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1 GLOBAL ECONOMY AND WORLD TRADE

1.1 The global economy: Current developments and outlook for 2004

The year 2003 brought a global rise in economic activity, although developments differed widely between the three major blocs: While the USA experienced an acceleration in real GDP growth already in 2002 and Japan showed notable signs of recovery in 2003 – in sharp contrast to its poor growth performance over the past decade –, growth in the euro-zone remained low, suffering from weak domestic demand (see figure 1.1). The global economic upturn – global output at purchasing power parities grew by 2.4 % (2001), 3.0 % (2002), and 3.2 % (2003) respectively – was again led by the US-economy with its wide fiscal and current account deficits creating additional and strong demand effects for the major trading partners. Inside the EU, growth remained sluggish in the euro-zone, while Great Britain experienced strong growth accompanied by a “twin deficit” in the current account and the fiscal balances. Following the turmoil of the preceding two years, the largest Latin American economies showed stable developments in 2003 and even the crisis region in Sub-Sahara-Africa grew at a rate of 3.6 %. Asia was the most dynamic region in 2003; high exports and strong domestic demand from the fastest growing economies in the region (China, Thailand) were responsible for a growth rate of about 6 %. Central and Eastern Europe emerged as the region with the second most dynamic development. Growth in the accession countries rebounded to a level well above 3 % and Russia recorded its second highest growth rate (7 %) since the beginning of the transition.

Global Economic Prospects

	real GDP % change to previous year			
	2002	2003	2004	2005
			forecast	
EU-15	1.1	0.7	1.9	2.5
Great Britain	1.7	1.9	2.7	2.9
Euro-zone	0.9	0.5	1.8	2.5
Germany	0.2	0.0	1.4	2.3
France	1.3	0.1	1.7	2.4
Italy	0.4	0.5	1.6	2.1
CEEC-8 [1)]	2.5	3.6	3.9	4.2
USA	2.4	2.9	4.2	3.8
Japan	0.2	2.7	1.8	1.8
China	8.0	9.1	7.0	.
Russia	4.7	6.8	4.5	4.1

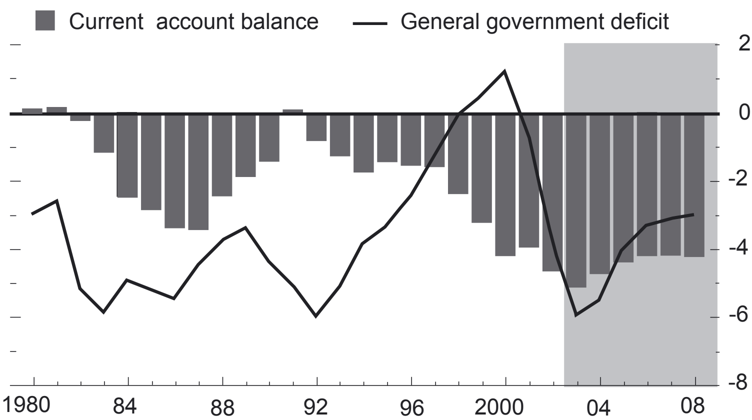
1) CEEC-8: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia.
Sources: OECD Economic Outlook, September 2003 and wiiw.

Growth inside the OECD is projected to rise further, from 2.0 % in 2003 to 3.0 % and 3.1 % in the years 2004 and 2005. Forecasts for individual countries differ widely: Growth in the USA is expected to reach 4.2 % and 3.8 % in 2004 and 2005, EU-GDP will expand by 1.9 % and 2.5 % respectively, and the Japanese economy is expected to grow at a rate of 1.8 % in both years. The differences arise from strong fiscal stimuli in the USA, positive effects from the devaluation of the US-dollar on the US-current account balance as well as high productivity growth in the USA compared to Europe. Especially the latter point seems to be overemphasised. Europe might still benefit from the diffusion of new technologies (especially information and communication technologies on the one hand) and from the ongoing integration and enlargement process on the other. The growing economic area created by the most recent enlargement together with deeper integration, also with neighbouring regions, should lead to a stronger growth performance in the medium to long run. Given the relatively soft interpretation of the growth and stability pact in the EU, no severe further fiscal restrictions are to be expected in the near future. In contrast, some correcting fiscal measures may follow the presidential elections in the USA. Conditions for sustained and accelerated growth in Japan are overly good, indebtedness in the banking and business sector has declined and the strong growth and integration dynamics in Asia are likely to provide additional benefits to the economy.

The risks for the global economy appear to be more balanced than they have been over the past two years. Oil prices have stabilised after the end of the Iraq war and global interest rates are historically low. Since mid-2003, business confidence has improved in the OECD area; profitability has risen and triggered off increased investment. Consequently, consumption is no longer the only pillar for growth. At the same time, stock markets have rebounded. Further, the major Asian economies (including the most populous economies of India and China) show robust and high growth rates. Growth in Asia was led by successful re-structuring and high productivity growth as well as strong domestic demand. Monetary policy also helped to realise a strong export performance by offsetting the decline of the US-dollar that occurred as a response to the aforementioned current account imbalance in the USA. Thus, the global economy, which was highly dependent on the willingness of US-consumers to keep up their high expenditure levels during the past two years, has been put on a broader and more balanced basis.

A major concern for the sustainability of the global upturn is posed by the coincidence of high fiscal and current account deficits in the USA – a phenomenon that occurred already once in the mid-1980s. This so-called “twin-deficit” (see figure 1.1) might trigger an undesirably large and rapid exchange rate slide as already observed against the Euro. The Japanese and the Chinese central banks successfully avoided a similar development against their currencies by pursuing an expansionary monetary policy. Another possible adjustment process would lead to a significant increase in long-term interest rates, which could spill over to other regions. High household indebtedness in a number of countries could cause consumption to be scaled back, with a negative influence on economic development.

“Twin-Deficits” of the USA



Souce: IMF, World Economic Outlook September 2003.

On a global basis, monetary policy should remain accommodating well into the upturn. In most countries, the scope for support from the fiscal side is exhausted. Any easing would compound the already challenging budgetary adjustments lying ahead in many countries, most strikingly in the largest OECD economies.

1.2 International environment of economic policy

1.2.1 European Union

The Greek presidency of the European Union during the first half of 2003 was dominated by two significant events: On April 16th, the accession treaty with ten new member states was signed in Athens, thus giving way to the biggest enlargement of the Union in history. On June 20th, the European Convention submitted a draft treaty establishing a constitution for Europe to the European Council meeting in Thessaloniki. The text was

well received as an important basis for the following Council meeting in Rome, any decision on it was postponed to the Italian presidency. Besides these major events, a number of smaller important integration steps were successfully completed under the Greek presidency. Italy presided the European Union during the second half of 2003. In November, agreement was reached on a European growth initiative with investment in infrastructure of trans-European networks and in innovation, research and development. This is an important step to implement the Lisbon Agenda. At the same time, labour market insufficiencies were identified as posing a serious threat to reaching the Lisbon goals by 2010. A task force focusing on employment issues isolated four key areas for reform. The December summit in Rome did not bring the envisaged agreement on the text for a European constitution. Agreement was reached in December on a new security strategy improving the European Security and Defence Policy (ESDP). Ireland took over the presidency for the first half of 2004. The Irish presidency is now charged with advancing the European constitution in addition to its already ambitious agenda. The primary task will be to successfully implement the enlargement on May 1st and to fully integrate the new members. Another focal point is the Agenda 2007 which will determine the financing framework from 2007 – 2013.
The accession of ten new member states is certainly the most outstanding event in 2004. Despite the positive evaluation concerning the preparedness of the new members in the monitoring reports of November 2003, the commission still identified a few areas where the Copenhagen criteria were not yet fully met in each of the ten countries and asked for immediate counteracting measures. At the same time, progress reports for the candidate countries Bulgaria, Romania, and Turkey were released. Croatia posted an application for membership in February 2003; an avis by the commission is expected by spring 2004.
In November 2003 the Ecofin council decided to suspend the deficit procedure against Germany and France, who both violated the 3 % budget deficit target of the European Growth and Stability Pact for the second consecutive year. This can be seen as a historic decision and reactions have been very controversial.

1.2.2 Regional Agreements

The will to form the Free Trade Area of the Americas (FTAA or ALCA) by 2005 was renewed in 2003, but the negotiating parties at the same time accepted the existing difficulties in keeping with this date. By pushing deeper subregional integration inside Mercosur, Brazil is also trying to strengthen the South American bargaining position against the USA in the pan-American context. Likewise the USA itself was furthering subregional integration by concluding various free trade agreements with individual partners in Central America.

Regional integration in Asia is not only deepening, there is also a rapid extension in the number of countries involved in regional treaties. The “ASEAN Community” which emerged from the ASEAN summit in Bali is a visible manifestation of intensified cooperation among ASEAN members. Further, a number of envisaged free trade agreements between ASEAN and other Asian countries (i.e. ASEAN-China, ASEAN-India, ASEAN-Japan) and between individual Asian countries themselves (many of them including Singapore or Thailand) reflect the ongoing process of trade integration in Asia. The six original signatory members of AFTA (ASEAN Free Trade area) reduced their bilateral tariffs on more than 44,000 tariff lines to 0 – 5 % by the beginning of 2003 with the aim to abolish all tariffs by 2010. The free trade zone will be extended stepwise to include Vietnam, Laos, Burma, and Cambodia, reaching zero tariffs for these countries by 2015. First steps towards establishing an East Asian free trade zone (ASEAN+3 including China, Japan, and South Korea) and an ASEAN Economic Community (AEC) with free exchange of goods, services, persons, capital and investment by 2020 have also been taken. The annual top level meeting of APEC in Bangkok was again devoted primarily to security issues. With respect to economic issues the members expressed their interest in the continuation of multilateral trade negotiations at the WTO while demanding concessions from the USA and the EU with respect to cutting down agricultural subsidies.

1.2.3 World Trade Organisation (WTO)

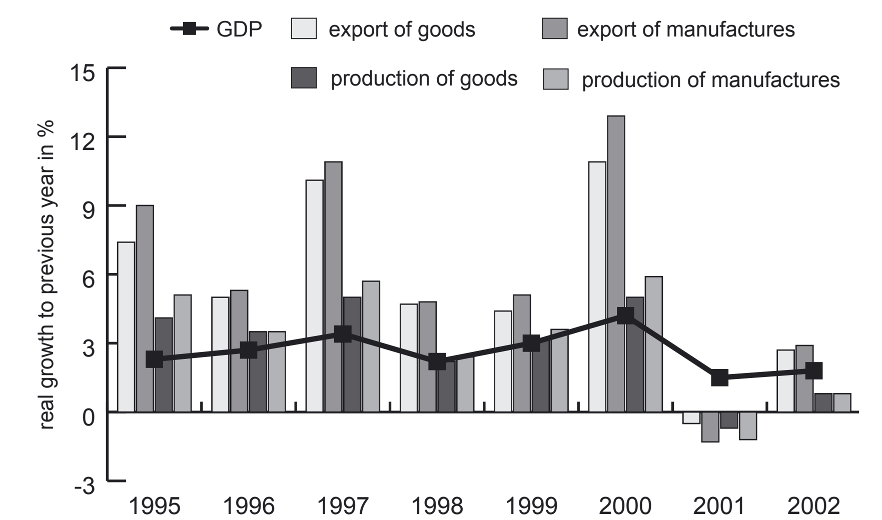
Following the accession of Armenia and Macedonia the WTO counted 146 members by the end of 2003. The negotiations with Cambodia and Nepal were completed successfully; negotiations with more than 20 other countries (i.e. Russia, Saudi-Arabia, and Bhutan) were still underway.

The 5th Ministerial Conference of the WTO in September 2003 in Cancún (Mexico) ended without results, thus delaying the planned conclusion of the Doha-Round by the beginning of 2005. The General Council who was supposed to reach the agreements necessary to continue the suspended negotiations by December 2003, failed to do so as well, however, but consensus about how to proceed was reached. Negotiations will be resumed after the appointment of the new chairpersons for WTO-bodies which took place in February 2004. The talks were stalled following a move by a newly formed group of emerging and less developed countries (G-20+) under the leadership of Brazil. Proposed new trade rules for investment and government procurement, which had been promoted by the EU but opposed by the less developed countries, were the immediate cause of breakdown. However, agriculture was in fact the crucial topic. The demand for the abolition of distorting US and EU agricultural subsidies by the group of poorer countries brought the talks to an end ahead of schedule. Nevertheless, the setback in Cancún is expected to have severe adverse consequences especially on those countries themselves since it implies an interruption of the Doha Development Agenda.

1.3 Current tendencies in global trade and investment flows

World trade flows started to recover in 2002 and accelerated in 2003. Trade was spurred by strong domestic demand in the USA (causing a record deficit in the US current account) and in the fastest growing Asian economies (China, Thailand). In 2001, for the first time in two decades, trade expanded not only at a slower rate than world output (1.3 % growth), global trade volume even declined by 0.4 %. In 2002, world trade volume rose again by 2.9 % and thus surpassed the global real GDP growth of 1.9 %. The positive trend accelerated in 2003, resulting in a real growth rate of 4.6 % for world merchandise trade, and 2.5 % growth for world GDP (see figure 1.2).

Exports, production und global GDP, real growth, 1995–2002



Exports of goods = agricultural + mining + manufacturing goods; this applies also to production.
Global production differs from GDP, because the latter includes also services and construction.
Source: WTO.

The comparably weak growth rates in world trade during 2001 and 2002 have to be seen in the light of an unprecedented performance during the 1990s, not only of global trade flows but also of global FDI flows. The rapid expansion of world trade in the past decade can therefore partly be ascribed to a complementarity between FDI and exports (i.e. establishment of production plants abroad, outsourcing, fragmentation). The rapid increase in FDI was spurred by privatisation programmes in many countries (especially in Eastern Europe, but also in Latin America and Africa) and by the opening up of the Chinese economy to foreign investors (in connection with China's accession to the WTO). Since the major privatisation programmes are now concluded, FDI is expected to grow at more moderate rates in the medium to long term.

The early upswing in trade flows in 2002 took place in a difficult global environment: Economic activity was depressed and global foreign investment flows were declining. Strong exchange rate movements – the decline of the US-dollar against the euro – and the worldwide fear of terror attacks posed additional restrictions to international transactions, the latter via increased controls and security measures.

WTO expects a notable expansion in world trade volume by 7.5 % for 2004, based on a projection for world GDP to grow by 3.7%. The forecast is based on a continuation of current developments in world market prices, i.e. falling oil prices and rising prices for manufacturing goods. Downside risks are posed by the high US-current account deficit and resulting price developments that might lower import demand and increase private saving rates. Also import demand from Western Europe might turn out to be lower than expected, given the most recent exchange rate developments together with uncertainties caused by the reform of the pension and social security systems in most European countries.

In a geographical respect, growth in world trade in 2003 was led by a high import demand in the US-economy. Imports grew by 6.5 %, compared to 1.8% growths in US-exports (see table 1.2). This moderate export growth was preceded by two years of declining exports from the USA. Probably the strongest stimulus for world trade arose from the recent growth and integration dynamics in Asia. Increased economic integration implied an ongoing reduction of trade barriers and thus spurred exports. In addition, domestic demand in the region turned out to be strong, especially in China, where imports rose by 40 % (2003) in US-dollar terms. Growth of Chinese exports amounted to a record level of 35 %. With a share of 6 % in total world exports, China has become the world's fourth largest trader and added considerably to the global dynamic in trade flows. Eastern Europe and especially the new EU member countries was the fastest growing region worldwide in terms of trade flows. The volume of exports and imports grew by more than 10 % in 2003. Not only trade developed dynamically, FDI inflows into the region also increased in contrast to the declining global trend. Despite weak economic activity and sluggish domestic demand in Western Europe, exports from this region experienced a strong rise, however primarily due to exchange rate movements and thus TOT effects. With less than one percent, real export growth in Western Europe remained considerably below nominal growth of more than 16 %.

World Trade

	value change to previous year in %		
	2001	2002	2003[1)]
Exports			
World	-3.6	4.6	9.8
USA	-5.3	-5.2	1.8
EU	0.5	5.8	9.8
Euro-zone	2.0	6.1	10.4
Japan	-15.6	3.3	5.9
China	7.0	22.1	39.1
OECD	-2.9	2.9	7.5
developing countries	-4.9	7.8	13.7
Imports			
World	-3.2	4.0	12.9
USA	-4.7	1.9	6.5
EU	-1.7	3.3	17.1
Euro area	-1.0	3.0	18.1
Japan	-8.0	-3.4	11.1
China	8.2	21.3	17.6
OECD	-3.5	2.3	13.0
developing countries	-2.7	7.4	12.7

1) Estimate, based on the first three quarters 2003.
Source: IMF Direction of Trade Statistics, wiiw-calculations.

In a sectoral decomposition, the information and telecommunication sector remained the most important category (13 % of world merchandise trade in 2002) despite continued weak growth in the past two years. The share of chemical products in world trade was continuously rising, to a level of 10 % in 2002. Also trade with automobiles and parts experienced high growth, accounting for 10 % of world trade in 2002.
Trade in services has proven more stable during the recent recession. Following the stagnation in 2001, the value of service trade grew by 6 % in 2002 (goods trade: 4 %) and 12 % in 2003 (goods: 16 %). Trade in services is more strongly concentrated among industrialised countries than trade in goods. Roughly 20 % of world exports

arise from the USA (compared to a share of 10 % in goods trade). While the US deficit in goods trade is considerably large, the service balance records a sizeable surplus. Business related services are the most dynamic service category globally, even in 2001 exports in this category still expanded in nominal terms. Travel and transport services declined in relative terms and in 2001 also in absolute terms. In 2002, business related services grew by 9 %, while growth in the two other categories developed at a rate of 4 %.

Foreign direct investment remained at a low level, especially when compared to the record years 1999 and 2000. In 2002, global FDI flows declined for the second consecutive year. Preliminary figures for 2003 point towards a stagnation of FDI flows at a level of USD 656 billion. The economic recovery in 2004 is expected to bring about an increase in investor confidence and thus a rebound in FDI flows. The decline in global flows in 2002 was felt stronger in developed countries than in developing countries. Especially the USA and Great Britain experienced a considerable reduction in inward FDI in 2002. Developing countries, especially China and South East Asia, experienced a smaller decline in FDI inflows. In sharp contrast to this global trend, the Central and Eastern European transition countries could still attract additional FDI inflows in 2002. Due to the completion of most privatisation programmes inward flows declined somewhat in 2003.

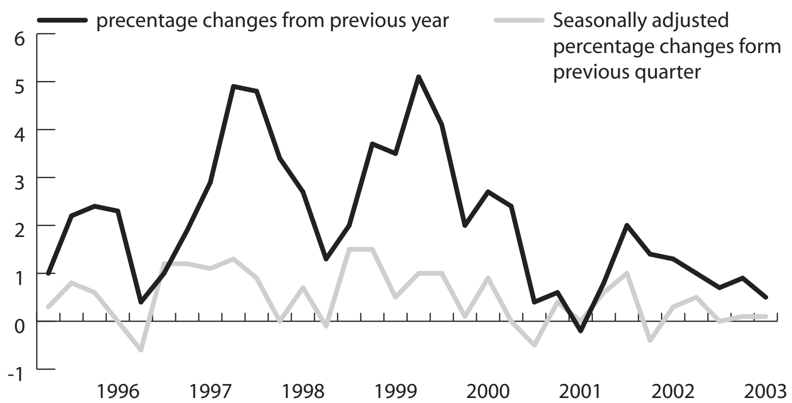
2 AUSTRIA'S EXTERNAL ECONOMIC RELATIONS

2.1 Economic development in Austria

2.1.1 Upswing suspended in 2002: Just 1.4 % growth

In the spring of 2002, the economy once again set out on a course of expansion. However, in response to the stock exchange crisis and uncertain economic prospects at an international level, the business climate turned negative by the middle of the year, and growth went flat. The flood of the summer of 2002 made further encroachment on the growth of the domestic economy. At an increase in real GDP by 1.4 %, the recovery after the collapse of 2001 (+0.8 %) was just about moderate.

Development ot real GDP
Percentage changes from previous year (quarter)



Source: WIFO.

This growth weakness found its expression in a decline of gross fixed capital formation (–2.8 %), and specifically in the reduced expenditure on plant and equipment. Construction investment fared slightly better (–0.7 %). Private consumption rose by 0.8 %; public consumption stagnated. Consumers, faced with a deteriorating labour market and doubts about their future financial situation (also in the wake of the debate on retirement pensions), were similarly reluctant to invest in consumer goods.
Contributing 1.4 percentage points to growth, net exports provided the chief prop for the economy in 2002. Only part of it was due to an actual growth in exports, the remaining impact came from stagnating imports. Goods exports according to the

foreign trade statistics grew by 5.2 % in real terms, but at a rise of 0.1 % exports of services remained essentially at the previous year's level. Goods imports stagnated (+0.8 %). Demand for foreign investment and consumer goods was weak. Imports of services grew by 3.1 %.

Contribution to real GDP-growth

	2001	2002	2003	2004 *
	Percentage points			
Consumption[1)]	0.5	0.5	0.8	1.0
Gross fixed investment	-0.2	-0.6	0.6	0.3
Construction	-0.3	-0.1	0.3	0.3
Inventories[2)]	-0.1	0.2	0.1	-0.4
Final expenditure	-0.2	0.0	1.8	1.2
Net exports	0.9	1.4	-1.0	0.3
Exports	3.8	2.0	0.5	2.5
Imports	-2.9	-0.6	-1.6	-2.1
GDP	0.8	1.4	0.7	1.5

1)Private and central government. 2)Including statistical discrepancy.
* WIFO-forecast from April 2004.

At 1.8 %, inflation (consumer price index) rose more slowly (by almost one percentage point) than in the previous year, thanks mainly to the energy prices cooling off in the first six months. The euro cash introduction did not excessively impact on key items of expenditure, such as rental and utilities. Nevertheless, the transition to the new currency did make itself felt in personal services and essentials, where higher prices were inevitably linked to the euro in consumers' minds. With the EU's harmonised consumer price index rising by 1.7 % in 2002, Austria ranked third in a scale of low inflation rates among euro countries.

Due to the weak economy, the labour market situation deteriorated in 2002. On a yearly average, the number of jobs was lower by 14,000 (–0.5 %) than in the previous year. With the supply enlarged (because of a growth in the number of non-Austrian workers and a rise in the early retirement age), unemployment was up by almost 29,000. The unemployment rate, as calculated by the Austrian method, rose from 6.1 % in 2001 to 6.9 % in 2002; based on the Eurostat definition, it rose from 3.6 % to 4.3 %. With this, Austria still enjoyed one of the lowest unemployment rates in the EU. The public financial balance (as per Maastricht-definition) was more or less poised (–0.2 %) in 2002, following a surplus of 0.2 % of GDP in 2001.

2.1.2 Weak economic performance continues for the third year

In Western Europe the economy continued on its downturn throughout 2003. Germany even suffered a decline of its real GDP. Weak domestic demand was compounded by the high euro exchange rate which impacted on exports. EU accession countries found their growth rates accelerating to 3.6 %, above the EU-15 rate. In Austria, the slow growth phase continued for the third year in a row, but in a repeated performance over 2002, an increase in its real GDP by 0.7 % produced a better result than the euro-zone and Germany.
Whereas in 2002 foreign trade acted as the engine of growth, domestic demand stabilised the economy in 2003, driven chiefly by expenditure on plant and equipment (a plus of 6.1 % in real terms). The rise was due, at least in part, to advanced investments triggered by the investment growth premium, a scheme that was terminated by the end of 2003. Nevertheless, the benefit for domestic manufacturing was limited because a large part of the investments derived from imports. Construction investment was also a major pillar. Private consumption rose at a slightly greater pace than in the previous year (+1.3 % in real terms), some of it due to the purchase of passenger cars. Public consumption was once again characterised by efforts to cut down on expenditures (+0.7 %).

2.1.3 Net exports slow economic growth

Net exports pruned the economic growth rate by one percentage point in 2003. Exports had been expanding at quite a brisk rate in 2002, in spite of the weak economy internationally, but the growth was decidedly checked in 2003 (+1.0 %). In real terms, exports of goods were slightly better than in the previous year (+2.0 %), but this did not apply to the export of services. At a real rate of 3 %, total imports grew at a quicker speed than in 2002. Imports of goods grew, due to a brisk demand for plant and equipment (+4.7 % in real terms), but the import of services declined by 0.8 %.
Intense competition, a strong euro and declining prices for imports kept inflation at a low level: at a plus of 1.3 %, the consumer price index recorded its lowest rise since 1999. Topped only by Germany, Austria was among the euro-zone countries with the greatest price stability. The weak economy did not permit any improvement of the labour market. Unemployment rose slightly, to 7.0 % (or 4.4 % as per Eurostat). The public financial balance deteriorated by one percentage point, showing a deficit of 1.1 % of GDP.

2.1.4 Only moderate recovery expected in Europe and Austria for 2004

Global recovery has taken on new speed in 2004, although growth is slow to gain ground in the euro-zone, due in part to the high appreciation of the euro and continued weakness of internal demand. Enterprises and private households lack in confidence and delay investments or tend to increase precautionary savings. Since the start of 2004, prospects for the euro-zone and Austria have turned bleak again. Businesses perceive no improvement in their order book situation and are even more reticent in assessing the outlook on production.

WIFO-forecast for Austria: Main results

	2002	2003	2004*
	Percentage changes from previous year		
GDP, volume	+ 1.4	+ 0.7	+ 1.5
Manufacturing[1], volume	+ 0.5	– 0.2	+ 2.2
Private consumption expenditure, volume	+ 0.8	+ 1.3	+ 1.7
Gross fixed investment, volume	– 2.8	+ 4.3	+ 2.7
Machinery and equipment[2]	– 5.2	+ 6.1	+ 3.0
Construction	– 0.7	+ 2.8	+ 2.5
Exports total, volume	+ 3.7	+ 1.0	+ 4.4
Imports total, volume	+ 1.2	+ 3.0	+ 4.0
Current balance, bill. EUR	+ 0.75	– 1.28	– 0.99
As percent of GDP	+ 0.3	– 0.6	– 0.4
Consumer prices	+ 1.8	+ 1.3	+ 1.6
Unemployment rate			
Percent of total labour force[3]	4.3	4.4	4.5
Percent of dependent labour force[4]	6.9	7.0	7.2
Dependent employment[5]	– 0.5	+ 0.2	+ 0.5
General government financial balance according to Maastricht definition			
as a percentage of GDP	– 0.2	– 1.1	– 1.0
Exchange rate USD per Euro	0.945	1.131	1.220
Crude oil prices[6], USD per barrel	24.1	28.2	31.0

1) Value added, including mining and quarrying. - 2) Including other products. 3) According to Eurostat. 4) According to Labour Market Service. 5) Excluding parental leave and military service. 6) Average import price (cif) for OECD-countries. * WIFO-forecast from April 2004

Source: Statistics Austria.

Developments in Austria will depend on whether the gloom at the start of the year was a bleep only or whether the fainthearted upturn in the second half of 2003 has already run its course. Assuming that the revival at both international and Austrian levels will slow down but not come to a full stop, economic growth in real terms is predicted to achieve a rate of 1.5 % in 2004.

As in the previous year, domestic demand will act as the stabilising factor again in 2004. Expenditure on plant and equipment will still grow, albeit at a decelerating rate, by 3.0 %. The WIFO investment survey did not found indications of a strong recovery of investment activities. The construction industry will achieve satisfactory growth, at +2.5 %, thanks to brisk investment in infrastructure construction. Private consumption will be slightly enlivened, and durables in particular will be in greater demand (+3 %).

At a plus of 0.3 percentage points, foreign trade will contribute relatively little to growth. Overall exports will rise faster than in the two previous years, with a plus of 4.4 % in real terms. Tourism will revive moderately only (+2.0 %). The growth in total imports (+4.0 %) will remain below the growth in exports.

Higher energy prices slightly accelerated inflation at the start of 2004, although the 2 % threshold (considered the limit of price stability) has not been reached. At an annual average of +1.6 %, inflation at the consumer level should remain above the level of 2003. Calculated by means of the harmonised consumer price index, inflation should be 1.4 % – Austria will remain squarely among the price-stable countries in the euro-zone.

The labour market shows no turn for the better for 2004. In total, the number of dependently employed should rise by 0.5 % in 2004. Jobs are expected to be created in the public and semi-public sphere. Business services should follow suite, reflecting the trend of outsourcing from industrial and public sector employment. The construction industry will see its job losses slow down, due to a vigorous growth of production. For the manufacturing sector, the recovery is not sufficiently strong to stop it from bleeding jobs. A slight gain in jobs offered is countered by a rapid increase in the number of foreign workers.

At a deficit of 1.0 % of GDP, the public financial balance (Maastricht definition) will remain slightly below the figure for 2003. Spending on welfare benefits will continue to rise briskly, due to high unemployment and the growing expenditure on child-care benefit and part-time benefit for older workers.

2.1.5 Competitiveness in foreign trade

Whether or not an economy is internationally competitive is determined chiefly by the relative price and cost developments of its domestic production vis-à-vis its foreign competitors. An important indicator is the real effective exchange rate index. Where

competitiveness is strengthened (i.e. the actual exchange rate declines), this is generally followed by export gains. When looking at the actual exchange rate development (based on relative prices), Austrian businesses substantially improved their competitive position in the second half of the 1990s. In 2001 and 2002, a slight evaluation was registered, followed by a more substantial one in 2003 (+2.8 %) which weakened competitiveness. In 2003, Austria had to sustain real-term losses in market share, caused not least by the continuing weakness of the dollar against the euro.
Indications of the cost- or price-determined competitiveness of an economy are also provided by a comparison of industrial labour costs. Typically, unit labour costs are compared, calculated from the ratio of the cost per working hour to hourly productivity. In the second half of the 1990s, relative unit labour costs in manufacturing improved by 3 % per year against Austria's trading partners. This was achieved by a boost of productivity, stabilised exchange rates and the deceleration of wage inflation. The advantageous competitive terms continued in 2001 and 2002, only to deteriorate noticeably in 2003: although unit labour costs in industry rose by just 0.3 %, they increased by 2.1 % compared to the average of Austria's trading partners. In 2004, terms are expected to improve.

2.1.6 Strong rise of the export quota

Over the past decade, foreign trade has greatly increased in importance for the Austrian economy. In 2003, exports of goods and services at current prices (EUR 116.2 billion) corresponded to a share of 51.8 % of GDP, compared to just 36.0 % in 1993. Accession to the European Union and the Eastern Opening, coupled with an export drive, were key factors that helped Austria integrate into the global economy. The increasing importance of exports is also reflected in the globalisation of the Austrian economy, through foreign direct investment and a stronger division of labour through international outsourcing. In parallel to exports, imports of goods and services grew with a similarly extraordinary dynamism. Their share of GDP (import quota) rose from 35.5 % in 1993 to 50.3 % in 2003.
The nominal net export of goods and services (balance of exports and imports in the broad sense of the term) was negative throughout the second half of the 1990s. In 1997, the deficit ran to EUR 2.8 billion (1.5 % of GDP). Since then, there has been a clear trend towards improvement. By 2001, the net export of goods and services was positive for the first time, in 2002 and 2003, surpluses were achieved of 2.2 % and 1.5 % of GDP respectively. This figure is a key indicator of competitiveness and, as a component of total demand, a significant factor to determine the gross domestic product. Broken down by components, the real net export of goods and services can be

shown to have been the key factor to boost economic growth in 2001 and particularly in 2002, even though it hampered growth in 2003.

2.2 Austrian trade in goods

2.2.1 Marked slowdown of export growth in 2002 and 2003

In the second half of the 1990s, up to 2000 and even 2001, Austrian exports expanded at a brisk pace, occasionally at two-digit growth rates, thanks to the Eastern Opening and a mostly favourable international situation. By 2002, that growth had slowed down to 4.2 % (5.2 % in real terms), only to fall to 1.4 % (2.0 %) in 2003. A sluggish economy experienced by the chief trading partners in Western Europe and balance of payment problems in CEECs impacted on exports in both years. In 2003, the situation was further aggravated by the strong rise in the euro exchange rate which affected competition on price. In 2002, Austria gained export market shares, but in 2003 it suffered a perceptible deterioration in its position.

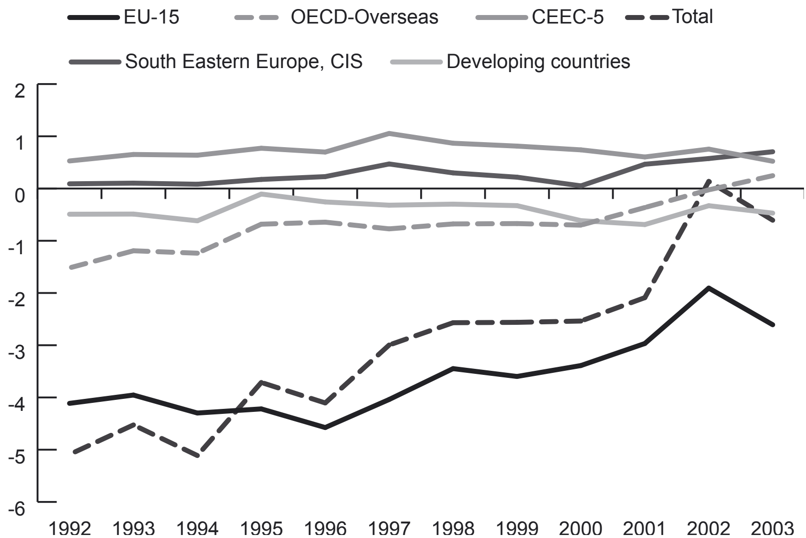
Austrian trade in goods

	2002	2003	2004*
Exports	bill. EUR		
Values	77.4	78.5	81.8
	Percentage changes from previous year		
Values	+ 4.2	+ 1.4	+ 4.3
Real	+ 5.2	+ 2.0	+ 4.5
Prices	- 0.9	- 0.6	- 0.2
Imports	bill. EUR		
Values	77.1	79.8	82.6
	Percentage changes from previous year		
Values	- 2.0	+ 3.5	+ 3.5
Real	+ 0.8	+ 4.8	+ 4.0
Prices	- 2.8	- 1.2	- 0.5
Balance	bill. EUR		
Values	0.3	-1.4	-0.8
Change	4.7	-1.7	0.6
	Percentage changes from previous year		
Terms of Trade	+ 2.0	+ 0.6	+ 0.3

* WIFO-forecast from April 2004.
Source: Statistics Austria, prices according to WIFO.

In 2002, the domestic economy remained flat (a plus of 1.4 % of real GDP), and it continued on its downward course in 2003 (+0.7 %). But while imports fell by 2.0 % in 2002 (+0.8 % in real terms), they increased at an unexpectedly brisk rate in 2003 (3.5 %, or 4.8 % in real terms). This counter development was chiefly due to the demand for capital goods: declining in 2003, it picked up again substantially in 2003. Investment projects were carried forward ahead of the expiration of the investment tax premium. In addition, sale of passenger cars was up (an echo effect produced four years after the introduction of the duty on vehicles based on fuel consumption). The decrease in import prices was greater in 2002 (–2.8 %) than in 2003 (–1.2 %).
In 2002, the balance of trade was active, for the first time since World War II (a plus of EUR 0.3 billion), which was inter alia due to excellent export figures, lower imports and a favourable development of the terms of trade. In 2003, the balance was back in the red, although at a minus of EUR 1.4 billion the deficit was lower than in previous years. In the long run, the Austrian balance of trade shows a clear trend towards improvement.

Austrian trade balance in % of GDP



Source: Statistics Austria.

2.2.2 Forecast for 2004: Exports rise by 4.5 %, imports by 3.5 %

Since 2002, world trade has been gaining in dynamism, and it is expected to grow by 7.5 % in real terms in 2004. Yet with Western Europe continuing its weak economic performance, Austrian export markets (increase of imports of trading partners weighted by Austrian export share) will grow less rapidly (lower by 2.5 percentage points). The expensive euro will cause the effective exchange rate index for industrial goods to rise by 1.3 %. Following a perceptible deterioration in 2003, relative unit labour costs against the trading partners (calculated at the same currency) will improve slightly, but domestic enterprises will lose market shares in exports. Throughout 2004, Austrian exports should rise by 4.3 % (4.5 % in real terms).

At 3.5 % (+4.0 % in real terms), goods imports in 2004 will grow at approximately the same rate as in 2003. The balance of trade will again show a deficit in 2004, but, at EUR 0.8 billion it should be lower than in 2003. Foreign trade prices are expected to decline (as they did in 2002 and 2003). At 0.2 % in exports and 0.5 % in imports, cheaper prices should be less important than in the previous years. The terms of trade are improving slightly.

2.2.3 EU enlargement in May 2004

On 1 May 2004, the European Union will accept ten new members in its midst. The accession countries (EU-10) count among them five countries from Central and Eastern Europe (CEE-5: Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia), three Baltic countries (Estonia, Latvia, Lithuania), plus Malta and Cyprus. Austria has built up strong economic ties to its neighbouring accession states ever since the Eastern Opening in1989. The other new members have so far played a minor role only for Austrian foreign trade, with their share of overall trade not exceeding the 0.1 % threshold. Starting out from this very low level of bilateral trade, exports to the Baltic countries nevertheless have grown very dynamically. A current WIFO study shows, that a considerable number of enterprises perceive the Baltics to be an interesting market to prospect.

In 2003, the ten accession countries took up a share of 12.7 % of exports, compared to 59.5 % for the EU-15. As of May 2004, almost three quarters of the Austrian foreign trade will thus consist of an exchange of goods within the EU, sharing essential features of internal trade.

2.2.4 Strong expansion of exports to CEECs

The change in the political and economic framework after 1989 has had a sustained impact on foreign trade with the former planned economies. Austria shifted from its marginal position at the frontier between Western and Eastern states to the middle of a continent about to grow together, which significantly improves its attractiveness as an economic location. Studies of the effect of the Eastern Opening and EU enlargement typically find positive growth stimuli for the Austrian economy. While the majority of Austrian enterprises were quick to adjust to the new situation and to exploit newly opening opportunities, the positive overall evaluation nevertheless hides the (occasionally grave) problems experienced by some sectors.

Even before 1989, Austria had obtained a specific competitive edge and know-how in economic relations between Eastern and Western Europe and built up a bridgehead towards the Eastern markets. For the years immediately following the turnaround in Eastern Europe, Austria could draw on these advantages. Austrian companies were quicker than their competitors in developing the new market and utilising new investment opportunities. Austria also became a preferred location for the Eastern European headquarters of multinationals.

Between 1993 and 2003, Austrian exports to the CEECs-27 rose 3.3-fold, and fully 2.9-fold against the successful transformation countries in Central and Eastern Europe (Hungary, Czech Republic, Slovak Republic, and Poland). Exports into South Eastern Europe developed similarly well, once the crises in the Balkans were resolved. Exports to Russia/CIS did lose out in the 1990s, but have since recovered perceptively. Thanks to this dynamic growth, the share of Eastern European exports in total exports rose from 12.5 % in 1993 to almost 19 % in 2003. Of Austria's 20 most important trading partners, eight are in Eastern and Central Europe. Products from this region have constantly expanded their position in the Austrian market, thanks to low prices, quality improvements and intra-company cooperation, the Eastern European share of imports (14.7 %) has almost doubled since 1993.

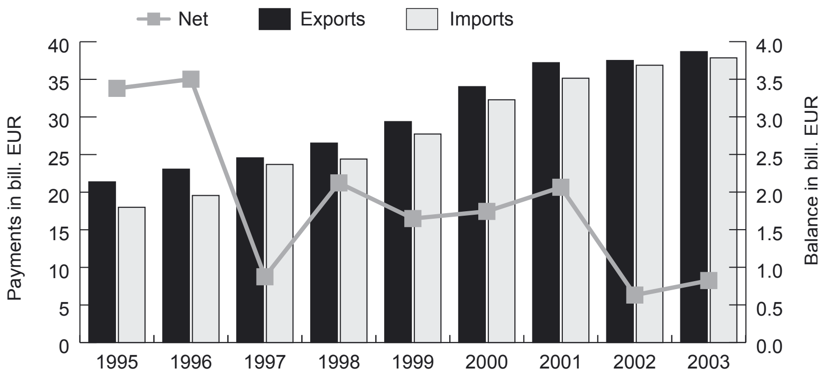
For Austria's foreign trade, Eastern Europe is two or three times more important than is the case in other Western countries. In 2002, Austria held a share of 6.7 % of exports by industrialised countries (OECD) to the former planned economies. For its Eastern European neighbours, Austria is a key trading partner. This market position is notable considering that Austria is a small country (8 million inhabitants) and contributes just 1.9 % of the OECD's global exports.

A large part of trading with CEE countries takes place at intra-company level. Austrian parent companies frequently either supply finished products that are sold by their subsidiaries in Eastern Europe, or components and parts that are processed there; deliveries to Austria typically are labour-intensive intermediate or finished products. Exports of goods made by Austrian parents to their subsidiaries in Eastern Europe (intra-firm exports) were valued at almost EUR 1 billion in 2001, which corresponded to 7.5 % of total Eastern European exports; intra-firm co-operation was particularly close with the Czech Republic (almost 15 %), Hungary and the Slovak Republic (10 % each).

2.3 Austrian trade in services

Service exports had amounted to roughly 29 % of the Austrian current account inflows in 2003. During the last decade, their importance declined from the 35 % held in 1993. On the import side, the share of services increased from 25 % (1993) to nearly 28 % in 2003. This led to a considerable reduction in the surplus, from EUR 6.4 billion (or 28 % of exports) in 1993 down to EUR 824 million in 2003 (2 % of exports). Structural developments on the one side and regional shifts in trade flows on the other have contributed to this. For instance, trade in deficit positions has increased more strongly than in other positions. Above all, the position of "not allocated services" has strongly increased, resulting in a widening deficit. From a geographical perspective, the surplus vis-à-vis the old EU member states (Austria's main trading partners) has shrunk while the deficit with respect to countries outside the enlarged union has increased.
Following high growth in the boom years 1999 and 2000, also service exports expanded at considerable lower rates in the years 2001 (9.3 %) and 2002 (0.8%). The extremely low growth rate in 2002 was caused by a slump in exports to NAFTA, Asia, and most of

Austrian trade in services



Source: Austrian National Bank.

all to the new member states in Eastern Europe. Contrary to merchandise trade flows, Austrian service trade experienced the turning point already in 2002. According to the preliminary figures, which report a growth rate of 3.1 % for 2003, Austrian service exporters were able to gain immediately from the global upswing despite the suppressed domestic economy. On the import side, weakening domestic demand led to a continuous reduction of import growth from 8.8 % (2001) to 4.9 % (2002) and 2.7 % (2003). Again, trade in services proved to be more stable in the recent recession although weakening, demand for imports remained positive throughout the recession.
The sectoral composition of the Austrian service trade shows a long term trend towards a decreasing importance of travel services, which is in line with a more global trend, and an increasing importance of business related services. Exports in the latter category more than doubled since 1993 and amounted to EUR 8.5 billion in 2003. This accounted for 22 % of total service exports. Imports doubled and reached EUR 7.6 billion, the surplus in this category consequently rose substantially to EUR 894 billion in 2003. The observed structural change towards an increased importance of business related services can be seen as a sign of structural upgrading in the Austrian service trade. Austria‘s trade with insurance services is not only growing, in 2003 for the first time ever a surplus was recorded in this position. Beyond their growing importance at the national level, Austria exhibits also an increasing specialisation in these services compared to its main trading partners (see chapter 3.6 in this book). The increasing deficit in computing and information services and also patents and licenses is, however, less satisfying.
The long term structural change in the Austrian service balance is to a large part also caused by the growth of service exchange subsumed under “not allocated services”. This category comprises statistical discrepancies as well as services in connection with merchandise trade, and is thus a problem for any structural analysis. Part of the growing importance of this position is likely to arise from the increased importance of services that accompany the sales of machinery, etc. It is thus likely that the true importance of business services is still higher than already assumed.
Despite the rise of business related services, travel remains currently the most important position, generating more than 30 % of export revenues, of which more than 50 % arise from German visitors in Austria. Dutch tourists are the second largest group of foreign visitors (9.3 %), followed by tourists from Great Britain (7.9 %), Switzerland, and Italy (5.9 % of travel exports each) and the USA (2.9 %). While exports of travel services to partners in Western Europe by far surpass imports, trade with Eastern European partners in this category is not only by far less important, also the deficit is increasing.

Transport services are another rising category, in the years 2002 and 2003 export increases in this category were surprisingly high (10 % and 6 % respectively) and lead to a relative decline of “not allocated services” in the service balance. The resulting surplus reached EUR 2.3 billion and 2.5 billion in 2002 and 2003 respectively. While exports to Eastern Europe developed strongly during 2002, exports to Western Europe picked up only in 2003, and exports to Eastern Europe declined in this year.
Communication services developed dynamically up to 2002 - the level of exports (EUR 689 million) amounted to eight times its level in 1993 – and showed an absolute decline (by 19 %) in 2003. Due to declining imports in both years (by roughly 13 % in each year) the surplus in this position remained stable.

Sectoral composition of Austrian trade in services

	Exports			Imports		
	1995	2001	2003	1995	2001	2003
	mill. EUR					
Total	21,369	37,214	38,683	17,991	35,150	37,859
	in % of total					
Transport	12.8	14.9	16.8	44.2	28.5	27.0
Travel	46.3	30.8	31.7	23.8	20.4	20.2
Business services	21.2	23.1	22.1	13.3	10.8	10.7
Other	6.0	5.5	6.0	5.1	3.9	4.1
Not allocated	13.8	25.7	23.5	13.6	36.3	38.1

Source: Austrian National Bank.

From a geographical perspective, Austria’s trade in services not only remains highly concentrated, the importance of trading partners inside the EU is still increasing. More than 69 % of exports and 68 % of imports were transacted with old member countries, including the new members’ increases this share rose to 77 % of total exports and 75 % of total imports. Up to date, the share of CEECs in the Austrian service trade has remained relatively stable at around 8 %, yet this countries´ accession is likely to bring about increases in the longer run due to still abiding liberalisation steps. The recession years 2002 and 2003 brought about a decrease in trade with partners outside the EU, especially with NAFTA and Asian countries. Especially in 2003 their weak demand for service imports was further aggravated by exchange rate movements. Consequently, exports inside the euro-zone gained in importance. Travel services played a major role in keeping up exports especially to the Netherlands, France, and Belgium. However, also exports to Great Britain increased, not least due to tourism. Exports to the USA declined for the second consecutive year, also exports to ASEAN countries declined in absolute terms. In contrast to this general trend, exports to China increased by

16.4%. Despite increasing imports from China, Austria still records a surplus with this trading partner. South Eastern Europe has proven to be a dynamic region for Austria's service trade; exports grew by 14 % in 2003, thus doubling the share of this region in the Austrian service balance since 1995 (to 2 % of total exports). In the same time period, imports from the region reached four times their 1995 level; the increase in 2003 alone was 28 %. Part of these strong increases in imports results from the expenses of Austrian tourists in Croatia. Total Austrian service imports from this country reached EUR 570 billion in 2003.

Regional composition of Austrian trade in services

	Exports			Imports			Balance
	2003	2002	2003	2003	2002	2003	2003
	mill. EUR	% change to prev, year		mill. EUR	% change to prev, year		mill. EUR
World	38,683	0,8	3,1	37,859	4,9	2,7	824
EU-25	29,822	1.2	5.1	28,492	5.7	4.0	1,328
EU-15	26,549	2.2	5.1	25,768	5.9	4.2	780
Euro-zone	22,867	2.3	4.8	22,127	4.8	5.3	741
10 new members	3,273	-6.3	5.2	2,724	4.0	2.0	548
NAFTA	2,180	-13.5	-10.1	3,539	-2.0	-11.0	-1,360
Developing countries	2,116	-75.1	-3.0	1,574	-77,5	3,9	540

Source: Austrian National Bank.

2.4 Austrian Foreign Direct Investment

After the big merger and acquisition wave in 1999/2000 global foreign direct investment (FDI) flows decreased for the first time in decades, partly due to recessionary trends, partly due to a bursting of the investment bubble, and partly due to intensive streamlining within the newly merged companies. This decrease continued until 2003. However, forecasts for 2004 and 2005 show an international upswing of FDI flows.

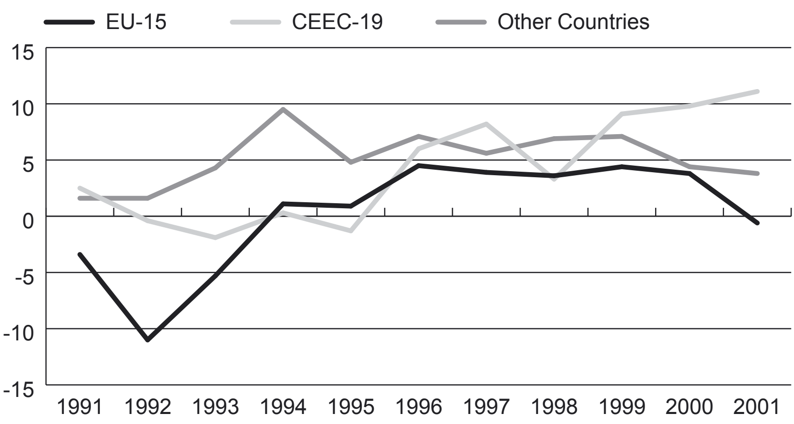
In contrast to the worldwide decline Austrian FDI inflows and outflows continued to increase in 2001. In 2002 inflows declined, but only due to some specific circumstances (i.e. a huge deinvestment by Telecom Italia). In 2003 inflows and outflows were strong again. Measured in relative terms (FDI stock as a percentage of GDP) Austria has caught up close to the world-wide average for both inflows and outflows.

Austrian FDI outflow has been strongly concentrated on Central and Eastern European Countries (CEEC-19) since the beginning of the opening-up of the transition countries. In particular the adjacent countries Hungary, Slovakia, Slovenia, and the Czech Republic are favourites for Austrian investors. Meanwhile in Slovenia, Slovakia and also Croatia Austrian market shares of FDI are stronger than those of Germany.

The regional distribution of Austrian outward FDI shows a remarkable feature: Whilst 34.6 % of equity capital and 50.9 % of the number of investments have been allocated to CEEC-19 (see Table below) the share of employment of theses countries is 70.5 %! This feature points out two interesting topics of Austrian investments in CEEC-19: Firstly, it confirms that these investments are labour-intensive (as expected from theoretical considerations). Secondly, most of these investments were made in the form of acquisitions in the course of the privatisation process. The low amount of equity capital invested per affiliate as well as per employee might also indicate that these acquisitions have been achieved at rather low price levels. However, it is difficult to weight these two different explanations separately.

Interestingly, the profitability (net profits as a percentage of equity capital) of Austrian FDI outflows has increased throughout the period 1991 – 2001. However, profitability of inward FDI is still higher. In 2001 return on equity of inward FDI has been 10.9 % whilst that of outward FDI has been 4.9 % only. This high profitability should help to attract more inward FDI in the future.

Profitability[1] of Austrian Outward Direct Investment



1) Return on Equity.
Source: Austrian National Bank.

Regional differences of profitability are high (see Graph above). After the recession in 1992/1993 the profitability of outward FDI improved. This increase has been more pronounced for investments in CEEC-19 than for investments in the EU-15. In 2001 return

on equity has been 11.1 % in CEEC-19 while it was negative for the EU-15 (–0.6 %). Affiliates in Slovakia, Hungary and the Czech Republic performed particularly well. One explanation for this feature is the age of the affiliates. While the profitability is only 1.3 % for newly founded affiliates, it is 4.7 % for affiliates which are two to five years old and 7.5 % for older ones. Start-up losses and exits of less profitable affiliates can explain this development. Since most of Austrian affiliates in CEEC-19 have been established during the first half of the 1990s profitability has soared since 1999.
In conclusion it can be stated that the development of inward and outward FDI has been favourable for the Austrian economy. Inward FDI shows remarkably high returns on equity which confirms that Austria is still an attractive place for investment. The strong increase of Austrian outward FDI in particular in CEEC-19 has helped to improve the international specialisation pattern of Austrian companies and the competitiveness of Austrian companies on EU markets (measured by Austrian exports as percentage of total EU exports).

Indicators for the year of 2001			
		Inward	Outward
Total FDI stock	as a percentage of GDP	15.0	18.1
Total FDI stock	Euro bill.	32.3	38.9
	in % of total		
EU-15		39.2	77.9
CEEC		34.6	0.5
Other Countries		26.2	21.6
Total		100.0	100.0
Employment (weighted by nominal capital)	in 1,000	270.1	282.3
	in % of total		
EU-15		19.6	75.2
CEEC		70.5	0.3
Other Countries		9.9	24.5
Total		100.0	100.0
Number of Investments	number	2393	3327
	in % of total		
EU-15		29.9	69.4
CEEC		50.9	2.1
Other Countries		19.2	28.5
Total		100.0	100.0
Return on Equity	net profit in % of equity	4.6	10.9
Source: Austrian National Bank.			

3 A STRATEGIC TRADE POLICY FOR AUSTRIA

3.1 A strategic foreign trade policy for Austria

Josef Mayer, Franz Müller, Manfred Schekulin

For a small open economy such as Austria exports and imports of goods, services, capital, and know-how are decisive determinants of economic development. A flourishing external sector generates tax revenues, jobs, and welfare. Maintaining and further improving the international competitiveness of the Austrian economy in a dramatically changing global environment has to be – and is – at the very heart of Austrian economic policy and requires a comprehensive, systematic, and future-oriented – in short: a strategic – approach to trade policy.

Over the past decades Austrian companies have done well when coping with the challenges to be tackled: From 1995 to 2002 Austrian (goods and services) exports grew by 9 % on an average per year, faster than world (3%) and EU-exports (8.5 %); the export-to-GDP ratio rose from 37 % to 53 %. Capital flows increased even more dynamically: 10 years ago direct investments by foreign companies (FDI) in Austria amounted to 7 % and FDI by Austrian companies abroad to just 2 % of Austrian GDP. Today they are at around 20 % of GDP in both directions and Austrian companies are among the biggest investors in Central and South Eastern Europe.

But there is room for further improvements: Austria is among a minority of industrialised countries with a structural deficit in the trade and in the know-how balances; the share of high technology exports is still lower than in comparable EU member states, as is the overall level of FDI. A strategic Austrian trade policy has to address these (and some other) structural problems:

- It has to strengthen competition and be market-oriented, and aim at the reduction of state interventions. It goes without saying that all measures taken can only be adopted in line with Austria's international obligations;
- It must be future-oriented, integrative and inclusive, and take into consideration all relevant political fields – from foreign politics to transport, from education to environment, etc.;
- It must be based on sound economic analysis, an area, in which Austria is faced with a pent-up demand vis-à-vis otherwise comparable countries such as Finland, Sweden, and Switzerland;
- It must stress the importance of co-operation. This applies to enterprises which, with a few exceptions, as for instance, the automobile sector, still show a "lone ranger' mentality. And this also applies to business organisations and public institutions. In many instances only a co-operation of public and private bodies (Public Private Partnerships) will meet with success;

- It must deal with the effectiveness of the representation of Austrian interests in international, esp. EU-institutions. With the ongoing deepening of the European integration process it is becoming ever more important to formulate and represent Austrian interests as soon as possible, in a co-ordinated manner, and on all levels of the European decision taking process;
- It must promote service exports. Growth of trade in services will continue to accelerate and service exports play an ever more important role as door opener and value adding factors: Only companies offering intelligent product/service combinations (consulting, financing, training, …) have a chance to succeed in high-margin markets;
- It must put special emphasis on investment. Austrian companies have become the most important investors in Eastern and South Eastern Europe but the degree of internationalisation of the Austrian industry is still below average. Especially in areas outside Europe geographical and cultural distances and the corresponding costs and risks for entering the market and getting established may be prohibitively high, especially for SME;
- It must focus on education and training. Investments in this field such as the creation of export-oriented programmes at Universities of Applied Sciences are investments in the future competitiveness of the Austrian industry – and the best job guaranty available;
- It has to address the fears of the anticipated negative effects of globalisation and communicate the importance of open markets for welfare development in Austria;
- It must address organisational questions in order to, inter alia, increase the efficiency of the representation of trade-political interests in international bodies, avoid duplication, exploit synergy potentials, and reduce costs.

“Go international”, an initiative launched by the Austrian government last year, is directed at the above elements. “Go international” is a broad co-operative effort led by the Ministry for Economic Affairs and Labour and the Austrian Economic Chamber and comprises a number of other ministries and institutions. Its goals include: a significant further increase in the volume of Austrian goods and services exports, a reduplication of the number of exporting companies, an extension of the geographical radius of their international activities including investments abroad.

3.2 Strategy Unit for Foreign Trade and Investment

Franz Ceska

Against the international background, Austrian foreign trade enjoys an excellent position:

The export volume of goods has been increasing – after a moderate growth in 2003, Institute for Advanced Studies (Institut für Höhere Studien – IHS) predicts a growth rate of 5.1 % for 2004. The export of services has reached more than EUR 36 billion which amounts to almost half the level of the export of goods, and, with a global market share exceeding 2 % and thus doubling the market share in export of goods, Austria ranks number 13 among the exporters of services worldwide. Foreign direct investments have increased by EUR 6 billion in 2002, exceeding the 2001 volume of new FDIs by 71 %.

The Strategy Unit for Foreign Trade and Investment was established in the Federal Ministry for Economic Affairs and Labour with a view to further improving the internationalisation of the Austrian economy and strengthening its competitive position.

The main tasks of this Strategy Unit are the following:

Door-opener: The Strategy Unit lends its flanking political support to Austrian entrepreneurs for business activities in destination countries where this is necessary and useful. As a catalyst between business and politics, it takes advantage of existing institutions such as the successful Foreign Trade Organisation of the Austrian Economic Chamber and offers additional services.

Destination markets with a growth potential are identified and entrepreneurs are given adequate assistance in gaining access to such markets. In that respect, a strategic programme concerning business missions abroad will be drafted.

Particular emphasis is placed on a new “internationalisation initiative”. In co-operation with the Austrian Economic Chamber, the Ministry for Economic Affairs and Labour has launched this – at least in terms of volume – unprecedented initiative comprising a EUR 50 million state budget. The Strategy Unit for Foreign Trade and Investment has decisively contributed towards the creation of this initiative titled “go international”, promoted inter alia by the following considerations:

The instruments provided for by the initiative are designed to substantially enhance the three pillars of foreign trade: the export of goods, the export of services, and also foreign direct investments. They equally are to cater for the expectations of the stakeholders in business, interest groups, and the public sector. They ought to contribute to the elimination of market obstacles and reduce market access costs. Moreover, their flexibility must be such as to cover business activities of enterprises both small and large and to reinforce the strong points of Austrian foreign trade while eliminating remaining weaknesses.

“Go international” comprises the following main fields of action:

Facilitation of market access is provided by special incentives for new exporters as well as by a reduction of market access costs as, for example, feasibility studies for potential markets can be co-financed. In particular, for specific business areas and defined markets, “full service-packages” containing feasibility studies, information events in Austria, and Business to Business-events in the destination countries, completed by a communication strategy and key accountants, are offered. Special attention is given to the export of services and foreign direct investments.

Facilitation of business transactions will be achieved by a new approach regarding the co-financing of participation in fairs so as to provide for differentiated support depending on the region concerned. Equally important are alternative strategies to facilitate business transactions, as, for example, the participation of Austrian companies in scientific conferences and symposia as a means of enhancing the acquisition of new projects; cooperation with international scientific institutions und multilateral development banks serves the same purpose. Kyoto and an increased focus on the economic aspect in the context of development cooperation are further fields of action.

Human resources and know how are of utmost importance: Promotion of in-house training programmes is therefore covered as well, as is the access to external know-how. So-called “export angels” assist entrepreneurs in taking their first steps towards a business activity abroad. Product innovation and the marketing of R&D-results are further important focuses.

A constant improvement of the framework conditions is achieved by a wide range of measures to promote sales abroad, as well as by professional and efficient services provided by new marketing offices in markets with a growth potential. Better access will be established to projects co-financed by the EU.

As a summary, the main tasks of the Strategy Unit for the year 2004 are the following:

- implementation and strategic monitoring of the initiative “go international”;
- identification of destination markets with a growth potential and a corresponding draft for a strategic programme concerning business missions abroad;
- flanking political support and similar facilitation activities for Austrian companies in foreign markets.

3.3 The sectoral structure of Austrian foreign trade in industrial goods

Yvonne Wolfmayr

The technological and human capital intensity of trade revealed in a country's trade specialisation pattern sheds light on the strong and weak points of each country's competitive position and helps to draw conclusions on the extent of economic restructuring that probably still needs to take place. The trade structure analysis is based on classifications of the manufacturing industry created in a series of research projects undertaken by WIFO (Peneder, 2001 and Aiginger, 2000) which offer a coherent set of instruments to empirically analyse sectors with respect to intangible, qualitative sources of competitive advantage. The four taxonomies used focus on four different criteria by which industrial braches may differ:

- factor input combinations (mainstream manufacturing, labour intensive industries, capital intensive industries, marketing driven industries, technology driven industries)
- skill requirements
- type of external service inputs (transport services, retail and advertising services, information- and knowledge-based services)
- competitive mode (price vs. quality) or revealed quality elasticity

Several former studies have repeatedly observed pronounced deficits in the industrial structure of the Austrian economy. For the year 2002 this analysis derives the same conclusions. Compared with the average of the EU countries, Austria's weak strucural position is revealed in the following dimensions:

- The share of technology driven industries is markedly lower for Austria than the average of the EU countries (30.4 % vs. 38.5 %) while Austria's share of mainstream manufacturing and labour intensive industries is higher.
- In the same manner, while the Austrian share of industries with high inputs from information- and knowledge-based services is low (15.9 % vs. 21.4 %) the weight of sectors with high external inputs from transport services is above the EU average (23.9 % vs. 17.5 %).
- A structural deficit also becomes apparent when analysing export shares along the dimension of different skill requirements of industries. Here also, the Austrian share of high-skill industries (20.8 %) is clearly lower than of the EU (25.1 %).
- Finally, also industries revealing high quality elasticity have a lower export share in Austria than in the EU. On the other hand, the structural deficit is less pronounced when comparing export unit values. Export unit values to some extent also reveal

the intrinsic industrial quality position of a country. While Austrian export prices are still lower in the more sophisticated industrial sectors the difference is somewhat smaller.

Nevertheless, a structural shift away form this unfavourable position towards a larger share of human capital intensive and technology-driven as well as quality-oriented industries is underway and the process of catching-up extends to the period 1995 to 2002. It has led to a stronger specialisation in these segments of the industrial sector as well as to gains in international market shares. Stronger specialisation is revealed by the rise in RCA-values while Austrian market shares in total EU exports increased from 1.9 % (1995) to 2.7 % (2002) and similarly in the other sophisticated product groups in the other classifications.

3.4 The first step

Walter Koren

Activities concerning the promotion of international trade are directed at:

- non-exporting companies – to initiate their first cross-border activities
- exporting companies – to develop new foreign markets and improve their export marketing
- companies doing international business on an irregular basis and without any coherent export marketing – to develop and implement an export marketing strategy.

Austrian enterprises trying to create and sustain successful sales and the promotion of goods and services in international markets have to cope with new challenges as e.g. the need for a higher level of information, higher risks, and an increased need of capital.

Considering these rather complex conditions, it is the aim of AWO ("Außenwirtschaftsorganisation" of the Austrian Economic Chamber) to support companies in doing business abroad and help them overcome obstacles. These obstacles primarily occur within the company itself and mainly consist of a lack of exporting capability, a lack of knowledge, and a genuine lack of a positive attitude towards exporting. AWO counteracts these obstacles by providing a wide range of services, information, and advice. Due to specific and specialised information it is possible to avoid and reduce typical problems of export organisation and transaction, and consequently generate willingness and readiness to see foreign trade as a business strategy for growth.

AWO, obliged by law to promote foreign trade, has developed various instruments of supporting exporting companies and of motivating new exporters: It elaborates information on markets and business opportunities and organises meetings and seminars on specific themes in Austria. Events like the Austrian Exporter's Day provide interested enterprises with concise information on the wide range of export-support services. The 70 Austrian Trade Commissions organise group exhibitions at international fairs, catalogue-shows, trade missions and symposiums on technical-scientific topics for Austrian companies on foreign markets to promote their products and to find partners. In addition, the world wide network of Trade Commissions gives individual support to all interested companies, and also tailor-made advice where needed. The services rendered start with the search for adequate distributors and cover such fields as investment counselling, sourcing, and debt recovery.

Another important task for AWO is to find new exporters. This is done by contacting non-exporters systematically through extensive media work and through the network of the regional Chambers and by trying to motivate them to enter foreign markets. A first contact is very often established by an "export-fit-test", followed by overall counselling and coaching, which, consists primarily of asserting their exporting capacity in terms of free production capacities, qualified staff, assured financing of additional expenses for marketing, staff, travel, etc. and also evidence of sufficient market-related information.

If the company cannot meet one or the other criterion and thus appears to be not yet eligible as an exporter, the necessary measures are recommended for implementation.

Furthermore, specific test and target markets are defined by means of market selection and segmentation. In a further step the responsible Foreign Trade Commission designs customised service packages, thereby taking into account available resources and general export policies of the companies concerned. In this context it should be mentioned that both market selection and segmentation are considered fundamental when entering a new market.

Firms then determine their market strategy. Companies willing to export can choose between several forms of market entry, roughly divided into domicile-oriented strategies (the exporting firm serves the market from its domicile through direct or indirect exports, licensing or franchising) and target country-oriented ones (capital and management transfer which normally includes the formation of subsidies for distribution and production or joint ventures). During the regular course of consultation all these possibilities are taken into consideration while legal, economic or product specific circumstances may limit the choice. "Export clusters" as a means of innovative support for small and medium sized firms increase international competitiveness. Customised strategies for the markets chosen are developed and implemented in co-operation with the Trade Commissioner.

The Austrian Economic Chamber´s intermediate goal is to double the number of Austrian exporting companies from 15,000 in the year 2002 to 30,000 in 2007. Although quite ambitious, the target is realistic. The second objective, an increase of Austrian overseas exports to 20 % of total Austrian exports seems more difficult to achieve and requires even closer co-operation, and a bundling of promotion activities of all parties involved.

3.5 Promoting foreign direct investment in Austria

Reinhard Moser

This study looks at how foreign direct investment (FDI) is promoted in Austria. The focus is on outgoing FDI and thus excludes all questions related to attracting foreign firms to invest in Austria (which is the core activity of institutions such as Austrian Business Agency and comparable institutions on the "Länder"-level). Following the mainstream of the discussion FDI is defined in accordance with the OECD benchmark definition, as the obtaining of a lasting interest by a resident in one economy in an entity resident in an economy other than that of the investor, combined with a long-term relationship and a significant degree of influence on the management of the direct investment enterprise.

The direct investment statistics for Austria reveal that in the last decade this segment of internationalising the Austrian economy has become increasingly important: In the early 1990's, outgoing investment stood at EUR 5 billion. Last year this had risen to almost EUR 40 billion. This view from a macro-perspective is complemented by a more firm-specific approach showing the role FDI play among the range of market entry strategies open to firms on their path towards internationalisation. Three main problem areas and barriers have been identified for direct investment firms:

- finding out all the relevant information on the market opportunities and potential risks in the target markets,
- sourcing problems – mainly in recruiting personnel and raising funds ready to be exposed to risk, and
- covering the huge field of risks connected with FDI which are usually split into political, commercial, and foreign exchange risks.

All of these issues are addressed by the public support system available to promote Austrian firms' FDI activities. In particular, the following services are offered:

- Information
  The Austrian Economic Chamber (WKÖ) with its special department for Business Support and Promotion of International Trade (AWO) is the number one

source of information for firms looking for specific data relevant to their FDI needs. The world-wide system of Austrian Trade Commissioners provides reliable information available to all members of the Chamber. Similar consulting activities are offered by special banks as well as commercial banks.

- Insurance
  Insurance facilities for FDI-related risks are often referred to as the crucial factor in promoting firms' international activities. First of all this comprises insurance against a wide range of political risks, but also non-traditional concepts such as covering business success achieved by foreign subsidiaries of Austrian firms. The segment of political risk insurance is dominated by the Austrian public export credit scheme, which is handled by Oesterreichische Kontrollbank (OeKB), offering an investment guarantee (G4) against all political risks in the context of FDI (such as expropriation or blockage of fund transfer). A fairly innovative instrument of risk reduction has been developed by the public-owned AWS (Austria Wirtschaftsservice). Under clearly defined conditions this company offers risk-sharing policies to cover the risk of business failure of the foreign subsidiary of up to 50 % of the actual loss. The business failure can consist in insolvency, longer lasting losses of the subsidiary or missed production goals. These types of business failure and many others can be combined in the search for creative and innovative solutions for firms insuring the risks involved.

- Funding
  Usually the existence of any type of insurance against FDI-linked risks is a necessary prerequisite for funding international expansion via FDI. On the basis of an insurance policy, funds for financing investment activities can be raised with OeKB (under a scheme called "Beteiligungsfinanzierung") or under specific schemes open to small and medium sized enterprises.

In summary, the survey shows that a fully developed range of supporting activities is offered by the core institutions AWS, OeKB, and WKÖ to all Austrian firms interested in international FDI. The existing system can be seen as an important driver for Austrian firms' rapidly growing FDI activities in the last decade. It can be safely expected to cope with future challenges as well.

3.6 International trade: Services do matter

Ralf Kronberger, Julia Wörz

Services have long been considered as being non-tradable, which seemed natural when defining them by two main characteristics: simultaneous production and consumption in the same place, and intangibility. However, modern developments have overthrown this definition and nowadays services play an important role in the global economy. This resulted from three related developments: First, the structural change in modern economies resulted in an increased demand for business related services. Second, technological progress, especially in the information and communication sector, led to a substantial increase in the scope for trade in services. Modern information and communication technologies do not only represent an important service category by themselves, they also support the exchange of other services by building up an appropriate infrastructure and facilitating transport services. Thirdly, national governments responded to these developments by de-regulating their national service sectors and liberalising trade in services. Growth in service trade has also been enabled by the conclusion of multilateral trade agreements, such as the GATS, and a growing body of bilateral agreements.

The growing importance of trade in services is also reflected in the data. While trade in goods has grown by 10.5 % between 1995 and 1999, world wide trade in services has risen by 12.8 %. Still, the respective shares of service trade in relation to their importance for the national economy remain surprisingly small. Whereas services accounted for more than two thirds of value added in Austria between 1999 and 2002, the share of service exports in the GDP amounted to only 14.9 % and 17.5 % respectively. This may partly be due to the fact that the service trade is still heavily underrepresented in the statistics. To some extent, this is not surprising, given the intrinsic difficulties in capturing trade in services due to their specific mode of supply. It is not always clear where a service takes place and if it has been traded. For example, a service accompanying the sale of a machine by a foreign subsidiary could be recorded as part of an exchange of goods, as FDI or as an exchange in services.

An international perspective on Austrian trade in services

Based on IMF data for the US, Germany, and the Netherlands we evaluate Austria's competitiveness in service trade. We further give a description of Austrian specialisation patterns in its service trade with Western and Eastern European partners, using the regional decomposition of the Austrian balance of payments obtained from the Austrian National Bank. The analysis is based on specialisation indices introduced by Balassa.

The structure of Austrian service exports in 2002 did not differ substantially from the patterns exhibited by Germany, The Netherlands or the US. Although the share of tourism of 32 % was higher than in the three reference countries, there is no strong specialisation in this sector, as becomes apparent when accounting for the general importance of the respective position internationally. Austria turns out to be strongly specialised in exporting other business related services, which at 39 % accounted for a noticeably larger proportion of exports in 2002 than tourism. Weak specialisation on the export side can be observed in the insurance and communication sector. On the other hand, exports of computer and information services and royalties and licences are heavily underrepresented in an international comparison.
It is, furthermore, interesting to observe a clear distinction in trade patterns with respect to Western and Eastern European partners. Intra-industry trade plays a prominent role in the service trade with incumbent EU-members, while trade with the five Central Eastern European countries (Czech Republic, Slovak Republic, Hungary, Slovenia, and Poland) is characterised by strong exports of royalties and licences, computer and information services, and other business related services, while transport and especially construction services are often purchased from those countries.

Future fields of political activity

Trade in services is up to now recorded comprehensively and on an internationally comparable basis in the balance of payments statistics (BOP). BOP statistics are intended to register payments rather than goods or service flows, which implies a few shortcomings from a scientific perspective. First of all, the definition of service trade as established by the GATS comprises more transactions than what is actually recorded in the balance of payments. Especially the third mode of supply, commercial presence, is strongly underrepresented in the BOP-statistic. Secondly, discrepancies between trade in goods according to customs statistics (in Austria this refers to the trade balance according to Statistics Austria) and the cash balance of the balance of payments are entered in the position “not allocated services”. Therefore it is in the interest of Austrian policy makers to improve the statistical basis for the evaluation of international service transactions in order to derive a sound and consistent services trade policy.
The harmonisation of the services regulation represents another important policy area. The abolition of trade barriers in trade in goods consists basically in simply removing tariffs and quotas whereas services trade is linked to complex regulations. Progress in the harmonisation of service regulations is slow but within a reasonable framework necessary and propitious to the services trade.
Austrian policy makers have – to some extent – realised the large potential of the services trade. This is documented by the recently undertaken measures for stimu-

lating Austrian services exports within “go international”. A wide array of measures comes up to the complexity of services trade. Austrian service suppliers should make use of the instruments offered, thereby enhancing the potential of the services trade. Moreover, Austrian policy makers should intensify the stimulation of the services trade as actively as at all possible.

3.7 IFIs as partners of Austria’s foreign trade

Ewald Nowotny

International Financing Institutions (IFIs) play a special role in the context of a strategic foreign trade policy:

In project development, especially with regard to major projects, IFIs usually are in close contact with the project developer, frequently initiating and also financing feasibility studies and other forms of consulting. This in itself is an interesting advanced services market and, in addition, participation in consulting may be of strategic relevance for follow-up contracts.

In project financing IFIs can offer favourable lending conditions, both with regard to interest rates and duration of loans. In addition, especially in the case of major and more complex projects, commercial financing institutions frequently are interested to have also IFIs on board, as this may add to the total security structure and the political “standing’ of a project. In some countries the participation of IFIs, which have to follow strict rules with regard to tendering, anti-corruption safeguards, environmental standards, etc., can exert a “disciplinary function” vis-a-vis goverments involved, as well as vis-a-vis other partners in a project.

IFIs of special relevance for Austria’s foreign trade are:

European Investment Bank (EIB), the “house-bank” of the EU. Major lines of activity are direct long-term loans (duration up to 30 years, up to 7 years grace-peroid), especially for infrastructure projects, but also for research and development related private investments and for foreign direct investments of European enterprises. For small and medium enterprises special loan programmes exist in co-operation with local banks (“global loans”) . With regard to venture capital European Investment Fund (EIF), EIB’s subsidiary, acts as a “fund of funds”.

Word Bank-Group (IBRD, IDA, IFC, MIGA, ICSID) is the most important provider of loan financing for poor nations and is increasingly engaged in advisory and promotional activities with regard to social development, poverty reduction, and good governance. IFC is concentrating on private commercial projects and is prepared to provide equity and (in co-operation with MIGA) guarantees for this kind of projects.

European Bank for Reconstruction and Development (EBRD) was created to promote private enterprise and market structures in former Communist-ruled countries. It can provide the whole range of banking activities with special emphasis on providing equity and taking an active role in governance both at company and national levels.
In discussing regional areas of co-operation highest priority is given to EU's new member states. The substantial inflow to be expected from EU's Structural Funds will create substantial demand for Austrian products and services. Especially with respect to major infrastructure projects interesting financing solutions may be found by combining EU-grants and IFI (especially EIB) loans. IFI-financing will continue to be of great importance for projects in the Western Balkans and Turkey. New perspectives can be seen in the "Emerging Markets" – area and especially in ACP-countries where Austrian exporters and investors up to now have not been very active.
Considering sectoral perspectives of co-operation, new ways of co-financing can be observed, as for instance various forms of public-private partnerships (PPPs). In dealing with IFIs Austrian exporters and investors have to be aware of the rules and the "project cycle" followed by each IFI. Important aspects are the general need for open international tendering and other specific procurement rules. As they are public banks IFIs not only consider the direct economic viability of a project, but also the general "economic rate of return", as well as perspectives of the environmental and social impacts. All this may result in longer procedures as compared to commercial financing. But in spite of that, in many cases it makes sense to seek cooperation with IFIs – not only with regard to more favourable funding conditions, but also because the participation of an IFI may be needed to make a project acceptable and "bankable".

3.8 The Upper Austrian Clusters as an export motor

Harald Hochgatterer, Gerlinde Pöchhacker

Since 1998, Upper Austria has systematically pursued a cluster-oriented economic and technology policy. As an important element in the Upper Austrian Technology Network, the cluster initiatives have recently adopted focal points in the internationalisation sector and provide special branch services for their partner companies.
At present, 1,500 companies are active in the following eight branch networks:

- Automotive Cluster: vehicle manufacturers and automotive sub-suppliers, as well as the relevant plant and machinery producers and service companies.
- Drive Technology Cluster: producers, suppliers, and special service companies in the engine and drive train sector.
- Plastics Cluster: producers and processors of plastics, machinery, moulds, toolmakers, and service companies.

- Furniture and Wood Cluster: producers of furniture and wood constructions as well as their sub-suppliers and special service companies.
- Eco-energy Cluster: companies in the area of renewable energy and energy efficiency technologies.
- Foods Cluster: food production companies, their direct and indirect suppliers, R&D and educational bodies.
- Health Cluster: companies from the medical and rehabilitation technology areas.
- Mechatronics Cluster: companies from the mechanical engineering and plant building, machinery and apparatus construction sectors as well as suppliers of special technologies.

With its respective departments Automotive, Drive Technology, Plastics, Furniture and Wood, Health, and Mechatronics, the Upper Austrian Technology and Marketing Company (TMG) co-ordinates six of these eight clusters and the corresponding departments are organised in the cluster management area. The Eco-Energy Cluster is administered by the Upper Austrian Energy Association, while the Upper Austrian Economic Chamber manages the Food Cluster.

The fact that the partner companies in the cluster initiatives are highly export-oriented is indicated by the following quotas (as at 8/2003):

Automotive	58.47 %
Plastics	56.1 %
Eco-energy	over 50 %
Drive Technology	45 %
Furniture &Wood	38 %
Health	7.4 %
Mechatronics	n.a.
Food	n.a.

The focus of the individual cluster activities in the areas of internationalisation and export support is concentrated on the following areas:

1. Gathering of specific branch expert information: evaluation and analysis of studies, provision and preparation of sector-relevant information in newsletters, websites, and quarterly publications as well as special educational events.
2. Procurement of potential, international business partners: through the organisation of and participation in co-operation exchanges and trade fair visits, study trips, or presentations by foreign delegations.
3. Direct contacts with international business partners through the exchange of resources or know-how and technology presentations.
4. Initiation, support and promotion of co-operation projects for market penetration at a national and international level.

5. Access to international branch networks: involving participation in international expert forums and active networking with relevant business players and institutes.

3.9 The importance of know-how for international economic integration

Michael Landesmann, Julia Wörz

This article deals with the following issues:

- What does know-how in the field of international economic integration (IEI) consist of?
- What are the characteristics of the institutions in which such know-how is provided?
- Which are the issues in IEI which are of particular importance to Austria over the medium-run?
- Can we say something of Austria's relative know-how and institutional infra-structure in this area?

In the first section a short overview of the history of economic analysis of international economic relations is provided. This area has been one of the earliest concerns of economists, going back to the classics where particularly the relationships between international trade and growth and welfare were analysed. Later on the analysis turned to the distributional consequences of international integration and powerful insights were provided into the possibilities of "losers" and "winners" from integration. More recently, a comprehensive approach to the study of all the levels of international interdependencies was developed, with the analysis of the integration of product markets being complemented by an analysis of the integration of capital markets and the direct integration of labour markets (through migration flows). There has been much progress in the analysis of the role of multinationals, of a variety of forms of cross-border production linkages, of strategic behaviour both by firms in international markets and by governments in the uses of trade and industrial policies. We are now much better equipped, both theoretically and through applied economic analysis, to deal with issues such as the normative and positive analyses of trade policy, the analysis of location decisions by multinational firms, of phenomena of "regional integration" such as those of NAFTA, the EU, ASEAN, etc., and of the relationship between trade and economic growth.

Furthermore, there has been a lot of progress in the availability of international databases to analyse trade, FDI, and migration flows, including the incidence of barriers to international integration, and – more generally – to undertake cross-country comparative research. There has also been a very rapid development of the research tools available for empirical research; these have become much more sophisticated and more widely known and used. Just like in many areas of applied economic analysis, there is much to be gained from developing research capacity which has sufficient "critical size" and quality to permit frontier-level research and up-to-date access to international statistics. Particularly in the areas of international comparativity and IEI analysis, the requirement to measure the quality of research undertaken elsewhere is paramount, as any deficit would be immediately visible on the international stage and would weaken the policy-support which such research could provide. The challenge for small countries is hence particularly strong here, as resources in an absolute sense are smaller, but the qualitative requirements to base ones policies on a sound knowledge base is similar to that of larger states.

The analysis proceeds to provide, in a geographic and thematic sense, some guidelines on the areas in which Austria might need particular expertise in the years to come. Comparative policy analysis has become a very active and useful branch of research, as learning from good and bad policy experiences in an integrated economic area is very important; this can shorten learning processes and provide persuasive inputs to one's own policy agenda. The particular position of Austria on the "cleavage" between new and old EU members and in the immediate vicinity of other countries (e.g. in South East Europe) which are still characterised by low incomes, low productivity levels, unsettled issues of macroeconomic stability and a high catching-up potential, raises very important issues of regional integration, and how national and regional structures will have to adapt. However, also beyond the immediate neighbourhood, global economic linkages have become much more intense as regards trade and international production, but also in respect of repercussions from international financial markets. An expertise on the use of international databases, and on a number of key areas of international economic relations is important for a small country such as Austria.

The last part examines, in a very preliminary way, some quantitative evidence of Austria's position in terms of institutional know-how in the area of international economic analysis in comparison with a number of other small European economies (Netherlands, Switzerland, Sweden and Denmark). The survey is based on comparing, in simple quantitative (and not qualitative) terms, the number of economic research institutes and the numbers of researchers which either as a whole or in part work in the area of international economic analysis or international comparative economic research. The preliminary results from this survey indicate that Austria is relatively well-equipped with applied economic researchers in general, but much less so as regards expertise in international economic analysis. Here Austria ranks close to the bottom among the group of countries compared. In this group of countries Austria is also an outlier in that there is a relatively low level of integration of applied research institutes with university-based research, a tradition Austria has in common with Germany.

3.10 Great new learning

Harald Steindl

Elementary schooling, advanced tuition, and the future of learning

Education constitutes and forms a personality, creates individual values and opens up chances for a wholesome life (“Sozialwort” of the Austrian Churches Council). This message becomes all the more important in the light of the radical change of economies powered by the knowledge-revolution. The total of individual talents, acquired skills and formal qualifications will be the vital criterion for the rise or fall of nations, societies, and civilisations. The key to sustainable growth, full employment, social peace and development world-wide will have to be forged in terms of a willingness and ability towards “New Learning” and the potential for innovation and transformation, the access to design global change, accept challenges, and live with change. Entrepreneurial spirit, acceptance of risks, personal courage, creativity, sensitivity, and open-mindedness are the critical (success) factors in over-managed and ill-administrated communities.

Future starts in the family, the kindergarten, and elementary schools. “New Learning” represents the most important investment! The flaws in our educational system as shown in the PISA-study ask for speedy action and energetic reform. Avoiding a “digital gap” and reducing the number of functional illiterates must become central objectives of a constructive social education policy. The process of European integration within the framework of globalisation will meet with success only if the Lisbon objectives are achieved and the New Europe succeeds in turning into a dynamically growing, competitive region. Markets of all kinds provide the most essential training camps. Economic politics devoid of pedagogic foundations in early youth, lacking educational foresight and vision is historically comparable to navigation in the absence of water, a compass, a map, and any exploratory ambition.

Exportare necesse est!

4 DEFINITION OF COUNTRY GROUPS

EU-15	Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden
Euro-zone	EU-15 without Denmark, Great Britain, Sweden
10 new members	Czech Republic, Hungary, Poland, Slovak Republic, Slovenia, Estonia, Latvia, Lithuania, Cyprus, Malta
EU-25	EU-15 and 10 new members
CEEC-5	Czech Republic, Hungary, Poland, Slovak Republic, Slovenia
CEEC-8	CEEC-5, Estonia, Latvia, Lithuania
CEEC-19	CEEC-8, Albania, Bosnia, Bulgaria, Serbia-Montenegro, Croatia, Moldova, Macedonia, Romania, Russia, Ukraine, Belarus
SEEC-7	Albania, Bosnia, Bulgaria, Croatia, Macedonia, Romania, Serbia-Montenegro
CIS	Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Uzbekistan, Ukraine
NAFTA	Canada, Mexico, USA
OECD	EU 15, NAFTA, Australia, Japan, Korea, New Zealand, Czech Republic, Hungary, Island, Norway, Poland, Switzerland, Turkey
Developing countries	World without the following: OECD, CEEC-8, SEEC-7, CIS

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