AUSTRIA'S IMPORT-EXPORT TRENDS AND FOREIGN DIRECT INVESTMENT AFTER THE EU ENLARGEMENT[1]

di

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ABSTRACT

La storia dell'Austria contemporanea inizia con la fine della Guerra Fredda nel 1989 e quindi con l'adesione all'Unione Europea nel 1995. L'importanza dell'adesione all'UE è confermata dall'impatto esercitato sull'economia austriaca dalla successiva adesione di Estonia, Lettonia, Lituania, Polonia, Repubblica Ceca, Slovacchia, Slovenia, Ungheria nel 2004 e di Bulgaria e Romania nel 2007. Questo impatto è riconoscibile nei dati relativi all'andamento del Prodotto Interno Lordo in Austria, nell'UE-27, nell'UE-15, in Italia e in altri Paesi. Il PIL austriaco, che negli anni 2001-2003 era ristagnato attorno a tassi di crescita minimi, ha conosciuto un piccolo boom negli anni 2004-2007 quando il suo tasso di crescita toccò un massimo del 3,4% nel 2006 (a fronte dell'1,8% in Italia e del 2,9% nell'UE-15). Questo boom si è esteso a tutte le componenti del PIL e in particolare alle esportazioni di beni il cui tasso di crescita ha toccato nel 2007 un massimo dell'8,7%. L'importanza di questa componente del PIL è data dal fatto che in Austria l'esportazione di beni corrisponde a tre quarti delle esportazioni totali (beni+servizi), che le esportazioni totali sono pari a circa il 60% del PIL, che il tasso di crescita delle esportazioni verso i Paesi del centro ed est Europa (CEECs) ha toccato nel 2007 massimi compresi fra il 20% e il 30%, che l'interscambio di servizi è cresciuto in linea con l'interscambio di beni e che i servizi più sofisticati assumono un peso crescente nel totale dei servizi esportati.

I dati e l'andamento dell'interscambio di beni e servizi fra l'Austria e il resto del mondo (soprattutto UE e CEECs) confermano che l'Austria assomiglia sempre più a una "piccola economia aperta" e che la sua apertura sta aumentando soprattutto nella direzione dei Paesi dell'Europa Orientale. Questa tendenza è confermata anche dall'andamento degli investimento diretti esteri (FDI), sia di quelli in uscita dall'Austria sia di quelli in entrata. Questi investimenti, pressoché nulli fino all'entrata dell'Austria nell'Unione Europea, sono cresciuti negli anni successivi fino ad assumere una crescita esponenziale negli anni successivi all'allargamento UE del 2004. Ancora più della crescita dell'interscambio di beni e servizi, l'aumento degli FDI segnala l'ingrandimento del grado di apertura dell'economia austriaca. Questa apertura si manifesta nell'aumento non solo del totale degli FDI in uscita (per lo più verso i CEECs, siano questi membri o meno dell'UE) ma anche della quota di questi flussi attribuibile alle filiali austriache di imprese multinazionali. Inoltre, l'aumento degli FDI di tipo "indiretto" (cioè decisi dalle filiali austriache di imprese multinazionali) in aggiunta a quello degli FDI di tipo "diretto" (cioè decisi da imprese-madri ubicate in Austria) ha a sua volta contribuito a trasformare l'economia austriaca da piccola economia aperta soprattutto verso la Germania in un'economia aperta anche verso altri Paesi. L'Austria è così diventata un "regional player" di FDI con raggio d'azione attualmente limitato a due fasce di Paesi, di cui la prima fascia comprende Paesi

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direttamente confinanti con l'Austria, quali la Germania e la Svizzera, mentre la seconda fascia comprende Paesi più lontani ma confinanti con quelli della prima.

1. Introduction

The history of the modern Austrian economy starts in 1989 with the dissolution of the iron curtain and the fall of the Berlin Wall. On July 17, 1989 Austria applies for EEC membership. This set off a process that culminated on January 1, 1995 when Austria becomes a full member of the European Union and on January 1, 1999 when Austria joins EMU with an irreversible rate of 13,7603 ATS for one Euro. Table 1 provides a chronological synopsis of the events that have marked Austria's road to the Union.

TAB.1 EVENTS ALONG AUSTRIA'S ROAD TO THE EUROPEAN UNION

	Events in Austria	Other Events
1989	17 July: on the basis of article 237 EEC Treaty, Austria applies for EEC membership (with a reservation concerning its neutrality)	Collapse of the planned economy system in Eastern Europe
1990 1991	4 November: full liberalisation of the international payment system 31 January: European Commission gives positive avis on Austria's membership application	1 July: first stage of the EMU takes effect (liberalisation of the of capital movement of capital within the EU) 1 July: Sweden applies for EC membership, Liechtenstein becomes a member of EFTA, conclusions of EEA negotiations
1992		EC membership applications: 18 March Finland, 26 May Switzerland, 25 November Norway, 17 September: first EMS crisis – Italy and the U.K. withdraw from the exchange rate mechanism, strong depreciation of the lira, pound, peseta, escudo December 1992: Switzerland rejects EEA participation in a referendum – new negotiations over the EEA treaty From 1992 to 1996: Europe Agreements with the CEECs 11-12 December: the European Council in Edinburgh decides to begin accession negotiations with Austria, Sweden, Finland and Norway
1993 1994	1 February: Austria, Sweden and Finland begin accession negotiations with the European Commission 1 January: as an EFTA country, Austria participates in the EEA 12 April: EU Accession Treaty (conclusion of accession negotiations) 5 May: the Austrian parliament passes the	1 January: the EC Single Market comes into effect, realisation of the 4 basic freedoms 2 August: second EMS crisis – bandwidths for intervention in the frame work of the exchange rate mechanism are widened from ±2.25 percent to ±15 percent. 1 November: the Maastricht Treaty (Treaty of the European Union) takes effect. 3 pillars: • Economic and Monetary Union (EMU) • Common Foreign and Security Policy (CFSP) • Co-operation in the fields of Justice and Home Affairs (CJHA) 5 April: begin of accession negotiations with Norway 1 January: European Economic Area (EEA) comes into effect (12 EU members and 6 EFTA members – Switzerland excluded) 1 January: second stage of EMU takes effect – establishment of the European Monetary Institute in

	Accession Constitutional Law by 140 against 35 votes 12 June: referendum over EU accession (66.6 percent in favour of accession) 24 June: European Council in Corfu: signing of Accession Treaty 11 November: Austrian parliament ratifies Accession Treaty by 141 against 40 votes	Frankfurt 16 October: referendum over EU accession in Finland (57 percent in favour) 13 November: referendum over accession in Sweden (52.2 percent for accession) 27-28 November: referendum over accession in Norway (52.5 percent against accession)
1995	1 January: Austria becomes a member of the EU	1 January: Finland and Sweden become members of the EU (EU 15) 1 January: WTO (World Trade Organisation) takes effect
1996 - 1997	Preparation for entry into EMU: compliance with convergence criteria requires consolidation of national budget (fiscal criteria: deficit no higher than 3 percent of GDP, national debt no higher than 60 percent of GDP)	Similar efforts in all EU countries – restrictive fiscal policy
1998	1 May: the Council chooses Austria as an EMU candidate Second half of 1998: Austria takes over EU council Presidency	24 March: convergence reports by European Commission and European Monetary Institute 1-2 May: Council composed of heads of state and government decides that 11 EU members will join EMU as of 1 January 1999 2 May: European Monetary Institute, Ecofin: announcement of bilateral conversion rates of 11 EMU members for the calculation of the ECU on 31 December 1998 1 July: establishment of European Central Bank (ECB) 10 November: begin of detailed accession negotiations with 5 CEEC countries and Cyprus (“Luxembourg group”) 31 December: fixing of official ECU exchange rates
1999	1 January: Austria joins EMU with an irreversible rate of 13.7603 ATS for one euro	1 January: begin of third EMU stage with 11 EU members; the exchange rates of the currencies to the euro correspond to the irreversibly fixed ECU rates of 31 December 1998 ECB begins its work (common monetary policy for the euro zone – euro system) 1 May: Amsterdam Treaty takes effect December: European Council in Helsinki decides that accession negotiations will also be held with the second group of 5 plus Malta (“Helsinki group”) from February 2000 onwards. Turkey is accorded the status of a membership candidate.

Austria joined the EU along with Finland and Sweden in the fourth round of enlargement. This followed the second and third round with Greece (1981) and with Portugal and Spain (1086) and preceded the fifth round, on May 1,.2004, with the EU accession of 10 countries, mostly from Central and Eastern Europe, and the sixth round, on January 1, 2007, when Romania and Bulgaria also joined the EU. The performance of the Austrian economy in the 1990s must be examined in three phases; i.e. before the EU accession, after the accession but before the fifth round of 2004, after the 2004 round and until the current global recession.

2. The Austrian GDP in its first (1985-1995), second (1995-2004) and third phase (2004-2010) of development

Before joining the EU, Austria enjoyed a remarkable GDP growth and performed more steadily than the other two acceding countries, Finland and Sweden. These countries were badly hit by the 1992-93 recession when Austria GDP growth rate never fell below zero. The scene changed after the EU accession when Austria experienced an average annual GDP growth rate of 2,11% in the period 1995-2004 (compared to 3,53% for Finland and 2.87% for Sweden)[3]. This marks a minus 0,78 percentage point difference relatively to the average annual growth rate of the period 1985-1994 when Finland and Sweden, badly hit by the 1992-1993 recession and by the trade diversion induced by the collapse of the iron curtain, grew by less (Breuss, 2005). The scene, however, changed again after 2004, the year of the EU accession of 10 countries mostly from Central and Eastern Europe (CEECs), and still again in 2008 when the Austrian economy was dragged into the global recession. Table 2 shows Austria's real GDP growth rates as experienced since the year 2000 as well as the Eurostat March 2009 forecast of Austrian growth rates for the 2008-2010 period.

TAB. 2 - REAL GDP GROWTH RATES FOR AUSTRIA AND SELECTED COUNTRIES

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009(**f**)	2010 (**f**)
EU-27	3.9	2.0	1.2	1.3	2.5	2.0	3.1	2.9	1.4	0.2	1.1
EU-15	3.9	1.9	1.2	1.2	2.3	1.8	2.9	2.7	1.1	-0.1	0.8
Austria	3.7	0.5	1.6	0.8	2.5	2.9	3.4	3.1	1.8	0.6	1.3
Italy	3.7	1.8	0.3	0.5	1.1	0.0	1.9	1.9	-0.9	-2.1*	0.6

Source: Istat and Eurostat (f=Eurostat, March 2009 forecast; *Banca d'Italia, March 2009 forecast).

The table shows the very good performance of GDP in Austria, Italy, EU-27, EU-15 in 2000 and, starting in 2002, the higher rate of growth of Austrian GDP compared to previous years as well as to other EU countries. While, for instance, the growth rates of Italian GDP range between 0 (in 2003) and 1.8 (in 2006), Austrian growth rates range between 0.8 (in 2003) and 3.4 (in 2006). More generally, the Austrian growth rates exceed the EU-27 and EU-15 growth rates in each of the years 2005, 2006, 2007. The 2004 EU enlargement must have played a role in this

[3] In what follows, we shall neglect the regional composition of Austria's GDP as well as the impact that the integration of some of her regions into the Alpen-Adria Working Community founded in 1978 must have had on this composition and on the import-export flows of these regions and of the whole country ever since the beginning of that integration. On the rise of the Alpen-Adria Working Community and on the events, conferences and publications that have accompanied it, see http://www.alpeadria.org and, for an early contribution, Meacci (1986). For a comprehensive and updated view of Austria's regional development, see the WIFO Reports "Die Wirtshaft in den Bundesländern" at http://www.wifo.ac.at/wwa/jsp/index.jsp?fid=5110.

performance even if the benefits accruing to the Austrian economy from the political and economic opening of Central and Eastern European countries (CEECs) precede their (2004) accession to the European Union (Baldwin, Francois, Portes, 1999; Breuss, 2001; Havlik, 2005; Breuss, 2005; 2006; Bhattacharya, 2007). As shown in Table 3, Austria's mini-boom of 2005-2007 marks the culmination of an export-driven growth. This was helped not only by a parallel growth of the CEECs but also by a buoyant German economy, a traditional trading partner which normally absorbs a third of Austrian exports. As noted by WIFO in an assessment of the Austrian economy released in February 2009, the Austrian GDP and exports boom has been stifled by the global recession that began in 2008 and that was made particularly evident by the GDP data of the fourth quarter when a rapid drop of inflation and a steep increase in unemployment also took place

TAB. 3 GROWTH RATES OF AUSTRIA'S REAL GDP AND OTHER MACRO-VARIABLES

	2005	2006	2007	2008	2009 **(f)**	2010 **(f)**
GDP	**2.9**	**3.4**	**3.1**	**1.8**	**-2.2**	**0.5**
Manufacturing	4.8	9.6	5.5	3.5	-5.5	0.5
Final consumption	2.6	2.4	1.0	0.9	0.4	0.8
Gross fixed capital formation	2.4	2.6	4.7	1.8	-5.1	0.3
Exports of goods	**3.2**	**6.8**	**8.7**	**0.9**	**-7,0**	**0.5**
Imports of goods	2.9	4.1	8.0	1.7	-5.0	0.3
Current balance (€b)	4.91	7.26	8.56	8.17	4.61	3.76

Source: WIFO (**f**= March 2009 forecast).

3. Austria' import-export trends: recent upswings and current downswing

The GDP and exports data provided by Tables 2 and 3 reveal the high correlation between Austria's exports and growth. Exports can indeed be regarded as a most important engine for Austria's growth. Figure 4.1, *Development of Austrian export, import and foreign investment quotas*, of the FIW Report on Austria's external economic relations in 2008 (FIW, 2008, p.18) provides a quick glimpse of the behaviour of Austria's import-export trends before and after the EU accession. This figure shows that the exports and imports of goods and services as percentages of Austrian GDP were fairly steady till the 1995 accession but have been increasing at an increasing average rate ever since. By focusing on the shorter 2005-2008 period, Table 3 above shows both the end of the upswing that began after the accession and the beginning of the downswing associated with, or expected from, the global recession begun in 2008 (and which is leading to the worsening of data and prospects as this paper is being written). Table 3, in particular, shows that the annual growth rates of exports and imports of goods, which topped 8.7% and 8% respectively in 2007, have been cut in half in 2008 (with the result that the current balance, which includes the less relevant trade in services, was only marginally affected). The Table also shows the similar fate undergone by another relevant and fluctuating component of GDP such as gross investment in fixed capital. These data reveal Austria's responsiveness both to the upswings and to the unfinished downswings of the world economy of which the EU and CEECs are two increasingly, however differently, integrated parts. They also confirm the condition of Austria as a "small open economy" within the EU, where it accounts for around 3% of the total GDP of the Eurozone, and therefore within the world economy at large. The role of Austrian balance of trade and current account deserves therefore a closer look. This will be carried out in what follows by distinguishing the exports of goods from the exports of services in the dynamics of Austria's total exports.

3.1. Import-Export of goods

The share of exports of goods and services taken together amounts to about 60% of Austrian GDP. Trade in goods accounts for three quarters of total exports. The data already shown in Table 3 above can be further disaggregated into the more detailed data on Austrian trade in goods displayed in Table 4. This Table shows that exports and imports of goods nearly pair off throughout the period, some minor deficits being more than compensated by surpluses resulting from the trade in services. The growth rates displayed in Tables 3 and 4 confirm the enormous importance of foreign trade for Austrian economic growth especially if one recalls that total exports of goods and services amount to 60% of Austria's GDP and that trade in goods accounts for three quarters of this total.

TAB.4 OVERVIEW OF AUSTRIAN EXPORTS AND IMPORTS OF GOODS
(€ values)

	2005	2006	2007	2008 (**f**)
Exports (€b)	94.7	103.7	114.7	120.9
(% change)	5.4	9.5	10.5	5.5
Imports (€b)	96.5	104.2	114.3	121.3
(% change)	5.9	8.0	9.6	6.2
Balance (€b)	-1.8	-0.5	+0.4	-0.4

Source: Statistics Austria and WIFO calculations (**f**=WIFO forecast, March 2009.

If the exports data are split by country or area of destination, Austria's exports of goods appear to go mainly to EU member states. 72,5 percent of all exports went to the EU-27 when the share of exports to the EU-15 decreased to 55,9 percent and the share of exports to the EU-12 increased to 16,5 percent in 2007. In 2007, exports to the five neighbouring CEECs showed extraordinary expansion, with exports to Slovenia increasing by 26.9 percent, to Poland by 25.9 percent, to the Czech Republic by 20.8 percent, to Slovakia by 16.3 percent and to Hungary by 14.2 percent. Exports to the two new member states Romania and Bulgaria, which joined the EU in 2007, also increased in 2007 at a significant rate of, respectively, 17.6 percent and 29.9 percent. If, on the other hand, the same data are split by sector of origin, exports of final goods still appear by far to be the most important component (72%) of Austrian exports. Within this group, more than one third of the exported goods are investment goods; the rest are consumer goods. In 2007, exports of intermediate products had a share of 15.8 percent, while the exports of raw materials and energy and the exports of food had a smaller share of 6.3% and of 5.9%, respectively (FIW, 2008, &5).

3.2. Import-Export of services

In a small open economy such as Austria, the foreign trade in services may be more important than the foreign trade in goods. In the last decade, Austria’s import-export of services grew proportionally to the import-export of goods. The different values, shares, changes and competitiveness of various items of Austria’s trade in services have been recently studied by Wörz (2008), Brandicourt, Schwellnus and Wörz (2008), Wolfmayr (2008) and others. In 2007 Austria's exports of services amounted to € 40.7 billion and imports came to € 28.4 billion. Exports and imports had grown at an annual growth rate of 8% and 6% respectively up to that year. Travel accounted for about 50% of all services exports in the 1990s but for only 34% in

2007 (FIW, 2008, &6). This was the result of a structural shift in the composition of services exports which were initially biased towards travel and are now increasingly biased towards knowledge-intensive business services (KBIS according to OeNB terminology). This shift is proved by the increasing importance of transportation -as a natural by-product of integration between Austria and other countries- and of KBIS -as a natural cause and effect of economic growth beyond a certain stage. The link between transportation services and KBIS, on the one hand, and Austria's international trade and growth, on the other, is made evident by the increasing importance of freight transport exports, which have more than doubled since Austria's EU accession, their share being now equal to 70% of overall transportation services. Similarly, the exports of KIBS grew from about 9% of all services exports in the 1990s to 18% in 2007, "Architectural, engineering and other technical consultancy" having now the largest share (35%) of KIBS (FIW, 2008, &6).

The structure and competitiveness of Austria's trade in services has been accounted for by Wörz (2008) on the basis of 11 service activities, the Eurostat's ITS database and the new OeNB compilation practice of statistics. This study shows the structure of Austria's trade in services in relation to three groups of European countries such as the 27 members of the EU as it exists today (EU-27), the 12 members that joined the EU in 2004 and 2007 (EU-12) and the 15 members that existed before (EU-15). The data provided in this study reval that about 75% of Austria's overall trade in services is concentrated in the EU-27 and that about 15% of this trade is concentrated in the EU 12. Focusing on the competitiveness of Austria's different service activities vis-à-vis Austria's trading partners, Wörz shows that Austria's competitiveness is strong in traditional sectors such as transport and travel while it is weak in insurance, computer and information, communication services, royalties and licence fees.

4. Austria's Foreign (inward and outward) Direct Investment (FDI)

Austria's import-export trends before and after her EU accession are displayed along with the trends of Austria's foreign direct investment (FDI), both outward and inward, in Figure 4.1, *Development of Austrian export, import and foreign investment quotas,* of the FIW Report quoted above (FIW, 2008, p.18). This section is focused on the latter trends as an equally important aspect of the growth and transformations of Austria as a small open economy within the EU and the world economy at large. We will begin by focusing, mostly within a European context (Liebscher, 2007), on the trends and features first of Austria's outward and inward FDI *flows* and later on of Austria's outward and inward FDI *stocks*.

4.1. Austria's FDI flows

Till 40 to 50 years ago Austria's outward FDI flows were almost non-existent while inward flows were limited to a range of 0.3 to 0.4 percent of GDP (Dell'mour, 2007). The scene changed abruptly soon after the iron curtain was torn down in 1989 and Austria applied for EU membership. It changed even more after the accession of some CEECs in 2004 and reached an astonishing peak in 2007. The success story of Austria's FDI in the past 10 to 20 years was compounded by the success story of FDI flows throughout the world in those years. This is proved by all the data provided by different institutions (see, for instance, OeNB, 2008; WIIW, 2008). According to data published by UNCTAD (2007a, 2007b, 2008a, 2008b), global FDI inflows rose by 30% between 2006 and 2007 when they reached the level of nearly $2.000 billions, a level well above the previous all-time high set in 2000. This global trend supported and even strengthened the rising trend of Austria's FDI generated by EU enlargements and by the increasing integration of CEECs economies into the European and world economy. Table 5 provides an overview of Austria' FDI inward and outward flows.

TAB.5 AUSTRIA'S INWARD AND OUTWARD FOREIGN DIRECT INVESTMENT (FDI)
(Billions of dollars)

	1990-2000	2004	2005	2006	2007
FDI FLOWS					
Inward	2.8*	3.8	10.7	6.1	30.6
Outward	2.1*	8.3	11.1	9.6	31.4
FDI STOCKS					
Inward	10.9*	19.7	30.4	84	126.8
Outward	4.7*	11.8	24.8	83.2	126.7

Source: UNCTAD, *World Investment Report 2008* (rounded figures; *annual average)

The Table shows that, with some slight differences between inward and outward flows, Austria's FDI inflows grew from an annual average of $2,8 billions in 1990-2000 to a peak of $30,6 billions in 2007. Even more significantly, this trend accounted for a rising ratio of FDI inflows to gross fixed capital formation that reached an astonishing peak of about 40% in 2007. The level of this ratio was overtaken throughout the world only by the UK which, however, was characterized by a ratio 3 to 4 times higher than Austria in the reference 1990-2000 period.

The regional structure of Austria's FDI has been heavily affected by the political and economic opening of CEECs following the collapse of the iron curtain. Further studies have shown the increasing role of Austria as the originating country of FDI in a group of selected CEECs. These studies have shown that Austria ranks first in most of these countries and that the share of

Austrian investment have eventually ranged between about 40% of total FDI in Bosnia-Hercegovina and about 11% in Macedonia. The rise of Austria's FDI in CEECs has been spurred by its profitability (Altzinger, 2008; Hunya, 2008). In recent years this was higher for Austrian investments in CEECs than in EU-15 and, within both aggregates, for their M&A rather than Greenfield component. The M&A component of Austria's FDI reached a peak of about $10.000 million in 2007 compared to about $400 per year in the 1990-2000 period (UNCTAD, 2008a). It should be noted, however, that the Greenfield component, though less profitable than the M&A component in the early stage of investments, becomes more profitable as years go by and is a reliable source of reinvestment of profits in the host country (which now seems to be the case with CEECs) rather than of their repatriation in the home country (Altzinger, 2008).

Another specific feature of Austrian FDI is that a large part of its outward flows is carried out by firms which are located in Austria but are in turn affiliates of Multinational Enterprises (MNEs). Such investment is termed *indirect* FDI in order to distinguish it from the *direct* FDI (Altzinger and Bellak, 1999; Bellak and Altzinger, 2001). While direct FDI seems to be determined to a large extent by international differences in costs of production (particularly in unit labour costs) leading to a shifting division of labour between the originating and host countries, indirect outward FDI is rather concerned with the search for new markets. The importance of indirect FDI in the origination of Austrian outward investment is implicit in the number of MNEs with Eastern European headquarters in Austria and is acknowledged in a number of studies (Dell'mour, 2007; Sieber, 2008; UNCTAD 2008c; Bellak, Leibrecht and Stehrer, 2008).

The competitiveness of Austria in attracting or generating FDI is confirmed by her position in the UNCTAD country rankings according to the UNCTAD *Inward and Outward FDI Performance Indexes* as well as the *Inward FDI Potential Index*. The UNCTAD Inward FDI *Performance* Index ranks countries by the ratio of each country's share in global FDI inflows to its share in global GDP. A value greater than one indicates that the country receives more FDI than its relative economic size, a value below one that it receives less (a negative value means that foreign investors disinvest in that period). On the other hand, the UNCTAD Inward FDI *Potential* Index ranks countries by their ability to attract FDI on the basis of a number of factors such as business climate, economic and political stability, the presence of natural resources, infrastructure, skills and technologies, or the effectiveness of FDI promotion. These UNCTAD indexes show that Austria is not only well positioned in the rankings but also that Austria is making progress in these rankings.

4.2. Austria's FDI stocks

The rise of Austria's inward and outward FDI *flows* has naturally led to a corresponding rise of inward and outward FDI *stocks*. The size of FDI stocks reflects more directly than the size of flows the degree and, to some extent, the irreversibility of an economy's internationalization. According to the UNCTAD data of Table 5 above, between 2000 and 2007 the size of FDI stocks has increased from about 11 to about 127 billion dollars in the inward direction, and from about 5 to about 127 billion dollars in the outward direction, the end result being a share of 34% of GDP in both directions. Owing to the regional structure and origins of outward FDI flows noted above, it should come as no surprise that the biggest share of Austria's FDI inward stocks belongs to investors from Germany while Austria's FDI outward stocks are mostly located in CEECs and are operated by subsidiaries of Austrian firms or of MNEs' regional headquarters (bridgeheads) located in Austria (Dell'mour, 2007). According to the FDI subsidiary database of OeNB, in the 2000-2005 period the number of Austrian investors abroad rose by little in spite of the huge increase in Austrian outward FDI, while the number of subsidiaries of Austrian parent companies (whether Austrian firms properly or regional headquarters of MNEs) increased significantly. This implies that firms located in Austria and already involved in international investment set up subsidiaries in new countries or areas more often than new investors appeared. From calculations based on the OeNB database, Hunya (2008) has found that the Austrian involvement in outward FDI shows concentric belts: the farther we move away from Austria, the lower is the number of Austrian investors and subsidiaries. The first belt comprises, in the West, Germany and Switzerland (with a prevailing presence in real estate and other business services plus manufacturing) and, in the East, Hungary, the Czech Republic, Slovakia and Slovenia (with a prevailing presence in manufacturing and financial services). The second belt comprises, in the West, the rest of Europe and, in the East, Croatia, Poland, Romania and Bulgaria. Here the number of investors and subsidiaries is smaller than in the first belt but is increasing rapidly. The third belt extends to the Eastern non-EU segment of Europe including the CIS countries. Here the presence of Austrian subsidiaries, however limited to date, has been growing in recent years. From the calculations above it results that the behaviour in time of Austrian outward FDI reveals that a shift is under way from the inner belt to the second and, to a lesser degree, from these belts to the outer belt (Hunya, 2008). It also results that, contrary to the trend in CEECs, Austrian presence in Asian countries, including China, features small and declining shares in subsidiary capital, turnover, employment and profits. Hence Hunya's conclusion that Austria, far from being ranked among the top global investors throughout the world and particularly in Asia, is nonetheless an important regional player in Central and Southeast Europe. From these data it also results that, according to the further division of FDI into *vertical* and *horizontal* FDI (the former leading to the worldwide fragmentation of production and division of labour, the latter to the worldwide multiplication of given plants and operations), the horizontal forms prevail over the vertical forms in Austria's FDI structure (Dell'mour, 2007). Hence the further conclusion that, given the UNCTAD classification of FDI (i.e. market-seeking, efficiency-seeking and resources-seeking investment, depending on whether the motive for it is to sell in new markets, to cut costs or to exploit a natural resource), the type most practiced by Austrian investors is the market-seeking type while the other two types are either somewhat neglected (resources-seeking) or only marginally practiced (efficiency-seeking) especially if it comes to Asian or distant countries.

5. Concluding remarks.

We have examined above the political and economic events that have marked the political and economic history of Austria since the fall of the iron curtain in 1989. We have seen that Austria's EU accession on January 1, 1995 was a turning point in the history of her integration not only in the EU system of states but also in the world economy. Thus Austria, which till the EU accession was a small open economy particularly in relation to Germany and, concerning the determination of interest rates, to the German Central Bank, became after 1995 an open economy in the sense of being a member of the broader EU. The EU accession of new CEECs in 2004 and 2007 provided a further boost to Austria becoming a small open economy not only vis-à-vis the EU but also, with the added role of a regional player, vis-à-vis the new eastern members of the EU as well as the non-EU central, eastern and south-eastern European countries. Austria's new role has been confirmed by the trends not only of her imports and exports of goods and services but also of her inward and outward FDI flows. The years following the 2004 round of EU accessions have witnessed a steep rise of these two kinds of trends especially in the direction of trade with CEECs. The data provided or mentioned above have shown the changing structure and direction both of the Austrian trade in goods and services and of the Austrian inward and outward FDI. These data have shown that the structure and direction of the two trends have been tilting, as for the structure, towards the rise both of knowledge-intensive services and of indirect FDI outflows and, as for the direction, towards the "second belt" of countries surrounding Austria and comprising Croatia, Poland, Romania and Bulgaria.

The structural changes observed in the 2004-2008 period have come to a halt between 2008 and 2009 and now seem to be running the risk of going in reverse. The global recession triggered by the financial crisis begun in 2007 could not help hitting Austria's small open economy if only because the countries that are suffering most from that recession are those very countries, the

CEECs, for which most of Austria's new import-exports of goods and services and FDI flows and stocks were intended. Now it looks as if those very factors, such as the EU accession initially of Austria and later on of a large number of CEECs plus the investment and localization policies of MNEs, that have accounted so much for the growth of Austrian GDP are now stifling its growth with an even greater speed and intensity. This speed and intensity account for the frequent changes of forecast of macroeconomic variables that we are experiencing as this paper is being written. The improving data and forecasts experienced in the 2005-2007 expansion as well as the worsening data and forecasts of the ongoing global recession indicate at the same time that Austria is liable to experience on her own skin both the (long-run) advantages and the (short-run) disadvantages of being an economy both open and small. It can be argued, however, that if Austria's openness to the CEECs and to the world at large is maintained, the recent pace of Austria's growth will be resumed and may even be strengthened should this openness be extended to more and more distant countries.

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