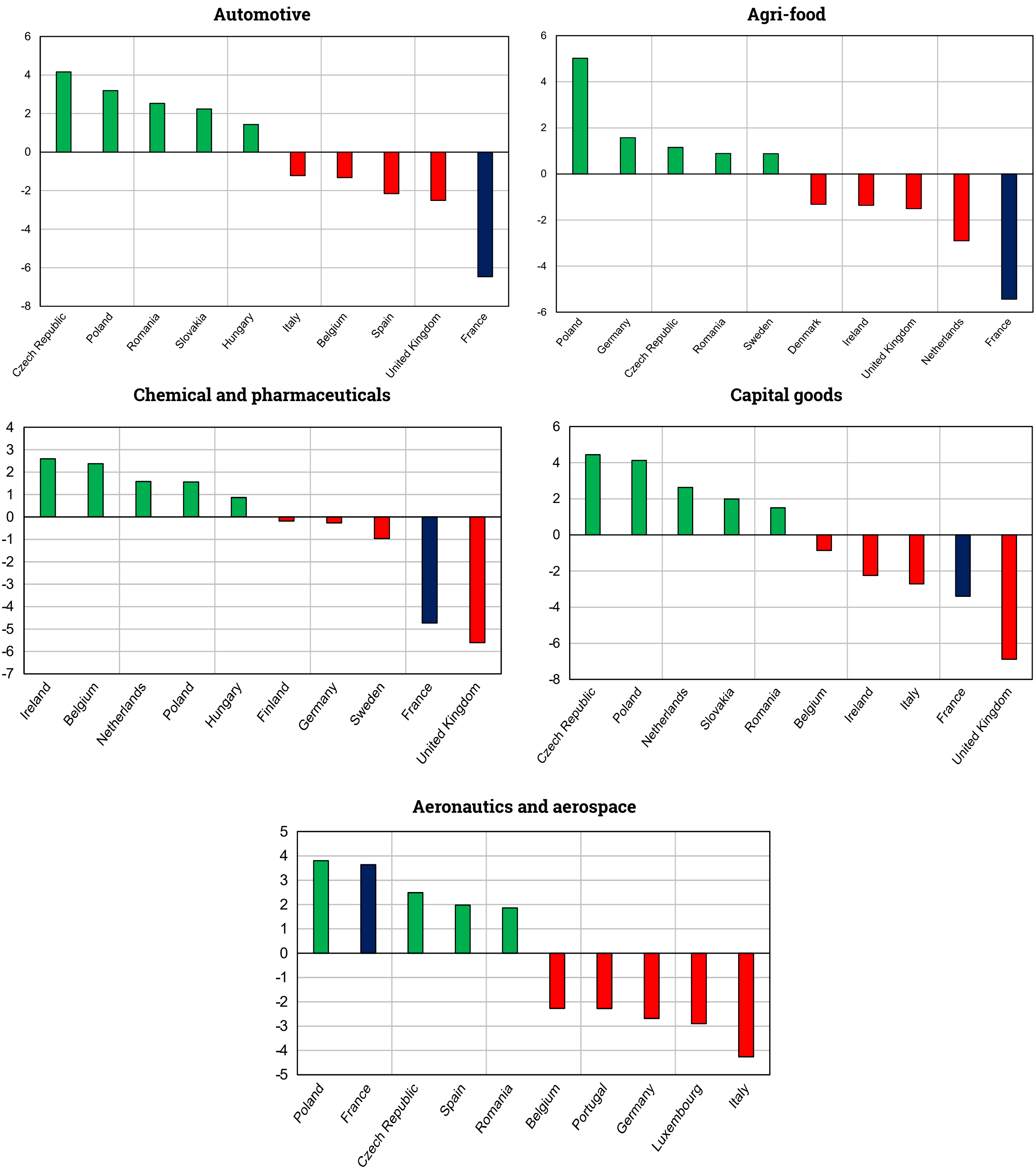
a. Automotive components and finished vehicles.

The agricultural and agri-food sector is one of the main assets of French foreign trade, particularly due to significant surpluses in beverages and cereals.[13] In 2018, this sector accounted for 13% of French exports to the EU. However, the country's EU market share fell from 15.8% in 2000 to 10.4% in 2018, notably to the benefit of Poland (from 1.1% to 6.1%) and Germany (from 14.1% to 15.6%). For all of France's competitors (with the exception of Denmark and Ireland) competitive intensity Indicator 2 rose between 2000 and 2018. However, France remains the leader for certain goods, with a market share of almost 20% in beverages and over 30% in cereals.

In chemicals and pharmaceuticals, which account for 17% of French exports to the EU, the profile of competing countries has changed. Germany retains its market share and remains the market leader (21.0%). The Netherlands (13.7% to 15.3%), Belgium and Ireland (4.9% to 7.5%) have made significant gains, as have, to a lesser extent, Poland (0.8% to 2.3%) and Hungary (0.8% to 1.6%), while France's market share has fallen (from 14.0% in 2000 to 9.3% in 2018). Competitive intensity Indicator 1 falls with respect to the UK and Sweden, but it increases with respect to Spain and the CEE countries, with Poland leading the way.

(12) The five sectors analysed cover 68% of French exports to the EU: (i) chemicals and pharmaceuticals (€49.5 billion); (ii) capital goods (€46.5 billion); automotive (€45.9 billion); agri-food (€39.3 billion); aeronautics and space (€19.5 billion).
(13) Dauba F., Ory X. and O. Touze (2018), "Investigating France's shrinking agricultural and agri-food trade surplus", *Trésor-Economics* no. 230.

Chart 3: Principal market share gains and losses (in % points) in intra-EU trade between 2000 and 2018



Source: Eurostat, DG Trésor calculations.

When it comes to capital goods, Germany remains the leader despite a slight decline in market share since 2000 (27.1% to 26.6%), ahead of the Netherlands, which has performed well (11.9% to 14.6%). Italy (10.0% to 7.3%), France (9.7% to 6.3%) and the UK (12.3% to 5.4%) declined, notably in favour of Poland (0.9% to 5.0%). France had a higher market share than the CEE countries for almost all capital goods exports in 2000. Competitive intensity Indicator 2 rose sharply with respect to the Czech Republic, Poland or Slovakia, while it is close to 100% with Germany.

The aeronautics and aerospace sector remains the driving force in French foreign trade,[14] with an intra-EU market share of more than 30%. Some CEE countries now have a significant share of intra-EU trade in aeronautics (4.6% for Poland; 3.6% for the Czech Republic; 1.9% for Romania), but France has bolstered its leading position (from 27.2% in 2000 to 30.9% in 2018), closely followed by Germany (28.3%). Germany (and to a lesser extent the UK) remains a robust competitor since, for almost 70% of French exports to the 26 other EU countries, Germany has a larger market share than France (Indicator 2).[15]

3. The decline in France's market shares can be attributed to low geographical diversification and erosion of the country's competitiveness in the 2000s

3.1 French exports remain focused on less vibrant markets

France has lost market share in its primary long-standing markets without diversifying its export markets.[16] Nearly 75% of France's EU exports in 2018 were to neighbouring countries: Germany (€71 billion; 25% of intra-EU exports), Spain (€38 billion; 13%), Italy (€37 billion; 13%), Belgium (€35 billion; 12%) and the UK (€33 billion; 11%). Although the country's intra-EU market shares remain high in these countries, they have receded: from 15.2% in 2000 to 9.6% in 2018 in Germany; from 26.3% to 19.9% in Spain; from 18.7% to 14.6% in Italy; from 17.9% to 14.6% in Belgium; from 14.9% to 10.3% in the UK.

Moreover, these markets are much less vibrant than those of the newer Member States: on average, EU imports by these five countries grew by only 3.6% per year between 2000 and 2018, compared to 9.1% for the 13 countries that have acceded to the EU since 2004, whose imports represented 17% of intra-EU imports in 2018, against 8% in 2000. However, France's intra-EU market share in these new markets remains low: 5.0% for the 13 countries as a whole, with market shares of 6.3% for the Netherlands, 8.0% for Italy and 31.4% for Germany. In 2018, trade in goods between Germany and the new Member States reached €370 billion compared to €70 billion for France. According to the latest OECD estimates (2015), 11% of the value added of German exports worldwide originated in the newer EU Member States (6% for Italian exports, 4% for French exports). The gravity model developed by the Directorate General of the Treasury also shows that France has been above its export potential[17] with most of its main European partners for several years, but below it with some countries such as Poland.[18]

France's foreign trade has therefore been penalised by the slower momentum of its long-standing export markets, consisting of its immediate Western European neighbours, while the more robust markets of the recently-acceded CEE countries have benefited Germany more.

3.2 France is recovering its competitiveness after the erosion of the 2000s

France's loss of market shares within the EU can also be partly explained by the erosion in its cost competitiveness in the 2000s. France experienced stronger wage increases than some of its main partners, particularly Germany up until 2011. Between 2000 and 2008, the increase in unit labour costs (ULCs) was 3 points higher in France than in the euro area as a whole, and 18 points higher than in Germany.[19] Moreover, since the euro area as a whole had a current account surplus, the euro tended to appreciate

(14) The majority of French aeronautics sector exports are to non-EU countries: in 2018, according to Eurostat, France exported €16.5 billion worth of aeronautics and space goods to the EU, against €41.0 billion to the rest of the world.
(15) This can also be attributed to the size of the German aerospace market for France, as the indicator only takes into account exports for which the two countries are in competition on a third market and therefore excludes bilateral flows between Germany and France.
(16) In 2018, 73.9% of France's intra-EU exports were to its top five customers, while only 53.1% of Germany's intra-EU exports went to its top five customers - a sign of greater diversification.
(17) Export flows resulting from gravity modelling are called trade potentials. This is the level of exports that a country would achieve with one of its partners if their relationship corresponded perfectly to the theoretical structure of world trade. This indicator does not provide information on an optimal level of trade, but it does provide a benchmark against which the actual exports of an economy can be assessed. Trade potentials should not be interpreted as export targets.
(18) Arthur J. and A. Dray (2017), "Trade potentials: Targeting foreign markets" *Trésor-Economics* no. 212.
(19) Change in ULCs between 2000 and 2008: +17.1% for France; -1.0% for Germany; +14.3% for the euro area.

between 2000 and 2008, which also sapped France's competitiveness vis-à-vis countries outside the euro area. Competition in intra-EU trade also increased with the accession of the new Member States, where labour costs were and remain lower than those of the major EU economies (in 2017, the average hourly labour cost[20] was €36 in France, compared with €11 in the Czech Republic, €9 in Poland, €9 in Hungary, €6 in Romania and €5 in Bulgaria).

The strong cost competitiveness of the CEE economies has also encouraged French companies to set up operations there, and in some cases to relocate production facilities away from France. According to INSEE,[21] between 2009 and 2011, 4.2% of companies based in France relocated their activities and 55% of these relocations took place within the EU (22% to new Member States).

French companies are well established in Central European countries. In 2015,[22] they had 877 subsidiaries in Poland with a turnover of €30 billion (Italy €14 billion; Germany €57 billion), 380 subsidiaries in the Czech Republic with a turnover of €12 billion (Italy €5 billion; Germany €63 billion) and 308 subsidiaries in Hungary with a turnover of €9 billion (Italy €2 billion; Germany €37 billion). This international strategy by French firms is being offset by a drop in exports from domestic production sites and, at the same time, an increase in income from investments abroad. For example, French FDI revenue in 2017 was €966 million from the Czech Republic (compared to €316 million in 2000) and €866 million from Poland (€361 million in 2000).

France's non-cost competitiveness, which has been relatively stable since 2000,[23] has not offset the deterioration in cost competitiveness from the 2000s. Non-cost competitiveness, which is based on the perceived quality of the product, makes it possible to limit exposure to price competition by creating a specific demand for these products.

Although France's exports of manufactured products have risen slightly in the upmarket segment since the early 2000s (the share of exported products corresponding to the top end of the range rose from 34.5% in 2000 to 39.9% in 2017), the share of the top end remains lower than that for British (51.0%), German (49.6%), Dutch (44.3%), Belgian (44.6%) and Italian (41.1%) exports. Over the same period, manufacturing exports from Central European countries have moved markedly upward (from 15.9% to 24.3% for Poland, from 14.6% to 30.0% for the Czech Republic, from 16.5% to 29.1% for Slovakia)[24] (see Chart 4).

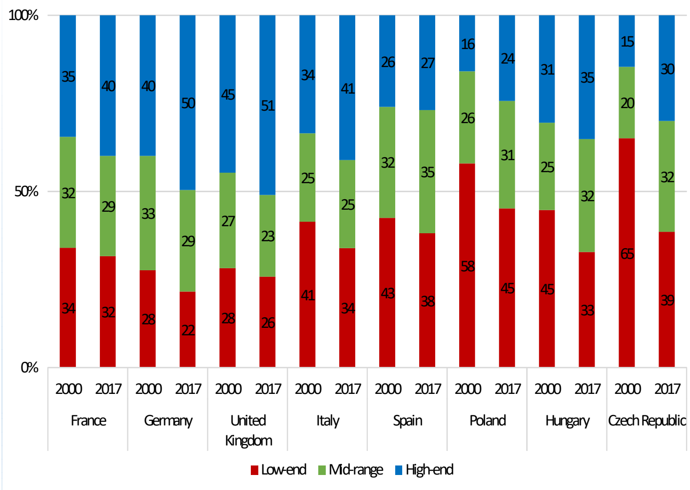
In sectors that perform well on the export market, such as aeronautics, agri-food, pharmaceuticals, chemicals and luxury goods, France's non-cost competitive advantages (quality, technological advance, innovation, brand image) enable it to achieve good results, particularly outside the EU. In 2018, the agricultural and agri-food sectors recorded a trade surplus of €11 billion with non-EU countries (compared to a deficit of €5.3 billion within the EU); the chemical and pharmaceutical sectors a surplus of €20.9 billion (compared to a deficit of €10.6 billion within the EU); the capital goods sector a surplus of €1.6 billion (compared to a deficit of €30.4 billion within the EU).

The decline in France's intra-EU market shares in exports of goods should be put into perspective in light of the good performance of exports of services in high value-added sectors (R&D, business services, financial services), which are among France's largest revealed comparative advantages. In 2018, France exported €248 billion worth of services, of which €137 billion went to the EU (compared with €293 billion worth of goods), where it enjoys the second largest market share in intra-zone flows (11.3%), behind Germany (12.4%) and ahead of the United Kingdom (10.9%).

(20) Excluding agriculture and public administration, in companies with 10 or more employees (source: Eurostat).
(21) "Global value chains: International sourcing primarily to the European Union", *INSEE Première* (June 2013).
(22) Eurostat data – most recently available.
(23) According to the Council for Economic Analysis, France is among the top ten OECD countries in terms of non-cost competitiveness in 55 sectors (out of 102 analysed) in 2000, in 55 sectors in 2007 and in 53 sectors in 2013; in terms of non-cost competitiveness, France ranked first among OECD countries in aeronautics, second in leather goods and third in wine in 2013 (Bas M., Fontagné L., Martin P. and T. Mayer (2015), *Note du CAE* no. 23).
(24) Source: CEPII World Trade Flows Characterization database; the price of traded goods distinguishes between low-end, mid-range and high-end goods: if the unit value of a flow is 15% below (or above) the world median, then the flow will be considered "low-end" (or "high-end").

France has made significant competitiveness gains in recent years thanks to its efforts to reduce labour costs (Competitiveness and Employment Tax Credit, Responsibility and Solidarity Pact). Between the end of 2013 and the end of 2018, France's cost competitiveness improved by five per cent compared with other OECD countries[25] and by two per cent compared to other euro area countries. This trend is expected to continue, given the gradual reduction of the corporation tax rate to 25 per cent by 2022, inter alia.

Chart 4: Structure of world manufacturing exports by unit value range



Source: Data CEPII, DG Trésor calculations.

Orhan Chiali

(25) Cost competitiveness is defined as the ratio between the unit labour costs of competing economies (productivity-adjusted labour costs) and those of France. A country weighting is used, which is based on (i) the significance of the market for France (weight in French exports) and (ii) the share held by the competitor in this market. Costs are measured across the whole economy, covering both the most exporting sectors and those less open to international trade.

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