

Cross-Border Cash Drain: Analysis of Economic Leakage from Brunei Darussalam to Malaysian Borneo

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Executive Summary

Economic leakage occurs when income generated in one economy is spent in another, reducing local economic benefits. In Brunei's case, substantial outbound travel to the Malaysian states of Sarawak and Sabah for tourism, shopping, and services results in significant cash outflow.

The scale of economic leakage is significant, with estimates suggesting **over B\$1 billion annually** spent by Bruneians in the neighboring states of Malaysia. This spending supports robust growth in retail and services sectors of Sarawak and Sabah but undermines businesses and employment opportunities in Brunei. Post-pandemic travel trends indicate a rebound in outbound visits, necessitating urgent policy interventions to retain economic activity within Brunei's borders.

Over the past two decades, the linear trend reveals that unemployment has consistently hovered around 6%, with an average negative growth rate observed since 2017. Despite 'economic diversification and macroeconomic stability' being one of the key goals of Brunei's Wawasan 2035 framework, the country remains heavily reliant on hydrocarbons, and the diversification efforts have yet to show a preliminary success. Meanwhile, economic leakage from outbound travel, coupled with the volatile global energy market, climate change initiatives, and the rising competitiveness of renewables, poses significant threats to Brunei's economic security. When compared, other major regional economic players (i.e., Malaysia and Singapore) have demonstrated more consistent and stable macroeconomic trend.



Image Source: Borneo Post & Malay Mail

Key Recommendations

1

Adopt simple and flexible business and investment policies to attract and retain capital

2

Develop entrepreneurial ecosystem and promote local entrepreneurship

3

Invest and develop employable work force in the targeted sectors

4

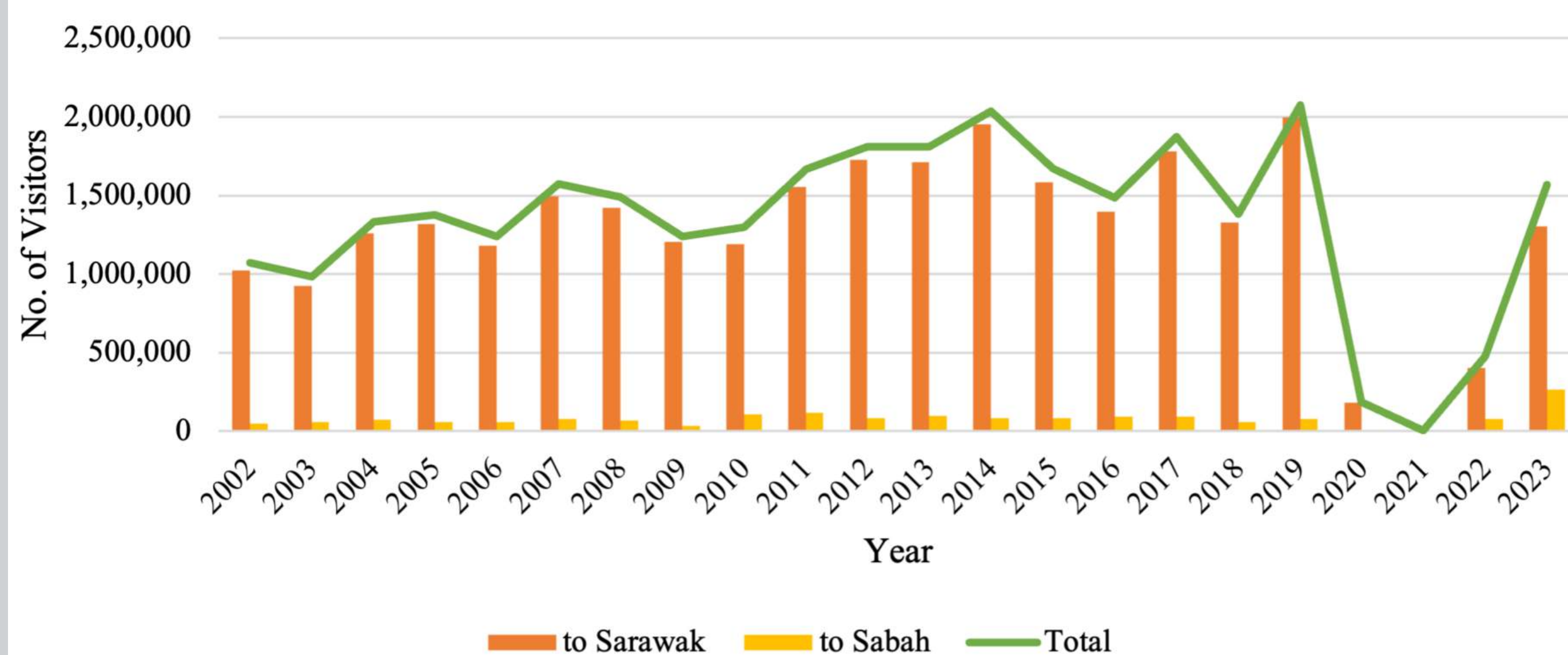
Public-private partnership in high-tech industries to leverage expertise and resources for economic development

5

Improve infrastructure and facilitate high-quality development

These recommendations aim to mitigate economic leakage, retain more revenue domestically, and foster sustainable economic growth aligned with Brunei's long-term development goals under the Wawasan 2035 framework.

Figure 1 Outbound Travel Statistics from Brunei to Sarawak and Sabah (2002-2023)



Source: Sabah and Sarawak Tourism Boards

- Policy recommendations include liberalising investment opportunities, improving local infrastructure, promoting local products and tourism attractions, and fostering an entrepreneurial ecosystem.
- An employable human resource that is well-trained and equipped with the necessary skills and knowledge is needed to meet the demand of targeted sectors in the job market. These measures aim to minimize economic leakage, strengthen domestic economic resilience, and foster sustainable growth in line with Brunei's development goals pledged under Wawasan-2035.
- Addressing economic leakage is crucial for Brunei to achieve economic stability, diversify its economy, and safeguard long-term economic security amidst global economic uncertainties.

1. Background

Economic leakage refers to the transfer of income generated within one economy to another, thereby attenuating local economic benefits. This phenomenon is particularly prevalent in regions with porous borders and substantial price differentials between the countries (Ferreira et al., 2019). Moreover, countries with liberalized visa and trade policies with neighboring states are especially vulnerable if they are less competitive and industrially diverse. Economic leakage can precipitate a significant capital outflow, undermining local businesses, potentially leading to job losses in the retail and service sectors, and jeopardizing economic stability (Ndukumana et al., 2020).

Economic leakage can quickly escalate into a major challenge for policymakers if not addressed promptly. Moreover, socio-economic, political, and geographical complexities can further exacerbate the challenge (Hampton, 2010). Therefore, addressing economic leakage is a public policy imperative, crucial for sustaining robust economic growth, fostering job creation, accumulating wealth, and improving living standards. However, failure to tackle economic leakages risks undermining developmental objectives and triggering significant macroeconomic consequences. To mitigate the deleterious effects of economic leakage, policymakers contemplate a spectrum of strategic interventions after the thorough analysis of what drives the leakages.

The study investigates the scale and impact of outbound travel from Brunei to neighboring Malaysian regions (Sarawak and Sabah) for leisure and shopping. It then analyzes Brunei's macroeconomic indicators and considers the potential long-term economic implications of these economic leakages.

2. Brunei and Bordering Regions

Brunei, officially known as Brunei Darussalam, is a small, affluent nation located on the northern coast of Borneo in Southeast Asia. Brunei boasts a high-income economy predominantly dependent on oil & gas exports, which contribute to its high standard of living and substantial per capita GDP. To the south and east, Brunei is bordered by Sarawak, one of the two Malaysian states on Borneo, with Sabah being the other.

i. Scale and the Frequency of Travel

Bruneians frequently travel to the Malaysian states of Sarawak and Sabah for tourism, business, education, healthcare, and family visits. Popular destinations include Miri and Kuching in Sarawak, and Kota Kinabalu and Mount Kinabalu in Sabah. Travel is facilitated by road, regular bus services, flights, and ferries. The close geographical, economic, and cultural ties between Brunei and these regions drive significant and frequent travel.

Table 1 presents travel statistics of Bruneians visiting Malaysia's Sarawak and Sabah regions from 2002 to 2023. Outbound travel showed consistent growth from 2002 to 2014, peaking in 2019 with over 2.07 million visits, averaging nearly 5 visits per Bruneian annually (See Fig-1). The subsequent year saw a sharp decline due to COVID-19 lockdowns, reaching a minimum in 2021.

Year	to Sarawak	% of Total	to Sabah	% of Total	Total	Population	Per Capita
2002	1,022,506	95	50,274	5	1,072,780	347463	3.1
2003	926,729	94	55,989	6	982,718	354045	2.8
2004	1,257,851	95	72,946	5	1,330,797	360461	3.7
2005	1,318,792	96	58,544	4	1,377,336	366717	3.8
2006	1,181,638	95	57,454	5	1,239,092	372808	3.3
2007	1,496,742	95	79,861	5	1,576,603	378748	4.2
2008	1,422,778	96	65,588	4	1,488,366	384568	3.9
2009	1,203,919	97	34,252	3	1,238,171	390311	3.2
2010	1,188,120	92	109,141	8	1,297,261	396053	3.3
2011	1,553,523	93	115,946	7	1,669,469	401506	4.2
2012	1,728,923	95	82,499	5	1,811,422	406634	4.5
2013	1,710,104	95	99,122	5	1,809,226	411702	4.4
2014	1,952,220	96	85,267	4	2,037,487	416656	4.9
2015	1,585,997	95	84,977	5	1,670,974	421437	4.0
2016	1,395,013	94	91,923	6	1,486,936	425994	3.5
2017	1,778,783	95	94,798	5	1,873,581	430276	4.4
2018	1,327,561	96	56,259	4	1,383,820	436600	3.2
2019	1,996,017	96	78,605	4	2,074,622	451000	4.6
2020	180,616	97	5,494	3	186,110	441800	0.4
2021	3,810	99	47	1	3,857	440715	0.0
2022	402,121	84	76,664	16	478,785	445400	1.1
2023	1,303,120	83	266,981	17	1,570,101	450500	3.5

Source: World Bank and DEPS¹

However, post-pandemic, there is a significant rebound in 2023, with visits surging to 1.57 million, a 328% increase from the preceding year.

Notably, post-pandemic trends revealed differing visitation patterns between Sarawak and Sabah. Sabah experienced a significant increase, reaching 17% of total visits in 2023 compared to a pre-pandemic average of 5%. Conversely, Sarawak saw a decline from 95% to 83% over the same period, possibly influenced by the completion of the Temburong Bridge, reducing immigration checkpoints and travel time to Kota Kinabalu (KK), Sabah's capital. Bruneians accounted for 60% of foreign tourists in Sabah and 31.1% in Sarawak, with peak visits during long weekends and holidays, particularly in April, June, and December. Recent instances of heavy traffic and long queues (up to 11 km) and stretched border crossing waiting time (up to 10 hours) observed on long weekend, reflect the extent of outbound travel despite the hassles.

The post-pandemic outbound travel rebound is significant, for instance, in the first quarter of 2024, the Borneo Bulletin reported a significant increase in travel from Brunei Darussalam to Sabah, Malaysia. According to Sabah Tourism Board (STB) statistics, 54,266 travelers visited during this period, marking a 31% rise from the previous year's 41,412 visitors. In total for the preceding year, Sabah welcomed 266,981 visitors from Brunei Darussalam. The question remains: What unique offerings do Sabah and Sarawak provide to Bruneians that Brunei cannot?

ii. Economic Leakage in Brunei's Cross-Border Travel

It is worth noting that substantial economic leakages occur when Bruneians travel to Sarawak and Sabah, spending on accommodations, dining, shopping, entertainment, healthcare, education, and tourism. Geographically, Bruneians spend on groceries, clothing, cosmetics, and electronic appliances, and healthcare services in Miri (Sarawak) and tourism activities in Sabah. To calculate the financial leakage accurately, a thorough and comprehensive analysis is needed. However, roughly estimated, if each visitor spends B\$100 on essentials like food, beverages, fuel, and lodging per visit, 2023 saw approximately B\$157 million transferred out. With substantial shopping expenses factored in, the annual outflow could surpass B\$1 billion. Understanding consumer behavior and spending patterns is vital to crafting strategies that staunch this flow and retain economic activity in Brunei.

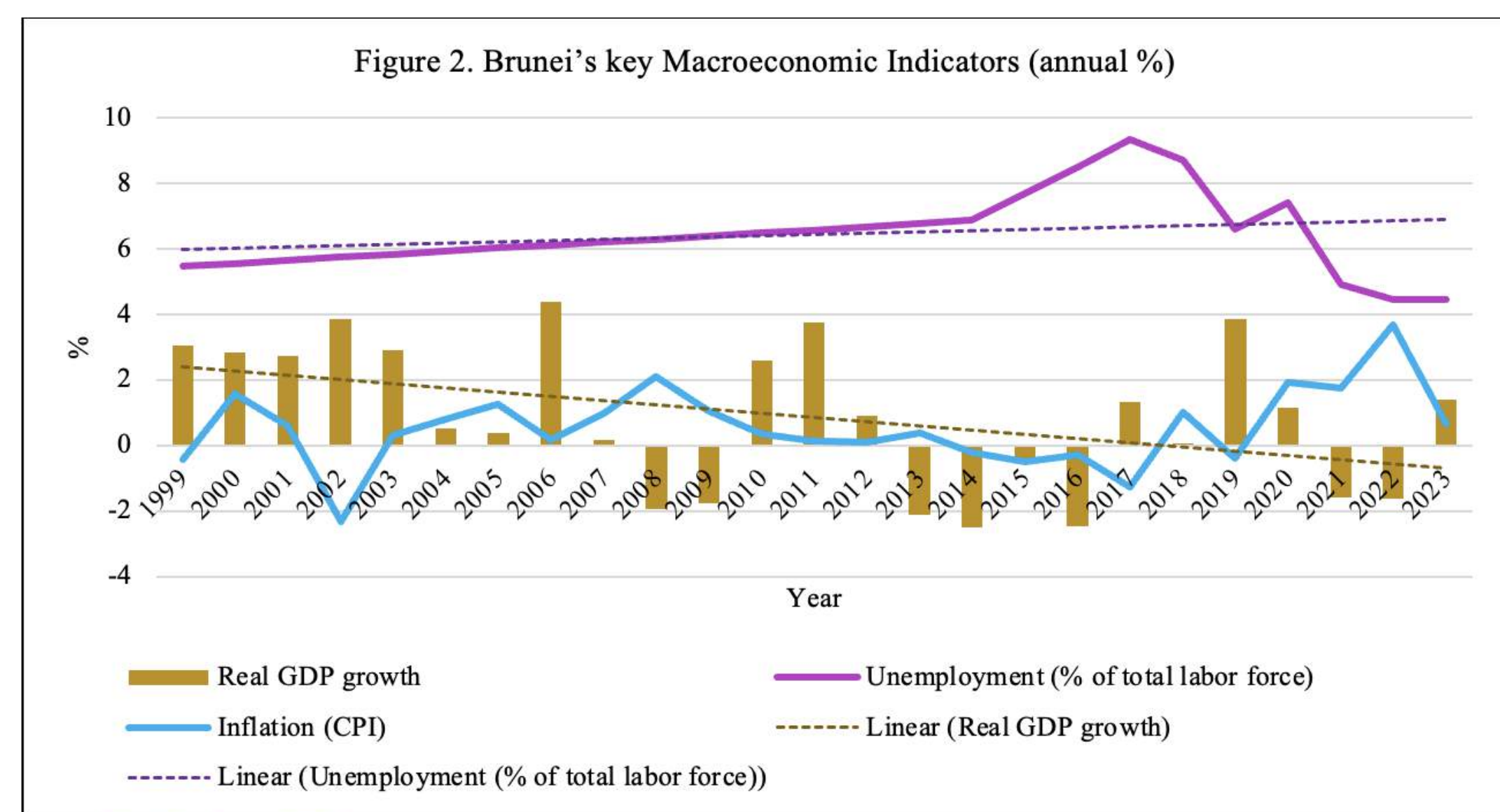
[1] Department of Economic Planning and Statistics, Brunei Darussalam.

The impressive economic performance of Sarawak and Sabah hinges significantly on foreign capital inflows, particularly from Brunei, which have catalyzed robust growth in their retail and services sectors. This flow reflects Brunei's comparative market disadvantages in terms of cost competitiveness, product diversity, and consumer choices. Such capital outflows necessitate strategic policy interventions to retain economic activities and investments domestically, aligning with Wawasan Brunei 2035 framework.

Furthermore, such economic leakages contrast the Goal 3 of Wawasan Brunei 2035 – “A Dynamic and Sustainable Economy”. Thus, to bolster economic resilience, policymakers should prioritize enhancing Brunei's competitiveness through targeted reforms aimed at reducing business costs, improving market access, and fostering investment attractiveness. Strategic infrastructure investments and consumer confidence-building measures are crucial in curbing capital flight and maximizing economic value retention within Brunei's borders.

3. Brunei's Economy and Performance

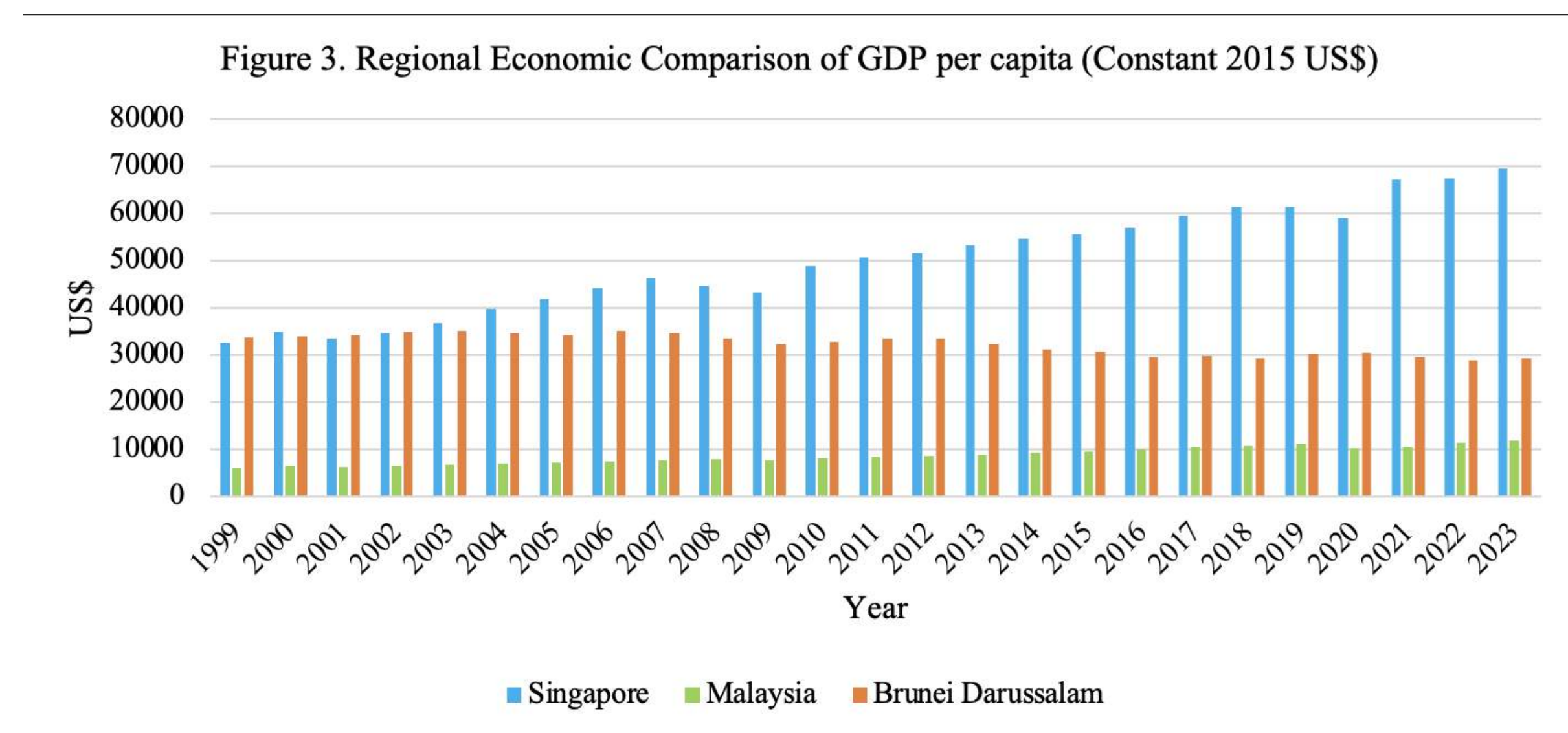
Although the oil & gas sector has long driven Brunei's economic prosperity, it now faces multiple threats like resource depletion, market volatility, technological obsolescence, and strict environmental compliance. These factors impact macroeconomic indicators like GDP growth, inflation, and unemployment – highlighting the sector's risky and limited income potential. For instance, Figure-2 highlights trend in Brunei's key macroeconomic indicators between 1999-2023 and reveals significant fluctuations, with several negative spells in GDP growth and inflation, and high unemployment rate.



The linear trend indicates that unemployment has averaged around 6% over the past two decades, with an average negative growth rate since 2017. Moreover, the rapidly changing geopolitical environment, particularly in the energy sector, and the emergence of price-competitive renewable energy sources, pose a challenge to Brunei's reliance on oil & gas. This volatile market for oil & gas sector is likely to continue affecting the overall economic well-being of the country. Thus, achieving successful diversification is critical for Brunei's long-term economic stability and growth. To address these challenges, though the Brunei government's efforts under the 'Wawasan 2035 Framework' aim to diversify the economy and enhance competitiveness – these efforts, however, are yet to achieve the tangible results.

i. Regional comparison

When assessing a country's economic performance and development, it's crucial to analyze historical trends and compare its performance with regional economies. This comparison offers benchmarks and context, as regional economies often share characteristics like proximity, cultural ties, and trade relationships. By evaluating key economic indicators across these nations, policymakers can pinpoint strengths and weaknesses, draw lessons from neighboring countries' experiences, and stimulate competitive dynamics that spur economic growth and progress. Figure 3 compares per capita income trends among Singapore, Malaysia, and Brunei. Over time, Brunei's per capita income has slightly yet consistently declined, contrasting with Malaysia's steady improvement and Singapore's significant growth. Singapore, which had a lower per capita income than Brunei in 1999, now exceeds it by more than double as of 2023. This disparity underscores the divergent economic paths of these nations, with Singapore emerging as the regional economic leader while Brunei faces challenges in maintaining its previous standards. The data highlights the importance of long-term economic policies, strategic investments, and adaptability in the face of changing global dynamics, factors that have contributed to the varying economic performances of these Southeast Asian nations.



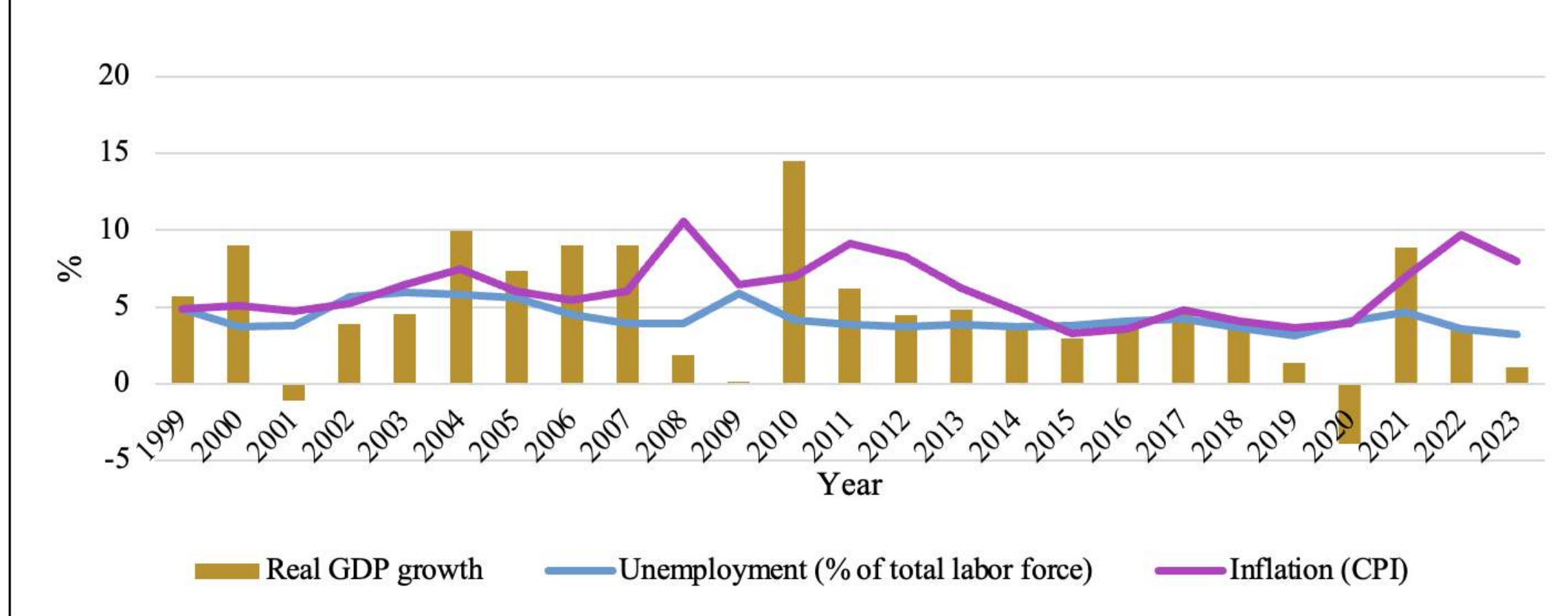
Similarly, Figures 4 and 5 illustrate the trajectory of key macroeconomic indicators, including unemployment, inflation, and GDP growth rate, from 1999 to 2023. During this period, the fluctuations in these economic measures appear more stable compared to the more pronounced fluctuations observed in Brunei's indicators shown in Figure 2. This suggests a relatively higher degree of economic resilience and policy effectiveness in managing macroeconomic volatility during the observed timeframe.

ii. Plugging the Leakages to Economic Performance

Despite oil & gas sector being the largest contributor of income, the leakages embedded in cross border tourism and shopping spending pose both a threat to long-term economic sustainability and as well as Brunei's efforts to economic diversification. This phenomenon also inherits a policy gap to be addressed. Addressing these challenges requires strategic policies to promote local economic retention, enhance competitiveness, and diversify Brunei's economy beyond oil and gas, ensuring sustainable growth and development.

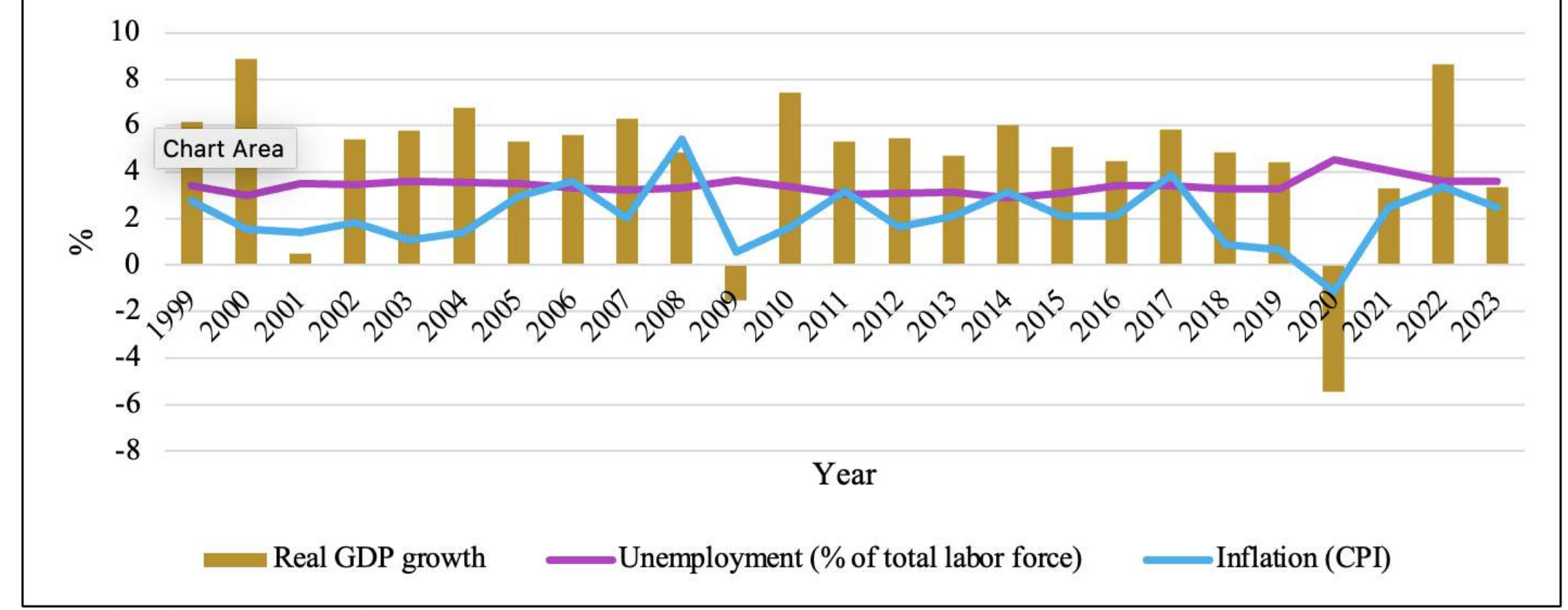
[2] Singapore Department of Statistics.
 [3] Department of Statistics Malaysia.

Figure 4. Singapore's key Macroeconomic Indicators (annual %)



Source: World Bank and SDS²

Figure 5. Malaysia's key Macroeconomic Indicators (annual %)



Source: World Bank and DoSM³

It is not easy for the citizen to spend hours in queue on borders and frequent travel hassle if competitive options are available in the country. It is in fact a public good to work on the resolution of accessibility of socio-economic needs of the citizens besides safeguarding the long-term economic interests of the country. Although majority of employment is generated by government but future of job markets lies in private sector. However, local businesses may see reduced sales and job losses amid the leakages, leading to increased unemployment. The drop in demand for local products also increase the cost of production thereby increasing the import and as well as cross border shopping spiral. These leakages reduce multiplier effect, thereby decreasing the proportion of non-oil and gas sector in to the GDP.

4. Summary and Policy Recommendations

It is evident that outbound travel to Malaysia's Sarawak and Sabah regions has been substantial, and the post-pandemic rebound suggests this trend will persist, leading to the continued outflow of financial capital from the domestic economy, especially in non-oil & gas sectors. Given the significant development in these neighboring regions, largely fueled by foreign capital inflows in which Brunei plays a major role, economic leakages are expected to increase exponentially unless immediate policy interventions are implemented. These leakages exert a notable impact on macroeconomic indicators such as employment, the consumer price index (CPI), and the GDP growth rate. Addressing these leakages is crucial for achieving Goals 2 and 3 of the Wawasan 2035 framework.

Considering the hassle and time costs involved at the border, it stands to reason that a notable segment of travelers is principally driven by economic considerations. Factors such as price differentials, exchange rate dynamics, and the accessibility of goods and services—especially branded merchandise—emerge as primary motivators, eclipsing mere recreational intent.

To address economic leakage from cross-border tourism and shopping expenditures, policymakers can implement targeted strategies. These include enhancing local infrastructure and services to improve the overall tourism and shopping experience, and promoting local products, services, and attractions along with international outlets to encourage visitors to spend more within the local economy. Investing in human capital through education, training, and skills development initiatives tailored to targeted sectors can cultivate a more competitive workforce which is employable as well to support the initiatives. Supporting local entrepreneurship and developing robust local supply chains will further bolster the resilience of the consumer sector. Public-private partnerships, particularly in hi-tech sectors, can effectively leverage private-sector expertise and resources. Streamlining business procedures and adopting flexible investment visa policies can additionally attract and retain local businesses and talent.

Policy Imperatives



Enhancing Local Infrastructure and Services: To improve overall tourism and shopping experience, promote local products, services, and attractions.



Investing in Human Capital: Allocate resources in targeted sectors to cultivate a more competitive workforce.



Supporting Local Entrepreneurship: Develop robust local supply chains will further bolster the resilience of the consumer sector.

Conclusion

By implementing this comprehensive approach, policymakers can reduce economic leakage, retain more revenue domestically, and foster sustainable economic growth and development.