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Still be Restricted?**

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Abstract

In 2004 the Republic of Slovenia entered the European Union and, as a matter of principle, was guaranteed the four freedoms (free trans-national mobility of goods, services, capital and labour). From an economic viewpoint, this guarantee should provide the required institutional framework to maximise social benefits within the internal market. However, with respect to cross-border services a set of temporary regulations exists, all of which initially for two years and subsequently for further three years were implemented to restrict the free movement of services partially in order to protect Austrian regions against labour market disadvantages. The restrictions were extended in 2009 for two additional years (until 2011). These temporary restrictions indicate the familiar trade-off between expected efficiency and welfare gains of a completely integrated common market in the medium and long run, and – as a result of intensified transnational business activities – potential socioeconomic losses for certain regions or economic sectors in the short run.

Against this background, the paper asks for the economic usefulness of the previous mentioned restrictions of cross-border service activities between Austria and Slovenia. Thereby, the question whether these (temporary) regulations should have been continued until 2011 or be abolished immediately is of particular importance. To be able to provide an answer to this question, the topic is analysed in four steps: First, the expected welfare effects of cross-border service restrictions will be outlined by discussing the impact of such regulations on the efficient allocation of resources as well as the pace of economic change. Therefore, theoretical and empirical insights concerning the economic effects of international trade with services will be considered. Secondly, the paper analyses the empirical situation of cross-border trade in goods and services between Austria and Slovenia in order to argue that Austria realises a "double dividend" with respect to the existing regulatory system. In part three, the question is asked to what extent a complete liberalisation of cross-border services would affect Austrian regions economically, if one takes into account the geographically limited market radius of the currently regulated service industries. Finally, the status-quo analysis of the existing restrictions of cross-border services between Austria and Slovenia provides a background to derive policy recommendations.

Keywords: international trade, trade policy, Austria, Slovenia, services, economic integration, restrictions

JEL-Codes: F13, F14, F15

Should cross-border services between Austria and Slovenia still be restricted? – An economic assessment of the existing market regulations

Thomas Döring and Birgit Aigner¹

1 Introduction and Research Question

In 2004 the Republic of Slovenia entered the European Union and, as a matter of principle, was guaranteed the so-called four freedoms (free trans-national mobility of goods, services, capital and labour). From an economic point of view, this guarantee should provide the required institutional framework for an efficient (spatial) allocation of resources in order to maximize social benefits within the internal market. Thereof results a general ban on discriminating goods, services and production factors from other member states. Indeed the freedom of free trans-national mobility of goods, labor, services and capital were arranged in general form in the membership treaty with Slovenia. However, with respect to cross-border services exists a set of temporary regulations – urged by Austria along with Germany – which were implemented to restrict the free movement of services partially in order to protect the Austrian regions against labour market disadvantages. At present, these temporary restrictions were ultimately extended for additional two years (until 2011).

The restrictions of labor mobility and trans-national mobility of services between Austria and Slovenia affect the following service sectors: agricultural service activities, landscape gardening, cutting, shaping and finishing of ornamental and building stone, manufacture of metal structures and parts of structures, construction, investigation and security activities, industrial cleaning, other human health activities, social work activities without accommodation. The existing regulations indicate the familiar trade-off between expected efficiency and welfare gains of a completely integrated common market in the medium and long run, and – as a result of intensified trans-national business activities – potential socio-economic losses for certain regions or economic sectors in the short run. The determination of transitional deadlines concerning a complete opening of the market describes a common (economic) instrument in dealing with such a trade-off. In order to avoid labor market disadvantages, adaptation periods have been defined so that affected sectors and regions should have the opportunity to prepare themselves by developing appropriate adaptation strategies due to the changed economic conditions. Thus, the complete integration of Slovenia into the common market merely experiences a temporary delay within the mentioned areas of exception. However, in the present situation, the known trade-off intensifies if the complete liberalization of service mobility in Slovenia is more advanced than in Austria, in other words, if the current restrictions in the service sector hinder Slovenian providers of corresponding services in Austrian markets, yet do not hinder Austrian providers in Slovenian markets.

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The subsequent paper asks for the economic usefulness of the previously mentioned restrictions of cross-border service activities between Austria and Slovenia. Thereby, the question whether these (temporary) regulations should have been continued until 2011 or be abolished immediately is of particular interest. To be able to provide an answer to this question, the topic is analyzed in four steps: First, the expected welfare effects of cross-border service restrictions will be outlined by discussing the impact of such regulations on the efficient allocation of resources as well as the pace of economic change. Therefore, theoretical and empirical insights concerning the economic effects of international trade with services will be considered (Chapter 2). Secondly, the paper analyzes the empirical situation of cross-border trade of goods and services between Austria and Slovenia in order to argue that Austria realizes a “double dividend” with respect to the existing regulatory system (Chapter 3). In part three, the question is asked to what extent a complete liberalization of cross-border services would affect Austrian regions economically, if one takes into account the geographical limited market radius of the currently regulated service industries (Chapter 4). Finally, the status quo analysis of the existing restrictions between Austria and Slovenia provides a background to derive policy recommendations (Chapter 5).

2. Assessment of Restrictions in Cross-Border Service Mobility from a Theoretical Perspective
- 2.1 The Term "Cross-Border Services" and the Problem Connected to it with respect to Austria and Slovenia

While trade with industrial goods with Austria and other countries has already been liberalized since 1990 in the forefront of Slovenia's entrance into the European Union, Slovenian companies have had the opportunity to provide cross-border services since May 2004 (entrance into the EU). However, in comparison to the already established EU member states, a number of restrictions apply for Slovenia (as well as for the other new EU member states²) during a transitional period when it comes to the fulfillment of cross-border service orders (WKÖ 2007). Providing cross-border services is understood as the execution of ordered commercial activities (jobs) by companies that do not have a registered office or branch in Austria. In contrast, if services – of a small extent – are directly associated with the delivery of goods (for example assembly operations), they fall into the category of the free mobility of goods.

In contrary to the trade of goods or certain services, which can be provided in long distance selling, the service provider himself along with his employees, equipment and materials must often cross national borders to provide the majority of services. It is important to differentiate if the employer executes a service order personally or if employees are needed to do so. The special conditions valid for Slovenia merely refer to the deployment of employees in cross-border service activities. The term “deployment” is understood as the temporary border crossing activity of employees of (Slo-

² Besides Slovenia the group of new member states consists of Estonia, Latvia, Malta, Poland, Slovakia, the Czech Republic, Hungary and Cyprus. In addition, Bulgaria and Romania come along with the group of new member states, because they are members of the European Union since January 2007. Relating to Malta and Cyprus it should be considered that – in contrast to the other new member states – the membership treaties of both countries do not contain any restriction of the free mobility of cross-border services.

venian) companies that are not established in Austria, yet due to a working contract are occupationally active in Austria in a cross-border sense.

The restrictions do not apply if the employer of the (Slovenian) service company itself executes the order independently. Nevertheless, this does not mean that he/she is not exposed to any restrictions by legal regulations. In this case the fundamental prerequisites for cross-border services for employers from EU states in Austria take hold which means that the proof of specific demands of occupational qualifications, authorization, registration and report requirements have to be met. While the special regulations for certain service sectors complicate the provision of services from the respective home countries for (Slovenian) companies significantly, the regulations affecting occupational activities in Austria are not among those that concern the relations between Austria and Slovenia unilaterally. As a general obstacle for the realization of the freedom of services within the entire EU, this aspect should rather be considered in the general discussion about the dismantling of barriers in the European internal service market (European Commission 2002; Directive 2006/123/EC of the European Parliament).

2.2 Efficiency and Welfare Effects of a Complete Waiving of Cross-Border Trade Obstacles

2.2.1 Some Considerations from an Integration Theory Perspective

By initially asking about the motives for restrictions in cross-border services between Austria and Slovenia, one can point to the core political considerations regarding the labor market. In the run-up to the entrance of the new central and eastern European EU member states, fears about overburdening national labor markets were expressed by the “old member states” with direct borders to the new member states (e.g. Austria and Germany) due to the existing difference in wage level (IDM 2001: 23; Bartsch/Diekmann 2006: 59). This applies especially to those sectors and branches of the economy that produce goods, not for international markets, but for geographically limited markets positioned close to the borders of the new member states. Following the further line of argumentation, this can mainly be the case for service sectors classified as “sensitive”, for which an elimination process of national service providers was/is anticipated due to the existing wage differentials.

Indeed, the principle assumption is that the expansion of the internal market has more importance in regions that share borders with the new member states – which is the case between Austria and Slovenia – than in regions further away (for example, in Portugal or Ireland). However, such a one-sided consideration of the (regional) effects on the labor market endangers losing sight of the expected efficiency and welfare gains due to a complete liberalization of not only the entire market of goods, but also of services. The scenario of a complete liberalization acts as the measure of reference in order to be able to name the opportunity costs of a (partial) restriction of cross-border service mobility.

From an economic perspective, a complete integration leads to increases in efficiency and positive welfare effects for the whole economic area. The effects linked to market integration can thus be divided into static and dynamic effects (Breuss 2000; Puwein et al. 2001): Concerning complete economic integration of two economic areas (like Austria and Slovenia), the fact that respective production activities are shifted to those

countries that have better location conditions is counted among the static effects (so-called trade effects). The resulting strengthened “division of labor” leads to a more efficient allocation of resources. With reference to the dynamic effects arising beyond this, there is an increased investing activity to be expected (so-called internal market effects). This is due to the free capital mobility, which reduces the risks of investing and allows benefits of location to become more effective, which in turn contributes to positive occupational effects in many economical sectors. In addition, the great pressure of competition – also in the case of cross-border services – increases the domestic competition intensity. With this the monopoly level of domestic (service) production is reduced, which leads to a lowering of the price level and to an increase of the “consumer surplus”. Consequently, an increased demand of goods as well as increased production of goods and services can be assumed in the case of a complete market opening. This means that complete integration would not be a zero-sum game, but a positive-sum game for Austria as well as Slovenia.³

Considering the background of efficiency and welfare effects of free market access, restrictions to the mobility of cross-border services first and foremost harm the potential users and consumers of services from regimented branches as a broader range of products, higher quality and more favorable prices are withheld. In this regard consumers are affected negatively in a twofold manner (European Commission 2002; Kox et al 2005; Kox/Lejour 2005): On the one hand, they are directly influenced in their demand behavior if the temporary regulations hinder them from accessing (Slovenian) services. Beyond this, they are indirectly affected if the existing restrictions prevent Austrian as well as Slovenian service providers from offering their services as cross-border services or if they result in higher prices, a smaller range of products and/or less quality.

While consumers are unable to enjoy a broadly diversified range of services at competitive prices and preferred quality, an only incompletely integrated market (here in relation to Austria and Slovenia) has furthermore negative effects on the affected companies themselves. On the one hand, service providers are hindered in expanding a successful business model in order to realize economies of scale. On the other hand, the restrictions within some service branches continue as a (negative) chain reaction within other service branches and due to the inclusion of services in the production of goods also within industrial activities. For the service sectors classified as "sensitive" this can be made effective, for instance, for the construction industry, the sector of security services, the manufacturing of steel and light metal constructions, building maintenance and other cleaning services, all of which are not only directly designated for final consumption, but can also serve as an input for various phases of other services as well as the production of goods. All in all, it can be ascertained that politically motivated labor market restrictions in cross-border service mobility between Austria and Slovenia most likely face significant welfare losses.

³ See additionally Neal (2007), Molle (2006) as well as Baldwin/Wyplosz (2004). See for the efficiency and welfare effects of market liberalization in basic also Mankiw/Taylor (2006).

2.2.2 Effects of Trade Restrictions on the Economic Structural Change

Due to international trade theories⁴ the efficiency and welfare effects of incomplete market integration can be specified by negative effects of restrictions of cross-border services on the process of structural change. In general, if an initial distinction between capital and labor intensive branches is set up, whereas the term “capital intensity” also includes human capital and qualification factors, at least in the short term the central and eastern European accession countries (naturally including Slovenia) hardly have disposal over comparative advantages concerning capital intensive productions. In contrast, Austria shows comparative advantages in branches that produce capital intensive goods in a broader sense. Labor intensive branches (especially those with low demands on human capital) find themselves confronted with correspondingly difficult development conditions (Mayerhofer/Palme 2001: 215).

In the latter mentioned category of branches fit those service sectors that are protected from foreign competitors by the regulations of the membership treaty. Again, the primary political rationale concerning the labor market is reflected in these protective measures. Nonetheless, the measures appear to be asymmetrically in favor for Austria to the extent that due to the background of international trade theory Slovenian (service) companies have a comparative advantage concerning labor intensive production. This should not only explain the fact that Slovenia has unilaterally waived the enforcement of restrictions in cross-border service mobility. Beyond this, it is important to mention that Austria – at least partially and if only temporally – defers the change of national production structures into the direction of a stronger (human) capital intensive production of goods and services. This applies to the extent that in the event of complete market integration existing comparative advantages only enhance an already elapsing structural change. On the other side, every form of “braked” structural change implies growth and employment losses in the medium and long run.

This insight remains unchanged if one considers the so-called product life cycle approaches (Krugman 1980; Venables 1998; Ricci 1999). According to these, in the event of a complete integration the specialization of higher developed countries (here Austria) in “new” products is to be expected, while the manufacturing of products that are in the late states of a product cycle are favored in less developed countries (here Slovenia). The central indicator of distinction is thus the innovation factor of the individual branches. Admittedly, it cannot be generally assumed that the services considered here are to be comparatively categorized as innovatively poor. Services like home-care and security can nevertheless be classified as at the end of a product life cycle. A restriction of cross-border services in these sectors leads inevitably to a situation in which integration benefits are withheld from the less developed country (in this case Slovenia).

A slightly modified perspective on structural change and specialization benefits comes about if one takes into considerations the so-called market size effects. These emphasize the importance of the geographical concentration of economic activities. Companies localized in the respectively bigger market prove to have a greater development potential than their competitors because they can take advantage of internal

⁴ See for a concentrated presentation of the different approaches of international trade theory Krugman/Obstfeld (2008), Husted/Melvin (2007), Seibert/Lorz (2006), Grossman/Helpman (1991) as well as different contributions in Helpman/Razin (1994).

economies of scale (the "home-market-effect"). In addition, a greater regional market for the end products leads to greater benefits for regional subcontractors, which in turn affects the efficiency of the end products themselves. On the other hand, external economies of scale arise from close regional connections between economic actors and the concentration tendencies linked to them.⁵ Extended to cross-border services it can be derived that the fear of Austria's service companies of having an unsatisfactory ability to compete with Slovenian suppliers is unjustified. In regard to the services subjected to the trade restrictions, which are primarily services produced for a geographical limited market, a problem could only arise for domestic providers in the immediate border regions. However, whether Austrian service companies are actually threatened by an overburdening of Slovenian competitors in the restricted areas depends on the existing potential of the "home market", which entails the possibility of internal and external economies of scale and therefore shapes the ability to compete.

2.2.3 Some Fundamental Insights into International Service Trade

The statement concerning the size of the home market (and the realization of scale effects) can be fundamentally confirmed through OECD studies of bilateral service trade (OECD 2004; see also Tinbergen 1962). By following the so-called gravitation model, cross-border trade with services between two countries is a function of their size (measured in GDP) and the distance between them. Accordingly, in the case of two countries with common borders, like Austria and Slovenia, the extent of reciprocal service trade is decisively determined by the size of the respective national market for these services. In contrast, the size of the respective destination market appears to only play a subordinate role. This model gives additional evidence for the fact that countries with a high GDP per capita possess comparative cost benefits with regard to production and cross-border trade of services, which can be traced back to corresponding scale effects (Bartsch/Diekmann 2006: 58; Siebert/Lorz 2006: 115). This simultaneously implies that even wage differentials, which have been claimed in relation to Austria and Slovenia, are not decisive for the competitive ability of services providers.

The so-called O-Ring approach, which is in accord with the study results of the OECD, reaches the same conclusion. According to it, service exports depend on an efficient application of complementary regional and local factors. Contrary to initial assumptions, instead of having a positive effect, high labor wages negatively affect the extent of service imports in the concerned service sectors in the importing country (here Austria). The observation behind this is that as a rule cross-border traded services fall back on inputs of the importing as well as exporting countries. As a result, all costs influence the trade volumes of services irrespective of whether they stem from the exporting (Slovenia) or importing country (Austria). Therefore, a higher wage level in the importing country indirectly harms the competitive ability for the service providers in the exporting country (Mirza/Nicoletti 2004: 19; Grünfeld/Moxnes 2003: 3). Until now available studies of international patterns of cross-border service trade

⁵ In this context, not only the so-called localization economies as well as urbanization economies, but also forward- and backward-linkages between different economic sectors and branches are of importance. See Mayerhofer/Palme (2001: 218). See for a concentrated presentation of the in the context of this argumentation relevant approaches within the New Economic Geography the contributions of Ottaviano/Puga (1998), Schmutzler (1999), Fujita et al. (1999) as well as Fujita/Thisse (2000).

lead to the result that a flooding of the country with a higher GDP per capita by cheap foreign services, which should justify restrictions in service mobility between Austria and Slovenia, cannot be confirmed in the case of a complete opening of borders (Bartsch/Diekmann 2006: 61).

This insight becomes additionally weighted by considering that a restriction in cross-border service mobility cannot be equated to the situation of no cross-border provision of services in the regimented sectors. All previous experiences show – with a given demand for service imports – a tendency towards movement in the “grey area” of illegal service providing; demanded services are provided without assurance of their lawfulness. The choice of black market strategy, especially in cross-border service mobility, is often rather an immediate reaction to the trade barriers attached to existing laws than the result of an intention to defraud (European Commission 2002: 75). However, the development of “black-market strategies” represents a losing deal for all affected. Providers as well as consumers of services are exposing themselves to the danger of receiving significant fines. Additionally, they would not be able to rely on official proceedings or legal means in the event of a legal case. Also provider of cross-border services must remain comparatively invisible, which causes them to miss out on economic chances because they cannot openly advertise services and secure the competitive ability of the company in the long term. Finally, the government does not only miss out on tax revenues, but it also finds itself confronted with the complexity and costs of fighting illegal cross-border service providing.

3. Consideration of the Cross-Border Trade with Services between Austria and Slovenia
- 3.1 Austria as the Winner of Trade with the New EU Member States

In previous years Austria's export development has shown an unambiguously positive development tendency. From 2004 to 2008 Austria's exports increased on average by 8.36% per year. With a rate of growth of 7 % in contrast to the preceding year the volume of goods exported in 2005 reached the barrier of 100 billion €, which marks a substantial export success in comparison to the volume of approx. 40 billion € in 1995. With this the export economy accounted for half of the real economic growth of 1.9 % in 2005. Relating to the labor market development, this signifies a gain of 38,000 new domestic jobs along with an increase of the public revenue to almost 1.5 billion €. From 1995 to 2005 the export quota (percentage of exports in GDP) increased from 25 % to more than 38 %. Altogether more than a million jobs are directly or indirectly dependant on export, thereof almost 250,000 on the service sector. Regarding the service sector the volume of exported services rose from 20 billion € to 30 billion € in the period of 1995 to 2005. Since 1995 the number of people employed has increased from more than 200,000 to over 3.2 million, whereas the export sector plays a primary role for this development (WKÖ 2006a: 3).

An essential factor for Austria's export success was the opening of Eastern Europe for international trade in the beginning of the 1990s. The growth of the market and the gains in competition linked to it has not only led to a substantial increase in exports, but also a moderation of the deficit in the Austrian balance of trade due to a regional export surplus. Concerning its geographical direction, trade with the eastern European countries is mainly concentrated on the more or less immediate neighbor countries of

Austria (Poland, the Czech Republic, Slovakia, Hungary and Slovenia), with which about two-thirds of the Austrian eastern trade is conducted (Bundesministerium für Wirtschaft und Arbeit 2004: 249). The development of the trade balances with these countries in the last five years shows that Austria has a clear export surplus in relation to the central and eastern European states. This applies – next to Hungary – especially for Slovenia in the form of an export surplus of more than 800 million € in 2004 as well as 2005 (WKÖ 2006a; Stanovnik 2004).

3.2 Development of the Service Exports from Austria's Perspective

In international comparison Austria belongs to the worldwide leaders of service exporters. Considering the period of 1980 to 2005, a growth of 525 % can be determined regarding tradable services, which corresponds to an average (nominal) annual increase of 7.6 % (WKÖ 2006b: 3). With a trade volume of 48.3 billion US \$ in 2004, Austria was among the twelve biggest export nations in the service sector (WTO Trade Statistics 2005). In comparison to the cross-border trade in goods the service exports exhibit a clearly stronger growth in view of recently published data. While the export of goods grew annually by 8 % from 1998 to 2008 the rate of growth of service exports amounted to annually 10 % in the considered period. With this the positive development of Austria's international trade can increasingly be lead back to the service sector. Differentiated by branches, the clearest rates of growth from 2000 to 2008 were obtained in the sectors of innovative services which include communication, ICT, R&D, architecture and technique services (OeNB 2009).

The positive development in the named sectors is in accord with the theoretical considerations formulated above. These service sectors exhibit a special dynamic development because of comparative advantages marked by a high knowledge and technology intensity and by high to highest demands on the qualification of workers (Bundesministerium für Wirtschaft und Arbeit 2004: 250). In view of service trade with eastern European neighbor states, the specialization and competitive advantages prove to be especially prominent. While, in comparison to countries like the USA, Germany or even the Netherlands, Austria's export economy exhibits a comparative advantage only in the sectors of communication and insurance services as well as in the sectors of tourism and transportation, and simultaneous disadvantages in the sectors of data processing, financial services, company-oriented services and the exportations of patents and licenses, which does not apply in the same way for the eastern European trade partners (the Czech Republic, Hungary, Poland, Slovakia and Slovenia). In fact, next to the Czech Republic, it was primarily Slovenia that participated more than average in trade with Austria within the categories insurance, finance, data processing, patents and licenses, communication as well as other company-oriented services.

Apparently Austrian service providers can successfully operate on the yet to be fully developed markets in the eastern European transformation countries and in particular on the Slovenian market, especially in the sector of knowledge intensive and complex services that are solely competitively restricted on the world market (Puwein et al. 2001: 65; Bundesministerium für Wirtschaft und Arbeit 2004: 310). Albeit, due to the existing transitional regulations in the service sector, service trade with neighboring states in central and eastern Europe contributes approx. 40 % to the entire surplus in Austria's balance of service trade. This seems to be one of the essential reasons why

Austria belongs to those EU countries that last but not least can anticipate significant gains in value added in the service sector with regard to the market integration of the eastern European accession countries (Copenhagen Economics 2005: 9).

Concerning international service trade, four different "provision types" can be distinguished: cross-border trade in the strict sense, consumption abroad, commercial presence abroad and presence of real persons abroad. The largest part of the Austrian service trade is allotted to commercial presence in the form of established offices of domestic companies abroad. While the participation of the entire cross-border trade was in decline in all other categories in the recent past, the cross-border provision of services in the form of established offices abroad and, therefore, direct investments has experienced a considerable increase.⁶ Concerning Slovenia, Austria is the largest direct investor in the country. According to current data from the Slovenian National Bank, after an increase of 11% in 2005, the direct investments of Austrian companies amounted to a total of 1.7 billion €, which denotes a percentage of 29 % of all direct investments in Slovenia from abroad. Almost half of the direct investments was allotted to investments in the service sector (especially in the sectors of company-orientated services, finance, telecommunication as well as transportation) (AWO 2007: 5; Stanovnik 2004: 113).

The previous considerations make clear that, under the given conditions, Austria simultaneously profits in two ways from service trade with eastern European neighbor states. On the one hand, Austria has a superiorly high competitive ability in many service sectors relative to Austria's advantageous position in worldwide comparison due to a still existing need to catch up of the new member countries. Amongst other things, Austria is hereby in relation to Slovenia a beneficiary of geographical closeness to the relevant market. On the other hand, Austria also profits from the protection of domestic companies from potential competition by Slovenian companies in comparatively labor intensive service sectors.

4. Differentiation of Cross-Border Tradable Services According to their Geographical Market Radius

4.1 Spatially Bounded and Spatially Non-Bounded Service Markets

From an economic point of view, above all, it is the geographical market radius that is meaningful regarding the effects of a complete liberalization of cross-border services mobility on individual branches of the service sector. Thus Austria's previous trade gains in the service sector in relation to Slovenia are based on the trans-national provision of services that can be classified as spatially non-bounded (for instance, the provision of insurance or financial services). Even before Slovenia entered the EU, due to knowledge, qualification and scale effects, Austria had already possessed competitive advantages over the neighboring country, which could intensely be exerted due to the market integration.

⁶ In the period of 1997 to 2003, a decrease is observable in the share of cross-border services from 40 % to 28.7 %, in consumption from abroad from 24.3 % to 14.0 % and in presence of people abroad from 2.0 % to 1.3 %. In contrary, the share of service provision of companies with offices abroad increased from 33.8 % to 56.3 %. See also WKÖ (2006b: 6).

Assumptions differ in reference to those service branches that are only operative on geographically limited markets. All of the service sectors affected by the temporary arrangements of the Slovenian EU membership treaty can be counted among them. Here one can talk about spatially bounded service markets with a limited geographical radius, as long as the providers are physically present at the location of demand when the service is being provided. Due to existing productivity and wage differences between Austria and Slovenia, an abolishment of the still existing temporary arrangements would lead to a considerably changed competition regime in those markets. While Austrian regions far from the borders are not affected by the new circumstances, one can nevertheless assume that in the border regions the competition intensity in affected regional service markets will strongly increase, as the complete exhaustion of cross-border service potential was not possible up to now due to the existing legal segmentations (Mayerhofer/Palme 2001: 84; Puwein et al. 2001: 64).

The significance of the geographical market radius along with the special affectedness of regions close to the borders highlights the fact that different effects within the Austrian states (Bundesländer) must be anticipated in the event of a complete liberalization of the service market between Austria and Slovenia. Thus it can be assumed that states like Carinthia, Burgenland or Styria will tend to be far more affected by a complete liberalization of the service market than Salzburg or Upper Austria. The results of the so-called Preparity Study⁷, in which the ramifications of an eastern enlargement of the EU on Austria's service sector were examined amongst other sectors, deliver an indication of this. Following the results of this research, it can be concluded that states like Carinthia, Styria or Burgenland would face above-average effects from the abolishment of the temporary arrangements within the regimented sectors in comparison to the rest of Austria. Additionally, if one accounts for the regional distributional pattern of the regimented service sectors, possible disadvantages could result primarily in the more rural (border) regions (Puwein et al. 2001: 71; Mayerhofer/Palme 2001: 145).

In order to be able to estimate the significance of the economic consequences expected from a complete market opening, it is worthwhile to take a glance at the number of employees in the regimented service sectors in relation to other branches as well as their development in the previous years.

4.2 Number of Employees as an Indicator of the Regional Economic Significance of Regimented Service Sectors

By analyzing the available data on the current state of employment and the development of the number of employees in the Austrian service industry in the past years, a gain in significance of this sector in relation to other economic sectors can be determined. The development in Austria corresponds to the development in other industrial countries, which are marked by a structural change into a so-called service society. The service economy contributes not only to approx. two-thirds of the Austrian value added. Beyond this, around 67 % of the labor force is active in service branches (WKÖ 2006b: 8). For a closer consideration of the service sectors classified as "sensitive" within the temporary arrangements, it is however of greater importance, to diffe-

⁷ For a brief summary of the results of the „Preparity-Study“ see Bundesministerium für Wirtschaft und Arbeit (2001).

rentiate between the development of the number of employees in spatially non-bounded as well as spatially bounded service markets.

Considering the already mentioned fact that all regimented service sectors are included in the latter category, a distinctly divergent trend between both types of service branches marked-off by their differing geographical market radius appears (Bundesministerium für Wirtschaft und Arbeit 2001: 14). Thus, in reference to the period of 1976 to 2005, it can be determined that the relative employment growth in service branches with spatially non-bounded markets has risen more than 15 % compared to a decrease of 5 % of the number of employees in service branches with spatially bounded markets. This (relative) difference in employment growth shows a clear drifting apart of the corresponding branches within the past years. This development is indeed in accordance with the general structural change in the service sector. Qualification and knowledge intensive service branches are identified as economically beneficial and Austria in relation to Slovenia already disposes comparative advantages within these sectors.

Beyond this, a further topic must still be considered. The relative employment growth and the comparably crude differentiation of service branches according to their geographical market radius does not allow for any conclusions regarding the importance of the affected service branches considering the total labor force in Austria. In order to answer this question, table 1 on the following page contains corresponding data. It gives an overview of the present significance allotted to the regimented service sectors measured in labor force participation. Accordingly, 7.90 % of all Austrian employees were allotted to the regimented service sectors within the years 2006 and 2007. A careful interpretation of this value suggests the conclusion that the provision of corresponding services is in fact not unimportant within the entire economic structure of Austria. However, a decline in the employment rate due to the possibly expected complete opening of the service market would not necessarily confront Austria with hardly manageable adaptation problems. This applies even more, as based on the previous argumentation only the markets of corresponding services in the regions close to borders are expected to be affected by competitors from the new EU member states (and with them of course Slovenia).

Table 1 also identifies the share of employment in regimented service sectors in the border regions Carinthia, Styria, Burgenland and Lower Austria. Thereby, it is shown that an average share of 3.09 % of the total labor force participation in Austria is employed in the regimented services branches within the chosen border regions. This value underscores the estimation met above that indeed a noticeable, but an in fact qualifying importance for the whole development of the Austrian economy is allotted to the service sectors affected by the temporary restrictions. It is furthermore striking that the share of individual branches in relation to the total employment varies within the border regions in comparison to the rest of Austria. Thus the share of construction services in the regions close to borders tends to be lower than the share within the entire country. By contrast, the values for the cleaning industry, the sector of electronic installation or even detective work and security services lie above the values of the whole country.

Finally, table 1 also contains a notation with respect to the importance of individual branches measured by the number of employees attributed to the regimented services.

Thereby, it can be shown that the current number of employees is dispersed very differently between the individual sectors. Thus, service branches like other building installations, other building completion and finishing work, insulation work activities or even the processing and treatment of ornamental and stone, exhibit a comparably low number of employees. In the years 2006 and 2007 the share of those branches in the total number of all Austrian employees moved between 0.06 % and 0.08 %. By contrast, noteworthy shares of employees are primarily allotted to general construction of buildings and civil engineering works, but also to industrial cleaning services, as well as the installation of electrical wiring and fittings and the sector of plumbing. For the period of reference the corresponding values moved between 0.78 % and 1.78 %. However, the values turn out to be lower in regions close to borders.

Table 1: Average Employment in the Regimented Service Sectors in the Years 2006 and 2007 in Austria⁸

Sector	Absolute		Relative to restricted sectors in %		Relative to employment in %	
	Austria	Border regions	Austria	Border regions	Austria	Border regions
Landscape gardening	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Cutting, shaping and finishing of ornamental and building stone	3121	1490	0,99	1,21	0,08	0,04
Manufacture of metal structures and parts of structures	18815	10060	5,98	8,19	0,47	0,25
Demolition and wrecking of buildings	4005	2794	1,27	2,27	0,10	0,07
Testdrilling and boring	148	90	0,05	0,07	0,00	0,00
General construction of buildings and civil engineering works	70703	25436	22,49	20,71	1,78	0,64
Erection of roof covering and frames, tinsmiths and waterproofing	21960	10951	6,98	8,92	0,55	0,28
Construction of motorways, roads, airfields and sport facilities	19743	10809	6,28	8,80	0,50	0,27
Construction of water projects	279	225	0,09	0,18	0,01	0,01
Other construction work involving special trades	7385	2942	2,35	2,39	0,19	0,07
Installation of electrical wiring and fittings	31471	12253	10,01	9,98	0,79	0,31
Insulation work activities	2692	1198	0,86	0,98	0,07	0,03
Plumbing	31154	12399	9,91	10,10	0,78	0,31
Other building installation	2017	910	0,64	0,74	0,05	0,02
Plastering	5096	2146	1,62	1,75	0,13	0,05
Joinery installation	4941	1951	1,57	1,59	0,12	0,05
Floor and wall covering	12043	5008	3,83	4,08	0,30	0,13
Painting and glazing	18080	7842	5,75	6,39	0,45	0,20
Other building completion and finishing work	2289	1288	0,73	1,05	0,06	0,03
Investigation and security activities	9698	2183	3,08	1,78	0,24	0,05
Industrial cleaning	48761	10820	15,52	8,82	1,23	0,27
Other human health activities	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Social work activities without accommodation	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
In total	314395	122790	100.00	100.00	7,90	3,09

Source: Statistic Austria; own calculations.

The comparably low number of employees in the firstly mentioned service sectors speaks for being able to classify the expected negative effects of a complete opening of the service markets as negligible; this however does not apply in the same manner for the second group of service sectors identified as having a clearly higher number of

⁸ Table 1 contains figures which stem partially from the so-called Austrian Performance and Structural Statistic (Leistungs- und Strukturstatistik für Österreich). However, this statistic faces some data problems. With “n. a.” marked data is either not available or confidential due to legal regulations (no publication allowed if there are less than 4 service providers in one sector). These facts lead to the risk of distorted interpretations.

employees. In order to be able to assess the effects of potentially increasing competition through a trans-national market opening in these service sectors, a consideration of the eastern European neighboring states' competition potential – in particular in the border regions – is nevertheless needed. An attempt of such an assessment will be undertaken by considering Carinthia's situation in relation to the corresponding Slovenian border regions.

4.3 Economic Significance of the Regimented Services in Carinthia

By exclusively directing attention to Carinthia, it can initially be determined in basic form and by considering the structural change taking place that – analog to the rest of Austria's federal territory – the change to a qualification and knowledge intensive production structure is also in progress in Carinthia. If one considers the employment development in the period of 1995 to 2005, innovation and human capital intensive production sectors like auto part manufacturing (an increase in the number of employees by 1,805 individuals or 50 % respectively), electronics (an increase of 3,135 employees or 39 % respectively) and chemistry (an increase of 1,616 employees or 9.5 % respectively) belong to the economically prospering sectors. The branches disadvantaged by the structural change produce primarily in a labor cost intensive manner, like the branches of leather (decrease by the amount of 1,267 employees or 57.7 % respectively), furniture, jewelry and athletic equipment (decrease by the amount of 2,465 employees or 42.1 % respectively), glass, stone and ceramics (decrease by the amount of 2,259 employees or 34.6 % respectively) as well as foodstuff (decrease by the amount of 4,328 employees or 13.3 % respectively).⁹

In a spatial sense the structural change expressed by the employment data and their change over time turns out to be different. Thus the process of change is primarily taking place in the urban centers of the country (above all in the regions of Klagenfurt and Villach), while labor intensive production structures make still up a significant part of the economic activity in the more rural regions of Carinthia. Altogether and with special consideration of the regimented service sectors, it however also applies to Carinthia that these sectors, due to their comparably high wage levels and labor intensity must be counted among the branches losing economical importance in the future concerning the perspective of regional economic development.

In order to be able to determine the current significance of service sectors classified as sensitive for the Carinthian economy, one can again refer to the percentage of employees of the respective branches in relation to the total number of all employees in Carinthia. Table 2 identifies the corresponding data for Carinthia as well as other Austrian states with a common border to the nine central and eastern European EU accession countries (here Burgenland, Lower Austria and Styria). The average percentage of employees in the relevant service sectors in Carinthia amounted to 10.46 % within the years 2006 and 2007. Considering the percentage of employees within the group of regimented services, the employment intensive sectors general “construction of buildings and civil engineering works” as well as “installation of electrical wiring and fittings” are with shares of 15.14 % and 6.54 % below the ones of employees within the entire country.

⁹ See for the mentioned figures IHS Kärnten (2007), Stanovik (2004), Gruber (2004) as well as Mayerhofer (2003).

Table 2: Average Number of Employees in the Regimented Service Sectors in the Years 2006 and 2007 in the Regions Burgenland, Carinthia, Lower Austria and Styria

	Burgenland		Carinthia		Lower Austria		Styria	
	Absolute	%*	Absolute	%*	Absolute	%*	Absolute	%*
Landscape gardening	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Cutting, shaping and finishing of ornamental and building stone	131	1,42	93	0,35	747	1,54	519	1,35
Manufacture of metal structures and parts of structures	858	9,31	1892	7,12	4525	9,33	2786	7,24
Demolition and wrecking of buildings	192	2,08	296	1,11	1521	3,13	786	2,04
Testdrilling and boring	n. a.	n. a.	22	0,08	20	0,04	48	0,12
General construction of buildings and civil engineering works	2453	26,64	4025	15,14	10333	21,30	8626	22,41
Erection of roof covering and frames, tinsmiths and waterproofing	996	10,82	1802	6,78	5018	10,34	3135	8,15
Construction of motorways, roads, airfields and sport facilities	n. a.	n. a.	8459	31,82	1131	2,33	1219	3,17
Construction of water projects	n. a.	n. a.	36	0,14	178	0,37	11	0,03
Other construction work involving special trades	229	2,48	371	1,39	1582	3,26	761	1,98
Installation of electrical wiring and fittings	914	9,93	1737	6,54	5696	11,74	3907	10,15
Insulation work activities	109	1,18	212	0,80	446	0,92	431	1,12
Plumbing	1048	11,38	1897	7,14	5145	10,60	4310	11,20
Other building installation	80	0,87	69	0,26	543	1,12	219	0,57
Plastering	218	2,37	380	1,43	505	1,04	1043	2,71
Joinery installation	133	1,44	222	0,84	941	1,94	655	1,70
Floor and wall covering	532	5,77	988	3,72	1744	3,59	1745	4,53
Painting and glazing	840	9,12	1173	4,41	3390	6,99	2439	6,34
Other building completion and finishing work	88	0,96	187	0,70	739	1,52	275	0,71
Investigation and security activities	n. a.	n. a.	135	0,51	1421	2,93	628	1,63
Industrial cleaning	389	4,22	2588	9,74	2899	5,97	4944	12,85
Other human health activities	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Social work activities without accommodation	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
In total	9208	100	26580	100,00	48519	100,00	38484	100,00

Explanation: %*==in employment in restricted sectors within the respective region; %**==in employment in total within the respective region
Source: Statistic Austria; own calculations.

Table 3: Available Appointments within the Regimented Service Sectors in Austria and Carinthia (Annual Value from 2006)

Sector	Carinthia	Austria
Landscape gardening	5	104
Cutting, shaping and finishing of ornamental and building stone	1	38
Manufacture of metal structures and parts of structures	34	232
Demolition and wrecking of buildings	10	81
Testdrilling and boring	0	3
General construction of buildings and civil engineering works	44	881
Erection of roof covering and frames, tinsmiths and waterproofing	46	376
Construction of motorways, roads, airfields and sport facilities	2	20
Construction of water projects	0	8
Other construction work involving special trades	7	80
Installation of electrical wiring and fittings	24	292
Insulation work activities	7	29
Plumbing	18	357
Other building installation	1	47
Plastering	2	64
Joinery installation	10	131
Floor and wall covering	12	205
Painting and glazing	13	272
Other building completion and finishing work	22	131
Investigation and security activities	16	129
Industrial cleaning	29	551
Other human health activities	11	158
Social work activities without accommodation	23	449
In total	336	4,637

Source: AMS Österreich (2007).

If this data already indicates that the “negative degree of affectedness” of the Carinthian economy by a complete liberalization in the sectors of the regimented services should tend to remain within close limits, this estimation can additionally be substantiated in view of the labor market situation in these sectors. Here the number of immediately available appointments in the regimented service sectors serves as an appropriate indicator. Those exhibit a corresponding demand for employees in the mentioned branches for 2006. The uncovered demand endures when exclusively the Austrian border regions are considered. The number of open positions in Carinthia is representatively identified in table 3. Accordingly, only three relevant service sectors are classified as having no immediately available open positions. For all other 21 sectors of regimented service branches exists a more or less large demand for additional employees. As far as this surplus of employee demand cannot be covered by a domestic supply, a complete liberalization of cross-border service mobility would make it possible to satisfy the insufficiently covered demand on the labor market and therefore - as a rule - of services within the corresponding branches by a trans-national provision of services (here via Slovenian providers).

4.4 Assessment of the Increase in Competition Associated with a Market Opening

With regard to a comprehensive economic assessment of the potential effects resulting from a complete liberalization of the service market, it is however last but not least of importance that due to additional competition from Slovenian service provid-

ers an increase in competition intensity is to be expected in the regimented service sectors. Indication for this can be delivered by answering the question how high-performing and thus competitive the economic situation in Slovenia and especially in the border regions to Austria (Carinthia and Styria respectively) turns out to be. Here it can be determined that the Regions of Koroška, Podravska, Pomurska and Gorenjska, which share immediate borders with Carinthia (as well as Styria), are amongst those regions with a below-average economic performance measured by the gross domestic product of Slovenia.¹⁰ In addition, the percentage of all workers employed in the service sector is comparably low referring to industry and business in the mentioned regions.¹¹ From an economic perspective, both aspects point at a state of “catching up development” and therefore a comparatively low economic potential (also in the service sector).

This shows that the overall determinable positive economic development of Slovenia in the past years only conditionally applies to the regions immediately bordering Austria (Mayerhofer 2003: 97). As far as positive border effects can be recorded for Slovenia, regions close to the Austrian border are less affected than those close to the Italian one (Goriška as well as Obalno-kraška), which prove to have the highest per capita income subsequent to the central regions around Ljubljana. The in comparison more hesitant economic development – primarily in the regions of Koroška (but also Pomurska) – may be significantly conditioned by the low population density and by being geographical as well as traffic-wise outskirts. Despite the rather marginal data about the supply structure in these regions, this could be an indication that the existing supply density for cross-border service provision in the mentioned regions still cannot be compared with the level in Austrian border regions. Already at an earlier point in time studies had reached this conclusion at least for service provision in the sectors of the construction industry as well as related industries (Mayerhofer/Palme 2001). Here considerable competitive advantages (compared to the interior of Austria) are apparent especially regarding the construction industry in Carinthia due to low unit labor costs as well as high productivity values. By following the thesis formulated within the theoretical considerations, these advantages linked to the greater supply density in the regions close to borders allow for the assumption that a complete liberalization of service mobility between Austria and Slovenia may not lead to a crisis-like development in the Austrian regions.

The labor market development in the Slovenian regions close to the Austrian borders delivers a further indication for the expected competition in regimented service sectors after a complete liberalization of cross-border service provision. The unemployment rates in the regions sharing immediate borders with Carinthia (and Styria) still lie above the Slovenian average. However, they are moving in the direction of a com-

¹⁰ Relating to the income level of the mentioned Slovenian regions and in comparative perspective within the European Union, in 2004 the GDP per capita (in purchasing-power parity) did amount as follows: Koroška (64 %), Podravska (70 %), Pomurska (58 %) and Gorenjska (72 %). By contrast at the same time the corresponding GDP per capita value of the Slovenian central region in the surroundings of Ljubljana did amount to 119 %. To draw a comparison the average value of GDP per capita for all Austrian regions was 129 % in 2004. See also Bundesministerium für Wirtschaft und Arbeit (2007).

¹¹ With 40.4 % the share of total labor force in the service sector within the region of Koroška is, for instance, rather low compared to a value of 53.7 % in industry and 5.9 % in agriculture. A similar allocation can be seen within the regions Podravska (55.3 % within the service sector) and Gorenjska (49.3 %). See also Institut für Geographie an der Universität Innsbruck (2007).

parably moderate level.¹² The positive development of wages with increasing rates - even above the level of the dynamic regions bordering Italy - within the past years suggests nevertheless that the actual rate of unemployment could be lower than officially documented and that employment in the informal sector is very pronounced, which could explain the increase in the so-called reservation wage (Mayerhofer 2003: 98). This would simultaneously confirm the theory that a regimentation of cross-border mobility simply leads to a giving way to illegal or shadow economic activities. This means an elimination of all existing regimentations on the service markets would only conditionally amount to an intensification of the competitive situation for Austrian providers. Moreover, a part of the already present, yet still illegally occurring service provision should carry over to a legal form.

To which extent the current labor market situation in the Slovenian regions bordering Carinthia and Styria can be considered to derive negative effects for Austrian border regions in the event of a complete market opening in the service sector is considered questionable due to another reason. One can determine that at least in one part of the regimented service sectors noteworthy gaps in supply exist also for the Slovenian side (Isoplan Consult GbR 2007). This is the case, for instance, regarding employees for construction work (for example, masons, carpenters, roofers), cleaning personnel, employees in the area of metal processing, electricians and certain occupations in the health and care-giving sector. In each mentioned field substantial impasses exist on the Slovenian labor market and respectively on the labor markets in the relevant Slovenian regions with borders to Austria. From an economic point of view, a “crisis-like development” after the abolishment of the valid regimentations should not be feared when considering the regional employment situation in Slovenia.

5. Conclusion and Political Recommendations

With the aim of establishing an internal market without interior borders within the EU, the basic principles of free mobility of goods, services, labor and capital are valid, also in relation to the new member states. The temporary regulations established in the membership treaty in 2003 nevertheless allow restricting deviations from these basic principles. In the membership treaty it is stated that the Council of the EU examines temporary regulations before expiration of the respective deadline based on a report by the commission. After completion of this examination and at the latest on the expiration date of the deadline (here April 30, 2009) the so-called EU 15 member states had to inform the commission of their intention concerning the third phase of the temporary regulations. If they did not do so, then starting on May 1, 2009 Community Law applies regarding the four basic freedoms mentioned and with that a complete liberalization of cross-border service mobility in all sectors. The criterion of a disturbance on the respective national labor market served as an indicator for assessment regarding the question if an extension of the preceding transitional periods can be submitted in 2009. Against this background it should also be clear that a disturbance to only regional labor markets is insignificant with respect to the question whether the existing restrictions of cross-border service mobility between Austria and Slovenia should be continued beyond 2009 or not.

¹² In 2005 the average annual employment rate amounted to 6.8 % in Koroška, 8.7 % in Podravska and 4.7% in Gorenjska. In comparison, the unemployment rate amounted to 2.8 % in Innsbruck and 4.5 % in Klagenfurt-Villach within the considered period. See also Institut für Geographie an der Universität Innsbruck (2007).

The previous considerations of possible labor market effects due to the integration of the new EU accession countries into the common European economic area suggest that even in the event of a complete market opening in cross-border mobility no noteworthy negative effects on the domestic labor market should be anticipated from Austria's perspective. From an economic viewpoint, no argumentation can thus be mentioned that could justify further upholding of the restrictions that have applied so far for regimented service branches beyond 2009 to the maximal point of time (2011).

In addition, this recommendation can be backed up by considering the expected welfare and efficiency effects of a complete liberalization of cross-border service mobility which are treated within the general theoretical considerations of this paper. Accordingly, an abolishment of the restrictions in cross-border service mobility would thus be first and foremost advantageous for the potential consumers of these services in the form of a broader offering, a higher quality as well as cheaper prices for the corresponding services. An expansion of offered services gives the (Austrian) consumers the chance to exercise their "consumer sovereignty" better than before in aid of an increase in individual welfare, because market opening leads to an erosion of monopoly rents on the providers' side.

While consumers are able to enjoy a broad offering of services at competitive prices and preferred quality, even the Austrian business sector would profit from a complete market integration in the service sector, because, according to all projections, a positive chain reaction in other service sectors would come about due to the high degree of integration of services amongst themselves and with the sectors of real asset production. By considering these additional effects, one can assume that a waiving of the restrictions in cross-border service mobility leads to significant efficiency and welfare gains.

Furthermore, a waiving of the continuation of the existing temporary regulations could finally be justified by taking into account the spatial effects of complete market integration on a potential increase of the competitive intensity for Austrian providers in the sector of regimented services. On the one hand, by considering the geographical market radius of the corresponding service branches, a direct affectedness for the Austrian border regions should be assumed. But the shares of the affected branches in employment show mainly a tendency towards below-average relevance in relation to Austria's overall situation. Therefore, most regimented sectors cannot be considered to be of enduring significance for the future economic development in these regions. On the other hand, the attempt to assess the power of the potential competitors in the Slovenian border regions has led to the estimation that the relevant service branches can be classified as only conditionally competitive. Moreover, in view of the current labor market situation, an increased demand on employees is at least exhibited in a part of the regimented service sectors. For this reason – but also with consideration of the general experiences concerning cross-border service trade – one should not expect a "flooding" of the domestic market because of the existing wage differences between Austria and Slovenia.

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