



**OECD ECONOMIC SURVEY OF AUSTRIA 2003:
THE IMPACT OF EU ENLARGEMENT ON AUSTRIA**

This is an excerpt of the OECD Economic Survey of Austria, 2003, from the section on recent macroeconomic developments and medium-term issues, chapter 1.

Box 1. The impact of EU enlargement on Austria

EU eastern enlargement is important for Austria in many respects. Austria has the largest number of neighbouring accession countries with a sizeable population living within commuting distance from its highly populated and industrial agglomerations. Accession countries are catching up and provide a rapidly growing market for Austrian goods and services. Also Austrian companies have become important investors in the region. At the same time enlargement will increase the openness of the Austrian economy and expose domestic suppliers to more competition.

Eastern enlargement of the EU can be seen as the final step to reverse Europe's artificial separation during the rule of communist regimes. Austria was affected very negatively by closed borders while trade integration with the successor states of the former Austro-Hungarian Empire declined dramatically. Since the removal of the "Iron Curtain" Austria has benefited in turn in many ways from the transition to market economy and democracy in its neighbouring countries. While at the beginning of the process demand effects and accumulated trade surpluses dominated, accession will generate better supply conditions and allow for cost-saving restructuring of resources in the region. The joint legal framework and the implementation of a single market will facilitate specialisation and division of labour in the region.

Recent estimates have confirmed this positive assessment. Breuss (2001)¹ distinguishes between trade and Single Market effects, factor mobility effects and the budgetary costs of accession. The trade effect comes from the elimination of the remaining trade barriers between accession countries and the EU. The Single Market effect allows productivity gains through a better utilisation of existing capacities. Eliminating barriers to factor mobility makes it possible to optimise location decisions and reduce labour market bottlenecks. Finally, the author takes into account the budgetary costs of enlargement, which are assumed to be financed out of lower expenditures for the common agricultural policy and structural funds.

According to the finding of this study Austria does not have to fear much from cuts of EU spending on common policies, but might experience a boost of nearly 1 percentage point of GDP in the long term through the other channels - about double the impact on EU GDP on average. The larger part of this positive effect is due to Single Market effects and immigration, while the impact of higher external demand will diminish over time to not much more than a tenth of a percentage point of GDP.

These estimates appear relatively robust and are confirmed by other studies.² The potential

for a positive impact of EU enlargement is also evident from recent economic developments. Austria is able to make full use of the more accessible eastern export markets. The disadvantaged regions along Austria's long borders with former communist countries are progressively catching up and Burgenland – Austria's only region eligible for EU structural funds – is likely to lose this status because its GDP per capita has risen above the respective threshold.

Nevertheless, public debate in Austria is also shaped by concerns about excessive immigration lowering wages and intensified price competition from lower-cost suppliers, which might drive local suppliers into bankruptcy. Other concerns refer to fears of an excessive increase of transit traffic and an excess demand for social services, which might lead to a deterioration in the quality and quantity of health and education expenditures for the incumbent population. Appropriate policy measures are necessary to address these concerns so that Austria can reap the full benefits of enlargement.

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1. Breuss, Fritz (2001), Makroökonomische Auswirkungen der EU-Erweiterung auf alte und neue Mitglieder, Wifo-Monatsberichte 11/2001.
 2. Kohler, Wilhelm and Christian Keuschnigg (2001), An Incumbent Country View on Eastern Enlargement of the EU. Part II: The Austrian Case, *Empirica* 28, 159-185, 2001, also find an estimated impact of Eastern Enlargement on Austrian GDP of 1 percentage point using a computable general equilibrium model with a sectoral disaggregation. Bank Austria Creditanstalt (<http://wko.at/eu/erw/oesterreich/BA-Studie.pdf>) estimates an average annual income gain per Austrian of about euro 100 and more than 1 per cent of additional employment.