

# Executive Summary

Brunei is a peaceful and prosperous country that has very successfully built from a rich endowment in oil and natural gas. However, the oil and gas resources controlled by Brunei are both a blessing and a curse. The blessing is of course the wealth that has been generated, but the curse is the fact that Brunei has been unable to diversify significantly outside the oil sector. In approximately 15 years from today, Brunei will have run out of oil. To prepare for this time Brunei has two choices. The first choice is to continue down the current path. This path will lead to an 80% drop in GDP when the oil runs out, with the associated social problems and dissatisfaction that this will cause. The second path is to take steps now that will lead to a more diversified, private sector oriented economy so that when Brunei's oil wealth is depleted the drop in GDP and in living standards is far less dramatic.

Brunei is not lacking in plans to diversify its economy. The critical question is why has Brunei been unable to successfully implement these plans? There are several factors that explain why Brunei has been unable to diversify its economy. Firstly, the environment in Brunei is not hostile to private enterprise, but Brunei is unnecessarily slow and bureaucratic with respect to private sector activity. Brunei suffers from much needless bureaucracy, red-tape and slow decision-making, which kills business in a country like Brunei. Foreign businesses in particular are willing to deal with red-tape in countries like China and India where the rewards for dealing successfully with red-tape are a very large market. But foreigners wanting to bring FDI to Brunei are not rewarded with a large market if they are able to cut through red-tape, making them less likely to persist to try and set up enterprises in Brunei. Examples of such forms of bureaucracy range from the trivial, such as the issuing of visas and slow processing of visitors at Brunei's airport, to more major issues such as the lack of clarity and slow decision making with regard to land use and ownership laws.

Related to Brunei's problems with bureaucracy and red-tape is a government sector that is too large. The challenge for Brunei, with its small population, is to find the balance between providing the necessary level of government service provision, while at the same time allowing for an enlarged private sector, both in terms of output produced and employment provided. This must however, involve shrinking employment levels in the public sector in the next decade.

The only alternative is to wait until oil reserves run out, at which point the lack of revenues will force a significant cut-back in the size of government in Brunei. The aim over the next

year or two is to ensure that all regulations are reviewed and eliminated or modified where appropriate so that faster decision making is possible, and the regulatory burden on private business is drastically reduced. These changes will also require a restructuring of Brunei's public sector to avoid duplication and give greater accountability to government departments and senior public servants.

A final problem for Brunei is in the area of human resource development. Related to Brunei's overly large government sector is a relative abundance of Bruneians trained in public policy and related fields, and a lack of citizens trained in other fields, particularly management, marketing, medicine, engineering and IT.

Brunei is well placed to take steps today to make major changes that will impact the Bruneian economy both immediately and into the indefinite future. Brunei's people are well educated and adaptable. Brunei has quite a good public infrastructure and a sound financial position. The changes outlined in this report will not threaten Brunei's status as a sovereign, democratic and independent Malay Muslim Monarchy, but will allow Brunei to continue in enjoying prosperity into the 22<sup>nd</sup> century and beyond.