CHAPTER 7
BRUNEI

Introduction. The 1997-98 economic and financial crisis that swept through the Asian region devastated Brunei's small economy.

- Oil revenues declined in 1998 to 1999, but are now stimulating growth.
- Its non-oil economy went into a recession, from which it is still trying to recover.
- To offset lost demand, the government ran a large fiscal stimulus package, but it is now reducing government programs and spending.

The Economy and Trade

Rising GDP. GDP has been incrementally rising in years following the Asian economic crisis.

- The growth of GDP in real terms for 2000 was 2.5%, compared to the more robust average of 3.5% before the crisis.
- Depressed world oil prices from 1998 through 2000 also contributed to the decline of GDP growth.
- The second largest contributor to real GDP growth is the construction sector. However, fiscal consolidation measures greatly reduced the construction sector, and are having spillover effects on related sectors such as transport and communication.
- The budgetary cuts released in 2001 will dampen construction growth prospects and the outcome in real terms for the other sectors will follow suit.

Oil and Gas Exports. Rising oil prices have predictably boosted economic growth.

- Over 90% of Brunei's exports are crude oil and natural gas.
- The recent plunge of the Singapore currency to an 11-year low against the U.S. dollar means that Brunei oil and gas exports—traditionally quoted in the US currency—will increase in value.
- As a result, Brunei's oil and gas exports are expected to earn more than $4 billion in oil and gas export this year.
- This figure could be an all-time high (a rise of 8% over the figure for 2000).

Figure 7-A. Selected Historical Data

$ Billions (or %)	'97	'98	'99	'00
Real GDP	..	7.5	..	2.5
Purchasing Power	..	5.4	5.9	..
Growth (%)	4.1	1.0	1.0	3.0
Inflation (%)	1.7	-0.4	2.0	..
Exports	2.360	2.002	2.300	..
To U.S.	0.058	0.224	0.422	0.408
Imports	1.873	1.358	1.300	..
From U.S.	0.178	0.123	0.069	0.145
FDI from U.S.	0.010	0.062	0.018	0.026
In U.S.	..	..	..	..
Cur Account /GDP %	49.0	55.4	..	..
Fiscal Balance /GDP %	..	..	..	..
External Debt /GDP %	..	..	..	..

Sources: IMF, CIA, World Bank, ADB, U.S. Commerce

Figure 7-B.

Brunei's Statistics. Brunei's wealth has led to a complacency in maintaining fresh economic statistics. As a result, Brunei finds it difficult to monitor economic progress and to target economic policy. A key step forward would be the implementation of the "IMF Standards for Data Dissemination."

Imports. Brunei depends largely on imports. Since the Brunei currency is pegged to the Singapore dollar, the recent fall of the Singapore dollar means that Brunei's exports are now much more expensive. That fans inflation as well.

Trade Balance. Brunei's overall trade balance is favorable. Imports in the past couple years have fallen much more than the rate of decrease of its exports of crude oil and natural gas.

East Asia Growth Area (EAGA). Brunei belongs to the EAGA that also includes neighboring—but economically laggard—provinces (i.e., Kalimantan, Sulawesi, Maluku, and Irian Jaya in Indonesia; Sabah, Sarawak, and the Federal Territory Labuan in Malaysia; and Mindanao and Palawan in the Philippines).

- On the positive side, the exports in intra-EAGA trade are expected to grow 7.4% to 7.9% as the small economy of Brunei has relied more so on intra-regional trade with ASEAN and EAGA and extra-regional trade has been secondary.

- The EAGA is designed to liberalize state-run companies over the long-term.

AFTA. The ASEAN Free Trade Agreement (AFTA) will spur trade in the region as the economies become more liberalized.

- AFTA promotes the free movement of goods between Brunei and ASEAN.
- It creates a comparative advantage for regional sub-groupings (i.e., EAGA) that have not been traditionally explored.

Economic Challenges

Small Size. Brunei's small size puts it at a disadvantage in the region.

- It has no central bank.
- Its high prices and its small size make the economy an unattractive location for foreign businesses and tourism.
- Even as a member of ASEAN, Brunei's economy is still too small as it struggles to compete at the ASEAN level.
- Thus it has relied on the smaller-scale EAGA to spur trade and business.

Oil Dependence. Not surprisingly, Brunei's economy is largely dependent on oil revenues.

- Oil accounts for 40% of its GDP and 90% of its exports.
- The private sector is the largest customer for the 200 thousand barrels of oil Brunei produces every day.
- Oil sales also constitute the government's chief source of revenue.

Government Employment Glut. About 42% of the Brunei population work for the government. The government cannot expect to reduce the budget deficit while maintaining a government workforce this large.

Low Investment Capital. The low level of awareness on AFTA open-market reforms have failed to make the private sector the engine for growth, as previously hoped.

- Coupled with the relocation in February 2001 of the secretariat office of EAGA from Brunei to Sarawak, business development will be less than robust.
- There are little in the way of incentives and opportunities for foreign investors in a small market economy.
- A recent agreement between the government and several local banks to provide loans to local entrepreneurs will add to the long-term development and commercialization of Brunei.
- Foreign investors are reluctant to invest in Brunei.
- The long approval process and high government wages tends to dissuade most investors from investing in Brunei.

Sultan Control. In a healthy free market economy, economic decision-making is largely decentralized. In contrast, Brunei's economic decision-making is over-centralized. As a result, bottlenecks develop and hamper Brunei's economic progress.

- On the positive side, Brunei's February 2001 development budget report indicates that excessive government spending on business development was halved.
- On the negative side, a figure of $1.2 billion was allocated for "miscellaneous services."
- Therefore, when it comes to resource allocation, the government therefore needs much more accountability and increased transparency.
- While the government's Economic Secretariat announced several schemes to rekindle the business atmosphere, the impact in real terms is still to be realized.

Economic Reforms

In response to the devastation of the Asian crisis, the sultan is trying out economic discipline by instituting two broad kinds of reforms:

- Reforms to incorporate Brunei in the global economy.
- Reforms to wean it from a long over-dependence on oil and government money.

Private Sector. The reforms, which are part of the AFTA, are designed to make the private sector the engine of growth.

- The government has made significant progress in keeping with its commitment to open up and free the economy of tariff and non-tariff barriers.
- The government wants to spur the private sector with low-interest loan incentives to local businesses and corporate tax exemption for foreign investors.
- Government-run companies have been privatized and many more are on the table.

Government Sector. In addition, the government is developing other initiatives.

- The economic stimulation package that responded to the Asian economic crisis ran up a large budget deficit of 6% of GDP. This was cause for financial concern.
- So to facilitate long term economic growth, the government is cutting back government spending and subsidies, privatizing government-run agencies and finding new resources of revenue. The hiring of government employees is frozen.
- The Brunei government in February 2001 slashed its government spending by half compared to the year before. These budget cuts are in line with the Economic Secretariat's drive to open up the economy and to stop the "crowding out" of private sector spending.
- To be less dependent on Shell, the government is creating a national oil company to explore for oil and refine it.

Conclusion

Good News: The economy is on a recovery path as the government moves ahead with a few new economic reforms and liberalization schemes.

Bad News: The combination of dependence on oil imports and over-reliance on central management hurts Brunei's economy.

- Brunei is still heavily dependent on oil revenues and imports. These imports make Brunei susceptible to external inflationary conditions. Furthermore, the oil reserves are near depletion. Consequently, Brunei needs to diversify markets and practice economic discipline.
- The Sultan runs everything. Therefore, most decisions are over-centralized. In addition, Brunei still has a glut of government employees and runs a high budget deficit.
- Brunei is also a small, developing economy with overly high prices.
- It presently lacks the potential, at least short-term, to lure foreign investment.

Recommendations. Brunei needs to continue with its privatization policy, inject sufficient capital outlays to sustain growth and private sector, maintain price stability, enhance government transparency, reduce government labor; encourage the investment climate, and lure foreign direct investment.