

FIW Research Reports 2009/10 N° 04
January 2010

Policy Note

AUSTRIA 2020: The impact of medium-term global trends on the Austrian economy

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Abstract

This study quantifies possible impacts of medium-term structural changes in the global economy on the Austrian economy. Emphasis is placed on the effects of continued medium term growth in emerging markets, especially in Asia and Latin America, on the structure of the Austrian economy. The issues here include the identification of price effects (due to increased demand for raw materials) that can be expected, as well as how these may impact the commodity composition of both exports and imports. Underlying global trends also involve both investment patterns and total factor productivity trends at a more regional level, also impacting on the Austrian economy. Finally, these structural changes at the global level also lead to changes in household incomes and the cost of living in Austria, impacting on patterns of inequality in Austria at the household level.

The FIW Research Reports 2009/10 present the results of four thematic work packages 'Microeconomic Analysis based on Firm-Level Data', 'Model Simulations for Trade Policy Analysis', 'Migration Issues', and 'Trade, Energy and Environment', that were commissioned by the Austrian Federal Ministry of Economics, Family and Youth (BMWFJ) within the framework of the 'Research Centre International Economics' (FIW) in November 2008.



Policy Brief

AUSTRIA 2020

The impact of medium-term global trends on the Austrian economy

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The global economy is characterized by a number of underlying trends that carry important implications for the economy of Austria. These include the continued rise of China as a major economic power, the ongoing shift of economic gravity from the trans-Atlantic economies to Asia, a shift of economic gravity within Europe from West to East, and a continued tightening of markets for energy commodities. In addition, rising income levels outside the OECD, combined with shifts up the value added chains in a number of larger non-OECD economies, also means increased competitive pressure on these sectors in the OECD itself, including in Austria. This in turn has important implications for the labor market in Austria, for the prospects of labor in different skills categories, and hence also for the distribution and level of income across Austrian households as well. Ultimately, while the trends we highlight here are global in nature, how they interact and how they impact Austria at the macroeconomic level will be manifested in shifts felt at the individual household level as wage incomes, the nature of employment, and the cost of living.

This brief summarizes a recent study that quantifies possible impacts of medium-term structural changes in the global economy on the Austrian economy.^{1/} Emphasis is placed on the effects of continued medium term growth in emerging markets, especially in Asia and Latin America, on the structure of the Austrian economy. The issues here include the identification of price effects (due to increased demand for raw materials) that can be expected, as well as how these may impact the commodity composition of both exports and imports. Underlying global trends also involve both investment patterns and total factor productivity trends at a more regional level, also impacting on the Austrian economy. Finally, these structural changes at the global level also lead, ultimately, to changes in household incomes and the cost of living in Austria, impacting on patterns of inequality in Austria at the household level.

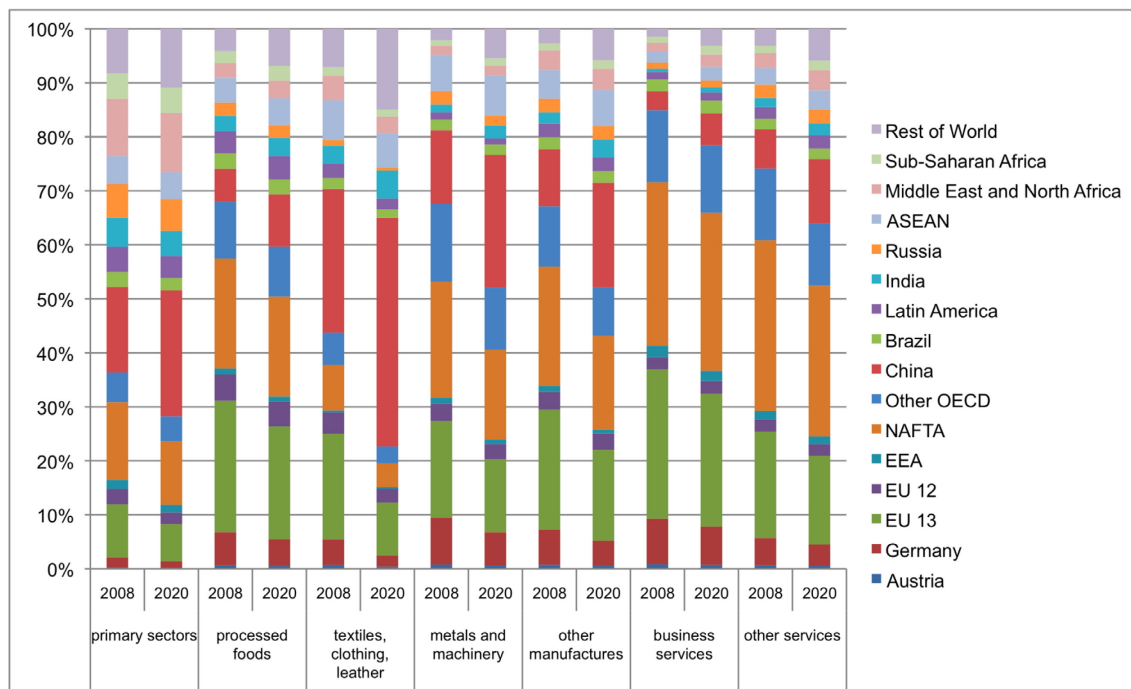
^{1/} E. Christie, J. Francois, M. Holzner, S. Leitner, O. Pindyuk (2009), "AUSTRIA 2020: The impact of medium-term global trends on the Austrian economy," a study commissioned by the Austrian Federal Ministry of Economy, Family and Youth (BMWFF) within the scope of the Research Centre International Economics (FIW) and funded out of the Austrian Federal Government's "Internationalisation Drive", wiiw: Vienna.

1. Global Trends

Figure 1 presents shares of gross output, by major industry groupings, in the 2008 and projected 2020 benchmarks. The European Union is dominant share of gross world output for business services (finance, insurance, communications, and other business services) as well as other commercial services. However, these shares drop through 2020 – from 39.2% to 34.8% for business services and from 27.7% to 23.1% for other commercial services. The same pattern of falling shares is even more striking for manufacturing. For example, the metals and machinery sectors of the EU represent 30.6% of global gross output in 2008, and 23.1 percent by 2020. China's continued growth through the projected baseline is reflected in dramatic increasing in the Chinese share of global manufacturing. China's textile and clothing sector, for example, is projected to expand from 26.6% of global gross output to 42.4% of global gross output. Its share of metals and machinery production roughly doubles over the same period, projected to grow from 13.5% of global gross output to 24.6%. In North America, the NAFTA share of business services remains relatively constant from 2008 (30.2%) to 2020 (29.3%). However, like Europe, North America also experiences a sharp decline in manufacturing shares. The NAFTA share of metals and machinery production drops from 21.5% in 2008 to 16.7% in the 2020 baseline.

Figure 1

Regional Shares of Global Output by gross value: 2008 & 2020



Source: CGE projection-based estimates

2. Production and Trade in Austria

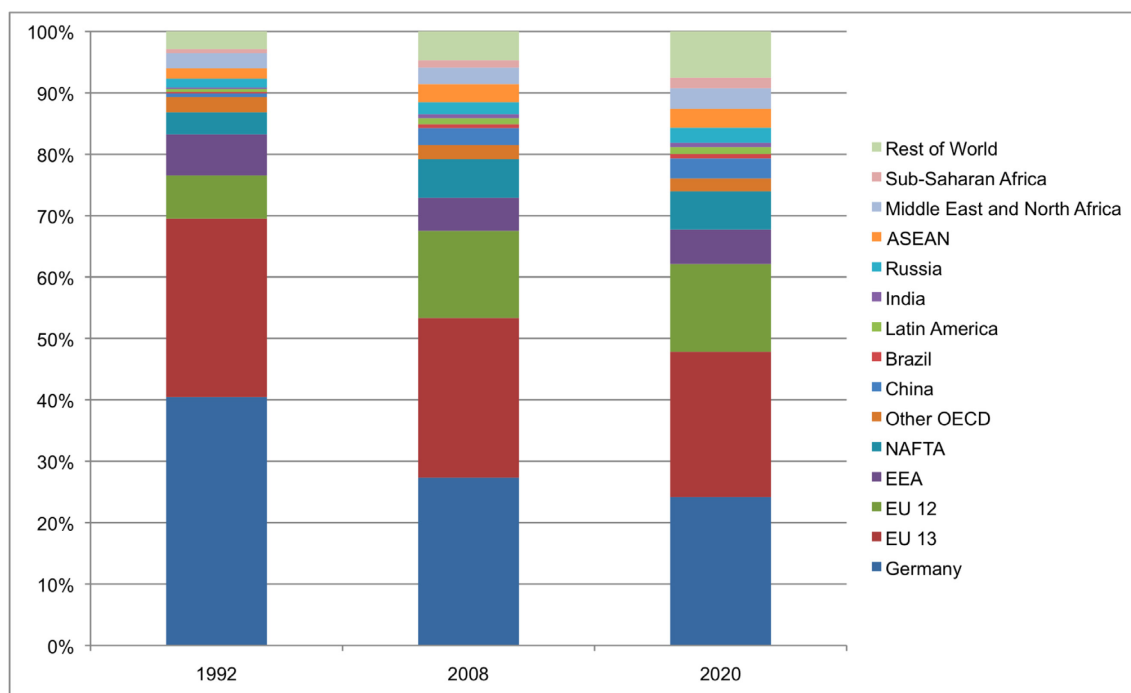
Services account for about 77% of total value added in the Austrian economy, with other business services, other services and trade having the biggest shares. In manufacturing, the biggest sectors are other machinery and equipment, processed foods, and chemicals. With rapid growth projected for non-OECD countries, there is a further push of Austria into higher value-added sectors, including heavy manufacturing business and services, and even further out of more intensive basic and labor intensive manufacturing, including light manufactures. The highest growth of output is projected for the metals, chemicals, mining, utilities and transport sectors. These sectors also have the highest rates of export growth. Reasons include growth in global demand for metals, chemicals, ores and other fossils, as well as the favourable geographic location of Austria. Location means Austria is in a position to provide more transportation and utility services to the neighbouring countries as trade expands. In addition, exports are expected to grow fast in the petrochemicals and gas sectors (where Austria is expected to see a significant increase in re-exports of these commodities). Drops of real output and exports are projected for textiles, clothing, leather, and electrical machinery. This trend will be driven by the rapid increase in exports of these products by China and India and some other competitors. In exports, there will also be a fall in light manufactures trade. On the import side, Austria is projected to see increased imports in all sectors, with the highest growth rates for import values expected in the energy related sectors (coal, oil, gas, and petrochemicals), mining, and non-metallic minerals – to a large extent due to a surge in prices of these commodities. We also project a sizeable increase in imports of light manufactures, clothing, construction, and trade services.

One striking change in the external position of Austria is the continued evolution in its trade orientation away from Western Europe, and especially away from Germany, in the projected 2020 scenario. Figure 2 below present a breakdown of the regional direction of trade for Austria's imports and exports, for 1992, 2008, and 2020. Starting from 1992, there is a marked drop in the importance of Germany as a trading partner. Germany was responsible for 40.4% of Austria's

exports in 1992, and for 57.5% of imports. The EEA Members overall (German, the EU, and EFTA) accounted for 83.2% of exports in 1992, projected to drop to 67.8% by 2020. Within the OECD, North America is projected to become increasingly important as a destination market. The NAFTA block accounted for 3.6% of Austrian exports, projected to increase to 6.2% in 2020. This is similar to the current share, meaning basically that the NAFTA maintains its position even as Europe becomes relatively less important as a destination market. Non-OECD markets are projected to grow increasingly important as destination markets for Austrian exports – from 10.7% in 1992 and 18.5% in 2008 to 23.9% by 2020. China, which accounted for only 0.7% of exports in 1992, is projected to account for 3.3% of exports by 2020. Even with these shifts, the European OECD countries remain the most important set of markets (67.8% in 2020) in our projections to 2020, with Germany being the single most important partner (24.1%).

Figure 2

Regional Shares of Austrian Exports by value: 1992, 2008, & 2020



Source: COMTRADE and CGE projection-based estimates

2. Household Inequality in Austria

In terms of household income inequality as measured by the Gini coefficient, at present Austria has a level of inequality, which is rather comparable to those of the most equal societies in the world such as the Scandinavian ones. (The Gini is estimated at 27.5). However, despite a projected strong rise in average unskilled labour income due to further internationalisation, large projected price increases in sectors employing unskilled labour, and the lower supply of unskilled labour, overall inequality is expected to increase in Austria by 2020. The Main driving forces are the increase of persons in skilled labour and subsequent stronger income differentiation and the increase of capital income. Overall, we estimate that the income shares of the skilled and unskilled labour force in 2020 change from an initial ratio of 37% against 63% to an estimated 48% against 52% respectively. This relates to an increase of total skilled labour income of 24% and a drop of total unskilled labour income of 21%. However, given the strong increase in the number of skilled labour and the decrease of persons in unskilled labour, the average skilled labour income decreased by some 5% and the average unskilled labour income increased by more than 33%. On net, our projection analysis points to a slight increase of inequality to a Gini of 28.1, despite that there are sharp projected increases in wages for lower-skilled workers.