

Sunshine Coast
Business Council
one vision one voice



The Middle Class in the Asia Century: Where should the Sunshine Coast focus?

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Executive Summary

This report on the opportunities arising from the rapid development of Asia, combined with the previous research into the Sunshine Coast's economic strengths, weaknesses and needs, provides a foundation for strategies that can revitalise the economic base of the region.

The previous research established that the traditional pillars of the Sunshine Coast economy are facing severe challenges and are not delivering the investment and jobs needed for a resilient economy. Key indicators include:

- Population annual increases fell significantly from 8,493 in 2005/06 to 1,969 in 2010/11;
- The population growth rate declined from about double that of Queensland 10 years ago to less than half today;
- Construction activity has experienced a significant decline with residential construction halved in real terms from over \$1,200m in 2007/08 to less than \$600m in 2011/12 and there were also substantial declines in non residential construction;
- Tourism visitors and employment in the industry are flat;
- The decline of sugar cane production has reduced the contribution of the agricultural sector;
- Per capita Gross Regional Product is among the lowest in the state, and
- Unemployment increased from the 2006 to 2011 Censuses from 5.6% to 7.1%.

At the same time, major opportunities are emerging from the high and sustained growth in Asia, the development of a significant middle class with changing needs and the capacity to pay. The rapidly growing middle class will require higher quality food, better education, more responsive health care and wider tourism experiences, as well as better houses, infrastructure and cities.

To date the Sunshine Coast has had a relatively low connectivity with Asia, evidenced by the demographics, tourism, international students and exports. In short, the Sunshine Coast is missing out on a major world scale change in demand, and one that is expected to continue well into the future.

In addition to examining the changes in demand, this report also examines a number of possible areas where the Sunshine Coast could, with some adaptations, positively respond to the high Asian

based demand. There seem to be good prospects in the tourism, education, health research and preventative health/wellness sectors. In the longer term there are opportunities in other sectors such as business and professional services and niche food.

The strategy that results from the present economic status of the Sunshine Coast and the opportunities arising from Asia, comprises the following:

1. Improve business capacity, labourforce participation and business skills in the 'population serving' sectors of the economy, and expand and improve the core industries that primarily respond to meeting the needs of the population, such as supporting residential and non residential construction and promoting investment and other initiatives that will attract workers and population.
2. Expand 'export income' potential from growth sectors such as Health, Education, Tourism, Professional Services and advanced Agriculture that can respond to the high Asia-Pacific 'middle class' demand for these goods and services and that will provide secondary flow-on benefits for the region that the high value jobs in these sectors will produce.
3. Secure 'game changing' human and financial capital investment in 'export income' sectors to lift the productivity and hence wealth in the Region which will include significant investment in infrastructure such as road, rail, and airport, high order medical and other research, and in education and training and other tourism facilities.

This report is designed to stimulate discussion and debate about the opportunities, the strategies and the target sectors. This involves considering whether, how, to what degree and over what time periods should the Sunshine Coast seize on the opportunities that will flow from the development of Asia.

The Sunshine Coast needs to decide on its positioning in relation to Asian based opportunities, as the world is not standing still and other regions and cities will be looking at the same opportunities as part of a world wide response.

1 Background

The Sunshine Coast Business Council (SCBC) is seeking to influence the development of the Sunshine Coast by sponsoring research; debating and presenting evidence-based economic data that will support the sustainable growth of the Sunshine Coast to a population of some 500,000 with about 250,000 jobs.

The SCBC conducts and supports fact-based research to support its leadership and discussion on critical regional economic issues. In addition, the Business Council seeks to identify those aspects of the Sunshine Coast economy that can best contribute to export, investment and net new job creation that can grow real per capita Gross Regional Product (GRP).

The outcome of the SCBC's assessments in 2011 and its program for 2012 are contained in the SCBC Economic Framework 2011-2031 and Economic Directions Forum 2012.¹

This report comprises part of the SCBC Research Program for 2012, and builds on the research that examined the performance of the Sunshine Coast economy from 2006 to 2011, and on previous research.

Compared with the assessment of the review of the performance of the Sunshine Coast economy from 2006 to 2011, this report casts a wider and broader view at the expected rapid development of many parts of Asia and the opportunities that these may provide for Sunshine Coast businesses and thus contribute to the SCBC's objectives for new investment and new jobs.

2 Purpose

2.1 Brief

The SCBC sought to provide information to assist debate on future opportunities for the Sunshine Coast arising from the development of Asia, that addresses:

- The likely nature of demand from the Australian and Asia Pacific 'middle class' and the investment priorities to service the 'middle class' demand;

¹ www.scbusinesscouncil.com.au

- The consequent investment and employment priorities in key Sunshine Coast industries of Health, Education, Tourism and Businesses Services, and
- World capital flows, investment sector priorities, (particularly Australia) and the downturn in capital expenditure in the resources market.

The broader context is provided by the release of the Commonwealth Government's White Paper, *Australia in the Asian Century*². The White Paper assessed the prospects for developments in Asia and the opportunities presented for Australia and for industries.

This paper provides an assessment of the opportunities and responses that may be applicable to the Sunshine Coast, and thus provides a regional perspective to the analysis presented in the White Paper.

2.2 Scope and Coverage

Section 3 briefly describes the current status of the Sunshine Coast, based on the findings of the previous work undertaken in the *What, What Now and So What* series commissioned by the SCBC. This work provides the environmental scan of the economic strengths, weaknesses and needs for the Sunshine Coast economy and the opportunities that may arise from the forecast growth in Asia.

Section 4 examines the forecast growth of Asia based on a number of recent assessments including those from the World Bank (WB), the Asian Development Bank (ADB), the International Monetary Fund (IMF), *Australia in the Asian Century*, CSIRO, major international consulting companies and banks, as well as other academic sources.

Section 5 examines the consequences of the rapid rate of economic growth in Asia on the growth of the middle class and the impact on demand patterns. The demand assessment provides the basis for the opportunity analysis in the target industries.

Section 6 provides a preliminary assessment of the opportunities for the Sunshine Coast to turn potential opportunity into real Sunshine Coast based investments and jobs in the target industries that contribute to the SCBC's vision for the economic development of the region.

One of the key issues facing investment in Australia and the Sunshine Coast is where the money is coming from. Section 7 examines the

² Australia in the Asian Century

financial and investment flows between Australia and Asia, the trends, industries and major countries involved.

Section 8 summarises the main issues, opportunities and actions and provides a strategic approach to addressing current deficiencies as well as medium and longer-term actions to benefit from the opportunities that will arise from the development of Asia.

2.3 Time and Space

2.3.1 Time Horizons

In terms of timeframes, many of the forecasts of future Asian development are based on about 20 year time horizons, that is to about 2030-2035. This timeframe aligns with the SCBC's time frame for its economic targets for the Sunshine Coast and those of the Queensland Government population projections.

Within the Sunshine Coast, there will be other time frames for other interest groups. The issue of the Sunshine Coast seeking to take advantage of the growing opportunities in Asia is a new concept for many, and to date the level of engagement by the Sunshine Coast with Asia is relatively low (tourists, migrants, international students, etc), therefore, a number of time horizons will need to be considered.

In terms of Sunshine Coast responses to the opportunities, the approach adopted in this report is to use multiple time frames, generally as follows:

- Doing more with what the Sunshine Coast has already in its core industries;
- Rebalancing the base to focus on target industries that can respond to the growing opportunities in Asia and that will contribute most to increased wealth and income of the region, and
- In the longer term attract the investment in financial and human capital that is necessary to increase productivity for the region, make it more competitive in attracting Asian based opportunities and thus provide a much stronger and sustainable economic base.

2.3.2 Space

In terms of geography, different authorities use different definitions for “Asia”, and within one document these geographical areas can vary depending on the data sources.

It should also be noted that only some countries of the broader Asian area are forecast to rapidly develop, and that even within these countries there will be significantly different rates of development, per capita wealth and growth of the middle class. In larger Asian countries such as China and India, there may be marked regional and other differences in the rates of development and hence the opportunities that are created. Where there are significant differences in the data pertaining to different definitions of “Asia” these will be noted.

This report focuses on those parts of Asia that are well developed (Japan, South Korea, Singapore) and those countries that are on the clear track towards future rapid economic development, such as in North Asia (China and Taiwan), South East Asia (Thailand, Philippines, Vietnam and Malaysia) and South Asia (India). These countries represent a combination of size and rate of economic growth that will account for the vast majority of expected increase in Asian wealth.

2.4 A Broader Perspective

The focus of the report is on the demand driven opportunities that are expected to arise from the forecast rapid development of Asia, and particularly the demands driven by the expected rapid growth of the middle class.

The key features of the current and expected growth in GDP per capita in Asia are that it is very rapid and that it is very large. Potentially major business opportunities will arise and a small proportion of some of these could be met by Sunshine Coast enterprises.

In terms of capturing business opportunities arising from meeting the needs of the middle class it should be noted that the growth of middle class consumption has been a feature of most western economies since at least the end of WW11. In addition, Japan and Singapore and to lesser degree South Korea, Hong Kong and Taiwan have had high per capita incomes and a developed middle class for many years.

Meeting middle class Asian needs in Australia is not new. Asia is the single largest source of tourists, international students and migrants, but very few come to the Sunshine Coast. The missed opportunities of the past need to be assessed as do the opportunities of the future.

3 Sunshine Coast Economic Scan

3.1 Main Characteristics

The main characteristics of the Sunshine Coast economy are:³

- Historically strong population growth (driven by net internal migration) that has declined markedly in the past decade, so that whereas the rate of growth was nearly double that of Queensland in 2003, by 2011 it was half that of Queensland;
- A relatively old population structure, and like the rest of Australia is forecast to continue to age over time;
- Relatively low labourforce participation rates;
- Relatively low per capita Gross Regional Product (GRP);
- Halving of the real value of residential construction from 2007 to 2012;
- An industry structure focused on tourism, residential construction and retail with a business structure highly dependent on small business;
- Increasing skills and qualifications of the population and workforce;
- Domestic oriented tourism sector, with transport linkages favouring this market, and
- Low but increasing proportion of the population born in Asia and speaking Asian languages.

These characteristics place the Sunshine Coast economy and community in a vulnerable position, dependent largely on the rapidly slowing population growth and the slow down in the population dependent residential construction. Domestic oriented tourism is the largest “export” industry but has been relatively flat in recent years. International tourism has been adversely affected by the high Australian dollar.

3.2 Directions for Change

In the light of these conditions and the likely future conditions if Sunshine Coast economic development policy directions do not

³ Sunshine Coast Business Council 2012 Research Program

change, the SCBC has proposed the following objectives (and supporting strategies):

- Significantly increase Sunshine Coast per capita GRP;
- Increase labourforce participation rates;
- Focus on Health Services, Education Services, Tourism Services and Added Value Services (Professional Services; Food Processing), and
- Adopt employment policies along the lines of the Commonwealth Government's 3Ps that would-
 - Address changing age structure issues,
 - Increase job opportunities for young people,
 - Encourage investment with jobs for 'worker' age groups,
 - Attract and retain economically active age groups/migrants,
 - Focus on engaging over 55 year olds to increase participation,
 - Convert part time and casual jobs to full time,
 - Increase percentage of government jobs to boost per capita income,
 - Attract business with high work value and income,
 - Invest in human and financial capital,
 - Target full time workers with job/migration incentives, and
 - Focus on transformative projects/jobs/education links.

The aim of these objectives is to increase investment, employment and ultimately community well being.

The examination of the opportunities arising from the forecast rapid development of Asia is one means to help achieve these objectives and to increase the well being of the Sunshine Coast community.

3.3 Mega Trends

This report focuses on economic opportunities arising from one of the great changes occurring in our time. This change is akin to the impacts

of the industrial revolution in Europe and the United States in the 18th and 19th centuries.

There are however other major economic, social, environmental and technological changes occurring which in complex and interrelated ways are affected by the rise of Asia or are influencing the changes. In addition there are specific issues that apply to Australia, Queensland and the Sunshine Coast region. The CSIRO has identified the following mega trends, defined as a major shift in environmental, social and economic conditions that will substantially change the way people live.⁴ These include:

More from less

Population growth is placing upward pressure on demand but resources are constrained in the long run and climate change will place additional pressure on water and food production systems. Climate change is expected to be an additional challenge.

Going, going, ... gone?

Many of the world's natural habitats, plant species and animal species are in decline.

The Silk Highway

Coming decades will see the world economy shift from west to east and north to south. China and India will be the major drivers.

Rapid income growth in Asia and to a lesser extent in South America and Africa, will see billions of people transition out of poverty and into the middle income classes.

In 1980 the weighted centre of gravity of the world economic activity was in the mid north Atlantic. By 2030 it will be located between India and China.

Forever young

Australia and many other advanced countries have an ageing population. This will change people's lifestyles, the services they demand and the structure and function of the labour market.

Great expectations

In advanced economies, there is a rising demand for experiences over products and a rising importance of social relationships but for billions of impoverished people in the world the expectations are still for the basic necessities of life.

⁴ CSIRO. Our future world. 2012 Revision

The Silk Highway is the mega trend considered in this report. Some of the other mega trends/ issues, as applied to the Sunshine Coast were addressed in the previous, *What, So What and What Now* series of research projects, such as the impacts of an ageing population on the labour supply and the economy and on the increasing demand for services.

4 Asian Development

4.1 The Long Term

The focus in Asian development in the past 10-20 years and the prospects for the next 20-30 years is, in many ways, rebalancing the world economic scales following dominance of the West for the past 200 years.⁵

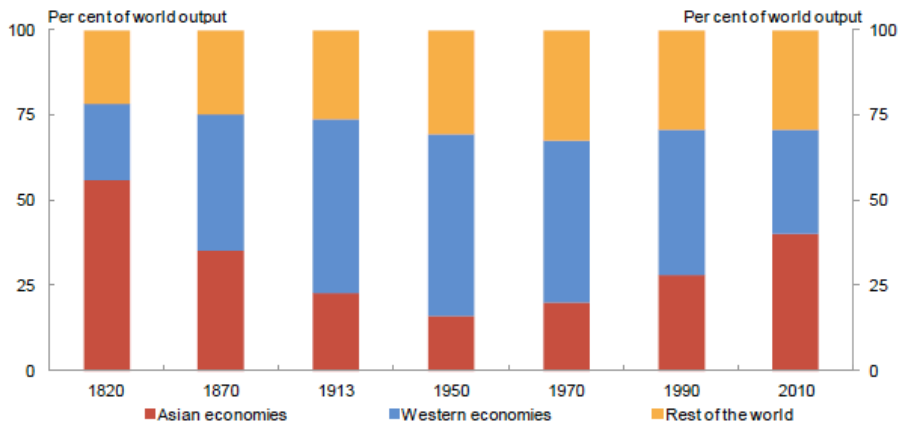
The longer-term perspective is provided in the *Australia In The Asian Century* Issues Paper that noted:⁶

Two or three centuries ago, Asia's share of world output may have been greater than that of Western Europe and North America combined. This share declined as Western economies industrialised and developed. However, starting with Japan in the 1950s, followed by a range of East and Southeast Asian economies and more recently some South Asian economies, there has been a remarkable rise in living standards.

⁵ Ian Morris. *Why the West Rules~For Now*. 2011

⁶ Issues Paper. *Australia In The Asian Century* 2011

Chart 1 World Economic Output 1820-2010 (%)

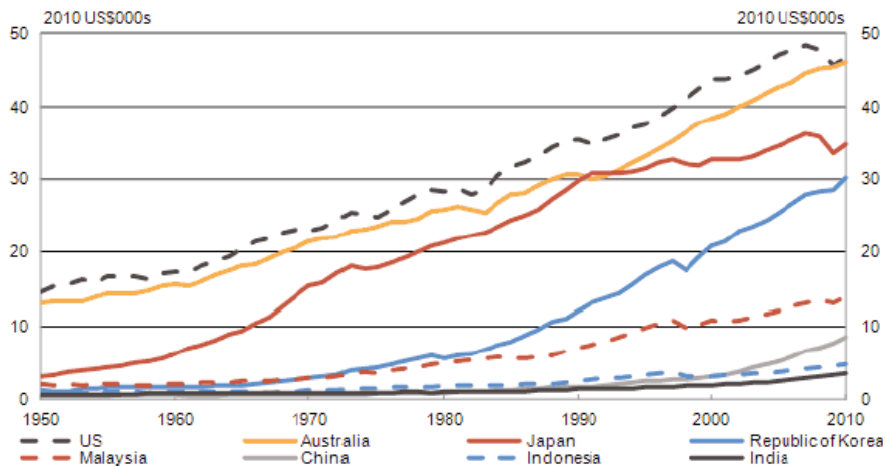


Source: Issues Paper. Australia In The Asian Century

4.2 Recent Growth

The Chart below shows the recent growth in Gross Domestic Product (GDP) per capita from 1950-2010 in major Asian Countries, compared to the USA and to Australia.

Chart 2 Gross Domestic Product per capita 1950-2010

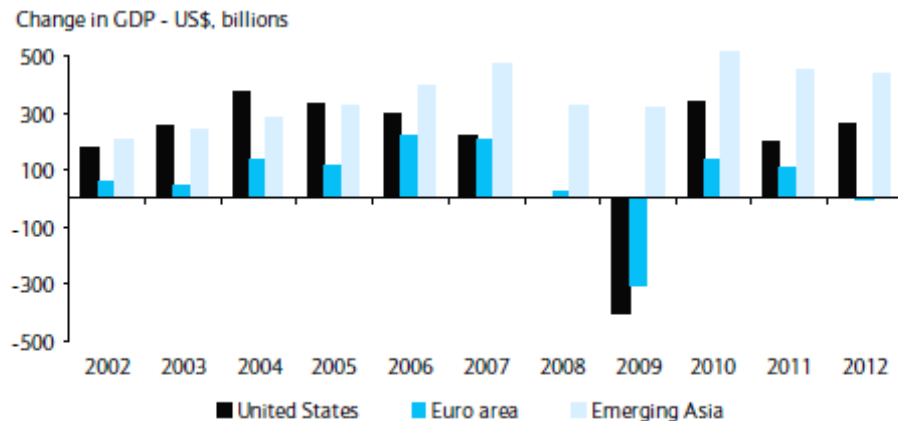


Source: Australia in the Asian Century

The rapid development and the rates of growth in Asia are not consistent. Japan, the Republic of Korea, Singapore and Hong Kong reached take-off in the 1950s to 1970s and are now well developed, with Singapore now having a higher GDP per capita than Australia.

Much of South East Asia followed and then China, with India now only approaching that stage.

Chart 3 Comparative Change in GDP 2002-2012⁷



Source: The World Bank, Bloomberg. *2012 is forecast.

The pathways to rapid, balanced economic growth in emerging Asian countries have been based on either export-driven (Asian Tigers and China) or import-substitution (Malaysia, India and Indonesia) development strategies. In both cases, a key strategic cornerstone of their economic plan rests on the specific capital infrastructure designed to support the approach to development.

The Asian Development Bank's (ADB) Key Indicators for Asia and the Pacific, 2011, noted that Asia had grown by 6.1% per year from 1990 to 2008 and was led by the People's Republic of China (9.1%), India (4.9%), and the Republic of Korea (4.6%). Structural transformation has led to a huge shift from employment in the lower productivity agriculture sector to the higher value-added industrial and services sectors.

Asia and the Pacific generated one-third of the global GDP (in purchasing power parity terms) in 2009, with the People's Republic of China, Japan, and India, respectively the second, third, and fourth largest of the world's economies.

Notwithstanding the different take-off points, the countries that take-off (and not all do) follow a broadly similar trajectory with broadly similar economic policy settings based on the following characteristics:

- Initially very young populations;
- High savings rates;

⁷ Barclays Bank Emerging Asia: Pursuing Prosperity 2012

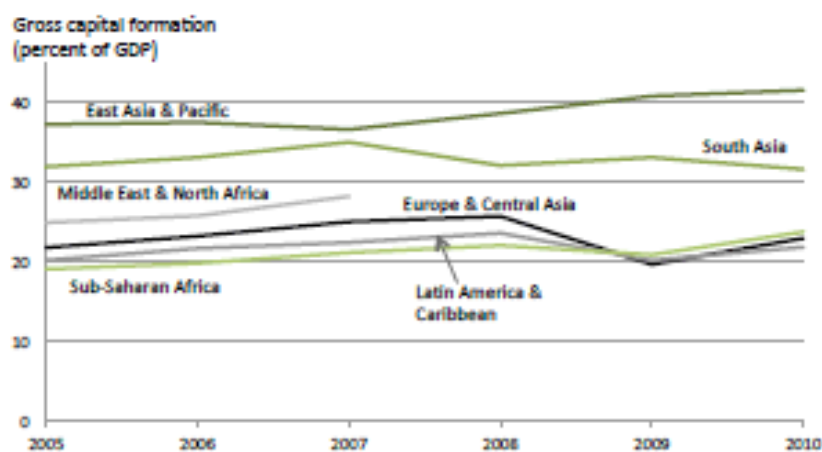
- Very high public investment in infrastructure;
- Attraction of foreign capital;
- A focus on education, skills and other human capital formation;
- Rapidly increasing labourforce participation;
- Increasing productivity flowing from investment in infrastructure and in education, and
- Changes to banking regulations and in some case reform of property law to facilitate private savings and investment.

The “virtuous cycle” continues with resultant higher incomes and wealth, high personal value and investment in education, the development of a “middle class” and subsequent change in consumption patterns with the benefits and costs of “middle class” lifestyle.

The World Bank Indicators report 2012 illustrates the importance of public and private investment in East Asia and the Pacific. In many countries of the region gross capital formation (investment) exceeds 20 percent of GDP. At 48 percent of GDP, China is the leading investor, followed by Mongolia (41 percent), Vietnam (39 percent) and Indonesia (32 percent). Gross capital formation provides the basis for growth of an economy.⁸

Much of the capital formation is in the form of infrastructure, roads, railways, communication networks, and airports. The recent trends in gross capital formation as a percent of GDP for Asia is shown in the Chart below compared with other world regions.

Chart 4 Gross Capital Formation 2005-2010 (percent of GDP)



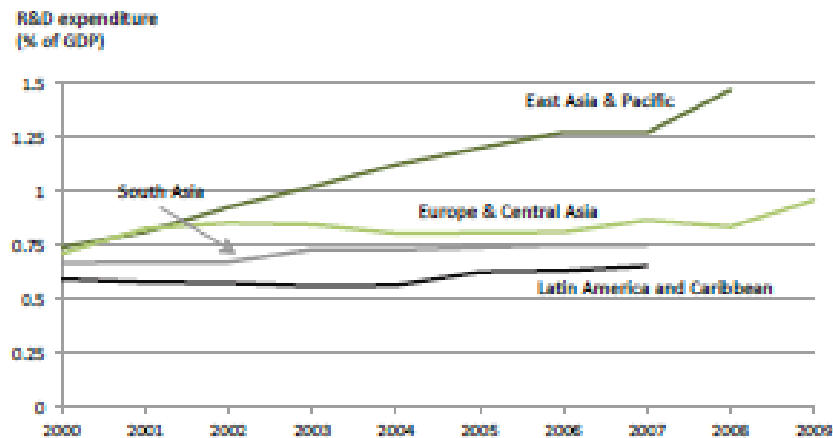
⁸ World Bank Indicators report 2012

Source: World Bank Development Indicators 2012

After take-off, development can stall as a result of an ageing population, the inability to move to higher value production and insufficient increases in productivity. The result is so called “middle income trap” where real GDP growth per capita does not increase.

The way to avoid the “middle income trap” is to move up the innovation path into higher value goods and services, which requires higher investment in research and development. The World Bank Indicators report 2012 also shows the increase in research and development investment in Asia/Pacific relative to other developing regions, as an indicator of movement to higher value production.

Chart 5 Research and Development Expenditure (percent of GDP 2005-2010)



Source: World Bank Development Indicators 2012

Rapid economic development is positively associated with high levels of “connectedness” both in terms of trade and in air capacity. The World Bank notes that East Asia and the Pacific outpaces other developing regions in several measures of air transport: registered carrier departures worldwide, passengers carried, and air freight. China accounts for about 70 percent of airfreight in East Asia and the Pacific, increasing fourfold from 2000 to 2010. Overall, East Asia and the Pacific haul more freight by air than all other developing regions combined.

The recent feature of attention has been the rapid and sustained growth of the two largest Asian countries, China and India, and also of Indonesia. These countries are significant because they are very large, and the growth has been very rapid.

The report *Australia in the Asian Century* noted that:⁹

- Asia's emergence has reshaped global financial markets;
- Over the past decade, regional investment has expanded rapidly and regional financial markets have become closer and more efficient as economies have become more interdependent;
- Asia has become a major net exporter of capital. Asia's foreign exchange reserves accounted for about two-thirds of the world's accumulated reserves in 2012;
- Asia's rapid growth and urbanisation have transformed global commodity markets;
- The region's economic growth has also contributed to fundamental changes in global food demand. Income growth has boosted demand for better quality, higher protein and more diverse diets, including for more dairy, fish, vegetables, fruits, edible oils and meat;
- Asia's urbanisation has further accentuated changes in lifestyle and consumption patterns, bolstering demand for semi-processed and ready-to-eat foods;
- A burgeoning middle class has emerged, poised to transform consumer markets. As incomes in the region have grown, an increasingly wealthy and mobile middle class has emerged, with a resulting shift in the balance of consumer markets towards Asia, and
- With less income being taken up by necessities, demand for a diverse range of goods and services, from health care to household goods, has grown.

While there have been overall significant increases in GDP per capita in Asia, the following apply:

- The take-off and rapid growth is not inevitable, as there are many Asian countries in west Asia in particular where it has not occurred;
- The rate of development can change as evidenced by Japan since the 1990s, where the rate of increase in per capita GDP has stalled, even at relatively high levels, and
- Many Asian countries remain poor, rates of growth are low and there may be great differences between urban and rural sectors.

⁹ Australia in the Asian Century p43, p44.

4.3 Benefits to Australia

Already Australia has benefited significantly from the growth in Asia to date as evidenced by:¹⁰

- Australia's largest trading partners are in Asia;
- Asia accounts for two thirds of Australia's trade, an increase since 1960 when it accounted for one third;
- The mining and energy investment boom and the significant upturn in terms of trade are due to Asian demand;
- About 80% of international students come from Asia;
- Asia accounts for 6 of the top 10 sources of tourist inflows;
- More people from Asian countries live, study and work in Australia than ever before.;
- Close to 1 in 10 of Australia's population identifies with Asian ancestry;
- China, India and the Philippines are in the top five source countries for migrants, with the share of permanent migrants coming from these three countries doubling over a decade to be 29 percent in 2010-11.

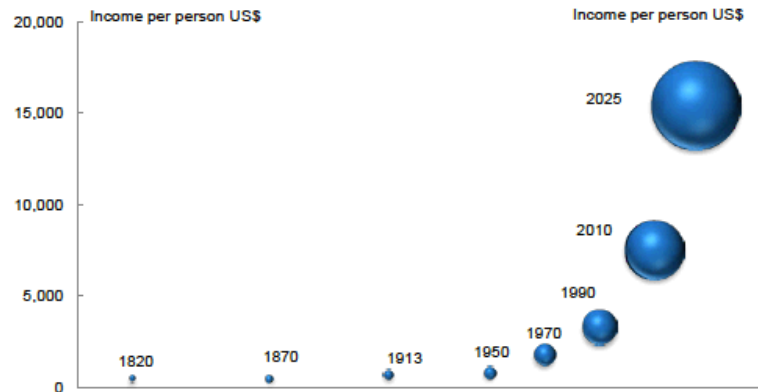
With the exception of international education, the Australian export of services to Asia has been relatively low, and additional entry points for the services sector will be needed.

4.4 Forecast Future

Incomes are expected to rise rapidly as outlined in the following Chart.

¹⁰ Australia in the Asian Century White Paper 2012

Chart 6 Asian Income Per capita 1820 to 2025¹¹



Source: Australia in the Asian Century

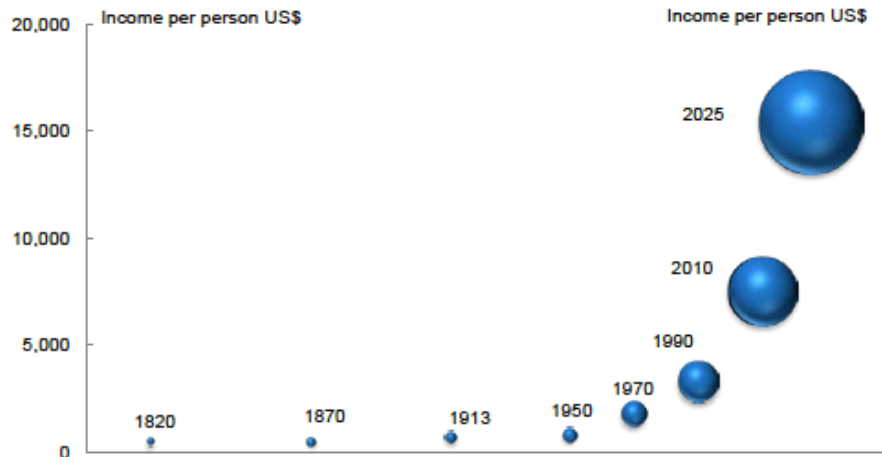
Australia in the Asian Century White Paper noted:

- While recent studies differ on how to define and measure the global middle class, all point to the sheer magnitude of the shifts in Asia;
- One prominent study estimates that middle class consumers in the Asia–Pacific region will increase by more than 2.5 billion people and account for around 60 per cent of global middle class consumption by 2030, and
- Asia will increasingly demand better quality housing and food, more sophisticated consumer goods, a broader range of services, including tourism, education, health and aged care, entertainment, financial and professional services; and many products not yet invented.

Asia will account for an increasing share of world production and consumption as illustrated below.

¹¹ Australia in the Asian Century White Paper 2012 p 6

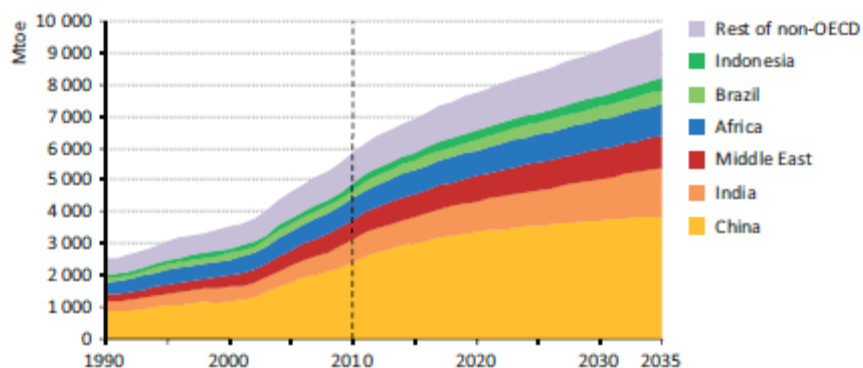
Chart 7 Asian Share of World Growth 2005-2025



Source: Australia in the Asian Century

Energy consumption is a very strong indicator of a country's level of development. The World Energy Outlook 2012 report notes that over the next 25 years, 90% of the projected growth in global energy demand will come from non-OECD economies. China alone accounts for more than 30%, consolidating its position as the world's largest energy consumer. The forecast growing energy consumption for China, India and Indonesia is shown in the Chart below.

Chart 8 Non OECD Primary Energy Demand¹²



Source: World Energy Outlook Report. 2012

By 2025, four of the 10 largest economies in the world will be in the region—China (first), India (third), Japan (fourth) and Indonesia (tenth). Asia is likely to account for almost half of the world's economic output, with China accounting for about half of that.¹³

¹² 2012 World Energy Outlook Report p 56

¹³ Australia in the Asian Century White Paper

4.5 Challenges and Risks

The future is uncertain, but the focus of world economic weight is shifting to Asia, and will continue even if growth is slower than expected.

There are broader geo-political risks outside the scope of this report, but also economic risks for Asia and for Australia's relationships with Asia. Some of the challenges include:¹⁴

- Need for ongoing structural change;
- The need for higher productivity including increasing investment in the high technology sector;
- The resolution of imbalances between savings and consumptions;
- Provision of better social safety nets;
- Further development of the financial system, and
- Opening up of the services sector to competition.

Dr Henry at the IMF/Treasury/RBA Conference, Structural Change and the Rise Of Asia noted that:

When we speak about Asia's prospects in the decades ahead we have to bear in mind that its success is not set in stone. Just as no single model accounts for the success experienced by Asian nations to this point, there is unlikely to be a single model for their futures.

It is reasonable to expect, however, that productivity will be the main driver of economic growth in Asia for the next decade at least.

In the emerging economic giants, China and India, output per worker has really only started its catch-up to levels found elsewhere in the global economy. This catch up will be based on the adoption and adaptation of technology, building a more highly-skilled workforce, accessing and using more productive capital and ensuring policy and institutional arrangements adapt to circumstances over time.

Compared with most other large Australian cities, the Sunshine Coast has had a relatively low exposure to tourists, students and migrants from Asia. It is not directly connected to the great exports of iron ore, other minerals and coal to Asia.

¹⁴ Prof He Fan, Senior Fellow and Deputy Director of the Institute of World Economics and Politics, Chinese Academy of Social Sciences. Australia in Asia Conference. 2012

There may be significant opportunities for the Sunshine Coast to provide goods and services to Asian markets, and thus generate new jobs, exports, income and flow-on social and economic benefits, but the opportunities will need to be embraced by the Sunshine Coast community.

5 Middle Class

5.1 Meaning

There are many definitions of the “middle class”, including those based on relative and absolute measures of income. One definition used in a number of major studies is that the middle class excludes those who are considered poor in the poorest advanced countries and excludes those who are considered rich in the richest advanced country.¹⁵

Where other studies have used different definitions and these are used to illustrate particular points, the definitions will be made explicit.

In income terms, the concept of Purchasing Power Parity (PPP) is used to compare purchasing capacity for the purchase of common products in different countries. This will differ from exchange rate based methods for defining comparable incomes.

5.2 Indicative Size

As the definition of the middle class is not agreed by all, the size is also variable. However, irrespective of the definition and precise size, all assessments point to the sheer magnitude of the shifts in Asia. The report *Australia in the Asian Century* notes that one prominent study estimates that middle class consumers in the Asia–Pacific region will increase by more than 2.5 billion people and account for around 60 per cent of global middle class consumption by 2030.¹⁶

The study prepared for the OECD Development Centre notes:¹⁷

- Asia’s middle class is growing faster than any other continent in the world;
- By 2030, Asia is expected to contain two-thirds of the world’s

¹⁵ For example, Australia in the Asian Century and OECD,

¹⁶ Australia in the Asian Century

¹⁷ Homi Kharas. The Emerging Middle Class In Developing Countries. OECD Development Centre. Working Paper No. 285 2010

middle class;

- The rising middle class will increase consumer spending in Asia from \$4.9 trillion in 2009 to more than \$30 trillion in 2020, and
- The Asian middle class will grow from 20% to account for 60% of global middle class spending, by 2030.¹⁸

The OECD Observer notes that by 2030 Asia will represent 66% of the global middle-class population and 59% of middle-class consumption, compared to 28% and 23%, respectively in 2009.

It is expected that the middle class in developing countries will be concentrated in Asia, particularly in North East Asia, South East Asia and South Asia.

In relation to China, McKinsey found that middle-class households (defined as US\$16,000 to US\$34,000) would rise from 6 percent now to 51 percent by 2020 as a proportion of the urban population.¹⁹

In summary the Asian region is expected to be home to the world's fastest-growing middle class, whose pursuit of an improved quality of life will see Asian economies emerge as the world's dominant consumer markets. This trend will change spending patterns, social and cultural preferences, use of technology and occupations throughout the region and the world.²⁰

McKinsey's 2010 Annual Chinese consumer study considered that the five major trends that will shape China are:²¹

- Urbanisation (in 2009, China was 46% urban; by 2025, it is expected to reach 62%);
- Development of the middle class (about 30% of Chinese households had middle-class standards of living in 2005, by 2025, that could reach 87%);
- Fast income growth and faster consumption growth (urban household income is growing 9% a year – and consumption is growing even faster, at 11%);
- Decline in savings rate (37% in 2009, will decline to 21% in 2025), and

¹⁸

OECD

¹⁹

McKinsey & Co.

²⁰

Australia in the Asian century

²¹

McKinsey's 2010 Annual Chinese Consumer Study

- Change in composition of spending (as a share of urban household spending, food will decline from 30% to 17% in 2025 and discretionary spending will rise from 33% to 44%).

5.3 Changing Demand Patterns

5.3.1 Overview

There is a general consistency in the changing pattern of demand as income increases and a middle class emerges. This has been observed in the well-developed western countries over the past 100-150 years, in now well-developed Asian countries in the past 50 years and in those countries in Asia now undergoing rapid economic development.

There is some repetition in the studies and data on the changing demand patterns, but only to illustrate the breadth and diversity of work undertaken in different countries that produce essentially the same directions of change, and thus validating the results.

The middle class accumulated physical capital, (plant, equipment or housing) and human capital (education or health). These trends have been associated with and reinforced by falling birth rates and longer life. The consumption patterns have changed from meeting the daily necessities of life through food and shelter, to an increasing consumption of higher order goods and services and concern with the quality of these. These factors have driven consumption and domestic demand.

There has been some variation in the balance between private capital accumulation and that provided by the state, but the general trend has been universal.

For example, the most significant result of economic growth in Asian countries undergoing rapid economic growth is the improvement in quality of life for an increasing share of the population. There is a transition from 'poverty' to adequate food and clothing. Growing parts of the population are getting closer to 'well to do lifestyles' and these segments are not satisfied any more with enough food and clothes, but are also eager to obtain a quality life of high nutrient food, comfortable livings, health care and other quality services.²²

The World Economic Forum on East Asia considered that the changing demographics and the growing development of a middle class in East

²² Changing lifestyles and consumption patterns in developing countries. A scenario analysis for China and India. Hubacek, K., Guan, D. and Barua, A. (2007) *Futures*, Volume 39 (9), 1084-1096

Asia would help drive new growth. The arrival of a billion more middle class consumers will speed up the shift of East Asian economies from focusing on export-led development to more consumption-driven growth.²³

Asia's middle class is one of the fastest growing population groups in the world. According to the World Bank, the middle class of South and East Asia accounted for 1.4% of the global population and 2.1% of global income in 2000. By 2030, the World Bank forecasts that this same group will account for 8.9% of the population and 7.7% of global income.²⁴

5.3.2 Middle Class Generic Impacts

There are many studies of the changing demand patterns of the middle class and as the population moves from being very poor, to lower middle class, upper middle class to rich. These studies show snap shot comparisons at a point of time of income groups within a country, and between countries and also longitudinal studies over time. As income rises from being poor to middle class, the common features include:²⁵

- Reduction in the proportion but not absolute amount spent on food;
- Change in the composition of food towards “higher quality” foods with more protein, and
- Increase in the proportion and amount spent on services such as education, health, entertainment, communications, travel and financial services.

Initially savings rates as very high but with greater sophistication and security of the banking system and security of employment, credit plays a more important role. More sophisticated banking systems and development of property law see mortgages for housing become more important.

The impact of the growing Asian middle class is having world-wide impacts. Deutsche Bank Research notes that as the middle class grows and income levels climb, domestic demand for goods can also rise independently from the international cycle and thus contribute to economic growth. In addition, the middle class' search for quality goods requires investment into production and marketing functions in the economy, which then spreads the wealth. Parents in the middle

²³ World Economic Forum. News Release. Asian middle-class to drive growth. 2009

²⁴ Deutsche Bank Research. Emerging Asia's middle class..

²⁵ Deutsche Bank Research, Asia

class also tend to have fewer children and to spend more on education and health for themselves and their children.²⁶ The investment in education builds up human capital, further contributing to sustainable growth.

Based on a large survey of 15,000 respondents in 49 Chinese cities, including a large sample of middle class people, McKinsey identified private consumption as the primary driver of economic growth in China through to 2020, as it will account for 43 percent of GDP growth by that year compared with 26 percent at present.²⁷

McKinsey notes that Indonesia, is currently the 16th largest world economy, and could be ranked seventh by 2030. Indonesia has achieved rapid recent growth based on increasing consumption rather than exports, as is the case with a number of other Asian countries.

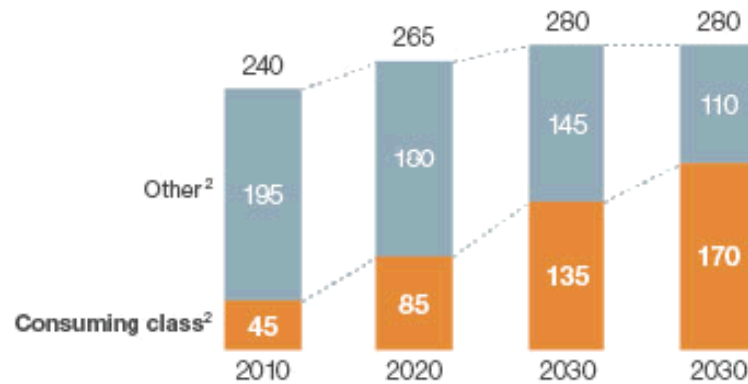
The McKinsey forecast of the future increase in the consumption base of the Indonesian population is provided below. Again it is an increasing share of a total population expected to increase from 240 million to 290 million from 2010 to 2030. In McKinsey's terminology the "consuming class" is expected to increase from 45 million in 2010 (18.7% of the population) to 170 million by 2030 (60.7% of the population).²⁸

²⁶ Deutsche Bank Research Asia

²⁷ McKinsey & Co

²⁸ McKinsey Global Institute 2012 The archipelago economy: Unleashing Indonesia's potential

Chart 9 Indonesia Changing Consumption Base 2010 to 2030



Source: McKinsey Global Institute 2012 The archipelago economy: Unleashing Indonesia's potential. Note. The Consuming class approximates the middle class used elsewhere in the report.

5.3.3 Expenditure Impacts

A major study by HSBC forecasting changing consumption patterns to 2050 assessed relative and absolute changes to major consumption patterns as populations moved from poor, to lower middle class, to upper class and well off.²⁹ The table below summarises the changes in the multiples of absolute spending as people moved from Low Class (poor) to Upper Middle Class

²⁹ HSBC Consumer in 2050

Table 1 Spending Multiple with Movement from Low Class to Upper Middle Class

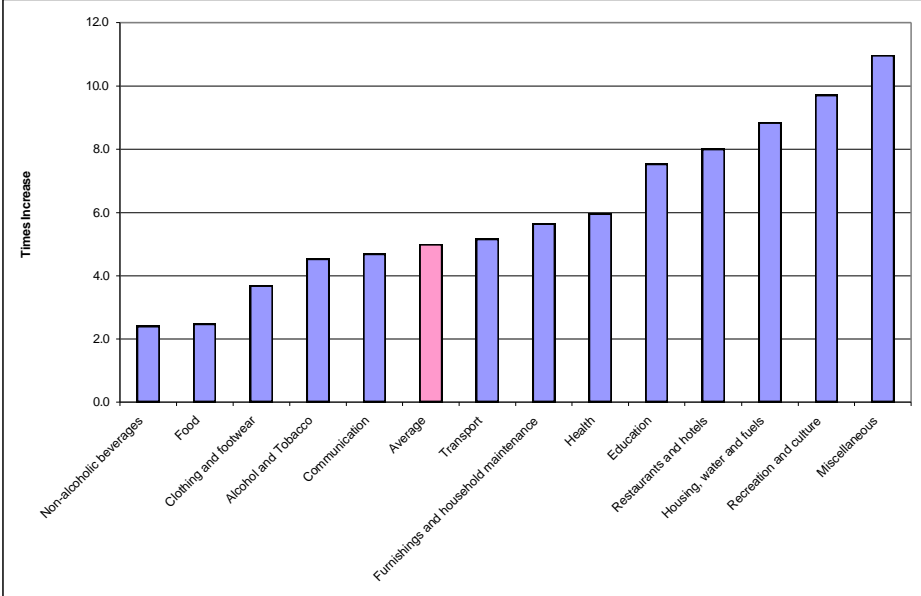
Expenditure Category	Increase (times)
Non-alcoholic beverages	2.4
Food	2.5
Clothing and footwear	3.7
Alcohol and Tobacco	4.5
Communication	4.7
Average	5.0
Transport	5.2
Furnishings and household maintenance	5.7
Health	6.0
Education	7.5
Restaurants and hotels	8.0
Housing, water and fuels	8.8
Recreation and culture	9.7
Miscellaneous	11.0

Source: Derived from HSBC and national statistics offices. Note: This data collates CPI basket information for 50 countries and groups them according to income level in order to establish a 'standard' consumer spend for each income level

On average spending increased by 5 times. The distribution patterns in this specific study reflect the general patterns discussed previously. Categories with higher than average increases included services such as Health, Education, Recreation and culture (with tourism a major component), Entertainment, Housing related goods and services and Miscellaneous, which comprised mainly financial services. While Food, Beverages and Clothing each increased by 2-4 times, each was below average.

The above data is shown graphically in the Chart below.

Chart 10 Spending Multiple with Movement from Low Class to Upper Middle Class



Source: Derived from HSBC Consumer in 2050

The McKinsey Global Institute report, The “Bird of Gold”: The Rise of India’s Consumer Market, found the following change in the distribution of consumer expenditure patterns for India. While there are some differences in categories and some differences in specific trends, the broad patterns are similar to those discussed above with higher proportions spent on Health, Education, Personal Products and Services and less on Food.³⁰

³⁰ McKinsey Global Institute. The “Bird of Gold”: The Rise of India’s Consumer Market. 2007

Table 2 India Share of Household Consumption 1995-2025

	1995	2005	2015	2025
Health	4	7	9	13
Education and Recreation	3	5	6	9
Communication	1	2	3	6
Transport	11	17	19	20
Personal Products and Services	4	8	9	11
Household products	2	3	3	3
Housing and Utilities	14	12	12	10
Apparel	5	6	5	5
Food, beverage and tobacco	56	42	34	25
Total	100	100	100	100

Source McKinsey Global Institute 2007. Note, components do not add to 100 in all cases.

A recent survey conducted by the Boao Review Magazine across nine cities in Asia including New Delhi, India, found that the consumption pattern of middle class in large cities in India is not widely different from their global counterparts of other Asian cities. The Boao review also noted that:³¹

- The use of financial services by the middle class is likely to give a push to the growing trends of retail banking and credit card usage;
- The middle class will also demand better healthcare and education services. Since they will be willing to pay for these services, private companies will have a role in delivery of these services;
- Discretionary expenditure on recreation activities, leisure travel, and entertainment and luxury items will increase. As income increases, the middle class will not only diversify their consumption baskets, but will demand better quality of and innovation in the products they purchase;
- Since the rising demand for education has not been matched by the limited supply of government-run institutes and universities, there has been an upsurge of private educational institutes and universities, and
- As the middle class increasingly become willing to pay more for education they are increasingly becoming dissatisfied with the quality of the existing education systems.

Prof He Fan, Deputy Director of the Institute of World Economics and Politics, Chinese Academy of Social Sciences, summed up the situation in China

³¹ The Consumption Pattern of the Rising Middle Class in India. Boao Review 2013

at the Australia in Asia Conference, 2012 as follows:

If you visit a middle income Chinese family you can see that they already have everything; we have our own colour TVs, refrigeration, air conditioner and automobile, so what else should we buy? The room for improvement of consumption is not in the manufacturing sector, but in the service sector; it's happening.

The good news is, it's the right time for Australia to ... this speedy economy. On the one hand they demand the commodity to decrease, but at the same time with urbanisation, with this changing demographic profile, and with the increase of the income of Chinese people there will be a huge demand for high end agricultural produce, high end of manufactured products, a decent quality of service, education, tourism, healthcare, finance, you name it.

Australia is in the right position, but the problem is there's no low handling of freight any more. For export of minerals, no one can compete with Australia. In the service sector it's a different story; I'm sure a success story will happen for some niche industries that can find their niche in the Chinese market. Generally speaking, the service sector will face a fierce competition with other countries. Yes, it's true that the quality of education in Australia is far better than that in China; it's true that the financial sector in Australia is the most advanced in this region, in Asia.

Even Australia geographically is closer to the Asian market, but in the service sector it's your competitive edge, it's not geography that matters. I think this is the reason why even this structural change in China is still at a very early stage, but Australia has to be forward looking and be well prepared for the future..³²

5.3.4 HEAT Sector Impacts

The SCBC has identified a number of economic sectors as targets for development on the Sunshine Coast as a means to increase employment, income, exports and ultimately Gross Regional Product (GRP) or economic well-being. These sectors are **H**ealth, **E**ducation, **A**dvanced services (mainly Professional and Business Services) and **T**ourism.

This section examines the demand patterns for these sectors as the Asian middle class develops. These sectors are getting an increasing share of household budgets, which in turn is leading to an increasing share of a larger base as the household expenditure is forecast to

³² Prof He Fan, Deputy Director of the Institute of World Economics and Politics, Chinese Academy of Social Sciences. Australia in Asia Conference. 2012

increase some 6-fold from 1995 to 2025.

Health

As Asian populations become wealthier, the healthcare sector in Asia will continue its strong growth. The Economist estimates that healthcare spending in Asia has risen from 14% of the global total in 2006 to 23% in 2012.³³

While the rise in income brings many benefits, it also brings costs. There has been a rapid rise of middle class diseases such as diabetes, heart and other cardio vascular disease and higher cancer rates. Many Asian countries now face epidemic levels of diabetes. India and China now have the largest number of diabetics in the world.³⁴

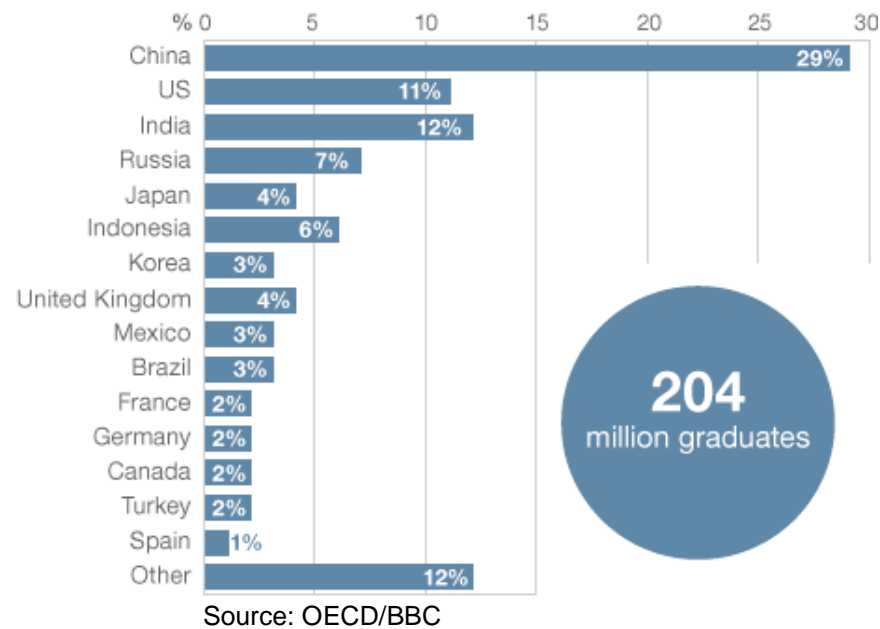
Education

The Asian Development Bank noted in Key Indicators 2010 that a significant feature of household expenditure is the rapid increase in the percentage of household income spent on education as incomes rise and people move from poor to lower middle and then middle class.³⁵

The OECD forecasts that by 2020, of the 204 million 25-34 year old graduates worldwide, over half (over 100 million) will be in Asia. In 2010 it was less than half that number.

Chart 11 Forecast 25-34 year olds with a degree 2020

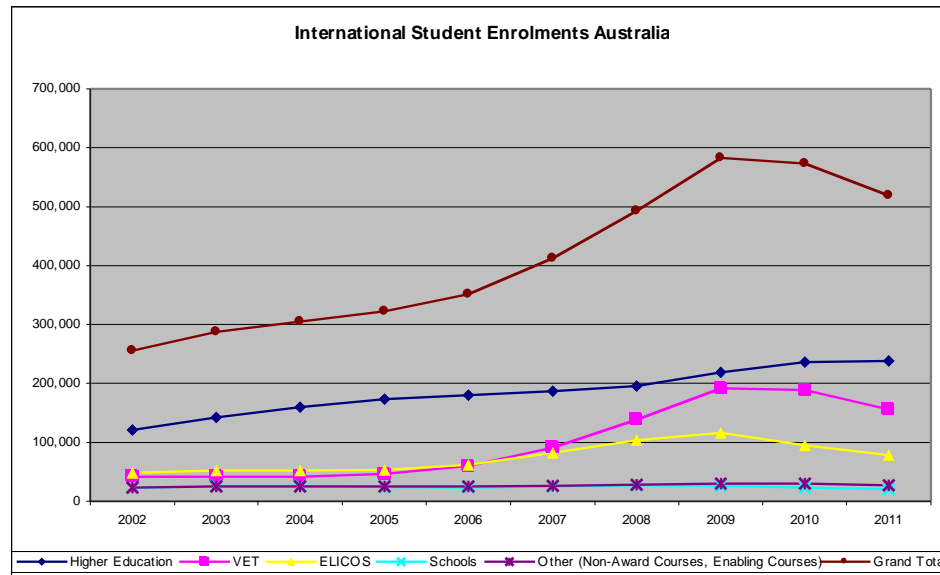
³³ Economist Magazine
³⁴ ADB The rise of the middle class
³⁵ ADB Key Indicators 2010 The Rise of Asia's Middle Class



The benefits to Australia of Asia's changing and increasing demand for Education already include:

- Education is Australia's largest services export;
- Each student contributes about \$30,000 annually, about 40% in fees and the remainder in travel and living expenses;
- Additional visits by parents and other family to students, particularly at graduation add to the spin off tourism impacts;
- Nine of the top ten source economies of international students in Australia are from Asia – including China, India, South Korea, Vietnam, Malaysia, Nepal, Thailand, Indonesia and Hong Kong;
- The number of students from Asia, particularly from China, India and South and East Asia, studying in Australia has increased from around 170,000 in 2002 to over 320,000 in 2011, and
- Students from Asia account for 79 per cent of the export income generated by international students studying in Australia.

Chart 12 International Students Australia 2002-2010



Source: Australian Education International

Asia’s expanding middle class will seek greater access to educational opportunities as a driver for more highly skilled and better paid jobs. Studying abroad is considered important to obtain these jobs and in 2012 one survey found that 85 per cent of Chinese high net worth individuals intended to send their children overseas to study.³⁶

Tourism

The Asian middle class will become more mobile. Outbound tourist numbers have already grown substantially; China’s increased from 4.5 million to 57 million between 1995 and 2010 and India’s from 3 million to 11 million over the same period.³⁷

Tourists from Asia have accounted for 43% of all visitors to Australia in the past two years and in one recent month accounted for over 50%. Visitors from China and India have more than doubled over the past decade and over half of the top 15 visitor countries to Australia in 2010-11 were from within the region.

Deloitte Access Economics' Tourism and Hotel Outlook states that the rise of the Asian middle class is the key to Australia’s tourism success in the next three years. Deloitte Access Economic forecast that over the next three years, more than 75 per cent of the growth in international visitor nights would be from Asia.

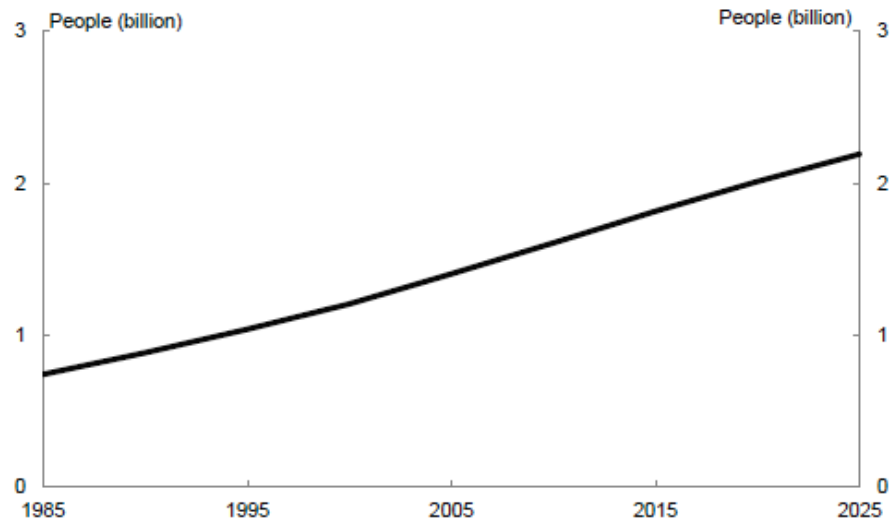
³⁶ Australia in the Asian Century
³⁷ Australia in the Asian Century

Financial and Business Services

The financial services sector is growing rapidly to meet demand, and as the forecasts of expenditure showed, the sector is expected to be one of the fastest growing. Regulatory changes are expected to facilitate new products for the household and business sector. In turn the access to a greater range of financial services to meet the demands of the middle class will also change consumption patterns.

The rapid rate and large scale of urbanisation will drive high demand for professional and business services. Urbanisation has been an important driver, as well as a consequence, of Asia's economic development. By 2025, more than 2 billion people in Asia—half the world's urban population—are expected to live in cities. By 2050, this number will rise to some 3 billion people, around double the current level.³⁸

Chart 13 People Living in Urban Areas



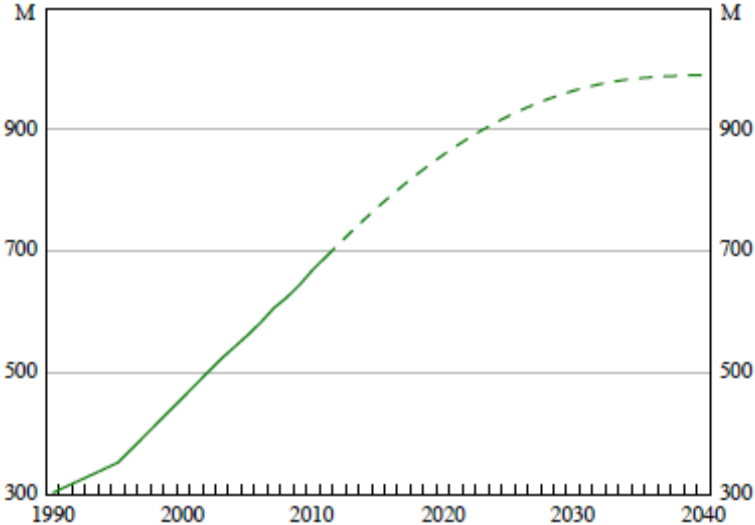
Source: Australia in the Asian Century

The *Australia in the Asian Century* report notes:

- Strong rates of urbanisation in Asia will continue to shift investment activity from the building of heavy industry to the building of infrastructure: residential construction, roads and other transport networks, container port capacity, and urban amenities (such as water and electricity distribution), and
- Urban areas will be the primary location for Asia's emerging middle class, whose demands will relate to the needs of an urban lifestyle—transportation, infrastructure, housing and utilities, food and other consumables, health care, recreation and education.

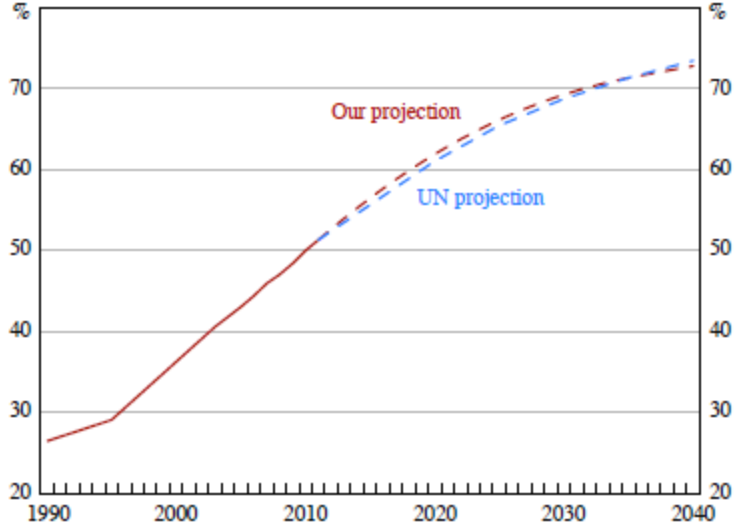
The Reserve Bank of Australia (RBA) estimated and forecast the urban population living in China so that it could better understand likely future Australian iron ore exports. Charts 14 and 15 provide details, and show that from 2010 to 2040 about an additional 250 million people would live in urban communities in China, and that the rate of urbanisation would increase from about 50% to some 75% by 2040.

Chart 14 Urban Population China



Source: UN and Reserve Bank Australia.

Chart 15 Rate of Urbanisation China



Source: UN and Reserve Bank Australia. Our Projection refers to RBA Projection.

Food based services

While the proportion of expenditure on food decreases as incomes rise, the increasing base more than balances the declining share. The HSBC study estimated that per household consumption of food

increased from US\$701 to US\$2,644 per year as a household moved from Low income to Upper Middle income. The composition also changes with relatively more meat, eggs, cheese and milk.

5.4 Responses to Changing Demand

The responses to increasing income and changing demand have been numerous and diverse by both governments and the private sector. Forward-looking governments and corporations are undertaking long term planning (and have been for some time) on how to both stimulate and respond to the increasing and changing demand. Some of the responses include:

- The common response within Asia has been broadly consistent in all countries with-
 - Increased infrastructure investment to facilitate urbanization, improved road, sea and air transportation and electricity generation,
 - Increased proportion and absolute amounts of budgets committed to education and health,
 - Private sector investment in higher quality housing, usually facilitating and responding to the rapid rates of urbanization.
- In advanced economies outside Asia, the response has included-
 - A massive increase in provision of international education from the USA, UK and Australia,
 - Realignment of tourism services to respond to increased Asian demand in Australia, USA and Europe, as well as within Asia.

The “on the ground” response has tended to be provided by the significant growth of existing cities associated with higher urbanisation. There have been a few cases where “new towns” have been constructed such as at Cyber Jaya south of Kuala Lumpur.

In terms of potential future engagement and possible models of response to the increased demand in the SCBC HEAT sectors, Singapore, as an advanced economy, provides some useful guidance in the way it has responded in the provision of international education, business and professional services and tourism. Singapore has been able to use long established relationships to facilitate its positioning as a provider of services to the Asian middle class.

5.5 Implications

The *Australia in the Asian Century* report noted:³⁹

- Economic growth in Asia will continue to drive demand for Australia's energy and mineral resources;
- Asia's transformation and rising middle class will also bring unprecedented opportunities for Australia well beyond the mining and energy sectors;
- The Asian region is expected to be home to the world's fastest-growing middle class, whose pursuit of an improved quality of life will see Asian economies emerge as the world's dominant consumer markets, and
- This trend will change spending patterns, social and cultural preferences, use of technology and occupations throughout the region and the world.

6 Opportunities for the Sunshine Coast

6.1 Framework

There seems little doubt that Asia will significantly develop in the next 20 years, and that the middle class will grow rapidly both as a consequence and as a cause of the faster development. It is also highly likely that as incomes rise, demand patterns will change significantly away from basic necessities and household goods towards services and a more "western" diet.

The issue is to what degree is there an existing or potential match between the growing needs of Asia and the capacity, now or in the future, for the Sunshine Coast to provide for some of the emerging needs.

At the same time, some parts of Asia are already well developed with rapid development and the emergence of a strong and wealthy middle class, over some 40-50 years in the case of Japan and more recently for Hong Kong, Singapore and South Korea. Some of the new demands from these countries such as tourism, education and foods have been met in some parts of Australia. The issue that arises from this situation is the degree to which the Sunshine Coast has benefited

³⁹ Australia in the Asian Century White Paper 2012 p 196

from past Asian middle class demand, and if not the lessons that need to be applied to be future.

6.2 Focus and Entry

The assessment of the potential opportunities needs to be assessed within the framework of the competitive advantages for Australia, Queensland and the Sunshine Coast.

Specific policies will need to be developed, detailed assessments and other feasibility studies undertaken to determine the best way forward. Priorities will need to be determined, time frames established and most importantly the Council and the community need to be engaged to ensure broad based support for the chosen directions.

In some cases this will require doing more or better with the existing structure and resources, and in other cases leap frogging ahead.

A key issue for the Sunshine Coast will be to assess the costs and benefits of entry points for increased engagement in Asia. While there is likely to be significant development in many parts of Asia, even rapidly developing countries vary considerably. In relation to doing business, factors to consider include:

- Business risk;
- Sovereign risk, and
- Legal systems such as contract and company law generally,

The World Bank's assessment of the ease of doing business in each country is provided in section 6.7, which complements this section.

Preliminary directions are provided below, but there needs to be an active engagement process within the SCBC, between the SCBC and Council and with broader industry groups and with the community generally. The opportunities will not be grasped unless there are champions to prosecute the case.

This assessment represents the first step in the process, and relies on the research presented earlier in this report as well as that undertaken as earlier consultancies on the structure of the Sunshine Coast economy.

6.3 Industries

The industries addressed are those identified by the SCBC as priority sectors for the Sunshine Coast, being Health, Education, Advanced Business and Professional Services and Tourism. These industries are examined alone and in terms of intersection points, such as medical tourism, educational tourism, etc,

6.4 Indicative Directions

6.4.1 Health

The health industry is one of the fastest growing in Australia. In addition, there are likely to be significant increases in demand for health services from the rapidly growing Asian middle class. The Asian middle class will develop middle class diseases. It is likely that demand will increase faster than supply and there will be a spill over of demand to other counties with more advanced medical and health systems.

The opportunities for health fall into three main areas. The first is addressing conventional health needs defined as Medical Health Tourism, which is primarily motivated by the desire for medical procedures that are unavailable or unaffordable in their own country. Travel normally includes a planned component of tourism activity/ experience.⁴⁰

The second is in the preventative or “wellness” sector, to try and not suffer from disease in the first place. Wellness tourism is designed to enable and enhance people’s physical, psychological, spiritual and/or social well-being fitness, nutrition or relaxation.⁴¹

The third is the research and development opportunity provided by the proposed development of the Skills, Academic and Research Centre (SARC) to be developed in association with the Sunshine Coast University Hospital.

In relation to Health Tourism, there has been growing Asian demand for offshore health services for some time, often being met in other Asian countries, particularly in Thailand and Singapore.

40 Health Tourism in Australia: Supply, demand and opportunities CRC for Sustainable Tourism

41 Health Tourism in Australia: Supply, demand and opportunities CRC for Sustainable Tourism

There is some small scale “health tourism” attracted to Australia, but its world market share is negligible.⁴² Australia currently lacks the policy framework, institutional arrangements, funding arrangements, incentives for major players and industry associations to drive a fundamental supply response to the demand.

The issue of Sunshine Coast Health Tourism is on the agenda for the Health Hub Action Plan that is assessing the ripple effects of the development of the University Hospital and Health Precinct, but as a lower priority activity.

It seems under current public policy settings and funding arrangements, the opportunities for the public health system to respond are very limited. The “waiting list” problem in public hospitals is likely to be a significant deterrent. There may be greater scope within the private health/hospital system.

In the light of the minimal development of Health Tourism in Australia, the prospects for the development of this sector on the Sunshine Coast appear very limited.

Given the clean and green nature of the Sunshine Coast, the focus on sport, sports medicine, and fitness and the wonderful natural environment, the stresses of Asian middle class life and often poor environment indicate that the Sunshine Coast is likely to have stronger competitive position in relation to preventative health and through the broad spectrum of spiritual, emotional and physical “wellness”. There could be opportunities to tie the preventative health opportunities directly to Sunshine Coast tourism. A strong industry drive and ownership of the opportunity would be needed.

The major opportunity for the Sunshine Coast arises from the establishment of the SARC as a venture involving the USC, University of Queensland, Sunshine Coast Institute of TAFE and Queensland Health. The SARC is expected to have 150 staff providing the following:

- Programs to up-skill existing health professionals;
- Hands-on clinical training for students in the health professions, and
- Developing new knowledge, through research, to contribute to national and international improvements in patient care.

Experience indicates that where such research centres have been established, and in light of the expected significant growth in demand

42 Health Tourism in Australia: Supply, demand and opportunities CRC for Sustainable Tourism

for health services in Australia and internationally, further growth of the SARC appears likely.

The establishment and the development of the SARC is a significant opportunity for the Sunshine Coast in meeting health related research needs in Australia and in Asia. The SARC has the potential to tie together opportunities in both the health and education fields.

6.4.2 Education

One of the clearest manifestations in Australia of increasing wealth in Asia has been the very rapid increase in international students, about 80% of which come from Asia. Australia is one of the most successful providers of international education, ranking 4 in the world.

The success of the industry is such that International education is by far the largest services export and the fourth largest export sector (\$15.1b in 2011) for Australia, behind iron ore, coal and gold but ahead of personal travel, natural gas, petroleum, wheat, and beef.

There are likely to be further significant increases in demand for tertiary education from the rapidly growing Asian middle class. The path to wealth lies through education and investment in education is highly valued. It is likely that demand will increase faster than supply, or at least quality supply can provide and there will be continuing demand to other countries with more advanced education systems.

The opportunities for education are in two main areas, onshore and offshore delivery. Onshore delivery has been much more important for Australia in the past, but a number of education institutions provide facilities and services offshore.

Relatively little of the offshore Asian demand is met in other Asian countries, but Singapore is important and China also “imports” students as well as being the major source country.

Australia has a very well developed supply pipeline to meet increased demand for overseas students. Commonwealth and State policies, institutional frameworks and administrative mechanisms are in place to exploit opportunities. Universities, in particular, and TAFE colleges have institutional and funding incentives to cater for the international education market. Through pricing mechanisms the educational providers have been able to convert meeting international demands into additional places for local students and this overcomes the supply based “waiting list” problem faced by the Health sector.

Queensland currently has nearly a 17% share of the Australia market.

Most students are located in Brisbane and a much lesser number in Gold Coast. There are relatively few international students in Sunshine Coast, Cairns and Townsville. The Sunshine Coast has an organisation (SunEd) that seeks to increase international education on the Sunshine Coast.

The Sunshine Coast University has about 700 international students and the Sunshine Coast TAFE about 100. The proportion of Asian students at USC is likely to be well below the Australian share from Asia of 79% as no Asian country is included in the top five countries whereas Asian countries dominate the top 10 for Australia.

The Sunshine Coast TAFE has a major role in the Australia Pacific Training College (APTC) which is part of a \$AUD150 million AusAID-funded program to deliver vocational education and training to Pacific Island countries. The APTC uses the services of Box Hill Institute of TAFE and Sunshine Coast Institute of TAFE.

Given the expected rapid rise in demand for education from Asia, Australia's success in the international education market and the fact that the major institutions on the Sunshine Coast are involved in onshore delivery, (even at a relatively low level), the further pursuit of the Asian international education market should be a high priority.

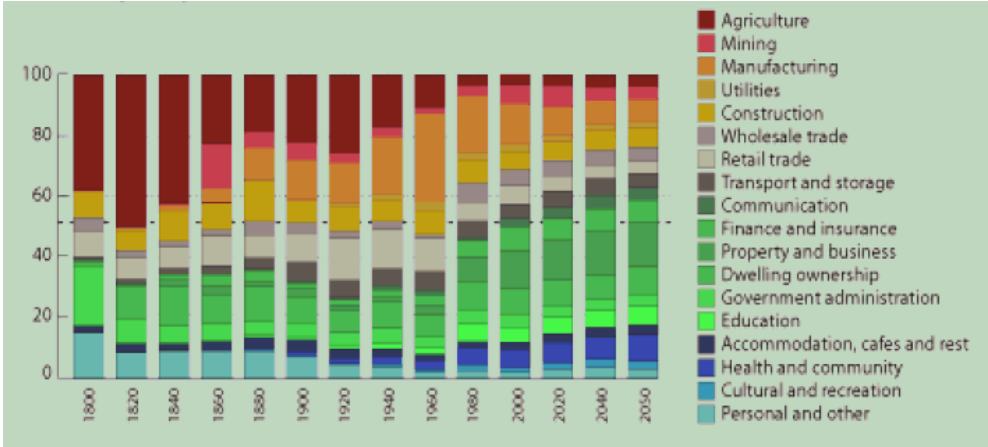
Modest initial increases in international student numbers should be able to be accommodated without significant new investment and the business model means that attracting these students will not be at the expense of local students.

Clearly the achievement of this goal depends on the business approach of the University and the TAFE, but this sector represents a high priority opportunity. More Asian students will also mean more Asian tourists.

6.4.3 Advanced Services

There have been long-term and sustained changes to the Australian economy and employment. This trend is illustrated in the Chart below that shows that the services sector now accounts for about three quarters of the economy.

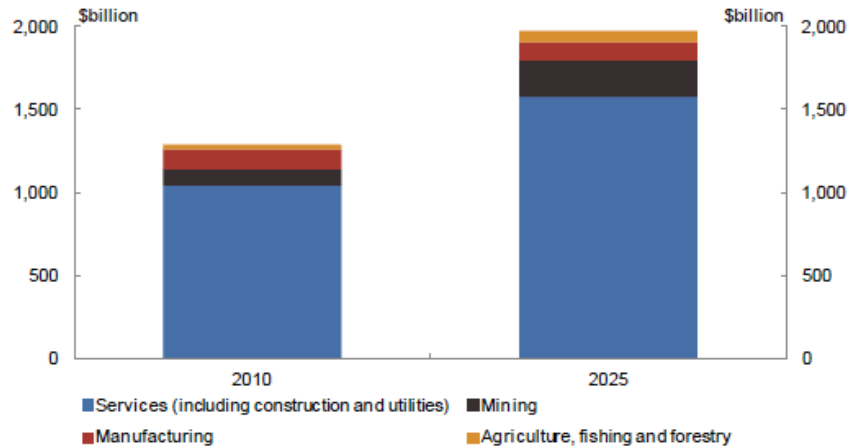
Chart 16 Industry Sector Change Australia 1800-2050



Source: IBIS World 2011

The *Australia in the Asian Century* Paper notes that there will be opportunities for Australian Services firms and manufacturers to become part of the region’s interconnected production networks. The Australian Services sector is forecast to grow strongly from 2010 to 2025 as shown in Chart 17 below.

Chart 17 Australian real GDP and industry composition



Source: Australia in the Asian Century

Seven of Australia's top 10 export markets are in Asia. However the importance of the services component, with the exception of Singapore, is relatively low. Services exports are still relatively more important in non-Asian countries.

Table 3 Top 10 Australian Export Markets 2011

	Goods (\$b)	Services (\$b)	Total (\$b)	% Services
China	71.5	5.7	77.2	7.4%
Japan	50.5	1.9	52.4	3.6%
Republic of Korea	23.3	1.7	25.0	6.8%
India	15.2	2.1	17.3	12.1%
United States	9.8	5.1	14.9	34.2%
United Kingdom	7.5	3.9	11.4	34.2%
New Zealand	7.7	3.3	11.0	30.0%
Taiwan	9.1	0.5	9.6	5.2%
Singapore	6.4	3.1	9.5	32.6%
Thailand	6.8	1.0	7.8	12.8%

Source: DFAT Trade at a Glance 2012.

Compared with Education exports of \$15.1b, other professional services exports were \$1.3b for Financial Services, \$1.6b for Telecom, computer & information services, \$0.4b for Insurance & pension and \$0.8b for Intellectual property charges.

As Asian markets grow, urbanisation continues and the financial and regulatory environments become more developed, there will be

increasing demand for a wide range of services. With the growth in urban development, significant investment in infrastructure, commercial development and housing will be needed.

Australia is likely to face fierce competition for the export of services to Asia as it lacks the transportation cost advantages that major exports of iron ore and coal possess. Nevertheless in well-established key markets of the USA and UK, services exports contribute a substantial share of total exports.

The Sunshine Coast professional services sector is growing fast, but comprises mainly small businesses or local offices of state or national based businesses. The challenges likely to be faced in the export of other professional services, reinforces the need to further develop the Sunshine Coast educational export base.

The information base on Sunshine Coast exporters including services exports is poor. The SCRC survey of exporters indicated that services accounted for about 20% of all exports. The main services exports include books, music, business and consultancy education and training services, coaching, student support services, publishing and mining services. The main services industries represented were Education and Training, Professional, Scientific and Technical Services and Art and Recreation Services. Issues with the survey methodology may mean that the actual services component is higher.⁴³

While the traditional Sunshine Coast agriculture based industries such as sugar, fishing and forestry have declined, the rising incomes in Asia are likely to result in increased demand for high-quality food, protein-rich foods and for specialist foods that may present opportunities for niche value adding Sunshine Coast food producers.

A “Sunshine Coast” food branding would assist, but issues of scale, marketing and integration with existing supply chains will need to be addressed.

6.4.4 Tourism

Tourism from Asia is very well established over the past 20-30 years, is currently accounting for about 43% of all international visitors and is projected to increase to over 50% by 2014. In 2012, China became Australia’s most valuable tourism market, and over time it will also become the source of the highest number of visitors.⁴⁴

⁴³ Sunshine Coast Export Survey. SCRC/Boardroom Business 2012
⁴⁴ Australia in the Asian Century

The share of household expenditure on tourism is forecast to rise rapidly as incomes in Asia increase, so applied to an increasing middle class base, the potential is significant.

The Sunshine Coast's main business is tourism, but the Sunshine Coast has not been a significant destination for Asian tourists in the past and is not now. The Sunshine Coast did not attract major Japanese investment in the 1980s and 1990s that was experienced in Gold Coast City and Cairns.

In the past the demand from Asia and the supply from the Sunshine Coast have not "clicked". In 2011/12, 43% of international visitors to Australia were from Asia, but only 8% of international visitors (and 7.4% of holiday visitors) to the Sunshine Coast were from Asia.⁴⁵

The 8% of international visitors from Asia attracted to the Sunshine Coast is significantly lower than Brisbane (34%), Gold Coast (48%), Tropical North (36%) and even less than the Whitsunday region (10%). The problem for the Sunshine Coast, a tourism based economy, is that it is not involved to a significant degree in the largest and fastest growing market, that is tourists from Asia.

Increasing air services between Asia and Australia have responded to and facilitated the increase in Asian visitors, and in this regard the Sunshine Coast is at a significant disadvantage. Redevelopment of the Airport, to provide for direct international services to Asia as well as providing better services to the north for domestic flights is critical to obtaining a higher share of Asian tourism. This is particularly important as the Deloitte Access Economics' Tourism and Hotel Outlook found that the rise of the Asian middle class is the key to Australia's tourism. Over the next three years, more than 75 per cent of the growth in international visitor nights will be from Asian travelers. The Sunshine Coast needs better transport access; more facilities and ways to ensure culturally appropriate experiences.

The issue for the future is whether the Sunshine Coast economy, where the major industry is tourism, can link with the biggest and fastest growing sources of international tourist demand. The AEC group presentation to the SCRC and the Tourism Industry provided in 2012 commented that:⁴⁶

- The top ten inbound markets are dominated by Asian markets, and

⁴⁵ Tourism Queensland Regional Snapshot. Sunshine Coast
⁴⁶ AEC Group. An Analysis Of The Sunshine Coast Tourism Sector The Changing Nature Of Tourism. Sunshine Coast Tourism Forum. September 2012

- The Sunshine Coast must recognise the fundamental changes to our tourism inbound market.

It is understood that many Asians seek an urban cosmopolitan holiday experience in Australia, based on large cities, shopping and the bright lights. But not all seek this type of holiday and action to define market segments that would find the Sunshine Coast attractive is urgently required. For example as part of the Tourism Australia 2020 Strategy for China the Managing Director stated *One Hangzhou based travel agent suggested the USA represents wealth and popular culture, while Europe represents luxury and tradition. For Australia, the key motivator is the environment and lifestyle*⁴⁷

Sunshine Coast has built its brand on environment and lifestyle, but is not gaining the benefits in terms of Asian tourism. The world quality Australia Zoo can provide the front door to the Sunshine Coast.

This is an opportunity that the Sunshine Coast should not miss, but unless there is a deliberate attempt to identify and reach those sectors of the Asian market that seek the experiences that can be offered by the Sunshine Coast, there is a risk that the opportunity will slip and the needs met by other Australian regions.

Positioning the Sunshine Coast to capture a larger share of the increasing number of Asian tourists should be a high priority.

6.5 Indicative Targets

The immediate Asian demand based priorities are:

- Tourism;
- International Education, and
- Preventative health.

Tourism and International education are well-established industries, but are under performing in respect to the Asian market. More can be done with the resources available. The cost benefit payoff should be greatest in these sectors.

The health research opportunities to be provided at the SARC have an international as well, as domestic focus. Depending on the structuring of the research and teaching functions, this facility could link mainstream health with education and possibly with preventative health.

⁴⁷ Tourism Australia 2020 Strategy for China

The preventative health sector appears to be a possibility that can be linked with tourism, and even short education courses. It is however a small sector and even major growth is unlikely to produce significant employment.

In the longer term, the professional services sector and food could serve highly targeted niche markets in Asia.

6.6 Engagement

6.6.1 Imperative

In considering the national perspective, which is equally applicable to the Sunshine Coast, the Government's White Paper noted:

- To make the most of these opportunities, Australian businesses must become fully part of the region, adjusting their strategies, linking with regional value chains and developing long-term relationships;
- Australian businesses need to continue developing products, services and expertise that are valued in Asia—by innovating and by understanding the diversity in demand, conditions and customs;
- To prosper, firms and individuals operating in Asia will need to deepen and broaden their relationships within the region, and
- Australian businesses and workers will need a good understanding of the cultures and practices in Asian markets.

6.6.2 Needs of Sunshine Coast Exporters

Existing and potential Sunshine Coast exporters are looking for a wide range of advice about the “how” of international engagement and exports to Asia and other countries.

The SCRC/ Boardroom Business 2012 survey of exporters identified that the following support or information was needed:

- Direct contacts in certain regions/industry sectors;
- Market information/intelligence, regulations, cultural aspects;
- Trade missions and/or trade show events;
- Advice on exporting process (i.e. logistics, customs/duty, agents/distributors etc), and
- Business considerations (risk management, cash flow impacts,

structure, IP/brand management).

6.6.3 Support Services

Both Austrade and Trade and Investment Queensland have well developed programs to promote Australian services exports with a Sunshine Coast based office to assist the export effort, including:

- Capability assessment and assistance with export planning;
- Skills development programs;
- Business matching and introductions to overseas business partners;
- Targeted trade missions, exhibitions and in-market support, and
- Linking Queensland exporters to inbound buyers and market specialists.

The objective of the TradeStart program is to assist small and medium size enterprises to achieve long term success in international business.

The Sunshine Coast Office, with links to Commonwealth and State will be critically important to develop export capacity.

6.6.4 Learn From Success

The Boston Consulting Group (BCG) in its report, Australia in the Asian Century How Australian Businesses are Capturing the Asian Opportunity, provided a number of case studies of enterprises in a number of industry sectors that had successfully engaged with Asian opportunities.⁴⁸ The main lessons were:

- Finding pathways by adapting their business models;
- Supporting Asian investment;
- Connecting with Asia;
- Identifying and meeting Asian demand;
- Building relationships, and
- Responding to diversity and change.

BCG provided a number of case studies about the successful pathways used, but in essence the businesses needed to raise their

⁴⁸ Boston Consulting Group Imagining Australia in the Asian century How Australian Businesses are capturing the Asian Opportunity. 2012

standards, build relationships, gain from use of intellectual property and expertise and have agile, adaptive business models. The Asian business was considered a core of overall success, not just a bolt on. Each business needed to develop its own pathway.

6.7 Geographic Focus

The “where” issue, will depend on many factors that will be specific to particular sectors, products and enterprises. Ultimately it will depend on where the business is assessed as being the best, which in turn depends on the size and nature of the markets affecting revenues and the ease and effectiveness of operations, which determines costs.

Many Sunshine Coast businesses export to multiple countries as illustrated by the SCRC/Boardroom Business Exporters Survey.

Table 4 Sunshine Coast Export Markets

Export Destinations (multiple responses accepted)	Percent of respondents
Pacific, PNG and New Zealand	55%
United States of America	45%
South-East Asia	45%
Europe & Russia	43%
Canada	25%
China	23%
Japan	21%
Middle East	17%
Korea	11%
Latin America	11%
Taiwan	11%
Africa	11%
India	9%

Source: the SCRC/Boardroom Business Exporters Survey 2012

The limits on the data make it difficult to be definitive, but presently the Sunshine Coast seems “light” on Asian markets, so over time some realignment towards Asia is expected.

The SCU has 690 international students (8.6% of total) from 61 countries. The countries providing the largest number of students are the United States, Germany, Canada, France and Norway. This pattern is unlike the Australian international student intake where nearly 80% of students are from Asia.

In relation to geographical market segmentation there is a general misalignment between the focus of the Sunshine Coast exporters, the university and the tourism sector away from the rapid growth markets

of the present and of the future.

The World Bank publishes annual assessments of the rankings of countries on the basis of the ease of doing business, based on a number of criteria.⁴⁹ For larger countries such as China and India it also produces sub national rankings. To provide a perspective, in 2012 Australia was ranked as 10 from 185 countries, and significantly Singapore was ranked 1, Hong Kong 2, South Korea 8 and Malaysia at 14. In contrast China was ranked at 91 and India 132.

Taking the above rankings into account, with the BCG's assessment of the importance of relationships, and the current relatively low involvement of Sunshine Coast enterprises with Asian markets, a strategy may be to proceed by way of stepping stones by forming relationships with enterprises in Singapore, Hong Kong or Malaysia for example as the means to penetrate these markets, but also to establish a base to penetrate the larger and possibly more difficult Asian markets.

7 Financial Flows

7.1 Context

The future development of the Sunshine Coast, including being able to take advantage of opportunities in Asia will require considerable capital. The considerable capital needs of the Sunshine Coast region include major upgrades for the Bruce Highway, redevelopment of the Airport, significant investment and upgrades to tourism infrastructure as well as the major urban infrastructure needs identified for the region.

Some of this is and will in the future be provided by Commonwealth and State sources, but the budgetary position for both governments places limits on these sources. Private investment will be increasingly important as sources for major infrastructure.

In this context, the demand for and supply of capital is of concern for the Sunshine Coast, particularly if the opportunities arising from the growth of demand in Asia are considered feasible for the Sunshine Coast. Capital is one of the key factors of production and it must be available to make the investment to secure the opportunities.

Increasing international capital flows can support long-term income growth through a better international allocation of saving and investment. Savings are required to generate capital. The feature of

⁴⁹ World Bank. Doing Business Economy Rankings 2012

the Asian rapid development to date is the very high level of savings and hence accumulation of capital for investment at home or in foreign countries. Australia on the other hand requires foreign investment to make up deficiencies in savings.

Asia has become a major net exporter of capital to the rest of the world through both growing foreign exchange reserves and private investment flows. Asia's foreign exchange reserves over the past decade have soared, and now account for about two-thirds of the world's accumulated reserves in 2012.⁵⁰

Capital is the most mobile factor of production, and will move to where it is wanted, appreciated and where returns are acceptable. The Sunshine Coast as an investment location is in fierce world-wide competition for capital.

7.2 Policy Framework

The *Australia in the Asian Century* White Paper noted that:⁵¹

- Foreign investment has been, and will continue to be, important to Australia's prosperity;
- Investment links between Australia and the region are low relative to the trade relationship, but the two-way investment links with the region should continue to grow over time;
- Foreign investment supplements domestic savings and provides additional capital for economic growth, supports existing jobs, and creates new opportunities, and
- Foreign investment helps boost productivity by introducing new technology, providing capital for infrastructure, supporting global value chains and markets, and enhancing Australia's skill base through greater knowledge transfer and exposure to more innovative work practices.

7.3 Stocks and Flows

The ABS measures foreign investment in terms of the level (stock) of investment at a point of time and the transactions (flow) of investment in a period of time. These are also measured by the type of investment

⁵⁰ Australia in the Asian Century

⁵¹ Australia in the Asian Century

(direct, equity, reinvestment, debt and derivatives) and by the industry attracting the investment, and the country providing the investment.⁵²

The stock represents past investment, and the main features are the dominance of the United States (\$555,868m), UK (\$470,846m) and Japan (\$123,410m). Asian countries hold a relatively small amount of the stock of foreign investment in Australia, but over the period 2006 to 2011 the rate of increase has been significantly higher than for the USA and UK which increased by 30.9% and 45.1% respectively whereas China increased by 442.9%, Japan (138.8%), Malaysia (153.2%) and Singapore (77.5%).

Table 5 Stock of Foreign Investment in Australia Major Countries 2011

Major Country	Foreign Investment	Composition %	Change 2006 to 2011
China	19,047	1.42%	442.9%
Hong Kong	39,416	2.93%	1.4%
Japan	123,410	9.19%	138.8%
Malaysia	13,987	1.04%	153.2%
New Zealand	29,707	2.21%	-16.8%
Singapore	48,709	3.63%	77.5%
Switzerland	42,281	3.15%	47.0%
United Kingdom	470,846	35.05%	30.9%
United States of America	555,868	41.38%	45.1%
Total major countries	13,43,271	100.00%	43.8%

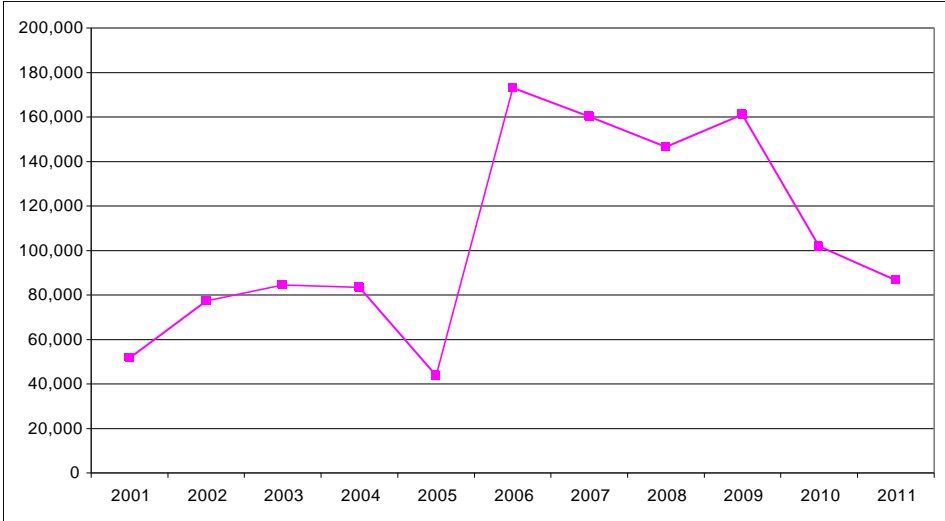
Source: ABS. International Investment Position, Australia: Supplementary Statistics. 53520. 2012.

In terms of flows, the GFC and the peaking on investment in the mining industry had major impacts on foreign investment flows to Australia as illustrated below. The flow of funds to Australia broadly reflected worldwide trends with recent falls in worldwide mergers and acquisitions and foreign direct investment.⁵³

⁵² ABS. -International Investment Position, Australia: Supplementary Statistics. 53520. 2012.

⁵³ OECD. Investment September 2012.

Chart 18 Foreign Investment Flows to Australia, 2001 to 2011 (\$m)



Source: ABS. International Investment Position, Australia: Supplementary Statistics. 53520. 2012.

7.4 Industry

In recent years (2007 to 2011), the Mining industry has attracted nearly half of the direct foreign investment to Australia, although Mining is now likely to decrease as the investment peak passes. Mining also dominated Equity capital investment and reinvestment.

Table 6 Direct Foreign Investment Flow by Industry in Australia All Countries 2007 to 2011 (\$m)

Industry	Direct Investment	Percent
Agriculture, forestry and fishing	51	0.0%
Mining	113,558	46.5%
Manufacturing	46,826	19.2%
Electricity, gas and water	4,845	2.0%
Construction	15,213	6.2%
Wholesale & Retail trade	26,876	11.0%
Accommodation, cafes and restaurants	1,033	0.4%
Transport & Communication	13,362	5.5%
Finance and insurance	17,393	7.1%
Property and business services	14,209	5.8%
Other Services	2,983	1.2%
Unallocated	-8,745	-3.6%
Total	244,424	100.0%

Source: ABS. International Investment Position, Australia: Supplementary Statistics. 53520. 2012.

In relation to industries where the Sunshine Coast has a relatively strong base or in respect of the SCBC target industries, Direct Foreign investment showed:

- Good growth for Property and business services from \$1,020m in 2007 to \$7,415m in 2011;
- A rapid decline for the Construction sector from \$11,496m in 2007 to \$682m in 2011, and.
- Accommodation, cafes and restaurants, was very low throughout the period.

The Foreign Investment Review Board advises the Treasurer and the Government on Australia's Foreign Investment Policy and its administration. In so doing it considers and reports on proposed investments in Australia. The 2011/12 Annual Report provided details of foreign investment in the services and tourism sectors, which are summarized below.⁵⁴

Table 7 Services Sector Approvals 2008/09 to 2011/12

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TIFF (Uncompressed) decompressor
are needed to see this picture.

Source: The Foreign Investment Review Board 2011/12 Annual Report

The FIRB reported that Proposed investment in the tourism sector in 2011-12 was \$0.9 billion, up from \$0.1 billion in 2010-11.

7.5 Chinese Investment

Because China is such a large economy, with high growth and considerable savings, a more detailed examination is provided for the Country. The KPMG/University of Sydney report on Chinese investment in Australia found the main features of Chinese investment in Australia were characterised as:⁵⁵

- Focussed on mining and energy (about 70% of investment from 2006 to 2012), particularly in Western Australia and Queensland;
- Greater diversity of investment in NSW and Victoria including in logistics, finance, real estate and finance;
- Concentrated in large scale investment with projects over \$500m accounting for 80% of investment;
- Dominated by state owned enterprises, and
- Preferring to invest in listed companies.

7.6 Implications

Australia and the Sunshine Coast need capital if they are to respond to the opportunities provided by Asia and Asia is now a net exporter of capital to a world competing for that capital.

⁵⁵ KPMG/University of Sydney. Demystifying Chinese Investment China's Outbound Direct Investment in Australia . 2012

To be competitive in seeking capital, the Sunshine Coast will need to develop proposals that are attractive to the sources of capital. Some of these will be governments in Australia, some private capital in Australia and it is likely that some will be from Asia.

A deeper understanding of the needs and operations of the capital markets is a precondition for attracting the capital needed.

8 Summary

The previous research has shown that economically the Sunshine Coast is not performing well and needs to diversify its economic base both in terms of industries and markets. The growth of Asia provides opportunities in strengthening traditionally strong sectors and also in developing new sectors, or ones where the Sunshine Coast is not presently very strong. The benefits that Australia is gaining from Asian based tourism and education to date have largely passed the Sunshine Coast.

For the Sunshine Coast to achieve the objective of substantially increasing employment, participation and incomes, which will result in increased GRP, clear strategies are needed to strengthen the existing industries and build the new.

The strategy that flows from the assessment of the present economic status of the Sunshine Coast and the opportunities arising from Asia points to a staged plan involving the following:

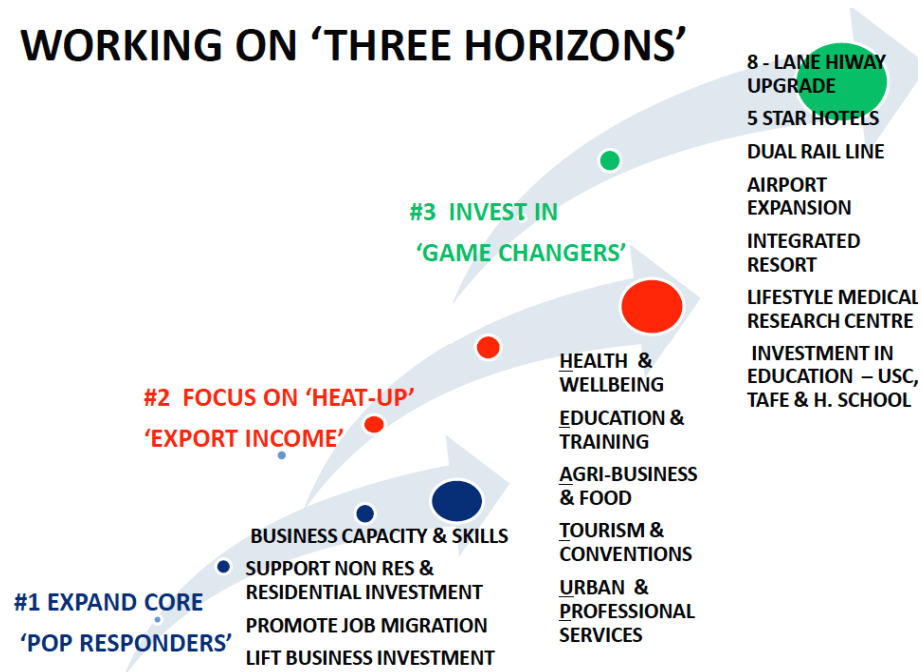
1. Improve business capacity, labourforce participation and business skills in the 'population serving' sectors of the economy, and expand and improve the core industries that primarily respond to meeting the needs of the population, such as supporting residential and non residential construction and promoting investment and other initiatives that will attract workers and population.
2. Expand 'export income' potential from growth sectors such as Health, Education, Tourism, Professional Services and advanced Agriculture that can respond to the high Asia-Pacific 'middle class' demand for these goods and services and that will provide secondary flow-on benefits for the region that the high value jobs in these sectors will produce.
3. Secure 'game changing' human and financial capital investment in 'export income' sectors to lift the productivity and hence wealth in the Region which will include significant investment in

infrastructure such as road, rail, and airport, high order medical and other research, and in education and training and other tourism facilities.

This step-by-step process is illustrated in the Chart below.

Chart 19 Sunshine Coast Economic Strategy

WORKING ON 'THREE HORIZONS'



Source: SCBC.

The adoption of such a strategic approach provides the basis to:

- Significantly increase Sunshine Coast per capita GRP;
- Focus on those industries that would most directly increase exports, investment and high paid jobs;
- Address the Participation, Productivity, Population and Employment issues that determine the Sunshine Coast's long term economic performance, and
- Encourage investment in human capital and physical capital that will increase productivity, income and wealth.

The result of the achievement of these objectives is to increase investment, employment and ultimately community well being.

It is now for the Sunshine Coast to decide if, how and to what degree it

wishes to participate in the new Asian based markets as a means of securing its economic future.

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