

CHAPTER 3

CHAPTER 3

THE ECONOMY OF NEGARA BRUNEI DARUSSALAM

"Brunei Darussalam shall be forever a sovereign, democratic and independent Malay Muslim Monarchy upon the teaching of Islam according to the Ahli Sunnah Wal-Jamaah and based upon the principle of liberty, trust and justice for ever seeking the guidance and blessing of Allah (to whom be praised and Whose name be exalted) the peace and security, welfare and happiness of the people of Brunei Darussalam".

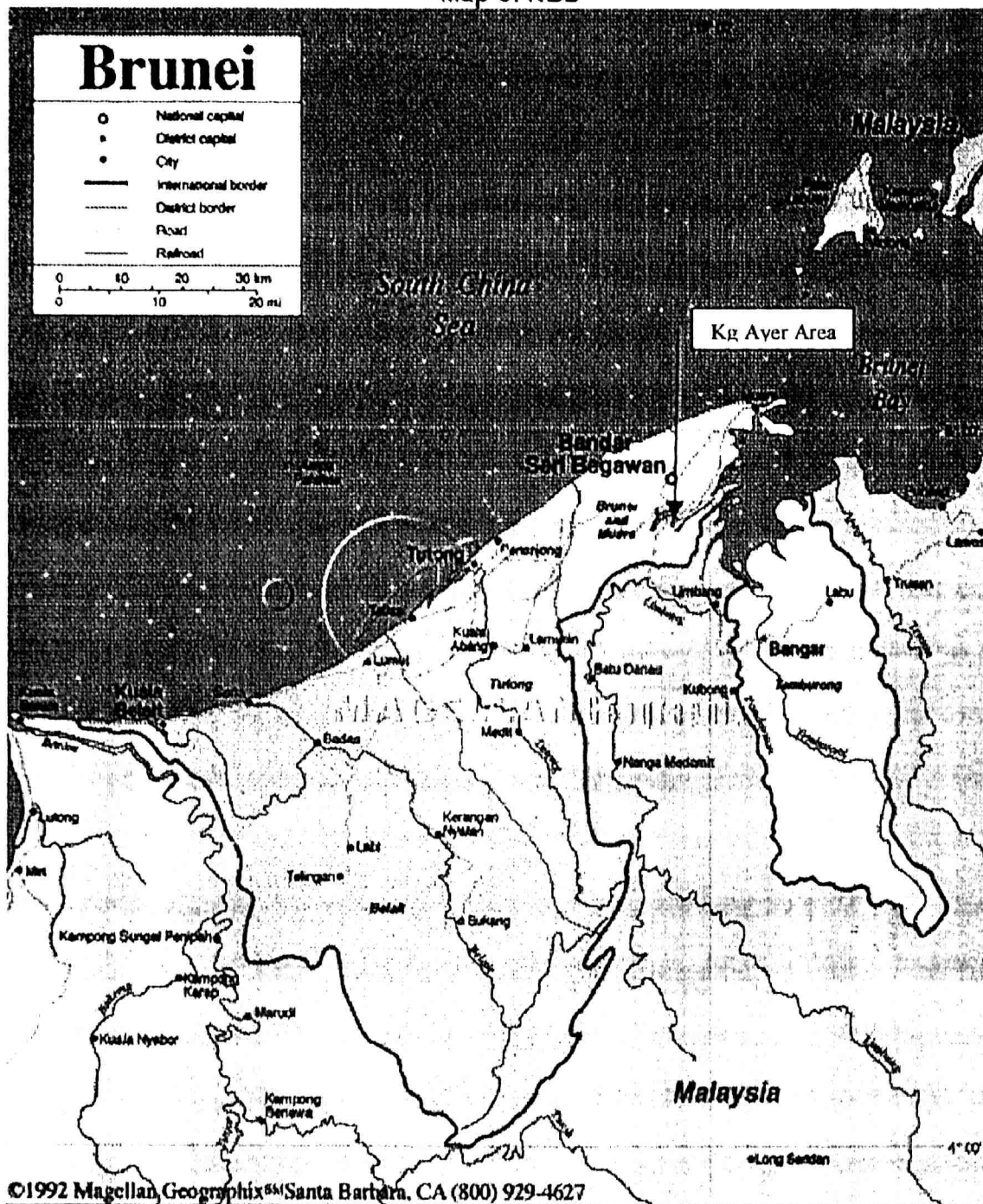
*His Majesty the Sultan and Yang Dipertuan of Brunei Darussalam,
Titah in The Eighth Brunei Darussalam NDP.*

3.1 Introduction

NBD is situated on the northwest of Island of Borneo, between east longitude 114° 04' and 11° 23' and north latitudes of 4° 00' and 5° 05'. It has a total area of 5,765 square km with a coastline of about 161 km along the South China Sea (see **Diagram 3.1**). It is bounded on the North by the South China Sea, and on all the other sides by Malaysian state of Sarawak, which divides NBD into two parts i.e. the eastern part, which is the Temburong District, and the Western part, which consists of Brunei Muara, Tutong and Belait Districts.

NBD resumes its international responsibilities as a fully independent and sovereign nation on First January 1984 and adopted the Ministerial System of Government. NBD's population for 2001 was estimated to be about 344,500 people, about 70 percent of which are Malay and the others constitute the Chinese, and indigenous people (Brunei Darussalam Statistical Yearbook, 2000/2001). Obviously, NBD's small population is insufficient to provide all the manpower needed to support economic growth and development. As a result, the government has to rely on foreign workers, such as those from Thailand, Philippines, Indonesia, Bangladesh and India,

Diagram 3.1:
Map of NBD



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Source: Magellan Geographic, 1992

to fill in these inadequacies in workers, especially in the private sectors, despite the fact that NBD is experiencing significant level of unemployment.

NBD is still very green. The tropical rainforest of NBD constitute 4,690 sq. km., or about 80 percent of the country's total land area. Of this figure, over 70 percent are virgin, primary forest. There are at least 6 major forest types representing one of the most diverse and unique vegetative assemblages in the world. To maintain such precious forest, under the National Forestry Policy, the country devotes at least 55 percent of its land into permanent forest reserves. These forest reserves are designated as protection forest (for critical watersheds and ecological preserves), conservation forest (for natural habitats, wildlife sanctuaries, as well as for specific area of scientific and educational values), recreational forest (for outdoor recreation), national park (for large ecological and biological representation promoting nature research, education, econ tourism and cultural preservation), and production forest (for supply of timber and other essential forest products).

Bandar Seri Begawan (BSB) is the capital city of NBD and it covers an area of about 16.sq km. BSB's population is estimated to be about 28,000 people (2001 census) including those who lived in Kampong Ayer (water village). It is located in the Brunei Muara District, and is the center of government administration and business activities. Today however, much of the business activities are carried out in between the city and the suburban areas. Even the government administrations are now being gradually shifted to the suburb. Instead, Mukim Gadong has now becomes

the most important mukims in the Brunei Muara District where most business are now carried out here.

“

In terms of education, the government provides free education to all Brunei Citizens who attend government schools/educational institutions. Textbooks, transport where necessary and accommodation in hostels for students from rural areas are provided free to all citizens¹. In 2001, there were 169 government schools/educational institutions and 69 non-government schools/colleges. The number of teachers totaled 7,656 and number of students totaled 100,819 in 2001². Universiti Brunei Darussalam (UBD), the only university in NBD was established in 1985 and aim to provide as well as to promote higher education to the population.

The Ministry of Health has introduced the payment system for the health care services in 1992. However, the amount charged is only one Brunei dollar (BND \$1) for each consultation for Brunei Citizens and those in the government services and their dependants aged 12 years and above. Meanwhile, for those aged below 12 years, health services are provided free of charge. Medicines and treatments of patients for Brunei Citizens are free of charge. Until today there are 10 hospitals in operation in NBD with 336 doctors, some of who are foreigners. For the remote villages in the country, the flying medical service makes regular visits to such places to provide primary health care to ensure that they are not left out.

¹ There are generally three types of citizenship in NBD and these are: i) Brunei Citizen, ii) Permanent Resident, and iii) Temporary Resident. Only the citizens are eligible for most of the government's free services.

² Casually shows that NBD has very large number of young population.

One may instantly realize that most vital public services provided in NBD are free of charge. At this moment – and at the current good economic condition – I dare not to challenge this position of the government because it is vitally appropriate for these services to be provided freely, since there are theoretically – at least – are government's responsibilities. In other countries, of course this scenario would be different. In country like Malaysia, for example, medical services provided by the federal government are not free. Here, it is the oil and gas sector that gives NBD the ability to provide such enormous free, yet important, services to its people. But such generous gifts come with a price. With the continuing and existing trend of free services to the people and coupled with increasing demand and therefore budgets allocated towards development projects, NBD becomes exposed to deficits. The worst era of deficits ever experienced by the country was between the years of 1989 and 1993, where NBD had five years consecutive deficits (see **Table 3.6**). Two following deficits were again encountered, this time non-consecutively, in 1999 and 2000³.

This brief look at NBD should give us the synopsis of the fundamental conditions of NBD at this moment in time. Though free services are offered to its citizens, ironically, most of the basic elements of a developed economy are lacking, especially economically. The NDP, which is the official tongue of the government's economic policy makers, put a number of long-run objectives and these are to:

- i. Improve the quality of life of the people;
- ii. Maximize the economic utilization of national resources;
- iii. Develop non-oil industries;

³ A very important work on the five years consecutive deficits was done by Obben (1995) 16-44

- iv. Accelerate human resource development so as to meet the country's demand of an increasingly sophisticated economy;
- v. Maintain full employment and increase the level of productivity;
- vi. Foster a more disciplined, self-reliant and caring society;
- vii. Encourage and nurture the development of "Rakyat Melayu" as leaders of industry and commerce; and
- x. Have a clean and healthy environment.

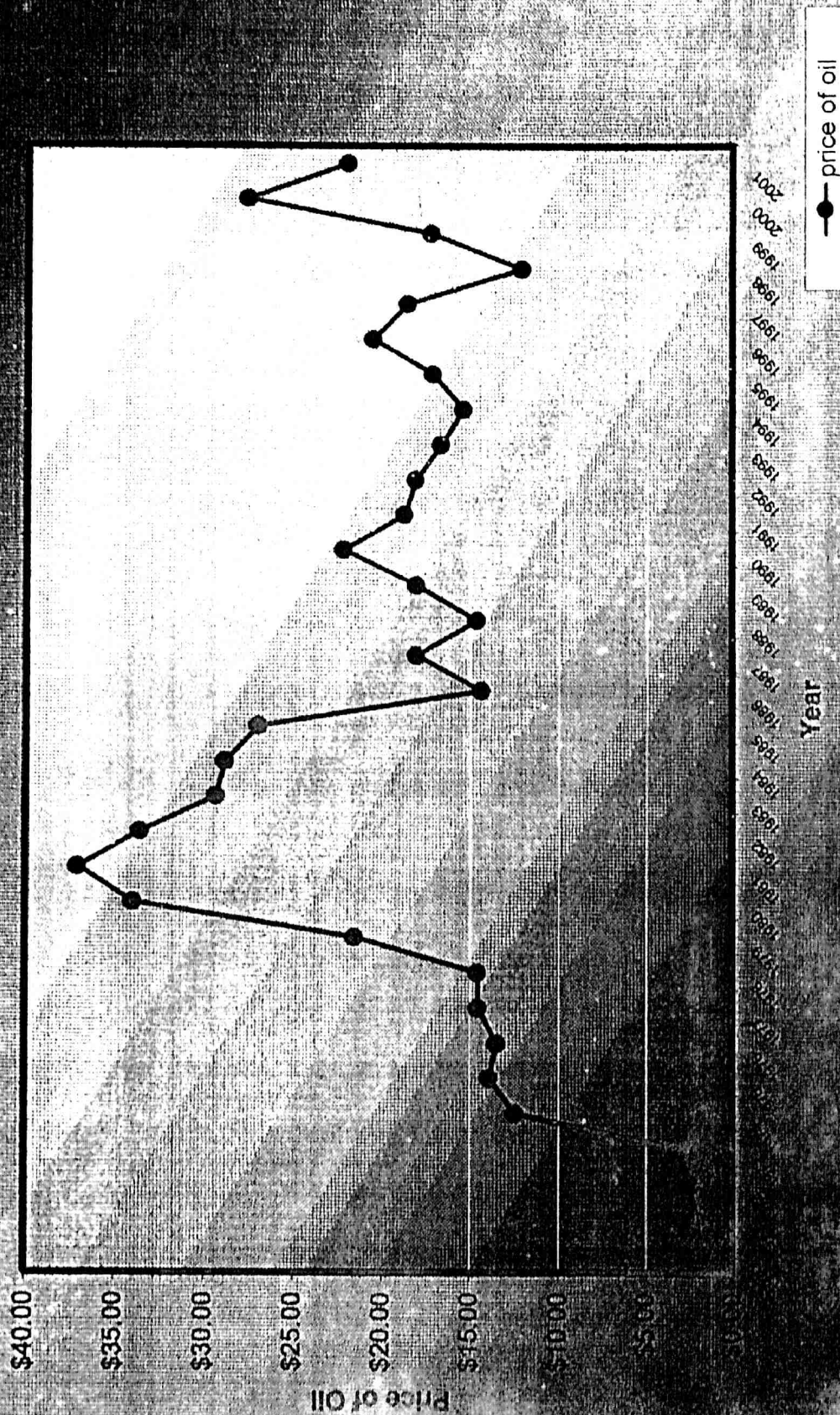
If we look closer, some of these objectives are compatible with the effects of taxation that we have encountered in **Chapter 2**. So with this knowledge in hands, it is now appropriate for us to delve deeper into the realm of economic condition in NBD.

3.2 The Economy of NBD

Since the discovery of oil in 1929, this non-renewable and depletable resource has virtually dominated the economy of NBD. This resource has been the major source of revenue for the country, the most of which has been used for the development of its infrastructure and therefore improvement of the standard of living of its population.

However, as we all know now, the world market price of oil is subject to wide fluctuations (see **Diagram 3.2**), and this inevitably affects the country's economy adversely. With the fall of oil prices, exports earnings will also be reduced, thereby reducing nominal GDP (and hence per capita GDP) and ultimately cutting revenue, which comes almost entirely from oil and gas.

WORLD OIL PRICE



Sources: World's oil price taken from Energy Information Administration, January 2002 and averaged.

The economic structure or the composition of NBD's economy is that it consists of the Oil and Non-Oil sectors. The Non-Oil sector is divided into 15 sub-sectors. A simplified version of the NBD's economic structure is shown in **Table 3.1**. Their respective contribution to GDP is shown in **Table 3.2** and **Diagram 3.3**.

Table 3.1:
Economic Activity in NBD

	KIND OF ECONOMIC ACTIVITY
I)	The Oil Sector
II)	The Non-Oil Sector
1	Agriculture and Hunting
2	Forestry and Logging
3	Fishing
4	Mining, Quarrying and Manufacturing
5	Electrical
6	Construction
7	Wholesale
8	Retail Trade
9	Restaurant and Hotels
10	Transport, Storage and Communication
11	Banking and Finance
12	Insurance
13	Real Estate and Business Services
14	Ownership of Dwellings
15	Community, Social and Personal Services

Source: Brunei Darussalam Statistical Yearbook

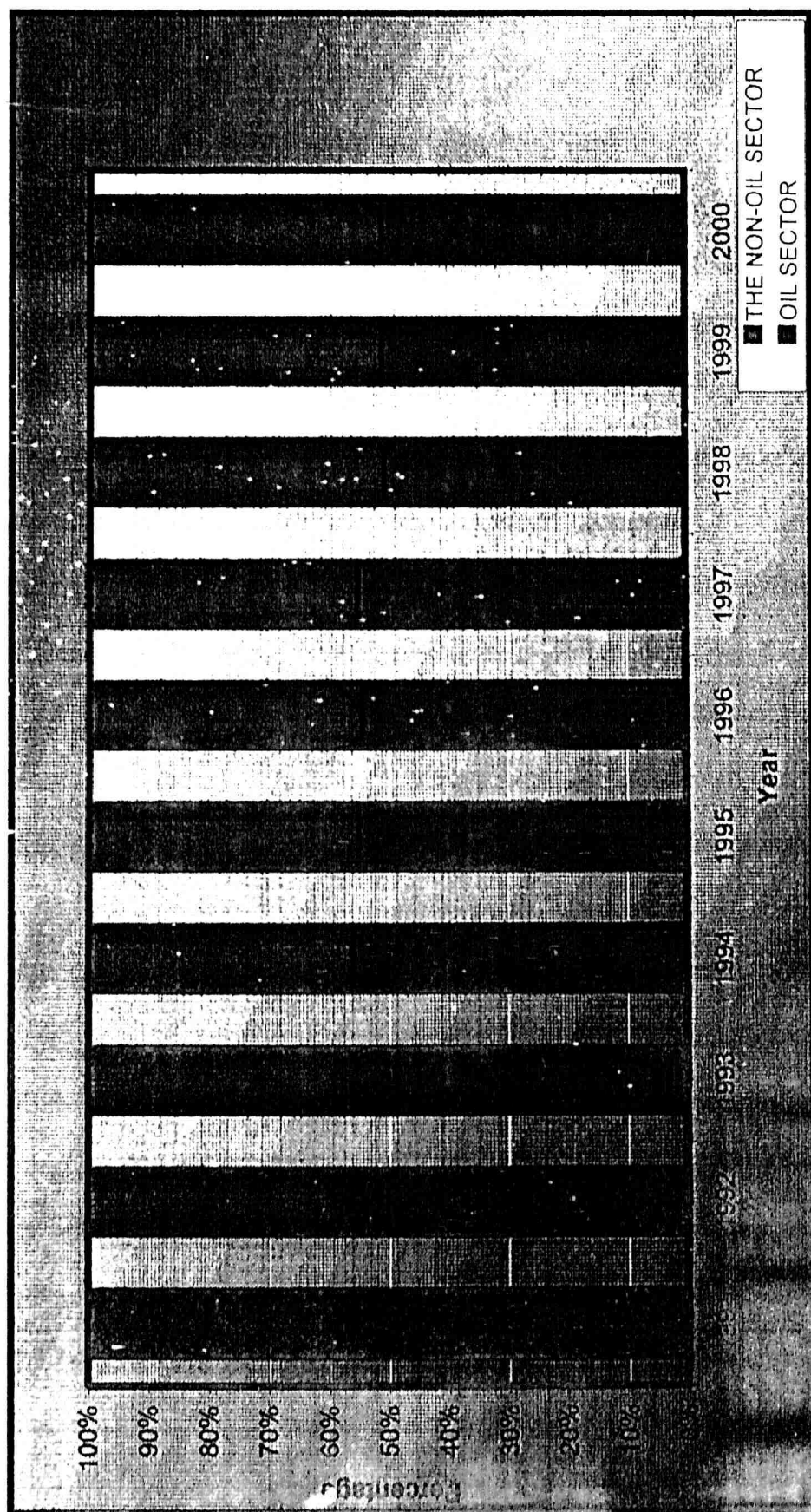
From **Table 3.2** and **Diagram 3.3**, it can be observed that for the 10 year period, 1991 to 2000, the Oil sector showed its domination. Its importance is confirmed by never falling below the 50 percent contribution to GDP. In 1991, for example, the Oil sector's contribution to GDP was about 62.3 percent, with Non-Oil sector contributing the remaining percents. Such contribution of course depends primarily on mixture of the price of oil and the crude petroleum production (see **Diagram 3.2**

Table 3.2:
Contribution of GDP by Kind of Economic Activity
At Constant Price, 1991 - 2000

YEAR	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
OIL SECTOR	62.3	59.4	57.7	56.1	55.0	54.3	55.3	50.7	51.2	51.3
THE NON-OIL SECTOR	37.7	40.6	42.3	43.9	45.0	45.7	44.7	49.3	48.8	48.7
AGRICULTURE	1.1	1.2	1.2	1.1	1.1	1.2	1.2	1.3	1.2	1.2
FORESTRY	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
FISHERY	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
MINING, QUARRYING & MANUF.	1.7	1.7	1.7	1.7	1.7	1.8	1.8	2.0	2.0	2.1
ELECTRICITY, GAS & WATER	0.8	0.9	0.9	0.9	0.9	0.8	0.7	0.8	0.7	0.8
CONSTRUCTION	2.8	2.9	2.9	3.0	3.2	3.2	0.2	0.1	-0.1	0.1
WHOLESALE	1.5	1.5	1.5	1.6	1.6	1.6	1.7	1.8	1.9	1.9
RETAIL TRADE	3.2	3.2	3.2	3.2	3.1	3.3	3.4	3.7	3.7	3.7
RESTAURANTS & HOTEL	0.9	0.9	1.0	1.1	1.1	1.2	1.2	1.3	1.3	1.4
TRANSP., STORAGE & COMMUN.	2.3	2.4	2.5	2.6	2.7	2.8	3.0	3.2	3.2	3.2
BANK & FINANCE	2.4	2.5	2.6	2.7	2.8	3.1	3.2	3.5	3.6	3.5
INSURANCE	0.7	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.0	1.0
REAL EST. & BUSINESS SERV.	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9
OWNERSHIP OF DWELLINGS	0.6	0.6	0.6	0.6	0.6	0.7	0.8	0.8	0.8	0.8
COMMUNITY, SOCIAL SERV.	21.1	23.5	25.0	26.3	27.1	27.2	25.7	28.7	28.3	28.2
LESS: BANK CHARGES	2.5	2.6	2.8	2.9	3.1	3.4	3.5	3.9	3.8	3.8
GDP	100	100	100	100	100	100	100	100	100	100

Source: Brunei Darussalam Eighth National Development Plan

Diagram 3.3:
Contribution of GDP by Oil and Non Oil sectors,
At Constant Price, 1991 - 2000



and **Table 3.5**). The exchange rate may also have some influences on the Oil sector's contribution to GDP.

If we look at the Non-Oil sectors, there are 5 industries that could be considered as worthwhile contributor to the GDP. These include, Construction, Retail Trade, Transport Storage & Communication, Bank and Finance, and Community Social Services. Understandably, the Community, Social Services sector is the highest contributor in the Non-Oil sector as most of these services are financed by the government. Banking & Finance, Retail Trade and Transport, Storage & Communication showed improvements in their respective contribution during the 10 year period. Efforts were made to make NBD as the important International Financial Centre (IFC), and thus the current good performance of the Banking and Finance industry should enhance the 'road' towards this end. The Construction industry however, failed to impress. Historically, it did contribute significantly to GDP, approximating 3.0 percent in the early 1990s. However, after 1996, it fell sharply to 0.2 percent and never reach the 3 percent mark since then. This disenchanting performance of the Construction industry was attributed primarily by the collapse of Amedeo Development Co., the largest construction firm in NBD, during the 1997 currency turmoil. The other less significant contributors, such as Agriculture, Forestry and Fishery showed constant contribution for the 10-year period. The remaining insignificant sectors did improve between the 10-year period, albeit insignificantly. And these include Mining, Quarrying & Manufacturing, Electricity, Gas & Water, Wholesale, Restaurants & Hotel, Insurance, Real Estate & Business Services and Ownership of dwellings. Based on this, it is therefore reasonable to state that NBD

has a narrow based economy. In other words, it is not an adequately diversified economy.

3.3 GDP Per Capita of NBD

In **Table 3.3a**), it can be seen that the per capita GDP in terms of Brunei Dollars is quite high. For the 11-year period, the per capita GDP never falls below BND \$20,000. From the year 1991 to 1997, the trend of the per capita GDP is fairly constant, averaging at BND \$24,398. The highest per capita GDP during the 7-year period occurred in 1991 with BND \$25,415 and the lowest in 1994, with BND \$23,502 per capita GDP. Such 'high' and 'low' periods of per capita GDP are, of course, depending on the oil price, crude oil production and exchange rate. In 1998, the per capita GDP fell sharply from BND \$24,262 the previous year to BND \$20,223. This corresponds to the fall in oil price and the reduction in the crude oil production in that year. The relatively lower per capita continues until 2001 where the GDP per capita amounted to BND \$22,117.

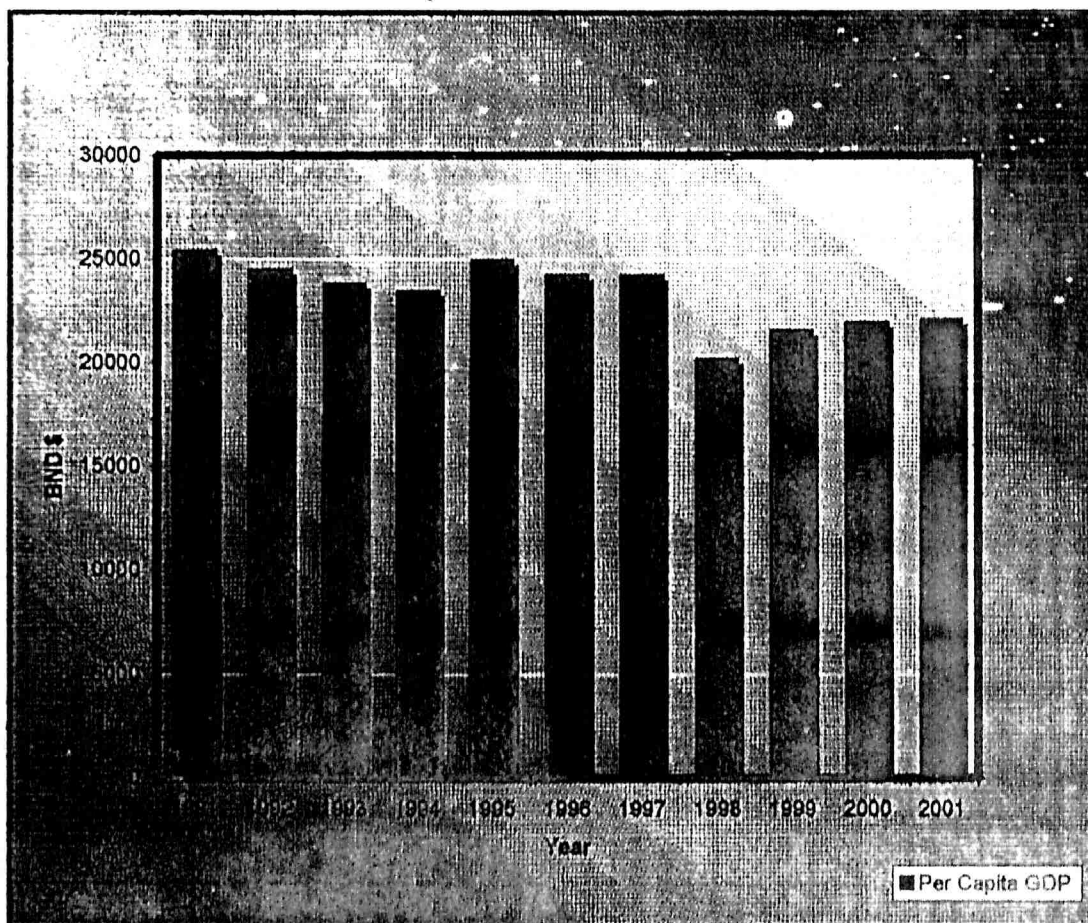
With such a high per capita GDP, some say that this could act as substitute for a small population in an economy. It is usually inferred that if a country has a small population, there would be fewer demand for goods and services, making industries' progress pace slower and hence economic growth and development. Thus, it has been argued that such a high per capita GDP could actually 'fill' in the inadequacies of demand for goods and services, enabling industries to grow. Furthermore, the existing constant trend of per capita GDP at the high level, should give us the rationale for tax introduction. This shall be discussed further in **Chapter 6**. **Diagram 3.4 a)** shows us

**Table 3.3 a):
Per Capita GDP**

YEAR	GDP PER CAPITA	BRUNEI DOLLARS TO 1 UNIT OF US DOLLARS	PER CAPITA GDP IN US DOLLAR
1991	25415	1.641	15488
1992	24515	1.6513	14846
1993	23833	1.6144	14763
1994	23502	1.4732	15953
1995	24980	1.4242	17540
1996	24283	1.4106	17215
1997	24262	1.6835	14412
1998	20223	1.6695	12113
1999	21605	1.6695	12941
2000	21989	1.737	12659
2001	22117	1.859	11897

Source: Brunei Darussalam Statistical Yearbook, 2000/2001

**Diagram 3.4 a):
Per Capita GDP in Brunei Dollars**



the trend of per capita GDP in Brunei Dollars for the 11-year period, from 1991 to 2001.

It is also interesting to look at how NBD's per capita GDP flared with other countries' GDP. The per capita GDP in US dollars is shown in column 4 in **Table 3.3 a)**. The comparison is then shown in **Table 3.3 b)** and **Diagram 3.4 b)**.

If we compare NBD with other ASEAN member countries, we could see clearly that our per capita GDP is higher than most of these countries, with the exception of Singapore, in which from 1991 with per capita GDP of US \$15,493, Singapore's per capita GDP increases to US \$29,586 in 2001. This may reflect the tremendous economic growth in Singapore for the past 11-years or so. Other ASEAN countries, such as Malaysia, Indonesia, Thailand, Myanmar, and the Philippines are averaging lower than US \$5,000 for the 11-year period, making Singapore and NBD the two richest ASEAN countries.

In comparison with other oil exporting countries, such as Kuwait, we can see that there exists a fairly similar trend throughout the 11-year period of the per capita GDP between the two oil-exporting countries. Kuwait averaged per capita GDP for the 11-year period is around US \$16,242, much higher than NBD, averaging US \$14,530. This similarity to NBD is of course expected.

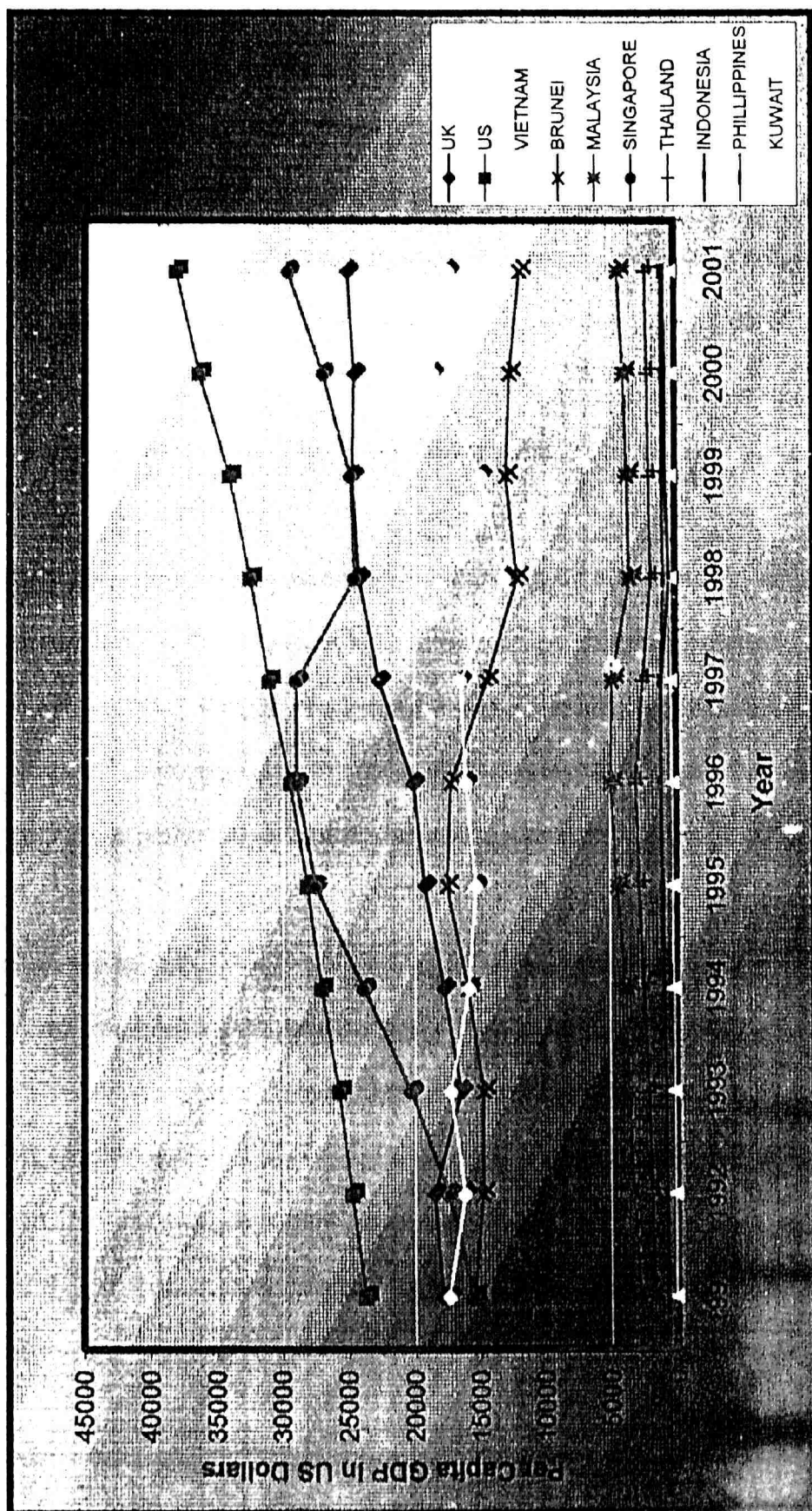
The developed countries like Japan, United States and United Kingdom generates high per capita GDP for the 11-year period, averaging about US \$34,467,

Table 3.3 b):
Per Capita GDP for NBD and Other Countries at Current US Dollars

YEAR	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Indonesia	706.5983	754.0639	842.2986	927.6704	1037.907	1153.099	1079.446	460.6013	740.4014	759.0811	872.6719
Japan	27462.2	29927.45	34306.89	37523.78	41016.32	36635.79	33470.18	30177.3	34386.23	36484.69	37744.85
Kuwait	17428.02	16215.97	17306.48	15878.97	15359.84	16066.47	16449.35	13067.97	14895.28	18607.78	17381.22
Malaysia	2699.642	3173.918	3505.228	3774.46	4446.434	4940.05	4801.367	3411.197	3633.884	3901.148	4336.972
Myanmar	712.02	963.0543	1326.801	1692.362	2131.421	2733.946	3474.073	4037.447	4592.784	n.a.	n.a.
Philippines	719.3844	822.6946	825.0119	949.2087	1072.284	1171.135	1138.228	885.7725	1015.723	1024.316	1066.097
Singapore	15493.72	17417.53	20243.34	23806.19	27523.79	28963.75	28970.36	24496.43	24807.76	26964.29	29586.94
Thailand	1688.686	1899.099	2093.551	2450.485	2815.602	3017.223	2476.418	1823.317	1997.095	2072.083	2242.182
United Kingdom	17893.44	18513.22	16518.25	17789.84	19246.15	20099.29	22683.85	24217.47	24715.01	24556.51	25076.19
United States	23700.79	24744.94	25727.81	27064.55	28159.58	29447.23	31044.67	32482.94	34091.22	36355.24	38107.3
Brunei Darussalam	15488	14846	14763	15953	17540	17215	14412	12113	12941	12659	11897

Source: Taken from World Economic Outlook and Brunei Darussalam Statistical Yearbook, Various issues

Diagram 3.4 b):
Per Capita GDP in US Dollars



US \$21,028 and US \$30,085 respectively. Historically, NBD's per capita GDP was even higher than these developed countries' but because of the relatively lower price of oil these days, such phenomenon may not be experienced again, at least not now. In addition, these developed countries have sustained or rather, increased, growth in their economy, thereby increasing the per capita GDP for each of these countries. These can be seen by the increasing trend of the per capita GDP for the 11-year period.

3.4 The Importance of Oil Sector and Revenue in NBD

The oil sector's importance to nominal GDP and revenue of NBD is effectively influenced by the world's oil price. When oil price increases, nominal GDP and revenue will be expected to increase and when oil price falls, nominal GDP and revenue will be expected to fall⁴. The importance of oil to nominal GDP and revenue of NBD is presented in **Table 3.4** and **Diagram 3.5**.

Since the world's price of oil was only available in the early 1970s, hence, we shall start our brief look at the importance of oil in 1970. In the two years period between 1970 and 1971, the average price of one barrel of oil only costs about US \$2.00. NBD's total revenue was only about BND \$210 million and nominal GDP was about BND \$610 million. The sharp increase in oil price in 1974, from US \$3.14 per barrel to US \$12.44 per barrel, drastically raised revenue from BND \$369 million in 1973 to about BND \$1 billion in 1974. The value of nominal GDP rose to about BND

⁴ Oil price influences revenue of NBD through corporation tax, dividend and property and influences GDP via exports.

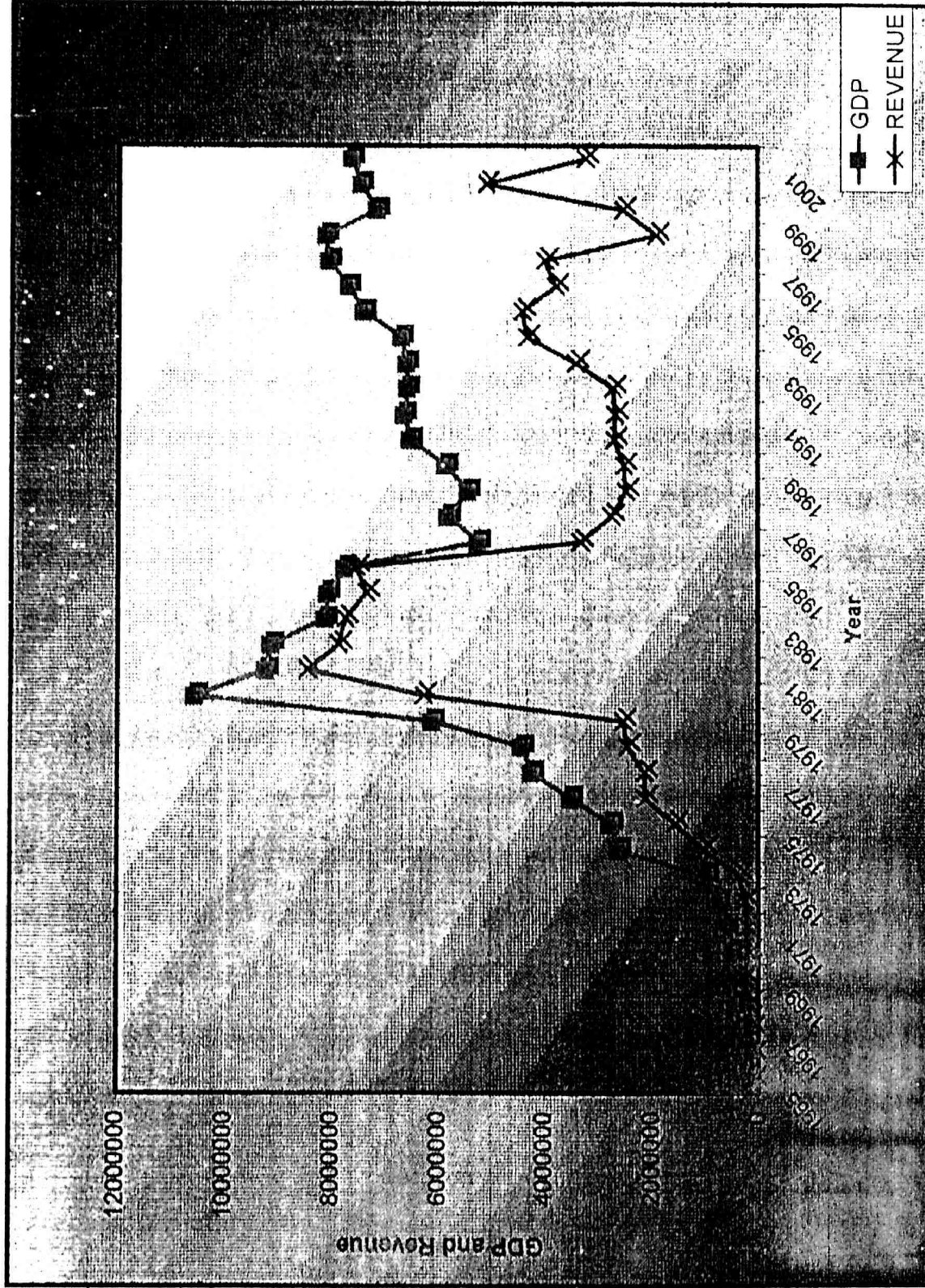
Table 3.4:
Nominal GDP, Average World Price of Oil and Revenue

YEAR	GDP	AVERAGE PRICE OF OIL ^a	REVENUE
1965	348000	-	120790
1966	405200	-	122420
1967	424300	-	142240
1968	490900	-	191710
1969	491700	-	292640
1970	546300	1.8	186770
1971	600900	2.13	209600
1972	762600	2.46	256600
1973	976000	3.14	368860
1974	2616200	12.44	1027420
1975	2770400	13.88	1564380
1976	3516100	13.47	2135940
1977	4226800	14.53	2142050
1978	4416200	14.56	2465580
1979	6097100	21.54	2535180
1980	10553600	33.97	6266340
1981	9224400	37.07	8454330
1982	9125500	33.59	7871500
1983	8123900	29.35	7752850
1984	8068500	28.87	7344830
1985	7752300	27.00	7532980
1986	5227200	14.32	3331530
1987	5800900	18.05	2750260
1988	5414800	14.62	2485750
1989	5845000	18.07	2525920
1990	6508600	22.20	2706430
1991	6620500	18.74	2685610
1992	6565100	18.12	2729570
1993	6585100	16.66	3415750
1994	6686200	15.41	4318060
1995	7394200	17.15	4407210
1996	7684800	20.58	3789720
1997	8051000	18.62	3989360
1998	8111000	12.14	1915800
1999	7144700	17.27	2536000
2000	7441100	27.68	5084400
2001	7619200	22.02	3236330

Notes: ^a World's oil price taken from Energy Information Administration, January 2002 and averaged.

Sources: Brunei Darussalam Statistical Yearbooks, various issues and Energy Information Administration, January 2002

GDP and Revenue



\$2.5 billion in 1974 compared to only BND \$976 million in 1973. Another sharp increase in oil price occurs in 1979, when it rose to US \$21.54 per barrel from US \$14.56 per barrel in 1978. Nominal GDP increased from BND \$4.4 million in 1978 to BND \$6.1 million in 1979.

In 1980, oil price jumped to US \$33.97 per barrel, an increase of about 58 percent, from its price of US \$21.54 per barrel in 1979. With the sharp increase in oil price, as expected, total revenue increased from BND \$2.4 billion in 1979 to about BND \$6.3 billion and nominal GDP increased from BND \$6.1 Billion to about BND \$10.6 billion. The price of oil remains high in the next five years (averaging US \$31.2 per barrel), and then plunged to pre early 80s period low of US \$14.32 per barrel in 1986. Similarly, revenue fell to only BND \$3.3 billion from BND \$7.5 billion in 1985. Nominal GDP fell to only BND \$5.5 billion.

In the period between the years 1987 to 2001, no significant changes in the price of oil and thus no considerable changes in revenue and also nominal GDP's value. The oil sector did experience a high increase in oil price in 2000, from US \$17.27 in 1999 to US \$27.68 in 2000. Government experienced a jump in revenue in 2000 from BND \$2.5 billion in 1999 to BND \$5.0 billion. However, nominal GDP was not quite as impressive as revenue, it only increased by a few hundred millions, from BND \$7.1 billion in 1999 to only BND \$7.4 billion in 2000.

Besides price of oil acting as the ultimate player in the NBD's economy, there are several other factors that are also quite important to the contribution of oil price to

revenue and GDP. The production of oil did, to a certain extent, influenced government's revenue as well as GDP.

In 1975, NBD's crude oil production averaged 192,000 barrels a day, increasing to an average of 261,000 barrels a day in 1979. In 1981, an oil conservation policy was adopted to rationalise the oil output. Hence the production was gradually reduced to the level of 150,000 barrels a day by 1988 and 1989. However, since November 1990, the Brunei Shell Petroleum Co Sdn. Bhd. under the Government directive had been producing crude oil at availability. This directive has given flexibility to the Government Policy of reducing at 150,000. The oil production was gradually increased, year-by-year. In 1993, the oil production was increased to 175,000 barrels a day. This may have some influence over the Government's revenue and nominal GDP in 1993, where, despite oil price reduction from US \$18.12 in 1992 to US \$16.66 in 1993, revenue and nominal GDP increased. The following years saw a gradual increase in oil production, where in 2000, it increased to 193,000 barrels a day. Again this may have been the other factor, besides oil price, that raised both the Government's revenue and nominal GDP in 2000 (see **Table 3.5** and **Diagram 3.6**).

Another factor that could influence the Government's revenue and nominal GDP was the exchange rate between Brunei dollars with the US dollars and the exchange rate between NBD and countries that she traded oil with (such as Japan, Republic of Korea and Thailand⁵). It is however, difficult to actually see clearly its

⁵ These countries are the three biggest importer of crude petroleum from NBD. In addition, Japan and Republic of Korea are the only importer of natural gas.

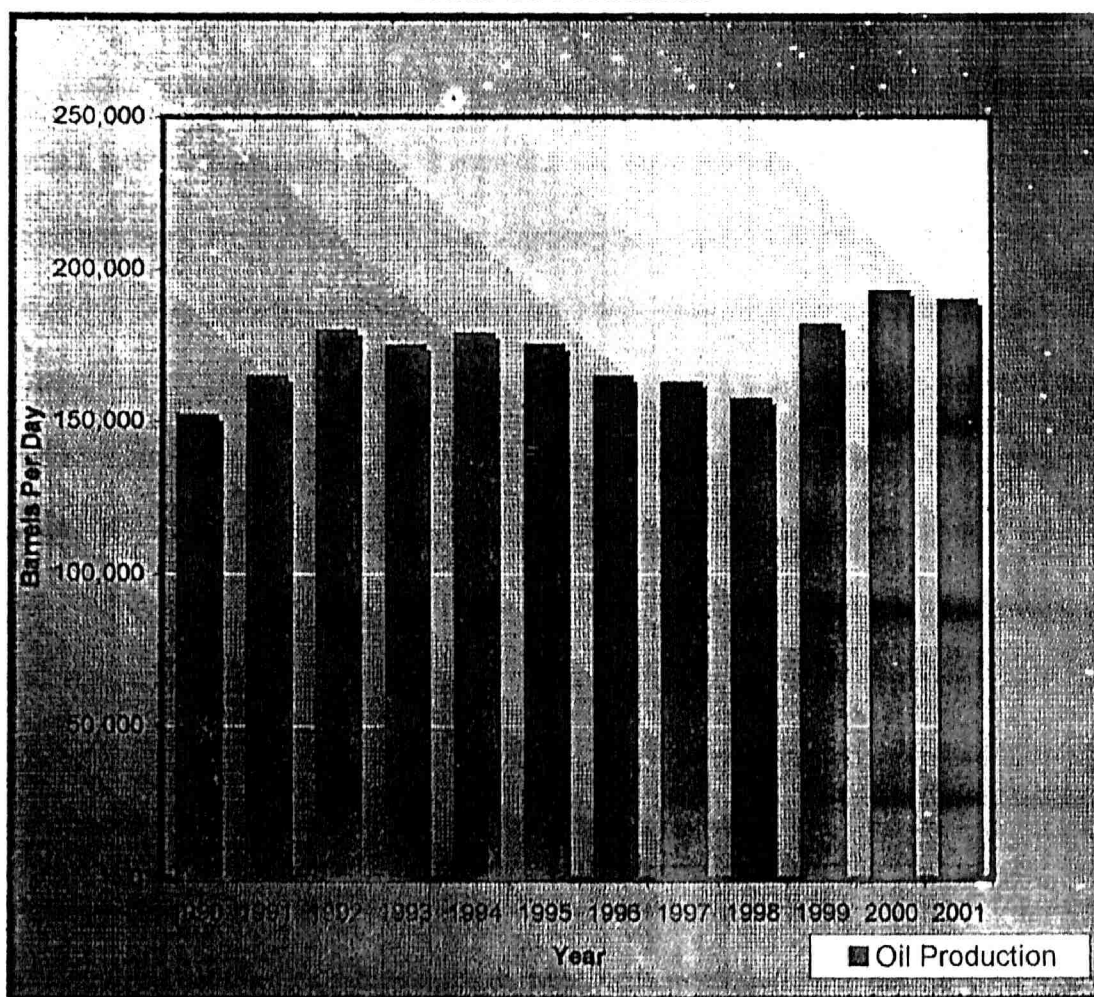
Table 3.5:
Crude Oil Production

Year	Crude Petroleum Barrel Per Day
1990	151,923
1991	164,706
1992	180,000
1993	174,772
1994	178,796
1995	175,132
1996	164,861
1997	162,954
1998	157,386
1999	181,831
2000	193,101
2001	190,000

*Source: Brunei
Eight National*

*Darussalam
Development*

Plan
Diagram 3.6:
Crude Oil Production



influences. Nevertheless, it may have been influencing the Government's revenue and nominal GDP in one way or the other.

One can be more adventurous by performing the empirical estimation of the relationship between nominal GDP, Government's revenue, oil price, oil production, exchange rate and other factors via regression analysis to ascertain these relationships. This, however, is beyond the scope of this research and thus will be left for others.

3.5 Government Revenue and Expenditure

The government revenue, expenditure and therefore government annual surplus/deficit is presented in **Table 3.6**. Both revenue and expenditure exhibit somewhat stable trend for the 12-year period. But from 1997 onwards, it seems that revenue is increasing and so does activities and therefore, expenditure. The contribution to development plan shows no sign of an increasing or a decreasing trend, however, in the mid 1990s, it did need higher development funds, averaging about BND \$725 million between the years 1994 to 1997. The contribution to government trust fund only appeared in 1993 with an amount of BND \$224.03 million.

The surplus or deficit is located in the eight column of **Table 3.6**. As we can see, from 1990 to 1993, NBD was experiencing deficits consecutively. This, if not controlled, would obviously have some important economic consequences – if not

Table 3.6:
Government Annual Surplus/Deficit

Year	Revenue	Expenditure (Ordinary + Charged)	Excess of Revenue Over Expenditure	Contribution to Development Fund	Contribution to Government Trust Fund	Capital + Currency Adjustment	Surplus (+) or Deficit (-)
1990	2706.43	2328.52	377.91	400	-	-	-22.08
1991	2685.61	2390.02	295.59	400	-	-	-104.41
1992	2729.57	2596.39	133.18	400	-	-	-266.82
1993	3415.75	2707.21	708.54	530	224.03	-	-45049
1994	4338.06	2649.17	1688.89	700	-	-	+988.89
1995	4407.22	2792.7	1614.52	600	-	-	+1014.52
1996	3789.72	2951.73	837.99	800	-	-	+37.99
1997	3989.36	3057.09	932.27	800	-	-	+132.27
1998	4000.43	3147.91	852.52	487	-	-	+365.52
1999	4173.09	3566.22	606.87	712.5	-	-	-105.63
2000	5490.64	3813.20	1677.44	550.4	-	-	+1127.4
2001	3236.33	2998.15	238.18	550.4	-	-	-312.22

Source: Brunei Darussalam Statistical Yearbook, 2000/2001

now – later on. The next 6 years, were blissful years where NBD experienced surpluses. Then in 1999, expenditure growth was more than the growth in revenue, and in addition, contribution to development plan has also increased from BND \$487 million in 1998 to BND \$712.5 this year, thus making deficit of about BND \$105 million. The following saw a tremendous increase in revenue and a somewhat ‘retarded’ increase in expenditure with lower contribution to development plan making surplus of BND \$1.1 billion. For 2001, since the data is only until October 2001, one could not actually confirmed the eventual deficit, however, by the look of the figures (the deficit), NBD may again experience deficit.

Thus, we can see that NBD have had several deficits in the last 12-years and this should struck the policy makers to find ways to increase revenue, not only to clear the deficits, but also to ensure that budgets allocation for development purposes are not interfered and thereby, economic growth⁶.

3.6 Populations, Labor and Employment

Brunei Darussalam is a high-income country when compared with its counterparts in the group of developing countries (and as seen earlier, higher than developed world at the times of high oil prices). One of the reason to why this is the case is because NBD has a small population (compared to its profitable and accessible resource base), which is estimated to be only about 344,500 in 2001(Brunei

⁶ Logically, with limited amount of resources – and despite the fact that an economy needs to distribute funds allocated to more development projects – and to ‘escape’ from making deficits, policy makers may try to control or reduce funds for other equally important projects and ensure that there are in line with the budgetary limitations. This would, of course, look good in the statistical ‘arena’ but bad for economic growth and development.

Darussalam Statistical Yearbook, 2000/2001). In that year, the per capita GDP was B\$ 22,177. The Malays constitute 67 percent of the total population followed by the Chinese, which makes up 15 percent of the total population. The 'Other indigenous' and 'Others' constitute 18 percent of the total population. The population by racial group is shown in **Table 3.7**.

The tiny population of Brunei Darussalam means that it has a limited supply of labor. The labor force estimated in 1991 was 111,955. Although there are considerably adequate demands for workers here, quite a number of people are still unemployed, most of who are locals and young. If the term young is defined to be between 15 and 24 years of age, this constitute to about 73 percent of the total number of the unemployed. The rate of unemployment in 1991 was 4.6 percent or 5,209 people. This means that, out of the total labor force, 106,746 are employed, either in the public or the private sectors. Out of that, 43,993 were foreigners (see **Table 3.8** below). The need for these foreign workers was and is a necessity as NBD which is lacking qualified or rather, willing locals in certain areas of the economy, especially in the private sector, particularly in blue collar jobs such as the Production Craftsmen and Related workers, and the Cleaners, Laborers and Related workers categories, where these categories of jobs constitute about 58 percent of the total foreign workers or the temporary residents. The Government has initiated a number of strategies to train locals to meet the needs of the industry and hence to replace the foreign workers.

Table 3.7:
Population by Racial Group, 1995 – 2001

Year (Mid)	All Groups	Racial Group								
		Total	Malay	% of Population	Other Indigenous	% of Population	Chinese	% of Population	Others	% of Population
1995		296,000	199,600	67	17,200	6	45,600	15	33,600	11
1996		305,100	205,900	67	17,400	6	47,000	15	34,800	11
1997		314,400	212,600	68	17,800	6	48,200	15	35,800	11
1998		323,100	218,800	68	18,300	6	49,400	15	36,600	11
1999		330,700	223,700	68	18,700	6	50,600	15	37,700	11
2000		338,400	229,400	68	19,000	6	51,600	15	38,400	11
2001		344,500	233,800	68	19,300	6	52,300	15	39,100	11

Source: Brunei Darussalam Statistical Yearbook, 2000/2001

Table 3.8
Working Population

Labour Force	Unemployed	Employed	Brunei Citizen	Permanent Resident	Temporary resident	Others
111,955	5,209	106,746	54,595	7,344	43,993	814

Source: Brunei Darussalam Statistical Yearbook, 2000/2001

3.7 Public Sector Vs. Private Sector

NBD, in contrast to other developing countries, has a relatively large public sector. The 1991 population census estimated that 48,998 out of the 106,746 working population worked with the government sector. This constituted to about 46 percent of the total work force. The researcher estimated that out of this, 90 percent would be local. The Locals (whom are mostly Malays) are mainly concentrated in the administrative branches of the Public Sector like Government Administration, Public Utilities, Defence and so on. The Chinese, who are considered to be the 'Blocked minority', are concentrated in the business sector (Tse and Fernandez, 1991). Other indigenous and foreign workers (expatriates) are employed either in the Government sector or the Private Sector. This problem (as some people may look at it) of depending on the public sector, may be rooted from NBD's own wealth. The wealth, which comes significantly from tax revenue, royalty and dividend earned from the petroleum sector, goes into the government's pocket and as a result, the public sector grew larger, engulfing the 'theoretical' importance of private sector as the engine for economic growth and development⁷. This enables the government to offer generous remuneration packages, which can include, high salary relative to the private sector, zero interest on loan (1 percent rate strictly for administration purposes), houses for

⁷ Some may call NBD as a rentier state, see Duraman (199-)

officers and many others. With very attractive remuneration packages – only dared challenged by Brunei Shell Petroleum Sdn. Bhd and a handful number of financial institutions – individuals queue up to acquire jobs in the public sector. These, as some believed, are the primary reasons to why locals prefer to look for works in the public sector, instead of working in the relatively low paying (in most) private firms. Some may also argue or rather agree that the public sector gives some sort of ‘flexibility’⁸ in the working hours, making jobs more tempting. Beside the attractive remuneration packages and of course the flexibility, security may also be the other factor that pulls them to work with the government. But in recent years, the supplies of workers were not serviced or absorbed adequately by their demand in the public sector labour market. This may stem out from the recent speculated saturation of jobs in the public sector, arises from fully occupied posts, as some suggested (see **Table 3.9, Diagram 3.7 and 3.8**). Other argue that such saturation may arise from budgetary limitation, which turns out to be one of the most ‘celebrated’ reasons for the lessen availability of jobs in the government departments.

Table 3.9
Government Employees, 1990 - 2001

Year	Total	Year	Total
1990	33,137	1996	39,085
1991	33,374	1997	39,345
1992	35,341	1998	38,313
1993	36,540	1999	38,024
1994	37,363	2000	-
1995	38,068	2001	39,671

Source: *Brunei Darussalam Statistical Yearbook, 2000/2001*

⁸ Whether such flexibility is good or bad to the public sector’s efficiency and performance, no one, at least officially, is sure.

Diagram 3.7:
Government Employees, 1990 – 2001

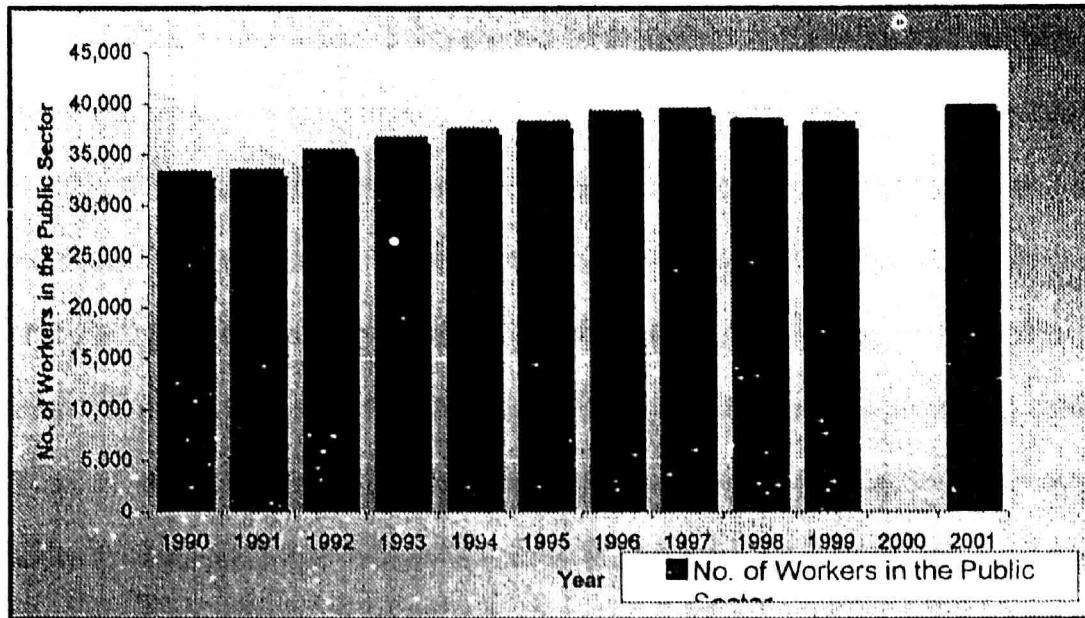
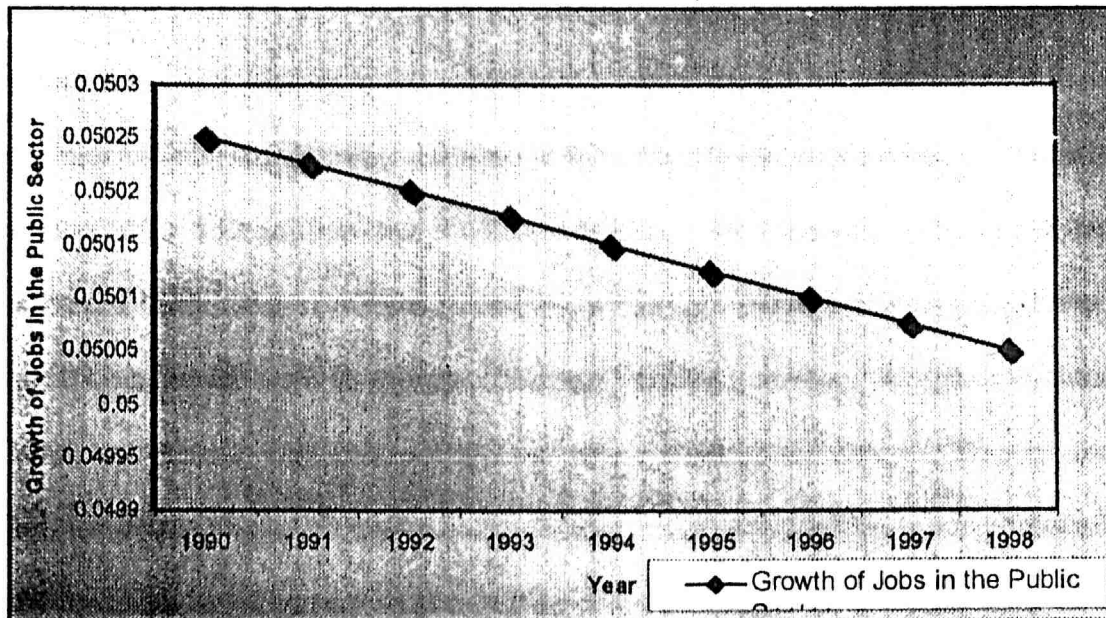


Diagram 3.8.
Saturation in the Public Sector, 1990 – 1998



Notes: Because of the unavailability of the year 2000 figure, the diagram is only exhibiting the growth of jobs in the public sector from the year 1990 to 1998. This is in fact advantageous, since by doing so we could see rather clearly that the growth of jobs in the public sector is growing at a decreasing rate. Thus, this may be used as evidence that there is truly saturation of jobs in the public sector.

To say that no efforts were made, in part of the government, to fine-tune this situation, is conspicuously wrong. There are in fact numerous programs introduced by the government. One interesting program called as the apprenticeship program, was introduced in February 2000 to encourage locals to work with private firms. It is a BND \$2.2 million government-paid apprenticeship-training program in domestic firms for university graduates and higher diploma holders. This program, of course, has other more important objective, that is to ease out the unemployment rate (and hence, its psychological consequences), which is estimated to be around 4.7 percent in 2001, of which significant number were graduates. Response to the program, however, has been poor, with only 340 out of the estimated 7,000 newly unemployed applying for the program. A second government program involves a micro-credit financing scheme, carried out in coordination with nine banks. Under this, university graduates may borrow up to BND \$30,000 in order to start their own business, especially those in primary resources, construction, service, and info-tech communications sectors. The response to this program has also not been enthusiastic. Of the BND \$30 million the fund has to offer, only BND \$4 million has been disbursed. Another government initiative involves the passage of new regulations on investment, which seek to provide clear and definite guidelines for granting pioneer status to industries and give tax relief to foreign and local investors. Through these new incentives, the Government hopes to increase job creation and hasten commercial and industrial development. The successes of these programs are therefore, remain to be seen, and until today no specific mention of the failures or the successes were being made public.

3.8 Income Disparities and Expenditure Patterns in NBD

I have the reason to believe that NBD's income disparity must be quite high. This statement is only based on my personal observation and without support from any empirical evidence. Studies and findings on this subject, however, proved otherwise. One latest work on income disparity and expenditure patterns was undertaken by Hj Mohiddin (2002). According to his findings, income inequality computed in Gini coefficient index turns out to be at about 0.407 for the year 1997, suggesting a relatively equitable distribution of household income in NBD. This result is supported by his examination of the Decile shares and the Lorenz curve computed for the same year. His results generally conformed to those earlier studies undertaken by Sri Tua A. and then Nazir M., though there are some apparent inconsistencies in the results. However, I doubt these results are accurate because the sample data these researchers were using are very small and constitute only some area in NBD. In addition, most of the very rich and very poor are understandably ignored⁹. Nevertheless, the results should shed some lights on the subject.

In addition, it is found that income inequality in NBD was mainly due to 'within-group' income differences as opposed to 'between-group' income differential. The within group income differences are highest within the racial groups and within sectors (public and private), while the differences are lowest within occupational

⁹ When these groups of people are not included in the sample, obviously that inequality gap could be smaller or larger, and therefore, misleading. In the case of Hj Mohd. H.Z. (2002), the samples were collected from the Kampong Ayer area (see **Diagram 3.1 – The Map of NBD**) and ignoring other areas in other districts (even in the same district), where presumably more poor population lived here. In addition, rich people scattered between the districts, and excluding them would negatively implicate to the results of the Gini coefficient and the Lorenze curve.

categories. Furthermore, the findings of the study indicate that occupational differences were the most important factor explaining the total (overall) income inequality. The study also found that income inequality seems to be higher among urban households as compared to rural households. The study also reveals that, there seems to be greater disparity in income between the Malay as compared to the Chinese households in NBD. Finally, it was found that, income disparity seems to be greater among households working with private sector as opposed to those in the public sector employment.

On the subject of expenditure pattern, the expenditure of food and transportation constitutes the largest share of total household expenditure in NBD. The examination of expenditure patterns reveals that Malay households spend a larger share of their total expenditure on transportation as compared to other races whilst Chinese households spend a higher proportion of their total expenditure on housing.

In terms of elasticities of various expenditure categories, the study founds out that food, clothing and utilities are perceived as necessities (non-cyclical good), while housing, transportation is the highest and that of utilities is the lowest. With regard, income elasticity estimates by race, it is found that income elasticity for transportation, clothing and durables are higher for Malay households as compared to other races. Furthermore, it is also found out that, income elasticity for housing is higher for Chinese as compared to Malay.

3.9 ASEAN AFTA Commitment

At the Fourth ASEAN Summit in Singapore in January 1992, the ASEAN heads of government formally agreed to establish an ASEAN Free Trade Area (AFTA) and signed the Singapore Declaration and the Framework Agreement on Enhancing ASEAN Economic Cooperation. The ASEAN Economic Ministers signed the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for AFTA. This scheme is the main mechanism for the realization of AFTA.

The ultimate objective of AFTA is to increase ASEAN's competitive edge as a production base geared for world market. Through the elimination of intra-regional tariffs and non-tariff barriers, ASEAN's manufacturing sectors will become more efficient and competitive. And with the larger size of the market, investors can enjoy economies of scales in production. Foreign direct investments will be attracted into the region. This will in turn stimulated growth of supporting industries in the region for many foreign direct investments.

According to the CEPT Agreement, the countries of ASEAN would reduce intra-regional tariffs on all manufactured items including capital goods and processed agricultural products and remove non-tariff barriers over a 15-year period commencing 1 January 1993.

However, in view of the economic challenges, the AEM Meeting on 22-23 September 1994 in Chiangmai, Thailand agreed to shorten the time frame for the

realization of the AFTA from 15 to 10 years, finishing by 1 January 2003 instead of 2008, and to include unprocessed agricultural products into the CEPT scheme.

The average regional CEPT rate for products in the Inclusion List in 1998 has fallen to 5.05 % from 12.76 % in 1993. As of 1998, no product in the Inclusion List of the first six ASEAN Member Countries can have CEPT tariff rates higher than 20 %. The average CEPT rate for the region is scheduled to fall to 3.74 % by the year 2000 and then to 2.63 % by the year 2003. The progress and the forecasted figures are shown in **Table 3.10**.

3.10 Concluding Remarks

From a brief look at the economic condition of the country, no one should be panicking. The recent high and stable price of oil is the reason to why one should not be. But this does not mean that this blissful condition will continue forever, or at least for the next 80 to 100 years. The fact that revenue has been reduced and the oil reserve have been falling – since it first discovered – one should be more cautious in utilizing this exhaustible resource and therefore, the revenue it generates. The low contribution of the Non-Oil sectors, especially the Construction industry (which theoretically should be high in developing countries) shows us that efforts or possibly strategy to diversify the economy has failed. For the last 40 years, the Non-Oil sector of the economy has never reached half of the total contribution to GDP. Consequently, one may say – as I would – that NBD is still a ‘strongly’ oil dependent country. Hence, in the mean time, before NBD’s economic base is eventually

Table 3.10:
ASEAN AFTA Progress and Forecasts

Brunei Darussalam	1.35	1.30	1.00	0.97	0.94	0.87			
Indonesia	6.12	5.29	4.57	4.36	4.10	3.69			
Laos	5.00	5.00	5.00	5.00	5.00	5.00			
Malaysia	3.40	3.00	2.57	2.40	2.27	1.97			
Myanmar	4.47	4.45	4.38	3.32	3.31	3.19			
Philippines	7.43	6.54	5.27	4.79	4.53	3.62			
Singapore	0.00	0.00	0.00	0.00	0.00	0.00			
Thailand	10.56	9.75	7.40	7.36	6.02	4.64			
Vietnam	3.92	3.90	3.38	2.97	2.72	1.78			
ASEAN	5.05	4.59	3.74	3.54	3.17	2.63			

Source: ASEAN Secretariat

widened – possibly not in the next 20 to 30 years – and with the frequent deficits faced in the past 11 years, it is wise for the so called policy makers to focus their attention to a more appropriate agenda, that is, to raise revenue through the introduction of taxation. The prevailing high level of per capita GDP makes tax introduction more relevant and in fact, the exhaustible oil resources, from which NBD depends upon, makes such effort, vital. In addition, the income disparity, though empirically proven to be rather equalised, it's by all means no harm to improve or lessen the gap further. What type of taxes appropriate, shall be left for discussion in **Chapter 5 and Chapter 6**. Of course, the proposed policy will not undermine NBD's commitment over ASEAN AFTA arrangement. In fact, there are still rooms for improvement in the collection of import duty, as we shall see in **Chapter 5**.

In the end, it is therefore, wise for the policy makers to look into how to make the best use of scarce resources. Besides, it's the most fundamental concepts in economics, which is “to make the best use of the scarce resources”. And as I look at it, tax certainly, would be the best instrument for such undertaking.