



**INSIGHT**

Australia's regional competitiveness index

Economic diversification and the  
competitiveness of regional Australia



## [IN]SIGHT – AUSTRALIA'S REGIONAL COMPETITIVENESS INDEX

### ***Economic diversification and the competitiveness of regional Australia <sup>1</sup>***

[In]Sight is an online index and interactive map tracking the competitiveness of Australia's 560 Local Government Areas (LGA) and 55 Regional Development Australia (RDA) regions, unlocking thousands of insights into regional Australia.

[In]Sight consists of 59 measurable indicators of competitiveness within ten themes. The best available, nationally consistent information from the Australian Bureau of Statistics 2011 Census data, Social Health Atlas of Australia, My Schools website, GIS Calculations and the Regional Australia Institute's *Survey of Regional Business Conditions and Perspectives on Regional Development* have been used to develop the index.

[In]Sight's economic diversification indicator (within the Business Sophistication theme) is based on a comparison of the industry employment profile (% of workers in each industry) for each LGA and RDA with Australia's national employment profile. More diverse regions have an employment profile closer to the profile for the economy as a whole.

### KEY FINDINGS

Australia's regions are more economically diverse than most people assume.

- Most non-metropolitan regions have a level of employment diversity close to the national employment profile.

Diversity is possible in all regions.

- Smaller and remote regions can also be diverse.
- All types of regions (metro, regional, remote) include highly diverse LGAs.

While diverse regions are generally also more competitive, many diverse regions are not highly competitive.

- This challenges the widely held notion that increasing diversity will in itself provide a foundation for economic success.

While diversification should be included as one indicator of success for regional development, [In]Sight results suggest that for most regions further diversity of employment should not be a goal in itself. Instead, a strategy of building the local contribution of existing industry to ensure that the diversity already present in a region can be effective in offsetting the risks from a reliance on one or more key industries.

<sup>1</sup> The [In]Sight measure of degree of diversification of a region's economy is calculated from data on industry of employment in the ABS Census 2011.

## The competitive environment

While industry specialisation can contribute to business sophistication through clustering, in non-metropolitan regions of Australia dependence on a limited number of industries can prove detrimental to a region's economy.

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*The most commonly raised economic threat – identified by 39 regions – was the reliance on one or few main industries and the need to diversify the region's economy. (ABS 2013)*

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Economic diversification plays an important role in providing resilience and flexibility for regional Australia's economies. Without this cushion, regional economies may suffer disproportionately during adverse external shocks, with exacerbated negative effects on employment security, income and living standards.

The recent extended drought highlighted the significant implications of regions dominated by agriculture. The lack of alternative economic opportunities in these regions meant that the drought had substantial flow-on effects to the wider community.

The dominance of a few large employers (such as a manufacturing plant or abattoir) may also leave a region highly susceptible to changes in an industry. Ford's plan to close down its factory in Geelong in 2016 has reignited discussion about the importance of diversification (although it should be noted that Geelong now has an economy with good levels of diversification).

A review of Regional Development Australia Committee strategic plans found that most regions see a lack of diversification as the key threat to their future<sup>i</sup>.

## Overall competitiveness and diversification

A review of [In]Sight data focussing on the relationship between the results for this indicator and the index as a whole confirms that diversity and competitiveness exist together.

Generally, highly competitive LGAs have a high degree of economic diversification and less competitive LGAs are much less likely to be diverse.

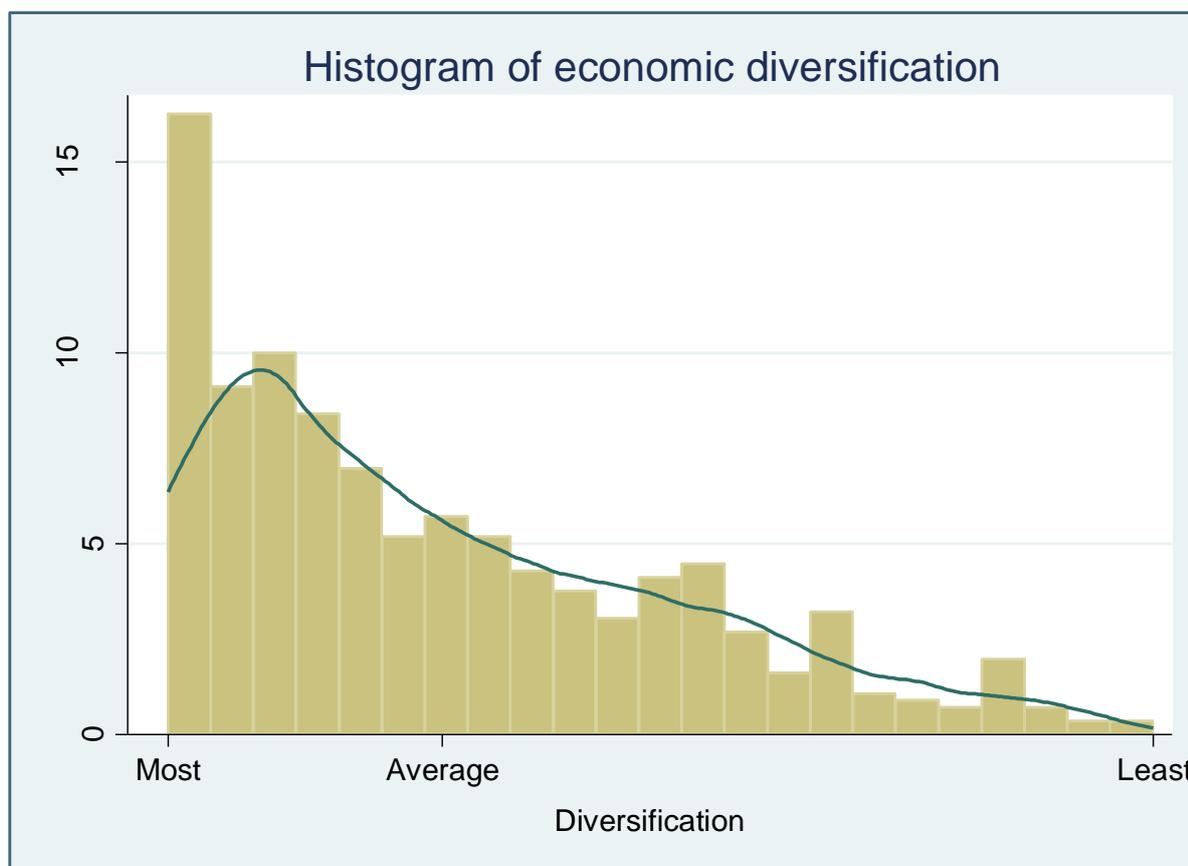
### *Distribution of diversity*

Across all LGAs, economic diversification is significantly and positively correlated with infrastructure, technological readiness, innovation, human capital, and overall competitiveness.

Distribution of degree of economic diversification (Chart 1) is skewed to the right, which means that a large proportion of LGAs are relatively diverse (or have an industrial structure similar to that of the nation as a whole) while a smaller group of regions are much less diversified.

This result challenges the general assumption that regional economies are not inherently diverse and that diversification must be a core strategy for all regional areas.

Chart 1: Distribution of diversification across LGAs



#### Diversification and remoteness

The degree of diversification is clearly related to the density of settlement (Chart 2). The continuum of diversification goes from high to low in correspondence with location from major cities to very remote. Major cities group is the most economically diverse group and the very remote group is the least diversified. Generally, the more remote an LGA is, the less economically diverse it will be.

However this chart also shows that diversity is possible in all regions. Inner regional Australia is highly diverse as are the majority of regions in outer regional Australia. Remote regions can also be diverse and in a few cases, very remote regions are as diverse as most major cities.

Chart 2: Distribution of diversification ranges with breakdown by remoteness

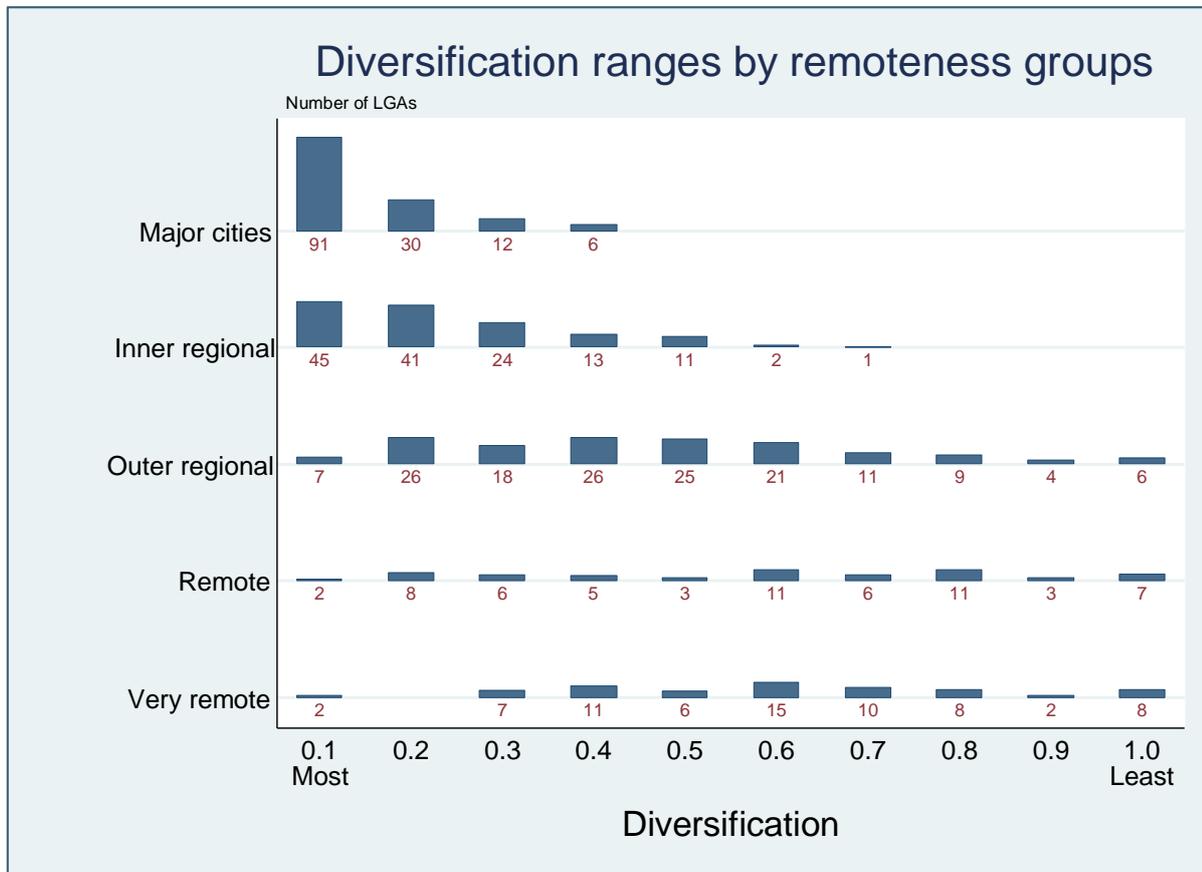
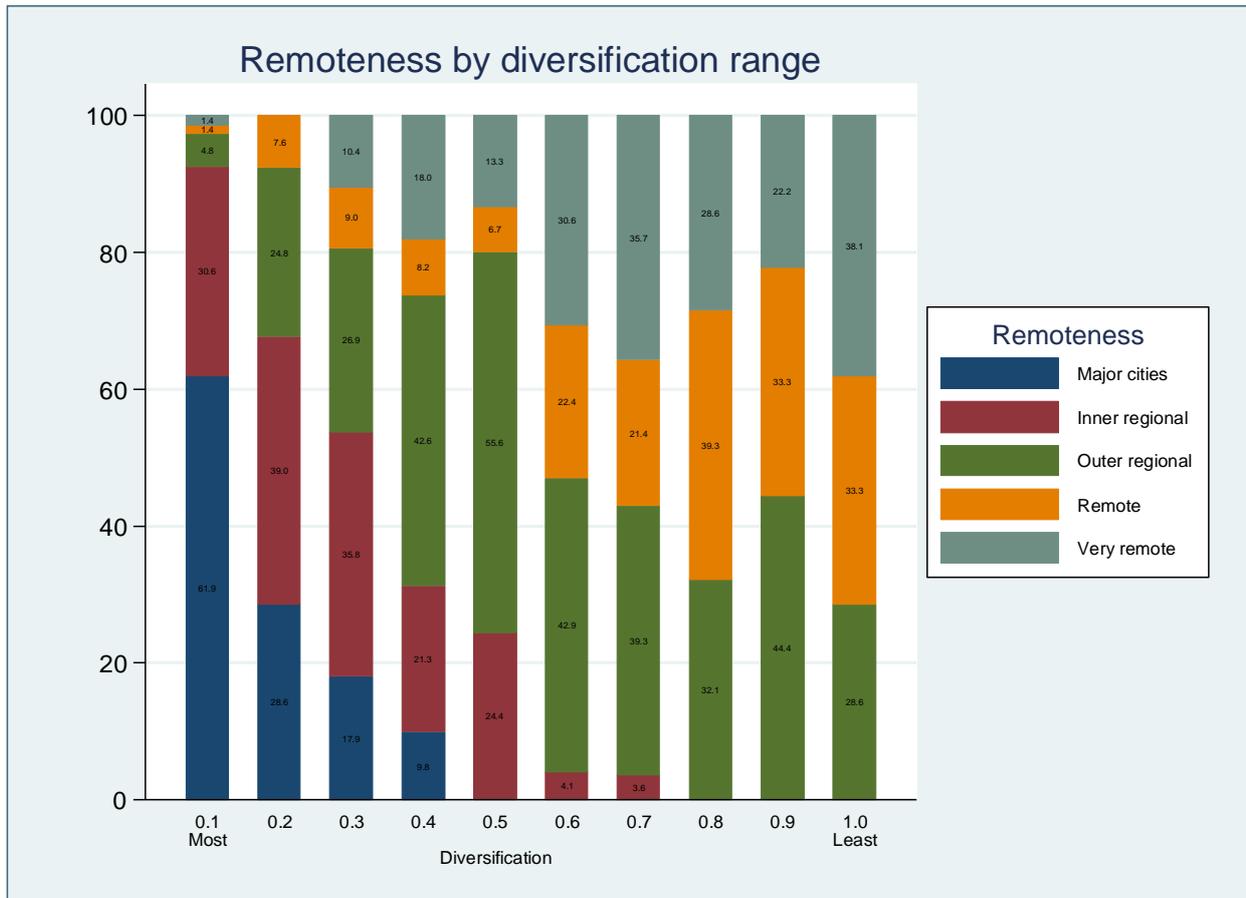


Chart 3 shows the percentage of LGAs within each spatial group account in each range of diversification (or share of spatial groups in each range of diversification). Although major cities dominate the top range of diversification, LGAs in inner and outer regional Australia do the same for the ranges from 0.2 to 0.5. Clearly, remote and very remote LGAs account for a small percentage in these top diversification ranges while dominating the bottom diversification ranges.

Outer regional LGAs also account for a large percentage in each bottom range. It is these regions which may be underperforming relative to their peers and may represent the best returns for effective regional and local diversification strategies.

Chart 3: Diversification ranges with breakdown by remoteness (%)



### Top regional performers

Five of the ten most economically diverse LGAs are outside of Australia’s major metropolitan areas (Table 1). They include smaller and more remote LGAs and LGAs which lie close to major cities. Except for Port Augusta and Broome, these LGAs generally perform relatively well in all themes, except for institutions and natural resources.

**Table 1: Theme rankings for the most diverse LGAs in regional Australia**

<b>LGA</b>	<b>Institutions</b>	<b>Infrastructure and Essential Services</b>	<b>Economic Fundamentals</b>	<b>Human Capital</b>	<b>Labour Market Efficiency</b>	<b>Technological Readiness</b>	<b>Business Sophistication</b>	<b>Innovation</b>	<b>Market Size</b>	<b>Natural Resources</b>
<b>Port Augusta (SA)</b>	56	126	36	491	481	413	165	481	489	127
<b>Surf Coast (VIC)</b>	353	204	73	55	131	176	127	144	136	254
<b>Wingecarribee (NSW)</b>	280	160	155	69	185	149	77	136	435	249
<b>Tweed (NSW)</b>	345	83	292	151	482	197	187	213	207	328
<b>Broome (WA)</b>	141	322	85	376	457	237	336	202	149	69

## About [In]Sight

[In]Sight – Australia’s Regional Competitiveness Index brings together nationally consistent information on every Local Government Area and Regional Development Australia region.

Information for each region and regional comparisons can be accessed via the online **[In]Sight interactive map** at [insight.regionalaustralia.org.au](http://insight.regionalaustralia.org.au).

This enables the easy comparison of each part of Australia and the relative abilities of places to compete in the global economy and support the success of the nation as a whole.

The approach builds on the work of the World Economic Forum and European Union, taking a broad view of the factors that underpin any regions inherent potential for future success. Themes and indicators are summarised below.

Theme	Strategic Significance	Indicators (examples)
Institutions	Local employment and business environment	Public service workforce, development approvals
Infrastructure and Essential Services	Ability for local economy to function efficiently and connect with outside markets	Road, rail, port, aviation, police, hospitals, education
Economic Fundamentals	Current indicators of economic activity	Building approvals, wages/labour costs
Human Capital	The capabilities and skills of a region’s workforce	Health, university qualifications, primary and secondary school performance
Labour Market Efficiency	Engagement of locals in the economy	Unemployment, participation, skilled labour
Technological Readiness	Use of technology improves efficiency and innovation	Broadband connections, workers in ICT and related industries
Business Sophistication	A sophisticated business community is more able to succeed and adapt to changing conditions	Economic diversification, exporters, income source – own business, dominance of large employers
Innovation	Capacity for regions to find new ways of being productive	Presence of research organisations
Market Size	Larger regions benefit from a deeper and more diverse labour pool and larger internal economy	Two indicators – population and business turnover
Natural Resources	Underpins the economies of many regions	Employment in mining, forestry and fishing, net primary productivity

**Data sources** for the index include the Australian Bureau of Statistics 2011 Census data, Social Health Atlas of Australia, My Schools website, GIS Calculations and the Regional Australia Institute's Survey of Regional Business Conditions and Perspectives on Regional Development.

A **Results Guide** providing full details on each indicator, data source and the methods used to derive rankings and theme results is available at [www.regionalaustralia.org.au/research-policy/insight/](http://www.regionalaustralia.org.au/research-policy/insight/).

Additional snapshots, overall index analysis and other information are available at [www.regionalaustralia.org.au](http://www.regionalaustralia.org.au).

## References

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<sup>i</sup> ABS, 2013, A Review of Regional Development Australia Committee Regional Plans.

## About the Regional Australia Institute

Independent and informed by both research and ongoing dialogue with the community, the Regional Australia Institute develops policy and advocates for change to build a stronger economy and better quality of life in regional Australia – for the benefit of all Australians. The Regional Australia Institute was established with support from the Australian Government.