



THOMAS WHITE - GLOBAL INVESTING
CAPTURING VALUE WORLDWIDESM



Country Profile: France

It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded in 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now 15 years later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

A handwritten signature in dark ink, reading "Tom S. White, Jr." in a cursive style.

France: La Joie De Vivre



Built in 1676 in Paris by Louis XIV, Les Invalides is the burial site of Napoleon, as well as a complex housing museums and monuments, commemorating the military history of France.

Breathtaking natural beauty, the world's *haute couture* hub and food capital, champagne, perfumes, the Riviera, a bastion of intellect and philosophy, the birth place of many a movement and crusade - France stands for all of these and much more. Perhaps it is this splendor and profundity that make the nation the most visited country of the globe. Every year, an estimated 79 million tourists get a taste of the French *Joie de Vivre* (joy of living). A formidable economic power in Europe, France is also one of the founding members of the European Union (EU) and has always played a key role in economic integration within the EU region. Often referred to as *L'Hexagone* in French due to its unique hexagonal shape, Western Europe's largest country has seas, rivers, and mountains as natural frontiers of its territory, which is about 80% of the size of Texas.

Rule of the sword

"France was made by the sword" - this quote by Charles de Gaulle, the 18th President of the French Republic (1959-69), best sums up the nation's strife-ridden history. Ancient France can be closely identified with Gaul, a Western European region comprising contemporary northern [Italy](#), France, [Belgium](#), western [Switzerland](#), as well as some parts of the [Netherlands](#) and [Germany](#). After its conquest by Julius Caesar in first century BC, Gaul remained a part of the Roman Empire until the empire's disintegration in fourth Century A.D. The nomenclature, France, owes its origin to the Germanic *Franks* who invaded the region towards the end of the Roman era.

Subsequently, the country was ruled by a series of monarchies belonging to the Germanic, Capetian, Valois, Bourbon, and Orléan dynasties until the French Revolution erupted in 1789. The genesis of the revolution lay in the *bourgeoisie* or the French middle class' growing disenchantment with the upper class.

The aristocracy promoted an unequal society by systematically extending socio-economic privileges to the feudalistic nobility and the clergy at the cost of the common man. The revolution, which lasted a decade, crushed the monarchy and virtually transformed the social and political landscape of France. Although the rising espoused the principles of freedom and sovereignty, it was accompanied by unprecedented violence, repression, and executions, including those of King Louis XVI and Queen Marie Antoinette. This period of chaos and bloodshed, known in history as the *Reign of Terror* (1793-94), also spread to the European sub-continent. Other European powers, viewing the uprising as a threat to their own regimes, attempted to stifle the movement.

The revolution was followed by a series of short-lived, unstable attempts at establishing a democratic government. Eventually, army general Napoleon Bonaparte successfully led a coup and gradually consolidated his position to assume power as emperor of the First French Empire in 1804. His reign (1804-14) oversaw the strengthening of the France, which expanded in the European sub-continent through a series of military triumphs. An astute administrator,

Napoleon also brought about several reforms in government and society, including centralized administration of various departments, an organized tax system, a central bank, and law codes. The Napoleonic era, one of the most significant phases in the history of France, finally came to an end with the defeat of this legendary emperor at the hands of the British in 1815.

France and the World	
Nominal GDP (\$)	2.85 trillion
GDP Rank	5/191
Per Capita GNI (\$)	42,000
Per Capita GNI Rank	25/210
Population Rank	21/227
Geographical Area Rank	43/250
Global Competitiveness Rank	16/133
Economic Freedom Index Rank	64/179
Human Development Index Rank	8/182
Major Industries	Aerospace, Automobiles, Chemicals, Agro-food, Information and Communications Technology, Logistics, Fashion, Personal Services



The Spirit of Liberty adorns a monument where the storming of the Bastille once occurred, considered the start of the French Revolution in 1789.

The period 1815-1870 was fraught with divisive politics, unrest, upheavals, and a quick succession of regimes, such as the House of Orleans and Bourbons. Louis Napoleon, the nephew of Napoleon Bonaparte and the last monarch of France, ruled France during the period 1852-70. The period from 1870 onwards until the early 20th century, was witness to the rise of nationalism, with the country distinctly moving towards a republican democracy. In the 20th century, France suffered greatly in the two world wars, especially during World War II when it was occupied by Nazi Germany for almost six years. The Allied Forces liberated the country in 1944, which also marked the beginning of a phase of economic reconstruction. Today, France is a democratic republic, with Nicolas Sarkozy as the nation's President.

Crème de la Crème

France has always been the cultural icon of the western world. With over 40,000 monuments, including 10,000 *chateaux*, abbeys, and manor houses, 6,000 museums and over a 1,000 festivals, the country perhaps has as many colors in its cultural palette as there are textures in its wine. Since the Middle Ages, France has been the nursery of exceptionally talented artistes, be it painters such as Cezanne, Degas, Renoir, and Claude Monet, or sculptors like Jean Goujon, Germain Pilon, and Auguste Rodin. With their unparalleled intellect and power of reasoning, French philosophers and thinkers like Descartes, Rousseau, Voltaire, and Sartre have been a beacon to the world.

Therefore, it is no surprise that France has been the stronghold of such cultural movements as *Impressionism* in painting, *Mannerism* in art and architecture, *Realism* in visual arts, as well as the *Age of Enlightenment* and French Renaissance in philosophy. The 118-year-old Eiffel Tower, which was built to commemorate the centennial of the French Revolution, stands 312 meters tall. A symbol of French architectural excellence, it serves as a reminder of the values that the movement inculcated and instilled in the French people.

French literature reflects the nation's multi-hued culture and political dynamism. Several literary movements like *Dadaism*, *Surrealism*, and *Existentialism* have been started and nurtured in France. Since the late 19th century, the nation has also come to be known as a sort of focal point for modern art, cinema, fashion, and cuisine. Cocteau, Dumont, and Godard are some of its celebrated film-makers, while Pierre Cardin, Chanel, Givenchy, and Louis Vuitton are iconic names in the contemporary world of fashion.



Showcasing the Neo-Baroque style, this 2200 seat Paris Opera, built in 1875, is regarded as an architectural masterpiece of its times.

France is a superpower in the world of gastronomy. The French are not only great connoisseurs of food but also the makers of the planet's finest wine and cheese. The sparkling wine from the district of Champagne, red and white wines from Burgundy, fine fruit preserves from Lorraine, white wine from Alsace, and red wine from Bordeaux have enjoyed legendary status for centuries.

The ethnic diversity notwithstanding, France's main religion is Christianity. Muslims and Jews constitute a small minority. Immigrants from all over the world, especially from North African countries, make up around 7.5% of the population. France also has indigenous ethnic minorities such as the Flemings in its far north, the Bretons in its west, and the Basques in its southwest.

The dark years

The country, which has a rather tumultuous economic history, is today the fifth largest economy in the world and the third largest in Europe.

However, in the middle ages, from the 14th century to the 17th century, France was predominantly a rural economy that used medieval agricultural techniques. It did have some amount of trade and commerce, but frequent wars and harsh weather proved to be its nemesis. By the end of the 17th century, innumerable people had lost their lives and the economy lay in ruins.

Things changed for the better after the 1730s when the nation saw 30 continuous years of population as well as economic growth. During this phase, France emerged as the richest country in Europe and its growth rate was only second to the United Kingdom's. Prices and wages rose, agriculture and industry were modernized, and trade increased. Despite competition from British industry, especially in textiles and cotton, French industries saw a period of steady growth until the end of the 18th century.

In the 19th century, the French economy was influenced by three watershed events - Napoleon Bonaparte's rule, a phase of rapid industrialization, and the wars in late 19th century and early 20th century. France experienced broad-based economic expansion as an imperial power under the reign of Napoleon (1795-1815). However, the Napoleonic era culminated with the defeat of the French forces by the British army, putting the economy in the doldrums yet again. Nevertheless, the products of the *grandes ecoles* or elite schools of France came to the rescue and became the architects of French industrialization. The country greatly benefited from the industrial techniques it had developed for the wars.

Through most of the 19th century, France experienced industrial development, which was bolstered by rapid urbanization as well as an emphasis on education and workers' skill development. The end of the 19th century saw France in the league of industrialized nations, rubbing shoulders with the likes of Germany and Great Britain. Thereafter, in late 19th century and the first half of the 20th century, wars played havoc with the economy of France. The hostilities that stemmed from Bismarck's re-united Germany and later Hitler's Nazi Germany were particularly debilitating.

A truly global leader

The post-war period or the latter half of the 20th century is often referred to as *Les Trente Glorieuses*, or the 30 glorious years. This period witnessed the emergence of France as a modern global economic power. Interestingly, though we see France as a capitalist or a free-market economy today, it is actually a blend of interventionist and free market policies that have propelled the economy to the global center stage.

France played a key role in fostering co-operation among members of the European Community. This eventually led to the formation of the European Union in 1993. The economic and monetary integration actually took place over a period of five decades and France was one of the six founding members of the geo-political entity.

France has successfully sustained a reasonable pace of economic growth since the mid - 1980s. Between 1984 and 1991, its GDP grew at an annual average rate of 2.5%, but moderated to around 2% in the early 1990s. After expanding at an impressive rate of 3.3% in 1998, and 4% in 2000, the GDP expansion decelerated to 1.4% in 2000 because of a global economic slowdown. During 2004-2007, the French economy has been averaging 2% growth.

Pillars of strength

Ranked 11th worldwide in terms of human development, France boasts of one of the most qualified workforces in Europe. Higher education graduates form 37% of the population in the 25-34 age group compared to the European Union average of 29%. This, coupled with the



A flourishing aerospace sector that thrives on R & D has proved to be a magnet for attracting foreign investment.

French's natural inclination toward innovation and R&D, has been driving the country's economy. In 2009, France boasted the distinction of having the highest number of Fortune 500 companies in Europe. While the country is largely powered by its services sector, which contributes almost 77% of its GDP, the significance of the industrial sector, which accounts for 21% of the GDP, cannot be undermined.

The country has a vibrant, R&D-intensive aerospace sector, which comprises leading manufacturers of aircraft, helicopters, military planes, and private jets. Thanks to the availability of a highly skilled workforce and a plethora of specialist training schools supporting the segment, it is no surprise that foreign companies operating in France account for 47% of the turnover in this space.

France's agro-food sector, especially the health foods and the intermediate foods categories, have been expanding steadily. Many renowned multinationals have their research centers in the country. The nation is also home to a flourishing bio-fuels market. It has established clusters to develop partnerships between the industrial sector and research laboratories. Already a magnet for global bio-fuel companies, France seems poised to become Europe's front-runner in the non-nutritional use of agro-resources by 2015.

France is also Europe's second largest manufacturer in the automobile sector and accounts for 17% of the continent's total production. The country has been one of the most preferred foreign investment destinations for global auto majors in the European sub-continent. The sector boasts of two leading global players in the auto industry.

In the chemical segment, the country is the fifth largest producer and third biggest exporter worldwide. The nation's applied chemicals and specialty chemicals sector is also the second largest in Europe. France prides itself in being the world's leading producer of glass products and industrial glass, as well as the global leader in the production of building materials. The country ranks third in the European Union in terms of steel production and first in terms of base aluminum production. Numerous foreign companies operate in France's chemical sector and account for 55.4% of the turnover in the specialty chemicals space, 44.9% in the soaps and perfumes category, 40% in the base chemicals market, and 38% in the plastics segment.

France is one of Europe's biggest players in the Information and Communications Technologies (ICT) segment because of its large pool of skilled workforce and a strong proclivity for innovation.

The pharmaceutical sector is also a core area of the French economy, riding high on a strong research foundation. The globe's leading producers of pharmaceutical drugs operate in the country, capitalizing on the easy availability of research scientists and technicians. This space has been doing particularly well because it has built linkages with other fast-growing sectors like agro-food and cosmetics.

Owing to its favorable economic environment and quality infrastructure, France also has a flourishing market for outsourced tertiary services, which have seen an upsurge in Europe recently. The French capital, Paris, has turned out to be an attractive outsourcing location for European businesses.



Acclaimed as the fashion capital worldwide, France seems to have the last word in *haute couture*.

A unique competitive advantage in the fashion arena is another feather in France's cap. Paris is the largest and undisputed fashion center of the world, a benchmark for trends, and styles. The country has more than 11,000 companies in the fashion, textile, and design space.

With the advantage of bordering six countries, France is situated at the

crossroads of Europe's north-south and east-west transport routes. This virtually makes the country the nucleus of the European economy. Indeed, within a 1242 mile radius around Paris, the largest market in the world - a whopping 600 million consumers - can be accessed in less than 48 hours. The country has turned itself into a natural hub for international transport activities largely on the back of its infrastructure facilities. France possesses an 11,000 km motorway network, the most extensive high-speed rail network in Europe, several major maritime ports, and 190 airports, including six international ones. Paris is a worldwide air transport hub. This explains how the country has produced and nurtured a modern and efficient logistics services industry.

The personal services industry, which provides a wide array of family and health-care services, is one of the fastest-growing sectors in the French economy. It is also one of the largest employers in the country. Companies operating in this space are expanding globally, leveraging France's stature as a universal benchmark for standard of living.

France is the recipient of one of the largest foreign investment inflows in Europe. In fact, foreign investments in the nation stood at over \$158 billion in 2007, second only to the [U.K.](#) The country invested over \$224.65 billion in capital outflows globally in 2007, again ranking second only to the U.K. in Europe, and positioned third across all the countries in the world. In 2008 it became the country recording the largest capital outflows in the EU, amounting to over \$220 billion.

But, the global economic crisis led to a worldwide decline in FDI inflows, and in 2008, the French economy attracted \$117.5 billion in foreign investments, almost 25% lower than 2007. However, it is important to note that across the EU, in 2008 France still received the highest capital inflows, displacing the U.K at the top.

Paris houses the Euronext N.V., a pan-European stock exchange with subsidiaries in Belgium, France, the Netherlands, Portugal, and the United Kingdom. Euronext merged with the NYSE Group to form NYSE Euronext in April 2007, the first truly global stock exchange.

Stimulus revives the French economy earlier than expected

One of the first countries in the Euro-zone to exit the recession, the French economy bounced back to growth in the second quarter of 2009. A recovery in exports as well as strong domestic consumption powered this resurgence after four consecutive quarters of contraction. For the year 2009 as a whole, France witnessed a 2.1% decline and is expected to grow 1.4% in 2010. Earlier, the global financial crisis and the ensuing economic slowdown had caused economic growth to tumble to 0.4% for the year 2008 as a whole, significantly lower than the 2.3% growth recorded in 2007. The country fell into recession commencing in the third quarter of 2008 and experienced

a steep rise in unemployment levels as well. The jobless rate soared to a decade-long high of over 10% in the beginning of 2010 compared to 7.7% in the beginning of 2008. Accelerating unemployment has led to public protests and social unrest in the Euro-zone's second largest economy.

In order to stave off the severe slowdown, President Nicolas Sarkozy introduced stimulus measures amounting to €30 billion (\$43 billion) in the form of tax cuts and spending. These measures were designed to bolster consumer confidence and resuscitate the French business environment. The highlight of the French stimulus was its car scrappage program, which offered a subsidy of €1000 (\$1335.8) for every 10-year old car traded for a new one in 2009. The program successfully revived domestic demand for automobiles and the automotive sector played a key role in the economic recovery. This scheme is being gradually phased-out in 2010, the amount of subsidy now reduced to €700 (\$935.2).

Fiscal prudence is the need of the hour

However, the stimulus spending accompanied by a moderation in tax revenues has dented the economy's public finances. The French budget deficit swelled to 7.5% of GDP in 2009, more than twice its 2008 level of 3.3%. While the deficit is expected to further escalate to 8% in 2010, the government has committed to restricting debt to 6% of GDP for 2011. Towards this goal, the government has proposed to freeze spending for the three years beginning in 2011, curbing the deficit within limits, which will require a constitutional amendment. The French President is also trying to revamp the French pension system as well as increase France's retirement age. An aging population is a major liability, as typically generous social sector schemes like public pensions as well as health and dependency care have been a drag on the government's finances.

Some other key problems that the French government will need to address include, reducing the minimum cost of labor, which is rather high compared to other developed countries; reforming employment protection legislation; and removing regulatory barriers that constrain productivity growth.

On the positive side, the financial system in France is better positioned to handle the global economic crisis, when compared to its counterparts worldwide. French banks have followed more prudent lending standards and have diversified their activities much more. As a consequence, household indebtedness has remained much lower in France, when compared to many other countries in the grip of the economic crisis. Inflationary pressures have also remained under control as consumption demand has been wavering. While consumption contributes to over half of the country's GDP, in these times of economic slowdown it has

largely remained hinged to the economic stimulus. France has been relying more on global demand for its exports for growth momentum.

French affair forever

"Après moi, le déluge" (After me, the deluge), a remark King Louis XV of France apparently made referring to the imminent doom of the French monarchy, was indeed prophetic. More than two centuries ago, this 'deluge' was triggered by a revolution that galvanized millions against oppression. The country has come a long way since then. Today, the world sees France as a pioneer, and a trendsetter of sorts in many fields. Be it culture, cuisine, art, architecture, literature, music, philosophy, fashion, science and technology, lifestyle, or business, France seems to be occupying a pride of place everywhere. And, it has taught the world *la Joie de Vivre*. 🌍



Truly embodying the French cultural essence, Les Deux Magots Café in Paris, has the proud legacy of being a favored haunt of the intellectual and literary elite of the city. Opening up in 1813 as a drapery, selling silk and other luxury items, it was transformed in 1914 into a café, and in 1933 instituted a Deux Magots literary prize.

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