

ECONOMIC AND SOCIAL POLICIES OF BRUNEI: AN EMPIRICAL ANALYSIS

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The discovery of oil in 1929 has been a major political and economic event in the modern history of Brunei Darussalam. After the great oil crunch of the 1973-74 and the subsequent increase in the oil price, the society and economy of Brunei stepped into the threshold of a transformation process. This paper is an attempt to examine and analyze this transformation process. It argues that in the midst of the transition, the prime policy goal of the government of Brunei is to diversify the economy and reduce its absolute dependence on oil and gas. In order to do that, Brunei must be able to encourage the growth and development of the domestic industries without significantly distorting the market mechanism.

At the same time, it should be able to attract direct foreign investment in Brunei through the appropriate incentives

Introduction

Brunei is a small Southeast Asian country. It is located on the northwest coast of Borneo facing the South China Sea. The country is enclosed on the landward side by the Malaysian province of Sarawak. Brunei is a mere enclave of 2,226 square miles with a population of less than 0.3 million. In 1993, the per capita GDP of Brunei was US \$14,360. The history of this ancient trading *Sultanate*¹ dates back to the sixth and seventh centuries A.D.

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¹ The *Sultanate* is derived from its root "Sultan," the title of the absolute monarch of the country.

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During the fourteenth and fifteenth centuries A.D., Brunei was a powerful Muslim Kingdom covering the entire land mass of Borneo stretched deep into the islands of the Philippines. On January 1, 1984, Brunei became a full-fledged independent country after almost 100 years of British protection. Soon after, in quick succession, Brunei became a member of the Association of South East Asian Nations (ASEAN), the Organization of Islamic Conference (OIC), the British Commonwealth and the United Nations Organization (UNO). The country is run under the official ideology of Malay Muslim Monarchy.

The discovery of oil in 1929 has been a major political and economic event in the modern history of Brunei. Since then, the interest of the international community on Brunei increased suddenly. After the great oil crunch of the 1973-74 and the subsequent fourfold increase in the oil price, the society and the economy of Brunei stepped into the threshold of a rapid transformation process.

This paper is an attempt to examine and analyze the transition that is underway in the society and economy of Brunei. It will primarily focus on the socioeconomic problems and their implications for public policy in Brunei.

A Brief Review of Literature

The volume of literature on modern Brunei is relatively small. One of the earliest works on Brunei was done by L. W. Jones in 1966. In a section of his book, *Population of Borneo*, Jones focused on the origin, composition, current growth rate and future projections of the population of Brunei. It also briefly analyzed some rudimentary economic activities in which the people of Brunei were involved.

Nicholas Tarling in his book, *Britain, the Brooks and Brunei*, described the modern history of Brunei in detail. According to Tarling, the British took control of Sarawak, formerly a part of Brunei, and gained a formal influence

over the *Sultan* of Brunei in 1847 through James Brook, a Victorian explorer of British origin who came to Brunei in 1838. At that time, Britain developed a trade link with Brunei. Neither Jones nor Tarling examined the socioeconomic dynamics of Brunei. In fact Brunei had been a stagnant society up until oil and gas were discovered in that land in 1929. Thereafter, trade, commerce and economic activities began to grow slowly.

In 1973, Brunei started sending diplomatic and trade representatives around the world and since then, the society and the people of Brunei began to receive world exposure. Most of the literature available on Brunei today are government documents containing a plain description of the history, society, and economy of Brunei.

The U.S. Department of State collects and publishes a profile of Brunei as it does for many other countries of the world every year on a regular basis. This is a brief fact sheet about the geography, people, history, politics, economy, and trade which is used as a handy policy guide by the diplomatic decision-makers. This profile does not attempt to give an in-depth analysis of the changing socioeconomic structure of Brunei. The Gale Research Institute also publishes a chapter on Brunei in its *Countries of the World and Their Leaders* series. Its treatment of the subject is the same as that of the U.S. State Department's profile on Brunei.

Nigel Holloway contributed a feature to the *Far Eastern Economic Review* in 1987 on the monarchy of Brunei. This was a purely journalistic description without a deeper examination into how the monarchy works.

A major work on the economy of Brunei came out in 1986. The author, Sritua Arief, in his book *The Brunei Economy* gives a general description of the economy of Brunei. It covers almost all sectors of the economy such as agriculture, manufacturing, trade of oil and gas, monetary institutions and the development planning of the country. The basic weakness of Arief's book is that it does not

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discuss the role of the government and the political or social forces of Brunei in shaping manpower planning, determining money supply, and framing the public health policies, etc.

Resource Base of the Brunei Economy

Oil and Gas

Since the discovery of the first oil field in 1929, oil and gas has served as the backbone of the Brunei economy. Despite a decline over the years (83.7 percent of GDP in 1980 and 72.2 percent in 1985), its contribution to GDP was nearly 39 percent in 1993. While in the later half of the 1980s, oil production was pegged at around 150,000 barrels per day, production of oil in 1993 was 170,000 barrels per day. The Brunei Shell Petroleum (BSP), which is jointly owned by the Brunei government and Royal Dutch Shell Company, has seven offshore and two onshore oil fields. Another active concession holder is Jasra-Elf which commenced operation actively a few years ago. Almost 90 percent of its oil comes from offshore fields.

Brunei is the world's fourth largest producer of liquefied natural gas (LNG) which is mainly exported to Japan. A second 20-year contract was signed in 1993 between Cold Gas of Brunei LNG and three Japanese companies. Under this new contract, Brunei Shell will supply 5.54 million tons of LNG per annum to three Japanese power companies—Tokyo Electric Power, Tokyo Gas and Osaka Gas. Brunei's LNG plant at Lumut, which is one of the largest in the world, was upgraded and expanded in 1993 at a cost of B\$100 million. Revenue from LNG produce has been almost as significant as that from oil in the export and royalty profile of Brunei since the late 1970s.

The pattern of oil and gas reserves is difficult to evaluate because of lack of access to confidential data. According to a new estimate, the life of Brunei's oil reserve

at the current level of production is 70 years.² Other conservative estimates claim that the known reserves will exhaust in 27 years.³ On the other hand, proven natural gas reserves at the current rate of production are expected to last for another forty years.

The revenue generated by the sale of oil and gas has resulted in budget surplus over the years which has been invested in foreign countries, thus generating a substantial amount of income. Although the actual amount of foreign assets is kept confidential, the *London Economist's Country Profile* for 1992-93 estimates the amount at US \$35 billion. Furthermore, it is also asserted that the yearly income generated by these assets now surpasses the combined annual income from oil and natural gas.

Agriculture, Forestry and Fishing

The agro-economy of Brunei contributed just over 2 percent to GDP in 1993. Presently, the country imports 80 percent of its food requirements. Although land, finance and irrigation are all available and the government has established model farms to train potential farmers, the scarcity of manpower has failed to increase agricultural output and achieve even a very modest target for rice production, i.e., 18 percent of the total requirement. A large percentage of the meat supply is imported from the Sultanate's cattle ranch in Australia.⁴ There is a great potential for the development of orchards as there is a wide

² *Oil & Gas Journal*, 28 December, 1992; *Petroleum Economist*, January 1993, as quoted by Mark Cleary and Simon Francis in "Brunei: the Search for a Sustainable Economy," *South East Asian Affairs*, 1994, p. 63.

³ *Borneo Bulletin Yearbook*, 1994-95, p. 148.

⁴ The government of Brunei owns a 579,000 hectare cattle ranch in Australia that is bigger in size than Brunei itself.

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variety of fruits available in the country. Large-scale, less labor-intensive, mechanized fruit plantations could be a great success in Brunei.

Forests are considered Brunei's most permanent assets. About 81 percent of the total land area of Brunei is covered with diverse forest types such as mangrove, peat, swamp, heath, mixed dipterocarp and montane. Fifty-eight percent of the country is under primary forest cover. Unlike the other neighboring countries, forests have not been fully exploited for timber and other commercial uses due to the availability of revenue from hydrocarbon resources. Forestry exports are prohibited by law. Under strict control of the authorities, timber production is limited to 100,000 cubic meter per annum for local consumption.

Although Brunei has one of the highest consumption of sea food, its total annual sea food production is only 1,726 tons which is short of its local needs. Large areas have been identified suitable for shrimp, prawn, and fish culture. In the Sixth Five Year National Development Plan (1990-95), B\$28 million has been allocated for the development of this sector.

Human Resource

The total population of Brunei Darussalam was 260,000 in 1991 growing at a rate of 3 percent per annum. About 73 percent of this total consisted of the local population, including permanent residents at 189,956. The local population grew at the rate of 2.5 percent during 1981-91. The Muslims, mainly Malays, constituted about 82.2 percent of the local population in 1991, compared to about 77.1 percent in 1981.⁵ The rest of the population consists of the foreigners at 27 percent.

⁵ This has been calculated from Table 9.3 of the 1991 *Population Census of Brunei*, p. 81.

Foreign workers constitute 37 percent of the employed labor force. Almost all foreign workers are legally documented, with the majority working as domestic servants, construction workers, teachers and professionals in the government service.

It is estimated that at present, women constitute about 35 percent of the local labor force — a significantly higher proportion of women workers than many Muslim-dominated developing countries. Women, including Muslims, take all types of jobs and play a very important role in the development of the country. The number of expatriate workers is continuously rising. At the same time, however, the unemployment rate among the local population has risen from 4.82 percent in 1981 to about 7 percent in 1991.⁶ This has been a cause of concern for the authorities in Brunei. It is generally understood that the main reason for this problem is mismatch.

Sectoral Contribution to GDP

Table 1 shows the composition of gross domestic product (GDP) by kind of economic activities. It clearly reveals that although the role of the oil sector in the economy has somewhat decreased, its contribution has remained significant at 38.95 percent in 1993. The decline in its share is due both to the depressed international price for crude oil and the government's conservation policy to rationalize the output of this exhaustible resource. The non-oil sector contributed an estimated 61.05 percent of GDP in 1993, about 30 percent of which comes from the government. Existing private sector activities are still highly dependent on government activities.⁷ The contribution

⁶ In Brunei Darussalam the official unemployment rate is generally calculated by dividing the number of people unemployed by total labor force which includes foreign workers. This may be misleading as foreign workers are, by definition, employed. The figures we have used in this sub-section are calculated by using *local labor force*.

⁷ See *Sixth National Development Plan, 1991-95*, p. 25.

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Table 1 - GDP by Kind of Economic Activities at Current Prices
(totals are in million B\$)

Economic activity	1987		1990		1993*	
	Total	% of GDP	Total	% of GDP	Total	% of GDP
I. Oil sector	3,566.5	61.5	3,490.7	53.7	2,521.8	38.95
II. Non-oil sector	2,234.4	38.5	3,017.9	46.4	3,952.9	61.05
A. Government	1,151.4	19.8	1,436.6	22.1	1,945.9	30.05
B. Private.	1,083.0	18.7	1,581.3	24.3	2,007.0	31.00
1. Agriculture	80.2	1.4	116.8	1.8	156.0	2.41
2. Forestry & logging	18.1	0.3	14.0	0.2	17.0	0.26
3. Fishing	14.0	0.2	22.9	0.4	34.2	0.53
4. Mining, quarrying and manufacturing	123.0	2.1	177.0	2.7	-	-
5. Electrical	33.3	0.6	59.3	0.9	67.3	1.04
6. Construction	183.1	3.2	277.4	4.3	341.1	5.27
7. Wholesale trade	90.1	1.6	122.0	1.9	408.7	6.31
8. Retail trade	179.7	3.1	257.3	4.0	290.9	4.49
9. Restaurants and hotels	45.9	0.8	67.7	1.0	88.3	1.36
10. Transport, storage and communications	150.4	2.6	214.1	3.3	331.5	5.12

Table 1 (continued)

Economic activity	1987		1990		1993*	
	Total	% of GDP	Total	% of GDP	Total	% of GDP
11. Banking & finance	169.5	2.9	223.4	3.4	262.1	4.05
12. Insurance	21.2	0.4	67.0	1.0	78.0	1.20
13. Real estate & business Services	59.8	1.0	65.2	1.0	74.0	1.14
14. Ownership & Dwellings	37.6	0.6	55.1	0.8	73.1	1.13
15. Community, social and personal services	1,126.8	19.5	1,420.6	21.8	2000.2	30.89
16. Less: bank charges	98.3	1.7	141.9	2.2	164.3	2.54
GDP	5,800.9	100.0	6,508.6	100.0	6,474.7	100

* The figures for 1993 are estimates and not actual values. The contribution of mining and manufacturing units in the private sector is not available.

Source: *Brunei Darussalam Statistical Yearbook 1993*, Statistics Division, Economic Planning Unit, Ministry of Finance, Brunei Darussalam.

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of the manufacturing sector is merely 1.7 percent and that of agriculture 1.2 percent. Social services which include education and health, both under the government, remain the most important segment of the non-oil sector.

Over the last two decades, the government has made large investments in foreign countries. A special investment agency looks after these investments but details of financial and non-financial assets and their annual returns are kept confidential. Their contribution to GNP cannot therefore be determined in this paper.

Social and Welfare Policies

Literacy and Education

The government of Brunei Darussalam provides free education up to the university level to all its citizens and permanent residents. The country has moved toward universal literacy. This is clearly described by Figure 1. The definition of literacy used in 1991 was the ability of a person to read and write a simple letter or to read a newspaper column in at least one language. In terms of sex, significant differences in literacy rates are observable only among the older generation, i.e., age 30 and above.

However, there is a big difference between sexes in terms of tertiary qualification. The rate of highly qualified males aged 20 and above is significantly higher than that of females. Similarly, a much higher number of males have university degrees. However, these differences are expected to narrow down given the recent trend in educational attainment.

The school system is run almost entirely by the government. There are few private primary schools which mainly serve the expatriate community. A significant number of teachers in government schools are expatriates but the majority are locals. There are three technical colleges which

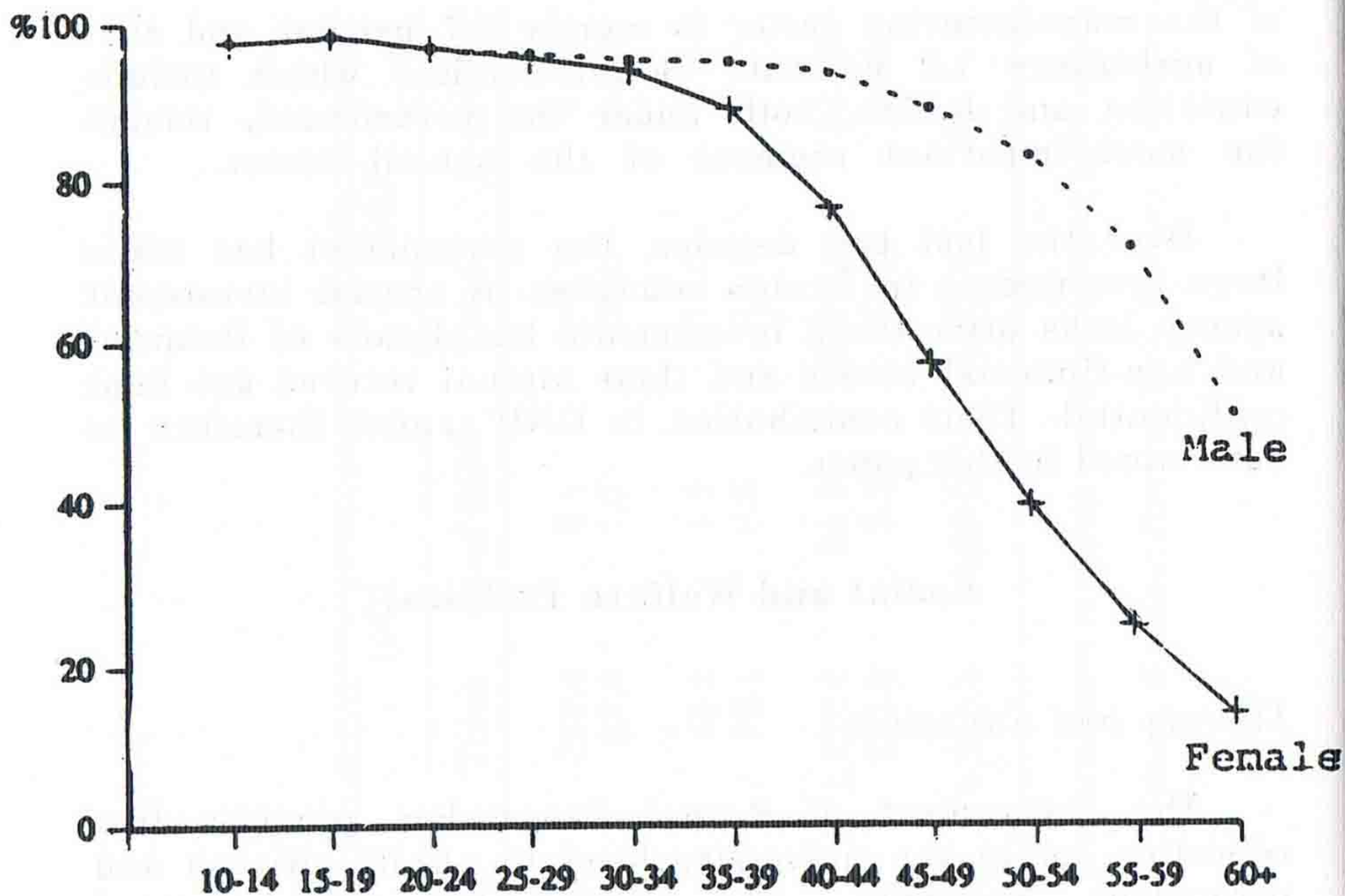


Figure 1 - Literacy Rate by Age and Sex, 1991, Brunei Darussalam

Source: *Brunei Darussalam Population Census, 1991.*

award diplomas in different technical and business fields. Recently a vocational school was established to provide necessary skills to those students who are unable to complete high school education. All these technical institutions have been quite successful in producing second-grade professionals and technicians. There are few local teaching staff in these colleges.

The University of Brunei Darussalam (UBD) was established in 1985 with a limited number of departments. This development has allowed many school teachers to upgrade

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their qualifications. Furthermore, many students were admitted to the university who could not otherwise afford to go abroad on their own. Similarly, it opened up educational opportunities for the daughters of many Malay Muslim families who would not have been allowed to go abroad for higher education due to religious and cultural reasons.

Majority of the highly qualified academic staff in UBD are foreigners. However, a serious problem faced by the university is that applicants are few and students generally have low average grades. Most of the students with good grades go abroad on government scholarships to pursue degree programs in subjects which are not offered by UBD such as medicine and engineering.

Out of the over 200 admitted to UBD every year, most enrol in the Bachelor of Arts or Bachelor of Science program which has both a major and a minor field. All students in this program are sponsored by the Ministry of Education which guarantees them a teaching job in government schools with a respectable salary. As mentioned earlier, because many students with good grades choose to go abroad, the entry level status of those who are accepted for admission at UBD has been relatively low. A high-quality academic staff at the university would certainly enhance their capability to become qualified school teachers. The Ministry of Education and the authorities at UBD thus continuously attempt to increase the entry level requirement to avoid the vicious circle of adding teaching staff to the school system with relatively low average grades.

Public Health

Free and comprehensive health care services as well as enhanced socioeconomic environment enable Bruneians to enjoy a high standard of health. During the 1980s, the average life expectancy of Bruneians increased to 70.1 years and 72.7 years for male and female, respectively. The rate of infant mortality also declined from 72.2 per 1000 to 7.2 per 1000 live births over the same period of time. Success of such a magnitude is indeed commendable. Other indicators

are the decline in crude birth rate from 32.9 per 1000 to 27.2 per 1000 population, and the decrease in maternal mortality from 0.38 per 1000 to 0 per 1000 total births.

The Ministry of Health formulates the National Health Policy which is designed to give the highest level of health care and optimum quality of life to the whole population in a clean and healthy environment. Emphasis has been given to the development of a system that is based on primary health care and aimed at dispensing a wide range of benefits including preventive, curative, and rehabilitative health care and support services. The main policy objectives are the reduction of infant mortality rate, disease and disabilities, and premature deaths, thereby increasing life expectancy, and the control of communicable diseases.

The medical and health department under the Ministry oversees the day-to-day management of health services through a network of hospitals, clinics, dental care centers, school health units, mobile dispensaries, flying-doctors teams and immunization campaigns. These provisions are supplemented by Brunei Shell which has its own health plan and hospital for its employees. Private doctors, dentists and chemists are also allowed to practise after registering with the Director of Medical Services.

Government provides free medical services to all its citizens, permanent residents, and foreigners who work for the government. Expatriate workers who work for private firms pay at subsidized rates. Like higher education institutions, all the hospitals are almost entirely run by foreign doctors. A significant number of paramedical staff are also foreigners. One benefit of the low degree of industrialization in Brunei Darussalam is that it has a very low level of environmental pollution.

Accommodation and Housing

The country has seen a tremendous increase in the construction of houses during the last few decades. In 1986, only 3,900 households had no dwellings of their own.

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However, a third of all households still live in traditional water villages.⁸ Nowadays, these houses have modern facilities such as electricity, tap water and telephones. The very fact that they are built on river water poses serious health and safety problems especially for a country with a relatively high land-man ratio and sizable financial resources. Although it is generally argued that people prefer to live in these areas, studies are needed to determine the real preferences and adverse effects on health. If necessary, a viable program of massive resettlements should be drawn up.

As a continuing effort to raise the living standards of the people, a statewide survey in the seventies succeeded in identifying people's housing needs and eight sites where self-contained housing estates could be constructed. In addition, in 1984, the government launched a scheme under which a landless indigenous citizen can own a plot of land and a house at subsidized price which can be paid in easy monthly installments. The government, being the biggest employer, provides its employees with subsidized accommodation and low-interest loans for those who have land and wish to build their own houses. Brunei Shell, another big employer, also provides its employees with quarters and housing loans.

Social Security and Old-Age Benefits

The State Pension Division of the Welfare, Youth and Sports Ministry is directly responsible for the distribution of pensions under the State Pension Act of 1954 which became operational on January 1, 1955. The pensions are designed to give some form of financial assistance to the elderly (60 years and above), Hansen's disease sufferers, the blind, the mentally afflicted and the disabled as well as their

⁸ A water village consists of a number of households living in houses built on water based on support poles. These houses are relatively small and are temporary structures.

dependents who are citizens or permanent residents of Brunei Darussalam. Currently each pensioner is given B\$100 per month, his/her dependents above 15 years B\$80 and those below 15 B\$50 subject to a maximum of B\$500 per month per family. In 1990, B\$10.6 million were paid to 8,700 recipients.

The State Pension Division also encourages jobless old-age pensioners to take up handicrafts to augment their incomes and perpetuate the country's sundry traditional crafts. The two largest employers in the country, the government and Brunei Shell, have excellent pension plans for their employees. In 1993, the government also came up with a pension plan for private sector employees in which all the three parties involved—the individual, the employer and the government—contribute. This was primarily initiated to attract job seekers to the private sector and thus lessen the pressure on demand for government jobs.

Macroeconomic Policies

Economic Growth

In terms of economic growth, the real GDP in Brunei dollars has been declining since its boom in the late 1970s when the economy grew at an average rate of about 12 percent. In the first half of the 1980s, the growth rate was negative but the situation improved during the second half when the growth rate rose to 4 percent. During 1990-1993 the nominal GDP grew at an average rate of 0.5 percent per annum. There are three causes of this slowdown: First, the decline in the international price of oil which is the main output and export of the country. Second, the continuous appreciation of Brunei's currency with respect to the US dollar. Finally, the government's conservation policy of keeping the level of oil output at 150,000 barrels per day—42.5 percent lower than the peak of 261,000 barrels per day in 1979.

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It should, however, be emphasized that the situation may not be as bad if we consider the possible growth in Brunei's GNP over the years. As the income from government's foreign assets—accumulated through continuous budget surplus over the years—is kept confidential, the actual figure for GNP is not known. Furthermore, one should also consider the sustained improvement in the non-oil sector which has grown with an annual average rate of 10.33 percent over the last three years. It must be admitted that much of the growth in the non-oil sector originates from the government's direct purchase of goods and services. Furthermore, most of the activities of the non-oil private sector are also dependent on the government's development program. However, as most of the government's expenditure is incurred in the improvement of infrastructure and social services such as roads, education, housing and health, it is expected that eventually the private sector will become vibrant in its own capacity.

Inflation

In spite of its development plan, substantial increases in money supply and growth in consumerism, the country has been fortunate to maintain a low level of inflation throughout the years. Table 2 shows the growth rate of money supply, the inflation rate and the foreign exchange rate of the Brunei dollar. The total money stock M_2 in 1993 was equal to B\$3,510.4 million of which currency in circulation was 479.2 million, demand deposits B\$2,031.8 million and savings deposits B\$999.3 million. However, irrespective of the rate of growth of money supply, the country has been able to keep the level of prices quite stable and the of inflation rate low. One reason for this is that Brunei has officially put its currency at par with the Singapore dollar. The latter has enjoyed surplus in its balance of payments accounts over the years and is among the few countries of the world whose currency has been appreciating against the US dollar. Furthermore, the Brunei government has fixed the retail prices of rice, sugar and petrol and assures the availability of these essential items

through its Department of State Stores and Supply which procures rice and sugar from international markets. The prices for these essential items were last revised in 1986. The appreciating Brunei currency may have helped in maintaining the prices at that level.⁹

Table 2 – Percentage Growth in Money Supply, Exchange Rate and Inflation.

Year	Growth in money supply-M2 (percent)	Exchange rate (B\$ equal to 1 unit of US \$)	Local banks' average prime lending rate (percent)	Inflation rate (percent)
1984	11.31	2.18	9.5	—
1985	3.30	2.12	8.0	2.3
1986	3.09	2.19	7.0	1.8
1987	78.61	2.01	6.5	1.3
1988	5.98	1.95	6.5	1.2
1989	6.77	1.90	6.5	1.3
1990	7.32	1.79	7.0	2.1
1991	-0.50	1.64	7.0	1.6
1992	-0.53	1.65	6.0	1.3
1993	3.53	1.61	5.75	4.3

Source: *Brunei Darussalam Statistical Yearbook*, 1993, Statistics Division, Economic Planning Unit, Ministry of Finance, Brunei Darussalam.

Apart from the import of rice and sugar, the government of Brunei, like that of Singapore, has a liberal import policy which maintains its level of tariffs low compared to other neighboring countries in the region. This has contributed to keeping the level of prices very stable over the years.

⁹ No official position is known in this regard.

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Early this year, the government increased the import duty on cars from 20 percent across-the-board to a minimum of 40 percent with a maximum of 200 percent. At the same time, it decreased duties on many other consumer items including electronics and manufactured goods. As Bruneians have a very high per capita consumption of cars, the inflation rate measured by the consumer price index (CPI) has increased by 4.5 percent only in the four-month period of January-April 1995. It is, however, expected that this would be a one-time increase in price level and not a sustained increase in the rate of inflation.

Money and Banking

Brunei Darussalam is yet to establish its central bank. The supply of money and management of the currency are presently controlled by the Brunei Currency Board. The Board's principal objective is to maintain external reserves in order to safeguard the international value of the currency and promote monetary stability. The Board also acts as the principal licensing and monitoring agency for the country's banks and finance companies. All local and foreign banks operating in the country are required to submit monthly consolidated financial reports to the Board. Currently there are nine commercial banks in the country which provide a full range of banking services. Most of them are branches of foreign banks. The government of Brunei holds majority shares in the Islamic Bank of Brunei which is one of the three locally incorporated banks.

The arrangement whereby Singapore and Brunei currencies are interchangeable at par continues in effect. Their respective currencies are acceptable as customary tender when circulating in the country in which they are not legal tender. There are no regulatory requirements upon banks to deposit statutory reserves of any kind or of any specific liquidity requirements. Only the locally incorporated banks are required to transfer at least 20 percent of their yearly net profit to a reserve fund until it equalizes with the bank's paid-up capital. As far as the

foreign banks are concerned, the government expects them to look toward their parent companies to provide liquidity and solvency support.

In most countries with a central bank, leading commercial banks set their prime lending rates in accordance with the discount rate. In Brunei Darussalam, the Brunei Association of Banks of which all local and foreign banks are members, fixes a uniform prime lending rate for each month in its monthly meeting. Deposit rates are also set by the Association for amounts up to B\$100,000 and for periods up to 12 months. However, any change in the interest rate must be referred to the Ministry of Finance. In general, interest rates are set in line with those prevailing in Singapore.

In 1993 most of the loans of the commercial banks were directed toward personal loans (45.5 percent) followed by credit and finance institutions (24.9 percent), commercial units (13.2 percent) and construction industry (11.3 percent). The credit and financial institutions in Brunei are also mainly involved in personal loans. According to the Standard and Poor Rating Group, the deployment of funds to loans and advancement in Brunei is low by international standards. It reflects the increasing wealth and steadily rising level of customer deposits relative to demand for credit. The high proportion of funds deployed to the interbank market essentially represents the placement of surplus deposits by the foreign bank branches to the Singapore interbank market. The local interbank market in Brunei remains small and there is no official market for government securities in Brunei Darussalam.

It is clear that the government of Brunei Darussalam has so far not used monetary policies to its full capacity. Unlike other developing countries, it neither faces a trade deficit (or a balance of payments deficit) nor confronts an imbalance in its budgetary position. Similarly, the nature and problem of its unemployed people is different from those faced by other developing countries. It is, therefore

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understandable that the government has not yet felt the need for an active monetary policy. Its main concerns are limited to providing appropriate liquidity in the economy and keeping price level under control.

Public Finance

Table 3 shows the revenue and expenditure profile of the government of Brunei Darussalam. The first classification on the revenue side includes import duty, income taxes, stamp and excise duties and license fees. Out of these, the significant elements are taxes and import duty. As there is no personal income tax in the country, income tax actually means corporate tax. In 1993 the volume of import duty was B\$104.59 million whereas all other duties and license fees together were equal to a mere B\$6.34 million. The largest amount, i.e., B\$1.029 billion came from corporate taxes. Although the details are not known, considering the poor contribution of the non-oil private corporate sector to the GDP, the bulk of these taxes comes from the Brunei Shell Company of which the government is an equal partner. The largest source of revenue is the royalty received from oil and gas companies.

On the expenditure side, the largest item is the ordinary expenditure which is the sum of expenditures incurred by different government ministries and departments. In 1993 the breakdown of this expenditure according to the important sectors of the government was as follows: defense, 16.55 percent; education, 12.5 percent; public works, 8.48 percent; and medical and health, 6.21 percent. The charged expenditure, which has declined drastically after 1985 represents expenditure incurred by His Majesty the Sultan of the country. The last item of expenditure is related to development projects that are mainly infrastructural.

Government budget surplus is equal to revenue *less* charged expenditure *less* ordinary expenditure *less* contribution to development expenditure *less* contribution to government

Table 3 - Government Revenue, Expenditure and Budget Surplus/Deficit
(Figures in million B\$)

Item	Year				
	1985	1990	1991	1992	1993
<i>Revenue</i>					
Total	7,532.99	2,796.43	2,685.61	2,729.57	3,415.75
Duties, taxes and licenses	2,578.88	1,610.05	1,465.50	1,292.34	1,143.75
Receipt for specified government services	3.9	4.41	5.08	4.91	6.46
Public enterprises	111.63	175.58	193.06	243.44	248.01
Revenue from government properties	4,838.53	916.39	1,021.96	1,188.88	2,017.52
<i>Expenditure</i>					
Total	4,317.9	2,790.4	92,759.8	33,057.1	93,397.10
Charged expenditure	2,386.74	458.02	445.75	460.15	426.03
Ordinary expenditure	1,599.48	1,870.50	1,944.27	2,136.24	2,281.18
Development expenditure	331.70	461.98	369.81	460.82	689.89
<i>Budget deficit</i>	n.a.	22.08	105.02	266.82	45.49

Source: *Brunei Darussalam Statistical Yearbook*, Statistics Division, Economic Planning Unit, Ministry of Finance, Brunei Darussalam.

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trust funds *plus* capital and currency adjustments. The figure for budget deficit is not very meaningful as income from government assets held in foreign countries is not taken into account for which no official figure is available.

It is obvious that the government of Brunei can raise more revenue by introducing personal income and wealth tax, property tax and increasing the rates of import duties comparable to those prevailing in neighboring countries. However, the availability of revenue through oil and gas sector has so far made it possible to postpone the use of these traditional sources of public finance.

Labor Force and Unemployment

The labor market in Brunei Darussalam is overheated with excess demand for labor in almost all spheres of the economic sectors. Excess demand also prevails in all categories of labor—skilled, semiskilled, and unskilled. Such a phenomenon is a result of the already small population base although the growth rate is relatively high averaging approximately 3.0 percent annually. Hence the local labor force has not been able to cope with the economic growth of the country even though the GDP growth rate is quite low, especially during the past decade. However, despite the overheat in the labor market, it is quite surprising to note a high number of unemployed locals. One other feature of the labor market in Brunei Darussalam is the locals' heavy dependence on the public sector for employment. A relatively higher wage level and handsome fringe benefits in the public sector compared to the private sector are the main reasons for this. However, with the current awareness on the part of the government of such a problem, some active planning and execution of strategies such as wage freezing and establishment of the Workers Provident Fund for the private sector workers may reduce pressure on demand for government jobs.

A closer investigation of the labor force in Table 4 shows that the males are dominant, comprising 76 percent

and 69 percent respectively for 1981 and 1991. Although labor force figures are not available for the intervening years, the overall annual growth rate between the years under consideration is shown to be positive at 4.7 percent—3.3 percent for the male labor force and 8.1 percent for the female. The relatively higher growth rate for the females is due to the increased number of educated females. The increased participation of females in the labor force (especially for married females) has indirectly increased more female workers in domestic services and this again increased the economy's dependence on foreign labor.¹⁰

Overall in 1981, the percentage of people employed out of the total labor force was 96.4 percent and this decreased slightly to 95.3 percent in 1991. The residual figures for 1981 and 1991, interpreted as the unemployed labor force, are 3.6 percent and 4.7 percent, respectively. The degree of the economy's dependence on foreign labor could be examined from figures of employment by citizenship. In 1981, for example, 35 percent of the total employment consisted of foreigners and this figure has increased to 38 percent a decade later.

The number of unemployed has increased dramatically from 2,562 in 1981 to 5,209 in 1991—a twofold increase. The increase has posted an average annual growth rate of 7.2 percent between the years under scrutiny. It is quite interesting to note that compared to 1981, a greater fraction of male labor force was unemployed a decade later.

It is also observed that the growth rate of unemployed males is 9.3 percent compared to only 5.5 percent for the females. Although unemployment in itself is a problem that needs serious attention, it is generally believed that the problem of disguised unemployment is a more serious

¹⁰ Most domestic workers in Brunei come from the Philippines and Indonesia.

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**Table 4 - Population, Labor Force,
and Unemployment Rates in Brunei 1981-1991**

Index	1981		1991	
	Number	Percent	Number	Percent
Population:	192,832	100	260,482	100
Male	102,942	53.4	137,616	52.8
Female	89,890	46.6	122,866	47.2
Citizenship:				
Locals	147,861	76.7	189,956	72.9
Foreigners	44,971	23.3	70,526	27.1
Labor force:				
Total	70,690	100	111,955	100
Male	53,859	76.2	75,083	67
Female	16,831	23.8	36,872	33
Employed:				
Total	68,128	100	106,746	100
Male	52,737	77.4	72,338	67.8
Female	15,391	22.6	34,408	32.2
Locals	43,695	65.1	66,602	62.4
Foreigners	24,433	34.9	40,144	37.6
Unemployed:				
Total	2,562	100	5,209	100
Male	1,122	43.8	2,745	52.7
Female	1,440	56.2	2,464	47.3
Rate of unemployment ¹¹		3.6		4.7

Source: *Brunei Darussalam Population Census 1981-1991*, Statistics Division, Economic Planning Unit, Ministry of Finance, Brunei Darussalam.

¹¹ Again we would like to emphasize that the rate of unemployment given in this table is the official figure. By definition, labor force includes expatriate workers in addition to the local labor force. The latter, however, seems to be the more appropriate focus as there is no unemployment among foreign workers. If we use this alternative definition, then the corresponding figures would be 4.8 and 7 percent for 1981 and 1991 respectively.

problem. Such condition is rampant not only in the public sector but also in the private sector. Apart from the direct and shorter-term consequences of under-productivity, a more perilous and destructive longer term consequence such as the over-dependence on foreign labor is also a matter that needs to be given due consideration.

International Trade

Brunei Darussalam is heavily reliant on the export of non-diversified commodities—oil and gas. Likewise, for almost all its domestic consumption, it has been dependent on imported commodities. However, over the years it has enjoyed trade surplus partially due to the small population, although the figures have been declining quite visibly, especially in the nineties. From Table 5, it could be seen that there is a large decline in its balance of trade. In 1980, for example, it stood at B\$8.6 billion but within a decade this figure dropped drastically to only B\$2.2 billion. The trade surplus further declined to B\$0.9 billion in 1994. One other important observation that could be gathered from Table 5 is the declining value of total trade. This is primarily a result of the declining export of oil and natural gas, especially with the deteriorating price of oil over the years. Moreover, with the emphasis on resource conservation, the country has embarked upon limiting crude oil production, currently at 150,000 barrels per day. On the import side, the increase has been gradual compared to the decline in exports and therefore unable to maintain the value of total trade.

In terms of commodities, the imports of Brunei Darussalam in 1991 included machinery and transport equipment (38.3 percent), manufactured goods (37.4 percent) and food products (12.9 percent). The main sources of imports for 1991 were Singapore, Japan, the USA, Malaysia and the UK with, respectively, 22.0 percent, 15.8 percent, 13.7 percent, 9.6 percent and 7.0 percent of the total imports. This pattern has not been different from that seen a decade ago. Exports destinations, too, have been unchanged

Table 5 – Exports, Imports and Balance of Trade of Brunei
(Figures expressed in thousand B\$)

Item	Year						
	1980	1985	1990	1991	1992	1993	1994
Total trade	11,083.5	7,881.3	5,823.4	6,189.3	5,780.0	5,697.1	5,880.2
Exports	9,852.9	6,532.9	4,010.2	4,266.9	3,863.2	3,684.5	3,383.2
Imports	1,230.6	1,348.4	1,813.2	1,922.4	1,916.8	2,012.6	2,497.0
Balance of trade	8,622.3	5,184.5	2,197.0	2,344.5	1,946.4	1,671.9	886.2

Source: *Brunei Darussalam Statistical Yearbook, 1993* and *Brunei Darussalam Key Indicators, 1994*, Statistics Division, Economic Planning Unit, Ministry of Finance, Brunei Darussalam.

with Japan leading the pack absorbing more than 60.0 percent of the total export since the early seventies (more than 70 percent then). This is followed by South Korea (10.3 percent), Thailand (8.2 percent) and Singapore (6.7 percent) according to the 1991 figures. The importance of these countries is mainly due to their import of crude petroleum and related products.

Diversification of Private Investment and Foreign Direct Investment

The government of Brunei has repeatedly shown concern over the country's overdependence on the oil and gas sector,¹² too much dependence on government jobs, and the low level of domestic private investment.¹³ In order to encourage local entrepreneurs, it established the Financial Loans Scheme in 1977 under the Economic Development Board (EDB). Recently, the government also established a development bank but its function and mode of operation are yet to be made public. EDB provides loans of up to B\$1.5 million for a single project to local entrepreneurs at an interest rate of 4 percent. Until recently, it has granted a total of B\$93 million. These loans were extended to people who do not work for the semi-government departments. Out of the total amount, B\$75 million was used for housing schemes—both commercial and residential—for rent. The reason is simple—local entrepreneurs find it safe and least complicated. Land or personal belongings are accepted as collateral. Despite EDB's encouragement to new borrowers and for diversified activities, there are few new applicants and most loans are intended for housing projects. Every year the

¹² This issue of diversification has already been outlined as early as in the seventies even before the effect of the first oil price hike was felt, i.e. as outlined in the Third Development Plan (1974-1979).

¹³ Also, the local private investment dependence on government investment projects in infrastructure has become a traditional behavior.

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government allocates to the EDB loanable funds for feasible projects but so far demand for loans has always been less than the supply.

Probably in the hope of breaking the ice, the government established the Ministry of Industries and Primary Resources in 1988. The Ministry has set up an industrial unit, specifically to help foreign investors, which houses a coordinating bureau called the One Stop Agency. The government has offered all it can to attract foreign investment in the country.¹⁴ This clear-cut policy of attracting foreign investment, especially direct foreign investment, could be seen in the pronouncement of His Majesty the Sultan of Brunei Darussalam:

We have always welcomed foreign investment. We are ready and willing to look at suggestions from would-be investors. We welcome participation by major multinational companies in the economic activity of our country. Such participation would have to be on the basis of sharing the benefits equally.¹⁵

Up until 1985 at least, there has been an increase in real terms to B\$102.2 million in non-oil private investment compared to the 1975 figure, i.e., B\$75 million.¹⁶ However this figure has declined drastically to an average of B\$73 million

¹⁴ The latest attempt on the part of the government through the Ministry of Industry and Primary Resources in trying to boost its diversification drive is formulating the Industrial Master Plan in 1995. Among others, the plan has recommended a reorganization of the Ministry itself, removal of bureaucratic red tape, instituting an entrepreneurs program and the development of a niche sector.

¹⁵ The Government of Brunei, *Brunei Darussalam in Profile*, 1988, p. 128, published by Shendwick, London.

¹⁶ Investment in the oil sector has also declined compared to the peak year figure of 1982 which stood at B\$1,104 million. For example, during the Fifth Plan period (1986-1990) total oil sector investment was only B\$1,597 million.

between 1986 and 1990 (a total of B\$365.4 million during the period as shown in the Sixth National Development Plan (1991-1995). As far as foreign direct investment is concerned, foreign equity investment peaked in 1993 to B\$46 million compared to only about B\$5 million in 1989. In mid-1994, foreign equity investment was recorded at B\$27 million.¹⁷ The cumulative foreign equity investment from ASEAN countries is B\$85 million.

Although the sources of foreign investment are diversified, the main contribution is from the United Kingdom, understandably because of Shell's involvement in oil and gas extraction. Other traditional sources include the Netherlands (through its association with Shell Companies) and ASEAN countries, especially Malaysia and Singapore. Taiwan, Hongkong and Japan too are quite visible and the latter is involved in liquefied natural gas production. New investments from Japan, the United Kingdom and the Netherlands are hard to come. There are substantial investments from some ASEAN countries such as Singapore and Malaysia, and investment from Indonesia is on the rise.¹⁸

One other aspect which we would like to add with regard to the diversification policy is its effect on export, more specifically on non-oil exports. In absolute terms, there is a positive increase in the non-oil exports of the country; for example, after 1988 non-oil exports rose from B\$84.6 million to B\$166.6 million, a twofold increase. However, as a percentage of GDP, the increase in the non-oil export is only marginal, from 1.5 percent (1988) to 2.5 percent.

¹⁷ Note that these figures are exclusive of local investment and therefore may be grossly underestimated in terms of total non-oil investment. The source is the Industrial Unit of the Ministry of Industry and Primary Resources and the investment figures are for investment made in areas administered by the unit.

¹⁸ The latest was in 1993 when Indonesia invested heavily in building materials (B\$38 million) and textile (B\$13 million) production.

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In summary, tax holidays, exemption of import duty on machineries and equipment, fewer trade barriers than most neighboring countries, free exchange rate regime, minimal inflation, political stability, peace and security, availability of energy, water, telephones and good roads—all these seem to make Brunei an attractive place to invest in. However, so far, a large part of foreign direct investment has been confined to oil and retail sectors. The three primary reasons for this minimal response of the foreign companies are that, compared to neighboring countries, Brunei has relatively high wages, scarce labor—especially skilled labor—and a small domestic market.

All other ASEAN countries and East Asian countries have comparative advantage in all the above areas. It appears that as far as foreign direct investment is concerned, no level of government incentive can overcome these disadvantages. It is, therefore, necessary that the country devise an endogenous development program involving the local population. Another relevant factor is that, relative to other communities, especially the local Chinese community, Malays are generally less inclined to take up entrepreneurial challenges. Any development plan adopted by the government must address this issue which will require multifaceted research studies involving culture, sociology and existing government policies in all areas of life.

East ASEAN Growth Area (EAGA)

In October 1992, the President of the Philippines Fidel Ramos proposed the concept of the East ASEAN Growth Area (EAGA), comprising the Southern Philippines, Brunei Darussalam, East Malaysian regions of Sarawak, Sabah and Labuan and northeast provinces of Indonesia. The official response of the countries involved has been very positive although there were many skeptics. Except Brunei Darussalam, the included regions of the other countries are less developed compared to the mainland or core of their respective economies. There are geographical, economic and political reasons for this unbalanced development in these

areas. However, it seems that all of them are now genuinely interested in improving the situation. Brunei Darussalam, which is the richest among all but too dependent on its hydrocarbon deposits has joined the bandwagon in the name of diversification and industrialization.

It will not be inappropriate to suggest that the idea of EAGA has come from the success of other regional development groupings especially the growth triangle comprising Malaysia, Singapore and Indonesia. However, it is important to understand the differences between the two groupings. The driving force behind the growth triangle was Singapore's appetite for expansion and the dynamism of its economy which needed more land and labor than what its own economy could provide. On the other hand, both Malaysia and Indonesia needed foreign direct investment especially in the regions close to Singapore. The private sector's desire to expand was comprehensively supported by the three governments involved who took the bold political initiative to allow both the government agencies and the private sector to take appropriate actions. Reforms were made in land acquisition and leasing procedure, movement in men and material, and provision of necessary infrastructure especially in communication and transport.

The government of Brunei Darussalam, in its pursuit to diversify and industrialize its economy, and create jobs for its increasingly educated labor force, has put too much hope in the idea of sub-regional development within the ASEAN region. The Minister for Industry and Primary Resources of Brunei has been quite busy in visiting the countries involved and signing a Memorandum of Understanding with government agencies of the other countries as well as the private sectors.

Policy Implications

It should be quite obvious from the contents of the preceding sections that the main objectives of the government of Brunei Darussalam are to stimulate the process of

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industrialization and diversification, provide jobs to those who are currently unemployed, and create future job opportunities for its increasingly educated and trained labor force. The constraints to achieve these objectives are the high cost of living compared to neighboring countries, the lack of entrepreneurial dynamism among the local population, and the nation's implicit reluctance to further increase the dependence on foreign skilled and unskilled workers. The few manufacturing units established in the country by foreign investors have been so far successful only when they manage to employ relatively lower-paid workers from neighboring countries such as the Philippines and Thailand. The effect of freezing wages in the government sector since 1984 has somehow been nullified by the continuous appreciation of Brunei's currency.

Given the objectives and the constraints, there are several options worth considering. First, the government may select few capital-intensive industries for the country which can absorb the local labor force and provide necessary protection through increasing tariffs for the selected items or completely banning their importation. Second, the government may decide to make Brunei Darussalam a financial hub for the region even if it has to compete with Labuan which is rapidly growing as the regional financial and banking center of east Malaysia. Finally, it is generally understood that the bulk of Brunei's foreign investment has been directed toward the United States, Europe, Singapore, and west Malaysia. The government may decide to divert some of these resources toward the growth quadrangle, EAGA, in the shape of foreign direct investment so that a sizable number of qualified Bruneians could be employed.

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