Exports experience successful run
The joys and sorrows of Austria’s export strengths

The growing predominance of exports has given the Austrian economy additional impetus while also increasing national prosperity. However, the recent crisis has clearly shown that the impact of global economic trends on the Austrian economy has increased. Austria’s high prosperity level can be maintained only through continued strong export growth.

Austria’s foreign trade performance, supported by the opening of Eastern Europe, has improved markedly since the country’s accession to the European Union in 1995. Exports grew by a nominal 6.5% p.a. between 1995 and 2010, after expanding by about 5% in the preceding decade. Austrian exports consequently experienced stronger growth than those of the EU 15 countries. Austria’s export ratio rose by almost 15 percentage points from 24% to almost 39% between 1995 and 2010. This compares with an average export ratio rise of “only” 9.5 percentage points in the EU 15 countries in the same period.

The successful run of Austria’s export sector has boosted the country’s growth, giving it a significant lead over other countries. In the years before EU accession, the Austrian economy was mostly driven by domestic economic activity, while foreign trade had a dampening effect on economic growth as a whole. The economy grew by an overall 28.6% in real terms or at an average rate of about 2.5% per annum between 1985 and 1995. In average terms, the performance of the Austrian economy thus more or less matched that of countries which were then members of the European Union (EU 12). Beginning in 1995, the improvement in general conditions as a result of globalisation, the EU single market, the adoption of the euro and the opening of the East led to stronger export activity, and foreign trade started to support Austria’s economic growth. In the last fifteen years, net export contributions have accounted for about one-third of GDP growth in average terms. In this period, real economic growth expanded by an overall 36.6%. This corresponds to average annual growth of 2.1%, which is below the comparable figure for the ten years that preceded Austria’s accession to the EU. Without the sharp downturn induced by the global crisis in 2009, average economic growth would have amounted to 2.5%, equal to the pre-EU accession level. However, the positive impact of the growing significance of foreign trade for the Austrian economy is above all seen in the fact that Austria’s average economic growth since 1995 has been noticeably above the comparable figures for the European Union as a whole. In the twelve countries which were already members of the EU before 1995, the average growth rate has in the last fifteen years fallen to 1.7%, or 2.1% if one does not include the crisis year 2009.

Strong rebound after crisis-induced downturn
With stronger export orientation and the growing importance of foreign trade for the economy as a whole, the Austrian economy has become more vulnerable to global economic slumps. But it can also more easily benefit from an external recovery. Transmitted via foreign trade, the impact on the Austrian economy of the worldwide economic downturn triggered by the financial crisis was consequently swift and strong. In 2009, Austrian merchandise exports slumped by over 20% in nominal terms year-on-year, a decline of EUR 23.8 bn. In the period spanning peak demand for Austrian exports, recorded in spring 2008, and the lowest level of demand, when the global economic downturn was at its worst (in April 2009), Austrian monthly exports of goods contracted by almost 28%.

In the wake of the global recovery, demand for Austrian products has improved considerably since the turnaround in spring 2009. Monthly export volumes have meanwhile risen by about 26%, and have now reached about 92% of the pre-crisis level. Austria’s export industry is, very successfully, taking advantage of the economic upswing, and its performance is much better than that of most other EU countries.

The secret of success
One of the Austrian export industry’s formulas for success is to reduce dependence on specific markets and to turn to new, more dynamic markets in a timely manner. Notwithstanding the introduction of the single market, it shifted some of its focus from the European Union to countries in Central and Eastern Europe, while also concentrating more on emerging markets in Asia and America. This has resulted in many more opportunities for Austria’s export industry over the past years. Austrian export companies are moreover very well positioned and extremely competitive at an international level due to significant productivity gains. Some two-thirds of Austrian exports benefit from particularly strong competitiveness: Austria’s most competitive categories of goods include products from the wood and paper industry, mechanical engineering, the automotive industry and automotive supply companies, food production and the pharmaceutical industry. In general terms, these sectors constitute the core of Austrian industry. They provide an important impetus for growth and account for almost one-half of all jobs in Austrian manufacturing. The strong competitiveness of the export industry is the basis for the stable development of Austria’s current account. In 2010, the above product groups with disproportionately strong competitive capabilities generated a foreign trade surplus of EUR 20 bn. The strongest positive contributions to the foreign trade balance come from mechanical engi-
Engineering and motor manufacturers (which account for about EUR 7 bn), the steel industry (EUR 2.7 bn), and the paper and wood industry (EUR 3.3 bn).

High product quality is the overriding competitive factor. In a high wage country with comprehensive social standards, Austrian companies can only remain competitive with high-quality exports. An analysis of foreign trade balances and of the export value per product unit shows that almost 80% of Austrian merchandise exports meet high quality standards. Since the mid-1990s, foreign trade balances have improved with these goods, parallel to average product quality.

**Long-term benefits – exports as growth engine boost employment and incomes**

The prospects for Austria’s export industry to continue its dynamic performance over the longer term are very good. In addition to the strong competitiveness of Austrian companies in many product segments and the high flexibility displayed in selecting potential export markets, a fast growing global foreign trade cake resulting from pent-up demand in emerging countries offers enormous potential. Foreign trade has been of growing significance for the global economy since the 1960s. The global export ratio (the ratio of total merchandise exports worldwide to global GDP) has risen from not quite 10% in 1960 to almost 25% today; the increase has been particularly noticeable since the mid-1990s. Supported by the removal of trade barriers, the emergence of new growth regions and a more pronounced international division of labour as a result of globalisation, foreign trade worldwide has risen faster than the economy as a whole. Over the last 15 years, global exports have expanded at an annual rate of about 10% in nominal terms (in US dollars). If the long-term trend is assumed to increase at a similar rate over the next few years and Austria’s export industry is called upon to maintain its share of exports worldwide at a constant level of about 1%, the significance of the international movement of goods for the Austrian economy will gradually increase. In Austria, the ratio of merchandise exports would improve from under 40% of GDP to just below 50% in 2015, and to almost 60% in 2020.

If one also includes exports of services in these considerations, then the export ratio in the wider sense would amount to almost 50% in 2010, possibly rising to over 60% and over 75% by 2015 and 2020, respectively. This would mean that in about ten years, 3 out of 4 euros would be earned outside Austria. In addition, a growing number of jobs will be either dependent on foreign trade or created by export activity. In 2010 alone, more than 15,000 of the 20,000 new jobs created in the course of the year were probably linked to exports. According to the Austrian Economic Chamber, every second workplace is dependent on exports, either directly or indirectly, a ratio which will rise steadily in the next few years in light of the anticipated growth in exports. The role of foreign trade for Austria’s prosperity is therefore of growing importance, and conversely, Austria can only maintain its relatively high level of prosperity over the longer term if it remains successful in its foreign trade activities.