



Britain's Exit from the EU and the Implications for Austria

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In Austria a "Brexit" is still treated as a hypothetical scenario, even though the debate of a possible British exit from the EU has acquired momentum in the UK. The present IHS Standpunkt argues that Austria's pro-Europe forces ought to coordinate their efforts with their partners in other countries, in order to prevent the unravelling of the EU. Austria has a lot to lose if Britain leaves the EU, and the losses are not only economic in nature but political as well. A potential Brexit will strengthen Euroscepticism across Europe. Austria's political forces will find it more difficult to oppose the Eurosceptic and populist demands, and the implications will be felt in the domestic political arena as well.

The European Union (EU) as we know it today may become a thing of the past sooner than we think. It may start disintegrating, not because Greece will be forced to leave the Eurozone, as some had speculated, but because Britain's current Prime Minister, David Cameron, promised a referendum on EU membership, in case he wins the next general elections. If he does, and if he keeps his promise, an in-or-out of the EU referendum is likely to result to Britain's exit from the EU (also known as "Brexit"). Such a development will have grave consequences not only for the UK but for all the other member state of the EU, including Austria.

It is not the first time Britain threatens to leave the EU. In 1975, only two years after it joined the EU's precursor, the European Economic Community, a referendum was held which eventually confirmed Britain's membership. Nevertheless, Euroscepticism remained strong in the UK and the debate on whether the UK would not be better off without the obligations deriving from a full membership continued to simmer. Now, forty years later and in the aftermath of Europe's greatest financial crisis in recent times, the question of a British exit is imminent.

Sceptics argue that the Brexit is nothing but a bluff, in other words, a political instrument at the disposal of the British government that will allow it to re-negotiate the terms of the country's EU membership. If it is a bluff, it seems to be working. In her speech in the House of Commons in February 2014, Angela Merkel emphasised that Germany wants the UK within the EU and it is willing to consent to some EU reforms in order to ensure this. Currently, it remains unclear when and what kind of reforms will be negotiated between the UK and the EU. What is clear, though, is that if such negotiations take place, their outcome will have to be accepted by all the member states. Therefore, it is far from certain that the British government will succeed in extracting the concessions it aspires, and it is equally uncertain that a referendum can be avoided.

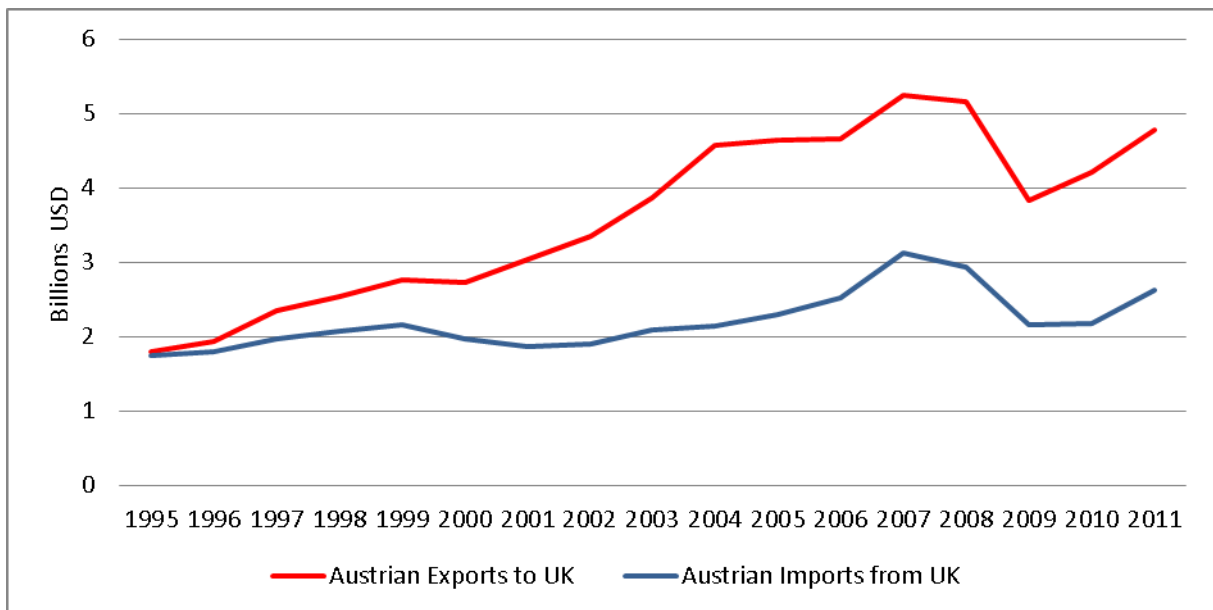
The European governments can deal with the potential Brexit in two ways. First, they can choose to ignore it completely and hope that such a referendum will not take place. Second, they can start preparing for all possible eventualities, including the prospect of Britain leaving the EU. The present IHS Standpunkt explains why Austria should coordinate its efforts with all the other countries interested in keeping Britain within the EU.

At first glance, a casual observer may be left with the impression that Austria has little to lose if Britain decides to leave the EU. The relatively few and infrequent reports in the national mass media contribute to this, but appearances can be misleading. There are both economic and political

reasons why Austria would prefer Britain in the EU. An in depth analysis can reveal the full extent of Austria's interests, but the present overview is a first step in this direction.

Starting with the international trade dimension of a Brexit, there is clearly more at stake for Britain's neighbouring countries than there is for Austria. However, Austria cannot afford to remain indifferent, even if its main trading partner is Germany rather than Britain. According to Eurostat figures, in 2010 44% of the value of Austria's exports in the EU area went to its biggest neighbour, Germany. In comparison, the second most important market for Austria's exports is Italy (10.8%) followed by France (5.8%) and Hungary (4.5%). Britain comes fifth absorbing 4.3% of its exports in terms of value. In 2001 this number was at 6.4%. Consequently, Britain may not be the most important trading partner of Austria, but it is not negligible either. A slightly different look at the data confirms this. OECD data, illustrated in figure 1, reveal that the trade imbalance between Austria and Britain has been growing over the years in favour of Austria. This means that Austria would not want to witness any developments that disturb its trade flows with the UK. Yet a Brexit might just do that.

Figure 1. Trade Flow between Austria and the UK



Source: OECD

Nevertheless, the greatest threat for Austria related to a Brexit is not economic but political, and it is not direct but indirect. A decision by the UK to end its EU membership would change not only the UK, but the other EU member states as well. It would take the EU into uncharted territory with potentially formidable challenges for the future of the supranational institutions and of European integration in general. To start with, Britain's departure from the EU will probably result in the need for greater contributions to the EU budget from the remaining member states, since Britain is a net payer. Austria too is a net payer and the demand for more EU-bound money from the taxpayers will almost inevitably lead to popular dissatisfaction and political controversy.



Austrians may not be the most Eurosceptic nation in the EU, but they are no Euroenthusiasts either. A recent Eurobarometer survey revealed that only 25% of Austrians have a positive image of the EU, compared to the EU-28 average of 31%. Furthermore, the influence of the populist Freedom Party (FPÖ) among the electorate, which relies on a xenophobic and anti-EU rhetoric, has been growing. In comparison to the previous general elections, the FPÖ increased its vote share in the 2013 elections by nearly 3 percentage units to 20.5%, while the two parties currently in a coalition government, the Social Democrats (SPÖ) and the People's Party (ÖVP), lost about 2 units each and got 26.8% and 24%, respectively. In the European Parliament elections in May 2014 the FPÖ may fare even better. Opinion polling data suggest that the FPÖ will get around 23% of the vote securing possibly the second place after the SPÖ, and 4 seats in the European Parliament compared to just 1 in 2009.

Given these results, it may not be long until the FPÖ ranks second in the national parliament elections as well. This would make it the obvious partner in a coalition government, unless a broader alternative coalition of at least three parties was able to form. It is impossible right now to assess the probability of different coalition combinations, but it is easy to see why Austria (and the rest of Europe) could do without a xenophobic and populist party in power. Last time the FPÖ was in government it provoked an international outcry that resulted in Austria's isolation, not to mention the domestic repercussions (social tension, financial mismanagement, scandals etc.). Against this background any significant development facilitating the electoral strengthening of the domestic Eurosceptic forces ought to concern Austria, even if it originates in another country. Britain's potential exit from the EU is such an alarming prospect.

A Brexit will become an example that all Eurosceptic parties and forces across Europe could use, to promote their agenda and to enhance their political influence. It will prove that EU membership is not necessarily a one-way road, and that a pick-and-mix approach to European integration is feasible and even commendable. The Eurosceptic camp will probably seek to capitalize on such a development, as was the case recently with the Swiss referendum on EU immigration in February 2014 when Mr. Heinz-Christian Strache argued that he could imagine a similar referendum taking place in Austria.

Drawing on the precedent of a long-time and the third largest member state turning its back on the EU, Eurosceptic argumentation will appear more convincing among voters who have started wondering whether the Euro is a good idea, whether Austria should be bailing out other member states, and whether Austria would not be better off outside the EU. To put it differently, a Brexit will strengthen the Eurosceptics' political arsenal by making their populist claims more credible. This, in turn, will help the FPÖ to boost its popularity further and climb to the second position in the next national elections due in December 2018. With the prospect of losing power the political forces that support the idea of an open, cosmopolitan and pro-EU Austria will have to adjust their agenda to that of their Eurosceptic and nationalist challengers. Under such a bleak scenario even if the other political parties succeed in excluding the FPÖ from a future coalition government, Austria's position toward the EU and European integration is likely to toughen.

Assuming that the turn of events will be comparable in other countries where Eurosceptic parties are strong, the outlook of the EU appears uncertain. A British withdrawal will not cause Austria to follow suit, and it is doubtful if it will trigger similar moves in other member states in the short



term. However, it will release two competing forces across Europe. On the one hand, the powerful image of a victorious British Euroscepticism will serve as a role model for Eurosceptic parties and movements in other countries. On the other hand, the promise of improved efficiency in EU decision-making, translating to potentially more benefits for the remaining member states and greater output legitimacy for the EU. The balance of these two forces will determine the future of the EU if Britain opts to leave.

Neither Austria nor any other EU country can prevent Britain from leaving should its people vote for an exit in an in/out referendum. Interfering directly in another country's domestic politics is not only unacceptable, but probably counterproductive. Nevertheless, there is more at stake in a potential Brexit than what meets the eye. It is not simply a question of economic gains and losses, but of domestic and international politics deeply intertwined and cutting across borders. Seen in this light, Austria has got enough to lose from a British departure from the EU. Therefore, the Austrian government would be well advised not to dismiss a Brexit as a hypothetical scenario, but to join its EU partners in search of a strategy that will ensure Britain remains a full member of the EU.

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