

# The Implications of the COVID-19 Crisis for New Zealand's Strategy

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Today's update asserts that COVID-19 has created an opportunity for New Zealand to propel itself into a successful long-term future, and that the time to act is now. The article is the sixth in a series covering the COVID-19 crisis. The content presented should be considered "draft" as our understanding of the issues and opportunities facing the virus and its long-term implications for New Zealand continues to evolve. More information on Stakeholder Strategies can be found at [www.stakeholderstrategies.co.nz](http://www.stakeholderstrategies.co.nz) and you can sign up to receive our future COVID-19 research summaries [here](#).

## The COVID-19 crisis has created an opportunity for New Zealand to change direction

NZ has almost eliminated COVID-19 onshore and seems likely to maintain an effective quarantine to keep the virus out. The rest of the world has not been as successful, and it looks as if responding to the public health and economic impacts of COVID-19 will continue to be the dominant issue for those countries at least for the next one to two years. Less wealthy countries are likely to have prolonged and severe outbreaks with limited capability to contain the virus while many wealthy countries appear likely to face second waves of infection and are not likely to eliminate the virus.

COVID-19 is triggering a very large economic recession that will affect the world for a long time. Many businesses will fail, and it will take some time for the failures to work their way through financial systems. The costs of fiscal and monetary support to limit the severity and duration of the recession are likely to drive many countries to austerity.

Figure 1 illustrates the near-term economic impact of the crisis. Unemployment in the United States is forecast to exceed 19%, only ~4% lower than the peak during the Great Depression, and 8% in New Zealand.<sup>1</sup>

There is a wide range of possible outcomes for the world, largely driven by the scale of the economic event, the extent to which international relationships remain collaborative, and how the virus affects societal values and behaviours. The best outcome will be where the global economy bounces back rapidly, the world collaborates, and positive societal changes are triggered. The worst is where the global economic recession is severe and prolonged – more "U" or "L"-shaped –, the world responds with increased conflict, and societal values return to normal.

Figure 1: Unemployment rates (% , 2019 actual, 2021 forecast)



<sup>1</sup> Source: 2019 data from OECD, Q1 2021 forecast from Trading Economics dated early May

New Zealand's economic, social, and environmental performance as a country has not changed very much during the last decade<sup>2</sup>. However, our relative position has improved because we have not been affected by as many adverse shocks as other wealthy countries. Despite New Zealand's success in minimising the public health effects of COVID-19, we are not out the woods yet, and we cannot rely on being able to close our borders to insulate ourselves from the consequences of other nations failing to contain or eliminate the virus. New Zealand will suffer material economic harm from direct effects on tourism, private sector investment, supply chains, business failures, employment, and the indirect effects on a diverse range of exports, hopefully excepting food.

The shocks and scale of the event are already motivating thinking about large scale changes that should be made. There are many things we know we should do but have been unable to do because of barriers to change. For example, our engagement with New Zealand's private and public sector leaders indicates that most appreciate the changes required to reduce the risk of disruptive climate change, but progress has nevertheless been slow. COVID-19 has reduced barriers to change, created new or strengthened existing motivations based on new experiences and understanding, and enabled material fiscal stimulus, creating the opportunity for large changes to New Zealand's direction.

#### **Four scenarios can help think through possible futures for New Zealand**

The first, and most preferred scenario, would be where the world traverses the economic downturn without major disruption or conflict and progresses towards future pathways that protect and restore the environment, improve outcomes for people, and avoid destructive conflicts. That would provide context for New Zealand to take a similar path and would be good for everyone. We have called it the "Green New World". The difficulty with the "Green New World" scenario is that New Zealand does not get to influence what the global outcome will be, so we cannot be assured of being able to head in that direction.

The second best scenario for us would be where the rest of the world has a negative experience through the economic downturn with widespread business and financial failures, increased stress on food sufficiency, forced uncontrolled exploitation of the environment as people scramble for food and resources, forced migration, and growing geopolitical and security uncertainty. New Zealand's success in maintaining elimination of COVID-19, relative isolation, more rapid economic recovery, and resource endowment might allow a "Vibrant Haven" scenario. In a "Vibrant Haven" future, New Zealand is less harmed and so becomes relatively stronger economically and adopts the societal changes envisioned in "Green New World" with increased inclusion and improved outcomes for people. If New Zealand can manage well through the economic recession, then emerging on a "Vibrant Haven" pathway should be possible.

A third scenario is "Return to Normal" where NZ and the world eventually recover, but the world returns to the pre-COVID trajectory of increasing environmental risk, international instability, harm to disadvantaged people and increasingly divided societies. "Return to Normal" is an unattractive scenario but one that New Zealand might be able to avoid by choosing to pursue strengthened social and environmental goals which lead to a "Vibrant Haven" pathway.

The last scenario is the worst one. It involves a serious economic down-turn, deterioration of the world's geopolitical system and hard times for New Zealand. We have called it

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<sup>2</sup> Stakeholder Strategies will be releasing a report on New Zealand's progress against a suite of economic, social and environmental measures.

“Struggling Alone” to emphasise how challenging that scenario would be for us, and everyone else. It would represent a failure of imagination and leadership.

Figure 2 provides a high-level overview of the four “New Normal” scenarios described above. For more detail, please see [here](#) for scenarios which cover the crisis and recession periods and [here](#) for detail on the “New Normal” scenario thinking.

Figure 2: “New Normal” scenarios (from ~2021/22)

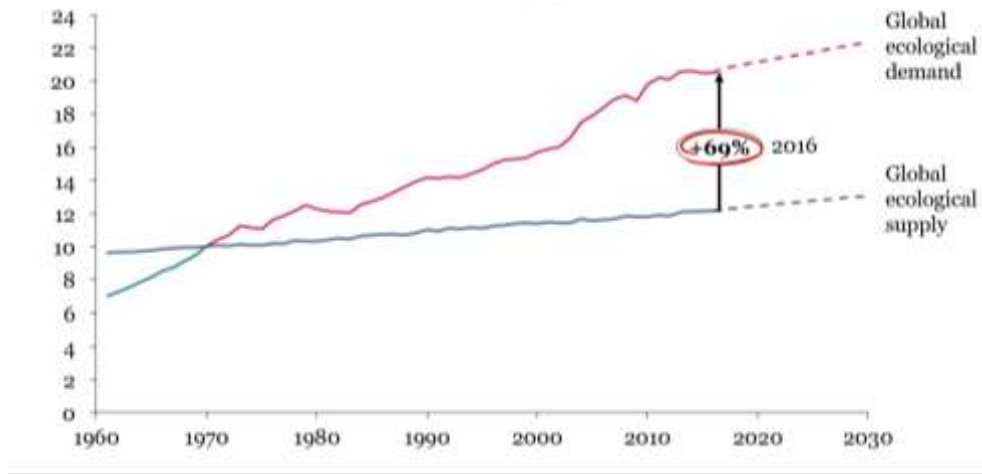
Scenario	Scenario drivers				High-level story
	World economy recovers?	World remains integrated?	Environment & resilience prioritised?	Societal changes retained?	
<b>Green New World</b>	✓	✓	✓	✓	<ul style="list-style-type: none"> <li>World recovers from the COVID-19 crisis</li> <li>Crisis highlights environmental and resilience risks which propels action</li> <li>Positive changes adopted during the crisis are retained</li> </ul>
<b>Vibrant Haven</b>	✗	✗	✓	✓✓	<ul style="list-style-type: none"> <li>Global recovery partial, very slow or non-existent</li> <li>Competition triumphs over collaboration</li> <li>Global uncertainty increases, triggering investments in resiliency</li> <li>New Zealand seen as a safe haven</li> </ul>
<b>Return To Normal</b>	✓	✓	✗	✗	<ul style="list-style-type: none"> <li>World recovers and remains integrated but fails to incorporate the lessons from COVID-19</li> <li>Emphasis remains on efficiency and growth over resilience and wellbeing</li> <li>Life returns to pre-crisis normal</li> </ul>
<b>Struggling Alone</b>	✗	✗	✗	✗	<ul style="list-style-type: none"> <li>Breakdown in global systems prohibits successful virus recovery</li> <li>Competition leads to confrontations</li> <li>Risk of future disruptions increases</li> <li>Resilience and wellbeing deprioritised</li> </ul>

**To achieve long term a “Vibrant Haven” or “Green New World” future, New Zealand needs a strategy to navigate the next few years**

Conscious that New Zealand will be able control its own destiny to some extent and that our circumstances may protect us from some of the expected risks, we can consider what would be required to deliver long term success and then work backward to consider what New Zealand should do.

The most important long-term challenge for the world is that the scale of the global economy is now much larger than can be sustainably supported by the resources of the natural environment, using available and emerging technologies. The world is on a trajectory that, if it continues, will cause an environmental and economic crisis, and risks civilisation collapse. The lack of preparedness and resilience being demonstrated by the COVID-19 event should be the wake-up call for New Zealand and the world to shift from the current obsession with economic growth and wealth accumulation towards ensuring environmental resilience and wellbeing for people. Figure 3 illustrates the scale of the environmental challenge facing the world, by highlighting that the world demands over 70% more than the globe’s ecological systems can sustainably supply.

Figure 3: Comparison of global ecological demand and supply (billions of hectares, 1961-2016 actual, 2017+ forecast)<sup>3</sup>



The magnitude of the challenge and potential consequences implies New Zealand should play its part in the global change of direction, while systematically increasing our own resilience given the likelihood that we will need to navigate through difficult times again in the future. In the near-term, bold action may help to differentiate New Zealand as a safer haven for people, business, and capital. Extreme adverse events as large as COVID-19 have occurred only about every 100 years in the past, but we should expect they will become more frequent.

As Figure 4 illustrates, strategy is a means to deliver desired future outcomes. New Zealand needs a strategy that aims for a "Green New World" scenario with "Vibrant Haven" as a fall-back option. The strategy should be developed for two periods - the COVID-19 crisis period and the "new normal" - and balance social, environmental, and economic outcomes.

Figure 4: How strategy closes the gap between emerging and desired outcomes



<sup>3</sup> Source: Global Footprint Network

## **New Zealand needs a social strategy that supports vulnerable people, builds social cohesion and capital, strengthens cultural wellbeing, and integrates returning New Zealanders**

Social strategy will be most important during the COVID event because of the scale of the likely harm to vulnerable people and the consequences of that harm for us all. New Zealand has a long tradition of principled social innovation, and we pride ourselves on our inventiveness. Innovative social solutions should smooth the transition pathway for people who lose their jobs and incomes, to ensure that they are productively occupied, learning, and advancing their opportunities. Evidence from the 1992/1993 recession and the Global Financial Crisis demonstrates that social harms from widespread unemployment can be widespread and enduring.

Building social cohesion and community capital are important investments for long-term resilience and there will be human and community resources in abundance within New Zealand during the next few years. Organisation development and support resources will be required to make best use of the available social resources.

Strengthening cultural wellbeing should also be prioritised. New Zealand has particular strengths, and some challenges, arising from its cultural diversity. Te Ao Māori (the Māori worldview) emphasises values of intergenerational stewardship (kaitiakitanga) and cooperative effort (kotahitanga) that could prove valuable in underpinning our future direction. Patient investment from iwi in local development and sustainable employment can be a valuable cornerstone of social and economic development. However New Zealand must address disproportionate deprivation among Māori and Pasifika communities if it is to fully thrive.

It is likely that many international New Zealanders will return here during the next few years as the economic, social and political insecurity resulting from the virus contributes to New Zealand becoming a relatively more attractive place to live, work, learn and play. They will need to be accommodated with infrastructure, housing and economic opportunities and will likely exacerbate existing constraints such as shortages in housing. The current reduction in migration by foreigners will likely persist, with Government prioritising employment opportunities for New Zealanders and more New Zealanders being trained for jobs.

## **An environmental strategy for New Zealand should accelerate the clean energy transition, prioritise dematerialisation of consumption and support ecological regeneration**

New Zealand is already developing ideas and policies to improve environmental outcomes with focus on water quality, air pollutants, biodiversity, and energy among other domains. Those efforts should be accelerated. Temporary jobs planting trees, removing predators, and contributing to other “low hanging fruit” opportunities are obvious and likely as the New Zealand Government seeks to provide economic stimulus.

There are also opportunities to accelerate the transition to clean energy, which has the potential to reduce New Zealand’s carbon emissions by ~25%<sup>4</sup>. Electrification of energy and transport provide a large opportunity but are not yet ready for deployment because of the need for further cost reductions and then scaling of the new technologies such as electric vehicles, electric process heat, batteries, and the smart grid. However, some opportunities are economic or nearly economic now, and these could be deployed rapidly and create jobs. The near-term opportunities include transitioning to LED lighting, deployment of electric

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<sup>4</sup> Source: Transpower’s Whakamana i Te Mauri Hiko

heat pumps to replace small scale low heat coal fired boilers, installing solar power on commercial roofs, and preparing New Zealand's electricity systems and infrastructure for increasing and more complex demands.

Shifting to dematerialise consumption is a likely long-term trend that could be accelerated. COVID-19 has accelerated the adoption of virtual and automation technology. Going virtual means substituting video conferencing for commuting and travel and could become the norm. Further automation and teleworking will reduce commuting but could threaten social wellbeing if jobs lost in highly automated industries are not replaced.

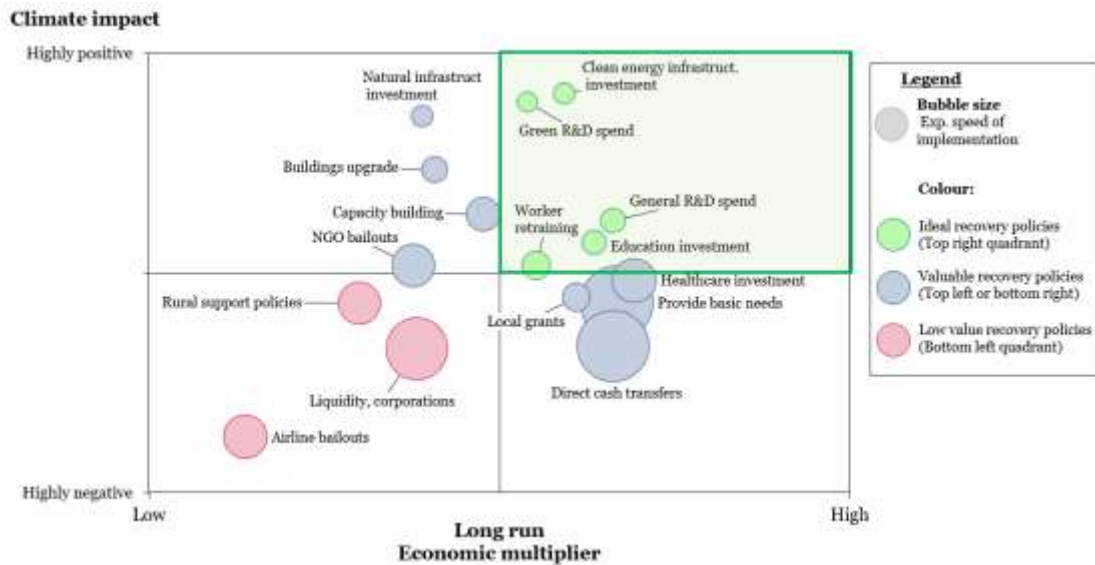
Finally, New Zealand's environmental strategy should invest in community aspirations and capabilities to protect and restore ecological systems. For example, funding more community efforts to remove predators would build organisational, human, and financial capital within communities. Experience shows that change that is led and owned by communities tends to be more durable and resilient.

### **New Zealand's economic strategy should support social and environmental wellbeing**

The first economic challenge is to smooth what Schumpeter called the "process of creative destruction" where businesses fail and the assets and employees transition into new opportunities. Businesses that succeed through large scale financial crises are those which are financially strong and offer things that people will continue to need, like food, and those that innovate to most effectively take advantage of the new opportunities that arise. Businesses that will not be productive and successful in the future should be allowed to fail during the crisis and their resources should be redeployed. The near-term challenge for governments is to ensure 'just' transitions can happen with the least amount of short-term pain and long-term harm.

The second economic challenge is to shift from an emphasis on short-term growth and efficiency towards long term wellbeing and resilience. That shift is in progress. One of the enduring changes resulting from the COVID-19 crisis will likely be businesses increasing supply chain resilience by establishing supplier redundancy and strategic stock onshore as well as requiring similar efforts by suppliers up the chain. Several governments, including New Zealand's, have adopted frameworks which prioritise non-economic forms of wellbeing such as social, cultural, and environmental. As shown in Figure 5, recent research by Oxford University indicates that investment in green technology, education and research and development may be the best long-term economic response to COVID-19.

Figure 5: Global evaluation of potential COVID-19 response policies<sup>5</sup>



The third economic challenge will be to ensure that young people, especially young Māori, and Pasifika, stay engaged at school, do not leave early and are able to train and develop through to high quality jobs. The future of work is changing quickly, with service industries and technology-enabled roles growing quickly, so the training system needs to adapt rapidly and consistently.

Fourth, government may need to play a more active role in identifying and enabling success in attractive industries for New Zealand. The COVID-19 crisis will result in many businesses failing, and jobs being lost. Many other countries have demonstrated that new industry opportunities can be identified and facilitated, and New Zealand can do much more to support industry growth. As a bold example of the possibilities, the economies of scale in car production are reducing and electric cars will be much simpler to manufacture than typical petrol and diesel cars. Could New Zealand manufacture electric vehicles under license, building capability, improving our current account balance, and accelerating the shift away from fossil fuels? What about manufacturing using 3D printing to increase the robustness of our supply chains?

Tourism has been hit hard. It should recover but New Zealand may want to limit future growth to avoid undesirable consequences from large scale tourism. Some tourism destinations had become so heavily utilised that the experience was deteriorating along with the environment. Many tourism jobs are low productivity so shifting people from tourism and hospitality into higher value jobs will be economically beneficial long term.

The investment signalled to support New Zealand's recovery from the COVID-19 crisis is very large, and likely necessary. But it will take decades to bring Government's net debt back to the pre-COVID levels. During that time, it is likely that there will be another crisis, or more than one, given the world's state and trajectory. When balance sheet resilience is depleted there are fewer options to respond to a crisis, so austerity may become unavoidable. Austerity creates significant social harm. New Zealand needs to prepare to navigate future

<sup>5</sup>Note: data is based on qualitative scoring by 276 experts from academia, public policy offices and think-tanks responding to Oxford University survey. Source: Oxford Review of Economy Policy: *Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?*

crises without requiring a repeat of the high level of balance sheet drawdown that will be required for the COVID-19 crisis.

**The time to set New Zealand on a path towards a successful future is now**

New Zealand has the opportunity now, if we choose, to establish a strategic trajectory and a brand that will support the strategic direction proposed. We could focus fiscal stimulus on achieving the direction we want to take into the “New Normal” and develop a self-image as a forward-thinking and reasoned country that is united, cohesive, effective, resilient, and safe. Externally our brand could be positioned as independent, connected, and collaborative. But success is not guaranteed and action from all sectors of our economy and political systems will be required.

New Zealand has an opportunity for a rethink, and successful management of the COVID-19 crisis could position us to get onto a better trajectory, if we choose. There will be tough times ahead, but we must use the momentum and appetite for change the crisis has created to propel New Zealand towards a successful long-term future. New Zealand is positioned to rebound from the COVID-19 crisis better than most. That is a rare opportunity we cannot afford to waste.