



The new perspective of foreign trade

January 2013

Overview

Germany overestimated, USA and China underestimated to date, service exports much more important

- Trade with USA and Italy just as crucial for Austrian economy as trade with Germany
- "Made in Austria" products count for above-average proportion of Austrian exports
- Business-related services and financial services have high degree of added value made in Austria
- Half of Austrian exports are services

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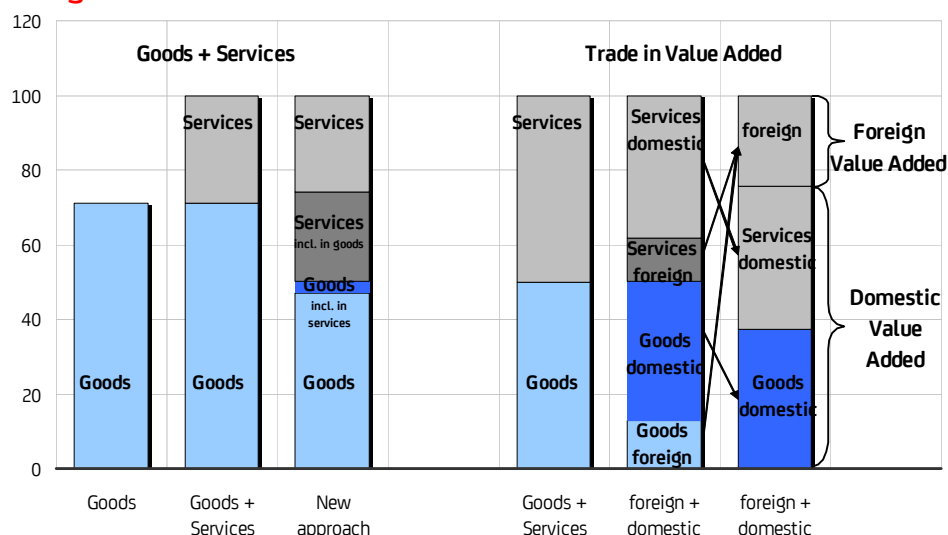
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In detail

A joint analysis by the OECD and the WTO has departed from the conventional method of calculating foreign trade data, which always measures trade flows upon crossing a border. Instead, it focuses on the added value generated by a country in producing export goods and services. This database takes into account which domestic and foreign components and services make up the total exports of a country. Complementing the well-known method of recording trade figures for exports and imports between countries, the new foreign trade numbers give a clearer picture on how global chains of added value influence trade relations and economic activities. The impacts of economic shocks from abroad on upstream and downstream production areas and therefore, as a result, on income and employment in Austria, are becoming more tangible.

Foreign trade - overview

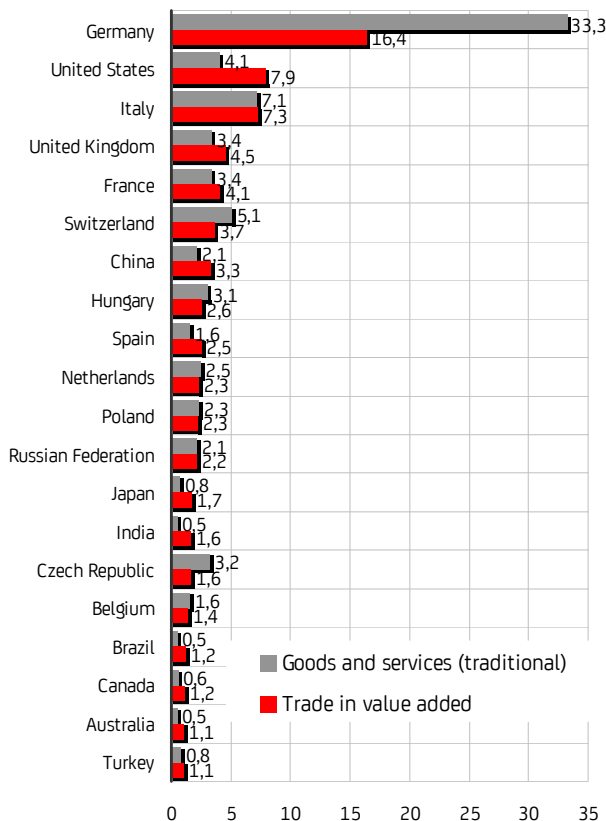


Source: OECD.Stat, Bank Austria Economics & Market Analysis Austria

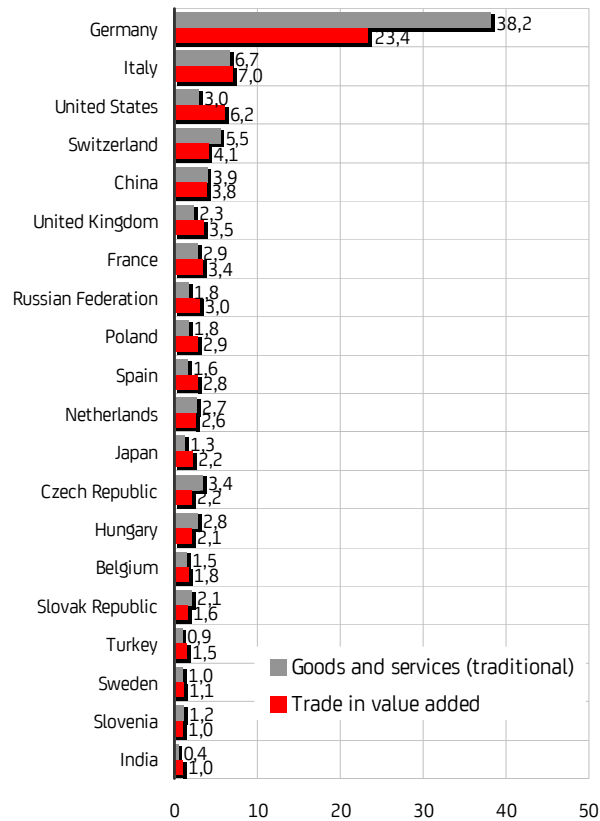
We have evaluated the new foreign trade figures for Austria. The most important finding of our evaluation of the new foreign trade data is that the importance of individual trading partners for Austrian economic development has to be completely reassessed. While the significance for the Austrian economy of doing foreign trade with Germany has thus far been overestimated, the influence of the USA but also of China has been significantly underestimated.

Germany is the number one country for Austrian foreign trade in terms of value added, and based on absolute volumes it is by far the most important for maintaining levels of employment and prosperity in Austria. However, the importance of foreign trade with Germany in terms of its influence on economic activity in Austria is only about half as strong as one would have assumed based on traditional views of foreign trade. The share of Austrian exports to Germany sinks compared to the simple view based on goods exports, from over 30 percent to just 16.4 percent, as large parts of Austrian exports to Germany are intermediate products and services that are then processed in Germany and re-exported. This means that the share of Austrian added value in Austrian exports to Germany is lower. In turn, imports from Germany contain many intermediate products for local production, which also reduces the German share in total Austrian imports when compared to the conventional view. The import share falls from almost 40 percent to not quite 23.5 percent.

Exports to... (in % of Austria's total exports)



Imports from... (in % of Austria's total imports)



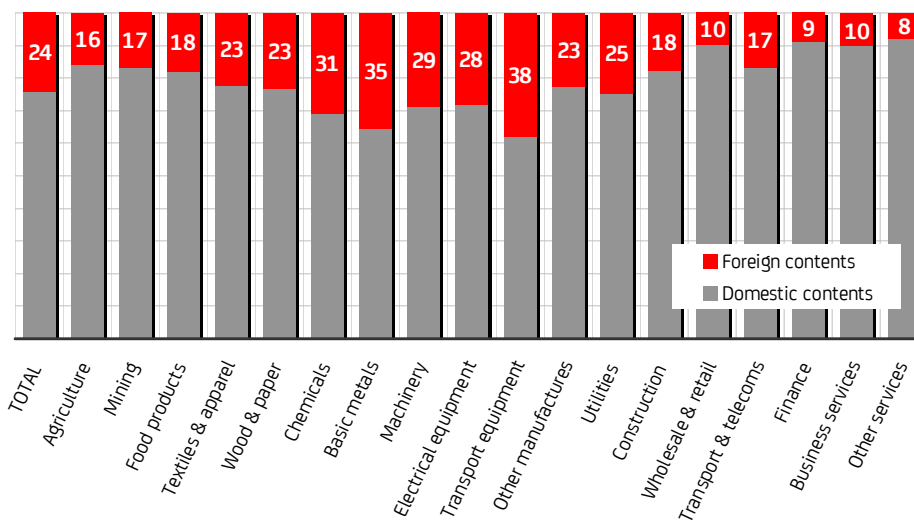
Source: OeNB, OECD.Stat, Bank Austria Economics & Market Analysis Austria

By contrast, the economic influence of the USA is higher, the second-highest of all trade partners after Germany. The economic influence on Austria of foreign trade with the USA and Italy, collectively, is almost as sizable as that of Germany. This is because one exported euro to the USA or Italy contains a higher share of Austrian added value than one euro exported to Germany. For example, the Chinese influence is also greater than that of Hungary or the Czech Republic. Generally speaking, this means that on a value-added basis the share of trade with partner countries falls where there is a dynamic exchange of goods at pre-production levels too, such as neighbouring European countries both in the west and the east. The trading share of countries that are mostly further away, like China or Brazil, tends to be higher, on the other hand, as there is less added value from other countries in the exported products.

High domestic added value in Austrian exports

As a relatively small country, Austria is very strongly integrated into the global chain of added value organised on a division of labour basis. While roughly one third of imported intermediate products worldwide are used for exports, the corresponding figure in Austria is around half. The foreign share of added value in Austrian exports sits at 24.4 percent, much higher than that of large countries like the USA (17.5 percent), or the European Union as a whole with just 13.4 percent. By contrast, countries of a similar size like Switzerland, Belgium or Denmark boast shares of more than 30 percent, while even the much larger economic powers of Germany and France are ahead of Austria in the relevant rankings. In comparison to countries of a similar size, the domestic added value of Austrian exports is extremely high at around three quarters.

Value added content of gross exports (by industry)



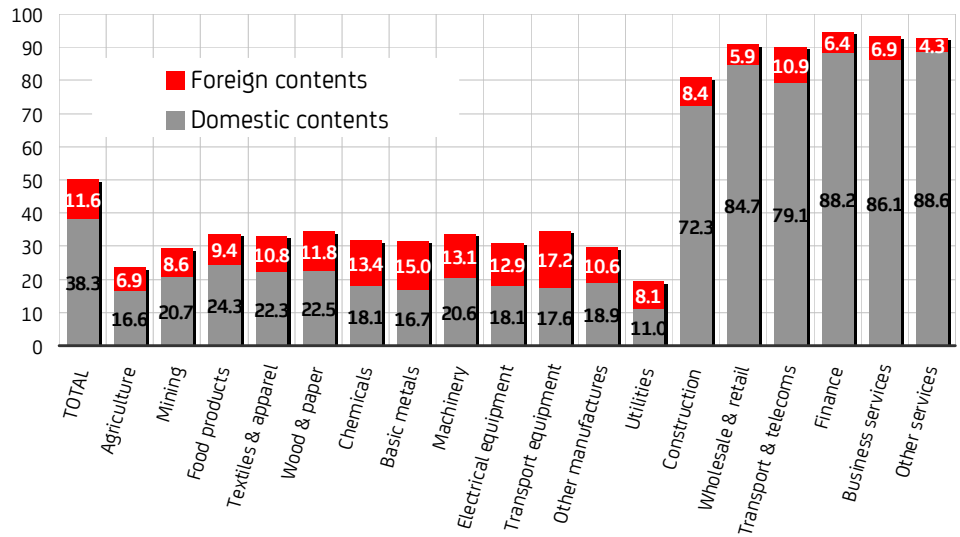
Source: OECD.Stat, Bank Austria & Market Analysis Austria

Some sectors of the Austrian economy, however, display an exceedingly strong share of foreign added value in overall exports. This includes car manufacturing in particular with a share of almost 40 percent, as well as metal manufacturing, the chemical industry and mechanical engineering. By contrast, domestic added value is very high in construction, and especially with services. In terms of business-related services and financial services the domestic share of added value exceeds 90 percent in total exports. This is why services and particularly financial services 'made in Austria' make such a large contribution to Austrian national income.

Services far more important than previously thought

According to the added value method it is not only services per se but also the added value of services in the production of goods that is recorded, and therefore also their share in total goods exports. This bumps the share of services in total Austrian exports up from its traditional one quarter or so to almost one half. Consequently, services are much more important for total exports than previously assumed. Due to the robust production sector the Austrian share sits somewhat below the average European Union value of 55 percent, as expected, but just before Germany. The ranking not surprisingly is headed by Luxembourg, with the other front-runners including Ireland and the United Kingdom. Even in manufacturing we find some sectors – automobile manufacturing, mechanical engineering and the wood and paper industry – where the share of services in total exports produces an impressive figure far in excess of 30 percent.

Services value added embodied in gross exports (by industry)



Source: OECD.Stat, Bank Austria & Market Analysis Austria

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