

Brunei Darussalam: Dynastic Fallout, Economic Crisis and Recovery ?

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Abstract:

With its small population base, and vast reserves of oil and natural gas, Brunei Darussalam has been able to lever its economy into providing an enviable standard of living for its population and mega-billions for its ruling Royal family. Brunei Darussalam also shares the external vulnerabilities of oil producer states. This article seeks to structurally expose these vulnerabilities with specific reference to the dynastic crisis of 2001-2002 . It also seeks to explain how the Sultanate recovered from this crisis without, however, precluding future crisis and even collapse whether from domestic (dynastic) or external shocks.

Keywords: Sultanism, rentier state, Dutch disease, resource curse, transparency, investments

Introduction

Identified by analysts as conforming to, variously, an economic rentier state model (Colclough 1985; Gunn 1993) , or suffering from “ Dutch disease effects ,” (Cleary & Wong 1994) , Brunei Darussalam, with its small population base (374,000 in 2007) , and vast reserves of oil and natural gas, as been able to lever its economy into providing an enviable standard of living for its population and mega-billions for its ruling Royal family, led by Sultan Hassanal Bolkiah, along with a network of close non-Royal collaborators. Brunei Darussalam also shares the external vulnerabilities of oil producer states. This article seeks to structurally expose these vulnerabilities with specific reference to the dynastic crisis of 2001-2002 . It also seeks to explain how the Sultanate recovered from this crisis without, however, precluding future crisis and even collapse whether from domestic (dynastic) or external shocks.

Understanding the Vulnerability of Resource Rich Economies

The “ Dutch disease ” has been used by economists to explain the deindustrialization of an economy as a result of the discovery of a natural resource. Typically, in this analysis, the discovery raises the value of the country’s currency making manufactured goods less competitive and so imports rise. The notion that states based upon external sources of income are substantially different from states based upon domestic taxation was first proposed with reference to a number of oil-exporting Middle Eastern countries. Beblawi (1987: 52) has drawn a distinction between a rentier state, rentier economy, and rentier mentality. Rentier economies become problematical, in this theory, when a rentier mentality prevails insofar as the work-reward causation is broken and reward or wealth is not related to work and risk taking. So-called Dutch disease effects, a somewhat undertheorized statement derived from studies of the economic impact of hydrocarbon revenues in the Netherlands in the 1960s, asserts a bloated public sector and the rise of non-productive social expenditure. However theorized, the problem becomes one of expanding the skill base of the population, stimulating the private sector, diversifying the economy, especially in the way of creation of downstream activities, offering transparency in national accounting, and reigning in the pursuit of unbridled ostentatious consumerism. In any case, unlike Holland in the 1960s and the UK in the 1970s, Brunei obviously lacks a manufacturing base. Deindustrialization has never been the issue. Neither has its currency greatly risen.

Other economists have also discussed a “ resource curse thesis ” or the costs associated with a booming mineral sector based on the observation that so many countries that have struck it rich with natural resources have ended up a decade or so later in great trouble. Typically, in this thesis, even less theorized, natural resource rich countries are subject to a boom-bust cycle with associated political instability arising from income differentials and unequal access to wealth. The ability to escape the “ resource curse ” has also given way to a small literature, some operating from neo-liberal/public choice or behaviouralist perspectives, others (eg. Rosser 2007) , seeking explanations in “ social forces ” in favour of capitalist development in conjunction with a favourable external environment such as in Suharto’s Indonesia.

My bias is to expand upon a version of the “ rentier state ” model, especially as, unlike the Dutch disease description or “ curse ” metaphor, the rentier state analysis seeks to answer the crucial (and mostly taboo question in Brunei Darussalam) as to who gets what, why, and

how ?

The notion that states based upon external sources of income are substantially different from states based upon domestic taxation was first proposed with reference to a number of oil-exporting Middle Eastern countries (Libya and the Gulf states for example) . Some analysts have drawn a distinction between a rentier state, rentier economy, and rentier mentality. Rentier economies become problematical, in this theory, when a rentier mentality prevails insofar as the work-reward causation is broken and reward or wealth is not related to work and risk taking. Rentier economies are by definition extroverted, forming high tech enclaves disconnected from the domestic economy both in terms of inputs, employment and outputs.

However theorized, the problem becomes one of expanding the skill base of the population, stimulating the private sector, diversifying the economy, especially in the way of creation of downstream activities, offering transparency in national accounting, and reigning in the pursuit of unbridled ostentatious consumerism. To add a slightly philosophical note, we could say that for Bruneians to consume is to be modern. In other words, Bruneians express their modernity through their ostentatious consumption patterns. Such behaviour is not confined to Bruneians but in the context of a steeply hierarchical and status-driven society it fits the bill.

Economic History: A Survey

Traditionally a nation of self-sufficient agriculturalists and peasant fishermen living in a favourable ecological niche, Brunei has experienced a major shift away from agriculture during the last three decades. A rubber plantation economy with pre-war origins only survived into the 1960s. The overall trend has been towards loss of food self-sufficiency including even fish. The one redeeming grace offered by the exploitation of oil has been to spare the country from the ravages of tropical hardwood logging such as has occurred in neighbouring Malaysian states of Sabah and Sarawak for the worst. The potential of this natural asset for ecotourism has dawned upon Brunei.

It was the British, actually the Shell group of companies, which, from 1913 , pioneered the search for oil in Brunei and, from 1929 , commenced the exploitation of Brunei's hydrocarbon resources, making Brunei, upon its full independence in 1984 , one of the richest states

in the world. Notably, however, Brunei is not a member of the Organization of Petroleum Exporting Countries (OPEC) , and, as a relatively small producer country, is not officially constrained by OPEC production quotas.

In any case, material improvements, including the development of basic infrastructure, along with public housing, educational facilities, and medical services, only began to take effect with the implementation of a series of five year National Development Plans beginning with the of 1953-58 Plan and, as discussed below continuing with the current Eighth National Development Plan (2001-2005) , albeit with expanded allocations matching a more sophisticated macro-economic environment. Needless to say, the modernization of the oil industry, the discovery of new fields, including reserves of gas, along with the windfall benefits reaped from the first oil-price hikes of 1973-74 , provided the wherewithal for this expansion. Today, Brunei is the fourth largest oil producer in Southeast Asia [after Indonesia, Malaysia and Vietnam] , producing 163,000 barrels per day (1999) but currently in excess. As explained below, the steady dependence of the nation upon the oil industry, especially exports of crude oil and LPG, to the neglect of traditional agriculture and even the expansion of downstream industries and the non-oil and gas sector, has led to its extreme vulnerability within the global marketplace. In fact, oil and gas comprise over 96 percent of Brunei's exports suggesting an urgency to match the rhetoric of diversification with action. While rentier states typically accumulate reserves sufficient to buffer their economies, the prudent management of reserves, as much their accountability, as explained below, has not been the hallmark of Brunei's short experience as an independent state.

While independent Brunei has gone as far as creating a cabinet system of government, it has shown no signs of reviving its short-lived parliament or in openly tolerating a climate of opposition. While political parties have surfaced, they exist in token form only. Rather than offering a political opening, such as in Kuwait, Brunei has wrapped itself in the cloak of monoculturalism defined as Malay Islam Beraja (Royalty) , a " monoloyal " ideological system that privileges subjects, about 66 percent of the population, but excludes many categories of the population. The majority of Chinese who comprise about 15 percent of the population are stateless permanent residents of Brunei. Otherwise governance in Brunei conforms closely to the Middle Eastern pattern of dynastic monarchy.

Meeting such tests in Brunei is no small matter, as citizenship confers substantial rewards in what has been dubbed the " Shellfare " system. While we shall discuss the privileges that

adhere to the Royal economy below, the privileges of citizenship also extend to the economic, namely in the way that the state has been able to expand its social service net to improve the livelihoods of larger and larger numbers of citizens, in the way of better housing, healthcare, education and access to privileged civil service positions. No personal income tax is levied in Brunei Darussalam. Simply stated, Brunei's affluence, as measured by consumption patterns and disposable income, makes the country the envy of neighbours. In Brunei, as in other Southeast Asian economies prior to the crisis of 1997, large numbers of people were prepared to accept authoritarian blandishments as long as their rising economic aspirations were met. The establishment in Brunei does not harp on its economic legitimacy as did some other regimes swept away in the crisis, but it is taken for granted.

The Oil Industry

It remains to analyse how the oil industry works. Where the global trend has been for producer countries to nationalize the oil industry, such as Indonesia's Pertamina and Malaysia's Petronas, to strike some regional examples, a feature of the industry in Brunei has been its privatized character. Even so, as discussed below, in the wake of the crisis a new national petroleum company has been formed.

While historically the share of profits between Shell and the state in Brunei had advantaged the former, in the modern period the terms have been altered to benefit the state and the Royal family. Natural gas production in Brunei is of more recent origin, with an LPG plant opened in 1973, the largest of its kind in the world at that time. Today, Brunei is the fourth largest producer of LPG in the world.

Today the oil industry in Brunei is dominated by four companies belonging to Brunei Shell of which the state holds a 50 percent share in each. Dominating is Brunei Shell Petroleum (BSP), responsible for exploration and production as well as oil refining. Second in importance is Brunei LPG, a three-way tie-up between Brunei, Shell, and Japan's Mitsubishi Corporation. A third company, Brunei Coldgas, buys the liquified gas, and a fourth, Brunei Shell Tanker, transports the gas to Japanese customer, Tokyo Electric Power Company, the Tokyo Gas Company and the Osaka Gas Company. (Around seven huge tankers continuously circle between Brunei and Japan with two more recently commissioned). In 1994 South Korea became an additional customer for LPG, an important step for Brunei in the way of diversifying markets. And, in November 2000, Brunei Shell signed an agreement

to export 10,000bpd to China, a first for Brunei.

Attempts by the state to stimulate the private sector and reverse the dependence mentality of the middle classes upon the state have been desultory. Numerous schemes have been routinely touted or attempted, such as developing financial services, promoting foreign investment in new start-ups, stimulating fisheries, and promoting niche tourism or ecological tourism. In discussing the “ diversification dilemma ” in Brunei, Cleary and Wong list the constraints to diversification as “ labour, capital, resources and management skills ” in a “ political and cultural system that is often highly rigid, conservative and traditionalist ” (Cleary & Wong 1994: 123) .

The first “ outside ” player on the production side was Jasra Elf, a tie up between the Royal family-controlled Jasra International Petroleum and French major Elf Aquitaine which has made important offshore discoveries, not only extending Brunei’s known reserves but breaking the Brunei Shell monopoly . [New Zealand’s Fletcher Challenge Energy also entered into partnership with Elf, but Shell was also seeking a take-over of Fletcher’s share] To put this arrangement into perspective, while BSP accounted for 90 percent of gas production in Brunei , [Jasra] Elf-Fletcher produced the other 10 percent. But, as explained below, the oil industry in Brunei is subject to some major new innovations.

Royal Family Economy

Discussion of Brunei’s “ national ” wealth would not be complete without reference to the privileged and secretive Royal family economy, almost a special sector of the economy. Arguably, the richest family in the world, there is no distinguishing family fortunes from those of the state. Simply stated, as supreme executive and sovereign, the Sultan has the power to dispose of all State assets as he sees fit. Subject of much speculation, the Sultan may at one time have been worth between US \$ 40 and US \$ 80 billion, a figure equal to Brunei’s reserves, not to mention the significant assets of his three brothers. As well known, the Sultan’s assets run from luxury hotels in London, Singapore and Bali, to cattle stations in Australia, to jewelry and art collections . At home, the Royal family wealth is manifest in the shape of sprawling palaces and domains that tend to expand in tandem with the family itself . Prince Mohammed has a higher local profile through owning a controlling interest in a Singapore-registered company QAF Holdings, with interests in a range of ventures from supermarkets to newspapers (*Borneo Bulletin*) , to a tie up with the government of Myanmar.

Prince Sufri and, as mentioned below, Prince Jefri, both have private investment companies. Royal family construction activity generates considerable business for local contractors and suppliers.

It is notable that Royal Family economic activity in Brunei is not reflected in national accounts and falls outside of surveys conducted by the government Economic Planning Unit. The separation of the family economy from the Brunei economy also extends to separate electricity supplies and telecommunications among other services.

Brunei and the Asian Economic Crisis (1997-98)

Shielded from the Asian economic crisis commencing in 1997 by its small size and irrelevance as an investment site, the fall in world oil prices nevertheless dragged the economy to its most critical state since independence. To cope with the situation, on 27 June 1998 the Sultan issued a series of Emergency (Supplementary) Supply orders for 1999 and 2000 or special appropriations out of the Consolidated Fund. Government allocations draw from two funds, the Consolidated Fund which covers the operating costs of the government, and the Development Fund which funds projects under the National Development Plans.

Nevertheless, Brunei was not entirely immune to regional economic trends. The Brunei dollar which is pegged to the Singapore currency lost about 14 percent of its value against the US dollar. Additionally, certain of Brunei's non-oil exports, such as textiles, were affected by the crisis in other ASEAN countries. While that section of the population with dollar accounts and other assets were shielded by the decline in the local currency, expatriate workers, many private sector contractors, and marginal elements in the Brunei economy were hurt. But as an employer of expatriate construction workers and other skilled and unskilled labour, this category have traditionally been the most dispensable in times of crisis.

We may well ask, what was the trigger behind such state of emergency measures? Critically, in 1998, Brunei saw a decline in prices of crude oil and LPG by respectively 37 percent and 25 percent over the previous year. With oil production constant at around 150,000 to 160,000 barrels per day, this meant that the contribution of the oil sector to Gross Domestic Product (GDP) continued declining, with the government and non-oil sector taking up the slack.

As a consequence of revenue shortfalls and economic malaise, the year 1998 registered a slow growth of real GDP of 1.00 percent compared to 3.50 percent in 1996 , and 4.00 percent in 1997 . The budget balance in 1998 registered an estimated 6 percent of GDP, obliging the government to corporativize some government agencies and to privatize some government projects. At the same time , efforts were stepped up to increase alternative sources of revenue to supplement declining oil and gas revenues. The picture in 1999 was even more gloomy with GDP growth falling to 0.6 percent but rising to 2.5 percent in 2000 , but still lower than pre-crisis years .

In 2003 GDP growth rose to 3,75 percent but slowed to 1.75 in 2004 owing to temporary lower oil and gas production as production facilities were repaired and upgraded. Non-oil economic activity strengthened reflecting large revenue inflows and increased government spending. The fiscal position has also strengthened. Most of the windfall revenue accruing from higher oil prices has been saved resulting in substantial improvements in the fiscal situation. Likewise oil production was expected to grow following repairs and upgrades to facilities . (anon, IMF Report September 30 , 2005) .

As discussed below, the construction sector in particular was already ailing owing to the unfolding of the Amedeo scandal linked with the collapse of the largest domestic business conglomerate. Amedeo's debts also impacted upon the state-run Brunei Investment Agency, as discussed below, which saw its portfolio investments reduced .

Domestically, the country had witnessed rising unemployment and a continuing budget deficit since 1988 . In 1992 , for example, expenditure increased by 10.8 percent mainly due to increased levels of spending associated with lavish ceremonies commemorating the Sultan's Silver Jubilee of accession to the throne. But also, the practice of issuing mid-year supplementary supply orders, including additional monies for the royal purse as in 1993 , make published government expenditure figures unreliable . Essentially, deficits are financed by drawing upon foreign investment income, itself a closely guarded secret.

To meet the challenge of turning the economy around, in September 1998 the Sultan created the Brunei Economic Council in September 1998 to take in hand strategic planning. The Council was chaired by Prince Mohamad and comprises membership from both the public and private sectors. The Council determined that dire trends indicated an unsustainable economy. Notably, it was determined, income growth was unable to keep up with population

growth. Since 1994 , the government budget deficit averaged B\$ 1 billion a year, equivalent to an average GDP. This shortfall was funded by drawing upon Brunei's reserves.

According to the Report of the Economic Council (press release of 29 January 2000) , a three-pronged Action Plan for economic recovery was accepted. This involved a stimulus package to inject liquidity into the economy, especially in the way of assistance to Small and Medium-sized Enterprises; an implementation strategy; and a communications initiative. Rhetorically, the package promoted such concepts as " fast track " payments, IT infrastructure, investment in people, think-tank, private sector, bumiputra or Brunei Malay-owned companies and, last but not least, maximum transparency . It was expected that the recommendations of the Council would be incorporated in a future economic blueprint for Brunei Darussalam .

Nevertheless, such rhetoric is masked by a public culture which has traditionally inhibited such a dynamic breakthrough. The case of royal favouritism and extravagance is illustrative.

The Brunei Investment Agency, Amedeo , and the Case of Prince Jefri

Established in 1983 in the run up to independence, the Brunei Investment Agency (BIA) , within the Ministry of Finance, was positioned to manage the Sultanate's reserves, a role hitherto performed by the British Crown Agents. As the author argued elsewhere , the role of the BIA in the external recycling of oil rent conforms broadly to the model of a triple-alliance between the state, the new business elite, and circles of international capital (Gunn 1993) .

The way this triple alliance operated in Brunei has long been the subject of speculation by financial journalists. The modus operandi of the BIA has seldom entered public discourse, although its managing director, Dato Abdul Rahman Karim, also Permanent Secretary of the Ministry of Finance, explained in 1991 that the agency handled only 40 percent of the Sultanate's foreign reserves which he estimated at US \$ 27 billion. The remainder, he contended, was divided among eight foreign banking and investment institutions, while 50 to 60 percent of the BIA's money was placed in bonds with the balance in stocks and shares.

The picture is rather incomplete, however, without further discussion of the nexus linking

the BIA with the state, the business elite, and international capital. While the BIA's assets were estimated to have risen to \$ 60 billion by the end of the decade, the modus operandi of the institution came under the searing glare of local and international media in mid-1998 , when the British media exposed that the Sultanate's largest conglomerate, Amedeo, under the control of the Finance Minister and head of the BIA ,Prince Muda Haji Jefri Bolkihah (b. 1956-) , youngest brother of the Sultan, had collapsed leaving debts estimated at \$ 16 billion, thus depleting the BIA's assets by the same amount. In June 1998 investigation into the misuse of the BIA funds in the Sultanate was entrusted to a Finance Task Force, headed by senior government officials with international advisors. It is probably no coincidence that, in August 1998 , the Sultan nominated his eldest son, Al-Muktahee Billah as Crown Prince, dispelling rumours and firming up his line of descent.

Stripped of his official positions, Jefri fled the country, just as the Sultan assumed the position of Finance Minister. On 21 September 1998 the government stated that 27 companies led by Amedeo Corporation had been placed under investigation and taken over by the government on suspicion of misappropriating funds. These companies included an amusement park, an international school, a hotel, and firms connected with fisheries, insurance and telecommunications.

While Jefri briefly returned to Brunei in October 1998 , having sold off some of his holdings including the Asprey Group, couturier Romasz Starweski, and jeweller Hamilton & Inches, the gesture did not mollify the Sultan, with Jefri returning to exile in July 1999 . In the same month, auditors Anderson Consulting confirmed that Amedeo was unable to pay debts estimated at US \$ 3.7 billion, most owed to the BIA. Amedeo was subsequently wound up leaving creditors unpaid (*FEER Yearbook , 2000 , p.96*) .

Domestically, the construction industry took a hit. For more than four years Amedeo had been involved in a number of grandiose multi-million dollar projects in the Sultanate. Such exemplars of " showcase capitalism " (Mortimer , 1973) , to borrow a phrase that has been used to refer to the economic model under Indonesian President Suharto (1967-1999) , include the Prince's private office, the now abandoned private mosque in Jefri's office grounds, and the Jerudong Hotel . According to a journalist with the *Borneo Bulletin*, the vast majority of the projects were for the benefit of the prince and his family. Of \$ 6.2 billion injected into Amedeo from the BIA and their-party creditors, only 10 percent could be regarded as having been spent on infrastructure improvements. These include the Berakas

Power Station, a communication tower, and an international school. Such projects of “ excessive and unnecessary standard ” built by foreign workers, according to the journalist, did not create employment for locals or raise their skill levels . As testified by numerous abandoned Jefri-controlled projects in Brunei, the Amedeo-fuelled construction boom only created an illusion of economic progress. In fact , with the bursting of the economic bubble , the void felt by the collapse of Amedeo caste a pall over business confidence in the Sultanate . In 1999 , the government injected some US \$ 208 million into development projects in a bid to shore up the construction industry left idle by Amedeo’s demise .(*FEER Yearbook 2000* , p.87) .

Sultan versus Jefri Trial

In an unprecedented lawsuit, sensational by any standards, Sultan Hassanal Bolkiah accused Jefri of squandering more than B \$ 40 billion in state funds. Besides the above mentioned investments-turned-sour, Jefri reportedly spent \$ 2.75 billion over a ten year period buying himself 2,000 cars , 17 airplanes, including a private Airbus A310 , several yachts, quantities of jewellery, and more than a dozen homes and other “ trophy ” investments.

Seemingly, the Sultan chose a public and legal way to gain restitution, only after private negotiations broke down. In fact, as Jefri subsequently revealed in a press release, negotiations between lawyers of both parties had been going on for one year prior to the settlement of the case in May 2000 .

As a regional newsmagazine opined of the civil suit, the unprecedented legal action stands as “ a modest advance for the rule of law and a public affirmation of the ruler’s responsibility to their subjects, ” and a step forward for the people of Brunei. But what redress did the people of Brunei obtain ? Was the case a triumph for rule of law and public accountability ?

In Civil Suit No.31 of 21 February 2000 filed in the High Court of Brunei Darussalam, the first defendant (Jefri) was charged by the plaintiffs, the State of Brunei Darussalam and the BIA, that he illegally transferred a sum in excess of US \$ 14.8 billion. Altogether, Jefri, his son Prince Hakim, and 71 others, stood charged in the civil court of misappropriating B \$ 40 billion deemed to belong to the State under control of the BIA. ” On the same date the court had imposed a freeze upon the assets of Jefri and the other defendants worldwide.

Upping the ante, on 6 May council for Jefri produced an affidavit made on behalf of Jefri alleging that Pehin Isa, Home Minister cum special Adviser to the Sultan, received hundreds of thousands of dollars from Prince Jefri on a yearly basis. While this was received as a somewhat scurrilous allegation, it pointedly raised questions as to public probity in general. But there was also the sense that the Sultan was always in control of events. The tightly censored Brunei media, including the *Borneo Bulletin*, was offered carte blanche to report the case, especially the damaging allegations of financial impropriety on the part of Jefri, while pieces such as " Washington Post Attacks Prince Jefri, " and " Prince Jefri's Fall From Grace According to *Asiaweek*, " were posted on web sites linked to the official Brunei Darussalam Home page .

On 10 May 2000 , the court ruled against appeals by Jefri and his son Prince Hakim, to resist disclosing the source of their funds, as well as source of their living expenses. Jefri claimed such disclosure would incriminate himself under section 12 of the BIA Act. They also failed in their bid to evict the chief justice. The High Court also ordered the Prince to reveal the source of his funds within five days. Having failed in his appeal, the case was due to go to London before the Privy Council.

In the event, and to the surprise of many, an out-of-court settlement was reached between the Sultan and his estranged brother . Ending the three-month court battle, the Sultan (via the mouthpiece of the Minister of Education Pehin Abdul Aziz, who headed the Task Force investigating the missing BIA funds) publicly announced that Jefri had agreed to return all monies he had taken from the BIA, including hotels, land, and other assets in Brunei and overseas. The exact terms of Jefri's settlement, and a separate settlement for Prince Hakim were not revealed, however .

But what can be concluded of this affair for the public interest, rule of law , economic accountability and financial transparency ? It is notable that the contest was framed in two discourses. The first and private discourse was that between estranged brothers, a dynastic fallout, that, at the end of the day, saw reconciliation in line with the providence of God and the blessings of His Majesty. The second and legalistic and public discourse was that played out in the civil courts between the State and BIA as plaintiffs and Jefri, et.al., as defendants .

In the Immediate Wake of Amadeo

At the end of the day, it was clear that the private settlement solution was optimum for the Sultan, all was in the family, the boundary of the Royal economy was not publicly breached as a full public disclosure threatened. The Court's victory was portrayed as the Sultan's victory and, ipso facto, that of the *rakyat* or subjects . While Jefri had claimed that the forces behind the case were the Islamic conservatives, it is noteworthy that the boundary between Jefri's private life, widely disclosed in international media, and public life, was not breached. Unity of the royal family and indeed their privileges were preserved intact. There would be no further public disclosures, the secrecy of the BIA was, after all, impeachable .

As the author was quoted in the *Bangladesh Times* (29 June 2000) in “ \$ 16 \$ billion vanishes into thin air , ” “ Its a victory for the Sultan and the status quo. ” But this was also a commentary upon the lack of checks and balances in the system. The same paper also reported comments by Hatta Bin Zainal Abidin (leader of *the Party*) who stated “ “ His Majesty the Sultan was very concerned about the security of the nation. That's why he agreed to an out-of-court settlement. ”

Even so, having reneged upon the settlement deal by refusing to declare his financial assets, Jefrie faced down contempt proceedings filed by the BIA in the London High Court. Eventually, in February 2006 , the family feud was settled. The Sultan agreed to drop all charges against Jefri. Meantime, in 2007 Jefri initiated legal proceedings against his former barrister charging him with embezzlement of assets.

Liquidation of Assets

As a first step towards overseeing the liquidation of Amadeo assets a Singapore-based firm of accounts was commissioned (and retained ?) . On 11 August some 10,000 items belonging to Amadeo went on auction, but drawing more snide comment than winning back dollars. In short time, perhaps owing to sense of urgency, the Sultan saw to the creation of Global Evergeen, a government-owned company, headed by Education Minister Pehin Abdul Aziz to deal with the legacy of Amadeo. This was obviously a case of crisis management from the top down, especially as 200 creditors launched an avalanche of suits and counter suits becoming, in Aziz's reported words , “ a national issue, perhaps a national disaster. ” The public side of the settlement was also soothing. Jefri promptly returned “ his ” Airbus

A310 to the Sultanate as an indication of more “ illegally ” acquired assets to come .

But foreign (Australian/NZ/British) financial investigators hired by Evergreen also fell foul of Home Affairs Minister and long-time advisor to the Sultan, Pehin Isa, especially when their leads or the paper chase led his direction. Pehin Isa, apparently no friend of Pehin Aziz, also heads immigration, and, according to press accounts ordered a raid on Evergreen offices blocking the foreigners’ departure. The Evergreen affair thus became a matter of diplomatic concern with the intercession of the concerned High Commissions on behalf of their nationals. According to an Australian High Commission account, Global Evergreen has acquired such former Amadeo assets as Empire Hotel and Country Club, Berakas power station, DST Corporate Tower and Jerudong Marina.

Still, many questions remain over the disposal of “ trophy ” assets around the world including Plaza Athenee in Paris, the New York Palace, the Dorchester in London and the Bel-Air in Los Angeles. These are the high profile and tangible assets but, beyond that, the recovery of the other billions seems unlikely .

Pehin Aziz is reported as saying that some of Amadeo’s unfinished projects would be completed. This is important as construction is the nation’s second largest industry after oil and gas. It is also the lifeblood of many *bumiputra* (Bruneian) contractors who have been hard hit by the construction slowdown. Certainly there was much soul searching in Brunei as to the way ahead. One wonders in the wake of Amadeo whether the identification of modernizers and conservatives in the Brunei development “ debates ” still holds or whether there are more subtle lines of divide among the elite ?

Economic Rebound ? The Outlook in 2002

The rebound in oil prices beginning in the latter half of 1999 from its historic low of US \$ 10 a barrel to over US \$ 30 by mid-2000 , brought a reprieve to Brunei, just as the price of oil reached historic highs by 2007 (US \$ 100 a barrel) . While such a windfall, has no doubt more than replenished the missing billions, it will nevertheless require of Brunei a far more managerial and technocratic playing field . The post 9/11 world, wary as never before as to the downside on money laundering, also behoves Brunei to implement financial transparency to a the highest standards if it is not to attract international sanction . As Cleary and Wong (1994) sounded , “ growth without development, wealth without employment ” summarizes

many concerns that are masked by Brunei's impressive achievements . If international agencies were in a position to offer advice to Brunei, then they would urge better financial governance. Nobody doubts the leadership of the Sultan but, just as the charge of " corruption, collusion and nepotism " brought down the Indonesian New Order regime of President Suharto of Indonesia and became the slogan of reformists throughout the region, economic rebound in Brunei has its limits, just as its oil reserves are finite. In any case, while economic activity received a boost from rising oil prices, the deficit for 1999 was still US \$ 592 million as compared to a figure of US \$ 353 million for 1998 (*FEER Yearbook 2000*) . I the hallmark of the current dynasty has been extravagance on a grand scale, its survival in its present form may well call for self-effacement and restraint.

Beginning in late 2001/early 2002 the government has taken a range of measures to stimulate the local economy . Notable was the release of the National Development Plan (2001-2005) , just as development funds for B \$ 1 billion were released for year 2002 , representing an increase of 82 percent compared with 2001 . The thrust of this injection of funds was to stimulate the private sector (especially SMEs) and reduce high local unemployment. Part of this plan is development of Muara Besar as a service hub for trade and tourism. As the Australian account offers with understatement on these developments , " Much will depend on the capacity to implement projects effectively and efficiently by government agencies. "

In November 2001 , the government established the Brunei Economic Development Board designed to attract and assist foreign capital investments. One of its major tasks was to oversee the development of Pulau Muara Besar (as industrial estate) . This project received US \$ 2.837 in the current budget. In part, this Board seeks to answer complaints from Prince Mohamed as to adverse effects of government red tape. in July a French national took over as CEO. Earlier, in October 2001 , the Investment Incentive Order 2001 simplified application procedures for investors. An Income Tax Amendment Order 2001 did the same on tax incentives for investors. Also mentioned were corporate tax relief for pioneer industries and emphasis on bringing new technologies to Brunei. Pioneer and export industries are also exempt from customs duties for import of raw materials and export goods for their operations. Since 2001 the government has also privatized a number of government agencies (telecommunications and electricity) , the operation of Muara container port, and cut back subsidies. A cap has been placed upon government hiring.

The construction industry also picked up as investor confidence is flowing back into real

estate developments in Banda, Gadong, Muara, etc. The push to stimulate more Small and Medium Industries (SMIs) is no doubt genuine. But traditionally the retailing sector has been dominated by Chinese. Citizenship issues and the closure of government opportunities to the Chinese community reinforces Chinese business strength in SMIs over time. In fact, however, it is politically correct and often a legal requirement for Chinese to enter into “ Ali-Baba ” partnerships, with the former guaranteeing all the right connections. But such cosy arrangements for the Brunei Malay partner offer little incentive to go it alone. Unlike Malaysia, for example, where under the NEP, a class of Malay entrepreneurs have emerged, we have yet to see the rise of genuine Brunei Malay business class. Such lack of commercial traditions in Brunei, would even set it apart from even Middle Eastern rentier states. But the unwillingness of Bruneians to enter into commercial ventures aside from perhaps, import agencies, fits the rentier mentality model where the state sector becomes unduly bloated and career expectations look to the state as employer. Another option of course is unemployment or a life of leisure and that fits the pattern of some .

The Oil Sector

Another post-crisis development was the establishment in November 2001 of a national oil company, PetroleumBRUNEI. This is touted to act as both a “ regulatory body ” and a “ commercial entity. ” It is wholly owned by the Prime Minister’s office (the Sultan) and chairman of the board is Industry Minister Pehin Abdul Rahman . It supersedes the former Brunei Oil and Gas Board and the Petroleum Unit. No less significant, the Petroleum-BRUNEI model, a first in Brunei’s hydrocarbon industry, is one based upon issuing Production Sharing Contracts (that is, free of tax and royalties) .

In creating a national oil company Brunei is following the lead of Indonesia, Malaysia, and most other oil exporting countries. In fact, PetroleumBRUNEI has declared that its trading pattern will explicitly follow Malaysia’s Petronas. It might also be seen as a means to lessen dependence upon Shell in exploration and refining. But this development is one to watch, especially if PetroleumBRUNEI moves out of the domestic environment into the Southeast Asian arena . But management prospects are daunting, even as the new national oil company takes its first steps, initially restricted to local activities.

Also, in a new departure, the Sultanate released a number of new blocks for oil and gas exploration. These include 10,000 square kilometers deep water concession extending up to

150 kilometre offshore. Moreover, the new blocks have been offered under production sharing agreements as opposed to the prevailing concession and royalty tax system. Australia's BHP won one of the bids, Frances' Total/Final/Elf, another, and Japan's Mitsubishi another, in partnership with Shell.

We observe that current oil prices are at a level higher than that calculated by the 8th National Development Plan . Obviously how Brunei parlays higher oil revenues earned on the spot market into energizing the economy depends upon many factors, management, transparency, the ability of the economy to absorb inputs, etc .

As well, since 1999 Brunei appears to have backed away from its conservation policy on oil by increasing production by 50,000 bpd .

The rebound in oil prices beginning in the latter half of 1999 from its historic low of US \$ 10 a barrel to over US \$ 30 by mid-2000 , (rising to historic highs of \$ 100 a barrel in 2007) also brought a reprieve to Brunei. Combined with the weakening of the Brunei dollar, this could translate into earnings of more than US \$ 4 billion in oil and gas exports a year. Current oil price hikes also play to Brunei's advantage .

International Investment Centre ?

Beginning in 1999 Brunei started to seriously prepare laws to create a tax haven for foreign companies, virtually beginning from zero in a crowded field of players . For starters, Brunei has no listed companies, no stock exchange, and no central bank. It also lacks appropriate enabling legislation. Moreover, Brunei is some ten years behind the initiative taken by Malaysia on nearby Labuan which, to all extents and purposes, has had only a kind of mixed success .

In July 2000 Brunei formally launched the Brunei International Financial Centre. This appears to have two dimensions. First, an electronic bourse, or interactive web site to encourage futures trading. Second, as an offshore haven for Islamic banking.

We observe that Brunei is one of the largest patrons of the Jeddah-based Islamic Development Bank (IDB) but which started its activities in Brunei (and Bahrain) only in January 2002 . According to IDB literature , " the fund, with a capital of \$ 1.5 billion, encourages

private investments in infrastructure projects such as energy, telecommunications and transportation. " In turn, the fund seeks investors to increase its capital and to offer attractive profits to investors. It also advertises its Islamic banking ethos. Essentially Islam forbids *riba* (interest) but *Ju'alah* or stipulated price for performing any services " also applies. So the IDB can charge a fee for a loan, but not in excess of expenditure which would be deemed usurious. As such, Brunei hosts the Bank's regional office, seen locally as a boost to Brunei's attempts to parlay itself as an international financial centre. We observe, as well, that Brunei passed a Money Laundering Act on 1 July 2000 . Still we may ask, does this Act satisfy on a number of grounds ?

By setting up shop in Brunei in the middle of 2002 , the Royal Bank of Canada joins about seven other foreign banks in the Sultanate. How these financial developments tie in with the mid-1990s East ASEAN Growth Area (EAGA) " growth quadrangle, " linking Brunei with the regional countries might remain a question for discussion.

Brunei's Bilateral Investments/ Royal Family Gifts ?

Obviously, many supplicants appear in the Court of Brunei Darussalam, some more successful than others. Actually the Sultanate supports a special Yayasan or Foundation which caters for the distribution of the Sultan's gifts to his subjects (eg. dates imported from the Middle East) . Perhaps we should not include here the Sultan's personal gift of US \$ 2 million to former Indonesian President Abdulramamn Wahid (to be used for charity in Aceh) . " Bruneigate " was just one of the scandals surrounding President Wahid leading to his ouster. None of this rubbed off on Brunei but does suggest that misplaced largesse can have untoward results. A more benign example from the recent past might be the Sultanate's gift of US \$ 20,000 to the 20 May 2002 East Timor independence ceremonies.

It is unlikely that any data base on BIA investments will surface in the public domain, but recent (2001) investment pacts includes an agreement to set up a joint \$ 200 million fund (with an option to expand to \$ 500 million) that will make long-term joint investments with Thai companies. This is a deal between the Brunei Investment Agency and the government of Thailand Pension Fund.

Diversification evaluated

To be sure, the understanding for the need to diversify away from the oil and gas sector and attract foreign investment is not new, at least on paper. For example, in 1994 the government established a wholly-owned private company Semaun Holdings “ to spearhead industrial and commercial development through direct investment in key industrial markets. ”

Attempts by the state to stimulate the private sector and reverse the dependence mentality of the middle classes upon the state have been desultory. Numerous schemes have been routinely touted or attempted, such as developing financial services , promoting foreign investment in new start-ups , stimulating fisheries, and promoting niche tourism or ecological tourism.

Even as a matter of rational choice, the Brunei Investment Agency prefers to invest abroad rather than in the domestic economy. The government-owned Semaun Holdings is disallowed by its charter to compete with the private sector so likewise looks abroad. Oil still accounts for 40 percent of GDP and provides 90 percent of export value. Manufacturing accounts for less than 4 percent of GDP and manufactured goods are cheaper to import than produce locally. That includes rice and even fish.

But even the recent launch of such export platform industries such as the garment industry is problematical. First, it is a typical enclave-type industry with little connection with the domestic economy. Even the labour is imported (Bangladesh/Philippines) and that is another problem given the sweatshop conditions, lack of enforceable labour laws, and social discontent shown by the workers . But labour can be exported too, such as occurred at the height of the crisis . One bright light is that the oil sector has attracted a range of local service providers but, even so, as part of the enclave economy , their impact on the domestic economy is limited .

Downstream activities related to the oil industry, financial services, tourism, and recovery of agriculture are among ventures most discussed. But is diversification more than just a slogan ? What promise does resource-based industrialization hold ? Expanding into downstream activities such as oil refining and aluminium smelting offers promise, but does Brunei support the sophisticated technostructure to operate such ventures ? The record is mixed,

as with the example of the Seria refinery, especially as it is believed to be a more political than economic venture because of low output. The same applies for the LPG plant at Lumut.

We observe that with Visit Brunei Year in 2000 , the Sultanate crossed a bridge in the sense of potentially opening itself up to scrutiny by large numbers of foreign tourists, although probably not an idea endorsed by religious conservatives. Along with this, the Service Hub for Trade and Tourism (SHuTT) was created . Royal Brunei Airlines might be touted as a successful state enterprise but obviously Brunei faces stiff competition in the tourism industry. Even in ecotourism Brunei competes with Sabah and Sarawak where facilities are better developed. Moreover, Brunei still remains heavily dependent upon imports of consumer goods and luxuries (making the country susceptible to imported inflation) . And still, a large percentage of the Brunei population (about 75 percent) works for the government, the desire and expectation of every graduate .

Weaknesses/Disincentives to Foreign Investment

In summary, we observe a highly centralized political system, leading to various bottlenecks. Brunei's market is small relative to just about every other regional country. Despite calls by some local economists, Brunei lacks a central bank. It also lacks published economic data such as would even meet IMF requirements. Even the One Stop Shop concept has to be viewed as a farce, especially when paperwork for a would-be entrepreneur seeking space in an industrial park can take up to two years. Given the culture of secrecy/lack of information outside of government channels, it is not surprising that the WTO has also complained of lack of transparency in the system, specifically mentioning the BIA and Semaun Holdings. The WTO is not alone. As the IMF concluded of its " Article IV " evaluation of Brunei's economy in 2005 , " Directors saw scope to enhance fiscal transparency, noting that the limited availability of information continued to hamper fiscal policy analysis. "

Conclusion

Weighed against the language of diversification and no-nonsense investment strategies remains the dead weight of culture and tradition or a version of the non-tariff barriers which importers into Japan famously face. Here I am not even alluding to barriers faced by international capital, but also those faced by Asian-including Chinese-family business networks. In

discussing the “ diversification dilemma ” in Brunei, one analyst lists the constraints to diversification as “ labour, capital, resources and management skills ” in a “ political and cultural system that is often highly rigid, conservative and traditionalist. ”

We have argued that vulnerabilities in external rents have obliged the authorities in Brunei, at least the technocratically inclined, to re-examine certain of the givens of the past and to diversify the economy away from the oil and gas sector to reduce exposure to externalities. Stated another way, the challenges to economic legitimacy and dynastic rule thrown up by the regional crisis, demanded creative even radical solutions . Through good luck, or the good fortune to be blessed with hydrocarbon reserves, Brunei managed to escape the resource curse thesis. It did not go bust in 1999 , its resources and reserves were stretched, but ample, its institutions-the courts-the local banks, the currency peg held up, there was no major domestic discontent in a society where social cohesion appears to be high.

But, just as the Sultan sought to reign in a wayward dynastic member through a sensational civil action suit, the limits to transparency were drawn and the private space of the royal family and the royal economy secured. There is no doubt that a state that allows its national reserves to be frittered away without accountability is deeply troubled. But, no fundamental breach of the rentier economy model in Brunei appears in sight while the dynastic model remains embedded, and no productionist revolution is on the horizon while the rentier mentality holds sway .

To return the question as to the relevance of identifying a debate between modernizers and conservatives, there is a sense that in Brunei not all are comfortable with the encroachments of market forces and neoliberalism. Globalization writ large, and especially recent globalizing impacts upon Brunei have challenged many verities that traditionalists hold dear. Even “ good governance ” is a loaded term in Brunei, especially if it is associated with Western doctrines of liberalism and democracy. This message comes through strongly in conservative quarters reaching right to the Istana (palace) .

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Appendix

Chronology

1906 Brunei established as a British Residency

1929 commercial oil discovered at Seria (Brunei)

1942-45 Japanese occupation

1959 Self-government and first constitution

December 1962 armed revolt

1963 Sultan Omar Ali Saifuddin declines to join Federation of Malaysia

August 1 1968 Sultan Hassanal Bolkiah ascends throne

January 1 1984 Brunei achieves independence

June-July 1998 , Prince Jefri stripped of official positions

August 1998 Sultan 's eldest son, Al-Muhtadee Billah nominated as Crown Prince.

May 10 , 2000 Brunei Court rules against Prince Jefri

September 25 , 2004 Sultan revives Legislative Assembly with 30 appointed members

May 2005 Cabinet reshuffle and creation of Ministry of Energy. May 2005 Billah named Minister