

Brunei Darussalam

A. Medium-term economic outlook (forecast, 2019-23 average):

GDP growth (percentage change): 2.0
 Current account balance (% of GDP): 10.0

B. Medium-term plan

Period: 2012-17
 Theme: Knowledge and innovation to enhance productivity and economic growth

C. Basic data (in 2017)

Total population: 0.4 million*
 Population of Brunei/Muara: 0.3 million*
 Nominal GDP (US dollar): 12.1 billion**
 GDP per capita at PPP: 78 970.8 (current International Dollar)**

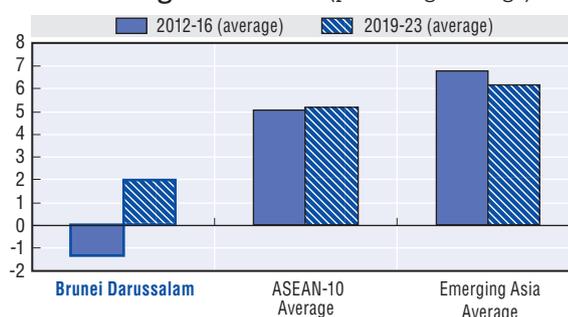
Exchange rate in the first half of 2018 (period average): 1.3 (BND/USD)

Note: * Population data are mid-year government estimates.

** IMF estimate.

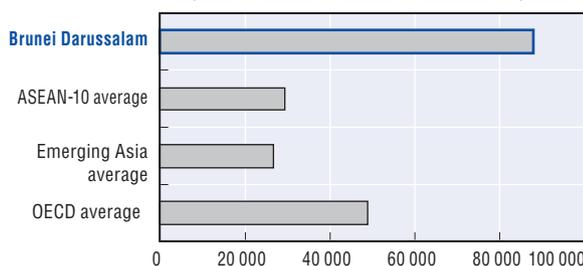
Sources: OECD Development Centre, national sources, CEIC and IMF.

GDP growth rates (percentage change)



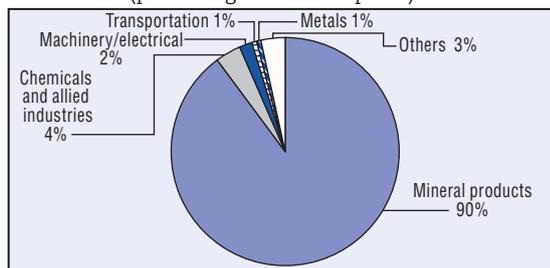
Source: OECD Development Centre, MPF-2019.

GDP per capita, 2017 (PPP, current international dollar)



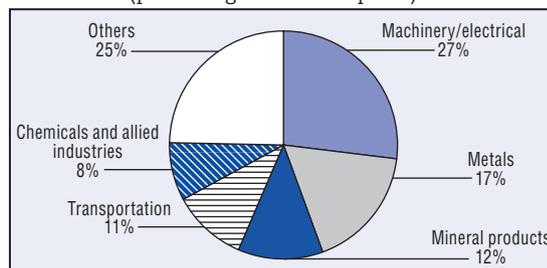
Source: IMF.

Composition of exports, 2017 (percentage of total exports)



Source: Trademap.

Composition of imports, 2017 (percentage of total imports)



Source: Trademap.

Structural policy challenges discussed in previous editions of the Outlook

| | | |
|------|----------------------------|---|
| 2014 | Human capital development | Improve tertiary education attainment |
| | Private sector development | Improve private sector development to diversify beyond the hydrocarbon economy |
| | Competition | Legislate and implement competition policy |
| 2016 | FDI | Encourage foreign direct investment inflows |
| | Business sector | Reform the business sector to promote diversification |
| 2017 | Public finance | Reform public finance |
| | Economic diversification | Promote economic diversification by inviting foreign investment and supporting the private sector |
| 2017 | Competition | Improve legislation on business competition |
| | FDI | Attracting foreign direct investment (FDI) to diversify the economy and create more jobs |

Recent developments in policy areas covered by previous editions of the Outlook

Setting up a competition commission and a department for competition and consumer affairs

- In August 2017, the Prime Minister's Office announced the creation of a national competition commission to promote business competition in line with the Competition Order of 2015. This is a competition law that seeks to promote efficiency in the economy and consumer welfare. In turn, the aim is to foster economic growth, as per Brunei Darussalam's national strategy – Wawasan Brunei 2035. Brunei Darussalam has also set up a new government department for competition and consumer affairs (under the aegis of the department for economic planning and development) to investigate and conduct the administrative tasks for the new competition commission. In this connection, the competition commission took part in an engagement session in February 2018 at the economic planning department.

Education: strengthening human capital

- In March 2018, the education ministry released a strategic plan for 2018-22, aiming to deliver a “holistic education strategy to achieve the fullest potential for all” (Ministry of Education, 2018). With this in mind, the ministry's objectives are to strengthen the development of human capital while using education to help create an effective network environment. The vision is to provide equal access to education, to improve its quality, and to support lifelong learners who, through study and training, could become more efficient, productive and competitive, and thus help to improve the economy overall. The plan focuses on three key areas: leadership and governance, system-wide support, and teaching and learning. In this way, the education ministry expects to deliver a more performance-driven system and to implement its strategic plan, aiming constantly to provide high-quality teaching and better learning achievements.
- Between April and May 2018, a special task force within the education ministry carried out the main survey for the OECD's Programme of International Student Assessment (PISA). This kind of action is very much in line with Wawasan Brunei 2035's goal of improving learning outcomes at schools in Brunei Darussalam. The PISA survey will monitor educational practices and benchmark the national education system internationally. Therefore, this survey could help the education ministry to improve learning outcomes by identifying better strategies. Indeed, there is scope within this framework for Brunei Darussalam both to learn best practices and to share its own experiences with other countries.

Attracting FDI from foreign partners to diversify the economy

- China and Brunei Darussalam plan to complete the construction of the Zhejiang Hengyi Petrochemical Project on Pulau Muara Besar by the Q2 2019. This is one of the largest FDI-funded projects in the country. The project's partners plan to put this plant into operation in the Q2 or Q3 of 2019. The project is divided into two phases which will cost over USD 15 billion and will consist of feasibility and environmental studies plus the key construction work. The plan is then to bring a second phase of the refinery and petrochemical plant into operation in 2022.

POLICY FOCUS

Strengthening local SMEs

As an oil-producing nation, Brunei Darussalam is one of the richest countries in GDP per capita terms in the region. Brunei Darussalam's economy is mainly led by exports of crude oil and natural gas; when measured at constant prices based on the year 2010, oil

and gas continue to account for 43.6% of GDP in 2017. However, their production continues to decline gradually from 2010. The government has taken steps towards diversification through a variety of initiatives. In an effort to lessen the economy's dependence on the oil and gas sector, and to generate more jobs in other sectors, the government has been focusing on strengthening SMEs domestically, so that they are competitive in exporting to the global market.

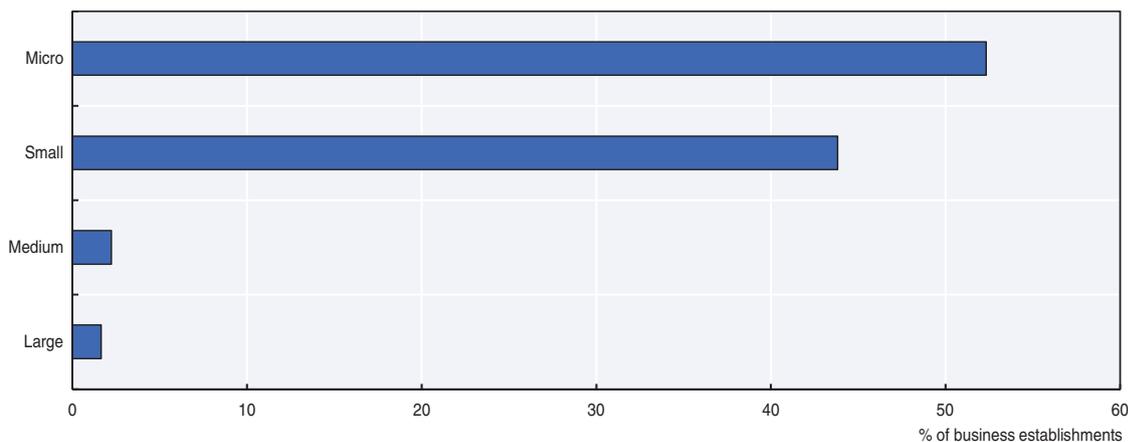
The nature of SMEs in Brunei Darussalam

Brunei Darussalam defines SMEs as enterprises with between 1 and 100 employees. They include SMEs as well as micro enterprises. Micro enterprises have between 1 and 5 employees; small enterprises have between 6 and 50 employees, while medium-sized enterprises have between 51 and 100 employees. The government has recognised the important role that SMEs have to play in helping with the urgent objective of economic diversification, and with Brunei Darussalam's broader agenda of industrial and economic growth. In its push for economic diversification, the government is paying particular attention to business services, financial services, hospitality and tourism, transport and logistics, manufacturing, primary resources (i.e. agriculture, fisheries, and ecotourism), as well as the food and halal industries. In order to achieve the economic diversification it wants to see, the government has developed a range of initiatives to encourage both local and foreign investors to take part in its diversification reforms.

In 2008, the total number of businesses registered in all sectors in Brunei Darussalam stood at 9 302 establishments. Of this number, 9 150 are active SMEs, which equates to 98.37% of the country's businesses. Most of Brunei Darussalam's SMEs are concentrated in the wholesaling and trading businesses. This is followed by the construction sector, and then by mining, quarrying and manufacturing sector. After that comes the community, social and personal sector, ahead of agriculture, forestry, and fishing.

SMEs have significant potential to contribute to the diversification of Brunei Darussalam's economy. In 2008, they contributed 58% of Brunei's total employment in the private sector and 22% of GDP. The 2008 statistics also showed that 52.3% of Brunei Darussalam's businesses were micro enterprises, 43.8% were small enterprises, 2.23% were medium-sized enterprises, and 1.63% were large enterprises (Figure 3.6.1). Most of the country's SMEs are run by young, educated and highly-skilled individuals, who use the latest technological developments to grow their businesses. Supported by various agencies, Brunei Darussalam's SMEs are set to grow both locally and abroad. To date, and in addition to oil and gas and manufacturing, the country's SMEs have been involved in sectors such as professional services, information and computer technology, e-Business, and hospitality.

Figure 3.6.1. Different types of establishments in Brunei, 2008



Source: MOHA (2009).

StatLink  <https://doi.org/10.1787/888933887196>

Initiatives to help SMEs to become bigger players in the markets they serve

To ensure that SMEs are able to compete domestically and globally, the government recognises the need to develop the capability and competitiveness of local entrepreneurs. To do so it aims to promote qualities of socially responsible entrepreneurship and to encourage SMEs to get more involved in the export market. It also aims to increase their productivity and promote innovation and technology transfer among SMEs. To achieve these goals, the government provides various forms of assistance that include financing for entrepreneurial development, investment incentives, initiatives with regard to technology transfer and infrastructure, and various other facilities through its many governmental agencies.

In general, the government is pursuing three overarching objectives in assisting SMEs: to expand business opportunities, to provide a favourable business environment for trade and investment, and to ensure that SMEs are able to benefit from these opportunities. The main agencies that promote SMEs' development are the ministry of industry and primary resources and the BEDB, Brunei Darussalam's Economic Development Board. The industry ministry helps SMEs through its own projects as well as through its agencies, which include the Entrepreneurial Development Centre.

There are four chambers of commerce in Brunei Darussalam that help with the development of SMEs, notably by promoting co-operation and strengthening their business relations. These are: the National Chamber of Commerce and Industry, the Brunei-Malay Chamber of Commerce and Industry, Brunei International Chamber of Commerce and Industry, and the Chinese Chamber of Commerce. Apart from strengthening entrepreneurship domestically, the government has also continuously been attracting foreign investors and international co-operation (Ministry of Industry & Primary Resources, 2009).

Challenges to the growth of SMEs in Brunei Darussalam

Even though there is a push from government in the form of financing and training to promote SMEs, the biggest obstacles that Brunei Darussalam's SMEs face also include marketing and capital limitations, weak government policies, human-resources development, and issues pertaining to facilities, raw materials, and the general approach of the entrepreneurs themselves.

The SME sector is still in its early stages of growth in Brunei Darussalam. Most of these businesses are very dependent on initiatives led by the government, especially because entrepreneurial skills are still in relatively short supply. In addition, as the majority of the country's SMEs are not yet export-oriented businesses, they have to compete in an already saturated market. Due to this, SMEs end up having to compete among themselves and with foreign competitors against both local products and imported ones.

In terms of financing, and even though the government has put in place several programmes to help SMEs grow, financial schemes targeted at building and upgrading the capability and capacity of local SMEs – which is very much needed – have so far been limited.

Brunei Darussalam has no specific policy for SMEs, and its rules and regulations cover all types of businesses rather than differentiating between them. As a result, certain government policies may impact some SMEs negatively in their development. This is the case especially for provisions related to the labour quota cap and also the country's regulations on financing. This factor aside, Brunei Darussalam's SMEs also require more training in management skills, notably when it comes to finance, personnel development, marketing, sales, production, and operations. According to a survey undergone by Japan Overseas Development Corporation, about 76% of SME owners stated that capacity

building is required for their employees to upgrade their skills, which is an important ingredient for succeeding in business. The shortage of human resources due to the small size of the country's population complicates the issue further. Moreover, this challenge is compounded when local graduates have many choices upon graduation, and joining an SME may not be their first priority given the risks involved.

Given that most SMEs in Brunei Darussalam are still in the initial stages of their development, capital accumulation is proving to be a gradual process. In terms of other facilities, premises like factories and workshops are rented from private owners, which translates into higher fixed costs. This results in a higher price per unit for SMEs' products, especially when economies of scale are not achieved. This factor comes on top of a higher cost of imported raw materials, with most resources coming in from neighbouring countries like Malaysia and Indonesia. Putting all of these factors together, SMEs are struggling to survive even in the domestic market. Apart from the quantity of raw materials available, quality is also an issue, and local SMEs have stated this themselves. Last but not least, the mindset of Brunei Darussalam's SMEs, which often prefer to avoid risks, is also a major challenge in growing the sector. In general, job roles in the public sector – with all of their pension benefits – are preferred to entrepreneurship, in which the risks are greater, even if there is also potentially a larger upside too.

Key government ministries in Brunei Darussalam

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|---|--|
| Prime Minister's Office | Sultan Hassanal Bolkiah (Prime Minister) Crown Prince Al-Muhtadee Billah (Senior Minister) Isa Ibrahim (Minister and His Majesty's Special Advisor) Abdul Mokti Mohd. Daud (Minister) |
| Ministry of Communications | Abdul Mutalib Md. Yusof |
| Ministry of Culture, Youth and Sports | Aminuddin Abidin |
| Ministry of Defence | Sultan Hassanal Bolkiah |
| Ministry of Defence (Second Minister) | Halbi Mohd. Yusof |
| Ministry of Development | Suhaimi Gafar |
| Ministry of Education | Hamzah Sulaiman |
| Ministry of Energy (Energy and Manpower) and Industry | Mat Suny Mohd Hussein |
| Ministry of Finance | Sultan Hassanal Bolkiah |
| Ministry of Finance (Second Minister) | Mohd. Amin Liew Abdullah |
| Ministry of Foreign Affairs and Trade | Sultan Hassanal Bolkiah |
| Ministry of Foreign Affairs and Trade (Second Minister) | Erywan Yusof |
| Ministry of Health | Md. Isham Jaafar |
| Ministry of Home Affairs | Abu Bakar Apong |
| Ministry of Primary Resources and Tourism | Ali Apong |
| Ministry of Religious Affairs | Awang Badaruddin Awang Othman |

Note: Valid as of 16 October 2018.

References

- Ministry of Education (2018). *Strategic Plan 2018-11 Layout*, Brunei Darussalam Ministry of Education, Bandar Seri Begawan.
- Ministry of Industry & Primary Resources (2009). *Brunei Darussalam Business & Investment Guide*, Ministry of Industry & Primary Resources, Bandar Seri Begawan, Brunei Darussalam.