NEW ZEALAND
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France – a growing business and investment hub in Europe

MARKET INTELLIGENCE REPORT

Summary

Prepared by the New Zealand Embassy in Paris.

- France’s efforts in making itself an attractive market for business investment have been paying off. Recent changes enhancing France’s economic and regulatory settings for businesses have resulted in France being the largest recipient of Foreign Direct Investment (FDI) across Europe for four years in a row. Since 2017 economic growth has outpaced that of Germany and the UK, despite a turbulent social and political context at times. With the signing of the New Zealand-European Union Free Trade Agreement (NZ-EU FTA), New Zealand businesses thinking about establishing a presence or modifying their footprint in Europe may want to consider the opportunities a base in France could offer.

Report

For the fourth year in a row, France has topped the EY Europe attractiveness ranking for the number of inbound foreign investment projects in Europe, UK included. In 2022, France captured 21% of all foreign direct investment (FDI) projects across Europe. FDI projects in France were up 3% year-on-year, compared to 1% across all of Europe.

France is the world's seventh largest economy with a market of 67 million consumers. France's membership of the EU and the Eurozone alongside its strategic location at the heart of Western Europe facilitates people, goods, capital and services movement across the bloc. Its highly skilled workforce is one of the most productive ranked 7th in the world. (GDP per hour worked, but has one of the shortest work weeks in the OECD) however has relatively higher wage costs and more restrictive labour regulations[1].

Lower taxes and greater flexibility for businesses and expats

Over the last decade, successive governments have made a priority of adapting regulatory settings to better tailor the environment to business needs, enhance competitiveness and incentivise foreign investment. This includes lower corporate tax rates (reduced from 33% to 25%) and lower labour costs (e.g. through reduced social contributions). Foreign nationals and returning French expatriates are eligible for income tax exemptions for up to eight years. France also offers one of the world's most generous Research & Development (R&D) tax credit schemes, with 30% of research expenses being tax deductible up to €100 million (and 5% thereafter).

Attracting foreign investment has been identified as a government priority. For the past five years, President Macron has hosted an annual "Choose France" summit to promote France as an FDI destination to international business leaders. The most recent event saw projects worth over €13 billion announced. For instance, Morgan Stanley is nearly doubling its headcount in Paris, while Pfizer is doubling to €1.2bn its investment in France over the next four years. This is supported by the "talent passport" scheme which has opened up residency opportunities for highly skilled individuals, investors or tech entrepreneurs.

While overall France has some of the more restrictive pro-worker labour regulations the Government has recently made changes to French labour laws to increase flexibility for employers and legal certainty regarding job dismissals.

Macro-economic figures suggest these measures are bearing fruit. Since 2017, the growth of the French economy has outpaced that of Germany's and the UK's. Year-on-year inflation was contained at 5.2% in 2022, far below the 8.4% Eurozone average. And while still high by international standards, the French unemployment rate has dropped to a 40-year low of 7.1%, thanks to the creation of 1.2 million jobs since the onset of the COVID-19 pandemic.

[1] Compared with UK

Tech, green transition, food and health amongst key sectors

Innovation and the green transition have been identified as two priorities for the French economy. The government has adopted a 'France 2030' €54 billion package to future-proof the economy, focusing on decarbonising manufacturing and energy production (e.g. hydrogen), but also more sustainable and healthy food products.

French regions each have specific characteristics, which is an important factor to take into account when considering setting up shop in France. The Paris region, for example, is the region with the largest economy in Europe, with a GDP equivalent to the Netherlands. It is also an innovation powerhouse, with the largest R&D expenditure of any region in Europe. A symbol of that dynamism, the annual Vivatech trade show each June has recently overtaken the Las Vegas CES as the world's largest tech trade show (this year's event included for the first time a New Zealand pavilion featuring ten New Zealand companies).

Other regions will have specific characteristics too. The Auvergne-Rhone-Alpes region around Lyon boasts a world-leading cluster in the health and pharmaceutical sector, while a number of companies are also active in producing chemicals and composite materials. In the South West of France, Aerospace Valley has developed around the presence of aircraft manufacturer Airbus and rocket-maker ArianeGroup. The agri-food industry is stronger in Burgundy and around Bordeaux (winemaking) but also Brittany and Normandy (dairy). Regional business development agencies are a good starting point for further information.

Some of the sectors that have experienced an influx of foreign investment in France include financial services, with 5000 jobs estimated to have relocated from London to Paris as a result of Brexit. Green industries are another area of choice. Four different electric car battery "giga-factories" are under development in Northern France, attracted by France's decarbonised energy and local subsidies.

An uptick in the presence of NZ businesses

Several New Zealand businesses have recently set-up offices in Paris or other French regions in sectors such as agri-tech, marine leisure, and advanced manufacturing and consumer goods. Some other New Zealand businesses, particularly fashion, cosmetic and premium foods, are seeking to take advantage of France's ranking as the world's most visited country by developing a presence for their products in French department stores, helping them to build their brand reputation both in and beyond the French market.

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