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Delayed Complementarity: How Schengen Area Membership Influenced German and Austrian Investment in Central and Eastern Europe

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Abstract

This paper considers the mutually beneficial relationship of German and Austrian foreign direct investment (FDI) in Central and Eastern Europe (CEE) between 2004 and 2007, and the impact that the CEE states' belated membership in the Schengen Area had on further economic integration. It analyzes how excluding CEE member states from immediate membership in the Schengen Area upon their accession to the EU in 2004 and 2007 affected the economies of Germany, Austria, and the CEE member states. The paper argues that, in reviewing actual FDI and migration numbers following EU enlargements, fears over the potentially negative effects of labor migration from the New Member States (NMS-10) to the original "old EU-15" members were largely unwarranted. Rather, German and Austrian FDI in CEE created a mutually beneficial relationship between the regions, the potential for which was not fully realized until imposed barriers—like delayed Schengen membership—were finally removed.

Keywords

FDI, Schengen Agreement, EU Enlargement, Economic Integration, Germany, Austria, CEE

Introduction

Since the fall of Communism in 1989, Central and Eastern European (CEE)[1] states have come to view European integration as a double-edged sword. On the one hand, European integration has led to swift economic growth and benefits for the region, including increased amounts of incoming foreign direct investment (FDI) and internal economic development (Bevan & Estrin, 2004, p. 785). On the other hand, European integration has presented significant challenges in terms of broader political and social integration. Wood (2003) writes: "Support for international economic liberalization, which is hardly universal, is not necessarily accompanied by inclination to political integration and wide-ranging sociocultural interaction and change" (p. 303). The contradictory nature of European integration has impacted both economic and political institutions within Europe. Jacoby and Meunier (2010) suggest that, "European integration has been seen as an effort to manage the eroding powers of national states, to manage the creation of an integrated market, and to manage the 'pooling' of national sovereignty" (p. 304). This paper examines how German and Austrian FDI in CEE illustrates the benefits and challenges of European economic integration. In spite of the regions' current complementary relationship, this case epitomizes the inefficient and drawn-out process of breaking down barriers that stand in the way of complete economic integration.

This integrative process began with the fall of Communism, which presented a myriad of opportunities for European integration.[2] For numerous reasons, CEE states were seen as a place of great potential for future European economic investment and for political integration into the European Union (EU) and its institutions. The two countries from the EU-15[3] quickest to capitalize on the possibilities offered by the CEE block—due in large part to their geographic and strategic locations—were Austria and Germany (Marin, 2010, p. 1). Though Germany and Austria stood to gain politically from their eastern neighbors' integration with Western Europe, their most obvious potential gains were economic. These economic motivations are the primary focus in this paper.[4] Today, more than one third of Austrian European investments are in CEE states, while Germany's share of FDI in CEE has increased from 7 % to 11 % from 2000 to 2011 (Medve-Bálint, 2014, p. 47). This has made Germany the "single largest investor and trading partner with the countries of East-Central Europe" (Gross, 2013, p. 26).

The potential economic prospects existing in the post-communist CEE states have created a complementary relationship for Germany and Austria. Because of this complementarity, it would seem that Austria and Germany would be in favor of further integration. However, this has not always been the case. Throughout their economic involvement in the CEE, Austria and Germany—in an effort to safeguard their prominent market positions—

1 CEE states include Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. These ten countries, as well as Cyprus and Malta, make up the NMS-12. The NMS-10 excludes Bulgaria and Romania, who joined two years later in 2007. Additionally, CEE is often abbreviated as CEEC (Central and Eastern European Countries) or ECE (Eastern and Central Europe).

2 This paper defines European integration as cooperation on a European level through the formal processes of the European Union (EU). This includes participation in the single market prior to EU membership and efforts to extend membership in various institutions of the EU to CEE countries.

3 The EU-15 refers to those member countries comprising the EU prior to the 2004 enlargements.

4 In no way should this paper be read as denigrating the importance of political ties to the CEE states. Recent events in Ukraine serve as a reminder that political cooperation in the region is extremely important for both Germany and Austria.

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have repeatedly erected barriers that have actually undermined the very relationships they were trying to foster. This is evident in the instances of Austrian and German trade and labor discrimination that are documented by Bandelj and Jacoby.

Perhaps less obvious is the connection between Austrian and German FDI in CEE and the barriers to labor mobility caused by delaying the membership of the CEE New Member States (NMS-10) in the EU Schengen Agreement. Scholarship has had little to say on the correlation between the Schengen Agreement and Austrian and German FDI in the CEE states. But at the time of EU enlargement, conscious decisions to withhold Schengen Area membership from CEE states had a significant impact on the region's relationship with its neighbors. The NMS-10 regarded these barriers as emblematic of second-class citizenship. Despite the gains to be had from European integration, the decision to erect barriers by delaying Schengen membership demonstrates that the road to complementarity between Austria, Germany and the CEE states has not been a quick or easy achievement.

This paper discusses the potential reasons why the economic and political benefits of a relationship between these regions were delayed. The analysis is divided into seven sections. The first section introduces the Schengen Agreement and why it should not be overlooked as a barrier to complementarity. The second section gives a brief history of German and Austrian FDI in the CEE states following the fall of Communism. The third section assesses the attitudes of Germany, Austria and the CEE states prior to EU enlargement. The fourth section considers the fears surrounding accession negotiations, and the fifth section addresses the policy responses to those fears. The sixth section observes what occurred during the EU enlargements from 2004 to 2007. The seventh and final section is the conclusion.

The Schengen Agreement

Today, Austria, Germany, and CEE are economically integrated to a significant extent. One might wonder, then, why the Austrians and Germans insisted on delaying the membership of CEE states in the Schengen Agreement. To better understand this, one must first consider what membership in the Schengen Agreement implies. Named after a quaint village in Luxembourg where the contract was signed, the Schengen Agreement is known primarily for its efforts to eradicate internal borders and strengthen external borders within the area of its member countries. This has allowed 420 million people within Europe "to move freely across the internal borders" of the participating areas (Malmström, 2013). In 2009, the European Commission reported that EU citizens and non-EU nationals averaged a combined total of 12.6 million crossings of EU external borders per week (European Commission, Migration and Asylum, 2013, p. 4). With such frequent traveling of persons and the removal of custom controls inside the area, the results of the Schengen Agreement have become "…one of the things that the EU citizens appreciate most in the EU" (Malmström, 2013). Yet for all of the good that the Schengen Agreement has brought about, it has also caused much controversy and stoked heated discussions.

At the heart of the issue is the fact that participation in the Schengen Agreement is not all-inclusive. In spite of EU enlargement from 2004 to 2007, the NMS-10 countries, excluding Cyprus, were only granted membership in the Schengen Area in 2007. Even now, Bulgaria and Romania have been continually denied membership on the basis of "capacity deficits," while Cyprus was denied because of issues with the "partition of [its] island" (Lavenex, 2010, p. 462). Bulgaria, Romania, Cyprus and—at an earlier point—the other CEE states have been frustrated by this exclusion. Rather than uniting the new member

states, it differentiates them. Thus, the Schengen Agreement has had "…a direct impact on perceptions of European integration and on the circles of inclusion and exclusion being drawn by the enlargement process" (Grabbe, 2000, p. 527-528). These feelings of alienation have created contention between the EU-15 and the NMS-10.

Recent controversies over future enlargement within the Schengen Area have brought to light the difficulty for newer EU member states working to meet the stipulations of the Schengen *acquis*.[5] Although the Treaty of Amsterdam (ToA), adopted in 1997 and implemented in 1999, made the Schengen *acquis* a required part of the framework for EU membership (Council of the European Union, 2004-2013), those member states that joined the EU in 2004 acceded after only partial provisions of the Schengen requirements were in place, delaying complete membership until 2007 (EU Council, 2007, p. 6). From 2004 until 2007, when the majority of those states acceding in 2004 joined the Schengen Area, several member states restricted the freedom of citizens from CEE to live and work in the "old EU-15." Yet ironically, many of the EU-15 member states that opposed the immediate membership of newly acceded CEE countries were simultaneously investing in CEE labor markets—Germany and Austria being two of the leading cases.

The Schengen Agreement most directly relates to this paper because of its connection to labor mobility. Because the Schengen Agreement increases the relative ease for people to travel throughout the EU, it promotes a heightened fluidity of labor force mobility throughout Europe. The European Commission has recognized the necessity of this labor migration "in driving [EU] economic development and in addressing the [labor] and skills shortages and demographic challenges [the EU] is facing" (European Commission, Borders and Security, 2013, p. 5). However, the potential gains of the Schengen Agreement have been offset by the threat of new competition to the domestic labor markets of the EU-15.

The tension between the benefits and disadvantages of the labor mobility fostered by the Schengen Agreement underscores a paradox present within the European Union: member states see the Schengen Agreement as both an opportunity and a hindrance. This contradiction is symbolic of the bittersweet experience surrounding the trade and investment relationship shared between Austria, Germany and the CEE states throughout the last few decades.

German and Austrian FDI in the CEE States Prior to EU Enlargement

Germany and Austria have enjoyed a long tradition of trade and investment with the countries of CEE. This can be attributed largely to their geographic proximity. However, the extent to which these countries have invested in one another has differed over time. The initial spark was the fall of Communism in 1989. This drastic political change was mirrored by an equally dramatic economic one within the CEE states—the "transition from a Soviet-type centrally planned economy to a free market model" proved to be incredibly difficult for nearly all CEE states (PWC, 2013, p. 5). For some time, much of CEE experienced slow or even negative growth. But the former communist CEE countries soon became the "promised land" for foreign investors and attracted much FDI from the West (PWC, 2013, p. 5). After 1989, the CEE states collectively saw an unprecedented period of nearly 20 years of economic growth—a rate that lasted until the Great Recession of 2008 and was matched by few other regions around the globe (Labaye et al., 2013, p. 1). For western investors,

5 The Schengen *acquis* refers to the accumulated set of legislation or requirements necessary to obtain membership in the Schengen Area.

Central and Eastern Europe offered an enticing, emerging market of low labor costs, a relatively high-skilled labor force, and a growing consumer population of 100 million people (PWC, 2013, p. 5). Additionally, in comparison with the western European economies, the "...post-communist states of Central and Eastern Europe…were relatively poor and desperate for international investment and capital" (Baun, 2005, p. 373). This provided tremendous potential for both German and Austrian FDI and trade interests.

Between the two, Austria was quickest to capitalize on the opportunities in the East, resulting in a more invested partnership earlier on. By 1999, "Austria's outgoing [FDI] to Eastern Europe accounted for almost 90 % of total investment leaving the country" (Marin, 2010). Germany, in comparison, moved more slowly. At the end of the 20th century, Germany accounted for only 4 % of the total FDI in Eastern Europe, suggesting that Germany took significantly longer to realign its post-communist economic strategy (Marin, 2010). However, although the proportion of outgoing German FDI to the CEE states was relatively low, Germany accounted for roughly 20-30 % of foreign investment in the "Visegrad Group,"[6] by the end of the 1990s (Gross, 2013, p. 30). Thus, in a relatively short amount of time, Austria and Germany became the dominant players in the region.

This investment in CEE proved profitable for several reasons. Primarily, FDI from Austria and Germany allowed companies to outsource activities to Eastern Europe, enabling them to significantly reduce labor costs by 37 to 73 % (Marin, 2004, p. 16). From 1999-2000 in Austria and 1996-2000 in Germany, 17 % of Austrian and 45 % of German investments were "motivated by lower wages in Eastern Europe in which these firms outsource[d] labor intensive production stages…." (Marin, 2004, p. 16). The off shoring of production accounted for a sizeable portion of German investment in the Czech Republic, Bulgaria, Slovakia, and Romania—70 % in comparison to 17 % of Austrian investment in Eastern Europe in the early 2000s (Marin, 2006, p. 614-615). Gross (2013) notes, that "by the end of the 1990s, between 20 and 30 % of the foreign investment flowing into the Visegrad Group was German" (p. 30). By investing so heavily in the low cost of labor and high skill offered by the CEE states, German and Austrian firms were able to improve their competitiveness and productivity in the ever-increasing global and European markets. Estimates suggest that, "German off shoring to Eastern Europe boosted not only the productivity of its subsidiaries in Eastern Europe by almost threefold compared to local firms, but it also increased the productivity of the parent companies in Germany by more than 20 %" (Marin, 2010). These improvements suggest that FDI had a positive impact on Germany and Austria, as well as the "host" CEE states.

German and Austrian FDI was critical to CEE economic growth in numerous ways. Germany and Austria helped to foster long-term investment in CEE capital and the countries' research and development (R&D), of which the region was found to be wanting (Gross, 2013, p. 32). Additionally, German and Austria FDI created new employment opportunities. An estimated "190,000 workplaces [were] created in six CEE states by the end of 1999 through German FDI specifically seeking lower-cost production" (Wood, 2003, p. 297). German companies also "created the largest absolute number of university or college degree jobs in the Czech and Slovak Republic followed by Poland, Hungary and Russia" as well as "a demand of 106,197 skilled workers" (Marin, 2004, p. 36). Likewise, "Austria's multinationals [created] a total of 42,233 university graduate jobs in Eastern Europe"

6 The Visegrad Group includes Poland, Hungary, the Czech Republic and Slovakia.

(Marin, 2004, p. 37). This increased demand for and supply of highly skilled laborers suggests an economic interdependence between the regions that was mutually beneficial to both the FDI origin countries and the recipient states.

Attitudes at the Cusp of EU Accession

In the wake of promising investment opportunities in the CEE region arose debates surrounding the potential accession of these countries to the European Union. While EU enlargement offered a variety of benefits, it nevertheless triggered a host of fears. Compared to the EU-15, Germany and Austria found themselves in the most advantageous—and vulnerable—positions. Baun (2005) has argued that,

> German national interests [favored] enlargement. Economically, Germany stood to gain the most from inclusion of the CEECs[7] in the EU single market. Enlargement would enhance Germany's security…. In political terms, Germany's influence within the EU would likely be enhanced by the accession of its Central European [neighbors], giving it a group of potential new allies… (p. 377)

For this reason, Baun (2005) suggests that Germany was a natural "advocate" ("Anwalt") for eastern enlargement in the early and middle years of the 1990s (p. 377). Germany also anticipated "trade gains of 7.2 %…through enlargement" (Wood, 2003, p. 294).

There were other economic benefits to EU enlargement. Accession of the CEE states into the European Union meant that the region could participate in the EU single market. This would directly benefit Austria and Germany by enhancing the relative ease of relocating production from the "old EU-15" to the CEE countries with lower costs of labor. Conversely, the membership in the single market offered access to EU financial aid for CEE countries (Bandelj, 2010, p. 482). Investor confidence in the area was also predicted to improve as a result of lowered country risks, "because meeting the requirements for admission [involved] an external validation of the quality of economic management and institutional development" (Bevan & Estrin, 2004, p. 779). CEE accession emphasized an important correlation between EU integration and FDI in the region. A study conducted in 2004 found that merely announcing EU accession prospects

> [increased] FDI in-flows to countries that [were] evaluated positively. Hence, the processes determining EU membership, which [were] based on an evaluation of progress in transition, and announcements concerning potential membership [created] vicious and virtuous circles of growth, EU membership, and FDI. Countries that [had] implemented transition policies successfully [were] promised relatively speedy EU membership, which further accelerates FDI that generates more growth and development. (Bevan & Estrin, 2004, p. 785).

For CEE countries, membership in the EU also meant a "symbolic acceptance into the 'Western world, a completion of the 'return to Europe'" (Bandelj, 2010, p. 482). This also led to improved electoral positions for CEE political leaders as EU membership offered "… their citizens material benefits, labor mobility to the wealthy West, and the increase in na-

7 Central and Eastern European Countries (CEEC)

tional stature that membership implies'" (Bandelj, 2010, p. 482).

Yet as discussions about EU enlargement ensued at the turn of the century, dissonance began to creep in. While Germany and Austria stood to gain from EU enlargement, "a Eurobarometer survey conducted in April/May 2001 indicated 35 % of Germans and 33 % of Austrians were in favor of enlarging the EU" (Wood, 2003, p. 289). This suggests that although a sizeable portion of their populations was in favor of enlargement, the majority of Austrians and Germans were against it.

Fears of Enlargement in the Old EU-15

Opposition to enlargement came in many forms. For example, as the EU-15 began to further consider the implications of the CEE states acceding, worries arose over potential welfare tourism, displacement of native workers (Doyle, Hughes and Wadensjö, 2006, p. 3; 31-32), and "prominent negative images [of] mass immigration, job losses and/or lowering of [domestic] wages and conditions, an eastern mafia and other less-organized crime, and a [diffused] sociocultural intrusion" (Wood, 2003, p. 289).

While the movement of production was a significant concern, the greater fear was the mobility of people. Sharing borders with five of the potential member states from CEE, Germany and Austria were particularly vulnerable to migration. The two EU-member states already accounted for "two-thirds of the flows of Accession State nationals" before enlargement (Doyle, Hughes and Wadensjö, 2006, p. 29-30). Thus, governments worried that because of low wages and an "average GDP per capita in the Accession States [of] only a quarter of the average for the [EU-15]… the income incentive for Accession State nationals to migrate [was] strong" (Doyle, Hughes and Wadensjö, 2006, p. 18). With full-fledged access to the European Union through Schengen membership—made possible by the adoption of the Schengen *acquis*—this migration problem would likely be compounded.

Soon, countries like Austria and Germany—which had originally been proponents of accession—fell victim to "a domino effect in which Member States who initially said they were committed to free movement of [labor] changed their positions as the enlargement date of 1 May 2004 approached" (Doyle, Hughes and Wadensjö, 2006, p. 15). In 2003, just a year prior to the NMS-10 joining the EU, Wood (2003) reported, "Whether of people or goods, full and genuine competitive access has a range of opponents. The general population is more inclined to believe that outcomes will be unfavorable than to perceive positive opportunities" (p. 289). With a pre-existing paranoia over the influx of migrants to Germany and Austria, the response incurred was strict: create a barrier to migration. This meant that the only way to control EU accession would be to delay the CEE states' membership in the Schengen Area.

Policy Response to Enlargement Fears

For Germany and Austria, concerns over enlargement, economic integration, and investment were all interconnected. Despite this overlap, what tends to be overlooked is that the EU-15 enlargement debates and the Schengen *acquis* were directly connected. As part of the rigorous enlargement process,

> …the European Commission developed a thorough 'screening' of more than 30 separate policy domains for each of the prospective CEE members…. meeting with government officials of each CEE aspirant member and going line by line

> through the *acquis communautaire*. (Jacoby & Meunier, 2010, p. 308)

By extension, the Schengen *acquis*—which were adopted by this point—would have been included in these discussions. Thus, it makes sense that German and Austrian policy responses to migration and economics were one and the same. Baun (2005) reports that the "German government… took a tough position in the accession negotiations on the terms of membership of the candidate countries in two special intra-EU arrangements, the Schengen agreement… and [the] EMU[8]" (p. 379). Once restrictions on Schengen were in place, both Germany and Austria "made it clear immediately that they would be availing of the transitional arrangements to restrict access to their [labor] markets for the full seven year period" for CEE states, extending beyond the date of their initial EU accession (Doyle, Hughes and Wadensjö, 2006, p. 17). Although the Austrian and German position on economics and enlargement seem to contradict the gains they were set to realize, the logic flows with Bandelj's (2010) theory that,

> States use a variety of measures to regulate, formally and informally, inflows of foreign capital. In fact, they seem to be negotiating between the neoliberal logic of freely opening borders and providing incentives to foreign capital, on the one hand, and adopting economic nationalism and closing borders and discouraging foreign investment, on the other hand. (p. 486)

This would suggest that delaying membership in the Schengen Area was a strategy by which Austria and Germany could regulate outgoing FDI while keeping borders shut to the competition from the neighboring CEE countries.

Additionally, it is important to recognize that there was "'political resentment' toward FDI" present amongst the CEE states themselves (Bandelj, 2010, p. 489). These countries "had just fended off foreign, Soviet, control and were reluctant to have foreigners seek control of their national assets yet again" (Bandelj, 2010, p. 489). Thus, it makes sense that, "By 2000, all Central and Eastern European countries had in place protection measures against foreign ownership of land (EBRD 2001)" (Bandelj, 2010, p. 489). In their own ways, Austria, Germany, and the CEE states created barriers by which they could better control the threats they perceived to be imposed by furthered economic integration.

Membership-to-Membership: Managing the Mayhem from 2004 to 2007

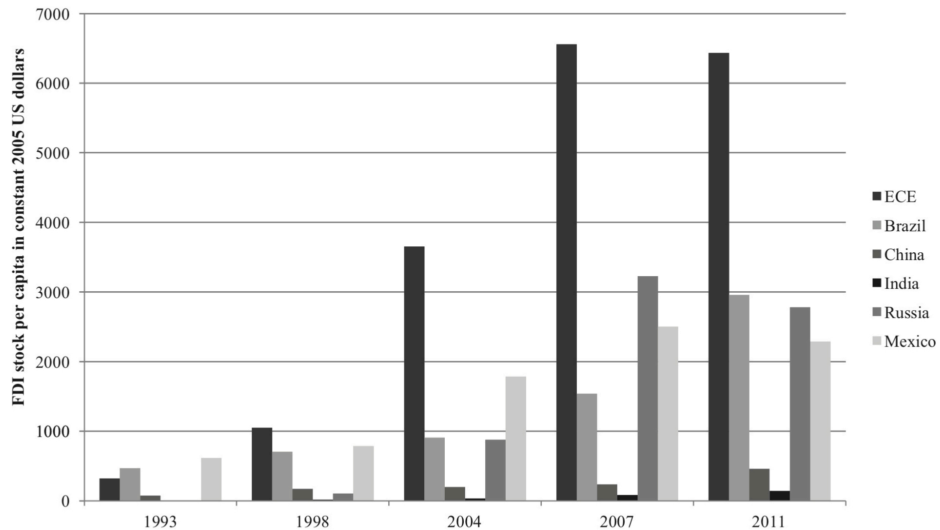
With such a surprisingly strong reaction to the CEE member states' accession, the question of how the countries fared remains. Interestingly enough, in spite of the hard line drawn by Germany and Austria in the enlargement *acquis*, some of the greatest growth seen in CEE spans from NMS-10 membership in 2004 to their eventual accession to the Schengen Area in 2007. Up until the Great Recession of 2008, the FDI flowing into CEE "averaged $65 billion a year, or roughly 5 % of the combined GDP of these countries between 2004 and 2007" (Gross, 2013, p. 32). Medve-Bálint (2014) argues that earlier "studies underestimated the volume of FDI inflows as ECE[9] foreign capital stock more than tripled between 1998 and 2004 and this process did not lose momentum after accession" (p. 38).

8 The Economic and Monetary Union (EMU)

9 Eastern and Central European (ECE) countries

A graph taken from Medve-Bálint's (2014) calculations of UNCTAD[10] data (see Figure 1) reflects the enormous, exponential growth experienced at the times of membership in the EU (2004) and the Schengen Area (2007), as well as the immediate years following (2011).

Figure 1



Source: Medve-Bálint (2014), UNCTAD Data

While this unprecedented increase in the value of FDI stock is certainly significant, an important point to address is the pre-accession concern of migration. Writing in 2005, between EU membership years, Baun argued that a "high flow of workseekers" following enlargement was "unlikely because of high structural unemployment in Germany/the EU and the expectation of rising demand for labor in entrant countries as income rises…" (p. 297). From this, Baun insinuated that concerns over delaying the Schengen Area membership were rather superfluous. He predicted "no notable net wandering to the [EU-15,] and that transition periods before free access for workers [were] not economically founded" (p. 297). Observed trends in migration potentially support Baun's predictions. As seen in Figures 2 and 3, net migration in Austria stabilized around the period of EU enlargements (2004-2007). During that time, Germany's rate of net migration and number of migrants significantly decreased. Meanwhile, with the exception of the Czech Republic, rates of emigration from the CEE largely leveled out.

10 United Nations Conference on Trade And Development (UNCTAD)

Figure 2

Net Migration Rate (per 1000 Population)							
Member State	**1995**	**2000**	**2004**	**2005**	**2007**	**2008**	**2009**
Austria	1	2	2	2	2	2	2
Germany	5	2	1	1	1	-1	0
Bulgaria	-7	-6	-5	-4	-4	-3	-3
Czech Republic	1	1	2	4	8	7	3
Estonia	-9	-3	-3	-3	-3	-3	-3
Hungary	2	2	2	2	2	2	2
Latvia	-5	-2	-2	-2	-2	-2	-2
Lithuania	0	0	-1	-1	-1	-1	-1
Poland	0	-1	0	0	0	0	0
Romania	-1	0	0	0	0	0	0
Slovakia	1	0	0	0	0	0	0
Slovenia	1	1	1	1	1	1	1

Source: US Census Bureau, International Database

Figure 3

Net Number of Migrants (in Thousands)							
Member State	**1995**	**2000**	**2004**	**2005**	**2007**	**2008**	**2009**
Austria	7	17	16	16	16	15	15
Germany	398	167	82	79	44	-56	-13
Bulgaria	-56	-44	-34	-32	-27	-25	-22
Czech Republic	10	7	19	36	84	72	28
Estonia	-14	-4	-4	-4	-4	-4	-4
Hungary	21	18	21	25	20	18	16
Latvia	-14	-5	-5	-5	-5	-5	-5
Lithuania	-2	-1	-3	-3	-3	-3	-3
Poland	-18	-20	-18	-18	-18	-18	-18
Romania	-21	-4	-10	-7	-6	-6	-6
Slovakia	4	1	2	2	2	2	2
Slovenia	3	3	2	2	2	1	1

Source: US Census Bureau, International Database

Here remains an important question that deserves further exploration—why did the value of FDI stock in CEE increase while migration in the region stabilized? These statistics of migration suggest that although fears of migration were legitimate when initially raised, concerns over EU enlargement and membership in the Schengen were disproportionately inflated. Members of the NMS-10, who once regarded delayed Schengen membership as a mark of their marginalization, fared relatively well.

The paradox of moderate migration and successful FDI stock observed in the CEE region following enlargement negotiations may not be a direct result from the decision to delay Schengen membership. This correlation has yet to be fully proven. However, the action itself reveals that what was perceived as an effort to protect German and Austrian interests merely delayed the recognition of a mutually beneficial economic relationship shared by Austria, Germany and the CEE states. According to Jacoby and Meunier, by

strategically managing the 'threats and opportunities" from Central and Eastern Europe, the EU-15 "helped organize the CEE region as a complementary platform for firms from existing member states" to their advantage (Jacoby & Meunier, 2010, p. 308). The barriers to entry created by Schengen were unnecessary for protecting German and Austrian economic interests, but their ability to replace cultural, political and economic enlargement concerns with a structured order of integration enabled complementarity to be truly achieved, albeit delayed.

Conclusion

While the potential benefits to European economic integration are many, the barriers are equally considerable. This is evident in the case of German and Austrian FDI in CEE. Following the fall of Communism, Austria and Germany actively pursued the economic and political interests in Central and Eastern Europe that they viewed as advantageous. On a whole, this has benefited both regions greatly. In particular, the Western and CEE states have become "mutually dependent on each other… [as] FDI has…transcended the east–west divide in Europe" (Medve-Bálint, 2014, p. 47). But the economic and political concerns that arose during the EU enlargement negotiations—particularly the worry of complete freedom in the movement of people and production—created barriers that delayed the potential benefits of this relationship. Perhaps the most deleterious barrier was the active decision to delay Schengen membership for the NMS-10 in order to combat fears of labor migration. Yet in analyzing the regional outcomes following the enlargements from 2004 through 2007, it becomes evident that these concerns overshadowed the complementarity otherwise present. Thus, the gradual accession of the NMS-10 states to the economic and political institutions of the EU enabled the burgeoning complementary relationship to overcome unwarranted barriers, thereby allowing the advantages of increased integration between Austria, Germany, and the CEE region to be more readily realized.

Author's Notes

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