

THE WORLD HAS CHANGED: GEOPOLITICAL PRESSURES AND WHAT THEY MEAN FOR AUSTRALIAN MANUFACTURING

PRESENTATION TO THE NATIONAL MANUFACTURING WORKFORCE FORUM

STATE LIBRARY OF VICTORIA
MELBOURNE, 10TH JUNE 2026

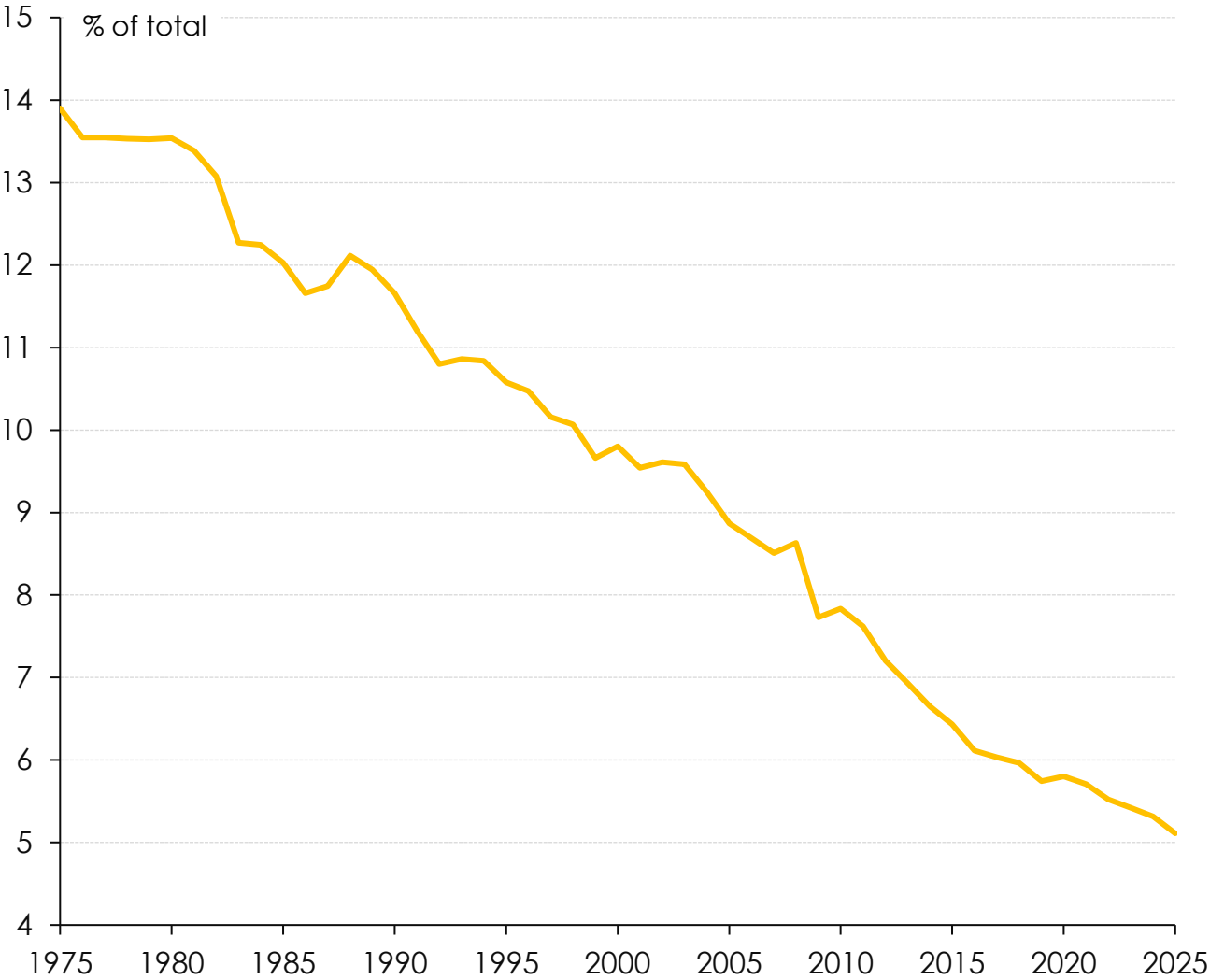
SAUL ESLAKE

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INDEPENDENT ECONOMICS

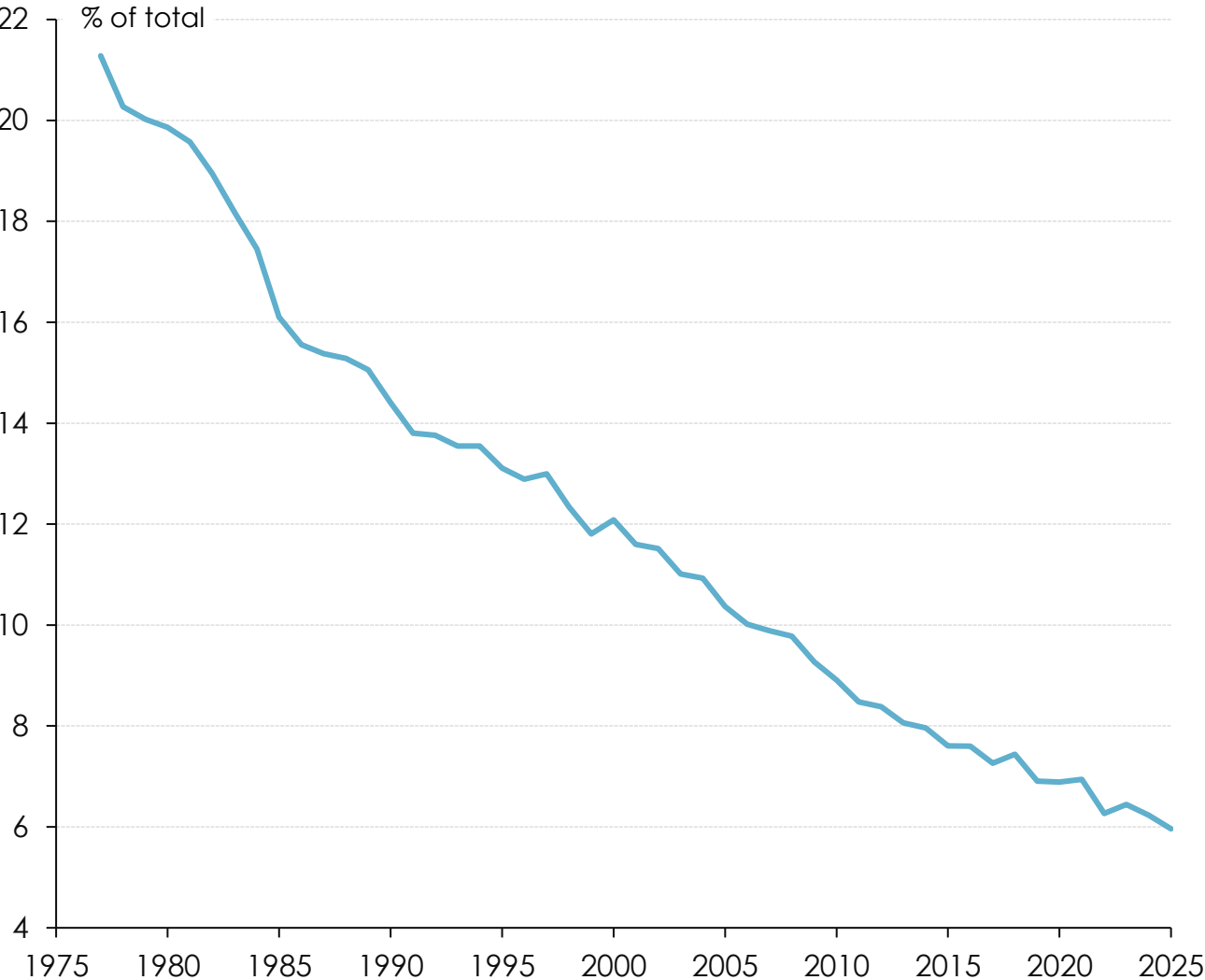
Manufacturing in Australia

Australian manufacturing has declined significantly as a share of both total output (GDP) and employment over the past five decades

Manufacturing share of GDP



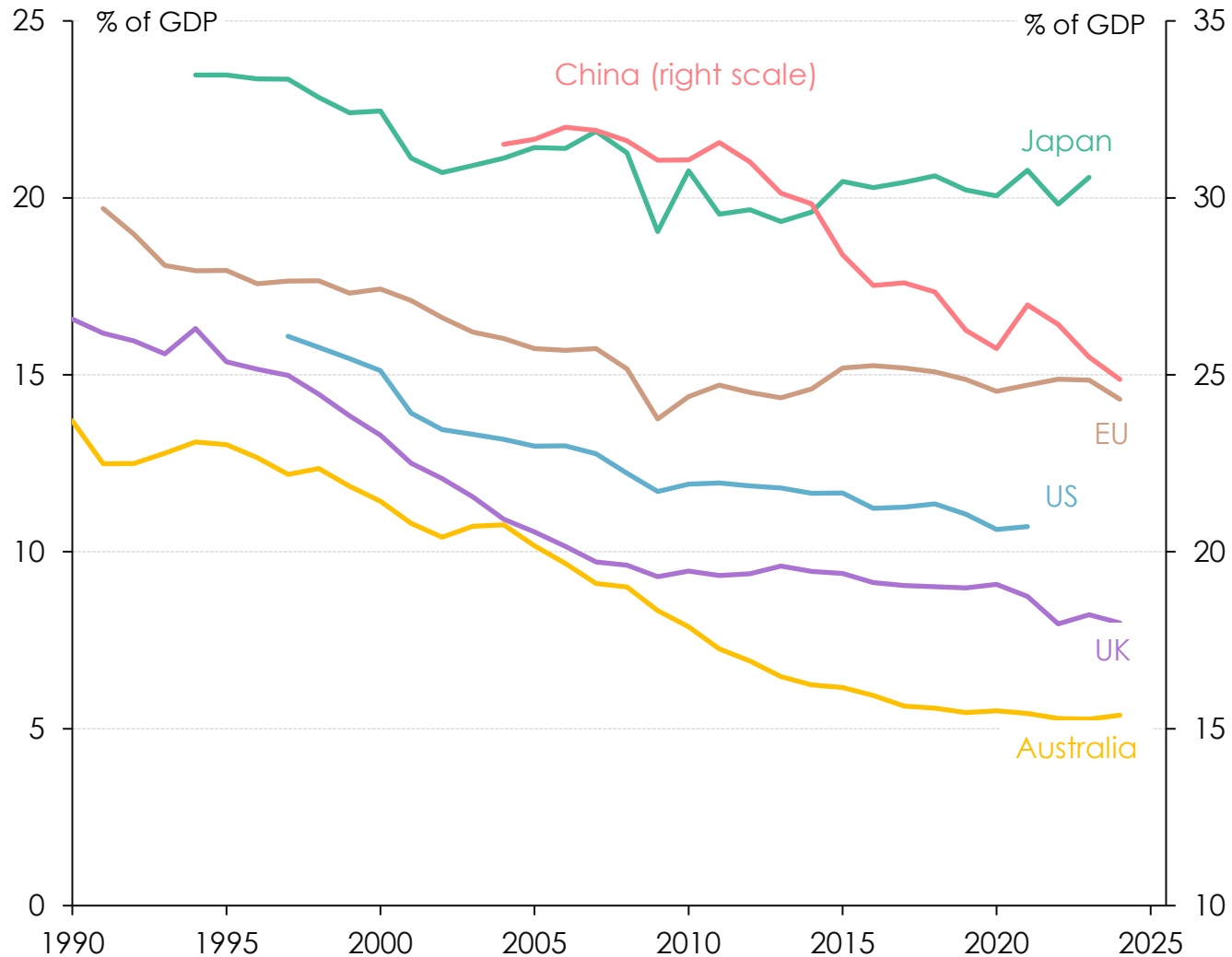
Manufacturing share of employment



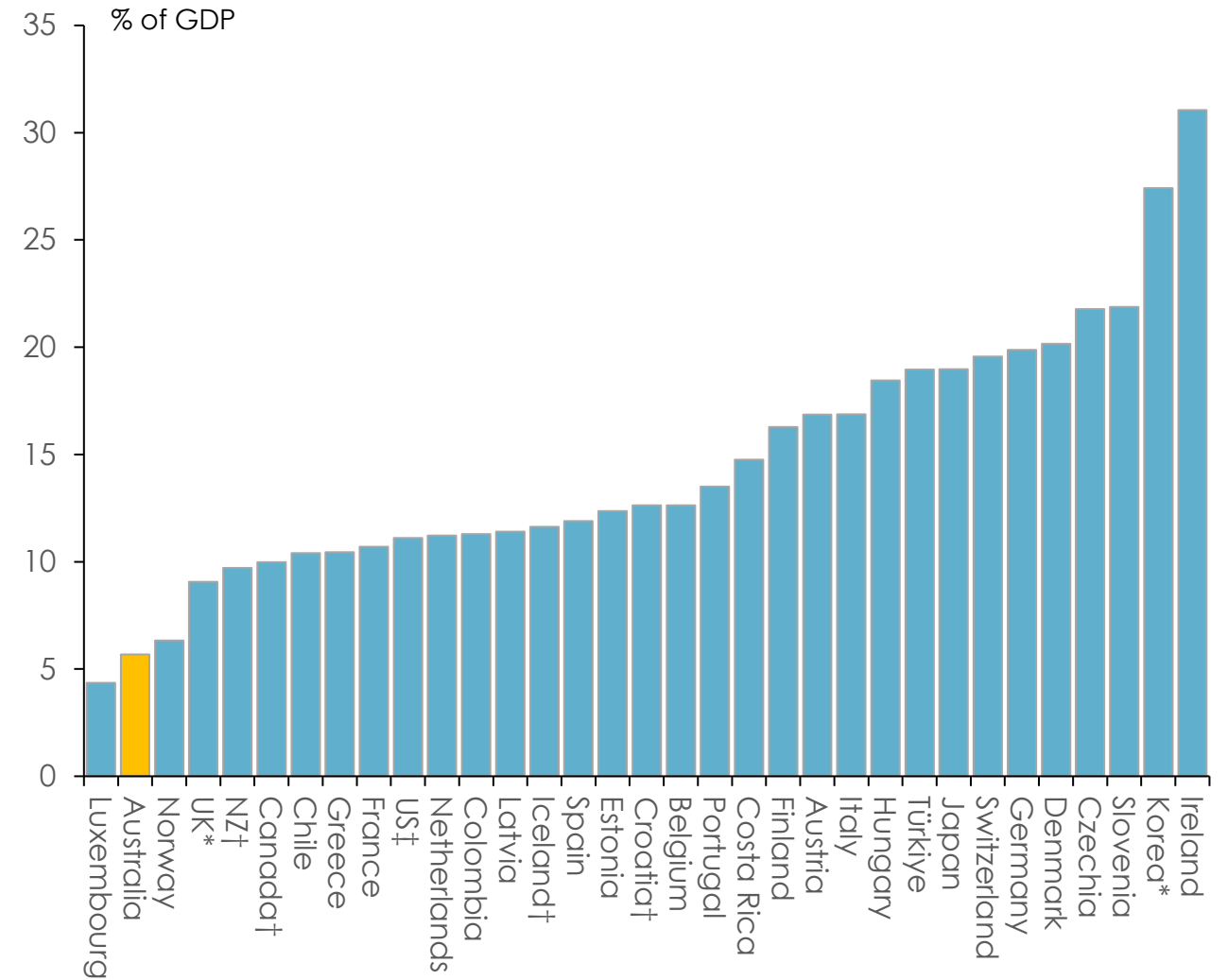
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2026; [Labour Force](#), April 2026.

A similar trend has occurred in almost every other developed (and some developing) economies – but it's been more pronounced in Australia

Manufacturing share of GDP – Australia and other selected economies, 1990 - 2024



Manufacturing share of GDP – Australia and other OECD economies, 2024

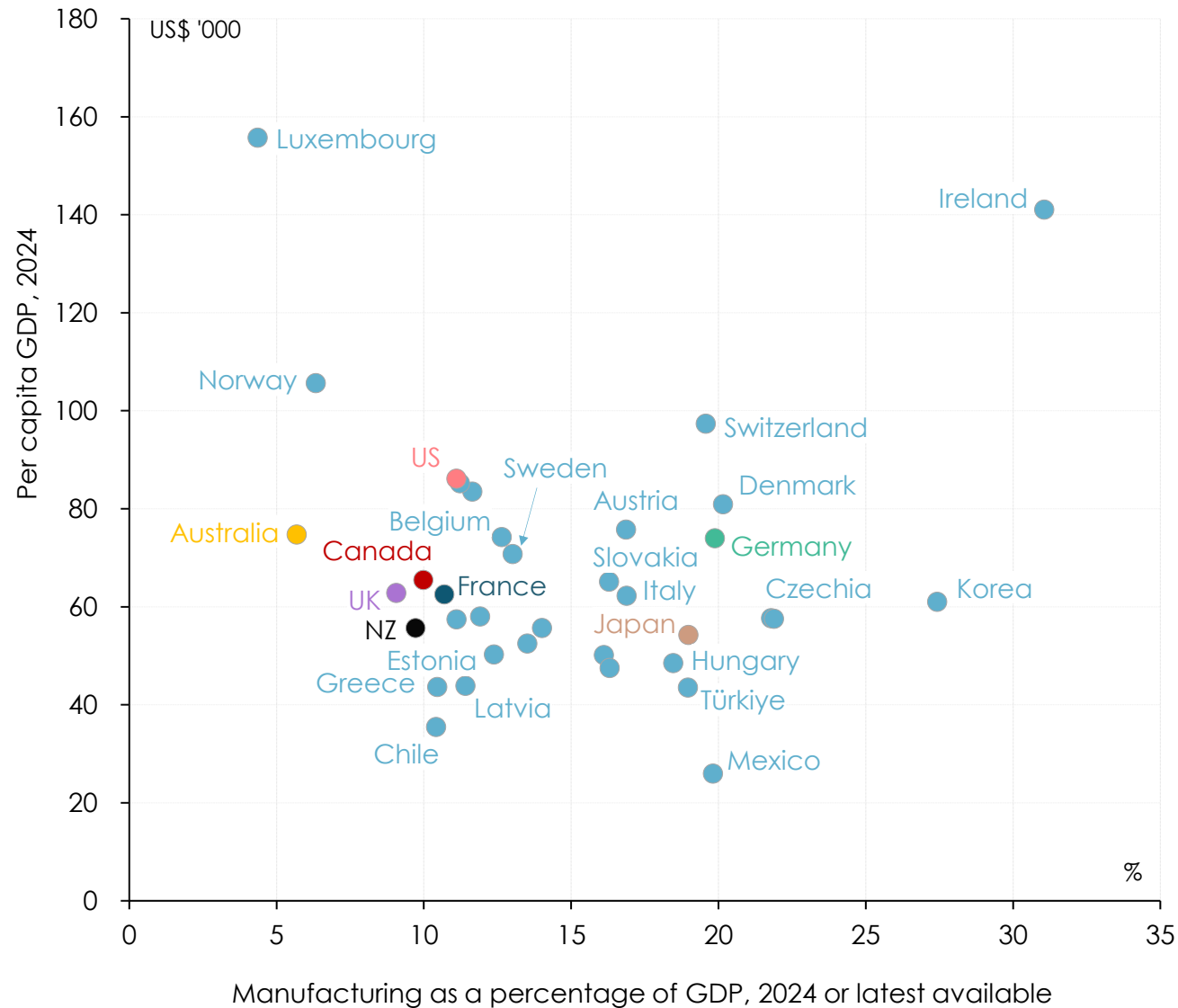


* 2023 † 2022 ‡ 2021

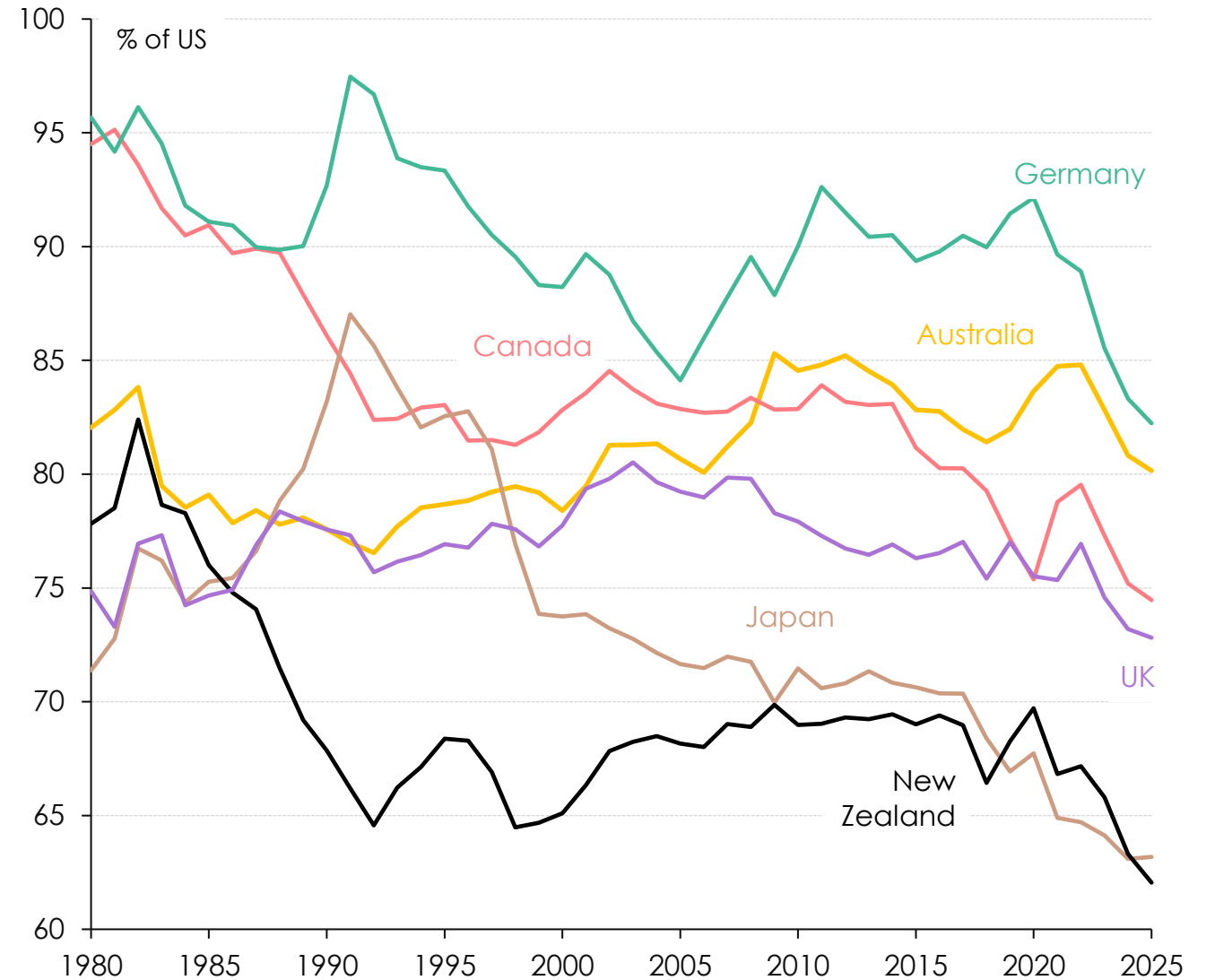
Sources: The World Bank, [World Development Indicators](#); Organization for Economic Co-operation and Development (OECD), [Data Explorer](#).

There's no correlation between the size of a nation's manufacturing sector as a share of GDP and its per capita income

Manufacturing share of GDP and per capita GDP



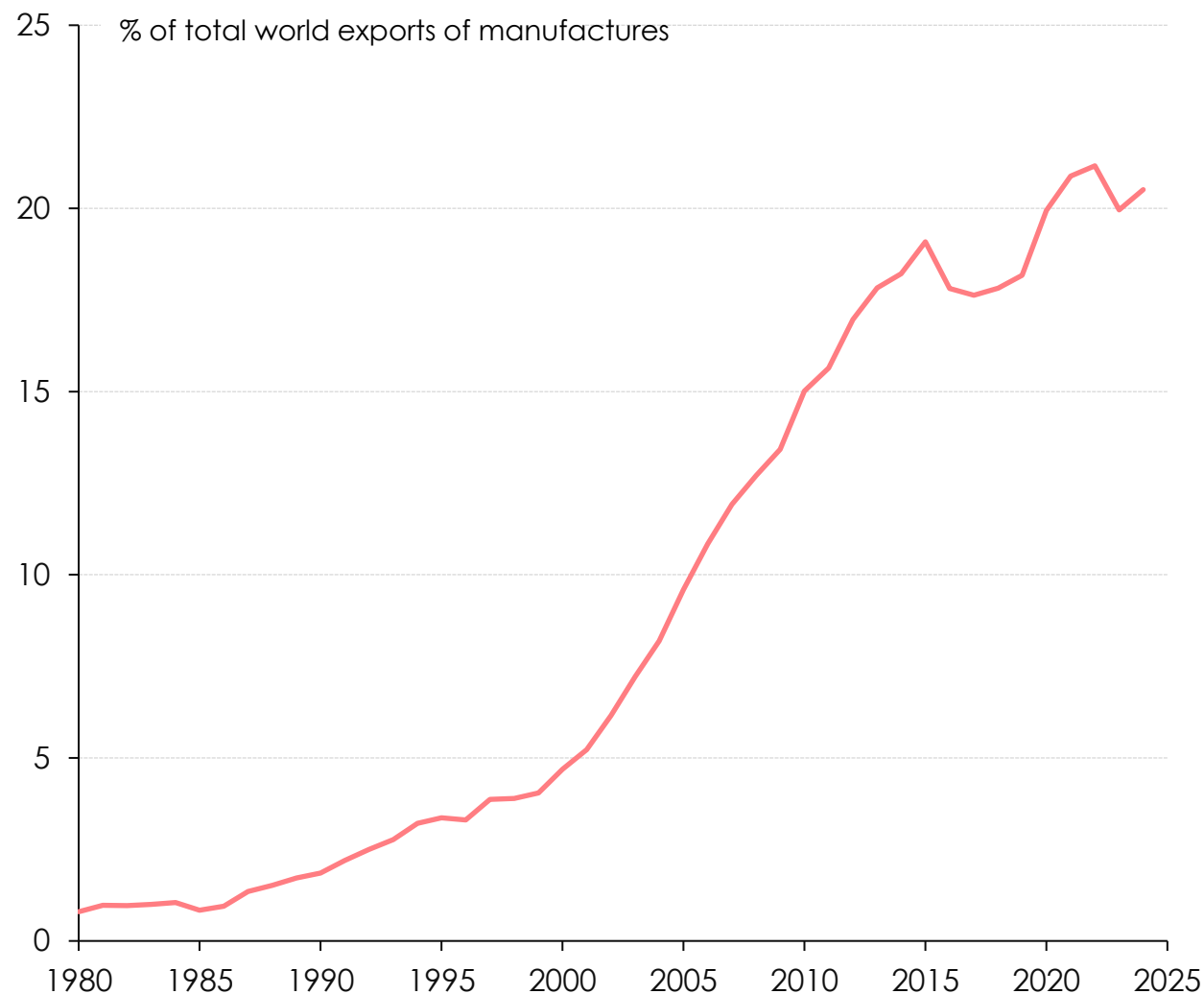
Per capita GDP as a pc of US levels



Note: Per capita GDP is in US dollars at purchasing power parities (PPPs). Sources: OECD, [Data Explorer](#); International Monetary Fund (IMF), [April 2026 WEO Entire Dataset](#).

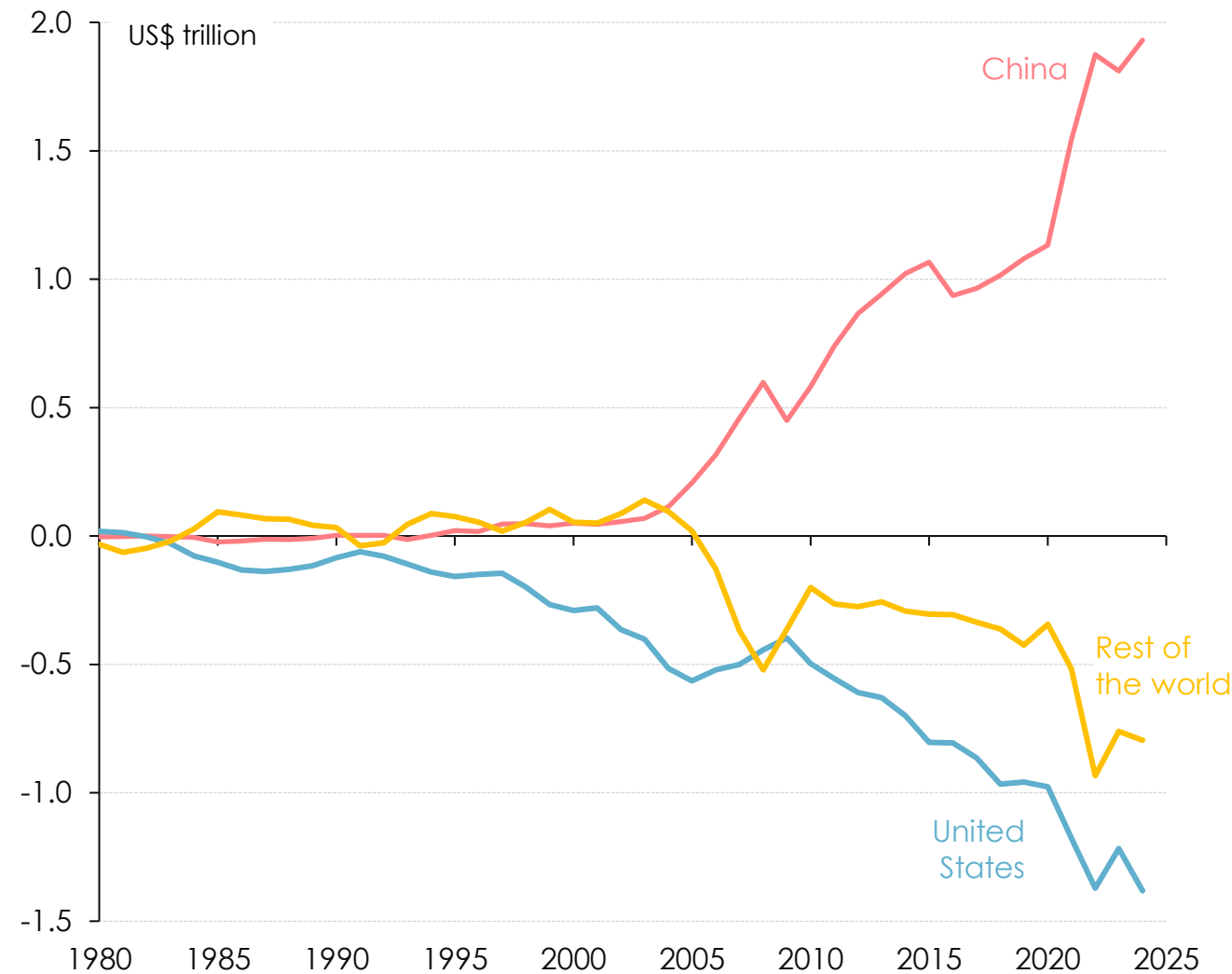
China's emergence as the world's largest manufacturing exporter is the single biggest reason for the decline in manufacturing in other countries

China's exports of manufactured goods as a percentage of the world total



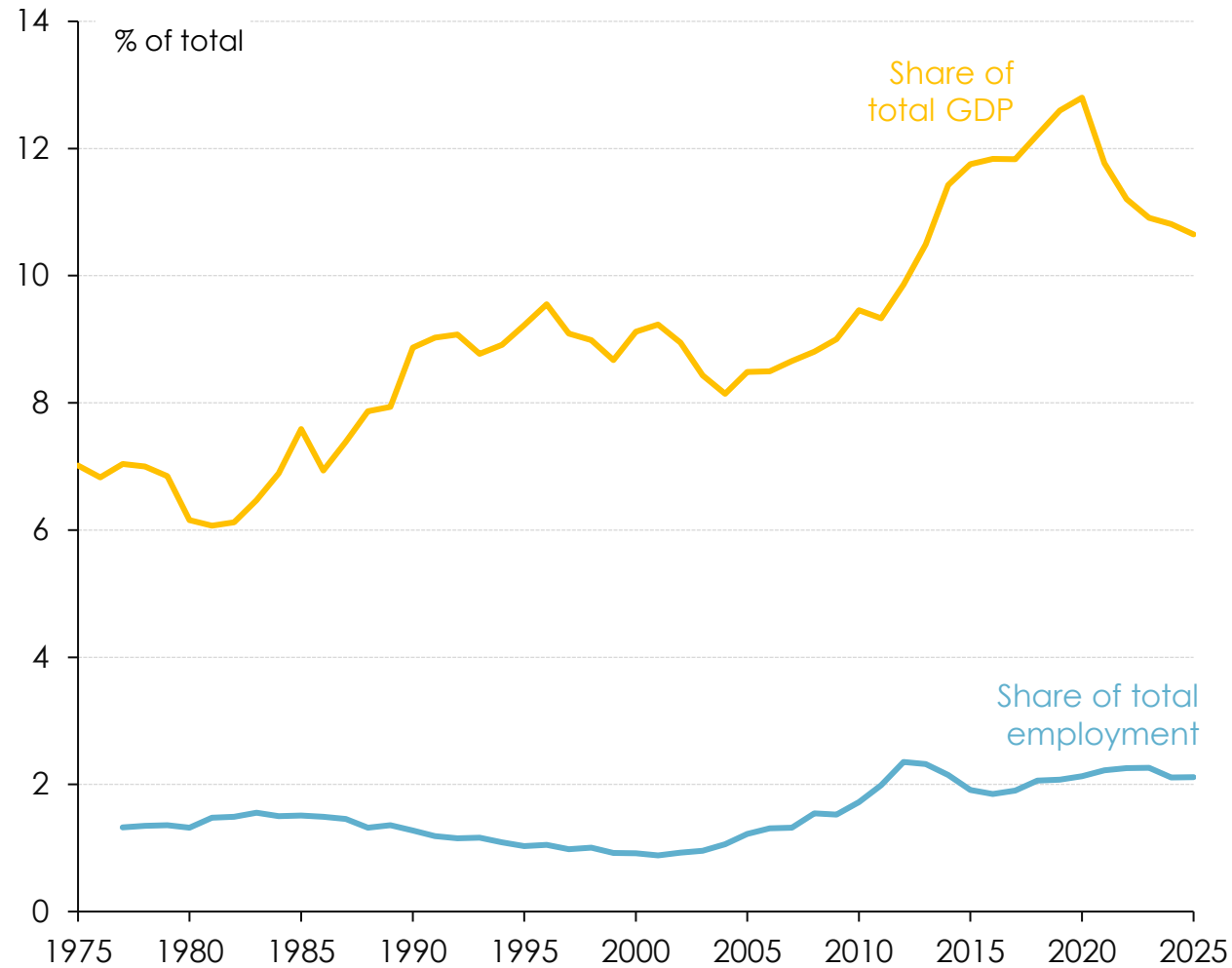
Source: World Trade Organization, [WTO Stats](#).

Trade balances in manufactured goods

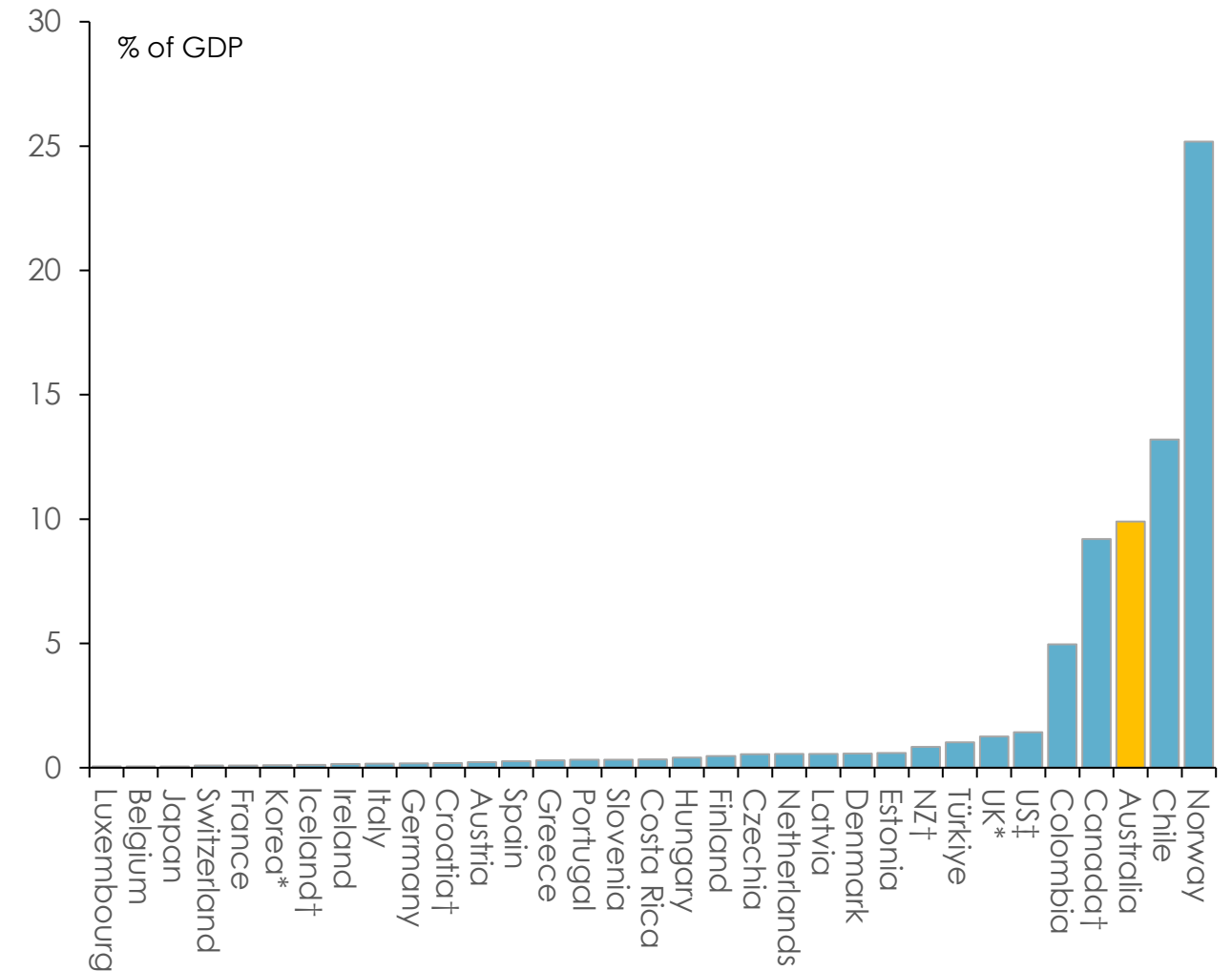


Another reason for the greater decline in manufacturing in Australia has been the expansion in the mining sector

Mining as a share of GDP and employment in Australia, 1975-2025



Mining share of GDP – Australia and other OECD economies, 2024

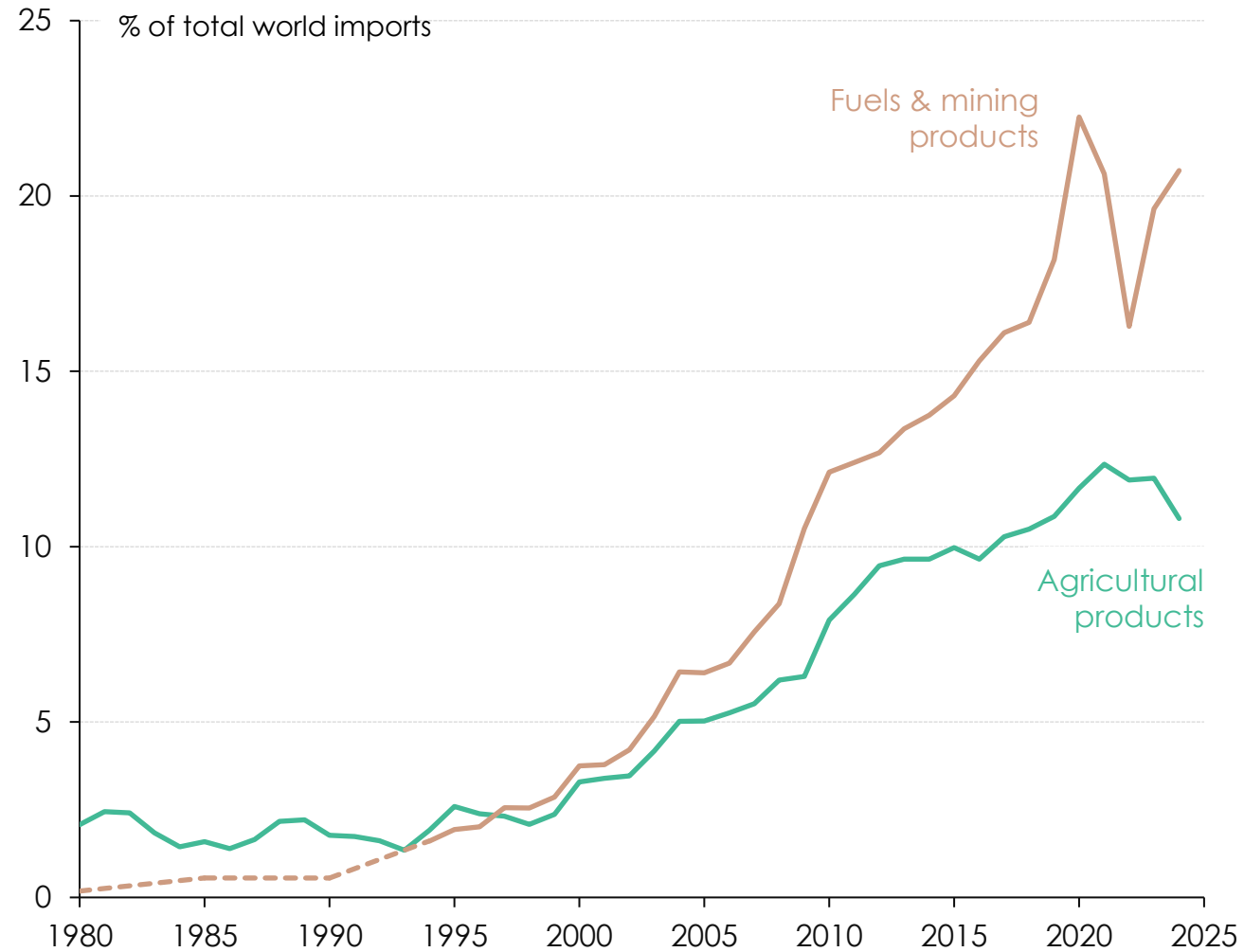


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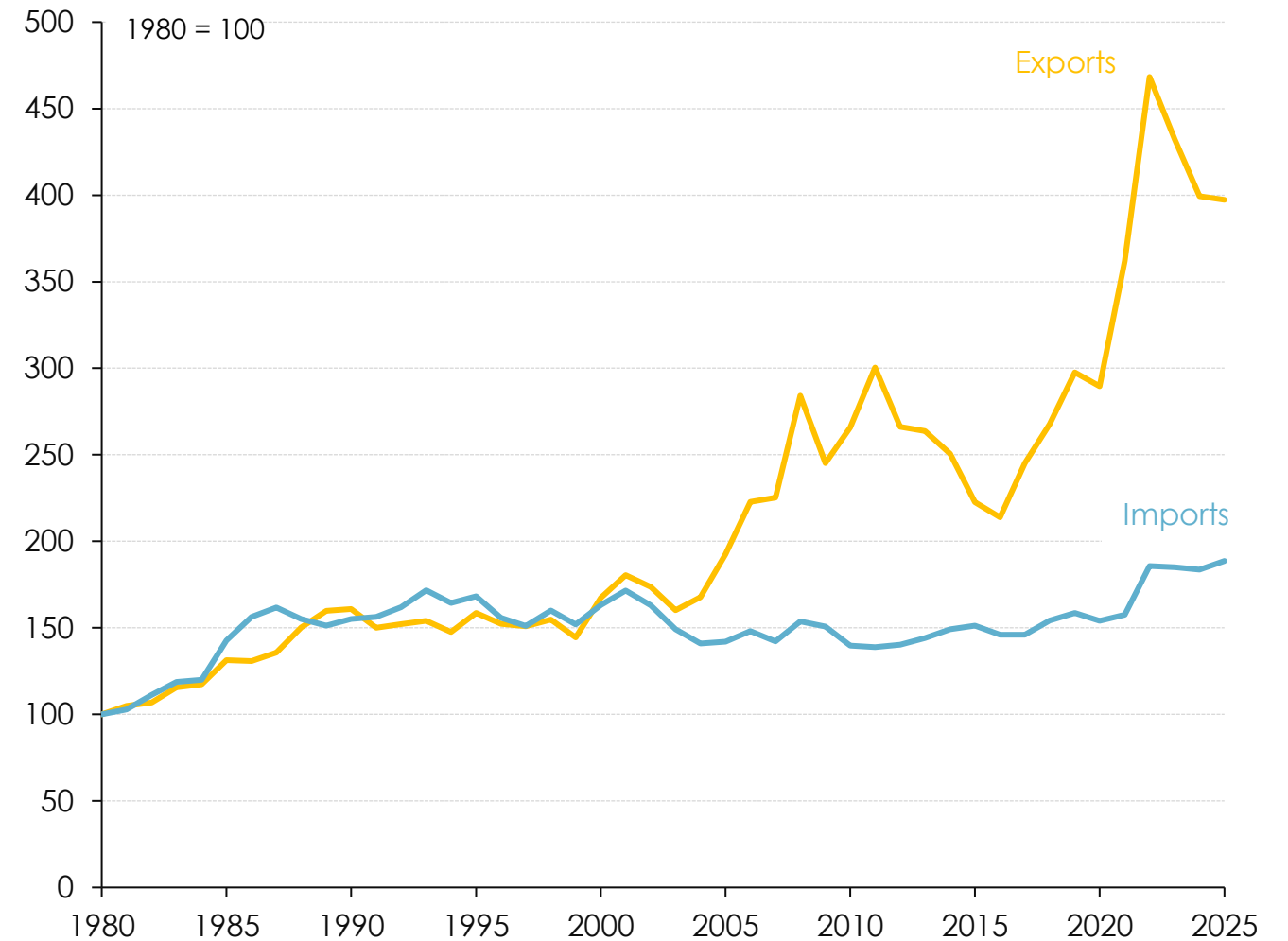
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2026; [Labour Force](#), April 2026; OECD, [Data Explorer](#).

And of course China's rapid expansion was largely responsible for Australia's 'mining boom' of the past quarter-century

China's imports of agricultural and mineral & energy commodities as a percentage of the world total



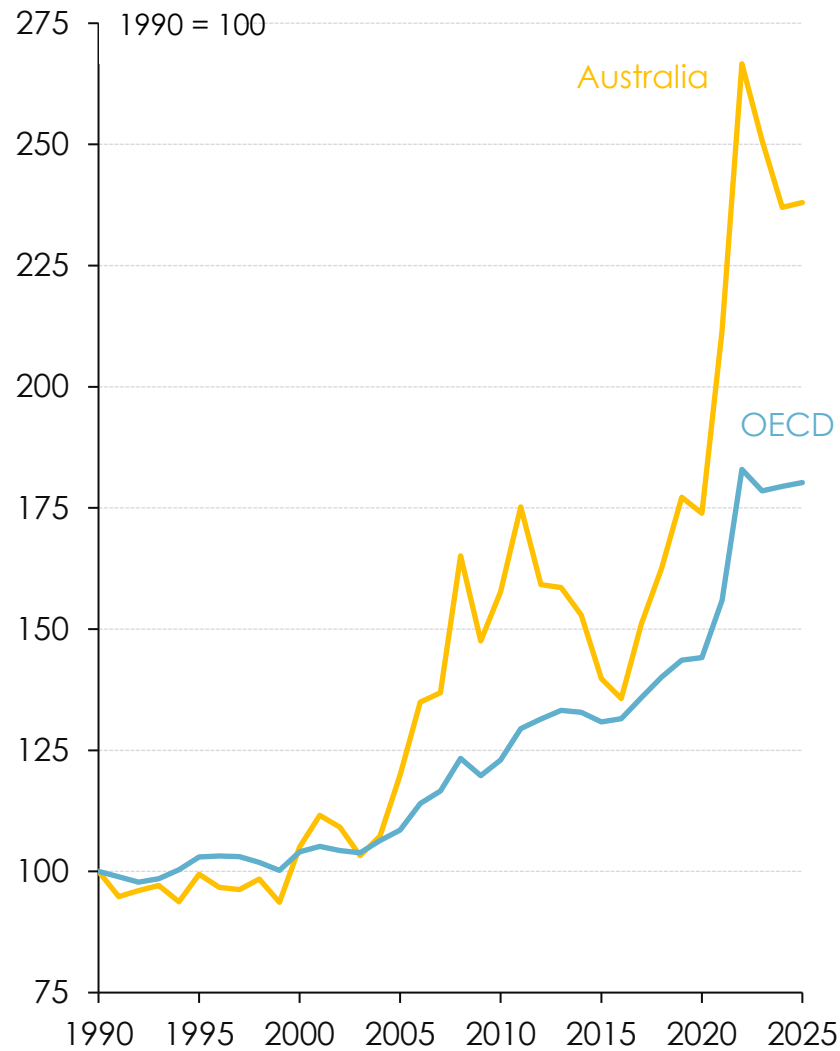
Average prices of Australia's exports and imports of goods



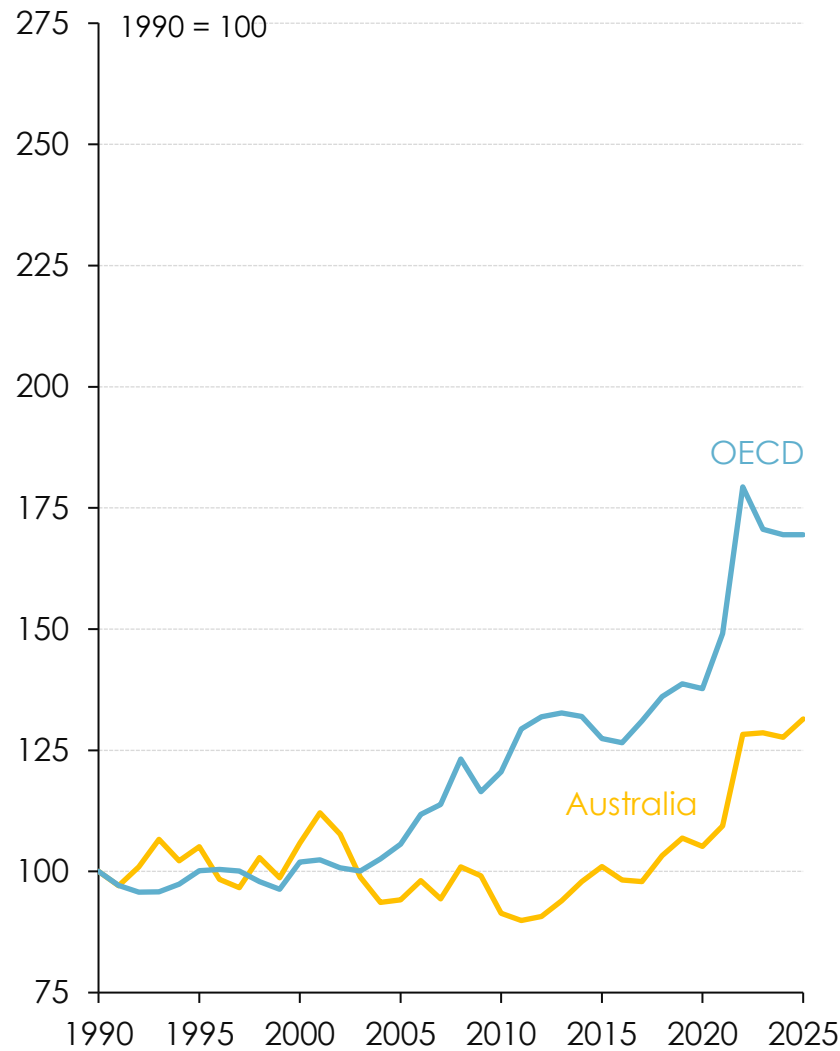
Source: World Trade Organization, [WTO Stats](#); ABS, [Balance of Payments and International Investment Position](#), March quarter 2026.

China's growth and industrialization has been more beneficial for Australia than that of any other 'advanced' economy

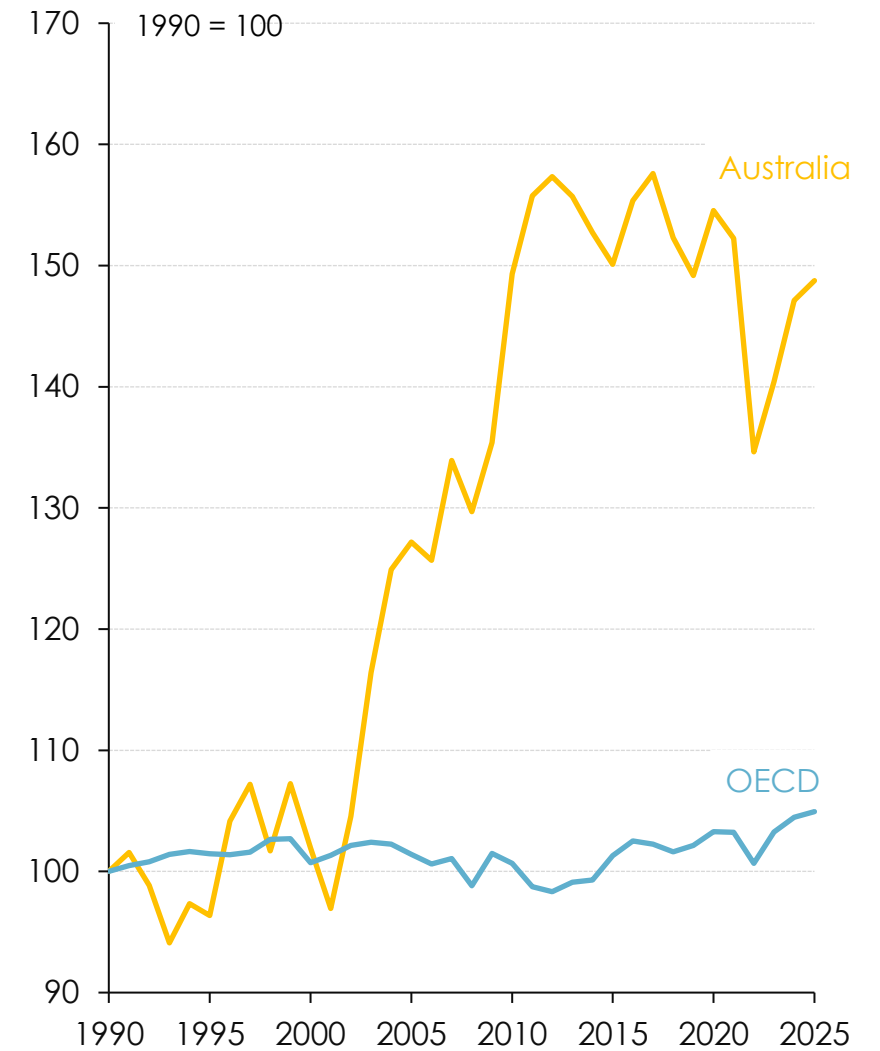
Export prices



Import prices



'Terms of trade'



Note: The Organization for Economic Co-operation & Development (OECD) is a grouping of 38 mostly 'advanced' or 'industrialized' nations. The 'terms of trade' is the ratio of average export to average import prices. Sources: ABS, [Balance of Payments and International Investment Position](#), March quarter 2026; OECD, [Quarterly GDP and components - expenditure approach - volume and price indices](#).

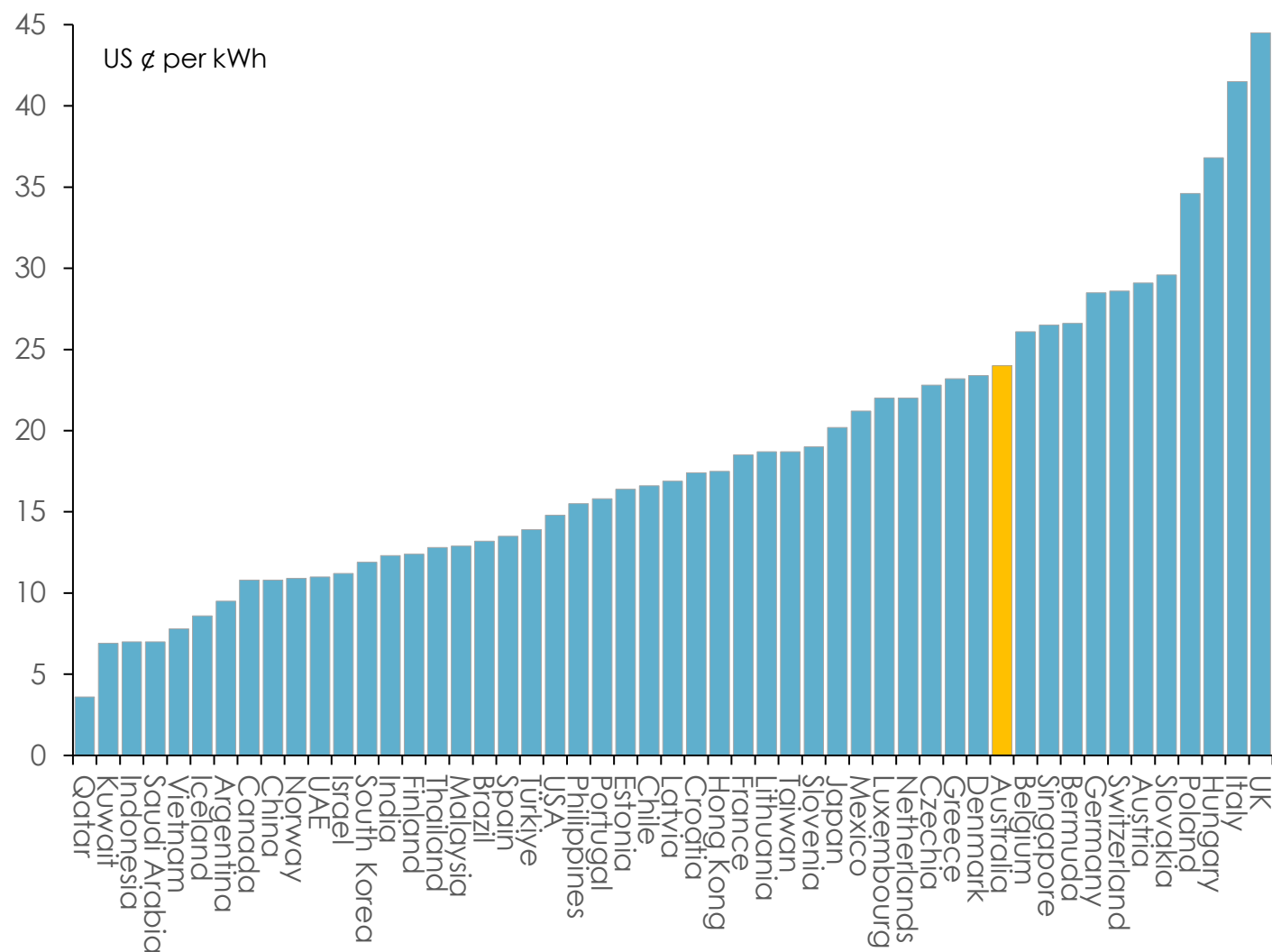
Australian manufacturers have almost always found it difficult – and almost always will find it difficult – to achieve internationally competitive ‘scale’



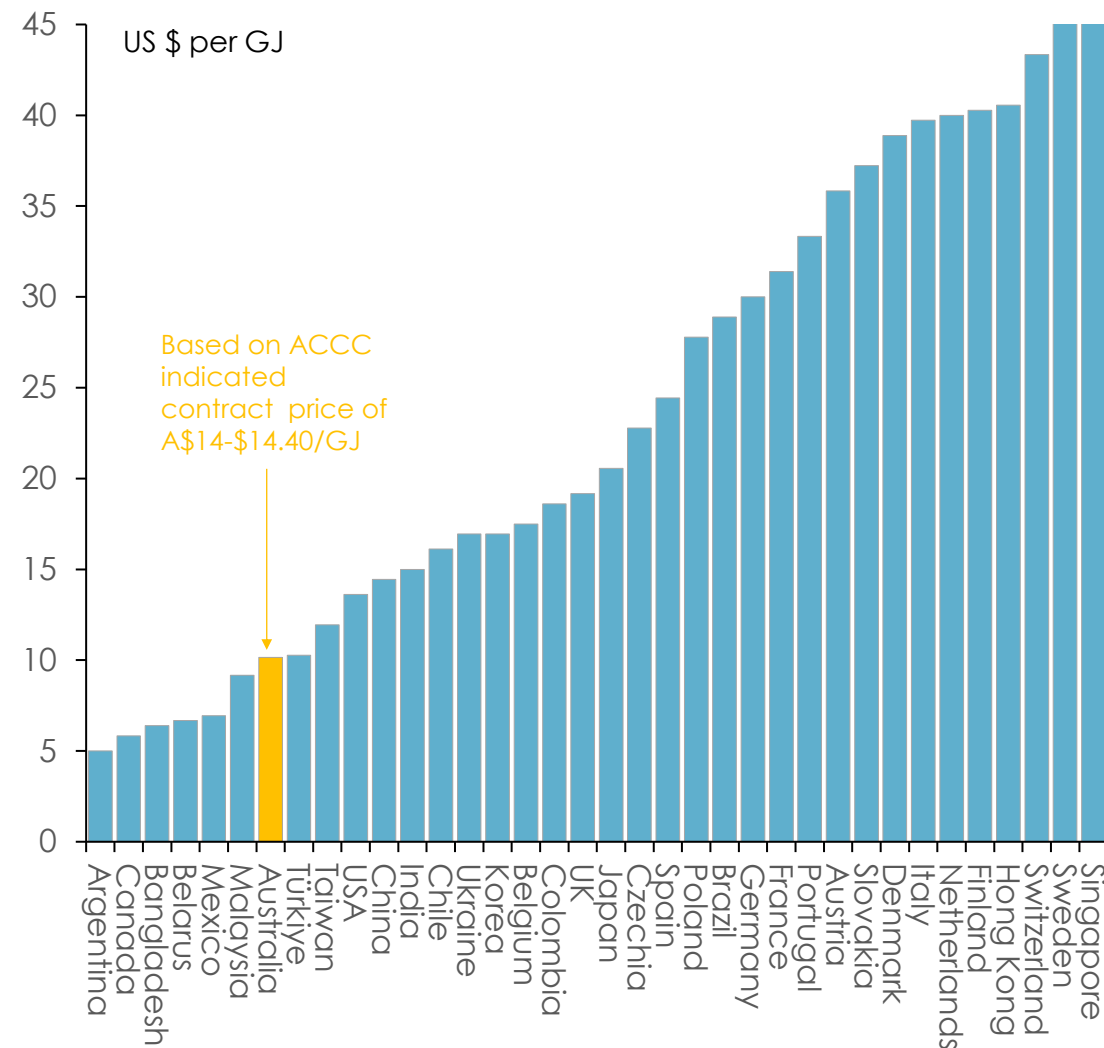
- ❑ Manufacturing typically has very high fixed costs (compared with, eg, services)
 - which means that to be competitive (without ‘protection’, subsidies or tax breaks) manufacturers ordinarily need to be able to achieve ‘economies of scale’
- ❑ Countries can achieve economies of scale in manufacturing if they have a big domestic market
 - as the US, the EU, Japan, China & Brazil do
- ❑ Alternatively, countries can potentially achieve economies of scale in manufacturing by exporting to big markets
 - as (eg) Korea, Taiwan, Singapore, Sweden, Denmark, Ireland, Switzerland, Slovakia, Türkiye, Canada and Mexico all do
 - they are all geographically close to big markets
- ❑ Whereas Australia doesn’t have a big domestic market, and it isn’t geographically close to any big markets

Australian manufacturing no longer has a comparative advantage from energy prices – at least not for electricity

Average business electricity prices, 2023-2026



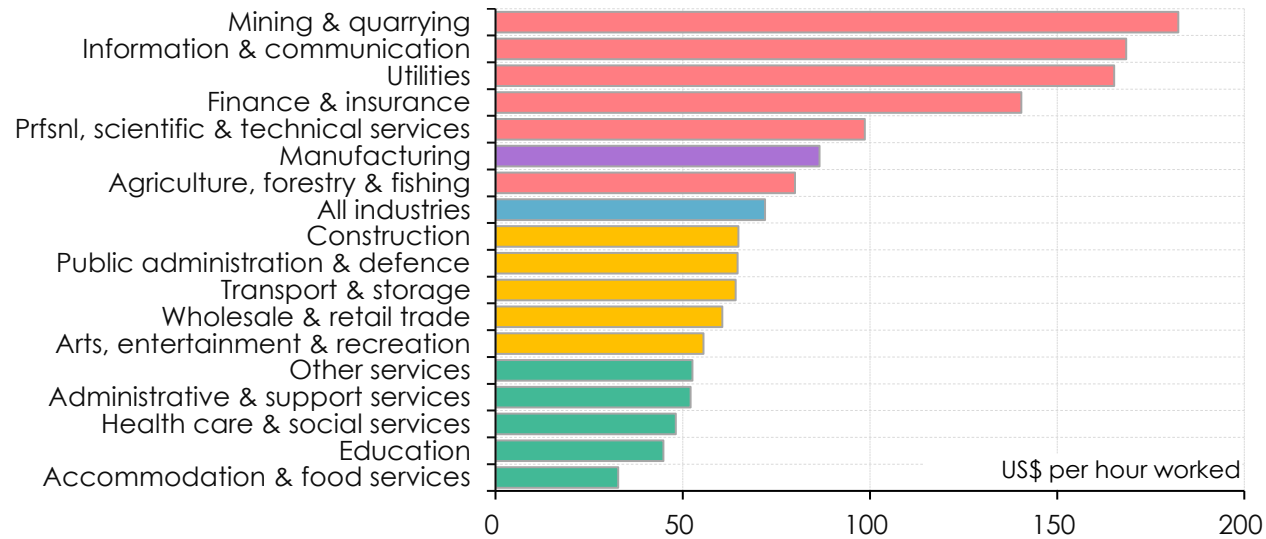
Average business natural gas prices, Q3 2025



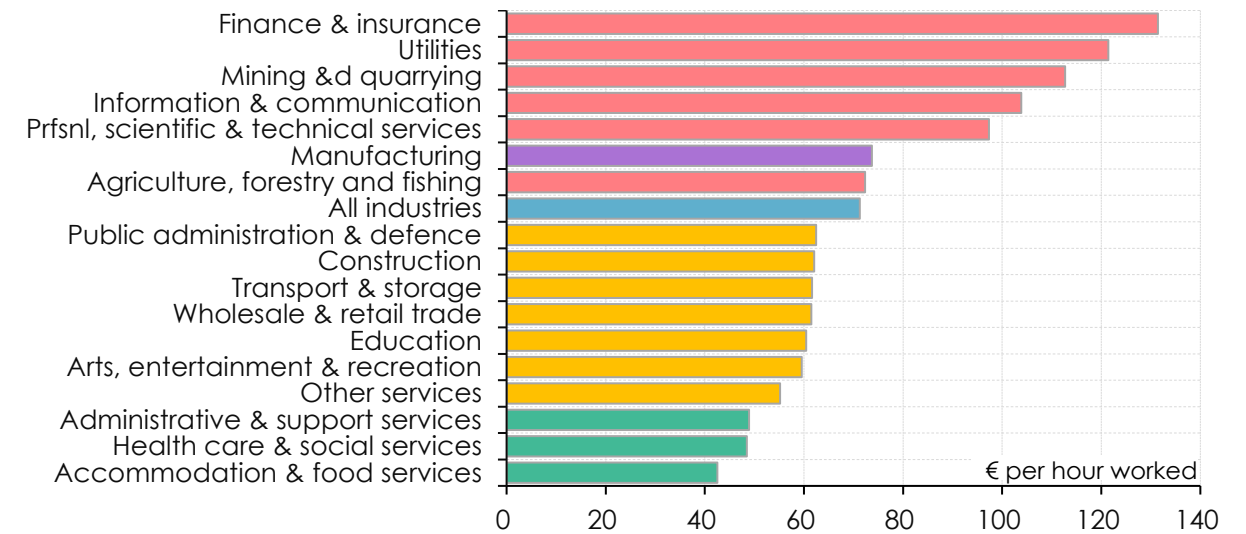
Sources: [GlobalPetrolPrices.com](https://www.globalpetrolprices.com) and [Australian Competition & Consumer Commission](https://www.accc.gov.au).

In most 'advanced' economies, labour productivity in manufacturing is higher than the average for all industries

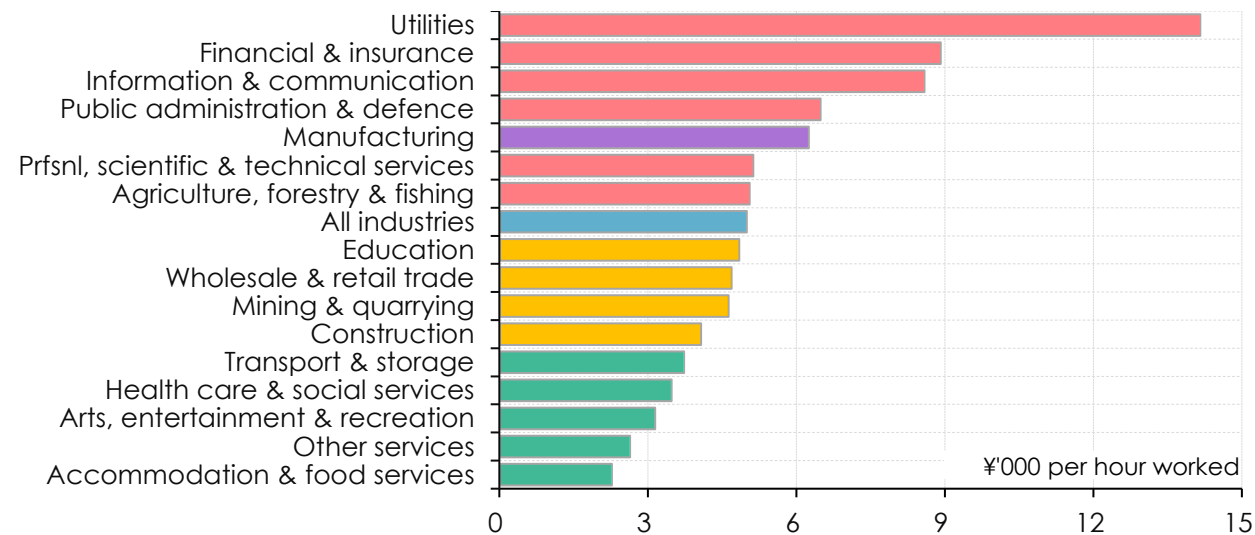
Labour productivity by industry – United States



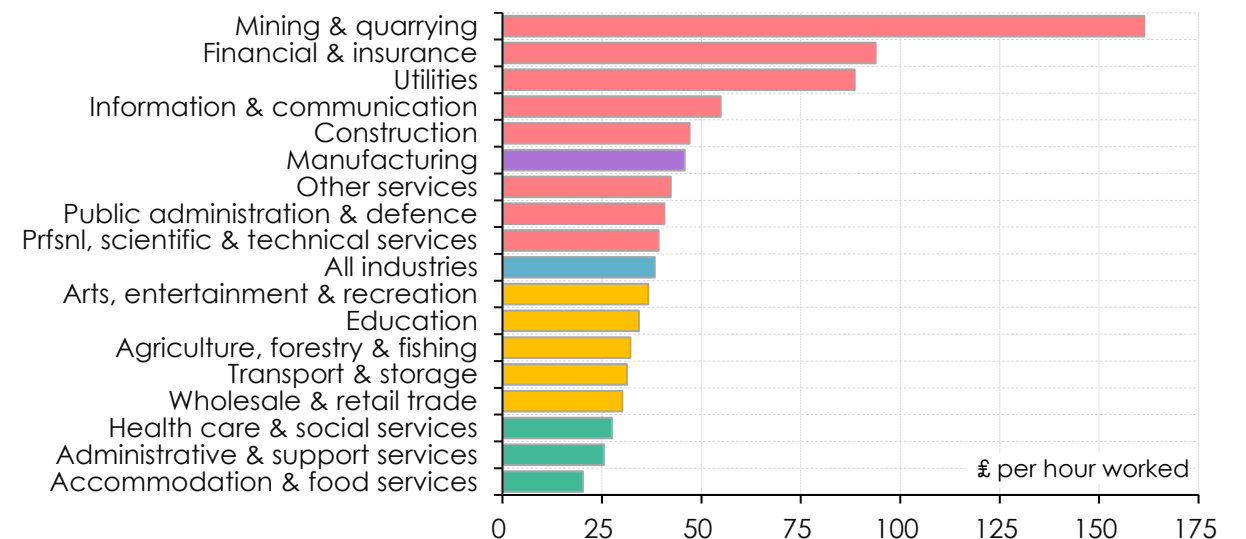
Labour productivity by industry – European Union



Labour productivity by industry – Japan



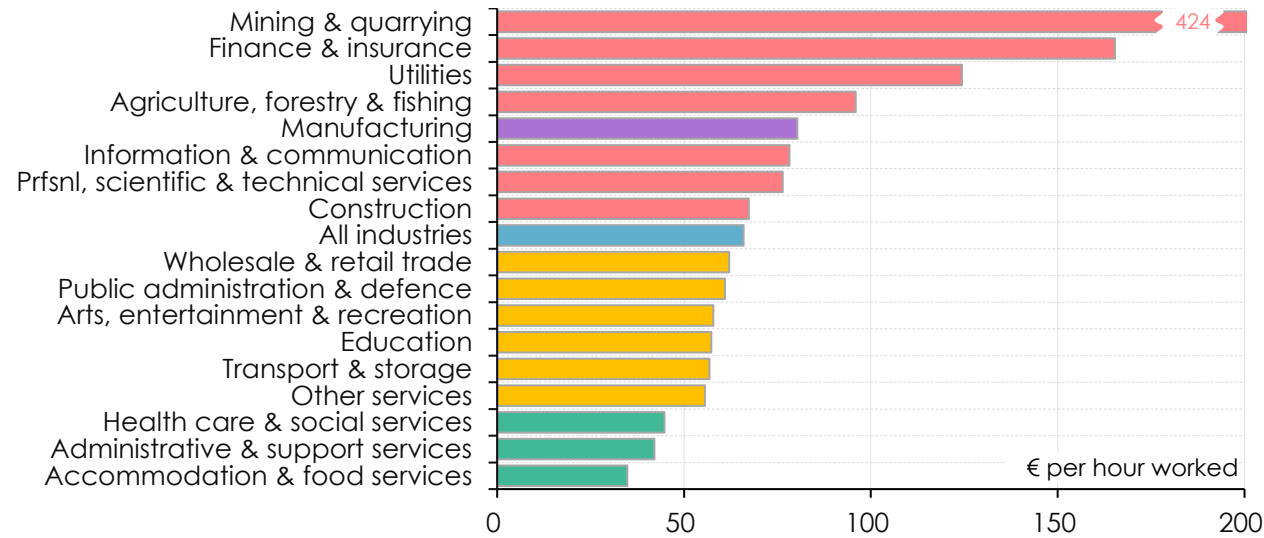
Labour productivity by industry – United Kingdom



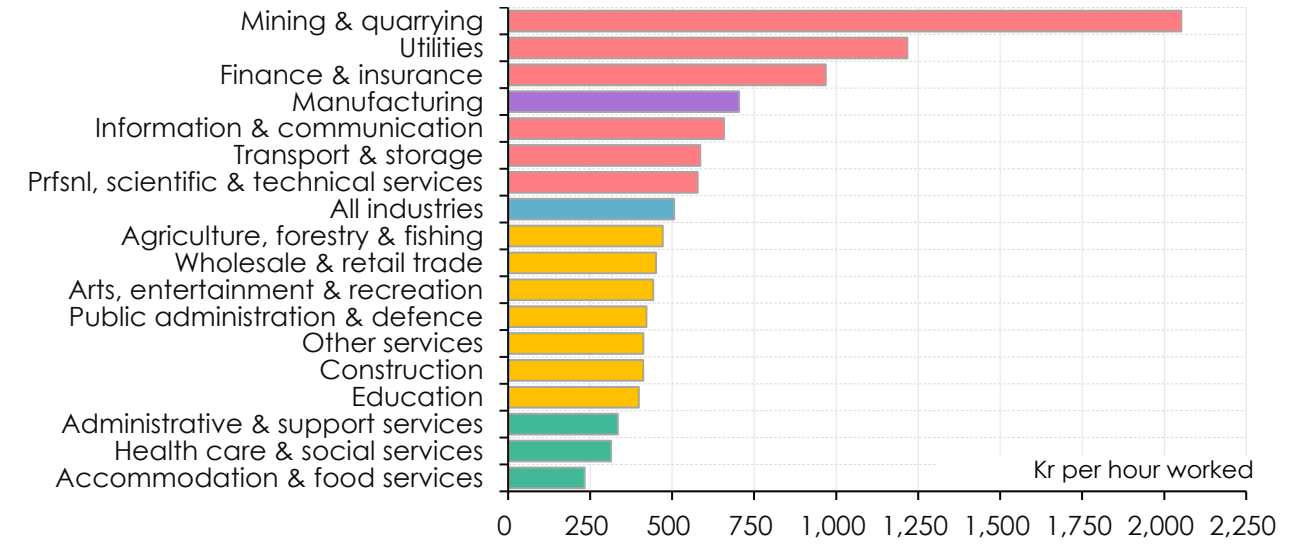
Note: Labour productivity is gross value added per hour worked. Data shown are averages for 2017 through 2021 (later data not available). Real estate activities excluded because source data includes imputed rent on owner-occupied housing. Source: Luiss Lab of European Economics, [EUKLEMS & INTANProd - Release 2025](#).

Manufacturing is a relatively high-productivity industry in many smaller economies as well

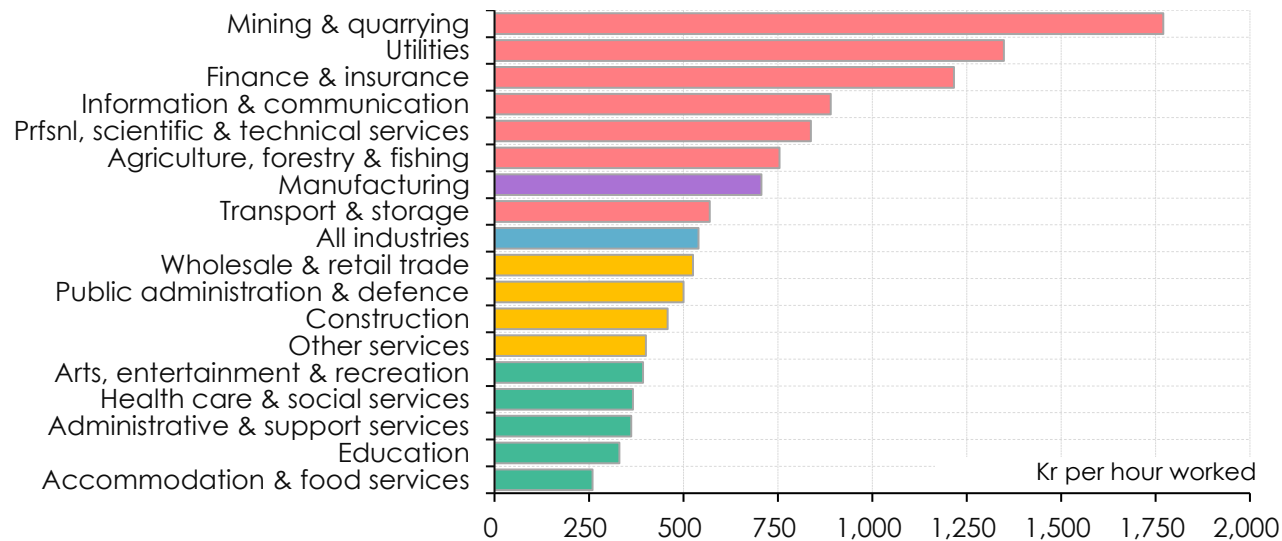
Labour productivity by industry – Netherlands



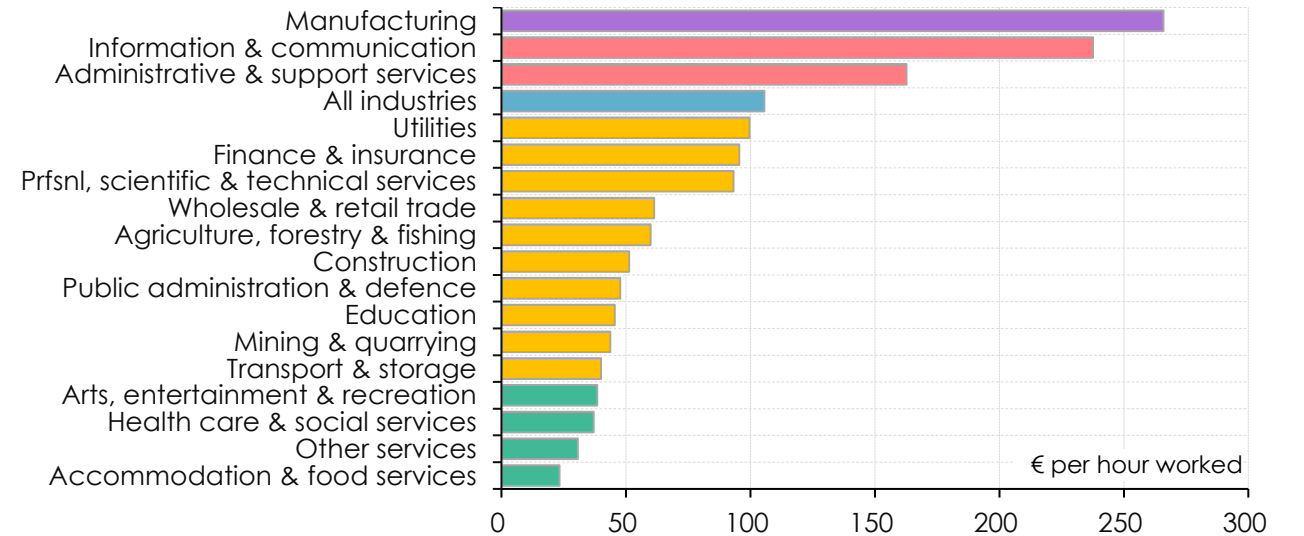
Labour productivity by industry – Denmark



Labour productivity by industry – Sweden



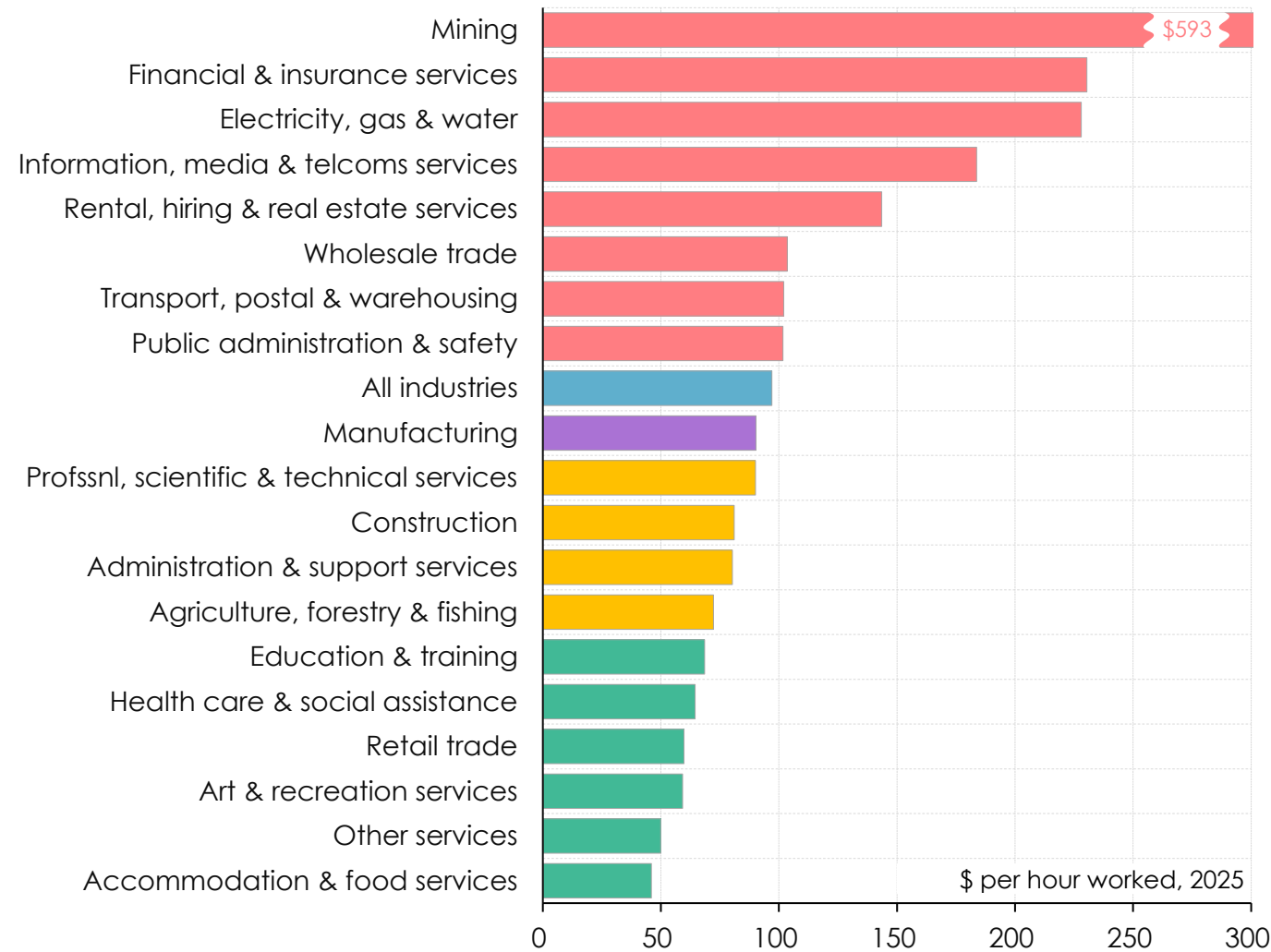
Labour productivity by industry – Ireland



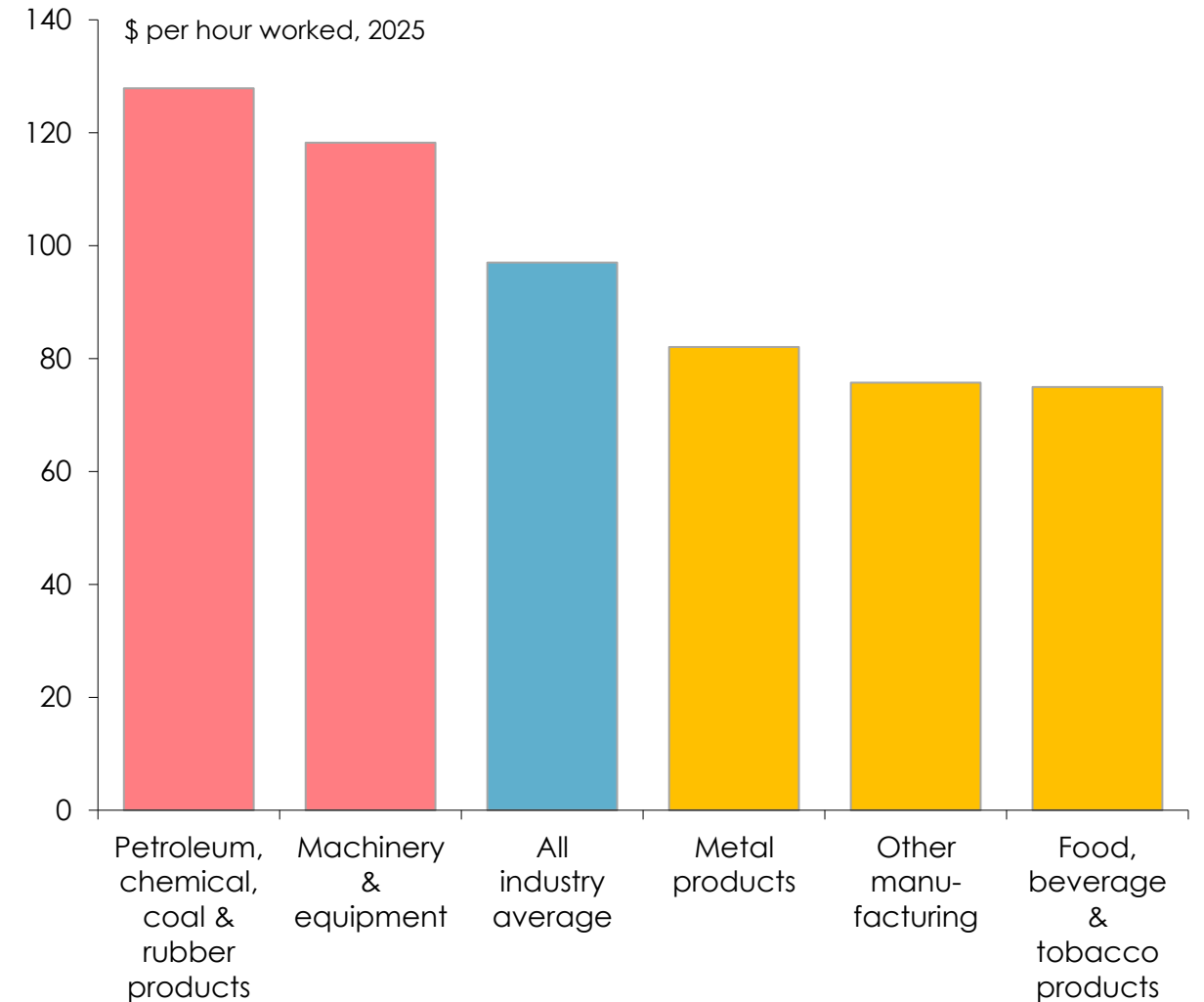
Note: Labour productivity is gross value added per hour worked. Data shown are averages for 2017 through 2021 (later data not available). Real estate activities excluded because source data includes imputed rent on owner-occupied housing. Source: Luiss Lab of European Economics, [EUKLEMS & INTANProd - Release 2025](#).

In Australia, by contrast, labour productivity in manufacturing is below the average for all industries – although not in all areas

Labour productivity (gross value added per hour worked) by industry, 2025



Labour productivity in manufacturing sub-divisions, 2025

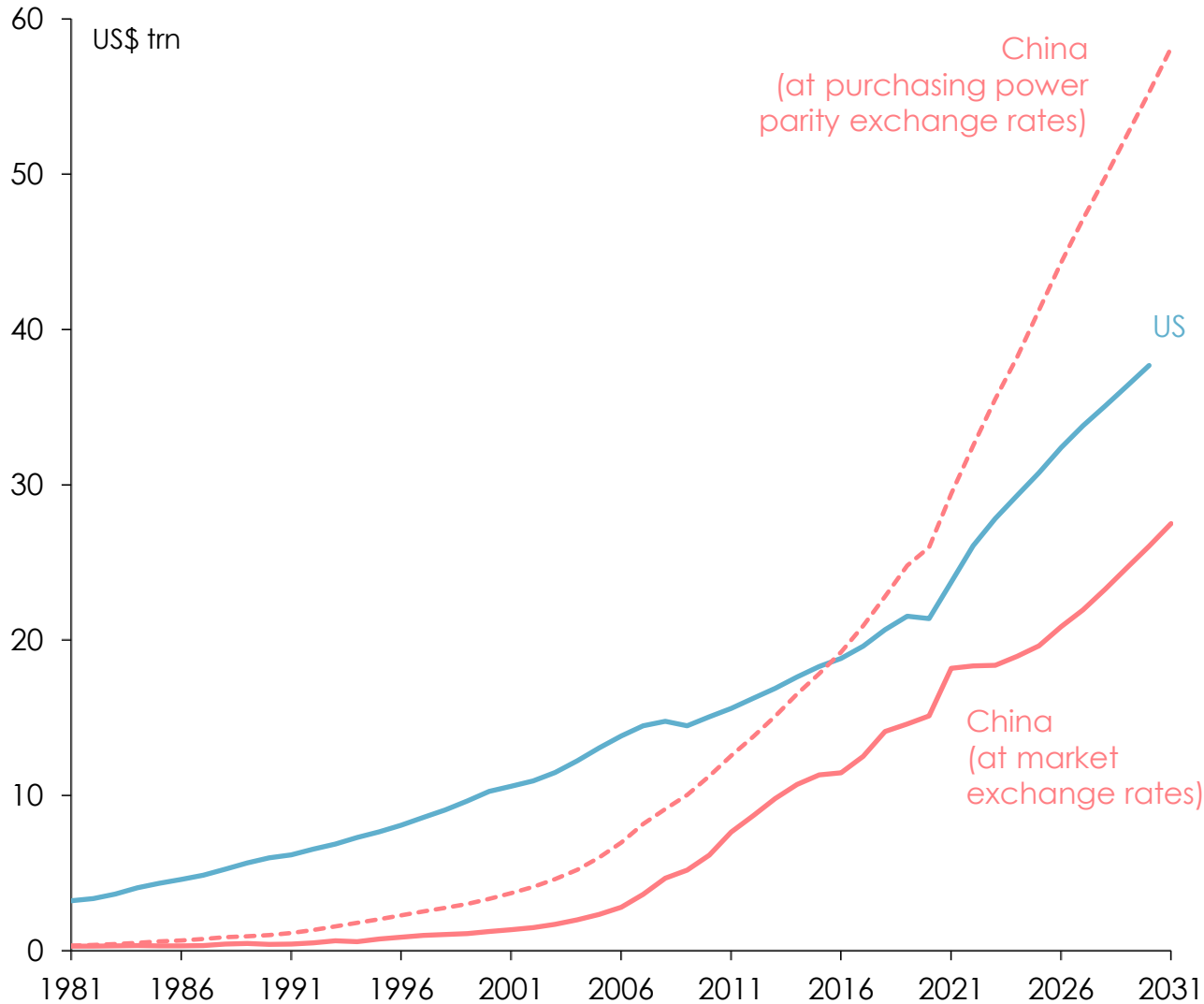


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2026; and [Labour Force](#), April 2026.

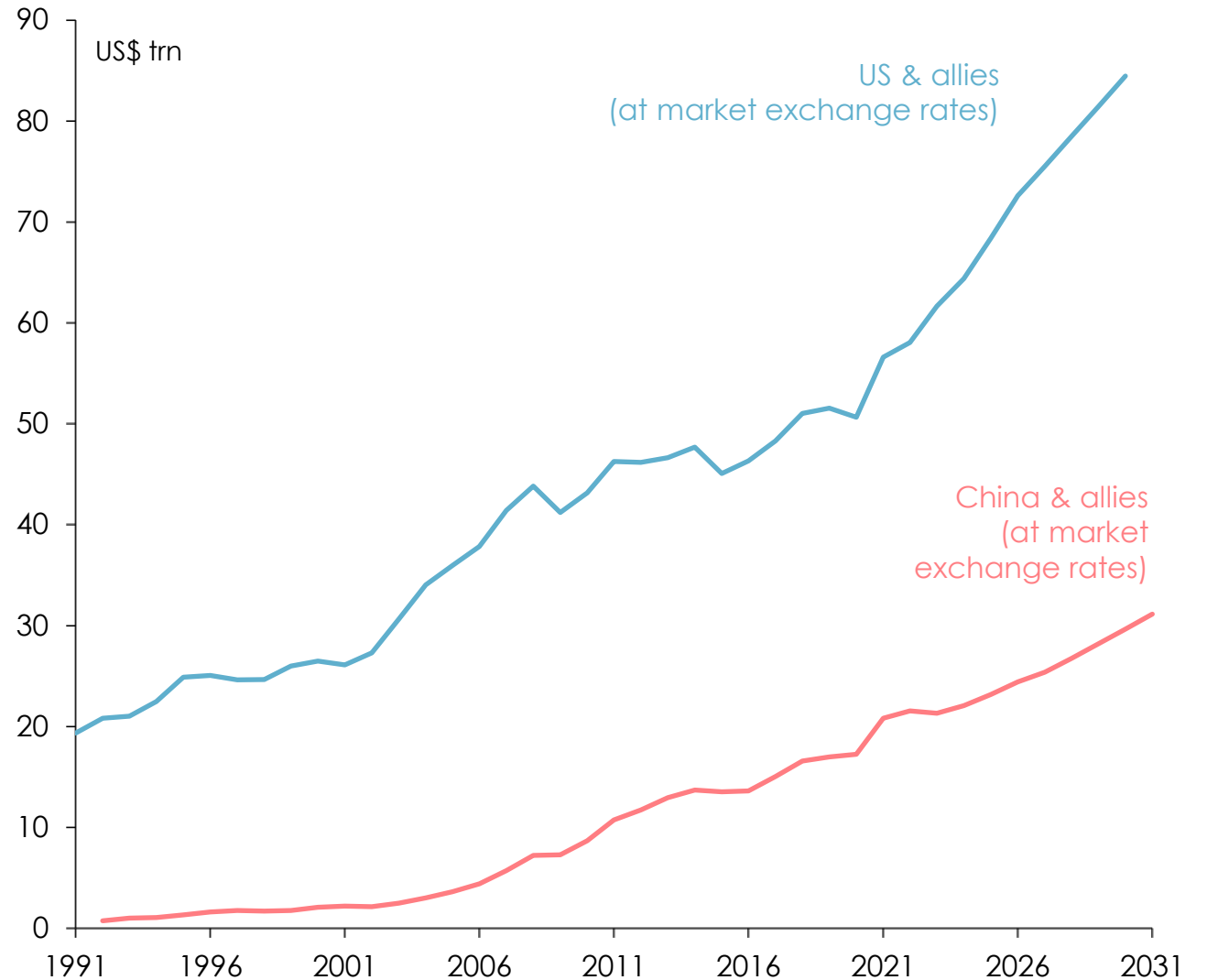
The changing world

China is a serious competitor to the US on the world economic stage – and the US is now trashing the alliances which still give it an advantage

US and China GDP



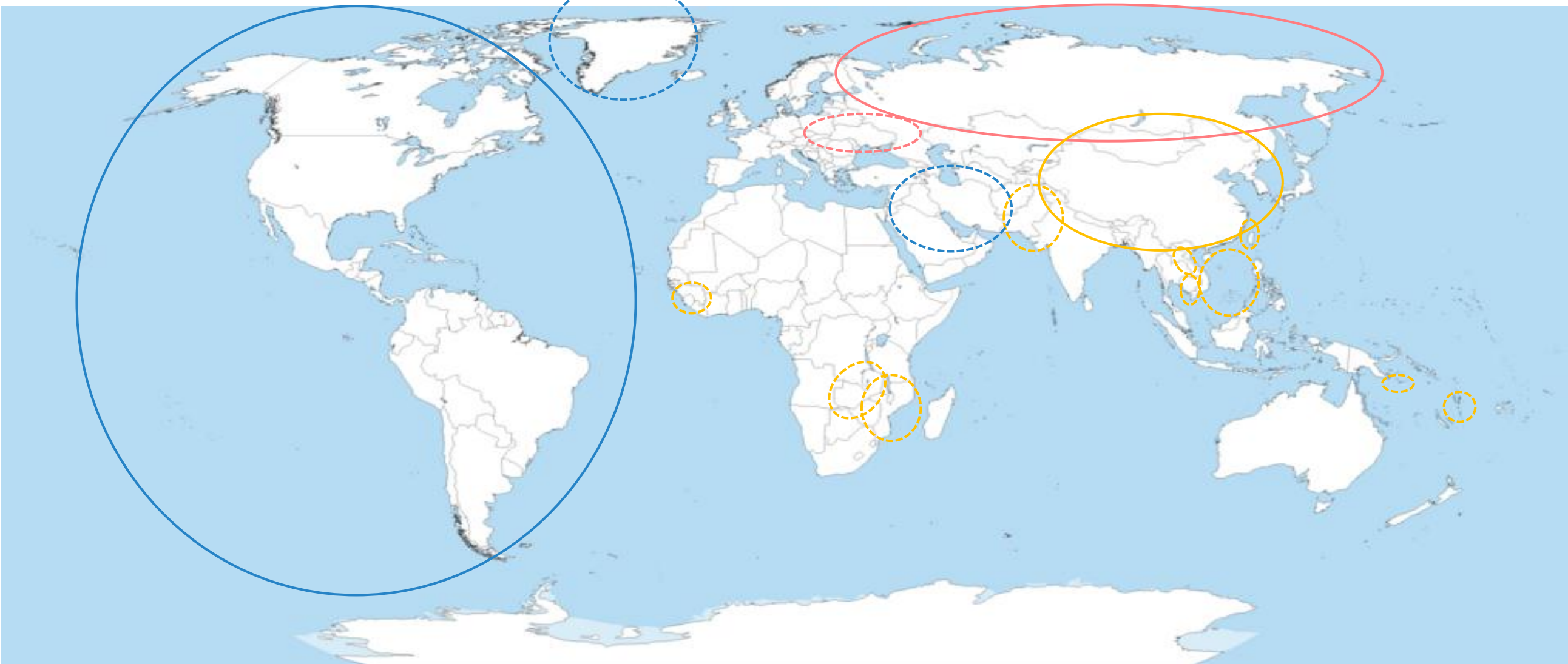
US & allies and China & allies GDP



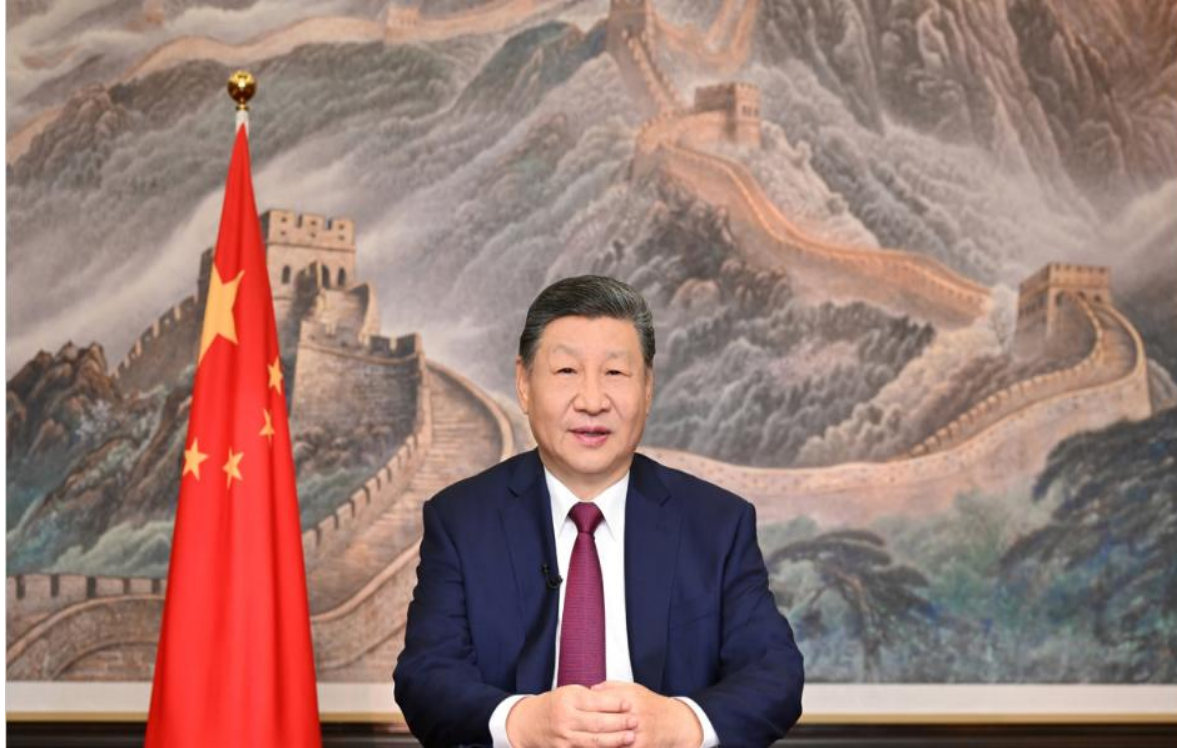
Note: Purchasing power parities (PPP) abstract from fluctuations in market exchange rates, and also attempt to correct for the 'undervaluation' of non-tradeable goods and (especially) services in 'emerging and developing' economies. US allies are NATO member countries, Japan, Korea, Taiwan, the Philippines, Singapore, Australia, New Zealand and Israel. China allies are Russia, Belarus, Iran, Pakistan, Laos, Cambodia and (not included) North Korea. Source: IMF, [April 2026 WEO Entire Dataset](#).

The leaders of the three most militarily powerful nations seem to want to return to a world shaped by 'spheres of influence'

'Spheres of influence'



China is increasingly exerting its will – politically, militarily and economically

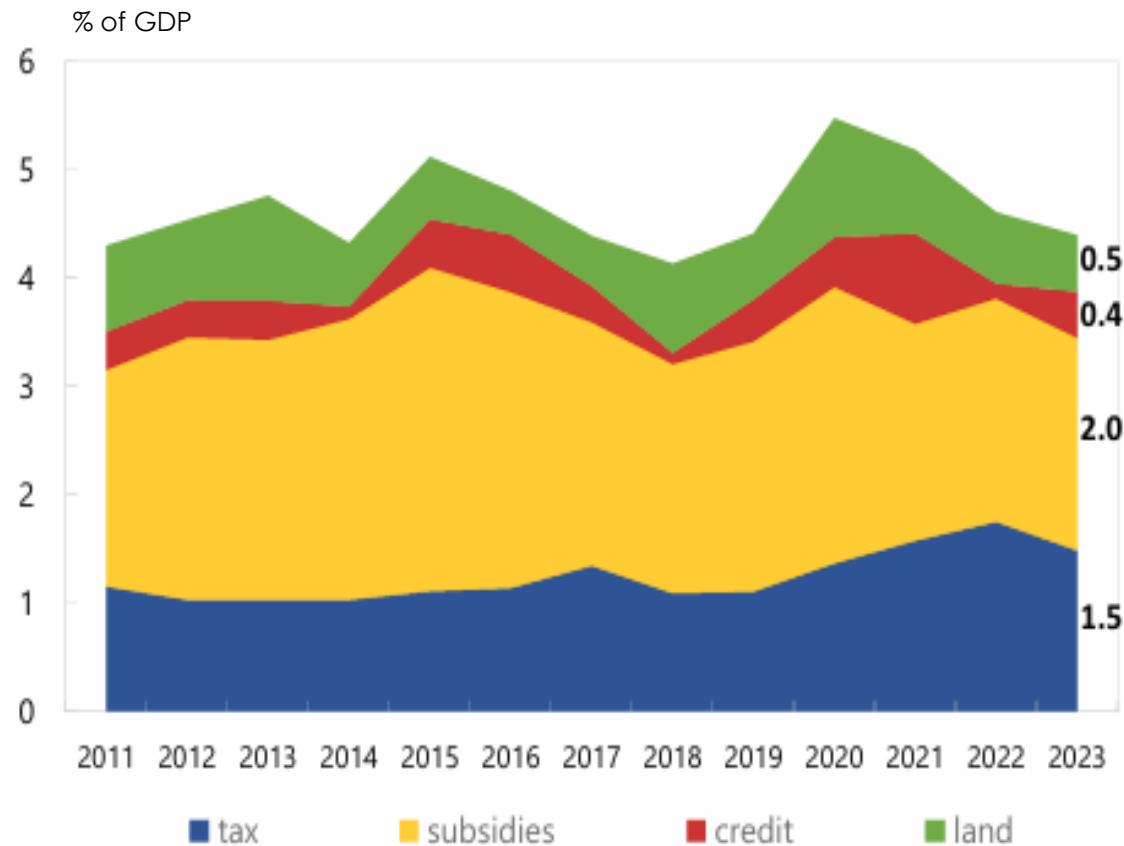


- ❑ China is becoming more belligerent and assertive in its dealings with other nations
 - continuing to scale up its naval and military presence in the South China Sea
 - increasing frequency and scale of ‘military exercises’ around Taiwan and incursions into Taiwanese air space
- ❑ China has become more willing to use economic coercion in pursuit of what it sees as its interests, or in response to perceived slights
 - Norway, South Korea, Japan, Lithuania, Canada and Australia have all been targeted at different times over the past 15 years
 - and more recently has begun to ‘weaponize’ its dominant position in some global supply chains

- ❑ China is now pursuing a two-pronged economic strategy
 - seeking a dominant position in global markets for (among other things) electric vehicles, basic metals, ‘critical minerals’, solar panels, batteries, bio-pharmaceuticals, robotics, and semi-conductors
 - and reducing its dependence on imports – especially from ‘western’ economies
- ❑ China is using a wide range of ‘industrial policy instruments’ – including in particular subsidies, access to land at below-market prices, tax breaks and state-directed lending – in pursuit of those goals

China's 'industrial policy' measures have come at a significant fiscal and economic cost (to China)

Cost of industrial policy measures in China



- ❑ In total, Chinese industrial policy support measures have cost (national, provincial and local) governments the equivalent to 4.4% of GDP over the past decade
 - compared with about 1.6% in 'industrialized' economies
- ❑ In addition to the fiscal costs to governments, industrial policy has had broader economic costs in terms of resource mis-allocation, leading to lower economic growth than otherwise
 - IMF economists have calculated that mis-allocation of factors of production (labour, capital and land) resulting from industrial policy measures have reduced total factor productivity by about 1.2%
 - and that this in turn has reduced the level of China's GDP by about 2% (relative to what it would have been otherwise)

The America that saved the world from fascism 80 years ago has gone ...



“.. We look forward to a world founded upon four essential human freedoms.

The first is freedom of speech and expression--everywhere in the world.

The second is freedom of every person to worship God in his own way--everywhere in the world.

The third is freedom from want--which, translated into world terms, means economic understandings which will secure to every nation a healthy peacetime life for its inhabitants--everywhere in the world.

The fourth is freedom from fear--which, translated into world terms, means a world-wide reduction of armaments to such a point and in such a thorough fashion that no nation will be in a position to commit an act of physical aggression against any neighbour--anywhere in the world.”

- Franklin D Roosevelt, [State of the Union Address to Congress, 6th January 1941](#)

... as has the America that stared down Soviet Communism ...



“Let every nation know, whether it wishes us well or ill, that we shall pay any price, bear any burden, meet any hardship, support any friend, oppose any foe to assure the survival and the success of liberty”

– John F. Kennedy, [Inaugural Address](#), 20th January 1961



“General Secretary Gorbachev, if you seek peace, if you seek prosperity for the Soviet Union and Eastern Europe, if you seek liberalization: Come here to this gate! Mr. Gorbachev, open this gate! Mr. Gorbachev, tear down this wall!”

– Ronald Reagan, [Speech at the Brandenburg Gate, Berlin](#), 12th June 1987

... to be replaced by a very different America



“There is one thing. My own morality. My own mind. It’s the only thing that can stop me”

- Donald Trump, asked if there were any limits to his global powers ([8th January 2026](#))

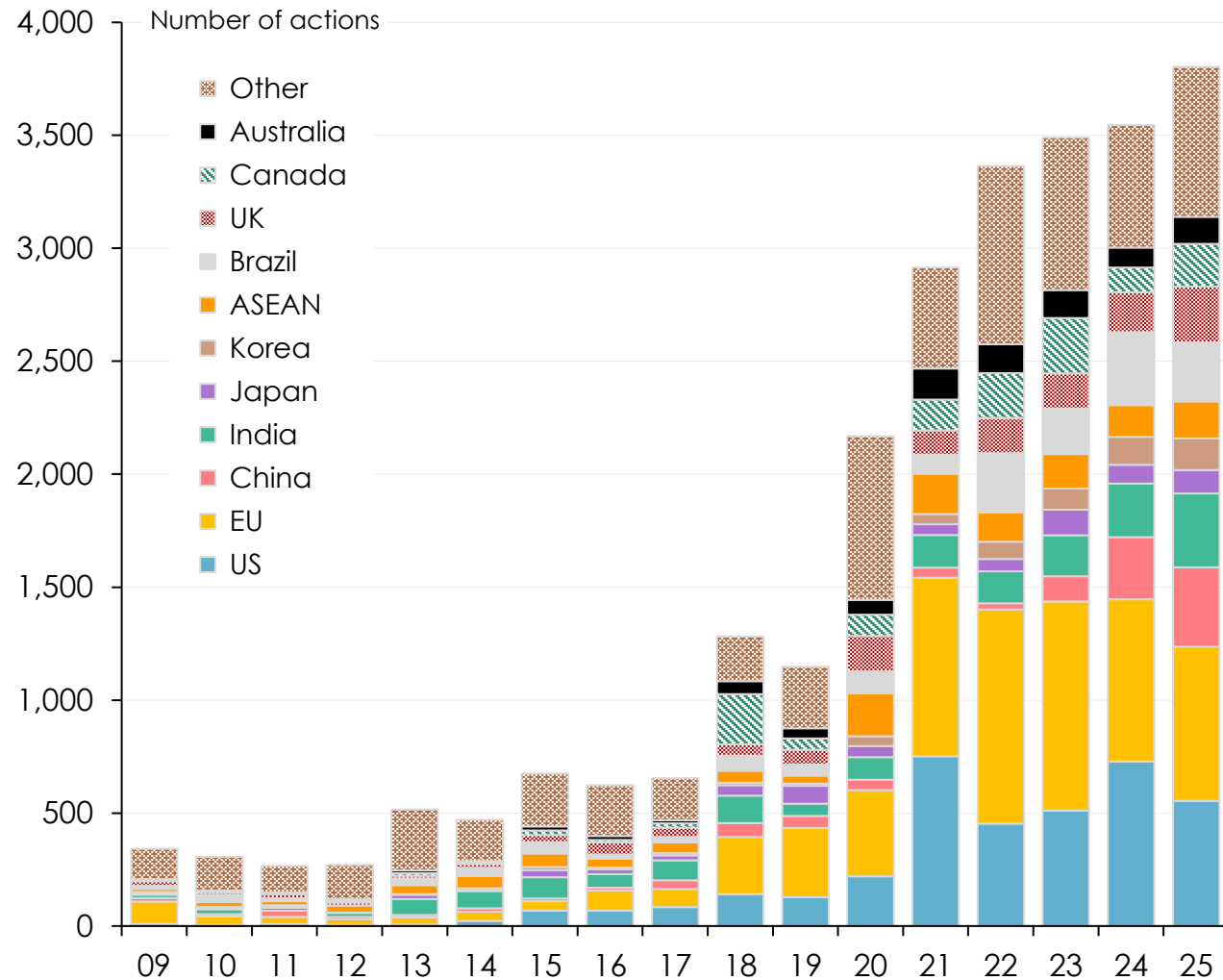


“We live in a world ...that is governed by strength, that is governed by force, that is governed by power ... These are the iron laws of the world since the beginning of time”

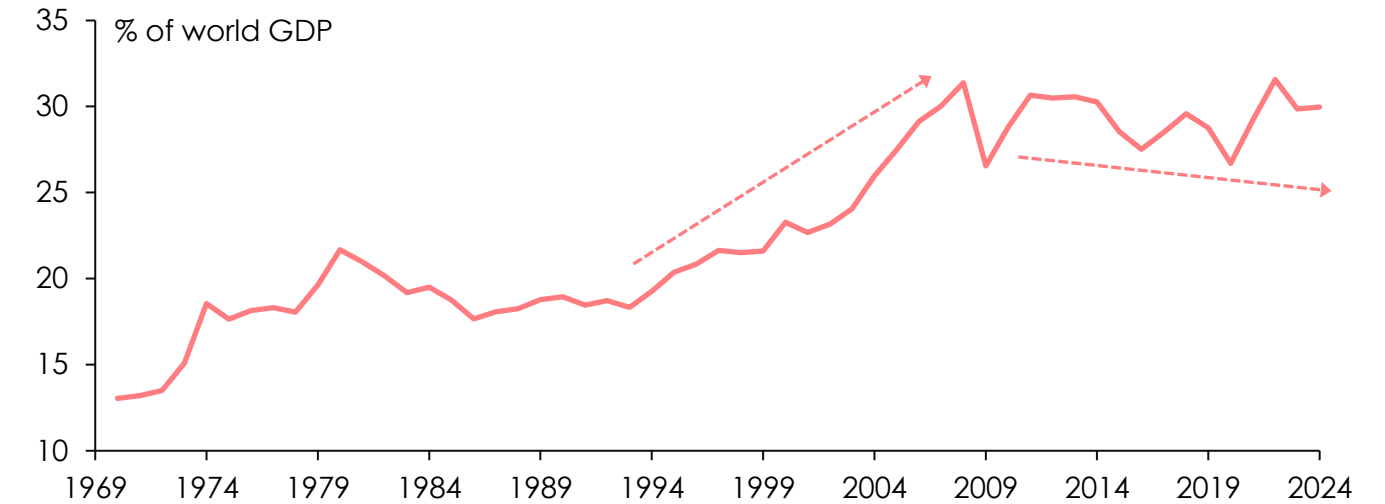
- Stephen Miller, White House Deputy Chief of Staff ([5th January 2026](#))

The retreat from globalization didn't start with Donald Trump ...

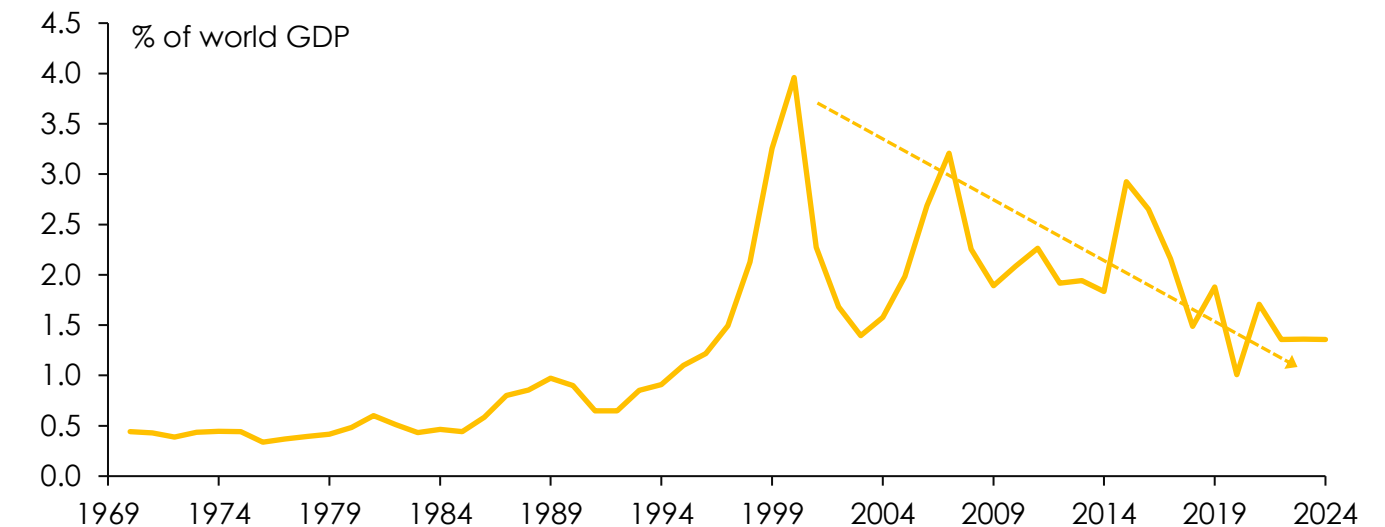
Number of trade-distorting policies introduced by governments around the world



Exports of goods & services as a pc of world GDP



Foreign direct investment flows as a pc of world GDP



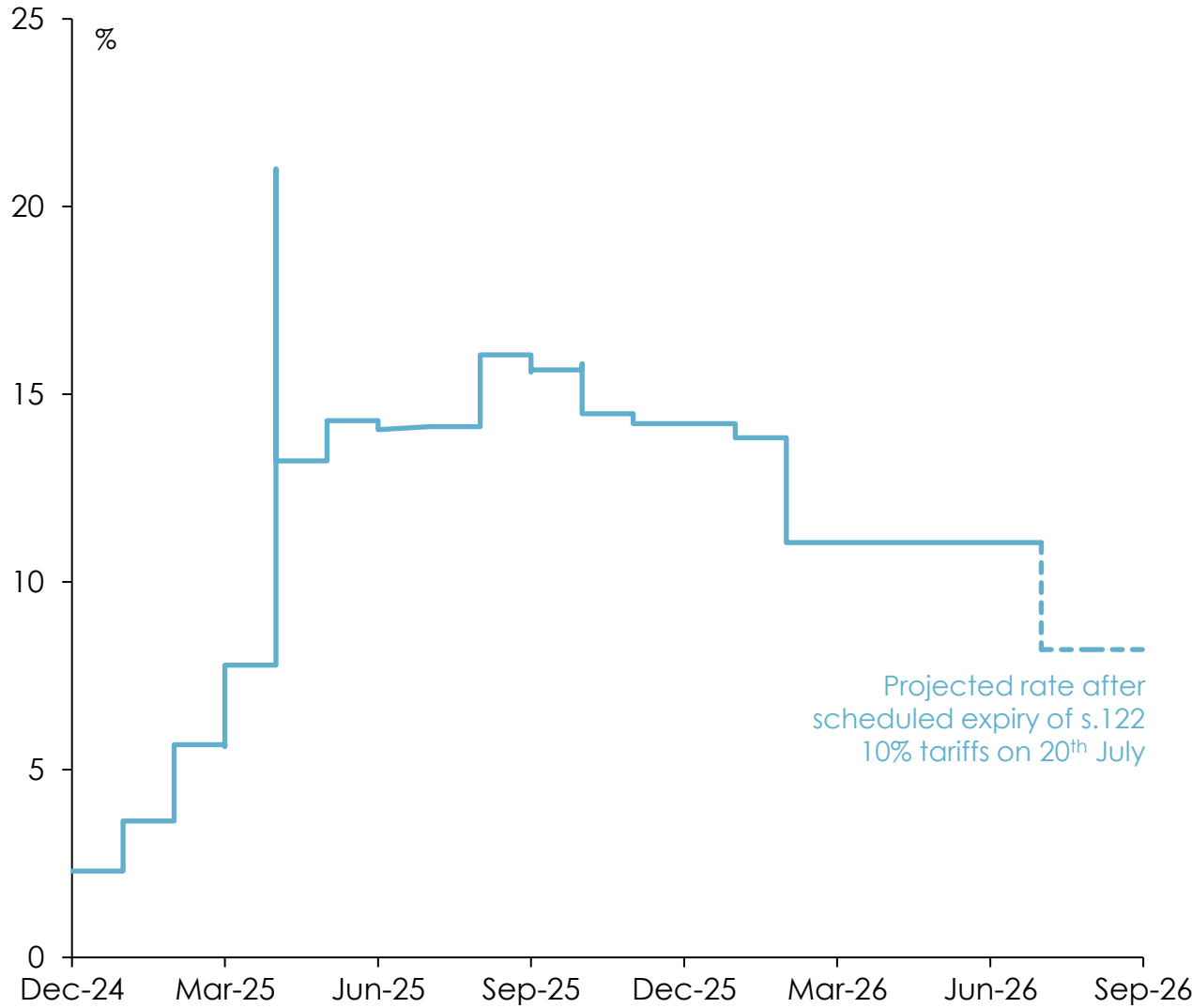
Sources: Global Trade Alert, [GTA Data Centre](#); IMF, [World Economic Outlook database](#) April 2026; and UNCTAD, [Foreign direct investment: Inward and outward flows and stock, annual](#), September 2025.

... but Trump has taken 'de-globalization' to a new level

US effective tariff rates 1900-1926



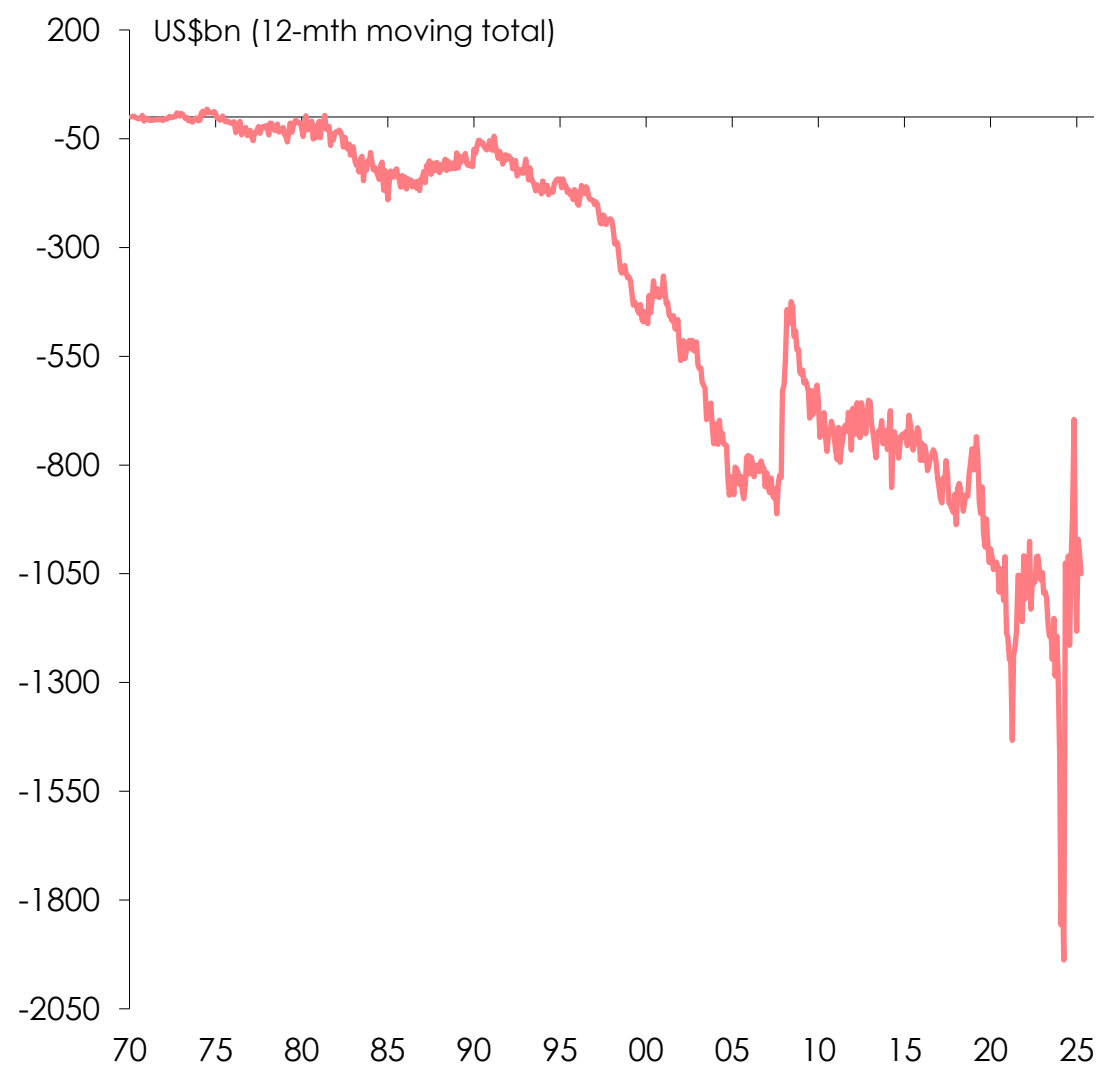
US daily effective tariff rates since 1 January 2025



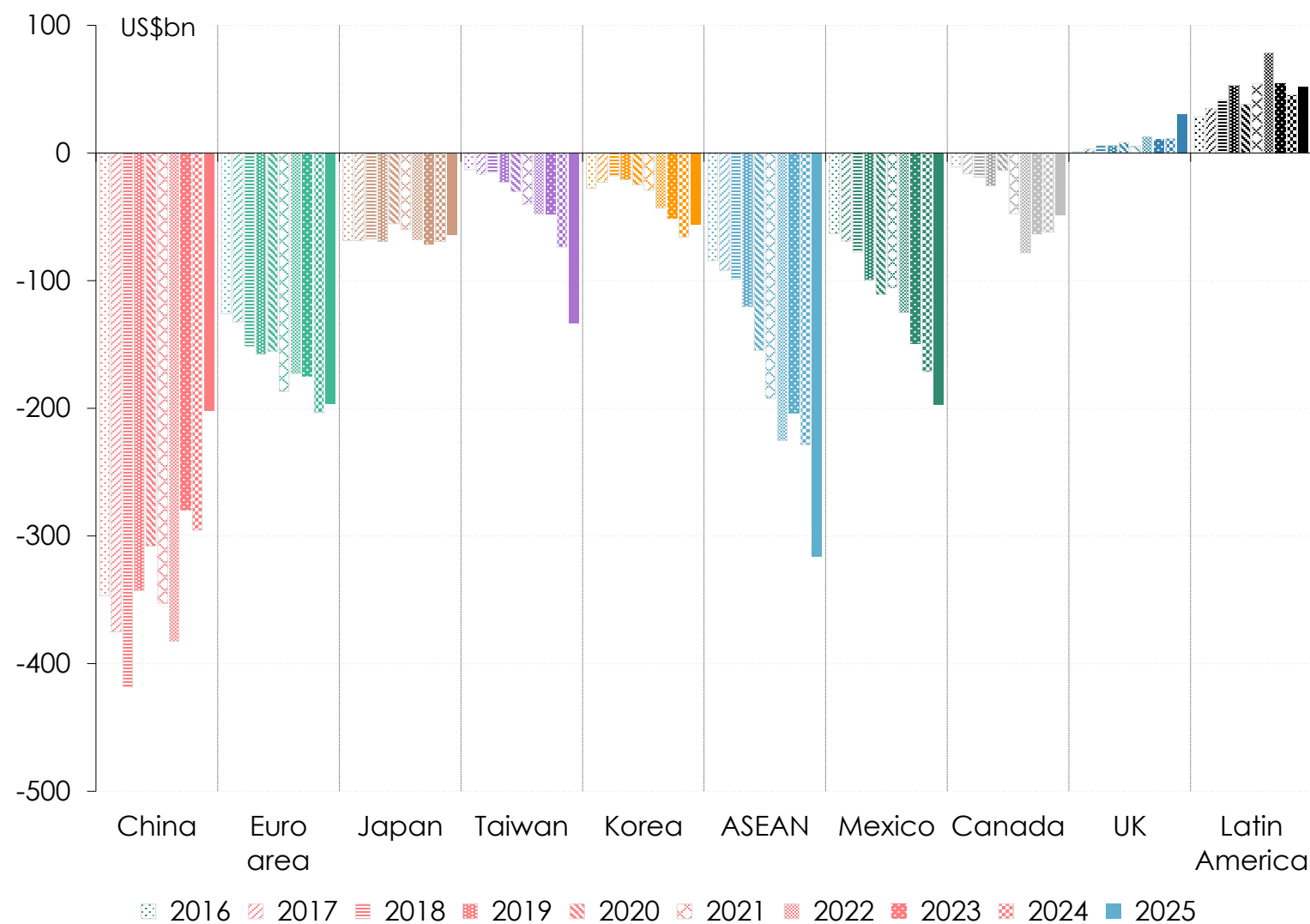
24 Source: Yale Budget Lab, [State of U.S. Tariffs](#), 2nd April 2026.

Trump's tariffs haven't sustainably reduced the US' trade deficit – they have just redistributed it

US merchandise trade balance

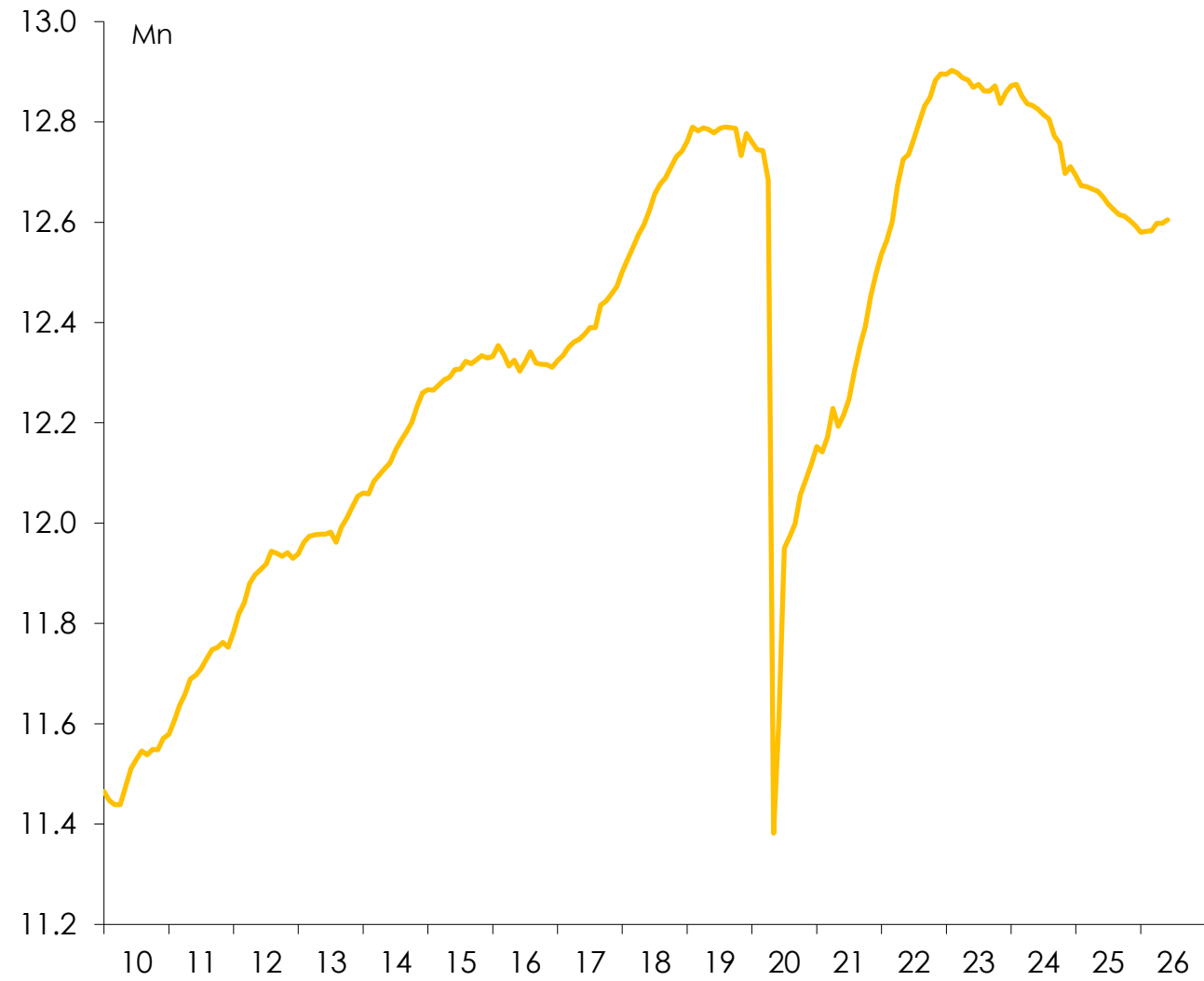


US bilateral merchandise trade balances

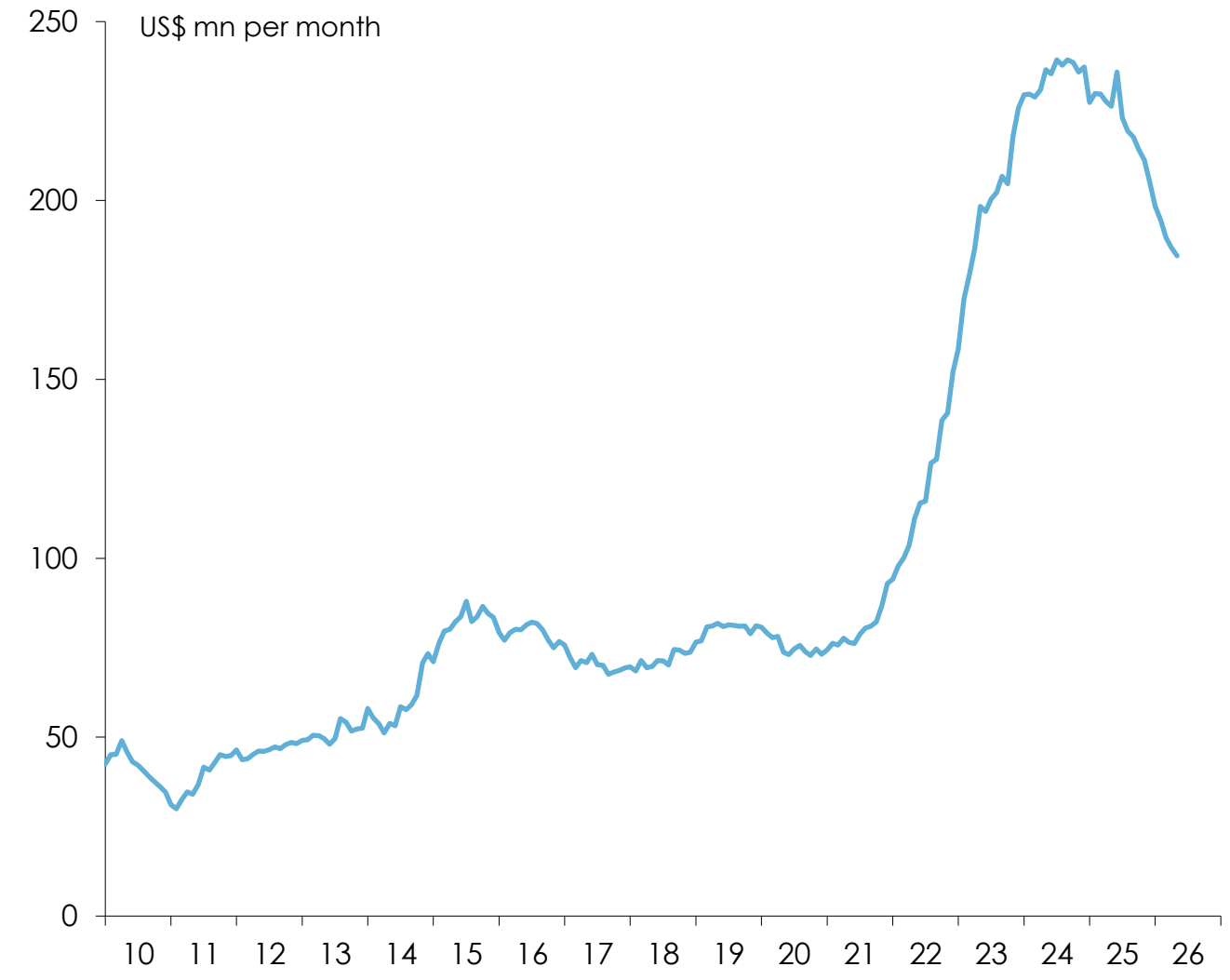


Trump's tariffs and other policies haven't 'brought manufacturing back to the United States' (unlike Biden's)

US manufacturing employment



US factory construction expenditure

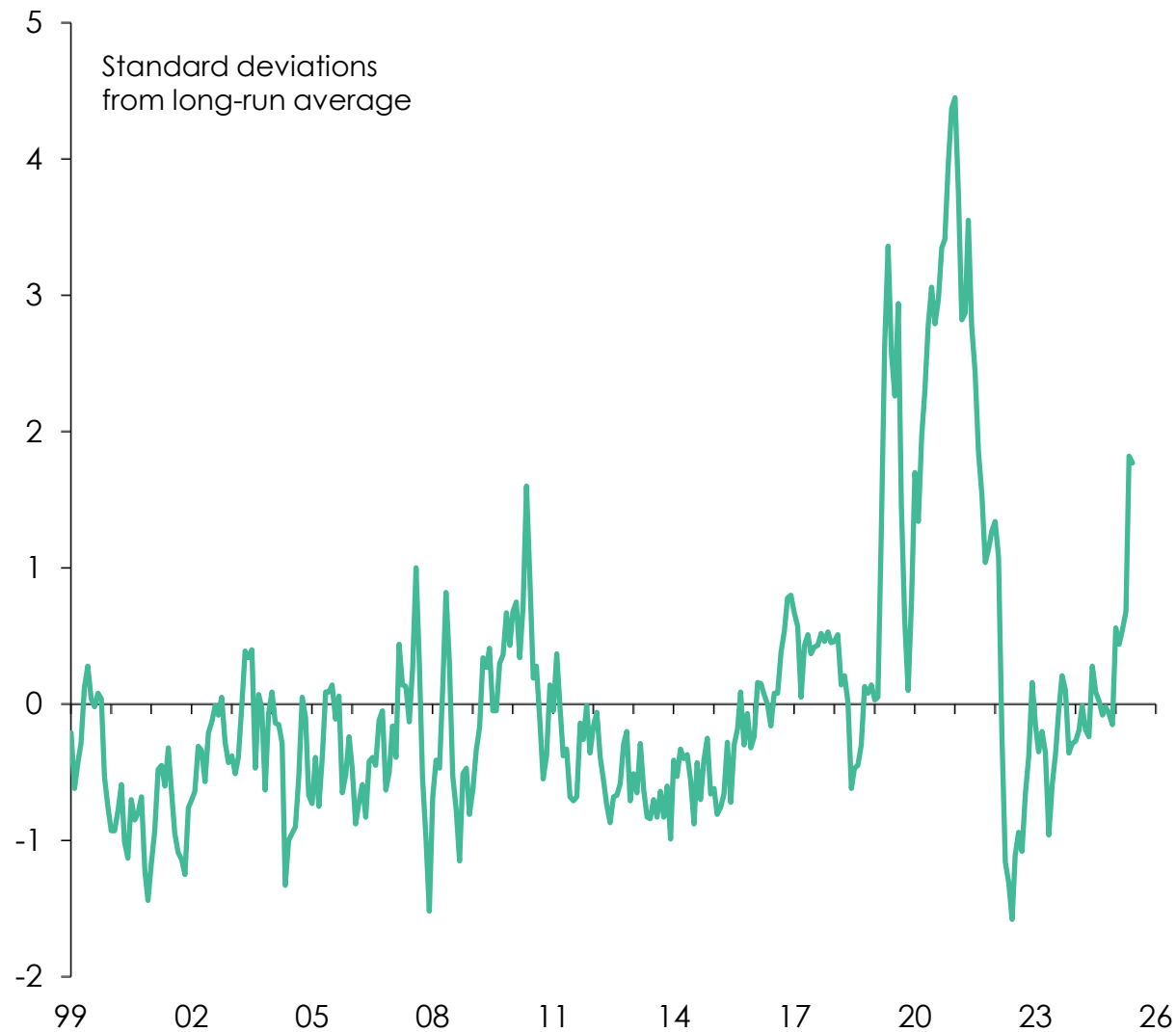


26 Sources: US Bureau of Labor Statistics; US Census Bureau.

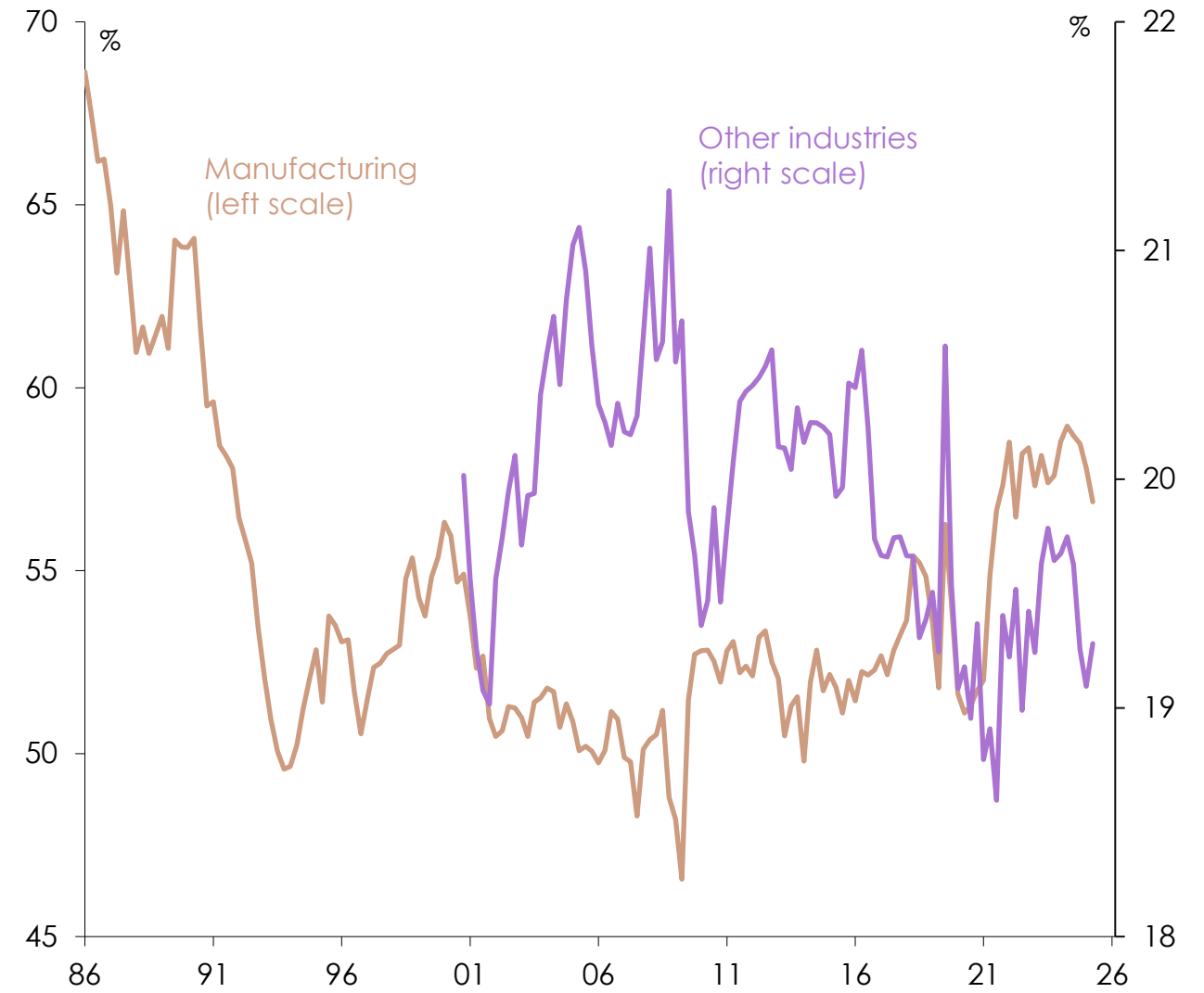
What does all this mean for Australian manufacturing?

There's now a much greater political and business focus on the resilience of supply chains – to which one response is holding larger inventories

Global supply chain pressure index



Australian inventories-to-sales ratios

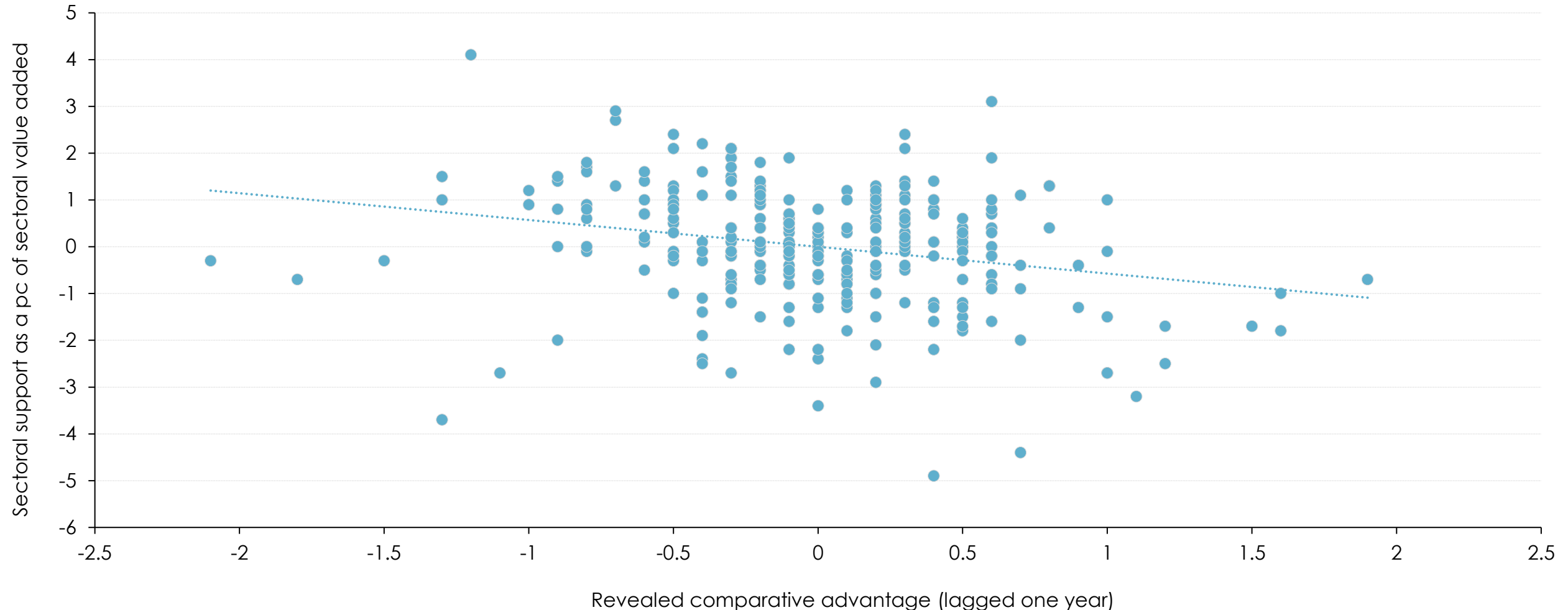


But, perhaps inevitably, there is also increasing pressure to ‘make more things’ in Australia

- ❑ **Inducing resources (labour and capital) to move into activities in which productivity is below-average will (all else being equal) result in lower overall labour productivity and hence lower overall living standards**
- ❑ **That suggests that any strategy aimed at ‘making more things’ in Australia should focus on**
 - activities where productivity is already above-average (eg petroleum, chemical and rubber products, or machinery and equipment)
 - activities where there is a realistic potential to lift productivity to above-average levels (eg through targeted skills development, investment and R&D/innovation)
 - activities closely related to industries where Australia already has an established ‘comparative advantage’ (eg mining and food & fibre production)
 - ‘low-bulk, high-value’ products so as to minimize transport costs (eg pharmaceuticals)
 - potentially, if Australia can produce large volumes of renewable energy at internationally competitive prices, energy-intensive activities
- ❑ **Government assistance should be in the form of explicit subsidies or explicit tax concessions, rather than traditional ‘industry assistance’ measures (tariffs and quotas)**
 - the amounts of assistance provided should be transparently published in Budget Papers and other financial reports, not buried under ‘commercial-in-confidence’ or ‘not for publication’ provisions
 - they should be subject to periodical arms-length review (eg by the Productivity Commission)
 - and case-by-case consideration should be given to providing financial assistance via an equity stake
- ❑ **There is likely to be a substantial role for government in fostering and facilitating the acquisition of required workforce skills**

Industrial policy measures in OECD countries typically favour uncompetitive industries – Australia needs to avoid that mistake

Industry sectoral support measures and 'revealed comparative advantage' (export competitiveness) in OECD countries, 2019-2023

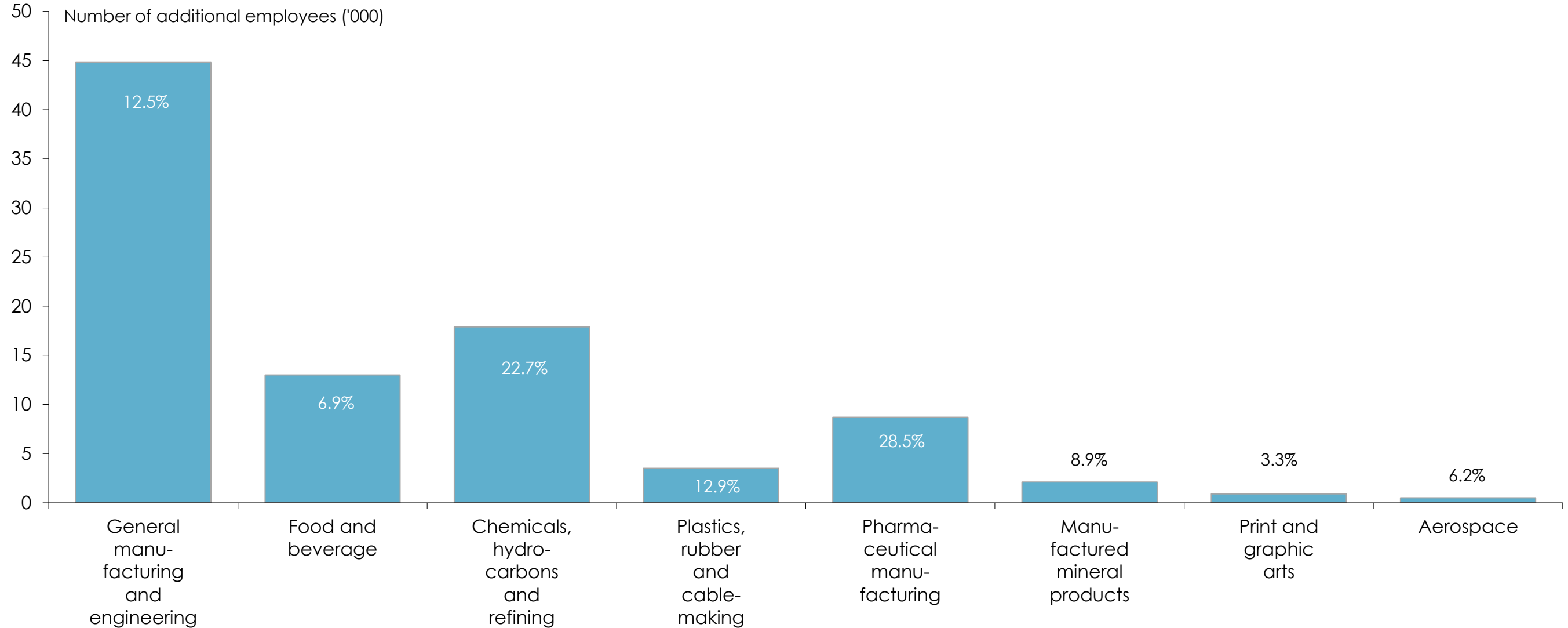


Note: 'revealed comparative advantage' for a sector of an economy is the ratio of the proportion which that sector accounts for of the country's exports, to the proportion which that sector represents of total world exports – a country has a 'revealed comparative advantage (disadvantage)' in a particular sector if the RCA index is > (<) 1.

Source: Ümmügülsüm Çavuş, Won Hee Cho, Antoine Dechezleprêtre et al, [Quantifying industrial strategies across 20 OECD countries](#), OECD Science, Technology and Industry Policy Papers No. 192, May 2026.

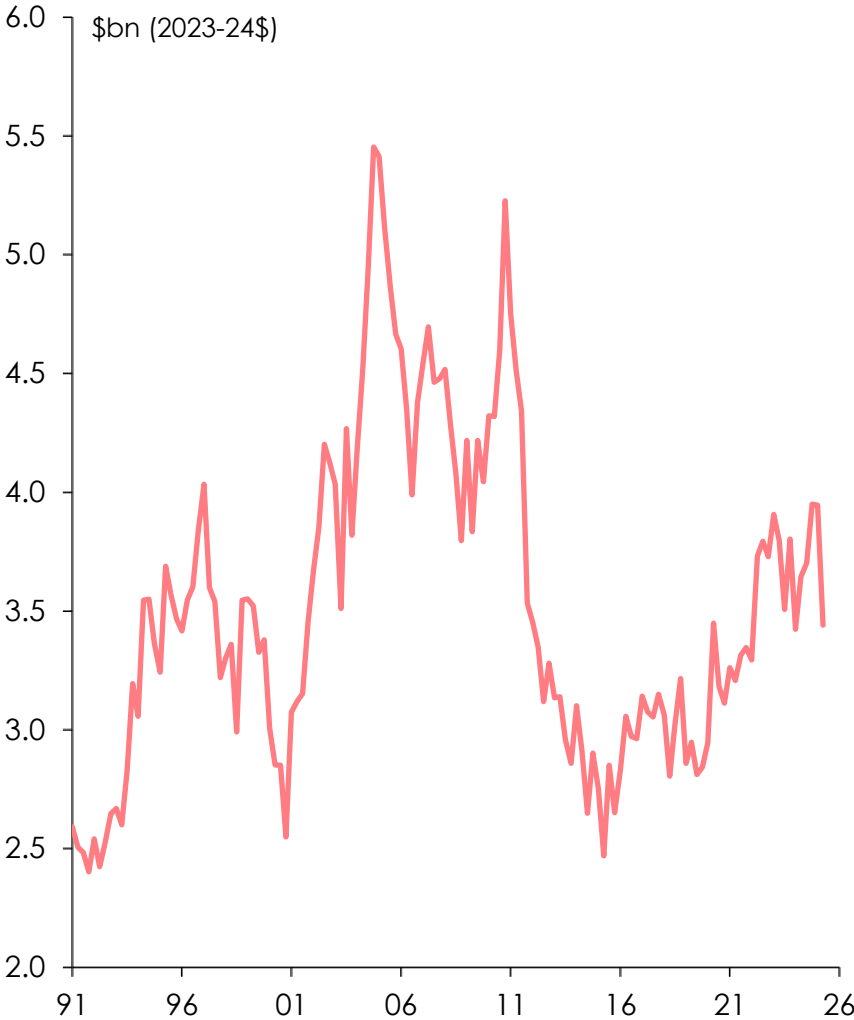
Encouragingly, employment growth projections do seem to line up with areas where there is, or is potential for, comparative advantage

Projected growth in manufacturing employment, 2025-2035

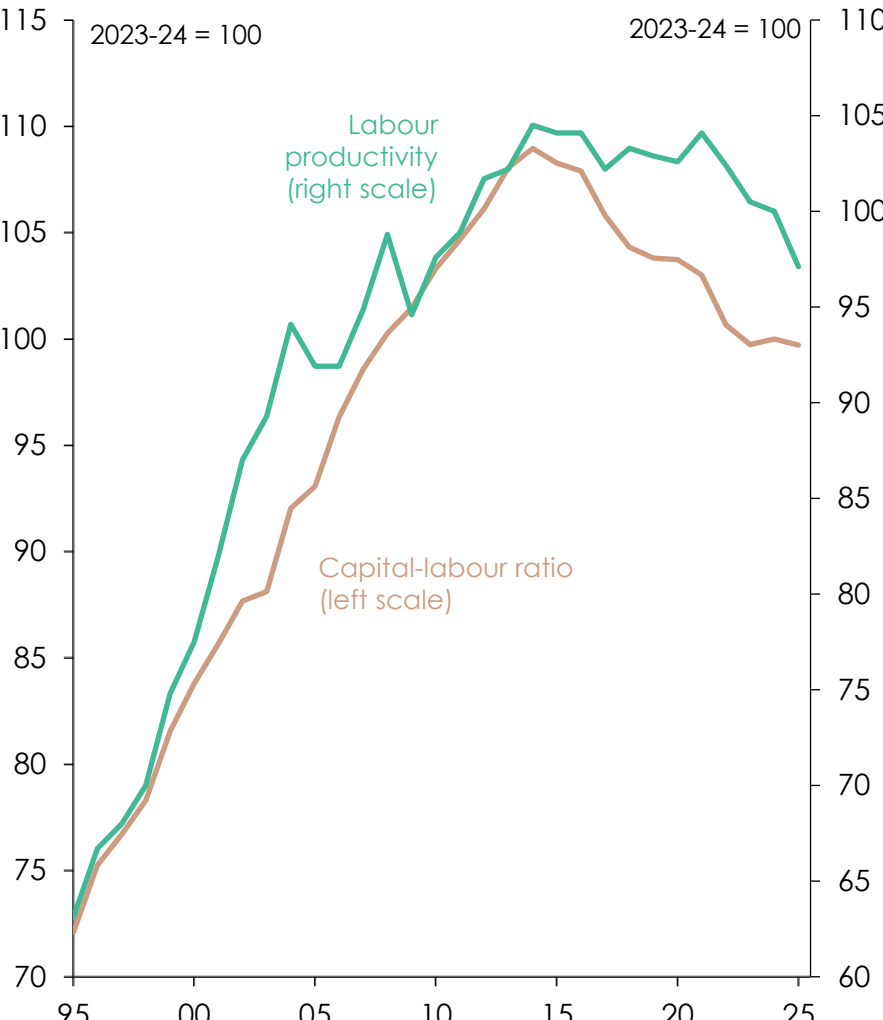


Revitalizing Australian manufacturing will require more investment in capital, as well as labour

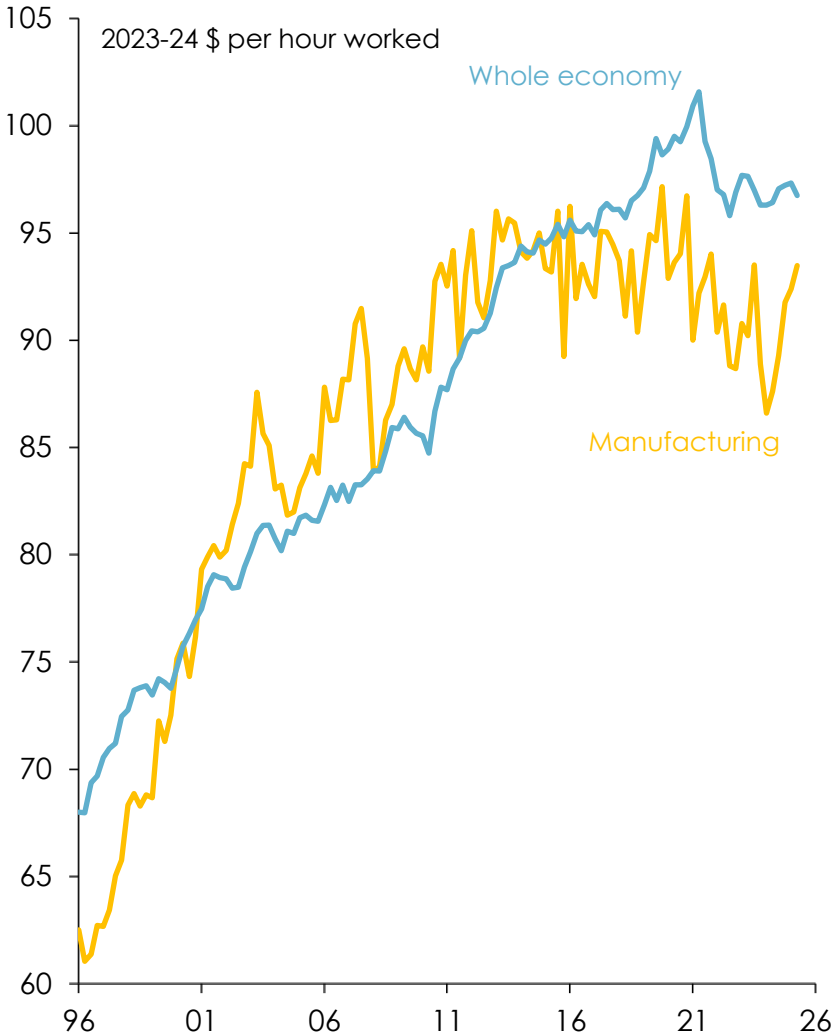
Manufacturing industry capital expenditure



Manufacturing capital-labour ratio and labour productivity



Manufacturing and whole-economy labour productivity



Sources: ABS, [Private New Capital Expenditure and Expected Expenditure](#), March quarter 2026; [Estimates of Industry Multifactor Productivity](#), 2024-25 financial year; [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2026; and [Labour Force](#), April 2026.

Conclusions

- ❑ **The 'rules-based international order' which has underwritten Australia's prosperity over the past four decades or so is disintegrating**
 - largely because the global powers with the capacity to maintain and defend it – the United States and China – no longer believe it is in their interests to do so
- ❑ **Australia, like other 'middle powers', can not – and shouldn't pretend that it can – rely on or trust either China or the United States to give any weight to Australia's interests where it conflicts with theirs**
 - we need to build stronger economic and political ties with other, like-minded, 'middle powers' in Asia, Europe, the Americas (other than the US) and Africa – which includes mutually beneficial trading and supply chain arrangements
- ❑ **Australia has a very different economic relationship with China than other 'western' nations**
 - reflecting our position as an exporter of commodities and an importer of manufactured goods, which in turn reflects our resource endowments and our geographic location
- ❑ **Australia's approach to building 'resilience' in the face of the challenges posed by the changing geo-political environment needs to be both**
 - imaginative and visionary in conceiving what we can do
 - and realistic about what we can't do
- ❑ **Just because other countries are doing something doesn't mean we should do it**
- ❑ **Australia's greatest potential for 're-building' manufacturing is likely to be founded on**
 - our long-standing advantages and expertise in mining and agriculture
 - an emerging comparative advantage in 'clean energy'
 - knowledge and innovation

Important information

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