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Danielle Puceta
Lehigh University

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FOREIGN DIRECT INVESTMENT IN AUSTRIA AND TRADE FLOWS TO EASTERN EUROPE

Danielle Puceta

Introduction

Because foreign direct investment (FDI) has been increasing all over the world in the past decade, it is not surprising that FDI in Austria has followed a similar trend. But FDI in Austria is particularly interesting because of Austria's distinctive past. With the end of the Cold War, Austria has moved from the periphery of western Europe to the center of a now less divided region. Before the fall of the communist bloc, Austria faced different political systems in the East and in the West, but now it faces capitalism in both directions. Yet Austria remains a middleman on the boundary between the more economically stable West and the developing East. Although Austria still embraces its role as middleman, it did become a member of the European Union on January 1, 1995. With this membership it became part of the Common Market and has felt many economic repercussions. In addition, the common currency for the EU, the euro, was introduced on January 1, 1999, thus integrating the area even further. Because of the political changes in Europe and Austria's decision to join the EU, Austria now finds itself in a unique position. While it was once a middleman between political worlds, it now acts a link between economic regions.

With this shift have come assertions that Austria remains “the heart of Europe,” and that it is still a hub where companies can locate and then easily expand into eastern European countries. (Guttman, p. 16) In this essay I evaluate these claims in light of statistical data and recent surveys. In addition, I discuss the results of my own survey, one which was fueled by the fact that past surveys simply catalogued the positive and negative aspects of investing in Austria. As opposed to these past surveys, my survey was designed with the sole purpose of examining whether Austria should be considered a “gateway” to eastern European countries.
What Is FDI?

Because the term FDI is used more frequently as trade becomes increasingly international, it is important to have a clear understanding of it. The New Palgrave Dictionary defines foreign investment as "the act of acquiring assets outside one's home country." (Grubel, p. 403) Such investment is considered "direct" only if it supports the means of production or if it results in the purchase of enough equity shares to constitute a majority of a company. (Grubel, p. 405)

It is also important to recognize why this term has attracted so much attention lately. This attention could be due to the recognition that FDI is often a principal explanation for the dramatic trend toward market globalization. (Technology..., p. 211) FDI allows companies to have assets in multiple countries, exponentially facilitating the integrative effects of trade. More than ever, firms now trade within and across industries, forcing the economies of different countries to new levels of interdependence. (Technology..., p. 211)

FDI has been on the rise worldwide since the late 1980s. Why? Three major explanations have been offered. The first is that FDI results from market imperfections such as tariff or non-tariff barriers, differences in technology, or differences in wage and interest rates. Through FDI, firms attempt to take advantage of these imperfections. Firms might set up production in another country because wage rates are lower or to acquire a specific expertise. The second explanation given for increased FDI is that firms, especially those in the U.S., need places to invest their accumulated savings. Because of a lack of opportunities at home, they look abroad. The third explanation is based on transaction cost theory. It argues that large multinational firms garner advantages by having multiple locations, not just because of market imperfections but also because of the savings on the extra costs specific to international transactions. (Technology..., pp. 211–12) While it is not clear which of these three theories is the principal explanation, one fact is certain — that recently FDI has increased dramatically in virtually every part of the world.

Why Is FDI Important to Austria?

One reason FDI seems to be so integral to Austria is based on claims of its geographic centrality and its economic ties to the East. Article titles such as "Austria: a Hub for the Emerging Markets" and "In the Middle of Mitteleuropa: Austria and Eastern Europe" are illustrative. Using words such as "middleman" or "gateway" to describe Austria, many businessmen and government officials claim that Austria has strong linkages to the eastern European market. Dr. Gunter Stummvoll, the Secretary General of the Austrian Economic Chamber, states that "Austria has an important gateway function to eastern Europe" and that its "strategic position has dramatically changed since the end of the Cold War, and now Austria is in the middle of Europe." (Guttman, p. 16) But it is not just economists who are saying this. Business managers echo these sentiments as well. As Stefan Hoffinger of Julius Meinl, an Austrian supermarket chain, says, "Central Europe is the fastest growing segment of our business. We are rapidly re-investing in central Europe." (Guttman, p. 16)

These feelings seem to be common throughout the Austrian business world. Indeed, despite an economy one-tenth that of Germany, Austria is rivalling her larger neighbor in both trade and financing for markets in the newly capitalist eastern Europe. This is particularly evident in Austrian investment in neighboring Hungary. As of 1992, Austrian firms had invested more than 300 million dollars, fully 17 percent of Hungary's total FDI. ("In the Middle...," p. 70) In addition, many Austrian banks, such as Creditanstalt and Girozentrale, began to realize the need for financial institutions in these emerging markets and by 1992 had also begun to invest in the East. ("In the Middle...," p. 70) Although these facts pertain to outward FDI while this essay primarily focuses on FDI in Austria, they remain important in establishing Austria's claim to significant connections to the East.

However, Austria's strong links to the East also make her a perfect place for foreign direct investment. As Kathryn Walt Hall, the U.S. Ambassador to Austria, states, "Austria is a terrific platform for American firms to do business
in the East.” (Guttman, p. 16) And in fact, U.S. firms do seem to have a strong interest in Austria; more than 500 have now located there, apparently in the belief that Austria can aid them in reaching eastern European markets. (Guttman, p. 16) However, the question then becomes: Are U.S. firms in actuality significantly increasing their investment in Austria? And if firms are increasing their investment, what is driving this investment?

**Aggregate Statistical Data**

**Trade**

Claims that Austria has strengthening linkages to the East can be examined by analyzing aggregate foreign trade data. While the strength of linkages is hard to quantify, foreign trade statistics can be helpful, especially data on imports and exports to and from Austria broken down by regions or countries.

Data on imports by country show that total imports to Austria steadily increased each year from 1994-1998. The percentage increases in imports from the EU and Europe into Austria between 1994 and 1998 were very similar (32 percent and 36 percent), but imports from eastern Europe show greater growth (73 percent) than from any other region. Lastly, the dramatic percentage increase in imports from Romania, Ukraine, and Hungary should be noted. All increased their exports to Austria by more than 100 percent during this four-year period. (“Statistical Yearbook,” 1996–98)

Austrian exports show very similar trends. While the percentage increases in exports to Europe and the EU from 1994 to 1998 were 46 percent and 42 percent respectively, the percentage increase in exports to eastern Europe was 71 percent. (“Statistical Yearbook,” 1996–98) Once again the increase in exports to certain eastern European countries stands out. Exports to Yugoslavia increased by more than 700 percent while exports to Romania, Ukraine, and Hungary increased from between 91 to 250 percent. (“Statistical Yearbook,” 1996–1998) These data prove that eastward growth is taking place; but it is important to note that Europe and the EU are still larger trading partners on an aggregate level.

It is also useful to examine the percentage of Austrian imports and exports by country. Table 1 shows the percentage of Austria’s total imports that each country or region contributes, and Table 2 shows the percentage of Austria’s total exports that each country or region receives. These tables demonstrate that

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Percentage of Austria’s Imports by Country</th>
<th>% of Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>81.8</td>
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<tr>
<td>EU</td>
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<tr>
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<td>0.8</td>
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<tr>
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<td>Poland</td>
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<td>Romania</td>
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<td>0.2</td>
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<tr>
<td>Hungary</td>
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<td>1.9</td>
</tr>
<tr>
<td>Overseas</td>
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<td>14.2</td>
</tr>
<tr>
<td>World, Total</td>
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<table>
<thead>
<tr>
<th>Table 2</th>
<th>Percentage of Austria’s Exports by Country</th>
<th>% of Exports</th>
</tr>
</thead>
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<tr>
<td>Europe</td>
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<td>87.0</td>
</tr>
<tr>
<td>EU</td>
<td>64.7</td>
<td>65.9</td>
</tr>
<tr>
<td>Germany</td>
<td>38.1</td>
<td>38.4</td>
</tr>
<tr>
<td>Eastern Europe</td>
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<td>14.2</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>2.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Slovakia</td>
<td>0.9</td>
<td>1.0</td>
</tr>
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<td>Yugoslavia</td>
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<tr>
<td>Croatia</td>
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<td>0.9</td>
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<td>Russia</td>
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<tr>
<td>Ukraine</td>
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<td>0.2</td>
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<tr>
<td>Bulgaria</td>
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<td>0.3</td>
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<tr>
<td>Poland</td>
<td>1.2</td>
<td>1.4</td>
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<tr>
<td>Romania</td>
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<td>0.4</td>
</tr>
<tr>
<td>Hungary</td>
<td>3.9</td>
<td>3.6</td>
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<tr>
<td>Overseas</td>
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</tr>
<tr>
<td>World, Total</td>
<td>100.0</td>
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</table>

as of 1998 Europe and the EU accounted for 85.1 percent and 69.2 percent respectively of Austria’s imports and received 87.4 percent and 63.8 percent respectively of Austria’s exports. However, despite the fact that Europe and the EU still comprise the bulk of both Austria’s imports and exports, it is clear that eastern Europe’s role has been growing. While in 1994 Austria imported only 8.5 percent of its goods from eastern Europe, by 1998 this figure had increased to 11.5 percent. The same holds true for Austria’s exports to eastern Europe, which accounted for only 13.6 percent of Austria’s total exports in 1994 but 16.7 percent by 1998. Lastly, it is interesting to note that, although Hungary is a relatively small country, it has become a significant trading partner for Austria, making up 3.3 percent of Austria’s imports and 5 percent of its exports as of 1998.

The conclusion to be drawn from these trade data is that on an aggregate level the claims of Austria’s strong linkages to eastern Europe hold true. While these linkages might still not be fully developed, as illustrated by the fact that the West is still a larger trading region for Austria, the linkages with eastern Europe are nonetheless firmly in place and growing rapidly.

FDI

Having examined Austria’s linkages to eastern Europe, it is still necessary to see if foreign firms are actually increasing their investments in Austria. Data from the OECD show that direct investment inflows and outflows for Austria have increased over the period from 1986 to 1997, although the flows have been sporadic. (International..., pp. 13 and 15) In 1997 Austria attracted more direct investment at home and financed more direct investment in other countries than it had in the past 10 years. (International..., pp. 18–19)

Table 3 shows that significant portions of Austria’s outward FDI have gone to eastern European countries. Between 1994 and 1998, outward FDI to the EU increased dramatically, but so too did FDI to eastern Europe. In fact, FDI to Poland increased by nearly 1,000 percent. Of course, since eastern European countries accounted for so little FDI from Austria before, even a small absolute increase may represent a huge percentage change; however, the fact remains that Austria’s outward FDI to eastern Europe increased by 121 percent over this period. This substantial increase shows that Austria not only has established a link to the eastern European market, but that it also has begun to aid in the development of this market by investing in it.

The remaining claim to examine is whether firms, especially U.S. firms, are investing in Austria because of their desire to reach the eastern European market. The only statistic available that would aid in examining this claim is the amount of U.S. direct investment in Austria. The OECD provides data on direct investment into Austria by country, measured both by yearly inflows and by year-end position. An examination of inflows to Austria from the U.S. from 1986 to 1997 shows that investment has fluctuated wildly. (International..., pp. 54 and 61) However, it is also useful to examine the year-end position, a figure which is more stable. From 1986 until 1996 overall direct investment

Table 3
Direct Investment Out of Austria

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<tr>
<td>EU (15)</td>
<td>5.9</td>
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<td>6.7</td>
<td>12.0</td>
<td>16.7</td>
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<td>2.8</td>
<td>3.0</td>
<td>3.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>5.2</td>
<td>6.2</td>
<td>5.7</td>
<td>11.9</td>
<td>11.5</td>
</tr>
<tr>
<td>Poland</td>
<td>0.1</td>
<td>0.9</td>
<td>0.4</td>
<td>3.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>1.9</td>
<td>3.0</td>
<td>2.5</td>
<td>3.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Slovakia</td>
<td>0.6</td>
<td>0.6</td>
<td>0.8</td>
<td>0.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1.8</td>
<td>1.3</td>
<td>0.7</td>
<td>2.2</td>
<td>3.1</td>
</tr>
</tbody>
</table>

from the U.S. increased by about 14 billion Austrian shillings. Most interesting is the fact that from 1996 to 1997 the U.S. investment position increased by 29 percent. (International..., p. 61) Taken together, these data support the claim that U.S. companies are in fact beginning to invest more heavily in Austria.

However, although trade and FDI data have lent support to the claims that Austria has linkages to eastern Europe and that increasing numbers of U.S. firms are investing in Austria, there are no data to prove a direct correlation between the two. In other words, one cannot be sure that the increase in U.S. investment is related to Austria's increased role in eastern Europe. To examine this one must study micro-economic data.

Surveys on Austria's Investment Climate

The U.S. Chamber of Commerce in Austria undertakes an annual survey called the “U.S. Investor Confidence Survey.” Although past surveys focused mainly on the structural and industrial aspects of Austrian business, the 1997 survey also gathered data on the “investment climate” in Austria in order to determine “the level of satisfaction with individual investment decision factors.” The survey polled 340 U.S. subsidiaries, and 177 firms replied — a 52 percent response rate. (p. 12) It found that among the “most highly valued positive investment factors in Austria” were its desirable central geographical location, its advanced infrastructure, its highly skilled labor force, and its social and political stability. (p. 11) The survey also identified certain negative factors for location in Austria such as its high costs, which were most pronounced in the areas of labor, energy and telecommunications. (p. 11) For each positive investment factor the survey calculated the percentage of firms that indicated the factor was good or very good. Most relevant to this essay is the survey’s finding that 73 percent of the companies who responded stated that access to central and eastern European market was good or very good. (p. 12)

The “U.S. Investor Confidence Survey Update 1998” sought to determine whether the negative factors identified in the 1997 survey had improved. This survey identified the positive characteristics of investing in Austria to be the same. And although it identified the same negative factors, primarily the high cost of doing business in Austria, it did indicate that some progress had been made in these areas. (p. 7) The survey also reported that between 1994 and 1997 the annual growth rate of FDI in Austria was 15 percent. (p. 8) The survey claimed that this strong rise in FDI was due not only to the previously noted advantages of locating in Austria, but also to Austria’s entry in the EU, the growth of the central European market, the economic recovery taking place all over Europe, and the efforts of the Austrian government to liberalize the telecommunications and energy industries. (p. 8)

In September 1999 a third survey focused on the importance of East-West trade to Austria. (“Austria Base for U.S. Business”) The survey was sent to over 200 U.S. subsidiaries. The methodology also included interviews, and more than 100 firms added input. (p. 17) It found that 72 percent of the companies that participated had their central and eastern European headquarters in Austria. (p. 17) The survey also found that the positive and negative characteristics of investing in Austria continued to be the same as those mentioned in the first two surveys. In this third survey many additional questions were asked concerning how companies had fared in expanding to the eastern European market. The answers to these questions tended to be highly polarized: either they were very positive or very negative. (p. 25) The survey found that companies that had set up production facilities in the eastern European market were highly satisfied largely due to the lower labor costs. However, companies that were more service-oriented tended to be not as satisfied. Rather, they found that the eastern European countries were not sufficiently developed in areas such as infrastructure to ensure the success of their new ventures. Reasons cited as causes for some firms withdrawing from the central and eastern European market included political instability, high crime rates, unpredictable legislation, and underdeveloped markets that were not yet ready for their firms’ products. (p. 25)

Lastly, the survey found that two-thirds of the managers interviewed believed that it was
important or very important for their companies’ central and eastern European headquarters to be located in an EU country. (p. 18) The managers also indicated that to ensure that Austria remains a vital part of East-West trade, the Austrian government must address the previously noted negative aspects of investing in their country. (p. 26)

Independent Survey

While these three surveys went a long way in exploring Austria’s link to East-West trade, they did not address the question of whether U.S. firms were actually increasing their investment because of Austria’s access to the eastern European market. Therefore, I designed a survey to elicit information not only on why U.S. companies decided to invest in Austria, but also on how both the positive and negative factors compared to their expectations. In addition, my survey asked if these companies planned to expand in the future, and if one of the primary reasons that the responding companies had located in Austria was access to the central and eastern European market. (A list of the survey questions has been provided in the Appendix.)

Methodology

The most comprehensive up-to-date list of U.S. subsidiaries in Austria is the “U.S. List 1999,” published by the U.S. Chamber of Commerce in Austria. This list includes over 340 U.S. subsidiaries of which 201 had e-mail addresses listed. In the fall of 1999, all 201 of these companies were e-mailed a copy of my survey. However, 88 either had e-mail addresses that were no longer correct or they responded that, even though they were listed in “U.S. List 1999,” they were not true U.S. subsidiaries. Of the remaining 113 firms, 16 companies responded (a response rate of 14 percent).

Results

Although the “U.S. List 1999” is a broad cross-section of firms, only 2 of the 16 companies (12.5 percent) that responded to my survey were involved in manufacturing. The rest were either involved in sales and marketing or in some other form of business. The sizes of the companies as measured by the number of worldwide employees varied considerably, ranging from 25 to 90,000 employees.

Austria as a Gateway

The first claim I wished to analyze was if Austria is indeed a “gateway” to central and eastern Europe. My survey had two questions designed to determine whether U.S. subsidiaries were actually utilizing their locations to export products to the central and eastern European market and whether U.S. subsidiaries felt that their location in Austria had a sufficient impact on the central and eastern European market to be considered their headquarters.

The survey asked companies to list in order where their final products or services were consumed. A very large number (8 of the 16 firms) said that Austria was the primary country in which their products were consumed. In addition, half of those companies that ranked Austria first also ranked the central and eastern European market second or third. Although the western European market was ranked first by 3 of the 16 firms (19 percent) in my sample, the central and eastern European market was not far behind with 2 of the 16 firms ranking it first. These findings seem plausible since one would expect that a U.S. subsidiary located in Austria, even if attempting to export to the central and eastern European market, would also focus its attention on Austria. However, a more subtle point is that the central and eastern European market may be challenging the western European market. This possibility is suggested by the fact that the percentage of companies that ranked the central and eastern European market first is just slightly lower than the percentage of firms that ranked the western European markets first. Further evidence of this possibility lies in the fact that, of those companies that ranked Austria first, half still exported a significant amount of their products to the central and eastern European market.

The second question intended to evaluate the linkages between Austria and the East asked if the company’s central and eastern European headquarters were located in Austria. Ten of
the 16 firms (63 percent) stated that their headquarters were in Austria. However, this finding becomes more interesting when combined with information from another question, which asked if access to the central and eastern European market was a factor in the firm's decision to locate in Austria. Although this question will be analyzed later in some detail, 10 of the 11 companies (91 percent) saying that access to the central and eastern European market was an important factor in their location also said that their central and eastern European headquarters were located in Austria. In addition, all 5 firms that said access to the central and eastern European market was not a factor in their location in Austria also said that their headquarters were not located in Austria. One would, of course, expect these two responses to be correlated, but the strength of the correlation is notable. The fact that a majority of U.S. subsidiaries have their headquarters in Austria indicates that there do appear to be strong connections between Austria and the East and that Austria can legitimately claim to be a gateway to the East.

Access to East Drives FDI

I will now turn to the second set of claims: Were these linkages to the East what has been driving FDI in Austria or has FDI been due to some other reason? To gather this information, my survey asked firms what influenced their decision to locate in Austria. One question asked if access to the central and eastern European market was an important factor in

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Chart 1:
Important Factors for Location

- Access to the Western European Market: 31%
- Availability/Quality of Austrian Infrastructure: 43%
- Productivity of Workforce: 31%
- Political/Social Stability: 43%
- Austria's Membership in the EU: 25%
- Austria's Acceptance of the Euro: 6%
- Access to the Central and Eastern European Market: 68%

Percent of Firms that Cited Factor as Important
locating in Austria; another question allowed firms to indicate those factors (from the choices provided) that influenced their decision. Chart 1 displays the results.

As the chart demonstrates, access to central and eastern European markets was chosen by 68% (11) of the 16 responding firms as a reason to locate in Austria. The next two most often chosen factors were the quality of Austrian infrastructure and the political/social stability in Austria. These results imply that access to the central and eastern European market is an important reason for many firms’ location decisions. Lastly, membership in the EU and acceptance of the euro seem to have had little impact on the location decisions of U.S. subsidiaries. Both are recent changes and their full effects perhaps are yet to be felt; however, the low percentages observed here suggest that these rather dramatic changes have not led to a rush in FDI.

Central and Eastern European Access Exceeding Expectations

The story of Austria’s linkages to the East as a driver of U.S. FDI is almost complete, but what remains is to evaluate whether these linkages are successful. After each firm indicated which factors were important in its decision to locate in Austria, I then asked whether these factors fell below, met, or exceeded the firm’s expectations. However, the question asking how access to the central and eastern European market compared with the firm’s original expectations was slightly different than the one asking about the other factors. This question asked if revenues from the central and eastern European market had fell below, met, or exceeded the firm’s expectations. Only 2 of the 16 firms (12 percent) said that revenues from the central and eastern European market were below their expectations. By way of comparison, 9 of the 16 firms (56 percent) stated that revenues from the central and eastern European region met or exceeded their expectations. If one looks only at those companies that stated that access to central and eastern Europe was a factor in their location choice, the percentage of companies satisfied with the revenues to central and eastern Europe is even higher: 9 out of 11 (82 percent).

Turning to the other factors that influenced location decisions, 7 of the 16 firms surveyed (43 percent) believed that the two second-most-cited location factors, the quality of Austrian infrastructure and Austrian political and social stability, met or exceeded their expectations. Four of the firms surveyed (25 percent) said that access to western European markets met or exceeded their expectations, and 5 of the firms (31 percent) said that the quality of Austria’s workforce met or exceeded their expectations. Lastly, Austria’s membership in the EU was cited by only 4 of the 16 firms and Austria’s acceptance of the euro was only cited by 1 firm; but of the companies that cited these two factors, all said that their expectations were met.

These findings suggest that all the factors, including access to the central and eastern European market, cited by firms as reasons to locate in Austria generally met or exceeded firms’ expectations.

Continued Growth

One of the final goals of my survey was to discern whether FDI will continue to grow, and two questions attempted to shed light on this area. The first question asked about changes in employment levels in the past and expected changes in employment levels in the future. Only 2 of the 16 companies responded that their employment levels had increased between 1987 and 1995. However, this number increased in the period between 1995 and 1999 when 5 firms said that their employment levels increased. Probably most interesting is the fact that 9 of the 16 firms (56 percent) expected to increase their employment levels between 1999 and 2002.

In addition to gathering information on expected growth through employment increases, the survey also asked companies if they planned on expanding investment in equipment or facilities in the near future. Interestingly, half of the firms said they did. Of the 8 firms that said they planned on expansion, half said that they planned on expanding by 1 to 25 percent, 3 said they planned on expanding by 26 to 50 percent, and one said it planned on expanding by 76 to 100 percent. The most significant conclusion to draw from these two questions seems to be that the firms do expect growth to continue.
Obstacles

Finally, it is important to analyze the barriers to FDI that U.S. subsidiaries have faced in Austria. This subject was approached in two different ways: one question asked companies to identify obstacles to access to the central and eastern European market, and another question asked companies to choose among a list of general obstacles to locating in Austria. From these two questions, conclusions can be drawn about how to improve the environment for FDI in Austria.

The 11 companies that had said that access to the central and eastern European market was an important factor in their location decision were asked to indicate the obstacles that they believed had inhibited access to this region. By far the most frequently cited obstacle was the lack of economic stability of the central and eastern European region. Of the 11 companies, 6 cited economic instability as an obstacle, and 4 cited political instability and social instability of the region as obstacles. Three of the 11 also believed that undeveloped infrastructure and underdeveloped markets not yet ready for the companies' products acted as obstacles to the central and eastern European market. Only 1 of the companies said that there were no major obstacles.

In a separate question, my survey also asked firms to choose from a list which obstacles they anticipated and to evaluate how the reality of those obstacles compared to their expectations. The high cost of labor and the high regulatory burden was cited by 7 of the 16 firms (44 percent) as an obstacle they expected to face. However, only 1 of the 7 said that the cost of labor was higher than they expected, while 3 of the 7 said that the regulatory burden was higher than expected. Five of the 16 companies (31 percent) cited the high cost of energy as an obstacle they expected to face, with 3 of them saying that this obstacle was higher than they expected. Lastly, the cost of telecommunications was anticipated by only 4 of the 16 firms (25 percent). However, 3 of the 4 firms thought that this obstacle was higher than they expected.

By far the most obvious conclusion to be drawn from these findings is that there were no costs in Austria that were lower than firms expected. This finding is consistent with those of other surveys that have done comparative analyses showing the high costs in Austria. The findings also demonstrate that in many cases firms do anticipate just how high costs are in Austria, but in some cases (e.g., the cost of telecommunications and the regulatory burden), firms still tend to underestimate costs.

It is also clear that there are barriers to FDI from the central and eastern European region as well as from within Austria itself. Although the barriers in reaching the market of central and eastern Europe tend to be based on the instability of the region and lie outside of the control of Austria, the barriers within Austria can be addressed. Simply put, if Austria can lower its costs in sectors such as telecommunications and energy as well as labor and regulation, it will probably facilitate FDI.

Conclusion

In this article I have analyzed FDI and its importance to Austria, while examining the plethora of claims asserted about Austria's linkages to the East. These claims assert not only that Austria has significant linkages to the East, but that these linkages uniquely qualify Austria as a perfect candidate for FDI. The purpose of my article was to discern whether these claims are valid.

After an analysis of statistical data on both trade and FDI, it became apparent at least on an aggregate level that many of these claims are true. In addition, my own survey results strongly support the many claims of Austria's linkages to the East. In fact, the results demonstrate not only that FDI in Austria is driven by access to the central and eastern European market, but also that access to the central and eastern European market is cited more frequently than any other factor driving FDI in Austria, including Austria's membership in the EU and Austria's acceptance of the euro. Finally, my findings suggest that access to the central and eastern European market has generally met or exceeded expectations. Due to the success of the primary driver of FDI in Austria, it seems that the claims made about Austria's connection to the East are not only true, but also that the ties between the two will continue to grow.
Appendix

Survey Questions

U.S. Investment in Austria and East-West Trade

1) Company Name: ____________________________________________________________

2) What are your company's primary activities in Austria? (choose one)
   ◦ Manufacturing
   ◦ Marketing/Sales
   ◦ Other Services

3) Including subsidiaries and other offices of your company, if any:

■ Approximately how many employees work for your company world-wide?
■ Approximately how many employees work for your company in Austria as of November 1, 1999?
■ Approximately how many employees worked for your company in Austria as of January 1, 1995?
■ Approximately how many employees worked for your company in Austria as of January 1, 1987?
■ Please estimate, roughly, how many employees you plan to have as of January 1, 2002?

4) What year was your company first located in Austria?

5) Thinking back to when your company located in Austria, was access to the central and eastern European market a very important factor?
   ◦ Yes
   ◦ No → If no, skip to 6

   Would you say that revenues from the central and eastern European market have:
   ◦ Greatly exceeded your expectations?
   ◦ Exceeded your expectations?
   ◦ Met your expectations?
   ◦ Been below your expectations?
   ◦ Been far below your expectations?

What have been the primary obstacles, if any, to access to the central and eastern European market?
   ◦ Political instability
   ◦ Undeveloped infrastructure
   ◦ Social instability/security problems
   ◦ Underdeveloped market not yet ready for your product
   ◦ Economic instability
   ◦ No major obstacles
   ◦ Other → If so, what________________________________________
6) When your company located in Austria, what other factors were very important? (Check all that apply)
   ◦ Access to western European markets
   ◦ Availability/quality of Austrian infrastructure
   ◦ Productivity of workforce
   ◦ Political/social stability
   ◦ Austria’s membership in the EU
   ◦ Austria’s acceptance of the euro
   ◦ Other → If so, what __________________________

7) Considering the factors that influenced your company to locate in Austria, how did the actual results compare to your original company’s expectations:

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<th>Exceeded</th>
<th>Met</th>
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<td>Access to western European markets</td>
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<td>Availability/quality of Austrian infrastructure</td>
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<td>Productivity of workforce</td>
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<td>Political/social stability</td>
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<td>Austria’s acceptance of the euro</td>
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<td>Other (only if used in question 6)</td>
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8) When your company located in Austria, what obstacles did your company anticipate?
   ◦ High regulatory burden
   ◦ High costs of labor
   ◦ High cost of energy
   ◦ High cost of telecommunications
   ◦ Other → If so, what __________________________

9) Considering the obstacles that your company anticipated when locating in Austria, how did the actual costs compare to your original expectation:

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<td>Regulatory burden</td>
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<td>Cost of labor</td>
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<td>Cost of telecommunication</td>
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<td>Other (only if used in question 8)</td>
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10) Considering only the business generated by your Austrian operations, rank in order where your final products/services are consumed.
   ◦ Austria
   ◦ western European market
   ◦ central and eastern European market
   ◦ U.S.
   ◦ Asia
   ◦ Other

11) Is your company’s central and eastern European market headquarters located in Austria?
   ◦ Yes
   ◦ No
12) Does your company plan to expand its investment in equipment/facilities in Austria in the near future?
   ◦ Yes
   ◦ No

If yes:

By what percentage do you plan to increase?
   ◦ 0%-25%
   ◦ 26%-50%
   ◦ 51%-75%
   ◦ 76%-100%
   ◦ More than 100%

REFERENCES

"Austria Base for U.S. Business in New Eastern Europe."
U.S. Chamber of Commerce in Austria. Vienna, September 1999.


