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# Foreign Investment, State Capitalism, and National Development in Borneo: Rethinking Brunei–China Economic Relations

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## Abstract

Faced with dwindling oil and gas reserves, Brunei has been hard-pressed to diversify its reliance on hydrocarbon. China has emerged as an attractive prospect to the Brunei government, especially since the launch of the Belt and Road Initiative. This article analyses a few major Chinese projects in Brunei and postulates three interrelated arguments. Firstly, Chinese investors have targeted Brunei's natural resources and fiscal incentives. These firms have minimal interest in the Sultanate's small domestic market as they eye the export sector. Secondly, these projects have been orchestrated by China's provincially-owned state-owned enterprises (SOE) and private firms, instead of centrally- controlled SOEs. State support has generally been channelled to these projects in an at-arm's length manner. Thirdly, while Brunei is relatively skilled in attracting Chinese investors to further its own political economic goals, at least in the short-run, it is uncertain whether such capital exports have helped in ameliorating the structural limits of the country's economy.

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## Keywords

Brunei, China, foreign direct investment, development, political economy, industrial policy

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## Introduction

Bolstered by its bountiful oil and gas deposits, Brunei Darussalam (hereafter Brunei) has enjoyed for decades one of the highest per capita income levels and living standards in the world. Within Southeast Asia, it trails only wealthy Singapore in a few socio-economic indicators. However, with its oil and gas reserves expected to deplete by the middle of the twenty-first century, the Brunei government has been hard-pressed to diversify its traditional reliance on hydrocarbon. This can be seen in the Sultanate's 2007 proclamation of the Wawasan Brunei 2035 (Brunei Vision 2035), a long-term development plan to simultaneously reduce dependence on hydrocarbon wealth as well as to uplift living standards. It aims to achieve three main objectives by 2035: a well-educated workforce measurable by the highest international standards; a quality of life that ranks among the world's top ten countries; and the development of a dynamic and sustainable economy with a per capita income that is amongst the highest in the world (Borneo Bulletin, 2020).

One of the most concrete avenues by which the Sultanate is pushing for the Wawasan Brunei 2035 can be witnessed in its efforts to attract foreign direct investment (FDI), not least to develop the non-oil and gas industries, promote market growth, and create employment. China has thus emerged as an attractive FDI contributor, especially since the launching of the Belt and Road Initiative (BRI) in 2013. According to Hamdan and Hoon (2019), Chinese FDI has gradually increased its presence in the Bruneian economic landscape. Partly because of its recent nature, the existing scholarship sheds relatively little light on how the influx of Chinese capital exports (of which FDI is a key channel) has contributed to (or dampened) Bruneian growth. Writings in the popular media tend to portray Chinese capital exports, amongst other things, as part of a "debt-trap diplomacy." This line of thought purports that the Chinese authorities promote massive infrastructure undertakings to various developing countries, especially those that are perceived as politically vulnerable, using a mixture of financial instruments. If and when these countries fail to pay back their obligations, they then become entangled in a "debt-trap" orchestrated by the Chinese (Chellaney, 2017). Although this thesis has been scrutinised and debunked in more critical circles (e.g. Brautigam, 2020; Jones and Hameiri, 2020; Liu and Lim, 2019; Tjia, 2022), it is uncertain how much longer the general public will take to understand the full picture. Within the context of Brunei, scholarship that unveils the on-the-ground interactions of the BRI and domestic stakeholders remains sparse (cf. Druce and Julay, 2018; Lawrence, 2021; Zhao and Hoon, 2023). The lacuna implies that the nexus between FDI attraction and Brunei economic development, and more broadly Brunei–China economic ties, is not properly understood.

With the above as a backdrop, this article addresses the following questions: How has the welcoming of Chinese transnational corporations (TNCs) reshaped the trajectory of Brunei's national development? On what terms have these Chinese firms gained from their investment in Brunei? Relatedly, how and to what extent are the Chinese and Bruneian governments pushing these ventures? What are the implications that can be

distilled for a more informed understanding of political economic relations between small states and China? In answering these questions, this article focuses on the experience of four of the most capital-intensive Chinese-financed projects in the Sultanate to date: Hengyi Industries (Hengyi), HLDs Steel Company (HLDs), Muara Port Company (MPC), and Hiseaton Fisheries (Hiseaton). In addition to their hefty financial outlay, these four firms are chosen because they represent some of the most approachable – to the media and scholarly community – Chinese firms operating in Brunei.

Three complementary arguments are postulated. Firstly, almost all of the Chinese firms surveyed in this article have been established to access Brunei's natural resources and fiscal incentives. The Chinese firms behind these projects also have little to no interest in Brunei's meagre domestic market, eyeing the lucrative export market – especially those of China, North America, and Southeast Asia – instead. Secondly, these projects have *not* been driven by China's centrally- controlled state-owned enterprises (SOEs). Rather, they have been pushed by provincially-owned SOEs and private firms. State support from Beijing is present, although it is channelled in an indirect, tacit form. Thirdly, the article argues that, notwithstanding its small population size and economic output, Brunei is relatively skilled in attracting Chinese capital to further its own political economic goals, without compromising its strategic autonomy. To this end, these Chinese-financed projects have been fostered primarily by the Brunei government. However, because of the Bruneian state's shepherding of these projects, it has led to the embedding of the Sultanate deeper into its hydrocarbon-dependent development pathway. In a similar vein, the traditionally meek domestic private sector, from which innovation and entrepreneurship are supposed to be tapped, is not likely to be reinvigorated by the influx of these Chinese capital exports.

This article deploys a qualitative method of data collection using interviews and participant observations conducted over an intermittent period between 2019 and 2022. Three main themes are investigated: the broad trends motivating these firms to expand into Brunei, the industry- and firm-specific circumstances behind their moves, and the rationale behind their cooperation (if any) with key Bruneian institutions/individuals. Semi-structured interviews with seventeen Chinese Bruneian business and community elites (thirteen males and four females) were conducted in late 2019 in Bandar Seri Begawan, the capital city of Brunei. Participant observation was also conducted for a period of 3 months each in HLDs and Hiseaton. To enhance the robustness of the primary data, they were cross-validated with government documents, newspaper essays, published reports, and company websites in the English, Chinese, and Malay languages. The use of these sources allowed for data verification and triangulation, resulting in a clearer reading of the situation from multiple perspectives. Given the sensitive nature of the issues discussed, all interviewees were promised confidentiality.

The rest of the article consists of four sections. The next section discusses the literature on China "Going Out", highlighting the lack of research on the cross-border dimension. The article then contextualises Chinese capital exports against an understanding of the political economy of Brunei. Subsequently, the spotlight is trained on four key

Chinese-financed projects in the Sultanate to date. It illustrates both the push and pull factors driving these projects, in addition to unpacking the nuanced role of the Brunei state. The article concludes by summarising the main arguments and outlining avenues for future research.

## When (China's) Money Goes Abroad

The Reform and Opening-up of China was a significant development after a long period of "closed economy" prior to 1978 (Lardy, 2020). From less than US$1 billion a year, China's outward FDI surged to US$4 billion in 1992 after Deng Xiaoping's Southern Tour ("南方谈话") on market-economy reforms when China decided to further open to the outside world (Liu, 2019).[1] In fact, Deng initiated the "Going Out" policy in 1984 based on his vision for the five special economic zones (Shenzhen, Zhuhai, Shantou, Xiamen, and Hainan) to be a window for foreign policies (Fang, 1994). From 1994 to 2000, the outward FDI of China amounted between US$2 billion and US$3 billion per year.[2] It increased remarkably after President Jiang Zemin elevated the "Going Out" or "Go Globally" strategy to the level of national strategy at the Third Session of the Ninth China National People's Congress in March 2000. In 2001, China's OFDI reached US$9.69 billion. By the end of 2008, over 120,000 Chinese enterprises were operating in 174 countries, and China's outward FDI exceeded US$50 billion, reaching US$56.74 billion, accounting for 3.3 per cent of global outward FDI.[3]

In recent years, especially with the BRI that was announced by President Xi Jinping in 2013, Chinese capital exports have expanded to even more regions and countries. Combining the experience accumulated from the past with the support of the Chinese government, more Chinese enterprises and migrant workers went abroad. From 2013 to 2017, China invested over US$80 billion in countries involved in the BRI and almost US$30 billion in more than 80 trade cooperation zones (Wang and Miao, 2020). At the end of 2021, China's outward FDI reached US$128.03 billion, accounting for 7.64 per cent of global outward FDI.[4]

There are several interpretations regarding China's growing importance as a capital exporter. One of the most enterprising schools of thought has been raised by researchers such as Kurlantzick (2016) and Bremmer (2008). They argue that China rising has challenged established market conceptualisations and associated ideals (e.g. free markets, democratic institutions, and limitations on state involvement in the economy), especially in the wake of severe crises such as the global economic crisis of 2008. According to Kurlantzick (2016), developing economies, with China as the main driver, have ushered in a powerful new rival: "state capitalism". This is premised on the unorthodox manner in which capitalist development has taken root in China. Li (2015) documents China's cultivation of a cohort of giant SOEs through decades of policy experimentation. The vitality of these SOEs is important because of their ability to generate employment and economic output, in addition to promoting technological know-how, particularly in critical industries. Injecting nuance is the manners by which private firms thrive cheek by jowl alongside the powerful SOEs. Most of these players, state-owned or otherwise, are driven to maximise

profit, relying on market forces in their ventures (Lin and Wang, 2017; Naughton, 2010; Nolan, 2014). With the state intervening in ways that create spillover for the broader ecosystem, the boundaries between public and private interests are not always explicitly demarcated. Despite some reforms, Beijing's administrative prerogative in shaping corporate behaviour remains strong, ranging from the lack of an independent legal system to the banning of activities deemed antithetical to national interests (Starrs, 2017).

However, just how much of the above retain their attributes in a setting outside of China, especially if we consider the increasingly proactive manners by which Chinese business groups have invested abroad? Relatedly, how do they interact with and reshuffle the host economy's development pathway? Within the context of Southeast Asia, as many as 6,000 Chinese enterprises were active in late 2020, generating 550,000 jobs in the region. According to China's Ministry of Commerce (2021), Southeast Asia alone received US$16 billion investment from China in industries of manufacturing, wholesale and retail, leasing and business services and accounted for 10.4% of total flows of outward FDI. Furthermore, there appears to be significant potential for Chinese FDI to complement regional development efforts, at least at the policy level. This is evidenced by the promulgation of high-level strategies and policies such as the ASEAN Master Plan for Connectivity 2025, "Thailand 4.0" high value-added economic model, Indonesian Global Maritime Fulcrum, and Wawasan Brunei 2035.

Recent studies analysing Chinese economic activities in Southeast Asia reveal a more multifaceted situation. In the promulgation of capital-intensive infrastructure with long gestation period, it is the centrally-controlled SOEs that have led the charge. Their presence has been bolstered further by direct policy support from the central government, in addition to financing from China Development Bank (CDB) and China Export-Import Bank (CHEXIM), the country's two largest policy banks (Chen, 2021).[4] To this can be added the growing zeal of China's subnational governments (especially in the southern provinces) and their affiliated business groups in pushing their own "Going Out" efforts. Guangxi province, in particular, has been actively pursuing commercial deals in Southeast Asia. Lim et al. (2022) document how key Guangxi provincial officers and businessmen have facilitated the construction of one of Malaysia's largest industrial parks, with only token support from their Beijing counterparts. The operations have also been financed by either internal sources or other market-based channels, with no evidence of direct preferential financial support from central state authorities (see also Jones and Zeng, 2019).

Tangential but important to this discussion is the extent to which commercial logic and market incentives manifest themselves. While acknowledging that many of the BRI projects have been pushed by China's cohort of capital-intensive SOEs, Oh and No (2020) argue that Chinese outward FDI entering Southeast Asia has increasingly been orchestrated by the private sector. Their study highlights that the level of coordination between these private firms and the Chinese authorities varies considerably. In industries deemed critical to national interest, Beijing and the private firms form a strong partnership through elaborate policies and financing. By the same token, they show that the state-business coordination is minimal (and even rhetorical) in less critical industries. More pertinent is the political and economic contingencies across different industries.

For Lim (2017), who analyses the performance of Chinese TNCs in their expansion into the Southeast Asian automobile and electronics industries, their long-term commercial viability requires not only a clear unique selling point (e.g. competitive product pricing and reasonable quality) but also the careful management of a broad range of regulatory and non-regulatory barriers in the host economies. The point is, markets are socially constructed. In emerging markets like Southeast Asia, the situation is even more so, especially with rather arbitrary governance standards and institutional development. Even if there was a “strategy” to attract and manage the entrance of Chinese firms, it is unlikely to be clearly spelt out. Calabrese and Cao (2021), in their study of Chinese-sponsored infrastructure, demonstrate that Cambodia allocates infrastructure work to different partners and employs careful debt management while Myanmar closely scrutinises projects and renegotiates them (if necessary). They call attention to the role, agency of host country governments in risk mitigation, especially to prevent too heavy a reliance on Chinese capital exports (see also Camba et al., 2022; Liu and Lim, 2019). The overall message is the need to focus on the role of host country actors, their agenda, and industry-specific peculiarities. A more fruitful discussion can be had when a more critical spotlight is shone on how these players make sense of and manage the entrance of Chinese firms, thereby transforming local politics, state-business relations, and development opportunities.

## The Political Economy of Brunei: Oil, State, and Capital

As mentioned previously, Brunei’s abundance in hydrocarbon has both been a boon and bane to its industrialisation. Firstly, its natural resource wealth has largely been governed efficiently, allowing the government to orchestrate a comprehensive welfare system (including but not limited to an income tax waiver on the workforce and free education and healthcare) that is virtually unparalleled within the region. The pressure this system imposes on the national coffers, while increasing, has been alleviated by the Sultanate’s small population size (about 450,000 people) (Blomqvist, 1998; Tisdell, 1998). Secondly, this hydrocarbon-centric model is strongly correlated with an active role of the state and conversely, a relatively flaccid private sector. This state of affairs can be attributed to Brunei’s unique political system as one of the few remaining absolute monarchies in the world. According to Blomqvist (1998: 553), Brunei’s policy considerations – including development strategies – are likely subjugated by the objective of preserving this status quo. This perspective has also been shared by other scholars (e.g., Dao, 1996; Druce and Julay, 2018; Srinivas, 1997; Tisdell, 1998).

What is implicit in these debates is the state’s establishment of joint ventures in projects of critical importance. For instance, the country’s first refinery was established in 1929 as a joint venture between the Brunei government and the Anglo-Dutch TNC Royal Dutch Shell. This refinery, and other related operations, has allowed Royal Dutch Shell to function as one of the largest employers in the Sultanate, trailing perhaps only public-sector employment.[5] Notwithstanding such capital-intensive undertakings, Bruneians do not enjoy much autonomy as inputs, factory design, and

manufacturing workflow are primarily driven by the Western/Japanese investors. Much like the other developing economies within Southeast Asia, Brunei has been seemingly treading the path of "technology-less" development as its private sector struggles to develop more sustainable forms of internal capabilities (such as striving for higher product standards in more advanced markets) (Yoshihara, 1988). Entrenching the private sector's lack of vitality is the appeal of the adjacent economies, especially Malaysia and Indonesia. Compared to Brunei, these economies offer prospective investors a considerably larger market size and labour pool. Nevertheless, Brunei's ASEAN membership grants it access to the markets of its fellow members, provided regionally/internationally competitive production can be established within the Sultanate.

It would be unfair to claim that the Brunei government is unaware of and/or is not determined to overcome these issues. Although the latest push to diversify the economy is formulated in Wawasan Brunei 2035, the intention was championed since at least the early 1960s, two decades before the Sultanate's full independence (Cleary and Wong, 1994: 81). What is increasingly clear, at least within the context of this article, is that Brunei's recent growth has not matched that of the earlier years (see Figure 1). Accompanying this malaise is the inability to more purposefully transform its economy, especially the reliance on hydrocarbon (see Figure 2). Between 2000 and 2020, the contribution of oil and gas mining to the economic pie has hovered around the 45% level. Although the services sector is also a mainstay in the Brunei economy, much of it is driven by public sector employment as well as procurement. More worryingly, services, especially those driven by the public sector, tend not to be very dynamic and internationally tradable, at least relative to manufacturing (Chang, 2012; Tregenna, 2011).

The BRI's announcement in 2013 would not have escaped the attention of Bruneian policymakers. For one, international oil prices collapsed by more than 50% during the same period, causing a sharp contraction of its gross domestic product (GDP).

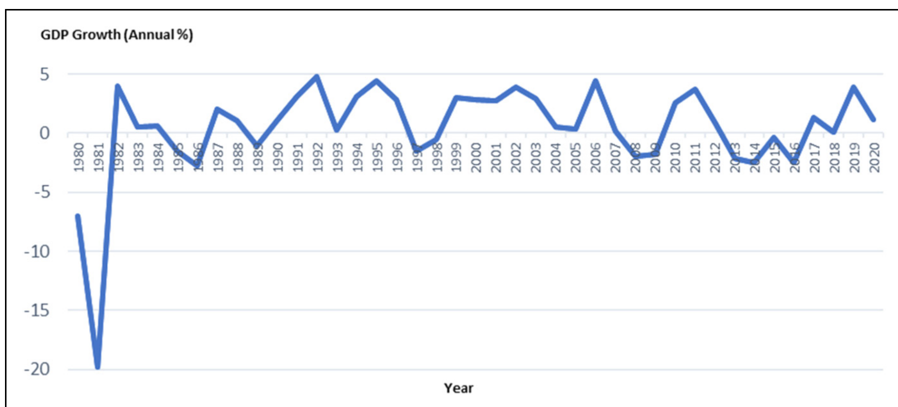


**Figure 1.** Growth of the Bruneian Economy, 1980–2020.
*Source:* World Bank Database.

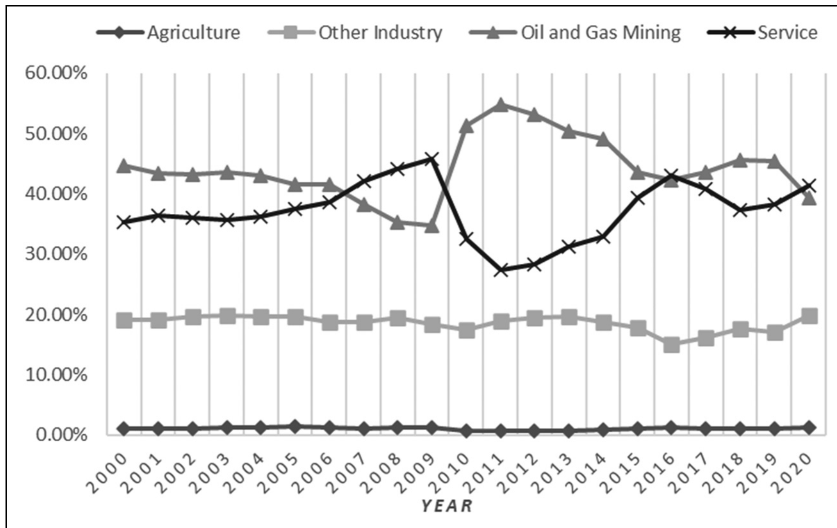


**Figure 2.** Sectoral Contribution of the Bruneian Economy, 2000–2020*.
* Other Industry: Manufacture of liquefied natural gas and other petroleum and chemical products, Manufacture of wearing apparel & textiles, Manufacture of food and beverage products, Other manufacturing, Electricity and water & Construction; Service: Trade, Transport and Communication, Finance, Public Administration, and Others. *Source:* Asian Development Bank and Department of Economic Planning and Statistics, Bruneian Ministry of Finance and Economy databases.

According to Druce and Julay (2018), Chinese firms are eager to internationalise their ventures, under the banner of the BRI, could dovetail well with Brunei's economic goals. If one adopted a more long-term perspective, Chinese FDI can also contribute towards achieving Wawasan Brunei 2035. Indeed, the Sultan of Brunei paid a visit to President Xi in April 2013. In recognition of the two countries' national development strategies, both leaders agreed to further promote the level of bilateral economic and trade cooperation and work closely together in transportation, communications, infrastructure, and finance. They also encouraged enterprises in their respective countries to explore joint venture opportunities, particularly in infrastructure development (Ministry of Foreign Affairs and Trade, Brunei, 2013). Capitalising on these diplomatic efforts, the Brunei government went on to establish a high-level Foreign Direct Investment and Downstream Industry (FDIDI) Steering Committee to comprehensively coordinate and promote the use of foreign investment (Musa, 2019). The FDI Action and Support Centre (FAST) was formed in 2015 to streamline the process of obtaining permits, licences, and approvals. As an effort to consolidate FDI coordination, FAST became part of the Brunei Economic Development Board (BEDB), a statutory body under the Ministry of Finance and Economy (MOFE) in 2019. Under this structure, five priority clusters for FDI were identified: downstream oil and gas, manufacturing and other services, food, tourism, and info-communication technology.

Table 1 showcases the inflow of Chinese FDI into the Sultanate. Despite its relatively late entrance, Chinese FDI has begun to move upward, especially since 2016. This development can be partly attributed to the 2016 implementation of the Brunei-Guangxi Economic Corridor (BGEC). The BGEC was first proposed in 2013 by Brunei Minister of Industry and Primary Resources Dato Seri Setia Awang Haji Yahya to the Chinese government and the government of Guangxi Zhuang Autonomous Region at the ASEAN-China Expo. The cooperation between Brunei and Guangxi mainly focuses on food processing, pharmaceuticals, cosmetic biotechnology research, and healthcare products (Luo, 2014).

## Making Sense of Chinese Investment in Brunei: Heterogeneous Actors, Diverse Outcomes

### *Hengyi Industries (Hengyi)*

Hengyi is a China–Brunei joint venture company and the largest Chinese enterprise and FDI in Brunei thus far. The company is responsible for building and operating a multi-billion-dollar petrochemical refinery in Pulau Muara Besar. Originated from Zhejiang Province in China, the company has more than 2,200 employees, among which 40 per cent are Bruneians. This project was approved by the Brunei government in 2011. Subsequently, it received authorisation from the Chinese National Development and Reform Commission and Ministry of Commerce in July 2013. In 2014, Zhejiang Hengyi Group, a private company ranked as a Fortune 500 enterprise, signed a land lease agreement on Pulau Muara Besar with Brunei Economic Development Board (BEDB) and received BND 30 million, or about US$22 million from Damai Holdings Ltd, a wholly owned subsidiary of Strategic Development Capital Fund (SDCF), a Brunei government trust sub-fund, to undertake the Oil Refinery and Aromatics Cracker Plant Project at Pulau Muara Besar. The Hong Kong Tianyi International Holding Company Limited, a wholly owned subsidiary of Zhejiang Hengyi Petrochemical Co. Ltd, holds 70 per cent equity stake in the joint venture whilst Damai Holdings Ltd holds the remaining 30 per cent (China Daily, 2014a). In addition, given its inclusion in the BRI, Hengyi enjoys financial support in the form of a syndicated loan. The lead firms of this syndicated loan are CDB and CHEXIM (Sohu, 2018), the two largest policy banks supporting the internationalisation efforts of Chinese firms. Together, they have put together a loan facility involving other commercial banks, including the Bank of China, China Merchants Bank, and Industrial and Commercial Bank of China. After the first phase of almost USD 3.5 billion investment, Hengyi is aiming to enter its second phase of investment with an estimated cost of USD13.654 billion, which will be financed from the company's own funds, bank loans, and other financing means (Sohu, 2020).

In 2012, Hengyi signed a Crude Oil Supply Agreement with Brunei Shell Petroleum, a 50:50 joint venture between Royal Dutch Shell and Brunei Government. As Qiu Jianlin, the Chairman of Zhejiang Hengyi Group revealed to the media, this agreement essentially

**Table 1.** Flows of Foreign Direct Investment (FDI) to Brunei (in Million US$).

| Year<br>Other | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| China | 20.11 | 0.99 | 8.52 | −3.28 | 3.92 | 142.1 | 71.36 | −15.09 | −4.09 | 16.58 |
| Grand total | 1208.30 | 864.81 | 725.47 | 568.18 | 171.32 | −150.44 | 460.15 | 517.26 | 374.62 | 577.4 |
| Percentage of Chinese FDI in total FDI | 1.7 | 0.1 | 1.8 | - | 2.3 | - | 15.5 | - | - | 2.9 |

*Source:* Chinese Ministry of Commerce, Chinese National Bureau of Statistics and State Administration of Foreign Exchange, and ASEANstats databases.

provided Hengyi with a stable supply source for its Bruneian investment.[6] Prior to this, the Chinese firm has operated mainly in the midstream and downstream segments of the petrochemical industry. It had virtually no presence in the upstream segment, meaning that it was exposed to supply and pricing disruption. By virtue of its commercial arrangement with Bruneian stakeholders, Hengyi has gained access to the "last mile" of the industry. It has also transformed into an integrated player, which operates across all segments of the petrochemical industry. In addition to supplying to the local refined oil market, the products are sold to nearby Southeast Asian markets. Other oil derivatives serve as raw materials for downstream enterprises in Hainan, China, and the convenient location of Brunei brings a considerable reduction in transportation costs for export sales. Additional factors such as exemption from corporate income tax and customs duties, as well as proximity to a maritime port were the main incentives for Hengyi to invest in Brunei.

To emphasise its commitment to this project, the Bruneian government established the aforementioned FDIDI Steering Committee. This high-powered committee is in turn jointly orchestrated by the Minister of Finance, the Minister of Foreign Affairs, and the Minister of Energy (subsumed under the Prime Minister's Office). With the arrival of Hengyi, many Chinese construction companies entered Brunei to provide infrastructure construction for the project. Given the linkages with other sectors, the contribution of the project was estimated at around 1 percentage point to real GDP growth. It was reported to have created an additional 3,210 jobs in 2019, mainly in the construction, trade, hospitality, and manufacturing sectors (Khut, 2020).

### *HLDs Steel Company (HLDs)*

HLDs is a subsidiary of Huludao Shi Steel Pipe Industry Co. Ltd in Huludao, Liaoning, China. It is a provincially-owned SOE. In 2014, its Chinese headquarters invested US$ 50 million and signed a land lease agreement with the BEDB. The project applied for overseas loans under domestic guarantees for US$ 20 million from Bank of China by mortgaging its assets in the headquarters and some equipment of its Philippine company. This was before the opening of the Bank of China (Hong Kong) in Brunei in 2016. HLDs is a welded rounding carbon steel pipes firm, and it is the only one in Brunei. Before its arrival in Brunei, the country had to import pipes and related equipment used for the oil and gas industry every year. After becoming fully operational, the company has the capacity to manufacture 100,000 tons of welded rounding carbon steel pipes for application in the oil and gas as well as the construction industries with an export value of $1000 million per annum (China Daily, 2014b). Half of these pipes are supplied to the Brunei market and the other half are exported to overseas markets such as the USA and Canada. Currently, there are around 80 employees, including Chinese nationals, Indonesians, Bangladeshis, and Bruneians.

The Brunei government provides exemption in income and corporate tax, as well as taxes on imported duties for three to eleven years for 27 "pioneer industries and products" identified by the government, as long as the company meets criteria of (1) In the public

interest; (2) The industry is not saturated in Brunei; (3) With good development prospects, the products should be in the lead of the industry (Ministry of Primary Resources and Tourism, 2020). Besides conducive business environment due to its political stability and geopolitical advantage, as the first steel pipe company under "pioneer industries" and the only steel pipe manufacturer in Brunei, HLDs enjoys exemption of corporation tax, import tax on imported machinery, equipment, spare parts, construction components, and raw materials. A director of the company reveals that in addition to responding to the BRI, the company chose to establish its factory in Brunei due to the lower production cost and the tax relief incentive. He argues,

> Our business is simple. We import raw materials from other countries and produce it here, with cheap labor and supportive polices. Then we export and sell our products outside Brunei such as in USA. We also export it to China. In Brunei, we import raw materials and export finished products without any tariff. Compared with China, we can earn more here. Brunei government recognised us as 'pioneer company status' and we are free of a lot of tax… Also the unharmonious trade relationship between our country [China] and the USA matters, especially in steel industry (Interview on 3 April 2021; 17 April 2021).

In 2014, the US government launched the anti-dumping probe against China's steel wire rod, which led to considerable losses in steel and related industries. As HLDs is based in Brunei, the steel company is able to import raw materials from China with tariff exemption. By producing the steel in Brunei, the company can meet the need of domestic market and avoid US tariff barriers, before it exports the steel to North America, its main target market. The COVID-19 pandemic presented HLDs with some challenges in revenues as some orders were lost to the bankruptcy of its buyers from South Korea and the USA. On top of that, labour shortage is another challenge faced by HLDs as it is increasingly difficult to hire foreign workers due to the labour supply disruption and the government's tightening of foreign labour in order to prioritise domestic employment. As the director laments, "this is the problem with the 'Pioneer Industries' programme, which is that you may not find the staff you need here" (Interview on 12 March 2022). Local Bruneians are either insufficiently skilled in the steel production operations or unwilling to take up such labour-intensive jobs.

### *Muara Port Company (MPC)*

Another major joint venture company between the Darussalam Assets, a private limited company owned by Brunei Minister for Finance Corporation and the Beibu Gulf Holding (Hong Kong) is the MPC, formed in 2017. Beibu Gulf Holding (Hong Kong) is a wholly owned subsidiary of the Beibu Gulf Port Co. Ltd, a listed company under the giant SOE – Beibu Gulf Port Group in Guangxi, China. MPC obtained the rights of the Muara port operation for 60 years, and it is also a major outcome of the BRI and the BGEC between Brunei and Guangxi Zhuang Autonomous Region. According to the prospectus of the corporate bond offering of Guangxi Beibu Gulf Group, the Group participated in

the operation of the MPC by holding 51 per cent share, while the remaining 49 per cent belonged to Darussalam Assets.[7] Ministry of Finance of Brunei owns 1 per cent of "golden shares" (Interview, Bandar Seri Bagawan, 13 March 2021). MPC currently has more than 200 employees, of which 95% are locals. Besides the CEO, the CFO and most of the other management personnel come from China. The company's board of directors consists of three Bruneians including Dato Dr Amin Liew bin Abdullah, Brunei Minister at the Prime Minister's Office and Minister of Finance and Economy II, and three Chinese from Guangxi Beibu Gulf Group.

Positioned on the north-eastern coast of the entrance of Brunei Bay at the southeast of the South China Sea, the deep-water port is Brunei's largest seaport and the main gateway for its trade (He, 2019). The port operations were outsourced to a Filipino company until when the Brunei government handed the port operations to the government-linked company in 2017. Echoing the BRI and the Marine-targeted Economy proposed by Xi in Beihai, Guangxi, in 2017, the MPC was launched as a flagship project of the BGEC. The Beibu Gulf Port Group regards its cooperation with Darussalam Assets on the MPC a milestone after the Kuantan Port in Malaysia in 2014. Obviously, both parties are eager to engage Port – Industrial Chain – Park (港-产-园, Gang-Chan-Yuan) model to attract more investment to Brunei, as well as to shift Chinese manufacturers' production offshore in response to domestic pressures (Tham, 2019). In addition, as the only international container port in Brunei, its existing services, such as containerised import and export cargo handling, loading, and warehousing business, have contributed to the stable revenue of the port. MPC currently handles 90 per cent of import and export trading in Brunei, excluding oil and gas resources (Huanqiu, 2019). In 2018, 2019, and 2020, the Guangxi company achieved an investment income of US$ 2.6 million, US$ 3.4 million, and US$ 3.3 million, respectively.[8]

In other words, this is a successful venture for Brunei and Guangxi, and both parties are willing to foster cooperation and aim to improve the port efficiency and the overall logistics chain in Brunei and develop the port into a world-class international hub in the long term. At the end of 2020, MPC signed an agreement on the operation of the Muara Fish Landing Complex for 40 years with the Ministry of Primary Resources and Tourism of Brunei. The company injects over USD14 million to establish a new wholly owned subsidiary – Muara International Fish Landing, which encompasses aquaculture companies in Brunei, such as Lianfeng Investment, Yamako Pacific, Golden Corporation, and TMM Processing. Meanwhile, the MPC has unveiled ambitious plans to double the size and capacity of Brunei's main container terminal by 2023 (The Scoop, 2021), as it continues to establish new partnerships with local companies such as Brunei Fertilizer Industries.

## *Hiseaton Fisheries (Hiseaton)*

Hiseaton came to Brunei in 2016 at the invitation of Brunei government. In Guangxi, the headquarters of Hiseaton – Guangxi HST Seafood Co. Ltd is considered a "model" private company in China with rich experience in the fishery industry.

Fishery has been identified as a key area of development in the strategy of economic diversification in Brunei. During the visit by Dato Dr Amin Liew at HST's Guangxi headquarters in 2016, he emphasised the huge potential of fish farming in Brunei. In September, BEDB signed a MoU with Guangxi HST Seafood Co. Ltd to facilitate the Brunei-China (Guangxi) Fisheries Cooperation Demonstration Zone project, the first landing project of the BGEC. Directed by the Agriculture and Rural Department of Guangxi Zhuang Autonomous Region and implemented by Hiseaton Brunei, this project pioneered in helping the Sultanate to localise the supply of fish fry and realise the export of farmed marine fish, deviating from its reliance on marine fish imports.

Compared to aforementioned Chinese companies, Hiseaton is of a much smaller scale, with one landed office space and two deep-sea cage aquaculture bases. In Brunei, Hiseaton mainly focuses on farming golden pomfret (pompano), goldeneye perch (barramundi), and various types of groupers occupied in offshore aquaculture sites. The company also supplies fish fry to local fishery companies and provides technical help if needed. Hiseaton has a halal-certified processing plant in Brunei and exports to North America, Australia, and China. The company continues to strive for sustainable development and developing local capacity on fish farming talents. It provides funding to local staff, helping them learn aquaculture techniques from experts in China. However, Hiseaton is still facing the shortage of skilled workers on fish hatching and processing in Brunei, which will take time to cultivate.

Apart from the bilateral cooperation agreement, the conducive natural environment of Brunei and rich fishery resources were also the key factors that attracted Hiseaton to invest in Brunei. Brunei has a coastline stretching over 100 km, facing the South China Sea. The sea is free from natural disasters such as typhoons and earthquakes, making it suitable for marine fishing and shrimp farming. At the same time, there were few large-scale fish farms in Brunei, especially those that use offshore cages. Moreover, the Brunei government offers low rents on the land and sea area for the initial period of several years, and the import tax on farming materials and export tax is exempted. Our interviews with the management of Hiseaton review that the company mainly aims for the export market as the local market is either irrelevant or not essential to the company:

> We came to Brunei for production and export, not to supply to Brunei market. I try to sell my products in local markets and find that business is just alright. Every day there is a flock of customers waiting for our delivery. At least the income can cover our employee salaries. However, most of the products are exported abroad, including being shipped back to China (Interview on 13 May 2021).

In this case, this company takes advantage of the unique natural environment for production, and then export to larger overseas markets to make commercial profits. According to the company's chief executive officer, Hiseaton continues to expand its operations as it seeks to take advantage of a "very good environment" for offshore aquaculture (Godfrey,

2021). With the support of the Brunei government, the company also enjoys the tax rebate when importing fish fry and exporting its produce.

## Chinese Investment and Structural Transformation of a Petrostate

The investment experience of Hengyi, HLDs, MPC, and Hiseaton reveals several points. Firstly, all four firms seem motivated by Brunei's ASEAN membership. Courtesy of the Regional Comprehensive Economic Partnership signed between ASEAN and its "Plus Five" partners (Australia, China, Japan, South Korea, and New Zealand), these Chinese TNCs enjoy tariff exemption when they bring in inputs from China. In addition, their operations in Brunei allow them to avoid tariffs when they export final goods to lucrative markets such as the USA. This dynamic is most clearly observed in the case of HLDs, whose products are one of the clearest targets earmarked by Washington in the increasingly tense US-China trade competition. Other important features are the rather generous incentives offered by the Bruneian state and the ease of access to its fellow ASEAN economies. However, there is also the continued predominance of hydrocarbon, evidenced by Hengyi's stature as the largest Chinese investor in Brunei to date. A cynic could even claim that the Chinese TNC's undertaking at Pulau Muara Besar is merely a more advanced version of the older refinery established with the support of Royal Dutch Shell.

Although Hengyi's investment has provided the Sultanate with an avenue to manufacture and export high-quality petrochemical products, it also seemingly entrenches Brunei in its longstanding hydrocarbon-centric development trajectory. This mode of production, where factory design and process workflow are primarily driven by Hengyi, also means that the Bruneians are participating merely as regulators, investors (via Damai Holdings Ltd), and employees. Much like the Western/Japanese TNCs that have operated in Brunei for decades, Hengyi's project risks entrapping the Southeast Asian nation in a vicious cycle of "technology-less" development, a worry raised by Yoshihara (1988) more than 30 years ago.

Secondly, all four Chinese projects did *not* involve centrally-owned SOEs. Instead, provincially owned SOEs (HLDs and MPC) and private firms (Hengyi and Hiseaton) are the spearheads of these initiatives. This finding lends support to Oh and No (2020), showing that Chinese outward FDI is increasingly moving away from the earlier era where centrally-owned SOEs were the dominant players. This does not negate Beijing's agency, albeit it is manifested in a rather indirect manner. Hengyi notably received a loan package from a consortium of Chinese banks led by CDB and CHEXIM, two out of three of China's policy banks. This financial support can also be interpreted as a form of coordination between the Chinese government and its private sector, in view of petrochemical's role as the backbone to the modern economy. Its prominence has likely been elevated following the supply chain disruption induced by geopolitical events such as the COVID-19 pandemic and the 2022 Russian invasion of Ukraine. HLDs, MPC, and Hiseaton, on the other hand, have financed their Bruneian projects by either internal sources and/or other market-based channels, with no concrete evidence

that they received direct central government financial support. Nevertheless, all four firms enjoy occasional endorsement from Chinese central government officials, especially the embassy staffers who publicly mentioned them as landmark BRI projects in the Sultanate.[9]

What can be inferred here is the broadly market-conforming nature of these four Chinese projects. In establishing operations in Brunei, Hengyi, HLDs, MPC, and Hiseaton are primarily motivated by commercial interests. While policy support from the Chinese central state – direct or otherwise – is important, it is unlikely to override market opportunities and entrepreneurship, at least in the long run. This finding extends Naughton's (2010) and Nolan's (2014) analysis, which demonstrate that the majority of Chinese market participants are driven to maximise profit after the post-1978 reforms. However, their studies have primarily examined corporate behaviour within China, giving short shrift to the internationalisation process of Chinese TNCs. Perhaps more importantly, there is the salient role of the subnational government that is Guangxi province. In addition to jointly promoting the BGEC with Bruneian officials, it welcomes business firms from within the same province through measures such as information dissemination and organised visits. Amongst the more prominent ones that were brought in are MPC and Hiseaton. In common with Lim et al. (2022) and Jones and Zeng (2019), there is increasing evidence that "Going Out", at least in Brunei, is driven by China's southern provinces. This also suggests a much more complex overlay of stakeholders – outside of conventional analysis that focuses primarily on the central state apparatus – in the "Going Out" story.

Lastly, the manners by which Chinese FDI has embedded itself into the Sultanate have raised some tentative concerns. Most relevant to this discussion are the side effects of what Kurlantzick (2016) terms "state capitalism". He spotlights how a resurgent China is challenging the hitherto preponderant Anglo-American-centric economic governance model and its associated ideals. Within the context of Brunei, it is clear that Chinese investors have deepened their presence, despite their latecomer status and low base (see Table 1). More importantly, the entrance of Chinese TNCs has seemingly revitalised the Bruneian state at a time when the economy was reeling from the drastic drop in oil price during the early to middle 2010s. Hengyi's and MPC's investment, in particular, have been undertaken jointly with the Bruneian state. In addition to the government's role as a regulator, these deals have deepened the former's involvement in the economy, making it even more challenging to groom Brunei's traditionally passive private sector. In the case of MPC, the Bruneian state's stature has been bolstered further by its apparent "golden share" ownership, granting it special rights over the strategic decisions of the joint venture.[10] This vicious cycle of a defanged private sector operating under the shadow of an activist state, cooperating with FDI in strategic projects, is apparently a structural feature of the Bruneian economic polity that goes back to how capitalist development was formulated even before the Sultanate's full independence in the 1980s.

There is cause for optimism, however, once the Bruneian experience is extrapolated across borders. What has transpired thus far is that Brunei has held its own against the apparent financial might of Chinese TNCs, with no obvious loss of its autonomy.

The analysis unearthed offers a counter interpretation to more sensationalist narratives, like that of "debt-trap diplomacy", about Chinese overseas investment. This observation also contributes to increasingly nuanced research that critically incorporates on-the-ground dynamics of the BRI recipient states in their dealings with China. Much like Calabrese and Cao (2021) and Liu and Lim (2019), the discussion here demonstrates that small states such as Brunei can stand on their own vis-à-vis China and its cohort of TNCs. Rather than assuming that a rising China is axiomatically detrimental to the interest of its Southeast Asian neighbours, what is more pertinent is a careful, dispassionate analysis of how domestic agency is deployed to achieve the desired outcomes in managing the influx of Chinese resources.

## Conclusion: The Way Forward

This article has posited three arguments, drawing implications from some of the most significant Chinese undertaking in Brunei to date. First, it has illustrated that these projects exploit Brunei's abundant natural resources and generous fiscal incentives. The small domestic market is of little interest to the Chinese TNCs as they actively push for export revenue. Central to this phenomenon is the Sultanate's relevance to Chinese firms eager to relocate (some) production away from China as they manage the fallout of the US-China geoeconomic rivalry, in addition to the wider appeal of the ASEAN and Asian markets. Brunei's growing integration into such Chinese-led production networks is consistent with the recent experience of other ASEAN member states.

Second, none of the lead firms covered in this article are SOEs controlled by the Chinese central government. Instead, they are made up of provincially-owned SOEs and private firms. With the exception of Hengyi, which received financial support from a Chinese policy bank-led consortium, Chinese state support has generally been channelled in an at arm's length manner. Although the "state capitalism" literature has often assumed a cohesive and homogenised state-business relationship, the case studies unearthed here suggest a far more heterogenous situation, which in part results from differing logics of specific projects, industries when Chinese TNCs expand their commercial activities across borders. Although centrally-controlled SOEs remain key players and the central government retains substantial administrative prerogative in shaping development outcome, the influence of provincially-owned SOEs and private firms have also expanded.[11] This is perhaps unsurprising when one considers the reality that the Chinese economy has grown not only in size but also complexity after decades of rapid progress. A fast-growing economy naturally brings about a "rising tide lifts all boats" effect, which infuses more nuance to state-as-unitary-actor assumptions. The point is, Beijing is unlikely to enjoy an easy time converging national goals with those of its (state-owned or otherwise) firms, especially when the latter invests overseas.

Third, as far as the Chinese-financed projects examined in this article are concerned, there has been no observation of Chinese firms imposing their unilateral will on Bruneian stakeholders in evidence. To this can be added the claim that the Sultanate has leveraged Chinese capital exports to foster industrialisation ambitions, while preserving its core interests.

However, if one were to evaluate these Chinese projects against the long-term aspirations set by the Wawasan Brunei 2035, then some questions have to be raised. For example, the investment by HLDs, MPC, and Hiseaton is all welcome news for an economy that has professed to wean itself off its dwindling hydrocarbon deposits. Nevertheless, the largest Chinese project thus far – driven by Hengyi – ironically creates even greater dependence on hydrocarbon. Hengyi's investment also seemingly reinforces the structural limits of Brunei's private sector, which commonly serves as a handmaiden to the much wealthier state sector. A related observation is the 30 per cent equity stake held by Damai Holdings Ltd, a Brunei government trust sub-fund, in this project. This splitting of responsibility, where Hengyi (majority investor) undertakes factory design and process workflow while leaving the less technologically-sophisticated functions to the local stakeholders, implies that Chinese TNCs are essentially replicating the business models of the Western/Japanese TNCs that have long operated in Brunei (and by extension, Southeast Asia). This does not bode well for industrial policy advocates, not least those that harbour hopes for a more equitable form of South-South cooperation, with China leading the pack (cf. Brautigam et al., 2018; Liu and Lim, 2023). Another concern follows from this – can Brunei *really* move above and beyond its role in the international economic architecture as a virtually tax-free hydrocarbon-rich state? The apparent breakthrough of certain Middle Eastern petrostates into hitherto unorthodox activities such as aviation management and luxury retail can offer Bruneian economic planners some food for thought.[12]

On a final note, prospective researchers would do well to explore in greater depth the relationship between the host economy's courting of Chinese capital exports and *actual* development outcomes. Admittedly, there are temporal limits to this article's analysis as the Chinese projects covered here have only recently broken ground. There is also a need to compare the impact across industries in other locales over a longer period. This form of comparison as well as contextualisation will likely yield a more complete understanding of how China's development is linked to structural transformation elsewhere in the global economy. For Southeast Asian analysts, an emerging research area is that involving the development pathway(s) created by the welcoming of various types of Chinese state-business relations into the region. There is a need to not only identify the commercial interest, business culture, and political directive involved but also interrogate how these factors interact with Southeast Asian stakeholders. The key agenda here is to elucidate the multiplicity of networks generated, which in turn create different opportunities and constraints for host economies.

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## Notes

1. The World Bank official portal shows that the FDI Net Outflows (Current US$) of China is US $4 billion in 1992. Available at: https://data.worldbank.org/indicator/BM.KLT.DINV.CD.WD?locations=CN (accessed 3 September 2021).
2. According to data from UNCTADSTAT, from 1994 to 2000, the amounts of Chinese outward FDI (Current US$) were US$ 2 billion (1994), US$ 2 billion (1995), US$ 2.114 billion (1996), US$ 2.562 billion (1997), US$ 2.634 billion (1998), US$ 1.774 billion (1999), and US$ 0.916 billion (2000). Available at: https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx (accessed 23 March 2021).
3. In 2008, the world FDI flows is US$ 1707.26 billion (OECD). Available at: https://data.oecd.org/fdi/fdi-flows.htm (accessed 26 August 2021).
4. CDB and CHEXIM are the two most prominent policy banks supporting the internationalisation efforts of Chinese firms. The third policy bank is the Agricultural Development Bank of China. Its portfolio is largely limited to the domestic market, unlike the CDB and CHEXIM.
5. According to its website, "Brunei Shell Petroleum (BSP) now boasts a diverse and highly qualified workforce of around 4,000 employees and more than 20,000 contractors. To this day, BSP remains as the backbone of Brunei's economy and a major contributor to the nation's oil and gas revenue and export earnings, supporting the growth and development of the country." Available at: https://www.bsp.com.bn/main/about-bsp/sustainably-powering-brunei (accessed 18 May 2023).
6. This statement come from the news titled "Local media are focusing: This Xiaoshan company is not ordinary (in Chinese: 当地媒体纷纷聚焦：这家萧企不一般!)" on Hengyi Official Portal, which is released in 23 November 2018. Available at: http://hengyi.com/news/html/?756.html (accessed 10 August 2022).
7. The shareholders of the MPC can be seen from The Prospectus of Corporate Bond Offering of Guangxi Beibu Gulf Group (in Chinese: 广西北部湾国际港务集团有限公司2021年面向专业投资者公开发行短期投资债券<第一期>募集说明书), p. 116. Available at: http://qccdata.qichacha.com/ReportData/PDF/84ea5c56bc97fafdee3f7b0b65fff278.pdf (accessed 10 August 2022).
8. According to the Prospectus of Corporate Bond Offering of Guangxi Beibu Gulf Group (in Chinese: 广西北部湾国际港务集团有限公司2021年面向专业投资者公开发行短期投资债券<第一期>募集说明书) (2021, p. 116), the interests of the MPC in 2018, 2019, and 2020 are RMB 16.70 million, RMB 21.63 million, and RMB 20.89 million. Available at: http://qccdata.qichacha.com/ReportData/PDF/84ea5c56bc97fafdee3f7b0b65fff278.pdf (accessed 10 August 2022).
9. At the 30th Anniversary of the Establishment of Diplomatic Relations between China and Brunei on September 9, 2021, Chinese Ambassador to Brunei, HE Yu Hong, mentioned that Hengyi and the BGEC (including MPC, Hiseaton) were key projects on jointly building the BRI between two countries.
10. This "golden share" applies just as well to Malaysia's Kuantan Port, another important investment of the Chinese TNC in Southeast Asia. According to Hutchinson and Tham (2021), it grants the host government veto power on essential decisions relating to national interest. In the case of the Kuantan port, for example, Guangxi Beibu Gulf Group had to seek approval from the Malaysian government before proceeding with its investment.
11. See Nem Singh and Chen (2018) and Li (2015) for a more detailed explanation.

12 An instructive example is Qatar. During the 1990s, it established Qatar Airways, the nation's flag carrier. Qatar Airways has since become one of the Middle East's best-run airlines. In 2010, the Qatari sovereign wealth fund purchased the renowned Harrods Group, a UK-based luxury department store, to grow its international investment portfolio.

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