

- **a manufacturing infrastructure less efficient** than Germany's. The gap is gradually closing, particularly due to a considerable investment effort by French businesses since 1985. However, this effort was temporarily stalled in 1991 as a result of the business slowdown and has not yet overcome the impact of past delays.
- **a lack of specialization in the French economy.** France's strong points in its industry are too few, weak and badly distributed. France is the European leader in only the aeronautical industry, luxury goods, the nuclear industry, and certain agri-food sectors.
- **a lack of capital and the smaller average size of businesses** compared to Germany or the United Kingdom make new investments difficult and reduce economies of scale;
- **a tax system** in the process of being modified toward harmonization with that of other European nations. The increased VAT rate (value-added tax) was abolished in April 1992 and income tax on retained and distributed profits was equalized at 34%.

OUTLOOK FOR FRANCE

Since France began to restructure its industry later than other European countries, it must continue to transform its national economy into one with international scope, and to bring about industrial renewal and change if it is to remain the second strongest economic power in the EEC.

In addition, business leaders must continue to consolidate their activities in order to achieve sufficient presence in Europe. Market share and corporate investment policies are key factors of success in the high value-added sectors, while the control of labour costs will make the difference in the low value-added sectors.

The economic policy of the new government is aimed in this direction to make France succeed in the Europe of 1993. The renewal of the French economy, controlling the rate of inflation, and moderate salary costs are all factors which are benefiting the country's economy. In order to improve these results, the French government must constantly balance the tight monetary and budget policies to reinforce the competitiveness of French companies with the pursuit of a healthy social climate which is an equally vital condition for economic success.