

## “The Brunei Economy: Looking Back, Looking Forward”

Address by **Dato Paduka Timothy Ong**, BEDB Acting Chairman to Engineers Night organized by the Engineering Division of **PUJA** on Sunday 7<sup>th</sup> February 2010

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Let me first thank Tuan Haji Mohd Zin and the Engineering Division of PUJA for inviting me to speak on the Brunei economy.

This is an important subject because the Brunei economy and how it develops will determine the standard of living of our children and grandchildren.

Let me begin with a story.

### **A tale of 2 countries**

Once upon a time there were 2 countries which were very similar in economic terms.

Both were very poor (income per person of USD 640). Both were agricultural economies.

They had roughly the same number of people. Slightly over half their populations were of working age.

About 50 years ago, the economy of one country started to grow much faster than the other. Income per person in one country grew by 1.8%. Income per person in the other country grew by 6.2%. If you grow by 6.2%, you double your income every 11 years.

Today one country has become a developed nation - a technology powerhouse with a dynamic knowledge based economy with an income per person 9 times that of the other country.

This is a true story. The developed country today is South Korea. The other country is the Philippines.

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50 years ago, both South Korea and the Philippines were poor developing countries. 50 years later, one is a developed country; the other remains a poor developing country.

I have told this story to make a basic point. Economic development cannot be taken for granted. Countries progress but they can also slide backwards. If our children and grandchildren are to enjoy a standard of living as that we enjoy today, we must ensure that what we do today secures our economic future.

### **How things can change**

100 years ago, Brunei was a very poor country. 100 years ago, Burma was probably the wealthiest country in Southeast Asia.

100 years ago when my grandfather migrated to Brunei as a very poor padian, Brunei's main industry was the extraction of tanning dye from mangrove trees.

How things can change.

Today Brunei is one of the wealthiest countries in the developing world with a high quality of life. Today Burma is among the poorest countries in Southeast Asia.

In terms of the HDI which measures quality of life taking into account income per capita, mortality and education, Brunei is 30<sup>th</sup> in the world; 1<sup>st</sup> in the Islamic world - followed by Kuwait, Qatar, UAE and Bahrain; 2<sup>nd</sup> in ASEAN after Singapore and 4<sup>th</sup> in Asia after Japan, Singapore and Korea.

The fact that we are 1<sup>st</sup> in the Islamic world, 2<sup>nd</sup> in ASEAN and 4<sup>th</sup> in Asia speaks well of us.

The fact that we are behind 3 countries in Asia that have no natural resources – no oil, no gas, no iron ore, no copper, no bauxite, no gold, no diamonds and the like except for skilled and educated people including good engineers tells us that we cannot rely on natural resources for sustainable development and reminds us that we must make the transition from being just a resource rich economy towards being both a resource rich economy as well as a knowledge based economy.

### **Three Waves**

The Brunei economy has been and will be shaped by 3 major waves of investment in the Brunei economy.

Each of these waves was brought about by foreign investors bringing capital and technology to Brunei and working in partnership with HM government.

The first two waves were driven by natural resources. The third wave which is just beginning will be driven by the need to diversify the economy within the oil and gas industry as well as beyond the oil and gas industry.

### **First Wave**

The first wave took place 80 years ago in 1929, the year of the Great Depression when a large oil field was discovered in Seria by a subsidiary of Shell.

This discovery led to the establishment of Brunei's very successful upstream oil and gas industry.

Today, Brunei's upstream oil and gas industry is the main driver of the Brunei economy accounting for 67% of her GDP and 98% of exports.

Brunei is today the third largest producer of crude oil in ASEAN after Malaysia and Indonesia but by far the largest in terms of oil production relative to population size.

With the resolution of our territorial dispute with Malaysia and the potential to double crude oil production, the prospects of Brunei's upstream oil and gas industry look very good.

### **Second Wave**

The second wave took place almost 40 years ago when Brunei entered the LNG business through a joint venture between Shell, Mitsubishi Corporation and the Brunei government.

At that time BLNG was established, it was the 2<sup>nd</sup> largest producer of LNG in the world.

Today BLNG is the 9<sup>th</sup> largest in the world exporting 7 million metric tons last year mostly to Japan.

### **Third Wave**

The Third Wave is only just beginning.

The Third Wave was officially launched when Brunei's **Wawasan 2035** was launched by His Majesty the Sultan in late 2008.

Vision 2035 declares that our national ambition is to be among the Top 10 Nations in the world in terms of Quality of Life and a dynamic and sustainable economy.

Unlike the First Wave which centred on our upstream oil and gas industry and the Second Wave which centred on our BLNG industry, **the Wawasan 2035 calls for diversification within the oil and gas industry as well as diversification beyond the oil and gas industry.**

**Diversification within the oil and gas industry** requires that we balance between exporting all our natural resources on the one hand and using some of our natural resources to act as a catalyst for downstream diversification in Brunei on the other hand.

The best prospects for diversification within the oil and gas industry lie in the petrochemical industry.

Brunei's first petrochemical industry is the 850 metric ton Methanol Plant costing around USD 500 million developed by the Brunei Methanol Company, a joint venture between His Majesty's government and 2 leading Japanese companies.

Other projects being considered for implementation include a Methanol Technology Centre, Methanol derivatives, Ammonia and derivatives like Urea and Acetic Acid.

**Diversification beyond the oil and gas industry** requires that we identify and focus on new areas in which Brunei has competitive advantage.

The most exciting prospects at this time lie in the New Economic Zone at Pulau Muara Besar, the ICT and knowledge based cluster at Anggerek Desa, PPP in infrastructure and the initiatives by the Ministry of Finance and MIPR to establish Brunei as a hub for Islamic business.

## **Key Challenges**

If we are to succeed, we will need to respond effectively to 3 main challenges.

**Firstly, we must improve Brunei's business friendliness.**

Brunei is a very small country. If we add to our very small market a business unfriendly environment, what chance do we have of competing for investment beyond the oil and gas industry?

Each year, the World Bank conducts a survey on the Ease of Doing Business throughout the World.

In the World Bank's 2009 Report, Brunei was ranked 88. In its 2010 Report, Brunei's ranking dropped to 96 compared to Singapore (1), Bahrain (20), Malaysia (23), UAE (33), Qatar (39), Kuwait (61).

We need to ask ourselves why it should take 3 days to start a business in Singapore, 6 days in Qatar, 9 days in Bahrain, 11 days in Malaysia, 15 days in the UAE, 35 days in Kuwait and 116 days in Brunei?

Brunei has better educated people than Qatar, Bahrain, UAE and Kuwait. Why cannot we, with our better educated people do better?

**Secondly, we must guard against complacency.** We must resist the view that what worked well in the past will continue to work well in the future.

It is now clear that the economic model that served us so well in the last 80 years whereby we exported all our natural resources and employed most of our people in the civil service is not sustainable. The Brunei civil service which employs roughly 56% of the local workforce compared to 4% in Singapore and 11% in Malaysia cannot continue to shoulder the burden of unemployment.

It is now clear that we need to develop new ways of financing our future infrastructure requirements because the 'government pays for everything' model is not sustainable.

It is now clear that the Brunei welfare state, the heavy subsidies of public utilities and social services financed by oil and gas revenues will become increasingly unsustainable.

To overcome these challenges, we will need to encourage new ways of thinking and new ways of doing things.

**Thirdly, we will need to ensure that our people have the knowledge and skills to meet the economic challenges of the future.**

In particular, we will need to encourage the best of our students to study engineering.

For this to happen, we will need to properly recognize and reward our engineers.

Brunei's economy cannot be developed without adequate engineers.

Of the 4200 people working in BSP and BLNG, 85% are highly educated and trained people with engineering or technical backgrounds. Of the 170 people working in the Methanol plant, over 100 are Bruneians with engineering or technical backgrounds.

The new industries of the future in petrochemicals, manufacturing, logistics and ICT will require engineers.

The infrastructure of the future to support the new industries of the future will require engineers.

In Brunei, interest in studying engineering and science related disciplines has been declining.

A recent UN Report (2007/8) show 10% of Brunei tertiary students in science and engineering disciplines compared to 17% for Bahrain, 19% for Qatar, 40% for Malaysia and 40% for Korea.

This declining interest in part reflects relatively less recognition and attractive employment opportunities for those with qualifications in engineering and science.

It is interesting to contrast the situation in Brunei with Singapore where 1/3 of the top CEOs are engineers by training and engineering backgrounds are strongly represented in the highest levels of government and 1/3 of Singapore permanent secretaries have engineering backgrounds.

Engineering is intellectually demanding (that is why I believe that generally engineers are cleverer than economists) and probably the best academic discipline for problem solving.

So let me conclude my talk by saluting the engineers here tonight. You are amongst the brightest of your peer group. You and the future generation of Brunei engineers will have a critical role to play in securing Brunei's economic future. The Third Wave needs engineers and will in turn create new opportunities for engineers.

Thank you for your attention.