

  
**Dr Shumi Akhtar**  


**To: Senator Anthony Chisholm (Chair)**

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**RE: Submission to the Joint Standing Committee on the Australian Manufacturing Industry**

I, Shumi Akhtar (Associate Professor at the University of Sydney Business School), would like to express my gratitude to the Senate Committee for the opportunity to make this submission on the Australian Manufacturing Industry. I would like to extend my thanks to Senator Chisholm of this Inquiry for opening an inquiry into the current state of the manufacturing sector in Australia, which has been laid bare by the ongoing COVID-19 pandemic.


The arguments and recommendations presented in this document are entirely mine and are not representative of that of the University of Sydney. Based on my research at the University of Sydney, my submission will address the following terms of references below:





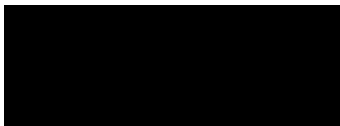
- a. what manufacturing capacities Australia requires for economic growth, national resilience, rising living standards for all Australians and security in our region;*
- b. the role that the Australian manufacturing industry has played, is playing and will play in the future;*
- c. the drivers of growth in manufacturing in Australia and around the world;*
- d. the strengths of Australia's existing manufacturing industry and opportunities for its development and expansion;*
- e. the sectors in which Australian manufacturers enjoy a natural advantage in energy, access to primary resources and skilled workers over international competitors, and how to capitalise on those advantages;*
- f. identifying new areas in which the Australian manufacturing industry can establish itself as a global leader;*
- g. the role that government can play in assisting our domestic manufacturing industry, with specific regard to:*
  - i. research and development;*
  - ii. attracting investment;*
  - iii. supply chain support;*
  - iv. government procurement;*
  - v. trade policy;*
  - vi. skills and training; and*
- h. the opportunity for reliable, cheap, renewable energy to keep Australia's manufactured exports competitive in a carbon-constrained global economy and the role that our manufacturing industry can play in delivering the reliable, cheap, renewable energy that is needed.*

In a previous submission made to the Senate Joint Committee on the Hearing on Trade and Diversification on Sep 30, 2020, I have previously provided a very clear recommendation that we need to be self-sufficient and avoid being over-reliant on any one major trading partner:

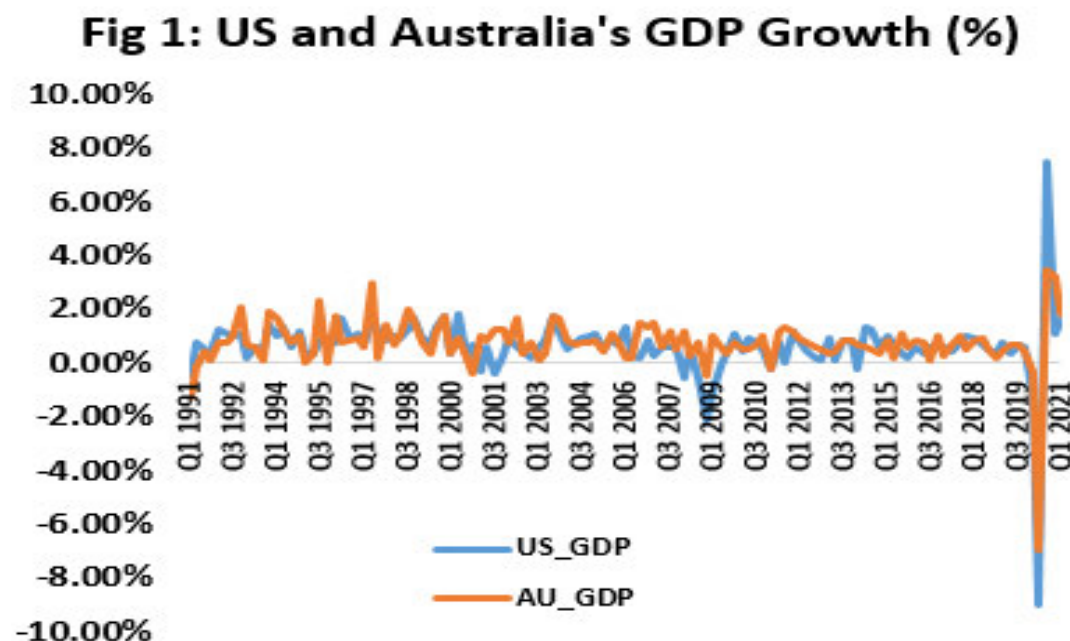


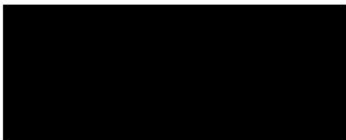
*“Almost every aspect of Australia’s existence is heavily dependent on China – ranging from education, agriculture, real estate, retail and the commodities sector to immigration. Overreliance on one, or even a few countries, is not only dangerous but is nothing short of a catastrophe waiting to happen. COVID-19 has provided us with a great opportunity to reset and redeem the nation from some of our most poorly thought out decisions and regulatory frameworks put in place by past governments, policymakers and regulators.”*

Fast forward to 2021 and as predicted, Australia remains at the heart of an increasingly toxic relationship with China with no signs of improvement in the near future. This experience should serve as an example of why Australia should make its own decisions based on its own needs and focus on diversifying its trade partners. The dynamics of every sovereign country invariably goes through stages of transition and reformation, some of which may not necessarily align with Australia’s interests. The drivers of macro and micro transitions and transformation of an economy are mainly led by the government of the day; this is no different in Australia. Various Australian governments over the years have also made some poor decisions which are now coming back to haunt us, and it is imperative that we take action before it is too late. In particular, it is critical that we lay the foundations for a strong and independent domestic manufacturing sector, having regard to the rapid growth of some of our South-East Asian neighbours. The next few decades will be led by the rising stars of Asian economic powerhouses and in order to remain competitive internationally and prevent us from being exposed to future pandemics, now is the time to plan and put strategies in place to build our nation, particularly our manufacturing sector. COVID-19 provided us with a natural experiment that exposed our reliance on other nations to provide us with medical supplies, as well as an opportunity to assess our true allies and partners.

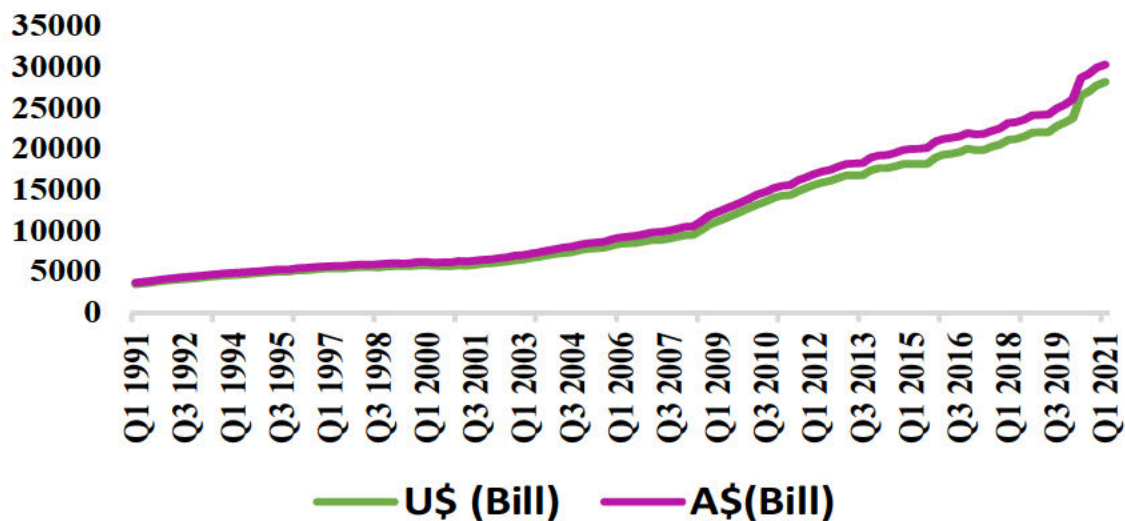


One major balancing act that all governments need to grapple with is balancing government tax revenue collection and the growing need to fund expenditure for pensions, infrastructure development, better education, better healthcare system and advancing our economy and employment in innovative and technology and manufacturing sectors. Fig 1 shows that the GDP growth (a proxy for economic growth) for both countries is alarmingly volatile – meaning the economy is in the same state as it was a decade ago during the 2008 Global Financial Crisis. Australia is compared to the USA and both countries' economic situation has worsened due to increased unemployment, trade wars with China (Akhtar 2020) and skyrocketing government debt (Fig 2) to finance the social security and pension sector. Urgent action and sustainable measures are needed to revive these two economies by designing an equitable and growth-oriented tax policy driven by Australian Manufacturing Sector.





**Fig 2: Government Debt (\$Billions)**



The consideration of MNCs is necessary in the modelling of tax strategies because MNCs are a key player influencing government tax revenue generation. E.g. the G7 countries recent resolve to introduce global minimum tax for MNCs (Akhtar 2021) underpins a long-standing problem of MNCs engaging in tax evasion/aggressive tax avoidance (e.g., World Economic Forum 2015). However, given MNCs also hold a significant amount of wealth and they operate in more than one location, their risk and return profile is significantly different than their domestic counterparts (Akhtar 2005; 2008; 2015a,b; 2018 and Akhtar et al. 2019; Akhtar 2019) and have the capability and capacity to promote more foreign direct investment (FDI), increase trade, improve research and development (R&D) and drive innovation, there must be an equitable balance struck in designing well-functioning and level playing field of tax strategy that promotes MNCs operation in the manufacturing sectors and helping government to be better off. This is highly critical as we must consider who will pay for all these astronomical



government debt (Akhtar 2020) if we do not focus on Australian tax system in the manufacturing sector now.

Advanced manufacturing accounts for half of Australia's manufacturing output and is one of the fastest growing export sectors. The output of Australian manufacturing is estimated to reach AUD\$131 billion by 2026, with advanced manufacturing potentially outgrowing the domestic sector by approximately \$30 billion over the next 5 years<sup>1</sup>. Small and medium size enterprises as well as large multinational corporations will play a vital role in the establishment of new manufacturing capacity and increasing manufacturing capabilities. Multinationals will be at the forefront of driving the manufacturing sector's advancement in technology, innovation and capital needs.

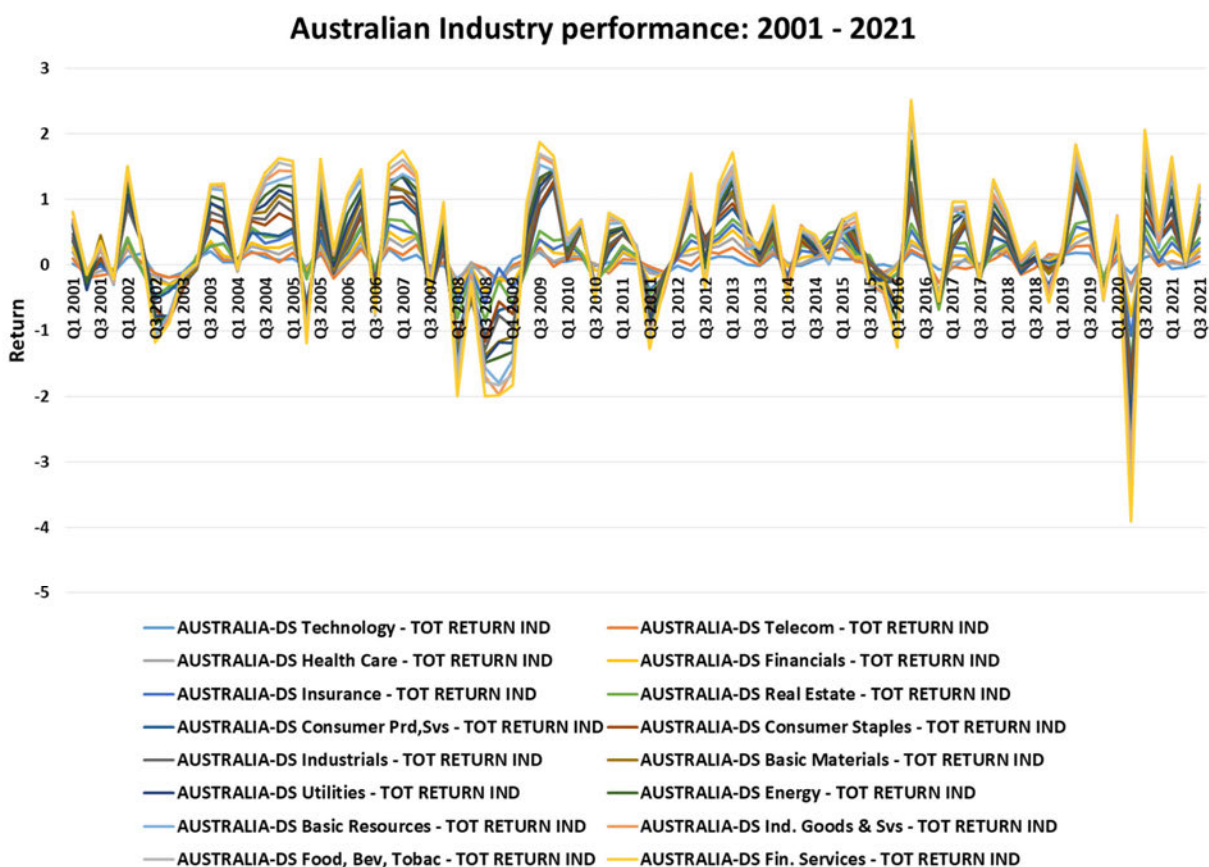
Australia is blessed with abundant raw materials and ingredients to engage in sustainable investment and infrastructure growth. Having a high-capability manufacturing set up in Australia will reduce our dependence on foreign imports and allow us to produce high quality goods and services in our own country, mitigating the impact from any supply chain disruptions. Figure 3 shows the financial performance of Australian industries over the last two decades. The common denominator across all industries is that the index performance is highly volatile, which is highly concerning. The downward/negative performance during significant crisis periods such as the dot.com crisis (2001-2002), Global Financial Crisis (2007-2009) and recent COVID-19 pandemic (2020-2021) can be explained, but the fact remains that the

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<sup>1</sup> <https://www.sydney.edu.au/news-opinion/news/2020/12/16/sydney-university-and-general-electric-to-drive-australian-manuf.html>

sluggish returns for the remaining periods signal that new trade and investment policies are required to kick-start growth.

Figure 3



There are many things our government could be doing better to encourage the flow of investment and capital into our domestic manufacturing sector. For example, our \$3 trillion-dollar superannuation fund industry should be given mandates to invest in the industry. The Australian government should also look towards providing competitive or cost-effective capital





to entrepreneurs and existing manufacturing companies to bolster their production. Further tax incentives and subsidies to encourage sector investment in capital expenditure should be provided as well as to attract local and foreign investment as well as human capital into the sector. Our government should encourage upskilling of domestic workers through educational institutions and allocate funding to further research in the manufacturing sector to ensure our research and development remains competitive globally. Our trade policy on bilateral and free trade agreements require revision so that our local manufacturers are able to access new markets.

Advancements in the quantum economy and quantum economics can help drive innovation and the sustainable development of socially responsible investments in the manufacturing sector. For example, there has been much development in cost effective and environmentally friendly renewable energy (e.g. Thorium Molten Salt or Thorium pebble type have high density energy power), but Australia has not invested heavily in these sorts of innovative start-ups, which means we will continue to lag behind other countries until a change in policy is implemented. Compared to our competitors, Australia ranks last in terms of industrial manufacturing performance as depicted in Figure 4.



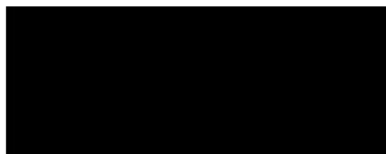
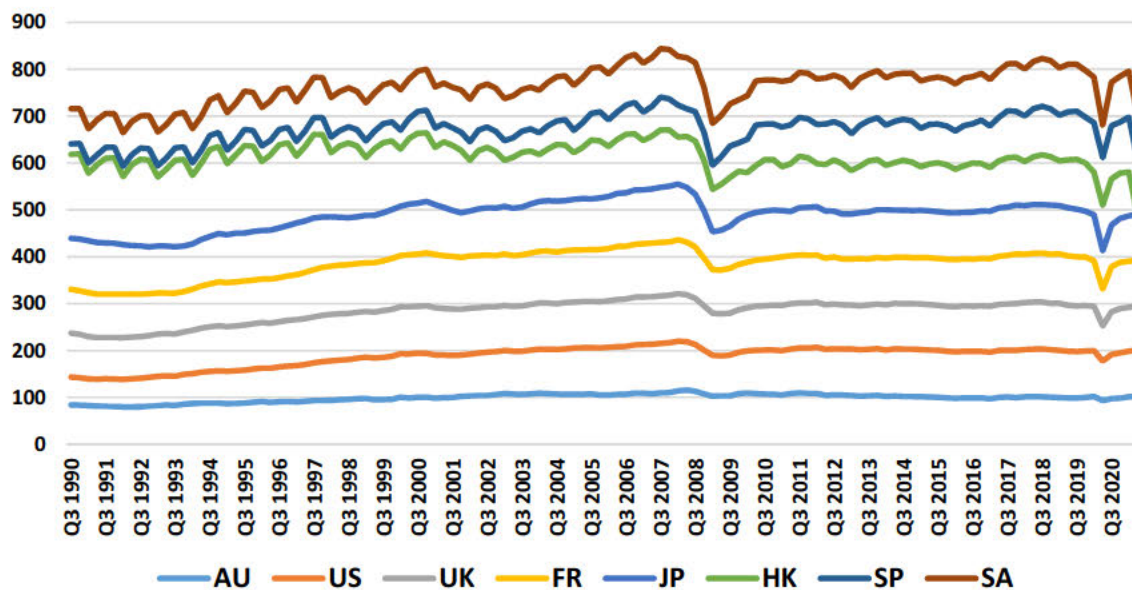


Figure 4

Australia's Industrial - Manufacturing Comparison to the rest of the world: 1990-2021



In conclusion, I would like to thank the Senate Standing Committee on Australian Manufacturing Growth for launching this inquiry for Australia, which will remain a highly critical issue to reviving our economy post COVID-19. I will be delighted to address/discuss further issues within trade and investment in the manufacturing sector's development if required by the Standing Committee.

Thank you.

Sincerely,

Shumi

Dr M. SHUMI AKHTAR

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## Bibliography/Reference

1. Akhtar, S. (2005). The Determinants of Capital Structure for Australian Multinational and Domestic Corporations. *Australian Journal of Management*, 30(2), 321-341.
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8. Akhtar, S. (2020). Australian Parliamentary Joint Committee (Senate and House) - Inquiry into Diversifying Australia's Trade and Investment: [https://www.aph.gov.au/Parliamentary Business/Committees/Joint/Joint Standing Committee on Trade and Investment Growth/DiversifyingTrade/Submissions](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Joint_Standing_Committee_on_Trade_and_Investment_Growth/DiversifyingTrade/Submissions)
9. Akhtar, S., [Who'll Pay for Global Recession?](#) *Economic Times (India)*, 16/04/2020.
10. Akhtar, S. (2021). Guardian Australia: Global agreement could force tech giants and other multinationals to pay Australia up to \$5.7bn in tax - A proposal from the G7 nations to introduce a global minimum corporate tax rate of 15 percent.



Other resources:

<https://www.ato.gov.au/Business/PAYG-withholding/In-detail/Investment-income-and-royalties-paid-to-foreign-residents/?page=5> [With holding tax rates]

<https://www.ato.gov.au/General/International-tax-agreements/In-detail/What-are-tax-treaties/>

<https://treasury.gov.au/tax-treaties/income-tax-treaties> {tax treaty countries]

[https://www.ato.gov.au/Business/Taxation-of-financial-arrangements-\(TOFA\)/](https://www.ato.gov.au/Business/Taxation-of-financial-arrangements-(TOFA)/)

Source of Data:

Graphs/Figures: Thomson Reuters, Eikon, SDC Platinum, Capital IQ, BvD, Morning Star, Worldscope, Bloomberg, DataStream, Refinitive, Trading Economics, OECD, ATO and World Bank