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AUSTRIAN FDI IN EASTERN EUROPE

It was not until the late 1980s that Austria began to emerge as an international investor, in the wake of European integration and the "eastern opening". Austrian companies were among the first to exploit the new opportunities available in Eastern Europe after 1989, and to invest in local companies. Drawing on their information bonus, they were able to make better and more rapid assessments of the risks attending to investing capital in Eastern Europe than their competitors. Innovative aid schemes also help to increase the growth of FDI in Eastern Europe.

Foreign direct investment has become a key feature in today's economy. Throughout the 1990s, cross-border investment has been considerably more dynamic than global export (*Stankovsky*, 1998). Even though FDI continues to be the pre-eminent domain of major transnational corporations, smaller companies nevertheless are increasingly apt to make use of cross-border, capital-based co-operation in order to survive and thrive against global competition.

FDI AND THE GLOBAL ECONOMY

Foreign direct investment is a corporate strategy to access and secure new markets and improve its competitive standing. A company will decide to invest abroad in order to boost its long-term profitability. In doing so it must take into account not just the profitability of its foreign operation, but also the effect that its new production facility will have on the profit situation of its other parts (*Dunning*, 1995). Studies of the consequences of FDI on a national economy typically arrive at the conclusion that such investments have mostly positive effects, both on the investing and on the recipient countries (*UNCTAD,* 1994, *Pfaffermayr,* 1996, *Borensztein – De-Gregorio – Lee,* 1995). Several studies nevertheless point to the risk of an excessive dependence on foreign direct investment (*Tichy,* 1997).

INTERNATIONALISING AUSTRIA BY ACTIVE FDI

Austria did not emerge as an international investor until the end of the 1980s (*Federal Ministry of Economic Affairs*, 1996). It was mainly two factors which drove this novel departure by Austrian companies: the broadening and deepening of Eu-

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Table 1: Austrian FDI, in Eastern Europe and total, 1996

Overview

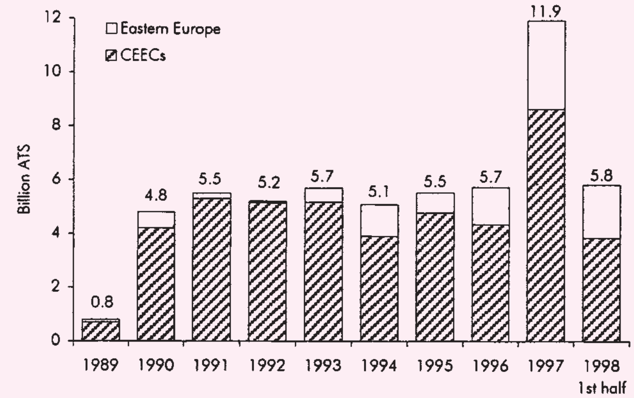
	Eastern Europe	Total	Eastern Europe
	Billion ATS		As a percentage of total FDI
Investment stock			
Nominal capital	29.1	83.2	35.0
Equity capital	32.1	112.6	28.5
Total capital	39.5	136.4	29.0
		Number of subsidiaries	
According to			
Austrian National Bank	866	1,810	47.8
Austrian Federal Economic Chamber	14,401	17,583	81.9
		In thousands	
Workforce[1]	85.4	135.4	63.1
		Number of Austrian parents	
Direct investment	.	897	.
		Billion ATS	
New investment	5.7	20.5	27.9

Source: Austrian National Bank, Austrian Federal Economic Chamber. – [1] Weighted by the Austrian share of the nominal capital.

ropean integration (completion of the "single market"), which caused many Austrian companies to strengthen their position on this critical market; and the "eastern opening" after 1989. Austrian companies were among the first to take up the new opportunities appearing in Eastern Europe and to buy into local companies[1]. Thanks to their better information level, Austrian investors had an edge on their competitors in assessing the risks of committing capital in Eastern Europe. Their long-established contacts were found to be highly useful, especially during the initial phase. The growth of FDI in Eastern Europe was further accelerated by innovative and effective support schemes developed by the FGG's East-West Fund, the ERP Fund, Bürges and the Oesterreichische Kontrollbank (*Stankovsky*, 1995A).

By 1990, Austrian investments in Eastern Europe had already reached a level of ATS 4.8 billion. However, this pace could not be maintained over the next years. Up to 1996, annual FDI ranged from ATS 5 to 6 billion, and it was only in 1997 that a new upswing (ATS 11.9 billion) was recorded, which appears to have continued in 1998 (ATS 5.8 billion in the first six months).

Figure 1: Austrian FDI in Eastern Europe: inflows



Initial estimates assumed a very high capital requirement to restructure Eastern Europe, much of which was to be covered by private FDI (*Handler – Steinherr,* 1992, *Handler – Kramer – Stankovsky,* 1992). Reality fell far short of such expectations, but the flow of investments into Eastern Europe, especially into the successful transformation countries, continued to swell at a steady rate (*Hunya – Stankovsky,* 1998). Hampered by its limited economic power, Austria could not quite keep pace, and its investors lost considerable ground in Eastern Europe. Austrian FDI in the region stagnated during the first half of the 1990s, in terms of value, and Austria's Eastern position deteriorated accordingly. Several reasons have been forwarded to explain why Austria began to lag behind: Austria's inadequate financial clout, less emphasis on investment promotion, the tendency of Eastern European headquarters of multinationals to bypass Austria when investing in the CEECs, and weaknesses in the Austrian service industries (such as the lack of high-capacity telecoms providers while industry was privatised in the East). The assumption that Austrian companies concentrated on the EU is not corroborated by statistics[2].

AUSTRIAN FDI IN EASTERN EUROPE

In 1996, Austrian companies operated altogether 866 subsidiaries in Eastern Europe, in which they had invested ATS 39.5 billion (total capital; ATS 29.1 billion in nominal capital). These subsidiaries employed a workforce of 85,400[3]. The data are based on surveys by the Austrian National Bank which cover only "major" investments (for details see the annex). Actually, the number of Austrian

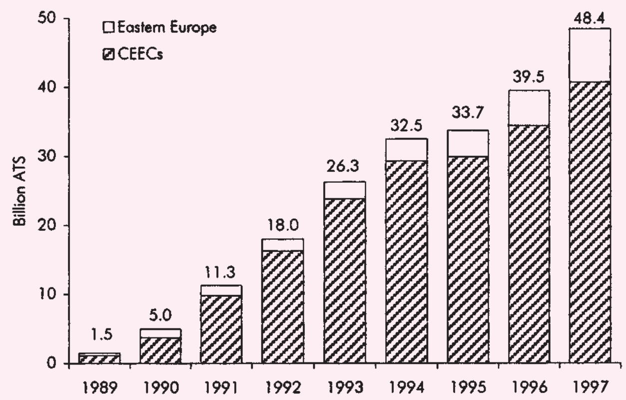
[1] In some Eastern European countries equity participation was already permitted by the communist regimes (i.a., in former Yugoslavia, Romania and Hungary), but was usually restricted to minority stakes ("joint ventures") and was mostly of the experimental kind.

[2] Between the early and mid 1990s, Austria's FDI in the European Union shrank to almost half the previous rate.

[3] Weighted by the Austrian share in the nominal capital.

Figure 2: Austrian FDI in Eastern Europe: stocks

Total capital



economic entities (operations) in Eastern Europe is much greater: the Austrian Federal Economic Chamber arrives at a total of 14,401 (Table 1). In 1996, new investments by Austrian companies in Eastern Europe totalled ATS 5.7 billion.

A FOOTHOLD IN EASTERN EUROPE SINCE 1990

A few Austrian companies had acquired stakes in Eastern Europe already before the East was opened up in 1989 (mostly in former Yugoslavia: ATS 0.1 billion in 1988). Liberalisation in Eastern Europe, which initially met with cautious responses at international level, was immediately exploited by Austria: in 1990, Austrian companies invested ATS 4.8 billion in Eastern Europe. The rapid pace could not, however, be maintained over the next years, and until 1996, investments (with some fluctuations) accounted for some ATS 5 to 6 billion annually (Figures 1 and 2). It wasn't until 1997 that a new peak was recorded (ATS 11.9 billion), which appears to have continued in 1998[4]: in the first six months of 1998, Austrian investments in Eastern Europe amounted to ATS 5.8 billion.

The stock of Austrian FDI in Eastern Europe grew almost tenfold within seven years: from ATS 5.0 billion in 1990 to ATS 48.4 billion in 1997 (total capital)[5]. Between 1990 and 1994, the stock rose 6.5-fold; between 1994 and 1997, the rise was 1.5-fold.

Eastern European Headquarters in Austria

A substantial proportion of Austrian foreign direct investment is made by Austrian companies that are wholly or partly owned by foreign proprietors. (Classifying capital investment by such companies abroad as Austrian FDI is in line with international rules.) Subsidiaries of multinationals which are located in Austria and make direct investments abroad often operate as "regional headquarters"; those that invest in the CEECs are known as "Eastern European headquarters". WIFO has made extensive studies of this aspect of the degree of internationalisation and appeal offered by Austria as a business location (*Stankovsky – Wolfmayr,* 1996A, *Federal Ministry of Economic Affairs,* 1996). According to a recent study by the Austrian National Bank (*Neudorfer*, 1997), Eastern European headquarters contributed some 40 percent to total Austrian FDI in the East (nominal capital) in the early 1990s; their share declined to 25.8 percent by 1995 and rose again to 29.8 percent in 1996 (the share of regional headquarters in total Austrian FDI increased from 21.6 percent in 1989 to 28.6 percent in 1996). The value of the capital invested by Eastern European headquarters in the CEECs made little headway after 1991, and even stagnated at times. Austria's low investment level, discussed elsewhere, is partly due to the fact that Western multinationals reduced the mediating role of their Austrian operations for capital investments in Eastern Europe. Most of the transnationals are now directly active in Eastern Europe: partly because many obstacles (such as inadequate infrastructure) have since been removed, and partly because Austria has lost its attractiveness as a gateway to the East.

Austrian investors initially focused on Hungary, which offered favourable conditions: in 1990, more than 80 percent of Austrian investment in Eastern Europe flew into Hungary. In 1993, 1994 and 1997, the Czech Republic was an important recipient of Austrian FDI. Austrian investors committed little to Poland until 1996, but made it their main target in 1997, by investing ATS 3 billion[6]. Austrian FDI was relatively high in Slovakia, Slovenia and Croatia. Statistically recorded investments in Russia up to 1996 were negligible. Of the stock of Austrian direct investments in Eastern Europe by the end of 1997, 41 percent were in Hungary, 26 percent in the Czech Republic, 10 percent in Poland, and 7 percent each in Slovakia and

[4] To this figure, portfolio investments must be added, which were ATS 2.8 billion in 1996, and ATS 7.8 billion in 1997.

[5] Annual changes in stock differ from new investments. New investments cumulated between 1988 and 1997 provide for an investment stock of ATS 51.0 billion.

[6] A substantial investment by VA Stahl in the Polish steel industry might have made Austria the number one foreign investor in Poland, but the project fell through due to disputes regarding the restructuring of the Polish steel industry (Der Standard, 19 January 1999).

Table 2: Austrian FDI in Eastern Europe, by countries

Inflows and stocks

	Inflows			Stocks (total capital)			Inflows	Stocks
	1996	1997	1st half 1998	1990	1996	1997[1]	1997	1997
			Billion ATS				As a percentage of FDI in Eastern Europe	
Eastern Europe	*5.7*	*11.9*	*5.8*	*5.0*	*39.5*	*48.4*	*100.0*	*100.0*
CEECs	4.3	8.6	3.8	3.7	34.4	40.7	72.3	84.1
Czech Republic	0.7	2.2	1.4	0.1	11.6	12.5	18.7	25.8
Slovakia	0.8	0.5	0.3	0.0	3.2	3.5	3.9	7.2
Hungary	2.5	3.0	1.7	3.4	17.0	19.7	24.8	40.7
Poland	0.4	3.0	0.5	0.2	2.6	5.0	24.9	10.3
Bulgaria	0.2	0.2	0.0	.	0.1	0.2	1.5	0.4
Romania	0.0	0.6	0.5	.	0.1	0.6	4.9	1.2
Slovenia	0.6	0.5	0.6	0.7	3.6	3.7	3.9	7.6
Croatia	0.4	1.0	0.2		0.8	1.9	8.5	3.9
Former USSR	0.2	1.0	0.6	0.5	0.4	1.3	8.1	2.7
Russia	0.1	0.8	0.5	.	0.3	1.2	6.6	2.5
Ukraine	0.1	0.2	0.1	.		0.0	1.4	0.0
Baltics	0.0	0.0	0.0	.	0.1	0.1	0.1	0.2
10 EU applicants[2]	5.1	9.9	5.0	4.4	38.3	45.2	82.7	93.4
5 first-round candidates[3]	4.2	8.6	4.2	4.4	34.9	40.9	72.4	84.5
Global	20.5	23.8	16.1	45.6	136.4	155.0		

Source: Austrian National Bank. – [1] Estimate by the Austrian National Bank. – [2] Hungary, Poland, Czech Republic, Slovenia, Estonia, Slovakia, Bulgaria, Romania, Latvia, Lithuania. – [3] Hungary, Poland, Czech Republic, Slovenia, Estonia.

Slovenia (Figure 3, Table 2). In the same year, fully 93 percent of FDI stock in Eastern Europe was held in the ten EU applicant states, and 85 percent in the five first-round candidates.

Statistics collected by the Austrian Federal Economic Chamber listed altogether 14,363 Austrian operations in Eastern Europe for 1997, compared to just 921 in 1990. The survey lists even small units (including representative

Figure 3: Major recipients of Austrian FDI in Eastern Europe

As a percentage of FDI by countries

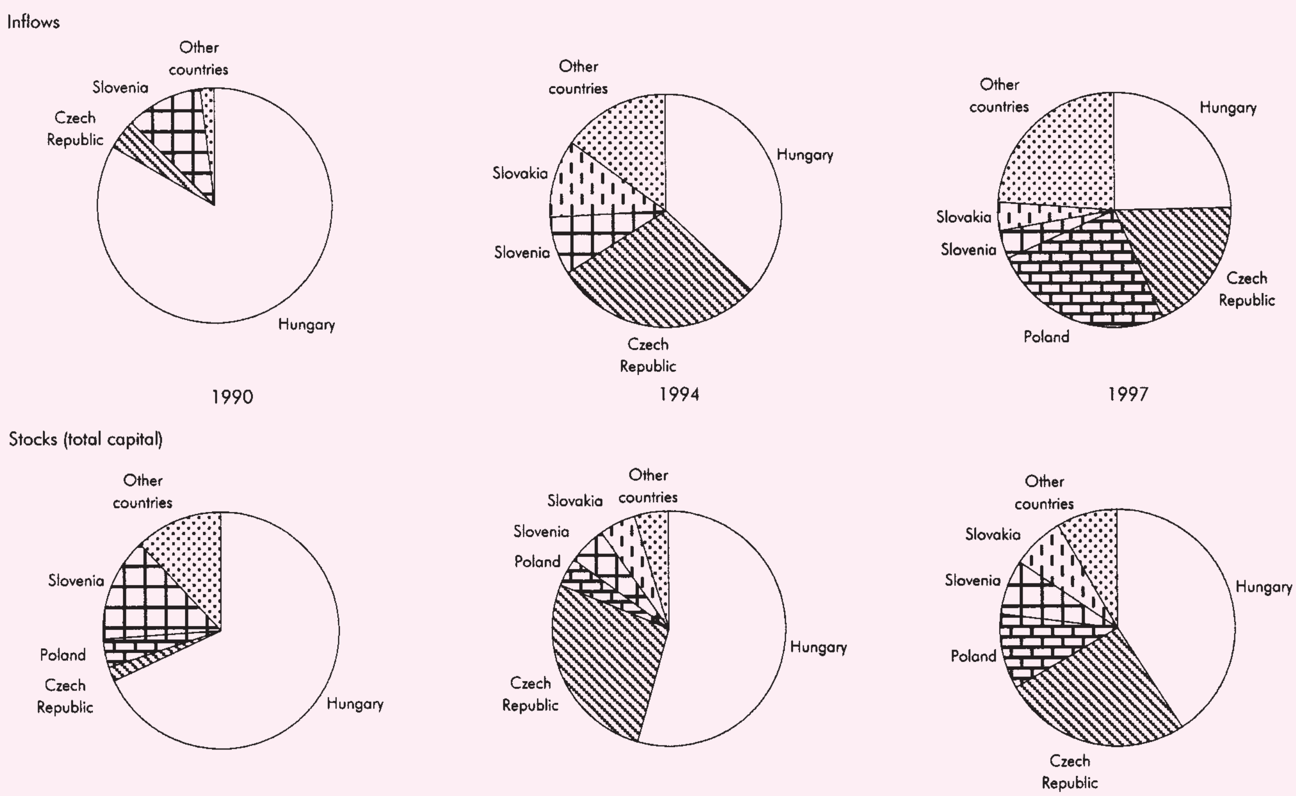


Table 3: Austrian operations in Eastern Europe

	1990	1997	1997
	Number of operations		As a percentage of operations in Eastern Europe
Eastern Europe	*921*[1]	*14,363*	*100.0*
CEECs	612	10,775	75.0
Czech Republic	.	3,200	22.3
Slovakia	.	1,475	10.3
Hungary	490	5,500	38.3
Poland	54	600	4.2
Bulgaria	39	702	4.9
Romania	21	1,198	8.3
Slovenia	.	459	3.2
Croatia	.	159	1.1
Former USSR	167	977	6.8
Estonia	.	21	0.1
Latvia	.	33	0.2
Lithuania	.	28	0.2
Russia	.	579	4.0
Ukraine	.	214	1.5
Belarus	.	69	0.5
Asian CIS	.	33	0.2
10 EU applicants[2]	604	13,216	92.0
5 first-round candidates[3]	544	9,780	68.1
Global	3,412	17,869	

Source: Austrian Federal Economic Chamber. – [1] Of which: Former Yugoslavia: 82. – [2] Hungary, Poland, Czech Republic, Slovenia, Estonia, Slovakia, Bulgaria, Romania, Latvia, Lithuania. – [3] Hungary, Poland, Czech Republic, Slovenia, Estonia.

offices, etc.). In 1997, Austrian companies owned 5,500 operations in Hungary, and the respective figures were 3,200 for the Czech Republic, 1,475 for Slovakia and 579 for Russia. Romania accounted for 1,198 investments. International statistics show that Romania really has a very large number of small and very small foreign investments, most of which are the result of tax breaks (Table 3).

EASTERN MARKET SHARES NOT YET STABILISED

By promptly and boldly seizing the opportunities offered by the eastern opening, Austrian investors were able to secure for themselves an excellent pole position in Eastern Europe. In 1990, 34 percent of all new foreign direct investment in the East was made by Austria. But over the next years, its share dwindled. The decline was especially marked in 1995, since Austria did not participate in the swelling flow of FDI to Eastern Europe. By 1996, the Austrian share had dropped to 3.6 percent. A temporary rise was recorded in 1997, to 4.9 percent, but in the first half of 1998, it was down to 4.0 percent. With regard to FDI stock in the East, the Austrian market share reached its highest level in 1991, at 16.7 percent, and has since declined. It was down to 6.4 percent in 1996, and 5.1 percent in 1997 (Table 4, Figure 4).

Austria's position as an investor in Eastern Europe varies greatly between regions. It is strongest in the CEECs, but has also left its mark in South-Eastern Europe. In 1990, almost half of all new investment in the CEECs, almost 60 percent of investment in Hungary and 16 percent of investment in the Czech Republic originated from Austria. Obviously, the loss of market share in these regions over the next years was thus particularly noticeable: by 1996, Austria contributed just 5 percent. In 1997, its share of new investment grew to 10.7 percent, the consequence mainly of major commitments in Poland and the Czech Republic. In 1998, Austria's position appears to have deteriorated once again, according to the data available so far. While in 1991 the Austrian stock in the CEECs totalled 29 percent, it was just 7.9 percent in 1997.

In *Hungary*, the main target for Austrian FDI, Austria supplied almost 10 percent of all foreign direct investment stock in 1997, which made it the fourth-ranking investor after Germany, the USA and the Netherlands. With regard to new investment in Hungary, Austria held about 12 percent in 1996 and 1997, although Hungarian sources note only 7 and 6 percent, respectively (*Hunya – Stankovsky,*

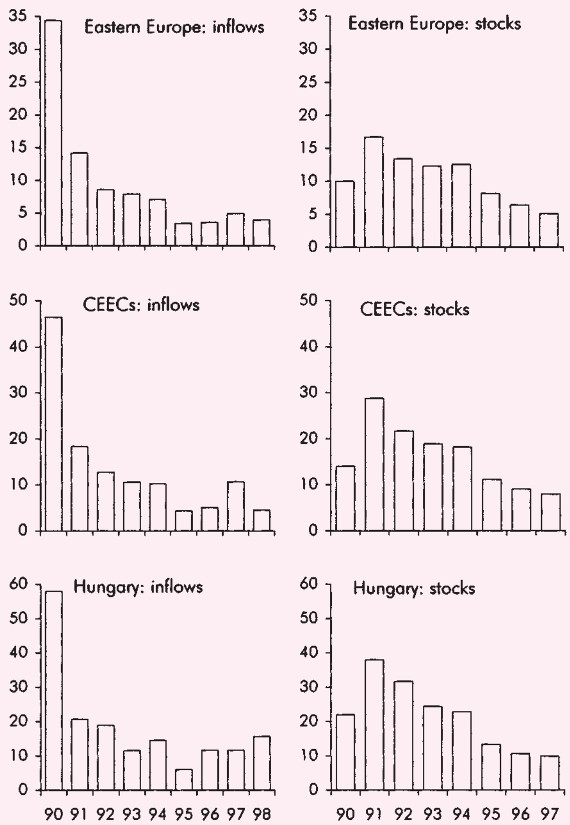
Table 4: Austrian market shares of FDI in Eastern Europe

	Inflows				Stocks				
	1990	1996	1997	1st half 1998	1990	1993	1996	1997	*1997*[1]
	Percentage shares of total FDI in Eastern Europe								
Eastern Europe	*34.38*	*3.57*	*4.93*	*3.95*	*10.03*	*12.28*	*6.41*	*5.08*	
CEECs	46.41	5.02	10.65	4.51	14.03	18.89	9.08	7.93	
Czech Republic	15.71	4.62	14.08	18.03	1.34	22.31	14.98	14.62	*7.3*
Slovakia	.	28.96	22.35	10.17	.	19.42	21.27	18.02	*20.8*
Hungary	57.96	11.65	11.60	15.65	21.93	24.37	10.57	9.82	*10.0*
Poland	.	0.88	7.92	0.74	5.38	2.51	2.10	2.41	*3.7*
Bulgaria	.	13.03	2.90	2.87	0.00	0.00	1.69	1.14	*4.4*
Romania	.		3.91	7.37	0.00	0.00	0.54	1.37	*2.9*
Slovenia	14.24	32.63	11.93	145.88	13.20	13.31	17.17	13.82	*34.3*[2]
Croatia	.	6.45	23.76	2.55	.	4.74	7.59	11.23	*16.3*[3]
Former USSR	.	0.31	0.74	1.28	3.02	1.10	0.21	0.40	
Russia	.	0.52	1.03	3.39	.	1.14	0.36	0.75	*5.5*
Ukraine	.	0.83	2.28	2.63	.	0.00	0.00	.	*2.0*

Source: Austrian National Bank, *Hunya – Stankovsky* (1998), *Helmstedt* (1998). – [1] Based on statistical figures by the respective partner country. – [2] 1996. – [3] *Helmstedt* (1998): 28 percent.

Figure 4: Austrian market shares of FDI in Eastern Europe

In percent



1998: first six months.

1998, *Helmstedt,* 1998A). For the *Czech Republic*, Austrian statistics indicate a share of 14.6 percent of the stock for 1997, which is double that shown by Czech data[7]. The gap appears to be caused by differences in the allocation of investments by Eastern European headquarters in Austria. Based on the Austrian figures, Austria would be the second-largest investor in the Czech Republic; using Czech figures, Austria would rank fifth and sixth, respectively.

Poland did not become a target for Austrian investment until 1997, but in that year FDI from Austria made up almost 8 percent of the total influx. Yet at 2.4 percent, Austria's share of the stock was still negligible in 1997, and Austria ranks only ninth among foreign investors in Poland.

The information edge that Austria once enjoyed is no longer important in the established markets in Eastern Europe, but continues to play a critical role in the "difficult" markets: countries which have so far failed to gain the confidence of Western investors, be it for political reasons (Slovakia, Croatia) and/or for their geographical proximity to trouble spots in the Balkans (Slovenia). In *Slovakia*, Austria's market share of the stock was 18 percent in 1997, second only to Germany's. Up to 1995, Austria was actually the main foreign investor in Slovakia. In *Slovenia*, Austria contributed 13.8 percent of FDI in 1997; according to Slovenian sources, Austria even held 34 percent and was thus the main foreign investor in the country. Of the FDI received by *Croatia*, Austria supplied 11 percent, or 16 percent (28 percent) by local statistical figures, which made it the second largest investor after the USA.

In *Bulgaria* and *Romania*, Austria has not left much of a mark, accumulating an FDI market share of just over 1 percent; national figures are slightly higher. The gap between mirror statistics is substantial with regard to *Russia:* Russian sources list USD 696 million in FDI from Austria, while Austrian figures count only USD 95 million (*Helmstedt*, 1998A). The discrepancy could be partly due to the investment of Russian flight capital which is posted in the Russian books as foreign direct investment from Austria.

Estimates for late 1997 and early 1998 put the Austrian share in total foreign direct investment in Eastern Europe at 6 percent (*Helmstedt,* 1998A, 1998B), which ranks Austria fifth among Western investors. About two thirds of the capital flowing to the East originates in the European Union. The foremost investor is Germany (20 percent), followed by the USA (16 percent), the U.K. and France (7 percent each). Switzerland places sixth before the Netherlands. In the "traditional" markets (CEECs, Slovenia, Croatia), Austria is the fourth-largest investor, with a mar-

Differences in Statistical Figures between Austria and its Partner Countries

Figures on investments flowing from Austria into other countries are published not just by Austria but also by the recipient countries. As is the case with all international "mirror statistics", such data can vary considerably, which may be due to a number of causes, and which will result in different figures for market shares. The market shares referred to in this paper are based on Austrian data. To facilitate comparison, Table 4 provides the market shares for stocks as calculated by the partner countries (*Hunya – Stankovsky*, 1998). Foreign direct investment in Eastern Europe, from Austria and other countries, is documented and analysed in detail in the regular publications issued by the Ministry of Economic Affairs (*Helmstedt*, 1998A).

[7] Austrian direct investment in the Czech Republic in 1997: USD 989 million; direct investment from Austria in the Czech Republic: USD 493 million.

ket share of 8 percent, while in the other Eastern European countries (former USSR, Bulgaria, Romania) it ranks seventh.

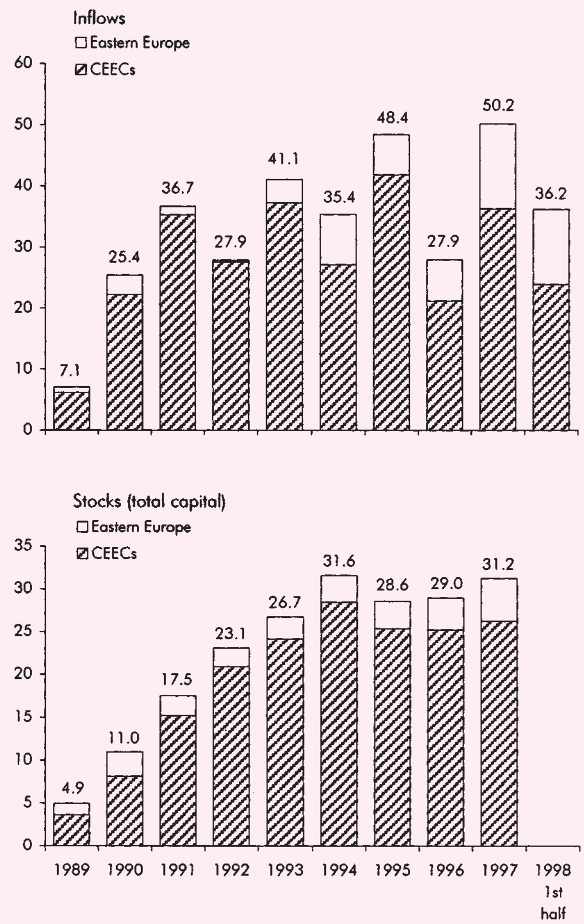
Next to the EU member states, it is the Eastern European countries which are the main targets of foreign direct investment by Austria. Their share of the total new investment by Austria rose from 7 percent in 1989 to 25 to 35 percent in the early 1990s, and by 1997 it had reached the 50 percent threshold. Of the investment stock, Eastern Europe held just below 5 percent in 1989, but has had a share of 30 percent since 1994.

AUSTRIAN SUBSIDIARIES IN EASTERN EUROPE EMPLOY 85,000

Austrian investments in Eastern European companies are made primarily with a view to accessing and developing local markets, and in many cases also for the purpose of moving production. A survey made by the Austrian National Bank of the reasons why Austrian businesses invest abroad found that market access was the main motivation with regard to Hungary, the Czech Republic and Slovenia (75 percent each), while labour cost savings were named by 7 to 10 percent of the companies[8]. Moving production into Eastern Europe must not, however, be viewed as an "export of jobs". As a rule, the Austrian parent will make sure that it remains the chief supplier of components to its foreign subsidiary. By moving the wage-cost-intensive parts of production from Austria to Eastern Europe, a company can make its product more competitive internationally, which in turn secures and creates jobs in Austria as well.

In 1996, Austrian companies employed altogether 135,400 people abroad within the scope of their foreign investment. The number of foreign jobs that depend on Austria grew in the course of the 1990s: it had been just 43,600 in 1990. A major factor in this internationalisation was contributed by the expansion in Eastern Europe: the number of people working for Austrian subsidiaries in the East rose from 10,800 to 85,400; the share of overall foreign employment held by Eastern European countries rose from 25 percent in 1990 to 63 percent in 1996. Added to this are the employees of second-tier subsidiaries, which are estimated to total 34,000, of which 7,000 are em-

Figure 5: Eastern Europe's shares in Austrian FDI



ployed in Eastern Europe. More than half of those employed by Austrian subsidiaries in Eastern Europe are in Hungary, whereas the figure for the Czech Republic is 30 percent (Tables 5 and 6).

Domestic employment by Austrian companies that made direct investments abroad rose between 1990 and 1993 (to 363,500), but has since declined (284,000 in 1996). Domestic employment by Austrian companies that made direct investments in Eastern Europe, on the other hand, grew continuously, from 70,800 in 1990 to 190,400 – another indication that investment in Eastern Europe has a positive effect on domestic employment. The ratio of foreign employees to domestic employees generally increased from 16.7 percent in 1990 to 47.7 percent in 1996, and from 15.3 percent to 44.9 percent, respectively, for investors in Eastern Europe.

In terms of total employment in Austria[9], the ratio of foreign employment in 1990 was 2.0 percent for all Austrian

[8] As to reasons for investing in Eastern Europe see *Stankovsky* (1998).

[9] Excluding agriculture and forestry, government service, draft soldiers and persons eligible for parental leave benefits.

Table 5: Employees of Austrian subsidiaries in Eastern Europe

	1989	1990	1991	1992	1993	1994	1995	1996
				In 1,000				
Employees in foreign subsidiaries[1]								
Eastern Europe	2.8	10.8	24.7	33.5	50.3	65.1	78.0	85.4
Total	29.5	43.6	63.1	72.8	90.9	106.1	125.0	135.4
				Percentage shares of all foreign employees				
Subsidiaries in Eastern Europe	9.5	24.8	39.1	46.0	55.3	61.4	62.4	63.1
				In 1,000				
Workforce of Austrian direct investors employed in Austria								
Investor has subsidiary in Eastern Europe[2]	32.1	70.8	70.3	93.2	162.4	172.3	177.7	190.4
Investor has foreign subsidiary	222.6	260.8	267.8	346.3	363.5	353.9	346.6	284.0
Employees in Austria total[3]	*2,107*	*2,162*	*2,201*	*2,208*	*2,176*	*2,170*	*2,234*	*2,213*
				Ratios				
Employees in foreign subsidiaries as a ratio of domestic workers employed by investors								
Eastern Europe	8.7	15.3	35.1	35.9	31.0	37.8	43.9	44.9
Total	13.3	16.7	23.6	21.0	25.0	30.0	36.1	47.7
Employees in foreign subsidiaries as a ratio to total workforce employed in Austria								
Eastern Europe	0.1	0.5	1.1	1.5	2.3	3.0	3.5	3.9
Total	1.4	2.0	2.9	3.3	4.2	4.9	5.6	6.1

Source: Austrian National Bank; *Neudorfer* (1997). – [1] Weighted by the Austrian share in the nominal capital. – [2] These companies usually have subsidiaries also outside Eastern Europe. Austrian companies which have operations only in Eastern Europe employed 79,000 workers in Austria in 1995. – [3] Excluding agriculture and forestry, government service, draft soldiers and persons eligible for parental leave benefits.

investors, and 0.5 percent for those investing in Eastern Europe, which rose to 6.1 and 3.9 percent, respectively, in 1996.

An interesting addendum to the data assembled by the Austrian National Bank is provided by a poll made by the Gewinn magazine, which found that in 1997 Austrian subsidiaries in Eastern Europe employed a workforce of 114,613. The findings for Hungary and the Czech Republic are similar to those by the Austrian National Bank, while higher numbers were found for Poland and Slovakia. The Gewinn survey also provided data for other Eastern European countries: Austrian companies employed 2,000 in Ukraine, more than 1,000 in the Baltics and exactly 38 in Albania[10] (Table 9).

PRODUCTIVITY IN EASTERN EUROPE AT 25 PERCENT OF EU LEVEL

Austrian subsidiaries in Eastern Europe employed an average of 99 people in 1996. Investment per subsidiary was ATS 45.6 million, capitalisation per employee was ATS 0.46 million. Subsidiaries in Eastern Europe generally employ double the workforce of other countries, while average investment per company and capitalisation per employee are just half as much.

[10] The Gewinn statistics also provide figures at company level: Austria's chief employer in Eastern Europe is McDonald's Central Europe, with 14,875 staff, followed by Meinl International (8,981), Strabag (4,676), Spar (4,083), and Siemens (3,584).

Company benchmarks vary markedly between countries: average investment in Slovenia (ATS 77.4 million) is double that of Poland (ATS 36.2 million). Investment is higher than the average in the Czech Republic, and rather low in Hungary (ATS 40.5 million).

In terms of the workforce, Austrian subsidiaries in the Czech Republic (129 per company) and Hungary (110) are larger than in Slovenia, Slovakia and Poland (60). The differences appear to be due to the time when the investment was first made, and the industry in which it was made. When looking at the average capital resources, we get a different picture: the lowest levels are in Hungary (ATS 0.37 million) and the Czech Republic (ATS 0.46 mil-

Table 6: Employees in Austrian operations in Eastern Europe (subsidiaries, second-tier subsidiaries), by countries, 1996

	Subsidiaries			Second-tier subsidiaries	
	Number of operations	Workforce		Number of operations	Workforce
		Number[1]	Country's percentage shares of total Eastern Europe		Number[1]
Eastern Europe	866	85,420	100.0	.	.
Hungary	420	46,040	53.9	90	4,700
Czech Republic	196	25,200	29.5	33	1,600
Slovenia	47	2,800	3.3	7	200
Slovakia	72	4,470	5.2	.	.
Poland	73	4,230	5.0	.	.
Other Eastern European countries	58	2,680	3.1	.	.
Global	1,810	135,430		756	33,900

Source: Austrian National Bank. – [1] Weighted by the Austrian share in the nominal capital.

Table 7: Benchmarks for Austrian operations in Eastern Europe[1], 1996

	Number of subsidiaries	Capital per operation	Employees per operation	Capital per employee	Productivity[2]
		Million ATS	Number	Million ATS	Million ATS
Eastern Europe	866	46	99	0.46	0.7
Hungary	420	41	110	0.37	.
Czech Republic	196	59	129	0.46	.
Slovenia	47	77	60	1.30	.
Slovakia	72	44	62	0.71	.
Poland	73	36	58	0.62	.
Croatia	20	41	44	0.93	.
Other Eastern European countries	38	16	47	0.34	.
Other countries	944	103	53	1.94	2.1[3]
Global	1,810	75	75	1.01	1.2

Source: Austrian National Bank. – [1] Operations included in the survey of the Austrian National Bank (FDI of more than ATS 1 million, 10 percent minimum share in the business capital). – [2] Sales (median) per employee in manufacturing (*Neudorfer,* 1997). – [3] Average from values for EU (ATS 2.3 million) and non-EU and non-Eastern-European countries (ATS 1.6 million).

lion), the highest in Slovenia (ATS 1.30 million) and Croatia (Table 7). The discrepancy could be explained by the fact that companies in Hungary and the Czech Republic get most of their financial needs from domestic sources, while subsidiaries in other countries continue to depend on financial aid from their parents.

Productivity, in terms of turnover per employee in manufacturing, in the Austrian subsidiaries in Eastern Europe was less than a third the rate achieved in other countries (ATS 0.7 million versus ATS 2.1 million; EU: ATS 2.5 million, third countries: ATS 1.7 million). The crucial contribution made by foreign direct investment to help economies in Eastern Europe to catch up is underlined by the figures for recent years: Austrian subsidiaries in Eastern Europe tripled their productivity between 1990 (ATS 0.2 million) and 1995, while the EU value in the same period rose only from ATS 2.0 million to ATS 2.3 million[11].

Unearned income accruing to Austria from foreign direct investment in Eastern Europe accounted for ATS 1,884 million in 1996, and ATS 2,557 million in 1997 (of which ATS 1,828 million came from Hungary), which translates into a "profitability" (or return on investment) of 5.3 percent (9.3 percent in Hungary) in terms of 1997 stock.

AUSTRIAN INVESTMENTS FOCUS ON SMES

When we break down Austrian subsidiaries in Eastern Europe by *size*, we find that more than 70 percent have fewer than 100 employees; 40.9 percent of the companies actually have a workforce of less than 20; 22.7 percent of the subsidiaries are medium-scale firms (100 to 499 employees); and just 5.4 percent are large enterprises. The latter employ 45 percent of all workers employed in the subsidiaries; 39 percent work in medium-scale firms. Almost two thirds of the capital is invested in medium-scale companies, 18 percent in small firms[12].

Average capitalisation declines with the growth in company size, a principle that similarly applies to all Austrian FDI in general. Large companies in Eastern Europe have capital resources of just ATS 0.2 million per employee; firms with a workforce of 20 to 99 have ATS 0.7 million in capitalisation[13] (Table 8).

Of the 866 operations in Eastern Europe included in the survey by the Austrian National Bank in late 1996, 17.1 percent had been formed in the previous 12 months; 62.2 percent were two to five years old; and only

Table 8: Austrian subsidiaries in Eastern Europe, by size, 1996

	Employment categories				
	Up to 19 employees	20 to 99 employees	100 to 499 employees	More than 500 employees	Total
Number of operations					
Eastern Europe	354	268	197	47	866
Total	892	529	317	72	1,810
	Million ATS				
Total capital					
Eastern Europe	6,974	8,108	16,877	7,519	39,478
Total	66,371	20,557	31,767	17,682	136,377
	Number of employees				
Employees[1]					
Eastern Europe	1,606	11,367	33,632	38,820	85,425
Total	3,817	21,502	53,928	56,183	135,430
	Million ATS				
Capital per employee					
Eastern Europe	4.3	0.7	0.5	0.2	0.5
Total	17.4	1.0	0.6	0.3	1.0
	Percentage shares				
Number of operations					
Eastern Europe	40.9	30.9	22.7	5.4	100.0
Total	49.3	29.2	17.5	4.0	100.0
Percentage shares of Eastern European countries	*39.7*	*50.7*	*62.1*	*65.3*	*47.8*
Total capital					
Eastern Europe	17.7	20.5	42.8	19.0	100.0
Total	48.7	15.1	23.3	13.0	100.0
Percentage shares of Eastern European countries	*10.5*	*39.4*	*53.1*	*42.5*	*28.9*
Employees					
Eastern Europe	1.9	13.3	39.4	45.4	100.0
Total	2.8	15.9	39.8	41.5	100.0
Percentage shares of Eastern European countries	*42.1*	*52.9*	*62.4*	*69.1*	*63.1*

Source: Austrian National Bank. – [1] Weighted by the Austrian share in the nominal capital.

[11] According to *Neudorfer* (1997); no data on turn-over figures by Austrian subsidiaries abroad are included in the generally available publications.

[12] Investments of less than ATS 1 million are not included in the survey made by the Austrian National Bank.

[13] Values for small companies are affected by financial holdings and therefore not conducive to proper interpretation.

Table 9: Austrian FDI in Eastern Europe: alternative data

Employees and turnover

	Austrian National Bank in 1996			Top-Gewinn in 1997		
	Austrian investors	Austrian operations in Eastern Europe	Employees in Austrian subsidiaries in Eastern Europe[1]	Austrian investors	Employees in Austrian subsidiaries in Eastern Europe	Turnover by Austrian subsidiaries in Eastern Europe
			Number			Billion ATS
CEECs	638	761	79,940	836	92,780	100.70
Hungary	337	420	46,040	257	46,408	49.98
Czech Republic	172	196	25,200	276	25,419	27.85
Slovakia	68	72	4,470	173	8,652	10.32
Poland	61	73	4,230	130	12,301	12.55
Slovenia	47	47	2,800	106	3,952	8.04
Croatia	21	20	880	93	2,641	3.52
Former Yugoslavia	.	.	.	28	837	0.15
Bosnia	.	.	.	22	93	0.08
Macedonia	.	.	.	14	399	0.04
Romania	.	.	.	72	3,939	1.00
Bulgaria	.	.	.	55	1,228	0.42
Albania	.	.	.	9	38	0.02
Baltics	8	8	240		1,106	0.32
Estonia	.	.	.	12	305	0.02
Latvia	.	.	.	16	440	0.15
Lithuania	.	.	.	14	361	0.16
Russia	5	5	450	56	1,833	3.04
Ukraine	.	.	.	39	2,239	0.40
Belarus	.	.	.	18	574	0.03
Moldavia	.	.	.	6	137	0.00
Other Eastern European countries[2]		25	1,110		2,817	26.54
Eastern Europe	–	866	85,420	384	114,613	144.30
Global	897	1,810	135,430			

Source: *Austrian National Bank* (1998), *Top-Gewinn* (1998). – [1] Weighted by the Austrian shares in the nominal capital. – [2] No breakdown by countries available. The *Top-Gewinn* statistics (1998) are based on Eastern European turnovers for only 333 companies and Eastern European employees for only 367 companies.

20.7 percent had been around for more than five years. The size, in terms of employment and capital, increases with the age of the investment; capital resources, on the other hand, do not increase: they are the same (ATS 0.5 million) in all three age categories (Table 10).

MAJOR DIRECT INVESTMENTS: BANKS AND TRADE

Austrian FDI in Eastern Europe is equally split between the manufacturing and services industries. With regard to *manufacturing*, the focus is on the glass and stone industry (8.6 percent), chemicals, food and construction. In the services sector, banking and insurance top the list (20.4 percent), followed by trade (18 percent). Producer services and the tourist industry are also of some importance (Table 11). "Eastern European headquarters" in Austria (i.e., companies which are to a large extend foreign-owned) contribute primarily to investments made in the oil and chemical industry (over 80 percent), mechanical engineering (more than 50 percent), automotive engineering (34 percent) and trade (46 percent; data for 1995; *Neudorfer*, 1997). Among the industries that increased their direct investments in Eastern Europe between 1994 and 1996 were banks, trading companies and producer services. The electric engineering industry, on the other hand, recorded a marked decline, while the food and construction industries, among others, registered a slight contraction. In Hungary, Austrians were relatively keen to invest in trade and banking; favoured sectors in the Czech Republic were tourism and the glass industry (*Helmstedt*, 1998A).

SUBSTANTIAL INTRA-COMPANY TRADE WITH EASTERN EUROPE

Companies linked by capital tie-ups are as a rule closely interlinked by mutual deliveries. Such relations can serve a variety of functions: the marketing by the subsidiary of products made by the parent or vice versa (the latter applies mostly to raw materials and fuels), or the division of labour as governed by comparative advantages. In most cases, a multinational will invest in several countries, so that bilateral trade statistics look at only a part of the intermeshing deliveries between associated companies[14].

Deliveries by Austrian parents to subsidiaries in Eastern Europe accounted for ATS 9.1 billion in 1996. Much of this figure covers deliveries to associated companies in the

[14] Intra-trade by multinationals is estimated to be about a third of total global trade in goods and services (*Stankovsky,* 1998).

Table 10: Age structure of Austrian subsidiaries in Eastern Europe, 1996

	Newly formed	2 to 5 years	Over 5 years	Total
Number of operations				
Eastern Europe	148	539	179	866
Total	316	861	633	1,810
	Million ATS			
Total capital				
Eastern Europe	5,008	25,455	9,015	39,478
Total	20,336	63,970	52,071	136,377
	Number of employees[1]			
Eastern Europe	9,739	56,322	19,364	85,425
Total	18,606	72,670	44,154	135,430
	Total capital per operation, million ATS			
Average company size				
In terms of capital				
Eastern Europe	33.8	47.2	50.4	45.6
Total	64.4	74.3	82.3	75.3
	Employees per operation			
In terms of employment				
Eastern Europe	65.8	104.5	108.2	98.6
Total	58.9	84.4	69.8	74.8
	Capital per employee, million ATS			
Average capitalisation				
Eastern Europe	0.5	0.5	0.5	0.5
Total	1.1	0.9	1.2	1.0
	Percentage shares			
Number of subsidiaries				
Eastern Europe	17.1	62.2	20.7	100.0
Total	17.5	47.6	35.0	100.0
Percentage shares of Eastern European companies	*46.8*	*62.6*	*28.3*	*47.8*
Total capital				
Eastern Europe	12.7	64.5	22.8	100.0
Total	14.9	46.9	38.2	100.0
Percentage shares of Eastern European companies	*24.6*	*39.8*	*17.3*	*28.9*
Employees				
Eastern Europe	11.4	65.9	22.7	100.0
Total	13.7	53.7	32.6	100.0
Percentage shares of Eastern European companies	*52.3*	*77.5*	*43.9*	*63.1*

[1] Weighted by the Austrian share in the nominal capital.

Table 11: Austrian FDI in Eastern Europe, by industries, 1996

Breakdown by sector

	Eastern Europe		Total		Shares of Eastern European countries
	Billion ATS	Structure in percent	Billion ATS	Structure in percent	In percent
Manufacturing[1]	*18.38*	*46.6*	*43.70*	*32.0*	*42.1*
Mining	0.54	1.4	3.02	2.2	17.8
Food	2.59	6.6	3.25	2.4	79.7
Textiles	0.26	0.7	0.71	0.5	36.9
Wood	0.46	1.2	0.59	0.4	77.1
Paper, printing	1.50	3.8	3.03	2.2	49.6
Oil, chemicals	3.03	7.7	7.77	5.7	39.0
Glass	3.38	8.6	5.30	3.9	63.8
Metal	1.04	2.6	6.60	4.8	15.8
Mechanical engineering	0.53	1.3	2.76	2.0	19.3
Electrics	2.22	5.6	4.69	3.4	47.4
Automotive	0.16	0.4	0.57	0.4	28.1
Furniture, sports equipment	0.29	0.7	0.54	0.4	52.8
Construction	2.38	6.0	4.87	3.6	48.9
Services	*21.09*	*53.4*	*92.70*	*68.0*	*22.7*
Trade	7.14	18.1	17.49	12.8	40.8
Tourism	1.98	5.0	2.10	1.5	94.2
Transport and communications	0.31	0.8	0.51	0.4	60.0
Banking, insurance	8.07	20.4	26.94	19.8	29.9
Producer services	3.13	7.9	44.53	32.7	7.0
Government services	0.46	1.2	1.13	0.8	41.1
Total	*39.46*	*100.0*	*136.38*	*100.0*	*28.9*

[1] Including mining, electricity and construction.

four neighbouring countries (ATS 8.4 billion), which amounted to 14 percent of the total exports to these countries (10 percent in 1992)[15]. At ATS 3.6 billion, intra-company imports by Austrian investors from Eastern Europe (of which ATS 3.4 billion were from the four neighbouring countries) were markedly lower. Intra-company trade with Eastern Europe produced a surplus of ATS 5 billion in 1996, strong evidence to bear out the assumption that direct investment in Eastern Europe creates rather than destroys jobs in Austria (Table 12).

The ties formed by deliveries between Austrian investors and their subsidiaries are much closer with regard to Eastern Europe than with respect to the European Union or Germany. In 1996, 9.6 percent of Austrian exports into Eastern Europe were within the scope of intra-trade (14.0 percent with the neighbouring countries), while the figure for the European Union was only 4.0 percent (3.8 percent for Germany). With regard to imports, the share of intra-trade was 5.1 percent for Eastern Europe and just 0.5 percent for the EU. In both cases intra-trade produced surpluses[16] (Table 13).

Intra-corporate ties are particularly close between Austria and Hungary: almost 20 percent of exports and 10 percent of imports are made between associated companies. For the Czech Republic, 14 percent of exports into the country, but only 5 percent of imports were by way of intra-company trade. Relations with Slovenia are especially interesting: intra-company imports made up 13 percent of total imports, and were greater than exports (Table 14).

The statistics collected by the Austrian National Bank make no reference to turnovers achieved by Austrian operations in Eastern Europe. According to the Gewinn poll, Austria's Eastern subsidiaries achieved turnovers of ATS 144.3 billion in 1997. Of this, one third (ATS 50 billion)

[15] In this connection, the transfer prices typically used within the group must be taken into account.

[16] This does not include intra-company trade by foreign parents with their Austrian subsidiaries, which produced a deficit of ATS 31.4 billion for the EU (ATS 50.9 billion in exports and ATS 82.3 billion in imports). No figures are given for intra-company trade with multinationals in Eastern Europe.

Table 12: Intra-company trade between Austria and Eastern Europe

	Export			Import			Trade balance	
	4 neighbours[1]		Eastern Europe	4 neighbours[1]		Eastern Europe	4 neighbours[1]	Eastern Europe
	Billion ATS	As a percentage of total exports	Billion ATS	Billion ATS	As a percentage of total exports	Billion ATS	Billion ATS	
1989	0.9		1.0	0.6		0.6	0.3	0.4
1990	1.1		1.3	0.8		0.9	0.3	0.4
1991	1.9		2.1	1.0		1.0	0.9	1.1
1992	3.5	10.0	3.8	1.2	4.6	1.3	2.3	2.5
1993	4.0	10.3	4.3	1.6	6.0	1.6	2.4	2.7
1994	4.8	10.4	5.0	1.7	5.3	1.8	3.1	3.2
1995	4.9	9.3	5.1	2.4	6.7	2.6	2.5	2.5
1996	8.4	14.0	9.1	3.4	7.5	3.6	4.9	5.5

Source: Austrian National Bank. – [1] Hungary, Czech Republic, Slovakia, Slovenia.

was generated in Hungary, and one fifth (ATS 28 billion) in the Czech Republic[17] (Table 9).

ANNEX: THE STATISTICS OF FOREIGN DIRECT INVESTMENT

Foreign direct investment, or FDI, is understood to mean equity participation by a foreign company with a view to having management control over the company in which the lender has invested. (The portfolio investment aims at maximising the return.) The principles for identifying and delimiting FDI are defined in the IMF's "Balance of Payments Manual. Fifth Edition" of 1993.

In Austria, statistical data on direct cross-border investment are collected and processed by the Austrian National Bank. In terms of stocks they are based on annual surveys (the latest available survey dates from 1996); in terms of flows (new investment or disinvestment) they are based on balance of payments data.

Statistics on stocks include only investments of more than ATS 1 million, provided that they comprise at least 10 per-

[17] The highest turnover in Eastern Europe was achieved by OMV, at ATS 10.4 billion, followed by Porsche Holding (ATS 7.5 billion), Meinl International (ATS 6.7 billion), Siemens (ATS 5.8 billion) and Henkel (ATS 4.8 billion).

Table 13: Intra-company trade by Austrian investors in Eastern Europe and the European Union, 1996

	Eastern Europe	4 neighbours[1]	EU 15	Germany	Total
			Billion ATS		
Export	94.20	59.69	392.63	229.04	612.19
Intra-company trade	9.08	8.35	15.54	8.74	28.84
			Billion ATS		
Import	71.25	46.00	504.74	305.56	712.76
Intra-company trade	3.62	3.44	2.68	2.23	12.91
			Billion ATS		
Trade balance	22.95	13.70	–112.12	– 76.52	–100.57
Intra-company trade	5.46	4.91	12.86	6.51	15.93
			Percentage shares		
Export	15.4	9.8	64.1	37.4	100.0
Intra-company trade	31.5	29.0	53.9	30.3	100.0
Percentage shares of total exports	*9.6*	*14.0*	*4.0*	*3.8*	*4.7*
Import	10.0	6.5	70.8	42.9	100.0
Intra-company trade	28.0	26.6	20.8	17.3	100.0
Percentage shares of total imports	*5.1*	*7.5*	*0.5*	*0.7*	*1.8*

[1] Hungary, Czech Republic, Slovakia, Slovenia.

Table 14: Intra-company trade between Austria and Eastern Europe, 1996

	Hungary	Czech Republic	Slovakia	Slovenia	4 neighbours[1]	Poland	Eastern Europe
				Billion ATS			
Export							
Intra-company trade	4.85	2.5	0.54	0.46	8.35	0.35	9.08
				Billion ATS			
Import							
Intra-company trade	1.81	0.72	0.15	0.76	3.44	0.12	3.62
				Billion ATS			
Trade balance							
Intra-company trade	3.04	1.78	0.39	–0.30	4.91	0.23	5.46
Total trade	5.19	3.39	1.20	3.92	13.69	3.40	22.95
Services							
Export	0.72	0.14	0.01	0.00	0.87	0.03	0.90
Import	0.28	0.15	0.00	0.00	0.43	0.00	0.44
				Percentage shares			
Export							
Intra-company trade	53.4	27.5	5.9	5.1	92.0	3.9	100.0
Percentage shares of total exports	19.9	14.1	7.0	4.7	14.0	3.9	9.6
Import							
Intra-company trade	50.0	19.9	4.1	21.0	95.0	3.3	100.0
Percentage shares of total imports	9.5	5.0	2.3	12.8	7.5	2.1	5.1

[1] Hungary, Czech Republic, Slovakia, Slovenia.

Table 15: Foreign direct investment by Austria (inflows)

Old and new scheme by the Austrian National Bank, balance of payments (net values)

	1992	1993	1994	1995	1996	1997
			Billion ATS			
Old scheme						
Eastern Europe	5.0	6.2	5.2	5.2	4.1	10.3
EU	12.0	6.6	5.9	3.5	4.7	5.1
Global	20.6	17.1	13.7	10.5	14.9	17.7
New scheme						
Eastern Europe	5.2	5.7	5.1	5.5	5.7	11.9
EU	9.0	2.5	5.0	4.3	6.7	12.0
Global	18.7	13.9	14.4	11.4	20.5	23.8

cent of the company's capital. A distinction is made between nominal capital, equity capital (including reserves and profits or losses carried forward) and total capital (equity capital and balance of loans between associated operations).

Beginning at the start of 1998, the Austrian National Bank has been publishing balance of payments data on the basis of two schemes: current reporting draws on the monthly cash data (essentially bank reports on their international payments transactions), which are followed by updated quarterly and annual data (*Austrian National Bank,* 1998B). With regard to the cash-based figures, FDI includes: investment by way of shares and other financial investments, long-term loans and, to the extent recognisable, short-term financial relations between associated companies, and the cross-border sale or acquisition of real estate. The quarterly data also include reinvested profits. Contrary to previously published statistics (up to 1997), FDI now includes land and buildings, reinvested profits and loans between associated companies. The balance of payments includes the gross values for all inflows and outflows, while the analysis of FDI as a rule uses the netted-out values.

Data on a regional breakdown of the balance of payments and thus on active and passive net direct investment are provided in annual publications. The Austrian National Bank furthermore supplies FDI data for a number of countries (net values) in semi-annual intervals.

For 1992 to 1997, the Austrian National Bank recalculated its regional balances of payments on the basis of the new scheme.

Table 15 provides a comparison of Austrian FDI, calculated under the old and the new schemes for 1992-1997. The newly adjusted values are not always higher than their old counterparts, as would have been expected considering that reinvested profits and real estate were included. One explanation is the lower profitability of the active Austrian FDI in its early days, which was reflected in negative reinvested profits (losses carried forward) and thus reduced the aggregate total value of the investment.

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Austrian FDI in Eastern Europe – Summary

It was not until the late 1980s that Austria began to emerge as an international investor, in consequence of ongoing and deepening European integration and the opening of the East. Austrian companies were among the first to exploit the new opportunities available in the CEECs after 1989, and to invest in local companies. Drawing on their information edge, they were able to assess the risks of investing capital better and faster than their competitors. Their long-standing contacts were found to be highly useful, especially in the first phase. The growth of FDI in Eastern Europe was further helped by innovative aid schemes. Already in 1990, Austrian direct investments in the CEECs made up ATS 4.8 billion. The impressive start, however, was not followed up. Until 1996, annual investment flows remained in the range of ATS 5 to 6 billion. It was only in 1997 that a new upturn was recorded (ATS 11.9 billion), which appears to have continued in 1998 (ATS 5.8 billion in the first six months).

The stock of Austrian FDI in Eastern Europe grew almost tenfold within just seven years: from ATS 5.0 billion in 1990 to ATS 48.8 billion in 1997. Of this, 41 percent were in Hungary, 26 percent in the Czech Republic, 10 percent in Poland, and about 7 percent each in Slovakia and Slovenia. In 1997, fully 93 percent of FDI stock in Eastern Europe was held in the ten EU applicant states, and 85 percent in the five first-round candidates.

In rapidly and courageously seizing the opportunities offered by the eastern opening, Austria secured itself an excellent starting position for direct investment in the CEECs. In 1990, 34 percent of all new foreign direct investment in the East was made by Austria. Yet Austria could not quite keep pace with subsequent growth rates, recording its most pronounced dent in 1995. By 1996, the Austrian market share of new investment had declined to 3.6 percent. It temporarily rose to 4.9 percent in 1997, only to shrink to 4 percent in 1998 (first 6 months).

Austria's market share in FDI stock in the East reached its highest level in 1991, at 17 percent. By 1996 it had declined to 6.4 percent, and by 1997 to 5.1 percent.

Several partial explanations have been forwarded for the significant displacement of Austrian investors: inadequate financial clout; insufficiently intense investment promotion schemes; the tendency of Eastern European headquarters of multinationals to bypass Austria when investing in the CEECs; weaknesses in the Austrian service industries (such as the lack of high-capacity telecoms companies in Austria while industry was privatised in the East). The assumption that Austrian companies concentrated on the EU is not corroborated by the statistical figures.

Austria has its strongest position in Eastern Central Europe. In 1997 it was able to boost its share of new FDI to 10.7 percent, primarily due to major commitments in Poland and the Czech Republic. Its position seems to have deteriorated again in 1998, according to data available so far. In 1991 Austria held 29 percent of the FDI stock in Eastern Central Europe. In 1997 it at least managed to hold 7.9 percent.

Austrian investments in CEE companies are made primarily with a view to accessing and developing local markets, and in many cases also for the purpose of moving production. The transfer of manufacturing must not, however, be viewed as an "export of jobs". As a rule, the Austrian parent ensures that it will be the key supplier of components to the foreign subsidiary. By moving the wage-cost-intensive parts of production from Austria to Eastern Europe, a company can make its product more competitive internationally and is thus able to secure or create jobs in Austria as well. The number of employees working for Austrian companies in the East has risen from 10,800 to 85,400. Domestic employment of Austrian CEE multinationals has also risen steadily, from 70,800 (in 1990) to 190,400 – an indication of the positive employment effect of investing in the CEECs.

Compared to Austrian subsidiaries in other countries, those in the East employ about twice as many persons, while average investment per company and capitalisation per worker are only half the respective levels. At ATS 0.7 million in 1996, productivity (turnover per worker in manufacturing) of Austrian subsidiaries in the East was less than one third of the rate in other countries. The critical role played by FDI in helping economies in Eastern Europe to catch up is underlined by the figures of recent years: productivity of Austrian subsidiaries in the East tripled between 1990 (ATS 0.2 million) and 1996.

Unearned income accruing to Austria from direct investment in CEE countries was ATS 1.9 billion in 1996, and ATS 2.6 billion in 1997 (of which ATS 1.8 billion came from Hungary), which translates into a "profitability" of 5.3 percent (Hungary 9.3 percent) in terms of 1997 stock.

Companies associated by capital tie-ups are usually closely linked by mutual deliveries. Deliveries made in 1996 by Austrian parents to their subsidiaries in the four eastern neighbours amounted to ATS 8.4 billion, or 14 percent of total exports to these countries. At ATS 3.4 billion, intra-company imports by Austrian multinationals from neighbouring countries were markedly lower. Intracompany trade with the CEECs produced a surplus of ATS 5 billion in 1996, evidence to bear out the assumption that direct investment in Eastern Europe creates rather than destroys jobs.

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