

Chapter 3

Foundations for Industrial Rejuvenation: Lessons from International and National Experience

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ABSTRACT

Drawing on a body of research examining the economic and social effects of downturns and major manufacturing plant closures in Australia and South Australia in particular, this chapter investigates how industrial rejuvenation strategies can help to minimise the negative impacts on the workforce and supply chains affected. The chapter identifies key lessons from the national and international literature on industrial rejuvenation and the management of major closures. Industrial rejuvenation is a multi-faceted strategy that seeks to manage pressures and complex change in response to local, national, and global conditions. The chapter focuses on the evidence about the strategic options for industrial rejuvenation available to government in partnership with industry, trade union, and community stakeholders. The chapter concludes by drawing out some broad strategic implications for the design of more integrated rejuvenation and regeneration policies.

INTRODUCTION

While Australia has been spared the devastating economic and social dislocation that many other OECD countries have experienced since the Global Financial Crisis, it has not been immune to its impacts. Slower economic and employment growth at a national and local level are reminders of this. So too are sectoral pressures playing out

in vulnerable sectors like manufacturing where the combination of a high Australian dollar and the rise of low cost mass manufacturing in Asia has undermined the competitiveness of significant manufacturing operations in South Australia and elsewhere. This now includes General Motors Holden which announced in December 2013 that will close its automotive manufacturing operations in Australia in 2016 and Toyota which announced

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in February 2014 that it will close its automotive manufacturing operations in Australia in 2017 effectively announcing the end of car manufacturing in Australia.

There is now an urgent need to develop a sophisticated response to the closures to help minimise the negative impacts of the closure on the workforce and the supply chains affected. The starting point for this is to identify key lessons from national and international literature on industrial rejuvenation and the management of major closures. Industrial rejuvenation can be viewed as a multi-faceted strategy that seeks to manage pressures and complex change in response to local, national and global conditions. The difficulties associated with managing change, dislocation and restructuring are magnified during periods of economic crisis when underlying vulnerabilities become more evident and the increased scale and intensity of impacts cause widespread socio-economic hardship.

The last 30 years have seen three distinct periods of crisis resulting in large-scale firm closures with associated layoffs. The recessions of the early 1980s and 1990s were marked by very high levels of retrenchment, fuelling high unemployment and long-term unemployment (Spoehr and Shanahan, 1994). Unemployment in South Australia peaked at around 12.3 per cent, largely as a consequence of firm closures and mass layoffs. The last period is occurring presently in what is a clear wave of, primarily, foreign owned subsidiary closures with ripple effects into the local supply chains.

Huge structural changes were unleashed during the 1980s with the deregulation of the banking and financial system and phasing down of industry tariff protection. Since this time Australian industry has faced significant adjustment pressures requiring restructuring and the adoption of innovation and productivity enhancing measures. To influence and manage change, a range of restructuring plans were adopted including the Passenger Motor Vehicle Industry Plan, the Metal Plan and the Clothing, Textile

and Footwear Plan. Each of these plans sought to improve the competitiveness of firms through tri-partite planning and processes. Allied labour adjustment packages sought to provide alternative employment pathways for workers displaced through restructuring. During recessions this proved particularly difficult to achieve, resulting in high rates of unemployment for those that were retrenched. During periods of economic growth the costs of adjustment to workers, families and communities is often considerably less.

This chapter has been prepared during a period in which considerable global economic instability prevails. The GFC has exposed existing vulnerabilities, particularly in relation to mass manufacturing which has been subjected to intense competitive pressures from a high Australian dollar and subdued global and domestic demand. The rise of low cost mass manufacturing in Asia adds to this pressure, forcing a fundamental reassessment of manufacturing strategy in Australia. In South Australia this challenge has been taken up by the State Government through the adoption of the *Manufacturing Works* strategy which seeks to support the development of knowledge intensive high value manufacturing, a strategy endorsed in much of the literature as Tripl and Otto (2009) attest:

A cost-reduction response to a severe crisis is not a viable way forward, whereas a search for market niches and an orientation on innovation promises better results. If the firms succeed in enhancing their competences to operate innovatively within their existing markets, and to move to the upstream end of their industries, their accumulated knowledge and skills will be redeployed in a creative way. (Tripl and Otto, 2009, p 1220)

The impacts of downsizing and closures during economic downturns are quantitatively and qualitatively different to those that take place during periods of growth and relatively low unemployment. For example, we know that the prevalence

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