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Structure and objectives of Austria's foreign direct investment in the four adjacent Central and Eastern European countries Hungary, the Czech Republic, Slovenia and Slovakia

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# Structure and Objectives of Austria's Foreign Direct Investment in Four Adjacent Central and Eastern European Countries\*

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#### Abstract

Since 1989 Austria's investment activities in Central and Eastern Europe has intensified. Investments are concentrated in adjacent countries. Geographical proximity and close historical and cultural ties have enabled even small and medium-sized Austrian enterprises to achieve a 'first mover advantage'. Investments have been performed to a large extent in industries that are typically not connected with outsourcing activities (trade, finance and insurance, construction). Market-driven factors and strategic considerations are the ultimate objective of these investments. Only a few sectors, in particular a so-called 'core' industrial sector (metal products, mechanical products, electrical and electronic equipment), indicate that low labour costs are of importance. Trade and sales data of the affiliates support the dominance of the local market. Whilst on average 66% of the affiliates output was sold locally this share was only 39% for the 'core' industrial sector. This sector indicates particular patterns of relocation. Nevertheless, until now this part of Austria's FDI has only been of minor importance.

JEL classification: F15, F21, F23.

Keywords: FDI, trade, internationalisation, SMEs, Central and Eastern Europe;

"Current discussion on employment effect of outward FDI from developed countries is flawed because it tends to generalise from a few visible cases of job relocation in a country to its entire FDI abroad." (AGARWAL, 1996)

#### 1. Introduction

The discussion on the economic consequences of outward foreign direct investment (FDI) on the domestic economy is a long lasting issue which has got considerable new attention due to the opening of the Central and Eastern European Countries (CEECs) and their envisaged integration into the European Union. Recent events, such as the partial closure of the Semperit factory in Traiskirchen, a location near Vienna, and the transfer of some parts of its production to the Czech Republic have helped to make the whole question of industrial relocation into a burning issue. However, we should be cautious about generalising such events. The patterns of Austria's FDI in the CEECs are rather diverse. As we shall see, motives and strategies of Austrian enterprises embrace internationalisation processes that are prompted by quite different principles. Therefore the impact on the domestic economy is rather different.

Since the opening of the CEECs in 1989 Austria's trade and investment relations have intensified quite rapidly. Economic co-operation has multiplied in particular with Austria's neighbouring countries Hungary, the Czech Republic, Slovenia and Slovakia. Austria has not only achieved a high surplus in its balance of trade with these countries throughout the period 1990-96, it has also improved its overall employment through this surplus by a significant number (ALTZINGER, 1997a). Moreover Austria has shown considerable FDI activities in the CEECs. Even in other West-East European border regions such developments appeared in a very similar manner (see section 2). All of these studies report huge trade surpluses and a tremendous increase of FDI by the West-European countries.

Much of these developments can be explained by Austria's geographical proximity and its close historical and cultural ties to the CEECs. These features have provided Austrian companies with a substantial 'first-mover advantage' (FMA) in entering these new markets during the early 1990s. However, decreasing market share in trade and in FDI-stocks indicate that these FMAs have receded (STANKOVSKY, 1996a). Nevertheless, it must be noted that this development has been caused to a considerable extent by large privatisation programs in the CEECs where Austrian companies could not participate sufficiently due to their weak financial capabilities.

To assess the impact of FDI on the domestic economy is a rather difficult task. The net result depends very much on the type of investment. An evaluation of growth and employment effects can hardly provide accurate quantitative data (BALDWIN, 1994; ALTER, 1995). The most difficult problems in calculating such effects are insufficient knowledge about the alternative scenario and the period of observation. In his survey on FDI and employment BALDWIN (1994) summarised these problems as follows: "Broad generalisations are difficult because of the very different employment effects one obtains from various plausible alternative assumptions about what will happen in the absence of foreign direct investment and what the magnitude of increased imports by the host country from the investing country will be." The period of observation is important because relocation involves a sequence of events:

between the closure of a local production unit and reimporting of the affiliates, there is a whole process of establishing a production abroad. Moreover, in order to be able to assert with a reasonable amount of assurance that a distinctive number of jobs had been lost due to some relocation, one would have to be able to prove that these job losses would not have occurred had there been no FDI operation. On the contrary, it can also be argued that relocation can help to create jobs through the mere survival of the firm (MADEUF, 1995).

Because of these methodological difficulties we prefer to discuss the topic for Austria with a rather simple method. We only want to investigate the motives of Austrian investments and their implications on and relations to trade patterns. There are a broad variety of factors that are important for the impact of FDI on the domestic economy. Among others these are industrial mixes, investment motives, strategic and competitive considerations within FDIs are undertaken and finally it is the impact on FDI induced trade (AGARWAL, 1996). To assess the impact of Austria's FDI on the domestic economy we chose the following approach:

Firstly, we investigate the regional and sectoral pattern of Austria's FDI. Such an analysis provides a first understanding of the different kinds of Austria's FDI. Furthermore, we can see which regions and industries expose substantial shares of overall FDI. Hence we will focus the subsequent analysis only on those regions and sectors which are of importance.

Secondly, we analyse the motives of Austria's FDI. Broadly speaking we can distinguish two very different types of FDI: supply based and market driven FDI. The aim of the first type is to acquire some particular resources at a lower cost than at home. It is broadly assumed that for the CEECs these resources consist primarily of cheap labour.<sup>1</sup> This type of investment is also efficiency seeking. Such investment is mostly associated with 'relocation', reduced employment at home and increasing (re)imports from the host country. Hence the domestic economy endures (see MADEUF, 1995). The second type of investment depends on the expectation of new sales opportunities. Market based investment is often influenced by strategic considerations too. Such investment usually creates additional exports of inputs such as machinery and intermediate goods to the related foreign affiliates and of final goods which were not so far exported to the related host country but can be exported after FDI due to closer consumer relations. It is very likely that such investment will even improve the competitiveness of the parent company. As FDI motives are market-related, domestic and foreign employment can be assumed to be highly complementary (BORSOS, 1995).

Thirdly, following the considerations above we would expect that supply-based FDI shows considerable larger export shares than market driven FDI. Furthermore, we can assume that market-driven affiliates stimulate exports from the home country by the parent company while imports from the affiliates should be only of minor importance. Hence intra-firm trade should show a surplus of the parent company for market-driven FDI. On the contrary, supply-based affiliates will deliver parts and components, semi-finished or finished goods to their parent company. Although the parent company will even provide investment goods to its affiliates intra-firm trade balances can be expected to be negative.<sup>2</sup>

As we will see in section 2 most of the empirical studies only deal with one of these two closely interrelated issues. They either investigate motives of investment or analyse trade patterns. Although most of the studies report very diverse patterns of FDI it is hard to find any study that analyses the

motives and trade patterns by industries simultaneously. Fortunately, our data sets provide us the particular opportunity to analyse the relationship between motives and trade patterns at once. Furthermore we can investigate this relation on a disaggregated level.

Following the plausibility considerations above the paper is organised as follows: Section 2 provides a review of theoretical as well as empirical literature and presents the data. Section 3 examines regional and structural patterns of Austria's FDI in the CEECs. Section 4 investigates motives of FDI and section 5 proves if the postulated motives can be verified by trade patterns of the affiliates. The final section summarises and draws conclusions.

#### 2. Review of the theoretical and empirical literature

According to DUNNING (1993, 56 pp.) we can distinguish four different motives of investment: natural resources, (emerging) markets, efficiency enhancing and strategic assets. Adapting these motives to the present European situation they can be explained as follows:

The aim of the first motive is to acquire some particular resources at a lower cost than at home. These resources can consist of primary products and in particular of cheap labour. The second motive depends on the expectation of new sales opportunities from the opening of markets, to which western companies previously had no access. This strategy depends on the future income development of the CEECs and thereby challenges the first motive. The third motive, efficiency enhancing, tries to utilise the specific comparative advantages of an economy. Hence efficiency seeking FDI in the CEECs should mainly take place in labour- and natural resource-intensive sectors. The fourth type of investment is led by long-term strategic considerations. The final purpose of such investment is to gain an important stake in the market over the long run. Since it is not easy to separate efficiency enhancing and strategic motives from the other two kinds of investment the empirical evidence often separates only supply-based and market-driven motives (e.g. KURZ and WITTKE, 1997).

AGARWAL (1996) distinguishes three different motives: natural resource seeking, market seeking and efficiency seeking. He dismisses the strategic motive and splits supply-based motives into natural resource seeking and efficiency seeking. The purpose of the latter one is to utilise relatively low costs of labour. Hence this motive is mainly observed in labour intensive industries and processes. Moreover, Agarwal provides an explanation of what impacts these different motives of investment have on trade. For that purpose he distinguishes three different impacts: the substitution of former exports through FDI, growing reimports of goods and services produced abroad by foreign affiliates of domestic firms and FDI associated exports of goods and services. The last kind of exports can be explained by FDI which stimulates - in particular at an initial stage - exports of capital goods, spare parts, raw materials, etc. to the related affiliates. In addition, FDI may stimulate exports of other product lines neither produced by the foreign affiliate nor exported earlier by the parent firm. This is because the new unit is usually able to offer a closer market relationship to foreign customers. The overall impact of FDI on trade (and therefore on domestic employment) is the sum of negative (export substitution, reimports) and positive effects (associated exports). Although Agarwals study does not provide quantitative results his conclusion is rather simple: FDI in natural resources, market oriented manufacturing industries as well as services is likely to have a positive impact on the domestic economy. Only efficiency oriented FDI of industries and

services may have negative impacts on the home economy. Because the latter generally accounts for a minor portion of total FDI the net impact on the domestic economy is likely to be positive. For this conclusion he provides evidence from the published literature and a broad array of analytical arguments.

The empirical literature provides several studies which investigate scope, structure and motives of Western FDI in Eastern Europe on a regional level (BORSOS, 1995 for the Finish-Baltic region; for the Greek-Bulgarian-Albanian region see PETRAKOS, 1996; for the German-Polish-Czech region see VINCENTZ, 1995; for the Austrian-Slovakian region see ALTZINGER, et. al., 1998). All these studies report the predominance of market driven FDI. The conclusion of Petrakos report e.g. is as follows: "For Greece … capital outflows are associated in most cases with an expansion (and not dislocation) of activities to new markets that are easier to get in than the hard to compete and congested Western European ones (PETRAKOS, 1996, 95)., BORSOS' conclusion is quite similar. The main reasons for Finnish FDIs in the Eastern Baltic Rim are market-related. Factors such as low cost production, cheap resources or investment incentives fall much further down the list of priorities (see BORSOS, 1995, 85). By application of Dunning's theory on international production even a more recent study on FDI in Poland discards the suggestion that low cost labour production is the predominant determinant of FDI (FLOYD, 1996). MEYER (1995) tested several hypotheses on questionnaire evidence of British and German companies. His conclusion is that labour costs differentials did not induce major investment flows.

The OECD (1994) and the EBRD (1994) have published studies on motives of FDI in the CEECs earlier. Even these studies have challenged the 'low wage-assumption' considerably. The general conclusion of the EBRD study was straightforward: "Most striking perhaps is the predominance of market access among factors of importance to investor decisions. … Factor cost advantages are clearly rated as less important than market access in all the surveys … Most studies explicitly play down the role of cheap labour (EBRD, 1994, 132),... The results of the OECD study (1994, Table 4) are very similar. The key motive for FDI was to gain market access (44%) and labour costs were of secondary importance only (9%). However, the same study shows that the shares of Austria's FDI in the CEECs have been reasonably different.<sup>3</sup> Austrian enterprises rated market access with 35% and low cost production with 6%. Moreover, it is of particular interest that the motive 'geographical location' was rated rather high by Austrian investors. On average this factor was rated as prime reason by 6% of all conducted enterprises only. Conversely, Austrian enterprises have ranked this factor with 21% as an important reason for investment!

This geographical factor seems to be closely related to the size of the investing enterprises. Both VINCENTZ (1995, 112) and KURZ and WITTKE (1997, 20) argue that 'low wage' options are more important for small and medium-sized enterprises (SMEs) than for large MNEs. Hence in particular these enterprises have tried to make use of the new business opportunities in the CEECs. According to KURZ and WITTKE (1997) this is mainly the case if spatial proximity is of relevance. Spatial proximity reduces not only the time, risk and cost of transportation routes, moreover it enables Western companies to minimise risks of managing cross-national production networks without transferring managerial or engineering staff permanently to the East. These aspects are of particular importance for companies without experience of internationalisation, which in many cases is true for SME. At least for two EU members which are adjacent to the CEECs (Finland, Germany) there is empirical evidence which indicates that SMEs are engaged in FDI activities to a considerable larger extent than before 1989 (for

Finland BORSOS, 1995; for Germany VINCENTZ, 1995). Even MEYER (1995) has tested the proximity patterns of Western FDI in Eastern Europe on survey evidence and found significant effects in favour of this factor. He also emphasises Austria's special role due to its geographic position and existing trade relations during the Cold War years.

VINCENTZ's (1995, 107 pp.) review on the German literature concluded that with the exception of one study all others report that market related factors are much more important than cheap production costs. However, he mentions that for more recent investments and in particular for prospective investments low labour-cost motives are of increasing importance. This observation is in accordance with the conjecture of a survey of investors which was conducted in January 1995 (LANKES and VENABLES, 1997). One of the main presumptions of this study is that the share of cost-motivated, export-oriented investments into the transition countries will increase over time, while market-oriented and natural resource investment will recede. Their argument is that for market-oriented investment the FMA was important and for natural resource investment it was in particular the opportunity to acquire strategic assets at a low cost. Hence both kinds of investment have been realised even if the country risk perceptions among investors have been high. If the transition process proceeds and risk recedes more investors will move in for whom cost competitiveness is a particular concern. However, this was only a conjecture. Meanwhile there is increasing evidence that in some industries (!) investor motivations are no longer based exclusively on market access (LORENTZEN, et. al., 1998).

A rather recent study presents the results from a survey of major Western investors in Central Europe (PYE, 1997). This study is of particular interest because it uses a methodological approach which is very similar to our own. Hence, more or less accidentally, many of these results can be directly compared with our findings. However, even this study neither provides a sectoral breakdown nor any joint analysis of motives and trade patterns.

Concerning the motives of FDI this survey provides the following results: Market factors that are oriented towards the local host country environment (to access/supply the local market, growth potential, and to develop the local market) are the primary force for FDI. Interestingly, the opportunity to establish local firms as a base for exports proved to be an insignificant motivational factor (PYE, 1997, 28 pp.). Although the factor 'comparative labour cost advantages' scored rather high Pye argues that this should be examined in conjunction with the finding that the 'availability of a skilled workforce' was viewed as important. Finally, the strategic factor 'to gain FMAs' was viewed as (very) important.

The section on export activities<sup>4</sup> of the affiliates presents a surprising result. On average, 41% of all affiliates indicated that they were not involved in any export activity and another 22% showed export activities only between 1% - 10%! Hence the majority of affiliates show astonishing low export activities. Another interesting result of this study is that most export activity was directed at serving the markets of the CEECs and/or the FSU (PYE, 1997, 52). Although these results seem to be astonishing we have to keep in mind that this survey data comprises all industries. Only 57% of the enterprises belong to manufacturing, 12% to wholesale and retail trade and another 10% to finance and insurance. Hence this sample represents a fairly diverse section of economic fields of activities. In particular in this respect Pye's study differs quiet a lot to most other studies. Such studies on export activities of the affiliates (see HUNYA, 1997; BORSOS, 1995; LEMOINE, 1997; KURZ and WITTKE, 1997) nearly all conclude that they provide a positive contribution to exports. However, most of this research is restricted to the

manufacturing sector only. Due to the superior technology of foreign owned enterprises and their inclination into international production and distribution networks such a result could have been expected.

Concerning studies on intra-firm trade of MNEs with FDI activities in the CEECs the empirical evidence is rather tiny. However, LEMOINE (1997, 7) has shown that in Hungary and Poland the overall contribution of foreign firms affiliates to foreign trade balance is negative. On an aggregated level AGARWAL (1996, Table 1) shows furthermore that the balance of intra-firm trade is in favour of home economies in the U.S. as well as Japan. For both countries increased outward FDI is accompanied by higher reimports. But reimports are outstripped by exports to foreign affiliates. This is in particular the case in the earlier stages of development of the affiliates. Particularly during such a 'building-up' period the affiliates are heavily dependent on the supply of components from parent companies. Further, Agarwal quotes a study of BERGSTEN, et al. (1978) which indicates that the complementarity between FDI and exports of a parent firm lessens with the level of FDI development. Their argument is that during an initial stage FDI is concentrated on marketing and assembling of parent's products. As soon as the affiliates start their own production, their imports from the parent firm decline. Hence the initial intra-firm trade surplus of the parent firm declines. Hence, the stage of FDI seems to be of considerable importance.

A number of empirical studies for Austria present the motives of FDI in the CEECs (ALTZINGER, 1997b; NEUDORFER, 1997; NEUDORFER and BACH, 1995; STANKOVSKY, 1995). Most of them present the results from a survey that is based on the self-assessment of the investors. These studies testify that the predominant motive of Austria's FDI in the CEECs is "market access/to secure sales". However, it is noteworthy to mention that the relative share of investors with this motive in the total sample as well as in the subsample of the CEECs and the EU is practically identical. The dominance of 'market potential' is also the general result of a survey carried out by the AUSTRIAN NATIONAL BANK (1997). In its most recent publication the predominance of market access motivation is recorded quite clearly. Weighted by capital for 82.2% of all investing enterprises market access is the main motivation for their activities in Hungary, for 78.6% in the Czech Republic and for 80.0% in Slovenia. The percentages of enterprises which listed (low) labour costs as the main motive for their investment are 6.4% for Hungary, 3.6% for the Czech Republic and 18.4% for Slovenia.

Concerning the trade patterns of Austria's affiliates in the CEECs there is only limited empirical evidence. The overall trade data show a staggering growth of Austria's trade surplus with the CEECs (ALTZINGER, 1997; NEUDORFER, 1997). The intra-firm trade data display that Austria's parent firms have achieved a surplus of ATS 0.4 bn in 1990 which has grown constantly to ATS 3.2 bn in 1994. This surplus decreased to ATS 2.5 bn in 1995. However, it was the first time that this intra-firm trade surplus had shrunk.

To summarise the empirical evidence above we can conclude that there are numerous studies which investigate either investment motives or their respective trade patterns. Nevertheless, we cannot find any study which deals with both of these issues simultaneously. Moreover, although it is stated several times that FDI patterns are rather diverse we can rarely find an analysis at a sectoral level. The subsequent sections try to provide such an analysis along the lines proposed by AGARWAL (1996).

The empirical part of the paper makes use of two data sets: One was provided by the division of 'International Balance of Payments' at the Austrian National Bank. This data presents the results of a survey that is conducted annually by roughly 4000 Austrian enterprises that hold at least ATS 1 million of nominal capital.

A second data set, which is analysed in this paper, presents results of a questionnaire that was conducted by 1700 Austrian enterprises in the summer of 1997. The enterprises were asked about their specific motives of investment and their regional sales structure. Hence these data can verify the postulated objectives of investment.

#### 3. Regional and sectoral patterns of Austria's FDI in the CEECs

The share of outward FDI-stock by GDP can measure the degree of countries' transnationalisation. This indicator shows that Austria's ratio is far below the average of other small OECD countries (UNCTAD, 1996, 261f.).<sup>5</sup> However, Austria's outward FDI has improved rather quickly during the period of the opening of the Central and Eastern European economies (see Fig.1).



For Austria this period of 'globalisation' was characterised by two new and substantial economic developments: the pre-EU-accession period<sup>6</sup> 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 is Austria's industry structure, especially the prevalence of SMEs. Most of this specific Austrian economic feature can be explained only by history (see BELLAK, 1997).

In Fig.1 we can see that Austria's FDI in OECD countries<sup>7</sup> has increased from ATS 30.5 billion (95.6% of total FDI) in 1989 to ATS 84.3 billion (71.4% of total FDI) in 1995. As mentioned above this was mainly the result of Austria's accession to the EU and will not be further discussed in this paper.

Outward FDI to the CEECs started from a ATS 1.4 billion low (4.4% of total FDI) in 1989 and increased to a ATS 33.7 billion high in 1995 (28.6% of total FDI). This huge increase was accompanied by gaining big shares of the overall investment in the CEECs. Although Austria's financial capabilities are not very large by international standards its FDI-stock-share has reached 23.6% in Slovenia, 21.4% in Slovakia and 19.6% in Hungary. Measured by this share Austria is ranked first in Slovenia and Slovakia and only second (behind Germany) in Hungary (UN/ECE, 1996).

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, 41; PETRAKOS, 1996). All four CEECs that are shown in Fig.1 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.<sup>8</sup>

The small decrease in the share of outward FDI to the CEECs in 1995 which continued even into 1996 (see HUNYA and STANKOVSKY, 1997) can be explained by two reasons. Firstly, due to Austria's accession to the EU its outward FDI to this region (mainly Germany) increased quite significantly in 1995 and 1996. Secondly, the boost in Austria's outward FDI to the CEECs seems to be slowing down after a few tough initial years of business which were characterised by specific FMAs. This is supported by the fact that most of the current privatisation's (i.e. large state-owned enterprises and former public industries such as telecommunications, energy, etc.) require huge amounts of capital which is sparsely available for most Austrian enterprises - mainly due to their small size and weak financial capacity. E.g., in 1995 in Hungary only US \$ 1 billion of the total FDI of US \$ 3.5 billion was non-privatisation related FDI. The remaining part of FDI was the result of large utility and telecommunication sell-offs. Likewise, some 60% of the Czech Republic's inflow of 1995 was related to the privatisation of the telecommunications company, SPT Telecom, and a major oil refinery (UNCTAD, 1996, p.66 f.). Furthermore, NEUDORFER (1997) argues that more and more multinational firms have started to invest directly in countries which used to be entered via the bridgehead Austria during the early 1990s.

Table 1: Structure and Financial Capabilities of Austrian Affiliates in the CEECs, 1995

Distribution of Austrian Affiliates in the CEECs, 1995 (in %)

Firm Size1) (number of employees)	Hungary	Czech Republic	Slovakia	Slovenia	other CEECs	Total CEECs	Others	Total
1 to 19	45.7	32.1	37.1	19.0	32.7	39.2	36.9	38.0
20 to 49	6.3	5.9	4.8	4.8	7.3	6.1	7.2	6.7
50 to 99	8.7	9.6	4.8	19.0	6.4	8.8	5.4	7.0
100 to 499	22.3	27.8	25.8	28.6	31.8	25.3	22.9	24.1
500 to 999	5.2	5.9	3.2	9.5	7.3	5.7	9.9	7.9
1000 +	11.9	18.7	24.2	19.0	14.5	14.9	17.8	16.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of affiliates2)	462	187	62	42	110	863	933	1796
tal Capital per Investment	1995 (in A	TS million	)					

Total Capital per Investment, 1995

Firm Size1)	Hungary	Czech	Slovakia	Slovenia	other	Total	Others	Total
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(number of employees)		Republic			CEECs	CEECs		
1 to 19	33.1	63.9	24.3	58.1	39.3	39.2	83.3	61.5
20 to 49	14.2	14.2	17.6	2.0	6.2	12.7	81.7	51.2
50 to 99	20.5	18.4	20.9	9.0	22.3	19.0	33.4	24.7
100 to 499	36.1	47.8	14.9	28.1	20.3	34.3	35.3	34.8
500 to 999	29.9	45.4	127.7	76.6	13.3	38.5	134.0	100.8
1000+	61.4	77.6	62.1	174.2	34.7	69.6	172.5	127.5
Total	34.7	53.6	33.8	61.4	27.2	39.1	90.4	65.7

1) Firm size of the Austrian parent company

2) If the parent company has two (or more) affiliates they are accounted twice (or more often).

Source: Austrian National Bank

Table 1 shows this specific FDI feature of 'low capital requirement' in the CEECs. Firstly, the table presents the structure of Austria's FDI in the CEECs by the size of the Austrian parent company. In 1995 only 28.6% of total capital was invested in the CEECs although almost 50% of the affiliates (863 entities out of 1796) were established there. Secondly, total capital per investment in the CEECs was only ATS 39.1 million and thus considerably lower than those ones of the affiliates established in the Western OECD countries (ATS 90.4 million per investment).

Furthermore there are large differences between Hungary, the Czech Republic, Slovakia and Slovenia. In Hungary the huge majority of FDI (45.7%) were accomplished by Austrian enterprises with less than 20 employees. We should bear in mind, however, that this category includes also holding companies. Thus it makes more sense to focus on the second part of Table 1 where total capital per investment is calculated. 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. To many of them it was for the first time that they expanded their economic activity across the Austrian border. It should be mentioned that this specific feature is very similar to the eastward economic activities of German enterprises (KURZ and WITTKE, 1997).

Table 2 shows the structure of Austria's FDI in the CEECs by industries for 1995, registered by the industries of the host countries. Although there are differences between the four CEECs listed in Table 2 we can mainly see six industries in which Austria's FDI is concentrated: finance and insurance (17.9%), wholesale and retail trade (17.5%), non-metallic products (9.5%), chemicals and petroleum (7.8%), food and beverages (7.6%) and construction (7.5%). Together these six industries account for more than 65% of Austria's FDI in the CEECs.

A sector of extraordinary significance is the trading sector. Austria's activities in trade have mainly been as a result of buying up merchandise trading chains and in addition building up its own sales units. This pattern is similar even in the financial and insurance sector. Both of these industries are typically not connected with outsourcing activities. Moreover, investments within these service sectors are mainly determined to take advantage of the new distribution markets. Neither trade nor finance and insurance are industries which show any substitutive relation to their respective home based industries.

The strong investment activities of the petroleum industry is a typical resource motivated FDI which was brought about through joint ventures between refineries of Austria, Slovenia, Slovakia and partially Hungary. The other two industries of the manufacturing sector (food and beverages and non-metallic products) will be discussed in more detail in the subsequent two sections.

Table 2: Austria's Total Capital by Host Countries and Foreign Economic Sectors at End-1995 (in %)

	Hungary	Czech Republic	Slovakia	Slovenia	Other CEECs	CEECs total	Other Countries*	Total
Mining and quarrying	1.1	0.1	0.0	0.0	0.6	0.6	2.8	2.2
Food, beverages, tabacco	12.4	2.7	6.4	0.4	5.3	7.6	0.8	2.6
Textiles, clothing, leather	1.5	2.0	0.0	0.0	0.2	1.4	0.7	1.8
Wood processing	0.4	1.3	1.4	0.0	0.0	0.7	2.0	1.6
Paper, printing and publishing	6.9	1.3	0.0	11.2	1.1	4.6	1.5	2.4
Chemicals and petroleum	4.4	9.2	4.0	22.2	12.1	7.8	5.8	6.4
Non-metallic products	5.7	15.8	2.4	2.2	20.4	9.5	2.1	4.2
Metal products	3.7	0.3	2.5	4.0	2.3	2.5	5.0	4.3
Mechanical products	1.9	1.5	0.1	1.9	2.4	1.7	2.8	2.5
Electrical and electronic equipment	7.4	2.8	6.9	0.1	0.8	4.8	2.4	3.1
Motor vehicles	1.0	1.0	0.0	0.0	0.0	0.8	0.6	0.7
Other manufacturing	1.4	0.0	0.0	0.0	0.0	0.7	0.2	0.3
'Core' industrial sector	15.4	5.6	9.5	6.0	5.5	10.5	11.0	10.9
Manufacturing sector	46.7	37.9	23.7	42.0	44.7	42.1	23.8	29.0
Construction	9.6	7.6	4.7	0.0	4.1	7.5	1.3	3.1
Wholesale and retail trade	16.2	18.0	20.7	30.6	8.8	17.5	11.6	13.3
Tourism	2.1	12.8	0.6	0.1	3.7	5.2	0.1	1.6
Transport and communication	1.1	0.0	0.0	0.0	1.7	0.7	0.7	0.7
Finance and insurance	11.1	16.4	42.4	26.1	34.5	17.9	16.4	16.8
Real estate (incl. holdings)	9.9	5.5	3.0	0.9	1.4	6.7	35.1	27.0
Miscellaneous	2.1	1.7	5.0	0.1	0.4	1.8	8.2	6.4
Non-manufacturing sector	52.2	61.9	76.3	58.0	54.7	57.2	73.4	68.8
Total ATS million	16033.5	10020.3	2098.2	2577.2	2993.7	33722.9	84325.5	118048.4

\* The group 'Other Countries' consists mainly of OECD countries (see footnote 7).

Source: Austrian National Bank

Finally, it is the construction sector that plays a strong position in Austria's outward FDI in the CEECs. These activities are mainly as a result of the strong built-up requirements of the transformation countries that could mostly not be satisfied by their own construction industries. As several case studies indicate most of this investment was a complementary investment to the Austrian home based construction industry (BEER, et al., 1998).

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. This regional pattern emphasises the importance of geographical proximity which is entirely in accordance with the theoretical considerations of Dunning (1994).

The sectoral patterns of the four CEECs listed in Table 2 are rather different. In Slovenia 31% of Austria's FDI was invested in the trading sector and another 22% in the petroleum industry. In Slovenia it is particular the petroleum distribution sector where Austria's oil refinery has heavily invested. This is a typical example of complementary investment. Additionally it is finance and insurance where Austrian firms invested quite strongly.

Both countries, Slovakia and the Czech Republic, show strong investments in the non-manufacturing sector. However, the patterns within this sector are different. Within Slovakia it is the trading sector and finance and insurance where Austrian investments are concentrated. The significant operations in finance and insurance are a consequence of Austria's long-lasting economic co-operation even before 1989. However, these operations intensified after the opening of the Eastern European economies and seem to be developing rather well. It is a typical example where Austrian firms could extract favourably some specific FMAs. However, it should be stressed that Austria's strong activities in the finance and insurance sector are clouded to some extent: Ironically it is especially Slovakia where the European Union testified strong market access restrictions for the financial sector (EUROPEAN COMMISSION, 1997).

This brief outline of the regional and sectoral patterns of Austria's FDI in the CEECs shows 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. Consequently, the subsequently analysis on motives and trade patterns will focus on those six sectors with show the strongest FDI activities (trade, construction, finance and insurance, petroleum and chemicals, food and beverages, non-metallic products).

#### 4. Motives for Austria's FDI in the CEECs

To discuss the motives of FDI of Austrian enterprises we can rely on the results of a questionnaire which was conducted in the summer of 1997 by almost 1700 Austrian enterprises<sup>1</sup>. A total of 279 firms (16.8%) returned completed questionnaires. Out of these 279 firms 52.7% (147 firms) have invested in the CEECs. Only the answers of these firms will be analysed in this section.

Concerning the motives the following question has been offered: "Which factors have been the most important ones for your initial investment decision?" The question was of a close-ended variety where

the degrees of importance were based upon a four point scale, using very unimportant (1), unimportant (2),

#### Table 3: Factors for Foreign Direct Investment in the CEECs, ranked by their importance

	Market driven factors			ctors	supply based factors					
	Number of Answers	market potential	Proximity To customer	To create an Export base	low wage costs	human capital	intermediate inputs	procurement	know-how of associated company	
Total	109-137	3.60	3.27	3.25	2.91	2.43	2.12	2.05	1.78	
Finance and insurance	8 - 11	4.00	4.00	2.86	1.50	2.00	1.00	1.00	1.83	
Food and beverages	7 - 10	3.78	3.00	3.75	3.14	2.29	2.50	2.00	1.57	
Construction	7 - 9	3.75	2.00	3.14	2.75	2.75	2.57	2.75	2.00	
Trade	24 - 30	3.74	3.48	3.46	2.91	2.40	2.21	1.95	1.47	
Petroleum and chemicals	7 - 10	3.63	3.33	3.38	2.86	2.29	1.71	2.00	1.50	
Non-metallic products	8 - 11	3.50	3.11	3.00	3.00	2.14	2.50	2.38	2.22	
'Core' industrial sector	26 - 32	3.21	3.13	3.16	3.46	2.37	1.91	2.00	1.67	
Others	22 - 24	-	-	-	-	-	-	-	-	
					Deviation from me	ean:				
Finance and insurance	8 - 11	0.40	0.73	-0.40	-1.41	-0.43	-1.12	-1.05	0.05	
Food and beverages	7 - 10	0.18	-0.27	0.50	0.23	-0.14	0.38	-0.05	-0.21	
Construction	7 - 9	0.15	-1.27	-0.11	-0.16	0.32	0.45	0.70	0.22	
Trade	24 - 30	0.14	0.21	0.21	0.00	-0.03	0.09	-0.10	-0.31	
Petroleum and chemicals	7 - 10	0.03	0.06	0.12	-0.05	-0.14	-0.40	-0.05	-0.28	
Non-metallic products	8 - 11	-0.10	-0.16	-0.25	0.09	-0.29	0.38	0.32	0.44	
'Core' industrial sector	26 - 32	-0.39	-0.15	-0.09	0.55	-0.06	-0.21	-0.05	-0.12	
Others	22 - 24	-	-	-	-	-	-	-	-	

\* Several respondents replied only to certain statements.

Source: Questionnaire conducted in summer 1997

important (3), and very important (4). The responses to this questions are shown in Table 3. Only those industries are presented which are the most important ones for Austria's FDI in the CEECs. In addition to these six industries a further category was included which we will call the 'core' industry sector. This group consists of the following industries: metal products, mechanical products, electrical and electronic equipment and motor vehicles. Together these seven sub-categories represented 78.3% of Austrian FDI-stock in the CEECs at the end of 1995 (see Table 2).

Due to our specific interest we have grouped the responses into two different groups. The first one can be summarised as "market driven" factors and consists of the following factors: 'market potential', 'customer proximity', 'to create an export base'. The second group we will call "supply based driven". This category consists of the following factors: 'low wage costs', 'to gain access to intermediate products', 'to gain access to procurement', 'human capital' and 'access to local technology<sup>l</sup>'.

The first column in Table 3 shows the number of answers. As indicated above only 147 firms of the total sample have invested in the CEECs. Due to the fact that several respondents only replied to certain statements the number of answers ranged between 109 and 137. However, there was not one subcategory with fewer than five respondents.

Table 3 also shows the deviations from the mean by each industry. It is necessary to analyse both the absolute importance as well as the relative importance of a factor. The ranking shows the importance of all factors (first row in Table 3). The relative importance of a factor can be shown by the deviation from the mean. For example, for non-metallic products the motive 'market potential' is 0.1 below the mean. Nevertheless this factor shows the highest mean of all factors (3.50). Hence this factor was the most important one for an investment decision in non-metallic products although this factor rated higher in most of the other industries.

Moreover the factors of FDI have been ordered by their importance. Additionally the industry sub-groups have been classified by the highest rated factor ('market potential'). This ranking leads automatically to such a sub-division of the factors in which we are interested! The three factors which are rated highest are all market-driven factors whilst the remaining five factors which are all supply-based factors.

As can be seen the factor 'market potential' yields by far the highest mean of 3.60 followed in second place by 'customer proximity' possessing a mean of 3.27. In third place is the factor 'export base' with a mean of 3.25. Hence all three factors with the highest ranking are 'market driven' factors although the last one indicates some very specific strategy which is very much different from the two other factors. This issue in particular will be discussed in section 5.

The factor 'low wage costs' with a mean of 2.91 is only ranged fourth. However for some industries this factor is of importance ('core' industrial sector, food and beverages, non-metallic products). Even the other supply based driven factors such as 'human capital' (2.43), 'to gain access to intermediate products' (2.12) and 'to gain access to procurement' (2.05) are all rated rather low. The lowest rating was given to the factor 'know-how of associated company' (1.78). These results testify rather clearly the dominance of market-driven factors. However, different industries show different strategies with different repercussions on domestic markets. Yet such a structural breakdown seems to be of considerable

#### importance.

Table 3 shows three industries where market driven factors are of particular importance: finance and insurance, trade and petroleum and chemicals.

Finance and insurance show this pattern quite well. Both domestic market factors are far above the mean where all supply based factors (with the exception of the 'know-how of the associated company') are below. Labour costs in particular are of least importance. As expected the export base factor is not of any significance. Even for trade all market driven factors are above the mean and supply based factors (with the exception of intermediate inputs) are below. Hence for these two industries in particular the objectives of investment are rather obvious.

Petroleum and chemicals is the only sector without any specific feature. Nearly all motives (with the exception of intermediate inputs) are rated by mean values. Hence even within this sector the dominance of market driven motives is the only 'specific' pattern.

Even food and beverages show the prior importance of market driven factors: However for food and beverages not only the domestic market is of importance but even 'to create an export base' scored high (3.75). In addition this sector also shows considerable importance of intermediate inputs. The factor 'low labour costs' scored second of all industries.

There are two other industries where non-labour supply based factors are of considerable importance: both the construction sector and the non-metallic sector are very much dependent on procurement and intermediate inputs.

Of particular interest is the so-called 'core'-industrial sector. This sector considers low wage costs as very important (3.46). It is the only sector which assesses low wage costs as the most important factor. It seems to be the case that some kind of efficiency enhancing strategy is under way within this sector. All market driven factors are rated favourably and close behind the wage cost factor. Other supply-based factors are rather insignificant.

To summarise these features we must emphasise the overall importance of market driven factors. In particular 'market potential' is of superior priority. This is especially the case for finance and insurance. Only one industry, the so-called 'core' industrial sector, rated low wage costs rather high. However, if one speaks about increasing 'division of labour' we have this sector in particular in mind! Hence this sector is still of relevance. There are two sectors where other supply based motives play a role, construction and non-metallic products. Both of them are dependent on intermediate products and procurements above the average. Hence although the market driven factors dominate the overall objectives of Austria's FDI in the CEECs the patterns are very different by industries.

#### 5. Sales and trade patterns of the Austrian affiliates

Finally we want to look at trade relations of Austrian affiliates. Even those figures indicate some very specific features of Austrian investments. In particular it is of interest to which markets the affiliates are

providing their goods and services.

Once again it is useful to separate the motives of investment into 'supply-based driven' and 'marketdriven' ones. Presumably the first one would indicate that the dominant factor of investment is to get access to a cheap industrial workforce. As long as the national purchasing power of the host country remains low - which is a necessary requirement of this approach - a large part of the production will be exported to developed countries with strong demand. As discussed in section 2, such a scenario would presumably substitute exports from the home country and encourage reimports to the home country. Such patterns are usually associated with 'relocation'.

In contrast to this approach is the market-driven approach. Such a strategy would require a rather quick development of the host economy. This would be accompanied by a considerable expansion of customer demand. Therefore the production of the affiliates should be sold to a large extent on local markets. Such a scenario is likely to stimulate 'associated exports' from the home country and hence would have a positive impact on the domestic economy.

Table 4 shows the regional sales structure of the affiliates. Again, these are results of a survey. The breakdown by industries is in accordance with the standard NACE-classification. The various industries are ranged in descending order by the importance of the local market.

	Number of Responses	Local	EU	thereof: Austria	CEEC	Others	Total
Total	117	65.8	23.6	10.8	8.0	2.6	100.0
Construction	9	89.2	5.3	5.3	5.4	0.0	100.0
Food and beverages	9	83.0	8.6	4.1	8.3	0.1	100.0
Petroleum and chemicals	5	81.6	17.2	17.2	1.2	0.0	100.0
Non-metallic products	9	78.7	9.1	6.3	6.1	6.1	100.0
Trade	30	74.3	13.5	7.0	7.3	5.0	100.0
Paper	5	64.4	27.8	20.6	2.6	5.2	100.0
Business services	16	62.8	23.3	7.6	12.9	0.9	100.0
Mechanical products	5	54.0	31.0	8.0	13.0	2.0	100.0
Metal products	6	42.0	53.5	21.0	1.7	2.8	100.0
Electric equipment	9	38.0	55.6	25.3	5.9	0.6	100.0
Textiles	5	27.0	72.0	38.0	1.0	0.0	100.0
Others	9	-	-	-	-	-	-
'Core' industrial sector	23	39.3	51.1	17.4	6.4	3.1	100.0

Table 4: Regional sales structure of the affiliates, 1995 (in%)

Source: Questionnare conducted in summer 1997

On average 65.8% of the total production of the affiliates was sold at local markets. One third of total production was sold to foreign markets. 23.6% was exported to the EU, thereof 10.8% to Austria; another

8.0% were destined for other Central and Eastern European destinations. Interestingly, those industries which have invested most heavily in the CEECs display the highest shares of the local market.<sup>2</sup> Construction shows a local market share of 89.2%, followed by food and beverages (83.0%), petroleum and chemicals (81.6%), non-metallic products (78.7%) and trade (74.3%).

This evidence confirms in a convincing manner the predominance of market-driven motives. Out of six strongest investing industries there is only one which yields an important share exports to the EU. 17.2% of petroleum and chemicals sales have been exported to Austria. Nevertheless, this feature depends heavily on the specific Austrian joint-ventures in Slovakia and Slovenia.

However the remaining industries show a rather different regional structure of their sales. The further one goes down in Table 4 the more the EU as well as the Austrian market shares grow. Moreover, the further one goes down the more industries of the 'core' industrial sector appear. This sub-sector sells 51.1% on EU markets. The share of the local market is just 39.3%. This distinctive feature is of substantial importance because it indicates rather clearly that within this 'core' industrial sector some highly specialised division of labour has already taken place. And it is not only Austria where these products are shipped to. Even other EU countries are involved into this European division of labour. This specific feature confirms an assumption which was postulated by several other scholars (ALTZINGER, 1997a; KURZ and WITTKE, 1997; LEMOINE, 1997; LORENTZEN, et al., 1998). Intra-industry trade between the EU and the CEECs is developing rather quickly and this kind of integration is not based on inter-sectoral specialisation any longer.

The last row of Table 4 exhibits the most endangered industry of developed nations, textiles. 77.0% of the overall textile production has been sold to EU markets. This industry is certainly an outstanding example of an industry which is - mainly due to its labour-intensive pattern - in great trouble. Yet the strong dependence on foreign markets has been expected.

In addition to this evidence it seems to be of interest to look even to intra-firm trade data. Such intra-firm trade across national boundaries has reached considerable proportions relative to countries' trade. This is especially true for the most developed countries (UNCTAD, 1996).

During the period 1989-95 intra-firm exports from the Austrian parent company to its affiliates rose from ATS 13.9 billion to ATS 27.4 billion. This huge increase is partly due to Austria's integration into the EU (and the new division of labour which was enforced thereby) and partly to the close and enlarging economic relations with the CEECs. Measured as a share of total exports, intra-firm exports to the CEECs rose from 3.4% in 1989 to 8.7% in 1994. On the import side the changes were less dramatic. The share of intra-firm imports from the CEECs increased only from 2.6% in 1989 to 4.6% in 1994 (Altzinger, 1997b).

The outcome of the intra-firm relations of Austria's MNEs is a large trade surplus which amounted to ATS 19.0 billion in 1995. Although most of this surplus has been achieved with the EU, the development of the surplus in the 'Eastern' region is not at all negligible. To assess this development in greater detail it is interesting to compare intra-firm trade by industries (see Table 5):

In 1995 intra-firm exports to the CEECs amounted to ATS 5.2 billion whilst the imports accounted only

for ATS 2.6 billion. Hence the intra-firm trade surplus was ATS 2.6 billion. If we look at the structure of these exports we can see that only two sectors account for two thirds of all intra-firm exports: trade and chemicals and petroleum. All other industries show an export share of minor importance. The large share of intra-firm exports in trade is in line with the strong investment activities of this sector. Within the trading sector FDI and intra-firm exports in particular show a complementary relation. One specific feature of trade is that these exports consist entirely of final goods. Hence it is not a result of an improved international division of labour. However the trade surplus of this sector is remarkable and accounts for nearly two thirds of the overall trade surplus.

Table 5: Intra-firm trade of goods, 1995 (in ATS million)

	Exports	Imports	Balance
Mining and quarrying	11.3	0.8	10.5
Food, beverages, tabacco	123.1	67.1	56.0
Textiles, clothing, leather	109.1	54.8	54.3
Wood processing	25.0	228.4	-203.4
Paper, printing and publishing	112.4	53.3	59.1
Chemicals and petroleum	1,616.6	894.6	722.0
Non-metallic products	293.5	103.5	190.0
Metal products	66.4	122.1	-55.7
Mechanical products	259.6	403.0	-143.4
Electrical and electronic	328.3	483.7	-155.4
equipment	0.0		0.0
Motor vehicles	0.0	0.0	0.0
Other manufacturing	9.8	0.0	9.8
'Core' industrial sector	664.1	1008.8	-344.7
Manufacturing sector	2,943.8	2,410.5	533.3
Construction	138.1	8.4	129.7
Wholesale and retail trade	1,963.6	77.9	1,885.7
Tourism	0.0	0.0	0.0
Transport and communication	7.9	8.6	-0.7
Finance and insurance	0.0	0.0	0.0
Real estate (incl. holdings)	107.3	21.1	86.2
Miscellaneous	0.2	47.3	-47.1
Non-manufacturing sector	2,217.1	163.3	2,053.8
Total	5,172.2	2,574.6	2,597.6

Source: Austrian National Bank

On the imports side we can see that nearly all intra-firm imports have been carried out by the manufacturing sector (93.6%). Chemicals and petroleum are responsible for the largest part of these imports (34.7%). Furthermore there are several industries which show considerable intra-firm imports: Wood processing and in particular the 'core' industrial sector (metal products, mechanical products and electrical and electronic equipment) display both intra-firm trade deficits. Out of these sectors only wood

processing is a labour- and resource-intensive sector. Hence, once again the deficit of the 'core' industrial sectors must be interpreted as first evidence of an improving division of labour between Austria and its adjacent CEECs.

#### 6. Summary and Conclusion

By geography Austria's FDI to the CEECs is strongly concentrated in its adjacent countries (Hungary, Czech Republic, Slovakia, Slovenia). Spatial proximity and cultural and historical affinity have enabled Austrian companies to enter immediately the new sale markets. Thereby these companies have reaped an essential FMA. Moreover these factors enabled Austrian companies to minimise risks and thereby even SMEs took new opportunities for internationalisation. Investment has been performed to a large extent by SMEs. For many of them it was the first time that to be engaged in the internationalisation process.

A breakdown by industries reveals that the non-manufacturing sector (trade, finance and insurance, construction) have invested most strongly. Within the manufacturing sector three industries comprise the bulk of FDI: chemicals and petroleum, food and beverages, non-metallic products. As has been shown by the results of a survey the principal motive of these investments is 'market access'. With the exception of food and beverages all sectors mentioned above show an above the average reliance on market-driven motives. There is only one sector - the so-called 'core' industrial sector (metal products, mechanical products, electrical and electronic equipment and motor vehicles) - which rated low wage costs high. In particular within this sector some new European division of labour seems to have developed. The importance of supply-based FDI within this sector indicates that production activities and assembly are relocated in order to gain overall competitive strength. However, although such an investment is a clear sign of increasing cost pressure it may help to secure the home based industry.

Sale and trade patterns of Austrian affiliates in the CEECs indicate that two thirds of overall output is sold on local markets. All industries with large FDI shares yield high local market shares. Hence for these industries the dominance of market driven factors is strongly confirmed by these sale patterns. Only the 'core' industrial sector indicates a strong dependence on EU markets. Within this sector the share of local markets is only 39.3%. More than 50% of the output is shipped to the EU whilst this share is only 23.6% on average. Hence for this sector a fairly developed European division of labour seems to be established.

Additionally overall intra-firm trade data display that much of this trade is not performed in a way that is associated with established MNEs operating in global industries. First of all it is the trading sector which has improved its performance by trading final goods to its affiliates. Within the manufacturing sector only wood processing and the 'core' industrial sector show intra-firm trade deficits.

To sum up these findings Austria's FDI in the CEECs presents a considerable push of the internationalisation of Austria's industry. However the internationalisation process differs from the typical pattern stated by established theory: Austria's FDI in the CEECs can be mainly explained by geographical proximity and close historical and cultural ties which gave Austria a considerable FMA. Most of the FDI has been performed by SMEs with little experience of internationalisation. For all six industries which display strong FDI activities in the CEECs market driven motives were of overwhelming importance. The predominance of market-driven factors is strongly confirmed by sale patterns of the affiliates which substantiate the dominance of local markets. However, one exception remains: the 'core' industrial sector rates production cost advantages far higher than the average industry. Furthermore this sector shows high export

shares to the EU and even intra-firm trade deficits by parent firms. It is this sector in particular where some harmful impacts on the domestic economy may occur. Nevertheless, until now this part of FDI has only been of minor importance. At the end of 1995 just 10.5% of total FDI had been allocated to this sector. The bulk of Austria's FDI in the CEECs is predominantly market driven, produced to a very large extent for local markets, encourages thereby additional 'associated' exports and displays intra-firm trade surpluses by the Austrian parent firms. Hence it is very likely that these investments have brought positive net effects on Austria's economic performance.

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<sup>&</sup>lt;sup>1</sup> For a rather different view see Lemoine, 1997.

 $<sup>^{2}</sup>$  However, we should keep in mind that for the host country supply-based investment would help to improve in particular the balance of trade.

<sup>&</sup>lt;sup>3</sup> Yet it must be mentioned that only 34 Austrian enterprises have been contacted.

<sup>&</sup>lt;sup>4</sup> Export activities are by definition the share of total sales which is destined for exports.

<sup>&</sup>lt;sup>5</sup> In 1994 only Portugal showed a lower outward FDI-stock-GDP ratio than Austria.

<sup>&</sup>lt;sup>6</sup> Austria became a member of the EU on 1 January 1995.

<sup>&</sup>lt;sup>7</sup> Weighted by their nominal capital the share of OECD-countries within the group 'Others' is 98%. Hence for the time being this group will be labeled as OECD group.

<sup>&</sup>lt;sup>8</sup> Hence Poland is not displayed separately in any figure or table.

<sup>&</sup>lt;sup>1</sup> This questionnaire was conducted by a research group at the University of Economics and Business Administration, Vienna. The project team included Elisabeth Beer, Christian Bellak, Markus König, Renate Tolunay, Richard Winklhofer and myself. I would like to thank all of them for their help and cooperation throughout the research project.

<sup>&</sup>lt;sup>1</sup> Furthermore it was asked about 'market saturation at home' and about a 'follow my competitor' strategy. Both motives can neither be attributed to the first nor to the second category. Therefore these motives will not be discussed here.

 $<sup>^{2}</sup>$  We did not get enough responses from finance and insurance. However, this sector is certainly dependent on the local market to a very large extent.