„Analysis of Active Foreign Direct Investments of Austria – The influence of Active FDI of Austria in CEE on the employment and trade in Austria“

verfasst von

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<th>Description</th>
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<tr>
<td>bmsak</td>
<td>Federal Ministry of Labor, Social Affairs and Consumer Protection</td>
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<td>BIT</td>
<td>Bilateral Investment Treaty</td>
</tr>
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<td>BoP</td>
<td>Balance of Payments</td>
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<td>CEC</td>
<td>Central and Eastern European Countries</td>
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<td>CEE</td>
<td>Central- and Eastern Europe</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>Eurostat</td>
<td>Central Statistical Office of the European Communities</td>
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<td>FDI</td>
<td>Foreign Direct Investments</td>
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<td>FREA</td>
<td>Foreign Real Estate Assets</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>MNE</td>
<td>Multinational Enterprise</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>OeKB</td>
<td>Austrian Control Bank</td>
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<td>OeNB</td>
<td>National Bank of Austria</td>
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<tr>
<td>SME</td>
<td>Small- and Medium- Sized Enterprises</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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1 Abstract

The aim of this master thesis is to analyze the active foreign direct investments (FDI) of Austria in the period of 2000 to 2010. The main focus lies on the active FDI of Austria into Central and Eastern Europe and their influence on the employment and trade in Austria. The focus on employment and trade is because in the literature apply these two factors as dependence or influence able of foreign direct investments.

There have been many studies that investigate the influence of active FDI in the host country but only few studies deal with the influence on the home market. Also most of the studies limit their investigation to a certain amount of companies and examine the influence on the company’s headquarters in the FDI home country.

The examination of the active FDI is almost limited to Central and Eastern Europe. A reason for the limitation is the availability of information of the different industries. Independently, a full investigation of the influence of active FDI of Austria on the whole home market is beyond the frame of this master thesis. The reason for this period is because from 2000 on the importance of foreign investments increased rapidly and there were also some major changes in type of valuation in this period. However, this is a difficult period to analyze regarding the financial crisis in 2007, although the reaction of the foreign investments first took place in 2009.

This thesis investigates the findings of different studies which examined the influence of active FDI on the employment and the trade on Austria and also internationally. It provides a consistent summary of this topic and the results. Because of the amount of different studies which are investigated this thesis provides clear results in the area of FDI and the employment at the home country.

Most of the data that are used to analyze the active FDI of Austria are from the database of the National Bank of Austria. The data for the international comparison are from the database of the World Bank, Central Statistical Office of the European Communities, the European Central Bank and of the reports of the United Nations Conference on Trade and Development.
2 Introduction

The economics literature has developed a variety of explanations for FDI. Early approaches - such as the theory of capital movements - set FDI equal with portfolio investments and justify with international interest rate differentials, i.e. with the motive of obtaining a higher return on investment (Caves, 1971). In the sixties market imperfections got into the focus of the analysis: The resulting industrial economic approaches saw FDI mainly as a tool to exploit monopolistic advantages of a company (e.g. knowledge) abroad (Hymer, 1976). Also in the sixties the “product life cycle theory” was created that interprets FDI as a form of production for mature products (Rugman, 1979).

Other approaches explain FDI with strategic behavior or the desire for risk diversification. The dominant approach to date to explain FDI goes back to Dunning (1980); he has integrated different theoretical approaches into the “eclectic paradigm” or “OLI-Model”. After Dunning, the size of geographical distribution and the structure of international production activity of a MNE are determined by three main variables: ownership-specific advantages of the company, location advantages of individual countries and benefits from the internalization of transactions within the company (Conner, 1991).

Newer approaches put management issues in the focus, or attempt to install an evolutionary component, through considering changes of ownership-specific advantages over time. These include (Buckley/Casson, 2002):

- Different investment motives (e.g. resource-oriented, sales market-oriented, cost-oriented or strategic) and restrictions (control-, resource- and risk-considerations) of the organization.
- Different actors from different sectors, e.g. MNCs, SMEs at the beginning of their internationalization, state enterprises, investments such as sovereign wealth funds, hedge funds and private equity firms.
- Different types of markets, competitive structures (e.g. monopolies, oligopolies, monopolistic or atomistic competition), market sizes and maturity levels.
At the very beginning there is a need to define exactly the different types of FDIs (e.g. active and passive FDI including/excluding Special Purpose Entities and real estate) or the different ways of FDIs (e.g. Joint Ventures, Greenfield Investments, Brownfield Investments, Merger & Acquisition…).
3 Definition of Important Terms

The chapter “definition of important terms” gives an overview about the most important terms in the area of direct investments. There is, at the beginning, a basic definition and explanation of important terms of the paper. All the different terms regarding the data collection of the OeNB are defined according the guidelines of the OeNB. This is a necessary act to guarantee a compelling way of description to understand the data provided by the OeNB.

There are basically two different types of capital exports, the Direct Foreign Investments and the Indirect Foreign Investments. In the first case it is important for the investor to directly control the resources. In the second case the investor only wants to achieve profits from resources which are controlled by others. A foreign investment is a transfer of internal capital into foreign countries. There are FDI and Portfolio Investments (Freericks, 1998).

The FDI are going to be explained in detail in the following chapters. A Portfolio Investment is the transaction of internal capital into a foreign country to gain receivables which do not have direct property rights (Freericks, 1998). An example would be a share of a property fund if there is no influence on the company’s policy. For decisions on portfolio investment usually assume a return - and risk calculations. In which the fixed or variable interest rate of the security paper as well as opportunities for profit from anticipated price movements in securities markets as well as considerations for risk diversification is included (Gabler Wirtschaftslexikon, 2013). The portfolio investments are not going to be explained more in detail in this paper.

3.1 Definition and Explanation of FDI

FDI are recorded in the process of building the Balance of Payment (BoP). Basically a FDI is long-term capital invested in foreign companies that ensures the basis of a share of at least 10% of the share capital significant influence over the company's operations. There are active FDI or passive FDI, which will be explained in detail. Furthermore, current operations within a reporting period (FDI flows) are to distinguish from the stocks to the period end. Further differentiation relates to the method of financing, equity and other direct investment capital for example in-house financing, primarily through loans (OeNB, 2012).
3.1.1 **FDI flows and the stock of FDI**

FDI flows include all the transactions which are necessary for a FDI relationship and all subsequent transactions between the direct investor and the direct investment company. This includes the acquisition of stocks or other shares in existing companies abroad and also shares of their reserves and the transfer of capital to create an organization abroad (Greenfield investments). In addition to the capital increase there is the possibility of corporate credits from the parent to the subsidiary and also reinvested earnings of foreign subsidiaries (Neuhaus, 2006).

Another focus has the “based-perspective” (stock of FDI) that considers the capital stocks in FDI companies at a specific time. This view corresponds to the role of FDI assets. The capital stock includes the held equity and credit relations between a direct investor in a direct investment company (Freericks, 1998).

The FDI flows affect the stock of FDI but it is not possible to conclude from the change in the capital stock directly on the flow of capital, or vice versa. The changes in the capital stock are influenced by various situations that do not lead to capital movements. The capital stock is also influenced of exchange rate changes, new policies (e.g. adaption to international accounting standards), etc. (Kinoshita, 2010).

3.1.2 **Active and Passive FDI including/excluding SPEs and real estate**

For all investments and divestments is always stated the net value. Active FDI excluding SPEs and real estate are gained by subtracting the net investment of SPE and the net investment in foreign real estate assets from the active FDI including SPEs and real estate (OeNB, 2012).

Active FDI including SPEs and real estate

- Special Purpose Entities
- Foreign Real Estate Assets

= Active FDI excluding SPEs and real estate
The total capital of the FDI excluding SPEs and real estate is found in the assembly and cutback of capital and in reinvested earnings and changes in "other capital" (mainly intercompany credits). The regional classification is based on the residency of the objective of the investment (OeNB, 2012).

Negative values correspond to net investment abroad, thus means an outflow of capital from e.g. Austria. Positive values are the result of a reduction of active FDI and therefore a capital return. On the other hand, a passive FDI indicates the amount of transactions relating to strategic shareholdings in e.g. Austria of foreign investors made during a certain period. Positive values correspond to net investment in Austria, thus confer an inflow of capital to Austria, negative values are the result of a reduction of inward FDI and therefore a capital outflow (OeNB, 2012).

3.1.3 Special Purpose Entity

Special Purpose Entities are companies that are established for a defined purpose, e.g. perform a rental business, a research- and development-activity, or a securitization of financial instruments etc. (Crawford/Fredericks, 2003). Often such SPEs are an instrument of “off-balance sheet balancing”. Off-balance sheet balancing means the relocation of activities in a subsidiary that is not included in the consolidated financial statements (FIW – Research Centre International Economics, 2011). Under International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (U.S. GAAP), there are specific rules in which cases SPE should be consolidated (Crawford/Fredericks, 2003). The most important reasons for creating a SPE are:

- **Securitization:** Conduits and Structured Investment Vehicles (SIVs) are special purpose entities for funding. By buy once or continuously receivables (assets) and refinance the purchase price via securitization by issuing securities, this is called asset-backed security.

- **Risk sharing:** In construction it is a common form of cooperation for the implementation of major projects. Each partner is responsible for a clearly defined
service. SPEs are also used by banks to pass financial risks to the capital market or to spin off its financial statements. This is possible if the legal threshold of consolidation rules is not exceeded.

Finance SPEs often have their headquarter in countries with favorable tax laws, or small start-up barriers, called off-shore-financial centers or off-shore banking centers such as the Bahamas, the Cayman Islands or the Isle of Man (Crawford/Fredericks, 2003).

The increasing complexity of corporate structures complicates the statistical presentation and interpretation of the data. For example, the SPEs, which were built for tax considerations, inflate the FDI statistics. These companies do not develop any economic activities abroad. They are therefore presented separately in the statistics and excluded from the more detailed analysis (bmwfi, 2012).

3.1.4 FDI in the Balance of Payments
The balance of payments is based on international law principles, which the OeNB commits to regular reporting to the European Central Bank (ECB), the Central Statistical Office of the European Communities (Eurostat) and the International Monetary Fund (IMF). These organizations also specify content and form of the BoP. The Balance of Payments Manual of the IMF affects the methodology of compiling balance of payments statistics and describes content and definitions (IMF, 1993).

Further specifications of EU and ECB determine the delivery obligations of nation states. In addition to the ECB guideline there is an EU Regulation since 2005. The Commission's proposal for this regulation was already taken into account for the new reporting system in Austria. Also considered should be the international standards for national accounts (OeNB, 2012).

The big difference between a balance sheet in the business sense and the balance of payments is that the BoP covers flows and not the stocks. Another difference to the business balance sheet is that the debit and credit side are combined into a column. But the principle of double-
entry bookkeeping is also used in the balance of payments. For every booking must be a counter-entry. The balance of payments as a whole is always balanced. The BoP mainly consists of two bookings:

- **Current Transaction** (value-based detection of a good).
- **Financial Transaction** (acquisition of assets and property rights).

Thus it is clear that the balance sheet must always be balanced. Surpluses or deficits can only occur in sub-balances. However, only a few countries have permanently balanced current- and capital account. Whether an imbalance of a country has short or long term positive or negative effects is difficult to evaluate, based on the balance of payments. Macroeconomic factors and the overall economic situation of a country are important, so that current account imbalances can only be assessed by using additional information. The balance of payments in accordance with the guidelines of the IMF consists of the current account and the capital account (OeNB, 2012).

In the current account, the external balance, which consists of the movement of goods (trade balance) and services (services account); the labor and capital income (net of acquisition and investment income) and current transfers (transfer balance sheet) are combined. Together these sub-balances devote the current account balance (OeNB, 2012).

In the capital account all the changes in assets and liabilities are recognized towards abroad. The two possible booking here are, capital exports (i.e. increase or decrease in the receivables to foreign countries), as well as import of capital (i.e. increase in assets or decrease in liabilities to foreign countries) (OeNB, 2012).

\[
\text{capital account = capital inflow} - \text{capital outflow}, \text{capital account} < 0 = \text{net capital export}
\]

Capital inflows can be found on the debit side and capital outflows on the credit side. The difference between capital export and capital import is referred to as “net capital export”. This can be positive (outweighs of import) or negative (outweighs of export). In the capital account balance, which is part of the BoP, it is therefore the reverse to the current account. If it is less
than zero, the capital outflows are greater. If it is greater than zero, the capital inflows outweigh. In Austria, the OeNB divides the capital account into four sub-accounts:

- **FDI**: include all investments by companies in foreign companies and vice versa, by more than ten percent.
- **Securities**: include shares, mutual fund, pension value and other money market instruments.
- **Financial derivatives**: futures.
- **Credit transactions**: are divided into short-term and long-term credit transactions.

Moreover, there are other investments and the balancing item is not statistically attributable to capital movements (OeNB, 2012).

### 3.2 The OLI-Model

As mentioned at the beginning of this paper, there are a lot of theoretical explanations to engage FDI and their effects. The most frequently cited is the “eclectic paradigm” or “OLI-Model” of Dunning. It unites the ownership advantages, location advantages and internalization advantages (Dunning, 1980). Dunning assumes that a company has three different ways to become active in other markets than its home market. It can export its products; it can grant licenses to foreign companies; it can do FDI. For a company that opts for FDI, there are three conditions or advantages that must occur simultaneously (Talamo, 2006).

- **Companies must have ownership specific advantages** that compensate the disadvantages over host country firms that occur when processing unknown foreign markets. Such company-specific benefits include expertise projections, specialization benefits or patented products (Dunning, 1988).

- **Companies will produce abroad**, if location specific benefits grant a production abroad to be more advantageous than a production in its own country. This is called a location specific advantage of countries. Location specific advantages can be, for example, market size, barriers to entry, input prices, infrastructure or political stability. The location advantages are the pull factors for FDI (Dunning, 1988).
- Ultimately, it must be profitable for the company, to produce itself (internalization) instead of giving a license to a company in the host country. Internalization advantages are i.e. benefits of in-house production and / or marketing and include the avoidance of transaction costs, negotiation costs and control costs (Dunning, 1988).

<table>
<thead>
<tr>
<th>Form of market entry</th>
<th>Ownership advantages</th>
<th>Internalization advantages</th>
<th>Location advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensing</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Export</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>FDI</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 1: Different types of market entry according the OLI-Model

Source: Setzer (2001, modified)

This OLI-Model of Dunning shows that FDI cannot be justified monocausally. The influence of the advantages in different countries, sectors and companies is dissimilar. Basically, companies want to fulfill their expectations of profitability also by an investment abroad. In the long term there is always the optimizing of profits as the decisive motive for whether and where FDI is made. The major criterion for deciding in which country or region an FDI is made is the location advantage (Talamo, 2006). Classical location advantages of developing countries are explained by Caves (1996):

- Low wage levels (efficiency seeking FDI).
- Fast-growing markets, where the market shares are not distributed among the competitors (market seeking FDI).
- High import duties that make the import of goods from foreign countries unprofitable (tariff hopping FDI).
- Natural resources are localized, because of this; the transnational corporation has no choice than to invest in the land where the natural resources are. Resource seeking FDI will therefore also take place in countries where political stability and legal security do practically not exist.
A weak environmental law and social legislation attracts “dirty” products and production processes, which are in the industrialized countries either legally prohibited or only after substantial investment in filter systems feasible.

3.3 Different Ways of FDI

After the definition of the most important terms and the origin of FDI, it is necessary to define the different ways in which FDI could take place. There are three major classifications types that focus on the integration into the enterprise process. There are horizontal, vertical and conglomerate FDI (Mudambi/Mudambi, 2002).

When an entity in the recipient country produces the same products as in the donor country, then it is called horizontal FDI. Either all of the products and services or just individual sections are added to the production in the recipient country which produces parallel to the donor country, to serve the market locally (European Commission, 2006).

For vertical FDI it is not the kind of service at the market that is important, but the degree of concentration of production processes. If a company separates individual production stages geographically to take advantage of factor price differences between countries, it is called a vertical FDI (European Commission, 2006). Inputs are getting imported from the parent company of the outsourced production stage and again after processing they are going to be exported for further processing or for sale. These production stages may be up-streamed or down-streamed with respect to the production in the donor country (Haas/Neumair, 2006).

In forward-facing vertical FDI either end-products or intermediate products are produced in the donor country, which go into the production of the offshore company. At high complexity of market access in downstream stages, there is sometimes no choice as a forward, vertical direct investment (Haas/Neumair, 2006). In the backward-facing vertical FDI raw materials are obtained or produced in the recipient country. Either they go into production in the donor country or are sold independently (European Commission, 2006).
An investor makes a conglomerate FDI, if the FDI has no relation to the donor country’s production (European Commission, 2006). For example, a fashion chain acquires a hotel chain abroad (Haas/Neumair, 2006). With this type of FDI promising new markets are opened internationally and risks are scattered by the compensation possibilities of the individual foreign markets and industries (European Commission, 2006).

![Figure 1: Different ways of FDI](source: Talamo (2006, modified))

Figure 1 explains the different possibilities of FDI in detail and it further explains the coherences of the different ways of FDI. The four types, Greenfield investment, Brownfield investment, Merger & Acquisition, and Joint Venture, are going to be explained in detail.

### 3.3.1 Greenfield and Brownfield Investment

Experts describe Greenfield investment as a new construction of a production plant abroad. It is linked with a completely unknown territory where the new direction takes place. Greenfield investments have economic reasons. For example, the reduction of production costs and the reduction of transport cost. Further reasons are the larger sales opportunities on the foreign market or the closeness to the market and consumers. In addition to the rebuilding of manufacturing also merging of companies and the acquisition of companies are developments of Greenfield investment (Finanz-lexikon, 2013). The Brownfield investment is
related to the Greenfield investment and it is becoming more and more popular. The difference is that the company that invests abroad does not construct a new production plant but rather uses an existing plant and uses this for another purpose (Lorenzen, 2011).

3.3.2 Merger & Acquisition

With the term “merger and acquisition” is usually meant a union or fusion of two companies into a single legal and economic entity (Merger) or the acquisition of business units or an entire company (Acquisition). During a merger, the assets of the participating companies will be merged either as an independent organizational unit which remains in the network or as a newly created entity. In a majority acquisition there are usually the assets of the target company integrated in the buyer company. The base of such a transaction is always the transfer of ownership of a company and thus the transfer of perceived active management and control rights. The acquisition of property rights is made either directly through the purchase of voting shares (share deal) or in the form of an asset deal, the acquisition of all existing assets and liabilities for cash (cash offer), in exchange for shares of the buyer (stock swap) or other securities or as a hybrid of these two methods of payment (Raff et al., 2009).

A merger involving two or more companies which are merged economically, with or without previous share purchase may make sense for two major reasons. First, a merger may be necessary as a completion of a corporate acquisition, with legal, organizational or tax reasons dominating. In legal and organizational terms, a merger may be a necessary part of the integration process. Finally, in some cases only by merging the use of a loss carry-forward of the target company or the profit-reducing potential creation of additional depreciation is possible. The second major reason for a possible merger, an M&A transaction as a merger of equals is to be structured. Here, two companies merge, whose value ratio is about the same (Eicher/Kang, 2005).
3.3.3 Joint Venture

An equity joint venture is a legally independent joint venture of two or more partners with equity participation. The partners are each involved with capital in the joint venture, jointly carry the financial risk of the investment and take leadership roles in the true joint venture. The shareholding of the partners may also vary, usually affects the amount of equity the amount of decision-making power of the companies involved in the joint venture. By a contractual joint venture there is no joint venture set up, it only exists as a contractual relationship that governs cost, risk and profit distribution (Bevan/Estrin, 2004).

Joint ventures can be distinguished on numerous criteria. These include the number of partners, the cooperation area (restriction of the domain such as production joint venture vs. total entrepreneurial joint venture), the location, the geographical area of cooperation, the equity (equal and unequal shares of the partners) and the time horizon of the cooperation (Mudambi/Mudambi, 2002).

Major reasons for founding a joint venture are the allocation of business risk in two or more partners and the use of local market knowledge of the partner company. Combining the strengths of their own company with the strengths of the partner company allows the realization of synergies and competitive advantages. Some of the problems of joint ventures are competition regulations, the high degree of coordination in the know-how drain and often cross-cultural issues. In addition, joint ventures tend to be unstable. This is reflected in their often limited life (Raff et al., 2009).
4 Motivating and Influencing Factors of FDI

There are different motives respectively influencing factors for FDI. Kogut (1986) published a survey. According to this scheme multinational companies can achieve benefits in the following areas:

- **Relocation**: So either the direct costs of production can be reduced or economies of scale are achieved.
- **Tax reduction**: The different tax rates between the countries are used as an advantage.
- **Financial markets**: The organization improves liquidity or debt financing because of the simple and easy access to financial markets.
- **Information arbitrage**: Knowledge and experience differences in the production, marketing or organizational area can be reached through direct investments in various markets. A company that can identify those differences can thereby achieve a direct competitive advantage in these markets.
- **Global coordination**: Certain activities are done centrally, where the conditions are optimal for this activity. With the centralization a coordination of activities can be achieved.
- **Reduction of political risk**: Different countries have different high risk of losing capital through government intervention. In regions of relative political stability, high investments are safer than in regions with high instability.

4.1 Motivating Factors for FDI

Due to the high labor costs, taxes and regulation and other location factors, Austria has disadvantages compared, for example, to the Central Eastern Countries (CEC). Depending on the objectives of the company, it can choose from a very numerous range of locations. From the perspective of investors, FDI is a measure of the attractiveness of an economy in terms of conditions for production and physical capital (Kraus, 2007).
4.1.1 Market and sales-oriented motives (Market-seeking)

The market-oriented motives include the development of new markets, the use of the location as an export base and securing existing markets. Developing markets play mainly a role due to the often small market size of the developing countries in foreign direct investment in Eastern Europe. Countries with small markets can be used by foreign direct investment as an export base. Here, in addition to its own market, factors such as the market conditions in the neighboring countries like trade agreements, tariff preferences and membership in free trade zones or the necessary infrastructure for exports are important (Cypher/Dietz, 2004). For developing countries, whose markets were in the past part of a strategy of import substitution, were often secured by both tariff and/or non-tariff barriers to trade also foreign direct investment played a special role to secure markets. As part of the gradual liberalization of the world this motif is losing more and more importance (Plum, 1995).

4.1.2 Cost-oriented motives

The cost-oriented motives play in comparison to the market-oriented only a minor role, even if they are crucial for a large number of direct investment projects. These include lower labor costs, tax benefits, shopping and employment benefits and government investment incentives. Labor cost advantages in this case represent the most important motive in this category, however studies related to the importance of a minimum of training skills as a location factor (Rojec, 1999). The human capital stock of the prospective employee enters as a kind of "procurement advantage" in addition to cost orientation. This allows for example to reduce costs and uncertainties of price formation for primary products if a subsidiary exploits the raw materials. Of particular importance are the cost-oriented motives attributed to individual countries of Central and Eastern Europe (Kraus, 2007).

4.1.3 Political and environmental-oriented motives

These motives are related to the conditions that may not be directly affected or changed by the company. They are a necessary but not sufficient condition for the implementation of direct investment. Favorable framework conditions could be: a safe political situation and legal system, a stable macroeconomic situation and a well-developed infrastructure. Especially for
direct investment in developing and emerging countries such factors play an important role. The relationship of states towards FDI has changed dramatically in the recent decades (Haas/Neumair, 2006).

Especially in today's transition and emerging countries formerly direct investment were seen as a threat to domestic production and regarded as damaging to the target countries increased competition. Today, especially anticipated advantages like job creation or knowledge transfer are in the focus of the public view (Kraus, 2007). The actions for this are ranging from subsidies tax breaks to low-cost loans and generous provision of infrastructure. Despite the sometimes given support of a government, are such government incentives not a fundamental decision criteria for direct investment, i.e. solely due to government incentives no investment decision is made (Haas/Neumair, 2006).

Overall, it can be said that direct investments are made almost never from a single motive, but mostly a whole combination of reasons are decisive. Some motives have more weight than others, and all the motives underlie the strategic direction of the company as a whole subject. It is also possible that the motives change through time. For instance it could be possible that the relocation of production in a host country due to labor cost advantages by developing a strategic supplier added the procurement orientation. Also internal markets FDI can convert into export-oriented FDI, if the production volume allows you to export to other countries (Haas/Neumair, 2006).

4.2 International Investment Agreements

International Investment Protection Agreements or International Investment Agreements are international contracts between states which do have a big influence on the foreign direct investments. They offer direct investments of natural and legal persons in a foreign country legal protection, especially against property impairing measures such uncompensated expropriations. Investment protection agreements are often completed as bilateral agreements (Bilateral Investment Treaty, BIT) (Griebel, 2008).
Pioneer of investment protection agreements were different friendship, trade and navigation contracts that existed between individual states in previous centuries. These agreements contained, among other provisions, partly investment protective regulations. The first investment agreements of today's type were developed in the fifties (particularly of Germany). These contracts were typically completed between an industrialized country and a developing or emerging country. After the fall of the "Iron Curtain", there was a wave of new contracts concluded so that today there are about 3000 such contracts worldwide (Griebel, 2008).

In addition to the investment protection agreements there are also international legal investment protection provisions found in a number of regional trade agreements (e.g., NAFTA, MERCOSUR), as well as in international agreements, such as the WTO (TRIPS, GATS). An attempt to replace the system increasingly confusing world of thousands of investment protection agreements with a single multilateral agreement (Multilateral Agreement on Investment) failed in the late 90s (Griebel, 2008). While older investment protection agreements are essentially limited to the protection of existing investments, new contracts relate increasingly to the upstream issue of market access. Especially this is largely the case in the agreements concluded by the United States Investment Treaties (McLachlan et al., 2008).

As international contracts, investment protection agreements are independent and in addition to the European law. Nevertheless, it may in the interaction of the partial laws, cause problems where two situations can be distinguished; the ability of states investment protection contracts with non-EU countries (so-called extra-EU BITs) and the stock of investment protection agreements between individual EU member states (so-called intra-EU BITs). Since the Treaty of Lisbon the competence for foreign direct investment was transferred to the European Union. Nearly 200 of the world concluded investment protection agreements are of the EU Member States that have completed this between themselves. Investment protection tribunals operate on the basis of international law. Decisions of such a tribunal, since it is decided on the basis of international law, violate European law. Member States of the European Union which are bound from such a ruling in favor of any particular investor, and if the award is contrary to EU law at the same time, only if they follow that award may face an violation process. (McLachlan et al., 2008).
4.2.1 Different International Investment Agreements

Besides the general promise to create favorable conditions for investment, investment protection agreements contain a number of specific obligations for the host country of investment. The purposes of these investment agreements are explained in detail in Griebel (2008):

- **Protection of unlawful expropriation:** Legality requirements include regular action in the public interest, a non-discriminatory nature, the observance of a proper process and the payment of prompt, adequate and effective compensation.

- **Fair and equitable treatment:** Some investment agreements, such as NAFTA, set the standard explicitly equal to the minimum international standard. In the case of the jurisdiction it is often classified as a legitimate event that proves if the state has disappointed expectations of the investor, for example, if the state behaves inconsistently over previously given assurances.

- **Full protection and security:** This standard is intended to fill a gap in protection, resulting from the fact that states should not take responsibility for all acts coming from their territory. It protects investors e.g. against insurgents.

- **Umbrella clause:** By an umbrella clause, the guest state obliges against the home state of the investor that it will comply with any obligations it has entered into the agreement with the investor.

- **Transfer of funds:** This standard is intended to prevent a host state to build a foreign investment on the condition e.g. from leaving the country.

Legal policy investment protection agreement is partly blamed; they would limit the regulatory scope of the host countries unreasonably. It is worth noting in this context, that most (older) agreements contain no exception for state regulation catalog (Griebel, 2008).

In the following part of this paper there is a description of the biggest and international most important international investment agreement like the NAFTA and the MERCOSUR. There is also an explanation of the GRIPS and the TRIPS which are embedded in the WTO.
The North American Free Trade Agreement (NAFTA) is a trade association between Canada, the U.S. and Mexico, forming a free trade zone in North America. NAFTA took effect on 1\textsuperscript{st} January 1994. With the entry into force of the free trade agreement many duties were abolished, many more were exposed. The agreement was embodied in the Canadian-American Free Trade Agreement of 1989, in contrast to the European Union perceives no supranational government functions and its provisions take no position priority over national law. It is an intergovernmental contract (NAFTA, 2013).

MERCOSUR is the abbreviated name for the Common Market of South America. The Spanish meaning for the acronym is "Mercado Común del Sur". Mercosur was signed by the Treaty of Asunción, 26\textsuperscript{th} March 1991. It is a market with more than 260 million people who currently includes 12.8 million square kilometers, or approximately 72\% of the area of South America and 56\% of Latin America. Mercosur generates a GDP of about one trillion dollars (about 75 percent of the total GDP of Latin America), the value of exports is about 200 billion U.S. dollars and the value of imports is about $ 130 billion (MERCOSUR, 2013).

The World Trade Organization (WTO) is an international organization based in Geneva, which is concerned with the regulation of trade and economic relations. It was born on 15\textsuperscript{th} April 1994 from the General Agreement on Tariffs and Trade (GATT) established in the Uruguay Round, after seven years of negotiations. On 1\textsuperscript{st} January 1995, it began its work in Geneva. The WTO is in addition to the IMF and the World Bank, one of the major international organizations, which negotiates trade and economic policy with a global reach (WTO, 2013).

The General Agreement on Trade in Services (GATS) took effect on 1\textsuperscript{st} January 1995. Because of the growing service sector in industrialized countries, the GATS was by then already long overdue. For the first time comprehensive international conditions have been created that allow cross-border services. The GATS takes care of services in the bank sector, insurance corporations and consulting institutions. The particular difficulty with the design of the GATS is to look at the difference between trade in goods and trade in services (Tietje, 2005).
So the performance is essentially subject to the following four factors: For the provision of a service in the first place the coming together of people is indispensable. Because of the developments in telecommunications, this process is today much easier to deal with, however, far from being indispensable. Moreover, the professional qualifications have to be recognized and accepted. Another big problem is the different social security schemes. Within the European Community there has already been a great improvement, but hardly a development globally. Ultimately, a service requires personnel and long-term presence in a place and thus requires foreign direct investments. The service agreement is merely a frame which asks WTO members to create individual rules on services trade to promote the liberalization of the trade (Tietje, 2005).

The Trade-Related Aspects of Intellectual Property Rights (TRIPS) was also created in 1995 as part of the WTO system. Particular plagiarism and to the original product "similar" products inhibited the long time required know-how transfer. Thus, it became increasingly clear that the economic success of the country is no longer primarily a function of monetary, but rather intellectual capital. The TRIPS Agreement provides a comprehensive framework for the international protection of patents, copyrights and designs. The agreement is binding and it provides countries which previously had no or only very incomplete legislation concerning the protection of intellectual property, a solid foundation (Niemann, 2007).
5 Analysis of the active FDI of Austria

After the general explanation of FDI, the reasons for FDI and the influencing factors, is this chapter dealing with the active FDI of Austria. This paper is limited to active FDI of Austria because everything else would be beyond the scope of this paper. The period is examined from 2000 to 2010 to see the trend and the role of FDI before and during the financial crisis.

5.1 Active FDI net flow and stock of Austria

As already mention before in the paper, the increasing complexity of the financial transactions e.g. SPEs, led to an inflation of FDI. Because of this all the further calculations are always with the FDI excluding SPEs and real estate to get a more realistic impression of the situation regarding the FDI of Austria. Figure 2 shows this subtraction of active FDI net flow from FDI including SPEs and real estate to FDI excluding SPEs and real estate. The real estates are not displayed in the figure because their impact is too small to be illustrated descriptive.

Figure 2: Active FDI stock of Austria (2000-2010)

Source: OeNB, Database (2013)
In this chapter there is an explanation of the active FDI of Austria in the mentioned period and also some explanations for this numbers. This should give a good overview and also the possibility to interpret the active FDI of Austria. The worldwide wave of mergers, acquisitions and cross-border corporate integration reached a climax in 2000 (UNCTAD, 2001). The increase of the active FDI of Austria at EUR 7.6 billion, by 40% more than the year before, reached also a peak value. After this, with the start of the downturn in the stock market in 2001, the FDI transactions worldwide decreased by 50% (UNCTAD, 2002). Also in Austria, according to the BoP, was the expansion of cross-border investments significantly weaker. However, considering the active FDI net flow amount of EUR 3.4 billion in 2001, the stock of FDI rose from EUR 26.7 billion in 2001 to EUR 32.4 billion in 2002 (OeNB, 2002).

The year 2001 compared with 2000 meant an increase of 21.3%. However the dynamics in comparison to 2000 decreased significantly but they were still good compared to the international development. Among active FDI not only the capital invested increased, but also the number of Austrian investors had increased (from 917 to 935). These investors have been involved in 2319 (+92 companies) and foreign companies employed a total of 270,100 persons, a plus of 8.7%. For the first time more people were employed in Austrian influenced companies abroad than in Austria in foreign-influenced companies. The dynamics of active internationalization as a result of the opening of Eastern Europe gets clear when realizing that the ratio of active to passive employment in FDI enterprises, at the beginning of this process in 1990, was 1:5 (OeNB, 2003).

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<th>2000</th>
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</thead>
<tbody>
<tr>
<td><strong>FDI including SPEs and real estate</strong></td>
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<td>-6.170</td>
<td>-6.323</td>
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<td>-62.819</td>
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<td>- SPEs</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>-53.395</td>
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<td>- Real Estate</td>
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<td>-246</td>
<td>-218</td>
<td>-462</td>
</tr>
<tr>
<td><strong>FDI excluding SPEs and real estate</strong></td>
<td>-5.980</td>
<td>-3.377</td>
<td>-6.142</td>
<td>-6.078</td>
<td>-6.467</td>
<td>-8.962</td>
</tr>
</tbody>
</table>

Table 2: Active FDI net flow of Austria (2000-2005)

Source: OeNB, Database (2013)
In 2002 Austria was allowed to reduce the existing "direct investment gap" significantly. With continuing weak global FDI, Austrian investors expanded their international activities significantly (UNCTAD, 2003). The flow of active investments in 2002, according to the BoP, amounted at EUR 6.1 billion (OeNB, 2004).

In 2003, Austria had the first time more active FDI as passive FDI. A growth of the active FDI of 9.4% is significantly higher than the increase in the nominal GDP (+2.8%), so that in the year 2003 the active internationalization of Austrian Economy continued growing (OeNB, 2005). Especially in the international comparison, Austria performed well. In U.S. dollar terms, the FDI stocks in 2003 increased worldwide by about 12%, the Austrian comparative figure was 30%, which was of course a result of the U.S. dollar depreciation (World dataBank, 2013). The increase in the value of the Austrian foreign interests was entirely due to an increased commitment to equity (UNCTAD, 2004).

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<th>FDI including SPEs and real estate</th>
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<tr>
<td>- SPEs</td>
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<td>58.173</td>
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<td>1.645</td>
<td>1.850</td>
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<tr>
<td>FDI excluding SPEs and real estate</td>
<td>26.675</td>
<td>32.351</td>
<td>40.512</td>
<td>44.308</td>
<td>51.249</td>
<td>60.869</td>
</tr>
</tbody>
</table>

Table 3: Active FDI stock of Austria (2000-2005)
Source: OeNB, Database (2013)

Active FDI increased in 2004 to EUR 51.2 billion, representing an increase of 15.6%. The increase in the value of the Austrian active FDI was entirely due to an increased commitment to equity. While the intragroup credits decreased slightly by EUR 340 million, equity capital increased by EUR 5.8 billion. But the share capital increased by only EUR 1.2 billion, because of the results of operations, the earnings were reinvested in reserves (+ EUR 2.4 billion), retained earnings (+ EUR 1.3 billion) and an annual return (+ EUR 1 billion). At the same time, the number of domestic investors for the first time exceeded the threshold of 1,000 (+37 investors). Moreover, the number of recognized foreign subsidiaries rose by 141 to 2,727 and the number of employees in these companies increased by 13.1% to 370,500 people (OeNB, 2006).
In the year 2005 the active FDI of Austria increased again to EUR 60.9 billion this was a plus of 18.9%. In 2005 there was also a change in the statistical recording of FDI, an evaluation of all cross-border transactions, assets and liabilities at market values and not book values. The Austrian direct investment statistics had so far collected and published all the data series at book values, but also estimated a market value that was based on listings and in most of the time on a discounted earnings model (OeNB, 2007).

From 2006 on the ECB and the EU claimed a fusion of the concepts. Listed public companies should be valued at market value and all others at book values (UNCTAD, 2006). The ongoing global economic integration and especially the removal of capital controls in the past decade led the world to a growing complexity of corporate structures and to an increasing number of holding companies without an own economic activity. Such holding companies produced, with the existing directives, simultaneously active and passive FDI, if the investments were cross-border. Meanwhile, corporations were sometimes organized as "chains" of holding companies in different countries, which led, from the perspective of many data users, to "double and multiple counts" of FDI and this ruined the origin and idea of FDI (OeNB, 2007).

![Figure 3: Active FDI net flow of Austria (2000-2010)](source: OeNB, Database (2013))
Proponents of the existing definitions pointed out that these issues per se constitute an important fact of the business organization; other researchers doubt the benefit of such statistics. The solution to this dilemma was to exclude SPEs, but in messages to Eurostat and the ECB must such companies be included to maintain the bilateral symmetry, which is a necessary to identify units at European level (UNCTAD, 2006). Therefore was the differentiation between FDI including SPEs and real estate and FDI excluding SPEs and real estate (OeNB, 2007).

After the changes in 2005 regarding the elicitation of the data, grew the active FDI of Austria in 2006 to EUR 80.3 billion, representing an increase of 32%. The increase in the value of the Austrian FDI was mainly because of a stronger commitment to equity (+ EUR 15.5 billion), while the intragroup credits expanded to EUR 3.9 billion, most likely due to the revised definitions. The number of registered foreign subsidiaries increased, despite the increase in the reporting threshold, to 3175 (+5.4%). The number of Austrian investors has declined by 42 to 1,006. The number of employees at Austrian FDI enterprises abroad grew by 10.9%, reaching 478,900 people (OeNB, 2008).

The global FDI stock increased between 1990 and 2007 from nearly 8.5% to more than 28% of the GDP. Austria had in 1990 an active FDI stock of 2.8% and a passive FDI stock of 6.4%. In 2006, the corresponding figures were 31.1% and 32.7%, which was already well above the global average (UNCTAD, 2009).

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<tr>
<td><strong>FDI including SPEs and real estate</strong></td>
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<td>-51.089</td>
<td>-20.008</td>
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<td>- SPEs</td>
<td>4.274</td>
<td>-22.409</td>
<td>229</td>
<td>-949</td>
<td>20.082</td>
</tr>
<tr>
<td>- Real Estate</td>
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<td>-167</td>
<td>-132</td>
<td>-28</td>
<td>27</td>
</tr>
<tr>
<td><strong>FDI excluding SPEs and real estate</strong></td>
<td>-10.897</td>
<td>-28.513</td>
<td>-20.106</td>
<td>-7.203</td>
<td>-7.546</td>
</tr>
</tbody>
</table>

Table 4: Active FDI net flow of Austria (2006-2010)

Source: OeNB, Database (2013)
In the year 2007 raised the active FDI of Austria to EUR 103 billion, which represents an increase of 28% over the previous year. The increase in the value of the Austrian foreign investments was primarily due to a stronger commitment to equity (+ EUR 21.2 billion), while funding through intragroup credits increased only by EUR 1.1 billion. The number of registered foreign subsidiaries increased by 13% to 3588 subsidiaries. The number of Austrian investors increased by 63 to 1,069. The number of employees at Austrian direct investment enterprises abroad grew by 19.7% and reached 573,300 people. Thus, the foreign employment has doubled in just seven years (OeNB, 2009).

With the rapidly growing international integration of the Austrian economy, the initially existing backlog of Austria steadily reduced over other countries and as mentioned before since 2005 was Austria with its FDI, measured on the gross domestic product, over the worlds average (UNCTAD, 2007). The global economic crisis, which took over in 2007 as sub-prime crisis in the U.S. spread in 2008 with the collapse of the Lehman bank to the real economy. In 2009, with the shrinking economic activity in large parts of the world, even the FDI statistics got influenced. While the rating changes immediately showed impact on stocks, the current transactions, because of the long lead times in cross-border acquisitions, delayed until 2009 (UNCTAD, 2010).

In 2008 the active FDI of Austria grew to EUR 106.8 billion, representing an increase of EUR 5.7 billion or 5.6%. This relatively small increase is due to the fact that during the year 2008 EUR 15.7 billion of equity capital and EUR 3.7 billion of other FDI capital were transferred in foreign subsidiaries. Despite a fall of revenue by about a third and record high dividends of EUR 5.6 billion, the reinvested earnings still reached a growth contribution of EUR 1.9 billion. Almost all of the capital additions were destroyed by valuation losses. In 2007 the difference between book value and market value was EUR 9.3 billion. In 2008 it shrunk to EUR 2.1 billion (OeNB, 2010). The Austrian active FDI in 54 listed companies have lost a value of about EUR 7 billion during the crisis (UNCTAD, 2009). However, the number of registered foreign subsidiaries has increased by 14% to 4082. The number of Austrian investors has increased by 79 to 1,149. The number of employees of Austrian FDI enterprises abroad grew within a year more than 100,000 and reached 675,300 people. Thus, the foreign employment grew in the crisis by almost 18% (OeNB, 2010).
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<tbody>
<tr>
<td>FDI including SPEs and real estate</td>
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<td>184.384</td>
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<td>201.548</td>
<td>200.431</td>
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<td>86.029</td>
<td>84.546</td>
<td>64.374</td>
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<td>3.694</td>
<td>3.687</td>
</tr>
<tr>
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<td>80.256</td>
<td>101.087</td>
<td>106.870</td>
<td>113.307</td>
<td>132.370</td>
</tr>
</tbody>
</table>

Table 5: Active FDI stock of Austria (2000-2005)

Source: OeNB, Database (2013)

For 2009 the statistics from 1249 Austrian investors with holdings in 4473 (+10%) foreign enterprises, represented a value of EUR 113.3 billion, an increase of 6%. In the position of the previously dominant "mega-merger" got a greater number of small investments. The increase by EUR 6.4 billion compared to the year 2008 corresponded to the transaction values in the BoP in 2009, which suggested that there were no further exchange rate depreciation or revaluation losses (OeNB, 2011).

That the economic crisis took effect was reflected in the real economic indicators of FDI. Despite the expansion of direct investment, the number of their employees as a result of staff reductions to adapt to the weaker demand abroad grew by only 3% to 693,400 people (OeNB, 2011).

The recovery of Austrian active FDI continued significantly, while passive FDI stagnated. For 2010, there were 1334 Austrian investors with holdings in 4735 foreign companies, representing a value of EUR 132.4 billion. Thus, the number of investors grew by 6%. The real economic indicators of FDI indicate a significant improvement in the situation in 2010. The revenue losses for 2009 could be compensated with an increase of 23%. The increase in employment abroad (by 3.6% to 718,000 people) implied a significant increase in labor productivity, which was reflected in a rise in profits. The annual return after endowment and liquidation of reserves increased from EUR 5.1 to 8.1 billion, the annual result according to income statement from EUR 5.4 to 8.3 billion (OeNB, 2012).
5.2 Active FDI of Austria net flow and stock broken down by region

This chapter gives an overview about the active FDI of Austria in the different regions. This chapter deals with the active FDI of Austria in the rest of the world. The detailed explanation of the active FDI of Austria in Europe and especially in CEE is in the next chapter.

5.2.1 Active FDI of Austria in the rest of the world

In 2000, the strongest growth of Austrian FDI outside Europe was in the United States and in the Caribbean offshore financial centers. At the end of 2000 about 42% of Austrian FDI accounted on the EU, around 30% in Central and Eastern Europe and 9% in other European countries, especially Switzerland. In 2000, outside Europe, only 19% of the capital invested, of which was 8% in the U.S. and 4% were located in the Caribbean offshore financial centers (OeNB, 2002).

All other non-European destinations, including all the emerging markets of Asia and Latin America and also Canada and Australia, are barely 7% of the Austrian FDI capital (OeNB, 2002). This changed only slightly in 2001 with 7% each in the U.S. and the Caribbean offshore financial centers. Also the other non-European destinations declined to 5% (OeNB, 2003).

Figure 4: Active FDI stock of Austria in the world

Source: OeNB, Database (2013)
Outside Europe, there were 2003 in total no inventory increases. The declines in North America by 380 million EUR were facing growths in Latin America, Africa and Oceania. In the major boom regions of Asia were Austrian companies still not represented, only 1.7% of all Austrian FDI were allocated to this area (OeNB, 2005).

In 2004, there was a marginal increase in stocks of EUR 280 million. The half of this increase was in Australia, EUR 80 million in Asia and EUR 60 million in Africa. The direct investment in the U.S. remained nearly unchanged in 2004 (OeNB, 2006).

Divestments in 2005 related primarily to Caribbean offshore countries where some multinationals had resolved their Austrian Holdings investments worth several billion euros. This resulted in a decrease of investments outside Europe of EUR 2.2 billion, although the number of investments as well as the number of foreign workers from outside Europe grew by around 10% (OeNB, 2007).

Figure 5: Active FDI net flow of Austria in the world
Source: OeNB, Database (2013)

The only mentionable FDI in 2006 was China with a number of foreign investments of +22, which was the third biggest in 2006, and an employment growth of 3000 to 4000 employees.
Nearly a third of the total FDI net flow in Asia (EUR 1.7 billion) got into China (EUR 525 million) followed by Singapore with EUR 373 million (OeNB, 2008). This trend continued in 2007 and 2008 where the active FDI of Austria steady increased in China. Also in 2007 there was a FDI net flow of EUR 2 billion to the rest of Asia (OeNB, 2010).

In 2009 investors had expanded their activities in the U.S. with 15 additional investments and a clear employment growth by stagnant capital. Strong increases in capital by a total of EUR 3.5 billion, took place in a number of offshore financial centers with no significant effect on employment (OeNB, 2011).

5.3 Active FDI stock of Austria broken down by Industry

By analyzing the active FDI of Austria it is important to understand in which industries the Austrian investors tended to invest. Table 6 and Table 7 give an overview of the Austrian FDI stock broken down by their industries. The whole table is under the regulations of the NACE Rev.2 also the years before 2008 were reactive adapted. In this chapter is also a short description of the different activity classifications for the industries like the ISIC Rev.4, NACE Rev.2, and the ÖNACE 2008.

5.3.1 Regional levels of activity classification

To represent comparable statistics, it is necessary in addition to common methods to use identical classifications. Classifications are systematics which is used to categorize the elements and organize and combine them into a schema (e.g. activities of companies, educational institutions, types of government revenue, etc.). This scheme is using alpha or numeric code to apply the assigned elements (Wko, 2013).

At international level, the UN classification "International Standard Industrial Classification of all Economic Activities" ISIC Rev.4 is used for the detection of economic activities. ISIC Rev.4 has a 4-digit code and is not very detailed, so the classification is applicable worldwide. In the code is "9" always "other", this is the category that combines all of the units that cannot be allocated to the other categories (Eurostat, 2008).
The EU classification of economic activities "Nomenclature européenne des activités économiques" NACE Rev.2 also has a 4-digit code, which does not always correspond to the ISIC code. The third and fourth level of ISIC was split in detail at the European level, but it can be aggregated on the structure of ISIC as well. But the same activity may have in the two different classifications another numerical code (Eurostat, 2008).

From 2008 on, at the national level, was the ÖNACE 2008 applied. This activity classification subdivides the European NACE by sub-classes in more details, so Austrian specifications can be considered. The code has 5 characters and is the same to the 4th digit with the NACE. The subclasses are represented here by the, separated by a hyphen, last digit of the code (Wko, 2013).

5.3.2 Austria’s active FDI broken down by industry from 2000 to 2010

New investments of Austria abroad focused in 2000 to 80% in services. This continued the trend of the growing importance of this sector. To the service sector belonged 73% of the direct investment capital stock abroad, while only 25% belonged to the manufacturing sector and only 2% belonged to the mining and energy sector. The highest increases were in the administrative and support service activities, mainly including the holding companies and the financial sector. Within the manufacturing sector, especially the chemical industry and the metal industry were worth mentioning (OeNB, 2002).

The increase in direct investment abroad in Austria in 2001 was very strong driven by investment in the financial sector. They accounted for a third of the capital increase of EUR 5.7 billion. A good quarter of the additional capital resources were found in the manufacturing sector, including EUR 670 million in the chemical industry and oil industry. A similar growth was also in the mining and energy sector. The capital stock grew in commercial enterprises around EUR 820 million (OeNB, 2003). In 2002 there was a strong increase of FDI in the financial sector from EUR 12.9 billion to EUR 17 billion. Also the professional, scientific and technical services activities nearly doubled to EUR 4.3 billion. Summarized the total active FDI stock of Austria in 2002 was EUR 40.5 billion this is a plus of 25% compared to 2001 (OeNB, 2004).
<table>
<thead>
<tr>
<th>Industry</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, mining</td>
<td>228</td>
<td>804</td>
<td>1.261</td>
<td>1.801</td>
<td>1.853</td>
<td>877</td>
</tr>
<tr>
<td>Food products, beverages, tobacco products</td>
<td>494</td>
<td>544</td>
<td>589</td>
<td>564</td>
<td>679</td>
<td>1.154</td>
</tr>
<tr>
<td>Textiles and textile products, leather and leather products</td>
<td>90</td>
<td>89</td>
<td>105</td>
<td>94</td>
<td>97</td>
<td>118</td>
</tr>
<tr>
<td>Wood, paper, printing</td>
<td>791</td>
<td>911</td>
<td>837</td>
<td>863</td>
<td>1.131</td>
<td>1.085</td>
</tr>
<tr>
<td>Chemicals, petroleum products, pharmaceuticals</td>
<td>1.193</td>
<td>1.860</td>
<td>1.770</td>
<td>2.140</td>
<td>3.801</td>
<td>4.918</td>
</tr>
<tr>
<td>Non-metallic mineral products</td>
<td>1.164</td>
<td>1.314</td>
<td>1.351</td>
<td>1.489</td>
<td>1.486</td>
<td>1.502</td>
</tr>
<tr>
<td>Basic metals and fabricated metal products</td>
<td>1.399</td>
<td>1.419</td>
<td>910</td>
<td>956</td>
<td>1.021</td>
<td>1.473</td>
</tr>
<tr>
<td>Computers, electronic and optical products</td>
<td>687</td>
<td>880</td>
<td>1.000</td>
<td>814</td>
<td>991</td>
<td>1.018</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>495</td>
<td>547</td>
<td>524</td>
<td>505</td>
<td>605</td>
<td>636</td>
</tr>
<tr>
<td>Manufacture of transport equipment</td>
<td>170</td>
<td>301</td>
<td>270</td>
<td>286</td>
<td>410</td>
<td>464</td>
</tr>
<tr>
<td>Other products, repair and installation</td>
<td>80</td>
<td>102</td>
<td>100</td>
<td>129</td>
<td>98</td>
<td>169</td>
</tr>
<tr>
<td>Electricity, water supply, waste collection and treatment</td>
<td>181</td>
<td>233</td>
<td>787</td>
<td>312</td>
<td>626</td>
<td>730</td>
</tr>
<tr>
<td>Construction</td>
<td>421</td>
<td>672</td>
<td>1.423</td>
<td>631</td>
<td>1.070</td>
<td>848</td>
</tr>
<tr>
<td>Trade</td>
<td>4.333</td>
<td>5.220</td>
<td>5.456</td>
<td>6.000</td>
<td>6.447</td>
<td>8.257</td>
</tr>
<tr>
<td>Transportation and storage services</td>
<td>37</td>
<td>58</td>
<td>128</td>
<td>143</td>
<td>102</td>
<td>140</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>115</td>
<td>98</td>
<td>82</td>
<td>135</td>
<td>101</td>
<td>150</td>
</tr>
<tr>
<td>Information and communication services</td>
<td>207</td>
<td>185</td>
<td>366</td>
<td>1.019</td>
<td>775</td>
<td>1.277</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>446</td>
<td>577</td>
<td>811</td>
<td>911</td>
<td>1.242</td>
<td>1.513</td>
</tr>
<tr>
<td>Professional, scientific and technical service activities</td>
<td>2.463</td>
<td>2.205</td>
<td>4.257</td>
<td>2.506</td>
<td>2.595</td>
<td>4.090</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>979</td>
<td>1.176</td>
<td>1.168</td>
<td>1.344</td>
<td>1.120</td>
<td>1.319</td>
</tr>
<tr>
<td>Public and other services</td>
<td>112</td>
<td>253</td>
<td>280</td>
<td>193</td>
<td>227</td>
<td>403</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26.675</strong></td>
<td><strong>32.351</strong></td>
<td><strong>40.512</strong></td>
<td><strong>44.308</strong></td>
<td><strong>51.249</strong></td>
<td><strong>60.869</strong></td>
</tr>
</tbody>
</table>

Table 6: Active FDI stock of Austria broken down by Industry (2000-2005) NACE 2008

Source: OeNB, Database (2013)

With the increase in direct investment abroad focused Austria in 2003, as in previous years, almost exclusively on the service sector. The strongest growth with EUR 4.1 billion was in the financial sector. Thus in 2003 the value of Austrian direct investment in the financial sector surpassed with EUR 17 billion the investments in the manufacturing sector with EUR 10.1 billion. The increase in the number of foreign workers spread across the financial sector (+6,600 persons) before the administrative and support service activities (+5,400) and the electrical industry (+5300) (OeNB, 2005). Overall, in 2003, more than three quarters of the
capital invested, was accounted from the service sector and only less than a quarter from the manufacturing sector. In the nineties the ratio was 2:1 (UNCTAD, 2004). Even by the number of employees grew the importance of the service sector, but the 327,700 employees distributed almost equally between manufacturing and services (OeNB, 2005).

The increase in direct investment abroad in Austria in 2004 focused on three main industries. The strongest growth with EUR 2.0 billion was in the financial sector. The second strongest growth was in the trade with a gain of EUR 1.7 billion. Also the commitment of OMV in Romania resulted in a plus of EUR 1.6 billion in the chemical and petroleum industry and made it the third strongest sector in 2004. An increased use of capital in the industries food, wood and paper, electric, mining and energy supply with simultaneous divestments in administrative and support service activities (holdings) and in the intelligence community led to, for the first time in more than ten years, more investment in the manufacturing sector than in the service sector. This allowed the steadily shrinking share of the manufacturing sector, within one year, to increase from 22.9% to 26.7% (OeNB, 2006).

Austrian direct investors increased in foreign holdings when they invested abroad, which led to an increase of EUR 2.9 billion in the "administrative and support service activities". Almost as large was the expansion of investment in retail companies abroad (+2.2 billion EUR). There were also significant increases in the news sector, where the stock had doubled to EUR +600 million compared to the year 2004. In terms of value declined the participations in financial institutions and mining (including oil production) (OeNB, 2007).

In summary the change in the number of foreign workers in 2005 seemed contradictory at first. While the growing investment in the administrative and support service activities and the trade led to strong employment increases, decreased the employment in the chemical and petroleum industry, despite increased investments. The explanation laid in the necessary rationalization measures, which resulted from the acquisition of former state companies (OeNB, 2007).
<table>
<thead>
<tr>
<th>Industry</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, mining</td>
<td>1.315</td>
<td>3.335</td>
<td>1.401</td>
<td>2.135</td>
<td>2.259</td>
</tr>
<tr>
<td>Food products, beverages, tobacco products</td>
<td>2.233</td>
<td>1.580</td>
<td>2.002</td>
<td>2.635</td>
<td>2.563</td>
</tr>
<tr>
<td>Textiles and textile products, leather and leather products</td>
<td>154</td>
<td>127</td>
<td>146</td>
<td>123</td>
<td>141</td>
</tr>
<tr>
<td>Wood, paper, printing</td>
<td>1.660</td>
<td>2.673</td>
<td>3.269</td>
<td>3.350</td>
<td>3.053</td>
</tr>
<tr>
<td>Non-metallic mineral products</td>
<td>2.427</td>
<td>2.831</td>
<td>2.940</td>
<td>3.235</td>
<td>4.101</td>
</tr>
<tr>
<td>Basic metals and fabricated metal products</td>
<td>1.799</td>
<td>1.949</td>
<td>2.189</td>
<td>1.910</td>
<td>2.541</td>
</tr>
<tr>
<td>Computers, electronic and optical products</td>
<td>1.325</td>
<td>1.783</td>
<td>2.613</td>
<td>2.414</td>
<td>2.119</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>1.243</td>
<td>1.962</td>
<td>1.824</td>
<td>2.072</td>
<td>1.894</td>
</tr>
<tr>
<td>Manufacture of transport equipment</td>
<td>448</td>
<td>712</td>
<td>732</td>
<td>477</td>
<td>960</td>
</tr>
<tr>
<td>Other products, repair and installation</td>
<td>276</td>
<td>500</td>
<td>558</td>
<td>664</td>
<td>704</td>
</tr>
<tr>
<td>Electricity, water supply, waste collection and treatment</td>
<td>1.002</td>
<td>1.436</td>
<td>1.819</td>
<td>3.045</td>
<td>4.934</td>
</tr>
<tr>
<td>Construction</td>
<td>1.444</td>
<td>2.449</td>
<td>3.312</td>
<td>3.774</td>
<td>4.074</td>
</tr>
<tr>
<td>Transportation and storage services</td>
<td>274</td>
<td>305</td>
<td>480</td>
<td>703</td>
<td>794</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>174</td>
<td>253</td>
<td>143</td>
<td>312</td>
<td>221</td>
</tr>
<tr>
<td>Information and communication services</td>
<td>1.237</td>
<td>2.008</td>
<td>3.301</td>
<td>3.352</td>
<td>3.817</td>
</tr>
<tr>
<td>Financial intermediation</td>
<td>36.769</td>
<td>50.310</td>
<td>47.691</td>
<td>44.050</td>
<td>52.030</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>1.922</td>
<td>2.608</td>
<td>3.276</td>
<td>3.415</td>
<td>4.280</td>
</tr>
<tr>
<td>Professional, scientific and technical service activities</td>
<td>5.203</td>
<td>4.025</td>
<td>6.708</td>
<td>9.111</td>
<td>8.887</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>2.207</td>
<td>2.470</td>
<td>2.642</td>
<td>2.154</td>
<td>1.906</td>
</tr>
<tr>
<td>Public and other services</td>
<td>502</td>
<td>579</td>
<td>593</td>
<td>1.120</td>
<td>1.511</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80.256</strong></td>
<td><strong>101.087</strong></td>
<td><strong>106.870</strong></td>
<td><strong>113.307</strong></td>
<td><strong>132.370</strong></td>
</tr>
</tbody>
</table>

Table 7: Active FDI stock of Austria broken down by Industry (2006–2010) NACE 2008

Source: OeNB, Database (2013)

Austrian direct investors operated in 2006 increased in foreign holdings when they invest abroad, which led to an increase of EUR 0.9 billion in the "administrative and support service activities". More than a quarter of the active direct investment took place in this difficult to interpret segment. The value of investment in the financial sector grew by EUR +8.1 billion, which made this industry to maintain a stock of EUR 36.8 billion. Also a good expansion took place in international investment in the metal industry (EUR +2.5 billion) and the chemical industry (EUR +2.0 billion). There were also significant increases in trade (EUR +1.7 billion) and in the food industry, which doubled the stock with EUR +1.2 billion compared to the previous year (OeNB, 2008).
The largest employment increases in 2006 was in the financial sector with +12,500, representing a quarter of the total increase of +47,100. This had the consequence that the foreign employment in 2006 domestic employment already significantly exceeded with +116,900 the local employment of +106,100. In line with the expansion of investment was also the increase in employment in the foreign trade (+8,400) and in the metal industry (+8600). Absolutely and relatively strong was the expansion of employment in machinery (+5,900 or +52%) and in the paper industry (+5,700 or +72%) (OeNB, 2008).

The transfer of responsibility for Eastern Europe of UniCredit Group to the Bank Austria meant that more than half of the stock in the growth in 2007 was attributable to the financial sector (EUR +13.6 billion). With half of the total foreign investment in Austria (EUR 50.3 billion) was the financial sector by far the most internationalized industry. Because Austria's FDI used strengthened holdings, was there also a significant increase in the "administrative and support service activities" (OeNB, 2009).

The largest employment increases in 2007 was also in the financial sector with +36,400, which is more than a third of the total increase of +94,400. This had the consequence that the foreign employment in the financial sector already clearly predominated. Domestically in the year 2007 110,800 people were employed in this industry, the (share-weighted) employment at the foreign subsidiaries increased to the mark of 153,300 people. Greater declines in abroad employment were recorded in the chemical industry (-5,500) and wood products (-2,400), necessary rationalization measures were the main reason for the declines (OeNB, 2009).

The Statistics Austria published in 2008 a new corporate classification by economic activities. Also, the requirements of international organizations to the FDI statistics (ECB, Eurostat, OECD), provided the introduction of NACE Rev.2 for the reference year 2009. The new ÖNACE 2008 should encourage technological and organizational changes of the economy in the last 20 years. This was reflected in a generally increased in the level of detail (615 instead of 514 classes). There were of course summaries in areas that have lost their significance, as well as modified hierarchical classifications. The most striking feature of the new ÖNACE is the introduction of a section J "Information and Communication", and a deeper breakdown of the administrative and support service activities (Statistik Austria, 2008).
The expansion of active FDI of Austria abroad involved in 2008 both the manufacturing sector and the service sector. More than a quarter of the additional foreign investments was trade (+135), but the investment resources increased only by EUR +0.5 billion, and the abroad employment increased by +18,100. There were contradictory developments in the financial and insurance industries, by a moderate increasing number of participation, employment grew significantly (+17,800), while the market value due to the crisis shrank by EUR 2.5 billion. However, in 2008 dominated the financial sector with a total invested capital of EUR 47.8 billion which is nearly 45% of the total direct investment capital. The small decrease compared to the year 2007 was only because of the new classification system ÖNACE 2008 (OeNB, 2010).

Also increased had the value of holding companies with management function with EUR +2.4 billion. Dynamically was also the growth in the information and communications industry, where investment rose by EUR 1.3 billion. In the manufacturing sector was the construction industry productive, the invested capital increased by EUR 0.9 billion and the abroad employment had almost doubled to +20,000. The strong expansion in the chemical industry corresponded with a decline in mining and was due to a reclassification of the Hungarian company MOL (OeNB, 2010).

The expansion of active FDI in Austria in 2009 was related to the manufacturing sector and the service sector. More than half of the 400 additional foreign investments accounted for only two sectors, trade and finance. These two business segments also recorded in the expansion of employment a significant plus with each +11,000 persons (OeNB, 2011).

Against this trend was the invested capital. In the trade was the strongest expansion of EUR 3.3 billion, while there was a decline of EUR 3.6 billion in the finance and insurance sector. This reflected the ongoing uncertainty about the stability of the financial sector. The production sector, the energy sector and mining recorded in 2009 a substantial increase by EUR 1.2 billion and EUR 0.7 billion. Also the food industry, the chemical industry and the glass and stone products industry increased the invested capital and the abroad employment substantially (OeNB, 2011).
In the expansion of direct investment activities of Austria abroad in 2010 were involved the manufacturing sector and the service sector, with the total capital increase of 17% each was approximately proportional. The number of investments increased particularly strong in the service sector (+8% versus 3%) and the expansion of employment was concentrated in the manufacturing sector (+6% versus 1%). A quarter of the 282 additional foreign investments were accounted of commercial establishments, one-fifth of the real estate and another 10% of the transport sector. The additionally invested total capital accounted for almost half (EUR +8.8 billion) to the financial and insurance industries, but is it important to know that the sector had suffered major declines in the years 2008 and 2009. In trade, the capital increased with EUR +3.2 billion. In manufacturing, the chemical industry and the energy sector had significant expansion in 2010 of EUR 2.1 billion respectively EUR 2.0 billion (OeNB, 2012).

According the job growth again the trade was in 2010 at the forefront, the increase of 23,300 people was almost equivalent to the total increase. Significant increases were continued in the automotive, chemical industry and construction industry. The sharp decline in employment in the financial sector (-8400) was the result of intensive efforts to secure profitability in international business. An almost similar decline happened with the administrative and support service activities (-7,700) (OeNB, 2012).
6 The influence of active FDI in CEE on Austria

The first part of this chapter is about the active FDI in Europe and the different regions of Europa e.g. EU-15, EU-27, Euro Area 17 and Central and Eastern Europe. The second part deals with the influence of the active FDI on the employment and trade in Austria. First of all it has to be considered that cross-border direct investments have become an important factor in the world economy. The global investment flows in 2008 reached a value of EUR 1,269 billion, representing approximately 12% of the world’s exports of goods and services. The volume of cross-border direct investment was EUR 11,642 billion for 2008. This represented about 26% of the world GDP (UNCTAD, 2009).

6.1 Active FDI of Austria in Europe

The EU-15 Member States of the European Union include the states before the so-called Eastern enlargement in 2004. So these are Belgium, Denmark, Germany, Finland, France, Greece, Great Britain, Italy, Ireland, Luxembourg, Netherlands, Austria, Portugal, Sweden and Spain (VIMENTIS-A, 2013).

The current member states of Europe are referred to the EU-27 Member States of the European Union. On 1 January 2007, Bulgaria and Romania were admitted to the Union, which enlarged the EU-25 to 27 member states. These are Austria, Belgium, Bulgaria, Denmark, Germany, Estonia, Finland, France, Greece, Great Britain, Italy, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Sweden, Slovakia, Slovenia, Spain, Czech Republic, Hungary and Cyprus (VIMENTIS-B, 2013).

The decisive event of the year 2000, from the perspective of FDI statistics, was the merger between the “Bank Austria AG” with the “Bayerische Hypo- und Vereinsbank AG” (HypoVereinsbank). The quantitative strongest effect of this event was on the passive side, but there was also a major extension at the active FDI (OeNB, 2002). Overall, a third of the growth of 2000 (EUR 7.6 billion) was accounted in the EU, a third in Eastern Europe, and one third to all other regions. Within the countries of Central and Eastern Europe, there were the Czech Republic and Slovakia, where FDI stocks have increased the most. Except in the traditional target markets of Poland and Hungary, also in Croatia, Slovenia, Romania and Russia, the investments had been increased (OeNB, 2002).
Also in 2001, the increase concentrated on FDI in Central and Eastern Europe. Within the countries of Central and Eastern Europe the extension was the largest in Hungary and Russia. This is followed by the Czech Republic and the Slovak Republic. Also in Poland, Bulgaria, Slovenia, Romania and Croatia, the amount increased at more than EUR 100 million. At the beginning of 2002 only 38% of Austrian FDI was accounted to the EU and already 36% to Central and Eastern Europe (OeNB, 2003).

![Active FDI stock of Austria in Europe](image)

Source: OeNB, Database (2013)

Also in 2003 the increase in direct investment stocks in Central and Eastern Europe was strong (EUR 1.6 billion of totally EUR 3.8 billion). Within the countries of Central and Eastern Europe, the expansion in Bulgaria, Poland, Russia and Croatia was the strongest. Also the Slovak Republic and Serbia and Montenegro experienced an increase of more than EUR 100 million. Only the Czech Republic had a sharp decrease (OeNB, 2005). The East commitment of Austria took it in some countries in Central and Eastern Europe in a leading position among foreign investors. In 2003 Austria was in first place among FDI investors in Croatia (27%), Slovenia (23.3%) and Bulgaria (17.5%) (UNCTAD, 2004)
Concerning the growth of FDI in the EU-15, there was a marked expansion in the Netherlands and declines in Italy, Germany, Denmark, Finland, Portugal and Belgium. At the beginning of 2004, just before the EU enlargement, the 19 Central and Eastern European countries outcompeted the former EU-15 for the first time with a share of 36.8% compared to a share of 34.5%. However, with the 1st May 2004 eight of these countries were ascribed to the EU which thus came after enlargement, to a share of 63% (OeNB, 2005). More pronounced is the role of Central and Eastern Europe, if the number of holdings and the number of employees is considered. Here, 63 of the 142 new investments were received in Central and Eastern Europe and more than 80% of the employment growth was also in this region (+24,000 of +28,600 persons of total) (UNCTAD, 2005).

The highest population increases in active FDI in 2004 were recorded in Switzerland. This development had been dominated by a number of multinational corporations, which, in Austria, had only limited economic activities, but handled larger loans over domestic holding companies (UNCTAD, 2005). In second place was Romania, where the involvement of the OMV had contributed to a sharp increase in the FDI stocks (+EUR 1 billion). In total, nearly half of the increase was in Central, Eastern and Southeastern Europe, where Austria was able to consolidate its position in the region. The proportion of the transition economies was 38% compared to 33% for the EU-15 (OeNB, 2006).

In 2005 the number of foreign investments grew the most in the Czech Republic (+33), in Romania (+27) and in Germany (+25). In terms of value, the company's assets increased the most in Romania (+EUR 1.3 billion), in Croatia (+EUR 940 million), the Netherlands (+EUR 940 million) and Switzerland (+EUR 930 million) in 2005. The strongest job growth was in the Ukraine (+16,600 employees), well ahead of the Czech Republic, Germany and Spain, with an increase of more than 5,000 employees each. Prominent individual investments in 2005 included the purchasing of the Ukrainian bank Aval by Raiffeisen International, the entry of Mobilkom Austria and EVN in Bulgaria and the acquisition of shares of the Swiss Oerlikon Corporation by Victory Industriebeteiligung AG (OeNB, 2007).
In terms of value, the direct investment in corporate assets increased by EUR 19.4 billion in 2006. One-fifth of the increase was accounted for Germany (+3.9 billion EUR). In Romania, Italy and Ukraine, the stocks grew to EUR 1.9 billion each, so that these four countries account for about half of the total increase. A massive disinvestment was recorded in Poland, where stocks fell by EUR 3.5 billion. Especially this divestment was the reason for the decrease in the share(s) of Central, Eastern and Southeastern European countries from 47.4% to 45.8% of the total stock. The number the foreign investments grew still, especially in Central and Eastern Europe (121 of 170 additional investments). As important appeared Slovenia (+24), Romania (+23), Russia (+16), and Slovakia (+12) and Serbia (+12) (OeNB, 2008).

Source: OeNB, Database (2013)

Prominent individual investments in 2006 were the acquisition of the Romanian Banca Comerciala Romana by Erste Bank, various investments of OMV, the introduction of EVN in Macedonia and the restructuring of the Bank Austria, which brought both, large investment(s) as well as large divestments (UNCTAD, 2007)(OeNB, 2008).
In 2007 two-thirds of the increase of active FDI went to Central and Eastern Europe. In this year Germany (+EUR 3.6 billion) and Croatia (+EUR 3.4 billion) posted the largest expansion of Austrian FDI stocks, followed by Turkey (+EUR 2.3 billion) and Russia (+EUR 1.9 billion). The investments also increased by more than EUR 1 billion in Hungary, Kazakhstan, the Czech Republic, Ukraine, Bulgaria and Slovakia. The direct investment of Austria dropped by more than EUR 1 billion in the Netherlands and in Belgium. For Belgium the results even showed a negative stock of FDI. Negative stocks can occasionally occur because of negative equity, which could be created through extraordinarily high losses in the business year. However, in case of Belgium the "other direct investment capital" caused the negative stock (OeNB, 2009). According to the "directional principle" credits of a subsidiary to the parent are balanced against the original direct investment (IMF BOPCOM, 2008). In this specific case, a large Austrian company had a subsidiary in Belgium, where large group financing was handled (OeNB, 2009).

Also according to the number of foreign investments, Germany and Croatia were leading. 50 of 426 additional investments were taken in Germany and 36 in Croatia. The Czech Republic (+31), Romania (+29) and Serbia (+26) appeared remarkable as well. In terms of job growth Hungary (+13,700 employees), Germany (+11,000), Serbia (+10,200), the Czech Republic (+9300) and the Russian Federation (+8500) are found in the leading positions in 2007. These five countries accounted more than half of the total employment growth of 94,400 (OeNB, 2009).

Nearly half of the direct investment account for Austria (EUR 51.1 billion or 49.8%) in 2007 was in this region. Based on the number of holdings it was 52.8% and among the employees the 20 countries reached 71.2% (407,900 people) in the region. The prime destination remained to be Germany, followed by the countries of the first enlargement of the EU. Also the commitment in Russia and Serbia increased in 2007 (OeNB, 2009).

In 2008 Germany again was a top destination for Austrian FDI and was able to extend its lead even more. 50 additional investments, 17,000 new jobs and a capital gain of EUR 1.4 billion were a clear indication of continued economic attractiveness. The region of Central, Eastern and South Eastern Europe was again a key action area of domestic investors in 2008.
Czech Republic was the most recent raise, 42 new investments with 7,400 additional jobs and a capital gain of EUR 1 billion. A similar picture was in Romania, where 36 new investments, 8,900 new jobs and a capital gain of EUR 0.5 billion was created. Also Croatia gained importance with 191 (+35) Austrian participations, which meant the fifth place in number of holdings behind Germany, the Czech Republic, Hungary and Slovakia. Also the number of jobs increased by 7,500 in Croatia, however, the value of investments decreased by EUR 1.4 billion (OeNB, 2010).

How much the investment activities Austria have been focused since the turn of Central, Eastern and South Eastern Europe can also be seen in Table 8. In five countries, Slovenia, Bosnia-Herzegovina, Croatia, Rumania, Bulgaria, Austria was the largest foreign investor in 2008. In addition, Austria was at second place in Slovakia and had two third places in the Czech Republic and Hungary in the same year. Overall Austria was the third-largest foreign investor in this area with a share of more than 10% (wiw Database, 2010).

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovenia</td>
<td>1</td>
<td>23,3</td>
<td>1</td>
<td>23,3</td>
<td>1</td>
<td>27,9</td>
<td>1</td>
<td>28,9</td>
</tr>
<tr>
<td>Croatia</td>
<td>1</td>
<td>27,0</td>
<td>1</td>
<td>27,0</td>
<td>1</td>
<td>29,0</td>
<td>1</td>
<td>20,3</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1</td>
<td>17,5</td>
<td>1</td>
<td>17,5</td>
<td>1</td>
<td>28,3</td>
<td>1</td>
<td>33,8</td>
</tr>
<tr>
<td>Rumania</td>
<td>2</td>
<td>12,2</td>
<td>2</td>
<td>12,2</td>
<td>2</td>
<td>13,8</td>
<td>2</td>
<td>15,4</td>
</tr>
<tr>
<td>Bosnia-Herz.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>39,5</td>
<td>1</td>
<td>34,2</td>
</tr>
<tr>
<td>Serbia</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>2</td>
<td>15,6</td>
<td>1</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>3</td>
<td>14,2</td>
<td>3</td>
<td>14,2</td>
<td>3</td>
<td>14,7</td>
<td>3</td>
<td>14,8</td>
</tr>
<tr>
<td>Hungary</td>
<td>3</td>
<td>11,2</td>
<td>3</td>
<td>11,2</td>
<td>3</td>
<td>11,4</td>
<td>3</td>
<td>11,1</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>3</td>
<td>11,8</td>
<td>3</td>
<td>10,0</td>
<td>3</td>
<td>4,2</td>
<td>3</td>
<td>14,0</td>
</tr>
<tr>
<td>Ukraine</td>
<td>x</td>
<td>x</td>
<td>3</td>
<td>8,7</td>
<td>3</td>
<td>7,6</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Macedonia</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>3</td>
<td>10,5</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

Table 8: The part of Austrian FDI in CEE in % of the total FDI

Source: wiw database (2013), OeNB (2013)

Like in 2008 Germany and the Czech Republic were the primary focus of the investors in 2009. 40 additional investments each and an increase in value in more than EUR 1 billion, combined with an increase in employment of 3,400, respectively 2,400 people, consolidated the leading positions of the two host countries (OeNB, 2011).
The OMV withdrew from the Hungarian company MOL in 2009 since the investors had expanded their operations in Russia, Poland and Serbia. Sinking capital stocks, as a result of write-downs or withdrawal of capital, happened in the Ukraine, Kazakhstan and the Netherlands. The largest decreases were recorded in Switzerland, where the number of participations (-4), the stock of capital (EUR 700 million) and employment (-1,200 persons) declined (OeNB, 2011).

On the one hand the expansion of Austrian Direct Investment activities in 2010 focused on "great transformation countries" like Romania, Poland, Czech Republic, Slovakia and Croatia and the other hand on the "fast climbers" of the recent past like Turkey and Russia. Romania was characterized by 36 additional investments in 2010 (with a value increase of EUR 1.2 billion and +3300 employees). There were strongly increasing participation numbers also in Slovakia (+17), Poland (+17), Croatia (+16) and Russia (+14). With the expansion of employment Turkey (+7700) and Poland (+6200) were at the top (OeNB, 2012).

The former attractive target country Hungary suffered heavy losses in 2010. The participation number and the invested capital rose but the critical economic situation in the country led to negative reinvested earnings and to a drastic staff reduction (-11 300). Also contradictory was the situation in Switzerland, where a capital reduction of EUR 600 million was accompanied by an increase in employment of 3,000 people (OeNB, 2012). Due to declined participation numbers, deteriorating employment and a reduction in the capital stock the interest of FDI investors of Austria in the UK, Finland, France, Greece and Kazakhstan has generally been declining (UNCTAD, 2011).

6.2 Active FDI of Austria in CEE

As already mentioned before the direct investment activities of Austrian companies are strongly influenced by a focus on Central and Eastern Europe. In 2007, 50% of the total capital stock and 70% of the employees in Austrian subsidiaries were accounted to this region. The profitability has been developing above average since the mid-1990s. The financial and economic crisis reduced the momentum of investment, especially in the year
2009. The Austrian subsidiaries in Central and Eastern Europe employ over 400,000 workers, which represents around 12% of national employment (bmsak, 2009).

The active FDI by Austrian companies abroad were low until the end of the 1980s. The most important role played the passive FDI which were seen as a tool for modernization of the production structure to secure employment and regional development. The preparations for the EU enlargement and the opening of Eastern Europe after 1989 led to the decisive impulse to increase the capital of Austrian companies abroad. Since 2003 Austrian companies have invested more abroad than foreign companies in Austria (OeNB, Financial Markets Austria Services Ltd., 2004).

The value of the Austrian new investment abroad rose from less than EUR 0.3 billion in the second half of the 1980s to EUR 1.4 billion in 1990. From 2000 to 2005 it increased mostly by EUR 6 billion per year. In 2007 it reached a maximum value of EUR 28.5 billion. Also in 2008, when the economic crisis began, there were new investments in the amount of EUR 20 billion (OeNB-Database, 2013).

<table>
<thead>
<tr>
<th></th>
<th>Active FDI stocks in % of the GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>1,0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>25,0</td>
</tr>
<tr>
<td>Sweden</td>
<td>30,3</td>
</tr>
<tr>
<td>Denmark</td>
<td>14,7</td>
</tr>
<tr>
<td>Finland</td>
<td>3,4</td>
</tr>
<tr>
<td>Austria</td>
<td>1,0</td>
</tr>
</tbody>
</table>

Table 9: International comparison of Austria with the top 5 FDI investors
Source: UNCTAD (2009, modified)

Because of these new investments abroad, the inventory ratio increased (FDI stocks as a percentage of GDP). In Table 9 it is shown that the percentage increased from 1% in the late 1980s to 8.2% in 1998 and 36.6% in 2008. Since the fall of Communism, the Austrian FDI in CEE played a major role, especially from the year 2000 on (World dataBank, 2013). The boom of the active direct investments in CEE was started mainly because of the East
commitment of Austrian companies. Despite the rapid catching up of the internationalization of Austria over FDI, measured by the FDI stocks as a percentage of the GDP, Austria is less effective than other European countries.

In the ten most important markets with unexploited FDI potential, Eastern European countries are well represented, especially in the agriculture, industry, energy and construction sectors. These emerging markets in Central and Eastern Europe opened many opportunities for Austrian companies to expand their business fields. The geographical proximity, historical ties and the public funding also allowed medium and small companies to purchase foreign investments (Stankovsky, 1999-B). The process of EU enlargement increased confidence in the economy in Central and Eastern Europe and brought major improvements in the legal certainty. This legal certainty also increased the direct investment activities of Austria in Central and Eastern Europe (WIFO – Austrian Institute of Economic Research, 2010).

According to calculations by Egger (2010), the direct investment potential is not exhausted from an Austrian perspective. This is shown in the comparison between the “natural” direct investment flows, which can be predicted on the basis of economic forces and the realized annual flows in Table 10.

<table>
<thead>
<tr>
<th>agriculture, industry, energy and construction</th>
<th>Wholesale and retail</th>
<th>Travel, real estate, education, health</th>
<th>Financial Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td>1.491,9</td>
<td>Romania 113,7</td>
<td>Poland 392,1</td>
</tr>
<tr>
<td>Romania</td>
<td>1.459,3</td>
<td>Southeast Europe¹ 68,9</td>
<td>Croatia 276,4</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>870,0</td>
<td>Croatia 56,4</td>
<td>Croatia 653,8</td>
</tr>
<tr>
<td>Poland</td>
<td>438,6</td>
<td>Slovenia 58,3</td>
<td>Southeast Europe² 425,0</td>
</tr>
<tr>
<td>Slovakia</td>
<td>168,9</td>
<td>Russia 53,9</td>
<td>Romania 406,7</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>160,1</td>
<td>Romania 44,3</td>
<td>Slovakia 343,0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ukraine 276,2</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poland 247,8</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bulgaria 151,7</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>East Europe² 93,1</td>
<td></td>
</tr>
</tbody>
</table>

Table 10: Difference between potential and realized FDI flows in 2005 (in EUR Mio.)

¹Bosnia and Herzegovina, Macedonia, Montenegro, Serbia
²Albania, Belarus, Estonia, Latvia, Lithuania, Moldova, Turkey
Source: Egger (2010, modified)
The development of Austrian direct investment in the CEC-5\(^1\) worked with a similar pattern to those of the exports. Austrian companies were present as early investors, but then they lost market share over time because of the moving up of competitors from other countries. Since 2003, the market share of Austrian investors in the CEC-5 has been stable at around 8%. In Slovakia and Hungary the Austrian position is stable, while in Poland Austria is losing ground since 2005. In the Czech Republic there was a tendency that the amount of shares was rising again in recent years. In the other CECs, with the exception of Russia and Bulgaria, apart from annual fluctuations there was a clear upward trend recorded (WIFO – Austrian Institute of Economic Research, 2010).

Also the profitability of Austrian subsidiaries in CEE is developing well since the mid-1990s. First the development took only place in the CEC-5 but since 2000 also in the other CEC-20\(^2\). In 2007, the return on equity reached 14.5%. The return on equity is significantly higher than the one of the Austrian FDI in Western Europe since 2000 (OeNB-Database, 2013).

According to Altzinger (2008), there is a positive return after 3 to 4 years of the Austrian FDI in the CEC-5 as well as in the other CEC. These revenues increased after the initial phase in the other CEC more strongly than in the CEC-5. This is because of the learning effect from previous investments and the less competitive market structures in the CEC-5. Most of the income is reinvested in the subsidiaries abroad. The reinvestment rate of FDI in Central and Eastern Europe is much higher than in the EU-15. However, it is declining in the CEC-5 and approaches the value of the EU-15 by about 80%. Because of this more and more of the revenue, which is generated in the Eastern European subsidiaries, is returned to the parent company.

As already mentioned in the chapter of the Austrian active FDI broken down by industries, the Austrian financial sector (banking and insurance) plays an important role in the development of Austrian direct investment in CEE. Within the manufacturing sector, the

\(^1\) Poland, Slovakia, Slovenia, Czech Republic, Hungary (Enzyklo, 2013).
\(^2\) Includes the CEC 5 (Poland, Slovakia, Slovenia, Czech Republic, Hungary), Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Montenegro, Moldova, Romania, Russia, Serbia, Ukraine and Belarus (OeNB-Database, 2013).
chemical-, petroleum- and plastic-industries, the food industry and the glass and stone industries are most important. Especially the focus on the food sector is much more pronounced than in the Austrian direct investments in the EU-15. The metal industry and the mechanical engineering are represented weaker in CEE than the EU-15 markets (WIFO – Austrian Institute of Economic Research, 2010).

The sectorial structure of Austrian direct investment in CEC has shifted over time, especially in the direction of banks and insurance companies. In the mid-1990s about half of Austrian direct investment in CEE was accounted for the manufacturing sector and the other half for the service sector. Within the services sector, the share of trade and the financial sector were about equal in size. Since 2000 the banking and insurance sector grew in importance in 2007 and because of this, more than half of the FDI stock, which is assigned in Central and Eastern Europe, is from this sector. Direct investments in the Austrian financial sector in other EU-15 countries are accounted for only 5.4% of the total FDI stock in 2007 (OeNB, 2009).

A significant contribution to the activity of Austrian FDI in CEC comes from the regional headquarters of large multinational companies, also of Austrian companies, that develop the Eastern markets for investments (Sieber, 2008). According to the data of the OeNB (2009) these headquarters of Austrian multinationals in Central Eastern Europe contributed 35% of the capital invested in the CEC-20 in 2007. The proportion was the highest in Poland with 60.3%.

The number of foreign subsidiaries in Central and Eastern Europe is rising much faster than the number of multinational companies in Austria. The dynamic development of the active direct investment is thus apparently mainly due to increased investment from already established direct investors. About 20% of the Austrian multinational companies only invest in Central and Eastern Europe, 15% hold subsidiaries in Western Europe and in CEC. Slightly more than half of the direct investors (52.9%) are present exclusively on Western European markets (Falk/Wolfmayr, 2010-A).
In 2000 there were 248,628 people employed in Austrian subsidiaries. In 2010, 718,104 people in total were employed in Austrian subsidiaries abroad and 478,116 of them in Central and Eastern Europe. However, the number of people employed in CEE did not increase as steep as the total number. This number is weighted by the nominal share capital (OeNB, 2012).

![Figure 8: Number of employees abroad in total and CEE](source)

Source: OeNB-Database (2013)

The number of employees per subsidiary is in Central and Eastern Europe more than twice as high as in other countries of the euro area but the capital per worker is only half the size. This indicates a relatively labor-intensive production in the CEC-20. The labor productivity of Austrian subsidiaries in Central and Eastern Europe (sales per worker) is less than half as high as those of subsidiaries in other European markets but it improves steadily and significantly in the entire region. It increased in the period 2000 to 2005 in most countries at 6% (Baltic States) to 17% (Slovenia) per year. That makes the Austrian direct investment in CEC also to an important contribution to economic recovery (Hunya, 2008).
6.3 The influence on the employment in Austria

Since the early 1990s the increase of international activities of Austrian companies in Central and Eastern Europe has also increased the concerns that with the relocation of manufacturing a substantial reduction in domestic employment would go along. However, the employment effects of direct investment abroad are not clear, and they are largely determined by the investment motives. For horizontal FDI from most theoretical models, negative employment effects are expected. Horizontal direct investment can still be seen as part of the growth strategy of companies. A low market proximity to high transportation costs or trade barriers cause the export activity to provide less favorable opportunities for expansion. The substitution, which is also showed in the experience, is in no case 1:1. For vertical FDI, employment effects are even less clear. Vertical direct investment can drag exports of subsidiaries to the parent company by itself, increase the productivity and employment, but also replace the employment (Wolfmayr et al., 2006-A).

The expectations are positive for direct investments, for development and expansion of the local market, and for the employment in Austria. But in case of cost-oriented direct investment with partial outsourcing of production abroad, there are many indirect repercussions and contradictory effects (Stankovsky, 1999-A). Positive effects are resulting from additional exports through the supply of primary products of the parent company for the production abroad. Another positive effect results from an improvement in the international competitiveness of the overall product by outsourcing labor cost intensive production parts from Austria to Central and Eastern Europe (WIFO – Austrian Institute of Economic Research, 2010).

This strengthens the position of the parent company and generates additional exports to third countries and also secures jobs in Austria. The Austrian companies could earlier use the potential of affordable benefits from lower transport and transaction costs than international competitors, because of the advantage of the close proximity to the CEC. The benefits of additional or new opportunities for specialization and increased competitiveness, however, are offset by disadvantages of migration of parts of the industry with jobs for (mainly less skilled) workers. Substitutive trade effects can occur when the production of the subsidiary replaces...
previous exports of the parent company or the subsidiary displaced exports of the parent company in third markets (WIFO – Austrian Institute of Economic Research, 2010).

The empirical evidence regarding the consequences of foreign direct investment on domestic employment has so far, however, no clear results. This applies not only in Austria but also in other industrialized countries. The comparability of the data is difficult because of the differences between the data sources used, the level of aggregation (industry or company level), the analyzed target markets of direct investment (world, regional markets, EU-15, CEC-5, CEC-20) and the econometric methods (Molnar et al., 2007).

Also the existing empirical evidence from the few available studies on the repercussions of FDI on domestic employment is ambiguous and suggests different effects of FDI in different locations. For Austria Pfaffermayr (2001) determined different employment effects of FDI in different locations, based on industry data from 1990 to 1996: While a substitution relationship between the foreign employment in Western Europe and the domestic employment existed, the development of foreign employment in Central and Eastern Europe was a complementary one, regardless of the wage gap between the home country and abroad.

Also, according to calculations by Falk/Wolfmayr (2008), with data of the OeNB for the years 1993 to 2004 and static regression models, there were new jobs created in the parent company in Austria through the setting up of subsidiaries in the CEC-5. However, there are differences in the employment effects of international activities between the service sector and the manufacturing sector. Job losses in the manufacturing sector were balanced by a positive effect on employment in the parent company in the service sector.

The dynamic estimation models, however, give a different picture. The relationship between the domestic employment and the employment in the CEC-5 subsidiary is negative in the manufacturing sector, such as in the service sector. In the manufacturing sector, this relationship is insignificant and in the service sector it is significant. However, the estimated substitution effects are very small (Falk/Wolfmayr, 2008).
Marin (2004) calculated stronger substitution effects. Based on the results of a survey of Austrian companies, the Austrian multinationals reduced about 24,000 jobs in Austria since the fall of Communism in the period from 1990 to 2001 because of jobs in CEE. Even higher estimates Onaran (2008) the substitution effect for the period from 1996 to 2005 with 48,145 reduced jobs in the manufacturing sector and 123,179 reduced jobs in the whole economy. The significance of the cited studies, however, is restricted by the quality of data and data structure. The cited analysis for Austria is based on either industry data with a small number of observations (Falk/Wolfmayr, 2008, Onaran, 2008, Pfaffermayr, 2001) or on a corporate sample, in which no companies operate without foreign subsidiaries (Marin, 2004, Falk/Wolfmayr, 2010B).

Because of the lack of data, only the relative employment at home and abroad was considered in the estimated equation. The relative wages were not considered or only the wages at home and only at the aggregate level. Furthermore, a positive or negative correlation between domestic and foreign employment is not necessary due to substitution possibilities, but partly due to the different relative output growth at the home country and abroad. For the estimation of the elasticity of substitution the relation between wages, employment and output growth at home and abroad should be used (WIFO – Austrian Institute of Economic Research, 2010).

Analyzes on the basis of corporate records, which contain only companies with direct investment abroad and companies without subsidiaries abroad, provide misleading results because the two groups of firms differ systematically. Multinational companies are more productive, research-intensive and have higher intangible assets. Furthermore, the comparison of the employment situation of the parent company and the subsidiary does not describe a causal relationship. For the analysis of the causal effect of the active direct investment a comparison with a control group of companies is therefore necessary (WIFO – Austrian Institute of Economic Research, 2010).

The internationalization through FDI therefore strengthens the overall parent and causes in the years after the decision to invest a significantly higher employment growth than in a situation in which the company would have no established foreign subsidiaries. The employment effects of FDI in Central and Eastern Europe are similar and the econometric models showed
a clearly positive, but not a significant effect on the domestic employment (WIFO – Austrian Institute of Economic Research, 2010).

The evidence for other countries does not provide significant results and the individual studies are difficult to compare. Studies in the U.S. show that an increase in employment in foreign locations (even in low-wage countries) does not have to be accompanied with a negative employment growth by the parent company (Brainard/Riker, 1997). It seems to be a locational competition between subsidiaries of a company in different low-wage countries (Wolfmayr et al., 2006-A).

### 6.3.1 International outsourcing and employment effects

The internationalization of Austria is also characterized by an active trade in intermediate products. This is a direct consequence of an increased international outsourcing, i.e. the outsourcing of production stages in a cost-effective location abroad. The concept of international outsourcing includes the relocation of parts of the production within the company by setting up subsidiaries, i.e. the (vertical) direct investment abroad as analyzed in the previous chapter, or the supply of precursors by independent companies from abroad (Kratenas/Wüger, 2001).

International outsourcing is now a major tool for increasing productivity and thus promotes international competitiveness and export. International studies (Feenstra/Hanson, 1999, Amiti/Wei, 2006) and previous empirical analysis for Austria (Egger et al, 2001A, Kratenas/Wüger, 2001) show that international outsourcing, also the outsourcing in low-income countries, significantly increases the growth of total factor productivity and thus the competitiveness of Austrian companies.

In many industrialized countries, however, an increasing problematization, sometimes even a sharp rejection of international outsourcing, is happening. In the discussion again dominates the negative expected employment effect of outsourcing. Especially with the low costs of outsourcing of services, the threat of losing so far relatively "safe" jobs is connected. In general highly standardized service activities or "back office" activities are going to be
outsourced into low-wage countries (Feenstra/Hanson, 1999). In this connection Blinder (2006) points out that the future dividing line between risk and not risk of losing their jobs in the service sector is not pulled through the qualification or skill. It rather will be whether the work output could be outsourced with low or no quality losses.

Blinder (2006) concludes that secure jobs in rich countries will exist in the future in some industry sectors, but particularly in the human services. Non-personal services, however, are more and more threatened by advances in information technology. The dividing line between personal and non-personal services often runs within individual careers and does not overlap much with the traditional division into skilled and unskilled occupations. From this it follows that up-skilling and training cannot always and in all service sectors solve employment problems in industrialized countries. But it is vital in many areas; hence new jobs are created that cannot be threatened by outsourcing.

According to the traditional models a relative loss of wages for less-skilled workers in the "rich" country station is expected if such production steps are outsourced to use this factor relatively intensively. General judgments about the labor market effects are not deriving as a result of less qualified workers. It depends on the sector or industry which is outsourced. Overall, it remains an empirical question to what direction the overall effects on the relative demand between highly educated and less educated workers (Wolfmayr et al., 2006-A).

Austria has used, mainly as a result of the opening of the East and the current enlargement of the special possibilities, the cooperation beyond the scope for cost-reference of selected services. The most comprehensive indicator for the measurement of international outsourcing is based on information from the input-output table that represents the intermediate demand of each sector in detail. According to results for Austria between 1995 and 2000, the average annual growth of industrial intermediate imports from low-wage countries was 12.6%. Austria is one of the countries, besides Germany, Finland and Sweden, in which this growth is also one of the highest. However, this wide dynamic range is based on a very low level of intermediate imports from low-wage countries (Wolfmayr et al., 2006-A).
Previous empirical work regarding the effects of international outsourcing services to the industrial part of the European labor markets suggest that less skilled workers are negatively affected, at least in relation to the better-qualified. For most European countries, there is a relatively strong agreement on the view that negative consequences reflect more in job losses (unemployment) as in effects on wages. Also, the empirical evidence for Austria shows that the outsourcing of industrial inputs to Central and Eastern Europe causes a change in the employment structure in favor of better qualified workers. Studies show that in the nineties the international outsourcing of Austria in the eastern countries (CEE and former USSR) was responsible for about a quarter of the total decline in employment of less skilled workers. It is likely, however, that the macroeconomic effects of positive and negative aspects are to a great extent short-term nature (Egger et al., 2001).

The negative employment effects of increased wholesale subscription from abroad basically have a positive feedback effect of outsourcing on domestic employment over acting through increased production due to improved competitiveness. International studies on the "net effects" in terms of added value and employment, however, show a total of inconclusive results. For Austria, WIFO calculated in a macroeconomic simulation of an import price subsidy of 10\% by outsourcing to Central and Eastern Europe, a relatively small negative "net" effect on employment of 1.1\% (Kraten/Wüger, 2001).

Falk/Wolfmayr (2008) studied the effects of outsourcing of parts of the production to low wage countries on employment in the manufacturing sector in seven selected EU countries. The empirical results show that imported intermediate products that come from the same industry have a significant negative, but very small effect on employment. Separate estimates for industries with relatively high and low skill requirements show that the effect is significant only in sectors with relatively low skill jobs.

6.4 The influence on the export of Austria
The internationalization of Austria becomes clear especially when you look at the external trade quotas (the ratio of exports and imports to GDP). In the sixties and early seventies the goods export ratio was less constant with 17 to 18\%. It was increasing from the mid-seventies to the mid-nineties from 20\% to 25\% and has exploded ever since. By 2005, it rose to over
38%, and according to current forecasts it is likely to increase further. Not quite as impressive is the statistically development in services. The export ratio was stable at around 11% from the mid-seventies to the mid-nineties and has only increased to 15.6%. up to 2005 But in fact it is likely that both the level and the dynamics of foreign trade in services can be much higher, since a large part of modern services is currently not treated separately in the balance of payments (Wolfmayr et al., 2006-A).

Austrian companies have done very well in the global market and were able to expand their exports more powerfully than most of the competitors. Austria's market share of the world’s exports of goods, which has kept constantly up to the mid-eighties at about 0.9%, rose to 1.2% until 2005. This success is particularly remarkable in view of the emergence of new global companies from Asia and Eastern Europe. Even more positive is an EU comparison: Austria's share in exports to the EU-15 increased from 2.4% in the mid-eighties to 3.3% in 2005. Over time, the decrease in market share in Austria since the mid-nineties in commercial services is largely due to loss of competitiveness in tourism (Wolfmayr et al., 2006-A).

Also the market shares of modern production-related and knowledge-intensive services (data processing, research and development, legal, tax, and business consulting, other business services, etc.) were developed unfavorable, especially in terms of exports to the EU-15. Since the mid-nineties market share has been strong in terms of transport services, construction services, and cultural and recreational services. While the balance of payments data from the Austrian foreign trade in services is a structural change to modern and production-related services, there is still a lagging behind the strengthening of the international competitiveness of this important and promising sub-areas of the service sector (Wolfmayr et al., 2006-A).

When evaluating the effects of active direct investment on the domestic market in general and the export activity of domestic companies in particular it is important to analyze the nature of the direct investment. Very important is the distinction between the vertical and the horizontal FDI which was already defined in general at the beginning of this paper. By a vertical FDI it comes to a splitting of the production or business functions into separate stages. There is no generation of a new version of a product. The subsidiary assumes parts of the production and produces an intermediate product that goes into the production of the final product. A vertical
FDI also includes the investment in distribution networks, service and market development (Wolfmayr et al., 2006-A).

The effects of vertical FDI on domestic exports are not very clear and are influenced by the investment motive. Austrian vertical direct investments mainly serve the development and expansion of the local market through forward integration into distribution channels and services. Also strategic objectives, such as the use of starting benefits or the hedge of markets, are used to generate additional exports. This applies in general also for direct investments which are used to secure raw materials or partial outsourcing of production, for example for securing favorable precursors (efficiency or cost-oriented FDI). In case of efficiency or cost-oriented FDI, however, there are several conflicting effects, so that the net effect on exports is not entirely clear. Additional exports are expected to arise from an increased intra-firm trade between parent and subsidiary (Wolfmayr et al., 2006-A).

This intra-firm trade may include shipments of capital goods in the production of a daughter or the supply of precursors of the parent company for the production abroad. Ultimately, the vertical FDI is associated with outsourcing, especially the outsourcing of wage-intensive production from Austria to CEE to improve the international competitiveness of the overall product. This strengthens the position of the parent company and generates additional exports to third countries. Substitutive trade effects can occur when the production of the subsidiary replaces previous exports of the mother, or displaces the daughter’s exports to third markets (Wolfmayr et al., 2006-A).

The interdependence of Austrian companies with the CEC is reflected in part in the dynamics of intra-company trade. The development of trade between related parties may therefore give a first indication of positive or negative effects of foreign direct investment for the domestic market. The intra-firm exports to the CEC-20 in 2007 reached a value of EUR 2.9 billion and imports of EUR 1.6 billion, so that a surplus in bilateral intra-firm trade was reached with EUR 1.3 billion. The intra-firm trade in 2007 contributed 9.2% to the Austria's total exports of goods and services in the CEC-20 and 6.8% to the imports. This amount was much higher than with other regions and countries (WIFO – Austrian Institute of Economic Research, 2010).
With horizontal FDI, the subsidiary abroad generates its own product variant or quality of the same product. In contrast to the vertical multi-nationalization, the horizontal direct investment comes to the decision as to whether companies should approach the market by establishing a subsidiary (i.e. as a multinational company) or through exports. In the theoretical literature that decision is modeled as a power play between transport costs, fixed costs of establishing a subsidiary abroad and returns to scale in production. High transport costs and low fixed costs of the establishment of subsidiaries abroad lead to more export-substituting FDI. In contrast, the concentration of the production in one location and the operation of foreign markets through exports of high returns to scale and low transport costs are favored. The relationship between exports and horizontal FDI is therefore substitutive (Wolfmayr et al., 2006-A).

The empirical research in economics previously found mainly a complementary relationship between FDI and exports. However, it is always emphasized that this complementary relationship depends on the type of direct investment. Also over time with the growth of foreign subsidiaries the complementary relationship can change into a substitutive. For the Austrian industry in the early nineties a complementary relationship can be demonstrated (Pfaffermayr, 1996). Also a special analysis of the WIFO for the years 1989-1997 showed a
similar picture. Companies with large foreign production are more export oriented than the average. In a dynamic perspective there is evidence that companies that invest abroad, even on domestic location, grow dynamically (Hahn et al, 1999). For the EU-15 countries in intra EU-15 trade a complementary relationship between active direct investments and exports is shown. The internationalization through FDI can thus promote exports (Wolfmayr et al., 2006-B).
Conclusion

Austria derives substantial benefits from the international division of labor, especially in CEE. Exports contribute significantly to the growth and employment; imports secure a wide range of raw materials, technologies and cost-effective products. The price and technology competition forces domestic companies to make ongoing productivity improvements (Wolfmayr et al., 2006-A). Globalization and the rapid integration of the new (emerging) economies into the world economy have the potential for significant wealth increase. Globalization causes, mainly as a result of the sometimes stormy development, high adjustment costs. It produces not only winners but also losers. These include not only individuals, but entire jobs, industries, regions and countries (Kraten/Wüger, 2001).

International outsourcing and FDI as well as an increased trade in services, dominate more and more global globalization and integration processes and provide additional approaches for the promotion of exports. It also requires new analysis on the possible positive and negative effects on the domestic economy and the mitigation of possible negative effects on employment in particular.

The empirical economic research found a complementary relationship between foreign direct investment and exports and shows that the promotion of internationalization on direct investment in the greater extent strengthens the export potential of the domestic economy. Analysis of international outsourcing (imports of intermediate inputs) confirms the positive effects on the productivity and competitiveness. Less clear is whether the internationalization of enterprises through FDI, or increased purchases of inputs from low-wage countries is positive for the employment. If it is affecting foreign subsidiaries which are for sales or service purposes then the effect on employment is positive. This effect may also apply if the foreign investment or the import is linked with a partial outsourcing of production to low wage countries, which increases the competitiveness of the domestic parent company in the world market. However, outsourcing should be seen primarily as part of a necessary structural change of the Austrian production, according to the high skills and wages.
Econometric studies for Austria on the relationship between employment at home and abroad as a result of direct investment of domestic companies have a complementary relationship that results only in the long term and is primarily driven by the services sector. In the manufacturing sector a substitutive relationship outweighs, however, the substitution effect between the domestic and foreign employment, which is very low, so that the domestic employment is determined on other factors (technical progress, output growth) to a much greater extent. Similar statements can be derived from previous empirical analyzes on the overall employment effect of international outsourcing of material inputs and services (Wolfmayr et al., 2006-A).

Regardless of positive or negative overall employment effects each can lead to adjustment problems in the labor market caused by different effects of globalization and integration of workers with different skills. Foreign trade generates greater specialization in capital and human capital-intensive production sectors, respectively to higher quality segments within specific industry sectors (Wolfmayr et al., 2006-A). International outsourcing causes a deeper specialization of the end product.

Summing up, the thesis investigated the whole area of active FDI of Austria and especially into CEE. The connection between active FDI and the trade of Austria and also the employment in Austria was investigated according to a large amount of different studies. Although there are no significant findings on the effect of FDI and trade or employment, because of the diverse influencing factors, the thesis provides a general overview and gives some answers regarding the influence of active FDI in CEE on the employment and trade in Austria.
8 Conclusion in German


Die empirische Wirtschaftsforschung fand eine komplementäre Beziehung zwischen ausländischen Direktinvestitionen und Exporten, so fördert die Internationalisierung auf Basis der Direktinvestitionen ebenfalls die Exportchancen der heimischen Wirtschaft. Analysen über das internationale Outsourcing (Einfuhr von Vorleistungen) bestätigen die positiven Auswirkungen auf die Produktivität und Wettbewerbsfähigkeit. Weniger klar ist, ob die Internationalisierung von Unternehmen durch ausländische Direktinvestitionen oder vermehrte Käufe von Vorleistungen aus Niedriglohnländern positiv für die heimische Beschäftigung ist. Es kann jedoch eine Aussage getroffen werden für ausländische Tochterunternehmen die für Verkauf- oder Servicezwecke existieren, diese haben einen positiven Effekt auf die heimische Beschäftigung.

Ökonometrische Studien für Österreich die sich mit dem Thema Beschäftigung im Inland und im Ausland als Folge ausländischer Direktinvestitionen von heimischen Unternehmen beschäftigen, weisen eine komplementäre Beziehung auf. Diese Ergebnisse treten jedoch nur auf lange Sicht und vor allem im Dienstleistungssektor auf. In der verarbeitenden Industrie überwiegt eine substituierende Beziehung, jedoch ist der Substitutionseffekt zwischen der inländischen und ausländischen Beschäftigung sehr niedrig, so dass die Beschäftigung im Inland in einem viel größeren Ausmaß durch andere Faktoren (technischer Fortschritt, Wirtschaftswachstum) beeinflusst wird. Ähnliche Aussagen lassen sich aus früheren empirischen Untersuchungen auf dem gesamten Beschäftigungseffekt des internationalen Outsourcings von materiellen Vorleistungen und Dienstleistungen ableiten (Wolfmayr et al., 2006-A).


9 Résumé

Pargfrieder Gregor, bakk. rer. soc. oec.

EDUCATION

<table>
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<tr>
<th>Date</th>
<th>Program</th>
<th>Institution</th>
<th>Key Course Element</th>
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<tr>
<td>02/2011 – to date</td>
<td>International Business Administration, master</td>
<td>University of Vienna</td>
<td>Organization and Personal</td>
</tr>
<tr>
<td>10/2007 – 02/2011</td>
<td>Business Administration, bachelor</td>
<td>Karl Franzen University of Graz</td>
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<tr>
<td>09/2001 – 06/2006</td>
<td>Polytechnic for engineering economics</td>
<td></td>
<td>Operating Informatics</td>
</tr>
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</table>

PROJECT EXPERIENCE

10/2011 – to date Self-employed
At the base of self-employment, development of a database for the project handling and the customer management which is including the wage accounting.

LANGUAGES

German (mother tongue)

English (fluent in speech and writing)

Spanish (advanced)
References


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