

# Navigator

Now, next and how for business

France report



HSBC

# France

## Reform at home, new opportunities abroad

French business enters 2018 in a more optimistic mood. Firms hope the government’s economic reform programme will make the economy and their goods and services more competitive in global markets. Would the buoyant global economy and the opening of new trade opportunities (especially in Asia) last, prospects may look better than expected – even accounting for Brexit.

### Short-Term Snapshot

France’s economy caught up with the Eurozone recovery in 2017, and momentum remains strong as we move through 2018. One driver of last year’s expansion was an acceleration of exports, as French firms tapped into their Eurozone partners’ growth. Meanwhile the government’s reform agenda has boosted investment and hiring, further driving domestic growth.

Survey data suggests two-thirds of French firms expect to see trade volumes rising through 2018, building on 2017’s strong second half. Robust economic expansion in France’s top two goods markets, Germany and the US, will drive French trade growth.

Still, the share of French firms expecting rising exports in 2018 is below the global average and 7pp lower than in Germany. So France may continue to underperform its Eurozone rival, at least in trade terms, as structural issues still weigh on French competitiveness. In the long run, faster progress in domestic economic reform, if properly implemented, could enhance competitiveness, boost trade performance, and narrow the gap in trade expectations with Germany.

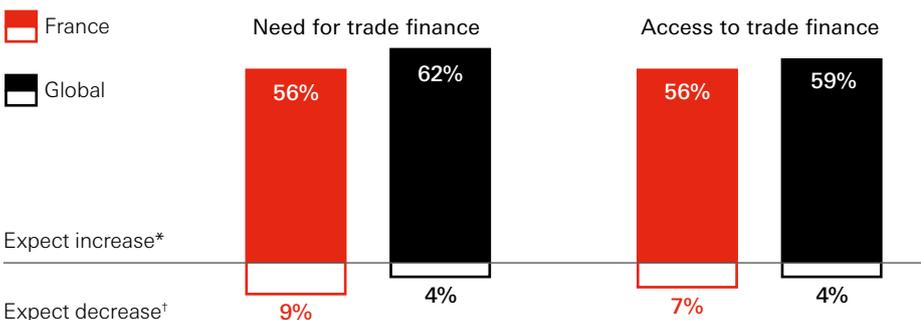
French firms expect to seek additional trade financing in 2018, according to our survey. Well over half of respondents anticipate their demand for trade finance to increase this year, while only 9% expect to borrow less. Again, French firms are slightly less bullish than the global average, but are in line with other major Eurozone economies when it comes to trade financing.

### Action points for business

- ◆ Firms should continue to campaign for competitiveness-enhancing reforms in the years ahead, and not allow short-term cyclical strength to induce complacency.
- ◆ Given the weaker outlook for services trade, firms, where the possibility exists, should see whether they can do more to bundle services with goods exports.

Confidence-boosting domestic reforms and demand from key trading partners add up to strong trade prospects for France.

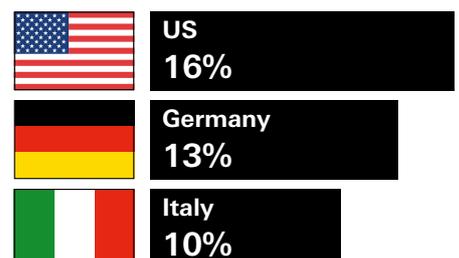
### Outlook for trade finance need and access in the next 12 months



\*Expect increase = Increase significantly + Increase slightly  
 †Expect decrease = Decrease significantly + Decrease slightly

Source: TNS Kantar

### Which are the top 3 markets where your business will look to expand in the next 3-5 years?



Source: TNS Kantar

Services have become an increasingly important component of France’s trade. Service exports rose to 22% of total exports in 2017 from 18% in 2010, with a similar increase in the service share of imports. Business-to-business (B2B) sales accounted for close to half of total service trade in 2016, with travel & tourism and transport & communication contributing 19% and 17% respectively.

Despite that trend, French firms are warier about the outlook for services than for trade overall. 51% of respondents expect service trade to increase in 2018, 15pp lower than for total trade. This mirrors the global picture, where the balance of firms expecting growing services trade is also well-below the total trade score. In terms of approaches to growing their cross-border services business, ‘entering new markets’ was the strategy identified most frequently by respondents.

**How do you plan to grow your services business?**



Source: TNS Kantar

French firms seem split over the opportunities for services trade in technology. Almost two thirds (65%) of businesses think that digitisation is creating a more level playing field but only slightly fewer (56%) believe that it may also be used to create barriers to open competition. Views regarding the threat of cyber security are more consistent, however, with over three-quarters of respondents recognising it as a threat to their business.



## Trade Policy Developments

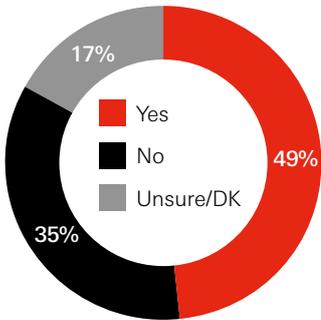
The key issue in trade policy for France is the UK’s decision to withdraw from the EU. The UK is France’s third-largest export goods market and number one for services, so the future UK-EU trade relationship is crucial for French firms. Meanwhile, the increasingly protectionist bent in US policy circles is also a worry, given the US is France’s second-largest goods market.

Our survey suggests polarised views on how these two issues will affect French business. 30% of French respondents expect Brexit to have an adverse impact on their business—yet nearly as many think Brexit will have a positive impact. As for US policy, the split is exactly even: 27% of French firms believe it’s likely to hinder trade, and the same number expect it to help. More detail on the post-Brexit trade framework, and from Washington on US trade policy, could help reduce this uncertainty in the year ahead.

### Action points for business

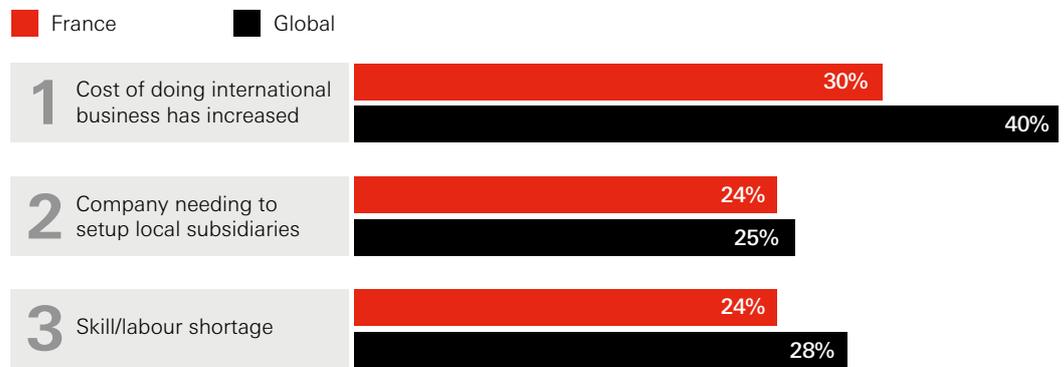
- ◆ Firms should ensure they understand the supply-chain effects of the various possible Brexit trade policy scenarios, especially the potential impact on their costs where part of the supply chain is imported from the UK. They should engage with clients early to manage expectations.
- ◆ French firms should ask themselves with no undue delay why they are less optimistic than their German peers about trade opportunities in Asia. What lessons might France learn from Germany’s engagement in China?

### Are governments becoming more protective of their domestic business?



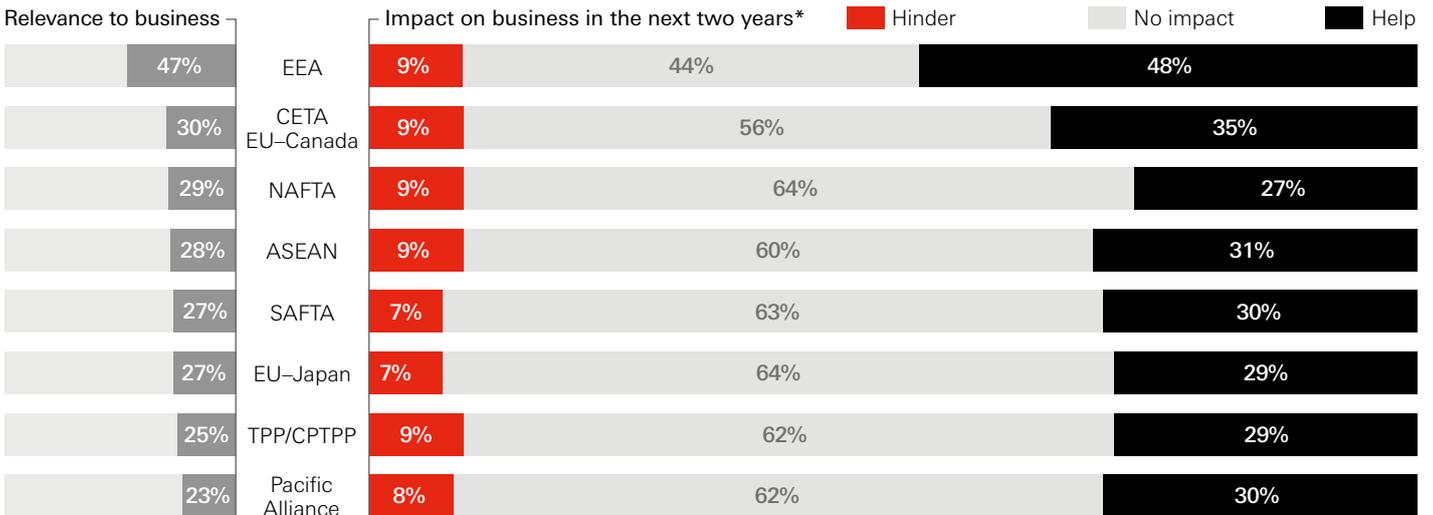
Note: may not total 100% due to rounding  
Source: TNS Kantar

### Top 3 impacts of protective policies on my business



Source: TNS Kantar

### Relevance and impact of trade agreements



Source: TNS Kantar

\*May not total 100% due to rounding

French firms are more united over trade opportunities further afield. About a third expect deals with Japan and Canada to boost trade, with few anticipating negative impacts. Similarly, more than a quarter of respondents say major Asian growth initiatives, including Belt and Road and ASEAN 2025, will offer opportunities for growth. However, when it comes to opportunities in Asia, French firms are somewhat less optimistic than their German rivals.

French firms are split on how Brexit and Trump will affect their trade prospects.

## Long-Term Outlook for Trade

France's sectoral strengths, combined with structural changes in its trading partners' economies, will continue to drive trade performance. Mature trade links across the EU and advanced economies are rooted in France's technical expertise and continued outsourcing of lower-cost supply-chain activities across borders. France's sectoral strengths will enable it to tap into rising living standards and purchasing power in emerging markets. In goods exports this will come through French exports in high-end sectors such as aircraft, industrial machinery and pharma, while in services, France will benefit from travel spend from visitors amongst Asia's newly-wealthy traveling households.

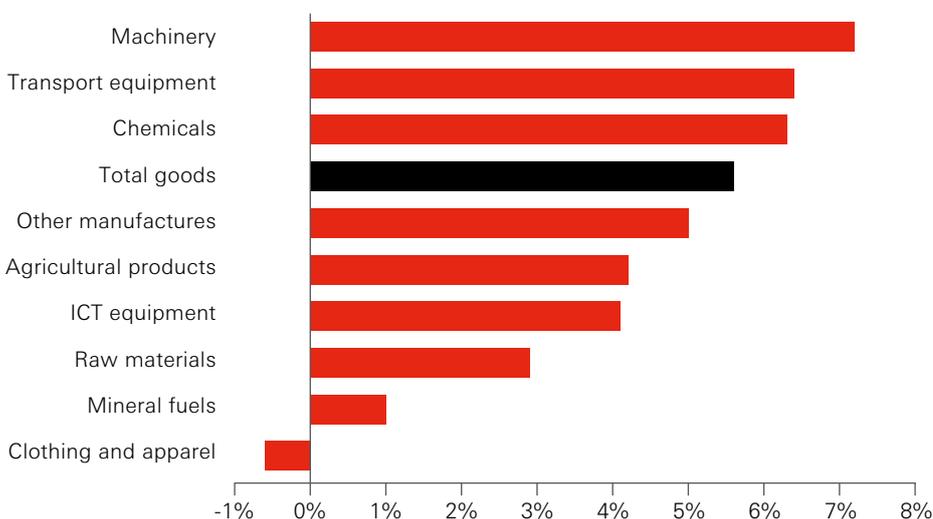
Moreover, there are some key potential upside risks to our forecast. French firms have lagged German counterparts in pursuing opportunities in Asia over the past decade or two. But if French firms can secure better access to opportunities in key government initiatives such as Belt and Road infrastructure development and ASEAN 2025, industrial machinery and professional services could grow faster than in our forecast. An ambitious implementation of the economic reform agenda would boost prospects further in this respect.

### Core strength in transport helps drive trade growth with Asia

France's key sectoral strengths will persist in the coming decade, with transport equipment and industrial machinery forming the top two export sectors in 2030 (as they do currently). France's world-leading aviation sector will continue to gain from growing air travel in emerging markets and replacement of the existing stock, while French carmakers should benefit from rising car ownership in Asia and Africa, as well as a shift towards alternative fuels and autonomous vehicles. We forecast transport equipment to contribute 28% of goods exports growth from 2021-2030, 10pp more than its contribution from 2017-2021.

Industrial machinery will also help drive exports, contributing 27% of total goods exports growth from 2021-2030. One specific industrial sub-sector to watch will be renewables energy, where France's Alternative Energies and Atomic Energy Commission (the world's second-most innovative publicly funded organisation according to Reuters) is playing a key role in keeping France at the cutting edge. Amongst other sectors, pharmaceuticals will contribute around 10% of total export growth from 2021-2030, driven by France's world-leaders in this field and a supportive policy environment for R&D. And finally, France's reputation as a producer of fine foods and wines will mean that agricultural produce will remain a top-five export sector, with long-term average annual growth of around 4%.

### Exports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

## Action points for business

- ◆ Although reforms to improve competitiveness are crucial, French firms must not only depend on the world-class government support for R&D they enjoy, but also focus their investment and other business-related decisions to maintain France's edge in key sectors.
- ◆ French firms should push for early government-led engagement in major Asian initiatives such as Belt and Road and ASEAN 2025, while forging strategies to make the most of opportunities in the region.
- ◆ Tourism and transport companies should make the case for timely infrastructure investment where required to meet rising demand over the coming decades and avoid the problems of "over-tourism".

France's R&D frameworks help keep manufacturers at the cutting edge.

### Top 5 Hotlist destinations of goods exports

Rank	2016	2030
1	Germany	Germany
2	USA	USA
3	UK	UK
4	China	China
5	Poland	Poland

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

Although advanced-economy trading partners including Germany, the US and the UK will remain France’s top goods exports destinations in 2030, emerging markets will import more and more French goods. For example, we forecast that the cyclical upswing in India’s economy will mean annual average growth in French exports to India of 19% over the next five years. Export growth to Vietnam should be just 2pp slower.

Longer-term, we forecast France’s exports to Vietnam, India and China to grow by 8-9% per annum over 2021-2030. And though only China will be a “top-5” export destination by 2030 (amongst the 24 trading partners considered in the HSBC Trade Forecast), emerging markets altogether will account for one-third of France’s goods exports, up 6pp versus 2016. Faster progress in trade agreements and domestic policy reforms would only accelerate France’s shift toward emerging-market trade; our forecasts are conservative.

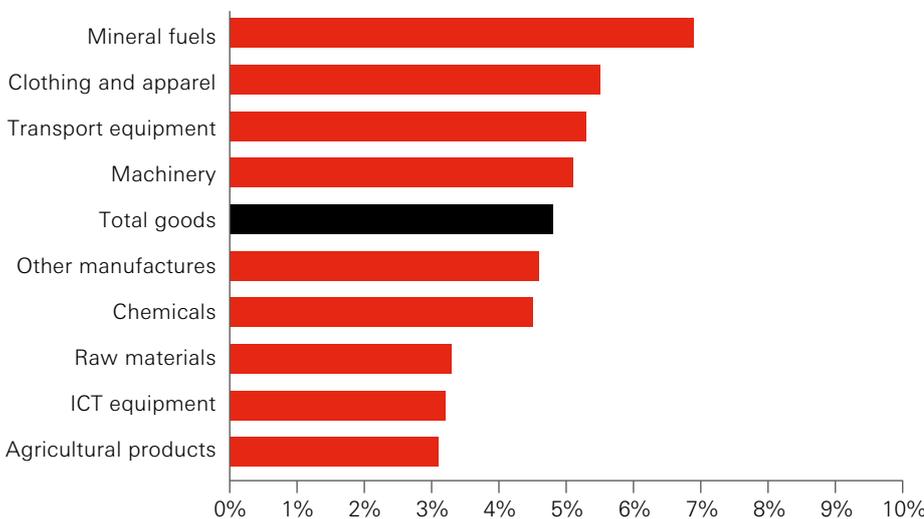
Emerging markets should consume a third of French exports by 2030.

**Supply chain to play a growing role in import mix**

France’s export prospects also have a key bearing on the economy’s demand for imports, particularly given the degree of cross-border supply-chain trade within advanced manufacturing sectors such as transport and industrial machinery. We expect these sectors to each account for around 20% of total import growth in the near term (to 2020) and longer term (2021-2030).

As a high-income economy, France is increasingly uncompetitive in lower-cost manufacturing. So lower-cost goods will continue to be increasingly sourced from abroad (although with potential service export components – e.g. clothing designed in France, but manufactured in Asia). With France playing a lead role in the global shift toward renewable energies, import demand for raw materials and mineral fuels will grow more slowly in the long run, accounting for just 5% of total import growth from 2021-2030 (half as much as during 2017-2020).

**Imports of goods by sector, 2017-30 (average annual growth)**



Source: Oxford Economics

France’s imports reflect a mix of suppliers for its advanced manufacturing supply chains, high-value consumer goods for French retailers or households, and lower-cost manufactures (again for final consumption). Germany performs the first two of these roles, and will therefore remain France’s most important supplier of goods imports. Other advanced economies such as the UK and US will also remain top-five import sources for France’s economy by 2030 (amongst the 24 trading partners considered in the HSBC Trade Forecast).

**Top 5 Hotlist origins of goods imports**

Rank	2016	2030
1	Germany	Germany
2	USA	China
3	UK	USA
4	China	UK
5	Poland	Poland

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

However, several emerging markets will continue to become more important sources of imports for France. China is set to supplant the US as France’s second most-important import supplier by 2030, as Chinese manufacturers increasingly compete for supply-chain trade as well as final demand. Meanwhile Poland will maintain its position as fifth most-important source of imports, becoming an increasingly-important supplier of manufactured goods and supply-chain components. And though neither Bangladesh nor Vietnam make the top five import sources by 2030, both should increase goods shipments to France by 8% per year over the long run, especially of clothing and apparel.

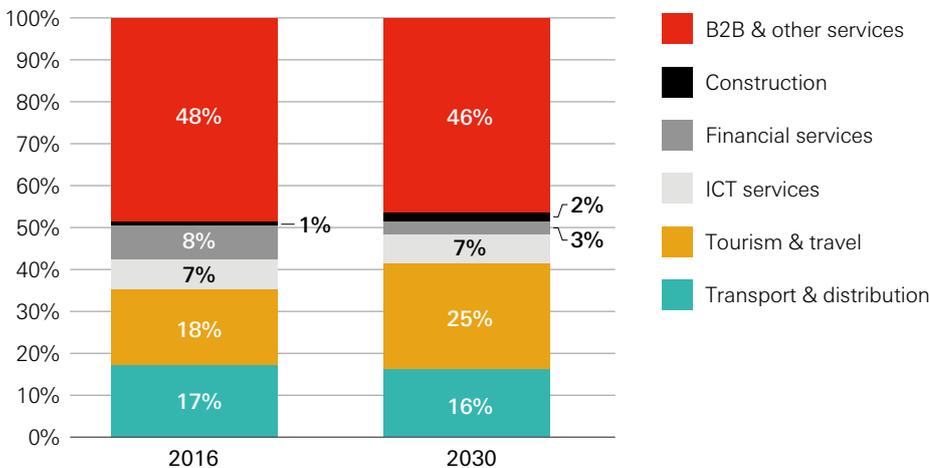
**Service exports to complement goods trade**

B2B services accounted for close to a third of total French services exports in 2016, with professional, technical and scientific services forming the bulk. This sector is increasingly a “cross-over” to France’s manufacturing strengths. For example, Airbus offers a range of consultancy services to help its aircraft customers maximise efficiency. This sector will remain the principle driver of growth looking forward, with the slightly broader B2B and other services generating 46% of total services exports in 2030.

UK to remain France’s top services market, even after Brexit.

As the world’s most-visited country, France will also be a major beneficiary of growing tourism from high-growth emerging markets in Asia. Chinese arrivals to France doubled between 2011 and 2016, and as household incomes rise more the flows of tourists should accelerate. Our forecast is for this sector to contribute 25% of France’s total services exports by 2030, up by 7pp since 2016. Overall, our forecast is for services exports to rise by an average of 5% pa from 2021-2030.

**Sectoral shares in total services exports**



Source: Oxford Economics

**Top 5 Hotlist destinations of services exports**

Rank	2016	2030
1	UK	UK
2	Germany	Germany
3	USA	USA
4	Ireland	China
5	China	Ireland

Note: Ranking among the 23 trade partners covered in the forecast

Source: Oxford Economics

If the EU and UK can conclude a relatively open Free Trade Agreement to succeed current trade arrangements, we are optimistic the UK can remain France’s top destination for services exports. Should a more obstructive trade settlement arise from Brexit however, this would clearly be at risk.

Although advanced economies (and China) will continue to dominate the rankings of France’s top service export markets, a broader range of emerging markets will display far faster rates of growth for French service exports. Our forecast is for service exports to India and Indonesia to grow at double-digit rates from 2021-2030 (albeit from very low starting-points) and ambitious efforts to become more embedded in regional growth initiatives such as Belt and Road could drive growth faster in sectors such as B2B and financial services. On the downside, though, a more protectionist stance in the US could pose a threat to France’s service exports across the Atlantic.

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## About the HSBC Navigator

The HSBC Navigator presents a blend of survey evidence, policy analysis, and economic modelling to generate unique and timely insights into the changing landscape for global trade.

The business survey is a quantitative indicator of the short-term outlook for global trade. The survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 6,000 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 26 markets. Interviewees were polled on a range of questions including expectations around future growth in trade, trade finance needs, attitudes toward trade policy developments and strategic business plans.

The survey represents a timely source of information on the fast-evolving trade environment. And it can provide a useful contextual setting for interpreting developments in official data. In this way, economists at Oxford Economics are able to blend insights from the survey with their own analysis and modelling of developments in trade.

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade in goods and services, in part based on HSBC's own analysis and forecasts of the world economy. A top-down approach is employed, with Oxford Economics' suite of models used to ensure consistency between HSBC's forecasts for economic growth and exchange rates in key countries and the more granular projections for bilateral trade flows presented here.

Oxford Economics employs a global modelling framework, with headline bilateral trade forecasts constructed as a function of demand in the destination market and the exporter's competitiveness (as measured by unit labour costs in nominal USD terms). Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2017-20 and 2021-30.

These headline bilateral trade forecasts for goods and services are also disaggregated by sector, using Oxford Economics' Industry forecasts to inform future production trends and taking into account the historic relationship between output and exports in each sector, by market:

- ◆ For trade in goods, sectors are classified according to the UN's Standard International Trade Classifications (SITC) system at the two-digit level and grouped into 30 sector headings.
- ◆ For trade in services, we identify five broad sectors: B2B and other services, tourism & travel, transport & distribution, financial services, ICT services and construction.

Drawing on the Kantar TNS survey results and Oxford Economics' long-term forecasts, Oxford Economics produces in consultation with HSBC a global report and specific reports on the following 23 markets: Argentina, Australia, Bangladesh, Canada, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Poland, Saudi Arabia, Singapore, Turkey, UAE, UK, USA and Vietnam. The analysis of trade in goods also includes trade with Brazil and Korea for a total sample of 25 key trading markets; for trade in services the analysis also includes Korea for a total sample of 24 key trading markets.

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