BRUNEI DARUSSALAM

Brunei Darussalam’s economic freedom score is 65.1, making its economy the 63rd freest in the 2019 Index. Its overall score has increased by 0.9 point, with significantly higher scores on property rights and tax burden exceeding declines in trade freedom, government integrity, and judicial effectiveness. Brunei Darussalam is ranked 14th among 43 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

Large budget deficits continue, exacerbated by relatively low oil and gas prices that reduce government revenue. The government hopes that a well-educated, largely English-speaking population, excellent infrastructure, and political stability will attract foreign investment to diversify the economy to other industries such as information technology, tourism, and halal manufacturing that are permitted by Islamic law. Brunei benefits from moderately well-maintained monetary stability (its dollar is pegged to the Singapore dollar at parity) and a relatively high degree of market openness.

BACKGROUND: Brunei, two enclaves surrounded by the Malaysian state of Sarawak, lies on the northern coast of Borneo. The sultan serves as his own prime minister, minister of defense, foreign minister, and minister of finance. He is advised by several councils, including a Legislative Council and Privy Council, which he appoints. Oil and gas account for over half of GDP, 90 percent of government revenue, and 90 percent of exports but generate few jobs. Most of the population works directly for the government. The economy has slowed substantially because of lower global oil prices and is further hampered by OPEC production caps. Brunei has extremely low manufacturing capacity and imports most of its manufactured goods and food.
Protection of private property is weak, although property registration and contract enforcement have improved. Only Brunei citizens may purchase land; foreign firms must have a local partner. The constitution does not provide for an independent judiciary. Brunei is one of the world’s last remaining autocracies, and the sultan wields nearly absolute power. In March 2018, the government took another step to implement a Sharia penal code. Brunei has no personal income tax. The top corporate tax rate is 18.5 percent for most companies and 55 percent for oil and gas companies. The overall tax burden equals 24.2 percent of total domestic income. Over the past three years, government spending has amounted to 36.6 percent of the country’s output (GDP), and budget deficits have averaged 16.1 percent of GDP. Public debt is equivalent to 2.7 percent of GDP.

Registration requirements for starting a business have been simplified, and a one-stop shop now facilitates the overall operation of small and medium-size enterprises. The labor market is relatively flexible. The government still heavily subsidizes many basic goods and services such as fuel, power, food, health care, and education. The combined value of exports and imports is equal to 85.2 percent of GDP. The average applied tariff rate is 0.5 percent. As of June 30, 2018, according to the WTO, Brunei Darussalam had one nontariff measure in force. State-owned enterprises distort the economy, and foreign ownership of land is restricted. The small financial sector remains dominated by banks. Islamic financial services have grown considerably in recent years.