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## **The Impact of Romania's Accession to the EU on the Austrian Economy**

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# Contents

<i>Executive summary</i> .....	<i>i</i>
Introduction.....	1
1 Economic conditions and progress in Romania .....	3
2 Payment and trade flows between Austria and Romania .....	6
3 Austrian FDI in Romania .....	10
3.1 Amount of Austrian FDI in Romania by different data sources.....	10
3.2 Characteristics of Austrian subsidiaries in Romania in 2003 .....	12
3.3 The most important Austrian investors in Romania .....	15
3.4 Results of a survey investigation among Austrian companies with subsidiaries in Romania .....	17
3.5 Impact of EU accession on FDI in Romania .....	21
4 Migration from Romania and its present and potential labour market effects on Austria.....	22
4.1 Immigration and naturalization of Romanians.....	22
4.2 Romanian citizens on the Austrian labour market.....	24
4.3 Potential Romanian migration into Austria .....	26
4.4 Free movement and labour market access of Romanian citizens after EU accession.....	30
4.5 Conclusion: Labour market effects of Romanian post-accession immigration .....	32
Literature.....	34

## List of Tables and Boxes

Table 1	Romania: Selected economic indicators .....	4
Table 2	Austria's current account with Romania, EUR million .....	7
Table 3	Main Austrian export industries to Romania, NACE category in per cent of total, 2004 .....	9
Table 4	Main Austrian import industries from Romania, NACE category in per cent of total, 2004 .....	9
Table 5	Austrian FDI outflows to Romania, EUR million .....	11
Table 6	Austrian FDI in Romania, year-end stock, EUR million and per cent of total .....	11
Table 7	Characteristics of Austrian subsidiaries in Romania .....	13
Table 8	Austrian subsidiaries in Romania by economic activity .....	14
Table 9	Top Austrian investors and their field of activity in Romania: ranking by registered capital, end-2004 .....	15
Table 10	Main motivation of investing in Romania: number of answers by type of investment .....	18
Table 11	Impact of the Romanian subsidiary on the mother company in Austria by type of investment .....	19
Table 12	What will change for your company when Romania becomes an EU member? Multiple answers allowed. Number of responses by type of investor .....	20
Table 13	Employment by region in the AGRANA Group .....	21
Table 14	Turnover and employment of Baunit .....	21
Table 15	Naturalization of Romanian citizens in Austria .....	22
Table 16	Romanian citizens with valid residence permits in Austria .....	23
Table 17	Number of Romanian immigrants to Austria (annual flows, register data) .....	23
Table 18	Number of Romanian employees with employment authorization in Austria, by type of permit .....	25
Box 1	Romania's road into the EU .....	2
Box 2	Conditions for doing business in Romania .....	3
Box 3	New Austrian investment projects in Romania announced in 2005 .....	16
Box 4	Impact of FDI in Romania on employment in some Austrian companies .....	20
Box 5	Assessing post-enlargement East-West European migration: methodologies .....	27
Box 6	Free movement of labour from Romania upon accession: transitional arrangements .....	30

## **Executive summary**

Romania will become a member of the European Union in 2007 or 2008. This paper explores the potential impacts of this step on Austria in three major fields: foreign trade, FDI and labour market.

Romania is a **more backward country** than those which joined the EU in 2004, but it has been on a path of **rapid economic growth** since 2001. In 2005 private consumption provided the main stimulus to GDP expansion while also contributing to the widening of the foreign trade deficit and curtailing disinflation. **Conditions of doing business** in Romania have improved in recent years but they are still more **complicated** than in old and new EU member states.

The medium-term prospects of the Romanian economy depend of two main factors: restructuring and improving international competitiveness, and the capacity to absorb EU funds after accession. If progress is slow in both respects, economic growth will be around 4% annually in the coming years, while under favourable conditions it may climb to 5-6%. Romania will remain a **rapidly growing market** for investment goods, consumer goods and services alike providing good **opportunities for Austrian companies**.

In the Austrian-Romanian relations, a small and rich country meets a relatively large but much poorer country. By territory and population Romania is almost three times larger than Austria, but its per capita GDP at purchasing power parity is only one quarter. The income gap between the two countries is a stimulus for migration to Austria, which will be slowly mitigated by the **expected economic catching-up** of Romania.

**Trade flows** between the two countries are **modest**: in 2004 Romania ranked 16th regarding Austrian exports and 21st regarding imports. Romania's share in Austrian exports (1.38%) and imports (0.8%) is only one fourth of the Czech Republic or Hungary. But it is also important to note that trade between Austria and Romania has been increasing rapidly in recent years and one may expect further strong growth.

Austria enjoys a **current account surplus** vis-à-vis Romania. The bulk of the surplus is generated by trade in goods, most recently also through the incomes earned by Austrian subsidiaries. **Migrants' transfers** from Austria to Romania are **of a low magnitude**, which indicates the lack of substantial migration.

Foreign direct investment of Austrian firms in Romania was only EUR 555 million at the end of 2003 (latest Austrian National Bank survey data). At that time Austrian subsidiaries concentrated in trade and also in financial services, much less in manufacturing. They just started making profits, and their exports back to the home company were marginal.

The recent huge investments of OMV and Erste Bank result in an Austrian FDI stock of about EUR 6 billion by the end of 2006, some **10% of the Austrian outward FDI stock**. This is a similar amount as invested in the Czech Republic or Hungary, which had been the main targets in earlier years. But compared with those countries, Austrian FDI in Romania is more concentrated in a few companies and industries, and the **subsidiaries in Romania are less export-oriented**. Following the years with large investments through privatization, Austrian FDI flows to Romania will decline again. But Romania's labour cost advantage in the field of manufacturing will remain for a longer period and attract export-oriented FDI projects.

We conducted a **questionnaire survey** in February 2006 among Austrian companies with subsidiaries in Romania in order to find out the impact of investments in Romania on Austrian mother companies. The most important impact was that the **firms' turnover increased**. Only two of the subsidiaries replaced production in Austria, and in only one case was employment cut due to imports from Romania. In the majority of cases, **employment in the home company increased**, particularly in the field of management and services. The survey results confirmed that for Austria the internationalization of activities and the penetration of the Romanian market bring more benefits for employment than job losses due to relocation.

Investors face **problems** in Romania mostly when dealing **with the bureaucracy**. But corruption was not mentioned frequently, suggesting that the regulatory environment is more of a problem than the misuse of bureaucratic power. In addition, it seems that Austrian companies are able to master the problems related to bureaucracy: only three of them found their relationship with the authorities problematic, the rest either praised it, or found it irrelevant to their success.

**Austrian companies plan further investments** in Romania after that country's accession to the EU. All respondents mention some advantage of enlargement, at least in the form of easier border crossing and more EU-financed projects. Only few companies expect a negative impact in the form of increasing labour costs in Romania.

**Immigration** of Romanians to Austria amounted to around 39,000 persons (legal, net) during the 15 years from 1990 to 2004. In 2004, about 5500 entries of Romanian immigrants were registered, while 3500 Romanians left Austria. The difference of about 2000 persons accounted for 3.3% of net immigration to Austria in that year. Most of the Romanian nationals who immigrated to Austria in the past 15 years have established a **long-term living** here. Romanian employees in Austria face a slightly higher probability of unemployment and receive lower earnings than Austrian nationals.

To assess the expected size of immigration from Romania to Austria in the case of free labour mobility, we discuss existing studies based on both econometric analysis and survey findings. We find that a total number of **around 43,500 Romanian nationals can be realistically expected to move to Austria in the first ten years after the introduction of free labour mobility**. This is 1.3% of Austria's 2004 labour force (without the self-employed). Among the Romanian migrants, the share of the low-skilled is expected to be higher than among migrants from the new EU members, but the majority will still possess at least secondary education. Most of the expected migration will materialize in the first years after labour market liberalization.

**But, EU accession will by far not mean free labour mobility.** Transitional arrangements will restrict Romanian citizens' right to assume employment in most incumbent EU member states including Austria. The main mode for Romanian citizens to legally enter the Austrian labour market will remain to be via work permits that are issued for sectors with excess labour demand only. However, in the concession of such permits, Romanians will be prioritized against third country nationals. Labour market access will also improve for incumbent immigrant workers and their family members. For these reasons, we expect a slight increase in Romanian immigration to Austria after Romania's EU accession, even under the continuation of the present restricted labour market access regime. Restrictions will only postpone but not forestall immigration. **A gradual phasing-out of restrictions may level out the immigration peak expected after liberalization.**

Due to the relatively low total number of Romanian nationals that can be expected to move to Austria, be it with or without restrictions on labour mobility, their effect on the Austrian labour market will be marginal. Romanian immigration could however contribute to worsening labour market conditions in specific sectors or regions. This may **negatively affect low-skilled workers, in particular other foreign nationals** in Austria. On the positive side, Romanian immigrant workers may contribute to **mitigating excess labour demand** in specific sectors of the economy.

**Keywords:** Austrian-Romanian economic relations, EU enlargement, FDI, international migration

**JEL classification:** F15, F21, F22

**Countries covered:** Romania, Austria

**Topics:** Labour and Migration, Foreign Direct Investment, EU Integration





# **Impact of Romania's accession to the EU on the Austrian economy**

## **Introduction**

The European Commission intends to present its monitoring report on Bulgaria and Romania's accession progress in May 2006, i.e. during the Austrian presidency. Based on this report, it will then be decided to either declare the accession of these candidates on 1 January 2007, or to suggest the postponement of accession by one year, if preparations are found to be incomplete. (For Romania's road into the EU see Box 1.) Whatever the final date, Romania will become an EU member in the near future. This enlargement will take place on the same grounds as did the 2004 round, but it will mean the integration of even more 'backward' countries. As the old member states' economies have coped quite successfully with the 2004 enlargement of ten countries, the accession of two further countries should not cause any major additional problem. The potential impact on Austria – the EU-15 member state that is closest to Romania in geographical terms – may be significant and positive.

In the Austrian-Romanian relations a small and rich country meets a relatively large but much poorer country. By territory and population Romania is almost three times larger than Austria, but its per capita GDP is only one quarter, EUR 7700 at purchasing power parity. Romania is also more backward in terms of experience with market economy rules, has less competitive domestic companies and a poorer transport infrastructure. Austrian trade and investment links with Romania are currently weaker than with the neighbouring new EU member state (NMS), but the migration to Austria may be larger from Romania.

What do such countries offer to each other and what are the perspectives of this relationship under the conditions of free factor movement provided by the European Union? This paper offers an overview of the economic ties between Austria and Romania and suggests future trends for the year of accession and beyond. After presenting the current economic situation in Romania, the paper looks at the freedoms anchored in the EU treaty – trade, FDI, labour flows – from the Austrian point of view. The volume and structure of trade and FDI flows and the characteristics of Austrian subsidiaries in Romania will be analysed. We rely on Austrian statistical sources, the bilateral balance of payments with Romania and on company-level information from both countries. We further present the results of a questionnaire survey, conducted in February 2006, among Austrian companies which have invested in Romania.

In the final part of the paper we look into the impact of Romanian migrants on the Austrian labour market. We first provide data on the number of Romanian citizens registered in Austria as well as on the labour market situation of Romanian employees with work

authorization. We then present the findings based on studies exploring potential East to West European migration in a free migration regime. After outlining the transition arrangements on labour mobility established in the EU Accession Treaty with Romania and Bulgaria, we assess the expected size of post-enlargement Romanian immigration to Austria and its impact on the labour market.

Box 1

### **Romania's road into the EU**

Romania was the first Central and Eastern European country to have established official relations with the European Community. The bilateral agreement on Romania's inclusion in the EC's Generalized System of Preferences dates back to 1974, and another Agreement on Industrial Products was signed in 1980.

In 1990 Romania established diplomatic ties with the European Union, and the following year a Trade and Co-operation Agreement was also signed. In 1995, the bilateral Europe Agreement entered into force.

On 22 June 1995 Romania submitted its formal application for membership in the EU. However, the decision on the application came only at the Luxembourg European Council in December 1997. The Romania-EU intergovernmental conference meeting in Brussels on 15 February 2000 marked the official start of membership negotiations.

At the Copenhagen Summit in December 2002, EU leaders set 2007 as the target date for Romania to join the Union. In June 2004, the EU decided to set a new 'safeguard clause' for Romania (and Bulgaria), which can delay accession by one year if the countries fail to meet their targets. Meanwhile, in May 2004, Romania became a full member of the North Atlantic Treaty Organization (NATO).

On 17 December 2004, the EU Council took note of Romania's progress in its accession preparations and declared the hope that the country 'will be able to assume all the obligations of membership at the envisaged time of its accession', i.e. January 2007.

On 22 February 2005, the Commission passed a positive judgement on the scheduled April 2005 signing of Romania's Accession Treaty. In April 2005, the European Parliament gave its overwhelming support to Romania's EU bid. The vote was 497-93, with 71 abstentions.

The EU Regular Report 2005 listed the areas where accession conditions have not fully been met: border security, juridical reform, fighting corruption, and the ability to absorb European funds. In 2006 Romania is in a time-race to fulfil all obligations and join the EU in the following year.

In May 2006 the European Commission will give its recommendation concerning the date of accession – 2007 or 2008.

Based on: <http://www.euractiv.com/>

## 1 Economic conditions and progress in Romania

After a hesitant start and uneven reform progress throughout the 1990s, Romania has speeded up its reform efforts since 2000. Getting anchored in the EU enlargement process had a mobilizing effect and established a broad consensus among the political parties. The recent progress was not without setbacks due to vested interests of political-economic stakeholders but by the end of 2004 the status of a functioning market economy was achieved. Privatization progressed, state aid was curtailed and competition policy implemented. The conditions for doing business are still less favourable than in the New EU Member States (NMS) (see Box 2) but they are improving. Changes in the economic conditions have reduced the trade and investment risk, as a result credit ratings have improved and foreign capital has started to flow in massively.

Box 2

### Conditions for doing business in Romania

The process of improving business conditions is reflected in the results of the Business Environment and Enterprise Performance Survey (BEEPS) published by the EBRD (2005). In the field of 'fighting crime and corruption' economic governance changed for the better between 2002 and 2005 (EBRD, 2005, p. 11). The improvement was even more impressive in respect of 'the time dealt with public officials' (p. 16) and 'the time necessary to resolve overdue payments' (p. 12). Social-minded labour regulations and stricter tax administration, on the other hand, were perceived as worsening the business conditions. The BEEPS is based on the opinion of business leaders while the Doing Business indicators of the World Bank measure the quality of the business environment based on the assessment of regulations. The 2006 Doing Business Report (World Bank, 2006) puts Romania in place 78 among 155 countries of the world ([www.doingbusiness.org](http://www.doingbusiness.org)). This is the worst rank among the candidate and new member countries, but significant improvements were achieved as compared to 2004 in the field of 'starting a business' and 'getting credits'. The worst scores were given to 'conditions of hiring and firing workers', consistent with the BEEPS results. A third source, the World Competitiveness Index Ranking of the World Economic Forum, combines hard data and survey opinion. It puts Romania in place 67, next to Turkey and nine ranks behind Bulgaria (Lopez-Carlos et al., 2005). Also the Foreign Investment Advisory Service of the World Bank, FIAS, assessed the business environment and found a 'moderate improvement between 2002 and 2004, indicating that the reforms are beginning to have a certain positive impact'. This survey reported a substantial improvement in the registration process of a company, but there is still a great difference between Romania and the NMS. Government inspections continue to be among the top concerns. Managers declared to spend 27% of their time on administrative issues, much more than in other countries in the region. This explains to some extent why the corruption level is higher in Romania. The bribe level is also high in the construction authorization process, in registration procedures and inspections. As presented in section 3.4 of this paper, however, our questionnaire survey conducted in February 2006 did not find corruption a pressing problem for Austrian investors in Romania.

Table 1

## Romania: Selected economic indicators

	1999	2000	2001	2002	2003	2004	2005 <sup>1)</sup>	2006	2007
	forecast								
Population, th pers., mid-year <sup>2)</sup>	22458.0	22435.2	22408.4	21794.8	21733.6	21673.3	21623.8	.	.
Gross domestic product, RON mn, nom.	54573.0	80377.3	116768.7	151475.1	197564.8	246371.7	287186.3	313100	350000
annual change in % (real)	-1.2	2.1	5.7	5.1	5.2	8.4	4.1	4.5	4.5
GDP/capita (EUR at exchange rate)	1491	1795	2002	2224	2420	2805	3665	.	.
GDP/capita (EUR at PPP - wiiw)	4770	5010	5460	6060	6520	7290	7700	.	.
Gross industrial production									
annual change in % (real)	-2.4	7.1	8.3	4.3	3.1	5.3	2.0	3	3
Gross agricultural production									
annual change in % (real)	4.0	-14.8	22.7	-3.5	7.5	24.1	.	.	.
Construction output total									
annual change in % (real)	-0.2	2.8	9.0	10.0	9.8	8.9	9.8	.	.
Actual final consump. of househ., RON mn, nom.	45330.8	63459.0	91718.6	116940.4	149259.0	189538.5	223331.3	.	.
annual change in % (real)	-1.1	0.2	6.8	4.8	8.3	12.9	9.0	.	.
Gross fixed capital formation, RON mn, nom.	9663.0	15194.7	24115.4	32283.6	42293.0	53291.8	66356.8	.	.
annual change in % (real)	-4.8	5.5	10.2	8.2	8.6	10.8	13.0	8	10
LFS - employed persons, th, avg. <sup>2(3)</sup>	10775.6	10763.8	10696.9	9234.3	9222.5	9157.6	9160	.	.
annual change in %	-0.6	-0.1	-0.6	.	-0.1	-0.7	0.0	.	.
Reg. employees in industry, th pers., avg.	1991.0	1873.0	1901.0	1891.0	1848.0	1818.0	1780.0	.	.
annual change in %	-12.4	-5.9	1.5	-0.5	-2.3	-1.6	-2.1	.	.
LFS - unemployed, th pers., average <sup>2(3)</sup>	789.9	821.2	750.0	845.3	691.8	799.5	695	.	.
LFS - unemployment rate in %, average <sup>2(3)</sup>	6.8	7.1	6.6	8.4	7.0	8.0	7.0	7	7
Reg. unemployment rate in %, end of period	11.8	10.5	8.8	8.4	7.4	6.3	5.9	5.8	5.7
Average gross monthly wages, RON	192.2	284.0	422.0	532.1	663.8	818.3	957.5	.	.
annual change in % (real, net)	-3.8	4.6	4.9	2.1	10.7	10.5	13.5	.	.
Consumer prices, % p.a.	45.8	45.7	34.5	22.5	15.3	11.9	9.0	8	7
Producer prices in industry, % p.a.	44.5	53.4	38.1	23.0	19.5	19.1	10.5	.	.
General governm. budget, nat. def., % GDP									
Revenues	32.8	31.2	30.1	29.5	29.8	29.6	.	.	.
Expenditures	34.7	35.2	33.3	32.1	32.1	30.7	.	.	.
Deficit (-) / surplus (+)	-1.9	-4.0	-3.2	-2.5	-2.3	-1.1	-0.8	-1	-2
Public debt, EU-def., % of GDP <sup>4)</sup>	24.0	23.9	23.2	23.3	21.3	18.5	16.2	.	.
Discount rate, % p.a., end of period <sup>5)</sup>	35.0	35.0	35.0	20.4	20.4	18.0	7.5	.	.
Current account, EUR mn	-1355	-1494	-2488	-1623	-3060	-5099	-6891	-7600	-8300
Current account in % of GDP	-4.0	-3.7	-5.5	-3.3	-6.0	-8.7	-9.0	-8.5	-8.5
Gross reserves of NB excl. gold, EUR mn	1520.0	2654.8	4445.3	5876.8	6373.6	10848.2	16795.6	.	.
Gross external debt, EUR mn <sup>6)</sup>	9140.4	11969.6	14685.5	16199.8	17835.3	24000.2	30510.9	.	.
FDI inflow, EUR mn	964	1147	1294	1212	1946	5183	5197	5000	4000
FDI outflow, EUR mn	15	-14	-18	18	36	56	-11	.	.
Exports of goods, BOP, EUR mn	7977	11273	12722	14675	15614	18935	22255	24700	27200
annual growth rate in %	7.8	41.3	12.9	15.4	6.4	21.3	17.5	11	10
Imports of goods, BOP, EUR mn	9164	13140	16045	17427	19569	24258	30061	33000	36300
annual growth rate in %	-5.7	43.4	22.1	8.6	12.3	24.0	23.9	10	10
Exports of services, BOP, EUR mn	1287	1910	2273	2468	2671	2903	3931	4360	4660
annual growth rate in %	18.2	48.4	19.0	8.6	8.2	8.7	35.4	11	7
Imports of services, BOP, EUR mn	1657	2170	2402	2463	2609	3116	4365	4980	5600
annual growth rate in %	2.3	31.0	10.7	2.5	5.9	19.4	40.1	14	12
Average exchange rate RON/USD	1.5333	2.1693	2.9061	3.3055	3.3200	3.2637	2.9137	.	.
Average exchange rate RON/EUR (ECU)	1.6296	1.9956	2.6027	3.1255	3.7556	4.0532	3.6234	3.5	3.6
Purchasing power parity RON/USD	0.4463	0.6293	0.8324	0.9893	1.1894	1.3312	1.4575	.	.
Purchasing power parity RON/EUR	0.5097	0.7147	0.9547	1.1475	1.3946	1.5586	1.7239	.	.

\*) On 1st July 2005 the new Romanian leu was introduced (1 RON = 10000 ROL). Data in this table are presented in new leu (RON).

Notes: 1) Preliminary. - 2) From 2002 according to census March 2002. - 3) From 2002 break in methodology. - 4) According to ESA95, excessive deficit procedure. - 5) From February 2002 reference rate of NB. - 6) From 2004 including short-term deposits and foreign direct investment intercompany lending.

Source: wiiw Database incorporating national statistics; AMECO Database; wiiw forecasts.

Since mid-2000, Romania has been on a path of robust economic growth, with average annual GDP growth of 5% (see Table 1). In 2005 economic growth decelerated to 4.1%. The expectations for the coming years differ according to the interpretation of that decline. The government stresses the one-time impact of natural calamities (such as floods) and the statistical effect of the extraordinarily high rate of growth in the previous year. These certainly correct arguments suggest that the deceleration of growth is only temporary. But there are additional factors as well: first of all the low competitiveness of Romanian products, as shown by the near stagnation of manufacturing production and by the widening foreign trade and current account deficits. Based on the presence of severe structural problems, the wiiw economic growth forecast for the next two years is 4.5%, about one percentage point lower than what the Romanian government expects. This growth rate is two times higher than the EU-15 average and as fast as the growth in the new EU member states.

Consumption and investment rose by 9% and 13% respectively in 2005, suggesting overheating rather than a slowdown of the economy. As for investment, there was a shift from equipment to construction. Private housing and public infrastructure investment expanded rapidly while the modernization of production capacities slowed down. Government consumption rose less than in the previous year and the deficit of the general budget is expected to be only 0.8% of GDP. Thus consumption expanded mainly in the household sector. While these factors caused serious imbalances for the Romanian economy, they benefited the business expansion of EU companies, among them those from Austria.

What are the reasons behind private consumption growing twice as fast as GDP? Wage policy was lax in 2005, and the 16% flat tax introduced at the beginning of the year represented a massive relief for the higher-income segments of the population. Real net wages were 13.5% higher than in the previous year and retail sales expanded by some 18%. Wage expansion, tax reduction and appreciation had a cumulative effect on euro wages. In gross terms these were EUR 268 on a monthly average, 31% higher than in the previous year; in net terms wages amounted to EUR 204, 39% higher than a year earlier. The sudden increases in purchasing power was beneficial for companies selling consumer goods in Romania, but could be detrimental for those utilizing low labour cost.

The buoyant domestic demand did not stimulate industrial output but mainly imports, which may be interpreted as a sign of structural weakness of the economy. Romanian industry is mainly specializing in consumer goods of lower quality and prestige, not very much in demand by the better-off segment of the population which benefited most from the income surge. The decline in agricultural production generated imports and reduced exports, yet on the whole not very significantly. There has been a more significant change regarding the decline in textile, clothing and shoe production and exports. Romania has become the

'tailor of Europe' in the past several years and suffers now heavily under increased Chinese competition. This competition appeared both on the Romanian and on the export markets. Along with the effect of appreciation and wage-drift, profits must have eroded, and a further shrinking of these industries seems unavoidable. Fortunately there are also booming parts of Romanian manufacturing, first of all the production of cars and household appliances where large foreign multinationals have invested. These sectors will support export growth also in the future, but with a high import content.

Exports of goods rose by 17.5% in 2005 and imports by 24%, widening the foreign trade deficit to EUR 8 billion in 2005. Also the deficit on services increased, as did the incomes of foreigners. At the same time, remittances of Romanians working abroad increased. As a result, the current account deficit reached almost EUR 7 billion or 9% of GDP, which may be a sign of instability. But capital inflow was abundant due to capital account liberalization and improved risk ratings. While public debt declined, private medium- and long-term foreign debt soared by 33%. Reserves of the National Bank expanded in line with foreign debt. Even if the current account deficit were to expand further in 2006, financing problems would not appear. In one or two years, however, privatization revenues will dry up, the exposure to speculative capital movements will increase and the exchange rate may become more volatile.

In Romania inflation is the highest in the NMS and Southeast European region. In 2005 it came down to below 10% and it continues to fall moderately. Monetary policy has to cope with increasing challenges while having limited means available in the framework of the inflation targeting policy. It can neither tackle the impact of administrative price changes nor the excessive appreciation of the domestic currency. Also, strong demand-pull factors remain at work.

The Romanian economy's medium-term prospects depend on two main factors: restructuring and improving international competitiveness on the one hand, and the capacity to absorb EU funds after accession on the other. If progress is slow in both respects, economic growth will be around 4% annually, while under favourable conditions it may climb to 5-6%. In this take-off period Romania will be a rapidly growing market for investment goods, consumer goods and services alike. But investment will not be without risk: inflation and the exchange rate remain volatile, the current appreciation may come to an end any time.

## **2 Payment and trade flows between Austria and Romania**

In this chapter we first look at the items of the bilateral balance of payments, then at the volume and structure of trade between Austria and Romania. In this relationship, Austria is in a clear winner position, enjoying a significant current account surplus with Romania

(Table 2; note that 2005 data will be only available towards the end of April 2006). The bulk of that surplus is generated by trade in goods, but increasingly also by services and incomes. The term 'incomes' represents mainly the profits of Austrian companies. These profits are mostly re-invested in Romania and thus booked also as FDI outflow from Austria (see chapter 3 for details). The balance of transfers is the only negative position from the Austrian point of view. This category includes the remittances of workers, an amount that is not high but rising over time.

Table 2

**Austria's current account with Romania, EUR million**

	1995			2000			2003			2004		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
Current account	244	129	115	677	429	248	1309	697	611	1588	901	687
Goods	184	94	90	537	338	199	1026	575	451	1237	685	552
Services	56	31	25	139	81	57	183	105	79	263	192	71
Incomes	4	3	2	-1	6	-7	95	10	85	91	14	77
Transfers	0	1	-1	2	3	-2	4	7	-3	-3	10	-13
Other	0.3	0.5	-0.2	0.2	0.9	-0.7	3.9	1.9	2.1	0.9	3.5	-2.5

Source: OeNB (Austrian National Bank).

From the Romanian National Bank we received the 2005 bilateral balance of payments (earlier years were not available). This reveals a EUR 714 million deficit for Romania, of which EUR 454 million is in the exchange of goods and services, EUR 299 million is the deficit on income. The main novelty is the large size of profits made by Austrian companies.<sup>1</sup>

For Romania, migrants' transfers are an important source of revenues, equivalent to 15% of total exports of goods and services; however, such transfers from Austria are insignificant. In 2005 Romania received about EUR 4 billion in current transfers from abroad, in which Austria had a minor share of 1.55%. If we take the latter figure as the share of Romanian workers in Austria in the total estimated number of one million Romanians working abroad, the number of those working in Austria would be about 15,500. In chapter 4 we shall provide also other approximation results.

The most obvious characteristic of the trade flows between the two countries is its very small volume. In 2004 Romania ranked 16th regarding Austrian exports (EUR 1236) and 21st regarding imports (EUR 722 million) (customs statistics based on the Austrian Statistical Yearbook 2006). The share of Romania in Austrian exports was 1.38%, that in

<sup>1</sup> The bilateral trade and payment flows reported by the individual countries are usually not identical, thus we cannot extrapolate the Austrian data based on the Romanian mirror statistics.

imports 0.8%. This is only one fourth of what Austria trades with the Czech Republic or Hungary. But it is also important to note that trade between Austria and Romania has been increasing rapidly in recent years. Between 2000 and 2003 exports to Romania doubled and in 2004 they rose by another 20%. Imports from Romania expanded less rapidly, but they also more than doubled between 2000 and 2004. The Austrian trade surplus amounted to more than 40% of exports.

Increasing trade can be beneficial for economic growth in both countries. Romania provides a rapidly growing export market generating sales of Austrian companies which may have positive employment effects in Austria. Also, low cost sourcing can increase efficiency in Austrian companies and improve their overall competitiveness. Both of these impacts were confirmed by the survey of Austrian investors in Romania that is presented in section 3.4. In addition, there is the benefit of the positive trade balance.

Romania has much room to catch up in terms of economic development and international competitiveness which would generate even more trade with Austria in the future. Back in 1995 the volume and balance of Austrian-Hungarian trade, for example, was similar to those of Austrian-Romanian trade in 2004. If Romania follows the pattern of Hungary, the picture may change substantially within five years. The trade volume may increase 2-3 times and would become more balanced. To achieve such a development, Romania's export capacities should strengthen through rapid export-oriented industrial restructuring based on FDI. In this respect, however, Austria's recent large FDI projects in the Romanian banking and oil sectors may not have significant trade-promoting impacts as their activities are mostly confined to Romania. But several of the manufacturing FDI projects which started in the past two years will contribute to structural change in Romanian industry and exports (see Box 3 further below).

For the time being, trade between Austria and Romania is complementary with little intra-industry trade. The commodity structure of bilateral trade bears the typical features of trade between developed and less developed countries. Austria's exports to Romania consist mainly of machinery, motor vehicles, chemicals (including medicines): these three industries represent 43% of the total (see Table 3). Imports are more diversified, with the first three industries making up only 33% (see Table 4). Crude petroleum and natural gas are the main commodities, followed by chemicals, communication equipment, motor vehicles and machinery. The most important Romanian export commodities – textiles, clothing, shoes and furniture – show up modestly in Austrian imports. These goods are mainly exported to the contractors in Italy and Germany and spread under the latter's labels through Europe.



Table 3

**Main Austrian export industries to Romania, NACE category in per cent of total, 2004**

Export shares	Description
18.2	Manufacture of machinery and equipment n.e.c.
14.8	Manufacture of motor vehicles, trailers and semi-trailers
10.1	Manufacture of chemicals and chemical products
5.8	Manufacture of basic metals
4.9	Manufacture of electrical machinery and apparatus n.e.c.
4.7	Manufacture of other transport equipment
4.3	Manufacture of radio, television and communication equipment
4.1	Manufacture of food products and beverages
4.0	Manufacture of fabricated metal products
3.7	Manufacture of medical, precision and optical instruments
3.5	Manufacture of furniture; manufacturing n.e.c.
3.3	Manufacture of rubber and plastic products
3.2	Manufacture of pulp, paper and paper products
3.1	Manufacture of wood and of products of wood
3.0	Manufacture of other non-metallic mineral products

Source: Eurostat COMEXT Database.

Table 4

**Main Austrian import industries from Romania, NACE category in per cent of total, 2004**

Import shares	Description
15.2	Extraction of crude petroleum and natural gas
9.4	Manufacture of chemicals and chemical products
8.4	Manufacture of radio, television and communication equipment
7.8	Manufacture of motor vehicles, trailers and semi-trailers
7.8	Manufacture of machinery and equipment n.e.c.
6.1	Manufacture of other transport equipment
5.2	Manufacture of basic metals
5.1	Manufacture of electrical machinery and apparatus n.e.c.
3.7	Manufacture of medical, precision and optical instruments
3.5	Manufacture of furniture; manufacturing n.e.c.
3.3	Manufacture of wearing apparel
3.1	Manufacture of fabricated metal products

Source: Eurostat COMEXT Database.

What will change in the conditions of trade when Romania joins the European Union? Romania will be integrated into the single market and will be part of the EU-27. All issues related to the free movement of goods among the member states will be subject to the EU

market and competition rules. Trade defence instruments such as anti-dumping, anti-subsidy and safeguard measures are tools which may be used exclusively against imports into the EU originating in third countries.<sup>2</sup> The experience of the 2004 enlargement suggests that becoming part of the single market can boost foreign trade especially among the new members. Both exports and imports of Romania are expected to expand by two-digit growth rates. As a novelty, trade may increase not only with the old EU members but even more rapidly with Bulgaria. Trade with Austria will not benefit in a special way due to the single market regulation, but it may be boosted by increasing FDI.

One may expect further trade to be created by transfers from the EU budget. For the first three years of EU membership, Romania and Bulgaria together are eligible for commitment appropriations of EUR 25.4 billion, of which about three quarters will be Romania's share. The main targets are grouped as agriculture, structural operations, internal policies, and administration. 75% of the amount available for structural operations is still the remarkable sum of EUR 6.2 billion allotted to Romania in three years. Spending such a sum on investments may generate significant amounts of imports, and project-related finances will be available for contractors and suppliers from all EU countries. The example of earlier enlargements show that in EU-15 cohesion countries, 25-35% of the value of structural policy interventions was spent on imports (European Commission, 2004). Although part of the EU-cofinanced projects may crowd out other projects, EUR 1-2 billion additional imports can be expected. A well-founded presence of potential Austrian suppliers in Romania may increase the chance of receiving an important part of these contracts. Our company survey confirms that most of the large Austrian construction firms have already established subsidiaries in Romania and expect positive impacts from the country's EU accession.

### **3 Austrian FDI in Romania**

#### **3.1 Amount of Austrian FDI in Romania by different data sources**

Investing abroad is a risky business. For an Austrian company undertaking investment in a country with a less familiar and less stable environment, decisions must be based on a careful assessment of possible risks and returns. Trust is needed before large amounts of money are transferred abroad. The increasing flows of FDI into Romania confirm the presence of rising confidence that business will go well. Austrian companies benefit from the advantage that they can rely on experience made in other, more advanced transition countries. From the company survey we shall conclude that due to the knowledge they gained in other transition countries, Austrian companies can more easily cope with the difficulties in the Romanian business environment than their less experienced competitors.

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<sup>2</sup> For details see [http://europa.eu.int/comm/competition/index\\_en.html](http://europa.eu.int/comm/competition/index_en.html).

Table 5

**Austrian FDI outflows to Romania, EUR million**

	1997	1998	1999	2000	2001	2002	2003	2004	1.1-30.6.2005	2005 estimate
FDI	47	62	36	184	97	61	85	1713	137	400

Source: OeNB, balance of payments.

Austrian companies have been present in Romania since the beginning of transformation, but initially with very small amounts. The FDI outflow was negligible in the first half of the 1990s and only about EUR 50 million annually in the second half of the past decade (Table 5). In the years 2000-2003 they increased to EUR 100 million on average. Compared to the total amount of Austrian FDI outflows of EUR 6 billion annually over those years, Romania's share was a mere 1-2%. In 2004 outflows to Romania made a big leap forward due to the acquisition of the oil company Petrom through OMV. In the first half of 2005, when no major privatization took place, EUR 137 million flew from Austria to Romania and about EUR 400 million can be estimated for the year as a whole. According to the provisional bilateral balance of payments published by the Romanian National Bank, the FDI inflow from Austria amounted to EUR 534 million in 2005. The huge acquisition by Erste Bank of Banca Comerciala Romana for some EUR 2.2 billion does not show in the statistics for 2005 because payments will only be made in 2006.

Table 6

**Austrian FDI in Romania, year-end stock**

	2000	2001	2002	2003	2004	2005
OeNB (Austrian National Bank) EUR mn.	297	431	568	555	n.a.	n.a.
% of total	1.1	1.3	1.4	1.25		
National Bank of Romania, EUR mn	n.a.	n.a.	n.a.	633	2355	n.a.
% of total				6.2	15.7	
Trade Register of Romania, EUR mn	310	615	449	474	1384	1917
% of total	4.5	6.8	6.2	5.8	13.1	14.5

Source: Institutions listed in the table.

The stock of Austrian outward investment to Romania was EUR 555 million (1.25% of the total) in 2003, which puts Romania in the 14<sup>th</sup> place among the target countries of Austrian investors (Table 6). In the Romanian National Bank survey for 2003 Austria ranked 7<sup>th</sup> among the inward investors with a stock of EUR 633 million, i.e. 6.2% of the total inward FDI stock. According to the 2004 survey, Austria advanced to 2<sup>nd</sup> place with EUR 2355 million of FDI stock, 15.7% of the total. According to a third source, the Romanian National Trade Register Office, 3578 Austrian companies were registered in the country by the end of 2005, which is 3.2% of the total number of foreign ventures and puts

Austria on rank 8. The amount of registered capital was EUR 1919 million, 14.5% of the total, the second largest amount after the Netherlands.<sup>3</sup>

Taking into account the impact of the Erste Bank investment, we estimate the 2006 year-end Austrian FDI stock in Romania at about EUR 6 billion. This amount is similar to those expected in the most prominent Central East European target countries – the Czech Republic and Hungary – and will constitute about 10% of the Austrian outward FDI stock. By that time, the difference between Romania and the earlier established target countries will not relate to the amount of FDI but to its sectoral structure. In those earlier target countries the concentration of FDI is much smaller, Austrian investors have more subsidiaries, they are more evenly spread among economic activities and a larger part of them is export-oriented. In Romania, local market-oriented, privatization-based ventures dominate although – as we shall see from the list of recently registered ventures (Box 3) – export-oriented FDI projects have become more numerous recently.

### **3.2 Characteristics of Austrian subsidiaries in Romania in 2003**

Austria's National Bank (Oesterreichische Nationalbank, OeNB) published the results of its 2003 survey on foreign investment enterprises in September 2005 (OeNB, 2005) (Table 7). This is the most up-to-date Austrian source concerning employment, profits and other indicators of Austrian affiliates in Romania. While the number of projects (58 subsidiaries) is only a fraction of what the Romanian Trade Register shows, the invested capital is higher. One of the reasons for the difference is that the OeNB survey does not cover ventures with less than EUR 72 thousand FDI whereas the Romanian Trade Register also covers smaller companies including one-person ventures as well.

The number of employees working for Austrian subsidiaries (weighted by the equity share of the Austrian owner) reached 14,800 in 2003, two times more than three years earlier (Table 7). This is the sixth largest number among the target countries. Having taken over large numbers of employees in the newly acquired companies Petrom and BCR in 2004 and 2005, employment of Austrian subsidiaries must meanwhile have increased to a level of 50-60 thousand. The restructuring of the two firms will require the presence of Austrian or other foreign nationals while the Romanian staff will be reduced in order to increase efficiency.

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<sup>3</sup> National Bank of Romania (NBR) data and Trade Register data differ in methodology and coverage. NBR data are more complete, based on international methodology. The Trade Register includes only data on the statutory capital of the foreign investment enterprise but provides more up-to-date information concerning the country of origin and even names the investing companies.

Table 7

**Characteristics of Austrian subsidiaries in Romania**

	1997	1998	1999	2000	2001	2002	2003
Number of subsidiaries	19	37	43	52	53	50	58
FDI stock, end-year, EUR million	42	119	174	297	431	568	555
Number of employees <sup>1)</sup>	2049	5607	4797	7302	10683	12074	14799
Own Capital	40	108	156	264	377	507	475
Profits minus losses	-1	-5	-1	-10	-6	10	66
Patents and Management fees	0	2	2	4	3	5	6
Intra-company exports of goods and services	15	8	20	27	18	24	39
Intra-company imports of goods and services	0	1	5	3	4	5	14

Note: 1) Weighted by the share of the Austrian company in equity.

Source: Survey of the OeNB.

Austrian FDI in Romania is highly labour-intensive. Austrian subsidiaries in Romania employ one person per EUR 37.5 thousand FDI stock. In the countries with the highest Austrian employment the latter figure is nearly twice as high: EUR 58.1 thousand in the Czech Republic and EUR 64.2 thousand in Hungary. Relatively low capital intensity but high labour intensity is in line with the comparative advantages of Romania. Low-paid jobs in Romania do not compete with Austrian wages because the subsidiaries do not re-export much to Austria as confirmed by relatively modest intra-company trade data. In the years 1999-2002 Austrian companies exported about EUR 20 million annually to their Romanian subsidiaries while they imported only in the value of EUR 5 million p.a. (Table 7). Exports jumped to EUR 39 million in 2003 and imports to EUR 14 million and may have increased further in recent years.

In the early stages of an FDI project investors usually have to reckon with low or no profits. Up until 2001 Austrian investors aggregately reported net losses, and only in the following year did profits outpace losses (Table 7). The rising profits in later years reflect the increasing maturity of businesses and improving conditions of doing business in Romania. In 2003 the picture improved substantially: profits jumped to EUR 78 million and losses diminished to EUR 12 million. The number of profit-making companies increased as well. Still, there were only 34 subsidiaries recoding profits and 24 subsidiaries running losses in 2003. Romanian data for 2005 indicate an increase in Austrian profits to EUR 300 million, which would mean a new age of making profits in Romania.

The expected changes for subsequent years may include even further increasing profits and the start of profit repatriation from more mature FDI projects. Austrian benefits will then be earned directly and can generate income in Austria; spending these earnings may also increase demand and perhaps generate workplaces.

The small number of Austrian FDI firms in the OeNB sample does not allow for a detailed breakdown by economic activity because it would violate privacy rules. A broad classification (Table 8) reveals that 23 subsidiaries (40% of the total number) were active in agriculture and industry, but their invested capital amounted to only EUR 72 million, 13% of the FDI stock in 2003. These companies employed 5543 persons, 37% of the total. Thus we have lower than average capital intensity and higher than average labour intensity in the manufacturing subsidiaries. The number of such subsidiaries more or less stagnated in 1998-2003, while the invested capital reached a peak in 2000 and became lower later due to re-classification of activities. Similarly, the labour force employed by these subsidiaries declined in 2001, recovering only in 2003. The food-beverages-tobacco industry is the most significant investor and employer in manufacturing, e.g. Brau-Union. Construction material production ranks second, including e.g. the brick producer Wienerberger. Chemicals and machinery follow, examples are Henkel and Siemens investing via Austrian headquarters.

Table 8

**Austrian subsidiaries in Romania by economic activity**

	<b>Activity of subsidiary</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
FDI, EUR mn	Production ( NACE code A-F)	91	113	142	54	50	72
	Trade	11	35	105	239	264	283
	Finance			35	117	216	152
	Other services			16	22	38	48
	Altogether	119	174	297	431	568	555
Number of subsidiaries	Production A-F	22	21	21	21	20	23
	Trade	6	11	15	15	14	17
	Finance			10	11	11	12
	Other services			6	6	5	6
	Altogether	37	43	52	53	50	58
Number of employees weighted by equity share	Production A-F	5001	3691	4549	3051	3357	5543
	Trade	394	774	2239	4072	3771	4119
	Finance			363	3448	4799	4935
	Other services			150	112	147	201
	Altogether	5607	4797	7302	10683	12074	14799

Source: Survey of the OeNB.

More than half of the FDI capital is invested in trade and 27% in financial services. FDI per employed person is the highest in trade; also in financial services it is higher than in manufacturing. With the recent large projects, the share of banking and the oil industry must have increased.

### 3.3 The most important Austrian investors in Romania

The Romanian National Trade Register publishes the top 40 investment projects each month and provides more recent information than the Austrian National Bank surveys. In 2003 and 2004 there were 30 new Austrian investment projects registered. In 2005 the number of such entries increased to 40, which confirms the upward trend of Austrian FDI. Eight of the Austrian companies were in the list of the top 100 foreign affiliates in Romania at the end of 2004 (see Table 9).

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Table 9

**Top Austrian investors and their field of activity in Romania:  
ranking by registered capital, end-2004**

1. PETROM SA; OMV AKTIENGESELLSCHAFT; Oil processing
8. RAIFFEISEN BANK SA; RAIFFEISEN INTERNATIONAL BANK - HOLDING AG; Banking services
22. BRAU-UNION ROMANIA SA; BRAU IMMOBILIEN AKTIENGESELLSCHAFT; Brewery
24. OMV ROMANIA MINERALOEL SRL; OMV REFINING & MARKETING GMBH; Oil distribution
50. BILLA INVEST CONSTRUCT SRL; EUROBILLA SA; Real estate developer
68. HVB BANK ROMANIA SA; BANK AUSTRIA CREDITANSTALT AG; Banking services
81. HENKEL ROMANIA SRL; HENKEL AUSTRIA GMBH; Wholesale trade with non-food products
87. UNITA SA; WIENER STÄDTISCHE ALLGEMEINE VERSICHERUNG AKTIENGESELLSCHAFT; Insurance industry

Source: ARIS, the Romanian FDI development agency (<http://www.arisinvest.ro/>).

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Many of the large Austrian investors are themselves subsidiaries of foreign investors in Austria, such as Henkel or Brau-Union. Geographic proximity to the Central and East European countries and knowledge of the business environment there are important advantages of Austria which attract multinational companies to establish regional headquarters. These headquarter function generates highly qualified jobs in Austria. Large foreign-owned Austrian investors in Romania include Austria Tabak, owned by the British multinational Gallaher, and Siemens Austria, which runs the businesses of the German Siemens in eight Central and East European countries, as well as other German subsidiaries such as Kromberg & Schubert, and Mahle. Among the Austrian manufacturing companies which are not foreign subsidiaries Schwarzmüller, Baunit, Wienerberger and Agrana stand out. The largest of the 2005 investment projects was conducted by HVB Bank through Bank Austria Creditanstalt, the second largest was the takeover of Forte Business Services which became a Siemens subsidiary. A remarkable number of new subsidiaries in Romania was established or expanded in the manufacturing sector last year (see Box 3).

Box 3

### **New Austrian manufacturing sector investment projects in Romania announced in 2005**

*ADA:* The furniture producer ADA established a subsidiary in Oradea close to the Hungarian border with EUR 1.8 million.

*Austria Tabak:* The owner of Austria Tabak, the British company Gallaher Group, invested in Romania through the Austrian subsidiary in late 2004 and made a new EUR 4 million investment in April 2005. They have production and distribution with 86 employees based in Bucharest.

*Baumit:* The Austrian company with world-wide presence for facade coatings opened production facilities in Teius in mid-2005, after its first investment in Romania in 2002. The Romanian subsidiary employs 120 people and produce not only for the local but also for Southeast European customers.

*Cascade Empire:* The US wood trading company Cascade Empire invested EUR 5.2 million in Romania through Austria, in February 2005.

*Egger Romania SRL:* EBRD announced that the Austrian company Egger Osteuropa Beteiligungs GmbH will use a EUR 110 million EBRD loan to build a new wood processing plant in Suceava County, in north-east Romania. The Bank is also paying EUR 17 million for a stake in the new company. The company was registered in November 2005 with a statutory capital of EUR 7 million.

*Holzindustrie Schweighofer:* The company returned to the lumber business in 2003 by opening a production site in Sebes, Southern Transylvania. The investment uses local wood. The total value of the investment is EUR 64 million and 350 new jobs were created. The plan is to export products all over the world.

*ISOVOLTA AG:* The wholly-owned subsidiary of Constantia-Iso AG has its headquarters in Wiener Neudorf, producing insulated wires and laminates. The company expanded world-wide by mergers and acquisitions in Europe, America, Japan and China. It had no subsidiaries in Central and Eastern Europe before establishing one in Romania. In 1998 they purchased ICME S.A. in Bucharest. In 2002 they bought Electroizolante SA in Bucharest, which was expanded in 2005.

*Kromberg & Schubert:* The German cable and car component producing company entered Romania through its Austrian subsidiary in 2000 and established a new production site in Sibiu in 2005 with a statutory capital of EUR 2 million.

*MAHLE:* In December 2005 the car component manufacturer MAHLE with headquarters in Germany invested in Timis County through its Austrian subsidiary.

*Schwarz Müller:* The trailer producing Austrian multinational Schwarz Müller, present in most countries of Central and Eastern Europe, invested EUR 1.5 million in September 2005.

*Siemens:* The merger between Forte Business Services SRL and the former Siemens Business Services' subsidiary in Romania became operational in October 2005. As a result of the merger, Forte is the owner of ten branches in the major cities and operates working points in every Romanian county. The registered capital is EUR 41 million.



*SW-Umwelttechnik:* On 27 September 2005 the Austrian Group SW-Umwelttechnik AG opened, at Ortisoara (10 km from Timisoara), a EUR 2 million new plant, producing concrete prefabs (sewerage cannulars, hydrocarbs separators, trimming rings). Leader on the Austrian and Hungarian market, the SW-Umwelttechnik Group has 723 employees and operates six factories in Austria, six in Hungary and one plant in the Slovak Republic.

*Wienerberger:* The brick producer Wienerberger established its presence on the Romanian market in 1998, operating initially as an importer and distributor of Wienerberger products imported from the production unit in Hungary. In 2003 they set up a production facility in Gura Ocnitei, where they invested some EUR 18 million. In 2005 they set up a second factory for EUR 20 million, located in the Sibiu industrial park.

Source: ARIS, the Romanian FDI development agency (<http://www.arisinvest.ro/>) and company home pages.

### **3.4 Results of a survey investigation among Austrian companies with subsidiaries in Romania**

A questionnaire specially prepared for this study was sent to 45 companies in Austria, of which 21 returned the (at least partly) completed form during February 2006.<sup>4</sup> From the list of the top eight Austrian investors in Romania, four answered the questionnaire. The other companies represented also large investors but the new manufacturing firms established in 2005 could not be covered. The companies were asked to answer 32 questions grouped under four headings: the size and activity of the firm and of the Romanian subsidiary, investment motivations and results in Romania, impact of the business in Romania on other locations of the corporation, and future plans for the years following Romania's EU accession. Although the relatively small number of cases does not allow to treat the answers as a representative sample, they still provide interesting insights.

Most of the responding companies are important international players with subsidiaries all over Central and Eastern Europe (CEE). They usually have at least five subsidiaries in other CEE countries established before entering the Romanian market. Unfortunately half of the respondents did not provide detailed data concerning the development of employment and sales, but they reported whether these had increased or declined in recent years. The documented cases reveal that the Austrian companies in our sample are highly internationalized; their foreign employment exceeds the employment in Austria. Over the past three year, their employment in Austria fluctuated marginally, while new subsidiaries with more and more employees were added in the NMS and in Romania.

Eleven of the subsidiaries in Romania are active in manufacturing production, four in construction, three in trade and two in financial services. The amount of investments and

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<sup>4</sup> The authors wish to thank the Romanian Embassy for sending out the questionnaires and collecting the answers. We are also grateful to the responding companies for their cooperation.

the number of employees are higher in financial services than in the other fields of activities. Manufacturing subsidiaries have just a few hundred employees, only one has large-scale export-oriented production in Romania employing 2000 persons. Based on their activity, we arranged the companies into three groups: manufacturer for exports, manufacturer for the Romanian market, and construction and service companies active on the Romanian market (see Table 10).

Table 10

**Main motivation for investing in Romania: number of answers by type of investment**

	Manufacturer for exports	Manufacturer for Romania	Construction and service company	Altogether
<i>Number of subsidiaries</i>	5	7	9	21
Access to Romania with imported products		2	3	5
Access to Romanian market with locally produced goods		5	2	7
Control Romanian market-segment			3	3
Cheap sourcing of input	1			1
Low cost of production	4			4
Establish regional headquarter			1	1

As to the main motivation of the investors, access to the Romania market is dominating. Fifteen companies mentioned selling on the Romanian market of either imported or locally produced products as their main activity in Romania. This is quite natural for companies active in trade, construction and services, while manufacturing companies have more diverse motivations. Seven of them could be identified as local market-oriented, active mainly in the food industry. Five companies are export-oriented, active in the manufacturing of car components, wood and paper products. The main motivation of these companies to establish an exporting subsidiary in Romania were local raw materials and low labour cost. It seems that this type of activity is still underdeveloped in Romania. All the export-oriented investors but only few of the others chose Romania after comparing this location with other countries. The competition was between Southeast European countries and did not affect the NMS.

The impact of the Romanian subsidiary on the firm's activity in Austria is usually positive as the company's overall sales increased following the penetration of the Romanian market. But looking at the detailed results, we can see a variety of types (Table 11). Two of the export-oriented ventures replaced production in Austria, and employment in Austria decreased in one company. On the other hand, increasing sales in Romania fostered the employment of additional persons in four companies, and in another six, management and services employment increased in the Austrian headquarters.

Table 11

**Impact of the Romanian subsidiary on the mother company in Austria by type of investment**

	Manufacturer for exports	Manufacturer for Romania	Construction and service company	Altogether
Decreased output in Austria due to imports	2			2
Increased employment in Austria in production activities	1	1	2	4
Increased employment in Austria in management and business related services	1	2	3	6
Decreased employment in Austria due to imports		1		1
Increase of turnover	1		3	4
No impact on production or employment		3	1	4

We also asked about the impact of the Romanian subsidiary on NMS locations, but only six companies found the question relevant. This indicates that Austrian multinationals are organized in a hub-and-spoke way, with few links between the subsidiaries. Among the positive answers, three indicate that the Romanian subsidiary is subordinated to a NMS headquarter and two refer to a relocation of production to Romania.

A further part of the questionnaire investigated the problems investors faced in Romania. The most important problem is bureaucracy: ten companies mentioned this in the first place, a further five in the second place. Corruption was mentioned only by one company in the first place and by two in the second. The difference between the scores given to 'bureaucracy' and 'corruption' suggests that the regulatory environment is the main problem, not the misuse of bureaucratic power. In addition, it seems that companies are able to master the problems related to bureaucracy: only three of them found their relationship with authorities problematic, eight praised the cooperation with the authorities and seven companies replied that their contacts with the Romanian authorities were irrelevant to their success. The second most important problem faced by investors is the under-developed transport infrastructure. In addition, some companies found that production in Romania is not as cheap as they had envisaged and that they are negatively affected by the appreciation of the local currency.

The confidence of investors concerning their activity in Romania is reflected in their future plans. For the majority of investors, Romania's accession to the EU will not influence their future investment plans, only four would increase investments due to this reason. But all respondents mention some advantage of accession to their activities, at least in the form of easier border crossing and more EU-financed projects (Table 12). Four expect a negative impact in the form of increasing labour costs. We also asked whether the large pilot investments of OMV and Erste Bank had any positive impact on the activity of other

Austrian companies in Romania. Most of the respondents found those investments irrelevant but four intended to expand their activity following the two show-cases.

Table 12

**What will change for your company when Romania becomes an EU member?  
Multiple answers allowed; number of responses by type of investor**

	Manufacturer for exports	Manufacturer for Romania	Construction and service company	Altogether
No change expected	3			3
Conditions of doing business will improve		4	4	8
Sales in Romania will grow faster		1	3	4
Labour cost will grow faster		3	2	5
More government incentives will be available	1	1	3	5
EU financed projects will encourage business		2	4	6

The overall conclusion is that the internationalization of activities brings about more benefits for employment in the home country (Austria) than job losses due to relocation to Romania, even if exceptions exist. The expansion of economic activities to Romania supports the development of Austrian companies, and further investments are planned after Romania's accession to the EU.

Box 4

**Impact of FDI in Romania on employment in some Austrian companies**

Company reports reveal what happened to employment in some major Austrian investors in the wake of globalization including expansion to the Romanian market. We here outline the examples of Agrana and Baumit, relying on the annual reports of these companies.

*Agrana* is an Austrian company with world-wide presence. Their central and east European business developed primarily by acquiring former state-owned sugar and starch companies which used to be inefficient and over-staffed. The development of employment shows the restructuring process of the foreign subsidiaries while the workforce remained stable in Austria. In the financial years 2001/2002 and 2002/2003 Agrana had subsidiaries in Romania, the Czech Republic, Hungary and Slovakia (see Table 13, 'rest EU-25'). In the following year new subsidiaries were added in Poland and Denmark. Employment in Romania declined constantly. Unfortunately no separate 2004/2005 data are available for Romania when Agrana expanded to Ukraine. At the same time, also the staff in Austria expanded.

The construction material producer *Baumit* turned into an international investor during the 1990s, building distribution and production facilities in 16 East European countries. Turnover and employment in Austria increased all the time during the expansion abroad (Table 14). Since 2001 most of the new jobs have been created abroad but employment in Austria has not declined. While blue-collar work declined in Austria as labour productivity was increasing, management and administrative staff expanded to provide leadership for the new subsidiaries.

Table 13

**Employment by region in the AGRANA Group**

	2001/2002	2002/2003	2003/2004	2004/2005
Total	4463	3916	3841	4958
Of which				
in Austria	1341	1362	1353	1646
in the rest EU-25	1846	1379	1446	1533
in Romania	1476	1175	1042	
in Romania and Ukraine				1763

Source: The consolidated financial statements of 2002/2003 and 2004/2005, [www.agrana.at](http://www.agrana.at).

Table 14

**Turnover and employment of Baumit**

	1991	1995	2000	2001	2002	2003	2004
Turnover, EUR million.	79	115	201	232	265	340	355
of which in Austria	61	99	110	114	115	116	121
Number of employees	563	898	1307	1372	1389	1760	1760
of which in Austria	442	606	629	640	640	644	645

Source: [www.baumit.com](http://www.baumit.com).

### 3.5 Impact of EU accession on FDI in Romania

In the three years prior to the assumed accession in 2007, Austrian companies have become increasingly active in Romania. Two big privatization deals and a number of greenfield projects indicate that investors' confidence has increased. Following Romania's EU accession, some FDI location factors will improve while others may become more complicated in Romania. Based on the lessons of the 2004 enlargement (Hunya, 2004 and 2005) we may expect the following new features:

- The decline in transaction costs (e.g. border crossing) will benefit all investors engaged in trade.
- Increasing stability and transparency of the business environment will benefit in particular small and medium-size companies.
- As a new member, Romania will have some cost of compliance with EU rules (e.g. environment) that may increase the cost of investment.
- EU-financed projects can boost investments in construction, services and environment-related activities.
- Labour cost advantages in comparison to the EU-25 will remain in place for quite some time and stimulate export-oriented FDI in Romania. Geographic segmentation of production can strengthen the competitive position of the multinational companies as a whole and thus stabilize workplaces in headquarters and subsidiaries alike.

- FDI-related workplaces are expected to shift between the new EU members due to concentration and specialization of foreign subsidiaries. Some of the production capacities that have been established in each country one by one will be closed down, others will be enlarged and supply more than one country.

Taking these changes into account, Austrian companies intend to increase their activities in Romania – this is one of the results of the company survey presented in section 3.4.

## 4 Migration from Romania and its present and potential labour market effects on Austria

### 4.1 Immigration and naturalization of Romanians

In previous parts of this study we looked at the indirect labour market effects on Austria generated by FDI in Romania. In this chapter we discuss the potential migration under free migration regimes and under the specific conditions after Romania's EU accession respectively, and derive related conclusions as regards the direct labour market effects in Austria which appear from migration.

Before 1989, the presence of Romanian citizens in Austria was negligible, but it rose substantially later. According to census data, in 1981 Austria hosted some 1200 Romanian citizens; this number increased around 15-fold until the next census in 1991. There was no increase later on: both the 1991 and 2001 censuses found around 18,500 Romanians in Austria. In the latter year, Romanians made up 2.5% of the foreign population and 3% of the foreigners from other countries than the EU-15. Thus the Romanian community came seventh in size after the foreigner groups from Germany, Turkey, and four post-socialist countries. These census data do not reflect the total number of foreign persons originating from Romania, due to naturalization and unobserved illegal migration. Therefore, the constant number of Romanian citizens officially living in Austria does not mean zero net immigration in the 1990s. In the course of time, earlier immigrants obtained Austrian citizenship and were replaced by new migrants. Naturalization in Austria is typically possible after ten years of lawful residence. In 1992-2001, some 13,500 Romanians were naturalized (Table 15), implying a similar size of net legal immigration in that period.

Table 15

#### Naturalization of Romanian citizens in Austria

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
(1)	294	667	547	672	904	874	692	1098	1501	1639	2684	2818	1779	2098	1376
(2)	3.20	5.85	4.59	4.67	5.56	5.71	4.26	6.75	8.19	6.55	10.89	8.78	4.89	4.65	3.26

(1) – Number of naturalized persons. (2) – Share of (1) in all naturalizations.

Source: Statistics Austria.

The annual number of naturalizations increased constantly up to a peak of 2800 in 2001, sizeably dropping thereafter to less than 1400 in 2004. Romanians' share in all naturalizations increased to nearly 11% in 2001 to steadily drop to 3.3% in 2004. This fluctuation reflects the high number of immigrants in the early 1990s, people who obtained citizenship ten years later. In the period 2002 to 2004, net immigration of Romanian citizens to Austria amounted to around 7400 persons (see below). In the same period, some 5200 received naturalization. Taken together, these data imply that during the 15 years from 1990 to 2004, total net immigration of Romanians to Austria numbered 39,000, of which around 18,700 persons were naturalized.

Table 16

**Romanian citizens with valid residence permits in Austria**

	1997	1998	1999	2000	2001	2002	2003	2004	2005
(1)	18735	19084	19550	19742	18479	18516	17807	18442	18408
(2)	4.55	4.28	3.94	3.69	3.49	3.33	3.13	3.20	3.64

(1) - Number of valid residence permits as of 1 July. (2) – Share in all valid residence permits.

Source: Biffi (2005, p. 60), based on data from the Federal Ministry of Interior.

Table 16 shows the numbers of valid residence permits held by Romanian citizens in Austria in 1997 to 2004. The number of persons holding such permits increased slightly, by 1000, to reach around 19,700 in 2000 and then dropped to stabilize around 18,400 in the following years. The share of Romanian nationals in the total number of foreigners with valid residence permits is around 3.7%. In 2004, 88% of the residence permits held by Romanians were permanent settlement permits (*Niederlassungsbewilligung*), and some 7% were temporary residence permits (*Aufenthaltserlaubnis*).<sup>5</sup> This shows that most Romanian citizens who reside legally in Austria do so on a long-term basis.

Table 17

**Number of Romanian immigrants to Austria (annual flows, register data)**

	1998	1999	2000	2001	2002	2003	2004
Total net foreign immigration	14364	25100	21587	23776	53790	51099	60621
Romanian citizens							
immigration	1543	1866	1921	2393	4320	5333	5501
emigration	1188	1263	1076	1514	1529	2689	3528
net	355	603	845	879	2791	2644	1973
% of total net foreign immigration	2.47	2.40	3.91	3.70	5.19	5.17	3.3

Source: Statistics Austria.

<sup>5</sup> The above figures are based on Biffi (2005a, p. 60) and Austrian Federal Ministry of the Interior (2003, pp. 12ff.). Up to 1997, there was a single type of residence permit called *Aufenthaltserlaubnis* in Austria. The amendment of the Alien Law 1997 replaced this by the two above-mentioned types of permit. Since 2003, a third settlement certificate (*Niederlassungsnachweis*) was introduced for longer-term permanent residents (see Biffi, 2005, p. 18).

The inflow and outflow of Romanian citizens to and from Austria can be checked through the registration of residence. Registered immigration of Romanian nationals<sup>6</sup> increased from 1500 in 1998 to 5500 in 2004, the year for which the latest figures are available (Table 16). Emigration increased as well, in particular in 2003. The number of Romanians leaving Austria reached around 3500 in 2004. Net migration was positive but below 1000 persons annually until 2001. In the following two years, it rose to about 2700 persons and decreased thereafter to 2000. The share of Romanian nationals in total net immigration to Austria was around 2.5% to 4% – except in 2002 and 2003 when it rose to 5.2%. This may be related to the extended possibilities of family reunification for Austrian citizens, given that naturalizations peaked in 2000/2001. In 2004, Romanians accounted for 3.3% of total net legal immigration to Austria, ranking seventh among the source countries. As we shall see in section 4.4, the legal environment for migration will become slightly more attractive after Romania's EU accession, therefore we may expect a modest increase in the number of immigrants from Romania.

So far, we have looked at Romanian nationals legally residing in Austria. On illegal immigrants no reliable information is available. According to recent data of labour inspectorates in Austria, Romanian nationals were not among the nationalities with higher shares among apprehended illegal workers (Jandl, 2004, p. 9).<sup>7</sup>

## 4.2 Romanian citizens on the Austrian labour market

To take up employment, foreign residents in Austria typically need authorization.<sup>8</sup> Several types of permits exist. The work permit (*Beschäftigungsbewilligung*) is the most restrictive. It refers to a specific job in an industry with excess labour demand and is issued to the employer for one year. Authorizations for up to six months are granted within an established quota in specific industries (at present, agriculture and forestry, and tourism). After one year of employment with a work permit, a work entitlement (*Arbeitserlaubnis*) can be requested if a job offer exists. It is valid for two years for any job or employer, but it is restricted to a federal state. These authorizations can be renewed. With a five-year employment record within eight years in Austria, an exemption certificate (*Befreiungsschein*) can be obtained, which offers a labour market status equal to that of natives. The permanent settlement certificate (*Niederlassungsnachweis*) introduced in 2003 includes similar rights and is increasingly replacing the exemption certificate. This

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<sup>6</sup> Note that registration records include temporary stays in the country. Registration does not require proof of legal residence, therefore the figure may include illegal Romanian residents in Austria. Registration of illegal residents is particularly relevant for parents of school-aged children because it is a precondition for admission to schools.

<sup>7</sup> Reviewing existing methodologies and assessments of illegal migration in Europe, Jandl (2004) concludes that there is barely any serious information about the extent of the phenomenon. Hofbauer et al. (2005) survey illegal migration in Austria; they cannot provide any specific information on the role of Romanians either.

<sup>8</sup> In a number of cases, such as being the spouse of an Austrian citizen, a foreign resident in Austria does not need a specific authorization for employment. For details, see <http://www.ams.or.at/statistik/glossar.htm>.



system of work permits with successively extended rights allows a successful foreign entrant to establish long-term residence and work in Austria step by step.

For the admission of Romanian nationals to its labour market, Austria has neither bilateral agreements nor specific unilateral concessions.<sup>9</sup> Work permits are granted within global quotas, i.e. there is no national quota for Romanians.

In 2004, about 5700 Romanian nationals were employed in Austria with an authorization, and a similar number, about 5300, worked without authorization.<sup>10</sup> The number of the Romanian labour force (without self-employment – i.e. employees and unemployed) accounted for 3% of the total foreign labour force in Austria, or 3.5% of the foreign labour force from non-members of the European Economic Area (EEA).<sup>11</sup> We are lacking information on the number of self-employed foreigners in Austria.

Table 18

**Number of Romanian employees with employment authorization in Austria  
by type of permit**

Type of authorization	2000	2001	2002	2003	2004	2005
Work permit ( <i>Beschäftigungsbewilligung</i> )	698	931	1005	1242	1366	1274
Work entitlement ( <i>Arbeitserlaubnis</i> )	464	439	514	478	361	323
Exemption certificate ( <i>Befreiungsschein</i> )	6067	5025	4128	3301	2446	1807
Settlement certificate ( <i>Niederlassungsnachweis</i> )	n/a	n/a	n/a	433	1462	2180
Other types	n/a	n/a	n/a	51	104	89
Sum	7229	6395	5647	5505	5739	5673

Source: Arbeitsmarktservice.

Consistent with the fact that most Romanian citizens in Austria have established long-term residence, most authorized employment is based on exemption certificates and permanent settlement certificates, which provide full access to the labour market (Table 18). The share of employment based on work entitlements (*Arbeitserlaubnis*) made up around 6% to 9% of total authorized employment of Romanians, with a peak in 2002/2003. In contrast, employment based on the short-term and most restrictive work permits expanded from about 10% to about 23% in 2004/2005. In absolute figures, such employment nearly doubled, rising from about 700 in 2000 to about 1370 in 2004. Other types, such as permits for workers in key positions (*Schlüsselkräfte*) and authorizations for employees of

<sup>9</sup> From the eight NMS to which labour mobility restrictions apply, bilateral labour market arrangements exist with Hungary only (since 1998), covering cross-border commuters and interns. An agreement has also been signed with the Czech Republic in 2001, but it is not yet effective.

<sup>10</sup> Note that this must not be confused with illegal employment – see footnote 8.

<sup>11</sup> Based on data from the Federal Ministry for Economy and Labour.

Romanian firms active in the Austrian market (*Entsendebestätigung*) have played a marginal role.

The unemployment rate of Romanian nationals in Austria rose from 9% in 2003 to 9.7% in 2005.<sup>12</sup> In the same period, the total unemployment rate in Austria increased from 7% to 7.2%, unemployment among foreigners from 9.8% to 10.6%. There is a high variation across nationalities: in 2005 higher unemployment rates than for Romanians were observed for Turkish (14.1%), former Yugoslav (10.9%), and Polish (10.2%) nationals, while unemployment was sizeably lower among Czech and Slovak (7.3%) and Hungarian (5.2%) citizens. Hence, while foreigners are more affected by unemployment than Austrians, Romanians are in a better position than foreign workers on average.

In 2004, average monthly earnings of Romanian employees amounted to 75.5% of Austrians' earnings, i.e. less than those earnings of foreign employees from other Eastern European countries (77-81% of natives' earnings).<sup>13</sup> Available figures are neither adjusted for hours worked nor for other labour market characteristics. Still, the image emerges that immigrants from low-income Romania accept a lower pay than do citizens of more affluent countries.

### **4.3 Potential Romanian migration into Austria**

Above we have shown that within the past 15 years, some 39,000 Romanian nationals emigrated to Austria. Future emigration will depend on the economic situation in Romania and the EU. As described in chapter 1 of this study, fairly rapid economic growth can be expected in Romania during the next few years, and the unemployment rate is moderate, 7% in 2005 (see Table 1). These data suggest that Romanian citizens may expect improving living conditions in their home country. However, with 58%, the employment rate is 5 percentage points below the EU-25 average, and GDP per capita in purchasing power parities is at one third of the EU-25 average (Podkaminer, Gligorov et al., 2006). This may motivate Romanian citizens to seek a better living in the incumbent EU member states.

What will be the extent of Romanian emigration if restrictions on settlement and labour market access are abolished? This question has been at the centre of the discussion about potential labour market effects of EU enlargement. The answer is not straightforward because such migration could not be observed so far, thus data on past migration from Romania are unsuited for extrapolation. Methodologically, two options are available to assess the extent of the expected post-enlargement migration flows under a liberalized

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<sup>12</sup> Unemployment rates by citizenship are provided by the Main Association of Social Security Institutions. Note that they do not conform with the standard definition of unemployment, since they disregard self-employed. The above data are available from the Austrian Federal Ministry for Economy and Labour (2006).

<sup>13</sup> Data source: Hauptverband der österreichischen Sozialversicherungsträger.

migration regime: the econometric evaluation of data on past migration flows, including source countries from where migration to the host countries was unrestricted, and the analysis of survey information on the propensity to emigrate. In the following, we will present the findings of an influential study of each type. The pros and cons of these methodologies are summarized in Box 5 below.

Box 5

**Assessing post-enlargement East-West European migration: methodologies**

Due to the complexity and idiosyncrasy of bilateral migration flows, forecasting the size of migration after the introduction of free movement is difficult and can only provide indicative results that should not be read as precise predictions.

One option to obtain such results is to estimate a macroeconomic model of migration that explains stocks or flows of migrants with variables that account for economic push and pull factors of migration, such as per capita income differences and labour market conditions, as well as variables that reflect, e.g., cultural and spatial proximity and migration regimes. Future migration flows are then extrapolated based on assumptions on economic and labour market developments. This implies double extrapolation, in time and in space (see Fidrmuc et al., 2003). To enhance the validity of the results, it is important to capture the institutional characteristics of the bilateral flows concerned, such as guest worker schemes. A methodological problem is that migration patterns are strongly country-specific. Technically, the inclusion of country-fixed effects into the estimation has a strong impact on the estimation and simulation results. To translate results for one set of countries (such as the Southern European sending countries) to another, the country-fixed effects for the latter need to be known. Alvarez-Plata et al. (2003) overcomes this problem by a secondary regression for the country-fixed effects that allows calculating them for the Eastern European countries as well. Even in a specification with institutional variables and country-fixed effects, the question remains whether the parameters estimated from sending countries with more or less unrestricted migration in the past are equally valid for post-socialist source countries where attitudes may be altogether different.

The second option to assess the size of post-enlargement East to West European migration is to evaluate survey data of the willingness to migrate from the source countries. On the positive side, this methodology draws conclusions from studying the population of a specific country directly. Hence, it avoids the pitfall of translating results from one country to another. Such studies have their own shortcomings, however (see Alvarez-Plata et al., 2003, pp. 10f.). First, they focus on the supply side of migration, while demand conditions are left out of regard. Even on the former, they can provide only a snapshot that may be of limited validity under different conditions. Besides, they typically do not consider the intended length of stay abroad. Even if they did, the validity of such results would remain doubtful, since migrants tend to adjust their plans during the stay abroad. Therefore, survey results indicate the expected gross inflow of migrants into a set of host countries in a period of time, but they are not informative about the change in the stock of foreigners living in those countries at a point of time. However, they relate about the socio-economic characteristics and motivations of potential migrants.

The highly influential and thorough forecast of post-enlargement, post-liberalization migration flows of Alvarez-Plata et al. (2003) evaluates data on immigration to Germany

from 19 source countries in 1967-2001 and provides simulations for the EU-15. The strong points of the study are the consideration of country-fixed effects as described in Box 5, and of institutional variables. The study provides joint results for migration from Bulgaria and Romania into Germany and the EU-15. The simulation results on Germany imply that Romanian immigration to Austria could amount to some 43,500 persons in the first decade after the introduction of free labour mobility.<sup>14</sup> The study also performs simulations for a high migration scenario, assuming slower income convergence, higher unemployment in Romania, and declining unemployment in the host countries. From these figures, we obtain a migration potential from Romania to Austria of some 55,500 persons within the first ten years with free labour mobility.<sup>15</sup> Thus the average annual number of net immigrants from Romania would be, in normal circumstances, about 4300 persons and 5500 at maximum. The baseline number is 76% higher than the actual net immigration in 2002-2004 and the high number corresponds to 125% (see Table 17).

Importantly, Alvarez-Plata et al. (2003) show that the postponement of free movement will not have a sizeable impact on the total number of immigrants over ten years, since migration is mainly driven by the income gap, which is slow to diminish. However, restrictions that are abolished gradually could mitigate a sudden shock. According to the simulations, at a sudden transition to the liberalized regime, around 30% of the above migration potential would materialize in the first two years, and annual numbers would subside thereafter. In the baseline and high scenarios, in the first and second year after a sudden release of the present migration restrictions, a net immigration of 6500 and 8000 Romanian nationals p.a., respectively, is expected. Initial restrictions on labour mobility and their gradual fading out could smoothen the transition to the liberalized regime.

As a survey-based assessment, Krieger (2004) evaluates information on the intentions to migrate to the EU-15 from the Candidate Countries Eurobarometer dataset of April 2002. It distinguishes three levels of intention to migrate to the EU: a general interest in living in the EU in the next five years, a basic intention as a choice between target areas for migration (local, regional, international), and a firm intention that is cross-checked with the willingness to live in a country with a foreign language. Results are provided for groups of countries only. The study finds that 5% of the Romanian and Bulgarian citizens have a 'general inclination' to migrate to an EU country, while 3.2% show a 'basic intention', and again a

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<sup>14</sup> The study simulates the total expected immigration from Romania and Bulgaria to Germany. From the figures provided, we impute the above number using the 2001 ratios of Romanian and Bulgarian immigration to Austria and Germany respectively given in Alvarez-Plata et al. (2003, p. 4).

<sup>15</sup> Adopting the model of Alvarez-Plata et al. (2003), Huber and Brücker (2003) provide forecasts of expected post-enlargement net immigration to Austria from both the eight NMS (ten NMS less Cyprus and Malta) and Romania and Bulgaria respectively. They expect a total inflow of around 14,000 Bulgarian and Romanian nationals to Austria in the first ten years upon free labour mobility. By the ratio of present immigration from these countries, 11,000 Romanians would come to Austria in that decade. We find this figure less convincing than the number obtained from Alvarez-Plata et al. (2003). Certainly, this is due to the fact that the Huber and Brücker (2003) simulation is based on a very short time period when immigration to Austria was relatively restricted.

considerably lower share, 2%, show a 'firm intention' to do so. Remarkably, these migration intention rates are considerably higher than in the NMS (3.1%, 1.3%, and 0.8% respectively).

With Romania's population of 21.6 million in 2005 and an assumed share of Austria in Romanian migration to the EU of 8%<sup>16</sup>, a share of 2% with a firm intention to migrate to the EU within five years implies a migration potential of 34,560 persons from Romania to Austria. Note that part of this migration potential may relate to return migration so that the figures cannot be read as the total net increase of the stock of citizens from Romania within the five subsequent years upon the liberalization of labour mobility. A potential for more than five years cannot be obtained from the Krieger (2004) results by linear extrapolation. But results of Alvarez-Plata et al. (2003) are available for the first five years. They imply a migration of 29,000 to 36,000 Romanian nationals to Austria under the two scenarios referred to above. Thus the two methodologies arrive at fairly similar results, an annual inflow of 6000 to 7000 on average in the first five years.

Looking at the socio-economic characteristics of those with migration intentions, Krieger (2004) finds that the general inclination to move is highest among people aged 15-24 and is sharply decreasing in the older cohorts. For Romanians and Bulgarians, this pattern is even more pronounced than among NMS citizens. A share of 37% of the Romanians and Bulgarians with a general inclination to move possess secondary education, while another 14% have completed tertiary education, 31% are still studying, and 19% have only primary education. The latter figure is considerably higher than the percentage of the low-skilled would-be migrants from the NMS, 5%. Among those with a firm intention to migrate, the better educated are more strongly represented than among those with a general inclination. Still, the difference between the NMS and the later accession countries in terms of skill levels of potential migrants remains, leading Krieger (2004) to conclude that the labour market integration of migrants from Romania and Bulgaria may be more difficult than of those from the NMS.

Around one third of the Romanians and Bulgarians with a general inclination to move are employed (32%) and students (35%). Even though the share of students among those with firm migration intentions is much lower, this draws the attention to the potential risk of youth/brain drain. In addition, a particularly high number of the non-studying inactive (13%) express their general interest to migrate to the EU. These could be discouraged unemployed who have temporarily withdrawn from the national labour market but would seek re-entry abroad.

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<sup>16</sup> This assumption is based on the forecast results of Alvarez-Plata et al. (2003, p. 60) which in their turn are based on the distribution of Eastern European immigration across the EU-15 countries in the early 2000s. On this item, we have no other reliable information based on comparable data across Europe.

The Eurobarometer data also allow to distinguish between various motives for migration.<sup>17</sup> From these results, Krieger (2004) finds that financial reasons are the predominant motive for 54% of the Romanians and Bulgarians with a general inclination to migrate. For the NMS, this share is considerably lower, at 24%; the importance of the economic motive thus decreases with increasing country wealth. Data on firm intentions to move suggest that a major part of the migrants are likely to be students and persons seeking escape from unemployment, and that the willingness to emigrate is motivated by bad economic conditions.

#### **4.4 Free movement and labour market access of Romanian citizens after EU accession**

In principle, new EU member states are fully assuming the rights and responsibilities of EU membership upon accession. However, the right of nationals from the new EU member states of May 2004 to assume employment in the EU-15 has been restricted by transitional arrangements. For Romania and Bulgaria, the EU Accession Treaty includes similar provisions, summarized in Box 6.

Box 6

##### **Free movement of labour from Romania upon accession: transitional arrangements**

- '2+3+2 formula': Within the first two years upon EU accession of Romania, incumbent member states may apply national or bilaterally agreed measures to regulate the labour market access of Romanian nationals. These measures may be maintained up to three more years. In case of serious disturbances of the respective labour market or a threat thereof, they may be prolonged by another two years.
- Even if they do not resort to the above transitional restrictions, incumbent member states may suspend free labour mobility from Romania to certain regions or occupations, in case of a serious disturbances or a related threat. This is possible during the entire seven-year period.
- As of EU accession, Romanian nationals who have been legally employed for at least 12 months without interruption in an incumbent EU member state (prior to accession or thereafter) will obtain access to the labour market of the respective member state (but not of other EU members).
- Spouses and children up to the age of 21 of a Romanian national who qualifies for this right will equally obtain immediate access to the respective labour market if they have legally resided for 12 months in that state at the date of accession. If such family members have not legally resided in the respective member state with the worker at the date of accession, they obtain labour market access after 18 months of legal residence in that state. From the third year upon accession, this right to family members is granted without any requirement of prior residence.

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<sup>17</sup> Namely: dissatisfaction with housing conditions, dissatisfaction with the local community, work-related reasons, family and other private reasons, and financial reasons.

- As concerns the trans-national provision of services, Germany and Austria specifically have the right to restrict such activity of Romanian companies in certain sectors. For Austria, these sectors are horticulture (NACE 0141), the carving of stone (0267), the manufacture of metal structures (2811), construction (451 to 454), security activities (7460), industrial cleaning (7470), home nursing (8514), and social work (8532).
- Standstill clause: transitional measures applied by the incumbent member states may not be worse than those in force at the date of accession.
- Community preference: Incumbent member states may not grant privileged labour market access to third country nationals as compared with the citizens of the new entrants.
- Romania has the right to maintain reciprocal restrictive measures towards workers from the incumbent EU member states respectively. If restrictive measures towards Romanian nationals are applied by at least one incumbent EU member, Romania may restrict the labour market access of Bulgarian nationals.

Source: Annex VII of the Accession Treaty.

Transitional arrangements allow the incumbent EU members to continue their present regulatory regimes. Sweden is the only pre-2004 EU member that allowed full access of the new EU citizens to its labour market, while the UK and Ireland have provided general access to employment but restrictions of welfare benefits. All other incumbent members resorted to maintaining restrictions (Traser et al., 2005). With the end of the first two-year period approaching, the continuation of the restrictions is presently being debated.<sup>18</sup>

After EU enlargement in 2004, Austria has chosen to maintain the present regime towards the NMS. This implies that the employer of a new labour market entrant from the NMS needs to request a work permit. The adoption of a law that foresees the application of an analogous regime to Romania and Bulgaria upon accession is presently pending. The main mode for Romanian citizens to enter the Austrian labour market after Romania's EU accession will thus remain to be via work permits that are issued to employers in sectors with excess labour demand only. Changes in the present scheme of Romanian labour migration to Austria after accession can be expected from the following post-accession rights.

- First, those who would have moved from work permit (*Beschäftigungsbewilligung*) to the next step, the work entitlement (*Arbeitserlaubnis*), will immediately profit from unlimited labour market access in Austria. Since new EU citizens will not need a residence or settlement permit either, work permits, temporary residence permits and settlement certificates will be replaced by free movement certificates (*Freizügigkeitsbestätigung*).<sup>19</sup>

<sup>18</sup> Recently, Finland, Portugal and Spain have decided to abolish the restrictions on labour mobility for the new EU members as of 1 May 2006, while France is considering fading out the restrictions.

<sup>19</sup> See Austrian Federal Ministry for Economy and Labour (2004).

- Second, EU accession will improve the labour market access of family members of Romanian immigrant workers in Austria. In particular, family reunification is immediately possible without authorization, due to the freedom to reside. Any right to labour market access to a new immigrant from Romania will imply labour market access of joining family members as well with delay, or immediately as of January 2009 or 2010. Other than at present, labour market access of the family member will not be bound to a specific job or industry.
- Third, Community preference will increase Romanian immigrant labour at the expense of immigrant workers from third countries. At present, resident foreigners are prioritized against new entrants from Romania to obtain work permits. Community preference is neutral with respect to the total number of immigrant workers. However, total labour supply of foreigners may nevertheless increase due to the ‘family multiplier’ described above.

Transitional arrangements will restrict Romanian citizens’ right to assume employment in the incumbent EU member states, but they will be able to exercise their right to reside, set up a business, work self-employed, or provide services (within the limits specific to Germany and Austria described above). A number of Romanian citizens may establish a living in Austria on these grounds. However, creating a new business or establishing self-employment is far from easy even for natives: in all likelihood, it will be those who are better equipped with physical and human capital as well as entrepreneurial spirit who will manage to do so. The Austrian law on the employment of foreigners applies to self-employment as well if its activities are similar to employees’ work (Huber and Brücker, 2003, p. 15). Experience with NMS nationals has shown cases of abuse of the right to self-employment in Austria. However, due to strict controls and the difficulty of effective exculpation, this is not a sustainable practice.

Finally, the freedom to reside can be used to perform illegal work combined with lawful residence. Again, controls in the manufacturing and service sectors are likely to deter large-scale illegal employment. However, strict controls are hardly possible in the area of services to domestic households. Illegal employment of Romanian nationals for home maintenance, childcare and nursing may therefore increase after EU accession.

#### **4.5 Conclusion: Labour market effects of Romanian post-accession immigration**

Labour market adjustments to immigration and wealth effects thereof have been widely researched in the context of Eastern EU enlargement (for a more extensive review, see Drinkwater et al., 2003). Most studies conclude that East to West European migration will be far from massive, hence there are no grounds to expect drastic total effects on domestic labour and wages (for a review see Fidrmuc et al., 2003). First assessments of the labour



market effects of post-enlargement migration from the NMS to Western Europe find that the experience confirms the predictions of relatively modest migration flows, and that the countries allowing labour mobility have benefited from NMS immigrants because those predominantly assumed hard-to-fill jobs (Traser et al., 2005; European Commission, 2006). In terms of the total expected effect of Romanian post-accession immigration to Austria specifically, similar conclusions may be drawn. In the first years, Romanian labour migration to Austria will be modest due to the transitional arrangements. In an unrestricted regime, it is most realistic to expect an immigration of about 43,500 Romanian nationals within the first decade. This is 1.3% of the total Austrian labour force of 2004, or 10.8% of its foreign labour force over a ten-year period. Part of the migration potential from Romania will cover children and non-working spouses. Even the high scenario of the Alvarez-Plata et al. (2003) simulation implies a migration of about 7900 Romanian nationals to the Austrian labour market in the first year upon labour market entry liberalization. This is 2% of the foreign labour force (without the self-employed) in Austria in 2004. Any potential negative impact of such immigration on wages or unemployment could be mitigated by a downward adjustment of the quota allocations for work permits that are granted for the employment of new entrants from third countries.

While the effect of Eastern European labour immigration to Austria can be expected to be marginal on total employment and wages, it may affect specific segments of the labour market, however. Existing research suggests that low-skilled domestic employees and blue-collar workers in particular may face retarded wage growth or even decreasing wages, or increased risk of unemployment. This may in particular affect foreign labour already residing in Austria, as well as female native employees. Eastern European immigration may increase the earnings gap between skilled and unskilled labour and add to the pressure on the unskilled arising from economic globalization (Huber and Brücker, 2003). Since foreign labour tends to cluster in specific sectors and regions, adverse adjustment effects may arise even in the presence of low total immigration. Such effects could be aggravated by immigrant labour from Romania, especially in the light of the survey findings of a higher share of potential migrants with low education levels quoted above. But in fact, the largest potential challenge to the Austrian labour market arises from daily commuters from the border regions of the neighbouring NMS, who can afford to supply labour at lower wages due to lower cost of living in their home country, an option not available to Romanians. Thus labour immigration from Romania will remain relatively unproblematic.

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