On the Frontier

Australia's policy approach to Foreign Direct Investment 1968-2004 as a case study in globalisation, national public policy and public administration

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Abstract

Since the latter half of the twentieth century patterns of economic flows and the deployment of systems of production have encouraged greater political and social integration between nation states. This phenomenon, called globalisation, has reinvigorated debate about the nation state as a mode of organisation, and created the conditions for an ongoing natural experiment concerning state adjustment. This experiment, while on a global scale, has led to different responses from national governments, as each grappled with how best to accommodate both domestic and international interests. One neglected aspect of analysis in these processes is the role played by national bureaucracy in state adjustment as a means to move with globalising pressures or to resist their impact.

This thesis presents a qualitative analysis of the interaction of one globalising process, foreign direct investment (FDI), and the workings of the nation state, as a means of assessing the way in which the national government has used regulatory processes and its bureaucracy to control FDI. An extended historical case study is used to examine changes in policy, regulation and the organisation of the national bureaucracy concerned with FDI in Australia. The period examined is from 1968 to 2004 enabling comparisons to be made across the experience of seven successive national governments (those led by prime ministers Gorton, McMahon, Whitlam, Fraser, Hawke, Keating and Howard) in the way they managed the domestic and international circumstances that impacted on FDI.

This thesis makes a contribution to the literature on the interaction of globalising processes, the nation state and the role played by national public bureaucracies where national and transnational interests intersect. In particular, this thesis identifies the national bureaucracy as a key agent for government in enabling and domesticating the processes of globalisation. This finding demonstrates that national bureaucracy is significant as both a facilitator and the inhibitor of processes of globalisation, and therefore is a key factor in understanding the issues of state adjustment in studies of globalisation.

Certificate of Authorship of Thesis

Except where clearly acknowledged in footnotes, quotations and the bibliography, I certify that I am the sole author of the thesis submitted today entitled:

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I further certify that to the best of my knowledge the thesis contains no material previously published or written by another person except where due reference is made in the text of the thesis.

The material in the thesis has not been the basis of an award of any other degree or diploma except where due reference is made in the text of the thesis.

The thesis complies with University requirements for a thesis as set out in http://www.canberra.edu.au/secretariat/goldbook/forms/thesisrqmt.pdf.

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Signature of Chair of the Supervisory Panel

Date: ……………………………..

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Acronyms

ABaA	Australian Bankers Association
ABrA	Australia Broadcasting Authority
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACPI	Advisory Committee on Prices and Incomes
ACTU	Australian Council of Trade Unions
AIDC	Australian Investment and Development Corporation
ALP	Australian Labor Party
AMC	Australian Manufacturing Council
AMIC	Australian Mining Industry Council
APAIS	Australian Public Affairs Information Service
APEA	Australian Petroleum Exploration Association.
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulatory Authority
APRC	Australian Prudential Regulation Commission
ASC	Australian Securities Commission
ASEAN	Association of Southeast Asian Nations

ASIC	Australian Securities and Investment Commission
ATO	Australian Taxation Office
AUSFTA	Australia–United States Free Trade Agreement
BACA	Department of Business and Consumer Affairs
BHP	Broken Hill Proprietary Company Limited
CAIL	Coal and Allied Industries
CBCS	Commonwealth Bureau of Census and Statistics
CER	Australian New Zealand Closer Economic Relations Trade Agreement
CLERP	Corporate Law Economic Reform Programme
COAG	Council of Australian Governments
COFT	Committee on Foreign Takeovers
CRA	Conzinc Riotinto Australia
EEC	European Economic Commission
EPAC	Economic Planning Advisory Council
EPACm	Economic Planning Advisory Commission
EU	European Union
FDI	Foreign Direct Investment
FIAC	Foreign Investment Advisory Committee

FIRB	Foreign Investment Review Board
FIC	Foreign Investment Committee
FTA	Foreign Takeovers Act
FTAs	Free Trade Agreements
IAC	Industries Assistance Commission
ICTs	Information and communications technologies
IDC	Inter-departmental Committee
IDD	Investment and Debt Division
IEPCG	International Economic Policy Co-ordinating Group
IMF	International Monetary Fund
ITR	Integrated Tourism Resort
ISC	Insurance and Superannuation Commission
LDC	Lesser Developed Country
L-NCP	Liberal-National Country Party Coalition
LNG	liquid national gas
MAI	Multi-lateral Agreement on Investment
MLC	Mutual Life and Citizens Assurance Co. Ltd.
MHR	Member of the House of Representatives
MFN	Most-favoured nation status

MNE	Multinational Enterprise
NAA	National Archives of Australia
NARA	Nippon-Australian Relations Agreement
NBFIs	Non-bank financial institutions
NCC	National Competition Commission
NCP	National Country Party
NCSC	National Companies & Securities Commission
NGOs	Non-government Organisations
OECD	Organisation for Co-operation and Economic Development
OPEC	Organisation of Petroleum Exporting Countries
PC	Productivity Commission
PJT	Prices Justification Tribunal
PM&C	Department of Prime Minister and Cabinet
PMO	Prime Minister's Office
PSA	Prices Surveillance Authority
RBA	Reserve Bank of Australia
RRT	Resources Rent Tax
SIC	Strategic Investment Co-ordinator

TNC	Transnational Corporation
TPC	Trade Practices Commission
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
USSR	Union of Soviet Socialist Republics
VDR	Variable Deposit Requirement scheme
WTO	World Trade Organisation

CHAPTER 1 - Introduction

In the heated debate surrounding globalization, its effects on governance are especially controversial. Remote authorities that are not democratically accountable lie at the core of many anxieties. Others fear a more far-reaching erosion of the nation state as a unit of governance (Kahler and Lake 2003: 412).

The genesis of this thesis was a Masters level research project examining the impact of Australia's policy on engagement with Asia on sub-national public policy in the mid-1990s (Sadleir 1996). The outcome of that research was the finding that nation states in the latter stage of the twentieth century appeared to be challenged in addressing the pressures of globalisation and had developed different ways of addressing such pressures. While the issues of globalisation have since been extensively examined (for example, Bhagwati 2004 de Vries 2001; Giddens 1999; Held, McGrew, Glodblatt & Parraton 1999; Mittelman 2002; Ravenhill 2005; Yergin & Stanislaw 2002) there has been little empirical examination of how national bureaucracy has been re-configured to accommodate such change (O'Toole & Hanf 2002, 161-164), apart from some initial work by Welch and Wong (1998; 2001) who attempted to directly link pressures of globalisation to change in the scope, scale and structure of national bureaucracy.

The limited nature of investigation to date is somewhat strange given the emphasis governments have placed on extensive public sector reform as a means of meeting the challenges of operating in a global economy. This thesis seeks to redress the lack of research and literature in this area by examining the significance of the national bureaucracy in the Australian government's efforts to deal with pressures of globalisation and, in particular, how the structure of Australia's national public administration has adapted, or been adapted by government, to accommodate global flows of capital.

The theme and hypothesis

Flows of capital through direct investment, both inwards and outwards, play an important role in national economies and contribute to greater interdependence between nation states (Thirlwell 2005: 8-22). While attention has been given to the political economy of direct investment flows (Kasper 1984; Pokarier 2000; Wheelwright 1963) much less has been given to the role of national bureaucracy in domesticating the benefits of greater exchange between national and international economies. This thesis tests the hypothesis that the way in which successive Australian governments have utilised the national bureaucracy as a key adaptive mechanism to regulate and control foreign direct investment provides evidence that nation states have the capacity to manage globalising pressures in the context of their own political objectives.

Nation states have had to contend with a range of globalising pressures in the latter twentieth and early twenty–first centuries. Such pressures include:

- the emergence in contemporary business activity of greater competition, and co-operation, between firms across national boundaries (Castells 1996 150-200; Dicken 2004, 13; Lutz 1996, 15-16);
- the willingness amongst advanced capitalist states to accommodate this exchange by removing barriers to the free flow of capital (Dicken 1998, 98); and
- the emergence of new domestic and international regulatory frameworks (Braithwaite & Drahos 2000: 3).

While the state is expected (Held et al, 1999, 8) to be transformed because it seeks to accommodate transnational commercial flows, the scope and scale of transformation in public governance is contested (de Vries 2001, 389-391; Conley & Wanna 2002, 55; Weiss 2005:350-351). Broadly there are two categories of views on implications for public governance: a strengthened role for executive government making greater use of more effective centralised controls through targeted, strategic interventions, or weakened executive government which makes greater use of decentralised network structures, adopting a contingent approach to change (Bell 1997, 5-6).

This thesis addresses these issues by examining the case of Australian experience with foreign direct investment (FDI) from 1968 to 2004[1]. FDI is broadly defined as follows:

> …an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy…in an enterprise resident in an economy other than that of the foreign direct investor… FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities. (UNCTAD 2005a: 1)

Countries and organisations vary their definitions of FDI to accommodate different proportions of domestic and foreign ownership. However, all attempt to distinguish between direct investment by a foreign source in a domestic business operation and the investment of funds in more highly liquid investment. This latter case is called portfolio capital investment and because of its more speculative nature falls outside the scope of this thesis.

FDI flows cross the frontier between national and international jurisdictions and as a consequence challenge governments to balance immediate domestic concerns, typically about with the issue of how to position national policy to accommodate, regulate or reject international flows. Successive Australian governments since the 1960s have engaged with this issue and over time have developed a means of regulating such flows. This experience provides a case example of policy and institutional change in dealing with direct flows of international capital. It also provides the basis for an empirical and analytical

[1] Further explanation of the periodisation strategy used in this thesis is provided in *Chapter 4, Case study design.*

examination of a changing political and institutional environment, to test the degree to which the national bureaucracy has been significant in this process of change and adaptation.

The historical context: approaches to globalisation and FDI from successive Australian governments

Australia's approach to globalisation can be summed up in the observation that it has moved from a relatively closed to a more open economy, in which market based decisions are preferred to those made by political representatives (Pusey 2003, 7-10). The story of the ungoverning of the economy (Bell 1997) has emphasised the following processes:

- financial deregulation,
- international trade and investment liberalisation,
- indirect- and business-taxation reform,
- labour market deregulation, and
- the emergence of micro-economic reforms to foster competitive domestic markets (Majone 1997, 143-144).

These processes have contributed to a sustained period of economic growth accompanied by heightened community concern that exposure to the greater influence of markets will lead to falling standards of living and greater social dislocation (UNCTAD 2004: 19).

The process of encouraging greater use of markets as resource allocators and decision making mechanisms has been complemented by the emergence of new or strengthened institutional arrangements within government. For example, the independence of the central bank has ostensibly been strengthened by requiring it to function as the major and independent regulator of inflation (Bell 2002, 122). In short the process has been one of re-populating the institutional framework with new or reworked organisations, varying in mix from purely government regulators to situations of private self-regulation (Majone 1997, 155-163; Knill & Lehmkuhl 2002, 49-57).

In this context the phenomenon of an explicit policy in Australia on FDI is a relatively recent one. Prior to 1968, while there were restrictions on foreign investment in a few select areas of economic activity[2], other areas of the economy were not regulated by Australia's national government. The Gorton government (1968 to 1971) marked the start of reshaping the regulation of FDI, with a more activist role for the Commonwealth in this area. This interest from the Commonwealth has continued through successive governments since 1971, with each adapting policy and regulatory practice to strike a balance between a need to encourage investment while allaying community concerns on the loss of Australian ownership or the lack of fair rents by foreign owners of Australian resources (Pokarier 2000).

Over the same period the global economy has expanded and so has the importance of transnational investment flows. For example, between 1990 and 2001 the world economy grew by 6.2 per cent reaching a nominal global GDP of $US 31,075,808 million (UNCTAD 2004, 19). During this same period merchandise trade increased by 23 per cent, private capital flows increased by 110 per cent and foreign direct investment flows by 88 per cent (World Bank 2003, 312). Increased FDI indicates greater input, both financial and non-financial (such as new technologies, managerial skills, and market access), into a domestic economy by foreign investors which, because it is "bolted down", cannot leave at the first sign of trouble (Hausmann & Fernandez-Arias 2000, 2). Nevertheless such capital is seen as footloose: companies tend to invest where they see market inefficiency, and are willing to move this capital, albeit gradually, to locations

[2] Federal restrictions on foreign ownership and participation only applied in banking, civil aviation, and broadcasting (Bell 1976: 44-58).

more favourable to investment (Hausmann & Fernandez-Arias 2000, 3). The question for government decision-makers is how to regulate transnational capital flows taking into account domestic needs and international pressures.

The theoretical approach used in this study

Processes of globalisation imply significant challenge to the nation state as a unit of organisation (de Vries 2001, 389-390; Bell & Carr 2002, 316-317; Weiss 2005, 345-346; Mintron & Wanna 2006, 161-167). In this case the stressor is the social change occurring on a global scale of increased interconnection between populations located in geographically separated nation states. The resultant impact is change in the functioning of the nation state, although there are competing schools of thought on the likely outcome in terms of the longevity and usefulness of the nation state as a system of organisation and a method of governance (Kahler & Lake 2003, 412-415). However, there has been only limited empirical examination of the impact of processes of globalisation on the institutional framework of the nation state (Welch & Wong 2001, 372). Where such work has taken place one assumption has been that changes to policy and structure lead to diminution of state power and capacity (Kahler & Lake 2003, 412-415; Bell & Carr 2005, 310-316). Such work tends to reinforce the view arising from examination of the United Kingdom which shows a dispersal of state capacity through networks (Lofgren 1997, 6-7, 21-40).

On the other hand, work on the role of network structures in federated systems such as that emerging in the European Union tends to point to the continuance of state power and capacity albeit expressed in new forms of organisation (Borzel 1998, 266; Borzel & Risse 2000, 5-15; Blatter 2003, 510-515; James 2006, 7-12). From such work it is unclear if globalising pressures necessarily lead to a diminution of state power. However, a willingness by economically advanced nation states to respond to pressures of globalisation indicates the potential for globalisation to constrain the ability of states to act unilaterally (Kahler & Lake 2003, 412-415; Weiss 2005, 345-346).

In this thesis institutional dynamics and processes of globalisation are combined to map changes to public policy brought about by global flows of FDI. In this case the focus is on change in FDI policy: the mix and interests of the public actors involved; the intent and results of public policy; the regulatory frameworks which emerge and change; and the organisational structures, including forms of national bureaucracy, created and re-created over time. Such patterns are indicative of the variables which have contributed both to a changing environment and the ability of the nation state to respond and adapt to change. Both the dependent variables (the change in national policy on FDI, regulation and bureaucratic structure) and independent variables (behaviour of international and domestic businesses, FDI flows, and state capacity and autonomy) are discussed below.

The analytical framework of the thesis

There is no extant methodology which precisely links globalising pressures with bureaucratic change (Welch & Wong 1998, 43; Welch & Wong 2001, 372-374; O'Toole & Hanf 2002, 161-165) creating a high degree of latitude in determining the nature of the variables to be explored. The variables used in this research, and the reasons for their use, are set out below.

Dependent variables: policy, regulation and bureaucratic structure

The dependent variables chosen for this thesis are the policy, regulation and bureaucratic structures that have emerged and changed since 1968. Policy describes the posture and emphasis on FDI as stated by government ministers and government agencies; regulation describes the rules set down by government to foster, restrict or prevent foreign direct investment in activities; and bureaucratic structure is the deployment and employment of government departments and agencies to both implement and advise on policy on FDI.

As the dependent variables they represent the nexus of the interaction between processes of globalisation and the state, and represent the outcome of the interaction between globalisation and the state. While the state has the possibility of following its own path, it is also dependent on an accommodation with society: if the controlling interests of the state behave in way contrary to the interests of society as a whole (such as directing the state in a way which lead, or will lead, to maladaptation) then social actors will mobilise and seek change and as a consequence the nature of the state and the state society relationship will be reworked (Rueschemeyer, Stephens & Stephens 1992, 272-275). While catastrophic failure of the state as a system can occur through revolution, the day-to-day emphasis in a system such as that operating in Australia in the latter half of the twentieth century was one where the emphasis was on adaptation through gradual change. Such change is realised in the form of incremental adjustments reflected in policy, the structure of regulations, and the organisation of the national bureaucracy to exert regulatory capacity.

Independent variables

This thesis uses two groups of independent variables which contribute to the nature of domestic policy, regulation and bureaucratic structuring to support FDI flows. First, theories on processes of economic globalisation (Welch & Wong 1998, 42-45) emphasise the following two independent variables as important in establishing the nature of the pressures on the behaviour of the state and its (bureaucratic) capacity to respond:

- The balance between global and local concerns: that is how and in whose interest a balance is struck between domestic and global pressures.
- Business behaviour, with the focus on the differences in interests and actions of firms in terms of their territorial allegiance.

Second, the variables related to state autonomy and capacity stress the following factors which contribute to the creation and implementation of policy:

- The goals of national government in terms of attaining specific ideological, electoral, social or economic outcomes (Skocpol 1985, 9).
- The public, private, foreign, transnational and domestic relationships between government and other actors (Smith 1999, 247-253).
- The relationships within government such as that between the prime minister and cabinet, ministers and cabinet, ministers and their respective departments and agencies, relationships between agencies in the same portfolio and relationships between agencies across portfolios (Davis, Weller, Craswell & Eggins 1999, 37-41).

Figure 1.1 illustrates how the framework for analysis emphasises the interplay of processes of globalisation and the nation state which lead to distinctive national policies, regulations and national bureaucratic structures to facilitate or impede the interaction between the domestic economy and global flows. The study has been structured into two categories of independent variables with respect to their theoretical approaches: those variables to do with processes of globalisation (the international institutional and political environment encouraging global flows and the behaviour of businesses to access or resist such flows); and those to do with the ability of nation states and their bureaucracies to respond. Rather then being exclusive, by enabling a more complete picture of how national policy, regulations and bureaucratic organisation emerge, these variables complement one another.

Figure 1.1: The Analytical Framework

Context

Increasing global flows and interactions = globalising pressures on the nation state, with nation states faced with the challenge of accommodating global flows while retaining autonomy

Independent variables:				
1. Processes of globalisation		**2. State Autonomy & Capacity**		
Global versus local	Business behaviour	Goals of national government policy	Relationship between government & other actors (domestic & international)	Relationships within government
International factors and trends Domestic factors and trends	Interest & actions of domestic firms Interest & actions of foreign firms (including MNEs)	Ideological Electoral Social Economic	Private & public actors – foreign and transnational Private & public actors – domestic (excluding national government)	Prime Minister (including Advisors) to Cabinet Ministers to Cabinet Prime Minister to Ministers Minister to Agencies Agency to Agency (cross-portfolio) Agency to Agency (within portfolio)

Dependent variables:

(a) Policy on transnational relationships

(b) Structure of regulation to support posture on (a)

(c) Structure of the national bureaucracy to exert regulatory capacity

Source: Based on Husby (2002: 7)

Methodological issues

The significance of the national bureaucracy in globalisation can be tested empirically. There has been a natural experiment underway ranging across jurisdictions and for a considerable period of time. As a result observation should reveal the nature and extent of any pattern that has emerged in any one jurisdiction, such as Australia's approach to policy on FDI, the nature of regulation and the employment and deployment of the national bureaucracy. Thus experience with FDI represents "an empirical event set within a complex framework" (Husby 2002: 8) where a number of actors, domestic and foreign, interact to shape an observable outcome.

Australia was selected as a site for this investigation because national government policies during the latter half of the twentieth and in the early twenty-first centuries have been directed at economic transformation in response to globalisation. In addition, Australia offered advantages in undertaking an analysis of change and development in public policy because of a relatively high degree of transparency in government decision making and operation; and the relatively high concentration of key individuals and organisations in a small number locations.

A case study of Australian governments between 1968 and 2004 has been undertaken to identify changes in the patterns of policy, regulation and bureaucratic structure supporting FDI activity. The length of the time period and approaches within government to the archiving of information necessitated the use of a blend of techniques to examine experience, principally utilising a fieldwork study approach combined with a mix of historical and documentary analysis and interviews with those who had or were responsible for shaping and implementing national government policy on FDI. Analysis of each period of government is structured into three parts:

- The extent and kinds of pressures exerted through the international economic, institutional, political and technological environment and the behaviour of domestic and foreign business in this context.
- The policies, goals and domestic pressures, particularly those relating to economic performance, on each of governments concerned.
- The consequential approaches to policy, regulations and bureaucratic structures supporting FDI activity. A descriptive topology was applied to

map changes in the deployment of the national bureaucracy to show the scope of change.

This approach is a qualitative means of examining the emergent pattern based on “interpretations and impressions” of both the actors engaged in the shaping policy as well as those of the researcher without “systemizing or expressing findings numerically” (Husby 2002: 8).

The structure of the thesis

Chapter 2 discusses the first independent variable – the processes of globalisation – by examining how global flows intersect with local concerns and how business behaviour contributes to this dynamic.

The second independent variable – state autonomy and capacity – is discussed in Chapter 3 along three dimensions: the goals of national government policy; the relationship between the national government and other actors; and relationships within the national government.

Having thus established the theoretical context and basis for this study, Chapter 4 discusses the methodology used to test the issue of the significance of the national bureaucracy to processes of globalisation. This chapter explains why Australia was chosen as the site for the case study, why a historical research approach was adopted, how this approach was executed, and how conclusions will be drawn from the case material.

Chapters 5 to 8 present the results of the empirical research that was carried out to ascertain how the various governments under study adapted the regulatory framework and institutional structure of national public administration to deal with the global pressures on Australia’s FDI policy in the context of the independent and dependent variables discussed above. Chapter 5 discusses the early processes of establishing an FDI regulatory regime undertaken by prime ministers Gorton, McMahon and Whitlam. Chapter 6 discusses the efforts of the Fraser government, Chapter 7 examines the initiatives undertaken during the Hawke-Keating era, and Chapter 8 outlines the approach of the Howard government.

Chapter 9 discusses the finding of the research and presents a synthesis of the results in terms of implications for understanding processes of state adjustment as a response to globalising processes.

CHAPTER 2 - Globalisation, business behaviour and approaches to regulating FDI

This chapter discusses the first independent variable – the processes of globalisation – by examining how global processes intersect with local concerns and the way in which business behaviour contributes to this dynamic. It defines the term globalisation; examines processes of globalisation from the perspective of domestic firms and multi-national enterprises (MNEs); and describes how responses to globalisation induced change at the domestic frontier, in particular examining approaches to regulating FDI flows.

Defining globalisation

Before considering views on how the nation state is adapting to changing global circumstances, it is necessary to explain what is meant by the terms globalisation and global integration. Contemporary geographers (Dicken 1998, 3-15; Fagan & Webber 1999, 12-25; Amin 2002, 387-388; Dicken 2004, 9-17; Elden 2005, 15-16) argue that there is widespread agreement about the importance of the global scale. Countries have become more closely bound together by financial flows, trade, and the operations of multinational enterprises, known as MNEs, which operate in both a home country and a number of host countries (Dicken 1998, 6-10). As a result, the global economy is six times greater than in 1950 and as it has expanded some nations have gained and some lost from the changing patterns of industry and wealth (Fagan & Webber 1999, 25). In addition to trade, finance and the growth of MNEs, other processes have contributed to greater interconnection between societies, including globalisation of markets, technology, knowledge, consumption patterns, regulatory capabilities, culture, and the emergence of a global consciousness (such as a willingness to negotiate on transnational issues like international climate change) (Yeates 2001, 4). In essence, globalisation is a set of processes contributing to stronger interconnections between nations states (Korbin 2001, 193; Wood 2003, 39-40).

While "internationalisation of economic processes is as old as capitalism itself", contemporary experience of globalisation is "qualitatively" different from the past pattern of economic flows between states (Dicken 1998, 7). Historically, capital has been internationalised in three ways:

- commodity trade by firms supplying goods to overseas markets and obtaining raw materials from those markets for domestic production;
- flows of financial capital to overseas governments and firms; and
- the internationalisation of production "when companies set up branch plants overseas to control resources and markets, or to control production sites offering particular advantages (for example cheap energy or low-wage labour)" (Fagan & Webber 1999, 29).

A qualitative shift has taken place over the last four decades: "while…internationalisation involved the quantitative extension of economic activities across national boundaries…globalisation involves a set of complex processes that have brought about varying degrees of functional integration across national boundaries between trade, production, banking and investment" (Fagan & Webber 1999, 30).

In particular, the contemporary experience of trade, portfolio investment and direct investment has involved a significant expansion of globally distributed production processes for goods and services and the consumption of these goods and services (Dicken 2004, 8; Thirlwell 2005, 13-14). Based on observation of this trend, economic globalisation has been further defined as "the rapid proliferation of cross-border production, trade, and investment activities spearheaded by global corporations and international financial institutions that facilitate the emergence of an increasingly integrated and interdependent global economy" (Yeung 2003, 287). This trend has been fostered by the development of a framework of treaties supporting an intergovernmental consensus to encourage greater world trade and the international flows of people, ideas and resources (Brewer and Young 2001, 282-313).

While world markets have become more closely integrated to enable increased trade in goods and services, the methods of production increasingly have become “more functionally fragmented and geographically dispersed” (Dicken 2004, 8; see also Feenstra 1998; Hummels, Rapoport & Yi 1998). Theory on international trade suggests that firms with the organisational and investment capacity to do so, locate production facilities in different countries to exploit differences in comparative advantage, such as the cost and quality of labour, with each location producing different components or providing different services to manage or support the production process (Dunning 1988, 19). As a consequence individual nation states “increasingly specialize in producing particular stages of a good, rather than making a complete good from start to finish” (Thirlwell 2005, 13). An example of this is the production of a laptop computer: “whose parts are typically produced over an international production chain that runs across a variety of economies as countries specialise in different components with, say, memory chips made in Taiwan, disk drives in Singapore, screens in South Korea, and final assembly taking place in China” (Thirlwell 2005, 13). Design, marketing, and global management may be provided from elsewhere in Asia, the US, or Europe. In turn, global trade shows the rise in intra-industry trade as firms seek to recombine these discrete elements (Thirlwell 2005, 15).

In terms of the organisation of international production the consequences of this qualitative change is “varying degrees of functional integration across national boundaries between trade, production, banking and investment” (Fagan & Webber 1999, 30). In particular, there is a much stronger link between trade, FDI and the global production chains:

> In traditional models of trade and FDI, the two are often seen as substitutes (with companies carrying out FDI to get access to markets protected by

> high trade barriers, for example). In contrast, in the new global economy FDI and trade are often complementary, with vertical specialisation, for example, typically involving large-scale FDI flows into developing countries driven by firms' decisions to shift their production to new, lower-cost sites (Thirlwell 2005, 15).

The kinds of firms involved in intra-industry trade are either MNEs with international production networks typically producing goods in several geographical locations or groups of smaller companies linked through international subcontracting (Thirlwell 2005, 15).

This process of relocating and dispersing production processes across the globe has been described as "disintegration" indicating that the implications of this particular kind of globalising pressure are a potentially disruptive process (Feenstra 1998, 31). Change will effect linkages or connections not just between one firm and another, but between nation states, firms (domestic and foreign) and civil society (Dicken 1998, 7; Dicken 2004, 8). The increasing organisational and technological ability of firms to relocate specific production tasks and co-ordinate a geographically dispersed set of activities suggests an increase in the decoupling of economic value creation from geographic location (Levy 2005, 685). The implication of such decoupling is that profits will also be extracted and repatriated away from the site of production, leaving local communities to bear the costs associated with production without accruing any, or only limited, benefit (Bryan and Rafferty 1999, xvi). Also, the potential to relocate production facilities in any number of locations places pressures on those components of production which cannot be readily moved such as labour (which "unlike other commodities…has to go home every night" (Dicken 2004, 13)). In turn there is pressure on those 'fixed' components to continually show productivity gains. Domestic firms outside the MNE production chain may be disadvantaged by increasing competition in sourcing inputs in their traditional domestic market or face competition from the MNE when selling their output. Indeed, the underpinnings of support for globalisation as a means of growth, that is, greater economic integration between nation states to enable comparative advantage to be realised, implies a restructuring of economic capacity within states to enable greater specialisation (Rodik 1998, 6).

Previously bounded spaces, such as nation states, become more permeable to transnational flows of capital, people, ideas and information, with implications for public policy and decision making (Sassen 2005, 524-529; Thirlwell 2005, 8; UNCTAD 2005b, 201-228). For example, it follows from the above definition of globalisation that firms will be linked internationally through production chains that operate over increasingly extensive geographical scales with the potential to extend beyond the boundaries of any one nation state (Dicken 1998, 6-9). As the geographic scale of production has increased, political complexity for nation states has also increased. More permeable national boundaries mean that the political actors offering competing perspectives (such as global, regional or local perspectives or public or private) act, react and are organised in different ways (Dicken 2004, 8-9). Not only are there more political actors as the scope of the polity is expanded, there is also the question of the legitimacy of the involvement of particular actors in decision making. As well, contemporary experience of globalisation suggests multiple, intersecting relationships which challenge the view of organisational units (such as firms and nation states) as discrete entities (Korbin 2001, 195-196; Yeung 2000, 12).

Thus, territorially defined units for public organisation and decision making at community, regional, national or international levels, which cut across global production chains, are challenged by the scale and scope of contemporary capital flows. As a consequence, the points where production chains and the political-economic systems intersect are "'real' geographical spaces where specific outcomes occur, where the problems of existing within a global economy – whether as a business firm, a government, a local community or as an individual – have to be resolved" (Dicken 1998, 13). At these interstices between the private interests of firms and the public interests represented by governments, the nation state as a unit of organisation is challenged because the belief in collective self-determination of national polities in modern democratic theory has a geographical bias whereby systems of governance are related to a defined territory (Ericson & Stehr 2000, 32; Held & McGrew 1993). In contrast, the emerging form of social organisation such as those represented by global production is one of networks of interaction, which are "organized around multiple sites and forms of economic, political and cultural power that have no obvious sense of place" (Ericson & Stehr 2000, 33).

However, the concept of globalisation is controversial because of the poor development of theories which link global change to national, regional and local scales (Conley, 2002a, 377; Dicken 1998, 12-14, Fagan & Webber 1999, 28). While the geographic scale of globalisation is readily understood, its use tends to "exaggerate the degree of global integration and bury the continuing importance of national and local variation" (Fagan & Webber 1999, 28). While theories of globalisation have proliferated, the ability to trace processes of globalisation "through to national and local scales and the two way-flow between global and local scales" in terms of political consequences is scant and is understood poorly (Fagan & Webber 1999, 29) [3]. Furthermore the uses of the term globalisation have "become distinctly ideological…government and big business use the notion of globalisation…to justify certain decisions about restructuring, or to conceal the uneven impacts of the changes and social conflicts that arise" (Spar 2001, 207). As such there is a need for considerably more empirical evidence to be gathered on the impact of globalising processes on public organisations such as the nation state.

[3] Responding to this issue Amin (2004: 217) argues that the "spatial ontology of regulation thrown up by the economy" of global flows and networks represents an "unfolding regime of heterarchical order that is topological, hybrid, decentred and coalitional in its workings". As a consequence "these new 'micro-worlds' of regulation are as significant as, and equivalent to, so-called macro-orders of regulation in influencing global poverty and inequality, that they throw into doubt assumptions of control and reach held by the meta-narratives, and that their rise amounts to a situation of global regulatory excess…" (Amin 2004: 217).

The challenge to nation states from globalisation

There is debate about whether greater economic integration between states has led to the loss of control by individual states of their policy making capacity to regulate financial markets and MNEs (Keating 2000, 44). At the level of the state there are mixed views as to whether or not a change is occurring. Held, McGrew et al (1999, 3-10) identify three distinct groups of views on the nature of change taking place: hyperglobalists, sceptics, and transformationalists. Hyperglobalists argue that a new global economy and a new global civil society have emerged which greatly constrain the capacity of the state to make policy, and point to a world, if not without states, then with states which have a diminished role (Held, McGrew et al. 1999, 3-5) There are two counter-arguments that states have a continuing role, either because the environment in which states operate has not changed (the sceptics) or because the world is changing and states are adapting (the transformationalists) (Held, McGrew et al. 1999, 5-9).

At the core of hyperglobalist arguments is a fundamental and structural shift in the organisation of power away from the state to trans- or supra-national actors (such as the multinational corporations, international regulators and the United Nations, and non-governmental organisations) (Reinicke 1998, 227). What were once domestic market actors can now bypass domestic regulatory frameworks by directly entering global markets (Lutz 1996, 9). Hyperglobalists see this as ultimately leading to the demise of the state and consequently the tasks it performs (Ohmae 1990, x, 201; Ohmae 1995, 4-5). Those sceptical of globalisation question whether the world is any more globalised than in the past and whether, therefore, the nature of the state remains unchanged (Hirst & Thompson 1996); or, if change is occurring in the nature of the state, it is occurring for reasons other than greater interdependence between states such as the pursuit of particular ideological goals (Hollingsworth and Boyer 1997). In between are the transformationalists who argue that some kind of change is taking place, a change which is worth investigating. For example, Dicken (1998) argues that economic conditions nationally and globally have changed. The depth and extensiveness of transnational activities is such that nation states are no longer the exclusive containers of human activity, rather the world is seeing a deep integration and increasing interconnectedness in the areas of trade and capital flows (Dicken 1998 80-82).

Nevertheless, states do "perform a key role in the ways in which their economies operate, although they differ substantially in the specific measures they employ and the precise ways in which such measures are combined" (Dicken 1998, 88). This role can be described in the following way: "At one extreme, the macro economic policies pursued by governments to control domestic demand or manage the money supply have …implications for the distribution and redistribution [of wealth]" (Dicken 1998, 88). At the other extreme, governments may be service and physical infrastructure providers, and the providers of "human infrastructure" such as an "educated labour force [and]… the laws and regulations within which enterprises operate" (Dicken, 1998, 91). Dicken's discussion only points to a small slice of activities through which states can influence globalising processes. However, he makes a strong case that the disappearance of the state is over-emphasised. While global capital flows and the organisation of transnational production systems are part of the contemporary environment in which states operate, states have the capacity to influence and affect globalising processes (Yeates 2001, 168; Conley 2002a, 398; Conley 2002b, 461-467). Furthermore, as Fagan and Webber (1999, 45-46) argue, the national level is crucial:

> the links between national, regional and local economies with production, trade and investment at the global scale are specific to particular times, places and industries. The ability of [MNEs] to take advantage of global opportunities still largely depends on particular government regulations, competition, and cooperation with local firms, and bargaining with particular groups of workers.

Responding to the "phenomenon of state denial" Weiss (1998, 2) argues that the strength of state capacity in the face of globalising processes rests on two aspects of contemporary globalisation. First, the impact of global economic pressures "on national economies and public policies depends to a large degree on the strengths and weaknesses of domestic institutions" (Weiss, 1998, x). The issue is not the decline of states in a globalising world, but rather the degree to which a state can adapt its functions. Second, states have played a major role in establishing the global regulatory framework to support transnational production and capital flows. Such adaptation includes not just macro-economic policy settings, but those governing state capacity to mobilise savings and investment to generate "higher-value-added activities" in particular sectors of the economy (Weiss 1998, 202) and therefore strong states are the "…'midwives' not victims of internationalisation" and are able to alter "the rules of the game" (Weiss 1998, 212).

The changing nature of pressures on the state means the open challenge is to define what is new. For example, Pierre and Peters (2000) in considering the transformation of governance, politics and the state, acknowledge the view that the state is being hollowed out by the dispersion of powers to international markets and institutions and by the emergence of sub-national actors and institutions. However, to read more into this change, to see the demise of the state rather than simply a change in the nature of the state, is incorrect (Pierre & Peters 2000, 196). Instead the state is a powerful actor in society and that "it would be erroneous to think that it would be incapable of transforming itself" to address changing economic and political conditions (Pierre & Peters 2000, 197). Thus relationships within the state, such as those between government and the private sector, both domestic and international are changing, as are the forms of domestic governance within nation states.

Challenges and responses from domestic and international firms to FDI

Both domestic and international firms face challenges in the process of FDI activity MNEs. Broadly, neo-classical economic theory suggests that increased trade or investment between nation states leads to improved efficiency of domestic markets. This is achieved through the entry of MNEs into the domestic markets:

> As the number of suppliers increases, the profit each firm earns goes down, but output rises, price falls, and consumer welfare increases. The increase in consumer welfare …offset[s] the reduction in firm profit, with the result that the overall welfare of consumers and producers rises as competition increases (Martin 1999, 896).

As this theory suggests, the impact on domestic firms and MNEs is very different and the behaviour of both kinds of firms is discussed below.

(a) Domestic firms

Traditionally the impact of the expansion of MNEs into domestic markets, either as competitors for inputs or in the sale of goods and services, has been seen as bad for domestic business. For example, empirical studies show that the entry of a foreign competitor into a market through import competition or FDI discourages the entry and stimulates the exit of domestic entrepreneurs (Aitken & Harrison 1999, 607; Lipsey 2002, 49; De Backer & Sleuwaegen 2003, 67). Essentially the foreign investors, acting through the MNE, will "crowd out domestic entrepreneurs through their selections in product and labor markets" (De Backer & Sleuwaegen 2003, 67). The foreign firm is also likely to be different in behaviour and capacities from domestic firms. Most MNEs tend to be highly "competent and successful firms" in their home market with the MNE "primarily a vehicle for the transfer of entrepreneurial talent rather than financial resources" (Lipsey 2002, 8). To compete successfully in the host country market the MNE will be reliant on its "technological know-how, marketing and managing skills, export contacts, coordinated relationships with suppliers and customers, and reputation" (Aitken & Harrison 1999, 606-607).

These qualitative differences also explain why such firms would enter a particular host market. The owners and managers of foreign firms believe that they have some internally transferable advantage, which will enable them to compete successfully with local firms (Buckley 2002, 366). To gain entry into a host country market a MNE has a number of options ranging from exports through to joint ventures or alliances with domestic firms. Exports involve little or no direct investment in the foreign location (the potential host country) with the foreign firm supplying domestic demand through trade activity, and the licensing or franchising of the MNE's intangible property, such as a trademark or other asset (Verdin & van Heck 2001, 112). Traditional FDI activity takes the form of greenfield investment (where an operation is established from scratch within the host country); cross border merger or acquisition (where a wholly owned affiliate of the MNE is established by acquiring or merging with an existing firm in the host market); and a joint venture or an alliance (where the MNE shares stock ownership in an affiliate or a separate unit) (Verdin & van Heck 2001, 112).

Empirical results also suggest that the initial crowding out effect of the investment activity may be moderated, or even reversed, in the long-run due to the long term positive effects of FDI (De Backer & Sleuwaegen 2003, 67; Blomstrom & Kokko 1997, 29-33). In the short term it is the local affiliate of the MNE which gains benefits (Scott-Kennel 2004, 631) in terms of transfer of resources (financial, human and knowledge) and technologies as well as learning, demonstration, networking and linkage effects between the affiliate and the parent MNE (De Backer & Sleuwaegen 2003, 67). In the longer term linkages with the foreign affiliate and the domestic market lead to benefits for local firms through direct linkages as local suppliers, buyers or collaborators in technology development (Scott-Kennel 2004, 633) and indirectly through the exchange of employees through labour turnover and technology spillovers (Blomstrom & Kokko 1997, 29-33; Aitken & Harrison 1999, 607; Lall & Narula 2004, 452). Such observations on the role of linkages between firms, particularly domestic firms and MNEs, have prompted research into adapting national innovation systems to better capture and enhance the benefits of this exchange between the local and the international (Ernst 2002, 499-501).

For domestic firms there are a number of different strategies to adopt in dealing with the competition from foreign firms. One is competing through innovations leading to changes in price, quality or volume to attract consumers thus maintaining or increasing demand in the domestic market. In adopting this strategy local firms may run the risk of being unable to compete because the MNE or its domestic affiliate may simply have a greater capacity to drive prices down to a level where local producers cannot compete (Aitken & Harrison 1999, 607). One kind of innovation is to grow in size to achieve greater economies of scale and scope. Thus, over time the domestic firm may establish the basis for itself becoming a MNE by changing its articles of association to enable greater investment in other firms, including those located overseas. So while a firm may start as a domestic enterprise it may become multinational in operation first by investing in operations in another country and then gradually becoming more of an international enterprise “as the number of countries in which it operates, the number of sub-units which it must manage, and the range of activities it is engaged, expand” (Westney & Zaheeb 2001, 350).

A second strategy for the domestic firm is to co-operate in some form with the foreign MNE. As outlined above this may involve the domestic firm establishing a direct relationship with the MNE such as becoming a local supplier, buyer or collaborator in technology development. In each case there are different degrees of formality in terms of codified agreement between participants as the MNE and its co-operating firms seek a balance between interdependence and organisational autonomy (Schweiger & Goulet 2000, 63-65). In turn, the scope of such involvement with domestic firms may lead to significant change within the co-operating firms and to the wider industry in which the MNE has invested. For example, as a major consumer of goods and services sourced from domestic firms, the MNE may be able to exert monopsony power at a latter stage; alternatively the MNE may exert unfair pricing pressure as a supplier leading eventually to a monopoly of a particular market; or in the case of research and development activities, the presence of the MNE may see the development of stronger, industry-wide interest in protecting and better utilising intangible assets such as patents.

A third possibility is that the domestic firm or firms may choose to neither compete nor co-operate but seek protection through government regulation. In response, extrapolating from theory on the political economy of trade policy, the levels of control that government will place on inwards FDI can be viewed as an optimising problem in which the government trades off political support from industry interests against the dissatisfaction of domestic consumers and the wider polity (Gawande & Krishna 2003, 227). How this determination of an appropriate level of control takes place in different nation state systems is discussed below[4]. However, it is important to note that the formation of tariff barriers provided impetus for the initial phases of post-WWII globalisation. Major MNEs in manufacturing industries established operations in countries with high tariff barriers precisely because the economic gains to be had were attractive. Thus the lobbying of domestic firms for protection through domestic public action may lead to an unintended result such as increasing the attractiveness of a particular industry as one for MNE investment (Ellingsen & Warneryd 1999, 357).

Overall, there is a range of possible responses from the local level to the challenge posed by pressures for greater integration with international and global markets. In the case of domestic firms their actions may be to actively resist through competing with MNEs or seeking support from the wider polity through government to establish laws and regulations to limit the access of MNEs to local market. Alternatively, local firms may seek co-operative approaches with MNEs. Together these broad approaches indicate the kinds of actions that the local, domestic level of the polity may adopt. Whatever approach is adopted, this segment of the polity, or segments within the pool of domestic firms, is likely to try and influence the actions of government.

(b) MNEs/Transnational firms

The organisation of the firm on a multinational basis has a long history

[4] See *Government responses to change on the domestic-international border*.

dating back to at least the fourteenth century with the Hanseatic League and Italian banking houses, and to the East India, Muscovy and Hudson Bay Companies in the seventeenth and eighteenth centuries (Thirlwell 2005, 15). From the sixteenth century onwards MNEs provided a means of European colonialism and during the nineteenth century saw extensive European economic growth and territorial expansion. However, major academic interest in the MNEs dates from the post-WWII period with the expansion of US firms into Europe (Wilkins 2001, 6). The encroachment of American MNEs into European domestic markets through exports and acquisitions of domestic firms caused considerable disquiet (Wilkins 1974; Wilkins 2001). Weight was added to this view with the experience of developing countries and MNEs (Wilkins 1974; Jones 1996). However, towards the end of the twentieth century the role of MNEs was viewed more benignly although concern about the power imbalances between MNE and lesser developed countries remained (Crystal 2002, 12-14).

The key issue is that MNEs are essentially a major vector, carrier or transmitter of FDI and, as such, have grown in importance as a focus for government interest. In the early post-WWII period general, domestic concern about the impact of FDI on local firms and employment ensured that protection through tariffs was maintained or strengthened. However, in the latter stage of the twentieth century emphasis shifted to the role of MNEs as means of transferring capital, skills and knowledge from one location to another through investment activity and employment. Governments sought to facilitate this transfer to promote faster economic growth and so reduced protection. This fundamental re-assessment of the role of MNEs emphasised the essential aspect of MNE operation: that a firm in extending its operations from one country to another must make foreign direct investments because the process of extension is one of redeploying the firm's assets (Wilkins 2001, 6).

Two key developments have fostered growth in the operations of MNEs: the emergence of a global regulatory regime to support the flow of commercial assets, and the fall in the costs of transferring assets enabling the use of those assets on a global scale. The emergence of an international regulatory regime, supportive of world trade and the "multinationalization of production" (Garrett 2000, 955), was established in the immediate post-WWII period. The Bretton Woods institutions, such as the International Bank of Reconstruction and Development and the International Monetary Fund (IMF), were established to finance reconstruction efforts and a separate arm of the United Nations was created to encourage a more open global trading regime. Over time this framework has grown to include fostering the liberalisation of controls imposed by individual nation states (see Table 2.1). The emphasis of the liberalising framework has been on removing

Table 2.1: Summary of Multilateral Investment Agreements in effect in 2000

	World Trade Organisation			**Organisation for Economic Co-operation and Development**			
	General Agreement on Trade in Services (GATS)	Trade Related Investment Measures (TRIMs)	Trade Related Intellectual Property Rights (TRIPs)	Code of Liberalisation of Capital Movements	Code of Liberalisation of Current Invisible Operations	National Treatment Instrument	Guidelines for Multinational Enterprises
Binding	Yes	Yes	Yes	Yes	Yes	No	No
Year	1994	1994	1994	1963	1963	1976	1976
Coverage (number of countries)	135	135	135	26	26	26	26
Objectives	Establish trade and investment framework for services	Limit performance requirements in manufacturing (such as levels of domestic content)	Protect intellectual property rights	Liberalise restrictions on capital transactions	Liberalise restrictions on capital transactions	Establish national treatment principles for FDI	Establish guidelines for firms' behaviour

Source: (Brewer & Young 2001, 292-293)

barriers and also the creation of standards and forums for negotiation (first through the General Agreement on Tariffs and Trade and more recently through the World Trade Organisation) (Lloyd 2001, 328). A summary of the major multi-lateral and regional agreements in effect shows the meshing of agreements covering FDI established within the OECD in 1963 and 1976, with those to do with the global multilateral trading regime and the establishment of a separate agreement (the General Agreement on Trade in Services) to cover trade and investment in services. During the 1990s the OECD also attempted to foster the development of a general multilateral agreement on investment (the MAI); however, as discussed later in Chapter 8, this proved unsuccessful. Nevertheless, multilateral approaches to investment remain an issue under consideration through the WTO (Lloyd 2001, 342). This global architecture of international and bilateral agreement has, in turn, decreased the level of risk for MNEs in their operations by providing increasing certainty for investment decisions.

During this same period the costs of transport, communication and information technologies have decreased dramatically. Causes and effects of falls in such costs have been widely discussed elsewhere (Dicken 1998 151-161; Garrett 2000, 942) so will not be discussed in this thesis. However, the essential feature – the reduction in such costs – led to the potential for greater portability of the means of production. In turn, the components of production have been sliced into finer, smaller units of activity capable of being situated in locations which maximise returns to the MNE (Thirwell 2005, 13-16).

Once a relationship with a domestic affiliate or a host country has been established the behaviour of MNEs as political actors at international and local levels remains different from that of local firms. First, within the MNE there is a tension between greater integration of the subsidiary firm or firms within the MNE or the greater responsiveness of those subsidiaries to local conditions (Prahalad & Doz 1987, 14-15, 18-21). In turn, the organisation of MNE operations takes different forms, ranging from, at the highest level of complexity, a true transnational organisation with a dynamic network of interdependent subsidiaries operating on a global scale, to the least complex, a multi-domestic operation with a limited number of production sites located in a small number of countries loosely co-ordinated through the personal networks between expatriate managers (Westney and Zaheeb 2001, 361). Second, inherent in the location of a MNE in its home country and in a host country, are concerns on the political allegiance or loyalty of a MNE, especially in relation to the host country (Phelps 2000, 170). Will its actions and behaviour be in the interest of the host country and will it attempt to exert undue influence over the government or governments in the host countries in which it operates (Chang 2004, 702)?

(c) Impact of the interaction between domestic firms and MNEs: emergent business behaviour as a precursor to public policy responses

Enabling the entry of a MNE into a domestic market, as described above, will affect the domestic firms engaged in that market. Broadly, the interaction will lead to pressures on the local firms, the MNE, the host government and other societal actors (such as those employed in the local firms and the broader community of suppliers and consumers). The novelty of the new set of circumstances generates a range of responses: for neoclassical economists the outcome will be an expansion of the general community welfare as market efficiency improves with the demise of the weaker firms (Martin 1999, 896). However, the range of actors in the border region (where foreign practices compete with the domestic) challenges existing norms, values and other institutional arrangements (including existing patterns of regulation and interaction between government, business and the wider community). This is likely to generate more complexity in political decision making and public policy, as the intervention of the MNE sets off ripples which reverberate through a particular industry and its existing community of interests.

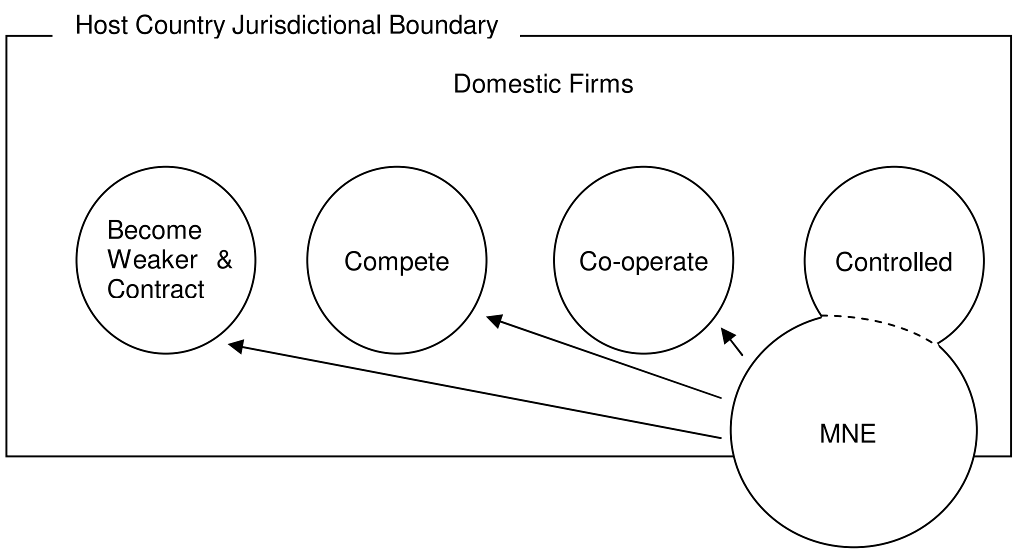
Thus FDI is a both a political and economic event. As Spar (2001, 207) argues:

> Whenever firms move goods or services across international borders, they affect society on both sides of the transaction. They enhance industrial revenues, for example or augment the comparative development of national economies or create dependencies – on resources, strategic inputs, or capital – that persist over time. Even though firms may have no explicit

> intentions along these lines, the impact is the same: by transferring resources and commercial activity across borders, firms also shift the distribution of rewards and power. And this…is the very lifeblood of politics.

This can be illustrated by taking the case of domestic firms which, depending on the depth of the market concerned and the kind of investment the MNE has made, suggest a range of possible responses. Domestic firms are likely to be affected in different ways by the entry of an MNE into a domestic market. For example, as illustrated in Figure 2.1, research for this thesis shows responses from domestic firms range from maintaining a high degree of independence from the MNE with the consequence of weakened demand through to the possibility of full integration with a MNE.

Figure 2.1: Possible reactions to a MNE by domestic firms in the host country



Source: Based on Aitken & Harrison (1999, 606-607) and Scott-Kennel (2004, 630-633)

In turn domestic firms are likely to seek different public policy responses:

- Weaker firms threatened with contraction or demise may seek the introduction or strengthening of controls to prevent or limit investment in their particular industry or market.

- Stronger firms may seek to compete directly, but in doing so may challenge existing regulatory policy, such as in the area of antitrust and competition policy or, if seeking to expand offshore, challenge domestic controls on outward investment.
- Those firm co-operating as suppliers, buyers or technical partners of the MNE may seek assistance to enhance industry-wide training or changes to taxation arrangements to support research and development activity.
- Those firms directly controlled by a legally binding relationship with the MNE (through a licensing arrangement, joint venture or as a result of a merger or acquisition) may exert pressure on government for regulatory change in areas including inputs costs (such as labour and raw materials), input quality (in terms of training and education), and taxation.

As a result of the mix of these various stances and their ability to influence governmental decision making, public policies of the host nation may be more or less supportive of the MNE's operations. More broadly, there will be geographic differences (such as the natural topography, the distribution of major markets and communications and transport infrastructure) and social differences (such as "customs, tastes, language, and legal systems" (Rangan & Lawrence 1999, 3)) that also effect the performance of the MNE in its new market. As a result what happens within the borders of a nation state creates "discontinuities [in global flows such as FDI] stemming from policy, geography, and societal difference" (Rangan & Lawrence 1999, 13).

Because of these discontinuities, caused by what happens within national borders, there is a high degree of institutional "stickiness" in processes of globalisation (Rangan & Lawrence 1999, 13). What happens within borders, in terms of jurisdictional and regulatory practices, is fundamental, "to the organization and operation of the global political economy" (Dicken 2004, 9). Capital flows are embedded within the institutional environments, especially in the case of capital in the form of FDI which is invested in facilities and operations. In pursing general policies to encourage open trade and investment flows, governments have helped foster the emergence of stronger international presence in domestic markets. This has created a greater dynamism in the relationship between domestic firms and international firms with the goal that greater foreign competition will lead to more efficient domestic economic activity. However, the response to globalising pressures is one of striking a balance between recognising the importance of transnational relations and providing public policies which are responsive to domestic concerns. In turn governments, in both national and international forums, face tensions in striking a balance between the interests of domestic firms and MNEs.

Government responses to change on the domestic-international border

Nation states have adopted a range of strategies to either foster or restrict FDI flows, and those strategies have varied over time as a response to economic, political or ideological factors. The following short historical review and examination of contemporary practice illustrates the range of approaches that have been adopted by governments in response to change on the domestic-international border.

Historical Precedents

The posture of nation states on FDI flows depends on the stage of development of a particular economy and whether or not it is a net supplier or receiver of FDI (Chang 2004, 706-708). For example, during the nineteenth century, as its economy grew, the United States was reliant on significant inwards FDI from the United Kingdom, Germany and France. During this period the policy of the US government was to impose controls and intervene to prevent foreign ownership by indirect means through controls on ownership in the banking system, land and natural resource ownership, and controls on coastal and international shipping. After WWII, the situation was reversed and the European countries became recipients of FDI for the first time and also used formal, direct regulatory controls and informal, indirect measures to limit foreign ownership of key industry and assets (such as landholdings). Examples of formal and informal controls are described in Table 2.2. The Table shows the way governments over the past 200

Table 2.2: Sample of Historical Approaches to FDI regulation

Nineteenth Century		
United States of America	**Posture**: General acceptance of the necessity for FDI, but also "a widespread concern with 'absentee management' and ….foreign domination of the American economy" (Chang 2004, 690).	**Formal controls:** - Navigation: differential tonnage limit between national and foreign ships; navigation monopoly for coastal trade - Finance: 1864 National Bank Act required all directors of national banks to be American citizens - Land: 1887 Alien Property Act "prohibited the ownership of land by aliens or by companies more than 20 per cent owned by aliens…" (Chang 2004, 692) - Natural resources: Federal mining laws in 1866, 1870 and 1872 restricted rights to US citizens and companies incorporated in the US. - Labour: import of foreign workers prohibited in 1885 via contract labour law.
Twentieth Century (post-WWII)		
UK, France	**Posture**: "…to close the newly emergent technological gap with the US, they had to accept American investment, especially FDI" (Chang 2004, 695).	**Formal controls**: - Foreign exchange controls. UK: a permissive attitude towards FDI, rarely using foreign exchange control law (1947–79) to influence FDI. France: more active in the management of its FDI flows. - Restrictions on foreign ownership in "sensitive sectors such as defence or cultural industries" (Chang 2004, 696) **Informal mechanisms:** - France: presence of state owned enterprises in key sectors effectively preventing foreign ownership in these sectors. Where privatisation occurred in the 1980s the French government ensured that control of these enterprises remained French by reserving a significant proportion of shares for institutional investors close to the government.
Germany		**Informal mechanism:** - Barriers to hostile take-over, due to the presence of close industry-bank relationships as well as to the power of labour exercised through the supervisory boards of each firm
UK, France, Germany		**Informal mechanism:** - Informal performance requirements such as local sourcing of components, production volumes and exporting

Source: (Chang 2004, 690-696)

years to have established means of controlling FDI flows, and that formal, direct controls on FDI are only part of a wider range of polices which have been used to shape and constrain the behaviour of transnational firms. This range of approaches suggest that different countries will establish different regulatory regimes with a mix of formal and informal mechanism to foster and restrict FDI flows as determined by domestic perceptions of national interest.

Contemporary Practice

Contemporary practice is based on historical precedent in so far as there is a willingness to balance domestic, transnational and state interests and the use of a mix of regulatory activities to shape business behaviour in the domestic economy. This is illustrated by the experience of both developed and developing countries in the latter half of the twentieth century.

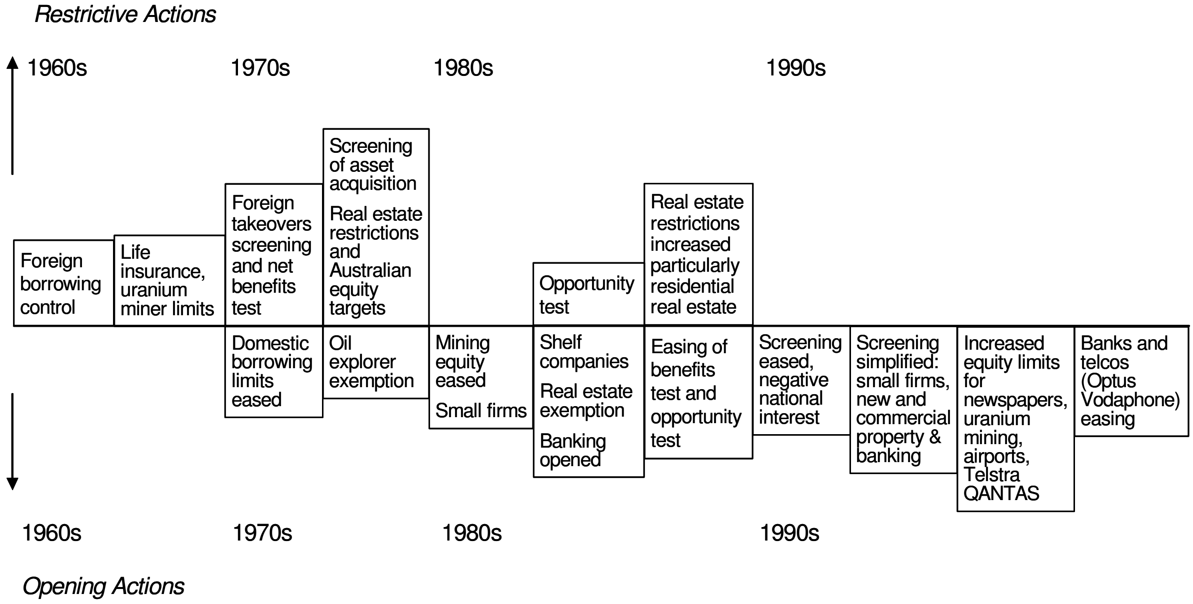
As described above the reaction to the expansion of MNEs in the immediate post-WWII period was mixed. US MNEs offered a means of obtaining additional capital and resources for reconstruction and development after WWII. However, this meant the loss of domestic ownership of firms and potential damage to domestic firms competing in those markets exposed to MNE entry. This led to pressures to introduce both formal and informal controls on FDI. To counter this, forums such as the OECD were established to foster free trade and capital flows, leading to a series of multilateral and bilateral treaties in the 1960s to provide controls on host countries (Crystal 2002, 2). Such treaties established a degree of certainty for MNEs that their investments would not be subject to the more draconian measures used by states to exert control such as nationalisation or expropriation (Spar 2001, 213). Lesser developed countries (LDCs), in response to a post-WWII period of slow development, sought to place greater controls on the actions and activities of MNEs "to preserve as much discretion for national policies as possible" (Crystal 2002, 2). Developing countries, working through the United Nations Conference on Trade and Development (UNCTAD), established a code for governing FDI that "imposed heavy obligations on investors while allowing host states to retain maximum flexibility" (Crystal 2002, 2).

By the late 1980s both developed countries and LDCs had moved to similar policies of openness to FDI. LDCs moved away from "state directed, inwardly focused strategies towards an acceptance of both markets and integration into the world economy" (Korbin 2004, 3). Contributing to the change were a range of factors: "the failure of import substitution, the success of the relatively open Asian economies, the collapse of socialism as an alternative, and the economic crises of the 1980s all played a role" (Korbin 2004, 3). The more open approach became widespread during the early 1990s as policy makers came to believe that integration into the world economy was a prerequisite to growth and development and that FDI, via MNEs, was the vehicle to accomplish that end. Thus the LDCs moved to positions similar to those promoted within the OECD (Crystal 2002, 3).

Developed countries had also moved to liberalise their formal FDI regimes, albeit after a period in the late 1960s and early 1970s of more restrictive policies. The trajectory of these changes is illustrated by the case of Australia (Figure 2.2 below):

- Until the mid-1960s, outside of a few sectors protected by legislation, the only form of regulation on inwards foreign investment was foreign exchange control designed to support the balance of payments system rather than restrict FDI.
- The late 1960s saw increased regulation, in part due to increasing global uncertainty about international currency stability, and significant inflows to develop the mining industry.
- During the 1970s the regime was further developed, although there was increasing pressure towards the later stage of the 1970s for a relaxation of controls.
- From the early 1980s a limited liberalisation occurred, followed by a more rapid liberalisation in the 1990s.

Figure 2.2: Growth and Decline in FDI regulations, Australia 1960-1999



Source: Evans (1999, Chart 4)

Despite this convergence towards greater liberalisation of controls, in both the case of LDCs and developed countries, nation states generally retained both formal and informal mechanisms to intervene in FDI processes. In the US the executive arm of government, through the President, continues through the defence powers to retain a veto over investment (HoT1). Domestic interest groups, either representing commercial interests, broader civil society, or both, have from time to time found Congress, the legislative branch of US government, a useful forum for seeking to challenge the entry of foreign investment into the United States. Countries such as Ireland and Singapore encourage MNE investment activity in particular industry sectors through the provisions of grants for "capability-upgrading activity" (this includes research and development, training and management development) among domestic firms (Chang 2004, 700). In the case of Ireland the focus has been on industries such as electronics, pharmaceuticals, software, financial services and "teleservices" (Chang 2004, 700); for Singapore the focus is on bio-pharmaceuticals and ICT (Department of Industry Science and

Resources 2002,3). In turn, to facilitate the application of these instruments of policy (the veto in the case of US President, the capability grants provided by the governments of Ireland and Singapore) there are bureaucracies of various size, scope and complexity. Despite continuing emphasis on liberalisation of FDI flows by nation states, there is a continuing and considerable diversity in the way in which each nation state has deployed its regulatory capacities to strongly influence FDI flows.

Summing up Variable 1 – Processes of Globalisation

This chapter has shown that MNEs have a significant capacity to transform domestic markets. The intervention of an MNE in a domestic market challenges existing firms and the wider society. Both weak and strong domestic business operations in domestic markets will be confronted with a threat, and some domestic firms may be directly and indirectly incorporated into the operations of the MNE. Such change leads to gains and losses for the wider domestic polity, suggesting both potential and actual conflict in the process of market adjustment, which may extend over a considerable period of time. At the same time the MNE will bring with it a superior capacity to engage in productive activity likely to benefit the host economy. In turn, the experience of both MNEs and local firms suggests a stickiness of capital flows because such flows take place within an institutional context.

This broad overview has shown that governments, at national and international levels, have had an important role in shaping the global regulatory regime to support capital flows. At the global level, through treaties (both transnational, such as those mediated through the OECD, and bilateral) governments have encouraged the development of sufficient institutional architecture to reduce some of the risks of MNE investment for host nations and for MNEs. At the national level each state has crafted its own set of policies and practices to manage FDI flows: in doing so, states are responding to pressures from both domestic and international business interests, and from other domestic and international actors. In turn, there is both a contemporary and historical set of means which nation states have employed to shape such investment, both in protecting national interests and in attracting foreign investment. These practices may be direct (through national law and regulation), indirect (through polices which in effect limit foreign ownership and the attractiveness of in country investment by MNEs), formal (again as set down in law or regulation), or informal (through accepted national practices such as the case of Germany or France) (Chang 2004, 695-696).

This chapter has briefly reviewed examples of the means that governments have created to enable interaction between domestic firms, MNEs and government. Each nation state has developed an institutional framework to manage such flows. At the core of these frameworks is a set of organised relationships which facilitate cross-border flows, the successful operation of domestic markets, and a stable polity. While transnational investors, in the form of MNEs, and international actors (such as the OCED or the WTO) have the potential to constrain the action of state actors (including the domestic bureaucracy) the relationship seems more equal than generally described. This observation suggests that the notion of uniform policy changes in most countries as a result of globalisation is contestable "rather than a proven empirical fact" (Svensson 2004, 1). Chapter 3 explores this issue by examining the interaction between the state, government and wider society. In doing so it examines the variable of state autonomy and capacity and how it is influenced by state bureaucracy.

CHAPTER 3 - State Autonomy and Capacity

…what globalization theorists… miss is the ways in which states… mediate and respond to global forces. The institutional structures of states, which vary widely across the developed and developing world, constitute a weight that itself helps shape the interaction of global economic forces and domestic response. (Hall 2003, 24)

This chapter examines the degree to which the nation state, as a form of organisation, has retained its role in national affairs despite some leakage of its authority to supra-national and sub-national actors such as local and regional forms of government, internationalised firms (both domestic and foreign MNEs), and civil associations (Scholte 2004, 4). In doing so, this chapter argues that the second independent variable shaping the structure and behaviour of national bureaucracy, the autonomy and capacities of the nation state, is apparent along three dimensions: the goals of national government policy; the relationship between the national government and other actors; and relationships within the national government.

In presenting this argument this chapter is structured in the following way: the key concepts of state sovereignty, autonomy and capacity are defined; and the variable is then shaped along the three dimensions of the goals of national government, relationships within government, and relationships between government and other actors.

Key concepts: state sovereignty, autonomy and capacity

State sovereignty

The nation state as a unit of organisation has a clear definition although the robustness of this definition continues to be explored (Mann 1984). The state, according to this model, has four defining characteristics:

(a) *a differentiated set of institutions and personnel* embodying

(b) *centrality* in the sense that political relations radiate outwards from a centre to cover

(c) *a territorially-demarcated area*, over which it exercises

(d) *a monopoly of authoritative binding rule-making, backed up by a monopoly of the means of physical violence* (Mann 1984, 188).

Much of the recent emphasis on the demise of the state has focused on the importance of the territorial aspects of the state. The logic of such attacks is that the concept of sovereignty (the ability of the state to project its power within its own borders and acknowledgement of other states of the integrity of those borders), as a source of state legitimacy, underpins both state autonomy and capacity (Korbin 2001, 184-185). In particular, as noted in Chapter 2, because of the increased range of international and transnational actors, including MNEs, the internal sovereignty, that is, "the supremacy [of the state] over all other authorities within its territory and over its population" (de Vries 2001, 289-290), of states has become problematic. The idea of internal sovereignty has been challenged by a range of contemporary problems including issues which extend across borders and which states must work together to solve. They include borders that have become porous at the sub-national level because of regional and transnational relationships; transnational actors such as NGOs and MNEs that can move resources between nation states; and exposure to global markets that can make economic controls by any one state ineffective (de Vries 2001, 289-290).

However, the emphasis on sovereignty is misplaced for two reasons. First, discussion of sovereignty often confuses the legitimacy of the state to exert internal sovereignty with other forms of state sovereignty (Krasner 1999, 3-4). For example, the concept of sovereignty has been used to refer to:

- the practice associated with mutual juridical recognition between states;
- the excluding of foreign actors from state structures within a given territory;
- domestic or internal sovereignty, “the formal organization of political authority within the state and the ability of public authorities to exercise effective control within the borders of their own polity”; and
- interdependent sovereignty “the ability of public authorities to regulate the flow of information, ideas, goods, people, pollutants, or capital across the borders of the state” (Krasner 1999, 3-4).

In each case sovereignty has a particular meaning making the application of generalisations and extrapolations made on the basis of the examination of one type of sovereignty to another problematic.

Second, internal sovereignty implies that the state has sufficient authority and capacity to act independently, to assert its independence from other actors while also seeking to engage with and influence those same actors. Early state behaviour supported the case that the power of the state lay in its coercive application of military power. However, the infrastructural role of the state in supporting “the generative power of co-operation and resource sharing by public and other actors to achieve social goals” (Skelcher & Mathur 2004, 7) has been given more emphasis, particularly in the context of studies of economic welfare, commerce, and trade. This emphasis has underscored the symbiotic relationship between state and society, and has enabled the exploration of both cooperative and coercive aspects of state-society relationships.

State autonomy

Where debate on the nature of the state is applicable to this thesis is in the ways in which the state has maintained sufficient autonomy to establish goals and set directions separate from those of other societal actors. This formulation of autonomy emerged from a concern that pluralist theories of the state saw the state as no more than an arbiter between competing interests (Hazelhurst 2001, 7). This view of the was predominant state during the 1960s and embodied the idea of "constant competition between purely self-regarding partisan interests, saw no possibility of these interests becoming part of state activity, and in any case found the whole concept of the state a puzzling and irrelevant archaism" (Colebatch 2005, 34). Views on the state as a distinct actor emerged in the early 1980s, with proponents of this view arguing that:

> States conceived as organizations claiming control over territories and people may formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes, or society. This is what is usually meant by 'state autonomy'. Unless such independent goal formulation occurs, there is little need to talk about states as important actors. (Evans, Reuschemeyer et al. 1985, 5)

In turn, the state has a degree of independence from other societal actors, making "its own decisions about how it will deal with internal and external problems" (Korbin 2001, 185).

However, no one actor, including the state, acts in isolation and therefore there are degrees of autonomy (Fioretos 1997, 297). In the case of the state, as a separate actor within society, the degree to which the state is insulated from broader society and the centralisation of decision making within the state provides a measure of the strength or independence of a particular state. In turn, autonomy is often seen in terms of the "power of the state vis a vis its domestic society" (Pusey 1992, 213), with different kinds of state-society interrelations. Table 3.1 sets out how the degrees of state autonomy ranging from 'non-existent' to 'dominant' shape the ability of the state to influence other societal actors (in terms of resisting private pressures, changing private behaviour or changing the social structure). Thus autonomy refers to the ability of the state to assert its independence by setting out its goals, and refers to the degree of decision making on behalf of society vested in the state (Skocpol 1985, 9).

Table 3.1: State Strength in Relation to Society

	Resist Private Pressure		Change Private Behaviour		Change Social Structure	
	Yes	No	Yes	No	Yes	No
Non-existent		X		X		X
Weak	X			X		X
Moderate	X		X			X
Strong	X		X		X	
Dominant	X		X		X	

Source: Pusey (1992, 213), based on Krasner (1978)

Debate on the concept of state strength is instructive because it highlights the dilemma of autonomy. In strong states the degree of insulation of institutions and centralisation of decision making is high. Centralisation reduces "the number of points of contact between state and society" (Pierre & Peters 2000, 165). The consequence is that the state may be slow to adapt to changing circumstances because it lacks effective feedback/intelligence on the impact of change on wider society; if it does react, its means of influencing other societal actors are limited. In weak states the "dense connecting networks" linking the state with societal actors "without a robust internal structure would leave the state incapable of resolving "collective action" problems of transcending the individual interest of its private counterparts" (Evans 1995, 12). That is, the state is embedded within networks of social ties which may overwhelm the state's ability to formulate goals which are separate from the more dominant social interests. Therefore, not only must the state have some degree of autonomy, but it also must have sufficient capacity to both protect its autonomy and successfully engage with wider society. Thus, for a state to engage successfully with international business pre-supposes a sufficient capacity in the state to both protect its autonomy while working with the foreign entity.

This problem of ensuring sufficient capacity in order for there to be effective state autonomy is central to theories of state autonomy. While neo-marxists such as Polanyi (1957) had identified the idea of the relative autonomy of the state, much of the revisionist or statist analysis that emerged in the late 1970s focused on Weber's work (Skocpol 1985, 4-8). In Weber's (1922) analysis of capitalist society "robust internal structure" took the form of the application of legal rational authority mediated through government supported by a state bureaucracy (Ham & Hill 1984, 48). Weber's notion of bureaucracy, as an ideal type, served as the administrative facilitator for a society based on, and dominated by, rational-legal authority. The ideal type of bureaucracy performed as the administrative facilitator for rule by legal authority, a means of governance very different from the whims and caprice of a despotic regent acting through trusted courtiers, or the potentially misplaced certainties of charismatic leadership. Bureaucratic authority was rational "in the sense of being bound to discursively analyzable rules" (Self 1985, 139). The use of laws governing society was mirrored in the rules governing the behaviour of members of the bureaucracy and the procedures for dealing with work situations. Certainty in the nature and application of rules meant that bureaucracy should be "a highly efficient instrument for applying public policies with precision and consistency" (Self 1985, 139). Taken to extremes the perfect administrative environment represented by Weber's ideal type of bureaucracy would see a single, hierarchically organised, unitary organisation comprised of members who share the same values, who are perfectly obedient, have full information on issues to be addressed by the organisation and have all the time necessary to do its job (Colebatch and Larmour 1993, 20-21).

However, the state is fragmented into a number of actors, and so much of the debate on the nature of the state focuses on the relative power between these actors. Different theories on the relationship between state and society suggest different ways in which a balance between state, society and individual interests can best be accommodated (Hill 1997, 28-63). Each theory, to a greater or lesser degree, establishes a role for a state bureaucracy, and each suggests differing responses to a fundamental dilemma posed by the presence of a bureaucracy. The dilemma is that bureaucracy, because of its proximity to government and its role in maintaining the system of legal rational authority, "is an instrument that enables much to be done that could not have been done, but there is a need to be concerned about how it is used, how it is controlled and who controls it" (Hill 1997, 157).

State capacity

State capacity refers to the ability of the state to execute or implement the state's goals and refers "to the ability of the state to draw on sufficient institutional resources both to design policies that will realise its policy objectives and to implement these policies" (Coleman & Skogstad 1990, 6). As such, capacities are the values and norms, expressed through structures and operations, and exercised as part of the state authority that foster and maintain the autonomy of the state. Such capacities enable a degree of autonomy but may also constrain the developmental path a state may pursue.

Assessing state capacity means asking to what degree the state has the ability to achieve its goals and to what extent the implementation of those goals contribute to the definition of the ideal state (as defined by Mann above). Frameworks for addressing the first of these questions are limited in that there is no consistent standard or scale for making this assessment. Nevertheless those who have examined state systems under stress, such as in the case of developing countries (Grindle 1996; Cummings & Norgaard 2004), or developed countries adjusting to changed circumstances such as emphasis on international competitiveness (Bryan and Rafferty 1999, 61; Keohane and Milner 1996, 1-24) have set down broad criteria for such assessments. For example, Grindle (1996, 8) in assessing state capacity in developing states of Africa and Latin America put forward a framework setting out the following four dimensions and criteria (as set out in Table 3.2). Cummings and Norgaad (2004, 690), who also base their work

Table 3.2: Framework for assessing state capacity

Dimensions	Criteria
Institutional capacity	Authoritative and effective “rules of the game” to regulate economic and political behavior. Ability to assert primacy of national policies, legal conventions, and norms of social and political behaviour over those of other groupings
Technical capacity	The ability to formulate and manage macro-economic policies. A cadre of well-trained economic analysts and managers. Well staffed and appropriately placed units for policy analysis. Important role for technical input and information in decision making
Administrative capacity	Effective administration of basic physical and social infrastructure. Ability to perform basic administrative functions essential for economic development and social welfare.
Political capacity	Effective and legitimate channels for societal demand making, representation and conflict resolution. Responsive political leaders and administrators. Societal participation in decision making.

Source: (Grindle 1996, 8)

on experience in developing countries, go further in situating state capacity in overlapping domestic and an international contexts. This model recognises both the political and administrative dimensions included in Grindle’s framework. Cummings and Norgaard (2004, 687) also add a further ideational dimension which recognises “the degree to which both elite members and the population more widely legitimate and accept the state”. In both models bureaucracy is identified as a component of effective government and a key component of the state.

State autonomy and capacity as an independent variable

Autonomy and capacity complement each other. Without autonomy the assertion of the state’s authority over, and independence from, other state actors can simply be co-opted by the dominant social actors. Without sufficient capacity the state is unable to exert its authority over other social actors. Both qualities can be exercised to greater or lesser degrees with variation over time and across areas of public policy. Recent experience in Australia, for example, reveals that in response to globalisation, “policy autonomy has shifted; squeezed by both domestic and global pressures, policy makers have increasingly placed the burden of adjustment onto domestic actors by opening up [the domestic economy] to the global” (Conley 2002, 378).

The degree of autonomy and capacity within a political system has a direct impact on how the bureaucracy is structured and functions as an apparatus of the state. In discussing legal-rational authority, one of Weber’s major points was the potential asymmetry between the type of authority wielded by government and the modern nation state’s bureaucracy. The former was based on the authority to govern and the latter on expertise in government. So while there is a strong, dyadic relationship between government and bureaucracy, Weber’s observations underscore the idea that at its core the state is fragmented into a constellation of relationships, each relationship providing a set of power resources and actors. Within this mix there are sets of relationships where the various actors involved have differing degrees of autonomy and differing degrees of influence on the functions of the state as a whole (thus influencing the effectiveness of the state, in both asserting and exerting its autonomy).

Fragmentation contributes to different dimensions of autonomy with subsequent implications for state capacity. There is autonomy of the state from society (Type A autonomy); the autonomy of the government from the public administrative apparatus (Type B autonomy); and the autonomy of each separate function of the public administrative apparatus from each other (Type C autonomy)[5]. For Type A autonomy the critical test of the capacity of the state is “whether state structures …insulate political elites from the demands of powerful interest groups” (Weiss 1998, 31). Capacity in Type B autonomy refers to the

[5] Krasner (1984: 231) also distinguishes between types of autonomy, however his emphasis is on identifying different types of relationships between state and society rather than relationships within the state as identified here.

various constraints and controls, from constitutional to physical proximity, which shape relationships between government and bureaucracy, and enable effective co-ordination between the government and its bureaucracy in order to develop and implement government policy. Capacity in Type C autonomy refers to the ability of the separate administrative arms of the bureaucracy to effectively co-ordinate the range of activities and tasks being performed. No unitary bureaucracy exists and therefore there is the continual challenge of ensuring co-ordination of the disparate parts and functions.

The autonomous yet fragmented nature of relations at the heart of the state gave rise to an observation on how the state responds to emergent issues:

> It is as though there were a political gateway through which all issues pass. Disputed from the moment they are in sight of it and more hotly as they approach - they pass (if they pass) through, and drop out of controversy for a time. Managing the procession are certain 'gatekeepers' – not just the Cabinet of the day, but bureaucrats, journalists, association heads and independent specialists camped permanently around each source of problems. To talk of a political process is to recognise some hint of pattern in the way in many different fields the controversial is transformed into the routine. Davies (in Colebatch 2005, 33)

While made in the context of Australian politics, this is an observation which has since been described as "'the policy community' … the loosely-linked but widely-recognised array of organised voices who could expect to be heard in the formulation of state activity" (Colebatch 2005, 34). These communities of interest, in which the government and its bureaucracy are embedded, act to place pressure on state autonomy and capacity. In turn, the interaction of state and society leads to innovations such as adjustments to policy.

Within such a system the behaviour and actions of a national bureaucracy are influenced by the degree of congruence with government (in terms of ideological, electoral, social, and economic goals); relationships between the government and the private and public actors outside of the executive's bureaucracy; and relationships within the executive arm of government, including relationships between executive authority and bureaucracy. These dimensions for analysis are discussed below.

Goals of national government

The goals asserted by government, in exercising the state's autonomy, are a mix of ideological, electoral, social and economic objectives. In the case of a parliamentary democracy a key group will be that section of the electorate which has provided a mandate to a particular party to form government. However, there is a degree of discretion in how the government of the day chooses to incorporate the values and beliefs of these groups into policies that emerge. They may "reflect the decisions of state actors to adopt a particular policy or to consult particular groups [however] at times governments will simply ignore views they do not agree with"; at other times the government may find itself dependent on interest group support or indeed forced to integrate interests different to their own (Hazelhurst 2001, 7).

Furthermore once in government there is the challenge of determining what specific actions the government should pursue. That is, the party in power seeks to carry through on a particular mix of policies to achieve its goals, but also faces new emerging circumstances that require new solutions. As a consequence:

> politics finds its sources not only in power but also in uncertainty – men collectively wondering what to do…Governments not only 'power'…they also puzzle. Policy-making is a form of collective puzzlement on society's behalf…(Heclo 1974, 305-306).

Within this context of a government seeking to implement its goals and adapting or creating policy to address new circumstances there is a dyadic relationship between government and its bureaucracy. This dyad is a nexus for decision making and implementation of government policy. For the relationship to be successful there needs to be sufficient capacity within the bureaucracy to respond to the government's goals, such as by providing: inputs of expertise into policy development; implementation of policies; feedback on policy implementation and assessment of impacts; and advice on future adjustment of policy. There also needs to be a significant congruence between the government's goals and those of the bureaucracy. Such reciprocity may be achieved through the application of controls ranging across organisational, human resource, technological, cultural and power measures. In the Weberian ideal this reciprocity was achieved through the application of rules based in law as well as a high degree of shared acculturation to the acceptance of the role of authority.

Institutional, particularly constitutional, frameworks (Majone 2002, 20-21) also shape state autonomy and capacity. The core of theory on the liberal democratic state is the constraint placed on institutions of the state such as parliament and the executive through the mechanism of a constitution which provides a degree of protection to wider society through limits placed on state powers. There are both formal and informal dimensions to this. The formal dimensions are the structure of the state as established in its constitution such as whether the state is unitary or federated, republican, parliamentary, universally democratic, corporatist or authoritarian. Informal structures and relationships emerge over time, to the extent in which pluralist, corporatist, or elitist approaches are adopted in policy development and implementation. In turn, such factors shape the way in which a national bureaucracy works, for example, in systems which divide state powers between a legislature and an executive there is ongoing debate over the degree to which the national bureaucracy should serve the interest of the executive or the legislature.

Recent history of the relationship between government and its bureaucracy in the Australian national government shows a strengthening role for the political executive (Halligan 2003, 82-86). The process of public sector reform has been achieved through successive waves of public sector reforms which sought to "move away from a more administrative, closed and centralised system towards a more political, management-centred, open and decentralised system" (Halligan 1997a, 5). In the Australian case, such reforms have been implemented in a series of waves commencing with the Royal Commission on Australian Government

Administration in the mid-1970s. More recent reforms have seen a reassertion of both the political and administrative centre (Halligan 2005a). While a stronger centre is at odds with earlier waves of reform, it is consistent with trends internationally concerning the role of the political executive in the contemporary state (Peters & Pierre 2001, 5-6).

Public sector reforms became prevalent across Anglo-American systems in the 1980s but distanced contemporary bureaucratic practice from the Weberian ideal-type. A key aim of these reforms was to create systems of government administration more responsive to societal needs and, in doing so, align the functioning of the state more closely with societal interests (Christensen, Laegreid et al. 2002, 173). Reform concentrated on ensuring a shift from administrative process to active managerialism within the public sector rather than due process or hierarchical control (Christensen, Laegreid et al. 2002, 159; Hughes 1992, 286; Johnson 1991, 58). They place much greater emphasis on flexibility involving "hands on professional management in the public sector; explicit standards and measures of performance; greater emphasis on output rather than input controls; disaggregation of units in the public sector; shift to greater competition; stress on private sector styles of management; and stress on greater discipline and parsimony in resource use" (James 2002, 62). In turn "public sector administrators have become public sector managers who are expected to deliver government services …with the same amount of resources, or less" and develop and apply "skills, expertise and competencies…more relevant to the private sector, than they are to the traditional public sector bureaucracies" (Johnson 1991, 58). More broadly across the public sector this change represented a "hollowing out of the state" through privatisation of public assets, "the loss of functions by central and local government departments to alternative delivery systems", the limiting of discretion of public servants through stronger accountability mechanisms and a starker distinction between politics and administration, and in the case of the UK, the "loss of functions by British Government to supra-national authority such as the European Union" (James 2002, 62).

In terms of organisational structures the general view, based on experience in other countries and at different levels of government in Australia, there is a move from more hierarchical structures to ones which emphasise a network of relationships, (including those such as public-private partnerships which blend private and public interests). A network structure as a means of policy development is consistent with Davies' conception of how policy is developed and the organisational form necessary to support policy development. Whereas networks as a means of implementing government policy contribute to the hollowing out of the state with functions of the state contracted out to private, non-government organisations (Howlett 2000, 412). Thus, these ideas suggest a weakening of state capacity, a dilution, rather than a strengthening of overall executive control. For example, in the context of the integration of states into the European Union, there is a reallocation of state authority "upward, downward and sideways from central state" through multi-level networks (Hooghe & Marks 2002, 233). However, closer examination of networks show considerable variation depending on the organisational ability, or capacity, of states to affect societal actors; and the numbers and types of actors governments must affect in designing and implementing their programs and policies (van Waarden 1992 132-136; Howlett & Ramesh 1995, 130).

Thus regardless of mode of organisation used to facilitate state autonomy the extent to which a state will achieve its goals is both constrained and facilitated by the relations within the various components of government, and relationships between the state and other, non-government, actors.

Relationships within government

Examination of bureaucratic politics reveals a complex system of internal politics characterised by shifting inter-agency conflicts and alliances suggesting varying relationships with government. Allison (1971) shows that in the process of puzzling by state actors there are organisational processes and governmental politics which shape decision making. Organisational processes include: the breaking of problems into components to be addressed along pre-established organisational lines such as through specific departments or agencies; the tendency, because of time constraints and limited resources, to select solutions which are the first to adequately address an issue; and the following of set repertoires when taking action.

Allison provides a starting point for exploring the dynamics of decision making within executive government. In challenging the notion of the state as a rational actor, he added weight to opinion that state behaviour was not essentially congruent with the interests of dominant societal members; instead the state had its own set of interests and responses. The capacity of bureaucracy, particularly its resources in expertise and organisation, was only a partial, but nevertheless significant explanation, of government actions. For example, the response that emerged from the US government to the Cuban missile crisis (in the form of a blockade and secret negotiation with the USSR) was the result of the exchange of ideas that took place within the executive and crystallised in the actions of the US government's leader. As a case study in the exercise of power mediated through a state structure this response underscores the complexity of relationships that are brought into play in policy formulation, decision making and implementation.

In the case of a Westminster system, such as that operating in Australia, the set of relationships that link the political executive (the government) with its bureaucracy include the following roles and relationships:

- prime minister (including advisors) to cabinet,
- ministers to cabinet,
- prime minister to ministers,
- minister to agencies,
- agency to agency (cross portfolio), and
- agency to agency (within portfolio).

These relationships are structured by a constitutional framework which establishes relative powers and responsibilities. For example, the national government is formed by the party, or a coalition of parties, with the most seats in the lower house, the House of Representatives. The political executive is formed by the parliamentary leadership of the party or parties elected to form the government and led by the head of the ruling party or parties (Singleton, Aitkin et al. 2003, 160). There are also uncodified and informal ways of interacting which take place in the ongoing process of collective puzzling within the executive. Based on Allison's observations such interactions will generate policy solutions which are not necessarily the best, but satisfice and will involve politicking within the executive, and with non-state actors and foreign governments.

Relationships between government and other actors

The concepts of state autonomy and capacity imply that there is a range of interactions between the state and society. The state and its various sub-components, resist or accommodate the views of societal actors to greater or lesser degrees, through various means of interaction, involving different modes of behaviour (Nordlinger 1981, 91-139). To take one set of societal actors as an example there are relationships between state and society, between government, its bureaucracy and business in the form of industries and industry associations which are complex and wide-ranging. Atkinson and Coleman (1989), in their work examining how industry policy is determined at the level of a specific industry sector not only show the role of the state, but also acknowledge the role played by interest groups in testing and exerting influence on government structures, in fostering policy adaptation and innovation in response to changing circumstances.

Applying Atkinson and Coleman's (1989, 50-54) framework for assessing sectoral power shows the variables which determine the autonomy of the state to be the degree to which "ultimate decision making power is concentrated in the hands of a relatively small number of officials", and the degree of mobilisation of societal interests. Thus capacity may be considered as relative. A strong bureaucracy engaged with a strongly represented business community gives rise to different kinds of business-government relationships and different kinds of policies and outcomes than in circumstances where either party, or both, are weak. Indicators of the relative power of the state and business are described in Table 3.3. Such indicators, while reinforcing the concept of a dyadic relationship between state and society, also demonstrate the potential for variation in state-society relationships over time and across policy areas.

Table 3.3: Relative powers of the state and business in shaping policy in specific industry sectors

Stronger state capacity – weaker business capacity	Weaker state capacity – stronger business capacity
Bureaus have a clear conception of their role and a value system consistent with and supportive of that mandate. Political support for the bureau's role is strong. Where officials are charged with conveying and interpreting the demands of clientele groups, they should possess a professional ethos distinct from that prevailing among professionals in society at large. Administering laws and regulations that explicitly define the bureau's responsibilities and those of societal groups. Rules thus created are subject to only limited negotiation with business interests. Able to generate within the bureau information concerning the industry sector and issues that arise. This is particularly so if that information is of "a technical character, that is required for the pursuit of [the bureau's] mandate". An autonomous bureau will possess an in-house capacity to evaluate and employ information collected from firms and associations. Source: Atkinson and Coleman 1989, 52; Coleman and Skogstad 1990, 15-16	Presence of an association representing a particular product, service or territory. Comprehensiveness of associational representation with "one and (normally) only one association" speaking for the sector as a whole. Density of membership: "…that is a high proportion of the firms (or of the production) in a given sector will be represented by the association". Blending of roles between the state and business representation: in a highly mobilised sector, associations will have the capacity to bind member firms to agreements negotiated with the state and to offer assurances of individual firm compliance with policy decisions. That is, some of the coercive authority vested in that state can be and is ceded or delegated to the association. Information as a resource: "Firms and associations will possess considerable in-house capacity for the generation of information, both technical and political". Source: Atkinson and Coleman 1989, 53

To examine the relative power of the state and interest groups is not a new issue in political science, public policy or public administration (Wilson 1990). However, the scale of change under way in national governance due to pressures of globalisation suggests that these issues should be examined closely. This is particularly so in the context of this thesis where relationships between business, executive government and the bureaucracy serve as an indicator of state capacity.

Work on the changing nature of the state suggests a reshaping of the state is under way due to pressures of globalisation and the state's approach to the provision of public goods. For example, Knill and Lehnkuhl (2002) in examining governance in internationalised environments, argue that the patterns that emerge are related to the governance capacity of public and private actors, and the way these interests interact in determining the nature of a public good. Having argued that governments are challenged to address successfully the social and political issues emerging from economic integration due to globalising processes, Knill and Lehmkuhl focus on changing patterns of governance with respect to the definition and provision of public goods. This involves a transformation not only in the content or ambit of such goods but in the "patterns of governance" to include "all modes of coordinating individual action, such as hierarchies, networks, associations, or markets" (Knill & Lehmkuhl 2002, 42). They expect to find, "a decline in hierarchical forms of intervention, and a rise of other forms of governance, such as regulated self-regulation, private self-regulation, or interfering regulation". At the same time they do not expect private and public governance capacities to crowd each other out, "rather, …more synergetic relationships, with private and public activities partially reinforcing each other" (Knill & Lehmkuhl 2002, 42). In line with other minimalist state theorists (Cerny 1995, 608-612; Hulsemeyer 2000, 84-85) they argue that the "general challenge emerging from global markets and transnational networks" is the capacity of governments to define and provide public goods. However, they see the state as still very much being a viable actor in the governance of society:

> Governments have significant capacities not only for adjusting governance structures to new requirements, but also for disposing of important powers and resources that are not available to other actors. This is particularly evident with respect to their ability to accommodate conflicting interests and define governance priorities (Knill & Lehmkuhl 2002, 43).

In turn, the emphasis is on public sector institutions because they act as sources of legitimisation and power, provide the means for coordinating and distributing resources at different levels of governance, and serve as mechanisms for "the establishment of agreed upon standards rules and strategies of intervention" (Inam 2002, 4).

The implication of Knill and Lehmkuhl's work is that not only is the nature of the state changing, but within the state the organisation and deployment of the public capacity to respond is changing. In particular, governance forms are shifting away from more hierarchical modes to markets and networks. That is, as state autonomy is pressured so is capacity, and, as Allison shows, where there is a push there is reaction within the state as the state pushes back. The consequence of the push and pull is that the fundamental characteristics of the state (in terms of autonomy and capacity and therefore sovereignty) have not changed, whereas patterns of relationships within the state and between state and society have.

State autonomy and capacity as a variable in explaining state adaptation

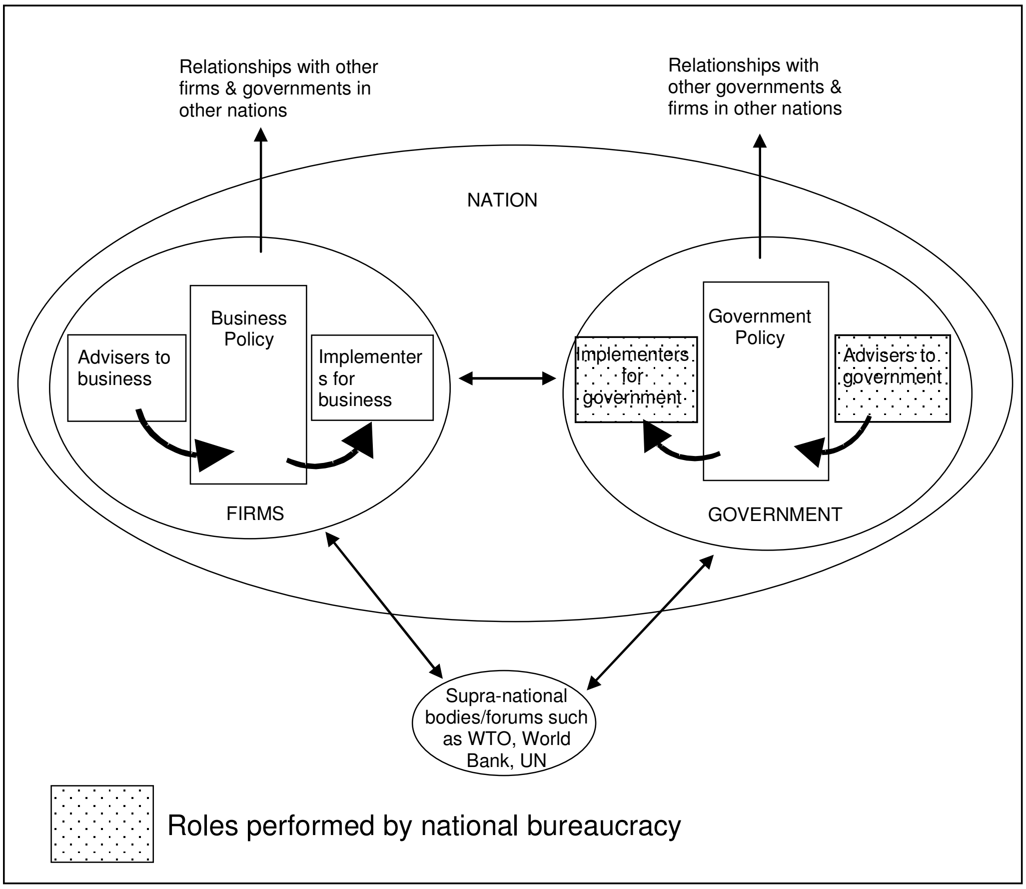
The preceding discussion shows that state autonomy and capacity have an important role to play in understanding the response of the nation state to globalising pressures, such as the distribution of MNE production. There is a strong suggestion that there is a co-evolution of structures (such as markets and networks) which weaken state structure with policies that foster markets and networks. However, Conley (2002a, 381) argues that:

> While globalisation has challenged the policy-making process, these challenges have generally been encouraged by state actions. Indeed, state elites have been globalisation's most vociferous proponents. The argument that states and international economic actors are inextricably opposed entities, both seeking dominance in the world political economy, provides an inadequate conceptualisation of the relationship between globalisation and the state.

In the case of Australia, the state has actively sought to encourage the globalisation of domestic markets while attempting to maintain its autonomy and capacity.

As illustrated in Figure 3.1 (below) national bureaucracy has the potential, because of its relationship to government and society, to act as either capacitor or resistor in what has been described as the global circuit of capitalism (Dicken

Figure 3.1: Position of National Bureaucracy in Global Capital Flows



Source: Model developed by author of the thesis building on Dicken (1998, 178-181)

1998, 178-181). The bureaucracy may resist strongly or weakly; and it may be a more or less proactive facilitator. As Figure 3.1 illustrates, processes of globalisation exacerbate tensions in state society relationships. For example, the continuing commitment to shaping an international commercial order, because of the returns to scale and scope offered by global markets, remains a powerful incentive for governments and business interests to pursue. At the same time the collective impact of the many and varied state and commercial strategies towards globalised market places creates its own pressures on states and commercial interests to respond, setting up a feedback loop of challenge and response which has tended to strengthen pressures for the globalisation of production. This pressure creates a number of stresses and strains on the system described in Figure 3.1 which are worth exploring to investigate what processes of adaptation are taking place within the state: in particular how the shape of bureaucracy in these intervening spaces is being reshaped; and how the bureaucracy within these spaces are adapting as part of the broader adaptation of the state.

A core debate about globalisation is the extent to which the state itself is compromised in its capacities and, as a consequence, its autonomy. As shown in this discussion, the debate has tended towards the argument of globalisation as a process of diminishing state capacity rather than globalisation as a process of adjustment within the state, and between state and society. In concentrating on the loss of capacity in specific areas such as social welfare, industrial relations or macro-economic policy, new areas or types of emphasis in capacity have been neglected. Globalisation as a context for state action certainly creates a new set of wider environmental circumstance, including a more internationalised domestic polity in which the effects and direct participation of transnational actors (firms, civil society organisation and individuals) is more visible in terms of sheer numbers and possibly greater sources of power. However, it remains an open question as to whether the forms of state capacity that have emerged indicate a diminished or an enhanced capacity.

Even though the death of the nation state as a unit of organisation has been widely proclaimed, especially in the face of the emergence of MNEs, the nation state has demonstrated a continuing ability to adapt to this challenge. Strong international linkages amongst a heterogeneous mix of actors have added more numerous, and possibly more powerful actors, to domestic political arenas. There is conjecture that such pressures may act to constrain the activities of the state both nationally and internationally (Mosley 2005, 359-360), however this is yet to be conclusively proven. In looking to processes of globalisation, the key issue is the degree of autonomy the state maintains vis-à-vis other actors in the domestic polity. In the case of FDI, the rejection and then the accommodation, of such flows shows that states over the later stage of the twentieth century have at least maintained sufficient autonomy to craft and implement these policies. The experience with FDI illustrates an adaptive capacity within states to respond to both domestic and international imperatives; it hints at adjustment processes taking place within the state that are hidden in purely economic analysis or in analysis of the impacts of globalising processes emphasising the constraints placed on states (Weiss 2005, 345). However, only very limited work has taken place examining this adaptive capacity of the state. Mosley (2003) and Weiss (2005) have both recently identified this as a weakness in debates over the nature of the state. In part this is due to a methodological focus on macro variables. More broadly, however it is a product of the assumption that states are in decline as a unit of organisation because of globalising pressures that cause leakages of sovereignty to transnational bodies which are responsible for international public policy, and also to MNEs who operate outside the confines of any one state.

Such propositions are open to empirical examination and assessment. As this chapter has shown, and summarised in Table 3.4 below, the national bureau-

Table 3.4: Bureaucracy as an indicator of state autonomy and capacity in response to globalisation

<table>
<tr><th></th><th>Autonomy</th><th>Capacity</th></tr>
<tr><td>Goals of national government policy</td><td rowspan="3">Linkages in:
• policy formulation
• implementation
• evaluation
• revision</td><td rowspan="3">• Personnel
• Structure
• Culture
• Ideology
• Leadership
• Technology</td></tr>
<tr><td>Relationship between the national government and other actors</td></tr>
<tr><td>Relationships within the national government</td></tr>
</table>

cracy is an integral component of the state. As the shape of the state is reworked in adapting to global pressures, the national bureaucracy will be reconfigured as part of that process and changes will occur in the relations of the bureaucracy to the executive government, to other arms of government and to other societal actors. The bureaucracy will also demonstrate changes in its capacities such as personnel, organisational structures, culture, ideologies, leadership, and use of technologies. In short, how the national bureaucracy is employed and deployed provides an indication of the elected government's capacity to respond to the pressures of globalisation.

Summing up Variable 2 – State Autonomy and Capacity

This chapter showed how Weber's work on authority as a variable in state-society relations has led to a number of fundamental concepts in understanding how the nation state functions as an organisation and how a national bureaucracy functions within it. The fundamental criteria for assessing the nature of a state and its bureaucracy include autonomy, capacity and control. Application of this framework to the transformation of state-society relationships in adapting to globalisation suggests significant change in relationships between state and societal actors. In focusing on the nexus between government, business and national bureaucracy, the changing patterns of relationships should be apparent.

In particular, one fundamental aspect of nation state adaptation to globalisation is the challenge that a more extensively internationalised polity exerts on the operations of the state, and the subsequent role played by the national bureaucracy in contributing to the adaptation of the nation state to changed circumstance. The consequential restructuring of relationships in the wider polity is reflected within government through change to the political executive and its relationship to its administrative capacity. Factors identified in this chapter, such as the constraints and controls that determine the relationship between government and its bureaucracy (Type A autonomy), the ability within the bureaucracy to effectively co-ordinate the range of activities it is tasked to perform (Type B autonomy), and the importance of established organisational channels (Type C autonomy), each contribute to the state's adaptive capacity.

Both the political and administrative capacities of the state are challenged by the processes of globalisation, adding to pressures on interests and relationships within the core of government. In turn, changes in the patterns of relationships between the political and administrative arms of government provides a means of understanding the interaction of processes of globalisation (Variable 1), and state autonomy and capacity (Variable 2). Furthermore, as this chapter has shown, the employment and deployment of the national bureaucracy may facilitate or retard the autonomy of executive government.

The next chapter, Chapter 4, outlines the methodology used in applying this observation. In particular, it presents a set of techniques and criteria to examine the adaptive responses of the Australian state to globalisation as found in the case of FDI flows and the corresponding interaction between the executive government and its bureaucracy.

CHAPTER 4 - Methodology

Chapters 1 to 3 argue that globalising pressures, such as FDI flows, have led to a changed environment for the nation state with the consequence that the state has been challenged to reconfirm its autonomy from other societal actors, both national and international, in the domestic polity. Moreover, the state has sought to adjust its capacity to respond to changing circumstances engendered through global economic pressures by reforming, reshaping, and reconfiguring the national bureaucracy as a component of that capacity. While much has been written on the interrelationship between globalisation, the state and national bureaucracy, empirical analysis has tended to treat the causal links between globalisation and state adjustment, and the causal links between state adjustment and the actions, behaviour and structure of the national bureaucracy as separate areas for research. Consequently while there is a significant natural experiment underway the links between globalisation or a globalising process, state adjustment, and changes in the national bureaucracy have been implied rather than examined in detail.

There is a need for a framework to operationalise the problem of mapping the change taking place. Quantitative studies have tended to assume a process of adjustment within the state, but have not made it explicit, and have assumed that there will be a convergence of national regulatory approaches (Keohane & Milner 1996, 19-20). Qualitative analysis, particularly through case studies, has examined aspects of globalisation and its impact on nation states as political actors. However, such studies need to go beyond recognising that globalisation has changed the context of public administration, and move to better understanding the causal links between this changed context and change in the nature of public bureaucracy. There is no all-encompassing, extant research framework which will support the particular research task posed in this thesis, so the following range of approaches and techniques have been utilised to test and examine the questions posed.

The methodology used is described in terms of the research task, the development of the methodological framework for addressing the research question, and the method used in this study. The section on method sets out the reasons for selecting a case study approach to address the research question, explains the parameters of the case study, the framework used in analysis, and the method used to collect the data, and explains how the results will be presented.

The Research Task

Chapters 1 to 3 showed national bureaucracy being shaped by both processes of globalisation and by responses to those processes by national governments. The emphasis in much of this literature is on the demise of the autonomy and the capacity of the nation state to respond to pressures caused by the continuing internationalisation of production and the emergence of footloose capital. Less emphasis is given to the adaptive processes taking place within states to ensure a continuing relevance, if not dominance, of the state. The question being examined in this thesis is:

> *given the key role played by the national bureaucracy of supporting state operations, what is the significance of the national bureaucracy in such processes of adaptation?*

As demonstrated in Chapter 3, little work has been conducted explicitly linking processes of globalisation to change within a national bureaucracy, particularly in terms of its contribution to state autonomy and capacity.

The Framework for Addressing the Research Question

In seeking to redress this gap in analysis of links between globalisation and national bureaucracy, this study uses a qualitative approach to explore national responses to globalisation pressures. The intent is to examine the interaction of both exogenous and endogenous factors inherent in processes of globalisation to determine the impact of these factors on the role and organisation of the national bureaucracy. This study argues that processes of globalisation, as represented by FDI activity generated through MNEs, contribute to processes of adjustment by states, particularly in the resetting of boundaries between the national and the international. The state, in manipulating boundaries, exercises a degree of autonomy through the adjustment of its capacity by reconfiguring vehicles for state and society interaction such as the national bureaucracy. Much of the research on states and globalisation recognises this process, though there is much disagreement as to whether the ultimate outcome is a decline in the institutions of the state or not. However, while there has been considerable conjecture in extant research on links between globalisation and subsequent change in national capacities, there has been little research into links between the national bureaucracy (as a means of ensuring autonomy and a capacity utilised by the state in exerting its authority to redefine boundaries) and globalising pressures.

Machinery of Government Studies

Nevertheless there are several antecedents to this study which can be drawn on to establish a framework for this research. Research into institutions of the state, in particular those examining the machinery of government (MOG), have established a menu of research techniques and a vocabulary for describing administrative structure in the service of the state which can be applied in this study[6]. For example, as illustrated in Table 4.1 below, MOG studies consistently involve the identification of specific units for analysis, areas of policy or governmental

[6] Such studies have ranged across government reports and statements of machinery of government offering "official explanations, and normative justifications, for machinery of government changes"; accounts of organisational change in particular departments; broad scope analysis and evaluation comparing "wide-scale government reorganizations"; "theoretical and comparative literature" examining machinery of government changes as a means of exploring "wider theoretical questions about the operations and structure of government"; and "longitudinal studies of machinery of government change in particular countries" (Davis, Weller et al. 1999: 9-11).

activity, and periods of time to examine[7]. Of most importance is that such studies provide a means to identify and test the impact of causal factors.

Table 4.1: Sample of studies considered in Davis et al (1999, 11-12)

Study	Focus	Organised by	Causal factors of change
UK			
D.N. Chester and F.M.G. Willson (eds)(1968) *The Organization of British Central Government 1914-1964*	The creation and abolition of departments and the transfer of functions between departments from 1914 to 1964	Policy areas such as finance, trade and industry; law, justice and public order; and social services.	Elections, party politics and the outbreak and end of wars.
Christopher Pollitt (1984), *Manipulating the Machine*	The changing pattern of British ministerial departments from 1960 to 1983.	Successive Conservative and Labour governments, rather than policy areas.	The interplay of political necessity and norms and protocols
Brian Hogwood (1992) *Trends in British public policy: do governments make any difference*?	The underlying principles influencing changes in the organisation of central government in the United Kingdom between 1950 and 1992	Principles for the distribution of responsibilities, reasons for the allocation of activities to particular departments, and fashions with particular types and sizes of organisation.	Consolidation of functions around major public expenditure commitments
Australia			
Castleman (1993) *Changes in the Australian Commonwealth departmental machinery of government 1928-82*	Australian Commonwealth departmental MOG arrangements between 1928 and 1982.	Rates of administrative change under successive prime ministers	Responses to emergent issues following Federation in 1901 such as "secondary industry, employment, industrial relations, national service and overseas trade" (Davis, Weller et al. 1999, 12).
Wettenhall (1986) *Organising government: the uses of ministries and departments*	The ideas and processes which contribute to the organisational structures of ministries and departments	Thematic comparisons using cross-country and longitudinal examples	Government perceptions of public interest (Wettenhall 1986, 240).

[7] Davis et al (1999) are not alone in identifying such features of historical comparison as a research methodology. For an overview of contemporary approaches to comparative-historical analysis see (Mahoney & Rueschemeyer 2003: 3-15) and (Mahoney 2004). Also see Peters (1999) on modes of institutional analysis.

The key contribution that MOG studies make to this thesis and its assessment of the significance of the bureaucracy to the broader agenda of the government in the context of globalising pressure, is the emphasis given to the role of the centre or core executive. The core executive is defined as "all those organizations and procedures which coordinate central government policies, and act as final arbiters of conflict between different parts of the government machine" (Rhodes 1995, 12), and thus provides an identifiable location through which to examine contestation and subsequent change in policy, regulation and organisation as the state seeks to exert its autonomy (Smith 1999, 1-8). Furthermore, the actors involved in such processes can be readily classified, based on differences in roles and responsibilities. For example, Davis et al (1999, 38) identify four groups which comprise the core executive:

> at its center the Prime Minister and his Private Office, the Cabinet Office and the Secretary of the Cabinet Office. Deployed around the hub are three groups of relationships: the group involved in politics is that of ministers, ministerial staff and the governing political party; the group involved in policy comprises the Cabinet, the Cabinet Office and senior departmental officials; and the group concerned with administration is comprised of ministers, departmental secretaries, the Cabinet Office, Treasury/Finance and the public service commission.

This thesis uses the framework and techniques offered by MOG studies to examine the national bureaucracy as an indicator of change. While tracking longitudinal change, it is also concerned more broadly with change in policy, regulation and bureaucratic structure as indicators of state posture and the role that the national bureaucracy plays. In doing so, this study emphasises the dynamics or friction between the state and globalising processes as reflected in change in FDI policy and regulation, and draws on two further sets of institutional studies.

Studies of the treasury function

The first of these concerns the focus on FDI policy and regulation. This area of policy is one which traditionally falls into the ambit of the treasury function. Therefore it is worth examining those studies which have examined treasury departments in Westminster systems of government and the causal factors identified in those studies which contribute to organisational change. As Table 4.2 shows, such studies which have examined organisational culture (Heclo & Wildavsky 1973); changing values and ideologies in the shift from Keynesian to a neo-classicalism (Whitwell 1986); and the contest between the competing values and ideologies of interests groups in shaping FDI policy (Pokarier 2000). While

Table 4.2: Focus and causal emphasis in studies of national treasury bureaucracies

	Location	**Focus of analysis**	**Causal emphasis**
Heclo and Wildavsy (1973), *The Private Government of Public Money: community and policy inside British politics*	UK	Culture	Endogenous pressures
Whitwell (1986), *The Treasury Line*	Australia	Values/Ideology	Exogenous/ Endogenous pressures
Pokarier (2000), *Politics of Foreign Direct Investment in Australia, 1960-96*	Australia	Values/Ideology	Exogenous/ Endogenous pressures
Pemberton (2003), *Learning, governance and economic policy in the UK Treasury*	UK	Values/Ideology and structure	Exogenous/ Endogenous pressures
Eccleston (2000), *Policy Network Change and its Implication for Australian Taxation Reform*	Australia	Values/Ideology and interest intermediation	Exogenous/ Endogenous pressures
Bakir (2003), *Governance in Financial Supervision: The Australian Experience in the 1990s*	Australia	Regulatory structure and interest intermediation	Exogenous/ Endogenous pressures

these studies explored exogenous and endogenous pressures on the treasury function there is only limited analysis of the changing structure of the treasury bureaucracy over time. Pemberton’s (2003) analysis addressed both change in ideology, from Keynesian to neoclassical and explored the dynamics of interdepartmental rivalry in the shaping of economic policy in the United Kingdom in the 1960s and 1970s. Studies such as Weller and Cutt’s (1976) have examined the change in the structure of Treasury as it related to its role in the management of government expenditure and Wanna et al (2000, 69-123) have explored the division of this function into a treasury department and a budget management department (the Department of Finance and Administration). The only systematic analysis of change in the structure of Australian treasury organisation as it relates to its role as an agency closely involved in regulatory matters is in Bakir's (2003) account of the change in regulatory structure in the mid-1990s.

Studies of changing bureaucratic structures in response external and internal pressures

A further set of studies are those which do not examine the treasury function specifically, but provide accounts of changing bureaucratic structures in response to both external and internal pressures (see Table 4.3). For example, Borzel and

Table 4.3: Focus and causal emphasis in a selection of studies of local, regional and national bureaucracies

	Location	**Focus of analysis**	**Causal emphasis**
Borzel (1998) *Organizing Babylon: On the different conceptions of policy networks*	EU	Structure	Exogenous/Endogenous pressures
Hooghe and Marks (2002) *Unraveling the Central State, but How? Types of Multi-level Governance*	EU	Structure	Exogenous/Endogenous pressures
Halligan (2005a) *The Reassertion of the Centre in a First Generation Reforming System*	Australia	Full range of capacity variables	Exogenous/Endogenous pressures
Lofgren (1997) *Globalisation of the Pharmaceutical Industry and the Australian State: The Transformation of a Policy Network*	Australia	Structure and politics of health regulation under pressure from MNEs	Exogenous
Welch & Wong (2001) *Effects of global pressures on public bureaucracy: modeling a new theoretical framework*	Japan and Hong Kong	Interaction of the full range of capacity variables	Exogenous, but filtered by endogenous factors

Risse (2000, 5-8) have examined the emergence of networks as forms of structural response to pressures for Europeanisation within the EU. Hooghe and Marks (2002, 233) extrapolate from growing interests in networks to argue that networks represent the emergence of multi-level governance arrangements which not only place pressures for decentralisation in national governance, but also represent forms of multi-jurisdictional, and therefore boundary crossing, activity. Halligan (2005b: 29), in reviewing recent trends in public sector research, highlights the emergence of interest in boundary crossing activity, although he specifically refers to the exchange taking place over the mix of public and private interests in public service delivery. Lofgren (1997) examines the case of the changing structure of decision making around the approval of new pharmaceuticals for the Australian market. He shows the increasing dominance of MNEs in this process. While this is a useful analysis, it can only offer a hint as to what may be occurring on a broader scale, such as that occurring more generally in FDI decision making at the national level.

Each approach offers tantalizing insights on change in structure. In particular the emphasis is on the pressures on hierarchical modes of organisation and the emergence of networks as forms of organisation for policy development and implementation. This is especially in the context of the Europeanisation of domestics politics in EU countries (Benz & Eberlein 1999, 329). In addition, there have been a number of studies of networks as a form of state organisation and service delivery in Australia (Hazelhurst 2001; Considine & Lewis 2003). However, neither examples drawn from EU experience nor those from Australia have specifically addressed the influence of globalising pressures and state responses on FDI processes.

The last example included in Table 4.3, Welch and Wong (2001), is a case distinctly different from the others listed. While it is not concerned with FDI processes it is very much concerned with seeking a link between “global pressures” and the impact of such pressures on bureaucracy directly or indirectly as mediated by domestic political, economic and social factors (Welch & Wong 2001, 372-374). Their goal is to establish a theoretical framework to test the impact of global pressures on change within civil service behaviour and organisation as measured against structure, size, scope, autonomy and accountability. The examples they use as case studies are the response of the Japanese national and local government bureaucracies to the Kyoto Protocol on global warming and reform of the Hong Kong civil service in 1999.

Together, Tables 4.2 and 4.3 suggest some of the pressures which have contributed to more or less coherence within administrative structures (Peters 1998, 288). However, amongst these studies the links to globalisation, except in the cases of Welch and Wong (2001) and Lofgren (1997), are weak. Those that have examined structure have not sought to link such changes to wider pressures, while those who have examined broader issues have not sought to examine the impact of the restructuring of the architecture of decision making and implementation which have taken place over the last 40 years.

Accordingly this thesis broadly follows the approach adopted by Welch and Wong, structuring the analytical framework for this research into two independent variables which contribute to change in policy, regulation and structure. Such an analytical framework recognises the processes of globalisation as represented by FDI as one independent variable and state autonomy and capacity, as a second independent variable. The multiple dependent variables (policy, regulation and structure of the national bureaucracy to exert regulatory capacity on FDI) while consistent with Welch and Wong's approach, have been used to more clearly examine the processes of interaction, and hence significance, taking place in and around the core executive.

While the dependent variables will be discussed further below it is worth noting the reason for selecting structure as one dependent variable and therefore a major focus for analysis. As Table 3.1 showed, the menu of options for examining bureaucracy included aspects such as personnel, structure, culture, ideology, leadership and technology. Thus, while there are more obvious factors other than structure for analysis (such as technology and personnel) which Table 4.2 and 4.3 highlight, Pusey's (1992) study of Australian bureaucracy and its link to the

Australian nation state examined four of these aspects (personnel, culture, ideology and leadership) and each of these has been regularly re-examined and refreshed in recent analysis of Australian public administration (Halligan 2005b, 25-27). Whereas, there has been no apparent study in the Australian context linking change in the organisational patterns of the national bureaucracy as a response to specific pressures due to globalisation.

The emphasis on structure, and its nexus with policy and regulation, reflects the need to redress a gap that exists in broader studies of globalisation and the state. The rationale for this approach is that a national bureaucracy, as a system of organisation within Australian society, has distinct goals and resources which are able to be mobilised and reconfigured to adapt to changing exogenous and endogenous circumstances identified by the core executive. Thus activities, policy positions and structures of relationships are reflected in patterns of formal organisation. Moreover, the artefacts of formal organisation provide the basis to identify change over time and the links between casual and resultant factors. This observation is both at the core of the method used to structure the fieldwork for this thesis as well as one in common with research into agencification, regulatory reform and the emergence of the regulatory state (Christensen & Laegreid 2005, 18-23). Concepts from this field of research are applied to identifying and measuring the impact of change on the organisation of the bureaucracy as the state adjusts to both globalising and domestic pressures. In particular, research into the regulatory state shows that not only is there a core executive, but there are a range of public sector agencies concerned with regulation, management, the provision of services or the delivery of policy advice (Christensen & Laegreid 2005, 5) which interact with both the core executive and the wider community. A key assumption in the research methodology put forward below and applied in the fieldwork phase of this research is that the change in the number, kind and mix of agencies deployed by government, in particular those agencies involved in regulatory activity, reflects change in policy and regulation by the state. In short, changes (represented by the number, kind and mix of agencies) which directly contribute to the effectiveness of the core executive in fostering state autonomy provide an indicator of the magnitude and direction of state adaptation through adjustments in policy and regulation.

Method

The method used in this research to determine the significance of the national bureaucracy as an indicator of state capacity and autonomy as policy changes over time in response to global economic pressures is that of an extended case study. The case study is of experience with FDI policy in Australia between the period 1968 and 2004. Set out below is the rationale for this approach, the process of defining national bureaucracy as the unit of analysis and the parameters (spatial and temporal) used in defining the case study, the methods of collecting data in the fieldwork phase of this research, and the structure used to present the data.

Rationale for applying the case study approach to this research task

The research arose from the observations that, states matter in processes of globalisation; evidence of this can be found in the way governments manage change arising from these processes through reform of bureaucratic structure and regulation; and, therefore, the nature of bureaucracy also matters. The case study approach has been adopted to explore these observations because it is a mode of research which enables "an in-depth study of a single unit (a relatively bounded phenomenon) where the scholar's aim is to elucidate features of a larger class of similar phenomena" (Gerring 2004, 341). Case studies also allow scope for the use of multiple sources to provide a richer insight into the issue at hand (Stake 2000, 443-444) and, to a more limited extent, ensure the validity of that data (Yin 1989, 97). Thus the case study approach used in this research uses multiple sources to contribute to the development of a narrative to provide the basis for analysis.

One key to case study research is the establishment of the boundaries of the study and the factors of causation (Gerring 2004, 342-343). In this thesis factors of causation have been addressed and defined through the literature review which discussed the two independent variables. The dependent variable – the response of the nation state in the form of policy, regulation and the structure of the national bureaucracy – and further specification of the parameters of this study is set out below.

Case study design

To the test the significance of bureaucracy in a state under pressure from globalisation it was necessary to further refine the parameters of the case study to specify a location to examine, an area of government activity exposed to such pressures and a period of time. In this case the parameters of the research were determined to be an examination of change in the national bureaucracy in Australia's policy approach to FDI flows from 1968 to 2004. Essentially, the approach was one which compares experience across a period of time in the one location rather than seeking a comparison across nation states. The rationale for choosing these particular parameters for the study is set out below.

(a) Location

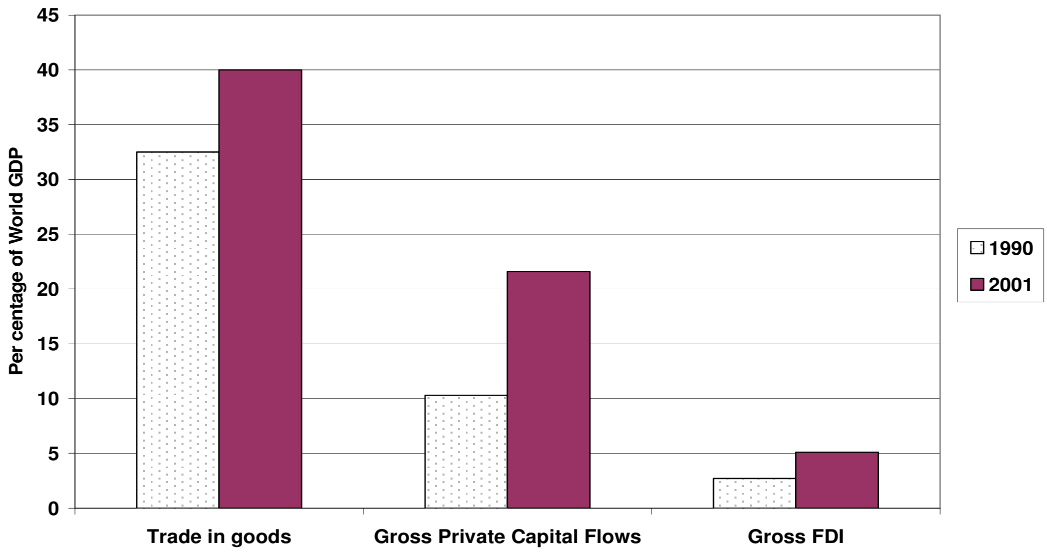
Australia was selected as the site for this investigation because its national government policies during the latter part of the twentieth and the early twenty-first centuries have been directed at economic transformation in response to globalisation (Conley 2001, 224-225; Mintrom and Wanna 2006, 165-167; Keating 2004, 2-3). Australia, because "it is a small, advanced economy that is highly vulnerable to developments in the world political economy" (Conley 2002, 377) has been regularly examined by researchers investigating the process of globalisation. In addition, Australia offered advantages in undertaking an analysis of change and development in public policy because of a relatively high degree of transparency in government decision making and operation, and the relatively high concentration of a small number of individuals and organisations in a small number of locations.

However, the use of the Australian state as one to explore introduces a degree of complexity because, under its Constitution, it functions as a parliamentary, majoritarian democracy using a federal system of government (Pollitt & Bouckaert 2004, 40-41). As a federation there is an innate tension between the national (Commonwealth) government and the sub-national levels (called state governments) as to which level of government has jurisdiction in particular matters. This fundamental aspect of the Australian state structure, as will be seen below, was incorporated into the research methodology. Moreover, as a parliamentary democracy there are inbuilt tensions: between the executive and the parliament; within parliament between the upper and lower houses; and tensions between the judiciary, the parliament and the executive. A further aspect is that the constitution underpinning the operations of the Australian state also specifies the period of office, phrased in terms of the life of parliament, from one election to another. Such conditions (a federal structure, the separation of powers, and limits on the life of any one parliament) shape the nature of government priorities and capacities. Thus, in addition to any exogenous pressures on the governance of the Australian state, there are pressing endogenous concerns which also contribute to the shape and concerns of any one government. Therefore the nature of the concerns of each government is likely to vary considerably.

(b) Area of government activity

FDI is examined because such flows represent a significant boundary crossing activity highly responsive to global economic pressures. In the latter stages of the twentieth century FDI flows attracted considerable interest in Australia and became a sensitive political issue that governments had to address. The framing of economic and social contests around FDI flows by political leaders, academics, business and unions provoked concerns across the Australian community (Conley 2001, 224-225; Conley 2002a, 382-387). Such debate continues to be relevant with a significant component of global trade and investment flows represented by FDI (as illustrated in Figure 4.1), perhaps indicative of an increased tempo of globalisation and an area of interest for domestic and international policy makers (UNCTAD 2005c, 157).

Figure 4.1: FDI as a growing component of global trade and investment flows



Source: World Bank (2003, Table 6-1, 312)

In terms of research design, examining FDI flows in the Australian context is attractive. First, they represent a discrete set of activities for which there are broadly consistent definitions. For example, in Chapter 1 the definition provided by UNCTAD was used to describe the nature of FDI, and in the Australian context both the Australian Bureau of Statistics (ABS) and the Foreign Investment Review Board collect and disseminate statistics on FDI flows that are consistent with that definition[8]. Therefore, data on such flows is available in the public domain.

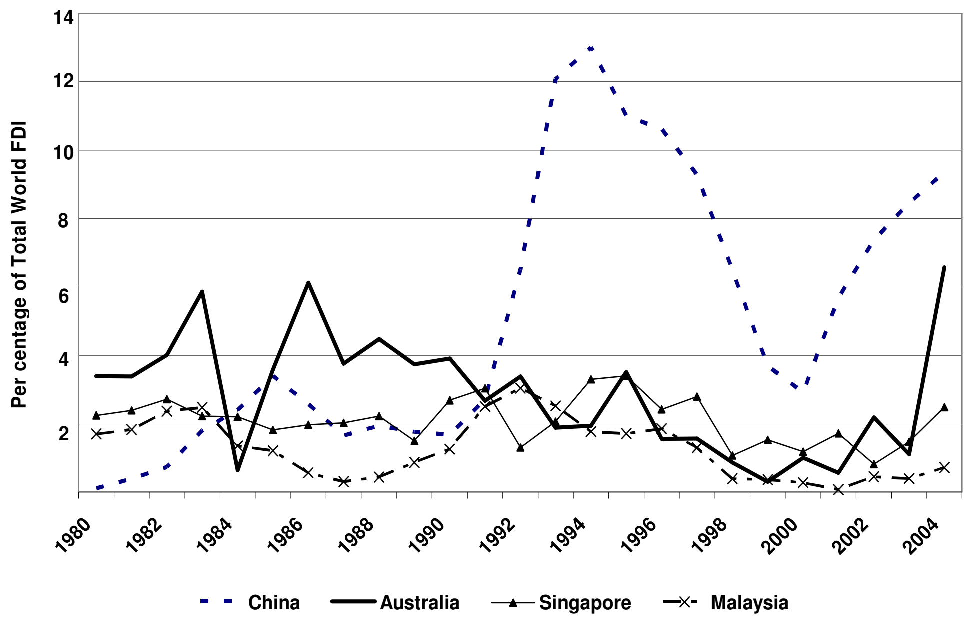
Second, the data collected tells a story about the nature of foreign

[8] Note that "Australian Bureau of Statistics data is based on different criteria from those used by the Foreign Investment Review Board - the Board's figures are an aggregation of the proposals submitted for approval, along with the proposed associated expenditures, while those of the ABS are estimates of actual transactions that have occurred" (FIRB 1997: 31).

investment in Australia in such a way as to be comparable with experience in other countries. So it is possible to make observations such as:

- "Foreign investment is a relatively small source of funds for investment in Australia. Over the period since the early 1960s, FDI in Australia has been equivalent to around 7 per cent of gross fixed capital expenditure" (Treasury 1997, 19).
- While annual FDI inflows "are highly volatile" the "broad conclusion is that there is no evidence of either a declining trend or overall weakness in Australia's FDI inflows in the 1990s compared with the inflows in earlier decades (Treasury 1997, 21).
- While Australian levels of FDI held relatively stable over time, FDI flows to other countries in the immediate region have seen a relative decline as inflows to China have risen (Figure 4.2).

Figure 4.2: FDI inflows to Australia and selected countries in Asia as a Proportion of Total World FDI 1970 to 2004



Source: Foreign direct investment data (UNCTAD 2006)

- In terms of industry sectors, FDI is both a form of investment and a potential threat across all industry sectors. While more recent data shows much stronger investment in the mining sector, the view in 1997 was that only a relatively small proportion (around 4 per cent) had been directed to mining in the 1990s and the remainder "fairly equally shared among the manufacturing, finance and other sectors" (Commonwealth Treasury of Australia 1997, 24).

In short, in terms of research design, FDI represents a discrete globalising process within a much broader range of flows which affect national public policy and national bureaucracy. At the same time it is an activity which, in an advanced economy such as exists in Australia (albeit one dominated by natural resource extraction), is present in all industry sectors. While approaches and attitudes in sectors vary and have varied over time, the approach adopted by the national government has been to invent a process which covers all industry sectors, with a regulatory framework which has enabled different sectors to be more or less influenced by FDI.

(c) Time frame

Periodisation, or establishing temporal boundaries to a study, is a key research issue (Lieberman 2001, 1012; Katznelson 2003, 270) and selecting FDI policy as the area to investigate helped shape the period to be covered. While the detailed history of this policy will be discussed in Chapter 5, prior to the mid-1960s there was only limited community concern regarding foreign investment in Australia. From this period onwards foreign investment in Australia in both mining and manufacturing attracted interest from a wide range of political actors both domestic and international for reasons set out in Chapter 5. As a consequence the Gorton government set in train a number of initiatives to address this concern directly. With the focus on the historical development of government autonomy and capacity in this area of policy, this research therefore begins with the Gorton period of government. Recognising the variation that occurs from government to government this commencement date can be further refined to the date on which Gorton was sworn in as prime minister on 10 January 1968[9]. After 1968 there was substantial and ongoing interest from successive Australian governments in FDI policy. These developments are tracked through to the end date of 11 November 2004, the day of the most recent federal election which marked the end[10] of the third in a succession of governments led by Prime Minister John Howard. Thus the timeframe for case study examination is January 1968 to November 2004.

Such a periodisation strategy contributes to the overall research design by providing a mix of elected governments as a source of ultimate authority. During the period 1968 to 2004 there have been 15 governments. Of those eight have been conservative coalitions and seven have been Labor governments. Heterogeneity in this aspect of state autonomy and capacity, that of the political regime (Husby 2002, 21-25), provides a control to provide a comparison with the degree and types of change taking place in the national bureaucracy (Lieberman 2001, 1017).

Framework for analysis

As described above and in Chapter 1, for the purposes of this study, there are two independent variables which shape the policy and regulatory context in which the national bureaucracy operates. These variables are processes of globalisation, and state autonomy and capacity. To measure the impact of these variables on the dependent variable three areas have been identified for analysis. These are:

(a) national policy on FDI;

[9] Gorton became prime minister not through a general election, but as the result of a party room ballot following the death of Prime Minister Harold Holt on 17 December 1967 (Henderson 2000: 306-307). More of the circumstances of this ascension are described in Chapter 5.

[10] Under current practice in the Australian Parliament, the government of the day ends its period of office with the proroguing of parliament, remaining as a caretaker government until election results are clear (Harris 2005, 58). However, for the purposes of this thesis the election date effectively marks the end of one government and the beginning of the next.

(b) the structure of regulation to support the posture on (a); and

(c) the organisational structure of the national bureaucracy to exert regulatory capacity.

Each of these indicate gradations of state autonomy and capacity, in particular the authority of the government in seeking to not only assert its policies but to exert its influence in wider society. Policy, the crystallisation and promulgation of a specific decision or posture, is very strongly in the domain of the elected government. However, policy is open to influence by other societal actors. Regulation represents the government seeking to not only assert autonomy through policy but to implement such policies. Again, this is open to influence by other societal actors and, as implementation studies have shown, the effectiveness of regulation is in part contingent upon the interaction between government, bureaucracy and other actors. The structure of the national bureaucracy should be most indicative of the interests of the government of the day, because the organisation of the national bureaucracy under the Westminster system is the prerogative of the prime minister (Davis, Weller et al. 1999, 28). However, broader societal influence is also apparent: prime ministers and their governments inherit previous administrative arrangements; there are sectoral interests which both support and reject propositions for change in terms of organisation of the national bureaucracy – or, more likely, specific components of the national bureaucracy; and there are ad hoc responses to immediate crises and emergencies. Thus, each of the dependent variables is likely to reflect, to greater or lesser degrees, changes from one prime ministerial administration to the next brought about through the interaction of processes of globalisation and the workings of the state. The logic of this research design is that there should be sufficient degrees of co-variance in these three dependent variables with globalising and domestic pressures to reflect the friction between globalising pressures and state action (Berry, Brower et al. 2004, 548).

The distinction made between the core executive and broader executive government adds a further dimension to this research. While policy and regulatory change are assumed for the purposes of this research to be the prerogative of the core executive, these changes are reflected and amplified in the deployment of the national bureaucracy as a major instrument of executive government. In particular, change in the deployment of regulatory agencies provides an indicator of the magnitude and direction of state adaptation through adjustments in policy and regulation. The use of data drawn from the activities of the core executive and broader executive government provides a test of causality inferred by changes in international and domestic environment and the response of the national government. In turn, such data provides the means to determine the significance of the national bureaucracy as an indicator of state capacity and autonomy in response to global economic pressures.

Method of collecting data

The data collection phase of this research commenced in 2002 and was completed in 2005. The approach to data collection was structured around the question of the significance of the national bureaucracy in the Australian nation state's response to FDI flows during the period 1968 to 2004. In the initial phase of the research the emphasis was on understanding what the policies were, how had they changed, who were the major actors (public, private, national, international) and what, broadly, had been their roles in shaping the policies that emerged. The second phase was one of mapping the linkages between the various actors, drawing on techniques from social network analysis. This phase coincided with organising and conducting a first series of interviews with key past and present public servants. For those interviewed in the first interview round there was strong preference to deal at a much higher levels with the concepts and patterns of policy rather than the patterns of relationships. Subsequent interviews were based around a set of key questions, and interviewees were asked to react to a diagram of relationships that related to their period (in each case the diagram was based on material gleaned from documentary sources or based on earlier interviews). The fourth phase was one of matching materials together to construct a narrative based on the views presented in interviews and documentary sources (both primary and secondary (MacDowell 2002, 55)).

The focus of the study and the time span covered meant that a mix of data collection methods was used. These were:

- Primary sources drawn from documents held by the National Archives of Australia (NAA), other official and parliamentary papers, and interviews.

- Secondary sources on the changing economic and geopolitical context for each government, the experience of each of the governments, and material on FDI activity.

An overview of the spread of these sources across the governments examined from 1968 to 2004 are summarised in Table 4.4 below. The rationale for using each of these methods to collect data and the approach employed is described below. In each case issues of reliability, including bias, and internal validity are discussed (Yin 1989, 40-45).

Table 4.4: Summary of sources used in this research

	Gorton	McMahon	Whitlam	Fraser	Hawke	Keating	Howard
Primary Sources							
Archive (eg Cabinet Submission)	X	X					
Annual Report				X	X	X	X
Memoir/Autobiography (PM)			X		X	X	
Memoir/Autobiography (Other Ministers and political actors)	X	X	X	X	X	X	X
Interviews	1	1	4	3	2	3	3
Secondary Sources							
Biography (PM)	X	X	X	X	X	X	X
Biography (Other ministers and political actors)	X	X	X	X	X	X	X
Other secondary sources	X	X	X	X	X	X	X
Analyses of the period researched and FDI activity.	X	X	X	X	X	X	X

Primary sources

The types of sources drawn upon were: papers held in the National Archive of Australia (up until 1974), other official and parliamentary papers, and interviews. Each is described below.

Official Archives (up to 1974)

The Commonwealth of Australia's Archives Act of 1983, concerning the preservation and use of the government's archival resources, provides right of public access to records over 30 years old (Stokes 1994, 54). Records preserved by the NAA, particularly Cabinet Submissions (and documents created concerning such submissions) provide considerable insight into the relationship between the various actors in the core executive. As well as identifying particular relationships such documents also provided an overview of debates taking place within the core executive on a specific policy issue. Consequently, for the two earliest periods of government, this material has been accessed.

Such a source is far from complete (Pollitt 1984, 5-6). In the case of the archives, the material accessed has been vetted and cleared for public access. The NAA holds a much greater volume of material, but much of this remains under embargo or has yet to be reviewed. While no material was sought under Freedom of Information provisions, attempts by one interviewee to have papers released proved a much too difficult task for the agency approached. Nor was a request made to access the files of agencies, other than those available through the NAA.

Official and Parliamentary Papers

Parliamentary statements, questions, and responses to questions have been explored through the Parliamentary Index (for those sources before 1996) while material dating from 1996 has been accessed online via the Parliamentary Library's internet site. Searches have been conducted using such terms as "foreign investment", "overseas investment" as well as searches on specific issues or events such as "Print Media Inquiry", "Blackburne Inquiry". Searches for reports were made through the Parliamentary Library's catalogue and, in most cases, material found to be useful while not accessible to the public through the Parliamentary Library, was accessible through the holdings of the National Library of Australia.

In the late 1960s there was considerable interest within Parliament on FDI, and a Senate committee was established to examine overseas investment in Australia (Senate Select Committee on Foreign Ownership and Control of Australian Resources 1972, Appendix 1). Its deliberations may or may not have been significant in the final outcome, but it called for better information to be made public through the Commonwealth Bureau of Census and Statistics (CBCS)[11] or the Treasury Department. As part of its series on key economic issues, the Treasury published and publicly released a significant report in 1972 working through a range of arguments in favour of FDI (Treasury, 1972).

From 1976 onwards, with the inception of the FIRB, there is a series of Annual Reports provided by the Board to the Treasurer and tabled in Parliament. Each report outlines the government's policy on FDI, provides a compendium of statistics on FDI flow during the year, and in several instances includes discussion of specific issues considered by the FIRB during that particular year. In addition, each Annual Report incorporates a list of ministerial statements and press releases concerning formal announcements on FDI policy by the Treasurer. In effect, the creation of the FIRB provided a means to regularise public access to information on FDI, and in so doing address concerns voiced by parliamentarians in the late 1960s and early 1970s[12].

Key official papers subsequent to the intense, late 1960s and early 1970s period have been of two kinds: parliamentary inquiries into specific issues to do

[11] The CBSC was the predecessor of the Australian Bureau of Statistics (ABS 2005, 25).

[12] See for example the recommendations of the Senate Select Committee on Foreign Ownership and Control of Australian Resources (1972).

with foreign investment or matters closely related to FDI issues; and commissioned reports by the government, again either directly addressing FDI issues or impinging on FDI policy, regulation or bureaucratic organisation. In addition, media transcripts from ministers (including the prime minister) and, where possible, from senior public servants, have also been used. In some cases the transcripts have been identified through media reports (either identified through searches of APAIS or on an ad hoc basis through news media reports seen, heard or read during the course of this research), citations from other researchers, or via searches through Google.

Interviews

In Table 4.4 interviews have been separated out from both primary and secondary sources. Given the limitations of official papers, interviews of those involved in deliberations within the core executive are a particularly important source (Pollitt 1984, 6). Consequently, material gained from the interviews contributed extensively to this research. First, the views of interviewees brought the subject matter alive, making clear that the development and implementation of policy and regulation on FDI was far from a bloodless activity. Equally, the interviewees contributed greatly in helping the researcher understand the relative importance of different events and the outcomes of these events in terms of policy or regulatory positions adopted by the government. Second, views on the relative importance of specific actors and relationships (material which was not readily accessible through available documentary sources) was made much clearer through the interview process. Initially, the interviews had been designed to focus specifically on this aspect. However, as described above, this approach was discarded, and instead the process of collecting such views in the interview was truncated by the researcher preparing a map of relationships and seeking the views of the interviewee. While the number of those interviewed for any one period was small there was a consistency of views on the relative importance of different actors and relationships between different groups of actors.

Interviews were conducted in tandem with the review of official documents and the writing up of the analysis of the different periods of government. Interviews were conducted over the period of 2003 to 2005 with 15 people interviewed during this period in Canberra and Sydney, and written views received by 2 from other locations in Australia. Table 4.5 provides a breakdown of those interviewed in terms of their role or location in the core executive. The breakdown shows that the majority of interviews took place with those within the Treasury portfolio, including those who served within the Treasury Department, the FIRB (as either members of the Board or the secretariat within Treasury supporting the operations of the FIRB), and those in Treasury agencies such as the ACCC or the ATO. Others interviewed were drawn from those who worked in the external affairs and trade portfolio, and a further category of 'Other' reflecting those who worked in PM&C, and in other portfolios.

Table 4.5: Breakdown of interviews conducted, by role or area of interest

	Gorton	McMahon	Whitlam	Fraser	Hawke	Keating	Howard
Minister/Ministerial Adviser	1		1				
Agency personnel (by portfolio)							
- Treasury			2	2	1	2	2
- Trade/External Affairs			1	1	1	1	1
- Other		1					
Total	**1**	**1**	**4**	**3**	**2**	**3**	**3**

In some cases those interviewed had served in a number of governments in different roles. All those interviewed had at least two years involvement in the area of FDI policy in Australia, with others involved directly and indirectly with FDI issues over several decades. In the table such interviewees were included only once under the government for which they were primarily being interviewed. However, their views on their experience in other periods of government have been used in the analysis presented in Chapters 5 to 8.

To protect the identities of those who provided views through interviews for this research the following coding practice has been used. Each time material from an interview is used it has been cited using the following coding system:

- The code starts with the first letter of the last name of the prime minister in office (to distinguish between prime ministers Hawke and Howard this has been extended to the second letter, so that Hawke is indicated by the letters "Ha" and Howard by the letters "Ho").
- The next letter or set of letters indicate whether the interviewee was a Minister/Ministerial Adviser or a member of a government agency, and, in the latter case, the portfolio in which they worked.
- This is followed by a number, 1 or 2, to ensure that where there was more than one interviewee with the same letter codes, the views are distinguished one from the other.

For example, the views of the Minister/Ministerial Adviser interviewed on the experiences of the Gorton government in FDI are cited as GM/MA1; or, in the case of views presented from the Treasury officers in the Whitlam period the coding would be WT1 and WT2. In short, this practice is consistent with the breakdown of those interviewed as listed in Table 4.5.

(a) Development of questions

The development of interview questions went through two distinct phases. The first phase concentrated on developing a detailed means of collecting data on relationships between the principle organisational actors involved with shaping national policy on FDI. This approach employed the methods used in social networks analysis (Knoke 1990, 7-9) as a means of gaining both accurate and precise data on relationships, with data from documentary sources being relied on in establishing the context of these relationships. However, this approach was not pursued beyond the first two interviews because it was apparent that those being asked had considerable difficulty in identifying relationships at the level of detail sought.

The second phase involved revisiting the purpose of the research, identifying that documentary sources alone could not provide description of the context, and accepting a less precise but reasonably accurate assessment from interviewees on the kinds of relationships that they saw as important in contributing to debate on policy and approaches to FDI regulation. The questions being asked were reshaped to accommodate a more conversational, ethnographic approach, to enable the voices of those being interviewed to be more clearly and strongly heard in this study. This involved restructuring the questions to ensure that there continued to be a clear link between the discussion taking place in the interview and the research framework.

To do this, the questions were structured into two sections. The key organising concepts were provided in the first two questions. Interviewees were asked for an overview of their experiences with policy on FDI, in particular transnational mergers and acquisitions, in Australia; and to identify factors they thought had shaped public policy on foreign investment issues in Australia, in particular transnational mergers and acquisition for the period or periods covered by the views of interviewee. In this way the experience was linked back to a particular period, to a particular organisational location, and to a particular role within a network of relationships.

The next set of questions was more conversational, examining issues to do with FDI policy, regulations and bureaucratic relationships. Each of these issues was canvassed in each interview using the following prompts:

Policy	*Can you tell me how policy on FDI changed during [specific period such as Whitlam ….]?* *Why do you think that occurred?* *What do you think was the role of [the prime minister, the treasurer, other [specified] ministers, advisers, the parliament, state governments; foreign governments; the changing economic conditions; the electoral stakes]?*

	Do you think [the Board; Treasury; the government] learnt from that experience? How so?
Regulations	*There appears to have been a degree of bi-partisan support for the framework. Was this so in your time?* *How was the framework applied?* *What did this involve? For example, what kinds of processes might be used?* *Looking ahead into the future, how do you see those controls being changed? How? By whom? When?* *Do you think this regulatory environment is becoming more complex? How so? For example, there appear to be more government agencies such as [the Industry Assistance Commission, the ACCC, ASIC, the Takeovers Panel] with roles in assessing the performance of business generally.*
Relationships within the national bureaucracy	*I'm looking at the process of FDI policy development. What I'm trying to do is to get to the stage where I can map some of the relationships. To make this process a lot simpler I have this diagram which I will share with you… Does it bear any resemblance to the way you think of it?* Follow up questions on: *How and why these relationships might differ; why particularly important relationships emerged and what they involved; why other relationships became less important and in what ways was this so* and *how did this change come about?* *Did these arrangements apply to policy development and the implementation of those policies?*

One aspect of the research which emerged using this technique was the observation by a number of those interviewed of the increased complexity of the regulatory environment. This view emerged early enough in the process of interviewing to include it as a sub-theme to explore in most subsequent interviews.

(b) Ethics

The research design and method did not require clearance from the University of Canberra's Committee for Ethics in Human Research (1998). However, the research protocol adopted in this study took account of the need to ensure the confidentiality of the identity of participants who provided their views. Those willing to participate in the study were advised in the introductory material sent to them prior to the interview, and verbally at the beginning of the interview, that while their views were sought and may at some stage be published their identities would not be revealed[13]. Interview data and correspondence has been retained in an electronic form and password protected, while hard copies have been destroyed. Interviewees were also advised of whom to contact should they be concerned with the conduct of the research process.

(c) Selection of interviewees

Selection of interviewees was via a purposefully selected sample, although there was some snowballing as interviewees suggested others to seek views from. The pool of those from whom to seek views was relatively well defined as a result of the framework chosen for this research. They were:

- Those who had directly worked on these issues within Treasury and/or had served on the Board.
- Those who were likely to have been instrumental in the creation and adaptation of this system of regulation from within the core executive or had been involved in some aspect of administration /policy close enough to observe development on FDI policy (such as a senior member or advisor to the government or a senior administrator).
- Those who were likely to have a well developed understanding of the relationships and challenges in the core executive, such as a political journalist, academic, lobbyist or business representative.

The sources of names and contact details were drawn from the FIRB annual reports described above, published accounts of policy development in FDI and economic reforms, and online searches. Where contact details were not provided, searches were made in Australia's Who's Who (2002) and the Telstra White

[13] No list has been provided of those interviewed, the reasoning being that all were assured that their identities would remain confidential while their views could be used in this research effort and future publication.

Pages. A number of earlier principal actors such as Prime Ministers Gorton and McMahon, and Bob Johnston from the Reserve Bank and the Treasury department, had passed away before this research commenced.

(d) Recruitment

Where telephone contact details were available, interviewees were initially contacted via telephone. Most of those so contacted were willing to participate and were advised that they would receive a letter outlining the nature of the research and a list of questions they would be likely to discuss. In several other cases a letter was sent advising that this study was under way and asking the recipient to contact the researcher. While the results of this second process of recruitment proved less successful it did yield a number of significant interviewees who very kindly consented to contribute their views. A further group contacted via telephone or letter referred the researcher to others likely to be willing to participate in this research, either providing contact details or suggesting where those details might be found.

(e) Interview procedure

Interviews were held in a location chosen by the interviewee. Interviews were generally scheduled to take about forty-five minutes, with most lasting between sixty to eighty minutes. Discussion during the interview was recorded with the consent of the interviewee using a digital voice-recorder. Notes were taken by the researcher on a pro forma listing the questions and prompts. The voice recording was then transcribed with notes used as an aid where a meaning was unclear. In each case the transcribed record of the interview, including the map of relationships, was returned to the interviewee to check and revise as each saw fit.

Secondary sources

An extensive range of secondary sources was used in compiling this research for reasons including creating the framework for the research; describing the context for policy development and implementation for each period of government; and identifying general pressures on the organisation of the national bureaucracy for each period of government. Where this material has been cited, references are provided as a means of ensuring the validity of the statements made.

In terms of the analysis of the period researched, the past truly proved to be another country (Lowenthal 1985, xvi) and while this was an advantage for this research in providing the possibilities of comparing experience across different governments over the 38 year period under review, it also meant establishing a political and historical context for each period. In turn, to establish the context of policy making (and consequently bureaucratic organisation) meant seeking out a range of sources which succinctly described the broad international climate in terms of economic and geo-political pressures, Australian economic (and to a more limited extent social) dynamics, and broader political struggles in and around the core executive, for each of the periods of government to be investigated. As in the case of the use of primary documents this material is recorded as and when it is cited.

Several of the secondary sources used proved invaluable in this research and they are discussed below. First among these is the work produced by Pokarier (2000), who in the course of his research into policy markets using the case study of policy on FDI in Australia, has provided a thorough history of FDI policy in Australia. His work provides a very lucid and briskly paced account, in part drawn from a detailed review of newspaper accounts from the period 1960 to 1996. In the case of newspaper accounts before 1996, Pokarier (2000) has been relied upon as the source: he has accurately and consistently recorded the source of the views he extracts and so it is possible to verify that the views presented were the ones as stated at the time. More recent accounts, that is from 1996 onwards, have been gleaned from the Australian Public Affairs Information Service (APAIS) through searches on phrases such as “foreign investment”, “overseas investment – Australia”, and general online searches, using for example, the Google search engine.

For data on the changing structure and pressures on the Australian public service a number of sources have formed a core resource. To identify and track changes in the organisation of the national government, since 1979 the Senate Standing Committee on Finance and Government Operations (now the Senate Standing Committee on Finance and Public Administration (SSCFPA) has recorded changes in the organisation of Commonwealth departments and agencies (SSCFPA 1993, 1996). For post 1996 data supplementary sources such as relevant annual reports, budget papers and ministerial statements have been used. For change within departments and agencies, data has been sourced from Annual Reports and, where available, ministerial statements. For analysis of pressures leading to change in the structure of organisation of the national public sector, sources, such as Wettenhall's (2000, 66) publications monitoring change in public policy and public administrative responses since 1977, have greatly helped the tracking of organisational changes from government to government.

In terms of tracking FDI activity there has and continues to be a strong interest within Australia on the nature and impact of FDI. Consequently there is a vibrant and extensive history of academic analysis of FDI from a number of different and competing perspectives. Marxist and neo-marxists perspectives dominated early discussion with significant contributions, in particular by Wheelwright (1963). The emergence of neo-classical economic perspective saw major contributions by Kasper (1984) and Arndt (1968). As described above, from 1976 onwards annual reports from the FIRB have provided a regular source of data on FDI flows to supplement that provided by the Australian Bureau of Statistics. There is also a strong stream of interest group intermediation studies, as illustrated by O'Faircheallaigh (2002). More recently Pokarier (2000) has applied the idea of policy markets as a means of understanding FDI activity in Australia.

Method of analysis

To test the thesis that the national bureaucracy has been a significant element in national adjustment to globalising pressure the method of analysis will examine FDI policy, regulation and organisation. Specifically the focus of analysis will be on demonstrating co-variation between pressures on the state and the corresponding changes in the pattern of policy, regulation and bureaucratic organisation and the significance of the national bureaucracy in such processes. As set out in Table 4.6 below the focus of analysis for the two independent variables (impact of globalisation, and state autonomy and capacity) is firstly on the impact

Table 4.6: Variables, focus of analysis and measures

Independent variables

Variable	Focus of Analysis
Impact of globalisation	Specific pressures on existing public policy, regulation and/or structures identified
State autonomy and capacity	Weakening or strengthening of state autonomy Weakening or strengthening of state capacity

Dependent variables

Variable	Focus of Analysis
Policy	The degree to which government policy is a reaction to pressures of globalisation compared to the pursuit of its own strategic and political objectives
Regulation	More or less liberalisation of regulation Location of authority for policing regulations
Structure of organisational relationships (to support policy and regulation)	Administrative and state capacity, in particular national bureaucracy as an agent of government in enabling and domesticating globalisation

of globalisation, which is assessed in terms of specific pressure on existing public policy, regulation and structures as measured by the intensity of those pressures and whether those pressures support or retard global economic integration. It is secondly an analysis of the degree to which state autonomy and capacity are strengthened or weakened and this will be indicated in this thesis by the extent of mobilisation within executive government, the mobilisation of interest groups, and change in the scale and scope of administrative capacity.

For the three dependent variables (policy, regulation and organisation in the FDI policy domain) the focus of analysis is on establishing the significance of the FIRB and the broader national bureaucracy to the process of adaptation to FDI flows as a mode of globalisation. Firstly, analysis of FDI policy is in terms of the degree to which government policy is a reaction to pressures of globalisation compared to the pursuit of its own strategic and political objectives. For example, in the case of national policy on FDI, the degree to which such policies are based on reacting to exogenous pressures occurring outside the nation state and the extent that such polices reflect the assertion of national government autonomy.

For the second variable (regulatory outcomes) the focus for analysis is the degree to which the regulatory regime becomes more or less liberalised as measured by the number, kind and intent of new regulations classified as more or less supportive of open FDI flows; and location of authority for policing regulations as measured by the degree to which such regulation is more or less centralised (within government) or decentralised (through self-regulation). That is, who or what is responsible for enforcing regulations, and does this strengthen or weaken the role of the FIRB?

The third dependent variable is that of the positioning of the FIRB to contribute to administrative and state capacity, as measured by the degree to which organisational capacity to influence FDI policy and regulation is concentrated within or away from the purview of the FIRB. This involves two dimensions of analysis: the first dimension is structural, concerning the degree of organisational concentration or diffusion; the second, is the degree of concentration of decision making. Thus over the life of any one period of government it should be possible to demonstrate the relationship between the pattern of bureaucratic organisation and processes of decision making.

Thus, analysis within each period of government and across all periods of government provides the means to draw conclusions on the impact of globalisation and state autonomy and capacity on FDI policy, regulation and structure to test the significance of the national bureaucracy to the process of state adjustment.

Presentation of results

The results from this research are divided into chapters reflecting the periodisation established by the terms of government for each prime minister. In principle each chapter should present the results for each prime ministerial period and, as a consequence, there would be one chapter for each prime minister covering the full set of terms served by that particular prime minister. However, while following the chronological sequence established by prime ministerial terms of office, each chapter has a slightly different grouping to reflect stages in the maturation and development of FDI policy. Therefore, the results of the research are presented as follows:

- Chapter 5 examines the experience of three prime ministers (Gorton, McMahon and Whitlam) because each dealt with the initial phase of how best to establish a more assertive Commonwealth role in FDI policy and regulation.
- Chapter 6 examines the Fraser government separately because it marked a stabilisation of FDI regulation and organisation following the initial inception and initial development under Gorton, McMahon and Whitlam.
- Chapter 7 presents the results for both the Hawke and Keating governments because both pursued initiatives to liberalise FDI policy while maintaining and enhancing the regulatory regime to enable the continuing public regulation of FDI flows.
- Chapter 8 explores the era of the Howard government up to November 2004 because it sought to further liberalise FDI policy while strengthening the national bureaucratic capacity to support FDI regulation.

Each chapter, with variations to accommodate Chapters 5 and 7 which include multiple prime ministers, is broadly structured into the following sections:

- An overview of key economic and geopolitical pressures either fostering or retarding economic globalisation and creating pressures for an Australian government to respond to.
- The broad responses to general, globalising pressures from the Australian government.
- How the government reacted to globalisation pressures in the area of FDI flows through policy, regulation and changes to bureaucratic structures. Data in this section is presented as an overview of policy debate, the key actors involved, the impact of debate on regulations for FDI activity, and an overview of the key bureaucratic relationships.

Conclusions on the significance of the national bureaucracy to the process of state adjustment are presented in each chapter, based on the framework for analysis described in this Chapter.

CHAPTER 5 - The Gorton, McMahon and Whitlam era

It is the strongest and richest of our own industries which have been bought up from overseas. It's time to stop the great takeover of Australia. But more important, it's time to start buying Australia back. A Labor government will enable Australia and ordinary Australians to take part in the ownership, development and use of Australian industries and resources. Whitlam (1972a).

The era of prime ministers Gorton, McMahon and Whitlam (1968 to 1975) marks a period of increasingly intense engagement on the issue of how best to manage foreign investment flows into Australia in the context of changing global and economic circumstances. This chapter examines the nature of that challenge and the way in which these governments responded with policies to regulate FDI that embodied a significant process of policy exploration and experimentation.

The Gorton Government's Approach to Globalisation and FDI

The presentation of research begins with the Gorton Coalition government (10 January 1968 to10 March 1971). The Gorton government provides the logical starting point for this analysis because it was the first post-WWII government to recognise that regulation of FDI flows should be an area for Commonwealth government policy.

External pressures facing Australia, in particular those that the Gorton government identified as critical to the well-being of those living in Australia

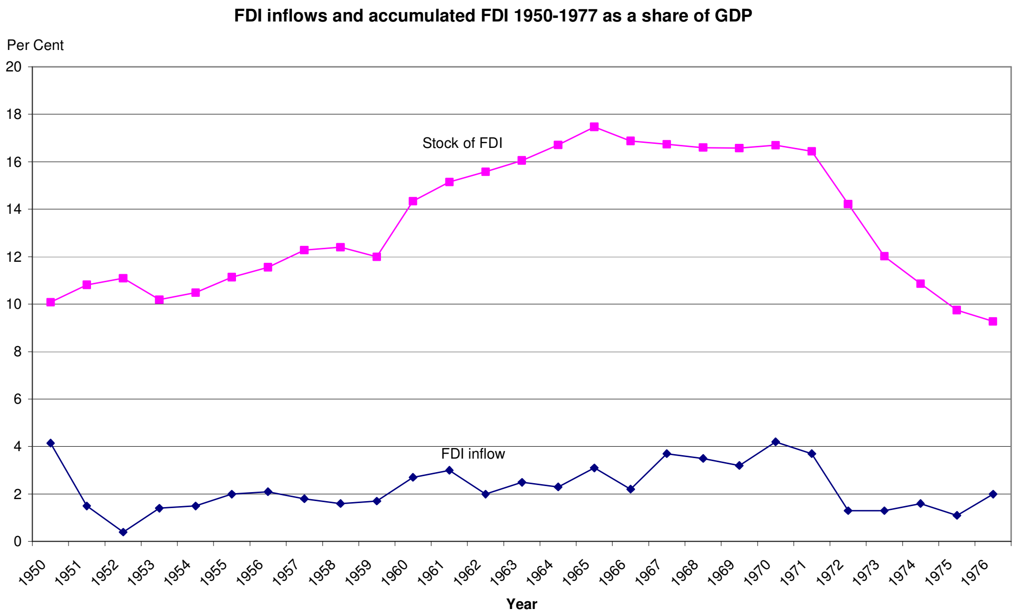
The external pressures facing Australia which the Gorton government inherited in January 1968 had been building since the end of World War II. The post-war period saw increasing reintegration of national economies into a growing world economy, and a cycle of economic growth which continued until 1974 (Bruno and Sachs 1985, 1). The process was underpinned by a network of international agreements between nation states to foster mutual peace and prosperity, albeit divided into two camps, the West (pax americana) and East (pax sovietica) (Steel 1967, vii; Kunz 1953, 659). Within the western camp, the Bretton Woods agreement of 1944 provided the basis for the formation of international institutions to foster currency stability and encourage international trade (Rodgers 1998, 199-225; Parkinson & McKissack 2003, 2-4). As Chapter 2 showed, increasingly during this period a greater component of growth occurred through global rather than national markets, as a consequence of greater international co-operation to foster the economic stability of the wealthier nations and expand trade (Thirlwell 2005, 13-15). This general expansion of the world economy was initially fuelled by government-directed investment from North America into reconstruction and investment in Europe and Japan, increased demand for primary products in industrial economies, and the rapid expansion of North American MNEs (Dyster and Meredith 1990, 222-223).

The period from 1950 to 1973/74 has since been described as the long boom (Dyster & Meredith 1990, 222), and its impact on the Australian economy was full employment, high rates of growth and low levels of price inflation. After recovering from wartime shortages, the post-war period in Australia was one of industrial development, involving the emergence of governmental and private sector institutions to foster and promote agriculture, manufacturing and major national infrastructure projects (Capling, Considine & Crozier 1998, 28-31). As a trading nation Australia was increasingly re-integrated into the growing world economy. By the mid-1960s, Australia saw itself, and was seen internationally, as a wealthy, though developing country (FT1). By the late 1960s the growth of the Japanese economy and its demand for primary resources as raw materials for its industrial expansion, the discovery of mineral reserves in Australia, and the growing interest from MNEs (particularly those from the US and the UK) in Australian mineral resources, were all major factors in Australia's first mining and mineral exploration boom since Federation (Fitzgerald 1984, 10; Lloyd 1984, 4).

The crisis for Australian policy making in engaging with processes of post-war globalisation was the gradual collapse of currency stability during the 1960s (Dyster & Meredith 1990, 260-261). While the post-war settlement ensured a degree of stability, the structure was gradually being undermined by the role of the US as the world's regulator. The reluctance of successive US administrations to seek greater resources through Congress to fund the war in Vietnam led to increased borrowing and the decoupling of the US dollar from gold (Parkinson & McKissack 2003, 8). At the same time Australia's main trading partner, the United Kingdom, was developing closer ties with Europe as the European Economic Community (EEC) grew in economic and political importance. Increasingly replacing the UK as leading trade partner and source of investment were Japan (as a consumer of Australian agricultural and mineral exports) and the United States (as an investor in Australian manufacturing and mineral extraction ventures).

The growing attractiveness of Australia as a destination for investment meant that in the late 1960s Australia's experience with FDI changed dramatically, in both the level of investment and the kinds of investors interested in Australia (Commonwealth Treasury of Australia 1972, 105-110). During the immediate post-war period, the inflow of FDI was only a small proportion of Gross Domestic Product (GDP). For example, as illustrated in Figure 5.1 below, FDI inflows increased from less than 1% of GDP in 1953 and to a peak (in the 1950 to 1977) period of 4.2 per cent in 1970 (Bora 1995, 93). Through the 1960s inflows of FDI rose steadily and the level of accumulated FDI as a percentage of the gross domestic product also rose, despite a growing economy. At the same time, and increasingly in the later 1960s, there was a rapid increase in portfolio investment, which was seen by the Australian cabinet as more speculative, volatile and likely

Figure 5.1: FDI inflows and stock of FDI 1950/51 to 1977/78 as a proportion of GDP



Source: Reserve Bank of Australia (1996a, 1996b)

to drive Australia's balance of payments position into surplus (NAA 1969). The mix of source countries for FDI also changed, with the United States overtaking the UK.

Despite the long period of growth, continuing demand for Australian mineral commodities and the increasing value of FDI, the situation was viewed with some trepidation by successive Liberal-Country Party Coalition governments. Australia's exports continued to grow and the Australian dollar strengthened against the US currency, leading to concerns about the price competitiveness of Australian exports (Whitwell 1986, 197). The growth in Australian reserves, while US reserves were falling, meant that the value of the Australian dollar could rise against the US dollar (Commonwealth Treasury of Australia 1972, 102-110). So long as the US maintained a commitment to the convertibility of the US dollar to gold the possibility of a rapidly rising Australian dollar was unlikely. However, the likelihood of a collapse of the gold standard grew during the 1960s, causing considerable concern to Australian primary producers that if the Australian dollar were ever to be revalued, the goods they exported would rise dramatically in price and would lead to considerably weaker demand for their exports.

At the same time Australia, as a relatively wealthy and politically stable country in the Asian region, continued to attract major international investors. The situation was reinforced by the high tariff barriers which helped tilt international business interest in favour of Australia (Capling, Considine & Crozier 1998, 30-31). MNEs had emerged as significant new entrants in the Australian minerals exploration and exploitation, manufacturing, and finance sectors, and as sources of investment capital, new technologies, and access to new markets (NAA 1970, 5). Fear characterised the public treatment of this issue: for the government the recurring issue was the impact of such investment on the balance of payments position and the level of its currency reserves; moreover, analysis of industry sectors showed those sectors to be highly oligopolistic. Thus increased foreign ownership in these sectors meant increased dominance of the economy by foreign entities (Wheelwright & Miskelly 1967, 9-11). This, in turn, raised the spectre of imminent conflict among business and community interests and the government (Wheelwright & Miskelly 1967, 10) if it continued to maintain a largely *laissez faire* attitude to FDI.

Balancing external and internal pressures in the domestic political context

FDI, as a public policy issue, resonated strongly during the period of Gorton’s prime ministership. Through much of the 1960s, the ALP, as the Opposition party, had been building the case for why Australia’s national government should act to more actively control the extent and manner of foreign investment activity. The arguments focused on nationalist sentiments, the loss of national control over a birthright and the expropriation of the surpluses generated by Australian workers to investors located overseas (Brash 1969, 539). This message took some time to resonate widely in the Australian community, but by the late 1960s polling suggested an increasing degree of community concern (Goot

1990, 248-249).

In contrast the Liberal-Country Party Coalition Government throughout the 1950s and early 1960s maintained an open door policy to foreign investment in Australian industry and resources (Sexton & Adamovich 1981, 10). Foreign investment was seen as a means to national development, providing the necessary capital that the Australian economy could not otherwise generate (Boehm 1979, 123-155). Federal restrictions on foreign ownership and participation only applied in banking, civil aviation, and broadcasting (Bell 1976, 44-58). For foreign investment in other areas of the Australian economy, Australian participation, in the form of equity or share of ownership was a public policy objective although the preferred method was moral suasion, rather than legislative or regulatory guidance, to induce overseas companies operating in Australia to share their equity with local investors (Bell 1976, 45-46; Pokarier 2000, 109-110). The Gorton government came to revisit and begin the process of revising this policy through its experience with the attempted takeover of an Australian life insurance company (the MLC affair), its support for a publicly supported financier of Australian investment (the AIDC), and the emergence of the prime minister goals.

The MLC Affair

There is a suggestion that the Gorton government, principally through its prime minister, stumbled into the debate on FDI policy with populist intent and perhaps to score a point over McMahon, his Treasurer (Reid 1971, 118-127). The story of this prime ministerial entanglement describes the attempted purchase of a greater share of the Mutual Life and Citizens Assurance Co. Ltd. (MLC) by the Sun Alliance Group from the United Kingdom. In September 1968, John Gorton, Acting Treasurer while McMahon was overseas, was made aware of the situation. The events that transpired have since been characterised as a chapter of accidents (Reid 1971, 122), as policy shifted very rapidly:

> Gorton did not want to see an efficient, old-established institution in which Australians had their savings invested come under foreign control. The

> crisis developed on the weekend he visited Western Australia… Messages were exchanged between Gorton in the west and Canberra, and it was clear that if anything were to be done it would have to be done quickly. All weekend he considered the situation with his closest adviser, Len Hewitt [Secretary of the Department of Prime Minister[14]]. And on the return to Canberra on the Sunday afternoon he walked to the back of the BAC-111 aircraft in which he was travelling to tell journalists of his decision to thwart the takeover. He had power because MLC is registered in the Australian Capital Territory and an amendment to the ACT companies ordinance could be made. When they read the news next day most Australians and certainly the executives of MLC were thankful. (Trengove 1969, 235)

However, this chapter of accidents is not necessarily as it seems. First, Gorton had shown an interest in issues to do with foreign ownership earlier in his parliamentary career. In 1951, as a Senator, he had put forward a motion in the Senate that declared it as "'undesirable' for a non-Australian to have 'any substantial measure of ownership or control over any Australian broadcasting station'" (Hancock 2002, 73), and later, as Minister for Public Works, was conscious of levels of foreign ownership.

Second, there was a long history of conflict at the heart of the Coalition cabinet, and competing approaches within the Coalition on economic management, with a particular sharpness on FDI. Under Menzies (19 December 1949 to 26 January 1966) these factors had contributed to tension within the Coalition as the Country Party argued for a stronger approach to national planning. However, in the Holt government (26 January 1966 to 19 December 1967) tension gave way to direct conflict between the Liberal Treasurer McMahon, and Deputy Prime Minister, McEwen, leader of the Country Party and Minister for Trade and Industry. McEwen had proposed the creation of a public organisation, to be called the Australian Investment and Development Corporation (AIDC), to provide finance to Australian business ventures – largely by borrowing overseas –

[14] Soon after being appointed prime minister, Gorton split the Prime Minister's Department into two sections: the Cabinet Secretariat headed by John Bunting and the Prime Minister's Department under Lennox Hewitt (Reid 1971: 45).

providing a means of preventing the acquisition of direct investment in Australian resources by foreign investors. Both the Treasurer and Treasury became aware of this proposal through concerns raised by the Australian Bankers Association (ABaA) and brought forward a counter proposal for a publicly supported, but privately financed Australian Rural Development Bank (Pokarier 2000, 95-97). McMahon's proposal was adopted by cabinet, contributing further to an ongoing and personal disagreement between McEwen and McMahon (Hancock 2002, 132; Golding 2000, 294-295).

Third, there was a long abiding interest from cabinet in how best to manage the exchange rate as economic circumstances changed. For example, in 1967, under Holt, Treasury had advised against devaluing the Australian dollar in line with the devaluation of the British pound, which ran counter to the wishes of the Country Party (Hancock 2002, 133). Despite this concern, or perhaps because of it, the exchange rate remained relatively stable until 1971/72. Currency stability underscored the commitment by governments of the major economies during that period, as well as the Australian government in its domestic management of monetary policy, to the role of pegged currency under the Bretton Woods agreement as a means of economic management (Eichengreen 2000, 11). Thus, even though FDI was a relatively small component of the Australian balance of payments situation, the rapid increase in FDI in the late 1960s added to pressures to revalue the Australian currency.

Both a tactical victory for Gorton and a strategic shift in policy, the MLC affair represented the beginning of a quest by successive national governments to strike a new balance between international and domestic pressures, with consequences for a national approach to FDI flows. Gorton had signalled that "neither he nor Australia could wait for Treasury to recognise the need for change" (Hancock 2002, 196). In doing so he challenged the long held view within the Country Party on the need to prevent a currency revaluation, particularly one which might see an upwards revaluation. It also confirmed "his low opinion of

McMahon's department, a view further strengthened when he found that Treasury had supplied incorrect information on the percentage of foreign ownership of MLC shares" (Hancock 2002, 196) and strengthened his commitment to the role of the Department of the Prime Minister which offered not only a means of policy coordination but an alternate source of advice from that of Treasury.

The Australian Industry Development Corporation (AIDC)

In 1970 there was a return to the debate that Holt and McMahon had temporarily resolved in 1967 (Hancock 2000, 266-272) on the need or otherwise for a government authority to act as a financier to encourage the growth of Australian equity in major investment projects. The return of this issue to cabinet saw a willingness by Gorton to give ground to McEwen in supporting the creation of the AIDC (NAA 1970), in part because it provided a means of continuing to challenge McMahon (now External Affairs Minister) (Reid 1971, 167). The AIDC would act as an investment bank providing government-guaranteed loans for Australian firms to create or maintain enterprises or act as significant partners in joint ventures with overseas firms in Australia (McEwen 1970, 1597). Both the Minister for Trade and Industry (John McEwen) and the Prime Minister endorsed the submission that went forward to Cabinet in 1970. While Gorton faced opposition from his backbench (Hancock 2002, 270-271), establishing the AIDC represented an increasing involvement by the government in asserting what it saw as Australian interests in trying to harness international investment flows. In doing so the AIDC decision reflected experience from the MLC affair: that the Gorton government's approach to foreign ownership, and therefore direct investment, was shaped largely by Gorton's "instinct for protecting what he considered to be Australian interests was well developed, even if the policy had not been prudently fashioned" (Hancock 2002, 196), and by "what he saw as Treasury's dilly-dallying in the face of a potential crisis, and for what he … called its 'almost dog-like gratitude for foreign investment'" (Hancock 2002, 196).

Gorton's Goals

Gorton's principle sins as prime minister, however, were that he was seen within the Liberal party as a centrist and autocratic, factors that contributed to the downfall of his leadership. His general approach was one of personal conviction, an unwillingness to take or accept the counsel of other ministers, and a tendency to seek cabinet endorsement of decisions he had already made. A key conviction was his wish to deepen the Australian sense of nationalism (Reid 1971, 51). In doing so he came increasingly into conflict with State governments at a time when the Liberal party itself was strongly federalist. His actions, particularly in asserting Commonwealth sovereignty, were increasingly seen within the Liberal party as divisive (Hancock 2002, 197-199). For example, Gorton's pursuit of Commonwealth sovereignty over offshore mineral rights was seen as particularly provocative by State premiers (Hancock 2002, 272-279), and remained a point of contention to well after the end of Gorton's period of government (Whitlam 1985, 256-259).

Gorton's period as prime minister and the issues he championed represented a much stronger emphasis on a distinctly national approach within the federal structure of Australian government. Gorton, "sought to communicate to Australians of 30 or more years ago that we were a single economic unit and not a collection of state-based economies….[a]nd he had a far-sightedness in relation to that, that only with the passage of years, others have come to appreciate" (Howard 2002a). As a result of his assertiveness in the role of the Commonwealth in the area of FDI, he incurred, "the wrath of the [State] premiers …[who] generally controlled the Liberal Party organisation in the states"(Fraser 2002).

How the Gorton government reacted to globalisation pressures in the area of FDI flows, through policy, regulation and change to bureaucratic structures

(a) Policy response

The successive policy responses by the Gorton government, as described above, while highly symbolic led to very little change in regulation. Nevertheless the policy indicated a change to a more assertive posture from the Commonwealth on FDI. Such a policy meshed with the interests of the prime minister and his advisers in promoting a stronger role for the Commonwealth in national economic development.

(b) Legislative and regulatory response

Following the intervention of John Gorton in the MLC takeover bid the foreign investment guidelines were revised in September 1969 (Bell 1976, 47). The guidelines were "amplified" to cover the ability of foreign investors to borrow in Australia and linked "to the proportion of Australian held equity in the company concerned" (Bell 1976, 47; Sexton & Adamovich 1981, 12-13). The rationale for

Table 5.1: FDI Guidelines announced on 16 September 1969

- Prior approval to be obtained from the Reserve Bank for any proposed borrowings within Australia by overseas interests in which more than 25 per cent of shares were held by non-residents
- To induce overseas controlled firms to "admit or increase" local participation a foreign company would be allowed to raise in Australia a proportion of its total new borrowings on the basis of the proportion of Australian held equity in the company.
- The Takeovers Code was to be strengthened (by amendment to the Companies Acts in each State and the Companies Ordnances for the ACT and NT administered by the federal government.
- The government expressly reserved the right to prevent foreign takeovers considered to be contrary to the national interest.

Source: (Drysdale 1993, 42)

this response was that there were increasing concerns about foreign ownership in Australia. Hence, in January 1969, John Gorton announced that Australia would no longer accommodate FDI at any cost (Hancock 2002, 203-208). To implement the change in policy new guidelines were announced by the prime minister on 16 September 1969. As outlined in Table 5.1 these guidelines used existing legislation to increase the controls the Commonwealth could use to influence FDI flows.

The new guidelines, rather than seeking to prohibit foreign investment sought to encourage foreign entrepreneurs to borrow funds in Australia, thus increasing the likelihood of greater Australian involvement in ownership of major investment projects. The impact of these regulations was slight: while increasing the administrative hurdles for overseas investors the change in Australia's foreign investment policy continued to be both accommodating and based on guidelines rather than legislation. Despite this marginal shift, and perhaps indicating the degree to which the Coalition government was willing or able to influence traditional capital flows, John Gorton saw his "opposition to unhindered overseas investment in Australia as his greatest achievement in office" (Pokarier 2000, 97).

(c) Organisational response

The organisational responses of the Gorton government were much more substantial than either its policy or regulatory responses. Before 1967 there was a clear, but minimal, structure for regulating FDI within a broader and more tightly regulated macroeconomic system. The structure for regulating FDI was based solely on the Reserve Bank's powers to oversight currency flows into and out of Australia (Schedvin 1992, 470-471). These flows were identified and measured through current account reporting by the Commonwealth Bureau of Census and Statistics in compiling the national accounts. This data was provided to the Treasury as part of its monitoring and advising function related to the national domestic economy. Treasury maintained a close relationship with the Reserve Bank in managing Australia's monetary policy as a means of controlling the level of liquidity in the Australian economy. The role accorded to the Reserve Bank meant that liquidity was tightly managed by government. Determinations were made within the core executive on a weekly basis, acting through Treasury, on the level of interest to be charged by private sector entities, to the extent that the core executive determined rates for hire purchase agreements (FT1). This approach to managing the economy was under challenge, with the changes subsequently wrought having a direct impact on the kind and mix of government agencies involved in FDI policy and regulation.

The most obvious and direct challenge was increased interest in stronger, centralised economic planning, but with such planning taking place outside the control of the Treasurer and his department. This line of argument had emerged in the early 1960s through a report sponsored by John McEwen, who was both leader of the Country Party and the Minister for Trade. Although the report was strongly and swiftly rebutted by Prime Minister Menzies on its release in 1965 these views persisted, with both the Opposition and the Country Party arguing that the Australian government should be more actively involved in economic planning and regulation (Cooksey 1965, 98-99; Davies 1965, 24-25). The emergence of the idea of the AIDC in 1967 and its inception in 1970, as described above, was indicative of the pressures to supplant the Treasury by establishing agencies charged with functions integral to the performance of the economy while outside the direct purview of the Treasurer or his department.

Throughout the period of John Gorton's government the strong Treasury and Reserve Bank relationship continued and the regulatory framework remained centered on currency controls. However, as noted above, Gorton sought to foster a stronger national focus across government in Australia. He recognised the potential for other ministers and their ministries to constrain that vision, and set about enhancing the policy development and implementation capacity of the Prime Minister by reorganising his department. The department was split into two components, one dealing with the coordination of cabinet papers and decision making, the Cabinet Office, headed by John Bunting; the other dealing with policy advice and implementation, headed by Lennox Hewitt as the departmental secretary reporting to the Prime Minister (Reid 1971, 45).

Momentum to address the regulation of foreign ownership, including how best to organise government to manage this issue, continued to build, placing pressure on the core executive to respond. As the 1960s progressed, views on the role of government in regulating capital flows became increasingly polarised despite a series of changes to policy increasingly favouring more restrictive approaches. The first of these pressures was from within the Coalition, with increasing concern from the Country Party at the rising level of Australian reserves and the impact that this was likely to have on the currency and the price of Australian exports. This issue is more fully explained below in the discussion of the McMahon government, nevertheless debate increasingly took place within cabinet on the impact of increased foreign investment on national reserves as pressure mounted for a re-valuation.

Second, business groups and other representatives of major business interests in Australia were active in lobbying successive governments as it became apparent that an open door approach to FDI was threatened. By the late 1960s business views on FDI divided into three groups: those supportive of a liberal FDI regime, including the Australian Mining Industry Council (AMIC) and British multinational mining firms operating in Australia, and most peak manufacturing organisations; those who might be supportive of moderate restrictions on FDI, such as large domestic firms like CSR and BHP who could gain from the introduction of local equity requirements; and those supportive of restrictions on FDI, such as investment banks, stock broking firms and much of the manufacturing sector[15] who saw the potential for increased competition (Pokarier 2000, 103-107). The Australian Bankers Association remained "resolutely in favour of an open FDI regime, except in relation to the trading bank sector - where it remained resolutely economic nationalists", and protected from foreign ownership by the Banking Act 1959 (Pokarier 2000, 106). Those who believed Australia could and should do better with its own natural resources saw a greater role for government in national economic development based on national interest, and outright nationalism (Smith 1979, 235-239).

[15] See Capling and Galligan (1992) for description of the structure to maintain tariffs for the manufacturing and the political economy of its transformation. The links between government and the sector were such that the government's Manufacturing Industry Advisor Council was seen as "a department of government as much as a voice in government" (Matthews 1983: 141).

The McMahon Government's Approach to Globalisation and FDI

External pressures facing Australia, in particular those that government identified as critical to the well-being of those living in Australia

While the McMahon period of government was only relatively short (10 March 1971 to 5 December 1972) it faced a confluence of international pressures. These gradually grew in seriousness and challenged the principles which had underpinned national economic development during the period of post-war Coalition government. Gorton's government had tried to address a growing wave of fundamental change occurring in the international financial system. During McMahon's term of office the wave peaked and broke, making it impossible for the government of a nation highly dependent on the export of its commodities not to respond. The key factor in this was the rapid reconfiguring of the international monetary system following the final collapse, under the pressure of rising US deficits, of the link between the US dollar and the monetary gold stock (Parkinson & McKissack 2003, 8).

Pressure for the revaluation of the Australian currency had been growing since the mid-1960s. Following the devaluation of the UK pound in 1967, the Holt government had decided, "because other countries now rivalled the UK as a trader and an investor in Australia", to "hold the Australian dollar firm against [the American dollar] at the exchange rate established when Britain last devalued, in 1949" (Dyster & Meredith 1990, 260). In effect this was a devaluation making Australian assets more attractive to investors from the US and the UK. However, the magnitude of short term foreign capital inflow increased the need for the national government to increase the value of the Australian currency. By 1967-68 annual portfolio investment and loans from overseas totalled $445 million strengthening the local currency, and making "its revaluation the logical option if ever the international regime of fixed exchange rates came to an end" (Dyster & Meredith 1990, 260).

By the time McMahon came to office the increase in world liquidity, as a function of globalisation, had begun to impact on Australia's economy. The international currency system based on fixed rates was tottering (Parkinson & McKissack 2003, 5-6), and the value of the Australian dollar once again became an issue for cabinet (Dyster & Meredith 1990, 260). In August 1971, the Nixon Administration in the United States introduced a package of measures which threw the international monetary system into a period of four months of "disorder" that remained unresolved until the US, through the IMF, established a new regime to improve its balance of payments position, including the devaluation of its dollar (NAA 1971a, 1). By December 1971 the Australian cabinet had to decide how to react.

Balancing external and internal pressures in the domestic political context

The McMahon government continued the trends evident during the Gorton government, but made increasingly larger concessions, or at least appeared to do so, in the face of strident Opposition calls for more restrictive foreign investment policies. The critical external factor for the McMahon government was growing concern within the core executive about the stability of the international financial system and the consequent effect in terms of a stronger Australian dollar and therefore weaker Australian exports. The issue to be determined by cabinet was whether or not to devalue the Australian currency (NAA 1971a, 20).

Two factors shaped the McMahon government's approach to FDI. First, "the policy of near laissez-faire was becoming less and less acceptable to the electorate" (Bell 1976, 47-48) and senior cabinet members of the Country Party were publicly calling for a review of foreign investment guidelines (Pokarier 2000, 119). The wider Australian community had become more concerned with the prevailing policy on foreign investment (NAA 1972b). Editorial policies of major newspapers across Australia were fostering economic nationalism and making an issue out of the foreign takeover of Australian firms (Pokarier 2000, 108-109). The key industry sectors of banking, financial services and manufacturing were calling for greater restrictions on foreign investment (Pokarier 2000, 103-107). The second issue was effective economic management. Substantial inflows of foreign capital into Australia since 1967-8 (Whitwell 1986, 196-198) and the move to a more restrictive policy was seen as a way "to insulate the domestic economy from the inflationary, or otherwise unsettling features of large unpredictable money inflows and outflows" (Bell 1976, 47-48).

The devaluation of the US dollar by 8.57 per cent against sterling (Dyster & Meredith 1990, 261) in December 1971 set the scene for one of the last great battles in the Australian cabinet between free-traders and protectionists (Sekuless 2000, 314-315). On the one hand were the continuing efforts of the Country Party, now led by Doug Anthony, to ensure that "the price of primary products did not become too high for overseas buyers" (Sekuless 2000, 319). On the other hand, Treasurer Snedden and Prime Minister McMahon argued for a continuation of economic policies, such as an open door to foreign investment, which encouraged a stronger Australian dollar. The cabinet meeting to discuss this issue began on 20 December 1971 and lasted three days. Discussions were heated and "Anthony threatened to take the Country Party out of the Coalition unless the Australian dollar followed the US dollar downward" (Sekuless 2000, 322).

Cabinet reached a compromise which satisfied neither side and hardened tensions within the Coalition. The Australian dollar was revalued by 6.32 per cent against the US dollar, which meant a milder devaluation against sterling. However, it did not assuage more speculative overseas investment flows:

> The world money market realised that this perverse movement of exchange rates only postponed a wholehearted shift upwards. The net increase in portfolio investment and institutional loans was $364 million in 1970-71, and continued at a high rate ($621 million) in 1971-72. Direct investment from overseas was also larger than ever before. The total inflow of private capital [both portfolio investments and direct investment] in 1971-72 accounted for 5 per cent of GDP, the highest percentage inflow since 1949-50. (Dyster & Meredith 1990, 261).

By the beginning of 1972, it became apparent that the economy had peaked, with inflation running at its highest rate for twenty years[16] and "with 130,000 people out of work, unemployment at its highest for nearly ten years" (Sekuless 2000, 322). At the same time Labor's policies, including those on FDI, were increasingly "resonating with the electorate" and by March 1972, a year after McMahon had succeeded Gorton as prime minister, the ALP had a clear lead in the opinion polls (Sekuless 2000, 322).

How the McMahon government reacted to globalisation pressures in the area of FDI flows through policy, regulation and change to bureaucratic structures

(a) Policy response

The 20 December to 22 December 1971 cabinet debate on currency devaluation was pivotal to the McMahon government's policy on FDI. Advice from the Treasury Department to Cabinet argued that the levels of foreign capital inflow were of little economic concern (NAA 1971a, 7-8). However, the Prime Minister chose to assert the cabinet's view that the matter of FDI flows should be an issue for Australia's national government based on the strength of the country's balance of payments caused by an extraordinarily high rate of capital inflow (NAA 1971c, 2). Following this cabinet meeting a working party was established within Treasury to prepare for the change in FDI policy (FT2) which emerged gradually during 1972. On 16 May 1972, Treasurer Snedden addressed Parliament on foreign investment flagging the government's concerns (Snedden 1972, 2534-2537) and tabled a Treasury paper on overseas investment in Australia (Treasury 1972). Cabinet meetings on 6 September and 13 September 1972 discussed the rescinding of the guideline policy and examined the need for new legislation (NAA 1972a), The 13 September meeting discussed submissions on inwards investment, under the title *Foreign Takeovers of Australian Businesses* (NAA 1972a, 1). This

[16] A briefing by the Treasurer presented to Cabinet on 15 December 1971, estimated a seven per cent rise in consumer prices, up from a long term rate of 2.2 per cent (NAA 1971b, 5).

submission was prepared for the Treasurer by the Department of Treasury working through an Interdepartmental Committee (IDC) comprised of representatives from the Department of Trade and Industry, National Development and the Attorney-General's Department.

The outcome of the 13 September meeting was a commitment by the government to adopt a more interventionist approach to foreign capital inflows. This involved the creation of legislation to "prevent a foreign takeover proposal which the government considers to be against the national interests"; the application of a set of criteria to determine the net benefit of any foreign takeover proposal, to be administered by an "independent authority"; and the adherence to unspecified interim arrangements to assuage "intense public interest" while the legislation was being drawn up and promulgated (NAA 1972, 5-10). The Treasurer's proposal specified that a new agency, a proposed but yet to be created Monopolies Commission, would be the independent authority responsible for assessing proposals and reporting to government.

(b) Legislative and regulatory response

To implement the policy of a more closely monitored, if not necessarily more restrictive, approach to FDI, the McMahon government announced substantial changes to foreign investment policy on 26 September 1972. This included the introduction of a Bill to Parliament to create the Companies (Foreign Take-overs) Act 1972 (FTA 1972) as a legislative means of executing the policy. The scope of this legislation covered the strengthening of exchange controls, the removal of the 1969 guidelines and provided the basis for the establishment of government authority to review foreign takeover proposals (Table 5.2). This action was a direct response to continuing public concern about foreign ownership and as a response to calls from senior Cabinet members of the Country Party for a review of foreign investment guidelines (Bell 1976, 46-47).

Table 5.2: FTA 1972 announced on 26 September 1972

- Exchange controls strengthened to limit amounts over $100,000 borrowed for periods of less than two years.
- The 1969 guidelines were abolished because they were seen as too accommodating and no longer compatible with the government's policy.
- An independent review authority was to be established, which would include government representation, to assess foreign takeover proposals.

Source: Drysdale (1993, 43). See also Bell (1976, 47), Sexton & Adamovich (1981, 15), Pokarier (2000, 121-122).

By introducing these measures the Coalition moved away from a largely open policy based on general guidelines to one based on the national government's power to regulate through legislation. In particular, the FTA 1972 vested a new power in the office of the Treasurer, "to prohibit the implementation of a takeover offer" where foreign ownership "would be contrary to the national interest" (Sexton & Adamovich 1981, 15). Also, the legislation effectively stripped away the automatic regulatory authority of the Reserve Bank to monitor flows and gave these powers to a committee to be established, with authority based in legislation. Each aspect (the new powers for the Treasurer, the limiting of the Reserve Bank's to intervene on specific FDI proposals, and the inception of a review authority separate from both the Reserve Bank and the government) were to become integral to future development of the national government's capacity to manage FDI flows.

However, the McMahon government had very little time to implement this particular piece of legislation. On 10 October, McMahon, as Prime Minister, announced that a general election would be held on 2 December. The Bill setting out the new legislation had passed its third reading in the Senate on 31 October 1972, the last day on which Parliament met before the election. In doing so the McMahon government had prepared a blue print for the incoming government should it choose to use it, and if it was able to have amending legislation passed by parliament.

(c) Organisational response

The organisational response that emerged, in the form of an IDC chaired by Treasury, marked progress in the debate on the role of the Australian state in the regulation of FDI. The McMahon government had accepted that:

- community debate on FDI had shifted to focus on “non-economic considerations” (such as the impact of high FDI inflows on economic management, exchange rate speculation, and domestic ownership in key industry sectors) (Snedden 1972, 2537);
- the national government should exert its authority through legislation (NAA 1972a, 11) and;
- the regulation of such activity should take place through a government instrumentality (NAA 1972a, 7).

The increasing visibility of debate and the increasingly coherent views offered by the national government were indicative of the emergence of an explicit capacity in the Treasury Department to monitor and provide policy advice on overseas investment.

Also, as a consequence of the length of time involved with deliberation on how best to respond, the growing strength of the ALP on FDI regulation, and the resonance of this issue with business interests and the wider public, new actors had entered debate on FDI. For example, within Parliament the Opposition had defied the wishes of the prime minister and established the Senate Select Committee on Foreign Ownership and Control of Australian Resources (Grassby 1972, 13). This committee had been established on 10 December 1971, just prior to the cabinet meeting on currency revaluation, to inquire into foreign investment in Australia (Borchardt 1986, 67). The key issues to be examined were whether FDI was prejudicial to Australia's interests, whether foreign ownership and control was excessive, how best to mobilise Australia's capital resources for national development and how best to reconcile FDI with Australian ownership and control (Senate Select Committee on Foreign Ownership and Control of Australian Resources 1972, 10). Reporting in October 1972, just prior to the December 1972 national election, the recommendations made by the Committee both added weight to, and challenged, the McMahon government's attempts at establishing a regulatory regime for foreign investment. In the international arena the OECD had become increasingly concerned about the pressure on national governments to intervene more strongly in FDI[17]. Domestically, private sector lobbying capacity was increasing both among firms seeking to encourage FDI and those seeking a more restrictive approach from the national government. Each one of these examples offered competing views on policy, regulation and organisational responses to increased FDI flows.

Although the capacity to lobby government on FDI issues was growing, Prime Minister McMahon weakened his capacity to respond to these changing circumstances by winding back the steps Gorton had taken to expand the prime minister's capacity through the Prime Minister's Office. McMahon's approach was to integrate the functions of the Department of the Cabinet Office and the Prime Minister's Department into the one organisation called the Department of the Prime Minister and Cabinet (PM&C) on 12 March 1971. John Bunting, who had been the Secretary of the Cabinet Office, became the head of the PM&C, while Lennox Hewitt, who had been head of the Prime Minister's Department was appointed the adviser to the President of the Loans Council under McMahon. In effect this change meant that much of the task of policy development on FDI within the core executive now returned to the Treasurer and the Treasury department.

[17] This concern led to the development, through the OECD, of what was to become the OECD Guidelines For Multinational Enterprises (Muchlinski 1995: 348, 578-597).

The Whitlam Government's Approach to Globalisation and FDI

External pressures facing Australia, in particular those that government identified as critical to the well-being of those living in Australia

The external pressures for change experienced during the Gorton and McMahon governments were to prove even more acute in the two successive Whitlam governments. The world economy was becoming rapidly less stable and much less predictable. The end of the Bretton Woods Agreement created conditions favourable to improved international competitiveness for Europe and Japan (Eichengreen 2000, 5) while the US increasingly pursued more isolationist economic objectives. For example, the US focus was on reducing the balance of payments deficit and more protectionist policies in the area of steel and textile manufacturing (Bergsten 1972, 199). In international business, with the end of fixed exchange rates, traders and producers had to find new ways of managing risk spurring on the expansion of instruments for pricing and trading of risk (Commonwealth Treasury of Australia 2000, 12). New methods of managing risk were being complemented by new sources and growing volumes of investment funding from the UK and Europe in the form of Eurodollars (Schenk 1998, 237) and the soon-to-emerge petrodollars from the Middle East (Boughton 2004, 11).

The geopolitics of Australia's immediate region was also undergoing major change, with economic consequences for Australia. The US was seeking to disengage from the war in Vietnam with the prospect that the Indo Chinese states (Laos, Cambodia and Vietnam) would come under communist rule (Edwards & Goldsworthy 2003, 5). However, countries such as Thailand, Malaysia and the newly emerged Singapore "were stable and increasingly prosperous" (Edwards & Goldsworthy 2003, 5) having gained from "America's Vietnam related spending in the region" (Lee & Dee 2001, 308). Japan was emerging as a major world economy and China was being reappraised by both the US and the Australian governments. Each of these shifts contributed to continuing foreign interest in Australia, as a location for investment, as a supplier of raw material, and as a bridgehead for MNE investment into the Asian region.

Balancing external and internal pressures in the domestic political context

The dynamics of the Whitlam government were very different from either of its two predecessors. It pursued a set of policies crafted in Opposition which sought a more equitable distribution of wealth and resources in the Australian community through a more interventionist and activist approach to government. As a reformist government, the Whitlam period marked a watershed in approaches to government and government policy, including foreign investment, in Australia (Patience & Head 1979, 285; Johnson 1989, 51). Gough Whitlam, as prime minister and the parliamentary leader of the ALP, saw his government as having a clear mandate for change, and expected to carry through on a very much expanded agenda for national government (Whitlam 1985, 1-24). As such, it was a government intent on transforming:

- the Australian nation state;
- its relationship with other levels of government;
- its relationships with foreign governments and international actors, both private and public;
- the relationship between the national government and the wider Australian polity and;
- through extensive social reform via programs in health, housing, culture and regional and urban development (Whitlam 1985).

The core of the ALP's program of reform was to restructure the mode of state intervention in Australian society "by shifting resources into the public sector" (Patience & Head 1979, 284). It carried into office:

- a program directed at achieving equality of opportunity;
- an emphasis on the social wage (the idea that government services and

support played a significant role in ensuring an acceptable standard of living or quality of life) and;

- the state as a defender of citizens against the excesses of the market (Emy 1993, 21).

In short, the goal for the ALP was to bring about a transformation of Australian social experience, without “engaging in a fundamental or direct assault on the parliamentary and capitalist system” (Patience & Head 1979, 285). It was an ambitious goal, program and mode of operation which was predicated on continuing national economic growth, continuing electoral support, a responsive institutional and administrative system of governance (Hayden 1996, 166-168) and cohesive leadership (Lloyd 2000, 342-346).

However, the economy was primed for inflation. The McMahon Government, fearful of the possibility of an economic slow down, had introduced inflationary budgets in 1971 and 1972, despite the increasing liquidity in the Australian economy from strong foreign investment and export earnings (Whitwell 1986, 207-214). The winding back of immigration flows in response to rising unemployment and growing shortages of materials were leading to increased prices and further upwards pressures on wages (Whitwell 1986, 211-212). Inflationary pressures were compounded by the first oil shock in September 1973 when the Organisation of Petroleum Exporting Countries (OPEC) raised oil prices by 70% to $US3 a barrel and in January 1974 to $US12 a barrel (Whitlam 2004) These circumstances were further exacerbated by the government’s inability, described below, to successfully address these pressures in either their 1973 or 1974 budgets (Hayden 1996, 215-217).

In government the Whitlam cabinet viewed foreign investment as an issue of national sovereignty and a significant contributor to the national economy, not simply an issue of the level of national reserves or the balance of payments as had the preceding Coalition governments. Having placed the well-being of the

Australian state above sectional interests (Menadue 2004, 3) the Whitlam government sought to reshape the state and its institutions to better harness national and international economic resources, including capital flows. However, faced with an intransigent Senate, opposition from state governments and business groups, and a breakdown in the ability of the government to harness the expertise the Treasury the approach used was one of supplementing, reworking or (only in a small number of cases) supplanting, existing institutional arrangements (Catley and McFarlane 1974, 4; Maddox 1998, 156).

How the Whitlam government reacted to globalisation pressures in the area of FDI flows through policy, regulation and change to bureaucratic structures

The Whitlam government initially adopted a three-pronged approach to FDI:

- general FDI policy was to be administered under the FTA 1972 by the Treasury;
- there were to be specific FDI policies, regulation and organisation for the mining and minerals sector and;
- specific FDI policies, regulation and organisation for the manufacturing sector.

The initial major thrust was in minerals and energy, with much of the initiative resting with Rex Connor as the Minister for Minerals and Energy. In effect, the development of a formal, overriding legislated framework did not emerge until very late in the second Whitlam government, once the major experiment with the regulation of FDI in the minerals and energy sector has proven to be unworkable for reasons discussed below. The Whitlam government's approach to manufacturing, while much less spectacular than experience with FDI in minerals and energy, represents the commencement of a much longer-lasting regulatory approach. This approach, while having only minor consequences for FDI regulation during the Whitlam government, reverberated through the policies, approaches to regulation, and organisation of the national bureaucracy, in later governments. Hence the following analysis includes developments in the minerals and energy portfolio and manufacturing portfolio as well Treasury, as they relate to FDI policy, regulation and bureaucratic organisation.

A further, highly visible, development in the Whitlam period was the intense interest of foreign governments in FDI policy in Australia. This reflected the disquiet amongst foreign investors, particularly Japanese interests, as FDI policy and regulations appeared to move towards a more restrictive posture as the government pursued its policy in the minerals and energy sector (FT1). It was also reflected in the increasing perception within the political core of the Whitlam government of the need to pursue means other than legislation to pursue its policy goals. Hence, there was a willingness to move in the direction of addressing the specific concerns of the Japanese. This episode has been included below in analysis of the legislative and regulatory changes because it demonstrates the Whitlam government exerting the Constitutional power as the national government to act in the area of international relations even though its legislative capacity was restricted. In turn, the ability to announce policy on FDI as part of polices to do with relationships with another country gave the Whitlam government a greater degree of leverage in trying to implement its policies than would have been otherwise possible with a limited mandate in the national parliament.

(a) Policy response

The pressures of economic globalisation upon the Australian economy in the early 1970s included the peaking of a period of sustained domestic economic growth, a sudden discontinuity in the international currency regime, and contracting global growth. The policies of the ALP in government however were those crafted with the goal of seeking a more equitable distribution of wealth, based on the assumption of continuing growth in the national economy. FDI policy was a key plank of this program. The ALP in Opposition had strongly criticised the role of MNEs in stripping Australia of its natural resources and the way successive

Coalition governments had fostered these activities (Whitlam 1972b, 1920-1925). The crux of ALP concerns was the transfer in the ownership of Australian resources to foreign interests because of federal government complacency:

> far from taking credit for the mineral discoveries our governments should hang their head in shame over the price we have been paying and will have to pay in the future for the exploitation of our mineral resources. The Government is condoning and encouraging the sale of our richest mineral resources to overseas interests. Some of the most amazing mineral discoveries in our history are now in foreign hands. Foreigners do Australians the honour of employing them to dig up their own wealth, to be exported overseas (Whitlam 1985, 239).

To support this argument, Whitlam (1985, 239) could point to the concentration of key resources such as aluminium production, oil and gas, iron ore and coal.

The December 1972 election provided the ALP with the opportunity to further develop its policy on foreign investment and increased the pressure on the Coalition government to respond. An increasingly divided Coalition saw both the Deputy Leader and Treasurer raising concerns about the foreign investment regime in the media (Pokarier 2000, 119). Focusing on the challenge of national development the ALP campaigned strongly that it was time for government to more actively regulate the flow of foreign capital into and out of Australia to prevent the impact that speculative flows had on Australian ownership of its economic resources (Pokarier 2000, 119). In September 1972, the ALP released its FDI policy which had been developed by the parliamentary party's economic and trade committee. Under the ALP policy, "foreign bidders for existing Australian enterprises would be required to make the case that it promised economic benefits and did not entail a lessening of competition or employment" (Pokarier 2000, 119).

The new Treasurer, Frank Crean was given the remit to carry through on the ALP policy and establish an enhanced means of regulating FDI. However, there were significant differences between Treasury and the government on how this should be done. Where there had been a momentum for change within the Treasury during the McMahon era for the introduction and implementation of legislation to regulate FDI generally, under Crean cabinet's focus shifted. The cabinet driven emphasis was now on the development of initiatives within the minerals and energy portfolio (and to a lesser extent, the manufacturing portfolio) where more specific legislation to influence and control FDI was being developed. The consequence was that while the legislation establishing the FTA 1972 received assent, rather than establish a separate, independent authority, the Committee on Foreign Takeovers (COFT) was formed, comprising representatives from Treasury, Minerals and Energy, PM&C and the Reserve Bank. The FTA 1972 established a procedure for reviewing proposals for foreign takeover activity in the domestic economy.

However, the government did not proceed with policy development to clarify the specifics of the application of this legislation until September 1975. In effect there was a policy vacuum between January 1973 and September 1975 as the economy deteriorated and the relationship between the government, two successive Treasurers (Frank Crean and then Jim Cairns) and Treasury broke down, and was then rebuilt under a third Treasurer, Bill Hayden from 6 June 1975. During this period developments elsewhere within the core executive were driving FDI policy, rather than advice through Treasury, the Treasurers or their advisers.

FDI policy, at the hub of the government's approach to natural resource management and industry policy, was intimately linked with the program of reforms to achieve greater equity. The ALP, when in Opposition, had made much of the need for a national plan for manufacturing (Cairns 1971, 61) as a means of to better harness industry to national goals and improve its competitiveness. However, in office the Whitlam government used a range of softer mechanisms, described in Table 5.3, to increase the influence of national government on industry. This was mainly because the Commonwealth had only limited constitutional power, in comparison to state governments, to legislate on industry matters.

Table 5.3: Whitlam government initiatives to increase the influence of national government on industry

- establishing "advisory committees … in crucial industries"
- the creation of "[g]overnment-owned enterprises …to provide a more competitive climate …where market forces were not considered to be operating effectively due to monopolisation or other factors"
- expanding the public sector to "boost to the private sector (by buying goods and services produced by business) and an indirect boost (by providing employment which would sustain higher levels of purchasing power)"
- "…very limited use of direct government controls, largely over areas such as foreign investment and sale of resources"
- "…the government attempted to alter existing forms of assistance and design new ones that would encourage the development of technologically advanced and competitive Australian industry"

Source: (Johnson 1989, 57)

The major attempt at transforming the Australian economy was in the areas of minerals and energy. To extract greater rents from the export of natural resources, and increase the involvement of Australian-owned firms in natural resource exploration and exploitation, the Prime Minister commissioned Rex Connor as the Minister for Minerals and Energy. Connor appointed Lennox Hewitt (the head of PM&C under Gorton and adviser to the President of the Loans Council under McMahon), as his departmental secretary. The new department immediately sought to establish a means of negotiating increases in export licenses; end a range of taxation benefits for mining firms; develop policy to enhance the prospects of greater Australian ownership (and increase revenue to government) from natural resource projects as a means of contributing to financing welfare provisions to enhance the social wage (Whitlam 1985, 238-249). However, much of the legislation to support the government's policy was blocked in Parliament by the Senate. This meant that the government was unable to finance the expansion of its minerals and energy program.

The inability to secure financing for the expansion of the Commonwealth government's program for minerals and energy led to a stronger focus on fiscal restraint in the area of economic policy (Hayden 1996 174-179, 215-221; Hughes

1980 114-115; WM/MA1). The consequences were the dropping of the goal of energy self-sufficiency and the encouragement of greater overseas investment by lowering the proposed limits on overseas ownership (except in uranium mining and exploration), and centralising the review of foreign investment proposals in the Commonwealth Treasury (Smith 1979, 241). The failure to secure financing for greater Commonwealth government and Australian control of the mining industry meant that the focus in FDI policy returned to the cross-sectoral approach supported by the interim legislation of the FTA 1972. So while the government was blocked in pursuing the regulation of FDI through greater Commonwealth direct control of the mineral and energy sector, it could still influence FDI activity through the less direct controls established under the FTA 1972. Furthermore, the ALP could introduce revised legislation more consistent with the policies it took to election campaigns in 1972 and 1974.

(b) Legislative and regulatory response

During the first two-thirds of the Whitlam period the legislative pathway to achieve FDI goals was reserved for the pursuit of strengthening the government's approach to minerals and energy. However, Treasurers Crean and Cairns continued to pursue greater involvement in FDI for the national government by continuing with the interim legislation introduced by the McMahon government, and indicating that the ALP government would bring forward its own legislation on FDI (FT2). They also introduced a number of regulatory measures which, because they were introduced under existing legislation such as the Reserve Bank Act and the 1972 FTA did not require parliamentary debate. For example, to underscore the government's view that the level of capital inflow was too high and needed to be discouraged the Variable Deposit Requirement scheme (VDR) was introduced in December 1972. Under the scheme a proportion of overseas loan funds used by foreign investors to acquire assets in Australia were to be deposited interest-free with the Reserve Bank. The initial proportion of funds to be deposited was 25 per cent, and in October 1973 this was raised to 33 per cent (Sexton & Adamovich

1981, 17). Also in 1973 Crean introduced measures to restrict foreign ownership of real estate using the foreign exchange controls of the Reserve Bank (Pokarier 2000, 128); and in December 1974 Crean introduced a further tranche of measures to increase the capacity of the government to restrict FDI. While both Treasurers had advised parliament that they would bring forward more comprehensive legislation to more tightly regulate FDI it was only introduced into Parliament in the later stages of the second Whitlam government.

In September 1975 Prime Minister Whitlam announced a revised set of foreign investment policy measures in the form of the Foreign Takeovers Act 1975 (Drysdale 1993, 45-46) to increase the government's powers to restrict FDI. The initiatives in this iteration are as set out in Table 5.4, showing that while the 1975 Act kept the general framework established by the McMahon government's 1972 Act, the Whitlam government made several important changes to balance the need for foreign investment in Australian industry with the goals of social equity and protecting the community from the loss of potential sources of national wealth such as natural resources. It also represented a response to growing concern within government about the repatriation of significant amounts of portfolio capital during this period.

International Treaties

A further dimension of the Whitlam government's approach to FDI regulation was the interaction with the Japanese Government. Although a key trading partner Japan was concerned about the continued supply from Australia of coal and iron ore (Goldsworthy et al. 2001, 339). From January 1973 both coal and iron ore became subject to price controls administered through the Minister of Minerals and Energy using the Commonwealth's powers over export (Smith 1979, 242). This development increased the likelihood of steep price increases for the Japanese firms seeking to export coal and iron ore from Australia. Faced with increasing concern from Japanese firms, the Japanese government sought greater surety from the Australian government.

Table 5.4: FTA 1975 announced on 24 September 1975

Category	Change	Impact
Organisation	Foreign Investment Advisory Committee (FIAC) formed by amalgamating COFT and FIC.	More centralised
Policy scope	The national interest test was broadened to apply to the creation of new, foreign owned businesses in addition to takeovers of existing firms. For takeovers criteria were strengthened to add to the economic benefit test two new factors: "competition in the industry in question and the development of new markets". Those proposals passing the economic test were subject to a test on the preservation of Aboriginal land rights and the interests of employees and creditors of the company subject to takeover. Improvement in employment (in numbers and training) and the degree to which the industrial base was broadened were also added. Tests of financial arrangements including taxation and royalty and licensing agreements were also added. In the case of new business creation a test was added on the extent to which foreign participants had sought Australian equity from either the private or public sector.	Consolidation of previous tests and their expansion to cover more methods used for foreign investment, including those which had been outside the scope of foreign exchange controls
Regulation	Examination would occur where the proposal: • Sought expansion of existing business where the cost of expansion in any one year amounted to more than 15 per cent of the corporation's total assets or where the expansion involved more than $10m. • Sought to increase an existing foreign controlled interest by more than 15 per cent. • Involved funds over $1m. in any one year.	
- Minerals	"Proposals for all new mineral projects (except uranium) would be expected to have no more than 50 per cent foreign ownership, and the foreign participants would be expected to have no more than 50 per cent of the voting strength of the development company". For exploration ventures the 50 per cent Australian participation would not apply, "but foreign exploration companies would be required to notify FIAC of their programmes and report every two years on their efforts to attract Australian participation in their exploration activities".	Tightening Loosening
- Uranium	A requirement of 100 per cent Australian equity in the development of uranium deposits would be applied to discoveries made under future exploration licences. The development of discoveries already made or made later under existing licences would be the subject of negotiation. Only the Atomic Energy Commission would be allowed to carry out exploration for uranium in the Northern Territory	Consistent with previous policy
- Insurance and Non-bank financial institutions (NBFI)	Any proposal to increase the foreign ownership of an insurance company or a NBFI by more than 5 per cent would be examinable even if the institution was already foreign controlled. Foreign interests seeking to establish, to participate in the establishment of a new institution, or to significantly increase their participation in an existing institution should be required to demonstrate that there would be advantages to the Australian economy in doing so.	Tightening
- Real estate	Acquisitions of real estate by foreign interests would not normally be approved except those for: acquisition of employee residences (which would normally be required to be resold to Australians); real estate incidental for other purposes, such as factories or shops; real estate to be developed in a specific period and sold to Australians; and properties for long-term use for rural purposes.	Tightening

Source: Sexton and Adamovich 1981, 19-21

The instrument for progressing Japanese concerns was a bi-lateral treaty on friendship, commerce and navigation, later to be named the Nippon-Australian Relations Agreement (NARA) (Goldsworthy et al. 2001, 338). The 1957 Australia Japan Commerce Agreement provided a strong basis for trade between the two countries. However, it did not address the issue of Japanese investment in Australia nor the extension of most-favoured nation (MFN) status to Japan, to place it on par with the UK and the US in trade and business immigration arrangements with Australia. A more comprehensive treaty had been resisted for sometime by the previous Coalition governments (Smith 1979, 242; Whitlam 1985, 61) on advice from the Departments of Treasury and Immigration that Australia did not need special relationships (Goldsworthy et al. 2001, 339). However, the issue of a broader treaty with Japan had been explored by the Senate Standing Committee on Foreign Affairs and Defence in 1972, and on the advice of John Crawford, the architect of the 1957 treaty, found to be one which could benefit both Japan and Australia. While the issue of MFN was to remain a sticking point for much of the subsequent negotiations (Clark 1997, 41-42), the process of establishing the treaty provided a basis for dialogue between the two governments on investment issues throughout the Whitlam period. The growing concern of Japanese minerals exporters in Australia prompted the Whitlam government in October 1973 to establish a clearly stated, if restrictive, policy on foreign investment (Smith 1979, 238; Pokarier 2000, 129), a policy which was subsequently significantly modified but not overturned in the legislation enacted in September 1975 (WM/MA1; WT1).

(c) Organisational response

The emergence of minerals and energy as a key policy focus for the ALP government, and the subsequent creation of a ministerial portfolio and government department, initially led to a weakening of Treasury's role in FDI policy and implementation. However, the gradual collapse of the policy agenda in minerals and energy led to an eventual strengthening of the role of Treasury in FDI regulation. Treasury had started from a strong foundation, while the legislation establishing the Foreign Takeovers Act (FTA) 1972 received assent, rather than establish a separate, independent authority, the Committee on Foreign Takeovers (COFT) was formed, comprising representatives from Treasury, Minerals and Energy, PM&C and the Reserve Bank. The FTA 1972 established a procedure for reviewing proposals for foreign takeover activity in the domestic economy. While COFT was an interdepartmental committee, its secretariat remained within Treasury and any investigation was done by Treasury officers (Sexton and Adamovich 1981, 16-17; WT1).

COFT, organised as an IDC and chaired by Treasury, provided the model for later developments in the way the government's regulatory capacity was organised. In June 1974 a second committee, the Foreign Investment Committee (FIC), was created. It role was to review foreign investment proposals that entailed the acquisition of the assets of an Australian enterprise or the setting up of a new business by "foreign interests" in Australia other than a takeover. FIC operated without separate legislative support, through the Reserve Bank's exchange control regulations, using the same criteria of national interest operating for COFT, in all cases where exchange control approval was involved (Sexton & Adamovich 1981, 18). The coordinating body for the activities to be regulated through the Foreign Takeovers Act 1975 was created by merging COFT and FIC to form the Foreign Investment Advisory Committee (FIAC) (Bell 1976, 50; Sexton & Adamovich 1981, 19). The new committee assumed the functions of both of the earlier committees to advise the Treasurer and took on a new task of examining "…proposals for the establishment of an Australian business by foreign interests even if exchange control approval was not involved…" (Sexton & Adamovich 1981, 19). Represented on the committee were officers from "the Departments of Treasury, Minerals and Energy, Overseas Trade, PM&C, Manufacturing Industry and the Attorney-General, together with a representative of the Reserve Bank; and it was "serviced by Treasury officers as its predecessors had been" (Sexton & Adamovich 1981, 18).

The period of the Whitlam government saw the development of a prototypical, formal structure for assessing, reviewing and advising on foreign investment in Australia. The FIAC provided a direct means for government, if it chose, to intervene in the process of FDI flows involving Australian firms; and it represented a mechanism for starting to satisfy the recommendations set down in October 1972 by the Senate Select Committee on Foreign Ownership and Control of Australian Resources (1972, 1). Whitlam (1985, 220) describes the role of the FIAC as screening the entry of foreign investment into Australia "according to a criterion of national interest which took account of a broad range of economic considerations". Foreign investment in Australia would be "examined whenever the cost of business expansion amounted to more than 15 percent of corporate assets or companies increased their foreign ownership component by more than 15 percent, five percent in the case of non-bank financial institutions or insurance companies" (Whitlam 1985, 220).

FIAC's work was necessarily complemented by a range of other direct means of intervention the national government could, and did use, to greater and lesser extent such as the AIDC, the Industries Assistance Commission (IAC) and the Trade Practices Commission (TPC) in fostering more competitive markets. The Whitlam government sought to strengthen AIDC's role as a significant financier for Australian firms to participate in joint ventures with overseas firms. Legislation was introduced in August 1973 to enable the AIDC to compel overseas investors to seek Australian partners (Whitlam 1985, 219) and, in separate legislation, establish a National Investment Fund (Johnson 1989, 58-59) to support the operations of the AIDC. However, the plans to establish the NIF "were frustrated by a hostile Senate, encouraged by protests from private enterprise" (Johnson 1989, 59). Similarly the plans for the AIDC were significantly watered down to ensure business remained in control of the AIDC (Johnson 1989, 60). While the AIDC had a long history, much of which has been described in this thesis, the IAC represented an innovation and had emerged from the 25 per cent across the board tariff cut of July 1973. The Tariff Board was transformed into the IAC and relocated to the PM&C, with the brief to "to encourage those economic activities in Australia, and the producers of the goods concerned, which contribute to improving the efficiency with which the community's productive resources are used" (Capling & Galligan 1992, 108-109). More broadly, on behalf of "Australian citizens and consumers" the government introduced policies on consumer protection (Emy 1993, 21-22), to be policed by the TPC (Whitlam 1985, 626). Such measures would be developed and enhanced by later governments, both ALP and Coalition.

In the case of PM&C, Whitlam substantially increased its capacity to serve as a department capable of developing policy in support of the prime minister's objectives. He, just as Gorton had done, re-established PM&C as both a source of advice and as a means of co-ordination for both cabinet and the implementation of policy. To aid in policy development he brought in a number of advisors from outside the public service to serve in the department and in his office. Furthermore, on assuming government the ALP had expanded the scope of the role of ministerial staff across the board to include advisers responsible for political decisions, with the consequence that each minister had his own cadre of advisers (Whitlam 1985, 695-696).

Analysis of FDI Experience in the Gorton, McMahon and Whitlam era

The Gorton, McMahon and Whitlam governments each grappled with the issue of FDI and its impact on the Australian economy and community attitudes in the context of a growing world economy, pressures on the stability of the international currency regime, increased foreign investment in Australia, high tariff barriers to protect Australian industry, and strong overseas investment interest from MNEs in Australia's mining, manufacturing and financial services. In response both the Gorton and McMahon governments, under pressure from the Opposition and public opinion, were willing to direct and exert Commonwealth powers more forcefully towards more extensive state controls on direct foreign investment into Australia. However, the execution of this policy rested with the Whitlam government and its actions represented an attempt at a more ambitious and comprehensive response to globalisation: one of seeking fundamental reform of national capacity, particularly through government instrumentalities, to foster public and private Australian investment. It also sought to exert its authority internationally, particularly in relation to Japan. In doing so the Whitlam government sought to reframe FDI as an issue of national economic development not one of short term economic management (Whitlam 1972, 1920).

These events are summarised in Table 5.5, below, which presents the chronology of the steps taken by each government. The table shows that in response to increased inflows of MNE investment in Australia the trend across all three governments was one of an increase in the presence of the Australian state in the regulation of FDI flows. During Gorton's period there was increased interest from the prime minister in FDI policy, but a reluctance to create new legislative tools to enforce this interest and strong resistance from states governments to increased powers of the Commonwealth over mineral rights. Two key organisational changes took place under Gorton: the strengthening of the role of the Prime Minister's department; and the emergence of the AIDC as a means of providing finance to increase Australian equity in FDI activity within Australia (see *Involvement in the Organisational Arrangements Instituted by Government* below). In the case of McMahon, there was an increased willingness to introduce legislation to clarify the national government's role in the screening of FDI in the form of foreign takeover activity, including establishing COFT to undertake the screening task at arms' length from the government. At the same time the role of PM&C was weakened. In the Whitlam period there was an expansion of the goal for FDI policy, from economic management to national development in pursuit of a more equitable distribution of wealth. After a period of prevarication there was an expansion of the scope of policy areas which contributed to FDI policy and the kinds and the numbers of agencies with links to FDI policy and its implementation.

All three governments developed distinctive regulatory and organisational responses. In effect these responses represented both adaptations and experiments as each government engaged more closely with processes of globalisation (as represented by FDI flows) and sought to exert the autonomy and capacity of national government to respond. Before considering the significance of the national bureaucracy to these responses, the regulatory and organisational adaptations are considered more closely in the following two sections.

Table 5.5: Chronology of change in the context and particulars of FDI public policy during the Gorton, McMahon and Whitlam governments

Gorton (10 January 1968 to 10 March 1971

		1968	1969	1970	1971
Processes of globalisation	**Global versus Local**	Continuing strong investment interest from MNEs in mineral resources, manufacturing and financial services	Confirmation of stronger ties between the UK and the EEC	Increasing pressure to revalue the Australian dollar	
	Business Behaviour	Takeover attempt on the MLC by a UK insurance company	Increasing foreign investment in mining interests		
State Autonomy & Capacity	**Goals of national government**		Development of a more centrist role for the national government and the prime minister		
	Relationship between government & other actors	Divisions between businesses and within and between business associations on whether FDI represented a threat or opportunity for domestic business		Increasing tension between the States and the Commonwealth on natural resource management	Tensions on natural resource management contribute to the party room election of McMahon as PM in March 1971
	Relationship within government	Strengthened role for the Country Party in the Coalition following the death of Harold Holt Weakening of the role McMahon as the Treasurer		Co-operation between the PM and the Minister for Trade and Industry to champion the establishment of a government financier (the AIDC) for Australian equity in investment projects (23 January)	
Responses in FDI public policy	**Policy**	Adoption of a more activist national approach to FDI	Announcement in London by PM of the need for Australia to assert its national interests in the area of FDI (17 January 1969)	Debate within government and financial community on role of government in financing the growth of Australian equity in major investment projects	
	Legislation & Regulation	No new guidelines or legislation	New guidelines tightening FDI policy announced by the PM to Parliament (16 September 1969)		
	Organisation	• Strengthening of the role of the PM&C • Weakening of the role of Treasury, although the Reserve Bank continued to be the hub of FDI scrutiny • Strengthening of the role of the Department of Trade and Industry	New guidelines on FDI centred on the Reserve Bank	AIDC established	

McMahon (10 March 1971 to 5 December 1972)

		1971	1972
Processes of globalisation	**Global versus Local**	Increased global financial liquidity Devaluation of the US dollar (December 1971)	
	Business Behaviour	Continuing high levels of foreign investment in minerals and resources	
State Autonomy & Capacity	**Goals of national government**	Increasing emphasis on economic stability in the face of a growing international financial crisis and potential economic downturn	
	Relationship between government & other actors	Increased economic nationalism with banking, financial services and manufacturing calling for greater restrictions on FDI Senate Select Committee on Foreign Ownership and Control established (10 December)	Report of the Senate Select Committee on Foreign Ownership and Control released (October) ALP, led by Gough Whitlam, elected as national government with a series of polices based on greater government intervention in FDI flows (5 December).
	Relationship within government	Increasing division within Cabinet between those seeking a devaluation of the dollar and greater restrictions on FDI (mainly from within the Country party) and those seeking to maintain a high dollar and an open door policy on FDI (the Prime Minister and Treasurer Snedden).	
Responses in FDI public	**Policy**	December 1971 cabinet debate leads to a commitment by the Treasurer to prepare the way for the orderly development of the government's FDI policy	Tabling of Treasury report on foreign investment in the economy (16 May) Cabinet decision in principle to adopt a more interventionist approach to FDI (September 13)
	Legislation & Regulation		Announcement by PM that takeovers considered to be against the national interests would be prevented through legislation and administrative arrangements (26 September) Legislation introduced into parliament, with effect from 9 November 1972.
	Organisation	**Prime Minister's Department:** Weakening of PM&C by reverting to the pre-Gorton structure • **Treasury:** • Strengthening of Treasury with the emergence of the Overseas Investment Division	Proposal to establish an independent authority, the Monopolies Commission to assess FDI proposal (September 26)

Whitlam (5 December 1972 to 11 November 1975)

		1972	1973	1974	1975
Processes of globalisation	**Global versus Local**	Less stable global economy	First oil shock (September)	Second oil shock (January)	
			Increasing international concern about economic recession and the emergence of stagflation		
	Business Behaviour		Emergence of new methods of investment funding (such as Euro and petro dollars) and financial derivatives to better manage risk		
State Autonomy & Capacity	**Goals of national government**	Polices directed at a more equitable distribution of wealth in the Australian community through a more interventionist and activist approach to government			
		Foreign investment viewed as an issue of national sovereignty and a significant contributor to the national economy			
	Relationship between government & other actors			Intransigent Senate and opposition from state governments and business groups	
		Concern from the Japanese government			
	Relationship within government		Breakdown in the ability of the government to harness the expertise of the Department of the Treasury		
Responses in FDI public policy	**Policy**		Expand the control of supply of energy resources under the direct control of the government		
	Legislation & Regulation	Introduction of the Variable Deposit Requirement scheme (December)	Foreign investment in real estate to be screened via exchange control (20 March) PM announced: FDI proposals to be examined on a case by case basis, proposals involving energy minerals to achieve a greater level of Australian ownership (Tokyo, October 1973) FDI in insurance companies to be restricted (13 December)	Commencement of negotiation on the NARA Treaty with the Japanese Government Treasurer announced a new, strengthened takeovers policy to be supported by legislation (November 1974)	Announcement by PM that exploration for oil could take place without Australian participation; exploration for uranium in the Northern Territory and its export to be undertaken only by the Atomic Energy Commission (March 12) Review of FDI policy with the goal of expanding the coverage of the existing screening process and thresholds announced. (24 September 1975).
	Organisation	• Strengthened PM&C (as well as advisers to each Minister) • Legislated framework from the previous government on FDI placed Treasury more strongly at the centre. COFT formed. • Also less activist role for the Reserve Bank, although controls on foreign exchange had been tightened. • FDI policy shifted to a specific focus on minerals and energy, establishing a strong role for the Minister and Department of Minerals and Energy. • Also, in pursuing the notion of a social wage the TPC was established		New Head of PM&C appointed from outside public service FIC formed to advise on foreign investment proposals (not involving the takeover of Australian business). Such proposals would come under notice through the exchange control mechanism. (12 June 1974).	Under Hayden the role of the Treasury returned to prominence (from 6 June). With the FTA 1975, COFT and FIC merged together to form FIAC

Regulatory Changes Instituted by Government

As described above, both domestically and internationally the broad economic assumptions of the 1950s and early 1960s were changing. The accepted paradigm for understanding and regulating the Australian economy had been one of cyclic rises and falls in response to overseas demand. However, the changing environment of the late 1960s was qualitatively different from the peaks and troughs of previous business cycles in the post-war period. As a general trend there was growing pressure for a more strongly centrist approach to directing the economy (including FDI flows) and the Gorton, McMahon and Whitlam governments each experimented with such approaches. In turn, increased interest in Australia as a location for FDI placed further pressure on the federal government to resolve new and emergent jurisdictional ambiguity and dispute.

The regulatory approach that emerged came through a series of steps which spanned all three governments. Table 5.6 sets out the series of steps undertaken by all three governments which tightened the regulations governing FDI flows and gradually increased the scope of Commonwealth control. The Gorton government placed controls only on takeovers which took place through the acquisition of shares in existing domestic firms, the McMahon government introduced a legislative framework (FTA 1972) to control this process and Whitlam expanded the scope of takeover activity to fall under national government regulation, including share transactions, and transactions in mineral rights (Drysdale 1993,44). In 1975, the Whitlam government introduced a new legislation, the Foreign Takeovers Act (FTA 1975), that further increased the scope of activities that fell within the government's screening process.

With increasing scope came increased specificity in terms of the areas for, and extent of, national government involvement. In the case of the Gorton government the level of specificity was broad, concentrating on linking its intervention to the economic priority of managing the balance of payments position while asserting the right of the Commonwealth to reject foreign investment activity which might not be in the national interest. The McMahon government reinforced this position by seeking to specify more clearly in legislation the criteria for economic and non-economic benefits. The Whitlam government expanded each of these tests and also specified special conditions for investment in minerals, uranium, insurance and non-banking NBFIs, and real estate.

While Table 5.5 shows the gradual tightening of regulations from 1968 onwards, it also shows that by 1974 the Whitlam government had begun to review and wind back aspects of the controls. The key driver of this change was the increasing impact of the global economic down-turn and the apparent decline in FDI flows to Australia. For example, as part of the December 1974 policy statement the government suspended the requirement for VDRs (see *Legislative and regulatory response* above for the role of VDRs) and relaxed controls on short term capital to enable investments of more than six months.

Table 5.6: Changes in FDI regulation and legislation during the Gorton, McMahon and Whitlam governments

	Gorton 1969	McMahon 1972	Whitlam 1973	1974	1975
More Restrictive	New guidelines tightening FDI policy announced by the PM to Parliament (16 September 1969) The Treasurer announced that short term capital flow (less than two years) would be prohibited (November 1970)	Announcement by PM that takeovers considered to be against the national interests would be prevented through legislation and administrative arrangements (26 September) Legislation introduced into parliament, with effect from 9 November 1972.	Foreign investment in real estate to be screened via exchange control (20 March) PM announced: • FDI proposals to be examined on a case-by-case basis • Proposals involving energy minerals to achieve a high level of Australian ownership, and in the case of uranium 100 per cent Australian ownership (Tokyo, October 1973) FDI in insurance companies to be restricted (13 December)	Treasurer announced a new, strengthened takeovers policy to be supported by legislation (December 1974): "The new policy would cover not only transactions in shares, but also transactions in assets including mineral rights; those classes of transactions used to circumvent the existing Act" (Drysdale 1993:44)	PM announced that exploration for uranium in the Northern Territory and its export to be undertaken only by the Atomic Energy Commission (March 12) PM announced a major review of FDI policy with the goal of expanding the coverage of the existing screening process; an increase in screening thresholds; and a range of special provisions in the areas of minerals, uranium, insurance and NBFIs, and real estate (24 September 1975).
Less Restrictive				"However, it also abolished the requirement for VDRs and relaxing the prohibition on short term capital to enable investments of more than six months (whereas the Gorton government had introduced the prohibition on capital inflows of less than two years)" (Drysdale 1993:43-44).	PM announced that exploration for oil could take place without Australian participation up to the detailed proving up stage (March 12)

Source: Drysdale 1993, 42-46

Organisational Changes Instituted by Government

Changes to the national bureaucracy over this period, provided the national government with a greater capacity to implement this more interventionist approach to FDI regulation. The Gorton government supported the AIDC as a financier for Australian involvement in FDI projects within Australia. McMahon's approach, while more interventionist, emphasised the role of a statutory, anti-monopoly authority to act as the regulator, with a degree of autonomy from the government of the day. The Whitlam government, however, implemented the first set of organisational changes specifically targeted at FDI, utilising the technical capacities of a committee of bureaucrats drawn from across national government to provide advice from within government and ensuring greater cabinet involvement in the decision process. The committee provided a focal point for deliberations and a conduit for community concern on foreign investment and takeovers.

Each of these steps is significant in itself, but their impact is dramatically shown when mapping the changes in the pattern of relationships between those components of the national bureaucracy involved in FDI policy and regulation. Figures 5.2 and 5.3 show a gradual expansion of the types of agencies involved and the range of actors across each of the governments. These Figures have been developed on the basis of research presented thus far in this thesis and checked against the government directories for the period 1968 to 1975. Figure 5.2 shows that in the period immediately before Gorton, FDI flow was addressed through currency controls, centred on the Reserve Bank, with indirect involvement of the Treasury and the Treasurer. During the Gorton era the Prime Minister and his department became more active in this area, responding to pressures from the wider community and conflict with the States over the relative powers of the Commonwealth and the States in the management of natural resources. The process continued to centre on the Reserve Bank, but more actors were concerned with policy development in this area, if not in the process of approving specific proposals. In the McMahon era there was greater pressure from the Trade Minister McEwen on FDI issues. The role of the

Reserve Bank was gradually reduced while the involvement of Treasury increased, and PM&C continued to aid the Prime Minister in over-sighting and facilitating the process of change. As a consequence, by the end of the period of Coalition government in December 1972, the automatic regulatory authority of the Reserve Bank over FDI flow had been stripped away and replaced by a structure to review specific proposals against criteria emphasising national interests which went well beyond a focus on balance of payments issues.

Figure 5.2: Changes in the pattern of organisational relationships in the national bureaucracy and core executive to regulate FDI flows prior to and during the Gorton and McMahon governments

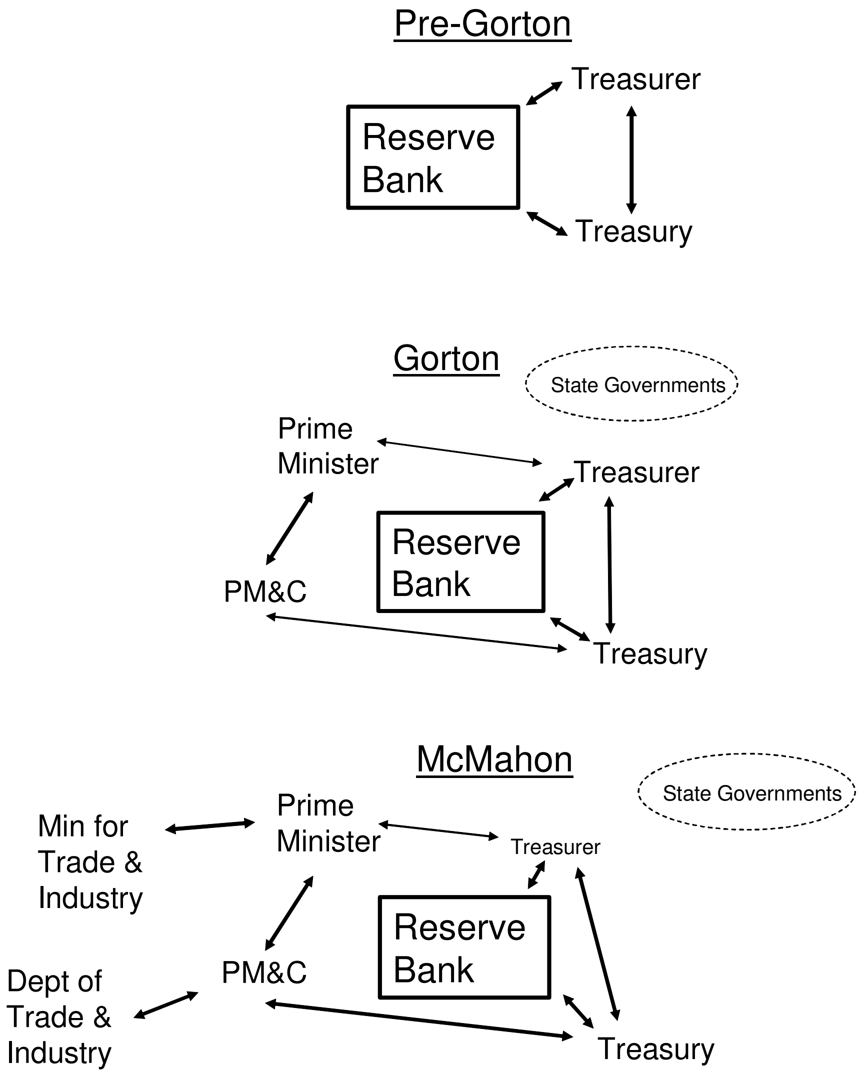
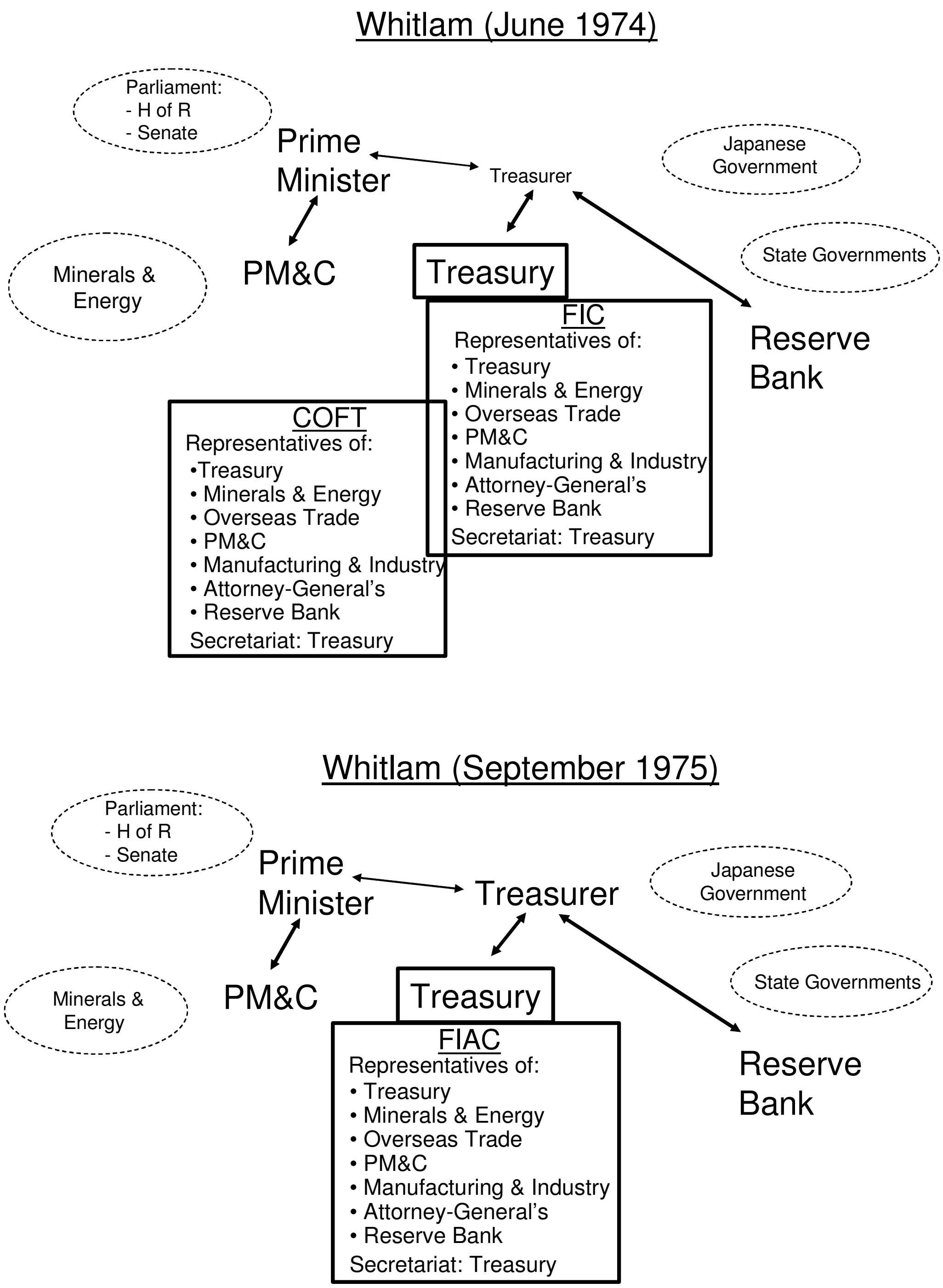


Figure 5.3: Changes in the pattern of organisational relationships in the national bureaucracy and core executive to regulate FDI flows during the Whitlam government



Significance of the National Bureaucracy in FDI Policy Adaptation

Changes made to the national bureaucracy by the Gorton, McMahon and Whitlam governments as a function of FDI policy are significant indicators of the capacity of the core executive to respond to evolving domestic and international circumstances. There were a number of distinct stages in the way in which these governments shaped the national bureaucracy to facilitate their policy requirements. From 1965 the initiative lay with Trade and Industry, culminating in the establishment of the AIDC in 1970 as a vehicle for providing finance to domestic business ventures. From this point onwards, although DTI remained a significant source of influence within the core executive and provided a counter weight to Treasury, it was the Treasurer and the Treasury view which dominated the McMahon government's approach to FDI policy and the regulatory capacity to service that policy.

As the diagrammatic depiction of changes to the organisational arrangements during the Gorton, McMahon and Whitlam era show, it is the Treasury Department which emerged as the pre-eminent agency in executing the national government's FDI policy. During the period of 1965 to 1970 the Treasury had given ground by sticking to a *laissez faire* policy, one based on an essentially economic logic concerning flows of foreign capital into and out of the Australia economy. For the wider core executive this period was one of increasing crisis, contributing to the view within the political and policy elements of the core of the need for innovation in policy to respond to community concerns about FDI. This was more than a case of Treasury being unable to provide answers to a complex change because of a lack of the analytical capacity or the failure to recognise the scope and intensity of change. It was one where the fundamental economic and institutional underpinnings of the Australian state were being sufficiently tested to require a political as well as an economic response.

Reflecting the sense of impending crisis in the management of the nation state as the international economic circumstances changed there was also a willingness within the government to seek out innovations. The obvious example here is the role of the Department of Minerals and Energy during the Whitlam government. Its role was clearly to bypass the constraints and behaviours of the Treasury and exert considerable pressure from the national government on commercial and State government interests. However, while contributing to delaying the emergence of a coherent FDI policy during the earlier stages of the Whitlam government its pursuit of such matters proved to be beyond the capacity of the government to achieve, especially as the economy worsened and electoral support waned. A more lasting innovation was the emergence of more specialised agencies to support what was to become known as the micro-economic reform initiatives of government. In the early 1970s the principal focus was on anti-trust or anti-monopoly initiatives. However, the Whitlam period saw a greater willingness to create specialised agencies to address issues that could, or had the potential to, retard greater social equity. These agencies included the IAC and the TPC.

Key findings

This chapter has revealed how the Gorton, McMahon and Whitlam governments became intensely engaged with how best to manage foreign investment in Australia. The policies, regulations and changes to bureaucratic organisation undertaken by the different governments in dealing with this issue indicate that they each had the capacity to respond to changing circumstances and the desire to more actively and strongly regulate FDI in their own way.

In terms of providing evidence of state capacity in response to FDI as a globalising pressure this chapter showed that each government decided what it would do and how it did so to suit its own purposes. The Gorton government sought to establish a stronger role for national government in the regulation of FDI. McMahon initially prevaricated, but nevertheless continued to persist with the development of this policy. Whitlam sought to vastly increase the national government’s capacity to both more strongly regulate and directly intervene in FDI activity. Thus each government instituted an incrementally more direct regulatory approach to dealing with FDI flows and that the decisions were made in the context of not only international pressures, but also as responses to domestic politics and economic factors.

In this context the significance of the national bureaucracy to this process is that of a facilitator in implementing government policy, including contributing to the conduct of experiments and the development of innovations. For example, during the Gorton government advice on policy came through the newly created Prime Minister's Department, the Department of Trade and Industry, the Reserve Bank and the Treasury. This advice contributed to the inception of the AIDC to finance joint ventures and the creation of new FDI guidelines to be policed by the Reserve Bank. Under McMahon a taskforce was established within Treasury to develop the government's commitment to establish, a publication on overseas investment in Australia was prepared by Treasury and tabled in parliament and an independent authority to assess FDI proposals was proposed. The Whitlam government continued to innovate in this area first establishing two non-statutory committees to review FDI proposals and then introducing legislation to underpin FDI regulation and creating a single non-statutory board serviced by a Treasury secretariat.

In turn, the shape of the national bureaucracy and power over advice within the bureaucracy changed to reflect the priorities and interests of each prime minister and his government. Under Gorton the initiative for change came from the Prime Minister as he sought to establish greater national direction in FDI policy, assisted by his newly created department and responding to pressure from the National Country Party which favoured a stronger Department of Trade and Industry. Under McMahon, seeking stability in office, the preference was for a stronger role for the Treasury Department as the key adviser on FDI policy and its implementation. Whereas Whitlam initially sought to establish a new department, Mines and Energy, as a counter balance to Treasury and as a means of more directly harnessing the exploitation of national resources to support social and economic reform. However, in the latter stages of the Whitlam government the role of the Treasury Department in FDI policy and regulation was re-confirmed and strengthened.

Thus experience in this early stage was a series of experiments to impose controls over FDI, with each iteration likely to have learnt from previous experience. The development of policy was progressive; weaknesses of one approach were remedied, in degree, with the next approach. As policy developed and intensified, so structures changed to regulate more efficiently. Put another way, in 1969, there was no obvious model for regulation of FDI, but one was invented by trial and error. Subsequent twists and turns of policy and the roles of various departments and agencies are variations on this theme.

CHAPTER 6 - The Fraser era

…consistent with its view that legislation and guidelines in the foreign investment area should be kept under constant review …the Government has had under consideration some possible relaxation of the foreign investment guidelines, but not the foreign takeover legislation." Treasurer (Howard, 1978a)

The era of the Fraser government (11 November 1975 to 5 March 1983), while ostensibly a period of stability in FDI policy, regulation and organisation, was one of both experimentation and adaptation. The Fraser government worked largely within the legislative framework established in the latter stage of the Whitlam government for the management of FDI flows to support the reformulation of general macro-economic policy, and foster a stronger emphasis on micro-economic policy as a means to economic development. These initiatives were cast by both the supporters and detractors of the Fraser government as a retrenchment of progressive public policy and the application of conservative principles. However, the experience is indicative of a national government asserting its autonomy and having the capacity to deal with issues, to suit its own political and economic purposes in the face of both international and domestic pressures.

This chapter examines the external pressures impacting upon the Australian economy at this time, and the responses of the Fraser government in relation to FDI policy, regulation and organisation. The significance of the national bureaucracy as an agent of change in the development and implementation of the government's FDI policy is also explained.

External pressures facing Australia, in particular those that the Fraser Government identified as critical to the well-being of those living in Australia

By 1975 Australia was deep in recession with rising inflation and increasing unemployment. Such economic circumstances meant that while the external geopolitical and economic pressures which confronted the Fraser government were similar to those faced by the Gorton, McMahon and Whitlam governments, the pressures appeared to be of greater magnitude. Successive Fraser governments sought to exploit this sense of crisis to gain and maintain electoral advantage, pointing to two pressing concerns: changing geopolitical circumstances, and changing global economic pressures. Each of these is briefly explored below.

Changing geopolitical context for the Fraser government

The geopolitical context faced by the Fraser government was one of increasing international uncertainty. From the mid-1970s the relationship between the USSR and the US, the world's super powers, was one of "unhappy coexistence" (Ulam 1978, 555)[18]. Greater national assertiveness of non-aligned regimes was illustrated by the role of OPEC in supporting global oil prices. While China, following the death of Mao in 1976, was increasingly focused on economic development (van Kemende 1999, 10) it was also involved in border conflicts with Vietnam. In Europe, the EEC gained strength as a means of ensuring European solidarity (Hancock and Peters 1998, 461-468)[19] despite weak economic growth (Judt 2005, 525-530) and the emergence of the possibility of potential superpower conflict in Europe (Judt 2005, 590-593).

Prime Minister Fraser was pessimistic about the prospects for international security (Renouf 1986, 77) and this view was reflected in the government's approach to international and domestic policies. Successive Fraser governments used the increased tension between the US and the USSR to stress Australia's alignment with

[18] Ulam (1978: 555) cites the examples of localised, proxy wars taking place in Angola, El Salvador, and, from 1979, the occupation of Afghanistan. See Renouf (1986), *Chapter 4 The International Setting: 1975-1983* for analysis of this growing tension from an Australian perspective.

[19] In 1978-79 the EC took an important qualitative step when its members agreed to establish a common European monetary system as a means to promote stability and growth in response to the international crisis of stagflation (Hancock and Peters 1998: 465).

the US, strongly oppose Russian interests in the Pacific, strengthen relations with Japan while maintaining good relations with China and cultivate stronger relations with lesser developed nations through the Commonwealth and a North-South dialogue (Renouf 1986, 77). Fundamentally, Fraser recognised that while the world situation was troubled and uncertain, there was a need to recognise that Australia's security was bound up with the strength of the Western alliance.

However, Fraser recognised that global "interdependence" was inescapable: "whether we are talking about threats to world peace and security, or about problems of world poverty, or about the slackness of world trade, the growing interdependence of the world must be seen as fundamental" (Fraser 1982). In turn, the increased importance of alliances outside those that already existed between Australia and the UK and Australia and the US suggested that increased interest in FDI in Australia was likely, principally from Japan and New Zealand. More pointedly, the continuing pressure on petroleum supplies contributed to growing international interest in nuclear power. A world hungry for energy meant that there was greater interest from overseas in Australia's uranium reserves. However, this was against the backdrop of US-USSR tension, the potential for nuclear weapons proliferation and war, and heightened domestic concern over the use of uranium exported from Australia (Camilleri 1986, 3). These factors contributed to the espousal by both the ALP and the Coalition of policies maintaining restriction on the exploration, mining and export of uranium (Saddler and Kelly 1983, 261-278).

Conflict between the developing and industrialised world also heightened tensions. Following the oil crisis of 1973, "many national governments believed that there had been a basic shift in the balance of power so that the countries with petroleum resources, those with other valuable mineral resources, and perhaps the third world generally had the upper hand and could impose their views on foreign business" (Vagts 2003, 799). This lent impetus to the need for greater assertiveness by governments, particularly those from developing countries, for initiatives in international forums such as the United Nations to call for the establishment of a

"New International Economic Order" (Vagts 2003, 799). Such initiatives included the development of international standards for trade and investment through the UN system and other international forums (Dunning 1974, 26-32) with the potential to complicate if not restrain global economic growth.

Economic pressures and deregulatory and monetarist responses

(a) Stagflation

The chief external economic pressure during Fraser's period of government was stagflation on a global scale. Unlike the rapid deflation and very high levels of unemployment in the Great Depression of the 1930s, stagflation saw low rates of increase in economic output, falling consumption, rising unemployment and inflation. Stagflation "broke out with a vengeance during 1973-75" with the following effects:

> OECD inflation in these years averaged 11.5 percent, up from 6.7 percent in 1971-73, while unemployment rose from 2.5 percent to 5.0 percent in the same two periods. In the next six years, 1975-1981, both unemployment and inflation averaged about double their rates of the 1960s. And, as in 1973-75, the end of the 1970s brought another period of steep simultaneous increases in unemployment and inflation. In 1981-83, unemployment rose while inflation fell (Bruno & Sachs 1985, 2-3).

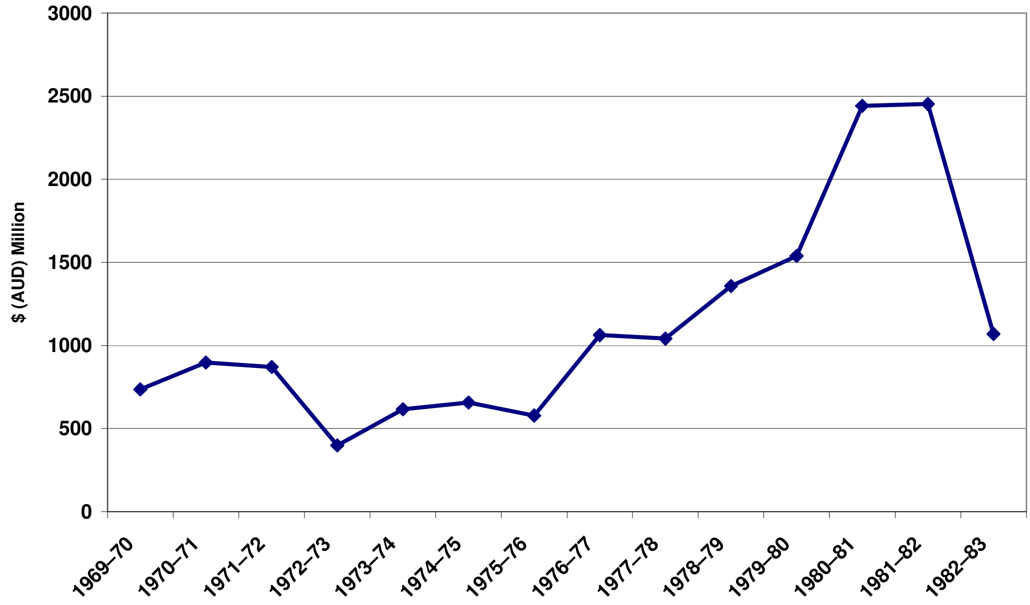
Stagflation created new circumstances for public policy and both international and domestic business behaviour. Rising inflation and unemployment across the economies of OECD member countries underscored the increasing international economic interdependence that had developed in the post WWII period. However, as states sought to contain the impact of stagflation, political structures (both domestic and international) were strained "as nations tried to minimize the threat … interdependence posed for national economic autonomy" (Whitman 1978: 528).

(b) Business Behaviour

Businesses faced decreased demand, rising factor prices and declining productivity across countries and industry sectors. Increasingly there were calls for greater flexibility in both domestic and international business practices to lower costs (Dicken 1998, 163-168) and take advantage of the new technologies and innovation in communications and transport (Garnaut 2002, 449). For example, the integration of containerisation into transport systems, wide-body aircraft, and the widespread application of electronic communications provided means to reduce the cost of business operations, especially large scale transnational activities (Dicken 1998, 151-157). While domestic businesses struggled, MNEs and world trade continued to grow as newly industralising developing countries were more closely integrated into world markets as both consumers and producers (Fagan & Webber 1999, 22-25). During the later 1970s new sources of debt financing, such as the Euro market, provided the basis for the global expansion of banking and financial operations which, in turn, started to outweigh other forms of MNE activity (Fagan & Webber 1999, 18).

Global recession and continued stagflation affected FDI flows to Australia. By 1975 the continuing recession and restrictive government policies meant there was less willingness from MNEs to seek investment in Australia, and those located in Australia to take advantage of high tariff barriers were reconsidering their positions. For example, General Motors threatened to close its manufacturing operations in Australia as a response to the Whitlam government’s proposal in 1974 to reduce tariffs on imported motor vehicles to 25 per cent over seven years (Sexton 1979, 50-51). FDI flows, illustrated in Figure 6.1, fell substantially in 1970-71 and only rose in 1976/77. However, there was a growing expectation within Australia that any increase in international economic activity would contribute to increased international demand for Australia mineral resources. In particular, growth in Japan would contribute to a renewed interest in Australian reserves of coal and iron ore (Drysdale 1993).

Figure 6.1 FDI inflows 1970/71 to 1982/83 ($ AUD Million)



Source: Reserve Bank of Australia (1996a and 1996b)

(c) Deregulation and monetarism as responses to stagflation

A significant response to stagflation was the emergence of deregulation. From 1976 onwards pressures emerged within the US government for deregulation of industry sectors to take advantage of falls in cost due to the introduction of new technologies and improve opportunities for business growth and employment (Yergin & Stanislaw 2002, 59, 329-353). The arguments for change were that:

- the rules of regulation had become perverse given changes in technology;
- existing rules prevented individual businesses from successfully implementing innovations in service and price without compromising safety and;
- extant regulations prevented new businesses from entering specific industries thus restricting the degree to which innovations to lower cost could be introduced (Yergin & Stanislaw 2002, 339-340).

The emphasis on deregulation was closely aligned with the emergence of a liberal agenda overriding state developmentalism in the west, which was exemplified by notions such as the role of small business, and entrepreneurship as the basis for future economic growth (Thurik & Wennekers 2004, 140). Emphasising the role of small business as an engine of economic growth, conservative political leaders increasingly focused on labour market flexibility, and impediments created by unfavourable government policies. At the same time, there was growing international concern with the role of multi-national firms in the global economy (Dunning 1974, 23-26; Sornarajah 2004, 278-280).

The challenge faced by businesses reflected a wider conflict between competing schools of thought in economics on how to address stagflation. This struggle saw a shift from a Keynesian emphasis on employment growth, to monetarism and the emphasis on the money supply as a means of reducing inflation (Hughes 1980, xiii; Whitwell 1986, 205-207). This debate concerned which policy rules to adopt as a means to ensure economic growth. Keynesian economics offered a means of understanding the workings of the national economy but included an inherent weakness in controlling inflation (Godley 1984, 64-65). As the period of stagflation lengthened, monetarist policies (of tight monetary control accompanied by the loosening of regulatory control by government in specific industries or areas of economic activity) and neo-classical approaches (emphasising the role of markets as means of efficient decision making and regulation) emerged as offering sets of rules for public policy approaches to economic management (Jones 1983, 434). Both as a matter of practicality and ideological fashion amongst economists and other policy makers there was a shift away from Keynesian approaches and a pronounced move towards an emphasis on constraining money supply to fight inflation (Jones 1983, 435). This was accompanied by increased interest in testing the effect of removing or lessening the direct involvement of the state in economic activities (Jones 1983, 434).

Overall, public policy in the mid-1970s was characterised by confusion and a struggle between econocrats arguing for policies to fight inflation at the expense of short term increases in unemployment, and political leaders reluctant to appear unresponsive to rising levels of unemployment (Godley 1984, 63-72). There was increased polarisation and confrontation: labour movements were increasingly seen to be aligned with policies of state developmentalism as a means of fostering employment growth; and in conservative circles there was a strengthening of argument against direct government intervention to manage the economy and for the need to encourage private sector growth by removing governmental controls from markets (Bell 1997, 128-129). This was reflected in political leadership by the emergence of conservative governments in the UK and the US, each with a strong stance against labour rights and labour involvement in policy processes; a determination to curb inflation; an emphasis on domestic private enterprise as the engine of economic growth; and the retrenchment or containment of social welfare (Bell 1997, 128-129). The ideological underpinning to these policies came to be called "Thatcherism" and "Reaganomics" respectively (Bryan & Rafferty 1999, 125).

Symbolic of the extent of ideological change underway in public policy was the visit to Australia in 1975 by Milton Friedman (1975; Courvisanos & Millmow 2005). His visit was sponsored by Constable and Bain, a Sydney based stock-broking firm, and offered a vision starkly at odds with state-led developmentalism favoured by the Whitlam government (Courvisanos & Millmow 2005, 3). Friedman argued that government interventions were both exacerbating inflation and crowding out private sector investment. To reverse stagflation he proposed monetary restraint (Whitwell 1986, 199-200) and less government intervention in economic management (Yergin & Stanislaw 2002, 146-149). Government could "relieve" itself "of much of the burden of responsibility for managing the economy including direct responsibility for growth and full employment," by relying on markets: instead of government acting to directly employ and support economic activity through its own expenditure (Bell 1997, 128). However, rather than a retreat of government from economic management it meant a shift in the emphasis in national public administrative practice from macro-economic management to pursuing more efficient micro-economic behaviour within industries and sectors of economic activity.

Balancing External and Internal Pressures in the Domestic Political Context

During successive Fraser governments the approach of national government to globalisation was more mixed than that of the Gorton, McMahon or Whitlam governments. The challenge was no longer how best to accommodate growth, but how to respond to persistent poor economic conditions evident in continuing high inflation, growing rates of unemployment and decreasing output. While seeking to "restore prosperity, defeat inflation and provide jobs" (Fraser 1975) the Fraser government emphatically followed a strategy to fight inflation first in its initial period of government (1975-1977); but, by the time of the last Fraser budget in 1982, the continued privations of stagflation had forced a gradual move towards state-sponsored developmentalism (Kelly 1985,429). However, as shown below, during this period the role of the prime minister and the role of ministerial advisers emerged, both as significant in policy development, and at the expense of the role of Treasury in shaping national economic policy.

NCP, ministerial advisers and the introduction of the crawling peg

The change in the stance by the Fraser government over seven years led to mixed views about its willingness to carry through on commitments to improving economic conditions, especially when tested against monetarist or neoclassical criteria for good economic management (Head 1989, 488-491). Nevertheless Fraser's reactions to economic circumstances and ideological fashions were consistently conservative and strongly aligned to those of the National Country Party (NCP)[20] (Ayres 1987, 319). This was especially so between 1975 and 1977. NCP

[20] The Country Party has changed its name regularly: it became the National Country Party in 1975, the National Party in 1982, and the Nationals in 2003 (Department of the Parliamentary Library 2005: 592).

ministers were influential in Cabinet: Doug Anthony (leader of the NCP) was the Deputy Prime Minister and Minister for Overseas Trade and Resources, Ian Sinclair was Minister for Primary Industry, and Peter Nixon was Minister for Transport (Kelly 2000, 362). This meant that the Liberals needed to accommodate the NCP's agenda especially in the area of economic management. For example, on 28 November 1976, in response to urging from the NCP and against Treasury advice, the Cabinet agreed to devalue the currency by 17.5 per cent to support both rural and mining export activity (Whitwell 1986, 229; Ayres 1987, 310; Buckley 1991, 103) and introduced a pegged or managed exchange rate system (Nevile 1997, 281-282). The dominance of the NCP in economic policy-making meant that there was little interest in the longer term consequences of policy decisions on the current account deficit: a weaker dollar meant that primary exports, both agricultural and mineral, could be sustained and provide a necessary contribution to economic growth, albeit at the cost of greater inflation (Nevile 1997, 276-277).

Weakening role of Treasury and a more assertive PM

Nevertheless, there was a growing and increasingly widespread view during Fraser's prime ministership that "the Australian economy had to be 'adjusted' to the external realities of international trade competition and the domestic problems of inflation" (Head 1989, 6). For example, while the impetus for devaluation lay with the NCP, the formulation of a method of doing so was generated through advisers on economics from within the political executive via the Prime Minister's and Treasurer's offices. Alan Rose, the economic adviser to the Prime Minister, and John Hewson, the Treasurer's economic adviser, were both "free market economists" (Ayres 1987, 409). They convinced Fraser and Lynch that the fixed exchange rate locked the government into a particular budget strategy (of either modifying its revenue or expenditure measures) to maintain the exchange rate, and in doing so, maintained the power of the Treasury to influence government policy (Ayres 1987, 410).

In general Fraser took a cautious approach to economic management, focusing on controlling inflation by reducing expenditure, and placing pressure on wages to restrict growth and union power. At the December 1975 election the Coalition gained control of both the upper and lower houses of parliament. Control of both houses provided the Coalition government with the means to enact legislation in the face of community opposition. However, the use of this means of exerting the government's autonomy was constrained by fears within the Coalition of divisions flowing from 1975 dismissal of the Whitlam government (Kelly 2000, 365; Ayres 1987, 309-311). Thus, the efficacy of the emphasis on fighting inflation was increasingly questioned through the life of successive Fraser governments as unemployment rose and no solution was readily apparent. From 1981 onwards Fraser was challenged both by his Treasurer and by the Secretary of the Treasury Department because he insisted on an expansionary approach with a strong emphasis on the role of the state as a driver of national development (Kelly 1985, 245-266). The shift from the policy stance of reducing government expenditure as a means of containing inflation to a preference for state-led development indicated not only an element of desperation, but also changes within the organisation of government.

First, Treasury's role had been challenged. In terms of the relationship between the PM and the bureaucracy, Fraser continued the approach that had begun under Gorton by substantially strengthening the role of advisers and PM&C:

> Fraser surrounded himself with personal advisers who were committed to the same idea as he, and who could give him alternatives to the advice coming from the public service. In addition Fraser strengthened [PM&C] as his mechanism for achieving control. The system enabled Fraser to implement his ideas 'over the heads' of Ministers, and ensure that policy was implemented by Departments (Thompson 1989, 213).

This strengthening of PM&C was not through an increase in the numbers employed, but by increasing secondments for other departments to better enable co-ordination across government, and by reorganising PM&C and upgrading positions "to give PMC (sic) the status and prestige of the 'big' line departments (such as Treasury)" (Walter 1992, 37-38).

Fraser's approach led to conflict with Treasury. As in the past "sound or unsound, Treasury advice was often slow in coming" as the new government moved to frame its first budget in 1976 (Ayres 1987, 310). Fraser, relying on PM&C for advice in framing the budget was frustrated by the unwillingness of Treasury to provide timely advice. To remedy this Fraser wrote to the Treasurer, arguing that Treasury's practices were not in "the interests of good government" (Ayres 1987, 311)[21]. To remove this impediment to government decision making Treasury was split into a Treasury Department, responsible for macro-economic policy, and a Finance Department, responsible for the management of government expenditure, on 18 November 1976. While Treasury remained committed to achieving "low inflation, high profits, [and] low budget deficits" unemployment continued to rise (Kelly 1985, 255). The consequence was that increasingly, the Treasurer and the Treasurer's advisers were willing during the later years of the Fraser government to gradually bypass the departmental secretary, John Stone, by cultivating younger members of Treasury such as David Morgan, Chris Higgins and Ted Evans (Kelly 1985, 254). This was particularly so in the lead up to the 1982 budget: Fraser and the Department of PM&C exerted considerable influence in casting aside the Treasury position and replacing it with a more stimulatory approach (Kelly 1985, 255-266; Ayres 1987, 407).

Second, not only was the role of Treasury diminished in the budget processes, but the Treasurer (Lynch) was replaced by a more junior minister. The impetus for this change had little to do with economic policy: the propriety of Treasurer Lynch was called into question in the lead-up to the 10 December election in 1977 and he was forced to resign (Ayres 1987, 314-316). Lynch had been an integral part of the team of parliamentarians and advisers that developed the Liberal Party's economic policies for the 1975 election, many of which were carried into

[21] See also Wanna et al (2000) *Chapter 5 Splitting the Treasury: Humpty's great fall* for discussion of the reasons for the split, the process including the exercise of prime ministerial autonomy, and the immediate organisational consequences for Treasury and the new Department of Finance.

government (Jolley 1978, 9, 33, 73). Lynch was replaced as Treasurer by John Howard, who had been the Minister for Special Trade Negotiations with the European Community (July 1977 to December 1977) and before that Minister for Business and Consumer Affairs (December 1975 to July 1977) (Henderson 1995, 39).

Third, there was a gradual exploring of new options for change in the structure of the relationship between the Australian state and the wider society. In the very first stages of the first Fraser government, Lynch had acted decisively on the urgings and advice of the Treasury to fight inflation first (Jolley 1978, 218). However, this approach was not overly successful either in execution or outcome. Continuing high rates of unemployment meant that Fraser increasingly sought policies significantly more acceptable to the wider electorate. For example, the second Fraser government (20 December 1977 to 3 November 1980) saw the tabling of the Crawford Report (Study Group on Structural Adjustment 1979) into structural adjustment in the manufacturing industry, and the Myer Ad Hoc Working Committee report (Myer 1978) on the "handling of relations with Japan including trade and industry relations"(WT/EA1); and, in February 1978, the commencement of the Campbell Inquiry into the Australian financial system (Ayres 1987, 410-413; Nevile 1997, 276).

These reports indicated growing recognition within government of the challenges faced in seeking to improve Australia's private sector industrial capacity to grow and increase employment. Each marked the tentative beginnings of experiments in economic policy which took up the monetarist challenge of the need to deregulate macro-economic controls and explore means of encouraging stronger micro-economic performance. It also represented an emergent understanding of the impact of internationalisation and global flows on domestic competition, business performance, labour markets and broader social change. Fed into the core executive, these reports contributed to a reshaping of the understanding of the electoral prospects for the government in the emerging, internationalised economic climate. In doing so the Fraser government recognised the need to systematically respond to greater global interdependence through domestic economic adjustment. However, the approaches that emerged to respond to stagflation in the Australian economy were tentative and exploratory rather than decisive.

The Campbell Inquiry

More substantial reform was via the Campbell Inquiry. While the focus of the first Fraser government was on fighting inflation and controlling wages growth, there was increasing interest in examining the role of the Reserve Bank and the wider conception and application of monetary policy in Australia. Within the Reserve Bank, concern had been rising since the collapse of the Bretton Woods agreement. In responding to these pressures, the Reserve Bank through its research area, had in 1975 begun modelling the impact of a deregulation of the currency on the Australian system (HoT1; Nevile 1997, 284). Also, more widely within the Reserve Bank a gradual shift in thinking was underway. Driven by the growth of the non-banking financial institutions (NBFIs), such as insurance companies, there was growing interest in two options for regulation of the financial system: the extension of the regulatory regime governing banking to the NBFIs, or the complete revision of the regulation of the financial system (Nevile 2002, 275).

However, there was little interest elsewhere within the financial system. There was no coherent view within the established banks as to whether greater or lesser regulation was required, although there was the potential for significantly increased competitive pressure from NBFIs if some form of deregulation were to take place. Only through subsequent interest generated by the government-initiated inquiry into banking did a distinctive and coherent banking industry-wide lobbying capacity emerge through the Australian Bankers Association (Pauly 1987, 34-35). Banking unions (the Australian Bank Employee's Union (ABEU) and the Commonwealth Bank Officers' Association (CBOA)) were opposed to the inquiry into the financial system because: it failed to ensure the representation of "non-financial interests"; the terms of reference for the inquiry suggested a "deregulatory trajectory"; deregulation would encourage the entry of foreign banks with the potential to "emasculate the ability of the Australian government to protect the interests of its own citizens…"; and the operations of foreign banks and the introduction of new technology by such banks could be to the detriment of bank workers and the users of small branches (Pauly 1987, 48)[22].

The structural point from which "pressure for a wide-ranging public inquiry into Australia's financial system" emanated was the Treasurer's adviser, John Hewson (Nevile 1997, 276), and, later, the Prime Minister's adviser, Alan Rose (Ayres 1987, 409). Hewson had previously worked at the IMF on international capital markets and the effects of controls on markets. On joining Lynch's office as an advisor in 1976 Hewson had recommended an inquiry into the Australian financial system (Nevile 1997, 276). The response from senior Treasury officials (Sir Fredrick Wheeler, Treasury Secretary and John Stone, Deputy Secretary) was "that the last thing Australia could afford was the financial system looking at itself" (Nevile 1997, 276). Although Hewson was unable to persuade Lynch and the Treasury to support the idea of a public inquiry, he was able to convince John Howard, the man who replaced Lynch as Treasurer in 1977, of the need for a public inquiry into Australia's financial system (Nevile 1997, 276). This work was encouraged by the Prime Minister and culminated in Cabinet agreement to establish the Committee of Inquiry into the Australian Financial System (Campbell Committee) in February 1978 (Ayres 1987, 409-413). Domestic political pressures were factored into the timing of the Inquiry: during this period "primary producers were prospering, so the National (Country) Party was not worried about the possibility of deregulation of the financial sector" (Nevile 1997, 276).

An emergent micro-economic reform capacity

A further element in the mix of responses to globalising pressures was the

[22] See also Crough (1980) and (1979) for later efforts to theoretically ground the ABEU's and CBOA's concerns with rapid deregulation and foreign entry (Pauly 1987: 49).

emergence of business and consumer affairs as a policy issue and the creation of a government department to carry through on government policy to prevent monopolistic activity. National government policy on consumer affairs embodied both consumer advocacy and an anti-monopoly focus so the government, by going against big business, was regarded as being strong on this issue. This interest was incorporated in the newly formed Department of Business and Consumer Affairs (BACA) (Warhurst 1982, 141), representing a continuance of an anti-monopoly agenda of national government which had been a concern starting with the McMahon government. In the first Fraser government the BACA, as a separate entity from the Treasury, the Attorney General's and Industry departments, was represented by a junior minister, John Howard, who proved successful in shaping both a policy agenda and a capacity to carry it through (Warhurst 1982, 55-60, 141-142).

Even though broader reform of government macro- and micro-economic regulatory capacity was not an overt goal of the Fraser governments, an incremental process of restructuring took place. While the thrust of professional opinion favoured policy reform, continuing rising unemployment restricted the extent of reforms possible (Warhurst 1982, 55-60). At the same time, key micro-economic agencies such as the Industry Assistance Commission (as part of the BACA portfolio), the Trade Practices Commission (TPC), and the Prices Justification Tribunal (PJT)[23] proved useful as sources of advice and of means of more precise regulatory activity by government. The direction of this gradual shift towards a micro-economic focus for public policy was also consistent with an ideology which sought a more deregulated approach to the Australian economy, although much had yet to be done in this regard.

The impact of these changes in terms of policy advice and of regulatory

[23] The 1975 Liberal election policy was to abolish the PJT. However, talks in the early period of 1976 with ACTU, in particular Bob Hawke, saw its role continue although with reduced functions (Ayres 1987: 308).

capacity varied. In the case of the economic portfolios, the clearest change was the role of the Reserve Bank, as an adviser, a regulator and a regulator facing emerging pressures. It very gradually became more specialised although it continued to be a major actor in inter-agency policy development and review. Treasury also became more specialised, with the functions supporting the annual budget process and financial expenditures hived off to the Department of Finance, leaving the Treasury to focus on economic policy advice and co-ordination of the government revenue-raising measures (Mathews & Grewall 1997, 308).

How the Fraser government reacted to globalisation pressures in the area of FDI flows through policy, regulation and change to bureaucratic structures

The First Fraser government (1975-77)

(a) Policy response

In the lead up to the 1975 election the Coalition had campaigned strongly on FDI issues, despite a reluctance to directly challenge the ALP's policy because of electoral support for a stronger posture against foreign takeovers of Australian businesses (Pokarier 2000, 155-156). The Coalition had flagged that FDI would be changed, but the policies of the ALP and the Coalition at the time of the 1975 election were very similar (Bell 1976, 51):

- where the ALP had established a standing IDC, the Coalition promised an independent authority comprising Australian business representatives;
- where the ALP offered the FTA 1975 as a sufficient authority for FDI regulation, the Coalition were offering new legislation for the screening of all non-takeover areas of foreign investment with takeover activity to be regulated through trade practices legislation;
- both would include tests for net economic benefit;
- both would maintain existing restrictions on banking, broadcasting and

television and public utilities (including the airlines and telecommunications);

- both sought to maximise Australian ownership of mineral ventures by restricting foreign ownership to 50 per cent equity, although the Coalition added the rider that "the unavailability of Australian capital would not prevent a project, considered to be in the national interest, from proceeding" and the ALP in the case of uranium would restrict development only to those ventures that were100 per cent Australian owned and;
- in real estate both parties were open to investment flows, although the ALP specifically described what flows were permitted while the L-NCP policy was that "foreign investment in real estate for speculative purposes would not be consistent with L-NCP policy" (Bell 1976, 54-55).

In short, while Australian government was interested in ensuring access to FDI for Australian business ventures, both sides of Australian politics set about establishing rules and regulations to protect Australia's broader interests. Both asserted the right of the Australian state to regulate FDI activity and to deploy sufficient capacities to do so (Hanratty 1996, 5-7).

However, NCP Cabinet ministers were concerned that the experience under the Whitlam government had frightened off potential investors and that any controls should be very limited. Advisers within the Liberal Party argued that such concerns would need to be balanced against an electorate which had been mobilised to support more restrictive measures. Once in government "there was a keenness to change the policy [they had inherited]" coming from the Treasurer Phillip Lynch and Deputy Prime Minister Doug Anthony, but advice from Treasury cautioned that "in making changes stability was necessary" if foreign investors were not to be frightened off (WT1). The approach adopted and further refined under Fraser accepted that such a policy, and the regulatory and organisational capacities to implement it, was a necessary component of national governance. In announcing the L-NCP policy to

Parliament on 1 April 1976 Treasurer Lynch argued that:

> The Government's basic objectives are to encourage foreign investment in Australia because of the considerable contribution it can make to Australian development and prosperity but, at the same time, to see that such investment is on the basis of fair sharing of net benefits …between the foreign investor and the needs and aspirations of the Australian community (FIRB 1977, 26).

(b) Legislative and regulatory response

The L-NCP policy introduced on 1 April 1976 was slightly more restrictive than the one set in place by the Whitlam government. The announcement largely confirmed the Whitlam government's requirement for all new mining projects to have 50 per cent Australian equity, although this was extended to include investment in agriculture, forestry, fisheries and pastoral industries (Sexton & Adamovich 1981, 21-22); "blanket restrictions" on banking, broadcasting and television and public utilities (including the airlines and telecommunications) (Bryan & Rafferty 1999, 155); and controls on foreign acquisition of real estate. In effect the policy appeared to maintain the strength of previous policy necessary to satisfy general community concerns, while allowing scope for flexibility in the application of the policy to encourage FDI. The key innovation was the creation of the Foreign Investment Review Board (FIRB), discussed below.

The Fraser government's keenness to respond to US-USSR tensions, increasing Australian contact with China, and Japanese concerns on security, and its strong trade and investment relationship with Australia, led to the signing of the Basic Treaty of Friendship and Co-operation with Japan in Tokyo on 16 June 1976 (WT/EA1; Clarke 1997, 41-42; Goldsworthy et al 2001, 338-341). This Treaty had been blocked on the basis of bureaucratic advice late in the Whitlam government because of concerns about the impact of granting most favoured nation status, and the need to ease business immigration restrictions (Goldsworthy et al. 2001, 341). In effect the Treaty provided a means of reconfirming Australia's continued interest in Japan as an investor in Australian productive capacity, and assuring Japan of continuing access to Australian resources during a period of economic and geopolitical tensions (WT/EA1).

A further development in 1976 was the announcement by the Treasurer of Australia's commitment to the OECD's Declaration on International Investment and Multinational Enterprises[24]. This Declaration was "a broad political commitment adopted by the OECD Governments in 1976 to facilitate direct investment among OECD Members". The Declaration represented an acknowledgment within the OECD of the increased role of MNEs in the global economy and the potential adverse effects of MNE activity in terms of "technological dependence, the possible inhibition of national firms [and] the difficulties of national monetary trading and incomes policy management" (Renwick 1985, 103). As a member of the OECD, with a Treasury representative on the Investment Committee, Australia had been involved in the drafting of the declaration. A further dimension of the OECD Declaration was that it pre-empted similar codes under consideration by the United Nations and the International Labour Organisation (ILO) each marking international interest in how best to regulate the activities of MNEs[25].

[24] The Declaration on International Investment and Multinational Enterprises (OECD, nd). is comprised of four instruments:

- The Guidelines for Multinational Enterprises, a "non-binding code of conduct" for MNEs;
- The National Treatment Instrument, through which "adhering countries commit themselves to treating foreign-controlled enterprises operating in their territories no less favourably than domestic enterprises in like situations");
- An instrument on Conflicting Requirements ("Adhering countries to avoid or minimise conflicting requirements imposed on multinational enterprises by governments of different countries");
- An instrument on International Investment Incentives and Disincentives (to provide "for efforts among Adhering countries to improve cooperation on measures affecting international direct investment").

[25] See Dunning (1974) for explanation of the emergence of heightened interest within the United Nations for a code of behaviour for MNEs and their treatment by hosts and home countries. Divisions between "the industrialized and the developing world" prevented agreement and the code of conduct was abandoned in 1992 (Vagts 2003: 797). Separate negotiations within the ILO that led to the Tripartite Declaration of Principles concerning Multinational Enterprise and Social Policy took place in 1977 (Vagts 2003: 797). Neither the OECD nor ILO Declarations, in the absence of supporting domestic legislation, created "legally enforceable rights or duties" within Australia (Flint 1985: 146).

(c) Organisational response

While the changes made in the 1976 policy statement were more symbolic than substantive, the creation of a non-statutory agency (the FIRB) provided an effective bureaucratic mechanism to act as the focus for the regulation of FDI flows. The FIRB was established on 8 April 1976, "following the announcement in a Statement of Foreign Investment in Australia on 1 April 1976, of the Government's foreign investment policy by the Treasurer [Lynch]" (FIRB 1977, 1). The Board had three members: The Chairman (Sir Bede Callahagn) and the Deputy Chairman (Sir William Pettingell), both respected business leaders with considerable experience in working with government, and the head of the Treasury Department's Foreign Investment Division (FID) as the Board's Executive Member (FIRB 1977, 1). The FID provided support staff for the Board (FIRB 1977, 1).

The role of the FIRB was to advise the government, through the Treasurer or his delegate, "on foreign investment matters within the context of the government's policy" (FIRB 1977, 1). This would involve "giving advice on specific foreign investment proposals, and on general questions concerning foreign investment policy, and keeping under review the administrative procedures involved in this process" (FIRB 1977, 1). Ostensibly the FIRB replaced the Foreign Investment Advisory Committee (FIAC) established under Whitlam. However, as with FIAC, the FIRB offered a means through which the government could adjust the flow of inwards FDI "like a tap" (WT1). The FIAC offered an established mechanism for scrutinising FDI proposals and had worked successfully with those seeking to invest in Australia during its period of operation under the Whitlam government. Building on the existing organisational arrangements within the Treasury, the FIRB was established within a reasonably short period and "streamlined" the process of deliberation and advising the Treasurer "more so than COFT and FIAC had" (WT1). In addition, the FIRB took on the role of acting as a medium for communicating the government's policy on FDI:

> The view was held in government, correctly I think, that people out there

> needed to know what the system was because we obviously needed to import capital, and it had to be done in an orderly way, and recognition that there were some ownership points that we as a sovereign nation had a right to have a view about. (WT1)

As the policy and its regulatory framework were bedded down the role of the Division responsible for advising the Board and, through the Board, the Treasury gradually took on more of the advisory functions:

> The Board made recommendations on the main or more important or difficult issues, but there were huge delegations. The Board only saw the main or more important or difficult cases. It gradually evolved that the public servants received delegations from the Treasurer to approve all the minor stuff and the Treasurer only saw, approved or rejected, the major proposals. The Division reported to the Treasurer once a month on the numbers and kinds of projects approved. None of the projects was ever rejected by public servants. If you wanted something to be rejected it had to go to the Minister. If it was a major proposal then the Treasurer would decide. (FT1)

Thus, the FIRB and its secretariat within Treasury had a high degree of autonomy, although determinations on major projects rested with the Board, and ultimate decision- making with the Treasurer.

However, it is worth noting that when there was a major project there was considerable interest from the Treasurer, his advisers and the Prime Minister:

> I remember one particular case where Fraser had us over to the Lodge including representatives of the foreign owned company which was making the bid for this big project. Fraser got a bit unhappy with them. The business people and the bureaucrats had gone over to another place to work through details on this and that. It was about nine o'clock at night when we came back. Fraser listened to what we bureaucrats had to say. The company people came back a different route and were at the iron gates at the front and Fraser told his people not to let them in. (FT2).

Having retained the ability to regulate FDI, and established the FIRB, the government sought to convince both investors and the wider Australian community of the value of its approach. The FIRB responded to this challenge in the following way:

> [As a result] a big attempt was made to let the world's financial market know that we welcomed capital but that there were rules, procedures that we

> believed were sensible and equitable. And that you guys need to know about it because it is important to have capital coming in, in the right way.
>
> We set out on a tour to explain the government's policy. That is, we were doing what Canada, through its FIRA was to do later on.
>
> …we translated the booklet on the government's foreign investment policy …Bede Callahagn and Tim Besley [Executive Member of the FIRB] gave a series of performances in the US, Canada, UK, Germany, France and Japan. (WT1)

The Second Fraser government (1977-1980)

(a) Policy response

International stagflation persisted as a problem for the second Fraser government. The view within the NCP was that because of economic circumstances Australia could ill-afford to spurn foreign investment with the potential to offer employment opportunities and development through an overly restrictive regulation of FDI. However, the government could not be seen to be selling out to foreign interests in the face of community concern on the ownership of Australian resources (FT2). One approach which had been explored under McMahon and Whitlam was the idea of a resources rent tax (RRT) to be levied by the Australia national government on mining activities (Pokarier 2000, 160-161). While levies, or taxes, on mining activity were administered by the State governments, the view from the Commonwealth, particularly during the Whitlam government, was that the royalties collected by the States "undervalued the economic rent to which they were entitled" (Whitlam 1985, 248). While investigations during the Whitlam government led to the removal of tax concessions for mining activity, opposition from State governments, the mining industry and the Coalition meant that broader reforms had not progressed by the end of the Whitlam period of government.

However, concerns remained over the efficacy of taxation of mining activity. Among a number of academics and within the national bureaucracy, including Treasury, a RRT was viewed favourably (FT2; Pokarier 2000, 160). In the lead-up to the 1977 election several senior Coalition ministers including the prime minister "had lent support to the resource rents concept and the government had flagged the introduction of such a tax for oil and uranium sectors in its 1977 budget'" (Pokarier 2000, 161). With different State government postures on raising royalties from foreign controlled mining activity, the RRT represented a means of standardising practices across all States as well as ensuring that State government maximised the return on Australian natural resources. However, the proposal sat oddly with the Fraser government's commitment to a new federalism based on decentralisation of more power to the States; more substantially, there was intense resistance from both state governments and mining interests through companies (such as Conzinc Riotinto Australia (CRA)) and through associations such as the Australian Mining Industry Council (AMIC) and Australian Petroleum Exploration Association (APEA). For States it represented a curtailing of their sovereignty and a limitation on their ability to negotiate special conditions to attract or retain foreign investors.

Against the background of debate on the RRT, the "mining giant" CRA sought through the FIRB to take over the Australian firm Coal and Allied Industries (CAIL) and establish a controlling interest in the Hail Creek colliery in Queensland by taking over the Australian firm AAR (Pokarier 2000, 162-165). CRA faced both the FDI investment constraint of a 50 per cent Australian equity and opposition from Coalition backbenchers despite maintaining "close links with the Coalition, having advised it on the Whitlam government's draft legislation for the resources sector and assisted in the drafting of Coalition policy while still in Opposition" (Pokarier 2000, 161). In the case of the CAIL takeover the proposal was criticised by the ALP Opposition, the NSW Wran government and the Australian mining group Peko-Wallsend who sought to block the CRA bid (Pokarier 2000, 163). In response, CRA offered a full share swap for CAIL, "effectively 'Australianising' its own share register by some 3 per cent" (Pokarier 2000, 163).

This proposal "came before Cabinet, reflecting the government's recognition both of the intensity of feeling CRA had provoked, and CRA's own political clout";

it also focused CRA on "limited localisation of its share register as a strategy for lifting the constraints of FDI policy" (Pokarier 2000, 163). However, the limited localisation, or naturalisation as this practice was to be called, of CRA's share register to gain control of AAR led to even stronger confrontation with local business. CSR, "a large localised firm of British origins" actively lobbied the government to reject CRA's bid and "[w]hen the government [through the FIRB and the Treasurer] did so, CSR successfully bid for AAR" (Pokarier 2000, 164).

The experience with both CAIL and AAR posed both a problem and a solution for CRA. The experience suggested that the Australian government "would not take the political risk of substantial general liberalisation" of the 50 per cent Australian equity requirement for mining (Pokarier 2000, 164). Yet CRA, as did firms such as MIM and Consolidated Gold Fields, faced the situation in a number of promising mining ventures where they were in partnership with significantly smaller Australian firms (Pokarier 2000, 164). In the post-election period of early 1978 the Coalition government also recognised that without legal surety that these joint venture arrangements could proceed, no further investment would be forthcoming (FT2). Initially this was addressed through a more relaxed approach within the FIRB to unbalanced equity situations in other areas of industry which saw approval permitted for investments "on the understanding that equity would be sold down to local investors" at a later stage (Pokarier 2000, 164).

In early 1978 CRA approached the government through both the Treasurer and the Prime Minister. First, CRA proposed that the existing provisions for 50 per cent equity be changed, arguing that the provisions essentially represented a tax on investment, with the recipient of the tax being local joint ventures. In essence, CRA proposed a distinction be made between firms which had achieved a naturalised status and those wishing to naturalise – a naturalising company. *Naturalised status* was to be granted by "the Government if: (i) it is at least 51 per cent Australian owned; its Articles of Association provide that a majority of members of the board are Australian citizens; and (iii) general understanding have been reached between the company, major shareholder interests and the Government about the exercise of voting powers in respect of the company's business in Australia" (FIRB 1978, 8). Whereas a *naturalising company* would have "(i) …a minimum 25 per cent Australian equity; (ii) provide in its Articles of association for a majority of Australian citizens on its board; and (iii) give a public commitment to increase Australian equity to 51 per cent…and have regular discussions with the FIRB on progress towards achieving 51 per cent Australian ownership" (FIRB 1978, 8).

By creating a category of a naturalising company CRA was creating a means of bypassing the major domestic investors in mining – principally CSR, BHP and Peko-Wallsend – who had "the specific advantage of sighting virtually all proposed resource developments simply because they were the only avenues of attaining Australian equity under the existing rules" (Pokarier 2000, 161). Second, that CRA's proposal for a joint venture with an Australian partner to develop the Ashton Downs diamond discovery in Western Australia be accepted with the proviso to the Federal government that it would naturalise its shareholding (Pokarier 2000, 161).

In March 1978 Fraser, responding to fears of a deteriorating economy and perhaps prompted by views coming from CRA, had in an "unusual step" initiated "…a hasty review of barriers to further foreign investment, in the resources sector in particular…" (Pokarier 2000, 165). The goal of this review was to identify how the process of FDI approval could be made efficient and, perhaps, provide good news to foreign investors on an overseas trip to London and New York in May 1978 (Pokarier 2000, 165). During this same period Treasurer Howard brought the "major domestic and foreign mining and some manufacturing, interests together through a series of meetings" (Pokarier 2000, 165). Both the RRT and the issue of naturalisation formed part of these discussions, where it became apparent that the RRT was unlikely to be workable. However, CRA's proposal on naturalisation, despite being strongly opposed by the major domestic mining interests (because of the loss of the provision of a blanket 50 per cent equity rule and the loss of the rents this would represent), was the preferred approach for the government (Pokarier

2000, 167). Despite considerable lobbying by the major domestic resource development firms, the changes to naturalisation, while only affecting a small number of proposals, signalled a commitment by the government to facilitate rather than restrict flows of international investment. This development further shifted FDI policy and regulation from a purely macro-economic issue to one dealt with on a micro-economic basis.

(b) Legislative and regulatory response

While these changes represented considerable activity, the policy outcomes were ones of relatively minor adjustment to the overall FDI policy. The government continued to require that international investors seek approval via the FIRB and ensured that several industry sectors were either not open to foreign investors or only open to limited foreign investment. However, presaging more fundamental change, Cabinet's Monetary Policy Committee agreed in February 1978 to establish the Committee of Inquiry into the Australian financial system (Ayres 1987, 410-411; Nevile 1997, 276) which was to effect FDI policy in the third Fraser government[26].

The impact of the policy as a whole was to trade off a small degree of domestic control of investment activity for a considerably greater level of investment by both foreign and local investors. Aside from the move towards naturalisation, the major regulatory changes during the second Fraser government were generally those of liberalisation and streamlining. For example, on 8 June 1978 the Treasurer announced the first liberalisation of the Fraser government's controls on FDI, arguing that Australia's economy would "require overseas capital to assist in the development of [its] industries and resources" and, therefore, "a primary objective"

[26] Ayres (1987: 410-412) points to the role of John Rose and Ed Visbord in convincing Fraser of the value of such an inquiry. Within the Prime Minister's Office, Visbord and Rose were to encourage a gradual deregulation of Australian capital markets. This policy was reflected in the relaxation of Commonwealth controls on overseas borrowings by State Governments, introduced via the 1980 Premiers' Conference, and the October 1980 cabinet decision to relax controls on banks on overdrafts of under $100,000.

of the government was to "encourage foreign investment in Australia" (Howard 1978b, 3258). Paraphrasing Treasurer Howard's statement the regulations were softened by:

- dropping thresholds for review[27];
- the removal of the requirement for the need to notify the government where substantial shareholdings are in Australian firms by foreign interest but "which do not change the ultimate ownership and control of the enterprise" (Howard 1978b, 3258) and;
- liberalising mining controls[28].

In terms of the emphasis in this thesis on organisational change within the national bureaucracy concerned with FDI, the 8 June Ministerial statement made one further point. Exchange controls were to be streamlined by removing the requirement that the Reserve Bank would "not grant exchange control approval to a foreign investment proposal until after the Treasurer…decided that there is no foreign investment policy objection to it" (Howard 1978b, 3260). Instead "foreign investors who submit applications to the Reserve Bank that satisfy exchange control requirements will be able to receive exchange control approval in advance of foreign investment approval by the Treasurer" (Howard 1978b, 3260). This change marked a much stronger separation of the government's decision making on FDI proposals, and the administration of currency flows. In turn this decision reinforced the trend towards the Treasurer, Treasury and the FIRB as the hub for FDI decision making by

[27] Government approval of foreign investment in new projects and businesses, except in the case of uranium mining or the financial sector, would not be necessary unless it involved an investment of $5 million or more; the government would not normally intervene in foreign takeovers, except in specially restricted sectors, if the assets of the company being taken over were less than $2 million, and individual real estate acquisitions of less than $250,000 would no longer require government approval (Hanratty 1996, 8; Treasurer 1978: 3258).

[28] As part of the 8 June 1978 statement the government announced a partial relaxation of its 50 per cent rule for new projects in mining and primary production, and the introduction of naturalisation provisions (Treasurer 1978: 3258 - 3259). On 10 June 1979 the Treasurer announced a relaxation of restrictions on foreign investment in new uranium mining projects (Howard 1979: 33-35).

limiting the involvement of the Reserve Bank in decision making on exchange rate implications of FDI activity.

The willingness to engage directly with MNEs and domestic firms was demonstrated in the framing of naturalisation policy under Treasurer Howard. The changes adopted by the government through consultation with business interests, with the lead taken by CRA, made it easier for MNEs to invest in operations in Australia without having to dilute their ownership. In adopting a softer approach to naturalisation than it had first proposed, the Fraser government was responding to concern from domestic and international business interests and from within cabinet that the framework was overly restrictive. Both through the process (direct consultation with business interests) and the outcome (a softening of controls on how foreign ownership was to be assessed), the Fraser government distanced itself from the policies implemented by previous governments, while retaining significant control over the nature and extent of FDI in Australia. This process of change, however, was not a smooth trajectory towards greater deregulation. In 1981 Howard publicly exhorted Shell "to discuss options for releasing 25 per cent of its shares to Australian investors if it wanted future investment approvals" (Pokarier 2000, 178). This proposal was rebutted by Shell, provoked "industry outrage at the ad hoc nature of the request" and "forced a humiliating back down upon the Treasurer" (Pokarier 2000, 178).

The boom in resource development promised at the 1977 election almost eventuated by the time of the 1980 election. A strong turn around in Australia's terms of trade for both minerals and farm produce with export values increasing 32 per cent, saw the balance of payments deficit drop to only 1.7 per cent of GDP in 1979 (Dyster & Meredith 1990, 270, 272; Pokarier 2000, 159). Late in 1979, interest rates in the US, Europe and Japan, rose sharply; and "as Australian based firms repaid short term foreign debts or loaned money overseas at the high rate of interest, there was a substantial outflow of capital from Australia" (Indecs Economics 1980, 80). Nevertheless, with the overthrow of the US-supported regime in Iran, the

USSR's invasion of Afghanistan, growing tensions between China and Vietnam, and proxy wars in Africa, Australia offered a safe haven for investment activity.

(c) Organisational response

The second period of Fraser government was one of stability. The FIRB functioned as the means through which the national government could scrutinise individual FDI proposals and, in doing so, influence the level of foreign investment taking place. It provided a means of informing both foreign investors and the wider Australian community on the government's FDI policy. It provided a core of expertise and authority on FDI in Australia and a means of facilitating negotiation on specific investment proposals. In short, there was very little change in the core arrangements for FDI policy and regulation centred on the workings of the FIRB.

This stability was possible for a number of reasons. First, the burden of policy development fell on FID in Treasury, allowing the FIRB to concentrate on the task of implementing the government's policy. For example, the FID had facilitated the meeting between mining industry representatives on naturalisation which took place under Treasurer Howard, and the ongoing liaison with the OECD on FDI issues (FT2). Second, the Prime Minister remained interested in issues to do with FDI, both directly in terms of specific proposals and indirectly through the relative powers of the Commonwealth and the States. In terms of his direct involvement in the negotiation of specific proposals, his role was strengthened by having a more junior minister as the Treasurer and, within the PMO, his own advice on economic matters. In terms of indirect involvement, the role of PM&C was clearly strengthened, both as a means of co-ordination for the national government and for the implementation of policy on Commonwealth-State relations. In doing so it clarified the roles and responsibilities in natural resource management and FDI generally. Third, the Fraser government as a whole gained from the experience of the Whitlam government. The Whitlam government had demonstrated, by their absence, the value of stronger systems of administration and co-ordination both to enable regular meeting and decision making by Cabinet on both policy issues and government political strategy (Sexton 1979, xii, 184-187) and also ensure the political and policy core secured control over the machinery of government (Sexton 1979, 198-199).

Outside the hub of the immediate relationships around the FIRB significant change was taking place. By 1979, because of the measures set in place since the Gorton government, “a government [had] more control over foreign investors than over domestic business concerns” (Sexton 1979, 274). Having reached a point of stability in FDI policy after more than a decade of domestic concern, the broader economic crisis led to further changes which took place not directly in FDI policy but in broader economic policy and institutions to support the new policy. This was particularly evident in the national government’s approach to the regulation of business activity. While the emphasis in monetarism was on managing the money supply, it inherently implied a retreat of government intervention in macro-economic management (Jones 1983, 434; Bell 1997, 128) and a greater emphasis on micro-economic performance. During the Fraser government, while “policy debate continued to focus largely on macro-economic issues, and macro-economic imperatives frequently overrode arguments for microeconomic reform” (Quiggin 2002, 162), there were significant steps towards an institutional infrastructure to support micro-economic governance.

Even though broad reform of government macro- and micro- economic regulatory capacity was not an overt goal of the Fraser governments, an incremental process of restructuring took place. There was a willingness, possibly as a riposte to the policies commenced under the Whitlam government, to establish inquiries into matters of economic performance. However, while the thrust of professional opinion was in favour of policy reform, worsening economic conditions, in particular rising unemployment, limited the possibilities for the Whitlam government to strongly pursue this direction (Warhurst 1982, 58). At the same time key micro-economic agencies such as the Industry Assistance Commission (as part of the BACA portfolio), the Trade Practices Commission, and the Prices Justification Tribunal proved useful as sources of advice and as means of more precise and arms-length regulatory activity by government. The direction of this gradual shift towards a micro-economic focus for public policy was also consistent with a policy agenda directed at a more deregulated approach to the Australian economy, although much had yet to be done in this regard.

The Third Fraser government (1980-1983)

(a) Policy response

During the third Fraser government, there was a realisation that the mineral boom was unlikely to occur as soon as expected (Kelly 1985, 248-249, 256), and certainly by 1982 the economy was suffering from a renewed global downturn generated by the tightening of monetary policy in the US (Bevin 2002, 249). However, before this realisation the Fraser government moved to introduce changes to regulations and tighten the application of FDI policy to foster a more restrictive regulatory regime in anticipation of an impending FDI boom. Through 1979 and 1980 there had been a strong inflow of investment into the resources sector: “the value of proposals jumped from \$3.5 billion in 1978-79 to \$6.6 billion in 1980-81” (Westfield 1982, 18)[29]. And it is this third period of the Fraser government which is most active in terms of announcements on changes to FDI policy with the stronger application of existing requirements to restrict FDI flows in resources and, in 1983, tentative steps to liberalise the banking sector.

(b) Legislative and regulatory response

In the initial period after the 1980 election, the Review of Commonwealth Functions (also known as the Razor Gang) chaired by Phillip Lynch (now Minister for Commerce and Industry) provided the vehicle for further liberalisation of FDI

[29] Pokarier (2000, 170) notes that “new investment in resources projects in anticipation of stronger international demand saw the aggregate figure for FDI across all sectors rise 30.5 per cent in 1978-79, 13.3 per cent in 1979-80, and 55.1 per cent in 1980-81”.

regulations. The purpose of the review was to "reduce the size of the public service by transferring functions to the States or private enterprises and by rationalising the functions which were considered to properly belong to the Commonwealth" (Mathews & Grewall 1997, 312). As part of the government's response to the review the Treasurer, John Howard, announced on 30 April 1981, the FDI "review process would be streamlined through exemption from examination of proposals for the takeover of shell and shelf companies, and for certain corporate reorganisations, while the minimum threshold for examination of real estate acquisitions by foreigners would be raised to $350 000" (Hanratty 1996, 9).

However, the major trend in FDI regulation from 1980 onwards was a tightening of the application of the 50 per cent ownership rule. While the government did not announce a more restrictive implementation of the policy, it became evident in the number of proposals that had been rejected and the kinds of conditions imposed on those accepted (Pokarier 2000, 170). An *Australian Business* article commented that "despite a slowdown in resource development and problems with the current account, the men of the FIRB are, if anything, getting tougher" (Westfield 1982, 18). For example, a bid by the US controlled Borg-Warner company for 70 per cent of agricultural machinery maker Ralph Mackay was rejected, while a proposal by UK firm Bowater to take over the manufacturing firm Escor was accepted on the condition that "Bowater cut back its stake to 60 per cent within three years" (Westfield 1982, 18-19). In another case the Dutch firm Nationale-Nederladen acquired 50 per cent of insurer Mercantile Mutual "after a bitter fight with two Australian companies FAI Insurance and QBE Insurance" on the condition that control of the Australian firm remained in Australian hands by maintaining a majority of Australian directors (Westfield 1982, 18-19).

Overall, the more vigorous policing of investment policy "earned the FIRB and the foreign investment division [sic] in Treasury respect in some quarters and enemies in foreign investment circles" (Westfield 1982, 18). Underscoring this bias towards tightening of FDI policy, in January 1982 the Treasurer reaffirmed existing policy guidelines but strengthened controls on foreign acquisition of real estate on the expectation of continuing high levels of foreign capital inflow into that sector (FIRB 1982, 76-77).

In contrast to its more restrictive approach to FDI for resources projects, the Fraser government's response to the Campbell Committee of Inquiry into the Australian Financial System was to open up new possibilities for greater deregulation of FDI flows. On 13 January 1983 the Treasurer announced that the Fraser Government had decided to allow the entry into Australia of about ten new banks with foreign shareholdings, while no limit would be placed on the number of new bank entrants with solely Australian ownership (Howard 1983). The foreign banks were to be required to operate through subsidiaries incorporated in Australia rather than as branches, would be subject to all the usual prudential and financial standards imposed upon domestic banks, and would be required to provide a wide range of bank services and a reasonable branch network. Foreign banks (and foreign non-bank financial intermediaries in other financial markets) would be allowed entry with less than 50 per cent Australian equity if it could be demonstrated that net economic benefits would flow to Australia from such access. Effectively, the Fraser government, in its last days of office used existing FDI provisions to move towards greater deregulation of the financial sector. This was to open up possibilities for further and more fundamental changes to the Australian finance sector and led to a greatly changed system of regulation under the Hawke and Keating Labor governments.

(c) Organisational response

Again, this third period of the Fraser government was one of stability in the structure of organisational relationships at the hub of FDI policy. The FIRB remained at the centre of the hub providing the means of screening investment activity, promoting an understanding of the government's policy, and providing information on the kinds and levels of investment flows. The tightening of the application of the policy in 1982 only underscored the role the FIRB played as a means for the government to act to regulate FDI flows. While significant for the wider Australian economy, the move towards opening up the domestic banking industry to foreign competition in the Australian domestic market fell within the existing scope of the FIRB operations, and therefore did not lead to a fundamental change in its relationships within the executive government.

Although there were continuing pressures for greater deregulation of FDI flows from some business associations, the changing environment led to the emergence of a range of private sector advisory agencies. For example, the policing of the foreign investment by the FIRB had, in the private sector:

> bred a new industry of corporate advisers who help their international clients interpret the guidelines and current thinking of the Treasury officials. The merchant banks have gone into this field with particular enthusiasm, and the leading practitioners are …Lloyds International,…Martin Corporation, and…Hill Samuel. BT Australia and Schroder Darling are also active in the field and further down the line are a host of law firms and brokers who assist overseas clients with their investment applications (Westfield 1982, 18).

Moreover, throughout this period the leading mineral and energy developers, both domestic and international MNEs, were encouraging members of the government and the opposition to view FDI as beneficial to national development and economic growth. A notable example was Paul Keating as the Opposition Shadow Minister for minerals and energy (Carew 1992, 45-59).

Overall, the third period of government, with worsening economic conditions, including a widespread drought, and the likelihood of the loss of government, led to increasingly open debate within the Fraser government on the pace and direction of change. Within the core executive concern with economic policy was exacerbated by the determination of the prime minister to exert his authority over economic policy, a relatively weak Treasurer, and the willingness of the Treasury Secretary to openly challenge the views of the government. However, because the FIRB was at arms length from the government it was largely insulated from this wider paralysis, continuing to carry through on its mission of scrutinising FDI proposals against the government's policy criteria and thus providing a means of regulating FDI flows.

Analysis of FDI Experience in the Fraser Government

As with the previous governments (Gorton, McMahon and Whitlam) the Fraser government actively asserted its capacity to use public policy, regulation and the national bureaucracy to manage FDI. The Fraser government largely worked within the parameters defined by previous governments rather than seeking to establish a new framework, but it did develop and implement new initiatives, either by strengthening or liberalising regulations. At the same time it cemented in place the FIRB as the organisational mechanism for regulating and advising government on this activity.

As described above, the dominant trends in the mid- to late-1970s and the early 1980s were substantially reduced rates of growth and employment in developed countries, the continuing growth of MNEs, and, increasingly, an ideological shift from Keynesian to monetarist approaches to economic management. Ideological and economic exigencies converged within the Fraser government to foster greater interest within the core executive in micro-economic issues and consideration of the need to re-configure macro-economic management. However, an early under developed strategy for effective change, continuing poor economic conditions and concern over continued electoral support within the core executive, limited the opportunity for successive Fraser governments to pursue a program of large scale economic and industrial reform. Nevertheless, in the case of FDI, the government was willing to experiment with both liberalising and tightening regulations as counter-cyclical responses to changing economic circumstance.

These events are summarised in the following chronology of the steps taken by the three successive Fraser governments (Table 6.1). The table shows that although inflows to Australia of foreign investment declined during the first Fraser government, it pursued policies similar to those developed in the latter stage of the Whitlam government. Fraser went further than Whitlam to assure foreign investors that the Australian government would on the whole look favourably on foreign investment proposals, and that a Board comprised of two senior business representatives would be more inclined to examine proposals on their economic rather than non-economic benefits (while maintaining a framework which focused on both aspects). Fraser further underscored this willingness to increase the openness of the national government to FDI by swiftly signing the bi-lateral friendship treaty with Japan in mid-1976. However, the extension of controls on FDI in 1976 to regulatory measures of controls to the pastoral, agricultural, forestry and fishing sectors and the re-introduction of variable deposit ratios (VDRs) on FDI activity indicated a continuation of a more restrictive approach to FDI, at least during this first period of Fraser government. In terms of organisation there was a weakening of the Treasury, first in the area of its role in annual expenditure controls, but more pointedly with the appointment of a junior minister, John Howard, as a replacement for Philip Lynch.

As Table 6.1 shows, the second period of government (1977-1980) was one of increased confidence from the government in the stability of the FIRB as the means of regulating FDI flows. With this capacity in place the new Treasurer, Howard, faced with an unresponsive economy, comparatively low levels of FDI and MNE resistance to a RRT, was willing to seek industry views on regulations concerning the government's policy on naturalisation. In doing so Howard was willing to co-opt MNE interests into the process of shaping public policy, albeit limited to specific regulations, in a way which would not undermine the government's assertion of its authority over FDI policy. This approach was not so much one of compromising the government's autonomy in public policy decision making but a realignment of the government's interests to better accommodate foreign investors, as represented by MNEs, as a means of encouraging further FDI.

At the same time, continuing stagflation saw a marked strengthening of the process of micro-economic reform. There was increasing interest within the core executive with matters such as the regulation of the national financial system and industry restructuring, precursors to macro-economic deregulation and the emergence of micro-economic reform. In terms of organisational responses, the first apparent impact of this emergent approach to public policy was the creation of the National Companies and Securities Commission in 1979 as a means of reviewing and better aligning the disparate corporate laws across the States, Territories and the Commonwealth.

During its third period (1980-1983), the Fraser government sought to directly exert its influence in different ways in different sectors of the economy. FDI controls in the area of minerals and energy were tightened, while, in a highly symbolic move, controls were eased in the banking sector. These changes reflected concerns about the economy and confidence that the regulatory framework for FDI could be successfully used to influence the nature and extent of such flows. These changes also indicated that by the third Fraser government, FDI policy and its regulatory means were sufficiently precise to be applied in selective ways. It was now possible for the government of the day to tighten and loosen controls in response to assessment of the needs of specific industries and the degree of political risk the government was willing to take on in asserting its autonomy.

However, FDI was only one aspect of wider public management of the national economy. While there was increasing interest within the core executive in macro-economic deregulation, there was neither sufficient capacity, or, in difficult economic times, the electoral support, to pursue this direction. This situation contributed to a gradual paralysis in government decision making, compounded by increasing conflict within the core executive across the policy, administrative and political components, with divisions apparent between the PM, the Treasurer, their advisers and the secretary of the Treasury. The result was a fracturing of relationships within the core executive and an increasingly publicly visible divide between the Treasury and government. As the prospect and likely extent of the expected minerals boom diminished, the policy stance supportive of reducing government expenditure as a means of containing inflation was replaced, by the prime minister, with an emphasis on state-led development.

Table 6.1: Chronology of change in the context and particulars of FDI public policy during the three Fraser governments (1975-1983)

First Fraser Government, 13 December 1975 to 10 December 1977

		1975	1976	1977
Processes of globalisation	**Global versus Local**		Emergence of stagflation and low rates of growth in developed economies	
	Business Behaviour	Decline in FDI rates of growth in Australia		
State Autonomy & Capacity	**Goals of national government**		Fight inflation first by reducing expenditure and placing pressure on wages to restrict growth (and union power) Commitment to a new federalism based on decentralisation with more power to the states	
	Relationship between government & other actors			
	Relationship within government	Strong alignment between the PM and NCP Cabinet members	PM's dissatisfaction with Treasury Department's responsiveness in the expenditure management and the preparation of the budget leads to a restructuring of Treasury into two Departments.	John Howard, a junior minister, replaces Philip Lynch as Treasurer
Responses in FDI public policy	**Policy**	Coalition had campaigned strongly on FDI issues	Treasurer announces policy (April 1) Australia to participate in a joint OECD Declaration on International Investment and Multinational Enterprises (April1).	In the lead up to the 1977 election several senior Coalition ministers including the prime minister support resource rents
	Legislation & Regulation		The broad legislative and regulatory stance of previous government was confirmed in the April 1 statement. Guidelines on uranium projects released (28 May)	Restoration of restraints on capital inflows, VDR restored and set at one-quarter, later removed
	Organisation		• Strengthening of PM's department • Reconfirmed role of Treasury as hub of FDI and the reforming of FIAC as the FIRB (April 1). • Creation of the junior ministerial portfolio of Business and Consumer Affairs (BACA)	

Second Fraser Government, 10 December 1977 to 18 October 1980

		1977	1978	1979	1980
Processes of globalisation	**Global versus Local**		Continuing stagflation across advanced economies		Introduction of strict monetary targets by the US Federal Reserve
	Business Behaviour				
State Autonomy & Capacity	**Goals of national government**		Fight inflation first by reducing expenditure and placing pressure on wages to restrict growth (and union power)		
			Commitment to a new federalism based on decentralisation of more power to the states		
		Crawford Report into structural adjustment in the manufacturing industry	The commencement of the Campbell Inquiry into the Australian financial system (February) Tabling of Myer Ad Hoc Working Committee report on Australia-Japan relations (May)		
	Relationship between government & other actors	Intense resistance to a Resource Rent Tax from both state governments and mining interests at the company level (such as CRA) and through business associations (AMIC, APEA).			
	Relationship within government				Increasing disagreement on economic policy between the Secretary of the Treasury and the Treasurer and PM
Responses in FDI public policy	**Policy**		Policy of liberalisation to encourage FDI arising from government industry dialogue on naturalisation		
	Legislation & Regulation		Some liberalisation such as the raising of thresholds and the streamlining of foreign exchange controls were included.		
	Organisation			National Companies and Securities Commission established in the Attorney-General's portfolio	

Third Fraser Government, 18 October 1980to 5 March 1983

		1980	1981	1982	1983
Processes of globalisation	**Global versus Local**			International recession	
	Business Behaviour	Renewed interests in Australia as a destination for FDI in resource projects			
State Autonomy & Capacity	**Goals of national government**	Shift in policy stance from reducing government expenditure as a means of containing inflation to a preference for state led development as the prospect and extent of the expected minerals boom diminished			
	Relationship between government & other actors				
	Relationship within government		Increased tension between the PM and Treasurer with the Secretary of the Treasury		
Responses in FDI public policy	**Policy**	Increased emphasis on controlling (restricting) FDI flows in the area of minerals resource projects		Fostering of policies to support greater deregulation of the banking sector through increased involvement of overseas banking interests	
	Legislation & Regulation		FDI review process streamlined by exempting from examination proposals for the takeover of shell and shelf companies, and for certain corporate reorganisations, while the minimum threshold for examination of real estate acquisitions by foreigners would be raised to $350 000 (30 April 1981)	Existing policy guidelines reaffirmed, but controls on foreign acquisition of real estate strengthened (20 January 1982)	As part of the response to the Campbell Inquiry restrictions on banking and NBFI's eased to allow the entry into Australia of new banks with foreign shareholdings (13 January 1983).
	Organisation		Restructuring and strengthening of the Prime Minister's Office as both a source of policy and political advice		

Regulatory Changes Instituted by Government

The chronology in Table 6.1 shows a slight easing of FDI policy by the three Fraser governments, with the relaxing of restrictions and the inclusion of provisions to enable greater flexibility. Publicly it appeared that rather than seeking to establish a new framework, successive Fraser governments worked within the parameters defined by previous governments. However, those working closely with the Fraser government policies argued that:

> While the policy looked pretty much the same it became softer. There were a lot of minor policy tinkerings, mostly in the softer direction, until about 1983 when there was a change of government. (FT1)

Table 6.2 presents an overview of the regulatory and legislative changes which took place between 1975 and 1983, with the emphasis on relaxing controls, leading to a more liberalised FDI regime in Australia. This resulted from a number of pressures, including a combination of sector specific issues, the government's promotion of policies to enhance national economic performance, and a willingness on the part of the government to seek the views of major, established multinational businesses in Australia.

The government also used changes in FDI controls to encourage or discourage investment flows. For example, in 1977 concerns on the potential growth of money supply led to the re-introduction of VDRs, although following the election in 1997 this control was removed. More significantly in 1981 when a very strong FDI boom seemed likely, more restrictive measures in real estate and minerals processing were introduced, suggestions were made that the process of assessment would be more rigorous, and a review of FDI regulation was flagged (Howard 1981). The final announcement from the Fraser government on FDI in 1983 was the commitment by the Coalition government to more extensive investment by foreign merchant banks into the Australian market, underscoring the impact of the Campbell Inquiry and its emphasis on domestic financial deregulation (Howard 1983).

The Fraser period saw only minor amendment to existing FDI legislation, but revealed a willingness to change regulations to strengthen or weaken controls on FDI flows. Overall, Fraser worked within the legislative framework provided by the FTA 1975 which his government inherited. However, it was also a period of experimentation by the core executive with FDI policy, with regulations being liberalised or tightened to meet economic and political circumstances. In doing so, the government continued to exert its autonomy over policy-making, but not as stridently as the Gorton, McMahon or Whitlam governments. Instead much of the regulatory effort went into clarification, and in the case of the naturalisation policies, direct negotiation with domestic and international business interests.

While there was a softening of regulation, the pattern of change illustrated in Table 6.2 shows that each Fraser government implemented a different approach. The first Fraser government both continued and slightly strengthened the more restrictive policies from the Whitlam government. The second Fraser government was one of consistent softening of policy by weakening regulatory controls and thresholds. The third government sought, through a combination of weakening and strengthening of controls, to more precisely regulate FDI in the expectation of a minerals boom. This manipulation of policy and regulation illustrate the autonomy of government, in the sense of successive Fraser governments seeking to exert their influence on FDI flows. However, the willingness to change from one period of government to the next illustrates the limits of that autonomy, with the government in each period seeking to strike a balance between maintaining or enhancing the government's appeal with the national electorates, and national and international economic pressures.

Table 6.2: Changes in FDI regulation and legislation during the three Fraser governments

	Fraser 1 1976	1977	Fraser 2 1978	1979	1980	Fraser 3 1981	1982	1983
More Restrictive	Coalition policy on FDI announced, including the creation of the FIRB and the extension of controls to the pastoral, agricultural, forestry and fishing sectors (1 April 1976)	Restoration of restraints on capital inflows, VDR restored and set at one-quarter, later removed			No changes announced	More restrictive measures in real estate and minerals processing were introduced (5 February 1981)	Existing policy guidelines reaffirmed, but controls on foreign acquisition of real estate strengthened (20 January 1982)	
Less Restrictive			Liberalisation of FDI regulations announced by Treasurer: • Threshold for review of new projects raised to $5 million • Real estate acquisitions of less than $250000 would no longer require Government approval • Maintenance of 50 per cent Australian ownership for new projects in mining and primary production, but provisions for flexibility • Provisions for 'naturalisation' of foreign companies • Streamlining of foreign exchange controls. (8 June 1978)	Relaxation of 75 per cent Australian ownership of uranium mining ventures (10 June 1979)		FDI review process to be streamlined by exempting from examination proposals for the takeover of shell and shelf companies, and for certain corporate reorganisations, while the minimum threshold for examination of real estate acquisitions by foreigners would be raised to $350000 (30 April 1981)		As part of the response to the Campbell Inquiry restrictions on banking and NBFI's eased to allow the entry into Australia of new banks with foreign shareholdings (13 January 1983).

Source: FIRB Annual Reports 1977-1984

Organisational Changes Instituted by Government

The organisational changes instituted by the Fraser government were significant for the longer term development of FDI policy, and public economic management in general, showing an increase of both government autonomy and its capacity to exert its influence in the area of FDI flows. For example, as the reaction of the Fraser government to pressures of balancing global and domestic concerns in FDI showed, once the FIRB was established early in the first Fraser government as the means of regulating FDI flow there was very little change to this component. As summarised in Table 6.3 the key changes in the direct regulation of FDI were the lessening of the roles of the Reserve Bank and PM&C.

However, as noted above there was a growing momentum supportive of a new, micro-economic regulatory and organisational capacity to support more extensive reform. This was reflected in developments in the organisational capacity for the indirect regulation of FDI activity within Australia through the emergence of a concerted though ad hoc approach to the national regulation of business activity. This change was marked by the emergence of a nascent national business regulatory framework administered through the BACA, IAC, TPC, AIDC (in terms of financing for Australian business ventures) and the NCSC. The consequence of this suite of change was both increased concentration on the FIRB as the means for regulating FDI flows and the emergence of an indirect capacity for influencing FDI decisions through newly formed specialist regulatory agencies responsible for general business regulation at arms-length from the core of government.

Key features of this change with relevance to this thesis, and therefore discussed below, are the role played by the FIRB as an anchor to ensure stability of this system of regulation; the Prime Minister's relationship with the bureaucracy in supporting stability while acting as a catalyst for change; and the subsequent organisational responses to this reshaping of the state's capacity on economic management and the flow on effects on FDI management.

Table 6.3 Strengthening capacity for direct and indirect regulation of FDI during the Fraser government

Agency	New agency, new responsibility	New agency, existing responsibility	Existing agency, change in responsibility	Effect on concentration of decision making
Direct influence of executive government in FDI regulation				
FIRB (1976): Policy, review, communication, monitoring of FDI flows		Yes		*Greater concentration on FIRB*
RBA : Monitoring and facilitating financial flows			Weakened role in scrutiny of FDI proposals	
PM&C: Cross government co-ordination and advising PM and Cabinet			Weakened role in scrutiny of FDI proposals	
Indirect influence of executive government via general, domestic business regulation				
Department of Business and Consumer Affairs (1976)	Yes			*Less concentration on FIRB*
Industries Assistance Commission (IAC) (1974)			Yes	
Trade Practices Commission (TPC) (1974)			Yes	
AIDC (1970): Provider of finance to Australian joint ventures with foreign investors				
NCSC (1979): Responsibility "for the entire area of policy and administration with respect to company law and the regulation of the securities industry" (Bosch 1990: vii)	Yes			

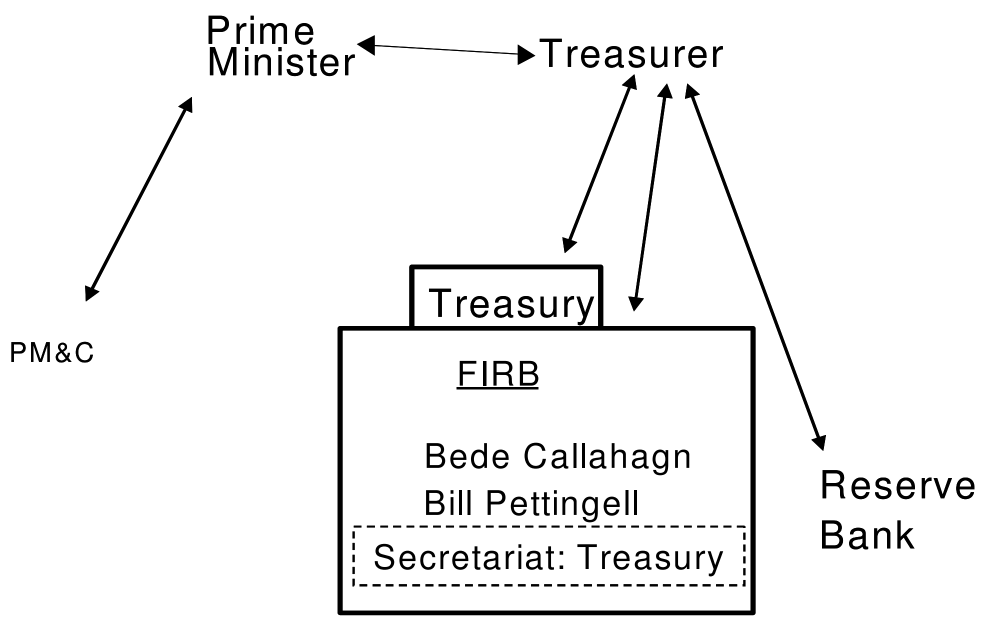
Source: FIRB (FIRB 1977, 1); BACA (Warhurst 1982, 141), IAC (PC 2003, 21); TPC (SSCFPA 1993, 24); AIDC (McEwen 1970, 1597, SSCFPA 1993, 162)

Stability in the public management of FDI

Unlike the gradual organisation of the bureaucracy at the hub of public policy on FDI during previous governments, the approach used by the Fraser government emerged rapidly and early in its first period of government and continued from that point on largely unchanged. In contrast to the Whitlam government, national government policy, regulation and organisational arrangement had been quickly set in place, suggesting a stronger congruence between the government and the national bureaucracy. The speed with which these measures were adopted suggests that much of the debate on policy, regulation and organisation had taken place during the Gorton, McMahon and Whitlam governments, and that the sense of increasing economic crisis had led to policy and regulatory capability centred on the FID within the Department of Treasury. In 1975 the ALP and the Coalition had proposed similar policies on FDI to the electorate and therefore the extent of adaptation required by the L-NCP Coalition government was small when it gained office. As a consequence there was an existing structure to work with and adapt, with strong foundations in the Treasury.

The central mechanism at the hub of relationships, as described above and depicted below (Figure 6.2), was the FIRB. The introduction of the FIRB as a non-statutory agency was seen by the Coalition as important in indicating a willingness

Figure 6.2: The pattern of organisational relationships in the national bureaucracy and core executive to regulate FDI flows during the Fraser government



to work with both domestic and international business to encourage investment at a time when sources of economic growth were weak. To reinforce this posture the FIRB was structured to be comprised of two Board members drawn from business and a senior Treasury member. Thus the FIRB could be seen as operating at arms-length from the political and policy core of the national government, while operating sufficiently close to the core to ensure a high degree of access to government decision making. By 1983 the FIRB was firmly embedded as the mechanism for regulating FDI flows; it was supported in legislation under the FTA 1975 and by a separate division within Treasury (FIRB 1982, 47); and its role was accepted by foreign or domestic investors although subject to criticism from time to time. Moreover, while Fraser strengthened the importance of PM&C as a coordinative mechanism across the government, it was no longer directly involved in FDI assessment processes. Nevertheless its role in contributing to negotiations with states on Commonwealth powers meant it remained an important indirect influence on FDI policy during the Fraser government[30].

The FIRB represented an emergent but maturing capacity in the area of FDI through which government could exert influence on FDI flows: in general through regulation, education, dialogue and negotiation concerning specific direct investment proposals. During the Fraser era the role of the FIRB as the government's adviser and assessor of FDI proposals remained largely unchanged, acting as the hub for the network of actors concerned with FDI. The policy of which the FIRB formed a part, also provided a capacity for ongoing adjustment to the regulatory framework:

> Now there always were, from time to time, and still now the "selling off the farm" sort of stuff. But I think the balance was pretty good.
>
> ... [T]he rules were established reasonably clearly with a good degree of flexibility [built in]. And I always said that you must not make the rules too

[30] For example, see Weller (1989, 293-302) on negotiations with state governments on the implementation of the Seas and Submerged Lands Act 1973.

> rigid other wise you will trap yourself. Most of the Treasurers for whom I worked for …accepted the fact that to tie yourself up in too tight a strait jacket just didn't make sense. You had to have a more balanced sort of arrangement with room to move one way or the other. (WT1)

Significantly contributing to the organisational stability of the FIRB, in addition to the clarity of its role and the devolution of decision making power, were the pegged exchange rate and the minimal emphasis and impact of micro-economic reform during the Fraser government. Stability lay in the commitment within Cabinet, and particularly with the National Country Party ministers, to a flexible, pegged exchange rate. As a macro-economic tool, the active management of the exchange rate meant the economy was insulated in the short term from both domestic and international economic shocks, and it provided a means of managing at a national level the price competitiveness of Australian primary exports. The pegged exchange rate mechanism was administered through a committee drawn from the key economic agencies (the governor of the Reserve Bank, the secretary of Treasury and the secretary of the Department of Finance) and the secretary of PM&C (Carew 1992, 106).

The effect of the structure of the FIRB as a Board meant there was a degree of autonomy of the Board from the Treasury Department, advising the Treasurer directly rather than through the departmental Secretary. However the arrangement was structured in such a way as to be accessible to the Treasurer, his adviser and the prime minister:

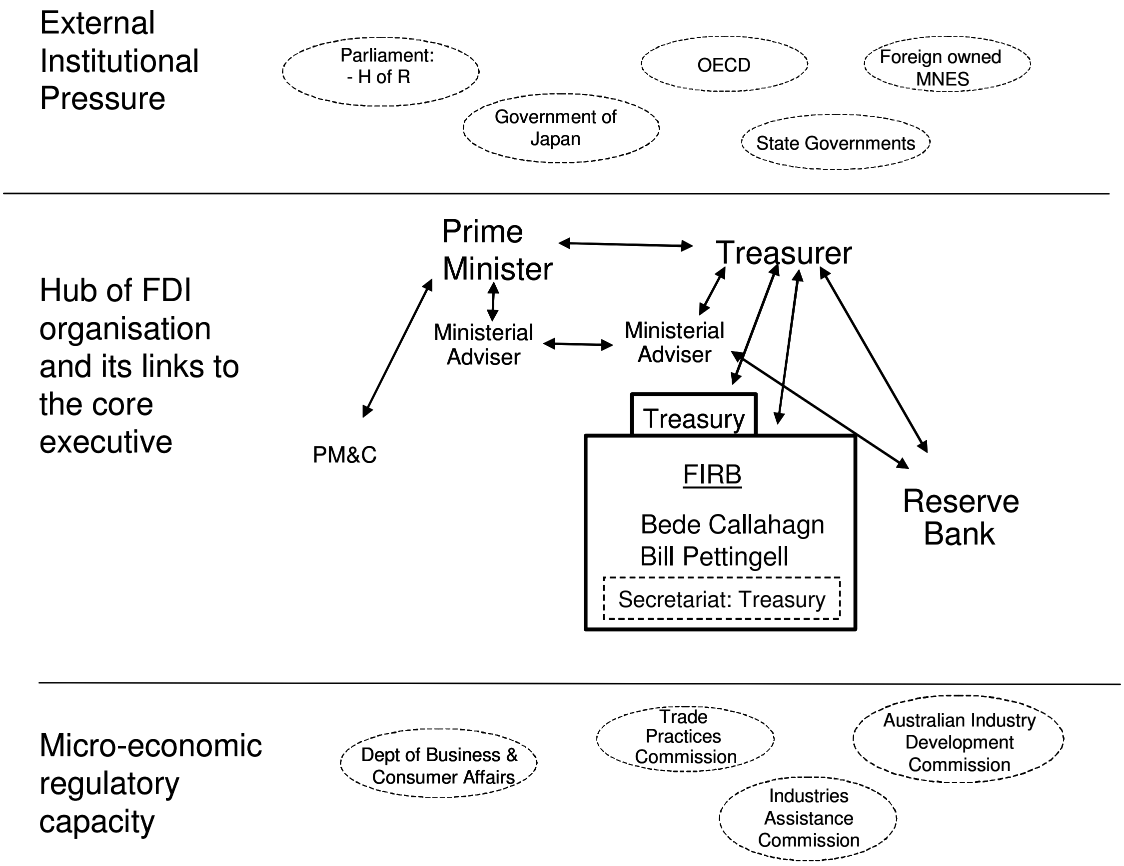
> Fraser …wanted to make the decisions on as many things that he could possibly make. Howard with his general orientation was more free market and liberal. John Hewson was his man, to whom … foreign investment proposals would go. He would look at them as well and give his views to Howard. Hewson and Howard were more free market, open, welcoming foreign investment in a co-operative way. Fraser would be more inclined to look to see whether it was a good thing for Australia. While Fraser did not get involved in most cases, there were some big ones that he did. (FT2)

At the other end of the spectrum of economic management, the bureaucratic capacity for micro-economic interventions was only beginning to emerge. While experiments in establishing a bureaucratic capacity to undertake micro-economic reform had began through the work of the IAC, the emphasis on micro-economic policy was not yet sufficiently developed to be a major component of decision making. Where an innovation in organisational arrangements occurred it was intentionally short lived, such as the roundtable meetings conducted by John Howard with leading international investors in Australia on naturalisation. That is, the innovation of a roundtable meeting with business interests was confined to policy development, and not extended into a long term practice nor extended into the task of carrying through regulatory policy.

In the context of this thesis, the organisational arrangements centred on the FIRB have further implications (as illustrated in Figure 6.3). The clear role within the national bureaucracy for the FIRB, and the organisational stability of the FIRB within a changing framework for economic management, provided advantages. For example, external institutional pressures for change in FDI policy increased, but were addressed through minor change in regulation. Again, fear of electoral consequences of not having a FDI policy had led to a policy slightly more restrictive on FDI than the Whitlam government[31]; concerns from the Japan had led to a bi-lateral treaty and progress was made on a more extensive bi-lateral treaty with New Zealand; and pressure from foreign owned MNEs for less onerous naturalisation provisions could be negotiated.

[31] The ALP had run at the 1975 election with a more restrictive set of policies on FDI than those in the 1975 FTA (Pokarier 2000, 155). This stance was maintained through the 1977 and 1980 elections (Pokarier 2000, 172, 175-176).

Figure 6.3: Institutional pressures and an emerging micro-economic capacity



Prime Minister's relationship with the bureaucracy as source of stability and a catalyst for change

While the direct regulation of FDI entered a period of organisational stability, the wider system for regulating the economic system was under pressure to adapt and respond to stagflation, and the emerging capacity within the financial system represented by NBFIs to bypass regulatory controls. In adapting to these changes there were significant changes in the organisation of the core executive which established a set of new dynamics which would reverberate through subsequent governments. These change were principally the result of the political core (the prime minister, cabinet and ministerial advisers) seeking to exert greater autonomy from both the bureaucracy and society in general and in so doing reshaping organisational capacity within the core executive.

In the case of the Prime Minister and the Treasurer in the first period of office, there was a desire to steer the government in the direction of stronger economic management as a response to stagflation. In doing so the political core followed the advice of the Treasury. As poor economic conditions persisted the potential electoral risk became increasingly apparent. In terms of the framework for analysis in this thesis, global pressure in the form of stagflation led to the emergence of the prime minister as a much stronger means of not only brokering ideas but in formulating policy radically at odds with the status quo, and establishing a successful mode for the implementation of these policies. In turn, the more effective use of prime ministerial authority contributed to strengthening the autonomy and capacity of the political core of the executive. However, as indicated by the change in policy stance during successive Fraser governments, while this concentration of power in the political core provided a means of greater flexibility for the government in terms of policy positions (as indicated in the change from the goal of fighting inflation first to stronger emphasis on state developmentalism), it also meant increasing uncertainty in the nature of policy emanating from the government.

In strengthening the role of the Prime Minister and the Treasurer, the role of ministerial advisers rose in value and importance. This was particularly apparent in the role of ministerial advisers in formulating policy (in part gleaned from the expertise drawn across the national bureaucracy) to challenge options proposed by Treasury. Key examples were the devaluation of the currency in 1976, the 1982 budget, and in 1983 estimates of the government deficit. The strong relationship between the Treasurer's economic adviser (Jolley and then Hewson) and the Prime Minister's adviser (Alan Rose) and the relationship between Rose, Ed Visbord (in charge of the Economic Division at PM&C) (Ayres 1987, 410) and Bob Johnston at the Reserve Bank (Carew 1992, 105-107) proved significant in the longer term for the framework for public economic management as instigators of the Campbell review of the financial system.

The harnessing of sources of economic policy advice from sources other than the Treasury department, from within the national bureaucracy, by ministerial advisers, was a significant change during the Fraser period of government. This development marked a maturing of the capacity provided through the widespread use of ministerial advisers. In turn this development provided a new means through which the political core of the executive could more strongly align policy and administration with the goals of the government of the day. While the application of ministerial advisers to the work of the FIRB were limited, the emergence of their role in centralising the task of national economic management more strongly in the political core while deregulating macro-economic controls, was to reverberate through subsequent governments in their approaches to policy development and co-ordination within the executive core. In effect the visibility of the role of advisers during the Fraser government indicated increased capacity and autonomy for the political core over the administrative in the development of national policy.

Broader organisational changes within the core executive effecting economic management capacity, and future policy and regulation of FDI

A further development, which was to become increasingly important to the role of the FIRB, was the emergence of a new capacity to foster micro-economic reform. At the time of the Fraser governments much of this capacity lay within the Business and Consumer Affairs portfolio, although the NCSC fell into the Attorney-General's portfolio. In later governments this capacity was to emerge as a vehicle for micro-economic reform providing a new, national layer of capacity to regulate business activity, including the operations of MNEs in Australia. During the Fraser government the willingness to pursue nascent micro-economic policy provided a means, given the political will, to engage with sectoral interests to explore specific areas of concern and, as the case of the naturalisation provisions, develop a policy response suited to the contingencies of the industry sector concerned and the goals of the government.

The intense engagement by the core executive on national economic management led to a fundamental reshaping of national bureaucratic capacity to support the pursuit of a new goal, that of national economic competitiveness. While, "the policy debate continued to focus largely on macroeconomic issues, and macroeconomic imperatives frequently overrode arguments for microeconomic reform" (Quiggin 2002, 5), increasingly there was recognition within the core executive of the need for change. Anecdotal evidence within Treasury suggested that the increasingly globalised banking system had begun to bypass the controls intended to prevent unofficial movements of capital into and out of Australia (FT2 interview). Within the political core the economic advisers to the Treasurer and the Prime Minister were actively pursuing policies to encourage financial market deregulation (Weller 1989, 376-383; Ayres 1987, 409-413; Abjorensen 1993, 72-84). This debate was aided by elements of the national bureaucracy. For example, the Reserve Bank had identified that the scope of such change would need to be a fundamental revision of regulation of both banking and currency flows (HoT1 interview).

Within the debate that occurred in the core executive, the process of change to the status quo – through the harnessing of the authority and enthusiasm of the Prime Minister, the Treasurer and the Reserve Bank by Rose and Hewson as ministerial advisers to counter-balance Treasury views – is significant. It underscores the broader argument of this thesis that a national response to globalisation of financial markets meant establishing or reshaping the bureaucratic capacity, including the role of the FIRB, for regulating financial flows. While indicative of a process of change – and one with a strong technocratic focus on markets – it was a process which took into account domestic political factors. For example, one of the criticisms of the Fraser governments' later stages was that while it had opened up the debate about changing the regulatory environment for the national financial system, and the regulation of the Australian dollar, it had failed to pursue the “big decisions” such as taxation reform and industry protection levels (Hewson in Abjorensen 1993, 83). It had done so because “Fraser became so concerned about the electoral consequences of his decision that he stopped taking decisions” (Hewson in Abjorensen 1993, 84). Thus Fraser, while acknowledging a growing global economic interdependence, judged that the scope of reform was such that it was best pursued gradually.

Significance of the National Bureaucracy in FDI Policy Adaptation

The significance of the national bureaucracy in FDI policy adaptation during the Fraser was as a site for change. The experience of the Fraser government was a case of the policy and political core (as represented by the PM, the Treasurer and their advisers) seeking to exert greater control over economic policy, to respond to the crisis of stagflation. As illustrated by the divergence of interest between the Treasury and the government, both the imperative to improve economic performance and the increasing strength of the political core led to conflict with the administrative core. However, in the areas of FDI policy, regulation and organisation there was a much greater meshing of interests between the policy, political and administrative arms of the core executive, as the government sought to assure foreign investors and the Australian community of the integrity of its approach to regulating FDI flows.

Building on the capacity which the FIRB represented (and which was promoted widely by the government) successive Fraser governments showed a willingness to explore with the business community, both domestic and transnational, further refinements in regulating FDI flows. There was a willingness on the part of the government through the Treasurer, the Prime Minster, the Deputy Prime Minister, the bureaucratic capacity represented by the FIRB and increasing opportunity through government initiated public inquiries for firms and business associations to enter into the debate more broadly than solely on the basis of initiating or responding to specific proposals before the FIRB[32].

The stability provided by the FIRB created a new channel for greater interaction between government, mediated through the FIRB, and foreign business interests, including MNEs. In effect the FIRB had become the medium through which negotiations took place on transnational business relationships, representing a new, emergent capacity for public policy development in response to specific, proposed business-to-business relationships. In doing so it provided a means of addressing transnational flows as a micro-economic issue, rather than as a balance of payments issue and therefore one of macro-economic policy. However, by increasingly concentrating on the aspect of job creation and wealth generation the emphasis was shifting away from non-economic factors developed in previous governments in response to strong nationalist sentiments. This change in policy within the core executive brought the political core closer to the preferred position stated by Treasury in 1972, although as described above the Fraser government was at times willing to use FDI policy as a counter-cyclical tool. Nevertheless the FIRB at the hub of the implementation of such policies proved to be an effective vehicle for carrying through the government's policies.

However, there was also containment by the government of the debate on foreign ownership to issues defined as being practical. Both the policy development processes and resultant policies concerning the RRT and naturalisation represented a normalisation of FDI policy. Both polices could have been shaped to accommodate a much more strident, stringent and *dirigiste* role for government in regulating overseas investment as illustrated by experience during the Whitlam era. The sense of crisis instilled by rising unemployment and inflation saw a shift in broad political debate away from questions of ownership to those

[32] Such inquires included the Campbell Report into banking (Committee of Inquiry into the Australian Financial System 1981), the Myer (1978) report into Australia-Japan relations, and the Crawford Committee report on structural adjustment in manufacturing (Study Group on Structural Adjustment 1979).

stressing economic efficiency. In turn, the interpretation of policy around FDI flows increasingly emphasised the potential for FDI to improve general economic conditions through jobs. The L-NCP government was also willing to facilitate the development of policy by business which accommodated the government's goal of regulating specific investment proposals while enable a continuing flow of inwards investment by business. Again the experience with the RRT and naturalisation policies illustrated this.

Key findings

Although demonstrating an emerging capacity to establish more anticipatory approaches, the overall experience of the Fraser period is one which demonstrates a largely reactive role for government in recognising the pressures on the Australian economy and transforming state institutions to accommodate extensive economic change. While there was recognition that continuing stagflation meant a new approach from government was necessary, there was no long term economic policy road map – other than fiscal and monetary restraint and greater flexibility in the regulation of the labour market as ideological maxims. How such a policy would play out in reshaping private and public sector capacity was left to advice from the Crawford and Campbell Committees. By establishing these committees the government illustrated its capacity to explore options to respond to emerging issues through the medium of public inquiries. Such inquiries signalled particular directions to be pursued, without requiring a commitment from the Fraser government to actually pursue any one direction. In effect, the Fraser government had the capacity to both make choices about policy direction from an ideological perspective consistent with more conservative views (such as monetarism and smaller government), but developed its approach to policy within the framework of what was politically viable electorally and in the context of Coalition policy.

The changes that took place in FDI regulation were part of a tentative and exploratory approach by the national government to adjusting to a more interdependent international economy experiencing a period of low economic growth. However, the changes that took place within the structure of bureaucratic relationships outlined in this chapter which affected national capacity to craft policy and regulate FDI flows, indicate that the Fraser government had the capacity to restructure the bureaucracy for its own political purposes.

In turn, the increased emphasis on the national bureaucracy as a means through which to adapt to emerging global pressures, is indicative of change in the nature of how state capacity to manage FDI flows was viewed within the core executive. While the FIRB represented an emergent – but soon solidly established – regulatory and organisational capacity throughout the Fraser period, there were symbolic changes rather than a fundamental re-engineering of its role or function. These changes signalled a softening of FDI controls, albeit with a significant presence in terms of the role and function of the FIRB. In terms of policy these included adjustments to the extent of foreign control in mining ventures, controls on real estate, the end of speculation on an RRT, and the emergence of naturalisation provisions. In terms of administrative arrangements, the changes were ones of streamlining communication between the government and investors, in so doing cementing the change begun under the Whitlam government of centralising the FDI regulatory function within Treasury. The stronger emphasis given to an improved administrative capacity represented by the FIRB made it possible for careful, although limited, experimenting with FDI policy and regulatory practice during the Fraser period. Furthermore, the FIRB model provided something for later governments to either build on or react to, and for other stakeholders to contribute to or detract from.

Overall, the experience with FDI and the wider process of adjustment to globalising pressures, shows the government had the capacity to exert its autonomy by taking significant action and realigning policy, regulations and organisational structures. In the case of the Fraser governments' approach to FDI, there is a continuing commitment to regulating FDI for domestic political purposes because of community and sectoral resistance to increasing foreign ownership that could react politically and electorally. While the actions themselves were often tentative, the mechanisms that the Coalition government had set in place provided a new, more finely shaped, means through which government policy could be influenced by stakeholders concerned with FDI flows, and through which the government could choose to exert its influence.

While the Fraser experience of government has been characterised as a rolling readjustment (Indecs Economics 1980, 7) the experience of FDI policy during this period was largely one of stability, locking in the role of the FIRB as the government's adviser on specific proposals. In effect the experiment that had begun under Gorton, and the model redesigned and reworked during the McMahon and Whitlam period of government, both reached maturity under Fraser. During the Fraser period "a big attempt was made to let the world's financial capitals know that we welcomed capital but that there were rules, procedures, etc" (WT1). Such a regime emphasised that approval would take place on a case-by-case basis, and only if the proposed investments were demonstrated to be of benefit to Australia (Hanratty 1996, 7). In short, this experience provides a clear example of state capacity being mobilised to deal with the pressures of globalisation, and in so doing addressing globalisation on the government's own terms.

CHAPTER 7 - The Hawke and Keating era

Paul Keating had used all sorts of terms to describe the enterprise, they all came down to this – he wanted the country to grow. 'Increase' was the word…He wanted to double its capacity for economic growth, increase its stature and strength, fulfil its promise…he said it had all been to put 'a bloom on the country'.
Watson (2003, 730)

The purpose of this chapter is to further demonstrate the thesis that national government in a developed economy such as Australia's while challenged by global flows of capital nevertheless continues to maintain and extend its ability to regulate such flows. This chapter shows how the Hawke (11 March 1983 to 20 December 1991) and Keating (20 December 1991 to 11 March 1996) ALP governments, as part of their responses to global economic challenges, reinvented the role of the FIRB by harnessing its function to the government's program of economic transformation. In contrast to the previous Australian national governments described in Chapters 5 and 6 the broad approach of Hawke and Keating to public policy placed greater emphasis on the value of markets as a means of decision making and resource allocation. This contributed to their approach to FDI: where previous governments had sought to compartmentalise FDI decision making and regulation from domestic business operations, Hawke and Keating created a new regulatory environment in which the FIRB was one among an increasing number of government agencies through which the government could exert its control over foreign and domestic businesses operating in the Australian economy.

This chapter examines how the Hawke and the Keating governments were decisive in shaping Australia's broader economic and social experience, and demonstrates their experimentation with foreign investment policy, bureaucratic organisation and regulation to accommodate international and domestic pressures. The liberalising of FDI policy during this period complemented change in the way the macro-economy was governed and the emergence of micro-economic reform as both a goal and a means to greater economic reform. Specialist areas of regulatory activity emerged from both the early focus of the first Hawke government on consensus as a mode of policy development and implementation and later changes to the regulatory environment flowing from micro-economic reform activity. In turn, the emergence of a greater number of specialised regulatory agencies reshaped the means by which the national government exerted its influence over FDI activity in Australia. Thus this chapter examines the external pressures affecting the Australian economy at this time, and the responses of the Hawke and Keating governments in relation to FDI policy, regulation and organisation. The significance of the national bureaucracy as a means implementing government policy to better exert state control over FDI flows is also explained.

External pressures facing Australia, in particular those that the Hawke and Keating Governments identified as critical to the well-being of those living in Australia

Economic pressures

At the outset of the 1980s public policy was increasingly dominated by the fear that stagflation would lead to an economic depression on the scale experienced in the 1930s. A worldwide recession, triggered by the second oil price explosion in 1979, was continuing and deepening (Brittan 1982, 542). Although restrictive monetary policies in OECD countries had reduced inflation during 1981 and 1982 interest rates remained high, averaging six per cent in the US and four to five percent for major OECD economies (Brittan 1982, 543). The US dollar and the British pound sterling had risen against other currencies; non-oil commodity prices "fell to their lowest level since the mid-1960s" (Brittan 1982, 544); and an international banking crisis emerged as the "slump, high interest rates and low commodity prices, and protectionism in Western markets, caused many Third

World and Soviet bloc nations" to have great difficulty in servicing their debts (Brittan 1982, 547).

Much of the pain of world adjustment lay with the process of recovery in the US instilled by the Reagan Administration. Faced with a deeply pessimistic view of the US economy Reagan sought a supply-side approach to recovery where "budgets were to be balanced, taxes slashed and regulatory straitjackets removed", reversing the growth of government in the economy and reinvigorating American business (Garten 1984, 539). Initially Reaganomics backfired: unemployment climbed, budget deficits widened, and "the supply of money was kept tight, resulting in low rates of inflation – the one bright spot – but also in onerous interest rates" (Garten 1984, 539). However, by mid-1983, as a result of "the stimulus of widening budget deficits and an easing of monetary policy, the American economy was coming alive": GNP in 1983 and 1984 grew by over six per cent, unemployment fell, and inflation declined and then stabilised at about four percent (Garten 1984, 539).

Against this background of a strongly recovering US economy, the 1980s was a period when global economic developments cut across national policy challenging existing forms of national governance. Despite fears for the stability of the international banking system and the potential to fall back into recession, the US economy continued to grow until 1987 when the New York stock exchange went into a sharp decline. In the Australian context the loosening and then delay in tightening of monetary policy in responses to the 1987 stock market crash contributed to a period of significant asset inflation with impacts on business and housing costs followed by very high interest rates, a recession in 1991 and persistently high levels of unemployment[33] (Indecs Economics 1992, 17-26).

[33] For example, from 1986 to 1991 mortgage interest rates rose from 13.5 per cent to 18 per cent (Sykes 1994, 28), business overdraft rates "were above 20 per cent for most of 1989 and 1990" (Indecs Economics 1992, 64) and unemployment rose above 10 per cent "for the second time since the Great Depression" (Bartlett & Ghosal 1991, 9-10).

The 1980s was also a period of significant structural change within national economies across the developed world. While primary and secondary industries experienced declining employment growth, the services sector became increasingly prominent as a generator of wealth and employment, particularly in areas such as financial operations, transport and communications (Daniels 1985, 22). The increased mobility of workforces, the need for more highly skilled workers, and increasing the mobility of capital created a new dynamism in shaping public policies (Reich 1991, 243). Business practices changed and continued to change with the impact of information technologies and growing international markets (Dicken 1998, 149-151). For Australia this reduced the isolation of its economy from major world centres, but also increased pressure on domestic regulatory frameworks for macro- and micro-economic management.

The period from 1983 also represented a change in the post-colonial experience in the Australian region (Ravenhill 1997, 14-21). As the US and European economies expanded, the Asian Tigers (Singapore, Hong Kong, Taiwan, and South Korea) and China experienced growing industrial capacity and rising living standards. This 'East Asian miracle' emerged as a challenge to ideas about the nature of economic development and the role of the state (World Bank 1993; Weiss 1998, 49-82). Western thought on the future of Asia, especially from the United States and Europe, was tinged with concern (Johnson 1987, 71). By the mid-1990s the scale of change had been of such magnitude that trade activity in the Asia Pacific rivalled that found in Europe or North America. In short, a new economic order had emerged (Johnson 1995, 14-15; Turcq 1995, 31). During the same period the USSR ceased to be either an economic or military superpower: weakening population growth in the industrial heart lands of the USSR; increasing scarcity of, and diminishing returns to, capital investment; extensive corruption; and the drain of military expenditure, had all contributed to its declining economic capacity (David and Weir 1997, 34; Easterly and Fischer 1994, 2).

Domestic and international business behaviour

By the time of the Hawke and Keating era, business was operating on a global scale, with greater integration between operations and continuing declines in costs due to innovations in transport and communications, a growing body of skills, and an explosion in the financial means of managing risk. Competition between firms, new markets for products and services and sources of inputs, and increased availability of finance through growing capital markets saw both historically high levels of merger activity, as investors and firms sought economies of scope and scale (Holstrom & Kaplan 2001, 121-132), and "downscaling" of operations as a means of reducing risk and cost (Suarez-Villa 1998, 5-8). Increased fluidity in the nature and location of whole industries was increasingly possible with decreased transport and communications costs, with the consequence that there was a relocation of industrial capacity into Asia, South America and, after the collapse of the Berlin Wall, Eastern Europe.

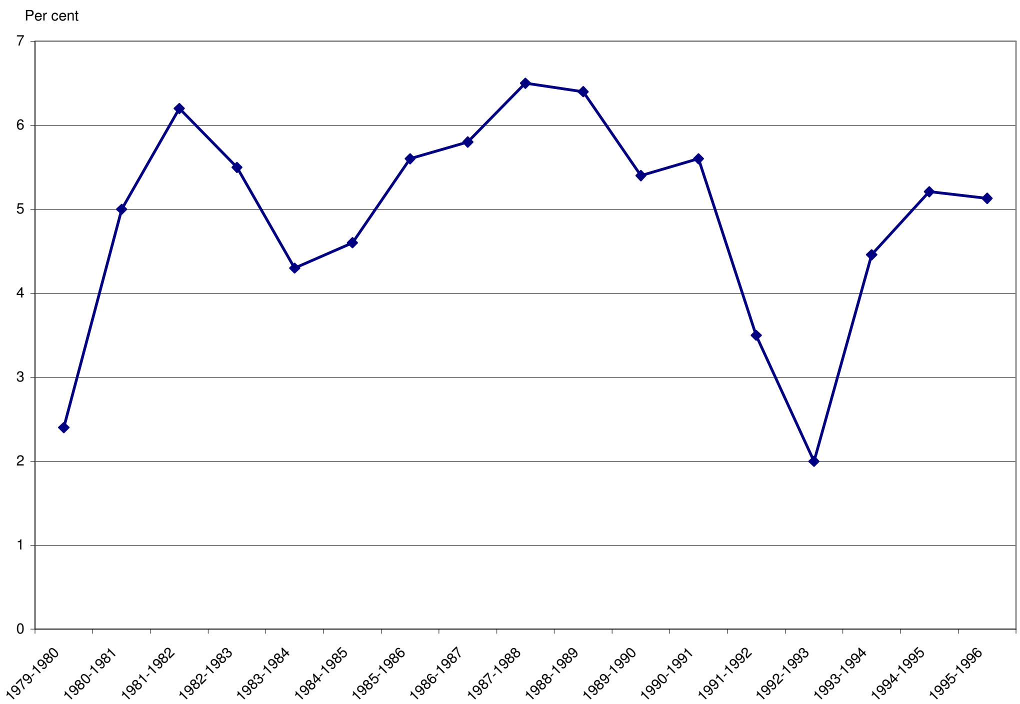
Increased merger activity, downsizing and out sourcing contributed to both hope and fear amongst business: in the US the 1980s saw unprecedented exposure to predation from specialist debt financed firms seeking greater efficiencies and investment returns from existing corporations (Holstrom & Kaplan 2001, 124-126). This pattern of activity was replicated across the western world as capital markets were deregulated, creating greater access to sources of finance for business expansion and reorganisation. As a consequence during the Hawke-Keating era the effects of a truly global business environment had emerged: the extent of MNE operations became more variegated and integrated with domestic economies[34], and the scale and scope of international markets were such that

[34] By this period the MNE was recognised as a distinct of form of organisation, one of an expanding range of possible forms (identified as global, transnational, international and multinational) to balance pressures from within such firms for stronger integration of operations at a global level with local responsiveness (Beamish, Morrison et al. 1997, 5). The expansion of MNEs and the structural and institutional decisions made within these organisation contributed to an expansion of transactions within firms and the emergence of trade in services on a global scale (Hay 2005, 242-244).

domestic firms were more significantly exposed to global markets.

While business activity in Australia during the 1980s has been described as the decade of the deal (Clarke et al. 1997, 143-149), reflecting both the growing availability of capital, and deregulation, it was also one of renewed interest in industrial and export capacity. In part this was driven by government policy (discussed below), but it was also a willingness within the private sector to seek larger markets and exploit lower costs of international transactions (Stace & Dunphy 2001, 21-27). It also marked the emergence of services as a key component of the economy and the integration of information technology into operations. In turn, this led to more variegated forms of FDI (such as the greater prevalence of alliances and forms of short term co-operation, as well as mergers, acquisitions and takeovers) in the national economy. These factors contributed to comparatively strong flows of FDI to Australia (as illustrated in Figure 7.1).

Figure 7.1: FDI inflows 1979/80 to 1995/96 as a proportion of GDP



Source: Reserve Bank of Australia (1996a, 1996b)

Renewed debate on the role of the state

A much less powerful USSR, the emergence of Asia as a significant economic force, and models of regional co-operation such as the European Union (EU), contributed to increasing debate on the role of nation states in fostering the competitiveness of national economies (Cerny 1990, 205; Drucker 1997, 164-167; de Vries 2001, 397-406; Fougner 2006, 165-169; Ruigrok & van Tulder 1995, 16-22). The increasingly dominant views in Anglo-American polities on how to achieve this were those of monetarists and later neoclassicists promoting less interventionist roles for governments. The expansion of private sector commerce was used to vindicate arguments from economic liberals that government through parliament should be supplemented much more strongly by government through markets (Bell 1997, 128; Solomon 2000, 3). There was an increasingly wide-spread debate about the degree to which the state should intervene in market activity, and how the state should be organised to address issues of national competitiveness and increased questioning of the state's role in wealth distribution and welfare provision (Emy & Hughes 1991, 15-20; Capling, et al. 1998, 89-106; Yeates 2001, 20-30). The implication in much of this development of liberal theory on the role of the state was that the ideal system should be based on an Anglo-American model of an essentially weak state (Beeson & Firth 1998, 221-222).

The impetus for change in Australia's approach to economic development lay in this debate about the source of poor economic performance in the West during the 1970s and the early 1980s. At issue were questions of why had "institutional sclerosis crept up on the West" and why "at different speeds in different countries?" (Brittan 1982, 565). In economics, the major struggle was between monetarism and public interest arguments. Monetarism offered an incremental change from existing Keynesian practice whereby control shifted from stimulating or restricting demand through fiscal and monetary policy to a focus on the supply of money as the most significant control point for regulating the macro-economy (Whitwell 1986, 206). A more revolutionary approach, or paradigmatic shift, was offered by neoclassical economics which focused on encouraging the efficiency of markets by removing impediments such as government involvement or interventions (Hill 1997, 34-35). In the latter view it was in the public's interest to foster choice rather than rely on governments or private monopolies which themselves represented vested interest, interests which may not necessarily offer the optimum or most efficient form of economic organisation (Buchanan & Wagner 1977, 144) not least because of the behaviour of their bureaucracies (Niskanen 1973, 7-27).

Towards the latter half of the 1980s and the early 1990s debate on national economic governance centred on the merits of a neoclassical approach of limited government intervention or, as an alternative, an approach which emphasised the role of government in shaping the emergence of a competition state. Neoclassical views posed a minimal role for government (Sturgess 1996, 59-60; Braithwaite 2002, 104), while the notion of the competition state offered a model in which "governments are concerned primarily with economic growth in their territories" and "won't sit back and accept the rules of the market or ideas about comparative advantage - the location, ownership and type of production facilities are a matter of utmost concern for political authorities" (Arnold 2000, 1). Instead a government in a competition state recognises that "economic growth results from successfully getting economic actors [both domestic and foreign] to invest" and "that technological advances in the last two/three decades, augmented by a deregulated trade regime and globalisation of capital markets, have had a significant impact on the way in which the multinational [and domestic enterprises] are run and this in turn has impacted upon their investment decisions" (Arnold 2000, 1). The policy emphasis shifted towards improving or enhancing "a state's natural endowments in order to win inward investment" through financial stability, infrastructure, an educated workforce and a favourable tax system (Arnold 2000, 1).

Between 1983 and 1996, the Hawke and Keating governments were exposed to starkly different models in the Asia-Pacific region. In New Zealand, Australia's closest neighbour, the Labour government had moved during 1984 to 1988 very strongly towards national restructuring using markets as resource allocators (Quiggin 1998, 76-94). This model meant the end of strategic direction by government of industry, the retreat of government as a direct service provider and the minimization of controls on imports. During the same period the continuing strength of East Asian economies suggested an alternative model for economic growth based on embedded ties between public and private sectors (Weiss 1998, 49-82; O'Riain 2001, 164-168). To engage with globalisation meant strategic direction and interventions from governments and the use of tariffs to foster the growth of local firms and to attract the operations of transnational firms. The approach adopted by the Australian Labour government, as we shall see, is best described as one of liberalisation framed through a melding of circumstance, institutions and individuals unique to Australia (Goldfinch 1999, 3).

Balancing External and Internal Pressures in the Domestic Political Context

The Hawke and Keating governments' reactions to economic circumstances and debate about the role of government in creating economic growth, both national and international, were surprising, dramatic and decisive. The need to address stagflation was the starting point for debate on domestic economic directions, but policy solutions were not readily apparent. Measures by the Fraser government to jolt Australia out of stagflation through fiscal priming and steps to stimulate a resource boom had not appeared to work (Kelly 2000, 222-223). World demand for Australian commodities was down; investment returns in manufacturing, despite tariff protection, were in decline; and unemployment was increasing (Dyster & Meredith 1990, 272). The "notion that Australia had to engage in a global catch-up was a useful driver for new policy" (Kelly 2000, 223), but was not in itself a policy prescription (Goldfinch 1999, 3) as indicated by the loss the Fraser led L-NCP Coalition at the 1983 election.

At that election, Labor leader Bob Hawke campaigned on healing social divisions through a national process of reconciliation and reconstruction (Hayden 1996, 375-376). The ALP came to office in 1983 promising a social democratic vision including advances in social welfare but, above all else, the Hawke government promised to, "reconstruct and reform a shattered economy, and reconcile a divided nation" (Bongiorno 2003). Thus, once in government the focus of the core executive turned to themes in keeping with the concept of a competition state. These included the need for a healthy capital account through stronger exports; revisiting and enhancing means of attracting foreign investment from traditional sources and new sources such as NICs in Asia; and exploring means to improve economic efficiency by change to regulation of labour markets and business practices, financial and trade liberalisation and taxation reform. At its heart was the objective to grow the economy by removing the level of state intervention in the economy, reducing impediments to productivity growth and thereby improve the profitability of private business (Economic Notes 1989, 134).

Apart from the emphasis on keeping wages growth low, the broad and decisive changes in Australia's economic system during the Hawke and Keating governments concentrated on three key areas:

- reconfiguring macro-economic regulation,
- domestic and international trade liberalisation and
- micro-economic reform.

Each fed on the other and contributed to the removal of exchange controls, extensive liberalisation of financial markets, the phasing down of tariffs across the manufacturing sector, and the use of successive Accords between government, business and labour unions to restrict the growth in the cost of labour (Keating & Dixon 1990, 11-49; Goldfinch 1999, 3). Each resulted in a significant reconfiguring of organisational and institutional arrangements to facilitate and support government policy as the government sought to assert its autonomy in economic management as a response to globalising pressures. Each represented a major challenge to pre-existing Labor party policies and the practices of Australian governments generally up to this point, as summed up by Graham Richardson, a former Cabinet Minister:

> We were of course fanatical regulators. That was our raison d'etre – government involvement, government control. When we got into government we ditched it immediately, which was a hell of a shock for a lot of people in the Labor party and trade unions, who had just never expected it. (Martin 1999, 163)

Pursuing economic reform and national competitiveness

The first Hawke government (1983-1984) placed Australia on an emergency footing to deal with the need for the nation and its industries to become more internationally competitive (Conley 2001, 225). Hawke embraced a liberal economic agenda to encourage national economic growth within the context of globalised systems of production; and contextualised the conditions of economic malaise besetting the Australian economy in 1983 as a crisis which the whole community should and could be mobilised to address (Kelly 1992, 65; Conley 2001, 225-226). It then reacted to globalising pressures by reconfiguring bureaucratic structures and regulation both nationally and, through its involvement with regional and multilateral forums, internationally. In the national context the internationalisation of the economy was pursued through domestic tariff reduction, the commitment to the restructuring of key manufacturing industries[35], greater emphasis on skills development through education and training, and increasingly an emphasis on enmeshment with Asia.

To achieve these changes in policy the political core of executive government was strengthened and national bureaucratic capacity reconfigured to support the goals of the political executive. The scope and extent of these changes

[35] These industries included motor vehicles (Capling & Galligan 1992; 237-250), textiles (Capling & Galligan 1992, 179-192) and steel (Nethercote 1999).

for the political core are examined below for both the Hawke and the Keating governments. This is followed by an overview of consequential changes taking place within the administrative core, examining change within the Treasury portfolio and more broadly within the Hawke and Keating governments. In particular, the examination of change within the administrative core shows how specialist agencies emerged initially as a means of fostering neo-corporatist, consultative approaches and then gradually and more extensively adapted by government to foster micro-economic interventions and economic restructuring.

(a) Strengthening the political core of executive government – the Hawke years

At the national level a more assertive and dominating executive emerged (Halligan & Power 1992, 77-93), willing to vigorously reshape the institutions of the state. The "opening of the Australian economy to a progressively more volatile international economy" encouraged the emergence of a more *dirigiste* or "directive" pattern of governance, with "power …passing to an increasingly assertive political executive and the generalist managers upon whom it has come to rely for the vigorous implementation of its policy priorities" (Power 1988, 1). Specific changes to policy and operations of the core executive which contributed to the strengthened executive were: the reorganisation of Cabinet, the commencement of an ongoing program of public sector reform, and public policy began to emphasise not only domestic reform but economic and trade diplomacy (Hawke 1994, 415-429;Viviani 1990, 391-392).

(b) Strengthening the political core of executive government – the Keating years

The political core of executive government continued to be strengthened during Keating's years as prime minister. In 1991 via an internal party coup he replaced Hawke as the prime minister and, while continuing to pursue the policy themes established under Hawke, sought a greater concentration of power in the prime minister's office. Having rejected the consensual style of Hawke as an "antithesis of leadership" and "lacking horsepower" (Halligan 1997b, 53)

Keating's period of leadership (1991-1996) saw a relocation of "power from the bureaucracy to the executive wing of parliament" (Halligan 1997b, 54). In doing so he relied on the administrative and policy instruments he knew, the Prime Minster's Office (PMO) and Treasury, and distrusted and diminished the advice from the Economic Division in PM&C (Halligan 1997b, 54).

The depth of the economic recession in Australia in the early 1990s caused the PMO to pursue more directly interventionist measures to reduce unemployment, to enhance its chances of winning the 1993 election (Watson 2003, 99-124). The resulting package, called *One Nation* (26 February 1992), was both a riposte to the Liberal Party's election campaign *Fightback!* package and a programme for economic recovery. It included a range of labour market programs and a cut in personal income tax rates. *One Nation* was followed by *Investing in the Nation* (9 February 1993) and the *Working Nation White Paper on Employment and Growth* (4 May 1994)[36] each offering government greater support for labour market initiatives (Scott 2000, 247).

The Keating policy statements while offering more directly interventionist approaches also increased the tempo of the government's trade liberalisation, macro reform and micro reform initiatives. For example, concerns raised by State Premiers and Territory Chief Ministers in 1991 about the scope and intent of micro-economic reform were addressed through the Hilmer inquiry (Keating 1992; Kain, Kuruppu et al. 2001). As a result, with the goodwill of the States, a National Competition Policy was established to open up the provision of infrastructure and the delivery of services by national, state and local governments in particular to private and not for profit operators. In the area of trade liberalisation Keating placed greater emphasis on Asia as a market for Australian goods and a possible stronger investor in Australian industry; and APEC was promoted as a means to

[36] *Creative Nation* (18 0ctober 1994) has not been included in this list because it was more focused on a specific industry (arts and entertainment) rather than a broad policy statement.

encourage tariff reform with the Prime Minister making an announcement of Australia's goal to establish a zero tariff regime by 2010[37]. In the area of macro-economic reform, from 1993 the Reserve Bank was given a much stronger remit to address inflation through monetary policy (Fraser 1993, 5-6; 146-151; Mathews & Grewall 1997, 394-395). In pursuing each of these initiatives the PMO was intimately involved in progressing each of these issues with Prime Minister Keating, thus contributing to a greater centralisation of executive government control within the political executive to shape the rules and institutional architecture for regulatory environments domestically and internationally.

(c) Change in the administrative core executive

The significance of the Hawke and Keating era for this thesis is that this period was one of reconfiguring the micro- and micro-economic policy making and regulatory capacity to better serve the political executive in its response to the domestic management of economic globalisation. This was a major change from the previous governments considered in Chapters 5 and 6, which had sought to obliquely address the consequences for Australia of greater economic integration between nation states. The extent of this change is demonstrated by examining for key aspects which emerged within the national bureaucracy during the Hawke and Keating era: the change to the role of the Reserve Bank; the emergence of new specialist economic and regulatory agencies; new agencies and institutions to support trade diplomacy and increase domestic exports; and new agencies and institutions to support Commonwealth-State relations.

New role for the Reserve Bank

The role of the Reserve Bank underwent the most change. Following the

[37] In January 1994, Canada, the United States and Mexico had launched the North American Free Trade Agreement (NAFTA) to form the world's largest free trade area by eliminating tariffs and many non-tariff barriers to trade (Department of Foreign Affairs and International Trade Canada nd).

float of the Australian dollar in 1983, the Reserve Bank no longer directly set interest rates or the exchange rate. However, it still retained a key role in macro-economic regulation through its capacity to influence the value of the Australian dollar in international currency markets via the management of currency reserves, the prudential regulation of the banking system and monitoring the performance of the macro-economy (Bell 1997, 34-36)[38]. In short its role became more sharply aligned with macro-economic policy as the principal regulator for monetary policy and, to a greater extent than in previous governments, the RBA represented a greater challenge to the role of Treasury as the government's pre-eminent advisor on matters economic (Dow & Lafferty 2004, 2)[39].

Emergence of new specialist economic and regulatory agencies

Other specialist economic agencies were either strengthened or created. The first group were established directly as a result of the National Economic Summit:

- the Economic Planning Advisory Council (EPAC), to provide tripartite (government, business and labour union) advice to government on economic policy;
- the Advisory Committee on Prices and Incomes (ACPI) to monitor the wage and price determination aspects of the Accord; and
- the Australian Manufacturing Council (AMC), an umbrella organisation for several industry councils to address industry restructuring issues (Singleton 1985, 21, 24).

[38] Until the Martin reforms were introduced in the early 1980s "monetary policy worked by controlling the quantity and allocation of credit available to the economy through direct regulation of credit supplies in the banking sector [by the Reserve Bank]. Following deregulation…the main method by which the Reserve Bank… sets monetary policy is through changing the price of credit [through] open-market operations which alter short-term interest rates" (Bell 1997, 35).

[39] On the other hand Treasury, especially during Keating's period as Treasurer, sees a strengthening of its view within Cabinet (Mathews & Grewall 1997, 378-379).

EPAC, a tripartite advisory forum with no regulatory role or direct input into policy determination, provided a symbol of participation and had only a limited impact on government policy (Capling & Galligan 1992, 130-134). The AMC, which at its peak in the late 1980s encompassed 11 industry councils, provided a means for government and industry dialogue during a period of considerable effort in restructuring the manufacturing sector of the economy (ACCC 2000, 17). As a trade off to the promised wage restraint under the Accord, the Prices Surveillance Authority (PSA) was established to encourage price restraint (Advisory Committee on Prices and Income 1985, 1), complementing the role of ACPI in monitoring policy on income and prices (Senate Standing Committee on Finance and Public Administration 1993).

Gradually as the Accords proved successful in restraining incomes growth (and wages costs) emphasis in regulatory policy shifted away from supporting the government's prices and incomes policy towards fostering a more dynamic micro-economic environment. The rational for micro-economic reform was that reforms in trade during the 1980s had "increased the exposure of the internationally traded goods sector to competition…many sectors of the economy…remained sheltered from competition" (ACCC 2000, 19). Thus micro-economic reform was about increasing competition and efficiency in those sectors by removing existing, domestic constraints (ACCC 2000, 19).

To implement the micro-economic reform program specialist agencies were created by adapting existing agencies or establishing new agencies. As Table 7.1 shows this new capacity was located across a number of different ministerial portfolios: Treasury through the Trade Practices Commission and the Prices Surveillance Authority concentrated on anti-monopoly regulation, scrutiny of prices, and consumer protection; Industry through the Industry Assistance Commission and the Bureau of Industry Economics focused on tariff phase downs and trade liberalisation; and in the Attorney-General's portfolio the Australian Securities Commission was formed from the NCSC and given vastly more resources to provide consistent national regulation on governance practices in business.

Table 7.1: Specialist agencies supporting micro-economic reform

	Treasury Portfolio	Industry Portfolio	Attorney-General's Portfolio
Regulatory	Trade Practices Commission Price Surveillance Authority (1988/89 - 1995) Australian Competition and Consumer Commission (ACCC) – created by merging TPC and PSA (1995)	Industry Assistance Commission (1973-1990) Industry Commission (1990) Australian Broadcasting Authority (1992)	Australian Securities Commission (1991)
Advisory		Bureau of Industry Economics	National Companies & Securities Commission (NCSC) until replaced by the Australian Securities Commission in 1991

Source: Senate Standing Committee on Finance and Government Operations (1984; 1987), Senate Standing Committee on Finance and Public Administration (1993; 1996) and Capling and Galligan (1992, 135-155).

While the government was extending its capacity to influence business activity through new, specialist agencies and increased specialisation of existing agencies, it also pursued the liberalisation of the financial system, particularly the deregulation of access to capital for investment. This led to a speculative boom in the mid to late 1980s, the collapse in global equity markets from 1987 onwards and a period of depressed economic and labour market conditions lasting into the early 1990s (Clarke, Dean et al. 1997, 143). The excesses of corporate Australia during this period led to subsequent human costs with "nine hundred thousand people" without work, countless people losing their savings and a government intent on tightening monetary policy "so hard they heard it 'snap' in the Treasurer's office" (Wright 2002, 363). In turn, the capacity of business in general and private sector banks in particular to operate ethically or sustainably became a matter for community concern (Sykes 1994). It also exacerbated stresses on the division between the States and the Commonwealth on the regulation of national business operations that led to further reform to corporate law and regulation (Angus 2005, 3-7). These included clarifying the responsibilities of the States and the Commonwealth in regulating national business operations, an increase in penalties for fraudulent business behaviour, and tightening of bank lending practices. These reforms, in addition to general micro-economic reform, encouraged greater transparency than hitherto experienced in business operations.

New agencies and institutions to support trade diplomacy and increase domestic exports

The activity by the national government to secure greater access for Australian goods and services to foreign markets and the pursuit multilateral approaches to trade diplomacy in the later stages of the 1980s and the early 1990s led to a new configuration of the agencies concerned with foreign policy and trade. To support these initiatives, and underscoring stronger links between foreign trade and diplomatic goals, the trade function (from the Department of Trade, Industry and Commerce) and Foreign Affairs were merged to form one department, the Department of Foreign Affairs and Trade, as part of the 1987 machinery of government changes (Capling & Galligan 1992, 141). A specialist agency Austrade was established to facilitate market access, ensure more effective linkages with domestic producers and administer export grants (Capling & Galligan 1992, 141-144; Molnar 2003, 22). Initially this function was included in the Industry portfolio but returned to the Foreign Affairs and Trade portfolio in 1991 (Mathews & Grewall 1997, 522-528).

New agencies and institutions to support Commonwealth-State relations

The reformist focus of the Hawke and Keating administrations extended to relationships with the Australian States and Territories with further consequences for national bureaucratic structures and regulations. The federal government's pursuit of economic reform and its willingness to challenge State and Territory access to Commonwealth resources provided the impetus for an increasingly more cooperative basis to Australian federalism. The compromise negotiated by the Hawke government enabled State governments to preserve access to financial flows from the national government on the condition of greater dialogue on the Commonwealth's approach to national competitiveness, with trade-offs in the form of structural adjustment or compensation from the Commonwealth for micro-economic changes (Painter 1998, 10-11, 35-53; Saunders 2002, 73-74). From this arrangement emerged the Council of Australian Governments (COAG) in 1992 and a co-operative approach to the pursuit of micro-economic reform. These reforms were a new wave of micro-economic adjustment to complement, and enable greater impact of, the macro-economic reforms embarked on in the early 1980s (Pokarier 2000, 186-189).

How the Hawke and Keating Governments Reacted to Globalisation Pressures in the Area of FDI Flows Through Policy, Regulation and Change to Bureaucratic Structures

During the Hawke and Keating era FDI policy and the FIRB supplemented rather than shaped government policy. Although there were extensive changes to FDI policy most were consistent with the government's policy of liberalisation. Some FID decisions that were not consistent with this policy were made to meet specific political goals. However, both sets of actions, those to liberalise policy and those to cement in place specific initiatives, illustrate how the government used bureaucratic and regulatory processes to respond to the impact of globalisation on the Australian economy and to take advantage of the benefits that could be accrued.

The way in which the government managed FDI is illustrative of the challenges it faced in adjusting the state's capacity to balance its global and domestic concerns. FDI flows are indicative of the flow of international and transnational business interests in exploiting investment opportunities. During the

Hawke and Keating periods of government, the waxing and waning of the FDI flows (see Figure 7.1) in part reflected changes to the organisation and regulation of this activity. During these two periods of government, as we have seen, a significantly greater emphasis was placed on opening the economy. The general, though at times patchy, liberalisation of the processes affecting FDI flows is discussed below.

The initial phase of the Hawke Government (March 1983 to August 1983)

(a) Policy Response

FDI policy was a contentious issue within the new Labor government (Pokarier 2000, 186). Soon after entering office in March 1983, Treasurer Keating announced a review of FDI policy and operations, but he also flagged "a 'flexible' approach to local equity rules that translated into basic continuity of policy from the Fraser-Howard era" arguing that "despite a clearly more restrictive ALP policy platform 'there has been a general agreement between the parties on foreign investment for some time now'" (Pokarier 2000, 186). A week later, however, the Minister for Trade and the Deputy Prime Minister, Lionel Bowen, "scared foreign investors with public remarks about the dangers of MNEs to national sovereignty and that he was initiating an extensive departmental review into foreign ownership in the minerals industry" (Pokarier 2000, 186). Hawke secured a retraction from Bowen, but his comments had spooked potential investors, with the level of foreign investment inflows declining by a third during 1983/84 (See Figure 7.2). This provided a warning to the Hawke government that there needed to be a consistent message from the government if levels of foreign investment were to be maintained or improved.

Within the Prime Minister's and Treasurer's offices there was a rapid coalescing of views towards adopting a more pragmatic approach to economic management with emphasis on the role of private sector expansion as a driver of growth and employment (Pokarier 2000, 185). In the case of Prime Minister

Hawke "'keeping the faith' meant delivering an improved life to working Australians" rather than realisation of specific items from the policy platform. Paul Keating's experience as Opposition shadow resources spokesman for seven years had "revealed to him the naivete" of parts of the party's policy platform and the "minerals portfolio had also stimulated a strong interest in export-orientated enterprises and the role of FDI in their development" (Carew 1992, 90-112).

By the end of its first six months in office the direction of the Hawke government was becoming clear. The broad economic policies prepared in Opposition had been largely overridden on the basis of the seriousness of the deficit the new government had inherited and replaced with the need to focus on modernising the Australian economy (Martin 1999, 169). Advisers in the Hawke and Keating offices were in favour of implementing more liberal policies to foster private business growth to affect such a transformation. Advisers in both offices – Ross Garnaut, Ed Visbord and Graham Evans in the Prime Minister's and Tony Cole, Barry Hughes, Greg Smith and Barbara Ward in the Treasurer's office – were increasingly committed to the emerging option of floating the Australian currency (Hawke 1994, 165-169) and effective in persuading Hawke and Keating to take this dramatic step (Martin 1999, 169-171)[40]. Only gradually was this new, emergent response to the impact of globalisation on the Australian economy shared with the wider Cabinet and then gradually, and in some cases only grudgingly, accepted (Pokarier 2000, 187).

[40] Both Hawke and Keating were also prepared for a more radical overhaul of the governance of the macro-economy. Hawke both recognised and was prepared for this based on his experience as the ACTU representative on the Crawford Committees in 1979 which assessed the need and extent of structural adjustment in the Australian economy. Indeed he had met Ross Granuat through the Crawford Committee (Leigh 2002, 501). Whereas Keating, according to BHP executive Russell Fynmore, as the Opposition spokesman on Minerals and Energy from March 1976 to January 1983, "understood mining and energy better than any politician", and understood the role access to capital played in minerals exploration and exploitation (Carew 1992, 49).

(b) Legislation and regulation

During this initial six month period, the application of policy on FDI was tightened by the FIRB – or at least the way it appeared to the media and foreign investors at the time. There appeared to be a more stringent application of the FIRB's net benefits test, although the Treasurer in August 1983 "insisted that he had not tightened FDI policy and was acting on Treasury advice" (Pokarier 2000, 187). There is evidence of the apparent tougher application of the net economic benefits test in three cases which were initially rejected by the FIRB:

- international plastic's manufacturer Dayco's bid for local firm Cadillac Plastics was initially rejected "although Keating ultimately approved the takeover bid when the firm promised to make Australia its Pacific and Southeast Asian regional headquarters and main manufacturing base" (Keating 1983a; Pokarier 2000, 187);
- concern about the high level of foreign ownership in advertising and public relations led to the rejection of a plan by American firm N.W. Ayer Inc for a controlling stake in a joint venture with Connaghan & May-Paton Ayer Pty Ltd (Keating 1983b; Pokarier 2000, 187); and
- concern about foreign ownership of residential property in Queensland led to the rejection of proposed development by a Japanese firm Sanko Shoji (Keating 1983c; Pokarier 2000, 188).

By October 1983 Treasurer Keating felt he understood the situation and now wanted to move to liberalise FDI regulations (FT1). However, the need to make an announcement on the softening of FDI policy was tied to the broader challenge which faced the government, and previous governments since McMahon, of how best to regulate the value of the Australian currency. Nevertheless the FIRB was successful in persuading the Treasurer that the softening should be formally announced. The announcement "took place following the floating of the Australian dollar, as means of underscoring the new government's commitment to maintaining a climate supportive of ongoing foreign investment" (FT1).

(c) Organisation

Despite an inquiry organised by the new Treasurer, change to the FIRB during this period was limited. Bede Callahagn and William Pettingell remained on as the Chairman and the Deputy Chairman of the FIRB. Within the Treasury department the role of the FID continued to be to provide the secretariat supporting the work of the FIRB (Treasury 1983, 10-11). In turn, the structure of the Division remained unchanged following the review (Treasury 1985, xii).

The Hawke government floats the dollar and re-shapes the financial system (September 1983-1986)

(a) Policy Response

The pivotal point, as for much of Australia's subsequent economic and social policy, was the floating of the Australian dollar in December 1983 (Carew 1992, 112-113). This closed the door on the possibility of returning to exchange controls administered by either cabinet or the bureaucracy. However, the removal of direct control of the Australian dollar meant that foreign investment flows to Australia became more important because such flows were seen as a means to ensure a healthy capital account contributing to a fair value for the Australian currency (HoT1 Interview). Thus the release of the findings of the review into foreign investment coincided with the announcement by the Treasurer on December 9 1983 of the floating of the Australian dollar (FIRB 1985, 5).

(b) Legislation and regulation

On December 20 as a measure to complement the currency float the Treasurer announced the softening of FDI regulation, beginning with the statement that he would "continue the broad thrust of foreign investment policy first elaborated by the previous Labor Government in 1975, and with some amendments in light of circumstances maintained by the previous Government" (FIRB 1985, 5). The Treasurer's announcement emphasised the need for Australian participation and expanding opportunities for Australian participation in projects and businesses, with the AIDC playing a greater role in those cases where private Australian equity seemed unavailable; and commercial interests for sale would have to be made available for purchase by Australians (Hanratty 1996). Companies proposing to 'naturalise' under existing guidelines were to be tied to agreed timetables for completion of the process, and controls on foreign acquisition of urban real estate were tightened (Pokarier 2000, 190).

While this was the policy as stated by the Treasurer (Keating, 1983d) there was a significant difference between what was said and how the policy was to be implemented. With the floating of the dollar there was an expectation that there would be a significant downward pressure on the Australian dollar which would encourage foreign investment in Australia (HoT1). More restrictive FDI regulation was seen as likely to contribute to downward pressure on the dollar by decreasing foreign investment inflows and weakening the current account. The government was already facing the likelihood of decreased FDI flows because of fears of the consequences of a Labor government (Hanratty 1996, 6-7). The situation required a deft touch from those working in the FIRB as the following comment illustrates:

> …from 1983 onwards we ran a duality. When we went up on the Hill [Parliament House] we recited the policy; when we spoke to foreign investors we spoke of the probability of getting approval. And that worked for a long time. It was quite clear that the politicians were happy with foreign investment policy what ever their views: those who took a liberal view figured what we were doing and were satisfied; the ones who wanted a firmer view relied on the words of the policy. (FT1).

Thus the FIRB provided a means for the national executive government to exert its autonomy: the door to foreign investment was kept open "pretty wide" while assuaging the concerns from parliamentarians by emphasising that "the door was only open if there were net benefit economic benefits to Australia" (FT1).

Further strengthening greater executive autonomy was the executive core's pursuit of broader financial deregulation to improve local access to capital for Australian business. This underpinned the actions taken on FDI regulation to support the broader deregulation of the merchant banking system from 1984 to1991. On 10 September 1984 the Treasurer announced that foreign and domestic interests would be invited to apply for a number of new banking licenses to be issued for Australia (Treasurer (Paul Keating) 1984). Cabinet endorsed a policy of allowing the entry of foreign banks with less than 50 per cent Australian equity if significant net economic benefits to Australia could be generated by such access. Under these new arrangements: "[n]ew banks would be required to be subsidiaries incorporated locally, and to provide a wide range of services and a substantial geographical spread of activities" and "[c]ontrols on foreign investment in merchant banking were also temporarily relaxed" (Martin 1999, 173). In October 1984 proposals for five new foreign controlled or joint-venture merchant banks were approved. In December 1984 controls on foreign investment in stockbroking were liberalised. On 27 February 1985 the Treasurer announced that sixteen proposed foreign-controlled or joint-venture banks had been invited to establish operations in Australia, subject to further discussions and more specific development of their plans (Keating, 1985).

The outcome of removing exchange controls and changing the relationship between the Reserve Bank, the government and the domestic financial system, was that it assisted:

> …Australian corporations and banks to greatly expand their overseas borrowings later in the decade. Some of this borrowing financed the overseas expansion of Australian industry, increasing its global orientation. Some of it added to Australian savings to allow a higher level of domestic investment. [Overall] [t]he increased borrowing was represented by the higher current account deficit, which by the mid 1980s had become the most difficult issue for economic management (Nevile, 282).

In short, it showed the government decisively reshaping the relationships between itself, the Reserve Bank and the globalised financial market. Thus, while change in FDI policy and regulation was more gradual, a liberalising direction had been set.

(c) Organisation

At the bureaucratic level there was both resistance and assistance to an opening up of the Australian economy through the floating of the Australian dollar and the subsequent reform of the Australian financial sector. The Secretary of the Treasury, John Stone, was sceptical of reforms which would loosen or remove institutional discipline on what he considered to be capricious and short term political management of the national economy (Carew 1992, 111; HoT1). However, the initiative lay with the Prime Minister and Treasurer and those within Treasury, such as Ted Evans, David Morgan and Chris Higgins with views closer to those of Treasurer's office and the Treasurer. As a consequence, the struggle over the 1983 currency float restructured the circuit of advice so that the views coming through Treasury were supportive of significant change to the system of regulation governing the Australian economy.

In the case of the other major bureaucratic institution to be harnessed to the government's economic reform initiatives, the Reserve Bank was largely prepared for the change. Since 1975 it had been modelling the move towards a floating exchange rate the removal of controls on the Australian dollar (HoT1; Nevile 1997, 284; Keating 2000, 15)[41]. While the Reserve Bank was convinced of the need to change, Treasury was more sceptical:

> You see deregulation had occurred offshore before it had occurred here…The Reserve Bank saw what was happening elsewhere and it was not unhappy, but it was increasingly unhappy with the situation here in Australia because the controls were breaking down. …It is not unusual for controls to weaken when the people in the market decide to push against them. The Bank recognised this and more importantly believed in this. Treasury was not so convinced. That whole process had a much more major effect on FDI then any FIRB policy change or anything like that. (FT1)

[41] However, this work had not extended to considering the institutional structures necessary to shape investment flows (HoT1).

Also, from 1984 onwards the number of FIRB members was increased from three to five with the appointment of Kenneth Stone (Secretary, Victorian Trades Hall Council) and Desmond Halsted (Deputy Chairman, Hooker Corporation Ltd) (FIRB 1986a, iv). Both appointments were consistent with the early emphasis in the Hawke government on including greater union and business representation in government.

The Hawke government and the consequences of an open economy (1986-1991)

(a) Policy Response

While further steps were taken in 1985 to liberalise the FDI regime, the next significant change, was revising the regulatory test applied to FDI proposals in 1986. This change was the direct result of the devaluation of the Australian dollar in mid-1986 when the government was faced with a currency crisis:

> In 1986 the terms of trade dipped sharply against us and the exchange rate in mid year fell suddenly and sharply. On one awful day it was in free fall and dropped down nearly to 50 cents to the US dollar (FT1).

The Government responded. First, it tightened fiscal policy, but this would have a slow effect and the Reserve Bank lifted interest rates by two per cent. Second, there was a major and fundamental change in foreign investment policy:

> From 1972 to 1986 the policy had been that the foreign investor had to demonstrate an economic benefit to Australia. From 1986 onwards the foreign investor did not have to demonstrate anything at all. And if the proposal was to be rejected the FIRB had to demonstrate that the proposal was not in the national interest. The 'national interest' being pretty nebulous and very wide ranging. (FT1).

(b) Legislation and Regulation

On 28 July 1986, the Treasurer announced the abolition of the requirements for Australian equity participation and the demonstration of net economic benefits for inwards FDI proposals in manufacturing, tourism, and parts of the non-bank financial sector. Proposals would be automatically approved unless they were judged to be "contrary to the national interest". That is:

> Instead of investors having to prove a net benefit it was now up to the government to demonstrate that a project was not in the national interest. That is, the test was now a negative test: for a proposal to be declined it would need to be seen as contrary to the national interest. (HoT2)

This response to the macro-economic circumstances leading to the fall in the Australian dollar "…was driven from within Treasury because there was a significant view that the policy guidelines should be relaxed" (HoT2). Moreover, the 50/50 Australian equity and control guidelines that were applied to new projects in certain sectors were increasingly being adhered to in form, but not in substance:

> That is, an increasing number of major project proposals outwardly conformed with the guidelines…in fact all the risk was being assumed by the foreign investor [and] ultimately these contrived partnerships were increasingly breaking down with the foreign investor being forced to finance more and more of the project (HoT2).

These actions – the use of fiscal measures, the waiting for the Reserve Bank to take action, and the changing of FDI regulations – illustrate a significant change in the government's approach to regulating the macro-economy: from directly using administrative controls to respond to market signals to incorporating market decisions into a regime of regulatory control. Just as the government had moved to use the international currency market to set the value of the Australian dollar so too it gradually moved towards a regulatory regime in FDI apparently more open to international flows of investment capital. The government's actions show that it had the capacity to act and do so decisively in a crisis. It had adopted a more accommodative regulatory approach and one "closer to the position set out in the Treasury White Paper on overseas investment in Australia from 1972 which argued that restrictions on inflows of foreign investment to Australia were likely to be unsustainable" (HoT2). It had demonstrated the capacity to rework existing regulatory structures and design new structures to support an expanding economy based more strongly on private enterprise growth. Reforming macro-economic management provided support for micro-economic regulation as a tool to influence private sector commercial behaviour, and the increasing concentration of resources supported micro-economic regulation. The government, while having the option to offer the national interest test applied to all foreign investment activity, chose to limit it to only three sectors (manufacturing, tourism, and parts of the non-bank financial sector) because these sectors were ones where the government could exert its authority to liberalise the application of FDI policy.

The changes to FDI policy in 1986 were only the first wave of continuing attempts to rebalance local concerns and interests to better accommodate inwards flows of foreign capital. The next major liberalisation occurred on 30 April 1987 when the "not contrary to the national interest test" (FT1) was extended to services, primary industries other than mining, resource processing, insurance and stockbroking. These moves were designed to assure international markets and investors that the government was not retreating from opening the economy despite the fact that the Treasurer had tightened controls on foreign ownership of real estate for domestic political purposes. That is:

> after 1986 there was the housing bubble in Sydney and a lot of Asian and New Zealand buyers were heavily buying property in Sydney. This was thought to have a major impact in raising prices in the more desirable areas. There was a bit of nationalism about this, there was an election in NSW[42] coming up and a much tighter policy emerged on foreign investment in established real estate. (FT1)

As a consequence there was a major tightening on residential property to restrict foreign ownership of resorts. The $600,000 threshold which had been previously applied to residential property was removed and all residential property

[42] The NSW Labor government was to go to a State election in late 1987 or early 1988. A further, important influence was the impact of the 1987 Federal election campaign In the lead up to the 1987 campaign the emphasis from the government on financial restraint and "dire warnings of banana republics were doing us no good in the polls" with the consequence that the "…Liberals began to look alarmingly as if they might stand a some sort of chance…" (Richardson 1994, 236-237). Being seen to be responding to concern about the role of overseas investors in driving up real estate prices in Sydney offered a way of shoring up support in the Sydney region – for Labor parliamentarians from the Federal and State governments.

transactions became subject to scrutiny. Underscoring the nationalist sentiment of this tightening (Pokarier 2004, 221), it achieved the following in the tourism sector:

> there was some concern in Queensland particularly that large scale developments may become enclaves (or would not be open for Australians to buy into), particularly for absentee Japanese investors. This underpinned the introduction of a 50/50 requirement for off-the-plan purchases. (HoT2)

(c) Organisation

Changes in regulatory practice in 1986, in response to the devaluation of the Australian dollar, brought about further changes in the role of the FIRB. In this new model of regulation, the role of the FIRB became more closely aligned with facilitating the entry of foreign business investment into Australia, a change consistent with the government's emphasis on trade liberalisation, and acting as a backstop to those arguing for greater regulation (FT1; HoEA1). The 1986 change to the net benefit test also had an impact on the interaction of the FIRB with other agencies and with regulation. In terms of the FIRB's relationship with other agencies most "lost interest a bit" and "because there was less thorough examination of net benefits the policy moved to the imposition of conditions in legislation" (FT1). The 1986 changes also had an impact on the policy and administrative support provided to the FIRB:

> After that, to give you an idea of the manpower effect on the FID Division, a Division of 30 to 40 people was reduced to one Branch of about 17 or 18 people. And the work became much more routine. From then on it was more a form processing than an evaluation of proposals. (FT1)

Further changes took place late in the second term of the Hawke government (1984-1987) and continued into its third and fourth terms (1987-1991). These changes were generally consistent with the government's policy of exposing the local economy to international competition as a means of increasing productivity. In particular, emphasis within the FRIB secretariat shifted to following up on earlier changes as domestic and foreign investors and the national bureaucracy adjusted to the changed environment. For example, to ensure compliance of foreign sourced business activity the FIRB had a close relationship with the Australian Taxation Office to prevent profit shifting:

> What some companies did was they geared their direct investment offshore by borrowings either offshore or domestically. Either way they could claim these borrowings from the tax. If they funded their investment from equity they could not deduct the cost of borrowing from their tax. (FT1)

Gradually it became apparent that although the FIRB was attaching conditions to approval to limit excessive use of this practice, it was not easy for the ATO to enforce the conditions. In the late 1980s the government became aware of this issue through the FIRB and legislated to prevent profit shifting from occurring leading to a reduction in the use by firms of such provisions (FT1).

Despite the reduction in size of the FIRB's secretariat the increased emphasis on the international competitiveness of domestic business and the national government's pursuit of greater foreign investment inflows saw a greater engagement with FDI processes in portfolios outside of those of the Treasurer and the Prime Minister. For example the late 1980s and early 1990s saw pressure from the Tourism Department exerted on the Treasury, including the FIRB, to reverse or modify the changes made in 1986 to regulations concerning foreign ownership of real estate (FT1). The impact of these requirements had been that while foreign investors could purchase residential real estate they were not allowed to onsell their property to another foreigner. This campaign for stock in trade led to further changes to FDI policy in July 1991 that permitted the onselling of residential real estate within resorts that were certified as Integrated Tourism Resorts (FIRB 1993, vi). Another example, involving the Minister for Industry, his department, the Prime Minister and the Minister for the Environment was the 1989 decision by Noranda of Canada and North Ltd not to proceed with a proposal to establish a pulp and paper mill at Wesley Vale in Tasmania (Richardson 1994, 238-242).

This period of government also saw the re-emergence of Parliament as an institution capable of shaping FDI policy. In this case the vehicle for parliamentary intervention was the Print Media Inquiry which commenced in 1991 (Lewis 2001, 110). Mass circulation newspapers by the mid-1980s were experiencing the technological revolution which the banks had experienced in the 1970s. Print media businesses were becoming integrated global operations with the potential to bypass governmental controls just as the banks had done in the 1970s. Of particular concern in the Australian context, was the potential for greater print media concentration. The acquisition by News Corporation of a number of rural newspapers in the 1980s (Carew 1992, 190-198) led to calls from within the ALP for a parliamentary inquiry. The outcome of the inquiry was a strengthening of the ability of the Trade Practices Commission to restrict anti-competitive behaviour and reaffirmation of the role of the Australian Broadcasting Tribunal in regulating the mass circulation newspapers. Underscoring the general ethos of relaxing controls on foreign ownership the Inquiry recommended that the existing limit of 15 per cent for foreign ownership of anyone one newspaper be increased to 20 per cent. However, it was to be some time before the government responded to this recommendation[43].

The Keating Government (1991-1996)

(a) Policy Response

During Paul Keating's tenure as Prime Minister, the changes in the role played by the FIRB were less marked. While changes to operational policy and regulation continued the emphasis was on responding to immediate, emerging issues. That is:

[43] On 20 April 1993 the Treasurer announced that the limit on foreign involvement in mass circulation newspapers by a single shareholder would be increased from 15 per cent to 25 per cent of equity, while unrelated foreign interests could hold non-portfolio shareholdings of up to 5 per cent of equity (Dawkins 1993).

This in contrast to the amendments to the Broadcasting Act in 1990 and 1991:

> which had strengthened the ability of the Federal Government and the courts to monitor and enforce the longstanding 20% aggregate limit on foreign ownership in free-to-air television broadcasters. This limit was retained in the Broadcasting Services Act 1992. (Hanratty 1996, 12).

> Although there was a keen interest elsewhere in Treasury in responding to the stronger emphasis on the Asian region, there was a slowing of the pace of change in foreign investment. Policy on foreign investment was mature and geared to accommodating investment. Rather than seeking to change reasonably open policy the emphasis was about ensuring [foreign] investors understood the process, ensuring that the process worked for both investors and the government. (KT1)

The changes that were made were closely related to major policy statements made by the Prime Minister. These statements were aimed at encouraging continued economic growth, fostering employment and seeking electoral support.

(b) Legislation and Regulation

The Keating governments were very active in reshaping regulation on FDI. These changes took the form of general liberalisation of FDI regulations, relaxing of controls to support the privatisation of state assets, and changes to support the international liberalisation of FDI controls. Each is examined below.

i) Liberalisation

As part of *One Nation*, on 26 February 1992 the Prime Minister announced a further package of liberalisation to FDI controls in the banking and mining sectors as a symbol to investors of his commitment to economic growth and as a means of stimulating further capital inflows. The threshold for FIRB scrutiny was increased to $50 million in all non-sensitive sectors[44]. The goal in further liberalising controls on banking was to improve local access to capital for expansion and maintain competition in the banking sector. Additional licenses were issued allowing foreign banks to operate in Australia as branches rather than as locally incorporated subsidiaries, where bank supervision in the home country was sufficiently strong. In doing so the government was accepting the degree of

[44] These sectors were: rural properties, agriculture, forestry, fishing, resource processing, oil and gas, mining (excluding uranium) manufacturing, non-bank financial institutions, insurance, sharebroking, tourism (hotels and resorts) and most services. Restrictions applied to certain types of real estate, banking, civil aviation, radio and television, newspapers, and uranium.

international integration in banking operations by recognising foreign supervisory authorities and, at the same time, bringing banking operations more tightly under the Reserve Banks prudential authority. The government was also acknowledging the closer integration of capital markets generally and the impetus for regional integration demonstrated by the EU, ASEAN and the emerging North American Free Trade Agreement linking the US, Canada and Mexico (HoT2).

In mining, the last component of the concept of naturalisation was ended with the abolition of the 50 per cent Australian equity requirement for new mines (excluding uranium which remained a special case because of ALP policy) and the 'national interest' test replaced the 'net economic benefits' test for foreign takeovers of existing mines (excluding uranium). This decision again recognised that mining operations comprised a global industry and that Australian operations were in competition for international investment capital. This action also indicated a belief within government in the early 1990s that because of the role played by the FIRB as a backstop such actions, by improving national competitiveness, would be in the national interest (KT1).

However, the Keating government was willing to temper economic imperatives to accommodate party political concerns, and in doing so indicates that the government had the capacity to act in its own interest. For example, the liberalisation applied to mining activity generally was not extended to uranium mining and export. More pointed was the response to the inquiry on media ownership, a response governed by the electoral cycle with an election to be held in 1993. The government had delayed responding to findings of the Parliamentary inquiry which had been tabled in March 1992. Soon after returning to office Treasurer Dawkins (1993) announced that the limit on foreign involvement in mass circulation newspapers by a single shareholder would be increased from 15 per cent to 25 per cent of equity, while unrelated foreign interests could hold non-portfolio shareholdings of up to 5 per cent of equity. This was followed up in September 1995 when the limit on foreign ownership in provincial and suburban newspapers was increased from 30 per cent to 50 per cent for controlling (non-portfolio) shareholdings. The view was that the strengthened powers of the Trade Practice Commission (in 1993) and the ACCC (from 1995) would prevent undue use of market power by existing media firms.

ii) Privatisation of state assets

Throughout the Keating period FDI regulation was used to support the privatisation of government assets. In doing so the government demonstrated its ability to exert its autonomy and used FDI regulations to provide some comfort to the electorate while pursing a contentious policy. For example, foreign ownership limits were put in place on the privatisation of many government assets:

- Purchases by foreign interests in the sale of the first two tranches of shares in the Commonwealth Bank of Australia in 1991 and 1993 were formally restricted, but such restrictions were relaxed for the sale of the third and final tranche of shares.
- The Qantas Sale Act 1992 restricted total foreign ownership to 35 per cent of the issued share capital, and individual foreign ownership was restricted to 25 per cent. In the Qantas Sale Act 1995 the total foreign ownership limit was increased to 49 per cent of share capital.
- The Airports Bill 1995 (which was not passed by Parliament) restricted total foreign ownership in an airport lease to 49 per cent (Deblock and Brunelle 1998, 2)[45].

The willingness to pursue the privatisation of government assets but with

[45] This tactic has continued to be used when the national government has sought to privatise assets with a strong iconic status with the Australian electorate. The most recent case was the proposals to place limits on foreign ownership of the Snowy River Hydro-electric scheme as a means of blunting community concern (Minchin 2006).

restriction on foreign ownership illustrated that the government had the capacity to resist global pressures and the ideological imperatives for privatisation. However it did so for domestic political purposes:

> Controls on FDI very much seen as an adjunct to work on the sale of assets held by the government. Now there were assets whose sale to foreign interests would be seen by ministers and the Labor caucus as likely to be contentious. Care was taken to ensure that the in revising regulations to enable the sale of key assets or icons, such as say, QANTAS, that restrictions were place on the proportion of shares that investors from overseas could buy. (KT1).

iii) Emergence of an International Architecture to Foster Trade and Investment Liberalisation

Another impact on FDI policy to emerge was the growing international architecture to support global trade and investment. In particular, from May 1995 onwards the OECD sought to establish a consistent framework for investment flows internationally through negotiations to establish a multi-lateral agreement on investment (MAI) (Liverani 1998, 62). This agreement was seen a means of challenging bilateral and regional accords as the principle modes for states to influence the extent and type of foreign direct investment. Essentially driven by the OECD, with the endorsement of G-7 from mid-1995 onwards, the MAI was seen as a further means of expanding the global economy.

While only a small factor in the 1996 Australian federal elections it ultimately proved too difficult to negotiate because of widespread concern internationally that the treaty was too constricting for any national government to agree to and that if it were to be agreed to it would over ride national laws in favour of international investors[46]. Within Australia the domestic response was similar to that expressed internationally: excessive secrecy about the contents of the agreement and the

[46] Particular concern was raised about that investors could take states to arbitration, but not vice versa and in so doing challenging long standing norms of international law and economic diplomacy (Kelly 1992, 76).

processes used within the Australian government to negotiate the treaty did not engender widespread trust about the nature of the agreement (Pokarier 2004, 227). Treasury itself noted that the MAI posed difficulties for Australia because of the implications for Australia's federal system of government and the emphasis on removing foreign investment screening processes (Treasury 1996, 45). The view from business was that the MAI 1998 failed largely because of lack of business endorsement and concerns that acceptance of the agreement would mean taking on new rules without relaxing, or trading off, existing regulations (HoTEA). Within the Australian national bureaucracy the view was that the negotiation process itself was flawed: for example, while the Department of Foreign Affairs and Trade took part in negotiations it was only on the instructions received from Treasury (HoTEA). The experience with the MAI illustrated that the Australian state would not give up its autonomy or make decisions seen to be outside the national interest. This was especially so where there was either strong domestic resistance to a proposed change and, conversely, where there was no significant constituency supportive of the proposed change.

(c) Organisation

The period of Keating's prime ministership was both a period of change and stability for the FIRB. Change occurred in the organisational structure of the Treasury, and change in the composition of the Board. In the case of the Treasury, during this period there were two Treasurers, John Dawkins (27 December 1991 to 23 December 1993) and Ralph Willis (23 December 1993 to 11 March 1993) [47]. Regular, small scale changes were made to the Treasury structure through this as the department sought to adapt to the emphasis given by each Treasurer and

[47] When Keating stepped down as Treasurer in 1991 to challenge for the leadership of the ALP, he was replaced by John Kerin. Kerin remained in this role until early December 1991 when he was replaced by Ralph Willis (9 to 27 December 1991). When Keating became prime minister, John Dawkins was appointed replacing Willis (McAllister, Mackerras et al. 1997, 11).

changes in emphasis emanating from the PMO. In this context in August 1992 the Foreign Investment Branch (FIB) which provided the secretariat to the FIRB was transferred from the Finance and Investment Division (FID) into the Investment and Debt Division (IDD), consolidating a focus on international capital flows in one division under a new Division head (Tony Hinton). More significantly, the move of the FIB from FID enabled a stronger focus within that division on progressing financial reforms (and this division was renamed the Financial Institutions Division) (Treasury 1993, 10).

While Treasury continued to provide the secretariat support for the FIRB the mix of members had changed: both Bede Callahgn and Bill Pettingell had retired, Ken Stone had become the Acting Chair in October 1992, Des Halsted remained on the Board and Graham Maquire, a Senator for South Australia from 1983 to 1993, had been appointed to Board (FIRB 1994, 1). Tony Hinton as the Division head responsible for the secretariat became the *ex officio* member of the Board (FIRB 1994, 1).

The Board's and the secretariat's direct involvement with the emphasis on micro-economic reform was minimal. Within Treasury there had been since at least 1990 much greater visibility of micro-economic issues with the inclusion of micro-reform agencies, such as the Industry Commission into the Treasury portfolio and the creation of a dedicated arm of the Treasury department to oversight these issues (Treasury 1990, 24-27). However, the interchange between the IDD with these issues was not great – except in the area of banking reform and even here these issues were separate from the work of the FIRB (KT2). However, the visibility of micro-economic reform with the wider Australian community and concerns about the impact of a more open economy on the quality of life in Australia grew as an issue. For example during this period the FIRB was involved in assisting the government to assure the parliamentary inquiry into ownership in the print media on the soundness of its approach (KT2).

Even in the case of the broader reforms pursued by the Keating government change to the FIRB was minimal. From 1993 onwards there was a greater emphasis across the national bureaucracy on pursuing a more integrated and regularised engagement with issues to do with globalisation, economic adjustment and the pursuit of closer ties with Asia. Within DFAT there was greater interest in supporting and bolstering the public case for FDI, especially as it became clear that the MAI process was likely to provoke a significant and negative domestic response (HoTEA1); in the ATO this change was marked by the creation of a new division to focus on the challenges posed by economic globalisation to taxation and contribute to the efficient use of capital (Killaly 2000, 2); in DITAC the continuing emphasis remained on export activity as a means industrial growth; and within the Treasury the continuing emphasis remained on economic restructuring. In terms of involvement with this broad pursuit of greater international engagement the task for the FIRB continued to be that of reviewing and monitoring FDI activity (KT2).

Overall, the relative maturity and stability that the FIRB provided, as both a regulator and as means of implementing a policy of greater economic openness, enabled it to serve as a focus for domestic firms, foreign investors and the government at a time of rapid change. In doing so it continued to intersect with the political and policy core of executive; function as a node in a network of relationships within the national bureaucracy; and, in the processes of promoting FDI and reviewing proposals, provide an interface between government and domestic and foreign business. In turn it provided the national government with the bureaucratic capacity to both assert and to exert its autonomy in the regulation of FDI flows to Australia.

Analysis of FDI Experience in the Hawke and Keating Governments

As with the previous governments the Hawke and Keating governments actively asserted their capacity to use public policy, regulation and the national bureaucracy to manage FDI. Unlike the Fraser government both the Hawke and

Keating periods saw the parameters for FDI policy, regulation and organisation being changed as a more liberalised FDI regime was pursued by the ALP government. In doing so the legitimacy of the FIRB as the national regulator of FDI activity was reinforced while also contributing to the ALP goal of a more open, competitive and internationalised economy by softening or removing a range of FDI controls. That the FIRB remained central to FDI policy is also remarkable given that the period 1983 to 1996 saw the emergence of a considerably greater range of special purpose national government agencies to more closely regulate business behaviour as part of the pursuit of micro-economic reform.

As with the Fraser government ideological and economic exigencies converged within the core executive of the Hawke and Keating governments seeking to re-configure macro-economic management and pursue micro-economic reform. The emphasis on national reconciliation and consensus during the early Hawke years and the sense of imminent and actual crisis from 1986 onwards enabled the both Hawke and Keating to pursue economic reforms. Such reforms challenged existing ALP constituencies but were based on the belief in the need to adapt both the Party and the nation to the emerging context of globalised production, growing international markets and the emergence of East Asia as a competitor for investment flows and a growing market for Australian sourced raw materials, goods and services.

In terms of implementation the Hawke-Keating period showed a more subtle and nuanced approach to the public management of FDI flows. Throughout the period 1983-96 both governments maintained the duality of an ostensibly strong stance on behalf of the Australian electorate, restricting FDI if it proved to be not in the national interest while gradually liberalising the controls on the level and kinds of investment. For example, both government's successfully used the technique of gradual, incremental liberalisation of controls to support the privatisation of government assets and at other times both governments sought to restrict foreign ownership in key sectors to support clearly political goals (such as discouraging foreign investment in real estate). Therefore while the period has been characterised as one of an overwhelming liberalisation of FDI policy the period also demonstrated how and why the government of the day was able to exert its autonomy to manage FDI flows.

These events are summarised in the following table (Table 7.2) which presents the chronology of the steps taken by the Hawke and Keating governments. The table shows the changing global economic conditions during the period 1983 to 1996, the pattern of FDI flows and change in policy, regulation and organisation. The table shows how the presence of a stable FDI policy at the outset of the first Hawke government facilitated the initial deregulation of the Australian currency. In turn, the gradualist approach to regulatory change meant FDI policy and regulations continued to support the opening up of the domestic economy to foreign competition and foreign ownership.

Table 7.2: Chronology of change in the context and particulars of FDI public policy during the Hawke/Keating government (1983-1996)

The initial phase of the Hawke Government (March 1983 to August 1983)

		March 1983			August 1983
Processes of globalisation	**Global versus Local**	Continuing global recession			
	Business Behaviour				
State Autonomy & Capacity	**Goals of national government**	Within the Prime Minister's and Treasurer's offices there was a rapid coalescing of views towards adopting a more pragmatic approach to economic management with emphasis on the role of private sector expansion as a driver of growth and employment			
				The direction of the Hawke government was becoming clear. The broad economic policies prepared in Opposition had been largely overridden on the basis of the seriousness of the budget deficit the new government had inherited. They were replaced with the need to focus on modernising the Australian economy.	
	Relationship between government & other actors		Initial rejection of three proposals (described above), as a signal of tightening FDI controls	Introduction of the first prices and Income Accord between government, unions, and business	
	Relationship within government			Advisers in the Hawke and Keating offices were in favour of implementing more liberal policies to foster private business growth	
Responses in FDI public policy	**Policy**	FDI policy to be reviewed			
	Legislation & Regulation		Tightening of policy reflected in the rejection and negotiation three proposals in early April		
	Organisation				

The Hawke government floats the dollar and re-shapes the financial system (September 1983-1986)

		1983	1984	1985	1986
Processes of globalisation	**Global versus Local**		Expanding world markets as the US economy recovered from stagflation		
	Business Behaviour		Rising exports and import activity as the national economy entered a growth phase. However, imports rose faster than exports with the consequence that from March 1985 to March 1987, the terms of trade fell by 14 per cent.		
				FDI controls were under challenge: the 50/50 Australian equity and control guidelines that were applied to new projects in certain sectors were increasingly being adhered to in form, but not in substance	
State Autonomy & Capacity	**Goals of national government**	Encourage national economic growth. Responding to global economic pressures, including floating of the Australian dollar to as a means of ensuring the integrity of the domestic banking system.	Deregulation of the merchant banking system commences (and continues until 1991)	Increasing focus on improving the terms of trade by encouraging export activity across all sectors of the economy Tightening of fiscal policy	
	Relationship between government & other actors		Continuation of Accords Concern from unions and some domestic banks on the likely entry of foreign banks.		
	Relationship within government	The Secretary of the Treasury, John Stone, was sceptical of reforms, but was at odds with the PM, Treasurer and others in Treasury and the RBA.			
Responses in FDI public policy	**Policy**	On December 20 as a measure to complement the currency float the Treasurer announced the softening of FDI regulation			Abolition of the requirements for Australian equity participation and the demonstration of net economic benefits signalling a fundamental change in FD policy (28 July 1986).
	Legislation & Regulation	Agreed timetables for naturalisation	Domestic and foreign interest invited to apply for a limited number of banking licences.	Streamlining of screening procedures and thresholds in real estate and levels of foreign ownership	
	Organisation				FIRB more closely aligned with facilitating the entry of foreign business investment into Australia. This led to the Division supporting FDI within Treasury being reduced to a Branch.

The Hawke government and the consequences of an open economy (1986-1991)

		1986	1987	1988	1989	1990	1991
Processes of globalisation	**Global versus Local**		Significant interest from Japan in Queensland real estate				
	Business Behaviour		Emergence of a speculative bubble in Sydney real estate				
			Period of dramatic growth in international and domestic merger activity, with a corresponding rise in global FDI activity				
State Autonomy & Capacity	**Goals of national government**	Maintaining economic growth while responding to a dramatic fall in the value of the Australian currency	Fostering of stronger focus on environmental issues to gain greater electoral support at the 1987 election	Commitment to the general reduction to import tariffs (*Economic Statement,* May) Determination to encourage more wide-spread investment from Japan			National competition policy emerges
	Relationship between government & other actors	Continuation of Accords			Growing community concern with the impact of greater economic openness, especially with the deterioration of the domestic economy		
	Relationship within government		Concern within Caucus on media ownership leads to the Senate Print Media Inquiry in 1991				Keating replaces Hawke as prime minister (December)
Responses in FDI public policy	**Policy**	Emphasis on further streamlining regulation, except in real estate, where increased controls were introduced in 1987					
	Legislation & Regulation	Emphasis on net benefit test as means of screening proposals		Introduction of a 50/50 ownership requirement for off-the-plan purchases of real estate by foreign investors			
	Organisation			The late 1980s and early 1990s saw pressure from the Tourism Department exerted on the Treasury, including the FIRB, to reverse or modify the more restrictive regulations on foreign real estate ownership			Strengthening of the Trade Practices Commission to restrict anti-competitive behaviour and reaffirmation of the role of the Australian Broadcasting Tribunal in regulating the mass circulation newspapers.

The Keating Government 20 December 1991 to 11 March 1996

		1991	1992	1993	1994	1995	1996
Processes of globalisation	**Global versus Local**	International recession and credit squeeze				OECD commences discussion on the MAI	
			Increasing interest in the East Asian miracle, growing economic and political integration in Europe				
	Business Behaviour	"International business was becoming more complex and integrated. Intangibles were playing a much more important role reflecting the shift from the industrial economy to the knowledge economy. Global design, production and marketing were becoming commonplace. Multinationals were managing globally around products, profitability, alliances, financing and taxation" (Killaly 2000, 1).					
State Autonomy & Capacity	**Goals of national government**	Fiscal stimulus and response to Opposition policies as set out in *Fightback!* announced in the *One Nation* statement (February 26, 1992)					
	Relationship between government & other actors		Council of Australian Governments developed as a vehicle for greater co-operation on national governance issues	Following 1993 election loss by L-NCP Coalition John Howard became Opposition Leader	Pursuit of stronger engagement with Asia and the enhancement of APEC		Growing international concern on the MAI
	Relationship within government	Emergence of tensions concerning pursuit of economic goals versus social goals					
Responses in FDI public policy	**Policy**		General liberalisation of FDI regulations to support economic growth and the privatisation of state assets.	Limits on foreign ownership in the print media reduced.			
	Legislation & Regulation	Limiting of foreign ownership of equity in privatised government assets such as the Commonwealth Bank, QANTAS and airports	Liberalisation of FDI controls in the banking and mining sectors. (26 February)	Continuing revisions to real estate provisions		Limits on foreign ownership of newspapers further liberalised (26 September)	
	Organisation		Foreign Investment Branch included in the Financial Institutions Division of Treasury	Strengthened powers of the Trade Practice Commission to prevent undue use of market power by media firms. These powers were carried over to the ACCC when it was created in 1995	International Tax Division established in the Australian Taxation Office (Thakur 1997, 268).	The National Competition Council established (1995)	

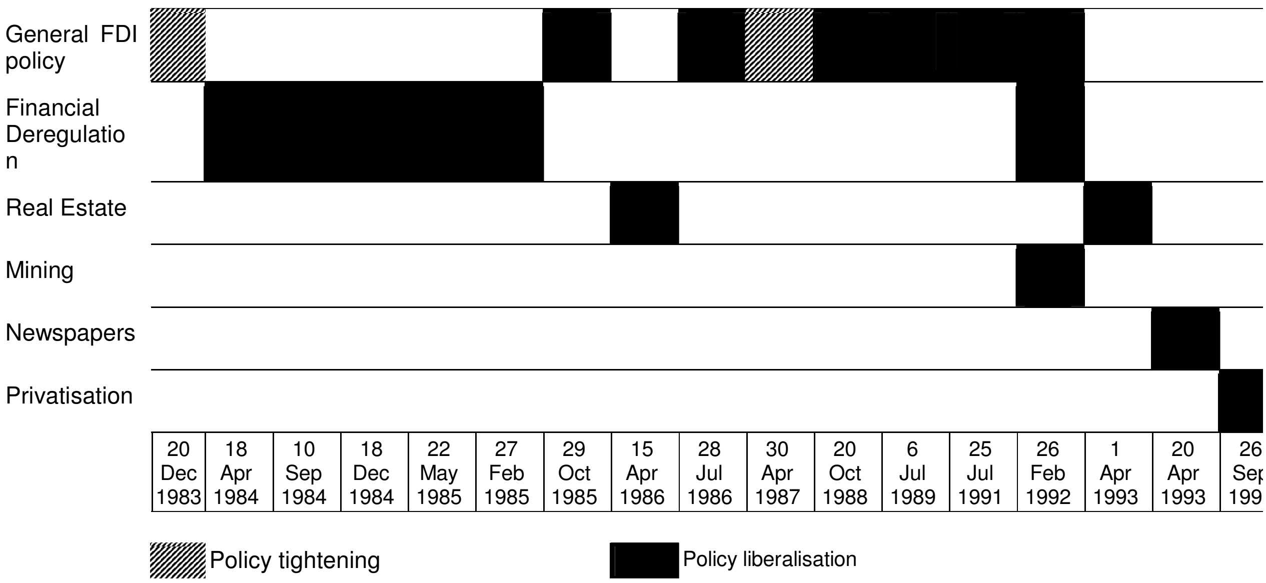
Regulatory Changes Instituted by Government

The chronology in Table 7.2 shows a demonstrable liberalisation of direct controls on FDI. As was the case with the Fraser government the Hawke and Keating era saw the continuation of the practice of working within the existing legislative framework provided through the FTA 1975 while gradually liberalising the regulations empowered by that legislation. This state driven public policy direction was consistent with the emphasis internationally among OECD countries on increased global competition as a policy driver (Conley 2001, 225-227). Throughout the Hawke and Keating era the FIRB emphasised in its annual reports that the Australian FDI regime was becoming more liberalised. In Australia during this period international competitiveness was addressed by removing currency controls effectively devaluing the dollar, deregulating banking to improve the access to capital, programs to foster export growth, introducing the phased reduction in tariffs and restructuring packages, emphasising the role of training and education in the works force, establishing and maintaining a series of Accords to prevent a wages break out, establishing more cooperative arrangements with state governments, and introducing a program of micro-economic reforms with State governments to foster private sector growth and expansion.

In the area of FDI policy, during the period 1983 to 1996, the significant focus was on assuring traditional major investors in Australia, those from the UK and the US, that their interests would not be harmed and indeed may be enhanced, while attempting to foster a more supportive environment to attract and retain investment from Asia. After a very short period of tightening before the Australian dollar was floated regulations in the traditional areas for FDI, mining and primary industries, were liberalised. New concerns, in the areas of residential property, news print and the privatisation of government owned business such as QANTAS and the Commonwealth Bank, led to cases of specific tightening and then modification of policies in these specific areas to meet policy and domestic electoral needs and concerns.

Figure 7.3 presents an overview of the changes which took place during the period 1983 to 1996. The dark shading indicates the announcements by the government which relaxed or removed constraints on FDI and hatched shading indicates announcements which tightened controls on FDI. Overall the table shows the emphasis during the period was on relaxing controls, leading to a more liberalised FDI regime in Australia. This liberalisation resulted from sector specific issues (such as the emergence of digital technologies enabling low cost convergence of print and electronic media on an international scale), the increasing scale of international production and the government's emphasis on transforming the economy to be more internationally competitive. However, as Figure 7.3 shows the liberalisation of regulation was done in an incremental and controlled way by the government which at times chose for electoral benefit to tighten specific regulations. In turn, this general process of liberalisation underscores that it was the national government during this period which had the capacity to make those decisions.

Figure 7.3: Summary of Regulatory Changes 1984 to 1995



Source: FIRB Annual Report (2004, 98-104)

These changes are set out in further detail in Table 7.3 (below) which shows the balance of changes in regulation during the Hawke and Keating governments. Such changes were consistent with the government's assessment and pursuit of fundamental change in the framework for national economic management. Consistent with this emphasis on economic restructuring was renewed interest in fostering not only export activity, but the offshore expansion of domestic firms by relaxing the threshold for exemption of offshore takeovers from \$3 million to \$20 million (FIRB 1986b, 38). That is, to underscore the change in international circumstances and international business behaviour the government was not only increasingly liberalising inwards investment but also recognised the role of outwards investment by firms located in Australia as they sought to expand their operations overseas. While outwards investment is outside the scope of this thesis this change in posture from restriction to greater openness, albeit in the form of raising thresholds, underscored the degree to which the Hawke government was willing to directly address globalisation. And while couched in public debate as a weakening of the state's capacity (Lavelle 2005, 53-54) it represented a significant realignment of policy to fostering outwards investment in exports from secondary and service industries as well as primary industry.

Table 7.3: Balance of changes in FDI regulation and legislation during the Hawke and Keating governments

	1983	1984	1985	
More Restrictive	The broad thrust of existing FDI policy was confirmed. However greater stress was put on expanding opportunities for Australian participation, with the AIDC to play a greater role in those cases where private Australian equity was unavailable; and commercial interests for sale would have to be made available for purchase by Australians. Companies proposing to 'naturalise' were to be tied to agreed timetables for completion of the process, and controls on foreign acquisition of urban real estate were tightened. (20 December)			
Less Restrictive		Proposals by foreign interests to acquire shareholdings in stockbroking businesses would be permitted, where they involved the acquisition of less than 15 per cent of shares by a single foreign interest or of less than 40 per cent by two or more foreign interests (18 April) Domestic and foreign interests were invited to apply for a limited number of banking authorities and the decision made to enable the Bank of China to open a branch in Australia. In the case of merchant bank restructuring proposals the 'Australian opportunities test' (that is, the requirement that Australians be given the opportunity to bid on market terms for interests available for sale) and the economic benefits test of foreign investment policy were waived for a period of 12 months (10 September) The maximum permitted shareholding in an Australian stockbroking firm that might be held by foreign interests was increased to 50 per cent. This revised the previous limitations announced on 18 April 1984. (18 December)	Sixteen new banks invited to establish operations in Australia. Each would be required to proceed with discussions with the Reserve Bank and the Treasury with a view to developing their proposals (27 February) The Banks (Shareholdings) Act 1972 (which limited the size of shareholdings in banks authorised under the Banking Act 1959) was amended to facilitate the establishment of new banks in Australia. The major amendments were an increase in the size of individual shareholdings in a bank without approval from 10 to 15 per cent, and allowing the granting of exemptions from the new higher limit in the national interest. (22 May)	Modifications to policy aimed at streamlining existing procedures. The most significant of these were: • the practice of requiring the demonstration of specific opportunities for Australians to purchase interests available for sale (the 'opportunities test') was discontinued; • the administrative threshold below which takeovers were normally approved was increased from $2 million to $5 million; • the notification threshold for new businesses (except in the media or civil aviation) was increased from $5 million to $10 million; • the notification threshold for foreign investment in real estate was increased from $350,000 to $600,000; • the liberalised stance in relation to merchant banks was extended to other non-bank financial intermediaries; and • the need for 50 per cent Australian equity for land bought for development and subsequent resale was to be applied only to developments costing $10 million or more. (29 October)

Balance of changes in FDI regulation and legislation during the Hawke and Keating governments (continued)

	1986	1987	1988	1989
More Restrictive		Foreign acquisition of developed residential real estate was restricted via legislation to intending migrants and foreign companies buying for their senior executives resident in Australia. (29 September)		
Less Restrictive	Rules applying to foreign investment in rural land were eased: only proposals over $3million (previously $1million) would be subject to the stricter tests of providing effective Australian participation and benefits of national significance. (15 April) Commencement of liberalising of controls: • the net economic benefits test and Australian equity requirements for takeovers and new businesses in the manufacturing, tourism and non bank finance sectors were suspended and proposals were to be automatically approved unless contrary to the national interest; • the minimum Australian equity requirements for real estate for development (both for retention or resale), and service industry real estate (hotels and motels, tourism resorts) were abolished; • acquisitions of developed commercial real estate were to be allowed provided there was 50 per cent Australian equity (previously there was a virtual prohibition); and • the policy test on rural property acquisitions over $3 million was relaxed such that approval would now be granted where it could be demonstrated by the intending investor that proposed on-farm development expenditure would be at least one-third of the acquisition price. (28 July)	The Australian equity guidelines eliminated in respect of oil and gas (29 September) Further liberalisations including: • passing amendments to the Foreign Takeovers Act 1975 providing for the exemption from notification of takeovers below $5 million ($3 million for rural businesses); • extending the national interest based test (applied to manufacturing, tourism and non-bank finance sectors since July 1986) to other sectors namely resource processing, services, insurance, sharebroking and rural properties; and· • improvements to the benefits associated with naturalised or naturalising status, namely, that all takeovers or new businesses involving naturalised or naturalising companies (including new mines where at least 50 per cent is owned by the naturalised or naturalising company) would be approved unless contrary to the national interest. The Government also announced that it would introduce legislation to replace the thin capitalisation and corporate restructuring conditions of approval that had been imposed on foreign investors under foreign investment policy. (30 April)	The Government announced that the Australian participation guidelines for foreign investment in respect of new mining projects over $10 million would no longer apply to new oil and gas developments which could now be approved with 100 per cent foreign equity, provided they were not considered contrary to the national interest. (20 January)	The Treasurer announced the proclamation, on 1 August 1989, of the Foreign Takeovers Amendment Act 1975 and the gazettal of the Foreign Acquisitions and Takeovers Regulations. The amended legislation, to be known as the Foreign Acquisitions and Takeovers Act 1975, gave legislative effect to the changes to residential real estate policy announced in September 1987. (6 July)

Balance of changes in FDI regulation and legislation during the Hawke and Keating governments (continued)

	1990	1991	1992	1993	1994	1995
More Restrictive						
Less Restrictive		The Government decided that foreign investors may acquire any residential real estate (vacant land for development, units off the plan, or established properties) within a designated Integrated Tourism Resort (ITR) without the need to seek approval under the Foreign Acquisitions and Takeovers Act 1975. The ITR exemption would only apply to residential real estate within resorts that have applied for and been designated exempt by the Treasurer. (25 July 1991)	As part of the Government's One Nation Economic Statement, further policy liberalisations were announced, namely: • the Government would register, but normally raise no objections to proposals above the notification thresholds where the relevant total assets/total investment fell below $50 million. • New thresholds for the notification of the FIRB were established ($3 million for purchases of rural properties, $5 million for acquisitions of substantial interests in other existing businesses, $10 million for the establishment of new businesses and $20 million for offshore takeovers); • the 50 per cent Australian equity and control guideline for participation in new mining projects, and the economic benefits test for takeovers of existing mining businesses, were abolished; and • new banking authorities would be issued to foreign owned banks where the Reserve Bank was satisfied the bank and its home supervisor were of sufficient standing, and where the bank agreed to comply with Reserve Bank prudential supervision and arrangements. [Moreover, foreign owned banks were allowed to bid for the smaller banks (if available for sale), that is, for banks other than the four majors.] (26 February)	Two changes to foreign investment policy were announced: • 'off the plan' acquisitions to include acquisitions that were part of extensively refurbished buildings subject to the building's use changing from non-residential to residential and the costs of refurbishment to be equivalent to at least 50 per cent of total acquisition costs; and • proposals by foreign interests to acquire developed non-residential commercial real estate were no longer required to have 50 per cent Australian equity. [Prior to this change, acquisitions by foreign interests of developed non residential commercial real estate were normally approved, unless judged contrary to the national interest, on the condition that the acquisition was being made with 50 per cent Australian equity participation. Where it could be demonstrated that 50 per cent Australian equity was not available on reasonable terms and conditions, proposals providing up to 100 per cent were approved.] (1 April) The maximum permitted aggregate foreign interest direct investment involvement in mass circulation newspapers was raised to 30 per cent. (20 April)		The limit on foreign ownership of provincial and suburban newspapers was increased from 30 per cent to less than 50 per cent for non portfolio shareholdings. (26 September) Any single foreign shareholder limited to a maximum of 25 per cent (and in that instance unrelated foreign interests would be allowed to have aggregate (non portfolio) shareholdings of a further 5 per cent). (20 April)

Source: Appendix C FIRB (2003, 91-95)

Organisational Changes Instituted by Government

Despite emphasising the liberalising aspects of FDI regulation the organisational changes instituted by the Hawke and Keating governments increased the capacity of the national government to regulate FDI. As Table 7.4 shows new agencies with a strong micro-economic focus were created during the life of the Hawke and Keating governments. This new organisational capacity emerged through the initial regulatory changes to increase the efficiency of business, followed by second set of changes in the later 1980s and early 1990s to establish stronger national regulations to better guard against unethical business practices. The consequence of these changes, in terms of changes to the Australia state's capacity to influence FDI flows, was an increased capacity of the national government to exert its autonomy over both directly and indirectly to influence FDI flows. For example, around the FIRB, or more specifically in the regulatory space created by the increased specialisation of the Reserve Bank and the greater emphasis by government on international competitiveness, new agencies emerged which significant increased the government's capacity to influence business behaviour in the national economy.

Table 7.4: Strengthening capacity for direct and indirect regulation of FDI during the Hawke and Keating era

<table>
<tr><th>Agency</th><th>New agency, new responsibility</th><th>New agency, existing responsibility</th><th>Existing agency, change in responsibility</th><th>Effect on concentration of decision making</th></tr>
<tr><td colspan="5">Direct influence of executive government in FDI regulation</td></tr>
<tr><td>FIRB: Policy, review, communication, monitoring on FDI flows</td><td></td><td></td><td></td><td></td></tr>
<tr><td>RBA: Monitoring and facilitating financial flows</td><td></td><td></td><td rowspan="2">Weakened roles in scrutiny of FDI proposals</td><td rowspan="2">Greater concentration on FIRB</td></tr>
<tr><td>PM&C: Cross government co-ordination and advising PM and Cabinet</td><td></td><td></td></tr>
<tr><td colspan="5">Indirect influence of executive government via general, domestic business regulation</td></tr>
<tr><td>ABrA (1992) Regulating television and radio providers and content</td><td></td><td>Yes</td><td></td><td rowspan="8">Less concentration on FIRB</td></tr>
<tr><td>ACCC (1995): Strengthened anti-monopoly powers</td><td></td><td>Yes</td><td></td></tr>
<tr><td>ASC (1991): Policing of more stringent law and regulation on corporate business practice</td><td>Yes</td><td></td><td></td></tr>
<tr><td>AUSTRAC (1988): Illegal movements of money for amounts greater than $10,000</td><td>Yes</td><td></td><td></td></tr>
<tr><td>Austrade (1985): Outwards trade facilitation</td><td></td><td>Yes</td><td></td></tr>
<tr><td>Australian Taxation Office: Large business and transnational transfer pricing</td><td></td><td></td><td>Yes</td></tr>
<tr><td>Industry Commission (1990) Industry restructuring</td><td></td><td>Yes</td><td></td></tr>
<tr><td>NCC (1995):Monitoring national competition policy</td><td>Yes</td><td></td><td></td></tr>
</table>

Sources: ABrA (SSCFPA 235); ACCC (PC 2003, 77); ASC (SSCFPA, 15); AUSTRAC (SSCFPA, 15); Austrade (SSCFPA, 104); ATO (Killaly 2000, 2); Industry Commission (SSCFPA 1993, 481); NCC (PC 2003, 77)

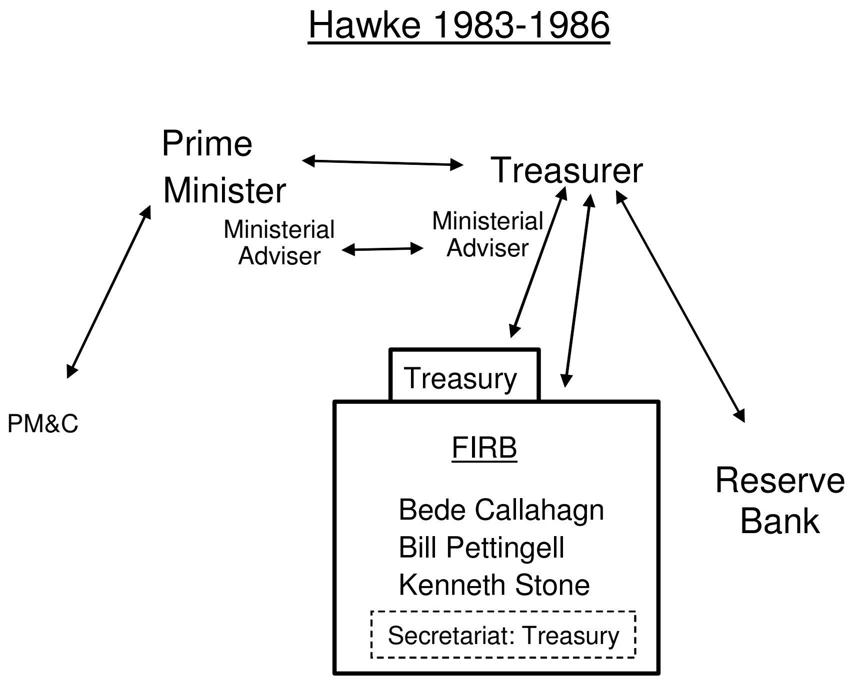
Much of the reconfiguration of the Australian government's administrative arrangements, both in terms of bureaucratic organisation and regulations, was predicated on its ability to mobilise its resources to respond to a national emergency: the crisis of declining national competitiveness and the consequences for national and individual welfare of not responding (Mintrom & Wanna 2006, 164). This provides clear evidence that the government had the capacity to act, basing its actions on the argument that if Australia did not become more internationally competitive, the standard of living for all Australian's would suffer (Mathews & Grewall 1997, 560). The decision to liberalise FDI was driven by a fear that Australia would not be able to capture flows of international capital given its small population and market share unless existing controls were relaxed. The ability to capture foreign investment, while only a small contributor to overall national wealth, was one crucial component in reconfiguring the Australian state: the attention it received by the Hawke and Keating governments and the espousal of policies emphasis the liberalising of controls on FDI were seen an important indicator to foreign investors and domestic businesses of the seriousness of the governments attempts at transforming the national economy. Also, as this thesis shows, FDI provided a clearly defined area of government regulation which demonstrated some of the practical implications of the policies of liberalisation espoused by the government such as an increasing net of domestic regulation to more precisely influence the nature of business behaviour within the national economy.

These measures increasingly brought the Commonwealth into conflict with the States (and visa versa). Under Australia's federal system of government the constitution ensured that power to regulate business activity rested with each the States in the Federation. However, government (Federal and State) and business were responding to the pressures of globalisation by seeking advantages to be had from operating on a national scale. The imperative of operating on a national scale required greater cooperation between the Commonwealth and the States. This factor contributed to the formation of the Council of Australian Governments (COAG) as a forum for discussing and better co-ordinating interaction between the Commonwealth government and the States and Territories (Blewett 2000, 390). Much of the COAG agenda was dominated by broader issues of micro-economic reform and Commonwealth/State relations, but its emergence illustrates that the federal government enhanced its capacity to act in response to the pressures of globalisation and through the forum of COAG. The reinvigoration of more co-operative arrangements between the States and the Commonwealth led to the creation of the National Competition Council (NCC) within the PM&C portfolio, providing the national government a further instrument and forum to shape the national pursuit of micro-economic reform as a component of economic adjustment.

Streamlining the public management of FDI

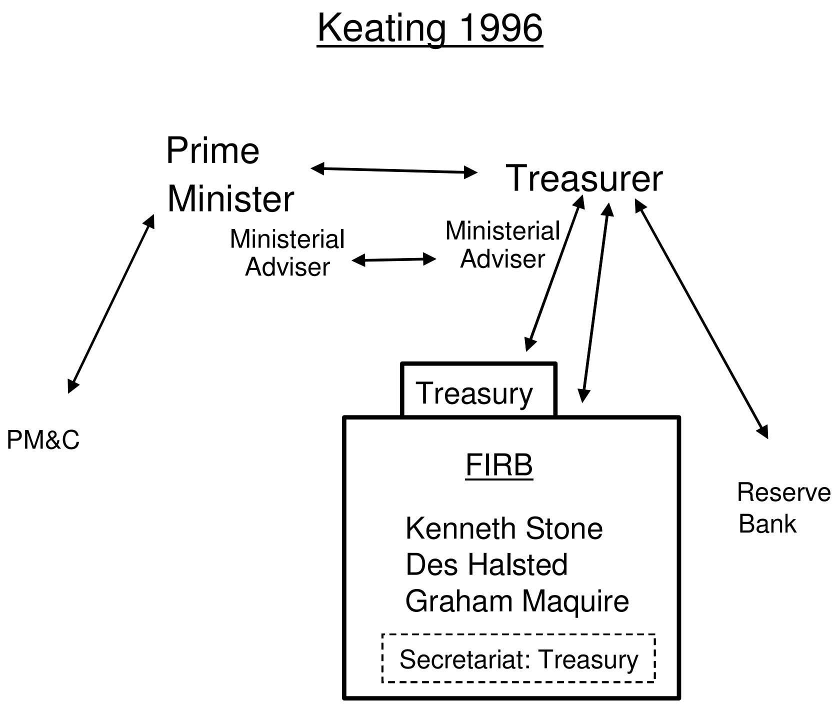
Despite this Hawke and Keating era being one of fundamental change to the public policy framework for economic management, this period was one of controlled gradual liberalisation of regulations with very little change in the composition of relationships within the executive core for the regulation of FDI. Elements which support this view are as follows (and are depicted in Figure 7.4 based on the discussion above and employing techniques for social network analysis (Freeman 2000; Moody, McFarland et al. 2005; James, 2006)). The central mechanism for regulation continued to be the FIRB, supported by a secretariat within Treasury. The Reserve Bank continued to be involved in the broad area of FDI, more so in advising on current account aspects rather than specific proposals, but nevertheless involved in contributing to the management of FDI flows. The Prime Minister, the Treasurer and their respect offices continued to be closely involved in the more significant proposals as well as the longer term development of FDI policy. Within the FIRB the board structure continued with two appointees of previous governments (Bede Callahagn and Bill Pettingell) retaining their roles. In terms of structure the most significant change in the period 1983 to 1986 was the appointment of Kenneth Stone to the FIRB to provide a stronger representation of union interests in the decision making processes of the core executive and national government.

Figure 7.4: The pattern of organisational relationships to regulate FDI flows under the Hawke government up until the 1986 current account crisis



While the broad composition of organisational relationships at the hub of the public management of FDI were stable they were subject to the emphasis on streamlining and efficiency which swept through the public sector. As the sense of economic crisis grew in the mid-1980s the emphasis within Treasury shifted away from tightly scrutinising FDI proposals and led to a downsizing of the division of responsible for the support of the FIRB secretariat. As significant was the continuing reduction in the role of the Reserve Bank in the public management of FDI. Also, by 1996, the membership of the FIRB itself had seen considerable change as past members had left office and new members were appointed. The consequences of these changes for the pattern of organisational relationships at the hub of FDI regulation is shown in Figure 7.5.

Figure 7.5: The pattern of organisational relationships to regulate FDI flows by the end of the Keating government in 1996



Overall, by 1996, while the composition of elements involved at the hub of FDI regulation was unchanged the role of the Reserve Bank had been considerably diminished while the influence of the Prime Minister, the Treasurer and their advisers had remained relatively stable. This suggests an increasing capacity within the political core to be involved in FDI and was consistent with the emphasis of both the Hawke and Keating governments on the need for the political core to actively reshape national policy and regulatory capacity.

Hawke and Keating's relationship with the bureaucracy as a source of stability and catalyst for change

The Hawke and Keating era continued the trend apparent since Gorton of the increased assertiveness of the political core. Both Hawke and Keating demonstrated the re-assertion of the role of the political core on the basis of the crisis of international competitiveness facing Australia. To assist in this role the office of the Prime Minister, Treasurer and other Ministers continued to expand[48] their own sources of policy advice outside of that available through the national bureaucracy. The extent of change underway within the political core as it sought to exert its autonomy is underscored by the change in the composition of, and its re-weighting to, both generating policy and exerting control over the wider development of policy within the government. Also, the Hawke-Keating era saw change in the kind of advice emanating from advisers: whereas in early periods of government the technical advice of economists had been as peripheral to the policy and political core (leaving this role largely to the administrative core) by the time of the Keating government the chief of staff in the Prime Minister's office was an economist and the number of advisers with economic backgrounds had substantially increased (Watson 2003, 38-41).

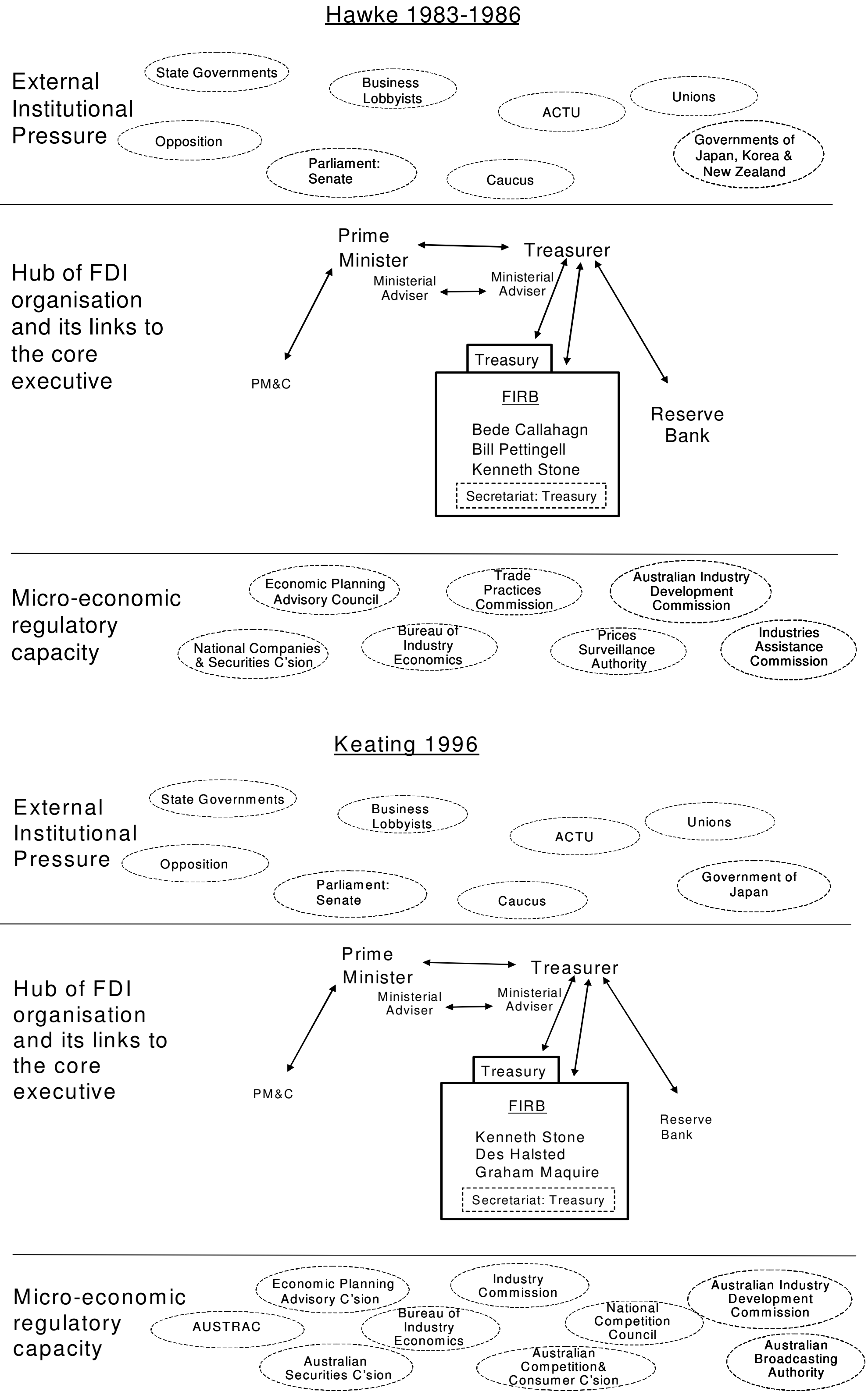
As Goldfinch (1999) shows, and the analysis in this thesis of the Hawke and Keating era supports, while there were a wider group of interests focused on seeking to influence the core executive, the core executive, by strengthening its own policy development capacity, had reinforced its ability to exert its autonomy. In the case of FDI policy the contest was not as stark, largely because the structures in place represented a mature system of governance for flows of foreign capital. The ALP government had a set of relationships (those which it had brought to office and those extant relationships which it had access to once in office) which it employed in the pursuit of its policy and electoral goals. Through these relationships the ALP government sought to maintain and enhance FDI flows through a program of gradual liberalisation of controls. In pursuing liberalisation it was important to ensure stability of the organisational arrangements through which control was exerted, hence the continuing role of the FIRB.

[48] Maley (2000: 51) shows an increase from 95 ministerial advisers in 1983 during the first Hawke government (1983-1984) to 172 in 1995 during the second Keating government (1993-1996).

Broader organisational changes within the core executive effecting economic management capacity and future policy and regulation of FDI

The most significant development in terms of the change to public management of FDI flows during the life of the Hawke and Keating governments was the fostering by the national government of a micro–economic regulatory capacity. As a trade-off to ungoverning the macro-economy both Hawke and Keating pursued a greatly enhanced micro-economic regulatory capacity. This assertion is supported by the description of change contained in the earlier sections of this chapter which showed a range of institutional pressures and the emergence of the significant micro-economic regularity capacity as a response during the Hawke and Keating governments. This is further demonstrated in the following diagram (Figure 7.6) which depicts the confluence of pressures and the consequence for the regulatory framework arrayed around the FIRB. The upper portion of the diagram shows the situation at up to the 1986 crisis, under the earlier stages of the Hawke government. The lower portion shows the pressures and the micro-regulatory capacity at by the end of the Keating government. In both periods the FIRB is at the hub of FDI policy and regulation, however comparison of both periods show an increase in the number of the micro-economic agencies, suggesting a more extensive capacity to regulate business activity of firms, both domestic and international, operating in Australia.

Figure 7.6: Institutional pressures and a strengthening micro-economic capacity



Significance of the National Bureaucracy in FDI Policy Adaptation

The significance of the national bureaucracy in FDI policy adaptation during the Hawke and Keating era was that it continued to provide a means for the government to respond to both international and domestic pressures. As this chapter has demonstrated while change in micro-economic policy and practice encouraged deregulation and greater exposure to market pressures the executive of national government retained and enhanced its capacity to influence economic behaviour in the Australian economy. For example, the expansion of its micro-economic regulatory agencies demonstrated the emergence of a new and strengthening form of regulatory capacity. The consequence was the emergence of a wide network of agencies concentrated on business regulation, effectively creating a new capacity through which the national government could influence business behaviour in the Australian economy. By creating this new network to influence business behaviour the national government effectively created a new capacity to maintain its autonomy in the public management of the economy.

In the case of the FIRB, it continued to be the hub for the implementation of policy on FDI. Its maturity as an institution, able to balance the duality of an ostensibly restrictive policy while encouraging inwards investment, continued to provide a channel for interaction between the government and domestic and foreign business interests. At the same time, as the above discussion showed, the FIRB provided the means for the orderly liberalisation of regulation governing FDI flows, principally because it was, by 1983, a visible and respected point for decision making. By facilitating the decision making task the FIRB demonstrated an ability to adapt its policy and regulatory capacities to new circumstances created by the government of the day. In doing so both the FIRB and the political core were drawing on the acceptance amongst foreign investors, domestic firms and the wider Australian community that the FIRB's role as the regulator of FDI was a legitimate one. Therefore, while the specific controls utilised by the FIRB were softened, the action of doing so reinforced the role of the FIRB as integral to the public management inflows of foreign capital and the implementation of the government's wider policy of economic reform. For example, in the first Hawke government the FIRB was successful in advising Treasurer Keating that any softening of policy should be formally announced, despite the consequences this may have had for the value of the Australian dollar. In effect this removed the option for changes to take place without advising the broader network of interest. At the same time the FIRB was willing to maintain the duality expected by the Treasurer of a seemingly stronger policy on FDI for parliament and the wider Australian community while emphasising the willingness of the government to accommodate inflows of resources from foreign investors.

As described above there was a degree of comfort within the Treasury with the move from directly using administrative controls to respond to market signals to incorporating market decisions into a regime of regulatory control. In terms of the application of this approach to the specific task of regulating FDI flows the shift to a stronger emphasis on unimpeded market flows was consistent with the original position Treasury had established on how Australia's national government should respond to pressures calling for greater administrative and political control of FDI flows in the mid 1960s. Once Treasury Secretary John Stone was overridden and removed, the scope for the ALP government to pursue this direction in national economic management was much greater. While this indicates an increased congruence between the ideological position of the political and administrative cores in the area of economic management it also marks the increasing ascendancy of the political core over the administrative. For example the technocratic capability to understand, monitor and establish policy no longer rested only with the Treasury or even the national bureaucracy, but had become embedded in the ministerial offices supporting key ministers such as the Prime Minister and the Treasurer.

Key findings

The Hawke and Keating era mark the emergence of several new tactics by the political core in responding to emergence of a global economy. First is broad acknowledgement from both Hawke and Keating of the importance of the global economy to the welfare of Australians and the need to integrate the domestic economy more strongly with the global economy as a means of wealth generation. Second is the use of fear of being left behind in the global wealth stakes as a driver for economic restructuring, including public sector restructuring. Third, the emphasis on exposing Australian business to international and global competition by removing tariff barriers (Kelly 1992, 76) created a stronger dynamic for liberalising Australia's approach to FDI and created a new set of pressures to challenge existing policy, regulatory and organisational capacities of its national bureaucracy.

In responding to this imperative in the sphere of public policy concerned with FDI the approach taken was one of renovation. Rather than create a new structure for the regulation of FDI the core organisational structure remained largely the same, but the regulation overseen by the FIRB was substantially altered. As it were, the wider national bureaucracy was by the time of the Hawke and Keating governments already responding and adapting to the pressures identified by the ministerial advisers and senior bureaucrats in earlier governments. Changes to the FIRB reinforced broader reforms to the institutional structure of the Australia economy and led to a reconfiguring of the relationships within those agencies within the national bureaucracy supporting the government's policy on FDI.

The adaptations which continued during the Hawke-Keating era appear to have been made more on a co-operative basis rather than through the more adversarial approaches used in previous government. There were two reasons for this, the imperative provided by the sense of economic crisis and the increasingly significant capacity of the political core, which by the end of the Keating government was centred very strongly on the prime minister and the PMO. The political core was better able than was the case with past governments to engage with the technical aspects of economic policy because of the rising level of economic literacy within the core. It was also better able to mobilise and co-ordinate greater numbers of ministerial advisers because of the widespread use of ministerial advisers by members of Cabinet had increased during the Hawke and Keating governments and the increased emphasis given to the role of the prime minister. As a consequence, at a time when economic considerations have been identified by the government as critical to national well-being, the political core was able to be seen to engage with these issues and co-opt into this agenda the extant capacity of the national bureaucracy.

In turn, as this chapter has shown, the national government was able to significantly reshape the national bureaucratic capacity to better pursue micro-economic and structural reforms, and in so doing increased the capacity of government to regulate business behaviour in the domestic economy. Public management of FDI was trending more strongly towards a reduction in regulation. However, once a business was in operation in Australia it was then subject to a regulatory environment which provided greater opportunity for government scrutiny and intervention by the national government than had been the case under past governments.

Once again, this experience provides a clear example of state capacity being mobilised to deal with the pressures of globalisation and in so doing dealing with globalisation on the government's own terms. In this case the Hawke and Keating governments' responses to globalisation moved from a carefully crafted, transformative first stage by the first Hawke government (1983-1984), to more contingent, but equally transformative, approaches in the later Hawke governments (1984-1991) and the Keating governments (1991-1996) as a reaction to a new set of circumstances created by a more open economy. While each of these governments sought to rework existing macro- and micro-economic regulatory structures, design new structures to support an expanding economy based more strongly on private enterprise growth, and remove some forms of regulatory control, they each retained the capacity to act to influence FDI behaviour of both domestic and foreign firms in the Australian economy. In doing so, both Hawke and Keating created a new regulatory environment in which the FIRB was a means of increasing competitive pressures on domestic business.

CHAPTER 8 - The Howard era

You've got a jetty or a pier protruding in the water, and if you want to get rid of it there are two ways. You can bring a bulldozer onto the beach and push it over; or you can wade in and get the most rotten plank in it and pull it out, and then the waves and everything will bring it down. Sometimes, if you bring the bulldozer on, people will lie down on the beach and stop the bulldozer altogether and it takes you ages … to get them out of the way. Meanwhile the pier just stands there and nothing happens. John Howard in Conley (2001, 230).

This chapter shows how the first three Howard Liberal-National governments (13 March 1996 to 20 December 2004), further adapted the role of the FIRB as a response to economic integration between nation states. The broad approach of the Howard governments was to continue with the emphasis on markets as a tool for public policy established during the Hawke and Keating era, while using FDI controls as a signalling device to communicate with domestic constituencies, foreign investors and foreign governments. In doing so, successive Howard governments added to the complexity and richness of the regulatory environment within Australia, which further contributed to the role of the FIRB as a means of regulating FDI.

This chapter examines how the Howard governments shaped Australia's broader economic and social experience, and demonstrates their experimentation with foreign investment policy, bureaucratic organisation, and regulation, to accommodate international and domestic pressures. Continued liberalising of FDI policy during this period once again complemented change in the way the macro-economy was governed. Thus this chapter examines the external pressures impacting upon the Australian economy, and the responses of the Howard government in relation to FDI policy, regulation and organisation. The significance of the national bureaucracy as an agent of change in the development and implementation of the government's FDI policy is also explained.

External Pressures Facing Australia, in Particular Those that the Howard Government Identified as Critical to the Well-Being of Those Living in Australia

Economic pressure

While the global economy, from the 1992 US elections onwards, experienced significant growth, a sense of sluggish and tentative economic recovery dominated approaches to public policy well into the mid-1990s. The initial driver of change was a renewed concern in the US in the domestic economy: as Bill Clinton famously said in the 1992 election campaign "it's the economy, stupid" (Crosby 2004, 63). Under the Democrat administration, the emphasis turned to managing the expected peace dividend generated by the end of the Cold War (Heo 2000, 111), and a concerted move towards significant budget surpluses (Auerbach 2003, 131). At the same time the US and other advanced economies began to experience significant productivity growth, surprising policy makers and economists after more than two decades of low growth (De Long 2000, 8). In the 1990s economic growth rates in the US jumped from 2.5 per cent in GDP per year to 3.4 per cent per year and, from 1995 to 2000, an average rate of 4.1 per cent per year as "productivity growth …exploded" (De Long 2000, 8).

The phenomenon of increasing productivity led to closely related but divergent views on future prospects for the US and the world economy. The attractiveness of the US for foreign investment meant that the economy benefited from the stimulus provided by continued inflows of foreign savings to finance a growing current account deficit. Such cross ownership between nations, represented by increasing trade and investment flows, suggested greater international peace and stability (Friedman 2000, 248-275). At the same time the increased volume of capital flows ensured there were continuing concerns on the stability of the international finance system (Eichengreen 1999, 4). In particular, the vulnerability of the world economy was underscored by the dyadic relationship between the world's two largest economies, Japan and the US: Japanese companies were major investors in the United States but continuing economic weakness in Japan posed the possibility that significant funds might be repatriated from United States to Japan, leading to a financial collapse in the US and consequentially across the globe. However, the source of major concern in the mid- and latter-1990s was a series of financial crises in Asia, Russia and Latin America. This led to calls for a more effective international approach to ensure a greater degree of stability in international financial flows (Story 2003, 21). Greater concern over the international financial architecture led to an increased willingness on the part of states to monitor and seek to regulate the volatility of global capital flows through highly specific controls (Sakakibara 1999, 186).

Greater economic interconnection also led to political and institutional change on regional and global levels. As a means to foster stability on the European continent and increase its potential for economic growth, the EU expanded, integrating eight Eastern European countries, Cyprus and Malta (EC 2006, 1). In doing so the EU represented a growing economic force and an alternative model of economic organisation from that operating in the United States. Within its borders the EU moved to establish a more strongly integrated federal structure as a means of fostering economic security, through a currency union, involving the implementation of policies to support a common currency and pursuit of a EU-wide constitution (Borzel & Risse 2000, 8). Whereas Asia, touted as the new growth region for the world (World Bank 1993), suffered from a severe economic shock from the financial crisis of 1997, and Japan remained in recession through to 2003 (Watanabe 2005, 4). However, China continued to grow at 8 percent per annum and became increasingly integrated into the world economy, gaining membership of the WTO in December 2001 (Adhikari & Yang 2002). At the same time, the trading regime established between communist states ended when the USSR was greatly reduced (Fidrmuc & Fidrmuc 2003, 826).

By the latter half of the 1990s information and communications technologies (ICTs) were increasingly identified as contributing to improved productivity and economic growth. In turn, there was a new emphasis on the role played by ICT industries, ICT take up and the emergence of services industries as the major sector for economic expansion (Dicken 1998, 165-167). This trend was encapsulated in the concept of the knowledge based economy, placing emphasis on the application and enhancement of national intellectual and knowledge capacities through research, development and innovation (APEC Economic Committee 2000, vii). However, growing interest in the knowledge based economy in the US also led to a sustained period of market speculation and stock market boom. This boom peaked in April 2000, and then collapsed dramatically, with a follow-on decline in business investment just as a new, Republican administration took office in the US in January 2001.

Pre-dating the change in government in the US, from 2000 there was a shift in the focus of the US Administration away from the economy, both domestic and international, towards wider geopolitical concerns. These concerns initially focused on China, where sustained high rates of economic growth, and a growing willingness to engage with regional and international affairs, posed a potential challenge to US interests both in the Pacific and globally (Campbell & Mitchell 2001, 14; Kelly 2006a, 68-69). This shift from economics to geopolitics, from soft power to hard or realist approaches (Nye 2004, 16), was emphatic, strident and sustained following the attacks on the World Trade Centre in New York and the US capital on 11 September 2001 (Porter 2003, 14). Not only was there an increasingly weak US economy from 2001 onwards (following the crash in the speculative market for hi-tech investment during 2000), but also a re-assertion of the strong state in the face of global terrorism fears. International economic policy became subordinate to broader foreign policy and domestic policy concerns. In particular, “combating terrorism and waging war in Afghanistan and Iraq [became] the primary lenses through which the [new Republican] administration…viewed nearly every aspect of its foreign policy” (Garten 2005, 38).

Domestic and international business behaviour

In an environment of expanding capital markets and low costs of borrowing, this period was also one in which there was sustained uptake, use and exploitation of new possibilities for the organisation of business operations on domestic and global scales (Murphy 2001, 6). In particular, such organisations were pursuing complex integration strategies characterised by a "vertical and...horizontal international intra-firm division of labour in which any part of the value-added chain can be located abroad while remaining fully integrated in the corporate network as a whole" (Sauvant 1996).

This new dynamism for restructuring business operations focused on the role of ICTs through the emergence of online supply chains (McCredie & Beckingham 2002, 14-15) and continued the quest for innovative and novel approaches to meeting consumer needs (Murphy, 2001, 14). However many of the trends linked to this development such as dynamic networks, increased specialisation, risk management and increased emphasis on research and development and intellectual property were not necessarily new, but the continuation of processes already well under way. In turn, there was a continued focus within business operations on out-sourcing, and specialisation in manufacturing and service activities, with the consequence of offshoring business activities (Grant 2005, 7). As domestic firms took advantage of economies to be gained through offshoring of their activities, there was a greater concern in domestic politics on the impact of global supply chains on employment, income inequality, and employee rights and entitlements (Lansbury 2004, 104; Grant 2005, 7-11).

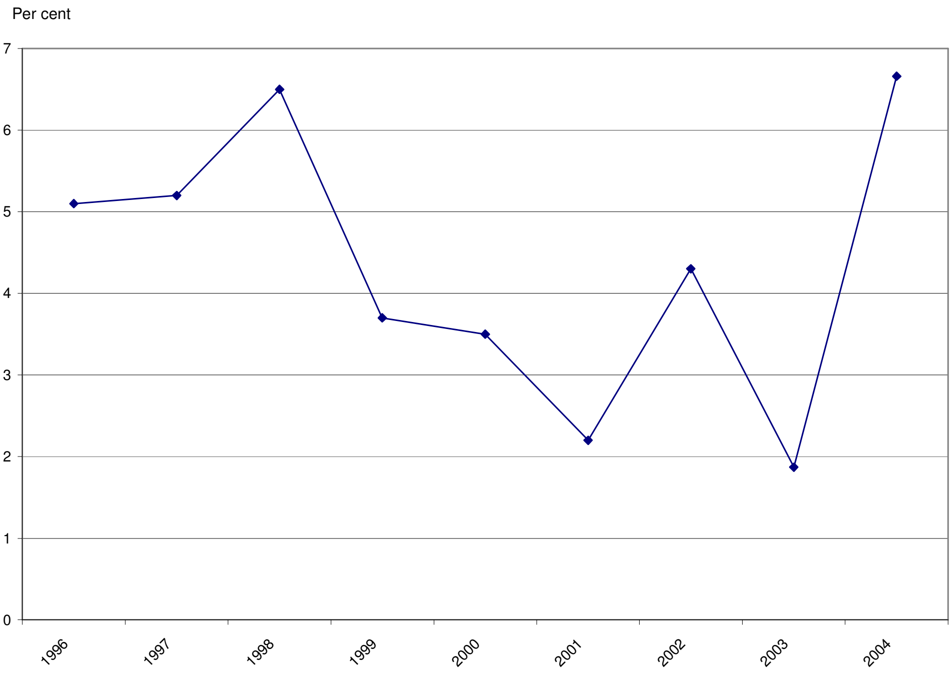
The sustained expansion of capital on a global scale provoked a backlash against processes of globalisation (Held & McGrew 2002, ix; Micklethwait & Wooldridge 2000, 271-287). Within the US, stronger support emerged for neo-conservative views which held that "US military strength must be rebuilt to regain the country's position as 'the world's pre-eminent power' …[second,] American (undefined) principles and support for democracy were fundamentally important globally, and, third, America must lead aggressive efforts to shape the international environment" (Porter 2003, 10). Such views offered a radically different prescription on the role the United States should adopt in international relations to that which had provided the basis for the development of international economy post-WWII (Cypher 1999, 2-4; Friedman 1999, 84, 96). Internationally there were concerns that institutions of civil society, particularly democratic practices, were being bypassed by states in seeking to foster global trade and financial flows (Held & McGrew 2002, 62-65). These views had been given impetus by the successful challenge to the OECD-sponsored Multi-lateral Agreement on Investments (MAI), and had led to pressures to ensure greater involvement of civil society in decision making processes on world trade, and on the broader issue of economic development for LDCs (Held & McGrew 2002, 65).

New Challenges for Australia

This new environment of global growth after 20 years of diminished expectations, posed a number of challenges for Australia. This period of growth was characterised by larger and more robust regional groupings, the continuing dynamism of global business activity – now 'turbo-charged' by the use of ubiquitous and low cost ICT, renewed interest to examine the architecture of international regulatory environment, and the continuing growth of China and the US. Consequences for Australia were:

- First, the recognition that Australia only represented two per cent of the world's economy and, as a consequence, had very little influence as either a supplier or consumer of world production. However, there were areas of trade and investment where the Australian economy demonstrated strong comparative advantage, such as mining, but also increasingly in the area of services such as education, health and financial services (Edwards 1999). Opportunities for growth, in particular after the 1997 Asia crisis, lay not only within North- and South-East Asia, but also across the globe (Morris 2000, 6-20). These conditions are reflected in the changing patterns of FDI flows during the period 1996 to 2004 (Figure 8.1).

Figure 8.1: FDI inflows 1995/96 to 2003/04 as a proportion of GDP



Source: ABS (2006a, 2006b)

- Second, growth both globally and in Australia's immediate region, meant increasing competition for investment flows (as set out in Figure 4.1 earlier). For example, compared with Australia, Malaysia and Singapore, during the period 1980 to 2003 China greatly increased and then maintained a relatively high level of FDI inflows, as a proportion of world FDI inflows. In the same period Australia saw a gradual decline in the proportion of international FDI inflows followed by a gradual recovery as world commodity prices rose rapidly in the mid-2000s (UNCTAD 2005b, 4-7).

- Third, although greater aggregation of business activity was seen as the means to compete on a global scale, the emergence of low-cost ICT offered the potential for greater leverage by small firms and individuals

(Doz 2001, 10-13). This prompted renewed emphasis within business on entrepreneurship and innovation as strategies to foster rapid responsiveness, to new, emergent opportunities. In turn, this posed the challenge to government of how to adapt industry policies to foster business investment in research, entrepreneurship, and the international integration of business activity (Livingstone 2001, 139-140). This change offered both opportunities and threats to Australian industries: in particular the declining value of mineral commodities in the late 1990s suggested a decline in investment and a preponderance of "old economy" industry (Cornell 2000, 8). However, the post-2001 boom in mineral resources as the Chinese economy continued to expand rapidly, ensured the Australian economy remained robust and competitive (Lenegan 2006, 6-7).

Balancing External and Internal Pressures in the Domestic Political Context

The Howard Government won office in 1996 because it crafted a policy based on pragmatism: it offered voters a respite from economic reform while continuing to support an open, internationalised economy. In preparing for the 1996 election the Coalition judged that the climate of the domestic political agenda was changing (Williams 1997, 158-160). To exploit and tap the sense of fatigue and frustration within the Australian electorate, Howard demonstrated a willingness to move away from his own policy preferences, such as those set out in the *Fightback!* – the 1993 Coalition policy manifesto (Roberts 1996, 111; Woodward 2003, 1)[49]. Overall, Howard decided that an alternative "relaxed and

[49] Specific examples identified by Conley (2001: 227) are as follows:

> Tax reform was shelved with Howard denying reports he had left open the possibility of a Goods and Services Tax (GST). Medicare was here to stay; welfare would be dealt with fairly and radical plans for industrial relations were put aside. Howard argued that a Coalition government would get on with the unions and… guaranteed work conditions.

comfortable" rhetoric was more appropriate for an insecure public, weary of constant change (Conley 2001, 227). Responding specifically to concerns among "the battlers" – "those people in low-paid employment" (Cavalier 1997, 31) – the Coalition added weight to the view of those who sought a return to economic nationalism and a re-assertion of distinctly Australian values in a rapidly changing world (Kelly 2006a, 5).

The Coalition's approach proved to be attractive to the electorate. At the 1996 election its appeal for more inclusive values and policies more aligned to 'mainstream' Australians (Cavalier 1997, 24-25, 30-31) had a significant impact, particularly in rural Australia, with the voters returning a Coalition government with a majority of 40 seats in the House of Representatives (Department of the Parliamentary Library, 593). However, the Coalition failed to win a majority in the Senate, needing the support of minor parties or independent senators to pass its legislation. In office the challenge for the Howard government was to balance the pursuit of liberal economic reform while maintaining the support of regional Australia and urban voters (Melleuish 1998, 122). This was given added piquancy by the rise of right wing populism which opposed a range of policies which had been pursued by the ALP, from multi-culturalism to indigenous land rights (Melleuish 1998, 114-123).

Breaking from the immediate past

The first Howard government (1996-1998), despite having campaigned against growing foreign debt, had little truck with those arguing for restrictions on foreign investment (Conley 2001, 235). For example, the concerns raised by Hanson, a newly elected independent member of parliament who called for tighter controls on foreign investment, elicited the following government response, delivered by the Prime Minister:

> …if Australia had not taken large amounts of foreign investment in the past, we would now have a lower…living standard. The economic reality is that, if we as a nation do not generate large volumes of domestic savings, we have choices. We either settle for a lower standard of living or borrow

> the savings of foreigners in order to sustain a higher standard of living. That is the simple reality. (Howard 1996, 8102)

Treasurer Costello was more emphatic stating “we are not going to walk down the isolationist path which tries to throw out foreign investment and job creation in this country” (Costello 1997a, 5986).

While continuing a bi-partisan approach to foreign investment, the Howard government’s policy on foreign relations and global trade were starkly different to that of its Labor predecessor (Kelly 2006a, 16). Where the Keating government had emphasised multi-lateralism and closer ties to the Asia Pacific region, the Coalition government emphasised bi-lateral trade relationships as a means of encouraging greater opportunities for Australian exporters (Kelly 2006a, 20-21); the need to engage with a global market place rather than focus solely on Asia (Kelly 2006a, 15); and stronger trade and investment links with Europe and the USA (Foreign Affairs & Trade 2003, 89-91, 99-101). Howard (2001a), reflecting on the Coalition’s early challenge in office, was convinced “that Australia’s foreign policy was unbalanced and unsuited to this changed environment”, and “determined to respond to the trends of globalisation, increasingly fuelled by advanced communication and technology, and the massive and rapid flow of international capital”. Furthermore the “preoccupation with one particular region, at the expense of others, was ill conceived and at odds with [Australia’s] national interest” and instead it was “essential for Australia to build and maintain links with all the major centres of global power and influence, while ensuring that key regional relationships were kept vibrant and strong” (Howard 2001a). Such policies were driven by Howard’s wariness of Asia, the consequential reinterpretation of national self-interest, and, under the impact of neo-conservative ideology on the nation state in international relations, “a general wariness about the impact of international agreements on national sovereignty” (Roberts 1996, 112).

In the lead up to the 1996 election the Coalition had flirted with a stronger emphasis on nationalist sentiment (Conley 2001, 228). Strident debate was unleashed after the election by the maiden speech of the newly elected independent MHR Pauline Hanson, who reopened "old arguments about race and nationalism which challenged the consensus supporting closer links with Asia" (Roberts 1996, 111). The establishment of the Pauline Hanson's One Nation Party in 1997 created stronger impetus for this debate which became know as Hansonism. This movement was significant in setting the climate of the domestic political agenda against which Howard framed his policies. The Coalition needed to be seen to be harnessing state capacity to address the concerns of rural and regional Australia (Goot & Watson 2001, 183) as well as those of Howard's battlers (Cavalier 1997, 31). The approach was to offer a means of turning back the pressures of globalisation, with Howard musing in 1997 that "there was merit in the idea of protecting 'national champions' from foreign takeovers", and that in restricting foreign media ownership he "pointed to 'a belief that there is some national benefit in having a powerful, fully Australian-based media company'" (Conley 2001, 235).

The test of policies emphasising domestic concerns over global positioning of the state came in 1997. During 1997 the government as a whole moved to slow the pace of domestic economic reform, at least as far as it concerned employment and business investment. The Prime Minster and the Minister for Industry (John Moore) had been successful in slowing the phase down of motor vehicle and textile clothing and footwear tariffs against the advice of the Productivity Commission and the Treasurer (Carney 2001, 253-254). Maintaining faith with a reform fatigued electorate dominated policy formulation (Aubin 1999, 235) as concerns within the government mounted over the electoral impact of the views being promulgated by Pauline Hanson's One Nation party. As an alternative the Prime Minister argued against blanket economic reforms and put forward what he called a rotting strut theory of reform: that only areas of public policy which faced the least resistance should be pursued (Conley 2001, 230).

In the second Howard government there was both a continuing, gradualist pursuit of economic reforms and the pursuit of issues carried through from the first

Howard government: in particular policy and processes to address specific concerns of rural communities, and, as economic conditions improved, the opportunity to address issues of concern in industry policy. The Rural Summit held in October 1999 formed the centerpiece of this approach to rural issues, providing an opportunity for the voicing of concerns, the pursuit of possible policy solutions and dialogue between State and the Commonwealth governments on policy responses. In terms of industry the focus was on innovation, including tax incentives for research and development. The Innovation Summit in 2000 formed the basis for consultation, development and implementation of an Innovation Acton Plan cutting across industry sectors (and involving a cross government approach to address aspects of innovation in the education, science, industry and communications portfolios). Both showed the government actively addressing the issue of globalisation: in the case of the Rural Summit the addressing of concerns of rural communities fearful of being further isolated, and in the case of industry a renewed emphasis on innovation addressing concerns that too little was being invested by business on research and development in Australia.

The fortunes of the Howard government improved dramatically in the latter half of 2001. The US economy was about to enter a period of down-turn (Business Council of Australia 2001, 5-6). However, in Australia by 2001 the new tax system had been generally accepted by the community. The new tax arrangements ensured the State governments were working with the federal government across a broad spectrum of national policy issues. From September 2001, with terrorist attacks on the United States, the headline focus of the Coalition government turned to issues of national security and border integrity – while continuing the gradual program of economic reform tied up in the implementation of financial reforms proposed by the Wallis Inquiry and Corporate Law Economic Reform Programme (which are discussed below). However, after attacks on New York and Washington DC "[t]he Howard Government's strength at the 2001 election was the 'DRAT' cluster of 'Defence, Refugees, Asylum-Seekers and Terrorism'" (Aulich & Wettenhall 2005, 14). This approach was very much guided by a continuing concern "'to retrieve support, especially in rural and regional areas'" that the Coalition saw as an area of policy weakness and Howard "expertly engaged in populist politics with his ruthless exploitation of the refugee crisis" (Beeson 2002, 231; Rundle 2001, 5-6).

Pursuing economic competitiveness

Despite arguing for a more gradual pace, the changes wrought in the first period of Coalition government underscored a shift from big-picture, macro-policy concern to micro-regulation as a means to better accommodate a changed world and its domestic political agendas. In turn, the cumulative impact of many small changes over the life of three successive Howard governments reinforced and added to the national regulatory framework and supported inflows of foreign capital into the domestic economy. As had taken place in the previous eras of government, successive Howard governments reconfigured bureaucratic structures and regulation to support the internationalisation of the domestic economy by continuing trends to stronger micro-economic management and pursing greater co-operation with state governments. In addition, as will be demonstrated below, the Howard governments sought more strongly to better integrate both domestic and international economic policy making and implementation, particularly through stronger bi-lateral trade and investment treaties. Each of these aspects and the subsequent impact on the configuration and significance of national bureaucracy are discussed below.

(a) Further strengthening the political core of executive government

The Howard governments continued and strengthened the trend towards stronger prime ministerial government at the core of executive government. Initially for Howard this was a case of responding to pressing and immediate domestic pressures such as shoring up support for the prime minister within the L-NP Coalition and the emergence of Hansonism. However, this greater centralisation of policy development, and control over policy implementation, also became the model for addressing emergent international crises and opportunities faced by successive Howard governments. In turn there was greater emphasis during the Howard era on bringing together the political, policy and administrative components of government at the core, to the extent that Howard "integrated politics into policy and administration to a degree unachieved by any of his predecessors" (Kelly 2006b, 9). Thus, while initially the national bureaucracy was distrusted by the new government, the capacity of the prime minister's office was increased and stronger overtures were made to ensure that the national bureaucracy worked more closely with external sources of advice (Stewart 2006, 4).

(b) Change in the administrative core executive

The significance of the Howard era to this thesis is the extent to which the government built on the Hawke-Keating era strategies, including the new role for the Reserve Bank; the emergence of new specialist economic and regulatory agencies; new agencies and institutions to support trade diplomacy and increase domestic exports; and new agencies and institutions to support Commonwealth-State relations. In each case there were significant developments and enhancements made by the Howard government as it also sought to both control and internationalise the Australian economy.

Development and use of new regulatory tools

The shift from macro-policy to micro-regulation was underscored by reforms made by the Howard government to the Australian financial system. The principle vehicle for these reforms was the Wallis Inquiry which sought to enhance "market competition in the financial system" and, in particular, to create a means of regulating the emergent role that non-banking institutions had established following the changes to the financial sector introduced under Hawke and Keating (Committee of Inquiry into the Financial System 1997, 2). In effect Wallis was expected to reinvigorate the regulatory regime to maintain the international competitiveness of Australian financial system, while improving its stability in light of a series of collapses and other shortcomings among both banks and the newly emergent non-banking financial institutions (Currie 1997, 5). It recommended the pursuit of three key regulatory tasks (set out in Table 8.1) and, to ensure a more focused regulatory structure, that each of these tasks should have a separate regulatory agency. In turn, the reworked financial system would be more strongly based around market forces and have "the capacity to anticipate and respond to innovation, and permit market participants to adapt to challenges of the current and emerging corporate and financial environment, both domestically and internationally" (Costello 1998). Thus a focused regulatory framework, with clearer delineation between the roles of the regulatory agencies, was intended to enable effective market options thus providing the government with the means of accommodating domestic pressures while enabling engagement with globalising pressures.

Table 8.1: Alignment between regulatory tasks and agencies recommended by Wallis

Regulatory tasks	***Regulatory agency responsible***
Consumer and anti-monopoly protection	ACCC
Prudential oversight of the superannuation and banking industry	APRC (later APRA)
The protection and stability of the financial system (through the lender of last resort function and regulation of the payments system)	RBA

Based on Currie (1997, 8) and (Carmichael 2000).

The emphasis on micro-economic regulation underscored by Wallis was taken up through two broad processes during successive Howard governments. These processes were the introduction of a new governance system for the financial services sector (Bakir 2003) and the re-writing of corporate law through what was to become known as Corporate Law Economic Reform Programme (CLERP). CLERP focused on a broad gamut of specific micro-regulatory arrangements and mechanisms in the areas such as capital raising, directors' duties and corporate governance, accounting standards, and takeovers (Jones et al. 2004, 392). The purpose of this program of legal reform was to significantly enhance the integration of the Australian economy with the wider world. However, because the process of consultation involving CLERP was gradual and quarantined to limited and technical aspects of business operations and it did not lead to any significant community mobilisation against such a process (Jones et al. 2004, 399). The gradual change to the regulatory framework for businesses and financial activity was further hidden by the renewed interest within the Coalition on reform to indirect taxation which emerged as a key election issue in the 1998 election (Carney 2001, 251).

At the national level successive Howard governments were willing to pursue the development of a wider and more precise regulatory net comprising several agencies at arm's-length from government to minimise community perceptions of overt political interference in technical regulatory matters. The emphasis on an arm's-length approach arose from the Coalition's attacks while in Opposition on links between the Governor of the Reserve Bank, Bernie Fraser, and the Keating government (Carney 2001, 238). The Treasurer, Peter Costello, moved quickly during the life of the first Howard government to clarify the role of the Reserve Bank and its relationship with the government of the day (Kelly 2006b, 18). In appointing a new Governor, Ian MacFarlane, the Treasurer took the opportunity to establish a formal agreement between the new Governor and himself, called the *Statement on the Conduct of Monetary Policy*. This agreement recognised the powers of the Bank under the Reserve Bank Act of 1959; underscored the Treasurer's view that the Reserve Bank should be seen to be acting independently albeit within the "checks and balances inherent and necessary in a democratic system"; and proscribed that the Reserve Bank was to adopt the "objective of keeping underlying inflation between 2 and 3 per cent, on average, over the [business] cycle" as a means of ensuring price stability (Treasurer & the Governor (designate) of the Reserve Bank 1996).

In doing so Costello was setting down a model for the working of regulatory agencies: that each agency had a clear legal basis for operation; although accountable to the government such agencies would be seen to be acting independently of elected government; and that such agencies should act within proscribed levels of performance. This model of change which placed the emphasis on the workings of a specific regulatory authority was introduced across government portfolios, including the Treasury. It added to and sharpened the trend identified earlier in this thesis of introducing new, special purpose agencies to both advise government on policy and execute government strategy.

By 1997 Costello was able to point to the scope of the change under the new government's reform agenda in both macro- and micro-economic regulation in the areas of fiscal policy, monetary policy, productivity, the Australian financial system, corporate law, taxation, competition policy and the labour market (Costello 1997b). While reforms were minimal in the areas of macro-economic fiscal policy and monetary policy, it was the factors contributing to micro-economic reform which offered scope for government intervention to enhance productivity through change to the Australian financial system, corporate law, taxation and competition policy. In turn, both policy and the bureaucratic structures supporting this process of reform continued to change through subsequent Howard governments. For example, as described above, the result of the Wallis Inquiry was a new structure for the regulation of the Australian financial system to accommodate both domestic and globalising pressures.

This approach was replicated in the structure of agencies responsible for the full range of domestic aspects of micro-economic reform (as illustrated in Table 8.2). These micro-economic reforms covered the area of productivity (within businesses and public sector organisations; and within relationships between businesses and other businesses, consumers, and government regulators and decision makers); the specific case of financial sector reform; the corporate law framework; and the roles and relationships between the Commonwealth and the states in developing and executing policy to foster improved private sector busi-

Table 8.2: Changing roles of agencies responsible for micro-economic reform

Area of Reform	Existing Agency or organisational entity c1996	New agency	Abolished agency	Portfolio
Productivity	EPACm BIE Industry Commission Office of Regulatory Review	Productivity Commission (1998)	EPACm (1998) BIE (1998) Industry Commission (1998)	Prime Minister and Cabinet Industry Treasury Treasury Treasury
The Australian financial system	Reserve Bank	APRA (1998)	ISC (1998)	Treasury Treasury Treasury
Corporate law	ASC Corporations and Securities Panel Business Law Division, Attorney-General's Department	ASIC (1998) Takeovers Panel (2001)		Attorney-General Treasury Treasury Moved to Treasury (1996)[1]
Competition policy	ACCC NCC			Treasury Treasury

Source: EPACm, BIE, Industry Commission (PC 2003, 22); Office of Regulatory Review (Industry Commission 1997,24); ISC, APRA, ASIC (Treasury 1998, 139); Takeovers Panel (Armson 2005, 665-668).

ness performance. Table 8.2 shows that the impact of the reform process increased the concentration of these agencies within the Treasury portfolio, underscoring a trend begun during the Hawke-Keating era.

Because of community concern that the emphasis on competition policy had significant negative consequences (Senate Select Committee on the Socio-Economic Consequences of the National Competition Policy 2000, 52-111), micro-economic reforms continued, although they were pursued largely as general business and public sector reforms. Concern with the extent and pace of change had been apparent in the support for Hanson in the 1996 election, the Queensland State election in 1998 that saw 11 One Nation members elected, and found further expression in a number of Senate inquiries which examined competition reforms viz:

- the Productivity Commission Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia,
- the Senate Standing Committee on Rural and Regional Affairs Inquiry into the Australian Dairy Industry,
- the Joint Select Committee into the Retail Sector, and
- the Senate Finance and Public Administration References Committee's report on Contracting Out of Government Services (Senate Select Committee on the Socio-Economic Consequences of the National Competition Policy 2000, 2).

Although the Coalition government continued to champion the goal of making regulatory arrangements more efficient and "more conducive to competition" the language of reform shifted from an emphasis on deregulation to streamlining in response to these concerns (Carmichael 1998). As a whole the government was successful in its ability to quarantine or shield changes to institutional arrangements, to facilitate an ongoing process of micro-economic reform from public concern. For example, the Officer report (the National Commission of Audit 1996) was greatly played down at the time of its release by the Treasurer and yet became a blue print for action in reforming public sector organisation (Forman 1996, 20).

New efforts to shape the architecture of the international financial system

While concern remained within the government of continuing electoral support for more isolationist views, the weakening of Hansonism by the first Howard government (through the use of programs targeted at those rural and urban battlers), and the increasing threat of political instability in SE-Asia as a consequence of the 1997 financial crisis, saw emphasis shift within the executive core on strategy. The Hawke-Keating era emphasis on engagement with Asia was replaced with developing and pursuing a series of strategies to re-engage with globalisation (Kelly 2006a, 6, 12-13). Emerging from the prime minister's office was the view that while the government remained unwilling and unable to become a full member of a regional economic grouping such as ASEAN, or further develop APEC, Australia would "never enjoy the security of an economic union (such as the EU nations)" and therefore "must succeed by running an open, competitive market economy to maximise GDP in a framework of social stability" (Kelly 2006a, 37). Second, the prime minister's office (HT/EA1) recognised that the Australian government needed to further develop the programs created as a response to the Asia financial crisis as a means of building "a series of economic, political and security partnerships creating networks of inter-dependence" to ensure "Australia's control over its own destiny" (Kelly 2006a, 37).

Continuing support for Commonwealth-State relations

While the Council of Australian Governments (COAG) was a creation of the Hawke-Keating era, Howard increasingly used it as the main forum for policy development to address and resolve issues of common interest to the States and the Commonwealth. At the same time, the advent of the Howard government had marked a reversal of Liberal party practice of emphasising the role of states and the need for the decentralisation of Commonwealth powers (Stewart 2000, 151). Instead "political pragmatism and policy objectives determined" the Coalition government's attitude to the states (Stewart 2000, 151). The consequence of this approach was a "drift towards a unitary" system of government, despite an increasingly co-operative relationship with the States (Stewart 2000, 159-160). The emphasis on co-operation both between the Commonwealth and the States, and between States on matters of national importance represented a philosophical shift in inter-governmental relations within Australia. The practicalities of introducing the Goods and Services Tax and the consequential improvement of the fiscal position of many of the States during the life of successive Howard governments aided this change in relationships.

In the case of FDI, this trend meant that States were less willing to adopt beggar-thy-neighbour approaches to attracting FDI. While States continued to maintain their sovereign right to engage in investment attraction activity, COAG provided fora to address the concerns of individual States, the States acting together as a negotiating bloc, and the Commonwealth. Through these more deliberative processes the Commonwealth was able to begin to redress issues such as industry development, under a regime of an ongoing commitment to lower tariffs and decreased direct involvement of government in industry policy. Increasingly through the Howard era, the Commonwealth and States worked more closely on establishing policies emphasising a stronger partnership role with the business sector to encourage innovation and successful business adaptation to changing economic circumstances, in particular the maintenance of an open economy as a policy goal. In turn, the closer working relationship with the States led to the emergence within the Howard government of a major emphasis on investment attraction as a national policy and the lessening of opportunities for States to compete for a scarce economic input.

How the Howard Government Reacted to Globalisation Pressures in the Area of FDI Flows through Policy, Regulation and Change to Bureaucratic Structures

The first Howard government (1996-98)

(a) Policy response

Coalition policy, as taken to the election in 1993 in the *Fightback!* (Hewson & Fisher 1991) package, had promised that the FDI regime would be significantly simplified and the FIRB disbanded (HT1). However, the FIRB, both as a means of managing community concern about foreign ownership, and as an administrative and regulatory instrument, proved to be too valuable a tool for the Coalition to abandon once in office. No recommendations were made in the NCOA or the Financial System Inquiry on the FIRB or the national government's role in FDI; nor did it appear in *In the National Interest* – the statement on foreign affairs in 1997 (Department of Foreign Affairs and Trade). However, while the FIRB functioned as it had under previous governments in addressing specific instances and areas of change, the political executive sought to extend its influence by shaping regulation on media ownership, the pursuit of privatisation and the government's ability to attract foreign investment to Australia.

In pursuing the policy of greater and more extensive privatisation of government business enterprises significant changes were made to FDI policy and regulation. In particular these changes sought to accommodate both the government's policy of privatising government-owned business enterprises, and also a renewed emphasis on markets as a means of ensuring contestability in public sector operations, including policy development, implementation and delivery. While privatisation of national publicly-owned assets had been underway under the Hawke and Keating governments (Singleton 2000, 162-163) the Coalition added greater impetus to this.

(b) Legislative and regulatory response

In the Hawke-Keating era there were increasing concerns on media ownership. These, as described in Chapter 7, had been the focus of a parliamentary inquiry and had provided both grist for dissent within the ALP, and a point of attack for the Coalition. The contest over policy on media ownership reflected both growing interest from international investors in media businesses as well as community concern because of issues such as protection of national culture and intellectual property, media concentration and political processes (Carew 1992, 196). As a result, soon after entering office, Treasurer Costello announced that the Government had decided to lift to five per cent the notification threshold that applied to portfolio investments by foreign interests in the media sector. In doing so this notification standardised a measure introduced during the Hawke-Keating era to prevent the foreign acquisition of a domestically owned media firm, to all firms in the media sector in Australia (FIRB 2004, 98). Thus, in the case of media firms in the Australian economy, the government had increased its level of control, both going against the general liberalising trend in FDI regulation, and at odds with general Liberal policy on business regulation. Nevertheless, the case of increased FDI controls in the media sector demonstrates that the government was willing to exert its autonomy, particularly when the political core saw the necessity to do so[50].

Much of the regulatory and legislative changes made in the first Howard government were directed at the privatisation of a range of assets including airports and the national telecommunications carrier, Telstra. The first adjustment in terms of foreign takeover regulations was in the Airports Act 1996, assented to on 9 October 1996, which limited foreign ownership of airport operator companies to 49 per cent (FIRB 2004, 99). In preparation for the partial privatisation of Telstra (a Coalition election commitment) the Telstra (Dilution of Public Ownership) Act 1996, assented to in December 1996, and restricted foreign ownership "to 35 per cent of the one third equity to be sold", and individual foreign investors were only allowed to acquire "5 per cent of that one third equity" (FIRB 2004, 99). This was followed on the 14 August 1997 with the announcement of the removal of foreign ownership restrictions on two telecommunications carriers, Optus and Vodafone, to encourage competition in the industry (FIRB 2004, 99). Thus foreign investment thresholds for newly privatised government businesses limited the possibility of immediate transfer of such assets

[50] During the fourth Howard government (2004 to present) controls on media ownership were substantially relaxed (Coonan 2006), further demonstrating the willingness of the political core of executive government to assert its autonomy in the area of foreign ownership of domestic media firms.

to foreign ownership as a means of assuring sufficient controls were in place to ally fears in the wider Australian community of the misuse of what were once government owned assets. At the same time, the gradual removal of such controls offered the possibility of influencing business behaviour in specific sectors, such as telecommunications.

The government also moved to place uranium mining on the same investment footing as the mining sector as a whole. On 19 November 1996 the Treasurer announced the Government's decision that foreign investment policy in relation to the uranium sector was the policy that applied to the mining sector generally. This meant that foreign investment above the notification thresholds in the uranium sector, such as the establishment of a new mine, was subject to the 'contrary to the national interest' test, and that no specific investment restrictions would then apply (FIRB 2004, 99).

While the government had moved to standardise investment guidelines across sectors, when it came to the financial sector its approach was more cautious. On 9 April 1997 in releasing the *Final Report of the Financial System Inquiry*, the Treasurer "announced the removal of the blanket prohibition on a foreign takeover of any of the major banks and that any proposed foreign takeover or acquisition will need to be assessed, like any other proposed foreign takeover or acquisition, on the basis of its merits in accordance with the Foreign Acquisitions and Takeovers Act 1975" (FIRB 2004, 99). Effectively the ACCC was being given responsibility for the review of mergers between banking institutions, thus removing the pre-existing, long-established bipartisan prohibitions against significant mergers between banks and non-banking institutions whether foreign or domestic. However, the Government retained the capacity to intervene, using FDI regulation, by applying the principle that "any large scale transfer of Australian ownership of the financial system to foreign hands would be contrary to the national interest" (FIRB 2004, 99).

(c) Organisational response

During this period, while the work of the FIRB continued to focus on reviewing investment proposals, the role of the FIRB's secretariat began to undergo a fundamental change directly attributable to the national government's pursuit of international trade and investment treaties. While the Treasury continued to provide support for the FIRB (through secretariat services, the preparation of draft and final reports, as first point of contact for most proposals, and by fostering ongoing awareness of the role of the Board) (FIRB 1999, 3), it began to take on a stronger role in the area of negotiating investment treaties. For example, in 1997-98 staff numbers rose in the Foreign Investment Review Branch from 18 to 21 to contribute to negotiations on the MAI (FIRB 1998, 6).

The second Howard government (1998-2001)

(a) Policy response

This period also coincided with one of increased dynamism in international and domestic business, as historically low interest rates, growing domestic and international demand, and booming stock market growth, led to increased merger activity (Lipton 2006, 6). In Australia during this period this activity led to a number of major mergers:

- in the airline industry, Ansett was sold to Air New Zealand (Costello, 2000);
- in telecommunications, the major carrier Optus was sold by its US owner Cable and Wireless to the Singaporean government-owned Singtel (Costello 2001a); and
- in the minerals sector, the merger of BHP with Billiton to form BHP Billiton, and its dual listing on the Australian and London Stock Exchanges, as a response to the emergence of Rio Tinto as the largest international mining firm (Costello 2001b).

At the same time the Coalition needed to assure the domestic electorate that the government was both prudently regulating activity, while also responding to the challenges of economic decline and political instability in South East Asia and the growing strength of North East Asia. These tensions added new imperatives for the political executive while the Coalition government sought to further liberalise FDI policy.

Each of these activities involved incremental adjustments to the FIRB, and led to increasing calls for changes to FDI regulation, both from foreign governments and State governments. In particular, the consideration and then rejection of a proposal by the multinational oil firm Shell to acquire a controlling stake in the Australian firm Woodside Petroleum in early 2001, renewed general public interest in FDI regulation. At the time the process provided an opportunity for calls from a number of US investment banks, and Shell, for revision of the FDI framework (Cameron 2001, 53). The US Embassy, at that time involved in the process of the negotiation of the Australia-US Free Trade Agreement, commented that:

> …the FIRB has fairly broad application. I mean it and the Government have the discretion to cut out foreign investment on essentially a broad national interest standard…[And] it's not defined at all and it's fairly broad and it could have a pre-emptive effect on possible foreign investment. (Brown 2001)

However, the negative response from the Treasurer on this merger led to speculation on the motives driving such a shift, in particular that "politics" had taken "precedence over foreign investment" (Firth 2001, 17). For example, the Economist (Shell Shocked 2001, 64) commented:

> The bid for Woodside was seized upon by economic nationalists, who painted the company as yet another local victim of globalisation. Last month, a group of politicians [government back benchers] wrote to Mr Howard urging him not to let Australia become a "branch-office economy", and predicting that approval of the Shell bid would spark an anti-government backlash.

In turn, there was renewed interest within Parliament, through the Senate, on the monitoring role of the FIRB. For example, during the sale of Optus the

Democrats were prominent in scrutinising the workings of the FIRB and calling for a greater role for the FIRB in monitoring foreign acquisitions or mergers in Australia (Stott-Despoja 2001).

(b) Legislative and regulatory response

The initial impetus for regulatory change came from the need to respond to the collapse of the MAI in 1998 and the impasse reached at the WTO Trade Ministers meeting in Seattle 1999 (After Seattle 1999, 66). While the demise of the MAI meant a multilateral treaty on investment was unlikely, elements of the treaty could be taken up, especially in the negotiation of bi-lateral free-trade agreements (HoT1). While there had been reluctance during the first Howard government to enter into bi-lateral agreements, the impasse prompted the government to pursue bi-lateral agreements more strongly (and in so doing distancing the government from the ALP Opposition with its commitment to multi-lateral arrangements as the preferred means of fostering international trade):

> Australia can not just depend on reaching agreement among 146 WTO members to open markets for our exporters. Our safeguard strategy is to pursue a limited number of preferential market access agreements with key trading partners. In our region we have seen new interest in regional and bilateral arrangements that can liberalise and facilitate trade faster than the multilateral system. (Vaile 2003)

As a consequence, during this second term there was a willingness to pursue preferential trade agreements with Thailand, Singapore and the United States. Such treaties presented the opportunity to revisit investment issues included in the MAI, but bi-laterally rather than on a multilateral basis (HoT1).

Pre-empting this new phase of re-shaping the regulatory environment in FDI through free trade agreements, on 10 September 1999 the government made numerous changes to the Foreign Acquisitions and Takeovers Regulations 1989. These changes arose out of New Zealand concerns under CER. Australia had raised concerns about the cost to Australia of social security arrangements for New Zealanders in Australia. In progressing this issue a Joint Prime Ministerial Task

Force on Bilateral Economic Relations was established. One of the trade-offs for changing social security provisions was the establishment of foreign investment policy in Australia more favourable to New Zealand (Lloyd 2001, 4). However, "while NZ pressed for nothing short of full blown national treatment for its investors, the Australian Government was not ready for such radical change – rather it chose to raise thresholds" (HoT1), (see Table 8.4).

(c) Organisational response

The second Howard government moved to improve its organisational capacity to deal with both international and domestic aspects of globalisation. To strengthen its ability to address the challenges facing international and regional trade and financial architectures, Howard established a co-ordination group called the International Economic Policy Co-ordinating Group (IEPCG) comprising deputy secretaries from Treasury, Foreign Affairs and Trade and PM&C (Sheridan 1999, 32). This committee both progressed the government's international interests, and also sponsored a number of publications on topics such as the benefits of FDI which made the case domestically for maintaining Australia's openness to the international economy (HoT/EA1).

Complementing the core executive's increased emphasis on responding to globalisation in terms of its international organisational capacities (via the IEPCG), change also took place in domestic organisational capacity to regulate firm behaviour. In the case of moves specifically related to FDI, the major development was the progressing of the legislative foundations for CLERP, with consequences for the organisation of Treasury. In particular, the Minister for Financial Services and Regulation in the Treasury portfolio, Joe Hockey, indicated that the Bill would change the way disputes over takeovers were to be dealt with, and require a re-organisation within Treasury to continue to progress change in the corporations laws (Hockey 1999). To address concerns with the dispute resolution mechanisms for takeovers, the Corporations and Securities Panel, established in 1991, was reconstituted as the Takeovers Panel to become the primary forum for resolving takeover matters (Armson 2005, 666-668). The Panel retained its existing jurisdiction to enforce compliance and was given jurisdiction to review decisions of the Australian Securities and Investments Commission (ASIC) on exemptions from the takeover rules given to corporations. To facilitate CLERP, the Business Law Division of the Commonwealth Treasury was split into two divisions to work on corporations law; the Corporate Governance and Accounting Policy Division, and the Financial Markets Division. In turn, these changes in the structure of the Treasury department, and the strengthening of the role of the Takeovers Panel, reinforced the administrative capacity supportive of an emerging regulatory net to better regulate domestic and international business behaviour in the Australian economy.

More significantly the role of the secretariat supporting the Board was changed, and it was further resourced to address, first, the focus on the MAI (FIRB 1998, 6), and then the development of bilateral agreements (FIRB 1999, 3). More significantly its role as adviser to the government via the Treasurer on foreign investment policy "including Australia's participation in multilateral and bi-lateral international agreements on investment" was formally acknowledged (FIRB 1999, 3). Staff numbers rose from 18 in 1996-1997 (FIRB 1998, 6) to 53 in 1998-1999 (FIRB 1999, 3). Furthermore the Branch responsible for providing support to FDI was identified as a separate Division within the Treasury.

The third Howard government (2001-2004)

(a) Policy response

Two particular aspects of FDI policy gained momentum during the third Howard government. First, as illustrated by the emergence of the free trade agreements, foreign governments continued to influence the nature of the Australian FDI policy. The "most aggressive in this period is undoubtedly the American government" bringing a "whole troop of industry lobbyists" to bear on specific Australian government policy on the subsidisation of pharmaceuticals, and on the reduction of tariffs in motor vehicle manufacturing (HoT2). While the third Howard government resisted these calls, the FIRB provided a means through which to discuss these concerns and those with other foreign governments (HoT2).

Second, arising out of concern with the MAI there was greater interest from NGOs and Parliamentary Committees (Joint House and Senate Committees) in FDI regulation and government policy (HoT1). The Joint Standing Committee on Treaties not only raised concerns on a number of treaties for which the government was seeking Parliamentary assent, but also on the limited nature of the process of public consultation. This led to revisions of the process to enable more time for consideration of treaties as a means of addressing some of these concerns (Downer 2002). As a consequence, “in the last five years or so you will find that players like the NGOs who had virtually no voice, parliamentary scrutiny, regulatory review, international pressure – they have all been there in more dollops then you have got ten or fifteen years ago, where the major process of change was probably macro with some vested interest groups playing a little part here and there, like tourism [in the late 1980s and early 1990s] and financial sector services” (HoT1).

The emergence of a greater emphasis on inclusiveness may be partly explained by the growth in interest in the influence of civil society on processes of globalisation. However, in the Australian context, this situation was also prompted by the weakness of the Liberal-National Coalition in the Senate:

> The reality is now on most issues, there are very few issues remaining I think that you could say are genuine bi-partisan issues. There used to be a number, but I would be surprised if there are many left…
>
> So if you have this confrontational attitude between the two major parties then it is very easy for the ones in the middle [ie minor parties] to play a major role. And that is the situation I mean. (HoT2)

Therefore while the Senate was well removed from the administrative process of screening foreign investment activity, there was a continuing concern within government that the Senate might choose to either look more closely at FDI inflows or government regulatory activity in the area.

(b) Legislative and regulatory response

The key features of developments in FDI regulation stretch the definition of regulation. Essentially, as explained below, in the Howard Government's third term the major changes in the regulation of FDI flows to Australia was the inclusion of provisions for bi-lateral agreement on investment in the free trade agreements being pursued by the government, and the implementation of the Blackburne Review (Blackburne 2001) on investment attraction.

- *Emergence of Free Trade Agreements (FTAs)*

In September 2001 Prime Minister Howard visited Washington in part to establish a stronger basis for progressing the AUSFTA. While events in September 2001 greatly contributed to the eventual signing of this agreement to "some extent this is unsurprising: even before Howard became Prime Minister, he had indicated his desire to 'reinvigorate' the relationship with the United States, which he considered to have been neglected and undervalued by his more Asia-oriented predecessors" (Beeson 2003).

A further pressure lay in the developments of the supranational regulatory framework, as the following comments from Treasury show:

> The failure of the MAI saw the debate over developing multilateral investment rules move to the WTO in the early 1990s. However, just as had happened in the OECD, getting any sort of common ground on investment rules proved impossible, so much so that the recent July 2004 compromise package designed to kick start negotiations, expressly left investment out of the talks…. Combined with the failure of the Doha talks to deal with stubborn trade issues especially agriculture, not surprisingly, trade policy in many leading trading nations has shifted towards bilateral agreements. (HoT1)

Furthermore "recent governments have been interested in the process of horse trading, that is ensuring there appearing to be both trading-off of concessions as well as making gains" (HoT1) – a view consistent with the renewed emphasis on national sovereignty amongst conservatives. However, free trade agreements were established with Thailand, Singapore and the US. In so doing the regulations for FDI have been further changed, with significant liberalisation on thresholds for these three bi-lateral trade partners.

- *Emergence of a consolidated international investment attraction service*

The significant enhancement of a consolidated investment attraction service to complement the work of the FIRB in FDI screening and negotiation, came about from the willingness of the Howard government to be actively involved in fostering economic activity. While the investment attraction service represented the emergence of a much stronger role for the Industry department it was principally the result of the continued interest and authority of the Prime Minister's Office (HT/EA1). While the Industry department, was responsible for the leg work involved in such an operation, the work centred on the PM's Office and the role of the Strategic Investment Co-ordinator (SIC). Following the Blackburne Review the PM had resisted the call for a new independent board of eminent Australians reporting to the PM, and instead chose to continue with the SIC, who reported to the Employment and Infrastructure Committee of Cabinet. In this way the PM maintained close links to the work of the investment attraction service and in so doing provided some balance to the views of the Treasurer and Treasury.

This ability to have the PM and the SIC directly involved is likely to have proved to be important in the 2001 decision by the Treasury rejecting the Shell-Woodside merger. Very much later after the 2001 Shell-Woodside decision was announced, it emerged that for some years a consortium of Australian firms – assisted by the Australian government – had been in negotiation with the People's Republic of China to supply liquid national gas (LNG) from the Northwest Shelf. In August 2002 the Prime Minister announced that the Australian consortium had been successful in gaining agreement from China to supply LNG over the next 25 years (Howard 2002b). In doing so the Prime Minister indicated the mix of pragmatism and, in terms of the relationship between Australia and China, the geopolitical intent involved in having the Australian government support for such a process:

> We do, as a Government, need to get behind our companies. I take a very nationalistic view of these things. We were fighting very tough competition and we needed a single-minded marshalling of Australian effort in order to win and that's what happened. And it's going to underwrite the economic relationship between Australia and China for years into the future. (Howard 2002b)

The process of negotiating this agreement had been underway since at least 1999 when the Chinese Premier had visited Australia. Thus, the reason for the Treasurer's decision in 2001 may well have been influenced by mercantilist considerations, something which the Treasurer seems to hint at in his comments in explaining his decision:

> I think it's in Australia's national interest that that resource, our largest energy resource, is developed to the full, and I want Australians to know and I want to know, that when contracts are going for liquid natural gas up in China and Japan and countries all over the world are competing for those exports that Australia's exports will be pushed in preference to the exports of any other field. (Costello 2001c)

(c) Organisational response

Unlike earlier periods, from 2001 to 2004 there were very few changes in the FDI regulations outside of those to do with the free trade agreements (see Table 8.3). However, the FIRB continued to be intimately involved with the inter-relation between the interests of the Australian government and foreign investors. While the network of government agencies involved in FDI had increased, the role of the FIRB continued to provide a focus for regulatory issues around FDI flows:

> The final decision is the Treasurer's. You must remember the Board has no final powers, so that the Board is essentially an advisory board unless it is delegated to deal with things. ….Then all round the edges the practice, the quite sensible practice, of consultation, means that it is not just Commonwealth departments which become important in the process, but State governments have a role. In some cases external parties become involved, within in the limits of confidentiality, through consultation. (HoT2).

In short, by 2004 the FIRB continued to review proposals on a case-by-case basis, rejecting very few and providing opportunities for those that were rejected to be revised and reworked to gain approval. However, by 2004 the system of regulation had become more complex:

> The system has changed and the fact is now you have got other bits of legislation which intervene. [For example] the Broadcasting Control Act becomes a very important part of the process if you are dealing with television, and other parts of policy become important when you are dealing with newspapers. The mixture now is much more complicated than it used to be. (HoT2).

Also, within that system, the Treasury, through its role in supporting the work of the FIRB, remains a powerful actor in FDI screening:

> Because it is the Treasurer's decision therefore his department becomes the most important part of it. It is the secretariat for the Board and has been virtually all the way through, and with almost no exceptions Treasury has provided good official members – good in the sense of their own capacity and their own ability (HoT2).

The continuing role of the FIRB, and the role of the Treasury in reviewing FDI proposals, are underpinned by the view that "whatever the brand of government that has been in power and whatever change they have made to the regulations the underlying belief that foreign investment in its nature is good for Australia even though there will be conditionality on that" (HoT2).

In addition, the emergence of Invest Australia as a highly visible and centralised foreign investment attraction service (through the recommendations of the Blackburne Review), also provided a means of engaging with States on investment attraction. In particular, States were concerned about the need for cohesiveness in the approach to government involvement, and especially:

> where there are several governments involved (as there always will be in Australia), the extent to which they integrate their approaches, communicate with each other and have common approaches to information required and timing of commitments; the management of risk, and the kind of support provided by governments (West Australian Technology and Industry Advisory Council 2004, 8-9).

As part of the ongoing development of the investment attraction framework a National Investment Advisory Board (NIAB), comprising the heads of state and territory investment agencies, was established in 2003 to coordinate government investment attraction activities with subcommittees forging constructive Australian, state and territory government partnerships on investment marketing and research (Department of Industry Tourism and Resources 2003, 32).

Analysis of FDI Experience in the Howard Era

The successive Howard governments continued to actively assert the capacity of the national government to use public policy, regulation and the national bureaucracy to manage FDI. In doing so the Howard era, despite continuing to liberalise regulatory controls, was one of a greatly expanded reach both domestically and internationally of the national government to influence both FDI flows and the regulation of foreign investment activity within Australia. A sense of crisis in responding to the financial difficulties in Asia in 1997 gave way to the systematic pursuit of stronger bi-lateral treaties on foreign investment. This innovation was added to the pre-existing and continuing pursuit of micro-economic reforms. These pressures contributed to the ongoing evolution of regulations governing foreign investment, and the agencies charged with the implementation of those regulations.

These events are summarised in the following table (Table 8.3). The table shows the changing global economic conditions during the period 1996 to 2004, the pattern of FDI flows, and change in policy, regulation and organisation. In policy a much stronger assertion of the role of government emerges. This was not only in its actions to remove controls, but also, in its responses to domestic political concerns and external exigencies such as the Asia crisis. For example, the government both asserted and enhanced its capacity by introducing regulations to restrict certain types of investment, or place investment activity on a different basis to that which had existed under the previous government.

Table 8.3: Chronology of change in the context and particulars of FDI public policy during the Howard government (1996-2004)

The First Howard Government (March 1996 to October 1998)

<table>
<tr><th></th><th></th><th>1996</th><th>1997</th><th>1998</th></tr>
<tr><td rowspan="3">Processes of globalisation</td><td rowspan="2">Global versus Local</td><td>Continuing attractiveness of Asia for foreign investment</td><td>Asian financial crisis</td><td>Growing world economy and continuing strong growth in China</td></tr>
<tr><td colspan="3">Visible civil society backlash against globalisation (in the form of the liberalisation of markets), demonstrated by popular rejection of the MAI in 1996</td></tr>
<tr><td>Business Behaviour</td><td colspan="3">Growing use of and investment in ICT</td></tr>
<tr><td rowspan="3">State Autonomy & Capacity</td><td>Goals of national government</td><td colspan="3">Break with past, (but gradual and contingent response to emerging new issues) [Kelly 2006a, 11] by emphasising the promotion of Australian values as the basis of policy. However, asserted in both the 1997 White Paper on Foreign Policy [ref] and the 1997 Budget papers [ref] that globalisation and the "continuing rise of East Asia" were to have "profound influences" on Australian foreign, trade and domestic policy. [Kelly 2006a, 15]</td></tr>
<tr><td>Relationship between government & other actors</td><td colspan="3">Realignment of government to retain those constituencies seen as neglected in the Hawke and Keating era.
Emphasis on micro-regulation as a means to better accommodate a changed world and the government's domestic political agendas</td></tr>
<tr><td>Relationship within government</td><td>Distrust of public sector

Codification of autonomy for Reserve Bank in setting interest rates to limit inflation to between 2 and 3 per cent</td><td></td><td>Strengthening of the role of the Prime Minister's Office</td></tr>
<tr><td rowspan="3">Responses in FDI public policy</td><td>Policy</td><td></td><td>Support of FDI procedures for the ongoing privatisation of state assets.</td><td></td></tr>
<tr><td>Legislation & Regulation</td><td>Measures for standardising FDI in the media sector, limits to foreign ownership of airports and Telstra established, and special conditions on uranium mining lifted.</td><td>FDI restrictions specific to telecommunications operators Optus and Vodafone removed and prohibition foreign takeover of any of the major banks removed.</td><td></td></tr>
<tr><td>Organisation</td><td>Role of Strategic Investment Co-ordinator established</td><td></td><td>Strengthening the role of the Foreign Investment Review Branch in negotiating international investment treaties.</td></tr>
</table>

The Second Howard Government (October 1998 to November 2001)

		1998	1999	2000	2001
Processes of globalisation	**Global versus Local**	Period of low interest rates, growing domestic and international demand, booming stock markets			
		World Trade Organisation talks in Seattle in 1999 fail		2000: collapse of the hi-tech bubble on Wall Street	
	Business Behaviour	Increased dynamism in business as low interest rates, growing demand, and rising stock markets led to increased merger activity			
		Increased investment interests in service and manufacturing. Greater aggregation of business operating in resource industries, forming major new firms.			
		Ansett crisis, Optus sale, emergence of very large MNE conglomerates, such as Rio Tinto and BHP Billiton, operating on a global scale in the resources sector			
			Late 2000: Shell proposal to merge with Woodside to gain access to natural gas reserves		
State Autonomy & Capacity	**Goals of national government**	Domestic pursuit of “an open, competitive market economy to maximise GDP in a framework of social stability” and international pursuit of “economic, political and security partnerships creating networks of inter-dependence as the best means of ensuring Australia’s control over its own destiny” (Kelly 2006a, 37)			Stronger alignment with the US militarily and economically
	Relationship between government & other actors		Increasing interest from foreign countries in FDI arrangements in Australia as part of bilateral trade negotiations. For example NZ in 1998/99, US 1999 onwards.		
	Relationship within government	Continuing financial and political crises in Asia and responsiveness to domestic concerns strengthen the role of the PM and PMO in crisis management. International emphasis strengthens nexus between PM, Ministers for Foreign Affairs and Trade and the Treasurer			
Responses in FDI public policy	**Policy**	Ongoing changes	Commitment to bi-lateral trade agreements as a means of furthering FDI arrangements		Confirmation of the governments willingness to veto projects when identified as not in the national interest Blackburne Review of investment attraction
	Legislation & Regulation		Changes to FTA regulations to support stronger bi-lateral agreements		Rejection of Shell-Woodside merger by Treasurer.
	Organisation		Joint Prime Ministerial Task Force on Bilateral Economic Relations between NZ and Australia (February) Separate foreign investment Division re-established		Questioning of the role of FIRB in the context of the US-Australia Free Trade Agreement.

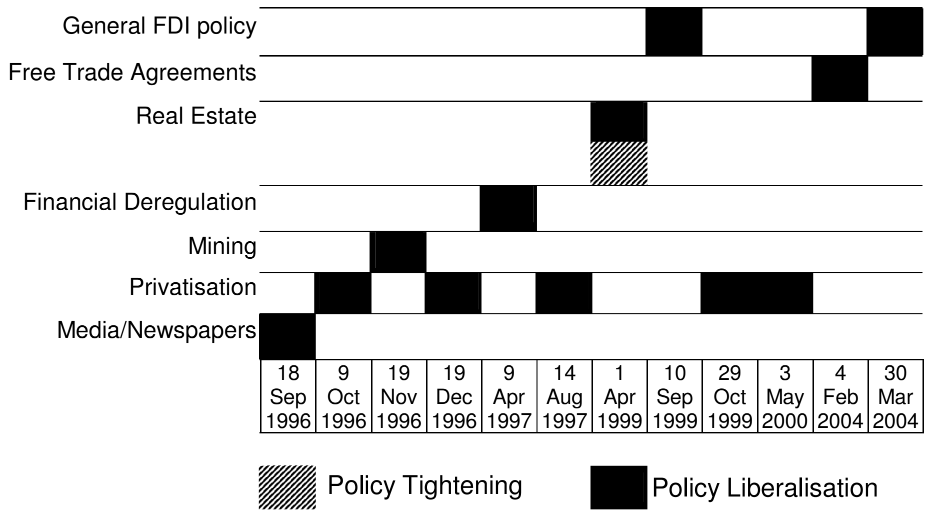
The Third Howard Government (November 2001 to October 2004)

		2001	2002	2003	2004
Processes of globalisation	**Global versus Local**	Growing fears of disinflation and stagflation		Period of dramatic and sustained rises in resource commodity prices	
	Business Behaviour	Dramatic decline in mergers activity as a response to share market declines and uncertain investment climate post 9/11	Gradual increase in merger and acquisition activity to pre 2001 levels, followed by a dramatic increase in 2004.		
State Autonomy & Capacity	**Goals of national government**	Continuing economic growth in the face of economic slowdown in G7 economies			
	Relationship between government & other actors		Concern from the Senate (parliament) on the access of the community to processes of deliberation on international treaties.	Greater willingness for co-operative arrangements on investment attraction lead to creation of National Investment Advisory Board	
	Relationship within government				
Responses in FDI public policy	**Policy**	Continuing and growing emphasis on bi-lateral trade agreements			
	Legislation & Regulation				Australia-US Free trade Agreement
		Increased formalisation of role of SIC Continuing role for Treasury in the negotiation of bi-lateral agreements on investment		Axis Australia relocated to Invest Australia	

Regulatory Changes Instituted by Government

Table 8.3 shows that the Howard government pursued a demonstrable liberalisation of direct controls on FDI. As had happened in the Fraser and Hawke-Keating eras, Howard continued the practice of working within the existing legislative framework provided through the FTA 1975. Figure 8.2 and Table 8.4 show a concentration in the first half of the Howard era on progressing liberalisation in the specific sectors of media, financial services and the privatisation of state assets. In doing so it was seeking to right what it saw as the wrongs of previous governments, but at the same time continued to work within the legacy provided by those governments. In the latter half of the Howard era the emphasis on FDI policy in general and supporting the US Free Trade Agreement, added new elements to the legacy it had inherited.

Figure 8.2: Summary of Regulatory Changes 1996 to 2004



Source: FIRB Annual Report (2004, 98-100)

The emphasis on bi-lateral trade agreements in particular provided a growing and strengthening dynamic in FDI policy. In the Howard era the development of more wide-ranging bi-lateral agreements to establish very broad preferential treatment for specific bilateral partners (such as New Zealand, Singapore, US, and

Thailand) led to further liberalisation of limits on investment activity. For example, in the case of the US, FTA limits on acquiring Australian firms were lifted to $800 million before approval from the FIRB was required. Table 8.4 also shows that between 2000 and 2003 inclusive there were no changes in regulations introduced, which supports the view that during this period the emphasis had strongly shifted to supporting bi-lateral treaty negotiations.

Furthermore this apparent liberalisation must be seen in the context of an increased range of regulators and legal instruments to support micro-economic regulation, which had the potential to affect FDI activity in Australia. The effects of the emergence of this new regulatory environment and the implications for state capacity are discussed below.

Table 8.4: Balance of changes in FDI regulation and legislation during the Howard era

	1996	1997	1998	1999
More Restrictive	The notification threshold applying to portfolio investments by foreign interests in the media sector lifted to 5 per cent so that that all portfolio investments, not only in John Fairfax Holdings Ltd, are subject to the same notification threshold. (18 September) The Airports Act 1996 assented to limiting foreign ownership of airport operator companies to 49 per cent. (9 October)	Foreign ownership restrictions specific to Optus and Vodafone were removed and replaced with generally applicable provisions of foreign investment policy.(14 August)	No changes announced	Developers seeking advanced approval to sell up to 50 per cent of a development to foreign investors was altered so that only developers with ten or more (previously four or more) dwellings could apply for advanced approval. (1 April)
Less Restrictive	No specific investment restrictions to apply to uranium mining other than the 'contrary to the national interest' test applied to all mining activity. (19 November) The Telstra (Dilution of Public Ownership) Act 1996 was assented to, restricting aggregate foreign ownership to 35 per cent of the one third equity to be sold, and individual foreign investors allowed to acquire a holding of no more than 5 per cent of that one third equity. (19 December)	In releasing the Final Report of the Financial System Inquiry, the Treasurer announced the removal of the blanket prohibition on a foreign takeover of any of the major banks and that any proposed foreign takeover or acquisition will need to be assessed, like any other proposed foreign takeover or acquisition, on the basis of its merits in accordance with the Foreign Acquisitions and Takeovers Act 1975. (9 April)		Reporting requirements relaxed so that developers were required to report all sales (Australian and foreign) to the Board every 12 months (previously every 6 months) until all the dwellings in a development were sold or occupied Numerous changes were made to the Foreign Acquisitions and Takeovers Regulations 1989 including: • increased the notification threshold for foreign investment in existing businesses from $5 to $50 million; from $20 million to $50 million for Australian assets of an offshore company acquired by another offshore company; and from $5 million to $50 million for the acquisition of developed non residential commercial real estate. • Relaxation of rules on real estates ownership including an exemption for the acquisition of interests in Australian urban land by foreign owned entities of managed investment funds for members ordinarily resident in Australia; and the acquisition by foreign interests of strata titled hotel rooms in designated hotels; • Limits to the exemption provided by newly designated Integrated Tourist Resorts; and rules to clarify the scope of a certificate of exemption issued by the Treasurer for foreign interests acquiring real estate off the plan. (10 September) The Government amended the policy concerning domestic civil aviation to allow foreign persons, including foreign airlines, to acquire up to 100 per cent of the equity of an Australian domestic airline, unless the acquisition is contrary to the national interest. Previously, foreign airlines flying to Australia were permitted to own up to 25 per cent of the equity in a domestic carrier individually or up to 40 per cent in aggregate. (29 October)

Balance of changes in FDI regulation and legislation during the Howard era (continued)

	2000	2001	2002	2003	2004
More Restrictive		No changes announced	No changes announced	No changes announced	
Less Restrictive	The Aviation Legislation Amendment Act (No. 1) 2000 increased the maximum percentage of equity permitted by a foreign airline in an Australian international carrier (other than Qantas) to 49 per cent. Previously a foreign airline was permitted to own up to 25 per cent. Note: In the case of Qantas, total foreign ownership is restricted to a maximum of 49 per cent in aggregate, with individual holdings limited to 25 per cent and aggregate ownership by foreign airlines limited to 35 per cent. In addition, a number of national interest criteria must be satisfied, relating to the nationality of Board members and operational location of the enterprise. (3 May)				The Australia United States Free Trade Agreement was finalised in February 2004 and came into effect on 1 January 2005. A number of changes were made to Australia's foreign investment policy as it applies to US investors only through amendments to the Foreign Acquisitions and Takeovers Act and the Foreign Acquisitions and Takeovers Regulations 1989. (February)

Source: Appendix C FIRB (2005, 95-98)

Organisational Changes Instituted by Government

Once again, despite liberalising aspects of FDI regulation, the organisational changes instituted by the Howard government increased the capacity of the national government to regulate FDI. As Table 8.5 shows there is a continuing em-

Table 8.5: Strengthening capacity for direct and indirect regulation of FDI

Agency	**New agency, new responsibility**	**New agency, existing responsibility**	**Existing agency, change in responsibility**	**Effect on decision making**
Direct influence of executive government in FDI regulation				
FIRB: Policy, review, communication, monitoring on FDI flows				
RBA: Monitoring and facilitating financial flows			Formalisation of role in setting monetary policy	*Greater concen-tration on FIRB*
PM&C: Cross government co-ordination and advising PM and Cabinet			Increased role in FDI strategy and facilitation	*Less concen-tration on FIRB*
Indirect influence of executive government via general, domestic business regulation				
ABrA (1992) Broadcasting			Yes	*Less concen-tration on FIRB*
ACCC (1995) Strengthened anti-monopoly powers			Yes	
APRA (1998) to oversight financial products of the Australian financial services industry. (Cooper 2006: 4)		Yes		
ASIC (1998) replacing ASC and including consumer protection in superannuation, insurance, deposit taking and credit.		Yes		
Takeovers Panel (2001) Dispute resolution for domestic takeovers	Yes			
AUSTRAC (1988) Illegal movements of money			Yes	
Austrade (1987) Outwards trade facilitation			Yes	
Australian Taxation Office Large business and transnational transfer pricing			Yes	
Productivity Commission (1998) Micro-economic reform (combining roles of Industry Commission, BIE and EPACm)		Yes		
Invest Australia (1997) FDI attraction and, through the Strategic Investment Co-ordinator.		Yes		
Axis Australia: Investment attraction for the financial sector. Incorporated into Invest Australia in 2003	Yes			
NCC (1995) Monitoring national competition policy	Yes		Yes	

Source: Tables 7.4 and 8.2 above; Invest Australia (Department of Industry Science and Tourism 1997, 41-43); Axis Australia (Costello 1999, 163; Department of Industry Tourism and Resources 2003, 33) phasis on micro-economic reform, and the strengthening of the role of the PMO in facilitating inwards investment. For example, in the area of micro-economic reform new agencies such as APRA and ASIC emerged; the role of the RBA became more specialised; and in taxation there was a continuing pursuit of issues to do with transnational taxation.

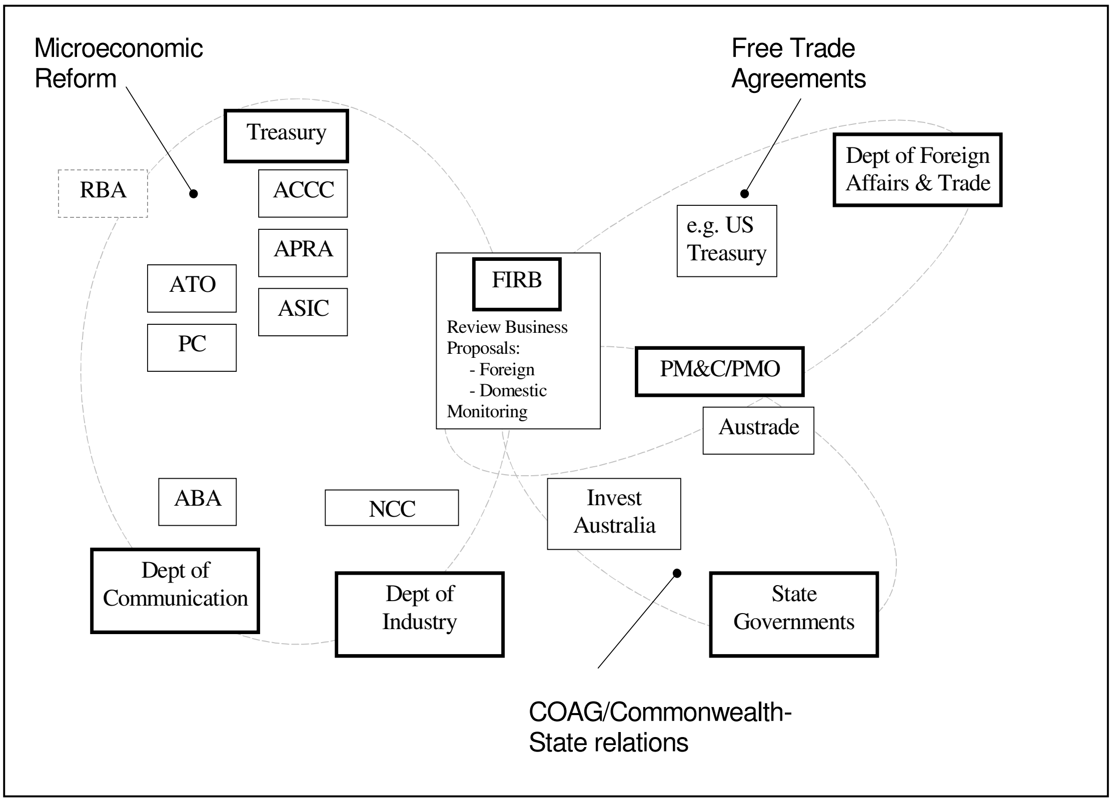
The Howard era saw gradual adjustments to accommodate both the government's political agenda and changes taking place in global business and economic circumstances. Unlike the earlier period (where there was the strengthening of the role of both the PMO and the role of the Department of the PM&C), in this period the role of the Treasurer and Treasury is both more extensive and more intensive. At the same time there is a balancing of some of the Treasury portfolio's power in the area of FDI with the emergence of Invest Australia and its links through the SIC to the Prime Minister's Office.

As a consequence, the structure of institutional arrangements that emerged during the Howard period reinforced and sharpened the trend towards the creation of agencies to regulate specific aspects of market behaviour. While there was an emphasis on streamlining regulations and clarifying regulatory tasks, there was also an increase in the number and scope of agencies either directly or indirectly involved in regulating FDI activity. For example, of the twelve agencies listed in Table 8.5, three were completely new, while the remainder either saw additional responsibilities added to their role, or their capacity to service existing responsibilities strengthened. The result was a range of new agencies and responsibilities with the capacity and legal authority to influence foreign takeover activity in Australia.

The consequence of these changes was a more complicated and more diffuse network of bureaucratic relationships located around the FIRB (as illustrated in Figure 8.3). At the hub of this network was the FIRB reviewing proposals from both domestic and foreign investors and, once agreed to, monitoring compliance with conditions set as part of Treasurer's agreement for the investment to proceed.

Around the hub are three clusters of regulatory activity which influence aspects of FDI decision making: micro-economic regulation, negotiation and implementation of free trade agreements, and Commonwealth-State relations. The emergence of each of these clusters, as demonstrated earlier in this thesis, had been gradually emerging since the late 1960s. However, the Howard era led to stronger definition of each cluster and its interaction with FDI flows.

Figure 8.3: Structure of the bureaucratic relationships concerned with FDI, 2004



In Summary

The three Howard governments represent a period of gradual, but increasingly complex developments in FDI regulation and administration. The commitment to a principal-agent model for public sector organisation had created a range of new agencies and enhanced the role of a number of existing agencies, each with a direct or potential interest in the FDI activity within Australia. This was a result both of the government's broad policy approach, and the implementation of those policies. That is, successive Howard governments adopted a policy of a continuing commitment by the government to exposing the Australian domestic economy to international competition, albeit balanced against the degree of acceptance of key constituent groups within the electorate. In terms of implementing this policy, there had been a strengthening of links between the Commonwealth and the States in fostering investment attraction through significantly enhanced institutional arrangements, the continuing pursuit of micro-economic reform activities, and a greatly enhanced investment attraction capacity.

In terms of FDI policy through this period, the posture is one of a gradual experimentation with bi-lateral agreements. This is partly explained by the contentiousness of establishing a multilateral agreement on FDI following the collapse of the 1995/1996 push for an agreement via the OECD. It is also partly explained by a shift in conservative ideology to more strongly argue for the role of bi-lateral treaties and negotiations as a means of governing international relations between states: the argument for such arrangements was the way explicit tradeoffs could be identified and be made without the blanket signing away of rights unnecessarily (Spiro 2000, 11-12).

Significance of the National Bureaucracy in FDI Policy Adaptation

The significance of the national bureaucracy in FDI policy adaptation during the Howard era was that it continued to provide a means for the government to respond to both international and domestic pressures. As this chapter has demonstrated, while Howard continued to pursue greater exposure to market pressures, the executive of the national government retained and enhanced its capacity to influence economic behaviour in the Australian economy. For example, expansion of micro-economic regulatory capacity continued, adding to the complexity of the network of agencies concentrated on business regulation as a means for the national government to influence business behaviour in the Australian economy. At the same time the Howard government sought to more strongly emphasise bi-lateral trade relationships and investment attraction, in so doing adding two further two sets of government agencies to the mix of agencies concerned directly and indirectly with FDI regulation. Nevertheless the FIRB continued to be the hub for the implementation of policy on FDI, underscoring its maturity as an institution, and once again enabling the selective liberalisation of regulation governing FDI flows.

Thus the significance of the national bureaucracy during the Howard government was its key role in the expansion of the government's influence through regulatory capacity. This influence was apparent in the types of regulatory activity undertaken by the government in shaping the nature of the border region between national and international firms. At the same time the government was able to demonstrate that this capacity could be used to veto proposals assessed as not in the national interests, thus preventing specific investments likely to be viewed unfavourably by the electorate or adversely effecting future investment activity by Australian firms. Thus while the government generally pursued a policy of liberalising FDI regulation, it continued to strengthen its capacity through its bureaucracy to more strongly intervene directly and indirectly to influence FDI flows.

Key findings

Overall, in the first two Howard governments (1996 to 1998 and 1998 to 2001) not only were global economic conditions supportive of growth but institutional frameworks proved effective in ensuring ongoing growth, albeit with continuing concern regarding unemployment, and the stability of the international financial system. In the second two Howard governments (2001 to 2004 and 2004 onwards), the international multi-lateral architecture established after WWII was challenged, if not actually under revision. While there were significant economic shocks for the Australian economy from regional economic crisis in the early phase of the Howard government there was, after the reforms of the 1980s, sufficient adaptive capacity built into the Australian institutional structure to accommodate such change.

What Howard added was a continuing process of streamlining and modernising, by making regulations more consistent and more precise (such as those introduced to carry through on the privatisation of public assets). Paradoxically these processes of apparent liberalisation led to a strengthening of government capacity to not only assert its right to regulate this activity, but to carry it out. In the specific case of FDI regulation, there is a continuing willingness by the Treasurer, the Prime Minister and successive Industry Ministers to seek to shape the institutional arrangements to foster and facilitate FDI. These actions were reflected in:

- the emergence of Invest Australia and an increased specialisation in the roles performed by the FIRB,
- the continuation of micro-economic reform as a policy, and
- complemented by the continuing creation and development of government agencies to regulate micro-economic activity with the goal of enhancing productivity across the economy.

Also during the Howard period, the government continued to be at pains, even in negotiations on the AUSFTA, to protect the system of regulation that operated in and around inwards FDI. While there was a willingness to trade off specific investment thresholds, this must be seen in the context of an emergent capacity through reforms in corporate law, tax reform and general business regulation, to accommodate the regulation of inward FDI flows through a regulatory framework grounded in ‘main stream’ business activity. This is especially so in the case of reforms in corporate law through CLERP, and the emergence of the Takeovers Panel.

Under Howard, while there was a greater willingness to pursue a strong government agenda to foster business development through direct assistance, this was balanced by a growing capacity within Treasury to foster continuing processes of micro-economic reform through stronger regulatory powers and more extensive networks of regulators. In turn, the confluence of these two processes in FDI policy implementation, meant that the FDI screening process reached a new stage of development under Howard, which was more engaged with a broader network of bureaucratic representatives than in the past. In turn, within this broader network within the border region between national government and international business the FIRB has developed more specialised roles, particularly in the areas of ensuring compliance, and the negotiation between governments of bi-lateral agreements on foreign investment activity.

CHAPTER 9 - Conclusion

The purpose of this thesis has been to examine the significance of the national bureaucracy in the Australian government's efforts to deal with pressures of globalisation and, in particular, how the structure of Australia's national public administration has adapted, or been adapted by government, to accommodate global flows of capital. In doing so this thesis comments on the ongoing natural experiment occurring on a global scale as individual nation states seek to adapt their national systems of governance to cope with pressures for stronger international economic integration. Using a case study of the management of FDI, the thesis has examined how successive governments in Australia have responded to this challenge through the adaptation of policy, regulation and the organisation of the national bureaucracy. These findings will now be analysed to determine whether the role played by the national bureaucracy in this process is indicative of the capacity of the state to manage the pressures of globalisation within the context of its economic and political objectives.

Experience revealed by the case study

The case study demonstrated the interaction between globalising processes and the response from successive Australian governments from 1968 to 2004. Examination of the case material in Chapters 5 to 8 reveals the significant role played by the US economy in the post-WWII period, the emergence of an international architecture, and the harnessing of international business activity as a source of economic growth and global change. The growth of international business created not so much a new pressure on the state, but an increase in scale that created a new dynamic favouring the use of markets as a means of resource allocation and decision making and with the potential to challenge the autonomy of national governments.

In demonstrating the impact of globalising processes, the case study showed in Chapter 5 that the initial impetus for increased national government involvement directly with globalisation, in the form of FDI flows, was created by a sudden and unexpected interest in Australian land and mineral resources at a time of increased international financial instability. These pressures contributed to a sense of crisis as the national government sought to establish a new, nationally managed process for regulating inwards capital flows. While the scope and scale of international capital markets grew, domestic economies in the 1970s were constrained by rising unemployment and inflation. Chapters 6 to 8 showed how during the 1980s and 1990s strengthening economic conditions, the growing scale and interconnectedness of international business operations, and the emergence of large, global markets for primary produce and mineral resources, manufactured goods and services posed new challenges for the theory and practice of policy making by national government. This was particularly so with the mobility of international capital and increased opportunity for direct investment by foreign investors in domestic economies.

One, key challenge for nation states during this period of greater interconnectedness between states, was the necessity to respond to threats to state autonomy suggested by greater global integration of business operations and national economies. The examination of this issue via the case study of experience in FDI public policy, regulation and organisation of the national bureaucracy was designed to test the impact of globalising pressures and domestic responses as mediated by the Australian national government.

FDI policy, as an indicator of change and response to globalising pressures, showed the movement from initial acceptance of a minimalist role for national government to the rapid engagement across government's core executive to establish a means for greater intervention to both assure community of governmental control while continuing to encourage and facilitate FDI. More gradually from the mid-1970s onwards this thesis reveals how the government demonstrated its capacity to exert its autonomy by liberalising specific controls on

FDI and intervening when it thought it necessary to do so.

FDI regulation, as a further indicator, followed the trajectory of policy moving from minimal regulation and then a very rapid progression to stronger regulation. This was evident in the Whitlam government's policy of directly harnessing FDI to government objectives for national development and ownership of natural, mineral resources. As subsequent governments from Fraser to Howard sought to deregulate and then open the national economy to greater international competition, regulations became more accommodative of FDI inflow. Nevertheless, the gradual liberalisation (achieved by increasing limits for foreign investment and streamlining FDI requirements so that there was greater consistency between industry sectors) was conducted on the terms of the national government of the day and to suit its political and economic objectives, thus demonstrating that government had maintained a capacity to exert its autonomy.

The organisation of the national bureaucracy to support FDI policy and regulation shows a further, significant aspect of this change. While successive governments since Fraser indicated they were in favour of a general policy of liberalisation, their changes to the bureaucratic structures supporting such policies outlined in this thesis reveal a different story. This is evident from the fact that over the 36 year time period examined in this study an increasing number of agencies were involved in aspects of regulating the domestic economy, and consequentially the impact of FDI decisions. In turn, there was increasing complexity in the interactions between those agencies: for example, Chapter 5 showed that prior to the late 1960s regulation of FDI flows took place within the Reserve Bank, while by 2004 (Chapter 8) the system of regulation had grown to extend into areas such as Commonwealth-State relations, international treaty making by the Australian government, and micro-economic reform in the domestic economy. Much of this complexity was driven from developments outside FDI policy to encourage economic growth through deregulation and economic reform, which led to a range of new agencies involved in the regulation of the economy and business activity and whose actions complemented the role of the FIRB.

Implications of findings for understanding interactions between globalising processes and the role of national bureaucracies

Literature reviewed as the basis for this thesis posed the problem of how states have been able to retain and enhance autonomy in the face of the rise in the number and strength of private and public transnational organisations that operate outside the confines of any one state. Analysis of state capacity showed there to be both a push and pull on the state's autonomy with subsequent pressures on the state's capacity, including its bureaucracy, to respond. However, while both state autonomy and capacity are subject to pressures of the globalisation of production, the growth of transnational markets and greater interconnections between national economies, the state has sought to adapt and continue to exert influence in its relationship with society.

This thesis, using the case of public intervention to regulate FDI flows, has demonstrated such a change in capacity. In the case of national government's response to FDI flows this thesis showed how change in capacity, specifically in the regulatory and organisational capacities of the state evolved:

- from a closed processes to support the monitoring of balance of payments (pre Gorton),
- to one seeking to better regulate FDI via screening (McMahon and Whitlam), a status confirmed and enhanced under Fraser,
- to one capable of being liberalised while still enabling the maintenance and enhancement of the regulatory regime (under Hawke and Keating), and most recently,
- to one very strongly integrated into being component of both micro-economic regulation and major policy initiative of the Howard

government.

Thus instruments of state authority to ensure autonomy – the policy on FDI, the regulatory framework and the organisation of the national bureaucracy – became increasingly complex.

As demonstrated in the case study, the state in Australia has actively sought to encourage the globalisation of domestic markets, yet, at the same time, it has maintained its autonomy and capacity. In the case of FDI the government has demonstrated a significant capacity by adjusting its governance structures through deployment of its "important powers and resources" (Knill & Lehmkuhl 2002, 43) such as the national bureaucracy. Therefore, this study indicates that despite the push and pull of globalising pressures the fundamental characteristics (such as autonomy and capacity and therefore sovereignty) of nation states have not been substantially diminished. However, this study also shows that patterns of relationships within the state, and between state and society, have changed as the state has sought to maintain or enhance its autonomy as global circumstances changed. In turn, the state had to re-organise, adjust and adapt its national bureaucracy as a means of enabling the ongoing autonomy of the state. As a consequence there has been a qualitative shift in governance in the form of the emergence of networks of relationships within and between firms, and other political actors nationally and internationally (as demonstrated in Figures 5.2, 5.3, 6.2, 6.3, 7.4, 7.5, 7.6, 8.3) showing the changing patterns of relationships within the core executive). Nevertheless while the sets of relationships have changed, such change in capacity has been to enhance state autonomy.

The significant issue pursued in this thesis has not been the decline of states in a globalising world, but the degree to which a state can adapt its functions and, as indicators of such adaptations, the new patterns of social interaction, both political and organisational, which emerge. For example, the emergence of FDI as an area for Australia's national government to address essentially involved expanding and reworking the arrangements for the entry of foreign investment. In doing so the national government gradually established a new means of regulating the flow of such a form of capital into the domestic economy. In turn, the need to respond to new circumstances and innovations within this new border region introduced more complexity into political decision making and public policy.

Introducing the concept of a border emphasised that capital, rather than being footloose, is subject to institutional stickiness. Thus what happens within borders, in terms of jurisdictional and regulatory practices, is fundamental, "to the organization and operation of the global political economy" (Dicken 2004, 9). The historical review of controls outlined in Chapter 2 showed that different countries established different regulatory regimes with a mix of formal and informal mechanisms to foster or restrict FDI flows as determined by perceptions of national interest. The case study material presented here showed for the period 1968 to 2004 that governments in Australia were willing to make use of, and where necessary, revise aspects of FDI controls as circumstances and their perceptions of national interests changed. Thus these results support the view set out in Chapter 2 that despite continuing emphasis on liberalisation of FDI flows by nation states, there is likely to be considerable diversity in the way in which each nation state deploys its regulatory capacities to strongly influence, if not manage, FDI flows.

In terms of theorising on globalisation, this thesis has demonstrated there can be a more activist role for the state and the bureaucracy in adapting to globalising pressures. Welch and Wong (2001) have argued that national bureaucracies provide a filter for globalising pressures which suggests they have an important though largely passive role in the process by which states deal with the globalisation of domestic economies. However, the results of this thesis show that successive national governments in Australia have been more proactive in the way they have used and applied the national bureaucracy to establish and support a new set of bureaucratic relationships and mechanisms to better manage inflows of foreign investment capital. The resultant patterns of organisation have become more of a network of relationships. However, these networks remain driven and managed by the central, national government. This indicates the continuation of centrality as the means by which the core executive of the nation states maintains its autonomy while at the same time enabling adjustment and adaptations to the institutions supporting the operations of the nation state. Thus while the borders, boundaries, or frontiers of each national state are tested by globalising processes, the centrality of the core executive to decision making in the workings of that nation state remain.

Of equal significance, this thesis has shown how the state has maintained sufficient autonomy to establish goals and set directions separate from other societal actors. Principally this has been through the employment and deployment of the national bureaucracy and the manipulation by government of patterns of employment and deployment to adjust to new political circumstances. Thus, this is consistent with the argument made in Chapter 3 that bureaucracy is a necessary and visible component of the state because it provides a significant capacity through which to ensure autonomy and enable the execution of government policy. For example, as set out in Chapter 5, in the case of FDI the capacity to respond to globalising pressures was initially included within the role of the Reserve Bank, but by the end of the 1960s the national government had made a commitment to establishing a stronger capacity to better regulate such inflows of capital. It is clear from the experiences of government presented in this thesis that this capacity has grown to be part of a more general micro-economic regulatory regime.

In terms of the significance of the national bureaucracy to this process of adjustment, the argument turns back to Weber's identification of the asymmetry between the types of authority wielded by government and that wielded by the bureaucracy (the government having the authority to govern and the bureaucracy providing expertise in the application of laws and the practice of governing) discussed in Chapter 3. One response from government to overcome the threat of the concentration of expertise within the bureaucracy is to fragment the bureaucracy into smaller units and thus limiting the concentration of expertise. This kind of response from executive government has been demonstrated in this study by the proliferation of agencies which contribute indirectly to the regulation of FDI flows through business regulation and the change over time in the functions distributed across those agencies. However, the purpose was not to disperse expertise to limit any threat to government control over policy from within the bureaucracy. On the contrary, the justification from government for this organisational response has been that it provides more effective regulatory capacity by providing more precise governmental interventions to facilitate greater openness of the domestic economy. Thus in this case while both the administrative and political elements of the core executive displayed a wariness, and at times open distrust of each other's capacities, both sets of capacity were necessarily intermeshed in crafting an effective policy response to stronger pressures for global integration.

Thus, another response to the asymmetry in the basis of authority within executive government is to have, within the executive core, a process of negotiation occurring between the administrative, political and policy actors to establish a specific policy position and carry through on the execution or implementation of that policy. The negotiation that occurs between the elements of the executive core (administrative, political and policy) was demonstrated in this study in each of the eras of government examined in Chapters 5 to 8. This finding supports Allison's (1971) view, set out in Chapter 3, that the state, in crafting a response to changing circumstances, has its own sets of interest and responses (which may or may not offer the best solution to a given problem) which contribute the exchange of ideas taking place within the executive. In turn an approach or strategy is crystallised in the actions of the leader – with leadership in the case of FDI varying over time across the roles of the prime minister, treasurer and political and bureaucratic advisers. In turn, that there is a contest taking place within the executive core between competing views further reinforces the argument that, at least in this case, the state has sufficient capacity (as demonstrated by the contest taking place) to maintain or enhance its autonomy, and thus authority over its regulatory and organisational framework, despite pursuing greater exposure of the domestic economy to foreign investors.

A further response has been the strengthening of the role of the political executive as a means of fostering greater coherence within the core executive. This has been underscored in the Australian context generally by the rise in importance of the role of the prime minister, his office and his department. In the case of FDI the role of the prime minister is limited in the screening of actual FDI proposals, but in the context of shaping the bureaucratic system the prime minister, the prime minister's department and more recently (in the Keating and Howard eras) the prime minister's office all contributed to the shaping of the broad micro-economic regulatory structure, of which the FIRB forms a small but significant part. The emergence of a stronger and more activist prime ministerial office (and capacity in the form of the Department of Prime Minister and Cabinet) aided greater coherence between political, policy and administrative components of the core executive. In turn, the core executive has been able to support and promote a deregulatory posture in FDI policy and regulation while increasing the capacity of the government to engage with micro-economic issues, in particular the regulation of firm activities (whether domestically or foreign owned) taking place in the domestic economy.

Thus, a more extensive regulatory network to support the accommodation of continuing FDI flows has emerged. This network is one which continues to be supportive of central government autonomy in the creation and implementation of policy. This finding is both consistent and at odds with theory on the functioning of policy communities. Coleman and Atkinson's (1998) views on policy communities suggests that the Australian government has been in a strong position relative to foreign investors during the period 1968 to 2004 with regulatory power concentrated in the hands of a relatively small number of officials. Thus while the structure of regulation of global flows has shifted towards a system of regulation reliant on a network of agencies centred on the Treasury's FIRB secretariat the autonomy of the national government has not been diminished. This network arrangement enables future possibilities of more, specialist agencies to be added as needs be (thus further enhancing the state's adaptive capacity); and the removal or reworking of responsibility between agencies in this network (again providing a means for the state to maintain or enhance its capacity over time).

The approach to FDI regulation which has emerged in Australia in the period of 1968 to 2004 is, however, consistent with contemporary theory on regulatory practice. For example, Knill and Lehmkuhl (2002) argue that in the face of a relatively weak private sector government will continue to pursue more hierarchical forms of intervention. Thus the Australian national government, in the face of generally fragmented business interests continues to exert its authority and demonstrate its autonomy through the maintenance of hierarchical controls, although the method for implementing government policy is via a network of government agencies rather than a single, centralised authority. Only in cases where business performance is threatened overall, such as the experience during the period of the Whitlam government, has there been sufficient coherence within the domestic business community to challenge the government's position. Or in specific industries at particular times, such as the impact of ICT on banking during the 1970s which created the potential for private banks to by-pass the extant regulatory structure.

Conclusion

This thesis has demonstrated that the hypothesis that nation states use the capacity of national bureaucracy as a key adaptive mechanism to aid domestic accommodation of globalising pressures while enabling the retention of state autonomy holds true, at least in the case of Australia's experience with FDI from 1968 to 2004. Thus while successive Australian governments have sought to adapt to greater internationalising pressures, particularly those generated by international economic actors, such as MNEs, and the internationalising of markets, the Australian state has retained sufficient capacity to respond to such globalising pressure to support its own strategic and political objectives. This case shows that while there are changes in how states act and behave in responding to globalising pressures a fundamental role of the state continues to be that of regulating cross-border flows such as FDI. Where change has occurred it has been reflected in adaptations at the level of the national bureaucracy, as the key institution for the executive government to assert its autonomy.

This thesis has demonstrated that bureaucratic processes within the nation state are a significant indicator of state capacity. This study showed the national bureaucracy as a key component of state adjustment, being used as an agent of change by the state, providing assistance with policy development and implementation of the agendas of successive national governments. Chapters 5 to 8 demonstrated how successive governments responded to changing global economic and geopolitical pressures influenced by domestic political pressures, ideological agendas and policy preferences by employing and deploying the national bureaucracy in different ways that suited their own strategic goals.

In turn, the technique adopted in this research, of examining patterns of employment and deployment of the national bureaucracy and change in those patterns over time, is important in understanding how states manage the pressures of globalisation. A key supposition of much of the literature on globalisation is the notion of the decline of the nation state and consequently a diminution in the role of national bureaucracy (Weiss 2005, 345). Empirical investigation of patterns of employment and deployment revealed in this study by examining the independent variables (impact of globalisation, and state autonomy and capacity) and the dependent variables (policy, regulation and organisation in the FDI policy domain) show border regions or frontiers between national government and private sector actors are more complex. Thus while there have been significant adaptations and innovations leading to a transformation of the border region these changes have not led to a diminution of state power. In turn, examining how governments manage the functions and organisation of their national bureaucracies to deal with the pressures of globalisation, such as that undertaken in this thesis, provides a means to show what innovations take place, how those innovations occur and why they occur. This approach offers the potential for comparative analysis across time periods and across different countries or different areas of policy to test and identify innovations in public management occurring as a response by nation states to globalising pressures.

Thus this research has cut new ground in terms of the existing research and literature on the relationship between the state and globalisation. In particular, it has done so in four areas by:

- Examining contemporary experience of how national government and international business actors interact to shape flows of investment capital in the case of a wealthy open economy such as Australia's. This adds to studies of change on the frontier between international capital flows and domestic regulatory practice.

- Tracking change in the key bureaucratic instrument (the FIRB) to screen FDI proposals from its beginning to its current status as a key component of national government's means for regulating increasingly internationalised business activity in Australia. This adds to understanding of responses by nation states to pressures for greater, global economic integration. This analysis has also added to an understanding of the development of the Treasury department, which as this thesis has shown in Chapters 5 to 8 is a significant actor in Australian public policy.

- Focusing on change within the core executive using a qualitative, longitudinal analysis to demonstrate change in both governmental capacity and autonomy as national government responds and adapts to pressures for greater international economic integration. This adds to understanding of the workings of the core executive and its contribution to the shaping of public policy.

- Demonstrating the role of national bureaucracy in contributing to the development and implementation of public policy on FDI in a wealthy nation. This latter aspect, especially the emphasis on the identification of organisational innovations arising from the experimental approach of successive Australian governments, provides a benchmark for future, comparative research.

This thesis has taken a significant, new approach to determining the capacity of the state by examining the way in which a government can develop a liberalised approach to FDI yet still control and regulate capital flows within a bureaucratic framework. The thesis provides a benchmark for further research to determine whether other individual states have managed the pressures of globalisation in similar ways or, through comparative studies, to determine whether any significant patterns of bureaucratic organisation as a function of state capacity have developed.

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