

# Pottinger

PERSPECTIVES

Bringing ideas, people and data together to change the world

April 2019



## MANIFEST OPPORTUNITY!

The seven keys to success in  
Australia's 2019 election





For the last decade, some politicians have chosen to fan the flames of bigotry and racism. Others have brought divisive politics and wildly ill-informed policy positions to some of the most important issues that face our society and our economy. These include trade policy (including Australia's relationship with China and other Asian countries), infrastructure, energy policy, social welfare, the response to climate change and environmental matters such as our river systems, to name just a few.

Though this extraordinary negativity may have earned attention on social media and plenty of column inches, it has been damaging to Australia's economic development. Similarly, though the shameless internal party politicking may have won some people power or helped to damage their political opponents, it has left politicians more poorly regarded than almost any other member of society.

It's time for something different, and it's time for something better. The emergence of independent candidates who are not caught up in the internal party horse-trading has already brought a more incisive edge to the political debate, and several have already

been successful in driving positive changes in policy – at least in terms of what is being promised by some of Australia's longer-in-the-tooth politicians.

There's an old adage that people get the politicians that they deserve. So, as the election draws near, let's not leave it entirely to party machines to define the political agenda. Rather, let's get on the front foot and be clear what we the people want from public policy, and what we expect from our politicians.

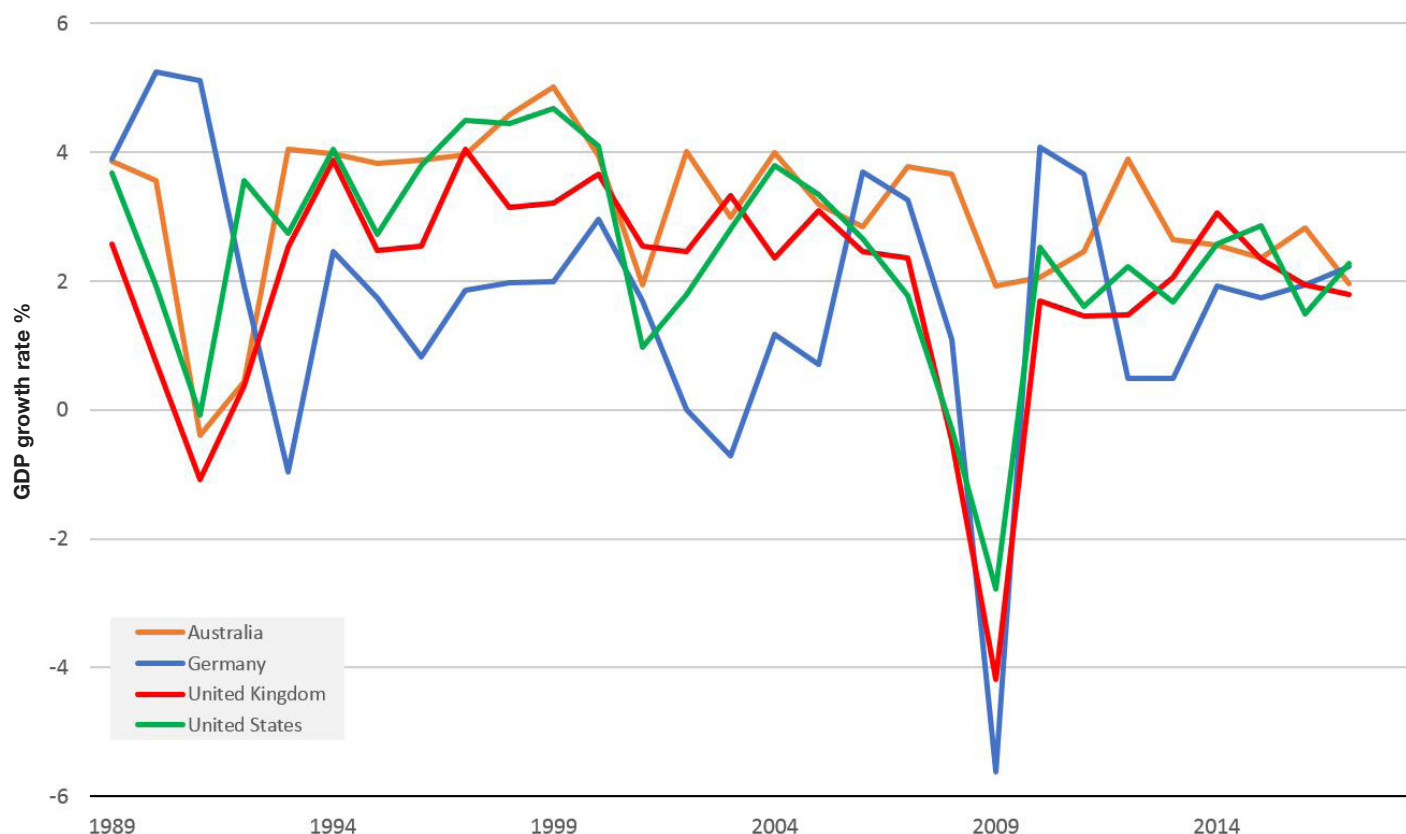
With all that has unfolded in the last few years, the 2019 federal election will be a referendum on both the vision and the behaviour of the nation's politicians, and

hence on the type of country that we want Australia to become as the 21st century unfolds.

Nothing could be more important.

#### **The world's strongest major developed economy**

As context, let's remember that Australia has one of the strongest economies in the world. The country has benefited from over 28 years of uninterrupted economic growth. Importantly, significant parts of the economy are driven by activities that have strong long-term growth prospects, including agriculture, education and tourism (all key export industries, too). In addition, Australia's



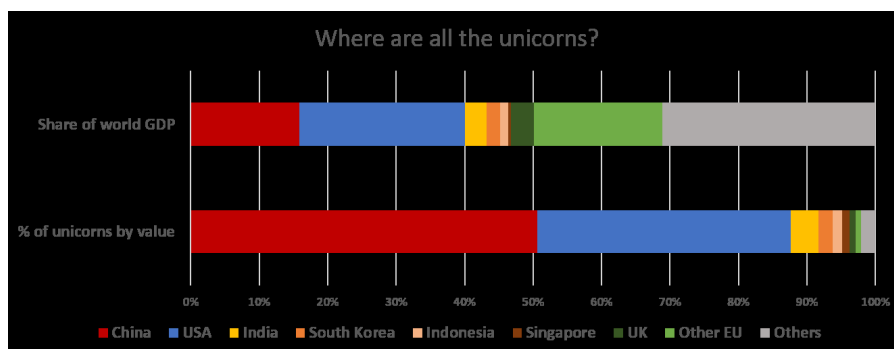
Above: Australia has benefited from over 28 years of uninterrupted economic growth  
 Right: Comparison of market value of unicorns with share of world GDP

resources outputs remain critical to the growth of large economies such as China and India, and indeed others in the Asian region. Although national debt has grown rapidly over the last decade, national debt to GDP remains below 20%. Overall, we have one of the easiest sets of economic cards to play.

### Too much complacency in leadership and the workforce

This is not to say that Australia has found the perfect winning formula – far from it. Median wage growth has proved exceptionally sluggish, and the polarisation of wealth is increasing. Personal debt to GDP is high, and housing affordability remains a significant problem for many. The financial services industry has been exposed for extensive mistreatment of customers, in part fraudulent, through the recent [Hayne Royal Commission](#).

Meanwhile, some areas of the corporate sector have been complacent in the face of Australia's economic performance and have singularly failed to convert domestic market strength into global opportunity. For every company like Cochlear, Flight Centre or CSR in the ASX 100, there are a dozen old-



economy companies whose interests at best span the Tasman sea. This self-satisfaction expands far into the workforce, perhaps as most people under the age of 50 have never seen the effects of economic contraction.

### Punching at one tenth of our economic weight in entrepreneurship

One by-product of all this is that the tech and start-up activity that has driven so much value creation in both the USA and China has been very slow to take root in Australia. Happily, we are now well beyond the green shoots of start-up activity, and Australia has given birth to technology companies such as Atlassian, Canva and Nearmap which are each significant in their industries in global terms. Nevertheless, like most countries other than China, USA, India and Singapore, Australia punches massively below its economic weight, at least as judged by the current crop of unicorns.

### A growing contribution from business leaders and entrepreneurs

Some of Australia's leading founders – particularly Mike Cannon-Brookes from Atlassian – have become influential voices in driving a more progressive policy debate. We welcome this. Meanwhile, there is a small but growing number of very senior individuals who share similar views about what is important. I hope that we will hear much more from them in the months ahead.

The creation of new jobs through entrepreneurship is especially important. The emerging Robot Revolution will result in the automation of many jobs. Huge wealth will be created by the (very small) number of companies that enable this revolution, and it is important for any would-be major nation to be home to some of these companies. Unlike the B2C technology companies of the 1990s, these B2B companies can be based almost anywhere, as they do not need to make their





homes in large consumer markets to be successful.

Also, as seen in the agricultural, industrial and technology revolutions, these changes will result in a long period of virtually no real wage growth. Indeed, with population growth slowing, this time around we may see economic contraction. In other words, proactive action is needed to create new employment opportunities to replace those that will be lost to the machines. Those that argue otherwise – based entirely on qualitative perspectives – should go back and study their economic history, which bears out my quantitative observations above.

So – whilst Australia has a strong platform on which to build, and phenomenal opportunity ahead, it is essential that good choices are made. This means that both political and corporate leaders must have bold, ambitious plans for what can be achieved. Hope is not a strategy, and complacency is a recipe for failure.

Australian political parties are better known for loose pre-election promises rather than comprehensive policy platforms - though of course we hope this changes in 2019. Either way, we're not prepared to leave this to chance, so here are the bare bones of our

own policy manifesto for the 2019 election.

#### **Seven policy priorities that are critical to Australia's future success**

As we judge the electoral promises on offer in this election, there are seven areas that we see as particularly important to Australia's ongoing economic and social prosperity. I have strong views on this - a party that does not bring well thought through answers to these challenges simply does not deserve the trust of the Australian people, let alone to form the next government.

We explore these below, with further detail available on each at <http://www.pottinger.com/manifesto.html>.



#### **Asian Trade and Investment:**

For Australia's economy to continue to grow, it is essential to make the most of the opportunities provided by the rapidly expanding middle class population in the Asian region, including in China. The Transpacific Partnership Agreement is an important part of this, as will be ongoing offshore investment in the region by both leading Australian companies and by smaller, more entrepreneurial businesses. Australia must recognise that its future prosperity

is much more dependent on our near neighbours in the region than it is on the old economies of the EU and even the USA. This is a significant break with tradition, but one that the country is well-prepared to make.

#### **Entrepreneurship and innovation:**

A renewed focus on successful commercialisation of new ideas and the creation of new businesses is essential. Most of Australia's large, listed companies are rooted in old economy industries, such as banking, insurance, property, retailing, utilities and resources. Though the resources sector has solid long-term prospects, and the property sector has potential to adapt to the dramatic changes that will run through the economy over the next decade, other industries face a much more challenging outlook. Indeed, the share price performance of many of these businesses already illustrates these trends and highlights the importance of new businesses being created by Australia's first truly entrepreneurial generation. This implies a significant change in culture is needed – as so much opportunity in the last thirty to forty years has been concentrated in the largest





companies. And this new community will need support and encouragement to flourish. These changes are essential if Australia is to avoid the looming tech deficit that already afflicts most other countries.



**Energy policy:** Part of Australia's historic success has been driven by its phenomenally profitable and successful resources industry. One element of this has been a domestic coal industry which once provided Australia with low-cost energy. A great deal has changed over the last thirty years, and as a result renewable energy sources such as solar PV are now simply cheaper than building new coal-fired power stations to replace the many that are already at or beyond the end of their working lives. For the sceptical, I emphasise that this includes the cost of power storage, where needed. It happens that Australia has some of the most intense sunshine of any country in the world – meaning that the transition to renewable energy will return the country to having an advantage in power prices, something lost at least a decade ago. Large scale infrastructure investors – both from

Australia and from offshore – recognise this opportunity, and a phenomenal amount of capital is available to finance this transition on attractive terms.



**Agriculture:** The emergence of a substantial middle class in Asia will create significant additional demand for food, and especially for protein. The latter is significantly more intensive in agricultural terms and – whilst this may create some environmental challenges – the fact remains that this will create significant opportunity for Australia's agricultural sector. Importantly, Australia has somewhat limited capacity to meet this demand – constraints on the availability of water mean that Australia should concentrate on the opportunity to meet demand for high quality produce, rather than simply quantity. This makes the most of Australia's pristine supply chain, which is almost completely free of genetically modified crops. The prospective impact on farm gate profitability of a shift to premium products is substantial – so long as the growers in question find a way to participate in the value that is created further down the supply chain.



**Infrastructure:** Australia is a highly urbanised, rapidly growing nation. As one of the world's most attractive places to live, it has been successful in attracting talent from around the world. It's strong social fabric – including both health and welfare systems, as well as its friendly culture – have meant that people have wanted to stay. These are both huge advantages over the longer term but come at a cost of needing to invest significant sums in continuing to develop the nation's infrastructure. Though significant strides have been made in the last decade in most States, substantial challenges remain, particularly on the Eastern seaboard. Amongst other initiatives, the construction of a high-speed rail network between Sydney, Melbourne and Brisbane would dramatically improve the connectivity of the entire region.



**Social welfare:** An effective welfare system – including healthcare, education, unemployment benefits and aged care – has been an essential part of Australia's social contract for generations. Everyone benefits from the country's





excellent and highly cost-effective healthcare system, and related medical science and technology research activities have created several highly valuable companies. The education system provides a sound start for most in society and is also an important source of export earnings. Unemployment benefits provide an important safety net. Importantly, taken together, effective welfare also helps to mitigate the negative effects wealth polarisation on our society. Standards are, however, slipping in some areas, and too many people still fall through cracks in the system. As the next technological revolution increases productivity but undermines real wages, it is essential to remember the critical role that social welfare can play in supporting economic growth. More to follow on this shortly.



**Behaviour:** Irrespective of the policies that politicians may promise to pursue, both domestic and global circumstances can change, and events may occur that lie well outside areas covered in any political manifesto. So, every voter should consider carefully the character and behaviour of any politician for whom they intend to vote. In short, do you trust your proposed representative to do their

research, speak their mind, and deliver what they promise? Do you like who are they as a person and how they treat people around them? These will be a useful guide as to how your candidate is likely to respond to the twists and turns of political life. At a base level, the behaviour of Australia's politicians in parliament is at a level that should not be tolerated in a four-year-old child, let alone some of the most senior representatives. Australians deserve? Australians deserve more listening, more kindness and more respect from their leaders, so please cast your vote with this in mind.

#### **Roll on election day!**

These seven areas of policy are critical to Australia's future.

Though simply described, the areas that we have identified are based on extensive research and analysis over the last 20 years, as well as an understanding of the likely short and longer-term economic effects and prospective societal impact. For each policy area, we provide a more detailed synopsis, including key policy measures to be implemented in the near term and, where appropriate, proposed funding options. With many in politics distracted by political infighting, and a new breed of highly motivated but often poorly resourced

independent candidates entering the political fray, we offer these elements as an 'open source' policy platform, on which individuals or parties can build their own more detailed implementation plans.

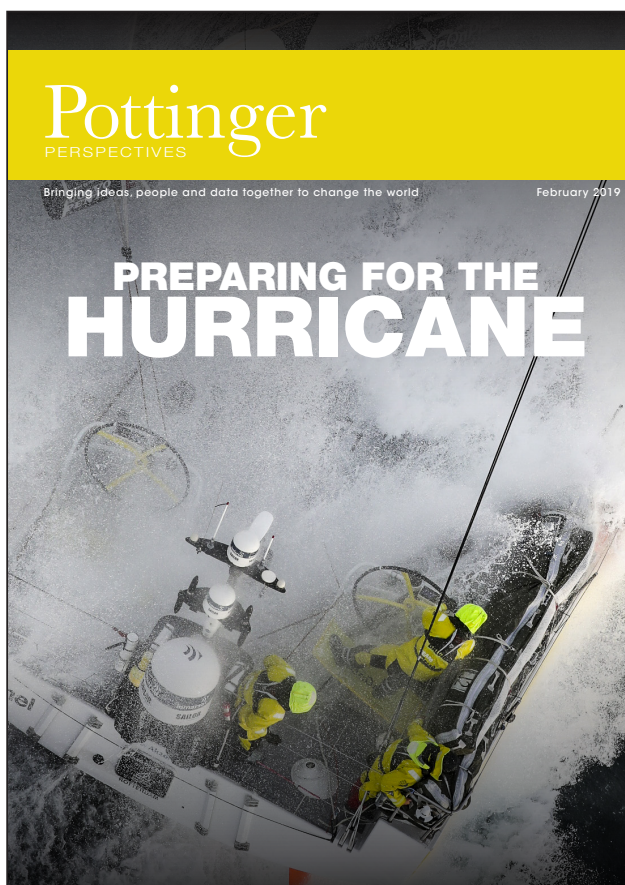
Meanwhile, it happens that my own constituency, Warringah, stands centre stage in the battle between traditional party politics and independent candidates. Long a staunchly Liberal seat, this time around there is a strong independent candidate who's position on issues such as climate change seems to be resonating strongly with the local community. As a result, for the first time in my life in any national election around the world, it seems like my individual vote may really matter.

***My own choice in this election will be based entirely on an evaluation of whether and how the candidates meet what I believe are the most important policy issues for the nation, as outlined above. We stand at a critical turning point for both Australia's culture and its economic outlook, and I look forward to casting my vote.*** **P**

[Full manifesto: www.pottinger.com/manifesto](http://www.pottinger.com/manifesto)

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# Latest issue from Pottinger Perspectives:



## Prepare for the hurricane!

Many countries and industry sectors are heading into the most turbulent environment seen in the last century. Three simultaneous industrial revolutions, dramatic increases in competition, huge fiscal imbalances, growing geopolitical tensions and a fractured social contract are combining to create a veritable smorgasbord of risk and uncertainty.

The hurricane is gathering force and stormy weather lies ahead.

Yet these same factors also imply that this will be the best possible environment for strong businesses to outperform. How can you make the most of this opportunity?

[http://www.pottinger.com/uploads/1/9/5/1/19512909/pottinger\\_perspectives\\_-\\_prepare\\_for\\_the\\_hurricane.pdf](http://www.pottinger.com/uploads/1/9/5/1/19512909/pottinger_perspectives_-_prepare_for_the_hurricane.pdf)

## About Pottinger

Pottinger is a global advisory firm headquartered in Sydney and New York. We combine strategic, commercial, financial and transaction perspectives, and focus first on long term outcomes, to deliver commercial advice that is practical and complete. We navigate the uncertainty inherent in commercial decisions, helping our clients to identify value overlooked by others, and to avoid risks which others may not see.

Pottinger helps organisations to adapt, innovate and transform, by providing insight and advice on strategy and public policy matters, as well as the negotiation and execution of M&A and financing transactions.

Our combination of strategic thinking, M&A advice and financing capabilities allow us to find innovative solutions to the challenges arising in industries facing dynamic change and disruption.

Our team has exceptionally broad and deep strategic advisory and transaction execution experience, encompassing all of the world's top thirty countries. Examples include:

- Advice on market entry, strategic repositioning, identification of new growth opportunities, spin-outs and other forms of restructuring and advice on strategic investments, using our proprietary Destination-led Strategy® methodology, together with analogous advice to governments on public policy;
- Advice in relation to large and small-scale acquisitions, divestments and takeover responses for both publicly listed and private companies;
- Capital optimisation and financing advice for large enterprises, together with advice on commercialisation planning, capital strategy and capital raising for emerging companies;
- Specialist input in relation to the design, formation, restructuring, sale and dissolution of large scale joint ventures and partnerships; and
- Identification and quantification of risk, by applying advanced statistical techniques to relevant data pools, thus simplifying decisions impacted by significant uncertainty.

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