

SUMMARY

1. The economy of Brunei Darussalam remains highly dependent on oil and gas, which accounts for about two-thirds of output, and over 90% of merchandise exports and government revenues. This makes Brunei particularly vulnerable to an eventual depletion of its petroleum resources, and remains a cause for concern due to fluctuating international energy prices. The Government is thus implementing an ambitious diversification strategy and promoting private-sector participation in the economy, which remains limited.
2. Brunei's economy grew at an average annual rate of 0.2% during 2008-13 mainly due to lower oil and gas production. Real GDP growth of 5.3% is expected in 2014 as large energy-related projects begin production. Under its National Vision 2035, Brunei aims to achieve annual real GDP growth rates of 5-6% which may require increasing overall productivity, particularly in the government sector (including state-owned enterprises) being the largest employer.
3. Sizable hydrocarbon exports and the steady accumulation of long-term foreign assets over many years have provided Brunei with a comfortable balance of payments position, which also reflects the big gap between savings and investment. The external current account surplus, as percentage of GDP, fell from 48.9% in 2008 to 31.5% in 2013 because of the important reduction in oil and gas export revenues and, consequently, Brunei's trade balance surplus decreased from US\$7,867 million in 2008 to US\$6,916 million in 2013.
4. Petroleum and natural gas represented 96.5% of total merchandise exports in 2013 (97.8% in 2008). The remaining exports are manufactures, mostly machinery and transport equipment. Brunei's exports are mainly destined to Japan and other countries in East Asia. Machinery and transport equipment are Brunei's most important import category, accounting for 37% of total imports in 2013 (44% in 2008). Its merchandise imports also originate mainly in East Asia, led by Malaysia. Brunei is, increasingly, a net importer of services.
5. FDI inflows have increased during the last years but remain relatively small averaging some US\$600 million per year in 2008-13. Success in attracting larger FDI inflows has been hampered by increased competition from neighbouring economies. Brunei would benefit from further improvement of its business climate, and its FDI policies could also be more transparent, particularly with respect to limits on foreign equity participation, partnership requirements, and identification of sectors in which FDI is restricted. Full foreign investment may be allowed in most activities, except in those that use natural resources, relate to food security, and are located in industrial sites for which 30% minimum local equity participation is required.
6. Brunei has eight RTAs encompassing 16 partners: the other nine parties of ASEAN; six countries that have negotiated agreements with ASEAN (Australia and New Zealand, China, Japan, Republic of Korea, and India), and Chile in the context of the Trans-Pacific Strategic Economic Partnership (TPSEP). Five RTAs entered into force during the review period: four are RTAs negotiated in the context of ASEAN, and one bilateral arrangement with Japan. Brunei's RTAs have been notified to the WTO.
7. Brunei is an original Member of the WTO, and grants at least MFN treatment to all its Members. It has never been involved in any trade dispute. During the review period, Brunei made a number of notifications to the WTO, but some remain outstanding, particularly in agriculture and import licensing. Since 2008, Brunei has adopted new trade-related legislation in the areas of business environment, financial services, fisheries, intellectual property, and TBT. Additional legislation on standards and competition is being drafted. Brunei has no legislation pertaining to contingency trade remedies. It does not participate in the Information Technology Agreement.
8. During the review period, Brunei took steps to further facilitate trade, such as e-Customs which has been fully operational since 2008 allowing traders to submit applications electronically, and Brunei Darussalam National Single Window (BDNSW) which began to operate, in phases, in January 2014 and will allow applications for several trade procedures (e.g. certificates of origin and import permits). BDNSW is expected to be integrated into a wider ASEAN level single window system in the future. Brunei has no customs fees for import/export procedures or registration.

9. Goods imported into Brunei may be subject to import and excise duties (there is no VAT). Since its last TPR, Brunei has introduced new excise duties on liquors, tobacco, vehicles, nuclear reactors, boilers, machinery, and mechanical appliances, and medical or surgical instruments. The authorities informed that these new excise duties are levied for fiscal, social, health, and environmental considerations. The authorities also indicated that goods subject to excise duties are not manufactured in Brunei.

10. Brunei applies relatively very low tariffs. With the adoption of the 2012 ASEAN Harmonized Tariff Nomenclature, the number of Brunei's tariff lines (at the HS ten-digit level) was reduced from 10,689 in 2007 to 9,916 lines in 2014, and the simple average applied MFN rate decreased from 4.8% in 2007 to 1.7% in 2014. Specific tariff lines were reduced from 131 in 2007 to 55 in 2014 which enhances transparency.

11. The coverage of Brunei's bound tariff lines went from 92.8% in 2007 to 89.1% in 2014 also because of the changes in HS nomenclature. There remains a significant gap between the overall bound average of 25.4% and Brunei's applied MFN tariff of 1.7% which undermines predictability. The difference is even larger in agriculture where the bound average tariff is 23.1% and the MFN tariff rate is zero.

12. Import and export prohibitions, restrictions, and licensing requirements apply on various products for safety, health, and moral grounds. In some cases, Brunei maintains export restrictions on certain goods, such as sugar, rice, paddy and products thereof, to ensure adequate domestic supply and price stability.

13. In 2010, the National Standards Council, under the Ministry of Industry and Primary Resources, was established as the body responsible to monitor and strengthen standards and conformance activities in Brunei. There are no technical regulations in Brunei. It has 83 national standards, mainly on construction and electrical-related products; 53 have been directly adopted from international standards. Brunei is still to notify its enquiry point to the WTO Committee on Technical Barriers to Trade.

14. In order to encourage investment in priority sectors and production for export, Brunei continues to use extensive tax and other incentives. During the review period, Brunei changed the Income Tax Act to reduce tax liabilities of enterprises, with the exception of those engaged in petroleum activities. The income tax rate decreased from 27.5% in 2008 to 20% in 2014, and will be further reduce to 18.5% as from 2015. Also, tax thresholds were introduced in 2008 to further reduce corporate tax burden.

15. Since 2008, three grant and loan schemes have been created and two more revised to help micro, small, and medium sized enterprises grow, consolidate, and internationalize. Three grant schemes have also been established to support start-ups and innovation. Under the 10th National Development Plan 2012-17, Brunei has allocated 1% of GDP (B\$200 million) to R&D and innovation to help achieve economic diversification.

16. In line with commitments under the ASEAN Economic Community, since 2011 Brunei has been drafting comprehensive competition legislation. At present, competition issues are addressed on a sector-by-sector basis and tackled by its respective regulator. Competition regulations exist in telecommunications, financial services, and energy, although in limited forms.

17. Goods subject to price control increased substantially during the review period. Currently, there are 19 categories of products for which maximum retail prices are set (e.g. rice and sugar). Prices/tariffs of housing, petroleum products, utilities, healthcare, and telecom services continue to be subsidized in Brunei. Fuel subsidy reform over the medium term could provide fiscal space to maintain development expenditures and reduce distortions that could limit diversification efforts.

18. The public sector continues to exert a direct influence on the economy, mainly through state-owned enterprises. Some of these still operate under monopoly or hold exclusive rights in sectors such as oil and gas, manufacturing, banking, telecom, and air transport. Brunei's Privatization Master Plan is in the process of being completed.

19. As the Government is the largest operator in the economy, procurement also plays an important role. Some changes have recently been made to the legal framework, including adjusting the thresholds under the different procurement methods. Brunei is not a party to the WTO Agreement on Government Procurement.

20. Main changes to Brunei's IPR regime since its last TPR include the restructuring of the administrative system, notably the establishment of the Brunei Intellectual Property Office, as well as the entry into force of a new patent law in 2011 which, *inter alia*, established a national patent system. Brunei has made concerted efforts to improve IPR enforcement, in particular to curb copyright piracy through, for example, an increase in fines and prison sentences. During the review period, Brunei acceded to three additional WIPO-administered treaties and is considering acceding to others.

21. Under its National Vision 2035, Brunei has identified the following activities that may increase value-added, exports, and jobs creation: agri-food; downstream oil and gas and energy-intensive industries; information and communication technology; life sciences (pharmaceutical, cosmetics, and functional health food and health supplements); light manufacturing; services, such as financial services and tourism; and other activities that may be technology driven.

22. Despite its relatively small share of total real GDP (1%), agriculture and related activities is of key importance in the economy because of Brunei's food security and self-sufficiency objectives. As a net importer of agricultural products, food security is mainly promoted through zero applied MFN and preferential tariffs. The agri-food processing industry has increased its participation in agricultural production supported by growing domestic demand in halal food and the authorities' efforts to market the "Brunei Halal brand" at regional and international level. Brunei maintains a system of subsidy for rice and sugar to protect consumers from increases in commodity prices.

23. The energy sector, mainly oil and gas, remains the backbone of Brunei's industrial output and trade. However, oil and gas production shrunk at an annual average rate of -1.8% during 2008-13 partly due to maintenance works. The largest oil and gas operator and producer remains the state-owned Brunei Shell Petroleum (BSP) by virtue of its control of the major oil and natural gas fields. While BSP operates a concession, the exploration and development of a number of new onshore and offshore blocks have been offered on production sharing basis.

24. Brunei has the lowest electricity rate and the highest energy intensity of all ASEAN countries. The Government spends some B\$40 million per year on its electricity subsidy, out of a total annual energy subsidy of about B\$1 billion. Steps are being taken to reduce 45% of its energy intensity by 2035 and improve efficiency. In 2012, a progressive electricity tariff structure was introduced to reduce the government power subsidy by more than half.

25. Overall, the performance of the manufacturing sector has been weak in recent years partly due to the relatively high cost of doing business, shortage of skilled and unskilled workers, and lack of competitiveness of local products. To encourage private participation, manufacturing companies are eligible to receive financial support, incentives, and other measures. The Government also invests directly, mainly through its company Semaun Holdings which still dominates manufacturing. In addition, the Government is promoting and managing large-scale industrial sites, including industrial parks that cater to downstream petrochemicals plants.

26. Since its establishment in 2011, the Autoriti Monetari Brunei Darussalam, a statutory body acting as the central bank, has been responsible for the supervision and regulation of the financial system. Brunei aims to become a regional financial centre for Islamic financial services. In terms of banking, the main change over the review period was the adoption of the Islamic Banking Order 2008 which harmonized Islamic and conventional banking regulations. Brunei does not have its own stock exchange and the capital market still is in an infant stage. It is not a signatory to the Fifth Protocol to the GATS (on financial services).

27. A complete review of the telecoms regulatory framework is being undertaken so as to have a single converged regulator for telecoms and broadcasting by 2015. Moreover, a Telecommunications and Broadcasting Competition Code, Brunei's first-sector specific competition code, is expected to be implemented in 2015. A new Tariff Regulation Code of Practice will be also introduced to regulate retail and wholesale tariffs for telecoms and broadcasting infrastructure and

services. Currently, there are two mobile operators, and the state-owned Telekom Brunei continues to have the monopoly over the fixed-line market.

28. Brunei has liberalized international air transport through bilateral, regional, and plurilateral agreements. It has signed 36 bilateral air agreements of which five integrate open sky arrangements. Since 2009, three regional open sky agreements came into force with a view to establish the ASEAN Single Aviation Market. Most of Brunei's international waterborne trade is carried by foreign vessels.