Austrian-Turkish Business Relations – Why way behind CEE-level?

Abstract

While Austrian companies are among the top investors and trade partners in the New EU Member States, they rank far more back in Turkey. Why so? We report findings from a survey among Austrian companies about perceptions for and against entry into the Turkish market and identify threats and opportunities. Rooted in trade and FDI theory, we describe the development of the Austrian-Turkish economic relationship. We find that distance, the large size of the Turkish market, information and media coverage levels and human resources severity following the massive investments into CEE are the major issues. We recommend means for enhancing economic links.

Key words: survey on entry barriers, trade & FDI, Turkish-Austrian economic relations

JEL Codes: E 22, F14, F22, F23

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INTRODUCTION

Austria is a leading investor in the new EU member countries in Central and Eastern Europe (CEE), the same applies to foreign trade. Austrian businesses regard this region as their own domestic market. This holds true for most EU candidate countries, however - with the exception of a few recent large investments - not for Turkey. Why do Austrian companies trail behind their Eastern European successes in Turkey?

After all, Turkey's economic activity (GDP) corresponds to one third of the 10 new CEE-EU member countries and its population is as large as the sum of all eight states acceding the EU in 2004[a] (UniCredit, 2007). While Austrian business is the third largest investor with 11% of all foreign investment in the CEE 10 (Hunya, 2007), Austria ranked about 15th for most of the decade in Turkey with less than 1%. After recent single large investments, Austria ranks 8th in 2007 and 6th in the FDI ranking in the first half-year of 2008 (WKO, 2008). Approximately 20,000 investments from Austrian companies in CEE since the collapse of the Iron Curtain vastly surpass the roughly 100-200 investments with Austrian capital in Turkey during the period 1982-2005 (Bandera, 2007; Berki, 2007; Rizzuti, 2007[b]); where approximately half of these investments were made by Turks living in Austria (Bandera, 2007). Two large Austrian investments in the energy sector (OMV, Verbund) in 2006 marked a reversal of this trend. Nevertheless, the investment record remains rather modest. On the trade side, Turkey ranked 19th in terms of all Austrian imports in 2006, right behind Korea, and 22nd for Austrian exports. Thus, it is important to find out wether Austrian companies prefer CEE countries over Turkey because of lacking subsidies (Egger and Url, 2006), political and economic risks (Rizutti, 2007), deficient or one-sided information (Bandera, 2007), cultural distance (Tatoglu, Glaister and Erdal, 2003), geographic distance (Antonucci and Manzocchi, 2006), market size (Rizutti, 2007; Tatoglu et al, 2003), or because of the past success of Austrian business in these countries (Berki, 2007)? Solving this puzzle of what keeps Austrian companies from successfully entering the Turkish market is important for the Austrian business community and policy makers, particularly as Turkey is hit less by the financial crisis than CEE. On a broader scale we contribute in discussing how to foster European economic integration.

[a] CEE 8: CZ, EE, HU, LT, LV, PL, SI, SK; CEE-10: includes BG and RO
[b] Recent reports cite up to 300 Austrian companies active in Turkey, see Kopeinig (2007).

In the following we investigate the question why Austro-Turkish economic relations lag behind the extensive commitment of Austrian business in Central and Eastern Europe (CEE). In the first section we describe bilateral economic relations. In the following section we provide an overview of selected theories to explain the economic relations and the results of earlier research. Then we present our own empirical study. We argue that the concentration of Austrian companies on CEE countries and the rapid expansion into this region tied and thinned out human resources, so that Turkey as a future market was neglected. Furthermore, the size of the Turkish market (especially small and medium-sized enterprises) and the geographic distance present obstacles. It is also possible that small countries tend to invest in a small country, while larger countries do so in larger countries. An example in this case is Germany which is one of the biggest investors in Turkey, while Austria is less represented. Recent developments point to an intensification of Austrian economic relations, so that a rise in Turkey's importance on par with the CEE seems possible in the future.

COMPARISON TURKEY VERSUS CEE

To begin with, there are generally more transactions with many of the CEE countries than with Turkey. This fact may partially be attributed to the geographical proximity. Looking at Austria's neighbours, Austrian companies are among the top investors in some of these countries. Austrian direct investments (FDI) in Slovenia and Bulgaria for example are first-placed (OeNB, 2005). This leads to the conclusion that Austrian companies have seized the potential presented in most Central and Eastern European countries. These opportunities also exist in Turkey; however they have not yet been explored to the extent of geographically closer countries. Nevertheless, in view of high Austrian business participation in Bulgaria and Romania the question cannot be explained by geography alone (see table 1).

Some of the countries harbour various political and economic risks which could prove as inhibitive as spatial distance. For example, frequent electrical power outages in Albania can burden companies. Other countries such as Macedonia and Bosnia-Herzegovina are plagued by high unemployment, while urgent reforms are still pending in other countries. In some sectors Turkey also has catching up to do; however, these problems will likely be tackled in the foreseeable future.

With regard to market size Turkey has by far the biggest population (70,6 million) and corresponding market, followed by Poland with slightly over half of Turkey's market size (38.8

million) and Romania with less than a third of the Turkish market (21.5 million). Looking at the surface area of these countries, the immense size of Turkey becomes even clearer (WKO, 2008).

Looking at the distribution of GDP per capita, the Czech Republic and Slovenia both have an above-average GDP per capita (WKO, 2008). Estonia, Slovakia and Hungary follow at a distance. The Balkan states rank last among the CEE countries according to GDP with under EUR 2,800 per capita (see Fig. 1, 2). These states include Albania, Bosnia and Macedonia. Turkey, if included in this ranking of CEE countries, would place at the lower end of the list. In other words, most of the "new" EU-member states with the exception of Romania have a higher GDP than Turkey.

To draw a further comparison between CEE countries and Turkey, we shall examine inflation rates which can be an indicator for country risk. In 2007, FYR Macedonia had the lowest inflation rate with 2.3 % (WKO, 2008), closely followed by Poland and Croatia with 2.5% and 2.6% as well as the Czech Republic and Slovakia with 2.8% and 3.0%. The last three countries with the highest inflation rates last year - including Turkey - are Bulgaria, Turkey and last-placed Latvia clearly having the highest inflation rate of 10.1 percent.

Concerning the importance of these countries for Austrian foreign trade, the Czech Republic ranks 7th, Hungary 9th, and Slovakia 13th in terms of imports (Statistik Austria, 2008). Turkey occupies rank 19 (see Table 2). With regard to exports, 13 of these 15 countries are among the top 60 most important export markets for Austria (Statistik Austria, 2008). The most important CEE country is Hungary at rank 7, ahead of the Czech Republic at rank 8 and Poland placed 10th. Turkey is only 22nd. Consequently, 7 CEE countries ranked higher than Turkey compared to only 5 in terms of imports to Austria.

POLITICAL RELATIONS WITH TURKEY

Bilateral Treaties Between Austria And Turkey

While the EU customs union with Turkey represents the important foundation, many bilateral treaties provide the basis for Austrian trade with Turkey. These bilateral treaties range from the protocol on economic and technical cooperation to road transport agreements. Some of the most important treaties are listed in the following. Going by the various areas regulated in these agreements, it is also possible to infer problems in economic relations such as for example investment protection.

Excerpt of agreements with Turkey (Ulreich, 2006):

- Protocol on economic and technical cooperation (9 Oct1954)
- Agreed Minutes of 24 June 1996; legal basis for the Austrian-Turkish Joint Economic Commission
- Agreement between the BMWA and the Turkish Ministry of Health on the infrastructural cooperation in healthcare (of 8 Nov 2001, effective 4 Feb 2002)
- Agreement on the avoidance of double taxation (3 Jun 2004: agreement on new Agreement on the avoidance of double taxation.)
- Agreement on the mutual promotion and protection of investments (*BGBl. 612/1991*); effective: 1 Jan 1992
- Agreement on the recruitment and employment of Turkish workers (*BGBl. 164/1964 idF BGBl. Nr. 121/1967* and *14/1967*) virtually not applied since the beginning of the 1990s.
- Energy and environment treaty (1996)
- Air transport treaty (*BGBl. Nr. 212/1975*) and supplemental agreements
- Street transport treaty of 7 Nov 1967, *BGBl. 274/1970*
- Agreement on social safety of 28 Nov 1999, *BGBl. III 219/2000* effective: 1.12.2000
- Supplemental agreement to the Hague Convention of 1 Mar 1954 concerning legal procedure in civil legal matters of 16 Sept 1988, *BGBl. 570/1992*, effective: 1 Nov 1992

Treaties Of The European Union With Turkey

Already in 1959 Turkey applied for accession to the former EEC (Breuss, 2007). An association treaty was concluded in 1964 which on the one hand substitutes an accession but can also be considered the prestage for an accession (*Ankara Abkommen*, *Amtsblatt Nr. 217* of 29 Dec 1964, effective: 1 Dec 1964; AWO, 2006 and Quijano-Evans, 2007:9). In 1970 an amendment was concluded for the introduction of a customs union however with important sectoral exceptions (Nowak-Lehmann, 2007). The application for full membership was decided with a negative avis in 1990. A customs union between the EU and Turkey was introduced in 1996 (Antonucci and Manzocchi, 2006)[c]. The “European Strategy for Turkey“was passed by the Commission in March 1998. Turkey was recognized as a full candidate in the EU accession process based on the Copenhagen criteria in 1999. The agreement for accession partnership with Turkey was signed in Nice in December 2000. Thus, Turkey has received pre-accession assistance from the EU since

[c] For a more detailed discussion on the history of relations see Breuss, 2007:655.

2000. Since this year, there have been comprehensive constitutional amendments to satisfy the Copenhagen criteria. The EU will continue to support Turkey in its preparations. The European Commission advised to commence accession talks in a communication on 6 October 2004. As an alternative to its expansion strategy the EU is pursuing a European Neighbourhood and Mediterranean Policy and several options for a tiered integration are being discussed (Breuss, 2007; Karakas, 2006; Nowak-Lehmann, 2007).

AUSTRIAN ECONOMIC RELATIONS WITH TURKEY

The share of Turkey in Austria´s imports rose from 14 to 18 percent in the period 2001 to 2003; by comparison growth was halved at roughly 7 percent in the years 2004 and 2005 (Ulreich, 2006). In the first half of 2007 growth in imports was 3.2 percent (Ruhm, 2007).

In the period 2002 - 2003, the export of commodities from Austria to Turkey grew 27.2 percent, however this growth has declined steadily, even resulting in a decline of -7.5 percent in the period 2004 – 2005 (Ulreich, 2006). An increase of 3.5% was recorded for the first 6 months in 2007 (Ruhm, 2007).

Import - Export Structure

The composition of Austrian imports from Turkey has changed in past years (UniCredit, 2007). This transformation went from agricultural products to industrial goods which now represent 94 percent of total exports. Considering that the relation of industrial goods to agricultural products was 1:3 in the second half of 1980, the enormous change in the export structure and an improved competitive position of the Turkish industrial production becomes apparent.

In addition, the composition of the export structure has changed in connection with manufacturing (Nowak-Lehmann et al., 2007 and UniCredit, 2007). Historically, textiles and garments made up the largest share of export volume (see Fig. 3). The change can also be attributed to low production costs in the Far East which led to a dramatic drop in their importance for exports. The share of textiles and garments in total exports declined from 36 to 23 percent during the years 2002 and 2006. In contrast, the share of the automobile and metal industry grew from 6 percent in 2000 to 15 percent in 2006 and 8 to 11 percent, respectively (Nowak-Lehmann et al., 2007). Other export-oriented industries are strongly dependent on the import of intermediary products.

In terms of imports, intermediary products take up a very high share of total imports in Turkey (Nowak-Lehmann et al., 2007 and UniCredit, 2007). On the other hand, capital goods and consumer goods represent 16 and 12 percent respectively of total import volume. Oil-related products and the rise of oil prices resulted in a high share of 19 percent in terms of total imports in 2006. As long as Turkey's economic growth continues to climb, a flattening of the rapid import growth is not anticipated.

Turkish imports dropped significantly in recent years while those of the CEE countries continued to grow. As seen in Fig. 4., Austria exports mainly machinery and automobiles (+13%), finished goods (+19%), chemical products (+7,7%), other finished products (+11,8%), basic materials (-3,1%), goods a n g (+146,5%), beverages and tobacco (+38,1%), food products and live animals (21,1%), mineral fuels and lubricants (+25,2%) and animal and vegetable oils, fats and wax (-12,3%) (see WKO, 2007).

The share of imports from Turkey represents 0.77 percent of total Austrian imports (see WKO, 2007). Despite the large size of the Turkish market, Turkey ranks 19th in regard to all Austrian imports and 22nd of all Austrian exports (Statistik Austria, 2008). Austrian imports (see Fig. 5) from Turkey are primarily other finished products (+2,5%), machinery and automobiles (-9,5%), finished goods (+5,3%), food products and live animals (-9,7%), basic materials (-9,5%), chemical products (+40,8%), beverages and tobacco (+68,5%), mineral fuels and lubricants (-40,1%) and animal and vegetable oils, fats and wax (-20,1%) (WKO, 2007).

Direct Investment

Although joint ventures with CEE state-trading countries were already possible starting in 1968, these markets only opened their markets to foreign investors in the course of the transformation to a new system. A similar policy of import substitution was pursued for many years in Turkey, where high customs duties and minimum capital requirements of $50.000 for foreign investors served as a protection mechanism to keep foreign competition at bay (Berki, 2007; Tatoglu, Glaister and Erdal, 2003; Demirbag, Tatoglu and Glaister, 2007). Foreign direct investment (FDI) with 2.9% of Turkey's GDP lagged on average far behind the CEE-8 with 4.9% of GDP for the period 2004-2006, i.e. compared with countries of similar size and development (Tatoglu et al, 2003). FDI were permitted only a few years ago – as in the CEE countries, the privatisation process triggered direct investment (Genis-Gruber, 2007; Pöschl, 2005). The rapid increase in foreign direct investment in past years is again similar to the CEE countries, combined with the convergence process toward the

European Union and far-reaching reforms (UniCredit, 2007) [d]. The inflow of direct investment into Turkey which was barely more than USD 0.8 billion during the period 1990 to 2000, reached USD 9.8 billion in 2005 and skyrocketed to USD 15 billion in 2006 which corresponds roughly to 30% of total FDI in CEE. In the first five months in 2007, approximately USD 20 billion flowed to Turkey, almost half thereof in the shape of foreign direct investment (BA-CA, 2007a). Reforms in banking and the public sector, political stability, robust economic growth, the EU candidate status and IMF programs all served as anchors in this regard (EU Commission 2006a, b). All of these elements simplified the inflow of direct investment to Turkey.

Although the share of Turkish GDP relative to the CEE-region is approximately 30% (BA-CA, 2007b) and Austria has a high share of FDI in these countries, the direct investments between Austria and Turkey are still of little importance. Their amount according to the foreign trade office in Ankara was approximately EUR 1.487 million in 2007. Thus, Austria is 8th among the investor countries. The annual investment volume was EUR 1.108 million in 2006 and EUR 369 million in 2007. Austrian investment volume however has more than quintupled from 2005 to 2007 (EUR 1.084 billion; Berki, 2007; Quijano-Evans, 2007, Statistik Austria, 2007a) as a result of the 34 percent participation of OMV in Petrol Afisi (purchase price EUR 884 million) which constitutes the majority of total investments. The current presence of big Austrian companies (such as for example ropeways-producer Dopplmayr, Mayr-Melnhof/paper & pulp, Strabag/construction, and Bene/office furniture; Bandera, 2007) can be seen as a significant signal for the future (Quijano-Evans, 2007).

Comparing the uneven distribution of purchasing power (see Fig. 6) in Turkey with locations where Austrian companies have settled, it is apparent that the companies locate to rich regions, i.e. to the regions around Istanbul and Ankara, but also Izmir.

Why Invest?

According to the Foreign Economic Relation Board, Turkey (DEIK) (2005) there are several reasons for investing in Turkey:

- Geostrategic location: Turkey is the junction between Europe, the Middle East, North Africa and Central Asia and can therefore serve as a bridge for example for oil and gas pipelines. In addition, Turkey is one of the leading investors in the Caucasus and the countries of Central

[d] Similar to CEE, Turkey has a good network of suppliers in manufacturing (UniCredit, 2007).

Asia. Due to the historical connection, Turkey can serve as a springboard for investments in these states (Quijano-Evans, 2007).

- Growth potential and market size: The relatively high GDP growth rate of around 6% (UniCredit, 2007) compared to the other OECD countries points to a dynamic and growing economy of the future; this in the second largest European country with 73 million inhabitants (behind Germany).
- Sales potential: A continuously growing young population with an average age of 29 years (compared to CEE-8: 38 years) and increasing purchasing power[e], offer investors a dynamic domestic market in Turkey. GDP per capita is 80% higher than only five years ago (BA-CA, 2007b).
- Production costs potential: Turkish workers are well educated, primarily in the large cities. This fact combined with low labour costs can provide companies savings potential: wages in Turkey are around EUR 2/h; in the Czech Republic approximately EUR 8; Turkish workers also work longer with 2,154 hours per year compared to for example the Czech Republic with roughly 1,946h per year (Gillmann, 2007). However, labour productivity in Turkey is 41% of the EU-25 average and well under the reference value for CEE-8 of 63% (UniCredit, 2007), while skilled labour is already somewhat scarce at least in areas of high population density.
- Turkey has the future possibility to become a full member of the European Union provided it meets all the accession criteria and the Union has sufficient capacity.

Turkish Companies In Austria

Sectors in which Turkish enterprises are especially active in Austria can be narrowed down to a few, albeit sizable sectors: Food trade (fruit and vegetables), textiles and garments, electronics and tourism (Trade Division of the Turkish Embassy, 2006). But also several Turkish banks should be mentioned in this regard, for example DenizBank belonging to the Belgian Dexia group, which managed the entry into Austria’s economy. On the other hand, only one Austrian bank, the Bank Austria Creditanstalt in connection with the Unicredit group was able until now to establish through YapiKredi a network of 650 branches in Turkey (BA-CA, 2007b). This also leads to speculation that Turkish immigrants in Austria prefer to invest their savings at a Turkish bank or send them to

[e] The Turkish GDP per capita was approx. EUR 4,244 in 2000; the reference value for the CEE-8 which acceded the EU in 2004 was EUR 8,221; see UniCredit (2007).

relatives in Turkey, while some wealthy Turks invest their money in Turkish banks in Austria. This aspect could be extended in further research.

Comparison Of The Trade Balance With Tourism Expenditures

Many Austrians spend their holidays in Turkey; however this fact seems to have no effect on the foreign strategies of Austrian companies. A comparison of the trade balance between Austria and Turkey with the expenditures of Austrian tourists in Turkey (see Fig. 7) supports Turkey's continuously rising importance as a holiday destination for Austrian tourists which has remained constant at a very high level in the past years.[f] Furthermore, only expenditures which originated in Austria or trips that were booked in Austria were considered, excluding those trips that for example departed from Germany. The inclusion of these figures would double tourism expenditures (Traverdi, 2006).

SWOT ANALYSIS OF THE TURKISH MARKET FOR AUSTRIAN COMPANIES

The following SWOT analysis provides an overview of the strengths, weaknesses, opportunitites and threats of investing in Turkey. This makes it possible to derive the main advantages of investing in Turkey compared to other CEE countries.

Strengths:

- High-ranking investment contacts in Turkey (www.investinturkey.goc.tr)
- BA-CA as an Austrian bank within UniCredit Group represented by Yapi Kredi in Turkey
- Bilateral treaties and agreements as well as a resulting good legal situation
- Leading companies in the building and energy sectors in both countries
- Good offical support by the Austrian trade commission (WKO) offices in Ankara and Istanbul as a direct contact
- Industry studies by the WKO for various sectors of the Turkish market

[f] While tourism expenditures somewhat offset the trade balance from 1996 to 1998, the situation changed starting in 1999. From this point on, the expenditures of Austrian tourists in Turkey exceeded the trade balance surplus. With the exception of 2000 and 2004 (to some extent also 2003) when there was a trade surplus, both the tourism balance as well as the trade balance had deficits.

Weaknesses:

- Slow progress concerning contracts and regulations
- Little positive attention to Turkey in Austrian media and politics (Zaunbauer, 2005; ESI, 2008)
- Until now relatively few lasting economic ties between companies of both countries
- Few Turkish companies active in Austria, especially in production
- Predominantly import/export-only relations between Austria and Turkey
- Complex legal system, bureaucratic administration and the heterogeneity of the country
- Few Austrian companies in Turkey which could serve as contacts as in CEE

Opportuntities and potential:

- Turkish business people in Austria as possible contacts
- Market size – bigger than the 10 new accession countries 2004
- Economic growth and high GDP growth
- Tourists from Austria in Turkey as well as the whole tourism sector
- Turkish community living in Austria as a direct contact
- Geopolitical location of Turkey to Central Asia and Near East countries
- Energy pipelines (NABUCCO gas pipeline to Austria)
- Austrian trade delegation in Turkey and the Turkish Chamber of Commerce in Vienna as direct contacts
- Turkey’s process toward a full EU membership
- Business advisory institutions and their assistance with investments
- Automotive sector and resident automobile manufacturers
- Austrian private school St. Georg in Istanbul and its alumni

Threats:

- Global and regional economic and political crises
- Visa issues which can lead to problems for Turkish companies investing in Austria
- Regulations regarding skilled labour and their accreditation in Turkey
- Austria’s position during Turkey’s accession process to the EU (Nowak-Lehmann et al., 2007)
- Return of inflation, currency volatility
- Language barrier in rural areas
- Overemphasis of sociocultural factors along the lines of “Clash of Civilisations“

EMPIRICAL SURVEY

We conducted a survey to find the reasons why the market position of Austrian companies is worse concerning direct investments in Turkey than in Central and Eastern European countries. The top 500 Austrian investors in CEE countries as ranked in Gewinn Extra (2006) were contacted by means of an internet questionnaire. In addition, selected managers of Austrian subsidiaries in Turkey were interviewed. The written survey comprised eleven questions with several sub-questions mostly having a multiple choice format. A few open questions served to obtain detailed information to closely specify the type of foreign office, the possible reasons for failure, reasons for lack of interest in investing in Turkey, factors for an investment, the assessment of Turkey as an economic factor, as well as the industry in which the responding company is active. The questionnaire for this study was published at http://umfrage.krumhuber.com from March to June 2007. In this time period 82 companies responded to the survey. Moreover, the survey not only aimed to test the hypotheses, but also to filter out factors deemed important and derive actions and possibilities for improving the current situation.

The following hypotheses (H_0's) are derived for this empirical study from selected trade and FDI theories, i.e. the eclectic paradigm (Dunning, 1979, 1982, 1993, 1998), and internalisation and gravity theories (Fink, Haiss and Peytcheva, 2007):

H_1: There is a link between financial assistance opportunities and the level of investment in Turkey.

H_2: There is a link between the East-orientation measured in terms of existing intensity of foreign trade and direct investment with CEE countries.

H_3: There is a link between the country risk and the investments in Turkey.

H_4: There is a link between a high level of information and a heightened readiness to invest in Turkey.

Results

45 of the 82 responding companies (response rate ~ 10%) had concrete experience with Turkey. 31 companies assessed this experience positively.

The distribution of companies is as follows: 26.8 percent of the respondents are in the industrial sector, 47,5 percent are each active in the service sector and in commerce, 7.3 percent in the energy sector and the remainder are represented in other sectors. With regard to the number of staff, small and middle-sized enterprises dominate. 63.4 percent of the responding companies have 9 or less staff, 15.9 percent between 10 and 50 employees, 17.1 percent between 51 and 150 employees and 3.7 percent between 151 and 250 employees.

Overall, 76.8 percent of the 82 polled companies voiced an interest in Turkey. Looking at the distribution of their operations, 26 of companies export to Turkey, five have suppliers in Turkey, three imports from Turkey and four company has an interest in a Turkish business. 19 of the polled companies has an office in Turkey. Other types of experience included soliciting, consulting, cross-border leasing and a licence partnership.

Concerning reasons for failure as reported by 14 companies, one company claimed not to have had enough background information and two companies stated that cultural differences were too big. Other reasons that were provided independently include a different strategy, a market downturn, and a low market price level. Mixed experience in terms of success was explained as follows „sometimes everything works perfectly, but sometimes nothing works“– in other words „not an easy market“(Maier, 2007).

Nearly 90 percent of the questioned companies agreed with the statement that larger companies tend to invest abroad. However, the assessment of Turkey is very diverse. 63.4 percent of the companies view Turkey as having good potential, while 15.9 percent think Turkey is risky. 17.1 percent does not see a difference to other Central and Eastern European countries. 73.2 percent feel the strongest competition from EU-15 countries and 9.8 percent from the new accession countries. Slightly less than 15 percent regards non-European countries to be the strongest competition.

The Importance Of Different Factors

The importance of individual factors is listed in Tab. 3 and ranked according to importance. These are market size, economic growth, ease of market entry (i.e. no barriers), political stability, reliable delivery services, similar legislation and a similar legislation (see table 3).

Table 4 lists the level of agreement with a number of statements. The statements were first ranked according to the degree of agreement and then by full agreement and thus provides an overview of the most important factors. According to this ranking, a high level of information is the most important factor. This is followed by economic growth as a critical factor, political stability as a prerequisite and the fact that Turkey must have a stable political climate. To attract Austrian FDI, Turkey should have a stable political climate, similar legislation, and information about opportunities and risks rightly available. The size of the Turkish market also is a critical factor (see table 4). Based on the questionnaire responses, the availability of market information (H1), the growth potential and political / legal stability (i.e. low country risk; H3) are of critical significance. Furthermore the CEE experience (East experience; H2) is also important as we find significance. On the other hand, cultural differences, tax and subsidy issues (H1), labour costs, similar industry structures as well as Turkish workers from Austria are secondary. According to Tatoglu et al (2003), the lack of familiarity and tacit knowledge of the local conditions of the host country – here expressed as the need for information – may however also be interpreted as a perceived cultural distance.

Insights From Interviews

Interviews were conducted with 12 managers of Austrian companies located in Turkey as well as with 2 foreign trade delegates. Five important questions were asked in this regard. The answers are depicted in the following diagram.

Why should a company invest in Turkey (see Fig. 9)? Turkey is a large, fast and dynamically changing growth market with a very young population where almost any product can be placed. In addition, the country, like Austria is a bridge between East and West where many companies from around the world do business. Nonetheless, the market size and consequently necessary staff resources present a barrier especially for those Austrian companies which have their critical resources tied up in CEE networks (Rizutti, 2007). This ties into the finding of Tatoglu et al (2003) that the capital size of a host-country affiliate has an impact on the propensity to invest and provides a starting point for further research examining the “resource based view“(Barney, 1981). “Small is beautiful“is applicable to most CEE countries, however, not for Turkey - a big investment country. It is more difficult to cultivate the Turkish market as a whole, than to expand from one CEE country to the next.

If you invest, what should you pay attention to (see Fig. 10)? First of all, it is essential to do a careful analysis of the market and hire a manager who knows the both Austrian and Turkish mentality well. To ensure a mentality and know-how transfer another important factor is that the Turkish office works closely with the Austrian headquarters at least in first few years. Investing in a Turkish partner and thereby learning from its client base and experiences may also be considered as a possible success strategy.

What advice should be considered when investing? The location of the brand office must be carefully planned and the competition analysed. The company should be flexible and open for new experiences and secure a constant market presence. It is advisable to employ the assistance of the Austrian foreign trade office, Austrian banks and aide institutions. The influence of personal contacts and reach of Ankara shall not be underestimated.

What should be considered in connection with workers? It is easy to find university graduates, but difficult to find qualified, skilled labourers. Employees must often be trained on the job. Temporary work and piece-work are quite common unlike in CEE countries. A local manager may be hired; however, it is important that initially there is a close relationship to the Austrian company. Staff loyalty is not very high and the fact that workers switch jobs swiftly for a few extra Euros is considered a crucial problem.

If you invest, what are the biggest risks (see Fig. 11)? Most often labour costs are underestimated and political as well as economic changes can endanger an investment. Other problems include currency fluctuations, import and customs problems as well as patent and trademark protection.

Where are reforms most urgently needed (see Fig. 12)? There are two important areas in need of reform: First of all, political reforms including the social security system, the tax structure and education; secondly, existing obstacles must be minimised.

Survey Summary

With regard to the hypotheses, a Chi^2 test was not able to detect any significant relationship between various factors (subsidy opportunities; country risk; information level) and the tendency to intensify business relations with Turkey. Nevertheless, in combining the results of both surveys (written questionnaire and oral interviews) economic growth is evidently a decisive factor that benefits investments in Turkey; the same can be said about East-experience and country risk which has recently declined. Furthermore, public institutions are advised to provide extensive information relating to the opportunities and risks of investing in Turkey as most companies view it as being important. Extensive information and education is surely a means to achieve progress towards boosting trade with Turkey.

Coming back to the original question, why the commitment of Austrian companies in Turkey is relatively low compared to other CEE countries, the argument continues to pop up that small and medium-sized companies have already exhausted or tied up their resources in surrounding CEE countries and therefore lack spare resources to make a move in Turkey. In general, Austria’s focus of economic interests on Eastern Europe after 1990, but in particular that of companies and the media may play a role in this regard (Berki, 2007; Rizutti, 2007).

SUMMARY AND CONCLUSION

In spite of an often times negative public image, Turkey has witnessed a very good overall economic development which is evidence for clear steps towards a possible accession of Turkey to the EU. These steps include an improvement of the legal framework such that the legal situation in Turkey resembles that of Austria, political and economic stability, an improvement of the currency situation and related decline in inflation, and finally, sustainable economic growth.

There are a multitude of reasons why investing in Turkey can make sense for Austrian companies. High growth rates of a large market and the possible function of Turkey as a bridgehead for expansions to the East are only two reasons of many. While the majority of foreign investors set up offices in urban centres such as Istanbul and Ankara, the presence of industrial zones outside of these metropolitan areas however also provides an alternative location strategy.

The exports from Austria to Turkey have declined in the past years (possibly due to the Euro appreciation) while the imports from Turkey to Austria have increased. Turkey is currently the 22nd most important exporter of Austria and after all, 8th in terms of investors. Most Austrian companies invest in the energy sector, where approximately one third of all water power plants under construction are being built in cooperation with Austrian syndicates. In terms of direct investments Austrian companies also lag behind in Turkey compared with their strong commitment in Central and Eastern European transition countries (CEE); large investments have been made only recently. How can this weak market position be explained? To answer this question we conducted a survey among the 500 largest Austrian investors in CEE countries.

Country risk can play a significant role according to location theory by Tesch (1980). Based on the results of our study political-legal stability is indeed of high importance. However, it should be pointed out that Turkey’s country risk derived from past events (military intervention, violent currency fluctuations) may even have been intensified by the rather negative attitude toward Turkey’s EU-accession held by the Austrian population and media. Meanwhile economic conditions have become considerably more stable in Turkey, which should have a positive effect on Austro-Turkish economic relations (Maier, 2007). Institutions such as the Austrian export credit agency OeKB and the Austrian foreign trade guarantee & insurance company AWS can help absorb any remaining risks.

According to the learning-based internationalisation theory by Johanson/Vahne (1990) and the eclectic theory developed by Dunning (1981) one could expect that the experience gained by the strong commitment of Austrian companies in CEE countries and the enterprise networks built up there would provide a significant incentive to enter the Turkish market. Our empirical survey also confirms this in principle. According to the product life cycle theory by Vernon (1996), however, investments for lowering the production costs have just been made in CEE countries and Turkey thus does not offer any particular advantage in this regard. While the classical foreign trade theories view market size as positive, the resource requirements relative to the market size may deter sales oriented investments by Austrian companies. Medium-sized companies which dominate in Austria were able to conquer the CEE markets, however now have their resources focussed there. The huge size of Turkey therefore presents a major challenge, as our interviews showed. The application of the resource-based view (Barney, 1981) could provide an additional field of study.

The “New Economic Geography“which postulates an agglomeration of investments in the centre of an economic area may also not be entirely ruled out. The main investor countries are mostly neighbouring countries or closely connected thereto. Austrian companies for example do not play a significant role in Estonia, while, Finnish companies do.

According to the agglomeration theory (Krugman, 1987) aspects relating to core-periphery may play a role. The closer and more central the markets, the easier it is to obtain information. Our survey also confirmed the importance of market information. Undoubtedly the emphasis placed on this factor points to certain weaknesses. The chamber of commerce has already taken steps to remedy this with various industry studies. Cultural differences and the availability of public financial assistance do not influence market entry into Turkey significantly. Concerning subsidies, this can be interpreted as a signal of a well balanced subsidy and guarantee system.[g]

Why do Austrian companies lag behind in Turkey relative to their commitment in other CEE countries? First, the geographical distance enshrined in gravity theory is surely a barrier since Turkey is not a direct neighbour of Austria. However, this is also the case for CEE countries like Bulgaria and Romania where Austrian companies are heavily engaged. Second, although information on Turkey has increased, there is still a certain information deficit which could be interpreted as a perceived cultural difference. Third, the high country risk ratings of the past still continue to have an effect, possibly enforced by a rather negative public opinion. Finally, it seems apparent that Austrian companies (especially medium-sized enterprises) have used up their resources in smaller neighbouring countries and thus could not afford to chance the big step to the

[g] AWO (2007) and Genis-Gruber (2007:91) provide a good overview of national and international investment aide

large Turkish market. In the meantime, these resources should be freed up. Furthermore, it could make sense to bundle resources to compensate for diseconomies of scale. Also, it is noted that representatives of the Turkish community, for example Turkish entrepreneurs do not visibly act as agents or intermediaries. Only a few Turks such as restaurant chain DO&CO founder Attila Dogudan and Cem Kinay, the founder of the Gulet travel agency have become well-known in Austria.

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Table 1: Comparison of competitiveness Turkey-CEE (UniCredit, 2007:5)

	Turkey	Poland	Hungary	Czech Rep	CEE 8	Romania	Bulgaria	EU-15
Population (million)	73	38.1	10.1	10.3	72.9	21.5	7.7	389.4
Average age, years	29	37	39	39	38	38	41	39
Youth education attainment level, %	44	91	83	91	89	79	77	75
Science and technology graduates	5.6	9.4	5.1	7.4	8.9	9.8	8.5	13.6
GDP per capita €	4,244	7,077	8,925	11,010	8,221	4,510	3,172	27,660
Monthly personnel expenses, €	677	818	944	954	841	358	229	3,438
Labour productivity per person (EU25 =100)	41	59	73	69	63	41	35	106
R&D expenditure, % of GDP	0.66	0.57	0.94	1.42	0.83	0.39	0.5	1.91
Corporate tax (%)	20	19	16	24	20	16	10	29
FDI (in % of GDP, Ø 2004-'06	2.9	4.2	4.6	6.1	4.9	8.3	13.8	n.a.

Table 2: Austrian foreign trade statistics – country rankings (calculated from Statistik Austria – *Foreign Trade)*

Place Imports (A)	2003	2004	2005	2006
Czech Republic	Place 6	Place 5	Place 5	Place 7
Hungary	Place 7	Place 7	Place 9	Place 9
Slowakia		Place 11	Place 13	Place 13
Poland	Place 17	Place 18	Place 15	Place 15
Slowenia	Place 18	Place 17	Place 19	Place 18
Turkey	Place 21	Place 20	Place 21	Place 19
Romania	Place 22	Place 21	Place 22	Place 22
Croatia	Place 27	Place 24	Place 25	Place 24
Bulgaria	Place 41	Place 40	Place 39	Place 40
Bosnia	Place 59	Place 53	Place 53	Place 47
Albania	n.a.	n.a.	n.a.	n.a.
Macedonia	n.a.	n.a.	n.a.	n.a.
Lithuania	n.a.	n.a.	n.a.	n.a.
Esxtonia	n.a.	n.a.	n.a.	n.a.
Latvia	n.a.	n.a.	n.a.	n.a.

Place Exports (A)	2003	2004	2005	2006
Hungary	Place 7	Place 7	Place 7	Place 7
Czech Republic	Place 8	Place 8	Place 8	Place 8
Poland	Place 12	Place 12	Place 10	Place 10
Slowenia	Place 11	Place 10	Place 11	Place 12
Romania	Place 17	Place 16	Place 16	Place 14
Slowakia	Place 14	Place 14	Place 14	Place 15
Croatia	Place 17	Place 17	Place 17	Place 17
Turkey	Place 21	Place 21	Place 22	Place 22
Bulgaria	Place 35	Place 32	Place 30	Place 27
Bosnia	Place 40	Place 40	Place 38	Place 45
Lithuania	Place 57	Place 57	Place 58	Place 49
Latvia	Place 51	Place 52	Place 50	Place 54
Estonia	Place 59	Place 58	Place 43	Place 59
Albania	n.a.	n.a.	n.a.	n.a.
Macedonia	n.a.	n.a.	n.a.	n.a.

n.a.: not available

Table 3: Importance of various factors and agreement in percent; n = 82

Question: How important are the following factors:

(Scale: very important, important, less important, not important)

	Very Important	Important	VI + I
Market size	68.3 %	28.6 %	96.9 %
Economic growth	55.6 %	36.5 %	92.1 %
No barriers to entry	38.1 %	47.6 %	85.7 %
Political stability	33.3 %	46.0 %	79.3 %
Reliable delivery service	25.4 %	49.2 %	74.6 %
Similar legislation	27.0 %	46.0 %	73.0 %
Tax advantages	4.8 %	46.0 %	50.8 %
Deliveries to the East	14.3 %	34.9 %	49.2 %
Low wages	6.3 %	34.9 %	41.2 %
Subsidies	3.2 %	25.4 %	28.6 %
Similar industry structure	7.9 %	23.8 %	31.7 %
Cultural proximity	3.2 %	20.6 %	23.8 %

Table 4: Agreement to various factors and statements and agreement in percent; n=82

Question: To what extent do you agree with the following factors:

(Scale: Agree fully, Agree, Agree less, Do not agree)

	Agree Fully	Agree	AF + A
High level of information is positive	52.4 %	46.3 %	98.7 %
Economic growth is a critical factor	62.2 %	34.1 %	96.3 %
Political stability is a prerequisite	62.2 %	31.7 %	93.9 %
Turkey must have a stable political climate	56.1 %	37.8 %	93.9 %
Economic stability is a critical factor	53.7 %	39.0 %	92.7 %
The size of the market is a critical factor	50.0 %	42.7 %	92.7 %
Information on opportunities and risks is a critical factor	47.6 %	41.6 %	89.2 %
Turkey should have the same legislation as Austria	32.9 %	52.4 %	85.3 %
Close investments are better than investments far away	29.3 %	51.2 %	80.5 %
Cultural proximity facilitates investment	19.5 %	58.5 %	78.0 %
Past East-experience facilitates investment	22.0 %	53.7 %	75.7 %
Financial support is an important factor	13.4 %	56.1 %	69.5 %
Turkish employees facilitate the investment decision	12.2 %	43.9 %	56.1 %
Cultural differences are problematic	13.4 %	39.0 %	52.4 %

Figure 1: GDP per capita in '000 EUR (2006) (WKO, 2008)

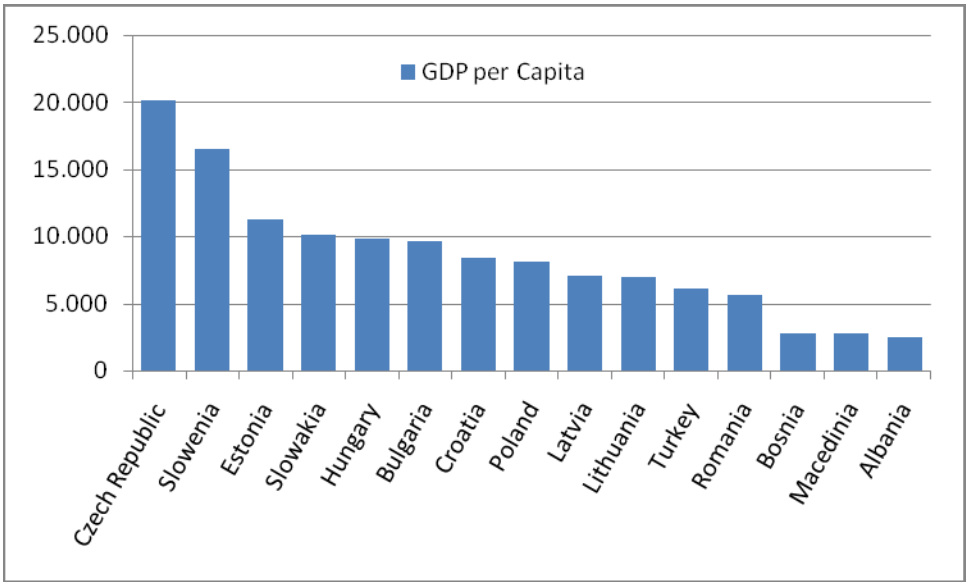

Figure 2: GDP per capita in purchasing power standards (% of EU-15, in 2006) (Quijano-Evans, 2007:2)

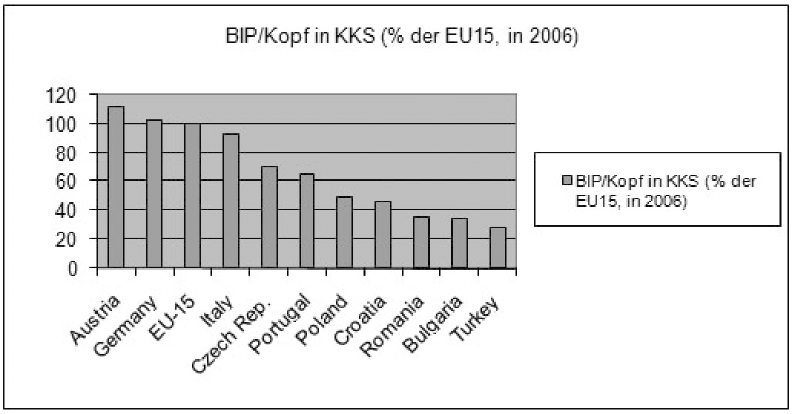

Figure 3: Foreign trade and direct investments Austria-Turkey (UniCredit, 2007:12)

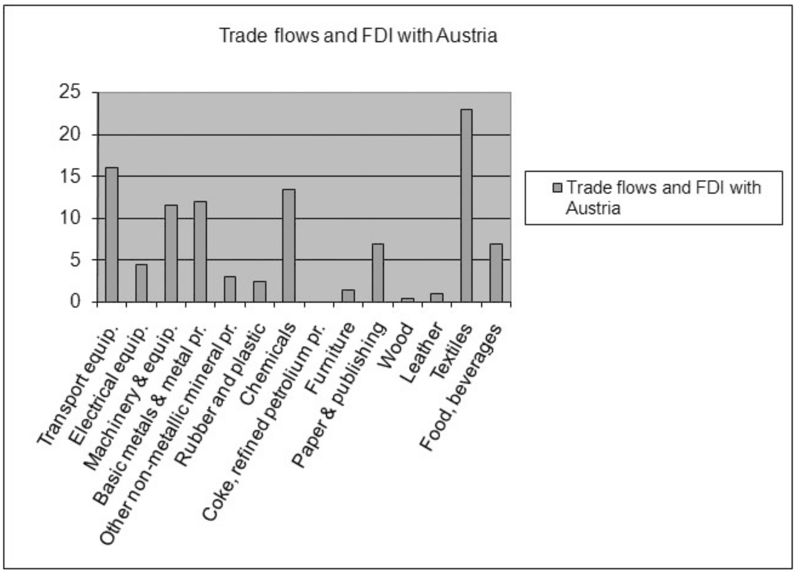

Figure 4: Exports from Austria to Turkey (WKO, 2007)

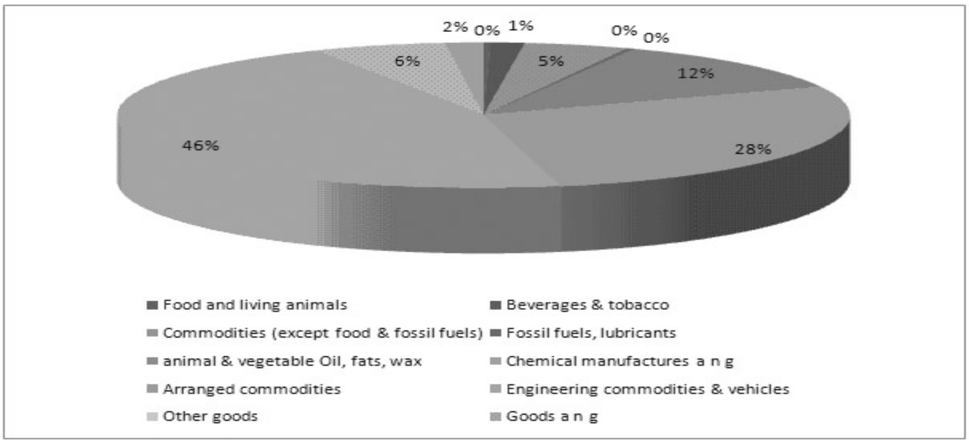

Figure 5: Imports from Turkey to Austria (WKO, 2007)

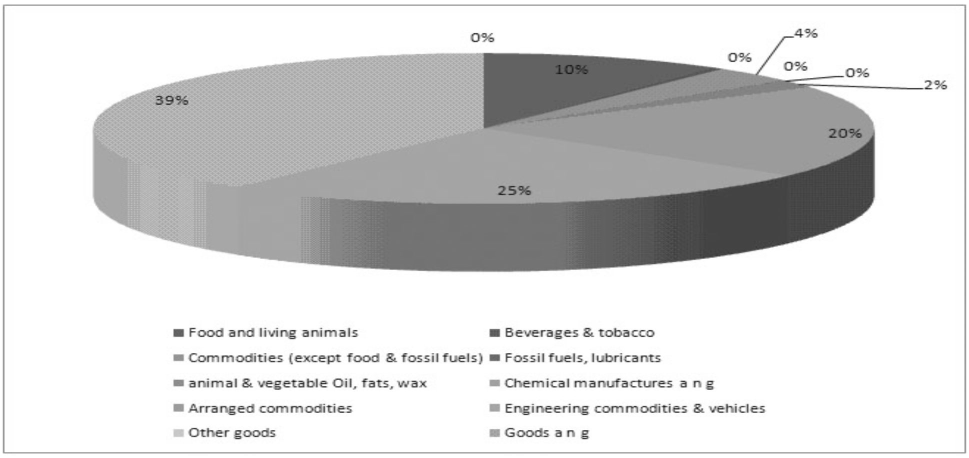

Figure 6: Distribution purchasing power (WKO/AWO, 2006) and locations of Austrian companies, 2007)

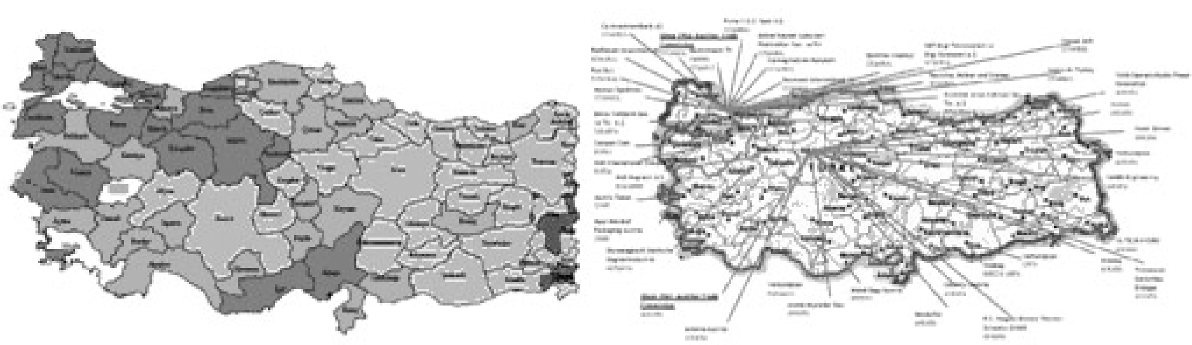

Figure 7: Comparison trade balance Austria- Turkey with expenditure of Austrian tourists in Turkey (Traverdi, 2006)

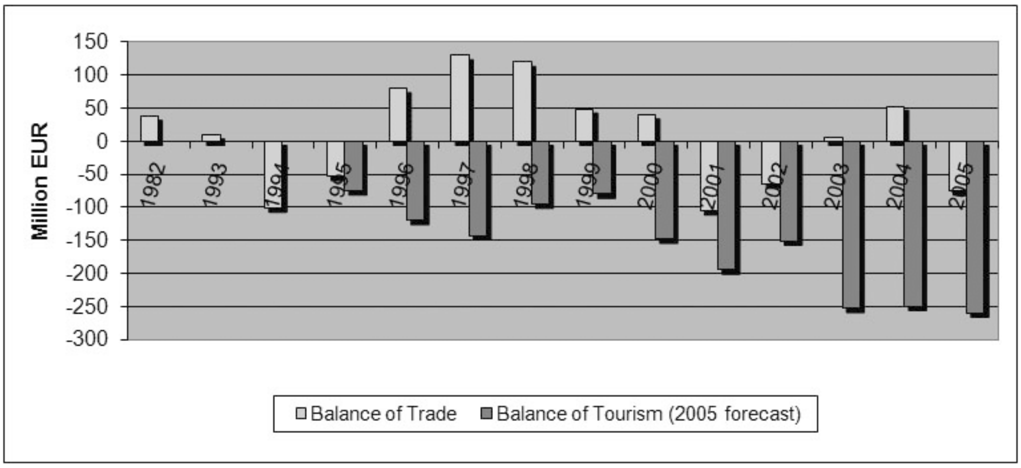

Figure 8: Results from the interviews – why invest in Turkey?

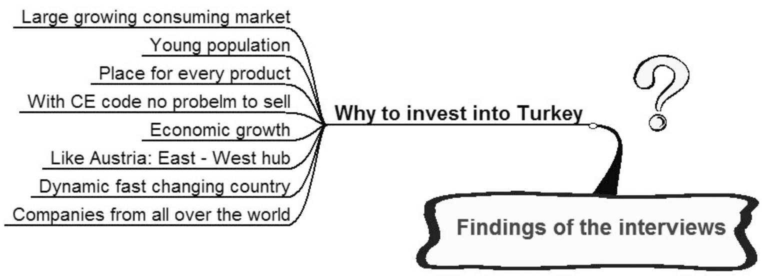

Figure 9: Results from the interviews – if you invest, what to pay attention to?

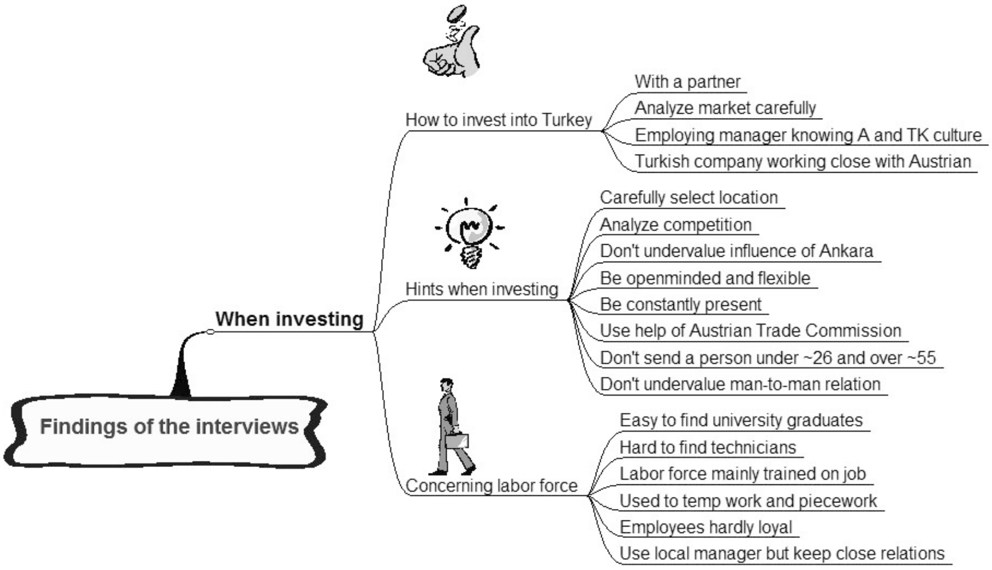

Figure 10: Results from the interviews – what are the biggest threats?

Figure 11: Results from the interview – what are the most important reforms?