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## **Austria's Political and Economic Relationship with China 1989–2019**

### **Abstract**

Politically and economically, Austria focuses heavily on Europe, in particular on Germany and the Central and Eastern European (CEE) countries. Nevertheless, Austria was one of the first West European countries to establish diplomatic relations with the People's Republic of China (PRC) in May 1971. *Political relations* between Austria and China, 1989–2019, were generally good, but sometimes the relationship got seriously disturbed. *Economic relations* with China lagged behind in the beginning, due to Austria's focus on European markets and to the fresh opportunities in the nearby CEEs after the fall of the Iron Curtain but caught up later.

*Keywords:* China, Austria, economy, political relations

### **Political relations between Austria and China**

Politically and economically, Austria focuses heavily on Europe. Within Europe exists a special relationship with Germany and with the Central

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and East European (CEE) countries. Nevertheless, Austria established formal diplomatic relations with the People's Republic of China as early as May 1971, before the PRC was recognised by the United Nations (October 1971). Austria's initiative has to be seen in the light of her understanding as a bridge between 'East and West' during the Cold War and as part of its 'active neutrality', introduced by then Chancellor Bruno Kreisky.<sup>2</sup> Although the rapprochement was initiated by a social democratic (SPÖ) government, it was supported by the Austrian conservative party (ÖVP) as well, which was interested in intensifying business relations with China. With the beginning of the 'reform and opening-up policy' in China in 1978, the relations broadened and intensified, and in 1985, Rudolf Kirchschläger became the first Austrian President to visit China.

### *Chronicle of events*

#### 1989–1994: Tiananmen Square and the Dalai Lama stressing bilateral relations

The forcible suppression of students' protests on Tiananmen Square in Beijing, on 14 June 1989, triggered the first crisis in the hitherto excellent and friendly political relations between Austria and China. Immediately after the incident, official diplomatic relations with China were frozen, following the course of the EU.<sup>3</sup> Nevertheless, human rights remained an issue and parts of the Austrian population and the press in particular continued to take a critical stance towards the Chinese Government. This is also reflected in their positive attitude towards the Dalai Lama.

When the 14<sup>th</sup> Dalai Lama, Tenzin Gyatso, visited Austria in September 1991, the stage for the next crisis in bilateral relations with China was set. He was received by President Waldheim, Federal Chancellor Vranitzky, Foreign Minister Mock and the Second President of the National Assembly, Lichal. The Dalai Lama had been awarded the Peace Nobel Prize for his

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<sup>2</sup> Other neutral countries in Europe, such as Switzerland, Finland and Sweden had recognised the PR China and taken-up diplomatic relations with the PR China already in 1950, when Austria was still occupied by the four Allies, USA, the Soviet Union, France and Britain.

<sup>3</sup> *Declaration of the Twelve* of June 6, 1989 and the European Council, Annex II, Declaration on China, Madrid 27 June 1989.

peaceful engagement for Tibet in 1989 and was widely known in Austria, because of his ‘mentor’ Heinrich Harrer’s book *Seven Years in Tibet*.<sup>4</sup> The Chinese Government protested loudly. By granting such honours to the Dalai Lama, who considered himself the spiritual and political leader of all Tibetans, the Austrian Government was allegedly putting into question that Tibet was an inseparable part of China and was interfering with China’s domestic affairs, which could not be tolerated.<sup>5</sup>

Table 1

*Meetings with the Dalai Lama – a recurrent strain on Austria–China relations*

|      |   |
|------|---|
| 1991 | Meeting with President Kurt Waldheim, Federal Chancellor Franz Vranitzky, Foreign Minister Alois Mock and 2 <sup>nd</sup> President of the National Assembly, Walter Lichal |
| 1993 | The Dalai Lama attends the 2 <sup>nd</sup> UN World Conference on Human Rights in Vienna; meets with President Thomas Klestil   |
| 1998 | Meeting with Foreign Minister Schüssel in Vienna  |
| 2007 | The Dalai Lama attends a Waldzell Meeting at Melk Abbey, Lower Austria, and meets Federal Chancellor Alfred Gusenbauer  |
| 2012 | The Dalai Lama visits Austria for 10 days, meets with Federal Chancellor Werner Faymann and Foreign Minister Spindelegger   |

*Note:* The only high-level meeting, which did not cause protests from the Chinese side, took place in 1998 with Foreign Minister Schüssel when he tried to mediate between the Dalai Lama and the Chinese Government on behalf of the EU, in his function as (rotating) President of the EU Council.

*Source:* Compiled by the author.

Nevertheless, the Chinese resentment was rather short, probably due to the sound basis of Austria–China relations. Taking account of her rising importance, Foreign Minister Mock had established a separate section for China in the Austrian Ministry of Foreign Affairs and launched an ‘Asia Initiative’, which would help to counterbalance Austria’s Euro-centric foreign and trade policy. In 1993, a visit of the Dalai Lama stressed bilateral relations anew, but already in April, Federal Chancellor Franz

<sup>4</sup> Heinrich Harrer (1912–2006) was an Austrian mountaineer and geographer. His book, *Seven Years in Tibet* (1953) covers the years 1944–1951, when he happened to become the teacher of the then young Dalai Lama, 1946–1951. His book was also filmed in 1997, with Brad Pitt starring Heinrich Harrer.

<sup>5</sup> Interviews with Professor Gerd Kaminski and Dr. Josef Magerl, former head of the Asia section in the Austrian Ministry of Foreign Affairs.

Vranitzky was invited to China and in June 1994, Chinese Prime Minister Li Peng paid a return visit. (In order not to jeopardise bilateral relations, an extensive ban on demonstrations denouncing Li Peng's imposition of martial law in Beijing in 1989, was imposed.)

### 1995–2000: Austria assuming responsibility as a member of the EU

When Austria joined the EU on 1 January 1995, the EU's arms embargo imposed on China in 1989, was still in force. But altogether, Austria's relations with China seem to have benefitted from EU membership, in particular after the EU Commission published its first *Long Term Policy for China–EU Relations*.<sup>6</sup> On the occasion of Austrian President Thomas Klestil's visit to China in September 1995, President Jiang Zemin 'affirmed that Sino–Austrian relations were developing smoothly'.<sup>7</sup> In 1996, an 'Agreement on economic, industrial, technical and technological cooperation' was signed. When Wolfgang Schüssel visited China in March 1998, he was received as the Foreign Minister of Austria, but also as a member of the EU Troika, as Austria was going to take over the (rotating) EU Presidency in the second half of that year. Because Schüssel also took a leading role in the 'EU–China human rights dialogue', he became the first foreign minister of an EU country to visit Tibet.<sup>8</sup> Later in the year, he tried to mediate between the Dalai Lama and the Chinese Government on behalf of the EU. From the Chinese side, the visit of Jiang Zemin in 1999, the first visit of a Chinese president to Austria, was considered an upgrade of the political level of bilateral relations.<sup>9</sup>

### 2000–2006: Undisturbed and intensified relations

In 2001, Austrian President Thomas Klestil paid a return visit to China and the 30<sup>th</sup> anniversary of establishing diplomatic relations between Austria and China was celebrated. The following years were characterised by

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<sup>6</sup> European Commission 1995.

<sup>7</sup> China Daily 1995.

<sup>8</sup> Die Welt 1998.

<sup>9</sup> German.China.org.cn 2006.

a particularly intensive exchange of visits from both sides (see Appendix 1). Also, the first ‘Panda loan contract’ was signed between the ‘China Conservation and Research Center for the Giant Panda’ and Zoo Vienna. And in March 2003, the two ‘special envoys’, a pair of Giant Pandas, named Yang Yang and Long Hui, arrived in Austria. In 2006, a Confucius Institute was established at the University of Vienna.

### 2007–2012: From one stumbling block to the other

The situation changed abruptly to the worse, when Austrian’s Federal Chancellor Alfred Gusenbauer decided to meet the Dalai Lama in September 2007. Again, Beijing protested heavily against Austria’s alleged ‘interference in China’s domestic affairs’ and bilateral relations were implicitly downgraded to the level of vice ministers.<sup>10</sup> In October 2008, bilateral relation seemed to be back on track. But in November, the next diplomatic crisis emerged, when the Chinese Government enforced the death penalty on Wu Weihan for alleged spying, despite interventions from Austria as well as the EU. Mr. Wu had lived in Austria for several years and his daughters were Austrian citizens.<sup>11</sup> It took more than one year for bilateral relations to recover. Finally, in 2010, President Heinz Fischer was invited to China and a second Confucius Institute was opened at the Karl-Franzens-University in Graz. In 2011, President Hu Jintao paid a return visit to Austria, praising the ‘friendly relations’, and a number of cooperation agreements were signed.

However, in 2012, the shadow of the Dalai Lama fell on the bilateral relations again, when after a meeting with Austria’s Federal Chancellor Faymann and Foreign Minister Spindelegger,<sup>12</sup> the Chinese Foreign Ministry protested in written form.<sup>13</sup> The atmosphere was already tense before, when the Dalai Lama blessed the new ‘Tibet Center Austria’

<sup>10</sup> KAMINSKI 2011, 343.

<sup>11</sup> KAMINSKY 2011, 346f; Die Presse 2008.

<sup>12</sup> Actually, the Dalai Lama had already stepped back from his role as a political leader in May 2011 and retained his function as a spiritual leader only. Nevertheless, the Chinese Government considers this a farce.

<sup>13</sup> Die Presse 2012.

(Tibetzentrum Österreich)<sup>14</sup> in Carinthia, unique in Europe and considered a centre of Tibetan propaganda by the Chinese Government. In any case, a two-year ‘ice age’ in political relations between Austria and China followed, with no high-profile exchange of visits and even the extension of the ‘Panda loan contract’ with the Zoo Vienna was at stake.

### 2014–2017: New opportunities emerge

Finally, the ice was broken, and in October 2014, Vice-Chancellor and Minister of Economy Mitterlehner, Foreign Minister Kurz and Minister of Agriculture Andrä Rupprechter paid an official working visit to China. However, in the meantime, a number of important developments had taken place. In 2012, the 16 + 1 initiative was launched, to promote closer cooperation between 16 CEE countries and China.<sup>15</sup> In 2013, a new government under President Xi Jinping took office in China and the New Silk Road respectively the ‘Belt and Road Initiative’ (BRI) became the centrepiece of China’s foreign as well as economic policy.<sup>16</sup> In order to finance infrastructure construction and promote regional interconnectivity, China proposed to establish the Asian Infrastructure Investment Bank (AIIB).<sup>17</sup>

When Austrian President Fischer paid his second state visit to China in March 2015, he expressed Austria’s interest in these recent initiatives and delivered his country’s application to join the AIIB. Xi Jinping, on the other hand invited Austria to get involved in the 16 + 1 initiative as an observer. Another topic for discussion was the pending ‘EU–China Investment Agreement’. Economic and cultural cooperation played an important role, as well and a number of business contracts were signed. In 2016, Austrian

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<sup>14</sup> The Tibet Center Austria, according to its homepage “is a one-of-a-kind learning center specializing in traditional Tibetan fields of study (Rigne), including philosophy, traditional medicine, and contemplative Buddhist practice”. See [www.tibetcenter.at/en/about-us/](http://www.tibetcenter.at/en/about-us/) (Accessed: 20 March 2018.)

<sup>15</sup> The 16 + 1 initiative comprises 11 EU members (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia) and 5 non-EU members (Albania, Bosnia-Herzegovina, Macedonia, Montenegro and Serbia) plus China. In 2019, Greece joined and the group was renamed 17 + 1.

<sup>16</sup> See Xi 2014. On background and chronology see KAMINSKI 2016b and URBAN 2016a.

<sup>17</sup> AIIB s. a.

Minister of Agriculture Andrä Rupprechter visited China the third year in a row and in 2017, the Chinese Minister of Agriculture Han Chengfu paid a return visit to Austria, pointing to the increasing importance of bilateral relations in that field.

### 2018–2020: A new climax in bilateral relations, undisturbed by Covid-19

In April 2018, the new President of Austria, Alexander Van der Bellen visited China and met with President Xi Jinping as well as Prime Minister Li Keqiang. He was accompanied by the biggest official Austrian delegation ever, including Federal Chancellor Sebastian Kurz, Foreign Minister Karin Kneissl and several other ministers as well as a large business delegation, altogether 270 people. Bilateral relations were upgraded to the level of a ‘friendly strategic partnership’ and a number of business agreements, worth EUR 1.5 billion, were concluded. President Alexander Van der Bellen also took part in the ‘Bao-Forum for Asia’ in Hainan as one of the keynote speakers. In Chengdu, the last stop of the visit, the delegation attended a departure ceremony for the first freight train going directly from China to Vienna. And, taking account of the intensified bilateral economic relations, a new Austrian Consulate General was opened there. Only one year later, in April 2019, Chancellor Sebastian Kurz participated in the Second Belt and Road Forum in Beijing. Afterwards, he met again with President Xi Jinping and Prime Minister Li Keqiang and a number of MoUs in the field of cultural cooperation, financial cooperation, research and third market cooperation were signed.<sup>18</sup> When China was hit severely by the Covid-19 epidemic in early 2020, the Austrian Government expressed its sympathy for the Chinese people to the government of China in written form and sent some urgently needed protective equipment there. On the other hand, when Covid-19 reached Austria in March 2020, the Chinese Government donated certain scarce protective gear to Austria. When some anti-Chinese comments related to Covid-19 were made in a public debate

<sup>18</sup> Austrian Embassy in Beijing. Source: [www.bmeia.gv.at/oeb-peking/bilaterale-beziehung/en/oesterreich-china/besuche/](http://www.bmeia.gv.at/oeb-peking/bilaterale-beziehung/en/oesterreich-china/besuche/) (Accessed: 20 June 2020.)

on a private TV channel, the Chinese Ambassador in Vienna protested officially. However, the good bilateral relations remained untouched.<sup>19</sup>

Quoting the present Austrian Ambassador in Beijing, Friedrich Stift, the current Austria–China relations are described as follows:

“The relations between Austria and China develop very well. They are characterized by a strong dynamic in all areas. China has become one of the most important cooperation partners of Austria outside Europe.”<sup>20</sup>

However, human rights issues remain a potential source of concern.

### *Special topics*

#### Scientific cooperation

Scientific cooperation played an important role from the very beginning and currently more than 50 cooperation agreements exist with Chinese universities.<sup>21</sup> In 1984, a bilateral agreement on science and technology cooperation<sup>22</sup> and a cooperation agreement between the Austrian Academy of Sciences and the Chinese Academy of Sciences were concluded. A highlight in scientific cooperation was the first ever quantum cryptographically secured video call between the President of the Chinese Academy of Sciences, Chunli Bai, and his Austrian counterpart, Anton Zeilinger, in September 2017.<sup>23</sup> Austrian and Chinese researchers also cooperate in several scientific EU programs open to China.<sup>24</sup> In 2012, Austria opened an Office for Science and Technology at the Austrian Embassy in Beijing.

<sup>19</sup> Chinese Embassy in Vienna. Source: [www.chinaembassy.at/det/xwtd/t1784225.htm](http://www.chinaembassy.at/det/xwtd/t1784225.htm) (Accessed: 20 June 2020.)

<sup>20</sup> Homepage of the Austrian Embassy in Beijing. Source: [www.bmeia.gv.at/oeb-peking/ueber-uns/der-botschafter/](http://www.bmeia.gv.at/oeb-peking/ueber-uns/der-botschafter/) (Accessed: 20 March 2018.)

<sup>21</sup> Chinese Embassy in Vienna. Source: [www.chinaembassy.at/det/chb/t1029791.htm](http://www.chinaembassy.at/det/chb/t1029791.htm) (Accessed: 20 March 2018.)

<sup>22</sup> [www.bmbwf.gv.at/en/Topics/Research/Research-international/International-research-collaboration/Regional-priorities/Asia.html](http://www.bmbwf.gv.at/en/Topics/Research/Research-international/International-research-collaboration/Regional-priorities/Asia.html). It entered into force on 01.05.1985.

<sup>23</sup> See the homepage of the Austrian Academy of Sciences: [www.oeaw.ac.at/en/austrian-academy-of-sciences/the-oeaw/article/erstes-abhoersicheres-quanten-videotelefonat-zwischen-wien-und-peking-geglueckt-1/](http://www.oeaw.ac.at/en/austrian-academy-of-sciences/the-oeaw/article/erstes-abhoersicheres-quanten-videotelefonat-zwischen-wien-und-peking-geglueckt-1/) (Accessed: 20 March 2018.)

<sup>24</sup> On top of the cooperation between scientific institutions comes the ever-increasing cooperation in business R&D.

## Military diplomacy

The Chinese attaché in Vienna was deployed in the 1970s, while the post of an Austrian attaché in Beijing was established in 1997, when first signs indicated that China would become a major power again. In that case, the two main functions of military diplomacy, to collect information on and building up cooperation and friendly relations with the military of the host country became important; all the more as the military in China plays a significant role in politics and is strongly interwoven with the civil sector. Bilateral cooperation takes place for instance in the field of peacekeeping, where Austria has a long-term expertise and China gets increasingly involved.<sup>25</sup> Information of the military attaché in Beijing can be a valuable input for the Austrian Government in discussions over the EU arms embargo on China.

## Economic relations between Austria and China

### *Chronicle of events*

1989–1999: Bilateral trade rising from a low base

In the year 1989, trade with China was still very small (see Table 2). In the following years, imports from China increased faster than overall Austrian imports and the product range broadened including a growing variety of labour-intensive consumer goods (clothes, leather products, toys, electronic equipment) and chemicals. Austrian exports lagged behind and consisted of investment goods mainly. The major reason behind was Austria's focus on European markets, enhanced by increasing European integration. Also, the reunification of Germany and the economic transition in the nearby Central and Eastern European countries offered fresh business opportunities.

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<sup>25</sup> Interview with Professor Richard Trappl, see German.China.org.cn 2011, and the information of the present Austrian Military Attaché in Beijing, Brigadier General Christof Tatschl.

Table 2  
*Austria's trade in goods with China 1989–2019*

|      | Exports     |             | Imports     |             | Trade balance | Export      | Import      |
|------|-------------|-------------|-------------|-------------|---------------|-------------|-------------|
|      | Million EUR | growth in % | Million EUR | growth in % | Million EUR   | shares in % | shares in % |
| 1989 | 161.3       | 8.1         | 209.0       | 43.8        | –47.7         | 0.52        | 0.56        |
| 1990 | 209.2       | 29.8        | 294.4       | 40.9        | –85.2         | 0.62        | 0.73        |
| 1991 | 242.1       | 15.7        | 391.8       | 33.1        | –149.8        | 0.70        | 0.91        |
| 1992 | 188.5       | –22.1       | 433.7       | 10.7        | –245.2        | 0.53        | 1.00        |
| 1993 | 266.5       | 41.4        | 565.4       | 30.4        | –298.9        | 0.79        | 1.38        |
| 1994 | 270.9       | 1.6         | 703.6       | 24.4        | –432.7        | 0.73        | 1.54        |
| 1995 | 328.0       | 21.1        | 598.3       | –15.0       | –270.3        | 0.78        | 1.23        |
| 1996 | 263.1       | –19.8       | 653.4       | 9.2         | –390.3        | 0.59        | 1.26        |
| 1997 | 303.7       | 15.4        | 783.4       | 19.9        | –479.7        | 0.58        | 1.36        |
| 1998 | 370.1       | 21.9        | 806.6       | 3.0         | –436.5        | 0.66        | 1.32        |
| 1999 | 390.8       | 5.6         | 916.8       | 13.7        | –526.0        | 0.65        | 1.40        |
| 2000 | 490.5       | 25.5        | 1,243.2     | 35.6        | –752.7        | 0.70        | 1.66        |
| 2001 | 844.5       | 72.2        | 1,359.5     | 9.4         | –515.0        | 1.14        | 1.73        |
| 2002 | 1170.2      | 38.6        | 1,404.9     | 3.3         | –234.7        | 1.51        | 1.82        |
| 2003 | 888.5       | –24.1       | 1,788.2     | 27.3        | –899.7        | 1.13        | 2.21        |
| 2004 | 1,119.1     | 26.0        | 2,295.8     | 28.4        | –1,176.7      | 1.25        | 2.52        |
| 2005 | 1,220.6     | 9.1         | 2,981.4     | 29.9        | –1,760.8      | 1.29        | 3.09        |
| 2006 | 1,232.1     | 0.9         | 3,776.9     | 26.7        | –2,544.8      | 1.19        | 3.62        |
| 2007 | 1,638.6     | 33.0        | 4,585.7     | 21.4        | –2,947.1      | 1.43        | 4.01        |
| 2008 | 1,875.2     | 14.4        | 4,975.2     | 8.5         | –3,100.0      | 1.60        | 4.16        |
| 2009 | 2,016.7     | 7.5         | 4,481.6     | –9.9        | –2,464.9      | 2.15        | 4.59        |
| 2010 | 2,807.5     | 39.2        | 5,427.6     | 21.1        | –2,620.1      | 2.57        | 4.78        |
| 2011 | 2,918.8     | 4.0         | 6,393.8     | 17.8        | –3,474.9      | 2.40        | 4.88        |
| 2012 | 3,030.7     | 3.8         | 6,750.7     | 5.6         | –3,720.0      | 2.45        | 5.11        |
| 2013 | 3,136.4     | 3.5         | 6,788.1     | 0.6         | –3,651.7      | 2.49        | 5.19        |
| 2014 | 3,379.9     | 7.8         | 7,322.7     | 7.9         | –3,942.8      | 2.64        | 5.64        |
| 2015 | 3,304.7     | –2.2        | 7,956.9     | 8.7         | –4,652.2      | 2.51        | 5.96        |
| 2016 | 3,312.9     | 0.2         | 7,972.0     | 0.2         | –4,659.1      | 2.52        | 5.88        |
| 2017 | 3,698.9     | 11.7        | 8,505.4     | 6.7         | 4,806.5       | 2.60        | 5.76        |
| 2018 | 4,055.5     | 9.6         | 9,110.2     | 7.1         | 5,054.7       | 2.70        | 5.84        |
| 2019 | 4,461.4     | 10.0        | 9,824.7     | 7.8         | 5,363.3       | 2.90        | 6.22        |

Source: Statistik Austria, Austrian Chamber of Commerce (WKO).

In 1995, Austria's first year as an EU member, 85% of its exports went to Europe (EU: 72%) and a similar share, namely 86% of all imports came from European countries (EU: 66%, see Figure 1).

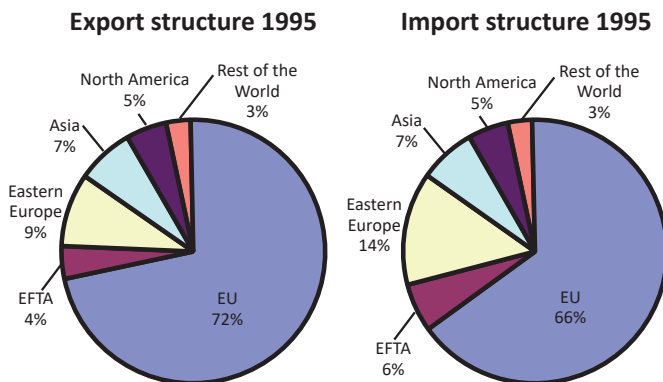


Figure 1

*Regional structure of Austrian foreign trade, 1995 – shares in %*

*Source:* Statistik Austria, Austrian Chamber of Commerce (WKO).

Within Europe, Germany was the dominant trading partner, taking a share of nearly 40% in Austrian foreign trade. The major trading partners outside Europe were the USA and Japan. China ranked third, despite its relatively small share in exports (0.8%) as well as in imports (1.2%). Austria entered the EU when economic relations with Asia and with China in particular became an important issue. In July 1995, the EU Commission published its first Communication on China,<sup>26</sup> pleading for closer cooperation, including trade and policy issues. When Austrian President Thomas Klestil visited China in September 1995, he was accompanied by a large business delegation and by the end of 1997 about 300 Austrian companies maintained trade relations with China, 100 of them rather intensively.<sup>27</sup>

<sup>26</sup> European Commission 1995.

<sup>27</sup> Estimate of the delegate of the Austrian Chamber of Commerce in Peking.

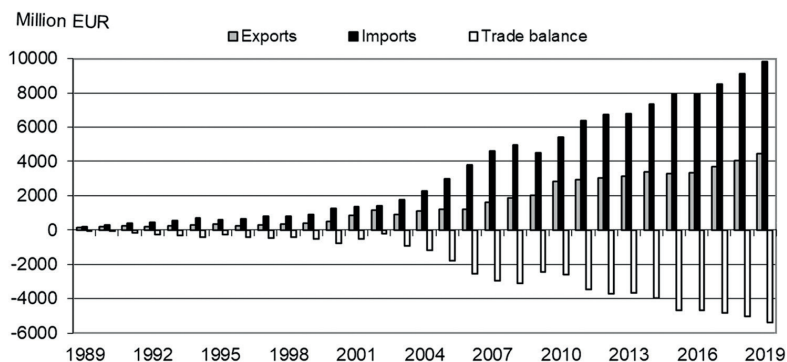


Figure 2

*Austrian trade in goods with China, 1989–2019*

*Source:* Statistik Austria, Austrian Chamber of Commerce (WKO).

## 2000–2010: Exploding trade deficit with China

In the first two years of the new millennium, 2001–2002, a massive recession, starting in the USA hit the global economy. But Austrian exports to China accelerated thanks to special factors.<sup>28</sup> Overtaking Japan, China became Austria's largest market in Asia and the second largest outside Europe (after the USA) and China's share in Austrian exports exceeded the 1% mark for the first time (Table 2). Within exports, 'machinery and transport equipment' played the dominant role, with a focus on non-electric machinery and on certain key areas such as metallurgy, energy technology, water technology, rail technology, means of conveyance and environmental technology. Among 'manufactured goods', steel, paper and wood products were important. In imports, the focus was on 'miscellaneous manufactured

<sup>28</sup> First, exports were heavily concentrated on investment goods and benefitted from China's investment-driven growth model; second, on occasion of the 30<sup>th</sup> anniversary of diplomatic relations between Austria and China, a number of big orders were signed (URBAN 2003).

articles' comprising mainly consumer goods (clothing, shoes, toys, sports articles, furniture etc.) and electric machinery (consumer electronics, office machinery, electric tools). Metal and metal products played a certain role as well. Thus, bilateral trade was complementary rather than intra-industrial (see Table 3).

Table 3  
*Product structure of Austrian trade in goods with China 2003, 2010, 2017 and 2019*

| SITC groups*                                | Exports<br>% of total |       |       |       | Imports<br>% of total |       |       |       |
|---|-----------------------|-------|-------|-------|-----------------------|-------|-------|-------|
|   | 2003                  | 2010  | 2017  | 2019  | 2003                  | 2010  | 2017  | 2019  |
| Food and live animals                       | 0.3                   | 0.3   | 1.3   | 2.2   | 0.9                   | 1.1   | 0.8   | 0.7   |
| Beverages and tobacco                       | 0.0                   | 0.0   | 0.2   | 0.2   | 0.1                   | 0.0   | 0.0   | 0.0   |
| Crude materials,<br>inedible, exc. fuels    | 1.9                   | 3.6   | 7.6   | 7.2   | 2.0                   | 1.6   | 0.8   | 0.7   |
| Mineral fuels, lubricants<br>etc.           | 0.0                   | 0.0   | 0.0   | 0.1   | 0.1                   | 0.0   | 0.0   | 0.0   |
| Animal and veg. oils,<br>fats and waxes     | 0.0                   | 0.0   | 0.0   | 0.0   | 0.0                   | 0.0   | 0.0   | 0.0   |
| Chemicals and related<br>products           | 7.0                   | 11.4  | 11.6  | 12.0  | 3.5                   | 7.2   | 5.0   | 4.8   |
| Manufactured goods                          | 13.8                  | 10.0  | 16.1  | 15.1  | 10.7                  | 10.7  | 11.8  | 11.3  |
| Machinery and transport<br>equipment        | 70.4                  | 65.9  | 51.5  | 50.6  | 38.2                  | 41.3  | 46.2  | 49.1  |
| Miscellaneous manufac-<br>tured articles    | 5.8                   | 8.7   | 11.8  | 12.7  | 44.6                  | 38.1  | 35.3  | 33.4  |
| Commodities not<br>classified elsewhere     | 0.9                   | 0.0   | 0.0   | 0.0   | 0.0                   | 0.0   | 0.0   | 0.0   |
| Total Austrian exports/<br>imports to China | 100.0                 | 100.0 | 100.0 | 100.0 | 100.0                 | 100.0 | 100.0 | 100.0 |

Note: \* 2003: SITC rev. 3, 2010, 2017 and 2019: SITC rev. 4.

Source: Statistik Austria, Austrian Chamber of Commerce (WKO).

When the recession was over, China began to reap the full benefits of its WTO membership. China has been a member of the WTO since 11 December 2001. Austrian imports from China accelerated rapidly, but exports lagged behind and Austria's trade deficit with China skyrocketed (see Figure 2). The same phenomenon was observed in other EU countries

as well and thus the issue was taken up by the EU Commission in a Policy Paper entitled: *A maturing partnership: shared interests and challenges in EU–China relations* (2003). In the policy paper the Commission addressed some of the potential barriers to trade for EU firms in China, such as problems with customs clearance, industrial, sanitary and phytosanitary standards, legal protection of property rights etc. impeding EU exports. Austrian exporters shared these concerns. On top came the significant depreciation of the Chinese currency versus the Euro (see Figure 3).<sup>29</sup>

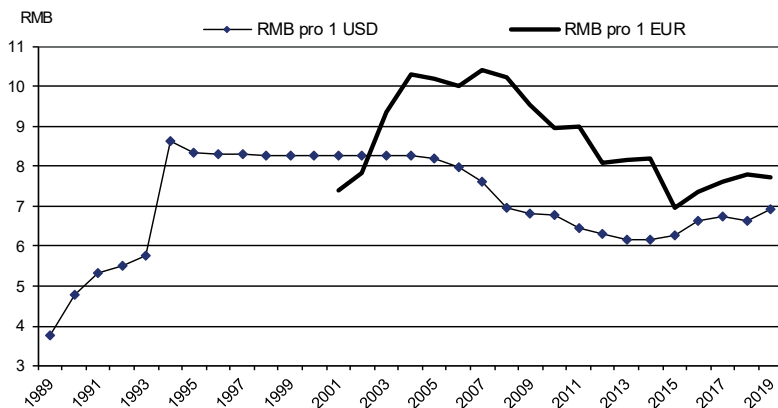


Figure 3  
Exchange rates Yuan, USD, Euro, 1989–2019

Source: China Statistical Yearbooks, various issues; European Central Bank (ECB).

In 2008, the next global crisis emerged, with world output falling 0.6% and the world trade volume declining 11% in 2009.<sup>30</sup> Similarly to the crisis in 2001–2002, Austrian exports to China developed surprisingly well. They increased by 7.5% in 2009, when overall Austrian exports declined by 20%, and by 39% in 2010 (see Table 2).

<sup>29</sup> Between January 2003 and December 2004, the Chinese currency lost about 25% of its value in terms of Euro.

<sup>30</sup> IMF 2010.

## 2011–2017 and beyond: Adjusting to China's New Model of Economic Development

When the crisis was over, the Chinese Government began to implement a New Model of Economic Development, see Table 4.<sup>31</sup>

Table 4  
*China's New Model of Economic Development*

|  |
|--|
| Export-oriented growth → domestic market-oriented growth                       |
| Investment driven growth → consumption driven growth                           |
| Low VAD labour-intensive industries → high VAD technology-intensive industries |
| Accelerated expansion of the services sector                                   |
| More emphasis on rural development   |
| Enhanced environment protection and social security                            |
| QUALITATIVE GROWTH instead of QUANTITATIVE GROWTH                              |

*Source:* Compiled by the author.

This altered significantly Austria's foreign trade with China. Growth of Austrian exports to, and imports from China slowed down and the product structure changed. However, as Austria's overall trade expanded even less, because of the slow economic recovery in Europe, China's shares in exports and imports continued to rise, reaching 5.8% in imports and 2.6% in exports in 2017, and China became Austria's 5<sup>th</sup> most important trading partner (following Germany, Italy, Switzerland and the USA). In 2018 and 2019, the Austrian export growth to China stabilised at an annual growth rate of about 10%. Import growth stayed below, at about 7% per annum. Nevertheless, Austria's bilateral trade deficit with China widened further (see Table 2 and Figure 2). Moreover, the structure of Austrian exports and imports changed in line with China's New Model of Economic Development. In exports, the share of machinery and transport equipment declined, and the share of typical consumer goods (food, beverages and 'miscellaneous manufactured articles') increased. On the other hand, concerning imports

<sup>31</sup> The New Model was already proclaimed by the old leadership under President Hu Jintao in 2003 but was postponed because of the crisis. See GHOSH et al. 2009, 57.

from China, machinery and transport equipment (including primarily telephones, data processing machines and electric machinery) expanded over-proportionately and ‘miscellaneous manufactured articles’ rose under-proportionately. In 2018 and 2019 this trend continued (see Table 3).<sup>32</sup> Altogether, bilateral trade became more diversified.

In the first quarter of 2020 (latest data available), global trade suffered heavily from the Covid-19 pandemic. Overall Austrian exports declined by 5%; however, exports to China plummeted by 18%, probably due to the earlier ‘lock-down’ there. Moreover, imports from China fell at a similar rate as total Austrian imports, at about 6.5%.<sup>33</sup> Notably, Austrian Airlines and the Vienna Airport played a key role in establishing an ‘air bridge’ for medical supply to and from China.

## 2017: The EU abolishes the list of non-market economies

On 15 November 2017, the EU Parliament approved the legislation to abolish the EU list of non-market economies<sup>34</sup> in view of the new EU Trade Defence Rules (anti-dumping regulation) which came into force on 20 December 2017.<sup>35</sup>

Thus, the debate between ‘North’ and ‘South’ European EU countries on granting market economy status to China or not, came to an end. Yet the situation will not change much for China, as the new rules provide the possibility to use prices of a ‘representative country’ instead of domestic prices to calculate dumping margins, when ‘significant distortions’ resulting from state intervention exist. A similar method was used for non-market economies before. Yet the new EU rules are not country specific, but case-oriented. However, the country report on China, published together with the

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<sup>32</sup> A more detailed analysis for 2015 showed a certain further restructuring within this product group, from labour-intensive standard products to more technology-intensive articles, such as ‘optical goods and instruments’, ‘medical instruments and apparatus’ and ‘measuring, analysing and controlling apparatus’ (URBAN 2016b).

<sup>33</sup> Austrian Chamber of Commerce (WKO)

<sup>34</sup> World Trade Online 2017.

<sup>35</sup> European Commission 2017.

new rules,<sup>36</sup> shows many examples for distortions due to state intervention, especially in fields where anti-dumping procedures are pendent already, e.g. in the steel industry. The question is, whether these new EU rules are consistent with the WTO Anti-Dumping Agreement.

### *Prospects of bilateral trade in goods*

In the longer term, the ongoing restructuring of the Chinese economy will offer good export opportunities for Austrian high-end machinery and equipment and clean technologies. Austrian food and lifestyle products could take advantage of the rising consumer market. Despite a slower pace of investment in China, urbanisation, continuing construction of transport and energy infrastructure etc. will provide ample opportunities for Austrian suppliers in this field. Also, China's 'Belt and Road Initiative' and the '17 + 1 Initiative' may offer opportunities for Austrian companies, probably as suppliers of Chinese enterprises in third countries. On the other hand, Chinese competition in the medium and high-tech segment of all industries will become fiercer on the domestic market as well as abroad. Altogether, bilateral trade will become less complementary and more intra-industrial.

### *Trade in services including tourism*

We focus on trade in services as defined in the Balance of Payments (BoP), the only official data source. Data for Austria's services trade with China are published from 1995 onwards only and include Hong Kong.<sup>37</sup> Austrian trade in services is generally less extensive than trade in goods. In case of China, the difference is particularly large. In 2017, China's share in both Austrian service imports and service exports was 1.1%, significantly lower

<sup>36</sup> Commission Staff Working Document on significant distortions in the economy of the People's Republic of China for the purposes of trade defence investigations. SWD (2017) 483 final/2.

<sup>37</sup> Austrian National Bank (OENB): `statistics>data>external sector>services>user-defined query`.

than the corresponding shares in goods trade (5.8% and 2.6% – compare Tables 2 and 6).

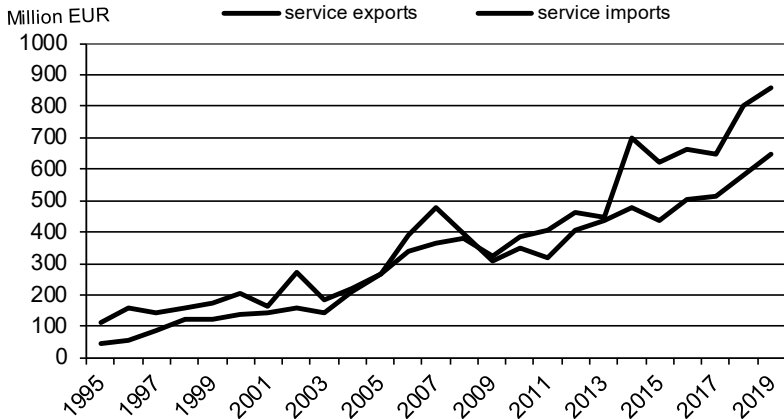


Figure 4

*Austrian service exports and imports to China, 1995–2019*

*Note:* China including Hong Kong.

*Source:* Austrian National Bank (OENB), Balance of Payments.

There is a clear upward trend with significant fluctuations of both services exports and imports from China between 1995 and 2017 (see Figure 4). But contrary to goods trade, the balance of trade in services turned positive in 2009 and remained so until 2019 (see Table 6). This is due to the Chinese economy reaching a more advanced stage and the greater emphasis put on services by the China's New Model of Economic Development. Three groups of services are of major importance throughout the whole period: 'transport', 'travel' and 'other business services'. Recently, rising from a very low base, 'telecommunication, computer and information services' have reached a certain significance (see Table 5).

Table 5

*Export and import structure of Austrian trade in services with China 1998, 2010 and 2017*

|  |                | Million EUR |      |      |      | in % of total |      |      |      |
|--|----------------|-------------|------|------|------|---------------|------|------|------|
|  |                | 1998        | 2003 | 2010 | 2017 | 1998          | 2003 | 2010 | 2017 |
| <b>Services, total</b>                                   | Credit/Exports | 125         | 146  | 383  | 646  | 100           | 100  | 100  | 100  |
|  | Debit/Imports  | 160         | 185  | 347  | 516  | 100           | 100  | 100  | 100  |
|  | Net            | –35         | –39  | 36   | 130  | 100           | 100  | 100  | 100  |
| Manufacturing services on physical inputs owed by others | Credit/Exports | 2           | 1    | 0    | 1    | 2             | 1    | 0    | 0    |
|  | Debit/Imports  | 1           | 3    | 0    | 3    | 1             | 2    | 0    | 1    |
|  | Net            | 0           | –2   | 0    | –2   | 0             | 5    | 0    | –2   |
| Maintenance and repair services n.i.e.                   | Credit/Exports | 0           | 0    | 1    | 1    | 0             | 0    | 0    | 0    |
|  | Debit/Imports  | 0           | 0    | 0    | 1    | 0             | 0    | 0    | 0    |
|  | Net            | 0           | 0    | 0    | 1    | 0             | 0    | 0    | 1    |
| Transport  | Credit/Exports | 67          | 83   | 84   | 131  | 54            | 57   | 22   | 20   |
|  | Debit/Imports  | 49          | 66   | 187  | 250  | 31            | 36   | 54   | 48   |
|  | Net            | 17          | 17   | –103 | –120 | –49           | –44  | –286 | –92  |
| Travel   | Credit/Exports | 21          | 28   | 63   | 199  | 17            | 19   | 16   | 31   |
|  | Debit/Imports  | 48          | 60   | 74   | 76   | 30            | 32   | 21   | 15   |
|  | Net            | –27         | –32  | –11  | 123  | 77            | 82   | –31  | 95   |
| Construction   | Credit/Exports | 3           | 0    | 11   | 0    | 2             | 0    | 3    | 0    |
|  | Debit/Imports  | 3           | 1    | 0    | 3    | 2             | 1    | 0    | 1    |
|  | Net            | 0           | 0    | 10   | –3   | 0             | 0    | 28   | –2   |
| Insurance and pension services                           | Credit/Exports | 0           | 0    | 1    | 1    | 0             | 0    | 0    | 0    |
|  | Debit/Imports  | 0           | 2    | 8    | 14   | 0             | 1    | 2    | 3    |
|  | Net            | 0           | –2   | –7   | –13  | 0             | 5    | –19  | –10  |
| Financial services                                       | Credit/Exports | 3           | 1    | 3    | 11   | 2             | 1    | 1    | 2    |
|  | Debit/Imports  | 1           | 0    | 1    | 6    | 1             | 0    | 0    | 1    |
|  | Net            | 2           | 1    | 2    | 5    | –6            | –3   | 6    | 4    |
| Charges for the use of intellectual property             | Credit/Exports | 0           | 0    | 10   | 17   | 0             | 0    | 3    | 3    |
|  | Debit/Imports  | 23          | 3    | 3    | 1    | 14            | 2    | 1    | 0    |
|  | Net            | –23         | –2   | 7    | 16   | 66            | 5    | 19   | 12   |
| Telecommunications, computer, and information services   | Credit/Exports | 3           | 2    | 14   | 50   | 2             | 1    | 4    | 8    |
|  | Debit/Imports  | 2           | 1    | 7    | 22   | 1             | 1    | 2    | 4    |
|  | Net            | 1           | 1    | 8    | 28   | –3            | –3   | 22   | 22   |

|  |                | Million EUR |      |      |      | in % of total |      |      |      |
|--|----------------|-------------|------|------|------|---------------|------|------|------|
|  |                | 1998        | 2003 | 2010 | 2017 | 1998          | 2003 | 2010 | 2017 |
| Other business services                      | Credit/Exports | 26          | 28   | 196  | 229  | 21            | 19   | 51   | 35   |
|  | Debit/Imports  | 27          | 46   | 63   | 134  | 17            | 25   | 18   | 26   |
|  | Net            | -1          | -18  | 133  | 95   | 3             | 46   | 369  | 73   |
| Personal, cultural and recreational services | Credit/Exports | 0           | 0    | 1    | 4    | 0             | 0    | 0    | 1    |
|  | Debit/Imports  | 0           | 0    | 1    | 1    | 0             | 0    | 0    | 0    |
|  | Net            | 0           | 0    | 0    | 3    | 0             | 0    | 0    | 2    |
| Government goods and services                | Credit/Exports | 1           | 1    | 1    | 1    | 1             | 1    | 0    | 0    |
|  | Debit/Imports  | 4           | 3    | 3    | 5    | 3             | 2    | 1    | 1    |
|  | Net            | -3          | -2   | -2   | -4   | 9             | 5    | -6   | -3   |

*Note:* China including Hong Kong.

*Source:* Austrian National Bank (OENB), Balance of Payment.

While the trade balance is now typically positive for Austria in the field of ‘travel’ and ‘other business services’, it is negative for ‘transport services’. Moreover, the latter has deteriorated significantly over time, in line with Austria’s rising deficit in goods trade and because of China becoming a heavy-weight in the global transport business. In 2017, about 50% of Austria’s services imports from China were transport services (Table 5). The positive travel balance, on the other hand was improving steadily, in particular over the last couple of years, with an increasing number of Chinese tourists coming to Austria (see Figure 5 below), while Austrian tourism to China seems to have peaked already. ‘Other business services’ comprise a wide range of different services which are typically provided by mature (post-industrial) countries. Both exports and imports in this group have risen over time, but Austrian exports in particular, and in 2017 they made up 35% of all services exports to China. No relevant trade between Austria and China is recorded in ‘financial services’ and ‘construction’.<sup>38</sup>

<sup>38</sup> However, financial services provided by affiliates and representative offices of Austrian banks in China (and vice versa) are per definition not included as services in the BoP. (See UN trade statistics, definition of Services Trade and Modes of Supply <https://unstats.un.org/unsd/tradekb/Knowledgebase/50665/Modes-of-Supply>.) Compare also section *Financial relations*.

Table 6  
*Austrian trade in services with China, 1995–2019\**

|      | <b>Credit/<br/>Exports</b> | <b>Debit/<br/>Imports</b> | <b>Net/<br/>Balance</b> | <b>Export<br/>shares</b> | <b>Import<br/>shares</b> |
|------|----------------------------|---------------------------|-------------------------|--------------------------|--------------------------|
|      | <b>Million EUR</b>         | <b>Million EUR</b>        | <b>Million EUR</b>      | <b>in %**</b>            | <b>in %**</b>            |
| 1995 | 44                         | 115                       | –71                     | 0.25                     | 0.79                     |
| 1996 | 54                         | 157                       | –102                    | 0.29                     | 0.99                     |
| 1997 | 86                         | 145                       | –59                     | 0.45                     | 0.88                     |
| 1998 | 125                        | 160                       | –35                     | 0.60                     | 0.95                     |
| 1999 | 121                        | 175                       | –54                     | 0.56                     | 1.03                     |
| 2000 | 138                        | 205                       | –67                     | 0.56                     | 1.09                     |
| 2001 | 146                        | 165                       | –19                     | 0.56                     | 0.80                     |
| 2002 | 157                        | 272                       | –115                    | 0.57                     | 1.28                     |
| 2003 | 146                        | 185                       | –39                     | 0.51                     | 0.83                     |
| 2004 | 208                        | 222                       | –14                     | 0.69                     | 0.94                     |
| 2005 | 265                        | 267                       | –1                      | 0.80                     | 1.04                     |
| 2006 | 341                        | 390                       | –49                     | 0.94                     | 1.39                     |
| 2007 | 367                        | 480                       | –113                    | 0.92                     | 1.61                     |
| 2008 | 382                        | 398                       | –16                     | 0.89                     | 1.29                     |
| 2009 | 326                        | 306                       | 20                      | 0.84                     | 1.09                     |
| 2010 | 383                        | 347                       | 36                      | 0.97                     | 1.18                     |
| 2011 | 408                        | 319                       | 89                      | 0.96                     | 1.00                     |
| 2012 | 464                        | 405                       | 59                      | 1.03                     | 1.18                     |
| 2013 | 445                        | 435                       | 11                      | 0.92                     | 1.13                     |
| 2014 | 698                        | 476                       | 223                     | 1.35                     | 1.14                     |
| 2015 | 623                        | 483                       | 140                     | 1.17                     | 1.02                     |
| 2016 | 666                        | 523                       | 143                     | 1.20                     | 1.14                     |
| 2017 | 647                        | 508                       | 139                     | 1.09                     | 1.12                     |
| 2018 | 800                        | 581                       | 219                     | 1.26                     | 1.18                     |
| 2019 | 862                        | 647                       | 214                     | 1.28                     | 1.04                     |

*Note:* \*Including Hong Kong; \*\*Shares in total Austrian service exports respective imports.

*Source:* Statistik Austria, Austrian National Bank (OENB).

In the future, we may expect further expansion of services trade between Austria and China, due to the growing maturity of the Chinese economy and the corresponding over-proportionate growth of its tertiary sector. A special chance for Austrian service providers is the Olympic Winter Games in China in 2022, as Austrian companies have great experience

in the preparation and running of winter sports events. However, in the longer run, Chinese suppliers of services will certainly gain competence and become more serious competitors in many fields.

## Tourism

The number of Chinese tourists in Austria increased significantly from 83,000 persons (arrivals) in 2003 to 899,636 persons in 2017.<sup>39</sup> In 2019, already more than 1 million Chinese tourists visited Austria. The rush started in 2010, when rising income levels and more relaxed foreign exchange controls made overseas trips for Chinese tourists more feasible. Institutional factors, such as the ‘approved tourist destination status’ for Austria (and 21 other EU countries) in 2004<sup>40</sup> and harmonisation of visa procedures in the EU (Schengen, 2010), have played a certain role as well. But despite the impressive rise, the share of Chinese tourists in the overall number of tourists in Austria stayed small, reaching only about 2% of all tourist arrivals in 2019.<sup>41</sup>

It seems that there is still considerable scope for the expansion of Chinese tourism in Austria. Probably, a good performance of Austrian athletes at the Olympic Winter Games in Beijing 2022 would help to promote Austria as an attractive destination for winter sports.

However, in the first quarter of 2020, as a consequence of the Covid-19 pandemic and the related ‘lock-downs’ and travelling restrictions in many countries, tourism collapsed worldwide. From January–April 2020, the total number of tourists in Austria declined by 32% compared to the same period in the previous year. However, the corresponding number of

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<sup>39</sup> Over the same period, the total number of outbound tourists from China multiplied from 10 million to 122 million, representing the fastest growing source market for tourism worldwide, but most Chinese tourists stay in Asia, according to information from the China National Tourism Association.

<sup>40</sup> The ‘approved tourist destination status’ is the result of a bilateral tourism agreement providing easier visa access for Chinese tourists travelling in a group which is organised by travel agents approved by both the Chinese Government and the authorities of the country of destination.

<sup>41</sup> Because of their minor importance, the number of Austrian tourists in China is not listed in the Chinese tourist statistics and thus cannot be presented here. According to the homepage of the Chinese Embassy in Vienna, in 2012, 66,100 Austrian tourists visited China.

tourists from China even decreased by 70% (provisional figures).<sup>42</sup> Probably tourism from China and from other foreign countries as well will stay low for the rest of the year.

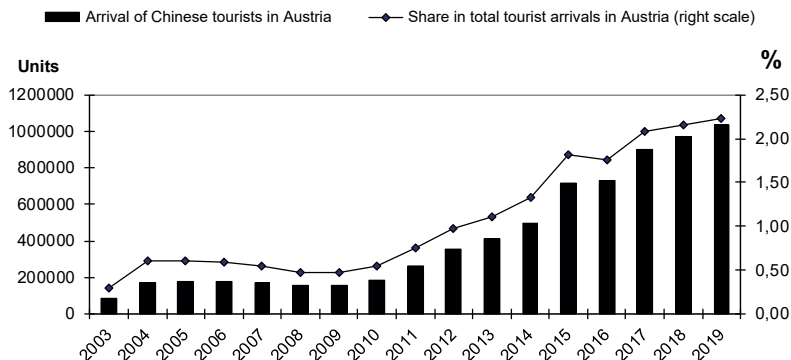


Figure 5

*Chinese tourists in Austria, 2003–2019*

*Source:* Statistik Austria, Austrian Chamber of Commerce (WKO).

### *Foreign Direct Investment (FDI) relations*

Our primary data source for FDI is the Austrian National Bank (OENB), but Chinese statistics, press reports, company homepages and private databases (e.g. FDI markets) are used as well.

### *Austrian direct investment in China*

Austrian direct investment in China started in the early 1980s, when the big, then state-owned Austrian technology conglomerates which had business relations with China (e.g. Voest Alpine AG), opened offices there. Other ‘early birds’ were affiliates of large foreign firms in Austria, and a few

<sup>42</sup> Austrian National Tourist Office. Source: [www.austriatourism.com/](http://www.austriatourism.com/) (Accessed: 20 June 2020.)

globally active private Austrian companies. Nearly all companies were suppliers of investment goods. Because of the small scale of investment, no data for Austrian direct investment in China are published before 1995. In 1995, 11 Austrian enterprises were engaged in production in China with a total investment (stock) of EUR 18 million (see Table 7 and Figure 6). They comprised joint ventures of the above mentioned ‘pioneers’, but prominent newcomers as well, which also included smaller Austrian companies. In the following years, the list of Austrian investors in China got longer and the fields they operated in broadened, including chemicals, electrical engineering, electronics, but services as well, such as trade and logistics, construction and financial services. But the amounts invested stayed small in particular when compared to the enormous increase of FDI to China from the rest of the world (see Figure 7). Obviously, the focus of Austrian direct investment was still on Europe, in particular on Central and Eastern Europe.<sup>43</sup>

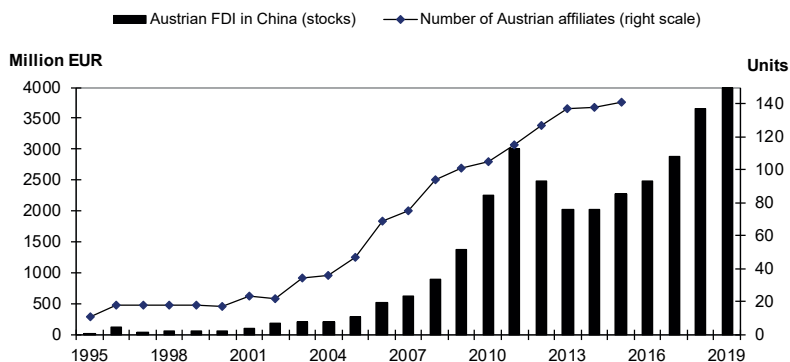


Figure 6

*Austrian FDI stock in China and number of affiliates, 1989–2019*

*Note:* Provisional data for 2019.

*Source:* Austrian National Bank (OENB).

<sup>43</sup> In 2004, 20% of Austrian outward direct investment went to the EU15 and 64% to Central and Eastern Europe (including 19 countries according to OENB definition) and only 0.5% went to China.

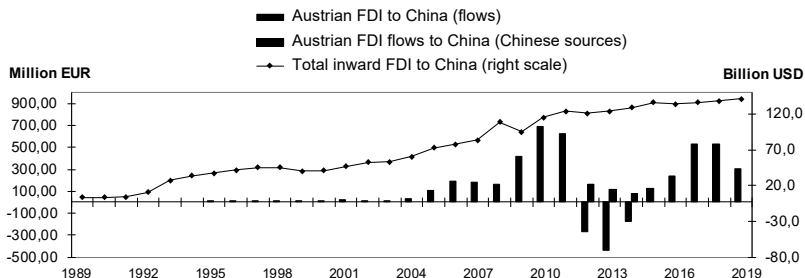


Figure 7

*Austrian outward FDI to China and China's total inward FDI, 1989–2019*

*Note:* Provisional data for 2019.

*Source:* Austrian National Bank (OENB); Chinese sources: China Statistical Yearbook, various issues; total inward FDI flows to China: Mofcom until 2006 and World Investment Reports (WIR) afterwards.

However, in 2005, the amounts of Austrian direct investment to China began to rise substantially, as the business environment had become more predictable after China's accession to the WTO. Further on, the devaluation of the Chinese currency against the Euro made exports from Europe more expensive and production within China more attractive (compare Figure 3) and some Austrian companies began to use China also as an export base for Asia and the USA. Finally, the huge, fast growing market for transport equipment unfolding in China<sup>44</sup> attracted many new companies in that field. However, the most prominent investors were AT&S (printed circuit boards and substrates) and Lenzing AG (wood based cellulose fibres).<sup>45</sup> Between 2005 and 2011, the number of Austrian affiliates in China increased from 47 to 115 and the amounts invested (stocks) rose from EUR 289 million to EUR 3,006 million (Table 7 and Figure 6). But in 2012–2014, the OENB registered a dramatic fall in investment flows which turned even negative (divestment). This can be attributed to some special factors, such as the transformation of direct investments into indirect investments, due to

<sup>44</sup> The auto boom in China started in 2002 and in 2007 China was the 2<sup>nd</sup> largest automotive market of the world (after the USA) with more than 90% of the vehicles produced in China, by Sino-foreign JVs mainly. China was also the largest market for transport infrastructure worldwide, according to the homepage of Voestalpine.

<sup>45</sup> The demand for textile fibres in China exploded after the Agreement on Textiles and Clothing (ATC), under which countries could restrict TC imports, phased out in 2004.

intra-group restructuring (2012)<sup>46</sup> and the very high profit transfers from China to Austria, exceeding (re)investments. However, the number of affiliates did not decline, and Chinese data sources indicate some new FDI from Austria in 2012, 2013 and 2014 (see Figures 6 and 7).

In 2015, Austrian FDI started to recover partly due to a huge investment of AT&S. In 2017 and 2018 FDI flows stabilised at an average of EUR 500 million per annum; the somewhat lower investment figure for 2019 is still provisional but might indicate a certain downward trend (see Table 7 and Figure 7). The stock of Austrian FDI in China reached EUR 3,982 million in 2019, which is 1.9% of the total FDI outward stock of Austria<sup>47</sup> and there were more than 140 affiliates of Austrian companies in China.

Table 7  
*Austrian direct investment with China, 1995–2019\**

| Austrian FDI to/in China<br>(outward) |                |                | Chinese FDI to/in<br>Austria (inward)** |                | Net: outward–inward |                |
|---------------------------------------|----------------|----------------|---|----------------|---------------------|----------------|
|                                       | Flows          | Stocks         | Flows                                   | Stocks         | Flows               | Stocks         |
|                                       | Million<br>EUR | Million<br>EUR | Million<br>EUR                          | Million<br>EUR | Million<br>EUR      | Million<br>EUR |
| 1995                                  | 7              | 18             | 0                                       | 0              | 7                   | 18             |
| 1996                                  | 9              | 119            | –1                                      | 0              | 10                  | 119            |
| 1997                                  | 3              | 39             | –1                                      | 0              | 4                   | 39             |
| 1998                                  | 17             | 49             | 0                                       | 0              | 17                  | 49             |
| 1999                                  | 4              | 61             | 0                                       | 0              | 4                   | 61             |
| 2000                                  | 7              | 62             | 0                                       | 0              | 7                   | 62             |
| 2001                                  | 20             | 105            | –2                                      | 0              | 22                  | 105            |
| 2002                                  | 14             | 181            | –2                                      | –1             | 16                  | 182            |
| 2003                                  | 16             | 199            | 0                                       | 0              | 16                  | 199            |
| 2004                                  | 37             | 195            | –1                                      | 0              | 38                  | 195            |
| 2005                                  | 110            | 289            | 0                                       | 0              | 110                 | 289            |
| 2006                                  | 195            | 525            | –7                                      | –13            | 202                 | 538            |
| 2007                                  | 182            | 617            | 10                                      | –3             | 172                 | 620            |
| 2008                                  | 162            | 899            | –12                                     | –15            | 174                 | 914            |
| 2009                                  | 419            | 1,369          | 275                                     | 117            | 144                 | 1,252          |

<sup>46</sup> OENB 2014.

<sup>47</sup> With Hong Kong included, the Austrian FDI stock in China reached EUR 5,517 million (2.6% of total) in 2019.

|      |      |       |      |       |      |       |
|------|------|-------|------|-------|------|-------|
| 2010 | 690  | 2,259 | 343  | 509   | 347  | 1,750 |
| 2011 | 624  | 3,006 | 71   | 582   | 553  | 2,424 |
| 2012 | –263 | 2,493 | –7   | 542   | –256 | 1,951 |
| 2013 | –440 | 2,020 | –1   | 551   | –439 | 1,469 |
| 2014 | –173 | 2,014 | –233 | 545   | 60   | 1,469 |
| 2015 | 127  | 2,279 | –37  | 445   | 164  | 1,834 |
| 2016 | 243  | 2,481 | 585  | 356   | –342 | 2,125 |
| 2017 | 526  | 2,873 | 198  | 753   | 328  | 2,120 |
| 2018 | 529  | 3,659 | 119  | 822   | 410  | 2,837 |
| 2019 | 304  | 3,982 | 22   | 1,032 | 282  | 2,950 |

*Note:* \* In contrast to the balance of payments statistics, this table does not include cross border real estate transactions and Special Purpose Entities (SPEs); provisional data for 2019. \*\* Since 2007, geographical breakdown according to the headquarters of the ultimate beneficial owner (UBO).

*Source:* Austrian National Bank (OENB): Home>Data>External sector>Foreign direct investment.

## Challenges, when doing business in China

The following challenges while doing business in China are given by Austrian entrepreneurs:<sup>48</sup> rising competition from Chinese suppliers, violation of property rights and fake products; forced technology transfer, unfair treatment compared to local enterprises with respect to public procurement, compliance with environmental laws and other regulations; discrimination with regard to sources of finance and R&D support, price dumping of Chinese enterprises. Legal and factual restrictions on direct investment in certain branches and business segments are cited as well.<sup>49</sup> Labour cost advantages are starting to fade.

<sup>48</sup> Based on interviews with managers reported in the media, conferences and personal conversations.

<sup>49</sup> The legal restrictions are specified in the 'Catalogue of industries for guiding foreign investment', which is updated biannually. The most recent one is from 2017: [www.fdi.gov.cn/1800000121\\_39\\_4851\\_0\\_7.html](http://www.fdi.gov.cn/1800000121_39_4851_0_7.html) (Accessed: 20 March 2018.)

## Future prospects for Austrian direct investment in China

China's New Model of Economic Development will provide special opportunities for Austrian investors in the fields of high-end machinery and environmentally friendly technologies, but competition from Chinese companies will become fiercer. A rising, consumption-oriented middle class and the over-proportionately growing services sector will offer fresh opportunities as well.<sup>50</sup>

## Chinese direct investment in Austria

The amount of Chinese direct investment in Austria is relatively small and it comes in waves rather than in a continuous flow (see Table 7 and Figure 8).

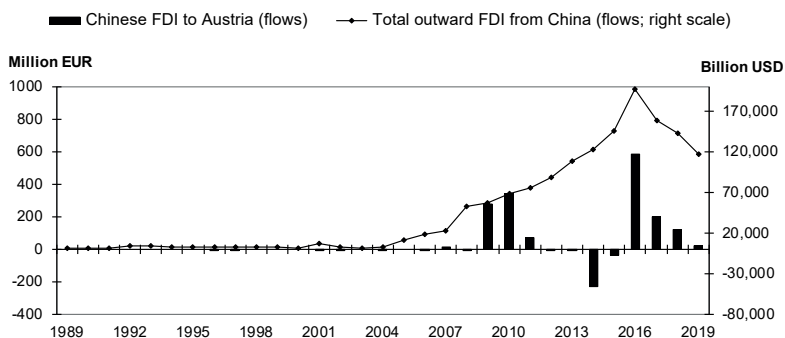


Figure 8

*Austrian inward FDI from China and China's total outward FDI, 1989–2019*

*Note:* Provisional data for 2019.

*Source:* Austrian National Bank (OENB); Chinese sources: China Statistical Yearbook, various issues (BoP) until 2006 and World Investment Reports (WIR) afterwards.

Mergers and acquisitions (M&A) play an important role, especially when it comes to bigger investments. In that case, 'technology for market'

<sup>50</sup> However, in the food sector, for the near future, investment in production facilities will remain small, as Chinese customers mistrust local production and prefer imports from Europe (Austria).

is a major objective: the Chinese company wishes to acquire Austrian technology, the Austrian firm wants to gain better access to the Chinese market and probably the global market, as well. When the motive for the Chinese investor is ‘market entry’, he typically targets the wider European market and often the Austrian affiliate is given the role of a head office or ‘bridgehead’ to the EU. The main fields of investment are machinery, electrical equipment and transport equipment. A list of major Chinese direct investments in Austria, 2006–2019, is given in Appendix 2.

Chinese direct investment in Austria started in the 1980s, with a significant number of Chinese migrants flocking to Austria, in particular to Vienna, opening restaurants, small shops and export-import agencies.<sup>51</sup> However, the first proper Chinese FDI occurred in 2006, when Huawei (high-tech telecommunication equipment) opened an office in Vienna. In 2009, in the midst of the global financial and economic crisis, the first wave of major direct investments from China began<sup>52</sup> when Xi’an Aircraft bought Fischer Advanced Composite Components (FACC), a high-tech company specialised in airplane equipment. A certain pause followed after 2011, with some minor Chinese investments (see Appendix 2). In 2016, the next wave started with Zhejiang Kaishan Compressor, the largest compressor producer in China taking over 95.5% of LMF Unternehmensbeteiligungs GmbH, the world’s leading air compressor manufacturer, acquiring technology as well as EU market entry.<sup>53</sup> Zhong Ding Group (ZD) followed and bought Austria Druckguss GmbH & Co. KG, with the intention to make it its headquarter in Europe.<sup>54</sup> In 2017, the inflow of Chinese FDI was still high, but declining in line with the overall outward FDI from China. One prominent example is the Wanfeng Group that took over the aircraft manufacturer Diamond Aircraft, a typical ‘technology for market’ deal.<sup>55</sup> In 2018, there were still a considerable number of Chinese direct investments in Austria, for instance, Fosun acquiring 50.8% of the luxury wearing apparel company Wolford and Great Wall Motors establishing a R&D center near the city

<sup>51</sup> SCHÄFER 2016.

<sup>52</sup> In 2009, the Chinese State Agency for Foreign Exchange (SAFE) relaxed controls on companies’ overseas investments: companies can use their existing foreign exchange reserves or purchase fresh foreign exchange to fund their overseas subsidiaries from 1 August 2009 (China Daily, 10 June 2009).

<sup>53</sup> Kaishan completed this purchase through its wholly owned subsidiary in Hong Kong.

<sup>54</sup> Ernst & Young, press release, 25 January 2017.

<sup>55</sup> STAUDACHER 2017.

of Graz. But in 2019, the number and amount of Chinese FDI dropped significantly to two major investments only (see Appendix 2).<sup>56</sup>

The stock of Chinese FDI in Austria reached EUR 1,032 million in 2019 (see Table 7), which is 0.6% of the total FDI inward stock of Austria. However, if Hong Kong is included, as some Chinese investment is made via Hong Kong, the total Chinese FDI stock (including Hong Kong) comes up to EUR 2,974 million, which is 1.6% of the total FDI inward stock in Austria.<sup>57</sup>

### Future prospects

Further acquisitions of Austrian technology enterprises can be expected, although a certain cooling down of Chinese direct investment may occur, due to recent measures of the Chinese Government to curb outward FDI. Because of the relatively small amounts, Chinese direct investment in Austria did not rouse any political concern so far. In fact, the Austrian Business Agency (ABA), attached to the Austrian Ministry of Economy, is still keen to attract Chinese investors to Austria.

The impact of Covid-19 on bilateral foreign direct investment flows is difficult to estimate. Some politicians fear that the financial weakness of European enterprises due to the pandemic will lead to a sell-out of technology intensive enterprises to Chinese investors. European enterprises, on the other hand may reshuffle their production chains and invest less overseas.

### *Financial relations*

Financial relations between Austria and China are largely a consequence of the intensive trade and investment relations between the two countries, but include purely financial transactions, e.g. portfolio investments.

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<sup>56</sup> The very low figure for FDI inflows in 2019 depicted in Figure 8, reaching EUR 22 million only, is still provisional and might not include all investments from China.

<sup>57</sup> If Hong Kong is included, two large deals have to be mentioned: the acquisition of Steyr Motors by Phoenix Tree HSC in 2012 and the purchase of the telephone provider Orange Austria and Tele 2 by Hutchison in 2013 respectively 2017.

The major Austrian commercial bank engaged with China is Raiffeisen Bank International, which has a subsidiary in Beijing since 1995 and a representative office in Zhuhai and which has already signed a number of cooperation agreements with Chinese banks and industrial corporations. Bank Austria/Uni Credit has a branch in Shanghai and a representative office in Beijing. The third big Austrian Bank, Erste Group, operates from its branch in Hong Kong. From the Chinese side, the Bank of China opened an office in Vienna in 2016 (which is an affiliate of her branch and regional centre in Budapest) and in 2017, the Industrial and Commercial Bank of China (ICBC) announced to establish a branch in Vienna, which should become the headquarter for Central and Eastern Europe and the Nordic countries. The office was finally opened in May 2019. The bank is one of the important sources of finance for the 'Belt and Road Initiative' and the CEE Fund. Also in 2019, the Chinese HNA Group acquired the majority share of Wiener Fondsgesellschaft C-Quadrat (see Appendix 2).

Seen from the bilateral Balance of Payments, Austria is a *net capital exporter* to China in most years, despite her big current account deficit with China. This is mainly due to her net surplus in FDI with China (see Table 7). However, bilateral data, available for the period 2007–2017, show a net surplus in 'other investments' (including trade credits, loans, currencies and deposits) in many years as well, and in 2017, Austria's net investment position (stocks) versus China in this field was highly positive, amounting to more than EUR 1 billion. Austrian portfolio investment in Chinese assets is still small and transactions stayed typically below EUR 100 million per annum; the stock of these assets reached only EUR 446 million in 2017.<sup>58</sup>

During his visit to China in 2019, Federal Chancellor Kurz discussed the possibility for Austria to issue bonds denominated in Yuan on the Chinese market (so-called Panda Bonds). Accordingly, a MoU was signed between the Austrian Treasury (OeBFA) and the Industrial and Commercial Bank of China (ICBC).<sup>59</sup>

<sup>58</sup> Austrian National Bank (OENB), bilateral BoP, unpublished data. Unfortunately, in case of portfolio investments, no regional breakdown for Austrian liabilities exists, therefore no net position can be calculated.

<sup>59</sup> Die Presse 2019.

## **Conclusions and outlook – preparing for a closer relationship with China**

*Political relations* between Austria and China develop very well. Both the political elite and the business community in Austria show a positive attitude towards China and during the state visit in April 2018 (see Appendix 1), Austria and China agreed to upgrade bilateral relations to a ‘friendly strategic partnership’. Moreover, the Austrian Government and the business community are very interested in China’s ‘Belt and Road Initiative’ and wish to take part actively in the future. In her role as an observer in China’s 17 + 1 initiative, Austria could probably assume a ‘bridge-function’ between the members of the initiative and other EU countries which take a sceptical stance on the initiative. However, the Austrian press and the wider public show a more critical attitude towards China than the political elite and the business community. Lack of democracy, increasing social control, rising political power and human rights violations are their major concerns.

*Scientific cooperation*, which has played an important role from the beginning, is set to become even more important in the future, with science and technology playing an ever-increasing role in China.

*Bilateral trade* has been slowing down, but growth is still faster than trade with most other countries and thus the relative importance of China as a trading partner for Austria is expected to rise further. However, to reach a more balanced development of exports and imports, Austria is pressing for a further opening-up of the Chinese market in bilateral negotiations, wherever possible. In the near future, the focus will be on the market for food and beverages, which is very promising, but still highly protected by non-tariff barriers to trade. Generally, the trade prospects are good, as the ongoing restructuring of the Chinese economy will offer ample export opportunities for Austrian high-end machinery and equipment and clean technologies. However, violation of intellectual property rights will require special attention in these business segments. Regarding imports, state subsidies for Chinese exporters and dumping will stay hot topics and it has to be seen yet, how effective the new EU Trade Defence Rules will be. Also, Austrian companies have to be aware that Chinese competition in the medium and high-tech segment of all industries will become fiercer.

Starting from a low level, the chances for further expansion of *trade in services* between Austria and China are good, due to the over-proportionate growth of the sector. But there are many barriers to trade for Austrian suppliers of services in China, even more than in goods trade, which have to be overcome. In the next few years, Austrian service providers will in particular try to take advantage of the Olympic Winter Games in Beijing in 2022, as they have great experience in the preparation and running of winter sports events and in tourism in general. Chinese tourism to Austria seems to have great potential as well and is promoted accordingly by Austrian tourism organisations, stressing Austria's culture and beautiful and healthy environment in particular.

*Investing in China* will remain attractive for Austrian companies, despite many challenges and the slowing down of economic growth in China ('new normal'). The Chinese Government's policy of qualitative instead of quantitative growth and of restructuring the industry towards high technology and higher value-added production will provide special investment opportunities for Austrian companies with a focus on high-end machinery and environmentally friendly technologies. The rising consumption-oriented middle class will offer investment opportunities in fields neglected so far by Austrian entrepreneurs. Rapid urbanisation and the Belt and Road Initiative will boost infrastructure investment and also offer chances for Austrian companies in China, probably in cooperation with Chinese companies. The many challenges for Austrian enterprises doing business in China, such as violation of property rights, forced technology transfer, unfair treatment, legal and factual restrictions in certain business segments, have to be tackled at EU level because of their general character, rather than being discussed bilaterally between Austria and China. For instance, pressure on China to complete her accession to the WTO Government Procurement Agreement (GPA), promised for years, would be very important. Also, very important in this context are the ongoing negotiations for an 'EU–China Investment Agreement'.

*Chinese investment* in Austria is quite small (0.6% of the total FDI inward stock of Austria) and did not rouse any political concern so far. In fact, the Austrian Business Agency (ABA), attached to the Austrian Ministry of Economy, seems keen to attract Chinese investors to Austria and the Joint Declaration between President Alexander Van der Bellen and President Xi Jinping of 8 April 2018 states explicitly that

“Austria was open for Chinese investments”.<sup>60</sup> Many investments take the form of M&As, whereby Chinese companies wish to acquire Austrian technology and Austrian companies want to gain better access to the Chinese market – a win-win situation, at least in the short run. In the near future, further acquisitions of Austrian technology enterprises can be expected. So far Chinese investors focus on the machinery and transport equipment sector but given the general development of Chinese foreign direct investment, their investment spectrum may broaden soon.

As regards *financial relations*, related to the Belt and Road Initiative, (joint) project financing in third countries may gain importance.

To conclude, Austria’s political and economic relationship is expected to develop smoothly over the next couple of years. Most of the existing challenges could be addressed, but not solved at the bilateral level, and will have to be dealt with at the EU level or even at the global level (WTO, UN).

However, all our speculations concerning future economic developments are only valid if the current Covid-19 pandemic will not cause serious long-term disturbances and structural changes in the global economy. Anyhow, in the short and probably even medium term we have to expect bilateral trade, FDI and tourism to slow down to a certain extent.

## Appendix 1

### List of state visits 1989–2017

|      |   |
|------|---|
| 1991 | Foreign Minister Qian Qichen in Austria (October).  |
| 1993 | Federal Chancellor Franz Vranitzky in China (April).  |
| 1994 | Premier Li Peng in Austria (June–July).   |
| 1995 | President Thomas Klestil in China (September).  |
| 1996 | Federal Chancellor Franz Vranitzky in China (October).  |
| 1998 | Vice-Chancellor and Foreign Minister Wolfgang Schüssel in China – President Jiang Zemin in Austria (March). |
| 2001 | President Thomas Klestil in China (May).  |

<sup>60</sup> Österreichische Präsidienkanzlei > Gemeinsame Erklärung zur Errichtung einer freundschaftlichen strategischen Partnerschaft zwischen der Volksrepublik China und der Republik Österreich.

|      |  |
|------|--|
| 2002 | Foreign Minister Tang Jiaxuan in Austria (July) – Premier Zhu Rongji in Austria (September).   |
| 2003 | Foreign Minister Benita Ferrero-Waldner in China (November).   |
| 2005 | Federal Chancellor Wolfgang Schüssel in China (April).   |
| 2006 | Foreign Minister Li Zhaoxing in Austria (February).  |
| 2010 | President Heinz Fischer in China (January) – Federal Chancellor Faymann visits the EXPO in Shanghai (June) – Foreign Minister Yang Jiechi in Austria (July).     |
| 2011 | Federal Chancellor Werner Faymann in China (May) – President Hu Jintao in Austria (October).   |
| 2014 | Vice-Chancellor and Minister of Economy Reinhold Mitterlehner, Foreign Minister Sebastian Kurz and Minister of Agriculture Andrä Rupprechter in China (October). |
| 2015 | President Heinz Fischer in China (March).  |
| 2018 | President Alexander Van der Bellen, Federal Chancellor Sebastian Kurz, Foreign Minister Karin Kneissl and three more Federal Ministers in China (April).         |
| 2019 | Federal Chancellor Sebastian Kurz visits China (April).  |

## Appendix 2

### Major Chinese direct investments in Austria, 2006–2017

| Year | Kind of investment   | Industry                                 | Activity                       | Capital invested |
|------|--|--|--------------------------------|------------------|
| 2006 | Huawei opens a representative office in Vienna   | Telecommunication equipment and systems  | Sales, marketing and support   | EUR 3.5 million  |
| 2007 | Shougang International Trade & Engineering   | Metal products (steel products)          | Sales, marketing and support   | EUR 0.4 million  |
| 2008 | Grace Semiconductors (liquidated in 2010)  | Semi-conductors                          | Headquarter, production, sales | EUR 46 million   |
| 2009 | Xi'an Aircraft (affiliate of AVIC) acquires 91.25% of Fischer Advanced Composite Components (FACC) | Transport equipment (airplane equipment) | Production                     | EUR 70 million   |

| <b>Year</b> | <b>Kind of investment</b>  | <b>Industry</b>   | <b>Activity</b>  | <b>Capital invested</b> |
|-------------|--|---|--|-------------------------|
| 2010        | Zhong Xing Telecommunication Equipment Company Ltd (ZTE)   | Telecommunication equipment and systems                               | Sales, marketing Central and Eastern Europe                          | n.a.                    |
| 2011        | China Shipping Container Lines opens a branch (2016: merged with Coscon, branch renamed: 'Coscon Shipping Central Europe') | Transportation (water transportation)                                 | Sales, marketing and support   | EUR 6.6 million         |
| 2011        | Wolong Holding buys ATB group  | Machinery and electrical equipment (engines, batteries, transformers) | Production   | EUR 100 million         |
| 2013        | 2 Chinese families, Liu and Ni, take over the motorway services chain 'Rosenberger'  | Hospitality industry  | Catering   | n.a.                    |
| 2014        | Plateno Hotels Group takes a share in Walter Jungers Hotel Group H12   | Hospitality industry  | Establishment of hotels, also in third countries                     | n.a.                    |
| 2015        | Ginkgo Tree Investment buys 50% of the Rivergate office complex in Vienna  | Real estate   | Leasing  | EUR 95 million          |
| 2016        | Zhejiang Kaishan Compressor buys 95.5% of LMF Unternehmensbeteiligungs GmbH & Co. KG                                       | Machinery (air compressors)   | Manufacturing; headquarter for Europe                                | EUR 23.7 million        |
| 2016        | Zhong Ding Group (ZD) buys Austria Druckguss GmbH & Co. KG (ADG)   | Machinery   | Production; headquarter for Europe                                   | n.a.                    |
| 2016        | CETC (China Electronics Technology Group) sets up its European headquarter (in Graz)                                       | Electronic equipment and software development                         | R&D (water management); headquarter for Europe                       | EUR 11 million          |
| 2016        | CRRC (Zhuzhou Electric Locomotive) establishes an office in Vienna   | Transport equipment   | Purchase of materials, marketing and support; headquarter for Europe | n.a.                    |

| <b>Year</b> | <b>Kind of investment</b>  | <b>Industry</b>   | <b>Activity</b>   | <b>Capital invested</b>                               |
|-------------|--|---|---|---|
| 2016        | The Bank of China (Hungary) opens a branch, the 'Bank of China (Hungary) Close Ltd. Vienna Branch'                                   | Financial sector  | Financial services  | n.a.  |
| 2017        | HNA Group acquires the majority share of Wiener Fondsgesellschaft C-Quadrat (approval pending)                                       | Financial sector  | Investments   | n.a.  |
| 2017        | Pia Automation Holding (affiliate of Ningbo Joyson Electronic takes over M&R Automation  | Machinery, electronics (automation specialist)  | Production  | n.a.  |
| 2017        | Haier Group buys a share of GREENoneTEC  | Solar technology  | Production  | n.a.  |
| 2017        | Wanfeng Group takes over Diamond Aircraft  | Transport equipment (aircraft)  | Production  | n.a.  |
| 2017        | The Industrial and Commercial Bank of China (ICBC) announces to establish a branch in Vienna (The office finally opened in May 2019) | Financial sector  | Financial services; headquarter for Central and Eastern Europe and the Nordic countries | n.a.  |
| 2018        | Great Wall Motors Company (GWM) establishes a R&D centre   | Machinery and transport equipment (electric drive systems for hybrid and battery electric vehicles) | F&E   | n.a.  |
| 2018        | Fosun acquires 50.87% of Woford  | Wearing apparel (underwear)   | Production and sales  | EUR 33 million (+EUR 22 million projected investment) |
| 2018        | HNA Group acquires the majority share of Wiener Fondsgesellschaft C-Quadrat  | Financial sector  | Investments   | n.a.  |

| Year | Kind of investment  | Industry   | Activity   | Capital invested                           |
|------|---|--|------------|--|
| 2019 | Anta Sports acquires the Austrian Ski brand Atomic (together with the Finish mother company Amer) | Sports equipment (skis)  | Production | n.a. (EUR 20 million investment projected) |
| 2019 | Shanghai Baolong Automotive Corporation takes over 70% of MMS Berndorf                            | Production systems for hybrid components made of metal and plastic | Production | n.a.                                       |

Source: Markets.com (before 2012), FDI markets, Ernst and Young, press reports, company homepages etc.

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