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ASEAN-Japan Centre

Non-equity Modes (NEM) of Trade in Brunei Darussalam sees NEM opportunities in the food and beverage industry, automobiles, and textiles and garments manufacturing according to the study by ASEAN-Japan Centre



“Non-Equity Modes of Trade in ASEAN” in Brunei Darussalam is available for download on AJC website

ASEAN-Japan Centre (AJC) issued Paper 1 of the “Non-Equity Modes of Trade in ASEAN: Promoting New Forms of Trade between Japan and ASEAN” series focusing on Brunei Darussalam. With this paper, the series has been completed covering all 10 ASEAN Member States.

Brunei relies heavily on oil and gas, which accounts for 90% of its total exports. However, due to the decrease in the demand for and price of oil and gas, the trade volume dropped drastically to 60% in 2020. According to the paper, the Brunei government’s initiatives to diversify the economy and reduce its reliance in the oil and gas industry can offer opportunities for TNCs to engage in NEMs with local Brunei firms.

Foreign direct investment (FDI) stock has significantly increased in Brunei from US\$3.9 billion in 2010 to US\$7.1 billion in 2019, an 80 per cent increase in the last 10 years (Ministry of Finance and Economy 2020). Aside from the emphasis on FDI, transnational corporations (TNCs) have been consistently interested in being involved in the food and beverage, automotive, and textiles and garments industries. Favorable tax incentives, such as no personal tax, no value added tax and a low corporate tax rate of 18.5 per cent, have aided this development. Import duties vary depending on the nature of the goods. In general, basic foodstuffs and goods for industrial use are exempt from import duties.

Brunei firms are involved in various types of NEMs, including franchising in food and beverages (F&B) industry, outsourcing/subcontracting in garments and textile industry, and licensing in the automotive industry. The food and beverage industry has largely dominated franchise investments in the country, contributing between US\$19.2 million and US\$22.2 million (at constant prices) to the country’s GDP in the past five years. The garments and textile industry in Brunei flourished in the late 1990s employing more than 1,500 people and exported products mostly to North America. However, the country started to fall behind China and other ASEAN countries due to their comparatively higher labour rates. In the last five years, the GDP contribution of textile and garments manufacturing has fluctuated between US\$25.7

million and US\$29 million (at constant prices). The typical subcontract awarded to local NEMs is for cut, make, trim where the main international contractor supplies materials. This has enabled the local NEM to generate at least 15 per cent to 50 per cent in gross profit.

The automotive industry in Brunei is flourishing due to the high per capita income of the population. TNCs give local automobile dealers licensing rights to sell cars. Despite the COVID-19 pandemic, sales of automobiles in Brunei have increased by 5 per cent in 2020 compared to the same period in 2019.

Engaging in NEMs provides many opportunities for both the local NEMs and TNCs, including the provision and creation of jobs for the locals. Such activity also contributes to the transfer of knowledge to local NEMs in terms of management know-how. For example, local NEMs learn the international standard operating procedures (SOPs) for managing firms. However, local customs, regulations and requirements which might not be suited to the TNC strategy could affect the longevity of the relationship and create some challenges for the local NEMs.

To maintain and further attract NEMs in Brunei Darussalam, the capability of local firms should be improved by leveraging on technology and innovation, upskilling the labor force through training and re-training, and promoting research and development (R&D) and intellectual policy. Infrastructure also plays an important role in attracting TNCs. Improving logistics systems through infrastructure development and modernization will be imperative especially for exporting NEMs and an efficient and cost-effective logistics system will be beneficial for local NEMs to enhance their competitiveness.

“Non-Equity Modes of Trade in ASEAN: Promoting new forms of trade between Japan and ASEAN: Paper 1 Brunei Darussalam” is available for download on AJC’s website below.

https://www.asean.or.jp/ja/wp-content/uploads/sites/2/NEM-Brunei-Paper-1_WEB.pdf

Contact:

ASEAN-Japan Centre (AJC) PR Unit

Tomoko Miyauchi (MS)

URL: <https://www.asean.or.jp/en/>

TEL: 03-5402-8118

E-mail: toiawase_ga@asean.or.jp