



## **WMRC Country Report: New Zealand**

19 December 2003

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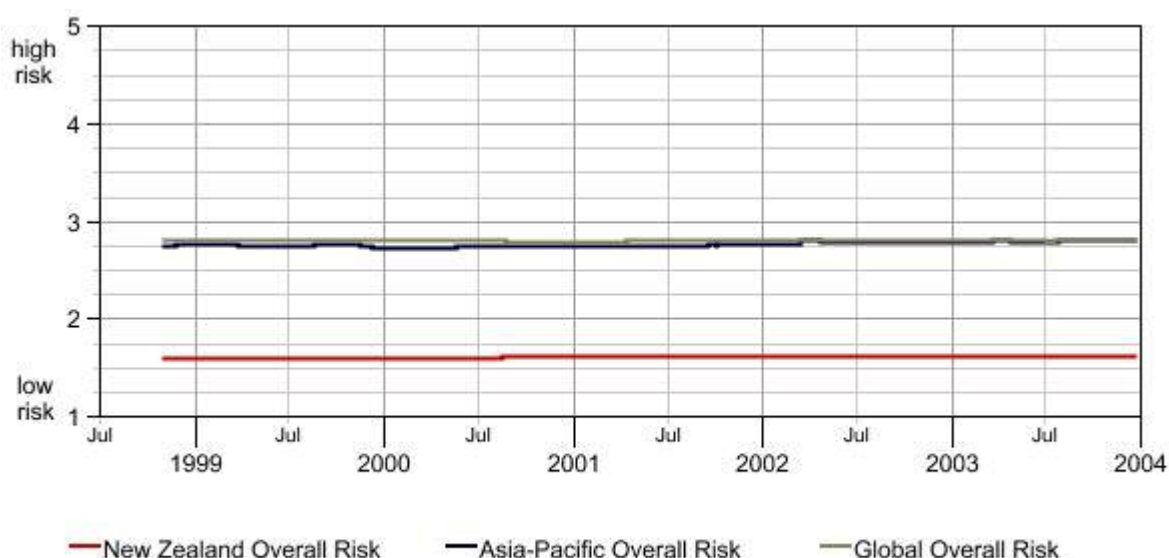
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## New Zealand - Country Risk Summary

Nature of risk	Rating	Summary
<b>Political risks</b>	1.50	New Zealand's system of proportional representation ensures an evenly balanced chamber - the Labour Party had to form a coalition to ensure that it had a majority. The Labour government won re-election in 2002, albeit without an outright majority in parliament, as the public rewarded it for overseeing recent strong economic growth and steering policy slightly leftward, after what some regarded as an excessive move to the right under the 1990s National administration.
<b>Economic risks</b>	2.00	New Zealand is a member of the Organisation for Economic Co-operation and Development (OECD) and a paragon of economic responsibility, though its small size means that gross national product (GNP) is still small - just under US\$50bn. The economy is very open, and exports are critical to its success. For many years dependent on the UK market, its main trade partners are now Australia and Japan. The late 1980s and early 1990s saw New Zealand's transformation into one of the most deregulated, open and private-sector-driven economies in the world. While the trade balance typically runs a significant surplus, the current account remains in deficit due primarily to the debt-service costs and external debt build-up of past recklessness during the early 1980s. Steady recent growth has marked New Zealand's recovery from the 1998 recession. A relative over-reliance on agricultural products makes the economy vulnerable to external shocks. Public debt reduction has progressed well from formerly high levels, but high external private debt remains a substantial risk factor. Moreover, the high current-account deficits, typically in excess of -6% of gross domestic product (GDP), pose problems against the backdrop of otherwise sound macro-economic conditions. Institutional stability and transparency are assets, and despite considerable divergence between political agendas, the principal direction of economic policy is not subject to fundamental change. Moreover, in the past three years New Zealand has at last begun to achieve growth rates comparable with its OECD rivals - a goal that had long been elusive.
<b>Legal risks</b>	1.00	The legal system in New Zealand is well-established and conducive to the conduct of business. It fosters transparency and competition. The courts enjoy independence and freedom from government interference.
<b>Tax risks</b>	2.00	The tax system in New Zealand is undergoing some change as a result of deregulation of the economy. These changes should ultimately be beneficial to investment, although the system has become more complex. The system is relying increasingly on indirect taxation, and the level of direct taxation has fallen.
<b>Operational risks</b>	1.25	Since the radical overhaul of economic policy and business laws in the 1980s, New Zealand has been one of the least regulated markets in the developed world, facilitating the operation of business. The government is welcoming to foreign investment, and the operational environment is generally impressive. Changes to union laws under the Labour government have marked a slight reversal of the previously extremely pro-employer balance in union relations. However, there does not appear to have been a marked rise in labour disputes. The country's infrastructure is very good, despite some concerns over the power industry. Corruption and bureaucracy do not represent significant problems.
<b>Security risks</b>	1.25	New Zealand offers a secure environment, with generally low crime levels and little risk of political or terrorist violence. Extortion and kidnapping are

		rare and tend not to affect foreign businesses, though in 2002 several unusual cases of abduction and attempted kidnapping occurred, as well as a high-profile extortion attempt. All were solved successfully by the police, underlining the country's good reputation for security.
<b>Overall risks</b>	1.62 NEGLIGIBLE	New Zealand's political landscape altered with the election of a Labour-led coalition in November 1999, which brought to an end the troubled minority rule of the previous administration. Economically, the country is beginning to improve from a downturn in 1998, with the global slowdown having only a minor impact. However, growth has yet to accelerate to levels that will close the gap between New Zealand and the rest of the Organisation for Economic Co-operation and Development (OECD) in per capita output. The security and operational environments are excellent, as is the legal system. The tax system is undergoing reform, which, in the long run, will be beneficial to foreign investment.

## Comparative Historical Risk



## Risk Change History

### New Zealand

	Overall Risk		Date Changed	Risk Change Article	Pol 25%	Eco 25%	Leg 15%	Tax 15%	Ope 10%	Sec 10%
1	1.59	NEGLIGIBLE	01-Nov-98	-	1.50	2.00	1.00	2.00	1.00	1.00
2	1.62	NEGLIGIBLE	17-Aug-00	<a href="#">View article</a>	1.50	2.00	1.00	2.00	1.50	1.00
3	1.62	NEGLIGIBLE	24-Apr-03	<a href="#">View article</a>	1.50	2.00	1.00	2.00	1.25	1.25

### New Zealand - Key Country Facts

Area (sq km)	268670
Capital	Wellington
Languages	English (official), Maori

Ethnic Diversity	New Zealand European 74.5%, Maori 9.7%, other European 4.6%, Pacific Islander 3.8%, Asian and others 7.4%
Religions	Anglican 24%, Presbyterian 18%, Roman Catholic 15%, Methodist 5%, Baptist 2%, other Protestant 3%, unspecified or none 33% (1986)
Currency	1 New Zealand dollar (NZ\$) = 100 cents

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#### New Zealand - Demographic Data (sourced from World Markets Healthcare)

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	1990	1997	1998	1999	2000
<b>Demographics</b>					
Total population (m)	3.4	3.8	3.8	3.8	3.8
Population density (per sq km)	12.8	14.0	14.2	14.2	14.3
Total population under 15 years (m)	0.8	0.9	0.9	0.8	0.9
Total population 15-65 years (m)	2.2	2.5	2.5	2.4	2.5
Total population over 65 years (m)	0.4	0.4	0.4	0.4	0.4
Annual population growth (%)	1.2	1.3	0.8	0.5	0.5
Total rural population (m)	0.5	0.5	0.5	0.5	0.5
Total urban population (m)	2.9	3.2	3.2	3.3	3.3
Crude birth rate (per 1,000)	17.4	15.3	15.2	14.9	15.2
Crude death rate (per 1,000)	8.1	7.3	6.9	7.1	7.2
Total life expectancy at birth (years)	75.3	77.1	..	77.4	78.2
Total male life expectancy at birth (years)	72.3	74.5	..	74.7	75.7
Total female life expectancy at birth (years)	78.4	79.9	..	80.2	80.8

**Source:** World Bank, *World Development Indicators 2003*; IMF, *World Economic Outlook September 2001*; World Health Organisation, *WHO Estimates of Health Personnel*

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#### New Zealand - Key Macro-economic Data (sourced from World Markets Country Analysis and Forecast)

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	1999	2000	2001	2002e	2003f
<b>Domestic Data</b>					
A - GDP Growth %	4.68	3.74	2.19	4.22	2.53
J - Inflation %	-0.11	2.62	2.63	2.68	1.99
N - GDP \$bn	55.91	51.01	50.51	58.03	75.37
Q - GDP Per Capita \$	14,404	13,092	12,708	15,002	19,389
<b>External Data</b>					
AM - Foreign Direct Investment \$m	1,412	3,330	1,731	1,254	1,500

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## Country Report - New Zealand (Country Analysis)

### Political Environment

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**Current as of Thu 18 Dec 2003**

Political risks: 1.50

New Zealand's system of proportional representation ensures an evenly balanced chamber - the Labour Party had to form a coalition to ensure that it had a majority. The Labour government won re-election in 2002, albeit

without an outright majority in parliament, as the public rewarded it for overseeing recent strong economic growth and steering policy slightly leftward, after what some regarded as an excessive move to the right under the 1990s National administration.

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## Current Highlights

- **MP Don Brash successfully ousted Bill English as leader of the conservative opposition National Party, in a surprise coup in October 2003.** English was caught off-guard by Brash, who called on party members to elect him or face certain defeat at the next general election. Brash was formerly the Governor of the central Reserve Bank of New Zealand. The party holds only 27 of the 120 seats in parliament, compared to the ruling Labour Party's 52.
- **Policy has remained largely unchanged since the Labour Party won the general elections in July 2002.** Labour failed to win an outright majority and is reliant on its junior coalition partner, the left-wing Progressive Coalition, as well as the support of the Green Party and the centrist United Future party in order to be able to pass legislation with ease. That said it controls the overall direction of policy as well as all fiscal policy changes.
- **The Labour Party celebrated its third year in power in November 2002.** Accompanying opinion polls showed that those surveyed on their preferred prime minister put New Zealand First Party leader Winston Peters ahead of opposition National Party leader Bill English, but behind Prime Minister Helen Clark.
- **The country's defence policy has continued to cause concern.** Opinion remains divided, particularly following the Bali bomb attack in October 2002, as to the need for and size of the country's defence capabilities.

## Division of Power

New Zealand is a parliamentary democracy based on universal adult suffrage. The constitution of the country is not codified, but is based on a mixture of statutes and constitutional conventions.

- **Head of State:** As a country within the UK Commonwealth, the head of state is the UK monarch, represented in New Zealand by the governor general. This position is largely symbolic - its main function is to rubber-stamp legislation and arrange for the leader of the political party with a majority in parliament to form the government.
- **Prime Minister:** The head of government is the prime minister, who must be a member of parliament, and is usually the leader of the political party with the largest number of seats in the parliament.
- **Cabinet:** The cabinet consists of 20 ministers and the prime minister. The prime minister selects ministers to form the cabinet, which is the executive body of government. The cabinet decides administrative and legislative proposals and policies, as well as co-ordinating the work of ministers.
- **House of Representatives:** Parliament is a unicameral legislature - the House of Representatives - and it is here that real power resides. The House consists of 120 members, elected every three years in a proportional representation (PR) electoral system. There is an allowance for one extra member of parliament in order to gain true PR.

## Main Political Parties

- **New Zealand Labour Party (NZLP):** Led by Helen Clark. This left-of-centre party has close links with the trade unions. Since 1984, it has adopted an increasingly free-market doctrine.
- **The National Party (NP):** Led by Bill English. The NP has traditionally been right of centre, although with a protectionist stance towards the economy. However, since 1990 it has advocated minimal state intervention and fiscal prudence.
- **New Zealand First Party (NZFP):** Led by Winston Peters. The NZFP is a nationalist party, and opposes further immigration, especially from Asia. It has a strong Maori faction. The party performed well in the 2002 general election, though there is little evidence that New Zealanders favour a crackdown on immigration. Rather, it benefited from its tough manifesto policies against crime.
- **Association of Consumers and Taxpayers, New Zealand (ACT):** Led by Richard Prebble, this party favours privatisation and low, flat taxes.
- **Green Party:** The Green Party has two co-leaders, Jeanette Fitzsimons and Ron Donald, who are among eight MPs. The Greens primarily concentrate on issues such as education, health and, of course, the environment. The party has taken a suspicious stance towards issues such as xenotransplantation, genetically modified (GM) foods and globalisation.
- **United Future New Zealand (UNZ):** The UNZ is led by Peter Dunne. Often termed a Christian centre-right party, United Future advocates free trade, lower taxes and the promotion of the family. The party saw a massive surge in support in 2002, moving from having just one MP to nine.
- **Progressive Coalition:** The Coalition is a leftist force, led by former leader of the Alliance Party, Jim

Anderton. It is a close ally of the Labour Party, with whom it has formed a coalition government.

## Other Parties and Leaders

- **Conservative Party (formerly Right of Centre Party):** Trevor Rogers
- **Christian Democrats:** Graeme Lee
- **Christian Heritage Party (CH):** Rev. Graham Capill
- **Alliance:** Leila Harre

## Key Political Players

<b>Prime Minister - Helen Clark</b>	Clark has been leader of the Labour party since 1993. In this role she has sought to consolidate control of a party that has become increasingly fractious in recent years. She has also attempted to regain support from amongst the traditional Labour electorate - trade unions and the working classes. In November 1999 her party won the elections and she became Prime Minister. Clark's personal integrity came under attack in 2002 after she admitted to signing a piece of artwork she had not made in order to sell it a her own for charity. Police decided not to press fraud charges. The prime minister tends to be regarded as somewhat humourless and dry, but she is popular nevertheless.
<b>Deputy Prime Minister and Minister for Economic Development - Jim Anderton</b>	Anderton is a former Labour cabinet minister who had a somewhat confrontational relationship with the current Labour leader. In the past, this obstructed the construction of a united left-of-centre opposition to the government. However, from 1999 he has been a key part of the ruling coalition, first as head of the Alliance party and then, from 2002, as head of the Progressive Coalition. Anderton is in favour of greater state intervention and more regulation in the economy. Differences between Anderton and Alliance members over his support for New Zealand's engagement in the war on terror led to the break-up of the party in April 2002.
<b>Leader of the National Party - Don Brash</b>	Brash is widely respected internationally for his years as the Governor of the Reserve Bank of New Zealand. He holds a PhD in Economics, and has been an economist at the World Bank, general manager of Broadbank Corporation, managing director of the New Zealand Kiwifruit Authority, and managing director of the Trust Bank Group. A political newcomer, he is seen as the party's rising star, and the best hope to lead the party back to the majority.
<b>Leader of New Zealand First Party - Winston Peters</b>	Peters was the former deputy prime minister and treasurer until his sacking in August 1998 and the collapse of the National-NZFP coalition. He built up the popularity of the party he founded in 1993 on the back of nationalistic sentiment, and is opposed to further Asian immigration. His nationalist stance makes him anathema to the ruling Labour party. He is a somewhat erratic politician, as evidenced by his walking out of a cabinet meeting, which led to his downfall. He often reverts to populist appeals in order to boost his support. The prominence of populist issues, such as crime and immigration in the 2002 elections played into Peters' hands.
<b>Leader of the Association of Consumers and Taxpayers, New Zealand (ACT) - Richard Prebble</b>	Prebble has been head of ACT since 1996. He is a former Labour cabinet minister who initiated the privatisation of many state assets in the 1980s. As such, he favours minimal state intervention in the economy, including privatisation and the reduction of taxes.
<b>Governor-General - Dame Silvia Cartwright</b>	Dame Sylvia was appointed to the office in 2001, the second woman Governor-General in history. Her post is largely ceremonial.

## Political Stability

## Recent and Future Elections

- **November 1999 Elections:** In line with the polls' predictions, Labour leader Helen Clark was elected Prime Minister. Labour won 49 seats in the 120-seat parliament, and was joined by the left-leaning Alliance, with 10 seats, to form a minority coalition government. The Labour win ended nine years of rule by the National Party. Despite a relatively colourless campaign which focused on tax issues, New Zealanders made a relatively clear choice for Labour and Clark. Although there had been fears to the contrary, the chief electoral office reported a heavy turnout, perhaps as high as 90%, in the second ballot under the mixed member proportional representation system.

## July 2002 Elections

Labour raised its seat total to 52 during the 2002 ballot, though it failed to secure an outright majority in parliament - something which had seemed possible at the start of the election campaign. Labour's lead in the polls plunged during the campaign, amid scandals including the alleged cover-up of a batch of genetically-modified (GM) food which entered the country, and allegations of the prime minister's fraudulent signing of a painting as her own work as part of a sale for charity, which the police later decided did not constitute fraud. Perhaps more fundamentally, voters were not sufficiently confident in the government to give it an unconstrained hand. National recorded its worst performance ever, as minor parties gained support from disaffected ex-Labour voters, with the Christian-centrist United Future party and NZFP

doing particularly well. The prominence of populist issues such as immigration and crime was seen to have benefited NZFP - which has always concentrated on these issues - over National. In the wake of the election result the coalition between the NZLP and Progressive Coalition was installed as the new government, with a deal guaranteeing support from United Future on financial and confidence votes. The administration works with the Greens on issues which both parties support, but insurmountable differences over the relaxation of a GM ban prevented the conclusion of another pact with the party.

General Election, 27 July 2002		
Party	%	Seats (1999)
New Zealand Labour Party	41	52 (49)
National Party	21	27 (39)
New Zealand First Party	11	13 (5)
ACT New Zealand	7	9 (9)
United Future	7	8 (1)
Green Party	6	9 (7)
Progressive Coalition	2	2 (-)

The next general election is due in 2005.

## Issues

The government's left-leaning policy agenda is fiercely resisted by the National Party, but this debate reflects ongoing shifts within public support for the country's radical economic reform programme begun in the 1980s - the main issue in the political arena. Although generally speaking the changes introduced have widespread support, the Labour victories in 1999 and 2002 showed a desire to moderate some of the more radical moves of the past decade.

The prime minister's husband has been accused of using his position to unfairly win appointments for his friends and influence official health policy, but these allegations are largely spurious - relating to the fact that the 'First Bloke' (as he is known) is also the country's leading pharmaceuticals expert.

## The Collapse of the Alliance

The Alliance Party fractured in April 2002, after a split between Anderton's faction and the Alliance's grassroots base regarding the parliamentary party's support for New Zealand's involvement in the US-led war on terrorism. The group was subsequently forced out of parliament in the 2002 general election, though Anderton's Progressive Coalition won one constituency seat, thus securing two seats in parliament.

## External Political Relations

Historically, nuclear issues have been the over-riding theme in New Zealand's external relations. In 1985, in conjunction with Australia, Papua New Guinea, and other smaller island states of the South Pacific Forum, New Zealand established the South Pacific Nuclear-Free Zone. Relations with Tonga have suffered since New Zealand accused the government of corruption, though this is likely to have few wider ramifications.

- **US**

The major political disagreement between New Zealand and the US concerns legislation by the former that prohibits the entry of nuclear-powered or nuclear-armed warships into New Zealand waters. This strained the ANZUS alliance with Australia and the US, leading the US in 1986 to declare New Zealand in material breach of its treaty obligations. It is considered to be such a high-profile issue that it is likely to remain a major hurdle to possible future bilateral trade talks with the US. That said, relations between the two countries have improved, particularly after New Zealand's special forces fought alongside the US in Afghanistan in 2002. The issue of military action in Iraq has kept these relations on track. The government refused to commit troops to action but sent a frigate to the region, despite domestic anti-war sentiment.

In 1994, the US restored senior-level contacts on political, strategic and broad security issues with New Zealand in the hope that full relations between the countries could be restored. However, in May 1998, trade relations became strained when the New Zealand government ended a ban on 'parallel imports' (imports outside official franchise agreements) as part of its moves towards economic liberalisation. Despite positive implications for competitive pricing, the US objected on the grounds that this could lead to infringements of intellectual property rights (notwithstanding the fact that the New Zealand government tightened patent legislation). Previous franchise agreements had been highly lucrative for some US firms. Bilateral relations with the US have since been cordial.

- **France**

Relations with France were marred by the French decision to resume nuclear tests in the South Pacific. This provoked an angry response from the government of New Zealand, but diplomatic relations improved once the tests were halted.

- **Australia**

New Zealand and Australia have numerous historical ties and similarities, and from time to time there are suggestions that the country should become an Australian state or at least join a currency union. Such developments are highly unlikely to come to fruition as they would run into a wall of nationalist opposition. However, New Zealand and Australia do co-operate in many areas, and have a particular sphere of influence in the islands of the South Pacific - as shown by the prominent role their governments played in leading the international response to coups in Fiji and the Solomon Islands in 2000.

## Outlook

Under Clark, government policy has moved to the left, and in doing so ended the identity crisis that was evident during the mid-1990s. The party currently espouses a more hands-on role for the government, and it has moderated some of the aggressively free-market reforms of the 1990s. Labour is pursuing policies that are designed to shift the economy's basis away from commodity-based export production to knowledge-intensive industries.

Defence issues have become pertinent, particularly following the October 2002 Bali bomb attack. At the time, the government was engaged in a process of scaling back its defence forces and it came in for criticism regarding the focus of what spending it was making. Naval spending for example, was being used for smaller patrol boats designed to counter smuggling activities, rather than buying larger combat vessels. Domestic and international fears - particularly from neighbouring Australia - have forced a change in policy, prompting the government to announce plans to upgrade military equipment.

## Useful Links

- Governor-General of New Zealand: [www.gov-gen.govt.nz](http://www.gov-gen.govt.nz)
- Parliament: [www.parliament.govt.nz](http://www.parliament.govt.nz)
- Gateway to the New Zealand Government: [www.govt.nz](http://www.govt.nz)
- New Zealand Labour Party: [www.labour.org.nz](http://www.labour.org.nz)
- Alliance Party: [www.alliance.org.nz](http://www.alliance.org.nz)
- National Party: [www.national.org.nz](http://www.national.org.nz)
- Green Party: [www.greens.org.nz](http://www.greens.org.nz)
- ACT Party: [www.act.org.nz](http://www.act.org.nz)
- New Zealand First Party: [www.nzfirst.org.nz](http://www.nzfirst.org.nz)
- United Future New Zealand Party: [www.unitedfuture.org.nz](http://www.unitedfuture.org.nz)

## New Zealand (Country Analysis) : Political - Recent Updates

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1. 17/12/2003 -  **COUNTRY** **Maori and New Zealand Government Close to Agreement on Seabed Ownership**(In Brief)

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  2. 28/10/2003 -  **COUNTRY** **Successful Coup Within National Party of New Zealand** (In Brief)

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  3. 20/10/2003 -  **COUNTRY** **Reformed Legal System in New Zealand will Adversely Impact Business**(Main Story)

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  4. 14/10/2003 -  **COUNTRY** **Thousands Protest in New Zealand Against Genetically Engineered Foods**(In Brief)

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  5. 07/10/2003 -  **COUNTRY** **Support Slips for New Zealand's Ruling Labour Party** (In Brief)

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  6. 18/09/2003 -  **COUNTRY** **Prime Minister of New Zealand Criticised for Lack of International Trade Plan**(In Brief)

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  7. 17/09/2003 -  **COUNTRY** **Summit on Maori Seabed Access in New Zealand Cancelled Over Fear of Violence**(In Brief)

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  8. 01/09/2003 -  **COUNTRY** **Audit Office in New Zealand Highlights Vulnerability of Government Funds to Fraud**(In Brief)

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  9. 28/08/2003 -  **COUNTRY** **Suppressed Memo on New Zealand GM Controversy Mysteriously Re-appears**(In Brief)

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  10. 30/06/2003 -  **COUNTRY** **Maori Claim Indigenous Rights to New Zealand Coastal Waters**(In Brief)

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  11. 30/06/2003 -  **COUNTRY** **Survey Indicates Unease in New Zealand Over Immigration**(In Brief)

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  12. 06/06/2003 -  **COUNTRY** **Government Takes Stake in Troubled New Zealand Rail Operator**(In Brief)

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  13. 06/05/2003 -  **COUNTRY** **Government Urged to Alter New Zealand's Parliamentary Composition**(In Brief)

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  14. 25/03/2003 -  **COUNTRY** **Government Attacked for Failing to Tackle New Zealand's Energy Needs**(In Brief)

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  15. 24/03/2003 -  **COUNTRY** **War in Iraq: Prime Minister Denies New Zealand Will Aid US-Led Force in Post-War Iraq** (In Brief)
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# Economic Environment

Current as of Thu 18 Dec 2003

Economic risks: 2.00

New Zealand is a member of the Organisation for Economic Co-operation and Development (OECD) and a paragon of economic responsibility, though its small size means that gross national product (GNP) is still small - just under US\$50bn. The economy is very open, and exports are critical to its success. For many years dependent on the UK market, its main trade partners are now Australia and Japan. The late 1980s and early 1990s saw New Zealand's transformation into one of the most deregulated, open and private-sector-driven economies in the world. While the trade balance typically runs a significant surplus, the current account remains in deficit due primarily to the debt-service costs and external debt build-up of past recklessness during the early 1980s. Steady recent growth has marked New Zealand's recovery from the 1998 recession. A relative over-reliance on agricultural products makes the economy vulnerable to external shocks. Public debt reduction has progressed well from formerly high levels, but high external private debt remains a substantial risk factor. Moreover, the high current-account deficits, typically in excess of -6% of gross domestic product (GDP), pose problems against the backdrop of otherwise sound macro-economic conditions. Institutional stability and transparency are assets, and despite considerable divergence between political agendas, the principal direction of economic policy is not subject to fundamental change. Moreover, in the past three years New Zealand has at last begun to achieve growth rates comparable with its OECD rivals - a goal that had long been elusive.

## New Zealand - Economic Data

	1997	1998	1999	2000	2001	2002e	2003f
<b>Domestic Data</b>							
A - GDP Growth %	2.2	-0.2	4.68	3.74	2.19	4.22	2.53
B - Household Con. % Change	..	..	3.95	2.03	2.23	3.76	4.03
C - Gross Fixed Cap. % Change	..	..	4.13	7.58	-1.57	7.80	7.00
D - Gov. Consumption % Change	..	..	7.59	-1.89	3.52	4.68	3.50
E - Exports (G+S) % Change	..	..	8.04	6.54	2.35	5.78	5.30
I - Industrial Production % Change	..	..	4.52	1.85	1.23	3.68	2.50
J - Inflation %	1.7	1.6	-0.11	2.62	2.63	2.68	1.99
K - Budget Balance % GDP	1.6	1.7	-0.48	0.05	0.53	0.88	-0.43
L - Leading Interest Rate %	11.3	11.2	4.50	6.50	4.75	5.75	5.00
M - Unemployment Rate %	6.6	7.5	6.30	5.60	5.40	4.90	5.50
N - GDP \$bn	66	53.8	55.91	51.01	50.51	58.03	75.37
O - GDP % of UK	5	3.8	3.83	3.54	3.55	3.77	4.58
P - GDP % of US	0.8	0.6	0.60	0.52	0.50	0.56	0.69
Q - GDP Per Capita \$	17555.8	14179.2	14,404	13,092	12,708	15,002	19,389
R - GDP Per Capita % of UK	78	59	58.69	54.26	53.54	58.68	71.11
S - GDP Per Capita % of US	56.6	43.7	42.38	37.39	35.93	41.42	51.76
T - Population m	..	..	3.81	3.83	3.85	3.87	3.89
U - Stock Exchange Index	..	..	795	672	739	720	690
V - 10 Year Bond Yield %	..	..	7.33	6.06	6.84	6.10	5.94
<b>External Data</b>							
X - \$ to Currency	1.72	1.9	1.89	2.20	2.38	2.16	1.75
AA - Exports \$m	14246.2	12255.7	12,657	13,530	13,920	14,523	16,653
AB - Export Growth %, y-on-y	-0.6	-14	3.36	6.90	2.88	4.34	14.66

AC - Imports \$m	-13379.6	-11333	-13,028	-12,848	-12,446	-14,021	-16,802
AD - Import Growth %, y-on-y	-3.1	-15.3	14.94	-1.38	-3.12	12.65	19.84
AE - Trade Balance \$m	866.6	922.7	-371	682	1,473	503	-149
AF - Total Export Earnings \$m	..	..	17,957	18,530	18,832	19,779	20,674
AG - Current Account Balance \$m	-4366	-2162.4	-3,486	-2,680	-1,380	-2,269	-1,543
AH - Current Account % GDP	-6.6	-4	-6.24	-5.25	-2.73	-3.91	-2.05
AJ - Capital Account Balance \$m	..	..	1974	3274	1927	5064	2934
AK - Reserves (minus gold) \$m	4451.3	4203.7	4,455	3,330	3,009	5,803	7,201
AL - Reserve Import Cover - Months	4	4.5	4.10	3.11	2.90	4.97	5.14
AM - Foreign Direct Investment \$m	2623.5	1191.3	1,412	3,330	1,731	1,254	1,500
AN - Foreign Direct Investment % GDP	4	2.2	2.52	6.53	3.43	2.16	1.99

Notes: L - Official cash rate U - NSE Stock Index; X - US\$: New Zealand \$

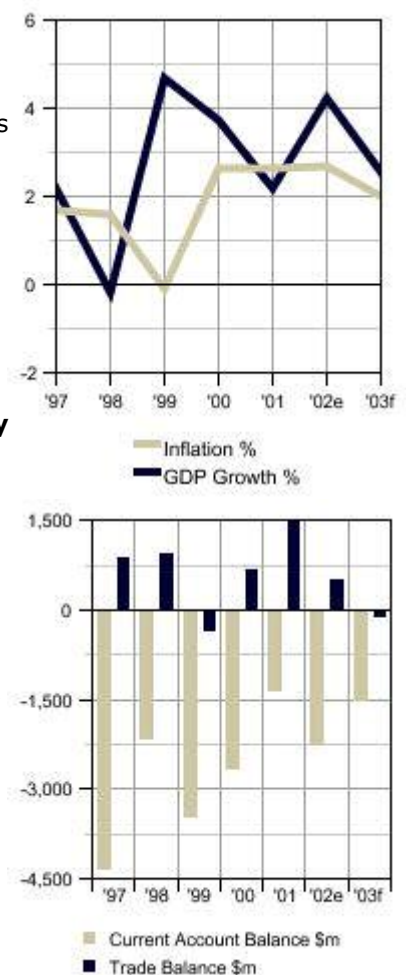
[Table Key](#)

[WMRC Forecasting Methodology](#)

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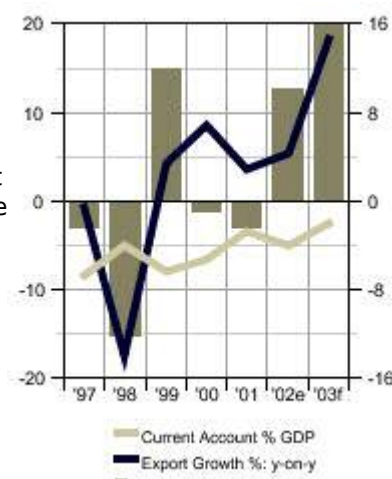
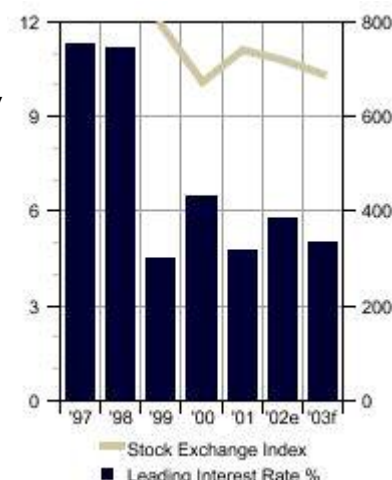
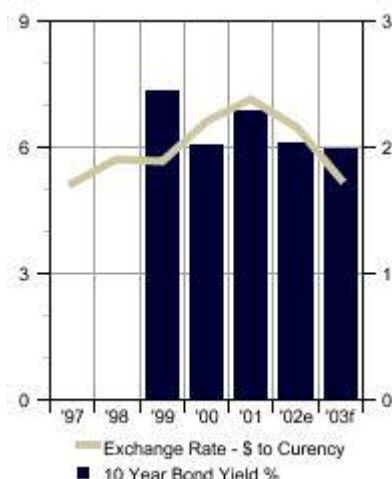
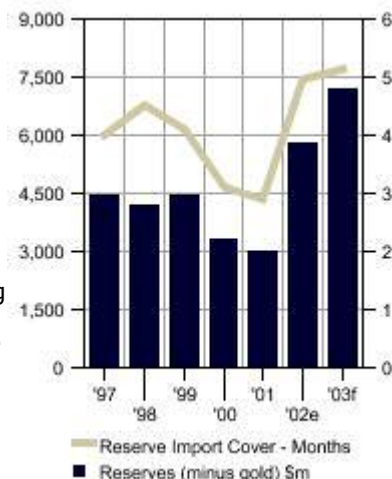
## Current Highlights

- Unemployment fell to 4.4% in the final quarter of 2003, from 5.0% in the March quarter.** A survey by an employment data firm has reported that 45% of companies in New Zealand are planning to increase the size of their permanent staff during 2004. This is a 5% increase from projections made six months ago, marking the country's highest forecast level of recruitment in five years.
- The federal government will more carefully scrutinise proposed sales of coastal land to foreigners.** A lobby group opposed to foreign control of New Zealand property estimates that about 6% of the South Pacific country is now held by foreigners, and the government has pledged to tighten restrictions on foreign ownership.
- Foreign direct investment (FDI) in New Zealand has increased by over 400% since 1989.** The level of FDI rose from US\$6bn in 1989 to US\$32.8bn in 2003, due primarily to a wide range of financial and capital reforms over the last decade. There has been a concerted governmental effort to make the economy more friendly to foreign investors.
- The country's growing current account deficit has been partially offset by domestic consumer demand.** The strength of domestic demand, fuelling a 5.5% increase in imports during Q2 2003, has not been matched externally. Export volumes fell by 3.1% over the quarter, as already sluggish global conditions were compounded by the successive shocks of the Iraq war and the outbreak of SARS (severe acute respiratory syndrome).
- The government has adopted a conservative fiscal stance to lower public debt levels that increased sharply in the 1990s.** As a result the public-sector debt ratios have fallen sharply while the fiscal balance has accrued successive surpluses. The comfortable fiscal position allows the government a degree of latitude in supporting domestic demand, should growth slow sharply.
- The Reserve Bank of New Zealand has consistently pursued a**



**hawkish monetary stance.** Inflation targeting remains the anchor of monetary policy. The cycle of monetary easing implemented after the terrorist attacks of 11 September 2001 was reversed last year with aggressive hikes in the leading interest rate to the current 5.75%. With domestic demand remaining strong and capacity limits still being tested particularly in labour markets, the monetary stance remains neutral. Relative high interest rates coupled with the economy's strong underlying fundamentals have driven the value of the New Zealand dollar up to make it one of the world's top three performing currencies in 2002. However, that appreciation will weigh on export sectors moving forward.

- **At the same time, the overall external debt has risen to 105% of GDP.** The overall debt position burden has reached levels in excess of 100%, mostly brought about through the increase in private-sector liabilities. While these are of no direct consequence to the sovereign, they could place foreign-exchange liquidity pressures on the New Zealand banking system and thus can be perceived as measurable contingent sovereign risk.
- **New Zealand remains dependent on overseas savings for continued development.** Policy initiatives to increase saving rates have not come to fruition, leaving the country dependent on investor goodwill to finance the gap between domestic savings and investments. More changes to the tax structure to encourage savings are expected in the near future.



## Economic Performance and Prospects

### Growth in 2002 Was Strong, But 2003 Economic Performance Has Been Lacklustre

The economy registered growth of 4.4% in 2002, but growth in 2003 has been lacklustre, due in large part to a widening current account deficit. A lack of external stimulus, compounded by the broad servicing of rising domestic demand by imports, helped to induce a 2.1% fall in manufacturing output. Power producers were also hit by a government campaign to lower electricity consumption, forcing a 4.3% decline in output. However, construction activity remained buoyant, spurred by demand for residential housing, and rising by 0.7% for the quarter to produce growth of 14.7% for the year to end-June. Similarly, service sectors expanded by 1.4%, fuelled by the unremitting consumer spree. Domestically, low unemployment, which stood at 5.4% in 2002, helped to bolster strong domestic confidence, prompting a strong showing in retail and housing sales. Underscoring the strength of the latter, new housing investment showed a 20.5% year-on-year increase in Q4. Furthermore, private capital investment remained strong. Domestic demand, fuelled by credit, remained buoyant into the start of 2003 - rising by 2% year-on-year. This was further supported by net inward migration, amid global political and security fears. By April 2003, however, it had started to show signs of slowing. Externally, the economy enjoyed steady growth in exports, the variegated nature of which provided some insulation from the uncertainty of the global market. In addition, foreign direct investment levels were strong and the stock market/capital account performed well.

Off-setting this positive outlook, downside risks undermine this outlook and several factors put a ceiling on attainable growth, preventing New Zealand from realising its full growth potential, despite a micro-economic environment that is highly conducive to the conduct of business. These factors relate to the volatility of agricultural income, the lack of domestic savings, a rising currency and a failure to diversify the economy. The Central Bank raised interest rates four times in early 2002 to 5.75%, signalling that it believes that the economy is already close to full capacity.

### Economy Likely to be Resilient in Face of Less Positive Longer-Term Outlook

All growth drivers are showing signs of deceleration. The external sector has

remained resilient, but is likely to suffer some effects of the continuing uncertainty in the global market. Furthermore, a high and still appreciating currency will inevitably impact on the competitiveness of exports. Domestically, the drivers, particularly housing, are showing signs of slowing. Consumer confidence remains upbeat, but such sentiment is fickle, and could as easily register a downturn, particularly in light of global uncertainty or the failure of one of the country's key sectors, such as farming in the wake of the current drought. Private external debt, which has been historically high, stands as a caveat to the current credit surge. A drop off in growth would, put pressure on the Reserve Bank of New Zealand to cut interest rates. This has so far been avoided, with the Reserve Bank of New Zealand justifying its high rates with warnings regarding a possible rise in inflation. That said, an easing of capacity constraints and less pressure from the housing market, would support a nominal rate cut, but this is not envisaged to take place until at least the second quarter. Overall, the economy is likely to weather the global uncertainty in 2003 reasonably easily. New Zealand's is a relatively isolated economy, ensuring that it will not suffer any particularly harsh effects of a global downturn. Domestically, the government's tight fiscal position has generated successive surpluses on the budget balance, which would allow for an increase in public spending to offset any reduction in domestic consumer demand. As such, the 2003-04 period looks to be one of slower global and domestic demand, but the economy should weather these reasonably well, posting growth of around 2.8%.

## Macro-Economic Policies

### **Labour Government Provides Continuity With Prudent Fiscal Policy Stance**

The left-centre Labour-Alliance government, greeted with mistrust from business leaders and international observers after its election victory in 1999, has continued the policy of fiscal prudence bequeathed by its predecessor. During the fiscal year (FY) 2003 budget announcement, it emerged that New Zealand posted an operating surplus of NZ\$4bn (US\$2.3bn) in FY 2002. Furthermore, Finance Minister Michael Cullen forecast a NZ\$3.8bn (US\$2.18bn) surplus in FY 2003, projected to grow to NZ\$6.2bn (US\$3.56bn) by FY 2006, predicated on growth of 2.2% over the coming year, accelerating to 3.2% in FY 2004. Besides being a goal in its right, fiscal prudence has to be seen in context with New Zealand's external position. The achievement of a positive internal balance has reflected government efforts to instil confidence in investors, likely to be diminished by high current-account deficits. The Reserve Bank of New Zealand has concentrated on operational surpluses in the budget balance, to bring down levels of public debt, and has maintained a tight hold on spending while boosting income through reform of the tax base and privatisation. Fiscal austerity has so far succeeded in encouraging investors to continue providing capital to finance New Zealand's current account.

### **Monetary Policy Focussed on Inflation**

The Reserve Bank of New Zealand enjoys institutional independence, but its governor is committed by a Policy Targeting Agreement (PTA) to pursue specific inflation targets. The framework of New Zealand's monetary regime has undergone significant changes, which, however, have not translated into fundamental changes in terms of policy substance.

Since 2002, the Reserve Bank of New Zealand has pursued a hawkish monetary policy in a determined attempt to consolidate the fiscal position. After 2001, it raised the leading interest rate to 5.75%, where it has remained, with the bank refusing to bring it down because of what it regards as latent inflationary risks and fears regarding the high level of household debt. In fact the latent risk of inflation has effectively become the *raison d'être* for the Bank's policy, but a dilemma is beginning to emerge. External demand is starting to cool, while domestic demand continues its strong performance. The Bank continues to resist calls for a rate reduction, but

pressure is increasing, particularly from exporters hit by the high value of the New Zealand dollar.

### **Overall Foreign Debt Position Could Become a Concern**

The current account is in deficit because of debt payments. New Zealand's external debt continues to pose considerable medium- to long-term risks. The combined gross external debt of the private and public sectors rose to NZ\$109bn (US\$44bn) in mid-2000, reflecting an increase from 82.5% of GDP in 1996 to 105% of GDP in 2000. However, in the New Zealand context the progress made on public debt reduction contrasts sharply with the problem of rising private-sector debt. In line with the overall decline of public debt to 16.8% of GDP at the time of the budget in May 2002. However, the favourable public debt position of the sovereign is tarnished by high contingent sovereign risk, which originates from rising external debt of private companies.

The risks associated with New Zealand's high external debt are exacerbated by a slow but perceptible shift towards a higher short-term debt component and, with regard to private-sector debt, a rising share of foreign-denominated obligations. The share of debt denominated in New Zealand dollars has fallen from 53.1% in 1998 to 47.2% in 2000, and the composition of debt indicates a slight shift towards debt with short-term maturity, up from 41% in 1998 to 50% in 2000. On the positive side, 97% of foreign currency-denominated debts are hedged. This, combined with stable investor confidence in the country, alleviates concerns about any pending crisis.

## **Economic Development**

### **Post-Reform Record Continues to Provide a Mixed Picture**

The recent record of growth is increasingly positive, but it is unlikely to put to rest the debate about the success of New Zealand's post-1984 reform programme. Since the implementation of comprehensive free-market reforms under Prime Minister Robert Muldoon (1975-84), New Zealand's performance has been watched closely. His radical reforms turned New Zealand's economy into a battleground for debates between proponents and opponents of rapid liberalisation and economic opening.

Post-1984 reforms constituted a watershed for the country's economy. By the early 1980s New Zealand's economy had become highly inefficient after the country responded with extreme protectionism to the economic crisis set off by the first oil shock and to the loss of its traditional export market when the UK joined the European Community (EC) in 1973. Muldoon's reforms profoundly transformed a highly inflationary and protectionist economy into one of the most open in the world, after the increasing lack of competitiveness and soaring public debt, incurred to finance an extensive social welfare system, proved unsustainable. The privatisation of many state-owned businesses led to an increase in foreign investment.

Reforms have led to a considerable improvement in macro-economic conditions after an initial shock effect, but recent growth cannot mask the fact that reforms have failed to fundamentally improve New Zealand's position vis-à-vis other advanced economies. Although it has been presented as a showcase of market reforms, its overall growth performance since 1985 has lagged behind the rest of the OECD, with an average growth rate of 1.8% for the 1985-1999 period compared to 2.6% for the whole OECD. Employment growth, fiscal consolidation, a sharp reduction in public debt and low inflation contrast sharply with a poor growth record, which, together with an unequal income distribution, has resulted in stagnant incomes for most New Zealanders. Nevertheless, growth has picked up over the past two to three years, and, in 2002 at least, New Zealand outshone its OECD rivals.

### **Stability of Macro-Economic Environment at Some Risk from Current Account and External Debt Position**

A potential risk is created by persistently high current-account deficits and a growing private short-term debt position. The current-account deficit amounted to a dangerously high 6.9% and 6% of GDP in 1999 and 2000, respectively, despite the improving trade balance. It did fall back to a ten-year low of 3.2% of GDP in 2001, though lost this position again in 2002 as exports were somewhat hit by falling commodity prices and an appreciation of the currency against the declining US dollar, while investment slumped amid growing global uncertainty. Although the level of deficits seems unsustainable, past experience suggests that investor confidence in New Zealand has generally been high. This makes it probable that inflows of capital to finance the deficit will continue, particularly considering the fact that New Zealand is a stable, economic performer. Nonetheless, the high dependency on foreign-capital inflows is a considerable concern. The rapidly expanding tourism industry and strong export growth appear to offer the best hope for adequately financing the current account deficit.

The second area of concern is the high indebtedness of the private sector. The country is a net debtor to the rest of the world. Its total debt stood at NZ\$129,895 (US\$64,668) in June 2002, which breaks down into NZ\$112,151 (US\$55,834) for the private sector and NZ\$17,744 (US\$8,833) for the public sector. The fall of the New Zealand dollar has reflected those potential problem areas. A 97% hedging of debts against currency risks and the hands-off, non-interventionist exchange rate policy of the Reserve Bank mitigate the risk of sudden capital outflows, as high market transparency ensures the absence of destabilising currency speculation. Yet residual risks remain in this area, as a loss of investor confidence would constitute an external shock that could not be cushioned by domestic factors.

### **Favourable Environment Overall**

That said, on the whole, the political, regulatory and legal environments in New Zealand continue to provide a favourable setting for economic activity. The main challenges awaiting New Zealand's policy-makers concern the diversification of the economy from a primary-produced to a knowledge-based one, as well as the growing socio-economic gaps, particularly with regard to the indigenous Maori population.

- **Diversification:** The predominance of agricultural products puts New Zealand at a disadvantage. The vulnerability of agricultural production to climatic influences leaves the economy exposed to a higher volatility than is common in advanced economies. New Zealand is likely to experience a further deterioration of its terms of trade (which fell by 8% between 1990 and 1999), as world market prices for agricultural commodities have not matched those of manufacturing items. Above all, agricultural protectionism in crucial OECD markets continues to dent New Zealand's growth prospects, and given the politicised debate about agricultural subsidies in Europe, the US and East Asia, no measurable improvement seems in the offing.
- **Knowledge Economy and Education:** Education is generally under-funded, with standards in the tertiary sector under particular threat. Given the disadvantage of its isolated location, the lack of education funding jeopardises New Zealand's attempts to become a knowledge-based economy. Resulting student debt may have been one of the causes behind a significant 'brain drain' in recent years. That said, there was something of a reversal in this situation during 2002, when many people returned amid an global environment marked by geo-political instability. The government has been channelling more resources into the sector, attempting to build bridges between educational establishments and new businesses in targeted sectors such as communications and biotech.
- **Infrastructure:** The dogmatic approach to public ownership in the post-1984 reform era has resulted in the neglect of remaining public transport systems and publicly provided infrastructure. The

disadvantageous effects on economic activity are felt particularly in the economic powerhouse of Auckland, where the experience of bottlenecks in transport and energy may discourage further growth. Investment in infrastructure projects is needed to maintain the country's growth potential.

- **Regional Development:** The regional development programme of the Labour-led government has been criticised as an example of state dirigisme. However, given the potential of rural areas for tourism and of smaller cities for niche products - and taking into account the above mentioned problems in the Auckland area - the encouragement of a more balanced development of several economic centres may well prove beneficial in the long run.
- **Socio-Economic Development:** Public disapproval of the growing discrepancy between rich and poor in the post-1984 reform era and, more specifically, the disadvantaged position of the indigenous Maori population and other Pacific islanders, needs addressing. All socio-economic indicators provide evidence for the lack of equal participation of Maori and Pacific Islanders in the economy, despite the existence of an affirmative legal framework and generally supportive attitudes. This issue will assume even more prominence in the future, as their share of the general population is forecast to increase to above 30% within the next 35 years. Generally, while high growth may go some way towards resolving the issue of social cohesion, the prevalence of equity considerations among the public prohibits a purely efficiency-focused approach.
- **Labour's Leftward Lurch:** Among the left-leaning moves introduced under Labour are new measures to strengthen union rights, amendments to the Health and Safety Act that recognise stress and fatigue as workplace hazards, the establishment of Industry New Zealand (which helps start-ups and gives small firms access to managerial and financial resources), and support for the establishment of Kiwibank, a state-owned firm providing retail services to regions with little access to financial services. This last example of state-led economic micro-management is paralleled by a government commitment to bearing the cost of creating a broadband network in New Zealand. There has also been a sharp increase in health and education spending.
- **Currency Union with Australia:** Influential business circles and various academics have proposed a currency union with Australia (and some even with the US) in order to boost New Zealand's competitiveness. This would extend the current Common Economic Area into the monetary arena, but in reflection of the differences in size between the two economies, any such arrangement would be tilted in favour of Australia. Given the strong sense of patriotism in New Zealand, the probability of such a scenario is close to zero, as the adoption of this objective by any political faction would be tantamount to political suicide.
- **Pensions:** From a long-term perspective, government proposals to allocate surpluses towards the future financing of pensions are welcome in principle, as they help to contain future risks. As things stand now, the government is not yet committed to a particular model. The principal challenge rests in designing a scheme that helps increase overall savings, instead of boosting public at the expense of private savings. Put into perspective, New Zealand's problem of future pension-financing is less grave than in other OECD countries, with projected expenditure up from 4.8% to 9.8% of GDP by 2050 compared with 12.2% on average among OECD members.

GDP by Supply or Output				International Trade			
Domestic Economy		Export Profile		Export To...		Import From...	
%	Sector	%	Item	%	Country	%	Country
69	Services	18	Dairy Products	19	Australia	22	Australia
23	Industry	13	Meat	15	EU	17	US
8	Agriculture	7	Wood	15	US	17	EU
		4	Fish and Seafood	13	Japan	11	Japan

### Key Sectors to Watch

- High-Value Agriculture:** The agriculture sector will continue to play a crucial role for the New Zealand economy. Two developments have improved New Zealand's position, although they are unlikely to compensate for the lack of diversification. First, the expansion in the 1990s in areas like wine production has added high-value products to New Zealand's export list. The creation of the Fonterra co-operative, which merged the consolidated dairy processing industry with the export marketing agency, has given dairy producers an outlet of global size, though its dominant position in the market also increases the risks associated with possible problems in the group. The potential for both high-value and organic agriculture are high. Estimates for the wine industry project an increase in output from 60mL now to 100mL by 2010. Exports are forecast to grow from one-third to two-thirds of production (from US\$168m to US\$375m) by 2005.
- Tourism:** The country's tourism sector, already a crucial foreign-exchange earner, has not exhausted its potential, as New Zealand's diverse landscapes continue to appeal strongly to adventure and 'ecotourists'. The global success of the *Lord of the Rings* epic, filmed in New Zealand, has given the sector another boost.
- Light Manufacturing:** Although the overall manufacturing basis remains weak, some small New Zealand companies have been very successful with niche products of hi-tech sophistication in areas like electronics, boat building and IT. The creation of the Industry New Zealand body may help to promote the growth of new industries.
- Education:** Earnings from secondary and tertiary education services have not yet matched their potential, but they have improved sharply in recent years. As New Zealand exploits the growing demand in Asia for education in an English-speaking environment, restrictions on exit visas for Chinese have been lifted. As new students from China flooded in, earnings from the sector rose by 36% during the year to July 2002, reaching almost US\$700m. However, New Zealand still has only 1% of the growing international student market, compared with Australia's 12%, and potential exists for further expansion.
- Biotech:** The Labour government is keen to promote the development of a biotechnology industry, and has clashed heavily with the Green Party over the issue of ending the moratorium on experimenting with genetically modified produce. There are suspicions that the government wishes to end the ban to encourage more biotech firms to relocate to New Zealand.


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## New Zealand (Country Analysis) : Economic - Recent Updates


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1. 18/12/2003 -  **COUNTRY** Rewards of Consolidation Fuel Spending Spree by New Zealand Government (Main Story)


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2. 11/12/2003 -  **COUNTRY** **OECD Positions Productivity as Lynchpin to New Zealand Growth**(In Brief)


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3. 03/12/2003 -  **COUNTRY** **Companies in New Zealand Expect Hiring Binge in 2004**(In Brief)


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4. 11/11/2003 -  **COUNTRY** **Foreign Land Ownership to be Curtailed by New Zealand Government**(In Brief)


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5. 11/11/2003 -  **COUNTRY** **Unemployment in New Zealand Falls to 15-Year Low During Q3**(In Brief)


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6. 05/11/2003 -  **COUNTRY** **US Businesses in New Zealand Call for Better Business Conditions**(In Brief)


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7. 04/11/2003 -  **COUNTRY** **Offshore Sea Farming Delayed Again in New Zealand** (In Brief)


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8. 18/09/2003 -  **COUNTRY** **Prime Minister of New Zealand Criticised for Lack of International Trade Plan**(In Brief)


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9. 01/09/2003 -  **COUNTRY** **Audit Office in New Zealand Highlights Vulnerability of Government Funds to Fraud**(In Brief)


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10. 05/06/2003 -  **COUNTRY** **Reserve Bank of New Zealand Moves to Cut Rates Again** (In Brief)

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11. 15/05/2003 -  **COUNTRY** **Budget 2003: 'Boring' Budget Husbands Surplus** (In Brief)

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12. 09/05/2003 -  **COUNTRY** **New Zealand Unemployment Edges Up Slightly in Q1** (In Brief)

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13. 29/04/2003 -  **COUNTRY** **New Zealand's Corporate Tax Rate Seen as Impeding Foreign Investment**(In Brief)

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14. 24/04/2003 -  **COUNTRY** **Reserve Bank of New Zealand Cuts Rates in Surprise Move**(Main Story)

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15. 15/04/2003 -  **COUNTRY** **New Zealand Inflation Rate Slows in Q1, but Rates to Remain on Hold**(In Brief)

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# Legal Environment

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Current as of Thu 18 Dec 2003

Legal risks: 1.00

The legal system in New Zealand is well-established and conducive to the conduct of business. It fosters transparency and competition. The courts enjoy independence and freedom from government interference.

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## Overview

The New Zealand legal system is based on English common law.

Foreign investment is monitored and controlled by the Overseas Investment Commission (OIC), in accordance with the Overseas Investment Act (1973) and the Overseas Investment Regulations (1995). The OIC advises the government on foreign investment policy. Business in New Zealand is regulated by the Commerce Commission and the Securities Commission. The Commerce Commission, amongst other things, approves applications for the authorisation of restrictive trade practices otherwise prohibited, approves applications for authorisation of mergers and acquisitions, and authorises the price levels of goods and services that are subject to price controls.

The Commerce Commission was established under the Commerce Act of 1986. This Act was designed to provide a framework for the process of deregulation that has characterised the New Zealand economy since 1984. Reform has had most effect on the financial and telecommunications sectors, but deregulation has been broad-based.

In October 2003, the New Zealand parliament gave its final approval to the end of the UK Privy Council's 160-year reign as the country's highest court of appeal; an entirely new Supreme Court is being created in its place. Prior to the passage of this law, attorneys taking part in such an action were required to travel to the UK to argue their case. Appeals to the Privy Council ended on 3 December 2003, and the newly established New Zealand Supreme Court will begin to hear appeals in July 2004.

## Dispute Resolution

There are land courts and special land legislation for Maoris. In addition, there are several specific tribunals and bodies with jurisdiction over specialised issues, such as those involving town planning and industrial relations.

Expropriation has not been an issue in New Zealand and there are no outstanding cases. Investment disputes are extremely rare and there have been no major disputes in recent years. Disputes are handled by the judicial system. New Zealand is a party to the Washington Convention on the Settlement of Investment Disputes. It is not a member of the International Center for the Settlement of Investment Disputes (ICSID) or the New York Convention of 1958, and has no plans to become a member.

## Company Law

There are a number of business structures that can be used by foreign investors conducting business in New Zealand. They are:

- A company incorporated in New Zealand. As an entity, a company is distinct from its members. A company can be limited by shares, limited by shares and guarantee, or have unlimited liability. The latter is highly unusual. The *Companies Act 1993* introduced significant changes to company law in New Zealand. Amongst other things, the distinction between a private and public company has been eliminated, and a company now may repurchase its own shares. To register a company an application must be filed with the Registrar of Companies. There are no nationality or residency requirements imposed on incorporators, or minimum capital or legal reserve requirements. A company must have a minimum of one shareholder. There is no upper limit on the number of shareholders.
- A partnership. Partnerships are formed by agreement among the partners. As partnerships are contractual agreements, they provide much leeway for the organisation to adapt to each individual partnership's needs. Partnerships are not separate legal entities from their partners. In New Zealand there are two different types of partnership:

- A general partnership. This is formed by two or more people (generally up to 25), all of whom have the same rights, liabilities and powers as each other, unless otherwise specified. Each partner has unlimited liability for the partnership's debts.
- A special partnership. In this type of partnership, one or more (but not all) partners have limited liability. However, limited partners do not actively participate in the management of the business.
- A joint venture. A joint venture is an agreement between persons, individuals or corporations to carry out a specific project. For income tax purposes, it is treated as a partnership.
- A branch of a non-resident company. A foreign company can conduct business in New Zealand through a branch. A branch office is advantageous in that it allows the repatriation of profits without incurring withholding taxes.

The Takeovers Amendment Act 2001 took effect on 1 July 2001, the key point being that it requires investors to offer the same price to all shareholders when their stake in a listed company is over 20%, similar to the position in Australia. The new law is clearly an improvement, but not all the problems with the old code have been addressed and the restriction of the law to companies incorporated in New Zealand is seen as a clear failing.

## Competition

In May 2000 amendments to the Commerce Act lowered the standard for intervening in both mergers and acquisitions, reducing the thresholds at which a company's market share is considered to be anti-competitive. Prior to then, acquisitions were only referable to the competition watchdog if they could result in market dominance, whereas now the regulator can step in if there is a 'substantial lessening of competition'. Under the law, the regulator will consider the 'substantial lessening' test and will also look at the effects on the market if the merger results in a removal of a major competitor.

## Employment

A new Employment Relations Bill was passed in August 2001, deregulating the labour market and making union membership optional. The bill was aimed at introducing a fairer system of industrial relations, though it was severely criticised by the opposition and the Employers' Federation, who feared extra costs. The law goes for the American concept of "good faith bargaining" and also contains measures to improve dispute resolution - with the emphasis on mediation - and provisions on non-standard employment arrangements, fixed-term contracts, outsourcing and dependent contractors. For more information see: <http://www.nzir.dol.govt.nz/update/new/factsheet.html>

## Environment

The government of New Zealand takes environmental issues very seriously. The main item of legislation is the *Resource Management Act of 1991*, designed to promote the 'sustainable management' of physical and natural resources. The act imposes responsibilities and liabilities on all resource users or potential users. Company owners and operators are responsible for environmental management and performance and are liable for the cost of environmental clean-ups associated with their activities and operations. Unauthorised activities are subject to high risks and penalties.

## Foreign Exchange and Profit Repatriation

Since December 1984, there have been no restrictions on the inflow or outflow of capital, and the currency is freely convertible. All capital transactions can be accomplished by means of normal commercial banking channels.

## Intellectual Property

New Zealand intellectual property laws have been under review for a number of years. In January 1995, significant amendments were made to patent law with the introduction of the Patents Amendment Act 1994. Patents are obtainable for "any manner of new manufacture", a phrase which can be interpreted widely. Those wishing to protect an invention with a patent should arrange for a search of New Zealand Patent Office records to determine what has been done in the same field. An application should be filed at the Patent Office, accompanied by either a provisional or complete specification describing the invention. If passed successfully, a patent is granted for a 20-year term from the filing date of the complete specification. The Patents Act 1953 gives protection against the abuse of patent rights.

The Trade Marks Act 1953, amended by the Trade Marks Amendment Act 1994, provides for the registration of a sign or combination of signs capable of being represented graphically and distinguishing the goods or services of one person from those of another. Registration can be permanent subject to payment of renewal fees.

Copyright is governed by the Copyright Act 1994. New Zealand adheres to the Rome version (but not the Brussels revision) of the Berne Copyright Convention. It is also a signatory to the Universal Copyright Convention. Copyright may reside in any original literary, dramatic, musical or artistic work, sound recording, film, broadcast, cable programme or typographical arrangement of published editions. The usual term of copyright is the life of the author plus 50 years.

## Investment Restrictions

The Overseas Investment Regulations allow for 100% foreign ownership in all industry sectors. However, there is sector-specific legislation restricting foreign investment in the fishing industry (overseas entities cannot be allocated a fishing quota without the prior consent of the Director General of Fisheries), and foreign ownership of opticians is limited to 45%.

In the privatisations that the government has been taking part in since 1984 as part of general moves to reduce its involvement in the economy, there have generally been no restrictions on foreign buyers of state assets. However, in the sale of Air New Zealand, foreign ownership was restricted to 35% in order to protect its designation in international traffic as a national carrier, and Telecom Corporation of New Zealand Limited's Articles of Association limit overseas investment by any single foreign entity to 49.9%.

There are no performance requirements or incentives associated with foreign investment.

## Assessment

The legal system in New Zealand is well-established and respected. The country has a strong, independent judiciary and the government does not attempt to interfere with this. The Commerce Act favours competition, and the system in general is favourable to the conduct of business.

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## New Zealand (Country Analysis) : Legal - Recent Updates

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1. 05/12/2003 -  **COUNTRY** **Government Announces Overhaul of New Zealand Employment Law**(In Brief)
  2. 13/11/2003 -  **COUNTRY** **Government of New Zealand to Tighten Immigration Criteria**(In Brief)
  3. 11/11/2003 -  **COUNTRY** **Foreign Land Ownership to be Curtailed by New Zealand Government**(In Brief)
  4. 23/10/2003 -  **COUNTRY** **Police in New Zealand Given New Powers to Combat Terrorism**(In Brief)
  5. 20/10/2003 -  **COUNTRY** **Reformed Legal System in New Zealand will Adversely Impact Business**(Main Story)
  6. 23/07/2002 -  **COUNTRY** **Former Qantas New Zealand Head Fined over Accounting Failures**(In Brief)
  7. 22/07/2002 -  **COUNTRY** **Maori Group Objects to Land Sale** (In Brief)
  8. 03/08/2001 -  **COUNTRY** **Civil Servant Loses Landmark Discrimination Case** (In Brief)
  9. 28/03/2001 -  **COUNTRY** **Government Announces New Proposals to Strengthen Bourse**(In Brief)
  10. 08/05/2000 -  **COUNTRY** **Foreign Firms Banned from Fishing Firm Sale** (In Brief)
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# Tax Environment

Current as of Thu 18 Dec 2003

Tax risks: 2.00

The tax system in New Zealand is undergoing some change as a result of deregulation of the economy. These changes should ultimately be beneficial to investment, although the system has become more complex. The system is relying increasingly on indirect taxation, and the level of direct taxation has fallen.

## Tax Environment

New Zealand's tax system is generally favourable to foreign investors. It has become more complex in recent years as the emphasis shifts towards indirect methods of taxation. Changes are also sometimes introduced on a flexible basis using a consultative process. Under this process the government will issue a discussion document on proposed tax changes - taxpayers and their advisers are able to make suggestions on the proposals.

## Tax and Duty Rates

### Direct Taxes

Resident companies are subject to tax on world-wide income. Non-resident company branches in New Zealand are subject only on income earned in New Zealand. Companies are resident if their head office or centre of management is located in the country, if director control is exercised from New Zealand or if the firm is incorporated in New Zealand. Generally New Zealand residents can receive a tax credit for any foreign taxes paid on income up to the value of the tax payment due from that income in New Zealand.

The income year is 1 April to 31 March. Subject to approval from the Commissioner of Inland Revenue companies may set alternative tax years. The income derived in that year will be treated as having been earned in the year ending on the nearest 31 March. Companies with year ends from April 1 to September 30 must file tax returns by the 7th day of the 4th month following the end of their tax year. All other companies must file by the 7 July following the end of their income year.

Gross income includes all profit and gain from business activities, including benefits accrued from sources such as interest, royalties, commissions and dividends. Companies calculate gross income then subtract permitted deductions (such as expenses incurred in earning gross income) to determine net income/loss. Losses carried forward or group losses are then deducted to determine taxable income.

Provisional tax payments must be made on the fourth, eighth and twelfth month of an enterprise's income year. The first payment should amount to one-third of the provisional tax due, the second to two-thirds less the sum paid in the first payment, with the balance of the provisional payment due with the third instalment. Provisional tax is usually 105% of the tax payable in the previous year. Terminal tax is payable by the seventh day of the eleventh month following the end of their income year (for year-ends October through to January), by the fifteenth day of the following January (for year-end in February) or by the seventh day of February following the year end (all other year-end dates). The terminal tax payment date may be extended by two months if the firm has a tax agent. Penalties are imposed for late payments, including a basic fine of 5% of the tax due and a 2% additional penalty compounded monthly. Interest may be charged or credited if the

Tax	%
Corporate income tax	33
Capital Gains Tax	0
Branch Tax	33
Withholding Taxes*	
Dividends**	30
Interest***	15
Royalties (patents etc.) paid to corporations****	15
Payments to contractors	15
Branch remittance tax	0
Net operating losses (years): Carry-back	0
Net operating losses (years): Carry-Forward	Unlimited
Fringe Benefit Tax (on fringe benefits and non-cash dividends provided to employees)	64
Goods and Services Tax (GST)	12.5
Accident compensation levy on gross salaries and wages*****	0.45-8.45
Personal Income Tax (top band)	39

\*Non-residents

\*\*Reduced to 15% for fully imputed portions of cash dividends. Non cash dividends fully imputed suffer no withholding tax.

\*\*\*Final tax for non-associated interest recipients. For persons associated with the payer this is a minimum tax.

\*\*\*\*Final tax for royalties relating to literary or artistic works. Otherwise this is a minimum tax.

\*\*\*\*\*Paid by employer. Rate varies depending on industry and other negotiable factors. For employees the rate of the levy is 1.1%.

provisional tax falls respectively below or above final income tax payable.

Dividends received by New Zealand resident companies from non-resident companies are exempt from dividend tax. Dividends received by resident companies from other resident enterprises, excluding wholly-owned subsidiaries, are taxable. New Zealand's dividend imputation system enables a resident company to allocate to dividends paid to shareholders a credit for tax paid by the company. The allocation of credits is not obligatory. However, if a credit is allocated, the maximum credit is calculated at 33/67 of the dividend declared. Credits may not be used to offset non-resident withholding tax on dividends paid to non-residents. However, a New Zealand company may pass on the benefit of such credits to non-resident investors through payments of supplementary dividends. The aim of this mechanism is to allow non-resident investors to claim a full tax credit in their home countries for New Zealand non-resident withholding tax. Carry-forward of these credits is subject to special requirements. Dividends received by a resident company from a non-resident firm are subject to a 33% withholding tax, although this is reduced by any foreign withholding tax, and by an underlying foreign tax credit if this applies. Companies making the dividend withholding payment may pass the benefit of the payment on to shareholders through a credit attached to dividends paid. Credits are available under the imputation system or the foreign dividend withholding payment system. Unused portions of a dividend withholding payment credit can be refunded to recipient shareholders, but excess imputation credits are not refundable. If a resident company chooses to be a conduit tax relief enterprise, withholding payments on dividends received from non-resident firms may also be reduced to the extent that the resident company has non-resident shareholders. Relief benefits are passed on to the non-resident shareholders through the dividend payments and the attached conduit tax relief credits.

In October 2002 the government revealed that it was considering extending to financial institutions some of the perks that other businesses enjoy with regard to recovering sales taxes. The government has argued that financial services should be allowed to recover General Sales Tax (GST) on purchases related to the supply of their services to other businesses. The proposal would mean that financial services would still not attract GST, but the suppliers of such services would be able to recover the tax on the purchases related to them. In turn, it is hoped that this would lower the cost of using financial services for business.

A loophole in New Zealand tax law allows a New Zealand resident to purchase stock in a foreign trust, which then purchases, for example, New Zealand government bonds. The interest from the bonds is paid to the foreign trust, and the trust distributes income to investors by way of non-taxable bonus issues, thus avoiding tax in either New Zealand or the country in which the trust is held. The government is proposing to close the loophole using a 'risk-free rate of return method' (RFRM), which would tax the capital value of the assets held in government bonds. The tax payable each year on a holding in, for example, an Australian unit trust would be calculated as the value of the units at the beginning of the year, multiplied by the RFRM and the investor's tax rate. The regime would be applied to all assets, wherever they are held. If this proposal is approved, it could discourage investment in foreign companies that pay dividends, as they'd be double-taxed, once by the foreign government on dividend income, and again in New Zealand through RFRM. Investing in fast-growth companies that don't pay dividends would also be penalised, because the RFRM tax bill would rise each year, but the investment would bring in no income with which to pay it. In addition to closing the tax loophole, the goal of the RFRM proposal is to create an incentive for New Zealanders to invest in domestic shares, but as New Zealand accounts for less than 1% of world equity markets, the RFRM would severely limit the equity growth opportunities for New Zealand investors.

## **Deductions and Exemptions**

The only major categories of income exempt from gross income are income received in dividends from wholly-owned subsidiaries resident in New Zealand, dividends received from non-resident companies and dividends paid out of capital gains realised from 'arm's length' sales of fixed assets and investments upon winding up. However, amendments enacted in October 2001 also allow for the deduction of interest expenses for most companies. Research and development (R&D) is also generally deductible so long as research expenditure is expensed and development spending is not recognised as an asset for accounting purposes. Inventories are generally valued at cost but can sometimes be valued at market selling value if this is lower. Cost is determined according to generally accepted accounting principles. Simplified rules apply to firms with turnover of less than NZ\$3m. Deductions for certain entertainment expenses incurred in the course of business are limited to 50% of the total cost of the expense, and capital spending is not usually deductible.

Depreciation is included in the production of gross income. Assets worth less than NZ\$2,000 can be pooled and depreciation valued using the pool-depreciation method, where the lowest applicable depreciation rate for any item in the pool can be used to work out depreciation for the pool collectively. Buildings may not be pooled, and property worth less than NZ\$200 may be written off immediately. Assets acquired before April 1993 are subject to the earlier depreciation regulations, and those acquired between April 1993 and the end of the 1994-95 income year are subject to a transitional depreciation system. Subsequently acquired assets are subject to the new system, and most (excluding buildings and imported vehicles) qualify for a 20% loading on applicable depreciation rates for 1995-6 and subsequent income years if the assets were not previously used in

New Zealand. Under the new depreciation regime different rates apply to different types of plant and machinery. If the value of a good at sale exceeds tax value after depreciation, the excess is subject to recapture and is included in gross income. If the value is less than the tax value, the difference can be carried forward as a loss in the year of disposal. Examples of depreciation rates include:

Asset	Declining Balance %	Straight Line %
<b>Buildings</b>	4	3
<b>Chairs</b>	15	10
<b>Desks</b>	12	8
<b>Filing Cabinets</b>	12	8
<b>Photocopiers</b>	33	24
<b>Motor Vehicles</b>	15-40	10-30

Trading losses may be carried forward provided that a group of persons held an aggregate minimum voting interest in the company throughout the year of loss, and in certain instances a minimum market value interest of at least 49%. Losses incurred within a group of companies may be offset against other group company profits through subvention or election payments.

### Taxation for Individuals

Resident individuals are taxed on global income, non-residents upon local source income only. Residents include those with permanent places of abode in New Zealand and those physically present in New Zealand for 183 days or more in any year-long period. Gross income includes all salaries, wages, bonuses, retirement payments and other compensations, including most employer-paid entitlements such as meals, taxes, moving expenses and temporary or permanent housing. Some employer-paid items are excluded from gross income, however, including automobiles, employee education expenses, medical and life insurance premiums, private or public pension contributions and imputed loan interest below the market rate. These latter benefits are subject to fringe benefit tax, except for pension contributions, which may be subject to withholding tax or fringe benefit tax. Employees are not taxable for refunded business expenses. Income from personal services provided by non-residents present in the country for less than 93 days is not taxable, unless they are in the entertainment business or are contractors; these last two are subject to withholding tax on all income. Self-employed people are subject to tax on all profits from business activity. Partnerships must submit a tax return showing profit or loss shared among the partners, but each partner must also submit an individual income tax form. Directors are usually taxed as self-employed people, with withholding tax deducted at 33%. The tax year is as for companies; most salary and wage earners have tax deducted at the source under a Pay as You Earn (PAYE) system. Income tax on other income is generally due on 7 February (or 7 April if on a tax agency list), though some taxpayers may be required to make advance payments.

Non-resident shareholders do not receive a tax credit for the amount of imputation credit attached to the dividends on their New Zealand shares (see above), but other credits may arise with respect to the branch equivalent tax paid or foreign dividend withholding payments made by the company issuing the dividends. Non-resident withholding tax is a final tax on dividends, cultural royalties and interest paid to non-related persons, and it acts as a minimum tax on non-cultural royalties and interest paid to related parties. As usual, they may be reduced by double taxation treaties. If all parties in a loan are not related and the interest paid is by an approved issuer on a registered security, the interest is subject only to an approved issuer levy of 2% of interest actually paid. The government pays the 2% levy on interest paid on its loans from non-residents meeting the criteria. The foreign investors' tax credit effectively reduces the tax paid by non-residents on shares in New Zealand firms. To the extent it is owned by non-resident investors and imputation credits are attached to dividends paid, companies may claim partial refunds of their local New Zealand tax liability, which is then passed on to shareholders through a supplementary dividend. Special laws exist for the taxation of New Zealand residents on income derived from their holding in controlled foreign companies (CFCs) and foreign investment fund (FIF) regimes. Benefits conferred under employer-provided stock option schemes are taxable at the difference between market value on the day the shares are acquired and the amount actually paid for them.

Monthly Income Above...(NZ\$)	...But Below (NZ\$)	Tax on Lower Amount (NZ\$)	Rate on Excess (%)
0	38,000	0	19.5
38,000	60,000	7,410	33
60,000	-	14,670	39

There is no general capital gains tax, but income derived from the sale of real and personal property may be subject to income tax if the taxpayer's business consists of trade in real or personal property or if the dominant purpose at the time of acquisition was to sell at a later date. Residents who are involved in various types of financial arrangements are subject to an accrual taxation system, under which foreign-exchange

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variations related to the arrangements are included in calculations of income and expenditure.

No deductions are allowed against salary or wage income, except the cost of preparing tax returns and premiums for loss of income insurance if the proceeds of such a policy would be subject to taxation. Rebates exist for those with income below NZ\$9,500 and is phased out entirely once income exceeds NZ\$38,000. There are also tax credits available to those with children whose income fails to cross a specified ceiling, though these are not usually available to non-residents. Married persons are taxed separately on all types of income. Estate tax is not imposed in New Zealand, and gift tax only takes effect when the value of gifts given in any 12-month period exceed NZ\$27,000.

## Assessment

The Labour government's task force, set up to examine potential changes to the taxation system, recommended reducing the number of taxation bands for income, noting that the wide disparity between different income tax levels had encouraged avoidance mechanisms, such as splitting income. The McCleod Tax Review panel recommended not imposing a capital gains tax, but only maintaining the current system of taxing capital held for resale. However, it noted the need to end the discrimination between different forms of investment, which has tended to favour investment in housing. It also recommended initiating a tax rate of 18% for FDI by non-residents. Non New Zealanders would also be allowed to avoid paying tax on worldwide income for the first seven years after becoming resident, in order to attract new wealthy individuals.

However, in the 2002 budget the government seemed to be receptive only to a couple of the review's suggestions. The proposal to allow new migrants to avoid paying tax on overseas income for the seven years until they become resident appears likely to proceed, and officials have suggested that they may apply a 'risk-free rate of return' to offshore equity investments made in a private (that is, non-business) capacity. This would see a notional 'risk-free' return deemed derived from overseas investments each year, which would be subject to tax. In addition, officials had initially sounded positive on the FDI incentive suggestion, but in April 2002 backed away from it after IMF criticism. The government also plans to impose a tax on carbon fuels in order to reduce emissions of 'greenhouse' gases, though not before 2007. In general, it seems that the government is fairly content with the current tax system, although it is possible that there may be mild increases in some tax levels as pressures to increase public spending on health and education cut into the budget surplus.

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## New Zealand (Country Analysis) : Tax - Recent Updates

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1. 13/11/2003 -  **COUNTRY** **Increase in Fuel Tax to Benefit New Zealand's Largest City**(In Brief)
  2. 07/08/2003 -  **COUNTRY** **Government to Close Investor Tax Loophole in New Zealand**(In Brief)
  3. 29/04/2003 -  **COUNTRY** **New Zealand's Corporate Tax Rate Seen as Impeding Foreign Investment**(In Brief)
  4. 04/07/2002 -  **COUNTRY** **Election 2002: Labour Leans Towards New Health Tax**(In Brief)
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# Operational Environment

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Current as of Thu 18 Dec 2003

Operational risks: 1.25

Since the radical overhaul of economic policy and business laws in the 1980s, New Zealand has been one of the least regulated markets in the developed world, facilitating the operation of business. The government is welcoming to foreign investment, and the operational environment is generally impressive. Changes to union laws under the Labour government have marked a slight reversal of the previously extremely pro-employer balance in union relations. However, there does not appear to have been a marked rise in labour disputes. The country's infrastructure is very good, despite some concerns over the power industry. Corruption and bureaucracy do not represent significant problems.

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## Attitudes to Foreign Investment

New Zealand welcomes and encourages foreign investment, especially in sectors that can contribute to exports or employment. The Overseas Investment Regulations 1985 (as amended) require investments taking 25%+ ownership or a controlling stake in assets worth more than NZ\$10 million, or investments of any size in commercial fishing or rural land, to be approved by the Overseas Investment Commission (OIC). In practice, virtually all applications are approved. In assessing applications for foreign investment, the OIC considers the extent to which proposals promote the country's economic growth and development. This takes into account factors such as increased competition or efficiency, transfer of technology or skills, increased exports and job creation. In 2000 the government instructed the OIC to take a more neutral position when assessing foreign investment applications, a shift from the previous stance in favour of foreign investments. This may result in more focus on the potential benefits of the proposed investment, judged by the factors listed above, but, generally speaking, the country continues to boast one of the most open regulatory environments in the world.

Very few government-owned enterprises remain to be privatised. The government has not discriminated against foreign interests in privatisation. For example, the former government monopoly railroad and telephone systems are managed by foreign-owned companies, with large minority ownership shares.

The government does not offer specific incentives to foreign investors. A stable, low-inflation environment is viewed as the strongest incentive for investment that the government can provide. There has been little or no public reaction against foreign investment, although the debate surrounding the value and desirability of foreign direct investment (FDI) continues. Air New Zealand (Air NZ) requested that the government raise ceilings on foreign ownership of domestic airlines in 2001 in order to allow Singapore Airlines (SIA) to raise its holding, but there was substantial opposition. Australia's Qantas airline declared that the large stake the Singapore government holds in SIA put the SIA bid in conflict with both New Zealand and Australian national interest. In the end, the collapse of Air NZ-owned Ansett forced the government to rescue Air NZ; SIA's share was actually diluted as a result.

A survey conducted during November 2003 by the US Chamber of Commerce in New Zealand - an organisation representing US business interests - revealed that the majority of US companies operating in New Zealand are not planning further investment in the country over the short-to-medium term. Respondents credited the country for being 'safe and stable', but cited concerns over rising exchange rates and increasing global uncertainty. However, the primary complaint is a widespread perception that the government is anti-business, with respondents stating that high taxes, excessive regulation and poor infrastructure all needed to be rapidly addressed. The survey's results were not entirely negative; of the 85 companies that responded to the survey, only 10 said they were scaling back operations in the country, and overall New Zealand got high marks for its 'can-do attitude, innovative spirit, clean green environment, lifestyle, and stable, honest and open government'.

## Labour

After the Employment Contracts Act of 1991 was introduced, the number of working days lost to strikes declined as the proportion of unionised labour in the workforce fell to 17% and the number of days lost reached the lowest level since 1935. The Act ended compulsory unionism in New Zealand, whilst still giving unions the right to organise and bargain collectively. It also prohibited sympathy strikes by workers not involved in a particular labour dispute, as well as strikes designed to force multi-company wage agreements. For some companies the Act engendered more co-operative and innovative labour-management relations and enhanced labour productivity.

In August 2000 the government passed the Employment Relations Bill, which replaced the Employment Contracts Act and moved some way towards returning power to the unions. While union membership remains voluntary, only registered unions with more than 15 members can negotiate collective contracts. Strikes are legalised, and unions are given the right to conduct multi-employer bargaining if they wish. Employers must give unions open access to workplaces, collect union fees and allow time off for union education programmes. Sympathy strikes are still illegal. Union membership rose sharply in the wake of the new legislation - 22% of wage and salary earners were union members as of July 2002 - which the opposition National Party has vowed to repeal if it wins power. However, it would be premature to say that the country is returning to a period of union militancy.

## Bureaucracy

Bureaucracy in New Zealand is fast and efficient and is unlikely to pose a problem for business.

## Corruption

Corruption is an insignificant problem when conducting business in New Zealand. In its 2002 survey of the business community to measure perceived corruption, the Germany-based international lobby group Transparency International (TI) ranked New Zealand alongside Denmark as the second-least corrupt country of those listed, beaten only by Finland. New Zealand has ratified the OECD anti-bribery convention, which, among other things, makes bribery abroad by local companies an offence punishable in New Zealand.

## Infrastructure

### Utilities

Around 80% of the country's energy means are met by renewable energy sources. Most is generated on the southern island, but used by the North. Energy provision usually meets business demand. However, warnings have increased that the country looks set to face an energy crisis. A report published by the Centre for Advanced Engineering in October 2002 warned that the country may experience an energy crisis by 2005. The paper found that New Zealand would be unable to meet demand in the event of low rainfall, as this would diminish generation output from hydroelectric plants. The premature depletion of the Maui gas field is expected to add to the energy shortage and force reliance on more expensive fuel imports. Proposals for another power plant at Otahuhu have been cancelled and, as a result, only two new plants are coming on stream in the next decade. The report warned that New Zealand's existing plants, combined with these two additional plants, will not be able to supply normal annual energy requirements beyond 2010.

### Air Travel

Air travel is a fundamental means of travelling within New Zealand. Like the economy as a whole, aviation has undergone substantial deregulation, having commenced in 1983 and been completed in 1990 with the abolition of air-service licensing.

The two main domestic carriers were Ansett and Air NZ, which merged in February 2000. This proved ill-judged, as problems at Ansett had been substantially underestimated. In the end, Ansett went bankrupt, and Air NZ was forced to go to the New Zealand government for assistance in saving its own operations. The government's lifelines have fended off immediate crisis at the carrier, but it has continued to struggle. Previously, New Zealand has had one of the highest ratios of aircraft to population in the world, but this may well be reduced given the problems at Air NZ problems. Qantas has now taken Ansett's place as New Zealand's number-two carrier and a number of new airlines have entered the market, especially in the budget sector. Under proposals revealed in November 2002, Qantas offered to buy a 22.5% share in Air NZ, a deal that the government agreed to in December 2002. Unions and big business welcomed the move, but fears were raised regarding the monopolistic aspect of such a deal and the effect that it would have on prices.

International air services are operated in accordance with formal bilateral air transport agreements. In 2002 there were 11 international airlines operating out of New Zealand. An air service is available between Wellington and Auckland on an hourly basis, with less frequent services to smaller towns. Economy-price air travel remains expensive compared with travel on buses or trains.

Airports have been encouraged to form companies. So far, all of the international and some of the regional airports have been corporatised - government shares in Auckland airport were sold in 2000. There are international airports at Auckland, Christchurch and Wellington.

## **Railways**

New Zealand has nearly 3,980km of railroad track, linking almost all the main population centres. The government corporatised its railroad assets in 1992, and in 1994 it sold the railways to the private sector as part of a restructuring of the railways centred on the need to improve efficiency and organisation. New Zealand Rail Ltd, now renamed Tranz Rail Ltd, was the major force in the rail industry, providing around 10.6m passenger trips per year, including long distance services (marginally quicker than bus services, though less frequent) and urban services in Wellington and Auckland. However, it has gradually divested its passenger lines, but has continued to provide freight transport by rail, road and sea. It has run into difficulties though, prompting the government in June 2003 to take on a 35% (worth NZ\$75.8m (US\$43.9m)) stake in the company, in an attempt to stave off its receivership. Transport Minister Paul Swain said that the move was necessary, or Tranz Rail would be forced to stop services within days. The government said that it did not want to be a long-term owner of Tranz Rail, but was instead rescuing it from a 'extremely serious' situation.

## **Buses**

New Zealand is served by an extensive bus network. For many travellers, buses offer the combination of cost and convenience.

## **Road Travel**

The diverse geography and widely spread population of New Zealand mean that investment in road maintenance is relatively high compared to many other countries. The country possesses 92,000km of maintained roads. It is estimated that these roads are subject to annual increases of traffic volume of 3%. However there is no highway system to connect major cities and the roads between cities can often be winding.

The government has announced its intention to introduce a 'user-pays' approach to funding roads. This has become particularly pertinent with regard to the major road building project that is under way around Auckland. As of March 2003, it was estimated that between NZ\$2-4bn (US\$1.1-2.2bn) was needed to complete this large-scale project, which is seeing the upgrading of existing roads and the building of a greater motorway network in and around the city. Plans to raise the money for this have included tolls, congestion charging, and a regional petrol tax.

## **Ports and Sea Transport**

New Zealand relies heavily on sea transport for overseas trade. Almost 85% of New Zealand exports by value and 99% by volume are carried by sea. This highlights the importance of a cost-effective and efficient shipping service.

Beginning in July 2004, the government will begin to levy a new 'security compliance fee' on New Zealand businesses, in the form of a flat fee of NZ\$450-NZ\$650 (US\$277-US\$400) for all outgoing cargo for every departing ship or aircraft. Transport and shipping companies will have discretion as to how the additional charge is passed on. The new fee is designed to recover the costs of complying with the higher security standards currently being imposed, primarily by the US, and aims to recoup NZ\$8m (US\$4.92m) from exporters, NZ\$4m (US\$2.46m) from importers and NZ\$8m (US\$4.92m) from goods being shipped through the country.

Since 1988, waterfront reform has resulted in cost savings and efficiency improvements. Reform has included the formation of 13 port companies that own and operate commercial port facilities, and the reform of waterfront labour law in 1989. The ports have thus been undergoing vast improvements in productivity and usage. There are major ports at Auckland, Christchurch, Dunedin, Tauranga and Wellington.

Tranz Rail's Interisland Line operates the main ferry service across the Cook Strait between Wellington on the North island and Picton on the South. This service carries passenger, rail and road traffic. The Cook Islands National Line operates a service between Napier and the Chatham Islands. Other inter-coastal shipping services also carry container and roll-on/roll-off traffic between major cities. Conference lines handle much of the country's overseas shipping.

## **Telecommunications**

New Zealand has one of the most modern and deregulated telecommunications sectors in the world. Cellular and other mobile services, including paging and mobile radio, have developed rapidly. There is extensive competition in the provision of international services and the country supports many long-distance billing services, including Telecom, MCI, AT&T and Sprint. Deregulation in general has led to falling prices and greater

choice. International Direct Dialling (IDD) is available. Rental services are available for visitors. Payphones use phone cards more than coins.

## Postal Services

The deregulation and privatisation of the postal system (NZ Post) has opened the door to special services. NZ Post offers everything from bulk mailing rates, data processing and bonded goods storage to remittance processing. All but the mail processing is also offered by private third parties.

## Natural Hazards

New Zealand generally suffers from few natural hazards, and the problems that do occur tend to be easily handled by the government. However, in mid-2001 the hydroelectricity-dependent power sector was hit by a drought, which was ironically followed by the worst summer flooding for 50 years in many regions into 2002.

## Activism

The government of New Zealand is very strict on environmental law (see **New Zealand: Legal**) and foreign businesses must ensure that they comply with strict environmental standards.

The government is well-known for its anti-nuclear stance. In July 1985 the *Rainbow Warrior*, the flagship of the environmental group Greenpeace, was sunk by French agents in Auckland Harbour, killing one member of its crew. The French government received worldwide condemnation for its action and was forced to pay compensation. In July 2002, two ships carrying cargoes of nuclear waste passed through the Tasman Sea en route from France to Japan, and were targeted by Greenpeace activists who disrupted the passage of the vessels temporarily.

There are intermittent protests over land rights by Maori groups. In July 2002 a Maori tribe held protests, including occupying land, in an attempt to prevent the sale of a piece of territory, part of which is regarded as a historical landmark. Because the US\$1.5m sale was made to an American, the purchase required government approval through the Overseas Investment Commission. The government, which was also keen to ensure continued public access to the territory, secured a negotiated end to the dispute which allowed the sale to proceed but ensured continued public access to especially historic sites by having them gifted to the government.

## Practical Advice

New Zealand shares most of the characteristics of developed English-speaking nations like the US, UK, Canada and Australia. Emergency medical care is free at the point of service, but visitors are nonetheless advised to obtain coverage for health problems and accidents as a safety precaution. The weather can be changeable and it is advisable to be prepared for varying conditions.

## Useful Links

- Overseas Investment Commission: [www.oic.govt.nz](http://www.oic.govt.nz)
- New Zealand Council of Trade Unions: [www.union.org.nz](http://www.union.org.nz)

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## New Zealand (Country Analysis) : Operational - Recent Updates

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1. 17/12/2003 -  **COUNTRY** **Maori and New Zealand Government Close to Agreement on Seabed Ownership**(In Brief)
  2. 05/12/2003 -  **COUNTRY** **Government Announces Overhaul of New Zealand Employment Law**(In Brief)
  3. 03/12/2003 -  **COUNTRY** **Companies in New Zealand Expect Hiring Binge in 2004**(In Brief)
  4. 02/12/2003 -  **COUNTRY** **Concern Over Ability of Buildings in New Zealand to Withstand Large Earthquake**(In Brief)
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5. 21/11/2003 -  **COUNTRY** **Government Employees in New Zealand Targeted by Organised Crime**(In Brief)
- 
6. 13/11/2003 -  **COUNTRY** **Government of New Zealand to Tighten Immigration Criteria**(In Brief)
- 
7. 13/11/2003 -  **COUNTRY** **Increase in Fuel Tax to Benefit New Zealand's Largest City**(In Brief)
- 
8. 11/11/2003 -  **COUNTRY** **Foreign Land Ownership to be Curtailed by New Zealand Government**(In Brief)
- 
9. 07/11/2003 -  **COUNTRY** **New Security Fee Will Cost New Zealand Businesses US\$12.3m**(In Brief)
- 
10. 05/11/2003 -  **COUNTRY** **US Businesses in New Zealand Call for Better Business Conditions**(In Brief)
- 
11. 20/10/2003 -  **COUNTRY** **Reformed Legal System in New Zealand will Adversely Impact Business**(Main Story)
- 
12. 14/10/2003 -  **COUNTRY** **Thousands Protest in New Zealand Against Genetically Engineered Foods**(In Brief)
- 
13. 17/09/2003 -  **COUNTRY** **Summit on Maori Seabed Access in New Zealand Cancelled Over Fear of Violence**(In Brief)
- 
14. 08/09/2003 -  **COUNTRY** **Government in New Zealand Approves Use of Electronic Container Monitoring Device**(In Brief)
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15. 01/09/2003 -  **COUNTRY** **Audit Office in New Zealand Highlights Vulnerability of Government Funds to Fraud**(In Brief)
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# Security Environment

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Current as of Thu 18 Dec 2003

Security risks: 1.25

New Zealand offers a secure environment, with generally low crime levels and little risk of political or terrorist violence. Extortion and kidnapping are rare and tend not to affect foreign businesses, though in 2002 several unusual cases of abduction and attempted kidnapping occurred, as well as a high-profile extortion attempt. All were solved successfully by the police, underlining the country's good reputation for security.

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## Key Security Issues and Areas to Avoid

- Several extortion and kidnap cases undermined the normally quiet security sphere in 2002. The situation appears to have stabilised and no further cases have been reported.
- New Zealand is regarded as a country at little risk from the global war on terrorism, as it is more neutral and retains a lower international profile than neighbouring Australia. This has failed to dampen domestic criticism that with the scaling down of its military, the country would be unable to respond to what is perceived as a growing terrorist threat in the Asia region.
- Crime levels are low, and there are no real security threats that foreign investors need to concern themselves with.
- There is some tension in relations between Maoris and white New Zealanders, but these rarely escalate into violence and are generally less problematic than those between Aborigines and whites in Australia.

## Crime

Crime levels in New Zealand are comparatively low. Crime levels have fallen steadily in recent years, though recorded offences in 2002 registered a 3.2% rise, year-on-year. The total number of offences reported in 2002 was 440,129 compared to 426,526 in 2001. The most prevalent crimes were burglary and theft, while violent crime against foreign businesspeople remained unusual. The overall rise in recorded crime was prompted by a 4% increase in the largest crime category, dishonesty. Dishonesty offences, (including burglary) made up the bulk of crime at 59%. The police were however, pleased to announce that in line with the rise in crime, their rates at solving crimes also improved by 5%.

## Extortion

There have been isolated cases of extortion affecting foreign businesses in New Zealand. During February 2001, criminals demanded money from a Taiwanese man in return for the handing back of goods stolen from him, but the case was resolved rapidly by the police. The same month, police raided a home in Auckland, after videos were distributed in the UK threatening to poison Coca-Cola, to contaminate an unnamed petrol company's supplies and to hack into a Scottish bank's computer system unless radical demands were met. Those questioned during the raid claimed that the video was a satirical work of fiction. In August 2002 a man was arrested after attempting to extort NZ\$100,000 (US\$47,000) from a local businessman.

## Kidnapping

Isolated cases of kidnapping occasionally affect the Chinese community - one such case hit the headlines in April 2002 - but otherwise abduction is not usually a threat in New Zealand. One exception to this rule was the kidnapping of the infant daughter of two leading Maori figures from the legal profession in April 2002. The child was snatched in public, in broad daylight, while out with her mother. After a massive police operation, assisted by public support from every section of society, including criminals, the baby was recovered unharmed. The lone kidnapper had apparently wanted to extort US\$1.3m from the family, having heard of their huge earnings from high-profile legal cases. Another kidnap attempt was foiled in July 2002, when police arrested three men over a plot to abduct a prominent businessman from Wellington. The police have solved all serious crimes that were reported, highlighting their strong reputation in this respect.

## Terrorism

There are no active terrorist groups in New Zealand. New Zealand faces a limited threat from the global war on terror, having contributed a small number of forces to the US effort to oust the Taliban and track down al-Qaida terrorist network operatives. Islamic terrorists are believed to have passed through the country

occasionally in the past. Nevertheless, the lack of US military bases and of other prominent targets, as well as the country's reliable security agencies and more moderate pro-US stance, are all factors which help to mitigate the danger. That said, domestic concerns have been raised that following the October 2002 Bali bomb attack, there is a greater risk regionwide from terrorism. This has prompted criticism, both domestic and from other regional players such as Australia, of the government's policy of defence cuts. The government has responded by unveiling plans to upgrade and eventually replace military equipment.

## Political and Ethnic Violence

New Zealand is a stable democracy. There has been no significant political violence since the Maori Wars in the mid-1800s.

There is some strain in Maori-Pakeha (white) relations. The main focus of Maori protest is a long legal battle to force the government to abide by the Treaty of Waitangi of 1840, in which Maoris ceded sovereignty and the UK guaranteed their rights to the land. Maoris generally suffer from a lower standard of living than whites, and this has translated into a string of attacks on symbols of white authority. However, foreign business interests are unlikely to be targeted.


## External Threats

New Zealand faces no external security threats. Spats in external relations have usually concerned trade matters or nuclear issues rather than territorial claims. Though New Zealand is often involved in attempts to resolve political instability in neighbouring South Pacific countries, it is usually regarded as an altruistic intermediary. Its role in the Solomon Islands has been most controversial, with one senior New Zealand diplomat killed in the Islands. Though her death was blamed on criminals, conspiracy theories suggesting that some factions were opposed to a forthcoming speech the official was due to give have multiplied. Severe violence in neighbouring Pacific states may result in refugee inflows, but - given the distances involved - the numbers would be unlikely to prove destabilising.


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## New Zealand (Country Analysis) : Security - Recent Updates


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1. 07/11/2003 -  **COUNTRY** **New Security Fee Will Cost New Zealand Businesses US\$12.3m** (In Brief)


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2. 23/10/2003 -  **COUNTRY** **Police in New Zealand Given New Powers to Combat Terrorism** (In Brief)


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3. 08/09/2003 -  **COUNTRY** **Government in New Zealand Approves Use of Electronic Container Monitoring Device** (In Brief)


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4. 11/08/2003 -  **COUNTRY** **New Zealand Institutes New Airport Screening Techniques to Pre-empt Illegal Immigration** (In Brief)


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5. 30/06/2003 -  **COUNTRY** **Survey Indicates Unease in New Zealand Over Immigration** (In Brief)

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6. 13/05/2003 -  **COUNTRY** **Police Report Reveals Emerging Kidnapping, Extortion Problems in New Zealand** (In Brief)


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7. 14/04/2003 -  **COUNTRY** **Government of New Zealand Bans Seven Muslim Groups, Individuals** (In Brief)


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8. 24/03/2003 -  **COUNTRY** **War in Iraq: Prime Minister Denies New Zealand Will Aid US-Led Force in Post-War Iraq** (In Brief)


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9. 25/02/2003 -  **COUNTRY** **Cyanide Alert at US Embassy Fuels Terrorism Fears in New Zealand** (In Brief)

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10. 03/02/2003 -  **COUNTRY** **Protesters Try to Storm US Embassy in New Zealand** (In Brief)

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11. 09/01/2003 -  **COUNTRY** **Refugees Accepted into New Zealand from Controversial Australian Camps** (In Brief)

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12. 13/12/2002 -  **COUNTRY** **Suspected Al-Qaida Operative Detained in New Zealand** (In Brief)

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13. 22/04/2002 -  **COUNTRY** **Infant Kidnap Victim Recovered Unharmed** (In Brief)

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14. 15/04/2002 -  **COUNTRY** **Maori Justice's Child Kidnapped** (In Brief)

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15. 11/04/2002 -  **COUNTRY** **Kidnappers Arrested After Police Sting Operation** (In Brief)

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