The Opening of Central and Eastern Europe: The Case of Austrian Foreign Direct Investment

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1 Introduction

In the 1990s two major economic and political integration movements have been significantly changing Europe. These trends consist in the intensification of cooperation within the European Union – represented by the completion of the Common Market, the admission of new EU members and the preparatory steps for EMU – on the one hand and the opening of the former communist bloc on the other, marked by the continuing transition of these countries to a market system and their political rapprochement to the West. Austria's economy had to adapt to the ensuing changes in the international environment and the subsequent increase in international competition. Hence Austria responded by further intensifying economic integration with its main trading partners in Western Europe and by taking advantage of the opportunities offered in the neighboring countries to the East.

The present discussion of the stepped-up integration of the world economy, summarized by the term "globalization," indicates that international trade is no longer the only channel through which to foster internationalization. Today market maintenance and the international division of labor is influenced more and more by crossborder investments. As Austria's economy has already entered the stage at which foreign direct investment (FDI) has become significant on the inflow as well as on the outflow side, the following discussion of Austria's integration with the Central and Eastern European Countries (CEECs)[2]) in the recent past will concentrate on the role of FDI.

The CEECs in transition have high expectations about the possible benefits of foreign capital inflows, as FDI inflows are assumed to be accompanied by a transfer of technology, research capacity and management know-how. Theoretically, FDI inflows augment economic growth by promoting capital accumulation and by raising overall productivity and efficiency in the host country, either directly via the affiliate or indirectly via increased competition in the industry of the direct investment enterprise (see the discussion summarized in Stankovsky, 1995 and 1996a). UNCTAD (1997) also stresses the important role FDI can play in the restructuring and privatization of state-owned enterprises. While transnational corporations (TNCs) in general have helped to increase competition by exposing production in the host countries to the world market, there are also instances in which investment by multinationals stifled competition (e.g. when TNCs are attracted by special incentives or when they exploit monopoly situations).

A recent study (Hunya, 1997) claims that several of the abovementioned positive effects can be empirically validated: Direct investment enterprises in the CEECs are found to have above-average productivity, are more export-oriented and invest significantly more than domestic firms. However, foreign affiliates are more import-dependent than domestic companies. Any assessment of the extent to which positive expectations about the impact of FDI have already been fulfilled would go beyond the scope of this study. However, an analysis of available data on the dynamics of Austrian FDI activities during the past years may provide some insights into the effects such crossborder investment has had on the structure of the Austrian economy.

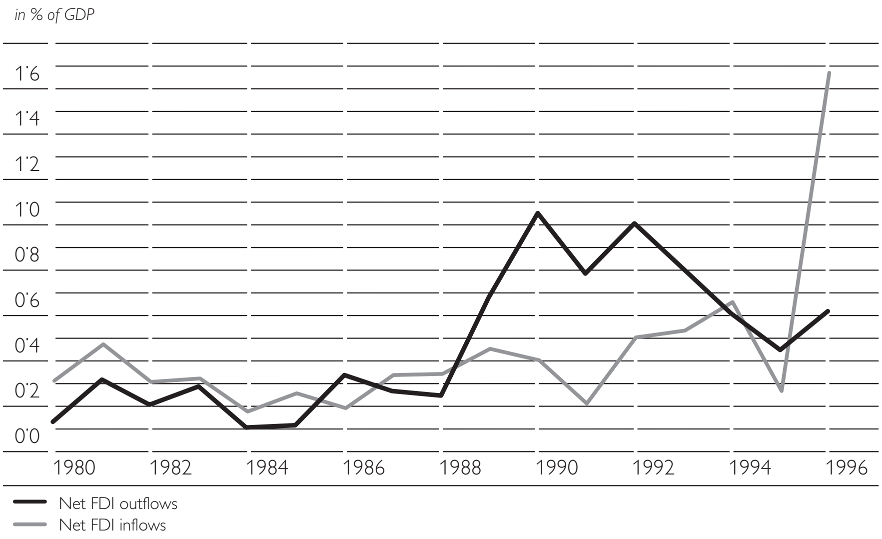
2 FDI and Austrian Internationalization Efforts

2.1 The Regional Structure of Austrian FDI

In parallel to a world-wide boom of FDI at the end of the 1980s, Austria's FDI activities abroad skyrocketed (Chart 1). Between 1989 and 1993 outward-directed FDI (referred to as ODI) increased to 0.8% to 1% of GDP, exceeding inward-directed FDI flows (called IDI). In parallel, average annual capital inflows in the 1990s have so far been significantly higher than in the decade before, with an extraordinary peak in 1996. This development illustrates a transition of Austria's economy from the function of a mere sales market and production site for foreign transnational corporations to that of an active participant in this type of international integration.

Chart 1

Austrian FDI Inflows and Outflows



Crossborder investments in Austria were traditionally dominated by acquisitions in and from the EU and other Western industrialized countries. However, the opening up of the CEECs significantly influenced the development of Austria's FDI outflows. Austria's geographical closeness and the historical relationship to this region, as reflected inter alia by the popularity of domestic brands in Eastern Europe, gave Austrian enterprises a strategic edge: They were among the first Western investors to take advantage of the opportunity presented by the new production and sales market. Since 1990 at least 23% of Austrian FDI outflows have been directed towards the CEECs; in 1995 they even surpassed Austria's direct investment in the EU (Table 1). Interestingly enough, Austria's information lead made it a connection platform for international FDI to Eastern Europe, especially at the beginning of transition.

The consequences of this development for outward and inward equity stocks are shown in Chart 2. From the beginning of the 1990s the relative share of Austrian FDI in the CEECs in total Austrian nominal capital expanded steadily. In parallel, the share of total Austrian investment in the EU decreased. In 1994, however, the two opposite trends came to an end, which again indicates the importance of cooperation and integration within the EU Common Market. A slight upward trend in the share of the total stock of inward FDI from the EU to Austria can be observed in the same period.[3])

Table 1

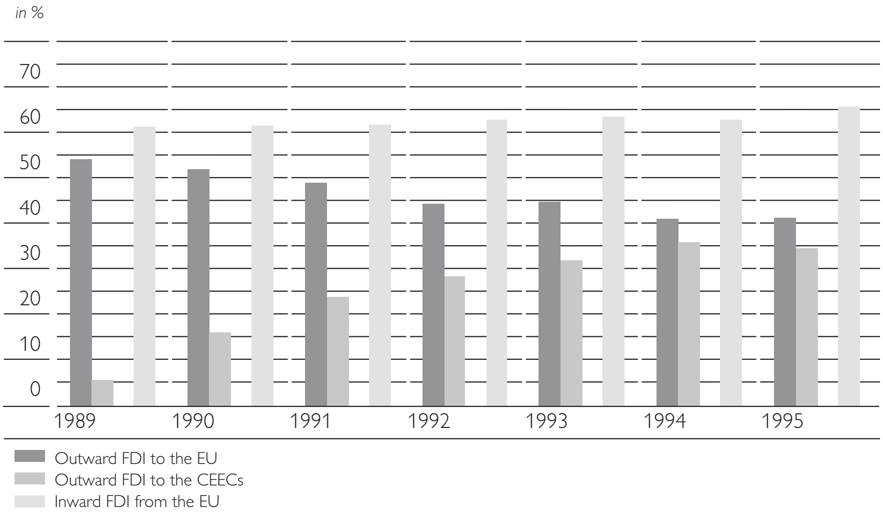
Austrian FDI Outflows

	1991	1992	1993	1994	1995	1996[1])	1997 1st half[2])
	ATS billion						
Total net FDI outflows	15.0	20.6	17.1	13.7	10.5	14.9	5.7
EU 15	8.1	13.1	6.5	5.9	3.5	4.8	1.4
	54%	*64%*	*38%*	*43%*	*33%*	*32%*	*25%*
Other Europe[3])	−1.9	0.1	1.7	0.9	0.1	3.0	0.6
	−13%	*1%*	*10%*	*7%*	*1%*	*20%*	*10%*
CEECs	5.9	5.0	6.0	5.2	6.2	3.5	3.3
	39%	*24%*	*35%*	*38%*	*59%*	*24%*	*57%*
thereof:							
Hungary	*4.4*	*3.2*	*2.9*	*1.9*	*3.0*	*1.3*	*0.7*
Slovakia	..	..	*0.3*	*0.6*	*0.6*	*0.5*	*0.2*
Czech Republic	..	..	*2.2*	*1.8*	*1.3*	*0.6*	*0.3*
Czechoslovakia[4])	*1.1*	*1.4*	*2.5*	*2.4*	*1.9*	*1.0*	*0.6*
Slovenia	..	*0.1*	*0.5*	*0.3*	*0.4*	*0.4*	*0.1*
Poland	*0.3*	*0.2*	*0.1*	*0.1*	*0.9*	*0.5*	*0.8*
Other countries	2.9	2.4	2.9	1.7	0.7	3.6	0.5
	19%	*11%*	*17%*	*12%*	*7%*	*24%*	*8%*

Source: OeNB, Balance of Payments.
1) Provisional revised figures.
2) Provisional figures.
3) Including Iceland, Malta, Turkey and Cyprus.
4) As of 1993, Slovakia and the Czech Republic.

Chart 2

Stock of Inward and Outward FDI Nominal Capital by Regions



2.2 Total FDI Inflows into the CEECs

The regional distribution of FDI outflows shows that from the beginning, Austrian investors' activities in the CEECs concentrated on the immediate neighbors, above all Hungary. This strategy broadly coincided with the preferences of other international investors. According to the WIIW data base,[4]) in 1990 Hungary, the former CSFR, Poland and Slovenia accounted for more than two thirds of the overall inflows into this region, a ratio that decreased only little over the years (Table 2). As total FDI inflows into the CEECs grew much faster than Austria's FDI outflows did (the former averaged over 50% between 1990 and 1995 while the latter rose by less than 10%, Austria's share in total FDI inflows to this region decreased dramatically over time [Stankovsky, 1996b]). In 1990 Austria accounted for one third of total inflows, a share which contracted to just 6% in 1995. Broken down by countries, this is true of all major destinations except Slovakia; here Austria still accounted for 30% of all FDI inflows in 1996. As a consequence Austria's share of the growing overall stock of FDI in the CEECs was halved between 1994 and 1996.

The dramatic expansion of FDI inflows into the CEECs that started in 1989, however, seems to have come to an end now, as the decrease in 1996 indicates. UNCTAD (1997) pinpoints this partly to a decline in privatization-related investments, but another reason is that the CEECs still face major problems in their transition to a market system. It is also argued that investors reduced their expectations because it turned out that the former promising advantage of a cheap and skilled workforce in this region frequently had the downside of a lack of logistical or management skills.

Table 2

Austrian FDI Market Share in Total Inflows to CEE Countries

	Flows							Stocks		
	1990	1991	1992	1993	1994	1995	1996	1994	1995	1996
	USD million									
Austrian FDI outflows	1,663	1,288	1,871	1,467	1,201	1,043	1,409	9,301	11,643	11,906
Hungary	900	1,700	1,641	2,550	1,300	4,570	2,100	7,095	11,926	14,690
market share in total inflows	*39.1%*	*22.2%*	*17.7%*	*9.8%*	*12.8%*	*6.4%*	*6.1%*	*22.5%*	*13.3%*	*10.7%*
Czech Republic	..	..	..	654	869	2,562	1,428	3,077	5,797	7,061
market share in total inflows	..	..	..	*28.9%*	*18.1%*	*5.0%*	*4.0%*	*25.5%*	*17.0%*	*13.6%*
Slovakia	..	..	..	135	185	181	154	531	728	920
market share in total inflows	..	..	..	*19.1%*	*28.4%*	*32.9%*	*30.7%*	*29.6%*	*28.4%*	*23.0%*
Czechoslovakia[1])	112	494	1,155	789	1,054	2,743	1,582	3,608	6,525	7,981
market share in total inflows	*15.7%*	*19.1%*	*11.0%*	*(27.2%)*	*(19.9%)*	*(6.9%)*	*(6.6%)*	*(26.1%)*	*(18.3%)*	*(14.7%)*
Slovenia	..	..	165	139	321	367	350	724	600	786
market share in total inflows	..	..	*5.5%*	*30.9%*	*8.2%*	*10.8%*	*10.8%*	*20.6%*	*42.4%*	*33.0%*
Poland	77	247	900	1,479	1,342	2,511	4,000	1,521	2,655	5,396
market share in total inflows	*0.0%*	*10.4%*	*2.0%*	*0.6%*	*0.7%*	*3.6%*	*1.2%*	*6.9%*	*6.5%*	*3.3%*
Total	1,089	2,441	3,861	4,957	4,017	10,191	8,032	12,948	21,706	28,853
market share in total inflows	*33.9%*	*20.7%*	*12.5%*	*10.1%*	*10.5%*	*6.0%*	*3.5%*	*20.4%*	*13.6%*	*10.1%*
CEEC total	1,521	3,236	5,170	7,615	7,540	13,780	12,437	18,815	31,332	42,984
market share in total inflows	*24.3%*	*15.6%*	*8.8%*	*6.8%*	*6.0%*	*4.5%*	*2.7%*	*15.6%*	*10.6%*	*7.8%*

Source: OeNB, WIIW.
1) As of 1993, Slovakia and the Czech Republic.

2.3 Aspects of East-West Integration

Although the figures discussed above reveal the scale of integration of the CEECs into Austria's network of international cooperation, one cannot ignore the fact that Austria's internationalization efforts are predominantly oriented towards its traditional trade partners in the OECD. In spite of the unique historical setting which evolved Austrian investors' priorities lie in the West because the main economic policy objective is the completion of the Common Market.

Having said that, another dimension must be taken into account in the analysis of FDI flows. Austria is a small economy with currently only few domestic TNCs. A great deal of Austria's FDI abroad is in fact carried out by enterprises which are in turn subsidiaries of foreign investors or TNCs. Especially in the case of FDI in the CEECs, the investments of these multinational corporations represent cases where Austria serves as a bridgehead to the East for these companies. Austrian investments held by investors who are themselves partly or totally owned by foreign companies will be labeled "partly non-Austrian-owned" below. (Wherever the Austrian enterprise is in fact a 100% foreign-owned subsidiary, this "partly-non-Austrian-owned" investment represents an FDI enterprise that is fully controlled by non-Austrian investors.)

Table 3 gives an overview of the proportion of Austrian nominal stock abroad that is partly non-Austrian-owned. In 1989, at the beginning of the Austrian FDI outflow boom, the total share of this type of investment had come to about 20%; after a slump in 1992 to 1993 it increased to almost

Table 3

Partly Non-Austrian-Owned Outward FDI, by Regions

	EU	*thereof Germany*	CEECs	*thereof Hungary*	Total
	ATS billion				
Austrian outward nominal FDI stock					
1989	9.13	*5.47*	0.99	*0.66*	16.80
1990	14.82	*6.99*	4.59	*3.46*	28.37
1991	18.95	*8.08*	9.28	*7.14*	38.45
1992	20.26	*8.96*	12.96	*9.44*	45.36
1993	27.21	*9.64*	19.38	*12.18*	60.43
1994	26.44	*9.52*	23.20	*12.18*	64.17
1995	29.67	*11.36*	24.91	*11.54*	71.44
thereof partly non-Austrian-owned outward nominal FDI stock					
1989	1.86	*0.90*	0.40	*0.21*	3.64
1990	3.17	*1.30*	1.77	*1.28*	6.63
1991	3.69	*1.17*	4.39	*3.49*	9.33
1992	3.64	*1.17*	4.30	*3.38*	9.23
1993	6.59	*1.15*	5.43	*3.00*	13.38
1994	10.14	*2.23*	6.52	*3.16*	18.41
1995	11.98	*2.54*	6.42	*2.31*	20.30
	in percent				
Percentage share of partly non-Austrian-owned outward nominal FDI stock					
1989	20.4	*16.5*	40.1	*32.3*	21.6
1990	21.4	*18.6*	38.7	*36.9*	23.4
1991	19.5	*14.5*	47.3	*48.8*	24.3
1992	18.0	*13.0*	33.1	*35.8*	20.4
1993	24.2	*11.9*	28.0	*24.6*	22.1
1994	38.3	*23.4*	28.1	*25.9*	28.7
1995	40.4	*22.3*	25.8	*20.1*	28.4

Source: OeNB.

30% at the end of 1995. As expected, this partly non-Austrian-owned ODI has a special role in FDI stocks in the CEECs. The fact that between 1989 and 1991 from 40% to almost 50% of all ODI in the CEECs fell into this group (one third to almost one half in Hungary) clearly stresses the importance of this investment channel. Since 1993, however, the share of this indirect investment has been decreasing, which might indicate two developments: First, multinational firms have started to invest directly in countries which used to be entered via the bridgehead Austria and second, Austrian FDI in the CEECs has become controlled more and more by Austrian firms. Interestingly enough, the ODI stock in the EU reveals the reverse trend. The share of partly non-Austrian-owned ODI stock in the EU widened from 20% in 1989 to 40% in 1995. Privatization in Austrian industry represented the driving force behind this development, especially behind the sharp rise in 1994, as the privatized companies either had or subsequently acquired subsidiaries abroad.

It can be argued that the analysis of stock data over time is biased, as the results tend to reflect the dominance of the majority of investments that already existed in previous periods. More in sights into underlying trends can be drawn from the separate analysis of new FDI in a period. Table 4 provides a closer look at the role of Austrian investors which are (partly) foreign-

Table 4

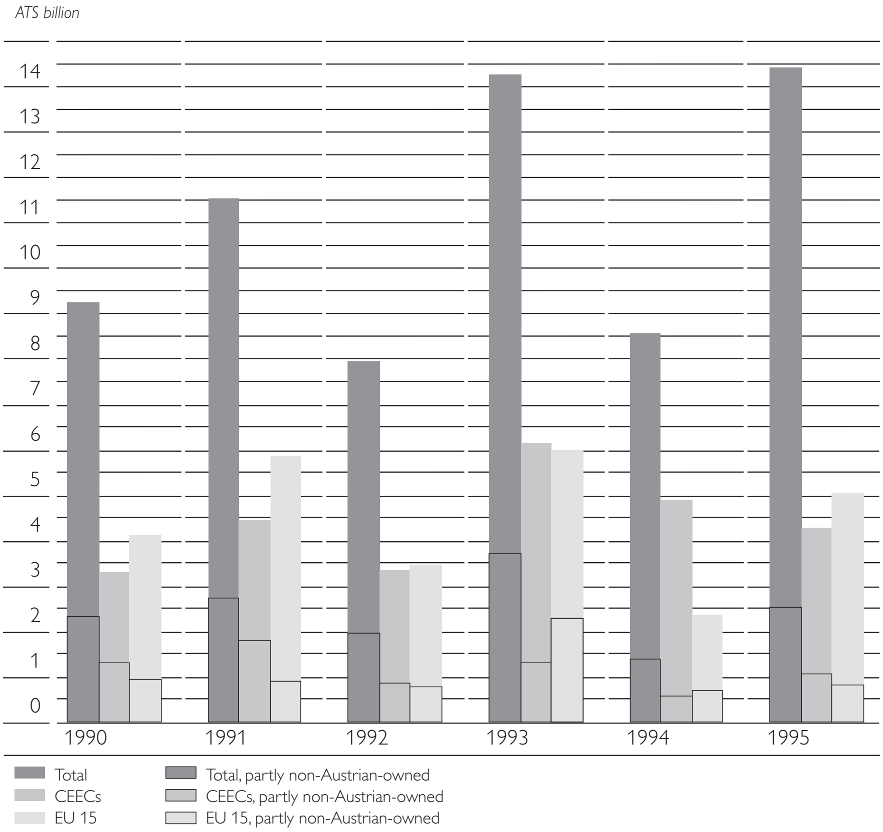
New Outward-Directed FDI Relationships

	1990	1991	1992	1993	1994	1995	Median 1990–1995
Total							
Number of new FDI relationships	354	450	340	411	353	411	
thereof partly non-Austrian-owned	*91*	*80*	*70*	*75*	*70*	*75*	
	25.7%	*17.8%*	*20.6%*	*18.2%*	*19.8%*	*18.2%*	*19.0%*
New nominal capital ATS billion	9.379	11.677	8.061	14.445	8.671	14.620	
thereof partly non-Austrian-owned	*2.373*	*2.759*	*1.965*	*3.764*	*1.395*	*2.577*	
	25.3%	*23.6%*	*24.4%*	*26.1%*	*16.1%*	*17.6%*	*24.0%*
CEECs							
Number of new FDI relationships	164	206	174	245	238	206	
thereof partly non-Austrian-owned	*44*	*40*	*40*	*46*	*45*	*46*	
	26.8%	*19.4%*	*23.0%*	*18.8%*	*18.9%*	*22.3%*	*20.9%*
New nominal capital ATS billion	3.360	4.497	3.405	6.232	4.939	4.340	
thereof partly non-Austrian-owned	*1.337*	*1.803*	*887*	*1.325*	*572*	*1.083*	
	39.8%	*40.1%*	*26.0%*	*21.3%*	*11.6%*	*25.0%*	*25.5%*
EU							
Number of new FDI relationships	125	161	109	113	75	132	
thereof partly non-Austrian-owned	*33*	*28*	*17*	*18*	*18*	*15*	
	26.4%	*17.4%*	*15.6%*	*15.9%*	*24.0%*	*11.4%*	*16.7%*
New nominal capital ATS billion	4.185	5.968	3.497	6.065	2.387	5.135	
thereof partly non-Austrian-owned	*935*	*905*	*791*	*2.314*	*708*	*843*	
	22.3%	*15.2%*	*22.6%*	*38.2%*	*29.7%*	*16.4%*	*22.5%*

Source: OeNB.

Chart 3

New Nominal Capital



controlled by examining the structure of new[5]) Austrian investments abroad over time. Between 1991 and 1995 a more or less stable proportion of about 20% of the total number of new Austrian FDI relationships per year were attributable to this type of multinational channeling. Weighted with the stock of nominal capital, the average proportion started at around 25%, with a declining trend. Between 1990 and 1994 the share in new projects in the CEECs reveals the same downward trend, and in 1993 and 1994 the proportion of partly non-Austrian-owned capital in the East was lower than in the EU. In 1995 the structure of new investment was the same as at the beginning of the 1990s, i.e. partly non-Austrian-owned TNCs channeled significantly more new FDI to the CEECs than to the EU (Chart 3).

3 The Structure of Austrian Outward-Directed FDI

3.1 Motives

Investors can pursue different goals by means of crossborder investments. According to Dunning (1993), one can broadly discriminate between the motivation to use resources (raw material, low labor costs, special skills etc.) in the host country, the objective to gain access to sales markets, and the wish to augment the efficiency or to improve the strategic position of a transnational group as a whole.

Table 5

Motives for New FDI Relationships

	New FDI relationships 1990 to 1995			Thereof partly non-Austrian-owned investment relationships		
	Number	*Percentage distribution[1]*		*Number*	*Percentage distribution[1]*	
Total						
Labor cost	78		3.0%	10		1.4%
Taxation	47		1.9%	10		1.4%
Market access	1,659		70.0 %	334		74.0%
Securing of supply sources	60		2.3%	8		2.2%
Other reasons	475		22.3%	99		19.2 %
Sum	2,319	∅ number[2]	382.5	461	∅ number[2]	75
Percentage share of total	100.0			100.0		
CEECs						
Labor cost	69		5.3%	9		2.5%
Taxation	5		0.6%	. .		. .
Market access	848		70.8%	219		84.6%
Securing of supply sources	33		2.4%	4		2.5%
Other reasons	218		20.1%	29		10.8%
Total	1,233	∅ number[2]	206	261	∅ number[2]	45
Percentage share of total	53.2			56.6		
EU 15						
Labor cost	7		1.1 %	1		6.7 %
Taxation	30		3.3 %	6		17.3 %
Market access	508		72.0 %	75		51.8 %
Securing of supply sources	14		1.6 %	. .		. .
Other reasons	156		22.2 %	47		40.6 %
Total	715	∅ number[2]	119	129	∅ number[2]	18
Percentage share of total	30.8			28.0		
Other regions						
Total	371	∅ number[2]	61	71	∅ number[2]	12.5
Percentage share of total	16.0			15.4		

Source: OeNB.
[1]) Median between 1990 and 1995.
[2]) Median of totals between 1990 and 1995.

Table 5 gives an overview of the main motives for new Austrian ODI based on the self-assessment of the investor. The OeNB survey shows that in the period from 1990 to 1995 more than 2,300 new investment relationships were started, 53% of which were in the CEECs and 31% of which were in the EU region. This represents an average number of 380 new investments per year (206 and 119 for the CEECs and the EU respectively). Although 22% of the investors indicated no clear strategy (category "other reasons"), it is obvious that "market access (to secure sales)" is the predominant motive. It is noteworthy that the relative share of investors with this motive in the total sample as well as in the subsample of the CEECs and the EU is practically identical. The only difference between investors' motivation to go East or West is in the category "labor costs"; 5% of the investments in the CEECs versus 1.1% in the EU were driven by the opportunity to make use of cheap labor costs.

The right section of Table 5 shows motives for investment projects that were carried out by Austrian firms which were in turn partly owned by foreign TNCs. Interestingly enough, the distribution of motives behind partly non-Austrian-owned investments is only slightly different from the total sample. The most remarkable deviations of these investments is a higher percentage of "market access" (at the expense of "other reasons"). The differences between East and West within the subsample, however, are clearer: A top share of 85% of multinational enterprises' projects is based on the motive "market access." On the contrary, the reasons for analogous projects in the EU show a very different breakdown, although one must take into account that these results are based on a much smaller number of investments.

3.2 Outward-Directed FDI by Industry

About one third of the total Austrian FDI nominal capital stock abroad is allocated to manufacturing, two thirds to the service sector and only a negligible amount to mining and energy (Table 6).[6]) Petroleum products and chemicals are the largest industry (7.8%), and nonmetallic mineral products, construction, electrical equipment, metal, machinery and food products account for approximately 3% to 4% each. The largest divisions within the service sector are financial intermediation (19.2%) and trade and repair (16.2%). Services, however, include the position business and management consultancy (18.7%), which in turn contains holding companies. As these firms' investments are not necessarily in the service sector, the effective share of manufacturing is presumably higher than indicated. In general, the geographical breakdown reveals a striking similarity in the share that

Table 6

Sectoral Distribution of Outward FDI

	Nominal capital 1995						Share of partly non-Austrian-owned outward FDI (based on nominal capital)		
	CEECs	*thereof partly non-Austrian-owned*	EU 15	*thereof partly non-Austrian-owned*	Total	*thereof partly non-Austrian-owned*	CEECs	EU 15	Total
	ATS billion								
Total	24.91	*6.42*	29.67	*11.98*	71.44	*20.30*			
	Sectoral distribution in percent								
Mining. quarrying and energy	0.7	*1.0*	4.3	*7.1*	2.1	*4.5*	36.5	67.3	60.6
Manufacturing and construction	50.1	*60.5*	30.6	*26.9*	35.0	*36.4*	31.1	35.5	29.6
Food products. beverages and tobacco	8.1	*1.8*	1.7	*0.0*	3.7	*0.6*	5.9	0.0	4.6
Textile products. apparel and leather	1.7	*0.0*	0.6	*1.0*	1.0	*0.8*	0.0	65.5	23.5
Wood and wood products	0.4	*0.0*	2.9	*0.0*	1.4	*0.0*	0.0	0.0	0.0
Paper, publishing and printing	3.8	*1.5*	2.6	*2.0*	2.4	*1.6*	10.1	30.6	19.2
Petroleum products. chemicals and rubber	9.8	*31.4*	7.2	*13.4*	7.8	*18.1*	82.5	74.9	66.2
Other nonmetallic mineral products	9.9	*8.8*	2.1	*0.0*	4.3	*2.8*	22.9	0.0	18.2
Metal products	1.9	*1.3*	4.8	*0.4*	3.1	*0.9*	17.4	3.2	8.6
Machinery and equipment n.e.c.	1.8	*3.6*	3.6	*6.9*	3.1	*5.7*	52.4	76.2	51.7
Electrical and optical equipment	4.3	*4.7*	2.4	*1.7*	3.6	*2.6*	27.8	28.6	20.7
Transport equipment	0.5	*0.7*	0.5	*1.2*	0.4	*0.9*	34.9	98.8	67.9
Manufacturing n.e.c. and recycling	0.9	*0.0*	0.3	*0.3*	0.4	*0.2*	0.0	35.8	9.9
Construction	7.0	*6.6*	1.9	*0.1*	3.7	*2.2*	24.4	2.4	16.3
Services	49.3	*38.5*	65.2	*66.0*	62.9	*59.1*	20.2	40.9	26.7
Trade and repair	16.8	*29.9*	15.2	*15.9*	16.2	*21.4*	45.7	42.4	37.4
Hotels and restaurants	2.2	*0.2*	1.0	*0.0*	1.3	*0.1*	2.6	0.5	1.7
Transport and communications	0.5	*0.0*	0.3	*0.3*	0.6	*0.2*	0.0	34.8	9.3
Financial intermediation	19.2	*5.1*	17.7	*25.9*	19.2	*17.3*	6.8	59.0	25.6
Real estate and business activities	8.6	*1.3*	22.2	*20.6*	18.7	*17.5*	3.8	37.4	26.7
Other services	1.9	*2.1*	8.7	*3.3*	6.9	*2.6*	28.2	15.4	10.9
Total	100.0	*100.0*	100.0	*100.0*	100.0	*100.0*	25.8	40.4	28.4

Source: OeNB.

petroleum products and chemicals, trade and repair, and financial intermediation hold in Western and Eastern host countries. An important difference is that in the CEEC region, a smaller amount of capital is invested via holding companies. This might be an explanation for the larger share of manufacturing in the East (50%) compared to the EU (30%).

The largest differences between the industry classification of partly non-Austrian-owned investments and the total industry distribution can be found in petroleum products and chemicals as well as trade and repair; here indirect non-Austrian ownership is higher. The same is true of partly non-Austrian-owned investments in the CEECs. Interestingly enough, compared to the distribution of total investments in this region, the share of partly non-Austrian capital is much smaller in all other service divisions, especially in business consultancy (i.e. holdings). In the EU, petroleum products and chemicals again account for a higher share of partly non-Austrian ownership than of total investments in the Community. The distribution among service sectors, however, does not differ much between total and partly non-Austrian-owned investments in this region.

The role of partly non-Austrian-owned capital in the individual industries and regions in 1995 is summarized in the right section of Table 6. The relative share of partly non-Austrian-owned investments is high in petroleum products and chemicals, machinery, transport equipment as well as trade and repair. In addition, the figures underline how important partly non-Austrian-owned capital is within Austria's investments in the EU, where it accounts for a total share of 40.4% and is large in almost every industry.

Table 7 provides a crosstabulation showing a breakdown of the investor's business activity (in the home country) by the activity of his investment

Table 7

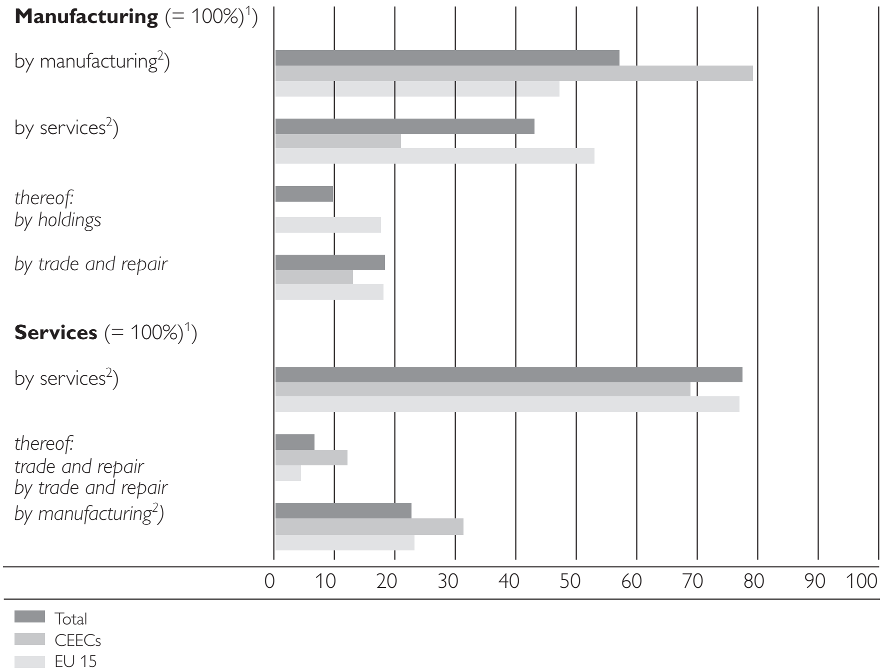
Cross-Sectoral FDI Relationships – Industry of Investor by Industry of FDI Enterprise

	Hungary	Czech Republic	Slovakia	Slovenia	Poland	Other CEECs	Total CEECs	EU 15	Total
	Number of FDI relationships								
Manufacturing	158	*75*	20	*17*	21	*24*	315	279	751
by manufacturing	108	*54*	14	*15*	15	*19*	225	152	456
by services	50	*21*	6	*2*	6	*5*	90	127	295
thereof:									
by holdings	2	. .	. .	. .	. .	. .	2	14	27
by trade and repair	25	*13*	4	*2*	5	*3*	52	89	190
Services	304	*112*	42	*25*	44	*21*	548	311	1,045
by services	195	*94*	37	*21*	30	*18*	395	226	761
thereof:									
trade and repair by trade and repair	*61*	*30*	12	*5*	10	*8*	126	49	189
by manufacturing	109	*18*	5	*4*	14	*3*	153	85	284
Total	462	*187*	62	*42*	65	*45*	863	590	1,796
	Stock of nominal capital (ATS billion)								
Manufacturing	4.14	*3.36*	0.71	*1.32*	0.32	*0.29*	10.14	14.62	30.23
by manufacturing	3.34	*2.87*	0.48	*0.89*	0.30	*0.16*	8.03	6.88	17.24
by services	0.80	*0.49*	0.23	*0.43*	0.02	*0.13*	2.11	7.75	13.00
thereof:									
by holdings	*0.02*	. .	. .	. .	. .	. .	0.02	2.56	2.85
by trade and repair	0.22	*0.45*	0.12	*0.43*	0.02	*0.06*	1.30	2.62	5.52
Services	7.40	*3.87*	1.06	*0.72*	0.93	*0.78*	14.77	15.05	41.20
by services	4.28	*3.18*	1.00	*0.70*	0.67	*0.34*	10.16	11.60	31.94
thereof:									
trade and repair by trade and repair	*0.93*	*0.54*	0.17	*0.03*	0.07	*0.03*	1.77	0.63	2.62
by manufacturing	3.12	*0.69*	0.06	*0.02*	0.27	*0.44*	4.61	3.45	9.26
Total	11.54	*7.23*	1.77	*2.04*	1.26	*1.07*	24.91	29.67	71.44

Chart 4

Industry of Investor by Industry of Investment Enterprise

Share of total invested nominal capital



1) Industry of investor.
2) Industry of FDI enterprise.

enterprise (in the host country). Investors with subsidiaries in the CEECs who are originally based in manufacturing hold the vast majority of their assets in the CEECs in subsidiaries in manufacturing, whereas in the EU more than 50% of manufacturing-based investors' nominal capital is invested in the service sector (Chart 4). The combination of manufacturing by trade and repair accounts for 12% of investments in the CEECs and 18% of investments in the EU respectively. As trade and repair are obviously not capital-intensive branches, the relative share of this type of investment increases to 23% in the CEECs and 16% in the EU, when based on the number of projects.

There are only minor differences between East and West in the industry mix of service companies' investments. 70% to 80% of their capital is again allocated to the service sectors of the host countries. When the relation is based on the number of projects, manufacturers' investment in services is in fact identical in the CEECs and in the EU.

3.3 Outward-Directed FDI and Trade

One striking consequence of the opening of the CEE countries was the stimulation of Austria's foreign trade with this region. Although the rapid growth of Austrian exports was gradually followed by an increase of imports, Austria managed to achieve a considerable trade surplus with its neighboring countries. This surplus rose from approximately ATS 4 billion to ATS 16 billion between 1990 and 1995.

The links between foreign trade and FDI can be diverse: First, companies consider FDI a strategy to strengthen their market position abroad – and consequently their exports – by establishing channels of distribution via foreign affiliates. Second, vertical integration, i.e. the outsourcing of production steps to affiliates abroad, can have a positive or a negative impact on foreign trade: Either the market share in the host country is increased, which subsequently induces more imports (of semi-finished goods) from the investing company, or production and direct sales abroad simply become a substitute for exports.

Chart 5.1 shows the booming exports to Austria's neighbors Hungary, the Czech Republic, Slovakia and Slovenia. In parallel, the intrafirm exports of companies which have affiliates in this region also posted significant growth. Consequently, between 1992 and 1995 exports within transnational groups reached a constant annual share of approximately 10% of total exports. A breakdown by countries (Table 8) illustrates the dominance of Hungary (ATS 2.3 billion to ATS 2.5 billion), although the intrafirm exports to affiliates in the Czech Republic also came to almost ATS 2 billion. During the same period total imports from Hungary, the Czech Republic, Slovakia and Slovenia within TNCs were boosted (Chart 5.2). In 1995, 5% of Austria's total imports from these countries were attributable to intrafirm trade.

The analysis of the aggregate data does not allow an ultimate statement on the net effect of ODI in the CEECs on Austrian exports. What may be stated decisively, however, is that the view that Austria's FDI activities in the

Table 8

Austrian Foreign Trade and Intrafirm Trade with CEE Countries

	Exports							Imports						
	1989	1990	1991	1992	1993	1994	1995	1989	1990	1991	1992	1993	1994	1995
	ATS billion													
Intrafirm trade														
Hungary	0.2	0.3	1.0	2.5	2.7	2.6	2.3	0.0	0.1	0.3	0.3	0.4	0.6	1.0
Czech Republic	0.1	0.2	0.2	0.3	0.5	1.4	1.6	0.0	0.0	0.0	0.1	0.2	0.4	0.4
Slovakia	..	0.0	0.0	0.1	0.2	0.3	0.3		0.0	0.0	0.0	0.0	0.1	0.1
Czechoslovakia[1])	0.1	0.2	0.2	0.4	0.7	1.6	1.8	0.0	0.0	0.0	0.1	0.2	0.5	0.5
Slovenia	0.6	0.6	0.7	0.6	0.6	0.5	0.7	0.6	0.7	0.7	0.8	1.0	0.6	0.9
Poland	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Other CEECs	0.1	0.2	0.2	0.3	0.3	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total CEECs	1.0	1.3	2.1	3.8	4.3	5.0	5.1	0.6	0.9	1.0	1.3	1.6	1.8	2.6
Index	*73*	*100*	*164*	*293*	*329*	*383*	*388*	*75*	*100*	*114*	*149*	*188*	*208*	*300*
Total Austrian trade														
Hungary	8.7	10.5	14.5	15.6	16.5	20.0	21.1	7.8	8.7	11.5	12.0	10.8	12.8	12.6
Czech Republic	..	..	..	..	11.3	13.4	15.9	..	..	..	..	9.1	11.3	12.6
Slovakia	..	..	..	..	4.1	4.5	5.7	..	..	..	..	3.1	4.1	5.3
Czechoslovakia[1])	5.0	8.6	9.2	13.8	15.4	17.9	21.6	6.7	6.4	7.4	11.1	12.3	15.4	17.9
Slovenia	..	..	..	5.6	6.8	8.0	9.8	..	..	..	3.0	3.4	4.1	5.3
Total	13.7	19.1	23.7	35.0	38.8	46.0	52.5	14.6	15.1	18.9	26.0	26.5	32.3	35.8
Index	*72*	*100*	*124*	*183*	*203*	*240*	*275*	*96*	*100*	*125*	*172*	*175*	*213*	*236*
	percent													
Share of intrafirm trade in total trade with														
Hungary, the Czech Republic, Slovakia and Slovenia	..	..	..	10.2	10.2	10.3	9.2	..	..	..	4.8	6.1	5.3	6.8
Hungary, the Czech Republic and Slovakia	1.8	2.8	5.2	10.0	10.5	11.3	9.7	0.1	0.5	1.5	1.9	2.7	3.8	5.1

Source: OeNB.

[1]) As of 1993 Slovakia and the Czech Republic.

East had an overall negative impact on Austria's exports is not borne out by facts, at least not by the data for the period until the end of 1995, for several reasons: The steady expansion of deliveries (and the trade surplus) was accompanied by strong ODI, a considerable share of internal trade within TNCs has developed, and market access represented the predominant motive for investment in the CEECs.

Chart 5.1

Austrian Exports to the CEECs

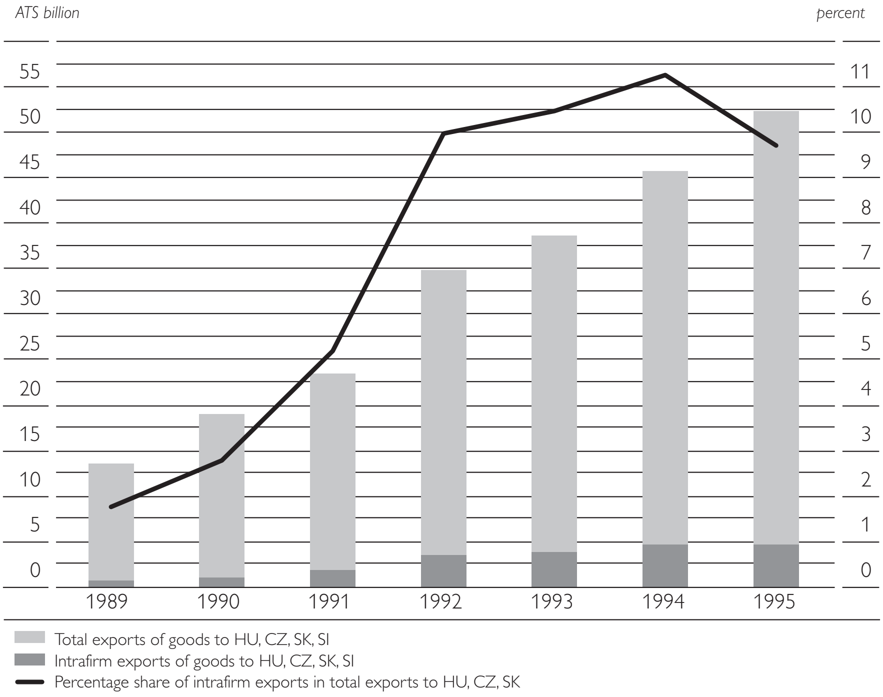


Chart 5.2

Austrian Imports from the CEECs

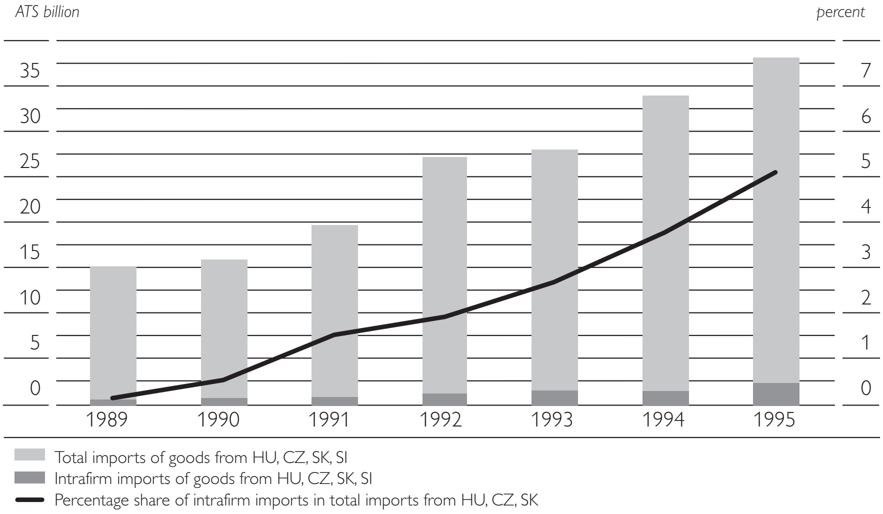


Table 9

Outward-Directed FDI and Employment

	1989	1990	1991	1992	1993	1994	1995
	1,000						
Number of employees outside Austria							
Hungary	2.0	7.5	20.1	24.8	33.2	39.2	44.2
Czech Republic	0.1	0.8	1.2	4.2	10.6	15.7	22.0
Slovakia		0.0	0.7	1.6	2.1	3.0	3.6
Czechoslovakia[1])	0.1	0.8	1.9	5.8	12.6	18.7	25.6
Slovenia	0.4	1.6	1.5	1.8	2.0	2.1	2.6
Poland	0.0	0.1	0.4	0.4	1.0	1.9	2.6
Other CEECs	0.3	0.7	0.7	0.7	1.5	3.2	3.1
CEECs total	2.8	10.8	24.7	33.5	50.3	65.1	78.0
CEECs[2]) total	2.2	7.2	16.3	23.3	33.5	45.5	55.1
EU 15	19.5	23.9	29.9	29.3	31.7	32.2	35.3
Rest of the world	7.2	9.0	8.5	10.0	8.9	8.7	11.6
Total	29.5	43.6	63.1	72.8	90.9	106.1	125.0
Number of employees in Austria							
CEECs[3])	32.1	70.8	70.3	93.2	162.4	172.3	177.7
CEECs[2])	13.6	30.2	34.2	48.5	60.1	68.7	79.0
Total	222.6	260.8	267.8	346.3	363.5	353.9	346.6
	per 100 employees						
Ratio home to host country employment							
CEECs[3])	9	15	35	36	31	38	44
CEECs[2])	16	24	48	48	56	66	70
Total	13	17	24	21	25	30	36

Source: OeNB.
[1]) As of 1993 Slovakia and the Czech Republic.
[2]) Subsidiaries of investors with investments in the CEECs only.
[3]) Investors with at least one subsidiary in the CEECs.

3.4 Outward-Directed FDI and Employment

One of the key aspects of FDI activity is its effect on employment. From the perspective of a multinational (or at least bilateral) enterprise group, variables like total employment, total labor cost or total turnover affect investment decisions. Problems involved in shifting employment from domestic sites to affiliates abroad or expectations about the establishment of competitive industries in the host country are the focus of attention within national labor market considerations.

As in the analysis of the link between FDI and trade, aggregate employment statistics (Table 9) are not sufficient to validate the hypothesis of a net gain or a net loss of jobs for the Austrian labor market. When the ODI boom set in at the beginning of the 1990s, the total number of employees who work for domestic companies with subsidiaries abroad increased significantly. This is obviously the result of the growing number of investors. When the rate of growth declined in 1994 and 1995, the total number of employees in direct investment companies fell. Although at the moment only a rudimentary gross/net flow statistic can be calculated, there is evidence that this development reflects permanent rationalization measures in the Austrian economy, especially in manufacturing. However, these figures provide no insight about whether Austrian foreign direct investors benefited from streamlining production via their subsidiaries compared to companies without FDI.

The accumulating number of investments resulted in a dramatic expansion of employment in Austrian affiliates abroad. Between 1990 and 1995 the number of employees in direct investment enterprises practically tripled. This net growth is clearly due to new foundations or acquisitions and can be attributed only partly to employment increases in existing direct investment enterprises abroad.

When the number of employees is used as an indicator of the degree of integration via FDI, a regional breakdown reveals clear differences between Austrian FDI in Eastern Europe and in the West. While the number of persons who work for subsidiaries in the East shot up from a negligible amount to almost 80,000 in 1995, the number of employees in the EU merely doubled to a total of 35,000. Within the CEECs, the subsidiaries in Hungary again dominate the picture, accounting for more than half of the total number of employees. The Czech Republic is next with 22,000 employees, while the number of workers in the other CEECs is not significant.

At the end of 1995, 36 persons were employed in the subsidiaries abroad for every 100 employees in Austrian direct investing companies. A breakdown of this result by region cannot be calculated without difficulties. For companies with at least one subsidiary in the CEECs (and at least one elsewhere), the ratio is somewhat smaller (100 to 44), but if only the investors in the CEECs are taken into account, the ratio is even higher (100 to 70).

However, one has to be careful not to jump to conclusions. A closer look at the regional productivity differentials reveals that the turnover per employee is comparatively low wherever the total number of employed persons is high (Table 10). If the productivity of Austrian (manufacturing) subsidiaries in the EU is taken as a proxy for domestic productivity, it turns out that for instance the 80,000 employees in the CEECs in 1995 are approximately as productive as 25,000 or even 20,000 workers in Austria. Another striking finding is that the age of an FDI investment is crucial for the level of efficiency: With the exception of subsidiaries in the CEECs, where the number of "mature" investments has not reached a significant level, cross-border investments older than four years clearly outperform the younger FDI enterprises in terms of productivity.

Table 10

Productivity[1]) of Austrian FDI Enterprises
by Region and Age of Investment

	1989	1990	1991	1992	1993	1994	1995
Total	1.5	1.1	1.0	1.1	1.1	1.1	1.1
less than 5 years	*1.0*	*0.5*	*0.6*	*0.7*	*0.7*	*0.8*	*0.8*
5 years and over	*2.1*	*2.4*	*2.0*	*2.3*	*2.4*	*2.1*	*1.8*
CEECs	0.2	0.2	0.3	0.4	0.4	0.6	0.6
less than 5 years	*0.2*	*0.2*	*0.3*	*0.4*	*0.4*	*0.6*	*0.5*
5 years and over	..	..	..	..	..	*0.6*	*0.6*
EU 15	2.2	2.0	1.7	1.8	2.1	2.2	2.3
less than 5 years	*1.7*	*1.6*	*1.5*	*1.5*	*1.7*	*1.8*	*1.9*
5 years and over	*2.6*	*2.6*	*2.3*	*2.7*	*2.6*	*3.0*	*3.2*
Other regions	1.3	1.2	1.4	1.5	2.0	1.8	1.6
less than 5 years	*1.0*	*0.8*	*1.2*	*1.5*	*1.9*	*1.3*	*1.1*
5 years and over	*1.5*	*1.7*	*1.8*	*1.7*	*2.1*	*2.1*	*2.3*

Source: OeNB.

[1]) Median of turnover per employee in manufacturing (ATS million).

4 Conclusion

Due to Austria's geographical closeness to the CEECs, the transition of these countries to a market system has offered Austria a historic chance to extend its international economic network. If FDI is taken as an indicator of integration, the statistics on investment inflows into the CEECs reflect the important role Austria's economy played in augmenting capital inflows into its neighboring countries especially at the beginning of the 1990s. Since then the Austrian share in total FDI inflows into this region has declined steadily, although the CEECs still account for a considerable amount of Austria's FDI outflows. At the same time the Austrian FDI figures indicate a further intensification of integration with Austria's traditional trading partners in the EU, both on the outflow and the inflow side. Another striking consequence is that "Austrian" FDI activities are more and more influenced by strategies of transnational investors who choose Austrian FDI enterprises as gateways for their own investments in East and West.

Intensified economic integration is connected with structural change within the involved economies, both in the countries of origin and in the host countries. The surplus in Austria's trade balance with the CEECs implies that the opening of these markets has so far stimulated Austrian growth and employment. The net effect of Austrian FDI for the domestic and the host economies, however, is not easy to assess. Although specific Austrian industries that face intensive international cost competition (e.g. textiles) made use of the opportunity to shift production sites abroad, the available information does not support the conclusion that so far Austrian ODI has generally been motivated by the wish to take advantage of low labor cost abroad. Much rather the analysis of FDI activities indicates that at least up to 1995, Austrian investors were predominantly driven by the motive to gain access to (new) sales markets.

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1 *Balance of Payments Division of the Oesterreichische Nationalbank. The standard disclaimer applies. I gratefully acknowledge the valuable comments of Michael Andreasch, Wilfried Bach and Eva-Maria Nesvadba.*

2 *Albania, Bosnia and Herzegovina, Belarus, Bulgaria, the Baltic countries, the Czech Republic, Croatia, Moldova, Macedonia, Poland, Romania, Russia, Slovenia, Slovakia, Ukraine and Yugoslavia.*

3 *This trend is even more pronounced when total inward FDI stock (including reinvested earnings) is taken into account (see Focus on Austria 3/1997 of the OeNB).*

4 *The results differ only slightly if other sources, e.g. the UNCTAD data, are used.*

5 *A "new" investment (relationship) in year t is an investment (relationship) that has not been recorded in the statistics in year t–1. Although no detailed checks of whether a "new" relationship in fact represents a mere administrative change of the statistical identifier could be performed, the results in the table are not distorted by the possible bias.*

6 *Since 1995 the industry classification of the OeNB Survey on FDI has been based on the NACE system.*

Editorial close: November 14