



BETWEEN SCANDALS & ELECTIONS: SINO-AUSTRIAN RELATIONS IN THE ERA OF SHARP POWER

Following the political storm that left the Austrian coalition government in disarray, foreign investment and political influence campaigns in Europe have again been put under the spotlight. The “Ibiza Affair” scandal has called into question the motivation behind agreements and deals struck during the time Sebastian Kurz was in office, particularly with Russian and Chinese firms. Looking through the lens of the Austria case, this issue brief seeks to explore the strategic thinking behind Beijing’s engagement with Europe, analyzing how private firms and states can capitalize upon split factions within EU politics, especially through populist parties which do not hold established liberal norms in high regard.

Introduction

Li Zhanshu, the Chairman of the Standing Committee of China’s National People’s Congress (NPC) and the country’s top legislator, visited Austria in May 2019 during his tour through Europe. Arriving May 18, Li was just in time to observe first-hand the political storm that swept away the coalition government of Chancellor Sebastian Kurz. Though undoubtedly a coincidence, the timing of China’s number three’s visit to Vienna serves to highlight some of the facets of Sino-European relations.

Triggered by a compromising video released just two weeks prior to European parliamentary elections, the scandal known as the “Ibiza Affair” has revealed potentially serious misconduct on the part of the coalition’s junior partner - Freedom Party of Austria (FPÖ).¹ Not only has it brought down the Austrian government, but it also may derail the Vienna-Beijing policy reboot. The video shows FPÖ members Strache and party deputy leader Johann Gudenus discussing how best to exert influence over the political system with a woman alleging to be the niece of influential Russian businessman Igor Makarov.²

In the footage, Strache explains how financial support for the party should be channeled through a charitable organization to side-step public oversight.³ Perhaps even more damningly, he suggests that should the purported Russian investor purchase substantial shares in the Kronen Zeitung - Austria’s largest daily newspaper - it would provide the FPÖ with an electoral advantage. In exchange, he indicates that once

the FPÖ is in government, the party would be favorably inclined towards awarding public tenders to companies tied to business interests aligned with the alleged Russian oligarch. In effect, this was claiming that no future contract would be awarded to the influential Austrian construction company Strabag SE, thereby leading to significant infrastructural changes and pave the way for a “Strabag-like company” to be awarded Austrian public money.

Considering the importance of infrastructure projects for Austria and China’s budding partnership, and the discourse about Russian election interference, this raises serious questions about the FPÖ’s practice while in government.⁴ During the FPÖ’s time setting the Infrastructure Minister, the Austrian firm Strabag SE lost a bid for the EU tender to build the Peljasec Bridge, which went instead to the China Road and Bridge Corporation (CRBC). A complaint by Strabag about unfair tender awarding processes which were quickly thrown out by a Croatian court notwithstanding, China’s Premier Li Keqiang has cited the CRBC’s winning of the tender, as evidence for the BRI’s compatibility with European norms. But revelations about the FPÖ’s conduct in government and the party’s hostility specifically towards Strabag may ultimately prove to make the Peljasec bridge contract more of a liability than an asset for Beijing.⁵

While Mr. Li was meeting with leading figures of Austria’s political establishment, almost half of the government’s ministers were quietly driven to resign. Although the collapse of Chancellor Kurz’s government will be most keenly and



immediately felt within Austria's borders, the coalition's break-down will likewise have long-running consequences for Vienna's foreign affairs. For China, whose foreign policy has come to revolve around infrastructure programs and large-scale investments, the fate of the Austrian coalition may prove to be a lesson for Beijing. Both countries are exploring ways to engage with one another, albeit for different reasons and coming from different points of departure. It is hardly surprising that interests and considerations change over time and impact strategic approaches. How China chooses to engage with partners like the EU and its member states at critical junctures will determine what kind of player Beijing will be in international affairs.

Austrian Politics 101: Precedent Setting Populists

Prior to the immensely damaging scandal, the Austrian coalition government set a precedent for centrist conservatives cooperating with right-wing populists in post-war Europe. The 2017 elected coalition between the center-right Austrian People Party (ÖVP) and the right-wing populist FPÖ bucked the trend in European politics which saw mainstream establishment parties shun the right fringe of the parliamentary spectrum. Though the ÖVP and FPÖ have in the past formed a coalition government, the new government came at a time when populist parties throughout Europe were taking steps to shed the image of the toxic fringe while rebranding themselves as more politically palatable.⁶

Upon coming to power, the Kurz cabinet spurred much speculation that the coalition presented a first step towards creating a blueprint for right-leaning governments in an allegedly crisis-riven Europe.⁷ This was underpinned by the belief that Austria's young chancellor would be hard-pressed to simultaneously manage his populist allies, an experienced opposition, as well as refractory elements within his party. In the context of Austrian politics, Kurz appeared to be positioning himself to take advantage of the rising new force in European politics, taking on entrenched interests and restructuring the political playing field. Heinz-Christian Strache, the key figure seeking external support to gain an edge over his competitors in the Ibiza scandal video, was given the post of vice-chancellor. This, in turn, afforded the FPÖ considerable leverage in negotiating the terms of coalition, with Strache and the

FPÖ moving quickly to secure control of key ministries, such as Defense and Interior, and projecting their influence across Vienna's policy-making circles by nominating an independent they favored for the post of foreign minister.^{8 9}

Upon holding the rotating presidency of the European Council in early 2018, the cabinet also anchored the notion of a right-wing populist party at the heart of EU policymaking.¹⁰ Thereby, the FPÖ quickly brought its agenda points into the drafting of policy positions at the European level. In particular, Vienna's plan for its EU Council presidency emphasized promoting European security by tightening restrictions on immigration, maintaining competitiveness through digitization and stabilizing southeastern Europe.¹¹ For both Austria and the FPÖ, these policy areas formed the building blocks of a move to shape not only European neighborhood policy, but also the EU's foreign relations.

The FPÖ: Reshaping Politics in Vienna

A member of the Europe of Nations and Freedom (ENF) block in the European Parliament, the FPÖ has been present in Austrian politics since 1956.^{12 13} Since then it has become increasingly rooted in the anti-immigration, Eurosceptic political camp that has gained traction throughout Europe in recent years. Some have even suggested that the FPÖ has served as a role model for other right-wing populist movements in Germany, among others.^{14 15}

Until recently, the FPÖ was mainly relegated to the role of vocal opposition, but popular discontent in Europe over fiscal and immigration policy has given impetus to growing Euroscepticism as a viable political force. In the first round of Austria's 2016 presidential election Norbert Hofer, a key FPÖ figure, was only narrowly defeated in two subsequent runoff elections.¹⁶

Although the Ibiza Affair has forced the resignation of all FPÖ cabinet members, the party's tenure in the Kurz administration has nonetheless left its mark. This has been most obvious in policy areas which touch upon integration, a hot-button issue for voters who fear a loss of national or cultural identity. A controversial "burqa-ban" and subsequent prohibition of hijabs in preschools were quickly enacted, as the government also pledged to refrain from signing the Global Compact on Migration.^{17 18 19} As Austria practically



jumped on Hungary's anti-immigration bandwagon with this controversial move, concerned voices in Brussels grew louder.

Besides contentious domestic politics, the ÖVP-FPÖ coalition also set out for a change in Austria's foreign policy.²⁰ During coalition negotiations, the FPÖ and ÖVP settled on a compromise independent candidate, Karin Kneissel as foreign minister. Norbert Hofer, previously the FPÖ's candidate for the foreign ministry, had to settle for the infrastructure ministry, which nonetheless is a key position managing corporate relations in southeastern Europe and the energy sector.

With a newly empowered populist right forming a coalition, speculation abounded as to the foreign policy course the country would strike. Could the FPÖ's influence trigger Vienna to move away from countries like Merkel's Germany with a lax immigration policy so odious to its populist voters? Would this precipitate an eastward orientation within Europe, with Vienna making common cause with governments such as Hungary and Poland's in trying to defy the preeminence of the EU in domestic affairs? Apart from EU-related foreign policy questions, Vienna's bilateral ties with the Balkan states as well as Russia and China would indeed become essential for the FPÖ-ÖVP coalition government.²¹ Although perhaps not as hardline Euro-skeptic as some had feared, the turquoise-blue alliance brought with it a recalibration of Austrian foreign policy.²² For Beijing, the efforts of the Kurz administration to reach out to China came precisely at a time when Sino-European relations were being reshuffled.

After One and Two, Comes Three: China's European Strategy

Li Zhanshu's visit to Austria came between trips to Norway and Hungary and was part of a week-long tour.²³ Although there is nothing unusual in a high-profile politician traveling to several states at once, state visits often reflect a government's strategic priorities. Li, who is China's third most senior leader, was visiting Europe as part of a follow-up trip: in March President Xi Jinping toured Italy, Monaco, and France, while in April, Beijing's Number Two Premier Li Keqiang traveled to Brussels and Croatia.^{24 25} These visits form a conceptual constellation of China's "Europe-policy" with each station reflecting an aspect of Chinese strategic aspirations.

Overall, Beijing's strategy appears to aim at improving

access to European markets, despite critique over opaque investment practices in physical and digital infrastructure and knowledge transfers.²⁶ This also touches upon third-country access through Europe's international connections. For the Chinese government, this approach is motivated not only by potential economic gains but also by political calculations. Favorable investment in southeastern Europe and capital investments in Western Europe reflect a multi-faceted, regional structured course of action.²⁷ By espousing diversity in its diplomatic overtures, Beijing can tailor its engagement to the needs of its partner countries while still taking the big picture into account.²⁸ At the same time, there is a desire to capitalize on bilateral relationships and multilateral frameworks, finding ways to offset obstacles and broadly push forward Chinese interests.

State visits allow Chinese leaders to emphasize and highlight select projects for specific audiences as well as to familiarize themselves with the interests of prospective partners. Thus, it should not come as a surprise that Beijing's top three leaders traveled in quick succession to European countries whose relationships with Brussels and Beijing allow China to build familiarity with and influence in the EU.²⁹ While in Italy, President Xi Jinping was able to gain support for the Belt and Road Initiative (BRI) at a time when Rome was at odds with the EU bureaucracy, facing unprecedented sanctions over budgetary issues.³⁰ Meanwhile, Li Keqiang stressed Chinese firms' ability to compete for and win EU tenders in Croatia.³¹

However, China's non-transparent investment and influence-seeking strategy have been a thorn in the side of many EU leaders.³² In the absence of a coherent and consistent European engagement strategy, so the prevailing thinking, Beijing could quickly capitalize on disunity to advance its interest.³³ A plan which many believe is also shared by Moscow.³⁴ Populist parties, such as the FPÖ are drawn to anti-establishment politics, allowing other countries to capitalize on such reshuffling. Decentralizing decision-making by prioritizing national interest over common European interests enable foreign powers to drive a wedge for their personal gains. As both China and Russia do not wish to see increased U.S. involvement at their doorsteps, enticing individual European countries to go against the grain would give both considerable leverage in pursuing their national interest.

In this regard, Li Zhanshu's visit to Austria could be conceived of as a follow-up not only to the visits of Xi and Li Keqiang



but also to an earlier meeting between chancellor Kurz and Xi in Beijing in late April 2018. Relations between Beijing and Vienna have been cordial since 1971, but much of the contemporary relationship is rooted in a visit by a delegation of Austria's top leadership to Beijing in April 2018.³⁵ Held just before the beginning of Vienna's presidency of the EU, the state visit consisted of discussions on how Austria and China could enhance future strategic cooperation to enter a "new stage" of diplomatic relations. A 19-point joint statement emphasized the desire of both sides to intensify and improve bilateral ties and cooperation in areas of common interest.³⁶ This applies to areas such as cooperating on law enforcement and terrorism prevention, promoting free trade and combatting climate change, as well as exploring possibilities for collaborating on 5G digital infrastructure.

On the sidelines of the second BRI Forum held in Beijing in early 2019, President Xi Jinping specifically asked Chancellor Kurz to mediate between the EU and China, amid an invitation for Vienna to join the "Cooperation between China and Central and Eastern European Countries" initiatives.^{37 38} Colloquially referred to as the 16+1 or 17+1 Framework, this mostly incoherent grouping of countries has been criticized for its inconsistent standing vis-à-vis China.³⁹ Primarily conceived of as an effort by Beijing to further break up the EU's integration efforts for its own purposes, Austrian membership aspirations might now have raised further concern among EU policymakers and cemented Vienna's ties to the decentralizing East.⁴⁰ Austria's move to join Portugal to issue Panda Bonds has also reinforced the perception that bilateral relations are prioritized over a unified European voice, as the bonds are designed to "share the fruit of its economic development" by opening up the treasury markets to foreign investors.⁴¹ Kurz, as a first-time attendee at the Belt and Road Forum, however, stated clearly that he would not sign any accord citing concerns over transparency in an attempt to draw a contrast between his country and Italy.⁴²

Nevertheless, a major characteristic of the revitalized relationship between Austria and China rested on Vienna's support for the BRI. Although Austria doesn't figure prominently as a transit country for the "21st Century Silk Road," the Kurz government's priorities for Europe and Vienna's clout in southeastern Europe made it an attractive potential partner. Despite not being a member of the FPÖ herself, Foreign Minister Kneissl published a book

on China's rapidly expanding role in world politics whose overarching thesis of a declining Euro-Atlantic system being replaced by a rising China fits well with the ideological positions of both Austria's populist and the preferred narrative espoused by Beijing.⁴³ Nevertheless, her book also voiced concern over China's alleged efforts to manipulate Italy into signing up to the BRI project in April of 2019.⁴⁴

Despite this criticism, the plan of action between the two countries seemed largely to have remained on track. The Industrial and Commercial Bank of China (ICBC) opened its first branch in Vienna on May 21, 2019.⁴⁵ Its chairman, Chen Siqing, indicated that this development would greatly facilitate financial transactions between Austria and China and would ease cooperation in joint projects under the auspices of the BRI. For its part, the ICBC stressed that the Vienna branch would serve as a hub for activities in Central and Eastern Europe. The branch opening was attended by both Kurz and Li, who stated their respective governments' commitment to deepening integration.

Moreover, China's "panda diplomacy" has stood firm since the arrival of the first pandas, "Yang Yang" and "Long Hui", in 2003.⁴⁶ Yet, the pandas do not belong to Austria, as stipulated by a signed agreement between the PRC and the Austrian government. Instead, they are part of a larger research project headed by the Chinese government. Accordingly, their offspring not only technically belongs to the Chinese state, but they are all returned to China at the age of two.⁴⁷ As such, "Yang Yang" and "Long Hui's" cubs were returned in December 2018.⁴⁸ On his European tour in May 2019, China's number three, Li Zhanshu, officially handed over a new panda to the Austrian capital's zoo.⁴⁹ The new panda comes as a replacement for "Long Hui", who had passed away in late 2016.

While they might be "symbols of friendship" between the country and the host nation, China's pandas come at a cost.⁵⁰ Pandas are given to strategically important countries, such as Australia or Scotland.⁵¹ Both have natural resources that could benefit Beijing in the long-run, and keeping relations afloat through its "panda diplomacy" has been a critical issue. Austria's centrality as a broker between Europe and Russia in the Balkan region might have been the deciding factor for China's political elite to turn to its furry policy tools.

These developments come at a time when tensions between the



EU and China are increasing, even as relations with the U.S. are growing more strained for both Brussels and Beijing. The EU recently designated China as a “systemic rival,” pointing specifically to efforts by the Chinese government to promote alternative forms of governance.⁵² Soon after, the government of Italy moved to sign a suite of deals with China as part of a cooperation agreement under the auspices of the BRI.⁵³

Entangled – Austria’s Russia Connection

Austria has a long legacy of positioning itself at the intersection of the East and the West, with both economic and political consequences for the country. In 1968 Austria became the first state beyond the Iron Curtain to import gas from the USSR, and close ties with the Russian business community and state have persisted since then. A history of corporatism, a lack of freedom of information legislation and weak counterintelligence services have all contributed to making the country a target of malign political influence.⁵⁴ Some estimates have indicated that corruption has cost the Austrian state a substantial amount of taxpayer money and Vienna’s conciliatory approach towards Moscow has contrasted with that of much of Europe in the period following the 2014 annexation of Crimea.⁵⁵ Austrian policymakers were reluctant to join other EU states in withdrawing diplomats in protest of the failed assassination of Sergei Skripal in March 2018.⁵⁶ Foreign Minister Kneissel, who despite being independent was formally endorsed by the FPÖ, made headlines when she danced with Russian President Putin at her wedding in August of 2018.⁵⁷

Just two months prior, in June 2018, vice-Chancellor Strache traveled to Moscow alongside Chancellor Kurz to discuss the potential for Russia to “enable political solutions in Syria and the Ukraine.”⁵⁸ The FPÖ has long signaled its opposition to sanctions on Russia and maintains a stringent opposition to the recognition of Kosovo, long a central pillar of the Kremlin’s strategy in southeastern Europe.⁵⁹ Under Strache’s leadership, the party also signed a cooperation agreement with Putin’s United Russia Party while still in opposition in 2016.⁶⁰ Although there is some argument to be made for engaging with Russia, the timeline of the FPÖ’s engagement with Moscow, the willingness to collaborate to secure parliamentary elections exhibited in the video, and the Kremlin’s track record of instrumentalizing right-wing nationalist parties to undermine the

cohesion of the EU, paint an alarming picture.⁶¹

Austrian engagement with Russia, the EU, and China is also tied to its policy towards engaging the Western Balkans, which bring with it both a migration and energy security dimension. Vienna’s presidency in Brussels revolved both around stemming the flow of migrants through the Balkans and in stabilizing southeastern Europe through infrastructural and security engagement. In autumn of 2018, Austria’s FPÖ nominated defense minister, Mario Kunasek hosted a joint security conference with counterparts from five Balkan states. Dubbed the “Graz conference”, the meeting was designed to bolster European security, among others, through proposed funding for a military officer training academy in one of the Balkan countries.⁶² Soon after in December 2018, a Memorandum of Understanding was signed between Bulgarian gas firm Bulgartransgaz and Austria’s Central European Gas Hub.⁶³ Chancellor Kurz also opened the prospect of supporting Serbian accession to the EU, despite Serbian President Vucic’s close association with Russian foreign policy interests.

Balkanization

An antagonistic history notwithstanding, Austria remains influential in the Western Balkans. There are estimated to be over 400 Austrian companies in Serbia, driving close relations between Vienna and Belgrade.⁶⁴ Serbia’s strategic location also means the country features prominently in both a migration-centric security policy and deliberation over reviving plans to connect Austria with Russian gas supplies transiting the Black Sea. This is significant for Austrian domestic politics as well, not only was the FPÖ able to secure the Ministry of Defense, it was also able to secure the post of Ministry for Transport, Science and Technology, a key ministry, for FPÖ’s potential next leader Norbert Hofer.⁶⁵

A self-declared Serbophile and opponent of Kosovar independence, Strache has maintained close ties to Serbian establishment figures for over a decade and is well positioned to serve as a broker for both Belgrade and potential Russian and Chinese interests in the region. Together with FPÖ deputy leader Gudenus, Strache was awarded the Order of the Republika Srpska by the controversial president of the Bosnian Serb Republic Milorad Dodik, alongside the Putin-friendly motorcycle



gang the Wolves of the Night.⁶⁶ At the ceremony, which only Gudenus attended, Dodik, emphasized that his republic maintains close friendship ties with Russia and China.⁶⁷

The socio-economic and security make-up of southeastern Europe nowadays is a legacy of Russian and American frictions impacting the region since the collapse of the former Yugoslav republic.⁶⁸ With China moving into the region, Beijing's investment has emerged as a significant force in infrastructure and business development. While some Balkan states already had long-standing relationships with China, it is only recently through the BRI and its supporting 17+1 Framework that Beijing has gotten serious about its interests in the south-east. The Budapest-Belgrade railway stands exemplary for an attempt to close the region's notorious infrastructure gap.⁶⁹ Prior to that, Beijing's acquisition of the Greek Port of Piraeus attracted significant coverage.⁷⁰ For non-EU states, the presence of Chinese money and expertise provides an attractive alternative for cooperating with the EU, while EU-member states may be tempted to use a relationship with Beijing to pressure Brussels for concessions. While engaging with the U.S. and European states is closely associated with potential access to NATO or the EU, a move eyed with intense suspicion by Moscow, Chinese activity was not perceived of as suspicious or threatening by Russia. After all, China's approach could arguably offer avenues to close gaps in Moscow's approach to southeastern Europe. In the future, this might be analogous to the symbiotic relationship between China and Russia in Central Asia, albeit in a vastly different context.⁷¹

For Austria, China is an attractive potential partner both in terms of bilateral trade and in exploring possible avenues for cooperation and mutual benefit in the complex socio-political landscape of southeastern Europe. To some extent, this allows Vienna to pursue both its role as an international broker to safeguard domestically vital trade interests and energy security, while also providing much-needed avenues translating the populist anti-immigration agenda into reality. The Ibiza Scandal has allowed a rare insight into how elements of Austria's political class can capitalize on the opportunities presented by these objectives. Even if this behavior does not impact directly on Sino-Austrian relations, it highlights how an infrastructure investment-centric foreign policy which the BRI seeks to promote, can lend itself to graft and rent-seeking behavior.

Lessons from Ibiza

The political consequences of the Ibiza video scandal, however, could be far-reaching. For Austria's main opposition party, the SPÖ, the video served as an ideal pretext to question Chancellor Kurz's choice of a coalition partner.⁷² As the scandal deepened, voices calling for a no-confidence motion grew louder in opposition circles. While the original motion was brought forward by the opposition "Jetzt" ("Now") party and directed only at Chancellor Kurz, the more established Social Democrats (SPÖ) announced a no-confidence motion of their own on the very day of the European elections.⁷³ The SPÖ no-confidence motion, however, was directed towards the interim cabinet replacing the ousted FPÖ ministers and was endorsed by the FPÖ itself.⁷⁴ The former junior coalition partner party added the needed momentum to topple the Kurz government in May, likely as a retaliatory move to Kurz's decision to call for snap elections in September.⁷⁵ Strikingly, the landslide victory of the ÖVP in the European parliamentary elections was not enough to offset the breaking down of the interim government. Chancellor Kurz, despite being ousted, remained optimistic that the "game of revenge" is unlikely to persuade voters in the September 2019 national election.

Intriguingly, while the party's partnership with ÖVP completely broke down, the FPÖ appears to have suffered only minimally. The EU election results landed the infamous Strache a seat in Brussels, although Strache has declined to take up.⁷⁶ This is likely due to fears over political backlash for the party, although he stated that it was "not the result of a political calculation or of any deal"⁷⁷ Thus, Austria's populists seem to have gracefully sidestepped the problem of the scandal and skillfully entered European politics despite domestic troubles. What this will mean for Austria's foreign policy has yet to be seen.

A visit in June 2019 by now Austrian Federal Council President and SPÖ member Ingo Appe to Beijing suggests that the policy course toward China remains intact for the time being.⁷⁸ It may also serve as a way to reassure Chinese partners that Austria remains committed to deepening cooperation, and to counteract some of the ill-timed visit's more embarrassing aspects. New cooperation initiatives continue apace, for example, a new flight route connecting Vienna to Guangzhou operated by China Southern Airlines operated its maiden flight via Urumqi on June 18, 2019.⁷⁹



It will be interesting to see whether a follow-up state visit to China will take place after the September elections whether by Kurz, should he be able to stage a comeback, or by a successor.⁸⁰ Kurz and Appe both met Li Zanshu in Vienna in May, which suggests that the course towards China is likely to be continued by either major party, although the domestic threat of further revelations about illegal practices will be firmly on the minds of government ministers. For Vienna, the months leading up to the national election in September may set the tenor for how Austrian leaders can advance a cooperation centric agenda. This, in turn, raises questions about Austrian energy policy in southeastern Europe, as well as the country's approach to security and infrastructure promotion, all areas which are tangential to cooperation between Vienna and Beijing.

The experience of the ÖVP-FPÖ coalition and its scandal-ridden collapse seems to indicate that the presence of the right-wing populist groups in government is more likely to be a curse than a blessing. Potential graft and a willingness to abandon established norms for short term policy gains impacts not only on European governments and their people but also on foreign states wishing to cooperate in the long-term. Chinese leaders consistently state that they are committed to good governance policies, wish to treat openly and fairly with European countries, and seek not to clash with multi-national bodies like the EU.⁸¹ The antics of populist parties such as the FPÖ, with its apparent willingness to flaunt the principles of international norms and the rule of law, therefore, should be cause for concern in Beijing.

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