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THE DECLINE IN THE TOURISM SURPLUS

Up to the early 1990s, the export surplus for tourism was the major component in the current account offsetting the perennial trade deficit. Thus, for many years, the natural competitive advantages of Austria's tourism sector served to mask the structural weakness of Austria's economy. As a result, the restructuring of the primary and secondary sectors may have been unduly delayed.

Since the beginning of the 1990s, the structural weaknesses of the Austrian tourism sector have had a negative impact on the balance for travel services. The trend decline in the foreign demand for Austrian tourism services has been amplified by the appreciation of the schilling against several major currencies and by the globalization process. At present, the tourism industry is among those sectors of the Austrian economy which suffer from the globalization process.

Since the record high of 1991, the surplus in the balance for travel services has been narrowing markedly. The surplus fell precipitously from ATS 70.9 billion in 1991 (about 3½ percent of GDP) to an estimated ATS 17 billion in 1997 (¾ percent of GDP; Figure 1). The contribution of the export surplus for tourism in offsetting the trade deficit declined from 62¾ percent in 1991 to 13 percent in 1997.

The surplus in the balance for travel services is exclusively due to the surplus achieved in the winter tourism season (ATS 21 billion), while the summer season is expected to post a deficit of at least ATS 4 billion (Figure 1). Almost three fourths of the deterioration in the tourism balance can be attributed to the summer season and only slightly more than one quarter to the winter season. Thus, the problems besetting the tourism sector are to be found mostly in the summer season, but with strong variations across regions and enterprises.

This comparison should, however, take into account that the high levels at the beginning of the 1990s reflect several special factors (such as the German reunification, the opening of the East, pollution of the Upper Adriatic, a surge in direct merchandise imports by Austrian tourists) and the decline is somewhat overdrawn.

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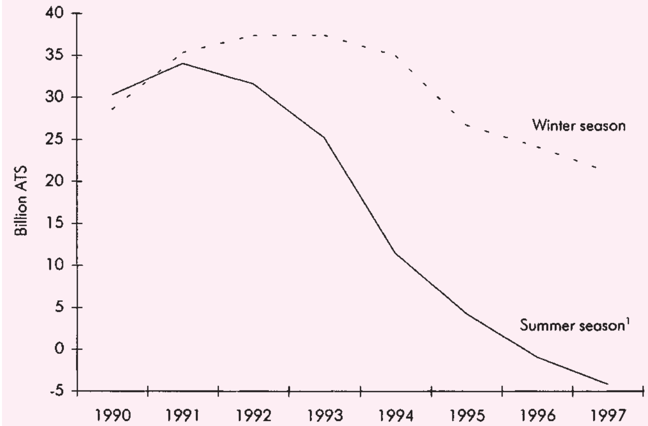
Table 1: The development of the travel account

	Exports	Imports	Exports	Imports	Balance	
	Billion ATS		Percentage changes from previous year		Billion ATS	As a percentage of GDP
1990	146.9	86.1	+7.7	+ 6.1	60.8	3.35
1991	154.4	83.6	+5.1	− 2.9	70.9	3.64
1992	159.6	92.2	+3.4	+10.4	67.4	3.28
1993	157.5	96.1	−1.3	+ 4.2	61.4	2.89
1994	150.2	107.4	−4.7	+11.7	42.8	1.91
1995	147.1	117.5	−2.0	+ 9.4	29.7	1.27
1996	148.3	125.2	+0.8	+ 6.5	23.1	0.96
1997	148.3	131.4	±0.0	+ 5.0	16.8	0.68

Source: Austrian National Bank, National Accounts Statistics. Totals do not add due to rounding. 1997: projections (September 1997).

Figure 1: Tourism balance



Source: Austrian National Bank, WIFO. – [1] 1997: estimate.

DETERIORATION IN THE INTERNATIONAL COMPETITIVE POSITION DOMINATED BY STRUCTURAL PROBLEMS

The deterioration in the tourism balance is largely due to a decline in the foreign demand for Austrian tourism services; the negative effects resulting from increasing travel and purchases of Austrians abroad are markedly smaller. The decline in tourism exports of 3½ percent per year during the period from 1991 to 1997 occurred against an estimated growth in the major tourism markets of 3 percent on average per year in real terms. Thus, the difference of 6½ percentage points per year could be interpreted as the hypothetical demand shortfall. A similar calculation for the import side yields a growth-induced rise in price-adjusted tourism imports of 2½ percent per year; the difference between actual growth rate (6 percent) and the hypothetical growth rate is 3½ percentage points per year. The slightly higher export growth is mainly due to the shift to faster expanding markets, while the hypothetically weaker (income-induced) rise in demand for traveling abroad by Austrian can be attributed to the relatively low overall growth rate of the Austrian economy in the 1990s.

A comparison of the hypothetical with the actual development shows that about 75 percent of the deterioration in the tourism balance is accounted for by exports and only one fourth by imports.

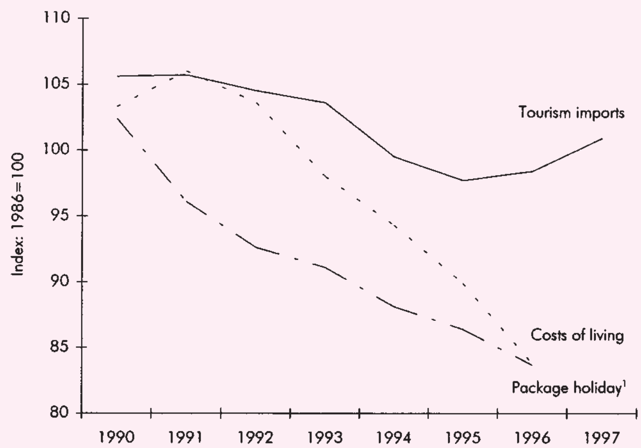
Further calculations on the basis of a world tourism model show that the major part of the decline in export earnings is the result of structural deficits; a smaller part is the result of the deterioration in the price-determined competitive position.

The application of (relative) export price elasticities (derived from a world tourism model) to the actual development in Austria yields a negative price and foreign exchange rate effect of 1½ percentage point per year (*Smeral,* 1994): taking account of the growth and price effects, Austria's tourism exports should have expanded by about 1½ percent per year in real terms throughout the period 1991-1997. Most of the discrepancy between this and the actual development (5 percentage points) may be interpreted as a negative structural effect. In other words: given the actual growth path, the negative price and foreign exchange rate effect can explain almost one fourth of the growth deficit (interpreted as the difference between hypothetical and actual growth rates); the major part, amounting to more than three fourths, can be attributed to structural factors.

On the import side, the income and price elasticities yield a hypothetical growth-induced rise in (price-adjusted) tourism imports of 2½ percent per year for the period 1991-1997; the decline in relative prices for foreign travel raises the growth rate by 1½ to 4 percent per year. The remaining 2 percentage points of the difference between the hypothetical and the actual growth rate of 6 percent can be interpreted as structural effects. Thus, the drop in relative prices (price and foreign exchange rate effects) can account for slightly more than 40 percent of the excess of the actual growth rate over the (hypothetical) income-induced import increase; almost 60 percent of the additional rise in spending on foreign travel can be interpreted as structural effects. The decline in relative prices of foreign travel mainly reflects cheap air travel arrangements and the decline in relative (weighted) costs of living (Figure 2). The fall in relative costs of living in the destination countries stimulates not only foreign travel but also direct merchandise imports. In a similar way the structural effect comprises, in addition to the structural effects of the tourism sector, the effects of Austria's accession to the EU and of the opening of the East, both of which caused a temporary surge in direct merchandise imports.

The rise in tourism imports (1991-1997 ATS +47.8 billion) can be largely attributed to higher travel activity by Aus-

Figure 2: Relative price index of foreign travel



Source: Austrian Central Statistical Office, WIFO. Relative in relation to the consumer price index. 1997: projections (September 1997). – [1] Only by plane.

trians abroad. Only about 10 to 20 percent (about ATS 5 to 10 billion) may be due to an increase in cross-border purchases. At the same time, direct cross-border exports also rose. Quantification of this demand component is made difficult by definitional problems and problems of statistical coverage; this is, however, of little consequence for the overall interpretation, given the relatively small weight of direct merchandise exports.

In an international comparison, Austria's tourism import ratio is rather high (Figure 2), partly because transactions on the capital and merchandise trade account may be recorded on the "travel imports" account. This problem in categorizing transactions is of minor importance on the export side. In the medium term, the effects of transactions on the capital account are likely to cancel each other out and should be of little consequence in an analysis of growth rates.

The greatest classification problem, though not affecting the current account balance, is posed by cross-border purchases by Austrians abroad. During shopping trips abroad, merchandise is purchased in excess of the "normal" needs of a tourist (amounting to ATS 400 to 700 on average in Europe per night and person depending on the destination). Cross-border purchases are financed in the same way as expenses for travel abroad (mainly through the purchase of foreign currencies), so that the transactions are recorded on the tourism instead of on the merchandise trade account. In practice, the delineation between pure cross-border purchases and "normal" touristic purchases is very difficult; therefore, only rough estimates of the volume of cross-border purchases – some ATS 40 to 50 billion – can be given. If cross-border purchases were excluded, Austria's import ratio would approximate that of other small European countries.

Table 2: Tourism import ratios

	1990	1991	1992	1993	1994	1995	1996
				In percent			
Belgium-Luxembourg	2.68	2.65	2.86	2.83	3.18	3.22	3.39
Denmark	2.86	2.60	2.71	2.38	2.47	2.48	2.37
Germany	2.21	2.02	2.07	2.10	2.18	2.12	2.12
Finland	2.05	2.21	2.26	1.86	1.65	1.86	1.79
France	1.03	1.02	1.06	1.02	1.04	1.07	1.14
Greece	1.31	1.14	1.21	1.09	1.15	1.16	0.99
U.K.	1.82	1.69	1.92	2.06	2.18	2.24	2.26
Ireland	2.55	2.40	2.63	2.49	3.00	3.16	3.12
Iceland	4.58	4.45	4.25	4.44	3.97	4.04	4.22
Italy	0.94	1.07	1.61	1.61	1.37	1.36	1.30
The Netherlands	2.60	2.81	2.99	2.85	2.79	2.95	2.93
Norway	3.19	2.90	3.23	3.18	3.33	3.30	2.66
Austria	4.75	4.29	4.48	4.52	4.79	5.05	5.22
Portugal	1.28	1.34	1.26	2.31	2.01	2.13	2.26
Sweden	2.74	2.62	2.85	2.41	2.46	2.36	2.50
Switzerland	2.60	2.48	2.55	2.57	2.49	2.52	2.67
Spain	0.86	0.86	0.96	0.99	0.86	0.80	0.84
Turkey	0.35	0.39	0.49	0.52	0.66	0.54	0.69
Australia	1.43	1.31	1.34	1.30	1.33	1.42	1.47
New Zealand	2.21	2.39	2.48	2.35	2.29	2.20	2.32
Japan	0.84	0.70	0.72	0.63	0.65	0.72	0.81
Canada	1.91	2.03	2.07	2.02	1.83	1.80	1.89
USA	0.66	0.61	0.63	0.64	0.65	0.65	0.66
OECD Europe	1.75	1.70	1.88	1.89	1.92	1.94	1.94
OECD total	1.22	1.15	1.24	1.17	1.19	1.23	1.27

Source: IMF, OECD, WIFO.

In the 1990s, travels by Austrians abroad intensified markedly: since 1990 and 1993, respectively, foreign travel rose by more than one fourth according to the household survey by the Austrian Central Statistical Office, while domestic travel declined (*Laimer,* 1997A).

The increase was particularly pronounced for air travel, for persons under the age of 15, and for persons between 20 and 40 years old (*Laimer,* 1997A, 1997B). The rise in travel activity by persons under the age of 15 might be due to their parents' growing travel activity. This mirrors a general trend: young persons are of burgeoning importance to the tourism market, as they have more and more money at their disposal for leisure and holiday activities.

GLOBALIZATION EXACERBATES THE EFFECTS OF STRUCTURAL WEAKNESSES

The difficulties experienced by Austria's tourism sector and the surge in travels abroad have been attributed to various factors: the high share of German tourists and the lack of economic activity in Germany, the deterioration of the price/service ratio, modernity and other image deficits in the touristic supply, backwardness concerning the use of computer-aided information and reservation systems, the special Austrian climate, and various special factors (*Smeral,* 1997).

Globalization aggravates the effects of structural weaknesses. Globalization comes mainly in the form of competition from global players (airlines, hotel chains, travel agencies), strategic alliances and cooperative ventures, the deployment of global distribution systems, and the dramatic decline of air travel costs in connection with the possibility of reaching destinations with relatively low price and income levels and low social standards (*Smeral,* 1996, 1997).

Other factors accelerating the globalization process are the world-wide liberalizing trends in the political and economic sphere, the extension of infrastructures and suprastructures, rising income levels, growing travel sophistication, new travel motives, or the emergence of new destinations. Globalization raises the potential demand for a certain destination by becoming theoretically host to "the whole world". On the other hand, competitive pressures have intensified because more places are competing with each other and the market transparency with regard to prices and facilities has increased significantly.

OUTLOOK

Austria's tourism sector has a fair chance of emerging from the present slump if the supply structure is changed markedly in the near future, and if tightly managed tourism organizations efficiently reshape the marketing and sales strategies. Measures narrowly oriented toward the tourism sector will have only limited success, because outmoded economic and social framework conditions continue to have a negative impact on the competitive position of the tourism sector.

One possible way of maintaining the capacity of the tourism and leisure industry to create income and employment is to find a new strategic position for this sector. The following key measures are recommended:

- fostering of the internationalization process in relation with a clear positioning of internationally competitive regions as air travel destinations,

The Decline in the Tourism Surplus – Summary

For many years the export surplus for tourism was a major factor contributing to balancing the current account. During the last few years, however, the structural weaknesses of Austria's tourism sector as well as the appreciation of the schilling have had a negative impact on the balance for travel services, mostly on the export side. The trend decline has been amplified by the globalization process.

Since the record high of 1991 (ATS 70.9 billion or 3½ percent of GDP), the surplus in the balance for travel services dropped by ATS 50 billion to an estimated ATS 17 billion in 1997 (¾ percent of GDP).

About 75 percent of the deterioration in the travel account since 1991 are due to the decline in exports and only one fourth to the rise in imports of travel services. Calculations on the basis of a world tourism model indicate that about three fourths of the decline in export earnings are the result of structural deficits and that one fourth is the result of the deterioration in the price-determined competitive position. On the import side, structural effects are somewhat weaker but still account for almost 60 percent of the additional rise in spending on foreign travel; the remainder can be interpreted as the results of the drop in relative prices of foreign travel.

The decline in relative prices of foreign travel mainly reflects cheap air travel arrangements and the decrease in relative (weighted) costs of living. The fall in relative costs of living in the destination countries stimulates not only foreign travel but also direct merchandise imports.

In a similar way the structural effect comprises, in addition to the structural effects of the tourism sector, the effects of Austria's accession to the EU and of the opening of the East, both of which caused a temporary surge in direct merchandise imports. The rise in tourism imports can be largely attributed to higher travel activity by Austrians abroad. Only about 10 to 20 percent may be due to an increase in cross-border purchases.

Austria's tourism sector has a fair chance of emerging from the present slump if the structure of touristic supply is improved substantially in the near future, and if the marketing and sales strategies are thoroughly restructured.

An appropriate package of measures to boost tourism should enable Austria, even though it is now a highly industrialized country, to earn an export surplus of ½ to 1 percent of GDP. If the statistics are adjusted for cross-border purchases (which should not be recorded in the tourism balance), the contribution of the tourism industry to balancing the current account is above average in an international comparison; the performance of Austria's tourism industry is all the more remarkable considering that Austria's high social and economic development tends to put production forms with a high share of personal services at a disadvantage.

- initiation of a broad-based campaign to improve the quality of tourism facilities,
- encouragement of cooperative ventures and of destination management,
- implementation of flexible production technologies in order to safeguard the supply of custom-made tourism products and experiences,
- increased supply of products of high experience value in tandem with the creation of new competitive advantages through man-made attractions,
- targeting of marketing at market segments with great growth potential (short vacations, senior holiday makers, cultural events, winter sports, as well as special offers in market niches).

An appropriate package of measures to boost tourism should enable Austria, even though it is now a highly industrialized country, to earn an export surplus in tourism of ½ to 1 percent of GDP. If the statistics are adjusted for cross-border purchases (which should not be recorded in the tourism balance), the contribution of the tourism industry to balancing the current account is above average in an international comparison; the performance of Austria's tourism industry is all the more remarkable considering that Austria's high social and economic development tends to put production forms with a high share of personal services at a disadvantage.

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