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Politics of foreign direct investment in Australia, 1960 – 96

Christopher James Pokarier

A thesis submitted for the degree of Doctor of Philosophy of The Australian National University, October 2000.

Candidate's statement

I hereby declare that the contents of this thesis are entirely my own original work, that no part has been submitted for credit towards any other academic qualification and that all sources utilised in the preparation of this thesis have been duly identified where appropriate.

Christopher James Pokarier, 24 October 2000

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Abstract

Foreign direct investment has played an important role in the Australian economy yet despite frequent public controversy there is still no general study of the politics of inward FDI in Australia. This thesis seeks to explain why Australia turned away from a long-established 'open door' policy towards FDI in the late 1960s only to liberalise policy again from the mid-1980s and why policy openness varied across sectors. In doing so the thesis tests the explanatory power of both private and public interest theories of FDI policy. Both accounts are grounded in a theory of political markets characterised by information shortages and political entrepreneurialism. This thesis concludes that Australia's FDI policy during 1960–96 principally reflected government attempts to make politically optimal compromises between competing conceptions of the public interest in relation to FDI. Yet rent seeking was rife and, to some degree, influenced popular and elite perceptions of the public interest. Liberal business constituencies and the imperative of growth-oriented policy strategies usually outweighed private interest supporters of restrictive FDI policy although periodically the latter did find some influence. Private interests seeking restrictive policy were helped by shortages of information about the real costs and benefits of FDI, in the case of the mining industry in particular, and by popular concern about the cultural consequences of FDI in the case of the mass media. The public interest politics of FDI policy also proved to be inseparable from the use of restrictions on FDI as a second best solution to poor regulatory design, tariff policy and mismanagement of national resources. These findings about the politics of FDI in Australia suggest that when confronted by a weak economy most governments will deliver quite liberal policy in practice for all but the most politically sensitive sectors. The economic costs of economic nationalism may engender their own political momentum for the liberalisation of FDI policy. Yet the Australian experience also suggests that governments will be very hesitant to give up discretionary controls on FDI, such as the Foreign Investment Review Board. This is because they provide a mechanism for managing politically resilient economic nationalist sentiment in the electorate and for providing the odd favour to an influential private interest.

Abbreviations

Newspaper in-text references

ABM	Australian Business Monthly
AFR	The Australian Financial Review
Adv	The Advertiser
Age	The Age
Aust	The Australian
BRW	Business Review Weekly
Bull	The Bulletin
CM	The Courier Mail
CT	The Canberra Times
DS	The Daily Sun
DT	The Daily Telegraph
Exam	The Launceston Examiner
FEER	Far Eastern Economic Review
GCB	Gold Coast Bulletin
Her	The Herald
Mer	The Illawarra Mercury
NT	The National Times
SMH	Sydney Morning Herald
Sun Age	The Sunday Age
Sun Her	The Sunday Herald
SM	The Sunday Mail
Sun Tel	The Sunday Telegraph
SS	The Sunday Sun
TOS	Times on Sunday
Towns Bull	The Townsville Bulletin
WA	The West Australian
W.Aust	The Weekend Australian

Authors' surnames are cited only when the article contained original analysis or investigative reportage that distinguished it from similar reports in other media outlets.

Other abbreviations

AAPIS	AAP Information Services Ltd
ABA	Australian Bankers' Association
ABA	Australian Broadcasting Authority
ABC	Australian Broadcasting Commission/Corporation
ABEU	Australian Bank Employees Union
ABS	Australian Bureau of Statistics
ABT	Australian Broadcasting Tribunal
ACCA	Australian Chambers of Commerce of Australia
ACMA	Associated Chambers of Manufacturers of Australia
ACP	Australian Consolidated Press Ltd
ACU	Australian Cattlemen's Union
ACTU	Australian Council of Trade Unions
AIDA	Australian Industries Development Association
AIDC	Australian Industries Development Corporation
AIN	Australian Independent Newspapers Pty Ltd
AIUS	Australian Institute of Urban Studies
AJA	Australian Journalists' Association
AJBCC	Australia-Japan Business Cooperation Committee
ALP	Australian Labor Party
AMBA	Australian Merchant Bankers' Association
AMH	Australian Meat Holdings Ltd
AMIC	Australian Mining Industry Council
ANM	Australian Newsprint Mills Ltd
ANOP	Australian National Opinion Polls
APEC	Asia Pacific Economic Cooperation
ARCO	Atlantic Richfield
ARDB	Australian Resources Development Bank
ATIA	Australian Tourism Industry Association
BHP	Broken Hill Proprietory Company Ltd
BOP	Balance of payments
CEDA	Committee for the Economic Development of Australia
CAIL	Coal and Allied Industries Ltd
CCA	Cattle Council of Australia
COFT	Committee on Foreign Takeovers
ConAgra	Consolidated Agriculture Inc

CRA	Conzinc Riotinto of Australia Ltd
CSR	Colonial Sugar Refining Company Ltd
DFAT	Department of Foreign Affairs and Trade
DITAC	Department of Industry, Technology and Commerce
DIST	Department of Industry, Science and Technology
DPIE	Department of Primary Industries and Energy
DSRT	Department of Sport, Recreation and Tourism
EPDC	Electric Power Development Consortium
FDI	Foreign direct investment
FIRB	Foreign Investment Review Board
FTA	Foreign Takeovers Act
FATA	Foreign Takeovers and Acquisitions Act
Han	Hansard
H. R.	House of Representatives
HWT	Herald and Weekly Times Group
JTB	Japan Travel Bureau
MITI	Ministry of International Trade and Industry (Japan)
MFP	Multifunction Polis
NBFI	Non bank financial institution
NIF	National Investment Fund Fund
OECD	Organisation for Economic Cooperation and Development
PMA	Petroleum and Minerals Authority
RBA	Reserve Bank of Australia
RHQ	Regional headquarters
RRT	Resource rent tax
RTZ	Rio Tinto Zinc Plc
SGIO	State Government Insurance Office
TPC	Trade Practices Commission
Sen	Senate
UGA	United Graziers' Association
VCM	Victorian Chamber of Manufacturers
VDR	Variable Deposit Requirement
WMC	Western Mining Corporation

1 Issues

Foreign direct investment has played an important role in the Australian economy throughout the postwar era and in certain earlier periods. Yet despite frequent public controversy over foreign direct investment there is still no general study of the politics of inward FDI in Australia. This thesis is an attempt to provide that study. It offers insights into the political forces for and against a liberal policy towards inward FDI in the period from 1960 to 1996. In doing so it contributes an understanding of a neglected but significant dimension of Australia's national political economy. It also makes a modest contribution to the international business literature on the domestic determinants of FDI policy. It does so at a time of public debates over 'globalisation' and when the failure of negotiations in the OECD of a Multilateral Agreement on Investment (MAI) have revealed the strength of domestic political resistance in many countries to open FDI policy regimes. The thesis tests the explanatory power of both private and public interest theories of FDI policy. Both accounts are grounded in a theory of political markets characterised by information shortages and political entrepreneurialism. Both interests and ideas, complexly interdependent, have determined Australian policy outcomes on FDI.

The history of Australian policy towards foreign investment is, at first glance, astonishing. Australia maintained an open door policy from its first European settlement until the late 1960s. In 1972 a formal administrative mechanism for regulating foreign takeovers of Australian businesses was established, with restrictive guidelines issued to would-be direct investors. In 1974 that mechanism was extended to all new FDI, and the investment guidelines established equal partnerships with local businesses as a formal object of policy. With certain exceptions this policy was maintained until 1986. Between then and 1992 there was substantial liberalisation of policy. This opening up, and active government efforts to attract and facilitate inward FDI, occurred despite a period of intense domestic controversy about Japanese investment in Australia. One concession was made to this public concern when new restrictions were imposed on foreign investment in residential real estate. In both the restrictive and liberalising phases of FDI

policymaking certain sectors were singled out for special treatment. By the mid-1990s the media and certain privatised utilities were still the main industries where FDI remained heavily restricted. In 1995 the Australian government formalised its approach to negotiations within the OECD over a multilateral investment agreement. It committed to seeking sufficient exemptions from the national treatment principle to preserve its existing FDI review process and all remaining sectoral restrictions.[1] This brief overview of the history of Australian FDI policy settings raises two basic analytical challenges. The first is to account for changes in the general direction of FDI policy over time. That is, why did Australia turn away from a longstanding open door policy only to later reverse course again? Secondly, how is the varying restrictiveness of FDI policy across industry sectors in the period from 1972 to be accounted for?

In the next section of this chapter the importance of answering these questions is spelt out in greater detail. Following that, a brief overview of the literature on the determinants of FDI policies is provided and the need for a detailed study of the Australian case is revealed. That survey affirms the need to bring the theoretical tools of political science to an area of study that has generally been the preserve of international business scholars. In the following section it is argued that a theoretical framework producing 'generalisable' results is needed if maximum value is to be drawn from a single country study. A 'political markets' approach holds the greatest promise. It is then shown that a qualitative research methodology is appropriate for study of the Australian case. The chapter concludes with an overview of the structure of the thesis.

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[1] While a Coalition government was elected soon after, Australia's policy position on the MAI remained unaltered. Moderate further liberalisation in 1999 reflected a clear continuity of direction from the Labor years and so it suffices to finish the analysis with the Keating government.

Rationales

An understanding of the domestic political barriers to free inflow of foreign direct investment is important because of its actual and potential significance as an engine of economic growth. Although most national governments have recognised the economic contribution FDI can make to their economies, recent international negotiations over a binding agreement on FDI regulation have failed principally because of domestic political constraints. Given Australia's historical dependence on FDI it is surprising that there is no general study of the political determinants of FDI policy — a significant gap in the academic literature that this thesis seeks to address. In doing so it may provide a fuller understanding of an important dimension of Australia's national political economy. A study of the political forces for and against a liberal FDI policy will be not only of academic interest but may also help foreign firms to strategise their interaction with Australian policymakers and society. Each of these rationales will be briefly elaborated upon.

The stock of global FDI has increased seven-fold since 1980, to some US$3500 billion, and FDI flows in the period 1992–97 were double those of the previous five years (UNCTAD 1998; DFAT 1999:5). Global FDI flows increased 25 per cent in 1999 on the previous year, to a record $US827 billion (*AFR* 11 February 2000). Scholars have provided strong evidence of the potential benefits to host economies of a liberal FDI regime; especially when domestic economic policy settings are adequate (Caves 1996; Dunning 1994, 1997). Most governments of the major trading and FDI exporting economies now appreciate the fundamental interdependence of foreign trade and investment (Hart and Prakash 1997:457). The competitive advantages that multinational enterprises have built for themselves through judicious development of intra-firm resources, distribution channels and extensive country and market specific knowledge, have made them major players in

cross border trade.[2] Governments wishing to enhance export performance must tread very carefully in regulating FDI, lest they forego access to such a major force for expanded international trade (Jansson, Saqib and Sharma 1995:3–4; Dunning 1997, 1993a:600–16; Reich 1991).[3] In recognition of the contribution to overall economic growth FDI can make, and to improving external balances in particular, many countries have unilaterally liberalised their foreign investment policy settings over the last two decades (WTO 1998, 1999). In Australia's own region, the Asia Pacific, this has been well evidenced.[4] However, Australia's Bureau of Industry Economics (BIE 1995:1) noted that

> Despite these initiatives, substantial investment distorting policies remain in many APEC economies. These include measures that are specifically directed at foreign investment such as investment restrictions, investment incentives and inequitable standards of treatment for foreign investors. They also include measures associated with intellectual property rights, competition policy and trade policy that indirectly affect foreign investment flows.

Why then are some restrictions on FDI so persistent when its economic benefits are recognised? The answer is far from clear because there are still few studies available on the determinants of FDI policy. What is clear is that domestic political considerations in many countries constrain the ability of governments to make binding international commitments to further liberalise FDI policy (Graham 2000; Warren and Findlay 2000:3). The failure of negotiations over the draft Multilateral Agreement on Investment (MAI) revealed this forcefully. OECD member states

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[2] For a good introduction to the literature on firms growing beyond national borders see Dunning (1993b). This work includes reprints of, or excerpts from, a number of the seminal articles such as those by Hymer (1976), Vernon (1966), Caves (1971), Magee (1977), Graham (1978), Kojima (1982), and Dunning (1988a). Other works of importance in the development of the theory of transnational corporations include Penrose (1956), Buckley and Casson (1985), Casson (1990), Dunning (1988b), Kojima (1977), Teese (1985), and contributions in Buckley (1991).

[3] Both natural and artificial barriers to arms length trade can lead firms to directly invest in operations in the target market, despite the up front costs, risk and opportunity costs of foregone scale and scope efficiencies from concentrating operations in a limited number of locations. For the impact of government policies on this calculus see Murtha (1991, 1993) and Gomes-Casseres (1990) and for a case study of the food processing industry see (Hooker and Caswell 1996).

[4] For discussion of developments in the Asia Pacific region, from a range of perspectives, see Bora and Findlay (1995), Chen (1992, 1993), Chow and Kellman (1993), Hatch and Yamamura (1996), Ramstetter (1991), Simon (1995) and Urata (1993).

debated the draft MAI for three years from late 1995.[5] The draft MAI would have, for the first time, obligated signatories beyond a single region to treat foreign firms in the same way as local ones and created an impetus for unwinding declared exceptions over time.[6] The facts of NGO criticism of aspects of the draft agreement, and the ultimate failure of those negotiations, are well known. Yet the main reason for the lack of agreement was the heavily qualified offers that OECD member nations brought to the bargaining table (Graham 2000). There has been little scholarly attention given to the domestic political constraints that OECD governments faced when determining their bargaining positions in 1995. Despite the failure of the MAI negotiations in late 1998 international dialogue on investment issues did not cease. The locus of discussions shifted to the GATT/WTO and to how investment issues could be dealt with in the new round of multilateral negotiations that was to be launched in Seattle in late 1999 (WTO 1998).[7] FDI issues have arisen in the multilateral services negotiations commenced in February 2000 (UNCTAD 1998:70–71; *AFR* 18–19 March 2000). Australia's sectoral restrictions on FDI are generally concentrated in services industries (FIRB 1996:38–41).[8] While divisions between and within nations are readily apparent, investment issues are now a prominent feature of the international trade negotiation agenda (WTO 1999:16–25).[9] This is likely to heighten ongoing public debate within Australia about FDI

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[5] The practice of goverments making investment approvals conditional upon certain commitments on exports and the like was addressed in the Uruguay Round in the new Trade Related Investment Measures (TRIMS) agreement (Trebilcock and Howse 1999:351–65).

[6] There are already some 1500 bilateral and a number of regional investment agreements in place, although all but a handful are merely exhortatory rather than binding on members (DFAT 1999:15; WTO 1999:12–16).

[7] One national representative on the WTO's Working Group on the Relationship Between Trade and Investment stated that '...competition-oriented reform of WTO rules with a view to increasing the synergies between trade, competition and investment policies was essential to ensure that WTO rules remained valid and credible in a technology-driven globalized economy.' (WTO 1999:12)

[8] Services firms endeavouring to internationalise generally require a commercial presence in a target market; making FDI controls a significant consideration in their ability to enter the market at all (Zeithaml and Bitner 1996:414–45; Trebilcock and Howse 1999:270–306; Dee and Hanslow 2000).

[9] Some observers, in fact, suspect that France and some other European nations are pushing the investment agenda for the next GATT round precisely because it will be so contentious. The rationale is that those countries seek to delay conclusion of the round because the politically difficult issue of agricultural subsidies will figure prominently. This interpretation has some currency in official Australian policy circles (Ms Jane Madden, Director, New Trade Issues Section, DFAT, interview, Canberra 24 February 2000). The clear implication is that studies of the domestic politics of both trade and investment issues are crucial to understanding of the prospects for the next GATT round (Hufbauer 1999).

policy. The historical reasons for that contention need to be understood given the importance of FDI to the Australian economy.

Australian public opinion polls reveal a continuing antipathy to FDI amongst a sizeable section of the Australian community.[10] Criticisms of foreign takeovers of Australian enterprises still attract media attention and popular sympathy. Pauline Hanson's radical right wing One Nation party, along with the centrist Australian Democrats, have been vociferous critics of foreign takeovers and Australia's reliance on FDI in general.[11] At the same time Australian state and federal governments clearly perceive that there are political pay-offs from attracting prominent new direct investors. Australian popular opinion on FDI appears to be deeply schizophrenic. Recent debates about 'globalisation', both in Australia and abroad, have breathed new life into older controversies about the costs and benefits of FDI.[12] (Dicken 1992; Boyer and Drache 1996; Hirst and Thompson 1996; Bryan and Rafferty 1999:3–33, Ohmae 1990, 1995). In the United States this was evidenced in the disagreement between Reich (1990, 1991) and Tyson (1991) who both took up senior positions in the first Clinton Administration.[13] In examining how FDI issues have become politically salient in Australia in the past greater insight will be gained into why 'globalisation' has become contentious.

Australia has long attracted considerable FDI inflow. Although the size of inward

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[10] Public opinion data on FDI issues will be given close attention in subsequent chapters.

[11] Pauline Hanson's One Nation party commits 'to restrict foreign ownership of Australia...' (One Nation, March 2000, www.onenation.com.au). The Australian Democrats (1998) commit to: '...make sure foreign investment proposals are only approved if they are of net economic benefit to Australia and if no comparable Australian bid is available' (Australian Democrats, 'Economic Independence', Issue sheet '98, www.democrats.org.au).

[12] Popular interest in critiques of globalisation in Australia has provoked responses by some government bodies and academics (Lowe and Dwyer 1994; EPAC 1995; Arndt 1998; Evans 1999). The concern with globalisation in Australia has coincided, and been somewhat confused, with a prolonged period of regulatory reform and structural adjustment (Bell 1997, Bryan and Rafferty 1999:221–22; Catley 1996; Fagan and Webber 1994).

[13] Reich (1991) made much of the internationalisation of production through MNEs but argued that the nationality of firms mattered little. Tyson (1991), in response, argued that the location of highest value adding activities and much decision-making in the home country of many MNEs meant that nationality was still of considerable policy significance. For a general discussion of the issues see Hu (1992).

FDI flows to Australia has varied substantially throughout the 1990s they have averaged in excess of $7 billion per year; with the stock of FDI in Australia reaching $157 billion at the end of FY1997–98 (DFAT 1999:19–20).[14] In 1995 Australia was the fourth largest recipient of global FDI flows (Bryan and Rafferty 1999:154; UNCTAD 1996:xvi). The important role of FDI in the Australian economy was established early in the postwar period. Arndt (1957:436, 439) found that in the period 1947–48 to 1954–55 FDI contributed some 20 per cent of gross private investment in fixed equipment. High levels of FDI inflow resulted in foreign ownership being a prominent feature of certain Australian industries. In the manufacturing sector, majority foreign-owned enterprises accounted for about one-quarter of value-added in the 1960s and one-third since the early 1970s. Foreign control in the mining sector was over 50 per cent of value-added in the early 1970s but has subsequently declined somewhat (Dyster and Meredith 1990:285). Some industries such as petroleum refining and motor vehicle manufacture have been almost completely foreign dominated.

Businesses in Australia with majority foreign ownership currently employ more than half a million people. They account for some 20 per cent of all manufacturing sector employment, 25 per cent in the mining sector, and 33 per cent in coal processing and chemicals manufacture (DFAT 1999:25). From the mid-1960s studies revealed that foreign-controlled enterprises tended to grow more rapidly, be more profitable and deploy more advanced technologies than locally owned enterprises (Vernon Report 1965; Brash 1966; Parry 1982). Recent studies have also highlighted the greater export orientation, productivity and higher wages paid by firms with foreign ownership (Fisher, Stoekel and Borrell 1998; Bora 1995). Consistent with these are Makin's findings that FDI had boosted national per capita real incomes over time (1997, 1998). McKibbin (1996; DFAT 1999:45–46) modelled the effects of imposing capital controls and found that they would reduce

[14] Stock figures are rather problematic because they price investments at historical value, diminishing the apparent importance of FDI from the older sources of the United Kingdom and the United States of America.

GDP by some 1 per cent per annum, interest rates would rise and that some 100,000 jobs would be lost in two years.[15] A significant change in the last two decades has been the increasing significance of Australia outward FDI; averaging over $5 billion a year for most of the 1990s (DFAT 1999:36). Australia nonetheless remains a significant net importer of FDI.

Throughout Australia's two hundred-odd years of white settlement affecting capital inflow has always been an objective of economic policy. A number of political economists have noted a strongly 'developmentalist' ethos that permeated the major political parties throughout the twentieth century; regardless of their differing redistributive inclinations (McCarty 1967; Harman and Head 1982; Head 1983, 1986; Murphy, Joyce and Hughes 1980). As Chapter 3 explores, developmentalism predisposed policymakers to overseas capital but not always in the form of direct investments. In fact government policies have been a significant factor in the foreign capital mix at certain points (Dyster and Meredith 1990:279–85). While the concern in this thesis is with policies applying to foreign direct investments, it can be difficult to separate the politics of FDI from the broader politics of foreign capital inflow.[16] Australian critics of FDI rarely argued for the exclusion of foreign capital but for its import in forms other than FDI: as portfolio investment, private or state borrowings and which did not entail the element of foreign control.[17] There is

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[15] The macro effects were calculated assuming that capital controls raised the return in Australia that foreign investors require by 1 per cent per annum. The projected interest rate rise was in the order of 0.5 per cent per annum.

[16] The establishment of operations by a foreign firm need not entail the transfer of any additional capital to the host country from abroad. The foreign investor may raise required capital locally. During the forty-odd years that are the main focus of this thesis, Australian governments periodically restricted the access of foreign direct investors to local capital markets so as to force capital inflow.

[17] Reliable measures of control have proven to be notoriously difficult to develop as it is a function of particular ownership structures that will be enterprise and time specific. For instance, a 30 per cent shareholding in a firm may give effective control in a situation of the share holdings are very fragmented. On the other hand, a 30 per cent holding may bring no influence if another party holds 60 per cent. Although a 20 per cent shareholding is a common threshold for defining control the arbitrariness of such a figure is revealed by the fact that different thresholds can be found in current Australian statutes and regulations applying to foreign direct investment. On another matter; under a fixed exchange rate regime governments also resorted to controls on capital inflow and outflow as a macroeconomic management tool. These may have a considerable impact on a foreign firm and so may become an object of contention with the host government. They will be addressed in this thesis only in so far as they impacted on the politics of FDI policy.

effectively a matrix of policy options on foreign capital that governments can choose from and countries in the Asia Pacific region over recent decades offer examples of virtually the full range.[18] To understand the historical determinants of FDI policy for any country is to gain an important insight into its national political economy.

An understanding of the past politics of FDI may also be of interest to foreign firms considering investment in Australia. It is a maxim of the international business literature that multinational firms often will have to compromise their organisational and operational goals in order to satisfy the preferences of host governments (Rugman and Verbeke 1998:122–23; Molz 1990; Georgantzas 1989; Osland and Bjorkman 1998). Those preferences are in turn often determined by domestic politics. International business scholars have examined, theoretically and empirically, how foreign firms might manage their interactions with host governments as part of broader corporate strategy (Encarnation and Vachani 1985, Mahini and Wells 1986, Mahini 1988; Prahalad and Doz 1987; Kim 1987).[19] Lenway and Murtha (1994:515) argue that international business scholars should provide '... MNCs' managers with a basis to forecast the feasibility, likelihood and coherence of public policies, predict the relative consistency of these policies over time, and incorporate these expectations into the corporate strategy process.' Their research agenda is an extremely ambitious one, not least because the necessary theoretical tools are to be found in the political science discipline rather than amongst mainstream international business scholars. A more modest aspiration would be the production of good country studies of the political determinants of FDI policy that might in turn aid foreign firms in their interactions with host governments and communities. The existing literature, although rich in studies of FDI, still has little to offer in that respect.

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[18] Urata (1993), Yue (1993) and Guisinger (1991) provide good overviews of historical patterns of FDI in East Asia. North Korea and, in the past the Peoples' Republic of China, excluded all foreign capital. Hong Kong has had a virtually 'open door' policy. South Korea showed a distinct preference for sovereign borrowings over private borrowings and direct investment (Amsden 1989).

Existing literature

While there has been some academic attention given to Australian FDI policy there are no general studies of the determinants of policy. Existing writings can be divided into narrowly-focused legal and public policy studies, of which there are only a few, and radical political economy accounts, of which there are many more. The main instances of the former are by Sexton and Adamovich (1981), Anderson (1983), Kasper (1984), Flint (1985) and Galligan (1987). Prominent radical works include the many by Wheelwright, alone and with collaborators, over a long period (Wheelwright 1984; Fitzpatrick and Wheelwright 1965; Crough and Wheelwright 1982, 1983; David and Wheelwright 1989). None of this literature gives many clues as to what form a general study of the drivers of Australian FDI policy should take. The only exception to this is the comparative study by Safarian (1993) that gave some attention to the Australian policy experience. Safarian's study is set in the international business literature and it is to there that attention should be first directed for precedents in studying FDI policy.

International business scholars have given much attention to the impact of FDI policies on foreign firms. Although home country governments may sometimes assist, in general firms abroad must rely on their own capacities and resources in dealing with host governments. A spate of nationalisations and expulsions of foreign businesses in the three decades following the end of World War II led scholars interested in the growing internationalisation of businesses to give attention to 'political risk'. There is now a very large literature on political risk issues, including some good overviews (Desta 1985; Brewer 1981; Merrill 1982; Robock 1971; Simon 1982). The concerns of this literature go beyond direct investment to cover all modes of foreign market entry and much of the work looks at how conflict between nations can greatly increase home as well as host country political risk

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[19] That is, a strategy of 'political responsiveness' becomes part of a broader 'local responsiveness' MNE strategy (Doz 1986; Bartlett and Ghoshal 1989; Hadjikhani and Hakansson 1996; Jansson, Saqib and Sharma 1995).

(Kobrin 1979, 1982; Jacobson, Lenway and Ring 1993:460–73). Reflecting the operational focus of many international business scholars, management strategies for recognising and protecting firms from excessive political risk have been a major theme of the literature (Gladwin and Walter 1980; Doz and Prahalad 1980; Miller 1992). Despite that, the domestic political determinants of FDI policies remain little theorised or empirically examined.

The main line of inquiry within the international business literature on FDI policy centres on bargaining between multinational enterprises and host governments (Kobrin 1982, 1987; Encarnation and Vachani 1985). Quantitative studies of bargaining outcomes have been carried out; with the dependent variable to be explained usually being the level of ownership in the subsidiary the parent retains — as a measure of its bargaining strength (Lecraw 1984; Fagre and Wells 1982). Such accounts did not adequately take into consideration the fact that MNCs might trade concessions on localisation of equity for other regulatory benefits (Vachani 1995:174) and that they might not, for sound transaction costs reasons, desire full ownership anyway (Teese 1985; Anderson and Gatignon 1986). Gomes-Casseres (1990) simultaneously tested transaction costs and bargaining theories of subsidiary ownership patterns, finding the size of the planned investment and the attractiveness of the host market to be significant factors in influencing bargaining outcomes. Gomes-Casseres concluded that

> ...a theory about multinational enterprise behaviour should consider not only the costs and benefits perceived by the firm, but also the impact of relations between firms and governments. Recognizing both these effects, managers should analyze the two aspects of global strategy, i.e., what is ideal for the firm, and what the firm can get (1990:20).

An understanding of the political pressures for restrictive FDI policies in host country is necessary if a firm is to maximise what it can get. It is somewhat surprising then that few international business scholars have sought to identify the domestic determinants of host government FDI policy preferences (Caves 1996:249). Jansson, Saqib and Sharma (1995:16) conclude of much of the existing international business literature that

> Policy making by host governments is considered to be independently established by sovereign states exogenous to firm behaviour. Host governments are seen to be sovereign states that formulate independent policies. From these independently established positions, bargaining that is both sincere and honest results. There is no room for either opportunism, misleading information or misuse of office. The effect of counter actions by domestic and foreign firms in influencing the decision makers either at the policy formulation stage or during its implementation is not considered.

There are limited and important exceptions to neglect of the domestic drivers of host government policies (Boddewyn 1988; Jacobson, Lenway and Ring 1993:454–60).[20] Some authors have moved beyond a state-centric approach to note that economic nationalism as a broad political phenomena can push governments to intervene more in the operations of MNEs; although they do not suggest how it becomes politically salient (Kim 1987:7–8). Increasingly international business scholars, such as Kobrin (1993) and Brewer (1992) have been looking to the political science discipline for useful studies and methodologies.

To date the political science discipline has been able to provide a range of general theoretical approaches to public policy processes but much less in the way of studies of FDI policy. That is not to say that the growing importance of FDI over the last four decades has been completely neglected by political scientists. Much of the writing on the politics of FDI by political scientists does not focus directly on the domestic determinants of FDI policy. Instead many have been concerned with the autonomy of nation states and their capacities for public governance *vis-à-vis* MNEs (Boyer and Drache 1996; Rugman and Verbeke 1998:117; Biersteker 1980; Bailey, Harte and Sugden 1994; Sklair 1998). In doing so they could call on the works of some more radical IB scholarship of the 1970s (Moran 1974; Horst and Moran

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[20] Jacobson, Lenway and Ring (1993:455) sought to incorporate recognition of political and institutional issues in host governments into a transaction costs account of international business. They did so by utilising Granovetter's (1985) influential work stating that 'International contracts, and the transactions they enable, may be embedded within national contexts having diverse domestic, foreign and national security contexts. This embeddedness...can give rise to production, administrative and transaction costs different from (and, perhaps, greater than) those associated with transactions embedded within a single national context.'

·1978; Hymer 1976; Vernon 1971). There is a large literature that addresses the issue of the degree of autonomy of the modern state from the imperatives of the international economy (Kenen 1994; Stopford and Strange 1991; Strange 1997). In Australia, there is a growing literature on the capacity of governments to shape the relationship between the Australian and international economies (Castles 1988, Bryan and Rafferty 1999; Parker 1996, 1997; Beilharz 1994; Stewart 1994). In an earlier period, dependency theory found influence in some political science circles (Amin 1976:198–226; Frank 1967, 1979) While it entailed some convictions about the political economy of FDI policies in developing economies, it ultimately saw policy settings as being determined by the structure of the international economic order. By contrast, Marxists and other scholars, while criticising the negative impact of MNEs on host societies and polities, tended to hold that host governments still had the potential to regulate multinational activity (Robinson 1979; Roxborough 1979; Higgott 1983). Radical writings on MNEs in Australia have tended to the latter perspective (Wheelwright 1984; Fitzpatrick and Wheelwright 1965; Crough and Wheelwright 1982, 1983).

The conflict between radical accounts that emphasise the international and the domestic determinants of FDI policy was paralleled in liberal political economy circles. Much international political economy (IPE) literature adopts a unitary state actor approach to the international politics of economic issues, such as FDI, that gives little clue as to the domestic determinants of policy preferences. In particular, writers of the neo-realist school associated with Gilpin (1975, 1987) and Krasner (1976, 1978, 1985), see the policy preferences of states as principally determined by the structure of the international order.[21] A growing recognition, however, that these

[21] Krasner (1985:175–77) himself concludes that 'Despite their international and domestic weaknesses, Third World states have been able to use their juridical sovereignty, the constitutive principle of the present international system, to establish national principles and rules related to multinational corporations.' Some international political economy scholars have posited a milder version of Krasner's structural realism where there is a bias in the international order towards liberal economic policy settings (Ruggie 1982; Higgott 1996). In a less deterministic vein, Katzenstein (1985), Gourevitch (1978) and others note the position of a national economy in the international economy, especially in terms of size and resource endowments, may be a substantial factor in patterning economic policy settings.

approaches have had little explanatory power has led to renewed focus on how domestic politics shape nations' foreign economic policy preferences (Kunkel 1998:2; Haggard 1991; Odell 1990; Simmons 1994). Putnam (1988) has developed a useful conception of 'two level games' to capture the interaction between domestic and international bargaining by governments, which has been taken up by some Australia-based scholars (George and Rapkin 1993; Higgott 1991). This trend lends weight to the parallel trend within the international business discipline to explore the domestic drivers of FDI policy preferences in order to enhance the capacities of MNEs to strategise bargaining with host governments. Moreover, the conviction of many international business scholars that changing ideas about the costs and benefits of FDI have been a determinant of FDI policy change in many countries finds a parallel in recent international political economy literature. Writers such as Goldstein and Keohane (1993) are placing greater emphasis on the place of ideas, norms and ideology in shaping the policy preferences of states and how these influences are mediated through domestic political actors. In short, recent work in the international political economy and international business literature suggests that the determinants of FDI policies should be sought in the interplay of domestic interests and ideas. The next section identifies a promising theoretical approach to these questions.

A political market account of FDI policy

Caves (1996) provides a tentative but challenging account of the domestic determinants of FDI policies in which the nationalist sensitivities of voters and the selfish interests of economic actors shape policy outcomes.[22] In relation to the latter, Caves (1996:249) wrote that 'interests groups of domestic entrepreneurs may seek

[22] Caves refers to his approach as a behavioral account, reflecting the common usage of the term amongst economists to distinguish from standard welfare economics accounts. In this thesis the term political market approach or account is favoured as it refers to the same theoretical and empirical literature but avoids confusion with an earlier behavorialist tradition in political science. The terminology of political markets also more directly captures the essential features of the theoretical construct being deployed.

regulation or exclusion of MNEs as undesired competitors or, alternatively, may promote their expansion for rent-increasing effects on supply or demand in adjacent markets.' Safarian (1993:18–23) identifies the scope for private interests to be active in seeking to shape FDI policy outcomes, and the trade-offs that governments might be tempted to make between sound policy and favours to domestic interests. However he did not develop the insight theoretically nor subject the interpretation to much empirical scrutiny in his multi-country study of FDI policy. Caves' approach, while a highly original interpretation of the determinants of FDI policy, accords with a well-established approach to explaining trade policy outcomes. A large literature on the political economy of trade policy situates trade policy-making squarely in the domestic political market (Odell 1990; Ray 1981; Milner and Yoffie 1989; Rogowski 1989). This work utilises concepts that had their origins with economists, notably in the Chicago School on the economics of regulation, but which have subsequently been developed into a sophisticated body of theory by political scientists as well.[23] Prominent studies that explain the demand for protectionism in terms of the rent-seeking behaviour of firms facing international competition include work by Krueger (1974), Bhagwati and Srinivasan (1980), Ray (1981), Finger, Hall and Nelson (1982) and Rowley and Tollison (1986). More recently, scholars such as Pugel and Walter (1985), Milner (1987, 1988), Destler and Odell (1987), Rugman and Verbeke (1990) and Ostry (1990) focus upon those firms and industries that are internationally competitive and are politically-active against protectionism.[24]

All of these studies share, explicitly or implicitly, a conception of policymaking processes characterised by a contested political market for policy outcomes. The starting premise of the political markets theoretical construct is that, in seeking to be

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[23] Their work will be examined in Chapter 2.

[24] See also Odell (1990), Strange (1985) and Lipson (1982). In Milner and Yoffie (1989) a strategic trade-based explanation is offered for why some multinational firms have sought protectionism in their home market. It is curious that none of these authors have extended their analysis to the political economy of FDI policy given its growing importance in international negotiations. This may be partly a consequence of the difficulties associated with applying to FDI policy the quantitative research methodologies that many use in studying protectionism — and which will be examined below.

re-elected, governments produce a package of private and public goods in response to demands from voters and organised interest groups. It does not hold that political parties and independents will get the mix right each time, as elections have winners and losers, but that competition between them creates strong incentives to adjust their policy mix until they are successful. Much of the resistance to rational choice theoretical accounts of political markets stems from the rather pessimistic conception of actors' motivations in polities; reflecting the micro-theoretical foundations it shares with economics.[25] However, the appeal of political markets approaches rests on two basic insights. Firstly, economic actors may cost-effectively secure protection from market forces by investing in political action. Secondly, information shortage and collective action problems may result in regulatory favours to rent-seekers rather than public interest goods predominating in the policy mix that governments adopt. An important qualification is that in a democracy governments have to build a winning coalition of supporters across all policy areas, making it an open question as to whether private interest imperatives predominate in any particular area of policy. Consequently there is a strong emphasis in the political markets literature on the empirical testing of theoretical constructs.

Caves (1996:249–54) presents a double challenge to scholars of FDI policy by pointing out the potential analytical utility of the political market approach, while suggesting that it should be adapted to incorporate non-material preferences of voters — namely nationalist ideas. As noted above, there is still no general study of the politics of Australian FDI policy; let alone any deploying political markets theory. In fact there are only a limited number of works on Australian protectionism that explicitly test the scope for a private interest interpretation.[26] These are by Anderson (1980), Anderson and Garnaut (1987), Garnaut and Findlay (1986) and Garnaut (1994). Anderson and Garnaut (1987:115) find that a private interest approach accounted well for the varying degree of protection across industries but

[25] For a good discussion of the issues entailed in the debate over rational choice theoretical approaches to Asian studies see Little (1991). For this author's views see Pokarier (2000).

less well for the overall level of protection in any given historical period. Consequently they develop a public interest account of the determinants of protectionism that centred on contending and changing ideas over the costs and benefits of tariffs to Australia. The private and public interest accounts were linked by the insight that popular ideas favouring protectionism reduced the political costs to governments in granting tariff favours to rent-seeking private interests (Anderson and Garnaut 1987:115–22). This analytical innovation is consistent with Caves' account of the determinants of FDI policy (1996:249–57). Safarian (1993:19–20) also recognises the analytical significance of ideas in host countries about the costs and benefits of FDI.

Caves saw 'national preference' — referred to as economic nationalism in this thesis — as integral to the political calculations of elected policymakers confronted by FDI issues. To paraphrase Caves (1996:250–51)

> A nationalistic preference can clearly enter into the voters' calculations. It might take various forms. In one formulation, voters expect disutility from perceiving that resource allocations in the national economy are influenced by foreigners...Freedom from perceived foreign influence then becomes a collective consumption good...Second, disutility from foreign influence on decisions could apply asymmetrically to the ones that impose losses on citizens, decisions that confer gains being ignored...A different formulation of national preference holds that voters themselves prefer to deal with nationals and experience disutility from economic contact with foreigners. National preference in this version involves xenophobia, but not the aspect of collective goods invoked earlier.

As Caves himself suggests, this is far from being an exclusive account of independent ideational variables and the manner in which they at least partially determine FDI policy outcomes. Chapter 2 further develops the analysis — a challenging task because it entails development of a theory of agency in relation to ideas. This is done by conceptualising the dynamics of the development of policy

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[26] The literature on the political economy of Australian trade policy is modest, with much of the work done by political scientists exuding some scepticism about the benefits of liberalisation. Major studies are by Glezer (1982), Capling and Galligan (1992) and Bell (1993).

ideas and interest-based politics through a unified theory of political entrepreneurship that is consistent with the micro-theoretical foundations of political markets theory. The recognition that ideas are central to the politics of FDI policy also has significant implications for the approach in this study.

Scope and methodology

It remains to identify the scope of the study and the methodology used. Although at first glance it might seem desirable to compare Australia directly with other countries, there are good grounds for thinking that such an approach would not do justice to the problems of analysis that were identified in the previous section. Safarian's large comparative study (1993) inevitably entailed an incomplete analysis of the determinants of FDI policy in any particular country. While he emphasises the explanatory importance of national histories and ideas in setting up his study, they ultimately were not given much theoretical or empirical scrutiny. Moreover, in Safarian's work on the Australian case a range of valuable primary and secondary source material was passed over. His analysis finishes at the mid-1980s, precluding examination of several significant periods in the politics of Australian FDI policy. Anderson's earlier comparative study (1983) of Australia and Canadian FDI policy was limited to the resources sector but still presented little by way of analysis of the determinants of policy in either country. Given the limitations of these studies, an important place remains for a thorough study of the political determinants of Australian FDI policy. A good precedent for a single country study of FDI policies is provided by Mason's influential study of foreign investment in Japan (1992). As Mason's empirical and theoretical focus was on the strategies of foreign firms' response to the Japanese government he did not deploy an explicit theory of policy determinants; although he did recognise the influence of domestic private interests in demanding restrictive FDI policy (1992:3). Mason's study lends weight to the view that factually and descriptively rich qualitative accounts of single cases can provide an invaluable tool to scholars seeking broader understandings of social phenomena (Dyer and Wilkins 1991; Eisenhardt 1991).

While the existing international literature on the determinants of FDI policy is still limited there are precedents for the use of a qualitative approach in a single country study. Safarian (1993:412–18), in the most comprehensive comparative study of FDI policies to date, addressed the problems inherent in quantitative analysis of the drivers of FDI policy outcomes. There are, for instance, considerable difficulties entailed in developing a single measure of openness. The Australian case is indicative of the broader problems in that regard. The Australian foreign investment review process both lacks transparency and deters formal applications that are unlikely to be acceptable to the government. Consequently formal rejection rates give little indication of the real degree of openness, as the current Secretary of the Treasury recently conceded (Evans 1999:4–5).[27] Safarian (1993:415) made an explicit decision not to attempt analysis of the varying restrictiveness of FDI policy across sectors. Indeed he eschews even a summary of the varying degrees of sectoral restrictions across countries on the grounds of '...their uneven definition in law, the many devices used to restrict FDI in such sectors, the varying degrees of restriction, and the uneven reporting.'(Safarian 1993:450). The OECD's (1987) audit of measures applying to FDI only mapped them by country and sector and did not entail a statistical measure of the degree of restrictiveness. Consequently there is no agreed mechanism for arriving at a measure akin to the effective rate of protection developed in analyses of the consequences and determinants of tariff policies. The difficulty of developing an acceptable measure of the restrictiveness of FDI policy will continue to bedevil quantitative analysis of the determinants of FDI policy. The qualitative methodology deployed in this thesis allows the presentation of a range of evidence on the openness of the FDI regulatory regime, within the context of the analysis of policy determinants.

An even greater difficulty with adopting a quantitative methodology is the specification of independent variables that represent the hypothesised determinants

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[27] Actual stock or flow measures of FDI into particular sectors of an economy are not, of themselves, a reliable indicator of the extent of policy openness. Many other factors impinge upon the attractiveness of an industry to foreign investors and so a low level of inward FDI may reflect poor international competitiveness.

of FDI policy outcomes. Vachani (1995:163–64) noted the inordinate difficulty of specifying proxies for the political variables in the case of FDI policy; especially in separating the effects of evidently overlapping variables. As will be demonstrated in Chapter 2, the private interest-oriented FDI policy preferences of domestic businesses are not stable over time; changing with businesses' various roles of buyer and seller of assets and products. This is in contrast with business tariff policy preferences where more stable and straightforward private interests have been amenable to analysis using quantitative methods. Moreover, the apparent significance of public ideas as an independent variable determining FDI policy outcomes presents a formidable obstacle to a quantitative approach.[28] To develop proxy variables for ideas would be an artifice and forego the rich analysis of how policy ideas evolve that a qualitative approach can provide. Anderson and Garnaut (1987), recognising the roles of public interest ideas in Australian trade policy outcomes, turned to a qualitative methodology. Likewise, Safarian (1993) responded to the limitations of his comparative quantitative analysis of the determinants of FDI policy by developing a comparative quantitative study. Given the multiple drivers of FDI policies Safarian (1993:68) judges that

> Some of these can be quantified, others can only be assessed. Country studies are necessary, in brief, both to yield information for more accurate generalization across countries and also to permit closer attention to country responses to MNEs than one is likely to get from a purely statistical assessment.

Even if all the practical barriers to a quantitative analysis of the politics of FDI were overcome, there are still powerful arguments for a qualitative single country study. Huberman and Miles (1994:434) noted that

> ...qualitative studies...are especially well suited to finding casual relationships; they can look directly and longitudinally at the local processes underlying a temporal series of events

[28] The changing nature of such an independent variable is itself challenging for design of a quantitative study, although by no means fatal as the development of event history analysis shows (Yamaguchi 1991). The much greater difficulty presented by ideas as an independent variable is the extreme difficulty of specifying credible proxies.

> and states, showing how these led to specific outcomes, and ruling out rival hypotheses. In effect, we get inside the black box...

Qualitative approaches nonetheless run the risk of defaulting into undisciplined descriptionism if not closely guided by an appropriate body of theory (Denzin and Lincoln 1994:435–40). A well-formulated theoretical framework is particularly important for single case/country studies as it helps to make the findings 'generalisable' (Larsson 1993:1516–19; Perry and Coote 1994:13–16). The theory of political markets is attractive in this respect because it is explicitly universalistic in design and aspiration. In fact it has been criticised by some country and area studies specialists for that very reason (Johnson and Keehn 1994). Descriptionism is avoided in this thesis by deploying that theory in a fashion that essentially constitutes a strategic narrative approach. Stryker (1996:304) identifies the main strengths of the strategic narrative approach as being 'concurrent construction and mutual adjustment of history and theory' and 'selection and construction of history in response to a clearly developed abstract, general theoretical backdrop'. The conduct of this study was marked by both these attributes. The strategic dimension of narrative creation entails recognition that some historical narratives matter more than others, to current audiences at least. Why this study matters has already been established earlier in this chapter. Some sub-plots also matter more than others so the author needs to prioritise them. The theory of political markets provides a comprehensive theoretical backdrop as a necessary precursor to strategising the writing of narrative. The historical narrative form is particularly attractive for this study for three reasons. First and foremost is that the composition and character of the core unit of analysis throughout the thesis, the federal government, changed periodically. Differing constituencies and philosophies produced differing policy mixes and it makes sense to order the thesis around those distinct historical periods. Secondly, the historical ordering of events contributed significantly to their particular patterning. Thirdly, the complex interdependence of the phenomena under investigation proved to be most easily managed in historical narrative form.

In seeking to explain the drivers of Australian FDI policy since 1960 one is compelled to address controversy about ideas and interests. A qualitative approach

allows the examination of the origins, form, and influence of economic nationalist ideas — an understanding that is central to all four rationales for this study that were identified earlier. The marriage of rational actor theory, underpinning the idea of the political market, and a strategic narrative approach serves this end particularly well; complementing as it does the latter's emphasis on human agency.[29] The importance of analysing the political dynamics of economic nationalist discourse has other methodological implications as well. Public discussions of the 1960–96 period need to be examined directly and the print media of the time constitute the means to do so. An extensive media search of Australian FDI politics from 1960 provided the starting point for this study, and an overwhelming volume of data.[30] Newspapers present an enormously rich record of the public, and often private, debate about FDI policy settings that is the object of study in this thesis. In that sense they were invaluable secondary sources. At the same time, the mass media were endogenous — indeed central to — the politics of FDI in Australia. Consequently media sources are, in an important sense, primary sources.[31] For many voters and even political actors their experience of FDI, and the political debate surrounding it, amounted to what they observed in the mass media. Their judgments of the costs and benefits of FDI, and the appropriateness of current policies towards it, could be deeply influenced by the media. The role of the media in agenda-setting is well understood (Asard and Bennett 1995).

There is a basic tension then between the media as record of past events and the media as integral to them. The analyst, however, can simultaneously utilise media

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[29] Stryker (1996:306) wrote that: 'narrativists highlight the role of human agency in explanatory accounts...Indeed, where many causal explanations that emerge from comparativists' emphasis on contextual time highlight especially structural constraints and opportunities...narrativist emphasis on eventful time highlights especially how actors' creative use of the rules and resources that constitute structure reproduces or alters that structure.'

[30] An initial media search was conducted utilising the extensive microfiche-based newspaper clippings collection maintained at the Australian National University. This was a laborious task given the broad and rather arbitrary categories by which the material was sorted. The collection was also far from complete, reflecting the informal and discretionary approach to gathering material that had apparently prevailed at times. This material nonetheless provided a springboard for subsequent targeted media searches using the complete newspaper collection of the National Library of Australia.

sources as information source and analyse the media's role in the public and private policy debate. The large number and variety of newspaper sources utilised for this study, over such a long period, ameliorate many of the concerns about their collective reliability as a source. This is not merely because of the sample size. Confidence in the mass media as information source over a sufficient period is also to some degree a faith in competition. Individual journalists and, with several notable exceptions, the media outlets that employ them, have worked in a highly contested market for new facts and analysis. As an objective of the study is to illuminate the interdependency of ideas and interests as determinants of FDI policy outcomes, apparent instrumental use of the media has been examined wherever possible. This is helped by the frequent eagerness of journalists to do the same. Essentially the motivations of key participants in public dialogues on FDI are examined deductively from their positions in the economy and polity. Where additional information sources permit, hypothesised motivations are further tested. Where not, they are explicitly presented in the narrative as an open question. In the process the issue of data reliability is fully dealt with where it arises.

A wide range of other primary and secondary sources has also been utilised. Hansard provided additional insight into the public debate over FDI policy by parliamentarians. Ministerial press releases and other documents archived in the parliamentary library, along with annual reports of the Foreign Investment Review Board (FIRB), were accessed for a full account of official views of FDI policy matters. Reports of parliamentary inquiries, copies of some submissions made to them, transcripts of proceedings, departmental documents, discussion papers and the like were all made use of. Statistics on FDI are reasonable and have been readily available from the ABS and the Treasury for at least part of the period under examination. Archived materials on FDI policy from political parties were secured from libraries or the parties themselves. Quality data from opinion polls on FDI conducted periodically since the early 1960s provides valuable insights into voter

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[31] This accords with the centrality of text and other forms of recorded public discourse in postmodernist approaches.

attitudes. Interviews were secured where possible with those who had had significant roles to play in the politics of FDI policy or who could shed light on the actions and motives of those who did.

At this point it should be made clear just what this thesis does not do. It does not directly examine the 'bureaucratic politics' of FDI in detailed fashion. This is not to suggest that the intra-bureaucratic dimension of FDI policymaking was unimportant. Rather, such systematic analysis is not attempted because the author's initial research in that direction was frustrated by profound data limitations. Many details of past administration of FDI policy through the FIRB mechanism were off limits on the grounds that they ostensibly involved either national interest or commercial-in-confidence considerations. The lack of transparency was to become politically contentious during the last term of the Keating government; making this researcher's task that much harder.[32] Controversy compounded the established tendency of the Treasury to guard confidences zealously. Galligan reports considerable frustration in trying to access Treasury sources while preparing his study on FDI policy for the resources sector (1987).[33] Safarian (1993) was not able to identify a single official source in the Australian component of his comparative study. Treasurers are central to FDI policymaking, and the ascendancy of two of the longest serving to the prime ministership — Paul Keating and John Howard — during the time that this study was being conducted heightened the reticence of officials and political actors to divulge information. However, there were valuable exceptions and those sources are identified throughout the thesis. The negative impact of that controversy was felt acutely when endeavouring to secure interviews with Treasury officials involved in the FDI review process under the Fraser, Hawke and Keating governments. Access to the most senior staff in the Foreign Investment Division was ultimately secured late in the preparation of this study, but on strict

[32] In 1994–95, the then head of the Treasury's foreign investment division faced the threat of contempt of parliament proceedings for refusing, on the Keating Cabinet's instructions, to provide information to a Senate inquiry into the conduct of FDI policy for the print media. The non-transparent nature of FDI policymaking became politically contentious as a consequence; an environment not conducive to securing information from policymakers.

[33] Personal conversation with author, Canberra August 1995.

conditions including no discussion of past particular cases. It nonetheless proved valuable in confirming the broad conclusions of this thesis.

Despite not directly analysing the bureaucratic politics of FDI policymaking, the role of the bureaucracy still does figure prominently in the narrative. This is for three reasons. Some primary sources and a wide range of secondary sources did permit some tentative conclusions about the role of the bureaucracy in determining FDI policy outcomes. Secondly, the accounts of some private sector and state government primary sources shed some light on the interactions of their organisations with Treasury on FDI matters. Thirdly, the role of the Treasury figured in documented public contention over FDI policy at a number of points. Nonetheless, it is readily conceded that a weakness of the study is the incomplete picture it presents of the role of the federal bureaucracy. The narrative addresses directly the consequent limitations in the analysis wherever they are evident.

Another thing that the thesis does not do is examine systematically the political strategies of all the major organised private interest groups throughout the period under examination. The historical scope of the study is so large, and the private interests too many, to have made that tractable. Such an exercise would no doubt be illuminating but it would also amount to a large project in its own right. Sufficient diversity and volume of primary and secondary sources was nonetheless achieved in order to draw judgements about the extent of rent-seeking. Given the sheer volume and quality of information gained through the media searches, no archived materials of firms and industry associations were accessed. The detailed analysis of industry association documents by Tsokhas (1984, 1986) that covered the earlier periods of this study substituted for such an exercise. For later periods media sources and some interviews generally sufficed to produce a sound narrative on the private interest

dimensions of FDI politics. However there were some data limitations and their implications for the analysis are noted as they arise.[34]

At all times in the preparation of the thesis, efforts were made to diversify information sources to the fullest extent possible within the inevitable constraints, and extreme caution was exercised in checking the veracity of accounts from any source. Not surprisingly, this was easier for more recent events; with the important caveat mentioned above that political sensitivity reduced access to some sources. The sheer volume and variety of information sources — contemporary mass media reports, primary source documents, interviews, and secondary academic material — and the circumstances in which the study was conducted, precluded the use of formal verification protocols (Huberman and Miles 1994:438–40). Data collection and analysis has nonetheless been informed by knowledge of these practices and their rationales (Denzin and Lincoln 1994; Mason, McKenney and Copeland 1997:310–16; Patton 1990; Reige and Nair 1996; Yin 1989). Where there are any doubts about the veracity of apparently analytically significant information they are dealt with explicitly in the narrative.

The integrity of the narrative developed in subsequent chapters is boosted by having been able to call upon a number of secondary sources on the governments under examination. Although FDI policymaking has been generally neglected in the writing of Australian political history, a rich secondary literature has still proven invaluable in the preparation of this study. As FDI policy is but one of many aspects of policymaking, broader patterns across portfolios have been discerned and explored where appropriate. In concluding the discussion of methodological issues several points should be made. Firstly, the thesis has been deliberately designed as a broad survey of a complex issue over a long period of time. It is conceived as the

[34] Companies entailed particular difficulties. Staff changes presented the usual problems of a loss of corporate memory, especially in the case of Japanese firms. In the key area of the media the extreme political sensitivity of the FDI issue made it difficult to secure information beyond what had already found its way into media outlets. This presented no great analytical difficulties because of the intense interest that journalists showed in the FDI issue for their own industry — and own employers. Some valuable interviews and other primary sources were nonetheless secured in all significant areas.

foundation for a general work on FDI policy that will complement Anderson and Garnaut's (1987) study of Australian trade protectionism. Secondly, it is consciously interpretative in style; influenced by North (1981) and Schorske (1981:116–80). Thirdly, the politics of FDI policy present certain difficulties for the analyst because of the multidisciplinary nature of the issues involved. FDI involves complex economic phenomena and equally complex corporate legal instruments that present a challenge to the political scientist. At the same time some of the ideational dimensions of FDI politics — namely nationalist discourses — are usually studied using theories and methodologies quite alien to scholars of law, economics and international business. Ultimately this is a thesis about politics, although with an eye to the contribution it might make as such to the international business discipline.

Structure of the thesis

The next chapter develops a theoretical approach to the political determinants of FDI policy along the lines discussed earlier. Chapter 3 briefly traces the political economy of overseas capital since the mid-nineteenth century to 1960. This provides an understanding of the forces for an 'open door' policy on FDI and highlights the significance of the turn towards economic nationalism in the late 1960s.[35] Chapter 4 traces the public and private debate about FDI policy that led to increasing policy concessions to economic nationalism by Coalition governments in the late 1960s and the early 1970s. Chapter 5 explores how the Whitlam government's economic nationalist visions resulted in erratic policy, open conflict with domestic private interests and ultimate political disaster. The Coalition

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[35] Stryker (1996:310) notes that fruitful narrative often starts with the inductive identification of apparent anomalies — historical or theoretical — that demand explanation. This thesis arises in response to a seeming puzzle that is at once historical and theoretical in nature. The former is the question of why Australia turned its back on a long-established liberal policy towards FDI. The apparent theoretical anomaly is why this turn to restrictive policy occurred despite contemporary theoretical economic analysis of FDI suggesting that national economic welfare would have been improved by more liberal policy.

opposition was nonetheless forced by the influence of economic nationalist ideas in the electorate, and Labor's policy position, to endorse more restrictive policy than it had presided over in office. Moreover, in its dying days in office the Whitlam government substantially moderated its economic nationalism in response to the effects of external economic shock and the Coalition's political pragmatism on FDI policy. Chapter 6 traces the emergence of a virtual equilibrium on FDI policy; despite an intense debate throughout the period of 1975 to 1983. The Fraser Coalition government settled upon a 50 per cent local equity guideline and FDI review as a compromise between the political imperatives for restrictive policy — both private and public interest in nature — and conflicting broader political impulse to 'developmentalism'. The adoption of new 'naturalisation' provisions for foreign firms in this period revealed the intensity of private interest politics over FDI policy, especially for the resources sector. It is also seen that the discretionary investment screening process under the Foreign Investment Review Board became a convenient instrument for managing conflicting political imperatives on FDI policy.

The next three chapters deal with FDI policy under Labor's long rule from 1983 to 1996. Chapter 7 first traces how the Hawke Labor government came to discard the more economic nationalist party platform that it brought to office, in favour of the status quo. It then explores the causes of Labor's conversion to more liberal policy on FDI in financial services; policy change it has strenuously criticised in opposition. The rest of Chapter 7 examines the historic liberalisation of FDI policy in response to external economic shock. Chapter 8 traces the intense public controversy over FDI policy in the late 1980s associated with rapid increase in Japanese direct and portfolio investment in Australia. The Hawke government's pragmatic concession to popular concerns over foreign purchases of residential real estate is contrasted with its defence of liberal policy settings in other areas. Sandwiched between popular antipathy to Japanese and other FDI and an elite policy community converted to a liberal policy, the Hawke government generally favoured the latter for several reasons. Principal amongst them were that the government faced powerful political imperatives to deliver economic growth and the Coalition opposition generally did not take political advantage of anti-FDI

sentiment in the electorate at large. Federal Labor retained the option of politically pragmatic concessions to popular economic nationalism because the Coalition was committed to more liberal FDI policy. However, the Hawke government could make only sparing use of that option for fear of damaging its hard-won and historically improbable reputation for sound economic management. Its championing of closer economic relations with East Asia would also be jeopardised by a wavering commitment to liberal FDI policy at a time of significant Japanese FDI inflow.

Chapter 9 initially examines how the Keating Labor government responded to deep recession and its loss of credibility as an economic manager by enacting further liberalisation of FDI policy and making a renewed commitment to the promotion of inward FDI. It notes the growing international moves for agreements on FDI and the seemingly contradictory policies that Australia adopted in relation to investment issues in APEC and in the OECD. The prospect of a binding MAI forced the Keating government to concede its determination to maintain a discretionary FDI-screening mechanism and exceptions from liberal policy in certain 'sensitive' sectors (BIE 1995:135). Some of these sectors were newly opened up to private business via privatisations and foreign equity limits had been part of the domestic political price a pragmatic Labor government had to pay to realise reform. Principal among the restrictions was the mass media. Chapter 9 concludes with an examination of why that was the case; and how despite an archly pragmatic approach to FDI policy for the media it became such a political negative for the Keating government. FDI policymaking for the media was marked by intense rent-seeking; made easy by the popular smokescreen of cultural nationalism. With the broader economic opportunity costs of foregoing FDI in the media being only limited, ideas and interests marched in tandem to deliver restrictive and idiosyncratic policy. Chapter 10 brings together the insights of each chapter and draws some general conclusions.

2 Theories of political markets

Australian governments since the early 1960s have made political compromises between contending private and public interest demands in relation to FDI policy. Popular and elite conceptions of the public interest have evolved over time in response to changing economic circumstances and understandings of the costs and benefits of FDI. The theory of political markets provides a framework for understanding these political dynamics. The starting point is to posit private interests for and against a liberal FDI policy on the basis of recent understandings of the impact of FDI on host economies. As contemporary political markets theories suggest governments will deliver a mix of private and public goods, this chapter will then explore possible public interest-driven FDI policy outcomes. The analysis to this point is consistent with a purely interest-based account. There is a growing recognition in the trade and investment policy literature that, along with interests, ideas also determine policy outcomes. In this light, the chapter then examines how ideas might come to matter through political entrepreneurialism. In particular, the chapter shows how nationalism as a non-material policy preference can be accommodated in a rational choice theoretical conception of political markets.

Theories

There has been a shift in thinking about the determinants of FDI, trade and other economic policies in terms of a political market. This coincides with a broader turn towards 'rational choice' theory in the social sciences, principally in North America. The term rational choice has come to denote a general way of thinking about individual behaviour and social phenomena. Within the broad camp are to be found diverse approaches sharing similar theoretical micro-foundations and often informing each other's development. These include works referred to as rational actor political theory, public choice theory, the Chicago School on the economics of regulation, the 'economic approach to human behaviour', 'social choice' and 'rent-seeking theory'. There is much overlap, with both followers and foes often

confusingly using the terms interchangeably. And there is a growing literature devoted to mapping the influence of rational choice ideas and delineating the boundaries of various schools (McLean 1987; Mueller 1979, 1989; Radnitzky and Bernholz 1987; Buchanan and Tollison 1984; Breton 1974). There is also a growing literature criticising the influence of rational choice (Hindess 1988, 1989) and, increasingly, responses to this criticism from rational choice proponents (Little 1991; Dowding and Hindmoor 1997:462, n1). Even defined very broadly, rational choice theory still has few adherents in Australia.[1]

The term 'political markets theory' is used in this study because it effectively captures the common application of basic Chicago School and public choice concepts, shorn of any ideological presuppositions, to the politics of economic regulation. It generally entails a parsimonious theoretical model of public competition for policy outcomes and underpins many empirical studies of, for example, the domestic determinants of trade policy. This is the basic model of politics Caves had in mind when he proposed his recent innovative account of the determinants of FDI policy (1996:250–55). As such studies are of direct interest to economists, and often carried out by them, the metaphor of the market has potent appeal. However, there is more than imagery involved. Economic actors are often seen to face a choice between acting entrepreneurially to promote their interests in free private markets or acting instead in a politically entrepreneurial fashion to secure government action defending them from the dictates of the market. Other private interests will contest regulatory favours and electoral competition between 'political entrepreneurs' can be thought of in market terms. The basic micro-foundations of the rational choice framework, namely methodological individualism, the stability of actors' preferences and the rational instrumental pursuit of those preferences, have been often addressed and need not be re-examined here (Elster 1986:2–16). Adopting a theoretical approach to political

[1] Interest in formal choice theoretic studies of aspects of political behavior, and issues of public goods and collective action, have been limited to several Australian economic theoreticians (Brennan and Lomasky 1993; Brennan and Walsh 1990; Pincus 1989). Even game theory, which has greatly contributed to an understanding of how the structure of choice situations can determine outcomes, has attracted only limited interest in Australia and that has been largely confined to the international trade politics area (for example, Drysdale 1988:39–46).

phenomena with the same basic micro-foundations as most economics and international business studies allows for an extensive borrowing of analytical concepts and a direct synthesis of research findings. Lenway & Murtha (1994:530–31) argue for the use of 'mutually consistent terminology and concepts' to make the political aspects of trade, investment and international competitiveness more accessible to international business scholars. Later in this chapter, and following Caves's lead (1996:250–55), a more nuanced model of FDI preferences will be introduced into the theoretical construct to allow for the influence of ideas.[2] As will be seen, this has significant implications for an understanding of the dynamics of the political market, and for the methodology used in the empirical part of this study. At this stage the basic features of political markets approaches need to be further examined.

In the political markets conception, regulatory interventions in markets are supplied by governments in return for electoral support and/or political resources that can be utilised to secure more support. Formal models of politicians giving mixes of regulatory favours to rent-seekers take their lead from the seminal works on the economics of politics by Downs (1957a, 1957b), on regulation by the Chicago School economists Stigler (1971), Posner (1974), Peltzman (1976, 1989), Becker (1983), and from public choice scholars.[3] The concept of rent-seeking has been subsequently developed into a sophisticated line of theoretical and empirical inquiry, with a number of valuable reviews now also at hand (Tullock 1967; Kreuger 1974; Buchanan Tollison and Tullock 1980; Tollison 1982, 1991; High 1991). Although the political markets account of public policy processes is not a rosy one, at least in the healthier democracies the market to supply government interventions is heavily contested by opposition parties.[4] Governments are seen to supply market interventions and subsidies in order to secure re-election while

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[2] The self-interest assumption of *homo economicus* is best understood as a 'useful fiction' (Brennan and Buchanan 1985:65) that can be relaxed in light of the empirical evidence of actors' preferences (Dowding *et al.* 1995).

[3] For a good overview of the main economic theories of regulation see Peltzman (1989) or Chapter 10 of Viscusi *et al.* (1992), and for a general introduction to the public choice school see Mueller (1989).

[4] The continued contestability of the market, at low cost and risk to participants, is a function of the institutional settings in which the political market is embedded (North 1981).

opposition politicians will make counter bids for electoral support in an effort to win office. The competition to secure a winning coalition of supporters provides an ongoing incentive to political entrepreneurialism; the object for major parties being an optimum mix of private and public goods to secure majority parliamentary support.[5] In order to assemble a winning majority of supporters a major political party must carefully choose policy positions across a wide array of issues, encompassing diverse stakeholders. The particular mix will depend upon a range of factors including the institutional structure of the electoral system, the demographics of the electorate, the structure and influence of organised private interests and the presence and strategic capabilities of rival candidates and parties (Dunleavy 1992:83–144). Political markets approaches tend to see private goods, and market-distorting regulatory favours in particular, as predominating in the overall policy mix. These go disproportionately to well-organised minority interests at the expense of overall community economic welfare (Mueller 1989; Olson 1982; Viscusi, Vernon and Harrington 1992).

Political market studies typically depict politicians as indifferent to the policy mix they adopt as they are primarily interested in holding onto office for the private rewards it entails. A political markets approach certainly does not rule out the personal policy preferences of key government actors or the policy of their party being determinants of a policy outcome. This can be either for private goods or the realisation of a particular conception of 'the public interest'. All the approach holds is that particular structures of interests entail certain political costs and benefits and that, ultimately, governments and oppositions are profoundly averse to bearing aggregate political costs that would see them fail to achieve a majority at election. Earlier political markets literature, informed by the economic theories of regulation of Stigler, Peltzman and Becker, reflected highly stylised models of a single government actor's political calculation in a single issue market. There soon

[5] Large political parties emerge principally because of the need for candidates to be able to make credible commitments to deliver both public and private goods (Ramseyer and Rosenbluth 1993). Peltzman's seminal 1976 article was founded on the argument that regulators would spread the rents from regulation across a number of constituencies to gain greater political support. This and subsequent theoretical and empirical studies showed that this would be likely to result in regulation being designed so as to not maximise rents accruing to producers but to leave some with consumers (Peltzman 1976; Mueller 1989: 236–37; Keeler 1984).

developed an extensive literature that examined political optimising across multiple issues going beyond a unitary actor approach (Dunleavy 1992:10). Any particular policy, such as that pertaining to FDI, may be a function of bargaining with a wide array of interests across a large policy space. Institutionalist rational choice accounts address the reality that the organs of state are complex, have multiple actors present, and that institutional arrangements both deliver political resources to particular players and limit their uses (Graftstein 1992; March and Olsen 1984; Vira 1997). The bureaucracy may, for instance, be self-perpetuating and/or 'captured' by the private interests it is supposed to regulate (Bell and Wanna 1992).[6]

Interests

Political markets theory usually generates purely materialist accounts of the determinants of particular public policy outcomes. That is, its micro-theoretical foundation is the *homo economicus* model of human behaviour. As Becker (1983) has showed, in a majoritarian democracy governments are unlikely to be able to retain office by providing solely private goods to rent-seekers; although such private goods may nonetheless be prolific. Consequently there is a need to consider the circumstances in which a government would offer FDI policy in the public interest – in a welfare economics sense. The private interests associated with FDI policy are first examined before materialist accounts of public interest FDI policy are developed.

Materialism, FDI and private interests

In order to test whether or not rent-seeking models can provide a sufficient explanation of foreign investment policy it is first necessary to identify the economic interests of major constituencies in relation to it. This is an inherently more difficult task than in the case of tariff politics because FDI can vary greatly in its strategic intent, as noted in Chapter 1. The political economy of FDI policy

[6] Niskanen (1971, 1973) pioneered the budget-maximising entrepreneur model of bureaucracies and his theory has subsequently been submitted to considerable empirical and theoretical examination. See, for instance, McGuire (1981), Conybeare (1984) and Dunleavy (1992:210–248).

centres on the fact that, in general, FDI will lift the returns to factors of production it utilises in the host economy while entailing complex distributional aspects (Caves 1971, 1982; Reuber 1973). Foreign direct investment will generally increase the financial return to labour and/or the overall employment level. Within the international business literature the presence of high levels of unemployment has been identified as a political driver of liberal FDI policy (Kotabe 1993; Globerman 1988). Historically in open frontier economies rising returns to labour from capital inflow would attract migrants, resulting in the possibility of real wages being constrained below the level they would otherwise reach. However, a larger labour force would be supported (Parry 1978:194–97). Consequently, political representatives of labouring interests historically had strong incentives to support higher levels of foreign capital inflow while opposing any policy settings that might result in labour inflow.

As FDI entails issues of control by foreign managers it raises distinct issues that other forms of capital inflow do not. Foreign firms might bring certain human resource management practices that conflict with established local practice but which are an important part of the firm's ownership advantages. Foreign firms might also make more credible threats during wages negotiations to relocate business operations to another country (Huizinga 1990). Consequently there might be resistance to foreign takeovers of existing enterprises by unionised workers in the target firm if they believe that job levels and entitlements can be roughly maintained in the absence of new foreign ownership (Rugman and Verbeke 1998:126). Trade unions also tend to favour the interests of existing employees rather than the creation of greater employment overall (Hirsch and Addison 1986:155–79). It is conceivable that trade unions might welcome the entry of a foreign firm with different human resource management practices if they believe them to be better than domestic employers. Unions may also perceive that they can extract greater rents from a profitable MNE than a domestic firm (Caves 1996:123). On the other hand, as Breton (1964:378–82) argues, a restrictive policy might serve the interests of middle-class managerial employees at the expense of blue-collar workers. He points to the Canadian experience of nationalised and restricted industries, such as

power generation and the media, which had a much higher propensity to employ local rather than foreign managers, concluding that

> ...the occupations made available for a given group of nationals are mostly middle-class jobs since working-class jobs are either already held by nationals or are deemed 'unimportant' from a nationalist point of view. In other words, ownership of assets confers the power to combine capital with middle-class labour not by considering the marginal productivity of these factors alone but by considering the productivity of middle-class labor modified by the ethnic or national origin of the factors. Because of this some people will be paid more than they are worth because they are of the 'proper' national origin and/or more people will be employed than is economically optimal (1964:378).

It should be noted the same result can be effected through immigration restrictions, or through registration of the professions, even when a liberal FDI policy is maintained (Shughart, Tollison and Kimenyi 1986). Breton's hypothesis is nonetheless one that demands testing in the Australian context.

That a liberal FDI policy will be in the interests of labour as a whole suggests other domestic suppliers of business inputs should also have such a strong preference for it. However they are expected to want their own business sector to be exempted from such an open policy because of the competition for customers and inputs that foreign firms will represent. Whether oriented towards the domestic or export markets, a wide array of suppliers of physical inputs and ancillary business service providers, such as lawyers, merchant bankers and accountants, will be utilised by foreign firms. They will not only favour a liberal policy but also stability in other policy settings so as not to jeopardise such contracting with foreign firms. Murtha (1991, 1993) examines, theoretically and empirically, how an absence of host government policy credibility on commitments to subsidising local firms that supply direct investors would increase transaction costs and risk the exchange. Consequently both local and foreign firms have strong preferences for policy consistency.[7]

[7] This work neatly complements the increasingly popular transaction costs approach to the internationalisation of firms; a good summary of the basic tenets is provided by Teese (1985).

Locally-based firms that have become significant direct investors abroad may be a strong constituency for a liberal policy if policy reciprocity with other nations becomes an issue (Rugman and Verbeke 1998:121). Any local business facing liquidity constraints, or wishing to share risk, will welcome the opportunity to enter into joint ventures with foreign firms. This also applies to an increase in the pool of potential direct or portfolio investors in the case of a share issue. This leads to the broader but important observation that sellers of assets have an interest in an open investment regime because it can increase the pool of bidders. The clear corollary of this is that local buyers of assets, in relatively fixed supply, would have an interest in a restrictive investment policy. In the absence of foreign buyers, local bidders might pay less for an asset, especially in a context of rather inefficient financial markets. Such logic extends to local equity requirements, one of the popular objects of foreign investment policy adopted by many governments. These can provide local firms with involvement in enterprises at below free market prices and therefore may create political constituencies for the establishment and perpetuation of such a regulatory requirement.

Not only domestic buyers of assets, but any domestic firm foreseeing competition with a foreign investor for either customers or inputs would have an incentive to favour a restrictive FDI policy. When a foreign firm directly invests to secure market share in a host economy, taking advantage of its competitive advantages, local competitors (perhaps of foreign origin) will have the same incentives to lobby for protection, through barriers to investment that they would have if faced with competition from the rival firm's imported product (Parry 1978: 178–191). Indeed, the decision of the rival to invest directly in productive capacity might be a strategic response to the local firms' successful lobbying for protective barriers against its goods. If this is the case the local firms will constitute an established political constituency for the Government and might be expected to be influential in calling for restrictions on market entry by foreign rivals through direct investment. However, it is generally more difficult for the local firm to make a case against allowing such market entry because of the evident economic benefits to the host

economy from the investment. Moreover, those economic benefits create the liberal constituencies just discussed.

It is often stated in the international business literature that export-oriented foreign investment is likely to beget far less opposition and empirical studies of MNC-host government bargaining do offer some evidence to support this (Poynter 1986:57; Encarnation and Vachani 1985). Nonetheless, there will be domestic constituencies opposed to the entry of export-oriented firms. While export orientation implies there is not an immediate threat to the customer base of local domestically oriented firms, the latter may still fear product might be later directed to the domestic market. Furthermore, solely export-oriented FDI will still be in competition for inputs and, possibly, the established export markets of local firms in the host country. The latter will be particularly the case if the FDI is driven by recognition of the clear locational advantages the host country's firms have in a competition with the investor in international markets. When a foreign firm secures access to those locational advantages the domestic firm will have to rely on internalisation and ownership advantages it may not possess. In such circumstances they might lobby to have the government block access, through FDI regulation, to the locational advantages they possess. If it is a well-established export trade with little perceived overall growth potential there might be particular resistance from established firms faced with the threat of a loss of market share. This is particularly relevant if the foreign market is characterised by import quotas, especially when effectively capped for any particular country of origin.

The corollary of the local suppliers of business inputs being prima facie supporters of a liberal FDI policy regime is that local end users of those inputs would prefer new competitors were not able to enter the economy.[8] The ultimate FDI policy preference of the local firms having to compete with direct investors for inputs will depend upon their calculus of the costs associated with that competition versus the other benefits FDI might bring them. Foreign direct investment, like other forms of capital inflow, can help raise the limits on economic growth and so raises the

possibility for any business to also grow at a faster rate. A larger economy may allow firms to capture more economies of scale and scope (Caves 1996:251; Sinclair 1976:188). As FDI also entails spillover effects, such as a raising of the skills base of an economy, other businesses standing to benefit from such positive externalities, and not bearing counter-veiling direct costs from its presence, should favour a liberal policy (Caves 1996:251). Domestic firms, and other actors, in receipt of regular government largesse might also recognise that economic growth associated with FDI will also provide those governments with a larger revenue base from which they might benefit. Ideally, firms would like to have these benefits from FDI and yet have foreign firms excluded from their own industries.

Consequently, domestic firms might argue for a discretionary FDI policy rather than blanket restrictions because this would provide them with the opportunity to lobby for the specific restrictions they desire. Such diffused benefits of FDI, and concentrated costs, would tend to drive policy in a restrictive direction if it were not for the countervailing constituencies of input providers and domestic businesses facing liquidity and/or know how constraints. Unlike tariff politics, governments can resort to a highly discretionary regulatory regime that allows it to weight the significance of each constituency on an individual investment basis. Domestic businesses might favour such a regime for another reason. A degree of agency slack in corporate governance might see managements of firms supporting restrictions on foreign takeovers. As potential sellers, company shareholders have an interest in the pool of buyers being as large as possible. Management, on the other hand, will fear a change of owners because they may lose their positions. Management may then be tempted to utilise some of the firm's resources, including reputation, to lobby for a restrictive FDI policy that will be contrary to the interests of the owners of the firm. Such logic also leads to the hypothesis that managements facing a hostile foreign takeover bid will endeavour to empower government with discretionary authority over takeovers to block bids.

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[8] Unless higher demand allowed for scale economies that brought the costs of inputs down for all users.

While the likely FDI policy preferences of various domestic groups can be identified by reference to the places they occupy in an economy, it does not automatically follow these preferences will be enunciated to policymakers, let alone be accommodated. Certainly industry organisations that arise to make claims upon government are subjected to the same basic constraints applying to all political and corporate entrepreneurial activity. The leaders of private interest groups face demands for performance by their constituent members — who can exercise voice in the organisation, launch a coup, or exit (Hirschman 1970). On the other hand, the presence of established interest groups increases the costs to 'market entry' for new ones, especially when in direct competition. This factor, as well as the costly and institutionalised nature of most organised private interest groups, means that if an issue arises that cuts across existing organisational lines there might be only very limited private interest representation (Olson 1965). This is potentially the case with FDI.

As just seen, domestic divisions of interest on FDI policy tend to cut across those of other major issues. The FDI policy interests of firms may change fairly rapidly; depending upon whether they are currently a buyer or seller of assets, considering expansion but face capital or technological constraints, or fending off new competitors. The inflow of FDI is also much 'lumpier' than traded goods so there are likely to be times of intense debates and other times when FDI policy is not a political issue at all. All these considerations make the development of FDI policy-specific interest groups rather unlikely. This means the private interest politics of FDI will be complicated by the institutionalised pattern of interest groups.[9] In such circumstances, direct lobbying of governments by individual firms and entrepreneurs is posited to be more likely than in many other areas of business regulation.

The private interest politics of FDI differs from other economic regulation issues in that the businesses being regulated are foreign, so their status and rights within the host polity are often ambiguous. As the people who ultimately control the business

are not citizens and generally do not have the right to vote, a basic issue arises of the legitimacy of political action such as lobbying (Jansson, Saqib and Sharma 1995:40–45). Foreign firms may find access to both official information and people of influence restricted by virtue of their status (Lenway and Murtha 1994:524). Industry associations may exclude foreign firms, at least until they have become well established. However, it is at the point of first entry that foreign firms most need information, contacts and effective representation (Anderson and Gatignon 1986; Hennart 1988). Caves (1996:250), theorising the political market for FDI policy, suggested that 'because foreigners do not vote in national elections, pure redistributions away from foreign equity holders cause no negative equity votes and thus should proceed further than redistributions adverse to the interests of enfranchised minorities.' However, the domestic partners, suppliers and employees of foreign firms will constitute a domestic political constituency against the imposition of excessive rent-extracting regulations. Foreign firms sometimes can also turn to the home government and its official agencies in the host for assistance in dealing with the host government (Krasner 1985:170–76). As shall be seen below, the strongest defence that the foreign firm has is the economic benefits to the host society that its presence often entails.

Materialism, FDI and the public interest

Developing a materialist account of public interest-oriented FDI policy entails two analytical challenges. The first is to identify when governments might maintain a restrictive policy towards FDI that can be understood as being in the public interest – as understood in welfare economics terms. This is less difficult than the specification of private interests because much writing on the FDI policy has been in the vein of 'normative theory as a positive theory' (NPT) that the Chicago School and other proponents of political markets approaches were reacting against. Consequently the discussion is kept brief and focused upon restrictive FDI policy as an instance of second best policy outcomes. The second challenge is to hypothesise the drivers of FDI policy liberalisation.

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[9] Even when an issue is not divisive, private interest groups will endeavour to weight their policy preferences as bargaining with government and opposition actors will be across a range of issues.

Restrictive FDI policy and the public interest

There is a large economics and international business literature on the various economic objectives behind national policies to restrict FDI that is beyond the scope of this thesis to survey. For most contemporary scholars of the subject, however, restrictive FDI policies have economic justification on balance only where other domestic policy settings are wrong and for some reason cannot be changed. The exception to this is FDI in sensitive national security areas.[10] International business scholars would nonetheless be more inclined than many security studies scholars to emphasise the benefits of FDI for economic growth and hence national autonomy, and the ability of states to use domestic laws to check problems with foreign control of assets.[11] Moreover, restrictions on FDI have typically extended far beyond what could be justified in terms of national security needs alone. Other considerations such as the cultural impact are beyond the purview of a straight materialist account and will be examined later.

The general optimism of economists about the benefits to host countries of FDI is predicated on certain assumptions about markets being relatively free, and about the quality of the property rights system and basic state institutions that help to reduce transaction costs. When some of these assumptions do not hold then the costs and benefits of FDI become more complex. The first qualification to note is that under the postwar Bretton Woods system most countries fixed their exchange rates and were allowed to enact controls on capital inflow and outflow as a macro-economic management tool (Kasper 1984). FDI involves the entry of a foreign corporation

[10] Surveys of impediments to foreign direct investment carried out under the auspices of APEC the OECD (1987) and UNCTAD (1996) show that security-related restrictions are still common in otherwise liberal nations. Despite the ultimate failure of the OECD negotiations over the MAI it was clear that member states were moving towards a mechanism that would have allowed general exceptions from the national treatment principles for national security reasons (WTO 1999).

[11] Gilpin (1987) explicitly developed the theme of economic nationalism, which entails the legitimate subordination of private economic activities to the interests of the nation state. FDI potentially raises a dilemma from a security policy perspective: it can contribute to economic growth but entails foreign control of productive capacity. Foreign economic control might be problematic because of conflicts between the policy objectives of the host government and that of a foreign firm, the scope for transfer of sensitive technical or other information abroad, and the possibility that the foreign investments themselves might become a source of international disputation. For these and other reasons, security studies scholars have been giving more attention to the tensions between the goals of national wealth-building and national security (Gowa 1989).

into a host country, often through the creation of a subsidiary under local law, and need not entail the inflow of foreign capital at all if the foreign firm has access to local capital markets. This has led some economists and international business scholars to posit that capital poor developing countries will favour labour intensive direct investments in order to preserve precious local capital (Vachani 1995:166). Underdeveloped local capital markets, and a fixed exchange rate system, make government regulation of foreign firms' access to local capital, and their import of foreign capital, more likely but by no means inevitable.

If domestic policy settings give rise to substantial private rents and/or moral hazard problems at the expense of the community, and there is little scope for policy reform, then a public interest argument for a restrictive FDI policy may arise. It must be stressed that this would only be a second best solution and that domestic reform would be the first best. If foreign firms are able to secure a share of consumer surplus owing to market-distorting regulations, and then repatriate it abroad, then there will be a welfare loss to the host economy (Corden 1974:221). The positive externalities that FDI can entail may be large enough to more than offset this loss, making a liberal FDI regime still desirable. If the rents lost are larger than the spillovers, and they cannot be clawed back through taxation, then restrictions on FDI, or at least profit repatriation, would become attractive.[12] One scenario is of foreign firms earning large profits by 'tariff-hopping' into very protected and oligopolistic markets, at least until the high rates of profitability attract more firms into the market (Corden 1974:330–50). Fears of such costs are not limited to FDI in protected industries. Government favours to businesses that foreign firms cannot practically be excluded from, perhaps because of their local incorporation, may provoke such concerns. These may include generous business tax concessions, input rebates or subsidies and 'non-measures' such as the absence of competition policy applying to oligopolistic markets or the absence of an effective taxation regime. Citizens may see themselves as residual claimants to the

[12] If transfer pricing can't be checked through the taxation system at reasonable cost then governments might adopt indigenisation requirements, entailing the selling down of equity to locals (Falvey and Fried 1986). For a wide coverage of transfer pricing issues see Rugman and Eden (1985).

nation's resources. When there is a question mark over whether governments are adequately managing the process of selling property rights to public resources, such as in minerals, forestry, fishing or even the right to pollute, foreign investment policy is likely to become even more contentious.

Restrictive FDI policies have in fact only rarely been justified as a second best response to problems with other regulation. On the other hand, critics of restrictive FDI policy in Australia and elsewhere have frequently made the point that if governments are genuinely motivated by public interest concerns then there are better policy instruments for addressing concerns about FDI. The liberalisation of FDI policy in Australia has occurred in tandem with domestic policy reform and it is an open question as to whether the latter made the former more palatable. The next concern of this chapter is with a theoretical understanding of the drivers of liberalisation.

FDI liberalisation

The trend towards liberalisation of FDI policy in Australia and many other countries is unmistakeable (UNCTAD 1998:55–59). The unilateral nature of much of this policy change raises profound questions about the drivers of such policy change.[13] Dunning (1998:282) attributed the widespread liberalisation of FDI policy regimes, in some eighty countries in the decade from 1986, to the deceleration of economic growth and to FDI liberalisation itself. The latter gave transnational firms more locational options, increasing competition for inward FDI and increased the competitive pressures on home businesses as TNCs captured locational economies. Dunning (1998:283) saw these competitive pressures as not only impacting on FDI policy but upon economic regulation in general, concluding that

[13] In the case of trade policy, there have been multiple rounds of international trade negotiations where governments have traded concessions and been relatively confident that any compensating cross payments to domestic constituencies resisting reform would be offset by the national economic gains from liberalisation of export markets.

> By adopting market-friendly policies which promote the efficient development of both foreign and domestically owned assets, governments are increasingly acting as partners with, rather than protagonists against, TNCs in their wealth-creating responsibilities.

Other international business scholars have come to a similar conclusion, exuding faith in the public interest orientation of national governments. Rugman and Verbeke (1998:125) argued that governments have come to realise that the firm specific advantages of multinational enterprises cannot be simply unbundled or purchased as intermediate goods and so has led to policy change. These writers do not specify the domestic policy dynamics that make the growth objective politically salient over other private and public interest pressures for an illiberal policy. They generally assume that governments liberalised FDI policy because it was good for the national economy to do so. However, as the political markets literature and the long history of protectionism reveals, governments may adopt policy settings that are in their political interests rather than in the national economic interest. Dunning and international business scholars may indeed be correct about the triggers for liberalisation but the analytical challenge is to explain why.

The analysis of private interests above revealed deep divisions amongst domestic businesses over FDI. This suggests that in a political competition amongst only private interests for either a liberal or restrictive policy, the outcome might be 'a close run thing'. Other factors may ultimately determine the policy outcome as a consequence. As just seen, a restrictive policy may be a second best solution for other poor policy. Ideas may be decisive, as will be examined below. Dunning's (1998:283–84) view that economic downturn was a major factor in driving FDI liberalisations implies that governments have a political imperative to deliver sound economic governance that is a counterweight to rent-seeking. It is an insight that needs developing.

It has already been seen that domestic businesses will favour FDI inflow for its growth-enhancing effects while potentially demanding its exclusion from their own industries. There are other strong political imperatives for liberal FDI policy that would require powerful private interests or economic nationalist ideas to offset

them. Governments are likely to facilitate FDI inflows because the higher economic growth they can generate supports more public as well as private goods. Governments will be keenly aware that a prosperous economy delivers a growing revenue base that can then be directed at winning more electoral support. Moreover, a growing economy may also mask many of the costs that regulatory favours to rent-seekers entails (Corden 1974:108; Pempel 1997). Those who seek to have various private or public interest visions realised through state assistance should appreciate the FDI-growth-goods nexus and support a liberal policy. Not only such interest group dynamics but also electoral competition suggests that governments will be drawn to pro-FDI policies. While voters face heavy information constraints when they come to pass judgment upon a government at the ballot box, the general state of the economy should be roughly knowable to them.[14] There are few voters or private interest constituencies who do not feel that their lot in life is made better by general economic growth; subject to the qualification that many actors judge the justice of their circumstances in relative rather than absolute terms (North 1981:49–50). Governments are therefore likely to heed an electoral imperative to good economic management, or at least the perception of it.

The political benefits to incumbents of a strong economy have been recognised in some empirical and theoretical studies (Jackman and Marks 1994). Public choice scholars recognise that governments could be tempted to manipulate macro-economic policy instruments to coincide with the electoral cycle; jeopardising longer-term economic health (Buchanan and Wagner 1977).[15] It is logical to assume that governments would also be inclined to promote FDI and other foreign capital inflow in the absence of counter-veiling pressures for restrictive policies. In fact, Chapter 3 explores how Australian governments, especially at the state level, frequently resorted in the past to importing large volumes of overseas capital on its own account when private flows did not deliver sufficient economic growth to secure their political fortunes. With the scope for that checked by the creation of the

[14] albeit mediated through their own recent personal economic experiences.

[15] For public choice scholars, however, this earlier insight reinforced their pessimism about the prospects for governments delivering policy in the public interest. For that reason the vesting of discretionary authority over monetary and even fiscal policy in independent bodies is advocated (Buchanan and Wagner 1977).

Loans Council to control official borrowings, the state governments seem to have acquired a structural bias towards a liberal FDI policy.

American experience lends weight to this interpretation (Eisenger 1988; Ventriss 1994). A pressing need to expand a state's tax base (Bacchetta and Espinosa 1995) and high unemployment rates (Kotabe 1993:135–38) have been identified as major political drivers of pro-active measures to attract foreign direct investment. As a consequence American state governments have become an increasingly significant force for 'global microdiplomacy' (Duchacek 1984) in their efforts to re-engineer the terms of their interaction with the international economy (Kline 1984). Globerman (1988:41–49) found empirical evidence to support his theoretical proposition that short-run economic conditions exercise a substantial influence on policies regarding foreign direct investment; leading him to raise the question of whether a healthy economy would diminish governments' enthusiasm for further liberalisation of foreign investment policy.

Governments would seem to face a political calculus that sets political pay-offs from adopting or maintaining restricting policy measures towards FDI against the short-to-medium term economic and political costs of foregoing it. Those economic costs will vary with the broader health of the economy. Poynter (1986:56–58), in an early departure from the public interest inclination of international business scholars writing on FDI policy, suggested that the growth objective was always in political conflict with other imperatives, private and public, for a restrictive policy. He saw the latter dominating when the host nation had an '...ability to replace the business resources normally suppled by the MNE...'. Kim (1987:35–38) likewise found that multinational firms had to concede much more to host governments when they wished to invest in capacity that a host economy was already reasonably well endowed with. Poynter (1986:57) judged that '...low [MNE] subsidiary bargaining power sets into motion actions by domestic entrepreneurs, government officials, and the like, who actually bring about intervention.' Poynter's study was limited to the government intervention in the operating environments of MNEs already present in a country rather than the policies applying to the initial entry of firms.

Poynter's view shares much with the familiar 'obsolescing bargain' theory in the international business literature. This basically holds that as firms become established over time in a country their bargaining power with host governments diminishes; owing variously to sunk costs, the diffusion of their know-how through spillovers and increasing dependence on the local market, personnel and suppliers (Vernon 1971; Kobrin 1987; Encarnation and Wells 1985).[16] There is some qualified empirical evidence, mainly from developing countries, to support the concept of the obsolescing bargain (Vachani 1995; Lecraw 1984; Moran 1974).[17] At first glance the core idea that strong FDI inflow can, over time, make it easier for a government to switch to more restrictive policy accords with Australia's policy switch in the late 1960s. If the Australian government believed that foreign investors were effectively entrapped and/or that sufficient capital and know-how would be secured despite controls on FDI, then they might have sought to realise other political objectives through restrictive FDI policy. These might have been private-interested oriented, such as rewarding domestic political constituencies with rents, or public interested in the sense of using FDI controls as a second best solution to problems of domestic policy design. As shall be seen below, there may have also been non-material nationalistic objectives.

Although there is an apparent fit between the theory of the obsolescing bargain and the Australian experience, it is proposed that there was also a countervailing tendency at work that has been neglected in applications of the concept. Following the theory of political markets, it is hypothesised that the presence of established foreign investors in Australia created domestic constituencies in favour of FDI that ameliorated in practice the extent of the turn to restrictive policies. Without a consistent account of domestic interests in this vein it is impossible to account for

[16] It was consequently argued that MNEs should avoid excessive localisation lest they fall victim to host government 'hostage taking' (Poynter 1986:57).

[17] Studies of the obsolescing bargain have largely been quantitative in methodology and have used the percentage of ownership in the subsidiary retained by the parent as a proxy measure for the level of bargaining power. This approach was rather flawed in that it failed to consider that foreign firms would trade equity localisation for other regulatory concessions and that they might not want full ownership anyway for sound transaction cost reasons. Gomes-Casseres has provided a valuable corrective to the second problem (1990). Moreover, many of the static bargaining models that took only two statistical historical 'snapshots' of ownership. Both the formation of host government policy preferences, and the bargaining process with foreign firms, remained a black box (Vachani 1995).

subsequent return to a more open policy from the mid-1980s. Liberalisation implies either an increase in the opportunity costs of restrictive policy for governments and/or a change in the balance of domestic interests. The former account accords with the discussion above of why governments would favour liberal FDI policy for the economic growth it might deliver. The balance of domestic interests on FDI policy might evolve because of changes in the relative importance of certain sectors of the economy, or because of changes within influential sectors.[18] For instance, the growing internationalisation of some Australian businesses are hypothesised to have made the issue of FDI policy reciprocity more politically salient. A hybrid explanation of liberalisation is inevitable because economic developments that change the opportunity costs of FDI restrictions are typically mediated through domestic constituencies.

An important feature of FDI policy liberalisation in Australia is that it occurred in the context of broader liberalisation.[19] Regulatory reform in many countries revealed that public choice theorists such as Olson (1982) had been excessively pessimistic about the continued triumph of private interests over the public interest.[20] As a consequence there has been attention to some theoretical reflection on the meaning of this reform for private interest accounts of policymaking (Keeler 1984; Tollison 1991:61–63; Peltzman 1989). One of the early and important insights of the rent seeking literature was that the considerable welfare losses accrued not only from the costly competition for the rents but from the misallocation of resources that result from market-distorting regulation (Viscusi, Vernon and Harrington 1992). Explanation of the political impulse to regulatory reform can be drawn from that understanding. Becker (1983) provided an early and promising formal theoretical account of reform. Competition for rents generates

[18] The changing competitive advantages, or their absence, of businesses may reflect the 'natural' development of an industry or be a consequence of other regulatory changes. That is, the FDI policy preferences of private interests will be nested in a broader policy context.

[19] An important distinction is to be made between economic and social regulation (Viscusi, Vernon and Harrington 1992:295–329). While there has been substantial liberalisation of economic regulation in the last two decades in Australia and many other countries, the extent of social regulation has probably increased. Within the range of 'economic regulation', liberalisation has centred more upon structural rather than conduct regulation in Australia (OECD 1992:13–15).

increasing deadweight costs that convince even many active rent-seekers that policy should be returned to more market-oriented foundations. It is hypothesised then that changes in the FDI policy preferences of Australian business associations was in part a consequence of their growing recognition of the costs of government regulation in general to the national economy, and ultimately themselves. On the other hand, and contrary to the Becker model, it is hypothesised that individual firms would still lobby for FDI policy restrictions in some circumstances. This is because the potential benefits to the firms would be greater than the indirect costs associated with perpetuating government interventionist practices. In essence, although business associations as a whole may agree that FDI policy settings should shift back towards what most economists understand as the public interest, firms may cheat on any rent-seeking moratorium.

Ideas

In practice any conception of 'the public interest' on FDI policy is contested within the business and broader community. Understandings of the costs and benefits of FDI have changed considerably over time, even amongst specialists. The current near unanimity amongst economists and international business scholars on the benefits of a liberal policy is of relatively recent origin. International business scholars have generally been in little doubt that ideas have been significant in shaping FDI policies (Rugman and Verbeke 1998:125; Dunning 1994; Vachani 1995:162). Lenway and Murtha (1994:515–520) concluded that private interests and ideology — economic nationalism but also state developmentalism more generally — were the two major, interdependent, explanatory variables determining variations in FDI policy. Although many public choice and Chicago school scholars have been reticent about a role for ideas, autonomous from the material interests that they might serve, there has been growing acknowledgment that information constraints can have a considerable influence on public policy outcomes (Machan 1992:161–65). Dunleavy (1992) is at the forefront of developing more sophisticated and

[20] Olson's 1982 work held that some Western nations had 'paralysed states' that had been overwhelmed by the demands of interest groups. See Mueller (1989:277–317) for a summary of empirical tests of Olson's hypothesis.

analytically powerful rational choice theoretical constructs for application to aspects of public policymaking. His studies (1992:9)

> share a similar orientation by querying conventional public choice assumptions of perfect information, exogenously fixed preferences, unitary supply-side actors and decision-makers with single maximising courses of action...They each explore political behaviour in an environment of limited information; where consumer preferences are malleable and reshaped by elite actions; and where political supply-side organizations have complex internal structures and confront choice dilemmas between alternative maximising strategies.

Information shortage

The theoretical conception of the political market for FDI policy discussed up to this point gave only scant attention to the problem of limited information. It was noted that a growing economy can hide the costs of regulatory favours to rent-seekers, which essentially amounts to a recognition of imperfect knowledge. Information shortage provides the grounds for ideas to be a significant feature of the politics of FDI policy. Anderson and Garnaut (1987:115) found that this was certainly the case in the long history of Australian tariff protectionism, concluding that:

> One of the clearest messages to emerge from this study is that neither the public nor the private interest theory alone can explain Australia's protection policy. Their relative importance in protection policy-making is difficult to assess because of their simultaneous and complex interactions. However, it would seem that the climate of opinion among leaders as to the effect of protection on the public or national interest has been more important in determining the average level of protection and its changes over time than in determining the inter-industry dispersion of protection rates. Private vested interest groups, on the other hand, have affected mainly the levels of protection in individual industries, although at times they have also influenced the perception of the public interest in protection to some extent (1987:115–16).

Limited information about the economic costs of restrictive FDI policy would make it easier for a government to provide a favour to domestic firms seeking such a policy outcome. Given the enormous range and complexity of public policy issues that a government will deliberate upon during a term in office, voters will find it

impossible to be familiar with most policy settings. Formal rational choice models of voter behaviour hold that voters have little incentive to expend time and resources gathering information about candidates for election and their policies because the chance of their vote being decisive is extremely small. However, there is only a limited fit between these models and observed voter behaviour; which is by no means fatal to the broader rational choice approach.[21] Citizens who are motivated, for whatever reason, to gain knowledge of policy settings have some sources ready at hand. The print and electronic media are crucial to the functioning of mass political markets because, as the principal secondary market for information and analysis, they provide this information at very low cost to a wide range of stakeholders (Bennett 1992; Asard and Bennett 1995; Patterson 1993). Competition in the media market may create incentives for media agencies to identify the motivations of various actors making policy demands upon the government of the day.

All societal actors are as likely to be as constrained in their ability to absorb available information as they are by information shortage itself. The concept of 'bounded rationality', developed by Simon (1955), admits cognitive limitations, that is, both information shortage and computational capacities, as a major component of the constraints within which people maximise their interests. Any actors with limited resources — policy-makers, interest group agents or individuals — will be engaged in 'satisficing'. In this vein North (1981:49) concluded that 'ideology is an economizing device by which individuals come to terms with their environment and are provided with a 'world view' so that the decision-making process is simplified'. This is certainly not limited to voters, although the greater the economic stake an actor has in certain policy settings the greater incentive they have to invest time and resources in understanding their workings. Machan (1992:160) argued that the most selfishly instrumental actors may have to learn what their own best interests are and how to realise them. Bates and Krueger judged that it was '...difficult for particular groups to calculate where their interests lie. Ideological struggles therefore can

[21] For good surveys of the literature see Mueller (1987, 1989), Dunleavy (1992:79–111).

outweigh competition among organized interests as a determinant of policy change' (1993:456; quoted in Chai 1998:265).

A number of political scientists have interpreted regulatory reform since the mid-1980s as being a consequence of the capture of the agencies of state by an ideology of 'economic rationalism' (Pusey 1991; Maddox 1989; Muetzelfeldt 1992). Some authors posit the same phenomena across a range of countries (Bierstecker 1992; Hirst and Thompson 1996).[22] A weakness of the Australian accounts at least is that they do not give sufficient analytical attention to the economic circumstances, partly mediated through interest groups, that attracted some policymakers to 'economic rationalism' (James, Jones and Norton 1993).[23] The onset of a balance-of-payments crisis in the mid-1980s had dramatic and unforeseen implications for Australian FDI policymaking. At the best of times governments are confronted with a dizzying array of policy challenges and options and will have to 'satisfice' (Simon 1955). This has been well recognised in the rational choice literature, especially in relation to the way the principal-agent relationship between legislators and bureaucrats can be plagued by information asymmetry.[24]

Within the broader public policy literature the consequences of information scarcity are central to theorising and empirical study. The policy networks approach has come to be the most popular approach to the study of public policy-making in Great

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[22] A strong statement that links national policy choices to the influence of international institutions is made by Hoogvelt (1998:279): 'International business presents us with a hegemonic ideology that is now shared and propagated by the same multilateral institutions that previously embraced the ideology of national developmentalism'.

[23] Those works that retain a direct focus on business-government relations, such as by Bell and Wanna (1992) and Forsyth (1992) tend not to succumb to the tendency to purely ideational accounts because of the clear recognition that certain business groups were strong advocates of regulatory reform. The policy network approach will also identify this and it does provide a starting point for theoretically exploring individual agency in agenda-setting (Gerritsen 1994).

[24] On bureaucratic politics and agenda-setting see Downs (1967), Bendor (1988), Aberbach, Putnam and Rockman (1981). For two of the seminal articles in the principal-agent literature, see Alchian and Demsetz (1972) and Jensen and Meckling (1976). For a challenging application of principal-agent concepts to Japanese politics see Ramseyer and Rosenbluth (1993). Ramseyer and Rosenbluth (1995: 59), Kaufman, Majone and Ostrom (1986) and McCubbin and Schwartz, amongst others, have shown that governments do also have a range of strategic options to minimise agency slack. Dunleavy (1992: 174–209) theorised that senior bureaucrats' self interest may be better served by becoming 'bureau shapers' (Dunleavy 1992:174–209); reform entrepreneurs in the service of legislators rather than merely bureau builders.

Britain and is very influential in Australia and Europe.[25] It focuses on the linkages between government agency actors, interest group representatives and assorted specialists such as academics, and the consequences for the formulation of policy. The term 'policy communities' implies shared specialist knowledge, beliefs and values that cut across the divide implied in their formal roles.[26] The policy community is certainly not limited to within national borders. Measures which have appeared to succeed in other countries can make sense to policymakers in simple cost of information terms, as well as possibly being more 'saleable' in the political market because of the body of international evidence as to their consequences (Biersteker 1992; Markoff and Montecinos 1993). This in turn may contribute to a 'clustering' of countries around certain policy models (Castles 1993). Nonetheless, international policy trends will be filtered through the agencies of state, such as the bureaucracy, and society, such as universities, the media and the private sector (Goldstein and Keohane 1993). It is hypothesised that the 'feasibility frontier' – to quote Dunleavy (1992:109–10) – for FDI policy at any given point will be a function of a certain critical mass of views within a broad economic policy community.

Ideas and entrepreneurship

How then do ideas arise and find influence within the political market for FDI policy? This can be understood in terms of entrepreneurship — corporate, academic and political. The role of competition in driving the mass media to present ideas of interest — not necessarily well founded ideas — to consumers of media product has

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25 For a representative sample of this literature see the special issues of *Governance*, 2(1), 1989, and the *European Journal of Political Research*, 21(1), 1992. For an overview see Rhodes (1990) and Atkinson and Coleman (1992).

26 The policy networks literature provides more nuanced descriptions of agency-client relations than the simple 'capture' view. On the other hand, it generally fails to theorise about these relations so as to give a sense of the universal amongst the particular. Situating the policy communities concept in a rational choice theoretic construct of political markets may help to overcome that problem. Dowding argues that excessive attention is given to the metaphor of the network itself, concluding that: 'Attempts to provide a 'meso-level' theory, to connect networks with state autonomy approaches, or to drive network analysis by introducing 'ideas' in the form of 'epistemic communities' or 'advocacy coalitions' will all fail to produce fundamental theories of the policy process. They fail because the driving force of explanation, the independent variables, are not network characteristics *per se* but rather characteristics of components within the networks. These components explain both the nature of the network *and* the nature of the policy process.' (1995:137)

already been noted. In its news-making function the mass media represents the intermediate demand for new views. In its dissemination of news and analysis it is supplying ideas to all participants in the political market for FDI policy. Academics and other members of the broad policy community have their own reward structures for developing and disseminating information and ideas on foreign investment.

The demand for new ideas is certainly not constant. There is an independent ideational variable helping to determine public policy outcomes only because of significant lags in ideas changing to accord with changes in interests. North (1981:50) noted as much.

> Inconsistencies between experience and ideologies must accumulate before individuals alter their ideology. The implications for neoclassical theory are important. A single change in a relative set of prices by itself may not alter an individual's perspective and therefore decision, but persistent changes that run counter to an individual's set of rationalizations or a change in fundamental consequences for his well-being will induce him to change his ideology.

Governments and oppositions may take a long time to adjust their FDI policy settings despite changes in the economic and political environment. Times of policy crisis may decisively shift the feasibility frontier of policy action, privileging new ideas and their proponents. The latter may be understood as 'reform entrepreneurs', and may have taken the initiative to make information available to policymakers, voters or other actors on the real costs of particular policies.[27]

In fact much political entrepreneurialism involves something far less noble than the dissemination of objective facts designed to promote the 'public good'. In a political environment characterised by imperfect information, as in any normal market, there is plenty of scope for the instrumental use of ideas.[28] Private interest groups may cloak their political pursuit of costly regulatory favours in the discourse of some

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[27] I am indepted to Professor Ross Garnaut for an explanation of the issues entailed in the notion of a 'reform entrepreneur'.

[28] For an instrumentalist explanation of ideological phenomena see Dowding (1991: Chapter 7). Such an exercise will have similar empirical interests with post-modernist scholars concerned about the relationship between knowledge and power in society.

variant of 'the public interest', as Anderson and Garnaut revealed in Australian tariff politics (1987). Governments are likely to manipulate information in order to secure legitimacy and they are usually well endowed with resources, including the credibility of state authority itself (Dunleavy 1992:119–35).[29] North (1984:39) argued that 'If ideology is not important, then economists must explain the enormous amount of resources that political units and other principals in political economic activity devote to attempting to convince participants of the justice or injustice of contractual arrangements' (cited also in Chai 1998:265).

Political entrepreneurs seek to understand voters' beliefs about their interests, and then respond to and shape them (Asard and Bennett 1995:645–48). Societal policy preferences, non-material as well as material, are made politically salient through entrepreneurial action. For the politically ambitious, the resilience of certain beliefs, aspirations or prejudices can provide considerable scope for the strategic expression of empathy in pursuit of a support base. That is, there are opportunities for political entrepreneurialism through offering oneself as an agent for any particular cause, in turn harnessing the energies of 'the true believers'.[30] The political entrepreneur need have no real affinity for the 'cause' but must be able to make, relative to other candidates at least, credible commitments to its advance (Williamson 1985). The strategic pursuit of 'reputation' then becomes vital.[31]

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[29] Prominent public choice theorists Buchanan and Wagner (1977) argue, for instance, that governments utilised Keynesian ideas instrumentally in order legitimate spending more than they taxed. For a detailed study of the influence of Keynesian thought see Hall (1989).

[30] In Ekelund *et al.* (1996) the religious convictions of believers are taken seriously but an insightful instrumentalist and materialist account of the entrepreneurial actions of the Catholic church organisation, utilising concepts from the economic theory of the firm, is developed.

[31] The concept of reputation is one that has attracted enormous attention over the last decade in micro-economics but is yet to be widely applied to political phenomena. An exception to that is the work of Dowding *et al.* (1995:144, 269) in incorporating reputation as a bargaining resource into Harsanyi's famous analysis (1976, 1986), alongside information, legitimate authority, conditional and unconditional incentives. The key theme is how the concern for reputation in a competitive market can check the temptation to malfeasance by an economic actor, even in the absence of contracts and/or other enforceable statutory rights and obligations. (Klein and Leffler 1981) The attention to reputation effects came initially from empirical studies of firms in markets and subsequently an extensive and rigorous game theoretical and transactions costs economics literature appeared on the phenomena. See, for instance, Milgrom and Roberts 1992; Rasmusen 1991; Raub and Weesie 1990; Kreps 1990; Sutton 1986; Axelrod 1984. The final work is a seminal one on the implications of incomplete information in both single-shot and repeat games. A sociological literature on the 'embeddedness' of such reputational dynamics in social relations has also emerged (for example, Granovetter 1985). The potential application of such ideas to electoral politics, political coalition-building and internal party politics are obvious.

The political party is a mechanism for offering a policy package to voters. Large parties often stay that way because they can make credible commitments to deliver some particular mix of public and private goods (Ramseyer and Rosenbluth 1993). The party structure also allows political entrepreneurs to tap the political resource of people with intense policy preferences that align with the broad positioning of the party.[32] Yet party leaders are also potentially constrained by the ideological proclivities of the membership unless substitute resources can be drawn from elsewhere. The party must have sufficient policy latitude to be able to simultaneously target the 'median voter' and core interest groups if government is to be won (Dunleavy 1992:71–72, 134–35). Designing such a policy mix can be a fine art, further complicated by the role of the policy community in lending legitimacy to some policy choices and not others. A stark divergence between 'elite' and 'mass' opinion on FDI issues greatly complicated the politics of FDI policy for both the government and the main opposition in Australia. At the heart of this were differing conceptions of the national good that went far beyond the direct economic costs and benefits of FDI. It is to a theoretical consideration of those essentially ideational dynamics that we now turn.

Ideas and the politics of FDI

The notion of 'the nation' is, historically at least, an ideational construct. The basic notion of nationhood is premised on certain ideas about shared interests with fellow national citizens, and diverging ones with outsiders (Bryan and Rafferty 1999:34-60; Breton 1964:376, Hobsbawn 1990). As Smith (1990:16) wrote: 'By defining the membership, the boundaries and the resources, national identity provides the rationale for ideals of national autarchy.' Nationalism does not simply arise — it is promoted. Studies of new states have been particularly illuminative of this; offering many instances of the instrumental use of nationalist ideas by political entrepreneurs (Deutsch 1966; Lerner 1958).[33] In colonies economic nationalist ideology was

[32] There is considerable evidence to suggest that political parties have generally failed in Western countries to compete with a range of other organisations for members (Richardson 1995).
[33] Although studies do not use the term political entrepreneur there is a striking degree of fit between the political phenomena they describe and the concept.

inevitably part of a broader political mobilisation strategy and usually entailed a significant ideological legacy for FDI policy post-independence (Chai 1998). New states generally promulgated national ideologies amongst the populace as a part of 'nation building'; endeavouring to legitimise new institutional arrangements and wielders of authority (Gluck 1985; Wyatt 1969; Anderson 1983; Minogue 1967). All 'old' states have also created and perpetuated nationalist identities and sensitivities in various ways (Gellner 1997; McCrone 1998).[34] It is certainly not only political actors who promote nationalism — as discussed above. Much intellectual history writing shows, implicitly or explicitly, the role of public intellectuals in defining national identities and interests.[35]

There is little academic work on agency and economic nationalism, because there is little academic work specifically on the phenomenon of economic nationalism itself. Notable exceptions are Johnson (1968) and Breton, the latter stating of economic nationalism that

> The non-monetary flow of rewards is not easy to measure. It is of a psychic order and is usually referred to as pride, sense of identity and the like. Its existence, however, has a strong propaganda effect in stimulating the support of the working class in favor of policies which are not to their economic advantage (1964:379)

Breton's view of economic nationalism is essentially that those private interests who would benefit from a restrictive FDI policy actively lobby for it. They know that the political costs for government in delivering restrictions on FDI are lower if they cultivate nationalist sentiment. Widespread shortages of information about the costs and benefits of FDI allow nationalist preferences to become more politically significant than the private economic interests of a significant proportion of the community (1964:379–81). The thesis directly examines the extent to which private interests actively promoted, or at least sought to take advantage of, economic nationalist sentiment in the Australian community.

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[34] The tragedy of twentieth Century European history has guaranteed that enormous academic attention would be given to the phenomenon of nationalism, and the forces for its most pathological manifestations.

Economic nationalist preferences amongst voters and other actors raise complex theoretical issues about the nature of cognition and the psychological foundations of identity that are beyond the scope of thesis. This does not impair a political market account of FDI policy. In reflecting on the utility of rational choice interpretations of policymaking, Wood and McLean (1995:706) concluded that 'it makes little sense to argue that voters are rational calculators; it makes a lot of sense to argue that legislators and lobbyists are'. A degree of 'irrationality' vis-a-vis FDI on the part of voters might, in fact, increase the scope for political entrepreneurialism on the issue. Caves (1996:250–51) did not attribute irrationality to voters but rather introduced nationalist ideas theoretically into voters' preference sets. This did not represent too significant a departure from standard rational choice conceptions because he held that at some point personal economic interests would override nationalist impulses. That position is also adopted in this study. Caves (1996:250–51) stated that voter support for control of FDI on nationalist grounds would be '...subject to the condition that real-income costs of the restriction do not outweigh the utility of the gain in perceived independence.' This is a pragmatic recognition that the utility gained from perceived independence will vary greatly amongst voters and of the sheer difficulty of assigning values *a priori* to non-material preferences.[36] This study can be guided by hypothesised preferences on FDI policy; even if their orderings cannot be determined by deductive means with any certainty. This thesis starts with Caves' hypothesised preferences and adds to them — testing all against evidence of the Australian experience.

Caves (1996:250–51) proposed two theoretical interpretations of politically significant economic nationalist sentiment amongst voters. One conception held 'freedom from perceived foreign influence' to be a collective consumption good. Voters would experience 'disutility from perceiving that resource allocations in the

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[35] See, for instance, Kohn for an intellectual history of nationalism in general (1965), and on France (1955), and Germany (1965) in particular.

[36] While not hypothesising the relative weights that people place on nationalism and material benefits may appear to forego predictive potential, in practice it would have been an arbitrary and unilluminating exercise. That is, there is still too little empirical understanding of the relationship between these distinct policy preferences to be able to develop hypotheses that promise a close degree of fit with observed cases.

national economy are influenced by foreigners' (1996:250). Citizens therefore conceptualise of themselves as stakeholders in the nation and therefore feel 'nationalist' in the truest sense of the word. Caves' second interpretation of economic nationalism did not have that element, holding that 'voters themselves prefer to deal with nationals and experience disutility from economic contact with foreigners. National preference in this version involves xenophobia, but not the aspect of collective goods' (1996:251). It is the simple tribalist impulse of individuals. The two accounts of individual preferences are certainly not mutually exclusive. Those nationalist or xenophobic preferences become politically significant when they are intensely felt by a substantial number of voters — or a small number of influential relevant policymakers. In additional to these two accounts of FDI policy preferences others can be posited.

It is clear from studies by international business scholars that FDI in land and natural resources are more prone to political contention than many other forms of FDI (Schmidt 1986:48). This suggests that central to national identities is a common territory that citizens share and which bestows resources upon them. Breton (1964: 377) argued that the territorial fixation of economic nationalists was evidenced by the fact that that they seldom consider capital owned abroad by nationals as part of the national capital. Smith (1990:9–10) summarises the popular nationalist conception where

> The homeland becomes a repository of historic memories and associations... The land's resources also become exclusive to the people; they are not for 'alien' use and exploitation. The national territory must become self-sufficient. Autarchy is as much defence of sacred homelands as of economic interests.

It is hypothesised that a shift in the composition of inward FDI towards investments in real estate or natural resources would lead to an increase in societal demands for restrictive FDI policy.

National consciousness of territory is historically inseparable from threats to ownership of it. In 'old' countries these threats were principally external but in

frontier societies like Australia and the United States they also entailed the traditional inhabitants. The broader lesson to be drawn from the historical interrelationship between a sense of territory and of threat is that nationalism is unlikely to be a significant political force without the latter being perceived. A high level of FDI inflow, especially if involving takeovers, makes it easier for political entrepreneurs to 'identify' a threat to national economic sovereignty. However, promoters of economic nationalism may, knowingly or otherwise, also tap existing veins of community antipathy towards foreigners that are not specifically FDI-related.[37] Although quite distinct issues, the politics of FDI policy and immigration policy may become entangled as they can both be perceived as giving away economic opportunity due to locals. Chapter 8 shows strong evidence of that. Political entrepreneurship may lead citizens to sense more acutely supposed threats to national economic sovereignty than opportunities presented to the nation through inward or outward FDI. Caves (1996: 251) suggested as much, hypothesising that 'disutility from foreign influence on decisions could apply asymmetrically to the ones that impose losses on citizens, decisions that confer gains being ignored'. The emotive force of the term 'foreign takeover' is proof enough of popular concern with foreign threat.

In defining shared economic interests amongst citizens, economic nationalism may also define certain distributional aspirations. Concerns about equity have often figured prominently in debates over FDI policy (Rugman and Verbeke 1998:116–17; Lenway and Murtha 1994:525). Corden posited the concept of a 'conservative social welfare function' as one common factor in protectionism, despite its economic inefficiency.[38] As a restrictive FDI policy can serve protectionist ends the concept is directly relevant to an understanding of concerns about distributional equity. If FDI is seen as exacerbating social inequality — such as by displacing local

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[37] Schorske's (1981) masterly study of the deliberate cultivation of anti-semitism in democratising Austria highlights how latent antipathies towards minorities with economic influence can deliberately be made politically salient. Incidentally, much of the history of nationalism in the twentieth century accords with Lord Acton's famous warning that nationalism would prove to be the enemy of liberty (1997).

[38] Corden (1974:107) wrote that a 'conservative social welfare function' entails the policy preference that '...any significant absolute reductions in real incomes of any significant section of the community should be avoided.'

enterprises — then calls for restrictive policy might be expected. Likewise, there may be concerns felt about inter-generational equity. Although inter-generational equity also entails other-regarding individual preferences, it differs somewhat from Corden's notion of a conservative social welfare function. This is because future generations, by definition, are not already in receipt of revenues that will be affected by FDI. Instead the concern for inter-generational equity rests on the economic nationalist conviction that FDI, although promising economic benefits for the current generation, is not in the long-term national interest. Such a view is often associated with the conviction that foreign debt is preferable to foreign equity because of the fixed debt servicing costs; in contrast to open-ended repatriation of dividends. Such a view requires one to ignore the positive risk-sharing dimension of foreign equity and/or greatly exaggerate the lack of risk entailed with domestic investments. The inter-generational equity argument could conceivably be made to support FDI restrictions as a second best policy, discussed above, but its long-term orientation would suggest that people would argue for first best solutions. That requires full information about the causes and solutions of economic problems, and the intergenerational equity argument for a restrictive FDI policy is a common one because this is often not the case.

The inter-generational equity argument would have appeal to voters because it is easily associated with the belief that citizens are stakeholders in a nation. Citizens may draw psychic income from the prospect of future as well as present national prosperity, even if they do not reap other direct personal benefits. This is, in essence, Caves' account of economic nationalism. If recent academic understandings of the benefits of FDI were widely shared there should in fact be strong calls on inter-generational equity grounds for more liberal policy. It would be argued that the current generation was enjoying a mix of rents and psychic income from an economic nationalist policy but diminishing the future health of the national economy in the process. Anecdotal evidence from many countries suggests that this is will be unlikely; as was also implied in Caves's account of the asymmetric nature of concerns about national autonomy seen above. Nonetheless, Caves may have been a little too pessimistic about the asymmetric nature of community attention to

the losses and gains from FDI. This is because he did not give attention to political entrepreneurship in the market for FDI policy. As subsequent chapters will reveal, governments facing apparently strong economic nationalist preferences in the electorate have still judged that there are political benefits from associating with prestigious and/or large foreign investments in some industries. The political impulse to economic growth discussed above is clearly one factor in that.

Simple nationalism may also be at work. New direct investments by prestigious foreign firms may foster a sense of national pride in the electorate, and a greater degree of optimism in the nation's future economic prospects. A broader point arises from this observation. What a prominent foreign investment 'says about' the national economy will be open to interpretation; and may be heavily contested in public discourse. Political entrepreneurs may seek to bestow particular investments with symbolic significance to suit their own immediate political objectives. For governments, foreign takeovers may herald economic renewal; for oppositions, a shameful sign of national decline. Greenfields investments may reflect the nation's promise as a base for industries of the future, or an indictment of poor public policy settings that stifle domestic entrepreneurialism.

A cultural variable explaining FDI policy might manifest itself in several ways. Foreign direct investors may bring with them a range of new cultural influences.[39] Attitudes to such social and cultural changes will in turn influence attitudes towards FDI policy; weighted against the perceived economic costs and benefits of FDI. Vachani (1995:164–65), in seeking the determinants of MNC-host government bargaining outcomes, found evidence to s pport his hypothesis that: 'multinationals with positive historical or cultural ties with the host country will enjoy a higher proportion of foreign ownership retained than those without such ties.'[40] It is hypothesised then that the restrictiveness of Australian policy was partly a function

[39] The discussion of socio-cultural considerations in accounts of FDI policy preferences should not be mistaken for a rejection of the methodological individualism central to choice theoretical accounts of political behaviour. Socio-cultural phenomena have value because of the utility that is derived from them by individuals (Brennan and Walsh 1990).

[40] He also noted, however, that cultural familiarity might make foreign firms more receptive to localisation of operations (1995:164).

of the degree of psychic distance between Australian policymakers, and/or domestic constituencies, and the major sources of FDI at any particular time. It is further expected that popular opposition to foreign control will be strongest in culturally sensitive industries such as the mass media. Finally, material self-interest is forecast to remain as an important counterweight to such cultural nationalism. Restrictions on FDI to secure cultural goods will impose higher prices on some than on others, depending on their proximity to the economic activities that the foreign investment would have entailed. It is predicted that there will be more support for a restrictive policy amongst those bearing a lower economic price for their realisation.

Conclusions

This chapter examined the theoretical approach used in this study of the political determinants of Australian FDI policy. Its starting point was the recognition, discussed in Chapter 1, that political markets theory provides the most promising way of conceptualising the domestic political contestation of FDI policy settings. It examined the main features of a political market, and its foundations in rational choice theory. Policy outcomes are understood as the consequence of governments tailoring a mix of private and public goods, in response to interest group and voter demands, which is calculated to maximise the chance of retaining office. Notice was taken of strong theoretical and empirical reasons for giving greater analytical attention to public goods in the policy mix that usually is the case in political market approaches. Nonetheless, and drawing on current understandings of the economic effects of FDI, possible private interest constituencies for and against restrictions on FDI were then identified. It was noted that the FDI policy preferences of domestic businesses vary greatly by comparison with interests in relation to tariff protection. This suggested that a stable and powerful private interest constituency for restrictive policy was unlikely, although firm-level rent-seeking would be prevalent.

Public interest factors that may have reinforced and/or cloaked private interest calls for restrictive policy were then examined. Controls on FDI were seen as a possible second best approach to problems with other policy settings. In light of the

extensive liberalisation of FDI in many countries over the two decades, possible public interest drivers of that change were theorised. Many international business scholars have suggested that ideas were as important as interests in determining FDI policy outcomes. Theoretical consideration was therefore given to the dynamics of information shortage, ideas and ideology in the political market construct. Ideas become politically salient through political, intellectual and media entrepreneurship. Economic nationalism is an essentially ideational phenomenon, with diverse manifestations in the FDI policy preferences of citizens. Concerns about inter-generational and distributional equity are common. The former rests on fears of the long-term costs of FDI that were once far more widely shared by FDI policy specialists than they are today. Changing understandings in the FDI policy community are expected to influence the suite of FDI policy options available to governments. There is often a territorial fixation to economic nationalism; suggesting that FDI in land and natural resources will be most contentious. With a concern for a territory comes a deep fear of external threat to it; reflected in the potent emotionalism surrounding 'foreign takeovers' of almost any type of asset. Combined with concentrated distribution effects, foreign takeovers have considerable scope to be controversial. New investments are predicted to be less contentious, and may even inspire national pride if associated with prestigious foreign firms or new industries. A cultural variable is also likely to partially determine FDI policy outcomes, in two ways. FDI should be less contentious when it originates from countries with little 'psychic distance' from Australia. Secondly, more restrictive policy towards culturally sensitive industries is expected. In short, ideas and interests are both expected to determine FDI policy outcomes — in complexly interdependent ways. Only a detailed empirical study can shed light on just how.

3 Historical background

For most of Australia's history of European settlement the inflow of private overseas capital was unhindered by governments. Overseas capital, both private direct investment and loans, lifted the domestic limits on growth and raised the productivity of Australian natural and human resources. Australia's historical relationship with the United Kingdom limited debate about reliance on British capital, although some radical nationalist critics were present from the early 1890s. Up until the Great Depression, governments often imported overseas capital on their own account when private flows were insufficient. This reflected a recurrent political need to promote economic development. The burden of servicing sovereign overseas debt during the 1930s made both the post-war Chifley and Menzies governments wary of such state borrowing and investment. 'State developmentalism' nonetheless persisted in Left-wing circles and combined with the radical economic nationalism that grew in reaction to British financiers during the Depression. This ideological legacy was to have a significant impact on the politics of FDI policy in later periods. Yet in the period to 1960 mainstream opinion favoured an open door policy towards FDI, with only limited sectoral exceptions. FDI helped to underpin a large-scale post-war immigration program and a sizeable manufacturing sector behind high tariff barriers while being consistent with the Menzies Government's support for close relations with the United Kingdom and the United States of America.

Capital imports and colonial politics

Australia was richly endowed with land and natural resources that promised wealth if transfers of capital, labour and technology were made to exploit them. In the early years of white settlement the British government played a leading role in the transfer of both capital and labour to the Australian colonies. Private capital inflows only overtook public transfers in the 1830s (Butlin 1994:224–26). The situation fluctuated and once again in the 1840s private capital flows to Australia were

smaller than public flows because of the British financial crisis and earlier poor returns on Australian investments (Butlin 1962; Shann 1930). The pastoral industry provided the initial magnet for private British capital inflows; much of it being portfolio investments. There was also some direct investment through the medium of large London-based pastoral companies that maintained operations in a number of colonies (Butlin 1994:182–84; Wood 1930:9–21). Economic downturn in Australia invariably brought greater demands from settlers for increased public investment by the British government to offset declines in private capital formation and lower demand for goods and labour. British governors and the Colonial Office were more immune to these requests than subsequent colonial legislative assemblies.

Shann (1930:238) noted that 'self-government brought freedom to start a 'national debt'...' In the early decades of colonial self-government there was no question of rejecting British capital as 'foreign'. Although self-government promoted additional identities and loyalties, it did not undermine the overriding identification with Britain that characterised colonial life. On the contrary, electoral considerations caused colonial governments to be active borrowers in London and direct investors. Universal male suffrage heightened the sensitivity of governments to the level of economic activity in their colony with the Eastern colonies particularly facing difficulties keeping people in work during the 1860s.[1] The gold rushes brought large inflows of labour and in turn cemented the colonies' reliance on both private and official capital inflow from the United Kingdom. Between 1851 and 1861 the non-indigenous population of the colonies grew from 405,000 to 1,168,000 (Shann 1930:183). While gold mining led to greater domestic capital formation, British direct and portfolio investment was crucial to the industry.[2] With the quick depletion of alluvial gold, mining became capital intensive and led to pressure upon

[1] Manhood suffrage was progressive by British standards, where property tests still disenfranchised a substantial proportion of the male population. It was adopted in South Australia in 1855, Victoria in 1857 and New South Wales in 1858 (Shann 1930:183).

[2] Markey (1988:68) noted of the mining industry that: 'New finds entered the large-scale company stage immediately. Whereas previously, British capital had not directly entered Australian mining, a contraction of investment opportunities, improved communications allowing up-to-date information on speculative ventures, and the incredible richness of new fields brought a strong response from British investors to underwrite the new large-scale operations.' Blainey (1978) provides an excellent study of the development of the mining industry.

governments to boost labour-absorbing industries. Universal male suffrage increased the political salience of unemployment.

Raising public loans in London became the main way Australian colonial governments addressed the policy dilemmas that unemployment posed in the 1860s.[3] Colonial governments provided some 38 per cent of total investment in the period 1861–91, rising to a 60 per cent share of a much smaller figure during the depression of the early 1890s (McCarty 1967:14–15). The profligacy of the Australian governments varied, with Queensland being the worst, but all were driven by the same motivation to borrow overseas. Without political parties to claim the loyalty and mutual self-interest of legislators, as they did in the United Kingdom, pork barrelling became rife in colonial politics (McCarty 1967:12–13). As stated in the previous chapter, the labour movement strongly supported government facilitation of capital inflow, whether through private or public channels. Without its employment-creating effects many labourers faced the prospect of emigration or poverty. By the 1880s London financial markets were complaining about governments in Australia spending borrowed money to create jobs (Hall 1963:181–82).

Most business interests welcomed the state borrowing overseas for economic expansion. MacIntyre (1989:10) concluded that

> The colonial state had to negotiate a compromise between, on the one hand, the popular demand for fair opportunity and self-sufficiency (through such means as protection of local industry and opening the land to agricultural settlement) and, on the other, the need to maintain the existing property relations on which prosperity depended. It did so by raising foreign loans, using the funds for developmental projects and the provision of urban utilities. Such activity bolstered wage levels and living standards while preserving the market as the mechanism that distributed rewards.

[3] Much of the writing on Australian economic history accords with contemporary public choice writings, although it is only rarely directly informed by it (Butlin, Barnard and Pincus 1982). There has been little interest in the prominent rational choice historical political economy in the United States and the United Kingdom (eg. Marvel 1977; Anderson and Tollison 1985, 1986; Ekelund, Herbert and Tollison 1989; Popkin 1979; McCarty 1967:12; Shaw 1980:83–90).

The form and location of state investments in infrastructure were lobbied for and the democratic process rewarded interests that formed coalitions with organised labour and other community groups (McCarty 1970:19).[4] The public construction of railways provides the best example (Shann 1930:305–6). Butlin (1983:85) noted how private interests influenced the ideas and institutions behind overseas borrowing.

> Specific business interests sought to limit their capital commitments in the generation of private growth by distributing widely, through public intervention, the costs of borrowing, of infrastructure and of immigration, and by minimising foreign interest obligations. A substantial price was paid in the creation of a powerful bureaucracy, and in private dependence on competing colonial governments introducing strong public oligopolistic elements into decision-making.

Although the private sector was still understood as the main engine of economic development, a complementary ideology of what might be termed 'state developmentalism' took hold.

Depression, nationalism and radicalism

Economic prosperity in the 1880s contributed to a growing sense of Australian pride, which was strengthened by the centennial celebrations of white settlement in 1888 (Alomes and Jones 1991:46–105; Clark 1955:790–96). Yet a growing sense of Australian identity remained consistent with an overarching British imperial identity for most residents of the Australian colonies (Henderson 1994:167–68; Alomes and Jones 1991:125–62). The depression of the early 1890s made the relationships between Australian colonies and the United Kingdom more contentious. Even conservative Australian politicians assigned a disproportionate share of the blame for the depression to hasty British capital withdrawals.[5] This was despite the fact

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[4] Business interests generally resisted small-scale labour-intensive urban public works projects because they tightened the labour market (Markey 1988:111). Business interests had greater influence over governments until the late 1880s because the labour movement maintained an industrial rather than political orientation at that point (Nairn 1973:32–35; Gollan 1960).

[5] This included Chief Secretary of New South Wales, Sir George Dibbs (Clark, 1955:311–12). On the role of British investment in the speculative land and housing booms in the late nineteenth century see Wood (1930:49–63) and Sinclair (1976:130–32).

that many small British investors had been also caught in the collapse of land finance companies and that poor private and public financial governance had been rife in the Australian colonies (Clark 1955:311–12; Boehm 1971; Wood 1930). Yet local conservative elites remained supporters of British private investment and the British imperial connection.

Strengthening Australian nationalism in the 1890s coincided with the development of class-based party politics following the bitter strikes in the early years of the decade (Clark 1955:444–62, 790–808; Alomes and Jones 1991:105–39).[6] The industrial disputes of the early 1890s gave focus to trade union critics of British investors in Australia. Large English pastoral companies, important as both direct and indirect investors, were criticised for absentee landlordism and the management practices of firms in Australia. William Lane and other radical writers argued that British capital lay behind the shearers' strike over wage cuts, given the governance role banks played with debtor properties (Markey 1988:238). *The Worker* of 31 March 1894, journal of the rural-based Australian Workers Union (AWU), denounced the 'financial sweaters' as the real taskmasters of Australian capitalism.[7] All society was seen to serve '...a few over-fed monopolists and a host of British bank shareholders, who draw their dividends from the produce of our labour' (cited in Markey 1988:208, 238). Populist anti-'money power' pamphleteering found a wider audience among small business interests as well (Encel 1970:341–43; Love 1984). Writers frequently criticised London financial exploiters and revealed the influence of American populist writers and activists such as Ignatius Donnelly (Love 1984:12–15; Markey 1988:239).

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6 Butlin distinguishes the nature of state intervention in the Australian economy in the late nineteenth from the early twentieth century by noting that formerly transfers of the factors of production of labour and capital to the colonies were primary, whereas, post-federation 'allocative interventions' also became important (Butlin 1983:89). This is not to say that the pork-barrelling nature of colonial politics did not have a significant allocative dimension but rather that the defining feature of twentieth century Australian national politics was class-based party contestation. While Butlin's endeavour to draw a distinction between the nineteenth and twentieth century models is valuable, it downplays the continuities of the former into state politics post-federation.

7 The AWU's publications appropriated the Eureka legend and glorified the image of the bushworker as the symbol of nationalism — excluding Australian urban and bourgeois images (Markey 1988:208–9). The Eureka Rebellion involved the bloody suppressing of an uprising by prospectors protesting against mining license fees in Ballarat, Victoria, in 1854. It was soon mythologised as a just struggle against British exploitation and repression but the reality was far more complex (Clark 1955:52–63).

The close identification by Australian colonial elites with the values of the British upper classes served to link radical class ideology with radical nationalism (Gollan 1960:119). Gollan wrote that.

> The reaction against imperialism and the belief in the possibility of creating the good society came together in a composite of ideas and attitudes that we may call radical nationalism. In its negative aspect it was a rejection of the assumptions that lay at the roots of the class societies of the old world; in its positive aspect it was the assertion of the validity of values which were thought of as distinctly Australian (1960:112).

The divide between English Protestant and Irish Catholic immigrants also compounded ideological schisms (Henderson 1994:167–68; Turner 1965:110–13).[8] Australian radical nationalism at the beginning of the twentieth century, as exemplified by the journal *The Bulletin*, was schizophrenic. While polemicising against the decay and injustices of British society, many radical nationalists were also racist and antipathetic towards closer links with Australia's Asia Pacific neighbours. Their support for an exclusive immigration policy would, ironically, perpetuate the British tone of Australian life while fear of the surrounding region compelled continuing close security ties with the United Kingdom. Support for state developmentalism almost invariably required calling upon British loan capital. While not a dominant value, radical nationalism would influence attitudes in the Australian Labor Party towards FDI into the early 1980s.

Federation, Empire and overseas capital

Federation of the self-governing colonies into the Commonwealth of Australia in 1901 fostered a local identity *vis-a-vis* Great Britain that the old colonies could not. The new layer of political dynamics over local colonial politics, which carried on within the constitutionally powerful states, provided a legal foundation for uniform regulation of overseas capital (Flint 1985). Yet there was not the political motivation to do so, despite Australian nationalism and xenophobia finding expression in several major policy developments in the first few years of the

[8] It would also later contribute to the dramatic split of the Australian Labor Party over conscription during World War I (Evatt 1954:300–14; Murphy 1975:303–42; McKinlay 1981:51–54).

federation.[9] The White Australia Policy and protectionism, along with centralised wage fixing, became the defining features of the 'federation settlement'. It diminished, to quote Castles (1988:93), the 'economic vulnerability' of manufacturing interests and organised male labour, and later included compensating cross-payments to rural producers (MacIntyre 1989:21; McCarty 1967; Kelly 1992). The policy settings of the federation settlement persisted until the late 1960s in tandem with, but not directly related to, a liberal FDI policy. Manufacturing protection would prove to be a drawcard for FDI. Despite the restrictive immigration policy, sufficient migration from the United Kingdom showed foreign investors a growing Australian consumer market. In the period between Federation in 1901 and the outbreak of World War I in 1914 there was a significant recovery in British capital flows to Australia.

Australia's commitment to the British cause in the Great War reflected its Imperial identity and dominion status. Yet World War I had mixed consequences for Australian attitudes to the British Empire and, by extension, British direct investment in Australia. The conscription issue had been extremely divisive, splitting the ALP Government and confining it to opposition for a decade (Evatt 1954:300–14; Murphy 1975:303–42; McKinlay 1981:51–54).[10] At the end of the war the conservative and pro-British governments of Billy Hughes and Sir Stanley Bruce committed Australia to participation in a large-scale scheme to resettle British ex-soldiers, creating a strong need for further British capital inflow. Butlin (1983:83) wrote that 'the acquisition of foreign capital through government action was a correlative of this population aim: to combine increasing inputs of overseas capital and migrant labour with domestic natural resources in order to establish the conditions for enlarged foreign trade and domestic activity.' Australian manufacturing tariff barriers were raised substantially after World War I. The aim was to secure work for Australian servicemen in industrial employment, and the financial interests of businessmen who had created substantial new manufacturing

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[9] The *Industries Preservation Act* of 1906, although declared invalid by the High Court for unrelated reasons, would have preserved the distinction between British and other foreign capital inflow (MacIntyre 1989:21).

[10] The Easter Uprising in Ireland during the war compounded the ideological and sectarian rancour within the labour movement and broader society.

capacity to serve war needs (Shann 1930:409–47). Protectionism and a growing population attracted more British capital — direct and portfolio investment as well as loans. Overseas direct investments also increased in response to investments made by state governments.

In the 1920s a number of state governments, both Labor and conservative, were large-scale borrowers and builders. While investment in rural infrastructure to settle ex-soldiers and migrants was important, investment in urban infrastructure took the major share of foreign borrowing (MacIntyre 1989:23; Arndt 1977:23; Wood 1930). Immigration, urban sprawl, and rapid industrialisation stemming from increased protection combined with the arrival of the motorcar, the demand for full electrification, and over a decade's infrastructure investment lag, made heavy demands on the state.[11] Yet many outlays were the result of state-level political contests, such as the Lang government's initiation of the Sydney Harbour Bridge and the metropolitan underground railway. Australian municipal borrowing in London was roughly twelve times larger between 1920 and 1928 than between 1905 and 1914 (Cochrane 1980:37). In a climate of growing economic buoyancy all levels of government and all political parties subscribed to 'developmentalism'. In the 1920s Australian dependence on British capital was reaffirmed, despite the Australian economy becoming progressively less dependent on Britain as an export market.[12] The Australian Loan Council was created in 1927 against concerns about the public indebtedness of some states and the debt-servicing burden on the balance of payments, which had doubled during the 1920s (Gilbert 1973:95–97; MacIntyre 1989:22). Yet the political payoffs from public works caused state governments to be hesitant about winding back overseas borrowings (Gilbert 1973:97).

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[11] Loan-funded expenditure on roads and bridges by the states between 1920 and 1928 was 24.4 million pounds; as against 2.8 million pounds in the previous decade (Cochrane 1980:37).

[12] Commonwealth borrowings overseas in the later 1920s were increasingly raised in New York, representing some 40 per cent of the total borrowed from 1925–26 to 1927–28 (Gilbert 1973:101). Yet, as Gilbert (1973:101) noted, London remained the source of Australian hopes for loans with the onset of the depression. Cochrane (1980:40–41) noted that an average of 74 per cent of Australian exports went to Britain between 1887 and 1891, some 51 per cent in 1920–21, and only 38 per cent in 1928–29. Western Europe, Japan and the United States were all emerging as important new export markets. Cochrane argued that the diversification of Australia's export markets was '...a precondition for the continuation of close association with and dependence on Britain' as it provided the capacity to absorb new British migrants, and draw and service British capital (1980:42).

The rise in economic activity associated with state projects in the 1920s, as in the 1870s and 1880s, stimulated the inflow of overseas private direct and indirect investment. Butlin (1983:83) judged that 'public action...supplemented rather than displaced private decision-making *in leading sectors of the economy*,[13] greatly amplifying capital and labour flows to Australia'. For the first time there was a small component of capital inflow that was not from Great Britain (Cochrane 1980:42). Most was from the United States but some came from other parts of the British Empire and continental Europe. These capital inflows differed from earlier periods in that a substantial proportion flowed into industrial and other urban-based enterprises. This was a reflection both of large-scale state investment in urban areas and the poorer productivity of rural areas opened by state infrastructure investment in the 1920s (Sinclair 1976:164–91). Higher tariffs on manufactured goods drew more FDI into manufacturing and contributed to growth in the sector, despite its inefficiencies (Anderson 1987:170; Cain 1973). Forster (1964:230–32) reported that at least 67 British companies set up plants in Australia in the 1920s. British direct investment represented about 11.4 per cent of total net finance for manufacturing in the 1920s and the largest firm in a number of industries was British-owned (Cochrane 1980:42). Ultimately foreign equity investment did little to ease the growing balance of payments problems. It was not export-oriented and, when intermediate imports were involved, could exacerbate external imbalances. In fact, compared with the 1930s, Australian colonial economies had been better cushioned in the 1890s depression by a greater proportion of overseas capital being held as Australian equities rather than loans and sovereign debt (Schedvin 1970:74).

British funding of state-led development was not always straightforward and one event in the 1920s caused bitterness throughout the labour movement in particular towards both the local privileged classes and the City of London. The 'Queensland loans embargo' crisis revealed that no matter how much Labor figures distrusted British financiers they feared a drying-up of overseas capital even more (Fitzgerald and Thornton 1989:95; Fitzgerald 1984:23–24; Cochrane 1989). In 1920 the Theodore Labor government in Queensland passed a bill to increase rents on

[13] Emphasis in original.

pastoral leases to a level comparable with leases on crown land.[14] The large pastoral companies and individuals affected by the bill, some being British, approached the financial agents in London handling loan raising for the Queensland government. The result was an embargo on all loans from the City to the Queensland government until it restored pastoral rents to their previous level and gave full compensation for losses. The role of local conservative identities in making the representation, and the refusal of the City agents to give in despite a trip by Theodore to London, provoked a community backlash (Cochrane 1989:118). The conservative opposition was forced, by electoral considerations, to denounce the embargo but it was not lifted until Theodore made substantial concessions during a second trip to Britain. The loans embargo crisis revealed the faith that many Labor figures had in the benefits of loan capital deployed by the state. The anger of the Theodore government was directed at those British financiers seen to be denying them the opportunity to carry out its 'developmentalist' policy agenda.[15] While the loans embargo dampened the enthusiasm of Queensland governments for public borrowing and investment, it took the Great Depression to have the same effect in other states.

Australia's overseas debt servicing burden in the late 1920s proved disastrous when depression struck (Gilbert 1973:95–97). The collapse of Australia's terms of trade and a shrinking tax base meant that a higher proportion of both export earnings and public revenues had to be directed to servicing overseas debt. British bankers and officials insisted on orthodox fiscal policy as a condition of loan renewals. A bitter feud between the Federal Scullin Labor government and the Labor premier of New South Wales, Jack Lang, split the ALP again and destroyed both governments. Scullin had reluctantly adopted the conservative policy recommendations of the Bank of England whereas Lang had been re-elected on a policy of 'repudiationism'

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[14] Theodore was Federal Treasurer at the outbreak of the Great Depression and the experience of the loans embargo has been explored as a factor in forming his attitudes to the British bankers (Young 1971).

[15] In an attempt to circumvent the embargo Theodore raised loans in New York but at higher rates of interest than usual (Fitzgerald and Thornton 1989:95). This was the first occasion in which any government had gone outside London for finance, the historical significance of which was acknowledged by Labor despite its continuing preference for raising money in London (Cochrane 1989:118–19). An attempt to raise monies in Queensland had only limited success and Theodore openly expressed concern about the 'crowding out' effect it might have upon private investment (Cochrane 1989:118–19).

(McKinlay 1981:67–68; Alomes and Jones 1991:206–15). The Australian economy was weighed down by external debt servicing right through the 1930s.[16] There was little capital inflow to ease this burden and at the beginning of World War II Australia still had a current account deficit of some 2.7 per cent of GDP and only modest domestic economic growth (Dyster and Meredith 1990:126).

The depression had implications for the subsequent politics of FDI. It left a legacy of popular animosity towards overseas investors, especially in the labour movement (Arndt 1977:132). Antipathy was also felt for domestic financiers who were perceived as supporting the position of British bankers and officials during the Great Depression. For some on the Left, nationalism was allied with 'state developmentalism' despite the lesson of the depression about the dangers of governments borrowing overseas. They saw the diminishment of business opportunities for domestic financiers implied by this development model as a bonus. On the other hand, conservative and some moderate Labor politicians were wary of overseas borrowing by governments. As they remained committed to achieving strong economic growth they inclined to a liberal attitude towards private capital inflow, especially private direct investments involving risk sharing and no fixed servicing burden.

Post-war Australia

Butlin judged the depression to ultimately mark the switch from public to private capital formation (1983:84). Both the Chifley Labor government and its Coalition successor led by Robert Menzies maintained a liberal FDI policy. Foreign direct investment became increasingly important to Australian economic growth in the 1950s and 1960s, reflecting both the worldwide increase in FDI flows and pull

[16] The international economic collapse saw Australia's terms of trade deteriorate in the order of 39 per cent over the period from 1928–29 to 1932–33, resulting in a balance of payments deficit equal to 11.2 per cent of GDP in 1929–30. Capital inflow virtually ceased, public debt servicing obligations overseas were maintained but there was little prospect for expanding exports. Consequently imports fell some 61 per cent over the two financial years to 1931–32 (Dyster and Meredith 1990:124). Unemployment reached a high of 29 per cent, while state and federal governments were too hampered by the debt burden to offer much support for its victims (Cochrane 1980:46).

factors in Australia. Government commitments to a large immigration program and to manufacturing protectionism were significant drawcards to FDI.

Peace and nation-building, 1945–49

The Chifley Labor Government was well aware that the severity of the depression had been compounded by the burden of servicing overseas sovereign debt. Although Australia's external balances were in a reasonable position following the war, the Chifley government held the aspiration of 1920s governments to rapidly expand the Australian population (Dyster and Meredith 1990:179).[17] This stemmed partly from the belief that Australian industries needed a larger domestic market but war with Japan in the Pacific had also heightened a sense of national vulnerability in Australia.[18] Pent-up demand from the war period and strong exports diminished the resistance to immigration from organised labour and allowed the Chifley government to pursue its 'full employment' objective.[19] The United Kingdom could not provide the scale of migration that the Government envisaged and so for the first time non-British European migrants were actively sought; with long-term implications for Australia's identity *vis-a-vis* the United Kingdom (Collins 1975).[20] Senior figures in the Chifley government, and their advisors such as economist D. B. Copland, understood that efforts to attract private overseas capital to Australia were an important corollary of their immigration program (Arndt 1977:132).

World War II reinforced goodwill in Australia towards the United Kingdom and the United States of America, and so there was popular acceptance of investments from

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[17] On the economic implications of war mobilisation and the workings of Canadian mutual aid and American Lend Lease see Butlin 1955 and Butlin and Schedvin 1977. The Chifley government kept many wartime restrictions in place, including rationing of basic commodities such as tea and butter, aimed at helping the United Kingdom through its economic and currency crisis.

[18] The large-scale immigration program won general public support, subject to provisos that the White Australia Policy be preserved and that the Government pay heed to the availability of housing in particular. On public opinion see, for instance, the polls by Australian National Opinion Polls (ANOP, 498–510, 3–4/1948).

[19] That commitment was formalised by the Curtin and Chifley governments in the White Paper on Full Employment that was released in 1945 as part of its plan for post-war reconstruction. For extracts and commentary see Crawford (1968:17–29).

[20] The White Australia Policy was officially stated in the 1954 *Yearbook of the Commonwealth of Australia* as: 'In pursuance of the established policy, the general practice is not to permit Asiatics or other coloured persons to enter Australia for the purpose of settling permanently.' (No. 40:372; cited in Dyster and Meredith 1990:210).

both sources.[21] This was reflected in the Australian Government's use of the innocuous term 'overseas investment' in all official publications until the early 1970s rather than the later used 'foreign investment'. British direct investments were not subject to any foreign exchange controls, the Commonwealth's only mechanism for regulating FDI, owing to the provisions applying to the sterling area.[22] The principal barrier to British investment in Australia in the immediate aftermath of the war was the parlous state of the United Kingdom's external balances and its strong domestic demand for investments in reconstruction and reorientation of industry to civilian purposes. Although the *Australian Citizenship Act 1948* established a distinct Australian citizenship the move grew out of a London conference convened by the British government in an attempt to resolve differences among Commonwealth countries (DILGEA 1988:33).[23] Australian citizens remained British subjects under the new Act although it provided a foundation for further strengthening an Australian identity.

The private sector, both local borrowers and foreign investors, made the bulk of the overseas capital transfers necessary to bridge the gap between Australia's savings and investment rates. The Government's formal commitment to a large migration program was itself a boost to private investor confidence, local and foreign (Dyster and Meredith 1990:194). Federal development projects such as the Snowy Mountains Scheme, which became an icon to 'state developmentalists' within the ALP, were actually funded out of domestic savings. The Labor government's nation-building vision, coupled with its fiscal caution, forced it to address prejudices within the labour movement against both domestic and foreign private

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[21] Popular support for close relations with the United Kingdom and the United States was revealed by a number of Gallop polls during the period. See, for instance, ANOP polls (337–44, 4–5/1946; 459–69, 10–11/1947; 498–510, 3–4, 1948). There was majority support for restricting American imports to preserve dollar reserves; policy practice that incidentally created further incentives for United States direct investments in Australia (ANOP, 487–97, 2–3/1948).

[22] With the serious external imbalances for many countries at the end of World War II, and the system of fixed exchange rates reaffirmed, the Allies made provisions for resort to capital controls in the Bretton Woods agreement (Kasper 1984:4–6).

[23] The 1931 Statute of Westminster permitted dominions to establish their own citizenship although there was no move made to do so in Australia before the British-sponsored conference, in contrast to the Canadian decision to create a separate citizenship in 1946. An ANOP poll of late 1947 found that 65 per cent of Australians favoured British citizenship over a new Australian citizenship; with only 28 per cent favouring the latter (ANOP, 470–77, 11–12/47).

capital that it bore from the 1890s and 1930s depressions. The Government's leadership recognised that FDI promised growth in aggregate employment and a stimulus to industrial development.[24] The pragmatism of the Chifley government on the economic benefits of FDI is in stark contrast to its ideologically driven failed attempt to nationalise all the Australian trading banks (Myers 1959). Prime Minister Chifley, who was also Treasurer, nonetheless faced opposition from the Left wing of the ALP in relation to FDI. The Chifley Cabinet readily made air transport and broadcasting off-limits to foreign control but not minority overseas equity stakes (Arndt 1977:134; Sexton and Adamovich 1981). Left leader Eddie Ward was especially critical of the Government's deal with America's General Motors to establish a large-scale automobile manufacturing operation (Spratt 1965:152). The Government granted a range of capital equipment import and other concessions to General Motors in an attempt to develop a strategic industry (Dyster and Meredith 1990:189). The reaffirmation of tariff protection for manufacturing was a significant drawcard for American and British manufacturers (Arndt 1977; Brash 1966). This became clear during the Menzies years.

Menzies government

When Robert Menzies barely managed to form a government in December 1949 few imagined that he would go on to win six more general elections and dominate federal policymaking until his retirement in January 1966 (West 1967:275).[25]

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[24] Chifley told the 1949 annual conference of the New South Wales Branch of the ALP that: 'I do not think that even the Australian people realise the enormous expansion that is taking place in secondary industries, ...nor are they able to contemplate the confidence and faith which not only producers and manufacturers of this country but of other countries have in the potentialities of this country. That is true of American industrialists who want to bring factories or branches here. Indeed only last week we reached an agreement which will bring a new type of manufacture here. Similar agreements in conjunction with American holders of patents and licenses are being made which should be of considerable value.' (cited in Arndt 1977:133)

[25] The Menzies government won House of Representatives victories on 10 December 1949, 24 March 1951, 29 may 1954, 10 December 1955, 22 November 1958, 9 December 1961 — winning on that occasion by only two seats — and 30 November 1963, when it returned to a sound majority. It also faced Senate only elections on 9 May 1953 and 5 December 1964. West (1967:275) noted the '...the unifying and pacifying effect of so dominating a political figure as Sir Robert Menzies, who was Prime Minister without a break for more than sixteen years. In some ways, the Liberal Party had been synonymous with Menzies, who not only founded the party to his own specifications. He also succeeded in controlling it — less firmly in state than in federal politics — by subordinating its extra-parliamentary organisation to its federal parliamentary wing, its Federal Parliamentary Party to the Liberal-Country Party Cabinet and the Federal Cabinet to its Liberal Prime Minister.'

Policy towards FDI reflected the influence of Menzies over his governments. Menzies' international outlook and the patterns of capital inflow into Australia coincided to predispose him to a liberal policy and this was formally enunciated in a Treasury statement in 1952 (Copland and Barback 1957:252; Arndt 1977:133). Menzies was pro-British and antagonistic towards any policy that might impede the interdependence of Australia and Great Britain. During the cold war Menzies' antipathy towards communism predisposed him to a close relationship with the United States, which became a significant source of capital during his long period in office. Menzies also keenly promoted Australian economic development although he identified this with protectionism (Henderson 1994).[26] Menzies' 'open door' policy to FDI contrasts with the heavy regulation of many other aspects of the economy and of financial markets in particular (Perkins 1977:2).[27]

Import controls imposed by the Menzies Government in response to external imbalances in the early 1950s created further incentive for foreign firms to invest in Australian production facilities (Dyster and Meredith 1990:205). The high tariff barriers that replaced quantitative import controls in 1960s also created an incentive for FDI and removed a bias against US dollar-dominated imports that further drove American FDI (Anderson 1987:171). The principal drawcard for foreign investment was the Menzies government's commitment to the large migrant intake that the Chifley government had initiated, coupled with the pro-business policies and better economic management under the Coalition. In the period of 1947–48 to 1954–55 overseas direct investment accounted for an average of some 20 per cent of gross

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[26] Menzies would have been aware of the rent-seeking nature of Australian society. In a 1964 speech on the thirtieth anniversary of his entry into politics he remarked that: 'The sturdy individualists in the country who resent any political interference apply for it every week. The manufacturers...what I will call the sturdy believers in private enterprise who think the Government ought to keep out of it are with us every week or with the Tariff Board every week or with something or other every week. There is hardly a section in the community today that doesn't in one breath protest its undying hostility to Government activity and in the next breath, pray for it.' (Menzies 1967:369)

[27] In 1977 J.O.N Perkins wrote that 'One dominant thread that appears to run through the past quarter-century of Australian macro-economic policy is a truly remarkable disinclination to use the market. This was true of import regulation, controls over interest rates, Statutory Reserve Deposits (or special accounts), as a means of influencing the money supply, and the official fixing of the exchange rate. Most countries of a comparable economic size and importance learned these lessons much more quickly than Australia, which consequently suffered substantial misallocation of resources and unnecessary inflation before policymakers and advisers perceived the sheer inefficiency of relying upon non-market oriented macro-economic measures.' (1977:1)

private investment in fixed equipment. According to Arndt, that total overseas investment, '...added an extra 10 per cent to domestic saving for the finance of capital development' (Arndt 1957:436, 439).[28] The one significant restriction under Menzies was his government's *Banking Act* of 1959 that required any firm wanting to engage in banking business in Australia to obtain an authority from the Treasurer. This protectionist barrier for domestic trading banks saw applications for full banking licences from overseas applicants habitually refused until 1984. The Menzies Government did allow existing foreign banks to continue operations (Sexton and Adamovich 1981:13).

Although the lowest proportion on record, in 1958–59 Great Britain still accounted for 52 per cent of total foreign investment. American investment accounted for 37.9 per cent, which was a foretaste of its growing importance during the following decade. Already by the late 1950s a greater proportion of American than British investment was concentrated in growing sectors, and consequently was both more profitable and had higher rates of re-investment (Vernon 1965:278–79). Overall, in 1960 about one-third of the manufacturing sector was foreign-owned. Foreign-owned manufacturers generally appear to have been more efficient than local operations (Brash 1966; Johns 1967; Parry 1974). The gains associated with foreign investment were eroded by inefficient industry structures resulting largely from policy distortions (Parry 1978:180).[29] Trade barriers increasingly distorted industry structures and were a brake on improvements in national productivity (Anderson 1987; Anderson and Garnaut 1987; Lloyd 1978; Cain 1973). While protectionism may have drawn direct investors to Australia in the first place, it and other regulation meant that the potential benefits of that investment were not to be fully

[28] The fixed equipment figures exclude housing and motor vehicles. Expressed as a percentage of cumulative national income, total overseas capital inflow accounted for some 3.4 per cent (Arndt 1957:439).

[29] On the role of foreign investment in influencing the size and structure of some Australian industries see Boehm (1979), Karmel and Brunt (1962). Studies of MNE investment and sourcing decisions need to be made with clear reference to length of presence in the host economy, as noted by Drysdale (1993).

realised.[30] Arndt (1957:449) warned at the time that continuing investment inflow might even exacerbate the balance of payments problem because large sections of the Australian economy lacked international orientation. In contrast to future periods, this view was not widely held by Australians at the beginning of the 1960s.[31] In 1958 Treasury stated that FDI had '...helped us invaluably during recent years by the support it has given to our balance of payments, by the addition it has to investible funds within Australia and by the accompanying flow of new techniques and know-how' (1958:23; cited also in Dyster and Meredith 1990:218).

The combination of heavy protectionism and a liberal FDI policy remained orthodoxy at the beginning of the 1960s.[32] This reflected a general faith in the policy settings that the Menzies government had presided over. In the late 1950s the Labor opposition criticised the profitability of some foreign investments, with the repatriation of sizeable earnings by General Motors attracting most criticism (Arndt 1977:134).[33] Ironically, protectionism was a factor in those profits yet the Opposition remained protectionist. In the late 1950s Trade Minister John McEwen emerged as an internal critic of the government's open door policy. McEwen, leader of the Country Party and Deputy Prime Minister from 1958, defended protectionism despite the cost borne by his rural constituencies (Henderson 1994:148). McEwen's

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[30] Arndt made the point that the proliferation of industry-specific regulation meant that foreign investments were scrutinised at several government levels (Arndt 1977:134). Yet there is no evidence to suggest that overseas investments were systematically subjected to tougher regulatory requirements than local ones.

[31] A 1963 ANOP poll found that 43 per cent judged 'foreign capital' to be 'ultimately much to our advantage' while 33 per cent said 'partly to our advantage', with the qualified response being largely determined by the long-term consequences for Australia's external balances (ANOP 1665–75, 3–4/63). Coalition supporters were more likely to favour foreign capital.

[32] Strong support for protectionism was evidenced in opinion polls, such as the two-thirds of respondents in a 1961 ANOP poll who thought quantitative import controls should be reinstated to protect industries and full employment (ANOP 1515–30, 3–5/61).

[33] Australian tax law contributed to the large headline figures on bonus issues to a foreign parent company. A number of companies declared a bonus issue to be a revaluation of unspecified assets, avoiding both corporate tax and the 15 per cent withholding tax that applied to profits repatriated. This was clearly optimal because Australia had no capital gains tax regime (*SM*, 13 January 1963). American tax law made US firms more reluctant to sell equity stakes in their Australian subsidiaries to locals while the Australian Government refused to allow foreign stock listings on Australian markets (Gott *Aust.* 9 March 1965). American firms faced a home taxation regime that taxed dividends earned overseas. Many firms sought to minimise dividend payments to the parent company but that was only possible if the subsidiaries were wholly owned. Local investors demanded frequent dividend payments and therefore made tax minimisation strategies much more difficult. This was apparently a factor in the break-up of the joint venture between American retailer Sears Roebuck and Waltons (K. D. Gott, *Aust.* 9 March 1965).

doubts about the costs and benefits of FDI were less ironic than the Opposition's because he was mirroring the protectionist impulse of small-scale Australian manufacturers who feared the entry of foreign competitors through FDI. McEwen's comments on foreign investment could be emotive, such as when in 1960 he said that while American management expertise was desirable '...we will *not* be taken over' (cited in Arndt 1977:135). McEwen was later quoted as saying Australia was '...selling a piéce of our heritage each year' (cited in *WA* 28 March 1965) and, more famously, '...we are selling off a bit of the farm each year...' (cited in *Age* 15 April 1969). McEwen's position in the Country Party meant the Coalition governments' stance on FDI throughout the 1960s appeared ambivalent.[34] Government division over the costs and benefits of FDI was grist to the mill of nationalist critics and as the 1960s progressed they gained increasing influence over public opinion.

Conclusions

Overseas capital has played an important role in developing the Australian economy. Since European settlement began there has been widespread support for governments promoting private capital transfers to Australia. As up until the 1960s the major source was the 'mother country' of the United Kingdom, nationalist opposition was limited to a minority on the radical Left. Until the 1930s both federal and state governments also made capital transfers to Australia on their own account. Public overseas borrowing for domestic investment was a mechanism by which politicians, at the state level in particular, sought to maintain their hold on office. Yet public investment generally complemented and attracted overseas private direct investment rather than supplanted it. The heavy burden of servicing overseas sovereign loans during the Great Depression turned the post-war Chifley Labor and Menzies Coalition government away from state developmentalism. Nonetheless, disputes during the depression over the role of British financiers fuelled both nationalism and statism on the Australian Left. This remained a minority sentiment through the 1950s as FDI flowed into the heavily protected and labour-intensive

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[34] On McEwen's influence as leader over the Country Party see Aitkin (1967:300). Deputy leader Doug Anthony also became an open critic of liberal FDI policy, as the next chapter notes (*Aust.* 15 March 1965).

manufacturing sector. As FDI started to play a major role in the growth of the mining sector in the 1960s both nationalist and state developmentalist ideas gradually became more influential. The next chapter examines how and why.

4 Rising economic nationalism, 1960–72

Menzies was to preside over an 'open door' FDI policy until his retirement in early 1966, although in the last few years he informally encouraged foreign investors to take local partners in order to diminish public disquiet. Holt maintained that policy although his government was more divided by the issues of foreign ownership and national development than Menzies had allowed. A liberal FDI policy underpinned a large-scale European immigration program, was consistent with strong support for the United Kingdom and the United States of America given their primacy as investment sources, and promised more rapid development of industries such as mining. The open door policy found considerable support within the Coalition's business constituencies, although manufacturing interests increasingly sought protection from foreign competition and hostile takeovers bids through new controls on FDI. The Labor Opposition had also inherited from the past a strongly developmentalist conception of the public interest but one that was more economic nationalist and statist in character. Labor was to consistently criticise existing FDI policy throughout the 1960s and until its election in late 1972, gradually finding support in the mass media and the electorate for a more restrictive policy. A government and policy community divided over the costs and benefits of FDI, a strong economy, certain amenable private interests and rising nationalism in Australia all contributed to this. In the dying days of its last term in office the Coalition enacted a regulatory regime for foreign takeovers that represented a compromise between its own conception of the public interest and the conflicting private interest demands it faced on FDI policy. Yet, Labor's more stridently economic nationalist vision of the public interest had greater popular appeal at that time.

Menzies in the '60s

Sir Robert Menzies' domination of the Coalition government assured continuation of the 'open door' policy until his retirement in January 1966. A close election result in 1961 owing to the 'credit squeeze' recession created a further electoral

imperative to maintain growth-oriented policy settings. Menzies welcomed extensive FDI in the growing export-oriented mining industry, although those investment flows were ultimately to become quite controversial. Menzies' conception of the public interest remained solidly developmentalist and therefore liberal towards FDI. The Labor Opposition judged that FDI was an issue on which the Menzies government was politically vulnerable. Opposition leader Calwell appointed a shadow spokesman on foreign investment matters, E. W. Peters, and along with him and shadow treasurer Frank Crean, sought every pretext to challenge the government on the issue. Peters accused the Menzies government of being an '...an instrument of predatory capitalist interests throughout the world' (*CT* 1 April 1965). Urgency motions, questions without notice and press releases on foreign investment appeared during 1964 and 1965 with almost monotonous regularity (for example *Aust*, *AFR*, *Mer* 2 September 1965). In March 1965 the government was engaged in a prolonged debate in the Parliament over FDI (*Aust*, *Age* 15 March 1965; *Mer* 18 March 1965). Labor called for compulsory Australian equity and a general vetting of both takeovers and all new investments (*Aust* 10 March 1965; *SMH*, *Age WA* 28 March 1965).

Foreign investment policy was an attractive political target for the ALP in part because the government was clearly divided on it. Since assuming the leadership of the Country Party and the role of Deputy Prime Minister, John McEwen had periodically expressed antipathy towards the open door FDI policy. There was an ongoing tension between McEwen's developmentalism and his economic nationalism, and Menzies generally succeeded in keeping him focused on the former.[1] Labor and other critics could also point to policy developments in other countries that might provide a pretext for regulation. The New Zealand government used capital controls in the early 1960s to secure local equity participation and in July 1964 announced plans for further controls over takeover bids (*Adv* 5 October 1964; *Aust* 10 March 1965). Rising economic nationalism in Canada attracted

[1] In early 1966 he told an American business audience that Australia would still need huge amounts of American capital as 'we want a population not of 11 million as it is today but of 25 million' (*Aust*, *SMH* 26 February 1966). Two weeks later he said on national television that foreign investment was just like cocaine: 'It might be a good thing...but, by gosh, you don't want to become dependent on it' (*Age* 4 March 1966).

considerable attention in Australia given Canada's similar reliance on primary and resource industries and federal political system (Arndt 1977:135; Kasper 1984:40). The 1965 plans of nationalist Canadian Finance Minister Walter Gordon for Canada Development Corporation attracted particular attention from Australian critics of the 'open door' policy (Auld, *CT* 22 June 1967). Even the relatively liberal United Kingdom provided precedents for government intervention in foreign takeovers, such as the imposition in 1964 of a limit on Chrysler's equity stake in Rootes Motors (*Adv* 5 October 1964). Growing reactions to FDI in a number of developed economies was in stark contrast to the OECD's 1961 resolution, in its Code of Liberalisation of Capital Movements, to '...progressively abolish between one another...restrictions on capital' (OECD 1961; Kasper 1984:8; Arndt 1977:135; Safarian 1993).

By the mid-1960s Australian editorial opinion was increasingly supportive of a more restrictive FDI policy. Melbourne's *The Age* declared that '...the disadvantages, principally the overseas control of large sectors of our economy, are now becoming increasingly obvious' (*Age* 29 July 1965). The *Sydney Morning Herald* and *The Australian Financial Review* and *The Advertiser* began calling for legislated investment review and local equity requirements, despite being more resolutely liberal than many other papers. Sydney's tabloid *Daily Telegraph* remained quite liberal, although parochial (*DT*, 17 November 1965).[2] The new national broadsheet *The Australian* championed economic nationalism, declaring 'what is required to make a policy on capital flows work is the scrapping by the government of the old 'laissez-faire' doctrinal approach to foreign capital' (*Aust* 1 December 1965, 19 May 1965; *Aust* 6 October 1964, 5 April 1965). Media in the states benefiting most from the investment inflow in the minerals sector, Western Australia and Queensland, tended to be qualified in their liberalism and advocate better policy coordination between the Federal and state governments (*WA* 8 March 1965; 1 November 1965).

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[2] Old-style Australian paranoia could work in favour of the liberal policy cause. The popular *Sunday Telegraph*, editorialising on the need for Treasurer Holt to handle discussions with the American administration over its capital outflow restrictions with 'aplomb', concluded: 'And, as a country living in an Asiatic sea, Australia NEEDS powerful friends' (*ST* 2 May 1966). The emphasis was in the original.

The Prime Minister and Treasurer Harold Holt did repeatedly mount public defences of FDI, including the role it played in allowing a large migration program (*SMH* 29 July 1965). In addition he argued that as many of the foreign firms were British, and most of the others were American, there was no problem as Australians had a close affinity with both countries (*Age* 29 July 1965). Treasurer Holt explicitly said that the government could revisit the need for restrictions if the composition of foreign investors was to change significantly or if new issues arose. Menzies responded to growing criticism of FDI policy in his last term by informally encouraging foreign firms to make equity stakes available to locals. Menzies made only a mild exhortation, saying for instance that the government '...would be much happier if all foreign investors that came to Australia were willing to admit Australians to some share in the equity in the business' (*Aust*, 5 October 1964).[3] This, he argued, would lessen community anxiety about FDI. The Prime Minister, editorialised *The Australian,* '...expressed the views of many thoughtful Australians' (*Aust* 6 October 1964).

Vernon Committee

Following its dismal performance at the 1961 election the Menzies government established a committee of inquiry into the economy. The Vernon Committee's report was completed in 1965 and then immediately rejected by Menzies as it ran contrary to established government policies. Its criticism of the effects of high tariff barriers on the Australian economy most earned the Prime Minister's ire but so too did, in the words of Arndt, the fact that the report '...conceded much to the critics of overseas investment' (1977:136). The Vernon report was critical of restrictive export franchises for diminishing the positive balance of payments effects of foreign investment, and raised concerns about the extent of local borrowings by foreign firms, transfer pricing and the independence of foreign firms from local economic policy (1965:285–89). The Committee supported substantial local equity requirements for mineral projects but not for other industries and warned against the futility of requiring minor local equity stakes (1965:290–91). It also supported

[3] Trade Minister McEwen went further and an American business audience that the government expected local equity participation (*Aust, Adv* 10 February 1965).

government control of foreign takeovers when the targeted enterprise was of 'national interest', but cautioned that defining the term would be difficult. A register of all new and existing foreign investment was proposed, including a requirement to notify changes in share ownership between residents and non-residents, the latter including overseas-controlled Australian businesses (1965:294). The Vernon Committee was profoundly pessimistic about the long-term balance of payments effects of continued reliance on overseas capital. While noting that foreign investment had become increasingly important in offsetting current account deficits over the preceding decade, it claimed that a higher rate of investment inflow than the existing level would actually lead to worsening of the balance of payments within ten years. The Committee declared that.

> We can think of no better way of describing this situation that to say that, once an economy has a substantial body of overseas investment, it is in a sense 'on the tiger's back' unless the trade balance is improving sufficiently to meet the additional income payable overseas (1965:283–84).

The Committee held that reforms in a range of areas were needed to lift Australia's trade performance and that if they were not forthcoming then an increase in foreign investment should be avoided. Otherwise, the report claimed, Australia would become trapped in a cycle of dependency upon uncertain foreign capital inflows.[4] Opposition leaders took up this point although the ALP remained resolutely protectionist (*Age* 28 April 1965). The Menzies government had no sympathy or energy for the reform agenda implied in the Vernon Report and senior ministers dismissed the Vernon Committee's pessimistic view. They trumpeted the submission on foreign investment that the Treasury had prepared for the Committee back in October 1963.[5] It, by contrast, argued that the rapid increase in income

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[4] The report (Vernon 1965:284) stated: 'However, it would be foolish to blame the overseas investor, if Australia became committed to this course. The reason would be, not that overseas investors were preying on the economy, but that Australia had exported too little, saved too little and imported too much. The solution to the problem lies in Australia's hands...It would be a grave error to suggest that overseas investment should be restricted purely on balance of payments grounds. It is another matter to say that Australia should so order its affairs that it can become less dependent on capital inflow. We regard this as essential...'

[5] The submission was later widely claimed to be aggressively 'anti-Vernon' as the Treasury resented the whole inquiry and wanted to produce a counterweight to any critical views of foreign investment that might be placed before the Government and the public. *The Australian Financial Review*, for instance, argued this in a 1969 editorial (*AFR* 20 February 1969).

payable to overseas companies that had occurred throughout the 1950s had ceased, with the balance of payments burden essentially stable. Treasury forecast that with the continuance of 'annual new investment' at the then-current rate, the percentage of overall foreign ownership would rise from 25 per cent to 54 per cent by 1975 (*Aust* 12 April 1966).[6] Yet this figure itself was grist to the mill of FDI critics.

FDI and supply side shock

Although the Vernon Report boosted the credibility of critics of FDI there was a countervailing force for liberal FDI policy arising at the same time. The last few Menzies years were marked by the great uncertainty about the prospects for private capital inflow from the United Kingdom and the United States of America. Under the Bretton Woods system the American dollar, convertible to gold at a fixed rate, played a central role as an international currency. While a sustained outflow of American dollars to the world throughout the 1950s and early 1960s served a growing international need for liquidity, it gradually diminished the confidence of those holding dollars on their convertibility to gold. For a long time American authorities treated this problem with 'benign neglect' (Sodersten 1980:457). In 1963 the Kennedy Administration responded to a worsening American balance of payments outlook by moving to impose a levy on loans and certain investments abroad in some 22 countries by American institutions. In doing so it provoked deep unease in Australian government and business circles (*SMH* 20 July 1963). The Menzies government feared that it would impact negatively on investment in the rapidly growing resources sector in particular (*CT* 3 October 1964). Australian businesses were disconcerted both because of the fear that the American measure would increase the cost of loan capital and because of the lower economic growth that might result from a fall-off in American direct investment (Tsokhas 1984:3).

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[6] It also found that foreign firms in Australia were, on the whole, no longer significantly more profitable than local firms. However, critics pointed to the substantial short-term losses of Ford and Alcoa as distorting the overall figures and the report did not do a great deal to appease critics of the liberal policy in place (*CT* 1 June 1965; *Age* 2 June 1965). The Treasury report also earned the ire of McEwen who did not trust its authors to deliver a fully honest assessment of foreign investment. Consequently he commissioned a directory of overseas control in manufacturing, as the Vernon Committee had called for, from his Department of Trade (*Age* 28 April 1965; Vernon 1965:290). It came up with the headline figure of 872 firms with some degree of foreign ownership, 506 being wholly owned (*Adv* 15 March 1966).

The Menzies government actively lobbied the American administration for an exemption, as Japan and Canada had secured, but was unsuccessful (*SMH* 21 September 1963, 14 October 1963). In February 1965 President Johnson announced to the American Congress plans to expand and enforce restrictions on capital. The Administration explicitly urged American firms to repatriate as much profit as possible from overseas operations and to raise new capital within host countries (*SMH* 26 April 1965). The Menzies government again made formal representation to the American government (*Aust* 15 March 1965; *DT* 18 March 1965; *Aust* 31 March 1965). In a letter to President Johnson, Menzies emphasised Australia's need for foreign capital to support its large-scale immigration program and effectively threatened to review the hitherto liberal policies on profit repatriation and local borrowings by American firms (*SMH* 2 April 1965; Fitzpatrick and Wheelwright 1965:40–45). The Menzies government revealed its deep fears about a diminished inflow of American investment by linking the issue to the general standing of the Australia-America relationship. In particular, in talks with Secretary of State Rusk, Treasurer Holt made explicit mention of Australia's strong support for American intervention in Vietnam (*Age* 30 April 1965).[7] While the Johnson Administration expressed empathy with Australia's circumstances and forecast little negative effect, it did not make any formal commitment to exempt Australia from any capital controls.[8]

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[7] This entailed not only a statement to the effect that Australia was being a loyal ally but also that Australia planned to import some US$600–750 million of military hardware from the United States over the next few years to facilitate greater conflict readiness (*Age* 3 May 1965).

[8] Treasurer Holt, in an address to a large audience of prominent American bankers and industrialists, decried the restrictions on capital outflow, that some countries had received an exemption from them while Australia had not, and continuing American restrictions on Australian exports. Suggesting a surprising degree of indifference to the Australia-Japan relationship he remarked: 'We find it difficult to understand, why, when special arrangements have been made to meet the circumstances of Canada and Japan, Australia, ...should be denied the exemption...Some of these countries may deserve the fate which awaits them.' (*Age* 28 April 1965). In fact Australia had little reason to feel harshly treated by with the American administration as Japan and Canada only received an exemption because they held the bulk of their external reserves in New York. Australia, by contrast, held them in London (Perkins, *Age* 22 March 1967). The Australian government's argument that Australia had recently greatly increased its imports of American goods and so should be favoured, conveniently overlooked the fact that until recently the import licensing regime, and before it the foreign exchange regime, had been heavily biased against imports from US dollar countries. Indeed that bias had been a major factor why American direct investment in manufacturing capacity in Australia had been so high.

An Australian government survey of American firms in Australia bore out its concern that they might raise funds in the local financial market while importing capital goods (*Age* 14 April 1965, 24 July 1965). British policy measures to stem capital outflow soon followed and some of the controls expressly targeted investments destined for Australia[9] (*SMH* 8 April 1965). The British Minister for Overseas Trade asked that Australia be prepared '...to help the mother country...' in a time of difficulty (*Aust* 24 April 1965). Prominent Coalition identities were happy to respond with similar hyperbole to advance Australian interests.[10] Australia's High Commissioner in London, Alexander Downer Snr., who had until recently been Immigration Minister in the Menzies government, said publicly.

> All Australians hope that the traditional flow of investment to my country will not be curtailed. Quite frankly, we need it, for we cannot build up Australia quickly as a bastion of British and European civilisation in the southern hemisphere without the twin necessities of more money and more people...Diminish this flow, or stop it, and another blow will be dealt to Commonwealth associations... (*SMH* 14 May 1965).

The British and American capital controls came at a time of decline in certain Australian export commodity prices (*Aust* 19 May 1965). Concern about Australia's balance of payments under the fixed exchange rate regime then led the Menzies government to enunciate its so-called 'guidelines policy' under which foreign firms planning to borrow in Australia were requested to consult with the Reserve Bank (Samuel, *CT* 7 April 1965; *Age* 29 April 1965). This had the potential to take the government's preference for local equity beyond mere suasion. The government's concern for the balance of payments also appeared to lend legitimacy to the Vernon

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[9] The British government, like its American counterpart, requested British firms to repatriate more profits and raise more capital in host economies (*SMH* 24 April 1965). The United Kingdom had more latitude in its exchange rate policy than the United States under the Bretton Woods system but had suffered periodic serious external balance problems since the end of the Second World War. By the mid-1960s these had again become acute.

[10] Holt's ascendancy did little to diminish the conservative tone of pleas for British capital that emanated from the Coalition's senior ministerial ranks. New Treasurer William McMahon declared that the British restrictions were particularly regretful as they might diminish the number of British executives living in Australia. Their presence had, McMahon declared, '...been a valuable factor in cementing the British character within the community' (*Age* 5 May 1966). Not all members of the Coalition's political constituencies refrained from strong criticism of the British measures. Some prominent figures in the manufacturing sector called for punitive import tariffs on British as well as American goods until the measures were revoked (*SMH* 8 April 1965). Needless to say, that would have served their interests nicely.

Committee's findings. Holt argued that the American and British restrictions would help to realise government's 'hope' that foreign firms sell more equity to Australian investors, obviating the need for formal local equity requirements (*Age* 17 April 1965). The restrictions boosted the credibility of the go· .rnment's informal suasion approach to securing greater Australian equity participation.

Yet the American and British capital restrictions were not an unambiguous plus in the defence of existing policy. Staunch critics of a liberal foreign investment policy argued that the British and American restrictions highlighted the dangers of excess reliance on private foreign capital flows. Deputy Opposition Leader Whitlam declared '...the American action was a clear warning that Australia should pay its own way and reduce its dependence on overseas investment' (*Age* 9 April 1965). The Opposition did not explain how public borrowing abroad, its preferred alternative, would pass unaffected by such developments. It was also argued that a major reason for the Menzies government rejecting these requirements in the past, namely the sensitivity of the British and American governments, no longer applied. Both governments might welcome such moves as consistent with their immediate policy objectives. Indeed in early 1966 the American Ambassador to Australia said publicly that he believed most American firms would accept a 50 per cent local equity requirement (*Adv* 15 March 1966). In the midst of this period of uncertainty about FDI inflow Prime Minister Menzies finally retired.

Holt government, 1966-1967

Holt ascended unchallenged to the prime ministership with Menzies' endorsement, having served as treasurer from 1958. Continuity in FDI policy was therefore unsurprising. Holt told the House of Representatives on 8 March 1966.

> This government retains the same broad economic objectives which, successfully pursued by governments led by Sir Robert Menzies, resulted in the greatest era of economic development in Australia's history. Our slogan of 'growth with stability' will continue to guide us... (cited in Tiver 1978:234)

A growth-oriented policy implied proactive measures to attract FDI as Treasury forecast a 45 per cent fall off in such investment during the Holt government's first year (*Age* 21 April 73). Yet the Holt government discovered that there was a dilemma in the public messages it transmitted in response to the American and British capital controls. It sought to maintain the confidence of domestic business and pro-growth voters by asserting that sufficient FDI was forthcoming while not lending weight to the critics of reliance on FDI (Ramsey, *Aust* 7 May 1966; *CM* 7 May 1966). To overstate the former was to risk appearing indifferent to popular concerns over FDI. National Development Minister David Fairbairn provoked criticism from the Opposition and other FDI critics in April 1966 when he told Parliament that most of the $500 million needed to capitalise new mineral development projects over the next two years would be supplied by foreigners (Lloyd, *Aust* 26 April 1966). Ultimately the Holt government adopted a low-key position on the British restrictions and was only slightly more critical of the American moves (*SMH* 5 May 1966).[11] In addition to minimising domestic contention, it was in keeping with the primacy placed by the Holt government on those bilateral relationships. Treasury officials and some media commentators nonetheless convinced the government to promote capital inflow from other sources such as Japan and continental Europe (*SMH*, *CT* 5 May 1966; Ramsey, *Aust* 7 May 1966; *CM* 7 May 1966).[12] After an impressive election victory in late 1966 the Holt government stepped up efforts to secure double taxation agreements with other countries beyond the ones in place with the United Kingdom, the United States of America, Canada and New Zealand (Stubbs, *Aust* 27 March 1967). Contrary to the Menzies legacy, during the 1966 election campaign the Coalition promised an expanded role for the state in financing the development of Australian industries with foreign capital while preserving Australian control. In fact the implementation was to open up a bitter divide between the Coalition partners.

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[11] New Treasurer William McMahon stated that the British measure of 1966 that explicitly targeted investments in Australia, New Zealand, South Africa and Ireland, had been raised with the Australian government by British representatives before their implementation (*Age* 5 May 1966).

[12] Fears amongst policymakers that British entry into the common market might negatively impact on Australia's external balances strengthened the commitment to diversifying the sources of FDI (*Age* 5 May 1967). As the growing balance of payments surpluses of countries such as West Germany, France and Japan was a major threat to the stability of the Bretton Woods system it should have been only natural that capital-needy countries would look to them.

Interests vs the AIDC vision

Soon after Holt's ascendancy to the prime ministership John McEwen unveiled a policy vision aimed at reconciling his developmentalism, economic nationalism and the antipathies of his Country Party constituency towards domestic banking interests. His proposed national investment corporation was eventually to become the Australian Industry Development Corporation (AIDC) but only after a protracted political battle (*Age* 2 April 1966; Tsokhas 1984:21).[13] McEwen's proposed AIDC would have the dual objectives of fostering the development of industries while promoting Australian ownership and control. As a publicly owned investment corporation it would raise capital, mainly from overseas, and invest in promising ventures. McEwen's model had several political advantages as a means for boosting Australian ownership and control. Principally, it avoided the resort to direct controls on FDI; unacceptable to Holt and Treasurer McMahon (*Aust* 20 April 1966). It could also direct investments into rural industries that were McEwen's core constituency and otherwise not significant stakeholders in the FDI debate. Its one major political drawback was the threat it presented to financial sector interests who were an influential Liberal Party constituency with the support of Treasurer McMahon.

Against the opposition of McMahon, McEwen convinced Holt to commit to the investment corporation concept during the 1967 election campaign (*SMH*, *Aust* 25 October 1966; Forsyth, *Aust* 8 November 1966). The Australian Bankers' Association (ABA) developed a rival model that would preserve their interests and convinced McMahon to champion it in the government (*CT* 19 November 1966).[14] The tentatively named Australian Bankers' Development Refinance Corporation was to be a consortium solely owned by established Australian trading banks but

[13] Professor Heinz W. Arndt, in July 1960 first proposed a public finance corporation (Commonwealth Investment Bank) and attracted widespread media attention (McFarlane, *Aust* 3 May 1966).

[14] The ABA's acting chairman R. W. Norman openly advertised the fact that Treasurer's proposal was the based upon what his organisation had put to the government (*Aust, Exam* 28 March 1967). McMahon and his officials also met repeatedly with finance industry representatives to work out details (Newton, *Age* 19 April 1967).

permitted by federal legislation to draw upon Reserve Bank funds.[15] It was supposed to address coordination problems that diminished the propensity of the banks to fund long-term resource projects (Tsokhas 1984:100–01, 105). In heading off McEwen's plan it would also cement the dominance of the trading banks over commercial loan-raising and the brokerage of foreign borrowing (McFarlane, *Aust* 3 May 1966; *CM* 21 March 1967).[16] Treasury resisted McEwen's AIDC concept because the Commonwealth would be fully underwriting it, because it had the support of the rival Trade department, and because of the Treasurer's antipathy to it under ABA influence (*Mer* 12 May 1966; *Age* 29 May 1967).[17]

McEwen and McMahon openly feuded and Prime Minister Holt failed to exercise leadership on the issue.[18] Cabinet endorsed McMahon's proposal and Holt gave an informal undertaking to McEwen that his would also be considered (*Age*, *Aust*, *CT* 28 March 1967; *Aust* 15 May 1967; Carlyon, *Age* 24 November 1967).[19] The Treasurer and his department, along with the ABA, then campaigned actively against the AIDC model. Partly owing to that, media support was less forthcoming for McEwen's more statist vision than for the ABA/McMahon model — although there were notable exceptions such as *The Australian* (*CT* 28 March 1967; *Age*, *Adv*, *CM*, *SMH*, *Mer*, *Exam*, *Aust* 29 March 1967).[20] When McMahon's legislation for the retitled Australian Resources Development Bank (ARDB) came to

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[15] The Corporation could borrow directly from other banks but only accept deposits directly from the public if they were for periods of greater than three years (*AFR*, *Aust*, *SMH* 28 March 1967; *Adv* 29 March 1967).

[16] For instance, the major trading banks were together granted a lucrative monopoly over foreign exchange transactions and colluded openly to maintain fixed commissions (Perkins 1987).

[17] Cabinet submissions from the respective departments on the two proposals apparently made no reference to the other concept (*Age* 17 April 1967). Treasury had become increasingly critical of the Department of Trade's stance on tariffs and so argued that the problems with FDI largely stemmed from that. At the same time senior figures in the Department of Trade were annoyed at Treasury's resistance to regulation of FDI (Long, *CT* 31 May 1967).

[18] The resulting feud between McMahon and McEwen was made more intense by a simultaneous dispute over Australia's exchange rate; the Country Party favouring devaluation while Treasury was opposed (Henderson 1994:199).

[19] Cabinet endorsement of the McMahon plan provoked a new round of lobbying by various industry bodies to have their 'development prospects' recognised and supported. The Real Estate Institute, for instance, lobbied for the body to be able to be involved in financing the development of hotels and tourism resorts (*SMH* 1 April 1967).

[20] Those media outlets more sympathetic to economic nationalism injected an additional tone of indignation into their criticism of the feud within the government. *The Age*, for example, declared that 'we can ill-afford a dispute within the government which threatens to deny Australia the best formula for countering overseas control of natural resources' (*Age* 28 November 1967).

Parliament, McEwen denounced it as doing almost nothing to preserve Australian ownership and effectively accused the Treasurer of having conspired to minimise the policy space for the AIDC (*Aust*, *Age* 28 September 1967).[21] The Opposition criticised the ARDB because it would do little to boost Australian ownership by only raising funds domestically and could not take equity stakes in projects (*Age*, *SMH*, *Aust* 29 March 1967). McEwen's vision of modest state developmentalism was temporarily frustrated by the combined forces of an orthodox Treasury, banking sector interests and the Liberal Party Cabinet members influenced by them. In the process a degree of legitimacy had been lent to the Opposition's vision of government taking a leading role in the realisation of greater Australian ownership and control.

Gorton government

The Gorton government was a watershed in the politics of FDI in Australia. In 1992 John Gorton identified his opposition to unhindered overseas investment in Australia as the greatest achievement in office; distinguishing him from Menzies and Holt (Henderson 1994:207). Gorton was successful in the leadership contest following Holt's death principally because he promised a refreshing populist style, portraying '...a lively nationalism along with a quintessentially Australian sense of irreverence' (Henderson 1994:202).[22] In early 1968 he seemed the logical choice to meet the challenge presented by a resurgent Opposition under the leadership of Gough Whitlam.[23] Looking back over the first year of the Gorton government,

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[21] McEwen declared of the AIDC plan: 'What I had in mind has been so misrepresented to many important people that I feel the best thing I could do is to abandon what I had in mind' (Age 28 September 1967).

[22] McEwen had vetoed McMahon's candidacy for the prime ministership; saying that he would not serve him as Deputy Prime Minister and would withdraw the Country Party from the Coalition (Henderson 1994:199–200). McMahon retained the treasurer's job and the deputy leadership of the Liberal Party. Gorton's relaxed, non-establishment manner made him a seemingly attractive opponent to the articulate but rather aloof Whitlam, and his celebrated service during World War II as a fighter pilot, gave him widespread appeal.

[23] The ALP had fallen only two seats short of having defeated the Menzies government in 1961, experienced a larger loss in 1963 and then handed the new Holt government a record majority in 1966. Whitlam's elevation to the leadership in February 1967 provided a foundation for improving the ALP's electoral standing. The Opposition's spirits started to pick up through 1967 as Whitlam repeatedly bested
Prime Minister Holt in parliamentary debates (Henderson 1994:191–97). A scandal, the so-called VIP flights affair, and several other issues gave the Opposition much to work with.

journalist David Love was to write that 'the fires of a new, and somewhat smoky, nationalism dominated the Australian economic landscape in 1968' (*AFR* 8 January 1969). Gorton experimented tentatively with FDI controls and allowed McEwen to realise his AIDC vision. However both his economic nationalist rhetoric and impulsive policy interventions in relation to FDI deeply disconcerted certain business constituencies, media commentators and state governments. As FDI policy became actively contested, a range of private and public interest forces were clearly in evidence both for and against the longstanding 'open door' policy. Controversy was magnified by the increasing political savvy of the Opposition and a growing divide in the economic policy community about the costs and benefits of FDI.

Public interest contested

In the late 1960s Australian opinion was quite divided over what the public interest was in relation to FDI. There were divergences of opinion on the extent to which the Australian economy needed FDI, and could secure it given source country constraints, and specifically over the role of FDI in the mining sector. The Australian economy was extremely robust during the Gorton years; with mixed implications for the politics of FDI. Unemployment was at only 1.6 per cent in 1968–69, falling to 1.4 per cent in 1970–71, despite record net migration of over 140,000 in 1969 and a similar figure in 1970. Underpinning this was GDP growth of 8.9 per cent in 1968–69, 6.3 per cent in 1969–70 and 4.6 per cent in 1970–71 (Dyster and Meredith 1990:245). Unemployment, a historically significant driver of policies favouring overseas capital inflow, was not an issue. However, the large migrant intake implied an ongoing need for capital inflow if the labour market was to remain tight. The growing Australian market was a drawcard to FDI, as was the promising resources sector. FDI inflow grew rapidly from 1967–68 (Dyster and Meredith 1990:234–38). Although to many critics it appeared that Australia could afford concessions to economic nationalism, the good health of the Australian economy was in no small part a function of strong FDI inflow (Dyster and Meredith 1990:234–38). This was despite the fact that Gorton was immediately confronted when coming to office by new American restrictions on loans and direct

investments abroad, aimed at strengthening the flagging American dollar and maintaining the gold standard.

In early 1968 the Johnson Administration capped American investment in most foreign countries to 65 per cent of 1965–66 levels.[24] New British restrictions and devaluation of the pound sterling soon followed (Age 18 March 1968). The American and British capital controls heightened concerns within the Australian business community about the crowding-out effects of increased capital raising in Australia by foreign firms. Controversy was provoked by Esso's decision to fund exploration with an Australian loan (Aust 10 April 1968). In response Treasurer McMahon said long established foreign firms borrowing locally in accordance with their past financial practice would be regarded as complying with the government's 'guidelines' policy (Sexton and Adamovich 1981:11). However, this was '...provided that their past practice did not involve undue reliance on Australian borrowings' and no definition of 'undue reliance' was provided (SMH 13 April 1968). In September 1969 the Gorton government issued a formula for firms with more than 25 per cent foreign equity seeking to raise fixed-interest capital within Australia. The new guidelines rewarded foreign firms for length of presence in Australia and the extent of local equity holdings by proportionately lifting the limit on domestic borrowing (Solomon, Aust 17 September 1969).

Foreign investors played a significant role in the rapid growth of the mining sector in the 1960s owing to Australia's then small skills base and the sizeable capital involved.[25] The rate of foreign ownership and control therefore grew rapidly throughout the 1960s. Energy fuels, notably coal, saw the greatest growth with the overall level of foreign ownership growing from 11.5 per cent of the industry in 1963 to 51.1 per cent in 1971–72. By 1974–75 it was to reach 59.6 per cent.

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[24] In recognition of the Australian government's continuing resentment at the earlier restrictions a presidential envoy briefed a Cabinet subcommittee and emphasised that Australia could still attract more investment if at the expense of other countries (*Aust*, *SMH*, *Age* 6, 7 and 8 January 1968). The envoy was Eugene V. Rostow, Under-Secretary of State for Political Affairs. The American restrictions were welcomed by some Australian critics of foreign investment (*Adv* 3 January 1968; *SMH* 6 January 1968).

[25] Opportunities for foreign investors were enhanced also by domestic financial market regulation favouring public deficit financing and lending to sectors such as housing rather than large-scale long term lending, such as is needed in mining (Johnson 1978:314–22).

Metallic minerals also saw some growth in the share of foreign ownership with a 10 per cent rise over a decade from the 39.8 per cent of 1963 (Anderson 1983:76). Overall, the level of foreign control was higher than ownership levels; reaching some 60 per cent of all the industry in 1974–75 compared to an ownership figure of 51.8 per cent. Until the mid-1960s British mining firms accounted for some half of all foreign interests in mining, reflecting their long presence in Australia (Dyster and Meredith 1990:247). The late 1960s saw American firms accounted for an increasing proportion of total FDI through their interests in iron ore, coal and alumina.[26] Critics claimed of the mining industry in general that the Australian public was not capturing a sufficient share of the wealth being generated from publicly owned resources (Fitzgerald 1984:304–87). Any lack of faith in governments to act as competent agents of the Australian people in the appropriation of returns on public resources could lead to opposition to foreign investors in mining as they became some of the largest players. State governments, especially Western Australia and Queensland, were increasingly criticised for being too generous with mining firms.[27] The mining industry became the main focus of the Opposition's economic nationalism under Whitlam's more dynamic leadership.[28] This reflected the economic promise of the sector and a concern with large-scale state-funded projects stretching back to the Chifley government's promotion of the Snowy Mountains hydroelectric scheme. Whitlam's dual proclivities for economic nationalism and state developmentalism came together in Labor's commitment to direct government investment in new mineral resources projects, at both the exploration and development stages, through statutory corporations.[29]

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[26] The dramatic growth in minerals exports quickened the pace of diversification of Australian exports away from their traditional destination, Great Britain. The enormous growth in the importance of the trading relationship with Japan stands out as a major feature of the 1960s (Drysdale 1981:419–26; Tweedi, 1994:160–77).

[27] States lacking their resource base had grounds to hope for greater national control over mining revenues. On these issues see Cook and Porter (1984), Drysdale and Shibata (1985), Fitzgerald (1984:304–87), Harman and Head (1982), Head (1983), Galligan (1982), Galligan, Kellow and O'Faircheallaigh (1988), Lloyd (1984), Snape (1977) and Stevenson (1977).

[28] Under Whitlam Labor's rhetoric, if anything, became more colourful and condemnatory of FDI. Senate Opposition Leader Lionel Murphy, for instance, declared that 'Australians are beggars at the feast as overseas companies gain control of our national wealth' (*Aust* 23 February 1967).

[29] Precedents for such actions were claimed in Italy, France, South Africa, and Canada and a good model of public corporations working through consortiums with private enterprise was supposedly presented by Japan (*SMH*, *CT* 18 September 1968).

Radical nationalism and internationalism

The irony of the ALP and the broader Left in the late 1960s is that it simultaneously championed social liberalism, progressive internationalism, cultural and economic nationalism and state developmentalism. This curious mix of policy proclivities arose as a general oppositional ideology against the conservative pro-British and pro-American orientation of Coalition governments, although it shared some of the idiosyncrasies of Left wing movements in other countries. There had been a growing sense of nationalism among Australia's small intellectual and artistic communities throughout the 1950s and early 1960s that found influence in the ALP (Alomes and Jones 1991:319–29). This tapped long-established radical nationalist proclivities within the old Left but its xenophobic elements were being supplanted by the cosmopolitanism and internationalism of the so-called New Left (Jupp 1963:48–55). This was symbolised by the ALP's rejection of the White Australia Policy; contributing to the Holt government's decision to end it. The new breed of Labor leaders such as Whitlam, Cairns and Hawke were more attuned to changing Australian social values and in turn had greater scope for influencing the direction of public opinion. Growing nationalist sentiment in the Australian electorate offered the opportunity for political entrepreneurship by Labor, a fact recognised by many Coalition parliamentarians when they supported John Gorton for the prime ministership.

On the Australian Left economic nationalism became bundled up with support for other causes. The Left faulted the conservative Australian elites for not having developed a greater sense of military, economic and cultural independence. As the 1960s progressed, the intellectual and political Left in Australia, as in many other countries, evinced increasing hostility towards American multinationals. This partly reflected the inevitable wariness towards large firms from the pre-eminent capitalist economy. It also reflected concerns on the Left that Australia was substituting cultural dependence on the United Kingdom for the United States of America. Holt's 'outwardly obsequious attitude to the United States', to quote Tiver (1978:235), helped to spread this concern in broader intellectual circles, although the relationship with the United States of America remained popular in the wider

electorate (Henderson 1994:192). Fitzpatrick and Wheelwright (1965:152), and subsequent publications by Wheelwright and his protégés, raised concerns about perceived cultural and political consequences of FDI in Australia as well as the familiar economic fears.[30]

> ...foreign capital and its ramifications in manufacturing, distribution, exchange and mass communications, have a cultural and social import with profound effects on our society, for better or for worse, and that for those who wish to limit the 'denationalizing' process and preserve what is left of Australian 'identity' there is a case for the control and limitation of further capital injections, on other than economic grounds (Fitzpatrick and Wheelwright, 1965:152).

The authors expressed the concern that once established, large multinationals would become powerful constituencies for the continuation of an open door foreign investment policy contrary to the wishes of the Australian people (1965:160).

There was no shortage of international academic literature testifying to the ostensibly exploitative nature of FDI (Frank 1967).[31] There were also widespread fears about environmental degradation and resource depletion tangled up with attitudes to FDI among the international Left that found influence in Australia (Arndt 1977:138). Australia's involvement in the Vietnam War, which the Gorton government fully supported, became intensely contentious and further coloured views on the Left towards American multinationals. Critics depicted an open door foreign investment policy as symptomatic of a deeper cultural malaise that was a

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[30] Arndt noted that the Fitzpatrick and Wheelwright (1965) work was a significant development in linking the established enmities of the Old Left towards international capital with the concerns of the rising New Left in Australia (1977:135). For an array of radical essays on Australia's economic and social development that variously take hegemonic, classical class or a mixture of these approaches, see Playford and Kirsner (1972), Crough, Wheelwright and Wilshire (1980), Crough and Wheelwright (1982), Abe and Wheelwright (1989), McQueen (1982), James (1990), Wheelwright and Buckley (1975, 1980, 1982), Connell and Irving (1980), Connell (1977), Fitzpatrick (1969), Pusey (1991), Simms (1982) and Wheelwright (1984).

[31] For a concise survey of Marxist and dependency theory accounts of the exploitative nature of international capitalism see Higgott (1983).

consequence of the colonial experience.[32] By the late 1960s the mainstream media was giving increased attention to both domestic and foreign critics of FDI, contributing to the popularisation of economic nationalist ideas. *The Australian* in 1968, a year of political tumult in many western countries, followed French reaction against American FDI and serialised Servan Schreiber's (1968) influential critique of the American business challenge (*Aust* 2-6 September 1968).[33] By the start of the 1970s even elite opinion was quite divided on what a public interest oriented FDI policy would look like and the Opposition's economic nationalism manifesto appeared to have considerable electoral appeal. The Gorton government had both to reconcile those forces for restrictive policy with the broader political imperative to maintain a strong economy, and manage the contending FDI policy preferences of the Coalition's business constituencies that were being articulated with increasing force throughout the second half of the 1960s.

Contending private interests

Although Australia's growing domestic market was drawcard to foreign firms, the proliferation of producers behind tariff walls saw increasing numbers of mergers and acquisitions from the mid-1960s (Kasper 1984:41). For domestic manufacturing interests used to securing tariff protection, lobbying the Coalition government for protection from a foreign competitor entering the market through FDI came naturally (*Age* 17 November 1967; *SMH* 18 February 1965). So too did seeking

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[32] Moderate scholar Encel wrote in a popular academic work of 1967 that '...Australia, retains, to a considerable extent, the characteristics of a colony, dependent upon larger centres of power and influence. Its culture is Anglo-American, and its fashions are largely a reflection of happenings overseas. Its industry depends to a large extent on overseas investment and on imported technology. ' (1967:60)

[33] Ironic then was the presence of a French trade and investment mission in Australia in late 1968 that warned against succumbing to economic nationalism (*CM* 8 November 1968). *The Australian*, in editorialising against a plan by the Esso oil company to fund new exploration through a loan-raising in Australia wrote that: 'The Esso scheme is, to a large extent, a repetition of a pattern all too familiar to General de Gaulle, and indeed every other leader in a Europe where the accuracy of his initial warnings has slowly dawned... There is no reason why we should have to purchase foreign brains to tell us how to make the best use of our capital and our resources. To continue doing so much longer is to take the quick route to technological subservience to the USA.' (*Aust* 10 April 1968)

protection from a hostile foreign takeover bid (Tsokhas 1984:1–31).[34] The Victorian Chamber of Manufacturers under the leadership of Victor Gibson exemplified these protectionist instincts. Under Gibson's influence the Australian Chamber of Manufacturers (ACM) in Australia qualified its support for FDI (Tsokhas 1984:3–5). Gibson became president of the Committee for the Economic Development of Australia in 1968 and president of the Victorian branch of the Australian Institute of Management in 1969. His economic nationalist views gained more influence and credibility, although other business representatives contested them. Most business representatives demonstrated a keen appreciation of the contribution to overall economic growth that FDI made and the broader positive implications for businesses.[35] Conversely, rural interests who were otherwise insignificant players in the FDI debate, came to suspect in the late 1960s that a high level of FDI kept the Australian currency higher, at their expense. Later they also feared FDI was contributing to inflationary pressures, further negating their international competitiveness (Tsokhas 1984:40). Business peak bodies reacted to diverging FDI policy preferences within their own memberships by calling for more information, through an independent study or government inquiry. This kept the peak bodies such as the Associated Chambers of Commerce (ACC) in the public debate even if they struggled to resolve internal divisions (*Mer* 18 March 1965; *Age* 27 April 1965).

The mining industry was more united on FDI policy but was hampered in other ways. Unlike manufacturing, the mining sector did not generate significant electoral constituencies for continuation of a liberal policy. Mining was geographically remote from most Australians and made only a small direct contribution to employment.[36] Most voters had to rely upon state governments to secure

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[34] McEwen gave expression to this aspiration on a number of occasions, as when speaking to a NSW Institute of Directors conference in 1965. No director, he said, '...can be indifferent to the continued large sale of equity shares on the open market, lest they wake one morning to discover that control of the company has changed hands' (*CT* 11 June 1965).

[35] This was reflected in disquiet within the ACC and other business organisations at growing community support for restrictions on FDI despite the continuing spectre of British and American controls on capital outflow (*Age* 27 April 1965).

[36] Tsokhas (1984:85) noted that this handicapped mining industry interests when lobbying governments for tariff reform; policy reform that could have substantial short-term negative employment effects.

appropriate public returns through granting private exploitation rights to public resources. The mining industry was therefore particularly vulnerable to federal policy-making that was contrary to its interests. Neither had it been politically well organised at a national level. In 1967 major mining interests established the Australian Mining Industry Council (AMIC) to address this weakness. It quickly found some influence because of the sheer dynamism of the mining industry at the time and because it was well served by its executive director, G. Paul Phillips, former deputy secretary of the Department of Trade and Industry. The AMIC brought local and foreign mining industry interests together in the one peak body, and supported the maintenance of a liberal FDI policy (Tsokhas 1984:66–68).

The relative unity of the mining industry on support for a liberal FDI policy reflected the limited knowledge and capital base of domestic miners and their subsequent need for foreign partners (Fitzgerald 1984:304–87). For foreign mining firms domestic partners represented an opportunity to share the risk involved in large capital-intensive projects and brought valuable political knowledge and connections (Dyster and Meredith 1990:248). Despite the AMIC's pro-FDI stance there were some Australian firms in the mining industry that might support moderate restrictions on FDI. Firms such as BHP and CSR had a long-standing record of successful rent seeking as manufacturers and, in the latter instance, as a sugar processor (Tsokhas 1984:84). Local equity requirements might facilitate their further expansion into mining although in the late 1960s they were in a growth phase across most aspects of their business anyway.[37]

Foreign investors in the minerals sector did not passively face the criticism of current policy. A number of senior local executives of those firms defended them publicly and within local business organisations. They carried considerable influence within the government as many had been long associated with the Coalition. Sir Maurice Mawby, the chairman of Conzinc Riotinto of Australia and Hammersley Holdings strenuously defended the role of foreign firms. As critics increasingly singled out the minerals sector, Mawby argued there should be no

[37] The strong support offered by the Vernon Committee for local equity requirements in the mining sector may have had something to do with James Vernon's role as general manager of CSR.

doubt about the gains from FDI in the sector because of its export orientation (*Adv* 15 November 1968).[38] Sir George Fisher, head of Mount Isa Mining (MIM), pointed to firms such as North Broken Hill and Western Mining Corporation which had become predominantly Australian-owned over their long history. MIM itself was 35 per cent Australian-owned by comparison with only 5 per cent some two decades previously (*DT* 1 May 1968; *CM* 11 October 1968). It was more difficult for American firms recently arrived in Australia to criticise economic nationalist sentiment without fuelling it further.[39] The American Chamber of Commerce in Australia adopted a policy to recommend American firms investing in Australia to involve locals as shareholders. Although consistent with the policy aspiration behind American controls on capital outflow, the pre-eminent reason seems to have been a belief that widespread minority local equity stakes would dampen demands to regulate for 50 per cent or higher Australian equity.[40]

The influence of domestic financial interests had already been seen in their successful frustration of McEwen's plans for creation of the AIDC during the Holt period. The ABA remained resolutely in favour of an open FDI regime, except in relation to the trading bank sector — where it remained resolutely economic nationalist (Tsokhas 1984:88–92). Representatives of the major domestic banks, some of British origin, could speak out against the imposition of a regulatory regime on FDI secure in the knowledge that they were protected from new foreign competition in their own sector by the controls in the 1959 Banking Act. Successive Coalition governments had refused to issue a banking license to a foreign banking interest (Pauly 1987). Stockbroking was also effectively off limits to new foreign

[38] An incidental implication of such an argument was that there could be real reason for concern about the balance-of-payments implications of foreign investment in the domestically oriented manufacturing sector.

[39] The criticism of the Gorton government's mild economic nationalism by London financier Evelyn R. A. de Rothschild attracted considerable media but did little to advance the cause of a liberal policy owing to his family name being virtually synonymous with enormous wealth (Stubbs, *SMH* 21 December 1968).

[40] The then Chamber president, E. T. Hamilton, did not hesitate on occasions to concur publicly with criticism of certain practices of American firms that had attracted much media attention. General-Motors Holden's decision to not reserve preference shares issued for Australian investors was singled for setting back the cause of a liberal investment regime (*Aust* 18 September 1968).

competitors and in the mid- and late-1960s a number of prominent financial sector identities lent public support to enacting controls on FDI.[41]

MLC affair

The Gorton's government's actions in relation to MLC have been noted as a turning point in FDI policy although the private interest dimension has previously escaped academic attention (Sexton and Adamovich 1981:12; Arndt 1977:136). The Board of the MLC life insurance company asked the Gorton government to protect it from an expected hostile takeover bid. An undisclosed foreign firm had been buying MLC shares through nominee companies for some two years.[42] As MLC was influential in the Life Offices' Association of Australia that organization supported the call for intervention to stop the bid (*Aust* 24 September 1968). The Federal government could only intervene in the MLC case at that stage because it happened to be incorporated in the ACT. Gorton stunned observers when he announced the government would enact an ordinance to limit foreign ownership of insurance firms incorporated in the ACT to 15 per cent for a single foreign investor and 40 per cent for foreign shareholders in total. This secured the incumbent board, given there was no local rival bid for the company.[43] Prime Minister Gorton defended his move, stating: 'It was to protect Australian capital so that it was not used by overseas companies for their purposes that the government took the action that it did' (*SMH* 25 September 1968).

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[41] Prominent Melbourne financier Staniforth Ricketson, stockbroker Sir Ian Potter (*Age* 16 February 1965), and the chairman of the giant Australian Mutual Provident Society (AMP) (*Aust* 15 May 1965), all called for legislated Australian equity requirements. Influential investment banker J.H.D. Marks went so far as to call for the limiting of foreign investment in established Australian firms to portfolio status (*Age* 10 December 1968).

[42] The issue of purchasing shares through nominee companies greatly clouded the debate over the government's actions because it allowed the cultivation of a perception of clandestine, thief-like, raids upon unsuspecting well-run Australian companies. Several newspapers succumbed to this imagery in their editorial support for the government's move, *The Age* actually headlining its comment 'Caught in the act' (*Age* 23 September 1968).

[43] It also immediately provoked a plunge in the share price of MLC, from $9.60 to $7.80 (*SMH* 24 September 1968).

The ACM welcomed the decision but other business representatives were shocked by the arbitrary and impulsive nature of the decision (*Aust* 24 September 1968).[44] This was especially so after it became clear that the foreign firm making a play for the insurer was the British Sun Alliance group, which had been doing business in Australia for some 135 years (*AFR* 9 October 1968). The action was taken against the advice of the Treasury and the permanent head of the Prime Minister's Department (*Aust* 24 September 1968; 1 January 1969). Major newspapers were critical of the *ad hoc* way the decision was taken but were not generally censorious of the shift towards restrictive policy.[45] Well designed rules, informed by consultation and analysis, were sought. *The Age's* response was a measure of how illiberal some editorial opinion on FDI policy had become, praising the Gorton government for being

> ...not prepared to allow overseas interests virtually uncontrolled access to Australia's resources when most of the profits are to be shipped abroad. This suggests that the government is accepting its responsibilities to future generations of Australians; it suggests also an admirable development in Australia's sense of nationhood. (*Age* 23 September 1968)

An editorial in *The Australian* identified the core FDI policy challenge facing the Prime Minister, saying that '... Gorton has recognised that the foreign takeover of a company like MLC would be politically unacceptable in Australia. In this his judgment is sound. What he needs next is the means of balancing the political considerations with those of economic efficiency and growth' (*Aust* 24 September 1968). Labor's response was to again demand government regulation of both foreign takeovers in general and new investments in the resources sector; saying that such interventions should not depend on the representations of company boards

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[44] ACM Federal President W. W. Pettingell said that it was '.. intolerable that this pool of savings should be permitted to fall under the control of a foreign interest" but that his organisation had also been reassured the government was not '...reversing its long-standing policy on foreign investment.' (*Aust* 24 September 1968).

[45] The *Sydney Morning Herald* was critical of the Prime Minister's 'shoot from the hip' decision-making while the *Australian Financial Review* said that '...if the government is to make sound laws and regulations, they should be based on broad principles rather than individual cases' (*SMH* 24 September 1968; *AFR* 24 September 1968). The same editorial judged that: 'The threat of a bushfire nationalism getting out of hand today is all the greater as popular sentiment over-compensates for the pale and impassive policies of the Menzies-Holt era.'

(*SMH* 24 September 1968).[46] The government had legitimated the Opposition's call for foreign investment regulation while failing to act in a way that could be considered to follow 'due process' (Fitchett, *SMH* 14 March 1968). It deeply disconcerted business constituencies used to being consulted on major policy developments and led to the widespread expectation that general controls on FDI were forthcoming.

Suasion, threat and inaction

Treasurer McMahon insisted within the Gorton government on maintaining a policy of suasion in relation to local equity rather than formal controls as the Opposition demanded. The government stepped up its exhortations to foreign firms to take on local equity partners where possible (*Aust* 31 May 1968).[47] Shipping and Transport Minister Ian Sinclair told potential foreign investors that the government did not want to '... force legislation onto investors. We just ask that you don't just take, but that you will share in our hopes and plans' (*Aust* 4 March 1969). As Gorton's own economic nationalist proclivities were widely known there was increasing speculation that the government might resort to regulation if foreign firms did not heed its call for local equity. National Development Minister D. E. Fairbairn fuelled such views when he told an American Chamber of Commerce audience that the government believed '...there is the least chance of misunderstandings when there is an Australian participation in share-holding and management. [Many companies] are apparently ignoring the Australian government's clearly stated aims in this matter' (*SMH* 17 September 1968; *Age*, *SMH*, *Aust* 18 September 1968). To Labor and other critics, Fairbairn's remarks were evidence that the government had to regulate for Australian equity participation.

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46 Labor frontbencher Dr Jim Cairns understood the political economy angle to take on the government's MLC decision when he asked the Prime Minister in the Parliament: 'What method did the government use to discover this takeover? Did it rely on directors' pleas for assistance or did it use its own independent means to know what was going on?' (*SMH* 25 September 1968).

47 Treasury's 1968 explanatory pamphlet on Australia's foreign investment policy state that 'Whilst there are no legislative provisions requiring local participation in the capital or management of companies set up in Australia by overseas interests we want some local participation both in ownership and management... Although no rules are laid down, the government feels that fears and misunderstandings are least when this course is followed.' (cited in Sexton and Adamovich 1981:11).

The Gorton government then exhorted the Australian stock exchanges to allow Australian companies to disenfranchise foreign shareholders. That is, it asked the exchanges to drop listing rules that prohibited discriminating among shareholders (of the same class of shares), allowing the incorporation of provisions into firms' articles of association preventing foreign holders of shares from exercising the attendant voting rights. The change did not entail Commonwealth legislation and left the decision up to individual firms whether they wanted to discriminate against foreigners or not.[48] The exchanges reluctantly accepted the government's proposal but argued in private correspondence that if the government felt strongly about foreign control then general measures should be legislated.[49] The response of business groups was generally in keeping with their interests (*AFR* 7 January 1969). The Australian Shareholders' Association was critical of any moves to restrict foreign shareholdings as it would diminish the demand for its' members assets (*AFR* 2 January 1969). The state institutes of directors were internally divided over the government's call, with several resolving to support and others to oppose it (*SMH*, *WA* 9 December 1968). The Victorian Employers' Federation (VEF) feared the move would diminish the preparedness of foreign investors to take minority stakes in new ventures. Indeed, the VEF argued, it sent a strong signal to investors that a majority-owned subsidiary was the only safe investment strategy in the current political climate (*Age* 18 January 1969). Business groups such as the ACM were as much disconcerted by the government's failure to consult them; as they had long come to expect from a Coalition government (Tiver 1978:237–42). Media comment was generally critical of the apparently impulsive nature of the decision, and the fact that the government was leaving decision-making on the crucial issue of foreign control to individual companies (*Sun Tel* 8 December 1968).

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48 Gorton and McMahon, in a letter to the president of the Australian Associated Stock Exchanges that was released to the public, said that: 'The general view strongly held by the government is that the shareholders of an Australian company should have the right to amend the company's articles of association for the purpose of ensuring that control of the company, exercised through the voting power of the shareholders, remains in Australian hands' (Joint press release, *SMH* 6 December 1968).

49 The exchanges made the ratification rule for firms changing their articles of association to preclude foreign control quite tough at 75 per cent of any shareholders at a special meeting (*Aust*, SMH 6 January 1969).

In early 1969 the expectation of new regulation was raised, and the credibility of FDI critics boosted, by an infamous speech by Gorton to an Australia Club gathering in London.

> Up until very recently it has seemed to be that the posture of Australia selling [itself to] overseas capital has been the posture of a puppy lying on its back with all its legs in the air and its stomach exposed and saying, 'Please, please, please give us capital. Tickle my tummy on any conditions.' This is being re-examined...We do not want, in 20 or 30 years, to have Americans, or French, or Swiss, or British owning the major companies in Australia, for a variety of reasons I do not need now to go into. But I had promised I would say something on this subject tonight. I know it's dull. I know it's dry. (*AFR* 20 January 1969)

Most controversial was the Prime Minister's statement that '...companies, well run, well managed, sometimes undervalued on exchanges...' were subject to foreign bids that were not fair to them (*AFR* 20 January 1969). The ACC demanded a formal foreign investment policy statement, and liaison with Australian businesses prior to its preparation (*Aust*, *AFR* 24 January 1969). Similar calls came from the governments of Western Australia and Queensland, the American Chamber of Commerce and senior managers of several stock exchanges and the Australian Mining Industry Council.[50]

Gorton brought a submission to Cabinet in May 1969 from his own department that proposed a range of restrictive measures on FDI but determined opposition from Treasurer McMahon saw them rejected (*Aust* 29 May 1969).[51] To his great embarrassment, this forced Gorton to cancel a foreshadowed policy statement to the Parliament. Gorton's subsequent statement on FDI policy, two months before the 1969 election, was therefore limited to revised borrowing guidelines for foreign firms that rewarded an established presence in Australia and a voluntary 'code of

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[50] These calls attracted considerable media coverage (*Aust*, 25 January 1969; *WA* 1 February 1969; *CM* 8 February 1969; *SMH* 24 February 1969; *AFR* 25 February 1969; Richardson, *Age* 14 April 1969).

[51] Not everybody in the Coalition was convinced by McMahon's defence of existing policy. The Young Liberals proceeded to adopt a call for stiff control of foreign investment immediately after the Treasurer had spoken to them on the virtues of current policy settings (*Age* 15 April 1969). And despite Gorton's Cabinet loss he still advised Governor General Sir Paul Hasluck to say, when opening the giant Mount Newman mining project, that the government favoured a 'significant Australian quota' in equity investment in development projects (*Age* 27 June 1969).

good corporate behaviour' (*AFR*, *Aust* 17 September 1969).[52] Although the Prime Minister said that the government did 'not believe that we can or should try to legislate in such a complex field' he did little to reassure businesses that there would not be further arbitrary interventions in foreign investments. Gorton said that the government reserved the right to do all in its power to prevent particular takeovers when '...we would consider it to be bad in the national interest' (*Aust* 17 September 1969). The absence of any definition of the national interest caused consternation among business constituencies and media commentators.(*AFR*, *Aust*, *SMH* 18 September 1969).

The Coalition's poor showing at the October 1969 election led Gorton to adopt a more orthodox leadership style in an attempt to shore up internal party support for his leadership (Tiver 1978:214–41; Reid 1971:348–65).[53] Gorton's alienation from the Coalition's own constituencies and the conservative state governments contributed to a loss of public confidence in his government (Reid 1971:319–45).[54] Gorton judged nonetheless that, in the face of the Opposition's populist economic nationalism, certain measures could be enacted in relation to FDI.[55] McEwen was permitted to establish the AIDC and a stringent set of investment guidelines for the

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[52] The three elements were, firstly, a high degree of Australian autonomy, entailing Australian citizens participating in management and sitting on boards. Secondly, financial structures should provide opportunities for equity participation by Australians. Thirdly, sensitivity to the 'reasonable national aspirations" of Australia was required, which '...while somewhat indefinable in detail, is known quite well by anybody who is at all sensitive to these aspirations' (*Aust* 17 September 1969).

[53] The Liberal Party's national primary vote fell from its 1966 high of 40.1 per cent to 34.8 per cent and the Country Party went from 9.9 per cent to 8.6 per cent. Labor picked up considerable support, lifting its vote to 46.9 per cent from the disastrous 40 per cent it secured in 1966. The 1969 result put the parties' shares of the national vote between their 1961 and 1963 totals and the set the stage for the narrow Labor victory of 1972. (Aitkin, Hall and Morgan 1973:265).

[54] To quote Reid (1971:320) on Gorton at the 1969 election: 'The impression undoubtedly was of a Liberal Party which itself had doubts about Gorton's leadership qualities, and of a government which was unsure of where it was going, or where it wanted to go, on defence, foreign investment, relationships with the states...And to strengthen this impression of questionable leadership, indecision, and irresolution, the major criticisms were coming not from the ALP, the formal opposition, but from within the government ranks and from within the Liberal Party.'

[55] Gorton stopped his ministers from accepting a preferential offer of shares from foreign-owned mining giant Comalco, which was to take a political toll on several state Coalition governments. Comalco's attempt to curry favour with governments had turned into a public relations disaster (*CM* 9–12 June 1970; *AFR*, *Aust*, *Age* 10 June 1970). A number of Coalition ministers in Queensland, Western Australia and Victoria accepted the opportunity to buy the heavily discounted shares, which had been offered to them despite the fact that they were not established Comalco shareholders. The Bjelke-Petersen government in Queensland was most brazen in its insistence that there was nothing untoward in accepting the offer. That the Gorton government had taken a principled stance further undermined the credibility of the state governments who had not.

emerging uranium mining industry was adopted (Arndt 1977:137). An impending Senate election prompted the imposition of strict limits on foreign equity in the promising Nabarlek uranium project (*AFR* 18 September 1970). Foreign holdings in total were to be limited to 15 per cent, compared with 40 per cent for MLC and the 20 per cent limit in the Broadcasting Act. The individual foreign holding was to be capped at 5 per cent.[56] The Senate election result was nonetheless poor for the Coalition and in March 1971 Gorton ceded the prime ministership to William McMahon.[57] Gorton had leant legitimacy to the Opposition's economic nationalist platform without offering a coherent policy response. He gave blatant favours to several firms and ignored the concerns of business as a whole.[58] The prime ministership passed to McMahon because many government members hoped that he would adopt a more orthodox government style, better manage the relationship with Coalition constituencies and repair the government's decaying electoral prospects. On FDI policy at least there were profound tensions between those objectives.

McMahon government

McMahon desperately sought to maintain an orthodox Coalition approach to FDI policy; namely a liberal policy tempered only by informal government exhortations to foreign firms to allow some Australian equity where practicable. This reflected the longstanding developmentalism of the Coalition and the fear that any economic downturn would make the government's re-election less likely. At the same time McMahon sought to mend fences with business constituencies after the 'Gorton

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[56] Not only was that inconsistency surprising but so again was the haste in which the decision was taken, and almost admitted as much by the Prime Minister: 'It is a matter of record that in recent days there has been a heavy turnover in the shares of both companies [involved in the project], and although there is no indication that this heavy turnover is as a result of overseas buying, nevertheless the government would not wish a situation to arise where it could be discovered that control of these companies had passed out of Australian hands. The government feels that if Australia is reap the full benefit of these discoveries, full control of this development should remain in the hands of Australian companies for the benefit of Australian shareholders and Australia generally.' (*AFR* 18 September 1970).

[57] Inflation was rising but the government's response was inconsistent and unimaginative. During a national television address the Prime Minister blamed inflationary pressures in the building industry on foreign investors and foreshadowed a requirement for them to have to liaise with Treasury on their plans. No further details were forthcoming (Reid 1971:405).

[58] By contrast, West judged that a secure Liberal leader was one who was '...able to guard against being too closely identified in the electorate's mind with specific — as opposed to the whole range of — business interests' (West 1967:272).

experiment', to quote Reid (Reid 1971). Yet Australian businesses were divided over FDI. The now important mining industry demanded a continuation of liberal policy. Manufacturing interests sought protection from hostile foreign takeover bids and foreign competitors entering the protected domestic market through FDI.[59] Any FDI policy initiative would have to reconcile those contending imperatives. Compounding the Coalition's political difficulties on FDI was the popularity of a resurgent Opposition's economic nationalism. Labor not only promised controls on foreign takeovers and new investment across the economy but also a more active role for government in the financing and development of Australian-owned mining operations. The McMahon government faced a profound electoral threat from Labor but it could not match its economic nationalism without abandoning its ideological attachment to 'private developmentalism' and alienating key business constituencies. Through 1971 and 1972 the McMahon government struggled with this political dilemma.

Economic circumstances in the early 1970s made the political defence of liberal FDI policy more difficult. The Australian economy was booming and concern over insufficient foreign capital inflow had subsided (Dyster and Meredith 1990:236–38). International capital flowed into non-American dollar instruments at an increasing rate because further depreciation of the American dollar was widely expected.[60] Short-term funds poured into Australia attracted by the prospect of a capital gain through revaluation while the minerals boom and a buoyant domestic economy drew FDI.[61] To critics of foreign investment it appeared that Australia could afford to be choosy about what FDI it wanted. Deputy Prime Minister Doug Anthony expressed this view publicly in mid-1972, to the embarrassment of

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[59] The ACM in Australia told Prime Minister McMahon in July 1971 that the wanted '...some greater measure of selectivity in accepting certain forms of investment which at present lead either to a transfer of ownership of resources to foreign hands or to unwelcome fragmentation of the already small Australian market.' (cited in Tsokhas 1984:7).

[60] Sentiment was even more negative about the prospect of the Australian authorities being able (that is, prepared to pay the domestic price) of maintaining a clearly undervalued Australian dollar. The government had earlier decided to let the Australian dollar appreciate only some 6.32 per cent against the US dollar (Perkins 1977:7).

[61] In a dramatic turnaround from its external position in the mid-1960s, Australia accumulated an embarrassing volume of foreign reserves. These amounted to some $2,700 million when conservative estimates of a safe volume were around the $1500–1800 million mark (Walsh, *AFR* 26 November 1971).

McMahon.[62] Anthony was reflecting the concern of his Country Party constituency about the inflationary effects of FDI (Tsokhas 1984:40).

Since late 1967 the Opposition had championed a parliamentary inquiry into foreign investment, knowing the government's refusal allowed claims that the facts about foreign ownership were being withheld from the Australian people (*Age* 23 November 1967). Labor failed to win Democratic Labor Party (DLP) support for the creation of a Senate standing committee on foreign investment in 1969 (*Age* 15 April 1969). In late 1971 the DLP finally agreed, and parallels were widely drawn with the Canadian foreign investment policy taskforce established in 1970 by the Pierre Trudeau's government (Walsh, *AFR* 26 November 1971; Barnes, *Age* 11 December 1971).[63] Labor's recruitment of its old DLP nemesis was a coup. Although the DLP was strongly pro-American because of its profound hostility to communism it was still much influenced by old labourist economic ideas (Duffy 1967, 1969). Editorial opinion was generally in favour of the committee of inquiry to give some focus and reason to the increasingly shrill public debate. *The Age* judged that: 'whether or not the government likes the idea, foreign investment now seems certain to be an election issue' (*Age* 13 December 1971). This was borne out by the proceedings of the select committee, which commenced hearings in June 1972, being plagued by the overriding political imperative of the various party

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[62] Anthony told a Country Party conference that '...today money is flooding in from overseas in embarrassing proportions', despite the fact that Country Party opposition to a higher Australian dollar was a major factor in the inflow of foreign capital (*Aust* 20 June 1972; Henderson 1994:199). Anthony argued that Australia could '...afford to be selective and to set reasonable conditions'. The McMahon government would not consider a revaluation, under intense pressure from the Country Party. Rural export constituencies wanted a lower exchange rate to sustain exports and tariff reform to reduce the cost of inputs (Tsokhas 1984:39–40). The Treasury, Reserve Bank and academic economists were highly critical of the government's decision to not mirror the general revaluation against the US dollar (Walsh, *AFR* 21 December 1971; Perkins 1977:7).

[63] The Opposition had offered the government a chance to establish a joint inquiry, answerable to both houses of parliament. This was firmly rejected, despite the government having been able to secure a bare majority on such a committee that it could not as a Senate committee. It is probable that the Prime Minister reasoned that the additional status of a joint committee would increase the political costs associated with the inevitable attack on existing policy settings that would be conducted in the forums convened by it. The government might not have been able to control the final form of a Senate committee report but that was not likely to be forthcoming before the next election anyway.

members to score political points.[64] The imminent Senate Inquiry led the McMahon government to commission a study from Treasury on foreign investment policy issues, which the Prime Minister carelessly described as a white paper; implying new policy options (Walsh, *AFR* 26 November 1971; Sorby, *AFR* 8 December 1971).[65] The Treasury resisted putting up policy options for restricting foreign investment and produced merely a general analysis of the costs and benefits of foreign investment.[66] The media lambasted the government for supposed weakness in the face of bureaucratic intransigence and there was much editorial comment in favour of some restrictions on FDI (*CM* 17 May 1972; *AFR* 20 May 1972; Walsh, *AFR* 21 May 1972). While the Treasury report did not canvas options for regulating FDI it did lend weight to criticism of the states' haphazard minerals royalty policies (Treasury 1972).[67] This implied that Australia may not have been fully capturing the expected benefits of FDI in the resources sector. Frustration with the lack of tariff reform and of vigorous trade practices legislation, making for excess profits at the expense of consumers, also permeated the Treasury paper.[68] This implied that additional rents might be lost from the Australian economy via FDI. The report noted that foreign ownership of companies operating in Australia had risen to 35 per cent of the total from 20 per cent in 1950. When Treasurer Snedden released the paper in May 1972 he empathised with FDI critics, fuelling speculation of a

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64 Many business bodies and other prominent interest groups declined to make submissions to the Committee. The chair of the committee was Senator Reg 'toecutter' Withers, who was widely feared and respected within the Coalition as a political operator. His background as a barrister, combined with that of Labor's senior committee member, Senator Lionel Murphy, made for a thoroughly combative and legalistic style at hearings (Walsh, AFR 2 May 1972; Kemp, *AFR* 2 July 1977).

65 McMahon was tempted to the White Paper remark following an embarrassing call from fiercely independent government member Harry Turner in Parliament for one on FDI policy options. Turner had attracted widespread support on both sides of the house (Walsh, *AFR* 26 November 1971).

66 This bore little resemblance to a white paper so the Treasury labelled the document Economic Paper No 1 (McGuiness, *AFR* 17 May 1972; Treasury 1972).

67 Controversial was the implicit criticism in the Treasury paper of the government's resistance to a further revaluation of the dollar, an analysis that media observers had widely agreed with (*SMH*, *CT*, *Aust* 17 May 1972).

68 *The Australian*'s Ken Davidson commented that: 'All too often the strongest economic nationalists in the Australian Parliament are also the advocates of policies designed to make foreign investors fat at the expense of the Australian community' (*Aust* 2 June 1972). In hindsight the report appears as a cogent statement of the view that most of the costs claimed to be associated with foreign direct investment are a function of poor domestic policy rather than any being an intrinsic function of FDI.

restrictive policy initiative before the federal election due soon (*Age* 17 May 1972).[69]

Politicisation of takeovers

Opinion polls taken during 1972 highlight the extent to which public opinion had already swung toward restraining foreign takeovers. A Gallup poll of June 1972 found nearly 90 per cent of respondents would place some limits on foreign purchases of shares in Australian companies and 63 per cent would limit them to less than 50 per cent holdings.[70] The extent of community support for restrictions on FDI was certainly understood by business interests. The AMIC recognised that the Coalition government was 'in the firing line' and mining interests would have to act to influence public opinion directly about the benefits of FDI, as well as the mining industry in general.[71] Manufacturing interests and much of the mass media, on the other hand, contributed to sentiment within both the electorate and government ranks becoming less liberal towards FDI. The June 1972 Gallop FDI was prompted by the great Chiko Roll crisis, the most prominent of several controversial foreign

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69 Snedden remarked that: 'Unlike the case of Canada, foreign control in Australia has not rested predominantly with a single country...Even so, a high and rising degree of foreign control could conflict with national aspirations... Increasingly emphasis is being laid on the social and other aspects of economic change and growth. To the extent that values change in these ways so too does the basis for assessment of foreign investment also change in some degree.' (*Age* 17 May 1972).

70 The poll result was also notable because the question explicitly referred to '...British, American and other foreign investors..' and because almost exactly the same results emerged when the poll was replicated in September 1972 (*Australian Gallop Polls*, June 1972, no. 2340, 2342–3). The main question was worded: 'In your opinion, should British, American and other foreign investors be allowed to buy any number of shares in Australian companies, and gain control of them — or should there be a limit?' The sample was a national one of 2299 and the second question asked was: 'Of the shares in an Australian company, what's the biggest percentage you'd allow non-Australians to own?' Some 7 per cent said less than 20 per cent, 20 per cent said 20–29 per cent, 11 per cent for 30–39 per cent and 25 per cent would allow 40–49 per cent. The September 1972 results were *Australian Gallop Polls*, November–December 1972 (no. 2359, 2368 and 2371–2.

71 In a report prepared by a public relations firm for the AMIC it had been judged that what was needed was a campaign to convince Australians that: 'Without massive foreign investment, the mining industry in Australia will be unable to make an adequate contribution to national development and a higher living standard. The time has since passed when the industry could seek behind the scenes government support for these objectives. What must be done is to mount a national publicity programme through the media, Parliament, the education system and the trade union movement.' (quoted in Tsokhas 1984:80–81; From G. K. Kerr, *Outline of Public Relations Programme for the Australian Mining Industry Council*, International Public Relations, 16 May 1972).

takeover bids.[72] The large American firm ITT launched a bid for the Australian producer of Chiko Rolls and other processed foods, Frozen Food Industries Ltd, which attracted enormous media attention. The controversy was compounded when the Australian media fixed upon two scandals that had recently beset the ITT group in the United States of America. These entailed alleged interference in Chilean politics and a supposed attempt to bribe the Nixon administration (Walsh, *AFR* 2 May 1972). Both Labor and DLP leader Senator J. T. Kane called for the bid to be blocked and for a complete review of foreign investment policy (*Aust* 2 May 1972).[73] While the government did not move to prevent the takeover it was sufficiently concerned by the strength of negative public opinion to deliberate on the matter in Cabinet (*CT*, *Aust* 3 May 1972).

Media controversy over the takeover of another 'Australian icon' was soon at hand. The company producing Kiwi shoe polish, rare among Australian manufacturers in having developed export markets, was targeted for takeover by the Californian firm Clorox Co. Whitlam immediately declared that: '...this kind of takeover is clearly against Australia's national interest' (*AFR* 28 July 1972). Prime Minister McMahon in turn said on national television that he did not like the bid but would not directly block it. However, when Clorox withdrew the bid it identified the PM's unwelcoming remarks as a consideration (*SMH* 5 September 1972). McMahon later claimed credit for dissuading Clorox from taking over Kiwi as well as Monier's hostile bid for Rocla Industries Ltd (*AFR* 6 September 1972). *The Australian* editorialised that:

> The government's cautious approach to foreign investment policy has worked rather like the precautions of a man who does not want flies in the house but who will not put up flyscreens: only the flies which are noticed get swatted, after they have already landed. Operating on this system, the government has been able to extemporise only patchwork defences in occasional cases of strategic importance. (*Aust* 4 September 1972).

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[72] For the benefit of those readers unfamiliar with the culinary delight that is a Chiko Roll, it is a mass-produced and deep-fried pastry roll with a non-descript filling of cabbage and meat; being widely sold through takeaway food shops.

[73] Senator Kane and Labor's Senator Murphy threatened to have the Senate select committee on foreign investment that they had earlier established, investigate the ITT bid when the government ruled out action to block it (Walsh, *AFR* 2 May 1972).

The Rocla Board beat off Monier by resorting to a public campaign appealing to economic nationalism (Walsh, *AFR* 2 May 1972). During 1972 sections of the quality press raised critical voices against the increasingly nationalistic tone of the foreign investment debate, with the *Australian Financial Review* running three editorials on the issue over a one month period alone (*AFR* 28 July, 3 August, 25 August 1972). Yet, even it had conceded much to the critics of a liberal policy. In July 1972 elements of the media clearly pandered to popular prejudice when dealing with claims that mafia money was pouring into Australia to take over poker machine makers and a number of entertainment firms (*Age* 13 July 1972).[74]

McMahon could no longer readily claim that his informal suasion approach to securing Australian ownership and control was working when his own Cabinet splintered publicly on FDI policy. In June 1972 Country Party leader Doug Anthony had backed his criticism of existing FDI policy with a public call for a screening process and certain sectoral limits (*Aust* 20 June 1972). In early September Anthony said on national television that the government would have to review existing policy (*Age* 4 September 1972). Treasurer Snedden compounded the government's problems when he complained publicly that foreign investors had been ignoring the restrictive guidelines on investment in the uranium industry put in place by the Gorton government (*Aust* 29 August 1972). The Opposition in turn demanded that the regulatory regime be tightened; a response McMahon continued to rule out (*Sun Her* 3 September 1972). Labor quickly followed up with an FDI policy release, promising a special secretariat to review foreign investment proposals for their consistency with 'the national interest' (*Aust* 4 September1972).[75] The generally positive media reaction to Labor's plans substantially increased the political risk to the Coalition of not making a policy concession to economic nationalism.

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[74] Some observers recognised the mafia story for the red herring in the foreign investment debate that it was. Prominent journalist McGuiness, for example, remarked that: '...it would be absurd to suggest that the current allegations about investment by the Mafia...amount to an argument against the capital inflow. After all, we have plenty of native-born criminals already. This last group might, of course, consider applying to the Tariff Board for protection against imported crime... (*AFR* 14 July 1972).

[75] The detail of the proposal was then developed by the parliamentary party's economic and trade committee and endorsed by the full parliamentary caucus (*CT* 21 September 1972). 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.

The McMahon government had already revealed considerable pragmatism in relation to foreign takeovers when influential domestic business interests favoured government intervention. In August 1972 Civil Aviation Minister Senator Robert Cotton threatened to terminate the 'two-airline policy' that entrenched a duopoly in most areas of domestic commercial aviation if foreign ownership of the private airline, Ansett Transport Industries, rose above a certain, unspecified level (*AFR* 3 August 1972). In return Ansett bosses Sir Reginald Ansett and Sir Peter Abeles publicly applauded the government's FDI policymaking (*Aust* 27 September 1972). When the McMahon government did design a regulatory regime for FDI it was informed by a clear understanding of the varied FDI policy preferences of its business constituencies. The Cabinet gave in-principle support to the regulation of foreign takeovers, although not new foreign investments, in mid-September 1972 (Walsh, *AFR* 15 September 1972).[76] The discretionary regulation of foreign takeovers addressed the concerns of manufacturing interests while posing no threat to domestic mining interests who continued to favour a liberal regime. The motivation of the McMahon government to protect Australian boards from hostile takeover rather than to preserve overall levels of Australian control was reflected in the subsequent legislation. It only addressed takeovers through share acquisition and did not extend to issues connected with the disposal of assets or goodwill; the latter arising through the cooperation of the existing board.[77] The legislation also did not provide for compulsory notification of foreign takeovers to the committee, meaning that foreign takeovers might come to the attention of the government through the

[76] The details were announced along with new capital controls to address the consequences of a misaligned exchange rate while avoiding a politically difficult revaluation. Prime Minister McMahon announced to the Parliament on 26 September 1972 that short-term overseas borrowing of more than $100,000 was no longer to be permitted and the foreign investment 'guidelines' of 1969 were abolished (Sexton and Adamovich, 1981:14). The *Sydney Morning Herald* had foreseen the introduction of such foreign borrowing controls and had editorialised against them, saying that 'they are no more than a substitute, and a very poor and inefficient substitute, for a sensible exchange rate policy' (*SMH* 4 May 1972). The circumstances of McMahon's statement were unusual as Treasurer Snedden was abroad and the Governor of the Reserve Bank was not involved in the announcement of measures that it would be administering. This was despite the government having earlier forecast a statement by the governor on the issue of exchange controls (*Nat Rev* 7 October 1972).

[77] Determined foreign bidders for Australian businesses might therefore avoid the provisions of the FTA with the cooperation of the vendor. Some journalists at the time noted the scope it present for non-compliance but not the private interest dimension (Walsh, *AFR* 26 October 1972).

political process rather than through regular monitoring.[78] Moreover, the highly discretionary nature of the review process suggested that the regulation of foreign takeovers could be an arbitrary or politically driven process.

It was on that basis some liberal editorialists queried the government's FDI policy initiative. The *Sydney Morning Herald* was most critical of the government giving itself '...carte blanche powers of veto' (*SMH* 27 September 1972). Those concerns were exacerbated by the fact that the decision to enact controls was announced before the guidelines that would inform their administration were finalised and because all foreign takeovers already under way were to be subject to the review provisions (*SMH*, *Age*, *AFR* 27 September 1972; Ramsey, *Aust* 27 September 1972).[79] The government rushed a bill through Parliament as one of its last acts before going to election.[80] The bill was explicitly an interim measure designed to underpin the operations of the interdepartmental committee on foreign takeovers being setting up. It compelled the executive to complete preliminary investigation of a takeover bid within a month of notification — approving, rejecting or issuing a temporary injunction to allow further deliberation (Sexton and Adamovich 1981).[81] The discretionary nature of the controls was central to their appeal to the McMahon government. They promised a mechanism for claiming vigilance on foreign takeovers while in practice maintaining a quite open policy regime — as McMahon personally favoured. They also solved the dilemma presented by the FDI policy

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[78] The government claimed that its provisions allowing for the compulsory reversal of non-notified takeovers if judged contrary to the national interest would lead to a very high notification rate (*SMH*, *AFR* 26 October 1972). That implied that the government would be attentive to politically contentious takeovers.

[79] On the other hand business reaction to the capital controls was generally indifferent to positive as there was growing concern that the level of capital inflow might lead to a significant inflation problem and pragmatic realisation that a revaluation was not likely to be forthcoming (*SMH*, *Age*, *AFR*, *Aust* 27 September 1972).

[80] Journalist Maxwell Kemp wrote of the hasty preparation of the bill that: 'When I say 'ink still wet' that is precisely what is meant. The parliamentary counsel was seated in the House of Representatives while the bill was being debated in detail — pen at the ready, smile on his face, helping the hapless Billy Snedden out of the more obvious pitfalls it contained by simply redrafting the offending clause. God only knows how many loopholes they missed!' (*Nat Rev* 28 October – 3 November 1972) For a detailed discussion of the constitutional issues entailed in the legislation raised see Flint (1985:14–53) and Sexton and Adamovich (1981).

[81] The bill incorporated enforcement provisions, empowering a government to request a state supreme court to issue orders restraining the exercise of voting rights, directing payments to be withheld, directing the sale of shares and making other desirable ancillary orders. Fines for breaches of orders were specified, although rather modest.

preferences of domestic firms: namely, businesses understood the contribution that FDI could make to economic growth as a whole while they hoped for protection from a hostile foreign takeover. This was as true of domestic mining as manufacturing firms.

While the media evinced wariness about the highly discretionary element, there was general support for some regulatory mechanism. *The Australian* editorialised that.

> The Prime Minister's announcement yesterday on the vexed and often emotional subject of foreign investment showed all the signs of haste with which it was thrown together. Even so, it did not come a day too soon for the state of mind of both the nation and the government. (*Aust* 27 September 1972).

Yet McMahon had been associated with liberal FDI policy for so long that few in the electorate believed his government was committed to more restrictive policy. Although the McMahon government designed its FDI initiative with a close eye to private interest politics it did not address the wider community concern about foreign ownership of the resources sector. In short, it failed to compromise its liberal proclivities sufficiently to accommodate contending public interest ideas as well private interests. It could have done so without losing business support as Labor was promising more radical economic nationalism (*Aust*, *SMH* 27 September 1972). As part of the famous 1972 'It's Time' campaign speech Whitlam declared.

> ...the strongest and richest of our own industries 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 1985:229).

The government could do little more than engage in a containment strategy, as characterised so much of its election campaign (Oakes and Solomon 1973:315).[82]

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[82] The *Sun Herald* noted during the 1972 campaign that: 'All of a sudden, the movement against excessive foreign ownership of Australian assets and resources is becoming a fashionable cause, like the outcries over pollution and the destruction of the environment. For years only lone voices were raised in protest, as Australian companies and whole industries were swallowed up. Now something like a crusade is developing and the political parties are responding with anti-takeover election assurances.' (*Sun Her* 12 November 1972).

The ALP allocated considerable resources in an effective campaign to widely circulate pamphlets on the FDI issue, including one reproducing an American marketing brochure on land for sale in Australia (Clark 1973:9–10). Treasurer Snedden issued interim orders freezing five planned foreign takeovers for subsequent review. This proved politically costly when one bid, by Cadbury Schweppes of the United Kingdom for the Tarax soft drinks group in Melbourne, was revealed to be at the stage where the former had already posted cheques to shareholders accepting their offer price (*AFR* 21 November 1972). For at least a week claims and counterclaims about previous understandings between the government and Cadbury Schweppes were in the press, contributing to a perception of incompetence and hastiness. The government's attempt to reclaim the initiative on foreign investment, by ordering an extensive study of foreign investment in Australia from the Commonwealth Statistician, merely raised the question of why it had not done so long before (*Age* 20 November 1972). Pressure also came from unexpected quarters. The Returned Servicemen's League (RSL), holding its national congress during the election campaign, expressed 'deep concern' that '...many millions of acres, many millions of dollars of real estate, and much of Australia's mineral and natural resources are in the hands of foreign interests' (*Sun Her* 12 November 1972). The RSL's intervention is a good example of a conservative, pro-Coalition organisation expressing an economic nationalism that served the short-term political interests of the Australian Labor Party.[83] Labor's greatest mistake in office in relation to FDI policy would be to under-estimate the capacity of business and other constituencies to influence public confidence in a government's policy settings. In December 1972, however, the ALP was the electoral beneficiary of popular economic nationalism.[84]

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[83] The RSL's intervention in the debate no doubt made government leaders glad they had requested a planned Japanese real estate investment mission postpone its trip until after the election (*AFR* 29 November 1972).

[84] That is certainly not to suggest that foreign investment was *the* decisive issue in the 1972.

Conclusions

During the 1960s and early 1970s Coalition governments faced increasing public and pressures to abandon the established 'open door' FDI policy. Those pressures came from domestic private interests who could benefit from discretionary controls on FDI, media and other public actors, the electorate and opposition parties. The Menzies and Holt governments maintained liberal policy in the face of those pressures for a number of reasons. The strength of their developmentalist convictions, including support for a large European immigration program, predisposed them to a liberal FDI policy. So too did their commitment to the relationships with the United Kingdom and the United States of America, the main sources of investment. FDI contributed to strong economic growth throughout the 1960s and early 1970s, with electoral benefits for the incumbent government. In the mid-1960s American and British controls on outward capital flows provoked concerns among Australian policymakers and businesses that Australia's economic growth might be curtailed as a consequence. This temporarily weakened the case for FDI controls while also highlighting the interests of many domestic business interests in liberal policy. The political influence of Australian banking interests was evidenced in resistance to state involvement in raising foreign capital for the development of industries under Australian control.

The Gorton government marked a turning point in Australian FDI policy. The Prime Minister's own proclivity for economic nationalism led the government to block foreign control of the MLC life insurance company, a uranium project and make access to local capital markets dependent upon localising equity or length of commitment to Australian operations. This lent credibility to a resurgent Labor Opposition's economic nationalism and a strong economy suggested to an increasing number of Australians that the risks entailed in Labor's vision were affordable. Australian business interests favouring discretionary FDI controls to shield them from foreign competition and hostile takeover bids increased their lobbying. At the same time a coalition of domestic and foreign mining interests resisted regulation of FDI in that sector, despite pronounced public concerns about foreign ownership and control of resources. Treasurer William McMahon frustrated

moves within the Gorton government to impose a regulatory regime on FDI but had to confront the political reality of popular economic nationalism when he became Prime Minister.

McMahon's government enacted controls on foreign takeovers just before the 1972 election. Although aimed at neutralising FDI policy as an electoral negative for the Coalition, the regulation reflected a compromise between the contending private interests of the government's business constituencies. Discretionary controls on takeovers would allow McMahon to maintain a relatively liberal FDI policy in practice; which he had always held to be in the public interest. They also promised the protection from hostile takeovers that some Australian businesses sought while not threatening the rapidly growing mining industry. Yet McMahon had been too long associated with an open door FDI policy for the initiative to placate critics of FDI, who were also generally more concerned about new FDI in the resources sector. The McMahon government's FDI controls were a good compromise between its conception of the public interest and contending private interest demands. However, Labor's more stridently economic nationalist conception of the public interest was in wider favour. Yet Labor was to discover in office that the statist element of its economic nationalist and developmentalist vision provoked intense resistance from domestic private interests. Labor had little understanding of how much influence those interests could have on popular perceptions of the public interest. The next chapter examines how Labor learnt that painful lesson.

5 Chasing visions, 1972–75

Labor's economic nationalism proved to be to its political advantage in the run-up to the 1972 election. Had the Whitlam government enacted moderate and well-designed additional controls on FDI then its economic nationalism may have continued to be an electoral positive for Labor. Instead it fumbled the extension of the McMahon government's controls on foreign takeovers to new investments and failed to issue investment guidelines during its first term, while simultaneously scaring both foreign and domestic businesses in the resources sector with wildly nationalistic rhetoric. Leaders of the Whitlam government were blinded to the public interest imperatives for a predictable and moderate FDI policy by their vision of Australian ownership and control. Labor's state developmentalism also presented a direct threat to organised Australian interests. The Whitlam government chased its vision for several years in spite of institutional constraints, bureaucratic resistance, opposition from major private interests, protests from major foreign allies and intense criticism from state governments and the Federal Opposition. The Whitlam government eventually produced more predictable and moderate FDI policy but not before its gross mismanagement of a limited mandate from the electorate for economic nationalism had proven to be very politically costly.

Mismanaging a limited mandate

Unlike the Gorton and McMahon governments, the Whitlam government showed little interest in the manufacturing sector and the FDI issues specific to it.[1] Labor had made clear before the December 1972 election that its main objective in relation to FDI policy would be to promote Australian ownership and control in the booming mining sector. Whitlam has continued to defend that vision and decry those he holds

[1] Its lack of concern for the policy preferences of manufacturing interests, domestic or foreign, was reflected in the adoption of an across-the-board tariff cut as a macro-economic policy measure (Jolley 1978:39). This, coupled with the effects of revaluation and a more uncertain economic outlook, saw a significant decline in inward FDI into manufacturing (Dyster and Meredith 1990:264).

to have hindered its realisation.[2] Although Labor's election provoked trepidation in both domestic and foreign business circles, the mass media was initially quite positive about Labor's promise of a more restrictive FDI policy. Most newspaper editorials leant support to a vetting mechanism for all FDI of substantial size but called for more detail on how Labor's vision was to be realised without great cost (*Aust* 23 February 1973; *Adv* 30 July 1973). The *West Australian*, for instance, declared that.

> All thinking Australians will agree unhesitatingly with the principle that there should be majority Australian interest in our land and in the exploitation of natural resources, and most would find it refreshing that the government is pursuing those objectives with such vigour. But it remains to be seen how the policies will work in practice (*WA* 22 March 1973).

Similarly the *Sydney Morning Herald* welcomed '...direct policy intervention to control and direct foreign investment...' but called for a White Paper to address all the issues in policy design (*SMH* 22 March 1973). Editorialists generally showed much less sympathy for a more active direct role for the state in national development than for an extension of FDI. The mass media, like business, expected a moderation of Labor's pre-election nationalist rhetoric but some formal initiatives to tighten FDI policy. In its first six months the Whitlam government delivered the reverse.

The economic nationalist rhetoric of the government leadership was scarcely moderated by the demands of office. The Minister for Labour, Mr Clyde Cameron spoke overseas of his concerns about the 'international conspiracies' of 'giant corporations' and called for closer international cooperation between trade unions as a counterweight to them (*AFR* 16 June 1973; *Adv* 30 June 1973). The Minister for Minerals and Energy, Rex Connor, was scathing in his criticism of both domestic and foreign mining firms and foreshadowed state intervention in the contracting of

[2] In 1985 Whitlam wrote: 'If Australia was to gain any long-term benefit from mining, then the decisions on investment and production had to be made in Australia and in Australia's interests. If foreign investment was to be allowed to be turned on and off like a tap by alien hands, causing severe disruption in the domestic economy, if Australia and the developing economies were forced to grovel and beg for international capital to come and to stay, then we would be inviting disaster upon ourselves.' (Whitlam 1985:249).

export prices and investment decisions. Connor's young parliamentary protégé Paul Keating told an American Chamber of Commerce audience 'the hackneyed argument that foreign capital was needed to develop our mineral and energy resources is visibly defective (*SMH* 24 March 1973). Yet no formal initiatives to extend FDI controls to new projects or even tighter guidelines for foreign takeovers were forthcoming.

In mid-1973 the Whitlam government did impose tough new restrictions on the purchase of real estate by non-residents. These had been foreshadowed while in opposition and leant legitimacy by a Treasury study commissioned by Treasurer Frank Crean upon coming to office (Barnes, *Age* 21 March 1973; Brenchley, *NT* 4–9 June 1973). As the restrictions were not given a legislative foundation they had to be enforced through the foreign exchange controls maintained by the Reserve Bank; effectively leaving locally financed acquisitions unregulated (Barnes, *Age* 21 March 1973; Scott, *AFR* 17 October 1974). On the other hand, Crean scared domestic and foreign firms alike with the simultaneous announcement that compliance with the new restrictions would be enhanced by amendments to the Companies Act to heavily circumscribe the use of nominee holdings (*NT* 4–9 June 1973). A potentially popular restriction on FDI alienated domestic as well as foreign businesses from the Whitlam government while not effectively realising its policy objectives. In hindsight it symbolised the basic political flaw with the Whitlam government's conduct of FDI policy.

Given the government's rhetoric most observers expected an early move to circumscribe FDI in the mineral resources sector. In March 1973 the Prime Minister told the annual dinner of the Australian Mining Industry Council (AMIC) that the government would not allow the level of foreign control in their sector to rise any higher than the current level of ostensibly 62 per cent (*Age* 20 March 1973). Whitlam's speech was in stark contrast to the benign view of FDI in the resources sector that then Prime Minister McMahon had expressed at the AMIC dinner a year earlier (Tsokhas 1984:66–69, 165 fn19).[3] It came as no surprise to the leaders of

[3] Foreign owned mining firms were members of the AMIC, as were local firms who were in joint ventures with foreign firms (Tsokhas 1984:66–71).

the AMIC that a Labor government favoured the promotion of greater Australian ownership. They were taken aback by the Whitlam government's failure to reveal concrete plans for a tighter FDI policy regime given the intensity of its rhetoric.

In October 1973 the Prime Minister again stated the government's preference for a highly restrictive FDI policy, this time during ministerial talks in Tokyo (Byrne, *AFR* 31 October 1973). Whitlam shocked both his Japanese audience and Australian mining interests by declaring '...we have an objective of full Australian ownership in development projects involving uranium. We also regard this as a desirable objective in oil, natural gas and black coal' (*SMH*, *CT* 30 October 1973). In other sectors the government sought ' ...the highest possible level of Australian ownership'. The Prime Minister did qualify his remarks with an acknowledgment of the need to deal with the equity structure on a 'project by project' basis. Labor had given no indication before the 1972 election that it would seek to freeze out entirely foreign equity from oil, natural gas and black coal projects. The Prime Minister's remarks caused ongoing consternation in Japanese official and business circles as they struggled to come to grips with the implications of the first OPEC oil shock for a national economy heavily dependent on imported resources (McIlwraith, *AFR* 10 June 1974).[4] In response to Japanese disquiet, an industry outcry and media criticism Whitlam subsequently moderated his stance in relation to black coal and natural gas (*Age* 9 November 1973).[5]

Formal FDI policy changes were not forthcoming for some two years after the initial

[4] The Minister for Minerals and Energy, Rex Connor compounded Japanese concerns with the use of controls over export licenses to force price rises from Japanese steel mills for both coking coal and iron ore, against the wishes of Australian producers (*AFR* 13 August 1974). For a broader discussion of the issues related to resources diplomacy and the particular context of Australia-Japan relations, see Myer (1978:117–34). On the other hand the Whitlam government was more amenable advancing discussions with Japan about a basic treaty of friendship and cooperation than its Coalition predecessor had been (Clark, *Aust* 29 September 1973; Tweedie 1994:160–75). It was also active in promoting cultural exchange between the two countries through the establishment of the Australia-Japan Foundation (Rix 1999:61–66, 78).

[5] The Japanese government would not easily be convinced that the new policy concern in the early 1970s with securing Australian control of projects in the minerals sector was purely coincidental to the concurrent growth in importance of Japanese direct investment to Australia (Solomon, *CT* 30 October 1973). Early in the term of the new Labor government several Japanese investment missions had visited Australia and put the case for a continuation of relatively liberal policy (*Aust* 23 January 1973; *CT* 14 February 1973; *AFR* 13 March 1973).

election of the Whitlam government. Labor had inherited from the Coalition merely a temporary piece of legislation that empowered the Commonwealth to vet only takeovers of existing Australian businesses. It nonetheless persevered with the administrative architecture that was created under that temporary act, and the interdepartmental Committee on Foreign Takeovers (COFT), and urged all foreign investors in the resources sector to submit proposals for consideration. While the Commonwealth's foreign exchange and export controls might be deployed to force foreign investors to involve more local input into projects, it was a clumsy way to realise Labor's economic nationalist vision (Flint 1985). In fact Labor went on to renew the McMahon legislation in both late 1973 and 1974 because it did not get drafted the more restrictive legislation it envisaged.

Businesses were sufficiently disconcerted by the discretionary controls the government could wield against FDI to call publicly for explicit guidelines even if the new legislation was not ready. Neither was forthcoming through 1973 and 1974 although rumours abounded of investments being frustrated from soon after Labor's election (Ackland, *AFR* 21 March 1973).[6] Domestic mining firms, reflecting their continuing need for foreign partners, were as frustrated with the uncertain investment environment as foreign firms (Scott, *AFR* 17 October 1974). Information was unavailable about what kinds of proposals were being rejected, and indeed even the overall rate of rejections or the processes and members of the COFT (*AFR* 14 June 1974). Business disquiet was soon amplified by media reportage and criticism of the government's conduct of FDI policy. Total inward FDI fell in 1972–73 to $399 million, less than half the previous financial year, but recovered to $616 million in 1973–74. Although some of the decline was structural, the Whitlam government was a factor (Dyster and Meredith 1990:237).[7]

[6] This was despite the fact that the 30th Federal Conference of the ALP, held at Surfers Paradise in 1973, adopted a policy platform that stated in part the Labor government would '...establish clearer guidelines for overseas investors, for the benefit both of these investors and of the Australian community' (cited in *AFR* 14 June 1974).

[7] Dyster and Meredith (1990:262–63) noted that many new resources projects initiated in the late 1960s had come on stream by 1973, leading to less new investment as well as increased capacity of foreign firms to fund investment through retained earnings. The ratio of Gross Fixed Capital Formation to GDP has been declining gradually since 1968.

The circumstances that had given rise to adoption of the capital controls were a factor in the Whitlam government's failure to provide clear FDI guidelines to business. A high volume of capital outflow, despite being principally short term in nature, appears to have fostered complacency both about the availability of foreign capital and the prospects for Australia's external balances.[8] Although Treasury urged a cautious FDI policy on the government, Treasurer Frank Crean was normally lukewarm in advocating its advice to Cabinet (Whitlam 1985:207–11; Stubbs 1989:116–23). Institutional features unique to the Whitlam government compounded the marginalisation of Treasury advice.[9] In its place the 27 Cabinet ministers, many true believers in Labor's long-enunciated economic nationalist vision, were easily swayed by the forceful personalities of Cairns and Connor. Whitlam provided no check on the forces for restrictive FDI policy; combining as he did a disinterest in economics with considerable enthusiasm for economic nationalism and state developmentalism.[10] Treasury, wanting no further tightening of FDI policy, responded by endeavouring to keep FDI issues off the Cabinet agenda. The Labor leadership showed scant regard for its rapidly deteriorating relationship with Treasury, as it did for other major stakeholders in FDI policy.

Business disquiet contributed to the increasing conflict between the Federal and state governments on FDI issues. Public disagreement between the Whitlam government and the conservative Bjelke-Petersen government in Queensland was bitter and ranged across a number of portfolio areas in addition to FDI and resources policies (Fitzgerald 1984:253–57). Relations with State Labor governments in South Australia and Western Australia may have been less overtly acrimonious but deep tensions still existed over FDI. The Minister for Minerals and Energy, Rex Connor,

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[8] In 1972–73 Australia realised a historically rare current account surplus, although it returned to a deficit equal to 1.8 per cent of GDP in 1973–74. A dramatic but short-lived improvement in Australia's terms of trade played a significant part in this (Dyster and Meredith 1990:252, 261).

[9] The whole ministry made up the Cabinet, making it both unwieldy and prone to ideological enthusiasms swamping the considered advice of relevant departments (Kelly 1976:62–67). Moreover, Cabinet members were not compelled to support a Cabinet position if it was challenged in Caucus. In July 1974 Crean failed to even mount a defence of the Treasury mini-budget submission in Cabinet. Whitlam failed to fend off Cabinet's rejection but did save the modified mini-budget from rejection by Caucus minutes before it was due to be presented in Parliament (Kelly 1976:64–65).

[10] Whitlam wrote later: 'From its first Cabinet meeting my government had been intent on developing Australia's immense mineral and energy resources without letting them pass into foreign hands' (1979:44).

interfered in the Dunstan government's administration of plans for a new petrochemical complex to secure 51 per cent Australian equity in the project (Eltham, *AFR* 9 November 1973). Most damaging to the ALP as a whole was the rift between the Federal government and the Tonkin Labor government in Western Australia (*WA* 3 December 1973). A month before a closely contested state election, the Tonkin Labor government sought an undertaking that necessary Commonwealth approvals would be forthcoming for the proposed Alwest alumina plant and a BHP-brokered steel mill project. Both proposals were to be majority foreign.controlled and also sought exemptions from the Commonwealth's foreign borrowing controls (Toohey, *AFR* 26 February 1974).[11] Federal Cabinet rejected each project on both counts (*Age* 27 February 1974). Connor and the Minister for Overseas Trade, Jim Cairns, instead tried to involve the Australian Industries Development Corporation (AIDC) in the project. To the annoyance of private sector leaders, the government was prepared to give an exemption from the capital controls to the AIDC for the project but not private firms (*AFR* 10 March 1974). The Whitlam government's actions were widely seen as a factor in the electoral defeat of the Tonkin government soon after (McIlwraith, *AFR* 5 May 1974).[12]

If the Whitlam government cared at all for minimising industry antagonism it had a greater need to issue clear FDI policy guidelines than a Coalition government because, unlike the McMahon government, Labor's ideological *raison d'etre* was perceived as being inimical to business interests. While the Treasurer periodically sort to placate domestic and foreign businesses annoyed with the conduct of FDI

[11] The Variable Deposit Requirement (VDR) scheme stipulated that a portion of loans raised abroad be deposited interest free with the Reserve Bank. The initial proportion was 25 per cent, later rising to 30 per cent before being cut back to zero in 1974 as an unforeseen credit crunch took hold (Jolley 1978:35; Sexton and Adamovich 1981:17; *Age* 2–8 August 1974). While principally a macro-economic management strategy, and one proposed by the Treasury, the capital controls were in keeping with the antipathy of most Labor ministers to free flows of foreign capital (Bell 1976:48–9).

[12] The Prime Minister took a real gamble during the Federal Election campaign by announcing a tough new foreign investment policy in Perth, only five weeks after the defeat of the Tonkin government. He directly attacked new Premier Sir Charles Court, who had been very pro-active in pursuing foreign direct investment during the previous period of Coalition rule, declaring 'Court sells you short' (*AFR* 5 May 1974).

policy, other senior ministers generally evinced indifference.[13] Cairns, Connor and even Whitlam were convinced that the business community was inevitably pro-Coalition and so did not see a strategic advantage in minimising their concerns.[14] Such a conception did not take account of the business community's ability to considerably influence community perceptions of a government's competence. Connor's brazen contempt for certain mining interests soon became legendary (Tsokhas 1984:66–9; Kelly 1976:155). Yet the private interests of domestic mining firms were by no means inimical to the Whitlam government's economic nationalist vision. Well-designed local equity requirements could have benefited certain domestic firms without presenting a great threat to existing practice in the structuring of ownership consortia. Labor's heavy-handed attempts to intervene in other aspects of the mining industry, such an export prices and financing, alienated domestic interests from the government and highlighted their shared interests with foreign mining firms (Tsokhas 1984:69–70).[15]

Supplanting FDI with state developmentalism

Old state developmentalist ideology evinced by prewar state labour governments and the Chifley government had continued influence over the Whitlam Cabinet. Kelly (1976:180–81) noted that despite the youthful imagery of Labor's 1972 *It's Time* election campaign, labourist veterans dominated the Labor frontbench. The Chifley government had been haunted by memories of the great depression and the Labor split over how to manage the heavy servicing burden of sovereign debt raised overseas. It had also been constrained in its capacity to borrow abroad for grand development projects by the scarcity of capital in the immediate postwar era. However, by 1972 memories of the risks of state borrowing abroad for national

[13] Rather remarkably, some Left-wing scholars criticised the Whitlam government at the time for giving too much consideration to business interests. The most influential statement of this view was by Catley and McFarlane (1974:45–53), which included strong criticism of Labor for not being economic nationalist enough.

[14] This is evidenced in a range of subsequent works on the Whitlam government. See Kelly (1976), Oakes (1976), Blazey and Campbell (1974), Sexton (1979) and Freudenberg (1977).

[15] Connell (1977:75) argued that the Whitlam government's nationalist stance on foreign investment was ill-received by Australian business interests because: 'However nationalist, the Labor government necessarily offended class-conscious sections of business, to whom it was simply an interloper — boorish, undisciplined, and dangerous.'

development had subsided, while foreign capital seemed readily available. In Opposition Labor had foreshadowed new policy initiatives to give the state a greater role in financing the development of resources projects. Domestic business interests were nonetheless taken aback by the speed with which the Whitlam government moved to implement these policies, with little or no reference to themselves. Australian banking interests had fought a successful campaign against the moderate state developmentalism of John McEwen in the mid-1960s, although they had been unable to head off the AIDC initiative during Gorton's prime-ministership. Labor could have learnt much from how Gorton's alienation of domestic business interests in the pursuit of economic nationalism led a general loss of faith in his capacity to manage the national economy. The Whitlam government did not appreciate that Gorton's experience would be by no means limited to a pro-business Coalition government. Labor was blinded to the political risks of state developmentalism by a misplaced faith in its supposed electoral mandate to realise greater Australian ownership and control of industry (Toohey, *AFR* 10 December 1973). The historical significance of Labor's election to office distracted from the modest size of its victory and the need to reassure the electorate that its reform program did not jeopardise the strong economy that been a major factor in the political longevity of the Coalition.

Labor committed itself in opposition to a developmental model where the state would facilitate the import of foreign loans in order to supplant FDI. The particular organisational architecture that was envisaged was an expanded AIDC, a new National Investment Fund (NIF) to raise funds for it, and a Pipeline Authority and a Petroleum and Minerals Authority (PMA). The latter, in Whitlam's own words, was designed '...to explore for and develop Australia's petroleum and minerals resources on Australia's behalf and to promote Australian ownership and control of those resources through co-operative ventures with private companies' (1985:250). In March the Minister for Minerals and Energy, Rex Connor, stated that the government's package of an expanded AIDC, NIF and PMA would mean the '...title deeds will remain in Australian hands' and that '...we will be governing Australia in the Australian way' (*SMH* 24 March 1973).

Foreign investors clearly understood that the vision of at least Connor and Cairns was to supplant FDI with government interventions. The Japanese government pressed for an explanation of what the AIDC plans entailed for the future of Japanese direct investment at the 1973 ministerial meeting in Tokyo (Toohey, *AFR* 11 October 1973).[16] Affirmation of the AIDC plan sparked a sharply negative reaction on the London stock market and highlighted the sensitivity of overseas investors to an unfamiliar Labor government propounding economic nationalism (*Aust* 31 August 1973). Foreign investors would have not taken much consolation from Cairns' remark that the goal of the government was '...not to keep foreign investors out, but to bring them in under proper conditions' (*AFR* 10 April 1974). Although the expanded powers of the AIDC could be deployed in many sectors of the economy the resources sector was clearly foremost in the government's mind.[17] Cairns raised the possibility of making both the granting of export permits and foreign investment approval conditional upon the AIDC being involved in projects (*AFR* 10 April 1974).[18] The government resolved in March 1974 that COFT would refer all cases to the AIDC as a matter of standard procedure, giving the latter the opportunity to make a proposal to take up an equity stake in place of the foreign firm (*AFR* 10 April 1974). At that point the Whitlam government had still not produced a formal statement of FDI policy guidelines that foreign investors could follow.

Labor's PMA model jeopardised the profitable business interests of specialist firms and individuals, serving domestic and foreign investors, working in minerals

[16] The government later endeavoured to argue that Japanese concern for the security of resources supply issues could be addressed through the AIDC. Connor suggested that Japanese interests could be coaxed into investing through the AIDC, that is, in consortiums arranged by it, in return for explicit security of supply agreements (*Age* 9 November 1973).

[17] To quote Overseas Trade Minister Cairns: 'What we have done is to widen its national development powers under the 'national interest' provisions, which are aimed primarily at the minerals and energy area, particularly fossil fuels and uranium. We have a tremendous responsibility to see that our resources are not all dragged out in a few years by people who have no responsibility to Australia for how they are used or at what cost or price.' (*AFR* 17 September 1973).

[18] Cairns even argued that if the AIDC took a long term share in the development of mineral reserves it could direct some output as foreign aid to '...a Third World country at a fair price' (*AFR* 11 October 1973). He apparently developed this idea after discussion with President Park of South Korea (B. Toohey, *AFR* 11 October 1973).

exploration and development.[19] The greatest challenge to Labor's vision of supplanting FDI with state borrowings came from domestic businesses threatened by the planned mechanisms. Banking, insurance and other financial intermediaries became strong critics of the Whitlam government's proposed NIF and an extended role for the AIDC (*AFR* 19 March 1974). The general manager of the Bank of New South Wales, Sir Robert Norman, was at the forefront of banking industry opposition to Labor's plans.[20] Controversy over the Bank of NSW's position in the public debate over the AIDC plans grew with the resignation of one of its longstanding board members, Sir John Dunlop. Sir John was also a director of the AIDC and had been criticised within the Bank of NSW Board after he had defended the Whitlam government's plans before the Senate Committee on Foreign Ownership and Control of Australian Resources (*CT*, *Age* 23 February 1974).[21] While Sir John was tight-lipped about what had transpired, the resignation attracted considerable media attention. Senior government members presented the resignation as the persecution of a widely respected business identity by a reactionary financial sector elite opposed to realising greater Australian ownership of promising industries (*Age* 24 February 1974).

The media was not entirely uncritical of financial sector claims about the dangers of the government's plans. Although *The Australian Financial Review* cast serious doubts upon the desirability of the AIDC and NIF plans it nonetheless declared that the 'fear campaign' being run by the banking sector was self-serving and '...an insult to the strength and viability of Australian democracy' (*AFR* 19 March 1974). The government nonetheless under-estimated the capacity of the banking and insurance industries to influence media, and ultimately voter perceptions, of the

[19] Whitlam (1985:251) wrote later on the successful opposition to the PMA legislation: 'Yet the Opposition Liberal and Country Parties, in control of the Senate, and a number of State governments, delinquently but deliberately obstructed our initiatives all the way. They set out to protect the foreign interests that had been living like parasites off the Australian people, whose activities no patriot, no person with any sense of justice could support.'
The PMA legislation was struck down through a High Court challenge on a technical issue of Parliamentary procedure (Whitlam 1985:251–2).

[20] He earned the ire of the government, and the public condemnation of Cairns, when he wrote to branch managers saying that the proposed changes to the AIDC could make it a vehicle for the socialisation of Australian industries, later repeating the claim in the mass media (*Aust* 19 March 1974).

government's performance. The Whitlam government was to struggle with a confluence of difficult macroeconomic challenges from 1974, the most serious being a recession-inducing credit crunch. The Australian Bankers Association played on this, arguing that interest rates would rise further if the NIF was allowed to operate as proposed (*AFR* 8 February 1974). The Whitlam government's vision of large-scale public borrowing and investment through the AIDC and NIF conflicted with the reality of the massive blow out in federal public debt that the ALP government presided over (Walsh, *AFR* 18 June 1973).[22]

The pro-business credentials of the existing AIDC board initially helped to ameliorate business unease about Labor's plans for the body (Walsh, *AFR* 20 October 1973). Although Australian banking interests were implacably opposed to the AIDC, chairman Sir Alan Westerman sought to reassure other Australian business groups that the Whitlam government's plans did not present a threat to their interests (*AFR* 28 June 1973). He was also active in telling foreign business communities that there would still be plenty of scope for investing alongside, and through the AIDC, in promising Australian projects (*AFR* 17 September 1973). Yet the bills that were introduced to the Parliament to amend the AIDC and create the NIF caused widespread apprehension in business circles. The amendments would have had the effect of lifting many of the restrictions on the AIDC, such as those limiting it to holding stakes in enterprises for only short periods of time. Project choice was also to be more directly influenced by the government of the day. The draft legislation would have allowed the AIDC to acquire shares in any firm, local or foreign, without the agreement of the company (*AFR*, *Adv* 19 March 1974).

The Whitlam government's major mechanism for securing more development with Australian ownership came to be feared as a Trojan horse for a general expansion of

[21] The Opposition-dominated Senate had referred the government's AIDC and NIF bills to the committee to delay having to make a decision (*Aust* 9 February 1974).

[22] Treasury cautioned that the proposed bond issue by the NIF would undermine the regular raising of Commonwealth Bonds because of the generous tax concessions entailed (Kelly, *Aust* 28 August 1973; Edwards, *Aust* 9 February 1974). Those concessions were comparable to the very favourable tax treatment given to certain insurance and superannuation products, helping to explain the deep hostility of that industry to the Whitlam government's plans (Ackland, *AFR* 14 August 1974).

the public sector at the expense of the private.[23] Consequently business submissions to the Senate Inquiry into the AIDC and NIF bills were all sharply critical (Edwards, *Aust* 9 February 1974). The submission of the Associated Chambers of Manufactures in Australia (ACMA) to the Senate Committee on Foreign Ownership and Control became controversial in its own right. The submission charged the government's motive with the change to the AIDC bill was to '...lay the groundwork for gradual socialisation through promoting corporate socialism' (*Aust* 9 February 1974).[24] The ACMA submission did make the important point that if the AIDC spent '...a substantial proportion of its funds and efforts on buying out foreign shareholdings, it may get bogged down in a massive operation of transferring ownership titles without raising or channelling new capital resources into the national economy' (*Aust* 9 February 1974).

Government ministers attempted to depict the Australian business critics as complicit in the despoiling of Australia's long-term economic potential and made appeal to class-based ideology.[25] Cairns linked the supposed loss of national economic sovereignty with an avaricious Australian financial elite, declaring that the AIDC's '...appeal will increase rapidly as it helps restore the Australian to his rightful place in his own country' (*Age* 9 April 1974). As business disquiet grew, the government found increasing solace in its ostensible mandate from the Australian people to pursue its economic nationalist and state developmentalist vision (Toohey, *AFR* 10 December 1973). As debate over the AIDC intensified Cairns declared, for instance, that.

> This legislation must be made effective. Not only have we a mandate from the people but that mandate is from a people who know that their self-realisation as a nation and as individuals depends upon strengthening the say Australians have in their own affairs (*Age* 9 April 1974).

[23] Private sector criticism along these lines was somewhat exaggerated. The obligation placed upon the AIDC to maximise Australian shareholdings would have ruled out most holdings in local companies, unless they were being offered for sale to foreign firms (Wood, *SMH* 26 March 1974).
[24] Such an argument was perhaps aimed at the staunchly anti-communist Democratic Labor Party senators, who held the balance of power in the upper house and could defeat the bill. Yet such denunciations of ALP policy had long been common in ACMA newsletters (Tsokhas 1984:10–17).

Initially Labor could call upon certain favourable media coverage to buttress its claim of a mandate for reform.[26] While *The Australian* raised some concerns it declared that the Parliament should '...give both the AIDC and National Investment Fund NIF bills a lusty launching' (*Aust* 16 February 1974). Media commentary grew more critical as domestic business interests more forcefully resisted the government's plans.[27] In the lead-up to the 1974 election the Coalition reluctantly agreed to support passage of the AIDC and NIF bills when the government accepted certain amendments it proposed to both. The Opposition sensed that the Whitlam government's economic nationalist policy agenda remained rather popular in the electorate at that point. Moreover, as the election was brought on by the Coalition's frustration of Labor's legislative agenda in the Senate it did not want to be perceived as against the promotion of Australian ownership and control of industry (Blazey and Campbell 1974). The Government had shown a certain political savvy in winning the Coalition around to that pragmatic position. It had promoted the AIDC as not only promising to enhance Australia's economic sovereignty but also offering help to rural and small businesses.[28]

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[25] Overseas Trade Minister Cairns said: 'It is significant that those who are most persistent in their attacks on the new AIDC are themselves spokesmen of the massive financial organisations of Australia' (*Age* 9 April 1974).

[26] An editorial in *The Australian* on the negative London stock market reaction to the AIDC gave strength to the government's mandate notion by remarking: 'It is exaggeration for British commentators to call this a loss of confidence in the Whitlam government: It is more an expression of confidence that the government does mean what it says about putting Australian interests first and those of the overseas investor a distinct second. This is a policy which the Australian electorate has endorsed. The fact that the domestic share market rallied back yesterday is a demonstration that Australians have not really changed their minds' (*Aust* 31 August 1973).

[27] The *Sydney Morning Herald* and *The Australian Financial Review* were quite critical, along with the newspapers of Queensland and Western Australia. The *Sunday Independent* in Western Australia denounced '...creeping bureaucracy which strangles initiative and over-rides government' (*Sunday Ind* 17 February 1974). *The Age* vacillated. *The Australian* most consistently editorialised in favour of the government's policy objectives. The *Sydney Morning Herald* increasingly argued, in a position rather advanced for its time, that FDI should not cause problems for Australia if other policy settings were correct (*SMH* 29 August 1973).

[28] Cairns declared that '...the AIDC will be used to strengthen small private enterprises against big enterprises. There are many farmers who would like to establish co-operatives, and many co-operatives are already established as successful, viable enterprises. But they need funds which private banks and other lenders may not advance because they are not top-drawer business prospects, or because private lenders may be too closely associated with big competitors of the co-operatives. The AIDC can play an important part in encouraging the development of sound enterprises like these' (*Age* 9 April 1974). In fact, under the government's proposals the AIDC would not have been in a position to favour particular types of Australian businesses over others.

Much was made of the fact that former Country Party leader John McEwen had been the architect of the AIDC; opening up again the old schism within the Coalition parties between rural and urban banking interests (Ackland, *AFR* 14 August 1974). Once the election was behind it, the narrowly defeated Coalition promptly reversed its position on the AIDC and NIF bills and had them rejected in the Senate (*Age* 4 August 1974; *AFR* 14 August 1974).[29] The government's formal mechanism for a more extensive role for the state in foreign borrowing and investment in the resources sector was never to be realised. The media was generally very critical of the Coalition for its about-face and it was a foretaste of the Opposition's later strategy to force the Labor government from office (*SMH*, *Age*, *Aust* 15 August 1974; *Sun Her* 18 August 1974).

The Whitlam government drew two distinct and quite divergent conclusions from the rejection of their legislation. On the one hand, FDI would continue to be important to the development of the resources sector and therefore there was a greater imperative to put in place moderate and well-designed new legislation on FDI controls. On the other hand, Cairns, Connor and Whitlam started to consider alternative channels for realising their vision of the state as foreign borrower and investor. This was to lead to the political disaster of the 'loans affair'. The paradox of the six month period from mid-November 1974 was that as formal FDI policy was put on a sounder legislative and administrative footing, the government also dabbled with a huge foreign fund raising through unorthodox channels that smacked of gross impropriety.

Extending FDI controls

Labor made a commitment to a comprehensive FDI review mechanism central to its

[29] Independent Senator Steele Hall, who had been a Liberal member, described the Opposition's actions as '...the worst form of bloody-minded obstructionism that the Senate could indulge in...' although the intensity of his annoyance was no doubt greatly amplified by personal support for the policy goal of the government (*AFR* 14 August 1974).

1974 election campaign.[30] In making the announcement Whitlam called on the findings of a report it commissioned from former financial journalist Tom Fitzgerald that concluded the Australian community was earning insufficient return on mineral resources given the level of government support for the mining industry (Fitzgerald 1974; *AFR* 5 May 1974).[31] Ironically, the Whitlam government had also just received statistics that suggested the overall proportion of Australian mining under ownership and control had stabilised.[32] Labor promised to formally extend the existing review process for foreign takeovers to all new foreign investments above a minimum threshold that it had not yet decided (*AFR* 5 May 1974). It was immediately clear that the government had not formulated a clear set of guidelines for reviewing foreign investments despite having been in office for eighteen months. Whitlam stated simply that he was not yet sure what the local equity and other requirements would be, but that existing foreign investors would ultimately have to comply with them.

> Over a period of time guidelines will become more definite as our experience grows. Foreign companies already operating in Australia will be expected to conform with these guidelines progressively. In this way we will ensure that the foreign investment that has already been allowed will conform to the Australian national interest as well as any new foreign investment that is allowed. (*AFR* 5 May 1974)

No attempt was made to articulate the government's understanding of what constituted the 'national interest'. Whitlam nonetheless said that in addition to the level of Australian equity involved in proposals, the government would also examine export franchises, tax avoidance, purchasing policies, technology licensing

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[30] The Prime Minister declared: 'I came to Western Australia because it is here that in recent years the choice I have described has been most acute. I came here particularly to challenge the most insidious of all propaganda imposed in this debate. Our opponents have swallowed the multinational lie that without unrestricted foreign investment, our development is restricted. I don't accept this proposition and I don't believe Australia could afford to accept it' (*AFR* 5 May 1974).

[31] In announcing a tougher foreign investment policy during the 1974 Federal election, Whitlam declared: 'The message of the Fitzgerald report is clear. We have sold ourselves short in our recent mineral developments' (*AFR* 5 May 1974).

[32] The Commonwealth Statistician found that there had been no significant expansion in foreign control of the mining sector during the last two years of the Coalition government (*AFR* 11 April 1974). Foreign control remained at 54.3 per cent of the industry in total value-added terms, while the figure for actual ownership was 47.8 per cent. The latter broke down into 35.8 per cent through direct foreign investment and 12 per cent through other forms of foreign ownership.

practices and research & development expenditure (*AFR* 5 May 1974). The Prime Minister cited Canada as offering an important precedent.

Following Labor's narrow electoral victory a new administrative architecture was quickly erected, although again without legislative foundation, to implement this expanded vision of FDI regulation. Rather than merely expand the role of the existing COFT, a second cross-departmental committee was created to vet all new investments. In September 1974 the government announced plans to introduce a new piece of legislation into Parliament to put its FDI policy on a firm legal foundation but this did not, in fact, occur for another year.[33] Instead, in December 1974, the government had to secure the renewal of the McMahon government's temporary *Companies (Foreign Takeovers) Act* for another year. The government also did not issue a formal set of guidelines until November 1974, and then only because Prime Minister Whitlam was heading for a diplomatic embarrassment.

Japanese Prime Minister Kakuei Tanaka was due to visit Australia and during pre-travel diplomatic and media briefings he had expressed a strong interest in securing detailed FDI policy guidelines from the Australian government.[34] The Whitlam government's first formal statement of foreign investment guidelines to be publicly released took the form of a copy of a briefing paper handed to the Japanese Prime Minister at a pre-dinner meeting the night before (Toohey, *AFR* 14 November 1974). The language was still strongly economically nationalist in tone, with

[33] As well as extending regulation to new investments, the government foreshadowed close regulation of differentiated voting rights that could be used to avoid restrictions on foreign control through simple shareholding limits, a legislative foundation for the broader review process previously announced, and broader asset acquisition provisions (*AFR* 24 September 1974). The latter were only aimed at asset acquisitions that effectively allowed the takeover of a business but still amounted to a significant expansion of the scope of regulation. The other major goal was to bring foreigner-to-foreigner transactions involving Australian interests legally under the purview of the review process, as was not the case under the existing act (Ackland, *AFR* 15 October 1974). They were to be largely frustrated in that aspiration.

[34] The need for policy cooperation between the Federal government and the Western Australian government on the development of the Pilbara region was pressing. The discovery of very large iron ore and other mineral deposits in the region, coupled with the possibility of piping natural gas from the huge North West Shelf field led to many proposals for the establishment of processing and other value-adding industries on the Pilbara coastline. The OPEC oil shock led to intense interest in Japan in investment possibilities (McIlwraith, *AFR* 10 June 1974).

explicit reference to use of a wide range of administrative mechanisms to secure foreign investment and broader trade goals. To quote Whitlam,

> If the objectives of maximising benefits to the Australian people from our mineral resources are to be achieved ultimate responsibility for the exploration, development and processing of minerals must rest with Australians: all enterprises whether Australian or foreign-owned, engaged in exploration, development or processing must conform with the national interest. The government will use all of its powers, including its export and exchange control powers, to achieve this aim (*AFR* 14 November 1974).

That brought little immediate comfort to the Japanese customers of Australian mines, nor to Japanese or any other investors in them. There were two modest positives in the policy statement. There was no reference to a desire for 100 per cent Australian equity in the four mineral sectors that the Prime Minister had foreshadowed in Tokyo the year before. Secondly, a higher overall level of Australian ownership of the resources was said to be a longer-term objective.

The statement was still far too short on detail for businesses to be put at ease. Treasurer Crean effectively acknowledged the costs of investor confusion, but offered no immediate solution, when he said,

> The stage has been set for a resumption of net capital inflow at moderate and digestible levels...You may well ask what is a satisfactory level of Australian participation. This is a question to which, in the nature of things, there is no simple answer. It depends in part on our own capacity to save and invest. (cited in Ackland, *AFR* 3 March 1975).

That was little help to businesses trying to put together investment proposals. Nonetheless, the Tanaka visit did mark a turning point in the Whitlam government's FDI policy. FDI review practice for the minerals sector evolved haltingly over the coming year towards a policy of equal equity partnerships between foreign and Australian investors deemed foreign and Australian (Bracken, *CT* 25 September 1975). This was despite the replacement of Crean as treasurer by Cairns two weeks after the Tanaka visit (Kelly 1976:67–75). Cairns became preoccupied with the goal of raising a large loan overseas for national development purposes and did not pay

great attention to much of the minutiae of the Treasurer's role. Cairn's relationship with Treasury steadily deteriorated, frustrating formal policy development but giving Treasury some latitude to deliver more moderate FDI policy in practice.[35]

Cairn's short period as Treasurer contributed to the additional six-month delay in getting the bill to create the *Foreign Takeovers Act* (FTA) to Parliament. His replacement in mid-1975, moderate Bill Hayden, introduced the bill. Hayden worked hard to impose both order and pragmatism on the government's economic policymaking (Stubbs 1989:125–38; Bell 1976:52; Gruen 1976:28). The substance of the draft FTA was little different from the statement of November 1974 but it gave legislative force to the review process and allowed for prosecution and penalties for non-compliance. Hayden directly addressed the absence of any explicit criteria in the bill for judging whether or not a proposal was in accordance with 'the national interest', saying,

> The criteria have not been incorporated into the bill. This is because the criteria must be flexible in their interpretation and application and it has been found that it would be impracticable, consistent with the need for such flexibility, to express the criteria with the precision required by legislative form (*AFR* 23 May 1975).

The Bill was ultimately passed on August 21 1975.[36] Hayden sought to reassure local and foreign firms that FDI regulation, although giving the government considerable discretion, would be deployed in a cautious way. Before an audience of the Australian-American Association, Hayden declared himself to be an 'economic internationalist' and said that 'the living standards we have, the consumption the

[35] Treasury was responsible for Australia's formal response to the preliminary report of the new United Nations' Commission into Transnational Corporations and reflected the general moderation of its position rather than the more strident remarks of some senior Cabinet ministers (Toohey, *AFR* 17 April 1975).

[36] At the time of the dismissal the government's new FTA had still not been promulgated, the delay having been the result of the need to draft accompanying regulations on the mandatory notification of share offers (*AFR* 11 November 1975). Between 1 January 1974 and 25 August 1975 46 interim orders were issued by the Treasurer which gave the government three months in which to make a decision on a project. Some 18 proposals were ultimately accepted without objection, two were stopped, eight could not be blocked because no right of action existed under the old act, and 17 were 'voluntarily' withdrawn (Ackland 29 August 1975). As noted in Chapter 2, this is not a good measure of the liberality of a policy because it does not capture the large discouragement effect that might have been occurring.

average person has, are only allowable because of the level of foreign investment in this country' (*Age* 11 October 1975). In September 1975 the government released a new set of foreign investment guidelines that formalised practice as it had evolved over the previous year (Treasurer, *Press Release* 24 September 1975; *Aust*, *AFR*, *CT* 25 September 1975).

The guidelines confirmed a policy of capping foreign equity at 50 per cent in any mining venture — finally holding some promise of policy certainty if not liberality.[37] The guidelines did not distinguish between different types of minerals, except uranium, for which a policy objective of 100 per cent Australian equity was retained. The government took the logical step of merging the two existing interdepartmental foreign investment committees to form the Foreign Investment Advisory Committee. All foreign investment over the rather low $1 million threshold would come under its purvey, regardless of how they were financed. This had the potential to create a massive logjam, as even modest investments funded out of retained earnings would be caught up in the review process and this disconcerted the executives of some foreign firms already established in Australia (*AFR* 26 September 1975). There remained explicit scope for the government to treat any case as a special one and deal with it on particular terms. Even small investments, if they somehow became politically salient, could become subject to Federal intervention. The September 1975 guidelines placed emphasis upon Australian nationals having a significant role to play in the management, technical operations and broader control of any investment.

[37] The Australian media's handling of the story of the government's new complete foreign investment guidelines in September 1975 was extraordinarily inconsistent. *The Australian* and *The Australian Financial Review* recognised it involved considerable liberalisation, but the *Age*, *Sydney Morning Herald* and the *Courier Mail* (25 September 1975) believed industry claims that it jeopardised mining projects which otherwise would have gone ahead. In fact the backers of the particular projects had merely been hopeful for exemption from the government's majority Australian ownership aspirations and were disappointed that a transparent set of guidelines would make that more difficult. These included the Northwest Shelf project, three iron ore mines in Western Australia and four coal mine ventures in Queensland (*Age* 25 September 1975).

Scandal and compromise

New Treasurer Bill Hayden brought moderation and legislative coherence to the administration of FDI controls in mid-1975. The Whitlam government's reckless attempts to raise loans abroad through informal channels for the purpose of 'buying back the farm' brought Hayden to the Treasurer's job. Dr Jim Cairns and Rex Connor both lost their senior ministerial portfolios because of the 'loans affair' and the Whitlam government lost much of its credibility with the public at large. The loans affair marked the last occasion in a long history of Australian state developmentalism where a government would seek to borrow extensively abroad on its own account in order to quicken the pace of national investment. The 'loans affair' stands out not only for the unorthodox and incompetent approach to securing such loans but the specific identification of them as being directed at enhancing Australian control of promising domestic industries.

When the Whitlam government first came to office its main macro-economic policy challenge was to manage massive capital inflows — loan, portfolio and direct investments — that contributed to an overheating of the economy (Gruen 1976:15–22; Jolley 1978:31–57). By late 1974 the government was struggling with a credit squeeze, domestic recession, and chaos in international financial markets brought about by the first oil shock. Despite Labor's narrow electoral victory in May 1974, a subsequent slump in the government's standing in the opinion polls, and frustration by the Senate of its AIDC and NIF initiatives, senior ministers continued to presume a mandate to pursue their vision for the resources sector. Minerals and Energy Minister Rex Connor was determined to realise his extensive wish list of mineral processing and mining infrastructure projects despite the Parliament having denied the government the institutional infrastructure to realise them.[38] Connor brushed aside those setbacks and fixated upon the raising of foreign loans. The debacle of

[38] Following the striking down of the PMA legislation by the High Court in June 1975, the Treasury also mounted open resistance to a government effort to transfer funds from the Treasurer's advance, the Contingency Fund, to a corporate vehicle called the Petroleum and Minerals Authority Pty Ltd. It had been created by Connor, with the two nominal shareholders being the head of the Department of Minerals and Energy and the head of the PMA, in case the High Court ruled as it did. Whitlam later conceded the attempt to transfer monies to it was most unusual, although not illegal (1985:252).

the loans affair was merely the final consequence of the extraordinary role of Connor in the Whitlam government. Kelly (1976:155) wrote that

> For two and a half years he was virtually a law unto himself within the government. Few ministers in Australian peacetime history have exercised so much power with so little check, so singularly, so secretly, for so long. The springboard of Connor's strength was his intimidation of the Labor Party caucus and his special relationship with the prime minister.

Relatively unknown when the ALP was elected to office in 1972, Connor had become a Labor hero through his tireless and blustering promotion of economic nationalism for the resources sector. In early 1975 the ALP national conference gave a ringing endorsement of Connor's policy objectives and ministerial style (*AFR* 3 March 1975; Whitlam 1985:254).[39] With Whitlam's backing and the agreement of Treasurer Cairns, Connor embarked on a politically perilous experiment.

The Whitlam government initially sought to access petrodollar loans through established financial channels. In November 1974 a petrodollar loan was raised for the AIDC in New York and the government made further overtures to New York and European financial institutions that were likely to play a large role in recycling windfall Middle Eastern oil profits (*Aust* 13 November 1974; *AFR*, *Aust* 14 November 1974).[40] Connor and Cairns, in stark contrast to the Treasury, came to the view that petrodollar loans might be secured on better terms through tapping networks of Middle Eastern business and political identities.[41] In December 1974 the Whitlam Cabinet took the unprecedented step of authorising Connor, rather than

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[39] The 1975 ALP national conference endorsed, without opposition and with considerable enthusiasm, '...the minerals and energy policy embodied in the 1972 and 1974 Labor policy speeches and now being implemented so ably by Rex Connor, and urges that no departure from the said policy be tolerated' (cited in Whitlam 1985:254).

[40] In its first flush of success, OPEC reinforced the conviction of economic nationalists in resource-rich economies that the free play of international market forces did not maximise economic returns to the nation.

[41] This view was not without some broader support, *The Australian* editorialising that 'It would be far simpler, of course, if Dr Cairns could go direct to our new-found friend, the Shah of Iran, and persuade him to take up a multi-million dollar investment in Australia. With the international monetary system in such chaos it might eventually come to that. But for the time being the Arabs, still placing their trust in the expertise of Western investment capitalists, are using the creaky system we all know' (13 November 1974). In September 1974 the Shah of Iran had visited Australia and discussions had taken place on cooperating in the trade and development of their respective energy, minerals and agricultural resources. In March 1975 Treasurer Cairns and agriculture minister Senator Ken Wreidt visited Iran, Saudi Arabia, Kuwait and Bahrain for similar talks (Whitlam 1979:46).

the Treasurer, to raise a large petrodollar loan up to the astonishing sum of $4 billion — later reduced to $2 billion.[42] At the same time Connor and Cairns came to an understanding with little known Pakistani businessman Mr Tirath Khemlani that he should seek a loan on Australia's behalf.[43] The precise timing of the authorisations, the sums involved, and the reasons for the failure of the loan raising were matters of great contention and many aspects still remain unclear (Kelly 1976:155–77; Whitlam 1979:45–53). In March 1975 Treasurer Cairns also issued instructions to another businessman to seek loans on Australia's behalf, also against the explicit advice of Treasury (Kelly 1976:169–77). The Whitlam government did not consult the states through the Loan Council mechanism, as was established precedent, although it did get formal executive council approval for Connor's arrangement.[44] Ultimately neither contact was able to arrange the loans at the promised terms, as Treasury had predicted but revelations of the government's unorthodox actions were to be politically devastating for it (Kelly 1976:170–71).

Connor, Cairns and Whitlam had shrouded the loan raising efforts in secrecy, only reluctantly conceding them in Parliament under intense scrutiny from the Opposition (*Age* 14 February 1975; *Aust* 24 April 1975).[45] Shadow Treasurer Phillip Lynch benefited from a number of leaks by Treasury officers horrified at the government's actions and generally disaffected by the complete marginalisation of the Department (*Age* 14 February 1975). Whitlam was later scathing of supposed treachery on the part of Treasury and claimed this to be a major reason why unorthodox borrowing channels had to be explored in the first place (Whitlam 1979:46; Gruen 1976:27; Whitwell 1986:214–15). The government's refusal to

[42] In hindsight the Whitlam government's pursuit of huge foreign loans appears consistent with the sentiments expressed by Whitlam in the famous 1972 *It's Time* campaign speech. He declared that '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 ordinary Australia and ordinary Australians to take part in the ownership, development and use of Australian industries and resources.' (1985:229)

[43] According to Whitlam's own account, Adelaide businessman Jerry Karidis approached then Clyde Cameron, about an associate of Middle Eastern oil interests who could supply a large loan to the government at 8 per cent interest (Whitlam 1979:47). Cairns, Connor and the Secretary of the Department of Mines and Energy, Sir Lenox Hewitt, met with Karidis who then put the government in contact with Mr Tirath Khemlani.

[44] Governor General Sir John Kerr was to later suggest that the Prime Minister had misled him. In reply Whitlam claimed Sir John had been an enthusiastic supporter of the loan raising effort and its objectives (1979:48–53).

make details of its plans and loan raising mechanism public contributed to a perception of malfeasance; allowing Opposition leader Malcolm Fraser to allege '...the most serious possibility of a deliberate conspiracy to deceive and to defraud...' (cited in Whitlam 1979:58). Cairns and Connor were both ultimately forced from their senior portfolios by Whitlam but only because they both deceived him and the Parliament when they vowed that loan raising efforts had been ceased (Kelly 1976:175–77; Whitlam 1979, 38).[46]

Given the stature of both ministers in the Labor government their fall was a body blow to both Labor's already poor electoral prospects and ALP morale (Kelly 1976:168). The irony of the loans affair is that it represented one of the most profound divergences from accepted good government in federal political history, and yet the protagonists were driven by a vision of the public interest. That vision was certainly ill conceived, it may almost have entailed conspiracy, but it was never a mask for private interest politics. Yet the loans affair allowed the Opposition, revitalised under Malcolm Fraser's leadership, to claim a certain moral authority in endeavouring to force the government to another election through deferring supply in the Senate.[47] The Whitlam government had brought state developmentalism as a means to supplanting FDI into complete ill repute. However the aspiration for greater Australian ownership and control of industries remained a popular one in the electorate. The clearest proof of this was the Opposition's further embrace of economic nationalism as it sensed an election looming.

In October 1975, just a month before the dismissal of the Whitlam government, the Coalition released a new foreign investment policy document. It bore a close resemblance to the more moderate policy statement that Labor had issued several

[45] Lynch had spoken close to the truth when he said, 'Mr Connor has a manic and obsessive pre-occupation with secrecy in all that he does' (*Age* 14 February 1975).
[46] In an editorial *The Australian Financial Review* concluded in April 1976, too simplistically, that: 'The Whitlam government was brought down through its folly in trying to raise $4,000 million overseas for energy development projects in Australia to be financed by the public sector' (*AFR* 5 April 1976).
[47] The political fallout from the loans affair continued for two years because of a private prosecution of senior Whitlam ministers that was launched by a Liberal Party supporter. However that ultimately led to the resignation of Fraser government Attorney-General Robert Ellicott because he disagreed with Fraser's desire to put an end to the issue. For Whitlam's account of these events see Whitlam (1979:137–52).

weeks before (*Aust*, *AFR* 14 October 1975). It criticised the Whitlam government's gross mismanagement of FDI policy and the resulting business uncertainly and decline in investment activity. Yet it did not promise a return to the more liberal policy settings of even the closing days of the McMahon government. Instead the Coalition promised a continuation of the recent guidelines promoting an equal partnership between domestic and foreign capital. The existing advisory committee would be revamped into a Foreign Investment Review Board, constituted by esteemed private sector figures and served by the bureaucracy, and a Coalition government would, according to the document, publish its deliberations (*Aust* 14 October 1975). A notable area of difference from the government was in the Coalition's plan to enact a requirement that a majority of company directors be Australians — a requirement appealing to its business community constituency (*Age* 14 October 1975). The Opposition also promised to promote greater information disclosure by foreign firms and better monitoring of transfer pricing and MNE practices of concern. *The Australian* judged that the Coalition's new FDI document showed:

> ...a clearly expressed commitment to Australian nationalism and independence, and an implied criticism of the policies of past Liberal-Country Party governments. This is all to the good; it shows that the Opposition has used its time in opposition to do some real thinking instead of simply fretting for the power that some of them seemed to believe was theirs by right. In the long run, the Australian economy can only benefit from such a period of fundamental re-examination of policies and priorities (*AFR* 14 October 1975).

The politics of FDI policy was reaching a point of near equilibrium.

Conclusions

Had the Whitlam government managed the implementation of economic nationalist policies better, and had they been limited to imposing local equity and performance requirements on investors, then FDI policy might well have become a political strength for them. However, the government's endeavours to replace FDI with state developmentalism alienated influential financial sector interests. The government's plan to utilise a revamped AIDC for expanding the role of the state in the economy also deeply disconcerted local businesses in other sectors that, until then, might

have been indifferent to the government's economic nationalism. An ironic consequence of the government's clumsy pursuit of its public interest economic nationalist vision was the fostering of closer links between domestic and foreign firms in response. While public opinion remained rather economic nationalist throughout Labor's time in office, doubts grew about whether the economic cost of Labor's vision might be too great. Private interests and neutral observers alike promoted these concerns. The potential costs appeared all the greater because of the poor implementation by the government of its economic nationalist policies. When the Coalition returned to office in December 1975 it would concentrate on better managing the machinery of economic nationalism that it inherited from the Whitlam government rather than seeking to return to the open door policy it had maintained in the past. The following chapter examines why.

6 Equal partners, 1975-82

On return to office the Coalition made a decisive break with Labor's state developmentalism, but not its economic nationalism. The Fraser government's FDI policy was defined by an aspiration for equal partnership between foreign and domestic capital centred on ownership rather than control. The Fraser period saw the consolidation of a distinct model of FDI regulation that entailed a review mechanism with formal guidelines on the percentage of foreign equity to be held in ventures. Unlike many countries, little effort was made to impose performance requirements on foreign investors. The implementation of local equity guidelines was always tempered by the Coalition's 'private developmentalism'; the resources sector providing the main hope for strong economic growth. Foreign equity guidelines were flexibly administered until 1980 because the national economy remained weak. From 1980 a promised resources boom was associated with a stricter implementation of existing policy.

The Fraser government's preference for enforcing an equal partnership on foreign direct investors was a function of several interdependent factors. Many voters doubted the nation was maximising returns on its mineral resources. This view was also held within sections of the policy community, the media, and the government itself. This and the political entrepreneurialism of the economic nationalist Labor opposition reinforced community concerns. The Federal government could not directly intervene in the states' administration of resources property rights, and declined to enact a federal resource rent tax. Restrictions on foreign ownership, then, represented a second best solution to a perceived loss of national rents abroad. Although seemingly a public interest policy, domestic mining interests were also active in demanding such an approach from the government rather than the first best solution of a resource rent tax. Such rent-seeking was clearly evidenced in the dispute over a naturalisation mechanism for foreign firms in 1978. The Fraser government's policy of an equal partnership between foreign and domestic capital was borne of resources sector politics, but applied across most sectors of the

economy, albeit in a pragmatic fashion. The discretionary administrative instrument of the Foreign Investment Review Board provided the needed flexibility, and would prove to be a valuable mechanism for managing the complex politics of FDI.

This chapter first examines how the Fraser government reaffirmed the basic FDI policy settings inherited from the Whitlam government, actually tightening policy in several areas. It then notes the tension between this politically pragmatic position and the government's impulse to private developmentalism. The major FDI policy initiative taken during the life of the Fraser government, the naturalisation provisions for foreign firms, is then examined. This decision reveals the government's struggle to strike a balance between economic nationalism and developmentalism, and the extent to which it was subjected to private interest lobbying on FDI policy. The chapter then looks at how growing inflow of FDI into mining, helping to drive a 'resources boom', saw policy implemented in a more restrictive manner. Finally, the tentative liberalisation of foreign investment in banking in the last term of the Fraser government is noted for what it says about the ideas and interests that determined the feasibility frontier of FDI policy.

Affirming restrictive policy

At the election of the Fraser government, Bell (1976:44) wrote,

> Present Australian government attitudes to foreign investment, indeed present Australian political attitudes to foreign investment, are essentially a compromise between two traditionally divergent pressures, which have for the time being at least converged to produce a state of near equilibrium. From a bipartisan start a quarter of a century ago, the policies on foreign investment of the conservative right and the socialist left have gone their separate ways only to come back full circle to bipartisanship, or virtually so.

This is unsurprising for an election period, being consistent with theoretical understandings of the nature of policy positioning in two party competitions (Tullock 1967:50–61). Labor had recognised belatedly in office that its policy mix was too heavily weighted in favour of economic nationalism at the expense of economic growth. In seeking to win office the Coalition acknowledged the

continued strength of economic nationalism in the electorate. As a pragmatic move it was similar to the McMahon government's creation of the Foreign Takeovers Act in the run-up to the 1972 election, although much more restrictive. Foreign investors hoped that more liberal policy would be forthcoming once the Coalition was settled back into office. They were to be disappointed.

Treasurer Phillip Lynch made an extensive FDI policy statement to Parliament on April 1 1976 that provided the foundation for FDI policy throughout the seven years of the Coalition's rule (Lynch 1976).[1] While chastising the Whitlam government for having scared off valuable FDI, he also broke decisively with the Menzies legacy.

> In past decades of high immigration, and rapid industrial development, there was a general presumption that all foreign investment should be welcomed. This is no longer the case. The Australian community quite properly demands that government today take a more discriminating and mature attitude towards foreign investment...Foreign capital is a means to material advancement, but material advancement is not our only aim. The government recognises that pursuit of policies on ownership and control involves trading some measure of material advancement for a more satisfactory overall arrangement (Lynch 1976:5)

While a profound concession to economic nationalism, the Fraser government did offer a forthright rejection of Labor's state developmentalism.[2] The main changes to the Whitlam government's 1975 FDI guidelines were more restrictive. The 50 per cent Australian equity rule that applied to the mining sector was extended to the pastoral, agricultural, forestry and fishing sectors. The only aspect of FDI policy more liberal than the Whitlam government's was a 75 per cent local equity requirement for new uranium projects rather than the old 100 per cent.[3] This nonetheless reflected a back-down from the commitment whilst in opposition to treat uranium like any other mining resource and impose a 50 per cent rule. While

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[1] The seriousness with which the Fraser government took the politics of FDI in its early period of government is evidenced by the Prime Minister's insistence upon being apprised of foreign investment decisions (Kelly, *NT* 25–30 October 1976).

[2] Lynch said that the government would '...welcome proposals to increase the level of Australian participation in existing foreign-owned companies but we will avoid the costly option of repurchasing such companies' (Lynch 1976:5). The government left the AIDC alone, its legislative foundation being unchanged from its establishment by the previous Coalition government.

an equal partnership between domestic and foreign firms was the central object of policy, the government indicated it did not want investments to falter for want of a local partner and so would implement the 50 per cent rule flexibly. Media responses to the government's policy statement were generally quite favourable.[4] Although foreign business interests would have liked to see a more liberal policy they were generally relieved by the presence of the Coalition government.[5] There was, however, some consternation amongst domestic mining interests reliant upon foreign partners for expertise and financing, especially for uranium and oil exploration.[6]

Having won a landslide victory, why did the Fraser government affirm an FDI policy so at odds with the open door regime the Coalition had presided over for so long? The logic of median voter models certainly suggests that, unless the policy preferences of voters and interest groups change, compromise policy positions will not be readily abandoned. Economic nationalist sentiment in the electorate remained strong and Labor took up a slightly more illiberal policy position than it had under Hayden's treasurership. Secondly, as shall be seen below, private interest demands for local equity requirements continued. Both of these factors made affirmation of a somewhat restrictive policy more politically attractive to the Fraser government.[7] At

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[3] In order to allow free market transactions of small share parcels in uranium mining ventures, portfolio shareholdings of up to 10 per cent were made exempt from review (Treasurer, *Press Release*, 28 May 1976).

[4] Those newspapers more inclined to liberalism, such as the *Sydney Morning Herald* and those in the resource rich states, welcomed the possibility for approval of projects with less than 50 per cent Australian equity if no local partner could be found and that FIRB's advice would be informed by Treasury and private sector figures (*WA* 6 April 1976). Perhaps the most surprising media response was that of *The Australian Financial Review*. While its editorialist welcomed the Fraser government's policy statement, it urged the Coalition to back away from its 1975 commitment that the AIDC would not be allowed to initiate projects or be a long-term investor. The newspaper argued that a degree of public sector involvement was necessary to help realise the valid goal of maximising Australian ownership and control of mineral projects (*AFR* 5 April 1976).

[5] The senior managing director of Nippon Steel, for instance, publicly applauded the FDI guidelines. (*Aust*, 26 May 1976).

[6] The chief of the Australian Petroleum Exploration Association (APEA) said that the industry needed '...a massive influx of overseas funds, regardless of what share that money buys of search operations...We should skin the Yanks for every dollar they are willing to provide' (*Aust* 5 April 1976). The AMIC was particularly critical of the Coalition's back-flip on uranium liberalisation (*CT* 2 April 1976).

[7] Many observers have attributed the policy caution of the Fraser government to the personality of the Prime Minister and the controversial manner of its election to office (Ayres 1987:303–27). Much less attention has been given to the complex private interest constituencies that the Fraser government had to manage.

the same time, the Fraser government was only too aware of a counter-imperative for a liberal FDI policy. Unlike the booming economy that the McMahon government presided over when it gave into public and private interest calls for controls on foreign takeovers, the Fraser government was confronted by a stagnant economy. Conscious of this, senior ministers again emphasised, at home and abroad, that policy would be flexibly administered.

However, this soon led to growing contention over whether the government was really committed to its stated FDI policy. Deputy Prime Minister Doug Anthony first provoked media and Opposition criticism when he suggested that up to 100 per cent foreign ownership for minerals projects would be allowed in some cases (*Sun Tel* 6 May 1976). While in Japan in June 1976, Fraser emphasised the flexibility of the FDI regime and likewise was criticised (*Sun Tel*, *Age* 20 June 1976). A similar response followed from Treasurer Lynch's statements in Britain (*Aust* 25 June 1976), and from Primary Industries Minister Ian Sinclair's suggestion that foreign investors ought to get in fast while the economy was still in recession. The government, he said, would not always be so willing to apply foreign investment policy so flexibly (*AFR* 28 June 1976). The government's formal accession to the OECD Declaration on International Investment and Multinational Enterprises was also at odds with its formal FDI policy. While the Australian government notified a range of exemptions to the national interest principle, it was certainly not flagging future liberalisation of FDI policy — as the Declaration implied (Treasurer, *Press Release no.114*; Flint 1985:147–48; Maiden *AFR* 23 June 1976).[8] By late July 1976 there was so much confusion on how committed the government was to local equity guidelines that it was required to issue a formal clarifying statement (*Aust*, *AFR*, *DT* 1 August 1976).[9]

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[8] Legally enforceable rights and duties were not created by the Treasurer's statement of June 1976. To make them so international treaties require legislating in the Commonwealth parliament, and not merely of a declaration (Flint 1985:146–47).

[9] Nonetheless soon after Deputy Prime Minister Doug Anthony boasted before a group of European business representatives that 'already some projects have been approved where there is less than 50 per cent Australian equity. One substantial case of development recently approved is a new nickel project with 22 per cent Australian equity' (*Aust* 17 August 1976).

The administrative architecture of FDI controls that the Fraser government created in accordance with its policy commitment of October 1975, while an improvement upon those that existed under the Whitlam government, inevitably contributed to uncertainty about policy settings. The Foreign Investment Review Board (FIRB) was merely advisory in nature; discretionary authority over FDI proposals ultimately resting with the Treasurer. Soon after coming to office Treasurer Lynch flagged amendments to the *Foreign Takeovers Act* to specify clearly the 'national interest' criteria against which investment proposals would be judged, the creation of a public register of all notified investments, and greater transparency in the review process (Ackland, *AFR* 18 December 1975). The government ultimately did none of those things, ostensibly having been convinced by Treasury that the national interest defied simple definition and that commercial-in-confidence considerations prevented more openness (McGuiness, *NT* 7–12 June 1976; *AFR* 23 August 1988). In fact the lack of openness was quite consistent with the 'culture' of Federal Treasury (Whitwell 1986). Non-transparency soon resulted in widespread speculation about how FDI policy was really being implemented. Constituencies for a liberal policy were easily alarmed by anecdotal accounts of inconsistent policy implementation, and by suggestions that many investments were being rejected at the 'informal dialogue' stage conducted by Treasury officials serving on the FIRB (Ackland, *AFR* 23 July 1976; Kelly, *NT* 25–30 October 1976). Constituencies for a restrictive policy, on the other hand, worried about the low official rate of rejections and about the Treasurer's boast that the government had deliberately given the FIRB a 'free enterprise flavour' (Lynch 1976:6).[10] The government was ultimately prepared to bear the inevitable contention issuing from the non-transparent and discretionary FDI review process. This was because it might provide a mechanism for reconciling the conflicting political imperatives on FDI policy. Formal guidelines that required foreign investors to find local partners might appease nationalist sentiment in the community, while also serving the private interests of certain domestic Coalition constituencies. On the other hand, the discretionary

[10] The Fraser government also found that while appointing prominent business identities to the FIRB gave the process more credibility in business circles, they were more apt to make public remarks on the conduct of FDI policy. On a number of occasions Sir Bede Callaghan and Sir William Pettingell flagged more liberal policy than the government was formally committed to (*AFR*, 5 11 August 1976; *Age* 7 August 1980). This inevitably made FDI policy more contentious.

aspect of FDI regulation allowed the government to pursue a more liberal policy if it wished to do so.

Private developmentalism

Much of the public confusion about FDI policy stemmed from the government's deliberate strategy of varying its message in accordance with the policy preferences of particular audiences and its use of non-transparent discretionary controls. Yet the Fraser government's uncertainty about its own FDI policy preferences was also a factor. This was an endemic problem rather than an FDI-specific one. Former Fraser government staffer Gerard Henderson (1994:263) judges that: 'The essential problem with the Fraser government in its first two terms (extending over five years) is that it did not really know what its purpose was — apart from turning away from the excesses of its predecessor.' The Prime Minister and his senior ministers were most certainly opposed to the clumsy state developmentalism of the Whitlam government. They were inclined instead to a private developmentalism that, for the Prime Minister at least, was tinged with economic nationalism (Loveday 1977, 1982). This was a function of two interrelated forces: the personal ideological proclivities of Fraser (and many of his senior ministers) and the private interests of core Coalition business constituencies. In a sympathetic analysis of Fraser's views on economic policy, Jolley (1977:233) noted that the Prime Minister had 'never followed a rigid laissez-faire line on government intervention in the economy', supporting 'the use of direct controls to achieve the goal of development'. Moreover, Jolley saw in Fraser a belief that: 'The mainspring of national development, the key to the development of wealth, lies in the development of the primary, manufacturing and mining industries' (1977:235).[11] The heavy burden of tariff protection on the Australian economy went largely unchallenged by the Fraser government, as did much other inefficient economic regulation (Glezer 1982; Anderson and Garnaut 1987; Pomfret 1985). Changes in the structure of private interests close to the Liberal Party strengthened the economic nationalist element. A domestic mining industry constituency that benefited from some FDI controls had

[11] Fraser's personal background helps to account for this conviction, and for his close relationship with senior National Party leaders (Ayres 1987).

emerged alongside the domestic manufacturing interests who hoped that FDI regulation would shield them from new competition or hostile foreign takeover.[12]

At the same time the Fraser government faced strong political pressures to deliver economy recovery, both from its immediate business constituencies and from the broader electorate. In the first three years of office the Fraser government was confronted by the continuing international and domestic legacy of the Whitlam government's response to the first oil shock.[13] In late 1977 government strategists feared the economy might deteriorate further and so decided to go to an early election, taking advantage of Gough Whitlam's continued leadership of the Labor Opposition (Ayres 1987:326–27). During the campaign the Coalition had made much of an ostensibly imminent minerals boom; one newspaper's headlines declaring 'Coalition's El Dorado' (*AFR* 29 November 1977). Recognising the resilience of perceptions in the electorate that Australia did not reap the full benefits of FDI, the Fraser government announced a new 'branch profits tax' that was really the closing up of a loophole in the withholding tax system (*AFR*, *CT* 2 November 1977). Having won a handsome victory, the Fraser government then placed great store on the realisation of an investment-led boom in the minerals sector as an engine of economic growth (*AFR* 26 June 1978).[14]

The Fraser government's increasing preoccupation with the resources sector as a potential engine of economic growth had three direct consequences for FDI policy:

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[12] The management and employees of Provincial Traders, for instance, lobbied Liberal MPs in an effort to stave off a takeover by George Weston Foods Ltd (Robins, *AFR* 1 September 1977). They feared job losses under Weston's proposed capital program (*AFR* 6 September 1977). Domestic bidders for the tea and coffee merchant Bushells called upon the Federal government to block a highly priced bid by the Brooke Bond group, of the United Kingdom, for the firm (Short, *AFR* 22 November 1978; Thomas, *Age* 7 September 1978). In response to such demands, the interests of vendors in a liberal FDI policy were repeatedly advocated by the Australian Shareholders' Association — as in the Bushells case (*Age* 7 September 1978). Instances of private interest demands in the mining industry will be examined below.

[13] The balance of payments deficit blew-out from 1.9 per cent of GDP in 1975–76 to 3.6 per cent in 1978–79 because of a weak terms of trade, unemployment rose to a then unprecedented 6.2 per cent in 1977–78, the economic growth rate fell to less than 1 per cent in the same financial year, while inflation remained high (Dyster and Meredith 1990:270–72).

[14] Although the Fraser government was to be later mocked for its repeated claims about a resources boom, and criticised for the inflationary impact that such pronouncements had on centralised wage negotiations, the government appeared to be vindicated by events in late 1978 and 1979 (Ayres 1987:354). 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 1979–80 (Dyster and Meredith 1990:270, 272).

increased marketing of Australia as an investment destination, an embarrassing back down from plans for a resources rent tax, and a cautious liberalisation of FDI policy. The Fraser government's initial international investment promotion efforts had been aimed at reassuring established investors following the uncertainties of the Whitlam period (*AFR* 18 June 1976; *Aust* 25 June 1976). After its re-election at the 1977 election the Fraser government redoubled its inward investment promotion efforts, concentrating almost entirely upon the resources sector (Toohey, *AFR* 20 July 1979; Anderson 1998:2–3). Particular attention was given to attracting further Japanese FDI into minerals processing and upgrading facilities, and to the promotion of long-term contracts for new projects (Myer 1978). The biennial Australia-Japan Ministerial Committee meetings provided a ready mechanism for high-level dissemination of Australia's FDI policy message to Japan, but the government also reinforced this with additional official visits (*CT* 24 March 1978; *AFR, Aust* 23 June 1978).[15] The government's desire to grow inward FDI was nonetheless hampered by the absence of a supportive bureaucratic infrastructure.[16]

The government's fixation with the immediate growth prospects of the minerals sector, its concern about negative foreign investor sentiment, and its susceptibility to lobbying by mining interests and Coalition state governments, were all starkly revealed by its resource rents tax decision. The resource rent tax concept found considerable support in academic circles and within the Federal bureaucracy as it was perceived to be a more efficient tax instrument than those used by the state

[15] Rix (1999:83) noted that the January 1977 Australia-Japan Ministerial Conference was characterised by tough demands from the Australian side on a range of trade issues, and a certain atmosphere of mistrust. However, this changed significantly during the next meeting in 1978.

[16] Australian trade commissioners abroad, for instance, were actively discouraged from dealing with potential foreign investors following a 'turf war' between the Department of Overseas Trade and the Treasury. An operations circular from the Department of Overseas Trade to the trade commissioners (dated 24 January 1977) stated that: 'All inquiries should be dealt with directly by the Foreign Investment Review Board, c/o the Treasury. Trade commissioners should not act as intermediaries between the potential investor and the FIRB. It is not appropriate for a trade commissioner to play a prominent part in actively seeking out investment inquiries'. (Cited in Phillips, *Aust* 14 December 1979).

governments.[17] Several senior ministers, including Fraser, had leant public support to the resource rents concept and the government had flagged the introduction of such a tax for the oil and uranium sectors in its 1977 budget. With the Federal Election behind it, and confronted by intense resistance from the state governments and mining interests, the Fraser government backed away from a resources rent tax. In doing so it played squarely into the hands of critics of FDI in the resources sector, in several ways.

Firstly, the Prime Minister explicitly said that the tax had been abandoned because of the need to be sensitive to foreign investor opinion (*Aust*, *AFR* 4 July 1978; Drysdale, Garnaut and Smith 1980:19). Secondly, initial government support for a resources tax had bestowed credibility upon critics' claims that the Australian community was not receiving a fair return from public mineral resources. Thirdly, the explicit raising of foreign investor confidence as a rationale for the back down implicated foreign firms in the 'rip-off' and made the government look as if it was not able to 'stand up to' powerful multinational firms. Media responses to the back down were generally scathing. The *Australian Financial Review*, for instance, editorialised that: 'By abandoning its resource tax plan, the government is signalling that it is prepared to pay any price at all for foreign investment' (*AFR* 4 July 1978). Ironically, the most fundamental problem with the resource rent tax decision was that FDI restrictions were left only as a 'second best' solution if the Federal government perceived that the state governments were not maximising the return on Australian natural resources (Anderson 1983:146–47).[18] It was a bad position from which to politically sell a new initiative that substantially liberalised FDI policy for select foreign firms.

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[17] Treasury had long harboured concerns about the efficacy of state taxation of mineral resource industries (Treasury 1972). Support across departments for a resource rent tax (RRT) was evidenced in a 1980 report by the Interdepartmental Committee on Economic Strategy (*H. R. Hansard* 25 February 1982:696). For a sample of academic and other opinion for and against the RRT concept see Anderson (1983:144–48), Flint (1977), Garnaut and Clunies Ross (1979), Hawke (1980:176), Smith (1984) and Ball and Bowers (1984). On state government measures see Barnett (1979:309–11) and Stevenson (1977). State governments in the resource rich states strongly resisted a RRT as they feared losing mining revenues to the Commonwealth, as they also resisted controls on FDI (Drysdale 1977:14–17). See, for instance, the statement by Queensland Mines and Energy Minister, Camm (1980:14–15).

[18] This was precisely the argument of the opposition resources spokesman, Paul Keating (*SMH* 15 April 1981).

Naturalisation provisions

The single most notable FDI policy initiative of the Fraser years was the implementation of new 'naturalisation provisions' for foreign investors in mid-1978 (Bryan 1989:2; Sexton and Adamovich 1983:134–35; Anderson 1983:133–37). The government was drawn to the naturalisation provisions by its hope that a strong investment-driven activity in the resources sector might lift the Australian economy out the doldrums. This required it to contend with the conflicting interests within the mining industry that existing FDI policy promoted. The policy preferences of firms on the naturalisation provisions were a direct function of the likely financial impact of the changes on them. The issue also revealed that although local equity requirements in the mining industry were only a few years old, they had already generated a constituency that fought for their preservation. This was because the 50/50 local equity guideline was, as Anderson (1983:149) stated, 'essentially a tax levied on foreign investors' because it required them to sell a half share in a project to local investors in a heavily constrained market. That 'tax' did not flow to the Australian community at large, as it would in the case of resource rent tax, but instead to the local partners and its shareholders.

Throughout 1977 the Federal government's FDI policy had frustrated the expansion plans of mining giant Conzinc Riotinto Australia (CRA). Although established in Australia since the turn of the century, CRA remained controlled by the British firm Rio Tinto-Zinc (RTZ) (Harvey 1981). CRA maintained 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 (*W. Aust* 3–4 June 1978). Nevertheless, CRA faced stiff resistance to its proposals to take over Australian miner Coal and Allied Industries (CAIL)[19] and to take a controlling stake in the huge Hail Creek colliery in Queensland. The Federal Opposition was critical of CRA's bid for Coal and Allied Industries. The Wran Labor government in New South Wales, still influenced by strongly economic

[19] The bid was actually a joint-venture one with the firm Howard Smith.

nationalist ideas, threatened to do everything in its power to frustrate the takeover and the company.[20]

Although the Wran government's position was troubling for CRA, of even greater immediate concern was the emergence of an influential business constituency pressuring the Federal government to block CRA's bid for CAIL. Australian mining group Peko-Wallsend sensed a bargain national sentiment could be sufficiently played upon to secure a blocking of the CRA bid (Short, *AFR* 4 October 1977).[21] CRA ultimately secured Federal government approval for the CAIL bid only by promising to conduct a full share swap for CAIL; effectively 'Australianising' its own share register by some 3 per cent (Byrnes, *AFR* 4 September 1977). The issue came before Cabinet, reflecting the government's recognition both of the intensity of feeling that CRA had provoked, and of CRA's own political clout. CRA's experience with CAIL focused it upon limited localisation of its share register as a strategy for lifting the constraints of FDI policy.

CRA was confronted by an even stronger local business rival in its efforts to lobby the government for permission to take a dominant share of the giant Hail Creek coal project. CRA's general policy objective was an ambitious one: an exemption from the government's recently affirmed 50 per cent local equity requirement, and for the largest planned colliery in the country. CRA's vehicle for securing control of the Hail Creek project would be a takeover of the Australian mining firm AAR, for which it sought approval under the *Foreign Takeovers Act*. In October 1977 the government refused CRA's application, despite CRA's proposal to 'naturalise' the firm over time if granted approval. The government's ostensible concern was that CRA had not proposed a clear timetable for naturalisation (Short, *AFR* 24 March

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[20] The NSW Minister for Mines and Energy at the time, Pat Hills, was much influenced by Rex Connor's economic nationalism and resolved to use the State's control of mining rights to enforce a 51 per cent Australian equity requirement (*AFR* 1, 30 August 1977, 4 September 1977). This amounted to the first instance of a state endeavouring to maintain its own restrictions on FDI. Complex constitutional questions arose that were never ultimately tested. Although the Wran government produced its own FDI guidelines the Cabinet eventually reigned in Hills and foreign investors were ultimately not hampered (Frith, *Aust* 1 June 1978; AFR 15 July 1978).

[21] The government's position was not made an easier by CRA's brazen move to buy large parcels of CAIL shares in the market before commencing discussions with regulators (Short, *AFR* 4 October 77).

1978). CRA executives, and many industry observers, doubted this was the whole story. CSR, a large localised firm of British origins, had actively lobbied the Federal government to reject CRA's bid for AAR. When the government did so, CSR successfully bid for AAR itself (Frith, *Aust* 1 June 1978). An established rivalry between CRA and CSR was gravely exacerbated and came to exemplify the private interest battle over the government's subsequent plans for new naturalisation provisions.

In part through this experience, CRA adopted the view that the government would not take the political risk of substantial general liberalisation of local equity requirements for mining. CRA then started lobbying the government for a more flexible regime that would allow the company to be declared 'Australian' while the 50/50 guidelines remained intact. Although its naturalisation proposals to the government had had only mixed results, this remained the most promising way of lifting the regulatory limits on CRA's growth. The firm certainly stood to benefit immediately from securing naturalised status as it held a 52.2 per cent stake in the Ashton Downs diamond discovery in Western Australia. The only Australian equity holder had a paltry 5 per cent and CRA would have had to cooperate in raising total Australian equity to 50 per cent under the existing policy (*Aust* 6 June 1978). In early 1978 CRA made another formal promise to the Federal government to naturalise its shareholding, the document being handed to the Prime Minister directly by the chairman of its British parent (Short, *AFR* 24 March 1978). CRA was not alone in calling for more generous naturalisation provisions. Other prominent foreign resources firms, such as MIM and Consolidated Gold Fields, also had substantial minority Australian equity shareholders and good connections with both the Coalition and the Treasury (Chanticleer, *AFR* 1 June 1978). The argument for new naturalisation provisions was also strengthened by the government's established administration of the FDI guidelines. The FIRB was permitting foreign firms to make investments on the understanding that equity would later be sold down to local investors.[22] On this basis, there was strong support for the

[22] A good example was provided by Tokyo Corp., which was allowed to take 100 per cent equity in the Yanchep Sun City resort development in Western Australia on condition it sold down to at least 50 per cent as soon as practicable (*CT* 15 June 1978).

naturalisation provisions within the foreign investment section of Treasury. At the same time, officials were apparently antagonised by CRA's repeated use of political, rather than administrative, channels to communicate their policy preferences (Beeby, *Aust* 6 June 1978; *W. Aust* 3–4 June 1978).[23]

When Treasurer Howard ultimately announced the government's plan for new naturalisation provisions he was open about the fact that the idea had emanated from industry players (*AFR* 1 June 1978). While his candid remark gave the impression that the government was doing CRA a favour, the politics of the private interests were, in fact, rather messy for the Coalition. The motivation for the naturalisation provisions was principally public interested, even if mending fences with CRA was to the government's benefit. The major driver of the naturalisation decision was the Prime Minister's hope that more FDI might kick-start a stalled economy.[24] In March 1978 Fraser had taken the unusual step of initiating a hasty review of barriers to further foreign investment, in the resources sector in particular, rather than leaving the task to Treasurer Howard who was the responsible minister. This was widely understood within the government as being driven by Fraser's determination to have good news for potential foreign investors on an upcoming overseas trip (Short, *AFR* 24 March 1978).[25] Strong resistance from mining interests with local status was to frustrate that plan but not the realisation of the naturalisation provisions.

Treasurer Howard brought the major domestic and foreign mining, and some manufacturing, interests together at several meetings, where the divergence of interests was stark.[26] CSR chief Gordon Jackson led the opposition to the proposed

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[23] There was also strong support within Treasury for leaving naturalisation timetables to be worked out on a case-by-case basis between the applicant and the FIRB (Beeby, *Aust* 6 June 1978).

[24] The naturalisation provisions were coupled with further liberalisation of access to foreign debt, benefiting both domestic and foreign firms. The Fraser government hoped this would bring a substantial increase in investment to the resources sector (*AFR* 9 June 1978).

[25] Discussions about the naturalisation provisions with key industry figures, and within the government, were continuing frantically the day before the Prime Minister left Australia for London and New York (Short, *AFR* 21 May 1978). While abroad he could only hint at policy changes, and Treasurer Howard was able to take control of the issue in his absence.

[26] While Treasurer Howard refused to reveal publicly who attended the meetings, and was criticised by the Opposition as a consequence, details of the meetings soon leaked to the media. The most controversial meeting, held in Canberra, was attended by senior executives from insurance and

naturalisation provisions, with the strong support of BHP, Weste. Mining Corporation (WMC) and Peko-Wallsend. Media reports suggested that a heated exchange occurred between Jackson and CRA boss Sir Roderick Carnegie at a Canberra meeting with the Treasurer and Deputy Prime Minister (*W. Aust* 3–4 June 1978).[27] Jackson argued to the government that the proposed change would run counter to community sentiment on foreign investment policy, risking a backlash that could directly scare off foreign investors and lead to pressures for less rather than more liberal policy (Chanticleer, *AFR* 1 June 1978).[28]

Jackon's concern lay not with defending against foreign investors from an economic nationalist perspective so much as with the rents that his firm secured from the existing 50/50 equity policy. As a prominent business analyst noted at the time,

> Naturalised foreigners will be spared the bureaucratic entanglement of the Foreign Investment Review Board and fully Australian companies such as CSR, BHP and Peko-Wallsend will lose 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. (McCrann, *Age* 1 June 1978).

CRA, Consolidated Goldfields and MIM stood to benefit greatly from naturalisation and so fought both for easy access to the status and wide-ranging entitlements. Stockbroking firms were in favour of the naturalisation provisions as they promised to increase the number and volume of share offerings to local investors. Life

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stockbroking firms as well as from BHP, CRA, CSR, Amatil, Peko-Wallsend, Western Mining Corporation and ACI, amongst others (Frith, *Aust* 1 June 1978). Doug Anthony, Deputy P[illegible]e Minister and Trade, Minerals and Energy Minister also attended (*AFR* 21, 22 May 1978; Frith, *Aust* 1 June 1978; *AFR* 1 June 1978).

[27] Ironically, on[illegible] CRA had secured naturalised status, Chairman Sir Roderick Carnegie was not averse to warning against the long-term balance of payments problems associated with foreign investment. A notable instance was in relation to the role of petroleum giants in Australian resources projects [illegible] where CRA had an incentive to exclude them to its gain (*NT* 8–14 June 1980).

[28] Following the government's decision on the naturalisation provisions Jackson remained publicly critical for some time, ultimately earning a surprising rebuke from FIRB Chairman Sir Bede Callaghan (*AFR* 21 June 1978). CSR maintained its lobbying efforts against a substantial liberalisation of FDI policy throughout the years of the Fraser government. In 1981, when it was rumoured that the government might liberalise FDI policy settings, the company forwarded material advocating its policy preferences to all government MPs (*AFR* 15 May 1981). In 1982 Jackson wrote that '...the larger Australian companies have the capacity to take the leading position in major projects..' and '...ready availability of loan money makes it more possible than before for governments to act so as to ensure Australian ownership of major projects. And for the large foreign investment which will be needed, loan funds should be preferred to equity.' (1982:54).

insurance firms welcomed the provisions for the additional investment opportunities for themselves (Frith, *Aust* 1 June 1978).[29]

Although domestic mining interests soon recognised that the government was committed to a naturalisation scheme they contested certain aspects of its design. These were the local equity target to be set for naturalising status, the timeframe allowed to achieve it, the core issue of compliance as firms were to secure naturalising status up front, and the particular entitlements that the status bestowed. The ultimate policy outcome was not quite as liberal as some local mining interests feared[30]. Foreign firms could qualify for naturalising status by having 25 per cent Australian equity and liaising with the FIRB to realise 51 per cent over time, when it would then be designated as 'naturalised'. It was expected that naturalisation would occur through new share issues rather than through acquisition of domestic businesses, although the government retained the discretion to approve such a course (Treasurer, *Press Release* 8 June 1978; *AFR* 9 June 1978). Treasurer Howard's public statement announcing the new provisions stated that a naturalising or naturalised company,

> ...would be able to proceed with new projects in its own right, in partnership with an Australian company, a naturalised company or a naturalising company, within the government's guidelines for new projects. However, a naturalised company would, in the absence of special circumstances, be precluded from undertaking a project as a joint venture with a wholly overseas owned company, as this would involve a departure from the 50 per cent guideline. (Treasurer, *Press Release* 8 June 1978).

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[29] The political influence of the stockbroking industry over Coalition governments was borne out in a number of instances — such as their protection from foreign takeovers by the guidelines but also in the requirement that the new national takeovers legislation worked out with the states greatly privileged stockbrokers. This imposition of great costs on investors was staunchly criticised by the Australian Industries Development Association (*Aust* 12 May 1980).

[30] CSR's Jackson and other critics had raised scenarios where naturalising status would make a mockery of the government's ostensible commitment to 50 per cent local equity. These scenarios centred on the possibility of ventures being run on a basis where the 51 per cent shareholder was a company that was technically Australian by virtue of having itself 51 per cent Australian ownership and the other partner being fully foreign-owned (*AFR* 1 June 1978). In such a situation the venture would be considered to be Australian-controlled, despite the equity indirectly held in the project by Australians being little more than a quarter. Critics argued that as the government's proposal was to grant naturalising status firms with 25 per cent local equity, and a credible schedule for raising it to 51 per cent, interim situations of even greater foreign control were possible (*AFR* 1 June 1978).

A partnership between two naturalising firms would entail complete foreign control in the interim. The only stricture in this respect was the requirement that a naturalising firm amend its articles of association to ensure that a majority of directors were always Australians. This no doubt pleased the local directors of foreign subsidiaries and the Coalition's business constituencies in general.

Unless one presumed that the corporate governance of foreign subsidiaries was characterised by considerable agency slack, the foreign control issue remained. The government did little to reassure critics that the interim period of foreign control would be a short one, or that it was serious about enforcing firms' commitment to a naturalisation schedule.[31] Senior Labor Opposition figures attacked the lack of a requirement for a clear timetable to apply to naturalising firms, although leader Bill Hayden was receptive to the basic principle of a naturalisation scheme (*SMH* 9, 10 June 1978).[32] While media commentary was generally receptive to the idea of a naturalisation process, there was strong criticism of the government's refusal to specify a timeframe or how non-compliance would be dealt with (*Aust* 31 May 1978, 9 June 1978; *AFR*, *Age*, *SMH*, *CM*, *WA* 9 June 1978). Only *The Advertiser* in South Australia was prepared to give the government the benefit of the doubt (*Adv* 10 June 1978).

In the first three years of office the Fraser government had to contend with balance-of-payments uncertainties comparable to those with which Coalition governments in

[31] The government's policy statement on the subject held that companies were expected to make: 'A public commitment to increase Australian equity to 51 per cent subject to agreed understandings between the company, major shareholder interests and the government, and regular discussions with the Foreign Investment Review Board on progress' (Treasurer, *Press Release*, *AFR* 9 June 1978). However, it also stated: 'The government does not believe that it would be realistic to impose a strict timetable because of commercial considerations outside the company's control.'

[32] The Labor Opposition soon diminished its credibility with mining industry figures by suggesting that the shares required to be sold to Australians to take the local holdings to 51 per cent could be allocated in one lump to the AIDC, which would then releasing them to the market (*AFR* 13 June 1978). Such a notion was untenable as the AIDC would have had to either interpose its own balance sheets on the transactions or be susceptible to lobbying from the naturalising firm on the timing of share sales.

the early and mid-1960s had been faced.[33] This had predisposed Treasurers Holt and McMahon to the defence of liberal FDI policy against a growing number of critics. Likewise, Treasurer Howard remarked to Parliament in November 1978 that he would be reticent to block large foreign investment proposals because of the balance of payments situation (*AFR* 22 November 1978). That more liberal FDI policy was not forthcoming was testimony to the powerful mix of electoral, ideational and private interest forces behind the 50/50 policy. The naturalisation provisions raised some hope of greater foreign investment flows but they were to be relevant for only a small number of firms. The only additional liberalisation measure adopted was the reduction of the local equity requirement for uranium projects to the 50 per cent that applied to other resources developments. Even then, the government initially did so for one project as ostensibly a special case (*CT* 16 June 1979).[34] The goal of an equal partnership between foreign and domestic capital remained the bedrock of FDI policy under the Fraser government; its rigorous enforcement only temporarily tempered by the economic growth imperative.

Resources boom and more restrictive policy

Through 1979 and 1980 Australia's terms of trade improved strongly, bringing a substantial increase in the balance of payments and attracting strong capital inflow into the resurgent resources sector. This foreign capital came both in the form of

[33] The current account deficit as a per cent of GDP was 2.9 per cent in 1976–77, 3.3 per cent in 1977–78, and 3.6 per cent in 1978–79, dropping dramatically to only 1.7 per cent in 1979–80 before blowing out to 4.1 per cent in 1980–81 and a disturbing 6 per cent in 1981–82 (ABS, *Balance of Payments, Australia* 1986–87; Dyster and Meredith 1990:270). On the parallels with the 1960s see Jolley (1978:195).

[34] The decision involved granting an exemption from the 75 per cent to Esso for the Yeelirrie project, being developed with Western Mining Corporation. The associated press release stated that a 50 per cent Australian equity level in other uranium projects 'in special circumstances' could be applied (*Age* 11 June 1979). Treasurer Howard's successful submission to Cabinet represented a belated victory for the Treasury over the Department of Trade and Resources. Treasury had failed back in early 1976 to overcome the latter's influential opposition to treating all mining projects the same way (*AFR* 20 April 1979).

finance for foreign equity investment and of overseas borrowing by local interests[35]. By mid 1981 capital inflow was so strong that the government removed many constraints on outward portfolio investment (*AFR* 9 July 1981).[36] Strong capital inflow made a tightening of FDI policy easier. The 50 per cent local equity rule was more strictly enforced; the government refusing to accept that Australian investors were not at hand and being much less receptive to open-ended 'localisation' promises. The government did not announce a more restrictive implementation of existing policy but it became apparent in the detail of a number of decisions (*NT* 8–14 February 1981; McCrann, *Age* 22 April, 24 April 1981). The Coalition premiers of Western Australia and Queensland were in no doubt that the Fraser government was more rigidly enforcing the 50 per cent local equity rule than it had previously, and were strongly critical (Grattan, *Age* 13 February 1981). Treasury officials certainly denied that the government was using foreign investment controls as a deliberate counter-cyclical macro policy instrument.[37] The government's FDI policy-making was nonetheless influenced by the confluence of the economic and political cycles.

The question remains of why the Fraser government was inclined to tighten FDI policy. The answer is threefold. The impulse to more restrictive policy grew from the personal policy preferences (of a 'public interest' kind) of the Prime Minister and some senior ministers, and from the electoral appeal of the Labor Opposition's economic nationalism. Reinforcing these factors was the influence of domestic private interest constituencies favouring local equity rules. The government could not afford to ignore Labor's attacks on FDI policy because of the centrality of the

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[35] 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, then only 13.3 per cent for 1979–80 before rising 55.1 per cent in 1980–81. Total inward foreign portfolio investment and loans rose steadily throughout the 1970s but surged on the back of the resources boom and stricter local equity requirements. It rose 51.6 per cent in 1979–80, 61.1 per cent in 1980–81, 76.2 per cent in 1981–82 and a notable 90.2 per cent in 1982–83 (*ABS* Cat. No. 5305.0; *FIRB*, various years).

[36] Under the old rules individuals were limited to $40,000 per year, substantial private companies $250,000 and public companies $2.5 million (Jacques, *AFR* 9 July 1981).

[37] Senior Treasury officials tried to mollify annoyed mining industry figures who had been told by bureaucrats from the Department of Trade and Resources and the Department of National Development that the foreign investment review process would be used as an instrument of macroeconomic policy — namely to promote the orderly development of mineral resources to minimise inflationary and currency appreciation effects. Treasury officials insisted that the government would not resort to such crude measures (*Age* 10 November 1980).

'resources boom' to its own political strategy. The pervasive influence of Fraser over the policymaking of his government, and his statements both before and while holding office, leave little for doubt that he was personally inclined to force foreign investors into equal partnerships with local firms.[38] Kelly (1984:89) noted as much, judging that,

> Fraser was an aristocratic but repressed version of Rex Connor, the Labor Minister whose destruction he used as a trigger to assume office. Beneath his rhetoric and action to promote private enterprise and liberate market forces Malcolm Fraser harboured a secret dream — to pioneer Australia's great resource developments. When his chance came Fraser seized it, not just as a welcome departure from the long negative grind of beating inflation but as the realisation of the development-nationalist within him. (Kelly 1984:89).

As Kelly implies, Fraser's overriding objective was the development of the resources *per se*, and he had been prepared to make modest concessions on the secondary objective of local equity participation to secure investments. With strong domestic and foreign investor interest from 1979 the choice between the two objectives seemed less stark.

The government was not alone in holding such a view. Editorial comment by a number of the major newspapers, such as *The Australian Financial Review*, *The Age* and *The Australian* all supported stricter enforcement of local equity requirements (*Age* 5 September 1980; *Aust* 5 September 1980; *AFR* 29 April 1980; 31 October 1980). Underpinning these views was usually the perception that national mineral resources were not being well administered by the states and rents due to the nation could be lost as a consequence. In no small part this was a consequence of the growing negative reputations of the Court government in Western Australia and the Bjelke-Petersen government in Queensland. FDI had become particularly contentious in Queensland, as had the government's authoritarian, developmentalist

[38] On the development of Fraser's personal philosophy see Ayres (1987) and on his dominance of Cabinet see Grattan and Weller (1981). Fraser's economic nationalism became more strident after losing office, especially in response to the Hawke government's FDI policy for the media and the growing controversy over Japanese investment in the late 1980s.

and even corrupt style of government (Fitzgerald 1984:304–79; Charlton 1987:148–91; Coaldrake 1989).[39]

The Fraser government's rejection of a resources rent tax (RRT) in 1978 on the grounds that it might damage foreign investor confidence in Australia contributed to the RRT being an ongoing political issue for the Coalition. This was compounded by public evidence of ongoing support within the Federal bureaucracy for such a tax[40]. As Drysdale, Garnaut and Smith (1980:19) judged,

> ...it is somewhat paradoxical that the only reason ever given by the government for rejecting such a tax...was that it would deter foreign investment. Not only is this unlikely, but the very absence of a resource rent tax leads to deliberate policy ostensibly aimed at restricting foreign ownership of the industry.

The Opposition responded to the Fraser government's claims of an impending resources boom with the twin calls for a RRT and stricter FDI policy. Shadow resources spokesman Paul Keating, along with some mining industry figures, understood that the absence of the RRT made calls for more restrictive FDI policy more credible (*SMH* 15 April 1981).[41]

The ascendancy of economic moderate Bill Hayden to the leadership of the Labor Opposition diminished the political risk for the ALP in adopting a critical stance on

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[39] Perceptions that the Queensland Premier was indifferent to foreign exploitation of the state were compounded when he forced his cabinet to reverse a decision, taken in his absence, creating a register of foreign ownership of land (Fitzgerald 1984:433; *W. Aust* 24–25 July 1982; *Aust* 28 October 1982). Galligan, Kellow and O'Faircheallaigh (1988:243–45) noted, however, that the Queensland government had been more savvy in designing resources policies than some other states. They also noted that this was not widely understood because views on state government management of resources reflected the '...widespread acceptance of Left political economy notions of core-periphery states, multinational domination, and comprador complicity of public officials in the periphery states' (1988:244).

[40] Treasury's ongoing support for the RRT concept was evidenced in a submission to the Senate Standing Committee on Natural Resources. See its report (Senate 1981:32) and Treasury (1981). Treasury Secretary John Stone was publicly rebuked by Treasurer John Howard for appearing to support an RRT before the Committee after the Fraser government had formally rejected the concept (*AFR* 9 March 1981; Kelly 1984:253). The Opposition was to make much of that and of the government's refusal to implement a RRT in general. See, for instance, P. Keating, MHR (*H. R. Hansard* 10 March 1981:563) and Senator M. C. Tate (*Senate Hansard* 25 February 1982:538).

[41] The chairman of MIM Holdings Ltd. Sir James Foots, while opposing the introduction of a resources rent tax, admitted publicly that such a tax would make the case for a liberalisation of foreign investment policy that much stronger (*AFR* 20 November 1980).

FDI in the resources sector (Ayres 1987:358; Kelly 1984:15–18; Henderson 1994:263; Stubbs 1989:179–95).[42] Shadow resources spokesman Paul Keating had the political skills necessary to make the FDI issue an electoral plus for the Opposition. Keating predicated his argument that Australia could afford a more restrictive FDI policy for resources sector on the assertion that there was no longer a technology transfer imperative for allowing substantial foreign investment in the minerals sector.[43] This was a message that he drew from those domestic mining interests, such as CSR and BHP, that benefited from the existing local equity requirements and which had broader nationalistic appeal (Jackson 1982). Keating's rhetorical flourishes, however, were all his own: describing the Fraser government, for instance, as a '...a cringing crawling bunch of sellouts' for having approved Consolidated Goldfields' sale of a large stake in the Bellambi coal company to Shell (*NT* 19–24 November 1979).

The politics of FDI policy, for the resources sector in particular, became more intense in the lead-up to the October 1980 Federal election. Through 1980 Fraser used strikingly similar rhetoric on the economic promise of minerals exports to that of his successful 1977 campaign; declaring in July that Australia stood on the cusp of a resources boom which would deliver 'wealth and work to our country' (*Age* 10 July 1980). The hype of a resources boom went hand-in-hand with stricter implementation of the 50/50 rule; clearly seen in two decisions on large colliery projects. Both the Blair Athol and Oakey Creek cases involved foreign equity stakes in excess of 50 per cent as the main partners wanted to give minority equity stakes to buyers of the output without losing control. The Fraser government appreciated that minority equity stakes could underpin long-term contracts that helped secure the commercial viability of the project but ultimately refused to compromise the integrity of its policy of an equal partnership between domestic and foreign capital. The Oakey Creek case involved MIM and minority stakes for European users (*AFR*

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[42] In his first address to the Federal parliamentary caucus as leader, Bill Hayden stressed: 'Economic growth is necessary for us to be able to do all the things we wish...The community considers us as a party with compassionate concern for people, but not good economic managers.' (cited in Stubbs 1989:182).

[43] Keating argued that: 'We have passed this stage now. We don't need to be shown twice, three times or four times. We have learned the lessons. We can do it ourselves. Our mining technology is the envy of the world' (*NT* 17–24 November 1979).

25 September 1980; Tsokhas 1986:130–32). The Fraser government formally approved the participants on the proviso the main participants sold down equity to Australian investors.

The Blair Athol case divided the Fraser Cabinet because it involved Japan's Electric Power Development Consortium (EPDC), 70 per cent state-owned and 30 per cent owned by private Japanese power companies. The Fraser government had been pro-active in deepening ties with Japan at a range of levels, and in calling for Japanese investment in the resources sector in particular.[44] Japanese Prime Minister Ohira, while in Australia, put the Fraser government in an awkward position by requesting that Japanese investors be treated flexibly under the FDI guidelines because they were latecomers compared with established British and American firms (*Age* 18 January 1980; Goodall, *Aust* 16 April 1980). EPDC made long-term contracts for the output of the Blair Athol colliery conditional upon securing an equity stake; major owners CRA and Atlantic Richfield (ARCO) agreeing to sell them 19 per cent (*AFR* 16 April 1980; *SMH* 14 April 1980).[45] Despite support from Minerals and Energy Minister Doug Anthony, Treasurer Howard refused the EPDC stake. He did this on FIRB advice that CRA and ARCO had not made sufficient efforts to localise equity as earlier promised (Grattan, *Age* 15 April 1980; Frith, *Aust* 16 April 1980; Korporaal, *AFR* 21 April 80).[46] EPDC ultimately received a stake following a

[44] The Fraser government commissioned a report into the state of the relationship with Japan by the Myer Ad Hoc Working Committee (Myer 1978). See also Drysdale and Kitaoji (1981) and on the broader context of Australia's foreign relations during this period see Boyce and Angel (1983).

[45] CRA, having by the time of the second application by EPDC signed up for naturalisation, could have held all the equity in Blair Athol in its own right as it was considered to be 51 per cent Australian-owned. However, when a foreign entity held shares as well, the actual equity holding of CRA was multiplied by 51 per cent to arrive at a percentage figure for Australian equity in the project. Under the EPDC plan the figure fell to 25 per cent as CRA would have held 50.22 per cent, ARCO 30.78 per cent and EPDC 19 per cent.

[46] In fact the earlier approvals had been very contentious because CRA had sought to block ARCO's acquisition of a stake in the project from an American vendor. CRA proposed to buy the stake itself and on-sell it to EPDC, which would have made localisation of equity easier. Treasurer Howard, on FIRB advice, judged that the government should not pick and choose between investors and so approved both bids subject to subsequent sell-down of equity to Australian interests (*NT* 27 April – 3 May 1980). ARCO secured the stake because it held first right of refusal with the American vendor of the stake in Blair Athol.

sell-down of equity by CRA and ARCO[47].

In announcing the 1980 election Fraser made it clear that a forecast, although highly questionable, $29 billion of planned new investment in the resources sector would feature prominently in the campaign (Ayres 1987:357–58).[48] As the Fraser government made the economic promise of the minerals sector central to its marketing message the ALP was compelled to fault the government's management of the sector. Confidential ALP research suggested that attacks on the government did not have to be particularly sophisticated. In the formal ALP campaign planning document produced by senior strategists for leader Bill Hayden in October 1979 the blunt assessment was offered that,

> ...the next election will be decided solely on the votes of the 15 per cent of 'swingers' who show any willingness to change...They are not discerning upper middle-class professionals who carefully reason through their vote. They are basically ignorant and indifferent about politics. They vote on instinct for superficial, ill-informed and generally selfish reasons. (cited in Kelly 1984:86).

In repeatedly criticising the government's FDI policy Labor's message was simple and emotive. As Shadow Treasurer Ralph Willis claimed in the Parliament on March 31 1980: 'The Fraser government has arranged an unprecedented sell-out of Australian enterprises and resources to foreign interests' (*NT* 8–14 June 1980).

The ALP committed during the 1980 election campaign to a 51 per cent Australian equity requirement for all industries, except where there was a pressing national interest. In such cases a formalised timetable for the localisation of equity would be

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[47] Shadow resources spokesman Paul Keating was strongly critical of the government for not favouring the CRA/EPDC bid through rejection of ARCO. Indeed it was reported that he advised EPDC on who to lobby in Treasury (*AFR* 21 April 1980). This support for the Japanese bid by the Labor shadow minister was in stark contrast to an earlier case where he accused the government of 'collapsing under pressure from Japan' (*AFR* 25 March 1980). The particular case involved a request by a Mitsubishi Group company to lift its shareholding in a joint venture behind the planned Ulan Steaming coal project in New South Wales (Frith, *Aust* 16 April 1980). Approval effectively frustrated an aggressive bid by Australian entrepreneur Alan Bond for control (Frith, *Aust* 16 April 1980).

[48] The parallels with the 1977 campaign did not end there. Again the Fraser government promised tax cuts; the only problem being that the it had reneged on its promise after the previous election and so suffered a credibility problem (Ayres 1987:357–59).

imposed, with stiff penalties for non-compliance (*ALP* 1980). Reminiscent of the Whitlam government, the AIDC would also be actively involved in helping foreign investors to satisfy the local equity requirements (*Aust*, *Age*, *AFR* 29 September 1980). The FIRB's secretariat would be greatly expanded to accommodate an ongoing MNC monitoring role and there was to be tougher regulation of transfer pricing. The government's cause was not helped by CRA's refusal, during the election campaign, to use a preferential share issue to help realise its naturalisation commitment.[49] In the lead up to the 1980s the implications of FIRB rejection figures were debated. While Shadow Treasurer Ralph Willis asserted that the low rejection rate showed the FDI review process to be 'just a meaningless charade', the Treasurer in turn insisted that the roughly one third of proposals approved with conditions attached showed that needed investment was being accepted on Australia's terms (*NT* 8–14 June 1980; *Age* 30 June 1980; *Aust* 29 September 1980).

The Fraser government had directed the Australian Bureau of Statistics to cease collecting information on FDI, for budgetary reasons, around the same time as its decision on the naturalisation provisions. Critics alleged the government was hiding the real extent of foreign investment (Crough and Wheelwright 1982:2; Anderson 1983:137–38). If the government's intention was in fact to minimise political contention over FDI it was counter-productive.[50] As Galligan (1987:36) noted, 'Unfortunately this information gap provided fertile ground for exaggerated speculation and theorising. The prophets of foreign domination and the client state, writing in the early 1980s, simply extended the rising trends of foreign ownership and control from a decade before.' Information shortage presented opportunities for political entrepreneurialism to tap latent economic nationalist sympathies in the community. Liberal editorialists and critics increasingly recognised this negative

[49] CRA's parent committed to taking up its full 61.1 per cent entitlement in the float, at the preferential price of $3.50 when the market value was then $6.10. Any subsequent 'Australianisation' of CRA's shares would net it a healthy profit (*Aust* 5 September 1980).

[50] Moreover, without a recent overview of the proportion of foreign-owned assets the statistics from FIRB on FDI approvals were liable to be misused. When, for example, a FIRB report showed a three-fold increase in FDI in urban land over the previous three years Opposition and other critics made quite exaggerated claims about what it entailed for the affordability of property (*Age* 17 November 1981).

dynamic and called for more detailed information about the extent and nature of FDI (*WA* 8 September 1980). Labor's call for the resumption of ABS statistics on FDI had as much to do with attacking the government for a 'cover up' as with a desire for a more informed public debate about FDI. In January 1982 the Fraser government directed the ABS to recommence collection of data on FDI, no doubt confident that the level of Australian ownership had risen modestly after six years of its 50/50 policy (*Aust* 20 January 1982; Anderson 1983:138).

The information void, the government's continuing insistence that an investment-driven resources boom was unfolding, and internal dynamics within the labour movement all led the ALP to maintain its attacks on FDI policy during the Fraser government's third term. There was no moderation of the critical discourse. Moving an urgency motion in the Parliament in March 1981, Opposition leader Bill Hayden asserted 'the government had adopted a new colonial cringe — it is a submissive economic colony to overseas board rooms...Australia will be a clapped-out quarry in the south-west Pacific by the end of the century' (*CT* 12 March 1981). An elaborated version of the ALP's FDI policy for the 1980 election was incorporated into the party platform at the 1982 national conference and taken to the next election (*ALP* 1982:45).[51] In 1980 the ACTU national congress, reflecting the triumph of economic nationalist ideology and a fear of foreign labour management, had adopted a critical policy on foreign capital flows (Crough and Wheelwright 1982:210). This reflected the influence of the left, especially the powerful Amalgamated Metal Workers and Shipwrights Union (AMWSU) that was a vocal advocate of a restrictive FDI policy regime.[52] In practice the ACTU and its

[51] The 1982 policy stated that a Labor government would: 'In obtaining the required amount of capital from overseas, encourage an increasing portion of capital inflow on the basis of loan capital rather than equity capital' (*ALP* 1982:45). It also committed the Party to expanded functions for the Foreign Investment Review Board that would include enforcing a code of conduct for foreign firms and reserve key areas of the economy for Australians. The latter could be for either economic goals or for '...preservation of the national identity and culture' (*ALP* 1982:44). The policy also envisaged a fully transparent FIRB that not only had a union representative but also supplied details on all proposals to unions and other interested local parties. The 1982 conference also re-endorsed the 1977 policy of seeking United Nations monitoring of multinational firms (*ALP* 1982:45).

[52] In 1977 it sponsored a lecture tour by British TNC critic Stuart Holland and published a speech by its assistant national secretary Laurie Carmichael under the title *A Counter-Strategy to Transnational Corporation Domination and a Transitional Programme to Socialism* (Crough and Wheelwright, 1982:208–09). FDI critic Ted Wilshire was employed at the time as a researcher by the union and engaged in active pamphleteering.

constituent unions could be very pragmatic about the employment creation effects of FDI.[53]

Although government ministers continued to make efforts to 'sell' existing policy, its policy-making mode was increasingly reactive. Several editorialists detected this at the time, and cautioned the government that it was lending undue legitimacy to the Opposition's critique of FDI (*AFR* 30 September 1981, 2 October 1981; *Age* 16 October 1981; *SMH* 3 November 1981). At a much broader level, the October 1980 election can be understood as marking the beginning of the end of the Fraser government (Kelly 1984:120–21). Henderson (1994:264) judged that from then on '...it was unrealistic to expect any significant reform from the Fraser government... it was then in its third term, had lost its Senate majority and was facing a revived Labor Opposition together with the Democrats in the Senate led by former Liberal Don Chipp.' Chipp would also prove to be a rather nationalistic critic of the Fraser government's FDI policy (*Age* 28 May 1981). The Government's increasing defensiveness led to further tightening of FDI policy under pressure from the Opposition (Mills, *Age* 23 June 1981). This was so even when it was clear that the Australian economy was sliding into a deep recession.[54]

Treasurer Howard did his reputation some damage with an ill-conceived public exhortation to Shell to discuss options for releasing 25 per cent of its shares to Australian investors if it wanted future investment approvals (*Aust* 13 August 1981; *AFR, SMH*, Age 14 August 1981). However, Shell's resistance and industry outrage at the *ad hoc* nature of the request forced a humiliating back down upon the Treasurer (*SMH, AFR* 21 September 1981). Media commentary was merciless in its criticism of Howard. Far more carefully considered were the new restrictions that

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[53] Interview with Tim Harcourt, National Research Officer, ACTU, Melbourne, 3 May 1995. The ACTU had first held a conference on TNCs in 1974 at which Ted Wheelwright was a keynote speaker. At the 1980 national congress the ACTU demanded a rigorous monitoring mechanism, trade union involvement, international cooperation for controls on FDI, a UN monitoring agency to monitor MNCs and the imposition of an Australian code of conduct on all foreign firms. The 1980 ACTU congress had also expressed a clear preference for capital inflow to take the form of loans rather than equity (Crough and Wheelwright 1982:210).

[54] Fraser's sympathetic biographer Ayres (1987:354) described that 'resources boom' as having been a 'dangerous mirage'. Internal divisions in the third term were also politically costly, as were the revelations of the Costigan Royal Commission about widespread tax evasion (Kelly 1984:267–301).

the Fraser government announced in January 1982. Most notable was the extension of strict 50 per cent local equity guidelines to the minerals processing sector (Treasurer, *Press Release* 20 January 1982). This represented a significant tightening of policy as the government had always been flexible towards processing operations because of its desire to see greater value-adding to resources exports.[55] In January 1982 the government also announced a more restrictive policy on the foreign acquisition of rural land. Although the Opposition and the Wran government had been repeatedly raising the issue, observers judged pressures from within the Coalition's own rural constituency to be the real driver of that decision. There had been complaints from graziers for some time that they were being confronted with counter bids from foreign investors for pastoral leases and freehold properties (*CT* 11 February 1981; Davis and Sides, *Age* 20 August 1981; Keats, *NT* 23–29 August 1981; *SMH* 10 November 1981; *Age*, *AFR* 20 January 1982).

There was one significant decision to liberalise entry for foreign firms in the last term of the Fraser government that stands out from a generally more restrictive in policy. The Fraser government had commissioned a wide-ranging inquiry into the Australian financial system (Ayres 1987:410–13; Pauly 1987; Perkins 1989:1–7; Harper 1866). When the Campbell Inquiry delivered its report in 1981 the Fraser government was confronted with a reform agenda it had little enthusiasm for selling politically (Ayres 1987:412). One controversial recommendation of the Inquiry was that foreign banks be given full licenses. In doing so the Campbell Inquiry chose to ignore the Fraser government's explicit reaffirmation of an exclusionary policy around the same time the Inquiry was first established. In May 1979 the government had announced its intention to use the provisions of the Banking Act of 1959 to veto the establishment of full banking operations by foreign interests (Sexton and

[55] The Opposition had previously strongly attacked several processing proposals that had only modest Australian equity participation. The billion dollar Worsely bauxite-alumina project in Western Australia was to have only 20 per cent Australian equity (*Aust* 3 December 1980; *NT* 5–11 October 1980). The Alcoa-led proposal for an aluminium smelter in Portland, Victoria, was controversial not only for the limited Australian equity participation but also because of its potential environmental impact and the state's provision of infrastructure and subsidised electricity (Galligan, Kellow and O'Faircheallaigh 1988:231–43). Fraser's desire to bolster the sagging political fortunes of the Hamer Liberal government in Victoria was considered to have been a factor (Bowden, *Aust* 20 January 1982).

Adamovich 1981:13). The issue had arisen following speculation that several foreign banks were interested in acquiring the failed Bank of Adelaide.

Although on balance the major Australian banks saw opportunities in the Campbell Inquiry's proposed deregulation package, they still endeavoured to have particular reforms that were not in their interest excluded from government consideration[56]. While domestic banks in the past had a common preference for excluding foreign competitors, that unity was breaking down as several of the majors aspired to expanding internationally. Some foreign governments, of the United States and Japan in particular, insisted upon strict reciprocity in the issuance of licenses to foreign banks (Pauly 1987:27, 1988:69; Perkins 1989:1). Many foreign banks already had a limited presence in Australia through merchant banking operations that had been treated more leniently by the Fraser government owing to their important role in trade and investment facilitation. The major domestic banks feared competition from foreign banks in their home market but also recognised that liberalisation might also lift existing regulatory barriers to the expansion of their domestic activities (Starkie 1989:112–14; Harper 1985:1–6, 1986). That the Fraser government announced its preparedness to admit foreign banks without such accompanying liberalisation caused deep consternation amongst domestic banking interests, mollified only by the defeat of the Coalition at the polls soon after.

Treasurer Howard knew that Fraser was implacably opposed to a free float of the currency and deregulation of banking in general, and so did not pursue those options within the Cabinet. However, the issue of foreign bank entry was somewhat less vexed. While Fraser's rural background made him wary of banks, foreign bank entry could be presented as imposing a competitive discipline upon them (Ayres, 1987: 412-13). Moreover, foreign banks would bring further experience in financing international trade and large projects that had appealed to the Prime Minister. An in-principle decision to issue licenses to up to ten new foreign banking operations was

[56] Perkins (1989:3) judged that: 'In contrast to some industries, therefore, where the regulators have been so 'captured' by the institutions they are supposed to be controlling that deregulation is politically difficult, the banks had come to realise that any benefits they were deriving from the continued controls were on balance being more than offset by the handicaps that the existing system was imposing on them.'

announced just a week before the Prime Minister called a federal election. Confronted with strong opposition from the ALP, for reasons that will be explored in the next chapter, the Fraser government gambled that foreign bank entry would not be an electoral liability. This was reasonable, given the element of antipathy towards Australian banks within the national electorate and within the Coalition's rural and small business constituencies in particular. A feeling in Cabinet that the government needed to demonstrate leadership on a matter of economic policy contributed to the foreign bank decision being taken — albeit reluctantly (Pauly 1987:61; Nevile 1994:19). In the end the foreign bank decision did not feature as an issue in the election and would present a significant policy challenge for the new Labor government.

Conclusions

The Fraser government was always torn between the recognition that FDI might boost the economy, enhancing its economic management credentials, and the political imperative to force foreign investors into partnerships with local firms. Consistent with the 'growth-oriented' public interest account of FDI policymaking explored in Chapter 2, the weaker the economy the more inclined the Fraser government was to pragmatic implementation of its 50/50 principle. However, the Fraser government's 'flexibility' on FDI policy was still within narrow limits that had been defined during the period of the Whitlam government. The perpetuation of that policy was the result of a confluence of three interrelated factors.

One factor was the government's concern for the electoral significance of a resilient economic nationalism in the community. This popular sentiment was strongest in relation to the resources sector as information was scarce and many influential voices were raised in criticism of the calibre of public governance of Australia's mineral resources. It was principally the Federal Opposition's political entrepreneurialism in exaggerating the costs of FDI that made latent economic nationalism in the community so politically salient. There was little appreciation at the time that there were risks entailed in changing the foreign financing mix away

from equity to debt. Ironically, Labor would later reap a bitter harvest from the seeds of economic nationalism that it helped to sow. Responsibility for restrictive FDI policy during the 1975–82 period certainly did not rest solely with the Opposition. The Fraser government could have invested more resources in gathering and disseminating information on the real nature of FDI, and could have endeavoured to 'sell' a more liberal policy to the electorate.

The second and third factors driving economic nationalism under the Fraser government help to explain why it did not do so. Domestic business constituencies who had come to benefit from FDI regulation were a natural constituency of the Coalition. Consequently their interests could not be easily ignored. However, they attracted more attention than a strictly political calculus suggests. This was because the third factor shaping FDI policy outcomes under the Fraser government, the personal conceptions of the public interest that its leaders held, happened to accord broadly with those private interests. Fraser and some of his senior ministers had strongly developmentalist inclinations that, although centred on the private sector rather than the state, were tinged with economic nationalism.

In promoting an FDI policy that promised equal partnerships between local and foreign firms in national development, the Fraser government brokered a compromise both between competing private interests and contending conceptions of the public interest. The administrative architecture of FDI regulation did give the government the flexibility to manage the public and private interest politics of individual investments, although at some cost to business and community confidence in FDI policy. The Fraser government may have optimised the politics of FDI policy, but the Hawke government was to be confronted with the economic consequences.

7 Labor's change of heart, 1983–87

The Hawke government came to office in March 1983 with a formal policy of commitment to a more restrictive foreign investment policy. When it faced the July 1987 Federal Election Labor had delivered three successive FDI liberalisation packages and had been pro-active in attracting inward direct investment. This dramatic change in policy orientation surprised many observers and angered some ALP supporters. Liberalisation of foreign investment reflected the primacy given to economic management by the Hawke government both in securing the electoral fortunes of the government and for realising its broader social democratic aspirations. How the government came to that strategy, and why FDI policy liberalisation had an important place in it, is the subject of this chapter. Labor's conversion to a liberal FDI policy was driven by the imperative to manage a balance of payments crisis without compromising the growth-centred model of economic management enshrined in the Accord with its key trade union constituency. FDI liberalisation packages symbolised Labor's determination to internationalise the Australian economy. As each decision to liberalise FDI policy brought immediate political dividends through boosting confidence in the Hawke government's economic management, it pushed liberalisation further.

Keeping the faith?

The Hawke government's reticence to implement much of the ALP policy platform was apparent soon after its coming to office in March 1983. Labor had been elected on the promise of strong economic growth to both the electorate and the trade union

movement and party policy would be subordinated to that goal.[1] Hawke, Treasurer Keating and other senior moderates nonetheless understood this as keeping faith with the ALP's core constituencies as a growing economy created jobs and also provided growing public revenues with which to realise some of Labor's social policy aspirations (Edwards 1996:201–03; Mills 1993:73).[2] They also had an acute sense of the electoral need to give the goal of growth priority over immediate implementation of ALP policy. The Fraser government had become unpopular principally because of the deep recession that marked the latter half of its final term (Kelly 1984:395–97). Labor was an alternative only because it had distanced itself from the legacy of the Whitlam years and suppressed the radical elements of the labour movement (Mills 1993:76–77). Scarred by the experience of the Whitlam government, the leadership of the ACTU and the parliamentary ALP concluded an agreement in 1982 to deliver union moderation in return for a growing economy and improvements in the social wage (Edwards 1996:175–77; Carney 1988; Gardner 1990).[3] The Accord would prove central to Labor's political success because it aligned the interests of government's core constituency with its electoral interests[4] (Stilwell 1986; Mills 1993:47). However, the government was locked into a model of economic management that gave primacy to maintaining growth (Kelly

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[1] The ALP initially promised during the 1983 campaign a 'traditional' Labor approach to a weak economy with a much larger government deficit and looser monetary policy. However, the influence of economics advisor Ross Garnaut on Hawke and Treasury on Keating, combined with the revelation of a larger than expected budget deficit, saw more orthodox policy settings adopted (Edwards 1996:171–203). The Hawke government's macro-economic policy settings to 1985 were nonetheless strongly growth-oriented and, as the currency crisis of 1986 was to reveal, not without considerable risk (Bell 1997:141–43; Walsh 1991:7).

[2] Pragmatists in the ALP sometimes implied that even merely holding office would be serving the interests of Labor's core constituencies as it would prevent a Coalition government from implementing more hostile policies (Mills 1993:76). While academics and activists on the Left frequently conceded the logic is they were highly critical of the Hawke government's lack of radicalism (Maddox 1989).

[3] The role of the ACTU in delivering real wage restraint, and consequently a substantial increase in both business profitably and aggregate employment through the 1980s, was intensely controversial within the union movement. Moderate centrally brokered wages outcomes contributed to a substantial decline in union membership throughout Labor's period in office (Gardner 1990).

[4] The initial Accord document promised extensive government intervention in the economy and the continuation of protectionism, ostensibly to realise higher economic growth (TUTA 1986:12–14). It also stated statement that under a Labor government 'the virtual unfettered actions of transnational companies will be regulated via a range of initiatives' and flagged the imposition of 'job protection and consultation procedures' on foreign firms (TUTA 1986:14–15).

1992:385).[5] While the Hawke government would never waiver from an overriding commitment to economic growth and employment creation, the means by which it sought to realise these objectives were to change drastically over time and in a direction quite profoundly contrary to Labor's ideological traditions.

Hawke and Keating's backgrounds, though very different, inclined them to favouring economic growth, through the private sector in particular, rather than a steadfast adherence to the ALP platform.[6] Hawke's route to the prime ministership had been through the labour movement rather than the Labor Party and his public prominence was principally because of his skills as an interlocutor between unions and business (d'Alpuget 1982; Pullan 1984; Kelly 1984:447–48). The theme of 'consensus', central to Labor's 1983 election campaign, Hawke's persona and his subsequent governing style, helped to legitimate disregard for the specific policy agenda contained in the national party platform.[7] Keating's past mastery of ALP organisational politics made him rather disdainful of the party policymaking process and his seven years as shadow resources spokesman had revealed to him the naivety of parts of the platform (Gordon 1993).[8] The minerals portfolio had also stimulated a strong interest in export-oriented enterprises and the role of FDI in their development (Edwards 1996:145–50).[9] While Keating was independent-minded, he

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[5] The Accord framework proved more resilient that anybody would have expected in the first term of the Hawke government, despite considerable political and economic challenges to it (Stilwell 1993:70–77; Smith and Mahony 1993:40–41; Bell 1997:141–43).

[6] The dominance of the Prime Minister and Treasurer over macro-economic policy was further accentuated in the Hawke government. (Bell 1997:28). While many aspects of microeconomic policy involved other ministers and departments the Treasurer's direct responsibility for a discretionary FDI policy meant that the input from the former would be generally limited.

[7] The consensus theme was encapsulated in the 1983 campaign theme 'Bob Hawke — Bringing Australia Together' and later in the staging of the National Economic Summit (Kelly 1984:398; McEachern 1991:19–39). For Hawke, 'keeping the faith' meant delivering an improved life to 'working Australians' rather than realisation of an abstract policy agenda brokered through factional dealing within the ALP. As Mills (1993:72–73) observed, 'in Hawke's eyes, the ALP, in resisting changes to its platform, proved itself to be part of Australia's problem — but the union movement, through embracing the Accord and taking part in the Summit, proved itself part of the solution.'

[8] Keating had been much attracted to, and influenced by, forceful mavericks such as Jack Lang and Rex Connor (Edwards 1996:58–63; Carew 1988). The extent to which Keating had shifted from the mainstream of ALP thought on FDI and other matters of economic policy at the time of coming to office should not be exaggerated (Edwards 1996:154–55). Keating would stand out for his preparedness to shift position in response to new circumstances, implying a degree of instrumentalism (conscious or otherwise) in the strong positions he did adopt.

[9] In other aspects of the treasury portfolio Keating was initially quite dependent upon the Treasury for an understanding of the many policy issues he had to contend with. This was because he had only been the shadow treasurer for a short while when Labor was elected (Edwards 1996; Carew 1988).

certainly could not ignore ALP policy with impunity — especially in the Hawke government's first term.[10] Soon after coming to office Keating requested the FIRB to review both FDI policy and operations in the light of the ALP's tougher policy platform (Bowden, *Aust* 6 May 1983; Connors 30 August 1983). Despite that, he also soon flagged a 'flexible' approach to local equity rules that translated into basic continuity of policy from the Fraser-Howard era (*SMH* 22 March 1983).[11] The Treasurer's pragmatism led him to retain the current FIRB board, despite their preparedness to resign (*SMH* 22 March 1983). In trying to put foreign investors at ease Keating claimed 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' (*SMH* 22 March 1983).

Contention over FDI policy

Despite Keating's claim of FDI policy equilibrium, division was evident amongst senior Hawke government ministers over FDI policy in the first few months of office. Lionel Bowen, trade minister and deputy prime minister, said the government wanted only 'intelligent foreign investment in Australia' (*AFR* 29 March 1983). Bowen scared foreign investors with public remarks about the dangers of MNEs to national sovereignty and that he was initiating an extensive departmental investigation into foreign ownership in the minerals industry (*AFR* 29

[10] Most other senior Hawke government figures were less imbued with pragmatism in relation to the party platform and Keating spent much time in the first year in office consulting them (Edwards 1996:234–35). There was also a strongly collectivist tradition within the ALP that centred on the sovereignty of the parliamentary caucus, with the caucus in turn being accountable to the party organisation. In order to avoid the policy paralysis that had beset the Whitlam government Hawke demanded acceptance of principle that Cabinet solidarity carried over to caucus as well. At the 1982 national conference of the ALP the parliamentary leadership secured passage of a resolution that formally gave them more discretion over the timing of implementation of ALP policy resolutions. This would provide the formal justification for considerable policy pragmatism by the Hawke government (Mills 1993:74).

[11] Acting Treasurer Hurford later said that in the flexible application of local equity requirements the government had no intention of 'operating a cyclical foreign investment policy' (*Press Release* no.108, 30 September 1983).

March 1983).[12] Bowen soon after declared that '...so far as the ownership of our mineral resources is concerned, Australia is being taken to the cleaners by the Japanese' (*AFR* 19 May 1983). While Hawke secured his deputy's commitment not to speak out on FDI issues again, foreign investors and domestic business representatives remained deeply wary of the new Labor government's approach to FDI. The rejection of several substantial foreign takeovers during their first six months in office provoked fears of a tightening of FDI policy. Keating insisted that he had not tightened FDI policy and was acting on Treasury advice (*SMH* 19 August 1983). However contemporary observers detected a more stringent application of the existing 'net economic benefits' test, especially in the real estate sector, and greater concern with the existing level of foreign ownership in a sector when vetting takeover bids.[13]

Soon after coming to office the Hawke government had to contend with several disputes over FDI rejections that revealed the potential for conflict with foreign and state governments and domestic business interests. A dispute with New Zealand arose because of a misunderstanding between the two governments over the treatment of FDI under the recently concluded Closer Economic Relations agreement. Following the rejection of several New Zealand investments Prime Minister Muldoon instructed the Overseas Investment Commission (OIC) to reject all pending and future Australian investment applications until the two nations' investment policies were 'harmonised' (*AFR* 28 June 1983). The Australian government refused to exempt New Zealand investments from the foreign

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[12] Bowen stated he had departmental advice to the effect that some Japanese trading companies had a basic conflict of interest as parties to coal price negotiations while also having equity stakes in mines (*AFR* 19 May 1983). On the other hand, the Minister for Energy and Resources, Senator Peter Walsh, was a moderate and influential voice (*SMH* 17 June 1983).

[13] The tougher application of the net economic benefits test was seen in rejection of Dayco's bid for Cadillac Plastics, 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 (*Press Release* no.37, 21 June 1983). The firm also played to ALP idealism about 'industrial democracy' with a promise to eventually localise some 20 per cent of the equity through an employee share participation scheme. Concern about the existing level of foreign ownership in a sector was evidenced in the rejection of a plan by American N.W. Ayer Inc advertising and public relations group to take a controlling stake in an existing joint venture, Connaghan & May-Paton Ayer Pty Ltd (CMPA). While the latter was only the fourteenth largest agency in Australia, the government was worried that the majority of the top twenty agencies were already owned and/or controlled by

investment review process on the grounds that it would constitute discrimination and so would be inconsistent with international treaty obligations (Keating, *Press Release* 28 June 1983).[14] A dispute with the Queensland and Korean governments arose when the Treasurer blocked the 25 per cent equity participation of a South Korean firm in the construction of the Jackson-Moonie oil pipeline in Queensland[15]. The Bjelke-Petersen government denounced the decision because it had orchestrated the involvement of the Korean firm in the consortium as part of a broader effort to promote minerals exports to South Korea (*SMH* 5 May 1983).[16] Keating's official press release in response to the Queensland Premier's description of him as 'the abominable no-man' and 'superwrecker' stated,

> The Jackson pipeline can be constructed without the involvement of South Korean firms. One can only wonder at the reasons behind Mr Bjelke-Petersen's ranting and raving. Since when did foreign corporations have a prior right to get work ahead of our own companies? Why does he always attack the Australian government in favour of foreign corporations?...A foreign investment policy can only be administered sensibly with permanent guidelines. Under those guidelines there was no way we could have advantaged the Korean corporation over Australian companies. (*Press Release* no.15, 4 May 1983).

American interests (*Press Release* no.4, 7 April 1983). A tougher attitude to property investment was seen in the case of Sanko Shoji (*Press Release* no.2, 6 April 1983).

[14] An insight into the bitter tone of the disagreement can be gained from the following quotation from one of Treasurer Keating's press releases in relation to Prime Minister Muldoon: 'His remark during his meeting with me last week that no agreement regarding the texts of those letters had been reached stunned and embarrassed officials from both countries...Any problems which are deemed to exist in investment policies between the two governments would appear to be of Mr Muldoon's making. There has been no capricious behaviour by the Australian government in respect of New Zealand investment, nor will there be.' (*Press Release* 28 June 1983). Mr Muldoon, on the other hand, accused Mr Keating of having been captured by Treasury bureaucrats and also singled out then departmental secretary John Stone for criticism. (*AFR* 28 June 1983).

[15] The Treasurer approved a proposal by Pohang Iron and Steel Corp. Ltd and Ssangyong Corp. to each take a 20 per cent equity stake in the Cook Colliery, which was being closed down by BHP, and to run it as a joint venture with another Australian firm. The two Korean partners pledged to buy output over five years equal to its then maximum productive capacity (*Press Release* no.19, 11 May 1983).

[16] Bjelke-Petersen said that the decision took '...no account of delicate reciprocal trade negotiations, which were subsequently explained to relate to the re-opening of the Cook Colliery with Korean financial backing and coal contracts (*AFR* 5 May 1983). Queensland Treasurer Dr Llew Edwards described the rejection as the '...most stupid, irresponsible, and callous decision I have heard.' (*SMH, CM* 5 May 1983).

The decision to stop the Queensland government from 'advantaging' the Korean firm was made in response to lobbying from Australian businesses who stood to gain from the rejection (*SMH* 5 May 1983).[17]

The lobbying by domestic business interests in the pipeline case was far from being an isolated event during this period of FDI policymaking. The recession had provoked business rationalisations and acquisition opportunities increased; with the familiar divergence of interests over FDI policy between buyers and sellers. The financial stakes involved gave businesses the incentive to lobby, and the newness of the government gave them additional hope.[18] As the business community was not Labor's natural constituency, lobbying efforts that presented public interest reasons for policy decisions were likely to have more influence[19]. The Hawke government's emphasis upon the existing level of foreign ownership and control in an industry as a criterion in the application of the 'net economic benefits' test made the lobbying of those who would benefit from the blocking of foreign bids easier.[20] Prominent instances of such lobbying involved bids by Cadbury Schweppes for Allen's Confectionary Ltd and tobacco firms[21]. The sharp decline in Allens' share price

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[17] Keating met with a special envoy from the South Korean president to ameliorate problems in the relationship with South Korea (*Press Release* 1 June 1983).

[18] The private interest dimensions of controls on foreign takeovers were starkly revealed in the case of Unilever's bid for Elders IXL assets. Rival local bidder Allied Mills Ltd successfully lobbied Treasury for the bid to be blocked, knowing that it could then secure the assets at a lower price (*AFR* 20 April 1983; Treasurer, *Press Release* no. 9, 19 April 1983). For this reason Elders IXL chief, and Liberal Party identity, John Elliott, bitterly denounced Keating's decision (*AFR* 21 April 1983). Although tempting to attribute the decision to party partisanship, it was consistent with a rejection at the same time of an American bid for control of the Lane hardware manufacturing business (Treasurer, *Press Release* no.11, 20 April 1984).

[19] The foreign tobacco firm R.J. Reynolds actually drew the attention of Treasury officials and the Caucus economics committee to loopholes in the foreign takeover provisions. This was motivated by a desire to stop a merger in the Australian market of their much larger rivals, Philip Morris and Rothmans (Perkin, *Aust* 5 September 1983).

[20] This was a position that the government adhered too for some time despite the criticism it attracted, claiming — not without foundation — a precedent from the Coalition. Later Acting Treasurer Hurford told the American Chamber of Commerce that '...where foreign ownership and control in an industry is already high or would become so with the implementation of a proposal, such benefits would have to be significant' (Hurford, *Press Release* no.108, 30 September 1983).

[21] Cadbury Schweppes Australia was listed in Australia but was 61 per cent owned by the UK firm. Allen's already had four major foreign shareholders that together held over 40 per cent of the company, and a combined Cadbury-Allens-Nelson would have had a lower total percentage of shares held by foreigners than that figure (*Age* 6 May 1983). Keating cited market power concerns as also having been a factor in rejecting the bids, despite the fact that these should have been dealt with under the Trade Practices Act (Keating, *Press Release* no.12, 20 April 1983; McCrann, *Age* 23 April 1983).

after rejection of the Cadbury's bid highlighted the distributional consequences of FDI restrictions (*SMH* 23 April 1983). In its first term the Hawke government was untroubled by such consequences of FDI controls as long as the goals of economic expansion and employment creation were not directly compromised. It did recognise that to tighten FDI policy further in accordance with ALP policy would risk losing valuable FDI.

FDI policy continuity

In December 1983 the government formally distanced itself from the ALP's policy on FDI that had been adopted at the national conference little more than a year previously. Treasurer Keating's statement emphasised the continuities with the past decade of FDI regulation and the moderate economic nationalism it embodied,

> The government has decided to continue the broad thrust of foreign investment policy first elaborated by the previous Labor government in 1975 and, with some amendments in the light of changing circumstances, maintained by the previous government... In the future administration of policy, the government intends to give more emphasis to the existing requirements that Australians be given adequate opportunities to participate as fully and effectively as practicable in the development of Australia's industries and resources. (*Press Release* no.152, 20 December 1983).

The imposition of 51 per cent local equity requirements, as demanded by ALP policy, was ruled out as too much of a deterrent to foreign investors. It would, the Treasurer said explicitly, compromise economic growth and hence Labor's other goals (*SMH* 21 December 1983). Pressure from business representatives to reject such a policy change was also intense (*AFR* 16 December 1983). The government also dropped Labor's commitment to a national register of foreign-owned land as '...most of the States (who would, necessarily, have had to cooperate in the establishment of it) either did not wish to proceed or were not prepared to afford it any priority.' (*Press Release,* no.152, 20 December 1983) On the other hand, the government did further tighten guidelines for property investments. The economic benefits test and joint venture guidelines were more rigidly enforced for rural

properties and additional reportage requirements were imposed on acquisitions of residential real estate (*Press Release*, no.152, 20 December 1983). Keating later made a modest concession to the ALP's 1982 policy platform by appointing the Secretary of the Victorian Trades Hall Council, Kenneth Stone, as a member of a slightly expanded FIRB (*Press Release*, no. 73, 21 May 1984).[22]

Media and business reaction to the FDI policy statement was generally favourable, despite widespread recognition that the government was flagrantly breaching ALP policy (*Aust*, *AFR* 21 December 1983; *Age* 21, 23 December 1983). Keating sought to pre-empt criticism from within the ALP by emphasising the continuities with Whitlam government policy and his contribution to it. Keating said that had '...been as involved as anyone in the Labor Party's foreign investment policy. There was a time...back in the 1970s when my former colleague Rex Connor was here, we were virtually the sole sentries at the gate in the Labor Party on economic nationalism.' (*SMH* 21 December 1983). The greatest political threat to the government's FDI policy came from the Opposition rather than from within the ALP. While the centrepiece of the Hawke government's December 1983 statement on FDI policy was continuity with the policy of the previous government, the Coalition itself shifted to a more liberal position. This was a function of changed internal factional dynamics with the departure of Malcolm Fraser following the Coalition's electoral defeat (Kelly 1992:34–53). This extended to FDI policy, and shadow treasurer Howard had been criticising the Hawke government for rejecting investments throughout 1983 (for example, see *AFR* 6 May 1983). In response Keating argued the higher rate of rejections under Labor was because the nature of applications had changed while, at the same time, he openly criticised the 'undue laxity' of past Australian administrations on foreign acquisitions of Australian real estate (*Aust* 17 June 1983; *Press Release*, no.108, 30 September 1983). The preparedness of the Coalition to take FDI liberalisation further than the Hawke government was a constant of the 1980s, creating a political dynamic where the benchmark applied by

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[22] Stone's credentials for position were that he was a director of the Victorian Economic Development Corporation and had participated in the previous Victorian government's 1981 overseas investment mission (*Press Release*, no. 73, 21 May 1984).

media and business observers to the government's policy was never Labor's own. This was true not only of FDI policy but of most policy areas. When Labor took steps to liberalise it legitimated the tougher benchmarks set by the Opposition and liberal policy constituencies. In late 1983 there was one striking exception to the tale of Labor playing catch-up to the Coalition on economic policy and it was to establish firmly the Hawke government's reputation for economic reform.

The decisions to float the Australian dollar and abolish capital controls in December 1983 were significant to the Hawke government and to FDI policy for several reasons.[23] Hawke and Keating became convinced of the virtues of a market-based solution to a growing economic problem and this provided a precedent for a range of pro-market policies. The government, and Keating in particular, acquired a reputation for liberal policy and internationalising the Australian economy that had to be protected by ongoing reforms (Kelly 1992:94). Secondly, the decision to float the currency, despite its magnitude, did not need parliamentary or even Cabinet approval (Bell 1997:27; Kelly 1992:85). This was the beginning of a predilection for taking significant decisions that were a *fait accompli* despite disquiet within government ranks. The liberalisation of foreign investment policy, of potentially great symbolic significance and controversy, likewise did not need parliamentary approval because it merely required changes in the guidelines issued by the Treasurer. The float decision stamped the authority of Hawke and Keating on the government's economic policymaking; in stark contrast to the ill-discipline that had characterised the Whitlam government (Edwards 1996:229–32).[24]

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[23] As short-term capital inflows increased dramatically through 1983 it became increasingly clear that Australia's managed exchange rate system was antiquated. Policymakers became increasingly worried about the system after markets undid, in several months, the 10 per cent devaluation initiated by the Hawke government upon coming to office. Speculators were increasingly making money at the expense of the Reserve Bank and by October 1983 heavy capital inflow represented a threat to monetary policy settings (Kelly 1992:81–88). The Hawke government therefore faced a choice between a return to the Variable Deposit Requirement regime or a free float of the currency. As there were serious doubts about the efficacy of the former in the more sophisticated markets of the 1980s, the government floated the Australian currency on 9 December.

[24] The float decision bewildered and infuriated many in the government. Left identity Brian Howe wrote to the Caucus economics committee complaining that the float might 'exacerbate the trend towards foreign control of the Australian economy.' (cited in Edwards 1996:230). Keating's subsequent dominance of economic policy matters stemmed from Hawke's support, the complexity and newness of the economic challenges confronting the government, his mastery of the Treasury's analysis of the issues, and his own forceful personality.

The other major consequence of the float was the discipline it imposed on the government's economic management (Bell 1997:146). Kelly (1992:94) concluded,

> The floating rate and exchange control abolition meant that currency and capital markets would test every major economic policy decision made by Australia. The nation would be under permanent examination with severe consequences for failure. The values of the markets were far removed from those of the old ALP. During the 1980s the discipline imposed by the markets through the float and capital movements imposed severe policy changes on Australia. It forced Labor towards small government, real wage cuts, lower taxation and industry deregulation.

This was not fully appreciated by the Hawke government until 1986, when it then had monumental consequences for FDI policy settings. FDI policy became a proxy measure amongst market analysts for the level of government commitment to the internationalisation of the Australian economy (Kelly 1992:94). This was largely because of the precedent the Hawke government created for itself in dealing with the foreign bank issue inherited from its predecessor.

Foreign bank entry

A key recommendation of the Campbell Inquiry into financial market regulation had been liberalisation of foreign bank entry (Valentine 1991). Labor had strongly opposed that position. Not long after the election Treasurer Keating said publicly that foreign banks should understand there was now no longer any point in applying to the government for a full banking license because they would not get it (*SMH* 22 March 1983). At the same time he suggested that '...the question of competition will resolve [sic] in some measure around the issuing of licenses, perhaps to Australian institutions, and maybe to some foreign institutions' (*SMH* 22 March 1983). Keating then bought time in which to strategise the politics of banking reform, including the foreign bank issue, by commissioning another report. The Martin Report was not completed until March 1984, when the restrictions on foreign banks looked quite incongruous alongside the open exchange and capital regime. The Martin Report reiterated the call for the liberalisation of foreign bank

entry. As the government commenced deliberations on financial market reform Keating stated the basic principle guiding it would be to '...remove regulations when they serve no clear purpose in promoting economic efficiency or social equity' (*Text of Speech*[25] 14 March 1984). Buoyed by his standing amongst business commentators for the float decision, Keating broke with his past opposition to, and championed the cause of, foreign bank entry within the government and the ALP (Edwards 1996:244).

The academic attention given to financial sector reform under the Hawke government often overlooks how FDI policy for financial services was initially fumbled in a futile effort to reconcile the liberalisation imperative and economic nationalist sensitivities. In August 1983 the government frustrated Citibank in its desire to take full ownership of a merchant bank in which it had a half share. This was despite the other shareholders being British and Citibank proposing to later sell down 50per cent of the equity to Australians, and to sell a 49 per cent stake in another merchant bank to Australian interests.[26] The decision attracted strong criticism from business commentators and some banking industry figures, although others were happy to see the American giant hobbled by regulators.[27] Even more surprising was the illiberal policy on foreign investment in stockbroking the government adopted after the Martin Report had been handed down. Following the adoption of new rules by the Australian Associated Stock Exchanges (AASE) to allow stockbrokers to be incorporated, the responsibility for a policy on foreign participation shifted to the Federal government. Stockbroking had previously been heavily protected by both rules limiting participation by non-residents and uniform brokerage fees, both ending in March 1984. Lobbying by domestic broking interests

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[25] Speech given to a seminar on the Martin Report sponsored by *The Australian Financial Review* and held in Sydney, 14 March 1984.

[26] The government's rationale was that it wanted the British vendor to sell to Australians in order to reduce the already high level of foreign ownership and control in the Non-Bank Financial Institutions (NBFI) market. That was a legacy of investor interest prior to 1972 and flexible policy under the Fraser government for the NFBI sector (*Press Release*, no.77, 16 August 1983). Citibank's target was Grindlays Australia and the British vendor was the UK parent, Grindlays Holdings.

[27] The extent to which merchant banks were divided by self interest on FDI policy when the Australian Merchant Bankers' Association gave up on a making a submission to the Martin Inquiry because of it could not reconcile the contending policy preferences of its members (Mockridge, *SMH* 3 September 1983).

paid off when the Hawke government limited new foreign investment in stockbroking to a 15 per cent single foreign equity stake and 40 per cent in aggregate (Gill, *Aust* 19 April 1984; *Press Release* 18 April 1984). Australian banks also stood to benefit as they had recently been freed of many regulations preventing them taking stakes in the stockbroking industry (McCrann, *Age* 19 June 1984). As the stockbroking community was not a Labor Party constituency its success in securing a measure of protection through FDI controls is difficult to account for. Representations from stockbroking interests may have found some influence within Treasury.[28] These instances of reinforcing restrictive FDI policy show Kelly's (1992:87) claim that Hawke and Keating had been 'charting a path towards deregulation of Australia's financial system' from soon after coming to office to be exaggerated. The government was feeling its way in an area of policy far from traditional Labor concerns and so its policy preferences were easily shaped by opinion both in and outside official circles.

Public opinion was no great barrier to liberalisation of FDI in banking as the existing banks had few defenders. An ANOP opinion poll of April 1984 found 53 per cent for foreign bank entry, with party affiliation making no difference (*Adv* 30 April 1984).[29] This result, moreover, appeared before the case for liberalisation had been widely put. Support for liberalisation amongst academic economists and business commentators — and the Opposition's strong advocacy — put pressure upon the Labor government to repudiate the restrictive position it had adopted in opposition (*Aust* 4 March 1985). Widespread support for liberalisation amongst businesses was a further factor compelling change, while the points of resistance within the finance sector had diminished in the several years since reform was first seriously discussed (Pauly 1987; Kelly 1992:88–90). The main Australian banks had been strongly opposed to foreign bank entry but their unified position fragmented as some recognised that market opening could come as a package with

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[28] There is evidence to suggest that in several instances the initiative for more restrictive policy came from Treasury rather the Treasurer (Carew, *AFR* 11 May 1983; *Age* 1 October 1983; Frith, *Aust* 27 April 1984, 28 August 1984).

[29] National telephone poll of 1990 respondents, commisioned by *The Advertiser* (30 April 1984) and conducted by Australian Public Opinion Polls (Gallup). Some 60 per cent of men favoured the entry of foreign banks while only 46 per cent of women did.

local market liberalisation, presenting them with additional opportunities. Several Australian banks were also considering overseas expansion and soon discovered access to the important American and Japanese banking sectors could only be on a reciprocal basis (Hubbard, *AFR* 23 January 1985; *AFR* 29 January 1985).

The politics of foreign bank entry were difficult for the Hawke government because of the depth of antipathy to liberalisation within the labour movement; opposition that had both private and public interest aspects. The private interest aspect was associated with the strong opposition of the 82,000-member Australian Bank Employees Union (ABEU) to foreign bank entry. The ABEU feared increased competition in banking would reduce the profitability of existing banks, creating job losses and pressures on employee entitlements. The ABEU was not affiliated with the ALP, and had campaigned for Labor for the first time at the 1983 Federal Election on the basis of its opposition to banking liberalisation. In the lead-up to the 1984 national conference of the ALP, where the foreign bank issue would be decided, the ABEU appealed to Labor tradition to defend its members' financial interests. As the ABEU Federal Secretary said,

> We backed them on the basis that the ALP platform and policy speech spelt out issues that were important. But we've disagreed with all of the deregulatory moves to date because the government has been jumping to extremes. What ought to have been happening is a national debate about the alternatives. We could have had new and innovative controls. But Keating has a view of market forces and competition, which we just see as hogwash. What he is leading to is the throwing away of Labor Party traditions that this union believes are sound. (*NT*, 18–24 May 1984).

The ABEU sought the support of the ACTU leadership, with little success, as well as of key faction leaders in the ALP, but Hawke and Keating worked hard to put the case for more competition. Keating made much of the arrogance and conservatism of the major Australian banks and that they had always been political enemies of the ALP (*AFR*, 11 July 1984; Kelly 1992:88–89). In a more positive vein, Keating argued that foreign banks would provide enhanced export and investment facilitation services that would make a positive contribution to employment in

Australia (*AFR* 11 July 1984). The Left faction of the ALP, including its senior representatives in Cabinet, Stewart West and Brian Howe, strenuously resisted foreign bank entry principally on 'public interest' ideological grounds (*NT* 18–24 May 1984; *AFR* 11 July 1984). Journalist Terry McCrann remarked that it was 'puzzling, to say the least, that it is the Left which has taken up the cudgels to preserve what its members would normally regard as a cosy and highly profitable 'capitalist' oligarchy' (*Aust* 29 May 1984). Elements of the Centre Left faction were hostile, but its Cabinet members were generally in favour. Hawke and Keating worked hard to assemble a winning coalition at the 1984 national conference to secure the result (*SMH*, *Age*, *AFR* 16 July 1984).[30] Keating enlisted the support of state Labor premiers at the conference by promising that a number of the successful applicants would be required to locate their headquarters outside Sydney (*AFR* 11 July 1984). The final conference resolution stipulated that only a 'limited number' of foreign banks would be admitted and every effort would be made to have them find local equity partners.

Having won party approval, the government then had to decide upon the number of licenses awarded, the conditions attached and the particular recipients. It would later also have to contend with the 'knock on effects' to FDI policy from other aspects of financial services. Keating had foreshadowed the issuance of some 4–6 full licenses to foreign banks during the national conference debate but when later announcing the successful applicants he quipped 'one is not bound to be frank always' (*Aust* 4 March 1985). Sixteen licenses were issued, as a strategy to enhance the government's reform credentials. The large number of banks, clearly in defiance of the national conference resolution, provoked prolonged debate in the Cabinet and Caucus but Keating ultimately triumphed (*Aust* 4 March 1985). Shadow treasurer John Howard had supported the entry of eight to ten foreign banks (*Aust* 4 March 1985). Keating enjoyed being seen as the treasurer who was '...the most financially innovative and reformist in Australia's history' (Bowden, *Aust* 4 March 1985).

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[30] In order to secure the support of the Centre Left faction they traded the support of their Right faction, including for a motion on independence for East Timor (*AFR* 3 July 1984).

In hindsight the process of choosing sixteen recipients from a large pool of proposals was extraordinary, although this was barely remarked upon at the time by observers bedazzled by the number of licenses issued.[31] A detailed statement of the selection criteria was not put in the public domain. Moreover, Keating selectively met with executives of some foreign banks (*AFR* 1 October 1984). The government contended with the reciprocity issue by biasing the selection of banks towards countries in which the Australian majors wished to operate (Hubbard, *AFR* 23 January 1985; Robins, *AFR* 29 January 1985).[32] The understandings reached about the location and form of new foreign banking operations reveal the political nature of the selection process[33]. The final decision on the licenses was taken just one week before the State election in Victoria, allowing Premier Cain to announce that five foreign banks would be establishing their Australian headquarters in Melbourne.[34] Cain had delivered strong support for foreign bank entry at the1984 national conference (Goodfellow, *AFR* 11 July 1984). Labor governments in South Australia and Western Australia were also the beneficiaries of bank selection, each securing one bank. The Wran government in New South Wales could boast nine new banks, although Sydney's pre-eminence in financial services made it a natural destination. Yet Coalition-governed Queensland won no bank, despite the

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[31] The Bank of China was granted a license by the government separate from the selection process on the grounds that it was the logical successor to the license surrendered by the International Commercial Bank of China from Taiwan following Australia's recognition of the PRC (*AFR* 21 February 84). While the Bank of Tokyo could have again asked the Australian government to issue it with the license suspended at the outbreak of WWII, it made a judgment that this entailed political risk. The bank was awarded one of the sixteen licenses issued.

[32] The Japanese authorities finally agreed to some qualification to their usual policy of strict numerical reciprocity, accepting that the issuance of full licenses to three Japanese banks and the broad scope for the establishment of merchant banking operations following the Treasurer's statement of 10 September 1984, were sufficient grounds for allowing the four major Australian banks to establish full operations in Japan (*Press Release* 22 February 1985, cited in full in *AFR* 23 February 1985).

[33] The Reserve Bank had expressed a preference for wholly owned subsidiaries of foreign banks, incorporated in Australia and subject to the usual capital adequacy requirements, over joint ventures with local partners. It feared that in the event of a crisis the latter might have trouble providing additional capital (Angly, *NT* 18–24 May 1984). Political imperatives, however, made some joint ventures essential so the RBA instead imposed a 6.5 per cent capital ratio on the new bank entrants, compared to the 5 per cent applying to the existing operators (*Aust* 30 August 1985). The joint ventures were central to the deal Hawke and Keating had done with several Labor premiers.

[34] On this aspect of the decision, not noted in either other contemporary accounts or subsequent reviews, see Hywood (*AFR* 28 February 1985). Keating opened his press conference announcing the banks with the self-congratulatory remark, 'and they said it couldn't be done' (*SMH*, *AFR* 28 February 1985).

prominence of foreign resources firms there. The composition of joint ventures was equally revealing. The Standard Chartered operation in Adelaide was to be a joint venture with the state-owned SGIO, a vehicle of the Bannon government's developmentalism, and the Advertiser Newspapers, the main newspaper publisher in South Australia with great political influence. In Western Australia, the Industrial Bank of Japan was to be only a 50 per cent equity partner in a joint venture with a consortium of business interests that also gave the SGIO 10 per cent and the Western Australian Development Corporation 30 per cent (*Aust* 4 March 1985). The latter was an important instrument of the Burke Labor government's developmental adventurism. Although the IBJ had been involved in financing several Western Australia resources projects in the past, the choice of Perth as its base was particularly odd in commercial terms because its existing venture-financing operations were in Sydney.

The government's foreign bank decision, and its broader liberalisation of other financial activities, had profound implications for the large non-bank financial institutions (NBFIs). Financial liberalisation in 1983 and early 1984 had forced the Australian Merchant Bankers' Association (AMBA) to put aside its internal differences and call for a temporary liberalisation of FDI policy to facilitate a much-needed rationalisation of the sector (Frith, *Aust* 30 May 1984). Merchant banks were the feeling the pinch from the main trading banks that could move into their lines of business such as short-term money market operations and faced new competition from foreign banks for international operations (Hubbard, *AFR* 11 September 1985).[35] The government granted a one-year moratorium on local equity requirements in merchant banking to facilitate rationalisation, which it then

[35] The decision to grant licences to foreign banks had another and unintended consequence for the politics of FDI policy. Senior Treasury official Tony Cole observed that during the second half of the 1980s incompetent domestic banks took great risks for market share because 'back in 1984 and 1985 we kept selling the transforming impact of overseas banks. We got the local banks terrified, convinced that they were going to get creamed. Keating was promising that foreign banks would unclog the arteries of the financial system' (in Kelly 1992:89). This may have been exacerbated by Keating's determination to issue a larger than expected number of licenses in order to earn positive reputation as an architect of economic liberalisation and internationalisation. For an assessment of financial market liberalisation see Harper and Leslie (1993:84–103).

extended indefinitely (*SMH*, 30 October 1985; *FIRB* 1992:36; *AFR* 30 October 1985).

Currency crisis and FDI policy liberalisation

From the earliest days of the Hawke government there were some insiders, such as Hawke's chief economic adviser Ross Garnaut, who saw Australia's external balances was a policy time bomb (Kelly 1992:81–82).[36] Garnaut and many officials had hoped a floating exchange rate would bring a devaluation and increased export competitiveness; in time lifting the balance of payments constraint on economic growth. Yet balance of payment problems were to reappear with a vengeance in the mid-1980s and profoundly shape the policy direction for Labor over the next decade (Kearney 1993; Smith and Mahony 1993:38–40; Gregory 1991; Walsh 1991:7).

Australia's domestic economy grew much faster than exports but there was a problematic explosion in foreign borrowing following the suspension of capital controls. Growth of foreign borrowing and a sharp deterioration in the terms of trade were associated with a rapid worsening of the balance of payments deficit, in turn triggering a substantial depreciation of the Australian dollar.[37] While the Hawke government secured the cooperation of the union movement for wage restraint through the Accord, and displeased many within the ALP with tighter fiscal policy, it was generally seen in the markets and Reserve Bank as insufficient (Gruen *et al.* 1998:213–308; Edwards 1996:291). Kelly (1992:207) wrote of the period,

> The government's late 1985 post-budget mood was fragile because the $A was jittery and financial markets had not been comforted by Keating's budgetary and wage restraints. In

[36] Australia experienced a blow-out in the balance of payments deficit to 6 per cent of GDP in 1981–82, although the Australian currency remained strong with high interest rates, strong capital inflow as a result of that and investments in the resources sector, and the managed exchange rate (Dyster and Meredith 1990:273–75).

[37] Australia's foreign debt grew dramatically, reflecting the valuation effect of depreciation on outstanding borrowings, which had dramatically increased with liberalisation . Net foreign debt grew from 6 per cent of GDP in 1980 to 30 per cent in 1986 and the debt-service ratio deteriorated from some 14 per cent of export earnings in 1981–82 to 22 per cent in 1986–87 (Kelly 1992:202; Dyster and Meredith 1990:274–78).

> this period a significant reassessment of Australia's outlook was made by a growing number of economists, analysts and institutions developing dire scenarios about Australia's external accounts and foreign debt. The economic opinion making elite began to worry of a possible national crisis.

A package of FDI liberalisation measures was then proposed within the government to send a positive signal to foreign exchange markets without overly jeopardising the growth-oriented model that the Accord embodied.[38] Effectively, the government would 'keep faith' with its trade union constituency by winding back the economic nationalism of the ALP.

There was another reason for looking to FDI policy liberalisation, and for thinking that foreign exchange markets would treat it as good news. The growth of Australia's foreign debt was, in no small part, a consequence of a decade of economic nationalism in the resources sector. As Dyster and Meredith (1990:277) stated,

> Foreign investment in natural resources projects in the early 1980s tended to be more in the form of debt than equity compared with investment in the manufacturing sector where traditionally foreign investment took the form of direct branch/subsidiary investment. Foreign equity investment was restricted in natural resources projects under the foreign investment guidelines: Australia 'bought back the farm' in the 1980s but it did so at the cost of creating a massive foreign debt.

Australia had seen a structural shift in the composition of foreign capital inflows from FDI to debt in the decade from the end of the Whitlam government. The debt/equity split in Australia's gross external liabilities had been roughly even in 1976 but by 1986 debt accounted for 65 per cent (Dyster and Meredith 1990:277). Galligan's (1987) judgment, like many observers, that FDI regulation for the mining sector had been effective overlooked the economic risks of greater reliance on debt

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[38] The extent to which the Hawke government was locked into promoting short-term 'growth and jobs' by the dual pressures of the Accord and electoral politics is evidenced by Keating's admission that he hounded the Reserve Bank's most senior staff about cutting interest rates from early 1986 (Edwards 1996:291). The RBA did deliver substantial interest rate cuts from March to May 1986 but then had to reverse course as a currency crisis told hold.

financing. Liberalisation of FDI policy settings would bring greater balance in the composition of Australia's foreign capital inflow, with a commensurate increase in risk sharing and a reduction in foreign debt servicing obligations. Labor's first tentative move in the direction came in October 1985, at a time when the government desperately needed to put good policy news in front of both the foreign exchange markets and domestic business communities.

Policy package of October 1985

The government sought to arrest growing concern in the business community about policy settings with the Prime Minister's announcement of a business deregulation package (*AFR* 15 October 1985). Included in the package were measures to liberalise FDI regulation. The so-called 'opportunities test' was dropped because, to quote the Treasurer's statement,

> Experience with this aspect of the policy has shown that only very rarely has it resulted in a successful Australian bidder coming forward. At the same time, however, the public announcement requirement has caused concern to both prospective foreign investors and Australian vendors because of its possible detrimental effects on their business interests. In this way it may also have been prejudicial to the attraction of worthwhile foreign investment to Australia. This change removes an irksome feature of the policy and represents a significant act of business regulation. (*Press Release* no.136 29 October 1985).

This change was significant because the opportunities test had been a mechanism forewarning domestic interests of the entry of a rival foreign firm (Burrell and Hartcher, *SMH* 30 October 1985). The former could then either get organised to buy the asset or to lobby for the foreign takeover to be blocked. Although the Treasurer's statement suggested this was infrequent there were perceptions to the contrary in some foreign business circles (Burrell and Hartcher, *SMH* 30 October 1985). Other notable FDI policy changes in the 1985 deregulation package included the raising of notification and review thresholds; the effect being many smaller investments were effectively no longer subject to regulation. There was a clear tension in the Treasurer's formal statement between the desire to be perceived by

investors and commentators liberalising policy whilst presenting the changes to the electorate as being relatively minor *(Press Release* no.136 29 October 1985*)*.[39] In the politically sensitive property sector, despite calls from within the industry throughout 1984–85 for change, the restrictive investment regime was not significantly liberalised (*AFR* 17 May 1985). It was made easier for foreign property developers to get on with projects without a local equity partner where they planned either to sell entirely the building within six months of completion or sell a majority ownership stake to locals (*AFR* 24 October 1985). Long-term foreign ownership, however, was still greatly restricted.

The Federal Opposition and much of the business press demanded further liberalisation.[40] As Australia's balance of payments and currency problems persisted the voices calling for far-reaching liberalisation of FDI policy grew louder (Frith, *Aust* 13 June 1986). The Opposition, by then under the leadership of John Howard, was resolutely liberal. Howard, in stark contrast to his conduct of FDI policy as treasurer a few years earlier, argued that

> Having floated the dollar and irretrievably and for all time become part of the world economy, we are deluding ourselves to think we can have some kind of bureaucracy which sits in judgment as to what's a good investment and what's a bad investment. I have no philosophical reservations about getting rid of them *[restrictions]* all, with the possible exception of...what you might call strategic things such as communications. (*Age* 5 July 1986).

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[39] Consequently, the changes to threshholds were '...at least in line with the increase in prices since the current threshold levels some years ago but in some instances more than maintain the real values of the thresholds.' There were also the characteristic statement that the government was committed '...to keeping the degree of foreign ownership and control within reasonable bounds.' (*Press Release* no.136 29 October 1985).

[40] The *Sydney Morning Herald* noted aptly that a fear of foreign debt had overtaken a fear of transnational firms in the public mind so the Labor government could push liberalisation further (*SMH* 30, 31 October 1985). The *Australian Financial Review* had editorialised in favour of abolishing the FIRB and all FDI-specific regulation a week before the government's liberalisation measures so was critical of their limited extent. The influential newspaper argued that tax and trade practices policies were sufficient to address any concerns about FDI and also argued that FDI policy was inconsistent with Australia's promise under the 1961 OECD Code of Liberalisation of Capital Movements to progressively abolish restrictions (*AFR* 21 October 1985).

The case for FDI liberalisation was given added credibility by Labor elder statesman Neville Wran, a close confidante of Keating. In his final public address as NSW Premier, Wran called for the dismantling of the Foreign Investment Review Board.

> Whether you're in London, New York, or any of the other financial capitals, the FIRB is regarded as an unnecessary impediment, a bureaucratic impediment, to free investment in Australia. No one would deny that one of our problems is the smallness of the capital mass available in Australia, and we need to increase investment. I think it would be a sign to the rest of the world, if we threw the FIRB overboard. (*AFR* 1 July 1986).

Few voices were raised in defence of FDI policy while many called for change. At the same time a profound sense of national economic vulnerability had taken hold in the broader community, creating a strong political imperative to be seen to be taking economic policy initiatives.[41] The unfolding currency crisis of May–July 1986 was to exacerbate those insecurities further.

Mid-1986 crisis

Australia's balance of payments further deteriorated in April 1986. On May 14 Keating famously remarked, on radio, that Australia ran the risk of becoming a 'banana republic' (Edwards 1996:295–96; Mills 1993:88–89; Kelly 1992:196–97). From mid-June the Australian dollar started to depreciate in a sustained fashion, gaining momentum throughout July.[42] On the afternoon of Friday 25 July the currency slumped from US61.5c/A$ to US57.1c, forcing the Hawke government to formulate a policy response over the weekend to turn around market sentiment. The centrepiece of that response was extensive liberalisation of FDI policy. The

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[41] A Newspoll of June 1986 found some 64 per cent of respondents agreed 'the Country is in deep and serious trouble', compared with 32 per cent in February of the same year (*Aust* 12 June 1986). Party affiliation was a significant determinant of response, with only 48 per cent of those identifying themselves as Labor supporters agreeing with the pessimistic scenario while 82 per cent of Coalition voters did (National telephone poll of 1150 respondents). A poll by advertising group Ogilvy and Maher found over half of all respondents expected to be economically worse-off in the future, a significant rise from 1983 and 1985 (*SM* 20 July 1986).

[42] Recent analysis has shown that the depreciation of the Australian currency went far beyond what the deterioration in fundamentals suggested it should have done, and the reasons for the overshooting included inexperience with the floating exchange rate regime (Gruen *et al.* 1998).

government's package was designed as, and received by the markets as, a signal the government was committed to the maintenance of open capital markets. The *Sydney Morning Herald*'s headline read 'Mr Keating's circuit breaker' after the policy package contributed to a strong turn-around in the dollar (*AFR, Aust, SMH* 29 July 1986).[43] It succeeded because it addressed persistent fears in foreign exchange markets that the government would respond to the growing currency crisis by re-introducing capital controls (*SMH* 29 July 1986). Editorial and business commentary on the government's response was universally favourable, reflecting both the sense of crisis and the general media support for FDI liberalisation (*AFR, SMH, CM, Age, WA, CT* 29, 30 July 1986). This in turn reiterated the message to the government that FDI liberalisation was a good way to win plaudits for economic management, with seemingly little political pain.

The 1986 policy package substantially liberalised FDI in manufacturing, tourism, and in the non-bank financial sector. The 'economic benefits test' was suspended for both new investments and takeovers, local equity partners were no longer required and, although investments still had to be notified, '...proposals will be automatically approved unless they are judged to be contrary to the national interest' (Keating, *Press Release* 28 July 1986).[44] The Treasurer stressed the changes, as a response to an economic emergency, were a suspension rather than abolition of the existing requirements. Business and media observers, however, generally assumed the changes would be permanent (Porter, *Adv* 29 July 1986; *AFR, SMH, Age* 29 July 1986). Keating said the policy changes for manufacturing were merely a formalisation and administrative streamlining of a liberal policy that had been evolving for some time (*AFR* 30 July 1986).

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[43] On the 28 of July the A$ closed at US61.5c, after having briefly gone to US63c. The Reserve Bank, of course, actively intervened in support of the Australian dollar at various times throughout this period of currency weakness (Gruen *et al*, 1998:209).

[44] Abolition of the FIRB was never an option for the government while it wished to retain extensive controls on 'sensitive' sectors and while even fully liberalised sectors remained subject to a reserve national interest veto prerogative (*AFR* 30 July 1986). In order to avoid any inequities owing to the immediately effective nature of the policy changes in liberalised sectors, the government dispensed with existing obligations on foreign investors to sell-down their equity stakes to locals (Keating, *Press Release*, 28 July 1986).

The 1986 policy package clearly heralded a decisive break with recent policy for the property sector. The Hawke government had been subjected to an intense lobbying campaign for several years by property industry figures who stood to benefit from a liberal policy but who had been granted only modest concessions in October 1985. Australia's worsening external position in mid-1986 led those interests to step up their public campaign; claiming huge benefits for liberalisation (*AFR* 19 June 1986; *AFR* 11 July 1986).[45] In the end the Hawke government delivered them more modest, although historically significant, liberalisation. Local equity requirements were abolished for FDI in real estate developments, both for on-sale and retention and for any investments (including acquisition) in tourism properties. The government was clearly focused upon the direct employment generation effects of new developments and the infrastructure constraints restricting the growth of the inbound tourism industry.[46] Acquisitions of established commercial real estate, previously effectively prohibited, were allowed but were made subject to a 50 per cent local equity guideline or proof this was unavailable (Keating, *Press Release* 28 July 1986; *FIRB* 1994:46). The government was effectively still distinguishing between 'new' investments and takeovers; assuming the latter contributed less to the economy. The Treasurer's official statement justified liberalisation of FDI in property on the grounds the changes would lead to higher direct investment inflows and to release Australian funds presently tied up in real estate for investment in others sectors of the economy (Keating, *Press Release* 28 July 1986). Keating argued the newly introduced capital gains tax made an outright prohibition on long-term holdings of commercial property by foreigners out-of-date, although no argument was given for still requiring 50 per cent local equity (*AFR* 30 July 1986).

There were reports that Keating had reservations about liberalisation of foreign acquisitions of developed property; reports consistent with his later move to restrict foreign acquisitions of established residential properties (*SMH* 29 July 1986). The Hawke government may also have been mindful of the divergent FDI policy

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[45] The chairman of estate agent Richard Ellis claimed his agency alone could bring between $1–2 billion of long-term property investment into Australia within a year if restrictions were lifted (*AFR* 11 July 1986). Of the FIRB he declared that 'this straggler from the sacred herd of regulation must be shot' (*WA* 9 July 1986).

preferences within the Australian property sector. The construction, property management and property trust industries had been long divided on foreign investment policy, fundamentally along the lines of immediate self-interest (Hurst, *AFR* 26 March 1986). Real estate intermediaries and the suppliers of construction materials and services generally favoured a liberal policy. Domestic construction companies did not want foreign competition, but did want foreign-funded projects and domestic property managers also feared foreign competition.[47] The Hawke government was certainly mindful of the political sensitivity of FDI in rural industries when liberalising foreign rural property acquisitions. In April 1986, in its *Economic and Rural Policy Statement*, the threshold had been raised (from $1m to $3m) for application to projects of a joint test of Australian equity participation and/or economic 'benefits of national or regional significance'. That had provoked mixed responses from rural interests (*AFR*, *SMH* 16, 17 April 1986). In the July 1986 package outright foreign ownership of rural properties was permitted, but only if the purchaser proposed on-farm development expenditure worth at least one-third of the purchase price. Majority foreign equity stakes could still be approved if that was the case, if the established benefits test was satisfied. Such a discretionary approach would allow the government to manage FDI policy for rural properties with a keen eye to political sensitivities.

The July 1986 FDI policy package was as notable for the sectors that were not liberalised as for the ones that were. There was no change to the 50 per cent local equity guidelines for the mining industry, or the even stricter policy that applied to the media and other sensitive sectors. While some Australian and 'naturalised' mining companies retained an immediate interest in a restrictive policy, their increasing internationalisation diminished demands for its perpetuation. The mining sector as a whole demanded liberalisation, and some representatives were critical of the Hawke government for not delivering it in July 1986 (*AFR* 29, 30 July 1986).

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[46] This will be discussed in the following chapter.

[47] The results of an extensive 1986 survey of attitudes in the property industry to FDI regulation, conducted by the Australian Institute of Urban Studies (AIUS) were consistent with that pattern of self-interest (Hurst, *AFR* 26 March 1986). There was strong support for the maintenance of some kind of discretionary regulation, such as the FIRB mechanism, while half the respondents wanted some liberalisation to boost the industry at a difficult time (Hurst, *AFR* 26 March 1986).

Foreign investors that missed out in the liberalisation package nonetheless took consolation from the fact that policy was clearly moving in a direction of greater openness, and they also benefited from changes to tax treatment of foreign firms included in the reforms.[48] The positive response to the 1986 reforms soon led the government to consider further liberalisation.

1987 liberalisation

With the onset of the balance of payments crisis the Hawke government's credibility as an economic manager, and hence its electoral fortunes, was gravely weakened (Mills 1993:93–95).[49] Stabilising the current account deficit and currency became the principle policy objective, not least because it would permit interest rate cuts helpful to Labor's re-election. The 1985 and 1986 FDI liberalisation packages had been directed at this end; as was renegotiation of the Accord with the ACTU to secure real wage reductions and a significant tightening of fiscal policy (Edwards 1996:301–11). The nature of the balance of payments shock was such that the 'feasibility frontier' of policy responses to it shifted considerably. Kelly (1992:196) judged that Keating's banana republic remark

> ...facilitated the demise of the old order and the advance towards a new one. It is also proof that history is made as much by accident as by design. Keating's remark was inadvertent but it became a psychological pivot. It lifted community consciousness about Australia's economic predicament to an unprecedented level and it changed the limits of political tolerance.

The balance of payments crisis cemented the government's commitment to champion the internationalisation of the Australian economy and to do so required it

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[48] Prominent in the liberalisation package put together by Keating and his advisers was the restoration of interest withholding tax exemptions that had been abolished only a month previously. The original decision had elicited a strongly negative reaction from business interests and commentators and Keating later conceded that he had always had deep reservations about Treasury's proposal (Porter, *Adv* 29 July 1986; Kelly 1992:219–20).

[49] See, for example, the detailed report of leaked ALP private polling by Gregory Hywood (*AFR* 4 June 1986) for a discussion of the negative dimensions and the findings of the Saulwick polls for results more favourable to the government (*Age* 9 June 1986; *AFR* 16 June 1986).

to continue 'culling Labor's sacred cows' (Mills 1993:65). The Hawke government would make a decisive break with labourist and statist traditions in favour of a pragmatic social democratic model of public governance heavily tinged by economic liberalism (Castles 1988; Beilharz and Murphy 1992; Bell 1997:208).[50] Its preparedness to embrace market forces as a foundation for realising a social democratic vision was in keeping with the moderate Left in smaller European nations but was anathema to many in the labour movement and political Left (Katzenstein 1985; Beilharz 1994).[51] However the critics were left bewildered by the economic challenges Australia faced and unable to offer detailed alternatives to the Hawke government's approach.

In April 1987 Treasurer Keating announced a third package of FDI liberalisation measures[52]. A month later the Hawke government called an election that saw it commit to further economic reform and win a historic third term in office.[53] The 1987 package abolished the 'economic benefits' test for sectors such as resource processing, insurance, stockbroking and rural sectors; leaving only a reserve veto on

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[50] Hawke retained considerable sympathy for state interventionism when he came to office — a fact which made the subsequent promotion of wide-ranging economic liberalisation so striking (Mills 1993). Kelly (1992:197) saw 1986 as marking the definitive switch for the Hawke government to a 'new radical market-orientated direction..' In the early 1990s, partly in reaction to deep recession, an intense academic debate occurred over 'economic rationalism' under Labor's rule. See, for instance, Pusey (1991); Carroll and Manne (1992); Rees, Rodley and Stilwell (1994); King and Lloyd (1993) and James, Jones and Norton (1993). A related debate about the role of industry policy continued throughout the 1990s. See, for instance, Probert (1994); Bell (1993, 1994, 1997) and Stewart (1994).

[51] Many critics overlooked the pragmatism of past Labor governments at both federal and state level and hence overstated the discontinuities (Johnson 1989). Despite the apparent radicalism of the Whitlam government in hindsight, a questionable benchmark against which the Hawke government's Labor credentials were judged, it had been subject to considerable criticism from the Left for its supposed moderation (Catley and McFarlane 1974).

[52] The Hawke government followed up the FDI liberalisation package with a commitment to even tighter fiscal policy in its May Statement and was rewarded with a fall in interest rates. Although the government could have stayed in office until early 1988, the boost to the government's reputation tempted Labor to election (Edwards 1996:311). The Opposition was divided and having difficulties selling its intimidating reform agenda to the electorate (Kelly 1992:285, 315–34).

[53] The 1987 election campaign revealed just how much Labor had changed in office; its campaign commercials were sombre and responsible while the Opposition promised massive tax cuts (Kelly 1992:2[illegible]). Astonishingly, one newspaper survey found 90 per cent of foreign exchange dealers backed Labor (cited in Kelly 1992:349). Kelly judged of the 1987 election that 'Labor had satisfied the three necessary requirements for a sound campaign: financial market confidence preventing any run on the currency; the shift from monetary to fiscal policy setting the scene for falling interest rates; and an attack on the current account deficit that had avoided recession.' (Kelly 1992:344).

'national interest' grounds (Keating, *Press Release* 30 April 1987; *FIRB* 1988:31–33). This effectively shifted the burden of proof about the economic impact of a project from the foreign investor to the regulator, although the Federal government was still not required to give reasons for rejecting a project. The thresholds for exemption from notification requirements of takeovers were raised, to A$5 million for most businesses (still A$3 million in the case of rural properties), substantially reducing the administrative load upon the Treasury. Residential properties remained subject to the existing reporting threshold. The 1987 package also greatly extended the benefits of naturalising status. Naturalised firms were allowed to freely establish new businesses and takeover existing Australian firms, subject only to the government's reserve 'national interest' veto (Keating, *Press Release* 30 April 1987; *AFR*, *Aust* 1 May 1987). The government's change of heart on foreign investment was symbolised by the lifting of the allowable foreign equity stake in stockbroking firms to 100 per cent from the then current 50 per cent (Keating, *Press Release* 30 April 1987; *Age*, *Aust*, *AFR* 1 May 1987). Less than three years earlier the government had imposed a ceiling of 15 per cent on such investments. Such foreign takeovers were subject only to notification and the reserve 'national interest' veto. While business actors and commentators welcomed the liberalisation, the mining industry was critical for not going further. Subsequent abolition of local equity requirements in new oil and gas projects still did not quieten critics such as the AMIC (*AFR*, *Age* 21 January 1988).[54]

Australia now had a significantly more liberal FDI policy than any observers would have predicted two years previously. Despite this, a 1987 OECD survey of FDI policy settings in member countries still ranked Australia as third worst in terms of instances of sectoral restrictions, after France and Finland (OECD 1987). The result attracted attention from the 'quality' press and led the government to defend the

[54] On the other hand, the government's liberalisation measures did not entirely dissuade boards facing hostile foreign takeovers bids from lobbying the government for regulatory intervention. Prominent examples of such private interest demands, ultimately resisted, included the boards of Enacon, (B. Frith, *Aust* 3 July 1986); F. H. Faulding (*Age* 26 April 1987; *Aust* 3 July 1987) and Goodman Fielder Wattie (*Aust* 23 March 1989; 26, 27 April 1989; *AFR* 31 March 1989).

liberality of its policy in practice (*Aust* 14 October 1987).[55] This was just one of many instances where the Australian government had come to be judged by domestic policy communities against international benchmarks that only a few years before attracted little attention. Several international precedents in FDI policy attracted Australian attention. The contribution of FDI to rapid economic growth in some East Asian economies was one; especially with Australia's relative economic decline vis-à-vis those economies. At the same time developments in Canada, such as its conversion of the Foreign Investment Review Agency into Investment Canada in June 1985, pointed in the direction of pro-FDI policy settings (McCrann, *Age* 29 June 1985). The international developments suggested not only that Australia should liberalise FDI policy settings but also be more pro-active in attracting FDI.

Inward investment promotion

From early in its first term the Hawke government had been making effort to attract inward FDI. Initially this centred on Japan and the resources sector in recognition that Japanese equity stakes in mining ventures could secure demand for output (Hawke 1983:12–16). A similar logic applied to Korean and Chinese equity stakes in resources projects and mineral processing (*CM* 14 May 1986). Labor, consistent with its historical concern for promoting industrialisation and the interests of organised labour, also hoped for more FDI in manufacturing (Anderson 1998:3–5). The Hawke government's enthusiasm for greenfields FDI in these traditional sectors grew too out the economic growth model enshrined in the Accord with the ACTU. In fact, the government routinely coopted ACTU officials into marketing abroad and hosting inbound investment missions (*AFR* 6 September 1984; *AFR* 3 November 1986; *AFR* 13 January 1987; *AFR*, *Age* 9 February 1987). The objective was to showcase the Accord to potential investors because the Hawke government recognised Australia's reputation for industrial conflict had worked against FDI

[55] Fourteen sectors in Australia were identified as carrying restrictions on FDI and three as completely of limits because of government monopolies. France had restrictions on 19 sectors.

inflow in the past (*Aust* 3 February 1987).[56] The Amaya investment mission from Japan in early 1987, and its subsequent report, was a focal point for critical public discussion about Australia's appeal as an investment destination (*AFR* 13 January 1987; 3, 9, 10 and 12 February 1987).[57]

The Cabinet put inward FDI promotion on firmer organisational and financial footing in the lead up to the 1987 election (Anderson 1998:6–7). Target sources were identified as Japan, the United States and Europe in the first instance and the promotion campaign was to be jointly-run by Austrade and the Department of Industry, Technology and Commerce (DITAC) (Burrell, *AFR* 22 May 1987).[58] The ministerial statement announcing the changes was biased towards manufacturing FDI, although in late 1987 the tourism minister was despatched to Japan to promote investment in tourism infrastructure (*Aust* 8 June 1987; *AFR* 13 November 1987). By late 1988, investment promotion had moved beyond a simple mission model to deploying specialist investment promotion consultants in-country, the first appointment being to Austrade's Tokyo office (*AFR* 13 December 1988). Merger of the departments of trade and foreign affairs after the 1987 election somewhat diminished interdepartmental coordination problems. Yet Treasury's continuing responsibility for FDI review meant there was scope for conflict and for mixed messages to aspiring investors. This was exacerbated by DITAC sharing the investment attraction role and the activities of most states in trying to attract FDI.[59] In early 1989 the Commonwealth and the states agreed on a set of guidelines for

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[56] In September 1984 Industrial Relations Minister Ralph Willis led a delegation of union and business representatives to Japan specifically to allay such concerns (*AFR* 6 September 1984). An investment mission led by Industry Minister John Button in late 1986 became a template for subsequent missions to other countries (*AFR* 3 November 1986; 13 January 1987; Hadler, *Aust* 8 June 1987).

[57] The Japanese investment mission, led by prominent MITI advisor Mr Naohiro Amaya, visited most state capitals and included representatives of 21 manufacturers, five trading companies and eight banks, as well as a number of officials from government departments (*AFR* 3 February 1987). The composition of the Japanese delegation reflected an appreciation amongst its planners that the Hawke government was aiming principally for greater investment in high-tech manufacturing.

[58] One million dollars was allocated to a campaign of investment promotion and a data base of factors inhibiting direct investment that should be addressed was to be created (*Aust* 8 June 1987). The shadow industry spokesman criticised the FDI promotion plan as '...a kneejerk political response in an election atmosphere' that did not address the root causes of why Australia was not an attractive destination for FDI (*Aust* 8 June 1987).

[59] From interview with Mr Peter Watts, Invest Australia, Sydney, 22 February 2000.

cooperation in both FDI attracting and marketing products and services; although political incentives for non-cooperation remained strong (*AFR* 28 February 1989).

Conclusions

Labor came to office in March 1983 with a formal commitment to more restrictive FDI policy but a strong political imperative to deliver economic recovery and job creation. In late 1983 the Hawke government turned its back on the ALP's FDI policy and affirmed FDI policy similar to that inherited from its Coalition predecessor. The Hawke government was periodically lobbied by domestic businesses wanting their private interests protected through the mechanism of the *Foreign Takeovers Act*. However, FDI policy outcomes principally reflected the Hawke government's conception of the public interest; patterned by moderate economic nationalism and the political imperatives presented by the Accord and the electorate. Government leaders were acutely aware that Labor's dismal record in earlier periods of government stemmed fundamentally from its inability to win confidence in its economic management capacities. This led to reaction against the Whitlam government legacy and disposition towards liberal economic reform agenda being proposed by the broad policy community of Treasury officials, peak business groups, commentators and academics. The Hawke government's adoption of a floating exchange rate and abolition of capital controls, despite wariness within Labor ranks, earned plaudits from quarters historically hostile to Labor and so enhanced its electoral standing. The Hawke government's reform credentials were further boosted by the decision to issue a large number of licenses to foreign banks, regardless of contention within the labour movement. The plaudits won for foreign bank liberalisation were despite the allocation of banking licenses having been influenced by the political interests of state Labor governments.

Both the float and foreign bank decisions had considerable symbolic and practical significance and had not required parliamentary approval. Foreign investment policy could be broadly liberalised by treasurer's fiat and the trigger for this was a

sustained deterioration in Australia's balance of payments in the mid-1980s. The Hawke government's business deregulation package of 1985, emergency measures in response to the currency crisis of 1986 and its pre-election FDI liberalisation package of 1987 were central to its efforts to win renewed confidence in its economic management capabilities. In loosening FDI policy each time the Labor leadership was endeavouring to signal its commitment to internationalising the Australian economy. Its audiences were both elite opinion-makers with influence over the electorate — media, industry and academic commentators — and the business community. Business support for a liberal policy was partly a function of the internationalisation of Australian business itself. It also stemmed from the desire of business for Australia's balance of payments deficit to be managed without a painful recession. The Hawke government's trade union constituency did not oppose FDI liberalisation for this latter reason, and because of the additional employment creation that FDI might deliver. The ACTU's pragmatism on FDI was marked by its involvement in official initiatives to attract foreign investment.

The main political risk for Labor in liberalising FDI policy lay in the arena of public opinion. While economic nationalist sentiment in the broader electorate remained strong, there were initially greater anxieties about Australia's economic prospects that FDI could ameliorate.[60] Although increased FDI exacerbated the concerns of some Australians about Australia's economic future, the Federal Opposition's adoption of an even more liberal FDI policy meant anti-FDI sentiment did not immediately become politically salient. However, in the late 1980s the Hawke government was confronted by intense controversy over Japanese investment in Australia, having both complex public and private interest dimensions. Labor's responses revealed the mix of principled defence of liberal policy and politically pragmatic concessions that typified its time in office. The more Labor liberalised general FDI policy, the more politically inspired appeared the continuing restrictions on FDI in certain 'sensitive' businesses. These restrictions were driven either by electoral imperatives or sector-specific private interest politics. The following two chapters look at those political dynamics.

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[60] See footnote 39.

8 Politics of Japanese FDI, 1987–90

The Hawke government substantially liberalised Australia's FDI policy in response to severe balance of payments problems. A more open policy promised both quick relief through larger capital inflow and a longer-term boost to exports and international competitiveness. Yet despite the support of the Federal Opposition for a liberal FDI policy, the Hawke government was soon confronted by public controversy over increasing Japanese direct investments in real estate and the tourism and beef industries. The Hawke government initially treated public concern about FDI in residential real estate as a private interested reaction by Australian aspirant buyers. Its politically pragmatic response was to enact restrictions on non-resident ownership of residential real estate that were at odds with its recent liberalisation of FDI policy. However, antipathy to property FDI also reflected deep territorial, historical, cultural and racial sensitivities within sections of the Australian community. Negative reactions were compounded by a sense of national economic vulnerability following the currency crisis of 1985–86 and the Hawke government's promotion of economic liberalisation and 'enmeshment with Asia'. Contention over Japanese FDI during 1988–89 was made more intense by the concurrent and not unrelated public controversy over Asian immigration.

Latent community disquiet about Japanese FDI was made politically salient by elements of the mass media, fringe right and left wing political activists, and the state Labor Opposition in Queensland. The Hawke government feared the public controversy over Japanese FDI would damage its economic and related diplomatic strategies. It publicly defended the contribution that Japanese FDI could make to the economy and to the growth of the export-oriented tourism and beef industries in particular, despite popular concerns about 'vertical integration'. Japanese direct investors in the beef industry faced strong criticism from domestic industry organisations controlled by interests fearful of the rationalisation that such FDI might provoke. These producer interests also exercised voice through the National Party, provoking tensions within the Federal Coalition over Japanese FDI. While

Labor had its own dissenters, the Foreign Investment Review Board again proved to be an effective tool for managing the politics of FDI. The Coalition ultimately compromised its liberal credentials on foreign investment policy with resort to criticism of the Japanese-backed multi-function polis (MFP) concept during the tight-fought 1990 federal election. It not only marked the extent to which the major parties perceived anti-Japanese sentiment in the electorate to be widespread but also the power of elite opinion-makers in the media and business to censure populist politics. The challenge to liberal and non-discriminatory FDI policy finally receded with the onset of deep recession late in 1990 although deep-seated hostility towards FDI from Asia was to persist in some sections of the Australian community.

Residential real estate FDI and interests

Rises in urban residential real estate prices in the mid-1980s, in Sydney in particular, attracted the attention of the mass media with an increasing number of reports about foreign purchasers (Walsh *SMH* 27 August 1987). It was soon widely asserted in the media, especially in tabloid newspapers and talkback radio that foreign buyers were driving up prices beyond the reach of many Australian buyers.[1] In September 1987 the Federal government announced a ban on the acquisition of urban residential properties by non-residents, with limited exceptions for approved migrants and foreign firms buying residences for executives. Australian citizens resident overseas were also entangled in the new provisions and accounted for a third of applications to the FIRB in the first eight months of their operation (*FIRB*

[1] The Hawke government's decision to exempt the principal residence from its new capital gains tax, a wealth effect from the stock market, the booming financial services sector centred on Sydney, a cyclical upswing and a large growth in lump sum superannuation pay-outs were all factors contributing to large rises in residential property prices, especially in the higher segments of the market (*TOS* 4–10 October 1987). It has proven difficult to judge the effects of the restrictions on the residential market because a major stock market correction soon after their announcement impacted on the market (Bryan 1989:20–21). The deep recession of 1990–92 further clouded the issues. The restrictions apparently did have an immediate effect on a limited range of properties on the Gold Coast, although the effects in the Sydney market, ironically, appear to have been much more modest (*TOS* 4–10 October 1987; 21–27 February 1988). The consequences for public administration of the foreign investment review process were far more dramatic. Applications processed by the FIRB increased dramatically, ironically after staff numbers assigned to foreign investment issues in Treasury had been sharply reduced following previous policy liberalisation (Cassie, *AFR* 9 December 1987).

1988:14).[2] The ban applied immediately and the government committed to introducing amendments to the *Foreign Takeovers Act* to allow for criminal sanctions for non-compliance with the ban or the associated notification requirements (*Age*, *SMH*, *AFR*, *Aust* 30 September 1987). In announcing the restrictions Treasurer Keating said that the previous guidelines had been widely ignored.[3] Keating asserted that the apparent 'surge' in foreign demand for residential properties had brought 'little economic benefit' to Australians but also conceded that the decision was based on no more than a 'sketchy picture' of the scale of foreign acquisitions of residential real estate (*Age*, *SMH* 30 September 1987).

The decision was at odds with the Hawke government's general liberalisation of FDI policy (Bryan 1989:17). Although the Treasurer insisted there would be no further tightening of FDI policy, foreign exchange markets reacted very negatively to the announcement by selling down the Australian currency (*Age* 30 September 1987). The question arises as to why the Hawke government did not make the pragmatic move prior to the Federal election several months earlier. As seen in the previous chapter, the overriding concern for the ALP in the lead-up to the 1987 poll was to rebuild the confidence of opinion leaders in its economic governance following the balance of payment crisis of 1985–86. The Opposition promised an even more liberal FDI policy, and so Labor did not risk losing votes on the issue. With the residential ban post-election the Hawke government clearly hoped that any damage to its reputation within the international investment community would be offset by political gains to the ALP from adopting the restrictions.

The immediate political imperative was to help the faltering Unsworth Labor government in New South Wales, especially in the wake of local elections that had

[2] FIRB (1988:14) stated that Australian citizens living abroad were 'readily given approval to buy real estate unconditionally'. In 1989 acquisitions by Australian citizens abroad and foreign nationals entitled to Australian permanent residence were exempted from the examination requirements although notification was still required (*FIRB* 1989:2).

[3] The FDI policy guidelines inherited from the Fraser government placed no restrictions or reportage requirements on acquisition of residential properties by foreigners if the total historical value of all properties held was less than $600,000. As the median house price even in Sydney was only one-third that figure, the rules did not constrain purchases of 'average' properties by non-resident foreigners — although there was no evidence proffered that such purchases were occurring.

been disastrous for the ALP (*Age* 30 September 1987; *TOS* 4–10 October 1987). For this reason, and apparently from personal conviction, Treasurer Keating saw the government adopt the restrictions (*AFR* 13 May 1983; 21 June 1983; Hywood, *AFR* 30 September 1987). That they promised political pay-offs is suggested not only by the opinion polling of the time, but also by their basic political economy. At any time a substantial portion of an urban population aspires to live in more exclusive areas of a city. As the supply of new residential properties in desirable inner urban areas is limited, especially free standing ones, many may conclude that any regulation reducing the pool of bidders will keep prices lower and increase their chances of buying there. The constituency for restrictions on acquisitions by foreigners is therefore much larger than for a liberal policy as there are many more aspiring buyers than there are aspiring sellers who would not want to buy again in the same market.[4] On the other hand, foreign investment in new apartment and outer suburban housing developments might increase the overall stock of residential properties and make the ownership aspirations of locals seem more attainable.

The Hawke government's restrictions clearly seem to have been crafted with such an understanding in mind. Under the new policy foreign developers could still build apartment blocks and other residential developments, but remained subject to FIRB approval as before. Moreover, up to 50 per cent of the units in a development could be sold 'off-the-plan' to non-residents prior to the project's completion (*FIRB* 1988:13–14; *W. Aust* 7 November 1987). Those units, however, could not then be on-sold to other non-residents. The evident hope was that foreigners would continue to build residential property stock that Australians could then buy more cheaply than if they had to bid against non-resident purchasers. The major flaw in the logic underpinning the restrictions was the fact that investments in new residential property projects would be less attractive to foreign investors now that they could not be freely sold onto other foreigners. It was on precisely such grounds that the

[4] Support for restrictions on purchases of residential real estate by non-residents is also consistent with Caves (1996) account of the asymmetry of economic nationalism. That is, in this instance, the costs to domestic buyers through higher prices of competing non-resident bidders attracts greater attention than the gains to domestic sellers. Support for such restrictions is also consistent with historical concerns about absentee landlords and also with some strands of popular communitarian thought.

real estate industry attacked the government's restrictions (*AFR*, *SMH*, *Aust* 30 September 1987). The new restrictions also ignored the potential effects on the rental market, where foreign portfolio property investors had contributed to increased supply. Following closely upon the Hawke government's capital gains tax, and at a time of a large migrant intake, real estate industry observers warned of the dangers of a rental squeeze (*Age* 30 September 1987). The Real Estate Institute's New South Wales president accused the Federal Treasurer of a '...a gross over-reaction based on a fundamental misunderstanding of the marketplace' (*Aust* 30 September 1987). The distinction between established properties and new projects proved inordinately difficult to implement, resulting in intense criticism from the property industry and repeated delays in formulating legislation (*Aust* 14 October 1987; 1 June 1988; *AFR* 9 December 1988). The new restrictions also had implications for the growing tourism industry as holiday condominium and resort developments had been increasingly financed through strata titling and sale to portfolio investors.[5] This was later acknowledged in one of the Federal government's own documents, and by the Tourism Minister, and Labor factional powerbroker, Senator Graham Richardson (Richardson 1988; *SMH* 13 December 1988). The government eventually sought to address the problem by creating a system of block approvals for acquisitions by non-residents in developments granted 'integrated tourism resort' status (Treasurer, *Press Release* 25 July 1991; *FIRB* 1994:25).

In straying down the path of economic nationalism the government found it had some influential fellow travellers. The *Australian Financial Review*, perhaps playing to the many property aspirants amongst its readership, editorialised in favour of the restrictions (*AFR* 30 September 1987). Melbourne's *The Age* declared that,

> The only losers are the owners of expensive properties for sale and real estate agents who can no longer expect astronomic prices and commissions boosted by foreign money. The winners are home buyers who have found themselves outbid by Japanese, Hong Kong Chinese and other foreigners to whom Australian real estate prices seemed ridiculously

[5] Prominent agent Gold Coast Max Christmas forcefully made this point, as did Sydney agent, and Labor identity, Christopher Brown of Jones Lang Wootton (*AFR* 4 April 1989).

cheap, given the fall in the value of the Australian dollar and the extraordinarily inflated prices in their homelands (*Age* 30 September 1987).

The Courier Mail and *The West Australian* expressed similar sentiments. *The Advertiser* in Adelaide concluded '...there can be few objections to the political shrewdness which Mr Keating has shown in blocking the sale of the homestead' (*CM, WA, Adv* 1 October 1987). The Democrats called for even tougher restrictions; wanting non-citizens limited to leasehold (*Age* 28 January 1989). However *The Australian* editorialised against the new policy, describing it as '...a sacrifice of principle for populism' (*Aust* 1 October 1987) and, notably, the *Sydney Morning Herald* described the restrictions as a 'cheap stunt' (*SMH* 30 September 1987). Western Australian Labor premier Brian Burke expressed similar sentiments (*Aust* 1 October 1987). So too did shadow treasurer Andrew Peacock; dismissing the restrictions as a 'knee-jerk reaction' that would adversely affect Australia's standing as a destination for foreign investment (*Age* 30 September 1987; *Aust* 23 November 1988). The decision ultimately risked lending legitimacy to domestic critics of FDI and being interpreted abroad as a sign that Australia had not cast off its wariness of close ties with East Asia (Walsh, *SMH* 4 October 1988). By the time the necessary legislation was prepared in March 1989 the government appeared embarrassed by the restrictions (Spruhan, *W. Aust* 18–19 March 1989).[6]

Territory, history, race and culture

From early 1988 it was clear that public antipathy to FDI in real estate went far beyond a private interest concern, however misplaced, with the effects of FDI on the affordability of residential real estate. The Hawke government's residential restrictions did little to diminish debate over FDI in real estate. Policy for foreign investment in non-residential property remained quite liberal with the most intense controversy yet to come. Chapter 2 explained that FDI in natural resources and land is likely to be most controversial because of the usually intense territorial dimension to economic nationalism. Earlier chapters noted how previous governments had

[6] A reading of Hansard in relation to the passage of the legislation reinforces this judgment.

been confronted by public antipathy to FDI in natural resources. Now the Hawke government was confronted by public consternation over FDI in real estate. Nor was it FDI from traditional sources. From 1987 Japan, the only country to have threatened Australian territory with military force, became the largest source of FDI in Australia. It was also the first time that the largest source of FDI was a country of considerable 'cultural distance' from Australia and, moreover, 'non-white'. In short, unease over foreign ownership of real estate, hostility towards Japan and general anti-Asian prejudice amongst a not insignificant minority of the Australian population combined to provide the foundation for public controversy over FDI policy. These complexly interdependent attitudinal dynamics are explored in turn.

FDI in property

The Hawke government's liberalisation of FDI policy in 1986–87 was soon followed by a notable increase in FDI inflow.[7] The ABS found inward FDI to have risen from $3.3 billion in FY 1985–86, to $4.8 billion in 1986–87, $7 billion in 1987–88, peaking at $10.6 billion in 1988–89. As usual, FIRB figures at the time showed a markedly higher level of planned foreign business activity in Australia than the ABS data and this data had the most influence on public perceptions of FDI.[8] This was most acute in relation to foreign investment in real estate, the sector into which FDI flows were growing at the fastest rate. In FY 1987–88 FIRB report total approved FDI to be $25 billion, $9.70 billion of which was associated with proposed real estate investments (*FIRB* 1988:38). FIRB-approved real estate investments rose to some $15 billion the following year, with another $5 billion

[7] It is difficult to separate precisely the effect of liberalising FDI policy from the drivers of FDI inflows. These included the recognition that the Australian dollar had overshot in 1986 and was likely to appreciate notably, hastening FDI inflow, a strong domestic economy, improving terms of trade for primary exports, the growth of inbound tourism, and the developing 'bubble economy' in Japan that spilled over into real estate investment in Australia.

[8] The value of FIRB-approved investments are much higher than the ABS figures because they are proposed investments and also often financed in Australia (*FIRB* 1990:1). The hiatus in ABS statistics on FDI from 1978 to 1983 resulted in the FIRB figures on expected investment attracting much greater attention from the mass media and political actors.

earmarked for the tourism sector (*FIRB* 1989:42).[9] The figures for real estate FDI in 1988–89 were associated with precisely 2000 proposals, although investments worth more than $50 million numbered only 45 and accounted for some $6.53 billion (*FIRB* 1989:43). The Hawke government's September 1987 real estate decision entailed onerous new notification requirements that had a direct impact on FIRB statistics for approved FDI in real estate. The effect was an unintended and sharp exaggeration of the extent of such investment to all but the most astute observer of the data.[10] This translated into big headlines about a surge of FDI into real estate that nonetheless had some foundation (for example *SMH* 6 March 1989). Those headlines fuelled public concerns that had been smouldering for at least a decade. A register of foreign land ownership, often demanded by critics, may have diminished the scope for wild claims about the extent of foreign ownership of property but could not practicably be developed at the federal level (*W. Aust* 30–31 July 1988).[11]

The widespread perception that foreign purchasers were a significant factor behind a rapid rise in Sydney residential real estate prices in the 1980s, despite the paucity of evidence, suggests there was an established concern about foreign ownership of real estate. Several foreign investments involving substantial property acquisitions had been contentious in the past despite involving substantial additional development expenditure. The most prominent example was the Iwasaki tourism development at Yeppoon in the late 1970s that had been strongly opposed by the Labor Opposition in Queensland (Viviani and Selby 1980; *Age* 25 July 1972; *Aust* 28 July 1972; *AFR*

[9] This marked the highpoint of notified investments. Total notified and approved FDI in real estate for 1989–90 fell back to some $10.5 billion and $5.65 billion in 1990–91 (*FIRB* 1990:42, 1991:38). Similarly the figures for approved and notified FDI in tourism fell to $3.89 in 1989-90 and $1.86 billion in 1990-1.

[10] The FIRB annual report acknowledged that at the time but most media commentary did not (*FIRB* 1988:3). The new requirement to notify to FIRB of virtually all FDI in any urban real estate, and a mechanism for developers to notify foreign purchases of units up to 50 per cent of the project prior to sale, sharply increased overall reported FDI. Much would never be realised, especially as many developers habitually notified the full 50 per cent limit.

[11] The Australian Democrats proposed an onerous register of foreign ownership that the government and Opposition rejected as deeply flawed (*Age* 7 March 1988, 10 March 1989). All foreign corporations owning more than $5000 in Australian assets were to be required to supply an annual statement to the Treasurer. (*Adv* 9 March 1989). Like many proponents of a register, Democrats leader Senator Janine Haines was strongly critical of foreign takeovers and freehold land acquisitions (*Age* 7 March 1988). The US congress deliberated on broader proposal from 1989 for a register of foreign interests that was also substantially flawed (Ernst 1991).

17 April 1973; *AFR* 27 April 1978). Although most states had seen property FDI arise as a minor issue at some time or another, was particularly contentious in New South Wales and Queensland. Controversy was almost inevitable then when the FIRB reported in 1988 that total expected FDI in real estate had risen over 70 per cent on the previous financial year for both states (*FIRB* 1988:7). Increases in foreign property investments were far more modest in other states.

An old enemy

The growing importance of real estate FDI in total inward FDI would probably have always been somewhat contentious given, as discussed earlier, the territorial orientation of much nationalist sentiment.[12] However, it was the emergence of Japan as the major source of such investment that most provoked controversy — in the United Kingdom and the United States as well (*Asian Finance* 15 September 1989:4; *Economist* 19 March 1988; McMahan 1990; Regan 1990:10–11; Graham and Krugman 1995). The legacy of World War II made inevitable some community unease about a rapid increase in Japanese property investment (Broinowski, 1981:192–96). Over the forty years since WWII Australian government and business initiatives to build better relations with Japan had helped to diminish community hostility towards close trade and investment links with the former enemy (Meaney, Matthews and Encel 1988; Rix 1986; 1999:98).[13] However, Japanese FDI until the mid-1980s, with the limited exceptions of the automotive industry and some financial and trade-related services, was generally not associated with a controlling stake (Myer 1978:123–30). Rapid growth in Japanese FDI in real

[12] No more definite statement than this can be made because, as Goot (1990:261) noted, no surveys of attitudes towards FDI sought address sectoral differences until the 1989 AGB:McNair study for the Garnaut Report. It is impossible to know precisely the extent to which attitudes to FDI in real estate are a function of attitudes to Japanese investors that were so prominently associated with the sector. The poll for the Garnaut Report did reveal some 60 per cent of respondents said FDI in real estate should be 'discouraged' or 'not encouraged' (Goot 1990:261; Garnaut 1989:97). This contrasted starkly with a figure of 25 per cent for manufacturing, 17 per cent for tourism and 44 per cent for both the traditionally sensitive areas of mining and agriculture.

[13] This is borne out by the ANOP polls carried out for the Japanese embassy in May 1976, September 1977 and March 1985. Survey results accessed by the author at the Consulate-General of Japan in Sydney, May 1996. A gradual decline in hostility towards trade and broader relations with Japan in earlier periods, although with a resilient antagonism amongst a minority of Australians, can be traced through Australian Gallop Polls. See, for instance, the difference between Nos. 382–97 (Sept–Nov 1946) with Nos. 1264–77 (Aug–Nov 1957) and Nos. 1711–28 (Nov–Dec 1963).

estate, and in the tourism and beef industries, in the latter half of the 1980s changed that (Drysdale *et al.* 1989:62–64).[14]

Japanese FDI approved by FIRB rose from a figure of $1.9 billion in 1985–86, comparable with the United Kingdom, to $9.1 billion in 1988–89. This was 2.5 times greater than FDI from either the United Kingdom or United States (*FIRB* 1989:6, 1990:7). Japanese Ministry of Finance data, the most reliable on actual Japanese FDI flows into Australia, revealed a ten-fold increase in real estate and tourism facilities from JFY1986–87 to JFY1988–89 (*CEDA* 1990:57). The total value for the latter period was $1.27 billion, nearly ten times greater than the amount going to mining.[15] In JFY1996–97 FDI in real estate and tourism infrastructure accounted for only 14 per cent of total Japanese FDI in Australia, while the proportion was 52 per cent for 1988–89. The FIRB figures on approved and notified Japanese FDI for AFY1987–88 showed a proportion of 58 per cent of the total being in real estate — excluding tourism infrastructure (*FIRB* 1988:6). The FIRB figure for total Japanese FDI was nearly $5.4 billion and figured prominently on the front pages of most newspapers. AFY1988–89 was even more spectacular at $9.1 billion; some $5 billion in approved real estate investment and $3.5 billion in tourism (*FIRB* 1989:44). The FIRB statistics also made headlines because it showed Japanese FDI in Australia growing rapidly from the mid-1980s relative to that from the traditional sources, the United Kingdom and the United States. By FY1987–88 Japan had become the single largest FDI source country (*FIRB* 1988:40). Investment in real estate accounted for a much greater proportion of total Japanese FDI than it did for foreign investment from other sources (*FIRB* 1988:6). Yet Japan's share of total approved FDI never rose above 30 per cent.

Japanese FDI was certainly less popular than investment from traditional sources (Goot 1990:253). A Saulwick poll of August 1988 found many Australians felt

[14] Drysdale *et al* (1989:63) concluded '...the growth of Japanese tourism and associated developments in investment presages a change in the urban and political landscape in Australia not dissimilar to some of the effects of long-term migration in the past.'

[15] Japanese FDI in banking and insurance was quite strong, being worth $92 million in 1986–87 and rising to $363 million in 1988–89 (*CEDA* 1990:57). This reflecting the Hawke government's liberalisation of banking and the strong demand from Japanese firms investing in Australia for Japanese financial services.

much greater 'warmth' towards British and American than Japanese investors. Goot (1990:248) concluded that '...opposition to foreign investment in Australia centres on opposition to investment from Japan'. The growth in real estate FDI, especially from Japan, distracted attention from a substantial increase in foreign takeover activity in the manufacturing sector in the wake of FDI policy liberalisation (*FIRB* 1988:11).[16] This general indifference may have been in part because some half of the foreign acquisitions involved British firms (*FIRB* 1988:12). Senior Hawke government ministers and media commentators did not doubt the intensity of animosity towards Japanese FDI in some sections of the Australian community. Federal Primary Industries Minister John Kerin, for instance, noted on national television there was '...a lot of anti-Japanese feeling about at present' (*CT* 27 March 1989). An editorialist for *The Australian* newspaper concluded that Japanese FDI had '...stimulated concern and debate in the homes of Australia' (14 June 1988).

A survey and focus group study of attitudes in Queensland towards Japanese investment commissioned by the Japanese investor Daikyo in 1988 concluded that the attitudes of almost half of respondents and interviewees could be fairly labelled hatred of Japanese (*CT* 11 March 1989). Overall, some 90 per cent of those surveyed were at least very uncomfortable with Japanese investment (*CT* 11 March 1989). Japanese diplomatic posts in Australia took seriously the apparent reaction against Japanese FDI, especially as they commissioned good quantitative data on Australian attitudes from ANOP Research Services. The April 1988 survey found that some 75 per cent of respondents wanted no further increase in Japanese investment, with the figure for New South Wales respondents being 80 per cent and 86 per cent for Queensland.[17] Yet respondents were clearly selective in their anti-Japanese sentiment and economic nationalism. Some 61 per cent of respondents

[16] Total approved expected investment in manufacturing was $1571 million in 1985–86, $3879m in 1986–87, and $5222m in 1987–88; the FIRB noting that most proposed expenditure was associated with acquisition of established enterprises (*FIRB* 1988:11). However, one-quarter of the 1987–88 figure was associated with Australian-controlled firms that had foreign equity stakes in excess of 10 per cent and were therefore required to report the transactions to the FIRB (*FIRB* 1987–88:12). The acquisition trend continued in 1988–89 and 1989–90, although the total value of expected expenditure declined to $4353m and $3085m respectively). New Zealand firms emerged as the main foreign investors (*FIRB* 1990:17).

[17] Comparing with the 1985 poll, there was greater recognition that Japan was Australia's largest trading partner but 38 per cent of people thought that Australia was not always fairly treated in this trade. Increased cultural exchange was widely favoured.

supported increased trade between Australia and Japan and 70 per cent wanted to see more Japanese tourists visiting[18]. A *Business Review Weekly* survey that found 72 per cent of Brisbane respondents, and 63 per cent nationally, were concerned about increasing Japanese investment (*CM* 23 April 1988). Goot (1990:248) judged that opposition to Japanese FDI in Queensland was not 'not necessarily more widespread' but 'better mobilised' and more intensely felt in some quarters.[19] Politicisation of Japanese FDI in Queensland does appear to have increased the level of hostility towards Japanese people relative to other states while overall attitudes to the costs and benefits of Japanese FDI appeared little different.[20] This accords with survey evidence that a majority of locals in areas where Japanese FDI in the tourism industry was concentrated had an appreciation of its economic benefits (Queensland Treasury 1991a:15–21). Ultimately it is impossible to separate clearly the specific antagonism towards Japanese FDI associated with the war legacy either from the concern about foreign ownership of real estate or from hostility towards FDI from Asia more generally.[21] However it is clear that the FDI issue increased the negative element in Australian public opinion towards Japan (Goot 1990:253).[22]

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[18] The survey was the sixth commissioned by the Embassy since 1973 and had a sample size of 1500. The findings of the April 1988 survey were deliberated released to the media because it was hoped that the rather disconcerting results would further resolve Australian politicians to take the initiative in selling the benefits of Japanese FDI to a sceptical public (*SMH* 24 April 1988; *Age* 25 August 1988; *AFR* 25 August 1988). A Japanese diplomat later said that attitudes in Queensland were of particular concern (*AFR* 16 June 1988). Original survey results accessed at the Consulate General of Japan at Sydney, May 1996.

[19] The Saulwick poll of August 1988 reveals that attitudes amongst Queensland respondents towards Japanese investment did not differ significantly from other states (*Age* 12 August 1988). The AGB: McNair poll for the Garnaut Report found higher support in Queensland for FDI from all major sources than in any other state (Goot 1990:255). This may reflect the strong promotion of the benefits of FDI conducted by the Bjelke-Petersen government over many years.

[20] The August 1988 Saulwick poll found Queensland respondents espressing 'warm' feelings towards Japanese people to be some 10 per cent fewer, at 31 per cent, than other states except South Australia (*Age* 12 August 1988; Goot 1990:257). In the latter case that 10 per cent fell into the 'neutral' range but in Queensland those expressing 'cool' feelings towards Japanese were 10 per cent higher than elsewhere.

[21] A 1990 Newspoll found that of the 57 per cent of respondents who favoured restrictions on FDI from particular countries some three-quarters identified Asian countries. Japan figured prominently but other East Asian countries were also frequently identified, despite some not being significant sources of FDI flows to Australia (Goot 1990:254).

[22] The 1988 ANOP poll for the Japanese Embassy found that, by comparison with a similar poll three years earlier, more people said that they could not forget the war (39 per cent from 30 per cent). There was also a decrease of 10 per cent to 54 per cent who said that Australia should be friendly towards Japan, as opposed to 'neutral' or 'cautious'. Goot compared the findings of the survey administered by AGB: McNair for DFAT and the Garnaut Report (1989:61) with the findings for the same question posed in an ASRB survey in August 1971 (Goot 1990:253; *Age* 27 September 1971).

Fears of 'Asianisation'

Controversy over Japanese FDI in the late 1980s was made more intense by its coincidence, and increasing confusion, with a renewed 'debate' about Asian migration. The history of past anti-Asian sentiment in Australia is well known (Tweedie 1994; Broinowski 1992; McNamara and Coughlan 1997; Viviani 1992). Subsequent promotion by both Coalition and Labor governments of the principle of non-discrimination in both immigration policy and Australian life in general did much to help break down anti-Asian prejudice (Mackie 1997). Yet Asian immigration became a public issue again in 1984 when the Federal Coalition leant weight to prominent historian Geoffrey Blainey's criticism of the Hawke government for presiding over the 'Asianisation' of Australia (Kelly 1992:125). Despite considerable public support, the Coalition ultimately heeded 'elite' calls for the reaffirmation of a non-discriminatory immigration policy (Mackie 1997:29–31). In early 1988 Opposition leader John Howard reignited that issue with the suggestion that a Coalition government might manage the racial composition of the migrant intake in response to community sensitivities (Mackie 1997:31–36; Kelly 1992:421–32). It was a step away from the core principle of non-discrimination, provoking intense controversy, just at a time when Japanese FDI was also becoming an issue.

Opinion polls on immigration policy revealed a similar residual antipathy in the Australian community to Asian migration as was detected towards Asian FDI.[23] In

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Support within Sydney and Melbourne samples for Japanese investment (with or without limits and controls) declined from 64 per cent to 49 per cent while support for American FDI, already at higher levels in 1971, barely declined at all.

[23] A Saulwick poll of early 1988 on attitudes to immigration found results that a majority of respondents felt Asian migrants were less preferable to those from Europe, and from the United Kingdom in a particular (*Age* 9 February 1988). Some 27 per cent of respondents who thought that some migrants should be accepted actually said that Asians should be prevented from migrating to Australia. A majority of respondents thought that the overall intake was too large (*Age* 9 February 1988). Other studies lent support to the interpretation that at least a quarter of Australians were strongly antagonistic to even moderate levels of Asian migration. A poll commissioned by the Federal government's Office of Multicultural Affairs (OMA) in the Department of Prime Minister and Cabinet reported that more than 25 per cent of Australians resent Asians and Middle Eastern migrants being allowed to settle in Australia, with particular objection to Vietnamese, Japanese, Lebanese, Turks and Jews (*SMH*, *WA* 19 June 1989). A series of quantitative surveys by the Roy Morgan Research Centre highlighted a rise in opposition to any Asian immigration in the two years to early 1988 (*Her* 11 March 1988).

response there was strong support from within media, academic and business elites for non-discriminatory policy towards both foreign investment and immigrants[24] (Walsh, *SMH* 12 February 1987; Robinson, *AFR* 17 February 1987; Costigan, *CT* 21 August 1988; McGuiness, *AFR* 5 July 1988).[25] Some contemporary commentators judged that hostility to Asian FDI and Asian migrants flowed from the same wellspring of intolerance. Gittins wrote that: 'We seem to be witnessing a replay of the old argument about foreign investment and multinationals, but with the added spice of racial intolerance' (*SMH* 22 June 1988). In a similar vein Henderson said on the growing controversy over FDI policy that there was '... an unpleasant smell of racial intolerance in the Australian air' (*Aust* 11 July 1988).

For some critics Asian FDI and Asian migration became entangled issues (Rix 1999:107). Returned Servicemen's League leader Bruce Ruxton, for instance, declared that '...no other issue has bugged Australians so much as Asian buying-up and Asian immigration' (*ST* 21 August 1988). Even the Democrats' immigration spokesperson, Senator Jean Jenkins, made a number of critical, confused and anecdotal public statements on Japanese investment (*Her* 16 August 1988).[26] Private Liberal Party polling in early 1988 revealed how confused the Asian migration and FDI issues had become (*Her* 11 March 1988). The main concerns were the impact of wealthy Asians buying housing — despite the recent restrictions — and so driving up prices, the success of Asian children in schools, and the concentration of Asian migrants in certain suburbs. These concerns were all particularly apparent in Sydney (*Her* 11 March 1988). It was ironic then that the Howard-led Coalition contributed to the public controversy over Asian migration while opposing the Hawke government's legislation to incorporate the restrictions

[24] Howard's view that the rate of Asian migration could be slowed in response to public concern attracted 77 per cent support in a Newspoll survey (National sample, 1150 respondents; *Her* 11 March 1988).

[25] Howard's clumsy management of elite reaction to his stance on immigration on Asian immigration gravely weakened his leadership, ultimately being displaced by Andrew Peacock in May 1989 (Kelly 1992:467–86). Peacock's own record on support for a non-discriminatory immigration policy was tarnished by the Coalition's flirtation with the Blainey critique in 1984 under his leadership (Kelly 1992:128–34). On the elite, mass opinion dichotomy in Australian attitudes to Japan and the theoretical issues entailed see Meaney, Matthews and Encel (1988:15–16).

[26] Given the popular blurring of issues of Asian migration and Japanese FDI, ironically Japanese migrants to Australia totalled only 873 in the 1987–88 financial year, although up from 331 in 1982–83 (*SMH* 24 April 1988).

on non-resident acquisitions of residential real estate. While the Coalition stood accused of having strayed from the non-discrimination principle on immigration, it remained committed to a more liberal FDI policy than Labor. Some Liberal frontbenchers actively defended the benefits of Japanese FDI as doubts in the community grew through 1988 and 1989 (Hewson, *HR Hansard* 24 November 1988:3281; Downer, *HR Hansard* 5 September 1989:981; Short, *Sen. Hansard* 7 March 1989:575). Some government actors nonetheless blamed the Coalition for racist elements in public antipathy towards Japanese FDI (McKiernan, *Sen. Hansard* 7 March 1989:584). Some National Party parliamentarians, notably Senator John Stone and Peter McGauran, did in fact raise the two issues of Asian immigration and Japanese FDI together (*Sen. Hansard* 23 November 1989:3161; *HR Hansard* 28 October 1987:1579). The Opposition under Howard's leadership was being confronted by the tensions between their economic liberalism and social conservatism.

One did not need to single out Asian, or Japanese investors to make political mileage from public antipathy towards them. As Japanese FDI was such a prominent share of total inflow one needed only to criticise existing FDI policy to tap such community hostility. By doing so one could resort to populist politics while nominally not breaking with an elite consensus on non-discrimination. This was the deliberate strategy of new Queensland Opposition leader Wayne Goss who made controls on FDI in real estate central to Labor's campaign in the lead-up to the 1989 state election (*CM* 29 April 1985, 4 September 1985, 21 July 1986, 22 April 1988).[27] John Howard accused the Hawke government of hypocrisy in attacking him over Asian immigration while ignoring Goss' appeal to racist impulses in the state

[27] The Queensland ALP committed to banning non-residents from holding freehold land (*CM*, 23 April 88, *CT*, 1 August 1988). Deputy Opposition leader Tom Burns called for reintroduction of the old Aliens Act, repealed in 1965, that banned foreign investment in land without a state dispensation (*SMH*, 28May 1988). Senior Labor strategists understood how general criticisms of FDI resonated with the electorate because of widespread awareness of the growing significance of Japanese FDI. This was confirmed in interviews with a former adviser to Deputy Opposition Leader Tom Burns, Dr Gary Chittick (Brisbane, June 1997), and with former staff member of Opposition Leader Wayne Goss, Mr Tim Grau (Canberra, 11 September 1995).

electorate (*HR Hansard* 25 August 1988:405).[28] The National Party government in Queensland became quite panicked by the apparent electoral appeal of the state opposition's anti-FDI platform (*SMH* 28 May 1988; *CT* 1 August 1988). Under new leader Mike Ahern it implemented a register of foreign-owned land that had been long resisted by his predecessor, Bjelke-Petersen (*CM* 22, 28 May 1988, 8 June 1988; *Aust* 24–25 July 1982, 28 October 1982; Fitzgerald 1984:433). The Queensland government's comments on the benefits of Japanese investment became heavily qualified as it sought to block some projects and also flagged a stamp duty surcharge on foreign acquisitions of real estate (*CM* 3 January 1989, 28 June 1989; *AFR* 4 July 1989; *CM*, *AFR* 28 August 1989; *Aust* 8 September 1989). The major print media in Queensland did not present a counterweight to anti-Japanese sentiment, as in the case of the southern broadsheets, and *The Courier Mail* in fact did much to promote public unease.[29]

Controversy in Queensland came to national and international prominence as a consequence of the political entrepreneurialism of a Gold Coast fringe right wing activist and the mass media attention he attracted. Bruce Whiteside and his 'Heart of the Nation' group organised rallies on the Gold Coast to protest against freehold ownership of land by foreigners and Japanese FDI in general (Whiteside 1990:153–59). Whiteside found in Australia's recent liberalisation of FDI policy clear evidence that Australians were '...a pack of gutless apathetic crawlers who have no pride or sense of shame'. He not only denounced Japanese investment but also

[28] Howard declared that: 'I say particularly to members of the Labor Party from Queensland that the anti-Japanese foreign investment policy of Wayne Goss in Queensland has done more to damage our reputation in Japan than anything I have said over the past two or three weeks. We have a completely open and liberal foreign investment policy and we will not be adopting any foreign investment policy which is clothed as a non-discriminatory prohibition but it nakedly directed towards the prejudice that has developed in Queensland to Japanese investment.' (*HR Hansard* 25 August 1988:405). However, the state Liberal Party, in the unusual position of sitting on the cross benches after the Coalition collapsed before the 1986 state election, also broke with the liberalism of its federal counterparts. State Liberal leader Angus Innes said '...the foreign investment tap in Queensland should not be turned off completely, but neither should the bucket be allowed to overflow.' (*AFR* 10 June 1988).

[29] *The Courier Mail* and its stablemate *The Sunday Mail*, the dominant newspapers in the state, leant much support to critics through the extensive reportage devoted to them and explicit editorial support. Sensationalist and parochial sub-editing practices also contributed to public disquiet. One front-page headline declared 'Rising sun land grab slows (*SM* 19 February 1989) while *The Courier Mail* used a standardised typographical icon whenever the Japanese investment issue arose that read 'Japanese invasion' and showed the Japanese flag.

Japanese migration and the teaching of Japanese in schools (*CM* 23 May 1988; *SMH* 28 May 1988, 13 June 1988). At Whiteside's biggest rally, in May 1988, some 1300 people gathered in what one journalist described as resembling an 'anti-Japanese lynching party' (Nelson, *CM* 25 May 1988). Whiteside called for a constitutional change to allow only Australian citizens to own land.[30] His group organised another rally to coincide with the visit of Japanese Prime Minister Noboru Takeshita to Australia that also attracted the attention of the Japanese media (*CM* 5 July 1988). This event left no doubt that the Hawke government needed to manage the domestic politics of FDI more actively.

Defending enmeshment with Asia

The Hawke government had begun emphasising the benefits to Australia from 'enmeshment with Asia', as Hawke later termed it, from early in its first term (Hawke 1983; Mills 1993:107; Hawke 1988). In part this reflected a general trend in Australian foreign policy that had been established since the late 1960s (McDonald 1993). The Hawke government's approach was distinguished by the emphasis on economic opportunities and challenges presented by East Asia. This message gained much greater prominence in government discourses following the balance of payment crisis of 1985–86; at a time when the strength of the Japanese and other Northeast Asian economies was becoming even more apparent (McDonald 1993:145). Asia could present much-needed economic good news, but only if Australians were prepared to accept regulatory, economic and social change[31]. The Garnaut Report (1989), commissioned by the Hawke Government, offered the clearest statement of this view.[32]

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[30] Whiteside diminished his own credibility by saying that his proposed ban on foreigners holding freehold land should be retrospective to 1900. He declared 'the cost of resumption would be enormous, but if we must mortgage ourselves for the next 200 years, the compensating peace of mind will have been well worthwhile' (*CM* 25 May 1988).

[31] In essence Asia represented both carrot and stick for the Hawke government. It promised economic prosperity for Australia if necessary domestic reforms were achieved. It also represented the main threat to Australia's inefficient industries and business practices. As there was marked community uncertainty about Australia's economic future Labor wished to present Asia to the electorate as entailing more carrot than stick. Critics of Japanese FDI focused attention upon the pain of enmeshment with Asia with scant regard for the gain.

[32] Although the Hawke government baulked at the some of the more ambitious reforms recommended by Garnaut, such as the effective abolition of tariffs by 2000, its broad policy direction was consistent

The three FDI liberalisation packages adopted between 1985–87 were intended to signal to the Australian business community, economic policy community and international investors that Labor was committed to taking tough decisions to liberalise the economy and face new international realities. Following the illiberal residential real estate decision the Hawke government struggled to restore that reputation.[33] However, the Coalition's woes on the Asian immigration issue presented the Hawke government with the opportunity to restore its authority, and on an issue dear to many senior government leaders (d'Alpuget 1982; Mill 1993:70; Hawke 1994).[34] There was recurrent concern with government ranks at how domestic debate over Asian migration and investment was perceived in the Asian region (Kelly 1992:127–34).[35] The government's Asia focus, including a regional economic cooperation initiative it was developing, was under threat if a strong defence of Japanese FDI was not mounted.[36] At risk too was Labor's high growth model of economic management. Japanese FDI could help deliver the economic growth that was central to the political formula of Labor's Accord with the union movement, and at a time when fiscal expansion was made impossible by the risk of another balance of payment crisis.[37]

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with the report. In fact the major 1991 policy statement *Building a competitive Australia* explicitly acknowledged the influence of Garnaut (Hawke 1991:17). The Garnaut Report provoked considerable debate amongst academics, as evidenced in works such as that edited by Richardson (1991). The Garnaut Report was quite circumspect in making FDI policy recommendations (1989:100–01).

[33] The Hawke government was also frustrated by the ALP party organisation in its desire to initiate privatisations but embraced a micro-reform agenda in its May 1988 industry statement (Kelly 1992:387–98). On the Hawke government's determination to re-establish its credentials for economic management in the wake of the currency crisis and how this was reflected in the 1987 federal election campaign see Mills (1993:88–107; Kelly 1992:224).

[34] The battle to end the White Australia Policy had played an important role in forming the political consciousness of Hawke, Evans, Hayden and other Labor identities such as Don Dunstan and Lionel Murphy (Kelly 1992:127–28, 426).

[35] It is not clear whether the Hawke cabinet appreciated that the residential real estate ban was likely to be perceived in some parts of Asia as government pandering to a resilient Australian racism. Such perceptions were certainly later reported (*AFR* 8 January 1988).

[36] On the close cooperation between Australia and Japan that was central to the launching of APEC see Terada (1998), Funabashi (1995) For early official Australian rationales for APEC see Evans (1989), Hawke (1989). On earlier regional cooperation initiatives see Drysdale (1988) and Terada (1999). Former Hawke speechwriter Stephen Mills wrote of APEC: '...the Hawke government pursued an international agenda that was substantially driven by its program of domestic economic reform.' (Mills 1993:195).

[37] The Hawke government presided over a historical tightening of fiscal policy in response to the balance of payment crisis and secured, with great difficulty, a commitment from the ACTU for significant wage restraint through the centralised bargaining mechanism. The *quid pro quo* was that Labor deliver job-creating economic growth and improvements in the 'social wage' (Kelly 1992:212–18, 283–87).

From mid-1988 senior Hawke government ministers actively sought to manage the Japanese FDI issue[38]. The easier part of the challenge entailed dealing with critics within the government. Several federal MPs from Queensland were openly critical of Japanese FDI and the liberal policy regime. The leadership of the Hawke government could contain this dissent because the MPs motives were principally to enhance their standing in their electorate or party faction (*CM* 30 January 1989).[39] The leadership addressed broader Caucus unease over FDI policy by promising that the FIRB's enforcement and monitoring capacities would be better resourced (*W. Aust* 28–29 January 1989; *CM* 13 March 1989). Hawke emphasised the need, ethical and no doubt political, for the Federal government to preserve its reputation on engagement with Asia while the Opposition struggled with the immigration issue. The decision on residential restrictions also helped to placate critics. On the other hand, the Federal Labor leadership could do little to restrain the anti-FDI campaign of the Labor Opposition in Queensland. An even greater challenge for the government in managing the domestic politics of FDI was the enormous media attention that critics of Japanese investment were attracting. Views hostile to Japanese FDI from even minor public identities and war veterans attracted attention, as did negative reactions against Japanese investments in the United States and the United Kingdom. American author Daniel Berstein, for instance, attracted considerable media attention when he made the wild assertion that Japanese loans and portfolio investments in Australia would lead to 'land swaps' that would see Queensland become a major location for solving Japan's overcrowding problems (*Aust* 10 April 1989). Controversy over Australia's representation at the funeral of Emperor Hirohito in January 1989 provided another reminder of the intensity of anti-Japanese sentiment (Rix 1999:106–07; *CM* 25 February 1989). Hawke and

[38] Analysis by the Department of Foreign Affairs and Trade in October 1988 concluded inward FDI from Asia was being adversely affected by perceptions that anti-Asian feeling was rife (*CM* 3 January 1989). On the broader perception management challenge in Asia that the Australian government confronted in the late 1980s and early 1990s see Broinowski (1993). For a lengthier and somewhat idiosyncratic account see Byrnes (1994:168–203).

[39] Keith Wright raised the issue of vertical integration in the beef industry while Con Sciacca was drawn to the Japanese FDI issue by reports of a planned Japanese retirement village planned for his electorate (*HR Hansard* 24 October 1989:1750; private discussion with Mr Sciacca, July 1999). As a new MHR Sciacca used the FDI issue to build a profile for himself but as he also sought to position himself as a specialist on immigration and ethnic affairs he was careful to criticise the racist element in the FDI debate (*CT* 30 January 1989; *HR Hansard* 28 October 1987).

Keating both actively used talkback radio and other media sessions to sell the benefits of a non-discriminatory and liberal foreign investment policy (*SM* 5 June 1988; *AFR* 19 July 1988; *Her* 16 August 1988; *W. Aust* 28–29 January 1989). At the same time the controversy over Japanese FDI had to be managed as a bilateral issue between Australia and Japan. Rix (1999:105) judges that 'the political relationship was severely tested by the public expression of feeling about the role of Japanese in Australia'.

Managing the relationship with Japan

The extent of government concern over the potential damage to the Australia-Japan relationship, and Australia's economic interests in particular, was revealed by Hawke's public apology to Prime Minister Takeshita for the recent protests against Japanese FDI (*CM* 5 July 1988; Rix 1999:105). While enraging domestic critics of FDI, it was consistent with the determination of the Hawke government to continue the active promotion of Australia as an investment destination for Japan (*AFR* 19 July 1988). Mindful of the intensity of the community reaction to Japanese property acquisitions, the government did endeavour to communicate its preference for FDI in other areas, although not always with great finesse.[40] Following Prime Minister Takeshita's visit to Australia in mid-1988 Ministry of Finance officials said they would use 'administrative guidance' with banks, urging them to reduce lending for investments in Australian real estate (Hartcher, *SMH* 18,19 August 1988; *Age* 25 August 1988).[41] Australian officials in Tokyo denied that the Australian government had officially requested these actions (Hartcher, *SMH* 14 March 1989). The Hawke government's efforts to manage public concern about Japanese FDI were boosted by some Japanese firms long established in Australia that stepped up

[40] In July 1988 Keating, before a Japanese audience, remarked that: 'We have to get the price right, we have to get a better balance. The notion that a handful of yen can buy anything is notion that I think must disappear.' (*Aust* 12 July 1988). Foreign Minister Evans was reported to have expressed greater reservations during bilateral talks about Japanese property investment than Hawke had done (Hartcher, *Age* 8 February 1989). The Democrats queried the investment promotion efforts of the Hawke government in Japan as part of its criticism of FDI policy (Macklin, *Senate Hansard* 23 March 87:1184).

[41] In early 1989 new Japanese Prime Minister Uno ruled out formal regulations on Japanese direct investments in Australian property but said the government would monitor investment outflow and endeavour to make sure that it was 'orderly' (*Age* 28 January 1989).

their corporate sponsorship and other goodwill activities and the efforts of Japanese diplomatic missions[42] (*AFR* 25 August 1988; *W. Aust* 1–2 April 1989; *CEDA* 1990; Access 1991). On the other hand, some new Japanese property investors could have done more to minimise the reaction to their presence. Their lack of regard for either the politics or economics of their investments reflected their inexperience abroad (Farrell 1997:16–23, 1998:31–41). Ironically, this incaution exacerbated community antipathy to Japanese FDI while compounding the windfall gains to the Australian economy from excessive prices paid for assets and over-investment in new projects. EIE International, conspicuously expanding its presence in Australia through acquisition and attracting the attention of critics for its executives' remarks about the cheapness of Australian real estate, provides the quintessential example (Farrell 1998:38–40; Hartcher, *AFR* 3 March 1995).

Japan's diplomatic efforts on the ground were also diminished by certain policy initiatives from Tokyo, especially emanating from the Ministry of Trade and Industry (MITI). In the mid-1980s MITI proposed several grandiose development schemes that were eventually to prove controversial in Australia. MITI's Silver Columbus 1992 plan suggested the establishment of retirement villages abroad for Japanese, and identified Australia as offering promising locations (Inkster 1991:24–25).[43] In early 1987 immigration minister Chris Hurford effectively ruled out such a project in response to reports of a proposed integrated Japanese retirement village, resort and technology business park west of Brisbane (*CM* 7 February 1987). Hurford issued a specific warning that the government did not want to see 'enclaves' develop (*CM* 7 February 1987). Debate about foreign enclaves became common in discussions of FDI policy, in no small part because it drew on imagery similar to that featuring in popular antagonism towards Asian migration (McNamara

[42] It is difficult to establish just how seriously Japanese efforts were made to slow down Japanese FDI in real estate. Some Japanese property investors in Australia had good connections with Japanese legislators and officials, as the subsequent scandal involving EIE International revealed (Hartcher, *AFR* 3 March 1995; McGregor, *Aust* 18 February 1995). On the other hand, the political controversy in Australia over Japanese investment in real estate increasingly annoyed large Japanese firms with actual and/or planned equity stakes in minerals projects and in the beef industry (Sargent, *AFR* 16 June 1988).

[43] The 'Silver Columbia' plan was so-named to reflect the use of the word 'silver' in Japanese to refer to the aged and Columbia pertained to the 500th anniversary of the arrival of Christopher Columbus in the Americas in 1992. The MITI officials who devised the plan envisaged the first integrated resort and retirement village complexes opening in that year.

and Coughlan 1997:4; Huxley and Berry 1990:127). The *Courier Mail*, for instance, editorialised against 'enclaves' in both tourist and residential areas (*CM* 30 January 1989). The Japanese embassy responded to criticism of the proposed project near Brisbane with a statement that its government had '...no intention of introducing a policy to send Japanese pensioners overseas, nor to encourage them to live overseas' (*CM* 7 February 1987). However, there were subsequent rumours of other such projects and the connection was made in the public mind, especially in Queensland, between Japanese migration and FDI in tourist infrastructure and property.[44]

The Hawke government was forced to deal directly with MITI's penchant for futuristic schemes when the Japanese government proposed the creation of a new city in Australia — a 'multifunction polis' (MFP) — during bilateral talks in 1987 (Inkster 1991:18–37).[45] MITI's vision of the MFP had the potential to be hugely controversial because it entailed the creation of a new city of 50,000 to 100,000 people, a majority of whom would be foreign businesspeople, researchers, students and tourists (MITI 1987).[46] Yet several factors led the Hawke government to cooperate in the creation of a joint Australia-Japan steering committee and the commissioning of a feasibility study. The Hawke government was actively courting Japanese FDI in 'emerging' industries and the MFP proposal, vague though it was, promised plenty of that. Japan appeared to many at the time as *the* most dynamic economy in the

[44] This compounded the well-recognised problem that the exclusivity of internationally oriented tourism resorts can provoke resentment in host communities. Proposals of the Silver Columbia type were particularly unhelpful as they alienated even very 'progressive' Australians from some aspects of Japanese FDI. This was so because people with an appreciation of Japanese society rightly queried whether older Japanese could possibly be content in retirement so far from all that had been central to their lives. At the other extreme of public opinion, Japanese retirees were identified as the generation that had been enemies of Australia (McCormack 1991:29).

[45] A number of authors have examined the development of the MFP issue so they do not need further detailed elaboration. For a history of the project and a range of views see Mouer and Sugimoto (1990), Inkster (1991) and McCormack (1991). For a very critical view see James (1990). The Silver Columbia and MFP schemes emanated from the same basic Japanese political economy: the interaction of a common futuristic ideational element in Japanese society and the political clout of rent-seeking construction firms (Morris-Suzuki 1990).

[46] The initial MITI proposal also listed a wide range of industries and economic activities, some of which were incompatible with each other and its environmentally friendly vision (MITI 1987:7–10).

world.[47] At a time of deep angst about the prospects for Australian industry, the internationalist and high tech vision found supporters in sections of the federal bureaucracy, academe and the media (McGuiness, *AFR* 5 July 1988).[48] Industry minister John Button and his department, along with science minister Barry Jones, became the driving forces for the project within the Federal government (Hallinan 1990:79–80; Morris-Suzuki 1990:67–68).[49]

In December 1987 the Hawke government, in an agreement with interested states, enunciated nine principles against which the final MFP concept would be judged. These revealed its concern to have a truly international project rather than a Japanese enclave, for the project to be commercially viable without substantial government help, that it entail leading edge infrastructure and boost net capital inflow (Hallinan 1990:83; *CT*, *AFR* 6 January 1988). The Hawke government hoped to allay public concerns with these quite onerous principles. State governments, attracted by the proposed scale of the project and the promise of 'smart' industries, vied to have their preferred site chosen (Inkster 1991:41–67). The prolonged process of conducting feasibility and impact studies — all ultimately flawed — helped to contain controversy until late 1989 (Arthur Anderson-Kinhill 1989; Yencken 1990:93–97; Neustupny 1990:161–63; Mitchell, *SMH* 1 February 1990). The main exception was again Queensland, where the state Labor opposition criticised the MFP as threatening the creation of a Japanese enclave (*CM* 16 August 1988). Controversy over the concept grew rapidly following the release of a feasibility study in late 1989. Critics ranged from left-wing academics, construction workers and environmentalists to the Returned Services League and Gold Coast activist

[47] The head of MFP Australia Research Ltd, a senior Westpac banking executive on secondment, referred to Japan as 'currently the world's major economic power' (Berthold 1990:87). The Hawke government also saw a deeper and more wide-ranging bilateral relationship with Japan as central to Asia initiatives (Evans, *Hansard*, Estimates Committee B 11 September 1990:2).

[48] Others, suspicious of its origins in the Leisure Development Office of MITI, the likely level of state action required to make it viable, and of its naively futuristic tone, urged caution (Yencken 1990). Growing controversy over the MFP concept, and the belief that it would distract government attention from the cause of economic reform led business groups, including CEDA, to reserve judgement (*CEDA* 1990; *AFR* 19 July 1990).

[49] The justification of the MFP by the head of DITAC's Innovation and International Division is a good example of such sentiment: 'There are tough times ahead for the next 15 years and there will be two shifts. First, Asia will take over as centre of the industrial world and second, we will move towards more technology intensive industries.' (*AFR* 6 January 1988) On the Hawke government's aspirations for a national technology strategy from its second term see DITAC (1985).

Bruce Whiteside (*Her* 1 February 1990). They attracted considerable attention from the mass media but so too did defenders of the MFP concept (Mouer and Sugimoto 1990). The Hawke government deployed its nine principles as a shield against criticism and allocated more resources to promoting the benefits of the concept while emphasising that no final decision had been made (*SMH* 25 January 1990).[50] The government's overriding imperative to reform the Australian economy made it prepared to risk disquiet in the electorate over the MFP. Its first principle against which the final MFP proposal would be judged neatly encapsulated this.

> The development of an MFP based around internationally traded information, education and training, leisure and tourism, and research and development activities should be in Australia's interest, with particular emphasis on the pursuit of scientific and technological excellence. It should be developed as a way of assisting structural change in the Australian economy geared towards the development of an internationally competitive and export oriented industry structure (Hallinan 1990:83).

The MFP would ultimately figure as an issue at the 1990 federal election. In the meantime the Hawke government was confronted by controversy over Japanese FDI in the tourism and beef industries. Its hope that such investment would deliver internationally competitive and export oriented industries was to be challenged by critics who claimed that significant national welfare losses would result from a liberal FDI policy.

The Spectre of vertical integration

By mid-1988 concerns were being expressed about potential losses to Australian businesses and the national economy if Japanese investors realised 'vertical integration' in the tourism and beef industries. It is a measure of the intensity of public debate over Japanese FDI in both industries that an issue of corporate organisation would attract considerable attention in the popular mass media. As

[50] However it was clear that the Hawke government would see the process through to the site selection stage as a precursor to making a final judgement on its merit. The Japanese government apparently pushed for early selection of a site and would not formally approach investors until that was done (*Sun Her* 4 March 1990).

with debate over real estate, much of the mass media reportage skewed attention towards the potential costs rather than direct benefits of Japanese FDI. Yet Japanese FDI in tourism and the beef industries promised export growth at a time when the Australia's weak external balance was the pre-eminent economic policy challenge. This created a strong bias towards liberal policy for the Hawke government. On the other hand, the very export potential of the tourism and beef industries fuelled concerns about national welfare losses from FDI, as earlier had been the case with mineral resources. Such attitudes could become a political force for restrictive policy but were offset by a policy community of officials and academics understanding the potential benefits of Japanese FDI. The tourism and beef industries were long established but needed substantial capital investment, better management and international corporate linkages if they were to realise their full export potential. FDI promised to effect the needed evolution in both industries but would also create losers, although much more so in beef than in tourism. Potential losers, mindful of their private interests, swelled the ranks of those in both industries expressing concern about Japanese FDI.

Tourism

The sharp depreciation of the Australian dollar helped to stimulate rapid growth of the inbound tourism industry. This came at a time when Japanese outbound tourism was expanding rapidly following the yen's appreciation after the Plaza Accord (JTB 1998:1–2). Japanese tourist arrivals in Australia grew from 72, 000 in 1983, to 145, 600 in 1986, and to 479, 900 in 1990 (DSRT 1985:70; Healey 1994:220; Stimson *et al.* 1996:51).[51] This was a welcome contribution to Australia's external balances but the growth of the industry was constrained by infrastructure and skills shortages (Richardson 1988:5; AJRC 1992; Richardson 1995; ATIA 1987). Growing FDI into the tourism sector helped to address these problems, and also became fundamental to the further expansion of the Japanese market for Australia (Richardson 1988:9–

[51] Official Japanese figures show total departures from Japan to Australia rising from 322,000 in 1987 to 1,081,000 in 1992 and then 1,409,000 in 1997 (JTB 1998:10). However, official Australian figures on Japanese tourist arrivals in Australia in the latter year are only some 60 per cent of that figure (DISR 1998:4).

10). According to FIRB statistics, overall approved FDI in tourism grew from $440 million in 1985–86 to $2091 million in 1987–88, an astonishing $4997 million in 1988–89 and then fell back to $1970 million in 1989–90 (FIRB 1988:10; 1989:16; 1990:15). Japanese FDI accounted for some two-thirds of the total in each year from 1987 to 1991, with a substantial proportion of the value of proposed investments representing development expenditures (FIRB 1988:6). As a consequence in 1988–89, for instance, less than $1400 million of the proposed $5 billion of FDI from all sources in tourism involved the purchase of existing assets (FIRB 1989:17).

The Hawke government made a strong commitment to supporting the growth of the tourism industry. Support was provided via generous depreciation allowances for investment in infrastructure, international marketing campaigns, development of Asia-specific tourism skills, somewhat flexible administration of working visa rules and FDI attraction efforts abroad, especially in Japan (H of R SCIST 1993; Healey 1994:220–26).[52] The Federal government soon recognised that the outbound tourism market in Japan was such that corporate linkages through FDI promised further development of the Australian industry.[53] The predominance of package group tours, along with intense competition and complex tie-ups in the Japanese market between package retailers, wholesalers and providers, all made active involvement of major Japanese firms in the Australian tourism industry desirable (ATC 1998; EAAU 1997:451–52). A number of tourism industry figures, media commentators and academics made these observations and broadened public understanding of the potential benefits of Japanese FDI (Dwyer, Forsyth and Findlay 1990; Forsyth and Dwyer 1991; Grey, Edelmann and Dwyer 1991; McKenzie, *SMH* 14 June 1988; Tisdell 1991).

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[52] In 1987 the Hawke government reconstituted the Australian Tourism Commission under new legislation following review by the Kennedy Committee (Healey 1994:222–25). The Bureau of Tourism Research and the National Tourism Industry Training Committee (NTITC), positioned publicly as Tourism Training Australia, were to address information and skills developments respectively. The ACTU was critical of the numbers of temporary working visas given to foreign staff, principally Japanese, in the tourism industry and called for greater public and private investments in training for Australians (*CM* 26 April 1995). On the temporary resident issue see Bell and Carr (1994).

[53] The Hawke government's acceptance of FDI as a means for rapidly growing the inbound tourism industry accorded with the similar reaction of the Greek government (Buckley and Papadopoulos 1988).

At the same time there were a number of critics within the tourism industry, academe, the mass media and the broader community. It was asserted that substantial Japanese FDI, especially if resulting in vertical integration, would see Australians denied a fair return on the growth of a promising new industry[54] (Bull, 1988; Stimson, *et al*, 1996: 164; Forsyth & Dwyer, 1994: 535-6). Such sentiments were similar to past concerns about FDI in the resources sector, with the added dimension of firms from the most promising foreign market being the main direct investors. The imagery of Japanese coming to Australia on Japanese-owned planes, staying in Japanese-owned hotels, served by Japanese staff and shopping in Japanese-owned duty free stores became a widespread one (Williams 1991; David and Wheelright 1989:44–45; *CM* 17 March 1990).[55] The lack of detailed information about the real extent and nature of FDI in the tourism sector allowed these concerns to flourish (Dwyer and Forsyth 1993:2–3). Concerns about vertical integration were often difficult to distinguish from antipathy to Japanese acquisitions of real estate. Japanese acquisitions of established tourism infrastructure frequently became contentious even when it involved plans for a capital injection. The purchase of the Lone Pine koala sanctuary in Brisbane, Dreamworld near the Gold Coast, Green Island and the Mirage resorts in Queensland all were controversial (*CM* 25 April 1990, 4 May 1990; *Aust* 26 June 1990; *Aust* 8 March 1989; *CM* 7, 8, 9 March 1989; *AFR* 9 March 1989).

Popular concerns about Japanese FDI in tourism frequently went beyond a loss of national economic welfare. The growth of inbound Japanese tourism, and the FDI that underpinned it, was a stark reminder Australia either would have to 'engage' with East Asia socially and culturally — as elite discourse held — or pay a heavy economic price. Unlike minerals exports, Japanese customers visited Australia in large numbers, interacted with Australians, and sometimes expected Australians to understand their language and culture-specific wants (Platt *et al*. 1991). Some

[54] The *Courier Mail*'s senior political correspondent Peter Morley wrote that 'the Pacific Rim invasion' was '...being repeated in large dollops along the Queensland coastline and in the beef industry, where the policy of the overseas investors was for vertical integration that moved profits offshore.' (*CM* 17 March 1990).

[55] The ACTU was critical of the numbers of temporary working visas given to foreign staff, principally Japanese, in the tourism industry, and called for greater public and private investments in training for Australians (*CM* 26 April 1995).

Australians simply found it difficult to accept tourism as a significant industry (Stimson *et al.* 1996:51, 162–63). For some fringe critics — and perhaps many more Australians — the spectacular increase in Japanese tourist arrivals symbolised Australia's relative national decline vis-à-vis its former enemy (Whiteside 1990:153–55).[56] Some views from the Left on Japanese FDI in tourism effectively implied national economic servitude and forecast increasing social ills (David and Wheelright 1989:144–53). Elements of the mass media, driven by the commercial imperative, seemed to actively cultivate concerns. Tales of corrupt business practices and even penetration of the tourism industry by Japanese crime gangs were common, with elements of the mass media playing upon older Australian anxieties about Asian crime gangs and corruption (David and Wheelright 1989:149–50; *CM* 13 June 1990, 12 September 1990, 9 March 1991, 23 April 1992; *AFR* 13 September 1990; *SMH* 22 February 1991).

Much of the controversy over Japanese direct investment in the tourism industry centred upon Daikyo Corporation. Its investment was concentrated around Cairns and the Gold Coast and by late 1987 the reported value of its actual and planned investments was already A$500 million.[57] Daikyo expanded through both acquisitions and new developments. Daikyo was distinguished not only by its size but also its determination to bargain hard with host governments, and to strengthen its hand by appealing directly to the host community. In doing so it revealed that Japanese firms did not necessarily become passive victims of anti-Japanese sentiment. Chairman Shuji Yokoyama appointed former senior Queensland state officials, Sir Sydney Schubert and John Kenny, to run Daikyo's Australian operations and they implemented an active political strategy (*CM* 25 April 1990; *Aust* 4 May 1990, 26 June 1990). Daikyo actively cultivated personal relationships with politicians whenever possible, including local Labor politicians, Prime

[56] Japanese tourists were also readily mistaken for recent migrants, further exacerbating debate over Asian immigration and the supposed 'Asianisation of Australia'.

[57] These included the Palm Cove site, bought for $24m, half ownership of the $80m Cairns Hilton, 90 per cent of the equity in the Brisbane Sheraton (bought for $85m), the $65m Gold Coast International Hotel, the $30m Palm Meadows golf course and 20 per cent of the giant Jupiters Trust (*AFR* 19 November 1987).

Minister Hawke and successive Federal tourism ministers.[58] The firm's representatives directly engaged with the arguments of Australian critics of Japanese FDI, and invested considerable resources in fostering community goodwill. The success of this strategy was evidenced when over 1000 people attended a public meeting in Cairns in support of Daikyo during a dispute between the firm and the Queensland government (*CM* 5 June 1990; *AFR* 6 August 1990). Daikyo also threatened to withdraw planned investments on several occasions if it did not secure the regulatory outcomes it wanted (*AFR* 19 November 1987; *SMH* 13 June 1988; *Aust* 6 July 1990, 30 July 1990; *CM* 16 May 1991).

Strong support from tourism industry bodies for a liberal FDI policy and the broader economic challenges confronting the Hawke and Keating governments led it to uphold a liberal FDI policy for the sector. In doing so it incurred the wrath of the Goss Labor govermnent in Queensland for refusing to block certain foreign acquisitions of existing tourism properties (*CM* 4 July 1990). There was too little export-oriented FDI entering Australia at a time when the government had to address weak external balances to afford the luxury of pragmatic political concessions to economic nationalism.[59] This was reflected in the 1988 statement by federal tourism minister Graham Richardson (1988:1) that: 'With the decline in the relative importance of the rural and manufacturing sectors, tourism is now seen as a major catalyst for economic growth and a significant element in structural change within the Australian economy'. The exception to government pessimism was the beef industry, which was also experiencing a large inflow of Japanese FDI in response to new opportunities in the Japanese market. This investment was to prove even more controversial than FDI in the tourism sector.

[58] From discussions with former Daikyo employees Ms Tomomi Ryan (Brisbane 6, 9 June 1999) and Mrs Noriko Wood (Brisbane 9 June 1999). Local MHR John Gaylor was a strong public defender of Daikyo and Japanese FDI in general (*Aust* 30 July 1990; *CM* 31 July 1990).

[59] The store placed on tourism as a growth industry by the Hawke and Keating governments is evidenced in the creation of a distinct Department of Tourism in 1991 and its deliberations on a national tourism strategy (DT 1992; Healey 1994:233). In 1997–98 Australian export earnings from tourism were estimated to be some $16 billion, more than 50 per cent greater than the value of coal exports and four times the contribution of wool (DISR 1998:8). Stimson *et al.* (1996:68) also came to the conclusion that macroeconomic factors were significant in the welcome given to substantial Japanese FDI in the tourism sector.

Beef industry

The Hawke government would uphold liberal FDI policy for the beef industry despite strong support within domestic beef industry associations for a restrictive FDI policy. Rising demand for beef in Japan and liberalisation of imports led major Japanese meat firms to take strategic stakes in foreign sources of supply (Morison and Officer 1992; Morison 1993). Investments were made in properties, feedlots and processing facilities that led to concerns about vertical integration even though the investing firms were often unrelated. In 1988, however, partly or fully Japanese-owned processors slaughtered only some 9 per cent of cattle and calves nationally and other foreign-owned establishments accounted for an additional 4 per cent (AMLIPC 1989:16). They did nonetheless account for a much higher proportion of beef exported to the Japanese market. As in the cases of FDI in real estate and tourism, lack of detailed information about the extent of Japanese and other foreign ownership and control allowed scope for considerable scare-mongering within the industry.[60] By the late 1980s there was widespread complaint about the risks of Japanese investment and the spectre of vertical integration was often raised. Disquiet amongst domestic producers about Japanese FDI was exacerbated by rural conservatism, low cattle prices, and reports of bribery and collusive auction bidding in the Japanese beef industry. Producers held understandable concerns about the monopsony power of processing interests (*CM* 12 January 1989; Cribb, *Aust* 14 February 1989; *SMH* 20 August 1988; *Aust* 13 March 1989). Yet the defence of private interest was also an important driver of calls for a restrictive policy.

Japanese FDI went into both cattle production and processing and in both areas it threatened existing domestic interests. Japanese investments in grazing properties, while no doubt welcomed by those wishing to sell out of the industry, presented competition for domestic grazing interests (*CM* 8 June 1988). Direct Japanese investments in grazing properties Queensland brought the United Graziers'

[60] The Hawke government's 1987 decision to no longer examine acquisitions of rural properties worth less than $3 million and subject those above it only to a reserve national interest veto (Treasurer, *Press Release* 30 April 1987) made Japanese FDI in the beef industry more controversial. Statistics for smaller acquisitions were no longer produced, although FIRB' 1987–88 report noted eight Japanese purchases of beef properties (FIRB 1988:14).

Association and the Australian Cattlemen's Union to call for their blocking (*CM* 8 June 1988; *AFR* 18 July 1988).[61] A concern about vertical integration by Japanese meat industry interests clearly was not the sole driver of the graziers' position. Successful foreign bids for freehold or leased grazing properties had drawn criticism regardless of the foreign investor's country of origin. Local producers wanted less competition when bidding for productive assets. In mid-1988, for instance, graziers in Western Queensland complained so vociferously about being outbid by Belgian investors for several adjacent leases that the Queensland Lands Minister made a trip to the region to reassure them that the State government would resist further such foreign investments (*W. Aust* 8–9 June 1988).

Japanese acquisitions of processing facilities were followed by additional investments to lift the quality and productivity of the operations to the level needed to service the Japanese market (Industry Commission 1994:229). While this promised substantial export growth, it also threatened the viability of some domestic processors — including those operations owned by the Queensland government (Industry Commission 1994:220).[62] The executive director of then locally owned Australian Meat Holdings called for strict controls on FDI in meat processing (*AFR* 25 March 1988; *Her* 16 August 1988). In mid-1988 the president of the Cattle Council of Australia declared that if Japanese ownership of Australian abattoirs was to go to 25 per cent, from the supposed 10 per cent at the time, then the industry 'would be in serious trouble' (*CM* 8 June 1988). Later its executive director argued that, through vertical integration, Japanese firms '...could exercise dominant power and transfer profits from Australia' (*AFR* 22 February 1989).

While the interest of domestic graziers in a restrictive FDI policy for properties is readily apparent, the calls by their organisations for controls on Japanese FDI in processing takes more explaining. That investment, after all, would provide the quality processing and linkages necessary to secure a strong position in the

[61] Media reports at the time carried wildly inaccurate claims about the extent of foreign ownership and control of rural land, especially in Queensland (*CM* 8 June 1988). To some degree these reports exacerbated unease in the sector but were also a mask for private interests in the industry.

promising Japanese market (Morison and Officer 1991). Yet in 1989 the president of the Australian Cattlemen's Union called for a freeze on all further Japanese investment in capital properties, feedlots and meatworks until a more restrictive FDI policy regime was devised (*Aust* 14 February 1989). The United Graziers Association's Queensland president expressed concern over the acquisition by Japanese trading company Itoman of a 40 per cent equity stake in one of Australia's largest meat exporters, R. J. Gilbertson (*CM* 20 January 1989). In keeping with a long history of regulatory capture by Australian rural producer interests, the main beef grower organisations demanded formal input into the FDI review process. The Australian Cattlemen's Union wanted industry representatives appointed to the FIRB to address its supposed liberal bias (*CM* 6 July 1990). The United Graziers' Association went further, demanding that all foreign investments in processing, handling and feedlot facilities in the cattle, wool, and sheep meat industries were to be subject to a 51 per cent Australian equity requirement, '...except if the proposed purchase has the full support of the national commodity council concerned' (*Towns. Bull.* 2 June 1988).

Graziers feared that substantial rationalisation of processors might result in major players with a degree of monopsony power (Industry Commision 1994:211–14). There were clearly perceptions that Japanese meat firms might collude to fix prices paid for livestock, and that the Trade Practices Commission would be unable or unwilling to address such behaviour.[63] Long held concerns about Japanese buyer collaboration in the minerals trade may have contributed to this perception within the beef industry and broader community. Yet grazier opposition to FDI in processing clearly went beyond concerns about Japanese buyer collusion or the wider costs of vertical integration. Rationalisation of processing facilities through FDI had negative implications for some graziers. Australian abattoirs were

[62] This point, and discussion below of the private interest dimensions of opposition to Japanese FDI in the beef industry, is informed by discussions with two Queensland beef industry identities requesting anonymity (Brisbane August 1999).

[63] That these fears took on a particularly anti-Japanese bent is ironic as Australia's then largest processor, while controlled by Australian firm Elders-IXL, had been forced to divest processing assets in North Queensland following legal action by the Trade Practices Commission. The case (AMH v. TPC (1989) 40,932 ATPR 50,082) established an important precedent for defining regional markets when measuring the degree of market power likely to ensue from a takeover (Industry Commission 1994:212).

notoriously small-scale, undercapitalised, technologically backward, and widely geographically dispersed (Industry Commission 1994:7–48). While rationalisation was essential to Australia developing a sustainable competitive advantage in the industry, many equally small-scale and undercapitalised graziers — geared only to the domestic market — relied on the local abattoir (Industry Commission 1994:220–22). Rationalisation of processing facilities would also impose new costs on many producers, making some non-viable, and the potential 'losers' were a vocal constituency within the industry opposing change. This fear of industry restructuring was evidenced in trenchant opposition to the plans of American giant Consolidated Agriculture Inc (ConAgra) to take control of Australian Meat Holdings.[64]

The Goss government backed industry calls for the blocking of foreign acquisitions of processors and was critical of the Hawke government when they were ignored (*CM* 6 July 1990; *W. Aust* 11–12 August 1990). The Queensland ALP went to the 1989 state election with a pledge to do all in its power to block 'vertical integration', and in its first few years in office in particular it repeatedly backed the policy demands of domestic rural producers upon the Federal government (Goss 1989:9–10).[65] The Queensland branch of the ALP had long been staunchly economic nationalist, was influenced by the private interests of unionised meatworkers, and also gave more attention to rural issues in its bid for power in the late 1980s (*CM* 12 August 1988).[66] The Hawke government's political calculus favoured defending its positive reputation for internationalising the Australian

[64] Although AMH management had been vocal in demanding restrictions on FDI on processing, its debt-burdened parent, Elders IXL, had no qualms about selling the operation to foreigners (*W. Aust* 11–12 August 1990).

[65] The Goss government continued to oppose foreign takeovers in the rural sector when confronted by resistance from local firms, although it claimed it judged the worth of investments on the basis of the extent to which it would bring further investment and industry expansion. It also came to explicitly recognise that the Commonwealth, via the FIRB, was quite prepared to ignore its concerns. In April 1991 the Queensland government made a long submission to FIRB opposing a $320 million takeover bid for Bundaberg Sugar by British firm Tate and Lyle (*CM* 25 April 1991). They had argued that they would bring international expertise to the sugar industry, a position the government rejected after representations from local sugar industry representatives (*Aust* 26 April 1991). The Queensland Treasurer knew however that the Federal government would not reject the takeover through the FIRB mechanism (*CM* 29 May 1991).

[66] Queensland Labor also had its own private interest constituency favouring restrictions on FDI in meat processors. Unionised meat workers feared changes to work practices and industry rationalisation that would leave them worse off (Industry Commission 1994:173–207). The Labor Party in Queensland, already staunchly economic nationalist, had further cause to criticise foreign takeovers of meat processors.

economy. Federal primary industries minister John Kerin defended the positive contribution Japanese FDI could make to the beef industry but promised the industry a coordinated approach with Treasurer Keating in reviewing investment proposals (*CM* 17 March 1989; 11 January 1989). The emphasis remained squarely on boosting the export performance of the industry.[67] At the same time the Hawke government took delight in the internal division that the Japanese FDI issue was provoking within the Coalition as National Party identities revolted against the very liberal FDI policy contained in the *Future Directions* policy platform.

Political pragmatism and its limits

National Party dissent from the FDI policy in *Future Directions* became open and embarrassing for the Coalition leadership. In July 1988 the New South Wales State Council resolved to call for a public inquiry into foreign investment in the rural sector and Coalition divisions were evident within the Federal Parliament (Kitney, *AFR* 1 August 1988).[68] Within the Liberal Party voices of dissent had also been raised. Shadow Defence spokesperson Peter White, from the Gold Coast advocated more restrictive policy and limiting non-citizens to lease-holdings of real estate in particular (*SMH* 28 May 1988; *CM* 16 June 1988). Yet Opposition leader John Howard refused to revisit FDI policy for fear of compromising the integrity of the *Future Directions* policy package at a time when his leadership was being questioned. Strong criticism of Howard for apparently qualifying his commitment to a non-discriminatory immigration policy also made it more difficult for him to qualify his liberalism on FDI policy in spite of specific public concern about

[67] Kerin spelt out four criteria for judging investments that he said he had put to Keating in a submission. They were: a clear preference for joint-ventures, enhancing of local processing plants, reciprocal access to Japanese marketing and distribution chains and parallel initiatives by the Australian party to gain that access (*Age* 17 March 1989). Treasury officials serving the FIRB apparently resisted pressures to consult with officials in Kerin's department on beef industry proposals, claiming that their DPIE counterparts had been incautious with commercial-in-confidence information (Hoare, *AFR* 22 February 1989). Policy was ultimately more liberal in practice than Kerin favoured.

[68] For instances of the open disregard for the liberal policy contained in *Future Directions* shown by some National Party MPs in Federal Parliament see Powell (*Sen Hansard* 7 March 1989:580), Watson (*Sen Hansard* 9 March 1989:723) and Cowan (*HR Hansard* 23 May 1989:2626). The revolt was not limited to National Party MPs. Liberal MP I. Wilson criticised both foreign debt and equity and presented a petition signed by over 5000 people criticising FDI policy and calling for a statutory 45 per cent limit on foreign ownership of any asset *(HR Hansard* 17 August 1989:338).

Japanese investment.[69] Keating mocked the Opposition for their disunity on FDI policy (*SMH*, *Aust* 10 March 1989).

As Howard's grip on the leadership weakened in early 1989 his main rival and shadow treasurer, Andrew Peacock, started to qualify publicly the Coalition's commitment to an essentially open regime. Peacock's motivations were two-fold — electoral and internal to the Opposition. The Coalition's policy had been a good one for the politics of the currency crisis but had been overtaken by the rapid growth in Japanese FDI. Peacock was keen to demonstrate to potential supporters within the Liberal Party that he would be a more politically astute leader than Howard and provide real prospects for a return to government after seven years. Coalition divisions came to a head at a joint party room meeting of the Federal Coalition in April 1989 when eighteen members called for policy change (*AFR*, *SMH*, *Age* 12 April 1989).[70] They could point to the views of former Prime Minister Malcolm Fraser for support.[71] Peacock managed the revolt by promising he would produce and circulate an issues paper for feedback. Three weeks later he deposed Howard. As leader he continued to reposition the Coalition's FDI policy within the constraints of an ongoing commitment to the *Future Directions* policy document.

Despite being determined to manage the domestic politics of Japanese FDI, the Hawke government could not resist the temptation to periodically score political points off the Opposition during 1988–89 for its commitment to abolish the FIRB (for example Tickner, *HR Hansard* 26 October 1989:1918). Treasurer Keating declared during one parliamentary Question Time

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[69] Industry Minister Senator John Button sought to blame Howard's stance on Asian migration for community antagonism towards Japanese FDI (*Sen Hansard* 25 August 1988:224).

[70] Rather ironically, wealthy shopping centre developer Geoffrey Prosser sought to have the Coalition commit to limiting foreign investors to leasehold and a stricter review of proposals because, he later explained, '... Japanese investment is in non-productive areas such as the property market, and this is not in the best national interest.' (*Age* 12 April 1989). By mid 1988 there were vocal critics of FDI policy within the broad ranks of the Coalition parties. Some of the views expressed were extreme, as Liberal backbencher Ian Wilson's public declaration that he feared Australians would become 'sweated labourers' for overseas, especially Japanese, imperialists (*Adv*, *AFR* 13 October 1988).

[71] In April 1988 Fraser wrote that while he was not a chauvinist in relation to foreign investment he '...would have preferred the floodgates to be opened when the Australian dollar was strong so that foreigners could not buy Australian assets at bargain-basement prices.' He argued '...we have invited foreigners to buy more and more Australian assets, enabling us to subsidise current living standards at the expense of our children.' (*Age* 11 April 1988).

> ...the Labor government rejects the policy of the Liberal and National parties, which is to abolish the Foreign Investment Review Board and have no controls on foreign investment whatsoever. The Labor government believes such a policy would be a scandalous abdication of Australia's national sovereignty. It is the proper role of the government to assess and evaluate foreign investment proposals, and the existing policy allows us to do that on a basis widely-recognised as fair and reasonable. (*Her* 16 August 1988).

While still shadow treasurer Peacock said that although a Coalition government would abolish the FIRB it would retain the discretionary authority over FDI provided by the *Foreign Takeovers Act*. He asserted, 'If you wanted to act in particular areas following information that the Treasury put to you, you have got the framework to do that' (*AFR* 20 March 1989). Such a model of FDI regulation was likely to diminish rather than enhance investor confidence. Without a formal notification requirement imposed upon investments above a certain threshold, such prerogatives were likely to be only exercised when investments became, for whatever reason, politically salient. The Opposition's policy position was even more confusing when Peacock said that there needed to be greater attention to the principle of 'reciprocity' in the application of foreign investment policy (*AFR* 20 March 1989). This implied a Coalition government would give differential treatment to investments on the basis of country of origin — a departure from the principle of non-discrimination over which there was a clear elite if not popular consensus.[72] When pressed Peacock did stress the Coalition's support for the non-discriminatory and liberal policy. The Coalitions' new found pragmatism on FDI policy was evidenced by its tentative endorsement of Labor's restrictions on the acquisition of established residential real estate by non-resident foreigners (*W. Aust* 28–29 October 1989). This was in stark contrast to Peacock's criticism of the ban at the time of its announcement in September 1987. Through 1989 the Coalition was trying to subtly minimise FDI policy as a potential electoral negative in the lead-up to the next election.

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[72] A 1990 Newspoll found 58 per cent support within the Australian community for applying restrictions on FDI from particular countries (Goot 1990:255; *W. Aust* 7–8 July 1990). The actual questions posed by Newspoll were not made public so it is not clear if respondents were given a direct choice of non-discriminatory policy or country-specific restrictions.

The political risks in a sudden pragmatic concession to popular hostility to Japanese FDI — that is, any attempt to make FDI policy an electoral positive — were brought home to the Coalition during the 1990 federal election. Under Peacock's leadership it tried to breathe life into a flagging campaign by opposing the MFP project on the grounds that it would lead to the creation of a Japanese enclave.[73] Senior campaign strategists believed that widespread antipathy to Japanese investment could be tapped for electoral gain with such a position (Kelly 1992:581). This was despite the fact that the responsible shadow minister, John Howard, had already said publicly during the election campaign that people should not '...bury the concept in a sea of hostility before we know anything about it' (*Sun Her* 18 March 1990; Kelly 1992:581). Peacock's about-face on the MFP was widely denounced as a shameless and desperate appeal to anti-Japanese sentiment by elite opinion-makers.[74] Government leaders, political commentators, quality newspaper editorialists, senior businesspeople, and even New South Wales Liberal Premier Nick Greiner were openly critical (*Age* 18 March 1990; *AFR*, *SMH* 19 March 1990).[75] An emotional Hawke ignored the advice of ALP pollsters and repeatedly attacked Peacock (Mills 1993:135).[76]

Deep recession in both Australia and Japan ultimately took much of the political heat out of the FDI issue, although there were initially concerns that Japanese investors were securing Australian property at 'firesale prices' (*W. Aust* 23–24 June

[73] There was already evident antagonism within the National Party towards the concept and Coalition science spokesman Peter McGauran had been publicly critical (*CM* 30 January 1990; *Sun Her* 18 March 1990). One Coalition MHR circulated campaign materials warning that Labor's re-election would result in thousands of Japanese arriving in the electorate (Woods, Beazley, *HR Hansard* 10 October 1990:2544).

[74] Liberal Party Federal Director Tony Eggleton nonetheless insisted in the official post-election party campaign report that '...there were some Liberal votes won on the MFP' (quoted in Kelly 1992:583; Mills 1993:55, 134–35). The Coalition's position appears to have been in reaction to the frequency of 'swinging voters' in private polling to nominate Japanese investment as a concern (Burton and Lagan, *SMH* 19 March 1990).

[75] The Sunday Herald's headline read 'High tech city plan rekindles migration row' while the Sunday Telegraph's said 'Peacock 'insulted Japanese'' (18 March 1990). The latter referred to Keating's denunciation of Peacock's remarks as an insult to Australia's largest trading partner and damaging of national interests. The headline over commentator Paul Kelly's response to the Liberal position read 'Peacock disqualified from Lodge' (*Aust* 19 March 1990). The Australian's editorialist (19 March 1990) judged Peacock's 'appeal is to the fearful gut instincts of racism, to that minority of voters who yearn for the bygone days of when Australia was white..'

[76] However, there was considerable disquiet about the MFP within the Left wing of the labor caucus in particular (*Aust* 12 July 1990). New science minister Simon Crean was also openly critical of how the MFP concept and site selection had been managed (*Adv* 2 August 1990).

1990).[77] The *Courier Mail*, for instance, editorialised against Keating's 'tight monetarism' for '...abandoning the field to monied foreigners' (*CM* 5 July 1990). However, as the depth of the recession came to be widely understood there was a greater appreciation of foreign investment flows. The Goss government in Queensland, despite having waged a very public war with the Hawke government over its liberal FDI policy, was forced by the recession to a position more accepting of FDI (*CM* 13 June 1990; 1 September 1990).[78] Ironically, deep recession and a sharp decline in Japanese FDI inflow coincided with the release of substantial information on the real extent of foreign ownership and control in sensitive sectors. As Rix (1999:113) noted, a shortage of information about the real extent of Japanese FDI had been a major factor in its politicisation. The Queensland register of foreign ownership of land, forced on a reluctant government by the Labor opposition, ultimately revealed the latter's claims about the extent of foreign ownership to have been grossly exaggerated (Queensland Treasury 1991c; *CM*, *AFR*, *Aust* 26 June 1990). The Queensland register leant weight to the argument by Garnaut (1989:105) and Drysdale *et al.* (1989:64) that registers of foreign land ownership could advance the cause of liberal FDI policy.

The Bureau of Tourism Research (BTR 1990,1991) found substantial net benefits from foreign investment in tourism and dismissed claims of substantial loss of profits overseas or underemployment of Australians. The BTR's 1991 report estimated that only 4 per cent of money spent by tourists was lost from Australia to overseas investors. Most importantly for the politics of FDI policy, the report attracted widespread media attention (*Aust* 14 August 1990; *CM* 18 August 1990, 23 July 1991). The Goss government's own Foreign Investment Secretariat within the Treasury found that claims of vertical integration and corrupt business practices

[77] Japan entered recession later than Australia, although the bursting of its bubble economy entailed a much more painful and prolonged correction than Australia experienced. The basic institutional and regulatory problems that had helped to create the bubbly economy also delayed the impact of its ending on indebted investors in foreign property (Horiuchi 1998). Consequently firms such as EIE International and Daikyo remained active in Australia for longer than one might have expected given their precarious balance sheets.

[78] The Goss government nonetheless produced and circulated foreign investment guidelines (Queensland Treasury 1992). These suggested several areas where state authority might be deployed to restrict foreign acquisitions; the most prominent one being offshore island leases. There had already been several disputes over foreign acquisitions of the firms holding the leases — the most prominent involving Daikyo's control of Green Island (*CM* 25 April 1990; *Aust* 6 July 1990).

in the Queensland tourism industry were 'markedly exaggerated' (Queensland Treasury 1991a, 1991b; *CM* 15 March 1990; *W. Aust* 13–14 April 1991).[79] The political significance of these reports is that they made it much more difficult for political actors to make popular appeals to economic nationalism. Coupled with the deep recession, it cemented a commitment of the major parties at the federal level and state governments to a liberal FDI policy regime throughout the 1990s — albeit with limited but significant exceptions. The following chapter examines what those exceptions were and why they emerged.

Conclusions

The Hawke government initially responded to growing popular concerns about FDI in real estate in the mid-1980s with a pragmatic political decision to enact tight new controls on acquisition of existing residential properties by non-residents. In doing so it was assuming that community concerns were principally a private interested reaction by Australian aspirant buyers. By early 1988 it was clear that the new restrictions had done little to contain a growing controversy over foreign investment in real estate. Deeper territorial, historical, cultural and even racial sensitivities were also in play. Public contention became intense because of the rapid increase in FDI in real estate, because former enemy Japan became the single largest investor and because FDI issues became entangled in a broader controversy about Asian migration. The Hawke government made no further political concessions to illiberal critics of FDI policy as it was concerned with repairing its reputation for economic management and with championing closer ties with East Asia. The government could maintain a quite open FDI regime despite widespread antipathy to Japanese FDI as the Opposition was committed to even more liberal policy. Nonetheless, the strength of controversy in the mass media — provoked by a range of societal actors and the media itself — presented a significant political management challenge to the Hawke government. As Japan was seen as an economic powerhouse and the single largest source of FDI there was a heightened imperative for the Labor government

[79] Senior Queensland Labor ministers then used the Secretariat's reports to reject the very claims that they had themselves made whilst in opposition and the early days of government (*CM* 23 October 1991).

to promote understanding of the benefits of Japanese FDI in the Australian electorate. Japanese firms and diplomats helped in this but Japanese official proposals for a multifunction polis and other schemes fuelled further controversy. The Hawke government during the late 1980s was largely managing the politics of contending conceptions of the public interest in relation to FDI. Elite opinion was overwhelmingly liberal while popular opinion was much more divided. Some critics asserted that Japanese FDI in the promising tourism and beef industries entailed the risk of vertical integration and long-term national welfare losses from the Australian economy. These ideas were also promoted by some domestic businesses who feared rationalisation in the wake of substantial Japanese and other foreign direct investments. The Hawke government was not swayed by these private interest concerns from maintaining a liberal FDI policy it had adopted under pressure of economic circumstances several years previously. Labor's political fortunes ultimately depended on its capacity to preserve its historically improbable reputation for good economic management.

9 Qualified liberalism, 1990–96

Labor's FDI policy in the 1990s reflected both the recognition that foreign investment had an important role to play in revitalising the Australian economy and that economic nationalist sentiment in the electorate was surprisingly resilient. In 1992 the Keating government delivered further liberalisation in its *One Nation* package in response to deep recession and its damaged reputation for economic management. The Coalition, despite its reformist *Fightback!* manifesto, moderated its thoroughly liberal position on FDI policy. This brought about near bipartisanship on the broad principles of FDI policy although disagreements arose over its administration. Foreign acquisitions of prominent Australian businesses and the government's own privatisation agenda provoked public controversy, causing Labor to qualify its liberalism. Approval of some foreign takeovers was made conditional upon expanding exports and privatisations came with the condition of majority Australian ownership. At the same time the Keating government's conviction that FDI could help revitalise the Australian economy led to an increased commitment to attract investment and facilitate the activities of foreign firms. The promotion of Australia as a location for RHQs dovetailed with the Keating government's championing of closer ties with East Asia. Investment issues became a central object of Keating's diplomacy within APEC. During its last two terms Labor's FDI policy came to be associated publicly with scandal as well as statesmanship. The Opposition alleged that FDI policy had favoured the prime minister personally and Labor politically. The claims centred upon a piggery and the Fairfax newspaper company, respectively. FDI policy for the media became a liability for Labor, despite efforts to optimise politically its policy response to a plethora of contending private and public interest demands. Labor's FDI policy towards the mass media is of particular interest because the sector remained a significant exception to a generally liberal FDI policy. Influential private interests lobbied for restrictive policy, although an even more powerful consideration for the Labor leadership was hostility towards foreign ownership of the media within ALP ranks, public opinion leaders and the wider electorate.

FDI policy and economic reform

Deep recession, a decline in FDI from Japan and better information about the real extent and character of inward FDI all contributed to a lessening of controversy over FDI policy in the early 1990s. Opinion polls nonetheless revealed a continuing of nationalist sentiment within the electorate against FDI throughout the Labor's time in office.[1] The Coalition, under new opposition leader John Hewson, dropped its formal commitment to further liberalisation of FDI policy. It did so discretely for fear of being censured by elite liberal opinion, as had happened when the Coalition pragmatically opposed the MFP project during the 1990 federal election. The determination of the Coalition to lie low on FDI policy was evidenced by the absence of a position on FDI in the *Fightback!* policy package that became the hallmark of Hewson's leadership (Henderson 1994:301–08). *Fightback!* was a comprehensive blueprint for radical liberalisation of the Australian economy, and the absence of a commitment to a more open FDI policy regime was a stark omission (Hewson and Fischer 1991a, 1991b). In fact *Fightback* raised the spectre of foreign domination to sell its free market reform agenda.[2]

At this time the Labor government, weakened politically by deep recession, leadership rivalry and a resurgent opposition, embraced further economic reform in an attempt to repair its damaged reputation for economic management (Kelly

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[1] A Newspoll taken over 19–21 January 1996 found 56 per cent of respondents thought the level of foreign investment in Australia was too high, 19 per cent chose 'about right' and only 7 per cent said it was too low (*W.Aust* 27–28 January 1996). Similar responses were found amongst supporters of both main political groupings. Some business constituencies for a liberal FDI policy — such as real estate interests and the CEO of BHP — explicitly warned the Coalition off the FDI issue in the run-up to the 1996 election (*Aust* 31 January 1996).

[2] *Fightback!* read '...we need to look to our own failures. We have never wanted to be a British farm. We have never wanted to be an American mine. We don't want to be a giant Japanese hotel. Our children, the children of the Lucky Country — those lucky enough to have jobs — don't want to become a nation of bellhops and shoeshines. We want to be a diversified, dynamic economy with a shared sense of national identity.' (Hewson and Fischer 1991a:12). *Fightback!* did contain a commitment to freer entry for foreign banks as part of its vision of Sydney becoming a major international financial centre (Hewson and Fischer 1991a:50). Nowhere else in the voluminous documents did FDI policy rate a mention and even the banking instance was not presented as a foreign investment issue (1991b). Hewson also surprised many with open criticism of Japanese real estate investment and advocacy for making FDI approvals conditional upon the openness of investors' home countries to Australian exports (*SMH* 21 June 1990; *Age* 4 July 1990).

1992:607, 648–52; Gruen and Grattan 1993:269; *Morgan Polls* 23,30 June 1990–97,14 March 1992).[3] The Opposition criticised decline in inward FDI as evidence of Labor's mismanagement of the economy (Panizza, *Sen. Hansard* 26 February 1992, 145:2017). Following the ascendancy of Paul Keating to the prime ministership, the government produced the *One Nation* policy document in response to *Fightback!*.[4] It featured further liberalisation of FDI policy, in keeping with Labor's practice during the 1980s of using FDI policy change to signal its commitment to further reform of the Australian economy. The most significant change — a stark contrast to the Whitlam years — was the abolition of local equity requirements for the mining industry (Dawkins, *Treasurer's Press Release* No. 25 26 February 1992). Full foreign ownership of mining operations was to be allowed, subject only to the reserve veto power included in the national interest test. Domestic constituencies for local equity requirements had diminished as the major Australian-controlled mining firms became more internationally oriented.[5] The Keating government nonetheless later placed a number of conditions on the effective merger of British RTZ Corp with its Australian offshoot CRA that created Rio Tinto (Willis, *Press Release* 20 December 1995; Henderson, *Aust* 29 January 1996; Stevens, *Aust* 29 May 1996). With the *One Nation* package the Keating government also opened the way to further licenses for foreign banks that met Reserve Bank prudential requirements. Foreign banks would also be allowed to acquire Australian banks, with the exception of the 'four majors' (FIRB 1993:48). The government also foreshadowed raising no objections to foreign investments with a value less than $50 million (FIRB 1993:48). Several sectors, most notably the mass media, remained as special

[3] For instance, the Hawke government was emboldened to adopt a schedule of significant tariff liberalisation in early 1991 after the Coalition committed in principle to the abolition of all tariffs by the year 2000 (Kelly 1992:606).

[4] The *One Nation* policy offered more qualified economic reform than *Fightback!* and held there to be an ongoing and important role for government in making Australia a 'clever country'. It sought to address criticisms that Labor was bereft of ideas after four terms in office while positioning Labor as more moderate than the Coalition (Henderson 1994:301–08). Ironically this strategy was made more attractive by a popular, and to some degree elite, backlash against Labor's 'economic rationalism' during the recession. For debates over economic rationalism see Pusey (1991), Carroll and Manne (1992), Rees, Rodley and Stilwell (1994), King and Lloyd (1993) and James, Jones and Norton (1993).

[5] Resources Minister David Beddall welcomed the expansion of Australian mining firms abroad (*Press Release* 95/43, 5 July 1995; *HR Hansard* 10 May 1994). Beddall adviser Doug Capp confirmed that the expansion of Australian mining firms abroad was a significant factor in the considerable decline in support for FDI restrictions amongst both industry players and the relevant state and federal bureaucrats (Conversation with author, Canberra 9 May 1995).

cases. The Opposition endorsed the FDI liberalisation measures contained in the *One Nation* package, signalling effective bipartisanship on most aspects of FDI policy (Short, *Sen Hansard* 27 February 1992:406). Despite this, FDI was by no means dead as a political issue.

Selling Aussie icons

During the early and mid-1990s a number of foreign acquisitions of Australian businesses attracted media attention and criticism. Campbell's acquisition of a controlling interest in Arnotts' biscuits was the most controversial, with the Australian Democrats leading opposition (Coulter, *Sen Hansard* 14 October 1992:1751, 1787; Lees, *Sen Hansard* 9 December 1992:4529). Questions were raised as to whether Campbell's had delivered on commitments made to help Arnotts' export when permitted to take up 40 per cent of the firm in July 1986[6] (*Age* 5 July 1986).[7] The 'loss' of other established brands to foreign ownership such as Castlemaine Perkins' XXXX beer and Aeroplane jelly attracted mass media attention, as did approval of the takeover by French insurance giant AXA of National Mutual (Willis, *Press Release* 31 January 1995, AS320; McCrann, *DT* 8 June 1995). The government's concern for export growth was also evident in the conditions imposed on AXA '... transferring its existing Asian life insurance interests to National Mutual Holdings, and pursuing its Asia Pacific life insurance business strategy through that company' (Willis, *Press Release* 31 January 1995, AS320). Sale of Pacific Dunlop's large food industry holdings to Nestle and Simplot provoked consternation amongst even moderate business commentators and policymakers (Willis, *Press Release* 8 September 1995, 7WG20; Westfield, *W. Aust*

[6] A 700-strong group called Shareholders' Action Association (SAO — after an Arnotts' biscuit) campaigned against the Campbell bid, heightening the controversy (Gluyas, *Aust* 30 January 1996). Incidentally, in late 1986 the Trade Practices Commission had dismissed a complaint that Arnotts' was engaging in false advertising with reference to being Australian when 20 per cent, and later 40 per cent of its equity was held by Campbells of the United States (*Age* 14 November 1986). The rationale for the dismissal was that both labour and materials utilised in the manufacture of Arnotts' products were Australian.

[7] Treasurer Dawkins said that the conditions imposed on Arnotts were 'designed to ensure that Arnotts activities remain centred in Australia as it undertakes its proposed export drive into Asia' (*Aust* 15 October 1994). Campbells appeared to be quite serious about using Arnotts as a foundation for its Asian expansion plans (*Aust* 1 March 1995). As FIRB did virtually no follow-up work with firms the Keating government was hoping that a concern for public reputation and future regulatory approvals would be sufficient to secure compliance by foreign firms (Hewett and Ellis, *AFR* 27 June 1995).

5–6 August 1995). This was because the food processing industry was widely touted as a promising example of 'value-adding' exports with great future potential in Asian markets (EAAU 1997:354–57). While giving his approval, Treasurer Willis publicly expressed disappointment at the sale and exhorted enterprises to be more export-oriented.[8]

The Coalition did not criticise approval of the acquisitions, but spokespersons frequently asserted that the foreign takeovers were a consequence of poor economic management by Labor. This was a politically astute response to the dual forces of nationalist sentiment within the electorate and elite liberal economic orthodoxy. The Australian Democrats showed little concern for elite opinion, being forthright critics of particular foreign takeovers and advocating a more restrictive FDI policy regime.[9] The strength of elite liberal opinion did ensure fewer brazen demands by rent-seeking domestic interests in relation to FDI policy, although there was still some lobbying for selective rejections of takeover bids. Contentious instances included the hostile bid by Tate and Lyle for Bundaberg Sugar and the sale of the Dreamworld amusement park (*Aust* 29 January 1996).[10] While the main Australian business peak bodies accepted a liberal FDI policy the calls of the marginal

[8] Australian business critics of the Pacific Dunlop sell-off included Woolworths chief Reg Clair, CSR chairman Alan Coates, and wealthy agribusiness entrepreneur Doug Shears — who took out a full page in a national newspaper to call for majority local equity requirements before the 1996 Federal election (*W. Aust* 5–6 August 1995; *Aust* 26 January 1996; *SMH* 13 July 1996). Many commentators and business identities expressed dismay at the foreign acquisitions but did not go so far as to call for more restrictive FDI policy (Gastin, *Aust* 22 August 1995). Some of the 'national icon' brands that were sold were Peters, Edgell-Bird's Eye, Herbert Adams Bakeries, Big Sister, Nanna's, Leggo, Four'n Twenty and Wedgewood. One Edgells/Simplot source pointed out that despite their ostensible 'iconic' status, some of the brands were doing relatively poorly in their product segments at the time of the takeover (William Ryan, personal conversation, Brisbane 10 August 1999).

[9] The Democrats were advocates of economic nationalism while strongly defending a cosmopolitan and internationally oriented conception of modern Australian society. Although rather idiosyncratic it had much in common with elements of common attitudes on the Left of the ALP (Personal conversation with John Cherry, Senior Advisor to Senator Cheryl Kernot 15 October 1995). Until the emergence of Pauline Hanson's One Nation party in 1996 there was no political entrepreneur offering a populist policy mix of economic nationalism, cultural parochialism and a restrictive immigration policy. On debates over the drivers of Hanson's popularity see Grant (1997), Gray and Winter (1997) and Davidoff (1998).

[10] On the complex corporate and political machinations surrounding the hostile Tate and Lyle PLC bid for Bundaberg Sugar see Dixon (*SMH* 27 April 1991) and Bartholomeusz (*Age* 20 March 1991). The benefits to Bundaberg shareholders from the bid were noted at the time (Westfield, *SMH* 30 April 1991).

Australian Owned Companies Association (AOCA) for more restrictive policy attracted some media attention.[11]

Privatisations and FDI policy

Reform of the Australian economy raised the issue of foreign ownership and control in new ways. With a spate of privatisations the Labor government was compelled to develop FDI policy for industries that had previously been the exclusive preserve of government. Each privatisation decision taken by the Hawke and Keating governments was painful because of the centrality of state ownership in the old ideology of the ALP, the opposition of unions fearful of the implications for their members, and initial wariness within sections of the electorate (Gruen and Grattan 1993:156; Kelly 1992:238–41; King and Maddock 1996; *ABM* May 1995:35–37). This was particularly so in the case of the Commonwealth Bank (Kelly 1992:672). In order to secure Party agreement for a partial float in 1990 the Hawke government limited shares in the initial float to Australian residents (Spindler, *Sen Hansard* 13 December 1990:5678; Dixon, *SMH* 27 April 1991).[12] Labor identities denounced the Opposition's criticism of the restrictions and its support for full privatisation (Reith, *Press Release* 13 November 1990).[13] In fact, as Keating made clear, there was nothing in Labor's legislation for a partial float to stop Australian residents on-selling shares to foreigners (*HR Hansard* 8 November 1990:3676). This would help to guarantee the 'success' of the float with the Australian share-buying public but at the expense of government revenue from the sale.[14]

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[11] A strong press supporter of more restrictive FDI policy was Bruce Stannard, editor of the *Australian Business Monthly (ABM)*. The last edition of the magazine before its demise in 1995 was devoted to an attack on the government's liberal position on foreign takeovers (*ABM* May 1995:35).

[12] The initial float of 30 per cent of the Commonwealth Bank occurred when Keating made a deal with the leftwing Victorian Labor premier, Joan Kirner, for the bank to acquire the troubled State Bank of Victoria in the process (Kelly 1992:672).

[13] Government rising star Michael Lee (*HR Hansard* 14 November 1990:3987) said 'I do not want some share owner in Japan, the United States or Switzerland to decide whether the Commonwealth Bank will continue to offer concessionary rates of charges and fees for pensioners and low income earners in Australia'.

[14] Keating told the House of Representatives that: 'Foreigners will be prohibited from subscribing to the first public issue of shares in the Commonwealth Bank. The aim of this restriction is to give priority to Australian residents in subscribing to shares in the bank. However, foreigners will not be prevented from buying shares from subscribers and holding them thereafter. The wish of foreign persons to buy some of these shares in trading after the issue will add substantially to the effective demand for the shares, and hence to the prospects of success of the issue and to the market value of the new shares.' (*HR Hansard* 8 November 1990:3676)

When the Keating government privatised Qantas it was acutely aware of the political trade-off between maximising the sale price, and therefore its capacity to deliver public and private goods, and the political benefits from selling shares to more affluent voters at a lower price while simultaneously appeasing popular nationalist sentiment. With an initial partial privatisation, Labor went for a substantial trade sale component that saw British Airways take a 25 per cent stake and the government retain majority ownership (Kelly 1992:672). The subsequent decision to sell the government stake was controversial within Labor ranks and so delayed for several years. The initial float plans favoured small domestic investors and limited foreign equity holdings to only a further 10 per cent (Falvey, *Aust* 16 February 1996). However, the government subsequently revised the limit to 49 per cent to boost the ultimate sale price by an expected $300 million through greater foreign institutional investor participation (*Aust* 9 June 1995; Taylor, *Aust* 10 May 1995). The consequence of this convoluted decision-making was that overall foreign ownership of Qantas was limited to 49 per cent but British Airways ended up being by far the largest single investor (Falvey, *Aust* 11 May 1995).[15]

At the same time as its back flip on foreign equity for Qantas, the Keating government announced full privatisation of the Commonwealth Bank. Treasurer Ralph Willis announced simply that the government had 'changed its mind' because it was 'psychologically significant' to return the budget to surplus (Taylor, *Aust* 10 May 1995). Labor needed to boost its reputation for economic management as it faced a resurgent opposition under the leadership of John Howard (Milne, *Aust* 15 May 1995). Willis promised that the bank would remain majority Australian-owned but, unlike the *Qantas Sale Act 1992*, did not cement this in legislation (Bailey 1995:1; Taylor, *Aust* 10 May 1995).[16] Foreign equity caps were the political price of

[15] Foreign investment in Ansett was formally limited to 49 per cent but it was widely expected that the Keating government would allow a higher level because of the prime minister's belief that an Ansett-Air New Zealand alliance was a desirable rationalisation of the industry in both countries (Falvey, *Aust* 3 April 1995). Brisbane's Labor Lord Mayor, Cr Jim Soorley, expressed concern publicly about a consortium with a significant Dutch presence exercising influence over Brisbane's privatised airport even though the Keating government was imposing a 49 per cent cap on foreign equity (*CM* 22 December 1994).

[16] In the final Commonwealth float, as in the sale of an earlier tranche of 19 per cent in September 1993, there were no restrictions placed specifically on foreign participation in the float as foreign investors could already freely buy shares through the stock market (Willis, *HR Hansard* 25 October 1995:2853). Willis noted that foreign participation would expand the market for shares and benefit

both federal and state privatisations.[17] In the telecommunications sector Labor was unable to privatise Telstra because of political constraints largely internal to the labour movement, but did subject it to constrained competition. Foreign investors were limited to a minority stake in Optus, the new competitor during a transitional oligopoly phase (Willis, *Press Release* 1 August 1995; *AFR* 30 May 1996). Third carrier Vodaphone, limited to the mobile telephony market, was required to achieve majority Australian ownership by 1 July 2003 (Willis, *Press Release* 1 August 1995).

Luring FDI

With the *One Nation* policy statement in 1992 the Keating government boosted federal investment attraction and facilitation efforts. Under a new Major Projects Facilitation (MPF) mechanism it promised to review regulatory barriers in general and expedite regulatory approval for particular projects.[18] The MPF was packaged in *One Nation* with a 'suite of measures in support of major projects' that included

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all shareholders, including the Commonwealth. However, majority Australian ownership would be retained through the usual FDI guidelines.

[17] Privatisation of the electricity industry in Victoria and water services in South Australia provoked public controversy over the participation of foreign firms (*Aust* 11 January 1995, 24 January 1995, 29 March 1995, 6 April 1995). State Labor oppositions were strongly critical in both instances — the Victorian Labor leadership threatening to force foreign equity sell-downs if elected (*Aust* 7 March 1995). One opinion poll revealed 92 per cent of Victorians opposed foreign control of privatised electricity generation assets (*Aust* 10 February 1995). The Federal government did not have to confront the Victorian issue directly because the Kennett government reacted to the controversy by requiring bidders to be in consortia with a substantial domestic interest (*Aust* 10 February 1995). The South Australian water privatisation remained contentious but the Keating government did not intervene through the provisions of the FTA. The Western Australia Labor opposition opposed the sale of Bank West to the Bank of Scotland, despite the fact that such a trade sale promised a much bigger sale price than a local float (Wilson, *Aust* 21 September 1995). In accordance with its liberalisation measures in the *One Nation* package, the Keating government raised no objections.

[18] Coordination problems between tiers of government had been long identified by both domestic and foreign firms as hampering investment and the recession of the early 1990s brought added urgency to addressing them (Interviews with Peter Watts, Investment Specialist, and Bernd Neubauer, General Manager, Invest Australia, Sydney 23 February 2000 and Ross Buchanan, General Manager, Investment Attraction, Department of State Development, Queensland, Brisbane 25 May 2000). In practice, it was often Austrade officials and state representatives abroad who were the initial driving force for cooperation between various government agencies on new foreign investments (interviews in Tokyo with Ian Wing, Minister-Counsellor, Australian Embassy 9 December 1997, Tony Hogg, Commissioner, Queensland government Office 9 December 1997, Michael Walker, Official Representative, government of Western Australia 9 December 1997, Craig Peacock, Assistant Representative, New South Wales government 12 December 1997). Australia's consul in Nagoya also reported as much (interview with Ian Brazier 18 November 1997). The Victorian government's official representative in Tokyo reported that he had been formally tasked primarily to FDI attraction and facilitation rather than the more usual export promotion (interview with Kevin Knowles, Tokyo 10 December 1997).

accelerated depreciation and large project investment allowances, federal expenditure on project-related infrastructure and the FDI liberalisation discussed earlier (Keating 1992:81–84). Additional resources were allocated to the overall Investment Promotion Program, which was delivered by Austrade and administered by the Department of Industry, Science and Technology (DIST) (Evans 1993:35).[19] In September 1993 the Keating government initiated a campaign to market Australia as a location for the Asia Pacific regional headquarters (RHQs) of European and American firms (Cook, *Press Release* 1 July 1994: VPR10; DIST 1995a, 1995b; Price Waterhouse 1995). This dovetailed with the government's emphasis upon the economic prospects of the Asia Pacific, its championing of 'enmeshment with Asia' and a strand of thought within the government that Australia was uniquely positioned to serve as an interlocutor between West and East.[20] The establishment of prominent RHQs in Australia might also enhance the reputation of the Keating government for economic management; a reputation still tarnished by the deep recession of the early 1990s.

This political imperative was evidenced by the inclusion of additional RHQ-specific investment attraction measures in the government's main economic policy initiative of its last term (Garran and Megalogenis, *W. Aust* 16–17 April 1994). The *White Paper on Employment and Growth: Working Nation* was largely aimed at diminishing unemployment as an electoral negative for the government. The RHQ initiatives within *Working Nation* included favourable tax treatment of RHQ start-up costs, exemptions from dividend withholding tax, access to feasibility study grants and streamlining of immigration procedures for expatriate executives (Cook, *Press Release* 1 July 1994; Willis, *Press Release* 30 November 1994). A major consultants' report on attracting RHQs lent legitimacy to the governments'

[19] In its 1993 election material the Keating government identified the priorities of its Investment Promotion Program as '... processed food, mineral and chemical based industries, waste and environmental management, textiles and tanning, information technology and telecommunications' (Evans 1993:35).

[20] Industry minister Sen. Peter Cook (*Press Release* 24 May 1994, STP10) made the theme of his 1994 address to the French Chamber of Commerce and Industry in Australia 'an Australian base for an Asian future'. He detailed the cost and other advantages that a consultants' report had identified for Australia over locations such as Singapore and Hong Kong for firms wishing to 'participate in the Asian growth miracle' (The Allen Consulting Group 1994). The Keating government made much of the fact that its RHQ promotion campaign won an award from the *Euromoney* publication (Cook, *Sen. Hansard* 22 September 1994:1215).

initiatives but also showed Australia to have only some 65 Asia Pacific RHQs by comparison with Hong Kong's 500-odd (The Allen Consulting Group 1994).[21] Several state governments quickly embraced the RHQ concept, largely in competition with each other.[22] With the *Working Nation* package the Investment Promotion Program was also relabelled as the Investment Promotion and Facilitation Program (IFPF) and given additional resources to support more staff overseas working specifically on investment attraction (Anderson 1998:13–15). Former treasurer John Dawkins was later appointed as a part-time special investment representative supplementing the work of Australia's eight investment commissioners and Austrade network abroad (Megalogenis, *W. Aust* 2–3 July 1994).[23]

In the run-up to the 1996 federal election the Keating government credited the IFPF with bringing to fruition a very large volume of FDI, especially in the 'major projects' category. Claimed successes included Anaconda Nickel's $650 million investment in Western Australia, Korea Zinc's $1 billion smelter project in Queensland, and another 40 minerals processing projects worth some $20 billion that were 'in the pipeline' (Cook 420/95, 22 November 1995; 524/95, 19 December

[21] The National Investment Council (NIC), an advisory body revamped as part of the *Working Nation* package, commissioned the report. The NIC's fourteen members of the National Investment Council were drawn from the private sector, trade unions and academe and were charged by the industry minister to undertake an RHQ initiative (Cook, *Press Release* 13 May 1994, 4 October 1994; *SMH* 19 February 1994). The Keating government issued multiple public statements celebrating the decisions of foreign firms to establish RHQs in Australia under the aegis of its scheme. However, it was caught out when Cathay Pacific, described publicly as the 'genesis of the government's highly successful RHQ campaign' by the industry minister, changed its mind about locating its training school in Australia (Cook, *News Release* 322/95, 13 September 1995 and 001/96, 3 January 1996).

[22] There was considerable enthusiasm in the business press for Australia's official efforts to attract RHQs. See, for instance, Thomas (*SMH* 9 September 1994). In Queensland, however, a confidential consultants' report cautioned against excessive optimism about the prospects for RHQs and the extent of the immediate economic benefits associated with them (personal conversation with Matthew Strassberg, senior advisor to the Queensland Minister for Business, Industry and Regional Development Jim Elder, Brisbane 12 May 1995). Queensland officials insisted that, unlike other states, the Treasury tested the net economic benefits of all incentive packages with 'a model' but conceded that was not particularly precise (interviews with Mr Russell Kennedy, Investment Coordination Unit, Department of Business, Industry and Regional Development, Queensland 12 May 1995 and Mr Ray Garrant, Senior economic advisor to Premier Wayne Goss 19 April 1995). Requests to make 'the model' public were declined.

[23] The role mirrored that carried out by former industry minister John Button as part-time special trade and industry representative. For a detailed discussion of the roles and how they fitted into Austrade's operations see transcripts of then industry minister Sen. Cook and DIST secretary Sandy Hollway during the 1994 estimates committee hearings *(Sen. Hansard*, Economics Legislation Committee 15 November 1994:5).

1995). While the Keating government was courting FDI it remained mindful of the new elite policy orthodoxy that frowned on expensive government market interventions. In 1995 it commissioned a review of the IPFP from the Bureau of Industry Economics. The BIE report (BIE 1996), delivered after Labor's electoral defeat, credited the $12.6 million program with having been a significant factor in the attraction of up to $235 million in new investment in the previous year. The BIE supported continuation of the IPFP at its existing level of funding on certain market failure grounds.[24] It reflected the view of peak Australian business organisations and the Federal Treasury that the government should concentrate on economic reform rather than develop a large program of selective incentives for foreign firms (BIE 1996; Kitney and Bernasek, *SMH* 19 February 1994; *AFR* 27 April 1996).[25]

The attraction and retention of FDI also figured prominently in deliberations over industry policy. As seen in Chapter 3, tariffs had been a significant factor driving much past inward FDI in manufacturing. By the early 1990s Australian markets were much more open and the future of some manufacturing operations was in question. This was particularly the case for the automotive industry but the scale of the industry presented a strong political imperative to the Federal government for active investment facilitation. The Keating government courted Toyota and other foreign auto manufacturers to make further investments in Australian production despite tariff reform. In Toyota's case the ACTU leadership was enlisted to secure a new single union plant (*AFR* 12 February 1991).[26] The Keating government reaffirmed the established practice of offering incentives for foreign suppliers to the public sector, especially in pharmaceuticals and IT, to make investments in

[24] Namely, the program helped to address the problem of limited information in FDI source countries about the contemporary reality of the Australian business environment. It also provided a second best solution to inefficiencies in bureaucratic processes that could inhibit valuable inward FDI.

[25] State governments had few doubts about the political benefits of aggressively pursuing certain types of foreign investment with incentive packages, despite the periodic controversy over the non-transparency of incentive packages (Coulton, *SMH* 6 June 1994; Kerin, *W. Aust* 11–12 June 1994; Lyall, *Time* 10 July 1995). Regardless of criticisms of 'incentive wars' between states there was little the Federal government could do to secure a truce (interview with Mr Ross Buchanan, General Manager, Investment Attraction, Department of State Development, Queensland 25 May 2000; Kitney, *AFR* 19 April 1996; Bradley, *W. Aust* 24–25 June 1995; Skully and Coultan, *SMH* 24 June 1995). NSW Premier Bob Carr did call for the then Industry Commission to draft a code of state conduct on incentives to minimise national welfare losses (*Aust* 30 June 1995).

Australian production facilities (USTR 1995; Cook, *News Release* 460/95, 1 December 1995). This was particularly effective in the former industry because of the monopsony power that the Pharmaceutical Benefits Scheme gave to the Australian government (Lofgren 1994; BIE 1991). The Keating government touted to investments as evidence that its policies were helping to create new competitive advantages for the Australian economy. Eye-catching corporations claimed as successes under the 'Partnerships for Development Program' in the run-up to the 1996 election included 3Com, Dell, Oce, Computer Associates, and Sharp.[27] Ultimately the Keating government paid higher prices for goods and services in return for FDI. The Keating government also balked at abolishing restrictions on parallel imports of books and CDs because of concern that major foreign firms would wind back their Australian operations, with supposed negative consequences for Australian writers and artists (*Aust* 10 February 1995). The Labor government was subjected to intense lobbying by coalitions of domestic and foreign interests and who took advantage of Keating's promotion of a 'Creative Nation' (Keating, *Press Release* 18 October 1994). Consumers of books and compact disks paid directly (Industry Commission 1996; PSA 1995; ORR 1995).

Statesmanship and scandal

By the time of the Keating government's electoral defeat in March 1996 the Prime Minister had been lauded as a visionary statesman and decried as of a self-serving venal politician. FDI policy was associated with both the high and low points of the Keating prime ministership. APEC was the centrepiece of the Keating government's foreign diplomacy and foreign investment issues figured prominently in its

[26] The ACTU's role in reassuring Toyota about the industrial relations in a new plant symbolised the maturity of the organisation's attitudes towards foreign investors during this period (interview with Tim Harcourt, Research Officer, ACTU, Melbourne 2 October 1995).

[27] The sums involved under 'Fixed Term Arrangements' and 'Partnerships for Development' with the Commonwealth were typically modest. Calcomp (a subsidiary of Lockheed Martin) committed to only an extra $1 million in 'new activities' (Cook 327/95, 15 September 1995) while Dell promised investments and exports totalling $39 million and additional employment of 46 staff over four years (Cook 290/95, 30 August 1995). Olivetti committed to a figure of $19 million in new activity over the same period, although it already had revenues of $60 million in 1994 in Australia and 250 employees (Cook 291/95, 30 August 1995). See also the press releases of Cook (319/95, 11 September 1995; 338/95, 22 September 1995; 281/95, 22 August 1995) and Moore (3/96, 26 March 1996).

evolution.[28] Keating claimed personal credit for the adoption of a set of non-binding investment principles at the APEC leaders meeting in Bogor that he had proposed the previous year in Seattle (Keating, *Press Release* 6 December 1994; Bora, *Aust* 2 February 1996; Bora 1995, Bora and Graham 1995).[29] The actual Declaration of Common Resolve by leaders at Bogor raised bigger questions about the future direction of Australian FDI policy. Member economies pledged that they would realise free trade and investment by 2010 or 2020, depending upon whether they were a developed or developing economy (BIE 1995a).[30] Keating declared the Bogor Declaration had '...permanently changed the nature of our region and the future of Australia' and that Australia had much to gain from Bogor because 'a great deal of our adjustment has already happened' (Keating, *Press Release* 6 December 1994).

Although the Bogor vision called on member economies to commence concerted liberalisation immediately, and bring action plans to the next meeting, the Keating government made no subsequent moves to further liberalise FDI policy. Indeed, in multilateral negotiations the Australian government acted to preserve fully its discretionary controls over FDI. To the disappointment of the US government, Australia notified sufficient exemptions in its GATS schedule of commitments to maintain the integrity of its remaining FDI restrictions and review mechanism (USTR 1995; Brenchley, *AFR* 26 June 1995; *Aust* 28 February 1996). The Australian government was spared from weighting its commitment to existing FDI policy against its strong support for trade liberalisation by widespread opposition to the American push in services negotiations for investment-related 'free access' provisions (Trebilcock and Howse 1999:351–66; Drake and Nicolaidis 1992:45;

[28] The Opposition welcomed the development of APEC but was scathing about Keating's hyperbole and initial failure to confirm that the APEC vision of liberalisation was on an MFN basis (Downer, *HR Hansard* 6 December 1994:3984).

[29] Trade minister McMullan (*Press Release* 21 November 1994) said that the 'The non-binding investment code will build a predictable and secure investment environment in APEC... it represents a basis on which we can build more liberal investment rules throughout APEC'.

[30] While the Bogor Declaration won strong support from some Australian commentators and academics there were also doubters. These divided into those critics wary of such liberalisation and those liberal critics who thought that the prospects of APEC delivering substantial outcomes were being substantially over-estimated (Ravenhill 1996). For instances of the optimism in official circles about the economic opportunities presented by East Asia see (EEAU 1992, BIE 1995c).

Hoekman 1996; Dwyer, *AFR* 25 April 1996).[31] When the loci of international negotiations over specifically investment-related matters shifted to the OECD in 1995, the Australian government's (publicly undisclosed) bargaining objective was the preservation of existing restrictions and controls.[32]

The seeming inconsistency in the Keating government's positions on foreign investment at the regional and multilateral levels was a function of several contending forces. The Bogor Declaration did not promise an open investment regime for fifteen years and so presented few domestic political difficulties. However it did satisfy Keating's need — electoral and personal — for a visionary act of statesmanship that brought together Labor's hallmark commitments to internationalising the Australian economy and engaging with East Asia.[33] The investment principles adopted at Bogor, even if only partially realised in East Asian economies, might benefit the increasing number of Australian businesses seeking to establish operations in the region (BIE 1995b; Howe 1994; Lowe 1996).[34] The strong preference of the Keating government for international agreements on FDI

[31] The Trade Related Investment Measures (TRIMs) agreement was the only FDI-related aspect of the final settlement of the Uruguay Round other than GATS. Negotiations for the telecommunications and financial services sectors continued after the formal ending of the Uruguay Round. As many services require an actual commercial presence in a host economy for their delivery it was inevitable that essentially FDI policy issues would arise when service trade became an object of negotiations (Hoekman 1992; Daniels 1993; Hardin and Holmes 1997; Warren and Findlay 2000:1). The acute sensitivity of many developing economies to ceding autonomy over matters that were previously understood as foreign investment related was made clear at this time (Brenchley, *AFR* 9 April 1996).

[32] From interviews with Janine Murphy (General Manager, Foreign Investment Policy Division, Treasury, Canberra 25 February 2000) and Grahame Crough (Manager, Tertiary Industries Unit, Foreign Investment Policy Division, Treasury, Canberra 25 February 2000) and Ms Jane Madden (Director, New Trade Issues Section, DFAT, Canberra 24 February 2000). As seen in previous chapters, the OECD had been the forum for the first tentative steps towards multilateral cooperation on FDI issues, and maintained a monitoring and research capacity (OECD 1991). Although the antipathy of developing countries to a binding investment agreement was initially a reason for negotiations occurring under the aegis of the OECD, deep divisions amongst developed economies on foreign investment were soon evident. Most members adopted a similar strategy to that of Australia and consequently there was little scope for meaningful bargaining (Trebilcock and Howse 1999:364–65).

[33] On the political difficulties that Labor faced after the recession and a decade in office see Kelly (1992:615–60). On Keating's personality, leadership style and legacy see Edwards (1991, 1996), Gordon (1993, 1996), Carew (1988, 1992) and Ryan (1995). The government's 'Australia in Asia' policy statement delivered just before the 1993 Federal Election is a good example of its thinking and rhetoric (Evans 1993). On the strategic context of APEC see Dibb (1995).

[34] Previous Australian FDI in the 1980s had been mainly to the UK and USA where the foreign investment regimes were both liberal and transparent (Korporaal 1986; Tucker and Wolanowski 1991). As seen in Chapter 7, reciprocity had become an issue with the USA for financial services, as it did with Japan.

that allowed a discretionary review mechanism went beyond lingering economic nationalism within government ranks.

The government gave close consideration to the utility of the FIRB when confronted by calls from both the Coalition and the US government for its abolition (USTR 1995; Dwyer, *AFR* 3 April 1996). As previous chapters revealed, the FIRB provided a convenient vehicle to manage the politics of economic nationalism. It allowed the appearance of vigilantly guarding the national interest, while in practice delivering a quite liberal FDI policy for most sectors of the economy. A non-discretionary and transparent FDI policy was likely to be a more restrictive FDI policy given the resilience of economic nationalist sentiment in the community. This was a view that found support within the Treasury.[35] The problem with a non-transparent and discretionary FDI review regime is that the good intentions of the government of the day must be taken on trust. The Keating government was dogged by claims that it had misused the discretionary authority bestowed upon it by the *Foreign Acquisitions and Takeovers Act*.

In the run-up to the 1993 election Keating contended with claims from the Opposition that the liberalisation of FDI policy in *One Nation* was driven by his own immediate, and undeclared, pecuniary interests. Keating had a substantial stake in a business that entered into a joint venture with the Danish firm Danpork to develop a piggery enterprise. Danpork had notified the FIRB of its investment, but under established procedures Keating was not revealed as an ultimate beneficiary nor was the Danpork investment ultimately subjected to actual review. During 1992 government figures argued strenuously, and with some success, that the investment had been dealt with as any other would have been — not least because Treasury officials were ostensibly unaware of Keating's interest.[36] Keating's version of his involvement in the business, and the sale of his stake to Indonesian investors for a

[35] From interviews with Janine Murphy and Grahame Crough (as in footnote 33).
[36] The alleged link between the *One Nation* liberalisation measures and the Danpork decision was quite improbable. As seen already, there were other strong drivers of FDI policy liberalisation. The Danpork approval was granted by new treasurer John Kerin, following Keating's move to the backbench after his failed leadership challenge. Senior government figures argued that as Kerin was a Hawke supporter it was highly improbable that he would have done a regulatory favour for Keating.

large profit while he was Prime Minister, came under repeated scrutiny from the Opposition and media throughout Labor's remaining time in office.[37] While the facts of the case are much contested, it appears to be clear that the Prime Minister sought to conceal from the public the fact that he was selling to Indonesian investors (Baume, *Sen Hansard* 30 August 1995:644).[38] The sale risked offending lingering economic nationalist sensitivities in the electorate. It also contributed to popular perceptions of procedural impropriety in the Keating government's conduct of FDI policy.[39] Labor's conduct of FDI policy toward the mass media was even more controversial in this, and other, respects.

Media firms and FDI policy

Labor was confronted with claims during its last term in office that it had sought inappropriate political advantage in applying the *Foreign Acquisitions and Takeovers Act* to proposed investments in the Fairfax media group. Non-Labor parties cooperated in subjecting the Keating government to a Senate inquiry that judged harshly particular decisions in relation to Fairfax and the foreign investment review mechanism in general (Senate 1994). Inquiry chairman Senator Richard

[37] There were repeated bitter parliamentary exchanges over the issue, usually in the Senate as Senator Michael Baume led the Opposition attack on the issue (*Sen Hansard* 17 June 1992:3812; 18 June 1992:4045; 19 June 1992:4115; 22 June 1992:4156; 24 June 1992:4457; 14 October 1992:1789; 15 October 1992:1984; 9 November 1992:2480; 1 February 1994:26; *HR Hansard* 4 November 1992:2657). The most disconcerting subsequent assertion of the Opposition was that Keating's use of an Australian intermediary in the sale of his stake in the piggery was aimed at avoiding FIRB scrutiny of the sale (Baume, *Sen Hansard* 9 May 1996). This account was inherently improbable because established FDI policy practice meant that rejection of the sale by the FIRB would have been extremely unlikely. If Keating had sought to avoid the sale going to FIRB, it would probably have been to avoid the perception that his government was doing him a favour. Treasurer Ralph Willis, in September 1975, provided a statement suggesting that all FIRB procedures had been complied with, and detailing dates and some parties (Cook, *Sen Hansard* 15 November 1995:3086). The piggery issue was also politically damaging to Keating because of the negative image of the piggery business, the large profit he made, and consequently that it was unbecoming for the Prime Minister to be involved.

[38] There was another practical political reason for Keating concealing the fact that the piggery stake was being sold to Indonesian interests. Keating was also championing closer relations with Indonesia and had sought to build a close relationship with President Suharto; attracting criticism from supporters of independence for East Timor.

[39] Keating also had been accused of withholding approval of a large investment in the Fosters' group, by Japanese brewer Asahi, until Elders chief John Elliott dropped a defamation action against him. Elliott, a former Liberal Party national president, had himself implied as much in a public speech (*W.Aust* 3–4 December 1994).

Alston prefaced the interim report with the statement that, under Labor's conduct of FDI policy for the media,

> ...the rules are frequently changing, and the public is faced with the spectacle of constantly manoeuvering players who are watching for every possible opening and taking advantage of it. When the Prime Minister chose to enter the field as a rule maker and umpire with a vested interest in the outcomes, then the game lacked propriety as well as order. (Senate 1994: preface 2).[40]

Claims about media policy under Labor being driven by private interest politics were hardly new (Bowman 1988; Chadwick 1988; Craik, James, Bailey and Moran 1995; Wheelwright and Buckley 1987). Indeed, by the early 1990s that view became quite orthodox among academic and media commentators. Such views were almost inevitable given the implications for the broadcasting and print media under Labor's new cross media rules and its FDI decisions (Brown and Cave 1992; Brown 1989a; Tiffen 1988). The high stakes involved for media entrepreneurs, and their potential influence over the scarce political resource of good publicity, guaranteed that there would be intense lobbying for preferred policy outcomes. However, criticism of such private interest politics became so widespread that it constituted a significant factor in its own right in the politics of FDI policy for the media. Policy was intensely contested and public interest ideas — mainly illiberal towards FDI — became as integral to Labor's political calculus as private interest considerations.

Controversy over Keating's alleged making of FIRB approval for an investment in the Fairfax newspaper group dependent on 'balanced coverage', and the special status of Rupert Murdoch's News Ltd, obscured the fact that Labor maintained a restrictive FDI policy for the mass media. Labor reaffirmed the prohibition on foreign interests controlling a broadcasting license and limited individual investments in established metropolitan print media to 25 per cent. The mass media

[40] The dissenting report of the Labor members of the Senate Committee of Inquiry (Senate 1994, Dissent:3) declared that: 'The committee's work has been marred by the persistent party-political abuse of Senate procedures through disrespectful and often contemptuous treatment of witnesses, threats against and grotesque attempts at intimidation of public servants, preconceived presumptions of guilt against political opponents, prejudgement and misrepresentation of events under investigation, and attempted interference in the free press.'

was a striking exception to a generally liberal FDI policy, and one keenly noted by the US government (USTR 1995). The particular political saliency of public interest ideas favouring a restrictive FDI policy for the media was partly a function of reactions to policy decisions taken by the Hawke government in the mid-1980s. FDI policy for the media ceased being a 'sleeper issue' because of Rupert Murdoch's takeover bid for the Herald and Weekly Times group in 1986–87, and the debt crises of Warwick Fairfax's newspaper empire and all three of the commercial television networks in the late 1980s and early 1990s. It order to understand why Labor shied away from extending FDI liberalisation to the media it is necessary to examine those past controversies.

Television

Foreign investors were limited to a 20 per cent equity interest in a broadcasting license and expressly prohibited from exercising control ever since the Menzies government legislated in the mid-1950s to establish television in Australia (Flint 1985). In 1990 the Hawke government was confronted with a stark choice in FDI policy outcomes for television broadcasting: watch foreign investors take large equity stakes in existing networks through a loophole in the existing restrictive legislation or rewrite the law.[41] More coherent and liberal regulation of foreign investment would have been in keeping with the general trend of Labor's FDI policy. Instead the government ultimately chose to reinforce the old restrictive policy with legislative amendments to close off the legal loophole. It did so after being confronted by intense lobbying from media actors with conflicting private interests, divided 'elite' opinion, strong ALP opposition to liberalisation and evidence of community antipathy to foreign ownership of the mass media.

Debates over foreign ownership of television broadcasters, and the private preferences of media industry players, were patterned by existing media regulation and the particular industry structure that it created. Australian governments have regulated the structure and content of the television industry and also directly participated in it through the ABC and SBS networks. This has been because of

both the perceived social significance of the medium and its complex economics.[42] Such extensive government intervention should ameliorate concerns about the consequences of foreign control.[43] However, long-established structural regulation of Australian broadcasting engendered its own rationale for excluding foreigners from controlling stakes. Television and radio broadcasters have been always limited to a number far fewer than was technically feasible. This was justified on the basis that the content requirements constituted a considerable cost impost on the commercial broadcasters and so a restrictive license system, generating considerable rents, was fair compensation (Brown 1986, 1989a; BTCE 1991). While the Labor government moved to a more market-based mechanism for managing the radio spectrum, it did not seriously consider issuing additional television broadcasting licenses.[44] Consequently, as the private and supposedly public interest politics of television licenses favoured the status quo, FDI in television became an issue of whether not to permit foreign ownership stakes in an existing broadcaster.[45]

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[41] Radio was also covered by the provisions of the *Broadcasting Act* on foreign investment but did not become a publicly contested issue.

[42] While there is a substantial international literature on the economics of broadcasting the issues have attracted less analytical attention in Australia. Brown (1986, 1989a, 1989b, Brown and Caves 1992), Withers (1980, 1982, 1985) and the BTCE (1991) are notable exceptions.

[43] Arguments against allowing foreign control of broadcasting outlets typically posit 'social' rather than 'economic' motives. A theoretical justification of the prohibition of foreign control of broadcasting would require that one first makes certain assumptions about the potential behaviour of a foreign proprietor in relation to content provision. Almost all governments appear to assume that foreign control brings the risk that some programming might not be in the national interest. The most commonly argued risks are misrepresentation of national interests to the advantage of the proprietor's country of origin and a lack of understanding and sympathy to the culture and aspirations of the audience. Secondly, it must also be argued that such problems associated with foreign ownership and control will not adequately be dealt with either by market forces or the existing regulatory structure as it applies to all broadcasters in the particular country. Thirdly, it must be demonstrated that the costs entailed in foregoing foreign investment in broadcasting are more than offset by the costs, discounted by the probability of their being incurred, of such foreign control. This is developed at length in Pokarier (1996).

[44] Prime Minister Keating was not averse to threatening the existing commercial stations with the issuance of a new commercial license for a 'family channel'.

[45] Given the high rents generated by the system there would conceivably be a risk of a loss of excess profits abroad but, as Brown and Caves (1992:384) suggest, those rents should be fully priced into the sale 'because of the restricted number of commercial television licenses and the relatively low resource rent tax extracted by government high profits have been earned by licensees and, consequently, large economic rents have attached to licenses. However, when television licenses are sold by the original licensee, in addition to the value of the net tangible assets the selling price includes the discounted value of the economic rents.' Any loss of rents abroad that did occur with a foreign acquisition of a broadcaster could be addressed through partial or full liberalisation of entry to the broadcasting market.

The Australian television business changed dramatically in the mid-1980s with the sale of the commercial networks to highly leveraged entrepreneurs at substantial prices, in anticipation of further growth in television rents (Brown 1989a). Two of the personalities involved, Christopher Skase at Channel Seven and Alan Bond at Channel Nine, ultimately became the most notorious symbols of debt-financed excess in the 1980s. Tight monetary policy in the late 1980s pushed all the new owners to the edge of bankruptcy, exacerbated by lower network revenues as the Australian economy slid into recession. The owners sought to stave off bankruptcy by partial sales to foreign investors, making the restrictive FDI policy for broadcasting politically contentious. A 'loophole' in the existing *Broadcasting Act* allowed foreigners to hold up to 50 per cent equity in a holding company controlling a broadcasting licensee but no more than 20 per cent in the licensee itself.[46] Facing criticism from the opposition parties and media commentators, the government committed to a legislative amendment subjecting holding companies to the same foreign investment limits that applied to licensees.[47] However, it did not reaffirm the existing 20 per cent limit and so provoked intense controversy.[48]

The Labor government was confronted by well-organised constituencies both for and against liberalisation of FDI in broadcasting. The desperate existing television owners devoted considerable resources to lobbying for liberalisation. Although Bond had past association with Hawke, his reputation was much diminished by an Australian Broadcasting Tribunal finding that he was not of sufficiently good

[46] The government had been aware of the situation for some time but inaction had proven to be politically expedient (Burton, *SMH* 3 February 1990; Kingston, *SMH* 14 February 1990). In fact, the loophole was no accident but a deliberate legislative change made by the Fraser government, opposed by Labor, that came to be referred to as the 'Murdoch amendment' (Powell, *Sen Hansard* 22 May 1990:719).

[47] Communications Minister Ralph Willis wrote in a published letter to the *Sydney Morning Herald* that '...an Act which purports to limit foreign ownership to 20 per cent, but effectively allows up to 49 per cent, is grossly deficient. Whatever the degree of foreign ownership to be allowed it should surely be clearly established in the Act and not allowed by use of legal subterfuge' (*SMH* 19 January 1990).

[48] The political management of the issue was not helped when a member of Communications Minister Ralph Willis' staff mistakenly issued a press release committing the government to the 20 per cent limit (*SMH* 19 January 1990, 1 February 1990; Burton, *SMH* 3 February 1990, 19 May 1990; Kingston, *SMH* 14 February 1990).

character to be in control of a broadcasting license.[49] Hawke government leaders placated the proprietors in the run-up to the tight-fought March 1990 election. The proprietors (and later Qintex's receivers) came to hope for the general foreign equity limit to be lifted to 40 per cent. Hawke and communications minister Ralph Willis discussed this with Bond Media chief Sam Chisholm, although after the election they denied Chisholm's assertion that he had earlier been given a clear commitment to that outcome (Burton, *SMH* 3 February 1990, 19 May 1990).[50]

Post-election, the Hawke government gave close attention to the representations of an influential private interest constituency for tight restrictions on FDI in broadcasters. Kerry Packer's Consolidated Press Ltd, a substantial magazine publisher and former owner of Channel Nine, was waiting to buy the network back if Bond went into receivership.[51] The exclusion of foreign bidders at a time of deepening domestic recession would deliver the enterprise to him at a fire-sale price. Packer invested considerable resources in lobbying for the strengthening of the 20 per cent foreign ownership limit (Burton, *SMH* 17,19 May 1990).[52] Also supporting existing restrictions on foreign investment was Kerry Stokes, proprietor of the *Canberra Times*. Although Stokes couched his public comments on FDI policy in terms of the national interest, he was to benefit directly from the exclusion of foreign bids for control of the Channel Seven television network.[53] These

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[49] Bond mounted a successful legal challenge to the ABT ruling but the damage to his reputation was profound. The substance of the ABT investigation was a large payment to then Queensland premier Sir Joh Bjelke Petersen ostensibly to settle a defamation case (Henderson, *Aust* 3 July 1989; *SMH* 13 September 1989). It did not endear Bond to the ALP (Aubin, *Aust* 17 July 1989). Skase of Qintex had earlier shown that his lobbying strategies were as poor as his commercial sense; public, clumsy and ultimately making any policy concession to the firm more difficult politically (Burton, *SMH* 29 April 1988).

[50] Bond media chief Sam Chisholm had a prominent law firm produce a document that was, in effect, a draft new foreign investment policy and a statement rationalising the straight 40 per cent limit it contained. It was then circulated to senior government ministers (*SMH* 3 February 1990).

[51] On the history of the Packer media empire see Griffen-Foley (1999).

[52] In addition to having Hawke's former senior adviser Peter Barron on staff and lobbying, Packer benefited from established connections with some senior government members. This was symbolised by Right faction powerbroker Graham Richardson going to work for Packer following his retirement from politics during the final term of the Keating government. Bond Media, on the other hand, deployed former senior Hawke adviser Bob Sorby as a lobbyist (Burton, *SMH* 3 February 1990).

[53] In early 1990, for instance, Stokes argued that: 'To allow someone else foreign to our own way of life...to be in a position of controlling the destiny of our television and our culture, I think is appalling' (*Aust*, 12February1990). In November 1994 Stokes argued in the ABC's Boyer Lectures that the government's basic philosophical commitment to Australian ownership of the media had been lost in an unduly legalistic approach to media ownership (*Aust* 3 November 1994). This was a veiled

constituencies for restrictive policy did not have a hard time making their case to the public at large and the Labor backbench.[54] Opinion polls revealed widespread antipathy towards foreign ownership of newspapers and television.[55] Unlike all other sectors of the economy, there were few international precedents for a liberal FDI policy on broadcasting. Australian critics made much of American rules banning non-citizens from controlling a television licence (*AFR*, *Age* 2 February 1990).

Broadcasting was particularly vulnerable to claims that a restrictive policy was essential on cultural and national security grounds. While not dismissing the influence of these ideas on the restrictive policy outcome, they masked the private interest concerns of some in the broadcasting industry opposing liberalisation of foreign ownership. The Australian Journalists' Association, Actors Equity and the Writers' Guild conducted a coordinated lobbying campaign against liberalisation of foreign investment and enlisted the support of the ACTU (*SMH* 1 February 1990).[56] Also opposing liberalisation were the Screen Producers Association, the Screen Directors Association and Australian Film Commission chairman Phillip Adams (*Age* 3, 7 February 1990; *SMH*, *AFR* 2, 3 February 1990). These industry representatives feared that foreign-controlled television stations would make or buy less programming in Australia, despite the onerous local content regime enforced by the ABT. They evidently were worried that permitting more FDI would be a

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reference to the Canadian media firm Canwest's influence over the management of Channel Ten through its holdings of a large number of formally non-voting shares. At the same time he argued that Murdoch should not be treated as a foreigner, perhaps because Murdoch's 5per cent holding in Channel Seven helped secure control of the Board for Stokes (*Aust* 3 November 1994).

[54] ACP's managing director Trevor Kennedy was open about how popular prejudice could serve the Packer cause, saying that: 'It is fine while you talk of these friendly Americans coming and buying 20 per cent or 25 per cent or 30 per cent. But what if the Iraqis turn up and want to buy 30 per cent, or the Israelis for that matter or the Japanese. The government has political considerations there which has always made it difficult for foreigners to own more than 20 per cent.' (*SMH* 18 May 1990).

[55] Saulwick polls of March 1988 and October 1990 put the figure at some 70 per cent opposed to foreign ownership of newspapers, while a Newspoll of 1995 found that 82 per cent of respondents considered it important that the media in general be owned only by Australians (Age 16 November 1990; *Aust* 1 March 1995).

[56] The views of Anne Britton of Actors Equity were typical. She claimed that 'foreign ownership will open the door to editorial decisions being made in Los Angeles, London or Tokyo', that the ABT would be 'forced to bow before the economic pressure exerted by the networks' foreign owners', and that Australians did not want television broadcasters to be 'slave stations of an American network'. News, she claimed, would be more often imported rather than home made and would be tailored so as not to offend foreign interests (*Age* 2 February 1990).

beachhead for further liberalisation[57]. Dissenting voices in the industry against this view were rare.[58]

Industry opposition to FDI liberalisation resonated with many members of the Hawke government, especially backbench MPs. Members of the Caucus communications committee from all factions warned of a backbench revolt if the leadership sought to raise foreign equity limits (*SMH* 5 February 1990; *Age* 7 February 1990; Burton, *SMH* 19 May 1990). After the 1990 election, the new communications minister Kim Beazley secured Cabinet endorsement of a reaffirmation of the existing limits and their extension to holding companies (*AFR* 17,18 May 1990; *SMH*, *Age*, *Aust* 18,19 May 1990). The only concession to existing proprietors was the granting of a three-year grace period to any licensees currently in breach of the rules (*Aust* 23 May 1990).[59] By that stage it was clear that all the networks would change hands, especially if the restrictive FDI policy was reaffirmed. Beazley said that any ownership 'shake-out' would be '...99.9 per cent a product of investment and management decisions taken by networks over the past three or four years' (*Aust* 23 May 1990). There was little political downside with the decision taken by the Hawke government. The bankruptcies of Skase and Bond effectively took care of private interest critics. The restrictive limit placated a Labor backbench and labour movement that had, unusually for such a tightly run government, been provoked into revolt by previous decisions on print media policy.

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[57] From an interview with Paul Chadwick, Victorian director of the Communications Law Centre and founder of the Free the Media coalition, Melbourne 2 October 1995.

[58] Prominent television industry figure David Morgan, a former executive of the Federation of Australian Commercial Television Stations (FACTS), dismissed the argument that Australian content would suffer with higher foreign ownership as a 'load of garbage' and accused former colleagues of being too timid to say so (*Aust* 14 February 1990).

[59] Beazley admitted that the 20 per cent figure was an essentially arbitrary one, chosen because it had been in the *Broadcasting Act* since 1956 and had 15 per cent or 25 per cent been the norm then that would have been imposed (*SMH*, *Aust* 23 May 1990). Beazley justified the restrictive position by simply saying that: 'the government believes it is vital that Australia's radio and television stations are owned and controlled by Australians because they are major outlets for political debate and the exploration of cultural identity' (*Aust* 23 May 1990). Restrictions on the number of foreign directors of a broadcast licensee and collusive practices that might result in *de facto* foreign control were also later incorporated (*SMH* 4 September 1991).

Print media

The newspaper industry, like broadcasting, is characterised by extremely high fixed costs that constitute a significant barrier to market entry. Very few newspapers have been established in recent decades in English-speaking countries and many have closed down or merged with rivals.[60] Consequently, the Australian debate over FDI policy for the print media from 1986 was effectively about foreign takeovers of existing newspapers. Labor soon signalled that its attitude to a foreign investor proposing to start a new paper would be more liberal than towards one proposing to buy an existing one (*Age* 9 April 1988). This reflected the widespread aspiration for diversity of media ownership. FDI policy in Anglo-American countries has generally been more liberal towards foreign ownership of newspapers than broadcasters.[61] This is despite the fact that, unlike broadcasting, there is no industry specific structure or conduct regulation for the print media.[62] The Hawke and Keating governments were to maintain a more restrictive policy on foreign ownership of the print media than maintained by the United Kingdom or the United States, with the somewhat ironic exception of News Ltd, in recognition of its Australian origins. The unique circumstances of Rupert Murdoch confused the politics of Australian FDI policy for the print media. The troubling personalities of two foreign media entrepreneurs who aspired to control of Australian newspapers, Robert Maxwell and Conrad Black, also obscured the core issues at stake. Labor's media policy, and foreign proprietors in general, attracted disproportionate notoriety.

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[60] Rupert Murdoch's *The Australian* is the only substantial newspaper to have been established here in the post-war period and survived for any length of time, despite News Ltd losing money with it for many years. Initial costs of market entry are not an absolute barrier, however the successful launch of *The Independent* in Britain testifies to the existence of unmet niche markets in some countries. Nonetheless, in Australia and in many other developed nations the last thirty years have seen a very substantial reduction in both the number of publications and proprietors, afternoon papers being the most obvious casualty.

[61] The history of News Ltd's expansion overseas is testimony to this (Shawcross 1992).

[62] The principle of a 'free press', deeply rooted in Anglo-American political culture, has usually been understood to entail not only freedom of comment but also of ownership although this does not readily extend to foreign proprietors.

News Ltd

Backbench hostility to liberalisation of FDI in broadcasting, and the controversy over Labor's FDI policy for the print media in the early 1990s, have their roots in Labor's handling of the bid by Rupert Murdoch's News Ltd for the large Herald and Weekly Times (HWT) group in the mid-1980s. While News Ltd's bid for the HWT raised significant competition policy issues, Murdoch's recent switch to American citizenship brought News Ltd under the purview of the *Foreign Takeovers Act* (*FTA*) and the *Broadcasting Act*. The firm was forced by the provisions of the latter to divest itself of the television interests inherited from HWT because Murdoch was clearly in control of the company.[63] However, News Ltd remained an Australian listed company with a majority of shares being held by Australian interests and made strong representations to the Federal government to that effect (*Age* 14 January 1987).[64] The foreign investment guidelines were silent on the print media because FDI had not previously arisen as an issue in this sector. News Ltd's cause was helped by astute lobbying and by the hostility of senior Hawke government ministers towards HWT and Fairfax.[65] Following public disclosure of News Ltd's bid for the HWT, the Hawke government promptly announced it would raise no objections under the *FTA*. Murdoch's long established presence in Australian

[63] As the HWT had some television assets Murdoch went to considerable pains to technically extricate himself from control of News Corporation Ltd to avoid problems with the Australian Broadcasting Tribunal. Murdoch proved to be his own worst enemy in this prolonged endeavour because he could not desist from making public statements about what he wished to do with the firm. When a Federal Court took a broad interpretation of the bar on foreign control in the *Broadcasting Act* it explicitly referred to Murdoch's statements (*AFR* 21 January 1987).

[64] In May 1988 Keating made remarks to the effect that News Ltd was an Australian company with a majority Australian shareholding that just happened to have an American citizen as chief executive (*AFR* 13 June 1990). Hawke stated that Murdoch's takeover of the Herald and Weekly Times group was a special case as he had been an Australian citizen when he first acquired media assets in Australia (*Age* 9 April 1988).

[65] There was little love lost between Victorian Labor MPs of all factional persuasions and the HWT management in that state; the former generally believing that HWT publications had long been anti-Labor. Hawke and Keating also never forgave the editorial campaign of a HWT newspaper against its pension assets test reform (Kelly 1992:142). Likewise, Queensland Labor MPs disliked the management of *The Courier Mail* which, through Queensland Newspapers, was predominantly owned by the HWT group. The most celebrated hatred of a media organisation within the government was that held by prominent New South Wales Right identities for the Fairfax operations in that state. Keating in particular was of the view that the Fairfax publications *The Sydney Morning Herald* and *The National Times* had both waged vendettas against identities on the Right such as himself. Many commentators had posited that an element of personal vengeance was at work in Keating's advocacy of the cross media rules that ultimately had a heavy negative impact on Fairfax's plans (Kelly 1992:242–43).

newspapers not only gave the government a pretext but also a good political reason for approval. The bid still had to be reviewed by the Trade Practices Commission (TPC), which gave approval with only mild conditions despite the substantial market share being delivered to News Ltd.[66]

The government's decision to leave the issue to the TPC made sense given the Australian origins of News Ltd and its substantial existing Australian media interests.[67] Nonetheless, the different outcomes under the *Broadcasting Act* and the *FTA* were profoundly incongruous and this shaped the subsequent debate over FDI policy for the print media. The News Ltd decision also drew attention to the nature of FIRB recommendations made to the Treasurer and the non-transparency of the process. The government flatly refused to divulge what the FIRB's advice to Treasurer Keating had been (Macphee and Keating, *HR Hansard* 21 December 1989:3390). Opposition communications spokesperson Ian Macphee said that he had it on good sources that FIRB had advised against approving Murdoch's takeover of the HWT. He later made application for the relevant documents under the Freedom of Information Act, without success (*Age* 29 November 1988). Keating would later write that the FIRB advice had been 'entirely non-committal' but still refused to authorise its public release on the grounds that it would create a difficult precedent (*SMH* 24 December 1990).

Refusal to use the provisions of the *FTA* to block the expansion of News Ltd attracted intense criticism within the labour movement, the print media industry

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[66] The net result of Murdoch's successful takeover was that News Ltd increased its share of the daily metropolitan and national newspaper market from 28 per cent to 58 per cent of daily sales (*Age* 17 January 1987). While the number of publishers increased from three to four, two of them were small and heavily indebted, notably the Bell Group and Northern Star. Hawke said that the government had '...taken the view from the beginning that this is a matter for the market place' (*Age* 17 January 1987).

[67] News Ltd executives had been calling for a liberal foreign investment policy for the media over a number of years prior to the HWT bid. As a firm rapidly expanding abroad, News Ltd may have been concerned with policy reciprocity in addition to minimising the consequences in Australia of Murdoch's change of citizenship. In October 1983 the Chairman of News Corporation Ltd, Richard Searby, called for a general review of Australia's foreign investment regulations and a recognition in particular that as Australian firms expanded abroad the issue of reciprocity was likely to arise (*Aust* 28 October 1983). In 1988 News Ltd's Australian managing director, Ken Cowley, strongly criticised restrictions on foreign investment in the print media, along with those advocating them, at the Pacific Area Newspaper Publishers Association conference (*Aust* 21 April 1988).

itself and from a range of public figures. One prominent journalist judged that the debate over Murdoch's bid had been sharply coloured by perceptions that he was interventionist, right wing, anti-union and prone to taking his newspapers downmarket (Grattan, *Age* 17 January 1987).[68] Antagonism towards Murdoch within the ALP was intense because of the way he had recently taken on British unions with the establishment of the Wapping printing plant (Shawcross 1992; Tuccille 1990). The upshot was considerable unease throughout the Hawke government when News Ltd was allowed to pass the *FTA* hurdle unheeded.[69] Backbenchers were provoked by the *FTA* approval of the News Ltd bid for HWT without any reference to the caucus. Antipathy within the print media to the News Ltd takeover of HWT was reflected in the establishment of the 'Free the Media' coalition and the support it attracted from the Australian Journalists' Association. Founded by HWT journalist Paul Chadwick, it attracted considerable support from non-media identities including Malcolm Fraser and Democrats founder Don Chipp.[70] The Free the Media coalition made five demands: government intervention to stop Murdoch's takeover of the HWT, an inquiry into media ownership and control, legislation to prevent concentration of ownership, better funding for the ABC and SBS, and for the government to '...act to stop foreign ownership of Australian media' (Free the Media 1987).[71]

Such diverse opposition to the HWT outcome emboldened critics within the Labor Caucus to act on media policy. In July 1987 the Caucus resolved, against the wishes

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[68] Grattan argued that the use of foreign investment controls by a government to vet media owners would be an unwelcome development. She also argued that Murdoch's 'foreignness' was of a 'special, somewhat technical nature' and therefore his bid should not be blocked under the Foreign Takeovers Act (*Age* 19 January 1987). Given Grattan's liberal stance on FDI in the media it was quite ironic that she was later the signatory, as convenor of the staff committee, of the letter from *The Age*'s editorial employees to Paul Keating calling for him to use the provisions of the Foreign Takeovers Act to block Robert Maxwell's bid for the paper (*Age* 6 April 1988).

[69] Foreign Minister Bill Hayden broke Cabinet ranks to express his concern about Murdoch's bid; reputedly even referring to Rupert Murdoch as a 'carpetbagging foreigner' in one supposedly off-the-record discussion (*Age* 31 December 1987).

[70] Others included writers David Williamson and Patrick White, businessman Dick Smith and a number of senior academic and church identities (Free the Media 1987). The New South Wales convenor, Philippa Smith, was also a representative of the Australian Consumers Association. A prominent member was Hal Wootten QC, who resigned from the chairmanship of the Press Council over its failure to adopt a motion expressing opposition to Murdoch's takeover bid.

[71] The coalition's publication declared that 'Murdoch is now a loyal American citizen, having sworn to 'renounce and abjure' all allegiance to Australia. How can someone who has done that try to influence public affairs in Australia?' (Free the Media 1987).

of government leaders, in favour of a parliamentary inquiry into media ownership and

> In order to clarify the meaning of the statement contained within the paper Australia's Foreign Investment Policy — namely that foreign investment in mass-circulation newspapers is restricted — Caucus resolves that an amendment be introduced into the Foreign Takeovers Act introducing the same provisions as contained in the Broadcasting Act relating to foreign ownership of television and radio broadcasting (cited, *Aust* 24 February 1988).

Caucus communications committee chairman John Saunderson was later to publicly make much of the fact that under ALP rules a Labor government is bound to implement a Caucus resolution (*Age* 26 March 1988; 7 April 1988). The Caucus revolt against media policy came at a time when many on the backbench, and even in ministerial roles, were disoriented by the pro-business direction that the leadership had steered the government towards. Media policy became a 'matter of principle' for many government members over which Caucus should assert its authority. At the same time the Coalition was deeply divided over the Murdoch takeover of HWT. Leader John Howard supported the Hawke government's actions while senior moderates such as Ian Macphee and Chris Puplick were critical (Kelly 1992:243).

In December 1987 Treasurer Keating took two decisions under the *FTA* that underlined the confusion over the status of News Ltd, the objectives of FDI policy for the print media, and the relationship between the FIRB process and the TPC. Keating blocked the acquisition by News Ltd of Fairfax's stake in AAP Information Services Pty Ltd (AAPIS), the news services operation.[72] This, he said, was 'on national grounds' as a News Ltd takeover had the potential to reduce '...AAPIS's independence as an impartial news gathering and distribution service' (*AFR* 30 December 1987).[73] In effect he used the foreign investment provisions to ensure a competition policy outcome, despite the TPC having signalled an intention to act.

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[72] News Ltd was not prevented from buying shares in Australian Associated Press Pty Ltd, which was effectively a holding company for the AAPIS shares in Reuters that Murdoch coveted (*Age* 30 December 1987).

[73] The AAPIS news service had traditionally been owned jointly by the major newspaper firms in Australia.

At the same time Keating raised no objection to News Ltd's purchase of Fairfax's share of Australian Newsprint Mills (ANM). By blocking an acquisition by News Ltd under the *FTA* the government was emphasising the 'foreignness' of a firm that recently had been allowed to amass under its control some two-thirds of national daily metropolitan newspaper circulation. In doing so, it became very difficult to justify restrictions on acquisitions of Australian media assets by foreign media entrepreneurs who were also competing against News Ltd in other markets such as the UK. That is exactly the position that the Hawke and Keating governments soon ended up in.

Fairfax

Treasurer Keating only came to deliberate upon News Ltd's plans to buy additional shares in AAPIS and ANM in late 1987 because of a financial disaster at Fairfax caused by recklessness on a par with that of Bond and Skase.[74] There were persistent rumours of asset sales to foreign media interests at Fairfax as young CEO Warwick Fairfax struggled to get debt levels under control. These rumours centred upon *The Age* in Melbourne. Staff on *The Age* organised an editorial independence committee that became the basis of a public campaign for a local owner of the paper (*Age* 26 March 1988). The 'Maintain your Age' campaign won support from a wide range of public figures; many of whom had first been drawn to media policy issues by the HWT decision. The issues of editorial independence and foreign ownership became entangled when the notoriously interventionist British proprietor Robert Maxwell declared an intention to bid for *The Age*.[75] The foreign investment controls offered an immediate means by which he could be stopped and AJA members at

[74] Young Warwick Fairfax had inherited a substantial equity stake in the firm which gave him effective control in alliance with other Fairfax family members and other investors. Not content with that situation, he borrowed an enormous sum of money to buy out all other shareholders and delist the company (Carroll 1991). Having paid too much for the shares, he then sought to get debt levels to manageable proportions by selling off Fairfax assets. For the history of the Fairfax media empire see Souter (1981, 1990).

[75] Editorial staff on *The Age* had long enjoyed minimal proprietorial interference in their work. Robert Maxwell did his case no good by replying when asked by an Australian journalist whether he would be an interventionist proprietor: 'Absolutely. You'd better believe it...unlike the Fairfax management, if we won a newspaper and we own it we have a say in the policy of that paper.' (Preston, *Age* 13 February 1988) Only after staff at *The Age* unanimously resolved to campaign for his bid to be blocked did he say that he would change his style and respect their charter of editorial independence (*Age* 2 April 1988). Maxwell also managed to alienate Keating at a meeting with him in London (Burton, *SMH* 14 June 1990).

The Age unanimously endorsed a letter sent to Keating and all members of the Federal parliament calling for such action (*Age* 6 April 1988).[76] Prominent public identities also lent public weight to this call, and to general opposition to foreign ownership of the media.[77] In response a number of business commentators, already actively defending Japanese investment from criticism, supported more liberal FDI policy for the media.[78] They identified the trade off between media diversity and national ownership and the dangers of having governments vet potential owners; significant points surprisingly neglected by many media identities.

The politics of FDI policy for Fairfax differed in several crucial respects from the concurrent contention over Japanese FDI. Firstly, a Maxwell takeover of *The Age* offered little in the way of immediate economic benefits to the broader community. Secondly, there was little risk of damage to bilateral ties with the United Kingdom over knocking back an investment by Robert Maxwell, who had long been hostile to the government of Margaret Thatcher. Thirdly, the Maxwell bids had provoked a sudden about-face by then Opposition leader John Howard on FDI policy for the media. Despite having previously supported a liberal policy, he promptly declared Maxwell to be an inappropriate proprietor for *The Age*. Maxwell's allegiance to the British Labour Party, which he had once represented in Parliament, was admitted as a reason for Howard's change of heart (*Age* 4 April 1988).[79] The emergence of a

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[76] The secretary of The Age's editorial independence committee, Claude Forrell, said later that the foreign control issue was of less concern to many journalists on *The Age* than editorial independence but the *FTA* presented a convenient mechanism for blocking Maxwell. Forrell was personally in favour of foreign investment for new publications but opposed to foreign takeovers and this was the position adopted by the committee during the Fairfax receivership in 1990–91 (interview, Melbourne 2 October 1995; *Age* 11 September 1991).

[77] Public figures who opposed foreign ownership of *The Age* or any other media outlet included Malcolm Fraser, Frank Costigan QC, the Lord Mayor of Melbourne, business identity and Liberal Party president John Elliott, academics Stuart MacIntyre and Ken Inglis, media identities Ranald Macdonald and David Bowman, and cartoonist Max Gillies (*Age* 15 February 1988, 29 March 1988; *SMH* 17 February 1988).

[78] Proponents of more liberal policy included Peter Robinson (*AFR* 20 January 1987), Gerard Henderson (*Aust* 18 April 1988), Max Walsh (*Age* 11 April 1988), Greg Sheridan (*Aust* 12 December 1990) and Paddy McGuiness (*Aust* 13 February 1990).

[79] Howard earlier suggested a laissez-faire stance on FDI when he said that 'not all takeovers are good, but I would hate to have the situation where it was left to the government to decide who could be taken over and who couldn't' (*SMH* 11 March 1988). Several weeks later he declared of Maxwell that '...he's a 'hands-on' owner, he's had discussions with Mr Keating and talked about political deals, and he's Labor. Those three things should disqualify him immediately.' (*Age* 4 April 1988) Howard's position brought into question his whole commitment in the *Future Directions* document to abolishing the FIRB.

rival local consortium with links to the Coalition may also have been a factor. In fact, Keating sought support within the government for a higher foreign investment limit because he feared the conservative Victorian group might otherwise win control of *The Age* by default (*Age* 26 March 1988; 4 April 1988). While attracting some sympathy amongst Victorian MPs, there was deeper discontent within the government over Keating's blatant disregard for the 1987 Caucus resolution for a 20 per cent limit for the print media and subsequent calls for legislation to that effect (*Aust* 24 February 1988; *Age* 16 March 1988; *AFR* 13,14 June 1990; *Age* 30 May 1990). Reading the mood of the Labor backbench and journalists, Hawke signalled an intention to block any bid by Maxwell for *The Age*, and later for the *West Australian* (*AFR*, *Age* 29 March 1988).[80]

Fairfax's entry into receivership in 1990 reignited debate over an appropriate limit for foreign investment in the print media. In November 1990 some 1500 people attended a 'Media in peril' meeting at the Sydney Opera House where calls for a restrictive FDI policy for the print media figured prominently.[81] Opposition communications spokesperson Neil Brown was a lone voice arguing for a more liberal policy towards foreign investment in the media (*SMH* 19 November 1990, 26 November 1990).[82] A similar rally in Melbourne the following year drew some 2000 people against both concentration of ownership and foreign control (*Age* 26

[80] In June 1990 Bond Corp Holdings Ltd informally agreed to sell Maxwell a 49 per cent stake in the *West Australian* for the princely sum of $250 million; a price only slightly less than auditors had valued the whole enterprise (*Aust* 12 June 1990). The *West Australian* was wholly-owned by Bell Group which in turn was owned by Bond Corp Holdings Ltd. Hawke later signalled his hostility towards a Maxwell bid for Fairfax when the firm went into receivership (*Age* 12 December 1990). In the end it was Maxwell's own growing debt crisis that made any move on Fairfax impossible, quite aside from the formidable political hurdles that he would face in making such a bid. Just after Fairfax went into receivership, for example, Maxwell was carrying debt of some £1.7 billion and had been downgraded to a BB credit rating (*Age* 19 December 1990).

[81] Speakers included writers Thomas Keneally and David Williamson, broadcast journalists Jennifer Byrne, Jane Singleton and Quentin Dempster, and independent federal MP Ted Mack (*SMH*, *AFR* 19 November 1990).

[82] The deep recession nonetheless appeared to provoke greater pragmatism towards FDI. Press Council chairman David Flint and prominent political scientist Henry Mayer argued that quality management was more important than nationality (*Age* 12, 13 December 1990). Representatives of the Friends of Fairfax group reportedly told the Federal government that a foreign equity holding of more than 20 per cent could be desirable if it brought a high-quality proprietor like that of the *Financial Times* or the *New York Times* (*AFR* 12 September 1991).

October 1991).[83] In October 1991 a number of prominent former politicians issued a statement opposing not only further concentration of media ownership but also foreign control of print media outlets.[84] The statement said that 'many respected countries protect their media, not only from market dominance but also from foreign control' and that even a 20 per cent limit risked such control (*Age*, *SMH* 16 October 1991). There was also a long line of media industry identities publicly opposing foreign ownership of Fairfax, as did The Communications Law Centre (*AFR* 12 December 1990; *Sun. Age* 8 September 1991; 1994).[85] Newspaper unions won strong ACTU support for a campaign against foreign ownership of Fairfax, its national congress calling for a strict 20 per cent limit in September 1991 (*Age* 19 December 1990; *SMH* 21 October 1991). ACTU assistant secretary Bill Mansfield went so far as to suggest that the government could directly subsidise newspapers as a way of securing greater diversity of ownership without resorting to foreign ownership (*W. Aust* 9–10 January 1991). The Independence Committee of *The Age* announced that it did absolutely oppose foreign investment in the media but further argued it was unnecessary for Fairfax as an Australian consortium was making a bid (*Age* 20 September 1991; *Age* 11 September 1991).

Claim and counterclaim

The presence of the Australian consortium, Australian Independent Newspapers (AIN), complicated the politics of the Fairfax case and contributed to subsequent confusion surrounding the Federal government's actions. AIN faced two competing bids for Fairfax that both had a significant foreign participant. AIN lobbied the Labor government, and the backbench in particular, to block its competitors under foreign investment controls (Grattan, *Age* 13 September 1991). In an effort to diminish the stigma of key members' links with the Coalition in Victoria AIN enlisted as lobbyist John Saunderson, the former Left wing Labor MP and chair of

[83] In the mid-1990s Whitlam remained opposed to foreign control of the media but conceded that if a choice had to be made between nationalism and diversity of ownership then the latter should take precedence (personal conversation, Canberra 19 March 1995).
[84] Gough Whitlam, Malcolm Fraser, Frank Crean, Lance Barnard, Margaret Guilfoyle, Peter Nixon and Janine Haines all signed (*Age*, *SMH* 16 October 1991).
[85] Opponents of foreign ownership included Rural Press head John B. Fairfax, former HWT CEO Sir Keith Macpherson, and former Fairfax editors Creighton Burns and Vic Carroll (*W. Aust* 1–9 February 1991; *Age* 12 December 1991).

the caucus communications committee (*Age* 20 September 1991).[86] Having been the leading caucus opponent of foreign investment in the media, he was well positioned to promote the AIN cause.[87] AIN needed regulatory intervention to block rival consortia as it was unlikely to outbid them in a free market for Fairfax. The Hawke government did not do AIN this favour and ultimately the Fairfax receivers determined who was the successful bidder.[88]

When assembling their bids for Fairfax the foreign firms soon realised that the Labor caucus would be implacable on the 20 per cent limit on foreign equity (*Age* 19 December 1990, 18 July 1991). Internal party constraints were exacerbated by the bitter leadership struggle between Hawke and Keating that beset the government at the time (Kelly 1992:637–59). Caucus support was vital to both protagonists. The constraints were evidenced by how the 1991 ALP national conference of the ALP forced the government to establish a parliamentary inquiry into the print media (Lee 1992).[89] Independent Newspapers Plc, under the chairmanship of Irish entrepreneur Dr Tony O'Reilly, simply designed its bid around a 20 per cent foreign equity limit (Burton, *SMH* 4 September 1991; Senate 1994:62–63). The Tourang consortium, centred on Conrad Black's Telegraph Plc, lobbied hard for foreign holdings of non-

[86] AIN head John D'Arcy wrote a letter to Hawke denying that he had been responsible for editorial bias against the ALP during his time with the HWT (*Aust* 13 September 1991).

[87] AIN's appeal to nationalism was shown to be rather disingenuous as D'Arcy previously dismissed national interest concerns about FDI in the print media (Korporaal, *Age* 26 July 1991).

[88] AIN's specific criticisms of FIRB processes and the Labor government's decision making were a red herring. Much was made of a leaked Treasury briefing on the AIN that apparently contained inaccuracies about the extent of AIN's media experience and financing (Senate 1994:50–60). That obscured the point that the government merely decided to not raise objections to the final proposals on ownership structures from the rival consortia and were not deliberately on an AIN application. Hawke made that point clear before the Senate Inquiry but the implications were lost or ignored by the Coalition and Australian Democrat authors of the majority report (Senate 1994:56). Essentially, AIN's complaint was that the government should have given closer consideration to doing it a favour in the 'national interest'.

[89] The government nonetheless carefully managed its establishment and the findings. There had been repeated calls from the Labor backbench for the establishment of an inquiry since 1987 (*SMH* 30 June 1990, 2 November 1990). By constituting the inquiry as a House of Representatives exercise the government guaranteed majority control and also excluded some of its most vociferous critics, both from the Australian Democrats and its own ranks (*Aust* 7 August 1991; *Adv* 8 August 1991). The Committee gave support to a 20 per cent foreign equity guideline but noted it was an arbitrary figure and might be higher if the national interest dictated (Lee 1992; *Aust* 26 March 1992).

voting equity to be excluded from the calculation of the 20 per cent limit.[90] Black concluded after meetings with Hawke, Treasurer John Kerin and Communications minister Kim Beazley that an additional 15 per cent foreign equity in the form of non-voting shares would be acceptable. These were to be held by San Fransisco-based investment firm Hellman and Friedman. Kerin, Beazley and Hawke subsequently denied having giving Tourang principals any undertaking on non-voting equity (Senate 1994:64–69).[91] They had nonetheless battled within caucus to head off a resolution applying the 20 per cent limit to non-voting equity as well; preserving the Treasurer's discretion on the matter (*Age* 11 September 1991; Kitney and Gray, *AFR* 12 September 1991; *Age* 13, 14 September 1991, Ramsey, *SMH* 28 September 1991; *Aust* 11 October 1991). Kerin subsequently approved the O'Reilly INP bid with 20 per cent voting and 5 per cent non-voting foreign (*AFR* 10 December 1991). He rejected the Tourang bid without explanation; provoking an enraged Black to declare publicly that the decision was 'sleazy, venal and despicable' and that 'something rather sinister happened between FIRB and ...Kerin's office' (Senate 1994:70; *SMH* 12 December 1991).[92] It appears that rejection was the personal decision of Kerin (Senate 1994:76). New Treasurer Ralph Willis approved a revised Tourang bid with total foreign equity at 25 per cent and soon after the receiver for Fairfax accepted the Tourang bid[93].

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[90] There was initially considerable antagonism with the Labor federal caucus toward the Tourang consortium because Kerry Packer's Consolidated Press Holdings was to take some 14.9 per cent of voting equity. Packer withdrew in late 1991 in reaction to this and to an inquiry by the Australian Broadcasting Authority into his compliance with the newly tightened provisions of the cross media rules (Senate 1994:49; *SMH* 4 September 1991). Tourang's proposed CEO for Fairfax was Packer's long time managing director Trevor Kennedy, until his falling our with Conrad Black (Burton, *SMH* 20 July 1991).

[91] Black's insistence that he had been assured that a 35 per cent limit would be acceptable does not accord with his FIRB applications of 1 November 1991 and 26 November 1991 that actually amounted to 40 per cent when the 5 per cent stake designated fur US junk bondholders was considered (FIRB 1994:68–69).

[92] Black accused accused Federal ministers of 'gross political interference', saying that 'we have been the victim of sleazy political lobbying. I'm sure the Australian public are shocked an appalled by these tactics.' The government, he alleged, favoured rival bidder 'O'Reilly and his pimps' (*SMH* 12 December 1991). Black also denounced journalists, later referring to some reporters covering Fairfax as having '...made themselves the slavish and unthinking dupes of various other factions' (*Aust* 26 November 1992).

[93] The proposed new foreign ownership shares were Telegraph Plc with 15 per cent of voting equity and 10 per cent of non-voting debentures that were to be divided equally between Hellman and Friedman and the US bondholders who had lost a fortune as unsecured creditors to Fairfax (Willis, *Press Release* No. 133 13 December 1991).

While these events cast a shadow over Labor's management of FDI policy the real controversy surrounding Fairfax arose from a subsequent decision and claims about the circumstances in which it was taken. When Willis approved the revised Tourang bid he stated that

> The Tourang consortium has stated its intention to subsequently request approval to lift their stakes as closely as possible to the levels proposed in the Tourang application which Mr Kerin rejected last week. The consortium has been informed that such a proposition will continue to be rejected. (Willis, *Press Release* No. 133 13 December 1991).

Black's Telegraph Plc nonetheless applied for approval to lift its stake from 15 to 25 per cent in late 1992 and in the run-up to a close-fought federal election. Black later claimed that he had received encouragement from new Prime Minister Paul Keating and there were other corroborating accounts (Senate 1994:94–99; Burton, *SMH* 24 October 1992). Keating and Treasurer John Dawkins deferred a decision until after the March 1993 election and then, against criticism from within the government, approved the application.[94] Keating easily contained caucus unease over the decision as the ALP was humbled by his delivery of an improbable election victory. Treasurer Dawkins said the decision reflected the '...valid need of foreign investors to safeguard their financial and managerial commitment to their newspapers.' (Dawkins, *Press Release* No. 32, 20 April 1993). While it was acknowledgement that Conrad Black controlled Fairfax on a day-to-day basis, Dawkins made the valid point that the majority of Fairfax remained in Australian hands, although in fragmented holdings. He was also careful to specify that the 25 per cent limit represented a general guideline for mass circulation newspapers rather than being merely Fairfax-specific (Dawkins, *Press Release* No. 32, 20 April 1993).

Controversy arose when Conrad Black, in his autobiography and then in a television interview, suggested that Keating had made approval of the new limit conditional on

[94] In April 1992 the Keating government had already permitted small foreign portfolio holdings of up to 5 per cent in Fairfax as long as the parties were unrelated to The Telegraph Plc (Dawkins, *Press Release* 23 April 1992).

'balanced coverage' by the Fairfax press.[95] Keating himself effectively affirmed that account, saying that he did not want Black, a self-styled Thatcherite, to '...barrack for the Coalition, on the basis of...conservative proclivities in other places...' (Senate 1994:107). This saw the Coalition and Australian Democrats combine forces in the Senate to establish a committee of inquiry that further damaged the credibility of Labor's FDI and media policies. Black staunchly defended Keating's account that he had not sought partisan reportage (Senate 1994:103–12). Government leaders made much of the fact that the Fairfax press had uniformly editorialised against the ALP at the 1993 election (Evans, *Sen Hansard* 22 November 1993:3321; Senate 1994, Dissent:47–51). Representatives of Fairfax staff also affirmed that there had been no discernable editorial interference, although that did not preclude the possibility that Keating had sought it (Senate 1994, Dissent:43–48).[96] While the actual events surrounding the 1993 Fairfax/Telegraph Plc decision remained contested, the controversy revealed the inherent problems entailed in a discretionary FDI policy towards the mass media.[97]

The Keating government directed Treasury officials to refuse to release information on FIRB deliberations in relation to Fairfax on public interest immunity grounds[98]. While inevitable, this lent apparent weight to the majority committee finding that administration of foreign investment policy lacked transparency, accountability, and was susceptible to political manipulation (Senate 1994:193–221). It recommended

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[95] Black said that Keating had not been seeking to influence the editorial position of Fairfax publications but had been concerned that management would assert 'a discipline in favour of fairness — not partisanship' on some journalists who Keating perceived had been gratuitously hostile towards him. (Lateline 18 November 1993, cited in Senate 1994:104).

[96] Editorial reaction to the Inquiry's pursuit of the 'balance' issue was equivocal. The scenario of approval for a foreign investment being made conditional upon a government's assessment of the quality of reportage was deeply disconcerting. However, inquiry chairman Senator Richard Alston's dwelling upon supposed instances of pro-Labor bias, despite accounts of his own overtures to journalists for 'balance', antagonised some editors (*CM, SMH, Aust, AFR* 10 March 1994).

[97] Ironically, the Liberal/National opposition had adopted a policy of case-by-case review since the 1990 election in order to avoid internal and public contention over the setting of foreign equity limits for specific sectors. Conrad Black testified at the Senate Inquiry that Opposition leader Dr John Hewson had told him in 1992 that would no object to majority foreign equity in Fairfax (Senate 1994:243; Black 1993:453). In 1993 Hewson and shadow communications spokesman demanded a fuller account from the Keating government as to how the 25 per cent limit was in the national interest (Alston, *Press Release* 20 April 1993).

[98] Although consistent with past practice on FOI requests, the committee of inquiry controversially raised the spectre of punishment under the provisions of the Parliamentary Privileges Act 1987 for non-cooperation (Senate 1994:23).

complete overhaul, with the FDI-vetting function assigned to an independent statutory authority called the Foreign Investment Commission (Senate 1994:232). This was quite a Faustian deal for the Coalition. A statutory body would have required explicit legislative direction and hence revealed the profound differences between the Coalition and the economic nationalist Australian Democrats. It almost inevitably would have delivered less liberal policy than the current arrangements. The Fraser, Hawke and Keating governments had all found the FIRB model to be a good mechanism for managing the politics of popular economic nationalism while delivering relatively liberal FDI policy. It was for precisely that reason that the Australian Democrats sought the reform of FIRB.[99] Labor committee members recommended, in their dissenting report, modest reforms to FIRB's consultation, reporting and monitoring mechanisms that were eventually adopted in a modified form by Treasurer Willis (Senate 1994, Dissent:25–26; *SMH* 15 July 1994; *Aust* 28 September 1995; Willis, *Press Release* 26 September 1995).[100] The Keating government's direct response to the Senate Inquiry nonetheless was brazen contempt.[101]

The Coalition's pragmatism on FDI policy did not end with its efforts to embarrass Keating through the Senate Inquiry into Fairfax. In February 1994 shadow treasurer Alexander Downer suggested that the mass media should be off-limits to FDI because was a 'strategic industry' (*Age* 7 February 1994). In June, several weeks after becoming opposition leader, he launched into clumsy criticism of Labor's foreign investment policy (*AFR* 9 April 1994; Downer, *HR Hansard* 9 June 1994:1855). This was despite having been a strong advocate of a liberal FDI regime in the late 1980s (Willis, *HR Hansard* 9 June 1994:1841). Downer not only failed to appreciate that the politics of FDI policy for the mass media had a dynamic different from general FDI policy but also forgot the lessons of recent Coalition history. Andrew Peacock had been widely censured by elite opinion for flirting with anti-

[99] From a conversation with John Cherry, Economic Advisor to Australian Democrats leader Senator Cheryl Kernot, Canberra 9 May 1995.
[100] For the formal response, much delayed, from the government to the majority report from the Senate Inquiry see the document tabled in the Senate by Senator Crowley (*Sen Hansard* 27 September 1995:1580).

Japanese sentiment when he suddenly opposed the MFP during the 1990 federal election. The response of business and political commentators, business identities and the government leadership to Downer's remarks was equally swift and politically damaging. Downer's stature as alternative prime minister, was sharply diminished. The return of John Howard to the leadership of the Liberal Party put the embarrassment behind the Coalition. The new leader was to benefit during Labor's last year in office when Kerry Packer reignited controversy over FDI policy for the media (Dore, *W. Aust* 11–12 March 1995).

Packer tested the government's commitment to enforcing the cross media rules by increasing his stake in Fairfax, leading Conrad Black to make a bold request to be allowed to lift his holdings in the firm to 35 per cent from 25 per cent. Both Packer and Black were rebuffed, the former through legislative amendments to buttress the cross media rules (ABA 1995; Lee, *Press Release* 27 June 1995). Packer also came to be convinced that the Keating government had generally favoured News Ltd at his expense (*Aust* 20 February 1995; *SMH* 25 February 1995).[102] Packer publicly attacked the Keating government's media policy, demanding to know why a foreigner was allowed control of Fairfax when he was not (*Aust* 17 February 1995).[103] Howard, sensing the popular appeal of Packer's disingenuous appeal to nationalism, accused Keating of pursuing a vendetta against the entrepreneur (*Aust* 5 May 1995; 29 June 1995). Keating reacted poorly by accusing Howard and Packer of having entered into a deal exchanging favourable media coverage for abolition of the cross media rules but did not offer any evidence (*Aust* 20 February 1995; *SMH* 25 February 1995). An opinion poll at the time revealed that many Australians were more concerned to secure Australian ownership of the media than diversity of media ownership and some 60 per cent would favour Packer over Black as owner of

[101] When asked by Opposition leader Dr John Hewson whether he would appear before the inquiry, Keating remarked 'Listen, brother, I know my place in the world. I do not slum it before Senate committees' (*HR Hansard* 24 November 1993:3545).

[102] In response Keating said that Packer, with a pay TV consortium partner Optus, had lobbied the government to give it exclusive regional agreements for the roll out of cable (*Sunday*, Channel Nine 19 February 1995; *SMH* 25 February 1995).

[103] In a interview on his own network Packer remarked that: 'I'm not entitled to go to Canada and buy his newspapers — why is he entitled to come to Australia and buy newspapers that Australians want to buy?' (*Aust* 17 February 1995). This was in stark contrast to his 1991 remarks before a Senate Inquiry in favour of a liberal policy; made while he was still involved in a bid with Conrad Black for Fairfax. In the same interview he praised Opposition leader John Howard (*Aust* 17 February 1995).

Fairfax (*Aust* 1 March 1995).[104] By strenuously opposing foreign ownership, many media industry figures and political actors may have primed the electorate for further concentration of local media ownership behind barriers to FDI.[105] News Ltd lobbied for liberalisation of all aspects of media regulation on the grounds that Pay-TV and other new information technologies made them redundant.[106] In fact the Keating government's foreign investment regime for pay TV symbolised its heavily qualified liberalism towards politically sensitive sectors.[107] Foreign investors were limited to less than 50 per cent of the equity of broadband cable and satellite infrastructure providers.[108] Foreign investment in pay TV licensees were limited to under 20 per cent under the terms of the amended *Broadcasting Act 1991*, complicating the corporate structure of Optus (Willis, *Press Release* 24 July 1995). Foreign investment policy for the media did not reflect the technological convergence that was a defining feature of developments in the media industry in the 1990s. It reflected the resilience and political power of nationalist ideas and, to a lesser extent, the private interests those popular ideas happened to cloak.

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[104] The Newspoll had a sample size of 1200 (*Aust* 1 March 1995). A Saulwick poll in late October 1990 found that, contrary to the cross media laws, half of respondents thought that newspaper owners should be allowed to also own television stations in the same city (*Age* 16 November 1990).

[105] A recent report by the Productivity Commission (1999) into broadcasting recommended that there should be no liberalisation of the cross media rules until barriers to market entry, especially foreign investment restrictions, are substantially reduced.

[106] News Ltd's Australian chief, Ken Cowley, was a consistent critic of both restrictions on foreign ownership of the media and the cross ownership rules. In 1995 he provoked Keating to respond publicly that while media ownership rules would never be perfect the government could achieve something better '...than open slather and a gross concentration of media assets' (*Aust* 13,14 March 1995). Cowley, in the 1995 instance, argued that the development of pay television obviated the need for strict media ownership rules. Murdoch himself told an audience that included communications minister Michael Lee that the foreign investment and cross ownership laws were hopelessly out of date (*Aust* 21 July 1995).

[107] Some 'culture industry' identities, such as Phillip Adams and the Australia Council's Hilary McPhee, claimed that new information technologies create new imperatives, ostensibly of a public interest kind, for strict restrictions on foreign ownership (*Aust* 3 March 1995; Adams, *W. Aust* 4–5 March 1995).

[108] In September 1995 the Keating government lifted the foreign equity limit for provincial and suburban newspapers to a maximum of 49.99 per cent but the limit at 25 per cent for metropolitan mass circulation publications (Willis, *Press Release* 27 October 1995). Independent Newspapers Plc, already involved in Australian Provincial Newspapers, requested this during the Senate inquiry appearance of its representative Cameron O'Reilly and through subsequent lobbying (Senate 1994:64; Brewster, *Aust* 7 November 1995).

Conclusions

Labor's latitude on FDI policy was limited during its fourth and fifth terms in office. Labor's overriding political imperative was to repair the damage done to its reputation for economic management by the deep recession and persistent problems with Australia's external balances. A consensus on the need for further liberalisation and internationalisation of the Australian economy prevailed amongst the 'elite' economic policy community of government agencies, peak business organizations, market economists and business commentators. This created a strong impetus for further liberalisation of FDI policy, as the Keating government delivered in its *One Nation* statement of 1992. Labor did not turn a completely blind-eye to rent-seeking on FDI policy but it had an overriding electoral imperative to deliver policy that the shapers of public opinion considered to be in the public interest. In general, this meant liberal policy. In the case of privatisations, opinion leaders in the media and business were not unduly perturbed by majority Australian equity requirements because they saw them as the political price of valuable reform. Accepted too was the Keating government's practice of approving controversial foreign acquisitions of Australian businesses with an exhortation to the new owners that they use Australia as an export platform. Labor's official efforts to lure export-oriented FDI, especially RHQs to Australia, were generally well received while they remained modest in scale. These initiatives dovetailed neatly with the Keating government's championing of economic 'enmeshment' with East Asia and its promotion of APEC.

Labor's conviction that the FIRB provided a convenient mechanism for politically managing economic nationalism in the community, while delivering liberal FDI policy outcomes, was much less appreciated at home and abroad. The Keating government's determination to retain the FIRB mechanism, although somewhat incongruous alongside its support for the APEC Bogor Declaration, was reflected in the policy position it took to bargaining in the OECD over the MAI. The Keating government's own actions in relation to the Prime Minister's piggery investment and Conrad Black's investment in Fairfax did much to raise distrust of the FIRB at home. The Coalition, having become much more pragmatic about the politics of

FDI in the 1990s, worked with the economic nationalist Australian Democrats to further Labor's political pain over Fairfax through the creation of a Senate inquiry. The sensational events surrounding that inquiry obscured the fact that the media remained the main exception to Labor's liberalisation of FDI policy.

In the case of the mass media, there was no elite consensus that a liberal policy towards foreign ownership and control would be in the public interest. Although a more liberal FDI policy for the media would have further cemented Labor's reputation for internationalising the Australian economy, attitudes towards FDI liberalisation for the media became entangled with judgements about the management style of particular foreign entrepreneurs who sought to invest in the Australian media. Those attitudes were almost uniformally negative in relation to Robert Maxwell and Conrad Black. Opinion on FDI policy for the media was also complicated by attitudes to Rupert Murdoch who was now an American citizen. The upshot of this focus on the personalities of foreign media identities was widespread wariness towards liberalisation of FDI policy for the media and imminent backbench revolt. There were certainly public interest voices raised in support of a more liberal policy but these were not as great in number, as vocal or as politically well organised. This compounded popular antipathy in the electorate to foreign ownership of the mass media. The Federal Opposition's liberalism on FDI policy also wavered when it came to the case of the media, increasing the political risks to Labor of pushing liberalisation. The Hawke and Keating governments may have braved internal ALP disquiet and an electoral backlash on liberalisation if there had been substantial pay-offs either in terms of higher economic growth or private political returns from making the changes. Neither was clearly apparent to the Labor leadership. As foreign investment in the mass media involved the acquisition of existing businesses it held little promise of immediate additional employment or national wealth creation. In this respect the media differed from other sectors liberalised by Labor. Neither did Labor stand to gain significant net private political goods from liberalising FDI policy for the media. Although a change of policy in this direction would have endeared Labor to several media entrepreneurs, there were

equally powerful constituencies against liberalisation. In this environment, illiberal but popular ideas held sway.

10 Conclusions

Australia long maintained an 'open door' policy towards FDI, with the limited exceptions of the banking, broadcasting and airline industries. From the late 1960s FDI was subjected to more general control and by the mid-1970s policy had been tightened considerably. From the mid-1980s the tightening of control over FDI was reversed and a period of sustained liberalisation followed. This history suggests two things to explain. Why did Australia turn away from its longstanding open door policy only to later reverse course. How can varying restrictiveness of FDI policy across industry sectors be accounted for. Recent literature on FDI policies and the political economy of protectionism suggest that variations in FDI policy across time and sectors might be either the consequence of differing understandings of the public interest by policymakers or, alternatively, a reflection of the varying demands of influential private vested interests. This study concludes that Australia's FDI policy during 1960–96 principally reflected government attempts to make politically optimal compromises between competing conceptions of the public interest in relation to FDI. Yet rent seeking was rife and, to some degree, influenced popular and elite perceptions of the public interest. Liberal business constituencies and the imperative of growth-oriented policy strategies usually outweighed private interest supporters of restrictive FDI policy although periodically the latter did find some influence. Private interests seeking restrictive policy were helped by shortages of information about the real costs and benefits of FDI, in the case of the mining industry in particular, and by popular concern about the cultural consequences of FDI in the case of the mass media.

The argument

Although scholars in the political science and international business disciplines have taken an interest in the relationships between host governments and foreign firms, there has been little attention given to the domestic political determinants of governments' FDI policies. International business scholars such as Brewer (1992), Kobrin (1993) and Jacobsen, Lenway and Ring (1993) have recognised that gap in the literature and suggested that the political science discipline might help to close

it. To date such initiatives remain limited, notably so in relation to Australian FDI policy. This is a striking gap in the Australian political economy literature given the historical and continuing importance of FDI to the Australian economy and recurrent controversy over it since the early 1960s. This thesis represents an attempt to redress that deficiency in the academic literature. Limited attention in Australia and abroad to the domestic politics of FDI meant there were few precedents for this study and no complete framework was at hand to turn to the question. In conducting a study of the historical determinants of Australian protectionism Anderson and Garnaut (1987) tested the explanatory power of both private interest and public interest theories of economic policymaking. They found (1987:115–16) that both public interest ideas and private interests had been significant determinants of protectionism; an account consistent with the intuition of some international business scholars about the determinants of FDI policy in a number of countries (Lenway and Murtha 1994:515–20; Safarian 1993). Caves (1996:249–54) proffered a tentative interpretation of how both private interests and ideas about the national interest could become politically influential on FDI policy outcomes. Caves' conception draws upon the theory of political markets and the rational choice theoretical approach that underpins it.

In Chapter 2 the key features of political markets and rational choice theory were surveyed briefly. The objective was to develop Caves' interpretation of the political determinants of FDI policy into a fuller analytical approach. The political markets approach has two interrelated strengths. It offers a theoretical conception of political agency with which to explain how both private interests and ideas become politically salient. Secondly, it offers a convenient means by which one can conceptualise the demand for, and supply of, public policy. Demand for public and private goods emanates from the electorate, organised interest groups and particular businesses. The supply of regulation is the consequence of competing political actors, usually heavily constrained by institutions, the state of the economy and informational limitations, offering mixes of public and private goods in return for support. Such political entrepreneurs — those aspiring to government or a legislative role as a minor party representative — may seek to make latent demands in the community politically salient. They may shape voters' perceptions of the costs and benefits of FDI and existing policy because information is in limited

supply and unevenly distributed. Political entrepreneurs can tap veins of economic nationalism and xenophobia in the electorate. On the other hand, they may criticise governments for failing to attract sufficient FDI to enhance economic growth and job creation. Caves (1996) provided a sound starting point for conceptualising voters' sentiments in a rational choice theoretical framework that was further developed in Chapter 2.

Australian findings

From the framework developed for the study a number of tentative hypotheses were drawn about the varied and complex determinants of Australian FDI policy over time. These centred upon the interplay of material interests — private and public — and ideas shaping understandings of them.

Private and public interests

Chapter 2 drew upon rational actor theory and analysis of the impact of FDI upon host economies to posit domestic constituencies for and against a liberal FDI policy under particular circumstances. In the historical narrative of Chapters 3 through to Chapter 9 a degree of fit between hypothesised FDI policy preferences and the Australian case was observed. This section briefly pulls together these insights on a thematic basis, to emphasise again that, although private interests favouring selective restrictions on FDI policy were always present, there were usually also counter-veiling interests.

Chapter 3 observed how Australia's heavy protectionism of the manufacturing sector in the past attracted British and American FDI. Some domestic manufacturers sheltering from foreign competition behind quotas and tariffs certainly hoped for the exclusion of barrier-hopping overseas competitors. Yet this proved much more difficult to justify restrictions on FDI than on foreign goods — because foreign investment boosted domestic employment and general economic activity. The Menzies and Holt governments explicitly held that the FDI-inducing nature of tariff protection was one of its chief benefits. FDI helped to underpin economically a large-scale migration program. Late entrants through FDI into protected Australian

markets were also often competing against full or partially owned foreign businesses, making the case for excluding the new investors harder.

Demands from private interests for restrictions on FDI in the manufacturing sector centred therefore not on new investments but principally on foreign takeovers of existing Australian enterprises. By the mid-1960s heavy protectionism had resulted in a large number of small-scale manufacturers producing solely for the domestic market. Acquisition of an existing firm became an increasingly preferred mode of market entry or expansion for foreign firms. As Chapter 4 showed, support for controls on foreign takeovers increased among domestic manufacturing interests. This reflected general fears of more efficient foreign-owned rivals and/or management fears of being displaced by a hostile takeover bid. Trade unions, fearing less union-friendly foreign managements, sometimes leant weight to the calls for government intervention from management facing hostile foreign takeover bids. The private interest motivation of managers was evident in the MLC case in 1968 that marked the first time a federal government intervened to block foreign investors taking a substantial stake in the equity of a particular Australian enterprise.

When the Coalition eventually made a pragmatic concession to popular economic nationalism under pressure from the Labor opposition, it was to enact discretionary controls on foreign takeovers. Hastily introduced before the 1972 Federal Election, it was aimed as minimising FDI as an electoral negative for the McMahon government but also bore the imprint of domestic manufacturers, and their management, who were natural constituencies of the Liberal Party. Discretionary controls would allow the government to maintain quite liberal policy, as was the inclination of McMahon, while appearing to keep a watchful eye on foreign takeovers. The controls would also allow intervention where Coalition constituencies sought it. The Fraser government was principally concerned with striking a political compromise between the conflicting public interest ideas of developmentalism and economic nationalism but its FDI policy still reflected the interests of core Coalition constituencies. Reflecting the Liberal Party's traditional support among professionals and businesspeople, it placed greater emphasis on joint ventures having a majority of Australian directors than did the Whitlam or Hawke

governments. This is consistent with Breton's (1964:378) conclusion from Canadian experience that restrictions on FDI tended to favour middle-class white-collar employees, with the wider community and blue-collar workers in particular bearing the economic costs of restrictions. Yet public opinion data suggests that there was solid blue-collar support for those restrictions.

Domestic businesses, or individuals for that matter, may have sharply diverging interests on FDI policy depending on whether they are a buyer or seller of an asset in demand by foreigners. As discussed in Chapter 2, would-be buyers have a strong interest in the pool of bidders being as small as possible. This logic was evident in the representations of domestic firms to federal governments seeking the blocking of foreign bids for assets they sought to acquire. The distributional consequences of rejections of foreign takeover bids were exemplified by subsequent share price falls despite the presence of rival domestic bidders. Domestic mining companies' staunch resistance to the Fraser government's naturalisation provisions for foreign firms in 1978, explored in Chapter 6, evidenced their economic interest in local equity requirements. The more liberal policy environment from the mid-1980s did not stop such representations from domestic bidders. Prominent instances highlighted in previous chapters include Queensland holders of pastoral leases, an under-financed domestic bid for the Dreamworld amusement park, AIN's bid for Fairfax newspapers and Kerry Packer's bid for Channel Nine. The popular appeal of the Hawke government's heavy restrictions on foreign purchases of residential real estate stemmed from the belief that prices would not rise as quickly. The interest of sellers in a liberal FDI policy was often revealed in their intense frustration at the blocking of foreign bids. Domestic vendors of businesses often carried as much political weight as local interests favouring restrictions on foreign purchasers, leading governments to desist from blocking foreign bids.

Domestic constituencies for liberal policy towards FDI in new ventures were even stronger. This is in keeping with the hypothesis that FDI generates its own constituencies for liberal FDI policy because it generally lifts the return to factors of production it utilises in a host economy. For this and other reasons the Australian case offers only limited support for Caves' hypothesis (1996) that government policies to redistribute wealth away from foreign equity holders were likely because

they did not vote. Australian providers of legal, financial, real estate and other business services were frequently trenchant defenders of liberal FDI policy from the late 1960s. Yet, as predicted in Chapter 2, the liberalism of suppliers to MNEs did not always extend to their own sector. Insurance firms, merchant and trading banks and stockbrokers were supporters of restrictions on the entry of foreign competitors through FDI. The growing internationalisation of some Australian businesses, especially the large trading banks and mining firms, strengthened their support for liberal FDI policy in the 1980s as they came to be more concerned with policy reciprocity.

Export-oriented FDI is widely considered by scholars of international business to beget less local opposition than FDI primarily aimed at serving the host market (Poynter 1986:57; Encarnation and Vachani 1985). Here it is posited that, in defence of locational advantages local firms might oppose the entry of foreign firms who are actual or potential rivals in export markets. Chapter 9 validates this point through the experience of resistance by domestic firms in the Australian beef industry to Japanese and American FDI in the late 1980s and early 1990s. However, the government recognised that, as in the tourism industry, FDI would bring new corporate linkages into promising foreign markets even if it provoked some domestic structural adjustment. Australia's external balances were in such a parlous state, and elite opinion so resolutely liberal, that the Hawke and Keating governments felt little compunction in ignoring the concerns of domestic interests who had never been a Labor constituency.

As predicted in Chapter 2, Australian constituencies for and against liberal FDI policy were rarely stable or clear-cut. Peak business bodies were often divided over what FDI policy they should enunciate, not least because foreign firms were frequently members. Foreign and domestic firms often had much more th[illegible] united than divided them. In the 1960s Australian mining firms had been strong advocates of the importance of FDI to the growth of the resources sector because they lacked both the capital base and technological know how to develop projects themselves. Although they later acquired considerable technical proficiency, they still looked to foreign partners to spread the huge capital costs and risk associated with mining projects. Domestic and foreign mining firms maintained a common front against the

state developmentalism of the Whitlam government. It was only when the Fraser government adopted policy more favourable to mining companies that domestic mining interests actively sought to defend their vested interests in local equity requirements. Foreign firms were far from passive in the face of lobbying by domestic firms for restrictions on FDI or economic nationalist sentiment within the Australian electorate. Many foreign firms employed prominent locals in senior management roles and pursued active campaigns to promote community goodwill. Notable instances include foreign mining firms such as RTZ CRA, Toyota Motor Corporation, and the Japanese tourism and property enterprise Daikyo.

Throughout the period of this study most lobbying on FDI was on behalf of individual firms in relation to specific proposals. The discretionary FDI controls created under the *Foreign Takeovers Act* were both the cause and effect of this. A discretionary FDI review mechanism is ideal from the point of a politically optimising government as it presents the opportunity to weight the significance of each constituency on a per investment basis. This is a much more politically precise instrument than a tariff. The Australian experience strongly suggests that this consideration was not lost on governments. Discretionary controls on FDI accorded also with the policy preferences that might be expected of many domestic businesses. The capacity for FDI to generate higher overall economic growth and generate positive spillover effects was widely recognised. Yet, some businesses coveted protection from foreign competitors entering their industry through FDI, perhaps involving a hostile takeover of their own enterprise. Consequently support was frequently evidenced, across time and industries, for a discretionary FDI policy that was for the most part administered liberally but — and this was not usually said openly — presented scope for protecting domestic business interests upon representation to the government of the day. This accords with the hypothesis, developed in Chapter 2 that even when there was a general consensus on the benefits of liberal policy, incentives remained for individual firms to cheat on a 'rent-seeking moratorium'. Yet domestic businesses themselves were a check on government too often selectively blocking proposed investments precisely because they appreciated the broader benefits of FDI.

Domestic firms, like foreign investors, also had an interest in predictable FDI policy. Murtha (1991, 1993) examines theoretically and empirically how the failure of governments to make credible policy commitments increased the transaction costs of exchange between domestic firms and foreign direct investors. This study argued that both domestic and foreign firms, although sometimes having diverging immediate interests in FDI policy, would have a strong preference for predictable policy. This was evident in business reactions to Prime Minister Gorton's varying pronouncements on FDI. The Whitlam government's erratic FDI policymaking clearly contributed to a sense of shared interests among domestic and foreign mining firms. On the other hand, the simplicity and predictability of the Fraser government's policy of an equal partnership between domestic and foreign capital won grudging acceptance from firms that would either have preferred more or less liberal policy. The Fraser government, and the subsequent Hawke and Keating governments, learnt that on many specific investment proposals the private interest constituencies for and against approval were equally weighted. In such circumstances the greater political challenge was to reconcile the contending aspirations in the electorate for economic growth and economic nationalism.

As domestic businesses and voters alike benefit from economic growth, governments have a powerful political incentive to adopt growth-oriented policy settings. Chapter 2 noted that weak economies in a number of developed countries had seen governments initiate pro-market reforms, against the opposition of private vested interests. Globerman (1988:41–49) found that short run economic conditions had a significant influence on FDI policies, with pro-FDI polices more likely in downturns. This study argued that, on that basis, a weak economy would incline Australian governments to liberal FDI policy. This was by and large the case, although the Whitlam and Fraser governments' under-estimated the fragility of the national economy in pursuing more restrictive FDI policy. As Chapter 7 revealed, economic difficulties led the Hawke government to turn its back on the traditional economic nationalism of the ALP. In addition to the immediate electoral need to manage the economy more effectively than the Whitlam government had done, Labor's Accord with the union movement in the 1980s locked it into growth-oriented policies. When severe balance of payments precluded loose monetary and fiscal policy, liberalisation of FDI became a more attractive means for the Hawke

government to fulfil its employment growth commitment to the ACTU. This accords with Kotabe's (1993:135–38) finding that high unemployment is a significant determinant of governments' pro-FDI orientation. While the Australian union movement had to overcome wariness about the industrial relations practices of foreign firms, especially from Japan, the Hawke government was able to enlist the ACTU leadership in the cause of FDI attraction. As noted at the beginning of the study, faster economic growth resulting from FDI provides a larger revenue base to governments that can be used to deliver both more public and private goods (Bacchetta and Espinosa 1995). The leadership of the Hawke government was convinced that economic growth could provide the foundation for realising the ALP's social democratic policy agenda; creating a bias towards a liberal FDI policy.

Growth-oriented policies driven by the short-term electoral imperative are not necessarily optimal policy in the long-term. Chapter 3 noted how Australian governments once were active importers of overseas capital on their own account; creating state debt-servicing burdens and encouraging a culture of developmentalism. After World War II the emphasis shifted to 'private developmentalism' where the state nonetheless intervened in markets in ways that induced increased FDI flows. The Menzies government frequently rationalised tariff barriers as making Australia more attractive for foreign investment in manufacturing. Despite presiding over substantial liberalisation of the Australian economy in the early 1990s, Labor still made industry policy and public procurement policy decisions with a view to the incentives they created for FDI. This was most evident in the automotive, pharmaceuticals and IT areas. State governments also actively courted FDI through offering incentive packages because of the boost prominent foreign investments could provide to their reputations for economic management.

A government's need for economic growth is likely to promote a concern for the nation's reputation as an investment destination. The study posited that this in turn would attenuate the tendency of host governments to enforce 'obsolescing bargains' — namely more onerous performance or local equity requirements over time — on foreign firms. Even when Australian governments imposed substantial local equity

requirements and other restrictions on foreign investors, they generally still paid close heed to promoting Australia's reputation as an FDI destination in the international investment community. The main exception to this was the Whitlam government, although it also became more concerned with Australia's reputation in its final year in office. The policy of equal partnership for the minerals sector imposed from 1975 was the closest thing to an obsolescing bargain in the Australian case but still does not lend much weight to the concept. Although the Fraser government's naturalisation provisions of 1978 required complying foreign firms to sell down equity to Australians, it was in return for a more liberal operating environment.

It was noted in Chapter 2 that poor regulatory settings allowing businesses to extract additional rents from consumers provide at least an *a priori* second best justification for controls on foreign ownership or at least profit repatriation if the first best solution of regulatory reform is impossible. The perceived high profitability of American auto manufacturers in Australia in the late 1950s resulted in the Federal Opposition calling for FDI controls. Labor, then still heavily inclined to protectionism, did not appreciate that it was advocating a second rather than first best solution to the alleged national welfare loss. Popular support for restrictions on FDI in the mining sector in the 1960s, 1970s and early 1980s was inseparable from the perception that state and federal governments were failing to secure sufficient return in assigning the exploitation rights to national resources. The Fraser government inadvertently exacerbated these popular suspicions when it backed away from a planned resource rent tax in the face of intense resistance from both domestic and foreign mining interests.

Information and ideas

In Chapter 2 it was noted that scarcity and asymmetry of information characterise the political market for regulation. Limited information about the extent and nature of FDI exacerbated popular concerns in the Australian electorate about the balance of costs and benefits of FDI. This was particularly the case for FDI in the resources sector in the late 1960s, again in the late 1970s after the Fraser government had the Australian Bureau of Statistics cease collecting information on FDI, for foreign

ownership of real estate, and FDI in the tourism and beef industries. Better information and analysis in the early 1990s helped to diminish controversy over FDI in the latter three industries. It was hypothesised early in this study that limited information about the real extent and character of FDI would allow more entrepreneurial behaviour by political, media and social actors to tap latent fears in the electorate about foreign ownership and control. This was borne out in relation to FDI in mining and Japanese investment in real estate. Both of these sectors were acutely politically sensitive despite the lack of evident problems arising from FDI. This was partly because of the territorial impulse in much nationalist sentiment — as examined in Chapter 2. Mining was prone to controversy because the remoteness of the industry from major urban centres and its modest direct employment creation made the economic benefits of FDI less immediately apparent. Unlike manufacturing, it did not engender its own large constituency of voters that could constitute a political counterweight against economic nationalist ideas.

Changing ideas of what constituted the public interest in relation to FDI changed the policy choices available to Australian governments. Until the early 1960s there was widespread acceptance of a liberal policy towards British and American investment, except in narrow radical Left-wing circles. Then the rapid growth of the minerals sector, international political and academic reactions against American MNEs, and the precedent of restrictive policy measures in similar economies like Canada and New Zealand all resulted in Australia's liberal policy being more hotly-debated. This amplified differences of opinion within the Federal bureaucracy, namely between the Trade Department and the more liberal Treasury, and within the Coalition government. Domestic businesses that might benefit from FDI restrictions were emboldened to ask for them, especially with the passing of liberal Prime Ministers Menzies and Holt. Growing differences of opinion over the costs and benefits of FDI came to be reflected in newspaper editorials, with some publications such as *The Australian* and *The Age* becoming staunch advocates of FDI controls by the late 1960s. This inevitably had an impact on public opinion, and made the Labor opposition's economic nationalism more respectable — to the point where the McMahon government was driven by electoral concerns to enact controls on foreign takeovers in 1972.

Labor's championing of economic nationalism, in opposition and then in government during 1972–75, revealed the potency of ideology. While FDI should increase the return to labour as a whole, elements of the trade union movement and ALP bore certain historical antipathies to private foreign investment. As Chapter 3 examined, the ALP was virtually as pro-development as the Coalition but its class ideology inclined it to supplanting private overseas investment with overseas borrowings by the state. Despite the experience of the heavy debt-servicing burden exacerbating the 1930s depression as a consequence of heavy state borrowing overseas in the 1920s, strong strands of radical nationalism and state developmentalism remained in the ideology of the labour movement. The latter found its last expression in the Whitlam government, culminating in the embarrassment of the 'loans affair'. Whitlam's intense economic nationalism centred upon the resources sector because of its growth potential and the public ownership of mineral resources while there was little interest shown in the manufacturing. The faith of Labor leadership in its nationalistic vision, buttressed by an initially favourable reaction from the media and the electorate, blinded it to the economic and political dangers entailed. Labor's attempt to implement its model of state developmentalism provoked formidable opposition from both domestic and foreign mining interests, and providers of financial and other services to them. They in turn contributed to voters' loss of faith in the capacity of the Whitlam government to manage the economy in a responsible manner. By contrast, the Fraser government's policy of 50/50 local equity guidelines represented a pragmatic compromise between still-popular economic nationalism and its inclination to 'private developmentalism'.

While considerable wariness towards liberal FDI policy has persisted in the Australian community, by the mid-1980s there was near consensus within the economic policy community about the benefits of liberal policy. This was a function of better understanding of FDI, significant liberalisation in other countries, the growing influence of 'economic rationalist' ideas in response to structural economic problems, and the sharp deterioration in Australia's external balances. As Chapter 7 examined in detail, the balance of payments crisis of the mid-1980s required policy innovation from the Hawke government if it was to have any chance of being re-elected. Economic fundamentals suggested FDI liberalisation. This

response was certainly not inevitable given Labor's ideological background. Nonetheless, FDI liberalisation packages became the principal means by which Labor signalled its commitment to internationalising the Australian economy. Labor's target audience was 'elite opinion' — business leaders and media commentators — because of their capacity to influence voters' perceptions of the government's capacity in economic management. That FDI liberalisation was a means to impress opinion-makers was ironic given the extent of community wariness about FDI. Liberalisation was politically sustainable because the Opposition did not seek to tap that community wariness for political gain. This restraint reflected a mixture of the influence of its business constituencies and the free market philosophy of its leadership. Elite opinion-makers heavily censured the Opposition when it did impulsively adopt positions critical of the existing FDI policy, in relation to the MFP during the 1990 Federal election and under Downer's leadership in 1994. Opinion-makers had come to expect mainstream politicians to lead public opinion on internationalising the Australian economy rather than pandering to economic nationalist sentiment in the electorate.

In discussing the influence of ideas on FDI politics in Chapter 2, attention was directed to specifically cultural issues because of their place in the international business literature. Given the deep interrelationship between nationalism and cultural identity, it was predicted early in the study that the restrictiveness of Australian FDI policy would be partly a function of the degree of cultural distance between Australian policymakers, and/or domestic constituencies, and the major sources of FDI at any particular time. As seen in Chapter 2, Vachani (1995:164–65) forecast that host governments were less likely to subject 'multinationals with positive historical or cultural ties with the host country' to onerous regulation. The deep commitment of the Menzies government to the UK–Australia relationship, and of the Holt government to that with the United States of America, was a factor in the determination of both governments to maintain an 'open door' policy at a time when those countries predominated as sources of FDI. Official policy documents habitually referred only to 'overseas investment' until the early 1970s.

Opinion poll data clearly revealed that, even recently, many Australians felt greater 'warmth' towards British and American direct investors than those from Japan and

other Asian countries. Yet this did not find expression in Australia's FDI policy as the sources of FDI became more diverse. Formally and in implementation, policy remained resolutely non-discriminatory in terms of country-of-origin. This reflected consensus within the policy community about the importance of a non-discriminatory policy; mirroring a similar conviction in relation to immigration policy from the early 1970s. Moreover, rapid growth in the share of total inward FDI originating from Japan in the mid-1980s was associated with the main period of FDI policy liberalisation. The Hawke government was unmoved by public disquiet over the rapid increase in Japanese FDI. This was the result of a combination of an overriding electoral need to reform the economy, the critical scrutiny of a policy community supportive of closer economic ties with East Asia, and the personal philosophical commitment of government leaders to non-discriminatory policy.

Yet cultural considerations were reflected in the decisions of the Hawke and Keating governments that kept the mass media as the main exception to its liberalisation of FDI policy. This was despite the fact that the proposed foreign investments that brought the issue to a head in the late 1980s and early 1990s were from the culturally proximate United Kingdom, United States and Canada. The key role played by the mass media in the workings of the national polity, and its apparent cultural influence, were major reasons why there was no elite consensus on a liberal FDI policy for the media. The economic benefits to be had from permitting foreign acquisitions appeared minimal to many, while the particular foreign proprietors involved attracted considerable antipathy for reasons other than their foreignness. In the case of broadcasting, domestic media interests also feared that FDI liberalisation would be a precursor to wider-ranging changes to regulatory regimes in which they had a vested interest. All these factors, and the concern of the Labor government both to avoid party room revolt and alienating influential domestic media proprietors, saw it confirm the mass media as the main exception to a now liberal FDI policy.

It remains to proffer some brief classification of the main ideas influencing restrictive FDI policy in Australia. Caves (1996:250–51) drew a theoretical distinction between economic nationalism and xenophobia, the former being a

collective consumption good of national self-determination while the latter entailed individuals experiencing disutility from personal dealings with foreigners. Australian FDI policy outcomes from 1972 were, in Caves' terms, nationalistic rather than xenophobic because they have not sought to exclude foreigners entirely but share ownership with locals — for the most part equally. Yet opinion polls and other evidence suggest that a not insignificant minority of Australians exhibit xenophobic tendencies on FDI policy. This is reflected in the entanglement, in popular commentary and public debates, of immigration, race and FDI issues in the late 1980s. Although there was ultimately no direct impact on FDI policy outcomes, it presented a considerable challenge to the Australian government's management of relations with East Asia and its promotion at home of economic engagement with the region. It also deeply disconcerted more liberal Australians.

Implications

Studies such as this one are important given that investment issues now figure prominently in multilateral negotiations. The findings of the study have certain implications for what national governments should expect from international negotiations on binding investment measures, and which accord with the recent failure of deliberations on the MAI in the OECD. Few governments are likely to have a free hand in international bargaining over FDI policy. A long and benign history of FDI in an economy is no guarantee of popular support for a liberal policy. Many Australians reveal antipathy to FDI in opinion polls and moderate controls on FDI have been quite popular. Even when an FDI policy regime is quite open there are likely to be sectors which are politically sensitive. Cultural concerns and private interest dynamics make binding commitments to an open investment regime for the mass media rather improbable. This was reflected in the draft MAI that provided a mechanism for governments to list exceptions to its schedule of commitments; Australia proposing to maintain all its existing qualifications to liberal policy. This does not bode well for negotiations on a binding multilateral agreement.

The failure to realise the MAI or a like agreement through the WTO is unlikely to greatly hamper international FDI flows. The Australian case strongly suggests that the economic costs of economic nationalism engender their own political

momentum for the liberalisation of FDI policy. The Australian experience is mirrored in the many unilateral FDI liberalisation measures of other countries over the last decade (UN 1998). Increasing competition between countries to market themselves as attractive destinations for FDI creates checks against the worst abuses of discretionary government controls over FDI. The concern for national reputation in the international investment community may also be an impulse to more prudent macro and microeconomic policy settings. The Australian case lends some weight to this. If anything, recent experience suggests that some domestic policies may be distorted in favour of foreign firms because of the short-term political payoffs to governments of attracting investments.

The Australian case suggests that allowing national governments to administer FDI policy pragmatically may create at least as many business opportunities for foreign firms as it diminishes. More transparent policy is not necessarily more liberal policy. Indeed, the Australian case suggests that successive governments have used the discretionary and non-transparent administrative mechanism of the FIRB to manage a resilient strain of economic nationalism in the electorate effectively. It is quite likely that if an Australian government were forced to specify national interest tests and sectoral limits on FDI in legislation, for administration by an independent statutory body, then policy outcomes would be less liberal. Limits on foreign ownership may also be a necessary political price for the privatisation of state businesses that can create new business opportunities for foreign firms.

Foreign firms and host citizens alike do have good grounds for complaint about the workings of FDI controls. The Australian case reveals that governments frequently face demands to utilise FDI controls to realise a range of public interest aspirations that would be more appropriately addressed through domestic regulation. FDI controls were used to address concerns about the impact on the natural and built environment of projects in the mining, pulp and paper, tourism and real estate sectors. Frequently, relevant local and state governments had granted approval already, although they were often duly criticised. FDI controls were used to pursue competition policy objectives in the print media, although the Hawke government was widely criticised for not going further in relation to Rupert Murdoch's News Ltd. The use of FDI controls in this way implies tougher regulatory standards are

being imposed on foreign firms than on domestic businesses. The politics of FDI policy are inseparable from the use of restrictions on FDI as a second best solution to poor regulatory design. FDI may further exacerbate the national welfare loss from regulatory settings, such as high tariff barriers, that allow businesses to capture rents at the expense of consumers. Foreign firms may repatriate a substantial share of those rents. Good domestic regulation should make most controls on FDI redundant.

A clear lesson from the Australian case is that the defence of liberal FDI policy depends upon detailed information and analysis of its extent and nature. In an information void, competition between political actors will tend to drive public opinion on FDI in an illiberal direction because of nationalist sentiment within the electorate. The position of the main opposition parties on FDI policy in 'policy space' will be a significant determinant of a government's scope for showing leadership on defending liberal FDI policy. The policy positions of opposition parties will in turn depend on a combination of their inherited ideological baggage and the presence or otherwise of an influential policy community committed to liberal FDI policy. Finally, the Australian experience shows that foreign firms can strategise their interactions with at least some host governments and communities so as to increase their latitude on ownership decisions and other aspects of corporate strategy.

Limitations and scope for further research

The main limitations of this study derive from incomplete information about certain aspects of both the demand and supply sides of the political market for Australian FDI policy. On the demand side, more research is needed into the formulation of FDI policy preferences within peak business organizations. The membership of foreign firms, and the diverse interests of domestic firms in relation to FDI policy, present challenges for the leaders of those organizations. Just how they were managed was the beyond the scope of the study. Also needed is detailed study of the strategies foreign firms deploy to minimise the points of political resistance to their expansion in Australia. This would provide valuable insights into the politics of FDI. It would also make a further contribution to the international business

literature and might be useful to foreign firms planning to operate in Australia. More understanding is needed of public opinion in relation to FDI, and the real opportunity costs people are prepared to bear to secure national ownership and control. The study shows that political actors have taken seriously evidence of both economic nationalist and pro-development proclivities in the electorate. However, even government and opposition strategists find it difficult to reconcile fully the existing opinion poll data suggesting deep community antipathy towards FDI, and the positive reactions that large new foreign investments generally beget. The main limitation of the analysis on the supply side of the political market for Australian FDI policy is that it provides little insight into the bureaucratic politics of FDI. A rational choice methodology certainly can accommodate such analysis. As discussed in Chapter 1, gaining information from bureaucratic insiders was intractable. Moreover, as Chapter 9 showed, the conduct of FDI policy was a source of keen political contention when initial data collection for this study was being carried out. Yet the accessibility of the new head of the FIRB to the author in the closing stages of this study bodes well for ongoing study of Australian policy-making on FDI. The findings of the study also provide a starting point for comparisons across countries of the political determinants of FDI policy.

Conclusion

The openness of Australia to FDI from 1966–96 was principally a function of pragmatic government compromises between contending public interest ideas. Rent seeking by private vested interests was nonetheless prevalent. This did have influence on popular understandings of the public interest, and on FDI policy outcomes for specific sectors such as mining and the mass media. More challenging to governments than private interest demands was the electoral need to deliver sound economic management, implying liberal FDI policy, while being mindful of economic nationalist sentiment in the electorate. Australia's experience of FDI politics suggests that when confronted by a weak economy most governments will deliver quite liberal policy in practice for all but the most politically sensitive sectors. The Australian experience also suggests that governments will be very hesitant to give up discretionary controls on FDI. This is because they provide a

mechanism for managing inevitable debate over particular foreign investments and for providing the odd favour to an influential private interest.

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