

# Japanese auto manufacturers in the Australian market and the government industry assistance spending

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## Abstract

This paper discusses Japanese motor vehicle manufacturing investment and state intervention measures in the Australian market. Australia's auto industry is an extension of global motor vehicle manufacturers with a small number of domestic manufacturing firms that form a part of the global supply chain. Toyota Motor Corporation, Mitsubishi Motor Corporation, General Motors Corporation and Ford Motor Company all have had extensive investments in the Australian market. In the past, the Australian market was also a host to investments from Volkswagen AG, Chrysler LLC, Nissan Motor Company Limited and British Leyland Motor Corporation. The size of the industry has shrunk recently with the March 2008 shut down of manufacturing by Mitsubishi Motors Australia Limited (MMAL), not long after the company's emergence from a long and significant restructuring. Still, the auto industry remains the largest single manufacturing sector in Australia both in terms of investment levels and the number of people employed. Thus, Japanese auto manufacturing investment in Australia require an evaluation, now that the federal government has completed the 2008 'Review of Australia's Automotive Industry'. The paper focuses on Toyota Motor Corporation Australia (TMC Australia) in Victoria and (the recently shut down) MMAL in South Australia.

Toyota Motor Corporation Australia (TMC Australia) is presently the only Japanese motor vehicle manufacturer with the shut down of Mitsubishi Motors Australia Limited (MMAL) in March 2008. In 1992 Nissan Motor Company (Australia) Pty Ltd stopped manufacturing in Australia. These three Japanese motor vehicle manufacturers had originally set up production in Australia to get behind the tariff walls because producing and selling in the local market was cheaper than exporting from Japan (see Beeson 1997, CEDA 1997 and Edgington 1990). A multinational corporation's overseas investment is a defensive move in the sense that 'a firm undertakes production in a foreign country to which it had previously exported extensively only when foreign production is necessary to stave off the loss of the market to local firms or other [multinational enterprises] . . . often [in] a response to increasing trade barriers' (Dunning and Pearce 1985: 135). Japanese foreign investment in Australia show that direct investment in Australia's manufacturing sector (as an alternative to exporting and licensing) meant lower costs for the investing Japanese firm, an advantage that could not be replicated by competing [multinational enterprises] from other countries (Purcell

et al. 1999: 72–74; 1999 b: 80–81). Consequently, during the height of post-war protective market governance in Australia, Japanese multinational enterprises found it more profitable to manufacture and sell in the Australian market (and often to export from it, too). With the rise of neo-liberal market policy, this profitability was no longer guaranteed and foreign manufacturing investment in the Australian market began to shrink.<sup>1)</sup>

Japanese business in Australia across the board has been in decline, including the manufacturing sector. In 1990 Nissan Motor Company (Australia) Pty Ltd<sup>2)</sup> was planning to manufacture a new six-cylinder model<sup>3)</sup>, but in 1992 the company shut down its Australian manufacturing. Tariffs used to mean that overseas models attracted import tax and local manufacturers were protected, however, with market deregulation imports became cheaper and began to put pressure on manufacturers in Australia, many of which could not compete in the long run. The continuous decrease in tariffs that used to protect Japanese foreign investment in Australia from competition is the major reason why Nissan Motor Company (Australia) Pty Ltd and MMAL shut down manufacturing in Australia. The lack of sufficient industry assistance for manufacturing investors is also another significant reason (AMWU 2003 b: 36). The post–1992 market restructuring in Japan also affected Japanese foreign investment in Australia. Japanese firms became more focused lower wage markets with bigger growth potential after the 1992 collapse of the ‘bubble economy’. Australia also suffers a ‘drought’ of greenfield foreign investment in manufacturing and various schemes to encourage commitment and performance among the present manufacturers have also been weak (AMWU 2003 a: 1–5). Further, foreign investment in Australia ‘is insufficiently directed to appropriate objectives’ (Jones 2004: 2). Comprehensive data on the industries in which foreign companies directly invest Australia is not made available by government statistical agencies.<sup>4)</sup> As a result this paper cannot offer a precise investment history for TMC Australia and MMAL.<sup>5)</sup> What is clear, however, is that Japanese foreign investment’s share of total foreign investment<sup>6)</sup> in Australia has been

1) For example, the South Korean auto manufacturers export to the Australian market their low-price cars, 4 WDs and vans for the last two decades but they never chose to manufacture in Australia.

2) Nissan Motor Company Limited marketed its products under the global brand name of Datsun until 1983. In Australia the company also marketed its cars under the badges of the local subsidiaries of Ford and General Motors which is no longer the case.

3) The final Nissan models produced in Australia were Skyline and its four-cylinder version named Pintara.

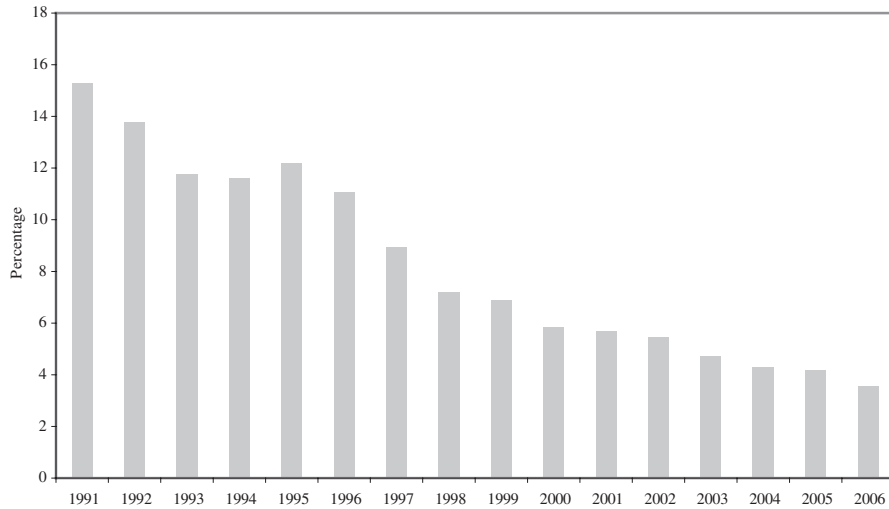
4) Previously data sets have been published with different content coverage. In the East Asian Analytical Unit (1997) study Japanese foreign investment in Australia as of 30 June 1995 was discussed by using data sets from a 1996 ABS study. Drysdale and Farrell (1999: 4–6) also discuss 1995 Japanese FDI levels by using the data from Japan’s Ministry of Finance Annual Report of the International Finance Bureau.

5) See for example two major official surveys of Japanese firms in Australia which also did not have any financial data on the firms studied. The 1996 survey is titled *The Contribution to Employment and Exports by Japanese Companies in Australia* (Federation of Japan Chambers of Commerce and Industry in Australia et al. 1997). The 1999 survey is titled *Second Survey of the Contribution to Employment and Exports of Japanese Affiliated Companies in Australia* (Federation of Japan Chambers of Commerce and Industry in Australia et al. 2000).

6) This decline in Japanese foreign investment can be considered in the broader context of the decline in Japanese foreign investment around the world.

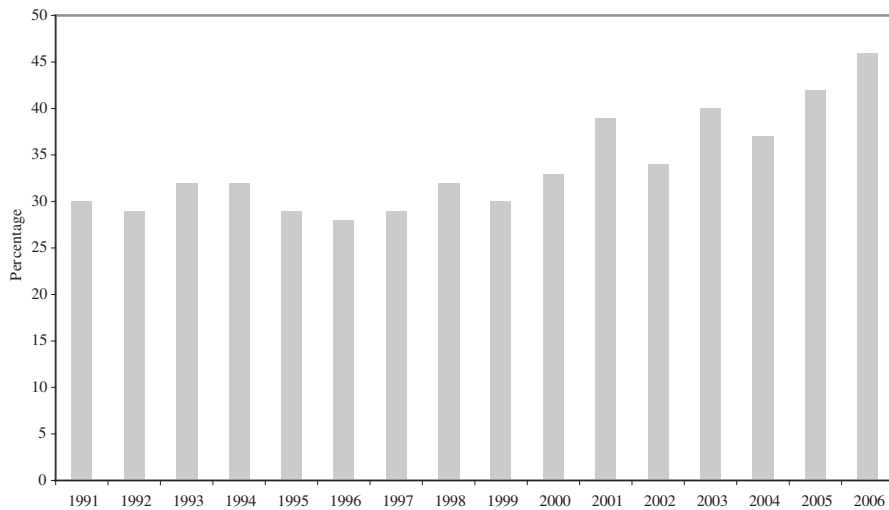
shrinking (Figure 1). While Japan's share of total foreign investment has been declining in the period under consideration<sup>7)</sup> this trend is the result of the broad changes in the market structures of

Figure 1: Japan's share of foreign investment in Australia (%)



Data Source: ABS 5352.0 (2007)

Figure 2: Japanese direct investment's share within total Japanese foreign investment in Australia (%)



Data Source: ABS 5352.0 (2007)

7) Since 2007 there were two major acquisitions of Australian companies by a Japanese multinational. In August 2008, Japanese company Kirin Holdings purchased Dairy Farmers for A\$910 million (AAP 2008). In 2007, the same company acquired for A\$2.8 billion, Australian dairy and fruit juice producer National Foods (AAP 2007: 1, ABC Rural 2007: 1). In the same year Kirin Holdings also acquired Tasmanian brewer James Boag and Son, for A\$325 million, through Lion Nathan which is a firm that is majority owned by Kirin Holdings (Reuters 2007: 1).

both Japan and Australia. Despite this decline of Japanese foreign investment in Australia, the direct investment component of the total Japanese foreign investment has been on the rise (see Figure 2). That is, Japanese foreign investment is forming increasingly smaller share of the total foreign investment but more of it is in direct investment form as Figure 2 shows. Australian Bureau of Statistics does not identify the companies or the sectors in which they invest. Still, in broad terms direct investment entails manufacturing investment.

In 2002–2006, the A\$ value of Japanese foreign investment at ‘current prices’ has remained at similar levels while foreign investment from all other sources increased markedly. As total foreign investment went up from A\$906,424 million (in 2002) to A\$1,439,974 million (in 2006), Japanese foreign investment increased from A\$49,494 million to merely A\$51,046 million (ABS 5352.0 2007 *time series data*). The end result of these processes is that Japanese foreign investment forms a much reduced percentage of the overall foreign investment in Australia. As discussed below the government is looking at proposals of a substantial cash injection into the automotive manufacturing sector. Especially the government spending on ‘the Green Car Innovation Fund’ can substantially benefit a high-tech manufacturer like Toyota Motor Corporation. All this may bring in new Japanese investment in Australia’s manufacturing, which is precisely why it is useful to discuss this topic. The below discussion here will focus on Toyota Motor Corporation Australia and Mitsubishi Motors Australia Limited after introducing the outlines of the current government auto industry assistance scheme and the one which is proposed for the near future.

### **The Automotive Competitiveness and Investment Scheme and the Global Automotive Transition Scheme**

The election of November 2007 brought the Rudd Labor government to power. Rudd and his team had expressed an acute interest in the overhaul of the relationship between government and the local manufacturing sector before the election. The Rudd Labor government began promoting the view that Australia can be a better export performer with appropriate state assistance in the form of export market grants (see Simon Crean Press Release 2007 b). The official emphasis appears to have shifted to export performance rather than market performance.<sup>8)</sup> But the new government made it clear that the free trade agreements signed by the Howard coalition government will remain in force (Sky News Sunday Business 2008: 2). Hence the assumptions behind the ideal of free trade in a global market are not debated at all. At the same time the Labor government argues that Australia’s export competitiveness can be lifted by state spending on infrastructure projects (including a nation-wide broadband network), school education and industrial skills training (Simon

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8) Crean states that government policy mechanisms are necessary when there is market failure (Simon Crean Press Release 2007 c). This may be interpreted as a Keynesian statement.

Crean Press Release 2007 d). This is what Trade Minister Crean calls ‘the whole of government approach’ after years of low levels of investment in ‘skills retention rate’ and ‘the nation’s infrastructure’ under the former government (Sky News Sunday Business 2008). This ‘the whole approach of the government’ perhaps also can be described as a multi-faceted market intervention through public spending.

The Rudd Labor government, not long after gaining office, announced plans for a new financial assistance scheme for the car industry pending the results of a major review.<sup>9)</sup> In ‘an early indication of cooperative federalism’, Federal Trade Minister Simon Crean, responsible for the manufacturing sector, stated in December 2007 that the government would conduct a broad-ranging review of the car industry with a view to increase exports (Simon Crean Press Release 2007 a).<sup>10)</sup> In 14 February 2008 the government announced ‘a comprehensive review of Australia’s automotive industry’ (Kim Car Press Release 2008). *Terms of Reference for the Review of the Australian Automotive Industry* included ‘evaluation of the key outcomes of the Automotive Competitiveness and Investment Scheme’ (Department of Industry, Science and Research 2008 b). Hence, as part the new government’s economic initiatives, the motor vehicle manufacturing industry in Australia was put under two federal reviews simultaneously. The first one was the Review of Australia’s Automotive Industry headed by the former Victorian Premier Steve Bracks (Department of Innovation, Industry, Science and Research 2008 a). This was finalised in August 2008. The second is the industry assistance modeling review carried out by the Productivity Commission (Kim Carr Press Release 2008).

The former Howard coalition government’s motor vehicle manufacturing industry assistance package, the ACIS<sup>11)</sup> was announced in the May 2001 budget (the scheme began in 2001 and was reviewed in 2002). The scheme was an example of how foreign multinational motor vehicle makers respond to domestic spending ‘encouragement’. It is difficult to see how car manufacturing could have existed without such measures.

The ACIS, from 2010 onwards will be replaced with a new scheme. So what is the new blueprint for state intervention in the market? The 2008 *Review of Australia’s Automotive Industry Final Report*, states that, between 2010 and 2020, the motor vehicle manufacturing industry should be assisted by the Global Automotive Transition Scheme [GATS] which will complement the Green Car Innovation Fund (*Review of Australia’s Automotive Industry Final Report* 2008: 98). If

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9) The former Howard coalition government had also plans for a review in 2008.

10) The new government has been promoting the view that Australia can be a better export performer with appropriate state assistance (see Simon Crean Press Release 2007 b).

11) Past federal government auto industry schemes included the Motor Industry Development Plan in the 1980s (‘The Button car plan’, named after federal Minister for Commerce, Trade and Industry Senator John Button, under the Hawke Labor government). This plan sought to instigate co-operative manufacturing between different auto makers in Australia. The scheme sought to reduce the number of locally made models from thirteen to eight to achieve intra-industry consolidation.

enacted, the GATS would provide A\$1.5 billion in assistance, to the firms in the automotive sector between 2010 and 2015. From 2016 to 2020 the government may provide another A\$1 billion. The Green Car Innovation Fund will pay out A\$500 million from 2009 onwards over a five year period with the possibility of paying out a further A\$500 million (*Review of Australia's Automotive Industry Final Report*: 98). The new system will provide 5 per cent (down from 10 per cent) tariff protection for the automotive industry from 2010 onwards (*Review of Australia's Automotive Industry Final Report* 2008: 97). Hence, the existing tariff reduction program is still going ahead.

The output of the remaining three carmakers (together with their local suppliers) form the biggest part of the manufacturing sector in Australia. In 2004 the car industry was worth A\$20 billion and 139,000 out of 274,000 vehicles that were manufactured in Australia were exported (Invest Australia 2005: 1).<sup>12)</sup> In 2006<sup>13)</sup>, the value of Australian motor vehicle exports was A\$4.86 billion which consisted of A\$3.07 billion from motor vehicle exports and A\$1.78 billion from motor vehicle component exports (Department of Industry, Tourism and Resources 2007 d: 1). By early 2007, the industry's employee numbers were 73,100 (7% of total manufacturing employment), and the industry accounted for 10 per cent of the A\$60 billion of the total value added manufacturing and 1 per cent of Australia's gross domestic product (Department of Industry, Tourism and Resources 2007 c: 23).<sup>14)</sup> However, the value of the A\$ has been on the rise and motor vehicle manufacturers have frequently complained about it since late 2006. MMAL stated this as a factor in its decision to shut down production in Australia in 2008 (ABC Midday News 2008).<sup>15)</sup> The challenge for the remaining local manufacturers is to remain competitive in the face of cheaper imports from subsidised overseas producers. In their effort to remain viable, local car manufacturers have increasingly procured supplies from overseas and pushed many Australian supply manufacturers, mainly small-to-medium businesses, to absorb unsustainable levels of costs, and this has eventuated in bankruptcies (Wilson 2005 b: 17).

The ACIS led to new foreign investment in the early 2000s. It guaranteed the car industry protection worth A\$10 billion and subsidies equalling A\$4.2 million for a ten-year period. The scheme

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12) By contrast, in 2002, the auto industry turnover was worth A\$17 billion and it employed over 54,000 people (17,000 in vehicle assembly and 30,000 in component production) and exported 100,000 cars (around 30 per cent of the local production) (Productivity Commission 2002 b: 20).

13) The sources that are quoted on auto industry are not published regularly. As a result not all types of data are published every year.

14) The reported number of employees in this sector fluctuates frequently. As of November 2005, the industry was reported to be employing 81,000 people (Department of Industry, Tourism and Resources 2007 a).

15) In the early 2000s when rumors were rife that MMAL would soon shut down manufacturing in Australia, there was some suggestion that Daimler Chrysler AG, then-Mitsubishi Motor Corporation Ltd's major shareholder, would purchase the MMAL production facilities to manufacture jeeps for the four-wheel-drive market in Asia (Jiji 1999 a: 12). It was also reported that Chrysler Jeep planned to build vehicles in MMAL's Adelaide plant by sharing the (now superseded) Magna platform (McKay 2003 b: 1). From September 2007 onwards (till the March 2008 shutdown) Mitsubishi Motor Corporation used to own 100% of Mitsubishi Motors Australia Limited (MMAL).

has made available A\$57 million net each to General Motors Holden (GM Holden), TMC Australia, Ford Motor Company of Australia and MMAL per year until 2015 (Marris 2002 b: 4). Another A\$2.8 billion was allocated to the ACIS for production and investment by vehicle producers and investment by component producers. This assistance, spread over five years, attempted to shore up labour-intensive industries in regional Australia (Knight 2002: 23). Although somewhat modest when considered in annual terms, in gross terms, this meant a 14/4 ratio of federal funds to private investment under the present arrangement, without taking into consideration the value of the ongoing concerns with paid-up capital (Marris 2002 b: 4). State interventions in the Australian market co-exist with the official neo-liberal orthodoxy. The Scheme is something of a limited solution, as the problem it is trying to alleviate is not limited to the motor vehicle manufacturing industry but is the outcome of the overall market structure in Australia. One shortcoming became apparent in different periods in the last decade when the value of A\$ rose which meant the exporters in motor vehicle manufacturing industry lost market share overseas.

The ACIS commenced in January 2001 and ‘was initially to run until December 2005’, but in December 2002 a further assistance budget was announced and the life of the scheme was extended ‘until (at least) 2015’ (Productivity Commission 2004: 3.19). However, as discussed above, the 2008 *Review of Australia’s Automotive Industry Final Report* states that from 2010 the Global Automotive Transition Scheme will govern the motor vehicle manufacturing industry.

In 2001–2005 the ACIS provided A\$2.8 billion of assistance to the Australian motor vehicle manufacturing industry and an estimated additional A\$4.2 billion was made available (Department of Industry, Tourism and Resources 2007 a: 1). Tariffs on motor vehicle imports have been reduced every single year in the last decade (see Table 1 below). From January 2000 to December 2004 tariffs on imported new passenger motor vehicles were 15 per cent. From 1 January 2005 they dropped to 10 per cent, where they will stay until 2010 (Productivity Commission 2007: 3.16). ‘Automotive tariffs’ will be reduced to 5 per cent in 2010 and will remain at that level until 2015. This was reiterated by the 2008 Review of Australia’s Automotive Industry Final Report (2008: 97).

In December 2006 motor vehicle manufacturers and

Table 1: Auto industry tariff rate reductions 1990–2010<sup>16)</sup> (%)

Year	Tariff percentage
1990	40
1991	37.5
1992	35
1993	32.5
1994	30
1995	27.5
1996	25
1997	22.5
1998	20
1999	17.5
2000	15
2005	10
2010	5

Data Source: Productivity Commission (2002 b: 31, 2007: 3.16), *Review of Australia’s Automotive Industry Final Report* (2008: 97).

16) The value for 2010 is a projection as of August 2008.

their suppliers requested a tariff freeze from the federal government (*The Age* 2006 a: 1). However they were told by the former Treasurer Peter Costello that they had to 'cure their own ills' (*The Age* 2006 b: 1). The former federal Finance Minister Minchin (of the Howard coalition government) indicated, in February 2007, that the current levels of tariffs (10 per cent) would be frozen if the 2008 Howard coalition government review [that was planned at the time] found that the car industry cannot cope with further loss of tariff protection (Murphy 2007: 1).<sup>17</sup> Tariff freeze requests from motor vehicle and motor vehicle-parts manufacturers continued. On the eve of the 2007 federal election Premier John Brumby of the state of Victoria (and Premier Mike Rann of the state of South Australia) expressed support for freezing tariffs on car and car parts imports as Toyota Motor Corporation threatened to shut down manufacturing in Australia in the face of the continuous rise in the value of the A\$ that made exports more expensive (Davis and Newman 2007: 1). Rann especially supported the idea that the tariff freeze should not even be debated till 2015 given that his state, South Australia, lost thousands of jobs in the last decade (Walker and Faulkner 2007: 1). The following year MMAL quit production in South Australia. GM Holden's exports to the USA also suffered as the export deal was signed when the A\$ was US 73 cents which by the end of 2007 became US 90 cents (Walker and Faulkner 2007: 1).<sup>18</sup>

Before it lost the November 2007 election, the Howard Coalition government's official line was that its tariff policy would stay on course and there would never be a return to 'protectionism' (*The Age* 2007 a: 1) even though there was a clearly visible and continuous decline in the manufacturing sector. *Review of Australia's Automotive Industry Final Report* shows that there is no way of sustaining local production without public investment in the market. The local motor vehicle manufacturing industry, which does not have the economies of scale to manufacture a large range of vehicles, is oriented towards manufacturing large size cars. The very fact that economies of scale do not exist may be interpreted as sufficient evidence for the necessity of compensatory market intervention.

The demand for smaller vehicles can only be fulfilled by imports. It is these smaller-sized and hence more environmentally friendly imported cars that flood the Australian market thanks to low tariffs (Murphy 2007: 1). While Australia's tariffs for car imports were being reduced in the 1990s, in some Asian countries tariffs on imports have been, at times, as high as 120 per cent (Sturrock 2002: 20). The four car makers' request in December 2006 for a tariff freeze specifically asked the federal government for protection against 'cheaper Asian produced imports' (Murphy 2007: 1). The continuous lowering of tariffs has contributed to the shrinking of the size of the local car industry

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17) This was right after GM Holden announced that it would cut 600 jobs in South Australia, the home state of the Finance Minister (Murphy 2007: 1).

18) Motor vehicle and motor vehicle-parts manufacturers in Australia are hurt by the soaring Australian dollar and the new manufacturing sites in China with large-scale, high-tech plants and highly skilled, stable and lower-paid workforces (Shanahan 2007: 1).



over the last decade.

The motor vehicle manufacturing industry is increasingly challenged by imports. Japanese car manufacturers in Australia began to lose on price competitiveness in the mid-1990s (at the same time as the exit of Nissan Motor Company (Australia) Pty Ltd)<sup>19)</sup>, and again from 2000–2002 as the Australian dollar kept losing value. The manufacturers had to pay more and more for the components they had to import. It was after that, in May 2004, that MMAL announced the closure of one of its two engine plants in South Australia where the company had long been based. Finally, MMAL shut down all manufacture in March 2008. What is the nature of this slow decline? The paper considers this question next.

### **Motor vehicle manufacturers and the continuous shrinking of the sector**

GM Holden, TMC Australia and Ford Motor Company of Australia (and MMAL until March 2008) owe their presence in Australia to the judgments of their parent companies, and they form only a small part of their parents' global plans (Autopolis 2004: 6).<sup>20)</sup> These multinational motor vehicle makers started manufacturing in Australia to supply the small local market protected behind tariff barriers, and presently remain in Australia although in this post-tariff environment the future is uncertain. In 2007, Toyota Motor Corporation Australia manufactured 45 per cent of the total local production volume and the rest was split between GM Holden, Ford Motor Company of Australia and MMAL (Toyota Motor Corporation Australia 2008: 11).

At its peak in the early 1970s, there were nine multinational motor vehicle makers that manufactured in Australia: Ford Motor Company of Australia, GM Holden, International Harvester, Chrysler LLC, Nissan Motor Company (Australia) Pty Ltd, TMC Australia, MMAL, Volkswagen and British Leyland Motor Corporation (ESCAP 2002: 21). Australia also hosts foreign companies that assemble 'large trucks' that are crucial for transport logistics networks of Australian industries. In 2005 Mercedes, Volvo and Scania assembled 838 units between them (Department of Industry, Tourism and Resources 2005: 25). As of 2008, Iveco, Volvo (which also assembles Mack) and Kenworth assemble in Australia and this, in industry-wide terms, translates into approximately 10,000 jobs (Truck Industry Council 2008: 1–3). In the nation's automotive history, there were also several local firms that assembled cars and components in Australia such as the Harnett Organisation that began assembling Nissan Bluebirds in 1966 at the Pressed Metal Corporation Plant in

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19) After shutting down its Australian plant in 1996, Nissan Motor Company Limited (the mother company of Nissan Motor Company (Australia) Pty Ltd) became a major exporter to Australia, utilising its already existing extensive commercial facilities. Renault S.A. relaunched its imports into Australia using the same facilities (*The Japan Times* 2000 c: 10).

20) It should be noted that GM Holden Melbourne facilities constitute an important design centre for GM's global production of rear-wheel-drives (Porter 2007: 5).

Sydney (see [www.nissan.com.au](http://www.nissan.com.au)). Much earlier, in 1913 Holden and Frost began fitting bodies to different types of carriages, and they were bought by General Motors in 1931 (see [www.media.gm/aus/holden](http://www.media.gm/aus/holden)).

The industry has not been doing well as tariff reduction continues. For example, 2005 was a year of record sales but the four carmakers barely broke even (Porter 2005: 21). Motor vehicle manufacturing worldwide is dominated by multinational manufacturers even though some developing nations' firms are increasingly challenging this with their very large markets and extremely low production costs, as in the case of low-price Tata Nano model from India. In the developed world, the motor vehicle manufacturing sector accounts for almost 11 per cent of GDP, and it supplies one in nine jobs in the global jobs market (Drive 2004 b: 1). The global motor vehicle manufacturing industry is able to exist without manufacturing in Australia but the reverse is not necessarily true. The motor vehicle and motor vehicle-parts manufacturing sector makes a significant contribution to the Australian economy (McDonald 2003 b: 18). At the same time the global auto manufacturing is a gigantic industrial sector that significantly contributes to global petrol consumption and the consequent greenhouse emissions. Australia is fourth, per capita, in global contributions to the burning of fossil fuel (ABC Midday News 2004).

From the early 2000s onwards, Australia's motor vehicle manufacturing industry had new investments from the four carmakers in response to the ACIS Scheme. New Japanese foreign investment included A\$1 billion from the Mitsubishi Motor Corporation (MMC), headquartered in Tokyo and Kyoto, in [now defunct] MMAL (McDonald 2003 a: 18). There was a A\$500 million new investment from Toyota Motor Corporation (TMC) [headquartered in Nagoya, Aichi] and another A\$1 billion from Ford Motor Company [headquartered in Dearborn, Michigan] that formed the basis of the continuance of the motor vehicle manufacturing industry (McDonald 2002: 4). Ford Motor Company of Australia, which began manufacturing in Australia in 1925, had revenues of A\$3.45 billion in 2007 and in the same year its total capital expenditure levels were at A\$7.2 billion (Ford Motor Company of Australia 2008: 8).

GM Holden rolled out its plans for a new A\$400 million engine plant in Melbourne and a new A\$460 million plant in Adelaide which were both new foreign investments decided by General Motors [headquartered in Detroit]. Over the last five years GM Holden invested more than A\$3.6 billion in Australia and earned A\$1.56 billion export revenue in 2007 (GM Holden 2008: 4). In October 2002, GM Holden purchased a 42.1 per cent stake in Korea's Daewoo for a half a billion dollars (after the 1997 Asian currency crisis that almost bankrupted the Korean carmaker), thus effectively linking up with the rest of the GM-Daewoo global operations (McDonald 2002: 32). As a result, GM Holden has moved from being a local manufacturer at the mercy of the tariffs policy to become a regional car production investor (McKay 2003 a: 1). In August 2005, GM Holden announced up to 1400 lay-offs in its Elizabeth plant near Adelaide, citing falling sales, rising costs

and cheaper competition. One thousand of these lay-offs were the jobs that had been created in January 2003 to produce the top selling Commodore model (Wilson 2005 a: 11). From 2008 onwards, GM Holden plans to increase its production in its Elizabeth plant in South Australia to 140,000 units, with 30,000 going to the USA market, 40,000 for the Middle East and the rest being sold in Australia and New Zealand (Porter 2007: 1). In June 2008 GM Holden had further lay-offs as its Fisherman's Bend [Port Melbourne] engine production facility closed down even though the 27 year old facility was quite internationally-oriented and had exported 136,000 engines in 2007 (Cooper 2008, Rennie 2008).

Currency fluctuations can also have a major effect. Motor vehicle manufacturers buy components in foreign currency, and they can absorb losses from exchange-rate fluctuations for only so long before the prices have to go up (McKay 2003 c: 1). In fact it was the dollar fluctuations that led TMC Australia to seek local suppliers and to increase local content in the 1990s, and which later also led MMAL to rationalise and restructure its supplier networks (McDonald 2003 b: 18, Porter 2002 a: 33). MMAL cited the rising value of the A\$ as one of the reasons, alongside the lack of sufficient tariff protection, for its closure of its last manufacturing plant in Australia (ABC Midday News 2008). The year 2004 was characterised by job losses in MMAL, followed by the GM Holden lay-offs in 2005. The trend continued. The 2008 closure by MMAL also created a large pool of unemployed manufacturing workers (Carswell 2008: 3).<sup>21)</sup>

### **Mitsubishi Motors Australia Limited (MMAL)**

MMAL's manufacturing facilities in Adelaide were set up originally by Chrysler in 1966. Following the 1970s oil price hikes, Chrysler started manufacturing the four cylinder Mitsubishi Sigma models in Adelaide in 1978 under license. But in 1980, Chrysler LLC's manufacturing facilities in Australia was taken over by MMAL and Chrysler LLC brand was never again produced locally. A possible reason MMAL's Australian production survived in Australia into 2008 (far longer than Nissan<sup>22)</sup>) was because Mitsubishi Motor Corporation (MMC) was in a tie-up with Daimler Chrysler for long period of time.<sup>23)</sup> This allowed the company some breathing space in its Australian op-

21) Elsewhere the situation is also grim for auto manufacturers. In the USA, economic forecasts show that a massive 50 per cent of the domestic motor vehicle-parts manufacturers will be out of business by 2015 as a result of foreign competition (Bloomberg TV 2005: September 9). In October 2005, the USA's largest auto parts and components manufacturer, Delphi, filed for bankruptcy.

22) Nissan announced the start of its an alliance with Renault S.A. in 1999.

23) Daimler Chrysler sold its final 12.4% stake in Mitsubishi Motor Corporation (MMC) of Japan on 11 November 2005 at a loss of US\$800 million (BBC News 2005). MMC as a result became 100% Japanese owned, again. From 2001 onwards Mitsubishi Motor Corporation of Japan owned 100% of Mitsubishi Motors Australia Limited (MMAL) which was an increase from its 50% ownership in 1992 when Mitsubishi Corporation (MC) [which is not the automotive manufacturer but the Japanese conglomerate] owned the other 50% of MMAL ([www.mitsubishi-motors.com.au](http://www.mitsubishi-motors.com.au)).

erations. MMAL went through several upheavals in its South Australian operations prior to its 2008 exit.

The capacity utilisation rate of the Adelaide plant in the late 1990s was already below profitability, producing only 35,000 units annually despite its 70,000-unit capacity (*The Japan Times* 2000 b: 14). The firm's overall performance in the Australian market was failing. In 1999, MMAL sold 67,000 cars in Australia (imports plus Australian-made), down from 81,000 in 1998 (*The Japan Times* 2000 b: 14). In November 2000, after several reports in the Australian and Japanese media since 1999, the corporation announced a possible closure of its Adelaide plant as a result of the Australian government's decision to cut import duties, a decision that meant domestically-made products were uncompetitive against imports (*The Japan Times* 2000 e: 10). However, following that announcement, MMC in Japan decided to raise its stake in the Australian subsidiary from 60 per cent to 80 per cent, by increasing the paid-up capital to A\$279.3 million. All of the 172.41 million new shares issued by MMAL were underwritten by Mitsubishi Motor Corporation (MMC) in Japan. This did not continue beyond 2004, however, and MMC began looking to other investors as Daimler Chrysler refused further 'bail-outs'.<sup>24)</sup>

MMC announced at its Tokyo headquarters on 21 May 2004 that it would close its Lonsdale engine plant in South Australia by late 2005 and lay off 700 people. The company also announced that its remaining car assembly plant in Adelaide may not have a future.<sup>25)</sup> The company's overseas operations, on the other hand, would henceforth focus on producing 4 WDs and sports cars. In Japan, MMC had several rescue packages over the years from its partner firm Daimler Chrysler, but in 2004 a similar rescue package did not eventuate (McKay 2004 b: 1). It was the withdrawal of Daimler Chrysler's support that led to the 2004 restructuring of MMAL which also cost the Lonsdale engine plant. In the 2000s MMAL had expanded in Australia while the market shrank and its mother company was looking to restructure. Following the announcement of the ACIS Scheme, MMAL outlaid A\$1 billion in manufacturing investment and overhaul of the Adelaide plant, A\$230 million of which was to go to a new R & D facility at Tailem Bend, near Adelaide (McDonald 2003 a: 18). When the 2004 restructuring began, of the new A\$1 billion commitment from MMAL, A\$200 million was already invested in the Australian market (McGuire 2004: 6).

The Lonsdale shutdown was the beginning of the final chapter for MMAL. The federal government provided an A\$15 million package to retain the Lonsdale workers. This was described as too little too late by the AMWU, which also argued that these manufacturing workers were too

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24) In 2005 MMC became 100% Japanese owned (again) after having been co-owned (not necessarily at the same time) by Daimler Chrysler, Tokyo-based Phoenix Capital, the US based Goldman Sachs and JP Morgan.

25) The corporation sacked 30 per cent of the office staff in Japan and was planning to move its headquarters from Tokyo.

highly qualified to be easily re-employed and that similar work did not exist in the State.<sup>26)</sup> The AMWU stated that the years of lobbying the government for manufacturing assistance had been useless (SBS World News 18 : 30 2004 a, ABC 19 : 00 News 2004 a). After the closure of Lonsdale engine plant, the federal government reaffirmed that A\$35 million<sup>27)</sup> in assistance remained available to MMAL in 2004–2005 for the establishment of an international research and development centre (Productivity Commission 2004: 3.20).<sup>28)</sup>

Following Lonsdale's closure, MMAL focused on the rest of its business. The firm completed the construction of its new assembly facility with multiple manufacturing applications, which at the time of its completion was one of a kind in the Southern Hemisphere (ABC 7 : 30 Report 2004). It was a high-tech plant. By 2005, A\$600 million was invested in Tonsley Park manufacturing facility's retooling (see [www.mitsubishi-motors.com.au/company/history](http://www.mitsubishi-motors.com.au/company/history)).<sup>29)</sup> However, in 2008 all was over. After losing A\$1.5 billion between 1998 and 2007, MMAL announced in February 2008 that it would totally quit manufacturing in Australia (Carswell 2008: 3). By the time of its announcement, MMAL was selling merely 1,000 units of its 380<sup>30)</sup> model per month, which had cost the company A\$600 million in investment to develop (Carswell 2008: 3).<sup>31)</sup> MMAL's closure in 2008 destroyed jobs in the supply-chain across Australia, as well as leading to a loss of manufacturing know-how and work skills.<sup>32)</sup>

Interestingly, the potential benefits from the free trade agreement between Australia and the USA did not persuade MMAL that it was worth maintaining their investment in Australia. The company had exported to the North American markets in the past.<sup>33)</sup> The potential increase in export volumes appears to have been seen as insufficient to justify the cost of maintaining the pro-

26) For a discussion of the inability of highly-skilled manufacturing sector employees to find similar work, and their eventual employment in no-skill or low-skill work or joining the ranks of the long-term unemployed in Australia, see Beer and Thomas (2007), and Weller and Webber (2001).

27) In the aftermath of the Lonsdale closure, the total spending package financed by the federal government was A\$50 million that included funds for 'investment facilitation and structural adjustment in South Australia, particularly southern Adelaide' (Productivity Commission 2004: 3.19).

28) The government estimates state that, at the production levels of 2004, MMAL could expect to receive around A\$300 million in assistance from the government's extension of the ACIS beyond 2006 (Productivity Commission 2004: 3.20). Due to its continuous losses the company chose to exit manufacturing in 2008.

29) There was one further development. Hirotec, a Japanese company, began investing A\$70 million, in August 2004 (three months after MMAL's announcement of the closure of Lonsdale), in a manufacturing plant in South Australia for the production of car doors, bonnets and boot lids (Macfarlane 2004 b). This new venture was granted major project facilitation (MPF) status by the federal government.

30) Mitsubishi 380 was a replacement of Mitsubishi Magna model which has been marketed under Diamante badge in other countries. MMAL, for a decade, used to also manufacture the Colt model.

31) When MMAL exited manufacturing in Australia it pledged to return A\$35 million.

32) For example, the 2005 closure of the company's South Australia engine plant reportedly cost 1,600 jobs elsewhere in South Australia, and 600 in Melbourne in related supplier businesses (ABC 19 : 00 News 2004 a).

33) According to the Australia-United States Free Trade Agreement Fact Sheet 12 on car manufacturing, there will be no customs duties payable on cars made in Australia from the day the agreement enters into force.

duction facility in South Australia, despite the fact that it was recently re-tooled and upgraded. MMAL never had a major market share, in comparison with the other three car-makers but it used relatively higher value-added engineering capacities for its small production volumes (McGuire 2004: 6).<sup>34</sup> MMAL, like TMC Australia, was export-oriented but to a much lesser extent. When mother company Mitsubishi Motor Corporation broke away from Daimler-Chrysler, MMAL lost important overseas dealership contacts which meant it became less able to penetrate the USA and EU markets. Until the break up it had been on more competitive ground. Overall, MMAL had periods of strong performance.

In 1996 MMAL was at a high point and shipping 180,000 V-6 engine blocks to Japan with solid plans to increase this to 380,000 [this was the year Nissan Motor Company (Australia) exited manufacturing] (Sedgwick 1996: 27). The low value of the A\$ at the time was a factor in this MMAL venture. Exports were priced competitively while the A\$ was low. This success did not extend into the 2000s as the domestic market in Australia was flooded with cheaper imports. The value of the A\$ was generally on the up. The MMAL engine plant was shut down in the 2004–2005 restructuring which followed the period of rise in the value of the A\$. In 2004, Magna model exports to the USA were around 4,500 down from 16,000, and the Australian sales were down by 8,000 to 22,000 a year, a far cry from the company's 10.1 per cent Australia market share in 1995 (McKay 2004 b: 1). The company's total exports of 24,000 units out of Adelaide in 2002 fell to 10,000 units in 2003 and were falling further in 2004 (McGuire 2004: 6). When MMAL quit Australian production in 2008 it was selling less than 12,000 cars a year while it needed to sell three times as many just to remain afloat (Hepworth 2008: 21).

Japan's global motor vehicle manufacturing suffered a set back in the late 1990s with the Nissan Motor Company Ltd's financial troubles. This was a decline from the situation in 1980, the year global Japanese car production volumes overtook that of US firms (Drive 2004 a: 1). With the emergence of foreign carmakers in China's cheap labour market environment, and the return of the South Korean carmakers from the 1997 Asian crisis, the remaining MMAL plant in Adelaide was the weakest link in the Australian manufacturing chain for some time. MMC repeatedly talked of withdrawing investment from Australia (SBS News at 18 : 30 2004 a, ABC 19 : 00 News 2004 a). MMAL, both as a producer of cars and as a customer of suppliers, represented a major proportion of South Australia's industrial base and was very important to the state's economic fortunes (McKay 2004 b: 1). When MMAL shut down the loss to the state's economy was significant.

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34) This was the case in its [then] new established assembly line (ABC 7 : 30 Report 2004).

### **Toyota Motor Corporation Australia (TMC Australia)**

TMC Australia has been a major car manufacturer in Australia. Since 1963 it manufactures cars in Australia and its engine manufacturing started in 1978. The company has made inroads into government fleet purchases in Australia with its second generation hybrid model, 50 per cent of which it sold to government in 2003–2004 financial year (McKay 2004 a: 1). TMC Australia is, like MMAL, a 100 per cent Japanese-owned manufacturer in Australia. TMC Australia exported 59,200 cars in 2001 and imported 100,000 from its Japan and Thailand plants. In 2003 TMC Australia exported 66,000 units of the Australian-made Camry model to twenty countries from its Altona plant, bringing in A\$1.4 billion in ‘export revenue’ (*V Facts* 2004: 1–2).<sup>35</sup> The company’s total Australian sales revenue in 2004 was A\$7.42 billion (the sum of imports from Japan and local production) with a net profit of A\$76.6 million (Porter 2005: 21). In 2006, the company exported 80,000 motor vehicles from its Altona, Melbourne plant to 20 countries that brought A\$1.5 billion revenue, and projects to export 90,000 units in 2007 (TMC Australia 2007).

TMC Australia has been a successful manufacturer in Asia and particularly in ASEAN markets. It has been able to use the intra-ASEAN export credits to its advantage by dividing up component production among host ASEAN countries. Moreover, it has been able to increase its market share and stay ahead of its European and US rivals with relatively little effort (*The Japan Times* 2000 d: 12).<sup>36</sup> TMC Australia, and to a lesser extent MMAL, have been exporting out of Australia. They are also well-linked with the global operations of their parent companies.<sup>37</sup>

TMC Australia has been also a major importer of models into Australia in all ranges, from trucks and utes to luxury cars. TMC Australia’s two Australian-produced models, Camry and Avalon (discontinued and replaced by the locally designed and manufactured Aurion which is based on the Camry platform), have local value-added parts. By 2002 TMC Australia had reduced components sourced from Japan, and was instead using Australian industry for alternative components in a bid to make the Altona plant ‘a yen-free zone’ (Asano 2002: 24). However, by 2004–2005 it was back to using overseas suppliers that underquoted Australian suppliers to reduce costs. In 2002–2003 MMAL also overhauled its supplier relations to integrate them into its operations as it outsourced the manufacture of major components, 41 per cent of which come from Victoria and

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35) TMC Australia (and MMAL till March 2008) represents a large part of the high-end manufacture exports from Australia.

36) In contrast, GM, Ford and Daimler Chrysler all had to get used to the Asian competition (*Harbour Report* 2000: 1–2). Ford Motor Company of Australia and GM Holden reportedly compel their Australian suppliers to reduce costs by 30 per cent to match the Chinese manufacturers’ prices (Kohler 2004 a: 21).

37) MMAL often had to get its headquarters in Tokyo to deny rumours of an imminent shutdown of the remaining Adelaide plant (see McGuire 2004: 6).

48 per cent from South Australia (McDonald 2003 a: 18).<sup>38)</sup> However, with the 2008 shutting down of the final MMAL engine plant all of the restructuring in the 2000s came to very little.

The local producers are concerned about increasing overseas competition and they worry about the future as the tariffs are steadily reduced. While the 2008 Review of Australia's Automotive Industry was under way in 2008, the motor vehicle manufacturers kept lobbying the government on the benefits of maintaining tariff levels on a par with trading partners, in conjunction with support mechanisms like the ACIS Scheme (See the submissions from Denso Australia Group (2008), Toyota Motor Corporation Australia (2008), Ford Motor Company of Australia (2008), General Motors Holden (2008)). The ACIS has underwritten the individual car-makers' own investments for new research and development facilities which sustained local jobs (McDonald 2002: 4, Marris 2002 a: 4).<sup>39)</sup>

As can be seen from the above Table 2 in 2001/2002, which was the year when the ACIS commenced, automotive companies' research and development investment grew by 28.5 per cent from the previous year. By contrast, in 2004/2005, the annual growth of automotive industry research and development was only 1.1 per cent (car tariffs dropped by 5 per cent on 1 January 2005). Private investment seems to have increased when government intervened in the market. When the tariff protection of the market was weakened, private investment growth appears to have declined. This possible correlation should be the focus of future studies.

## Conclusion

The successful expansion of exports of the motor vehicle manufacturing industry is not related to the tariff reductions, as claimed by neo-liberals (Jones 2002: 56). This is also apparent in the way in which research and development investment increased with public investment in the market. Tariffs levels are being reduced but public investment continues. Is public spending necessary if all that is needed is a continuous decrease of the tariff levels, as Jones asks (2002: 56). This comment

Table 2: Automotive industry R & D expenditure annual growth in Australia 1996–2005 (%)

Year	Annual growth percentage
1996/97	−1.5
1997/98	14.8
1998/99	−11.9
1999/00	9.9
2000/01	9.6
2001/02	28.5
2002/03	26.2
2003/04	15.3
2004/05	1.1

Data Source: Department of Industry, Tourism and Resources (2005: 38)

38) The company did this to counter the power of the unions of its suppliers' workers, who had been demanding guarantees of protection of member entitlements from company closures (McDonald 2003 a).

39) The automotive industry firms spent A\$7.2 billion on research and development in 2004–2005 (Department of Industry, Tourism and Resources 2007 d: 1).



is an accurate observation on the contradictory processes of reducing tariffs for a supposedly freer trade while carrying out public investment. The ACIS has allowed Australia to maintain the greater part of its national manufacturing base, its skilled workforce, its technological know-how, its payroll tax base, its export dollars and its thousands of related jobs in other sectors and many other tangible and intangible benefits that are not measurable by the curriculum of the neo-liberal economics textbooks. In contrast, tariff reductions only threaten to destroy the manufacturing base instead of making it competitive. Assistance schemes and free trade policies co-exist. Under neo-liberal rhetoric and practice, a mixture of monetarist and Keynesian ideas are utilised (Quiggin 2001 a: 26, 13). Of course, this 'mixture' does not eradicate the damage done by market deregulation. Assistance schemes such as the one discussed above are little rare islands of Keynesianism in a deluge of deregulation. It may be comforting to show that Keynesianism is still alive, after a fashion, but market deregulation is still the economic orthodoxy, despite lack of success for the manufacturing base and manufactured exports.

Tariff reductions under neo-liberalism has been raised repeatedly in 2006 and 2007 by both US (GM Holden and Ford Motor Company of Australia) and Japanese (TMC Australia and MMAL) motor vehicle manufacturers as the reason why Australia's largest value-added manufacturing sector faces trouble, especially with the continuous rise in the value of the Australian dollar. Future studies will determine whether these trends will continue. The verdict for now is that Japanese foreign investment, especially manufacturing investment in Australia, has been in a continuous decline under neo-liberal market governance, and that tariffs reductions are identified as one of the causes. Since late 2006, motor vehicle and motor vehicle-parts manufacturers, including the Japanese firms TMC Australia (and now-defunct MMAL) have sought, as seen also in their submissions to the 2008 Review of Australia's Automotive Industry, a tariff reduction freeze, a demand which was brought about partially by the continuous rise in the value of the Australian dollar that made exports to overseas markets more expensive.<sup>40)</sup> Such a freeze is likely to be resisted in some departments where neo-liberal mindset has a well established hegemony. As stated above, *Review of Australia's Automotive Industry Final Report* has recommended that 'automotive tariffs' should be reduced to 5 per cent in 2010, in line with the existing federal policy. It is now clear that from 2008 onwards auto manufacturers in Australia will enter a crucial phase as the federal government completes the formulation of its tariff and assistance policies for the sector's future.

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40) This is of course partially a result of another deregulation in the history of Australian market policy; the currency market which has to be the topic of another paper.

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