Introduction

The Australian manufacturing industry is in crisis. In the last decade manufacturing employment levels have declined substantially, production has stagnated, and thousands of companies have been taken over or ceased operations. The relative decline of the importance of the manufacturing industry, however, has been symptomatic of the profound process of structural change that is occurring in the Australian economy and society, a process which will if it remains unchecked by the forces of labor inevitably lead to the further integration of Australia into a world system over which national control is very difficult.

This process of structural change affecting the manufacturing industry is the inevitable result of a variety of factors, including the gradual liberalisation of trade, technological change, and changes in patterns of demand due to factors such as demographic influences. I would argue, however, that the major force accelerating and accentuating these changes is the transnational corporation, which in the last two decades has come to assume a position of critical importance in the capitalist world system. The transnational corporations are the major beneficiaries of free trade, they are the most technologically dynamic entities in the
world, and they are involved in activities across a broad spectrum of the economy influencing patterns of demand, life styles and attitudes.

In order to examine these changes in the present context it is necessary to look briefly at the historical development of the manufacturing industry in Australia. The main point that will become obvious from this survey is that Australia, in common with many other developed capitalist countries, did not industrialise under a free trade regime, but on the contrary developed its manufacturing behind a protectionist wall which shielded industries and their workers from the forces operating in the world economy.

**Brief History of the Australian Manufacturing Industry**

The tariff played an important role in the development of manufacturing from 1908-39, as early Labor governments recognised it as a means of increasing workers' wages and the achievement of a variety of social objectives. As the Brigden Report of 1929 clearly stated:

> The evidence available does not support the contention that Australia could have maintained its present population at a higher standard of living under free trade...The tariff has had the effect of pooling the national income to a greater extent than would have been predictable if assistance to industry were derived solely through the more obvious method of taxation...The diversion of production to the protected industries has increased the diversity of occupations and of opportunities, and introduced more stability into the national income than if it had been more dependent on the seasons and the vagaries of overseas markets. (1)

After World War II, the overriding constraint on Australian economic development was a chronic shortage of foreign exchange, and in common with a number of other countries, exchange control restrictions were introduced, followed by import quotas in 1952. Increased emphasis was given to import substitution industrialisation. As the Jackson Committee indicated, such a policy, apart from conserving foreign exchange was also consistent with certain important longer term objectives of Labor, including full employment with rising living standards, high population growth, and a more equal distribution of income. (2) It was only in the mid-1960s, with the growth of mineral exports, that tariffs came to replace import quotas as the main element of protection, as the balance of payments constraint eased.

Of course, as we all know, the 1970s have been characterised by a chorus of voices arguing for lower protection, rationalisation, restructuring, and for Australia to produce according to its "competitive advantage".

I think that a careful study of Australia's industrial development clearly indicates that to a large extent we have been able to achieve such a relatively high standard of living by protecting and stimulating domestic industries. It also indicates that a country can create a comparative advantage, that comparative advantage, as it is eulogised by the free traders, is not an unchanging characteristic of every nation to which its destiny is inescapably tied. (3) A country with the resources of Australia, with appropriate national industrial and economic policies, has no need to specialise in only a few products, but can instead establish and develop a broad self-reliant industrial structure.

However, although Australia followed a path of industrialisation behind protectionist barriers, as did Japan, Germany and the United States, this was not a planned process. The pattern of industrial development was largely left to private corporations whose goals for a certain period of time happened to coincide with certain national objectives, but which are now, following the same principles, operating substantially against the interests of the Australian economy and society.

The result of this laissez-faire period of industrial development was an industrial structure which is fragmented, dispersed, and to a large extent inefficient. The problems of the lack of national planning were exacerbated by the existence of State governments, which competed against each other to attract industry, and the corporations were able to systematically play off these governments and extract the maximum return.

Intimately related to the whole process of Australian industrial development was the wholesale movement into Australia of the
transnational corporations, and other foreign investors, in the post World War II period. Prevented from exporting to a potentially lucrative market, and attracted by generous concessions from the State and Federal governments, British and American corporations flooded into Australia, establishing factories, employing thousands of workers, and making deep inroads into the markets for both industrial and consumer products. It is these companies in particular, and a number of large Australian-owned companies, which are now beginning to restructure their operations in this country, in line with the changes in the global economy. Before moving on to discuss these changes, however, it would be useful to discuss some of the most important characteristics of the industry in Australia.

Characteristics of the Manufacturing Industry

It is quite obvious that there is a very significant degree of foreign control of the industry. The official Australian Bureau of Statistics figures show foreign control for 1972-73 to have been 34.3 per cent, and of the largest 200 enterprise groups, 87 were foreign controlled. (4) Foreign control would obviously have increased since then, because the Foreign Investment Review Board statistics show that in the period 1977-79 there were 137 acquisitions of Australian companies by foreign companies where Australian control was lost in the manufacturing industry, valued at $296 million, and a further 264 involving a loss of Australian ownership. (5) Of course, for particular segments of the industry foreign control is much higher, including motor vehicles, chemicals, pharmaceuticals, transport equipment, and basic metals.

This characteristic is closely related to the fact that within the industry there coexists a small group of very large corporations, and a larger number of small and medium-sized companies. The latest concentration statistics published by the ABS for 1977-78 show that the largest 200 enterprise groups accounted for 51 per cent of value added, while the remainder was accounted for by 20,315 enterprise groups. A significant point to note about the statistics is that while the share of the largest 200 has remained relatively stable since 1972-73, the total number of enterprise groups in the industry declined by over 10,000 in the period. (6) This is a clear indication of the process of rationalisation and restructuring that is taking place in the industry.

These two sectors within the manufacturing industry have been referred to by Galbraith as the planning and market sectors. The planning sector is where the corporations are very large and have a substantial degree of control over their environment, and the market sector is where corporations are much smaller and competition is more prevalent. Any national industrial policy must take account of the existence of these two sectors within the manufacturing industry, since policies appropriate for the largest firms may not be at all appropriate for the smaller companies, and vice versa.

The characteristics of foreign control and concentration are related in that foreign controlled firms tend to be among the largest firms in the economy, and tend therefore to be involved in long-term planning of their operations. As the OECD statistics indicate, there is a link between foreign control in a
sector and the level of concentration, and that in Australia in manufacturing industry those enterprises under foreign control tend to be on the average much bigger than the domestically controlled companies. (7)

As John Alford has pointed out, it is these corporations which are the most influential in the process of restructurin in the manufacturing industry. Because of their ability to control their environment, they can plan years ahead: how much money will be invested by the corporation, how much installed capacity it will have, what types of products it will be producing and in what locations, the types of capital equipment it will need and the types of training required, how much it will spend on advertising and marketing, and what contingency plans it has for changes in the economic and social/political environment. All of these form part of a coherent corporate plan. (8) Plans will already be on the books in a large number of large corporations in Australia relating to all of these aspects now, including details of proposed plant closures and investment decisions. The future of Australia's manufacturing industry is already being decided, and it is certainly not by governments or labor.

There is another characteristic of the industry that requires some mention, the role of technology. This is a crucially important factor since it relates to the types of industries that Australia would retain in the future.

A variety of studies from all over the world have shown that the control of the world's technology has been privatised, and that most of the research and development is carried out by large corporations, most of which are based in Western Europe, Japan or the United States. UNCTAD has been discussing for years the problems of the transfer of technology to underdeveloped countries and has consistently pointed out that technology is used to benefit the rich countries and their corporations at the expense of the underdeveloped countries. In particular, it has shown how countries with little indigenous research and development capacity become technologically dependent.

Australia is a technologically dependent country, and the research and development that is conducted in this country is substantially controlled by foreign corporations. As the Senate Standing Committee on Science and the Environment pointed out in its report, more than 60 per cent of the funds for R & D performed in Australia by business enterprises employing more than 150 people in 1973-74 came from foreign-controlled enterprises, and of the royalty and technical payments 94 per cent were paid overseas, half to related foreign enterprises. (9) In the last decade Australia paid out $665 million in such payments overseas. As the Committee stated:

High levels of foreign ownership debilitate domestic capacity for R & D. A high level of foreign ownership of large companies has increased Australia's dependence on technology importation.

Hence it will not be the government, or labour, which decided what sort of industries we have in Australia, or the technology used in those industries. As the underdeveloped countries have strongly argued in UNCTAD and elsewhere, it is the transnational corporations which decide which countries get industrialised, how they industrialise, and what the costs of this process will be. Which brings us back to our old friend "comparative advantage", and I think it will become obvious in the next section that it is not the comparative advantage of Australia or any other nation which is changing, but the comparative advantage of the corporations, which armed with massive financial and technological resources are reorganising and transforming the world economy and the role of particular countries in it.

The Changing World Economy

With the development of the transnational corporation in the post World War II period the world economy underwent a fundamental structural transformation. Now a very significant proportion of world trade and investment is undertaken by these giant corporations, and they have succeeded in establishing and consolidating a new international economic order.

One of the most important developments in the recent past has been the evolution of what has become known as a new international division of labour. The previous regional divisions of the world into the industrialised centres and the non-industrialised peripheries are being superceded, as some of the underdeveloped
countries increasingly become the location sites of manufacturing industries, controlled by foreign capital and producing for the world market. What this implies is a worldwide relocation of manufacturing industry, which is having, and increasingly will have, serious consequences for the lives of people all over the world. A process of de-industrialisation is taking place in the formerly industrialised capitalist countries, including Australia.

The large corporations have found that by relocating in these low wage countries, and playing governments off against one another to extract maximum concessions, they can increase profitability on a world basis. The consequence is the development of global industries, in which production, investment, distribution, marketing and advertising are done on a global basis by corporations based in the developed capitalist countries. So not only do the large corporations in an industry plan years ahead but they also plan on a world-wide scale. This makes national control very difficult, even if the political will exists.

One of the favored areas for investments by the transnational corporations is the Asia-Pacific region. We have all heard of the so-called "export miracles" of South Korea, Singapore and Hong Kong, which have followed export-oriented industrialisation strategies for well over a decade. The other low-wage countries of Asia are being integrated into the global manufacturing strategies of the corporations at the present time. Because of Australia's proximity to Asia, and its rather unique position in the area as a relatively affluent country, we are likely to be strongly affected by developments in the region.

A variety of international organisations are now discussing the coming "boom" of the Asian-Pacific region. As a Far Eastern Economic Review writer stated:

*With its high growth potential, the Pacific region will offer powerful leverage in solving many problems that confront the world economy today through multilateral cooperation, expansion of international trade and effective development and use of various resources.* (10)

A Pacific Basin Economic Committee was formed some 13 years ago, with the objective of promoting international trade and investment in the region. However, a number of other writers have pointed out that essentially the Asian-Pacific region is being increasingly integrated into a world system which continues to be dominated by the developed capitalist countries and their transnational corporations. The strategy has been referred to as the Pacific Rim Strategy.

This strategy involves the reorganisation of the Asian-Pacific region into four interrelated tiers. The first involves the United States and Japan, which act as the providers of capital and technology; the second Australia, New Zealand and Canada as suppliers of foodstuffs, raw materials and energy; the third the cheap-labour countries which will follow export-oriented strategies of industrial and agricultural development; and fourthly, China and the other socialist countries of the region. It is clear that with the evolution of such a strategy, which is being formulated in the boardrooms of the transnational corporations and other international organisations like the Trilateral Commission, that Australia will progressively and systematically be de-industrialised, since its role in the emerging new international economic order is not as a producer of a wide range of industrial products. We will revert to a country full of sheep-runs and mines, a point observed even in 1929 by the Brigden Report:

*The maximum income per head for Australia would probably be obtained by reducing it to one large sheep-run.*

One of the essential prerequisites for such a strategy is a regime of free trade and it is not at all coincidental that the transnational corporations are the most ardent advocates of reduced protection and trade liberalisation. For the most profitable integration of their production on a global basis, transnational corporations require reductions in tariffs and quotas and they and their handmaidens, the economic profession, have constructed elegant theories to "prove" that free trade will increase welfare and lead to an efficient allocation of resources. What we are seeing in Australia at the present time is economic thuggery: the Australian population is being bludgeoned into accepting a future which involves the dismantling of manufacturing industry, the rationalisation of other industries, and
continuous and high levels of unemployment.

De-industrialisation

Part of this de-industrialisation process takes place through the movement of Australian and Australian-based companies "offshore" to other countries. Once this process begins, the logic of competition forces all companies to follow suit or be eliminated. How can an Australian company paying Australian wages compete with the subsidiary of a transnational corporation in the Philippines or Indonesia, equipped with the latest technology, and paying wages 10 per cent of those here? Unless protection is maintained, and even increased, it can only survive by going overseas itself. It has been estimated that there are at least 600 Australian companies operating overseas, particularly in South East Asia. (11)

The ABS statistics also give an indication of the acceleration of this offshore movement of companies. In the last decade total investments overseas by companies in Australia amounted to $1,656 million; $918 million of this was invested after 1974-75. (12) These companies in their overseas operations either produce for the local markets in these countries, or establish operations to export back to the Australian market. The pressure of competition from these imports forces the companies remaining in Australia to substantially rationalise their operations and hasten the introduction of new technology to replace workers. We have already seen this in the textile and clothing and footwear industries.

The transnational corporations, and their mouthpieces in the government, the economics profession and the press, however, tell us that this will improve the allocation of resources and increase community welfare. The improved allocation is supposed to result because capital and labour are freed to move to other more productive areas of the economy (although exactly where is rarely ever specified). Community welfare is supposedly increased by cheaper prices (it is always assumed that lower costs of production for firms automatically result in correspondingly lower prices and not increased profits).

A number of studies have attempted to calculate the effects of the newly-industrialising countries' exports on the developed countries, and particularly on employment. The most recent is that of the OECD. Although the report argued that the net employment effects are relatively small, it argued that there could be quite substantial gross employment losses in some sensitive industries, and that these would be particularly concentrated in certain regions and certain categories of workers, particularly relatively unskilled women. It pointed out that in times of very slow, or negative growth of total employment, such gross changes could represent "a formidable adjustment problem as they call for a massive occupational and geographical redistribution of people actually involved". (13) This point was also made by the Crawford Committee.

The best examples of this process in Australia come from the textiles and clothing and footwear industries, and the automobile industry. As most of you will probably be aware, the clothing and textiles industries have suffered serious declines in employment in recent years, combined with plant rationalisations, company mergers, and an increased flow of cheaper Asian imports. The share of imports in the Australian domestic market has risen considerably, and now accounts for over 37 per cent of the textile market and over 20 per cent of the clothing and footwear market. Both industries employ large numbers of women workers: over 40 per cent of textiles and over 75 per cent of clothing and footwear. Since most of the workers in the industry have skills relevant to the industry in which they are employed, many have found great difficulties in finding alternative employment, particularly since the rest of the economy is stagnating.

The development of the world-car concept is a different example of the same process. The world car involves the adoption of a basically common design in a number of markets, with interchangeability of parts within those markets. Australia, through the decisions of General Motors and Ford and the other car companies which were made years ago, is being locked into an international strategy for the production of cars on a global basis, and this most probably will involve the destruction of particular parts of the automobile industry in Australia. Some of the companies most
likely to be affected, such as Repco or Borg Warner have already either become transnational corporations or were part of a transnational corporation initially. Australian-based suppliers will find it very difficult to survive. Of course, the adoption of the world-car concept in Australia necessitates the breaking down of the local content rules, and the IAC is presently examining a number of export-facilitation schemes. The closure of the Pagewood plant in Sydney is only one part of the process of rationalisation and restructuring planned by the automotive transnationals. If ever there was an industry that required systematic and long-term government intervention, it has to be the car industry in Australia. Because of its crucial importance to the rest of the manufacturing industry, in that it is a major consumer of products of other sectors, it simply cannot be allowed to be restructured solely according to the global profit-maximisation objectives of the car companies. Even if we accept Fraser's defence scenario, surely a diversified and integrated automobile industry must be developed and maintained.

These are just two examples of industries in Australia which are being restructured and rationalised in line with the changes in the world economy. The question that then must be asked is: if Australia is going to be de-industrialised, what are we going to produce?

What will Australia produce?

The transnational corporations and their mouthpieces have argued that Australia should produce according to its comparative advantage. As the OECD pointed out:

"... because the advanced countries are at the frontier of changing tastes and technological progress, their comparative advantage will generally lie in new products, processes and technologies. Also, an important part will consist of services and know-how, only partly embodied in traded goods. Almost by definition, therefore, a large part of the comparative advantage of the advanced industrialised countries lies in products and processes which are hard to describe because they are either rather intangible or do not yet exist." (14)

We have heard the argument that Australia should abandon its labor-intensive industries and concentrate on capital and skill-intensive export-oriented industries, although as yet few concrete suggestions have been made as to what these should be other than mineral-based production which, up to now, has not employed large numbers of people.

There are a variety of reasons why this strategy will be disastrous for Australia. Firstly, as I indicated earlier, Australia is a technologically dependent country, and it does not have a good record in indigenous research and development. Since the transnational corporations control the world's technology, they are unlikely to simply give it away, and so Australia will find it very difficult to break into the skill-intensive industrial areas. This is exactly the point that the underdeveloped countries have been arguing about for decades — the monopoly of technology and R & D by the large developed country corporations has kept the poor countries in a dependent subordinate position. Even now, with the process of industrialisation that is taking place in some of these countries, it has only been made possible by the fact that the corporations were able to decompose complex production processes into elementary segments which can be handled by unskilled workers. And this is the tragedy of the de-industrialisation process that is taking place in Australia. At least in the post World War II period, despite the fact that we developed a fragmented, dispersed and, to a large extent, inefficient industrial structure, at least we did industrialise, and this required a relatively skilled workforce. Once a country loses its industries, it also loses the skills of the workers, which are very difficult to regain.

Secondly, a large number of other countries are also pursuing such strategies, of concentrating on skill and capital-intensive industries. But these countries, like Sweden, France, the United States and Japan are structurally, technologically and strategically in a much better position than Australia. It is certainly not obvious that if a large number of countries attempt to follow such export strategies that all will benefit. Free trade and international competition have always benefited the strong, and there is less reason now to think that it will operate any differently. Thirdly, those making the major decisions about Australia's future
have already decided that we will produce foodstuffs, raw materials and energy products. The most dynamic sector of the economy is the mineral industry. It is the major area of new investment, both foreign and Australian (through the large institutions, particularly), and it is the recipient of millions of dollars of government support, notably infrastructural support. In a world of finite and depleted resources, Australia is too crucial to the world system not to exploit its vast resources. In fact, the development of the mineral industry in the last decade has begun a process of reversing many of the gains achieved in terms of the development of a broadly self-reliant affluent society. In the same way that the Brigden Report saw the tariff as a means of pooling the community's resources, and particularly redistributing resources from the export sector to the rest of society, we are now seeing a process by which the community is supporting the export sector, which is overwhelmingly foreign-controlled, and concentrated in the politically reactionary states of Queensland and Western Australia. The result can only be a severe polarisation of Australian society, as the process of uneven development inherent under capitalism proceeds. The more that manufacturing industry is dismantled and the more reliant we become on imports, the more will the mineral and energy-based exports need to be increased, necessitating even greater distortions of the industrial and social structure.

Conclusion

As I think it is clear, I see a gloomy future for Australia. Unless the process is checked by the forces of labor in this country, Australia will be restructured in the interests of international capital. Manufacturing industry will be dismantled, other sectors of the economy will be subject to rationalisation and the forces of the technological revolution, and millions of dollars of the society's resources will be poured into expanding mineral and energy based production which will be fine for the balance of payments but contribute little to increasing the welfare of the mass of the population. I will conclude with a quote from Manning Clark:

In the nineteenth century Australians enjoyed the reputation of being in the vanguard of human progress; they were often the pioneers in the introduction of bourgeois democracy, and rather boastful about it. By contrast, in the twentieth century Australians seem to have missed the bus carrying humanity into the future. Australians are no longer the pathfinders, but rather the men of the army in the rear.... We had the institutions and the values to promote the use of parts of our country as quarries for foreign powers, but neither the institutions, nor the inclination, nor the belief to make our country a paradise for the people.

FOOTNOTES

13. OECD, The Impact of the Newly Industrialising Countries on Production and Trade in Manufactures, Report by the Secretary-General, Paris, 1979, p. 46.