

## AUSTRIAN EAST TRADE

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***Abstract:** Political animosities in Europe often were followed by a dramatic impact on economic exchanges. For certain governments, respectively for economic orientations, it has always been difficult to overcome political barriers. Austria stands out in this direction as an economic connecting bridge. Undoubtedly, this is the result of a very liberal foreign policy, traditionally non-exclusive, influenced by many other factors, such as the favorable geographical position. In addition to the economic plan, Austrian East Trade has also kept alive the hope for better political communication between the two parts of Europe.*

***Keywords:** Austrian, products, policy, east trade, east-west*

### INTRODUCTION

The long-lived hypothesis of the Austro-Hungarian monarchy as an economically backward state structure has been clearly refuted by the research results in recent decades.

The geographical position, as well as access to markets, has always allowed Austria to overcome political barriers, as during the Cold War when a serious part of Austrian exports was destined for socialist countries behind the iron curtain. East-West trade was determined by economic factors that were characterized by the planned economy system: In the cyclical course of the Eastern European economies, foreign trade acted as a buffer between domestic supply and domestic demand.

## RESEARCH METHODOLOGY

The study is subject to the application of analysis, comparative approach, synthesis, and abstraction as the main methodological heuristic toolkit. The conclusions are based on analysis.

## RESULTS

Austria's had during the vast historical space of troubling inter-state relations in Europe, a role of bridgehead between East and West.<sup>1</sup> This is a clear reflection of the long period when Austria for sure had a crucial role in trade performed between Europe and the East. When we talk about the east, this must also be understood by including the eastern part of Europe.

Economic efforts began seriously during the 18-th century, with an official trading company for the Balkans, the “Kaiserliche Privilegierte Orientalische Kompagnie”.<sup>2</sup> This fact shows that state policies aimed at the strategic orientation of foreign trade are not a unique innovation only of modern Austria. The Hapsburgs attached great importance to the economic dimension and did not see it as separate from other priority policies.

The geographical position has always allowed Austria to overcome political barriers, as during the Cold War when about 20% of Austrian exports were destined for socialist countries where the market was not an “open market”.<sup>3</sup> During the 60s, Austrian exports had a growing trend in the ranking even in relatively new markets such as Israel.<sup>4</sup> Arguing about the development of

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<sup>1</sup> Hochreiter, E. (1993). *Austria's Role as a Bridgehead Between East and West*. ONB.

<sup>2</sup> Evans, R. J. W. (2006). *Austria, Hungary, and the Habsburgs: Essays on Central Europe, c.1683–1867*. Oxford University Press, p.6.

<sup>3</sup> Mihály, S., and K. Garam. (1977). *Concepts, Theories and Problems : [a Selection from the Papers Contributed to the Fourth World Congress of Economists, Held in Budapest, August 19-24, 1974]*. Budapest: The University of Michigan, p.390.

<sup>4</sup> Interbuild. (1964). The University of Michigan

Austria's Eastern trade, Stermann recognizes three components: a historical one, a geographical position, and pertaining to international law.<sup>5</sup>

Bischof and Kofler are of opinion that during the Cold War, Austria lost much of its function as an economic bridge toward East Central Europe. Moreover, the Cold War changed even Austria's industrial heartland shifted from Vienna to westward.<sup>6</sup> However, not many European countries could continue to export to communist Europe. For them, Austria's economic relationship with Eastern Europe was tolerated by the US.

The long-lived hypothesis of the Austro-Hungarian monarchy as an economically backward state structure has been clearly refuted by the research results in recent decades. It was based in no small part on equating political instability, which had been caused by the many nationality conflicts and government crises, with the economic failure of the dual monarchy, which was often referred to as the "China of Europe" or "sick man on the Danube" was characterized.<sup>7</sup>

The Habsburg state lagged behind Western Europe in the process of industrialization. The reasons are: location disadvantages due to the geographical location; intellectual provincialism by shielding it from the socio-philosophical and economic discussions of the West; loss of manpower and know-how due to the Counter-Reformation; formation of the Austrian baroque culture.

The economic backwardness of the Habsburg monarchy and the failure of its political authorities to remedy this situation were for a long time regarded as given facts and at the same time served as an explanation for the disintegration of

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<sup>5</sup> Stermann, W. "Austria as a model for East-West trade." *Intereconomics* 3.5 (1968): 146-149

<sup>6</sup> Bischof, G, and Pelinka A.. (2003). *The Americanization / Westernization of Austria*. Transaction Publishers, p.206.

<sup>7</sup> Sandgruber, R., Economics and Politics. Austrian economic history from the Middle Ages to the present, Verlag Carl Überreuter Vienna (1995)., p. 310.

the multi-ethnic state. The core of the argument was the unresolved conflict between nationalities, which was seen as an inhibitor to economic prosperity.<sup>8</sup>

The First World War ended with the collapse of the Habsburg monarchy. Instead of the project of a Danube empire dominated economically and politically by Vienna, Austria was significantly reduced in size and constituted as a bourgeois nation-state. The economic and political consolidation attempts of the First Republic that followed the Habsburg Empire were not particularly successful.

With the collapse of Austria-Hungary, the economic situation in Austria changed following the political turmoil. As the third largest state in Europe, the monarchy had around 52 million inhabitants, of which a little over 28 million lived in the Austrian half of the empire, the rest in the Hungarian half of the empire.<sup>9</sup>

But the economic weight of the monarchy was less than these figures suggest. The predominant character of the country was that of an underdeveloped agrarian state. Above all, the Hungarian half of the empire, with an agricultural employment share of 69% (industrial employment: 13%), must be addressed as an almost one-sided agricultural area. But agriculture also predominated in the Austrian half of the empire: 53% of the working population were employed here - compared to the 23% in industry and trade.<sup>10</sup>

Furthermore, Austria was heavily indebted because of the war, with 35.129 billion crowns in war bonds, which is why the banknote press was used to print the missing money. From 1920 the amount of money in circulation rose

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<sup>8</sup> Eigner, P., *The Economic Development of the Habsburg Monarchy in the 19th Century: A Model Case of Delayed Industrialization?* in: *Contributions to historical social studies* 27 (1997), pp. 112-122.

<sup>9</sup> The data refer to the census year 1910.

<sup>10</sup> Rothschild, Kurt: *Roots and Driving Forces of the Development of the Austrian Economic Structure*, in: Wilhelm Weber (Hrsg.) *Österreichs Wirtschaftsstruktur, yesterday - today - tomorrow*, Berlin (1961), P. 14.

rapidly: from 12 billion crowns to 174 billion in 1921 and to over a trillion by 1922. This led to inflation of more than 50 percent per month, which led to an increase in the cost of living by 14,000 times what it was before the war.<sup>11</sup>

The savings of many years were suddenly worthless and the Austrian economy was faced with serious problems. The krona was no longer attractive as a means of payment abroad, as any capital investment was worth little more than paper within a very short time due to the extreme inflation. The industrial companies could no longer find any lenders, ran out of money, and had to halt production and lay off workers. In 1922 the unemployment rate rose to 4.3 percent,<sup>12</sup> which should only mark the beginning of a steadily rising unemployment until 1934 and thus had a direct impact on the population. Import costs rose, and those who still had some capital left invested it abroad as quickly as possible, which led to a vicious circle of renewed price increases and capital losses at home.<sup>13</sup>

From 1938 there was a shift in Austria from the consumer goods industry to the basic materials and capital goods industry. This shift led to the growth of large firms at the expense of small and medium-sized firms. A large part of today's large Austrian companies was created between 1938 and 1945 or were planned during this time. Probably the best-known example is the "Reichswerke Hermann Göring", which later became the core of the nationalized industry as VÖEST.

The disintegration of the common economic area and market as a result of the First World War dealt a severe blow not only to the further economic

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<sup>11</sup> Sandgruber, R., *Economics and Politics. Austrian economic history from the Middle Ages to the present*, Verlag Carl Überreuter Wien (1995), p. 328-355

<sup>12</sup> Eigner, H. (ed.): *Austrian economic and social history in the 19th and 20th centuries*. Vienna (1999), p. 171.

<sup>13</sup> Kernbauer H. / F. Weber: *From Inflation to Depression. Austria's economy 1918-1934*. In: *Austrofascism. Articles about politics, culture and economics*. Edited by E. Tálos / W. Neugebauer. Vienna: Publishing House for Social Criticism (1984), p. 7.

development of the Republic of Austria but to the entire region, from which it would not recover for many decades.<sup>14</sup> After the failure of alternative concepts such as the Danube Federation and the decades of communist rule, the states that emerged from the monarchy were only on the way to realizing common economic concepts again at the end of the 20th century.

### **EAST-WEST TRADE FACTORS**

East-west trade is determined more than any other trade relationship by extra-economic factors. For institutional reasons, there were numerous restrictions, because in the period of the bilateral trade and payments agreements up to the end of the 1960s, trade flows between East and West were restricted by entering into commitments with each agreement, and trade balances bilaterally between one to balance eastern and one western trading partner. With the beginning of full liberalization in the early 1970s, it became necessary to restrict imports from the West, as the east's sharp rise in debt to the West forced it to pay off the mountains of debt.

Even more important than the institutional factor was the political one. Due to the American embargo policy towards the eastern states, the development of east-west trade was severely curbed in the first post-war years. In 1947/48 the USA introduced a trade embargo for the first time. The Foreign Assistance Act of 1948 coupled this with Marshall Aid: The countries that made use of it were provided with a long list in which the export of numerous goods to the Eastern European countries was prohibited.

In 1950, a separate organization was set up to monitor compliance with this list: The Coordinating Committee for East-West Trade (COCOM). In the first half of the 1950s, almost half of the internationally traded goods were placed on

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<sup>14</sup> Komlos, J., A theory of the industrial revolution, in: *Magie der Industrie. Living and working in the factory age.* Catalog of the Lower Austrian State Exhibition (1989), Munich 1989, p.224.

this embargo list, and it was only gradually reduced to 10% when the ERP aid expired.

After 1955, discrimination according to the COCM regulations became impossible anyway, since it would have violated Article 29 of the State Treaty. At the beginning of the 1970s, there were concrete improvements in east-west trade relations when the two superpowers came closer together. However, this tendency was put to an end by the severe world recession of 1974/75, because the sales opportunities of the East in the West deteriorated dramatically.

In principle, until the early 1950s, the contracts were concluded for barely more than a year and acted purely as quota agreements on a bilateral basis. With the OEEC states, the turn towards liberalization began to take hold from mid-1949, while the treaties with the Eastern European states remained bilateral until the early 1970s.<sup>15</sup>

When a long-term trade and shipping contract was concluded with the USSR in 1955, trade relations began to loosen up somewhat, which ultimately manifested itself in the gradual transition from 1-year contracts to 5-year contracts.<sup>16</sup> In spite of these improvements, the bottlenecks in mutual clearing transactions remained, because Austrian exporters were pushing for the Eastern market, while conversely the offers there were rather unattractive.

This imbalance forced Austrian trade policy to break new ground in the 1960s. First and foremost, attempts were made to allow the Eastern European countries to benefit from the GATT tariffs for the purpose of most-favored-nation treatment. The CSSR (since 1950) and Poland (since 1968) as GATT members and the USSR already benefited from most-favored-nation treatment due to the long-term trade and shipping agreement. Therefore, Belgium (1968), Romania

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<sup>15</sup> Matzner, E., *Trade between East and West: The Case of Austria*, publisher. Almqvist & Wiksell International, Stockholm (1970), p. 54.

<sup>16</sup> Hellmuth, B. (1948). *The Austrian Trade and Payment Agreements*, Vienna.

(1968), and Hungary (1969) had to be opened up as non-members through their own tariff concession agreements and the GDR (1968) by way of special concessions within a "chamber agreement" for similar tariff advantages.<sup>17</sup>

Another step toward liberalization was the bilateral cooperation agreements that had been concluded in the mid-1960s. This ensured cooperation in a wide variety of areas between the contracting parties, e. B. various natural gas pipe agreements between the VOEST and the USSR.<sup>18</sup>

In spite of this, the liberalization of the East proceeded far more slowly than that with the West, which was practically completed in 1966 and was only modified temporarily. In 1971 Austria decreed the application of GATT tariffs with all trading partners, which further liberalized economic relations with the eastern states. Another step was when the bilateral payment agreements with the eastern states were replaced in 1971 by those in freely convertible currency.<sup>19</sup>

By the end of 1973, all Eastern European countries had gradually converted their payment transactions to freely convertible currencies. In the exchange of goods, too, liberalization gradually asserted itself, as the quantitative restrictions on the movement of goods were gradually removed and formally ended at the beginning of 1975. De facto, however, the verification procedure made it possible to use a protective mechanism for particularly sensitive goods or for goods that are subject to import quotas to Austria.

At the time of clearing offsetting, financial and trading techniques were developed with the eastern states in order to reduce the clearing assets that Austria mostly owned with the eastern states. This included, above all, switch and transit transactions, which were mostly carried out by specialized companies that knew

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<sup>17</sup> Stankovsky, J., The export of industrial finished goods to the Eastern States 1961 to 1967, WIFO monthly reports, vol. 42 (2), Vienna (1969), p. 56.

<sup>18</sup> Puwein, W. et al: Effects of EU expansion on the Austrian economy, Wifo (ed.), Vienna (2002), p. 8th.

<sup>19</sup> Hellmuth, B. (1948) The Austrian Trade and Payment Agreements, Vienna.

exactly about the local market and business customs. In the course of these activities, Vienna, therefore, became a hub for a switch, transit, and coupling transactions and other special forms of foreign trade between Eastern and Western Europe.

Although the transactions based on clearing techniques ceased to exist in the early 1970s, Austria and Vienna were able to maintain their position as mediators between East and West and gained their familiarity with Eastern European markets, geographical proximity and the status of neutrality compared to other states comparative advantages in trade with the east.

### **THE STRUCTURAL DEVELOPMENT**

Austria's good trade relations with Eastern Europe have a long history. Austria and the CEEC the Czech Republic, Slovakia, Hungary, Slovenia as well as parts of Poland and Romania were united in the Austro-Hungarian dual monarchy until 1918. The Habsburg Monarchy represented a closed economic area that was protected from foreign competition by tariffs.

The foreign trade of the Austrian half of the empire clearly shows that the international competitiveness in the higher processing stages gradually decreased. Total exports in 1913 reached around 4 billion crowns. 23% of this was raw materials, 17% semi-finished products, and around 60% finished products. While around a third of total exports went to Hungary and two-thirds to foreign customs, these proportions fluctuated very strongly in the individual processing stages. 80% of the raw materials went to third countries, 69% of the semi-finished products, and only 54% of the finished products. For the most important finished

goods, including textiles, clothing, leather goods, and iron goods, well over half of the exports went to Hungary.<sup>20</sup>

The regional structure of Austrian foreign trade in 1920 points to the close economic ties between the countries of the Danube Monarchy: 42.3% of Austrian exports and 50.2% of imports went to the successor states. With an export share of almost 25% and an import share of almost 38%, Czechoslovakia was by far the most important trading partner. The share of the successor states fell sharply in the course of the following years and in 1937 was only 31% in exports and 38% in imports. The decline in the share is solely due to the sharp decline in the share of trade relations with Czechoslovakia. Both trade policy reasons and the improvement in transport conditions, which favored the development of more distant markets, were likely to have been decisive for the shifts.

## **CONCLUSIONS/DISCUSSION**

Trade across the Iron Curtain and after the fall of the Wall was always characterized by clear Austrian advantages in the form of goods, goods, and services balance sheet surpluses as well as current account surpluses.

## **CONCLUSION**

With the collapse of Austria-Hungary after the First World War, the economic situation in Austria changed radically. As the third largest state in Europe, the monarchy had around 52 million inhabitants, of which a little over 28 million lived in the Austrian half of the empire, the rest in the Hungarian half of the empire.

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<sup>20</sup> Koren, S. The industrialization of Austria - From protectionism to integration, in: Wilhelm Weber (Ed.) Austria's economic structure, yesterday - today - tomorrow, Berlin (1961), p. 295.

The disintegration of the common economic area and market as a result of the First World War dealt a severe blow not only to the further economic development of the Republic of Austria but to the entire region, from which it would not recover for many decades. After the failure of alternative concepts such as the Danube Federation and the decades of communist rule, the states that emerged from the monarchy were only on the way to realizing common economic concepts again at the end of the 20th century.

The western indebtedness of the eastern states began slowly at the beginning of the 1970 but then increased more rapidly from the mid-1970s. Responsible for this development was the conversion of the eastern foreign trade policies because since their self-sufficiency policy stagnated, the opening to the west was increasingly propagated in order to obtain the necessary funds for the renewal and reorganization of their economies through western imports.

This development was also favored by the political rapprochement between the two great powers in the early 1970s. This eastern economic policy took place on the one hand because of the cumbersome planning mechanism, because the western imports were an integral part of the import plans. On the other hand, imports were an urgent necessity for the west, which the eastern states needed as an export valve due to declining demand.

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