New Zealand as an Investment Destination: Economy at the Cross-Roads?

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Introduction

Just under two weeks ago, in this same town, the Chairman of Heinz US, Dr Tony O'Reilly, addressed[2] one of the most influential groups of international business people, government administrators and commentators ever to assemble in this country. He repeated comments he had made to a business gathering in Auckland late last year[3], when he advocated New Zealand as a "regional corporate capital".

Dr O'Reilly practices what he preaches. In addition to Heinz's ownership of New Zealand's largest food processor he also has substantial personal investments in this country's media.

Why would he hold such views? As one of Ireland's great rugby players of the 1950s and 1960s, he doubtless has fond memories of his time on our sporting fields and admires at least one thing that we do very well. But that's not sufficient reason to support such a strongly-held and oft-expressed opinion, and certainly not to put his own and his shareholders' funds at risk.

He cited many reasons for preferring New Zealand over, say, Sydney, Australia, calling this "the most rational place in which to locate [an] international headquarters", including -

- no capital gains tax;

- a more "pro-business environment";
- a "first class" legal and banking system; and
- a "simple political system".

He is not alone in this assessment. According to a world business survey[4], Auckland, our largest city, ranks third in the world for quality of life (after Vancouver and Toronto).

New Zealand Attractive to Foreign Investors

New Zealand[5] has always been attractive to foreign investors. It is a stable, democratic country; has a western culture and values; and (even allowing for the current Asian economic crisis) is part of the world's fastest growing economic region, the Pacific Basin. Its people enjoy a high standard of living; and it has a well-educated work force. While its traditional wealth has been built on the export of primary produce, it also has major natural resources that support industries in horticulture, fishing, forestry, energy, manufacturing and tourism; and has an increasing reputation for the export of services.

It has a sophisticated, Western economy; and has earned international commendation for its economic policies and for its consistent and open business environment.

But, just as New Zealand is attractive to investors, it also needs to attract investment. It has the infrastructure and capital demands of a developed sophisticated Western society but, as a small country, cannot generate all its own capital requirements. Therefore, foreign capital has always played an important part in New Zealand's development.

Outline of New Zealand Economic Reforms

There are many reasons why New Zealand attracts offshore investors. However, the one that earns the most attention (and was the underlying theme of Dr O'Reilly's comments) is the radical economic, social and structural reform that, since the 1980s, has touched and transformed every part of this country.

These reforms were initiated by a left-of-centre Labour Government[6] and continued first by a center-right National Government[7] and now by a center-right National-New Zealand First coalition[8]. They reflect fundamental changes as to the appropriate role of government -

- in many cases, ownership moved from public provision to private provision;
- equity issues are now often addressed by "user-pays" rather than averaging[9]; and
- public and consumer safeguards are provided by competition rather than regulation.

The nine most important outcomes have been -

1. budget surpluses;
2. debt repayment (we now have no foreign public debt);
3. substantially reduced personal and company taxation;
4. increased growth;
5. reduced inflation;
6. new labour laws, with dramatically increased productivity and the third lowest unemployment in the OECD;
7. achieving and maintaining international competitiveness;
8. government trading activities were corporatised as State-Owned Enterprises, with many subsequently privatised; and
9. open, accountable government and financial management.

New Zealand is the only country that prepares government accounts as for businesses. Initially, these showed we were technically insolvent (as are most countries). Today we are solvent, and have the balance sheet to prove it.

Essentially, these outcomes have been based on five fundamental bases -

1. Reserve Bank Act 1989, which guaranteed the independence of the central bank and requires it to give top priority to maintaining price stability (low inflation).
2. Employment Contracts Act 1991, which introduced a new and more productive labour market regime.
3. State Services Act 1988, which replaced an old, centrally-controlled public service system (based on career service with 40 year tenure and where appointing outsiders was very hard) with one where departmental CEOs enter into annual performance agreements on behalf of their

department, and where salary packages can be performance-based.

4. Government openness and financial and fiscal discipline, including the Public Finance Act 1989 which introduced modern accounting disciplines on all government agencies, and the Fiscal Responsibility Act 1994 which requires governments to balance budgets and to give advance disclosure of budget and spending policies. The Official Information Act 1982 imposes an information disclosure regime on all government agencies, ensuring that the formulation and implementation of public policy is subject to proper scrutiny and debate.
5. Broad-based low taxation policies, with ongoing personal tax reductions.

Impact of Changes

The impact of these changes has been profound. Our economy, society and way of life has been transformed. Reform has touched almost every sector. There have been few sanctuaries. Everyone has been affected. The productivity and competitiveness of our industries and services, the public service in particular, have dramatically improved. Above all, New Zealanders have new confidence about their ability to meet the challenges of a competitive world.

International Attention

The reforms have attracted international attention both for their radical nature and largely successful outcomes. According to the OECD, New Zealand is -

> ... the leading example of quite rapid progress implementing a wide range of public sector reforms.

The Wall Street Journal wrote that -

> ... this tiny faraway democracy began its break from limp socialism. It was the most ambitious assault of any Western nation on the system of entrenched privileges that made an elite rich and resulted in reduced opportunities for everyone else ...

A constant stream of Europeans, Americans and Asians have studied the changes to see if they could do likewise. When delegations come from the Japanese Diet and the US Congress, and when Chancellor Kohl comes from Germany to take a look, we should all take notice.

In 1996, after a visit to New Zealand, a US congressional team said -

> New Zealand has undergone the most radical economic transformation in recent years in the Western world and increasingly has become a subject for study by others, who want to know why it has been so successful. ... the revived economic system is currently among the best performers in the OECD. Even better indicators than the figures are the improvements in productivity, competitiveness and attitude. New Zealand is rated by responsible judges highest or close to highest in the world in all three. Not all have benefitted equally. ... disagreements over what should be done and the ability of government to deliver social and other services is as intense as in the United States and elsewhere in the world ...

The Index of Economic Freedom published by the Canadian Fraser Institute ranks New Zealand third in the world. In 1985 we were sixtieth.

Some Aspects of Reform

In this paper it is not appropriate to detail each reform (there have been so many). However, three (establishment of State-Owned Enterprises, the funding government activities and treatment of government capital and assets) are particularly relevant.

By the early 1980s, the New Zealand public sector controlled one quarter of the country's Gross Domestic Product (GDP). As a part of the reforms, all government trading activities[10] were corporatised as State-Owned Enterprises (SOEs).

Commercial directors were appointed. SOEs were required to function as commercial enterprises; achieving agreed rates of return and paying both tax and dividends to the Government. The intention was to make SOEs free of political control, other than by formal written direction[11]. Initially, the Government retained ownership of these SOEs; but some have since been privatised.
Some examples -

- Our "flag" airline, Air New Zealand, was privatised. It is now, percentage-wise, one of the world's most profitable airlines.
- The Post Office was split in three: telecommunications, banking and post. The first two were sold. Today, Telecom provides better service at lower real cost than 10 years ago.
- We have one of the most competitive forestry industries in the world. Government forests (planted by relief labour in the 1930s depression) were corporatised and sold.

- Railways, a consistent loss-maker, was corporatised, cleaned up and sold. Today it makes a profit, pays tax, provides more services at lower cost and, in 1997, bought part of Australian Rail (which still operates like New Zealand Rail of 15 years ago).
- Two insurance companies and two banks were sold, as was a development bank (just in time, as it promptly went broke, but that became a loss to investors, not taxpayers).
- Commercial properties (mostly occupied by government agencies) were corporatised. The company needed support during the slump of the late 1980s but it is now healthy and about to be sold.
- The Government's computer bureau was sold to EDS and now competes with other providers for government (and private) contracts.
- The consulting arm of the Ministry of Works - with a worldwide reputation in hydro and geothermal power - was corporatised and sold.
- Petro-chemical investments were sold.
- Ports were corporatised and stripped of non-port assets that cross-subsidised their activities. Some have been privatised. Port labour was reformed. The result? Stunning productivity gains, vital to our export competitiveness. It now costs six times more to stuff a container with wool in Australia than in New Zealand.
- Airports are also operated by companies.
- Many local government trading activities - water, forests, transport and some electricity utilities - were corporatised. Some have been privatised. Productivity increased and charges dropped.
- The commercial radio network was sold to the a consortium led by Dr O'Reilly.

And, finally, let me tell you about New Zealand Post. Like most postal services, it used to make a loss. It is still government-owned but was recently deregulated and is now subject to direct competition. Today, it makes a handsome profit, pays dividends to the Government, pays taxes and in 1996 (to compete with faxes, couriers and other providers) reduced the cost of a basic stamp by five cents (to about 23 US cents). Its so efficient, it provides consulting services to other postal services.

Forget the romance about the mail getting through in all weathers, and Cliff in the Cheers bar boasting about his "uniform". Post Offices (as most of you still know) are just shops; and delivery is the same as done by private couriers. New Zealand Post now franchises some of its Post Shops to private operators; employees are on performance contracts and some even run to deliver the mail; and customers don't wait in long lines as in certain other countries!

Entities currently targeted for privatisation include Solid Energy (discussed more fully below), some airports and parts of the publicly-owned broadcasting system.

One of the of the most significant changes to New Zealand's public sector management involved a fundamental change to the funding of government activities; essentially a shift from funding inputs to one of purchasing outputs and measuring these by outcomes.

Any government has two legitimate interests in performance of its departments, as -

- the owner of government assets; and
- the purchaser of government goods and services

A government should expect -

- as owner, a proper return on its investment in government assets; and
- as purchaser, that it will receive, from its departments and agencies, quality goods and services at the best possible price.

Usually, governments fund inputs, thereby prescribing exactly how departments do things. At the risk of exaggerating to make a point: If two paper clips are required for the job, then funding is provided for two paper clips.

That's not, however, the way that any business conglomerate runs its subsidiaries, and a government can be likened to such a corporate. Subsidiaries are told: "This is what we want; you deliver". Such an approach can also be used by governments; and New Zealand has done this since passing its Public Finance Act in 1989. It now purchases "outputs" from its departments and agencies and measures these "outputs" in terms of "outcomes"

In essence, the key difference between outputs and outcomes is that departmental CEOs are accountable for outputs but can't be held accountable for outcomes.

Let's assume a government decides that its Department of Labour should run an employment scheme (a good example, because most governments do this, even though such schemes don't deliver any real benefit, other than salving politicians' consciences about unemployment). The department contracts to provide the scheme. Its delivery becomes part of the departmental performance measure and is, therefore, an output.

As a result, unemployment may rise or fall by X% (with such schemes, who really knows?). The department doesn't (indeed, cannot) contract to provide this. Therefore, it is not part of the departmental performance measure; and is, instead, an outcome.

In most government systems, capital and assets are seen as a "free good" but, in reality they are not. Investment in public assets has an opportunity cost, just as in the private sector.

Our public servants are now accountable for resource use. Departments must meet the ongoing costs of their capital and assets; and, as in private sector, must manage these by -

- asking are they working and are they necessary?; and
- devising capital management strategies.

This is obviously a good way of achieving savings and efficiencies, particularly when departmental budgets are capped or reduced.

The resulting Capital Charge is paid by departments. In some asset-intensive agencies, it can be an be a major item, comparable to payroll. It is calculated by applying the Capital Charge Rate to the department's capital base[12]. Sometimes, departments seek to achieve some recovery on these charges by extending the application of user charges; a process, begun in the mid-1980s, and one that discourages waste.

This leads to capital rationalisation. Sometimes, departments can retain sale proceeds which further encourages better asset management (but not always as there are predictable conflicts between the need to maintain incentives and the desire to achieve fiscal gains).

This system of cost-of-capital recovery is unique (at least among governments). It -

- reveals the full and true cost of producing departmental outputs;
- encourages optimisation of each department's use of its capital;
- discloses the full cost of goods and services produced by departments; and
- provides information and incentives for more efficient management of the government's investment in departments.

This has to be good for the taxpayer!

Overall, performance has become the keynote of these government management reforms. The role of the public sector has been redefined; it has been restructured; it has been greatly reduced in size; and delivers improved efficiency, effectiveness and productivity. We no longer have a system for control; we now have a system for performance.

Penalties and rewards - rare in the old public service - are the new currency of this performance-based system; and departmental self-management offers considerable opportunities to innovate within the clear bounds of responsibility and accountability.

However, let there be no illusions. These reforms were sometimes painful, occasionally very painful; and some of that pain continues. The benefits have not always been evenly distributed and enjoyed. As the 1996 US Congressional delegation observed: "Not all have benefitted equally. ... disagreements over what should be done and the ability of government to deliver social and other services is as intense as ... elsewhere in the world".

There is a minority (both publicly and politically) that opposes what has happened. New Zealand is an open and pluralistic democracy (in fact, it is the world's eighth oldest continuously functioning democracy). Freedom of information legislation ensures that both the formulation and implementation of public policy is subject to intense scrutiny and debate. In such a climate, lack of opposition to these policies would be astonishing. However, analysing the results of the 1996 general election, it is clear that all major aspects of this new policy setting are supported by well in excess of half of the electorate and by a majority of all parliamentarians.

And the one thing you discover about reform is that it doesn't stop. The pace may slow a little (and that may not be a bad thing); but it is still very much an ongoing process. For instance, the Government -

- is considering proposals for new and more efficient ways of funding our roading system, with decisions projected for the second and third quarters of 1998[13];
- is under constant pressure to remove the export monopoly status of agricultural producer marketing boards (including international pressure from the US);
- plans to introduce "elements of increased competition into the provision" of accident compensation services[14]; and
- is considering proposals for further restructuring the electricity sector, particularly to split the existing Electricity Corporation of New Zealand (ECNZ) into several competing corporations and a possible split of retail line and energy businesses with decisions expected in the first or second quarter for implementation in late 1998 and early 1999[15]

Privatisations continue. The Government is selling its 51% interest in Auckland International Airport (combined with some shares held by local government shareholders) and is divesting Government Property Services and Vehicle Test New Zealand.

Of interest to this conference, the Government has just appointed advisors for the sale of Solid Energy (formerly CoalCorp). One issue will be whether it should be sold as a single enterprise or broken up[16]. Either way, this represents a unique opportunity to buy into a valuable energy resource. It has been publicly speculated that Solid Energy will sell for a price in excess of NZ$120 million, but the new owner will then have to undertake substantial new capital expenditure (estimated in the region of NZ$200 million).

Other policies of interest to overseas investors include -

- achieving improved international access for our exporters;
- negotiating "Open Skies" air access agreements;
- a timetable for achieving free trade;
- elimination of tariffs subsidies on motor vehicles;
- a case-by-case review of the ongoing ownership of non-strategic assets that remain held by the Government;
- deregulation of postal services (completed in March 1998); and
- a package of measures to improve the quality of regulation, including the possibility (in the third quarter of 1998) of a Regulatory Responsibility Bill that would ensure that regulation only occurs where a genuine and measurable benefit results[17].

All this is designed to improve the country's international competitiveness; and is proceeding along with policy work in other areas to improve economic performance[18].

Trading Nation

New Zealand is a trading nation. It trades with more countries than any other, exporting about 30% of its GDP and importing many goods (particularly capital equipment) that cannot be locally manufactured.

In the past (particularly before the United Kingdom entered Europe in 1973), New Zealand's marketing focussed on a small number of countries. Now, however, it has a much more diversified export base, making it less dependent on fluctuations in a narrow range of exports and markets, thus ensuring greater economic stability. We have moved from being a "farm for Britain" to a diversified trading nation. In 1950, we sent 67% of our exports to the United Kingdom; today, less than 7%. Japan and Australia (barely rating a mention in the 1950s) are now our two largest markets; but, such is the diversity, no country takes more than 20% of our exports. In the seven years to 1997, export earnings increased by 32%.

Closer Economic Relationship with Australia

In 1983, New Zealand signed a Closer Economic Relationship (CER) Agreement[19] with Australia. Trade restrictions between Australia and New Zealand were further reduced under Australia's Trans-Tasman Mutual Recognition Act 1988 that encourages trade and business migration between the two countries under CER.
CER has opened up the movement of goods and services across the Tasman. Trade in most goods and services is now completely free[20]; giving each country access to a market of 19 million people. Between 1970 and 1997, New Zealand's exports to Australia increased by 41%. An Australian official recently described CER as "an exceptionally important agreement and an exceptionally vital and productive relationship"[21]. Some unnecessary restrictions still exist (for instance, on apple exports and airline activity) but in 1998 it is expected that bilateral trade will exceed NZ$12 billion and that new arrangements will be agreed to ease the flow of goods and qualified workers between the two countries.

Other Trade Relationships

Beyond Australia, New Zealand's major trade focus is on Asia, with an obvious emphasis on Japan. New Zealand's trade policy remains focussed on achieving free trade. In that regard, our membership of APEC (Asia Pacific Economic Council) is regarded as vital.

The 1994 Bogor Declaration of Common Resolve committed APEC to staged moves to free trade by 2010 for developed countries and 2020 for others. The 1995 meeting of the 18 APEC members in Osaka agreed an Action Agenda for implementing that Declaration.[22] These moves will be vital to New Zealand's future trading relationship with the region.[23]

Current State of the New Zealand Economy

As a result of the reforms of the past 14 years, in the 1990s -

- The economy has grown at a much greater rate than in the previous two decades. Between 1980 and 1993, annual economic growth averaged 1.4%. From 1993 to 2001 it is projected to average 3.6%. This will mean that, during the 1990s, the New Zealand economy will have grown by approximately one third.
- Inflation has fallen from double digit figures of the 1980s to less than 1%.
- We have budget surpluses and are paying off debt. There is now no public overseas debt and public domestic debt will reduce to 18% of GDP by 2001.

- As percentage of GDP, Government tax revenue will fall from 37% in 1996/97 to 34.5% in 2000/2001. Over the same period, expenditure is projected to fall, moving the Government towards its long-term objective of reducing expenditure to less than 30% of GDP.

Under the Fiscal Responsibility Act, the Government must publish regular economic and fiscal updates, independently prepared by Treasury. The last update, released on 9 December 1997 suggested that -

- The economy was forecast to rebound strongly over the next couple of years, reaching a peak of 4% growth in 1998/99 before settling to more sustainable levels of around 3% for the rest of the forecast period (after 2001). The more recent Budget Policy Statement 1998 released on 4 February 1998 suggested that, because of the Asian economic crisis, this recovery may now be weaker than projected in December 1998, with a lower budget surplus but continued debt repayment and a largely unchanged fiscal outlook.
- Easing monetary conditions over the preceding six months provided a solid platform for growth. New Zealand firms are now well-placed to take advantage of these improved conditions. Over the preceding six years, businesses had reduced debt and become more internationally competitive. A decline in the dollar has left exporters particularly well positioned.
- The further tax cuts proposed for July 1998 will proceed.
- Budget surpluses will continue. Projections for 2000-2001 raise the prospect of further tax cuts.
- Confirmation that, by 30 June 2001, public debt was forecast to fall to 18% of GDP, down from 27% in June 1997 and a peak of 52% in 1992.
- These December 1997 forecasts took some account of the then known problems in South East Asia. While lower growth in Asia was expected to have some effect, Thailand, the Philippines, Malaysia and Indonesia collectively make up only 7% of our merchandise trade exports. Northern Asian, including Japan, China and South Korea are larger export markets and the impact of market turbulence in those countries could not be quantified at the time of the forecast.
- Continued strong performance of New Zealand's traditional markets, including the United States, United Kingdom and Europe will counter any downside risks.
- Despite difficulties in some markets, real GDP growth in New Zealand's top 10 trading partners was forecast to be 3.7% in 1998.
- Overall, the assessment was that New Zealand was poised for further business and job growth and a continuing lift in its standard of living.

There are two matters of long-term economic concern -

- The current account deficit was projected to rise from 4.8% in the March 1997 year to 7.4% for the ensuing two years (the actual figure released on 27 March was 7.7%). This deficit is then projected to decline to a more acceptable 5.3% in 2000-2001. The figure is presently too high but the projected drop will be to a sustainable level that should be maintained through to the end of this decade. Government activity and spending makes no contribution to this deficit.
- Real interest rates remain high the highest in the OECD. This must have adverse effects on domestic investment, although it favours offshore investors who can borrow at lower rates if they are prepared to take - or can hedge against - exchange rate risks.

Asian Contagion

It has been said that there are only two categories of commentator on the current Asian economic crisis and its potential impact on New Zealand. Those who don't know; and those who don't know that they don't know. Mindful of the validity of that observation, this paper must, nonetheless, attempt some assessment of that impact.

In the latter part of 1997, serious economic problems in a number of Asian economies finally came to a head. The International Monetary Fund (IMF) is now bailing out several Asian economies including South Korea and, most recently, Indonesia.

Initially, attention focussed on South Korea (the world's eleventh largest economy), but it is now showing encouraging signs. Ironically, after 40 years in public life (much of it in jail, under house arrest or in exile) Kim Dae Jung has become President at what has been described as "the most crucial moment in his country's economic history since the end of the Korean War". Early indications are that, contrary to his political instincts and support base (he was backed by the trade unions), Kim is undertaking long-overdue market reforms and opening Korea's protected economy to foreign investment and competition. With the acquiescence of the outgoing president he was able to formulate his reform programme - and even implement some aspects - before his inauguration. His performance has been described as "impressive and reassuring" and has sent the right signals to the international investment community.

Concern is now directed at Indonesia where there is little indication of similar resolve, and real apprehension that present economic problems will translate into economic distress and, ultimately, political unrest. While the political and economic future of Asia is not within the scope of this paper, there is some expectation that political unrest could result in intervention from the Indonesian military and the installation of a cabinet of technocrats who would effect the required reforms. In the meantime, Indonesia's economy, and its impact on both New Zealand and Australia, remain matters of concern.

Some of the underlying causes of Asian economic weakness - mistrust of foreign capital and competition, onerous government regulation, restrictions on foreign capital and competition, and closed economic systems - would not be surprising to New Zealand which once had the same fundamental weaknesses. However, there are other causes with which we are not familiar such as corruption and concentration of power in family-owned (and often politically-beholden) businesses. These must also be addressed. Attempts to blame foreign currency speculators and other "international causes" should not divert attention from these fundamental weaknesses; and should not prevent them being addressed.

The impact of the Asian Contagion on New Zealand will be mixed. In many respects, New Zealand is "part of Asia". Thirty five percent of our exports go to the region, but 80% of that to North Asia which seems to be responding better. Weaker Asian economies are less likely to buy those exports (although commensurate reductions in the value of the New Zealand dollar will soften that impact and would have also made our dollar and sterling denominated exports more competitive). On the other hand, weaker Asian currencies will mean that imports from the region are cheaper (and less inflationary) and certainly more competitive.

European and North American perceptions of New Zealand and Australia as "part of Asia" will also influence their investment patterns. There has been some sell-down of Australian and New Zealand stocks by North American fund managers facing redemptions on their Asia-Pacific funds.

The Australian Treasurer, Peter Costello, has warned, that for the first time in two decades, in 1998 Asia would provide no stimulus to the Australian economy[24]. This followed two surveys revealing significant slumps in Australian business confidence. Australia is New Zealand's largest two-way trading partner; and local exporters had anticipated further recovery in the Australian economy as part of the basis for domestic recovery. That this might be delayed is also of concern.

It will be in New Zealand's interests to see a recovery of the Asian economies with which it trades and with which it is so closely identified. Therefore, the success of the IMF bail-out and related economic reforms will be very important.

However, there must be some doubt as to whether the bail-outs will lead to full recovery; and, equally important, how quickly that will occur. Particularly, and despite IMF insistence, there are serious questions as to the extent to which many of these economies are prepared to address fundamental issues including -

- opening up and liberalising their economies, particularly to foreign participation (both in terms of investment and competition), notably in financial services;
- eliminating corruption and political cronyism at all levels;
- deregulating the economy; and
- no longer "picking winners" (as for instance, with South Korea which channelled capital to some export industries, resulting in some manufacturing over-capacity).

If these issues are not addressed little will be gained from the billions of dollars committed to these bail-outs. Such an outcome would be in line with the experience of similar bail-outs of the Mexican economy over the past 22 years. Worse still, like Mexico, there is a danger that these economies and their political managers will come to believe that the IMF is available to rescue them from future difficulties, providing yet another reason for not addressing fundamental economic issues. In short: Both borrowers and lenders could conclude that there is no moral hazard attached to their present positions.

One extreme view is that no amount of IMF assistance will force these governments to change their economies. Indeed, past loans to other countries have been described as "bandages that, far from stopping the bleeding, allowed irresponsible governments to put off the hard choices they would have had to make without IMF aid". Real, sustainable, market-based solutions will not be sought and fundamentals will be ignored[25]. The Asian economy - one might suggest, the global economy - will suffer as a result.

Responsible Asian leaders generally agree with such assessments and accept the necessity of reform. Even so, they will find it hard to make radical changes not just to their business and finance sectors but also to effect even more difficult social and cultural shifts.

At the same time, Asia's difficulties are providing opportunities for New Zealand investors. In January, one of New Zealand's largest forestry companies[26] confirmed that it was investigating the possibility of purchasing a timber processing plant in South Korea. Such opportunities will never come cheaper. A major transport company[27] has responded to Asia's problems by acquiring new export-oriented service companies, citing the fall in the value of the New Zealand dollar as beneficial to exporters.

One is reminded of the following quotation[28] -

> Substance is enduring, form is ephemeral. Failure to distinguish clearly between the two is ruinous. Success follows those adept at preserving the substance of the past by clothing it in the forms of the future. Preserve substance; modify form; know the difference. The closest thing to a law of nature in business is that form has an affinity for expense, while substance has an affinity for income.

We must wait and watch for the "substance".

Current Economic Overview

All this makes it difficult to forecast the immediate future of New Zealand's economy. However, there is some downside risk for the rest of 1998. Largely because of the Asian crisis, business confidence is low. Many employers intend shedding labour over the next 12 months[29].

The current economic situation can best be summarised in these terms -

- Monetary policy has been eased, particularly by the Reserve Bank's moves over the past two weeks. It is likely to continue easing throughout 1998. With excess capacity in the economy, the Reserve Bank will probably see no need to tighten conditions this year.
- The New Zealand dollar has weakened against most hard currencies (notably the US dollar and sterling) but strengthened against Asian currencies. Generally, this will favour exporters, but increases the cost of hard currency imports.
- Interest rates have risen; and that trend is likely to continue for most of the year, particularly in face of any currency weakness.
- 1998 GDP growth is likely to be in the 2.5-3% range (the latest[30] figure, to 31 December 1997, was 2.3%), with a further increase in 1999.
- Budget surpluses and the debt repayment and tax reduction programmes will continue.
- Unemployment will remain at present levels with job growth from modest GDP gains being offset by some anticipated lay-offs.
- Whatever else happens, the economy will be stimulated by the injection of moneys from two 1998 taxation measures, the removal of a surcharge on some retirement income (from 1 April) and the general tax cuts (from 1 July).
- New Zealand will adversely be affected if recovery of the Australian economy is delayed.

However, no investment strategy should focus only on short-term economic trends. No-one will make an important strategic investment based only on the performance - good or bad - of an economy in the first quarter of 1998 or any other short-term timeframe. Of even greater importance is the overall structure of the economy and its ability - particularly as a commodity exporter - to ride out short-term fluctuations in global or regional economies.

In that regard New Zealand is very well-positioned. Its basic economic structure means it can better ride out any downturns and more quickly recover. GDP growth has bottomed out at figures that used to be our peak. Lower debt levels and rising net worth help the economy to adjust more smoothly to international economic fluctuations and shocks. Budget surpluses provide a buffer against adverse events such as the Asian crisis.

Perhaps the best indication of the long-term economic strength created by the reforms of the past decade and a half is found in the fact that, even in an economic down-turn, New Zealand is presently the only OECD country that is able, simultaneously, to -

- reduce taxes for low and middle income families;
- increase priority social spending;
- reduce net public debt; and
- continue to run a modest fiscal surplus.

Many others would dearly wish to pursue the same policy agenda.

Provided the Government maintains the fiscal discipline it has shown throughout the 1990s - and there is every indication of that, even if there is a change of government at next year's election - and retains the political will to continue its micro-economic reforms, one can be very optimistic about New Zealand's economic future. All projections suggest that GDP growth will continue at levels ahead of the expected world average.

Auckland CBD Power Crisis

It is necessary to make brief reference to the recent Auckland central business district (CBD) power crisis. Many media reports incorrectly suggested that the whole of the Auckland metropolitan area - sometimes the whole country - was blacked out.

In summary -

- In the month to 20 February, the four 110 kv cables serving the CBD progressively failed, leaving one emergency cable delivering about 10% of the CBD's requirements.
- For two weeks from 23 February, most of the CBD was without effective power supply other than from the emergency cable and temporary generation installed by private users. Most of the CBD was subject to rolling blackouts. Many businesses relocated.
- As from 16 March, most businesses had returned to the CBD. Active promotion of conservation together with emergency generation and other measures avoided the rolling blackouts that were a feature of the first two weeks of the crisis.

The economic impact of this is hard to assess. Estimates suggest a 0.1% reduction in GDP. However, much of the purchasing that might have been directed to the CBD will simply go elsewhere; but some lost trade will not be redirected or recovered. Furthermore, most CBD businesses suffered productivity losses. On the other hand, relocation activity and other "spin offs" have generated additional revenue for many non-CBD businesses. Work to repair the cables and subsequently to install a temporary overhead cable will all be positive contributions to GDP.

While seriously inconveniencing those directly affected, the crisis is likely to have negligible direct impact on economic activity. The positives and negatives will be fairly evenly balanced. Certainly, the crisis will have nothing like the potential economic impact of the current asian economic problems or the recent drought in many eastern parts of New Zealand; and should be kept in that perspective.

Regulatory Environment?

Regulation of Specific Industries[31]

One of the first questions asked by many investors (particularly in energy and telecommunications) is "what is the regulatory environment?" It is tempting to respond that "there isn't one"; but that is an oversimplification. However, generally, New Zealand does not operate costly and bureaucratic regulatory structures such as those found in the United States or United Kingdom; instead relying on competition (where it occurs) to protect consumer interests.

Over the past decade, New Zealanders have acquired a keenly-developed aversion to government regulation. This is reflected in the light-handed regulatory arrangements (based on disclosure and transparency) that apply to natural monopoly networks (eg, electricity transmission and distribution and gas pipelines); and the fact that most competitive sectors (eg, telecommunications and electricity generation and retail supply) are not regulated except under the general competition rules of the Commerce Act 1986.

In this regulatory structure a clear distinction is made between monopoly and competitive activities; with the former usually subject to light-handed regulation, requiring full disclosure and transparency, and with competitive (or potentially competitive) sectors controlled only by market forces and by the legal rules required to ensure full, free and unfettered competition.

In short: A fundamental aspect of the new environment is its strong emphasis on competition. Where competition is possible there is, basically, just one law, the Commerce Act, with a powerful and independent Commerce Commission charged with its enforcement. New entry to sectors is free. Rules are designed to prevent abuse of market power. Companies face the law if they act or conspire to prevent or manage competition.

In this regard, New Zealand is almost unique, and those who prefer the comfortable collusions of more regulated business environments will not necessarily enjoy such an approach.

Interestingly, under CER, anti-dumping provisions no longer apply. Since full free trade in goods was achieved in 1990, in each country, only competition is used to monitor abuse of market position through pricing activity.

The legislation and regulations for monitoring and approving significant overseas investment into New Zealand[32] reflect the country's receptive attitude towards such investment and the facilitating nature of the country's foreign investment policies.

One hundred percent overseas ownership can be approved in nearly all industry sectors. However, there are some restrictions relating to certain land transactions, allocation of fishing quota to overseas parties and (curiously) foreign ownership of opticians. Beyond these, all investments below NZ$10 million usually do not require approval.

The December 1996 coalition agreement between the two governing parties also specifies some restrictions on sale of farmland and on the sale of more than 24.9% of any utility owned by a local council or consumer trust. Until legislation to give effect to this policy has been passed by Parliament, final decisions are being referred to Ministers for determination in accordance with stated government policy.

Overall, these are liberal rules. With the exception of a small number of specific industries and land, investments below NZ$10 million require no approval; and those above that figure are subject to liberal criteria applied by the Overseas Investment Commission.

Several foreign investment trends have recently emerged from independent studies -

- North America, Europe and Australia are the major sources of foreign investment, all being (contrary to public impression) ahead of Asia.
- Firms backed by overseas parents have re-invested most of their earnings into New Zealand (again, contrary to public impression); with high levels of nearly 65% of reinvestment. This does not include investment into the support industries whose survival depends on these firms.
- There are some suggestions of Asian withdrawal (particularly from commercial property) following the "meltdown" of their own markets; although it could be surmised that markets like Australia and New Zealand might be a good hedge against any domestic losses. The same Asian turmoil (discussed more fully under Asian contagion, above) is also leading local institutional and other investors to decrease their offshore exposures and focus more on local markets.

The Sectors that Drive the New Zealand Economy

The major strengths of the New Zealand economy can differ significantly from other developed western countries, and afford an opportunity for investment in these sectors without the risk premium sometimes associated with less-developed countries.

New Zealand is one of the world's most efficient and successful producers and exporters of agricultural products. The sector is still the key driver of the economy, contributing about 50% of total dollar value exports; and, with forestry, about 60% of merchandise exports. Without any agricultural subsidies (New Zealand is alone in that), it is the world's largest exporter of cross-bred wools (23% of total) and lamb and mutton: and accounts for one quarter of the world's dairy trade (even though it only produces 2% of the world's production).

Agriculture was one of the earliest targets of the 1980s reforms with rapid withdrawal of subsidies. The timetable for support reduction in other sectors was slower. However, the end-result of the policies of the past decade has been the achievement of all-time low inflation, a major advantage for agriculture. The Employment Contracts Act, elimination of tariffs on significant agricultural inputs and reduced import protection for business, have all made agriculture-related industry more cost-effective and internationally competitive. Trade union strangle-holds on the economy are a thing of the past.

Internationally, agricultural markets are plagued by subsidies and protection of inefficient producers, resulting in unfair barriers in many markets, including those of the European Community, Japan and even the US. Under successive governments, much of our diplomacy has been directed to seeking an internationally-agreed liberalisation of agricultural access. During negotiations for the GATT Uruguay Round which began in 1989, it was suggested that New Zealand had more to gain from a satisfactory outcome than any other country. Even with the less-than-optimal result, with an average 36% cut in agricultural tariffs and improved market access for dairy and beef products, New Zealand now enjoys better access into its major markets. However, many markets still remain closed or restricted.

The thrust of New Zealand's diplomatic and trade activity will continue to be promotion of free trade, particularly in agriculture. New Zealand and other members of the "Cairns Group" of 15 countries, who collectively account for 20% of global agricultural exports and who seek improved market access, are meeting in Australia this week to develop new strategies for achieving even more acceptable outcomes in the next round of WTO-sponsored trade talks. Their objective is to place agriculture on the same basis as goods and services and break the "disjuncture" between treatment of agriculture and industrial products[33].

Those contemplating agricultural investments must, however, be prepared to "ride out" variations in return caused by the inevitable fluctuations in world commodity prices. Farming, while a rewarding investment, has never been for the short-term investor.

The agricultural sector should, therefore, be very attractive to investors; and opportunities exist for the vertical integration of local production and processing into wholesale and retail markets in other countries. Investors would be wise to seek expert advice; and to stick to mainstream farming activities such as meat, wool and dairy.

New Zealand has the fifth largest Exclusive Economic Zone[34] (EEZ) in the world. Its fisheries management, including use of individual tradeable quotas (ITQs), has been internationally praised. Professor Hilborn of Washington University, Seattle, has said that New Zealand is "way ahead" of most countries in allocating fishing resources; and that, on economic performance, the country's fisheries and fishing industry were in the top 5% in the world. Fish exports are increasing at about 10% annually.

Subject to special limitations on overseas investment, the sector continues to be attractive to investors; and again offers opportunities for vertical integration into wholesale and retail markets in other countries.

A unique combination of soil and climate together with some of the world's most sophisticated silviculture techniques means that New Zealand can grow radiata pine[35] much faster than most other countries. With a well-developed infrastructure, New Zealand forestry products are internationally competitive and a substantial export earner. It is significant that two of New Zealand's largest companies, Fletcher Challenge Energy Limited and Carter Holt Harvey, are involved in this sector.

There is an Accord between the forestry industry and environmental and conservation groups under which "greenies" strongly support plantation forestry.

Short-term drops in international timber prices have depressed the share price of all forestry-related stocks and exports to Asia (particularly Korea) have dropped dramatically. However, those with confidence in forestry will find this a good time to buy into the sector.

In recent years, the energy sector has attracted some of the largest investment into the New Zealand economy. As energy is the focus of this conference, I do not intend to analyse it in any detail.

However, as one who has been heavily involved with the sector in one way or another for the past 18 years, I firmly believe it will continue to attract strong investment from both domestic and offshore sources; and repeat the earlier observation that the forthcoming sale of Solid Energy represents a unique opportunity to buy into a valuable energy resource.

The electricity sector has attracted substantial domestic and international investment. Gas transmission company, Natural Gas Corporation (NGC) has announced that it is investigating entering the sector, either as a retailer or by investing in transmission[36].

With a programme now in place for the final removal of all remaining tariffs, the New Zealand manufacturing sector will be fully exposed to world markets. The only things that our manufacturers will be doing will be the things we can do well.

Anticipating this (and in many cases already operating in such an environment), a number of New Zealand companies have established niche export markets in particular products (such as specialised electronics). Such companies represent the best avenue for investment in this sector, along with those manufacturers that have a dominant position in the local market or those taking advantage of preferential access to Australia under CER.

New Zealand has much to gain from tourism, the fastest growing industry in the world. About 1.3 million tourists visit each year. Tourism has been the top foreign exchange earner since 1988. These earnings contribute about 10% of New Zealand's GDP.

However, reflecting the downturn in Asia (the major source of inbound tourism), in the first six months of 1997 revenue in the South Island (the principal destination) fell by 19% and North Island revenue fell by 5%[37]. Interestingly, however, the drops in the early part of this year have been only small, with reductions from Asia largely offset by strong increases from other markets, notably the United States and Europe (particularly Germany).

The industry is still in need of further investment; and overseas investors, particularly those in the industry with strong international networks, have been active in recent times.

The New Zealand sharemarket is very small by world standards; but has attracted overseas interest, particularly from some United States fund managers like Templeton, SoGen, Strong and others. There have, however, been some recent sell-downs as fund managers move to meet redemptions on their Asia-Pacific funds. The forthcoming float of the government's commercial property portfolio will attract interest.

For the larger or institutional investor, opportunities also exist for direct placements into New Zealand listed (and even unlisted) companies that seek further capital.

Present prospects in the various market sectors can be summarised as follows -

- Agriculture is New Zealand's great strength. With realistic values, and despite cyclical downturns in some commodity prices, it represents a good long-term investment, both directly and in supporting infrastructure. There are some restrictions on foreign purchase of farmland.
- Fishing is an important and well-managed sector offering good returns, but is also subject to some ownership limitations.
- The forestry industry is among the most efficient in the world and, despite the Asian downturn, represents a good long-term investment.
- On a population basis, New Zealand is energy rich and offers a range of investment opportunities, particularly in coal (with the forthcoming sale of Sold Energy), oil and gas and electricity.
- Selected manufacturing opportunities exist, but only in companies with a very strong domestic position, or niche export markets, or those that take advantage of the freer access to Australia under CER.
- Tourism requires substantial further investment. It has considerable potential and is attracting overseas investors; but (consistent with the Asian downturn) is presently experiencing lower revenues.

Taxation

From 1989, personal taxation was set at only two rates: 24 and 33%. Resident companies pay 33%[38]. Dividend imputation credits prevent double taxation of company profits. There are no restrictions on repatriation of capital or profits, but some payments to overseas parties are subject to withholding tax. There is no Capital Gains Tax. There are Double-Tax Agreements with many countries, including Australia, United States and United Kingdom.

In 1996, the Government announced a two year programme of further tax and social policy changes. On 1 July 1996, the lower tax rate dropped to 21.5%; and a further reduction to 19.5% was planned for 1 July 1997, thus reducing the effective rates for middle and low income earners. This second reduction was delayed for one year to fund additional social spending agreed when the National and New Zealand First Parties formed a coalition government in December 1996. The company rate remains unchanged. The Minister of Finance has also hinted at further personal tax reductions[39].

Also, from 1 April 1998, a surcharge on some retirement income will be removed. This and the 1 July tax cuts will provide some stimulation to the economy.

With the exception of special excise taxes on tobacco, liquor, petroleum products and motor vehicles, the only general sales tax is the Goods and Services tax (GST)[40], is imposed on all goods and services at the consistent rate of 12.5%[41]. In effect, by a series of refunds, GST is only finally paid by the end-user of the goods (or services) in question. A registered taxpayer can claim refunds on all other GST inputs.

Political Change

What is the likelihood of political change?[42]; particularly change that might alter these policies?

Following two referenda in 1992 and 1993, with effect from the 1996 General Election New Zealand now elects it Parliament using a Mixed Member Proportional (MMP)[43] system for electing its Parliament[44]. Under MMP, all voters have two votes -

- Party (or List) Vote for the party the voter prefers as government. The size of parties in Parliament depends on their percentage of the list vote. This vote decides which party (or coalition of parties) forms a government and clearly is the more important of the two votes. Only parties that secure 5% of the electoral vote (or that win at least one electorate) can hold parliamentary seats.
- Electorate vote to select a local MP, elected on a First-Past-the-Post (FPP) basis as before.

New Zealand also has a procedure[45] for non-binding referenda on any issue that secures the petition signatures of 10% of eligible voters.

Political Situation

Since the October 1996 election, perceptions of MMP have dominated (in this writer's view, over-dominated) the political scene. In December 1996, a new coalition government was formed, with National (the previous governing party) joined by New Zealand First[46] (a centrist party). It has only a one seat parliamentary majority; but so too did the preceding National Government[47].

In mid-1997, coalition poll support slumped, with New Zealand First particularly hard hit. In late 1997, National replaced its Prime Minister, Rt Hon Jim Bolger, with the former Minister of Transport, Hon Jenny Shipley, New Zealand's first woman Prime Minister. Shipley has pursued an aggressive agenda, particularly in social policy, but also foreshadowing further micro-economic reform; and has earned a reputation as a Prime Minister "prepared to take risks"[48]. National has recovered its pre-1996 election support in recent polls[49].

MMP is unpopular in many quarters, not least the business community which argues that it creates uncertainty and instability. While never a supporter of MMP (it is a sub-optimal system, even if one prefers some form of proportional representation), this writer has always held a contrary view. Democracy is inherently uncertain (election results, in particular, are very hard to predict). Many governments hold office with very small majorities or even as a minority, without claims of instability. New Zealand is grappling with a new political electoral environment and, inevitably, is taking time to adapt.

However, from an investment standpoint, the critical issue is whether economic policy is likely to change. As already noted, the present economic policy setting is supported by parties with more than 50% of the 1996 election vote and is unlikely to change in materially.

Conclusion

The Introduction to this Paper described New Zealand as attractive to investors and said that reforms had made New Zealanders confident about their future.

However, to the title New Zealand as an Investment Destination I deliberately added Economy at the Cross-roads? That doesn't suggest a change of direction; rather that, when faced with the first serious downturn of the 1990s, and with the temptation to divert to policies of the past (particularly short-term measures that have long-term costs), our political and economic managers have kept their nerve and stayed with the agenda that has already achieved so much.

A growing economy and government fiscal discipline have allowed New Zealand to run consistent budget surpluses while, at the same time, retiring debt, increasing spending in targeted areas such as education and health and giving tax cuts (with more to come). In seven years, debt servicing per head of population has been halved; and, at the same time, education and health spending have increased, well ahead of the rate of inflation. No other country in the world is achieving that combination of policies.

If I had come to a similar conference in the 1980s and suggested that, in the mid-90s, New Zealand would have -

- real economic growth, projected to average 3.8% a year between 1993-2000 (it is now achieving consistently higher growth rates than at any time in the preceding 50 years), although this may be flattened somewhat by the impact of the Asian economic crisis (current figures suggest GDP growth of 2.5-3% for 1998, a marginal improvement on 1997);
- a projected fiscal surplus seven years in a row, through at least to 2000;
- reduced tax rates, with more to come;
- rapidly falling debt (basically down by two thirds in seven years, with all public overseas debt repaid and a target of debt at less than 20% of GDP by 2000);
- unemployment around 6-7%, the third lowest in the OECD (contrast that with Germany at 11.7% and France at 12.6%), and with 250,000 jobs created since 1991; and
- underlying inflation consistently at less than 2%;

- no one would have believed me, least of all the New Zealanders in the audience.

In fact, I did address such a conference, here in Queenstown nine years ago, and, in general terms, predicted we would move in that direction[50]. Afterwards, several New Zealanders came to me with comments along the lines: "Jim, I think you've painted a picture that is just too rosy". Some of them are here today and would agree that's exactly what we've achieved. The only significant concerns are consistent balance of payments deficits and high real interest rates.

So, the investment attraction is understandable; and New Zealand's confidence is also understandable.

Like all economies, ours' has its cycles. These depend on similar cycles in the global economy, particularly in our trading partners. But recent experience has shown that, when the world is "down", we fare better than average; and when its "up", we also do better than average.

Since mid-1996, New Zealand has been in a cynical downturn. Late last year, projections[51] suggested this had bottomed out and that we could expect a strong recovery with growth in 1998-1999 to annual levels of 4% or more, with 3.5% in the following year. The Asian contagion will delay that recovery, but, unquestionably, it will occur. I say that not because I am an economic "jingoist" but because the basic structure of the New Zealand economy is now such that we can better ride out the downturns, and more quickly recover.

Above all, unlike many economies, ours' is one of the most transparent in the world: What-You-See-Is-What-You-Get. There is no hidden unemployment; there are no hidden bank liabilities or non-performing loans; there are no subsidies propping up uneconomic industries. Just as Tony O'Reilly doubtless admires us for only doing what we can do well (on the rugby field), so too do we now only do the commercial things that we can do well. It may not be a large economy; but, over a cycle, it is one of the better performing and more reliable.

The reforms of the late 1980s and early 1990s were painful. But there is now a dividend to be received. And, if overseas investors want to bring their money to this country and invest in worthwhile and profitable industries, then they will benefit; and so too will New Zealand.

In short: This economy is small; but it is open, transparent, strong, confident and attractive. We have taken the tough decisions that others envy. In the resulting climate, those who make focussed and informed investments in New Zealand will not be disappointed.

Footnotes

The material in this paper is for information only. It is not intended to provide formal advice on the issues covered, nor should it be used as the basis of any investment decision. While every care has been taken in the preparation of the contents, no responsibility can be accepted for any errors. Any person contemplating investment or other action in the areas dealt with in this document must conduct his, her or its own inquiries and/or due diligence.

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2. Dr Tony O'Reilly, address to Williamsburg Conference, Queenstown, New Zealand, March 1998.
3. Dr Tony O'Reilly, address to Auckland business community, Auckland, New Zealand, November 1997.
4. December 1997; Corporate Resources Group conducts this annual survey of corporate managers setting allowances for ex patriot staff. It assesses 192 cities world-wide against 42 factors including political stability, economic outlook, culture, health and education resources and public transportation.
5. New Zealand covers 268,000 km^2 (similar in area to the United Kingdom or Japan); but only has a population of 3.6 million. Auckland, the largest city has approximately one million people and Wellington, the capital, approximately 400,000. The population is 80% European and 13% Maori; the balance includes Pacific Islanders, etc.
6. 1984-1990.
7. 1990-1996.
8. 1996 - .
9. With corporatisation, most charges for government trading activities moved to a user pays basis. Many of these charges had previously been averaged across all consumers of the particular services or activities of the government department in question.
10. For example, telecommunications, postal services, railways, coal mining, Government Printing.
11. These directions must be tabled in Parliament.
12. The net amount of taxpayers' funds in the department's financial statements.
13. Statement by Prime Minister, Hon Jenny Shipley MP, to Parliament, 17 February 1998.
14. February Parliamentary statement by Prime Minister, op cit. Since 1974, New Zealand has had a statutory, no-fault accident compensation scheme providing 24 hour protection in respect of all accidents.
15. February Parliamentary statement by Prime Minister, op cit. In mid-1996, about one third of ECNZ's generation assets were split off into a separate SOE, Contact Energy. The further moves presently projected could create two or three further new SOEs.
16. Solid Energy's CEO, Ian Collinson, has said he believes it should be sold as a single enterprise; Dominion, 10 November 1997.
17. February Parliamentary statement by Prime Minister, op cit.
18. The quality and level of government expenditure is currently being reviewed by a special cabinet committee looking at re-prioritising spending. Work is also being undertaken in improving employment and education. Immigration is being targeted.
19. CER is a free trade agreement with many similarities to the later NAFTA between the US, Canada and Mexico.
20. This has applied since 1990.
21. New Zealand Herald, 30 March 1998.
22. APEC meets in Auckland in October 1999.

23. The implications of the current Asian economic crisis are discussed elsewhere under Asian contagion.
24. Australian Financial Review, 10 March 1998.
25. The one Asian country that has been largely immune from the region's economic crisis is Taiwan which had already implemented free market policies.
26. Carter Holt Harvey, reported in The Dominion, 13 January 1998.
27. Owens Group Managing Director, Rodger Fisher, reported by Radio New Zealand and New Zealand Herald, 31 March 1998.
28. Source unknown.
29. National Bank of New Zealand Business Confidence Survey, 31 March 1998. A net 23% of respondents expected the general business climate to deteriorate over the following 12 months (against 24% in the previous month) and a net 3% expected their own business activity to decline. The Bank attributed much this to uncertainty about the impact of the Asian crisis; but also noted potentially positive impacts from declines in the value of the New Zealand dollar, the tax cuts and some "share windfalls".
30. Released 30 March 1998. Most growth occurred in the farming, fishing, forestry and mining sectors.
31. For a fuller discussion on this regulatory environment, see the writer's paper, Dealing with Market Power: A New Zealand Solution, to National Economic Research Associates (NERA)/Electricity Journal Electricity Restructuring '97 Conference, Florida, USA, April 1997.
32. The Overseas Investment Amendment Act 1995 and Overseas Investment Regulations 1995 came into force on 15 January 1996.
33. New Zealand Herald, 30 March 1998. The next round of international trade talks could also be slowed by the failure of the US Congress to grant "fast track" negotiating authority to President Clinton. It is believed that some major players may not be keen to negotiate if there is a possibility of subsequent Congressional disapproval of the resulting trade agreement.
34. Two Hundred Mile Fishing Zone.
35. Monterey pine.
36. Statement by CEO, Richard Bentley, reported New Zealand Herald, 31 March 1998.
37. Ernst & Young Tourism Review ; Dominion, 10 November 1997.
38. Non-resident companies pay 38%; but it is not difficult to obtain registration as a resident company.
39. This indication was first given in October 1997; and was repeated in The Budget Policy Statement 1998 released by the Treasurer on 4 February 1998.
40. Similar to VAT.
41. Only financial services are excluded from GST, and that is only for technical reasons. Export goods, although subject to GST, are zero-rated.
42. The next New Zealand election must be held, at the latest, by December 1999.
43. MMP is very similar to the German electoral system.
44. New Zealand has a unicameral (ie, one chamber or House) House of Representatives or Parliament
45. Citizens Initiated Referenda Act 1993.
46. The two month interregnum resulted from New Zealand First's desire to negotiate with the National and the Labour parties before deciding which it would join in government. During that period, National continued as a caretaker administration. Financial markets performed remarkably well during this period leading to numerous tongue-in-cheek comments that the country really didn't need a government at all!
47. National was elected in 1990. From 1993 it governed with a one seat majority and briefly as a coalition.
48. Sunday Star-Times, 29 March 1998.
49. TV1/Colmar Brunton poll, 24 March 1998. A further test of political support will be the Taranaki-King Country by-election on Saturday 2 May 1998, occasioned by the resignation of the former Prime Minster, Rt Hon Jim Bolger, who becomes New Zealand Ambassador to Washington DC. This is a safe National Party seat, and no change is expected. However, the relative support for all parties, including National's coalition partner, New Zealand First, will be revealing.
50. Investment In New Zealand; Keynote Address and Paper, Hon J. K. McLay to New Zealand Oil Exploration Conference, Queenstown, 13 September 1989.
51. From the Reserve Bank of New Zealand, the New Zealand Institute of Economic Research and The Treasury.

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