'Trophy Capitalism,’ Jefrinomics, and Dynastic Travail in Brunei

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The use and potential misuse of sovereign wealth funds in Asia has been newsworthy of late, especially because of their size and high profile investments. China and – and possibly Japan as well – look to parlay their government-owned investment vehicles. With its small population base, and vast reserves of oil and natural gas, the small Southeast Asian nation of Brunei Darussalam, located on the north-eastern side of the island of Borneo, 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.

But just as Brunei reaps the rewards of windfall profits generated by historically high oil prices, so it joins the ranks of holders of sovereign wealth, currently under increasing scrutiny owing to their opaque corporate governance structure and general secrecy. While, unlike such foreign exchange surplus countries as Singapore, Brunei has distinguished itself through its portfolio investments, not all of them sound. Brunei also shares the external vulnerabilities of oil producer states. This article seeks to structurally examine these vulnerabilities with specific reference to the dynastic crisis of 2001-2002 and sequels. It also seeks to explain how the Brunei Sultanate recovered from this crisis, handsomely adding to the Royal fortunes, without, however, precluding future crisis and even collapse whether from domestic (dynastic) or external shocks.

Introduction

Identified by analysts as conforming to, variously, an economic rentier state model, [1] or suffering from “Dutch disease effects,” [2] the former British protectorate of Brunei Darussalam, with its small population base (374,000 in 2007), and vast – albeit finite - reserves of oil and natural gas, has been able to lever its economy to provide 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, still playing out with respect to the recovery of billions of dollars of squandered assets on the part of a Royal sibling (Prince Jefri). 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.

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.

So-called Dutch disease effects, derived from studies of the economic impact of hydrocarbon revenues in the Netherlands in the 1960s, are said to derive from a bloated public sector and the rise of non-productive social expenditure. 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 encouraging imports to rise. 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. Nor has its currency greatly risen.

Other economists have 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. In this view, 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 espousing neo-liberal/public choice or behaviouralist perspectives, others seeking explanations in “social forces” in favour of capitalist development in conjunction with a favourable external environment such as in Suharto’s Indonesia. [4]

I will expand upon a version of the “rentier

Sultan Hassanal Bolkiah

Understanding the Vulnerability of Resource Rich Economies

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 [3] has drawn a distinction between a rentier state, rentier economy, and rentier mentality.
state” model, especially since, unlike the Dutch disease description or “curse” metaphor, the rentier state analysis seeks to answer the crucial (and, in Brunei Darussalam, virtually taboo question) of who gets what, why, and how?

However theorized, the problem becomes one of expanding the skill base of the population, stimulating the private sector, diversifying the economy, especially through creation of downstream activities, achieving transparency in national accounting, and reining in unbridled consumerism by the super rich.

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 extravagant consumption patterns. Such behaviour is hardly confined to the Brunei nouveau riche but, in the context of a steeply hierarchical and status-driven society, it well describes their reality. As role models, the Brunei Royal family have promulgated a veritable consumer goods fetishism both at home, through ostentatious displays of wealth, and globally extending to the collection of a vast array of “trophy” and other assets, such as would merit the description of a “trophy capitalist” economy.

Economic History: A Survey

Long a nation of self-sufficient agriculturalists and peasant fishermen living in a favourable ecological niche in the huge tropical island of Borneo, 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 recently dawned upon Brunei.

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, made 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.

Shell drilling rig in Brunei, 1926

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 Eighth (2001-2005), and

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 200,000 barrels per day in the 2000s but currently in excess of that amount. Even so, with plunging reserves of oil throughout Southeast Asia, only Malaysia and Brunei presently produce more oil than they consume.

Brunei oil rig
As explained below, the steady dependence of the nation upon the oil industry, especially exports of crude oil and LNG, to the neglect not only of traditional agriculture but also 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 well as 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 to create a cabinet system of government, it has shown no signs of reviving its short-lived parliament or openly tolerating a climate of opposition. While political parties have surfaced, they exist in token form only. Rather than offering a political opening, 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, who comprise some 66 percent of the population, but excludes many other categories of the population. The majority of Chinese, 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 the test of citizenship in Brunei is no small matter, as it confers substantial rewards in what has been dubbed the "Shellfare" system. Setting aside the Royal economy, as discussed below, the privileges of citizenship also extend to the economic and welfare sectors as the state has expanded its social service net to improve the livelihood of larger numbers of citizens through improved housing, healthcare, education and access to privileged civil service positions. No personal income tax is levied in Brunei Darussalam. Simply stated, Brunei’s affluence, measured by consumption patterns and disposable income, is the envy of its neighbours. In Brunei, as in other Southeast Asian economies prior to the Asian financial 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; rather, it is taken for granted.

The Oil Industry

While the global trend has been for producer countries to nationalize the oil industry, such as Indonesia's Pertamina and Malaysia's Petronas, the industry in Brunei retains its privatized character. Even so, as discussed below, in the wake of the "Prince Jefri crisis," a new national petroleum company has been formed.

While historically the division of profits between Shell and the Brunei state had advantaged the former, by the early post-war period the terms had been altered to benefit the state and the Royal family. Natural gas production in Brunei is of more recent origin, with an LNG plant opened in 1973, the largest of its kind in the world at that time. Brunei is currently the ninth largest producer of LNG in the world.

Today the oil industry in Brunei is dominated by four companies belonging to (Royal) Brunei Shell. 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 LNG, 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 Japan's Tokyo Electric Power Company, the Tokyo Gas Company and the Osaka Gas Company. (Around nine huge tankers continuously circle between Brunei and Japan). In 1994 South Korea became an additional customer for LNG, an important step for Brunei in diversifying markets. And, in November 2000, Brunei Shell signed an agreement to export 10,000 bpd to China, a first for Brunei. Australia, Indonesia and Korea are the major customers for Brunei’s oil exports, with the US, Japan and China taking small percentages.

LPG tanker

State efforts to stimulate the private sector and reverse the state-dependent mentality of local Bruneian entrepreneurs and contractors 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." [5]

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 has been 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/Sovereign Wealth**

Brunei's "national" wealth is closely bound up with the privileged and secretive Royal family economy. As one of the richest families in the world, the Sultan's fortune is virtually indistinguishable from the resources 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 is well known, the Sultan's assets run from luxury hotels in London, Singapore and Bali, to cattle stations in Australia, to jewellery and art collections. At home, the Royal family wealth is manifest in sprawling palaces and domains. Prince Mohammed has a high 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 discussed below, Prince Jefri, both have private investment companies.

**Istana or palace**

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.

The amassing of sovereign wealth is not unique to Brunei, but is a phenomenon shared by states accumulating natural resource revenues as with the petroleum-rich Middle Eastern countries, mineral exporting countries such as Australia, as well as states such as Singapore, China, and Japan that enjoy impressive foreign exchange surpluses. Sovereign wealth funds amassed by such countries are not of a kind, and run from aggressive international strategic investors, such as Singapore’s Temasik Holdings, to domestic investors in former state-owned companies, such as Khazanah of Malaysia, to passive financial investors in international markets of which Brunei is an example. But one shared feature of many sovereign wealth funds is that they do not have public accounts, annual reports, or other published information. Another defining feature of sovereign wealth funds, including Brunei, is that they are usually established as separate entities from line ministries or government agencies. [6]

**Brunei and the Asian Economic Crisis (1997-98)**

Shielded from the Asian financial crisis that began in 1997 by its small size and irrelevance as an investment site, the fall in world oil prices nevertheless brought the economy to its most critical state since independence. 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 operating costs, and the Development Fund which funds the National Development Plans.

Nevertheless, Brunei was not entirely immune to regional economic trends. The Brunei dollar, which is pegged to the Singapore currency (presently S$ 1.4 to US$ 1), 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 was shielded by the decline in the local currency, expatriate workers, many private sector contractors, and other marginal elements were hurt. Expatriate construction workers and other skilled and unskilled labour have always born the brunt in times of crisis.

What triggered the crisis for Brunei was a 1998 decline in prices of crude oil and LNG 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) declined sharply.

As a consequence of revenue shortfalls and economic malaise, growth of real GDP of fell sharply from 3.75 percent in 1996-97 to less than 1.00 percent for 1998-99. The 1998 budget registered a deficit estimated at 6 percent of GDP, obliging the government to corporatize some government agencies and to privatize some government projects. Other government efforts centered on generating alternative sources of revenue to supplement declining oil and gas revenues. [7]

By 2003 GDP growth rose to 3.75 percent but slowed to 1.75 in 2004 repair and upgrading of oil and gas production facilities reduced output. Non-oil economic activity strengthened reflecting increased government spending. Most of the windfall revenue accruing from higher oil prices was saved, resulting in improvements in the fiscal situation. Oil production was also expected to grow following repairs and upgrades to facilities. [8]

Domestically, rising unemployment went together with a budget deficit since 1988. In 1992, for example, expenditure increased by 10.8 percent mainly due to increased spending for lavish ceremonies commemorating the Sultan’s Silver Jubilee of accession to the throne and other expenditures for the royal family. Since 1994, the government budget deficit has averaged B$1 billion a year. This shortfall was funded by drawing upon Brunei's reserves. Essentially, deficits are financed by drawing upon foreign investment income, itself a closely guarded secret.

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 with membership from both the public and private sectors. The Council embarked on a three-pronged Action Plan for economic recovery. This involved a stimulus package to inject liquidity, especially for Small and Medium-sized Enterprises (SMEs); an implementation strategy; and a communications initiative. Rhetorically, the package promoted such concepts as "fast track" payments, IT infrastructure, investment in people, thinktank, private sector, bumiputra or Brunei Malay-owned companies and, last but not least, transparency. The recommendations of the Council were to be incorporated in a future economic blueprint for Brunei Darussalam. [9] There is little evidence, however, of such rhetoric translating into a significant break in economic praxis. The case of royal favouritism and extravagance is illustrative.

The Brunei Investment Agency, Amedeo, and the Prince Jefri Scandal
Established in 1983 in the run up to independence from Britain the following year, the Brunei Investment Agency (BIA), located in the Ministry of Finance, was positioned to manage the Sultanate’s reserves, a role hitherto performed by the British Crown Agents. As documented elsewhere, the BIA role in the external recycling of oil rent took the form of a triple-alliance linking the state, the new business elite, and international capital.

[10]

The nature of this triple alliance has long been the subject of speculation by financial journalists. [11] The modus operandi of the BIA has been subject to little investigation, although its managing director, Dato Abdul Rahman Karim, also Permanent Secretary of the Ministry of Finance, stated 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 indicated, was divided among eight foreign banking and investment institutions, with 50 to 60 percent of the BIA’s money placed in bonds and the balance in stocks and shares.

The picture is incomplete, however, without examining the nexus linking the BIA with the state, the business elite, and international capital. While BIA 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 the fact that the Sultanate’s largest conglomerate, Amedeo, under the control of the Finance Minister and head of the BIA, Prince Muda Haji Jefri Bolkiah (b.1956-), youngest brother of the Sultan, had collapsed. Amedeo left debts estimated at $16 billion, thus depleting BIA assets by the same amount. In June 1998 investigation into the misuse of 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 named 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. The companies included an amusement park, an international school, a hotel, and firms connected with fisheries, insurance and telecommunications.

Prince Jefri

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 and Jefri returned to exile in July 1999. That month, auditors Anderson Consulting confirmed that Amedeo would default on debts estimated at US$3.7 billion, most owed to the BIA. Amedeo subsequently collapsed leaving creditors unpaid. [12]
Domestically, the construction industry took a hit. For more than four years Amedeo had been involved in grandiose multi-million dollar projects in the Sultanate. Such exemplars of "showcase capitalism" [13] to borrow a phrase that has been used to refer to the economic model associated with 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 lion's share of the projects was for the prince and his family. Of B$6.2 billion injected into Amedeo from the BIA and others, only 10 percent could be regarded as having been spent on infrastructure improvements. These include a 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 in 1997, the void felt by the collapse of Amedeo caste a pall over business confidence in the Sultanate. [14] 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. [15]

**Sultan versus Jefri Trial**

In an unprecedented lawsuit, sensational by any standard, Sultan Hassanal Bolkiah accused Jefri of squandering more than B$40 billion (or US$28.8 billion) in state funds. Besides the above mentioned investments-turned-sour, Jefri reportedly spent B$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. [16] The Sultan chose a public and legal way to gain restitution only after private negotiations collapsed. In fact, as Jefri subsequently revealed, negotiations between lawyers of both parties had been going on for one year prior to the settlement of the case in May 2000. [17] 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," as well as a step forward for the people of Brunei. But what did the people of Brunei obtain? Was this 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, with illegally transferring 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 Prince 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 the Prince on a yearly basis. While this was widely received as a scurrilous allegation, it pointedly raised questions of public probity. Nevertheless, the Sultan always appeared to remain in control of events. Just as the international media picked up on the family feud, so such offerings 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. [18]

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 had claimed such disclosure would constitute self incrimination under section 12 of the BIA Act. They also failed in their bid to evict the chief justice. The High Court ordered the Prince to reveal the source of his funds within five days, although still he temporized. Having failed in his appeal, the case was referred to the Privy Council in London, the highest court of review for Brunei.

In the end, an out-of-court settlement was reached between the Sultan and his estranged brother. Ending the three-month court battle, the Sultan (via Minister of Education Pehin Abduul 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, 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. Even so, as explained below, moral blandishments as much as legal actions on the part of the Sultan left Jefri stripped of most of his major remaining assets, just as the Sultan retained the power to control the Sultanate’s wealth.

In the 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. Locally, 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 either in formal court documents or within Brunei. 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, unimpeachable.

As the author was quoted in the Bangladesh Times (29 June 2000), “Its a victory for the Sultan and the status quo.” [19] The same paper also reported comments by Hatta Bin Zainal Abidin (leader of a Brunei “opposition” 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.” What the settlement above all reveals is the lack of checks and balances in the Brunei political system, one dominated by the Sultan and his acolytes.

Even so, having reneged upon the settlement deal by refusing to declare his financial assets, Jefri faced down contempt proceedings filed by the BIA in the London High Court. Eventually, in February 2006, the family feud was ostensibly 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. Meanwhile the dispute rekindled with both sides accusing the other of reneging on the terms of settlement.

Liquidation of Assets

As a first step towards overseeing the liquidation of Amadeo assets a Singapore-based
firm of accounts was commissioned. On 11 August some 10,000 items belonging to Amadeo went on auction, but drawing more snide comment than winning back significant dollars. In short time, perhaps owing to sense of urgency, the Sultan saw to the creation of Global Evergreen, a government-owned company, headed by Education Minister Pehin Abdul Aziz, to deal with the legacy of Amadeo. This was a case of top down crisis management as 200 creditors launched an avalanche of suits and counter suits becoming, in Aziz’s reported words, “a national issue, perhaps a national disaster.” For his part, Jefri promptly returned “his” Airbus A310 to the Sultanate as an indication of more 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 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 acquired such former Amadeo assets as the Empire Hotel and Country Club, the Berakas power station, DST Corporate Tower, and the Jerudong Marina, [20] suggesting that the state had adroitly manoeuvred to reassert control of Amadeo in new form outside of the reach of the rogue brother.

Pehin Aziz is reported to have said 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 hard hit by the construction slowdown.

Still, many questions remain over the disposal of “trophy” assets around the world including Plaza Athenee in Paris, the New York Palace Hotel, 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.

It was not until 2007 that the penny dropped on the Prince Jefri story. In that year the Sultan won a key victory when the Privy Council ruled that the prince—who had stonewalled the courts for seven years— was required to abide by the agreement of 2000 to return nearly all of his remaining holdings. Finally, in March 2008, the Prince lost control of his most valuable remaining asset, the opulent New York Palace Hotel which returned to Brunei government control. Even so, to strike a sceptical note, Jefri still remains in control of prime assets to the tune of more than US$1.5 billion, apparently as a bargaining chip in his ongoing negotiations with the Brunei government. [21]

**Economic Rebound? The Outlook**

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, en route to historic highs by 2007-08 (surpassing US$100 a barrel). While such a windfall, has no doubt more than replenished the missing billions, the new wealth will be as easily squandered as the old if Brunei fails to chart a far more managerial and technocratic playing field and above all, a developmental agenda to translate oil wealth into manufacturing, agricultural, tourism or other potentially self-sustaining resources.

If international agencies were in a position to offer advice to Brunei, then they would urge better financial governance. 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, in the absence of a broader developmental vision and approach, economic rebound in Brunei has its limits, just as its oil reserves are finite. [22] Nevertheless, a first essential step surely will be overcoming the current dynasty’s signature extravagance on a grand scale, indeed, survival in its present form may well call for self-effacement and restraint.

Beginning in late 2001/early 2002 the government launched 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 over 2001. The funds were to stimulate the private sector, especially SMEs, and to reduce high local unemployment.

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 a large island (Pulau Muara Besar) as industrial estate. In response to complaints from Prince Mohamed about government red tape, in October 2001 an Investment Incentive Order simplified application procedures for investors. An Income Tax Amendment Order did the same on tax incentives for investors. There was also tax relief for pioneer industries and emphasis on bringing new technologies to Brunei. Pioneer and export industries were exempted from customs duties for import of raw materials. Since 2001 the government has also privatized a number of government agencies (telecommunications and electricity) and the operation of the Muara container port, and cut back subsidies. A cap was also placed upon government hiring.

The push to stimulate SMEs was 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 has long reinforced Chinese business strength in SMEs. In fact, however, it is politically essential and often a legal requirement for Chinese to enter into “Ali-Baba” partnerships, with the former guaranteeing all the right connections. But such cozy arrangements for the Brunei Malay partner offer little incentive to go it alone.

Unlike Malaysia, for example, where under government patronage, a class of Malay entrepreneurs has emerged, a genuine Brunei Malay business class remains embryonic. Such lack of commercial traditions in Brunei, would even set it apart from Middle Eastern rentier states. But the unwillingness of Bruneians to enter into commercial ventures, with the possible exception of import agencies, fits the rentier model where the state sector becomes unduly bloated and career expectations look to the state as employer.

The Oil Sector/PetroBRUNEI

Another post-crisis development was the establishment of a national oil company, PetroleumBRUNEI, also known as the Brunei National Petroleum Company Sendirian Berhad. Registered as a “private limited company” in January 2002, PetroleumBRUNEI is described on the official website, as wholly owned by the government of His Majesty the Sultan through “the Prime Minister Corporation." [23] It supersedes the former Brunei Oil and Gas Board and the Petroleum Unit. No less significant, the PetroleumBRUNEI model, a first in Brunei, is based upon issuing Production Sharing Contracts (that is, free of tax and royalties).

In creating a national oil company, Brunei was following the lead of Indonesia, Malaysia, and most other oil exporting countries. In fact, PetroleumBRUNEI declared that its trading pattern would 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. As a “private limited company” under the control of the government of His Majesty the Sultan, it remains to be seen whether PetroleumBRUNEI upholds “accountability and transparency” such as it claims, especially as accounts do not appear to enter the public domain.

The Sultanate also released a number of new blocks for oil and gas exploration. These included a 10,000 square kilometers deep water concession extending up to 150 kilometres offshore. Moreover, the new blocks have been offered under production sharing agreements as opposed to the prevailing concession and royalty tax system, suggesting a more competitive environment for potential bidders. Australia’s BHP won one of the bids, Frances’ Total/Final/Elf, another, and Japan’s Mitsubishi another, in partnership with Shell.

Current oil prices are far higher than those calculated by the 8th and 9th National Development Plans. Obviously how Brunei parleys higher oil revenues earned on the spot market into energizing the economy depends upon many factors including good management, transparency, and the ability of the economy to absorb inputs.

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 more than $100 a barrel in early 2008) also brought a reprieve to Brunei. Combined with the weakening of the Brunei dollar, if these levels are maintained, 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. Since 1999, presumably in part because of the high prices, Brunei appears to have backed away from its conservation policy by increasing production by 50,000 bpd.

**International Investment Centre?**

In 1999 Brunei began to prepare laws to create a tax haven for foreign companies, virtually starting 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. Brunei is, moreover, some ten years behind the initiative taken by Malaysia on nearby Labuan island which has apparently had at best mixed results.

In July 2000 Brunei formally launched the Brunei International Financial Centre which includes an electronic bourse, or interactive web site to encourage futures trading and an offshore haven for Islamic banking.

Since January 2002 Brunei has emerged as one of the largest stakeholders in the Jeddah-based Islamic Development Bank (IDB) infrastructure development fund. According to IDB literature, the Fund, established in Bahrain in 1998 with a capital of US1.5 billion, “encourages private investments in infrastructure projects such as energy, telecommunications and transportation.” [24]
Islamic Development Bank, Jeddah

The IDB also advertises its Islamic banking ethos. Essentially Islam forbids riba (interest) but Ju’alal 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. Locally, a branch of the IDB in Brunei offers banking and financial services on Islamic principles, alongside two other Islamic banking entities and some eight foreign banks. Notably, in 2008, the IDB Development Fund returned some US$420 million in cash to its subscribers, namely the Saudi Arabia Pension Fund, a trust fund managed by Bahrain, a Malaysian consortium, and the Government of His Majesty, the Sultan of Brunei. [25] Brunei is also a growing subscriber to Sukuk or “Islamic bonds” issued by the IDB. [26] Notwithstanding Brunei’s attempts to parlay itself as an international financial centre, the IDB counter in Brunei operates at low profile.

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 Foundation, which distributes the Sultan’s gifts to his subjects, such as dates imported from the Middle East and civil service salary hikes. Notoriously, in a muddled deal involving Oliver North, Ronald Reagan once turned to the Sultan to secure financial support for US-backed contras in Nicaragua, only to have the money returned. A more recent example of the Sultan’s largesse was his personal gift of US$2 million to former Indonesian President Abdulraman Wahid, to be used for charity in Aceh. “Bruneigate” was just one of the scandals surrounding President Wahid - contrived or not - leading to his ouster. None of this rubbed off on Brunei, but does suggest that misplaced gifts can have untoward results. Since 9/11 Washington is obviously concerned at the prospect of Brunei’s resources being channelled into unregulated funds such as certain Islamic charities. In any case, 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 investment pacts include 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 signed on 16 January 2003. [27]

Diversification evaluated

The need to diversify away from the oil and gas sector and attract foreign investment has long been recognized in Brunei, 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.” Yet State attempts to stimulate the private sector and reverse the dependence mentality of the middle classes upon the state have been desultory. Numerous schemes have been touted or attempted, such as developing financial
services, promoting foreign investment in new start-ups, stimulating fisheries, and promoting niche tourism or ecological tourism. To little effect.

The Brunei Investment Agency has preferred 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 it too must look 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 applies, too, to rice and even fish.

Even the recent launch of such export platform industries as the garment industry is problematical. First, it is a typical enclave-type industry with little connection with the domestic economy, importing all machinery and the raw materials. Even the labour is imported (Bangladesh/Philippines) and that is another problem: sweatshop conditions, lack of enforceable labour laws, and social discontent. But labour can be repatriated 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 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 the 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 can Brunei support the sophisticated technostructure to operate such ventures? The record is mixed, as with the example of the local Seria oil refinery, especially since its low output suggests that it is more a political than economic venture. The same applies to the LPG plant located at Lumut.

With the advent of Visit Brunei Year in 2000, the Sultanate crossed a bridge in the sense of potentially permitting scrutiny by large numbers of foreign tourists, an idea that was probably not 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 relatively well-managed, albeit cosseted, state enterprise but Brunei also faces stiff competition in the tourism industry. Even in ecotourism Brunei competes with the neighbouring Malaysia states of Sabah and Sarawak whose 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, the Sultanate supports a highly centralized political system, leading to acute bottlenecks, while Brunei’s market is small. 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 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.” [28]

Conclusion

I 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 and family crisis combined, demanded creative even radical solutions. Being blessed with hydrocarbon reserves at a time of soaring prices, Brunei has recently 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 did not implode, there was no major domestic discontent in a society where social cohesion appears to be high.

As the Sultan sought to rein 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. Still, no fundamental breech of the rentier economy model in Brunei appears in sight while the dynastic system of privilege - here termed “trophy capitalism” - remains embedded, and no productionist revolution is on the horizon.

The sense remains that in Brunei not all are comfortable with the encroachments of market forces and neoliberalism. Globalization writ large, and especially recent globalizing impacts 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).

Nevertheless, as Brunei continues to reap windfall profits, amply replenishing the missing billions squandered by a wayward Prince, the focus shifts to the management of the Sultanate’s sovereign wealth, such as vested in Semuan Holdings and the BIA. This is all the more important as Brunei begins to parlay its investments in regional pension funds along with Islamic funds and bonds, besides traditional portfolio investments. Larger questions remain as to just how far international regulation of “sovereign” funds can go but, as with the IMF evaluation of Brunei, one can detect a shift on the part of international financial organizations towards a concern for international standards. As inferred in the discussion on the Royal family fortunes in Brunei Darussalam, the notion of common wealth remains abstract in the extreme without some form of international scrutiny and accountability.

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Notes


[6] “Concern” literature relating to rapid rise of sovereign wealth funds continues to swell. For example, see Steven Weisman, “Concern about ‘sovereign wealth funds’ spread to Washington,” International Herald Tribune, 20 August 2007

For a useful summation of the issue, see James Seward, “Should there be common standards for Sovereign Wealth Funds in Asia?”


[17] Ignatius Stephen, "Prince Jefri, Brunei Settle $40 Billion Case."

[18] Official Brunei Homepage


[23] See PetroleumBRUNEI homepage

[24] See website of Islamic Development Bank


[27] “Signing Ceremony for Setting Up of the Thailand Prosperity Fund”

[28] “IMF Executive Board Concludes 2005 Article IV Consultation with Brunei Darussalam,” International Monetary Fund, Public Information Notice No. 05/137 September 30, 2005