Chapter 1.

Economic Integration and Interdependence in Austria

Austria's Road from Neutrality to Deep Integration

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Introduction

Austria has witnessed a significant reshuffling in its political, economic and social relations in the last 30 years. Three key milestones could be distinguished in this road. First, the fall of the Iron Curtain, the elimination of the division of the European continent. Austria is neighbouring with many countries in the former Soviet bloc, and the political changes in the Central and Eastern European region had immediate implications on the country. Second, Austria's European integration, which means the country's accession to the economic bloc in 1995 as well as joining the Eurozone in 1999. Finally, the Eastern enlargements of the European Union also had many impacts on Austria, its economy, trade relations, labour market and investment portfolio.

The objective of this paper is to give an overview of the economic and social development of Austria since 1989. In this context, special emphasis will be devoted to the implications of the fall of the Iron Curtain, the process of the European integration of Austria as well as the Eastern enlargement of the EU on Austria's trade and Foreign Direct Investments (FDI) relations.

The paper is structured as follows. First, I give a chronological overview of Austria's political and economic relations in the last decades, with the main milestones of this period. Second, we discuss the balance

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of Austria's EU accession. This is followed by a section on the macroeconomic trajectory of the country. In this chapter, the macroeconomic performance and environment of the country will be analysed. Afterwards, the economic integratedness and dependence of Austria are analysed, with special emphasis on FDI, trade, globalisation indices and economic complexity. Finally, the paper concludes.

The Conditions at the Beginning of the Integration Process Historical Overview of the Four Steps for Austria to Open Up

In 1989 the Iron Curtain fell quickly and unexpectedly, ending the separation between Western Europe and the Soviet Union. After 44 years of an almost completely sealed border, trade was suddenly free to reconnect. Despite the political and economic turmoil within the Eastern regimes, trade between West and East almost doubled within five years after 1990. By the year 2000, it had almost tripled. The 44 years of Iron Curtain division severed all formal and business relationships, almost all trade between East and West, and made personal contacts difficult. However, historical legacies and cultural linkages persisted, facilitated by some low-level economic ties during the Cold War. (Beestermöller–Rauch 2018) The breakdown of the communist regimes in Eastern Europe resulted in a major structural break in the international economic relations of most Central European countries. This is particularly the case for Austria. Due to its geographical situation and its strong historical ties, especially with former Czechoslovakia, Hungary and Poland, Austria received disproportionally more immigrants than other countries and its trade flows reacted more strongly. Already in 1989, Austria had the largest export volume to the Central and Eastern European Countries (CEECs) all over Europe, except for Germany and Italy. (Aiginger et al. 1995)

Austria is a highly developed industrial nation with a huge and dynamic services sector. The country's geopolitical position between Western European industrialised nations and the growth markets in Central, Eastern and Southeastern Europe (CESEE) has led to a high degree of economic, social and political integration with the European Union and non-EU countries in CESEE. Border controls between Austria and all of its eight neighbouring countries were lifted under the EU's Schengen Agreement. EU enlargements in 2004 and 2007 strengthened Austria's attractiveness as an investment location by increasing access to markets in Eastern Europe, but expansion also bolstered Austria's competitors in that region so that, due to their vicinity, Budapest, Prague and Bratislava now compete directly with Vienna for foreign investors. (DoS[1] 2014)

Austria experienced a rapid and smooth economic development after World War II. Before the opening of the borders in 1990, exports were heavily concentrated on the three western neighbour countries. Germany, Switzerland and Italy combined to make up 54% of the exports of goods and 58% of imports in 1988. Trade with overseas countries was relatively low if compared, for example, to Switzerland. The trade volume with socialist countries was high relative to other Western European economies, but very low if compared with pre-war ratios and if evaluated from the perspective of location and neighbourhood. The former Czechoslovakia and Hungary were Austria's 16th and 15th largest export partners in 1988. Before the transition started, the bilateral trade balance was in approximate equilibrium. Austria had a slight surplus with Hungary and a small deficit with Czechoslovakia and Poland. Regarding these three countries, for the total period 1988–1993, Austria's exports rose by 154%, imports by 67%. The export share of the three countries adds up to 8% of Austria's exports in 1993 after 4% in 1988. (Aiginger et al. 1995)

The overall impact of the opening of the borders on the economic development in Austria had been a hotly debated political issue since the start of "Ostöffnung". Many industries and firms were confronted with increasing competition because wages in these countries were between 5% (Poland) and 10% (Hungary) of the comparative Austrian labour costs. (Peneder 1993) These huge wage differentials led to fears of serious detrimental impacts, most strikingly, the loss of jobs in Austria.

Austria has taken part in all integration steps since the opening up of Eastern Europe in 1989, gaining EU membership in 1995 and Economic and Monetary Union (EMU) membership in 1999, and participating as an EU member in the EU enlargements since 2004. Four steps of Austria's deep integration into Europe since 1989 can be distinguished as follows. (Breuss 2013)

[1] DoS: Department of State.

Opening up of Eastern Europe in 1989

The opening up of Eastern Europe in 1989 increased the potential of Austria's markets for direct trade and FDI and implied a net inflow of migrants.

EU Membership in 1995

A new EU member must take over the acquis communautaire (Community acquis) of the single market project. This implies communitisation, that is the transfer of competencies, from former national responsibility to EU competence in many economic policy areas: the CAP, the Common Commercial Policy (CCP) by entering into the EU customs union, the common competition policy, a common regional/structural policy, and many other areas in which economic policy is harmonised at the EU level.

EMU Membership in 1999

Participating in the EMU and thus introducing the euro further deepened economic integration. Prior to EMU membership, the hard currency countries Germany and Austria suffered from international competitiveness insofar as the soft currency countries (in the periphery of the EU) depreciated their currencies against the Deutsche Mark bloc in every case of current account deterioration. Of course, a devaluation race was a permanent menace for the single market. After the introduction of the euro, this was no longer possible and hence the international competitiveness was reversed within the euro area. Germany and Austria gained in the form of real depreciation, whereas the others revaluated and lost competitiveness. In addition to this advantage in the competitiveness of the formerly hard currency countries, a single currency eliminates exchange rate uncertainties, thus stimulating trade and FDI. Above all, the deeper financial integration offered new growth-enhancing stimuli for Austria.

EU Enlargement in 2004/2007

As a member of the EU, Austria also benefited from the major enlargement moves in 2004 and 2007, primarily because this involved mainly former Central and Eastern European countries in Austria's neighbourhood. Two main effects were encountered. With the abolition of border controls, Austria was able to increase its trade potential in addition to the effects already happening as a result of the opening up of Eastern Europe in 1989. Integration of low-income countries into the group of high-income countries in the old EU naturally induced factor movements in both directions: FDI from the West to the East, and labour migration the other way round. To mitigate the negative effects on the labour markets, many old EU member states, including Austria, applied exemption rules from freedom of labour in the form of 7-year transitional arrangements. These transition periods were phased out in the first round of enlargement in 2011 and 2014 for the second round. (Breuss 2016)

The EU enlargement on the Central and Eastern Europe countries was a factor for heightening Austria's attractiveness as a business location, overall exports to Central and Eastern Europe has increased, and exports to neighbouring countries (Hungary, the Czech Republic and Slovakia) even increased 4.5 times. This region was especially in demand by Austrian direct investors, in particular. The degree of economic integration in some sectors even exceeds the figures achieved during the Austro–Hungarian monarchy. EU membership also internationalised Austria, by reducing the impact of Germany as its main trading partner and also eliminated Austria's trade deficit; the euro area takes a leading position as a financing region as well, regarding inward FDI as well as loans and deposits by non-residents. (Charushina 2009) Due to the processes of the opening up of Eastern Europe, EU accession, EMU membership and EU enlargement running in parallel, the integration effects of the different stages partly overlap. Hence, the various integration effects do not simply add up. All in all, the integration stages considered here accelerated the growth in real GDP (and only marginally less real GDP per capita) in Austria, the unemployment rate and the rate of inflation shifted downwards. The ratio of imports to GDP increased altogether more than the export ratio. The entire integration process led to a weaker current account balance, mainly brought about by

EU membership and EMU participation, but partly offset by the opening up of Eastern Europe. The latter factor and EU enlargement improved Austria's opportunities to participate actively in the process of globalisation or "mini-globalisation" with regard to Eastern Europe. (Breuss 2016) In the late 1980s, early 1990s, Austria's economic ties to Central and Eastern European countries have been limited. Austria's outward FDI has improved rather quickly during the period of the opening of the Central and Eastern European economies. For Austria, this period of "globalisation" was characterised by two new and substantial economic developments: the pre-EU accession period and the opening of Eastern European economies. Both of them have enforced Austria's international economic activities considerably. However, the FDI-stock-GDP ratio in 1995 was still relatively low. One of the main reasons for this low degree of internationalisation was Austria's industry structure, especially the prevalence of small and medium-sized enterprises (SMEs). (Altzinger 1998)

As well-known from the theoretical and empirical literature, FDI—like trade patterns—is strongly influenced by the geographical as well as the cultural and historical proximity to countries. (Dunning 1993; Petrakos 1996) All four CEECs are adjacent to Austria. Furthermore, it is not surprising that neither Austria's trade nor investment relations with Poland—although a relatively well developed CEEC—are of any significance. There it appears that in Hungary total capital per investment is the lowest of all CEECs, followed by Slovakia, the Czech Republic and Slovenia. The last two countries show total capital per investment which is much higher than in Hungary and Slovakia although far below the amounts of the affiliates established in the Western OECD countries. We have to keep in mind throughout the further analysis that on average the total capital per investment in the CEECs is far below the average investment in Western OECD countries. This verifies that the opening of Central and Eastern Europe also gave SMEs with weak financial capacities an opportunity for internationalisation.

In absolute numbers, by far the largest share of Austria's FDI in the CEECs has been invested in Hungary. In 1995 the four adjacent countries to Austria (Hungary, the Czech Republic, Slovenia and Slovakia) accounted for 91.1% of Austria's overall FDI in the CEECs. The export and import relations of Austria between 1988 and 1993 are illustrated in Table 1. These regional patterns emphasise the importance of geographical proximity which is entirely in accordance with the theoretical considerations of Dunning (1993). Besides, the regional and sectoral patterns of Austria's FDI in the CEECs show three important issues: the importance of geographical proximity, the significance of investments in the non-manufacturing sectors and a significant activity of SMEs in this process of internationalisation due to relatively low financial requirements. (Altzinger 1998)

Table 1.
Austria–CEEC trade (Billion ATS)

Country		1988	1989	1990	1991	1992	1993
Czechoslovakia	*Export*	4.7	5.0	8.6	9.2	13.8	15.4
	Import	6.0	6.7	6.4	7.4	11.1	12.3
	Balance	–1.4	–1.7	2.2	1.7	2.7	3.1
Hungary	*Export*	6.8	8.7	10.5	14.5	15.6	16.5
	Import	6.4	7.8	8.7	11.5	12	10.8
	Balance	0.5	0.8	1.7	3.0	3.6	5.7
Poland	*Export*	3.7	5.2	4.4	7.5	7.1	6.4
	Import	4.2	4.4	5.0	5.7	5.0	4.7
	Balance	–0.5	0.9	–0.6	1.8	2.0	1.8
Central Eastern Europe	*Export*	15.2	18.9	23.5	31.2	36.4	38.4
	Import	16.7	18.9	20.2	24.6	28	27.8
	Balance	–1.4	0.0	3.3	6.6	8.4	10.6
For comparison: Switzerland	*Export*	27.6	31.1	32.4	30.6	28.9	29.8
	Import	19.9	21.3	23.7	24.7	23.8	23.1
	Balance	7.7	9.8	8.7	5.9	5.1	6.7

Source: Aiginger et al. 1995

Austria's EU Accession and Its Role in the Country's Integration Process

While in the post-war decades Austria was characterised by a high share of public ownership in industries and banks and extensive market regulation that sheltered businesses from international competition, much of what happened during the past three decades has been intended to create an environment that is attractive to foreign capital and to make native capital more competitive. Subsequent measures have included the liberalisation of trade and capital flows and the reduction of corporate taxes. Many of the changes were facilitated through Austria's accession to the EU in the mid-1990s, which in turn led to a further Europeanisation and internationalisation of the Austrian economy. On the other hand, Austrian capital also profited immensely from the EU's eastward enlargement. However, while profitability soared as a result of outsourcing and productivity increased, due to the shareholder-value orientation and eastward expansion, unemployment remained high compared to the post-war decades.[2] (Hermann–Flecker 2012) Austrian companies benefit above all from the decline in export costs thanks to European integration, because around 70% of Austrian exports go to EU member countries, and conversely, an equally high share of Austrian imports come from other EU countries. (Mannen 2016) The convenience of the common currency tends to have a positive impact on tourism in Austria as well; in 2015, 84% of all overnight stays by foreigners in Austria were accounted for by citizens of the other 27 EU member countries. (Beer et al. 2017)

As Beer et al. (2017) duly summarises, increased trade can lead to more efficiency and productivity and thus have a positive impact on economic growth. Consumers profit from a greater variety of products and lower prices. Increasing integration facilitates foreign direct investment and production across countries. In a globalised world characterised by a high degree of specialisation, products can no longer be produced exclusively in-country, or profitably sold only within the domestic market. To produce on a cost-effective basis and to remain competitive in terms of price and quality, integration into international production chains is thus just as necessary as access to expanded sales markets.[3] This is especially true for small economies such as Austria's.[4] Participation in the single market and EMU has led to greater competition. One of the most important arguments for the increased competition is that it leads to lower prices and thus greater purchasing power, greater choice and, via competitive pressure, to increased product innovation, and thus to higher growth as well.[5] Recent empirical research finds evidence of the growth-stimulating impact of competition.[6] Before the EU accession, there was significantly less competition in Austria; there were many monopolies (telecommunications, post, electricity and gas) and tolerated cartels, as well as sector-specific import restrictions (agricultural products). To ensure competition between companies, the EU prevents barriers to competition and the abuse of market dominance, monitors mergers

[2] But low compared to the other EU Member States.
[3] See Amador–di Mauro 2015.
[4] See Kulmer et al. 2015.
[5] See Porter 2000 and Aghion et al. 2001.
[6] For Austria see Böheim 2004.

and introduces measures to liberalise regulated markets. However, these considerations do not necessarily take the demand side sufficiently into account. Surveys show that just under 50% of Austrians think that EU membership brings more advantages than disadvantages; for about 37%, the disadvantages outweigh the advantages. Opinions are divided with regard to the impact of EU membership on employees as well. Migration issues and unemployment are seen as the greatest challenges for the EU. The majority of Austrians favour remaining in the EU, however. Current economic conditions in Austria are characterised by high unemployment and relatively low economic growth. This prompts some people to conclude that this situation is the fault of the EU and the euro ("things used to be better and cheaper"). A balanced discussion of the impact of EU membership, however, must always compare the current situation with a counterfactual world, in the present, without the EU and the euro.

As one of the richest EU Member States, Austria is a net contributor to the Community budget. The cost of EU membership comes also with extensive benefits, though. In addition to the increase in growth and employment as a result of access to the EU single market, funds in the form of regional assistance, for example, flow directly back to Austria. Even the support of other, poorer Member States has an indirect positive impact on Austria since the purchasing power in these countries is increased and more public investments are carried out, which in turn increases sales opportunities for Austrian companies.

The EU membership of Austria yields the following conclusions: Austria's economy and economic policy had to adjust to the regime of the Single Market. This meant the surrender of autonomous economic policymaking to community responsibility in foreign trade policy, agricultural policy, competition law, regional policy, and, through the accession to the Economic and Monetary Union, also in monetary policy. As the fourth richest EU country, Austria is a net contributor of 0.4% of GDP. The Single Market is not yet fully developed in many areas. In the telecommunications and energy sectors, liberalisation has only just begun. EU membership produced welfare effects of about 2% of GDP and allowed higher economic growth of about 0.5% per year. (Breuss 2000)

Regarding Austria's net financial position to the EU, we can see on Figure 1, that Austria is a net contributor country to the EU's budget, having an operating budgetary balance of approximately 0.3% of its GNI.

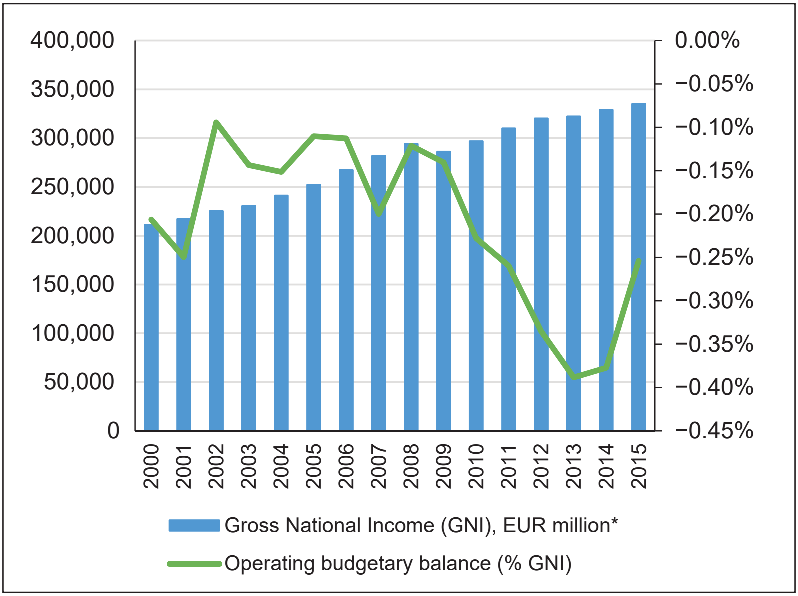

Figure 1.
Austria's net financial position to the EU

Source: EC[7] 2015

The Macroeconomic Trajectory of Austria

In this section of the study, I give a brief overview of the most important macroeconomic tendencies in Austria since the mid-1990s. The level of the central government debt in Austria shows a deteriorating picture in the last 20 years. The level of debt increased by 30 percentage points, from around 70% to more than 100%. The trend fundamentally turned into negative after the crisis of 2008 (Figure 2).

[7] EC: European Commission.

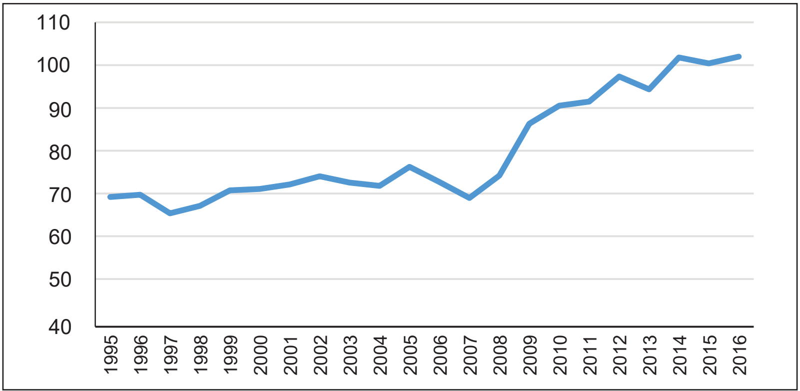

Figure 2.
Central government debt in Austria (% of GDP)
Source: WB[8] 2018a

The current account balance of Austria shows a positive trend in the last two decades. Although very volatile, it increased from some –6% to around –1% (Figure 3). The main reason behind the negative current account balance is the budgetary deficit, which has increased since the 2008 financial crisis.

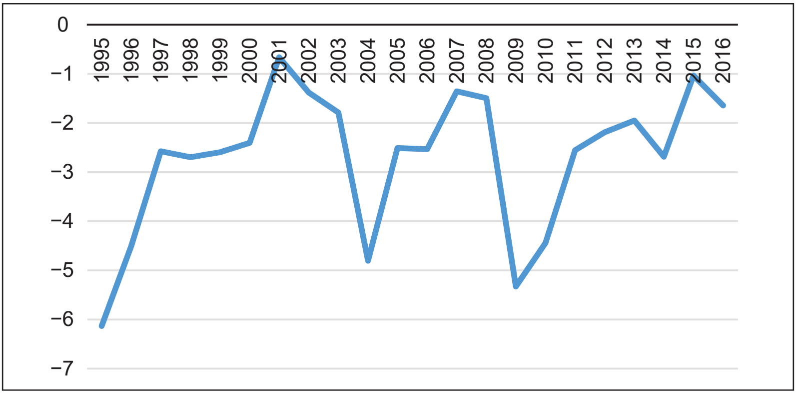

Figure 3.
Current account balance in Austria (% of GDP)
Source: WB 2018a

8 WB: The World Bank.

Figure 4 shows that the net trade of goods and services in Austria is positive in the last more than one decade. Nevertheless, the tendency is very volatile. We can observe a clearly upward tendency until the 2008 financial crisis, followed by a gradual decline until 2012. The balance in 2016 is somewhat, but very narrowly positive compared to the year 2005.

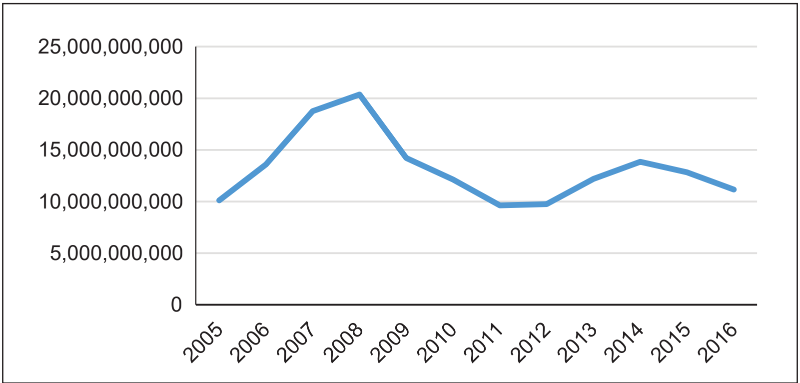

Figure 4.
Net trade in goods and services in Austria (BoP, current USD)

Source: WB 2018a

The United Nations Development Programme's (UNDP) Human Development Index (HDI) expresses the quality of life in light of life expectancy, education and per capita income indicators, which are used to rank countries into four tiers of human development. Austria's Index has steadily grown since the fall of the iron curtain, except a minor fallback in the early 2000s (Figure 5). Today, we definitely consider Austria a welfare state, which is underpinned by the high value of the HDI.

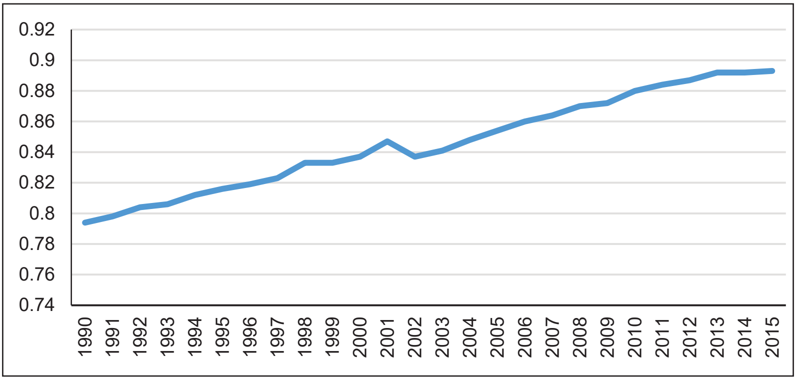

Figure 5.

Human Development Index in Austria

Source: UNDP 2015

The basis for the high quality of life in Austria is the balanced economic development of the country. Figure 6 shows a very volatile tendency of GDP growth in the last 30 years. There is a negative, declining trend behind the annual growth values. It is apparent that after the sharp decline of 2008, the economic growth in the country has not reached the pre-crisis level.

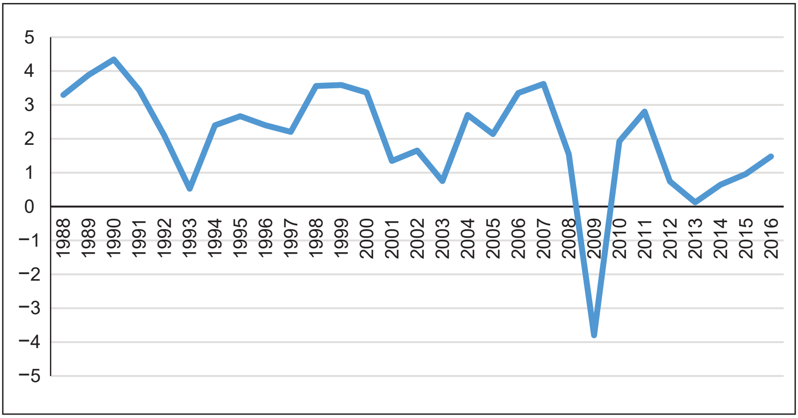

Figure 6.

GDP growth in Austria (annual %)

Source: WB 2018a

In line with the economic performance of the country, GDP per capita has also varied in the last three decades. Nevertheless, the tendency is definitely positive: in this period, per capita GDP in Austria has more than doubled (Figure 7).

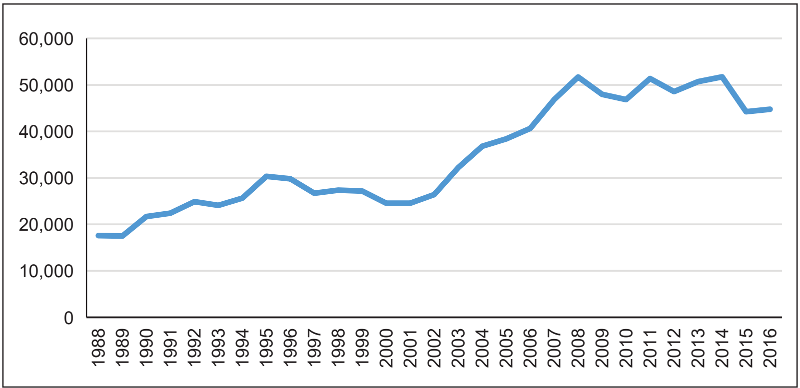

Figure 7.
GDP per capita in Austria (current US$)

Source: WB 2018a

The Freedom House annually analyses the political rights and the civil liberties of many countries, including Austria. In both categories, Austria is given a constant ranking of 1[9] (on a scale 1–7, where 1 expresses the best ranking possible) since the late 1980s until 2017. The Doing Business ranking of the World Bank shows how favourable the business environment in a country is. Analysing the last more than ten years of Austria, we see a positive tendency. The country was able to elevate 10 places in the ranking since 2006, being on rank 22 in 2018 (Figure 8).

[9] On a scale 1–7, where 1 expresses the best ranking possible.

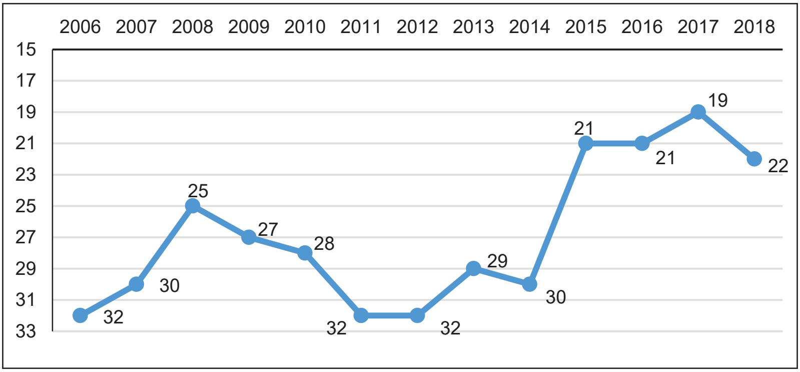

Figure 8.
Doing Business ranking in Austria, 2004–2018

Source: WB 2018b

The Global Competitiveness Index (GCI) depicts a slightly darker picture of Austria's competitiveness in the last 10 years. Austria has fallen back in the ranking (from place 15 to place 19), while the value of the GCI for the country practically remained unchanged in the last decade (Figure 9).

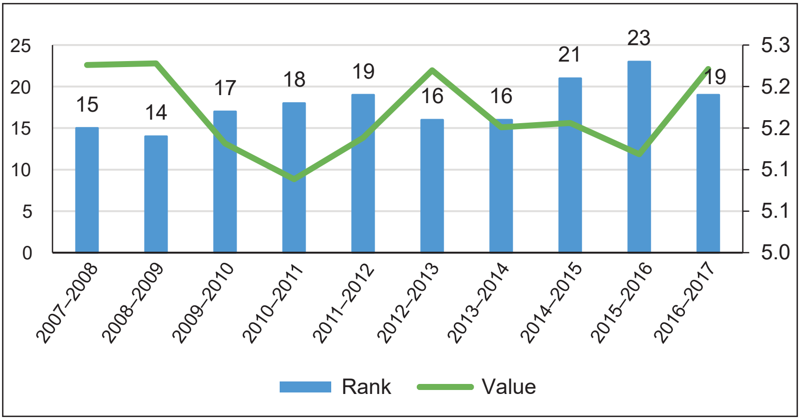

Figure 9.
Global Competitiveness Index in Austria, 2007–2017

Source: Porter–Schwab 2008; Schwab 2011; 2017

To give a more detailed and sophisticated picture on the competitiveness of Austria, there are also two other sub-indices that worth to be shown here. Both in case of infrastructure and innovation, the country's ranking has not practically changed in the last 10 years (Figure 10 and 11). The values of the sub-indices are somewhat higher, which shows some sort of development, but the relative position of Austria has not improved in the last decade.

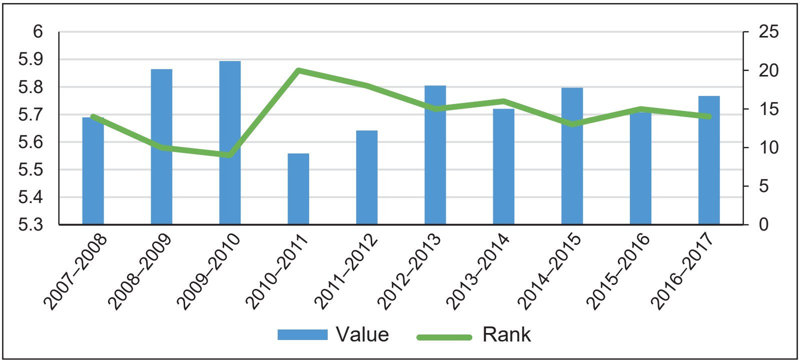

Figure 10.

GCI, 2nd pillar: infrastructure in Austria

Source: Porter–Schwab 2008; Schwab 2011; 2017

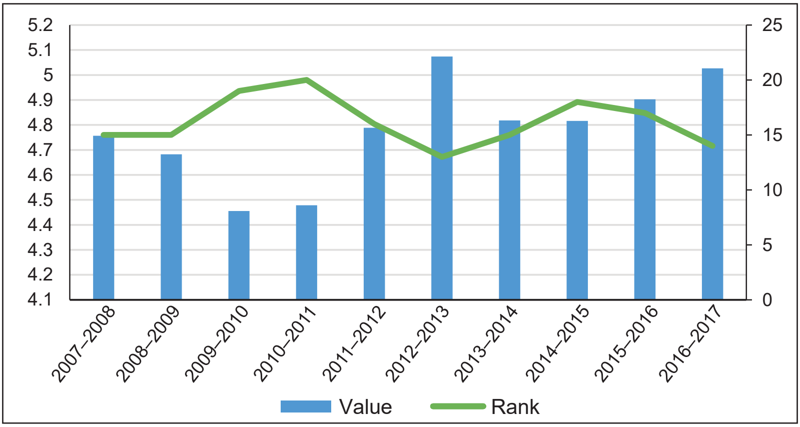

Figure 11.

GCI, 2nd pillar: innovation in Austria

Source: Porter–Schwab 2008; Schwab 2011; 2017

The World Economic Forum lists restrictive labour regulations, high tax rates and inadequately educated workforce as the biggest problems and obstacles to increasing the competitiveness of Austria (Figure 12).

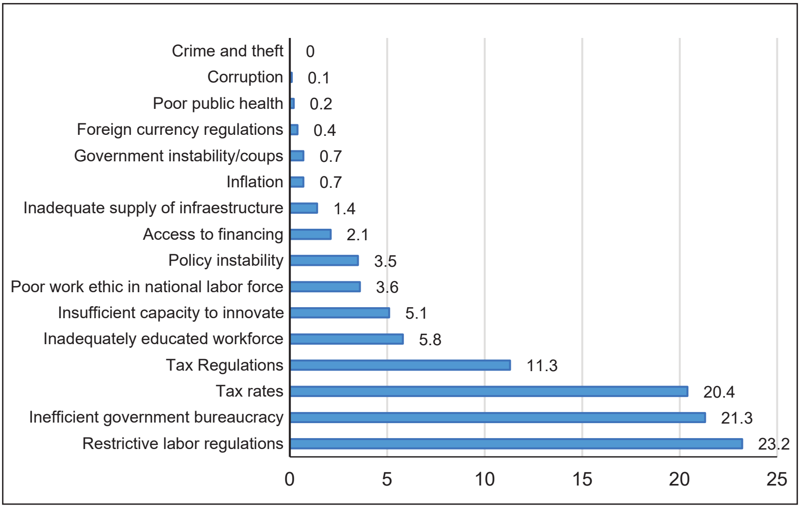

Figure 12.

Most problematic factors for doing business in Austria

Source: SCHWAB 2017

The World Bank Worldwide Governance Indicators (WGI) gives a picture on the political and regulatory setup and status of a country. According to two indicators of WGI, Austria's position is slightly improving, practically stagnating. Both political stability and the control of corruption show an unchanging picture in the last 20 years (Figure 13 and 14).

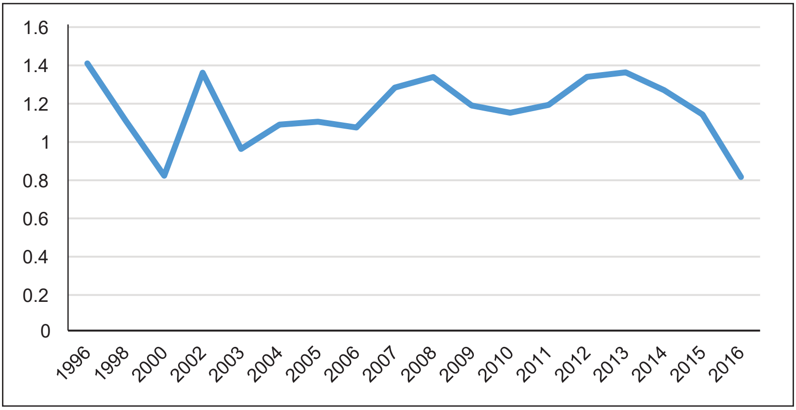

Figure 13.
Political stability in Austria

Source: WB 2016

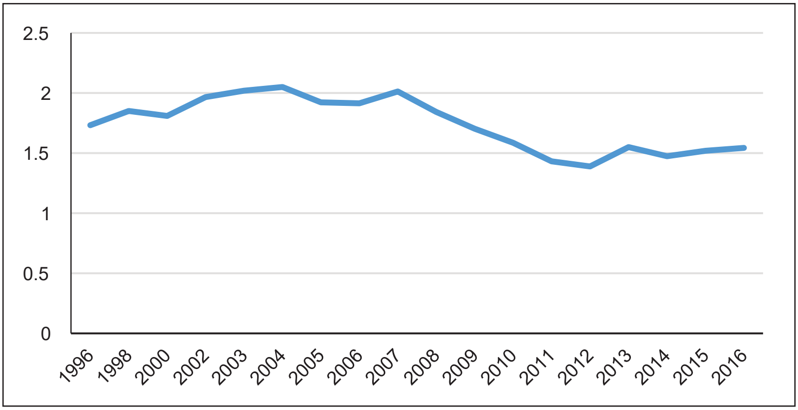

Figure 14.
Control of corruption in Austria

Source: WB 2016

Interdependence and Economic Penetration

When analysing economic integratedness and dependence, we concentrate on three key pillars. First, trade connection, both export and import, second, foreign direct investments and third, globalisation indices. First, in this section, we discuss the trade relations of Austria. As we can see in Figure 15, the value of the export of Austria increased significantly in the last more than 20 years, practically since the EU accession of Austria in 1995, with a sharp fallback in 2008–2009, which has been partly recovered by now. Increased export (and import) volumes clearly show the increased and deep economic integratedness of Austria into the global, more specifically, into the European economy.

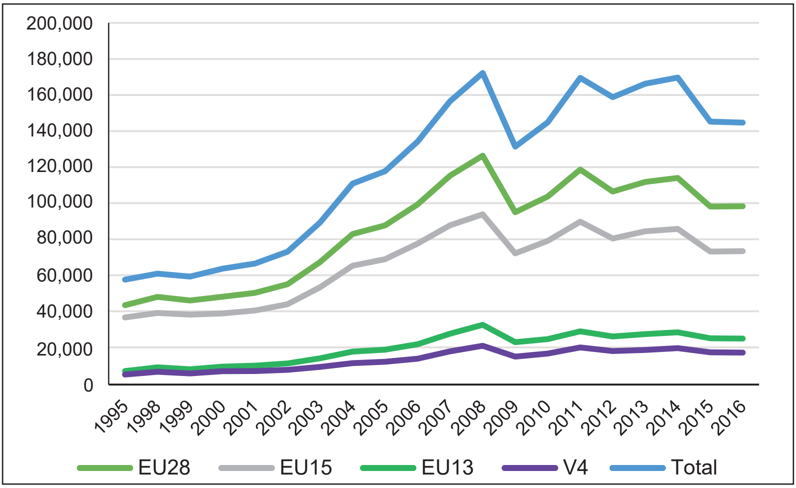

Figure 15.
The value of export of Austria (million USD)

Source: UN Comtrade 2016

Figure 16 shows that the EU Member States are still the most important target destination of the country's export. Nevertheless, its importance is gradually decreasing. Right after Austria's EU accession, the export to the other EU Member States increased, but since 1998, it is gradually and stably decreasing. It has lost 11 percentage points in approximately 20 years (from 79% to 68%).

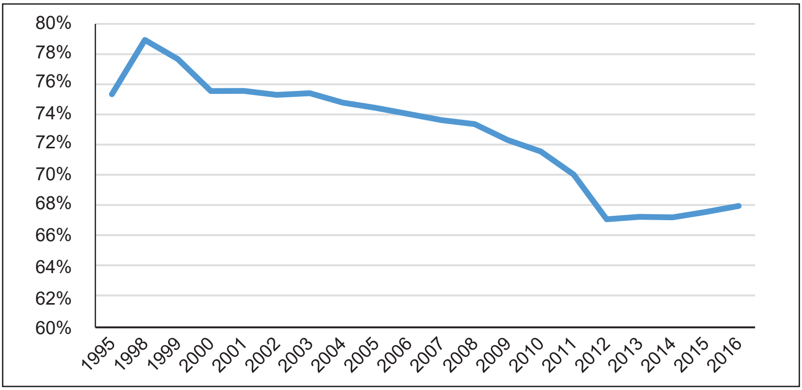

Figure 16.

EU export share of total Austrian export

Source: UN Comtrade 2016

When we analyse the intra-EU target destinations of Austrian export, we could observe that "old", EU15 Member States play a decreasing role for Austrian exporters. On the other hand, new, EU13 Member States, including the Visegrád 4 (V4) countries play a gradually more important role as the target markets of Austrian export (Figure 17).

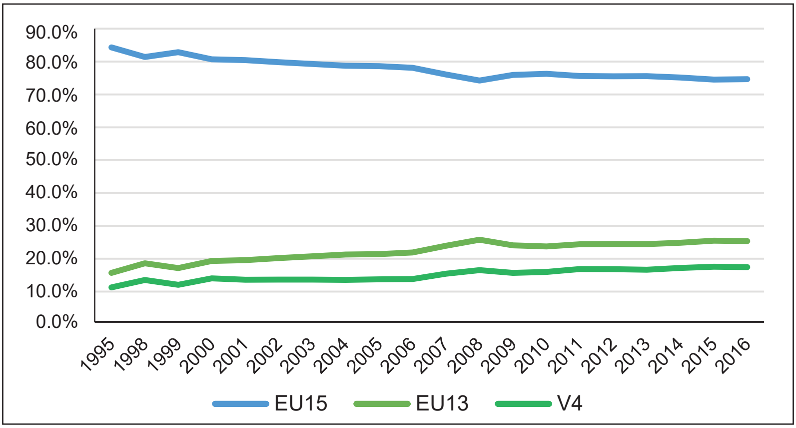

Figure 17.

Share of country groups in intra-EU Austrian export

Source: UN Comtrade 2016

In the context of economic dependency, we need to devote attention to the dependence of Austria on its main export partner, Germany. Over the last 20 years, we see a decreasing role of Germany as the target market of Austrian products. Germany, though still the main export partner for Austria, lost some importance. Germany accounts for 30% of the total Austrian export and some 45% of the Austrian export going to the EU market.

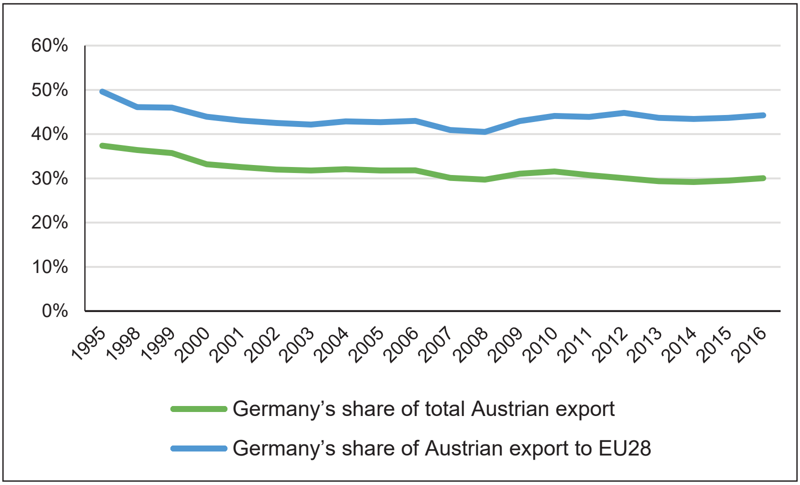

Figure 18.
Germany's share in Austrian export

Source: UN Comtrade 2016

Germany's importance is also corroborated in Table 2. It shows that Germany's leading role as an export partner is unquestionable. The most important tendency is the growing share of EU13 Member States, especially, Austria's neighbouring countries. In the year 2016, half of the ten most important export partners are Central and Eastern European (CEE) countries: the Czech Republic, Hungary, Poland, Slovakia and Slovenia.

Table 2.
Austria's main export partners in selected years

1995			2004			2016		
Member State	**Export value (USD)**	**Share in total export to EU MSs**	**Member State**	**Export value (USD)**	**Share in total export to EU MSs**	**Member State**	**Export value (USD)**	**Share in total export to EU MSs**
Germany	21,523,435,109	49.6%	*Germany*	35,540,423,869	42.9%	*Germany*	43,505,236,553	44.3%
Italy	4,939,673,892	11.4%	*Italy*	9,486,618,660	11.4%	*Italy*	8,984,490,970	9.1%
France	2,393,691,130	5.5%	*United Kingdom*	4,657,925,601	5.6%	*France*	5,752,961,242	5.9%
Hungary	2,057,752,363	4.7%	*France*	4,650,268,538	5.6%	*Czech Republic*	5,161,920,000	5.3%
United Kingdom	1,797,438,515	4.1%	*Hungary*	4,162,393,605	5.0%	*Hungary*	4,727,474,260	4.8%
Netherlands	1,593,164,512	3.7%	*Czech Republic*	3,392,758,136	4.1%	*United Kingdom*	4,304,617,899	4.4%
Czech Republic	1,535,381,284	3.5%	*Spain*	2,711,859,624	3.3%	*Poland*	4,161,604,608	4.2%
Spain	1,142,784,460	2.6%	*Slovenia*	2,426,455,561	2.9%	*Slovakia*	3,069,715,555	3.1%
*Belgium**	948,578,762	2.2%	*Netherlands*	2,051,127,374	2.5%	*Slovenia*	2,854,988,844	2.9%
Slovenia	939,018,301	2.2%	*Poland*	1,995,475,266	2.4%	*Spain*	2,539,621,885	2.6%

*Belgium and Luxembourg together

Source: UN Comtrade 2016

Similar tendencies can be observed based on Austria's import relations. Austria's main import partners are EU countries, with a growing share and importance of new Member States (EU13), including the V4 countries. Similarly to the trendlines of export, the value of import has fallen sharply in the 2008–2009 economic crisis, which has been somewhat recovered but still has not reached the pre-crisis level (Figure 19).

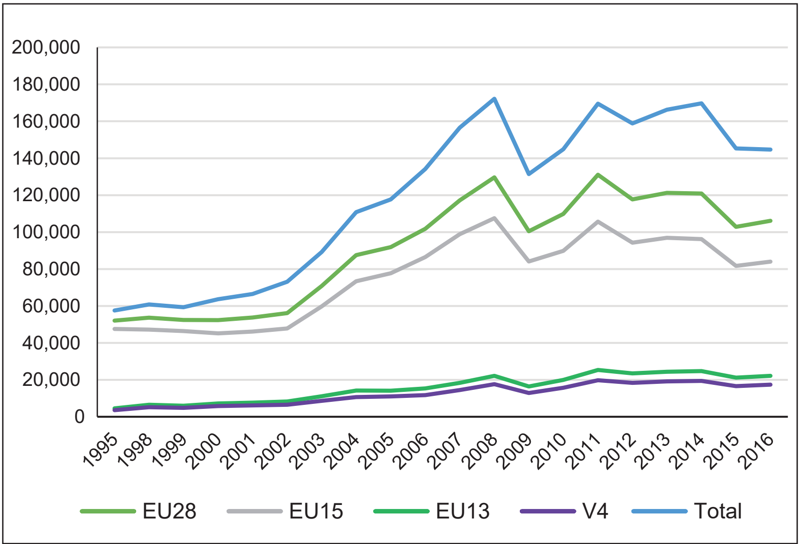

Figure 19.

The value of import of Austria (million USD)

Source: UN Comtrade 2016

Figure 20 shows that import from the EU Member States is gradually decreasing in the case of Austria. From 90% in 1995, it has moderated to 75% in 2016.

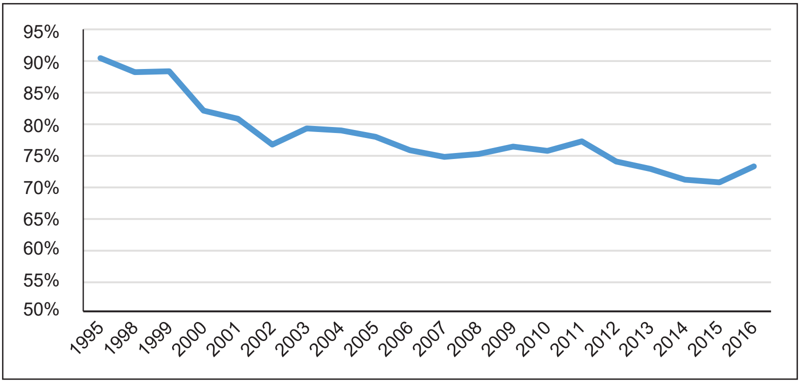

Figure 20.

EU import share of total Austrian import (%)

Source: UN Comtrade 2016

Figure 21 shows that Austria's import dependency on the EU is higher (80% in 2016) than that of export (75% in 2016) to the EU. Approximately 80% of all the import comes from the EU Member States. During 20 years, EU15 import decreased 10 percentage points, while EU13 import increased the same percentage points.

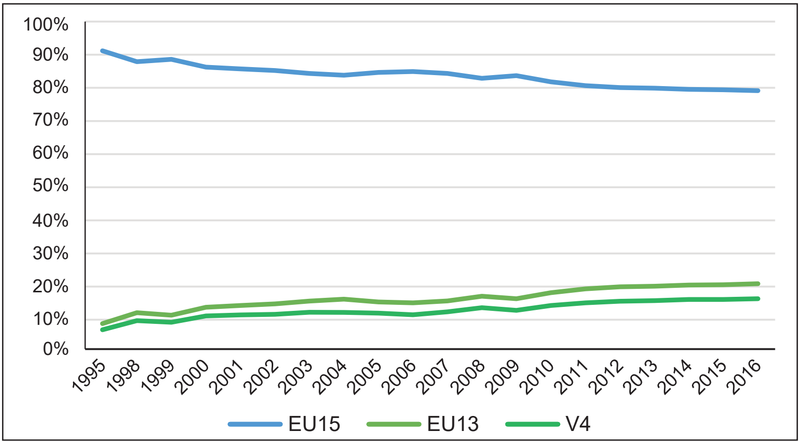

Figure 21.

Share of country groups in intra-EU Austrian import (%)

Source: UN Comtrade 2016

Similarly to the export relations, we should take a look at Austria's import dependency on its main trading partner, Germany. We see a somewhat higher dependency in the field of import than in the export. More than 50% of all EU import comes from Germany to Austria, which means that almost 40% of all Austrian imports is originated from Germany (Figure 22).

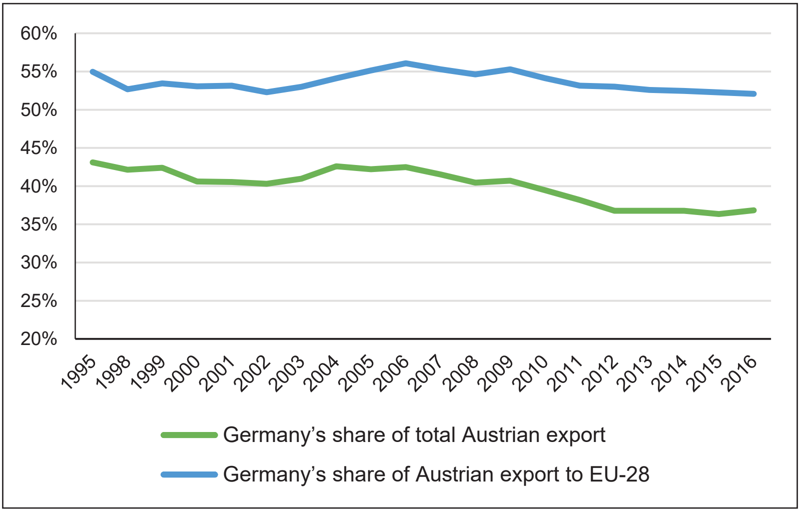

Figure 22.
Germany's share in Austrian import
Source: UN Comtrade 2016

Finally, regarding Austria's main import partners, we see that Germany, Italy and France have been the key import partners throughout the last two decades. Nevertheless, while in 1995, only two CEE countries—the Czech Republic and Hungary—had a position in the top 10 import partners, in 2016, there were four, also including Poland and Slovakia. This shows the deepening trade ties between Austria and the CEE countries (Table 3).

Table 3.
Austria's main import partners in selected years

1995			2004			2016		
Member State	**Import value (USD)**	**Share in total import from EU MSs**	**Member State**	**Import value (USD)**	**Share in total import from EU MSs**	**Member State**	**Import value (USD)**	**Share in total import from EU MSs**
Germany	28,631,225,171	43.1%	*Germany*	47,396,423,650	42.6%	*Germany*	55,258,735,966	36.8%
Italy	5,788,342,941	8.7%	*Italy*	7,543,831,359	6.8%	*Italy*	9,142,014,784	6.1%
France	3,239,313,864	4.9%	*France*	4,448,732,013	4.0%	*Czech Republic*	6,481,184,490	4.3%
Netherlands	2,266,781,639	3.4%	*Czech Republic*	3,509,507,701	3.2%	*France*	4,004,206,667	2.7%
United Kingdom	1,955,530,152	2.9%	*Hungary*	3,388,177,518	3.0%	*Hungary*	3,893,438,755	2.6%
Belgium	1,755,635,070	2.6%	*Netherlands*	3,119,539,414	2.8%	*Netherlands*	3,835,931,558	2.6%
Czech Republic	1,240,458,904	1.9%	*Slovakia*	2,387,591,329	2.1%	*Poland*	3,679,549,349	2.5%
Hungary	1,234,738,709	1.9%	*United Kingdom*	2,150,186,726	1.9%	*Slovakia*	3,279,111,516	2.2%
Sweden	1,099,624,284	1.7%	*Belgium*	1,872,992,497	1.7%	*United Kingdom*	2,796,028,744	1.9%
Spain	867,432,696	1.3%	*Spain*	1,735,041,892	1.6%	*Spain*	2,683,539,984	1.8%

Source: UN Comtrade 2016

In addition to trade processes, in this section we discuss the FDI relations of Austria. Regarding FDI, we could also see a significant increase in the FDI stock in Austria. Total FDI stock has increased five times between 2001 and 2012. The most impressive increase could be observed regarding the FDI from the EU13 Member States, especially the V4 countries. We can conclude that strong trade and investment relations between Austria and EU countries largely contributed to a massive FDI inflow to the country (Table 4).

Table 4.
FDI stock in Austria (million USD)

	2001	2002	2003	2004	2005	2006
Total	34,999	44,896	57,637	70,713	82 552	113,612
EU15	27,251	32,659	41,655	51,715	58,882	84,180
EU13	96	104	140	255	284	1,141
V4	62	58	23	46	41	47

	2007	2008	2009	2010	2011	2012
Total	162,455	148,131	172,636	161,168	15,3097	164,363
EU15	105,819	105,321	110,671	103, 483	94,750	100,624
EU13	2,682	1,180	1,553	1,701	1,528	2,000
V4	100	239	288	207	289	546

Source: OECD 2013

We can also conclude that FDI from the EU Member States plays the most important role in Austria. Nevertheless, the share of this FDI is gradually decreasing, from around 80% in the early 2000s to 60% by 2012 (Figure 23).

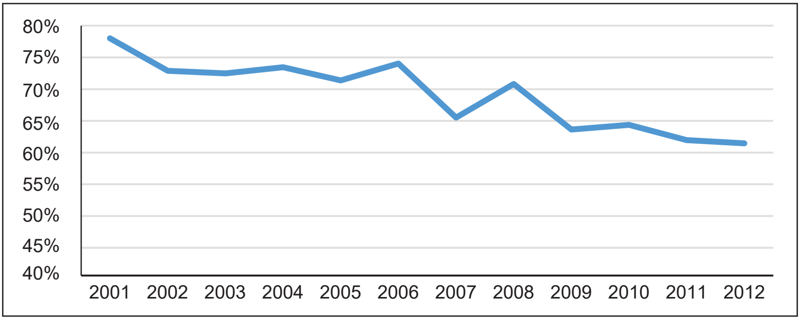

Figure 23.

EU share of total FDI stock in Austria

Source: OECD 2013

As stated above, economic integration and connectedness could be expressed by capital flows. Foreign Direct Investment statistics of Austria shows that FDI inflow has increased after the country's EU accession in 1995. We can observe very high values before the 2008 economic crises and a very volatile period after that (Figure 24).

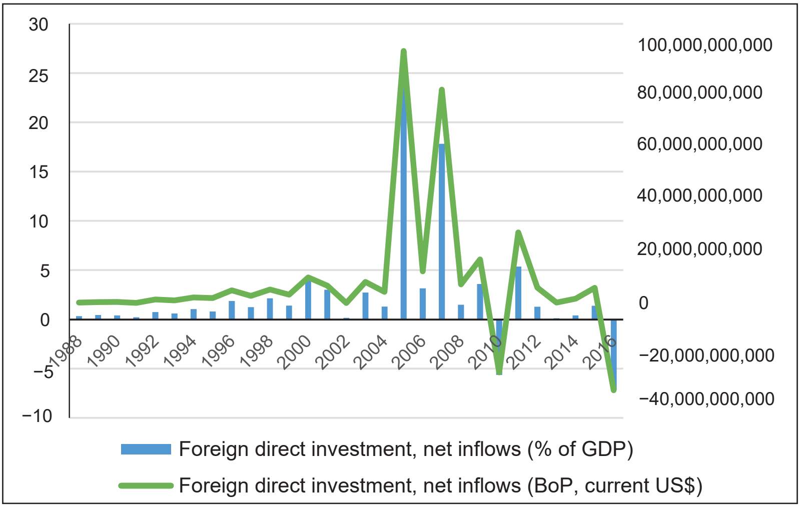

Figure 24.

Foreign Direct Investment inflow in Austria, 1988–2016

Source: WB 2017a

A similar tendency could be observed based on FDI outflow data. Slight increase after Austria's EU accession, followed by a high level of capital outflow after 2004. The reason behind this latter tendency is the 2004 enlargement of the EU, which paved the way for Austrian companies' investments in the new, neighbouring Member States, mostly Hungary, Slovakia, the Czech Republic and Slovenia. This upward trend was curbed by the 2008 crisis (Figure 25).

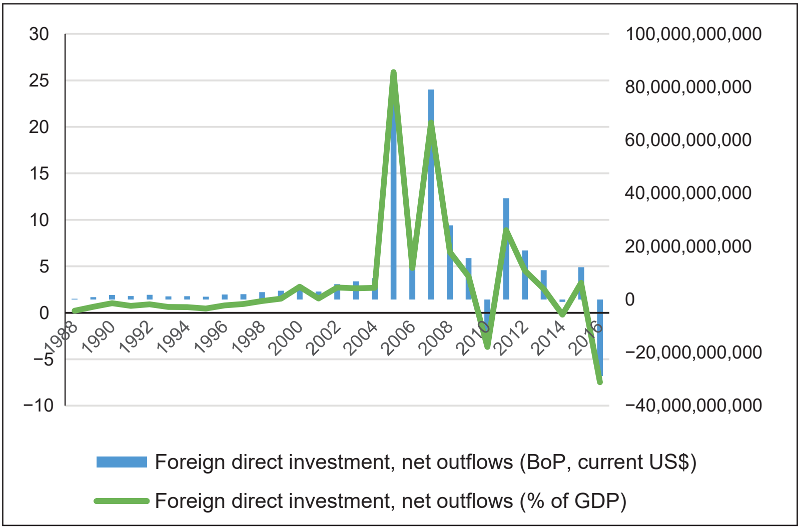

Figure 25.

Foreign Direct Investment outflow in Austria, 1988–2016

Source: WB 2017b

Austrian FDI stocks are "regional" rather than "global", which means that they are strongly focused on Europe, especially Central and Eastern European countries. Almost 50% of total Austrian outward FDI stocks in 2008 were invested in these countries. In 2008, Austria was the most important investor in six CEEC (Slovenia, Bosnia and Herzegovina, Croatia, Serbia, Romania and Bulgaria) and ranked high in some other CEEC, namely Slovakia, Hungary and the Czech Republic (Table 5). Austria's extraordinarily strong position as an investor in CEEC is also emphasised by the market shares. In 2008, Austria's share in the total inward FDI of the CEEC was 8.2%, whereas in global inward FDI Austria only had a market share of 0.9%. (Breuss–Landesmann 2010) The most important country for Austrian outward FDI in 2008, however, was still Germany. Austria invested € 2.6 billion in the largest European economy and Austrian FDI stocks in Germany amounted to € 15 billion or 14.2% of total Austrian FDI stocks.

Table 5.

Austrian position as an investor in CEEC in 2008

Country	Rank	Percentage shares in FDI stocks
Slovenia	1	46.6
Bosnia and Herzegovina	1	30.4
Croatia	1	29.1
Serbia	1	20.3
Romania	1	18.8
Bulgaria	1	18.4
Slovakia	2	14.5
Hungary	3	12.7
Czech Republic	3	12.1
Macedonia	4	11.3
Albania	4	8.7
Montenegro	7	7.2
Ukraine	5	6.5
Poland	9	3.5

Source: Breuss–Landesmann 2010

In 2009, Austria's inward FDI flows amounted to € 6.2 billion, which was one third higher than in 2008. Inward FDI stocks totalled € 106.2 billion. A major part of the investment was held by EU15 countries; almost 70% of the stock originated from there. The most important investors in Austria are Germany, Italy and the USA. (Breuss–Landesmann 2010)

Last but not least in this section, we examine globalisation indices of Austria. Globalisation indices express a country's involvement and integratedness into the global economy and society by quantifying and analysing the economic, political and social ties of the country to other countries.

The Economic Complexity Index (ECI) expresses a country's capability and prospects to integrate into the global economy. We can observe a negative tendency in Austria regarding this index, as its value has generally been decreasing in the last almost 30 years (Figure 26).

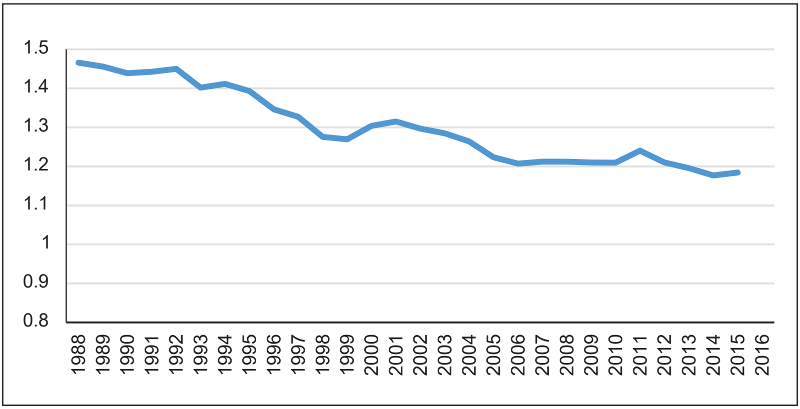

Figure 26.
Economic Complexity Index in Austria, 1988–2016
Source: OEC[10] 2016

The KOF Globalization Index shows the picture of a gradually integrated Austria into global economic, social and political relations (Figure 27). It has three, reinforcing explanations. First, the fall of the iron curtain in 1989–1990 opened up the Eastern borders of Austria, creating the opportunity to establish economic and political ties with a number of Central and Eastern European, former socialist countries. Second, Austria's EU accession in 1995 made the country part of the most advanced region of the continent. And finally, the introduction of the Euro, the accession of Austria to the Eurozone made the country belong to the very core, developed and integrated part of the European Union.

[10] OEC: The Observatory of Economic Complexity.

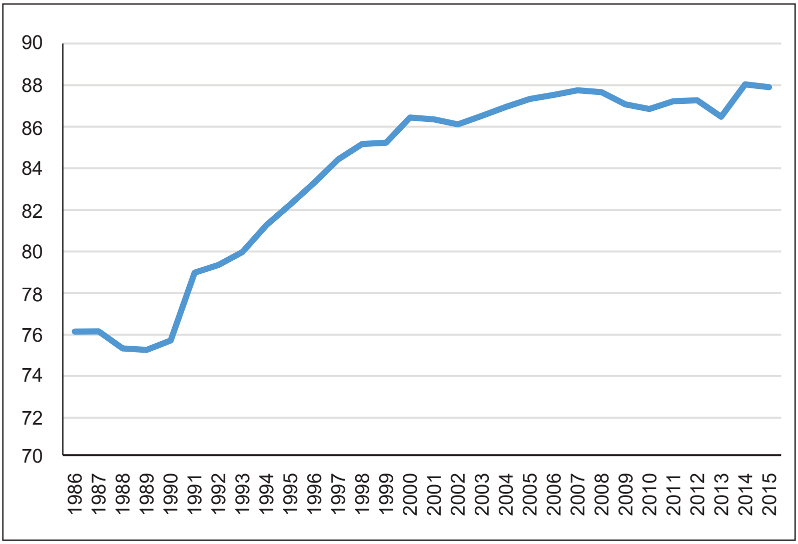

Figure 27.

KOF Globalization index in Austria, 1988–2014

Source: ETHZ[11] 2015

We can see in Figure 28 that the DHL Global Connectedness Index also shows a somewhat different picture. Both Austria's score and ranking has deteriorated in the last decade. Nevertheless, the country is still very opened and integrated into global tendencies, which is reflected by the high ranking (best 20 countries in the world).

[11] ETHZ: ETH Zürich.

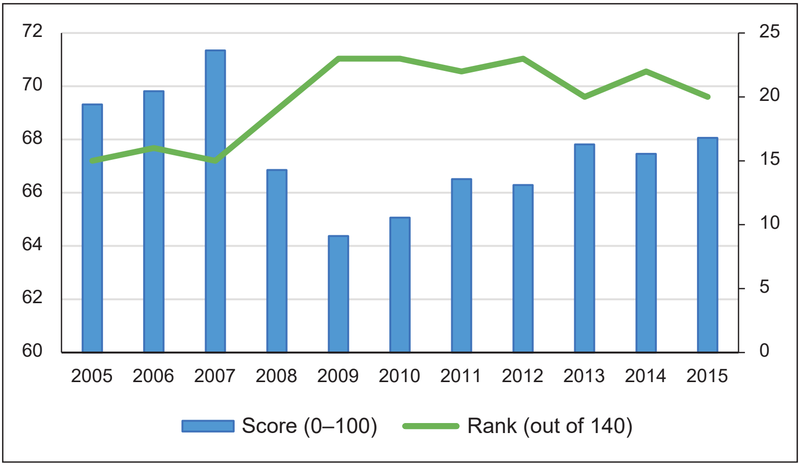

Figure 28.
DHL Global Connectedness Index in Austria

Source: DHL 2015

Conclusion and Outlook: Drawing the Balance of the Results of Integration

In the triangle of economic transformation, economic integration and economic dependency, we can draw some key conclusions regarding Austria. These are as follows:

- Austria has witnessed four major steps towards a more opened economy in the last 30 years:
  - the fall of the iron curtain and the Eastern opening that followed;
  - the European Union accession in 1995;
  - the accession to the Eurozone in 1999;
  - the Eastern enlargement of the European Union in 2004 and 2007.

  All these phases have significantly contributed to opening up the economy of the country as well as making it more integrated into the EU as well as more globalised.
- Austria's traditional main trading and investment partners—both export and import as well as outward and inward FDI—have been Germany and Switzerland. Nevertheless, with the fall of the iron

curtain and the consequent Eastern expansion of Austria, their share has diminished in the last decade.

- Similarly, the role of the European Union as Austria's main trading partner has slightly decreased. Among the EU Member States, the share of EU15 has decreased, while EU13 has counted for an increasing share within the EU total.
- Austria is a net contributor country to the European Union budget since its accession in 1995. The overall balance of the EU accession is a topic of discussion in the country. The positives are the increased level of trade and investment, opposing this, there are the issues of politically sensitive topics, like migration, loss of jobs, decreasing labour costs, the problems of the Eurozone, etc.
- Austria and its companies have capitalised on the Eastern opening: today, Austria is the most important investor in some CEE and Balkan countries. In terms of outward FDI, Austria has key positions in V4 countries—especially Hungary and Slovakia—as well as Slovenia and Croatia.
- Regarding the globalisation indices, Austria has seen an upward trend in the last three decades, which is the consequence of the gradual political, social and economic opening of Austria since the fall of the iron curtain.

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