

Austrian–Hungarian Relations since 1989, the Current Situation and Future Perspectives

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Austrian–Hungarian bilateral relations are an important part of the two countries' network of international ties in the economic, political and cultural fields and within the Central European region and the EU. In the 1970s, the bilateral relationship was characterised by a gradual opening, and this led – in the 1980s – to a rapid broadening of relations. The fall of the Iron Curtain in May 1989, the Pan-European Picnic in Sopron on 18–19 August 1989, and the opening of the Austrian–Hungarian border on 12 September, marked the beginning of a new era in the relationship and established a new quality of relations.

In the aftermath of the political changes in Hungary, Austrian–Hungarian relations were placed on a new footing. This reassessment was followed by dynamic development in all fields – in bilateral trade, tourism and the cultural sphere. Within a short period of time, relations became more intense and extensive. Bilateral trade increased steadily in the early 1990s, although there were subsequent fluctuations.

After 1989 the normalisation of economic, political and regional cooperation in Central Europe was identified as the touchstone of Austrian foreign policy. At the same time, the period saw what László J. Kiss has termed a “return to diversity,” as Austria forged its new-old identity on the basis of its historical relations with its northern, eastern, south-eastern neighbours and in recognition of its new situation.²

With the end of the East–West confrontation, Austria – which had been on the periphery of the Western sphere of influence – regained its old position at the heart of Central Europe. For its part, Hungary, having dismantled the four-decades-old Iron Curtain, set out on the path towards a market economy. Accordingly, the fundamental economic differences between the two countries abated.

For Austria, involvement in European integration, culminating in full membership of the European Union in January 1995, enabled it to become a new regional centre. A characteristic of Central Europe is multipolarity and multicentricity, and so, in the 21st century, Vienna shares functions with Budapest, Prague, Krakow and Ljubljana.

Austria's accession to the EU in 1995 enhanced the country's commitment both to European integration and to a consolidation of the framework of relations in Central Europe. True, Austria also emphasised the need to establish a firm foundation for the eastern enlargement of the EU. National identity, sovereignty, EU membership and Austria's relations with other countries in Central Europe have determined subsequent Austrian policy in this field.³

The Impact of Austria's Accession to the EU (1995) and of the EU's Eastern Enlargement (2004) on Austrian Trade with Central Europe

Austria joined the EU only in 1995 (together with Finland and Sweden). The effects of EU accession were beneficial in many areas: Austria already had close links with the EU countries, in particular with Germany. In the aftermath of accession, such links were strengthened by German investment and in the field of technological development. As the EU's fifth richest state, Austria became a net contributor, but the payments were outweighed by the benefits drawn from the expansion of economic relations on accession in 1995 and following eastern enlargement in 2004.⁴

The period after 1995 saw an intensification of Austria's political and economic relations both with other EU member states and with the Central European countries. Between 1995 and 2000, total Austrian exports increased by 65 percent, and trade with the Visegrad countries and with Slovenia increased even more rapidly. Austrian exports to Hungary registered the largest percentage increase (126%), while exports to the Czech Republic increased by 73 percent, to Slovakia by 86 percent, to Poland by 93 percent, and to Slovenia by 72 percent. The increase in Austrian exports to these countries was significantly greater than average; it was greater than the percentage increase in exports to Germany. During this period, total Austrian imports grew by 54 percent. Imports from Hungary exhibited the largest increase (185%) among the various countries in Central Europe. In the same period, imports from the Czech Republic grew by 109 percent, from Slovakia by 171 percent, from Slovenia by 88 percent, and from Poland by 62 percent – this latter increase was still greater than the average. Thus, in this five-year period, the increase in Austrian–Hungarian bilateral trade was particularly outstanding. Austria's EU membership facilitated rather than hindered the expansion of bilateral relations. Austria's trade surplus with Hungary was the largest among the various countries in the region. Even so, in the early 2000s, trade between Austria and Hungary fluctuated; indeed, a decrease soon became manifest: the absolute value of trade was smaller in 2004 than it had been in 2000. And in 2005, despite Hungary's accession to the EU, there was a further decrease in trade.

Only nine years – a short period in historical terms – separated Austrian and Hungarian accession to the EU. The effects of the EU's eastern enlargement (2004) on trade in the period until 2011 are far more varied. Moreover, in Austria's trade with Central Europe, Austrian–Hungarian trade exhibited the slowest rate of growth: Austrian exports to Hungary in 2011 were only 13 percent higher than in 2004, while Hungarian exports to Austria increased by 40 percent during the same period.⁵

Between 2004 and 2011, total Austrian exports increased by 36 percent – with exports to Germany registering a slightly lower rate of growth (31%). Austria's trade with Poland and with Slovakia (exports and imports) expanded at the fastest rate. Between 2004 and 2011, Austria's trade with Poland doubled: exports grew by 109 percent, while imports registered an even sharper increase of 119 percent. Meanwhile Austrian exports to Slovakia grew by 77 percent, while imports increased by 79 percent, and Austrian exports to the Czech Republic increased by 63 percent, while imports grew by 169 percent.

In terms of growth and regional development, the EU's eastern enlargement in 2004 proved particularly advantageous for Austria's trade with Poland, Slovakia and the Czech Republic, while there was little impact on bilateral trade with Hungary and with Slovenia. At the time, Hungary was struggling with domestic economic problems.

After 2004, the Visegrad countries made few efforts to consolidate their cohesion. Instead, each country tried separately to attract foreign capital and promote its own interests in the EU and in its relations with Austria. Developments in the domestic economy – progress and setbacks – determined the extent to which each new member state could make use of the potential advantages of EU membership as well as their role as economic and political partners in the international community.⁶ Those countries that were more successful in terms of domestic economic development turned out to be more attractive partners for Austria. Meanwhile, economic policy makers in Poland, Slovakia and the Czech Republic successfully exploited the advantages of EU membership. Whereas Hungary had been the largest beneficiary of Austria's accession to the EU, in the period 2004–2010 Hungary lost much ground. It is now Austria's seventh export partner.

Domestic Policy Changes and the Impact on Foreign Relations

In the period 1990–2012, Austria underwent profound domestic political changes. The “Vranitzky decade,” the period of Franz Vranitzky's chancellorship, lasted from June 1986 until January 1997. The period of Vranitzky's grand coalition with the People's Party saw Austria's accession to the EU in 1995 and major reforms in the state-owned industrial sector. These changes necessitated economic and political decision-making and action.

In 2000, the grand coalition between the two largest parties, the Austrian People's Party (ÖVP) and the Social Democratic Party of Austria (SPÖ), came to an end and the ÖVP formed a governing coalition with the Freedom Party of Austria (FPÖ). The decision of the People's Party chancellor, Wolfgang Schüssel, to form a coalition with the Freedom Party was highly controversial.

When the new coalition came to office, the EU responded by imposing unprecedented sanctions on Austria – despite the fact that the government's program complied fully with the EU's values.

In 2000, Hungary maintained relations and cordial relations with Austria in all fields and in spite of the EU sanctions. With their policy of continuity in relations with Austria, Hungarian policy makers sought to make a distinction between a negative assessment of Jörg Haider as a person and his statements on domestic policy, the contents of the Austrian government's program and policies, none of which would have justified the EU's sanctions.

The EU established a special commission to clarify the situation. After the publication of the commission's report, sanctions were revoked in September 2000. In Austria, commentators raised questions about the sovereignty and equality of member states and identified a need to clearly define and reformulate the competences of integration. In response, policy makers developed the concept of "regional partnership," giving emphasis to the principle of establishing an integrated Central European region. The concept contained the community of interests in Central Europe – which led to the establishment of the Central European Cultural Platform. This concept urged closer political cooperation rather than looser ties, but it did not address the more sensitive issues (e.g. opening up the labour market).

In the course of the 2000s, major changes took place in Austrian domestic politics, with long-term effects. Domestic politics became a more plural arena, with an increase in the number of active parties. Having grown tired of the major political parties, some citizens switched their support to the Greens, but an even larger number gave their support to the Freedom Party (FPÖ) or to a party called the Alliance for the Future of Austria (BZÖ). The Freedom Party was particularly popular among workers, while the Social Democratic Party lost much of its appeal. The erosion of support for the two major parties continued, because the Freedom Party, the Alliance for the Future of Austria, and the Greens exploited the anti-EU mood of ordinary people, their dislike of being "bossed around by Brussels" and their hostility towards the EU's attempts to centralise. For many years, a sensitive aspect of Austria's relations with the Czech Republic and Slovakia concerned the issue of Czech and Slovak nuclear power stations in the vicinity of the Austrian border. From time to time, criticism from Austria has increased. The Beneš decrees represent a further burden on bilateral relations. In the case of Slovenia, the circumstances of the Austrian minority in Slovenia, as well as

the issue of the Slovenians in Carinthia and their desire for autonomy, are sometimes mentioned in bilateral relations.

In the field of European integration, foreign policy and trade relations, a source of tension was that Austria made full use of the labour market derogation (5+2 years) that followed the EU's enlargement in 2004. In reality, the problem was even more serious than this, for the skilled workers given access to Austria were in occupations affected by a shortage of labour. This has resulted in a siphoning off of workers, as higher wages in Austria prove attractive to skilled workers and professionals from the Visegrad countries and from Slovenia (in particular, doctors, nurses, construction workers, and hotel and catering staff).

The leaders of the Social Democratic Party, Werner Faymann and Alfred Gusenbauer, were unable to halt the slide in voter support even after they took a more euro-sceptic position; even so, in the second half of the 2000s (as shown by the elections results in 2008) support for the People's Party (ÖVP) fell by the greatest degree. In recent years, the Freedom Party and the Alliance for the Future have together received more votes than the People's Party. Accordingly, the system of political rotation and the division of major political and economic posts among the two major parties (the *Proporzsystem*) is no longer functional. Changes in Austrian politics demonstrate that the two major parties are less valued among the populace than before. Indeed, there has been an erosion in support for the classical coalition responses to the country's economic, social and political ills. Even so, a grand coalition was a necessity after the elections of 2008. Without a coalition government of the two major parties, the viability of Austrian politics would have been severely undermined.⁷

Amid the economic crisis of 2008–2009, Austrian politics became embroiled in tensions, albeit the situation was better than in many EU countries. The Austrian social market economic model continues to function, and the main objective of domestic policy is to ensure the survival of the model in the long term. Low inflation and low levels of unemployment – the envy of other countries – mean that the country is very stable. Even so, the governing parties have had low popularity ratings for some time and there has been an erosion of traditional political ideas and strategies. Disaffection with politicians has added to this erosion, caused to a large extent by a loss of personal trust. The political parties have sought to exploit scandals to discredit their opponents, but as the effect is mutual, this has led to unprecedented levels of general disillusionment and scepticism. According to international surveys, however, levels of corruption in Austria are among the lowest worldwide. Today, in Austria, the social market economy no longer means a welfare state, although the manner in which the systems of social provision have been preserved is exemplary. Yet, even in Austria, a reform of the welfare system will be unavoidable in the long term for financial reasons.

Developments in Austrian domestic policy have not negatively impacted bilateral relations. In Austrian foreign policy too, the emphasis has been on balanced growth in relations. This was true at the time of the Vranitzky, Schüssel and Faymann governments. Fluctuations in economic relations have been caused primarily by changes in the domestic economic circumstances of the other countries, which, in turn, have affected the investment policies of Austrian corporations and the capital flow policies of the banks. Austrian foreign policy has tended to stabilise relations between Austria and the other countries of Central Europe. Even so, the biggest decline since the 2008–2009 crisis has been in foreign trade. Another manifestation is disinvestment – the highest rate in the region was recorded between Austria and Hungary.⁸ Capital withdrawals by Austrian banks and financial institutions continued in 2012 and had to be balanced in part through the sale of government bonds.

The Effects of the 2008–2009 Economic Crisis on Austria and on Economic Relations between Austria and Hungary

Austria incurred fewer losses in the 2008–2009 economic crisis than the EU15 average and most small advanced countries. In 2009, almost all the economic indicators showed deterioration, and this applied in particular to GDP, investments and foreign trade (especially exports). The aim of Austrian economic policy was thus to limit the damage, balance the economy, and reduce taxes while maintaining living standards.⁹ In essence, this aim was achieved: despite the crisis, private consumption and public spending have increased slightly.

The special situation and stability of Austria's economy facilitated its exit from the crisis. The high share of tourism and catering in Austria's economy, coupled with the role of family-owned farms, served to lessen the effects of the crisis. Financial stability has been a major advantage of the Austrian economy and an element in its strength of appeal. The financial stabilisation of the Austrian banks has not been affected. But the budget deficit and the rapidly deteriorating debt and GDP situation was more than a warning signal – indeed, it was a crisis factor that could be addressed only as the result of significant budgetary consolidation.¹⁰

The decrease in Austrian imports – a fall in the real value of imports (9.8%) – had a serious effect on Austria's main trading partners, including the countries in the CEE region (among them Hungary). For Slovakia and Hungary, Austria's recession in 2009–2010 led to a substantial decrease in their exports to Austria. In 2009, Hungary's exports to Austria fell by around 25 percent, while its imports from Austria declined by more than 20 percent. The decrease in exports was followed in 2010 by an increase of 30 percent, but even by the end of 2011 imports had not returned to their previous level.

For a proper understanding of the partnership relationship between Austria and Hungary, it is worth comparing the two countries' economic positions. In what follows, I shall analyse trade and economic relations between the two countries within the Central European context.

A Comparison of the Main Economic Indicators in Austria and Hungary

In terms of size of territory and population, Austria and Hungary are similar countries. Austria has a land area of 83,858 square kilometres and a population of 8,421,000, while Hungary has a land area of 93,030 square kilometres and its population fell to below 10 million in 2011. (In 2012 Hungary's population was 9,974,000.) Population density is almost identical: 100 people per square kilometre in Austria and 107 people per square kilometre in Hungary.

Austria's gross domestic product (GDP) is more than three times (3.2 times) that of Hungary. In terms of GDP per capita the difference is nominally 20 percent larger than this. The real difference is shown, however, in the purchasing power parity (PPP) figures: GDP per capita is EUR 35,710 in Austria and EUR 16,423 in Hungary.¹¹

The gross monthly average wage was EUR 2,043 in Austria and EUR 763 in Hungary. For highly qualified workers, the difference is even greater, and so Austria is attractive to Hungarian workers.

Austria's labour market is very balanced in historical terms and in comparison with other countries. In early 2012, the number of employed persons was 4,323,000 in Austria and 3,743,000 in Hungary. In Austria, unemployed people have numbered less than 180,000 for some time, while in Hungary the figure has been 2.6 times as high for some time. Austria's unemployment rate is 4.2 percent, the lowest in the European Union. Meanwhile, in Hungary it is almost 11 percent. In both countries, however, the rate is now falling – a major achievement of employment policy in the current international situation.¹² Austria's success in this field is due largely to its active labour market policies: alongside the Scandinavian countries, Austria has one of the most comprehensive employment, training and job support systems in Europe. The favourable condition of the labour market is due in large part to a balance between labour demand and supply, while family-owned businesses provide a high degree of certainty. The latter make up 95 percent of all economic units in Austria.

Fiscal stability has traditionally been strong in Austria – both domestically and in the international dimension. The budget deficit as a percentage of GDP had remained below the 3 percent threshold set at Maastricht; indeed, it is generally around 1–1.5 percent. In 2011, it was higher than usual, but still only 2.6 percent. Austria, however, is

an important example of how a country can – in the long term – accumulate substantial debt in spite of low annual budget deficits. Thus, although Austria has consistently met the Maastricht criteria for budget deficits, it has failed to meet the debt target. Austria's debt-to-GDP ratio has been higher than the 60 percent threshold ever since the 1990s; between 2000 and the crisis of 2008–2009, debt stood at around two-thirds of GDP, but it has since exceeded 70 percent (72.3% in 2011). Thus, debt reduction is an important task for Austria. Austrian policy-makers hope to achieve this by means of increased tax revenue derived from economic growth, an increase in non-tax revenues, income from Austrian investments abroad, and income from tourism. Economic analyses have shown that a restrictive economic policy will not bring the desired results because the economy would shrink. At the same time, there is no desire to reduce the rate of redistribution, as such a course would diminish aggregate demand and lead to a fall in living standards – which are currently even higher than in Germany. In Hungary the debt-to-GDP ratio exceeded 80 percent in 2011, but determined action has been taken to reduce debt. The consolidation trend is likely to continue in both countries, but in view of the economic and financial situation and Austria's savings and capital accumulation capacity, the process will be much easier in Austria than in Hungary. (Table 1 contains the main economic data for Austria and Hungary.)

Austria's Foreign Trade with the Central European Countries

For the Central European countries, Austria is a crucial trading partner. The reverse is also true: a large share of Austria's foreign trade is with its Central European neighbours. In 2011, total Austrian exports amounted to EUR 121.77 billion. Of this, exports to the Central European countries amounted to EUR 60.7 billion. That is to say, more than half of Austrian exports go to seven countries (Germany, Switzerland, Poland, the Czech Republic, Slovakia, Hungary and Slovenia).

Germany remains Austria's largest export market; in 2011, almost one-third of Austrian exports – valued at more than EUR 38 billion – were destined for Germany. Exports to Switzerland, valued at around EUR 6 billion, accounted for around 5 percent of total Austrian exports and 10 percent of exports to Central Europe. The Czech Republic is Austria's third largest export market in Central Europe, accounting for 4 percent of total Austrian exports and around 8 percent of exports to Central Europe.

Hungary is Austria's fourth largest export market in Central Europe – ahead of Poland, Slovakia and Slovenia; it is the destination of 3.1 percent of total Austrian exports and double that percentage of Austrian exports to Central Europe.

Germany and Switzerland are likely to remain Austria's largest export markets. Since Austrian accession to the EU in 1995 and since the accession of the Visegrad

countries and Slovenia in 2004, Austria's exports to Poland and the Czech Republic have registered the largest percentage increases. Until 2005, Hungary took a larger share of Austrian exports than did the Czech Republic, but the reverse has been true since that year. Austrian exports to Slovakia increased rapidly from a low base in the period 1995–2005. Since 2005, however, the rate of increase has slowed. A similar trend could be observed in Austrian exports to Slovenia. (See Table 2.)

In 2011, total Austrian imports were valued at EUR 131.01 billion, while imports from the Central European countries amounted to EUR 72.95 billion, or 55.7 percent of total Austrian imports. In Austrian foreign trade, the Central European countries are more important as suppliers of imports than as export markets: they supply more than half of total Austrian imports. This applies in particular to Germany. Germany supplies almost 40 percent of Austrian imports, and in 2011 imports from Germany were worth more than EUR 50 billion. Imports from Switzerland also regularly exceed Austrian exports to Switzerland. The Swiss share of Austrian imports is 5.3 percent, valued at more than EUR 7 billion.

The ranking of the four Visegrad countries as suppliers of imports to Austria is as follows: Czech Republic, Hungary, Slovakia and Poland. Slovenia is not only a smaller supplier, but its exports to Austria registered a slower rate of growth than did the Visegrad countries' exports between 2005 and 2011.

Hungarian exports to Austria doubled between 1995 and 2000. They then fluctuated, but have increased once again since the economic crisis. Yet, even in 2011, the value of Hungarian exports to Austria was only about three-quarters of the value of Czech exports, whereas in 2000 Hungarian exports had been around 35 percent higher than Czech exports. (See Table 3.)

Austria regularly has a foreign trade deficit. In 2011, its trade deficit was EUR 9.23 billion. In the same year, Austria's trade deficit with Germany was more than EUR 12 billion – more than its total trade deficit. The deficit with Germany is diminished by a trade surplus with other countries. At present, Austria also has a trade deficit with Switzerland: it had a surplus until 2005, but has had a trade deficit since that year. In 2011, Austria's trade deficit with Switzerland was more EUR 1 billion. Austria regularly has a trade surplus with Poland, Hungary and Slovenia. Austria had a trade deficit with Slovakia between 2000 and 2008, but has had a significant trade surplus since 2011. Austria's trade balance with the Czech Republic has varied over time; in 2011, an Austrian trade deficit was registered. (See Table 4.)

The Main Features of Austrian–Hungarian Trade

In bilateral trade, Hungarian exports increased significantly in 2003 but declined in 2002 and 2005; the volume of imports from Austria increased rapidly in 2004–2005, after declines in 2002 and 2003. In trade between two relatively small countries, one or two large orders can result in a huge increase in exports or imports, while the completion of a major project may lead to a decline in the rate of growth, because supplies of machinery and equipment will have featured as a large item in reciprocal trade – more so in Austrian exports than in Hungarian exports. At the same time, it is known that the value and growth rate of Austrian–Hungarian trade underwent wide fluctuations in the 1990s and then strengthened between 2000 and 2011. On both sides, the absolute value of trade has fallen several times. Hungarian exports to Austria were valued at EUR 3.65 billion in 2011, which was slightly higher than the figure for 2008, the year in which the crisis began. Imports from Austria to Hungary were worth EUR 3.78 billion in 2011, which was almost 18 percent lower than in 2008. The large Hungarian trade deficit with Austria experienced in the period 2005–2010, became more moderate in 2011, but it did not disappear.

Austria's share of Hungary's foreign trade showed a tendency to decline between 2001 and 2011. Hungary was able to increase trade with other partners more quickly than with Austria. Austria's share of Hungary's exports to EU countries was 9.4 percent in 2001; the ratio fell to 6.9 percent in 2005 (the year after Hungary's accession to the EU) and to 6.3 percent in 2010. Indeed, Austria's share has been on the decline ever since 2003. Austria's share of Hungary's imports from EU countries was 11.2 percent in 2001, and the share fell to 9.2 percent by 2010. Imports from Austria fell by 20.7 percent in the crisis year of 2009, while Hungarian exports to Austria fell by an even greater amount – 24.9 percent. In 2011, imports from Austria were worth less than the figure for 2006. (Tables 5 and 6 show the values, growth rates and ratios for Austrian–Hungarian trade.)

The Austrian–Hungarian trade balance regularly shows a Hungarian trade deficit. The Hungarian import surplus was HUF 620.1 million in 1995 and increased to EUR 758.9 in 2005. The Hungarian deficit in 2008 was at a record level: EUR 985.5. The figure had fallen to EUR 121.3 by 2011.

For a better understanding of the development of foreign trade, important lessons can be drawn from its structure. As far as Austrian–Hungarian bilateral trade is concerned, Hungary is a net importer of machinery and equipment, manufactured goods and chemicals, while it is a net exporter of agricultural products and raw materials. Prior to 2005, Hungary exported more than it imported in the fuel and energy sector, but the reverse has been true since that year. From 1995–2004, there was a doubling of Hungary's export surplus of agricultural and food products to Austria. Since 2004,

however, the value of such exports has declined – falling from EUR 110.3 million in 2004 to EUR 63.8 million in 2011 (a drastic decrease of 42.2%). In 2011, the export and import of machinery and equipment was in balance; indeed, an unprecedented, albeit negligible, Hungarian surplus was registered. (See Table 7.)

The commodity structure of bilateral trade reveals several interesting features. The share of agricultural and food products in Hungarian imports increased substantially between the mid-1990s and 2011, by which time such products represented almost 10 percent of total imports. Current energy imports significantly exceed energy exports, and this reflects Hungary's dependence in this sector. Austrian chemical products have won a large share of the market in Hungary, and so their share of Hungarian imports is twice their share of Hungarian exports (11% as against 6%). Since the completion of the establishment of a large number of new Austrian subsidiaries in Hungary, the share of machinery and equipment has stabilised at around one-third. Machinery and equipment once accounted for a far larger percentage of imports than of exports, but the situation was reversed in 2011: machinery and equipment now account for a larger share of Hungarian exports. Interestingly, total manufactured products and consumer goods account for a share of Hungarian imports that is only slightly larger than their share of exports. (See Tables 8 and 9.)

The structural data for Austrian–Hungarian bilateral trade show the presence in both countries of a mature and developed export structure. However, one should add that the structure of Hungarian foreign trade, in particular of exports, is a derived phenomenon. That is to say, it reflects in large part the supply of goods to Austria by Austrian companies with production facilities in Hungary. Meanwhile, the increase in food imports is linked with declining food production in Hungary and the Austrians acquiring market share in Hungary.

Austrian FDI in Central Europe

Austrian foreign direct investment (FDI) increased dynamically from the 1990s until the crisis of 2008. FDI by Austrian companies amounted to only EUR 685 million in 1995, but increased to EUR 5.98 billion in 2000 and to EUR 8.96 billion in 2005. Austrian FDI registered further increases between 2005 and the crisis year of 2008, when it reached the record level of EUR 20.11 billion. The crisis was intensely felt by Austrian investors abroad: in 2011, Austrian outward FDI fell to EUR 16.89 billion – around 20 percent less than the figure for 2008.

In both 1995 and 2000, more than 85 percent of Austrian FDI was directed at what are now the EU27 countries. After the EU's eastern enlargement in 2004, the ratio fell to 62 percent, and this downward trend has continued. In 2011, only 58 percent of Austrian

FDI was directed at the EU27 countries. This is due to the fact that a growing percentage of Austrian FDI is targeted outside the EU, primarily in Asia and particularly in China and elsewhere in East Asia. In terms of Austrian FDI within the EU, 71.5 percent goes to the seven other member states in Central Europe.

One-fifth of Austrian outward FDI is directed at Germany; this amounts to more than a third of Austrian FDI in the European Union. In 2011, Austrian companies made investments in Germany worth EUR 3.42 billion. Austrian FDI in Switzerland exceeded EUR 900 million in 2005, but decreased to EUR 775 million in 2011 after the crisis of 2008/2009. Interestingly, Austrian companies invested more capital in Hungary than in Switzerland in the period 1995–2011. In the Visegrad countries, Austrian FDI was highest in the Czech Republic in the period 2000–2008, but the situation has varied since 2008. In 2011, Hungary was the leading destination for Austrian FDI: investments in Hungary amounted to EUR 1.62 billion, which is substantially more than in the other Visegrad countries and Slovenia. (See Table 10.)

The typical business operations of Austrian-owned companies abroad were as follows: at the end of 2010, around 5,500 Austrian-owned companies were operating abroad, 3,700 of which in other EU countries. Austrian-owned companies abroad employ more than 940,000 people around the world, including 620,000 in the EU countries. The total turnover of such companies was almost EUR 300 billion in 2010, whereby their operating capital in the EU amounted to EUR 146 billion.

Most Austrian-owned foreign companies have been established in the Central European region. Austria has successfully appealed to historical cooperation and spun the threads linking the region historically, having recognised and prioritised the advantages of regional cooperation. After Germany, most Austrian-owned companies operate in the Czech Republic and in Hungary. In the Czech Republic, 478 Austrian firms had a turnover of EUR 16.5 billion, while in Hungary there were 460 such firms with a total turnover of EUR 14.2 billion. (See Table 14.)

Concerning the employment figures, Austrian-owned companies had more than 95,000 employees in the Czech Republic and more than 80,000 employees in Hungary. The corresponding figures were 50,000 in Poland and 45,000 in Slovakia. An interesting fact is the increasing attractiveness of Romania as an investment destination: since Romania's accession to the EU in 2007, the country has attracted a growing amount of foreign capital, with investments being made particularly in the raw materials industry. In recent years, Austrian FDI in Romania has picked up. There are now around 280 Austrian-owned companies in Romania, employing 100,000 people. Thus, in this area, Romania has overtaken both Hungary and the Czech Republic.¹³

After this brief account of capital flows, it is worth looking at the development of the stock of FDI. At the end of 2010, total Austrian FDI stock amounted to EUR 132.5 billion, of which EUR 84.5 billion is invested in Europe. Austrian companies in

Germany have the highest working capital stock – almost EUR 20 billion. The Czech Republic is the location of roughly half that amount – EUR 10.6 billion. Hungary is in third place: Austrian FDI stock amounts to EUR 7.6 billion. Whereas in 2003 Switzerland was still the fourth-largest destination country for Austrian FDI, by the end of 2010 it was in seventh place – behind Poland. High investment and operating costs in Switzerland were the main reason for this change.

During the 2008/2009 crisis, Austrian FDI stock in Hungary decreased significantly. The same process could be observed in Slovakia and Poland. In the Czech Republic and Germany, however, Austrian FDI actually increased. At the time, Austrian investors considered these two countries to be secure.¹⁴

By economic sector, Austrian outward FDI is concentrated in banking and financial services. Around 40 percent of Austrian outward FDI relates to banks and financial organisations, while 30 percent is in manufacturing, 15 percent in wholesale and retail, and 15 percent in other services. Around a third of Austrian FDI in Germany is in industrial production, while the other third is in the banking sector. Almost two-thirds of Austrian FDI in the Czech Republic is in the financial sector, while industry accounts for almost a quarter. The share of wholesale and retail is relatively low, because the Czech Republic has sought to keep this sector under domestic ownership. Thus, international chains and supermarkets are less numerous in the Czech Republic than in other parts of Central Europe. Austrian FDI in Romania (approx. EUR 7.5 billion) is similar in value to Austrian FDI in Hungary. The total production of Austrian companies in Romania is almost 1.5 times the amount in the Czech Republic and almost double the production level in Hungary. Austrian FDI in Poland is concentrated in the manufacturing sector, but the financial sector is also significant (35% share). In Slovakia, 60 percent of Austrian FDI stock is in banks, and in terms of Austrian FDI stock, Slovakia is last on the list in Central Europe. Even so, it receives more working capital per person than does Switzerland and the other Visegrad countries. (See Table 11.)

Each year, Austria receives substantial benefits from its outward FDI. In the mid-1990s, earnings from such sources were minimal. In 1995, there was still little movement, as investors were waiting to appraise the effects of Austria's EU membership. In 2000, however, earnings from this source amounted to EUR 1.4 billion, with EUR 1 billion coming from the EU countries. The highest earnings were achieved in Germany, Hungary, and the Czech Republic. The positive financial impact of EU membership on the Visegrad countries also benefited Austria. In 2005, there was a significant increase in the amount of earnings repatriated to Austria from the Visegrad countries and from Slovenia. Between 2005 and 2008 earnings from Slovakia and from the Czech Republic almost doubled. However, in the wake of the crisis that broke out in the fall of 2008, there was a reduction in Austrian FDI earnings from Hungary and Poland. In 2011, the FDI earnings of Austrian companies exceeded EUR 11.2 billion, of which a sum of

almost EUR 7 billion was achieved in the EU countries. Earnings of EUR 1.4 billion in the Czech Republic were significantly higher than earnings in Germany (EUR 940 million). In Hungary, Austrian companies achieved earnings of almost EUR 590 million. (Table 13 shows the trend in earnings.) Austria's financial manoeuvrability is greatly enhanced by its outward FDI stock, which amounts to almost 1.5 times its annual GDP.

The Role and Significance of Bilateral FDI between Austria and Hungary

Capital flows between Austria and Hungary have increased significantly since the collapse of communism. Austrian FDI in Hungary has played a significant role in investments in the country. In the mid-1990s, Austrian FDI in Hungary amounted to EUR 200 million, but by 2000 the amount had increased significantly. Even prior to Hungary's accession to the EU in 2004, there were no restrictions on capital flows, but Hungarian EU membership served as an impulse to Austrian investors. There have been wide fluctuations in Austrian–Hungarian bilateral trade and capital investment: a single FDI project may result in a large increase in capital flow, but on conclusion of the project there will be a reduction. In 2008, capital inflow to Hungary from Austria amounted to EUR 950 million, but the biggest inflow occurred in 2011: EUR 1.63 billion. This represented 16.5 percent of Austrian capital exports to EU countries. Hungary's significance for Austria is more related to capital exports than foreign trade. At the turn of the millennium, Austrian FDI stock in Hungary amounted to more than EUR 3 billion, and the figure then increased to EUR 7.43 billion in 2007. The first year of the 2008/2009 crisis saw a net capital outflow, which could be reversed only in 2010. By the end of that year, Austrian stock of FDI in Hungary had reached EUR 7.62 billion. (See Tables 10 and 11)

Almost half of Austrian capital invested in Hungary is in banking, insurance and financial organisations. A quarter is in industrial and food production, while more than 15 percent is in wholesale and retail. Other sectors account for 10 percent. Concerning the wholesale and retail sector, Austrian companies have invested as much in Hungary as they have in Germany. In the financial sector, Austrian investment in Hungary is worth about 50 percent of the sum of Austrian investment in Germany. (See Table 12.)

In numerical terms, Austrian-owned firms top the list of foreign-owned companies in Hungary: there are almost 3,000 Austrian-owned corporations in the country, which represents 15.4 percent of the total. Austrian subsidiaries in Hungary employ around 80,000 people (12.6 percent of those employed by foreign-owned companies). In terms of the number of employees, Austrian-owned companies are third on the list after

German- and American-owned companies. In terms of turnover, Austrian companies account for approximately 10 percent of the total turnover of foreign companies in Hungary. (See Table 16.)

The earnings of Austrian subsidiaries in Hungary have fluctuated over the last 20 years and especially since the early 2000s. After a significant increase, earnings reached EUR 588 million in 2011, which exceeded the earnings of Austrian-owned companies in Switzerland. (See Tables 13 and 14.)

Compared with the role of Austrian subsidiaries in Hungary, Hungarian investment in Austria has been modest. In 2010, around 9,400 foreign subsidiaries were operating in Austria, with almost 510,000 employees and EUR 206.46 billion in turnover. In terms of employment and sales, capital-rich West European countries take the first six places on the list; they are followed by Hungary in seventh place. At the end of 2010, 199 Hungarian-owned companies were operating in Austria, with 792 employees and a relatively high turnover of EUR 2.28 billion. There were 123 Slovak-owned companies, 89 Czech-owned companies, and 60 Slovenian-owned companies – with fewer total employees and lower levels of turnover. (See Table 15.)

The foundation and operation of Austrian subsidiaries in the Visegrad countries – particularly in Hungary and Slovakia – is usually undertaken with assistance from Austrian banks.

Austrian Banks in Central Europe and in Hungary

The presence and activities of banks and financial institutions represent – alongside FDI – an extremely important dimension of Austria's relations with Central Europe. In this paper, there is space only for a brief review of this field.

The ten largest Austrian banks are – by the size of their capital stock – the following: UniCredit Bank Austria (14,811), Raiffeisen Zentralbank (10,562), Erste Bank/Sparkassen (10,366), Hypo Group Alpe Adria (3,823), Österreichische Volksbanken AG (3,500), RLB Oberösterreich (2,704), BAWAG P.S.K. (1,994), RLB Niederösterreich-Wien (1,196), Oberbank (1,148), RLB Steiermark (962). (The capital stock is given in USD millions in parentheses.)

Austrian banks are active providers of credit throughout the world and especially in the Central European region. In 2010, their foreign assets amounted to EUR 390.18 billion, which is 142 percent of Austria's GDP. More than half of their foreign assets are located in Central and Eastern Europe. In 2010, these foreign assets were worth EUR 210.21 billion, a share of 53.8 percent.¹⁵

Austria's banks have 68 subsidiary banks in Central and Eastern Europe; 21.5 percent of their assets (valued at more than EUR 45 billion, according to the data

for 2010) are located in the Czech Republic, 15 percent (almost EUR 30 billion) are in Romania, 13 percent (more than EUR 27 billion) in Hungary, 12.4 percent in Croatia, 5.4 percent in Slovenia, and 5.1 percent in Poland. In the CEE region, Austrian bank assets account for 21 percent of the total bank assets of the EU15 countries; the Austrian percentage is the largest individual share. The situation of Austria's banks is stable, as only 1.3 percent of their loans are in the problematical southern European region.

In Hungary, five major Austrian-owned (or partly owned) banks are in operation. The largest is Erste Bank, a 99.95 percent Austrian-owned bank with total assets of HUF 2986.26 billion at year-end of 2010. Turnover for the fully Austrian-owned Raiffeisen Bank was HUF 2367.91 billion in 2010. Another fully Austrian-owned bank is Sopron Bank Burgenland; its Hungarian turnover was HUF 97.13 billion. Oberbank is another Austrian-owned bank, with a turnover of HUF 16.36 billion in 2010. After a partial sale (95%), the Austrian stake in Volksbank is now five percent. Its 2010 turnover was HUF 501.62 billion.¹⁶ In 2011, based on total assets, Erste Bank was the largest Austrian-owned bank in Hungary and the second largest bank. Raiffeisen Bank was Hungary's sixth-largest bank. In that year, none of the Austrian-owned banks featured among the ten banks in Hungary with the largest net incomes.¹⁷

In 2011–2012, foreign-owned banks withdrew significant amounts of capital from the Central and Eastern European countries, but the outflows were not as significant as those from the problematic regions of Europe and elsewhere. In Central Europe the banks did not retreat; rather, they returned money to their own domestic capital markets and lent less externally. Often, however, significant amounts of capital were withdrawn. Between 2011 and Q2 of 2012, foreign-owned banks withdrew USD 45 billion on an annualised basis from the CEE6 countries (Poland, Czech Republic, Slovakia, Hungary, Romania and Croatia).¹⁸

Between Q3 of 2011 and Q2 of 2012, foreign-owned banks repatriated in total USD 18 billion (EUR 14 billion) from Hungary. Concurrently with the foreign bank capital withdrawal, Central Europe (including Hungary) was receiving capital inflows from other sources – mostly through the sale of government bonds.

The Austrian Labour Market and Foreign Workers

On 1 May 2011, Austria, like Germany, opened its labour market to workers from those member states that had joined the EU in 2004. At present, Austria has a labour force of 3,650,000, including almost 500,000 foreign workers. Since 2004, 660,000 people have immigrated to Austria, which counts as one of the most attractive destination countries. Since EU accession, almost 100,000 migrants have moved to Austria from East Central Europe, with 25,000 coming from Hungary.

According to Austrian surveys, following last year's opening of the labour market, the largest number of workers will come from the Czech Republic, Slovakia and Hungary: the anticipated number over the next two-year period is 70,000 (32,000 workers from the Czech Republic, 24,000 from Hungary and 14,000 from Slovakia). Only a minority of the migrant workers from these three countries (around 32,000 of them) want to settle in Austria. Most of them (an estimated 38,000) would choose, if possible, to commute on a weekly or daily basis.¹⁹ Such intentions are strongest in the border areas, where commuters can enjoy Austrian wage levels while retaining the lower living and housing costs of their home countries.

According to Austrian surveys, 14 percent of those intending to work in Austria have higher educational qualifications, 74 percent have high school diplomas, and 60 percent are male. Interestingly, 53 percent speak fluent German; this also means, however, that every second worker will not be able to find qualified work in Austria (owing to a lack of knowledge of German). In Hungary, 49 percent of high school students study German, while the share is 61 percent in the Czech Republic and 68 percent in Slovakia.

The main motives for working in Austria are, in order of importance: higher wages, good job prospects, better working conditions, learning something new, opportunities to acquire new skills. The main areas of work are: construction, retail, hotel and catering, other services and health care. In Austria, the demand is greatest for skilled construction workers, skilled hotel and catering workers, shop assistants, and nurses – from Hungary and the other neighbouring countries.

Engineering and natural science graduates are also needed in Austria. Almost 40 percent of migrants choose Austria because of its geographical proximity. For Hungarians, in addition to Vienna, the most attractive provinces are Burgenland and Lower Austria. In Burgenland, every tenth worker is now Hungarian, and the Hungarian share of the workforce is growing. Around a half of jobseekers find work by way of acquaintances and friends. Employment agencies are used by 13 percent, while 11 percent look for work on the Internet.

According to surveys, around 60 percent of those intending to work in Austria expect to receive two or three times their wages at home, while 15 percent expect to receive four or five times. Since net wages in most sectors in Austria are between 2.5 and 4 times higher than in Hungary (depending on the sector and the skill/qualification), worker expectations seem realistic and realisable. Per capita GDP (PPP) in Hungary is 31 percent of the Austrian figure, but wage differences have consistently been even greater. Long-term employment is sought by 36 percent of the migrants, while 40 percent are more interested in seasonal work. Half of the migrants would spend the higher income received in Austria on real estate purchases or home construction – mostly in Hungary (Budapest and western Hungary).

Austria's unemployment rate is currently 4.3 percent, the most favourable rate in the European Union alongside Luxembourg and the Netherlands. In 2011, 52,000 new jobs were created in Austria, around half of which went to arrivals from Hungary, the Czech Republic and Slovakia. Twelve thousand workers from Hungary found work in Austria.²⁰ Hungarians thus form the largest group; they are followed by the Poles and Slovaks. Austrian workers have not been negatively affected by the opening of Austria's labour market; the new arrivals have not squeezed them out of jobs. A significant percentage of the migrant workers – about a third of those Hungarians intending to work in Austria – want to stay in Austria for three to five years. More than 35 percent of them, however, wish to continue to work in Austria as long as possible – even until retirement. If such workers acquire higher qualifications, gain experience and send some of their income home (and can even continue to live in Hungary in the case of the commuters), the impact on Hungary will clearly be positive.

Tourism

In international terms, Austria has outstanding tourism potential and it has made good use of its favourable attributes. Many tourists come from the neighbouring countries in Central Europe. Germany is Austria's largest tourism partner. In the mid-1990s, revenue from German tourists amounted to EUR 5.88 billion, and the figure increased to 6.61 billion in 2004 and 7.01 billion in 2011. Austrian tourists in Germany spent less: EUR 1.22 billion in 1995, 1.51 billion in 2004 and 1.81 billion in 2011. Thus, Austria had a tourism surplus with Germany throughout the period: the surplus increased from EUR 4.66 billion in 1995 to EUR 5.22 billion in 2011. Austrian tourists also spend less in Switzerland than do the Swiss in Austria. In 1995, Austria's tourism revenue from Swiss tourists was 2.5 times higher than the amount spent by Austrian tourists in Switzerland. The ratio increased to 3.5 in 2004 and then decreased marginally to 3.4 in 2011.

Among the various countries in Central Europe, Croatia is – after Germany – the favourite destination for Austrian tourists. As late as the mid-2000s, bilateral Austrian–Croatian tourism revenue/expenditure was relatively low, but the number of Austrian tourists to Croatia and their spending have increased rapidly from year to year. In 2011, Austrian tourists spent EUR 637 million in Croatia, while Croatians spent only EUR 72 million in Austria. Accordingly, Croatia is the only country in Central Europe with which Austria has a tourism deficit. In 2011, Austrian tourists spent EUR 565 million more in Croatia than vice versa.

Among the Visegrad countries, Austrian–Hungarian tourism is the most significant. From the latter half of the 1980s, Austria became a frequent destination for tourists from

Hungary, and their spending increased from year to year. After the political changes of 1989/90, tourism developed rapidly. In 1995, Hungarian tourists spent EUR 225 million in Austria, but this sum increased to 573 million in 2004. Spending by Austrian tourists in Hungary increased from EUR 193 million to 289 million over the same period. Thus, in 2004, Austria's tourism surplus with Hungary was EUR 42 million. In 2011, Hungarian tourists spent EUR 443 million in Austria, while Austrian visitors to Hungary spent 224 million. Austria thus had a substantial tourism surplus with Hungary: EUR 218 million. Accordingly, in relation to Hungary, Austria's tourism revenue is currently almost twice its expenditure. (See Table 17.)

The regional preferences of Austrian visitors to Hungary indicates that most Austrian tourists – who tend to stay in Hungary for a few days – come to the West Transdanubian region, and the relative popularity of this region among Austrian tourists has strengthened in recent years: in 2011, 64.5 percent of Austrian tourists stayed in West Transdanubia. Lake Balaton was in second place, with 16.3 percent. Budapest, with 13.9 percent, was the third-most popular destination among Austrian visitors, and the trend is upwards.²¹

In terms of bilateral tourism relations, Hungarian tourists are expected to continue spending in Austria at least twice what Austrian tourists spend in Hungary. In international terms, this ratio is not unfavourable for Hungary, as Austria's tourism surplus with other countries is far higher.

Austrian–Hungarian Regional Cooperation

The opening of the borders in 1989 created real opportunities for regional cooperation between Austria and Hungary. The institutionalisation of regional cooperation began in 1985 with the establishment of an Austrian–Hungarian regional planning commission. Cooperation was placed on new foundations in 1992 with the formation of the Cross-Border Regional Council, under whose auspices nine working groups were established to analyse economic and regional development on both sides of the border and to map out opportunities for cooperation. A substantial advance was the Austrian–Hungarian Phare–CBC, set up as a mirror programme to INTERREG II. Initially, the programme had a budget of ECU 35 million (1 ecu = 1 euro from 1999), but this was subsequently increased to ECU 50 million. The Hungarian government provided ECU 11 million of co-funding. Under the programme, support was given to transport infrastructure and tourism projects, to conservation projects, and to labour market cooperation initiatives. After the abolition of the Cross-Border Regional Council, participants gave their support to a Euregion/Western Pannonia cooperation programme for the coordination of projects. However, unlike the West European

models, the Euregion/Western Pannonia did not undertake INTERREG-coordination tasks. The INTERREG IIA – Phare CBC programmes ran from 1995 until 1999 and the INTERREG IIIA – Phare CBC ran from 2000 until 2006. Both the INTERREG II and the INTERREG III programmes focused on the modernisation of infrastructure (especially transport infrastructure), industrial development and environmental projects. Major investments included the industrial park at Szentgotthárd, the expansion of the marketing and IT centre at Győr, railway modernisation (GYSEV), the construction of bicycle paths along the Danube and in the Lake Neusiedl area, and the construction of a recycling plant in Zalaegerszeg. Among the various environmental and conservation projects, it is worth highlighting the establishment of conservation areas in the Sopron and Kőszeg areas that extend into Burgenland in Austria.²²

At present, cooperation falls under the “Cross-Border Cooperation Programme Austria–Hungary 2007–2013,” which is coordinated in Hungary by the National Coordination Agency. In the current period, the programme has three priorities:

1. Innovation, integration and competitiveness: research and development, cooperation between SMEs, leisure development, support for the cultural heritage. This priority includes labour market cooperation and human resources management.
2. Sustainable development and accessibility: improving transport and regional accessibility, support for logistical information and communication systems and cross-border local government cooperation. This point includes improving the management of natural resources.
3. Providing technical assistance.

In the period 2007–2013, the European Regional Development Fund has allocated EUR 82.28 million for the Austrian–Hungarian regional cooperation programme, and domestic co-funding amounts to EUR 18.58 million.²³

The investment and cooperation projects reveal a strong regional affiliation. In Austria, the main areas of Austrian–Hungarian cooperation are: Vienna, Lower Austria, Burgenland and – partly – Styria; and in Hungary: the countries along the Danube and the northern Transdanubian counties, as well as Budapest. Of the various towns in Transdanubia, Győr, Sopron, Székesfehérvár, Szentgotthárd attract the largest amount of Austrian capital, more than 80 percent of total Austrian investments in Hungary.

Summary

After Austria's accession to the EU in 1995, Austria's economic relations with other countries in Central Europe developed favourably. In the late 1990s and the early 2000s, Austria's relations with Hungary were the most successful and dynamic. However, in the period 2004–2010, in consequence of the worsening economic problems in Hungary and the 2008–2009 global crisis, development was slower than anticipated and then went into reverse. Those Visegrad countries with greater internal dynamics and financial stability became more attractive partners for Austria; Hungary's relative significance declined. In 2011, however, Austrian–Hungarian foreign trade became more balanced.

For the Austrians, Austrian–Hungarian economic relations have several principal advantages: the favourable cost productivity ratio and higher profitability than in Austria; significant export revenues in the Hungarian market; some of the products manufactured in Hungary are sent back to Austria and are sold there, which improves the profitability of Austrian firms and the internal market. A burden on relations has been the purchase by Austrian farmers of some 800–900,000 hectares of agricultural land in western Hungary. The Austrian farmers take their produce out of the country, resulting in direct losses for Hungary rather than export revenues. In Austria, there are reasonable controls on land ownership which prevent foreigners from purchasing land there.

The dual dimension of regional cooperation: bilateral and Central European regional cooperation. Concerning the latter, it is obvious that Hungary must reckon with increasing competition from the other Visegrad countries in terms of trade, attracting capital, and investment.

Instead of the anticipated positive impacts of EU membership, Hungary is affected by the crisis in the EU (particularly in its southern part). Meanwhile, Austria's role as a partner is enhanced by its consolidated economic situation, its relatively successful management of the crisis, and its financial stability. Austria has been reducing its debt burden, a path that Hungary is also following in the hope of restoring confidence in the country. The debt-to-GDP ratios of Poland, the Czech Republic and Slovakia are well below the Maastricht limit of 60 percent, a lower ratio than Austria's or the average for the eurozone. This fact has contributed to the relatively good performance of the three countries. In the current global and European economic situation, it is imperative for Central Europe to become a stable region. In this way, the region will gain in significance – particularly in relation to the instability of southern Europe.

Regional cooperation has led to substantial results, particularly in the field of bilateral Austrian–Hungarian and Austrian–Czech relations. Nevertheless, there

continue to be significant differences in the level of development as well as structural disparities. In practice, regional partnership policy has enhanced the value to Austria of its relations with the other Central European countries.²⁴

In the Central European region, many initiatives and cooperation agreements have come into being. The content of these agreements and initiatives is heterogeneous and compatibility could not always be assured. Major initiatives include the Central European Initiative (CEI), the Alps Adria Working Group, and CEFTA (established by the Visegrad countries). In 2013, the CEI Presidency is held by Hungary, and from July 2013 Hungary will also take over the Presidency of the Visegrad Four (V4) Group.

At stake is whether Central Europe will become an integral region and community of interests or whether it will be a “conglomerate of occasional interest-based coalitions with a variable symmetry.”²⁵ With the eastern enlargement of the European Union in 2004, regionalism acquired greater significance within the EU. Both Austria and Hungary expected this development to make a positive impact. Their hopes have been met in part, but there has been much friction in the fields of investment and employment in the period 2005–2012. The regional partnership envisaged by Austrian policymakers in 2000 has failed to live up to expectations, but an “integrating Central Europe” can (re)connect the countries of the region in political, economic and cultural terms. In Austrian–Hungarian relations, this is an emphatic aim of both countries.

Notes

- 1 This paper was completed under the auspices of the TÁMOP-4.2.1.B-11/2/KMR-2011-0002 programme.
- 2 For a detailed analysis of post-transition national identities and Austria’s Central European dimension and the return to “diversity,” see László J. Kiss: “A birodalomtól az integrált kisállamig. A ‘német nemzetől’ az osztrák nemzetig az EU-ban” [From Empire to Integrated Small State. From the ‘German Nation’ to Austrian Nation in the EU]. In: *Nemzeti identitás és külpolitika Közép- és Kelet-Európában* [National Identity and Foreign Policy in Central and Eastern Europe] (ed. by László J. Kiss). Budapest: Teleki László Alapítvány, 2003. pp. 33–89.
- 3 On the foreign policy and development policy aspects of the integration process, see László J. Kiss: “Az integrációs folyamat anatómiája, avagy az ‘integráció integrálása’” [The Anatomy of the Integration Process, or the ‘Integration of Integration’]. In: *Külpolitika és modernizáció* [Foreign Policy and Modernisation] (ed. by László Zsinka). Budapest: BIGIS–PEW, 1996.
- 4 On the economic impact of the 1995 EU enlargement, see István Kőrösi: “Ausztria, Finnország és Svédország az Európai Unióban” [Austria, Finland and Sweden in the European Union]. *Külgazdaság*, No. 12. (1995). pp. 17–30.
- 5 My own calculations based on Tables 2 and 3.
- 6 On Austrian Europe policy and on the political dimensions of the role of the Central European region within the EU, see László J. Kiss: “Az osztrák Európa-politika útkeresése, avagy egy közép-európai régió esélyei az EU-ban” [The Direction of Austrian Europe Policy or the Chances of the

- Central European Region in the EU]. *Európai Szemle*, No. 3. (2002).
- 7 On the profound changes in the relative power of the political parties in Austria and the shifts in domestic political power, see László J. Kiss: “Osztárk választások: nagykoalíciótól nagykoalícióig, avagy a néppártok eróziója” [Austrian Elections: From Grand Coalition to Grand Coalition, or the Erosion of the People’s Parties]. MKI-tanulmányok, No. 29. (2008).
 - 8 The detailed statistical analysis is shown in Tables 4–7.
 - 9 For the effects and management of the crisis in Austria, see István Kőrösi: “Ausztria – a válság hullámai elérték a stabilitás szigetét” [Austria – the Waves of the Crisis Have Reached the Island of Stability]. In: A pénzügyi-gazdasági válság hatása és kezelése az EU fejlett kis tagállamaiban [The Impact and Management of the Financial and Economic Crisis in the Small Advanced Member States of the EU] (ed. by Krisztina Vida). Budapest: MTA VKI, 2009. pp. 7–13.
 - 10 The economic data were provided by Bank Austria: *Wirtschaft im Überblick*. No. 1. (2012). See Bank Austria, http://www.bankaustria.at/informationspdfs/WIUe_01-2012.pdf.
 - 11 The difference between Austria and Hungary in terms of purchasing parity is far smaller than the nominal difference, because – despite recent increases – prices are generally lower in Hungary than in Austria. While many foodstuffs and industrial goods are cheaper in Austria than in Hungary, this does not alter the general situation.
 - 12 The Austrian labour market data and the unemployment rate given here are based on Eurostat data and accord with ILO standards. Austrian statistical methods are different, and so the statistical data are not comparable with the Eurostat data.
 - 13 For the detailed comparative data, see Table 14.
 - 14 For a detailed analysis of Austrian FDI by sector, see Österreichische Nationalbank: *Direktinvestitionen 2010. Statistiken Sonderheft*, (November 2012).
 - 15 For a detailed analysis of the foreign exposure (liabilities and assets) of Austrian banks, see Stephan Binder: “Auslandsexposure österreichische Banken relativ gering: Engagement österreichischer Banken in ausgewählten Ländern im internationalen Vergleich.” Österreichische Nationalbank, *Statistiken*, No. 4. (2010). pp. 21–27. See Österreichische Nationalbank, http://www.oenb.at/de/img/stat_2010_q4_analyse_binder_tcm14-210797.pdf.
 - 16 For information on foreign banks in Hungary, based on data provided by the Hungarian Banking Association and the Hungarian Financial Supervisory Authority, see BankRáció.hu, <http://www.bankracio.hu/bankok>. Accessed: 10 November 2012.
 - 17 For bank profitability, based on data provided by the Hungarian Financial Supervisory Authority, see *Portfolio*, <http://www.portfolio.hu>. Accessed: 10 November 2012.
 - 18 For details of the repatriated capital, see “Banken ziehen Gelder ab – Ungarn blutet relativ so stark wie Spanien”. *Der Börsianer*, <http://www.derboersianer.com/news/oesterreich/artikel/details/banken-ziehen-gelder-ab-ungarn-blutet-relativ-so-stark-wie-spanien301726.html>, 8 November 2012.
 - 19 Insights into the Austrian labour market situation are provided in the following WIFO study: Klaus Nowotny: *AFLA – Arbeitskräftemobilität und Fachkräftebedarf nach der Liberalisierung des österreichischen Arbeitsmarktes*. Vienna: WIFO, 2011.
 - 20 For data on foreign workers in the various sectors of the Austrian labour market, see STATcube of STATISTICS AUSTRIA, <http://statcube.at/superwebguest/login.do?guest=guest&db=dewatlas12>. Accessed: 10 November 2012.
 - 21 The following website provides information on the number of foreign visitors to Hungary and their regional distribution: “A több napra Magyarországra látogató külföldiek megoszlása a felkeresett turisztikai régió szerint, országonként (2006–)” [Distribution of Foreigners Visiting Hungary for Several Days by Tourism Region and by Country of Origin (2006–)]. Hungarian Central Statistical Office, http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_ogt007.html. Accessed: 10 November 2012.
 - 22 On the various factors of regional cooperation and the main features of the INTERREG programmes, see István Kőrösi: *A regionális együttműködés útja, jelene és jövője a kibővülő*

- Európai Unióban – Ausztria példáján [Present and Future Regional Cooperation in the European Union as Exemplified by Austria]. Budapest: MTA VKI, 1997.
- 23 Concerning the areas and priorities of cooperation, see “Ausztria–Magyarország Határon Átnyúló Együttműködési Program 2007–2013” [Cross-Border Cooperation Programme Austria–Hungary 2007–2013]. National Development Agency, http://www.nfu.hu/ausztria_magyarország_hataron_atnyulo_egyuttmukodesi_program. Accessed: 10 November 2012.
 - 24 On Austria’s path to European integration, its experiences in the EU and its role in Central Europe (particularly the economic and economic policy aspects), see István Kőrösi: “Ausztria új szerepe: közép-európai államként ismét az európai centrumban” [Austria’s New Role: As a Central European State Once Again in the European Center]. In: *A Huszonötök Európai [Europe of the Twenty-Five]* (ed. by László J. Kiss). Budapest: Osiris, 2005. pp. 550–588.
 - 25 Indicative of the complexity of the situation, this description appears in László J. Kiss: “A birodalomtól az integrált kisállamig: az osztrák semlegesség és az európai integráció” [From Empire to Integrated Small State: Austrian Neutrality and European Integration]. In: *Nemzeti identitás és külpolitika Közép- és Kelet-Európában* [National Identity and Foreign Policy in Central and Eastern Europe] (ed. by László J. Kiss). Budapest: Teleki László Alapítvány, 2003.

Tables

Table 1

Main Economic Indicators for Hungary and Austria (2011)			
		Hungary	Austria
Population	million	9.974	8.421
	inhabitants/km ²	107	100
Gross domestic product (GDP)	EUR bn	99.9	300.7
GDP per capita (PPP)	EUR	16 423	35 710
Employment			
Labour force	million	3.743	4.323
Unemployed	thousand	466.7	179.0
Unemployment rate	%	10.9	4.2**
Monthly average earnings (gross)	EUR	763	2 043
Inflation rate (consumer prices)	%	5.5*	2.1*
Budget surplus or deficit	%/GDP	4.2	-2.6
Public debt	%/GDP	80.6	72.3
Foreign trade			
Current account balance	EUR bn	7.1	-9.2
Exports	EUR bn	80.0	121.8
Exports/GDP	%	80.0	40.5
Imports	EUR bn	72.9	131.0
Imports/GDP	%	73.0	43.6
Foreign investments			
Inward FDI	EUR bn	3.29	10.81
Outward FDI	EUR bn	3.17	18.37
Stock of FDI – at home	EUR bn	64.71	195.46
Stock of FDI – abroad	EUR bn	18.56	224.80

Notes:

* Forecast for 2012.

** Based on ILO methods.

Sources: Hungarian Central Statistical Office, Statistisches Bundesamt Österreich, National Bank of Hungary, Österreichische Nationalbank, Eurostat.

Table 2

Austrian Exports to the Central European Countries (EUR million)						
	1995	2000	2004	2005	2008	2011
Total Austrian exports	42 151.1	69 692.5	89 847.7	94 705.4	117 525.3	121 773.6
Germany	16 167.8	23 244.0	28 951.3	30 108.2	35 009.7	38 041.8
Switzerland	2 286.7	4 422.7	4 037.5	4 271.7	4 468.2	5 986.2
Poland	574.2	1 109.8	1 633.3	1 890.8	3 270.7	3 409.3
Czech Republic	1 154.1	1 999.4	2 751.7	2 925.4	4 401.7	4 763.3
Slovakia	414.2	767.8	1 377.3	1 640.0	2 383.0	2 431.3
Hungary	1 534.5	3 466.4	3 338.1	3 322.8	4 213.6	3 775.1
Slovenia	713.3	1 229.0	1 986.4	1 711.4	2 551.3	2 292.4

Source: Statcube – Statistical Database of Statistics Austria, 2012.

Table 3

Austrian Imports from the Central European Countries (EUR million)						
	1995	2000	2004	2005	2008	2011
Total Austrian imports	48 548.1	74 935.9	91 094.4	96 498.9	119 567.9	131 007.6
Germany	21 162.5	30 534.1	39 130.3	40 732.8	48 490.1	50 050.4
Switzerland	1 857.7	2 279.7	2 732.0	3 214.1	5 021.3	7 044.9
Poland	463.1	756.9	1 111.6	1 484.9	2 144.7	2 433.1
Czech Republic	917.8	1 921.1	2 886.1	3 189.2	4 237.3	4 879.0
Slovakia	383.8	1 042.4	1 814.0	1 696.3	2 388.4	3 240.1
Hungary	914.5	2 604.8	2 602.9	2 463.9	3 228.1	3 653.7
Slovenia	382.4	717.7	1 156.1	899.0	1 201.0	1 619.0

Source: Statcube – Statistical Database of Statistics Austria, 2012.

Table 4

Austria's Balance of Trade with the Central European Countries (EUR million)						
	1995	2000	2004	2005	2008	2011
Austria's balance of trade with region	-6 396.9	-5 243.3	-1 246.6	-1 793.4	-2 042.6	-9 234.0
Germany	-4 994.7	-7 290.0	-10 179.0	-10 624.5	-13 480.3	-12 008.6
Switzerland	428.9	2 142.9	1 305.5	1 057.6	-553.2	-1 058,7
Poland	111.1	352.9	518.7	401.8	1 126.0	976.2
Czech Republic	236.3	78.3	-134.4	-263.8	164.5	-115.8
Slovakia	30.4	-274.5	-436.7	-56.3	-5.4	808.8
Hungary	620.1	861.6	735.2	758.9	985.5	121.3
Slovenia	330.9	511.3	830.3	812.3	1 350.3	673.4

Source: Statcube – Statistical Database of Statistics Austria, 2012.

Table 5

Hungary's Exports to Austria (main indicators)			
	Value (EUR million)	Annual growth rate %	Austrian share of Hungary's intra-EU exports
2001	2 688		9.4
2002	2 583	-3.9	8.4
2003	3 081	19.3	9.6
2004	3 225	4.7	8.7
2005	2 836	-12.1	6.9
2006	2 954	4.2	6.2
2007	3 174	7.4	5.8
2008	3 597	13.3	6.2
2009	2 702	-24.9	5.8
2010	3 518	30.2	6.3
2011	3 654	3.9	...

Source: „External and Intra-EU Trade”. In: *Statistical Yearbook 2011*. Brussel: Eurostat, 2012.

Table 6

Hungary's Imports from Austria (main indicators)			
	Value (EUR million)	Annual growth rate %	Austrian share of Hungary's intra-EU imports
2001	2 771		11.2
2002	2 764	-0.2	10.7
2003	2 655	-4.0	9.7
2004	3 164	19.2	9.5
2005	3 521	11.3	9.4
2006	3 864	9.7	8.8
2007	4 247	9.9	8.8
2008	4 590	8.1	9.1
2009	3 639	-20.7	9.5
2010	4 129	13.5	9.2
2011	3 775	-8.6	...

Source: „External and Intra-EU Trade”, op. cit.

Table 7

Hungarian–Austrian Trade Balance by Major Commodity Sectors (EUR million)						
	1995	2000	2004	2005	2008	2011
Total	-620.1	-861.6	-735.2	-758.9	-985.5	-121.3
Agricultural and food products	48.6	70.3	110.3	88.5	28.9	63.8
Raw materials	34.2	85.3	116.8	119.5	265.5	294.5
Fuel and energy	64.3	155.8	37.0	126.3	-43.5	-31.9
Chemicals	-85.2	-141.4	-175.5	-186.0	-231.2	-211.5
Manufactured goods	-211.6	-306.5	-334.0	-333.5	-445.1	-230.6
Machinery and equipment	-449.1	-753.3	-453.7	-551.2	-466.8	1.8
Other finished products	-6.3	39.1	-21.3	-19.6	-64.1	61.9

Notes: The structural analysis was conducted according to the SITC commodity codes. SITC groups 1, 4 and 9 are not shown, because the percentages were so low. Positive figures indicate a Hungarian surplus, negative figures a Hungarian deficit.

Source: Statcube - Statistical Database of Statistics Austria, 2012.

Table 8

Hungarian–Austrian Trade by Commodity Groups, Distribution of Hungarian Exports (%)						
	1995	2000	2004	2005	2008	2011
Total	100.0	100.0	100.0	100.0	100.0	100.0
Agricultural and food products	10.1	4.4	7.6	9.0	9.4	11.2
Raw materials	7.0	4.3	5.8	6.4	10.2	9.6
Fuel and energy	13.5	8.9	8.3	16.7	13.9	11.7
Chemicals	7.5	4.7	4.6	5.4	6.6	6.0
Manufactured goods	17.1	13.5	15.7	14.4	16.1	15.0
Machinery and equipment	25.5	46.4	41.9	33.1	31.3	32.2
Other finished products	19.1	17.7	15.7	13.9	12.0	12.4
Other	0.2	0.1	0.4	1.1	0.5	1.9

Source: Own calculations based on Statcube - Statistical Database of Statistics Austria, 2012.

Table 9

Hungarian–Austrian Trade by Commodity Groups, Distribution of Hungarian Imports (%)						
	1995	2000	2004	2005	2008	2011
Total	100.0	100.0	100.0	100.0	100.0	100.0
Agricultural and food products	2.9	1.3	4.0	4.2	6.5	9.2
Raw materials	2.0	0.8	1.2	1.2	1.5	1.5
Fuel and energy	3.9	2.2	5.3	8.9	11.7	12.2
Chemicals	10.0	7.6	8.9	9.9	10.6	11.4
Manufactured goods	24.0	19.0	22.2	21.4	22.9	20.6
Machinery and equipment	44.5	56.6	46.2	42.4	35.1	31.1
Other finished products	11.8	12.1	12.9	11.2	10.7	10.4
Other	0.9	0.4	0	0.8	1.0	3.6

Notes: The totals for 2004 amount to 100.7% due to rounding up.

Source: Own calculations based on Statcube - Statistical Database of Statistics Austria, 2012.

Table 10

Total Austrian FDI – Outward (annual outflow of capital, EUR million)						
	1995	2000	2004	2005	2008	2011
Total	685	5 980	6 467	8 962	20 106	16 893
EU-27	585	5 196	4 581	5 575	11 224	9 901
Germany	130	1 976	467	1 128	2 588	3 420
Switzerland	45	-182	344	903	203	775
Poland	56	324	287	375	286	95
Czech Republic	52	1 014	396	504	1 376	375
Slovakia	41	194	199	167	73	272
Hungary	196	386	634	382	950	1629
Slovenia	41	111	116	234	374	516

Notes: The data do not include so-called special foreign investment enterprises or land purchases.

Source: Direktinvestitionen Österreichs im Ausland, Österreichische Nationalbank, 2012.

Table 11

Austrian Stock of FDI – Abroad (EUR million)						
	2003	2005	2007	2008	2009	2010
Germany	7 150	7 224	13 734	15 176	16 519	19 216
Czech Republic	3 548	4 729	7 589	8 630	9 658	10 595
Hungary	3 453	3 934	7 429	6 463	6 922	7 621
Romania	555	2 843	5 682	6 190	6 311	7 516
Slovakia	1 515	2 456	4 325	4 461	4 354	5 174
Poland	1 944	6 758	3 487	3 693	3 419	3 864
Switzerland	2 242	5 165	5 532	4 818	4 055	3 548
Slovenia	1 014	1 244	2 071	2 391	2 317	2 344
EU-27	29 515	43 803	65 522	71 508	73 624	84 453
Total	44 308	60 869	101 087	106 792	113 185	132 475

Notes: Countries are listed in order of value of Austrian stock of FDI at year-end 2010.

Source: „Direktinvestitionen 2010“. Statistiken Sonderheft, Österreichische Nationalbank, November 2012.

Table 12

Austrian Stock of FDI by Sector (EUR million)					
	Production	Trade	Finance	Other services	Total
Germany	7 144	1 174	6 808	4 089	19 216
Czech Republic	2 424	997	6 354	820	10 595
Hungary	1 941	1 171	3 670	839	7 621
Romania	3 691	300	2 686	840	7 516
Slovakia	972	496	3 066	639	5 174
Poland	1 993	354	1 403	114	3 864
Switzerland	719	1 087	1 300	442	3 548
Slovenia	541	716	868	219	2 344
EU-27	26 478	9 828	32 640	15 506	84 453
Total	39 680	19 480	52 285	21 030	132 475

Notes: Data for year-end 2010.

Source: „Direktinvestitionen 2010“, op. cit.

Table 13

Earnings from Austrian FDI (EUR million)						
	1995	2000	2004	2005	2008	2011
Total	9	1 387	4 196	7 028	8 772	11 206
EU-27	-108	1 030	2 747	3 747	5 387	6 913
Germany	-112	327	516	389	964	943
Switzerland	41	75	315	2 097	467	558
Poland	-10	74	280	493	288	295
Czech Republic	-36	180	584	679	1 237	1 379
Slovakia	-3	75	241	261	529	577
Hungary	2	194	476	698	195	588
Slovenia	15	52	4	77	164	186

Notes: Data do not include earnings from so-called special foreign investment enterprises or use of land ownership.

Source: *Einkommen aus österreichischen Direktinvestitionen im Ausland*. Vienna: Österreichische Nationalbank, 2012.

Table 14

Operations of Austrian-Owned Companies Abroad in 2010						
	Number of companies	Number of employees	Turnover EUR million	Companies	Employees	Turnover
	Absolute values					
Total	5 492	942 864	298 163	100.0	100.0	100.00
EU-27	3 667	619 621	146 280	66.8	65.7	49.1
Germany	718	104 371	32 780	13.1	11.1	11.0
Romania	278	99 572	13 555	5.1	10.6	4.5
Czech Republic	478	95 210	16 455	8.7	10.1	5.5
Hungary	460	80 248	14 160	8.4	8.5	4.7
Poland	243	49 452	10 338	4.4	5.2	3.5
Slovakia	275	44 987	8 641	5.0	4.8	2.9
Bulgaria	125	32 922	7 791	2.3	3.5	2.6
Italy	134	19 591	6 927	2.4	2.1	2.3
Slovenia	151	19 295	4 251	2.7	2.0	1.4
United Kingdom	140	18 115	7 015	2.5	1.9	2.4

Notes: Countries are listed in order of number of employees.
 Foreign ownership means a foreign share of more than 50%.
 Source: Statistics Austria, FATS statistics, 2012.

Table 15

Operations of Foreign-Owned Companies in Austria in 2010						
	Number of companies	Number of employees	Turnover EUR million	Companies	Employees	Turnover
Absolute values						
Total	9 433	509 472	206 455	100.0	100.0	100.0
EU-27	6 877	374 617	131 622	72.9	73.5	63.8
Germany	3 850	241 729	74 026	40.8	47.4	35.9
Italy	543	26 869	14 592	5.8	5.3	7.1
Netherlands	471	21 216	8 631	5.0	4.2	4.2
United Kingdom	413	15 173	8 437	4.4	3.0	4.2
Sweden	136	13 854	3 674	1.4	2.7	1.8
France	264	13 304	5 806	2.8	2.6	2.8
Hungary	199	792	2 282	2.1	0.2	1.1
Slovakia	123	649	215	1.3	0.1	0.1
Slovenia	60	603	393	0.6	0.1	0.2
Czech Republic	89	501	126	0.9	0.1	0.1

Notes: Countries are listed in order of number of employees.
 Foreign ownership means a foreign share of more than 50%.
 Source: Statistics Austria, FATS statistics, 2012.

Table 16

Operations of Foreign Subsidiaries in Hungary						
	Number of companies	Number of employees	Turnover HUF bn	Companies	Employees	Turnover
	Absolute value			Percentage distribution		
Germany	2 291	161 909	10 481.2	12.2	25.8	27.9
United States	1 973	90 515	5 998.3	10.6	14.4	16.0
Austria	2 883	78 929	3 249.1	15.4	12.6	8.6
United Kingdom	1 034	42 731	2 260.8	5.5	6.8	6.0
France	712	42 460	2 860.6	3.8	6.8	7.6
Japan	...	24 184	1 558.2	...	3.9	4.1
Switzerland	956	21 794	1 148.5	5.1	3.5	3.1
Netherlands	1 230	20 166	1 515.1	6.6	3.2	4.0
Italy	864	14 841	1 119.4	4.6	2.4	3.0
Sweden	...	12 638	2.0	...
Total first ten countries	13 902	510 167	31 649.5	74.4	81.3	84.2

Notes: The data are for 2008. Countries are listed in order of number of employees.

Source: STADAT, Hungarian Central Statistical Office, 2012.

Table 17

Austrian Revenue and Expenditure from Tourism (EUR million)									
	1995			2004			2011		
	Rev.	Exp.	Balance	Rev.	Exp.	Balance	Rev.	Exp.	Balance
Total	9883	5843	4040	12203	7473	4730	14267	7531	6736
Hungary	225	193	33	331	289	42	443	224	218
Germany	5877	1219	4658	6616	1513	5103	7009	1814	5195
Switzerland	373	146	227	533	153	379	759	223	536
Poland	95	28	67	143	107	36	233	56	177
Czech Republic	111	187	-76	173	192	-19	286	181	105
Slovakia	103	63	40	137	74	63	189	69	120
Slovenia	115	259	-144	145	151	-5	147	97	50
Croatia	53	71	-18	70	275	-205	72	637	-565

Source: Österreichische Nationalbank, Statistik Austria 2012.