Renewing French Industrial Policy: Old Recipes or Forward-looking Competitiveness Strategies?

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RENEWING FRENCH INDUSTRIAL POLICY: OLD RECIPES OR FORWARD-LOOKING COMPETITIVENESS STRATEGIES?

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Jean-Louis Beffa

INTRODUCTION
France has traditionally advocated pro-active, interventionist supply-side policies as a means of asserting its position as a strong industrial nation on the world stage. During the Trente Glorieuses (the ‘Thirty Glorious Years’ of uninterrupted post-war economic expansion), modernisation strategies relied upon major industrial projects (nuclear energy, transport infrastructures, defence and space technologies, high-speed trains etc.) initiated by the state in the framework of a large public sector (Maclean 2002, 78-88). From the mid-1980s onwards, the concept of ‘industrial policy’ became gradually obsolete, and the expression itself went out of fashion. Whilst French firms were rapidly adjusting to the imperatives of economic globalisation, economic planning, national grants and sectoral policies were gradually losing momentum in the run-up towards the Single European Market. As a result, industrial policy was eclipsed for many years. However, after 2002, the economic crisis and the need to take up the industrial challenge brought the principle of having a policy to support industry back into the limelight.

This sudden renaissance is to be understood in the context of (largely unfounded) fears that economic globalisation would lead to massive relocations and that de-industrialisation in France would exacerbate social problems. The changes which had occurred since the 1980s (liberalisation, the opening of the French economy) produced problems which had still to be overcome. Increasingly, there was a strong awareness that France, like Germany, had preserved a large manufacturing base, that a national economy based primarily on services might have little weight in tomorrow’s world and that preserving French industry was therefore vital for the whole economy. Reinstating microeconomic policies was perceived as the best way to safeguard the national economic model and the primacy of industrial logic against financial logic (Colletis 2006). Since 2003 numerous public claims have been made, both at national and at EU level, in favour of launching a new, vigorous industrial policy (Trouille 2007). Major initiatives were subsequently taken by the state to initiate the revival of industrial policy. These new measures now need to be examined.

The term ‘industrial policy’ has frequently been associated across many EU-member states with the kind of interventionist supply-side policies consistently conducted in France until the mid-1980s, synonymous with dirigisme, state aids to protect declining sectors, and distorted competition. However, defining industrial policy is not as straightforward as defining other policy areas. The lack of a single definition of what it entails explains its relative absence from economic theory (Cohen and Lorenzi 2000). Two conceptions, nonetheless, tend to prevail: the ‘horizontal’ laissez-faire, market-orientated approach, which focuses on creating a favourable economic and legal environment for business investment by allowing markets to operate as fully as possible, with a view to generating sustainable economic development, and the ‘vertical’, pro-active and interventionist approach, which expects the national state to preserve long-established corporate structures by means of selective sectoral interventions in order to protect domains perceived as strategic, save jobs and create national industrial champions. Arguably, this classification is over-simplistic and does not reflect the fact that an increased number of countries have adopted a mix of indirect (horizontal) and direct (vertical) policy measures to boost their industries (Levet 2005). In this context it is pertinent to examine whether France has merely ’recycled’ its own old recipes from the 1960s and 1970s, or whether new initiatives and recently launched policy instruments offer innovative solutions adapted to current challenges. Is boosting national champions the most efficient way to promote economic ‘patriotism’, or is it preferable to create a favourable business environment to attract foreign direct investment? Is there a special role to play for the Franco-German partnership in a renewed supranational industrial cooperation? And finally, does the ‘revamped’ French industrial policy contribute to consolidating the economic position of France in the world?

FRENCH INDUSTRY AND GLOBAL COMPETITION
More than in other countries, economic globalisation is considered in France as a menace to national interests. According to this view, uncontrolled globalisation boosts economic liberalism and undermines the French social model, based on state intervention and a large public sector; the domination of international capital markets tends to impose a ‘shareholder value’ strategy on the management of companies which threatens industrial development with its short-term views and financial rate; national production is damaged by industrial delocalisation to low-wage countries; trans-national takeovers have a tendency to transform leading French groups into agencies steered by foreign decision centres. This interpretation is reinforced by a
These arguments, which strongly influence public debate (mainly, but not only on the political left) seem to be confirmed by a relatively poor macro-economic performance in recent years, coupled with a persistently high unemployment rate and the social consequences this entails. The importance of anti-liberal discourses and networks became particularly visible in the 2004 campaign for the referendum on the European Constitutional Treaty - marked by an aggressive battle against ‘liberal Europe’ (i.e. an EU dominated by economic liberalism), by campaigns to stop industrial relocations and, more recently, in the Prime Minister’s call for ‘economic patriotism’ when fighting to preserve ‘French’ companies from unfriendly takeovers.

However, this political agitation is not justified by the analyses and public reports evaluating the strengths and weaknesses of French industry (e.g. Debonneuil and Fontagné 2003; Jacquet and Darmon 2005). Far from being in decline, French industry, which has largely opened up to global competition in the last 30 years (in 2004 foreign trade accounted for 26.0% [exports] and 25.7% [imports] of GDP), has maintained its global market share in the long run (1970-1999), whereas Germany, the US and the UK lost market shares in the same period. However, France has suffered a deterioration in the last decade, its market shares in global exports falling from 6.3% (1992) to 5.1% (2003). The apparent reasons for this deterioration are that French export specialisation is insufficiently attuned to the dynamic markets (Asia, Eastern Europe), and that France has suffered a decline in technological competitiveness. The problems are, therefore, not so much caused by globalisation, but rather by weaknesses inherent to France’s industrial structure.

French capital exports have risen substantially since 1985. Globally, French groups have been very active in acquiring foreign companies. Today there are 22,000 foreign subsidiaries with nearly 5 million employees worldwide. France has no less than 15 companies in the world’s top 100 list. Leading French companies realise more than half of their business volume outside France. This high degree of externalisation produces positive economic consequences for France in terms of employment, revenues and trade balance. As for the relocation debate, all studies converge to show that the impact of relocation (i.e. closing down French production sites in favour of new ones in low-cost countries, with re-export to France) is marginal in macro-economic terms, except in some industries such as clothing, textile, or household equipment (Fontagné and Lorenzi, 2005).

Foreign investment in France has risen, too, in a significant way. The national statistics office INSEE (Institut national de la statistique et des études économiques) shows that in 2003, 1.9 million French employees worked in firms held by foreign owners, compared to 1.1 million in 1994 (Angel and Régnier 2006, 1). In industry, foreign-owned companies account for 28% of total revenue. Foreigners hold 44.2% of capital in the leading 40 groups listed in the CAC 40 (Cotation Assistée en Continu) index. Openness to foreign capital is more significant than in any other leading economy. Previous fears that foreign influence on French firms could be harmful to the French economy have given way to a positive view, which is confirmed by studies underlining the overall positive impact of foreign investment on France. Notwithstanding this, some cross-national takeovers involving leading French companies have led to anxious public debates about the alleged threats to the French economy. For instance, the takeover of Péchiney, world leader in aluminium production and regarded as a jewel of French industry, by the Canadian company Alcan in 2003, made a huge impact in France, where the nationality of companies remains a sensitive issue.

When faced with cross-national takeovers, French governments tend to exert massive political influence. In 2005, the government urged the (Franco-German) chemical group Aventis to accept a takeover bid from the French company Sanofi-Synthélabo instead of the Swiss Novartis; in 2005 it opposed the takeover of the steel groupe Arcelor by Mittal, and in the same year it tried to counter a bid by the Italian group Enel for Suez by proposing a merger of Suez (private) with Gaz de France (public). Also in 2005, when rumours suggested that PepsiCo was trying to take over the French food group Danone, Prime Minister Dominique de Villepin pledged to tighten government controls on cross-national mergers and acquisitions involving French firms, with pompous announcements about ‘economic patriotism’.

The measures taken do not really substantiate allegations about everlasting French ‘Colbertism’
or a ‘Maginot Line for corporate France’ (Financial Times, 3 March 2006). Nevertheless, they reflect the concerns of the French state, fearful of losing influence. The transposition of an EU directive on takeovers into French law lists eleven ‘strategic’ sectors in which French firms may be protected against foreign takeover bids: it covers sectors such as casinos, security activities, biotechnology, cryptography, and defence industries. Furthermore, “poison pills” will allow management to increase the capital in order to counter a takeover bid, and clauses of reciprocity will assure that French firms can defend themselves under conditions equal to those in the country of the assailant group. More important are measures to improve the capital structure of French groups, which is too small and dispersed, making them vulnerable to takeovers (‘Capitalism without capital’; Izraelewicz 1999). If most of these dispositions can be found in other countries, a special law voted in summer 2005 obliges any company wanting to absorb a French group to buy all its foreign assets, which would considerably increase the price of any takeover.

While there seems to be a consensus about the legitimacy of protective measures for French firms against unfriendly takeovers, the notion of ‘economic patriotism’ is largely criticized by French experts. Elie Cohen (2007) points out the inconsistency of the French ‘obsession’ about the ‘nationality’ of its large companies and the hypocrisy of saluting every foreign takeover pulled off by French firms, while opposing foreign takeovers in France. He asserts that the French problems are home-made: it was indeed the French state that privatised the public companies without giving them a sufficient capital structure, exposing them to the international capital markets and to foreign institutional investors.

At the same time, there has been a shift in political perspective. The global strategy of large companies has disconnected the conditions of the national economy from those of its former ‘national’ companies: What is good for Danone, AXA and so on. is no longer automatically good for France. In fact, there seems to be a large gap between the economic success of these few French global players and the rest of the French economy, which has more problems meeting the challenges of global competition and benefiting from the dynamics of globalisation. In this context ‘Made in France’ becomes more important for the government than ‘Made by Danone’; however, French policy should be more concerned about the competitiveness of the French production site as a whole rather than protecting ‘French’ (in fact, largely globalised) firms. This new approach is expressed in the paradigm of territorial attractiveness (the capacity to attract, and withhold, investment capital). In this perspective, various studies have been commissioned by the government, and in 2002 Prime Minister Jean-Pierre Raffarin declared French attractiveness a crucial political concern (Hanotaux et al., 2001; Lavenir et al., 2001; Badre and Ferrand 2001).

INDUSTRIAL POLICY: THE NEW PARADIGM

The notion of ‘industrial policy’ has a special meaning in French public debate. It is closely linked to the post-war modernisation of the French economy, which transformed a backward and mainly rural economy into one of the world’s leading industrial nations. The special role of state interventionism in this modernisation process shaped a specific state-led capitalism. In this context, industrial policy meant sectoral development plans initiated, financed and controlled by the state, public control of the banking and finance sector, a huge public sector mainly in infrastructures, the shaping of ‘national champions’ by state-influenced mergers in private business, as well as comprehensive industrial development projects in emerging and high-tech sectors such as aeronautics, high-speed trains or information and communication technologies (‘High tech Colbertism’; Cohen 1992).

However, in the light of a changing international economic context, which highlighted the many contradictions and limitations of French state capitalism, public interventionism in general and industrial policy in particular became discredited. The U-turn in French economic policy in 1982-83 initiated a gradual but important shift towards a more liberal policy which materialised during the 1980s and 1990s. Privatisation, liberalisation and de-regulation, as well as the opening of the French economy to international capital, changed the role of public intervention. The European framework, especially the Single European Market project and European Monetary Union, accentuated the shift towards an economic policy concentrating mainly on the general economic framework, macroeconomic stability, and regulation.

Notwithstanding the actual positive effects of this new approach, it soon became clear that French industry continued to suffer from structural weaknesses which required specific public action. The persisting employment crisis, the effects of globalisation, as well as fears of de-industrialisation, reinforced the call for a revival of...
industrial policy in recent years. As Jean-Louis Beffa, president of Saint-Gobain and author of a report commissioned by president Chirac noted: ‘France can only find its place within the new international division of labour if it takes the initiative in the remobilisation of its industrial capacities and its research potential.’ (Beffa 2005, 2)

Whereas the traditional understanding of industrial policy as interventionist and potentially protectionist is still present in the political debate, concepts that have developed since the 1990s are now at the core of the recently adopted new policy. These concepts, articulated in numerous public reports (Commissariat général du Plan (CGP) 1992; Blanc 2004; Délégation à l’aménagement du territoire et à l’action régionale (DATAR) 2004), point out that the main bottlenecks for France's industrial competitiveness lay in qualitative fields, such as the weakness of medium-sized firms, of business networks and of local or regional clusters, the insufficient efforts in innovation or the characteristics of its industrial specialisation, which were not sufficiently focused on high technologies. Given the changed framework for international competitiveness and the coming key role of knowledge-based economy, the reports propose a renewed approach to industrial policy. (CGP, Deutsch-Französisches Institut (DFI) 2001):

- A policy that gives the key role of industrial development and competitiveness to firms;
- A comprehensive strategy of ‘global competitiveness’, that is, a competitiveness that goes far beyond the micro-economic, reaching to a macro-societal level (compétitivité globale) and covers a great variety of policy fields, in particular education and professional training, innovation, research and development, and technology transfer;
- A multi-actor approach including public, mixed and private actors such as the state, regional and local public actors, private business, research and training institutions, etc., transforming the role of the state with regard to regulation, setting framework conditions, guaranteeing vital public infrastructures and coordinating governance processes;
- A new emphasis on decentralisation, which in turn should liberate the potential of endogenous development, which, up to now, seems underexploited in centralised France;
- A new emphasis on the innovation cycle (education, university, research, public and private R&D, creation of innovative firms, patents).

As a whole, the new approach turns its back on the former state-led, centralist ‘top-down’ model of industrial policy and development.

The new industrial policy initiated by the French government in 2005 follows these guidelines. State intervention in mobilising public funds for new research and development projects is now combined with new partnerships between central state, business, research and training institutions, and regional public actors. Research and innovation are at the core of the new policy, which features three main pillars:

(1) a revival of public research, with supplementary public funds (£20bn for the period 2005-2010), the setting up in February 2005 of a National Research Agency, and new guidelines concerning research management, evaluation, the transfer to business of the outcome of publicly funded research, the emergence of centres of excellence, etc;
(2) the renaissance of large-scale programmes in high-tech industries, led by a new state agency, the AII (Agence de l’Innovation Industrielle) and initiating business-research partnerships in key technologies;
(3) the promotion of regional cluster-based development initiatives (pôles de compétitivité).

The Mobilising Programmes for Industrial Innovation (programmes mobilisateurs pour l’innovation industrielle) launched in 2005 were first proposed by Jean-Louis Beffa in his report ‘Renewing industrial policy’ (15 January 2005). Based on the idea that the main problem of the French economy lies in the weakness of its research, industrial development and innovation effort, and that France should revive the ‘grand projects’ policy of the 1960s, i.e. the development of new product lines in high-tech industries like nuclear power, aerospace, electronics etc., the Beffa report proposed the creation of the AII, which effectively was set up by a law in July 2005, with Beffa as its president. With a budget of £2bn, the mission of the agency is to initiate and support large-scale high-tech industrial projects conceived by a multi-actor partnership of large and small business, and
private and public research and development organisations, under the leadership of a large company. The first programmes were selected in spring 2006 (see table 1.1); some thirty other proposals were to be considered by December 2006. The key characteristics of these programmes are an ambition to achieve global technological leadership in the respective domain, a mixed public-private share of finance and risks, as well as a new governance of private and public actors.

The French government was particularly keen on inviting European partners to join R&D programmes under the aegis of the AII, emphasising its Franco-German and European dimension. For President Chirac, 'the Agency is one of the cornerstones for placing European industrial policy on a new footing, an objective France and Germany are unremittently pursuing' (Speech, 25 April 2006). Two (out of four initially planned) fully-fledged Franco-German projects, Iseult/Inumac, jointly led by Siemens and Guerbet, and NeoVal, which brings together Systems Transportation Systems and Lohr Ind., have so far been launched as the fruit of renewed bilateral industrial cooperation with Germany. In addition, a number of German, Dutch and Italian companies as well as several foreign laboratories are involved in several of the projects listed in Table 1.1.

The recent promotion of pôles de compétitivité, combining industrial policy and regional development, is the outcome of more than a decade's debate about competitive regions. The academic discussion about regional competitiveness in the contest to attract investors, inspired by the theory of industrial districts by Alfred Marshall (1946) and the examples of prosperous Italian regions, had stressed the endogenous factors of competitiveness and the capacity of regional actors to 'produce'

### TABLE 1.1: THE MOBILISING PROGRAMMES FOR INDUSTRIAL INNOVATION (FEBRUARY 2007)

<table>
<thead>
<tr>
<th>Programme</th>
<th>Description of programme</th>
<th>Industrial Leader</th>
<th>Sums invested*</th>
<th>Subsidies*</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The five initial programmes:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>BioHub</td>
<td>Valorisation of agricultural Resources for biotechnology</td>
<td>Roquette</td>
<td>98</td>
<td>43</td>
<td>6 years</td>
</tr>
<tr>
<td></td>
<td>(Agreed by EU Commission in December 2006)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HOMES</td>
<td>Energy-efficient buildings</td>
<td>Schneider Electronics</td>
<td>88</td>
<td>39</td>
<td>5 years</td>
</tr>
<tr>
<td>NeoVal</td>
<td>Modular automatic transport systems</td>
<td>Siemens France</td>
<td>61</td>
<td>26</td>
<td>6 years</td>
</tr>
<tr>
<td></td>
<td>(Agreed by EU Commission in February 2007)</td>
<td></td>
<td></td>
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<tr>
<td>Quaero</td>
<td>Developing multimedia and Multilingual search engines</td>
<td>Thomson</td>
<td>250</td>
<td>90</td>
<td>5 years</td>
</tr>
<tr>
<td>TVMSL</td>
<td>Unlimited mobile TV</td>
<td>Alcatel</td>
<td>98</td>
<td>38</td>
<td>4 years</td>
</tr>
<tr>
<td><strong>Programmes recently selected by the AII Supervisory Board:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VHD</td>
<td>Hybrid diesel-electric cars</td>
<td>Peugeot</td>
<td>271</td>
<td>110</td>
<td>——</td>
</tr>
<tr>
<td>MaXSIMM</td>
<td>Multimedia services on mobile phones</td>
<td>Gemalto</td>
<td>122</td>
<td>35</td>
<td>2½ years</td>
</tr>
<tr>
<td>MINimage</td>
<td>Micro-camera applications</td>
<td>STMicroelectronics /Saint-Gobain</td>
<td>141</td>
<td>69.9</td>
<td>4 years</td>
</tr>
<tr>
<td>OSIRIS</td>
<td>Biotechnology applied to Agricultural resources</td>
<td>Soufflet</td>
<td>77</td>
<td>31.2</td>
<td>8 years</td>
</tr>
<tr>
<td>Iseult/Inumac</td>
<td>Imaging of Neuro-disease Using high field MR and Contrastophores</td>
<td>Guerbet / Siemens</td>
<td>——</td>
<td>55</td>
<td>——</td>
</tr>
<tr>
<td>ADNA</td>
<td>Molecular diagnosis, gene therapy, immuno-monitoring</td>
<td>Mérieux Alliance</td>
<td>231</td>
<td>103.5</td>
<td>10 years</td>
</tr>
<tr>
<td>NanoSmart</td>
<td>Innovative substrats for opto- and microelectronics</td>
<td>Soitec</td>
<td>162</td>
<td>80</td>
<td>——</td>
</tr>
</tbody>
</table>

* million €

Source: AII (http://www.aii.fr/srt/aii/home)
competitive advantages (Benko and Lipietz 1992; Pecqueur 1989). This gradually led to a shift in the French spatial development policy from centralist top-down approaches towards decentralised programmes giving more freedom of action to regional actors. Thus in 1997 the government called for the establishment of local innovative production networks (systèmes productifs locaux), selecting and financing about 100 networks.

The success of this formula led to another approach calling for regional pôles de compétitivité focusing more on innovative activities. These are defined as ‘the combination, in a given geographic area, of firms, job training centres and private or public research institutions engaged in a synergy by defining common innovative projects. This partnership is focused on a specific market and on a corresponding technological and technical domain and is searching for critical mass in order to achieve international competitiveness and visibility’ (Jacquet and Darmon 2005, 64). A public call for projects launched in November 2005 had an overwhelming echo. Out of 105 proposals, 67 local pôles de compétitivité were selected; 15 of them were classified as having a ‘global dimension’. Over the next three years, they will be granted subsidies and tax relief for R&D measures to the sum of €1.5bn, paid by the state and specific public institutions. Small and medium-sized companies will receive a substantial part of these subsidies (40%). Officials and experts stress that the main responsibility for defining and launching innovative networks lies with private business, public actors being confined to an ‘enabling’ role.

While it is too early to evaluate the new approaches it seems clear that the accent laid on innovation processes, the mobilisation of local and regional actors, as well as the promotion of productive networks including a multitude of partners in business, research and formation, contribute to a shift in the fundamental paradigm of industrial policy, which, arguably, should be renamed competitiveness policy (see table 1.2). Having said this, it has to be remembered that the new approaches, if they are to constitute the prestigious ‘spearhead’ of the new French policy, cannot be separated from other elements that constitute the business environment, namely the general economic framework (market regulations, tax policy, labour market policy, entrepreneurial climate, etc.). The perspective of a knowledge-based economy calls for more flexibility and change, and for new forms of decentralised and public-private governance. One possible bottleneck in the new policy may be the capacity of the central state to rethink its role and to concede local and regional autonomy. As Christian Blanc (2004, 1) puts it in his report: ‘Our actors are fossilised in national hierarchical

| TABLE 1.2: FROM INDUSTRIAL POLICY TO COMPETITIVENESS POLICY? OLD AND NEW PARADIGMS |
|----------------------------------------|----------------------------------------|
| Old paradigm: Industrial policy | New paradigm: Competitiveness policy |
| Objectives | Industrial modernisation, Coherence of national industry | Competitiveness of national territory |
| Actor System | Single actor, hierarchical governance | Multi-actor; horizontal governance |
| Actors | Central state, Nationalised companies | Central and local public actors, private companies, educational and research centres, regulation agencies, etc. |
| Public intervention | Direct, vertical (sectoral) subsidies, national champions | Indirect, horizontal economic framework, incentives, regulation |
| Territorial Dimension | Central state domination | Decentralisation; endogenous regional development |
| International Dimension | Colbertism: national industries, Industrial cooperation in public Industries (aerospace, arms, etc.) | Open economy, Defence of French companies, Territorial attractiveness, European framework setting, Call for European policies and industrial partnerships |

Source: Authors
and vertical systems, with the result that the interactions between research, education and enterprise lose all vitality out of which innovation and competitiveness are born.’ It will take a cultural revolution in the French high administration and the political class to introduce change. In this respect, another critical point is the propensity - observable in the Beffa report - to rely on high technology as a panacea to the French competitiveness problems. Does this express a ‘quasi cultural adhesion of certain elites to the ‘fairy technology’ whose magic would eliminate all problems’ (Colletis 2006, 33)? This remark refers to innovation as a societal process far beyond technology, calling for rules and frameworks enabling productive networks and economic change.

THE PARTNERSHIP WITH GERMANY: A CHANGING APPROACH TO INDUSTRIAL COOPERATION

Throughout the post-War era Paris has regarded cooperation with Germany as an important constituent of French economic and industrial development strategy. As early as 1950 the Schuman Plan for the European Coal and Steel Community, initiated from behind the political scenes by Jean Monnet and approved by Konrad Adenauer, marked the beginning of European construction on the basis of a supra-national industrial policy project. Other instances of industrial cooperations soon materialised in the aeronautics industry, then in the late 1960s in missiles, satellites and space technology. The 1970s and 1980s saw increased bilateral projects in these fields, whilst the 1990s witnessed new cooperation projects in nuclear energy (Framatome ANP (Advanced Nuclear Power)), life science (Aventis) and the setting up of the European Aeronautics, Defence and Space Company (EADS). These bilateral alliances were politically initiated (or at least encouraged by the political establishment when they occurred in the private sector) and often backed up financially. Industrial cooperation projects were hailed in political discourse as the ‘natural’ outcome of the undeniably unique relationship that has bound the two countries for some forty five years. However, Franco-German industrial relations have remained a very sensitive domain, with state-led cooperation frequently hampered by rivalries and power struggle.

As far as their economic cooperation is concerned, both countries have been each other’s main supplier and purchaser of goods and services year after year. In terms of direct investment, Germany is fourth highest investor in France, whilst French firms are third highest investors in Germany. Investment volumes have been growing steadily in recent years, reflecting a high level of industrial intertwineement between the two sides of the Rhine. Approximately 2,400 German companies have settled in France, accounting directly for 200,000 jobs and a total turnover of €60bn. 1,043 French companies do business in Germany, accounting for 170,000 jobs and a total turnover of €46bn (Cahiers Industrie 2004). A recent research on inter-firm linkages established between French and German companies from 1990 to 2005 (Trouille 2006) provided a realistic assessment of bilateral industrial cooperation, its real impact and limitations. The study focused on mergers, acquisitions, joint ventures and capital participations between French and German firms. It revealed a high level of interpenetration in virtually all sectors of activity. The list of Franco-German mergers appeared to be extremely limited, whereas takeovers were by far the preferred market entry option. In the majority (60 percent) of takeover cases, the dominant bidding company was French, a discrepancy caused by a larger opening of local and regional public utilities in Germany than in France, and by a more aggressive expansion strategy of French firms in certain sectors such as banking and credit. The number of joint ventures appeared to be quite substantial, though three times less frequent than acquisitions. Interestingly, the study revealed that Franco-German partnerships were more likely to be successful when these were not state-controlled. Indeed, a long series of failures questioned the very principle of state-initiated inter-firm linkages established on the basis of a political agenda rather than according to business logic. The forced partnership between France Télécom and Deutshe Telekom, Sanofi-Synthélabo’s bid for Aventis fully endorsed by Paris, or French manoeuvring to prevent Siemens from buying key activities of the troubled French engineering conglomerate Alstom, are only a few examples of a long list of bones of contention between Paris and Berlin. Even the sole apparently successful Franco-German merger of equals EADS and its flagship subsidiary Airbus has not remained unscathed from political divergences, with attempts to replace the conglomerate’s bicephalous leadership by French-shaped corporate governance. Such cases were not isolated. They showed that beyond the official rhetoric on the alleged benefits of developing bilateral cooperation, and behind discourses to promote European ‘champions’, the two countries remain largely divided by issues of industrial nationalism.
However, rather than a deliberate intention on the part of France to regress to past interventionist supply-side policies, the Sanofi/Aventis and Alstom/Siemens affairs were symptomatic for muddled, uncoordinated activism among French political elites, in favour of French-led alliances, caused by reactions of anxiety in the face of economic globalisation. These fears were sparked off in 2003 when Péchiney was taken over by Alcan, raising the sensitive issue of the nationality of companies and highlighting the fact that many ‘home’ companies were an easy prey for takeover bids. The following year, fears that Sanofi-Synthélabo was too easy a target for major American life-science groups, which would deprive France of its national ‘champion’ in this domain, overrode French scruples towards the German partners in Aventis.

However, apparent lack of consideration for German interests in Aventis, EADS and an Alstom/Siemens linkage raised suspicions in Berlin about French willingness to cooperate on an equal basis with Germany. Further attempts to promote Franco-German industrial groupings and create what Jacques Chirac referred to in his 2005 New Year’s speech as ‘the Airbuses of tomorrow’ have failed so far. Building a Franco-German ‘Airbus of the rails’ or a ‘maritime Airbus’ (Becker and Marx 2005) or re-structuring the defence industry under the aegis of EADS systematically comes up against the need to ensure the fairest possible mix of power between the political and industrial actors involved. In view of the difficulties and limitations encountered in running Franco-German champions jointly, let alone generating new ones, the focus has gradually shifted towards re-launching bilateral industrial cooperation in a more pertinent way, with a clear emphasis on R&D projects in future technologies.

In January 2003, shortly after the 40-year celebrations of the Elysée Treaty, the French and German industry ministers signed a joint declaration on future cooperation, which had the merit of setting the new scene. The report called for the setting up of a European industrial policy no longer linked with sectoral plans, structural protection and high-tech Colbertism (Cohen 1992), but with emphasis on innovation and on investments into large supranational technological projects (Galileo, ITER (International Thermonuclear Experimental Reactor)). A year later, in January 2004, the first Franco-German symposium for industrial competitiveness was held, jointly organised by the two countries’ respective Ministries of Industry and bosses organisations, provided a forum to debate upon the attractiveness of their sites for industrial investment, the need for structural reforms, the Lisbon strategy for growth and competitiveness, and potential projects to boost European industry. A platform of common objectives was defined to promote action at bilateral and EU level:

- To encourage the creation of European university groupings, and to increase joint integrated study courses between French and German institutions of higher education under the aegis of the Franco-German University;
- To enhance interregional cooperation between French régions and German Länder to encourage joint research and innovation projects, using grants from the German Federal Ministry for Education and Research, the VDI Technologiezentrum (Verein deutscher Ingenieure) and the French DATAR;
- To establish new networks by linking together existing clusters (French pôles de compétitivité with German Technologiezentren) and capitalise on technological expertise (Uterwedde 2005);
- To encourage industrial investment and R&D projects financed by private-public-partnerships;
- To make concrete proposals to shape European industrial policy, to develop a range of measures at EU level to increase attractiveness and innovation, and to achieve a better balance between environment and competitiveness.

In October of the same year, Jean-Louis Beffa and Gerhard Cromme (ThyssenKrupp) launched the Franco-German Working Group on Economic Cooperation, a task-force consisting of five French and five German industrial leaders, to study the potential for increased cooperation between French and German companies (Cromme 2005). In fact, the main mission entrusted to the working group was to overcome the political crisis provoked by the Aventis and Alstom affairs. Fora like this working group or the symposium for industrial competitiveness present the advantage of offering a framework to key players from both countries where they can exchange views and confront their visions and strategies. Furthermore, Beffa launched the Industrial Innovation Agency with the clear intention to open the agency’s resources to other EU companies, in particular to
German business, and to adopt a co-operative approach in selecting research projects. Two Mobilising Programmes for Industrial Innovation, Iselut/Inumal and NeoVal (see table 1.1) are joint Franco-German R&D initiatives, and several other French-led programmes also involve German middle-sized companies and research laboratories. However, the Quaero project, initially supposed to be a bilateral venture, will remain a French venture due to a lack of entente between Bertelsmann and Thompson. The projects, initially announced at the Fifth Franco-German Council of Ministers in April 2005, were nonetheless carefully selected by Beffa and Heinrich von Pierer (president of Siemens’ Supervisory Council) in the framework of the Working Group on Economic Cooperation. They bring together research laboratories across the Rhine and are co-financed equally by public procurement (AII on the French side) and industrial partners.

The aforementioned joint initiatives show that despite numerous bones of contention in their industrial cooperation both countries were able to reach a consensus as regards the kind of measures to adopt and the type of industrial policies that need implementing. Achieving such consensus with Germany was largely facilitated by the de facto convergence of the new paradigm adopted in French industrial policy with the German approach to supply-side policies. The renewed bilateral industrial cooperation with Germany can therefore be regarded as an outcome of this new French paradigm. One of its aims is also to adopt a common approach towards European decisions and promote EU-wide supply-side policies. On many occasions, Commission directives have been criticised by Paris and Berlin for being ‘too bureaucratic, too biased in favour of environmental and consumer interests’, and both capitals frequently criticise a too strict interpretation of EU competition rules. In 2003 and 2004, joint letters by Chirac, Schröder and even Blair (Uterwedde 2004) were addressed to the EU presidency. The first one requested from Brussels an inquiry into the process of de-industrialisation, and proposals on how to improve the international competitiveness of European businesses. The second one requested less bureaucracy, more leeway for member states to sustain innovative small and middle-sized enterprises (SMEs), more flexibility in applying competition rules to pay more attention to specific needs for industrial development, and to devote more attention to the compatibility of EU policy initiatives with the competitiveness of European companies. These intergovernmental initiatives clearly highlight a shared desire to influence EU decision-making and promote a more pro-active approach to industrial policy at EU level.

CONCLUSION
The recent launch of a new industrial policy is an attempt to address the stunning pace of economic change on the world scene at a time when French industry has reached a turning point. France’s industrial base is still strong but ageing. Its industrial specialisation is no longer sufficient for it to remain competitive in a number of high-tech sectors. Increased awareness that international competitors have a clear strategy of global expansion (the USA and Japan) or a highly effective ‘catching up’ strategy, not just in manufacturing industries and services, but also in high-tech industries (China, India), have raised concerns regarding France’s future position in the international division of labour. In a rapidly changing external market place, where technology is used ever more efficiently, boosting innovation, R&D and providing the investments required have become urgent necessities, particularly in research geared towards industrial innovation. The renewed French industrial policy aims at responding to this challenge.

However, the recent revival of a micro-economic policy in a country where supply-side measures have traditionally been ‘vertical’, i.e. strongly interventionist, has led to a number of criticisms. For instance, the rhetoric on economic patriotism, attempts to shelter ‘strategic’ sectors, and a preference for national champions denote a nationalist approach regarded by European partners with suspicion. Such issues tend to dominate headlines and strengthen widespread views on French protectionism whilst hiding other more worthwhile and forward-looking initiatives. The Beffa report, too, has been criticised for being too ‘national’ and too much inspired by de Gaulle’s vision of grand projects. Furthermore, electoral considerations may have played a role in granting the label ‘pôle de compétitivité’ to no less than 67 regional clusters, resulting in spreading funding too thinly. Whilst these criticisms are to a large extent justified, any assessment of the new French policies has to differentiate between a government-led, interventionist political discourse, eager to match public expectations, and real policies open to modern approaches. Today’s France has, in reality, become more liberal than is perceived by its neighbours, many of whom still tend to regard France as ‘colbertist’. France’s new approach to
industrial policy no longer corresponds to the former state-led, rigid, centralist 'top-down' model of industrial development, when businesses, funding and orders were all under state control (Trouille and Uterwedde 2001). The nature of state intervention has changed. Private businesses are now responsible for industrial development and competitiveness. They hold the main responsibility for defining and launching innovative networks whilst public actors are confined to an 'enabling' role. At the core of the new policy are new concepts that differ enormously from the old-type 'vertical' policies pursued by France in the 1960s and 1970s. The new emphasis is laid on innovation processes, R&D, private-public partnerships, the mobilisation of local and regional actors, and the promotion of productive networks involving numerous partners.

The renewed French industrial policy undeniably consists of innovative, forward-looking strategies which at the same time do, indeed rely partly on old recipes. In the new paradigm, in which industrial policy has de facto become a policy of competitiveness, the state is no longer the sole project manager, but still fulfils an important, proactive role as a catalyst whose support will help firms develop long-term projects. Yet is the state the best judge in deciding which projects to fund? Should the aim of the Agency for Industrial Innovation be to retain ‘French’ companies whose long-term interest may be to move to buoyant emergent markets, or would it be more appropriate to attract new investments, whatever their origin? Whilst it is too early to evaluate the efficiency of the renewed approach to industrial policy, such crucial questions will remain at the core of the debate. At this juncture, however, the new industrial policy’s focus on innovation, on co-financing and on new partnerships within and beyond national boundaries nonetheless seems to be going in the right direction.

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