

PETER EGGER
JAN STANKOVSKY

FAR EAST MARKETS: ATTRACTIVE FOR AUSTRIA IN SPITE OF THE CRISIS

In spite of the current financial and economic crisis in south-eastern Asia, the region remains an attractive market for Austria. The “real” economy of the countries is quite sound, and they have the potential to solve their financial problems. Austria has so far had little share in the economic upswing of the region. The share of Austrian exports (excluding Japan) is just 3 percent, Austria’s market share in imports is 0.25 percent. Exports of consumer goods and commercial services are particularly meager. Austrian direct investment is just ATS 1 billion. The crisis could be used to improve Austria’s weak market presence, possibly helped by aid from the European Union.

Peter Egger and Jan Stankovsky are economists at WIFO. The authors wish to thank Fritz Breuss for his valuable suggestions and comments. The data were processed and analyzed with the assistance of Gabriele Wellan. This article is based on a WIFO study commissioned by the Federation of Austrian Industries: Peter Egger, Jan Stankovsky, Österreichs Wirtschaftsbeziehungen mit Fernost. Versäumnisse und Chancen, Vienna, 1998 (120 pages, ATS 350; to be ordered from Christine Kautz, phone (+43 1) 798 26 01/282, fax (+43 1) 798 93 86, e-mail Christine.Kautz@wifo.ac.at).

Austrian exports to the Far East¹ more than doubled (+10.7 percent p.a., Table 1) between 1989 (ATS 10 billion) and 1997 (ATS 22.7 billion), while total exports grew by just 66 percent in the same period. Yet throughout the 1990s, Austrian exports into the Far East did not quite reach the dynamism of eastern exports (which tripled between 1989 and 1997) and were significantly below exports to the successful transition countries in Central and Eastern Europe (where they quadrupled).

The pace of Far Eastern exports varied considerably in the 1990s (Figure 1). It was particularly slow in 1992 and 1996, as a result of setbacks in exports to China, and it appears to be linked to delivery cycles of plant exports. In 1997, figures were extraordinarily good until late summer, but a decline of 10.3 percent in the fourth quarter brought the annual rate down to 9.8 percent. According to the data currently available, the slowdown of total exports was moderate in 1998 (-3.0 percent

¹ As defined in this study, the “Far East” comprises the ASEAN countries (Singapore, Thailand, Malaysia, Indonesia, Vietnam, Myanmar – formerly Burma –, Brunei, Philippines) as well as China, Taiwan, Hong Kong and South Korea. In Japan, Austrian exporters face entirely different economic conditions, so that this country was not included in the study.

Table 1: Austrian trade with the Far East: summary

	1989	Export 1994	1997	1989	Import 1994	1997	1989	Trade balance 1994	1997
					Billion ATS				
China	2.22	3.73	4.18	2.88	9.68	10.62	- 0.66	- 5.95	- 6.44
"Four Tigers" ¹	5.71	9.63	11.84	12.17	14.33	12.23	- 6.46	- 4.70	- 0.38
"Four New Tigers" ²	2.06	4.40	6.17	2.86	5.24	6.09	- 0.80	- 0.85	0.08
Other countries ³	0.05	0.28	0.46	0.05	0.31	0.58	- 0.01	- 0.03	- 0.12
ASEAN ⁴	3.07	6.93	8.49	4.59	7.85	8.26	- 1.52	- 0.93	0.23
"Big China" ⁵	5.68	8.47	10.58	9.94	18.61	18.67	- 4.26	- 10.15	- 8.09
South Korea	1.28	2.64	3.58	3.43	3.09	2.60	- 2.15	- 0.46	0.98
Far East	10.03	18.03	22.65	17.96	29.56	29.52	- 7.93	- 11.53	- 6.87
Million USD	0.76	1.59	1.85	1.36	2.60	2.42	- 0.60	- 1.02	- 0.57
World	429.31	512.52	712.40	514.69	628.88	780.54	- 85.38	-116.36	- 68.13
Percentage shares of total exports and imports, respectively									
China	0.52	0.73	0.59	0.56	1.54	1.36			
"Four Tigers" ¹	1.33	1.88	1.66	2.36	2.28	1.57			
"Four New Tigers" ²	0.48	0.86	0.87	0.56	0.83	0.78			
Other countries ³	0.01	0.05	0.06	0.01	0.05	0.07			
ASEAN ⁴	0.71	1.35	1.19	0.89	1.25	1.06			
"Big China" ⁵	1.32	1.65	1.49	1.93	2.96	2.39			
South Korea	0.30	0.51	0.50	0.67	0.49	0.33			
Far East	2.34	3.52	3.18	3.49	4.70	3.78			
World	100.00	100.00	100.00	100.00	100.00	100.00			
Percentage shares of Far East exports and imports, respectively									
China	22.12	20.68	18.45	16.01	32.75	35.98			
"Four Tigers" ¹	56.89	53.41	52.29	67.76	48.48	41.42			
"Four New Tigers" ²	20.51	24.38	27.25	15.92	17.73	20.64			
Other countries ³	0.47	1.53	2.01	0.30	1.04	1.96			
ASEAN ⁴	30.60	38.42	37.48	25.56	26.57	27.98			
"Big China" ⁵	56.64	46.96	46.71	55.34	62.97	63.22			
South Korea	12.76	14.62	15.81	19.10	10.46	8.80			
Far East	100.00	100.00	100.00	100.00	100.00	100.00			
1989 = 100									
China	100.0	168.0	188.3	100.0	336.6	369.4			
"Four Tigers" ¹	100.0	168.7	207.5	100.0	117.7	100.5			
"Four New Tigers" ²	100.0	213.6	299.9	100.0	183.2	213.0			
Other countries ³	100.0	582.7	959.8	100.0	570.3	1,071.8			
ASEAN ⁴	100.0	225.6	276.6	100.0	171.1	179.9			
"Big China" ⁵	100.0	149.0	186.2	100.0	187.2	187.8			
South Korea	100.0	205.9	279.8	100.0	90.1	75.7			
Far East	100.0	179.7	225.8	100.0	164.6	164.4			
Dollar-based	100.0	209.0	243.7	100.0	191.8	178.4			
World	100.0	119.4	165.9	100.0	122.2	151.7			

¹ South Korea, Taiwan, Hong Kong, Singapore. – ² Thailand, Malaysia, Indonesia, Philippines. – ³ Vietnam, Myanmar, Brunei. – ⁴ Singapore, Thailand, Malaysia, Indonesia, Vietnam, Myanmar, Brunei, Philippines. – ⁵ China, Hong Kong, Taiwan.

in the first quarter), because exports to China shot up by more than 50 percent. Deliveries to most other countries in the region were lower by two-digit rates than in the previous year (Table 2).

EXPORTS TO FAR EAST DOUBLED BETWEEN 1989 AND 1997

Of the total Austrian exports, the share delivered to Far Eastern countries rose from 2.3 percent in 1989 to 3.7 percent in 1993, but had declined again to 3.2 percent by 1997; in that year, 10.9 percent of Austrian exports were destined for CEECs.

ROTTERDAM EFFECT FELT BY IMPORTS FROM THE FAR EAST?

Austria's imports from the Far East have for a long time been substantially greater than its exports into these coun-

According to a WIFO survey, Austrian businesses continue to perceive favorable prospects for exports and investments in the Far East. For them, the greatest obstacle is the cultural barrier.

tries. Nevertheless, imports showed a surprisingly low growth rate of 64 percent between 1989 (ATS 18.0 bil-

Table 2: Current development of Austrian trade with the Far East

	Far East	China	"Four Tigers" ¹	"Four New Tigers" ²	World
Percentage changes from previous year					
<i>Export</i>					
1995	+14.2	+21.1	+14.5	+ 9.3	+13.2
1996	+ 0.2	-19.8	- 5.5	+29.7	+ 5.5
1997	+ 9.8	+15.4	+13.6	- 1.0	+16.8
1998, first quarter	- 3.0	+52.7	-11.0	-23.4	+13.3
<i>Import</i>					
1995	-17.2	-15.0	-20.0	-14.9	+ 6.2
1996	+ 6.8	+ 9.2	- 0.8	+20.0	+ 6.7
1997	+13.0	+18.2	+ 7.5	+13.8	+10.9
1998, first quarter	+ 5.7	+ 8.5	+ 0.3	+12.6	+10.6

¹ South Korea, Taiwan, Hong Kong, Singapore. - ² Thailand, Malaysia, Indonesia, Philippines.

lion) and 1997 (ATS 29.5 billion). The Far Eastern share of total imports rose but little (from 3.5 percent in 1989 to 3.8 percent in 1997), even though it reached a peak of 4.7 percent in 1994. In the first quarter of 1998, its growth rate of 5.7 percent was noticeably below the total import rate.

Austrian imports from the Far East appear to have been affected by Austria's accession to the European Union: they declined by 17.2 percent in 1995, even though total imports grew by 6.2 percent. In view of the depreciation of the dollar by more than 11 percent, imports from the Far East should have grown disproportionately, as the local currencies are mostly based on the dollar. The shrinkage affected almost all the countries of the region. There are a number of obvious explanations:

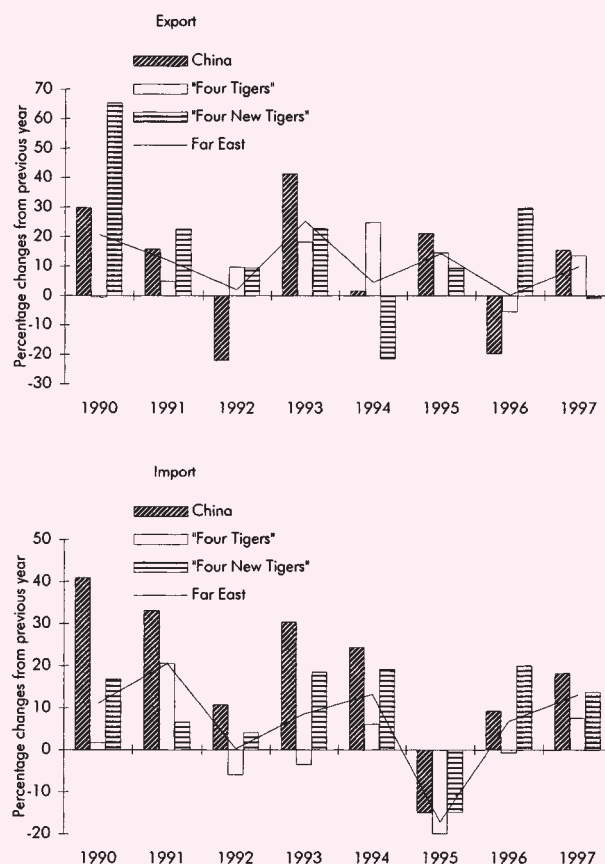
- Actual import protection by Austria vis-à-vis the Far East was stronger than in the EU. While this does not apply to all products², it is true for major import products from the Far East (such as cars). Non-tariff barriers, on the other hand, were higher in the EU than in Austria³; it appears that the antidumping regulations are more strictly enforced by the EU against highly competitive suppliers from the Far East than was the case in Austria prior to 1995.
- In 1994, Austrian import figures from the Far East included advanced purchases (i. a., due to expected increases in the customs duties)⁴.
- The "Rotterdam effect": After customs clearance at the port of import for free movement in the EU, goods from

² The average customs burden for industrial products (production weighted) was 9.2 percent in Austria and 8.6 percent in the EU, in 1993 (1996 7.7 percent; OECD, 1997A).

³ Core non-tariff barriers (frequency ratio) 1993: EU 22.8 percent, Austria 15.3 percent (OECD, 1997A).

⁴ The totality of advanced imports is estimated at ATS 7 billion (Federal Ministry of Economic Affairs, 1995, p. 99).

Figure 1: Austrian trade with the Far East



"Four Tigers": South Korea, Taiwan, Hong Kong, Singapore. "Four New Tigers": Thailand, Malaysia, Indonesia, Philippines.

overseas are wrongly counted by Austria as imports from the respective EU country (Netherlands and, in some cases, Germany)⁵.

If we ascribe the decline of 1995 solely to the Rotterdam effect (with due regard to advanced imports estimated at ATS 1.5 billion), we get a negative error of ATS 5 to 5.5 billion in 1995 (about ATS 6.5 billion in 1997). When this corrected item is included, the share of actual imports from the Far East can be estimated at more than 4.5 percent.

The deficit of the Austrian trade balance with the Far East rose from ATS 8 billion in the early 1990s to almost ATS 11.5 billion in 1994. In 1995, the gap was reduced to ATS 4 billion, only to grow again to almost ATS 7 billion in 1997.

⁵ EU statistics assign imports into the Community to the first country of import, while national statistics continue to apply the country of origin principle (Stankovsky, 1997).

The financial crisis in the Far East in 1997-98

In the spring of 1997, international organizations and financial analysts alike found no reason to doubt the prospects for growth in the Far East. The region was expected to continue its long-running upswing in 1998 and to achieve a growth rate of about 6.5 percent in its real GDP. Even in the autumn of 1997 (when the World Bank group met in Hong Kong), the Far Eastern region was still seen as a growth market. Only Thailand (with its currency exposed to severe pressure during the summer due to its growing current account deficit) had its forecast for 1997 and 1998 revised downward to 2 to 3 percent.

By the end of 1997, a crisis broke out in several countries of the Far East, its symptoms being currency erosion and capital flight. The greatest sufferers were the four most advanced ASEAN countries, although the entire region was affected. The International Monetary Fund helped most of the affected countries to achieve a measure of stability, assisted by the governments of their main trading partners.

The rescue package will lead to a setback or stagnation in the region for at least one or two years. The crisis in Japan – which is mostly due to other causes – may well prolong the weak phase of the region in general. The international forecasts available in mid 1998 foresee a slight revival in 1999, even for those countries that have been hit hardest by the crisis, with the exception of Indonesia which is not expected to stabilize before the year 2000.

Most analysts opine that the economies of almost all the Far Eastern countries rest on solid foundations so that a strong upturn is envisaged once the current problems have been taken in hand. The crisis could thus be in-

terpreted as a “dent” in the path to growth rather than the end of a catching-up process.

WIFO has investigated the root causes of the crisis in the Far East and its possible effects on Austria in other studies (*Hahn et al.*, 1998, *Hahn*, 1998).

The crisis has badly damaged the reputation of the region. A major risk that may endanger its economic recovery is the social tensions which – in some countries – could cause political destabilization. Experience in Europe has shown that this risk is particularly great in an economy at the threshold to industrialization.

Another danger, so far mostly ignored, is that the region could possibly become “alienated” from established industrialized states, especially Europe, as a consequence of the Far Eastern crisis. While the extreme position maintained by Mr. Mahatir, Prime Minister of Malaysia, i.e., that the currency erosion in his country was solely due to international speculation, is not generally shared, there is a growing conviction in the Far East that the crisis was the “result of a conspiracy of western countries”. The European Union is accused (not entirely without reason) that it is “indifferent” to the problems of the region. Officials from Far Eastern countries are disappointed about the EU’s failure to respond to the Asian crisis (*European Voice*, 19 February 1998). The disappointment could well escalate if the current “benign neglect” were to change to “malign neglect”, to growing protectionism against an incipient export boom triggered by the devaluation. There are already clear signs that the EU is stepping up its use of antidumping instruments (cf., i.a., French proposals for a “reform” of the EU’s antidumping policy: *Jonquières in The Financial Times*, 27 January 1998).

CHINA AND SOUTH KOREA MAIN EXPORT MARKETS IN THE FAR EAST

About half of Austrian exports to the Far East goes to its four industrialized countries (the “Four Tigers” South Korea, Taiwan, Hong Kong and Singapore); 25 to 30 percent are shipped to countries that have a rapidly expanding economy (the “Four New Tigers” Thailand, Malaysia, Indonesia and the Philippines), and most of the rest to China. Based on different classifications, some 35 percent of Far Eastern exports in 1997 (1.2 percent of total exports) went to the ASEAN group, 45 percent (1.5 percent) to the Chinese states (China, Hong Kong and Taiwan, “Big China”) and the rest to South Korea.

Austria’s chief market in the Far East in the 1990s was China, usually followed by Hong Kong, South Korea and

Indonesia. The highest growth rates were achieved by exports to the “New Tigers” (which tripled: +290 percent to Indonesia, +160 percent to Thailand), followed by exports to the “Four Tigers” (+100 percent; +180 percent to South Korea) and to China (+88 percent). Growth rates were even better for exports to the emerging markets of the region: +1,300 percent to Vietnam; +460 percent to Myanmar; +200 percent to Brunei, although their export volume per se is still very small (Table 3).

Over 60 percent of Austrian imports from the Far East come from “Big China”. China itself contributes about 1.4 percent of the total Austrian imports; the figures for Taiwan are 0.7 percent, 0.3 percent for Hong Kong, 0.3 percent for South Korea and Malaysia, and 0.2 percent for Thailand, Singapore and Indonesia, respectively.

Table 3: Austrian trading partners in the Far East, 1997

	Export		Import		Trade balance Billion ATS
	1989 = 100	Percentage shares of Far East exports	1989 = 100	Percentage shares of Far East exports	
China	188.3	18.5	369.4	36.0	- 6.44
Hong Kong	248.5	17.1	90.1	8.6	1.34
South Korea	279.8	15.8	75.7	8.8	0.98
Indonesia	390.3	13.5	417.5	5.4	1.47
Taiwan	132.4	11.1	129.7	18.6	- 2.98
Singapore	193.2	8.2	94.7	5.4	0.27
Thailand	264.2	6.6	152.8	5.9	- 0.25
Malaysia	249.3	4.9	218.1	7.4	- 1.07
Philippines	191.7	2.2	170.5	1.9	- 0.07
Vietnam	1,426.1	1.5	1,144.4	1.9	- 0.22
Brunei	303.4	0.1	324.6	0.0	0.02
Myanmar	556.4	0.4	390.4	0.1	0.07
Far East	225.8	100.0	164.4	100.0	- 6.87

Imports from China rose 3.7-fold in the 1990s. Imports in 1997 from the "Four Tigers", on the other hand, equaled figures for 1989. Even before Austria's membership in the EU, imports from these countries had grown at a weak pace (+18 percent in 1989-1994). Austria apparently applied tariff and non-tariff barriers to dampen imports from particularly competitive countries, and this protectionist attitude became even stronger after EU membership.

Trade with China produced a large deficit (ATS 6.4 billion in 1997), as did trade with Taiwan (ATS 3 billion) and Malaysia (ATS 1.1 billion), while Austrian trade with the other countries generally produces a surplus.

MACHINES MAKE UP MORE THAN HALF OF FAR EASTERN EXPORTS

Finished goods are almost the only products exported by Austria to the Far East. Food and raw materials make up just 2 to 3 percent of its exports. In 1997, machines and vehicles contributed 55 percent of the exports to the Far East; they included mainly machinery specialized for particular industries (SITC 72), electrical machinery (SITC 77) and other machines. Manufactured goods (usually more or less simple industrial products) added 25.3 percent (goods made of minerals, paper and metal products). Chemical products (mostly medicinal drugs) supplied 10.1 percent of exports to the Far East, consumer products only 7.1 percent. The minor role played by consumer goods appears to be due to the lack of internationally known brands (Table 4).

The list of major goods exported to the Far East in 1997 is topped by machines for particular industries (6.1 percent), followed by paper-making machines (5.2 percent), glassware, electronic chips and lifting devices. Of the ten main products, seven are from the machines category, two from the manufactured goods category and one from chemicals. Miscellaneous manufactured goods (mostly consumer goods) include only testing instruments (1.7 percent), toys and sporting goods. Clothing exports to the Far

Table 4: Product structure of Austrian exports to the Far East

	Industrial products				Total	Total ¹
	Chemical products	Manufactured goods	Machinery, vehicles	Miscellaneous manufactured goods		
Percentage shares of category in total exports to the Far East						
1989	8.0	32.2	50.8	7.1	98.2	100.0
1992	8.6	29.0	50.6	8.5	96.6	100.0
1995	7.8	25.7	56.3	7.4	97.2	100.0
1996	9.0	24.8	56.0	7.8	97.6	100.0
1997	10.1	25.3	54.7	7.1	97.2	100.0
Far East exports as a percentage of total exports of the category						
1989	2.0	2.3	3.5	1.3	2.6	2.3
1992	2.8	2.8	3.7	1.7	3.0	2.8
1995	3.0	3.1	5.1	2.0	3.8	3.5
1996	3.2	3.1	4.6	2.0	3.6	3.4
1997	3.3	3.1	4.2	1.6	3.4	3.2
As a percentage of exports into the country						
1997						
China	14.1	15.4	66.7	3.2	99.3	100.0
"Four Tigers" ²	9.0	30.0	47.9	9.5	96.4	100.0
"Four New Tigers" ³	7.5	23.6	60.6	5.4	97.2	100.0
Other countries ⁴	38.5	19.7	40.3	0.8	99.3	100.0
ASEAN ⁵	8.8	24.1	58.1	6.7	97.6	100.0
Big China ⁶	12.1	27.3	51.6	6.2	97.3	100.0
South Korea	7.3	22.6	55.8	10.5	96.2	100.0

¹ Agricultural goods, raw materials and fuels are not included in the categories given. – ² South Korea, Taiwan, Hong Kong, Singapore. – ³ Thailand, Malaysia, Indonesia, Philippines. – ⁴ Vietnam, Myanmar, Brunei. – ⁵ Singapore, Thailand, Malaysia, Indonesia, Vietnam, Myanmar, Brunei, Philippines. – ⁶ China, Hong Kong, Taiwan.

East accounted for just ATS 144 million; ATS 31 millions worth of alcohol (wine) and ATS 1.3 millions worth of cheese only were exported to the Far East (Table 5).

Austrian products supplied to the discerning markets of the Far East are mostly of a lower processing degree. In 1997, 38 percent of exports to Hong Kong and almost 30 percent of shipments to Singapore and Taiwan were manufactured goods; machines usually made up less than 50 percent in these countries, although they dominated exports to China (67 percent), Indonesia and Thailand. Brunei was the only country where Austrian businesses had been able by 1996 to establish a small market for consumer goods.

In the 1990s, the structure of goods exported to the Far East experienced a slight shift towards high-quality products. The export share of machines and vehicles grew from 50.8 percent in 1989 to 55 percent, while manufactured goods declined from 32.2 to 25.3 percent.

FEW HIGH-QUALITY PRODUCTS EXPORTED TO THE FAR EAST

Unit values are a major index for "quality" in international trade⁶ (Stankovsky – Mayerhofer, 1994, Stankovsky,

⁶ Export unit values and import unit values can be easily compared within their respective group because they are calculated using the same price basis (prices free border of the export or import country, respectively, excluding customs and import duties).

Table 5: Austrian exports to the Far East, 1997

Major goods (3-digit SITC classification)

	Export Million ATS	Exports to Far East		Ranking
		Percent- age shares	Cumulated, in percent	
728 Machinery and equipment specialized for particular industries	1,377	6.08	6.08	1
725 Paper mill and pulp mill machinery	1,172	5.17	11.25	2
665 Glassware	975	4.30	15.56	3
776 Electronic chips	892	3.94	19.49	4
744 Mechanical handling equipment	813	3.59	23.08	5
764 Telecommunications equipment	807	3.56	26.64	6
723 Civil engineering and contractors' plant and equipment	758	3.34	29.99	7
542 Medicaments	712	3.14	33.13	8
772 Electrical apparatus for switching or protecting electrical circuits or for making connections	618	2.73	35.86	9
641 Paper and paperboard	615	2.72	38.57	10
691 Metal structures and parts of iron, steel or aluminum	614	2.71	41.28	11
771 Electric power machinery	558	2.46	43.74	12
782 Motor vehicles for the transport of goods and special purpose motor vehicles	557	2.46	46.20	13
791 Railway vehicles	554	2.45	48.65	14
662 Clay construction materials	498	2.20	50.85	15
541 Medicinal and pharmaceutical products	474	2.09	52.94	16
741 Heating and cooling equipment	393	1.73	54.67	17
778 Electrical machinery and apparatus	386	1.70	56.38	18
874 Measuring, checking, analyzing and controlling instruments	383	1.69	58.07	19
679 Iron and steel tubes	331	1.46	59.53	20
642 Paper and paperboard	321	1.42	60.95	21
515 Organo-inorganic compounds	278	1.23	62.18	22
699 Manufactures of base metal	273	1.21	63.39	23
737 Metalworking machinery (other than machine tools)	257	1.13	64.52	24
713 Internal combustion piston engines	248	1.09	65.61	25
667 Pearls, precious and semiprecious stones	223	0.98	66.60	26
724 Textile and leather machinery	205	0.91	67.50	27
784 Parts and accessories for motor cars	201	0.89	68.39	28
663 Mineral manufactures	196	0.87	69.26	29
781 Motor cars	196	0.86	70.12	30
748 Transmission shafts and cranks	191	0.84	70.97	31
513 Carboxylic acids and anhydrides	187	0.83	71.79	32
727 Food-processing machines	187	0.82	72.62	33
742 Pumps for liquids	185	0.82	73.43	34
716 Rotating electric plant and parts thereof	181	0.80	74.23	35
634 Veneers, plywood, particle board, and other wood, worked	166	0.73	74.96	36
267 Manmade fibers suitable for spinning	160	0.71	75.67	37
743 Air or gas compressors and fans	155	0.68	76.36	38
582 Plates, sheets, film, foil and strip of plastics	147	0.65	77.00	39
747 Taps, cocks, valves and similar appliances for pipes	142	0.63	77.63	40
745 Non-electrical machinery, tools and mechanical apparatus	142	0.63	78.26	41
774 Electro-diagnostic apparatus for medical sciences	133	0.59	78.85	42
894 Baby carriages, toys, games and sporting goods	126	0.56	79.40	43
611 Leather	125	0.55	79.95	44
813 Lighting fixtures and fittings	122	0.54	80.49	45
655 Knitted or crocheted fabrics	122	0.54	81.03	46
Total	22,651	100.00	100.00	

1995, Wolfmayr-Schnitzer, 1997, Aiginger, 1997). Unit values of a high aggregation level (e.g., for total export) need to be viewed with caution, as results can be affected

Table 6: Unit values of Far East exports, 1996

	Exports to the Far East		Total exports		Far East exports in terms of total exports In percent
	USD per kg	Austria = 100	USD per kg	Austria = 100	
Austria	5.10	100.0	2.01	100.0	253.7
Germany	4.37	85.7	2.11	105.0	207.1
Italy	4.42	86.7	2.58	128.4	171.3
France	5.80	113.7	1.55	77.1	374.2
Netherlands	1.57	30.8	0.85	42.3	184.7
U.K.	4.32	84.7	1.22	60.7	354.1
Sweden	0.95	18.6	0.75	37.3	126.7
Finland	2.76	54.1	1.31	65.2	210.7
Switzerland	23.83	467.3	6.39	317.9	372.9

by a variety of special factors⁷; nevertheless, even highly aggregated unit values provide at least a pointer of the degree of processing achieved by the goods traded internationally.

Compared to the unit values of selected European countries, Austria is somewhere in the middle for total exports (2 USD per kg). Higher unit values are achieved by Germany, Italy and Switzerland, lower values by France and the U.K. This pattern remains relatively stable over time. In all countries, unit values are markedly higher for Far East exports than for overall exports; the Austrian value (5.1 USD per kg) is surpassed only by Switzerland and France, while Germany and Italy are below (Table 6).

Austrian unit values in 1997 were between 50 and 70 ATS per kg (average: 58.6 ATS) in exports to almost all the Far East countries⁸ – a sign of the indicator's reliability. Unit values were above average for South Korea (Table 7). In the 1990s, unit values in Far Eastern exports rose by 49 percent (total exports +10 percent).

In 1997, Austrian unit values for exports to the Far East were only 65 percent of the import unit values (90 ATS per kg). The higher import values were particularly noticeable in the trade with the "Four Tigers" where Austrian export unit values reached just one third of the import unit values. Trade with China showed a similar picture over the years: Austrian export unit values were only just as high or even lower than its import unit values, which cannot be solely explained by the great share of electronics contained in deliveries from the Far East.

In 1997, unit values for Austrian imports from the Far East were 10 percent higher than in 1989. Altogether, imports from the Far East thus contributed to stabilizing the price level in Austria. Figures and trends differed greatly be-

⁷ Thus, unit values for total exports by Sweden, Finland, Canada, the USA and the Netherlands are low due to the relatively high share of "cheap" raw materials, ores and food.

⁸ Except for the relatively unimportant markets of Brunei and Myanmar.

Table 7: Unit values of Austrian exports to the Far East

	Exports			Imports			Exports in terms of imports
	1989	1997	1997 = 1989 = 100	1989	1997	1997 = 1989 = 100	In percent
	ATS per kg			ATS per kg			
Singapore	52.7	76.6	145.4	228.1	645.2	282.8	11.9
Thailand	15.6	58.4	374.6	46.1	78.5	170.4	74.4
Malaysia	42.8	40.8	95.3	26.6	72.3	271.4	56.5
Indonesia	20.3	57.8	284.5	17.4	39.2	225.3	147.4
Vietnam	45.8	42.4	92.7	20.5	68.7	334.6	61.8
Myanmar	18.8	118.9	631.9	6.0	39.1	651.1	304.4
Brunei	222.5	120.0	53.9	25.9	176.8	683.4	67.8
Philippines	34.4	61.3	178.3	50.9	90.5	177.8	67.7
China	45.3	55.2	122.0	49.5	68.1	137.5	81.1
South Korea	80.8	104.9	129.8	165.6	111.6	67.4	94.0
Taiwan	34.8	30.3	87.3	151.9	162.5	107.0	18.7
Hong Kong	70.4	83.2	118.2	251.1	464.5	185.0	17.9
Far East	39.4	58.6	148.5	81.9	89.8	109.6	65.3
China	45.3	55.2	122.0	49.5	68.1	137.5	81.1
"Four Tigers" ¹	51.4	63.0	122.5	181.1	188.0	103.8	33.5
"Four New Tigers" ²	22.1	54.1	244.5	31.5	61.3	194.9	88.3
Other countries ³	33.4	50.4	151.2	16.8	67.0	399.0	75.3
ASEAN ⁴	27.3	57.6	211.5	45.3	74.8	165.3	77.0
Big China ⁵	45.2	51.6	114.2	102.3	95.6	93.5	53.9
South Korea	80.8	104.9	129.8	165.6	111.6	67.4	94.0
World	20.5	22.5	109.9	12.3	14.4	116.9	156.4

¹ South Korea, Taiwan, Hong Kong, Singapore. – ² Thailand, Malaysia, Indonesia, Philippines. – ³ Vietnam, Myanmar, Brunei. – ⁴ Singapore, Thailand, Malaysia, Indonesia, Vietnam, Myanmar, Brunei, Philippines. – ⁵ China, Hong Kong, Taiwan.

tween countries: prices for imports from the "Four Tigers" remained more or less stable since 1989, but imports from the "New Tigers" and from China became more expensive, a development which may be mostly due to a shift towards high-quality imports.

When analyzing figures by product categories, we find that unit values for Austrian exports of machines (the most important category) are only about 20 percent higher than for total exports: in spite of the great distance, only "average" machines are exported to Asia. Exports of manufactured industrial products (the second largest export category) show a

Table 8: Unit values of Austrian exports to the Far East

SITC categories

Export	1989	1992	1997	1997	1997
	Far East trade			Total	
	ATS per kg			ATS per kg	
	1989 = 100			1989 = 100	
Chemical products	21.4	47.2	59.9	279.9	17.6
Manufactured goods	19.8	23.0	24.4	123.2	16.0
Machinery and vehicles	155.3	202.4	194.5	125.2	159.0
Miscellaneous manufactured goods	373.5	428.0	330.2	88.4	144.8
All goods	39.4	48.3	58.6	148.5	22.5
All goods USD per kg	3.0	4.4	4.8	160.0	1.8
Import					
All goods	81.9	59.5	89.8	109.6	14.4
			In percent		
Exports in terms of imports					
All goods	48.2	81.2	65.3	135.5	156.4

Table 9: Austria's market position in the Far East

	Austria's shares of total imports of country or group		
	1989	1997	1997 = 1989 = 100
	In percent		
Singapore	0.23	0.13	58.0
Thailand	0.19	0.17	92.4
Malaysia	0.20	0.10	51.6
Indonesia	0.58	0.24	40.4
China	0.43	0.18	42.1
South Korea	0.18	0.31	176.3
Hong Kong	0.17	0.11	67.1
Far East, total	0.25	0.17	68.2
	Austria's shares of total imports by Far East countries		
	1989	1996	1996 = 1989 = 100
	In percent		
SITC categories			
Chemical products	0.34	0.16	47.1
Manufactured goods	0.43	0.33	76.7
Machinery and vehicles	0.26	0.33	126.9
Miscellaneous manufactured goods	0.27	0.13	48.1

Source: DOT, U.N. world trade database.

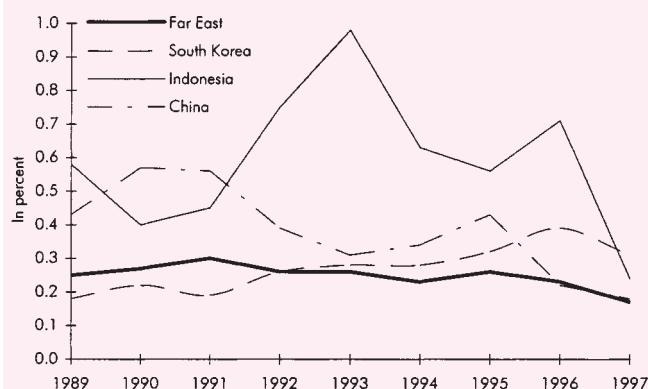
similar relationship between Far East and overall exports, although the unit value of manufactured goods (24 ATS per kg) is just 13 percent of the value for machines (195 ATS per kg). But the picture changes fundamentally when we compare indicators for miscellaneous manufactured goods and chemical products: here unit values for the Far East are double to triple those of overall exports. With some reserves, the comparison could arrive at the conclusion that Austria exported mostly "standard goods" to the Far East, but that some companies were able to establish themselves in the region with high-priced products (Table 8).

AUSTRIA'S FAR EASTERN MARKET SHARE ONLY 0.25 PERCENT

The market share analysis reveals a clear picture of the weaknesses of Austrian exports to the Far East: in 1996,

Figure 2: Austria's market position

Austria's market share in the Far East



Foundation for economic growth in the Far East

The Far Eastern markets are attractive because of the extremely rapid economic growth achieved by most of the countries over relatively long periods. In the 1980s and 1990s (up to 1997), the countries generally boasted GDP growth rates of 7 to 9 percent p.a.

Numerous studies have compared the growth phase in the Far East with reconstruction in the industrialized countries after World War II, and they have been looking into the reasons for these high growth rates. In a long-term comparison, the *EBRD* (1997) showed that periods of sustained per-capita GDP growth of more than 3 percent are rare occurrences. They can be found in less developed countries set on catching up with industrialized countries, especially when war ravages need to be repaired. This process is accompanied by modernization and large-scale investment. Periods of rapid economic growth have so far been found in western Europe and Japan after the war, and in the Far East. In Brazil, Mexico and Nigeria, to name only a few examples, growth periods soon came to a standstill.

The Far Eastern countries achieved much greater dynamism than post-war western Europe when they began their catching-up process, which in most cases was combined with transition to an open economic policy (early 1970s). An analysis of growth components shows that their advantage was based on more intense use of production factors: In post-war western Europe, capital accumulation contributed just 1.5 to 2 percent to its economic growth, while it was 3 to 4 percent p.a. in the Far East.

A major factor was the much greater expansion of the labor volume: in western Europe, labor supply in the 1950s and 1960s rose by less than 0.5 percent p.a.,

while the corresponding annual figures for the 1970s and 1980s were 4.5 percent in Korea, 3.6 percent in Taiwan and 2.5 percent in Japan. A higher labor participation rate added its share, and the calculation also takes into account better workforce training.

The “residual factor” for economic growth (total factor productivity) was noticeably lower in the catching-up period in the Far East than in western Europe and Japan after the war (+2 percent versus +3 percent p.a.). Total factor productivity, on the other hand, rose slightly faster than in the industrialized states in the 1970s and 1980s (about 1.5 percent p.a.). Significant exceptions were the U.K. (low growth of factor productivity) and China (high growth of factor productivity after the end of the command economy). Factor productivity includes improvements in efficiency, influence, policies and institutions, as well as measuring errors. *Young* (1995) thus concludes his study on economic growth in eastern Asia with the following insight: “The results of this paper should be heartening to economists and policy-makers alike. If the remarkable post-war rise in East Asian living standards is primarily the result of one-shot increases in output brought about by the rise in participation rates, investment to GDP ratios, and educational standards and the intersectoral transfer of labor from agriculture to other sectors (e.g., manufacturing) with higher value added per worker, then economic theory is admirably well equipped to explain the East Asian experience. Neoclassical growth theory, with its emphasis on level changes in income and its well-articulated quantitative framework, can explain most of the difference between the performance of the NICs and that of other post-war economies.”

0.23 percent of total imports in the Far East came from Austria; in 1997 its share (preliminary figures) was 0.17 percent, slightly lower than in 1989. The Austrian market share showed little variation in the 1990s: it was highest in 1991 (0.30 percent) and lowest in 1994 (0.23 percent; Table 9, Figure 2).

Austria has traditionally enjoyed a relatively strong market position in Indonesia (up to 1 percent market share; cf. box “Austrian exports to Indonesia”). Its market share is similarly good in South Korea, where it achieved its greatest gains in the 1990s. Figures for China are less satisfactory: the relatively good position obtained in the early 1990s (0.56 percent in 1991) could not be maintained, and Austria’s market share shrank to less than half (0.22 percent) in 1996, mainly because of the lack of

large projects, which appears to be a consequence of restrictions on supported export financing (soft loans). Austria’s market position is very weak in Malaysia, Hong Kong, Singapore and most of the “New Tigers” (usually less than 0.2 percent). The only countries where Austria is improving its market share are Indonesia and Thailand.

In 1996, Austria held its greatest Far Eastern market share in the export of simple industrial products, machines and vehicles (0.33 percent), while its position in the miscellaneous manufactured goods and chemicals market was weak. A comparison with 1989 provides no clear picture: while its market position in machines and vehicles was slightly improved, exporters lost shares in the manufactured goods and chemicals markets.

Austrian exports to Indonesia

A WIFO study of 1992 (Busch – Stankovsky, 1992) investigated opportunities for Austrian exporters to enter the Indonesian market. It found that because of its territorial dimensions, strong economic growth and excellently matched demand and supply, Indonesia was an attractive export market. Austrian exports to Indonesia look back on a long tradition, and they could be substantially expanded in the early 1980s, because of the brisk demand from Indonesia and the ability of Austrian exporters to gain market shares. In 1982, exports to Indonesia made up 0.5 percent of the total Austrian exports. The high level could not be sustained, but by the early 1990s exports had once again revived. The WIFO study also identified significant weaknesses in the export structure: Austria's market position is strongest in trade with simple products.

ONLY ATS 2 BILLION IN EXPORTS OF COMMERCIAL SERVICES

Trade in services has become a focus of attention only in the recent past. Considering that many of the ("modern") services require qualified labor, economists believe that highly developed countries have a competitive edge in this international market. Trade in services is generally less exposed to price competition than trade in goods.

Globally, cross-border provision of services continues to be subject to considerable restrictions. Liberalizing foreign trade in services was one of the main concerns of the GATT Uruguay Round. The General Agreement on Trade in Services GATS, which is overseen by the newly established World Trade Organization, produced only the beginnings of liberalization⁹. Efforts to analyze Austrian foreign trade in services are hampered by inadequate statistics based on balance of payments data by the Austrian National Bank.

Revenues from services (exports) in the Far East were ATS 10.6 billion in 1996, according to the Austrian balance of payments. This appears to be substantial when compared to goods exports (ATS 20.6 billion), but a look at the revenue structure puts a different face on the figures: almost half (ATS 4.6 billion) results from factor earnings, most of it investment income (interest and dividends). One third (ATS 3.8 billion) derives from transit trade, i.e., from

⁹ Foreign trade in services was analyzed in detail in several reports collected in the 1996 Foreign Trade Yearbook of the Federal Ministry of Economic Affairs; for Austrian trade in services see *Federal Ministry of Economic Affairs* (1995) and *Kratena* (1996).

goods obtained from third countries (much of it probably from the CIS and other eastern European countries) and shipped into the Far East. Transit or middleman trade is a highly specialized service where Austria enjoys a comparative advantage. Value added from transit trade comes from the difference between income and expenditure¹⁰, and is estimated at 10 to 15 percent of earnings. In net terms, Austrian transit traders have been acting as middlemen for goods shipped to the Far East at a value of more than ATS 3 billion annually since 1993¹¹.

Austrian exports of commercial services (the only item to be designated "trade in services" in international statistics such as those of the WTO) were ATS 2.3 billion in 1996 (Table 10).

In 1996, altogether ATS 4.0 billion were spent on services imported from the Far East to Austria; of these, ATS 2.8 billion were for commercial services.

Austrian exports in the wider sense (i.e., goods and commercial services) were ATS 22.9 billion in 1996, while imports were ATS 29.0 billion. Some 10 percent of exports and imports involved commercial services. The Far East contributes about 1 percent of exports and imports, respectively, in commercial services and 3 percent of the foreign trade in the wider sense. Both trade in goods and trade in services produce a deficit for Austria (ATS 0.5 billion in 1996), although it is declining.

EXPENDITURE ON CONSULTING GREATER THAN INCOME

Of the Austrian exports of services to the Far East in 1996, ATS 600 million (25.9 percent) came from travel (visits by tourists and business persons from the region in Austria), and not quite ATS 0.2 billion each from export freights and revenues from diplomatic services. ATS 0.6 billion (25.3 percent) of the other commercial services (ATS 1.4 billion) were from processing¹². Construction exports were low in 1996, but were quite significant in several of the past years. More than ATS 200 million were obtained from exports of technical consulting.

¹⁰ Shown in the balance of payments in different countries and groups of countries.

¹¹ Next to "traditional" transit trade (shipment of goods where the transit trader acquires provisional title to them), transit transactions also come about from shipments from third countries for projects where Austrian companies act as general contractors. – The values are given "net", i.e., adjusted for sales of goods from the Far East by Austrian transit traders to third countries (*Federal Ministry of Economic Affairs*, 1995).

¹² This figure was much lower in previous years. The item is clearly a corrective value to foreign trade statistics; an unequivocal assignment is no longer possible because reporting procedures have been simplified.

Table 10: Austrian trade in services with the Far East

	Exports (income)				Imports (expenditure)			
	1992	1996	1996	1996	1992	1996	1996	1996
	Million ATS		Percentage shares		Million ATS		Percentage shares	
		of export of total services	of total exports			of import of total services	of total imports	
Commercial services	1,005	2,320	21.8	0.84	2,409	2,818	71.1	1.29
Merchanting	-2,214	3,762	35.3	33.47				
Total factor income	2,358	4,563	42.9	3.35	1,640	1,146	28.9	0.80
Investment income	2,350	4,540	42.6	3.67	1,621	1,097	27.7	0.83
Total services	1,149	10,645	100.0	2.52	4,049	3,964	100.0	1.10

	Exports (income)				Imports (expenditure)			
	1992	1996	1996	1996	1992	1996	1996	1996
	Million ATS		Percentage shares		Million ATS		Percentage shares	
		of commercial services	of total exports			of commercial services	of total imports	
Travel	196	602	25.9	0.41	920	1,369	48.6	1.10
Transport ¹	58	168	7.2	0.56				
Government ²	80	179	7.7	3.07	54	83	2.9	5.76
Other commercial services	671	1,371	59.1	1.49	1,435	1,366	48.5	1.49
Processing	- 17	588	25.3	11.06	143	- 208	- 7.4	-47.71
Communications	0	23	1.0	1.12	11	7	0.2	0.32
Construction	352	87	3.8	1.11	103	222	7.9	3.39
Insurance	9	9	0.4	0.11	15	14	0.5	0.16
Commissions	18	25	1.1	0.42	522	663	23.5	6.71
Culture and entertainment	0	9	0.4	0.42	0	29	1.0	1.20
Technical, scientific, economic consulting	49	204	8.8	1.83	109	330	11.7	2.78
Other commercial services	260	426	18.4	0.86	532	309	11.0	0.62
Banking and related financial services	149	54	2.3	0.21	310	41	1.5	0.15
Overhead expenses of related enterprises	80	298	12.8	2.57	117	94	3.3	0.74
Leasing, rental fees	1	4	0.2	0.09	1	13	0.5	0.80
Advertising	6	14	0.6	0.46	15	81	2.9	2.69
Other services	24	56	2.4	1.06	89	80	2.8	1.43
Commercial services	1,005	2,320	100.0	0.84	2,409	2,818	100.0	1.29

Source: Austrian National Bank, WIFO calculations. Far East: Singapore, Thailand, Malaysia, Indonesia, Philippines, China, South Korea, Taiwan, Hong Kong. -¹ Freight, transport and storage insurance. -² Embassies and consulates.

Exports of commercial services to the Far East rose 2.3-fold over the past five years (1992-1996; no statistics are available on the previous years), or just 70 percent when excluding processing. Income from travel and transport tripled, and exports of other (mostly modern) commercial services increased by 104 percent, but just 14 percent when excluding processing. When taking into account price increases, we therefore find that exports of modern services to the Far East have stagnated (Table 11).

Almost half (ATS 1.4 billion) of the imports of commercial service (expenditure) from the Far East came from tourism in 1996. The figure constitutes just 1 percent of total expenditure by Austrians for international tourism and must therefore be seen as the bottom limit. A major item is payments of commissions to the Far East (almost 0.7 billion p.a.; 6.7 percent of total expenditure in this category in 1996). Expenditure for technical consulting from the Far East (ATS 330 million) is higher than the income from this count.

AUSTRIAN DIRECT INVESTMENT IN THE FAR EAST ATS 1 BILLION

Asia (excluding Japan) held 13.2 percent (USD 305.1 billion) of the total international FDI stock in 1994, and it re-

ceived 18.5 percent of the FDI flows in 1990-1994 (*Hudson, 1998*). In 1993, investors from the EU contributed 15.0 percent of foreign direct investments to the ASEAN countries and 3.5 percent to China – much less than investors from Japan or the USA, and also lower than in the 1980s (for more details see *Hudson, 1998*).

Austrian direct investment in the Far Eastern countries is negligible: accumulated over six years (1992-1997), it accounts for just ATS 1 billion. The only projects of any importance were one in Hong Kong in 1992 and a few small ones in China in 1995 and 1996. In some years, the volume of disinvestment (usually by sale) was greater than that of new investments (Table 12). By the end of 1995, Austrian direct investments in the Far East totaled ATS 1.2 billion (total capital), according to a survey by the Austrian National Bank, or about 1 percent of Austrian FDI.

Austrian FDI is supported by programs by Oesterreichische Kontrollbank, FGG and the ERP Fund. Austrian companies can also make direct investments in certain Far Eastern countries by way of the European Community Investment Partner Programme (ECIP) (for details see *Heinemann et al., 1997*).

Table 11: Austrian trade in commercial services with the Far East

	Export (credit)			Import (debit)			Balance	
	1992	1996	1996	1992	1996	1996	1992	1996
	Million ATS			Million ATS			Million ATS	
			1992 = 100			1992 = 100		
Travel	196	602	307.1	920	1,369	148.8	- 724	- 767
Transport ¹	58	168	289.7				58	168
Government ²	80	179	223.8	54	83	153.7	26	96
Other commercial services	671	1,371	204.3	1,435	1,366	95.2	- 764	5
Processing	- 17	588		143	- 208		- 160	796
Other services	688	783	113.8	1,292	1,574	121.8	- 604	- 791
Commercial services	1,005	2,320	230.8	2,409	2,818	117.0	-1,404	- 498
Excl. processing	1,022	1,732	169.5	2,266	3,026	133.5	-1,244	-1,294

Source: Austrian National Bank, WIFO calculations. Far East: Singapore, Thailand, Malaysia, Indonesia, Philippines, China, South Korea, Taiwan, Hong Kong. – ¹ Freight, transport and storage insurance. – ² Embassies and consulates.

EXPERIENCE AND EXPECTATIONS OF AUSTRIAN BUSINESSES

Its dynamic pace of growth makes the Far East a constant subject of studies at corporate level, also in the German-speaking countries. Commissioned by the Federation of Austrian Industries, the WIFO carried out a survey of businesses on the subject of economic relations with the Far East in December 1997 and January 1998. Within the scope of the WIFO monthly business survey, a questionnaire was sent to 2,559 companies from industry, construction (including civil engineering) and the services sector. The sample is not a random one but has grown over time and includes in particular the major companies (stratified sample in the wider sense). The questions concentrated on activities in the Far East (exports, direct investment and joint ventures), so that it seemed practical to focus on major companies, especially since far-reaching economic links appear to require a minimum company size.

At the time of the survey, the financial and economic crisis was only just looming. It reached its first apex during the response time (January 1998). The qualitative assessment of future developments on the part of the companies thus appears to be of particular relevance.

Of the 2,559 companies that received a questionnaire, 463 replied (18.1 percent of the "sample"). Representation of industries and services differs greatly in the WIFO business cycle test. It is highest for sectors dominated by major companies (oligopolies)¹³: coking plant and mineral oil processing, manufacture of automotive vehicles and parts, manufacture and processing of paper and paper-board, radio, TV and telecommunications engineering, metal production and processing. It is markedly lower with regard to the more competitive sectors, where smaller firms prevail and where fixed costs and thus economies of

¹³ In order to determine the representative level by sectors, the Austrian industry statistics for 1995 were compared to the company sample used by the WIFO business cycle test of 1996.

Table 12: Austrian direct investment in the Far East

	1992	1993	New investments (according to the balance of payments)				1997	1992-1997 cumulated	Stock ¹ 1995
			1994	1995	1996	1996			
	Million ATS								
Singapore	76	4	6	5	7		105	141	
Thailand	0	- 6	0	3	39	- 2	34	128	
Malaysia	0	1	32	- 4	0	39	68	23	
Indonesia	0	51	11	5	- 1	24	90	304	
Philippines	0	0	0	0	1	1	2	9	
China	6	9	47	104	104	37	307	259	
South Korea	5	0	0	0	0	10	15	- 6	
Taiwan	1	3	1	2	0	3	10	-	
Hong Kong	690	-126	3	- 48	-168	34	385	359	
Far East	778	- 64	100	67	- 18	153	1,016	1,216	
"Four Tigers" ²	772	-119	10	- 41	-161	54	515	494	
"Four New Tigers" ³	0	46	43	4	39	62	194	464	
ASEAN ⁴	76	50	49	9	46	69	299	605	
Big China ⁵	697	-114	51	58	- 64	74	702	618	
World	20,561	17,066	13,714	10,518	14,860	17,696	94,415	118,050	

Source: Austrian National Bank. – ¹ Total capital (Austrian National Bank survey). – ² South Korea, Taiwan, Hong Kong, Singapore. – ³ Thailand, Malaysia, Indonesia, Philippines. – ⁴ Singapore, Thailand, Malaysia, Indonesia, Philippines. – ⁵ China, Hong Kong, Taiwan.

Table 13: Company size, exports and holdings

Responding companies	Mean	Median	Standard deviation	Minimum	Maximum
<i>Total</i>					
458 Sales, million ATS	1,980	222	12,140	2	200,575
453 Exports, million ATS	654	56	3,461	0	60,000
456 Export share ¹	43	38	35	0	100
<i>Companies exporting to the Far East</i>					
146 Sales, million ATS	1,766	525	5,766	2	65,000
146 Exports, million ATS	1,292	317	5,090	2	60,000
149 Export share ¹	69	75	26	2	100
<i>Companies investing abroad</i>					
144 Sales, million ATS	1,309	550	2,394	2	21,530
144 Exports, million ATS	704	182	1,353	0	7,763
146 Export share ¹	51	53	32	0	100
<i>Companies investing in the Far East</i>					
15 Sales, million ATS	2,553	2,422	2,468	2	6,995
15 Exports, million ATS	2,168	1,947	2,205	1	6,720
15 Export share ¹	84	91	17	44	100

Source: WIFO survey. - ¹ Exports as a percentage of sales.

scale are of less importance: manufacturers of furniture, jewelry, sporting goods and toys; medical engineering, controls and instruments; manufacture of apparel; extraction of stones and earths, other mining operations; manufacture of foods and beverages (representation rate: 2.5 percent each).

Most of the firms surveyed are domiciled in Upper Austria, Lower Austria, Vienna or Styria. The response rate was highest with industries, especially firms in the NACE two-digit categories machinery, metal products and chemical industry (representation rate: more than 7 percent each). Representation of construction companies is low, and that of service firms even lower.

The responding companies had sales of ATS 2 to 200 billion (mean less than 2 billion, median about 222 million). The average export rate was 42 percent; the sample included companies with no exports at all as well as companies with an export rate of 100 percent.

CAPITAL INVESTMENT IN THE FAR EAST ASSOCIATED WITH LARGE NUMBER OF EMPLOYEES OPERATING ABROAD

For technical reasons, questions were formulated so that regional export data cannot be isolated: companies exporting to the Far East may well ship goods to other regions as well. Companies that trade with the Far East have a very high export rate (68.8 percent) and thus appear to have plenty of experience in exports. This is also an indication of their degree of international linkages (export share) and their willingness to overcome large distances in the course of their trading. The average export share is particularly high in companies that have invested in the Far East (83.7 percent, minimum 44 percent, maximum

Table 14: Far East holdings of Austrian companies, 1996

	Absolute	Percentage shares	Percentage shares of total holdings by Austrian companies
<i>Number of holdings</i>			
Number of holdings	31	100.0	1.5
In production companies	12	38.7	1.3
In trading companies	12	38.7	2.1
In service companies	7	22.6	1.2
<i>Number of staff operating abroad</i>			
Number of staff operating abroad	4,671	100.0	9.4
In production companies	4,370	93.6	10.6
In trading companies	85	1.8	1.7
In service companies	216	4.6	6.2
	Million ATS	Percentage shares	Percentage shares of total holdings by Austrian companies
<i>Exports by Austrian companies</i>			
Exports by Austrian companies	57,323	100.0	18.9
In production companies	22,723	39.6	16.9
In trading companies	10,093	17.6	10.5
In service companies	24,507	42.8	34.0
<i>Sales by Austrian companies</i>			
Sales by Austrian companies	68,340	100.0	12.8
In production companies	26,068	38.1	10.5
In trading companies	13,231	19.4	7.3
In service companies	29,041	42.5	27.7

Source: WIFO survey.

100 percent; 15 companies from the textile sector, chemical industry, glass and ceramic industries, metalworking, machinery, power generation equipment, radio, TV and telecommunications, automotive vehicles and parts manufacturing, furniture, jewelry, sporting goods and business services). Altogether, 31 investment holdings were reported, most of them majority stakes in the production and trade sector. Companies investing in the Far East have a relatively large number of employees operating abroad: 4,671 staff, almost 10 percent of the total number of employees sent abroad, were working in the Far East (Tables 13 and 14).

FIRMS OPTIMISTIC IN SPITE OF ASIAN CRISIS

In spite of the crisis in Asia, 61.7 percent of the 201 companies that have responded to the survey, expect exports to the Far East to grow or even to grow at a brisk rate. Of the rest, 29.4 percent expected no change, while 9 percent felt that they would deteriorate. By the time of the survey, most of the companies (86.6 percent) had not registered any cutbacks from the region. Firms with holdings reported similar experiences, although they were more restrained about future prospects for investment in the Far East (Table 15).

DIFFERENT MENTALITIES, LANGUAGE BARRIERS AND TARIFFS CHIEF OBSTACLES TO EXPORTS

More than half the companies responding to the WIFO survey named fundamental differences in mentalities between Europe and the Far East as a major obstacle to ex-

Table 15: Experience and expectations of companies in terms of their relations to the Far East

	Experience			Expectations		
	Exports	Majority stakes	Minority stakes	Exports	Majority stakes	Minority stakes
	Number of responses					
Brisk increase	18	0	0	10	2	0
Increase	82	8	2	114	20	9
No change	75	43	37	59	34	34
Decline	21	2	3	12	0	1
Plunge	6	0	1	6	1	1
Total	202	53	43	201	57	45
	Percentage shares					
Brisk increase	8.9	0.0	0.0	5.0	3.5	0.0
Increase	40.6	15.1	4.7	56.7	35.1	20.0
No change	37.1	81.1	86.0	29.4	59.6	75.6
Decline	10.4	3.8	7.0	6.0	0.0	2.2
Plunge	3.0	0.0	2.3	3.0	1.8	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: WIFO survey.

ports, and one in three firms listed language barriers. It is therefore important to promote intercultural competence and review current language training practices, especially when considering that Austria has few headquarters of multinationals domiciled in its territory compared to other EU member states of similar size, so that its companies are in a worse position in penetrating hotly contested and distant markets (as is indicated by the declining market shares in the region).

Tariff barriers (customs duties) were a major obstacle for more than half the companies, and one in three firms felt obstructed by non-tariff barriers in its efforts to develop Far Eastern markets. The problem of high customs duties was countered by Austria by its membership in the EU and WTO. A new round of tariff cuts should produce positive welfare effects on both sides. Alternatively, free trade agreements could be signed between the EU and ASEAN countries.

Almost one third of the companies polled complained about the lack of export financing. Export guarantees and export financing tools thus appear to be of growing importance since the onset of the Asian crisis.

Among the other reasons named by companies for not exporting to the Far East were: fiercer competition (than in Europe or the USA), inadequate company size, late market entry (first mover advantages can no longer be exploited) and lack of requisite information.

POLITICAL RISKS AND PROBLEMS OF FINDING CO-OPERATION PARTNERS

The sample of firms that hold a stake or are interested in investing in the Far East was very limited. Two out of three

Table 16: Problems encountered in the Far East

	Yes	No	Yes
	Number of responses	Number of responses	Percentage shares
<i>Problems of exporting to the Far East</i>			
Different mentalities	81	58	58.3
High customs duties	71	64	52.6
High exchange risk	59	72	45.0
Prices too low and/or fierce competition	53	87	37.9
Non-payment risk	52	68	43.3
High transport cost	47	85	35.6
Language barrier	46	96	32.4
Lack of export financing options	42	90	31.8
Fiercer competition than in Europe or USA	42	94	30.9
Non-tariff barriers	40	68	37.0
Company size	40	105	27.6
Late market entry	40	84	32.3
Priority awarded to other export markets	35	105	25.0
Lack of information	35	98	26.3
Lack of contacts	26	108	19.4
Financing bottleneck does not permit market entry	23	107	17.7
Other export problems	7	2	77.8
<i>Problems of investing in the Far East</i>			
Political risks	59	17	77.6
Difficult to find partners	48	23	67.6
Procedures, red tape, licenses and permits	45	20	69.2
High operation-specific fixed costs	44	20	68.8
Property rights	35	28	55.6
Difficult to repatriate profits	33	25	56.9
Language barrier	32	37	46.4
Far East partners are mandated	22	45	32.8
Others	3	2	60.0

Source: WIFO survey, multiple responses allowed.

identified political risks as a major obstacle. Most of them had considerable difficulties locating adequate partners for this type of market development. On the other hand, much fewer companies (about a third) had a problem with the need to accept mandated partners. For two thirds, the complicated, bureaucratic procedures involved in establishing operations was a decisive barrier. In this respect, economic policy is called upon to seek ways to protect investments and ensure equal treatment (Table 16).

Problems with regard to property rights and repatriating profits were listed by more than half of the respondents as an obstacle to investing in the Far East. One in two firms also identified language barriers as an obstacle to investment.

FAR EAST CONTINUES TO BE A POTENTIALLY DYNAMIC MARKET

Several companies supplied answers to the questions on opportunities from the dynamic economy in the Far East. The emergence of new and additional markets was seen by 125 firms as a major attraction of the Far East business; 85 companies felt that the (expected) brisker growth, as compared to other regions, offered an opportunity; 50 respondents perceived a potential in new market niches in the Far East. Other elements named were the opportunity

to establish a production site (e.g., due to lower factor costs) and to develop a base for exports into other markets. Relatively few firms stressed that market shares could be gained more easily than in Europe or the USA. Only 17 firms felt that the economic dynamism of the Far East could be utilized to shift corporate functions (vertical splitting of the value-added chain, classic argument in favor of relocating; Table 17).

COMMON EU TRADE POLICY AS A FRAMEWORK FOR BILATERAL RELATIONS WITH THE FAR EAST

When Austria joined the EU, competence for trade policy shifted to Community bodies (Commission, Council), although there is still scope for national policies to promote foreign trade¹⁴ provided that the framework defined by the EU is not exceeded. With Austria's membership in EMU, the influence of EU regulations will gain further ground.

The Community developed a special system of preferences for overseas countries (mostly former colonies) which are economically linked to the founding members. Duty-free access to the EC market, however, remained limited to African, Caribbean and Pacific (ACP) countries, and excluded Asian countries. The latter are covered by the General System of Preferences (GSP), which underwent substantial reform in early 1995, incidentally at the time when Austria joined the EU¹⁵. The GSP does not apply to Taiwan; preferences for newly industrialized countries in the region are gradually reduced.

The EU is devoting much attention to its economic relations with Asia, focusing on strengthening competitiveness among its member states. The first co-operation agreement between the EU and ASEAN countries was signed in 1985, and co-operation is constantly expanded. The Asia-Europe Meeting ASEM acts as liaison between the EU and Asia and has already produced numerous initiatives. The EU formulated its interests vis-à-vis Asia in its "New Asia Strategy" of November 1994: strengthening the EU's economic position in the region, contributing to stability in Asia by international co-operation and better understanding, supporting economic development in the less successful countries of Asia, helping to strengthen democracy and the rule of law in Asia. Within the scope of this concept, the Commission presented its "Asia Invest Programme" in

¹⁴ Several Länder in Germany have for a long time been operating institutions to promote exports. Exporters in Flanders, Wallonia and Brussels have their own international representations to support them abroad.

¹⁵ For details see *Federal Ministry of Economic Affairs* (1995).

Table 17: Motives to invest and opportunities offered by economic dynamism in the Far East

	Number of responses	Percentage shares
<i>Motives to invest in the Far East</i>		
Market entry possible only by majority or minority holding	41	47.1
Cost reduction by relocating production	31	35.6
Safeguarding access to raw materials	4	4.6
Others	11	12.6
Total	87	100.0
<i>Opportunities offered by economic dynamism in the Far East</i>		
Emergence of new and additional markets	125	34.2
Markets grow more rapidly than elsewhere	85	23.2
New market niches	50	13.7
Market shares gained more easily than in Europe and the USA	34	9.3
Generally more favorable production site, base for exports to other markets	34	9.3
New concentration on better market segment possible	21	5.7
Relocation of corporate functions	17	4.6
Total	366	100.0

Source: WIFO survey, multiple responses allowed.

early 1998, which is designed to foster economic co-operation of SMEs in Europe and Asia and which has a budget of ECU 45 million at its disposal (Source: EU Commission homepage: <http://europa.eu.int>). The EU also provides support to exporters in its member states by promoting their participation in international trade fairs (*Heinemann et al.*, 1997).

ATS 46 BILLION IN AUSTRIAN EXPORT GUARANTEES FOR THE FAR EAST

The Asian crisis has drawn attention to the financial commitments made by Austria in the region, which could be at risk in a (highly unlikely) worst case scenario. By the middle of 1997, Austrian banks had ATS 74.7 billion (USD 6 billion or 1.25 percent of the balance sheet total of Austrian banks) on loan in Asia (*BIS*, 1998). The list of debtors is headed by Indonesia (ATS 17.8 billion or USD 1.5 billion), China (ATS 17.4 billion or USD 1.4 billion) and South Korea (ATS 14.9 billion or USD 1.2 billion; *Hahn et al.*, 1998).

Most of the loans granted by Austrian banks to Far Eastern countries result from export financing covered by export guarantees by Oesterreichische Kontrollbank. According to the OKB's business report (*OKB*, 1998), export credit guarantees for Asia under the Export Promotion Act made up ATS 70.4 billion at the end of 1997, of which ATS 46 billion were for Far Eastern countries. The highest guarantee commitments were for Indonesia (ATS 17.6 billion) and China (ATS 17.1 billion), while ATS 6.0 billion in guarantees were granted to Thailand and ATS 3.0 billion to Vietnam. Most of the credits to the Far East covered by guarantees were financed within the scope of the OKB support scheme (Table 18).

Table 18: Export guarantees and supported export financing, 1997

	Exports		Export guarantees		Guarantees outstanding Million ATS	Export financing		Disbursements Million ATS
	Million ATS	Million ATS	Guarantees issued			Amounts disbursed		
			As a percentage of exports 1997	As a percentage of exports 1996		Million ATS	In percent of exports	
China	4,179	4,302	102.9	42.7	17,116	1,236	29.6	10,399
Indonesia	3,064	2,022	66.0	94.7	17,592	2,455	80.1	13,777
Malaysia	1,115	599	53.7	31.4	1,044			
Philippines	496	224	45.2	11.4	1,502 ¹	88	17.8	1,199
Thailand	1,498	3,618	241.5	42.4	6,001	376	25.1	2,560
Vietnam	343	137	39.9	20.5	3,022 ²			
Far East ³	10,694	10,902	101.9	54.1	46,277	4,155	38.9	27,935
Asia	44,286	19,476	44.0	24.6	70,394 ⁴	4,969	11.2	39,517
Total	715,016	50,593	7.1	7.3	359,203 ⁵	35,591	5.0	240,208

Source: OKB. – ¹ Of which ATS 1,107 million rescheduled. – ² Of which ATS 315 million rescheduled. – ³ Only countries listed in the OKB business report. – ⁴ Of which 9,802 million ATS rescheduled. – ⁵ Of which 107,391 million ATS rescheduled.

In 1997, ATS 10.9 billion in new guarantees were promised for exports to the Far East (ATS 5.5 billion in 1996). Although this figure is not directly comparable with this year's exports¹⁶, the share of exports to export guarantees can be viewed as an indicator of the demand for guarantees. In 1997, export guarantees were obtained for all exports to China and Thailand, and for some 50 percent of the exports to Indonesia, Malaysia, the Philippines and Vietnam.

CONCLUSIONS

Austria's presence in the Far East is weak at best – most Austrian exporters fail to put much effort into developing the market. The Austrian market share is very small and has further declined over the past years, especially with regard to high-quality products. Austria exports few producer services and is not much involved in direct investment. Nevertheless a WIFO survey has found that companies which do export to the Far East are quite satisfied with their business development.

The Far East will retain its place among rapidly growing as well as discerning markets. The crisis precipitated in the autumn of 1997 marks just a short break in the region's dynamic development. It is therefore desirable for Austria to have a stronger presence in the Far Eastern markets.

The measures required to support Austrian exports were listed and analyzed in a position paper developed by the Federation of Austrian Industries ("Export offensive", 1996), in the WIFO assessment of the concept (Lehner – Schebeck – Stankovsky, 1996) and in the concepts for an export and technology offensive by the Austrian govern-

ment based on those papers (A.D. Little, 1997, Hochleitner – Schmidt, 1997, Breuss, 1998). Almost all the proposals referred in the papers are relevant for exports to the Far East; and particular importance should be awarded to measures regarding distribution and marketing, enhancing staff qualifications, improving the fiscal framework and augmenting technologies.

Among the difficulties encountered by Austrian exporters in the Far East, the WIFO study ranked "different mentalities" first, while one in three respondents named language barriers as a problem. Help to overcome such obstacles could be provided by the "promotion of intercultural competences" and a "new orientation of foreign language policy" proposed in the "catalogue of measures to reform the Austrian educational system" (Riemer, 1998). The mentality gap could also be narrowed by raising the (very low) number of students from the Far East at Austrian universities. For this purpose, Austria would have to improve its attraction for university students.

Promoting economic relations with the Far East is also a major concern in the European Union. Towards this end, the Union has developed numerous initiatives for trade and investment and in their vanguard (technological cooperation, information, etc.), which should be utilized by Austrian exporters.

A major obstacle to exporting to the Far East, according to the WIFO survey, is posed by the high import tariffs. An alleviation of the difficulty could be brought about only by another round of tariff cuts within the WTO or by a free trade agreement between the EU and ASEAN countries – concerns which Austria should promote in its own interest. Export financing, on the other hand, was seen of little impact according to the survey.

Direct investors from Austria felt that their work was aggravated by the complicated bureaucratic procedures to ob-

¹⁶ Parts of this year's exports are covered by guarantees from the previous years, and some of the new commitments will become effective only at a later date.

Far-East Markets: Attractive for Austria in Spite of the Crisis – Summary

Towards the end of 1997, a financial and currency crisis was precipitated in the Far East. But once the affected countries have coped with their current problems, a brisk upswing can be expected. A WIFO survey performed at the apex of the crisis found that 62 percent of the companies polled felt that exports to the Far East would rise, while 29 percent expected no change. Among direct investors, the majority considered that the situation was stable.

Austria has so far not profited much from the economic upswing of the Far East. Exports to the region (excluding Japan) are a meager 3 percent with exports of consumer goods and commercial services particularly weak. Nevertheless, Austrian exports to Eastern Asia more than doubled between 1989 and 1997 (from ATS 10 billion to ATS 22.5 billion, a plus of 10.7 percent p.a.), while total exports rose by just 66 percent. In the first quarter of 1998, demand for imports into the affected countries remained almost unchanged (–3.0 percent). In 1996, 0.23 percent of their total imports came from Austria. Preliminary figures for 1997 show 0.17 percent, a slightly lower market share than in 1989. Austrian direct foreign investment is negligible: cumulated new investment over the six years between 1992 and 1997 was just ATS 1.0 billion.

The WIFO survey pointed at a number of difficulties encountered by exporters to the Far East: for a majority of

exporters (58 percent), substantial differences in the mentalities of western Europe and eastern Asia were a problem; high customs duties were a major barrier for 53 percent; and the considerable exchange risk was seen as a burden by 45 percent.

According to the OKB, export credit guarantees for Asia under the Export Promotion Act made up ATS 70.4 billion by the end of 1997, of which ATS 46 billion were for Far East countries. The highest guarantee commitments were for Indonesia (ATS 17.6 billion), China (ATS 17.1 billion), Thailand (ATS 6.0 billion) and Vietnam (ATS 3.0 billion). Most of the credits to the Far East covered by guarantees were financed within the scope of the OKB support scheme.

The crisis in eastern Asia should not be abused as an ex-post justification for the disinterest shown by Austrian business in the region. Neglecting this market was probably more expensive in terms of potential jobs, sales and profits in Austria than any losses that might have been suffered in an (improbable) worst-case scenario. The crisis should rather be viewed as an opportunity to make up for past errors and omissions by exploiting a psychologically advantageous situation and getting in well ahead of competitors.

tain licenses and by the fact that partners were often mandated by the local authorities. Once again, bilateral agreements between the EU and the Far Eastern countries could alleviate the situation, although it would be more practical to implement the Multilateral Agreement on Investment in the near future and to extend it to threshold countries.

The crisis in Eastern Asia should not be abused as an ex-post justification for the disinterest shown by Austrian business in the region. Neglecting this market was probably more expensive in terms of potential jobs, sales and profits in Austria than any losses that might still be suffered in an (improbable) worst-case scenario. The crisis should rather be viewed as an opportunity to make up for past errors and omissions by exploiting a psychologically advantageous situation and getting in well ahead of competitors.

REFERENCES

A.D. Little, *Exportoffensive. Bericht an die österreichische Bundesregierung*, Vienna, 1997.
 Aiginger, K., "Unit Values to Signal the Quality Position of CEEC's 1997", in *Wolfmayr-Schnitzer et al.* (1997).

BIS, *The Maturity, Sectoral and Nationality Distribution of International Bank Lending – First Half 1997*, Basle, 1998.
 Breuss, F., "Benchmarks für den österreichischen Export", *WIFO-Monatsberichte*, 1998, 71(2).
 Busch, G., Stankovsky, J., *Indonesia – An Attractive Partner for the Austrian Economy*, WIFO, Vienna, 1992.
 Deutsche Bundesbank, *Europäische Organisationen und Gremien im Bereich von Währung und Wirtschaft*, Frankfurt, 1997.
 EBRD, *Transition Report 1997*, London, 1997.
 Egger, P., Stankovsky, J., *Österreichs Wirtschaftsbeziehungen mit Fernost: Versäumnisse und Chancen*, WIFO, Vienna, 1998.
 European Commission, "The European Union as a World Trade Partner", *European Economy*, 1998, (3).
 European Commission, *Wirtschaftliche Vorausschätzungen 1998-1999*, Brussels, 1998.
 Federal Ministry of Economic Affairs, *Der österreichische Außenhandel. Das Jahrbuch 1995*, Verlag Österreich, Vienna, 1995.
 Hahn, F.R., "Currency Crises: A Challenge for Economic Theory and Policy", in this issue.
 Hahn, F.R., Marterbauer, M., Schulmeister, S., Stankovsky, J., "Finanzkrise in Südostasien – Auswirkungen auf Österreich", *WIFO-Monatsberichte*, 1998, 71(3).
 Heinemann, F., Hügel, A., Schrank, R., Weinland, L., "Der südostasiatische Raum als deutscher Absatzmarkt", *Schriftenreihe des ZEW*, 1997, (16).

- Hochleitner, A., Schmidt, A.J., *Forschung und Wettbewerb: Technologieoffensive für das 21. Jahrhundert. Bericht an die Bundesregierung*, Vienna, 1997.
- Hu, Z., Khan, M., "Why is China Growing so Fast?", *IMF Staff Papers*, 1997, 44(1).
- Hudson, D., "EU Trade with Asian ASEM", in *European Commission* (1998).
- IMF, *World Economic Outlook*, 1997, (December).
- IMF, *World Economic Outlook*, 1998, (April).
- Kratena, K., "Beschäftigungseffekte des Außenhandels mit Dienstleistungen in Österreich", in *Federal Ministry of Economic Affairs, Der österreichische Außenhandel. Das Jahrbuch 1996*, Verlag Österreich, Vienna, 1996.
- Lehner, G., Schebeck, F., Stankovsky, J., "Exportoffensive": Evaluierung des Positionspapiers und Maßnahmenkatalogs der Vereinigung Österreichischer Industrieller vom Oktober 1996, *Study of WIFO commissioned by the Federation of Austrian Industries*, Vienna, 1996.
- Maddison, A., "Macroeconomic Accounts for European Countries", in *van Ark, B., Crafts, N., Quantitative Aspects of Postwar European Economic Growth*, Cambridge University Press, Cambridge, 1996.
- OECD (1997A), *Indicators of Tariff and Non-Tariff Trade Barriers. Update 1997*, Paris, 1997.
- OECD (1997B), *Economic Outlook*, 1997, (62).
- Oesterreichische Kontrollbank (OKB), *Geschäftsbericht 1996*, Vienna, 1997.
- Oesterreichische Kontrollbank (OKB), *Geschäftsbericht 1997*, Vienna, 1998.
- Riemer, G., *Bildung für eine internationale Wirtschaft. Bildungsteil der Exportoffensive*, Vienna, 1998.
- Schulz, S., *EU-APEC Foreign Direct Investment – A Case of Interregional Relations*, DIW, Berlin, 1996 (mimeo).
- Stankovsky, J., Mayerhofer, P., *Metropole Wien, Band I: Österreich und die Nachbarn im Osten. Zusammenarbeit im Rahmen der europäischen Integration*, WIFO, Vienna, 1994.
- Stankovsky, J., "1989-1994: Fünf Jahre Ostöffnung aus österreichischer Sicht", in *Federal Ministry of Economic Affairs* (1995).
- Stankovsky, J., "Senkung des Handelsbilanzdefizits erforderlich", *WIFO-Monatsberichte*, 1997, 70(11).
- Wolfmayr-Schnitzer, Y., "Trade Performance of CEEC's According to the Technology Classes", in *Wolfmayr-Schnitzer et al.* (1997).
- Wolfmayr-Schnitzer, Y., et al., *The Competitiveness of Transition Countries*, WIFO, WIIW, OECD, Vienna, 1997.
- Young, A., "The Tyranny of Numbers: Confronting the Statistical Realities of the East Asian Growth Experience", *Quarterly Journal of Economics*, 1995, (110), pp. 641-680.