

Hinrich Foundation Sustainable Trade Index

Brunei Highlights

Introduction

The Hinrich Foundation commissioned the Economist Intelligence Unit to build the Sustainable Trade Index using 24 indicators to measure 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: **economic growth, social capital and environmental protection.**







The Index measures the readiness of each economy to participate in global trade in a way that creates sustainable growth, encourages foreign direct investment, and attracts funding and support from multilateral development agencies.

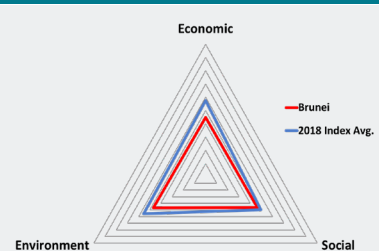
The Index was created for the purpose of stimulating meaningful discussion of the full range of considerations for policy makers, business and civil society when engaging in international trade.



The Hinrich Foundation launched the inaugural Sustainable Trade Index in 2016. Visit www.hinrichfoundation.com to download the 2018 and 2016 Index.

Brunei Overview

GDP per capita  US \$26,939	Population  423 thousand	Exports % of GDP  49.6% of GDP
GDP growth  -0.04% growth <small>(average since 2010)</small>	Labour Force  221 thousand	FDI net inflow  -US\$150 mil.



SOURCE: World Bank, 2016 and Hinrich Foundation Sustainable Trade Index Workbook, 2018

Overall performance

Brunei fell from ninth place in the 2016 Index to 15th place in the 2018 Index, a significant drop of six spots. As a rich, oil-producing microstate, Brunei's wealth accumulation has not driven the same progress in human development indicators seen in Asia's other advanced economies. However, Brunei has made significant progress in opening its economy to trade, which bodes well for its future trade sustainability.

- **Economic:** When comparing Brunei's performance on the 2018 Index relative to its GDP ranking among other countries, the country underperforms its income by nine places—the biggest underperformer relative to income on the Index.
- **Social:** Brunei's best score was for strong labour standards, but its worst score was for high levels of inequality. Inequality is an ongoing issue for upper-income countries in the region.
- **Environmental:** Brunei recorded low levels of air and water pollution but was the worst performer for the natural resources as share in trade indicator.

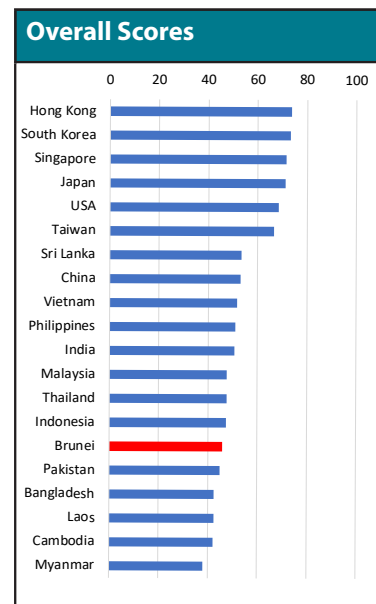
Overall Index Performance

Pillar	2018 Rank	2016 Rank	Change
Economic	18	19	+1 ▲
Social	9	6	-3 ▼
Environmental	15	13	-2 ▼
Overall	15	9	-6 ▼

Brunei's score on each pillar compared with 2016 Sustainable Trade Index results.

2018 Index Performance Relative to GDP				
TOP PERFORMERS				
	Country	2018 Rank	GDP Rank	Rank relative to GDP
▲	Vietnam	9	15	+6
▲	India	11	16	+5
▲	Sri Lanka	7	11	+4
▲	Philippines	10	13	+3
▲	South Korea	2	5	+3
BOTTOM PERFORMERS				
▼	Thailand	13	10	-3
▼	Laos	18	15	-3
▼	USA	5	1	-4
▼	Malaysia	12	8	-4
▼	Brunei	15	6	-9

SOURCE: Hinrich Foundation Sustainable Trade Index 2018



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Areas of top performance and improvement

- **Top performance:** Gross fixed capital formation. This indicator measures gross fixed investment in the national economy. Like foreign direct investment (FDI), a country's gross investment encourages trade and economic growth. Brunei scored second out of 20 economies for this indicator, reflecting a substantial amount of investment in its own economy.
- **Worst performance:** Share in natural resources in trade. Brunei bottomed the Index with the worst score for the share in natural resources in trade indicator, which assesses natural resources as a percentage of a country's total trade. Reliance on a high concentration of natural resources-related exports is a key indicator of unsustainable trade because it exacerbates an economy's vulnerability to global economic shocks.
- **Most improved:** Tariffs and non-tariff barriers to trade. This indicator provides a broad measure of the impediments to trade in a country, by measuring barriers such as trade quotas, licensing and import inspection. In the 2018 Index, Brunei's improvements in this area enabled it to climb ten spots to third place in this indicator, outperforming all countries except Singapore and Hong Kong.

Top & Bottom Indicators		
Indicator	Region Avg.	2018 Score
Gross fixed capital formation	42.2	72
Tariffs & non- tariff barrier to trade	59.4	88
Air pollution	67.2	94
Foreign trade and payments risk	65.3	79
Technological innovation	26.2	0
Growth in per capita GDP	66.7	0
Export product concentration	84.6	0
Share of natural resources in trade	85.3	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Economic pillar

Although Brunei is a country rich in terms of both wealth and resources, it scores near the bottom of the economic pillar. Brunei ranked 18 out of 20 economies on the economic pillar, weighed down by low scores in technological innovation, growth in per capita GDP and high export product concentration. It scores far lower than other upper-income countries on the economic pillar.

KEY TAKEAWAYS:

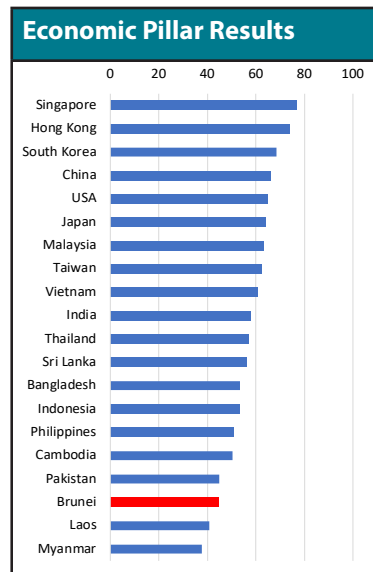
- Brunei scores near the bottom of the economic pillar at 18th place for the 2018 Index.
- However, Brunei appears to be showing more openness to trade due to improved performances in the tariff and non-tariff barriers to trade and trade cost indicators in 2018.
- Brunei's dependence on oil and gas exports is reflected in the country's poor scores in both export market concentration and export product concentration—a possible trading vulnerability for the country.

However, Brunei appears to be showing an increased openness to trade based on its improved performance in the tariff and non-tariff barrier indicator— moving up ten places from 13th place in 2016 to third place in 2018. In this indicator, which provides a broad measure of the impediments to trade in a country, Brunei outscored major trading economies such as Japan, South Korea, Taiwan and the United States.

While Brunei still has the highest trade costs of all upper-income nations in the Index, it did see a large rank increase from 2016 to 2018, where it jumped ten spots to eighth place. The trade costs indicator is a composite of four important factors: infrastructure, logistics, corruption and legal system. Of these four indicators, Brunei scores best for low corruption (=2) and worst for legal system (=18).

When evaluating the country's export diversification, Brunei ranks towards the bottom of the Index with high concentration levels in both export markets and export products. The country scored 18th in export market concentration, which measures a country's exports by destination, showing it has not achieved a high level of diversification in its export destinations. It also scored last in export product concentration. Having both a highly concentrated export market and low diversification of product exports could be considered a trading vulnerability for Brunei.

Although it is considered an upper income country, Brunei is an outlier in some indicators including the financial sector depth indicator, which reflects domestic credit to the private sector as a percentage of GDP. This indicator is a proxy for the availability of trade finance to provide a hedge against exchange rate volatility. Brunei ranked 16th in this indicator, well below other upper-income countries on the 2018 Index.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Region Avg.	2018 Score
Gross fixed capital formation	42.2	72
Tariffs & non- tariff barrier to trade	59.4	88
Foreign trade and payments risk	65.3	79
Growth in labour force	64.0	79
Technological infrastructure	62.5	75
Trade costs	51.2	52
Exchange rate volatility	66.7	68
Foreign direct investment	13.0	2
Current account liberalization	90.7	75
Financial sector depth	43.5	15
Export market concentration	68.3	25
Technological innovation	26.2	0
Growth in per capita GDP	66.7	0
Export product concentration	84.6	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Social pillar

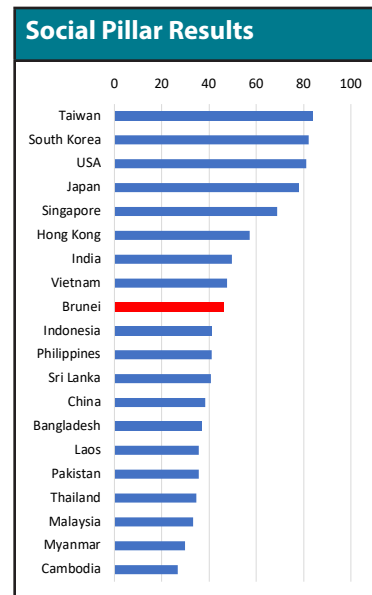
In the 2018 Index, there was an overall stagnation across all economies in the social pillar. Inequality and political instability are on the rise across the region, a trend that transcends wealth and development status. Brunei fell three spots in the 2018 Index to ninth place on the social pillar, the lowest performance of all upper-income countries. In addition, Brunei was outperformed by some low-income countries including India and Vietnam.

KEY TAKEAWAYS:

- There was overall stagnation in the social pillar for the most economies in the 2018 Index, including Brunei. The country placed ninth overall, a decrease of three spots from 2016.
- Brunei scored best in labour standards but had high levels of inequality, which continues to be a problem for upper-income countries in the region.

Brunei scored in the top half of the Index for both labour standards and educational attainment. Brunei's biggest drop on the social pillar was in the political stability indicator— falling 10 spots from first place in 2016 to 11th place in 2018. In general, political stability is a considered a necessary condition for trade, investment and economic growth.

Brunei poorest performance was in the inequality indicator, where the country scored 13 out of 20 economies, reflecting higher levels of inequality. This indicator uses the Gini coefficient to capture the inequality level in a country between the upper and lower income brackets. Inequality is an ongoing problem for a number of upper-income countries in the region. Countries should be wary that trade can impact inequality, and similarly, high levels of inequality can result in societal tensions that can become an obstacle to further trade growth.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Region Avg.	2018 Score
Labour standards	39.7	45
Educational attainment	38.4	25
Political stability	57.6	55
Inequality (Gini coefficient)	62.3	60

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

CASE STUDY: REFORMING BRUNEI'S EDUCATION SYSTEM FOR BETTER ATTAINMENT

In order to improve the quality of its teaching and increase educational attainment, the Ministry of Education of Brunei Darussalam partnered with the Independent Schools Inspectorate Consultancy (ISIC) in the United Kingdom to design the Brunei Teachers' Standards (BITS) plan in 2015.¹ The new education standards, based on international education evidence-based research, aim to better students' achievements and learning outcomes. The plan was implemented starting January 2016 and shows how governments and international organizations can work together to create better opportunities for citizens.

¹ Ministry of Education, Brunei Darussalam- "FAQ- Frequently asked questions on BTS and TPA"- http://www.moe.gov.bn/PublishingImages/newfaq/FAQ_BTS-TPA.pdf

Environmental pillar

Brunei scored 15th out of 20 economies on the environmental pillar for the 2018 Index, a decrease of two spots from 2016. While the country recorded low levels of air and water pollution, its dependence on exports of natural resources like oil and gas dragged down the country's overall environmental pillar score.

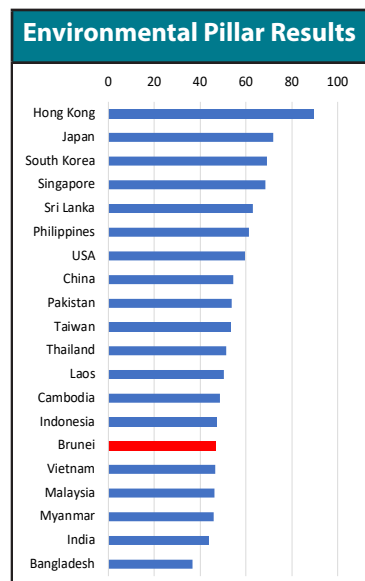
KEY TAKEAWAYS:

- Brunei placed 15th overall in the environmental pillar on the 2018 Index.
- Brunei delivered low levels of air and water pollution, but also witnessed increased levels of transfer emissions and deforestation.
- Brunei placed last on the 2018 Index for the share of natural resources in trade indicator.

Brunei's best environmental scores were due to low levels of air and water pollution indicators, reflecting low levels of pollution in the country. Brunei was the top performing upper-income country in the air pollution indicator, which measures levels of particulate matter 2.5 (PM 2.5) in a country. Brunei scored third in air pollution, behind Sri Lanka and the Philippines. This important indicator highlights the link between economic growth, trade and pollution.

Brunei's worst ranking decrease on the environmental pillar was in the transfer emissions indicator, which measures transfer emissions as a share of a country's total territorial emissions (MtCO₂). The country fell seven spots from fifth place in 2016 to 12th place in 2018, due to higher levels of transfer emissions.

The country's poorest overall performance was in the share in natural resources in trade indicator, where the country scored last on the 2018 Index. This indicator measures natural resources as a percentage of a country's total trade. Reliance on a high concentration of natural resources-related exports is a key indicator of unsustainable trade. Brunei's poor score in this indicator is unsurprising given the country's dependence on oil and natural gas as its top exports.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Region Avg.	2018 Score
Air pollution	67.2	94
Water pollution	24.3	44
Deforestation	66.8	83
Transfer emissions	22.6	10
Environmental standards in trade	66.7	50
Share of natural resources in trade	85.3	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

CASE STUDY: INTERNATIONAL ENVIRONMENTAL COMMITMENT AS GROWTH OPPORTUNITY

Although Brunei represents a relatively low output of total global emissions, it was one of the first countries to ratify the Paris Agreement among ASEAN nations.² The country has pledged to cut total primary energy consumption by 63 percent by the year 2035, increase renewable energy's contribution to the total power generation mix by 10 percent by 2035, and increase forest reserves from 44 to 55 percent of the total land area.³ Brunei identified the climate change movement as both an economic and entrepreneurial opportunity for the private sector to innovate and develop green technology. As awareness grows around environmental issues like climate change, countries like Brunei can also take advantage of new opportunities to develop greener economies.

² Ministry of Energy and Industry, Brunei Darussalam- "Paris Agreement High Level Event on Entry into Force", 23 September 2016- <http://www.ei.gov.bn/Lists/EDPMO%20Updates/NewDispForm.aspx?ID=61>

³ Ministry of Energy and Industry, Brunei Darussalam- "Signing Ceremony for the Paris Agreement", 23 April 2016- <http://www.ei.gov.bn/Lists/EDPMO%20Updates/NewDispForm.aspx?ID=26&ContentTypeld=0x0100780CCFC5D7E5214B96B7B8FB2F1F0CA4>

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Additional resources

The Hinrich Foundation commissioned The Economist Intelligence Unit (EIU) to build the Sustainable Trade Index. The Index uses 24 indicators to measure the trade impacts of 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: economic growth, social capital, and environmental protection.

Visit our website at: www.hinrichfoundation.com/trade-research/sustainable-trade-index to download additional Sustainable Trade Index resources including:

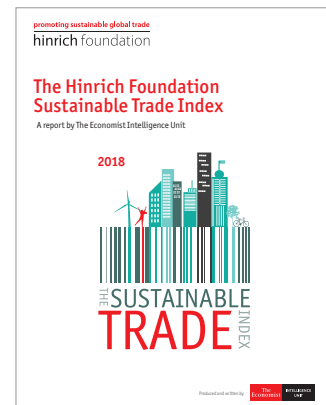
- **2018 Sustainable Trade Index white paper**- Prepared by the EIU, it presents and analyzes the 2018 Index findings for all 20 economies.
- **Index interactive data set and KPIs**- The comprehensive Index database allows users to directly interact with the Sustainable Trade Index data. For each economy, compare indicators, adjust score weights and visualize data in custom charts and graphs. It's a useful tool for regional comparisons or reviewing the performance of a particular economy.
- **Additional highlight reports for other economies**- Looking for information on other economies in the Sustainable Trade Index? Visit our website to download special reports on all 20 economies featured in the 2018 Index.
- **Index infographics, fact sheets and more!**

About the Hinrich Foundation

The Hinrich Foundation is a nonprofit organization that undertakes trade-related policy research and development work in Asia. It focuses on creating opportunities, choice and engagement through sustainable and mutually beneficial global trade. The Sustainable Trade Index aims to stimulate positive thinking about global trade and promote behaviors that will lead to better developmental outcomes, engagement and stability.

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Economic Pillar		Social Pillar		Environmental Pillar	
Australia	82.4	A. Japan	82.4	A. Singapore	82.4
Canada	82.4	B. South Korea	82.4	B. Hong Kong	82.4
China	82.4	C. Taiwan	82.4	C. Malaysia	82.4
France	82.4	D. Thailand	82.4	D. Philippines	82.4
Germany	82.4	E. Vietnam	82.4	E. Indonesia	82.4
India	82.4	F. Singapore	82.4	F. Brunei	82.4
Italy	82.4	G. Malaysia	82.4	G. Australia	82.4
Japan	82.4	H. Philippines	82.4	H. Canada	82.4
UK	82.4	I. Indonesia	82.4	I. France	82.4
USA	82.4	J. Brunei	82.4	J. Germany	82.4
Average (all economies)	82.4	Average (all economies)	82.4	Average (all economies)	82.4
Best Score 91		Best Score 88		Best Score 88	
Worst Score 65		Worst Score 65		Worst Score 65	

