



France's Battle for Competitiveness

The country's competitive standing has been sliding, but it has the means to reinvigorate its attractiveness.

The TGV, France's version of the bullet train is world renowned for its reliability. The country's healthcare sector is the envy of the British National Health Service for its efficiency. French schools are well-known for fostering competitive talent. Its cities buzz with activity.

But in recent years, the country's overall competitiveness has been slipping, according to the fourth annual INSEAD Les Etats de la France 2013 (The State of France) report. Between 2006 and 2012, incoming foreign direct investment (FDI) fell by more than half and the number of jobs generated by foreign companies dropped by some 40 percent.

This is in parallel to studies by the World Economic Forum (WEF) and IMD, which also found that France's competitiveness has significantly declined in the last decade. France has fallen to 23rd place from 15th in the last seven years in the WEF's Global Competitiveness Index and to 28th from 22nd in the IMD World Competitiveness Scorecard.

"We no longer see France as one of the leaders within Europe, but more in the middle of the pack," said Javier Gimeno, Academic Director of the INSEAD European Competitiveness Initiative. "France is only ahead of other Southern European and Eastern European countries."

The INSEAD study found France's competitive position losing out to the U.K. and other western European countries as a top destination to harness innovation, to draw top talent and to develop high technology.

The report's findings were mainly based on three recent INSEAD studies: the **European Competitiveness Survey**, the **Global Innovation Index**, and the **Global Talent Competitiveness Index**, all carried out in 2013.

Falling short

France was seen to be underperforming the European average for 11 different categories of competitiveness out of 17.

According to the report, long-standing handicaps in terms of public governance, taxation or business environment have tended to become rather more pronounced. And certain adverse developments have also been observed in areas where the country used to have, until now, relatively satisfactory positions such as innovation or education.

Infrastructure, another traditional strong suit of France also registered a decline. "This should be a concern for the authorities in France and the business community in general," said Bruno Lanvin,

Executive Director of the INSEAD European Competitiveness Initiative.

Gimeno added, “We found that an important dimension which affected competitiveness was the level of economic liberalism or state intervention. France ranked particularly high on the level of state intervention and we’ve seen other countries with similar levels of intervention passing policies to create more flexibility in the labour markets and encourage entrepreneurship. There is a risk that France will be an outlier in this regard.”

The study also found that taxation was one of the factors least conducive to boosting France’s attractiveness for investors. Overly complex laws, regulations and cumbersome administrative procedures were also cited as being too unfavourable to corporations.

But it’s not over yet

The report’s authors say France can and must capitalise on its advantages in innovation. Faced with a worrisome tax and social situation, the country should:

1. Increase flexibility to reduce the tax burden
2. Loosen regulatory constraints
3. Improve French innovation through increased support of technology transfers and fostering a risk-taking environment
4. Make France more attractive to talent through selective immigration policy and an overhaul of the education system.

“The way out of recession, the way back to a high level of attractiveness for France will be for the country to rely on a European strategy. Looking at what is being done in other countries, not just Germany, but smaller countries in the Union. What Denmark has been doing for talent, what the Netherlands has been doing on the fiscal front, all this could be combined into what could be a winning package proposition for France,” said Lanvin.

The findings of the report are used to address the question of how France can make up its lost competitive ground at the annual conference of Etats de la France.

This issue will be the guiding theme of the debates which are focused on four areas: tax policies, business environment, ability to attract talent and bolstering France’s innovation system.



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