

## NEW ZEALAND



**FOREIGN RELATIONS:** New Zealand's foreign policy is oriented chiefly toward developed democratic nations and emerging Pacific economies. The country's major political parties have generally agreed on the broad outlines of foreign policy, and the current coalition government has been active in multilateral fora on issues of recurring interest to New Zealand--trade liberalization, environment, and arms control. New Zealand values the United Nations and its participation in that organization.

It also values its participation in the World Trade Organization (WTO); World Bank; International Monetary Fund (IMF); Organization for Economic Cooperation and Development (OECD); International Energy Agency; Asian Development Bank; South Pacific Forum; The Pacific Community; Colombo Plan; Asia Pacific Economic Cooperation (APEC); and the International Whaling Commission. New Zealand also is an active member of the Commonwealth. Despite the 1985 rupture in the ANZUS alliance, New Zealand has maintained good working relations with the United States and Australia on a broad array of international issues.

In the past, New Zealand's geographic isolation and its agricultural economy's general prosperity tended to minimize public interest in world affairs. However, growing global trade and other international economic events have made New Zealanders increasingly aware of their country's dependence on stable overseas markets.

New Zealand's economic involvement with Asia has been increasingly important through expanding trade with the growing economies of Asia. New Zealand is a "dialogue partner" with the Association of South East Asian Nations (ASEAN) and an active participant in APEC. On April 7, 2008 New Zealand signed a free trade agreement with China, the first developed country to do so.

As a charter member of the Colombo Plan, New Zealand has provided Asian countries with technical assistance and capital. It also contributes through the Asian Development Bank and through UN programs and is a member of the UN Economic and Social Council for Asia and the Pacific.

New Zealand has focused its bilateral economic assistance resources on projects in the South Pacific island states, especially on Bougainville. The country's long association with Samoa (formerly known as Western Samoa), reflected in a treaty of friendship signed in 1962, and its close association with Tonga have resulted in a flow of immigrants and visitors under work permit schemes from both countries. New Zealand administers the Tokelau Islands and provides foreign policy and economic support when requested for the freely associated self-governing states of the Cook Islands and Niue. Inhabitants of these areas hold New Zealand citizenship.

In 1947, New Zealand joined Australia, France, the United Kingdom, and the United States to form the South Pacific Commission, a regional body to promote the welfare of the Pacific region. New Zealand has

been a leader in the organization. In 1971, New Zealand joined the other independent and self-governing states of the South Pacific to establish the South Pacific Forum (now known as the Pacific Islands Forum), which meets annually at the "heads of government" level.

**U.S.-NEW ZEALAND RELATIONS:** Bilateral relations are excellent. The United States and New Zealand share common elements of history and culture and a commitment to democratic principles. Senior-level officials regularly consult with each on issues of mutual importance. In March 2007, Prime Minister Clark visited Washington, DC, where she met with President George W. Bush, Secretary of State Condoleezza Rice, and Secretary of Defense Robert Gates.

The United States established consular representation in New Zealand in 1839 to represent and protect American shipping and whaling interests. Since the U.K. was responsible for New Zealand's foreign affairs, direct U.S.-New Zealand diplomatic ties were not established until 1942, when the Japanese threat encouraged close U.S.-New Zealand cooperation in the Pacific campaign. During the war, more than 400,000 American military personnel were stationed in New Zealand to prepare for crucial battles such as Tarawa and Guadalcanal.

New Zealand's relationship with the United States in the post-World War II period was closely associated with the Australian, New Zealand, United States (ANZUS) security treaty of 1951, under which signatories agreed to consult in case of an attack in the Pacific and to "act to meet the common danger." During the postwar period, access to New Zealand ports by U.S. vessels contributed to the flexibility and effectiveness of U.S. naval forces in the Pacific.

Growing concern about nuclear testing in the South Pacific and arms control issues contributed to the 1984 election of a Labour government committed to barring nuclear-armed and nuclear-powered warships from New Zealand ports. The government's anti-nuclear policy proved incompatible with long-standing, worldwide U.S. policy of neither confirming nor denying the presence or absence of nuclear weapons onboard U.S. vessels.

Implementation of New Zealand's policy effectively prevented practical alliance cooperation under ANZUS, and after extensive efforts to resolve the issue proved unsuccessful, in August 1986 the United States suspended its ANZUS security obligations to New Zealand. Even after President George H.W. Bush's 1991 announcement that U.S. surface ships do not normally carry nuclear weapons, New Zealand's legislation prohibiting visits of nuclear-powered ships continues to preclude a bilateral security alliance with the U.S. The legislation enjoys broad public and political support in New Zealand. The United States would welcome New Zealand's reassessment of its legislation to permit that country's return to full ANZUS cooperation.

Despite suspension of U.S. security obligations, the New Zealand Government has reaffirmed the importance it attaches to continued close political, economic, and social ties with the United States and Australia. New Zealand is an active member of the global coalition in the War against Terrorism, and deployed both Special Air Service (SAS) and regular armed forces personnel to Afghanistan, together

with naval and air assets to the Persian Gulf. New Zealand has worked closely with the U.S. to promote free trade in the WTO, the Asia-Pacific Economic Cooperation (APEC) group, and other multilateral fora.

The U.S. and New Zealand work together closely on scientific research in the Antarctic. Christchurch is the staging area for joint logistical support operations serving U.S. permanent bases at McMurdo Station and South Pole, and New Zealand's Scott base, (located just three kilometers from McMurdo Station in the Ross Sea region).

**PEACE AND SECURITY:** New Zealand has three defense policy objectives--defend New Zealand against low-level threats, contribute to regional security, and play a part in global security efforts. New Zealand has considered its own national defense needs to be modest. Its defense budget generally has provided for selected upgrades in equipment. Shortly after winning the 1999 election, the Labour government canceled a lease-to-buy agreement with the U.S. for 28 F-16 aircraft. However, Labour did embark on a significant defense upgrade and acquisition plan. All three services have benefited from the upgrades/acquisitions. In 2001, the government contracted to purchase 105 LAVIIIs for U.S. \$300 million, with delivery completed in 2005. The Army also purchased 321 Light Operational Vehicles to make its forces more mobile. In 2002, New Zealand announced planned upgrades of its P3 and C-130 Hercules aircraft, and purchased two Boeing 757 aircraft for U.S. \$100 million. In 2006 New Zealand contracted with NH Industries to purchase eight NH-90 aircraft to start delivery in 2009. In 2007 they entered an agreement to purchase 12 A-109 light helicopters from Agosta to also start delivery in 2009. The P-3s, C-130s, and B-757s are all currently being upgraded/modified; one of the two B-757's modifications have been completed, and it has returned to service. In 2007, the Navy began accepting delivery of the Project Protector program, with an estimated value of U.S. \$250 million, consisting of one multi-role vessel (MRV), two offshore patrol vessels (OPVs), and four inshore patrol vessels (IPVs). The Navy's two ANZAC frigates were to receive ship support systems upgrades in late 2008/early 2009, and the Navy is requesting additional funding for weapons systems upgrades for 2010-2012.

In May 2001, the government announced it was scrapping its combat air force. New Zealand states it maintains a "credible minimum force," although critics maintain that the country's defense forces have fallen below this standard. New Zealand still maintains the fleet of A-4 Skyhawk jets and Aerromacche jets left over from the scrapping of its combat air force. Its attempts to sell the jets have thus far failed.

With a claimed area of direct strategic concern that extends from Australia to Southeast Asia to the South Pacific, New Zealand necessarily places substantial reliance on its defense relationship with other countries, in particular Australia. However, acknowledging the need to improve its defense capabilities, the government in 2005 announced the Defense Sustainability Initiative allocating an additional NZ\$4.6 billion (U.S. \$3.19 billion) over 10 years to modernize the country's defense equipment and infrastructure and increase its military personnel. The funding represented a 51% increase in defense spending since the Labour government took office in 1999.

New Zealand is an active participant in multilateral peacekeeping. It has taken a leading role in trying to bring peace, reconciliation, and reconstruction to the Solomon Islands and the neighboring island of Bougainville. New Zealand maintains a contingent in the Sinai Multinational Force and Observers and

has contributed to UN peacekeeping operations in Angola, Cambodia, Somalia, and the former Yugoslavia. It also participated in the Multilateral Interception Force in the Persian Gulf. New Zealand's most recent peacekeeping operations experience has been in Timor-Leste, where it initially dispatched almost 10% of its entire defense force and continues to sustain a modest force. New Zealand participated in Operation Enduring Freedom and has fielded a Provincial Reconstruction Team in Afghanistan's Bamian province. It continues to sustain that PRT and has deployed a frigate to the Gulf of Oman on three rotations, with the most recent in spring 2008. In support of the effort to reconstruct Iraq, New Zealand deployed an engineering team to the country.

New Zealand participates in sharing training facilities, personnel exchanges, and joint exercises with the Philippines, Thailand, Indonesia, Papua New Guinea, Brunei, Tonga, and South Pacific states. It also exercises with its Five-Power Defense Arrangement partners--Australia, the United Kingdom, Malaysia, and Singapore. Due to New Zealand's antinuclear policy, defense cooperation with the U.S., including training exercises, has been significantly restricted since 1986.

**GOVERNING JUSTLY AND DEMOCRATICALLY:** New Zealand has a parliamentary system of government closely patterned on that of the United Kingdom and is a fully independent member of the Commonwealth. It has no written constitution. Executive authority is vested in a cabinet led by the prime minister, who is the leader of the political party or coalition of parties holding the majority of seats in parliament. All cabinet ministers must be members of parliament and are collectively responsible to it.

The unicameral parliament (House of Representatives) usually has 120 seats, seven of which currently are reserved for Maori elected on a separate Maori roll. However, Maori also may run for, and have been elected to, non-reserved seats. Parliaments are elected for a maximum term of 3 years, although elections can be called sooner.

The judiciary consists of the Supreme Court, Court of Appeal, High Courts, and District Courts. New Zealand law has three principal sources--English common law, certain statutes of the U.K. Parliament enacted before 1947, and statutes of the New Zealand parliament. In interpreting common law, the courts have been concerned with preserving uniformity with common law as interpreted in the United Kingdom.

Local government in New Zealand has only the powers conferred upon it by parliament. The country's 12 regional councils are directly elected, set their own tax rates, and have a chairperson elected by their members. Regional council responsibilities include environmental management, regional aspects of civil defense, and transportation planning. The 74 "territorial authorities"--15 city councils, 58 district councils in rural areas, and one county council for the Chatham Islands--are directly elected, raise local taxes at rates they themselves set, and are headed by popularly elected mayors. The territorial authorities may delegate powers to local community boards. These boards, instituted at the behest either local citizens or territorial authorities, advocate community views but cannot levy taxes, appoint staff, or own property.

**INVESTING IN PEOPLE:** Most of the 4 million New Zealanders are of British origin. About 15% claim descent from the indigenous Maori population, which is of Polynesian origin. Nearly 76% of the people, including a large majority of Maori, live on the North Island. In addition, 265,974 Pacific peoples

live in New Zealand. During the late 1870s, natural increase permanently replaced immigration as the chief contributor to population growth and accounted for more than 75% of population growth in the 20th century. Nearly 85% of New Zealand's population lives in urban areas (with almost one-third in Auckland alone), where the service and manufacturing industries are growing rapidly. New Zealanders colloquially refer to themselves as "Kiwis," after the country's native bird.

**FOCUS ON PERFORMANCE:** The traditionally conservative National Party and left-leaning Labour Party have dominated New Zealand political life since a Labour government came to power in 1935. During its first 14 years in office, the Labour Party implemented a broad array of social and economic legislation, including comprehensive social security, a large-scale public works program, a 40-hour workweek, a minimum basic wage, and compulsory unionism. The National Party won control of the government in 1949 and adopted many welfare measures instituted by the Labour Party. Except for two brief periods of Labour governments in 1957-60 and 1972-75, National held power until 1984. After regaining control in 1984, the Labour government instituted a series of radical market-oriented reforms in response to New Zealand's mounting external debt. It also enacted anti-nuclear legislation that effectively brought about New Zealand's suspension from the ANZUS security alliance with the United States and Australia.

In October 1990, the National Party again formed the government, for the first of three 3-year terms. In 1996, New Zealand inaugurated a mixed-member proportional (MMP) system to elect its parliament. The system was designed to increase representation of smaller parties in parliament and appears to have done so in the MMP elections to date. Since 1996, neither the National nor the Labour Party has had an absolute majority in parliament, and for all but one of those years, the government has been a minority one. The Labour Party won elections in November 1999 and again in July 2002. In 2002 Labour formed a coalition, minority government with the Progressive Coalition, a left-wing party holding two seats in parliament. The government relied on support from the centrist United Future Party to pass legislation.

Following a narrow victory in the September 2005 general elections, Labour formed a coalition with the one-seat Progressive Party. The government also entered into limited support agreements with the United Future New Zealand and NZ First Parties, whose leaders were respectively given the Revenue and Foreign Affairs ministerial positions outside of the cabinet. This gave Labour an effective one-seat majority with which to pass legislation in parliament. Labour also secured an assurance from the Green Party that it would abstain from a vote of confidence against the government. The 2005 elections saw the new Maori Party win four out of the seven reserved Maori seats. The additional seat in the 121-member parliament was the result of an overhang from 2005 elections. There were two independent members of parliament (MPs): a former Labour Party MP and a former United Future New Zealand MP, both of whom left their respective parties in 2007.

The 2008 general election on November 8 was comfortably won by the John Key-led National Party. National won 45% of the popular vote (58 seats) to Labour's 34% (43 seats). The Green Party won nine seats; ACT won five; the Maori Party picked up an additional Maori seat to bring its total number of seats to five; the Progressives and United Future won one seat each. New Zealand First, the party of former foreign minister Winston Peters, did not win enough votes to return to parliament. On November 16, Key

announced the formation of a new National-led center-right government in coalition with the right-leaning ACT and the centrist United Future party. National also entered into a limited support agreement with the Maori Party. Collectively, this gives the government 69 votes to pass legislation in the new 122-member parliament, the two extra seats the results of an overhang from the election. The leaders of ACT and United Future were respectively given the local government and revenue ministerial portfolios. ACT's co-leader was given the consumer affairs ministerial portfolio. The co-leaders of the Maori Party were each given the Maori affairs and community ministerial portfolios, although their posts are outside of cabinet with the right to dissent on other policy issues outside portfolio areas. The government was sworn in on November 19, with Key becoming New Zealand's 38th prime minister. During her election night concession speech, outgoing Prime Minister Helen Clark announced that she would step down as Labour's leader after 15 years in charge. She was succeeded as party leader by Phil Goff. Clark will remain in parliament as Labour's foreign affairs spokesperson. The 49th parliament commenced on December 8, 2008.

**ECONOMIC GROWTH:** New Zealand's economy historically has been based on a foundation of exports from its very efficient agricultural system. Leading agricultural exports include dairy products, meat, forest products, fruit and vegetables, fish, and wool. New Zealand was a direct beneficiary of many of the reforms achieved under the Uruguay Round of trade negotiations, with agriculture in general and the dairy sector in particular enjoying many new trade opportunities.

The country has substantial hydroelectric power and reserves of natural gas, although the largest natural gas condensate and oil field--supplying nearly 75% of the country's hydrocarbons--is expected to be tapped out by 2009. Based on recent natural gas exploration between Australia and New Zealand, natural gas production is projected to increase by 3.5% by 2020. Leading manufacturing sectors are food processing, wood and paper products, and metal fabrication. Service industries, particularly financial, insurance, and business services, form a significant part of New Zealand's economy. As of March 2008 New Zealand had 1,506,000 Internet subscribers, amounting to approximately 65% of New Zealand households, ranking above Australia, the U.K., and the U.S.

Since 1984, government subsidies including for agriculture were eliminated; import regulations liberalized; tariffs unilaterally slashed; exchange rates freely floated; controls on interest rates, wages, and prices removed; and marginal rates of taxation reduced. Tight monetary policy and major efforts to reduce the government budget deficit brought the inflation rate down from an annual rate of more than 18% in 1987. The restructuring and sale of government-owned enterprises in the 1990s reduced government's role in the economy and permitted the retirement of some public debt. As a result, New Zealand is now one of the most open economies in the world.

In the statistical year ending March 2008 the economy was robust and grew by 7%, but recessionary pressure mid-year and the global financial downturn was expected to see the year end with an estimated 2008 GDP growth rate of 0.3%. Demand for new housing is in part driven by immigration, but the net increase in new arrivals has begun to slow. The net permanent long-term migration inflow to New Zealand in the year ending February 2008 amounted to 4,600, down from a net inflow of 13,200 in 2007. As of October 2008, the net outflow of New Zealanders as permanent and long-term (PLT) to Australia

was 34,600. This was up from 26,500 the previous year, and was higher than previous peaks recorded in January 1989 (33,700) and December 1979 (33,400). Over the statistical year ending September 2008, the unemployment rate increased to 4.2%, the highest level since December 2003. In September 2008, there were 94,000 people unemployed, 16,000 more than a year earlier.

Traditionally, New Zealand's economy has been helped by strong economic relations with Australia. New Zealand and Australia are partners in "Closer Economic Relations" (CER), which allows for free trade in goods and most services. Since 1990, CER has created a single market of more than 22 million people, and this has provided new opportunities for New Zealand exporters. Australia is now the destination of 25% of New Zealand's exports, compared to 14% in 1983. Both sides also have agreed to consider extending CER to product standardization and taxation policy. New Zealand has had a free trade agreement with Singapore since 2001. In July 2005, both countries joined with Chile and Brunei to form a Trans-Pacific Strategic Economic Partnership (TPP), liberalizing trade in goods and services between them. On September 22, 2008, comprehensive negotiations for the U.S. to join the TPP were launched, with talks scheduled to begin in early 2009. In April 2005, New Zealand initialed a free-trade deal with Thailand. In April 2008 New Zealand concluded a free trade agreement (FTA) with China and is negotiating an FTA with the Gulf Cooperation Council (GCC). New Zealand held its first round of the New Zealand-GCC FTA in Wellington in July 2007 with representatives from the Gulf states (Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman). In December 2007, New Zealand and South Korea announced the beginning of a study group to explore the benefits of a bilateral free trade agreement. In June 2008, New Zealand and Japan established an economic working group to review their bilateral economic relationship.

New Zealand's top six trading partners (total trade) ending statistical year October 2008 included Australia, the United States, the People's Republic of China, Japan, Singapore, and Germany. Australia continued as New Zealand's principal export market, worth \$7.2 billion with exports to Australia rising by 30%. The United States and Japan were New Zealand's second- and third-largest export markets, receiving \$2.9 billion and \$2.5 billion worth of goods, respectively. New Zealand's fourth-largest export destination was China with exports worth \$1.7 billion in statistical year ending October 2008.

The U.S. is the second-largest trading partner for New Zealand, with U.S. goods and services accounting for approximately 9% of all imports. The New Zealand dollar reached a 24-year high of over U.S. \$0.80 in July 2007 (the highest since the New Zealand dollar was floated), but as of December 2008 the Kiwi dollar was trading at U.S. \$0.55. New Zealand's total imports from the U.S., as of October 2008, amounted to U.S. \$3.2 billion. The market-led economy offers many benefits for U.S. exporters and investors. Investment opportunities exist in chemicals, food preparation, finance, tourism, and forest products, as well as in franchising. The best sales and investment prospects are for whole aircraft and aircraft parts, medical or veterinary instruments, motor vehicles, information technology, hotel and restaurant equipment, telecommunications, tourism, franchising, food processing and packaging, and medical equipment. On the agricultural side, the best prospects are for fresh fruit, snack foods, and soybean meal.

New Zealand welcomes and encourages foreign investment without discrimination. The Overseas Investment Office (OIO) must give consent to foreign investments that would control 25% or more of businesses or property worth more than NZ\$100 million. Restrictions and approval requirements also apply to certain investments in land and in the commercial fishing industry. OIO consent is based on a national interest determination. Foreign buyers of land can be required to report periodically on their compliance with the terms of the government's consent to their purchase. The OIO, part of Land Information New Zealand, took over the functions of the Overseas Investment Commission in August 2005. Full remittance of profits and capital is permitted through normal banking channels. As of March 2008, the U.S. accounted for 11.5% of all foreign direct investment in New Zealand, amounting to U.S. \$7.72 billion.

A number of U.S. companies have subsidiary branches in New Zealand. Many operate through local agents, and some are in association in joint ventures. The American Chamber of Commerce is active in New Zealand, with its main office in Auckland.