

Chapter 2

Austria and Germany: Silent Partners in a Differentiating European Union

Christopher Walsch

1. Historical Overview

Austria as a country and Austria's relations with Germany are likely to stand out in this volume. In previous state formations the histories of the territories, which today form the two countries, had been closely interconnected. Despite the 19th century Prussian Hohenzollern versus Austrian Habsburg competition over leadership, relations had been extraordinarily dense and overall very friendly, be it in politics and the military, the economy, the structure of society, or the development of ideas that guide processes of change in these categories. German as the shared language has always boosted the intensive exchange of all human activities between the two. Germany and Austria–Hungary were allies in World War I. The lost war led to the termination of imperial statehood in both cases. Austria was founded as a democratic republic in 1918, which turned authoritarian in 1934, and eventually failed in 1938, when it became a part of Nazi Germany for seven years. Ever since 1945, which marked the liberation from fascism, the relations between Austria and Germany show an extraordinarily high degree of interconnection and stability, and above all mutual respect for the separate statehoods.¹ This is why the formative post-war decades from 1945 to 1990 are included in the historic outline. Such a *longue durée* perspective helps to better understand the contemporary relations of Austria with her big neighbour.

After World War II the efforts of the second Austrian republic concentrated on building a distinct Austrian nation, separate from the German one (BRUCKMÜLLER 1984; MANTL 1992). This was to happen in the frame of a small, open and neutral state, tailored after the Swiss example. Neutrality became the foreign policy paradigm. A hands-on policy of neutrality (*aktive Neutralitätspolitik*) became the catalyst for attracting international organisations in Vienna, which eventually have made the city a prime global platform in international diplomacy (FREY 2011). The United Nations Organisation (UN) and, later,

¹ The separate statehood of Austria and Germany has been acknowledged by the population and by all parties represented in the parliament in both countries since 1945. In Austria, the national-liberal right-wing populist party FPÖ (*Freiheitliche Partei Österreichs*) at times cultivated a discourse of recognising Austria as a state separate from Germany, but to identify Austrians as to be a part of the German nation. Since the onset of globalisation (roughly since 1990) FPÖ leaders decided to stress Austrian patriotism, which can be understood as the implicit recognition of an Austrian nation.

the Organisation for Security and Cooperation in Europe (OSCE) is headquartered in Vienna, as well as the Organisation for Petroleum Exporting Countries (OPEC).

Austria's north-western neighbour West Germany also steered an active and integrationist line in the UN and the OSCE (1975 to 1994 named CSCE; C to stand for Conference), but relied in terms of security entirely on the United States and the North Atlantic Treaty Organisation (NATO), founded in 1949, and of which West Germany became a member in 1955. In European affairs, West Germany became a member of the Council of Europe in 1950; Austria in 1956. West Germany was a founding member of the European Communities (EC), which Austria could not join because of its self-declared neutrality (RATHKOLB 1993, 51–53). Instead, Austria was a founding member of the European Free Trade Organisation (EFTA) in 1960, together with the five Nordic countries and Switzerland. Until EC membership, even the economic heavyweight Great Britain (as well as Ireland) was a member of EFTA. Durable and reliable EFTA–EC relations facilitated trade between all West European states. These relations intensified further with the establishment of a common European Economic Area (EEA) in the early 1990s. Austria could join the EEA by 1993. This meant nearly full participation in the newly established Single Market programme of the EC. The fall of the Iron Curtain in 1989, German unification in 1990, the violent conflict in Yugoslavia in 1991, and the end of the Soviet Union in late 1991 all contributed to the fact that the twelve EC countries decided to cooperate in political and judicial affairs, and thus founded the European Union (EU) in 1992.

Austria's definition of neutrality did not mean ideological neutrality. This is why the democratic country with a functioning multi-party system steered a pro-Western course concerning the economy and the development of society. Austria's economy was a successful Keynesian-type mixed economy based on market orientation, which resulted in substantial growth rates during the post-war decades of the “golden age of capitalism” (HOBBSBAWM 1994). In monetary affairs, Austria pursued, similar to West Germany, Switzerland, and north European countries, a hard currency policy. This boosted the competitive edge of Austria's international economic relations. Due to the strong interrelations with the West German economy, Austria decided to informally bind the exchange value of the Austrian Schilling to the West German Mark. The exchange rate of seven Schillings to one Mark was stable through all the post-war decades until the introduction of the Euro in 1999 in both countries.² This fact proves the extent to which the economies in both countries developed in similar ways.

Major modernisation processes in the Austrian case were state-led. Due to exhaustive deficit spending, the country experienced severe economic crises in the 1980s. As a correction, the political right (Österreichische Volkspartei or ÖVP, Christian-democratic Conservative Party), led by Alois Mock, pushed for austerity and economic liberalisation in order to enter the avenue towards EEA and later EU membership. The initially EU sceptical political left (Sozialdemokratische Partei Österreichs or SPÖ, Social Democratic Party) shifted towards a pro-EU course under the leadership of a pragmatic former banker, Franz Vranitzky. Austria could join the EU in 1995 under a SPÖ–ÖVP coalition government. This government coalition had been in power since 1986 and had had the backing of two thirds of the

² Germany and Austria were two of ten founding members of the Euro, next to France, the Benelux countries, Italy, Spain, Portugal and Finland.

population. Austria joined with a reservation on grounds of neutrality (Neutralitätsvorbehalt), an amendment that on the initiative of Austria was included into the EU-accession treaty, and to which the EU did not object.³ The text will now turn to the contemporary period and investigate foreign policy paradigms of Austria and Germany, then analyse cleavages in the EU from an Austrian and German perspective, and eventually turn to Austria's bilateral relations with contemporary Germany. The analysis will start with research questions and hypotheses.

2. Research Questions and Hypotheses

What were the strategic options for Austria after the fundamental international political changes of 1989–1991? How did the strategic option of joining the European Union alter Austria's relationship with Germany? What is the experience of Austria after more than twenty years of co-operation with Germany in the framework of the European Union? Hypotheses addressing these issues are: Politically, the central component of Austrian international politics, neutrality, was in crisis with the end of the ideological competition; even more so, because the concept of neutrality had domestically been cultivated as the prime component of Austrian political identity. Thus, it was necessary to address such a threatening upcoming vacuum. Economically, in the post-war decades Austria implemented a “third way” mixed economy with the state to own and to manage a number of key economic sectors (iron and steel, banking and finance, housing, health, infrastructure). The neo-liberal wave of the 1980s in economic governance caused severe crises in some of these economic sectors. Joining the European Economic Area, and eventually the European Union, seemed to be the most convincing option in handling economic challenges. A beneficial side effect of it was that the bilateral economic dependency from Germany could be reduced through joining a multilateral organisation as an equal partner.

3. Foreign Policy Paradigms of Austria and Germany

The fall of the Iron Curtain initiated a moment of reflection among Austria's foreign policy professionals. Austria submitted her EC application precisely in the year 1989. So, the gear was set to join “the West” and to slowly give up the political identity of forming a bridge between West and East – a notion that was skilfully nourished under the auspices of neutrality. The reflection, however, centred on the notion whether Austria should in the aftermath of the 1989 changes revive a “Danubian mission”, in other words to orient herself towards Central Europe, towards the countries which were formerly part of the Habsburg Empire. This notion was soon abandoned with the rational argument that in the eyes of her Eastern neighbours, the attraction power of Austria was the fact that she is a part of the West and not a country halfway between West and East (Stefan Lehne, as cited in Kiss J. et al. 2003, 62). This grain of realism: to leave the Habsburg past behind and rather to become part and parcel of a deepening and widening European Union has in retrospect turned out

³ On neutral states in the EU see SCHNEIDER 2000.

to be a successful strategy. Even today there is evidence that the strategy of Austria to be “anchored-in-the-West” holds against all tempting songs of nationalist sirens coming from the more “Danubian” Central and Eastern European part of the EU. The incoming Austrian chancellor Sebastian Kurz (ÖVP), who in December 2017 formed a coalition government with the right-wing populist Freiheitliche Partei Österreichs (FPÖ), decided to make his first diplomatic visits to Brussels, Paris and Berlin.⁴ Thus, judged by his first steps, Kurz has rejected to orient Austria in a Central European direction towards the group of the Visegrád Four (V4) states. Still, Kurz wants to see Austria as a “bridge” to the Visegrád states.⁵ Clearly, compared to his predecessors at the helm of the ÖVP party and compared to the head of the previous Austrian Government, Christian Kern (SPÖ), Kurz positions his party and government more to the right on the refugee and migration issue. This is in correspondence with V4 positions on this issue. Kurz was received at the Spring 2018 V4 summit, which may give proof of the envisioned “bridge” function. More importantly, Kurz could use this opportunity of dialogue to prepare for the incoming EU Council presidency that Austria holds in the second half of 2018.

The foreign policies of all the Germanys that existed before 1945 had a reputation of being obsessed with Eastern and South Eastern Europe. It was the liberal Friedrich Naumann, who in 1918 in his work *Mitteleuropa* [Central Europe] argued in favour of German economic domination in the area. Later Hitler’s concept of living space (Lebensraum) for the German race turned into outright aggression and transformed Central and Eastern Europe into “Bloodlands” (SNYDER 2010). Millions died on the battlefields, millions of innocent civilians were murdered; as a consequence, millions of Germans were forcefully displaced from their homelands in 1945. These tragedies had a profound cathartic effect on all post 1945 German governments. Ever since the end of Nazism, Germany has acted as a prudent, even reluctant power vis-à-vis her neighbours. With unification Germany’s power has risen, but the prudence in foreign policy remained.⁶ Being partners in the rules-based multilateral regime of the European Union today safeguards the interests of today’s democratic Germany, of her neighbours, be they big or small, and of the small EU member states, be they neighbours of Germany or located further away. A related observation is that Germany in the globalising world rather focuses on her global roles. Ever since unification in 1990, she has exercised modesty in the region of Central, Eastern, and South-East Europe and always acted in concert with her EU and NATO partners.⁷ In these regions Germany left her dark past behind and operates in concert with her Western alliance partners as a mainstream multilaterally oriented power. Austria as a small state

⁴ In Austria’s new government, the chancellery with the Christian Democrat Sebastian Kurz as head of government took over the agenda of EU affairs from the foreign ministry. This means that the right-wing populist FPÖ has little or no influence over Austria’s EU policies, despite the fact that FPÖ was entitled to nominate the foreign minister in the coalition government.

⁵ On the occasion of the formation of the Kurz Government, the new chancellor communicated to several media (e.g. to Der Standard, Vienna, or Die Zeit, Hamburg) that he wishes Austria to take the role of a bridge between diverging member states, in particular between western and eastern EU member states.

⁶ In EU affairs, the only exception to this may be Germany’s handling of the Euro crisis. However, Germany never acted alone and enjoyed the backing of all northern EU countries that adopted the Euro.

⁷ The only somewhat greater difference of the German position vis-à-vis the one over her western partners was the timing of the recognition of the new states of Slovenia and Croatia in late 1991, early 1992.

profits greatly from this order and from Germany's political culture of prudence, as do all other smaller EU states.⁸

4. Institutional Relations: Six European Cleavages and their Austro–German Dimension

The historic outline has already provided an idea that preconditions in both countries indicate that within the European Union both may often find themselves on the same side when it comes to debates over controversial issues among EU partners. This can be investigated along six cleavages, which have the power to divide the EU as a whole, but which also have the power to encourage country or party group formations to form coalitions or to co-operate more closely within the EU.

First, Germany and Austria were and are so-called “old” member states, which have looked back on similar trajectories of political and economic governance for many decades.⁹ Hence, they did not undergo the profound transformation processes that the formerly communist countries and societies, which form the newer member states, had to undergo.¹⁰ Second, both countries have high gross domestic products, which makes them net contributors to the EU cohesion budget. The average income of a person working in Austria or Germany is roughly two to three times higher compared to incomes of persons in all other countries under consideration in this volume. The income gap has started to become smaller since the EU accession of ECE countries, albeit at a very slow pace. This is why a cleavage between net contributors and net recipients of EU cohesion money will continue to exist. Third, in the ongoing refugee and migration crisis both countries are recipient countries and thus share the same challenges. The similar experience determinates their positions how to move on in this policy field. All three cleavages indicate that an East–West divide exists within the European Union (WALSCH 2018) with Germany and Austria to hold common features and share common interests as a part of the West. A fourth cleavage – governance of the common currency Euro – gives evidence of a North–South divide: Austria and Germany adopted the Euro and have steered a pro-austerity line in handling the Euro crisis. In the Central European region, this policy area is of concern in particular for the two small countries of Slovenia and Slovakia whose governments acted along the same lines as the ones of Germany and Austria.¹¹ Italy, Spain, Portugal and Greece,

⁸ A good overview on German Foreign Policy is provided in the journal *Aus Politik und Zeitgeschichte*, published by the Federal Agency for Civic Education (Bundeszentrale für politische Bildung 2016).

⁹ The statements about the cleavages that will be mentioned apply for the territories that formerly belonged to West Germany. The picture is a bit more diverse when looking at post 1990 united Germany. The statements do not apply when looking at former East Germany only.

¹⁰ A number of governments of EU member states, which joined in 2004, are keen to point out that after more than ten years of EU membership the demarcation of “old” versus “new” member states shall be erased from the discourse of politicians. This actually happened. From an analyst's perspective, however, the long-standing historic legacies of different EU member states point to similarities and differences, e.g. in political culture or in wealth, that give evidence of and legitimise the categorisation into “old” and “new” EU member state.

¹¹ Also the Central European EU countries that have not adopted the Euro are supportive of the position of Germany and the northern EU countries.

but also France would have preferred more spending and more solidarity on behalf of the Euro countries with sound finances.

The fifth cleavage will be dealt with in more detail. It is ideological and gaining in importance: the power of nationalist and Eurosceptic parties. They are clearly beyond the mainstream of the traditional mix of Christian Democrats, Social Democrats and Liberals who for decades in a very consensus-oriented political culture settled European affairs through the art of finding compromises. From the beginnings of the EC and the EU until recently, most members of the European Council, of the various EU Councils of Ministers, of the European Commission, and of the broad majority of members of the European Parliament have belonged to one of these three parties.¹² Representatives of these traditional parties see populists as aliens and consider nationalists anti-European. As a consequence, severe conflicts arise when populists or nationalists come to power. Three examples demonstrate whether a party is part of the in-group or the out-group: Austria in 2000, Greece in 2014 and Poland since 2015. Two more examples demonstrate that there is a very fine line between in- and out-group: this is Hungary since 2010 and Austria since December 2017. The examples: In the year 2000 Austria experienced conflicts with her EU partners when the Christian Democrats formed a coalition with the right-wing nationalist FPÖ. The EU14 stigmatised Austria and placed sanctions against her, which after an impartial investigation had to be removed half a year later (GEHLER 2003).¹³ In 2014, the Greek left-wing populist Syriza Government's Finance Minister, Yanis Varoufakis, violated unwritten rules of conduct in the Eurogroup meetings and was in return stigmatised by his finance minister colleagues. The head of the Greek Government eventually decided to replace him by someone else whose conduct was more conforming to the Eurogroup. The current Polish Government, formed by the Polish Law and Justice party and elected to power in 2015, is also beyond the above mentioned European mainstream.¹⁴ EU rule of law violations procedures against Poland hit hard; unlike Hungary and Hungary's Fidesz Government, which faces similar difficulties in the EU, but skilfully remains a part of the mainstream European People's Party. Hungary could thus soften the toughest repercussions because it has always been a part of the political party group that has constantly been in power in European institutions. Austria formed a new ÖVP-FPÖ coalition in December

¹² The names of the parties of these three groups on a European level are: European People's Party (Christian Democrats), Progressive Alliance of Socialists and Democrats (Social Democrats), Alliance of Liberals and Democrats for Europe (Liberals). To a lesser extent even The Greens/European Free Alliance (Green party) can be summoned in this group. Historically the most notable exception is the British Conservative party, which did not come under the roof of the European People's Party, but is a member of the more EU sceptical European Conservatives and Reformists Party (Conservatives).

¹³ Domestically the most powerful driving force behind the EU conduct was Austrian President Thomas Klestil (ÖVP), who opposed the ambitions of his party colleague Wolfgang Schäussel to form an ÖVP-FPÖ Government. Legally, the President was obliged to entrust the new government. On the same day Klestil activated his contacts and warned EU partners of the new Austrian Government, notably French President Jacques Chirac. On an international and ideological level, decisions at a Socialist International meeting in Stockholm in January 2000 united Social Democrats of EU countries in their stance against the newly formed Austrian Government, including the Social Democrats of Germany and German Chancellor Gerhard Schröder.

¹⁴ The Polish Peace and Justice party is, like the British Conservatives, part of the European Conservatives and Reformists.

2017. This time the EU remained silent, but everyone observed that ÖVP's Sebastian Kurz was skilful enough to move EU affairs into his responsibility and away from FPÖ, who was entitled to nominate the Foreign Minister. Applying the ideological cleavage to the relationship of Austria with Germany, one can safely say that despite FPÖ calamities the governments in both countries have without doubt always fallen on the same, pro-European side (more details in the section on political relations).

The sixth and last cleavage concerns the size of a country within the European Union. In this respect Germany is different from Austria and all countries in East-Central Europe with the exception of Poland. Big countries tend to dominate the EU, in particular when the impression arises, that France and Germany come to arrangements smaller EU states feel excluded from. Voting rules have changed with the implementation of the Treaty of Lisbon and now favour smaller countries less than before. No fixed alliances exist among big EU member states purely because of size, nor do they exist among small member states simply for that reason. One can conclude that the big EU countries do not turn against the small ones on purpose. Size has rather a psychological meaning. Two examples shall demonstrate this. During the EU14 sanctions in 2000, Austrians were unhappy to observe that just a few years earlier such EU punishment was not applied to the big member state Italy under the first Berlusconi Government, which included the then neo-fascist Alleanza Nazionale in a coalition government. The other cases in point are the Irish referenda concerning the adoption of the Lisbon Treaty. Would pressure on behalf of the EU been exercised in the same way had this been France or Germany? Size matters also in economic governance. The size of industrial companies is of concern in Austro-German relations and will be discussed in the section on economic relations.

5. Bilateral Political Relations since 1989

By circumstance the governments of Austria and Germany happened to be of opposing ideological orientations throughout the last three and a half decades. When the Christian Democrat Helmut Kohl was German Chancellor, his Austrian counterpart was the Social Democrat Franz Vranitzky. When the Austrian Christian Democrat Wolfgang Schüssel could for the first time in three decades secure government leadership for his party, his German counterpart was the Social Democrat Gerhard Schröder. Austria's Social Democrats were again at the helm of subsequent coalition governments from 2006 onwards. Their German counterpart became the Christian Democrat Angela Merkel. Similarly, also the foreign ministers of both countries – with the position held by the minor coalition partner – were always from different ideological backgrounds: Christian Democrats from Austria dealt with foreign ministers from Germany being Liberals, from the Green party, and Social Democrats. Only since 2018 there is more ideological overlap with the Christian Democrat Sebastian Kurz as Austria's new Chancellor and Merkel to remain in her position. One can safely state that the differences had little or no impact on the relations between the two countries. On the contrary, the absence of ideological competition has given proof of the professional handling of relations.

Another governmental factor originates in the political system the two countries have in common. They are both organised as federal states. From an Austrian perspective Bavaria

stands out for it is the only German federal state with which she shares a border. On Austria's side, seen from east to west, the federal states of Upper Austria (Oberösterreich), Salzburg, Tyrol (Tirol), and Vorarlberg are the neighbours of Bavaria. As to party politics in the altogether five units the "party chemistry" is very similar: Christian Democrats have been in power in single majority or as the lead partner in coalition governments in all these federal states at all times since 1945.¹⁵ Such ideological overlap has always facilitated relations with each other.

On the national and bilateral level only one ideological constellation since 1945 downgraded the very special political relationship between the two to a somewhat dry co-existence. This was the time 2000 to 2005 (in particular in 2000 and in 2003). Commentators were right to point out that the Social Democrat – Green party German coalition government of the day took a firm line on Austria's ÖVP–FPÖ coalition, whereas the German Christian Democrats, albeit in opposition, were more accommodating about Austria's government. In 2003, when Germany and France violated the Stability and Growth Pact and the two EU giants subsequently vetoed an EU Council Decision to punish such violation, Austria's Chancellor Wolfgang Schüssel hit back, playing the skilful David against Goliath, and to ride on the small versus big EU member state cleavage. Schüssel put himself at the helm of the small countries in the EU and reminded France and Germany that EU rules and regulations apply also to big countries and not only to small ones, and that the two countries' behaviour in the EU Council is unacceptable.¹⁶ Moreover, 2003 to 2005 were years when Austria's economy did much better than Germany's, a circumstance the Schüssel Government did not forget to highlight regularly to the media (implicitly addressed to his German vis-à-vis Schröder). Schüssel enjoyed help from Christian conservative Bavaria. "Austria is the better Germany." Bavaria's head of government Edmund Stoiber once quipped, adding: "And Bavaria is the better Austria." One may prudently conclude that, due to many shared cultural traits and due to the above mentioned similar "party chemistry" in many Austrian as well as southern German federal states, relations have always been very cordial when Christian Democrats were in power on the German side.

Topics of concern in bilateral political relations have been traffic, energy production, education, secret service information and human rights and refugee policies.¹⁷ Again, due to common obligations and rights as members of the European Union, these topics must also be seen in this specific dimension. Traffic: Austria is a small and alpine country. She is surrounded by population rich economic powerhouses: Germany in the north, Italy in the south, and Hungary and Slovakia in the east where subsidiaries of German multinational companies are in operation. A recurring point of contention was the transit route through the Tyrol via the Brenner Pass to Italy. Subsequent Austrian and Tyrolian governments tried to limit transit traffic, but in vain. The German and Italian EU partners rightfully claimed equal access to Austrian transportation routes. Austria's efforts to redirect freight transportation

¹⁵ The federal state of Salzburg was an exception in the period 2004–2013 when Social Democrats governed.

¹⁶ Some observers would argue that with this sharp reaction Schüssel wanted to settle the "EU sanctions" bill of the year 2000, in which German Chancellor Schröder and French President Chirac were decisive actors in their stance against Austria.

¹⁷ The selection of topics is based on annual reports of the Austrian Foreign Ministry over the last twenty-five years (Bundesministerium für Europa, Integration und Äußeres 1995–2016).

to the railway system had limited success because it is slower, more complicated and more expensive compared to transportation on the Brenner motorway. An eventual success for Austria was the definitive decision in favour of a railway base tunnel below the Brenner Pass in 2010, to stretch from Innsbruck in the north to Franzensfeste/Forтеzza in the south, to be operative in 2026. Up to 50% of this investment of 8.6 billion Euro will be financed by the “Connecting Europe Facility” programme of the European Union. Austria and Italy finance the remaining 50% equally. Both countries will need to find a smart strategy that freight traffic will indeed be set on rail on favourable and non-discriminative conditions for all actors involved.¹⁸

Another traffic concern for Germany is the toll for Austrian motorways on short transit passages. This is a one kilometre long motorway passage from the German (Bavarian) border to Kufstein in the Tyrol, where those German (Bavarian) holidaymakers destined for the Kitzbühel ski and alpine region get off from the motorway. Austria rejected German (Bavarian) requests to make this extraordinarily short motorway passage toll-free. This very small issue produced considerable tensions and could have been solved in much smoother ways.¹⁹ A similar case concerns a 15 kilometre stretch in the very west of the country (Vorarlberg), where motorists coming from Germany and heading for Switzerland are obliged to pay the respective weekly/monthly/yearly toll. Since 2014, Germany wishes to introduce a motorway toll for all cars not registered in the country. Austria and the Netherlands consider this step discriminative under EU rules and regulations and submitted legal action against Germany at the European Court of Justice. The decision on this act (C-591/17 Österreich–Deutschland) is pending. Other EU neighbours of Germany may support the Austrian and Dutch efforts. Earlier the European Commission stated that the German motorway toll is by and large in line with European legislation and suggested minor corrections. Germany will proceed along these lines with a modified version, although for administrative reasons the toll will most likely be introduced only in 2020 or 2021. Concurrently the European Commission is working on a European motorway toll system, which again may have the potential to alter the German plans in this subject. Finally, an ongoing issue between the two countries – again the neighbour Bavaria is concerned – are the landing routes for air traffic for Salzburg airport, which is situated west of the city and close to the border of Bavaria.

As for energy, nuclear power plants in Germany were a point of concern for Austria, which steers a firm anti-nuclear policy (which brought the country in conflict with her neighbours the Czech Republic and Slovakia, and recently Hungary). In the aftermath of the Fukushima nuclear disaster, Germany decided on nuclear-free energy production in 2012. This decision came to the content of Austria, which is keen to establish a wider

¹⁸ The best report on the Brenner Base Tunnel so far is: Rechnungshof Österreich (2017, February): Bericht des Rechnungshofes. Bahnprojekt Brenner Basistunnel (Vienna). In the early planning phases in the first decade of the 2000s, the costs were estimated at 4.5 billion Euro. By 2017 they nearly doubled to 8.6 billion Euro (page 11).

¹⁹ The case produced also tensions within Austria, because the Tyrolean Government and the town of Kufstein were strongly in favour of the Bavarian requests. It was the Austrian federal administration, which is in charge of administering motorways, which blocked any compromise.

nuclear-free zone in West Central Europe and parts of southern and south-eastern Europe.²⁰ In the field of higher education, Germany has steered very restrictive entry policies for the study of medicine. Only top students could manage to take the hurdle of being accepted as a student of medicine. Based on the EU principle of non-discrimination, Austria experienced a massive inflow of prospective students of medicine originating from Germany, ever since the country has been a member of the European Union. The reason for this is that at that time university education in Austria was open to all students who passed their A-level exams and university studies were tuition free or near tuition free.²¹ Moreover the study of medicine is the most expensive subject of study. The argument on behalf of Austria was that Austrian taxpayers finance German students, who are unable to pass the entry exam at German universities, and that graduated doctors then return to Germany, leaving Austria with patients and too few doctors behind. In the first decade of the 2000s, the issue kept the Austrian and German governments as well as the European Commission's Directorate for Education busy. The compromise that became acceptable for all three parties is a de facto positive discrimination of students originating from Austria. The compromise states that Austrian universities have the obligation to secure the education of doctors, who will eventually work in Austria. Overall, the dispute made the study of medicine more competitive for all students.²²

A scandal that was revealed in June 2018 and that has shaken the relations between the two countries is that the German "Federal Intelligence Service" (Bundesnachrichtendienst) overactively spied in Austria from 1999 to 2006, maybe even up to 2013.²³ Austria is likely to urge the German Government to receive full investigation into that issue. Under critique was in particular the spying of foreign embassies accredited in Austria or at the UN in Vienna. Secondly, a clearly illegal economic espionage happened against leading Austrian enterprises that compete against German companies on global markets. Thirdly, and somewhat less controversial, were the spying activities against Muslim institutions in Austria, because some of this information was ordered by Austrian authorities.

Germany and Austria share similar views on human rights and refugee policies. In the cold war past, both West Germany and Austria were destination countries for refugees fleeing communism: Hungarians in 1956, Czechs and Slovaks in 1968, and Poles in 1981 and 1982. In the recent past three cases stand out, of which the first one is of national importance for Germany, and in the other two the overlap of opinion and approaches was nearly 100%. The first case is Austria's role in handling the German–German refugee crisis

²⁰ Austria's neighbour Switzerland made a similar decision as Germany in the aftermath of Fukushima. Austria's neighbour Slovenia and Croatia wish to move out of nuclear energy production. Austria's neighbour Italy held referenda in the 1980s and 2000s in this respect. In both events a majority of Italians rejected nuclear energy production.

²¹ The ÖVP–FPÖ Government introduced a low tuition fee in 2000. When SPÖ returned to power in 2006, tuition fees were abolished.

²² It made the study of medicine also more expensive, because since the 2000s Austria implemented legislation that made universities more autonomous from the state. This led to an expansion of universities, more offerings and more competition. In many cases tuition fees were introduced.

²³ A list was published by the investigative Austrian weekly "Profil" (Profil 25/2018, 18 June 2018, cover story: „Abgehört. Deutschland und die USA überwachten jahrelang Tausende Telefonanschlüsse und Mailadressen in Österreich“).

as a transit country in 1989. Austria provided all help in making the transfer to West Germany smooth and safe when Hungary opened her Western borders for escaping East Germans on September 11, 1989. More than 10,000 East Germans made use of this escape and transit route. In the months before, Austria provided shelter and assistance to occasional fleeing East Germans, who all wanted to move on to West Germany. The biggest group were participants of the “Pan-European Picnic” on August 23, 1989. This picnic was held near Sopron, close to the border of Hungary with Austria. At the end of this afternoon event nearly 700 East Germans could flee to Austria. The second case is the handling of the civilian dimension of the Yugoslav crises and wars. Austria and Germany had similar political positions on the conflict. Both sympathised with the political changes towards multi-party democracy in the Yugoslav republics and their quest for independence. Thus, Austria and Germany generously received refugees from the violent conflict and provided assistance to those in need. 60,000 of 115,000 who fled to Austria remained in the country.

Austria and Germany steered the same line at the height of the most recent refugee crisis, but more nationalistic policies in both countries since 2017 have made the issue controversial, and relations are even in crisis on this matter in June and July 2018. In order to prevent a human catastrophe in south-east Europe in early September 2015, Germany made use of the sovereignty clause (in German *Selbsteintrittsrecht*) under the Dublin III regulation on the handling of asylum for persons fleeing Syria. Austria applied the clause in individual cases. Both countries have been destination countries and have faced similar challenges in this respect. Both countries have gradually stiffened their refugee policies since 2016. The main controversy between Austria and Germany since is how to apply the Dublin III regulation, which states that the country of entry into the European Union is in charge of processing the individual asylum case. Two major countries of entry, Greece and Hungary, have been weak points in applying this rule. Based on two judgements of the European Court for Human Rights and a subsequent ruling of the European Court of Justice, asylum seekers could not be sent back to Greece. The situation has ameliorated and since mid-2016 the European Commission has recommended to apply the rule again to Greece. Hungary does not take back the “Dublin cases” because of a hard anti-asylum and anti-immigration policy of the right-wing Orbán Government. By Spring 2017, Germany decided to temporarily not send back asylum seekers to Hungary, based on subsequent reports from the United Nations Refugee Agency (UNHCR) about inhuman conditions of treatment of asylum seekers in that country. The Greek and Hungarian circumstances contributed to the fact that Austria did not have to expect masses of asylum seekers that were rejected at the border between Austria and Germany. In the meantime both countries advocated a European approach concerning the reform efforts of EU asylum and refugee policies. A step in that direction was reached at a European Council meeting on 28 June 2018, thereby stiffening considerably the policies of asylum and migration (European Council 2018). Political pressure from the Bavarian Christian Democrats under its leader Horst Seehofer, who serves as the Interior Minister of Germany, brought a nationalistic turn into German politics after that summit. Seehofer judged that the measures taken by EU leaders at the June 2018 European Council did not go far enough. Within the German Government, he has been successful that Germany will from now on steer a hard line on the application of the controversial Dublin III regulation and is ready to intern unclear cases in, similar to the Hungarian practice, closed containers, and to send all Dublin cases

back to where they entered the country, which is the border between Germany and Austria. A chain reaction is that Austria could consider similar policies to her Dublin cases on the same grounds at the border with Italy, Slovenia, and even Hungary. Solving this controversy, national approaches have now clearly the upper hand. Bi-, tri- and multilateral agreements are currently seen as the only way how to handle the matter. Austria will seek a return to a somewhat more European orientation and reforms to EU asylum and refugee policies. As the president of the Council of the EU in the second half of 2018, Austria will forward proposals in this ongoing issue.

6. Economic Relations since 1989

Austria could successfully emancipate herself politically from Germany post 1945. In the economic realm, Austria pursued in the post-war decades a diligent double strategy of import substitution industrialisation and export orientation. Modernisation processes in the state-led basic industries, which were state-owned, e.g. iron-ore exploitation or steel and energy-production, were drivers of modernisation. State-owned companies offered supplies for various domestic demands. On this basis a competitive market-oriented industry could develop, e.g. in machinery, processed goods in light industries and chemistry, to serve domestic and international demand. The 1980s and 1990s saw painful adaptations to more market orientation in the state-own industries, e.g. through privatisations. Tens of thousands of workers were set free and had to adapt to the new situation. The opening of borders in Central Europe post-1990 brought new chances in particular for the trade and the banking sector. Entering the EEA and the European Union's Single Market fully opened all industrial sectors and, what was new and unprecedented, the agricultural sector. More important than anything else, a societal consensus (represented by ÖVP as the political right and SPÖ as the political left) could be maintained on how to handle Austria's transition to more competition, and the subsequent steps to be taken.²⁴ On the political right the Industrial League (Industriellenvereinigung) and Chamber of Commerce (Österreichische Wirtschaftskammer) were the driving forces behind the opening. On the political left, Austria's centralised trade union (Österreichischer Gewerkschaftsbund) also adapted to the changes. Combined, with ÖVP and SPÖ as their political representations, these institutions form a specifically consensus-oriented social partnership (Sozialpartnerschaft), which provided stability, continuity where possible and social peace in times of change. The SPÖ–ÖVP governments of the 1990s also reformed higher education, which adapted to upcoming economic chances and challenges. Based on the German experience, technical colleges (Fachhochschulen) supplemented universities in specialised higher education. Technical colleges put a particular focus on applying theory into practice. Students must undergo vocational training in companies, which are often leaders in their fields and which compete on European and global markets. Similarly to German and Swiss traditions,

²⁴ Also the opposition party FPÖ was in favour of Austria's adaptations to the European Union and overall supported reform processes. The opposition Green Party (*Die Grünen*) was more sceptical. Due to the consensus orientation in Austria's parliament, both opposition parties could co-shape the process of change in the new legislation which was decided upon in respective parliamentary committees.

Austria was able to maintain her extraordinarily high standards for apprenticeship (*Lehre*) in all relevant economic sectors. By the first two decades of the 21st century, graduates of technical colleges and highly specialised skilled labour (who started as apprentices) form the backbone of cutting-edge market players of Austria's industry.²⁵

The aim, that the EU's common market should be understood as a huge chance for Austria's economy, united the actors coming from opposing ideological orientations. A beneficial additional consideration for Austrian decision-makers was that EEA and EU membership can help diversifying Austria's export and will help reducing Austria's economic dependency from (West) Germany. West Germany, and from 1990 united Germany was better prepared for the EU's common market because of the repeatedly re-elected pro-market Christian Democrat governments under chancellor Kohl from 1982 onwards (despite the burden of tackling the economic hardships of former East Germany after unification). The newly established Single Market under the auspices of EU integration encouraged economic development in both countries from the 1990s onwards. It spurred competition domestically and led to considerable growth in the exchange of goods, services, capital and people.

Interestingly enough, despite the implicit effort to reduce dependencies from Germany, Austria's economic relations became more and more inter-related and intensified since Austria's accession to the EU. Under the impression of globalisation, the interdependence has constantly grown: with Germany, with the EU, with global partners. Mutual trade and investment figures have reached high points in many subsequent years since. Again, this applies not only to Austria and Germany, but also to Austria and various EU states and Austria's global exchanges. Austrian overall exports and imports roughly tripled since the country acceded the European Union, but the relative share of Germany in Austria's trade and services with her big neighbour has declined by some 5% since Austria entered the EU in 1995. Still, Germany is Austria's prime partner with figures of more than 30% of Austria's overall exports and imports. Like with nearly all countries in the world, Germany's exports to Austria outscore her imports from Austria concerning goods. Austria has balanced the trade deficit for decades by a successful service industry (e.g. income in the field of tourism). The overall current account between the two is balanced.²⁶ A new phenomenon for Austria is that Germans come to work in Austria in masses since the 2000s and are today the biggest group of non-Austrians in the country.²⁷ This can be interpreted as a sign of maturity. Austria's economy is on a par with the German one from a labour perspective. Overall, the sheer fact that Austria's industry is able to export her produce to world-class prime markets like Germany, the United States, Italy and Switzerland, demonstrate her global competitiveness, and can be read as a sign of her robust condition (GNAN–KRONBERGER 2017; OECD 2017). As to foreign direct investment (FDI), Austria's outward

²⁵ For an overview of Austria's economic development since 1945 see SANDGRUBER 1995, 439–528, reforms under the impression of EU accession in PFAFFERMAYR 2003, and the European and German context in EICHENGREEN 2007. Austria's higher education reforms are analysed in LEIDENFROST 2003.

²⁶ The figures are as following: Austria's exports of goods to Germany amounts to 40 billion Euro, the imports to 50 billion Euro; Austria's exports of services amounts to 22 billion Euro, the imports to 13 billion Euro (Wirtschaftskammer Österreich 2018).

²⁷ In all post-war decades labour migration was rather one-sided with Austrians who decided to work in (West) Germany and only few Germans to decide to work in Austria, where salaries were 10 to 20% lower.

investment is a bit higher than inward investment. By 2015, the overall stock of Austrian capital abroad is roughly 50% of the annual Gross Domestic Product (GDP) of the country. Austrian capital invests in the old EU15, in the newer EU member states and other countries in the east and south-east of the continent, and in the rest of the world in three roughly equal shares. The overall stock of inward investment makes roughly 40% of the annual GDP. Nearly two thirds of foreign capital comes in from the old EU15, nearly none from the new EU member states and other countries in the east and south-east of the continent, and roughly one third from the rest of the world. Under the impression of interdependence and globalisation both types have constantly grown since 1990, starting at 3 to 5% and figuring at 40 and 50% of GDP today. Outward investment is growing a bit faster, which gives proof of the fact that Austria is capital-rich and Austrian capital is seeking opportunities in foreign countries. Germany does not rank as prominently in FDI as in trade, but is among the top five countries in both categories, inward and outward investment. Overall one can observe strong FDI mutual connections with the old EU15 countries as well as the one-sided exposure of Austria's capital to the newer EU member states and east and south-east Europe as an investor (all figures from Bundesministerium für Wissenschaft, Forschung und Wirtschaft 2016 and from OECD 2017).

Differences between the two economies exist and shall be briefly reviewed. There are three major differences. The first one is the size of companies. Germany's industrial base is dominated by multinational companies. They are financially capable to maintain big legal departments. Their lobbies exercise decisive influence in issues of economic governance in the Single Market. Austria's industrial base is rather organised in mid-size companies (roughly 20 to 100 employees), which are often highly specialised and able to serve small niches in global markets.²⁸ Such smaller companies do not have the capability to finance lobbying as MNCs do, so it is the government's duty to take this role, and exercise fine balancing acts concerning economic governance. The second difference is that Austria's agricultural sector differs enormously from the German one, because of the small size of most Austrian agricultural producers and because of their particular exposure in alpine regions. German farms are much bigger and operate in plains. Austria has a very high share of organic food production, Germany a rather low one (20 against 5%). Hence, in EU agricultural policies the interests are rather diverging. The third difference is Austria's exposure as a transit country between industrial centres situated outside the country. Different from the alpine transit country Switzerland, Austria is unable to toll EU traffic, but must use the EU as a platform and a source of financing that serves the interests of the local population along transit routes and the interests of Austria and her neighbours alike. The case of the Brenner transit route was discussed in this respect.

²⁸ One must add that also in Germany a considerable share of such medium-size companies (called *Mittelstand* in German) exists, which have a reputation of being drivers of innovation and modernisation, be it Germany or in Austria. One should also add that *Mittelstand* companies in both countries often interconnect with MNCs in various ways and thus profit from each other greatly.

7. Conclusions and Outlook: Are Germany and Austria Diverging?

All in all, both countries enjoy a great overlap in their societal, economic, and political structures, which makes them silent partners in a differentiating European Union. However, power is distributed unevenly, with Germany to be nearly ten times bigger than Austria. It has been the consensus-orientation of political elite from left and right and the proactive orientation towards European integration in both countries that has made co-operation functioning in the more controversial topics such as refugee policies, traffic and agriculture, which were discussed above. In foreign policy, Austria has a separate agenda from her big neighbour due to neutrality and the status of Vienna in international diplomacy. Austria's regional foreign policy focus on Central Europe, on the integration of south-east Europe into the EU, and on her traditional good relations with Russia (despite the Russia–Ukraine conflict and EU sanctions against Russia) do not stand in the way of German interests; on the contrary, interests overlap to a great extent. Evidence over the past 70 years and evidence since 1990, since the outbreak of the economic or refugee crises in 2008 and 2015 has shown that the answer to the question whether Germany and Austria are diverging, is a clear No. Somewhat naively, but also with a portion of realism, one may state that relations between Austria and Germany are a European near best-case scenario. Clearly, one can observe how the Austrian and German society Europeanise and more and more relate to each other and their European partners, how much the economies interconnect, and how co-operative and co-ordinated political decision-making has become under the EU umbrella. One should add that Austria is not an exception in this matter. Similar stories of convergence could be told about Germany and other neighbours of hers.

Austria and Germany share similar features in the European Union. They are both stable democracies with knowledge driven, innovative economies. Their societies have similar standards of living and form politics along similar structures and processes. Both have massive inflows of labour from East-Central European EU states, both are exporters of capital in the other direction. Both support the steady integration of Central, East, and South-East Europe into European structures. For example, both countries are highly engaged in the developing macro-regional EU Strategy for the Danube Region.²⁹ Both tolerate some diverging trends in that same region, but eventually stick to the 'rightfulness' of Western standards in European affairs. Both understand the EU not only as a greater market, but also as a club that shares the same values. Both will not compromise on nationalist attacks on the rule of law, open society, media pluralism, and limitations to the political and economic freedoms in the EU.

Because of her small size, Austria is potentially vulnerable and will support a political order based on multilateralism and tolerance. Austria has skilfully used the chances of economic globalisation. She has made the experience that full integration in the economic and monetary union of the EU has greatly supported her interests over the past twenty years. Austria will continue to build on this experience. This is why Austria will continue to develop further a pro-integrationist orientation in European affairs. Whether Austria will re-develop her foreign policy paradigm "neutrality" is to be seen. In the first two

²⁹ Both countries also engage in the macro-regional EU strategy for the Alps. In other words, both do not hesitate to co-operate more closely with each other in European formats when the necessity or chance arises.

decades of the 2000s, the impression arose that neutrality slowly fades into the past and is timidly replaced by a new “European” orientation and identity. This is demonstrated by Austria’s participation in the recently (December 2017) founded Permanent Structured Cooperation in European defence affairs. On the other hand, rising tensions between the West and Russia give the concept of neutrality a new meaning, and Austria could play a role as neutral interlocutor in frozen conflicts in the post-Soviet space (e.g. in Ukraine–Russia relations). Austria and Vienna will try to maintain their roles as diplomatic platforms in UN and OSCE related affairs.

Seen from Germany’s foreign policy identity, all moves of Austria coincided with the European interests of Germany. She does not stand in the way of the political options of Austria. Germany definitely supports even stronger bonds with her small southern neighbour and cultural relative. Austria may be advised to intensify relations with her direct neighbour Bavaria, so as to tackle better common challenges. This is currently particularly true for the handling of asylum and migration issues. Despite some differences concerning the industrial base and agriculture, both Austria and Bavaria have the chance to maintain and solidify their roles as leading and prospering regions in a differentiating European Union.

Bibliography

- BISCHOF, Günter – PLASSER, Fritz – PELINKA, Anton – SMITH, Alexander eds. (2011): *Global Austria. Austria’s Place in Europe and the World*. New Orleans, University of New Orleans Press. DOI: <https://doi.org/10.2307/j.ctt1n2txkw>
- BRUCKMÜLLER, Ernst (1984): *Nation Österreich. Sozialhistorische Aspekte ihrer Entwicklung*. Wien–Köln–Graz, Böhlau.
- Bundesministerium für Europa, Integration und Äußeres (1995–2015): *Außenpolitischer Bericht*. Vienna. Available: www.bmeia.gv.at/das-ministerium/aussen-und-europapolitischer-bericht/ (Accessed: 5 March 2018.)
- Bundesministerium für Wissenschaft, Forschung und Wirtschaft (2016): *Direktinvestitionen. Österreichs Direktinvestitionen im Jahr 2016*. Vienna. Available: www.bmdw.gv.at/Aussenwirtschaft/oesterreichswirtschaftsbeziehungen/DatenundFakten/Documents/Direktinvestitionen_2016.pdf (Accessed: 29 June 2018.)
- Bundeszentrale für politische Bildung (2016): Deutsche Außenpolitik. *Aus Politik und Zeitgeschichte*, Vol. 66, Nos. 28–29.
- EICHENGREEN, Barry (2007): *The European Economy since 1945. Coordinated Capitalism and Beyond*. Princeton, Princeton University Press. DOI: <https://doi.org/10.1515/9781400829545>
- European Council (2018): *European Council Conclusions, 28 June 2018*. Brussels. Available: www.consilium.europa.eu/en/press/press-releases/2018/06/29/20180628-euco-conclusions-final/ (Accessed: 3 July 2018.)
- FREY, Eric (2011): Konferenzplatz Wien: Vienna as an International Conference Site. In BISCHOF, Günter – PLASSER, Fritz – PELINKA, Anton – SMITH, Alexander eds.: *Global Austria. Austria’s Place in Europe and the World*. New Orleans, University of New Orleans Press. 147–160. DOI: <https://doi.org/10.2307/j.ctt1n2txkw.10>

- GEHLER, Michael (2003): Kontraproduktive Intervention: Die „EU 14“ und der Fall Österreich oder vom Triumph des „Primats der Innenpolitik“ 2000–2003. In GEHLER, Michael – PELINKA, Anton – BISCHOF, Günter eds.: *Österreich in der Europäischen Union. Bilanz seiner Mitgliedschaft* [Austria in the European Union. Assessment of her Membership]. Wien–Köln–Weimar, Böhlau. 121–181.
- GNAN, Ernest – KRONBERGER, Ralf eds. (2017): *Schwerpunkt Außenwirtschaft 2016/2017. Direktinvestitionen: Trends, Erklärungsfaktoren, Barrieren*. Wien, Facultas.
- HOBSBAWM, Eric (1994): *Age of Extremes. The Short Twentieth Century 1914–1991*. London, Michael Joseph.
- KISS J., László – KÖNIGOVA, Lucie – LUIF, Paul (2003): Die ‘Regionale Partnerschaft’. Subregionale Zusammenarbeit in der Mitte Europas. *Österreichische Zeitschrift für Politikwissenschaft*, Vol. 32, No. 1. 57–75.
- LEIDENFROST, Josef (2003): European Integration and the Austrian Higher Education System since the 1980s: From Seclusion to an Open Market. In GEHLER, Michael – PELINKA, Anton – BISCHOF, Günter eds.: *Österreich in der Europäischen Union. Bilanz seiner Mitgliedschaft* [Austria in the European Union. Assessment of her Membership]. Wien–Köln–Weimar, Böhlau. 219–238.
- MANTL, Wolfgang ed. (1992): *Politik in Österreich. Die Zweite Republik: Bestand und Wandel*. Wien–Köln–Graz, Böhlau.
- OECD (2017): *OECD Economic Surveys: Austria 2017*. Paris, OECD Publishing.
- PFÄFFERMAYR, Michael (2003): Austria’s Performance within an Integrating European Economy. In GEHLER, Michael – PELINKA, Anton – BISCHOF, Günter eds.: *Österreich in der Europäischen Union. Bilanz seiner Mitgliedschaft* [Austria in the European Union. Assessment of her Membership]. Wien–Köln–Weimar, Böhlau. 201–218.
- RATHKOLB, Oliver (1993): Austria and European Integration after World War II. In BISCHOF, Günter – PELINKA, Anton eds.: *Austria in the New Europe*. New Brunswick – London, Transaction Publishers. 42–61.
- SANDGRUBER, Roman (1995): *Ökonomie und Politik. Österreichische Wirtschaftsgeschichte vom Mittelalter bis zur Gegenwart*. Wien, Ueberreuter.
- SCHNEIDER, Heinrich (2000): Die österreichische Neutralität und die europäische Integration. In GEHLER, Michael – STEININGER, Rolf eds.: *Die Neutralen und die europäische Integration 1945–1995*. Wien–Köln–Weimar, Böhlau. 465–496.
- SNYDER, Timothy (2010): *Bloodlands. Europe between Hitler and Stalin*. New York, Basic Books.
- Visegrad Group (2018): Visegrad Group and Austria Summit Declaration on “Setting up a mechanism for assistance in protecting the borders of the Western Balkan countries”. Budapest, 21 June 2018. Available: www.visegradgroup.eu/visegrad-group-and-austria (Accessed: 29 June 2018.)
- WALSCH, Christopher (2018): An East–West Divide in the European Union? The Visegrad Four States in Search of the Historical Self in National Discourses on European Integration. *Politics in Central Europe*, Vol. 14, No. 2. 181–191. DOI: <https://doi.org/10.2478/pce-2018-0015>
- Wirtschaftskammer Österreich (2018): *Aussenwirtschaft Update Deutschland*. Wien, Aussenwirtschaft Austria.