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NEW ZEALAND

PROFITING FROM THE TURNAROUND

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NEW ZEALAND

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Skiing on the Tasman Glacier, South Canterbury.

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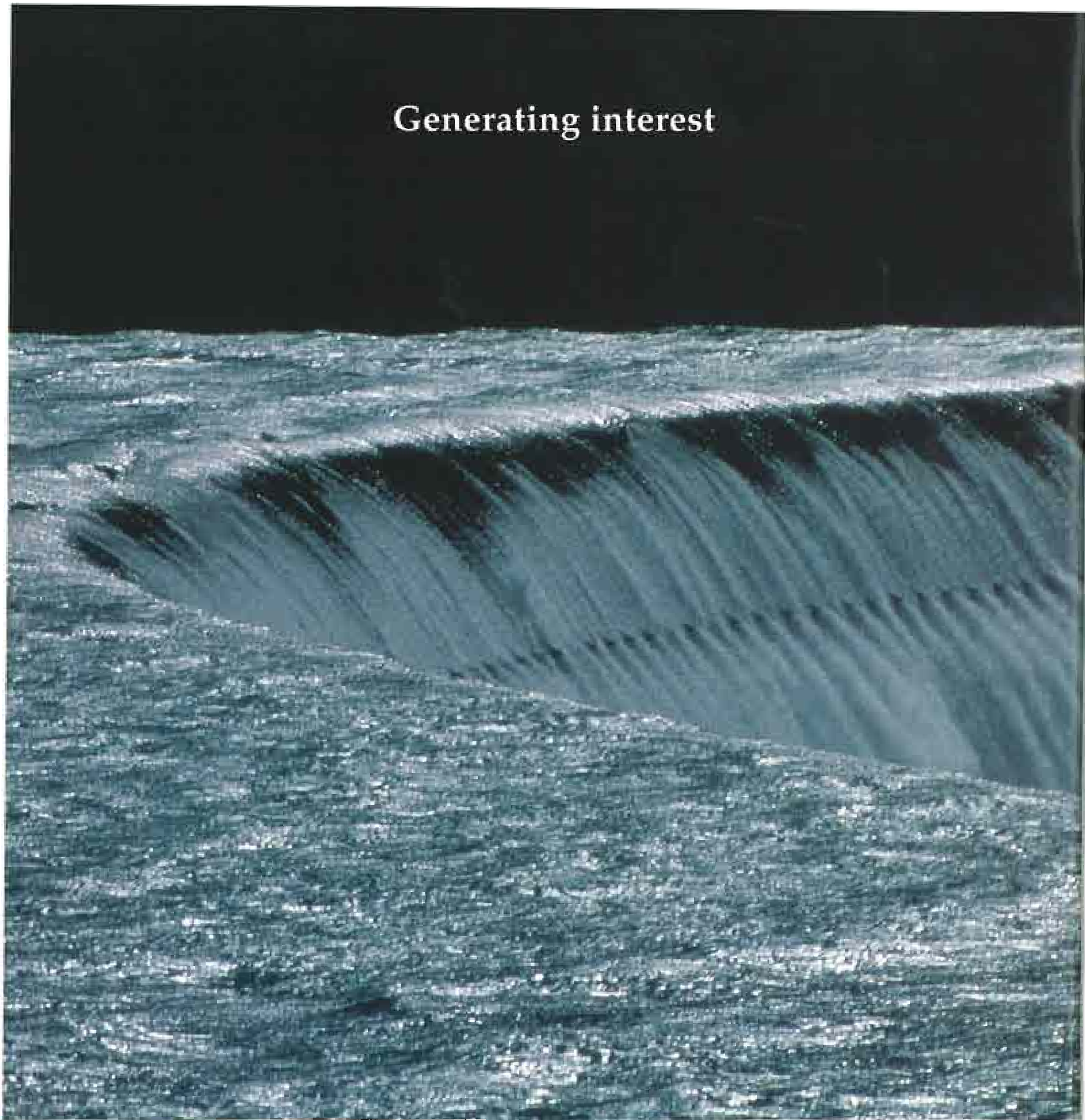

Generating interest

NEW ZEALAND

AN ECONOMIC TURNAROUND LAYS THE FOUNDATION FOR INVESTMENT

In April 1992, Buttle Wilson, New Zealand's leading investment bank and brokerage firm, organized and hosted the country's first international investment conference which attracted financial experts from around the world. What emerged is a compelling understanding of the Kiwi character — a rugged individualism combined with an entrepreneurial spirit that in the span of a decade, transformed the country from one of the most regulated societies in the free world, to the world's freest market economy.

"Growing optimism" is a phrase heard often in New Zealand these days. After two years of a seemingly endless recession, confidence in the country is returning. In a recent national opinion poll, 89 percent of Kiwis said they were very happy or fairly happy with their lives.

Business people seem equally buoyant, with 60 percent telling a national bank they thought the economy was improving, compared with a negative rating of nearly 40 percent a year ago.

According to Paul Dyer, chief economist for Buttle Wilson Group Limited, the reason for the optimism is clear. After six successive quarters of negative growth, the economy began expanding in the middle of 1991, posting quarterly gains of 2.7 percent in September and 1.4 percent in December. The Reserve Bank is now optimistically forecasting additional growth of 4.2 percent through March 1993 and 3.1 percent through 1994.

The country exported more in the last 12 months than ever before, led by a manufacturing sector which is projecting a rise in profits of 38 percent in 1992/1993. The latest balance of payments figures show a surplus of NZ$116 million for calendar 1991, the first time it has been in the black since 1973.

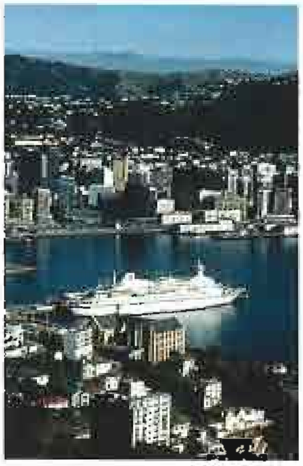
These Asian-style growth rates have meant that New Zealand's manufacturing sector is considered to be, on average, 15 percent more competitive than those of its major trading partners and 30 percent more cost advantageous over its leading trade partner, Australia.

The Asian comparison is very real as New Zealand has successfully shifted its focus of exports to the Pacific Rim, with six of its top ten trade partners in this region as opposed to only three in 1986. Almost 90 percent of New Zealand's increased exports last year went to the Asia-Pacific region.

But there are other equally impressive figures which clearly indicate that New Zealand's economy has once again found its way back to the road of recovery.

Inflation, which in 1982 was running at an annual rate of 17 percent, is now down to an almost non-existent 0.8 percent, the lowest rate of any OECD country. Even more remarkably, it will be kept at this level through legislation. The governor of the Reserve Bank has a contract with the government to keep it at a level of between zero and 2 percent through the end of 1993.

This policy has brought other rewards. Interest rates, presently at 8.2 percent are at an eight-year low



New Zealand now has one of the world's most open market economies.

and the exchange rate, which is free floating, has finally found a stable and more competitive level against the world's major currencies. It now trades at around 53 cents to the U.S. dollar compared to 58 cents a year ago and 65 cents in 1988.

STABLE OUTLOOK

As a result of the government's macro-economic policy, Standard & Poor's recently reaffirmed New Zealand's credit rating as AA- with a continued stable outlook.

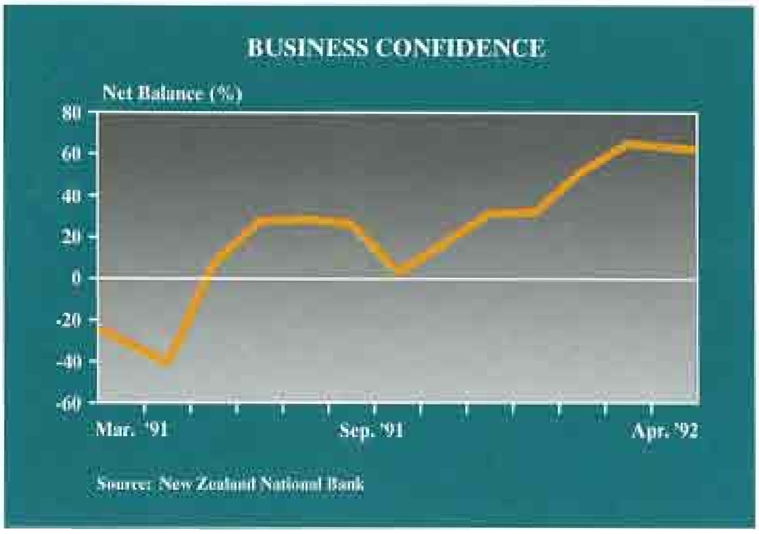
"The insecurity about becoming part of the global economy is dissipating," says Douglas Myers, chairman of the New Zealand Roundtable and chief executive of Lion Nathan Limited, the country's leading brewery. "The limited domestic economy is no longer the focus for many businesses, which increasingly aim to achieve growth and success through an offshore focus."

This view is confirmed by the fact that 56 percent of the 111 companies listed on the New Zealand Stock Exchange depend on overseas earnings. The rise in the country's export competitiveness helped lift the value of the equity market 22 percent in local dollar terms in 1991.

"As far as competitiveness goes, there is an interesting trend that our equity analysts began to identify 12 months ago," says Dyer. "One analyst after another kept reporting back that they had just visited company X and that the story they were given was that domestic sales were flat, there was no volume out there, and no margins. However, the export side of the operation was going very well and they were generally surprised at how easy they found life abroad."

CHANGING THE PROCESS

How did all this change come about? New Zealanders call it Rogernomics — an economic master plan of deregulation



named after Sir Roger Douglas, the Labour Party finance minister from 1984 to 1988. It's the Kiwi version of Reaganomics or Thatcherism.

Rogernomics affected the political process as much as it changed the social fabric. "It is a process that took place in the 1980s that ended a pretty tight policy consensus that had applied for 30 years," says Colin James, one of the New Zealand's leading independent political commentators.

"The most important thing about the big shift that took place was the internationalization of the New Zealand economy and policy. We moved from an insulated policy setting to an internationalized one that has now, by and large, been accepted by the two major parties and by all the major lobby groups, sometimes a bit reluctantly, but accepted nevertheless," says James.

Before Rogernomics, it was arguable that New Zealand was the most regulated economy outside Communist countries. It was disparagingly referred to as the "Poland of the Pacific," or as being two hours ahead but 20 years behind Australia.

In a corrupt version of Keynesian economics (the policy vogue of many developing economies following World War II), the government controlled interest rates, exchange rates and foreign exchange transactions. It had the power to regulate every facet of economic life, including wages and salaries, prices and profits. Manufacturing was protected by quotas or very high tariffs, farming was subsidized. Almost every aspect of the country's infrastructure was a monopoly and a cradle-to-grave social welfare system was set up.

As a result, New Zealand is still one of the world's most indebted countries, both per capita and as a percentage of GDP. According to the latest Crown accounts, even if government were today able to sell off every asset it owned, it would still have an outstanding debt of NZ$17 billion. It's a legacy that will take generations to pay off.

DYNAMIC ECONOMIC POLICIES

After eight years of deregulation, the country is now in the midst of a dynamic major economic policy change which includes:

• Highly deregulated finance and foreign exchange sectors. For example, the seven year-old New Zealand Futures and Op-

SPONSORSHIP STATEMENT

TELECOM CORPORATION OF NEW ZEALAND LIMITED

In only its fifth year as a commercial enterprise, Telecom has consistently achieved profitability and performance targets as a result of its commitment to customer service satisfaction and increased technical efficiencies.

Majority owned by Bell Atlantic and Ameritech Corporations of the United States, Telecom has spent over NZ$3.2 billion in capital expenditure transforming the network into one of the most advanced in the world, measured in terms of digital switching capacity and penetration of fiber optic transmission systems.

Telecom is the only New Zealand company listed on the New York Stock Exchange. It is the only Kiwi company which publishes quarterly results, and has maintained its position as New Zealand's premier corporate credit ratings with a rating of Aaa from Moody's on New Zealand dollar denominated debt.

In the year to March 1992, revenue was up by 5.6 percent to NZ$2,568 million and earnings rose by 21.2 percent to NZ$402 million. Return on average shareholders' equity was 15.2 percent, and it has been the second most actively traded stock on the New Zealand Stock Exchange since listing in July 1991.

Telecom is a full service telecommunications company with a wide range of products and services ranging from national and international phone lines, to cellular phone networks and directory services.

The potential revenue growth for Telecom is not just confined to New Zealand. Capitalizing on its unique success of working in a deregulated market, which increasingly is becoming the economic model around the world, Telecom's expertise is now being sought to advise and participate in the development of national networks around the Pacific Rim.

In 1991, Telecom was awarded consultancy contracts in Indonesia, Laos, Samoa and Bangladesh by the World Bank and in Mongolia by the Asian Development Bank.

It is also currently bidding on an installation and management project in New South Wales, Australia, and has recently been selected as preferred supplier of telecommunications management services for the Queensland State Government. Combined, these projects are worth an estimated NZ$150 million in annual revenues.

In July 1991, 31 percent of Telecom's shares were sold internationally to the public in a very successful float. There is another 9.2 percent to be sold in the next year or two. It's a message worth calling up about.

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Telecom
The right connection.

SPONSORSHIP STATEMENT

CARTER HOLT HARVEY LIMITED

Carter Holt Harvey Limited, the third largest public company listed on the New Zealand Stock Exchange, is positioned for strong international development over the next decade as a result of sound forward planning.

The company owns almost 30 percent of New Zealand's renewable forests. It has the largest pulp and paper plant in Australasia, is the largest sawmill operator in the two countries and is a major force in its home market in the manufacture and marketing of tissue products. As a large producer of packaging materials, it is a leading participant in the New Zealand packaging industry.

Significant interests in Chile, where it has an indirect 30 percent stake in the industrial giant, COPEC, enhance the company's role in the global market place.

Direct export trade accounts for approximately one third of Carter Holt Harvey's annual sales which up to March 31, 1992, exceeded NZ$2.4 billion.

Current strategic planning seeks to build on the powerful supply position Carter Holt Harvey has developed. Key to this are its forest resources which, on a self-sustaining basis, provide sufficient resources each year for virtually all processing requirements. Natural tree growth underwrites the group's future activities.

Carter Holt Harvey was able to achieve this position because New Zealand and Chilean *pinus radiata* plantation forests mature between two and five times faster than equivalent northern hemisphere softwoods.

Through a combination of tree planting programs, new forest purchases and the introduction of genetically improved tree types, wood fiber from the Carter Holt Harvey forests will almost double by the year 2015.

The cycle of growth now in place for the company has been described as almost the nearest thing to perpetual motion one could find in any corporate enterprise.

That the steady increase of Carter Holt Harvey's fiber production coincides with a surge in demand for pulp and timber products in the power-house economies of Asia and the Pacific adds a significant premium to the value of the resources it controls.

Current corporate policy is directed at developing new markets and products, with the objective of maximizing returns from a balance of value-added processing and commodity trading.

There is a vibrant element in the offices of Carter Holt Harvey. Executives reflect the satisfaction of achievement and success evident from expansion programs introduced during the past four years. These programs set the stage for growth through the early decades of the 21st century.

David W. Oskin, until recently an executive of U.S.-based International Paper, which is an investor in Carter Holt Harvey, is now managing director and chief executive officer of the company.

"CHH is a formidable producer of forest products," he says. "With its rich resources of trees, mills, converting plants and people, it is well positioned for continued growth. The company has excellent prospects in parts of the world where there are substantial commercial opportunities.

"The strong asset base underscores Carter Holt Harvey as a company with a very bright future."

Carter Holt Harvey Limited is listed on the New Zealand (CAH) and Australian Stock Exchanges (CHY).

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Auckland, New Zealand

CHH
Carter Holt Harvey Limited

AN ENERGETIC NEW APPROACH TO ENCOURAGING THE GROWTH OF THE TOURISM INDUSTRY

For years, the New Zealand government ran the tourist industry — its largest foreign exchange earner — as if it were a cut-rate packaged holiday.

But in keeping with its policy of deregulation, the National Party recently passed the New Zealand Tourism Board Act, which made the New Zealand Tourism Board (NZTB) a commercial enterprise.

The first thing the new company did was to pirate Ian Kean away from the Queensland Tourist Board to become its executive director last November. Using his experience which helped transform Australia's Gold Coast into one of the Pacific's premier resort destinations, Kean immediately instilled in the Kiwis a new approach to promoting their market. He fired 40 paper-pushers in Wellington and hired an equal number of more energetic young people around the world to represent their country directly in those markets.

This no-nonsense approach has already won Kean the admiration of many in the tourist trade.

"The NZTB is no longer pandering to political sensitivities," says Lewis Bloom, manager of the Pan Pacific Hotel in Auckland. "They're going to pick winners and grow with them and not apologize for losers anymore. We are in the right mode to increase tourism because there is plenty of room for competition."

Bloom, who like Kean is Australian, has a vested interest in seeing the NZTB achieve its stated aim of attracting three million visitors a year to the 286-room Pan Pacific Hotel, the country's most luxurious hotel which cost its Japanese owners, the Tokyu Corporation, NZ$125 million.

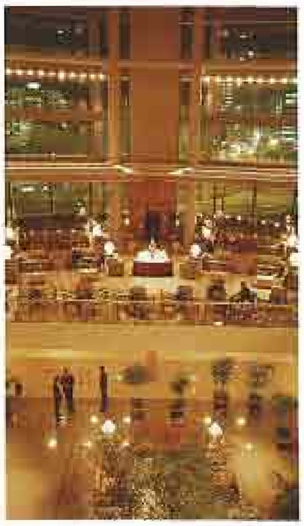
To many in the local travel industry, the Pan Pacific is the model of the type of foreign investment New Zealand needs if the market is to grow to its full potential.

According to Ron Chau, Toyku's representative in New Zealand, "when the Japanese made this investment eight years ago, they based it on the calculation that tourism would grow at a rate of 12 percent a year.

"We originally expected to recoup our investment in six years, but realistically, given the worldwide recession the past few years, we are now looking more towards nine."

The two biggest influence booms expected to boost New Zealand's tourist market in the coming years is the growth of Asian travel within the Pacific Region and the opening up of casinos in Auckland.

It's a high stakes game and one that everyone seems to be gambling on.



The Pan Pacific Hotel in Auckland is a perfect example of successful foreign investment.

tions Exchange has just been sold to the Sydney Futures and Option Exchange. Instead of just 16 local firms having the right to trade on the Exchange, anyone, anywhere in the world can now buy a trading license.

• An independent central bank, the Reserve Bank, specifically charged by law with maintaining currency stability.

• Full funding of the current budget deficit through borrowing only in NZdollar-dominated bonds and T-bills, as opposed to previous policies of seeking overseas funds. It is worth noting that investors in New Zealand government bonds enjoyed returns of over 20 percent last year.

• A long-term aim to eliminate the deficit and achieve a balanced budget.

• Relatively limited border

BIL

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BIL IS AN ACTIVE VALUE INVESTOR, LOOKING TO BUY UNDERVALUED ASSETS TO ENHANCE THEIR VALUE EITHER THROUGH THE ACQUISITION OF A STRATEGIC STAKE OR, WHERE THERE IS TOTAL OWNERSHIP OR A SUBSTANTIAL DEGREE OF INFLUENCE OR CONTROL, BY CREATING CHANGE TO BRING ABOUT INCREASED EARNINGS AND HENCE INCREASED ASSET VALUES.

MAJOR ASSETS

AIR NEW ZEALAND LTD

New Zealand's national air line focusing on the South West Pacific with strong growth in inbound tourists from Asia and North America (42.5% owned)

CARTER HOLT HARVEY LTD

Large New Zealand and Chilean owner of self perpetuating softwood resources with many downstream wood fibre applications (32% owned in joint venture with International Paper Company)

MOUNT CHARLOTTE INVESTMENTS PLC

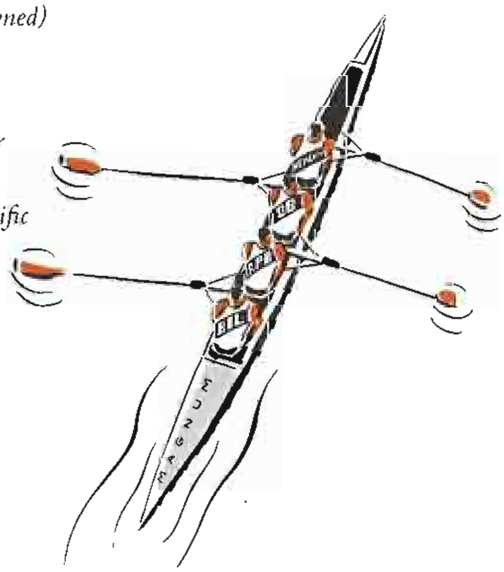
Largest London hotelier with the best operating margins in the industry. Capital reconstruction underway (70% owned)

MOLOKAI RANCH LTD

Second largest Hawaiian landowner. Located on the closest island to Oahu/Honolulu (100% owned)

MAGNUM CORPORATION LTD

Largest Australian and New Zealand liquor distributor and major New Zealand brewer (54% owned in joint venture with Asia Pacific Breweries Ltd)



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protection and industry assistance, with 93 percent of imports duty-free. Tariffs on the rest have a benchmark of 16 percent, due to fall by one third by 1996.

• Few remaining subsidies or special tax concessions for industry or the export agricultural sectors.

• No special inducements for investors and very little help with research and development either directly or by way of tax concessions.

• A fairly deregulated labor market with, as a result, low labor costs (between half and two thirds that of Australia), increasingly flexible work practices and rapidly rising quality. In the first six months since the 1991 Employments Contracts Act was introduced, there were 22,000 working days lost due to industrial strife totalling NZ$2.7 million in wages compared with 233,000 days and NZ$37.7 million in wages lost in the corresponding period of the previous year.

• A largely deregulated, much improved and cheaper infrastructure, with a high-quality telecommunications system, real electricity charges that are among the lowest in the world, internal transport costs reduced by more than a third in real terms and external transport costs down between a third and a half.

• A diminishing amount of business in the hands of the government or public authorities as a result of a rapid and extensive privatization program. The government has already sold off 26 state-owned enterprises, including banks, forests, shipping, hotels, steel works, its energy industry, its telecommunications network and the national airline.

The government plans to use the revenue from these sales to pay off its current foreign debt of NZ$10 billion. (The Telecom deal alone netted NZ$4.25 billion.) It recently announced plans to raise NZ$600 million by selling off five large state enterprises: New Zealand Rail Limited, which owns and operates all of the country's rail networks and ferries; Land Corporation, which owns 181 farms throughout the country; Works and Development Services and Corporation, the largest architectural and engineering consultancy in New Zealand; Works Civil Construction, the largest civil engineering company, responsible for building all major roads and bridges; Government Computer Services Ltd., the largest local computer company. Plans to privatize the Electricity Corporation have been shelved until the 1993 election.

• Low barriers to investment, including ownership of land, and light regulation of the securities markets.

• A relatively flat and low personal and company income tax structure, with a 12.5 percent consumption or value-added tax, locally called the Goods and Services Tax or GST.

• A full accrual/balance sheet and accounting system for core government departments, with a relatively decentralized, output-focused structure that encourages better management of departmental finance and permits greater precision in program management.

• A partial move to reduce social services spending by benefit cuts and managerial restructuring of some social services, notably health.

AN UPHILL BATTLE

There are those who argue that the process of deregulation in New Zealand was so rapid and so deep that it caused severe economic, social, and political disruption. The country is just emerging from its worst recession since the depression, unemployment is at record levels and welfare benefits that generations had become used to no longer exist or are being phased out.

The net result of these changes as reflected in opinion polls shows a general disenchantment with the National Party headed by prime minister Jim Bolger, who is often criticized as leading a party of few ideas and devoid of an ideology. Few would disagree that it faces an uphill battle for re-election in November 1993.

The person who seems to take the most flak for the government's insistence that it cannot afford to spend what it does not have is finance minister Ruth Richardson, whose dogmatic and often intransigent style has earned her policies the nickname "Ruthinasia."

Yet even the new conservative government, the National Party, which took over in 1990 after eight years of Labour rule, continues to pile up the dividends of Rogernomics. Local economists call the government's current economic plan "post-Rogernomics" — another way of saying that New Zealanders can expect a sustained policy of market liberalism. In short, this will mean that government intervention will be mainly limited to setting rules for fair play, ensuring a good operating infrastructure and facilitating, but not subsidizing, private sector activity, especially in the export sector.

The government is also expected to pursue a policy that continues to open the country to foreign investment. "We want to create a level playing field," says finance minister Richardson. "We have a comprehensive commitment to competitiveness on all fronts, and you can now begin to see that paying off."

As head of the Business Roundtable, Douglas Myers gives a more sober assessment. "I believe New Zealand has learned some lessons which it will not forget quickly, the main one of which is that living beyond your income and trying to insulate yourself from the rest of the world damages the very people such policies were designed to protect," he says. "Breaking away from such policies is not easy, and in an environment of greater freedom, some firms have inevitably lost their way. That experience, however, is largely behind us. We are much farther along the learning curve."

POSITIVE RESPONSE

Just how much New Zealand firms have learned has not been lost on international fund managers. "I see a lot of encouraging signs here with cost cutting, deregulation and efficiency levels," says Kim Arculli, investment manager for Indosuez Asia Investment Service Ltd., based in Hong Kong. Arculli, who runs a pure Australian/New Zealand fund worth US$2.5 million, notes that "while right now, people are still looking at the buoyant Asian markets, I think more investors will come to see the market here as good value and more money will come down this way."

According to Russell Barnes, managing director of Australian Eagle Asset Management Limited, which manages more than A$1.5 billion. "The equity market is a good productivity play and there is scope for New Zealand equities to improve as the result of increased margins.

"In the past, fund managers in Australia, and probably elsewhere in the world, tended to regard New Zealand as following Australia, using Australia's economy as the leading indicator of New Zealand economic conditions, corporate earnings and equity performance.

"Now it is clear we have to work a lot harder and look closer and come to some new conclusions because the signals or indicators are moving diversely."

Six months ago, FCA Corp. in Houston, Texas, which manages over US$500 million of funds and assets, set up the first open-ended New Zealand Country Fund. The fund is managed by Capstone.

Says fund manager Robert Scharar, "From a U.S. perspective, New Zealand's willingness to deal with its economic problems in a forthright manner has demonstrated the country's ability to deal with the fundamentals needed to improve company earnings. Because of this I see entirely new sources of capital from the U.S. being willing to take a long-term exposure in the New Zealand equity market."

Jon Cimino, managing director of the Buttle Wilson Group, estimates that about 44 percent of the New Zealand share market is owned by overseas investors, but does not think foreign investors

Sutherland Falls is the second highest in the world.

are moving to majority control.

"Most local share floats in excess of NZ$50 million probably need international investors to be successful. In the case of last year's sale of 725 million shares in Telecom worth NZ$1.45 billion, overseas participation was two thirds," he says.

Cimino's view is shared by Bruce Hancox, chairman of Brierley Investments, who argues that the lack of liquidity and capital formation in the local market will mean that overseas investors could control more than 50 percent of the local share market by the end of 1993.

"Overseas investors are buying our shares at bargain prices," he points out. "More than 70 percent of the shares sold each day are bought by overseas investors." Close to 30 percent of his own company is now in overseas hands and he expects the level of foreign ownership to grow.

Ian Harwood, chief economist and head of global equity research for S.G. Warburg Securities in London contends that, given current earnings projections, the New Zealand equity market doesn't look expensive.

"Indeed, it looks pretty

SPONSORSHIP STATEMENT

NEW ZEALAND TOURISM BOARD

The potential for visitor growth to New Zealand is real and the opportunities for investors are exciting. With no capital gains tax, extremely favorable macroeconomic conditions and a strong commitment by both government and the private sector to encourage and assist foreign investment, it is certainly an opportune time to consider seriously the benefits of investing in tourism in New Zealand.

Visitor arrivals have doubled since 1983, representing an average annual growth rate of about 8 percent, twice the world average for this period. In the year to April 1992, one million visitors came to New Zealand and spent approximately US$1.4 billion, making tourism the country's largest foreign exchange earner. When spending by domestic travelers is added in, tourism is a US$3.3 billion industry.

Located in the world's fastest growing tourism region (Asia-Pacific), the New Zealand Tourism Board (NZTB) is making sure New Zealand wins its share of anticipated world tourism growth by focusing more resources on its key markets through aggressive promotion and marketing campaigns.

The NZTB has an ambitious target of 3 million visitor arrivals annually by the year 2000, triple the current numbers. New Zealand already enjoys consistently high growth out of Japan and Germany and a major slice of the Australian outbound market. Asia is seen as a market with outstanding growth potential, as is the American market. The NZTB has dramatically increased resources and is opening new offices in these markets to further stimulate this growth.

To meet the needs of the 3 million visitors, capital investment of about US$3.2 billion will be needed for transport, accommodation and other facilities. This represents major opportunities for investors to become involved in New Zealand's high growth tourism industry.

Investment areas include major hotels in existing tourism locations and new regions being discovered by international visitors: golf, ski and activity-based resorts, conference and convention centers, spa developments in geothermal regions, exclusive fishing and hunting lodges, backpacker and budget hostels and accommodations, just to name a few. In addition, there are investment opportunities in the transportation and attraction activity sectors.

New Zealand offers almost every type of physical attraction the world has to offer. Travellers around the country's two main islands can experience anything from fiords, glaciers and mountain lakes to geysers, mudpools and active volcanoes; from small rural towns to bustling cities.

New Zealand culture is unique and its people warm and friendly. Visitors are showing increasing interest in the environment, outdoor adventure activities, interacting with local people and learning about their customs. A sophisticated tourism infrastructure includes modern transport and communication systems, appealing shopping, professional tour companies and a variety of accommodations from five-star hotels to more basic facilities. New Zealand is easily accessible with scheduled air services provided by 24 international carriers. The 1990s are shaping up as a profitable and exciting decade for New Zealand tourism.

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New Zealand
TOURISM BOARD

cheap," says Harwood. "On my figuring, the New Zealand market has a prospective price/earnings ratio of under 13. That compares with the U.K. pre-election, but it looks better than a lot of countries. Australia and Canada, for example, are at around 15 times prospective earnings, the U.S. is about 16, Germany is 17 and France is about 30. New Zealand is the best of the bunch."

He further points out that the average dividend yield of over 5 percent is matched only by the U.K. market, which is level, and is generally regarded by institutional investors as a buy signal for the market. By contrast, the dividend yield averages 3.25 percent in Australia and 4 percent in France.

The perception that the New Zealand stock market is ripe for foreign pickings is reinforced by the fact that only six stocks out of 111 listed on the exchange account for 74 percent of the NZSE40 index: Telecom, Carter Holt Harvey, Fletcher Challenge, Brierley Investments, Goodman Fielders Wattie, and Lion Nathan — all of which have international ownership or exposure to one degree or another. The remaining companies on the exchange fall into one of two groups, domestic recovery leverage or low liquidity.

Douglas Paul, head of research at Buttle Wilson, thinks fund managers should pay closer attention to firms with domestic growth exposure, such as the Bank of New Zealand, Fisher & Paykel, Magnum and Wilson & Horton. "As we start to build a better outlook for GDP growth — and we are just starting to see the beginning of that — prospects are improving for medium-term earnings upgrades of these firms," he says. "I also believe low liquidity stocks, such as Air New Zealand, Fortex, Ceramco, Sanford and Helicopter Line, are still undervalued.

"While these are generally small stocks, we are seeing a large number of these companies invest for future growth as opposed to merely cutting costs, which was very much the trend through 1990-91. In the last year, most of these firms showed earning growth in the range of 60 percent."

TAKING A CLOSER LOOK

The facts and figures about the turnaround in the New Zealand economy indeed warrant a closer look at what is going on in this part of the world.

But perhaps the most compelling argument for closer examination was expressed by Lindsay Pyne, managing director of the Bank of New Zealand. "Every country has its heroes," he says. "The people we hold up are examples of excellence. But there is a real difference in New Zealand. Collectively, we have almost a perverse pride in what is best described as our No.8 fencing wire mentality.

"Originally intended for fencing, No.8 gauge wire has been used everywhere from makeshift tractor repair to custom-made forks for the family barbecue."

"These days when we talk about the No.8 fencing wire mentality, we mean ingenuity. A knack for taking a common resource and a lateral view and producing something quite remarkable. It means the ability to accept circumstances, no matter how problematic, and overcome them and we can see it in the growing importance our manufacturing industries are placing on research and development.

"It starts with children taking an old baby pram and turning it into a trolley, and it leads to overturning conventional yacht design to launch a challenge for the America's Cup.

"Or take the electric fence. It was actually invented in the United States, but it was only used for temporary structures to keep farm animals cheaply penned in small areas. New Zealanders Paul Gallagher and Hubert Christie changed all that by spearheading the development which made long-distance permanent electrical fencing practical.

"In turn they created an industry that is now worth some NZ$200 million a year, and New Zealand companies account for 20 percent of world production and more than 50 percent of exports of electric fencing.

"Backing the No.8 mentality is good business. It's getting back to fundamentals, which is why New Zealand's economy is turning around."