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Foreign direct investment strengthens Central and Eastern Europe's economies

- *New study shows significant effects on growth and employment*
- *German and Austrian FDI also reduce poverty and social inequality*
- *Haußmann: 'Direct investment and trade are not one-way streets'*
- *Holzner: 'Foreign direct investments are still the basis of the growth model in Central and Eastern Europe'*

The extensive German and Austrian foreign direct investments (FDI) in East-Central and Southeast Europe have contributed significantly to economic growth and employment there since the early 1990s. At the same time, they have also played a part in reducing poverty and social inequality. These are the main findings of a study on the economic and social impacts of FDI in 17 economies in Central, Eastern and Southeastern Europe conducted by the Vienna Institute for International Economic Studies (wiiw) on behalf of the German Eastern Business Association. Specifically, Czechia, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Bulgaria, Croatia, Romania, Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia were examined in the period 1993 to 2020.

It is the most comprehensive scientific study to date on the importance of FDI for economic and social development in the region, where German and Austrian companies are among the top investors. By the end of 2020, German enterprises had invested no less than EUR 109bn in the 17 countries, and Austrian companies as much as EUR 76bn.

'*The German economy has benefited more than almost any other from the opening of markets in Eastern Europe since 1989*,' says German Eastern Business Association board member Philipp Haußmann (Ernst Klett AG). '*Our close economic ties with the region make a decisive contribution to Germany's global competitiveness. Without Central and Eastern Europe, we would not be in such a good position today.*' Germany's companies benefit in particular from advantageous production and procurement costs in the East, as well as access to new markets. '*The study shows impressively that, conversely, German and Austrian investments have contributed significantly to economic development in Central, Eastern and Southeastern Europe*,' says Haußmann. '*Direct investment and trade are not one-way streets, but benefit both sides.*'

Consistently positive effects on growth and the labour market

The authors of the study, Branimir Jovanović and Doris Hanzl-Weiß of wiiw, pay particular attention to the effects of direct investment from the EU, especially from Germany and Austria. They conclude that the generally positive effect of FDI was notably pronounced in the case of German and Austrian direct investment in the region. In addition to stimulating growth and the labour market, it also contributed to reducing social inequality and poverty. This especially beneficial effect compared with other investments is mainly due to the fact that German and Austrian FDI in particular led to higher consumption and rising exports in the target countries, benefiting people with lower incomes.

'*Foreign direct investment continues to be the basis of the growth model in Central and Eastern Europe*,' emphasises Mario Holzner, Executive Director of wiiw. '*Those countries in the region that have the highest incomes are also closely integrated into the Central European industrial cluster through high levels of foreign direct investment,*' he adds. *'A good example is the direct investments of the German automotive industry, which have created tens of thousands of jobs for qualified skilled workers who were particularly hard hit by the collapse of large state-owned industrial enterprises in the course of the economic transformation after 1989*.'

However, not all direct investments had the same positive effects as those from Germany and Austria. Therefore, the authors of the study, Jovanović and Hanzl-Weiss, recommend that the economies of the region focus their efforts on attracting investments that can be expected to have positive economic and social effects.

Haußmann: 'Create good framework conditions'

'*We hope that the study will help to further create and maintain good framework conditions for foreign investors,*' says Haußmann. Efforts to disadvantage foreign investors or to force them out of strategic sectors are a loss for all sides, he warns. '*Right now, German companies are reorganising their international supply chains against the backdrop of global upheavals,*' Haußmann adds. The shortening and regionalisation of supply chains play an important role in this. '*There are tremendous opportunities for Central and Eastern Europe if the framework conditions are right.*'

The full study is available for download here.

About the Vienna Institute for International Economic Studies (wiiw)

wiiw is an economic think tank that has been producing economic analyses and forecasts for, at present, 23 countries in Central, Eastern and Southeastern Europe for almost 50 years. In addition, wiiw conducts research in the areas of macroeconomics, trade, competitiveness, investment, the European integration process, regional development, labour markets, migration and income distribution.
www.wiiw.ac.at

About the German Eastern Business Association (Ost-Ausschuss der Deutschen Wirtschaft)

The German Eastern Business Association (Ost-Ausschuss der Deutschen Wirtschaft e.V.) (founded in 1952) promotes the German economy in the 29 countries of Central, Eastern and South-Eastern Europe, the Southern Caucasus and Central Asia. German trade with Eastern Europe accounts for around one-fifth of Germany's total foreign trade, making it more important than trade with the US and China combined. The German Eastern Business Association has around 350 member companies and associations and is supported by six leading associations of the German economy – BDI, BGA, Bankenverband, DIHK, GDV and ZDH.

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