Introduction

All governments have a responsibility for the economic development and well-being of their country or region. They, therefore, have to have a development strategy for it, whether implicit or explicit, laissez-faire or interventionist. An industrial strategy is an important subset of it. This is clearly a matter of great complexity and often of ideological and political controversy, particularly so in an age in which the globalisation of many economic sectors and the interests and priorities of businesses within them have created greater or lesser conflicts with governments and what is perceived as the wider public interest.

We come to this problem not as economists or politicians – we are neither – but as practitioners of corporate and business policy consulting who happen to have concentrated their efforts over many years in one particular sector of great size, importance and influence, which has undergone both huge growth and structural change: the global automotive industry. We strive to understand the structures and mechanisms of the industry, together with economic, social, technological and environmental forces that have shaped it in the past and which will continue to influence its future development. We have, on the basis of this knowledge, worked with individual corporate clients within the many sub-sectors of the industry and with institutions responsible for guiding and regulating it. Hence our by-line: 'We Begin with an Understanding'.

Automobiles are complicated products and, while they perform the same role today as they did from the outset, their complexity and sophistication has grown enormously, as a result of growing market, competitive and regulatory pressures. The complexity of the industry – invisible to its average customer – has grown with this. The industry has grown immensely in size since its inception at the end

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of the nineteenth century. Its social and economic impact has been huge, to the point at which it could legitimately be described as *the* industry of the twentieth century. With this have come radical internal transformations, from the individual local artisan-inventor pioneers, who had to design and make almost everything themselves, to massive interlocking oligarchical global networks of specialisms. The degree of industrial organisation, collaboration and discipline involved is unprecedented and, in many respects, still unequalled. The industry's achievements in terms of the sophistication, quality and unit cost of its products have been quite extraordinary but remain often unsung.

All this has not happened within some kind of idealised competitive paradigm of untrammelled free market economics. The safety risks involved in motoring induced government regulation from the start, with the British government's requirement for someone carrying a red flag ahead of the new-fangled horseless carriage, to warn the unsuspecting public of the approaching monster. This intrusion of the public interest has hugely expanded, to cover both the multiple dimensions of safeguarding the occupants and other users of the public road, to protecting the environment and providing much of the infrastructure on which road vehicles operate. This has set up an enduring conflict between corporate interests, which would prefer not to have costly regulations imposed on them, and governments, as guardians of the public and environmental interest. This has, of course, been made particularly evident in the case of Dieselgate in Europe, for which both sides are to blame: the industry for lack of candour about what could reasonably be achieved by way of some 'sophisticated' engineering strategies, and politicians and officials for trying to impose a Goldilocks solution without being themselves sufficiently informed. In short, a failure of dialogue.

A fully developed automotive industry is also a big part of a national or regional economy, with considerable impacts on both consumers of its products and suppliers of supporting services and goods to them and the industry itself, in both the private and

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public spheres. Country after country has wished to have a national automotive industry, for reasons of economic and social development, of prestige, of national security. But this in an industry whose huge growth, increasing deployment of different technologies and competitive pressures have driven an unrelenting pursuit of scale through globalisation. This has often fuelled a clash between the interests of global corporate hierarchies and guardians of the national public interest – and conflicts within the latter. The industry is desperate for growth, particularly in emerging markets, as its traditional ones have become saturated. National governments in mature markets are desperate to preserve economic activity and employment. Those in emerging markets want cheap cars for their people and a competitive exporting national industry, which, in most instances, requires scale beyond their reach. The industry has developed a considerable aptitude in begging for government support and threatening with the consequences of not providing it. Again, there is often a lack of candour on the one side and of adequate understanding on the other. None of these things is unique to the automotive industry. They are to be found aplenty in many other sectors, not least the new technology ones.

Why the automotive industry in Australia? Because it provides an almost textbook-perfect case example of policy failure. The world automotive industry changed hugely. So also did Australia, from a rather closed economy and an isolated and homogeneous society to a great degree of openness and diversity. This is a vigorous (if sometimes raucous) democracy, with an open market, not least in the automotive sector. Yet it faces real problems of how to survive as an advanced economy, which gains greatly from a large primary extractive sector but tries not to be over-dependent upon it. In the automotive sector, government policy became conflicted between opening the market to imports to benefit the consumer and trying to support and preserve an increasingly sub-scale industry. Government was unrealistic in wanting to have its cake and eat it; the industry was less than candid with government and with itself about the true

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options. We believe this provides a particularly strong case example, for government, for industry, within this sector and beyond it.

We start our argument from a global perspective, in order to provide a framework for our dissection of the history of the automotive industry and of government policy towards it in Australia:

- In Chapter 1, we introduce the concept of a life cycle in powered land transport, starting with the growth, maturity and partial decline of the railways in the United Kingdom (their birthplace) and the United States (their greatest extent). We track the spectacular rise of the automobile, its mature phase and possible incipient decline in its present form.
- Chapter 2 describes the development of the automobile as a product, from the first simple horseless carriages to today's highly sophisticated vehicles, with a large dose of electronic controls – and how, in its present form, it is threatened by environmental pressures and the development of new technologies. We present the spectacular growth of demand, the saturation of developed country markets, the emergence of China and the persistence of regional particularities.
- Chapter 3 relates the history of the production of automobiles: spectacular growth, the drive for scale accompanied by great waves of concentration among the vehicle builders, the emergence of new players, the globalisation of the industry. A surprising result emerges: the unbroken dominance of an oligarchy of vehicle manufacturers, with few Chinese-owned firms in their ranks, despite China's huge production volumes. We explain how the manufacturers control access to their end markets through their unique system of proprietary distribution channels.
- Chapter 4 describes the critical and growing role of the supplier sector; its own march to globalisation and interrelated sets of global oligarchies; the closed nature of the supply chains; and their highly disciplined functioning, under the leadership and tight control of the vehicle manufacturers.
- Chapter 5 discusses the influence of national governments and their long-standing role in regulating the industry, the conflicts that have arisen around safety and environmental protection. It also addresses the role of the industry in national economies, how governments have encouraged the development of national automotive sectors, the means they used to do so and the consequences for the industry. It describes the roles that different countries have sought and been able to play within this global industry.

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The case of Australia is then developed against this background of a huge, complex, scale-driven, highly disciplined, oligarchic global industry:

- Chapter 6 tracks the life cycle of powered land transport in Australia, and the dominant role taken by the automobile. It follows the growth of cars in service to saturation, and the similar growth and saturation of the market for new cars. It describes the huge change in the structure of the market, with the replacement of the traditional large Australian car by more modern small cars and SUVs, driven by the immense changes in Australian society. It tracks the surge of imports, as government policy switched from protecting the national market to opening it to outside competition, and reviews pricing and the controlling effect of the tied distribution channels.
- Chapter 7 is the story of the Australian light vehicle industry from the very first developments before World War I, through the era of importing vehicles; the imposition of import controls; the decision to create a fully fledged automotive industry; and its growth, decline and end, as it lost control of its domestic market and never achieved sufficient export volumes in compensation. The principal reason for its demise is identified as lack of sufficient scale, compared to the global giants, rather than external factors such as labour costs. The impact of its departure on the balance of trade and employment is identified as relatively modest. Some unrealistic proposals for reviving it are dismissed.
- Chapter 8 relates the development of the vehicle manufacturers in Australia, focusing on their critical relationships with their parent groups. It describes the role each of the ultimate four survivors was allowed to play within these groups, and the consequences for their various attempts to build volume and scale through exports.
- Chapter 9 identifies the emergence, growth, development and ultimate failure of the supplier sector in Australia, including much of it being taken over by the global giants of the sector. Responsible, as elsewhere, for 80 per cent of the content and value of the complete car, it was never able to achieve enough local scale and was perpetually threatened by competition from imports.
- Chapter 10 addresses the role of government in Australia through the life cycle of its automotive industry, from its success in attracting manufacturers, promoting the development of the industry, protecting and

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supporting, encouraging rationalisation – and then being conflicted between that purpose and opening the market to imports, losing its grip on the industry and finally succumbing to the temptation simply to subsidise it.

- Chapter 11 looks at the quality of the evidence, analysis and recommendations put forward by major reviews of the industry, and comments on their efficacy. It identifies the need for better definition of present and desired future states, objectives and paths to them, and management, controls and incentives. It emphasises the need for proper sectoral analysis in support of government intervention – not only in the automotive industry.

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