THE CAIRNS ECONOMY - REALITIES, SUCCESSES, FAILURES & LESSONS

ppt 1:

Change is coming thick and fast, old certainties are disappearing and new challenges emerging.

Climate change and doubts about tourism icons like the Great Barrier Reef, skyrocketing fuel prices, green-house gas responses, massive loss of air services to Japan, changes in government, new political parties, sale of the airport, America in slow down, and China and India emerging as economic super powers. It's a lot to cope with.

However, as I said in a recent article in the Cairns Post, in times of change, it is important to keep things in perspective. It's certainly a time to be very clear about what drives the region's economic growth and where the opportunities lie.

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Most regional economies of Australia have an economic structure based on one or more industries that earn income from outside the region, that are usually based on exploitation of a natural resource – agricultural and pastoral industries, forestry, mining, fishing and natural tourism resources. These industries are the major force in locating economic activity in the region. Then you get a whole service industry structure develop to service the industries and population that locate in the region – transport, distribution, retailing, local service manufacturing, professional services, education, health, government and the like.

While it is very importance to have these services in place if industries are to function efficiently and people are going to be attracted to live in the area, they are essentially 'follower" rather than locating activities and their size and composition normally closely reflect the extent of the region's base industries.

Although, at times, the service industries will grow faster than the base industries and more jobs will be created in this service industry structure, the reality is that if the base industries disappear, this whole service industry structure will collapse.

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However, there can be opportunities for these service industries to become "outside earners" in their own right, in two ways.

The first is where the regional centre can expand its sphere of influence and trade into nearby regions, especially in the provision of higher order services like higher education and health.

Townsville has been heavily engaged in this for a long time.

The other way is that a region becomes so strong in some of these service industries, develops such specialist skills and facilities, that those industries can go out and compete in wider national and international markets. This is the classic "cluster" situation that economist Michael Porter has developed such a strong following behind. Cairns traditional classic cluster of this nature has been its "Marine Services & Shipbuilding" sector.

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When I first came into the business of promoting regional development in the late 1960's, Cairns was little more than half the size of Townsville. The door was firmly shut on it being able to expand its trade area. It simply couldn't compete with Townsville in the attraction of higher order services. It lost out in the battle to have the army base located in the region. Townsville's economy had been powered ahead by the growth of mining and Mt Isa and university development was underway.

Although the start of the marine industry cluster was there, ti was clear that ti would not provide sufficient employment to make a major difference.

The Cairns region decided to pursue a policy of expanding its base industry outside earnings. Townsville decided to pursue expansion of its trade area, its "capital of the north" role,

Cairns' strategy was successful with tourism being the star but not the only performer.

This success has opened new doors in being able to pursue the two other major avenues of:

- Trade area expansion.
- Cluster development.

Let's look at why the policy of building up the base industries was successful and why I believe we need to continue in that direction, but recognise opportunities other than tourism and how success in these fields is shaping opportunities for trade area expansion and cluster development.

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The first thing to realise about Cairns is that its primary economic function is that of being a regional servicing city. One of its greatest assets is that it services a region 1½ times the size of Victoria, with 4 times that State's water run off. Unlike many regional areas of Australia, this region's population outside of Cairns is growing, now making it along with the growth of Cairns, the largest regional population in northern Australia.

Lesson: What is happening outside of Cairns is very important to Cairns' development as a regional city. In this region, the 'bush' is not stagnating and dying.

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The second major reality to face, and that goes to the heart of why the region's hinterland is growing, is that the area is tropical. Historically, it was a massive problem for settlers who came equipped with superior technology, but much of it suited only to the climate of north western Europe. The whole of the far north of Australia was late being settled and initially slow to develop. But, that is now a positive, as the region plays catch up with southern Australia.

Lesson: History is currently on our side and we can be confident about the region's future.

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The underlying reality is that the region is not poor in underlying resources.

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The region accounts for 26% of Australia's water runoff.

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Even if higher temperatures and evaporation rates are taken into account, new satellite data is indicating that plant growth potential is equivalent to that of Victoria.

Lesson: In this region, agriculture has been a growth sector and with climate change trends, is likely to continue being a growth sector. But we have to change attitudes about water storages, bringing new agricultural areas into production, and investment in agricultural technology and regional infrastructure.

New opportunities are also opening up in forestry.

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While not as well endowed with minerals as some other northern regions, it is not poorly endowed. China and India, like Japan in the 1950's and 60's, are at a stage of development when they are hungry for mineral resources. There is a new era of mining development with employment within the region rising strongly and likely to continue into the future.

ppt 11 & 12:

Cairns' location, lifestyle, and airport hub advantages, mean that it is in the 'box seat' in northern Australia and adjacent Papua New Guinea and Papua Indonesia, to be a major workforce 'fly-in' source for rapidly expanding mining activity in this wider area.

Lesson: Cairns has lagged in realising there is a new opportunity in this field. Over the last year or so, the Chamber has commenced an initiative that needs support. But there are implications that need to be addressed in training, but also in regional infrastructure, including roads and seaports, and relationships with surrounding regions. The Peninsula Road has to be built to provide access to the mining/industrial complex developing in the Weipa/Aurukun area.

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The region is not poor in marine resources and activity. In fact, it leads the north in marine industries employment by a long way. However, the marine services sector has taken a battering by reductions in fisheries and loss of defence shipbuilding.

Lesson: The region needs new initiatives to market and encourage investment in its maritime sector and its seaports in fields like super yacht and cruising yacht services, shipping trade, cargo handling and shipbuilding.

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The region is certainly not poor in natural tourism resources. But the Asian crisis, 9/11, Sars, recently vulnerability to fuel price rises and a high dollar, and doubts about effects of climate change, all illustrate that the region cannot rely on tourism as the mainspring of growth of outside earnings indefinitely into the future.

Lesson: Tourism success has given us the largest non-metropolitan airport in Australia. A new aviation services cluster is developing and the airport is now a powerful locational factor in the development of other activities.

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I have often spoken of the four major underlying factors that have been behind the increasing realisation of the region's resource potential.

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The first of these is growing global markets reaching out for previously marginal resources with the region being advantaged by major growth taking place in eastern Asia.

Despite the US slow down and credit squeeze taking place, prospects for continuing growth of the world economy seem excellent. However, the emphasis is continuing to shift.

Lesson: While the Advance Cairns promotions into China have been appropriate, I suspect that we may have been better at this point in time including in the region's product range more of its minerals and ability to expand primary production.

We need to continue expanding our horizons however, and I believe the return of stability and progress to the previous 'arc of instability' to our immediate north provides a major renewed opportunity for Cairns and the region - especially to participate in the two giant LNG projects near Port Moresby.

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Transport developments have been of great importance in breaking down previous barriers of remoteness from major markets – the advent of bulk carriers for export of mineral ores, better roads and freight efficient vehicles to carry our horticultural produce to southern markets. The whole history of tourism development in the region can be written in terms of progress from coastal cruise ships, to railway links, to the family car, to wide bodied jets.

On the other hand, the same factors have seen us lose the brewery and brick works to competition from the south.

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Clearly, sky rocketing fuel costs are having a significant impact at present.

Down the road however, is the impacts of Greenhouse gas measures.

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Fortunately, new technology in the form of fuel efficient vehicles and aircraft is coming in that will slow the impacts.

Lesson: This is a new dynamic that the region needs to come to grips with.

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Over the years, the region has come a long way in developing technology suited to the area in conquest of tropical diseases, in plant and animal breeding, in adaptation of technology to getting visitors comfortably onto the reef and under-water, in weather forecasting, and not least of all, in the impacts on every day living of air-conditioning and simple things like superior insecticides, detergents and jet sprays.

However, there are new challenges and opportunities coming to the fore and we still have a long way to go in some fields, especially agriculture and biotechnology and in meeting climate change responses.

The region is even getting confident and cheeky enough to talk of selling its tropical expertise. However, the reality is that Cairns still plays second fiddle to Darwin, Townsville and Rockhampton in research funding and links with other tropical countries around the globe are poorly developed.

Lesson: I believe the best approach for Cairns is not just to seek to sell its own limited 'tropical expertise', but to become a major 'clearing house' for information on 'tropical technology' from around the globe.

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The fourth major factor has been 'success breeds success' as industry, population and infrastructure build up, the region has been able to support more sophisticated business services, education, health, sporting and cultural facilities, making it a more civilised and attractive place in which to live and in the process, lowering the 'real' costs of living and doing business in the area.

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Combined with the region's natural environment and ambience, tourism created services, the scale of population living in the area and air transport access to the rest of Australia and overseas, this has given Cairns some very powerful advantages as a service centre in the wider tropical Australia, Asia, Pacific area.

ppt 23 & 24:

On the private enterprise front, this has led to the region now leading the north in a whole range of business services, manufacturing locations, maritime and aviation services, private international education and mining services air-links. The region now clearly leads the north in the arts, entertainment, creative industries that are now starting to penetrate outside markets.

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However, getting government investment commensurate with the region's population and position in the north has proved a very painful process with constant major battles having to be fought over road upgrading, but also development of higher education, health, sporting and cultural facilities.

Lesson: I believe that many in the Brisbane and Canberra bureaucracy has not caught up with the new realities of population sizes, business and economic structures in the north, and that the region has a major educational task in front of it.

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There have been three other elements of outside earnings that I should mention:

a) Special funding for indigenous communities - last time I looked at it, it was running at about $200m per annum.
b) Defence and surveillance spending – again, I believe running at about $200m per annum.
c) Trade with Papua New Guinea and Indonesia - Freeport Indonesia alone ships $300m in goods through the seaport each year and there is substantial provision of goods and services especially to mines in PNG.

Lessons:

a) I would like to see a much greater effort by the business community to help the indigenous communities achieve economic development.
b) I don't see defence and surveillance activity in the region increasing greatly in the next few years.
c) The activities to stem from marketing the Cairns area as a mining services centre will help address prospects of increasing trade and business with stabilised and progressing Papua New Guinea and Papua Indonesia.

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We have come a long way since the 1960's/70's and although the tourism opportunity is currently under siege, there are plenty of other opportunities around if we are flexible enough in our thinking to realise them:

a) In the service industry structure, catching up with the new reality of the region's size and population in fields like higher education and health.
b) In expanding base industries related to natural resource endowment
c) In expanding trade area opportunities, and
d) Expanding specialist skills cluster activity.

But it requires new thinking about the region and new organisation.