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Austria's Deepening Economic Integration with Central and Eastern Europe

Rina Bhattacharya

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ECONOMICS DEPARTMENT

AUSTRIA'S DEEPENING ECONOMIC INTEGRATION WITH CENTRAL AND EASTERN EUROPE

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by

Rina Bhattacharya

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ABSTRACT/RÉSUMÉ

Austria's deepening economic integration with Central and Eastern Europe

The Austrian economy has benefited substantially from the expansion of economic ties with Central and Eastern Europe, which has provided a significant boost to growth, productivity, competitiveness, profits and (more controversially) aggregate employment. Indeed, among the older EU member states, Austria has benefited the most from the transition of the Central and Eastern European countries from planned economies to market economies, and the subsequent entry into the EU of the ten new member states, mostly from Central and Eastern Europe, in 2004. However, important segments of the population in Austria, and in particular low-skilled and semi-skilled workers in the manufacturing sector, appear to have been adversely affected by these developments. There is thus a need for policy measures to help those segments of the workforce that have had difficulty coping with growing competition from Central and Eastern Europe. Furthermore, more can be done to make Austria a more attractive location for highly skilled and well qualified expatriate workers and to maintain Vienna's position as a central hub for multinationals operating in the region. These include, in particular, the need to strengthen eastern transportation links and to reduce to a minimum bureaucratic hurdles and red tape for foreign enterprises seeking to operate out of Vienna.

This Working Paper relates to the *2007 Economic Survey of Austria* (www.oecd.org/eco/surveys/austria).

JEL classification : F15, F23

Keywords: Regional integration; globalisation; competitiveness; productivity; growth; employment; profitability

L'intégration économique croissante de l'Autriche avec l'Europe centrale et orientale

L'économie autrichienne a fortement bénéficié du développement de ses relations économiques avec l'Europe centrale et orientale, qui a sensiblement renforcé la croissance, la productivité, la compétitivité et les bénéfices des entreprises, ainsi que l'emploi total – encore que le bilan soit plus mitigé à cet égard. En fait, parmi les anciens États membres de l'Union européenne (UE), c'est l'Autriche qui a tiré le plus grand profit de la transition des pays d'Europe centrale et orientale (PECO) de l'économie planifiée vers l'économie de marché, puis de l'adhésion des dix nouveaux États membres, situés pour la plupart en Europe centrale et orientale, qui ont rejoint l'UE en 2004. Néanmoins, il semble que ces évolutions aient eu des conséquences préjudiciables sur des segments importants de la population autrichienne, en particulier sur les travailleurs peu qualifiés et semi-qualifiés du secteur manufacturier. Les pouvoirs publics doivent donc prendre des mesures pour aider les catégories de main-d'œuvre ayant des difficultés à faire face à la concurrence croissante des PECO. En outre, les autorités peuvent déployer davantage d'efforts pour rendre le territoire autrichien plus attractif pour les travailleurs expatriés hautement qualifiés et très compétents, ainsi que pour préserver la position de Vienne en tant que plaque tournante pour les multinationales présentes dans la région. À cet égard, il serait notamment nécessaire de renforcer les voies de communication orientales, ainsi que de réduire au minimum les obstacles bureaucratiques et les formalités administratives pour les entreprises étrangères qui souhaitent faire de Vienne leur base d'opérations.

Ce document de travail se rapporte à l'*Étude économique de l'Autriche 2007* (www.oecd.org/eco/etudes/autriche).

Classifications JEL : F15, F23

Mots clés : intégration régionale ; mondialisation ; compétitivité ; productivité ; croissance ; emploi ; rentabilité

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AUSTRIA'S DEEPENING ECONOMIC INTEGRATION WITH CENTRAL AND EASTERN EUROPE

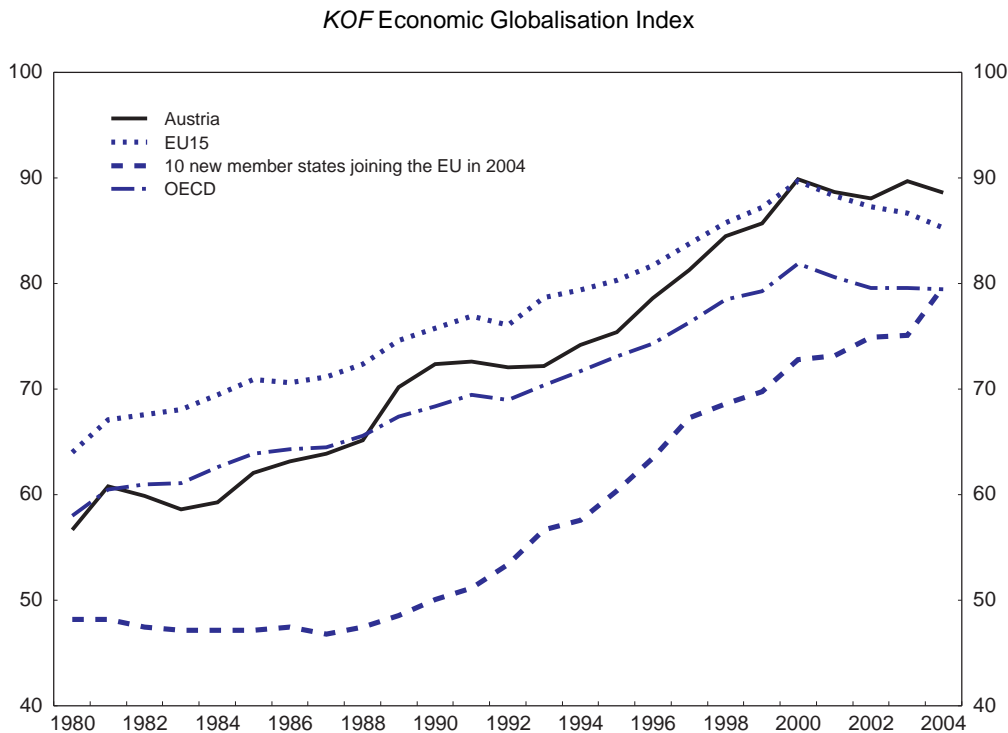
by
Rina Bhattacharya¹

1. Austria has had to cope with major changes in the international economic environment over the past decade and a half, in particular in its economic relations with its European neighbours. The accession of Austria, Finland and Sweden to the European Union in 1995 and the launching of Economic and Monetary Union (EMU) in 1999 both opened up new trade and investment opportunities for Austrian firms while at the same time subjecting them to increasing global competition. Concurrently, with the disintegration of Communism and the opening up of Central and Eastern Europe in the early 1990s, together with German unification in 1990, Austria's economic ties with Central and Eastern Europe have been growing rapidly. Consequently Austria has been confronted with radical changes in its international environment since 1989, which has had an impact on domestic economic outcomes and policies in a number of key areas.

2. The opening up of Austria's economy over the past few decades has been impressive, as illustrated by the economic globalization index compiled by the Swiss Institute for Business Cycle Research (KOF, 2007). This index attempts to capture the flows of goods, capital (portfolio and foreign direct investment) and services (income payments to foreign nationals) across countries, as well as the degree of restrictions on capital and trade flows. Measured from a scale of 1-100, with a higher number reflecting greater globalization, the KOF economic liberalization index for Austria increased from a value of around 51 in 1970 to over 88 by 2004. In terms of ranking, Austria moved from being the 29th most globalised economy out of 97 in 1970, to 22nd position out of 99 countries in 1985, and to 7th position out of 109 countries in 2004. Not only did Austria successfully climb up the globalization ladder over this period, but its economic globalization index rose from a value that was well below the EU15 average, and somewhat below the OECD average, in the early 1970s to one noticeably above the EU15 and OECD averages by 2004 (Figure 1). In short, over the past few decades Austria appears to have experienced a greater increase in its degree of openness to the world economy than many other economically advanced countries, including member countries of the EU15 and the OECD.

1. The author is an economist in the Economics Department at the OECD. This paper draws on material originally produced for the *OECD Economic Survey of Austria* published in July 2007 under the responsibility of the Economic and Development Review Committee. The author would like to thank Mr. Konrad Pesendorfer from the Austrian Delegation at the OECD, as well as experts from the Austrian Central Bank, the Federal Ministry of Economics and Labour (BMWA), the Austrian Federal Economic Chamber (WKÖ) and the Austrian Institute of Economic Research (WIFO) for comments and assistance in preparing the paper. She would also like to thank OECD colleagues Andrew Dean, Val Koromzay, Andreas Wörgötter, Willi Leibfritz and in particular Rauf Gönenç for comments and contributions on earlier drafts, as well as Roselyne Jamin for technical assistance and Nadine Dufour and Sylvie Ricordeau for technical preparation.

Figure 1. Globalisation in Austria: international comparison



Source: Swiss Institute for Business Cycle Research (KOF).

3. Against this background, this paper focuses on analyzing the effects that economic integration with Central and Eastern European countries (CEECs) have had on the Austrian economy, with a focus on labour market developments, business profitability and competitiveness.

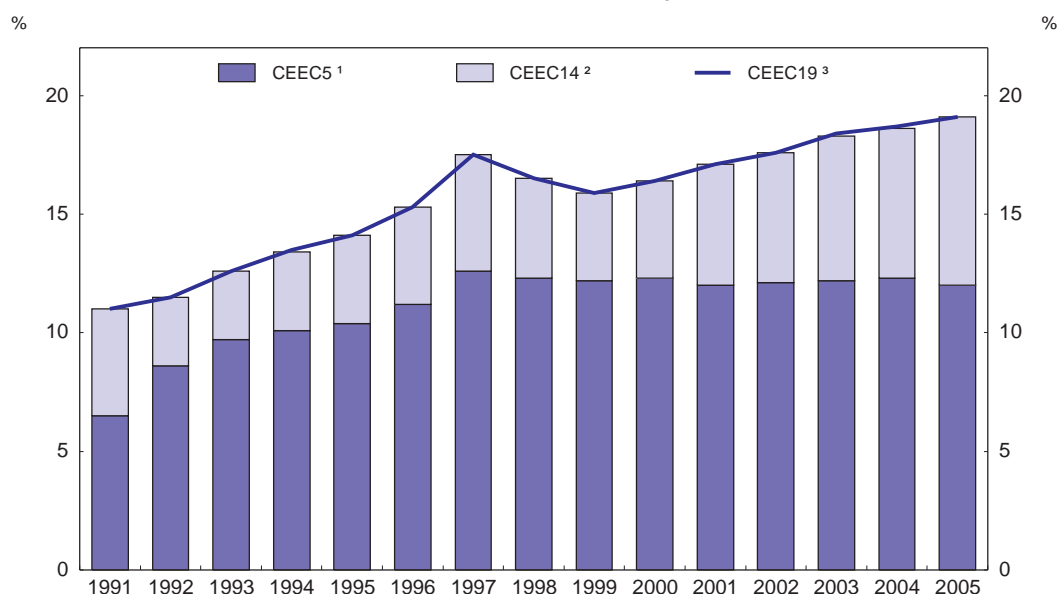
Growing economic integration with Central and Eastern Europe

Trade links with CEECs have been growing rapidly...

4. Austria took advantage of the opening up to Central and Eastern Europe to expand its trade ties with the region. Over the period 1991-2005 Austria's exports of goods to the CEEC19 countries grew by 11½ per cent *per annum* on average at constant prices while its total exports of goods grew on average by 7% a year.² As a consequence the CEEC19's share of Austria's total exports rose from 12½ per cent in 1991-95 to 18% in 2001-05 (Figure 2, Table 1 and Annex Table A.1). Export growth was particularly strong during the second half of the 1990s.

2. The CEEC19 include the CEEC5 (the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia) and the CEEC14 (Albania, Belarus, Bosnia, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Moldova, Romania, Russia, Serbia-Montenegro and Ukraine).

Figure 2. **Austria's exports to Central and Eastern Europe**
As per cent of total exports of goods



1. CEEC5 is for Czech Republic, Hungary, Poland, Slovak Republic and Slovenia.
 2. CEEC14 is for Albania, Belarus, Bosnia, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Moldova, Romania, Russia, Serbia-Montenegro and Ukraine.
 3. CEEC19 = CEEC5 plus CEEC14.
- Source: Statistics Austria.

Table 1. **Austria's trade**

	1991-95	1996-2000	2001-05	1991-95	1996-2000	2001-05	1991-2005
	(period averages)			(average % change p.a., at constant prices)			
Exports							
In % of total exports							
CEEC5	9.1	12.1	12.1	18.3	13.8	5.3	12.1
CEEC14	3.5	4.2	6.0	3.1	13.4	18.0	12.1
CEEC19	12.5	16.3	18.2	11.7	13.6	9.0	11.4
Imports							
In % of total Imports							
CEEC5	5.4	8.4	10.2	14.8	16.8	6.7	12.6
CEEC14	2.4	2.8	3.7	2.8	12.8	14.3	10.5
CEEC19	7.9	11.2	13.9	9.7	15.6	8.7	11.4
	<i>In percent of GDP</i>						
Total exports	22.8	29.0	36.2				
Total imports	27.5	31.9	37.0				
Total exports and imports							
of which:	50.3	60.9	73.3				
CEEC5	3.6	6.2	8.2				
CEEC14	1.5	2.1	3.6				
CEEC19	5.1	8.3	11.7				

CEEC5: Czech Republic, Hungary, Poland, Slovak Republic, Slovenia.

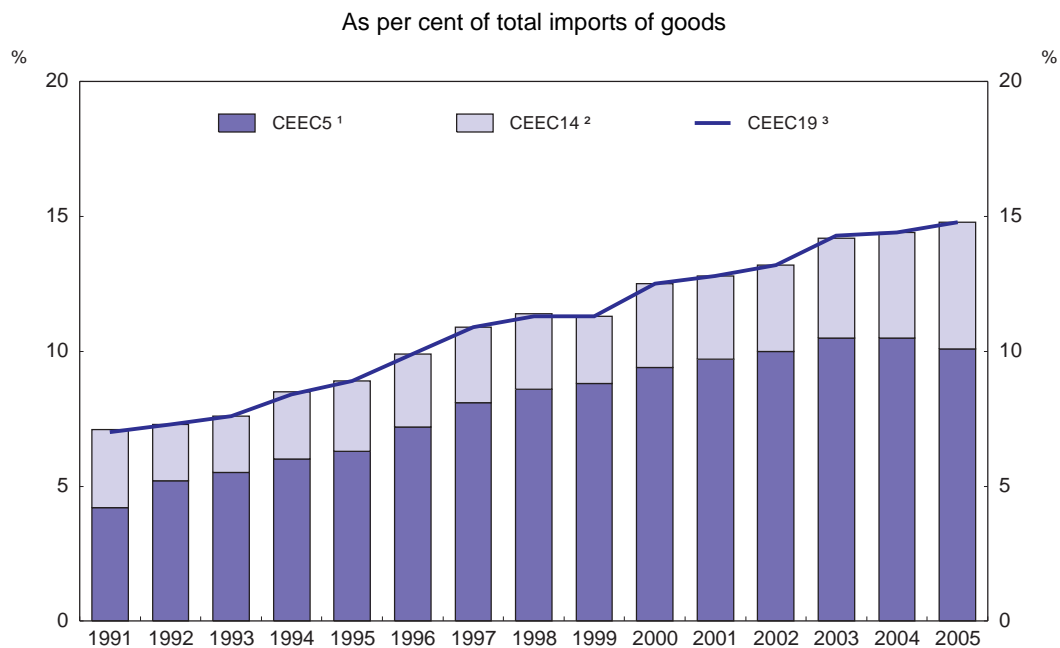
CEEC14: Albania, Belarus, Bosnia, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Moldova, Romania, Russia, Serbia-Montenegro, Ukraine.

CEEC19: CEEC5 plus CEEC14.

Source: Statistics Austria.

5. The import side shows a similar pattern, with Austria's imports of goods from the CEEC19 countries also growing by 11½ per cent *per annum* on average at constant prices over the period 1991-2005 – substantially higher than the growth of total imports of goods, which averaged 5½ per cent *per annum*. As a consequence the CEEC19's share of Austria's total imports increased from 8% in 1991-95 to 14% in 2001-05 (Figure 3, Table 1 and Annex Table A.1). Import growth also accelerated sharply during the second half of the 1990s.

Figure 3. Austria's imports from Central and Eastern Europe



1. CEEC5 is for Czech Republic, Hungary, Poland, Slovak Republic and Slovenia.

2. CEEC14 is for Albania, Belarus, Bosnia, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Moldova, Romania, Russia, Serbia-Montenegro and Ukraine.

3. CEEC19 = CEEC5 plus CEEC14.

Source: Statistics Austria.

6. While undoubtedly impressive, the growth in trade links with the CEEC19 countries started from a very low base at a time when the Austrian economy was opening up at a very rapid pace, boosted by the government's 2003 "internationalization initiative" (Box 1). Thus the contribution of the CEECs to Austria's increasing trade openness was relatively modest – while the share of total exports and imports of goods in Austria's GDP rose by 25 percentage points during 1991-2005, trade with the CEEC19 countries increased by only 8½ percentage points of GDP (Figure 4).

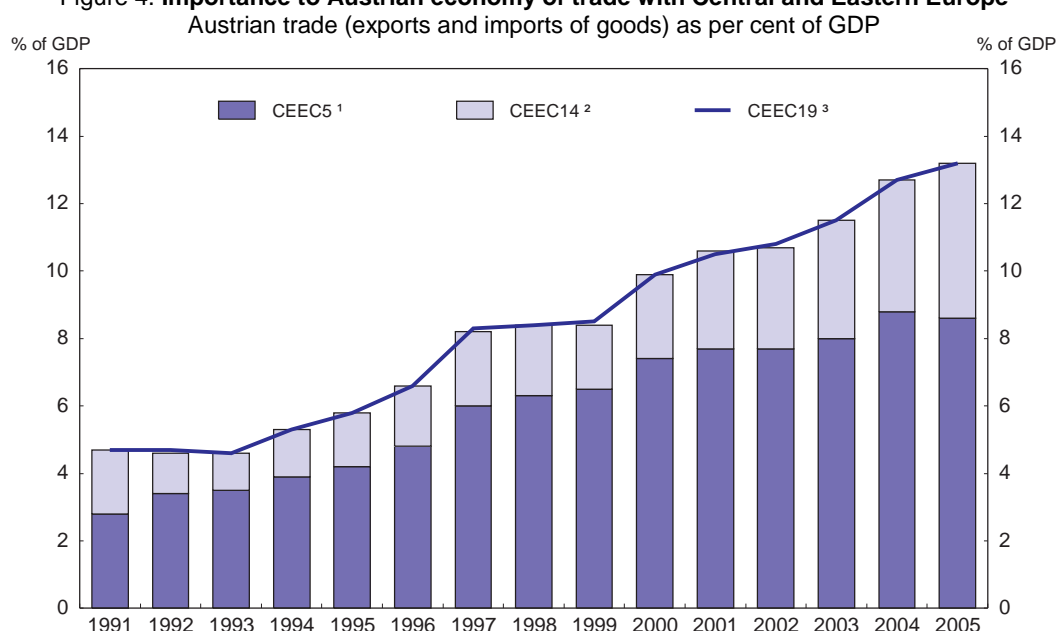
Box 1. The Austrian government's 2003 internationalisation initiative

In 2003 an internationalisation initiative "Go International" was jointly launched by the Federal Ministry for Economy and Labour (BMWA) and the Austrian Federal Economic Chamber (WKÖ), in order to increase the competitiveness of Austrian businesses. Altogether €50 million of additional finance were earmarked for this initiative, and a Strategy Unit for Foreign Trade and Investment was set up at the BMWA. The internationalisation initiative reinforces and partly broadens existing instruments. It includes a comprehensive package of more than 30 measures – across departments and institutions – designed to raise awareness, transfer knowledge and promote the creation of business networks. The WKÖ handles the implementation of the bulk of these measures.

Key instruments for promoting Austrian exports and foreign direct investment include trade fairs and market information meetings focused on specific industrial sectors; co-financing of counselling for FDI projects; provision of an efficient and internationally competitive export financing system; and establishment and maintenance of a B2B contact platform. The co-financing of practical training abroad and trainee programmes in export-oriented enterprises, as well as promotion of in-company training programmes with a special focus on external economic relations, are other core elements of the internationalisation initiative. Another key component of this initiative is the co-financing of company and sector-specific market development studies whose focus is on the identification of projects, feasibility assessment of these projects, and evaluation of particular aspects of these projects such as their environmental and employment effects; a total of €2 million was made available for co-financing of these studies for the period 2004 to 2006. Special emphasis is given to assistance for first time exporters and measures to promote the image of Austria as an attractive business location. By end-2006 the WKÖ had organised some 600 events as part of this initiative, and an additional 18 marketing offices had been established in areas of interest to the Austrian export sector.

"Go International" and similar earlier initiatives seem to have been successful in addressing some of the structural problems of Austrian exporters and have, for example, contributed to a threefold increase in the number of Austrian exporting companies over the past decade. Originally planned to expire in 2006, "Go International" has been extended until the end of 2007, and a further extension until 2008 is under consideration.

Figure 4. Importance to Austrian economy of trade with Central and Eastern Europe



1. CEEC5 is for Czech Republic, Hungary, Poland, Slovak Republic and Slovenia.

2. CEEC14 is for Albania, Belarus, Bosnia, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Moldova, Romania, Russia, Serbia-Montenegro and Ukraine.

3. CEEC19 = CEEC5 plus CEEC14.

Source: Statistics Austria.

7. The commodity composition of exports of goods to, and imports of goods from, the CEEC5 countries, Bulgaria and Romania has not witnessed any dramatic shifts over the past decade or so (Tables 2 and 3). What is noticeable, however, is that the share in exports of what may be regarded as low value-added products – such as agriculture and forestry, food products and beverages, textiles and apparel – has declined, while the share of higher value-added products has increased correspondingly. The same is true of imports. This shift in the composition of trade is consistent with the expansion of outsourcing activities in the manufacturing sector and the growth of intra-industry trade with Central and Eastern Europe.

Table 2. **Austria: composition of exports of goods to Central and Eastern Europe**

	Total exports, EUR million		% change 1996-2005	% Share of Total	
	1996	2005		1996	2005
Agriculture, hunting and forestry	59	86	44.9	1.1	0.6
Fishing	0	0	160.0	0.0	0.0
Manufacturing	5214	12972	148.8	97.7	97.7
<i>of which:</i>					
Food products and beverages	253	584	131.2	4.7	4.4
Tobacco products	14	60	313.3	0.3	0.4
Textiles	198	312	57.7	3.7	2.3
Wearing apparel, dressing and dyeing of fur	118	245	107.2	2.2	1.8
Leather, leather products and footwear	85	213	150.0	1.6	1.6
Wood and products of wood and cork	77	281	265.8	1.4	2.1
Paper and paper products, publishing and printing	366	606	65.6	6.9	4.6
Coke, refined petroleum products and nuclear fuel	200	812	305.6	3.8	6.1
Chemicals and chemical products	574	1,331	131.9	10.8	10.0
Rubber and plastics products	333	827	148.4	6.2	6.2
Other non-metallic mineral products	122	244	99.4	2.3	1.8
Basic metals and fabricated metal products	543	1 663	206.3	10.2	12.5
Machinery and equipment, n.e.c.	779	1 713	119.8	14.6	12.9
Office, accounting and computing machinery	119	331	176.9	2.2	2.5
Electrical machinery and apparatus, n.e.c.	321	946	195.0	6.0	7.1
Radio, television and communication equipment	363	982	170.6	6.8	7.4
Medical, precision and optical instruments, watches and clocks	149	264	77.8	2.8	2.0
Motor vehicles and transport equipment	489	1 211	147.6	9.2	9.1
Furniture; manufacturing n.e.c.	111	346	213.2	2.1	2.6
Total Exports	5 337	13 279	148.8	100.0	100.0

1. Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic, Slovenia.

Source: Austrian National Authorities.

Table 3. **Austria: composition of imports of goods from Central and Eastern Europe**

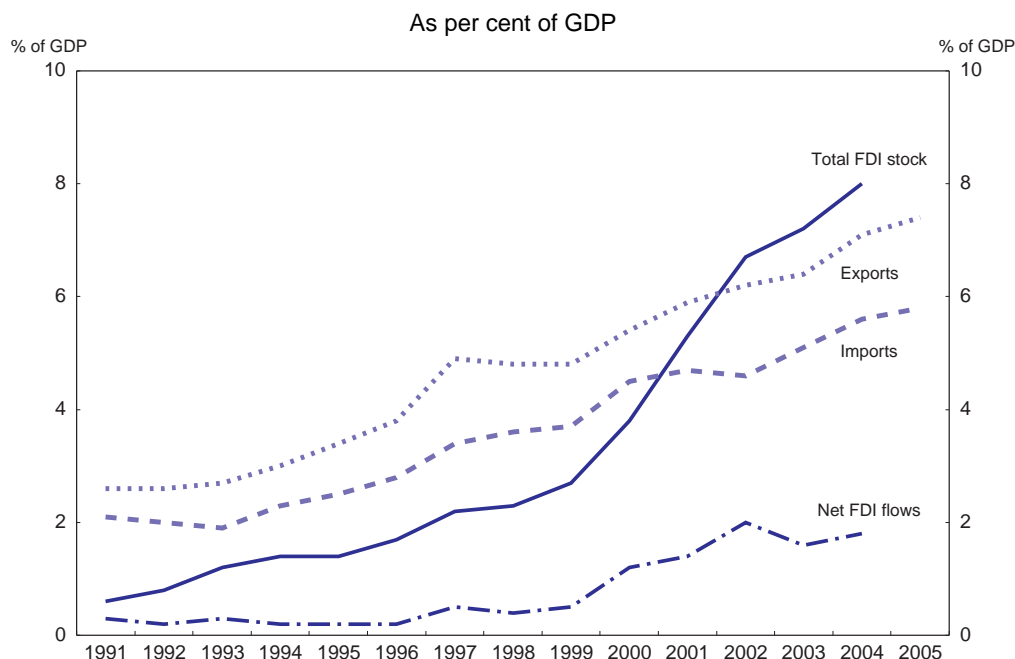
	Total imports, EUR million		% change	% share of total	
	1996	2005	1996-2005	1996	2005
Agriculture, hunting and forestry	205	461	125.4	5.2	4.3
Fishing	1	2	11.1	0.0	0.0
Manufacturing	3 416	9 739	185.1	86.6	90.9
of which:					
Food products and beverages	133	500	274.9	3.4	4.7
Tobacco products	0	1	..	0.0	0.0
Textiles	122	188	54.3	3.1	1.8
Wearing apparel, dressing and dyeing of fur	259	418	61.3	6.6	3.9
Leather, leather products and footwear	76	189	148.9	1.9	1.8
Wood and products of wood and cork	190	305	60.9	4.8	2.9
Paper and paper products, publishing and printing	87	271	210.6	2.2	2.5
Coke, refined petroleum products and nuclear fuel	301	1 263	319.7	7.6	11.8
Chemicals and chemical products	225	435	93.7	5.7	4.1
Rubber and plastics products	127	339	166.3	3.2	3.2
Other non-metallic mineral products	127	210	65.5	3.2	2.0
Basic metals and fabricated metal products	512	1 375	168.4	13.0	12.8
Machinery and equipment, n.e.c.	312	1 008	223.1	7.9	9.4
Office, accounting and computing machinery	12	228	1 791.0	0.3	2.1
Electrical machinery and apparatus, n.e.c.	279	1 016	263.7	7.1	9.5
Radio, television and communication equipment	263	239	-9.1	6.7	2.2
Medical, precision and optical instruments, watches and clocks	23	88	278.3	0.6	0.8
Motor vehicles and transport equipment	186	1 120	501.0	4.7	10.5
Furniture; manufacturing n.e.c.	181	545	201.0	4.6	5.1
Total Imports	3 944	10 708	171.5	100.0	100.0

1. Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic, Slovenia.

Source: Austrian National Authorities.

but more striking has been the expansion of Austria's foreign direct investment in CEECs...

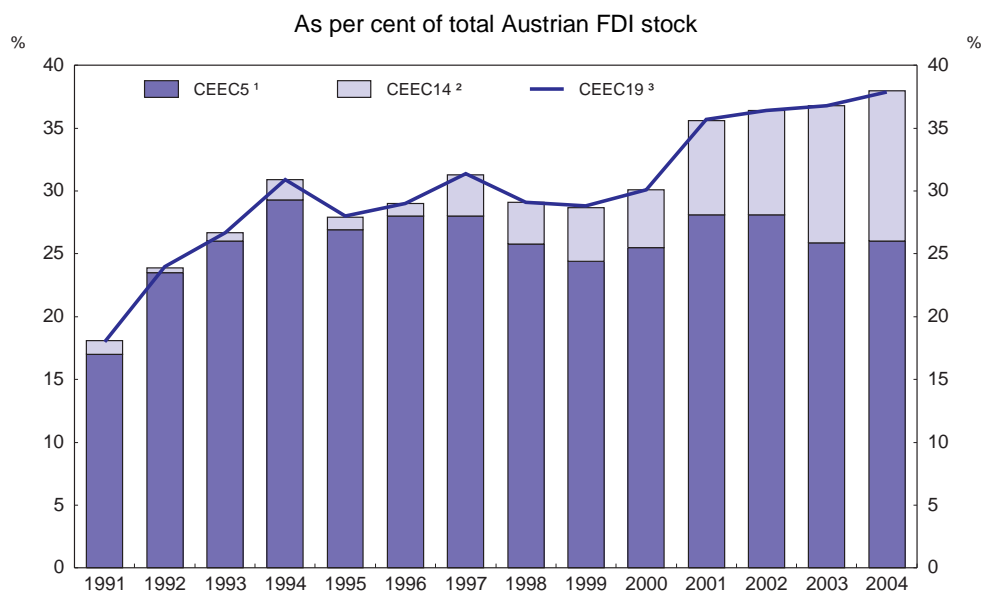
8. The growth in Austria's trade links with Central and Eastern Europe over the past decade and a half is indeed noteworthy. But perhaps even more striking has been the expansion of Austria's direct investment activities in the region. While Austria's trade with the CEEC19 countries almost tripled as a share of GDP during 1991-2005 (albeit from a very low base), there was a more than eightfold increase in the GDP share of net foreign direct investment (FDI) flows to the region (though starting from an even lower base). As a result Austria's stock of FDI in the CEEC19 showed a notable increase over the same period, rising from 1% to 7% of GDP (Figure 5 and Annex Table A.2). As a reflection of this the region's share in Austria's total stock of FDI more than doubled and its share in Austria's total net FDI flows also increased substantially, averaging around 70% in 2001-04 (Figures 6 and 7).

Figure 5. Austria trade and FDI with Central and Eastern Europe (CEE19¹)

1. CEE19 is for Czech Republic, Hungary, Poland, Slovak Republic, Slovenia, Albania, Belarus, Bosnia, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Moldova, Romania, Russia, Serbia-Montenegro and Ukraine.

Source: Statistics Austria, Austrian National Bank (OeNB).

Figure 6. Austria-stock of outward FDI in Central and Eastern Europe



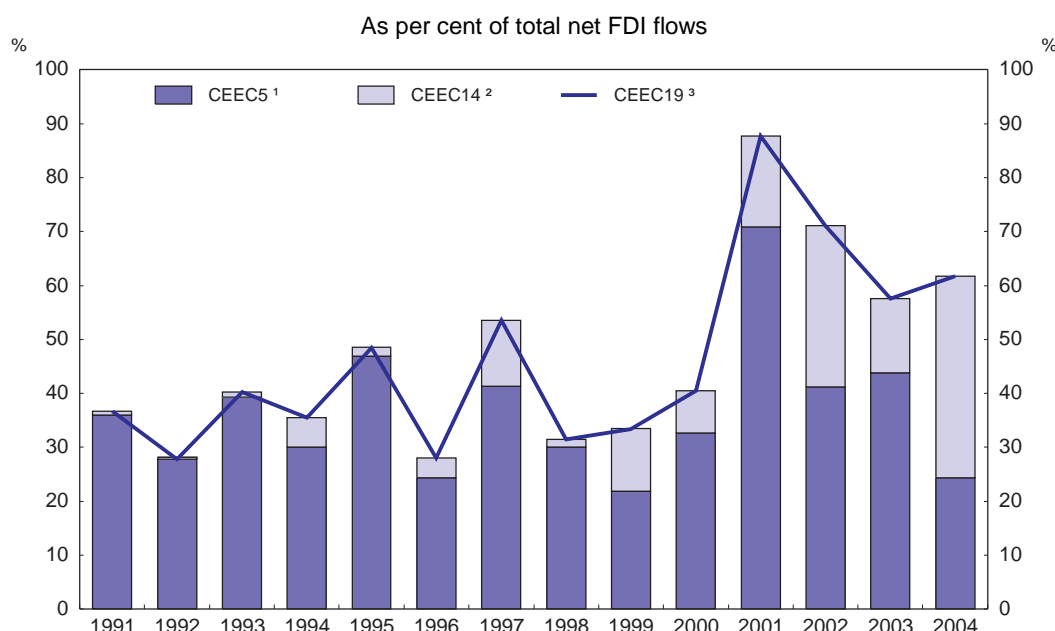
1. CEE5 is for Czech Republic, Hungary, Poland, Slovak Republic and Slovenia.

2. CEE14 is for Albania, Belarus, Bosnia, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Moldova, Romania, Russia, Serbia-Montenegro and Ukraine.

3. CEE19 = CEE5 plus CEE14.

Source: Statistics Austria, Austrian National Bank (OeNB).

Figure 7. Net FDI flows to Central and Eastern Europe

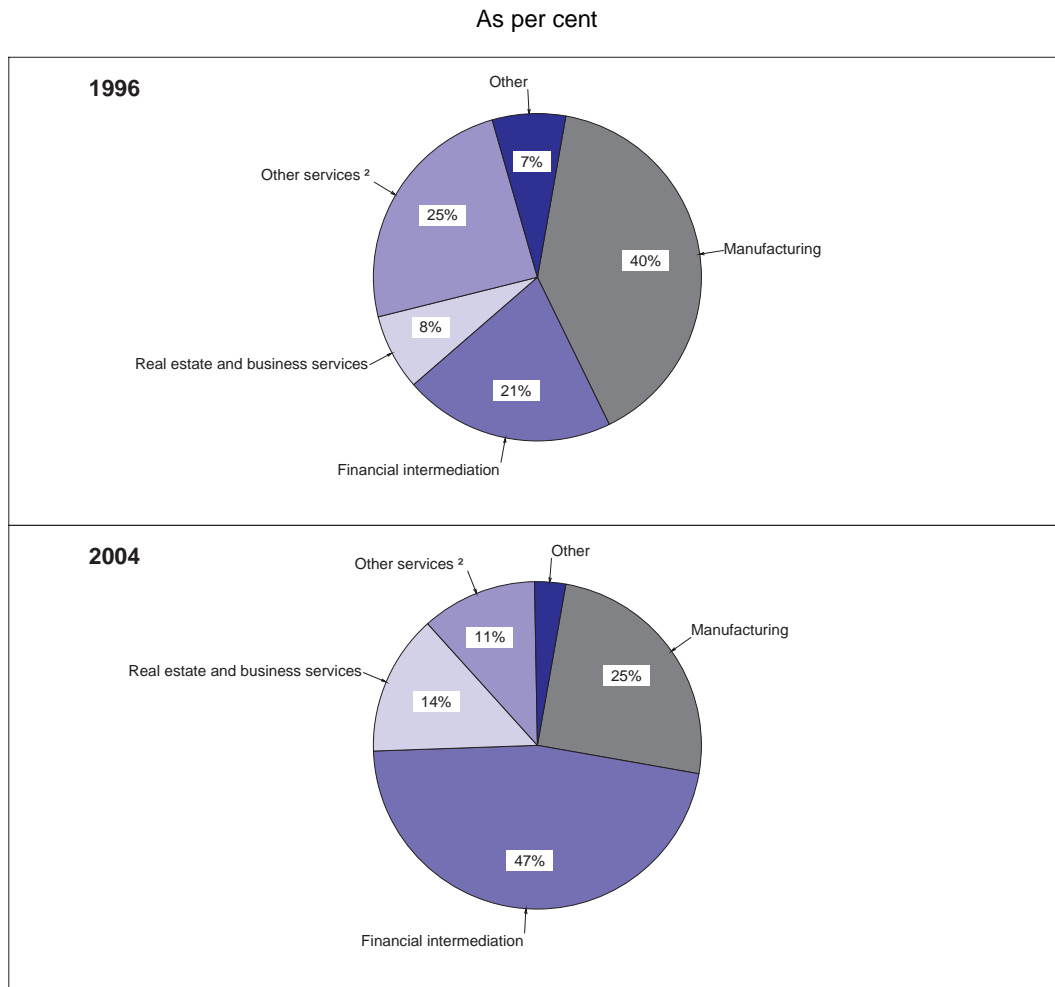


1. CEE5 is for Czech Republic, Hungary, Poland, Slovak Republic and Slovenia.
2. CEE14 is for Albania, Belarus, Bosnia, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Moldova, Romania, Russia, Serbia-Montenegro and Ukraine.
3. CEE19 = CEE5 plus CEE14.

Source: Statistics Austria, Austrian National Bank (OeNB).

9. There has also been a noticeable change in the allocation of Austria's FDI within the region over this period. Prior to 1997, the bulk of Austria's FDI in the CEE19 countries went to its immediate neighbours, the CEE5 countries, whereas from 1997 onwards the CEE14 countries have been significantly increasing their share of Austria's total net FDI flows to the CEE19 region. Austria started its eastward FDI expansion in 1989, first in Hungary and then in the three other neighbouring countries – the Czech Republic, Slovenia and the Slovak Republic. However, from 1997 onwards, first Poland became an important host country for Austrian firms and then several countries within the CEE14 became much more important, in particular Croatia, Romania, Bulgaria and Russia (Altzinger, 2005). Thus, while the CEE5 countries accounted for 87% of net FDI flows to the CEE19 and over 96% of Austria's total FDI stock in the region in 1996, these shares fell to 40% and 68% respectively by 2004.

10. Not only has there been a noticeable change in the allocation of Austria's outward FDI within the Central and Eastern European region since the mid-1990s, but its sectoral composition has also evolved in a significant way (Figure 8 and Annex Table A.3). More specifically, the share of manufacturing in the stock of FDI in the CEE5 countries declined from just under 40% in 1996 to under 25% in 2004, with a corresponding increase in the importance of the service sectors. Particularly striking has been the increase in the share of financial intermediation (from 21% to 47% of the total stock) and of real estate and business services (from 8% to 14% of the total stock) over the same period. This hints at a shift in the main motivation for Austrian FDI in the CEECs from cost minimisation and outsourcing to exploitation of new market opportunities.

Figure 8. Sectoral composition of Austria's stock of FDI in Central and Eastern Europe ¹

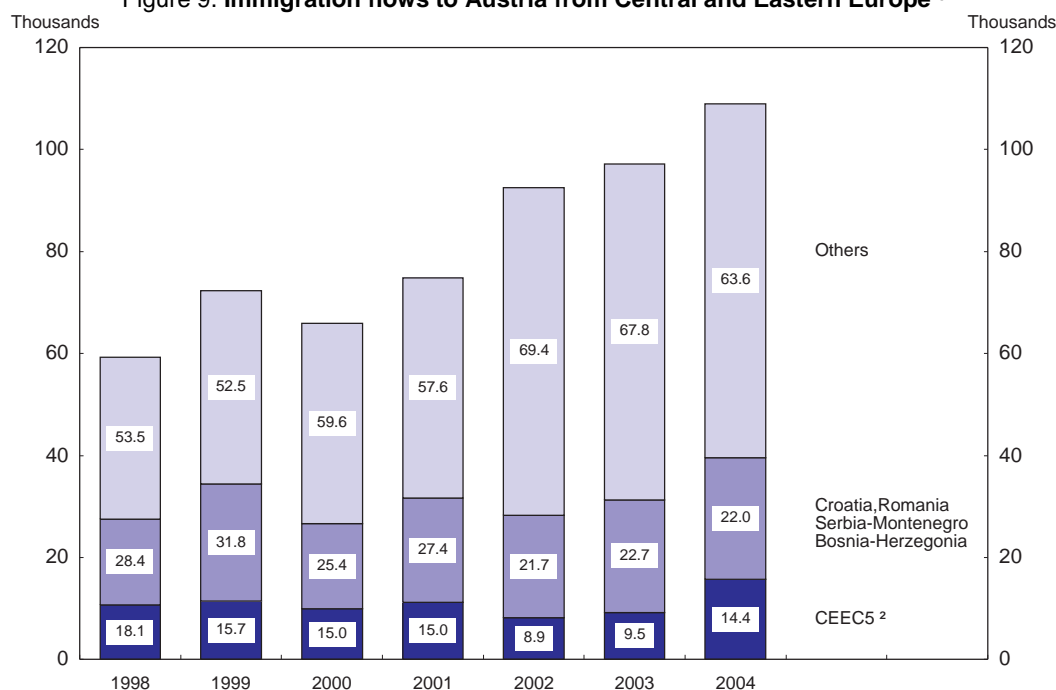
1. CEEC5 is for Czech Republic, Hungary, Poland, Slovak Republic and Slovenia.

2. Wholesale and retail trade, repairs; hotels and restaurants; transport and communication; public administration, other services.

Source: Austrian National Bank, OeNB.

... while immigration flows from CEECs have fluctuated considerably from year to year.

11. One of the most politically sensitive issues associated with Austria's increasing economic integration with the CEECs relates to immigration. The absolute number of registered migrants from Central and Eastern Europe has fluctuated considerably from year to year, with only Romania and the Slovak Republic showing a steady increase in the number of legal migrants entering Austria (Figure 9 and Table 4). Between 1998 and 2003 the number of new migrants from the CEEC5 fluctuated at around 10 000 per annum, while the share of the CEEC5 in the total inflow of new migrants showed a more-or-less steady downward trend. However, in 2004 there was a sharp rise in the number of registered migrants from the CEEC5 to over 15 600. On top of immigration there are many commuting workers from neighbouring countries, coming even from as far as southern parts of Poland.

Figure 9. Immigration flows to Austria from Central and Eastern Europe ¹

1. Data in the bars refer to per cent of total immigration.

2. CEEC5 is for Czech Republic, Hungary, Poland, Slovak Republic and Slovenia.

Source: Statistics Austria based on data of the Central Registration Register.

Table 4. Austria: inflows of foreign population by country of origin

	1998	1999	2000	2001	2002	2003	2004
Europe	49062	59364	51740	61379	59448	67766	80216
<i>Of which:</i>							
Germany	6561	7459	7674	10409	8303	10870	13346
Turkey	5857	7208	7019	7667	10360	9687	7811
Croatia	2615	3887	4136	6523	3110	2860	2869
Serbia and Montenegro	9378	13483	6354	6222	8754	9342	10782
Bosnia-Herzegovina	3287	3792	4355	5360	4029	4757	5019
Poland	4951	5120	3499	3511	2454	2899	7111
Hungary	2061	2328	2534	3139	2237	2517	3079
Slovak Republic	1711	1812	1919	2444	2216	2318	3452
Romania	1528	1834	1876	2357	4158	5132	5293
Italy	1239	1419	1359	1710	1287	1346	1399
Czech Republic	1388	1505	1425	1466	956	1144	1429
Former Yug. Rep. of Macedonia	768	1025	898	1392	1650	1468	1502
Slovenia	636	622	540	650	368	357	589
Africa	2485	2803	2838	2872	3709	3930	5057
America	2334	2271	2312	2389	2628	2901	3241
Asia	4969	7535	8599	7729	9914	10119	10430
Other countries	379	406	465	417	671	278	303
Unknown	0	0	0	0	16197	12170	9700
Total	59229	72379	65954	74786	92567	97164	108947
of which: CEEC5	10747	11387	9917	11210	8231	9235	15660
In percent	18.1	15.7	15.0	15.0	8.9	9.5	14.4

CEECS: Czech Republic, Hungary, Poland, Slovak Republic, Slovenia.

Source: Statistics Austria based on data of the Central Registration Register.

12. The share of Central and Eastern Europe in the total inflow of migrants has increased between 2003 and 2006 by 25%, but is still surprisingly low. This may partly be due to the transitional measures of the EU Accession Treaty with regard to immigration from the ten new EU member states. These measures will be reviewed in 2009 and can be extended for a further two years, but from 2011 onwards at the latest Austria will have to open its borders to migrant workers from all EU member states. In this context it is also important to note that these official figures may be somewhat misleading since there are a significant number of illegal migrants from the CEECs working in the informal Austrian economy, the size of which Schneider (2006) has estimated at around 11% of official GDP in 2002-03. A large share of these unregistered workers from the CEEC work in the ‘care’ sectors, looking after the elderly for example.³

13. The majority of migrants entering Austria are in the medium to low-skill groups. Indeed, among OECD member countries Austria has the lowest share of highly skilled (university graduates) among foreign born residents (OECD, 2004). Biffl (2006) argues that this is partly because the immigration system in Austria has given precedence to family reunification and immigration on humanitarian grounds, while highly skilled people from outside the EU15 are discouraged from joining the workforce. The law provides a special quota regulation for so-called “key workers” (workers who are important for running a company and who earn at least € 2 300 per month). This quota, however, is not applied to nationals from the new EU member states and their spouses and children. Nor is it applied to temporary stays of third country nationals, which can often last many years. Given these rather lax entry barriers for skilled migrant workers, their low presence in Austria could be due to: *i*) other perceived or real bureaucratic hurdles; *ii*) difficulties in getting foreign qualifications accredited in Austria; and *iii*) limited career opportunities for high-skilled workers once they enter the Austrian labour market. Moreover, there has been underinvestment in higher and upper secondary education on the part of second- and third-generation migrants born in Austria. It thus seems that immigration, including from the CEECs, has played a rather limited role in enabling Austria to upgrade the skills of its population and workforce to meet the needs of a dynamic and evolving economy.

Positive overall impact on aggregate output and employment

Growing regional integration has affected Austria’s economy through a multiple of channels.

14. The rapid expansion of trade with the CEECs is likely to have affected the domestic economy in a number of ways. On the one hand the opening up of new markets provided a stimulus to aggregate domestic demand and employment while opening up new opportunities for profitable investment (*trade creation* and *market expansion* effects). On the other hand greater exposure to competition from lower-cost countries may have adversely affected domestic output and employment (competition-induced *substitution* effect). The relative importance of these two effects for the Austrian economy can only be determined through empirical analysis.

15. The output and employment effects of rapidly growing FDI by Austria in the CEECs manifested themselves through very similar channels (Falk and Wolfmayr, 2005). On the one hand, FDI by Austrian companies generated additional exports and employment for the parent company (for instance of inputs for foreign production of the affiliates, or due to investments in distribution networks, service functions or marketing). More indirectly, relocation of production processes from Austria to CEECs (outsourcing) increased the competitiveness of the end product and thereby secured existing jobs or created additional jobs. On the other hand, the relocation of production to lower cost locations may have substituted for

3. It is estimated that there are between 30 000 to 40 000 women from Slovakia working illegally in the “care” sector in Austria.

exports, thereby putting downward pressure on wages and employment. It may also have led to higher unemployment by changing the structure of labour demand (skilled vs. unskilled labour). On this issue as well empirical analysis is needed to determine the aggregate output and employment effects on the domestic economy.

Most empirical studies show a positive overall impact on output and employment.

16. Indeed, there are a number of empirical studies (Breuss-Schebeck, 1996, Breuss-Schebeck, 1998a) looking into the output and employment effects on Austria of increasing economic integration with the CEECs, most of them using the macroeconomic model of the Austrian Institute of Economic Research *WIFO* (Table 5). These studies estimate the cumulative positive effect on real GDP growth at around 3.6% over the period 1989-1997, with employment increasing by 2.6% or 77 000 persons. Simulations using the *WIFO* model also suggest that the opening up of Eastern Europe and Austria's EU membership in 1995 added about 0.5% to 1.0% to average annual economic growth, and that around 100 000 to 150 000 new jobs could have been created, taking both integration events together, over the period 1989-2004 (Breuss, 2006).

Table 5. Macroeconomic studies of the effects on Austria of Eastern European integration and Eastern enlargement

	Simulation Horizon	Real GDP	Employment	
		%	%	In thousands
<i>Eastern Opening:</i> Breuss-Schebeck (1998a)	1989/1997 cumulative (per year)	3.6 (0.5)	2.6 (0.3)	76.9 (9.6)
<i>Eastern Opening and EU membership:</i> Breuss (2006)	1989/2004 cumulative (per year)	0.5-1.0		100-150
<i>Eastern-Enlargement:</i> Breuss-Schebeck (1998b)	2002/2010 cumulative (per year)	1.3 (0.14)	0.8 (0.1)	27.5 (3.0)
Breuss (2001, 2002, 2005)	2001/2010 cumulative (per year)	0.9 (0.15)	0.1 (0.0)	3.0 (0.5)
Breuss (2006)	2004/2014 per year	0.2		

17. Regarding specifically the Eastern enlargement that took place in 2004, econometric studies using the *WIFO* model (Breuss-Schebeck, 1998b) and Oxford Economic Forecasting *OEF* model (Breuss, 2001, 2002, 2005) estimate that, as a consequence, Austria's real GDP could increase by a cumulative 0.9 percentage points over the period until 2010 (roughly 0.15 percentage points per year).⁴ The estimated

4. Indeed, Breuss (2006) estimates that Austria can expect to gain more than any of the other older EU states from the EU enlargement of 2004, with annual growth of real GDP higher by around 0.2 percentage points over the next ten years.

impact on employment, however, varies widely. Simulations using the *OEF* model suggest a cumulative net addition of 3 000 jobs, or an employment increase of 0.1%, over the period 2001-10. By contrast simulations based on the *WIFO* model estimate a cumulative net increase of 28 000 jobs, or an employment increase of 0.8%, over the period 2002-10.

Some segments of the population and workforce have been adversely affected

The effects of foreign direct investment have varied across sectors and skill levels.

18. Turning now to the output and employment effects of FDI by Austria in the CEECs, the initial empirical studies provided somewhat conflicting results.⁵ More recent empirical analysis, covering the manufacturing sectors in seven EU countries over the period 1995-2000, indicate that imports of intermediate goods from the same industry originating from low-wage countries have a significant and negative impact on employment in the importing countries (Falk and Wolfmayr, 2005). More specifically, rising intermediate imports from low-wage countries may have accounted for an approximate reduction of 0.25 percentage points in employment per year in the seven EU countries. For Austria this would imply a loss of around 2 700 jobs per year *in the affected manufacturing sectors*. Another interesting empirical finding is that the impact on employment of imported materials from low-wage countries is statistically significant in industries with low skill intensity but not in skill-intensive industries such as machinery, electrical, optical and transport equipment.

19. More strikingly, the impact on employment and wages of FDI and outsourcing is estimated to vary considerably across sectors. Employment in the manufacturing sector in Austria has been shrinking, in contrast to the dynamic growth of jobs at foreign affiliates. During 1993-2003 there was a reduction of 73 000 manufacturing jobs in the domestic economy at the same time that employment in affiliates of Austrian firms located in the CEEC5 increased by some 60 000. Thus it is not surprising that the results of another recent empirical study point to a substitutive relationship between employment in foreign affiliates and home-based employment in manufacturing, with an estimated elasticity of substitution of 0.5 – implying that a 1% increase in wages of home-based workers relative to the wages of workers based abroad results in a 0.5% decrease in domestic employment (Falk and Wolfmayr, 2006).

20. By contrast, the empirical results for the services sectors show a long-run complementary relationship between domestic employment and employment in foreign affiliates of Austrian firms in the CEEC5. More precisely, the results suggest that ten newly created jobs in the CEEC5 are associated with the creation of half a new job in Austria, and the indirect employment effects are likely to be much higher (Falk and Wolfmayr, 2006). In short, the empirical analysis implies that foreign direct investment activities in the services sectors have an overall positive impact on domestic employment in Austria in the long-run. In the short-run however there is a substitutive relationship, with domestic employment to some extent being substituted by employment in foreign affiliates.

5. Somewhat surprisingly, the first empirical study by Pfaffermayr (2001), covering the period 1990-96, found that job creation by Austrian affiliates in the CEECs is complementary to domestic employment. Using firm-level panel data for a number of European countries Konings and Murphy (2001) found no evidence that FDI in the CEECs caused job losses in the home economy. By contrast, and covering a longer and more recent period, Marin (2004) calculated that 24 000 jobs were lost in Austria as a consequence of FDI by Austria in the CEECs since the fall of the iron curtain in 1989.

Regional integration has given a boost to productivity, competitiveness and profitability

21. Increasing economic integration with the economies of CEECs could have affected labour productivity in Austria through two main channels. More intensive competition from these economies may have stimulated innovation and productivity growth in those sectors directly and/or indirectly affected by it – an ‘*intra-industry*’ *productivity effect*. It could also have given rise to shifts in labour allocation across sectors with varying levels of labour productivity, with consequences for labour productivity at the aggregate level – a ‘*resource reallocation*’ or ‘*shift*’ *effect*. Empirical studies on Austrian outsourcing (relocation of parts of production processes) to the CEECs suggest that it significantly increased total factor productivity, thereby improving the competitiveness of Austrian firms. These studies also indicate that outsourcing changed relative employment demand in favour of the highly skilled (Egger *et al.* 2001, Kratena and Wüger, 2001).

22. To provide some further insight into the issue Box 2 presents a sectoral shift-share analysis of labour productivity over the period 1995-2004. The results indicate that three sectors have made a particularly significant contribution to aggregate labour productivity growth – the manufacturing sector; wholesale and retail trade, hotels and restaurants, transport and communications; and financial and business services and real estate activities. However, the transmission channels were very different, with intra-industry productivity growth being predominant in manufacturing, and the ‘resource reallocation’ effect being the key channel in financial and business services and real estate activities. Also, within manufacturing three sub-sectors – coke and refined petroleum products; electrical and optical equipment; and transport equipment – showed particularly strong performance in terms of labour productivity growth.

Box 2. Austria: labour productivity developments by sector, 1995-2004

A shift-share analysis of labour productivity developments in Austria over the period 1995-2004, using data by sector on numbers of hours worked, provides some interesting insights into the evolution of the Austrian economy over the past decade and a half (Table 6).

Table 6. Austria: Shift-share analysis of average labour productivity growth, 1995-2004

Average percentage change *per annum*

	Average labour productivity growth	Contribution to total labour productivity growth		
		"Intra- industry"	"Shift"	Total
Agriculture, hunting and forestry	1.0%	0.0%	0.0%	0.0%
Mining, electricity, gas, and water supply	6.6%	0.2%	-0.1%	0.1%
Manufacturing	4.7%	1.0%	-0.4%	0.5%
Construction	2.7%	0.2%	-0.2%	0.1%
Trade, hotels and restaurants, transport and communications	1.9%	0.5%	0.0%	0.5%
Financial and business services and real estate	-2.9%	-1.1%	1.7%	0.5%
Total	1.7%	0.8%	1.1%	1.7%

Source: Organisation for Economic Cooperation and Development (OECD) STAN database and staff calculations.

Overall labour productivity growth over this period averaged 1.7% per annum. Manufacturing, and financial and business services and real estate activities, were the sectors that contributed the most to this productivity growth, each contributing about 30% (0.5 percentage points) to the total. The broad category of wholesale and retail trade, hotels and restaurants, and transport and communications made a similar contribution to overall productivity growth. This overall contribution is a combination of an “*intra-industry*” effect (reflecting labour productivity developments within

each individual sector) and a “*shift*” effect (reflecting the impact on total labour productivity growth of shifts in labour allocation across sectors with varying levels of labour productivity).

In absolute terms, our estimates suggest that labour productivity growth averaged -2.9% in financial and business services and real estate activities over the period 1995-2004. However, the sector made a positive contribution to overall productivity growth because of a shift of labour away from lower-productivity sectors towards this sector. More specifically, labour productivity growth within this sector (the “intra-industry” effect) contributed -1.1 percentage points to total productivity growth, but this was more than offset by a positive “shift” effect through which financial and business services and real estate activities contributed 1.7 percentage points to total labour productivity growth.

The story in the manufacturing sector is the complete opposite. Labour productivity growth in this sector averaged 4.7% per annum and contributed 1.0 percentage point to the economy’s overall labour productivity growth. However, the period 1995-2004 witnessed a shift in labour away from manufacturing towards other lower-productivity sectors, resulting in a labour productivity loss that contributed -0.4 percentage points to overall labour productivity growth. Nevertheless, Austria lost a smaller share of its manufacturing jobs compared to most other OECD countries.

Disaggregated data for the manufacturing sector on hours worked is not available. However, a similar analysis using total employment by manufacturing sub-sector over the period 1991-2004 show that three sub-sectors enjoyed particularly strong intra-sectoral productivity growth:

- i. coke and refined petroleum products;
- ii. electrical and optical equipment; and
- iii. transport equipment.

At the same time a shift of labour away from the manufacture of textile and textile products, and of electrical and optical equipment, towards lower-productivity sectors outside of manufacturing resulted in a loss of labour productivity growth for the overall economy. Disaggregated data for the services sectors is not available to do a similar analysis for real estate, renting and business activities.

Manufacturing

23. It is difficult to determine the extent to which growing competition from lower-cost CEECs acted as a catalyst and incentive for productivity growth in Austrian manufacturing, and/or facilitated a resource reallocation towards more productive sectors. Nevertheless, the strong growth of both trade and FDI in manufacturing, and the change in the commodity composition of both exports and imports described above, is at least consistent with growing intra-industry trade and FDI with CEECs having enabled the manufacturing sector in Austria to rapidly increase productivity over the past decade.

24. Within this sector it is interesting to note that manufacture of transport equipment, which saw a significantly above-average labour productivity growth rate over the period 1991-2004, also experienced a substantially higher than average growth in imports from the CEECs during 1996-2005. Over the same time periods estimated labour productivity growth in the manufacture of coke and refined petroleum products was also exceptionally high and simultaneously enjoyed significantly higher than average growth in both exports to, and imports from, the CEECs. It would thus not be surprising if expansion of trade with the CEECs had a significant positive effect on productivity growth at least in these two sub-sectors.⁶

6. Nevertheless, within sub-categories of manufacturing an additional complication is the lack of data on hours worked and on export and import price deflators, making it even trickier to reach any definite conclusions on how growing economic integration with the CEECs may be linked with the productivity developments reported in Box 2.

Financial and business services and real estate activities

25. The past decade has witnessed a shift in employment share away from lower-productivity sectors towards financial and business services and real estate activities in Austria (even if their share in total employment is still below that in other comparable economically advanced countries). There is no hard evidence or analysis on what factors were behind this. A large part of it probably reflects domestic outsourcing (leasing and contracting out) of services previously carried out in-house by manufacturing firms in Austria. Nevertheless it is plausible to speculate that expansion abroad by Austrian firms may have provided a significant boost to domestic demand in this sector, especially for legal and information technology services and possibly also real estate services – especially given the empirical evidence discussed above of a long-run complementary relationship between domestic employment and employment in foreign affiliates in the services sectors, and the increase in the share of these sectors in the total stock of Austria's FDI in the CEECs.

26. When Austrian firms first started investing in CEECs following the fall of the iron curtain in 1989 they faced a large number of start-up troubles, and the profitability of Austrian affiliates based in the region was rather modest. However, most of these problems have been overcome and current investments are quite profitable, notably the most recent investments in Croatia and Romania. Altzinger (2005) calculates that, in 2003, total annual profits from Austrian affiliates translated into an average rate of return on equity of 4% for investments in the EU15, 8% for the CEEC5 and 9½ per cent for the CEEC14. At the same time he points out that Austrian affiliates in the CEECs re-invested much larger shares of their profits than Austrian affiliates in the EU15, partly because these investments were urgently needed for the tasks of reorganization and restructuring of existing companies. The remarkable profitability of Austrian affiliates in CEECs provides empirical support for the widely held view that the opening up of these economies helped to significantly improve the overall competitiveness and profitability of Austrian firms.

27. This has particularly been the case in financial services. Indeed, as early as 2002 and 2003, steady expansion in the CEECs had a positive impact on the profitability of Austria's consolidated banking sector, as reflected in the far higher profitability of the CEEC operations of Austrian banks in comparison with their domestic business activities. For example, although the CEECs accounted for only some 12% of the consolidated total assets of Austrian banks at the end of 2003, 23% of their pretax profits was generated in the region (Breyer, 2004). This higher profitability was primarily due to wider margins, lower credit risk costs and cost savings following extensive restructuring measures. Breyer thus argues that significant business exposure in the CEECs is likely to have greatly helped Austrian banks weather the economically difficult years between 2001 and 2003 better than German banks. Given that the pioneer period for banks in these countries is coming to a close and more and more competitors are entering the market, the extraordinarily high profit margins of Austrian banks will be almost certain to decline in the future. Nevertheless, the first mover advantage puts Austrian financial institutions in a very good competitive position.

28. To sum up: general equilibrium studies show that the Austrian economy as a whole has benefited substantially from the expansion of economic ties with Central and Eastern Europe. Indeed, among the older EU member states Austria has benefited the most from the transition of the CEECs from planned economies to market economies, and the subsequent entry into the EU of the ten new member states (mostly from Central and Eastern Europe) in 2004. In particular, the expansion of economic ties with Central and Eastern Europe has provided a significant boost to growth, productivity, competitiveness, profits – and, more controversially, aggregate employment. More disaggregated partial equilibrium studies, however, indicate that some segments of the population and workforce have been adversely affected by Austria's growing economic integration with the CEECs, and in particular low-skilled and semi-skilled workers in the manufacturing sector.

Austria's attractiveness as a regional base for multinationals needs to be maintained

29. Regarding inward investment into Austria, there is some evidence to suggest that although Vienna was an obvious base for international companies starting operations in Eastern Europe, certain policy shortcomings and the emergence of new rival locations has weakened its position in recent years. This hypothesis is supported in a recent study by Delia Meth-Cohn (2006) which reports the findings of in-depth interviews conducted during June to October 2005 with ten senior regional executives of large multinationals either currently or formerly based in Vienna. The interviews indicated that Vienna still has a number of important strengths, including: *i*) availability of senior management with experience in the region and personal ties to Austria; *ii*) its attractiveness as a location for expatriates to live in; and *iii*) proximity by air and road.

30. However, expatriate managers are also somewhat discouraged by various constraints in Vienna which require the attention of policymakers if Austria desires to maintain, or develop further, its position as a central hub for multinationals operating in Central and Eastern Europe. These constraints include bureaucratic delays in getting work permits for non-EU expatriate managers and workers and those from the new EU member states, and lack of rapid road and rail connections (and significant delays in developing them). This is consistent with the findings of an OECD study which argues the case for better transport policy coordination between Austria and the Slovak Republic (OECD, 2003). It is important in this context to note that the Austrian government has been trying to tackle this problem. In June 2004 it announced plans for expanding the motorway network around Vienna, including a connection to the Czech Republic border (not due to be completed before 2013). A motorway link between Vienna and the Slovak capital of Bratislava is due to be completed by the end of 2007. More recently, the government has announced heavy infrastructure investment of €4.6 billion in roads and €6.4 billion in railways over the period 2007 to 2010.

31. It also appears to be the case that some rival locations such as Geneva and Bratislava offer more favourable personal income tax regimes and more favourable tax treatment of expatriate perks such as housing, schools and cars. However, this does not seem to be a major factor affecting the locational decisions of multinationals. Furthermore, given the highly favourable corporate tax rate and the recent introduction of corporate group taxation, it would not be advisable at this stage for Austria to offer further tax advantages to expatriate managers and workers of multinational companies.

Policies can help maximise the benefits, and lower the adjustment costs, of regional integration.

32. As discussed above, although general equilibrium (aggregate) effects have been clearly positive, there are important segments of the population that have been adversely affected by these developments. In particular, several empirical studies have shown that low-skilled and semi-skilled workers in manufacturing have had difficulty coping with the growing competition from the CEECs. A key challenge for policy-makers in Austria is to help them re-integrate into the domestic labour market, notably through active labour market policies and vocational training and re-training programmes. The immigration system in Austria also needs to be reformed in a way that encourages the entry of highly skilled and well-qualified workers that meet the requirements of the domestic labour market. Investing in transport (road and rail) connections with key Central and Eastern European locations - consistent with the new government's plans, as outlined in its 2007 and 2008 budgets - and reducing bureaucratic hurdles and red tape for multinational companies seeking to operate out of Vienna will also be important if Vienna is to maintain its position as a central hub for companies operating in the region.

33. Supportive government policies can also help to enhance the positive productivity, competitiveness and profitability effects of Austria's growing economic integration with the CEECs. Government policies to promote education and training, R&D and innovation, plus active labour market policies can all help the Austrian economy to shift to higher value-added activities. In this way the government has a role to play in helping Austrian firms to cope successfully with intensifying competition from the CEECs (and other countries), and to facilitate the development of a complementary specialisation of the Austrian economy with the CEECs.

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Table A.1. Austria's trade

	1991	1997	1998	1999	2000	2001	2002	2003	2004	2005	1991-2 005	1991-9 7	1998-2 005
	EUR million										% change p.a.		
Exports													
Total	34812	51962	56302	60266	69692	74252	77400	78903	89848	94705	7.6	7.1	7.9
CEEC5	2265	6566	6898	7341	8572	8911	9348	9655	11084	11390	12.6	19.8	7.2
CEEC14	1559	2527	2378	2238	2857	3757	4238	4850	5704	6698	12.7	11.5	13.7
CEEC19	3824	9093	9276	9579	11429	12669	13587	14505	16788	18088	12.0	15.9	9.1
In % of total exports:													
CEEC5	6.5	12.6	12.3	12.2	12.3	12.0	12.1	12.2	12.3	12.0			
CEEC14	4.5	4.9	4.2	3.7	4.1	5.1	5.5	6.1	6.3	7.1			
CEEC19	11.0	17.5	16.5	15.9	16.4	17.1	17.6	18.4	18.7	19.1			
Imports													
Total	43015	57430	61200	65316	74935	78692	77104	80993	91094	96499	6.1	5.1	6.8
CEEC5	1786	4644	5244	5740	7043	7627	7702	8535	9571	9737	13.2	17.6	9.9
CEEC14	1238	1617	1688	1610	2341	2467	2489	3010	3586	4535	11.1	6.3	14.7
CEEC19	3024	6261	6932	7350	9384	10094	10191	11545	13157	14272	12.0	13.3	11.1
In % of total imports:													
CEEC5	4.2	8.1	8.6	8.8	9.4	9.7	10.0	10.5	10.5	10.1			
CEEC14	2.9	2.8	2.8	2.5	3.1	3.1	3.2	3.7	3.9	4.7			
CEEC19	7.0	10.9	11.3	11.3	12.5	12.8	13.2	14.3	14.4	14.8			
In percent of GDP													
Total exports	23.7	28.0	29.3	30.1	33.1	34.4	35.0	34.9	38.2	38.6			
Total imports	29.3	31.0	31.8	32.7	35.6	36.4	34.9	35.8	38.7	39.4			
Total exports and imports	53.1	59.0	61.1	62.8	68.7	70.8	69.9	70.7	76.9	78.0			
of which:													
CEEC5	2.8	6.0	6.3	6.5	7.4	7.7	7.7	8.0	8.8	8.6			
CEEC14	1.9	2.2	2.1	1.9	2.5	2.9	3.0	3.5	3.9	4.6			
CEEC19	4.7	8.3	8.4	8.5	9.9	10.5	10.8	11.5	12.7	13.2			
Memorandum item:													
Nominal GDP (EUR mn)	146588	185476	192266	19982	210616	216123	220906	226175	235258	245056			

CEEC5: Czech Republic, Hungary, Poland, Slovak Republic, Slovenia.
CEEC14: Albania, Belarus, Bosnia, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Moldova, Romania, Russia, Serbia-Montenegro, Ukraine.
CEEC19: CEEC5 plus CEEC14.
Source: Statistics Austria.

Table A.2. Austria's Foreign Direct Investment (FDI)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	<i>EUR million</i>													
FDI stock														
Total	4656	5433	7037	7671	8674	10396	12863	14912	19039	26674	32351	40512	44308	49765
CEEC5	790	1279	1833	2247	2335	2912	3604	3846	4655	6797	9106	11372	11474	12918
CEEC14	50	24	48	122	90	105	429	487	828	1229	2442	3373	4821	5960
CEEC19	840	1303	1881	2369	2425	3017	4033	4333	5483	8026	11548	14745	16295	18878
In % of total FDI stock:														
CEEC5	17.0	23.5	26.0	29.3	26.9	28.0	28.0	25.8	24.4	25.5	28.1	28.1	25.9	26.0
CEEC14	1.1	0.4	0.7	1.6	1.0	1.0	3.3	3.3	4.3	4.6	7.5	8.3	10.9	12.0
CEEC19	18.0	24.0	26.7	30.9	28.0	29.0	31.4	29.1	28.8	30.1	35.7	36.4	36.8	37.9
Net FDI flows														
Total	1090	1356	1006	1043	828	1488	1762	2469	3098	6230	3506	6170	6323	6685
CEEC5	392	382	395	313	388	363	727	740	674	2035	2485	2542	2770	1631
CEEC14	7	-5	10	57	13	53	215	37	361	487	590	1846	872	2493
CEEC19	400	377	405	370	401	416	942	777	1035	2522	3075	4388	3642	4124
In % of total net FDI flows:														
CEEC5	36.0	28.2	39.3	30.0	46.9	24.4	41.3	30.0	21.8	32.7	70.9	41.2	43.8	24.4
CEEC14	0.7	-0.4	1.0	5.5	1.6	3.6	12.2	1.5	11.7	7.8	16.8	29.9	13.8	37.3
CEEC19	36.7	27.8	40.3	35.5	48.4	28.0	53.5	31.5	33.4	40.5	87.7	71.1	57.6	61.7
	<i>In percent of GDP</i>													
Total FDI stock	3.2	3.5	4.4	4.6	4.9	5.7	6.9	7.8	9.5	12.7	15.0	18.3	19.6	21.2
of which:														
CEEC5	0.5	0.8	1.1	1.3	1.3	1.6	1.9	2.0	2.3	3.2	4.2	5.1	5.1	5.5
CEEC14	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.3	0.4	0.6	1.1	1.5	2.1	2.5
CEEC19	0.6	0.8	1.2	1.4	1.4	1.7	2.2	2.3	2.7	3.8	5.3	6.7	7.2	8.0
Total net FDI flow	0.7	0.9	0.6	0.6	0.5	0.8	0.9	1.3	1.5	3.0	1.6	2.8	2.8	2.8
of which:														
CEEC5	0.3	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.3	1.0	1.1	1.2	1.2	0.7
CEEC14	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.2	0.2	0.3	0.8	0.4	1.1
CEEC19	0.3	0.2	0.3	0.2	0.2	0.2	0.5	0.4	0.5	0.2	0.3	0.8	0.4	1.1
Memorandum item:														
Nominal GDP (EUR mn)	146588	155166	160318	168070	175688	181676	185476	192266	199982	210616	216123	220906	226175	235258

CEEC5: Czech Republic, Hungary, Poland, Slovak Republic, Slovenia.

CEEC14: Albania, Belarus, Bosnia, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Moldova, Romania, Russia, Serbia-Montenegro, Ukraine.

CEEC19: CEEC5 plus CEEC14.

Source: Statistics Austria.

Table A.3. **Austria: Structure of Stock of Foreign Direct Investment in Central and Eastern Europe**¹

	Structure in percent		
	1996	2004	Change
Mining and quarrying, electricity	1.3	0.8	-0.5
Food products, agriculture, fishing	6.5	3.0	-3.4
Textiles, textile products, leather	0.5	0.5	0.0
Wood, products of wood and cork	1.1	1.4	0.3
Pulp, paper products, printing and publishing	4.2	3.4	-0.9
Chemical, rubber, plastics, fuel products	8.1	6.6	-1.5
Other non-metallic mineral products	8.5	3.5	-5.0
Basic metals, fabricated metal products	2.8	1.2	-1.6
Machinery and equipment, nes	1.2	0.8	-0.4
Electrical and optical equipment	5.7	3.5	-2.2
Transport equipment	0.6	0.6	0.0
Manufacturing nes	0.7	0.5	-0.2
Construction	5.8	2.3	-3.5
Wholesale and retail trade; repairs	18.1	9.8	-8.3
Hotels and restaurants	4.4	0.3	-4.1
Transport, communication	0.8	0.5	-0.3
Financial intermediation	20.8	46.8	26.1
Real estate, business activities	7.7	13.8	6.1
Public admin., other services	1.2	0.8	-0.4
Total	100.0	100.0	0.0
<i>of which: Manufacturing</i>	39.9	24.9	-15.0

1. Czech Republic, Hungary, Poland, Slovak Republic, Slovenia.

Source: Austrian National Bank, OeNB.

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