

DEVELOPMENT OF ECONOMIC NATIONALISM IN AUSTRALIA AND IMPLICATION FOR THE CONSTRUCTION SUPPLY CHAIN

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Despite rapid economic globalisation, economic nationalist measures such as a local content policy for the construction sector that has gained favour in recent years is now being promoted as a tool for rejuvenating the Australian economy. This study aims to conduct a structured literature review on the historical development of economic nationalism in Australia and its implication for the construction supply chain. The findings indicate that economic nationalism was strong with protectionist policies of tariffs and the rejection of foreign capital prevalent before 1990 but became more open from the early 2000s, with increasing import penetration from lower cost producers leading to declines in Australian manufacturing capacity. Policies such as 'buy local', subsidies to manufacturers, and strategic restrictions on foreign investment were put in place during this period. The disruptions caused by the pandemic and recent global trade tensions have resulted in a resurgent economic nationalist sentiment to sustain the declining Australian manufacturing sector to maintain a capacity to produce essential items. Construction companies that have previously sourced a large proportion of their materials and products overseas are now encouraged to increase their local content requirements to support the domestic manufacturing sector.

Keywords: Australia; supply chain; economic globalisation; economic nationalism

INTRODUCTION

Economic nationalism has always gained prominence after major global crises such as the Great Depression in the 1930s, the oil crash in 1973, the global financial crisis in 2008 and the recent pandemic in 2020 (Hesse 2020). The pandemic has not been an exception in triggering another wave of economic nationalism. Globally, concerns for domestic availability of medicine, critical health equipment and consumables exacerbated by the initial shutdown of manufacturing in China led to introduction of 110 export restrictions on medicine and other medical products, 68 of which have no termination date (Evenett and Fritz 2020). The pandemic also exposed the weakness in supply chains that were over-reliant on imported goods which was a wake-up call for governments as massive shortages persisted (Ibn-Mohammed *et al.*, 2021).

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Apparently, governments are taking economic measures to preserve local supply chains as countries look forward to post-pandemic economic recovery.

One of the policy options to protect the economy and guarantee economic recovery after global crises is Keynesian-esque government demand which is largely dominated by major infrastructure and building projects, tax concessions and subsidies for building projects. For example, the Government of Victoria in Australia has budgeted AUD50 billion for social housing, infrastructure, and school projects; land tax cuts, widening the eligibility for stamp duty rebates, and a subsidy-for-equity scheme for home buyers which is expected to create 400,000 jobs by 2024 (Durkin and Wootton 2020). Most of this budget is expected to be spent on the domestic construction supply chain to stimulate the local economy based on an existing local content law in the state of Victoria.

Despite criticisms of economic nationalism by Saunders (1982) for lacking statistical justification, economic policies by the government will play a critical role in post-pandemic economic recovery (Nicola, *et al.*, 2020). Some of these policies will carry varying degrees of economic nationalism. The Australian government needs to secure essential domestic manufacturing capacity and transit from sole reliance on global markets to deliver national prosperity and security (Hameiri 2021). These policy interventions by governments have reawakened interest in economic nationalism which has been observed to follow global or regional economic crises (Hesse 2020). Therefore, this study aims to review literature on the historical development of economic nationalism in Australia and its implication for the construction supply chain.

The following are the contributions of the study. First, is to present a consolidated account on the development of economic nationalism in Australia. Second, is to compare economic nationalism in Australia up till 1990 with the current forms of economic nationalism. The remainder of the paper is organised as outlined. The next section is literature review which is followed by research methodology and results of the structured literature review, discussion, and conclusions.

LITERATURE REVIEW

Although Helleiner (2020) advocates the expansion of the intellectual roots of economic nationalism; understanding the ideas of List and Hamilton, the renowned pioneers of economic nationalism, will be helpful in properly defining economic nationalism (Harlen 1999). They supported the principle of free trade but argued that the necessary conditions for free trade were absent in Germany and USA, the two economically weak and political divided countries they analysed; consequently, they promoted limited versions of infant industry protection in agrarian countries (Ibid). They asserted that their nations were not yet developed to participate in free trade; hence, if free trade were to promote global prosperity, developing agrarian nations should be afforded time to build their industries before embracing free trade, this argument expanded Adam Smith's argument that national security should warrant protection (Helleiner 2002). Both List and Hamilton criticised the protectionist Corn Laws in Britain as ardently as David Ricardo (Harlen 1999). Perhaps, because they saw Britain as an industrialised nation that will benefit more from free trade.

In 18th century America, Hamilton cautiously endorsed industry protection and contended that subsidies and not trade restrictions will better develop domestic manufacturing; he also appreciated foreign investment (Helleiner 2020). List has been

typified with infant industry protection which does not represent his central view on how economic nationalism should be defined; in contrast, his aim was to formulate a “science which limits its teaching to the inquiry of how a given nation can obtain (under existing conditions of the world) prosperity, civilisation and power”; thus, List’s ideology was targeted at serving the interests of a nation as a collective group (Helleiner 2002: 312).

Furthermore, the great depression of the 1930s and Britain's departure from the gold standard forced a chaotic and incoherent adoption of nationalists' policies (i.e., currency inconvertibility and import restrictions) to cope with the global economic crisis, albeit not backed by theory (Pryke 2012). John Keynes, an economic liberal, provided a scholarly argument for economic nationalism by advocating for national self-sufficiency to express English innovative aptitude; and inward-looking capitalism which would trap the producer and consumer within the same national, economic and financial entity (Ibid). Matsunaga (2021) argues that Keynes foray into economic nationalism was not a doctrine of necessity but rose from a contradictory coexistence of economic nationalism and economic liberalism as liberal producerism emphasised the importance of the manufacturing sector.

Generally, economic nationalism is the utilisation of national resources to realise economic benefits for a nation’s citizens from the global economy (D’Costa 2009). In times of economic crises, nations often adopt economic nationalism to recover from these predicaments (Nakano, 2004). In this study, economic nationalism is defined as a group of practices by governments, businesspeople, trade unions and other actors designed to create, boost and protect national economies as opposed to allowing the nation's fortune to be dictated by the forces in the global markets. This is in line with the definition proposed by Pryke (2012).

Measuring economic nationalism empirically has not been an easy task, perhaps because of the conceptual and descriptive ambiguity previously associated with it. The leading empirical study of economic nationalism was conducted by Baughn and Yaprak (1996) who developed eight items for measuring economic nationalism. These eight items, later adopted by Lee and Lee (2015), are: buy local policies; restrictions on foreign firms; restriction on immigration of workers; intellectual property; formal barriers to foreign products; domestic production by national firms; a general nation-first orientation in trade and inter-firm competition; and restrictions on foreign investments.

METHOD

For the debate on economic nationalism in Australia, the aim of the search was to select peer reviewed journal papers that analyse economic nationalism in Australia. The search key words used were "economic national*" and "Australi*" on "article title, abstract and key word" which produced 42 combined results in the Scopus and Web of Science databases. A total of 37 papers were reviewed for relevance after five duplicated were eliminated. Ten papers were selected after titles were checked against the criteria. After reviewing the abstracts, these were further reduced to six (Bryan 1983; Joseph 1984; Bryan 1991; Evans 1999; Pokarier 2017, Sadlier 2017). A backward citation search revealed two additional articles relevant to economic nationalism in Australia and was added to the list. The selected papers were analysed in a chronological order to show the development of economic nationalism in Australia.

FINDINGS AND ANALYSIS

Economic Nationalism in Australia

Threat of Multinational Corporations (Post-War Period to the 1970s)

In the years after federation, Australian nation-building was based on a large immigration program from the UK and Europe with an obvious open door to foreign investment as an engine of growth and investment into technology for a growing nation (Pokarier, 2017). Before World War I, foreign capital initially came from Britain, post-World War II foreign investment came from US which was followed by a third wave from Japan (Wheelwright 1997). Thus, Fitzpatrick, through dependency theory, postulated that Australia was a victim of international capital (Bryan 1983). This was because of the middle position of Australia in the imperialist capitalist chain, foreign direct investment was targeted at the agriculture and mining industries, dwarfing the growth of the declining manufacturing industry (Bryan 1991). This argument holds that Britain, US and Japan wanted Australia to always import advanced manufactures from them which resulted to the lack of investment in Australian manufacturing sectors.

While economic nationalism in the 1960s and 1970s was preoccupied with the threat of multinational corporations (MNC) to Australia; this shifted to a focus on industrial policy in the 1980s (Bryan 1991). Wheelwright (1981: 4) captures this nationalist concern - "One result of this corporate re-structuring is that Australia is being de-industrialised. Companies are relocating to South-east Asia, using the latest equipment and paying wage rates 10% of those in Australia, in countries where there are no free trade unions, and which often are a police state, of some kind". This nationalist concern, championed by the opposition Labour party, translated to the identification of Australia as a victim of Britain, US and Japan, the then major global economic powers; the panacea was restriction of foreign investment and ownership to prevent loss of national control and autonomy; strict regulatory control of the financial system; and high tariff protection of labour-intensive manufacturing industries, parts of which were implemented by the Whitlam Government (Sadlier 2017; Evans 1999; Bryan 1991; Bryan 1983).

The Era of Industrial Policy (1980s)

In the 1980s, Australian economic nationalism adopted a post-Keynesian approach that advocated for intervention to promote the manufacturing sector because of its critical role in securing a globally competitive national economy; and a progressive labour union involvement in economic decision-making (Bryan 1991). The Federal Government announced industry assistance to support high technology industries in March 1983 (Joseph, 1984). This nationalist approach, heavily backed by trade unions, rejected comparative advantage, and argued that it led to de-industrialisation; and promoted industrial policy with four fundamental agenda:

1. Selective industry protection to achieve competitive economies of scale based on theory of strategic trade policy (e.g., 1983-1988 Steel Plan).
2. Implementation of separate industry plans in strategic industries to effectively utilise state resources and pick winners in global competitiveness.
3. Import substitution by the government through local content procurement policy and advertising of Australian made products; and
4. Increase of investment in research and development, and provision of funds for capital investment by the state to achieve an unassisted expanding manufacturing sector (Bryan 1991).

These measures were designed to entice footloose capital, especially foreign capital to remain in Australia which was a shift from the strong economic nationalist opposition to foreign capital pre-1980 (Ibid). Nevertheless, Evans (1999) contends that Australian economic nationalism, based on a perceived international economic threat and use of domestic capital produced deteriorating economic and social outcomes such as recurring high unemployment, misallocation of investment and decline in growth rate of GDP per employee. This was followed by liberalisation of the Australian economy starting from the mid-1980s as economic nationalism took a back seat in economic policy.

Rapid Globalisation and Retreat of Economic Nationalism (1990s)

In the 1990s, economic nationalism was still primarily concerned with the inflow of foreign capital into Australia, especially private capital which was over 80% of total capital inflows; these concerns were captured in the statement of Geoff Kitney, a policy columnist - "As the internationalisation of the Australian economy proceeds, public confidence in its benefits is receding. Public support for economic nationalism is growing to the point where the major parties cannot ignore it" (Wheelwright 1997: 92). Economic nationalists argued that this intrusion of foreign capital promoted global consumerism especially on mass media which undermined Australian national identities, caused a fall in manufacturing output for the domestic market as export production remained flat (Ibid).

Economic Nationalism in a Globalised Economy

Despite rapid economic globalisation, Australia has initiated and implemented a range of economic nationalist policies in the construction supply chain since year 2000 with broad consensus across policy makers of both nationalist and liberal tendencies. Three components of economic nationalism from Baughn and Yaprak (1996) were apparent in the last two decades. These were the buy local policies, an increased emphasis on domestic production and restrictions on foreign investments. Other components from their list were observed but were not portrayed as being driven by economic nationalism.

Buy Local Policies

The state of Victoria is the only state or territory in Australia with a very high and mandatory 90% local content (materials, labour, and service) policy for capital projects of the state government that are worth AUD50 million and above (Department of Jobs, Precincts and Regions 2020). The local jobs first policy is backed by the Local Jobs First Act 2018 which supports SMEs in Australia and New Zealand that are exempted from free trade agreements and under WTO rules. The law states that only building materials that cannot be sourced from Australia and New Zealand should be imported for use in these public projects. For the post-pandemic economic recovery, the Victoria State Government will spend AUD6 billion in housing projects and AUD19.6 billion in infrastructure projects until 2024 to recover 180,000 lost jobs, and add another 280,000 jobs (Durkin and Wootton, 2020). This is a Keynesian-style demand policy (Pryke 2012) which is one of the tools employed by government during times of global crises (Nakano 2004).

Emphasis on Domestic Production

The two primary steel producers in Australia, BlueScope and InfraBuild, have been assisted by Federal and State Governments to preserve that strategic supply chain to the construction industry. In 2016, when Arrium Steel fell into administration, the Federal Government brought forward the Adelaide to Tarcoola rail upgrade project

worth AUD252 million to help sustain the company before it was acquired by Liberty House Group (Department of Infrastructure and Regional Development, 2017). The rail upgrade project utilised about 73,000 tonnes of steel. Also, the Federal Government of Australia and the Victoria State Government will deliver a AUD150 million electricity subsidy to Portland Aluminium to keep the plant running till 2026 (Miles 2021). The company's output is 20% of Australia's aluminium production and over 500 jobs will be saved. This subsidy will guarantee the continuous domestic production of aluminium doors, windows and panels which are vital inputs in the construction supply chain. This aligns with the view of Hamilton that government subsidies and not blanket trade protection will better promote domestic manufacturing (Helleiner 2020).

Restriction on Foreign Investments

The Federal Government has tightened restrictions on foreign capital in strategic sectors important to national security by expanding the scope of the Foreign Investment Review Board (FIRB). The FIRB will now approve all foreign investments in any business deemed sensitive to national security irrespective of the value (Clarke 2020). Also, another restrictive layer of the law gives the Treasurer power to veto a foreign investment pre-and-post acquisition, and to order a divestment if national security risks arise after approval by FIRB (Ibid). The FIRB recently rejected a AUD300 million Chinese takeover of South African-owned Probuild, a Tier-1 builder, for economic and security reasons (McGuirk 2021). This conforms to the idea of List that economic policies should serve the interests of the nation (Helleiner 2002).

Comparing Economic Nationalism Pre-and-Post Economic Globalisation

Before the rapid economic globalisation of the 1990's, economic nationalism was aggressive, tariff-inclined, opposed to foreign capital and adopted a coherent industrial policy (Sadler 2017; Bryan 1991; Bryan 1983). In contrast, post-globalisation, economic nationalism is subtle, non-tariff inclined, relatively more receptive to foreign capital and is not inconsistent with economic globalisation. As asserted by D'Costa (2009), economic nationalism seeks to derive maximum national benefits from the global economy. For instance, Australia has 15 free trade agreements in force and 14 under negotiation which is mixed with various inward-looking economic nationalist policies. This is particularly evident in the 90% mandatory local content procurement policy in state of Victoria for public capital projects despite the availability of lower cost imported materials. There seems to be an unwritten consensus across political party lines and policy circles that economic globalisation is inevitable; nonetheless, assistance to industries is also acceptable. This contrasts economic nationalism before 1990 which was more about creation, development and protection of the national economy which aligns to the assertion of Pryke (2012).

Also, there are similarities between economic nationalism either side of globalisation. Both subscribe to local content procurement, government-assisted investment in research and development, and selective industry assistance to strategic industries to achieve a competitive and unassisted manufacturing sector. The federal government has attempted to make a very subtle distinction between a hand-up (assistance to improve competitiveness) and a hand-out (unsustainable gift). The recent grant of AUD8 million for an upgrade to British-owned Whyalla steelworks in September 2020 was a clear demonstration of this 'hand-up' offered to a foreign company employing more than 1,500 local workers. (Government of South Australia 2020).

Implication for the Construction Supply Chain

The discussion of strengthening the declining Australian manufacturing sector has returned to the fore due to the recent disruptions in supply of construction materials from overseas. In practical terms, favouring the local supply chain over the foreign one is interpreted as economic nationalism, but this may also form part of the road map for post-pandemic economic recovery. Businesses should not have to choose between economic nationalism and economic liberalism, but a merger of global and nationalist endeavours can maximise benefits for the firm (Waldman and Javidan 2020). A very strong globalist approach could lead head contractors to miss local opportunities while an extreme nationalist approach can limit the ability of the business to seize foreign opportunities (Ibid). Although the Australian construction industry may return to international supply chains due to the cost savings, adoption of local supply chains for resilience purposes could be a big game changer in the event of another pandemic.

Moreover, head contractors that decide to bid for public projects of the state of Victoria must show a commitment to the local industry by using at least 90% local content. Due to the declining competitiveness of the Australian manufacturing sector, many building components like curtain wall and lifts for high-rise buildings are no longer produced locally. This implies that head contractors must maintain strong local and foreign supply chains into the future. There is also considerable support for a revival of domestic manufacturing capacity from the community in response to the shortages of medical supplies, personal protective equipment and other essential manufacturing inputs (Lucadaou-Well 2020).

CONCLUSIONS

The structured literature review reveals that while the motivations for economic nationalism in Australia has remained the same, it has adopted several new approaches to the same issue. Before 1990, economic nationalism was very aggressive, tariff-inclined, hostile to foreign capital and used an articulate industrial policy. However, from the 2000's, economic nationalism became less protectionist, subtle, non-tariff inclined, relatively more receptive to foreign capital and compatible with economic globalisation. Local content procurement policy, government-assisted investment in research and development, and selective industry assistance to strategic industries were discovered as similarities between economic nationalism pre-and-post economic globalisation. Post-economic globalisation, economic nationalism takes the forms of buy local policies, subsidies to manufacturers and selective restrictions on foreign investment. Post-pandemic, the implication for the construction supply chain is that head contractors, especially those engaged on public projects must develop both local and foreign supply chains to satisfy the increasing local content procurement requirements in Australia and also to build resilience to cope with future disruptions.

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