International trade and Foreign Direct Investment (FDI) are the main defining features and key drivers of Global Value Chains (GVCs), however despite their strong complementarities the two flows are typically presented and treated separately in the statistical information system. Drawing on new and improved measures of trade and investment, the OECD will be developing a series of statistical country notes that highlight those complementarities. The draft Trade and Investment note for France is used to illustrate the planned content and structure of those notes, on which Delegates are invited to comment.

This document is for discussion under item 3 of the agenda.

This document is available in pdf format only.

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Trade and Investment Country Note: France

Draft Model

International trade and Foreign Direct Investment (FDI) are the main defining features and key drivers of Global Value Chains (GVCs), however despite their strong complementarities the two flows are typically presented and treated separately in the statistical information system. Drawing on new and improved measures of trade and investment, this note attempts to address that shortcoming by bringing together all relevant statistical information from OECD databases on trade, investment, MNE activity and global value chains (TiVA). It places a special emphasis on the interrelationships between trade and FDI, their economic impact in the context of GVCs, and the role of multinational enterprises as the main directors of these flows, shedding new light on the trade-investment nexus.

Executive summary

- Growth in French trade has recovered since the crisis and outpaced the OECD total in 2015 but slowed markedly in 2016.
- French outward FDI is substantial, equal to 49% of GDP, and supports 38,000 affiliates and 5.5 million jobs abroad.
- French inward investment is smaller, equivalent to 27% of GDP, but still supports 1.8 million jobs in the private sector.
- French MNE parents, play a substantial role in French trade, accounting for 51% of goods exports and 32% of goods imports, higher than in many other economies.
- Trade and investment are two channels for serving foreign markets. Foreign producers supply products and services for French final consumption equivalent to 27% of French GDP. The majority is through trade (equal to 21% of GDP), while an additional 6% reflects the value added of foreign affiliates in France for domestic sales.
- Looking at trade and investment together can provide a more complete picture of a country’s international ‘export’ orientation than conventional export data. For France, this broader picture of “trade” increases France’s relative international orientation because the profits French parent MNEs receive (equivalent to 3% of GDP) outweigh the profits paid by foreign-owned firms in France to their foreign parents (equivalent to 1% GDP).
- Examining information by industry illustrates the complementarity of imports and exports in GVCs.
- Investment is an important channel for integration in GVCs. For France, inward investment is focused more on serving the relatively large French economy, compared to other countries, but outward FDI plays an important role as French MNEs lead GVCs in industries such as other transportation equipment.
- Looking at trade and investment together can shed new light on who a country’s most important partners are. For France, the United States becomes significantly more important as trade alone accounts for only half of how US firms serve the French market. The remaining half is through sales by US foreign affiliates in France.

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This is a draft model note, it is planned to produce similar notes for OECD members subject to data availability. This version reflects the latest available TiVA data (2011). The notes will be produced for OECD countries in Q2-2017 once the TiVA data is updated through 2015.
Trade and Investment in France: Overview

Growth in French trade has recovered since the crisis but slowed in 2016

Like most economies, French trade contracted significantly at the height of the crisis, and although it picked up in the aftermath, outpacing GDP growth, and growing at around the same rate as the OECD total, it slowed markedly in 2016 despite the strong depreciation in the Euro. In the years preceding the crisis import growth largely outpaced export growth, and growth in total OECD imports, resulting in a persistent trade deficit since 2005.

Gross exports amounted to USD713 billion in 2015, (30 per cent of GDP), and gross imports to USD 745 billion, (31 per cent of GDP). Gross trade figures however overstate the ‘real’ contribution of trade to the economy. In value-added terms, exports contributed 20 per cent of total GDP in 2011, marginally up on the pre-crisis high but still below 2000 while the share of imports in domestic final demand reached a new high in 2011 (24%) some 6 percentage points higher than in 1995.

France accounts for a disproportionate share of OECD outward FDI, but this has declined in recent years, while inward investment is not as strong

In 2015, French outward FDI stocks as a share of the OECD total (6.2%) remained above France’s share of OECD GDP (5.2%). However, this is significantly down from its 2011 peak (7.5%). Income receipts from outward investment, as a share of the OECD total, have however remained broadly stable at 5.5% in recent years, with an effective rate of return slightly below the OECD average of 5.8% but around the OECD median, (Figure 7). On the other hand, in 2015, French inward FDI stocks accounted for only 4% of the OECD total, and the profits paid by foreign affiliates in France to their foreign parents (income payments) accounted for even less, 2.3%, of the OECD total (Figure 4).
Figure 3. Outward FDI stocks and income receipts as a share of OECD total

Source: OECD FDI Statistics (BMD4)

Figure 4. Inward FDI stocks and income payments as a share of OECD total

Source: OECD FDI Statistics (BMD4)

Figure 5 below further illustrates France’s investment positions relative to other OECD economies. While outward investment as a share of GDP was at the upper end of OECD economies (equivalent to 50 per cent of GDP in 2015), the equivalent ratio of inward FDI stock (at 27 per cent) was towards the lower end.

Figure 5. Inward and Outward FDI stocks as a share of GDP, 2015 (sorted on outward FDI stocks to GDP)

Source: OECD FDI Statistics (BMD4)

Inward investment in France directly sustained 1.8 million jobs in 2013…

Despite its relatively small size compared to other OECD economies however, inward investment in 2013, reflecting 25,322 foreign-owned enterprises, accounted for 1.8 million people employees in France and was equivalent to 16% of private sector value added produced in France.

…and foreign owned firms are more outward oriented than domestically owned counterparts

On average, foreign-owned firms in France are twice as export intensive (share of exports in turnover) as domestically owned firms. Yet their export orientation is below the OECD median, partly reflecting a relative orientation towards the comparatively large French market. The import intensity of foreign-owned firms (share of imports in purchases) is also significantly higher for foreign-owned than domestic firms.

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2 French private sector value added used in this calculation excludes the agriculture and finance sectors.
Domestic MNEs provide important channels to penetrate foreign markets… via FDI…

French MNEs had 38,000 foreign affiliates abroad in 2013, employing 5.5 million people. In 2015, France received USD 66 billion in income from its outward investment, comparable, as a share of GDP, to other similarly sized European economies, (Figure 7, blue bar). France’s rate of return on its outward FDI is close to the OECD median (green bar) but below the OECD total and some 1.5 percentage points lower than the United States.

Figure 7. Return on foreign investment (FDI receipts in GDP and outward FDI stock) 2015

Source: Source: OECD FDI Statistics (BMD4)

And via direct trade channels: Relative to other European economies French parent MNEs play a significant role in GVC integration:

Half of French goods exports and one-third of goods imports are by French parent MNEs, significantly higher than many other European countries.

But France’s export orientation is low relative to similar sized economies.

Although exports (in value added terms) contribute around 20% of French GDP, this is relatively low compared to other large European economies, which may in part reflect lower levels of inward investment and their relative inward orientation (compared to other OECD economies), resulting in a lower integration in GVCs (measured by its import content of exports), which are positively correlated with greater export orientation.

Figure 8. Goods Exports by firm type, the role of French MNEs

Source: OECD TEC statistics (2011)

Figure 9. Export orientation, foreign affiliates value added and import content of exports

Source: OECD-WTO Trade in Value Added Data and OECD AMNE statistics (2011)
In France, most of the value-added generated by foreign affiliates (serving final demand) remains in the economy as labour costs (green slice).

Looking at trade and investment as complementary channels to access foreign markets provides a more holistic view the global market place and global production. Foreign producers supply products and services for French final consumption equivalent to 27% of French GDP. The majority is through trade (foreign value added in French final demand equals 21% of GDP), but value added generated by foreign affiliates in France for domestic (non-export) sales (Figure 10) accounts for a not insignificant 6% of GDP, albeit lower than most other OECD economies. Although some of this value added will be repatriated to parents, the share is lower in France than in most other OECD economies.

Figure 10. How foreign firms serve your market: a value added perspective


Much of France’s domestic value added content in exports remains in the economy.

Gross export figures overstate the real economic impact benefits of trade to the exporting economy but TiVA estimates can also overstate these benefits as the profits earned by foreign-owned firms through exports are likely to be repatriated, if they are not reinvested. Figure 11 below is sorted on the sum of the domestic value added in exports provided by domestically owned firms (blue bar), and that provided by foreign owned firms distinguishing compensation of employees (green bar), from profits (grey bar). Excluding profits generated by foreign-owned firms, French exports contain 19% of value-added that remains in the economy.

Figure 11. Exports and their contribution to income, as a share of GDP


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3 Part of these domestic sales can include intermediate products that are exported indirectly, hence this estimate should be considered as an upper-bound.
Taking a broader view of how French companies serve foreign markets can provide a more complete picture of the international orientation of the French economy.

This broader perspective is valuable as the distinction between conventional “cross border trade” and investment income is increasingly blurred. For example, transactions in intellectual property within an MNE can be recorded as either trade in services or as direct investment income. Looking at a broader notion of “trade” that embodies the provision of goods and services by foreign affiliates marginally improves (Figure 12) France’s relative international (‘broader export’) orientation compared to measures that capture only export orientation (Figure 9) because profits (FDI income receipts) French MNEs receive from their foreign affiliates are significant and because relatively little, compared to other economies, of the value-added generated by foreign firms in France is repatriated.

Trade and Investment in France: Industry detail

Investment channels, both inward and outward, help shape France’s integration.

The top manufacturing exporting industries in France are chemicals and chemical products (CHM), other transport equipment (TRQ), and motor vehicles (MTR). The role of foreign-owned firms differs substantially across French industry, in part reflecting France’s own comparative advantages and specialisation of its own MNEs. For example, foreign affiliates are less relevant in TRQ than in CHM and MEQ. All major industries reveal high degrees of integration in GVCs (measured as import content of exports), reflecting important dependencies between imports and exports as well as the role of inward and outward investment, in shaping GVCs.

Trade and Investment in France: Industry detail

Manufacturing

Figure 12. Supplying markets through trade and investment: a broad perspective.

Source: OECD-WTO Trade in Value Added Data, OECD AMNE and OECD FDI (BMD3) statistics. (2011)
Note: See also the annex for further details on Figure 12

Figure 13. Top exporting manufacturing industries in France

Source: OECD-WTO Trade in Value Added Data, and OECD AMNE statistics (2011). Note: (See annex for description of industry codes)
**Imports and exports can go hand in hand.**

Across most industries (Figure 14), there is a strong correlation between higher import content of exports and a higher share of their domestic value-added being exported (export orientation) illustrating the strong complementarity of imports and exports.

Figure 15 further highlights the dynamic nature of this complementarity by revealing that those industries that have become more export orientated (Y axis) have also had higher growth of import content of exports, (X axis). The size of the bubbles reflects the importance of the industry in total exports by the manufacturing sector. In other words, the bubbles are weighted by industry share in manufacturing exports in 2011.

**Investment and export orientation also go hand in hand...**

Strong complementarities also exist between inward investment and export orientation (Figure 16). This is evident for the chemical (CHM), machinery (MEQ) and metals industries (MET). A notable exception is the other transport equipment industry (TRQ), reflecting the important role of French MNEs in the sector, and so again, the importance of investment channels, (see also below).
...and both inward and outward investment and higher imports are also strongly related

At the same time, higher inward investment is also related to higher import content (Figure 17), reflecting in large part the ability of MNEs to efficiently source internationally. The other transport equipment (TRQ) industry appears to be an outlier but this reflects the relatively high share of French MNEs in the sector (Figure 18), and so chimes with the more general point on the role of MNEs. French MNEs account for 89% of exports in the industry of other transport equipment (TRQ), 89% of exports, 71% for motor vehicles (MTR) and 53% for food products (FOD). On the import side, French MNEs in MTR account for 67% of imports and 92% in TRQ.

Figure 18. Gross trade in goods by enterprise ownership and industry, as a per cent of GDP

Source: OECD TEC Statistics, 2011

Services

Service industries play an important role in the export orientation of an economy...

Typically, services account for a large share of the value added in the economy but conventional gross trade statistics understate this as they cannot reveal the contribution that the upstream services industry plays in the production of goods exports. Accounting for this contribution, the services content of France’s total exports of goods and services was 62% in 2011 (Figure 19), one of the highest in the OECD. For France, the services content of manufactured goods alone, nearly half of the total value of French manufacturing exports reflects services value added; the highest in the OECD.

Figure 19 Services content of gross exports for OECD countries, 2011

Source: OECD-WTO TiVA data, 2011
...and so inward FDI in the services sector can be an important channel for export success in downstream sectors.

Figure 20 shows a positive relationship between foreign investment in the services industry and the domestic services value added content of exports across OECD economies. That is, greater foreign investment in the services sector is associated with higher services content in exports.

### Trade and Investment in France: Partner Countries

*Trade with emerging economies has grown considerably in recent years*

Although France’s main trade partners have changed little over the last decade, the importance of emerging economies, such as China and Russia, has grown considerably, highlighting increasing global interconnectedness and the potential to capitalise on rapidly growing emerging economies.

**Figure 21. Gross exports, main trading partners**

**Figure 22. Gross imports, main trading partners**

*Many of France’s main trading partners are also among its top sources and destinations of foreign direct investment.*

Outward French FDI positions have not changed substantively in recent years, with adjustments in both advanced and emerging countries. The French position in Germany has reduced while increasing in the United States, similarly French investment has grown in China yet decreased in Brazil. The partner distribution of inward FDI remained broadly unchanged.
Comparing trade partners from a gross and value added perspective reveals differences in their relative importance…

Gross bilateral trade figures can disguise the true nature of interdependencies, particular in relation to final consumers in one country and producers at upstream parts of the value chain. Looking at domestic value added in foreign final demand, although Germany remains the Number 1 foreign market for French exports of value-added, it is closely followed by the United States, highlighting the much stronger dependencies of the French economy to US consumers. Similarly French consumers are more reliant on value added from the United States than gross import data would suggest.

…and interdependencies are further revealed when looking at the broader notion of ‘trade’.

Foreign firms can serve an economy though trade or sales by foreign affiliates; bringing the trade and investment perspectives together can shed a different light on who a country’s most important partners are. Substantial variation exists across countries in how they supply the French market. For example, while most partner countries supply France via conventional cross-border exports, a significant share of US penetration is via its foreign affiliates. Figure 27 plots the amount of value added generated by foreign affiliates that likely stays in the economy (by adjusting for the export intensity of foreign firms) and the foreign value added in French final demand for trade. Indeed as a source of this broader notion of imports, the US is almost as important a partner as Germany.
Figure 27. Supplying the French market via trade and investment: Top 10 partner countries

Source: OECD-WTO TiVA data and OECD AMNE statistics (2011) (Data on foreign affiliate presence in France is not available for China.)

Annex: Data sources

Activity of Multinational Enterprises: AMNE
https://www.oecd.org/sti/ind/amne.htm

For detailed discussion on the intersection of AMNE and FDI data please refer to BMD4 Chapter 8: https://www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf

Foreign Direct Investment (FDI) Statistics
http://www.oecd.org/investment/statistics.htm

Trade by Enterprise Characteristics: TEC

Trade in Value Added: TiVA
http://www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm

Annex: Chart Detail

Figure 6: Trade by Enterprise Characteristic Data by ownership are only provided by selected OECD members. Included in the median are Austria, Denmark, Estonia, Finland, France, Hungary, Ireland, Italy, the Netherlands, Poland, Portugal, Slovakia, Slovenia and the United Kingdom. The data are supplemented by data from the national statistics offices of Canada and the United States.

Figure 12: The dark blue bar represents the domestic value added that serves foreign final demand produced by domestic-owned firms, which stays in the economy. The grey piece represents the labour compensation paid by foreign-owned firms due to their export activity, which also likely stays in the economy. The light blue bar represents the profits repatriated to French MNEs by their affiliates operating overseas; this is profit that they earn from serving foreign markets. The green bar (below the line) represents the profits earned by foreign-owned firms that leave the economy as they are sent back to the parent MNEs.
<table>
<thead>
<tr>
<th>Industry Code</th>
<th>Industry Description</th>
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<tr>
<td>AGR</td>
<td>Agriculture, hunting, forestry and fishing</td>
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<tr>
<td>MIN</td>
<td>Mining and quarrying</td>
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<tr>
<td>FOD</td>
<td>Food products, beverages and tobacco</td>
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<td>TEX</td>
<td>Textiles, textile products, leather and footwear</td>
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<tr>
<td>WOD</td>
<td>Wood and products of wood and cork</td>
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<tr>
<td>PAP</td>
<td>Pulp, paper, paper products, printing and publishing</td>
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<td>PET</td>
<td>Coke, refined petroleum products and nuclear fuel</td>
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<td>Chemicals and chemical products</td>
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<tr>
<td>RBP</td>
<td>Rubber and plastics products</td>
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<tr>
<td>NMM</td>
<td>Other non-metallic mineral products</td>
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<td>FBM</td>
<td>Fabricated metal products except machinery and equipment</td>
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<td>Machinery and equipment n.e.c</td>
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<tr>
<td>CEQ</td>
<td>Computer, electronic and optical products</td>
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<tr>
<td>ELQ</td>
<td>Electrical machinery and apparatus n.e.c</td>
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<tr>
<td>TRQ</td>
<td>Other transport equipment</td>
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<td>CON</td>
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<td>Wholesale and retail trade; repairs</td>
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<td>Post and telecommunications</td>
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<td>Renting of machinery and equipment</td>
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<td>ITS</td>
<td>Computer and related activities</td>
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<td>BZS</td>
<td>Research and development &amp; Other Business Activities</td>
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<td>Public admin. and defence; compulsory social security</td>
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<td>Education</td>
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