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FDI in CEE – The Business Perspective

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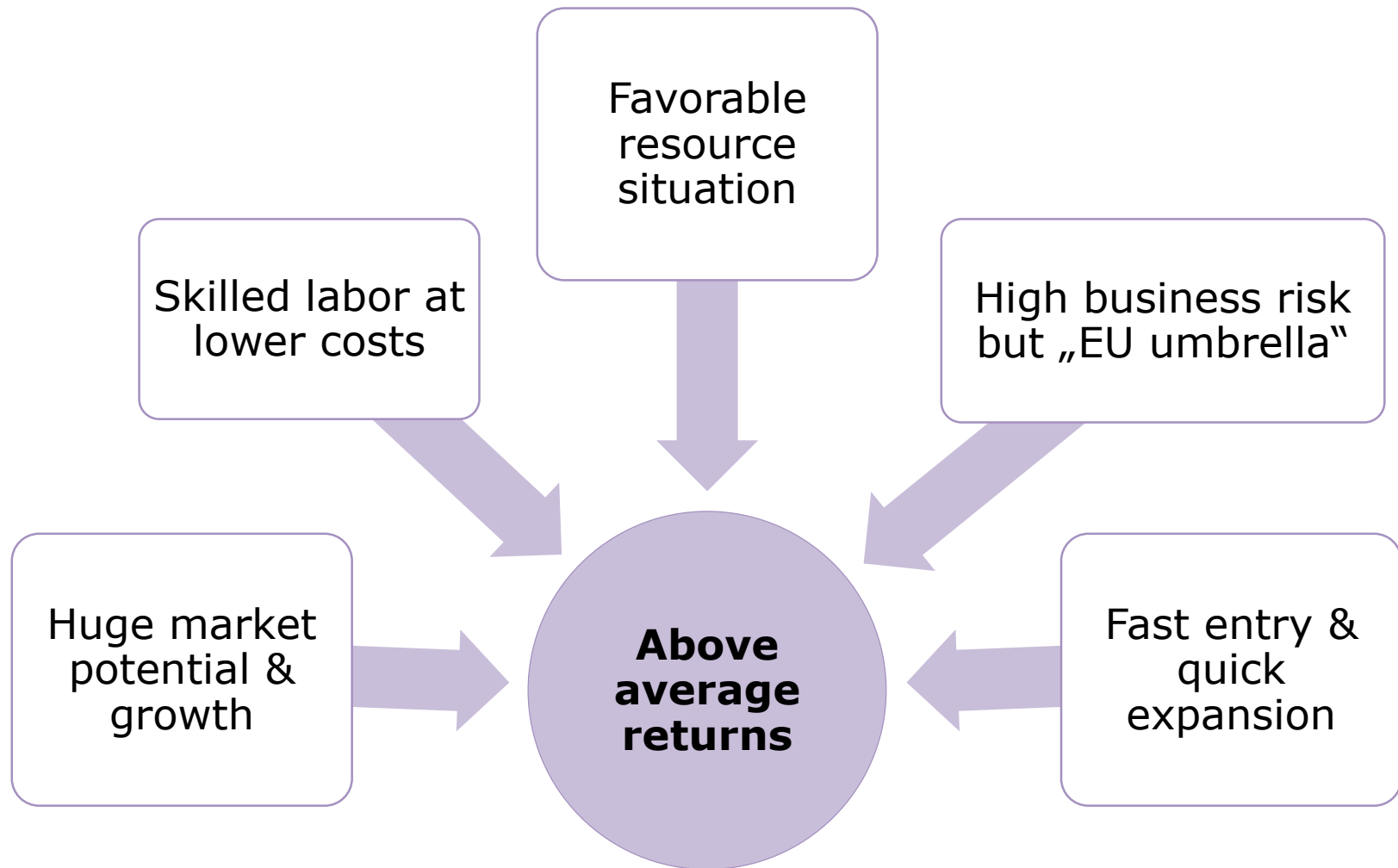


- Research on „going east“ of Western MNCs since the fall of the Iron Curtain
- Before & after 2009: Expansion and consolidation
- Current developments and outlook

Opening of CEE led to „mini-globalization“ for Austrian firms

- Huge growth opportunity for
 - **national champions** (e.g., OMV, Telekom, Voestalpine)
 - **service firms** and **retailers** (e.g., Erste Bank, EVN, UNIQA, VIG, Post, Baumax, kika, Porsche Holding, Humanic)
- Professional **service providers** „follow their customers“
- Vienna becomes **CEE business hub** with more than 200 CEE-headquarters of global MNCs
- Entrepreneurial spirit, „first-mover“ effect, quick expansion and comparative advantages vis-a-vis local firms
- **„Regional player“** position brings „critical mass“
- Austrian firms as **„preferred partners“**
- **6.000 Austrian firms** are present today in CEE

The business model for CEE (pre-2008)



Market-seeking motive dominates investment patterns in CEE

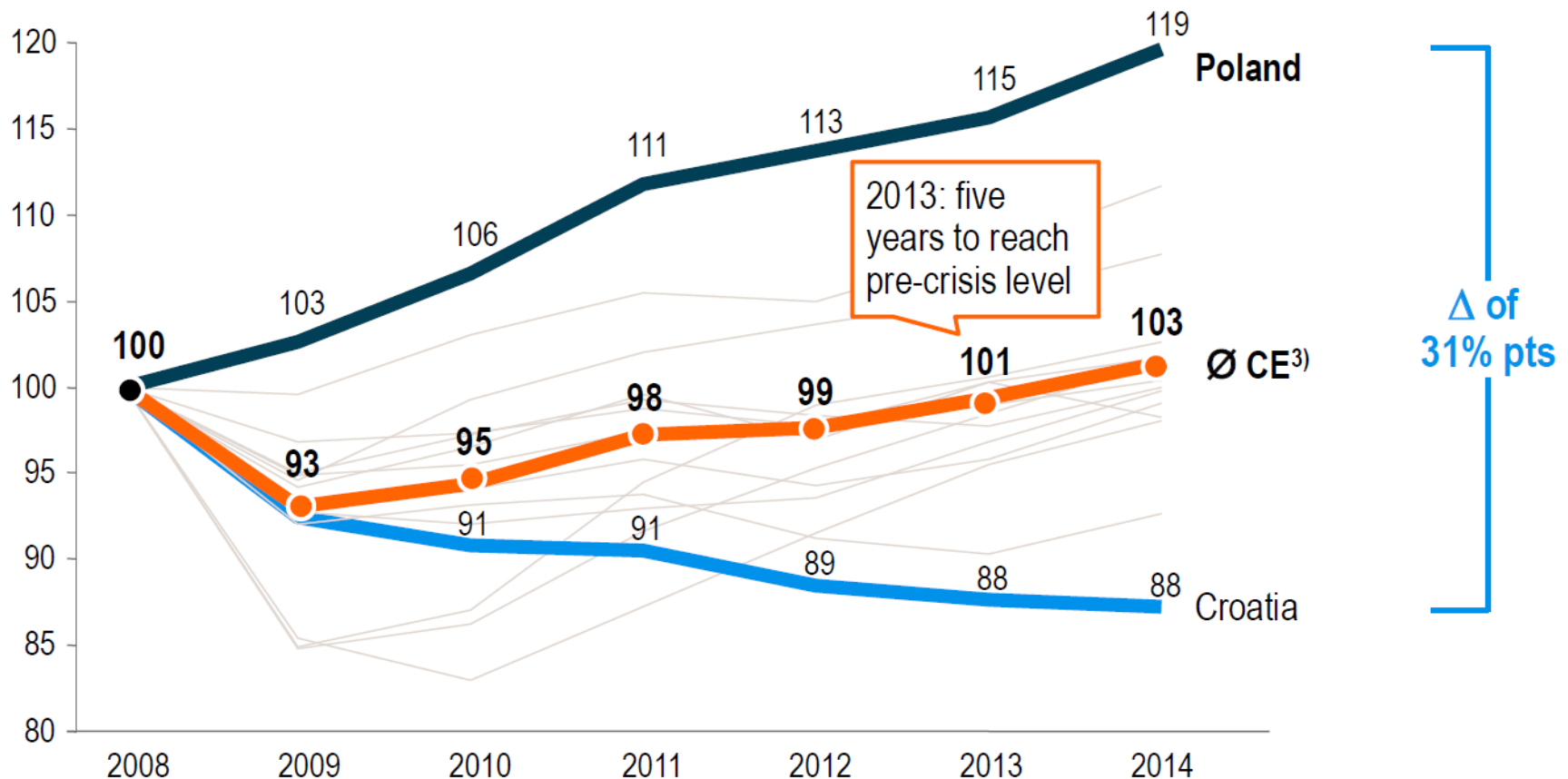
Investment pattern	Industry examples
<i>Market-seeking</i>	
Betting to become a regional player	European banks, insurers, wholesalers/retailers, energy, construction
Extension of global coverage	FMCG, industrial goods, fast-food chains
“Follow your key customer”	Professional services, packaging, transportation/logistics
Cross-border expansion into neighboring countries	Medium-sized companies in trade, services, tourism + construction
Active industry consolidation within the region	Banks, insurers, telecom, retailing, gas stations

Low production costs have steadily gained in importance as investment motive

Investment pattern	Industry examples
<i>Production-oriented</i>	
“Extended workbench”	Automotive, electronics, metal processing
Export platforms to the European/global market	Automotive, electronics, household goods
Nearshoring/Outsourcing	Shared Service Centers, BPO
<i>Non-Western perspectives on CEE</i>	
Russian firms going West	Energy, commodities, banks
Turkish and Arab firms going SEE	Real estate, tourism, construction, transportation
Chinese firms going CEE	Telecom, chemicals, infrastructure, construction, trade

The Great Recession caused a severe economic downturn in CESEE

Real GDP Development 2008-2014 [Index¹⁾; 2008=100]²⁾



1) Sample of 14 CE countries 2) 2010 market prices. Not including Albania, Bosnia and Herzegovina and Kosovo 3) Weighted average

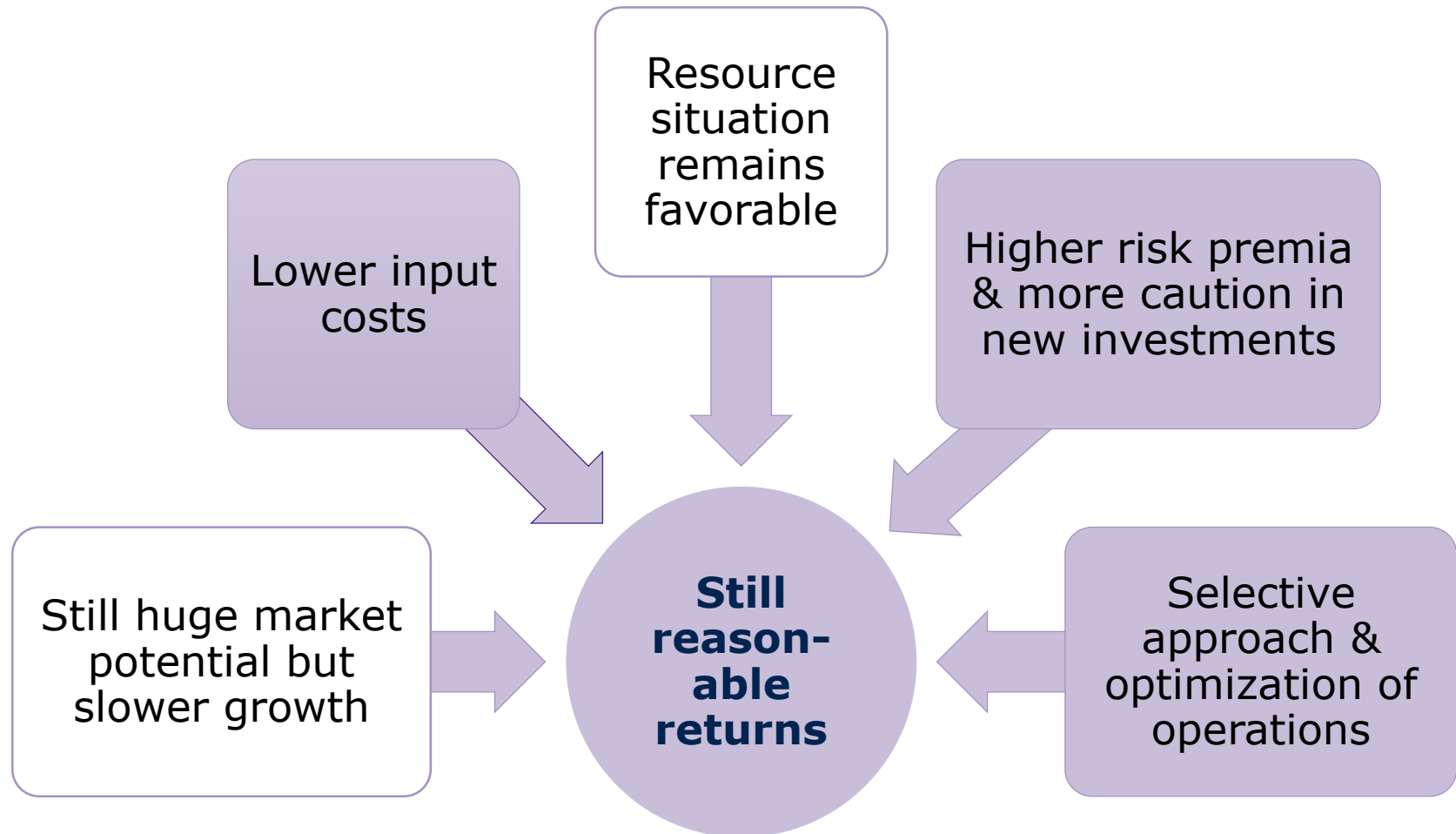
New business realities for foreign investors in CEE after 2009

- Shattered **expectations** of managers
- CEE is not seen as an homogeneous „**Eastern Bloc**“ anymore
- Changing **nature of growth** and **competition**
- National governments turned from an investor-friendly to a **hostile attitude** towards foreign firms
- Devaluating currencies and declining costs increase **cost competitiveness** of CEE.

Western MNCs respond to economic downturn with a strategic reorientation

- CEE lost its status as a **growth region**
- **Restructuring** of product and country portfolios (e.g. withdrawal from Ukraine)
- Focus on **optimization** of existing network
 - Cost reduction/adjustment of capacity
 - Centralization/Regrouping
 - Leaner organization/Nearshoring (Shared Service Centers)
- Addition of **affordable** product lines
- CEE becomes more attractive as a location for **production** and sourcing
- More **cautious** and **selective** investment behavior

Is the business model still valid after the crisis?



- Firms shift focus to **sales growth** again
- Simmering **Russia-Ukraine** conflict disturbs trade and investment climate
- „**New kids on the block**“: Middle East, Russia, Turkey and China (OBOR)
- **Antagonism** towards (market-seeking) MNCs + higher **demands** by host governments require new (political) strategies
- Further **FDI into manufacturing** in CE despite rising labor costs and a shrinking labor pool
- Increasing **centralization** of decision-making in corporate HQ may lead to shrinking attention for region



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