

# Austria: Bridging to New Outposts

*While Austria boasts political stability, rule of law and high quality of living, this Central European country discerns from its equally developed and prosperous neighbours to the West thanks to the significance of its strategic location. Serving as a bridge to new outposts of the advancing Western influence farther and farther away into the former Eastern bloc countries has had a tremendous effect on the Austrian economy in the last 15 years.*

## **Can you give us an overview of the Austrian economy?**

Austria is a relatively small nation with 83,000 square kilometers in size and a population of 8.3 million. The capital city of Vienna is the largest city in Austria with a population of nearly 1.8 million and Graz, Linz, Salzburg and Innsbruck are among other large cities.

The GDP in 2007 was \$374 billion with the services sector accounting for 67% of that and industry for 31%. The agriculture sector accounts for only 2% of the country's economy but it is advanced and competitive.

In 2007, Austria exported \$156 billion of iron ore, steel products, timber, paper and chemical products and imported \$155 billion of machinery, vehicles and steel and metal goods.

Although Austria is a homogenous nation with 90% of the population speaking German, however, in the last two decades there has been significant immigration from former Yugoslavia and Turkey.

**“Austria has traditionally played a “bridge-to-the-East” role and continues to do so but expanding its ties to emerging nations further East.”**

Austria, which joined the EU in 1995, is one of the richest nations in the union after Luxembourg and Holland. Austria has sustained high economic growth in the first seven years of this decade on the back of high growth in exports to Central and Eastern Europe and Balkan nations as well as strong growth in its traditional trading partners Germany and Switzerland.

In 1999, Austria introduced the Euro for accounting purposes and later on, in 2002, it officially introduced the currency.

Trade with EU-27 countries accounts for 73% of Austrian imports and exports and Austria has focused in expanding trade with countries that recently joined the EU between 2004 and 2007. Austria has traditionally played a “bridge-to-the-East” role and continues to do so but expanding its ties to emerging nations further east.

Foreign investors find Austria attractive owing to its membership in the EU and historic commercial relations in the banking and insurance sectors with central and southeastern Europe.

These days Austria is facing a decline in its GDP and the economy is expected to shrink between 3% and 6% this year and stabilize in 2010. But for the last 12 months Austria has



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Prior to launching Austrian Business Agency, Siegl was served as editor of weekly magazine "Industrie" at Federation of Austrian Industrialists in Vienna. From 1992 to 1995 Siegl was a head of department Public Relations at Federation of Austrian Industrialists. From 1995 to February 1997 he was a head of department Marketing and Public Relations of Labor Market Service Austria.

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been outperforming the European Union but the current worldwide crisis has hit Austria hard because the main markets for Austria are Germany and Eastern Europe, both of them suffering very hard from the ongoing economic crisis.

#### **Will foreign investors continue to find Austria as the bridge to the East?**

That has been the case in the last two decades and we think that it is still a strategic location maybe not for the same countries. In the nineties, it was Czech Republic, Hungary and Slovakia and now the focus is more on Ukraine, the former Soviet Union countries, Bulgaria and Romania.

#### **What are the strategic advantages that Austria can bring to potential foreign investors?**

In 2005, Austria revised its tax regime and lowered its corporate income tax to 25% from 34%, thus becoming competitive to the neighboring eastern nations. Also, with the system of group taxation Austria allows a company to adjust profits in the country

with losses abroad. Holding companies, joint ventures and regional headquarters can also benefit from group taxation and, unlike Germany, Austria does not charge wealth or net worth tax or trade tax.

The tax cuts have attracted several companies to relocate their regional headquarters in Austria and nearly 350 foreign companies have invested in the country and most have expanded their original investment.

Austria has skilled and knowledgeable intensive labor force, so the country is keen to welcome high tech industries that are capital, research and development and knowledge intensive. There are special incentives for companies that are linked to research and development in pharmaceuticals and electronics chip design and manufacturing. Austria is keen to work with companies that are environmentally friendly because of its strict environmental laws.

The country offers financial and tax incentives within the EU framework for companies who are willing to invest in economically underdeveloped areas in the southern and eastern borders. Austria does not require local residents to be partners in foreign investment but at least one manager must meet residence and other legal requirements. In addition, there are no restrictions on cross border capital transactions including profit repatriation and capital gains from the sale of assets or investments.

What is more, Austria has bilateral investment agreements with 55 countries in Europe, South America, Asia, Middle East and Africa.

#### **Would you elaborate on the demographics and labor pool skills?**

Austria has roughly 8.3 million inhabitants so it is a relatively small country. The population is still growing but only because of immigration. I think that in 2014,

the population is estimated to be at least 9 million inhabitants.

Austria has labor force of 4.2 million, of which 3.6 million are employed and 0.55 million are self-employed or farmers. The government policies limit the number of foreign workers between 8% and 10% of salaried workforce.

The country consistently ranks high in international surveys on political stability, quality of life and rule of law and productivity of its labor force. However, labor laws are still relatively rigid. Austria faces competition from its newly industrialized neighbors on its border, namely the Czech Republic, Slovakia and Hungary.

Austria maintains immigration quota for long-term visas for specialists and executives or managers or professionals and the annual quota has been lowered to 7,000 in 2006 but may be revised higher again.

**Can you give us some examples of companies that have recently invested in Austria?**

Companies from Germany, U.S, UK and Switzerland have chosen Austria for its proximity to Central and Eastern European markets. Investments are spread from IT to biotech, to food processing and automotive industries. For example, BMW and General Motors have operations in Austria, pharmaceutical companies like Baxter International from the U.S are active here, Swiss pharmaceutical companies do some of the research in Austria too. McDonalds, Beiersdorf and Eli Lilly all have their regional headquarters in Vienna.

Germany-based Siemens IT Solutions and Services is investing 15 million euros to expand two existing centers in Austria. Siemens, the industrial group from Germany has been active for 130 years in Austria and operates various subsidiaries in energy, healthcare and other sectors. Siemens Austria employs 16,000 and is one of the leading employers in the country.

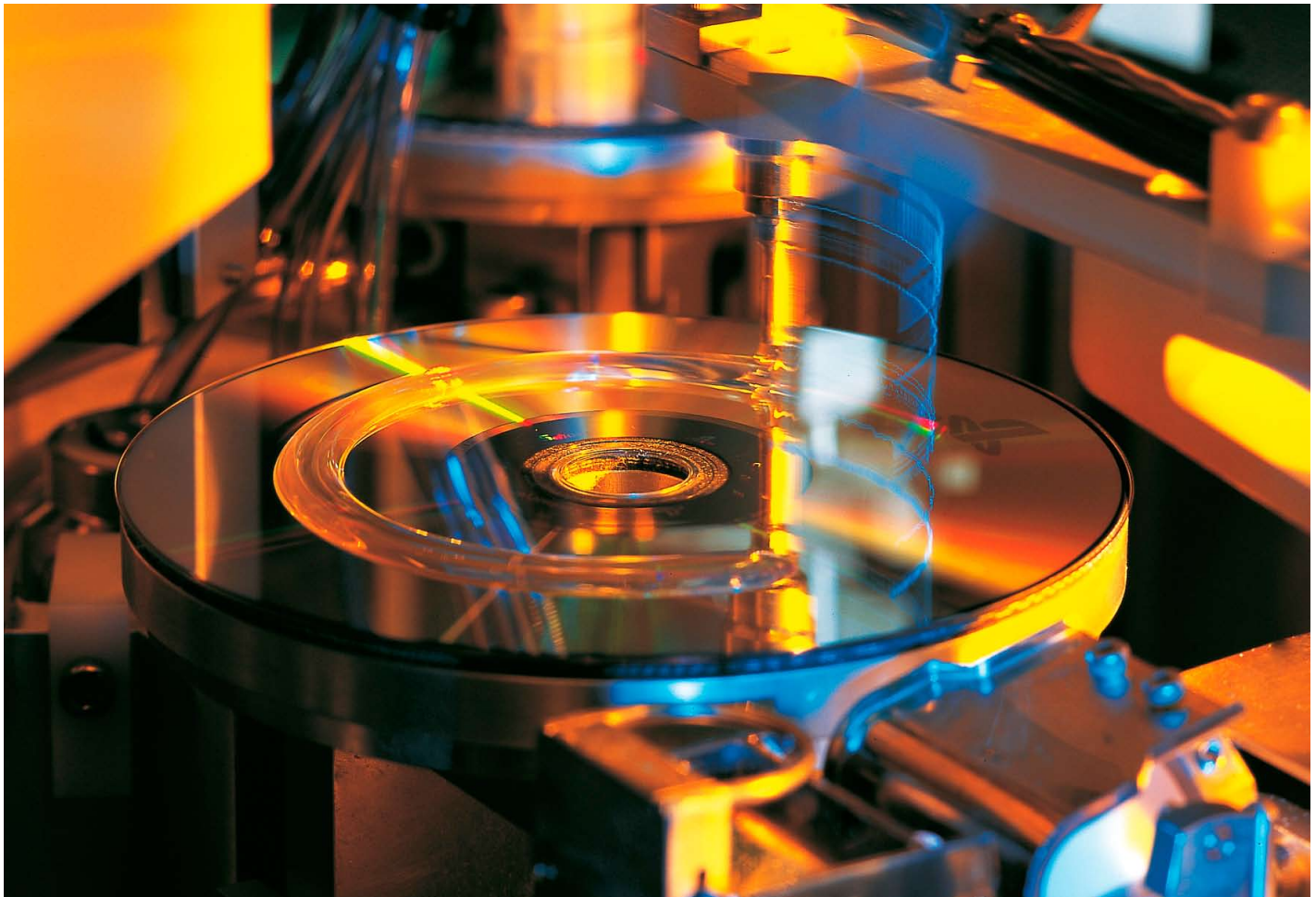
**Research and development is one of the strengths of most advanced economies including Austria. What kind of R&D is done in the country?**

The strongest fields of R&D in Austria are pharmaceuticals, especially cancer research and developing vaccines. Then in the automotive industry it is a lot of research especially for diesel engine research, diesel engine research and four wheel drives, the material technology also for automotive industry but also for other parts of industry.

**Austria utilizes a system where certain economies or industries are built around a particular town. What are the main industries represented by this system?**

We have towns that have special industry focus and we call them clusters. Some of the larger clusters are focused on automotive, pharmaceuticals and electronics industries.

**In your view, what other countries may a typical foreign direct investor consider before locating in Austria?**



That really depends on the focus of the investor. Most companies compare us with the German speaking countries including Germany and Switzerland, and sometimes with other Western European economies such as the Benelux countries. We are also evaluated in comparison to our eastern neighbors like Czech Republic, Hungary and Slovakia depending on the needs of the investor.

**You mentioned earlier that for the last 15 years most foreign investors were focusing on the Czech Republic, Hungary and Slovakia through Austria, but now they would rather look at other countries. What has changed?**

On the one hand, countries like the Czech Republic and Hungary are now mature markets with higher labor costs, but on the other hand with the experience of roughly 20 years of market economy. So the need for hub-based investing through an intermediary like Austria is not needed but for less advanced markets like Ukraine or Kazakhstan, Austria still acts as a hub for international investors.

**How have these newly industrialized nations changed in the last 15 years?**

It was an impressive process of improvement, building infrastructure and population that is skilled to operate in competitive economies. For example, Slovakia and the Czech Republic are now locations for international car manufacturers. Hungary is popular for auto and auto parts manufacturing to electronics assembly.

These countries have become more mature, more industrialized, more competitive, but on the other hand if the investor is really looking for inexpensive labor then he doesn't look at Czech Republic anymore. He has to go further east to Ukraine, Bulgaria and Romania. The labor cost in the Ukraine is less than half of that in the Czech Republic or Hungary, whereas Austrian wages are the ninth highest in the world with the average hourly cost of 28 euros.

**Can you name some examples of leading investment projects in Austria?**

BMW Motoren GmbH has been in Steyr, Upper Austria since 1982 and it is the largest engine manufacturing facility in the company worldwide. The plant makes diesel engines used by all BMW cars and six cylinder petrol engines as well. Since inception, BMW has invested \$4.5 billion and conducts all its engine research and development work at this facility. With annual production of nearly 550,000 engines, BMW has delivered more than 9 million engines in the last twenty six years. BMW employs more than 3,000 in Austria and the plant is in the ninth expansion with investment of \$19 million.

Another example is that of Baxter International Inc, the U.S. pharmaceutical company, which has recently allocated 75% of its research and development budget of \$300 million to its Austrian facility. Baxter Austria is the largest business location outside the U.S. and employs 3,200 people and employs more than 75% of scientists working worldwide for Baxter BioScience.

In Austria, Baxter focuses on developing biopharmaceutical drugs and biotechnologies for the treatment of blood clotting disorder hemophilia and dialysis patients. The Austrian location develops other drugs including therapeutic proteins for blood plasma and other vaccines.

**Which countries are the major foreign direct investors into Austria?**

Historically, Germany has been the largest investor in the country followed by the U.S., UK, Switzerland and the Netherlands.

Investments from Germany are widespread, including major industrial companies like Siemens, while those from Switzerland are mostly pharmaceuticals related. Investment from the U.S. is spread in automotive, pharmaceuticals, retailers and food processing companies with a focus on regional headquarters. **T**

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