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Austria and its (Eastern) Neighbours in Transitions: How to develop a 'Headquarter Economy'

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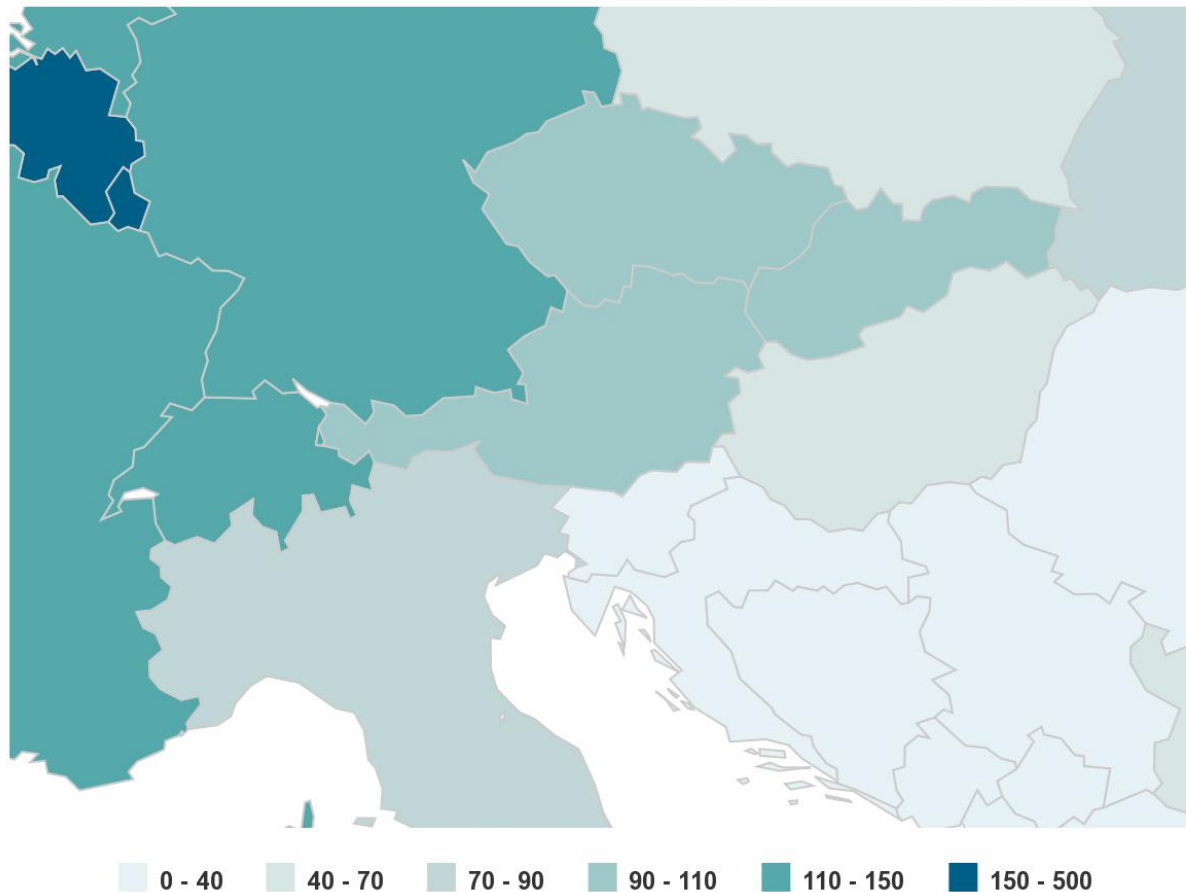
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Structure

- Austria and its (eastern) neighbours during the last century: permanent **transitions** between centre – semi-periphery – periphery
- Austria's economic engagement in CESEE over the last decades: patterns of **functional specialisation**
- Austrian **competitiveness** amid high CESEE exposure: is there a 'lock-in' effect?

Before WWI: Center-periphery gradation in Central Europe

Real GDP per capita in 1913, Austria = 100

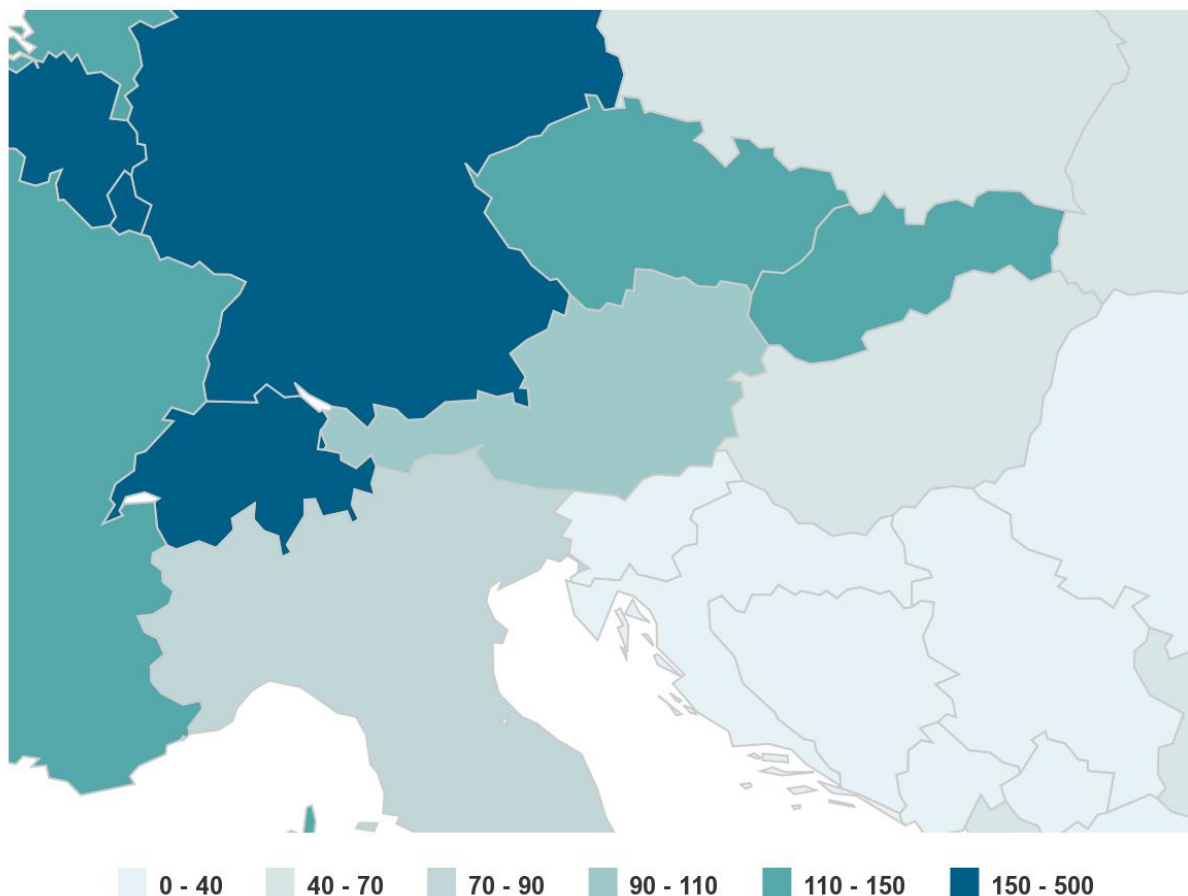


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Note: cgdppc indicator suitable for cross-country income comparisons; For the respective countries data on total former Yugoslavia, Czechoslovakia and USSR was used; Bulgaria estimate based on relationship with Yugoslavia in 19201; Luxembourg estimate based on relationship with Belgium in later years. Source: MPD 2018, own calculations.

After WWI: Stronger polarisation & lagging Austria

Real GDP per capita in 1918, Austria = 100

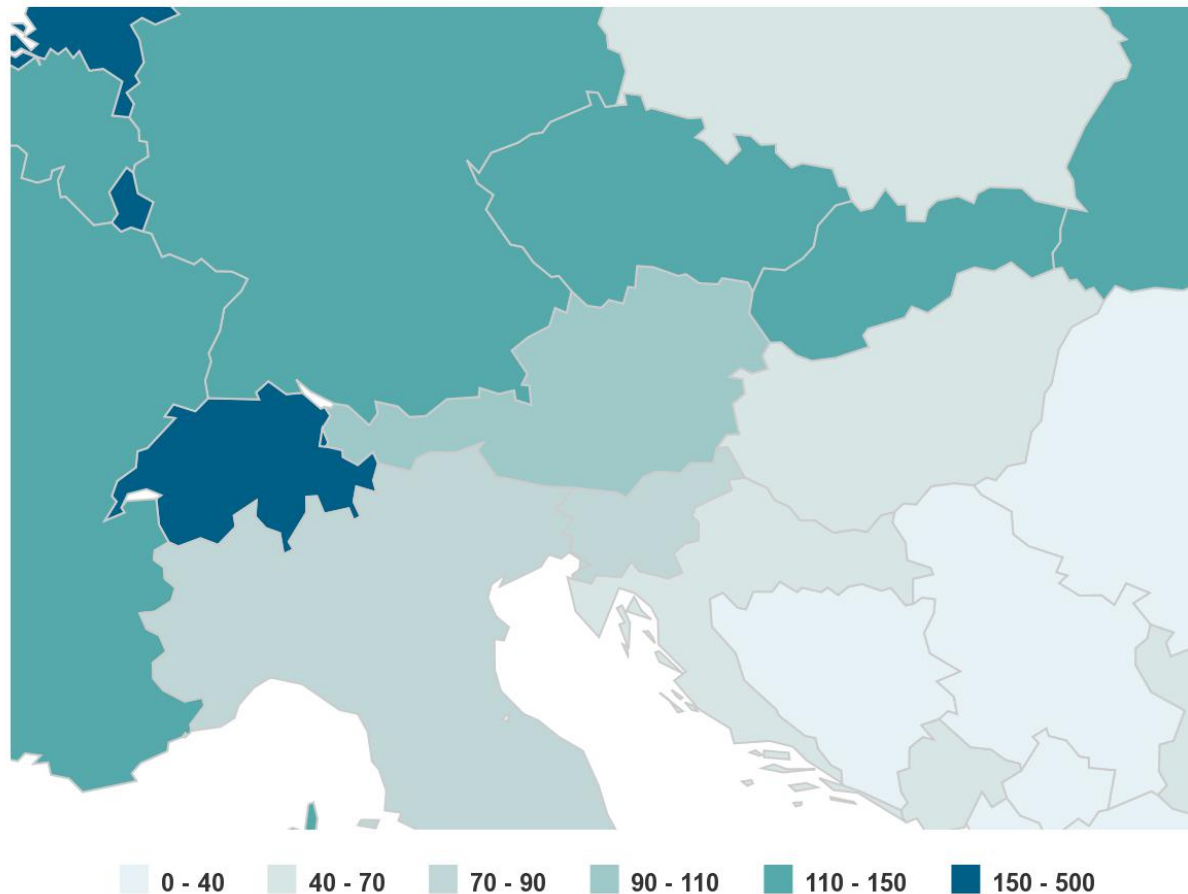


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Note: cgdppc indicator suitable for cross-country income comparisons; For the respective countries data on total former Yugoslavia, Czechoslovakia and USSR was used; Luxembourg estimate based on relationship with Belgium in later years; For a number of countries 1920 data; For Poland average over CS, HU, RO. Source: MPD 2018, own calculations.

After WWII: Less polarisation & lagging Austria

Real GDP per capita in 1952, Austria = 100



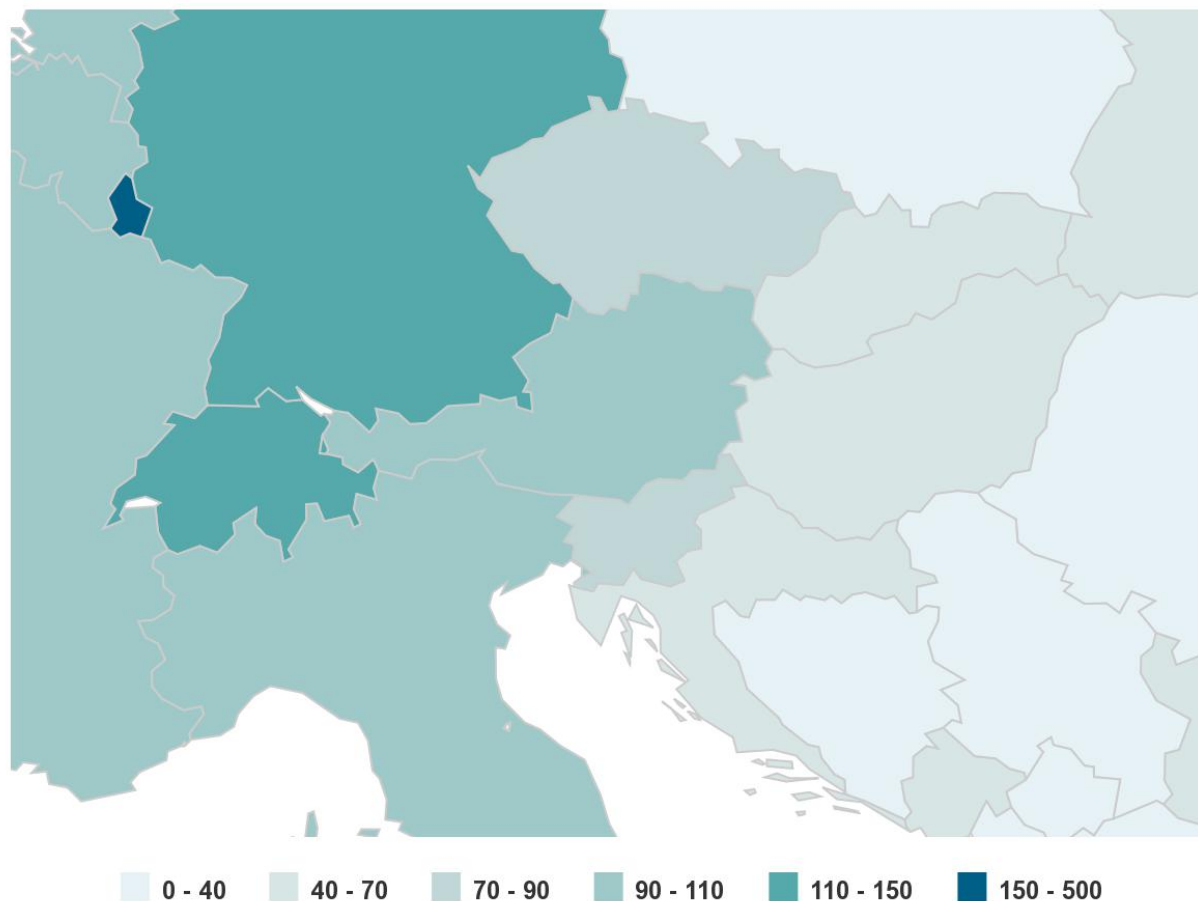
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Note: cgdppc indicator suitable for cross-country income comparisons; For the respective countries data on total former Czechoslovakia and USSR was used; Kosovo estimate based on Macedonian data.

Source: MPD 2018, own calculations.

Eve of transition: Austria caught up, East-West divide

Real GDP per capita in 1989, Austria = 100

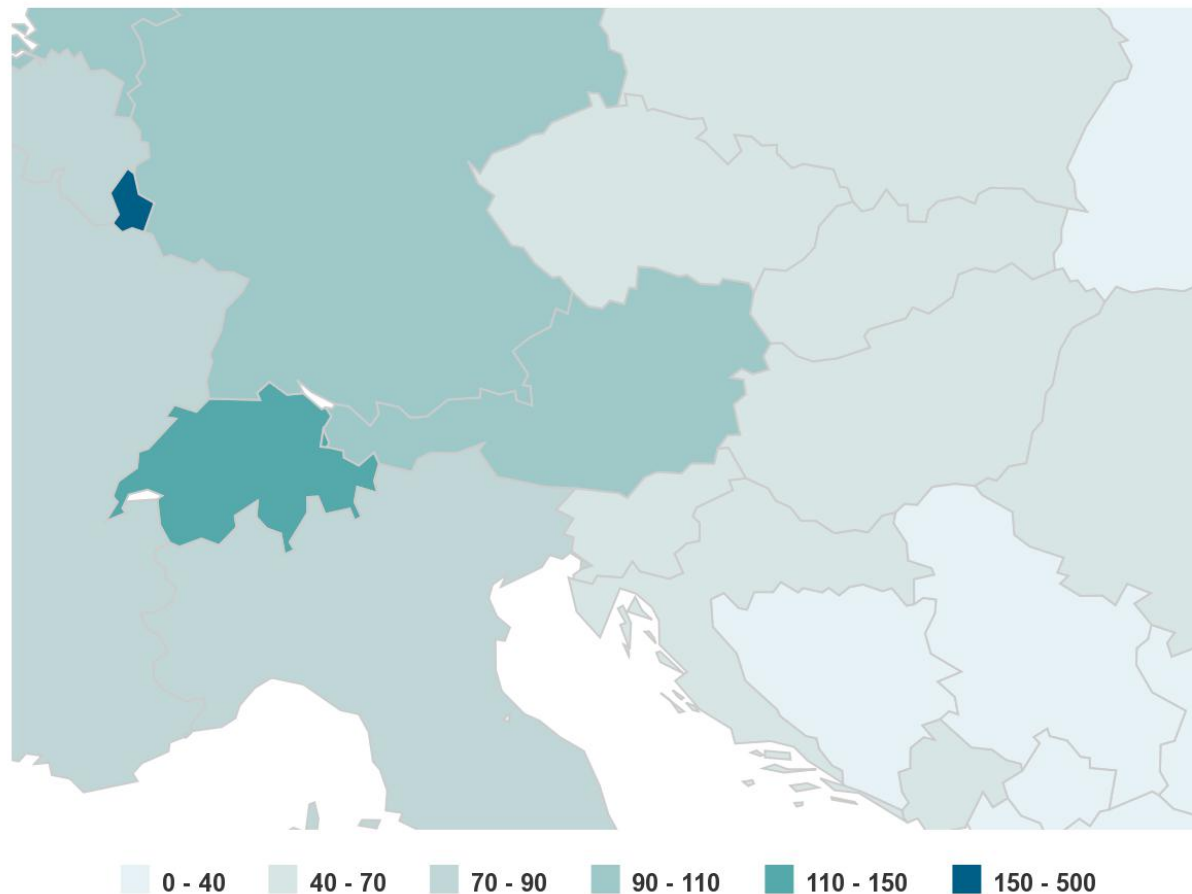


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Note: cgdppc indicator suitable for cross-country income comparisons; Kosovo estimate based on Macedonian data.
Source: MPD 2018, own calculations.

Today: Austria part of the centre, less East-West divide

Real GDP per capita in 2016, Austria = 100

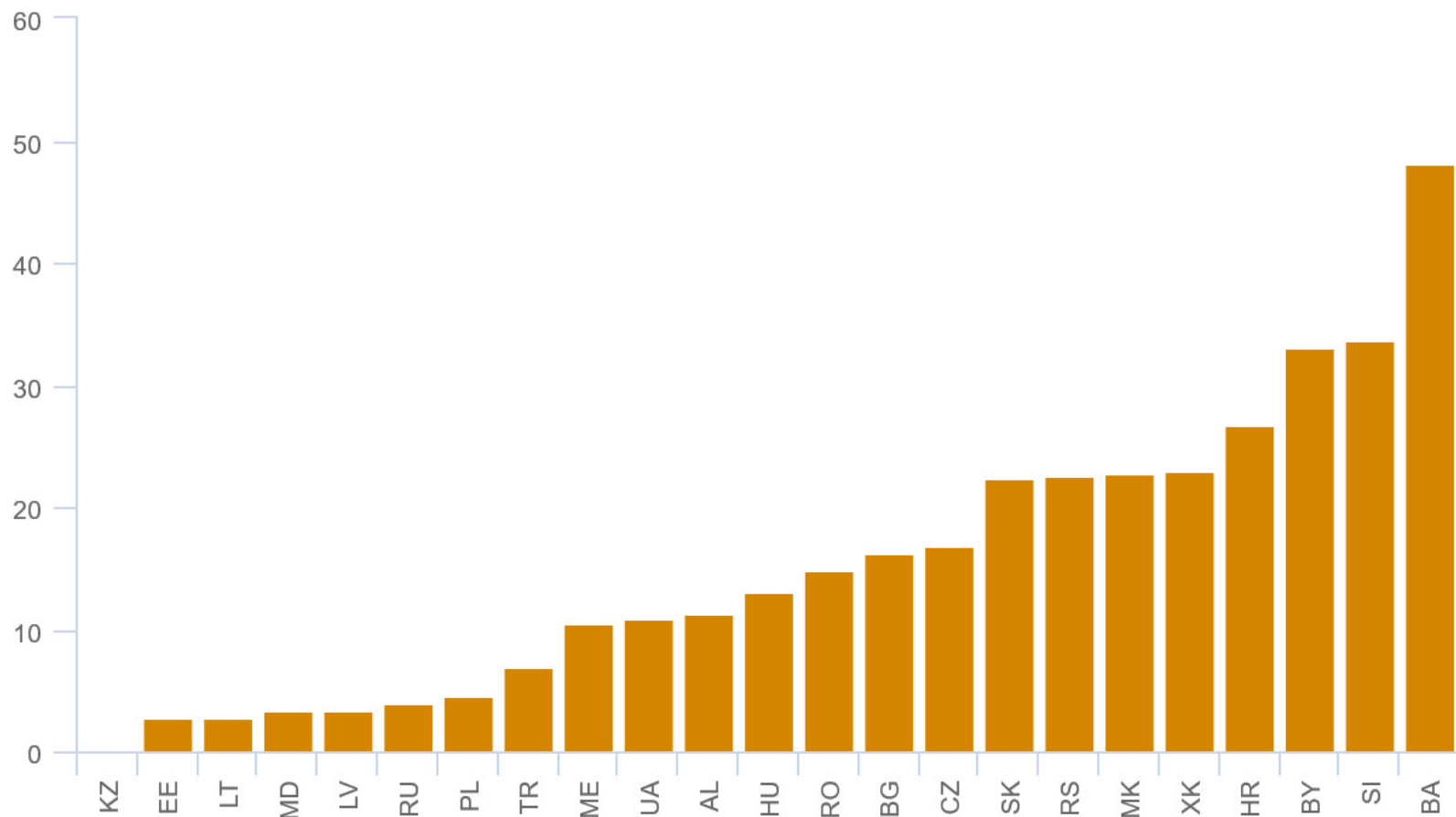


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Note: cgdppc indicator suitable for cross-country income comparisons; Kosovo estimate based on Macedonian data.
Source: MPD 2018, own calculations.

Austria's central position secured by capital ownership

Austrian share of EU-15 FDI inward stock in %, by receiving country in 2016



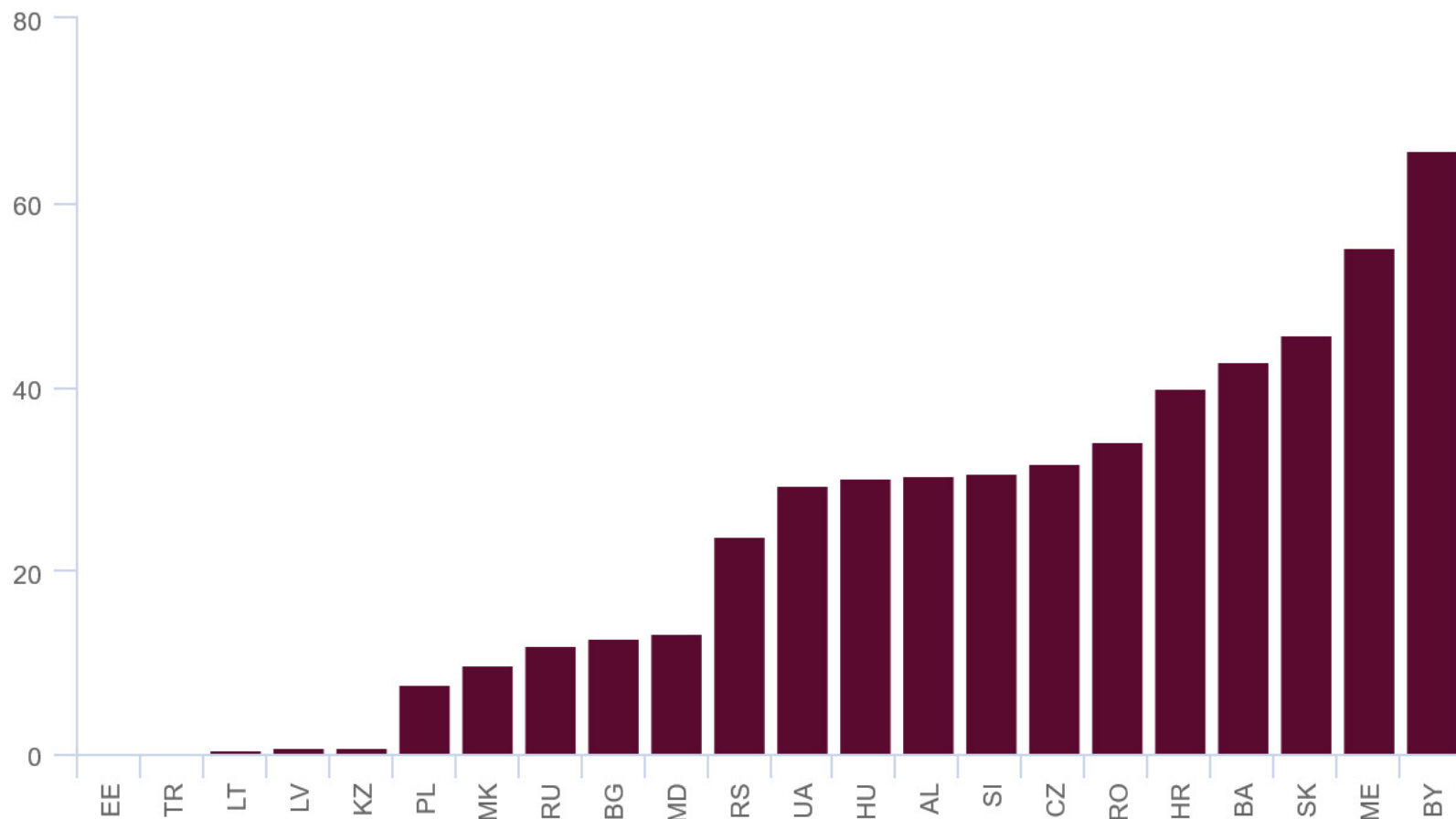
Source: wiiw FDI Database.

Note: For the Czech Republic, Moldova, Serbia and Slovakia 2015 data.

Source: wiiw FDI Database, own calculations.

... and high exposure in neighbours' banking sector

Share of claims of Austrian banks in total intl. exposure, ultimate risk basis, in % 2017q3

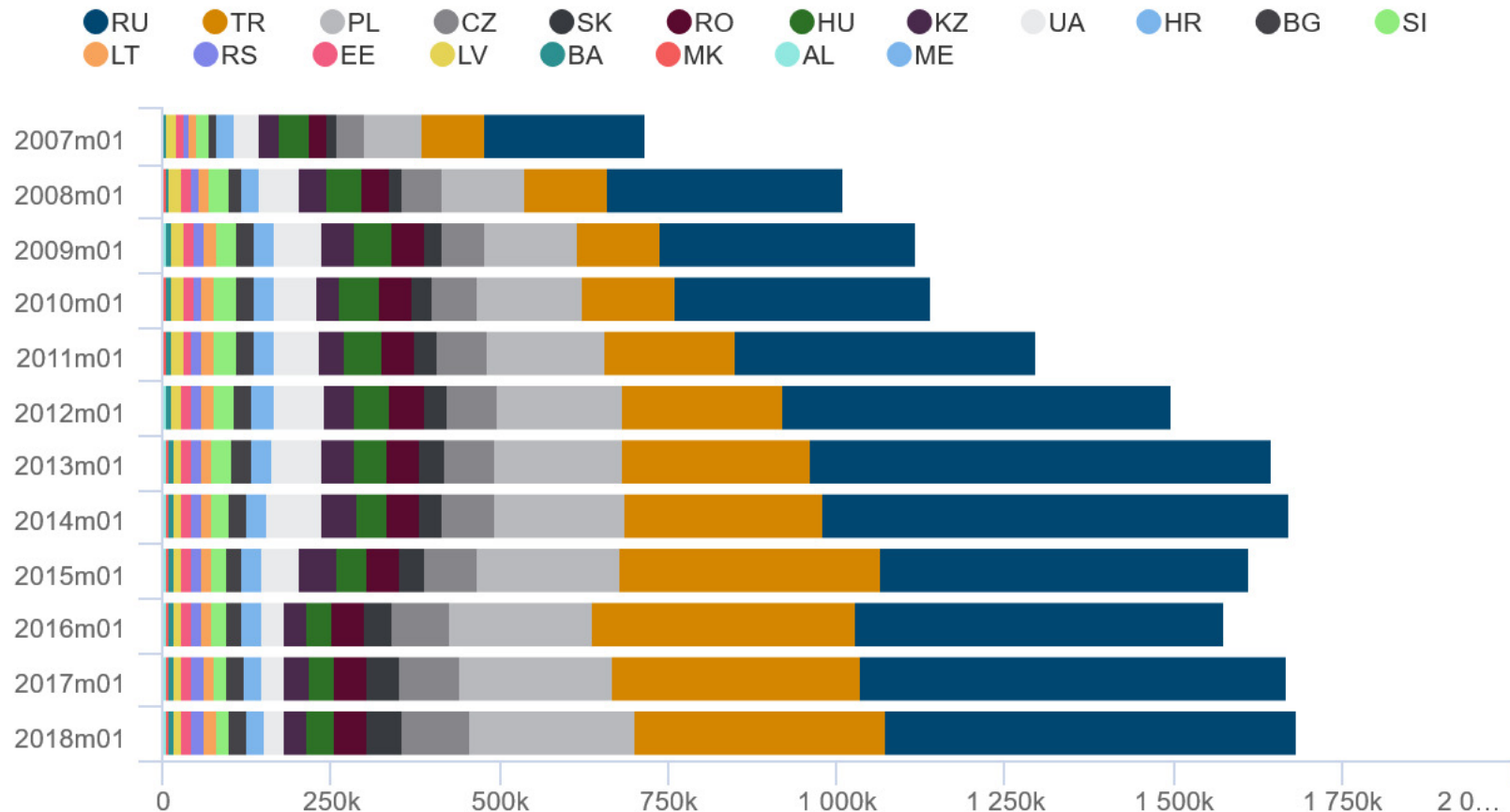


Source: BIS.

Note: own calculations.

CESEE loans market is volatile but growing

Stock of loans to non-financial private sector in EUR mn



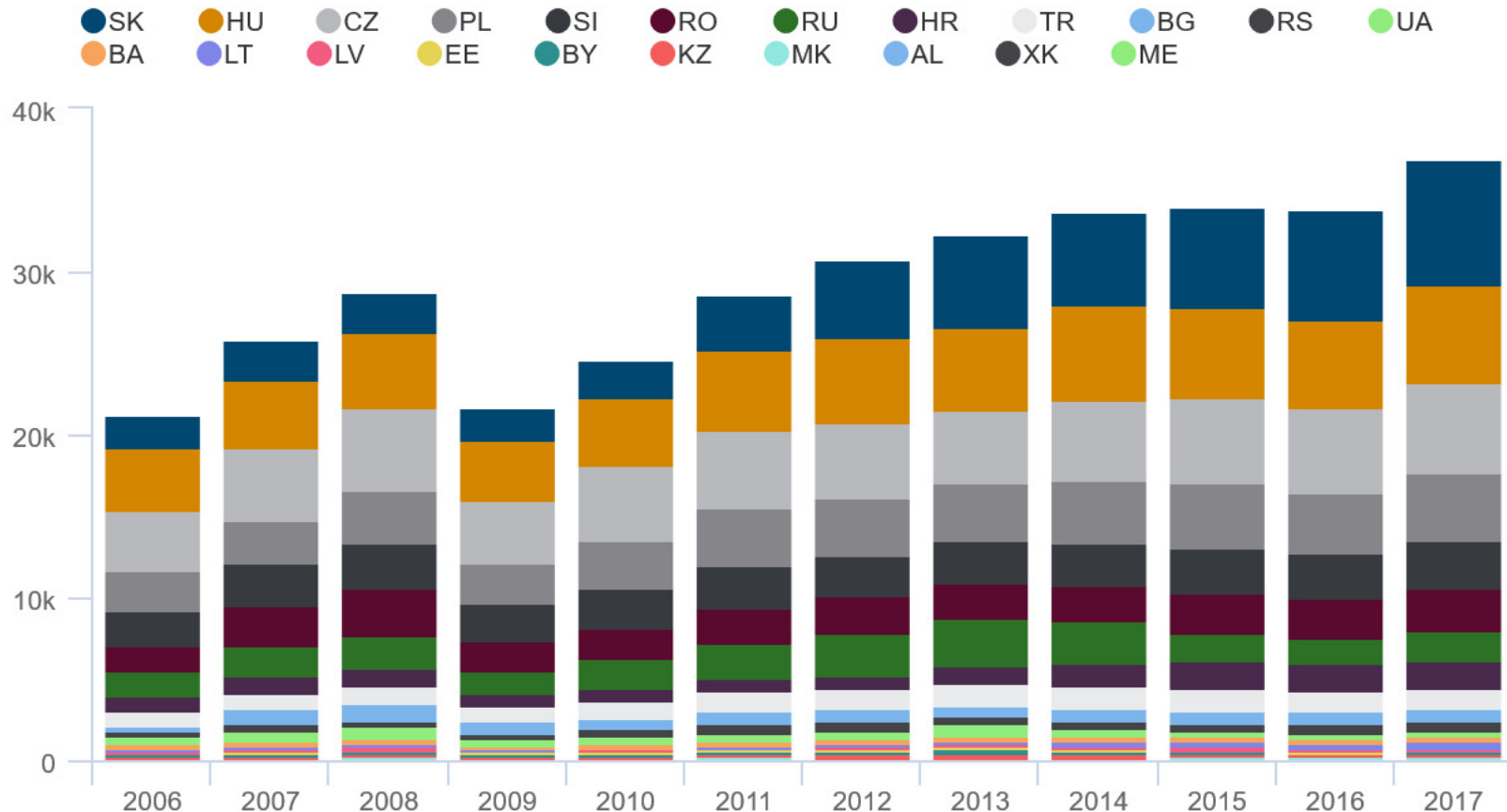
Source: wiiw Monthly Database.

Note: Ranked by size in 2018m01; For Montenegro 2017m12 instead of 2018m01 data.

Source: wiiw Monthly Database, own calculations.

CESEE also volatile & growing market for Austrian goods

Imports from Austria in EUR mn

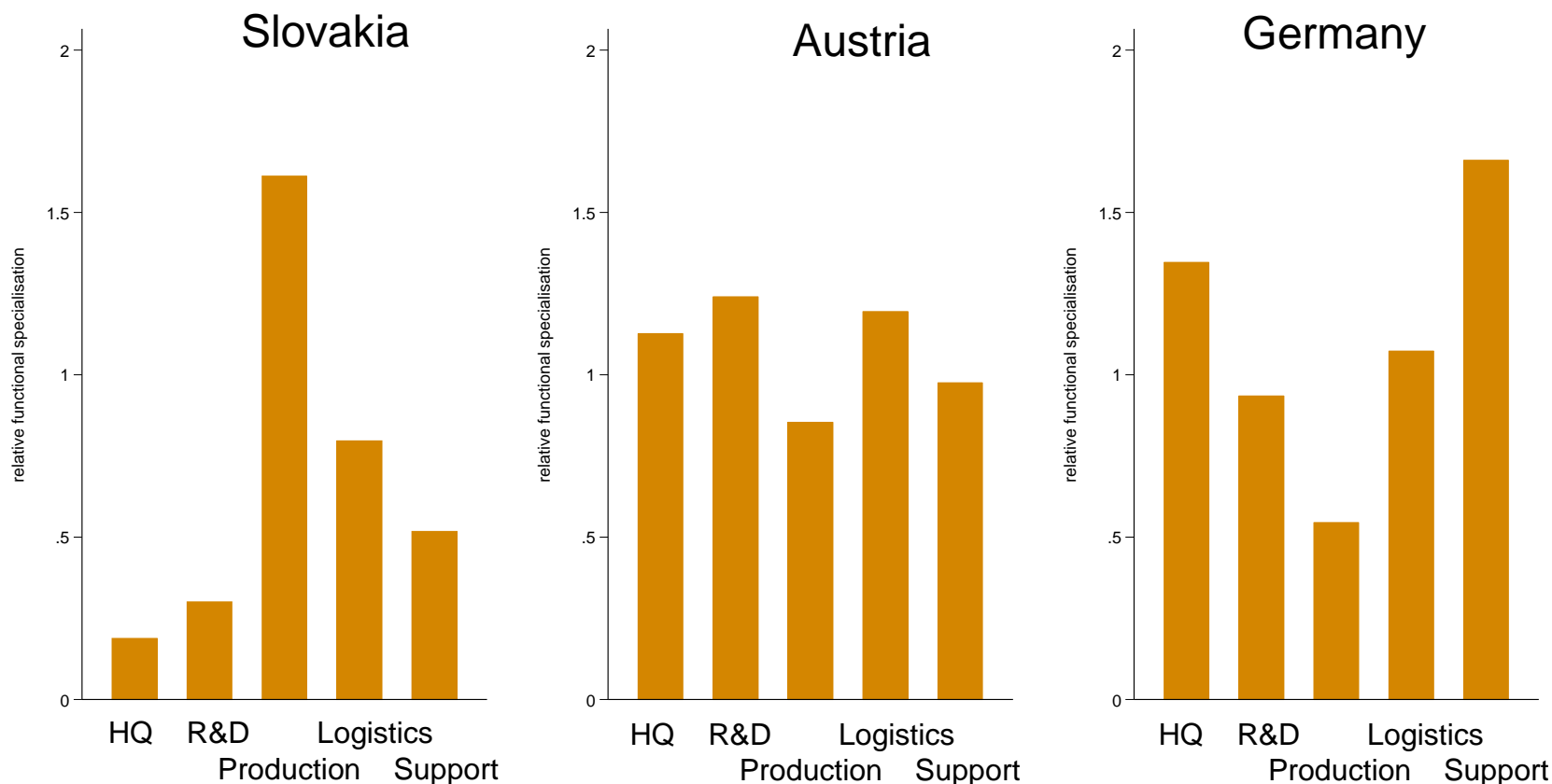


Source: wiiw Annual Database.

Note: Ranked by size in 2017; For Serbia and Montenegro 2016 instead of 2017 data.

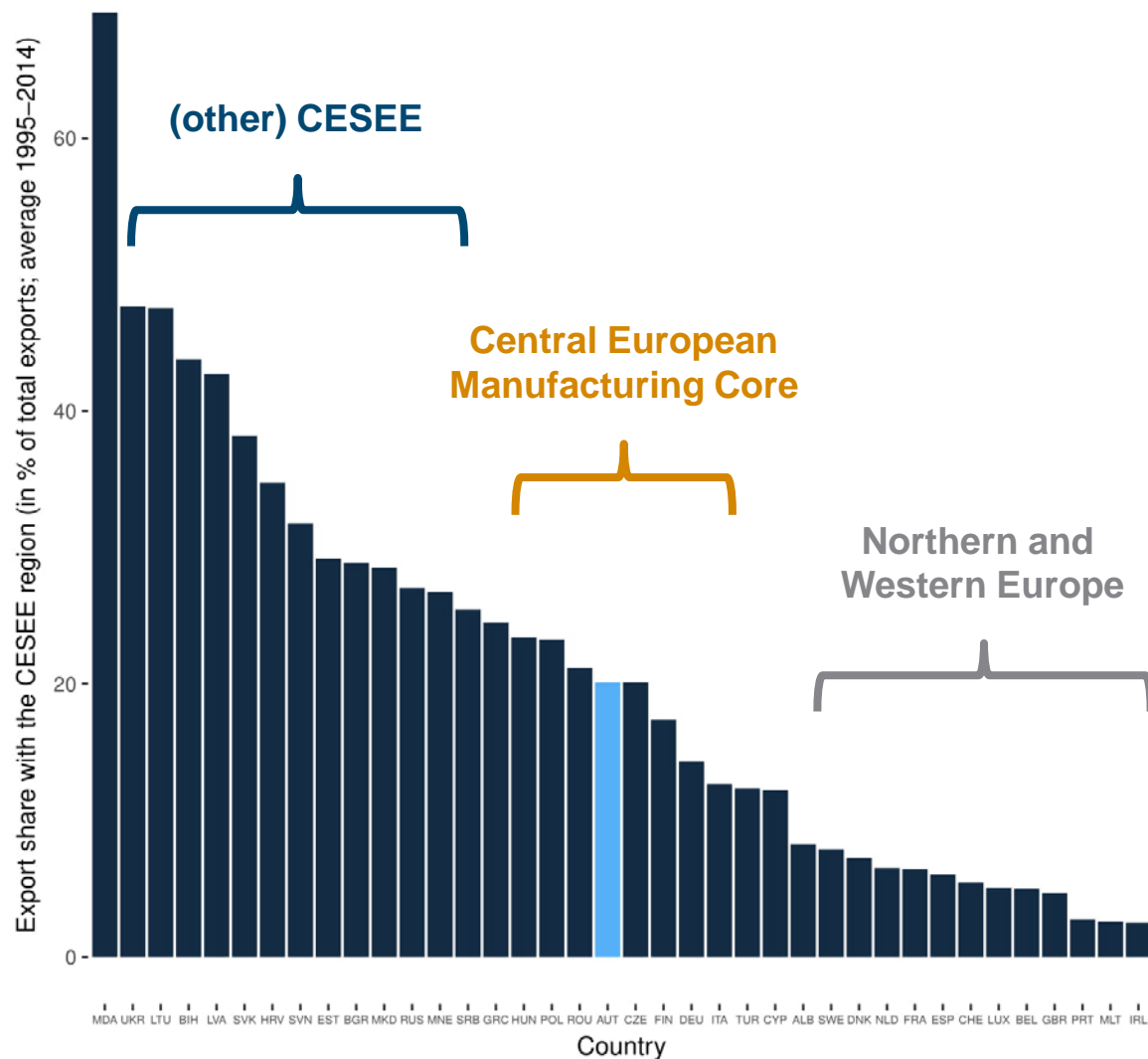
Source: wiiw Annual Database, own calculations.

Will CESEE remain a factory economy or become a headquarter economy as well?



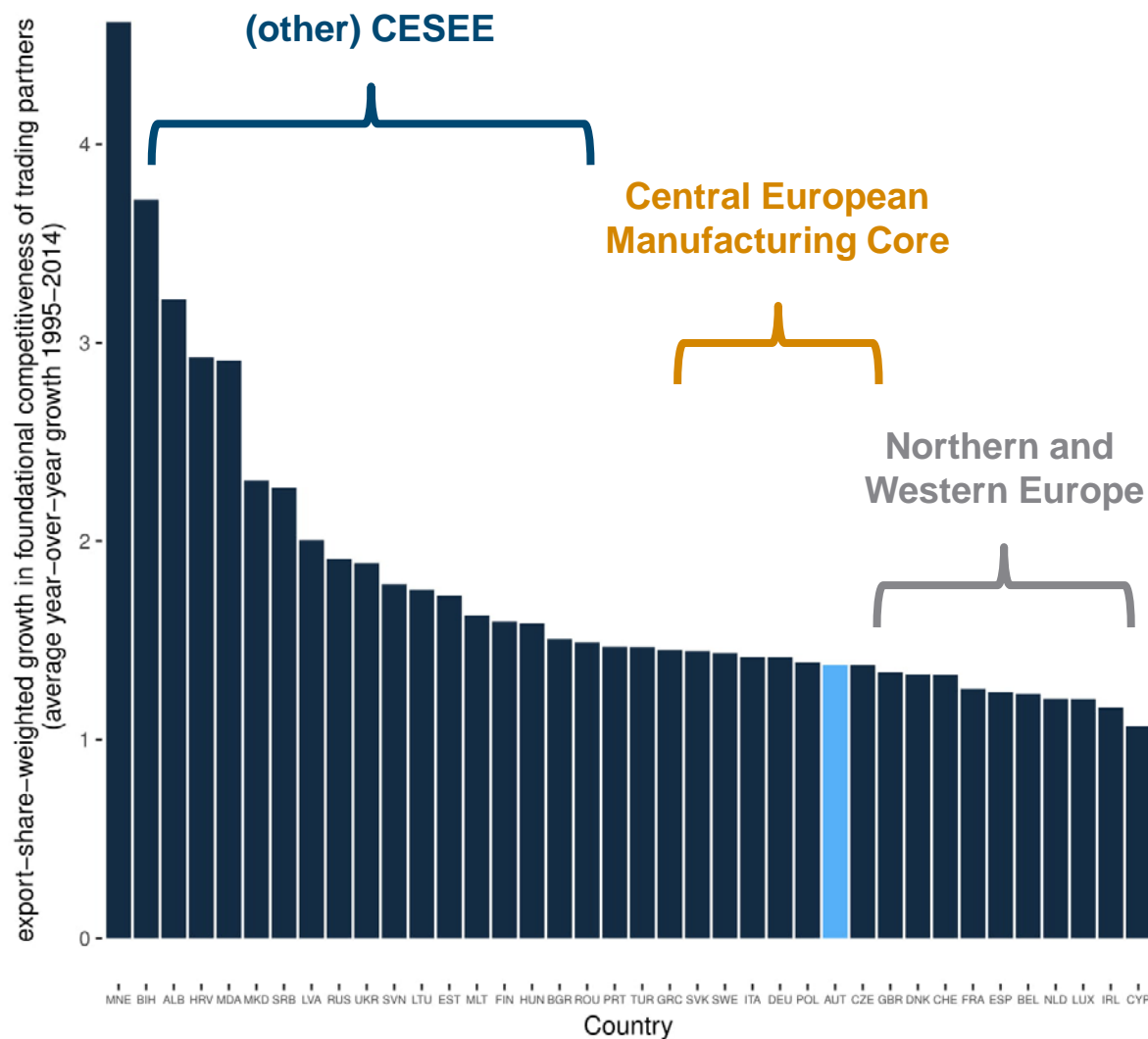
Note: Relative functional specialisation is measured as the number of FDI projects in the respective category of a country relative to the world's ratio; Hence, 1 is the world average; data are 2003-2015 averages. Source: fDi markets database, own calculations, Stöllinger (forthcoming), based on an OeNB Jubiläumsfonds project on functional specialisation.

High Austrian CESEE export shares – lock-in effect?



Source: IMF DOI, own calculations.

More recently: slowdown in Austrian competitiveness?



Note: Foundational competitiveness is GDP per working age population at PPP.

Source: PWT 9.0, IMF DOI, own calculations.

It is typically beneficial to trade with increasingly competitive partners, though with diminishing returns – hence: further functional upgrading also needed in Austria

Note: Dependent variable: Growth rate of foundational competitiveness (GDP per working-age population at PPP), 5-year average; tpcomp is the trading partners' export weighted 5-year average growth of foundational competitiveness. Specification following Arora and Vamvakidis (2005); 38 European countries; Preliminary results.

Source: Heimberger (forthcoming) based on an OeNB Jubiläumsfonds project on Austrian competitiveness.

	Dependent variable:				
	growth_comp				
	(1)	(2)	(3)	(4)	(5)
log(initial_found_comp)	−3.634*** (1.119)	−3.261** (1.466)	−3.700*** (1.292)	−3.632*** (1.128)	−3.349** (1.680)
tpcomp	1.598*** (0.180)	2.086*** (0.726)	1.381*** (0.180)	1.596*** (0.181)	1.287 (0.811)
sq_tpcomp	−0.156*** (0.031)	−0.231*** (0.073)	−0.137*** (0.027)	−0.156*** (0.032)	−0.122 (0.099)
exp_share_CEESEE		−0.032 (0.056)			−0.054 (0.075)
exp_share_China			−0.517*** (0.152)		−0.517*** (0.157)
inflation	−0.028** (0.013)	−0.027** (0.013)	−0.027** (0.012)	−0.028** (0.013)	−0.027** (0.012)
inv_share	13.258** (5.731)	12.859* (6.509)	12.616** (6.015)	13.292** (5.790)	13.983** (6.769)
trade	0.018 (0.013)	0.022** (0.011)	0.020 (0.015)	0.018 (0.013)	0.026** (0.012)
emp_growth	−0.332*** (0.119)	−0.332** (0.133)	−0.376*** (0.116)	−0.331*** (0.121)	−0.408*** (0.143)
tpcomp:exp_share_CEESEE		−0.009 (0.009)			0.0003 (0.009)
sq_tpcomp:exp_share_CEESEE		0.002 (0.001)			−0.0002 (0.002)
tpcomp:exp_share_China			0.239 (0.264)		0.163 (0.311)
sq_tpcomp:exp_share_China			0.053 (0.176)		0.100 (0.220)
tpcomp:dummy_Austria				0.774 (0.803)	−0.239 (1.228)
sq_tpcomp:dummy_Austria				−0.276 (0.304)	0.103 (0.462)
Observations	144	144	144	144	144
R ²	0.440	0.450	0.477	0.441	0.484
Adjusted R ²	0.191	0.181	0.220	0.176	0.189
Number of countries	38	38	38	38	38
Number of periods	4	4	4	4	4
Country fixed effects	yes	yes	yes	yes	yes

Note:

*p<0.1; **p<0.05; ***p<0.01

Trade partners' inverted u-shape impact on competitiveness

Summary

- Over the last century Austria transitioned from the fringes of Europe's centre to a semi-peripheral position and more recently right into its **economic centre**
- Austria's exposure to 'factory economy' of CESEE made functional specialisation as a '**headquarter economy**' possible
- At first glance Austrian competitiveness is not endangered due to CESEE catch-up but a 'lock-in' effect has to be avoided by further **functional upgrading**

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