Policy Notes and Reports 81

JUNE 2024

Austria's Economic Relations with the EU Eastern Partnership Countries and Russia

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The author thanks Richard Grieveson and Mario Holzner, for valuable suggestions and comments and Alexandra Bykova and David Zenz for statistical support.

Abstract

The dynamics of Austria's economic relations with the EU Eastern Partnership (EaP) countries – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine – and with Russia have deviated from those of the EU in several important ways. During the decade preceding the war in Ukraine, Austrian trade with the region generally developed less dynamically than EU trade, as trade with countries that did not sign Deep and Comprehensive Free Trade Agreements (DCFTAs) with the EU – unsurprisingly – underperformed. However, Austrian investments in Russia have shown greater resilience than EU investments, especially since the start of the war in Ukraine. Austria ranks third from bottom among EU member states for the share of companies that have completely withdrawn from Russia or are in the process of doing so, probably explaining in part why its exports to Russia have suffered much less than EU exports. In addition, chemicals, including pharmaceuticals, which have been little affected by sanctions, account for a large share of Austrian exports. Also, unlike the EU, Austria's dependence on Russian natural gas remains high, partly for geographical reasons and also because of contractual obligations between Austria's ÖMV and Russia's Gazprom. Austria would be well advised to build on its record of economic involvement in the EaP region and capitalise on the new opportunities offered by the improved EU accession prospects of Ukraine, Moldova and Georgia.

Keywords: EU Eastern Partnership countries, Austria, EU, trade, investment, gas dependence

JEL classification: F14, F21, Q40

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Austria's economic relations with the EU Eastern Partnership countries and Russia

1. INTRODUCTION

Russia's war against Ukraine and the wide-ranging Western sanctions imposed on the country in response[1] have not only proved to be major shocks to the economies of the warring countries but have also led to a major realignment of economic architecture of the six countries covered by the EU Eastern Partnership (EaP) programme: Armenia, Azerbaijan, Belarus,[2] Georgia, Moldova and Ukraine, as well as Russia.

Russia's trade and investment integration with the West suffered a severe setback, forcing the country to turn to China, which has become its most important economic partner, accounting for around 30% of exports and 40% of imports. Facing the shocks of sanctions and the initial freefall of the rouble exchange rate, Russia's economy slid into a recession in 2022, although it has been recovering since, fuelled by high military spending. In 2023 Russian real GDP growth is estimated to have exceeded 3%, although recent policy tightening in response to economic overheating will put a brake on growth in 2024. Belarus, which had already been facing severe Western sanctions before the start of the war,[3] has seen increasing economic integration with Russia and is benefiting from the economic recovery there.

The economy of war-plagued Ukraine plummeted by 29% in 2022, not least because of the de facto loss of some of its territory and population to Russia, which was followed by a mild recovery in 2023. On a positive note, the war has triggered a major rethinking of the EU enlargement strategy, with Ukraine (as well as Moldova and Georgia) granted long-sought EU candidate status. However, in order for Ukraine to reap the economic benefits of improved EU integration prospects, security issues need to be resolved. The war needs to end, and subsequent security arrangements – whatever form they might take – should provide basic peace guarantees. Otherwise, inflows of West European investment (which

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1 By the time of writing, the EU had adopted 11 sanctions packages against Russia in response to its invasion of Ukraine (on top of sanctions introduced since 2014 in response to Russia's annexation of Crimea and support to separatists in Donbas). Among the most important sectoral sanctions imposed have been import embargoes on Russian oil, coal, iron, steel, wood and some other raw materials; a price cap on oil shipments to third countries; and export bans on a wide range of machinery and equipment, including semiconductor materials, as well as luxury goods: https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/#sanctions. These measures were complemented by sanctions adopted by the US, the UK and some other Western nations.

2 Belarus suspended its participation in EaP in June 2021, but continues to be formally covered by the programme.

3 The first major EU sectoral sanctions on Belarus were imposed in June 2021, following the fraudulent presidential elections in August 2020 and the brutal crackdown on the protests, as well as the forced landing of a Ryanair flight in May 2021. Most importantly, those sanctions restricted trade in petroleum products, potash and goods used for the manufacture of tobacco products: https://www.consilium.europa.eu/en/press/press-releases/2021/06/24/eu-imposes-sanctions-on-belarusian-economy/. Further trade restrictions were added after the start of the war in Ukraine: https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-belarus/

have historically been a crucial source of restructuring and modernisation in most Central, East and Southeast European countries) are highly unlikely to materialise.

Finally, the three Caucasus countries of Georgia, Armenia and Azerbaijan have benefited from the sanctions imposed on Russia, becoming important hubs for the shipment of a wide range of sanctioned and non-sanctioned goods to Russia. In addition, Georgia and Armenia have hosted a large number of Russian migrants fleeing mobilisation and an increasingly repressive political regime, and this has provided a very substantial boost to their economic growth recently.

This policy note gives an overview of Austria's economic relations with the six EaP countries and Russia. It analyses trade and investment trends both before and since the start of the war in Ukraine and, whenever possible, compares them with trade and investment relations of these countries with the EU as a whole. The main focus is on economic relations with Russia, partly because of its economic weight in the post-Soviet space, but also because of the greater availability of data. It concludes with policy recommendations.

2. TRADE DEVELOPMENTS PRIOR TO THE WAR

Figure 1 presents the evolution of Austrian and EU exports to EaP countries and Russia during the decade preceding the war in Ukraine. It shows that, overall, one can distinguish between two groups of countries in regard to trade dynamics.

The dynamics of **exports** to **countries that signed Deep and Comprehensive Free Trade Agreements (DCFTAs)**[4] with the EU – Moldova, Georgia and Ukraine – have been generally more vibrant than exports to non-DCFTA countries of the region. This pattern holds for both Austrian and EU exports, reflecting the advantages offered by DCFTAs with respect to market access for EU products in the countries involved. However, it appears that Austrian exporters have benefited from these advantages less than EU exporters. The long-term trend of Austrian exports to these countries has been essentially stagnant in nominal terms, suggesting a decline in real terms. For instance, in 2022 Austrian exports to Moldova and Georgia were roughly at the level of 2016, while exports to Ukraine in 2021 (i.e. even before the war) were marginally lower than in 2013.

In contrast, EU exports to DCFTA countries have developed much more dynamically, recording a near-continuous trend increase over the past decade in each case. In 2021 EU exports to all three countries were higher than in any other year since 2010.

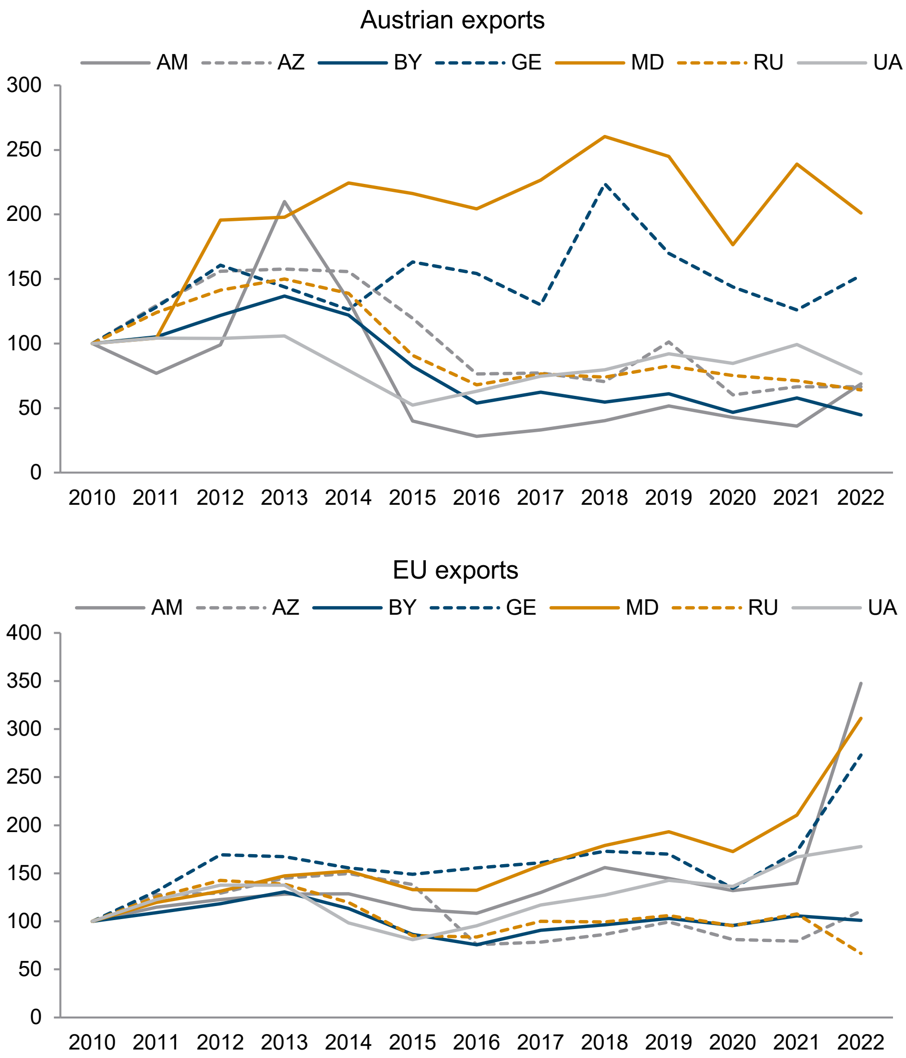
The performance of Austrian **exports to non-DCFTA countries** has been even more disappointing. By and large, they peaked in 2013, underwent a dramatic decline between 2013 and 2016, and have been more or less stagnant ever since (Figure 1). Exports to Russia, Belarus and Azerbaijan dropped by more than half between 2013 and 2016, reflecting the economic slump and the depreciation of their currencies in the wake of the oil price decline (and the impact of the first Western sanctions on Russia, imposed in

[4] https://trade.ec.europa.eu/access-to-markets/en/content/deep-and-comprehensive-free-trade-agreements. DCFTAs envisage not only mutual duty-free market access (albeit with some exceptions and transitory periods), but also the adoption by Georgia, Moldova and Ukraine of numerous EU norms and standards in a wide range of areas, such as competition rules, technical barriers to trade (TBTs), sanitary and phytosanitary (SPS) measures, customs and trade facilitation, and protection of intellectual property rights.

response to the annexation of Crimea and Russia's support of the separatists in Donbas), while the decline in exports to Armenia was even more dramatic. As a result, in 2021 Austrian exports to Russia stood at only 48% of their 2013 level, with the respective figures for exports to Belarus and Azerbaijan each at 42%, and exports to Armenia at a mere 17%.

For non-DCFTA countries, Austrian exports have generally underperformed EU exports. Although in 2021 EU exports to these countries (except Armenia) were also lower than in 2013, the gaps were much less pronounced than in the case of Austrian exports. For instance, EU exports to Russia in 2021 stood at 78% of the 2013 level – a much higher percentage than for Austrian exports.

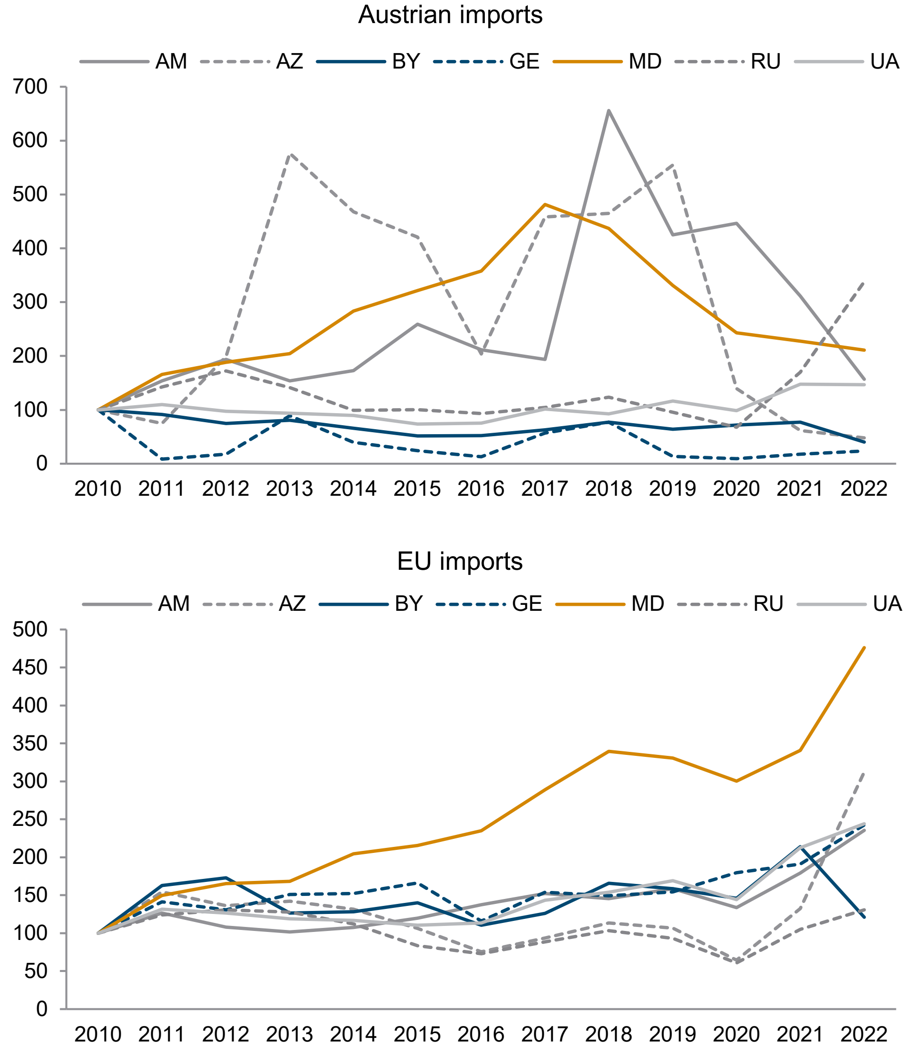
Figure 1 / Austrian and EU exports to EaP countries and Russia in 2010-2022 (euro-based); 2010 = 100



Source: own calculations, based on Eurostat data.

The long-term evolution of **imports from EaP countries and Russia** over the past decade (Figure 2) generally conforms to the pattern observed for exports. Austria's imports from DCFTA countries have developed more dynamically than from non-DCFTA countries, and for both groups of countries they have tended to underperform EU imports. For instance, although EU imports in 2021 and 2022 from all EaP countries and Russia were higher than in 2010, Austrian imports from three of them (Azerbaijan, Belarus and Georgia) were below their 2010 levels. The divergence between the EU and Austria is particularly striking when it comes to imports from Moldova – by far the most successful DCFTA country in terms of trade integration with the EU. Although EU imports from Moldova showed a generally strong long-term trend increase, reaching almost five times their 2010 level in 2022, Austrian imports from that country peaked in 2017 and have been declining since.

Figure 2 / Austrian and EU imports from EaP countries and Russia in 2010-2022 (euro-based); 2010 = 100



Source: own calculations, based on Eurostat data.

3. TRADE DEVELOPMENTS SINCE THE BEGINNING OF THE WAR

The beginning of the war in Ukraine in February 2022 marked a strong divergence in the trade dynamics of Austria and the EU with individual EaP countries and Russia. Exports to Russia, Belarus, Ukraine and Moldova all underwent severe declines initially, albeit for different reasons. Since then, they have recovered only partially – and not at all in the case of Russia. Export dynamics to Georgia and Azerbaijan have been muted, while exports to Armenia surged strongly from H2 2022 (Figure 3).

Exports to Russia took a severe blow after Western countries (notably the US and the UK) and the EU imposed wide-ranging sanctions on the country, which included export bans on a wide range of high-tech products, machinery and equipment, and luxury goods. As a result, Austrian exports to Russia have steadily declined, plummeting by 32% between H2 2021 and H1 2023. However, EU exports to Russia declined much more: by 56% during the same period.

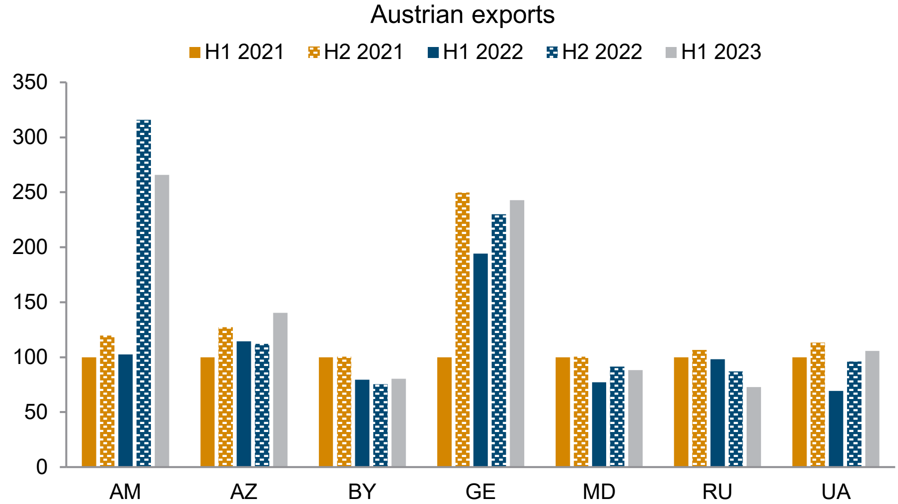
Austrian exports to **Belarus** initially dropped too, but stabilised from H2 2022 onwards. Even so, in H1 2023 they were 20% below the H2 2021 level. Interestingly, although EU exports to Belarus also saw a strong initial decline, they swiftly recovered and have even surpassed pre-war levels.

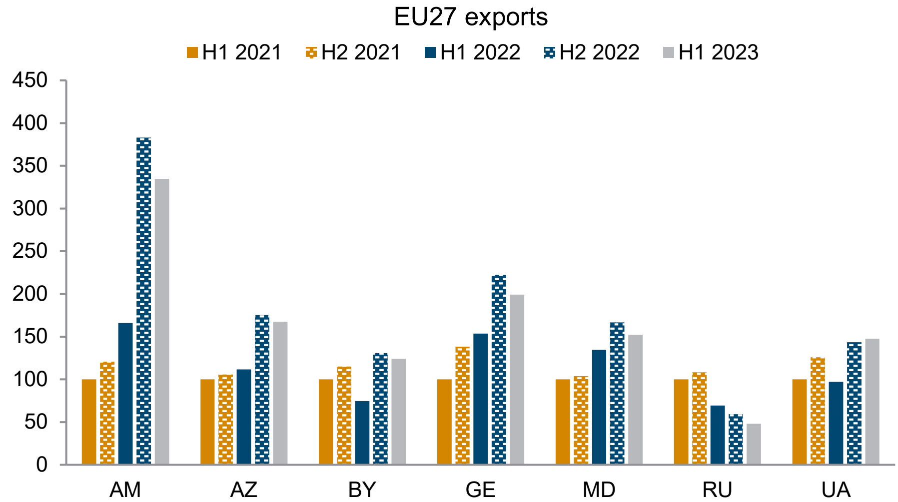
Austrian exports to war-ravaged **Ukraine** dropped by 39% in H1 2022 compared with H2 2021 – a much sharper decline than EU exports (-23%). However, they have recovered strongly recently, in part owing to improved economic dynamics in Ukraine, and have nearly made up for the initial losses. In H1 2023, they were only 7% below the pre-war (H2 2021) level. The dynamics of Austrian exports to neighbouring **Moldova**, whose economy also slipped into a severe recession in 2022 but has been recovering recently, have been broadly similar.

In contrast, Austrian and EU exports to the **Caucasus countries** have been generally on the rise. This particularly applies to **Armenia:** between H1 2022 and H2 2022, EU exports to Armenia more than doubled and Austrian exports more than tripled. Although trade flows between small countries such as Austria and Armenia can be highly volatile (see, for example, Figure 2), such a large fluctuation magnitude observed over a short timespan can hardly be explained by the usual macroeconomic variables such as the dynamics of real GDP and the exchange rate. Instead, it almost certainly stems from the emergence of Armenia (and to a lesser extent Georgia) as an important hub for the transit of various sanctioned and non-sanctioned Western products to Russia – for which there is abundant anecdotal evidence – along with other countries such as China, Hong Kong, Turkey, Kazakhstan and the United Arab Emirates.[5]

[5] See, for example: https://verstka.media/rassledovanie-kak-v-rossiyu-popadayut-lyubye-sankcionnie-tovary, https://www.nytimes.com/2023/09/13/us/politics/russia-sanctions-missile-production.html, and https://www.agents.media/rossijskij-vpk-prodolzhil-poluchat-nemetskie-stanki-posle-nachala-vojny/.

Figure 3 / Austrian and EU exports to EaP countries and Russia, H1 2021-H1 2023; H1 2021 = 100



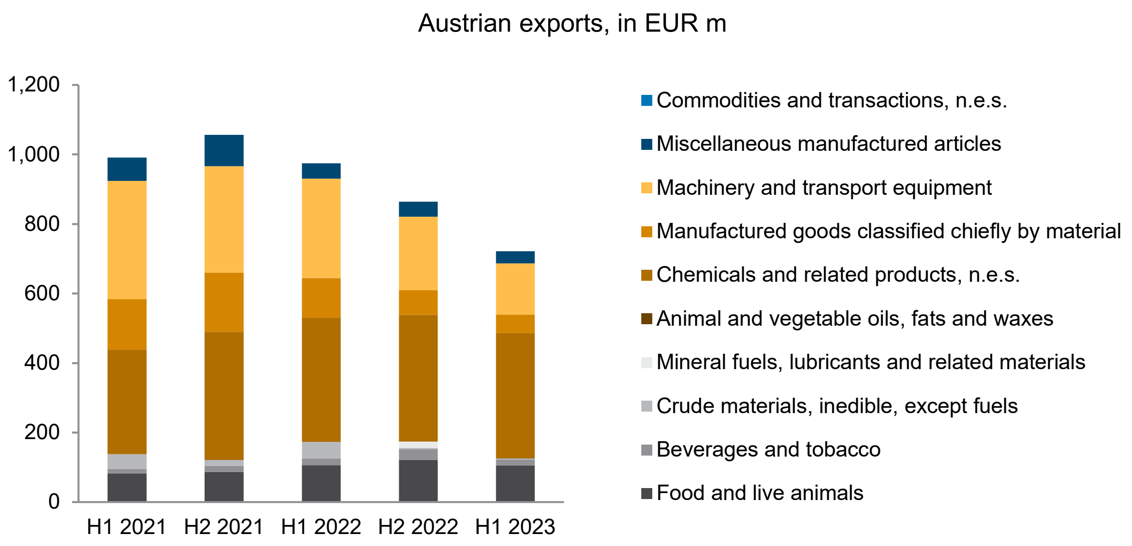


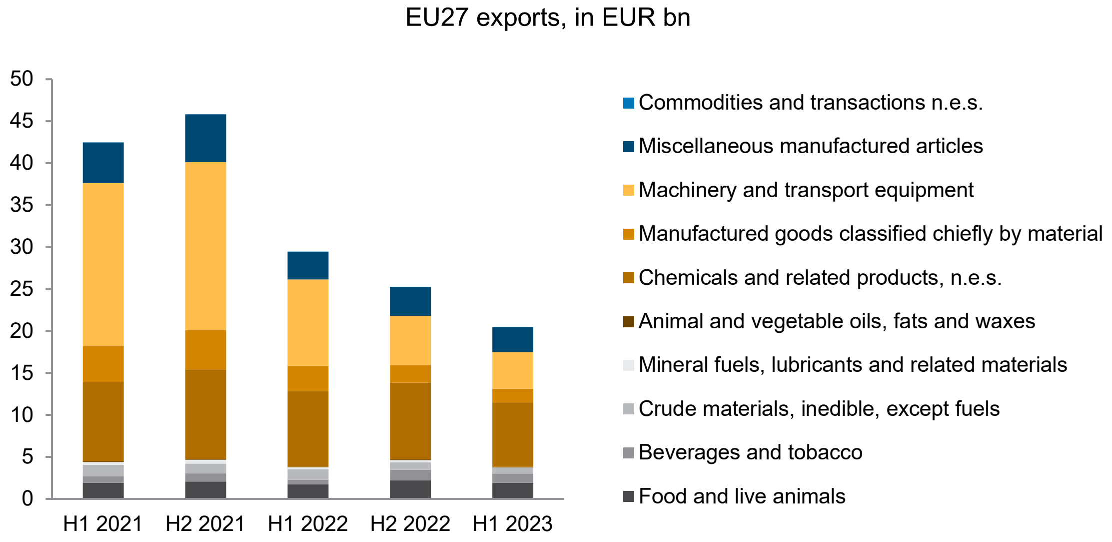
Source: own calculations, based on Eurostat data.

A close examination of the commodity structure of exports to Russia (Figure 4) reveals some of the reasons why Austrian exports to that country have declined much less than EU exports since the beginning of the war in Ukraine. One reason is structural: the relative specialisation of Austrian exports in chemical products that have been largely unaffected by sanctions. Before the war, chemicals accounted for 35% of Austrian exports to Russia in H2 2021, compared with only 23% in the case of EU exports. Figure 4 shows that exports of 'chemicals' (SITC 5) to Russia have declined much less than those of 'machinery and transport equipment' (SITC 7), another important export item to Russia for both Austria and the EU. This can be explained by the fact that the latter commodity group includes many sanctioned goods as well as products for which exports were sharply curtailed because of the withdrawal of foreign investors from Russia (such as car manufacturers, which used to import parts and components destined for local assembly). By contrast, an important part of the 'chemicals' category is represented by pharmaceuticals, which have not been sanctioned, largely for humanitarian reasons.

On top of the above-mentioned divergence in the commodity structure of Austrian and EU exports to Russia, Austrian exports of both the most important commodity groups – chemicals, and machinery and transport equipment – showed much lower rates of decline than was the case for EU exports. Between H2 2021 and H1 2023, Austrian exports of machinery and transport equipment to Russia declined by 52% (compared with 78% for EU exports), while exports of chemicals were virtually unchanged (-2%, compared with a pronounced 28% decline of EU exports). This may be partly related to the general reluctance of Austrian companies to leave Russia (see Figure 9). Their overwhelming decision to stay or 'wait' has probably prevented the collapse of many bilateral trade links that would have been lost otherwise.

Figure 4 / Austrian and EU exports to Russia by commodity group (SITC 1-digit level), H1 2021-H1 2023

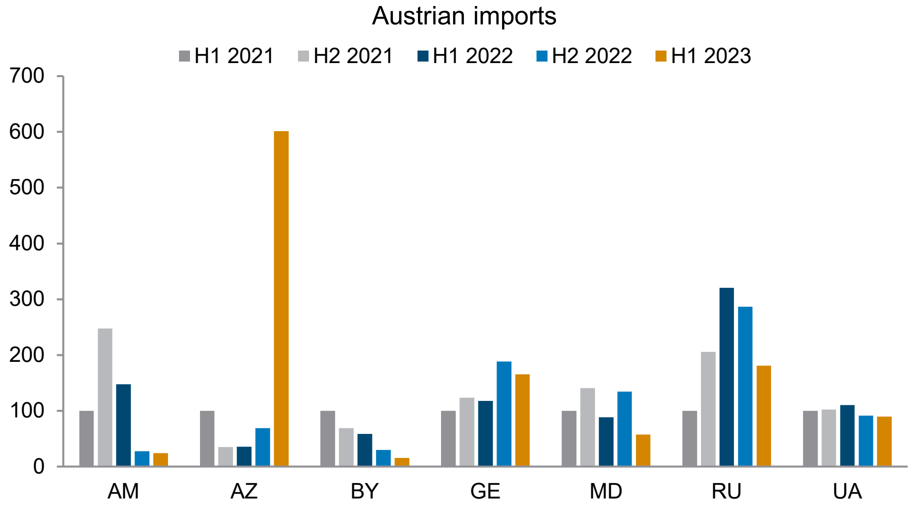


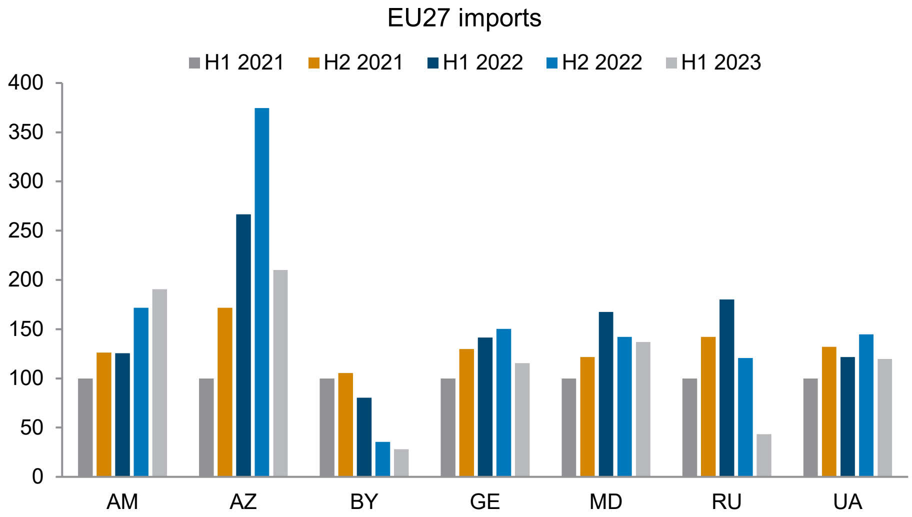


Source: own calculations, based on Eurostat data.

The recent dynamics of **imports from EaP countries and Russia** (Figure 5) have in many cases diverged sharply from those of exports. For instance, Austrian imports from Belarus declined dramatically, by 85% between H1 2021 and H1 2023 (EU imports by 72%). The decline started long before the beginning of the war, most probably as a result of Western sanctions. Another special case is Armenia: Austrian imports from that country collapsed from H2 2022, whereas EU imports picked up strongly.

Figure 5 / Austrian and EU imports from EaP countries and Russia, H1 2021-H1 2023; H1 2021 = 100



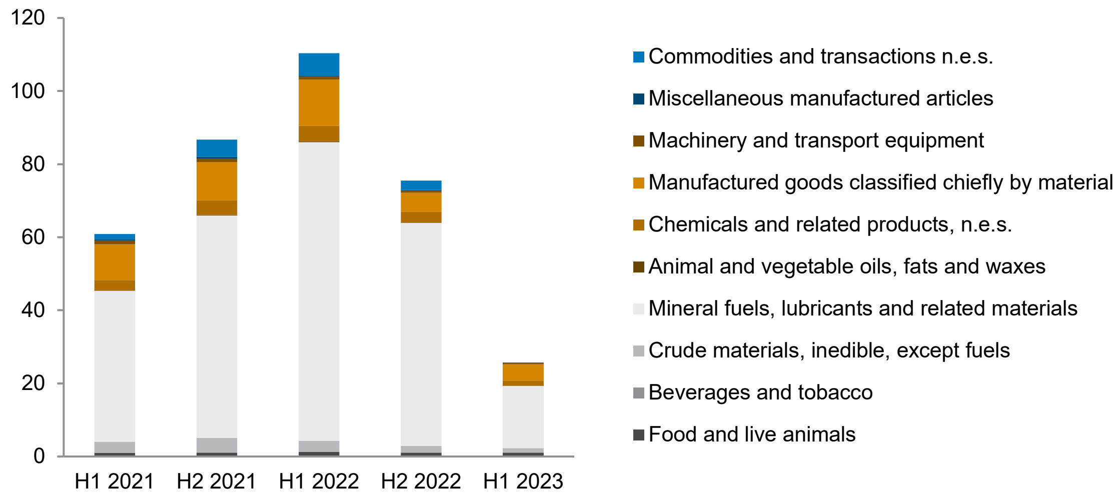


Source: own calculations, based on Eurostat data.

Austrian imports from **Russia** have demonstrated an inverted U-shape since the beginning of the war. After more than tripling (year on year) in H1 2022 on the back of strongly rising energy prices, they have been subsiding recently (Figure 5). Nevertheless, in H1 2023 they were still some 80% higher than two years previously. This pattern generally holds for EU imports as well. However, the recent decline in EU imports from Russia (by 76% in H1 2023 year on year) has been much stronger than for Austrian imports which declined by only 43%.

A closer look at the commodity composition of EU imports from Russia (Figure 6) shows that the recent decline has been primarily driven by the collapse in energy imports, represented by the commodity group 'mineral fuels, lubricants and related materials' (SITC 3).[6] In H1 2023, EU imports of this commodity group from Russia plunged by almost 500% year on year. This was partly because of lower energy prices, but also sharply reduced import volumes as a result of oil sanctions[7] and the disruptions in natural gas flows.[8]

Figure 6 / EU27 imports from Russia by commodity group (SITC 1-digit level), H1 2021-H1 2023; EUR bn



Source: own calculations, based on Eurostat data.

By contrast, Austrian gas imports from Russia have declined much less steeply. Figure 7 compares the evolution of EU gas imports from Russia (without LNG) since the start of 2022 with that of Austrian imports. It shows that EU imports declined rapidly until September 2022 and have since remained at 20-30% of the February 2022 level. Austrian imports, too, declined strongly in 2022, as Russia's Gazprom cut supplies by two-thirds, prompting the government to secure gas from alternative sources, mainly Norway.[9] However, in 2023 they largely recovered, reaching up to 80% of the February 2022 level. Our calculations suggest that on average in February-September 2023, they were only 21% below the level of the corresponding period of 2022. The share of Russian gas in Austria's total gas imports has fluctuated wildly from month to month,

6 Eurostat data on the commodity composition of Austrian imports from Russia are of very low quality and therefore not presented here.

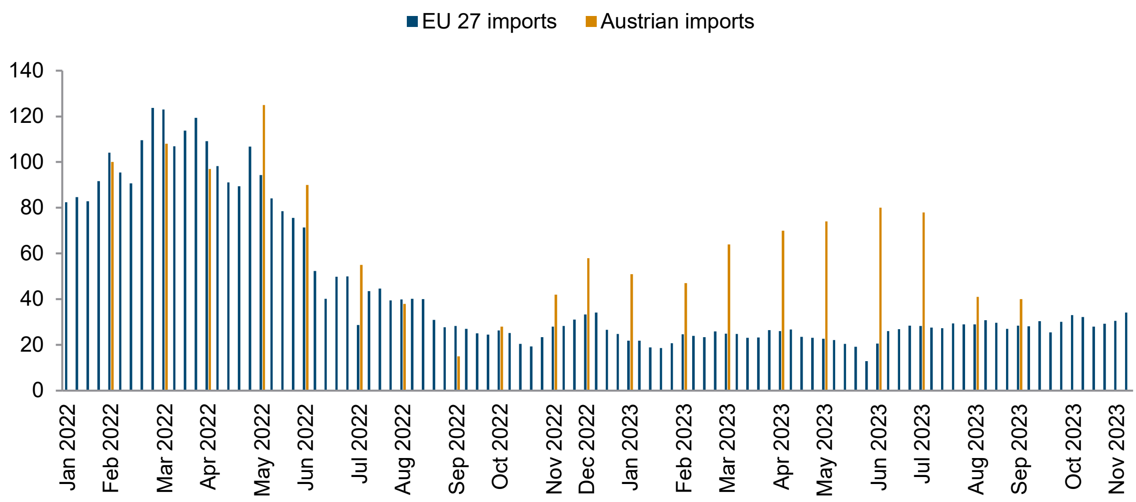
7 On 5 December 2022, the EU imposed an import embargo on Russian crude oil (with some exceptions, such as for oil imports for landlocked Central European countries via the Druzhba pipeline). On 5 February 2023, the embargo was extended to oil products.

8 In May 2022, the EU launched the REPowerEU Plan, which envisaged, inter alia, reducing the reliance on Russian fossil fuels, including natural gas, by reducing energy consumption, increasing the share of renewables and importing more gas from alternative pipeline suppliers and LNG: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe_en. Russia successively cut gas supplies to the EU via the Nord Stream 1 and the Yamal-Europe pipelines (ostensibly as a tool of political pressure) and discontinued supplies to EU member states such as Bulgaria and Poland, which had refused to switch to payment in Russian roubles. The physical destruction of Nord Stream 1 at the end of September 2022 was another blow to Russia-EU gas trade.

9 How (2023).

but in September 2023 almost exactly matched the February 2022 value (79%),[10] while Russia's share in EU gas exports is now only 8-9%.

Figure 7 / Imports of Russian natural gas by the EU and Austria; February 2022=100



Note: EU imports (without LNG) on a weekly basis; average value for February 2022=100. Austrian imports on a monthly basis; February 2022=100.
Source: own calculations, based on data from Bruegel (https://www.bruegel.org/dataset/european-natural-gas-imports) and the Austrian government (https://energie.gv.at/, based on data from ENTSOG and E-Control).

One reason for the resilience of Austrian gas imports from Russia has been that, unlike Nord Stream 1 and Yamal-Europe, the main transportation route for Russian gas to Austria – the Brotherhood pipeline running through Ukraine and Slovakia to the Baumgarten gas hub – has, against all odds, largely continued to operate.[11] Meanwhile, Austria's supplies of natural gas from other sources, notably from Norway as well as LNG, have been inherently much less stable and have depended on fluctuations in gas consumption in neighbouring Germany and Italy.[12] But probably more important is the fact that Austria's ÖMV is contractually obliged to pay Gazprom at least 90% of the agreed amount in line with a 'take-or-pay' clause.[13] High gas dependence also explains Russia's relatively high importance for Austria as a trading partner on the import side: in 2022 it ranked sixth (but only 19th on the export side).[14]

[10] https://energie.gv.at/, based on data from ENTSOG and E-Control.

[11] The only other major pipeline carrying Russian gas towards Europe at present is TurkStream.

[12] To diversify gas supplies in the longer term, ÖMV has signed a ten-year contract with BP for imports of LNG, and is planning to invest into the Neptun Deep offshore project in the Black Sea, which is expected to begin production in 2027. The government has also reportedly agreed with the Croatian government that the pipeline network from the Krk LNG terminal will be expanded to supply the Austrian market. An increase in domestic gas production is also planned. However, even in an optimistic scenario, these sources will not be tapped until at least 2027 (How, 2023).

[13] Ibid.

[14] Hanzl-Weiss (2023).

4. INVESTMENT TRENDS PRIOR TO THE WAR

The evolution of trade between Austria and EaP countries and Russia has often been at odds with investment trends. Figure 8 presents the dynamics of flows of foreign direct investment (FDI) from Austria and the EU to the two biggest countries of the region: Russia and Ukraine (for more on the problems regarding the availability and quality of FDI data, see Box 1).

BOX 1 / FDI FLOWS TOWARDS EASTERN PARTNERSHIP COUNTRIES AND RUSSIA: DATA ISSUES

Data on FDI flows are much patchier than trade data. For instance, the Austrian National Bank (OeNB) provides consistent time series on Austrian FDI outflows only for the three European EaP countries: Ukraine, Belarus and Moldova (for the latter two only since 2016), as well as Russia, while data for the Caucasus countries are 'confidential' and not available. Eurostat FDI data are also patchy: for most countries in question, the time series on outward EU FDI flows start only in 2015-2016 (in 2018 in the case of Azerbaijan), while data for Austrian FDI outflows are missing altogether in the Eurostat database.

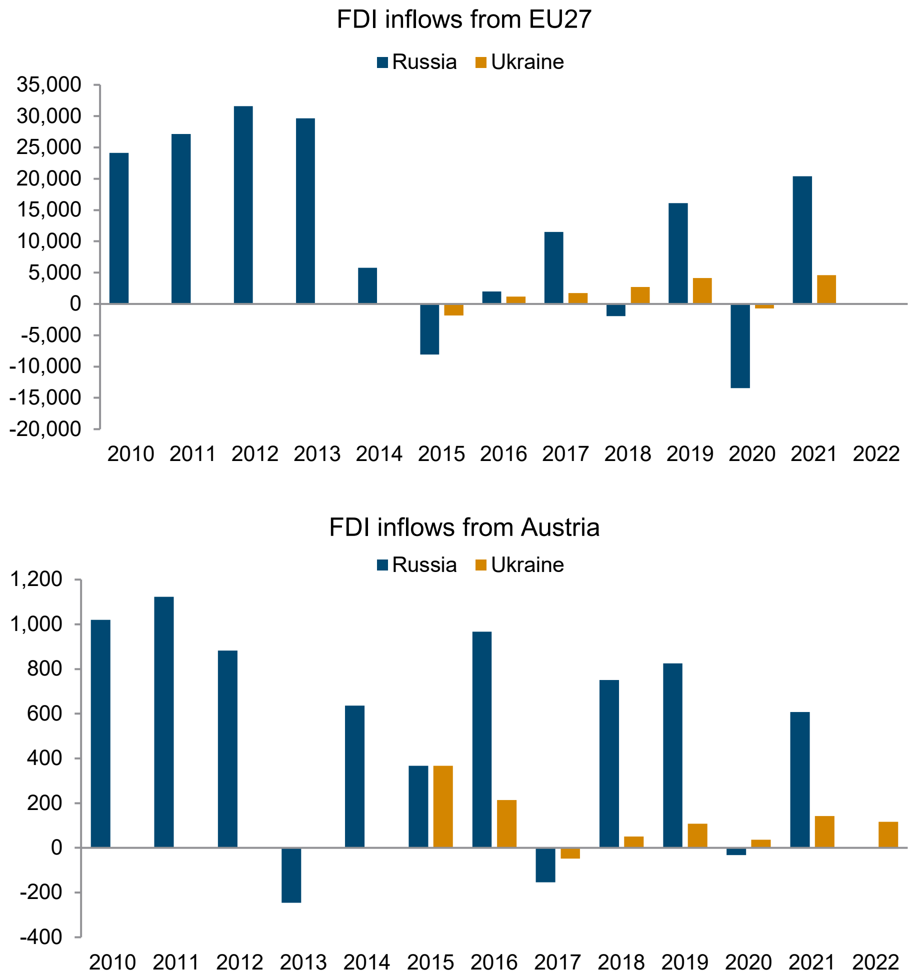
Therefore, in order to ensure the consistency and comparability of FDI data between the EU and Austria, we confine ourselves to one data source: the wiiw FDI database, which contains FDI flows data for two countries of the region: Russia and Ukraine. These data stem from the respective national banks and comprise the following components: equity, reinvested earnings and debt instruments. They are based on the sixth edition of the IMF's balance-of-payments manual (BPM6), according to the asset/liability principle.

As can be seen, EU direct investments in **Russia** peaked in 2012, probably reflecting the country's rapprochement with the West under the then president, Dmitry Medvedev. This culminated in the adoption in 2010 of the 'Partnership for Modernisation' between Russia and the EU, which aimed to deepen bilateral economic ties in trade and investment.[15] However, EU FDI flows to Russia underwent a major setback in 2014-2016, owing to events in Crimea and Donbas, as well as the economic crisis in Russia at that time. Although subsequent years saw a general recovery of FDI flows, they never returned to the peak of 2012, and several years – notably 2015 and 2020 – were marked by sizeable divestments of EU capital from Russia (i.e. FDI flows were negative).

By contrast, Austrian FDI in Russia has been somewhat more stable. The setback in 2014-2016 was less pronounced than in the case of EU FDI, and divestments recorded in 2013, 2017 and 2020 were generally minor compared with the scale of the inflows in other years. The relatively stable nature of Austrian investments in Russia stands in contrast not only with the more volatile pattern of EU investments, but also with the generally underwhelming dynamics of Austria-Russia trade (which are less buoyant than EU-Russia trade). Thus, Austrian investments in Russia appear to have been less conducive towards advancing bilateral trade links, possibly because they were more domestic market-oriented and less dependent on imports from the home country.

[15] https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/114747.pdf

Figure 8 / FDI inflows from the EU and Austria to Russia and Ukraine in 2010-2022; EUR m



Note: Data for Ukraine prior to 2015 and for Russia in 2022 are not available (Russia stopped publishing FDI data soon after the start of the war).
Source: wiiw FDI database.

With respect to FDI flows to **Ukraine,** the emerging picture is largely the opposite. Although EU investments have been generally on the rise since 2015, Austrian investments have by and large subsided since the peak in 2015 (Figure 8). Overall, both Austrian and EU investments in Ukraine have remained at relatively low levels – much lower than in Russia. Of course, this can be partly explained by the large gap in the size of the two economies: even before the war, Russia's GDP was 12 times greater (in nominal terms) in 2021 than that of Ukraine. However, it also attests to the limited success of the Ukraine-EU DCFTA in attracting foreign investment, at least so far.

5. INVESTMENT TRENDS SINCE THE BEGINNING OF THE WAR

Following Russia's invasion of Ukraine in February 2022, many Western firms present in Russia declared their intention of withdrawing from the country. Early surveys generally suggested that the prime motivation to leave was risks to their public image, although other factors such as sanctions, logistical and payment difficulties, and fears of asset nationalisation played a role as well.[16] However, by November 2023 only 8% of foreign firms had fully exited Russia, while another 34% were in the process of leaving, according to data from the Kyiv School of Economics (KSE) – see Figure 9. This implies that more than half of foreign companies in Russia have chosen to stay, at least for the time being.[17] There are various reasons for this.

On the one hand, the sale of Russian assets by foreigners is complicated by the bad terms they are typically offered, as well as by legislative hurdles: the sale of Russian assets by investors from 'unfriendly' countries is subject to approval by a government sub-commission, which (among other conditions) requires at least a 50% price discount on the independent market valuation, and a 10% 'exit tax' is to be paid to the Russian budget. The exit of 'unfriendly' investors from the financial, fuel and energy sectors is altogether prohibited, unless explicitly authorised by the president.[18]

On the other hand, many foreign companies continue to make handsome profits in Russia (even if their repatriation is currently impossible because of the Russian counter-sanctions).[19] It is conceivable that many Western companies are playing for time, assuming that the war will be over sooner or later, that the war of sanctions between Russia and the West will at least partly subside, and that new business opportunities will emerge in Europe's most populous country.

What has been the behaviour of Austrian investors in Russia since the start of the war in Ukraine? According to data from the Austrian National Bank (OeNB), there *was* a divestment of Austrian FDI from Russia last year, at a magnitude of EUR 582m. However, this figure does not look particularly impressive, given that Austrian divestments from Russia in 2016 and 2020 (EUR 468m and EUR 622m, respectively) were on a similar scale – even without the shocks of the war and sanctions.[20] KSE data suggest that only five Austrian companies (out of 70) have pulled out of Russia so far, while another ten are in the process of leaving (Table 1). In terms of the combined share of companies that have either left

16 For instance, according to the Moscow-based Center for Strategic Research, which surveyed the 600 biggest foreign companies active in Russia at the beginning of September 2022, 'subjective reasons' (such as concerns over public image) were the main motivation for withdrawal for more than half of the firms: https://www.rbc.ru/economics/07/10/2022/633e94809a79475aa5d84f00

17 Unsurprisingly, the share of such companies tends to correlate strongly with the political stance of their country towards Russia and its war in Ukraine, ranging from above 90% for companies from India, China and Turkey to 20-30% for those from Finland, Sweden and Canada.

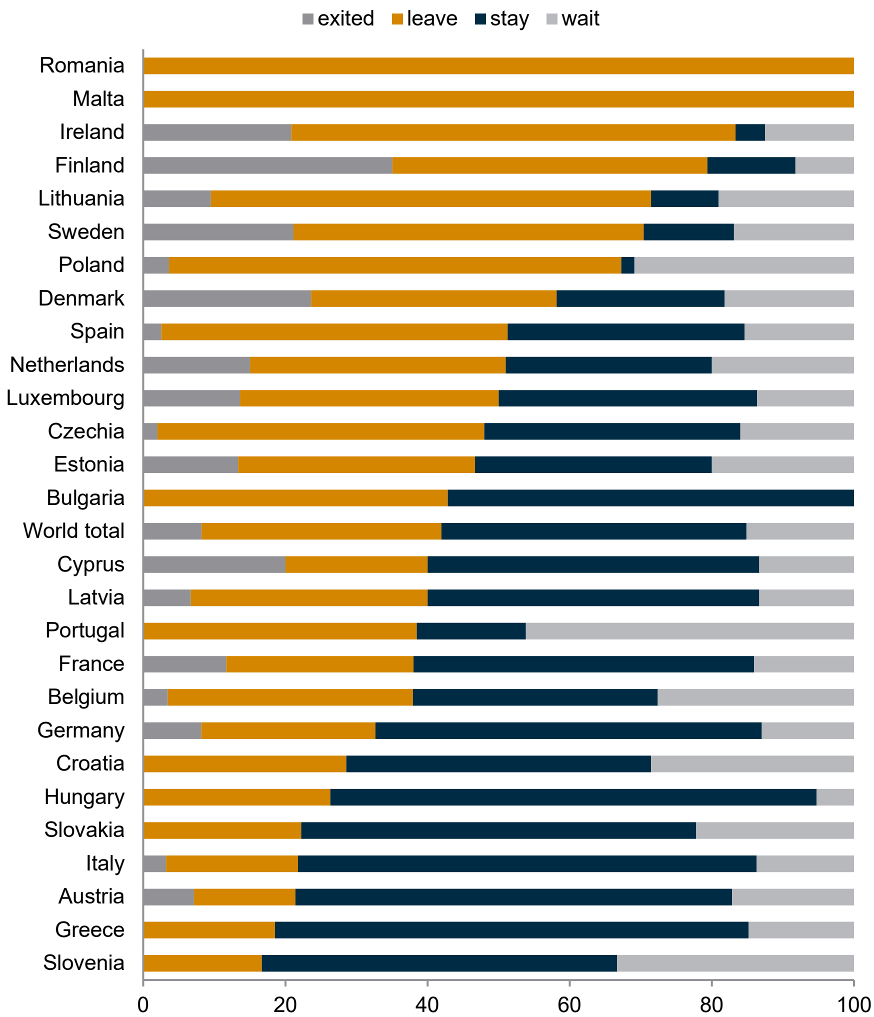
18 Decree No. 520, 'On the Application of Special Economic Measures in Financial and Fuel and Energy Sectors in Connection with Unfriendly Actions of Certain Foreign States and International Organisations', 5 August 2022: http://publication.pravo.gov.ru/Document/View/0001202208050002

19 This also applies to Austria's biggest investor in Russia: Raiffeisen Bank International (RBI), which has seen its Russian profits soar recently. They reached EUR 2bn in 2022 (accounting for 60% of the bank's total profit) and EUR 685m in the first half of 2023 (35% of total profits): https://www.profil.at/wirtschaft/rbi-satte-gewinne-und-zwei-moegliche-auswege-aus-russland/402542447 and https://www.derstandard.at/story/2000144186220/aussenminister-schallenberg-zu-rbi-in-russland-ein-exempel-zu-statuieren

20 OeNB data on FDI outflows reflect equity capital, including reinvested earnings, and 'other capital' (largely intra-company loans) but do *not* include real estate owned by Austrians abroad and special-purpose entities (SPEs). Therefore, they are not directly comparable with FDI statistics from the balance of payments presented in Figure 8.

or are in the process of leaving (21%), Austria lags behind all but two other EU countries (Slovenia and Greece) and is also far behind the global average (42%) (Figure 9). This can be at least partly explained by the country's neutral status and its apparent ambition to retain its role as a bridge and a platform for dialogue between Russia and the West.[21] Moreover, it can be argued that most of those Austrian companies that reconsidered their involvement in Russia had already done so after Russia's annexation of Crimea in 2014 – and not after the start of a full-fledged war in 2022.

Figure 9 / Status of EU firms in Russia as of 17 November 2023, by country of origin; % of total



Note: Country of origin is defined as the country where the company's headquarters are located. The status of 'stay' is assigned to companies that continue with their Russian operations; 'wait' to companies that have reduced their current operations and are holding off on new investments; 'leave' to companies that have curtailed their Russian operations; and 'exited' to companies that have completed their withdrawal from Russia. Countries are ranged by the combined share of 'exited' and 'leave'.
Source: wiiw calculations, based on data from the Kyiv School of Economics: https://kse.ua/selfsanctions-kse-institute/.

21 With RBI facing mounting pressure to leave Russia, the Austrian foreign minister, Alexander Schallenberg, came publicly to its defence, citing the above-mentioned political reasons: https://www.derstandard.at/story/2000144186220/aussenminister-schallenberg-zu-rbi-in-russland-ein-exempel-zu-statuieren

Table 1 / Austrian firms that have left Russia or are in the process of leaving

Company name	Industry	New status of decision, Nov 2023	Status by KSE	No. of staff, 2021	Gross revenue in Russia, 2022, USD m	Assets in Russia, 2022, USD m	Date of monitoring update
Cosym Holding	Manufacturing	EXIT COMPLETED	exited	2 491	39	81	31/08/2023
Swarovski	Luxury goods	WITHDRAWAL	leave	36	7	11	15/06/2023
AVL	Automotive	WITHDRAWAL	leave		2	1	01/01/2023
Wienerberger	Construction & architecture	WITHDRAWAL	leave	289	47	58	10/01/2023
Magna Steyr	Automotive	SUSPENSION	leave				04/03/2022
Strabag	Construction & architecture	WITHDRAWAL	leave	1 390	72	70	03/10/2023
MM Packaging	Packaging	EXIT COMPLETED	exited	428	0		06/01/2023
Fischer Sports	Consumer goods & clothing	SUSPENSION	leave	66	23	13	07/11/2022
Austrian Airlines	Air transportation	SUSPENSION	leave				
HASSLACHER Holding	Construction & architecture	EXIT COMPLETED	exited	283	31	41	29/04/2023
Mayr-Melnhof	Manufacturing	EXIT COMPLETED	exited	954	211	218	06/01/2023
Petro Welt Technologies	Energy, oil & gas	EXIT COMPLETED	exited	2 321	387	525	01/05/2023
ams-OSRAM AG	Manufacturing	SUSPENSION	leave				26/08/2022
Uniqa	Insurance	WITHDRAWAL	leave				25/08/2023
HOERBIGER Wien GmbH	Industrial equipment	SUSPENSION	leave				27/07/2023

Note: As of 17 November 2023. The status of firms is defined by the KSE as follows: EXIT COMPLETED – company sold its business/assets; WITHDRAWAL – clean break; SUSPENSION – keeping options open for return.
Source: SelfSanctions project database, Kyiv School of Economics, https://kse.ua/selfsanctions-kse-institute/.

6. CONCLUSIONS AND POLICY RECOMMENDATIONS

Overall, our findings suggest that the dynamics of Austria's economic relations with the EaP countries – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine – as well as with Russia have deviated from those of the EU in several important ways.

Austrian trade with EaP countries and Russia during the decade preceding the war in Ukraine generally developed less dynamically than EU trade. This applies both to trade with countries that signed DCFTA agreements with the EU – Georgia, Moldova and Ukraine – and to trade with the non-DCFTA countries, as well as Russia. Trade with the latter group of countries developed less dynamically than with DCFTA countries, a finding that holds for Austrian and EU trade alike.

Meanwhile, Austrian investments in Russia showed greater resilience than EU investments, both before and especially after the start of the war in Ukraine. Austria ranks third from bottom among EU member states for its share of companies that have completely withdrawn from Russia or are in the process of doing so. This might be one of the reasons why Austrian exports to Russia have suffered much less than EU exports since the beginning of the war. Another reason is structural: a large share of Austrian exports to Russia is accounted for by chemicals, including pharmaceuticals, which have been little affected by sanctions. Also, unlike the EU, Austria's dependence on Russian natural gas has remained high, which can be partly attributed to geographical reasons (gas transit via Ukraine remained largely intact) as well as to contractual obligations between Austria's ÖMV and Russia's Gazprom.

Austria would be well advised to build on its record of economic involvement in EaP countries and capitalise on the new opportunities offered by the improved EU accession prospects of Ukraine, Moldova and Georgia. To this end, the Austrian government and the ADVANTAGE AUSTRIA regional offices of the Austrian Federal Economic Chamber[22] should step up efforts to bring these countries politically and economically closer to the EU. Recent research conducted by wiiw (in collaboration with Bertelsmann Stiftung) found, for example, that the current level of economic development of Ukraine is in many respects comparable to that of other countries of Central, East and Southeast Europe (CESEE), such as Romania, Poland and the Baltic states, at the time of their application and/or EU accession.[23] The means that, in principle, the challenges faced by Ukraine on its journey to EU accession are not insurmountable and could be successfully addressed with closer EU integration and inflows of EU (including Austrian) investment.

In particular, Austrian FDI heavyweights in the services sector, such as banking, insurance and retail trade, should be encouraged to increase their exposure in EaP countries. Historically, they have hugely benefited from being front-runners in other CESEE countries that subsequently joined the EU. This success can be potentially replicated in the case of EaP countries, given their current low price levels – and hence limited costs involved – and their large future growth potential. Similarly, Austrian manufacturing firms might consider outsourcing/nearshoring of particularly labour-intensive production in EaP countries, which offer the combination of a cheap and generally well-educated labour force and (in the cases of Moldova and Ukraine) geographical proximity to the 'core' EU markets.

However, it should be noted that investment risks in the EaP region are generally higher than in most other CESEE countries at the time when they became realistic candidates for EU accession. This reflects the high level of corruption (except in Georgia) and the weaker protection of property rights in these countries, but also, in particular, elevated security risks. The latter are particularly pertinent in the case of Ukraine, which remains in the midst of a large-scale war, the outcome of which is highly uncertain at the time of writing – as are the country's future borders. Therefore, there is a particular role for mechanisms such as export insurance schemes, for instance those provided by Österreichische Kontrollbank (OeKB), in mitigating the risks related to trade and investment in EaP countries.

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[22] https://www.advantageaustria.org/

[23] Grieveson et al. (2023).

IMPRESSUM

Herausgeber, Verleger, Eigentümer und Hersteller:
Verein „Wiener Institut für Internationale Wirtschaftsvergleiche“ (wiiw),
Wien 6, Rahlgasse 3

ZVR-Zahl: 329995655

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Offenlegung nach § 25 Mediengesetz: Medieninhaber (Verleger): Verein "Wiener Institut für Internationale Wirtschaftsvergleiche", A 1060 Wien, Rahlgasse 3. Vereinszweck: Analyse der wirtschaftlichen Entwicklung der zentral- und osteuropäischen Länder sowie anderer Transformationswirtschaften sowohl mittels empirischer als auch theoretischer Studien und ihre Veröffentlichung; Erbringung von Beratungsleistungen für Regierungs- und Verwaltungsstellen, Firmen und Institutionen.

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