

Country Report **2**

Brunei Darussalam

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Overview of Brunei's economy

Brunei Darussalam continues to benefit from high prices for its oil and gas, which account for around 50 percent of real GDP and generate more than 90 percent of total export earnings and government revenues.

Economic diversification is a key to Brunei Darussalam's medium-term growth prospects. To this end, the government has plans to gradually withdraw from economic activities that are best carried out by the private sector, reduce administrative obstacles for business start-ups, better align education and training with the demands of a diversified private sector, and increase value added in the energy sector.

Most of the programs initiated by the leading agencies are focused on large-scale industries, as these are most likely to create spillovers into other sectors. Nonetheless, small and medium enterprises (SMEs) are not left out as they form a very significant part of the private sector.

In general, the trade and investment regime of Brunei Darussalam is relatively liberal. Moreover, in an effort to diversify the economy, the government is working toward enhancing transparency of rules and regulations that will facilitate foreign investments.

Potential stumbling blocks to economic integration

East Asia needs to explore ways to improve rules and regulations to fully tap the advantage in the region. Deepening economic integration also entails freeing up of other quarters in the economy, including services.

Are East Asian countries ready with this shift and will this shift lead to more private sector-driven programs? A lot of valuable lessons can be picked up from the multinational corporations (MNCs) that successfully exploited the advantages of the region's industrial programs.

Statistics have suggested a marginal increase in the intraregional trade activities of ASEAN member-countries, although the total trade volume had increased in a

respectable amount. This raises further questions from experts such as whether ASEAN has managed to successfully link up their programs to the general private sectors. Another question is, what mechanisms are available to ensure that the MNCs or private companies are well informed? Similar problems might repeat in the East Asian economic integration process if the channels suggested above are not properly studied and supported.

EU integration framework (or concept of “flexibility”)

Will East Asian integration follow the European Union’s (EU) integration framework? Or will East Asian economic integration follow ASEAN’s footsteps to persist in its firmly rooted concept of “flexibility?”

The growing debate in the Asia Pacific on macroeconomic and financial issues, including ways to prevent crises and to stabilize exchange rates, are taking place in the “ASEAN+3” (APT) context. So, the first phase of East Asian economic integration might be seen to be adopting a relatively more flexible approach.

Current situation of East Asian regionalism

The most distinct pattern toward East Asian regionalism is the numerous bilateral arrangements, with China and Japan as the hubs.

East Asia economic integration could be hindered by a lack of common vision in a regional economy. Very often, questions such as, “Who should take the lead?” and “What should be the long-term goals?” have been left unanswered.

Also, domestic industries and interest groups have to be closely connected with regional interests provided by the regional economic cooperation. If there is no domestic interests’ foundation for regional economic cooperation, then regional integration may lose its established interests and meet many more obstacles.

Comprehensive roadmap toward East Asian economic integration

The combination of ASEAN Free Trade Area (AFTA) and ASEAN Free Trade Areas with “+3” and “+6”, supplemented by bilateral agreements between individual states in Southeast and Northeast Asia, provides the necessary building blocks for the economic integration of East Asia.

An East Asian FTA should be comprehensive and include investment and trade facilitation, as well as economic cooperation in areas such as environment, food, and energy.

Furthermore, East Asian countries should deepen mutual understanding at all levels,

from top leaders to young people, of the importance of an integrated regional market, and of regional political and social stability.

Finally, East Asia should make every effort to promote multilateral trade negotiations under the World Trade Organization (WTO) and establish FTAs with countries outside East Asia.

Some recommendations

A network could be put in place to bridge the gap between the private sector and the East Asian regionalism, so that all trade and investment programs are synchronized.

It is highly desirable to have an integrated, "one-stop" trade portal for East Asian economic integration to support effective information search and analysis, as well as to enhance communication and collaboration.

Rules of Origin should be precise and transparent in design and substance, and be neutral/least distorting in its trade effects. They should also be consistent, least-cost, and simple; be readily understandable; and conform to WTO requirements.

East Asia should establish four R&D operational groups: Tariff Group, Policy Development Group, Sectoral Development Group, and Business Development Group. At the same time, this mechanism/network ought to also create a comprehensive databank for industry benchmarking.

An Intellectual Exchange Program could be put in place to support the East Asian universities and research institutions that encourage policy-oriented research and dialogue on regional issues of common concern. The ERIA's support is very important in these activities.