

Global and domestic political briefing - 3 year projection

July 18 & 22, 2022



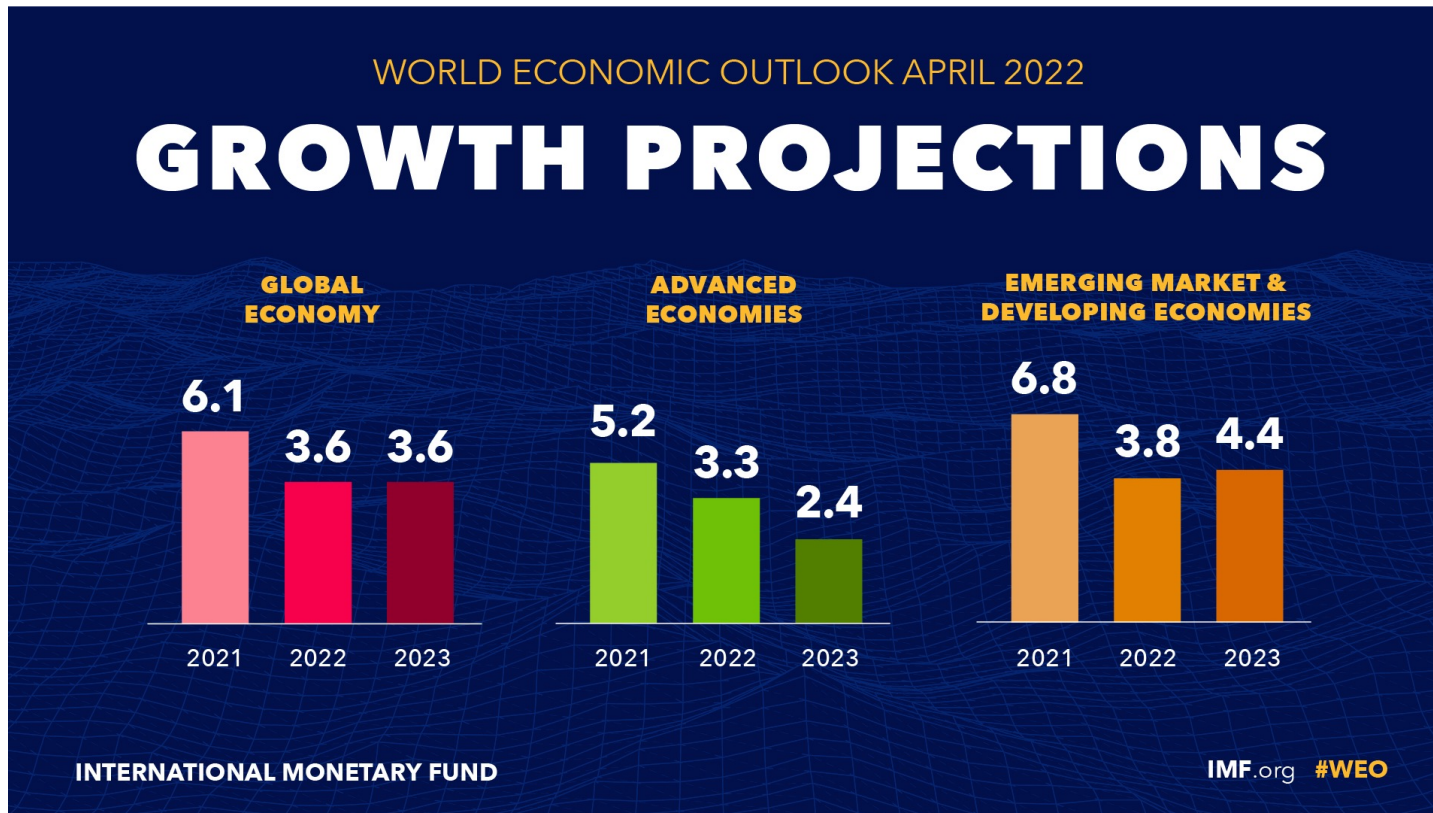
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Overview

- New upheavals on top of undemocratic/deglobelising trends
 - The pandemic is not over
 - The Ukraine war will not end quickly, but how it ends will be decisive for the international order
 - Stagflation with low unemployment - higher food and energy prices, higher interest rates, and falling asset prices will fuel dyspeptic politics
- Domestic politics
 - Weak economy, falling asset prices and post-covid polarisation point to a change of government
 - Economics and social tensions will likely play National's way

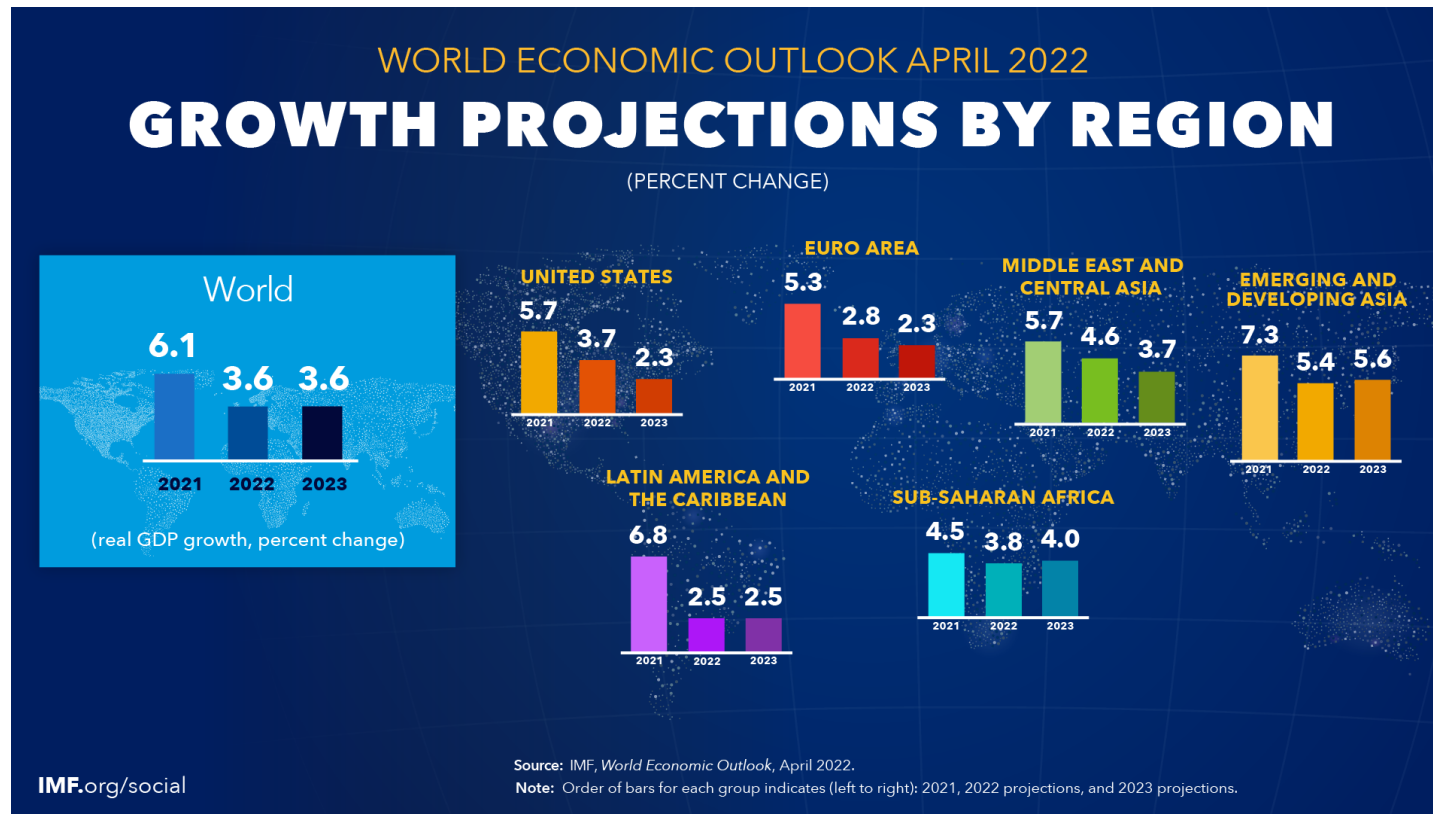


World growth



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World growth – optimistic?



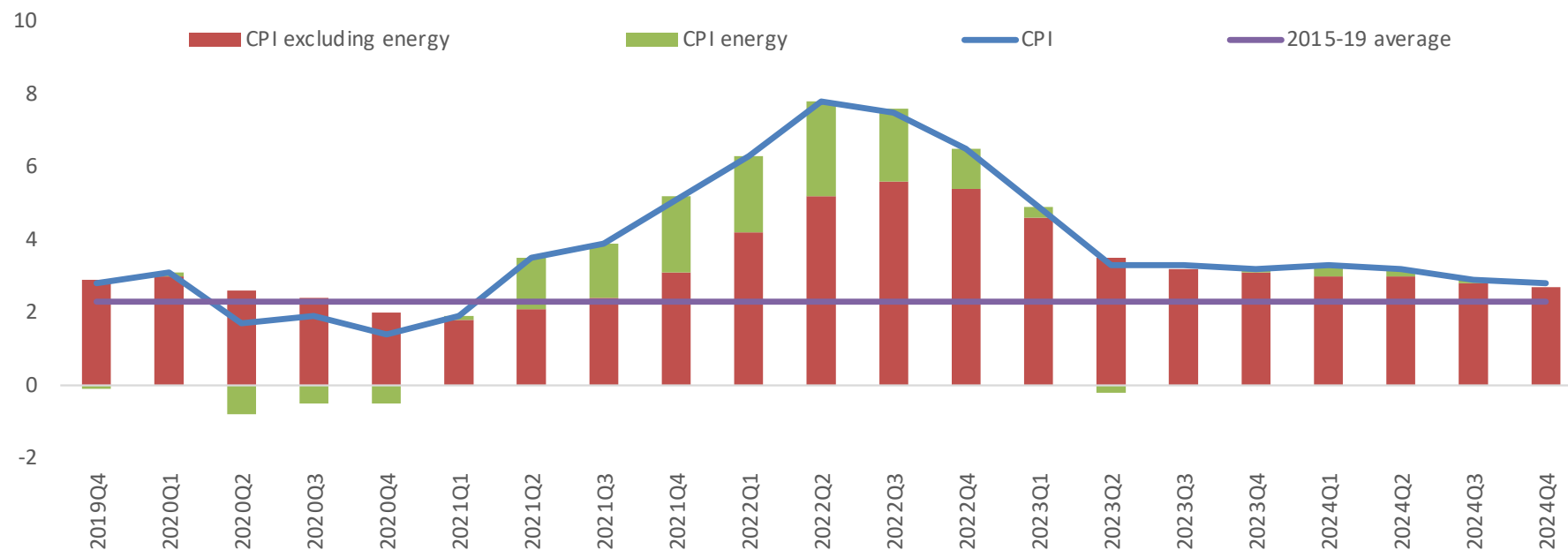
IMF.org/social



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Global inflation outlook

Global inflation outlook - World Bank

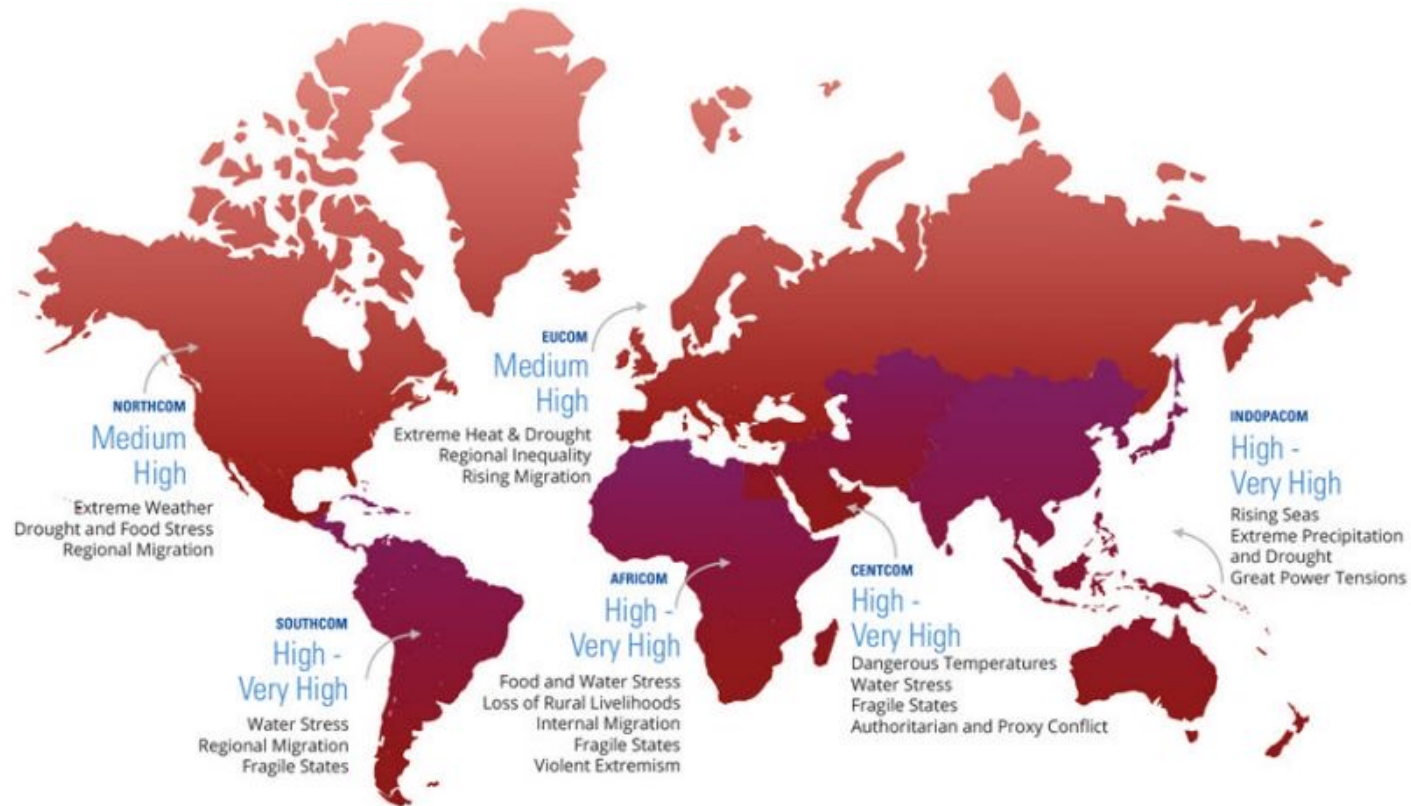


Emerging market debt crunch



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Climate change risk



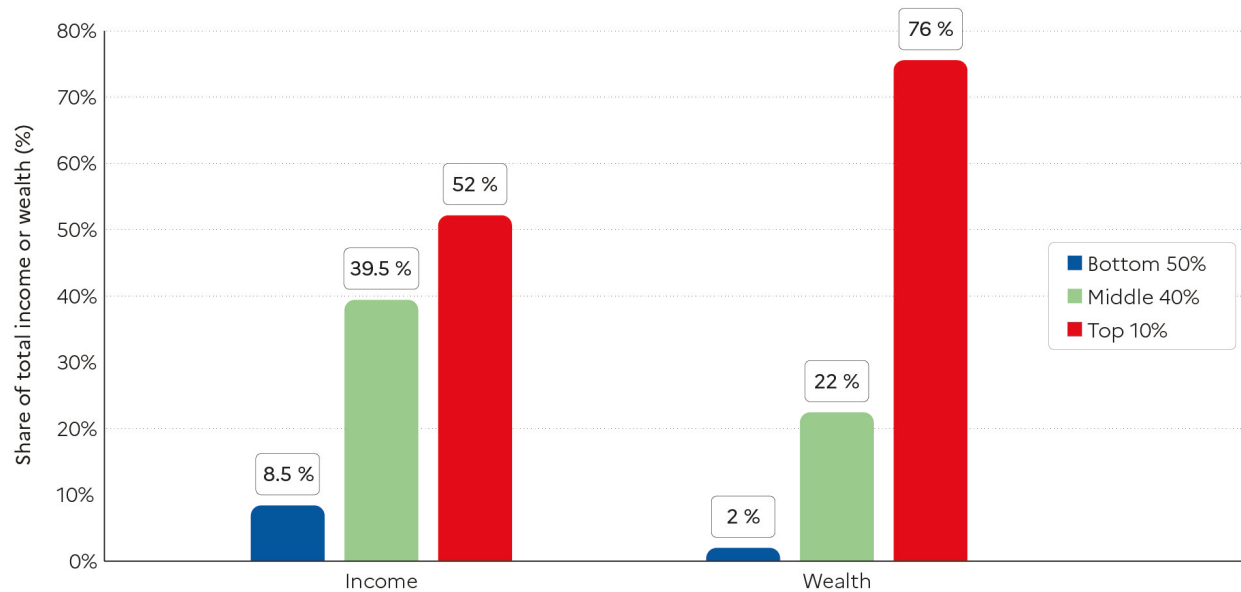
The Center for Climate and Security's "Climate Security Threat" Profile, near-term scenario (1-2°C+ warming)



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Seeds of disorder

Figure 1 Global income and wealth inequality, 2021



Interpretation: The global bottom 50% captures 8.5% of total income measured at Purchasing Power Parity (PPP). The global bottom 50% owns 2% of wealth (at Purchasing Power Parity). The global top 10% owns 76% of total Household wealth and captures 52% of total income in 2021. Note that top wealth holders are not necessarily top income holders. Incomes are measured after the operation of pension and unemployment systems and before taxes and transfers. **Sources and series:** [wir2022.wid.world/methodology](https://www.wid.world/methodology).



Who vs who?



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Democracy vs autocracy?

- Democratic institutions and post-WW2 international order continue to face unprecedented challenge
- Western response to Ukraine has demonstrated democratic/liberal order resilience
- US political institutions teetering between liberal order and potential descent into autocracy
- China vs US is the dominant narrative, but lacks nuance
- Key uncertainties:
 - Xi's exit from zero-covid and consequent economic scarring
 - US 2024 presidential election



China is not Russia

- Russia is a failing state that seeks chaos in the international order
- China is an ambitious super-power that seeks to bend a rules-based international order in its favour
- Values are not shared – a ‘common interests’ relationship
- Chinese people are optimistic and trusting
- Russians are pessimistic and deeply cynical about their government
- Ukraine is not Taiwan – the West has determined that already
- “no limits” friendship is demonstrably untrue (not even military allies)



BIGGEST LOSERS:



*New Zealand 2020 results

Source: 2022 Edelman Trust Barometer



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Russia is dangerous

- While Vladimir Putin is in charge
- Betting on outlasting European patience with energy squeeze
- Confident of NATO remaining on the sidelines in Ukraine
- Less developed countries suffering food and energy shortages will not necessarily side with “the West”



Russia must lose in Ukraine

- If Russia wins, it will be a turning point for international order and democracies
- But what does losing look like?
- And how long might it take?
- Russia controlling the Donbas but not the Ukrainian coast to the Black Sea looks likely
- That is not a “loss” but a stalemate
- Loss in Ukraine would undermine China/the case for authoritarianism



The Economist



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Implications for NZ foreign policy

- Ardern seeking to draw the China/Russia distinction
- Language on China remains less robust than Australia's
- Australia working hard to wrap NZ into its aims, which remain US-led
- NZ reverting to natural allies, but a Trump or Trumpist presidency post-Biden would complicate this
- Pressure will grow on defence commitments
- Trade will become increasingly linked to defence and security as globalisation impulse continues to recede
- Same pressures under National-led government



The pandemic – not over yet

- This year's Northern Hemisphere winter could be ugly
 - Particularly if energy rationing is widespread
- Vaccination key to economic resilience
- Key questions:
 - how will China's economy and domestic politics be affected by the ongoing failure to vaccinate and need to keep locking down?
 - Impact on the US and other under-vaxxed developed economies if there are further new, serious variants?
 - Not just health and economy questions
 - Also political stability risks



German ICU covid ward – June 2022
(Getty)



Political mood – key issues

- Incumbents who governed during covid and into the current recession are threatened
- Multiple sources of social and economic stress
- Inequality
- Inflation
- Real shortages – energy, food, people
- In some countries – climate change impacts rapidly increasing



Scomo and Jacinda – pandemic leaders



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Climate change

- Rising carbon prices vs energy shortages
 - Will countries with an energy crunch sacrifice climate change pricing?
- Australia's preparedness
 - Albanese talking a big game, corporate Australia not on board with carbon pricing yet, no policy framework in place, energy prices sharply rising
- Country-by-country action more important than COPs



NZ-specific issues

- Adaptation plan – end of August – how good will/can it be?
- Achievability of emissions budgets – at what cost?
- Politics of coastal retreat
- NZ may experience energy competitiveness advantage
 - Largely renewable electricity, with upside
 - **Gas market disconnected from global prices**
 - Australian energy markets in crisis/no quick fix



NZ politics

Is the nation in decline or suffering post-pandemic fatigue?

Is there a difference politically?



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How are we feeling?



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Domestic politics

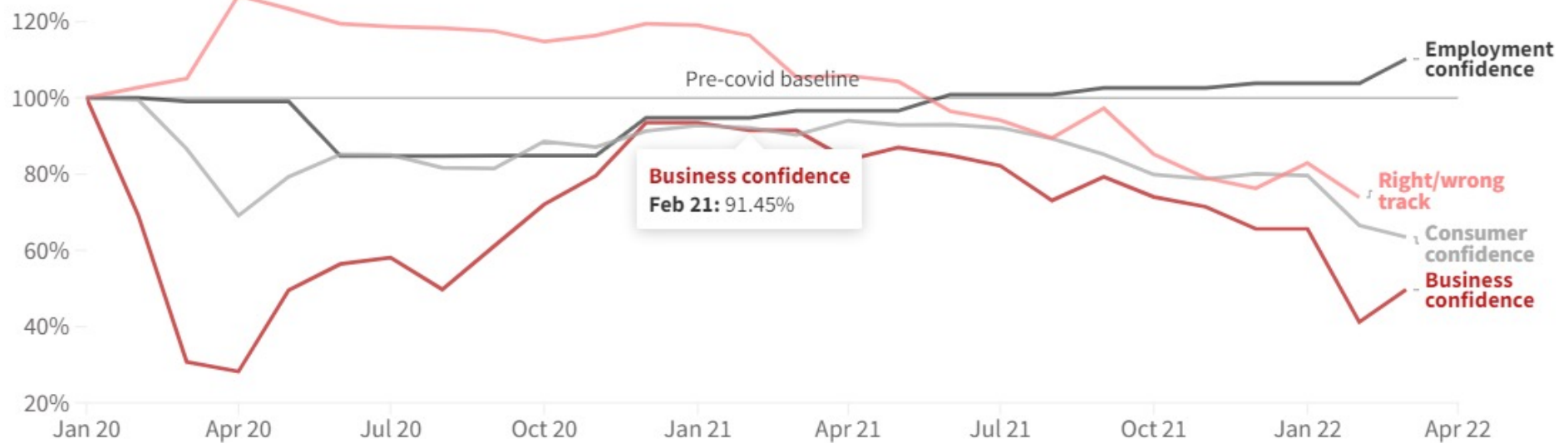
- Change of government likely on the balance of probabilities
- Economic headwinds
- Post-covid knock to confidence/optimism
- Government – big talk, poor delivery
- Active debate about right/wrong track



Right vs wrong track

How economic and political sentiment shifted during covid

All values relative to pre-pandemic starting point

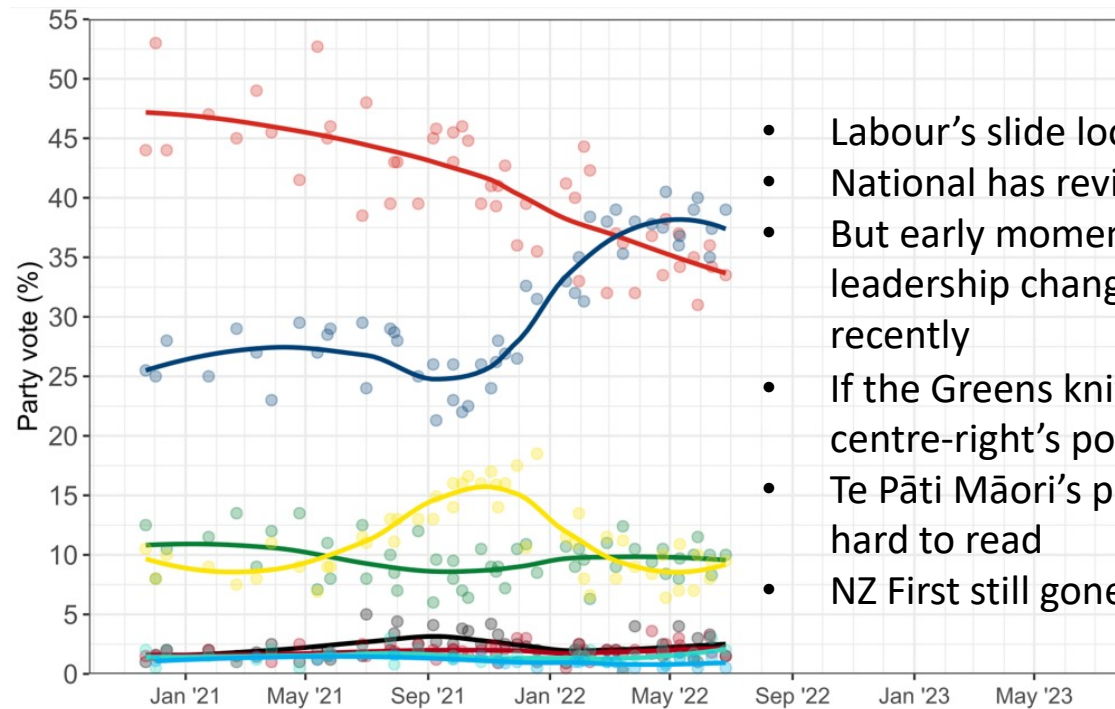


Sources: Roy Morgan, ANZ, Westpac, McDermott Miller
Graphic: Andy Evans/BusinessDesk



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Trends are clear



- Labour's slide looks baked in
- National has revived
- But early momentum from Luxon leadership change has faltered recently
- If the Greens knife James Shaw, the centre-right's position improves
- Te Pāti Māori's potential influence is hard to read
- NZ First still gone

Labour ACT NZ First Opportunities
National Greens Maori New Conservative



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Back to MMP normal

- A fairly typically balance between right and left in MMP era terms
- 2020 was an aberration
- Elections clustered to the centre are the norm
 - As are minority governments with governing agreements, and
 - Coalition governments
- Te Pāti Māori more likely a support partner



Crowds flock for the PM, election campaign, 2020



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The decisive election issues

- Economic performance
- Capacity to execute major reforms
- “Wokeness”
- Education
- Crime
- Jacinda/covid fatigue
- Not climate change



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What could save Labour?

- Women/urban centrists turning off Christopher Luxon
 - There are signs of it
- A improvement in economic conditions
 - Highly unlikely
- Jacinda
 - Still polling 40%-plus after positive international trips
 - What star power moves might be planned for next year?



The 'wokeness' problem

- Polarising subjects that are non-economic in nature
- Areas where progressive politics out-strips a relatively conservative society's willingness to "comply", eg,
 - Over-reach in government control (as evidenced in response to covid management)
 - Gender fluidity
 - Rise of the use and influence of Māori language and concepts
- Act will push this hardest and make gains
 - "low growth ethno-state" encapsulates the attack line
- Assisted by toxicity of social media
- Expect this to be important, but hard to discuss
- Expressed in opposition to specific policies, eg, three waters as proxy for anti- Māori sentiment, genuine fears about threat to equal representation
 - Net positive for National?



If National wins – policy priorities

- Significant tax reforms:
 - Raise income tax thresholds
 - Remove 39% top tax rate
 - Remove Auckland regional fuel tax
 - Remove light rail tax
 - Reduce ‘brightline’ test from current 10 years
 - Reintroduce interest deductibility on rental properties
 - Repeal or stop employment insurance scheme
- Repeal Fair Pay Agreements legislation - few FPAs will exist by then
- “Reverse” three waters reforms – maybe only ownership elements
- Abandon Māori Health Authority
- Make inflation the sole target of monetary policy (remove employment target)
- Education reforms
- Reinstate social investment approach



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