

Medium term projections - politics and society

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For The Hugo Group

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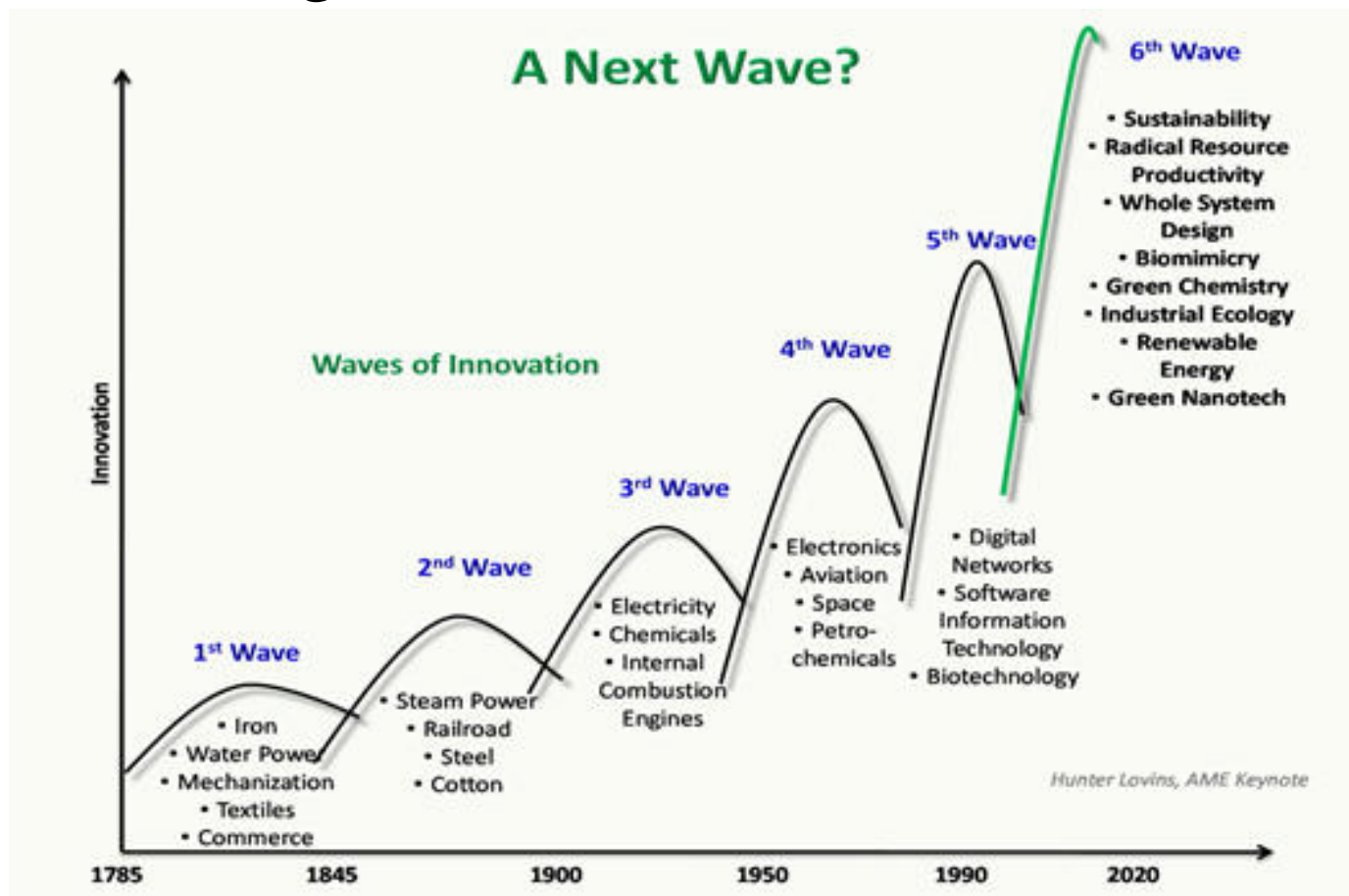
Big theme - acceleration

- Everything is speeding up
 - Humans are adaptable and have always adapted to technological change
 - Is the greatly accelerating pace of technological change a threat to that adaptability?
- Sources of acceleration
 - Globalisation
 - Climate change
 - Digital technology
- The impact of these accelerating forces on society, politics, economies, and businesses of the future
 - How well-adapted is democracy to these forces?
 - Especially in an age of disrupted Western politics?
 - How well-equipped are NZ business and political leaders?

Who says?

- Thomas Friedman – Market, Mother Nature, and Moore’s Law
“More Moore’s law is driving
 - more globalisation
 - and more globalisation is driving more climate change,
 - and more Moore’s law is driving more potential solutions to climate change and a host of other challenges – and at the same time transforming almost every aspect of modern life.”

On the bright side



On the downside – rise of the ‘useless class’

- Robots, artificial intelligence and machine learning kill jobs
- Will new careers emerge fast enough?
- If not, what happens?
- Conditions ripe for:
 - Social unrest
 - Erosion of democratic ‘consensus’ politics
 - Ludditism
- Conditions also ripe for Universal Basic Income / social policy innovation

Who says?

- Yuval Noah Harari – A Brief History of Tomorrow

“...when we hear of superhumans, we sense that ... our identity, our dreams, and even our fears will be irrelevant, and we will have nothing more to contribute”.

“Liberals uphold free markets and democratic elections because they believe that every human is a uniquely valuable individual. In the 21st century, three practical developments might make this belief obsolete.”

The three developments

- Humans lose economic and military usefulness
 - Replaced by digital, robotic and AI alternatives
 - Risk the political system stops valuing people as it has traditionally
- The 'system' will continue to value humans collectively, but less so individually
- Some humans will be highly valued, but not the mass of the population
 - Of course, this politics already exists
 - May be highly exacerbated by emerge of a “new elite of upgraded superhumans”

machine-learnt customer service will need to be better than this ...



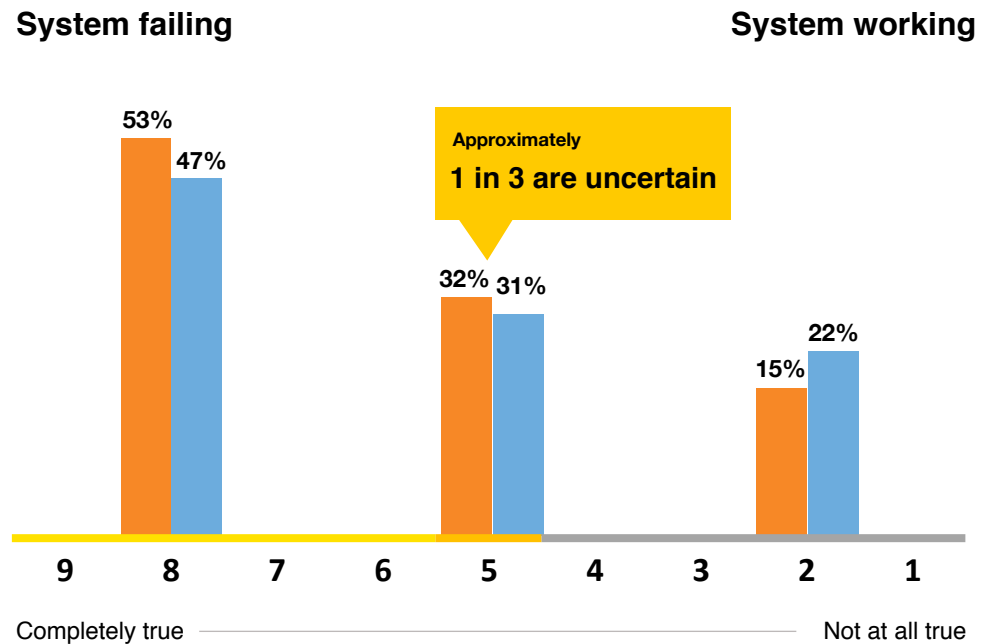
Big theme: fairness, inequality, trust



Nearly Half Believe the System is Failing Them

How true is this for you?

- Sense of injustice
- Lack of hope
- Lack of confidence
- Desire for change



Global NZ



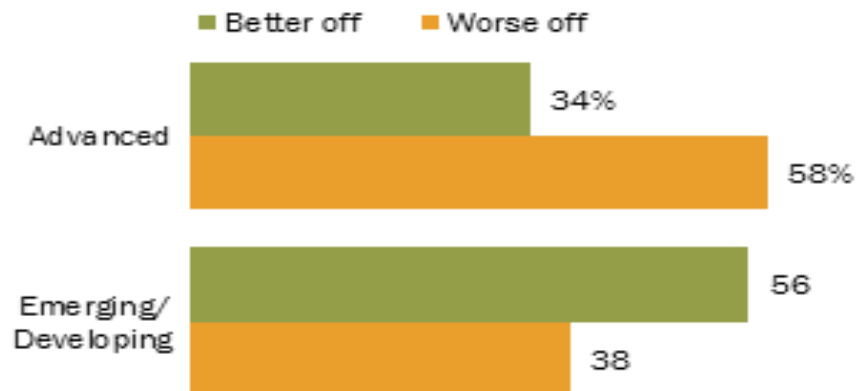
A First World issue

- With implications in the following policy areas:
 - Tax – capital/wealth taxes
 - Income redistribution – UBI
 - Housing
 - Immigration
 - Health
 - **More rancorous politics** – ‘incivility’ threatens institutions of political action
- NZ remains an outlier as a net optimistic First World country

Emerging economies more optimistic

Advanced nations pessimistic about next generation's prospects

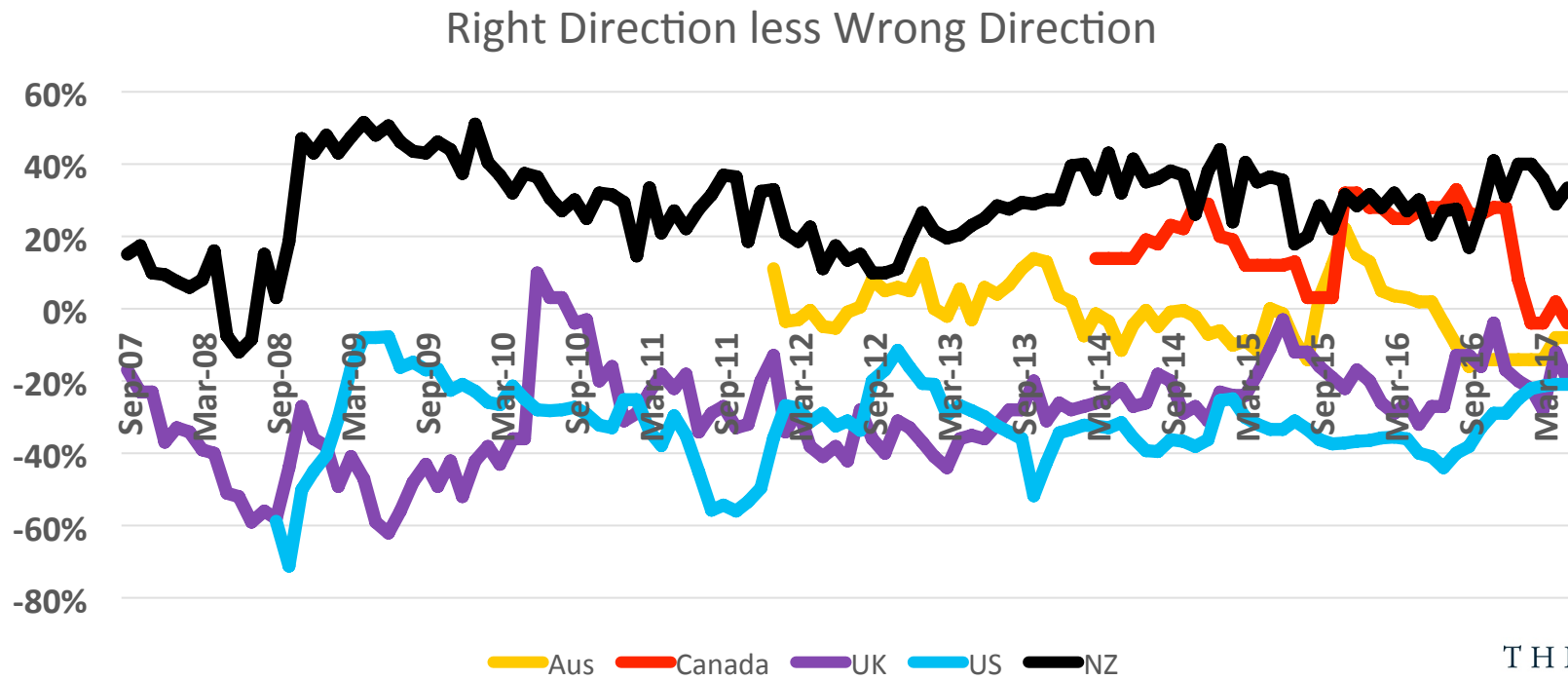
When children today in our country grow up they will be ___ financially than their parents



Source: Spring 2017 Global Attitudes Survey. Q8.

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Net country direction



Global outlook

Poles of autocracy forming

- Russia, China, Turkey, Iran, broadly aligned
 - With some bad friends: North Korea, Syria
 - China's claims to the South China Sea, discipline in Hong Kong
- Western bloc leadership weakened, by
 - the refugee exodus to the EU
 - Brexit
 - US and EU war weariness in Afghanistan, Middle East and North Africa
 - Trump's abdication of leadership / rise of 'incivility'
 - With some bad friends – particularly Saudi Arabia
 - No certainty about German leadership until after August presidential elections – Merkel represents stability
- Japan very keen to re-arm
- China so far maintaining strong ties with developed world economies despite military provocations

Challenges to democracy

- Very low voter turnout in key democratic countries
 - France, US presidential elections sub-50%
 - Widespread disillusionment with politics, authority figures
 - Many traditional political parties challenged
 - Voter fatigue in some countries
- Against that: popular, young world leaders emerging
 - Trudeau and Macron – both more ‘neo-liberal’ than is commonly discussed
- Maverick elder statesmen are also favoured by the young
 - Sanders and Corbyn
- EU elections so far this year have failed to bring ultra-right parties to power
 - Benefits of proportional representation voting for political stability becoming evident?
- But yearning for some sort of ‘new politics’ will be a major theme

US – will Trump last?

- Current control of Senate and House in jeopardy at mid-term elections in Nov 18
- Global leadership diminishing
- Leaves geo-political vacuum
- US economy recovers anyway
- Trump agenda stalls
- Democrats and Republicans both need compelling alternative candidates for 2020 – none yet emerging
- Impeachment – unlikely



China – global ambitions vs domestic challenges

- Talk of Chinese global leadership overhyped?
- Financial system weaknesses still constitute a substantial downside risk
- Hong Kong/internal dissent to intensify?
 - Especially if growth slows or wealth is destroyed
- Xi Jinping consolidating power
 - Describes China-Russia relations as the best they've ever been
- How will Beijing play North Korea?



Europe

- France under Macron
 - Is he Thatcher or Modi?
 - Hugely popular, but reform agenda is 'neo-liberal'
 - How fast can he move?
 - High unemployment/unbalanced performance vs Germany likely to continue medium term
 - Is he more right-wing than we realise?
- Germany
 - Merkel dealing with Trump
 - Re-election in August likely, and crucial
 - Remains an industrial powerhouse with affordable housing



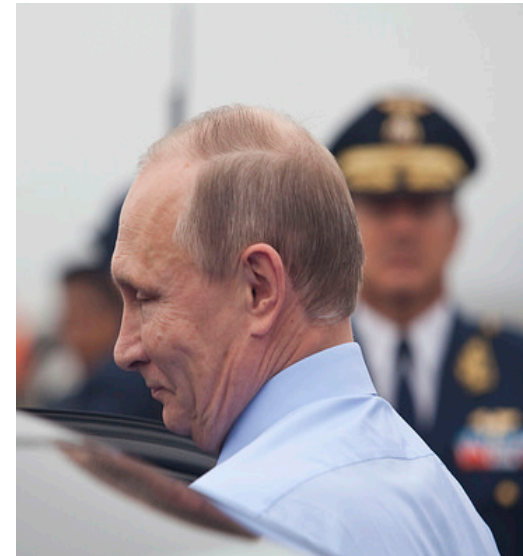
Brexit

- Soft Brexit becoming more politically popular
- Britons still adapting to the loss of global influence in exchange for domestic sovereignty
- Brexit negotiations starting to unpeel that
- 8 to 10 year process?
- Financial services leaving London
- But probably not legal services based on UK law – international contract-writing, arbitration, litigation



Russia

- Putin's Kleptocracy
- Focused only on an imperial vision
vision of Russia's rightful place in the world
- Key issue: economy remains frail
 - Ongoing low oil prices politically dangerous
- Military posturing important for domestic audiences
- In five years' time, Putin will still be meddling
- But will hopefully not have gone to war against the West



Australia

- Economy underperforming but still wealthy
- Constant PM changes, with more likely, indicate knocks to national self-confidence
- Large projected budget deficits need fixing, but public debt is very low
- Faces a huge climate change challenge
- Likely to muddle along well enough as an export market?
- Increasingly important to the US as a military partner
- More nervous and hawkish than NZ on Sth China Sea, regional threats
- Will pressure NZ on defence



NZ issues



Big theme: NZ becomes more fundamentally attractive as a place to live

- Safe - tolerant
- Clean – including not corrupt
- Optimistic
- High quality public health and education
- Strong economic growth and job creation
- Increasingly diverse population
- Increasingly diverse economy – smart industries starting to fire
- English-speaking
- Migrants don't learn downsides till after arrival



Implications – it's going to feel busier

- Net migration will remain strongly positive
- Tourism will continue to boom
- NZers will keep returning, especially expat Boomers
- More NZers will keep choosing to stay
- Irrespective of political rhetoric, NZ will remain attractive to high net worth migrants, who are likely still to be welcomed
 - Monthly inflows of non-NZ migrants likely to continue strong
 - International education will remain a major source of migrants
 - RSE being expanded
- Pressure on housing costs, public infrastructure will continue to build in popular areas
- Local govt will need more freedom if it's to respond well
- Do we become high profile/rich enough to become a soft terror target?



Auckland

- Politics will increasingly matter for infrastructure challenges
 - Rail asingly trump cost-benefit to the airport - govt suddenly open it?
 - Port relocation (or reduction from current footprint)
- Infrastructure funding **should** be unlocked for summer 2018/19
- Expect infrastructure bonds and Special Purpose Vehicles to handle debt
- A city where fewer NZers will choose first to live
- Potential for other NZ centres to compete on cost, quality of life, attracting new industry
- Supply must start to catch up – but in the short term, the market is binding



Public infrastructure

- Very substantial bill coming for underground infrastructure replacement
- Plus new urban growth
- Partial local govt financing solutions close
 - Special Purpose Vehicles
 - PPPs and Crown capital reduce local govt balance sheet exposure
- Opposition parties more willing than current govt to let councils off the leash on new, user pays financing schemes



A new generation of investors

- Unaffordable housing + growing KiwiSaver nest-eggs
- Next generation starts adulthood:
 - More indebted after tertiary study AND
 - Less able to contemplate home ownership owing to unaffordability
- Offset by:
 - KiwiSaver savings AND
 - Normalisation of renting
- Creating:
 - A more investment-literate populace
 - Greater shareholder activism
 - Greater competition from savings and investment product providers
 - Enhanced and made more affordable by digital technology



Energy: customers take control

- Affordable batteries key
- Solar rooftop becoming viable, but still requires grid connection
- Batteries end that – but slowly
- NZ's suitability to EVs to drive uptake
 - Further source of consumer decoupling from traditional energy sources
 - Plus - driverless cars start changing public transport
- IoT to drive efficient energy use to new levels
- Loyalty challenge to incumbent retailers
- New products



The next generation of utilities regulation

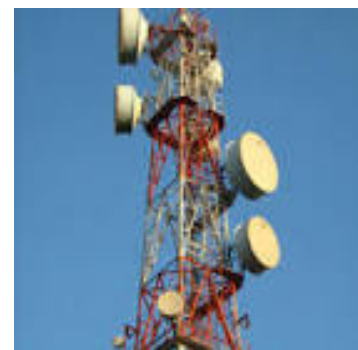
- Electricity:

- Tension between network monopolies and off-grid, micro generators
- Tension between network monopolies and gen-tailers over contestable services and potential cross-subsidies from regulated asset base
- Political barometer to rise as these issues play out against a backdrop of slowly rising energy prices
- EVs – how big an opportunity? – expect surprises



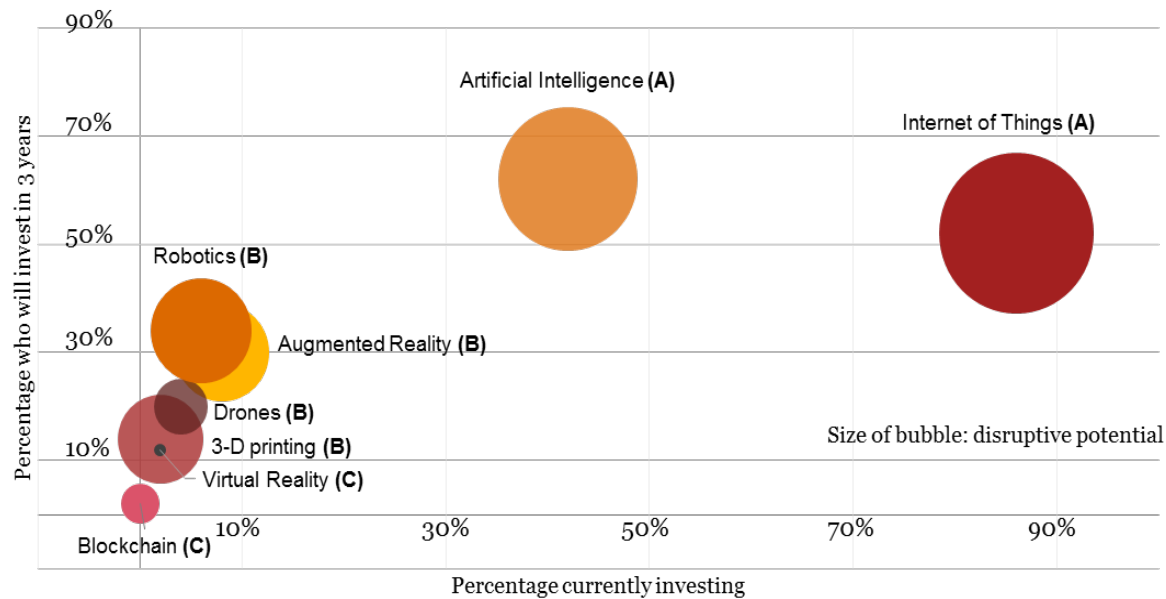
- Telecommunications:

- new battleground as regulated monopoly Chorus seeks to preserve value while retailers by-pass with mobile technologies



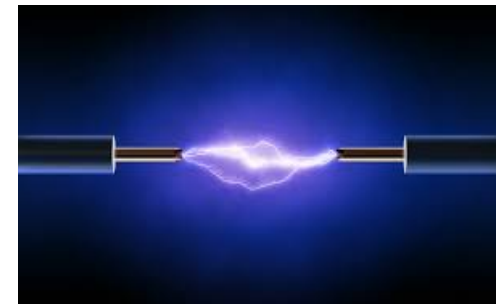
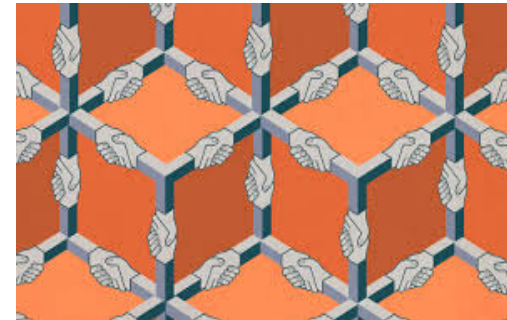
The new technologies changing everything

The state of play for emerging technology in New Zealand



Blockchain – about to boom?

- Use of blockchain for quality assurance, logistics, fintech rather than crypto-currency very much in its infancy
- Capacity to cut costs/improve system efficiencies rather than disrupt
- And to create new consumer offerings by, for example, monetising units of product or service value
- Private, permissioned distributed ledgers, unlike Bitcoin, will smooth regulator acceptance, esp in fintech



Future of food and farming



Irrigation – an uphill battle

- Ruataniwha dam setbacks show how hard such schemes are to consent
- Politically unpopular
 - Associated with dairy expansion
 - And freshwater quality concerns
- More difficult with a change of govt
 - Labour/Greens committed to charging for water
- Slow progress on water allocation = stalled progress for irrigators



Major legislative reforms

- Splitting the Resource Management Act
 - Planning legislation
 - Environmental bottom-line legislation
- Under National:
 - financial market conduct and regulation
- Under Labour:
 - income and wealth taxes
- Up and coming:
 - Assisted dying
 - Marijuana/recreational drug reform



Areas of regulatory risk

Under National:

- Transport fuels
- Construction
- Supermarkets
- Electricity

Under Labour:

- Executive pay
- Collective and individual bargaining reform
- Water charging



Cyber-security



Cyber-security – key considerations

- Proliferation of attacks inevitable
- NSA ‘exploit’ software thefts create a whole new ballgame
- Speed of deployment is accelerating
- Payment systems and point-of-payment remain key vulnerabilities for attackers
- Corporate culture key to response
 - Disclosing breaches is vital - reward, don’t punish
 - Password control – the rules and tech are changing
 - Let the experts do their job – ‘truth’ will take longer to determine than rumour will take to spread