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## **OPEN LETTER**

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### **OPEN LETTER SUPPORTING A FUTURE MADE IN AUSTRALIA**

We are economists, political economists and policy specialists in related fields, writing to express our support for active measures to strengthen Australia's manufacturing capabilities and guide investment in critical infrastructure, as proposed by the Commonwealth government's *Future Made in Australia*.

Australia faces an historic imperative to strengthen and modernise its capacity to develop and produce a full range of technology-intensive, sustainable, globally marketable manufactured products. Australia's strategic weakness in manufacturing has been evident for many years and has become especially pressing because of stresses and risks in global supply chains (associated with global health, geopolitical and climate crises). There is an overarching need to accelerate the global energy transition, requiring massive inputs of high-value manufactured products for the generation, storage, transmission and use of renewable energy, and for the electrification of industry, transport, and buildings. Meanwhile, mounting climate impacts in Australia and globally confirm the urgent need for more investment in climate-resilient infrastructure in energy, transport, and water systems.

Recognition of the strategic value of manufacturing and government's essential role in directing investment and innovation has sparked an historic turn in economic policy around the world. In most industrial countries, outdated 'comparative advantage' theories of trade – implying that countries should specialize only in products predetermined by natural resource endowments – have been abandoned. There is new recognition that competitiveness can be created and shaped by proactive policy interventions that push both private and public actors to do more than market forces alone could attain.

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Historic policy shifts in the US (including the *Inflation Reduction Act* and the *CHIPS and Science Act*) are re-making national manufacturing there. Other countries (including the EU, Canada, Japan, and Korea) are implementing powerful measures to expand and modernise manufacturing, especially in sectors tied to the clean energy transformation. China's pro-active strategies, which have achieved global dominance in many supply chains related to the energy transformation, confirm the value of active policy in shaping sustainable manufacturing and infrastructure.

This historic redirection in policy has sparked predictable, knee-jerk responses from critics in Australia (such as the Productivity Commission), trying to defend outdated laissez-faire thinking. While these critics are re-hashing old debates about industry policy, other industrial countries are implementing the new vision of economic statecraft for a world that is changing rapidly. The focus of public debate should now be on how Australian workers and communities can benefit from this global transformation in energy, manufacturing, and infrastructure – and how powerful pro-active strategies can drive the process.

Australia faces a vital choice. Decades of policy neglect for manufacturing, combined with support (including subsidies) for mineral extraction and export, have left Australia with a distorted and unbalanced economy. Among all OECD countries, Australia has the smallest manufacturing base (relative to overall GDP and employment) and is most reliant on net imports of manufactures to meet its own growing needs for manufactured products. This exposes Australia to a wide range of economic, social, environmental and geopolitical risks. Meanwhile, powerful corporate interests keep pressing to extend and expand their 'extract and export' business model.

Australia's over-dependence on raw resource extraction and export undermines prospects for more sustainable, value-adding activities. It does so by diverting capital and labour resources; contributing to exchange rate overvaluation and instability; and distorting fiscal policy settings, regional balances and democratic processes.

If we continue on this path, Australia will miss an historic opportunity to rebuild a sophisticated, technology-intensive, and sustainable manufacturing capability – and participate fully in new global markets for clean energy and manufacturing. We would continue exporting raw minerals (including critical minerals like lithium) but we would squander

opportunities to add value to those minerals and develop a more diversified and sustainable industrial mix. We would remain on the losing side of lopsided trade relations: selling unprocessed resources to buy back more expensive value-added products (like transmission equipment, batteries, and electric vehicles). And our future prosperity would be jeopardised by failure to seize the economic and industrial opportunities of the global energy transition.

An alternative economic future for Australia can be created by rebuilding and modernizing sustainable manufacturing and infrastructure, linked to the energy and climate transition. This could create hundreds of thousands of well-paying industrial jobs, support regional economies, and contribute significantly to decarbonisation in Australia and globally.

For these reasons, we strongly support active strategies to modernise and strengthen Australia's manufacturing and renewable energy industries and infrastructure, with a particular focus on products related to the energy transformation. The *Future Made in Australia* proposals signal clear recognition of the strategic importance of manufacturing and open opportunities to develop and realise this mission. The recent Commonwealth budget makes a crucial down-payment on this strategy, with measures targeted at several key sectors, including renewable hydrogen, critical minerals processing, and battery and solar manufacturing.

Further steps towards a full national strategy should include place-based innovation clusters, massive investments in vocational and technical skills, support for other sustainable manufacturing activities (from green metals to wind power equipment to electric vehicles), the active use of public procurement to nurture domestic production, and other measures to support sustainability and a circular economy. This overarching effort to develop a sustainable manufacturing capability must operate in tandem with strong and consistent policies to reduce fossil fuel production, use and emissions over time. The strategy must also feature strong labour, environmental and social conditionalities to ensure that the revival of manufacturing strengthens workers' rights, Indigenous rights, women's participation and equality, and environmental protection. These conditionalities – in essence, 'sticks' to go along with 'carrots' – are essential to advance the public interest and ensure the benefits of a *Future Made in Australia* are broadly shared. Finally, the strategy should also

reach offshore to support just and socially responsive decarbonisation and climate-resilient trajectories for our Pacific neighbours.

Using the full suite of policy levers available to government, a *Future Made in Australia* strategy could rebuild a strong, sustainable manufacturing sector, with spill-over benefits spread throughout the economy and society. We strongly support this important shift in emphasis and vision because we firmly believe that sustainable manufacturing must play a vital and strategic role in Australia's economy. We look forward to contributing to the further development, expansion, and implementation of this strategy.

*This public letter was signed in May 2024 by 77 political economists and industry policy proponents in an attempt to counter knee-jerk criticisms that appeared in the media following the Federal Government's announcement of the Future Made in Australia initiative. For the full list of signatories, see: <https://www.ppesydney.net/open-letter-on-future-made-in-australia/>.*

### 2024 E.L. 'Ted' Wheelwright Lecture

The 2024 Wheelwright Lecture will be presented by Associate Professor Ntina Tzouvala (ANU), who will reflect on the global dollar system.

The event will take place on 12 September at the University of Sydney.

For updates on the 2024 Lecture, and more information on previous years' events, please visit: <http://www.ppesydney.net>.

