

New Directions for Australia's Manufacturing Industry.

Dr John Blakemore
National President Manufacturing Society of Australia
Principal Consultant
Blakemore Consulting Sydney
masc@blakemore.com.au

The continuous decline in the manufacturing industry in Australia from 30% of GDP in the 60's to 12% of GDP in 2007 has coincided with a continuous drop in our relative standard of living compared with the rest of the world. Without our very favourable terms of trade and the current resources boom and the insatiable demand for coal and our minerals, notably by China, Australia's economy would not be healthy. Despite our isolation, the higher logistical costs both inward and outward, and our poor infrastructure, the Australian manufacturing industry has continued to punch well above its weight since it contributes approximately 20% to exports from a base of 12% of GDP, a fact that seems to remain unnoticed by economists. The rapidly growing service industry cannot make such a claim.

The information age as a driver of economic progress in the USA has not rescued the US economy, and the same can be said for the dot.com bubble. Dr Greenspan may be heavily criticized in the future for the predictions and support he gave these segments.

A viable and growing manufacturing sector is necessary if the full potential of the nation's people are to be satisfied. The service industry does not offer an outlet for the wide range of creative skills and talents of a balanced population. Science, engineering and technology are the main driver of an ever increasing standard of living which all people demand. Economies like Germany, France and Japan with a very high standard of living and high labour rates and those like China, India with a lower standard of living and low labour rates all have an economy driven by the manufacturing sector not the service industries. So success is not related purely to the cheap cost of labour as is often claimed.

Australia's trade balance is strongly negative in manufactured goods despite our resource rich nation and cheap energy and stable government. We continue to trade in deficit, commonly an average balance of minus \$1.5Bn per month from 2002 till now. This deficit is escalating our private debt to an all time high of 60% of GDP, approximately double the USA debt when expressed in these terms. The Americans are already concerned as their CAD reaches 6% the same as ours. How long can this go on before the world judges us harshly or the resources boom can no longer allow the Australian dollar to defy gravity.

A continuous escalation of private debt means more and more of the control of our assets moves overseas. Economists tell us this does not matter and the current Federal Government sweeps the debt problem under the carpet.

There is only one solution. Create an environment where all the creative talents of the nation can be demonstrated. Hence we need a viable manufacturing industry urgently. If anyone doubts the power of manufacturing capability and its continuous development then simply look at the way Toyota and Honda have demolished Ford Chrysler and GM in the American companies own markets.

The problem is serious, Governments must become involved.

So where should we direct our efforts?

- Manufacture and add value to those raw materials where we have a natural advantage consistent with environmental considerations, our position in the world, and renewable resources where possible, for example, wool, aluminium, magnesium. (aerospace, transport, auto components)
- Concentrate on aligning our existing competitive advantages with an upgrade in our skill base and education in those areas (continuous education in areas where we can develop strategic advantages).
- Align our prodigious medical and scientific talent to produce medical and health related devices to service the world since such high value devices do not suffer significant penalties due to isolation. (Resmed, Cochlear).
- Enter the global supply chains in areas where we currently have demonstrated capabilities.(ANCA and Bishop Technology).
- Use our insular financial institutions to support more creative ideas like the use of photo-voltaics and the Mills Solar system so that these opportunities are fully exploited here and then export to the world.(UNSW photovoltaics and Suntec)
- Concentrate on areas which use high value materials and require a sophisticated and capital investment with lower labour input.
- Encourage innovation and R&D at the SME level since it is these industries that are the real power house of the future, and ensure that the capital investment to exploit them is supported in Australia.
- Use our CSIRO and Universities where possible in conjunction with CRC's modeled along Japanese lines and target commercial innovation in areas where we have a natural advantage and not try to be all things to all men and spread our efforts too thinly as we currently do.