



Brunei Darussalam: An Economy on the Rebound

The Southeast Asian nation of Brunei Darussalam is known for its vast and seemingly endless supply of oil, which has fueled the national economy for the past century, establishing the country as the fifth wealthiest in the world by GDP per capita. With depleting oil reserves, Brunei – a member state of ASEAN – faces an ongoing challenge to diversify its economy in order to safeguard the country's economic future

By **Jennifer Khoo**

Sedated by the warm tropical breeze, women in headscarves shuffle unhurriedly across the courtyard of a huge, half-empty shopping complex towards the Sultan Omar Ali Saifuddien Mosque; the Islamic call to prayer bellowing out from a gold-domed minaret over Brunei's sleepy capital.

Upon first glance, many would fail to guess that this quiet, peaceful nation perched on the northern coast of the island of Borneo overlooking the South China Sea is one of the wealthiest countries in the world. Ever since the discovery of oil in the 1920s, Brunei has enjoyed considerable wealth due to the steady global demand for crude oil and natural gas.

The nation's citizens have benefitted from their

geographically-determined fortune, enjoying free healthcare, education from kindergarten through university, cheap home loans and subsidized housing, and zero income or sales tax, with many finding comfortable jobs in government after graduation. This generous social contract has enabled citizens to accumulate higher-than-average levels of disposable income, lending to their international image as wealthy people.

Though history and popular belief imply that citizens under autocratic rule are generally discontent, it is quite the opposite in Brunei, where the Sultan who has ruled since 1967 enjoys genuine popularity, especially among the ethnic Malays who make up the majority of the population.



Photo: Thinkstock

End of an oil economy

Brunei's bubble of comfort has been gradually thinning however, as record low oil prices since 2015 launched the nation into its third consecutive year of recession. Following a 70 percent drop in FY2015/16 government earnings compared with FY2012/13, and a projected budget deficit of BN\$3.84 billion (US\$2.81 billion) for FY2016/17, one is left to further wonder about the sustainability of Brunei's existing social contract which has, for years, provided an accustomed level of comfort for its citizens.

With oil and gas exports traditionally accounting for 65 percent of Brunei's GDP and more than 90 percent

of government revenue for the past 100 years, there is no question about the need for economic diversification, particularly in light of estimates by the BP World Energy Outlook that the nation's hydrocarbon reserves will run out in just 22 years if no new sources are discovered.

The Bruneian government, in acknowledgment of an unhealthy reliance on the oil sector and an urgent need for economic reform, announced the implementation of a long-term development framework called "Wawasan 2035," or Vision 2035, with plans to transform the nation into a vibrant regional trading and financial hub with "an enterprising, knowledge-based economy" over the next 20 years.

"We seek to diversify our economy by promoting investment, increasing food self-sufficiency, encouraging opportunities for women and maintaining high standards of governance in public and private sectors," said the Sultan Haji Hassanal Bolkiah, king and prime minister of Brunei, upon unveiling of the plan in 2008.

Energy

Fast forward eight years, and though the challenging external climate – together with an increasingly competitive regional environment – has kept progress sluggish, significant steps have been taken to diversify Brunei's economy.

To an extent, the nation has managed to shield itself against fluctuations in global energy demand by forging long-term supply contracts with various countries and industrial entities. In July last year, the majority state-owned Brunei Gas Carriers took delivery of another LNG tanker as part of its plans to upgrade its fleet and boost export capacity.

Brunei has long-term Liquefied Natural Gas (LNG) agreements with Japan and South Korea, with 90 percent of Brunei's LNG exports going to the former – one of the world's biggest LNG consumers – on a yearly basis. Japan first started importing LNG from Brunei in 1972, and it continues to have an active trade relationship with the Sultanate in other areas such as petrochemicals, metal processing, energy efficiency and technology transfers.

Speaking to the *Brunei Times* in February this year, Noriko Iki, Ambassador of Japan to Brunei said that the country is "attractive for Japanese investment because it has relatively low utility costs, including electricity and water, as well as a central location in Southeast Asia offering accessibility to other member countries of the Association of Southeast Asian Nations (ASEAN)."

Elsewhere, the government has made significant investments in energy and power projects in an attempt to attract foreign investment and revitalize the nation's manufacturing industry, which currently accounts for just over 12 percent of Brunei's GDP.

Participating Countries in Free Trade Agreements			
	Regional Comprehensive Economic Partnership	Trans-Pacific Partnership	ASEAN
 Australia	✓	✓	
 Brunei	✓	✓	✓
 Canada		✓	
 Cambodia	✓		✓
 Chile		✓	
 China	✓		
 India	✓		
 Indonesia	✓		✓
 Japan	✓	✓	
 Laos	✓		✓
 Mexico		✓	
 Malaysia	✓	✓	✓
 Myanmar	✓		✓
 New Zealand	✓	✓	
 Peru		✓	
 Philippines	✓		✓
 Singapore	✓	✓	✓
 South Korea	✓		
 Thailand	✓		✓
 United States of America		✓	
 Vietnam	✓	✓	✓

The new Chinese-contracted oil refinery and aromatics cracker plant on the industrial island of Pulau Muara Besar is expected to create 800 jobs; and once operational, it is anticipated to inject around US\$2 billion per annum into the Bruneian economy, boosting GDP by 2 percent.

Desire to be a part of this landmark project may help to redistribute some of the country's highly skilled workforce, where a currently estimated 70-80 percent are employed by the government or government-linked institutions in cushy, high-paying jobs, and employment growth in the private sector is stunted by the local mindset that employment in the private sector is second rate to civil service.

Finance

In Brunei's financial sector, significant development is expected to take place over the next two years. In May last year, the Autoriti Monetari Brunei Darussalam (AMBD) announced plans to launch a securities exchange as early as 2017, following the introduction of new capital market rules in February 2015.

The new securities exchange will enable Brunei to ramp up its role in the increasingly integrated ASEAN capital markets, allowing businesses to access funding via equity listings initially and adding bonds and sukuk (Islamic bonds) at a later stage.

The country's business community has welcomed the move, with around 12 major domestic firms as potential listing candidates including utility company Telekom Brunei and financial institution Bank Islam Brunei Darussalam (BIBD), the country's largest lender. "Initial success would be slow, for a full-blown capital market it will be a longer journey," Javed Ahmad, Managing Director of BIBD, told Reuters last year.

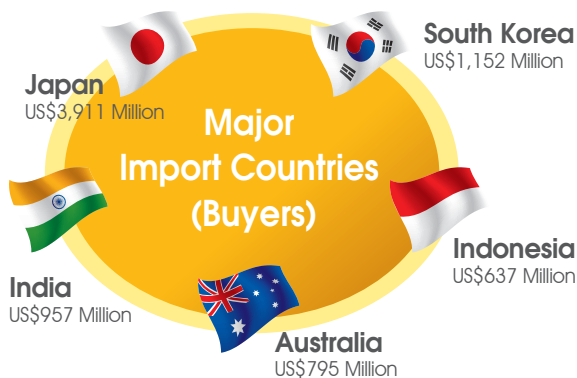
Small- and medium-sized enterprises (SMEs), which make up roughly 95 percent of Brunei's businesses, also stand to gain from a more mature capital market environment. Currently, local banks, which are largely state-run institutions, are under increasing government pressure to boost lending to SMEs.

However, the lack of personal income tax in Brunei makes it difficult for banks to judge the creditworthiness of small businesses, as owners often prefer to remain as sole proprietors.

Eco tourism

The country's eco-tourism industry has benefitted enormously from the 130-million-year-old, conservation-protected Borneo rainforest that sits on its doorstep. It attracts a steady inflow of tourists who come to experience the pristine and unpolluted

Brunei's Top 5 Export and Import Partners



Source: World Bank

environment offered by nature. While Brunei certainly has the potential to further develop its eco-tourism offering, transportation and infrastructure links are still relatively underdeveloped, making it difficult for visitors to get around independently.

The government has taken steps to improve the local infrastructure, most recently with the BN\$1.6 billion (US\$1.1 billion) Temburong Bridge project which will provide a 30km-long dual-highway from the city to the Temburong district and easier access to the rainforest upon its completion in 2019.

In addition, the final phase of Brunei International Airport's BN\$130 million (US\$952,000) modernization project is on track to be completed this year and is expected to have double the current annual passenger capacity from 1.5 million to 3 million.

However, despite a promising ecotourism sector, the country's traditional tourism sector still has a long way to go, and the realm of possibilities isn't boundless. A strict ban on alcohol limits and gradual implementation of the controversial Sharia law are measures which have played a significant role in deterring many potential visitors.

Regional & global opportunities

The expansion of regional and international trade remains a key strategic focus of the Sultanate, using its influential position within the Association of Southeast Asian Nations (ASEAN) as a platform. In December last year, leaders of ASEAN's ten member states signed a declaration establishing the ASEAN Economic Community (AEC), an initiative which aims to boost political, economic and social integration within the Southeast Asian region.

All member states currently benefit from removed tariff barriers and visa restrictions among other measures

designed to improve regional cooperation and integration. Moreover, as an integrated group of over half a billion people and a combined economy equivalent to what would be the 7th largest in the world, AEC membership will provide Brunei with more clout when dealing with economic giants like the United States or China.

Meanwhile, negotiations are underway to reach a final deal for the Regional Comprehensive Economic Partnership (RCEP) by the end of 2016. If the current talks come to fruition, it will forge a single economic alliance – consisting of ten ASEAN nations plus Australia, China, India, Japan, New Zealand and South Korea.

The RCEP will lead to the potential creation of one of the world's largest free trade areas, comprising an integrated market of over three billion people. Being part of an economic free trade zone – in light of the improvements made to Brunei's transportation and infrastructure links – will unleash a flow of prospects for the nation of Brunei.

Furthermore, Brunei's participation in the Trans-Pacific Partnership (TPP) ties in nicely with its broader foreign and trade policy, with the aim of boosting imports and inbound foreign investment. Despite its small size geographically, Brunei is well regarded within Southeast Asia for its leadership, diplomacy and opinions on foreign policy issues, particularly within ASEAN, and the TPP will serve as a global extension of that platform.

Bruneian citizens remain hopeful that the nation's involvement in the TPP will show the world that it is serious about economic reform, diversifying beyond oil and increasing transparency, all in the name of becoming a truly open economy. Whether the Sultanate can achieve that under an absolute monarchy remains to be seen, but no one can doubt that it is indeed trying. 