BOOM OR GLOOM

ASSESSMENTS ABOUT THE FUTURE OF AUSTRALIAN MANUFACTURING RANGE FROM PESSIMISTIC TO UPBEAT.

STORY: NIC BARNARD

Is the glass of Australian manufacturing half-empty or half-full? That is the question MPs must be pondering as they consider the future of the sector as it enjoys—or suffers—an unprecedented resources boom.

Perhaps the question should be rephrased. To judge from the views of industry players, government agencies and departments, advisory bodies and trade unions, 'half-full' would be a good result. Even the most upbeat submissions to a parliamentary inquiry into manufacturing accept that the sector faces "substantial challenges".

The most pessimistic put Australian manufacture "in crisis, facing long-term decline" (Australian Manufacturing Workers' Union) or in a brave new world where most firms are "permanently vulnerable" (Industry Capability Network).

But others see opportunities among the threats—or "challenges" as the inquiry's terms of reference euphemistically puts it. The Australian Chamber of Commerce and Industry argues that global trends have forced exporters to become more outward-looking and ambitious, "with views of larger and more lucrative markets".

An upbeat Austrade assessment backs that up, saying a significant proportion of new Australian manufacturing businesses are "born global"—that is, they export almost from day one.

So where does the truth lie? And where lies the road ahead?

The House of Representatives Economics Committee was asked by Treasurer Peter Costello in May this year to conduct an inquiry into the state and future directions of Australia's manufactured export and import competing base. Hearings began in late August.

The investigation focuses on Australia's dominance in commodities and the impact this will have on the economy when the current resources boom ends (as it surely will); the opportunities and challenges posed by the expansion in global trade in general and the Chinese economy in particular; and the ways the nation might realise those opportunities.

The message coming through is that globalisation is here to stay and Australian firms had better get used to it; and that if manufacturing is going to survive, it will be by finding niche markets or by firms working their way into indispensable roles as suppliers to multinationals.

Above all, it will mean moving up the 'value chain'—producing low volume, high value goods, where Australian business can compete on terms other than (just) cost. And it will require a major step forward in

Photos: AAP and Newspix

the amount of research and development it carries out. Indeed, one option would be to try to turn the nation into an R&D hub.

It might come as a surprise to learn that manufacturing is growing in Australia—in cash terms at least, according to the ACCI. That masks, however, a long-term decline as a contributor to the nation's wealth, from 20 per cent of GDP in 1979-80 to just over 12 per cent today—lower than in the US, UK or New Zealand.

The sector remains huge. According to the Treasury, manufactured exports were worth around $37 billion last year. But that amounts to only four per cent of GDP. And, as the AMWU is quick to point out, employment in the sector is in freefall—95,000 jobs gone since 1996, with the rate accelerating in the past two years.

"The equivalent of 308 jobs [are] being lost each and every week," the union says. Meanwhile, a report by employers' body the Australian Industry Group, quoted by the ACTU, says 10 per cent of production is expected to move offshore in the next three years.

The manufacturing union lays the blame squarely at the door of the Howard government, for presiding over poor trade performance that has seen imports reach four times the level of exports. "Australia is in danger of having its manufacturing sector hollowed out," the union says, predicting further job losses of up to 200,000.

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But it also says manufacturers have failed the test when it comes to increasing or even maintaining investment in R&D. The union says it has fallen over a decade from 0.47 per cent of GDP to 0.39 per cent.

As part of a $1 billion package to boost manufacturing, the AMWU calls for a tax concession of 150 per cent, rising to 175 per cent if businesses invest more than two per cent of sales and draw up a business plan that sets down milestones for improving their R&D capacity.

The union is not alone in calling for greater tax concessions for R&D. The ACCI—despite a political analysis of the manufacturing sector almost completely opposite to the union's—makes the same call for a 150 per cent concession rate.

But beyond tax breaks, how do you encourage greater investment in R&D? The AMWU says the government should try to attract large global players to set up R&D centres in Australia. And in late August, the committee heard from one major firm doing exactly that.

Ford Australia told the inquiry it was investing $1.8 billion over the coming decade on making Australia an engineering and design "centre of excellence" for the Asia Pacific and African regions. Russell Scoular, Ford's government affairs manager, told MPs it would be "one of the largest automotive R&D export initiatives undertaken in Australia".

The investment will see a new commercial vehicle designed and tested in Australia. Mr Scoular told MPs it was that kind of role that would ensure the long-term future of the firm within the multinational.

"If we are the lead designer, the lead engineer of an important vehicle that is sold in many markets around the world, they need us," he said.

Ford Australia are probably well advised to carve out that indispensable role. Mr Scoular's analysis of the sector was that it faced—that phrase again—"significant challenges", in particular from China's entry into automobile manufacturing.

But the message from government to manufacturers is that—to some degree—they are on their own if they fail to meet the challenges of the new global competitive environment. A submission from the Treasury makes clear that struggling industries cannot expect Canberra to bail them out.

"The government can more effectively help the economy achieve its productive potential by allowing the market to operate unimpeded and allow resources to flow to their most efficient use," the Treasury paper says.

It points to economic studies which suggest that "structural adjustment support works best if it is targeted to the welfare of individuals rather than the protection of jobs or industries". Expect training packages and relocation assistance to help individuals move into new employment, rather than hand-outs to industry.

Bail-outs might not be possible under Australia's various free trade agreements anyway, the Treasury notes.

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> "Structural adjustment support works best if it is targeted to the welfare of individuals rather than the protection of jobs or industries."

That is a point likely to infuriate some sectors of manufacturing.

One submission in particular, from the Australian Steel Institute, complains that Australian manufacturers are denied a level playing field when it comes to competing with the likes of China. All steel producers want, the ASI says, is a "fair go".

The institute, which represents the steel sector, says it supports fair and open markets, but says even without tariffs the Chinese economy operates with massive advantages, including lower environmental responsibilities and greater government support.

Even where Australian steel producers have set up joint ventures in China, they cannot export there because of the unfair advantages Chinese producers enjoy. Meanwhile, our own automobile industry only sources 30 per cent of its steel at home.

"There is … a concern that China and neighbouring countries will develop a monopoly situation in the region in the manufacture of steel and steel-based manufactured goods and when the infrastructure and skills have disappeared from Australia we will be in an uanenviable position," the institute says.

The Australian Chamber of Commerce and Industry's response to free trade agreements is to call for reduced regulation and tax reforms to offset the impact of scrapping tariffs. It also implicitly criticises the lax policing of intellectual property rights in some south-east Asian nations.

Intellectual property rights become even more important if Australian firms move to higher-value products. That brings us back to R&D.

Some startling figures from RMIT reveal how far Australia lags behind in product development. The university quotes a 2003 survey by Innovation in Australian Business which found that only 1.5 per cent of businesses were producing goods or services "new to the world".

"Manufacturers are denied a level playing field when competing with the likes of China". Photos: AAP

Only 17 per cent were producing items that were new or significantly improved. And even they were spending only 8.5 per cent of their investment capital on innovation or design.

More importantly, small and medium-sized enterprises dominate Australian industry but find it hardest to access support in design and R&D. While the Australian government can be praised for its support for R&D via the country's co-operative research centres (CRCs), these tend to be accessed only by large companies, which generally have their own in-house R&D operations anyway.

The university's submission is a plug for its own "design hub" which it is setting up, but it argues it could act as a model for R&D support across the country.

Katrina Woodland, research analyst in policy and planning at RMIT told MPs the hub would produce high-value and commercially viable products and services. Such products would allow industry to compete on functional, environmental, social and cultural benefit, not just on cost.

"The notion of this hub is really to pool our broad range of expertise," she told MPs. "We are really looking at … providing physical resources as well as intellectual and academic expertise to help small to medium enterprises.

"We are still in the planning phase of that initiative, but we hope it will provide opportunities for these SMEs to come up with new products, to improve their design capability, which [is] a key driver of innovations."

The University of South Australia told MPs it too was planning a new centre to support and work with industry, specialising particularly in "modern nanofabrication and manufacturing techniques"—technology that could lead to a "paradigm shift" in manufacturing methods and processes.

Uni SA argues that Australia's niche could prove to be what it calls "advanced manufacturing". The country could lead the way in improving processes, investing in new technology and developing the knowledge-based skills that underpin industry by improving productivity, overcoming skills shortages and promoting sustainability.

Support for more spending on R&D comes from the Australian Academy of Technological Sciences and Engineering, which notes that Australia spends just half the OECD average on research and development. To do that, the academy argues, Australia needs more scientists, and it needs to take advantage of the resources boom to start producing them now.

Peter Laver, the academy's vice president, told MPs while Australian primary school teachers struggled to explain gravity or electricity to their pupils, Taiwanese primary pupils were already learning about nanotechnology.

"We really do need to get at these fundamentals while the resources boom is on," he said. Bringing on the right skills could take a decade. Student numbers in science and engineering were static except in a few "peculiar" areas. ("I think we will have more forensic scientists than the country could use in 2,000 years, because people watch television," Laver noted wryly. "Unfortunately, they are not a lot of help.")

Training needs are not limited to scientists and designers, other contributors note. The Australian Council of Trade Unions, among others, told MPs there is a real need for better training and support for business management.

The ACTU argues that small and medium sized businesses in particular need help getting into global markets and moving up the value chain.

Most SMEs are family-owned, the union notes, and fewer than 10 per cent of them export. "Yet many have the products and capability to export and some have the intellectual property (IP) to develop a global business with an Australian base," the ACTU notes.

Australia's ageing population means many of these firms will see a new generation taking over in the next decade or so. "This represents a very significant opportunity to refocus the business to use its capabilities and IP to focus on winning international business opportunities," the union says. In other words it's not (just) R&D support they need. Some just need to learn how to exploit what they already do.

The union proposes the creation of a body similar to the Manufacturing Advisory Service established by the UK government in 2002. It offers help lines, free diagnostic visits, and up to 10 days in-depth consultancy. It also runs training, workshops and other support.

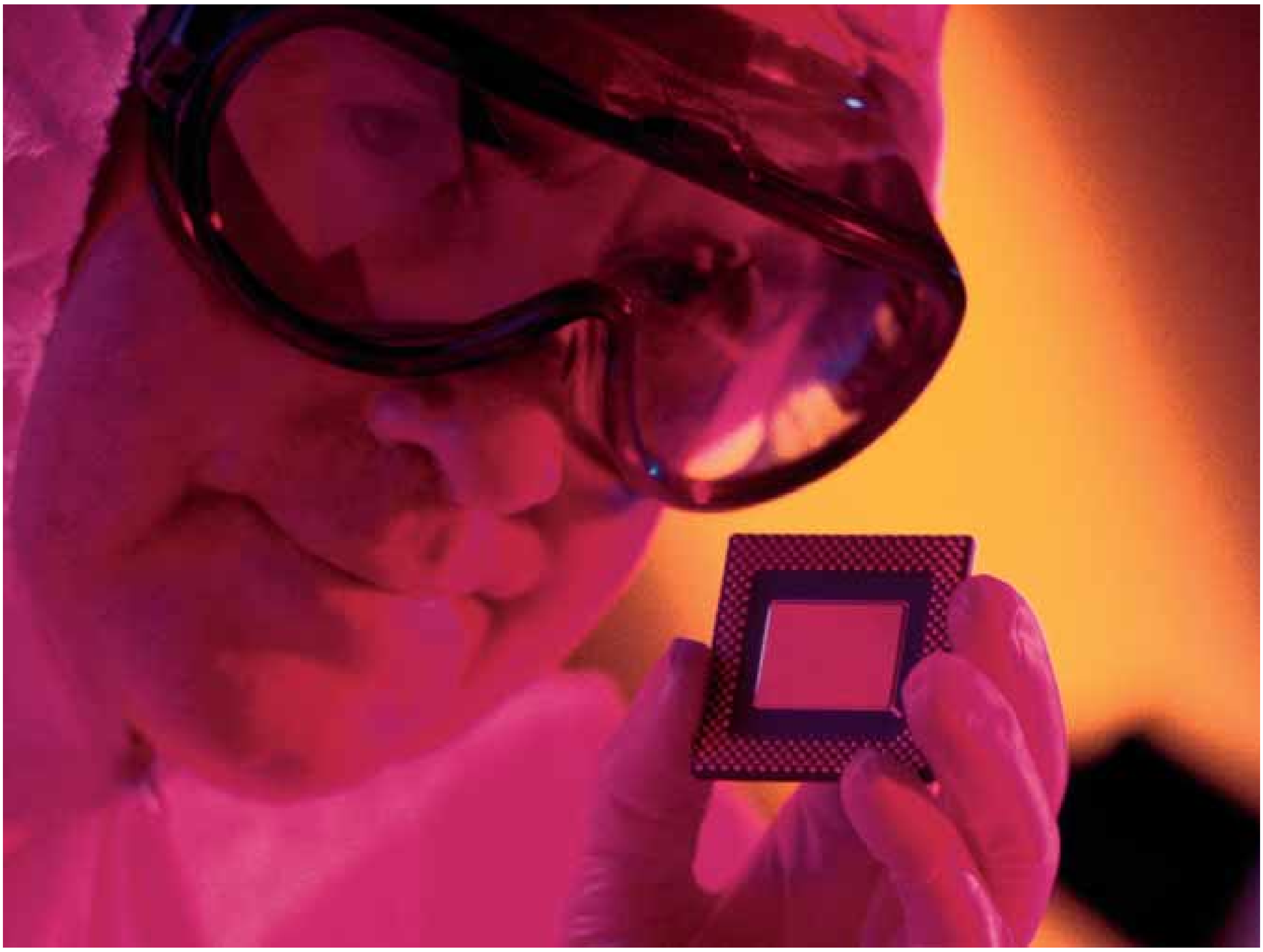
Queensland's QMI Solutions service, set up in 1993 to support small and medium enterprises, could form the model for a national Australian network funded by the states and Commonwealth, the ACTU says.

"This is a unique opportunity to encourage, where appropriate, those SMEs with the capability and/or intellectual property to export and establish global businesses anchored in Australia," the ACTU concludes.

"Doing this well could really make a difference in moving Australian manufacturing beyond 'business as usual'."

Maybe the glass is really half-full after all. ■

For more information on the House Economics Committee's investigation of manufacturing beyond the resources boom, visit www.aph.gov.au/house/committee/efpa or email efpa.reps@aph.gov.au or phone (02) 6277 4587.



One option would be to try and turn the nation into an R&D hub. Photo: AAP