Potential for more trade in the commercial services sector in Austria

Ample need to catch up in insurance, computer and information services and royalties and licence fees

In spite of high trade surpluses in nearly all services sectors, Austria has a competitive edge in travel and communication services only. A recent study of the Vienna Institute for International Economic Studies (wiiw), prepared in the framework of FIW – Research Centre International Economics and commissioned by the Austrian Federal Ministry of Economics and Labour, stresses the positive role for Austria played by travel services. At the same time the authors warn of neglecting commercial services, such as communication, insurance, computer, consulting, management and marketing services as well as architectural and other technical services. Their share in global services exports is on the increase: it rose from close to 40% in 1995 to more than 50% in 2007, while in Austria from 29% to 44% only.

Thus, although travel services lost importance globally in the same period, from 35% to 27%, they play an increasing and positive role for Austria. Trade flows reflect the clear competitive advantage of Austria in this sector. However, not all sectors generating a surplus in the trade balance also imply a competitive advantage for Austria in the international comparison. For instance, in the case of transport services above-average imports lead to a weak competitive position, while exports – measured by the size of the country and of its transport sector – correspond exactly to the European average.

A strong deterioration in Austrian competitiveness has occurred mainly in insurance, computer and information services and in trade in royalties and licence fees. These services represent modern inputs that importantly contribute to raising the efficiency of the entire economy. A weak net export position therefore need not be considered as immediately negative, because high imports in these sectors may very well have positive effects on the business location via forward-linkages. This is also true for Austria, which features above-average imports of insurance services in an international comparison. The deficit in this position is 50% of the export volume and thus only exceeded by the position of royalties and licence fees, with a deficit of 150% of the export volume. In the latter case, however, imports are still considerably below the EU average.

In the European context therefore Austrian trade is characterized (in all categories with the exception of travel) by a significant untapped growth potential, especially in insurance, computer and information services. The existing competitive disadvantages have to be analysed in detail and eliminated. The study investigates in particular the influence of domestic regulations, with the result that the existing legal and institutional framework does not represent a barrier to foreign trade in services. The below-average international competitiveness in many commercial services may thus be mainly due to structural factors such as low productivity in the European comparison, relatively high unit labour costs and small average firm size.

Also in the case of communication services, for which a competitive advantage could be observed, Austria has a substantial need to catch up. This sector has recently experienced strong liberalization (associated with the privatization of former state-owned telecommunication services) which justifies expectations of a significant growth potential also in the near future.

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The studies by
Julia Wörz (wiiw), Austria's Competitiveness in Trade in Services (FIW Research Report, No. 003, 29 pp.) and
Vianney Brandicourt, Cyrille Schwellnus (CEPII) and Julia Wörz (wiiw), Austria's Potential for Trade in Services (FIW Research Report, No. 002, 35 pp.)
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