

Navigating the COVID-19 crisis

Update on long-term scenarios

15 May 2020

**STAKEHOLDER
STRATEGIES**

INTRODUCTION

Today's update provides New Zealand organisations with long-term, post-crisis scenarios to use as they assess the horizon two and three implications of COVID-19

- Our update comes one day after Government's 2020 Budget announcement which provisioned \$50b of fiscal stimulus to support the COVID-19 recovery, including \$20b which remains unallocated and could be used to create a vibrant future for New Zealand

Our update is the fifth in a series on navigating the COVID-19 crisis

- The [first](#) provided a high-level overview of the crisis
- The [second](#) outlined why we think the recession will likely be long and severe
- The [third](#) identified which industries and communities will be most affected by the crisis
- The [fourth](#) shared emerging research on the nature of the virus and its implications

Content presented should be considered “draft” and “work-in-progress”

- It is not complete without accompanying verbal commentary
- The situation is changing rapidly, and our thinking is evolving. It is likely that some content will be out of date quickly

More information on Stakeholder Strategies can be found at www.stakeholderstrategies.co.nz and you can sign up to receive our future COVID-19 research summaries [here](#)

“NEW NORMAL” SCENARIOS HELP TO UNDERSTAND THE LONG-TERM IMPLICATIONS OF COVID-19

Scenarios enable robust strategy to be developed in the face of uncertainty

Long-term scenarios are needed to assess the long-term implications of COVID-19

- COVID-19 is unlocking forces that may materially alter the future
- Scenarios have been developed to test the long-term implications of the forces
- The “new normal” scenarios assume NZ navigates the crisis period relatively well

Four forces are strongly influencing New Zealand’s “new normal” future

“New normal” scenarios developed to test the implications of alternative futures

Survive and thrive by adopting tools which help navigate high uncertainty

SCENARIOS ENABLE ROBUST STRATEGY TO BE DEVELOPED IN THE FACE OF UNCERTAINTY

- ✓ Visualise the shape of the future when there is high uncertainty
- ✓ Build shared understanding of the range of possibilities
 - Future states of the world
 - Strategies and their outcomes
- ✓ Understand the likelihood of the different outcomes
- ✓ Develop strategies that are robust across the scenarios
 - Dominant, least regrets, contingent, minimax, and expected value*
- ✓ Identify “triggers” which provide early indication that one scenario is emerging

COVID-19 IS UNLOCKING FORCES THAT MAY MATERIALLY ALTER THE FUTURE

| Crisis impacts on forces | Description | Examples of societal forces affected by COVID-19 |
|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Accelerated or decelerated</p> | <ul style="list-style-type: none"> • Crisis drives societies to move more rapidly (or slowly) in the direction of existing forces | <ul style="list-style-type: none"> • ‘Virtual Everything’ accelerated – 5G, work, learning, entertainment, production • Automation accelerated • Prioritisation of wellbeing and sustainability strengthened • Competition between the USA and China intensified |
| <p>Contradictions resolved</p> | <ul style="list-style-type: none"> • Forces released may have inherent contradictions which are highlighted and must be resolved | <ul style="list-style-type: none"> • Globalisation and efficiency versus self-sufficiency and resilience • Economic progress versus social and environmental impact |
| <p>New forces unlocked</p> | <ul style="list-style-type: none"> • Other forces or events may be released by the event or by an actor responding to the event | <ul style="list-style-type: none"> • Renewed investment in public health • Major political reforms (e.g. the Green New Deal and Universal Basic Income) • Industry consolidation as weaker firms become insolvent and stronger firms acquire rivals |

SCENARIOS HAVE BEEN DEVELOPED TO TEST THE LONG-TERM IMPLICATIONS OF THE FORCES

| Scenarios | Stage of gov't response | Impact | Response | Intent |
|-------------------------------|---------------------------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| Crisis Now to ~2022 | Lockdown March – May in New Zealand | Acute production reduction, redundancies and insolvencies of most vulnerable | Direct funding of individuals and firms most affected Limited capacity for medium and long-term interventions | Keep people alive and fed, and ready to return to work when restrictions ease |
| | Stimulus April '20 for next 1-2+ years | Supply chain disruption as the post-lockdown restarts are asynchronous Firms fail | Keynesian fiscal stimulus via investment in infrastructure and transfer payments Government debt and printing money | Preservation of status quo Avoid undesirable wellbeing outcomes |
| New normal ~2022+ | Austerity May be avoided in New Zealand | Governments run out of capacity to fund | Possible inflation, hyperinflation Switch to austerity Limited capacity to intervene to solve wellbeing issues | Hold societies together Creative destruction |
| | Normality ~2022+ | Pressure released for fundamental societal changes | Establish new deals, new institutions and policies | Build a better normal Design fit-for-purpose institutions |

THE “NEW NORMAL” SCENARIOS ASSUME NZ NAVIGATES THE CRISIS PERIOD RELATIVELY WELL

Crisis period scenarios (now to ~2022)¹

| Scenario | Scenario drivers | | | High-level story |
|----------------------------------------------------|--------------------|-----------------------|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Elimination in NZ? | Containment Globally? | NZ’s economic recovery commenced? | |
| Crisis scenario assumed for “new normal” scenarios | | | | |
| NZ Elimination | ✓ | ✗ | ✓ | <ul style="list-style-type: none"> • New Zealand maintains elimination and reopens the economy (including limited international tourism) • Most of the rest of the world struggles to contain the virus and experiences multiple or prolonged waves of infections • New Zealand’s economy begins to recover but is constrained by dependence on the faltering global economy |
| Global Containment | ✓ | ✓ | ✓ | <ul style="list-style-type: none"> • New Zealand maintains elimination • Most of the rest of the world successfully contains the virus but large numbers of people are still harmed • New Zealand’s economy recovers more rapidly, supported by the global economic recovery |
| Global Infection | ✗ | ✗ | ✗✗ | <ul style="list-style-type: none"> • Elimination and containment fails in New Zealand and globally • Some countries retain strict public health restrictions while others alleviate restrictions and accept higher levels of fatalities • A severe global recession is experienced during the crisis |

Wildcards:

- **Mutation** – the virus mutates, prohibiting faster than normal vaccine development and potentially becoming more deadly
- **Endemic** – a vaccine is not developed quickly and the disease becomes endemic, appearing more like Measles or Dengue

FOUR FORCES ARE STRONGLY INFLUENCING NEW ZEALAND'S "NEW NORMAL" FUTURE

The global economic recovery



- The world was in an economically vulnerable position before the crisis
- COVID-19 has created a severe real economy shock that could become a financial shock with numerous business failures
- Returning to pre-crisis growth rates may not be possible, or desirable

Global integration and collaboration



- Social, political and security tensions were rising before the crisis
- Tensions likely to be accelerated during and after the crisis (e.g. US-China)
- But there are some positive signs (e.g. collaboration on vaccine)

Prioritisation of resilience and sustainability



- The risk of disruptive climate change and significant environmental harm is growing
- The crisis may trigger a de-prioritisation of the environment
- But the experience of the crisis could also accelerate mobilisation and environmental protection

Appetite for long-lasting societal changes



- COVID-19 has already triggered changes to how societies function
- Many changes are likely to endure (e.g. some degree of virtual everything)
- Pressure for more radical changes will grow if the impacts of the crisis become more severe and prolonged

THE SUCCESS OF THE GLOBAL ECONOMIC RECOVERY FROM COVID-19 IS UNCERTAIN

The world was in an economically vulnerable position before the crisis

- The risk of a global financial crisis was growing as seen by rising cyclically adjusted price to earnings ratios
- High rates of public debt and low interest rates mean that the ability of central governments and banks to respond to recessions was limited
- The risk of structurally high unemployment was increasing as artificial intelligence and automation disrupted many industries

The COVID-19 crisis has created a severe real economy shock that could become a financial shock

- Lockdowns have triggered unemployment growth to levels much higher than experienced during the Global Financial Crisis
- Repeated or prolonged waves of infections expected in most developed world countries, and most governments will not be able to continue to fund solvency through repeated or longer lockdowns
- The virus will likely infect a large proportion of developing world people with the potential for significant lethality depending on age profiles, comorbidities, diets, and public health infrastructure
- Asynchronous supply chain disruptions likely as 2nd and 3rd waves impact the developed world, infections disrupt raw materials, production and demand in the developing world, and business insolvencies play out

Returning to pre-crisis growth rates may not be possible, or desirable

- The scale of the human and economic harm could trigger a depression that endures for many years
- Aggressive macro-economic stimulus could trigger a phase of austerity, and hyper inflation is possible
- The crisis could trigger fundamental changes in preferences between economic growth and environmental sustainability which may mean that pre-crisis levels of growth become unattractive

THREATS TO GLOBAL INTEGRATION AND COLLABORATION ARE ENHANCED BY COVID-19

Social, political and security tensions were rising before the crisis

- States failing via combinations of population growth, reduced resources per person, failure to build value-adding economies and pressures from climate change
- Migration from economically weak and failing states increasing ethnic tensions and contributing to shifts to the populist right in developed world
- Increasing inequality combined with slowing economic growth leading to declining real incomes in many countries, except for the very rich
- Protectionist policies and moves to increase self-sufficiency in resources such as energy and food threaten a reversal of globalisation, weakening ties between nations
- Geopolitical tensions growing as the US' dominance weakens, and China is poised to take advantage

Tensions likely to be accelerated during and after the crisis

- Nationalistic rhetoric increasing as a means of shifting blame in countries which have mismanaged the crisis
- Divide between rich and poor likely to increase as poorer countries and households harmed significantly more than the more wealthy
- Autocrats and terrorists capitalising on the opportunities created by the crisis to expand and solidify their powers
- High levels of unemployment increases risk of terrorism, crime and a breakdown of social cohesion
- Likely vaccine supply shortages creates incentive for competitive rather than collaborative development

But there are some positive signs

- For example, the race to develop, produce and distribute a vaccine could unite instead of divide countries

PRIORITISATION OF RESILIENCE AND SUSTAINABILITY MAY STRENGTHEN

The risks from climate change and degrading ecosystems have been growing for the last few decades

The decline in activity from lock-downs and the economic recession is creating a short-term benefit for nature

- Reduced greenhouse gas emissions and air pollution
- Examples of wildlife returning to places that are usually human-dominated

However, there will be negative effects too

- Governments taking advantage of the crisis to relax environment protection regulations (e.g. the US)
- Hunting and gathering by some of the projected additional 250m hungry people, depleting ecosystem stocks
- Shortage of capital for investing in environmental improvements (e.g. affordability of renewable generation and electric vehicles)

The experience of the COVID-19 crisis could lead to increased environmental protection

- Reduced air pollution, congestion, commuting times creating aspiration for better environment management
- Experience of lock-down lifestyles shifting consumers towards less environmentally harmful activities
- Increased recognition of environmental risks and recognition of the importance of long-term outcomes
- Opportunity for some fiscal stimulus to be targeted toward improving environment outcomes (e.g. green tech and green infrastructure)
- Policy reforms that could rebalance aspirations for continued short-term growth versus long-term well-being, including environmental wellbeing (e.g. the Green New Deal)

APPETITE FOR LONG-LASTING SOCIETAL CHANGES GROWING

COVID-19 has triggered material changes to how societies function

- Virtual everything has been dramatically accelerated by the requirement for many to work, learn and play at home
- Sudden and high rates of unemployment have triggered appetite for welfare systems which were considered radical (e.g. the Green New Deal and Universal Basic Income)
- Basic public health practices have become normalised and will likely increase as the crisis continues (e.g. mask wearing, physical distancing, staying at home more)

Many changes are likely to endure

- People, businesses and governments are recognising the benefits of some changes (e.g. retaining the ability to work from home for some portion of an office workers time)
- The science of habit-forming shows that three weeks is the required amount of time for a new behaviour to become a habit¹
- Some changes are structural and will not be easy to reverse (e.g. reform promises required to win elections during a national crisis)

Pressure for more radical changes will grow if the impacts of the crisis become more severe and prolonged

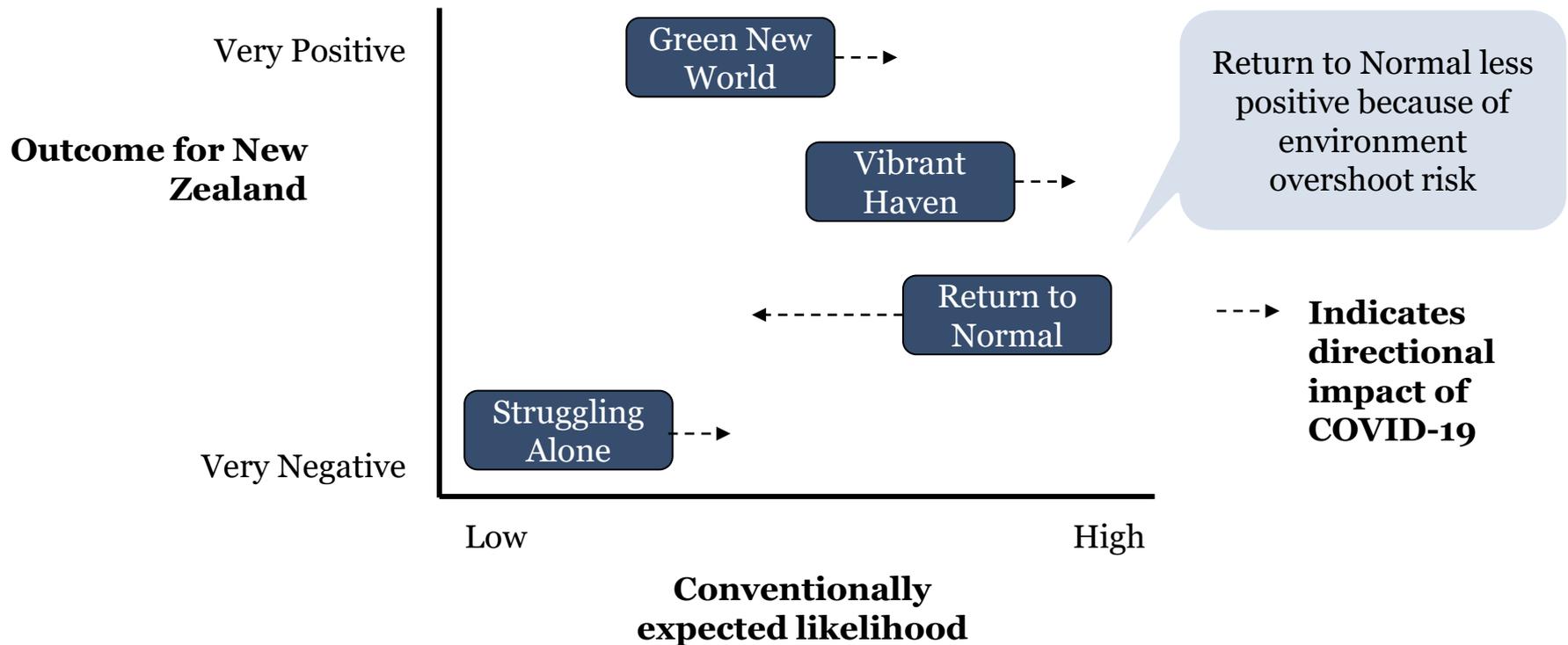
“NEW NORMAL” SCENARIOS DEVELOPED TO TEST THE IMPLICATIONS OF ALTERATIVE FUTURES

“New normal” scenarios (~2022+)

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

THE FOUR SCENARIOS IMPLY MATERIALLY DIFFERENT FUTURES FOR NEW ZEALAND

Relative likelihood and attractiveness of scenarios for New Zealand



“GREEN NEW WORLD” ANTICIPATES TRANSFORMATIVE AND POSITIVE CHANGES

World recovery



- Developed world recovers slowly from COVID-19 recession
- Developing world devastated by COVID-19 but supported by richer countries
- Keynesian stimulus skewed towards green infrastructure investments
- Increasingly wellbeing is decoupled from economic growth

Global integration



- Collective effort on COVID-19 vaccine development, production and distribution highlights importance of collaboration
- Accelerated decline of US and rise of China continues without major conflict
- Supply chain disruptions drive diversification instead of onshoring

Priority on resilience



- COVID-19 crisis highlights vulnerabilities to environment risks and feasibility of environment protection
- Supply chain resilience becomes a permanent “board level” issue and countries seek to control strategic supply chains directly or bilaterally
- Public health investment remains high

Societal changes



- Many people continue to work, learn and play virtually for a material portion of their time
- High unemployment, acceleration of automation, prioritisation of wellbeing and political priorities drive more radical societal reforms

“VIBRANT HAVEN” ANTICIPATES DARK GLOBAL CLOUDS AND ENLIGHTENED LOCAL LEADERSHIP

World recovery



- COVID-19 real economy recession triggers a developed world financial crisis and periods of austerity
- Developing world countries fend for themselves and do not recover from the harm inflicted by the virus
- Consumer preferences change towards more affordable and sustainable consumption

Global integration



- Superpowers trade blame to distract from domestic failures
- Globalisation recedes amid escalating major power tensions (Ru, PRC, USA)
- Risk of regional or global conflicts grows as economic depression deepens
 - Flashpoints include Hong Kong, Taiwan, SC Sea, Ukraine, Belarus
- Developing world famine and disease cause a migration crisis

Priority on resilience



- COVID-19 crisis triggers stronger environmental protection, but not all countries play their part
- Need for supply chain resilience which leads to significant onshoring
- New Zealand, rich in food and natural resources and water, faces global demand pressures

Societal changes



- People, capital and businesses see New Zealand as a safe haven
- Sustainability seen as a differentiator
- Many people continue to work, learn and play virtually for a material portion of their time
- Structural high and enduring unemployment globally increases pressure for radical societal reforms; New Zealand is a fast follower

IN “RETURN TO NORMAL” NEW ZEALAND IS ON A PATH TOWARDS FUTURE DISRUPTIONS

World recovery



- A financial crisis is avoided but the developed world still recovers slowly
- Developing World recovery supported by rapid restart of primary resource extraction industries and manufacturing
- Consumer preferences return to less sustainable, pre-crisis, norms

Global integration



- Collective effort on COVID-19 vaccine development, production and distribution highlights importance of collaboration
- Accelerated decline of US and rise of China continues without major conflict
- Supply chains return to normal – prioritising efficiency over resiliency

Priority on resilience



- Environmental protections relaxed as need to stimulate the economy is viewed as more important than sustainability
- World continues on path to exceed a 2° C temperature increase
- New Zealand does not prioritise economic stimulus that creates positive environmental outcomes, focusing instead of economic and social issues

Societal changes



- Values and behaviours return to the pre-crisis “normal”
- The economic recovery reduces pressure for more radical reforms
- Inequality continues to increase with some nations, regions and communities left behind

“STRUGGLING ALONE” TESTS THE IMPACTS OF ONGOING AND MORE HARMFUL CRISES

World recovery



- The global economy never fully recovers from the COVID-19 real economy recession, financial crisis and periods of austerity ensue
- Unemployment and homelessness increases as many businesses and households become insolvent
- Consumer preferences permanently change towards more affordable products and services, sustainability is seen as discretionary

Global integration



- Globally economic, geopolitical, social and environmental uncertainty leads to an increase in zero-sum behaviour
- Globalisation recedes and the risk of regional or global conflict increases
- New Zealand is forced to make a trade-off between prioritising its security interests (with the US) and economic interest (with the PRC)

Priority on resilience



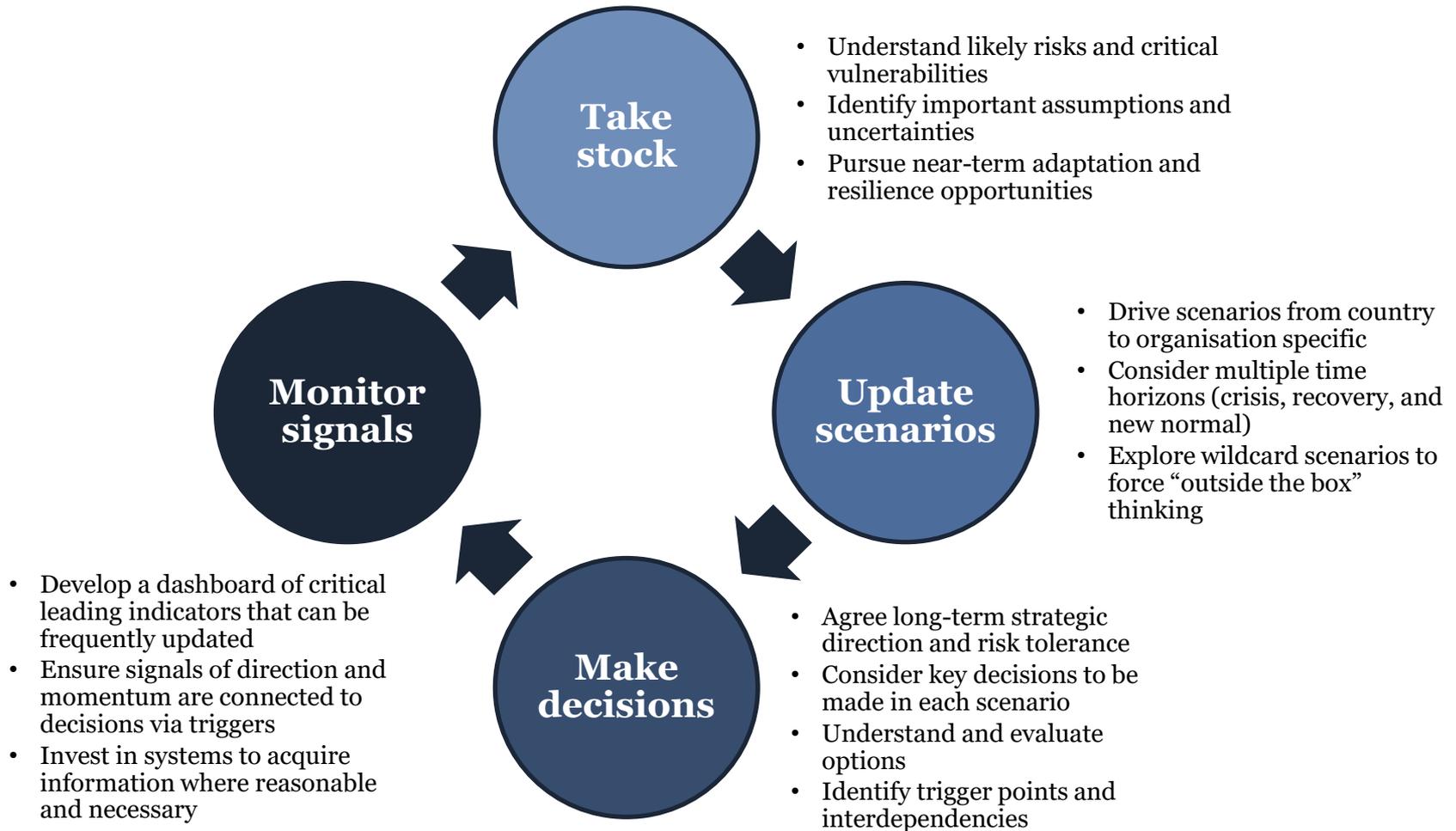
- The risk of disruptive climate change grows rapidly as countries renege on international climate treaties and relax environmental protections
- The near-term impacts of climate change are greater than expected
- The number of climate refugees seeking refuge in safer countries increases
- Supply chains are rapidly on-shored to reduce international dependencies

Societal changes



- Values and behaviours returns to the pre-crisis “normal”
- Economic wellbeing is prioritised over social, cultural and environmental wellbeing
- The world becomes a place of “the haves” and “the have-nots”, and New Zealand is no exception

SURVIVE AND THRIVE BY ADOPTING TOOLS WHICH HELP NAVIGATE HIGH UNCERTAINTY



IDENTIFY CRITICAL VULNERABILITIES, UNCERTAINTIES AND OPPORTUNITIES

| | Vulnerabilities | Uncertainties | Opportunities |
|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Society | <ul style="list-style-type: none"> • Social dysfunction from higher unemployment and inequality • Environmental and cultural wellbeing sacrificed for economic recovery | <ul style="list-style-type: none"> • Appetite for material reforms • Societal value changes (e.g. for cohesion versus competition) • Impacts of global socio-political situation | <ul style="list-style-type: none"> • “Never let a good crisis go to waste” • Fringe ideas become main-stream (e.g. Green New Deal) • Values more malleable |
| Economy | <ul style="list-style-type: none"> • Exposure to recession depending on industry concentration and resilience • Businesses and household insolvencies | <ul style="list-style-type: none"> • Global economic rebound and implications for NZ economy • Effectiveness of fiscal and monetary stimulus • Supply chain onshoring vs diversification | <ul style="list-style-type: none"> • Government appetite to accelerate economic development plans • Investments shift economic activity to more productivity and resilient industries |
| Industry | <ul style="list-style-type: none"> • Ongoing and asynchronous supply chain disruptions • Shift to substitute services and online channels • Industry workforce shortages | <ul style="list-style-type: none"> • Implications of societal and economic changes • Industry consolidation and competition • Size and shape of targeted stimulus | <ul style="list-style-type: none"> • Increase in industry collaboration and advocacy • Government appetite to invest in stimulus and resilience • Potential increase in workforce supply |
| Organisation | <ul style="list-style-type: none"> • Leverage, cost base, cashflow and access to capital • Reliance on physical operations and supply chains • Competitors with deeper pockets | <ul style="list-style-type: none"> • Implications of societal, economic and industry changes • Lasting changes in consumer preferences • Supply chain disruptions | <ul style="list-style-type: none"> • Acquire less resilient competitors • Leverage crisis to drive transformation • Engage customers and suppliers to build resilience |

CONFIRM STRATEGIC STANCE DURING CRISIS AND RECOVERY PERIODS

Purpose

Defines what success looks like

Strategic stance
during the COVID-19
crisis periods

| | | |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Transformative | <p>Adaptive</p> <ul style="list-style-type: none"> Enhance the core Leverage external forces to drive internal transformations | <p>Visionary</p> <ul style="list-style-type: none"> Bold investments and innovations New products, markets, industries, policies |
| | <p>Conservative</p> <ul style="list-style-type: none"> Protect the core Reduce discretionary activity, build foundation for future | <p>Opportunist</p> <ul style="list-style-type: none"> Alert and responsive Acquisitions, option development, targeted interventions |
| Optimising | Defensive | Aggressive |

Strategy

Plan to achieve success during and after the COVID-19 crisis

IDENTIFY DOMINANT, CONTINGENT AND MINI-MAX OPTIONS

| Option type | Overview | Response | Examples |
|-----------------------|------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Dominant | Most attractive course of action under all scenarios | <ul style="list-style-type: none"> Depending on time horizon: <ul style="list-style-type: none"> – Execute – Investigate – Monitor | Maintaining testing and contact tracing capacity <ul style="list-style-type: none"> Sufficiently valuable with high and low rates of infection |
| Least regrets | Likely to be valuable in most scenarios | | Infrastructure investments in hubs of high demand <ul style="list-style-type: none"> E.g. CBD transport capacity |
| Contingent | Only attractive under some scenarios | <ul style="list-style-type: none"> Build agility (e.g. invest in completing detailed design) Build acuity (e.g. identify and monitor triggers) | Most infrastructure investment <ul style="list-style-type: none"> Becomes attractive when demand rebounds and is likely to exceed supply |
| Mini-max | Minimise the possible loss from the worst scenario | <ul style="list-style-type: none"> Option analysis to determine expected value relative to expected exposure | Supply chain contingencies <ul style="list-style-type: none"> Disruption very costly relative to cost of contingency option |
| Expected value | Highest value bed given scenario probabilities | | Locating a factory <ul style="list-style-type: none"> Best choice given expected customer and supplier locations |

FURTHER INFORMATION

For further information on how we can help you, please contact:

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Thank you,

The Stakeholder Strategies team