

VIVE LA GRANDE DIFFERENCE...

On French innovation and dynamism

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While seen as having a rather traditional industry economy from overseas, France's startup scene has picked up massive momentum. Out of 132 countries analysed, France gained ground during the pandemic while other European economies stagnated or fell behind. **Christophe F. Grosset, European Sales Director at Spectrum Markets**, explains what France has done to support a founder-friendly environment that produces unicorn start-ups en masse.

Christophe, some still associate the French economy with state interventionism, poor labour market reform and even a tendency towards protectionism. Why is that and is it valid at all?

I don't think this is valid, but one has to consider the historical context. French politics is influenced by the legacy of the French Revolution in 1789 and the Enlightenment philosophy that preceded it. The French understanding of democracy is deeply rooted in the conception of the people being the ultimate sovereign. Where other nations may appear servile towards authorities, in France there is always a certain interest to debate. This is the reason why they mobilise so quickly and determinedly when they feel it's time to protest. This is one very important fact to know about France and one that should not be confused with structural developments of the past decades.

While the United Kingdom industrialised earlier, France was dominated by agriculture to a much larger extent for longer. After World War II, when European industry was rebuilt from scratch under the Marshall Plan¹, the French economy also fully benefitted from it. But at the same time, France decided to nationalise various sectors in order to centrally manage their development through industrial policy rather than leaving their future to the free play of market forces as part of the Jacobin² spirit of the French government during this period. While this strategy would inevitably reach its limits, it held some advantages, too, leading to the creation of some European- and sometimes world-leaders in some sectors. As you would agree, self-sufficiency of energy supply under national governance is something other European governments would like to be able to claim today. However, with very few exceptions, French industrial sectors are now fully privatised. And for a member of the European Union and the European Monetary Union, there wouldn't be any leeway for capital controls, subsidies or other interventionist or protectionist measures anyway. In fact, not only does France's industrial policy hardly differ from that of other major European economies - France has also caught up massively in terms of innovative strength.

France broke into the top 15 of the world's most innovative economies³ in 2020...

Exactly. The French government has made the transformation of the domestic market into an innovation hub a priority with quite remarkable results as of today. Aside from economic reforms, France has established different innovation plans. One of the most important being La French Tech, which was launched as a branding campaign in 2013 but is a powerful start-up ecosystem today. The official state label operates a number of programmes that foster the settlement, development and promotion of innovative entrepreneurship. Under the Research tax credit (CIR), companies can invest in research and development and then obtain reimbursement for part of their expenses. There are no restrictions on the economic sector the company acts within or its size. The French Tech Next40/120 programme supports the development of new technological players which develop solutions in the fields of ecological transition, health, mobility etc. Under this plan, 120 French start-ups and scale-ups are selected annually based on performance criteria in funding or sales. The "Next40" refers to the aim of the programme to make participants future candidates for inclusion in the CAC 40⁴. You may remember French president Emmanuel Macron claiming that he wanted to have seen 25 unicorns⁵ created by 2025 and that this goal was reached three years ahead of schedule. While you may criticise that these 25 companies include music streaming service Deezer, which has been around since 2007 and thus is hardly a unicorn within the classic definition, the transformation of the French economy into a tech-oriented and entrepreneur-friendly environment is in full swing. With Choose France⁶, an annual industry forum addressing international companies and investors established five years ago, France is underpinning this government-induced innovation.

In the start-up universe, there has been a lot of chaff to be sorted out lately...

According to La French Tech, start-ups in the country raised \$13.1bn in funding in 2021 with 28 deals of at least \$100m and 1,350 new start-ups formed. In 2019, capital raised by this type of entity was at \$5.7bn. Meanwhile, the number of start-ups in France increases by some 20 per cent per year, thanks to the founder and investor-friendly conditions and the government support through the BPI⁷. Not all of these companies are known abroad but beyond Deezer, I would assume that Qonto⁸, Doctolib⁹, Mano Mano¹⁰, or BlablaCar¹¹ are well known. According to France FinTech¹², French corporates from the fintech sector raised a record €2.9bn in equity over the course of 2022 - making France the second most important fintech hub in Europe after the UK.

Why did this happen in France of all places?

One should not forget where the French economy had come from. The nationalisation of sectors post-World War II supported the emergence of large companies, some of them real global players. What France didn't have was a significant mid-tier of corporates that, due to relevant niche specialisation, are more flexible and innovative by nature. High-speed trains or nuclear power plants - for decades the pride of French business and society - are specialised, too. But they're too big as well in terms of planning tenors, vulnerability to energy or exchange rate fluctuations and so on. When the global tech era began at the turn of the millennium, the heavy focus of the French economy became visible in the CAC 40's relative underperformance. Tax and duty burdens made France an unattractive location for companies, labour costs continued to rise while productivity didn't. And in terms of innovation, if measured by research and development expenditure of the private sector, France became equally unattractive. A decade later, the country is sitting pretty in this respect.

Can France transfer the start-up dynamism onto the economy as a whole?

I do think so. On the one hand, in terms of long-term structural deficits, France is not so different from other large European countries that have to cope with the change from an industrial to a service and technology society. These structural challenges are mainly related to the erosion of social systems which can no longer ignore the fact that fewer and fewer contributors have to finance an ever-older population. This problem, present in most European economies, is being aggravated by the sharp increase in indebtedness as a result of external shocks. On the other hand, the net income of all French households has increased continuously since 2017¹³. France spent over €240bn on short-term work benefits and other grants during the pandemic. The European Recovery Plan, which France played an important role in bringing about, enabled important stimulus programmes across European economies. Thanks to this, the French economy grew by 7%¹⁴ in 2021, outperforming its European peers.

Europeans are effectively facing a new challenge that will lead to reform in their economic systems and will restore faith in the future of Europe. For France, this will be particularly important. However ideological the debate may be, change is inevitable in the long run.

Thank you very much!

1 The Marshall Plan (officially the European Recovery Program, ERP) was an American initiative enacted in 1948 to provide foreign aid to Western Europe.
 2 A Jacobin was a member of the Jacobin Club, a famous political movement during the French Revolution of 1789-1789
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 4 The CAC 40 is the French index of the 40 leading French public companies traded on the Paris Stock Exchange. CAC stands for Cotation Assistée en Continu (Continuous Quotation)
 5 A unicorn is characterised as a start-up valued at ≥ USD 1 billion that is yet to go public
 6 The Choose France Summit is the French government's flagship forum promoting economic attractiveness, held annually at the Château de Versailles
 7 Banque publique d'investissement also referred to as Public Investment Bank
 8 Online payment and banking services for freelancers and SMEs
 9 Provider of software for medical appointments incl. telemedical video consultation etc.
 10 E-commerce sector, specialised in the DIY and garden sector
 11 Online ride-sharing, agency and long-distance bus operator
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today to discuss how the seamless market access that our venue provides, can help to grow your retail client business.

Please don't hesitate to get in touch if you wish to receive further detail.

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